



JANUARY 2011 OFFICE TRACTION @ GLANCE

Knight Frank

Mumbai

Introduction

The sentiments of the commercial office market of Mumbai were not positive in 2009 due to the slump in demand that was attributed to the crisis in global markets. The postponement of expansion plans by many BFSI (Banking, Financial Services & Insurance) and IT/ITeS companies, which are the principal drivers for commercial office demand in Mumbai, further affected the overall office market in Mumbai. Lower demand along with a large upcoming supply led to significant drop in rental values from Q2 FY 09 till Q3 FY 10, which stabilized only recently. From then on, the Office market showed some signs of moderation in demand wherein a substantial improvement in the absorption by the BFSI and the IT/ITeS sector was witnessed in certain new micro-markets.

Table 1. Type of transaction in FY10 and FY11.

	FY 10	FY 11 (till dec 10)
Total area transacted	6.68 mn.sq.ft.	6.83 mn.sq.ft.
Lease transactions		
Nos.	161	132
Total area transacted	5.157 mn.sq.ft.	5.239 mn.sq.ft.
Average Rate	Rs. 105 /sq.ft./month	Rs. 95 /sq.ft./month
Sale transactions		
Nos.	27	41
Total area transacted	1.527 mn.sq.ft.	1.598 mn.sq.ft.
Average Rate	Rs. 13000/sq.ft.	Rs. 14000/sq.ft.

Source: Knight Frank Research

As per Knight Frank Research, approximately 6.68 mn.sq.ft. of office space transaction (lease and sale) was recorded during the four quarters of FY 10. Of this, around 77% comprised lease transactions and the rest consisted of sales. The average leasing rate

for this year stood at Rs. 105/sq.ft./month and the average sale price was Rs. 13,000/sq.ft.

AS PER KNIGHT FRANK RESEARCH, APPROXIMATELY 6.68 MN.SQ.FT. OF OFFICE SPACE TRANSACTION (LEASE AND SALE) WAS RECORDED DURING THE FOUR QUARTERS OF FY 10

Interestingly, the first three quarters of FY 11 have experienced a higher quantum of office space transactions vis-à-vis the previous four quarters. A total of 6.83 mn.sq.ft. of office space was transacted in this period of which around 76% comprised lease transactions. The average leasing rate for this year stood at Rs. 95/sq.ft./month and the average sale price was Rs. 14,000/sq.ft.

Sectoral Analysis

Table 2. Distribution of office space across sectors in FY10 and FY11

Sectors	FY 10	FY 11 (till Dec 10)
BFSI	40.6%	27.0%
IT/ITES	20.3%	36.6%
Shipping and Logistics	5.5%	2.4%
Telecom	5.5%	1.6%
Engi/Manufacturing	5.3%	11.5%
Consulting	5.0%	5.3%
Pharma/Chemicals	4.2%	5.1%
Others	13.6%	10.5%
	100.0%	100.0%

Source: Knight Frank Research

As observed, more than 60% of the transactions for both years were concluded by the BFSI and the IT/ITeS sector. The BFSI sector which had the highest contribution to the total office space transaction in FY 10 saw around 60 transactions of various sizes. A few large sized transactions above 1.0 lakh sq.ft. of space were undertaken for companies like Morgan Stanley, JP Morgan Chase, Barclays Bank and Axis Bank. FY 10 saw a significant number of sales in Central Mumbai by the BFSI sector as lower capital values in these locations made property purchase a viable option. The total office space transaction during the first three quarters of the FY 11 comprised 27% share from the BFSI sector. This is a steep fall from its share of around 41% during the previous financial year. There were just about 10 major transactions by companies like Edelweiss Capital, HDFC Bank and L&T Finance during FY 11.

The IT/ITeS sector had a share of around 20% of transacted office space in FY 10 and this increased considerably in FY 11 to around 37%. There was a spurt in quality supply of office spaces from Q4 FY 10 in peripheral locations like Airoli, wherein projects like Mindspace Airoli and Millennium Business Park experienced major IT/ITeS demand. Around 7 transactions involving companies like Accenture, Syntel, Wipro and L&T Infotech constituted the major take-up.

FY 10 also saw a good demand from shipping and logistics companies as firms like DHL and Maersk Shipping constituted around 15 transactions of average sizes of 30,000-50,000 sq.ft.

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Both FY 10 and the first three quarters of FY 11 saw an equal take up of office space by consulting firms like Ernst & Young, KPMG and Deloitte in Central Mumbai locations of Lower Parel, Prabhadevi and the Western SBD locations of Andheri and Goregaon. The manufacturing and engineering sector showed a positive growth from the last quarter of FY 10 and continued to grow in FY 11. The sector which took up around 5.3% share of the total office transactions in Mumbai in FY 10 increased to 11.5% in three quarters of FY 11. The major take up was seen by companies like Schlumberger and Canon India. Around 20 transactions of office sizes ranging from 15,000 sq.ft. to 1,50,000 sq.ft. were transacted for the sector in both financial years.

Geographic Analysis

A shift in demand for office spaces in few micro-markets was observed in FY 11 as compared to FY 10. The preferences of the BFSI and IT/ITeS sectors rotate around larger floor plates and competitive rentals/capital rates. The CBD and Off CBD locations have limited supply of large floor plates and the rates are relatively much higher. As a result we observe that a large number of companies have shown greater interest in acquiring office spaces in other micro-markets like BKC and Central Mumbai.

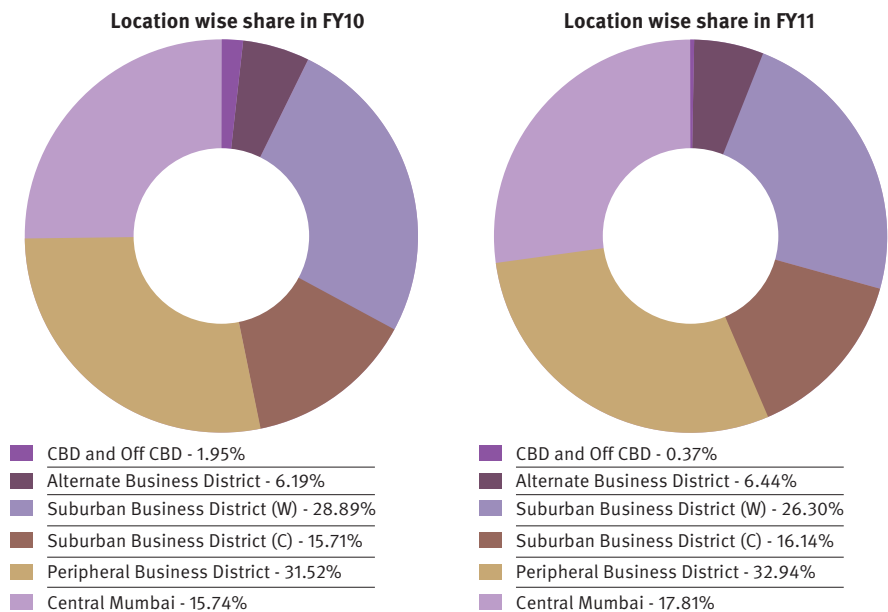
COMPANIES ARE SHOWING GREATER INTEREST IN ACQUIRING OFFICE SPACES IN THE MICRO-MARKETS OF BKC AND CENTRAL MUMBAI OVER THE CBD AND OFF CBD LOCATIONS DUE TO LIMITED SUPPLY OF LARGE FLOOR PLATES AND HIGHER QUOTED RATES

Table 3. Select transactions in Mumbai Office Market - FY10 and FY11 (up to December 2010).

Location	Building	Company	Industry	Approx Area (sq ft)	Quarter
Mahalaxmi	Lodha Excellus	KPMG	Consulting	100,000	Q1 FY10
Powai	Ventura	J P Morgan Chase	BFSI	230,000	Q1 FY10
Airoli	Mindspace Airoli	WNS	IT/ITeS	120,000	Q1 FY10
Airoli	Mindspace Airoli	Gebbs	IT/ITeS	42,000	Q2 FY10
Ghodbunder Road	G Corp	Birla SunLife	BFSI	150,000	Q2 FY10
Airoli	Airoli Knowledge City	Hexaware	IT/ITeS	560,000	Q3 FY10
Andheri East	Natraj Rustomjee	SBI Life	BFSI	150,000	Q3 FY10
Jogeshwari West	Patel Estate	Pfizer India	Pharmaceutical	100,000	Q3 FY10
Goregaon East	Nirlon Knowledge Park	Barclays	BFSI	130,000	Q4 FY10
Worli	Wadia Plaza	Axis Bank	BFSI	400,000	Q4 FY10
Thane	Lodha sim Tools	Tata Capital	BFSI	150,000	Q4 FY10
Thane	Ashar IT Park	Sparsh	IT/ITeS	200,000	Q4 FY10
Vikhroli	HCC 247 Park	Future Group	Diversified	180,000	Q4 FY10
Airoli	Mindspace Airoli	Wipro	IT/ITeS	350,000	Q1 FY11
Kalina	Lotus Midtown	Edelweiss Capital	BFSI	200,000	Q1 FY11
Airoli	Mindspace Airoli	L&T Infotech	IT/ITeS	450,000	Q1 FY11
Airoli	Mindspace Airoli	First Source	IT/ITeS	100,000	Q2 FY11
Dadar	The Ruby	Ernst & Young	Consulting	180,000	Q2 FY11
Kanjurmarg East	D M Group Facility	Toyo Engineering	Engineering	180,000	Q2 FY11
Lower Parel	Indiabulls Financial Centre	Yes Bank	BFSI	100,000	Q3 FY11
Lower Parel	One Indiabulls	Tata Motors	Automobile	70,000	Q3 FY11
Lower Parel	Chemtex House	Chemtex	Engineering	83,000	Q3 FY11

Source: Knight Frank Research

Chart 1. Location wise share in office transactions in FY10 and FY11.



Source: Knight Frank Research

Classification	Locations
Central Business District (CBD)	Nariman Point
Off Central Business District (Off CBD)	Ballard Estate, Cuffe Parade, Fort
Central Mumbai	Mahalaxmi, Lower Parel, Prabhadevi, Dadar
Alternate Business District (ABD)	Bandra Kurla Complex
Suburban Business District (West)	Western micromarkets of Bandra, Kalina, Andheri, Malad, Goregaon and Jogeshwari
Suburban Business District (Central)	Central micromarkets of Kurla, Powai, Vikhroli, Kanjurmarg, Bhandup and Mulund
Peripheral Business District (PBD)	Thane and Navi Mumbai

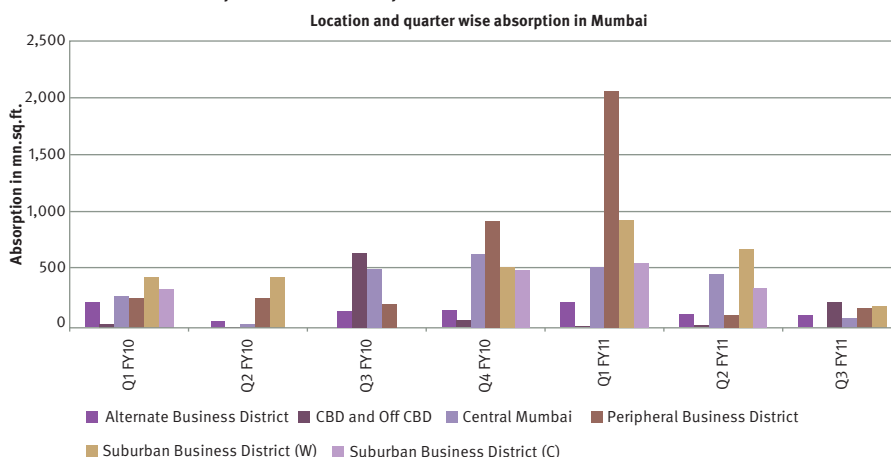


The Western SBD saw a greater take up of office spaces in FY 10 over three quarters of FY 11. A maximum quantum of deals that took place in FY 10 consisted of the BFSI sector in projects like Nirlon Knowledge Park in Goregaon East, Kalpataru Square in Andheri East and Hallmark Business Park in Kalanagar. Of the total transactions that took place in FY 10, Nirlon Knowledge Park at Goregaon East witnessed the highest take-up in this region, with prominent transactions by companies like Morgan Stanley and HP India of around 1,00,000 sq.ft. each. Locations like Kurla, Powai, Kanjurmarg and LBS Road in Central SBD saw equal absorption of office space in FY 10 and FY 11. Projects like HCC 247 Park at Vikroli, Lodha I Think Techno Park at Kanjurmarg, Ventura at Powai and Universal Mighty Phoenix at Chembur contributed to maximum transactions that took place in this region in the two years. During FY 10, companies like the Future Group, Credit Suisse and GTL took up large office spaces in the range of 50,000 to 1,50,000 sq.ft. Pharmaceutical companies like Neo Pharma and engineering firms like Toyo Engineering Ltd. and Sterling Wilson took up offices in Central SBD during the first three quarters of 2010.

The ABD (Alternate Business Districts) of BKC has seen a slight movement in FY 11 over FY 10. A larger share of transactions in FY 10 took place in projects like Platina and Maker Maxity for companies like Sahara Group, Wyeth Pharmaceuticals as well as Schering Plough. In FY 11, other projects like Cresenzo, Akrti Gold and The Capital also witnessed

THE MOMENTUM OF TRANSACTIONS THAT TOOK PLACE IN THE CENTRAL MUMBAI LOCATIONS OF LOWER PAREL, MAHALAXMI AND PRABHADEVI IN FY 10 WAS MAINTAINED IN THE THREE QUARTERS OF FY 11

Chart 2.: Location and quarter wise absorption in Mumbai



Source: Knight Frank Research

Table 4. : Average transacted rental values of prominent micro-markets in Mumbai

Micromarket	Q4 FY 10	Q1 FY 11	Q2 FY 11	Q3 FY 11
Nariman Point, Fort, Cuffe Parade	245	276	NA*	NA
Lower Parel, Mahalaxmi, Worli, Prabhadevi	159	155	183	133
BKC	323	247	315	368
Andheri	93	90	120	120
Bandra, Goregaon, Jogeshwari, Malad	91	108	89	NA
Powai	83	81	94	82
Kurla, Vikhroli, Kanjurmarg, Mulund	71	75	54	NA
Thane	40	30	55	60
Vashi	102	96	NA	NA
Airol	42	33	38	33

* NA represents no significant transaction that took place in the quarter in that micro market

Source: Knight Frank Research

substantial take-ups mostly by the BFSI sector for companies like BNP Paribas, Macquarie Bank, Religare as well as J&K Bank.

The average size of office take up by these companies ranged 15,000 sq.ft. to 30,000 sq.ft.

The momentum of transactions that took place in the Central Mumbai locations of Lower Parel, Mahalaxmi and Prabhadevi in FY 10 was maintained in the three quarters of FY 11. Indiabulls One Centre, Ruby Mills, Phoenix House and Peninsula Corporate Park witnessed a high number of take-ups in majorly by the BFSI and IT/ITeS sector. BFSI firms like Motilal Oswal, HDFC Bank, Arcil and Quant Broking took up offices spaces ranging from 15,000 to maximum of 1,00,000 sq.ft. in this micro-market.

The quarter wise absorption of office space in Mumbai is depicted in Chart 2.

As observed, a large quantum of absorption was witnessed in the PBD locations from the third quarter of FY 10 till the first quarter of FY 11. Of the total transactions that took place in the Peripheral Business Districts of Navi Mumbai and Thane in the three quarters of FY 11, around 70% took place in Mindspace Airol.

Outlook

The commercial market in Mumbai is showing signs of revival since the past few quarters and enquiries are on the rise. A glance at office space transactions witnessed around Mumbai over the course of the ongoing financial year reveals a picture of improvement characterized by sporadic transaction trends. Given the quantum of existing and upcoming supply in the Western and Central SBD as well as the Peripheral Markets, these regions can be expected to drive commercial activity in Mumbai once the market is fully recovered.