Research

Knight Frank

India Office Market Review

Quarter 2 2006

Contents

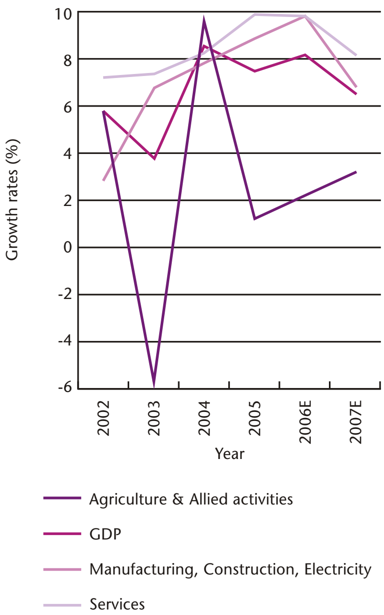
Executive summary:

- Indian real estate market on a high growth curve and growing at the rate of 30% per annum
- Services sector continues to be the major real estate driver
- Approximately 30 mn.sq.ft. of office space supply to enter the market per annum for the next three years
- Proactive policy changes for the sector have led to increased foreign interest
- Close to US$ 5 billion waiting to enter the Indian real estate market through the real estate venture capital investment route
- Recently permitted Real Estate Mutual Funds (REMFs) foreseen to increase liquidity for the sector

Knight Frank Newmark Global

Figure 1

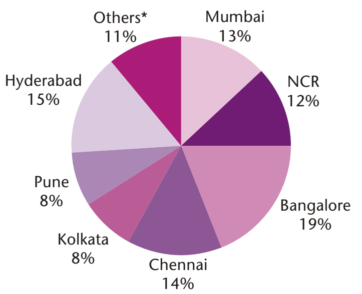
Economic Indicators



Source: CSO

Figure 2

Distribution of Pan India New Office Space by 2008



New supply : 103 mn.sq.ft.

* Others include Chandigarh, Jaipur, Indore, Nagpur, Coimbatore, Vishakhapatnam, Cochin, Mysore, etc.

Source: Knight Frank Research

Editorial

The Indian real estate landscape has undergone a paradigm shift over the past few years. With economic liberalisation, increased globalisation and the consequent increase in business opportunities, India's real estate sector is on a high growth curve. A booming economy, depicted by the soaring levels achieved at the stock market, increasing demand across sectors and favorable demographics have given rise to corporate optimism and has provided the necessary impetus for the office space demand to reach greater heights. The services sector continues on its strong run and is expected to expand by 9.8% this year, while the GDP growth rate has been pegged at 8.1%. Further, recent policy measures have opened up foreign direct investment in the real estate sector, putting India at the center-stage and leading a number of foreign investors and developers to place their money in the real estate market. This interest has been fueled by increased opportunities, greater access to skilled human resources and cheaper operational costs.

A number of knowledge and technology intensive sectors have emerged as the sunrise segments, causing the demand for commercial space to go into an overdrive. India's strong economic performance and its established position as an off-shoring destination has translated into a more robust real estate environment. In effect, the growth of the real estate industry in India could be attributed to the burgeoning IT/ITES sector. It is also one of the biggest employment generators in the country, with the landmark figure of one million manpower crossed in FY05. According to NASSCOM, by 2008 the IT/ITES sector is anticipated to employ an additional of 0.8 million professionals. To service this huge number, it is estimated that the IT/ITES sector would require fully developed space amounting to 60-80 mn.sq.ft. over a span of the next three years. Knight Frank Research indicates that the current frenetic pace of development undertaken by various developers across the country would result in a total office space supply of approximately 103 mn.sq.ft. by the year 2008*. Considering that the IT/ITES demand is about 75-80% of the total office space demand in India, this supply figure ensures that the technology sector space requirements would be sufficiently met.

However, mounting real estate costs, overstressed infrastructure and workforce related issues characterising Tier-I cities of the country are creating challenges for IT/ITES organisations that have set up operations here. Subsequently, there has been a trickle-down effect on the Tier-II and Tier-III cities, which are coming into their own in terms of drawing global and Indian IT majors. We estimate that in the course of 3-6 years, towns and cities like Chandigarh, Jaipur, Indore, Nagpur, Coimbatore, Vishakhapatnam, Cochin, Mysore, etc. which are currently classified as Tier-II and Tier-III, will become active real estate locations.

Another major development on the real estate horizon has been the commissioning of Special Economic Zones (SEZs) in the country. A number of developers have shifted their scope of interest to these SEZs, the driving factor being the huge fiscal sops offered. While concern has been raised on the tax arbitrage by developers, SEZs would ensure greater investor participation in construction and infrastructure. Together with providing the requisite space and infrastructure for various industries and sectors, SEZs are also expected to have a spiraling effect on the office space demand outside its boundaries.

The Indian real estate market is going through a boom phase and has metamorphosed into one of the world's most attractive investment avenues. It will continue to derive its growth from the thriving off-shoring industry. Facilitative government measures and reforms like allowing Real Estate Venture Capital Funds and the recent announcement by Securities and Exchange Board of India (SEBI) to permit Real Estate Mutual Funds (REMF) will provide increased liquidity and help in increased transparency and legitimised funding for the industry. This, coupled with a multitude of IPOs being planned by major real estate developers of the country, will result in greater capital supply to the real estate market and ensure larger scale of development.

* Projects currently under construction have been taken into account

Mumbai Office Market Overview

Market review

Over the last 12-15 months, the Mumbai office property market has continued on its growth path with a consistent rise in capital and rental values. This has been accompanied by a surge in demand for office space from the IT/ ITES sector. Suburban locations of Bandra-Kurla Complex (BKC), Andheri-Kurla Road, Malad, and Powai continued to be preferred mainly on account of availability of large floor plates in newer developments at comparatively lower lease rates. The increase in demand and the accompanying supply constraint of Grade-A office space resulted in an appreciation in the rental and capital values by about 15-30% in the key suburban office locations.

"A buoyant economy and rise in business confidence has led to an increase in demand for space in the CBD of Nariman Point."

The year 2005 also saw the resurrection of the hitherto stagnant CBD and off-CBD locations (Nariman Point and Fort) in leasing activity. The demand originated from sectors like financial institutions, consulting firms, banking etc., mostly for smaller space configurations. Lack of supply coupled with revival of demand has led to an increase in rental and capital values and a consequent lowering of vacancy rates.

In the recent times, the micro-markets of Navi Mumbai and Thane have witnessed increased interest from IT and ITES corporates. Access to a large manpower pool, good social infrastructure, lower real estate costs and proposed real estate and infrastructure developments are the key reasons which have led to corporates seeking these peripheral locations.

A number of landmark land transactions that took place in Mumbai in 2005 have redefined benchmarks and are reflective of the optimism prevailing in the Mumbai real estate market. Just when the Kohinoor Mill No.3 transaction was being heralded as the highest (Rs.14,500/sq.ft.), a commercial plot at Bandra Kurla Complex was transacted at Rs.18,000/sq.ft. of land.

2005-end finally offered some relief for the future with the Supreme Court clearing the sale of 50 acres of National Textile Corporation (NTC) mill lands in the heart of Mumbai. Other land parcels too would be hopefully freed for commercial development.

Demand and take-up

The corporate real estate needs in Mumbai are expanding, along with the requirements of a growing IT/ITES industry in the city. Accordingly, the Mumbai commercial property market saw a fair amount of leasing activity in 2005-06, with almost 2.5 mn.sq.ft. of Grade-A office space leased out during the period. Office space demand was primarily driven by IT/ITES, financial services, and pharma companies.

"Increase in demand and the accompanying supply constraint of Grade-A office space resulted in an appreciation in the rental and capital values by about 15-30% in the key suburban office locations."

A buoyant economy and increased business confidence has led to a rise in demand for space in the CBD of Nariman Point, a favourite of the financial and the consulting sector. Shortage of space in this micro-market has driven demand to spill over to the neighbouring office locations of Fort and Ballard Estate. The three micro-markets of South Mumbai together accounted for about 15% of the total space leased in Mumbai in 2005-06.

Central Mumbai locations of Worli, Prabhadevi, and Lower Parel continued to be preferred by mid-sized space occupiers (7,500-25,000 sq.ft.). These locations witnessed increased real estate activity that amounted to approximately 15% of total office space absorption in Mumbai in 2005-06.

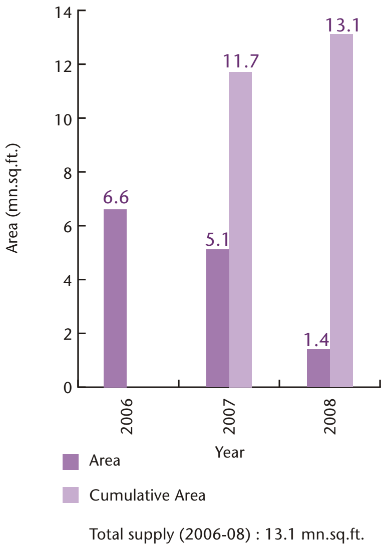
Despite the relative lack of Grade-A stock and supply, Andheri (E) has been the forerunner in the office space leasing in Mumbai with approximately 30-35% of the total office leasing taking place here. Pharmaceutical, financial services together with the IT/ITES sector are the key demand drivers for this micro-market.

Bandra-Kurla Complex, which was originally developed to take the pressure off the South Mumbai CBD areas, has become an equally important destination for banks, MNCs, international schools, corporate houses, financial institutions etc.

The other suburban locations of Malad and Powai offer the advantage of better quality products at competitive rates. Large space occupiers (40,000-200,000 sq.ft.) continue to prefer developments here. Some new developments in these locations offer the advantage of large continuous floor plates thereby providing easy options for future scalability.

Figure 3

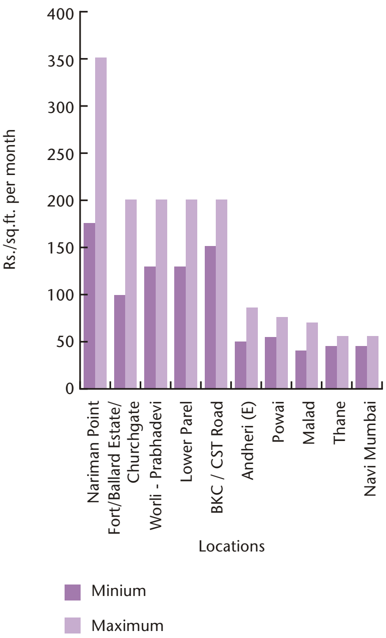
Estimated New Office Space Supply by 2008



Source: Knight Frank Research

Figure 4

Office Space Rental Values



Source: Knight Frank Research

Not to be left out, Navi Mumbai and Thane too have seen a lot of activity in the recent months by way of increased office space demand from the IT/ITES sector.

Key leasing transactions :

Corporate	Area (sq.ft.)	Building	Location
Airtel	115,000	Interface -7	Malad
Zenta Technologies	100,000	Winchester, Hiranandani	Powai
Merril Lynch	90,000	Prism, Mindspace	Malad
Citigroup	70,000	KRC Tower	BKC
Convergys	60,000	Tiffany, Hiranandani	Thane
Capita	55,000	Logitech Park	Andheri (E)
Continuum Solutions (BankAm)	50,600	Logitech Park	Andheri (E)
Atos Origin	40,000	Prism, Mindspace	Malad
3G services	40,000	Prism, Mindspace	Malad
Lehman Brothers	30,000	Ceejay House	Worli
UBS	30,000	Ceejay House	Worli

Supply and development

Considering the demand for Grade-A office space, developers are now providing quality projects in larger sizes. A bulk of the construction activity is taking place in the suburban micro-markets of Powai, Andheri, Bandra-Kurla Complex, and Malad. Besides this, the redevelopment of the mill lands is expected to infuse significant additions of higher grade supply in Central Mumbai over the next 24 months.

With a number of developments coming up on the erstwhile industrial lands and the recently acquired land parcels in the suburbs, Mumbai is set to receive a fresh supply of almost 13 mn.sq.ft. of office space over the next three years. From a supply distribution perspective, it is estimated that almost 6.6 mn.sq.ft. of office space would be released in 2006, about 5.1 mn.sq.ft. in 2007 and approximately 1.4 mn.sq.ft. in 2008.

Rental profile

The average base rentals have been following a steady growth across the micro-markets in Mumbai. The average rental values in the CBD of Nariman Point are currently quoted at Rs.260/sq.ft. per month, which denotes a hike of more than 60% over the last year's rentals of Rs.160/sq.ft. per month. The rentals in the Central Mumbai micro-market of Worli have moved up by almost 25% since last year. The existing rentals in the area hover around Rs.165/sq.ft. per month, up from Rs.133/sq.ft. per month in early 2005. In a one-off occurrence, a transaction is reported to have taken place at Rs.400/sq.ft. per month for office space in Ceejay House at Worli; however, this must not be construed to represent the market.

The suburban markets are the most vibrant and active locations amongst the business districts in the city. Bandra-Kurla Complex currently commands a rate of Rs.180 per sq.ft./month, a rise of over 44% from Rs.125/sq.ft. per month quoted in 2005. The Andheri-Malad-Powai belt too has seen its rentals move upwards, from a range of Rs.40-70 per sq.ft./month to Rs.55-85/sq.ft. per month currently. In a few cases, rentals as high as Rs.100/sq.ft. per month are being quoted for Grade-A buildings in Andheri (E). Likewise, with new IT/ITES companies setting up base in Navi Mumbai because of good employee catchment and availability of space, rental values have now touched almost Rs.55/sq.ft. per month.

Vacancy rate

The year 2006 has seen the vacancy rates in the Mumbai office market come down to approximately 5-8% as compared with the high levels of 25-35%, which existed around 2003-2004.

Prime properties in suburban locations are currently witnessing low vacancy levels ranging between 5-6% while the CBD area has a prevailing vacancy rate of around 5-8%. This decrease in vacancy rates can be attributed to the increased demand levels and limited availability or addition of Grade-A developments.

As in other locations in the city, the leasing activity in Central Mumbai locations of Worli, Prabhadevi & Lower Parel has also been high over the last couple of quarters. High absorption and limited additions to supply of Grade-A developments has substantially lowered the vacancy levels, which are currently estimated at approximately 5-6%.

While prime buildings across micro-markets have registered low vacancy rates, the sub-prime or lower grade buildings still have relatively higher vacancies.

"... prime buildings across micro-markets have registered low vacancy rates, the sub-prime or lower grade buildings still have relatively higher vacancies."

Fairmont, Powai

Outlook

In Mumbai, the trend for surbanisation is likely to continue with locations like Andheri and Malad capturing significant demand for large format spaces from the tech sector. Factors like scalability, human resource availability, proximity to residential locations, robust telecom connectivity and new developments in these locations that offer quality physical infrastructure at competitive prices are increasingly making these locations attractive for the IT & ITES companies. In future, Navi Mumbai and Thane will also draw considerable demand from the technology sector.

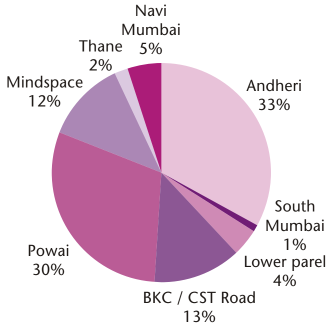
Short supply of quality office premises should lead to a further increase of about 10-15% in rental and capital values in certain micro-markets over the next 6-8 months. However, some significant supply infusions are expected in the Mumbai market (approx. 11.7 million sq.ft.) by end-2006 and through 2007. Various industrial plots along the L.B.S. Marg stretch in central suburbs as well those in Navi Mumbai have the potential of being converted into commercial space. Together with this, it is expected that the positive final judgement in favour of mill owners would contribute to medium term stability in the supply situation. This is expected to ease the upward pressure on the commercial values over the long term as well as provide the much needed correction in price trends.

Heightened interest from corporates, increased leasing on account of consolidations, relocations and scaling up of operations due to growth and expansion of business environment across all sectors including IT/ITES, banking, finance and insurance, pharmaceuticals and services sector will continue to fuel demand for office space in Mumbai. Also, office space demand from shipping companies is expected to go up. Of late, there has been an increasing preference by corporates to occupy signature or standalone buildings.

A major infrastructure initiative to reduce congestion and improve connectivity, the Mumbai Metro Rail Project, is expected to have a positive impact on the real estate values along its route. Together with this, the Bandra-Worli Sea link , Jogeshwari-Vikroli and Santacruz-Chembur link roads are expected to uplift the market sentiment along their stretch once they are operational.

Figure 5

Distribution of New Office Space by 2008



New supply : 13.1 mn.sq.ft.

Source: Knight Frank Research

National Capital Region (NCR) Office Market Overview

Market review

The NCR real estate market continued to be upward bound with a significant increase in real estate activity. As before, the IT/ITES sector continued to be the major demand driver with approximately 75% of the total space being taken up by this sector in 2005-06. The NCR markets also experienced an increase in lease rentals by about 15-20% in various micro-markets. As opposed to the micro-markets in Delhi, the suburban locations or satellite towns of Gurgaon and Noida continued to be the hub of real estate activity.

"Gurgaon continues to be the most attractive suburb within the NCR. 2005-06 saw a healthy absorption of 1.9 mn.sq.ft. of office space, while over the past two years, real-estate prices have risen by 25-35 % annually."

Among the business districts in NCR, Gurgaon emerged as the winner with about 60% of the total leasing activity taking place here, followed by Noida with 26% and the rest being absorbed in Delhi. Increase in large format space requirements and higher space specifications have led builders and developers to offer built-to-suit projects in the micro-markets of Gurgaon and Noida.

Contrary to the hectic real estate market in Gurgaon, the CBD of Connaught Place has not witnessed any major activity in the last couple of quarters. This is primarily due to the lack of fresh supply, which in turn could be attributed to scarcity of land for development. With the entry of developers like DLF and Unitech, the Noida real estate market is expected to see an infusion of quality supply in the coming times. Lack of Grade-A supply/stock in this market (suitable for IT/ITES) had led to about 25-40% increase in values for such properties in 2005-06.

Demand and take-up

In 2005-06, over 3.2 mn.sq.ft. of space had been leased out across the micro-markets of NCR. With the Delhi Metro Rail becoming operational and other improvements in infrastructure, the demand for office space has risen along the stretch, especially in Connaught Place. Accordingly there has been an appreciation in prices that can also be attributed to paucity of new space and supply not being in tandem with the rising demand. Not surprisingly, the leasing commitment in the CBD has been negligible as compared to the total absorption in the NCR in 2005-06.

This demand-supply mismatch has also been noticed in off-CBD areas like Nehru Place, Bhikaji Cama Place, Mohan Co-operative and Okhla Industrial area, which are mainly preferred by the domestic service sector organizations. With the recent drive by local authorities against illegal constructions in unauthorised areas in the NCR, the demand for quality, legalised space in established business districts has risen with a definite rise in property prices.

"Contrary to the hectic real estate market in Gurgaon, the CBD of Connaught Place has not witnessed any major activity in the last couple of quarters."

Suburbs like Gurgaon, Noida and Greater Noida have stood to be the gainers and are the most preferred locations within the NCR. The IT/ITES sector is the major demand driver in these micro-markets. Gurgaon continues to be the most attractive suburb within the NCR. In 2005-06, Gurgaon saw a healthy absorption of 1.9 mn.sq.ft. of office space, as also a fairly rapid property price appreciation. Over the past two years, real-estate prices have risen by 25-35 % annually in the suburban market.

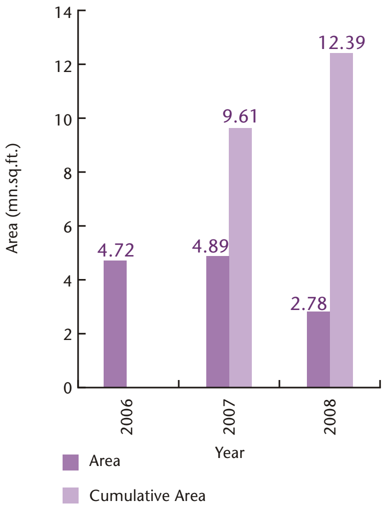
Noida accounted for approximately 0.8 mn.sq.ft. of the total office space absorption in the NCR market. The suburb is expected to see further rise in demand from the IT/ITES sector due to ample supply of built-to-suit projects, proximity to Delhi and construction of large multi-tenanted buildings.

Key leasing transactions :

Corporate	Area (sq.ft.)	Building	Location
Transwitch	32,000	A-27	Mohan Cooperative Indl. Estate
Corporate Executive Board	20,000	Augusta Point	Gurgaon
Satyam	60,000	Masterpiece 1	Gurgaon
American Express	40,000	Orchid Agora	Gurgaon
CSC	60,000	A-91	Sector 2, Noida
Xansa	50,000	B-38/C-3	Sector 57, Noida

Figure 6

Estimated New Office Space Supply by 2008



Total supply (2006-08) : 12.39 mn.sq.ft.

Source: Knight Frank Research

Supply and development

Supply in the NCR market nearly matches demand, with most of the projects under construction last year being ready for possession now. Approximately 4.9 mn.sq.ft. of new office space is scheduled to be made available by 2006-end. Comparatively, the year 2005 saw an infusion of around 3.08 mn.sq.ft. of office space, of which Gurgaon provided the major chunk with 1.90 mn.sq.ft., followed by Noida with 0.8 mn.sq.ft. The CBD area faced a short-supply situation with only .38 mn.sq.ft. getting released in to the market in 2005.

From a long-term perspective, it is estimated that a total supply of around 12.4 mn.sq.ft. of Grade-A office space would enter the market by 2008. Out of this Delhi would be contributing approximately 3.5 mn. sq.ft., with the supply figure of Gurgaon and Noida/Greater Noida pegged at 6.8 mn.sq.ft. and 2.1 mn. sq.ft. respectively. Thus, Gurgaon, which contributes currently to around 65% of the total office space stock, will have 54% of the new supply.

Rental profile

In the recent months, the Delhi Metro Rail project has led to an appreciation in real estate values in the CBD by around 15-20%. Certain pockets have even witnessed a jump of more than 35% over the last year. Base rentals for Grade-A buildings in the CBD location of Connaught Place have seen an upward movement from Rs.100-Rs.115/sq.ft. per month in 2005 to a current range of Rs.130-160/sq.ft. per month. The rentals in off-CBD areas have moved from Rs.105-125/sq.ft. per month to the current range of Rs.120-170/sq.ft. per month.

The average rentals in Gurgaon are around Rs.55-70/sq.ft per month, and these are constant across all Grade-A developments. These rates have increased considerably since the year 2005, when the quoted rates were in the range of Rs.35-45/sq.ft. per month.

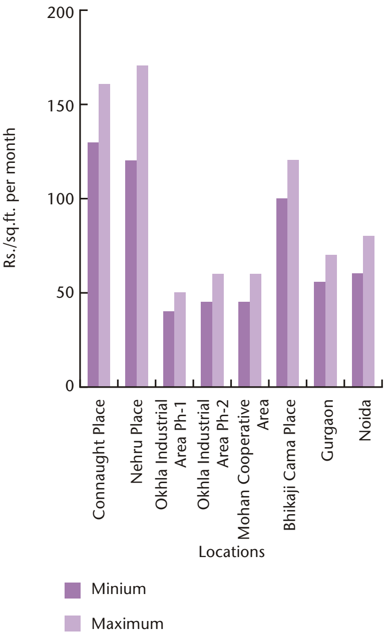
The Noida office space market is highly fragmented with most of the executed being developed by individuals. Majority of the IT/ITES companies are based out of industrial sectors of 16, 58, 59, 60, and 61. The average lease rentals in these sectors vary within a range of Rs.60-80/sq.ft. per month, which a year ago were at Rs.22-30/sq.ft. per month.

Vacancy rate

The vacancy levels across NCR are falling due to continuous demand for ready space, large quantum of leasing activity, and demand for legally approved buildings. The vacancy level presently in the CBD is only 10% with almost all the Grade A buildings occupied. The vacancy levels in the suburbs of Gurgaon and Noida is about 15-20%.

Figure 7

Office Space Rental Values

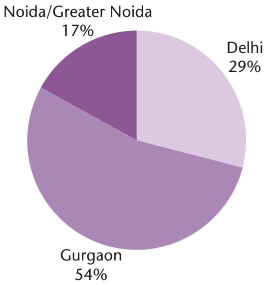


Source: Knight Frank Research

DLF Cyber Greens, Gurgaon

Figure 8

Distribution of New Office Space by 2008



New supply : 12.4 mn.sq.ft.

Source: Knight Frank Research

Outlook

The office market in NCR, especially in Gurgaon and Noida, will remain buoyant. The majority of the new office space supply planned in Gurgaon is being pre-leased by corporates. With the quantum of supply lined up, lease rentals are likely to undergo a change. More IT/ITES corporates are expected to opt for built-to-suit facilities being offered by developers like DLF Universal, Unitech Ltd., Vatika, etc. Though Noida is expected to experience significant real estate activity in the development of both built-to-suit and multi-tenanted properties, lease rentals are expected to be stable over the next one year. Commercial lease rentals would receive a boost in the micro-markets of Nehru Place and Okhla/ Mohan Cooperative areas due to availability of fresh Grade-A development.

The future demand shall be driven primarily by the IT/ITES, KPO and corporate sectors engaged in banking, pharmaceutical, telecom, insurance and media companies. Besides, manufacturing and biotechnology companies would also drive the real estate market significantly. More importantly, the Delhi Metro shall take a definitive role in determining the level of real estate demand and prices along its route in 2006.

Bangalore Office Market Overview

Market review

The Bangalore office market has led the office space leasing activity in India in 2005-06. The city witnessed higher absorption, fast paced construction activity, increasing growth in suburban and peripheral areas and a mushrooming of campus style offices.

While IT/ITES companies continued to be the major space occupiers, companies from diverse manufacturing backgrounds are now looking at setting up their R&D centers in the city. This has been due to the twin objectives of strengthening their presence in the region and also to utilise the quality human resource pool available. Besides this, sectors such as retail, banking and finance, too stake claim to the city's office space. The office market is witnessing buoyant pre-leasing activity in the new projects being announced in the off-CBD and Suburban micro-markets.

"Office space absorption in Bangalore continues to rise exponentially with an increase of over 90% between 2003 and 2006."

Over the past 2-3 years, Bangalore has been undergoing a considerable change in its development profile, which has been reflected in the emergence of new growth centers. The Outer Ring Road has improved connectivity of the peripheral locations with the other residential and business hubs of Bangalore. The suburban and peripheral locations of Bangalore like the Old Madras Road, Sarjapur-Marathahalli Ring Road, Whitefield, Sarjapur Road, Electronic City and Bannerghatta Road are the current IT and commercial hubs.

The development of the new airport in the north has resulted in shifting the real estate focus to this quadrant. There has been an emphasis on building land banks in this region. These land banks would be unlocked once the new international airport at Devanahalli nears completion. In the last 12 months, real estate prices on the National Highway leading to the new international airport have increased by 35-70%.

"Development of the new airport in the north has resulted in shifting the real estate focus to this quadrant."

Golflinks Business Park, Inner Ring Road

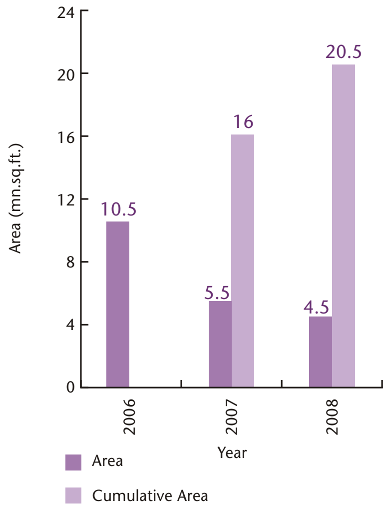
Demand and take-up

Bangalore continues to have an edge over other metros in terms of office space take-up. IT/ITES sector remains to be the major demand driver for the city and demand is largely characterised by built-to suit requirements. Though concern for infrastructure is rising amongst IT/ITES companies, the real estate demand continues unabated in the suburban and peripheral locations of Bangalore. Almost 75% of the total space leased in the city over the past one year has been in these locations.

The IT corridor along Sarjapur-Marathahalli Ring Road and Whitefield has witnessed considerable amount of interest from developers as well as prospective occupants. In the CBD and off-CBD locations of M.G Road and Cunningham Road, though the space options have been limited, the demand for Grade-A commercial space has been substantial.

Figure 9

Estimated New Office Space Supply by 2008



Total supply (2006-08) : 20.5 mn.sq.ft.

Source: Knight Frank Research

Office space absorption in Bangalore continues to rise exponentially with an increase of over 90% between 2003 and 2006. The demand take-up in 2005 totalled to approximately 9 mn.sq.ft. This enthusiastic upsurge in absorption is expected to continue in 2006 as well.

Key leasing transactions :

Corporate	Area (sq.ft.)	Building	Location
Deutsche Bank	150,000	Velankanni IT Park	Electronic City
Philips Software	700,000	Manyata IT Park	Hebbal Ring Road
Citi Group	75,000	Prestige UB City	Vittal Mallya Road
Accenture	120,000	RMZ Ecospace	Outer Ring Road
GE Healthcare	80,000	Prestige Techpark	Outer Ring Road
Shell	150,000	RMZ Centennial	Whitefield
Reuters	85,000	RMZ Infinity	Old Madras Road
Logica CMG	65,000	Divyasree Technopolis	Off Airport Road

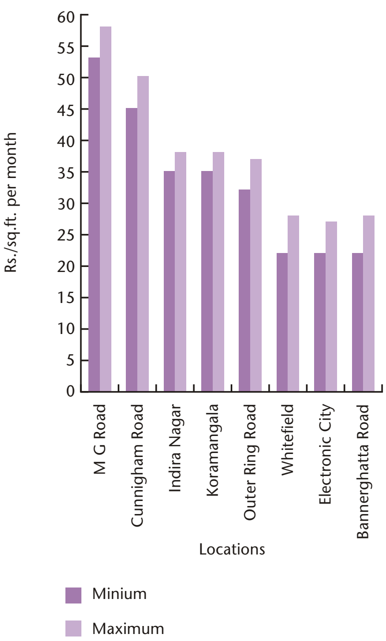
Supply and development

Almost 40% (approximately 3.2 mn.sq.ft.) of the new developments that came up in the Bangalore market in 2005 were of the built-to-suit type. Apart from this, about 5.5 mn.sq.ft. of multi-tenanted office space also came in the market in the year 2005. The short-supply situation that prevailed throughout the year 2004 had somewhat eased by 2005-end. Simultaneous to the increasing supply, the demand for office space has also increased and this has exerted an upward pressure on the rental values.

The suburban and peripheral locations witnessed the highest supply infusions among all micro-markets amounting to over 75% of the total supply entering the Bangalore market in 2005. According to Knight Frank Research, it is estimated that approximately 20.5 mn.sq.ft. of office space is under construction in Bangalore and would be delivered by 2008-end. Out of this, about 10.5 mn.sq.ft would be ready in 2006 while the remaing 10 mn.sq.ft. will be delivered over 2007 and 2008. As observed earlier, the new supply is skewed towards the suburban and peripheral locations.

Figure 10

Office Space Rental Values



Source: Knight Frank Research

Rental profile

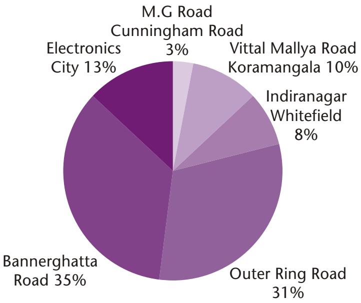
The office space rentals in Bangalore, which had been relatively stable in the first half of 2005, registered an upward movement in the beginning of 2006. The central as well as the suburban areas are witnessing a sharp rise in corporate demand. Over the last one year, the rentals in the CBD and the off-CBD locations witnessed an appreciation of about 10-20% whereas the increase in the suburban and peripheral locations was to the tune of 5-15%.

The quoted rentals in CBD location of M.G Road are in the range of Rs.53-58/ sq.ft. per month while those in the off-CBD locations of Cunningham Road and Richmond Road are in the range of Rs.45-50/sq.ft. per month.

In the suburban locations like Indiranagar and Koramangala, the current rents have remained stable since 2005 and are reported to be in the ranage of Rs.35-38/sq.ft. per month. In the peripheral locations like Electronic City, Hosur Road, and Bannerghatta Road the current rentals vary between Rs.22-28/sq.ft. per month. Contrary to the trend prevailing elsewhere in the city, rentals in Whitefield underwent a correction in 2005-end by about 10-15% due to excess supply being delivered in the market. The current rentals are reported to be in the range of Rs.22-28/sq.ft. per month.

Figure 11

Distribution of New Office Space by 2008



New supply : 20.5 mn.sq.ft.

Source: Knight Frank Research

Vacancy rate

Current vacancy rates for office space across micro- markets in Bangalore are below 5% levels. The reason behind the low and steady decline of vacancy rates is the current supply situation prevailing in the CBD and the various other micro-markets of the city. Coupled with this, the absorption levels have increased significantly over the last few years, thereby leading to lower vacancies across the office micro-markets in the city.

Outlook

Inspite of issues like crippling infrastructure, rising real estate costs and increasing competition from neighboring cities of Chennai and Hyderabad, there is no waning of interest in Bangalore. The city is expected to witness vigorous leasing activity in the current year, very much in line with the previous years. Realty funds have earmarked Bangalore on their priority list with many of them queuing up to enter the city through tie-ups with local builders.

CBD rentals are likely to stay stable or may move up marginally, by around 5%, due to the supply lag or demand supply mismatch in a few cases. Whitefield and Electronic City areas will see current level continuing, while demand along the Outer Ring Road may marginally accelerate rentals by about 7-10%.

IT/ITES companies will continue to dominate all major commercial space transactions in Bangalore. It is estimated that demand for 20,000 to 50,000 sq.ft. floor plates will typify major transactions in the city, along with built-to-suit developments, both typical of the IT/ITES sectors. As a result of what was observed in Whitefield there has been a marked slowdown in speculative construction activity. Developers are now concentrating on completing under-construction and built-to-suit projects which have been pre-leased or pre-committed.

The recent political developments in the state have made the corporates adopt a 'wait, watch and hope' policy. Burdened infrastructure in the city has recently led to a few corporates like Siemens and Wipro move to other cities like Chennai for their expansion plans. However, with the new coalition government promising a slew of infrastructure initiatives, growth could assume a high-speed trajectory. A visible shift in growth towards the north is expected in 2006. The new international airport at Devanahalli will act as the pull factor for new corporate relocation strategies.

Hyderabad Office Market Overview

Market review

The Hyderabad real estate market has witnessed heightened corporate interest in the last 12-15 months, and is emerging as a key ITES and Biotech destination. Quality of life, low cost of living, rapid pace of infrastructure development and a proactive state government aggressively marketing the city to foreign investors has resulted in attracting national and international corporate interest and investment to the city.

"Peripheral locations of Gachibowli and Madhapur remain to be the favourite among the technology sector occupiers."

With the entry of technology majors like Microsoft, Oracle, Baan Info, Wipro, Infosys, etc., the entire structure of the real estate market is undergoing a major transformation. A number of office space projects offering world-class space are under various stages of development. The peripheral locations of Gachibowli and Madhapur remain the favourite among the technology sector occupiers.

Proposed infrastructure projects like the international airport at Shamshabad and the Mass Rapid Transit System have led to the emergence of several micro-pockets as attractive real estate locations. Areas near Fab City, Hardware Park and those on Warangal and Vijayawada highways are attracting a lot of attention. As a result, land prices around Shamshabad, Gachibowli and Kondapur have been following a fast trajectory northwards.

The entry of national level developers like DLF and Rahejas in the city is a clear indication of the improved confidence level in the city's real estate market. Most of the new developments are witnessing pre-leasing activity even before construction, a fact that is again reflective of the buoyant real estate market in Hyderabad.

Demand and take-up

The Hyderabad office space market witnessed unabated demand in 2005-06. A number of large multinational corporations have bought land from the Government mainly in the peripheral locations of Madhapur and Gachibowli and are in the process of constructing large office campuses. This clearly exhibits the increasing corporate confidence in the Hyderabad real estate market.

The year 2005 saw absorption of as much as 3 mn.sq.ft. of office space in Hyderabad. This represents a increase of about 50% over the previous year. As much as 85% of the total space absorbed was concentrated in the peripheral locations of Madhapur. Currently Madhapur presents the strongest cluster for office space in Hyderabad with a total absorption of approximately 3 mn.sq.ft. of office space in the past 3-5 years. The CBD and the off-CBD locations of Begumpet and Somajiguda have witnessed subdued leasing activity chiefly on account of inferior quality product offerings and non-availability of large continuous spaces within the city.

"Proposed infrastructure projects like the international airport at Shamshabad and the Mass Rapid Transit System have led to the emergence of several micro-pockets as attractive real estate locations."

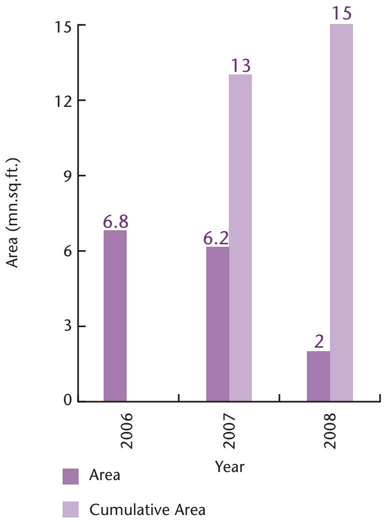
The suburban locations of Banjara and Jubilee Hills captured some demand which was chiefly restricted to multi-tenanted buildings. Demand for campus style facilities has also gained momentum as many corporates attained critical size of operations and looked at consolidating their facilities. Knight Frank Research indicates that by 2008-end, close to 11.6 mn.sq.ft. of additional real estate stock would be created through built-to-suit and campus development in the city.

Key leasing transactions :

Corporate	Area (sq.ft.)	Building	Location
Verizon	97,450	Mindspace	Madhapur
Cognizant	72,000	Pioneer Towers	Madhapur
Zensar Technologies	40,000	Ananth Info Park	Madhapur
Pindar	25,000	Jayabheri Silicon Towers	Madhapur
HSBC	180,000	Cyber City, Hitec City	Madhapur
Nipuna Services	150,000	Hitec City	Madhapur

Figure 12

Estimated New Office Space Supply by 2008

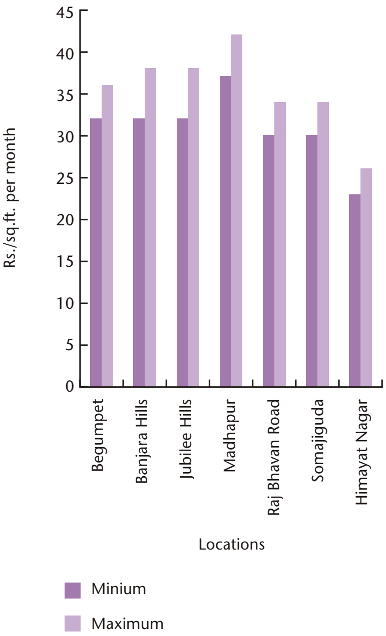


Total supply (2006-08) : 15 mn.sq.ft.

Source: Knight Frank Research

Figure 13

Office Space Rental Values



Source: Knight Frank Research

Supply and development

Hyderabad is set to see a total supply of 14.5 mn.sq.ft. in the office space market by 2008. Approximately 5.1 mn.sq.ft. of supply would be infused by year-end 2006, while another 4.9 mn.sq.ft. and 4.5 mn.sq.ft. is expected to be added in 2007 and 2008 respectively. The CBD and off-CBD areas of the city fare at secondary status while compared to the peripheral areas, with regard to supply infusion in to the city. Over the next 3 years, an additional supply of 8.3 mn.sq.ft. of commercial space is expected in Madhapur, out of which 4.1 mn.sq.ft. is expected by end 2006. The suburban areas of Banjara Hills, mainly Road No 1, 2, 3, 10 and 12, are expected to see supply addition of around 1.2 mn.sq.ft. of prime office space by 2008.

At present, lack of speculative development or 'ready-to-occupy' properties is a growing concern for corporates. Most corporates prefer ready to move in incubation space before expanding and moving into a built-to-suit facility.

Gachibowli and Manikonda, adjoining areas to Madhapur, are getting increasingly popular with corporates that are planning campus developments. This has been due to the cumulative benefit of proximity to Hitec City, Shamshabad and incentives extended by the state government. Several corporates have acquired land holdings in the area for future expansions. It is estimated that the Financial District coming up in Gachibowli specifically for the financial service and insurance companies, would have approximately 0.4 mn.sq.ft. of built-to-suit development by 2006-end.

Cyber Gateway, Madhapur

Rental profile

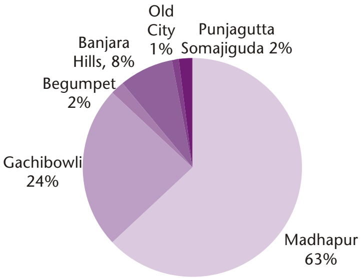
Hyderabad has a significantly lower occupancy cost as compared to similar IT focused facilities in Bangalore and Chennai. However, the past few months have seen firming up of rental values across the micromarkets of the city. Renewed corporate interest and the current demand-supply mismatch are the chief reasons which can be cited for this.

The CBD area of Begumpet currently charges a rental of around Rs.34/sq.ft. per month, as compared to a rate of Rs.27/sq.ft. per month, a year ago in 2005. The suburban prime location of Banjara Hills has also witnessed increase in rentals by 40% since the last year. The existing rental values are at Rs.35/sq.ft. per month, while a year ago they were at Rs.25/sq.ft. per month.

The peripheral areas like Madhapur are attracting higher rentals as compared to CBD and off-CBD on account of quality infrastructure and development. These areas have a rental value of Rs.40/sq.ft. per month. The prices have seen a fair hike from Rs.35/sq.ft. per month, since 2005.

Figure 14

Distribution of New Office Space by 2008



New supply : 14.5 mn.sq.ft.

Source: Knight Frank Research

Vacancy rate

The vacancy levels across all markets have remained at sub 5% mark. This low vacancy rate can be attributed to strong absorption trends being met by staggered supply.

Outlook

Availability of skilled manpower, a proactive government and improved infrastructure are some of the vital factors that are driving the corporates and MNCs to Hyderabad. Even the local developers have awakened to the growth in real estate activity and taken up their stalled projects with renewed vigour. Investors are returning on seeing a stable political climate and the government's efforts to promote the city. Considering that the new economy companies account for about 80-85% of the total commercial office space demand, the major demand is expected to come from IT/ITES corporates.

With the development of the international airport, Fab City, state government promoted 20,000 acre SEZ between Shamshabad and Ibrahimpatnam, and a Hardware park in Shamshabad, it is expected that the southern part of the city would become an economic hub in the next 3-5 years. The area is expected to attract large-scale real estate development including residential, retail, commercial and hotel projects. The first phase of the Outer Ring Road project, connecting Hitec City to the new international airport at Shamshabad, has been initiated and this has led to the appreciation in land values along the stretch.

Our market study indicates a strengthening demand for multi-tenanted and built-to-suit developments. Campus developments will be increasingly set up as land is available from the government at competitive rates. The peripheral locations will continue to be the most active micro-markets and with a sufficient quantum of supply in the pipeline, the demand-supply gap is expected to ease out over the medium term.

Chennai Office Market Overview

Market review

The Chennai office space market has witnessed considerable changes both in terms of quantity and quality over the last 2-3 years. The growth in the country's IT/ITES industry and the search for alternative locations by the corporates has led to the growth of the real estate market in the city. Chennai is fast emerging as one of the most preferred destinations for IT/ITES companies on account of better infrastructure, low attrition levels and large pool of qualified human resource.

"The entry of national level developers... is foreseen to have a long-standing impact on the Chennai real estate market..."

With demand exceeding supply in almost all sectors, there has been a marked increase in the rental and capital values. Land is scarce in CBD and off-CBD locations and as a result there has been limited development activity. With increasing corporate interest in the city, the commercial and office space activity is seen to be shifting towards the suburban and peripheral locations of Guindy, Anna Nagar, Ambattur, Adyar and the IT Highway (Old Mahabalipuram Road).

Presently, the growth is southwards with large scale commercial developments coming up on the IT highway. This has been chiefly on account of land availability from the Government as well as private land owners. Corporates like Infosys, TCS and Wipro have purchased land at various locations on this road for campus devlopment. Key local developers as well as those from other parts of the country (Hiranandani from Mumbai, RMZ from Bangalore) are also planning commercial developments in this stretch.

The entry of national level developers is a major change in the Chennai real estate market that was till date dominated by the local developers. This trend is foreseen to have a long-standing impact on the Chennai real estate market in terms of quality of supply that is brought into the market.

Demand and take-up

The key demand drivers for office space in Chennai continue to be the IT/ITES industry. Approximately 65% of the total demand emanates from this sector and this trend is expected to continue. It is because of the growth of the technology sector in the city that Chennai office absorption has gone up by about 7 times between 2002 and 2005 (500,000 to 3,500,000 sq.ft.). The suburban and peripheral locations have been the most active accounting for about 80-85% of the total office transactions in the market. Though there is demand for CBD and off-CBD locations, take up has not been possible on account of lack of new supply or absence of the desired space configurations.

A notable aspect of the Chennai office market in the recent times has been the pre-leasing of under-construction Grade-A office projects like Ascendas ITPC at Taramani (555,000 sq.ft.), RMZ Millenia at Perungudi (600,000 sq.ft), Olympia Tech Park at Guindy, Prince Software Park (260,000 sq.ft.) and Arihant Technopolis (220,000 sq.ft.) at IT Highway. This demonstrates that the demand for quality space is high and a Grade-A project has ready takers in the Chennai market.

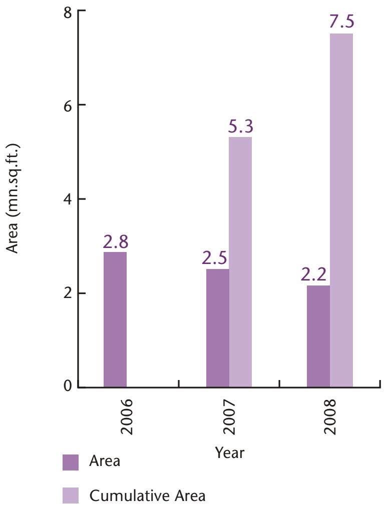
"With demand exceeding supply in almost all sectors, there has been a marked increase in the rental and capital values."

Key leasing transactions :

Corporate	Area (sq.ft.)	Building	Location
TCS	270,000	Sai Real IT Park	Velachery
Verizon	220,000	Olympia Tech Park	Guindy
HP	500,000	Olympia Tech Park	Guindy
Hewitt International	120,000	Olympia Tech Park	Guindy
Inautix	175,000	International Tech Park	Taramani
Caterpillar	100,000	International Tech Park	Taramani
FORD	250,000	RMZ Millenia	Perungudi
EDS	220,000	RMZ Millenia	Perungudi
Cognizant	150,000	Cee Dee Yes IT Park	Perungudi

Figure 15

Estimated New Office Space Supply by 2008

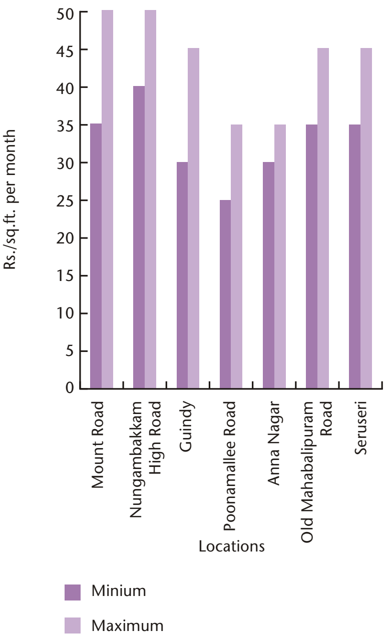


Total supply (2006-08) : 7.5 mn.sq.ft.

Source: Knight Frank Research

Figure 16

Office Space Rental Values



Source: Knight Frank Research

International Tech Park, Taramani

Supply and development

Chennai is fast becoming an alternative IT hub of south India owing to the rush of IT/ITES corporates to explore new territories in want of lowering operational costs and also to diversify and expand geographically. Office space supply exceeding 3.2 mn.sq.ft. was added in 2005. New supply addition mainly came up in the peripheral locations of Old Mahabalipuram Road, Taramani and Perungudi. Some amount of new office space stock also came up in the rapidly growing suburban location of Guindy.

According to government agencies, in the last 12 months close to 80 IT parks have been given permission to set up. It is estimated that the Chennai office market, which currently has a stock of about 10.5 mn.sq.ft. will witness an additional supply infusion of close to 15 mn.sq.ft. by 2008. As many as 65-70 projects are under different stages of implementation across the city. Here again more than 60% of the projected supply will be coming up on the IT corridor itself.

Rental profile

The net rentals in all the major office pockets in Chennai have increased by 10-15% in the last 12-15 months. The rentals in the CBD of Mount Road are currently reported to be in the range of Rs.35-50/sq.ft. per month. In the off CBD location of Nungambakkam, the rentals for prime office space are in the range of Rs.40-50/sq.ft. per month. Lack of new supply and continued demand is the key reason for pushing up the rentals in and around the city center.

Invigorated demand and lack of quality supply at present has pushed up the rentals in the suburban office districts of P.H Road, Guindy, Velachery and Adyar. Guindy, which was an erstwhile industrial area, has transformed into an IT hub today. The rental values currently reported in Guindy and P.H Road are in the range of Rs.30-45/sq.ft. per month. The rentals in the peripheral location of Old Mahabalipuram Road till Siruseri are presently in the range of Rs.35-45/sq.ft. per month.

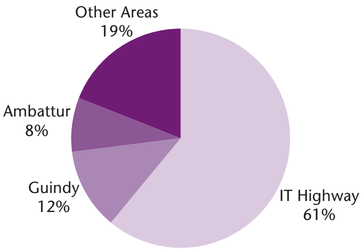
Vacancy rate

Over the last 12-months the vacancy rates in the CBD and off-CBD locations have dropped considerably and are currently below 5%. Lack of fresh supply is likely to keep the vacancy rates low in these micro-markets.

In the suburban micro-market, the vacancy rates reported are about 8-10%. This is primarily because of demand-supply mismatch for quality spaces. In the peripheral micro-market, most of the new supply has been taken up and hence the vacancy rates can be said to be negligible.

Figure 17

Distribution of New Office Space by 2008



New supply : 15 mn.sq.ft.

Source: Knight Frank Research

Outlook

The Chennai office space market is expected to maintain its growth term over the next 2-3 years. The city's key demand drivers will continue to be the IT/ITES sectors. Demand from the technology sector is expected to increase which could lead to some demand-supply mismatch over the short-term. However, as the current under-construction projects are converted to stock, this would be taken care of. The suburban and the peripheral markets will remain the key centers of growth and activity as most of the new stock would be added up here.

The heightened level of activity in the Chennai real estate market has instilled a level of confidence in the market and this is quite evident from the strengthening rentals and capital values across the office locations. Values are expected to go up by another 10-15% in the medium term due to accelerated demand. Another trend that is emerging is the pre-leasing of space in under-construction buildings, but this holds good only for projects with higher specifications and grade. Till sometime back, the Chennai office market had a dearth of quality real estate space. Now, with the entry of national and international developers, this issue is being resolved.

Apart from the technology sector, the city is also generating considerable enquiries from global manufacturing majors after the announcements by Nokia, Flextronics and BMW to set up manufacturing plants in Chennai. The city is expected to emerge as a major hub for high-tech manufacturing sectors such as auto components, electronic and electrical industries. These facilities are coming up in the industrial corridor of Sriperumbudur in western Chennai, bringing about a spatial distribution of commercial growth in the city.

Pune Office Market Overview

Market review

With the development of Pune as a prominent commercial and manufacturing center, many companies especially in the IT/ITES and BPO sector are relocating and/or expanding their operations in the city. To meet the growing demand for space in the city, developers have undertaken considerable construction activity across the city. It is expected that the commercial development underway along with infrastructure development projects will transform Pune into one of the fastest growing cities in India.

"Pune office market has been fueled by the geographical expansion of technology sector companies."

Of late, the Pune office market has been fueled by the geographical expansion of the technology sector companies. Together with the IT/ITES sector, many telecom and automobile companies are setting up offices and manufacturing units in Pune. According to NASSCOM, despite all its problems, Pune still poses stiff competition to all other Tier-I cities in terms of commercial growth. It is expected that Pune will draw at least 100,000 people annually from other parts of the country due to employment generated by IT as well as the manufacturing sector in the city.

Delta 2 - Gigaspace, Viman Nagar

"The commercial development underway along with infrastructure development projects will transform Pune into one of the fastest growing cities in India."

Demand and take-up

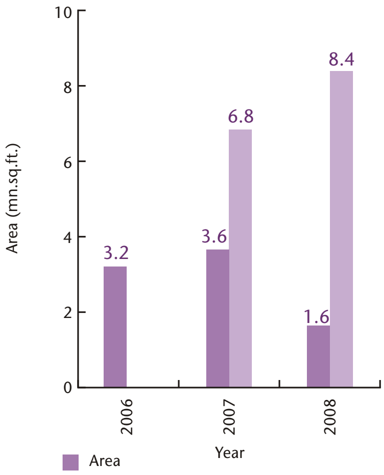
Developers in Pune are addressing the invigorated demand from the IT/ITES companies by providing quality built-up space. These include large floor plates, better carpet to buit-up ratio, ample parking space, standby power, air conditioning facility, etc.

During 2005-06, approximately 2.5 mn.sq.ft. of office space (excluding Hinjewadi IT Park) had been leased out with majority of the demand emanating from central Pune locations. Viman Nagar, Kalyani Nagar, and Nagar Road captured 30% of the total demand. Senapati Bapat Marg and Karve Road saw absorption of another 30% of the total demand, while approximately 10% of the demand was captured by Pimpri Chinchwad. Southern Pune locations of Lulla Nagar, Wanowrie, and Saswad catered to 19% of the total city demand in 2005-06, while locations like Hadapsar and Magarpatta captured 9% of the total demand. Western locations of Baner, Aundh, and Bavdhan showed minimum absorption of 2% of the total demand.

Currently, the Hinjewadi area in Western Pune is witnessing good demand from IT Companies for campus development. Large sized IT companies are looking at moving into SEZs and this has led many developers to acquire sizeable chunks of land with an intention to convert them into SEZs. Many large scale, mixed-used developments are also planning to convert into SEZs.

Figure 18

Estimated New Office Space Supply by 2008

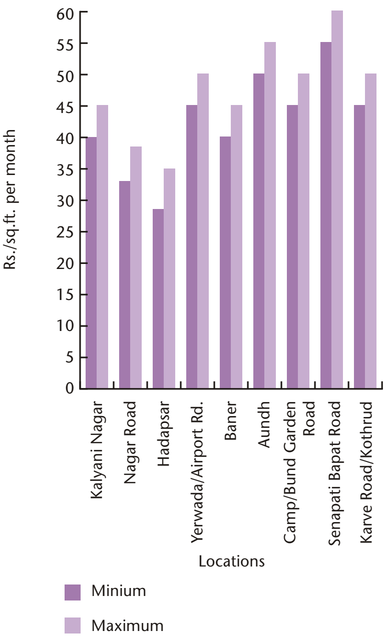


Total supply (2006-08) : 8.4 mn.sq.ft.

Source: Knight Frank Research

Figure 19

Office Space Rental Values



Source: Knight Frank Research

Key leasing transactions :

Corporate	Area (sq.ft.)	Building	Location
PTC	40,000	Weikfield IT Citi Info Park	Nagar Road
IBM -Daksh	500,000	Tech Park I	Airport Road
TCS	105,000	Nyati Tiara	Nagar Road
HSBC	150,000	Raheja Woods	Kalyani Nagar
AMDOCS	180,000	Magarpatta City	Magarpatta
BMC Software	170,000	ICC	Senapati Bapat Road
I-flex	63,000	Lohia Jain IT Park	Paud Road
IBM	130,000	S.P. Infocity	Saswad
Honeywell	50,000	S.P. Infocity	Saswad

Supply and development

An estimated supply of 8.4 mn.sq.ft of new office space is expected to come up in the city by 2008-end. This figure is expected to increase substantially due to large-scale land acquisitions in all parts of the city which will be converted into ready office space.

A number of significant projects by reputed local and national level developers are in progress at various locations of the city, especially in the peripheral micro-markets of Nagar Road, Kalyani Nagar, Airport Road, Kharadi, Bavdhan, Baner, and Aundh. Most of these projects will be delivered in phases over the next three years.

The locations in Pune that would cater to the additional demand for large office setups over the next two years would be Kharadi, Viman Nagar, Hadapsar and Hinjewadi. Proposed commercial projects in Kharadi, Nagar Road, Charholi in north eastern zone, Hadapsar in eastern region and Wakdewadi in central Pune will add up to the supply for IT/ITES companies as these projects have been planned using double FSI under the IT Park scheme.

Rental profile

In locations like Nagar Road, Kalyani Nagar, Airport Road, Hadapsar etc. which are experiencing high demand, the office space rentals have increased by 15-20% in 2006. Current values are in the range of Rs.30-45/sq.ft. per month, as compared to values ranging between Rs.30-32/sq.ft. per month in 2005. In western locations of Baner the office rentals have increased from Rs.28/sq.ft. per month to Rs.30/sq.ft. per month, while in Aundh the rentals have increased from Rs.40/sq.ft. per month to Rs.45/sq.ft. per month over the last year.

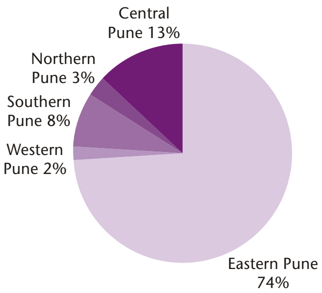
In upcoming locations like Manjiri, Shevalewadi, and Phursungi in eastern Pune the rates are about Rs.30/sq.ft. per month, while in northern areas of Pimpri Chinchwad, the rates are between Rs.20-25/sq.ft. per month. In central Pune locations of Bund Garden Road and Senapati Bapat Marg, the present lease rates are Rs.45-55/sq.ft. per month.

Vacancy rate

The vacancy rates in eastern Pune locations like Nagar Road and Viman Nagar are currently at about 25-28%. This is due to the fact that the present stock has been sold out to investors and organised funds and is yet to be leased out. Also some developers prefer leasing their projects to a single client only, which takes time. Grade-A developments in Kalyani Nagar, Bund Garden Road and Senapati Bapat Road have witnessed substantially low vacancy rates in the range of 8-10%.

Figure 20

Distribution of New Office Space by 2008



New supply : 8.4 mn.sq.ft.

Source: Knight Frank Research

Outlook

Corollary to the growth in office space demand, rents and prices of office space are likely to go up further around Nagar Road, Kharadi, Airport Road in north eastern region, Hadapsar in eastern region and Wakdewadi in central part of Pune.

While demand from IT/ITES companies will continue for the Grade-A projects, the demand for medium format office space (4,000-6,000 sq.ft.) from the manufacturing sector is likely to increase and this will give impetus to the development of non IT projects in Pune. Thus, the sectors that would drive the office space market in Pune in the next few years would be the IT/ITES and the automobile manufacturing sector to some extent. The locations in Pune that would fulfill the demand for the next two years would be Kharadi, Viman Nagar, Hadapsar and Hinjewadi for large office setups.

Not surprisingly, these areas of Kharadi, Viman Nagar, Hadapsar, Nagar Road and upcoming locations like Manjiri would capture over 71% of the total development planned in Pune over the next 18 months. Demand for office space in the northern region of Pimpri-Chinchwad will be mainly from banks, finance companies, start-ups, etc. Large projects will take a while to get fully leased out in this region.

It is anticipated that eastern Pune will continue to witness interest as prominent developers like City Group, Amrut Runwal Group, Kolte Patil and Kakade Group are planning major township developments in Hadapsar, Manjiri, Shevlewadi, and Kharadi which would include large commercial development as well. Prices across the office locations are likely to remain stable on account of large scale supply lined up during the next 2-3 years.

Kolkata Office Market Overview

Market review

Over the last 12-18 months, the Kolkata real estate market has gained rapid momentum. The progressive government policy towards Public Private Partnership in real estate development has encouraged investors to enter the real estate market of the city. Moreover, the advantages of well qualified, low cost manpower, and low attrition rates, coupled with the government's positive initiatives towards the IT/ITES sector, have made Kolkata an alternate destination to set up IT/ITES operations.

"The progressive government policy towards Public Private Partnership in real estate development has encouraged investors to enter the real estate market of the city."

Kolkata is now competing against other Indian cities as a possible corporate destination. The emerging IT profile of the city and the consequent generation of real estate opportunities have led prominent real estate developers to take up significant land holdings in the suburban locations.

The Eastern Metropolitan Bypass is being increasingly viewed as the Central Avenue of modern Kolkata while Rajarhat is being promoted as an IT hub in the east of Kolkata. The city is also attracting a lot of real estate investors and developers with financial muscle. These investors, both foreign and Indian, have identified prime areas for investment while developers such as DLF, Unitech, Salim-Ciputra, Keppel Land and Ascendas have already started projects.

Demand and take-up

The IT/ITES sector is the key real estate demand driver in the city. In 2005-06 approximately 1.2 mn.sq.ft. of office space had been leased out with majority of the demand coming from the suburban locations of Sector V, Salt Lake and New Town, Rajarhat. It is anticipated that this belt will continue to witness increased interest from IT/ITES companies on the back of improving infrastructure and proactive government policies. Besides, the city will also see a second level of growth from established corporates who will go in for expansion and consolidation in the city.

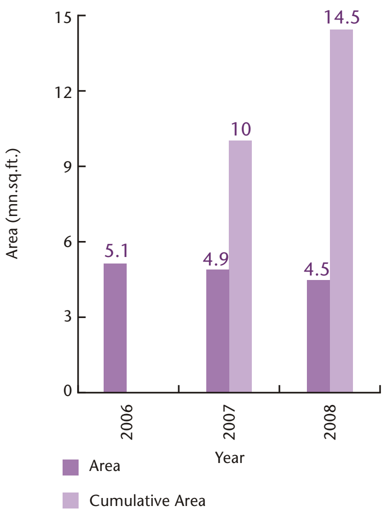
While the Salt Lake and Rajarhat areas have been attracting the majority of the technology sector space requirements, the CBD and off-CBD locations of Park Street, Camac Street, Chowringee and Shakespeare Sarani have been able to capture approximately 15-18% of the total demand in Kolkata over the last 2 years. Small and medium (3,000-7,500 sq.ft.) space transactions, from sectors like insurance, banking and FMCG for regional offices have dominated the demand in these micro-markets.

Key leasing transactions :

Corporate	Area (sq.ft.)	Building	Location
TATA AIG	7,300	Horizon	Chowringee
Capgemini	20,000	Logix Park	NA
HDFC CHUBB	NA	Metroplaza	Ho Chi Minh Sarani
MBT	22,000	Bengal Intelligent Park	Sector V, Salt Lake

Figure 21

Estimated New Office Space Supply by 2008



Total supply (2006-08) : 14.5 mn.sq.ft.

Source: Knight Frank Research

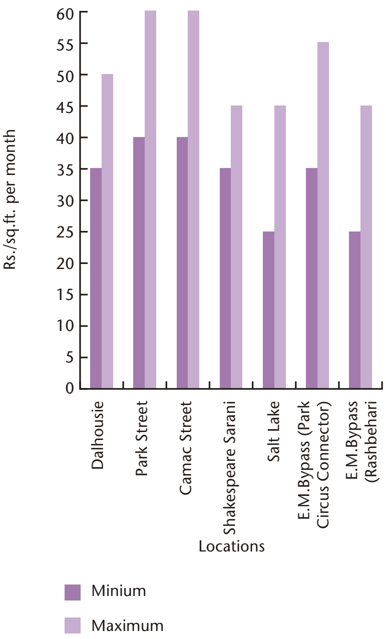
Supply and development

Most of the new supply catering to the IT/ITES sector is coming up in Salt Lake and in New Town, Rajarhat. Approximately 7.5 mn.sq.ft. of commercial space is expected to be infused into the city by 2008. It is estimated that Sector V, Salt Lake will capture 35% of the new supply being planned in Kolkata over 2006-08. This new supply is more or less evenly distributed over the next 3 years.

Rajarhat has been identified as a prime IT/ITES destination and will have above 32% of future supply. In Rajarhat, approximately 200 acres of land in a township development by West Bengal Housing Infrastructure Development Corporation, has been demarcated for IT/ITES units. The region is currently witnessing large scale real estate activity and a slew of IT Parks and mixed-use projects are coming up here. Most of the projects are being complemented by retail, entertainment and residential space.

Figure 22

Office Space Rental Values



Source: Knight Frank Research

Rental profile

Base rentals for prime buildings in Park Street, Shakespeare Sarani and Camac Street locations that comprise the CBD have moved upwards since 2005 by approximately 28%. Current values exist at a range of Rs.40-60/sq.ft. per month, as compared to values ranging from Rs.36-41/sq.ft. per month in 2005.

Sector V, Salt Lake has witnessed increased interest from IT /ITES companies. The current rentals on the higher side have reached Rs.45/sq.ft. per month from Rs.36/sq.ft. per month reported in 2005.

Vacancy rate

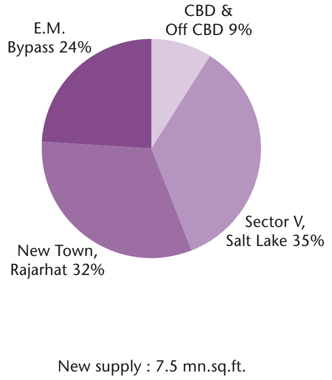
The vacancy rates in Sector V, Salt Lake and Rajarhat, have remained at sub 9% levels mainly on account of robust demand and availability of good quality stock at relatively lower rates. However, new project completions will exert an upward pressure on vacancy rates.

Vacancy levels in the CBD and off-CBD locations are reported to be between 10-15%. This may be attributed to lesser demand, lower grade of existing stock, lack of new supply additions and the relocation of companies to the suburbs.

Cognizant Technology Solutions, Salt Lake

Figure 23

Distribution of New Office Space by 2008



Source: Knight Frank Research

Outlook

The state government's proactive stance to attract foreign corporates in the IT/ITES domain has set the stage for a progressive real estate sector. A range of plans for developing the infrastructure of the city, including the upgradation of the international airport are underway. These constructive steps are expected to draw greater interest from international corporates and space occupiers. Moreover, a number of IT parks have been granted the SEZ status, which would ensure further flow of investments in to the state.

However, in anticipation of future demand, the land values in key pockets of the city have increased manifold over the last few quarters. This needs to be checked as it will restrict future development. Also, once the large amount of commercial development underway in Kolkata is released in the market, the real estate values may experience a downward pressure.

The IT/ITES sector is expected to drive demand and growth for Kolkata. Developer interest in the past has increased and is likely to remain upbeat over a long term period. The entry of the national and international developers and Public Private Partnership initiatives, undertaken by the government, would infuse new higher-grade supply with superior infrastructure in the market. Technical competency and financial backing of these developers will help transform the real estate market of Kolkata and firmly place it on a higher growth curve.

Afterword

The Indian real estate market is growing in tandem with the economic boom in the country. India's IT/ITES sector, which today has about 58% of the global off-shore market, has acted as the catalyst for real estate growth in the country. With the estimated office space supply matching the projected space demand over the next three years, the future scenario appears to be optimistic and bright. Even so, there are certain issues that need to be examined for they may potentially act as spoilsports for the entire real estate party.

Tax benefits to STPI units to end in 2009

This could be the biggest body blow as most aspects of the India growth story are linked to the IT/ITES sector success. The sustained GDP growth, the real estate sector's turnaround, increased purchasing power leading to the retail revolution, malls and townships, the residential and construction boom, are all a direct or indirect fallout of the IT sector's growth. Wary of such a possibility, IT/ITES companies may want to safeguard themselves by either setting up units in China or other low cost South-east Asian competitors such as Vietnam and Philippines; or by moving into SEZs within India. Both these scenarios will result in a loss of real estate opportunities for the country.

Development of SEZs

The arrival of the SEZ Policy, with the immense fiscal incentives that it offers for developers and occupiers, has led to a spurt of IT and non-IT SEZs being planned across the country. At least 106 SEZs have been approved and roughly half of these fall in the IT category. Coupled with the fact that certain incentives currently enjoyed by the IT sector may end in 2009, there could be a mass migration of IT companies to SEZs as well as conversion of IT parks to IT SEZs (provided the minimum area criteria is met). Consequently, a large quantum of space would be freed up in standalone buildings and in existing STPI units. This in turn may lead to a decrease in rentals, increased vacancy rates and reinvention of considerable IT stock as commercial (non IT) office space.

Emergence of Tier-II and Tier-III cities

With IT companies moving towards the Tier-II & Tier-III cities with a view to lowering their operating cost and access new, untapped manpower pools, the real estate scenario in established centres (Tier-I cities) is likely to transform. Already, places like Chandigarh, Coimbatore, Mysore, Vishakhapatman, etc. are witnessing increased interest from IT/ITES occupiers. While estimating future demand and supply of IT space, the assumption that it will be distributed only over the 7-8 main cities may no longer hold true. In case the demand shifts to newer and smaller locations, there would be an ensuing oversupply situation in existing real estate centres.

Legislation to curb speculation in real estate on the anvil

This proposed legislation, aimed at curbing speculative trading in land, would compel anyone in possession of “urbanisable” land to start construction within 6 months, else the land could be acquired by government agencies at rates significantly lower than prevailing market rates. The government's thinking in introducing such a legislation would presumably be curbing land hoarding and preventing the artificial scarcity of land. However, what kind of impact this has on the market needs to be carefully understood and assessed; it may lead to a situation of oversupply due to developers being compelled to build regardless of market conditions. We have in the past seen several instances of legislations not at all serving their stated objectives (i.e. ULCRA, Rent Act, etc.) and this should not be another such case.

Besides the above issues, there are some other developments currently underway which, though specific to the megacity of Mumbai, when addressed are likely to have a considerable impact on the real estate scenario of not just the city, but also the entire country. Unlocking of vast acres of land currently held under the CRZ/Salt Pans and the Mumbai Port Trust, the redevelopment of Dharavi (described as Asia's largest slum, but offering around 535 acres of prime contiguous land in the centre of the city), availability of private and government mill land as well as of other industrial holdings; together they may provide all the necessary ingredients for an oversupply situation. If this happens in Mumbai, the benchmark for real estate values in India, the corresponding ramifications will be felt across the real estate market of the country.

Research

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