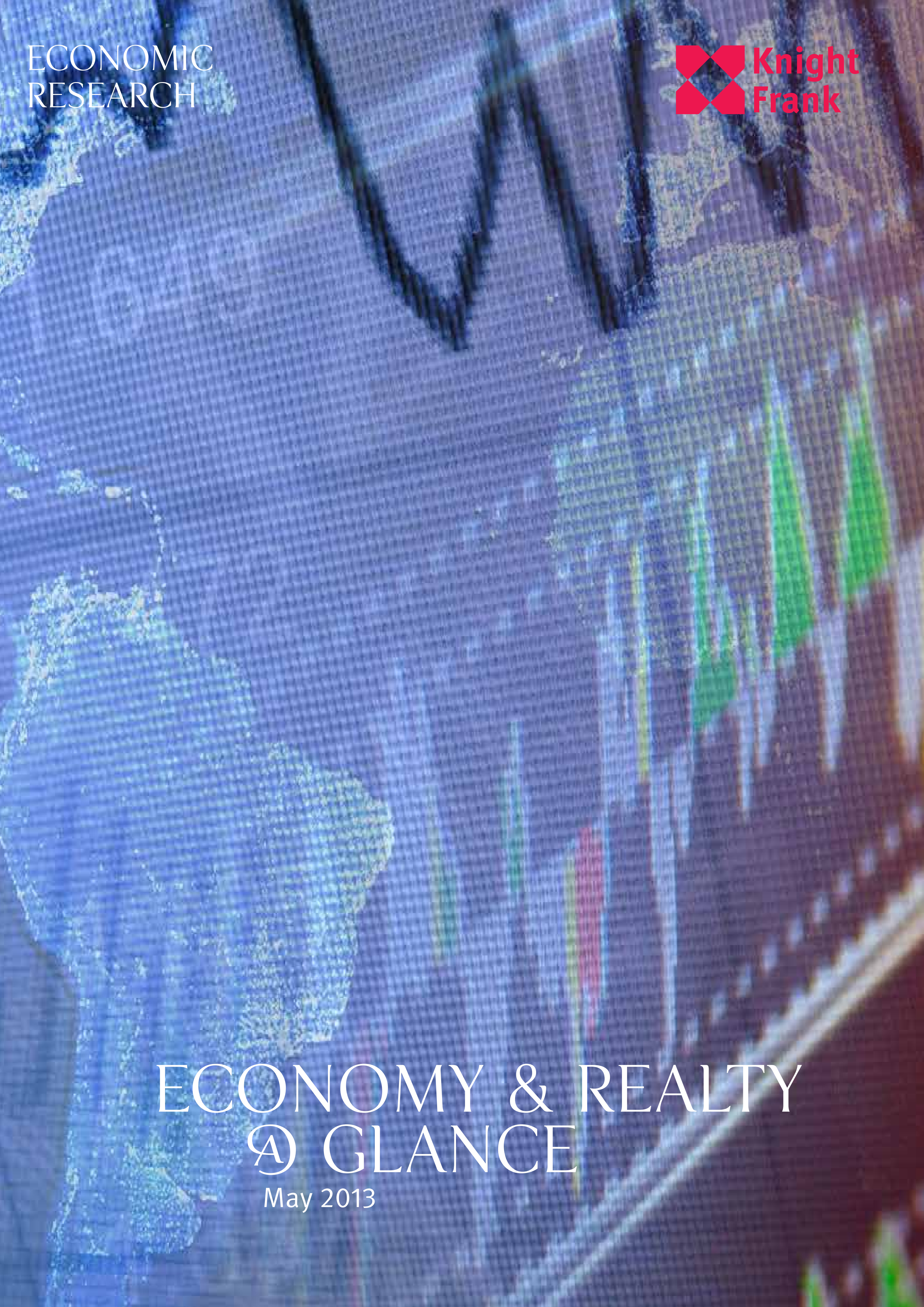


ECONOMIC
RESEARCH

Knight Frank

ECONOMY & REALTY @ GLANCE

May 2013

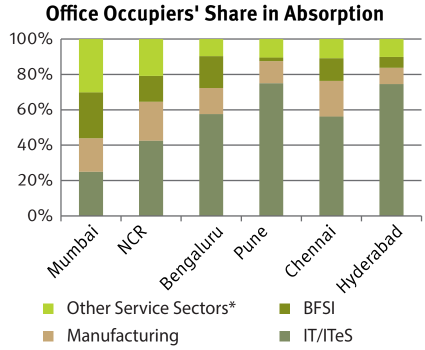
MARKET OVERVIEW

The Indian economy has managed to grow at an average annual GDP rate of 6.9% from FY2009-FY2013 despite the impending threat of the global financial crisis and European economic slowdown during this period. This was significantly higher than the global average annual growth rate of 2.9% achieved during the same period. Hence, despite the clamor about the slowdown in the domestic economy, India is still amongst the fastest growing countries in the world. Even the latest estimate of 5.6% GDP growth in 2013 by International Monetary Fund (IMF) places India only second to China among the BRICS nations. The GDP of Brazil, Russia, China and South Africa is forecasted to grow at 3%, 8%, 3.3% and 2.8% respectively.

The relatively stronger economic growth in India enabled sectors such as manufacturing, Banking, Financial Services & Insurance (BFSI) and other services to post robust growth at 12%, 17.5% and 17.3% CAGR respectively during the previous five years. Other service sectors include consulting, media, logistics, education and telecom among others. Even the IT/ITeS sector, which is highly dependent on the developed markets, grew at an average annual rate of 16% during the same period. The slowdown in the developed economies forced many companies located there to outsource their IT related services to India in order to cut costs. Such a trend ensured consistent demand for the domestic IT/ITeS industry over the last five years.

Strong performance by the manufacturing, BFSI, IT/ITeS and other service sectors resulted in high demand for office space across the country during the last five years. A total of 168.5 mn.sq.ft. of office space was absorbed from 2008-2012 across six major cities namely Mumbai, National Capital Region (NCR), Bengaluru, Pune, Chennai and Hyderabad. IT/ITeS sector was the primary demand driver of office space in cities like Bengaluru, Chennai, Pune and Hyderabad accounting for more than 50% of the total absorption. However, demand in Mumbai and the NCR was driven by a relatively diverse set of sectors as a large number of occupiers prefer to locate their corporate offices here.

Office Occupiers' Share in Absorption



* Includes consulting, media, logistics, education and telecom among others

Source: Knight Frank Research

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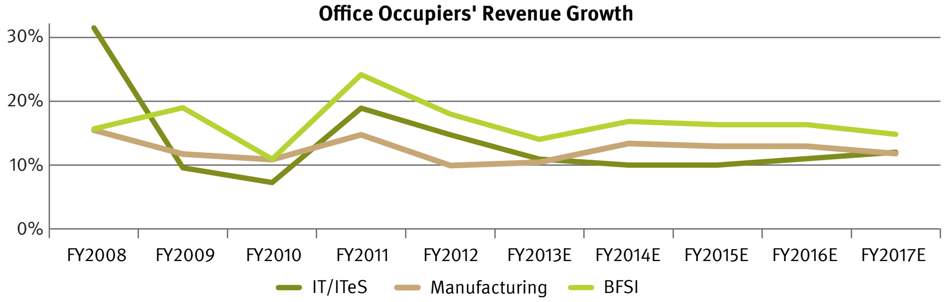
Office Occupiers' Revenue Growth



Source: CMIE, NASSCOM, Knight Frank Research

The demand supply dynamics during the previous five years were clearly in favour of occupiers and this can be substantiated by studying the movement in rental values across the six major cities

Robust absorption of office space from 2008-2012 was accompanied by a relatively higher incremental supply of 218.5 mn.sq.ft. during the same period resulting in the total office space stock doubling from 227.7 mn.sq.ft. in 2007 to 446.3 mn.sq.ft. by 2012. Such a huge influx of incremental supply exerted an upward pressure on vacancy levels which increased from 15% in 2007 to more than 19% by the end of 2012.

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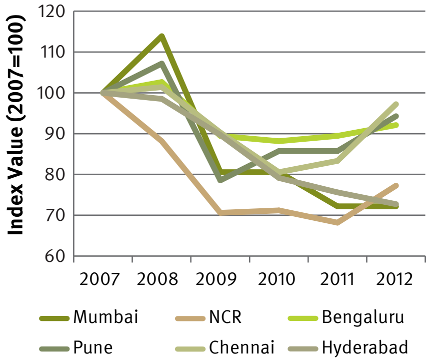
The demand supply dynamics during the previous five years were clearly in favour of occupiers and this can be substantiated by studying the movement in rental values across the six major cities. From 2007-2012, rental value in the Central Business District (CBD)of these cities have declined in the range of 3%-28%. Similar was the case with the Suburban Business District (SBD) markets of these cities where rental values either remained flat or fell marginally. Although city level factors also have a strong role in determining rental movement, the general trend witnessed across these cities indicate a fall in rents. A large number of corporate houses have taken advantage of such a scenario and consolidated their office space under a single roof compared to the erstwhile decentralised set-up. Cipla and PepsiCo are the two recent examples of such a trend.

CBD Market Rental Movement

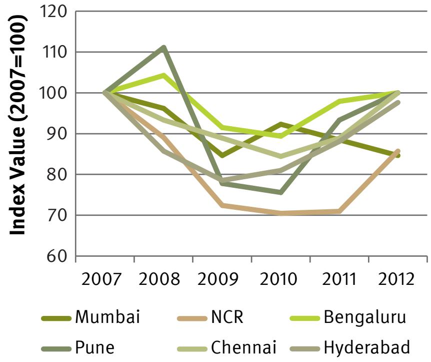


Source: Knight Frank Research

Currently, the global economy is on a much stronger footing with the shadows of the financial and European economic crisis fading away. According to the IMF's estimate, the world economy will grow at a higher rate of 4.5% by 2017 against 3.2% in 2012. Similarly, Indian economy is also expected to clock a GDP growth rate of 6.9% by 2017 as against the current 5.6%.

Healthy domestic economic growth coupled with stability in the global economy will continue to work in favour of sectors such

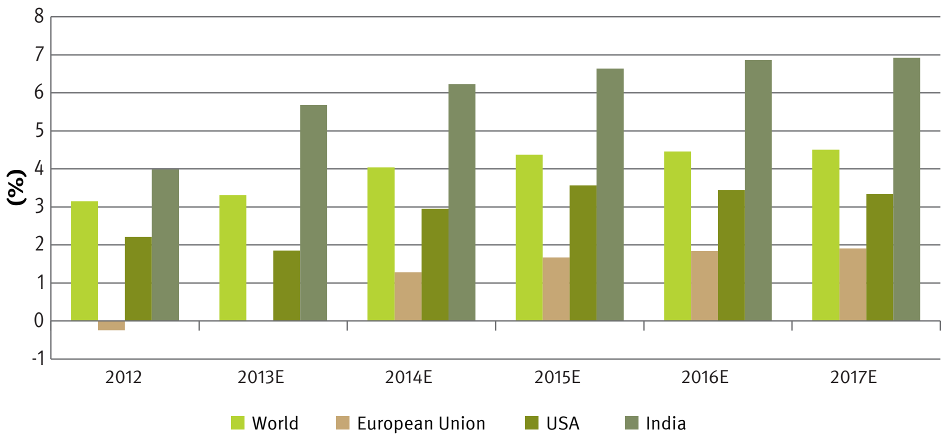
SBD Market Rental Movement



Source: Knight Frank Research

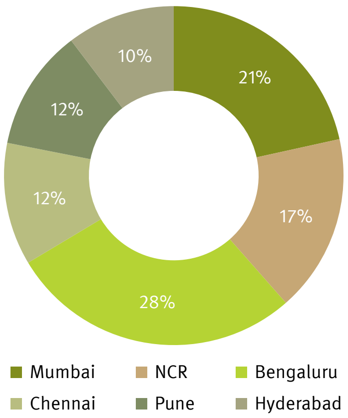
as manufacturing, BFSI and IT/ITeS which are projected to grow (Knight Frank research forecasts)at an average annual rate of 12%, 16% and 11% respectively over the next five years. Such a trend will boost demand for incremental office space across the six major cities with an expected total absorption of 173.6 mn.sq.ft. from 2013-2017.

GDP Growth Forecast



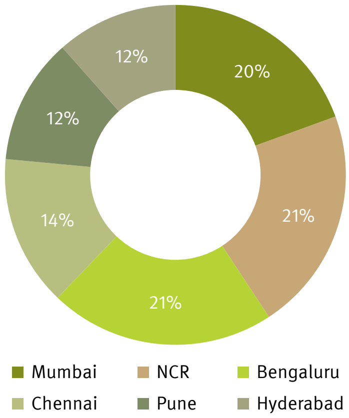
Source: International Monetary Fund, April 2013

City-wise Share in Absorption: 2012



Source: Knight Frank Research

City-wise Share in Absorption: 2017



In terms of absorption, Bengaluru emerged as the largest office market over the last five years with a share of 28% of the total absorption in six major cities. Preference of IT/ITeS occupiers coupled with affordable rental values aided the phenomenal growth of this market. However, slowdown in the IT/ITeS sector and stiff competition from cities like NCR, Chennai, Hyderabad and Pune is expected to bring down the share of Bengaluru in the total absorption to 21% over the next five years. Bengaluru will share with NCR the top position in terms of absorption with 21% each for the period 2013-2017.

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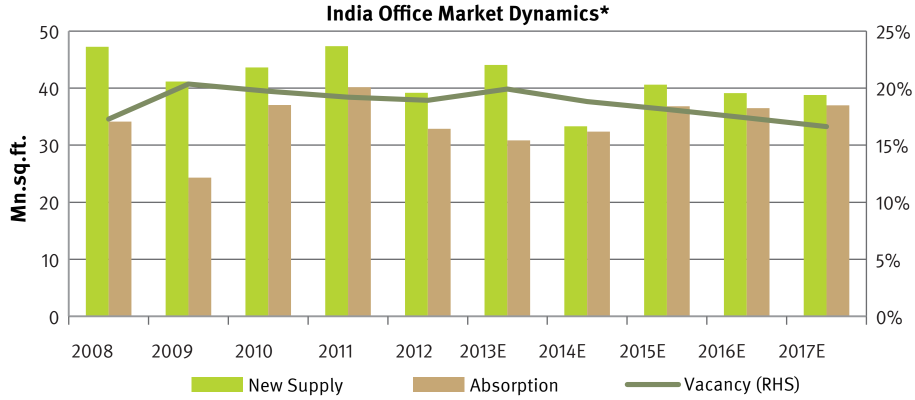
Rapid infrastructure development, availability of talent pool, importance as a political hub and relatively affordable office space rents will attract occupiers towards the NCR. Additionally, the NCR market has a healthy mix of occupiers unlike Bengaluru which is largely dominated by the IT/ITeS sector. Mumbai will be able to maintain its second position going forward as it continues to remain the most preferred market for the BFSI sector. The issuance of new banking license by the Reserve Bank of India (RBI) in coming years will further boost demand for office space in the city.

India Office Market Dynamics*



* Includes Mumbai, NCR, Bengaluru, Pune, Chennai and Hyderabad
Source: Knight Frank Research

Although the office space stock doubled in the preceding five years, it is expected to increase by only 40% in the coming five year period to 642.2 mn.sq.ft. by 2017.

The incremental supply that is expected to come online from 2013-2017 is 196 mn.sq.ft., a significant drop as compared to the earlier five year period.

Constrained supply of new office space coupled with improved demand condition will translate into receding vacancy levels from 19% in 2012 to 17% by 2017

Although the office space stock doubled in the preceding five years, it is expected to increase by only 40% in the coming five year period to 642.2 mn.sq.ft. by 2017. Constrained supply of new office space coupled with improved demand condition will translate into receding vacancy levels from 19% in 2012 to 17% by 2017. Although city level market dynamics will be the ultimate factor determining rental movement, the reduced vacancy levels will ensure rise in rentals across the country's office market. Hence, office space investments are expected to yield better returns going forward compared to the previous five year period.

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Research

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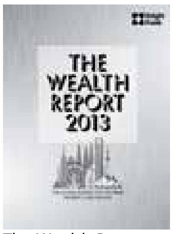

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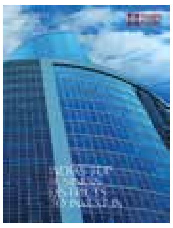
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