

13 January 2011

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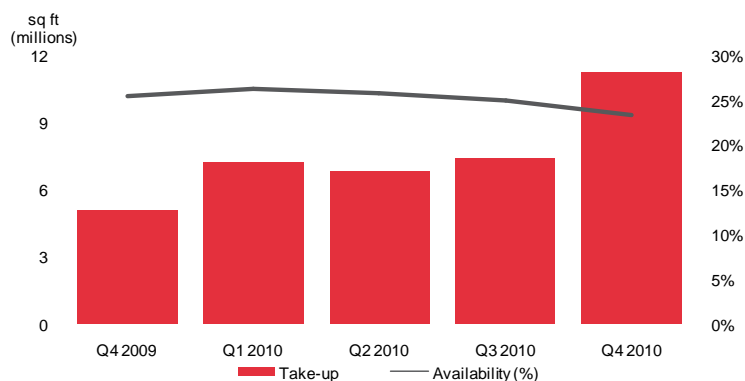
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- Office data from the last quarter of 2010 indicates market recovery to have spread to more cities across India with increase in both absorption and rents.
- While cities like Delhi NCR, Bengaluru and Hyderabad have been at the forefront of this recovery, others like Mumbai, Chennai, Pune and Kolkata show positive signs of recovery.
- After a modest improvement in take-up during the previous two quarters, the cumulative take-up across India's seven largest cities increased 52% quarter-on-quarter (q-o-q), reflecting the buoyant demand for offices during the period.
- With rise in project completions (15% q-o-q), the quarter also saw the return of developer confidence as many projects were revived in the wake of improving demand conditions.
- As a result of increase in office take-up, vacancy levels declined sharply across many cities. We expect office vacancies to decline over the coming quarters given the existing demand momentum despite the rise in new supply across markets.
- While inflation worries continue to persist, GDP growth forecasts remain high. However, fears remain on the sustainability of this high growth as the government adopts fiscal and monetary policy measures to tackle the high inflation.
- Despite the uncertainties, the overall growth of the economy is likely to result in increasing demand for offices across occupier segments. Some of the key office markets in India are poised to record large office space transactions during 2011.

Figure 1

India office take-up and availability ratio



Source: DTZ Research

Economic overview

- The Indian economy continued its rapid expansion with GDP growth of 8.9% in Q3 2010 on a year-on-year (y-o-y) basis. The high growth numbers were attributed primarily to high public and private consumption, fixed investments and export growth. For the financial year 2011, the government has projected a GDP growth of 8.75% (April 2010-March 2011).
- However, the persistently high inflation (in double digits) continues to be a damper in the overall growth story. Economists expect an increase in interest rates during the next policy review by the country's central bank in order to check the inflationary pressure on the economy.
- The increase in global commodity prices particularly that of crude oil remains a key concern, as any further increase in fuel prices would have an adverse impact on inflation.
- The industrial production (IIP) growth remained high at 8.9% during Q3 2010. However, the growth was only 2.7% on a y-o-y basis per the latest data available for the month of November.
- The country's exports during April - December 2010 period rose 29.5% to USD164.7 billion while imports grew 19% to USD 247.1 billion. India's trade deficit during the period rose to USD 82.4 billion. However, a sharp rise in exports was recorded during December 2010 when exports grew 36.4% y-o-y, narrowing the monthly trade deficit to USD 2.6 billion, the lowest in 3 years.

Table 1

Economic indicators				
Indicator	Period	Unit	Change y-o-y	Forecast (2010)
GDP	Q3 10	%	8.9	8.75*
Industrial production	Q3 10	%	8.9	9.5**

Source: Oxford Economics; *GOI FY 2011 projection, Ministry of Statistics** 2010 Jan - Nov

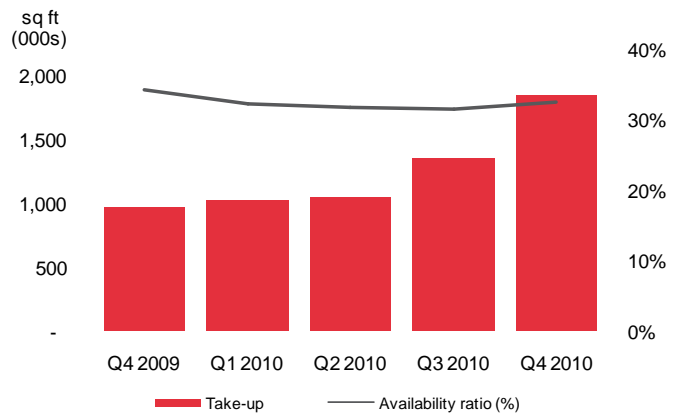
India real estate overview

- The sharp increase in the demand for office space across all the major cities in India have helped in restoring developer confidence. Developers across these office markets are now expediting construction and reviving projects, the development of which have been going slow during the last two years. Thus, over the next few quarters, we expect large new supply to mature across various micro-markets in the country.
- While office vacancies across a majority of office markets across the country are expected to see a decline over the coming quarters, it may rise in some of the key office markets inspite of rising demand. This paradoxical effect of rising vacancy is expected due to new supply out-pacing demand at these locations. However, we believe this to be a short term phenomenon and expect office vacancies across these markets to decrease once the pent up supply is exhausted.
- SEZ office space is likely to be the key demand driver for the segment across key office markets in India. Most of the large sized office leasing transactions during the quarter across major office markets were reported within SEZs. While more clarity on the applicable taxation regime is sought, the draft Direct Taxes Code Bill (DTC 2010) has created a sense of urgency in take-up of SEZ offices by putting a time line of 2014 for operationalisation of occupier units, beyond which the current scheme of tax exemptions would not be applicable.
- Real estate private equity deals appeared to be back in focus during the quarter as a result of tightening of lending norms to the sector. Apart from the difficulty in obtaining funds, many developers were hard pressed to lower their existing levels of leverage and hence chose to go for private equity money at project level.
- Office demand across Tier 2/3 cities would continue to be driven by smaller and local occupiers. While most large occupiers in the IT/ITES sector continue to evaluate these locations for setting up new offices, only a handful are ready to experiment with an untested location at present. Hence, large space office demand is expected to continue being directed towards the seven major office markets in India.

- The growth in office markets of Delhi NCR remained strong with substantial increase in space take-up (Figure 2) during 2010. In Q4 2010, the total office space take-up was reported at 1.85 million sq ft, a rise of 36% on a q-o-q basis. Rising contribution to demand from various sectors like manufacturing, infrastructure and telecom in addition to the traditional IT/ITES and BFSI signals broad basing of demand and maturity of the NCR office markets. Also, as a result of this, the majority of office take-up has come up on account of a large number of leasing transactions involving smaller spaces.
- Office vacancies stabilised to around 32% during 2010 (vs 34% in Q2 2009). However, Q4 2010 presented a paradox with rising vacancy despite the increase in office take-up (Figure 2). The high demand in office take-up was offset by yet higher new supply (project completions), thus affecting the vacancy adversely. We believe this to be a temporary phenomenon, which would settle down once the developers are done with releasing the pent-up supply of earlier periods.
- The 2.79 million sq ft of office space completed in Q4 2010 is the largest new supply seen in any single quarter during the last 18 months (Figure 3). With a strong development pipeline over the short to medium term, NCR office markets are expected to grow at a healthy rate with balanced demand and supply side pressures.
- Office rents increased across almost all micro-markets of NCR during Q4 2010 (Figure 4). Key markets like Gurgaon and Noida registered a rise of 5-6% on a q-o-q basis on the back of high demand levels and interest exhibited by office occupiers. While office rent across CBD showed marginal rise, those at SBD remained stable due to lack of quality developments in the region.
- On an overall basis, NCR office market is poised to take a leap forward with continued improvement in demand sentiments and resultant price increases over the short to medium term. Occupiers confirmed this view when DTZ conducted a survey across 200 of the prominent occupiers across three cities, including NCR (see DTZ report: India Office Occupiers' Survey 2010). The majority of occupiers in the region believe office rents to rise by 10-15% during 2011 with a larger part of this rise to occur during the latter half of the year. These occupiers therefore consider the next six months being the ideal time for taking up new office space.

Figure 2

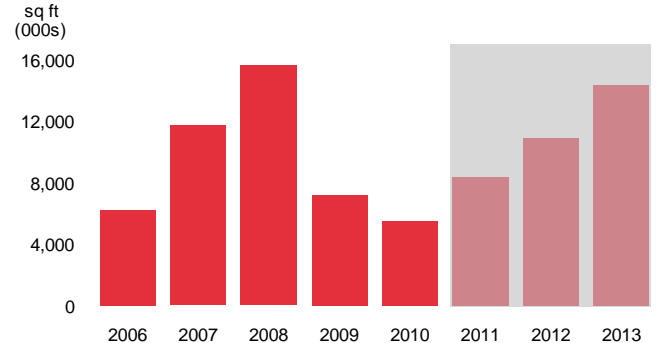
Office take-up & availability ratio



Source: DTZ Research

Figure 3

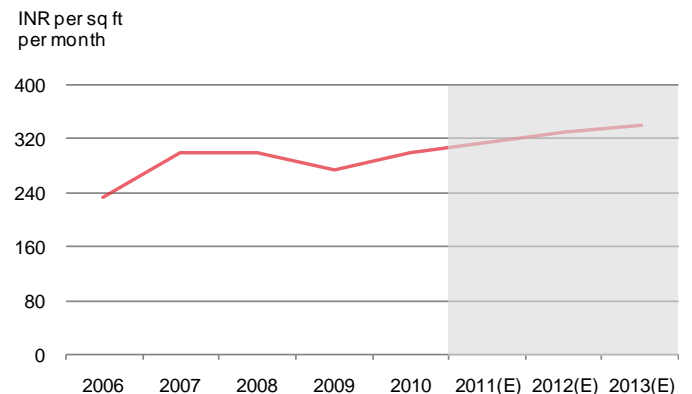
Office new supply



Source: DTZ Research

Figure 4

Prime office rents



Source: DTZ Research

Table 2

Occupier market								
	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q/Q change (%)	Y/Y change (%)	Directional outlook
Total								
Stock (sq ft)	51,227,956	51,443,956	53,244,476	53,984,476	56,774,542	5	11	
Take-up (sq ft)	969,254	1,014,911	1,046,473	1,356,673	1,850,233	36	91	
Availability (%)	34	32	32	32	33			
New Supply (sq ft)	1,090,000	216,000	1,800,520	740,000	2,790,066	277	156	
CBD								
Take-up (sq ft)	7,000	5,000	4,584	5,500	19,300	251	176	
Availability (sq ft)	130,600	85,332	78,900	73,400	57,301	-22	-56	
Availability ratio (%)	9	6	6	5	4			
New supply (sq ft)	0	0	0	0	0	-	-	
Prime rents (INR psft pm)	275 (\$6.1)	275 (\$6.1)	280 (\$6.2)	290 (\$6.4)	300 (\$6.6)	3	9	▲
SBD								
Take-up (sq ft)	416,444	113,200	26,000	87,000	35,000	-60	-92	
Availability (sq ft)	1,333,981	1,234,000	1,225,000	1,526,000	1,496,804	-2	12	
Availability ratio (%)	32	30	30	34	34			
New supply (sq ft)	0	0	0	330,000	0	-100	-	
Prime rents (INR psft pm)	175 (\$3.9)	175 (\$3.9)	175 (\$3.9)	175 (\$3.9)	175 (\$3.9)	0	0	↔
PBD (Gurgaon)								
Take-up (sq ft)	470,810	701,943	723,889	323,655	1,487,733	360	216	
Availability (sq ft)	10,645,279	9,736,138	9,796,217	9,567,218	10,774,744	13	1	
Availability ratio (%)	32	29	29	28	30			
New supply (sq ft)	1,090,000	0	717,520	160,000	2,245,066	1303	106	
Prime rents (INR psft pm)	80 (\$1.8)	82 (\$1.8)	82 (\$1.8)	82 (\$1.8)	86 (\$1.9)	5	8	▲
PBD (Noida*)								
Take-up (sq ft)	75,000	194,768	292,000	940,518	308,200	-67	311	
Availability (sq ft)	5,452,317	5,608,068	5,913,554	5,900,054	6,183,825	5	13	
Availability ratio (%)	44	44	44	43	43			
New supply (sq ft)	0	216,000	1,083,000	250,000	545,000	118	-	
Prime rents (INR psft pm)	34 (\$0.8)	35 (\$0.8)	35 (\$0.8)	36 (\$0.8)	38 (\$0.8)	6	12	▲

Source: DTZ Research

* Noida is inclusive of Greater Noida.
Exchange rate: USD 1=INR 45.32

Table 3

Leasing transactions

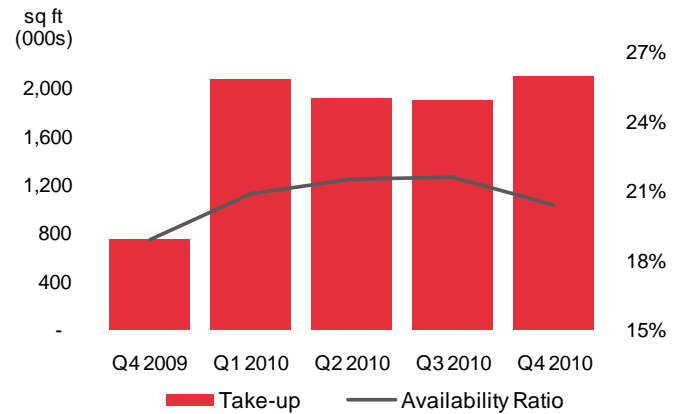
Address	Micro-market	Size (sq ft)	Tenant	Sector
DLF Silokhera	Gurgaon	200,000	PepsiCo	Office
DLF 10C	Gurgaon	200,000	KPMG	Office

Source: DTZ Research

- The strong demand for office space recorded for most of the year 2010 continued in the last quarter. During Q4 2010, office take-up was reported at 2.1 million sq ft, a 183% increase y-o-y. BFSI sector accounted for the largest share, followed by IT/ITES sector out of the total office take-up during the quarter. Demand from various other sectors, including logistics, travel and manufacturing also registered an increase during the period. Unlike previous quarters, SBD accounted for close to 40% of the total office take-up, followed by PBD at 30%. With this, the total demand for space in Mumbai for 2010 crossed 8 million sq ft, and the city stood only behind Bengaluru in terms of the total office space take-up during the year (Figure 5).
- The total office space taken up in Q4 2010 was only partly offset by the new supply during the period, resulting in a decline in vacancy levels to 20% vis-à-vis 22% in Q3 2010. The change in the vacancy levels differed across micro-markets with Off CBD recording an increase in the vacancy levels due to the relatively large new supply, while the vacancy levels across all other micro-markets in the city dropped during the quarter (Figure 5).
- The new supply during Q4 2010 declined 52% q-o-q with much of the planned completions during the quarter rolled over to the new year. Nearly 1.25 million sq ft of new offices got ready for fit outs during the quarter (Figure 6). With this new supply, the total grade A commercial stock in Mumbai stood at 72.8 million sq ft at the end of the period. Close to 60% of the new supply was concentrated in the Off CBD market, while PBD's contribution in the new supply declined sharply to 15%.
- CBD and Off CBD markets witnessed a downward bias on office rents despite an overall trend of rental stability across other micro-markets in the city. This was primarily attributed to the shift in occupier preference away from CBD and Off CBD together with rising vacancy in these micro-markets. During Q4 2010, Off CBD reported a 5% decline in rents while those in New CBD increased by 5%. Office rents across all other micro-markets remained stable (Figure 7).
- Even though the domestic economy is projected to grow at a healthy rate, the prolonged uncertainties in some of the larger global economies does not augur well for the office market in Mumbai. The office real estate market in the city may not remain as buoyant as expected earlier due to persistent high inflation, acting as a dampner on high growth.

Figure 5

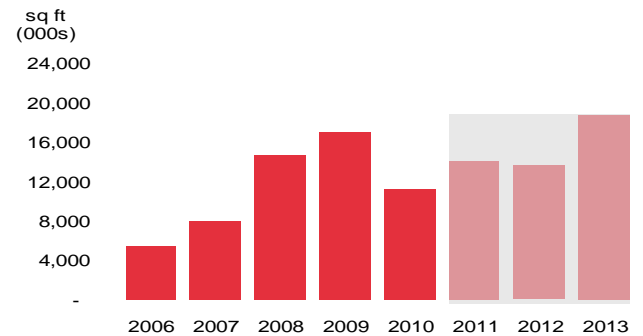
Office take-up and availability ratio



Source: DTZ Research

Figure 6

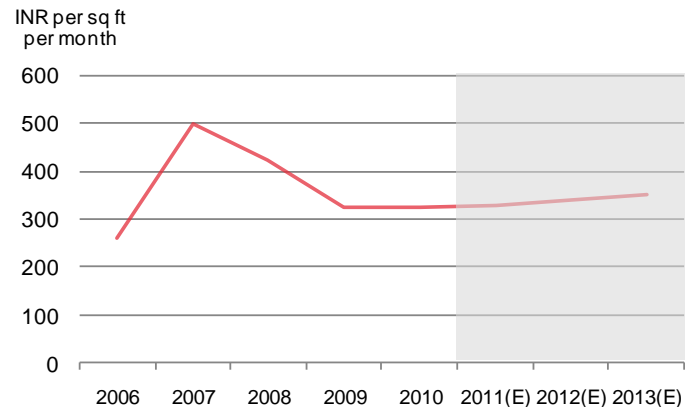
Office new supply



Source: DTZ Research

Figure 7

Prime office rents



Source: DTZ Research

Table 4

Occupier market								
	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q/Q change (%)	Y/Y change (%)	Directional outlook
Total								
Stock (sq ft)	61,452,502	65,381,802	68,932,802	71,513,802	72,758,906	2	18	
Take-up (sq ft)	742,366	2,069,500	1,923,000	1,908,379	2,100,000	10	183	
Availability (%)	19	21	22	22	20			
New Supply (sq ft)	4,384,091	3,929,300	3,551,000	2,581,000	1,245,104	-52	-72	
CBD								
Take-up (sq ft)	0	40,500	6,000	17,982	15,000	-17		
Availability (sq ft)	204,071	202,513	196,513	178,531	172,531	-3	-15	
Availability ratio (%)	11	11	10	9	9			
New supply (sq ft)	0	0	0	0	0	0		
Prime rents (INR psft pm)	325 (\$7.2)	325 (\$7.2)	325 (\$7.2)	325 (\$7.2)	325 (\$7.2)	0	0	↔
Off CBD								
Take-up (sq ft)	125,500	465,000	430,000	42,815	375,000	776	199	
Availability (sq ft)	1,182,173	1,146,313	1,137,200	1,094,385	1,610,969	47	36	
Availability ratio (%)	18	17	17	16	22			
New supply (sq ft)	1,130,000	72,900	96,000	0	731,354		-35	
Prime rents (INR psft pm)	190 (\$4.2)	190 (\$4.2)	190 (\$4.2)	190 (\$4.2)	180 (\$4.0)	-5	0	↔
New CBD								
Take-up	38,866	103,200	382,000	273,499	310,000	13	698	
Availability (sq ft)	820,771	802,454	796,999	616,500	450,000	-27	-45	
Availability ratio (%)	12	12	11	8	6			
New supply (sq ft)	96,762	0	420,000	93,000	46,250	-50	-52	
Prime rents (INR psft pm)	275 (\$6.1)	300 (\$6.6)	300 (\$6.6)	300 (\$6.6)	315(\$7.0)	5	13	▲
Suburban								
Take-up (sq ft)	165,000	470,800	374,000	370,138	800,000	116	385	
Availability (sq ft)	3,442,078	3,545,947	4,836,160	6,767,475	6,250,000	-8	82	
Availability ratio (%)	24	24	28	35	32			
New supply (sq ft)	1,335,329	449,400	2,591,000	1,988,000	285,000	-86	-79	
Prime rents (INR psft pm)	110 (\$2.4)	125 (\$2.8)	125 (\$2.8)	125 (\$2.8)	125 (\$2.8)	0	14	↔
PBD								
Take-up (sq ft)	413,000	990,000	731,000	1,203,945	600,000	-50	45	
Availability (sq ft)	6,002,842	7,950,732	7,481,267	6,777,322	6,350,700	-6	6	
Availability ratio (%)	19	22	21	19	18			
New supply (sq ft)	1,822,000	3,407,000	444,000	500,000	182,500	-64	-90	
Prime rents (INR psft pm)	65 (\$1.4)	65 (\$1.4)	65 (\$1.4)	65 (\$1.4)	65 (\$1.4)	0	0	↔

Source: DTZ Research

Exchange rate: USD 1 = INR 45.32

Table 5

Leasing transactions

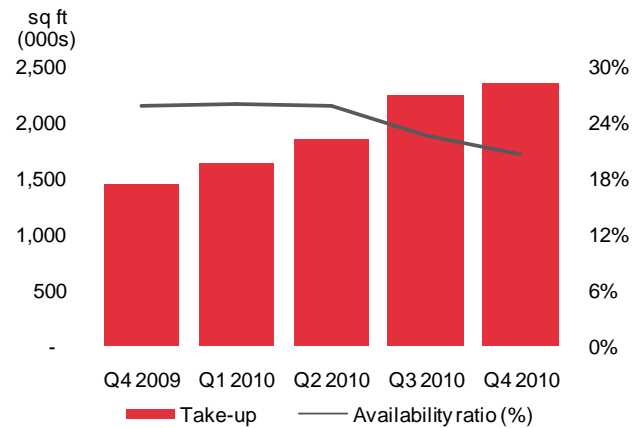
Address	Micro-market	Size (sq ft)	Tenant	Sector
HCC 24/7 Park	PBD	26,000	Way 2 Wealth	BFSI
One India Bulls Centre	SBD	100,000	Deloitte	BFSI

Source: DTZ Research

- In Q4 2010, absorption of office space in the city increased by 63% y-o-y to 2.4 million sq ft, reflecting the increasingly positive demand sentiments in the city's office markets. Absorption increased progressively for the seventh straight quarter, since bottoming out in Q1 2009. The total absorption for 2010 stood at 8.1 million sq ft vis-a-vis 4.5 million sq ft for 2009, primarily due to strengthening of demand from the IT/ITES sector. With declining space options for occupiers in PBD ORR sub-market, the Whitefield sub-market garnered close to 40% of the total demand for space in the city in Q4 2010 (Figure 8).
- The vacancy levels in the city declined sharply from 23% in Q3 2010 to 21% of the total stock in Q4 2010, due to the robust take-up and relatively low new supply. The consolidation of ORR as the city's most preferred office destination has resulted in this PBD sub-market reporting low vacancy levels of 4%. The area also witnessed pre-commitments with negotiations currently on for the limited projected new supply of 2011. Thus, with fewer office space options available in ORR, occupiers are increasingly willing to consider Whitefield as an alternative grade A office location with abundant ready space at lower rents. As a result, office vacancies at Whitefield are beginning to decline (currently at 42%) (Figure 8).
- The new supply moderated considerably to 0.8 million sq ft in Q4 2010, a steep 78% decline y-o-y. The total new supply in 2010 stood low (at 4.4 million sq ft) with markets continuing to realign to the changing demand patterns. The scheduled new supply for 2011 stands at 7.2 million sq ft while the demand for space during the same period is likely to be much higher and result in diminishing options for occupiers in certain key markets during the course of the year.
- The average transacted rents increased across all micro-markets in the city, during Q4 2010. The sharpest rise was in SBD with 10% increase q-o-q, followed by PBD ORR sub-market and CBD with a moderate increase of around 5% over the previous quarter. Even though the take-up has increased in PBD sub-markets of Whitefield and Electronic City, it might be some more time before a rental recovery is seen due to the prevalent high vacancy levels in these locations (Figure 10).
- Almost all micro-markets in Bengaluru appear to be on course to strong recovery. Locations including Whitefield which currently lag rental recovery are likely to see marginal price increase during the latter half of 2011.

Figure 8

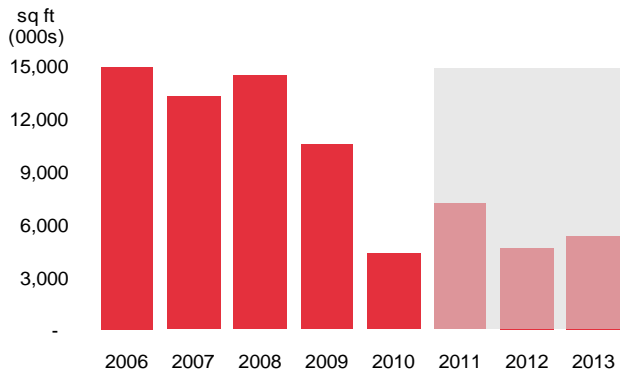
Office take-up and availability ratio



Source: DTZ Research

Figure 9

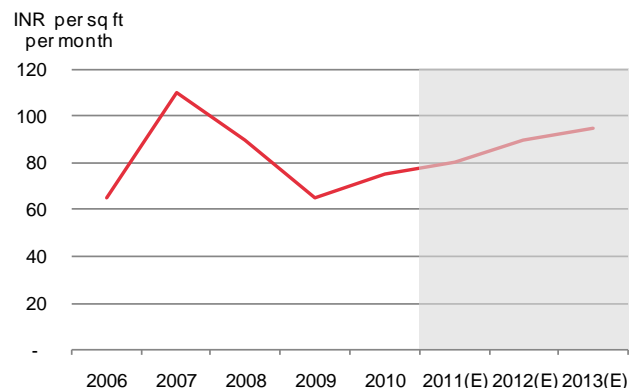
Office new supply



Source: DTZ Research

Figure 10

Prime office rents



Source: DTZ Research

Table 6

Occupier market								
	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q/Q change (%)	Y/Y change (%)	Directional outlook
Total								
Stock (sq ft)	79,434,87	81,130,095	82,879,689	83,019,689	83,849,295	1	6	
Take-up (sq ft)	1,449,830	1,642,055	1,859,178	2,246,292	2,356,391	5	63	
Availability (%)	26	26	26	23	21			
New Supply (sq ft)	3,766,871	1,695,221	1,749,594	140,000	829,606	493	-78	
CBD								
Take-up (sq ft)	330,175	94,130	121,140	236,964	204,651	-14	-38	
Availability (sq ft)	919,984	783,409	774,955	719,506	601,256	-16	-35	
Availability ratio (%)	13	11	11	10	8			
New supply (sq ft)	126,500	0	0	140,000	152,000	9	20	
Prime rents (INR psft pm)	65 (\$1.4)	65 (\$1.4)	65 (\$1.4)	72 (\$1.6)	75 (\$1.7)	4	15	▲
SBD								
Take-up (sq ft)	454,136	217,700	174,438	165,970	262,645	58	-42	
Availability (sq ft)	2,194,099	2,236,281	2,252,320	2,157,402	2,183,751	1	0	
Availability ratio (%)	10	11	11	10	10			
New supply (sq ft)	56,000	112,027	0	0	0		-100	
Prime rents (INR psft pm)	45 (\$1.0)	45 (\$1.0)	45 (\$1.0)	50 (\$1.1)	55 (\$1.2)	0	22	▲
PBD								
Take-up (sq ft)	665,519	1,330,225	1,563,600	1,843,358	1,889,095	10	184	
Availability (sq ft)	17,429,646	18,144,896	18,352,262	15,882,833	14,569,131	-8	-16	
Availability ratio (%)	34	34	33	29	26			
New supply (sq ft)	3,584,371	1,583,194	1,749,594	0	677,606		-81	
Prime rents (INR psft pm)*	36 (\$0.8)	36 (\$0.8)	38 (\$0.8)	40 (\$0.9)	42 (\$0.9)	5	17	▲

Source: DTZ Research

Exchange rate: USD 1 = INR 45.32; * only PBD ORR sub-market commands the reported PBD prime rent

Table 7

Leasing transactions

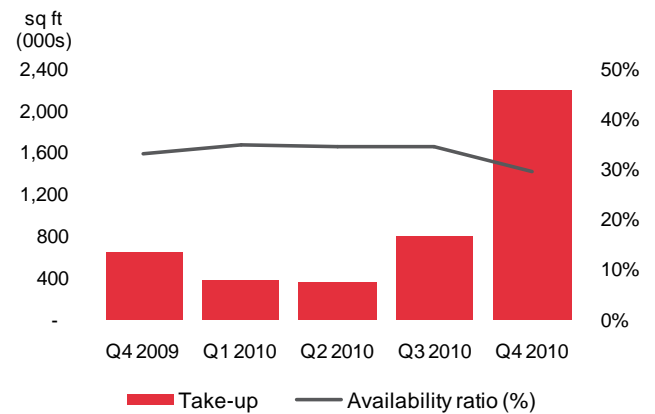
Address	Micro-market	Size (sq ft)	Tenant	Sector
Salarpuria GR Techpark	PBD	66,000	Sapient	Office
Pritech SEZ	PBD	119,486	HP	Office
Safina Towers	CBD	13,315	Amazon	Office

Source: DTZ Research

- A number of large deal closures across micro-markets resulted in substantial improvement in office take-up (2.2 million sq ft during Q4 2010). Due to the exceptionally large take-up in the last quarter of the year, the total demand for office space in 2010 crossed 3.7 million sq ft, a growth of 50% y-o-y. Along with the expansion of office space by existing occupiers in the city, demand from new entrants also contributed to this upsurge in demand. With a healthy demand pipeline, we expect office take-up in 2011 to grow by around 20% over the previous year (Figure 11).
- Vacancy levels in the city declined sharply in Q4 2010 (to 29% vs 34% in Q3 2010) with no supply additions during this period of large deal closures. However, at 12.9 million sq ft, the total vacancy in Chennai offices remained high on an absolute basis. Most of these vacant offices are located in PBD sub-markets of OMR and Ambattur, which currently report close to 39% vacancy in current stock (Figure 11).
- A number of projects, earlier scheduled for completion in Q4 2010 were delayed and are likely to be completed during 2011. The total new supply during FY2010, stood at 4.2 million sq ft, a 50% decline y-o-y. Notably, during 2010, the developers in the city had realigned new supply to slow demand conditions resulting in fewer project completions (Figure 12).
- Rents in both CBD and SBD micro-markets appreciated in Q4 2010 by 8% and 5% q-o-q respectively. Improving demand conditions and declining vacancy are cited as the primary reasons for this price increase, which was stagnant over the last 12-15 months. However, PBD rents remained unchanged despite the sharp recovery in take-up with vacancy levels remaining high in this micro-market (Figure 13).
- On an overall basis, the demand for offices in Chennai improved dramatically towards the latter half of 2010 with considerable occupier interest. While the year 2011 is expected to see a continuation of a healthy demand pipeline, an overall market recovery would be a factor of demand-supply dynamics and its impact on current high levels of office vacancy during the period.

Figure 11

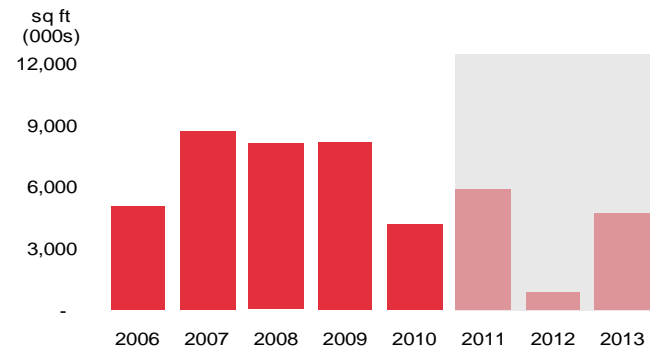
Office take-up and availability ratio



Source: DTZ Research

Figure 12

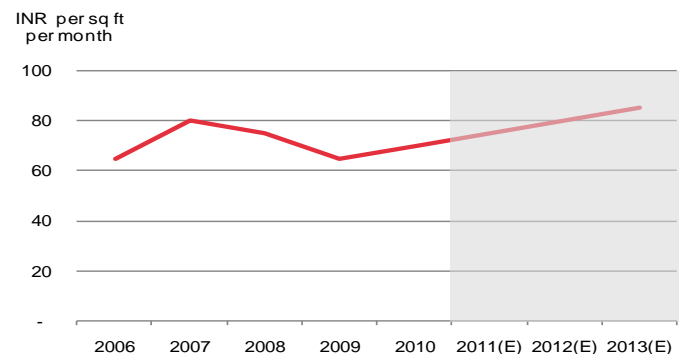
Office new supply



Source: DTZ Research

Figure 13

Prime office rents



Source: DTZ Research

Table 8

Occupier market

	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q/Q change (%)	Y/Y change (%)	Directional outlook
Total (sq ft)								
Stock (sq ft)	40,116,247	42,339,029	43,289,029	43,311,029	43,311,029	0	10	
Take-up (sq ft)	650,000	375,000	350,000	800,000	2,200,000	175	238	
Availability ratio (%)	33	35	35	34	29			
New supply (sq ft)	2,308,000	2,222,782	9,50,000	1,022,000	0	-100	-100	
CBD								
Take-up (sq ft)	69,000	20,000	23,360	27,000	175,000	548	154	
Availability (sq ft)	859,797	882,797	859,437	949,437	850,500	-10	-1	
Availability ratio (%)	26	26	25	26	23			
New supply (sq ft)	0	200,000	0	180,000	0	-100		
Prime rents (INR psft pm)	65 (\$1.4)	65 (\$1.4)	65 (\$1.4)	65 (\$1.4)	70 (\$1.5)	8	8	↔
SBD								
Take-up (sq ft)	81,000	125,000	25,000	333,000	950,000	185	1073	
Availability (sq ft)	1,739,200	1,566,610	1,560,530	1,466,530	423,000	-71	-76	
Availability ratio (%)	17	15	15	14	4			
New supply (sq ft)	0	240,000	0	0	0		-100	
Prime rents (INR psft pm)	43 (\$0.9)	43 (\$0.9)	43 (\$0.9)	43 (\$0.9)	45 (\$1.0)	5	5	▲
PBD								
Take-up (sq ft)	500,000	155,000	301,640	440,000	1,075,000	144	115	
Availability (sq ft)	10,651,540	12,292,745	12,541,745	12,833,429	11,716,711	-9	10	
Availability ratio (%)	40	43	43	43	39			
New supply (sq ft)	2,308,000	1,782,782	950,000	842,000	0	-100	-100	
Prime rents (INR psft pm)	25 (\$0.6)	25 (\$0.6)	24 (\$0.5)	24 (\$0.5)	24 (\$0.5)	0	-4	▲

Source: DTZ Research

Exchange rate: USD 1 = INR 45.32

Table 9

Leasing transactions

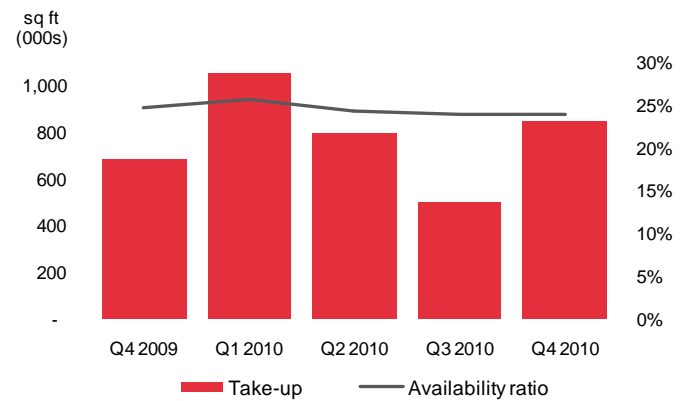
Address	Micro-market	Size (sq ft)	Tenant	Sector
Indialand	PBD	159,000	RBS	Office
Ambit IT Park	PBD	50,000	Dell	Office

Source: DTZ Research

- The office real estate market in Pune showed healthy signs of growth during Q4 2010. With office take-up of 0.85 million sq ft, the demand levels grew by more than 30% on a q-o-q basis (Figure 14). This quarter highlighted a strong demand for SEZs in the region, which is expected to be the theme for office demand into the next few quarters. This traction in SEZ offices is because of the draft Direct Taxes Code 2010, which imposes a time limit on notification of SEZs and operationalisation on SEZ Units in order to claim income tax exemptions under the current scheme. During Q4 2010, occupiers have favoured SEZ offices and have booked spaces in under-construction properties for want of existing stock in SEZs.
- On a micro-market basis, PBD remained the preferred location with a large number of leasing deals taking place in Hinjewadi and its periphery. Key sectors driving office space demand in Pune continued to be IT/ITES and BFSI. A large part of the office demand witnessed during Q4 2010 originated on account of expansions of existing IT/ITES occupiers in the city.
- Office vacancy remained stable on an overall basis due to the balance between new supply and take-up during Q4 2010. However, amongst micro-markets, CBD and Off CBD vacancies increased marginally (Figure 14) with lower net absorption in the region. Despite improving market sentiments and the likelihood of Pune offices seeing a further increase in demand, the overall vacancy may not fall significantly because of the large development pipeline expected to mature during the next few quarters.
- At 1.03 million sq ft, the new supply that was completed in the Pune market, was substantially higher than the last quarter (0.4 million sq ft). With developers completing under-construction projects that were either going slow or were stalled due to adverse market conditions, large new supply completions are expected over the near future in the city (Figure 15).
- Owing to sustained demand pulls and an overall increase in the market activity, the rents in CBD region have witnessed a growth of nearly 3% on a q-o-q basis. Rental in the other micro-markets remained stable because of strong vacancy pressures. However, we believe the expected sustained demand levels during the first half of the year will lend strength to office rents (Figure 16).

Figure 14

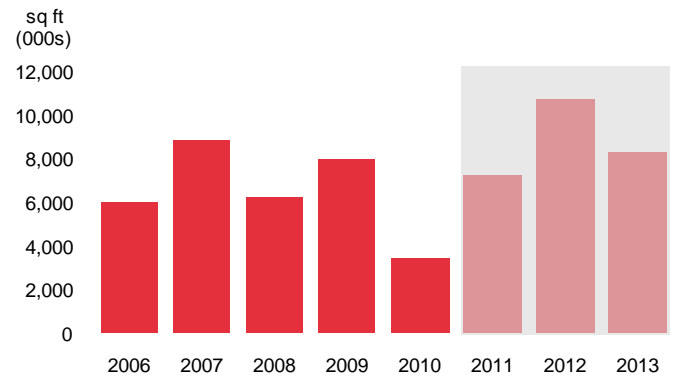
Office take-up and availability ratio



Source: DTZ Research

Figure 15

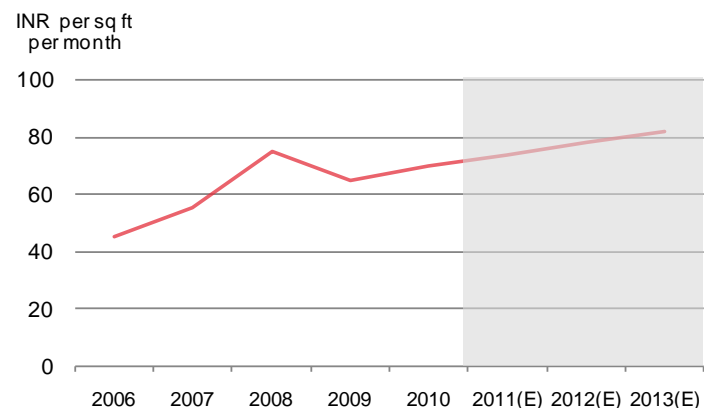
Office new supply



Source: DTZ Research

Figure 16

Prime office rents



Source: DTZ Research

Table 10

Occupier market								
	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q/Q change (%)	Y/Y change (%)	Directional outlook
Total								
Stock (sq ft)	34,358,410	35,458,410	36,408,410	36,808,410	37,843,410	2.8	10.1	
Take-up (sq ft)	685,500	1,059,500	801,000	650,000	850,676	30.9	24.1	
Availability ratio (%)	25	26	24	24	24			
New supply (sq ft)	1,202,000	1,075,000	950,000	400,000	1,035,000	158.8	-13.9	
CBD								
Take-up (sq ft)	13,000	30,000	93,000	30,000	40,000	33	208	
Availability (sq ft)	461,334	505,600	412,100	382,100	441,748	16	-4	
Availability ratio (%)	13	14	11	10	12			
New supply (sq ft)	0	200,000	0	0	99,648	-	-	
Prime rents (INR psft pm)	70 (\$1.5)	70 (\$1.5)	70 (\$1.5)	70 (\$1.5)	72 (\$1.6)	3	3	↔
Off CBD								
Take-up (sq ft)	150,000	15,000	40,000	50,000	20,000	-60	-87	
Availability (sq ft)	300,635	318,900	315,900	265,900	362,900	36	21	
Availability ratio (%)	9	10	10	8	11			
New supply (sq ft)	0	105000	0	0	0	-	-	
Prime rents (INR psft pm)	55 (\$1.2)	55 (\$1.2)	55 (\$1.2)	55 (\$1.2)	55 (\$1.2)	0	0	↔
SBD								
Take-up (sq ft)	139,000	37,000	85,000	80,000	50,600	-37	-64	
Availability (sq ft)	461,334	505,600	1,127,000	1,047,000	1,057,000	1	-10	
Availability ratio (%)	13	13	13	12	12			
New supply (sq ft)	0	0	0	0	0	-	-	
Prime rents (INR psft pm)	35 (\$0.8)	35 (\$0.8)	35 (\$0.8)	35 (\$0.8)	35 (\$0.8)	0	0	↔
PBD								
Take-up (sq ft)	383,500	977,500	583,000	490,000	740,076	51	93	
Availability (sq ft)	6,585,458	7,122,630	7,004,160	6,964,160	7,194,596	3	9	
Availability ratio (%)	35	36	34	33	33			
New supply (sq ft)	1,202,000	770,000	950,000	400,000	783,352	96	-35	
Prime rents (INR psft pm)	30 (\$0.7)	30 (\$0.7)	30 (\$0.7)	30 (\$0.7)	30 (\$0.7)	0	0	▲

Source: DTZ Research

Exchange rate: USD 1 = INR 45.32

Table 11

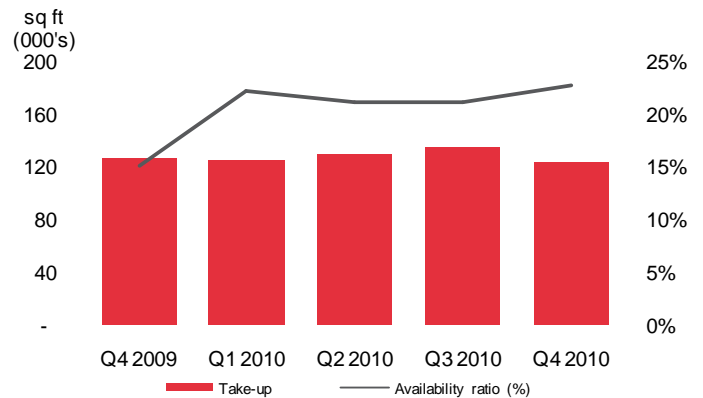
Leasing transactions				
Address	Micro-market	Size (sq ft)	Tenant	Sector
SP Infocity	PBD	110,000	Syntel	IT/ITES
Blue Ridge	PBD	30,000	KPIT Cummins	IT/ITES

Source: DTZ Research

- The office real estate of Kolkata remained on the path of slow recovery in Q4 2010. The demand in the peripheral markets of Salt Lake and Rajarhat remained consistent while CBD continued to lack any significant momentum during the last 3 months. PBD regions like Salt Lake and Rajarhat New Town were the preferred destination for leasing in 2010 with sufficient supply of grade A offices with larger floor plates. Though there were some signs of increasing occupier interest in SBD during the quarter, no major leasing deal was reported by market participants. In Q4 2010, the total office take-up in Kolkata stood at 0.12 million sq ft which was a fall of 8% on q-o-q basis (Figure 17).
- Office vacancy across Kolkata increased to 23% during Q4 2010 (vs. 21% in Q3 2010) in the wake of large new supply addition and limited absorption (Figure 17). The rise in vacancy levels was more pronounced in SBD regions because of relatively high new supply completions during the period, which outpaced office take-up by far. Vacancy in the other micro-markets remained stable or rose marginally owing to the lack of significant addition of new supply and lack of growth in absorption.
- Even though office take-up remained low, there was an addition of 0.45 million sq ft of new supply during the quarter. With this the total new supply during 2010 was nearly 2 million sq ft, a little higher than what was recorded during 2009 (Figure 18). While, most of the new supply was concentrated in the peripheral markets of Salt Lake and Rajarhat, Topsia Road in SBD was also active on the supply front during the quarter.
- Office rent in Kolkata are starting to show some signs of revival on the back of improved market conditions and rising occupier interest during the quarter. After a period of relative stability during the last one year period, office rents increased in the range of 2 to 4% during Q4 2010, primarily led by PBD markets (Figure 19).
- On an overall basis, we expect the next few quarters to bring some momentum back into the Kolkata office market with continued rise of interest from occupiers. Specially, increased activity in SEZ offices, by the firms which are planning to expand or consolidate their operations, could be the driver for the sector. Amongst markets, Salt Lake and Rajarhat are likely to witness a rise in leasing activity, accounting for a majority of the office take-up and price increases.

Figure 17

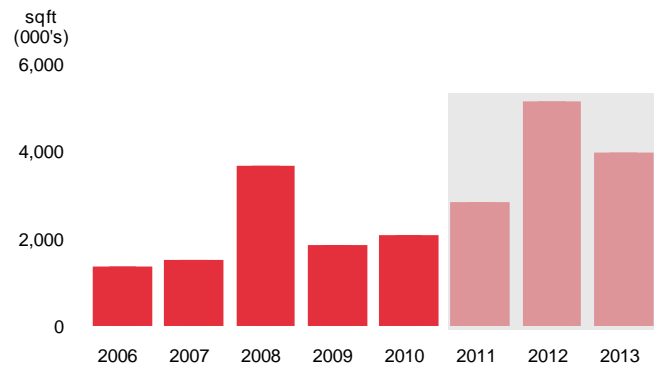
Office take-up and availability ratio



Source: DTZ Research

Figure 18

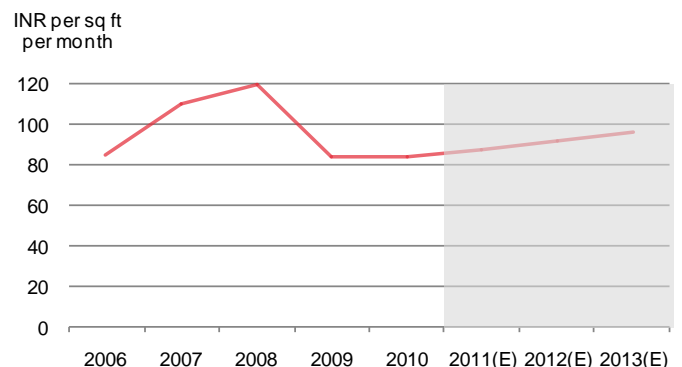
Office new supply



Source: DTZ Research

Figure 19

Prime office rents



Source: DTZ Research

Table 12

Occupier market								
	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q/Q change (%)	Y/Y change (%)	Directional outlook
Total								
Stock (sq ft)	13,139,830	14,649,830	14,649,830	14,759,830	15,209,830	3	16	
Take-up (sq ft)	127,000	125,000	129,700	135,000	124,300	-8	-2	
Availability (%)	15	22	21	21	23			
New Supply (sq ft)	0	1,510,000	0	110,000	450,000	309	-	
CBD								
Take-up (sq ft)	0	0	0	0	0	-	-	
Availability (sq ft)	60,950	60,950	60,950	60,950	60,950	0	0	
Availability ratio (%)	3	3	3	3	3			
New supply (sq ft)	0	0	0	0	0	-	-	
Prime rents (INR psft pm)	84 (\$1.9)	84 (\$1.9)	84 (\$1.9)	85 (\$1.9)	87 (\$1.9)	2	4	↔
SBD								
Take-up (sq ft)	10,500	0	26,700	0	0	-	-	
Availability (sq ft)	19,855	19,885	19,885	19,885	119,885	0	-35	
Availability ratio (%)	3	3	3	3	15			
New supply (sq ft)	0	0	0	0	100,000	-	-	
Prime rents (INR psft pm)	58 (\$1.3)	60 (\$1.3)	60 (\$1.3)	60 (\$1.3)	62 (\$1.4)	3	7	↔
PBD								
Take-up (sq ft)	116,500	125,000	103,000	135,000	124,300	-8	7	
Availability (sq ft)	1,902,586	3,187,586	3,029,586	3,044,586	3,290,582	8	73	
Availability ratio (%)	18	27	25	25	27			
New supply (sq ft)	0	1,510,000	0	110,000	350,000	218	-	▲
Prime rents (INR psft pm)	50 (\$1.1)	50 (\$1.1)	50 (\$1.1)	50 (\$1.1)	52 (\$1.2)	4	4	

Source: DTZ Research

Exchange rate: USD 1= INR 45.32

Table 13

Leasing transactions

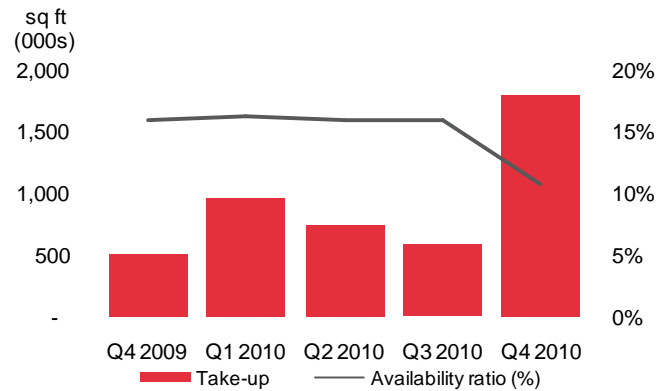
Address	Micro-market	Size (sq ft)	Tenant	Sector
Salt Lake	PBD	30,000	Just Dial	Office

Source: DTZ Research

- Absorption in the city during Q4 2010 stood at 1.8 million sq ft, a staggering 260% increase y-o-y, on the back of improving occupier confidence in the IT/ITES sector. During the quarter, the office markets in the city remained well on its path to recovery and recorded one of the highest quarterly absorption in recent times. With this, the total take-up for the full year 2010 crossed 4 million sq ft, which was much better than what was anticipated at the beginning of the year. On an overall basis, market sentiments in the city remained upbeat for most of Q4 2010, but for a brief period towards the end of the year when political uncertainty around the State division resurfaced.
- Overall vacancy levels declined sharply during the period, primarily due to high absorption recorded during Q4 2010. This was also helped by a relatively low new supply, pushing office vacancy levels downwards. Overall, the office vacancy in Hyderabad reduced to 11% of the total stock at the end of Q4 2010 vs 16% at the end of Q3 2010. The vacancy varied across micro-markets with the lowest (7%) being recorded at CBD followed by 11% in PBD regions of Gachibowli, Kondapur, Madhapur and HITEC City. SBD markets of Banjara Hills and Jubilee Hills reported the highest vacancy levels at 14% of existing stock in that market (Figure 20).
- During Q4 2010, 0.7 million sq ft of new supply came to into the market, all of which was located within one IT/ITES SEZ at PBD (Figure 21). This new supply took the total stock to 24.7 million sq ft by the end of Q4 2010. We expect the large development pipeline of 7.3 million sq ft in 2011 to be higher than the likely demand for space during the period and hence may temper the increase in rents during the year.
- The market conditions improved substantially in Q4 2010 with a sharp decline in vacancy levels, but, the average achievable rents did not increase during the period. However, with fewer office options remaining for occupiers seeking new office space, rents would face an upward pull over the next few quarters (Figure 22).
- On a full year basis, Hyderabad outperformed Chennai and now falls only behind Bengaluru in grade A office space take-up in south India. The city consolidated its position as an R&D hub of IT industry with many large occupiers preferring it over other cities. The increased momentum in deal closure, if sustained for some more time, is likely to result in a rise in rents during the course of the year.

Figure 20

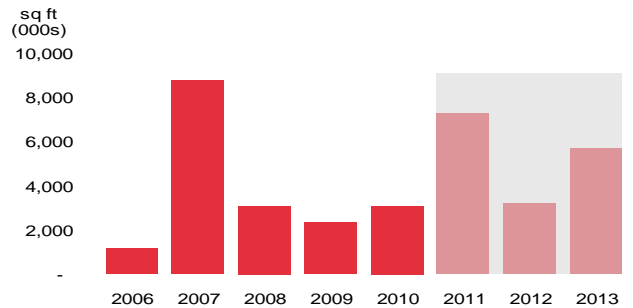
Office take-up and availability ratio



Source: DTZ Research

Figure 21

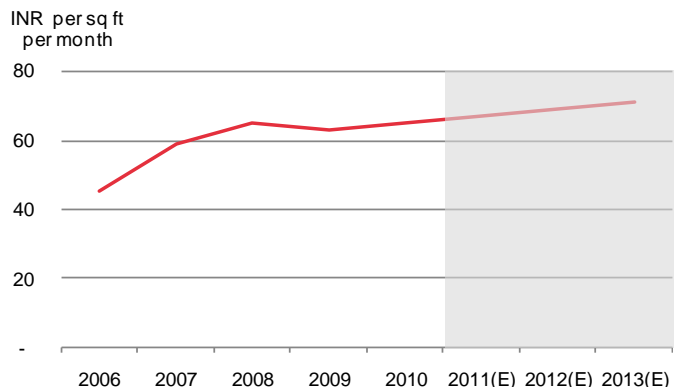
Office new supply



Source: DTZ Research

Figure 22

Prime office rents



Source: DTZ Research

Table 14

Occupier market							
	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q/Q change (%)	Y/Y change (%)
Total							
Stock (sq ft)	21,482,69	22,958,19	23,123,14	23,990,146	24,657,146	3	15
Take-up (sq ft)	500,000	962,000	738,000	579,200	1,800,000	211	260
Availability (%)	16	16	16	16	11		
New Supply (sq ft)	145,600	1,475,500	164,956	867,000	667,000	-23	358

Source: DTZ Research

Table 15

Occupier markets								
	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q/Q change (%)	Y/Y change (%)	Directional outlook
Prime office rents								
CBD	57 (\$1.3)	57 (\$1.3)	57 (\$1.3)	58 (\$1.3)	58 (\$1.3)	0	2	↔
SBD	63 (\$1.4)	63 (\$1.4)	63 (\$1.4)	65 (\$1.4)	65 (\$1.4)	0	3	↔
PBD	38 (\$0.8)	38 (\$0.8)	38 (\$0.8)	38 (\$0.8)	38 (\$0.8)	0	0	↔

Source: DTZ Research
Exchange rate: USD 1 = INR 45.32

Table 16

Leasing transactions				
Address	Micro-market	Size (sq ft)	Tenant	Sector
Divyasree Omega	PBD	180,000	Google	IT/ITES
I Labs Dome	PBD	23,000	E&Y	BFSI

Source: DTZ Research

Definitions

Stock

Total accommodation in the private sector, both occupied and vacant.

Take-up

Floor space acquired for occupation including the following:

1. Offices let to an eventual occupier.
2. Developments pre-let or sold.

Prime rent

Represents the attainable prime rent that could be expected for a building/unit of the highest quality and specification in the best location.

Vacancy

Total floor space in existing properties, which are physically vacant, ready for occupation and being actively marketed.

New supply

Total floor space, which has reached practical completion (ready for fit-outs) during the survey period. The forecasted new supply for the upcoming years is estimated based on the developer announcements and timelines stipulated by them.

Pre-let/Pre-commit

A development leased or sold prior to completion.

Development pipeline

Total space which has received planning permission and will either be constructed or extensively refurbished.

Q-o-Q

Quarter on quarter

Y-o-Y

Year on year

EOI

Expression of Interest

LOI

Letter of Interest

BFSI

Banking, financial services and insurance

FDI

Foreign direct investment

IT/ITES:

Information technology / Information technology enabled services

Micro-market classification

CBD – Central business district

SBD – Secondary business district

PBD – Peripheral business district

Delhi NCR

CBD: Connaught Place

SBD: Nehru Place, Saket, Jasola and Vasant Kunj

PBD: Gurgaon, Noida, Greater Noida and Faridabad

Mumbai

CBD: Nariman Point and Cuffe Parade

Off CBD: Worli and Parel

New CBD: Bandra Kurla Complex, Kalina and Santacruz (East)

Suburban: Andheri Kurla road and Andheri (W)

PBD: Goregaon-Malad, LBS Marg, Powai, Navi Mumbai and Thane

Bengaluru

CBD: M.G. Road, Richmond Road and Vittal Mallya Road

SBD: C.V. Raman Nagar, Intermediate Ring Road and Airport Road

PBD: Outer Ring Road, Whitefield, Electronic City and Bannerghatta Road

Chennai

CBD: Nungambakkam, Anna Salai and RK Salai

SBD: Guindy, Manapakkam and Vadapalani

PBD: OMR, GST Road and Ambattur

Pune

CBD: Koregaon Park, Bund Garden, DP Road and MG Road

SBD: Viman Nagar, Kalyani Nagar, Kharadi and Airport Road

PBD: Baner, Aundh, Hinjewadi, Hadapsar and Magarpatta

Kolkata

CBD: Camac Street, AJC Bose Road, Theatre Road and JN Road

SBD: Sarat Bose Road, EM Bypass and Topsia Road

PBD: Rajarhat, Salt Lake

Hyderabad

CBD: SP Road, Rajbhawan Road, Panjagutta and Somajiguda

SBD: Banjara Hills, Jubilee Hills

PBD: HITEC City, Madhapur, Gachibowli and Kondapur

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