



DECEMBER 2012 OFFICE TRACTION @ GLANCE

Knight Frank

Bengaluru

Market Review

Bengaluru strove to maintain a steady pace of office space absorption in the first half of the financial year 2012-13 (H1 FY 2013). The city's office market clocked an absorption of approximately 4.05 mn.sq.ft. during this period, primarily led by the IT/ ITeS industry which has remained the key demand driver for office space this year as well. With an inventory of around 94 mn.sq.ft. of office space currently operational, Bengaluru remains one of the most preferred office space destinations in the country.

BENGALURU OFFICE MARKET CLOCKED AN ABSORPTION OF APPROX 4.05 MN.SQ. FT. IN H1 FY 2013, DEPICTING A DECLINE OF 40% OVER THE ABSORPTION IN H1 FY 2012

Although the level of absorption observed in H1 FY 2013 is commendable, given the weak economic conditions on the global front, it falls short of the absorption witnessed during the same period in the previous year FY 2012 by around 40%. The absorption of 6.75 mn.sq.ft., in H1 FY 2012 can be primarily attributed to a revival in demand witnessed post the economic recession of 2008-09. Developers and occupiers alike had taken time to consider the market before embarking on their plans eventually in FY 2012, thus resulting in an upsurge

Micro-market Classification	Locations
Central Business District (CBD) and Off-CBD	MG Road, Residency Road, Cunningham Road, Lavelle Road, Richmond Road, Infantry Road
Suburban Business District	Indiranagar, Koramangala, Airport Road, Old Madras Road
Peripheral Business District	Whitefield, Mysore Road, Electronic City, Bannerghatta Road, Outer Ring Road

in absorption levels. However, the global economic turmoil in the following months lent a cautious outlook to the market again and deterred the occupiers to carry out their expansion, relocation and establishment strategies. As a result, the first half of FY 2013 has seen relatively lesser number of office space transactions than in its corresponding period in FY 2012.

This perceived slowdown in the Bengaluru office market witnessed due to the cautiousness shown by potential occupiers has persisted till mid Q3 FY 2013 as well. The months October and November 2012 saw a mere 0.4 mn.sq.ft. of office space being transacted.

Table 1: Transaction summary

Transaction Summary	H1 FY 2012 (Apr-Sep)	H1 FY 2013 (Apr-Sep)
Lease Transactions		
Total area Transacted	6.75 mn.sq.ft.	4.05 mn.sq.ft.
Weighted Average Rental Value	Rs.43.50 sq.ft./month	Rs.45.50 sq.ft./month

Source: Knight Frank Research

On the other hand, despite the slack witnessed in absorption, the weighted average rental value during H1 FY 2013 increased marginally by 5% from INR 43.50/ sq.ft. per month in H1 FY 2012 to INR 45.50/ sq.ft. per month across office micro-markets.

Sectoral Analysis

Table 2: Distribution of office space across sectors in H1 FY 2012 (Apr-Sep) and H1 FY 2013 (Apr-Sep)

Sectors	H1 FY 2012 (Apr-Sep)	H1 FY 2013 (Apr-Sep)
IT/ITeS	74%	56%
BFSI	3%	2%
Consulting	6%	4%
Healthcare/Pharma	4%	3%
Engineering	2%	4%
Manufacturing	4%	6%
Other Service Sectors	7%	25%

Source: Knight Frank Research

The IT/ITeS sector continues to be the main sector responsible for occupying a major part of the absorption pie in the Bengaluru office market. While the first half of FY 2012 saw the sector taking up 74% of the total office space transacted in the city, the share of the sector declined to 56% in H1 FY 2013. The fact that the absorption by the IT/ ITeS sector has waned, signifies the adverse impact felt by the sector owing to global economic conditions. Some of the key space occupiers in H1 FY 2013 include companies like Capgemini, Technotree, Infosys, SLK Software, Verizon, Amadeus and McAfee.

The drop in IT/ITeS sector's share in the absorption pie has led to the rise in office

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THE DROP IN IT/ITES SECTOR'S SHARE IN THE ABSORPTION PIE HAS LED TO THE RISE IN OFFICE SPACE OCCUPANCY OF SEVERAL NON-IT/ITES SECTORS IN H1 FY 2013

space occupancy of several non-IT/ITeS sectors in H1 FY 2013. While not much variation is seen in sectors such as BFSI, Consulting, Engineering and Manufacturing, as listed in Table 2, there has been an increase in the number of companies comprising the category 'Other Service Sectors' that have taken office space, thereby taking up the absorption share from 7% in H1 FY 2012 to 25% in H1 FY 2013. These primarily include the internet retailing sector with companies like Amazon, Ebay, Flipkart and Snap Deal, as well as the telecom sector, notable occupiers being British Telecom, Mars Telecom and Huwaei.

Some of the transactions that took place in the Bengaluru office market during H1 FY 2013 have been presented in Table 3.

Table 3: Select transactions in Bengaluru office market in FY 2013

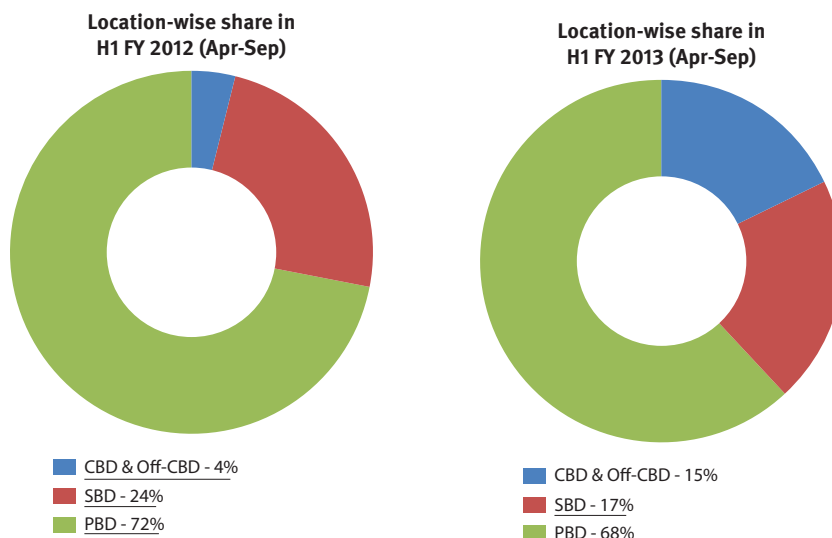
Building	Company	Location	Approx. Area (sq.ft.)
Brigade World Trade Centre	Amazon	Malleswaram	80000
The Millennia	IMS	Murphy Road	25000
JP IT Park	Infosys	Electronic City	352000
Salarpuria Sapphire	XL Health	Koramangala	70000
Pritech Tech Park	Altran	Outer Ring Road	32000
Ranga Building	Citibank	MG Road	40000
RMZ Eco Space	Robert Bosch	Outer Ring Road	128000
RMZ Eco Space	Times Analytics	Outer Ring Road	37000
Chambers @ Mantri	Exilant Technologies	Richmond Road	38916
Prestige Techpark	Quintiles	Outer Ring Road	200000

Source: Knight Frank Research

Geographical Analysis

Bengaluru has observed consistent office space demand across most micro-markets with peripheral locations like Electronic City,

Chart 1: Location wise share in office transactions



Source: Knight Frank Research

Whitefield and Outer Ring Road being the more preferred office destinations due to considerable new office space supply here. These micro-markets gained prominence largely due to the dearth of quality office space in the central locations and a few suburban micro-markets of the city.

The location-wise share in office space absorption during the period H1 FY 2012 and H1 FY 2013 has been depicted in Chart 1.

ft. was transacted in the CBD and Off-CBD locations in H1 FY 2012 while H1 FY 2013 saw approximately 0.72 mn.sq.ft. of office space being leased out in these micro-markets, the share thereby increasing significantly from 4% to 15%. Some of the key tenants that took up space in these CBD and Off CBD locations in FY 2013 include Exilant Technologies on Richmond Road, Eli Lilly and Citibank on MG Road, Axis Aerospace on Langford Road and Xander on Lavelle Road.

Meanwhile, the SBD micro-markets seem to have lost some sheen in H1 FY 2013 as compared to its corresponding period in FY 2012. While the first half of FY 2012 witnessed around 1.62 mn.sq.ft. of office area being taken up in the SBD micro-markets, to the tune of 24%, this share declined to 17% in H1 FY 2013, translating to an area of 0.68 mn.sq.ft. This can be due to the limited supply of quality office space entering the suburban micro-markets. Notable transactions in H1 FY 2013 in these SBD micro-markets include office space taken up by McAfee in Embassy Golf Links on Inner Ring Road while Amazon and Toyota took space in Brigade World Trade Centre located at Rajajinagar.

Not surprisingly, advantages like ready office space availability and competitive rentals



BENGALURU HAS OBSERVED CONSISTENT OFFICE SPACE DEMAND ACROSS MOST MICRO-MARKETS WITH PBD LOCATIONS LIKE WHITEFIELD, BANNERGHATTA ROAD AND ORR BEING THE MORE PREFERRED OFFICE DESTINATIONS

have made the PBD micro-markets account for most of the office space transactions that took place in Bengaluru in both the first halves of FY 2012 and FY 2013, to the tune of 72% and 68% respectively. Peripheral locations like Whitefield, Outer Ring Road and Bannerghatta Road were primarily responsible for the high take-up in the region. Key tenants that occupied office space in the peripheral micro-markets during H1 FY 2013 include Ernst & Young in Brigade Summit in Whitefield, Verizon in Prestige Tech Park on Outer Ring Road, Infosys in JP Park at Electronic City and Red Hat in IBC Knowledge Park on Bannerghatta Road.

Table 4 highlights the minimum and maximum rental values across micro-markets for H1 FY 2012 and H1 FY 2013. A large variation in rental ranges has been observed across the CBD and Off-CBD micro-markets of the city. This variation is on account of the

BENGALURU OFFICE MARKET IS ENVISAGED TO WITNESS A CAUTIOUS DELIVERY OF PROJECTS IN THE FORTHCOMING QUARTERS ON ACCOUNT OF THE PRESENT ECONOMIC UNCERTAINTY

Table 4: Average transacted rental values of prominent micro-markets (in INR/sq.ft./month)

Micro-markets	H1 FY 2012 (Apr-Sep)		H1 FY 2013 (Apr-Sep)	
	Min	Max	Min	Max
Central Business District (CBD) & Off-CBD	75	110	65	100
Suburban Business Districts (SBD)	43	55	40	65
Peripheral Business Districts (PBD)	25	30	26	55

Source: Knight Frank Research

location of the transacted properties as well as the industry type and the area occupied.

The Bengaluru office market witnessed a fairly steady market in terms of rentals during H1 FY 2013. This can be attributed to weak economic conditions as well as cautiousness on the part of both developers and occupiers. However, strong demand observed in office projects located in micro-markets such as Whitefield and the KR Puram -Sarjapur Outer Ring Road stretchesaw rental appreciation in the range of 7-8% during the period April-November 2012.

Outlook

Bengaluru office market is envisaged to witness a cautious delivery of projects in the forthcoming quarters on account of the present economic uncertainty. Projects that have already seen pre-commitments or confirmed interest from companies, are expected to be taken up by developers on a priority basis while going slow on launching newer projects. Demand is also likely to be subdued with corporates contemplating over their expansion plans. As a result of these factors, rentals are expected to remain stable, without much upward revision. Whitefield and Outer Ring Road will continue to be preferred office market destinations in the city due to Grade A space availability and competitive values in the leasing market.