Jones Lang LaSalle®

Real value in a changing world

on.point

The Changing Face of Commercial Offices in India

The Changing Face of Commercial Offices in India

Since 1991, reforms of the erstwhile protectionist policies have propelled the liberalised Indian economy to greater heights through increasing foreign direct investments and rapidly expanding capital markets. The Indian economy has grown at a rate of 8-9% each year during 2003-2010, and is currently the fourth largest in the world in Purchasing Power Parity (PPP) terms. In this rapidly growing economy, a diverse typology of firms – large or small, domestic or foreign, have started or expanded operations. Several cities and locations have emerged, with growth in infrastructure and office spaces to cater to these firms. As a result, the Indian investment grade office market has become one of the fastest growing real estate destinations in the world, with over 265 million sq ft of operational space in 2010 and slated to nearly double in five years to reach 540 million sq ft by end-2015. After reaching the 100 million sq ft mark in 4Q06, the next 100 million sq ft of office space became operational within a span of just 2.5 years in 2Q09, and the total stock is expected to cross 300 million sq ft in 3Q11 (Figure 2).

People spend a third or more of their lives in offices or other places of work. Unsurprisingly, the focus to have better and efficient workplaces, which ensure safety, security and productivity, has been a keystone of real estate development globally.

In this research whitepaper, we illustrate the trends in the growth of commercial office space in India during the last decade and the occupiers that work in them. The paper then proceeds to recommend the strategy for office occupiers in the coming years.

Suburbanisation

Till 1990s, offices in India were largely limited to the central business districts of various cities, functioning primarily as the central node where most of the commercial activities of the city took place. With limited population living in high densities around the central core, the setup was feasible with workers commuting to the central workplace daily. However, heightened migration in the last couple of decades due to increased commercial activity, along with a saturated urban core, has resulted in development of satellite and suburban nodes. Improvements in intra-city infrastructure and connectivity have facilitated the growth and acceptance of these peripheral locations. It has led to the development of large, world-class office spaces, which despite being located away from city centres, provide a safe, secure and productive workplace. By 2015, 61% of office space in India will be located in the suburbs.

Rising Structural Vacancy

Office vacancy in India has grown from 5.1% recorded in 2Q07 to 18.2% in 2Q11, due to the supply overhang over demand remaining through most of the quarters (Figure 2). While decline in demand from tenants during the economic slowdown in 2008-2009 is a factor, the rise in vacancy is also contributed by the increase in structural vacancy in the market. The increase in structural vacancy in a rapidly growing market is a result of a mismatch between the attributes and location of space offered by landlords against what is sought by tenants, which causes the space to remain vacant for a long duration, i.e. 3-4 years with diminished prospects of future occupancy. In several office markets, natural vacancy is rising, as tenants polarise their preferences towards select quality office properties, while rejecting others. Hence, despite the current headline vacancy of 18.2%, the effective average vacancy is lower in projects that are sought after by tenants.

Specialised Campuses and Built-to-Suit Options

With Government of India promoting software exports through Software Technology Parks of India (STPI) and Special Economic Zones (SEZ), the office sector witnessed a slew of office campuses and Built-to-Suit (BTS) Options being built, targeted at the expanding IT/ITES sector. As of 2Q11, nearly three-fourths of the operational office space in India is built for the IT/ITES sector, and by end-2015 this share is forecasted to remain the same. With power, connectivity and security specifications built-in to support IT/ITES firms, these campuses have dotted the suburban locations, providing state-of-the-art infrastructure and amenities to their tenants.

Professionalism and Transparency

In 1968, Government of India encouraged collaboration with foreign architects and consultants in the construction industry through Guidelines for Foreign Collaboration, which stated that a local consultant would be the prime contractor in such collaborations. India accepted the World Trade Organisation's General Agreement in Trade and Services (GATS) after the Uruguay round in 1995, which further opened the construction services sector for foreign

[1] Investment grade office market doesn't include captive campus developments owned and occupied by corporate firms, but only includes the rental office real estate developments either on lease or available for leasing in the market.
[2] Figures on real estate quoted in the report are representative of seven cities – Mumbai, NCR-Delhi., Bangalore, Chennai, Pune, Hyderabad and Kolkata, unless otherwise mentioned specifically.

players, making it competitive for Indian service providers. As Foreign Direct Investment grew in India, the demand for world-class infrastructure and real estate also gained traction, facilitating the import of construction and design services from abroad. Per estimates by WTO Council for Trade in Services, India was the eleventh highest importer of construction services globally during 2007, with imports valued at USD 691 million. Apart from bringing professionalism and transparency to the sector, the access to global best services has also enabled a better flow of technical know-how and specialised construction techniques among Indian firms and their counterparts in developed economies.

World Class Designs at the Cost of Space Efficiency

Office architecture in Indian cities has improved significantly during the last decade, in terms of aesthetics, sustainability, scale and amenities that it provides to the occupiers. While there is a growing demand from occupiers towards better and adequate amenities at the workplace, the efficiency of leasable area that is charged to occupiers has reduced considerably. Also, Common Area Maintenance (CAM) Charges have increased considerably, both due to persistent high inflation, as well as better ex-office infrastructure within the campus. The escalating cost of occupancy is a concern especially to IT/ITES occupiers that compete with other nations for outsourcing, and form a backbone of the demand for office space in India.

Growth of the Tier II and Emergence of the Tier III Cities

While the initial focus of development were the Tier I cities of Mumbai, NCR-Delhi and Bangalore, office markets in Tier II cities such as Chennai , Pune, Hyderabad and Kolkata have also developed significantly during the last decade. Favourable policies by the Central and the State Governments encouraged the development of IT infrastructure and parks in these cities. With these cities moving towards maturity, the focus is gradually shifting to replicate a similar growth story in Tier III cities, which offer untapped potential in terms of human resources, lower costs and improving infrastructure.

Increasing Employee Density and Alternate Workplace Strategies

In a bid to reduce occupancy costs, few firms are gradually increasing the employee density at workplaces, challenging the convention of 100 sq ft per person. They are also employing alternate workplace strategies such as work-from-home concepts or employing business centres for flexible expansion within a city. While these are cost-effective measures from the firm's viewpoint, employees benefit from lesser costs and time spent for commuting to the workplace. However, the balance between reduction in costs and employee productivity is a concern for most Commercial Real Estate managers.

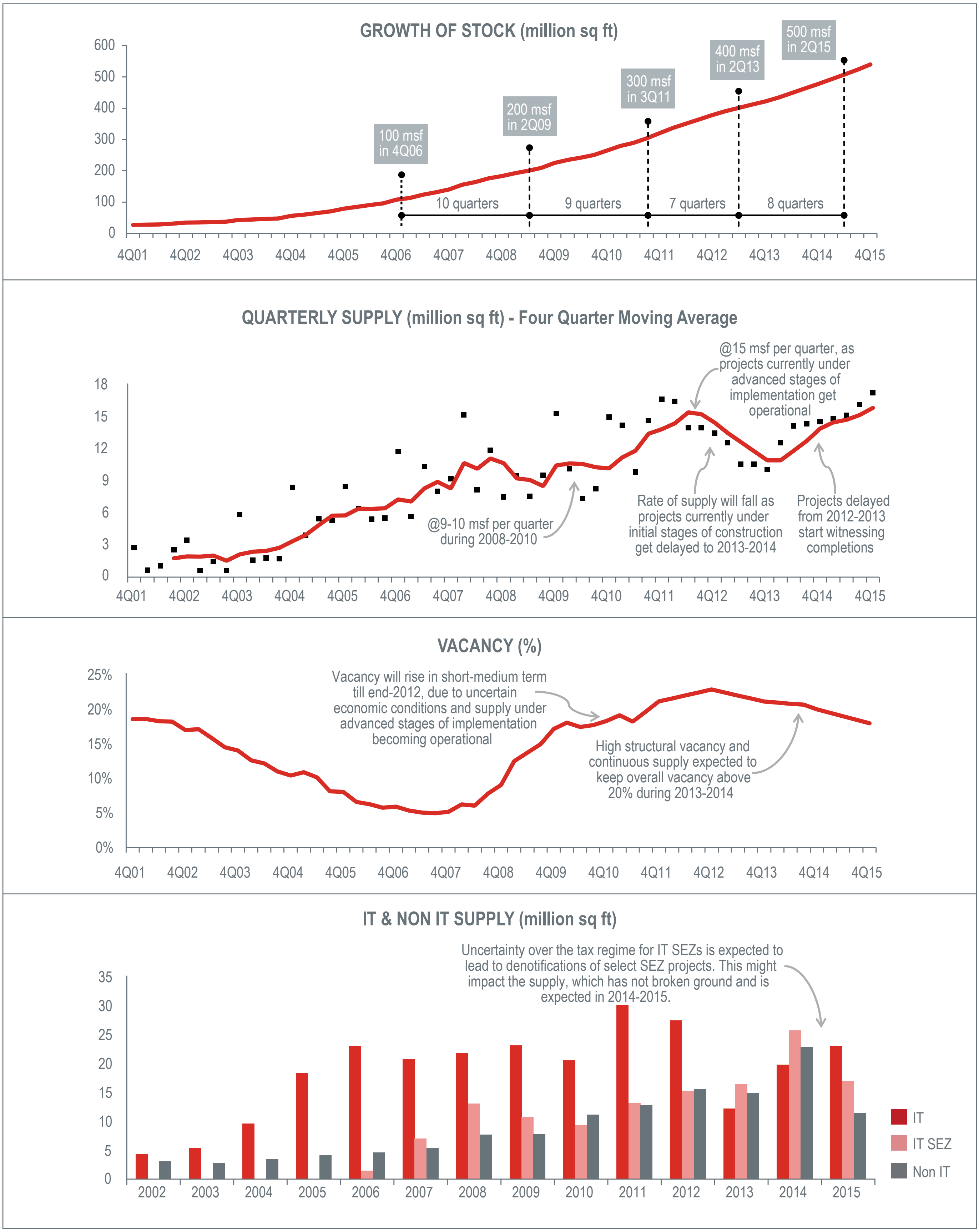
Figure 1: Trends in the Changing Face of Commercial Offices in India

	PUSH FACTORS	PULL FACTORS
Suburbanisation	• Lack of developable land parcels within the city • Traffic congestion and increasing pollution in inner cities	• Incentives by the Government • Improving infrastructure and connectivity • Lower costs of real estate at suburban locations
Rising Structural Vacancy	• High structural vacancy due to mismatch between space offered and what is sought by tenants	• Abundant alternative options to tenants • Continuous new supply of office space
Specialised Campuses and Build-to-Suit Options	• Existing scale and attributes of projects insufficient to cater to specific needs	• Proliferation of IT/ITES firms • Incentives by the Government
Professionalism and Transparency	• Increasing scale of real estate projects	• Entry of Multi-National Companies as occupiers • Collaboration with foreign construction services firms • Emergence of foreign architects
World Class Designs at the Cost of Space Efficiency	• Lower imageability of existing buildings	• Demand from occupiers
Growth of the Tier II and Emergence of the Tier III Cities	• Tier I cities moving towards maturity and saturation • Decentralisation from metropolitan cities to Tier III destinations	• Untapped potential of human resources • Lower real estate and operational costs • Improving infrastructure in Tier II and Tier III cities
Increasing Employee Density and Alternate Workplace Strategies	• Reduce occupancy costs	• Lesser costs and time spent for commuting to the workplace

Source: Real Estate Intelligence Service (JLL), 2Q11

[3] If the twenty-seven countries of European Union are held as an aggregate at the top, India ranks eleventh in terms of import of construction services (World Trade Organisation Council for Trade Services – Construction and Related Engineering Services S/C/W/302 published on 18th September, 2009).
[4] Chennai has been categorised as a Tier I city since 2009.

Figure 2: Trends in the Growth of Commercial Office Space in India



Source: Real Estate Intelligence Service (JLL), 2Q11

Note: Figures are representative of the top seven cities of India - Mumbai, NCR-Delhi., Bangalore, Chennai, Pune, Hyderabad and Kolkata

The Changing Typology of Commercial Office Properties

To encourage the growth of Indian IT/ITES industry and make it competitive with other outsourcing destinations, several incentives have been provided to IT/ITES firms and real estate developers by the Central and the State Governments. However, there have been some recent policy changes, which will have an impact on both demand and supply of office space in India.

Sunset Over Tax Benefits for Units Under STPI During 2011

The tax benefits under Software Technology Parks of India (STPI) through Section 10A and Section 10B of the Income Tax Act ended in March 2011, which directly affects the margins of those IT/ITES firms, which are operating out of STP units. Although demand for IT SEZ projects showed traction in the last couple of quarters, the small-to-mid size firms that have low space requirements and are unwilling to invest the capital expenditure for fit-outs during relocation, shall choose to operate out of STP units, and not relocate to SEZ units. In addition, IT SEZ projects are typically located further away from the city, which increases commute costs and time to employees. The Central Government is considering a new incentive scheme for STP units, to promote IT/ITES development in Tier II and III cities.

Expected Implementation of Direct Taxes Code in 2012

The expected implementation of the Direct Taxes Code from April 1, 2012 will make the Minimum Alternate Tax (MAT) and Dividend Distribution Tax (DDT) applicable to Special Economic Zones (SEZs), which will impact the margins for both SEZ developers as well as occupiers. Already, several SEZs have been denotified by developers, citing reasons such as the imminent economic meltdown, poor market response, non-availability of a skilled labour force, lack of demand for IT/ITES space and the imposition of MAT and DDT. We expect more denotifications of SEZ projects which have not broken ground yet or are at initial stages of construction, and this will reduce the office supply in pipeline.

Incentives under Various State IT Policies Expected to Continue

Various State Governments such as Andhra Pradesh, Karnataka, Maharashtra, Tamil Nadu, Uttar Pradesh (for Noida / Greater Noida) and Haryana, among others provide incentive packages for IT/ITES industry through the State IT Policies. Some of the incentives provided to the industry are:

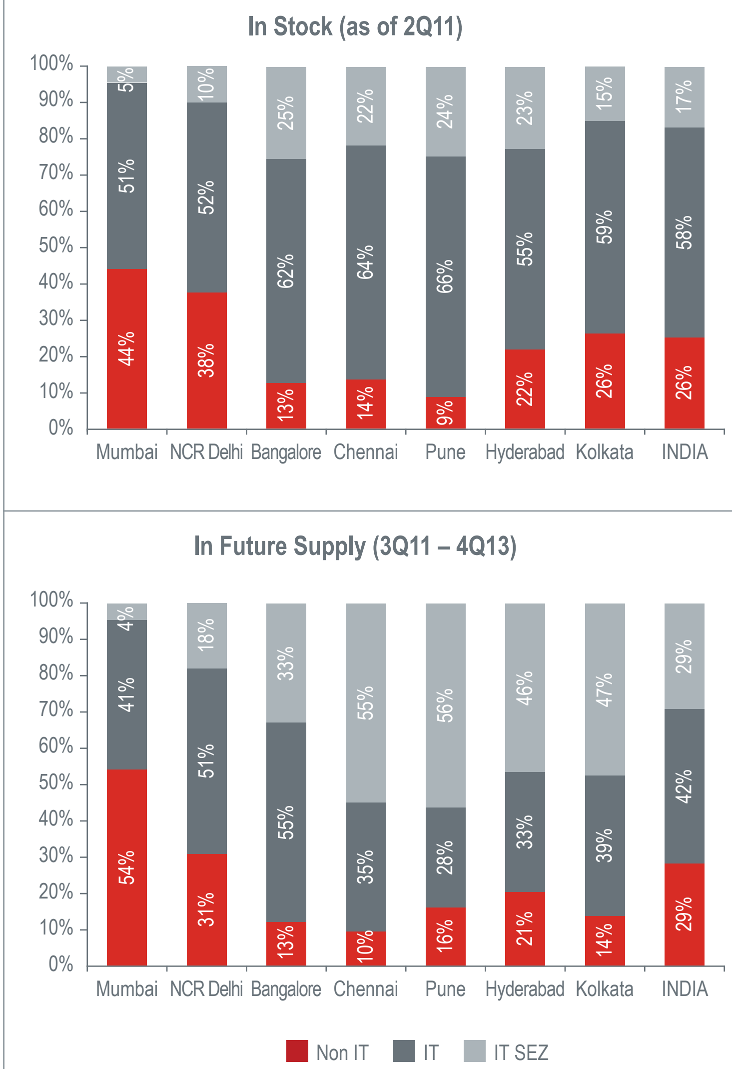
1. Preferential allotment of land
2. Single window / desk clearances
3. Relaxation of Floor Space Index (FSI) and Zoning
4. Reduced or exempt Stamp Duty and Registration Charges
5. Reduced or exempt Sales Tax and others.

While exemptions under the Central Tax Regime are likely to come to an end, the incentives provided by the states are expected to continue, as different states compete to attract the IT/ITES firms and developers. Further, it is expected that State Governments will relax the provisions and criteria for occupying these IT projects to enable a diverse mix of occupiers, and reduce the risk of vacancy.

Considering the different policy regimes applicable to Office projects across Indian cities, investment grade office properties in India can be classified under the following categories:

IT
In India, several state governments have encouraged the development of office properties to cater to IT/ITES firms, through multiple incentives such as additional Floor Space Index (FSI), reduced stamp duty and registration, allotment of government land and relaxation in zoning. These buildings, which have been built specifically for the IT/ITES industry have been categorised as "IT" projects. Office properties, which are specifically bonded to STP units under the Software Technology Parks of India (STPI) scheme, are also categorised as "IT" projects.
IT SEZ
Under the provisions of the Special Economic Zones (SEZ) Act 2005, several zones in India have been notified as IT/ITES SEZs. Office properties that have been built within the notified IT/ITES SEZs, have been categorised as "IT SEZ" projects.
Non IT
Other commercial office properties which are neither categorised as IT/ITES nor IT/ITES SEZ have been categorised as "Non IT" projects

Figure 3: Share of IT, IT SEZ and Non IT Office Space



- Mumbai and NCR-Delhi are the only two cities, where Non IT space constitutes more than a third of the city's total office stock.
- Bangalore, Chennai, Pune, Hyderabad and Kolkata have 55%-65% of IT office space.
- Special Economic Zones (SEZs) are gradually becoming operational and constitute 17% of the total operational stock. Vacancy in the SEZs is lower than that of IT or Non IT space.

- IT SEZs constitute a high percentage of supply till 2013 in Chennai, Pune, Hyderabad and Kolkata and surpass the supply of IT space in these cities. This indicates the growing preference towards building Special Economic Zones. However, most of this supply is represented by projects which started construction within last 2-3 years. Going forward, we might see some denotification of IT SEZ projects, which are yet proposed and have not begun construction.
- Mumbai and NCR-Delhi are the only two cities which considerable supply of Non IT space.

Source: Real Estate Intelligence Service (JLL), 2Q11
Note: Figures are representative of the top seven cities of India - Mumbai, NCR-Delhi., Bangalore, Chennai, Pune, Hyderabad and Kolkata

The Changing Face of Commercial Office Occupiers in India

"Because things are the way they are, things will not stay the way they are." These words by the great playwright Bertolt Brecht dwell upon the necessary process of change which is inevitable.

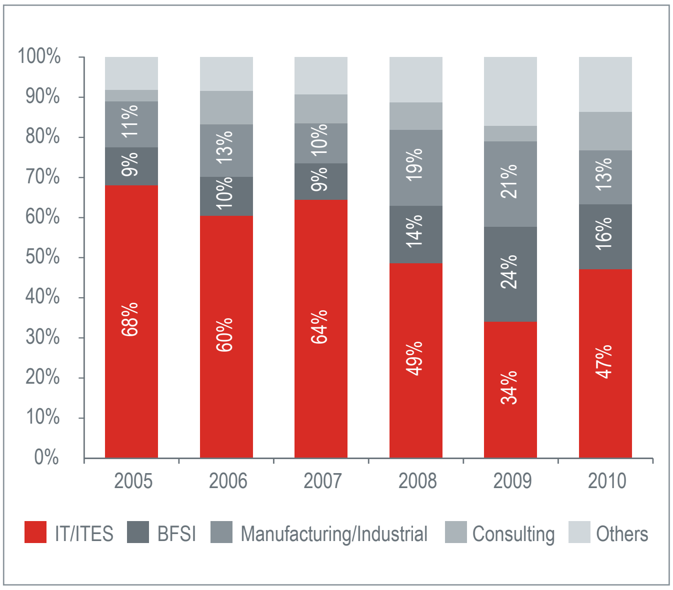
Since the advent of modern day offices in India, the Indian occupier is constantly metamorphosing itself to adapt to rapidly changing business environment. In this section, we examine the trends observed in the constantly changing occupier behaviour - their preferences and their origins, which affects the absorption and eventually, supply of office space.

Concentration in three sectors – IT/ITES, BFSI and Manufacturing

Leasing in the Indian office space is dominated by three industries – Information Technology (IT/ITES), Banking Financial Services & Insurance (BFSI) and Manufacturing. These sectors have contributed to over 75% of the leasing transaction volumes across Indian cities since 2003. However, their share in the total absorption for office space is reducing every year since 2005.

During the slowdown in 2009, while share of demand from IT/ITES reduced to 34% from 49% in 2008, the share of sunshine sectors such as telecom, pharmaceuticals and healthcare increased (Figure 4). However, recovery in 2010 was again led by the IT/ITES sector, with BFSI and Manufacturing sectors losing share.

Figure 4: Share of Area for Office Space Leased by Tenants on the Basis of Sectors



Foreign based firms dominate leasing in investment grade office spaces

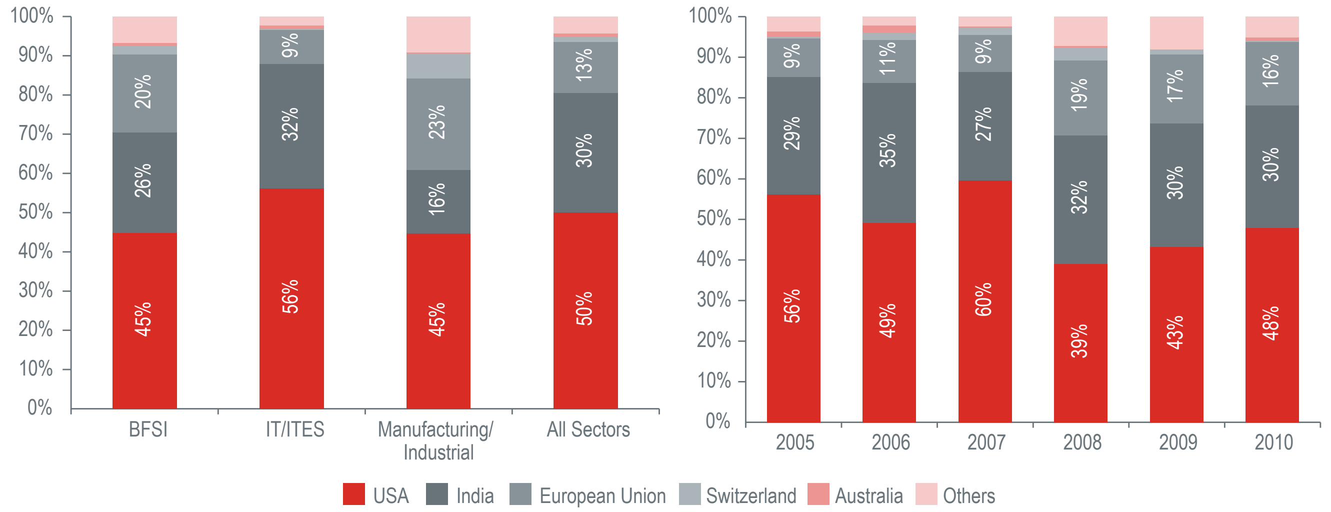
Nearly 70% of the leasing transaction volume for office space in India is contributed by foreign based firms. While some of these are offshore centres of multi-national companies, several cater to the domestic Indian market as well. While 50% of the demand is contributed by firms headquartered in USA, 13% is contributed by those in the European Union. Nearly 20%-23% of the demand from BFSI and Manufacturing or Industrial sector are from firms that are headquartered in the European Union (EU) (Figure 5).

Demand from USA-based firms went through a structural shift in 2008

During 2005-2007, USA-based firms contributed to 50%-60% of the leasing for office space in India. This changed during the slowdown in 2008-2009, when they contributed only 39%-43% of the office space leasing. This share has been transferred to countries from the European Union, which has contributed in the range of 16%-19% to the leasing of office space during 2008-2010. Domestic firms based out of India, on the other hand, have consistently contributed to a third of the office leasing in India (Figure 5).

Source: Real Estate Intelligence Service (JLL), 2Q11
Note: The analysis is based on 3,130 leases recorded during 2005-2010 in the seven cities of India – Mumbai, NCR-Delhi, Bangalore, Chennai, Pune, Hyderabad and Kolkata.

Figure 5: Share of Area for Office Space Leased by Tenants on the Basis of Country (Region) of Origin



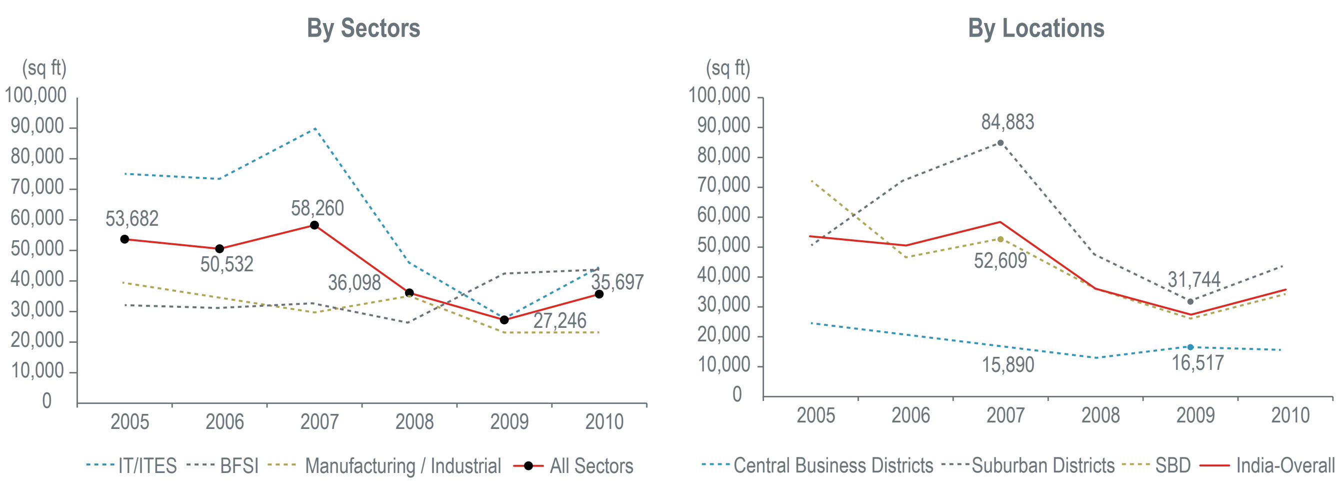
Source: Real Estate Intelligence Service (JLL), 2Q11
Note: The analysis is based on 3,130 leases recorded during 2005-2010 in the seven cities of India – Mumbai, NCR-Delhi, Bangalore, Chennai, Pune, Hyderabad and Kolkata. It considers the country of origin of the lessees, where their headquarters are located.

Average size of leasing transactions reduced during 2007-2009, and marginally improved in 2010

The average size of office leasing transactions (average lease size) which was 58,260 sq ft in 2007 reduced to 27,246 sq ft in 2009, as tenants became cautious with their expansion plans. However, average lease size improved from 27,246 sq ft in 2009 to 35,697 sq ft in 2010 (Figure 6). This was due to the resurgence of IT/ITES sector which typically leases large office spaces, as well as the transactions by BFSI and Manufacturing/Industrial firms which aimed towards consolidation of their multiple offices in different cities.

Average lease sizes also vary by location, with Central Business Districts, primarily catering to BFSI firms, leasing an average of 15,890 sq ft per transaction during 2007. In contrast, the recorded average lease size in Suburban Districts, with a dominant IT/ITES occupier base was 84,883 sq ft during the same period. However, this variance shrunk to 31,744 sq ft in 2009 in Suburban Districts, compared to 16,517 sq ft at Central Business Districts (Figure 6). In 2010, the variance expanded due to increasing confidence in the economy, which led occupiers to lease larger office spaces.

Figure 6: Trends in Average Size of Office Leasing Transactions



Source: Real Estate Intelligence Service (JLL), 2Q11
Note: The analysis is based on 3,130 leases recorded during 2005-2010 in the seven cities of India – Mumbai, NCR-Delhi, Bangalore, Chennai, Pune, Hyderabad and Kolkata.

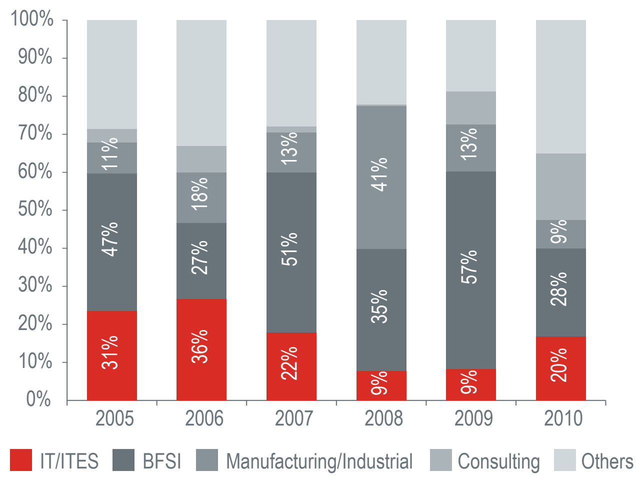
MUMBAI

Occupier Traffic Lights	1H11	2H11	1H12	2H12	1H13	2H13	Stock	2Q11	66.7 mn sq ft
CBD/BKC							Supply	3Q11-4Q13	32.5 mn sq ft
SBD							Vacancy	2Q11	18.6%
Suburbs							Population*	2011 Census	23.5 mn

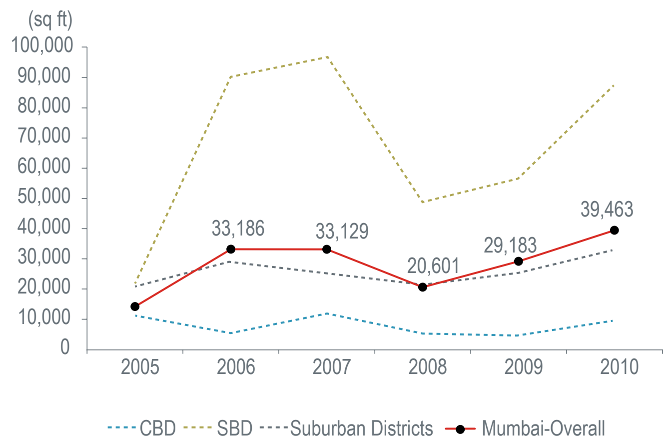
The Mumbai sub-markets have moved into the 'Rents Rising' quadrant and are leading the property clock along with Bangalore. The city has the least dependence on the IT/ITES sector. However, the possible contraction in demand in the BFSI sector will affect the office market in Mumbai, which will affect rental growth during the next 12 months.

*Includes Mumbai, Mumbai Suburban and Thane

Sector-wise Contribution to Office Leasing Transactions



Average Size of Office Leasing Transactions



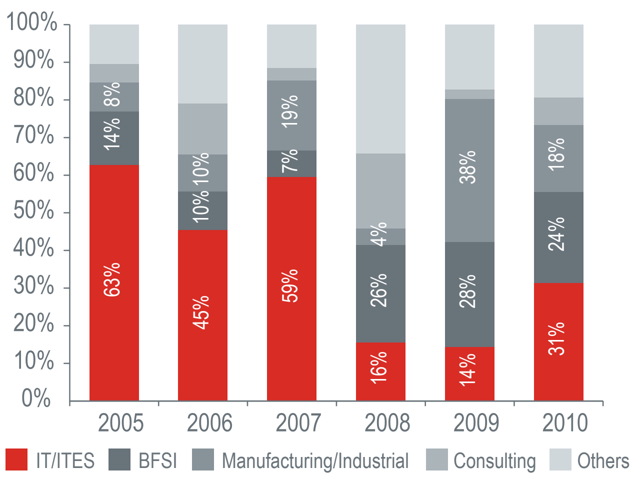
NCR DELHI

Occupier Traffic Lights	1H11	2H11	1H12	2H12	1H13	2H13	Stock	2Q11	50.5 mn sq ft
Delhi							Supply	3Q11-4Q13	34.8 mn sq ft
Gurgaon							Vacancy	2Q11	18.7%
Noida							Population*	2011 Census	26.5 mn

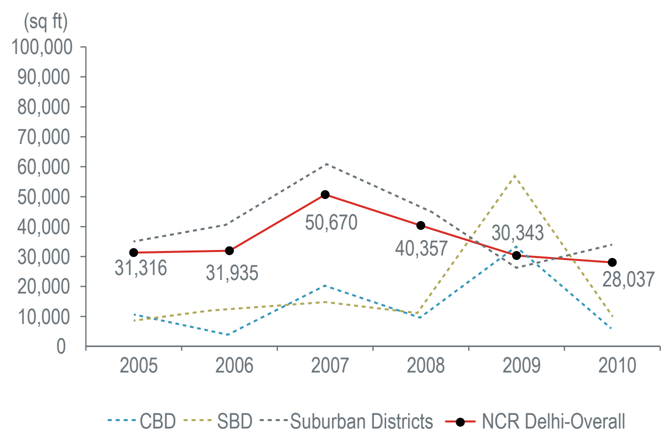
Gurgaon is ahead of Noida on the property clock, with rents in prime locations such as NH-8, MG Road and Golf Course Road witnessing rental appreciation for the past two quarters. Gurgaon has a diverse occupier base with a mix of IT, BFSI and manufacturing firms. However, the sub-market will remain balanced and turn to favour the landlords only by 2013.

*Includes National Capital Territory (NCT) of Delhi, Gurgaon, Noida, Faridabad and Ghaziabad

Sector-wise Contribution to Office Leasing Transactions



Average Size of Office Leasing Transactions



Legend: Landlord Market | Balanced Market | Tenant Market

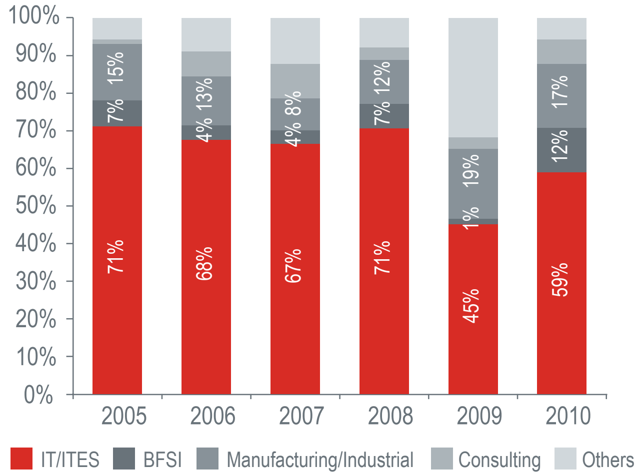
BANGALORE

Occupier Traffic Lights	1H11	2H11	1H12	2H12	1H13	2H13	Stock	2Q11	62.1 mn sq ft
CBD							Supply	3Q11-4Q13	14.8 mn sq ft
SBD							Vacancy	2Q11	13.5%
Whitefield							Population*	2011 Census	10.6 mn

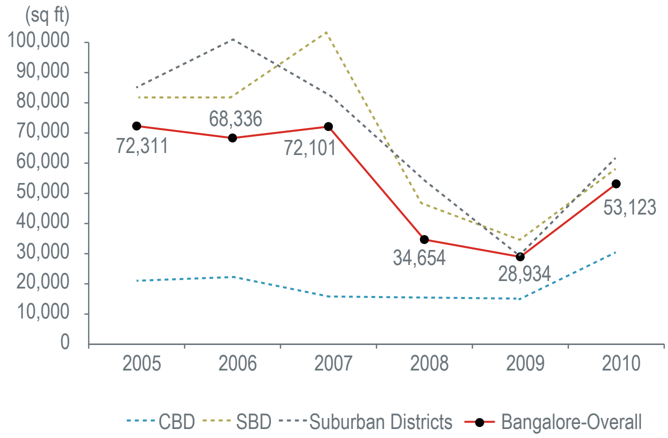
Among the IT/ITES destinations, Bangalore will lead the property cycle due to a relatively constrained supply pipeline. The SBD sub-market, having a low vacancy, will enter the balanced stage in 2H11 itself. However, expected slowdown in demand from IT/ITES sector will keep the Bangalore markets in the balanced stage till 2013. Whitefield will attract cost-sensitive occupiers, with plenty of space for leasing available in operational as well as upcoming projects.

*Includes Bangalore and Bangalore Rural districts

Sector-wise Contribution to Office Leasing Transactions



Average Size of Office Leasing Transactions



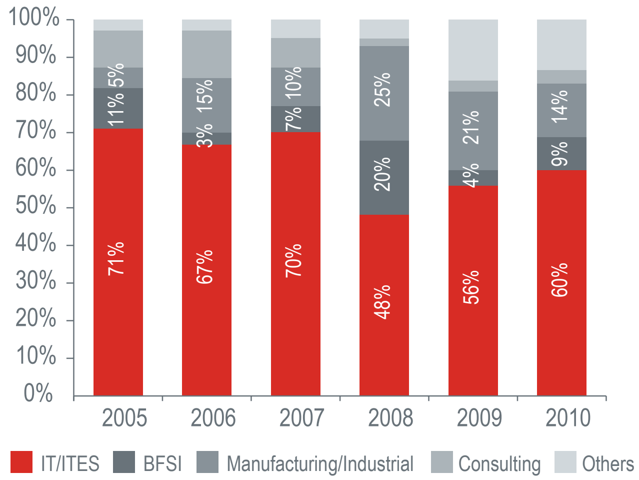
CHENNAI

Occupier Traffic Lights	1H11	2H11	1H12	2H12	1H13	2H13	Stock	2Q11	45.0 mn sq ft
CBD							Supply	3Q11-4Q13	12.3 mn sq ft
SBD							Vacancy	2Q11	29.3%
Suburbs							Population*	2011 Census	12.4 mn

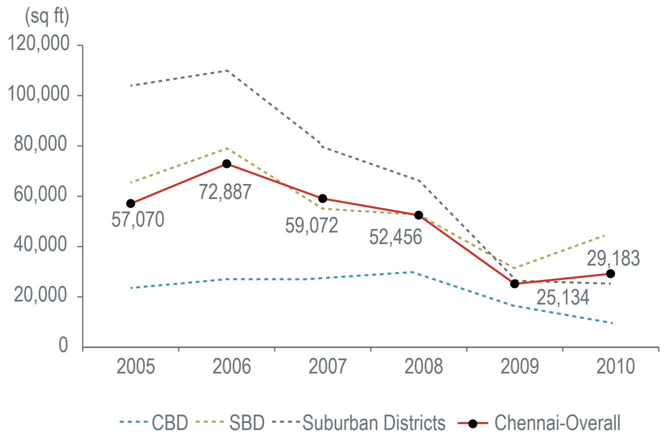
Existing high vacancy in the Chennai sub-markets and high dependence on IT/ITES sector will lead Chennai markets to favour the tenants for a longer period. While projects which are near the city on the Old Mahabalipuram Road are expected to capture most of the incoming IT/ITES demand, those further away will see low levels of occupancy.

*Includes Chennai, Thiruvallur and Kancheepuram districts

Sector-wise Contribution to Office Leasing Transactions



Average Size of Office Leasing Transactions



Legend Landlord Market | Balanced Market | Tenant Market

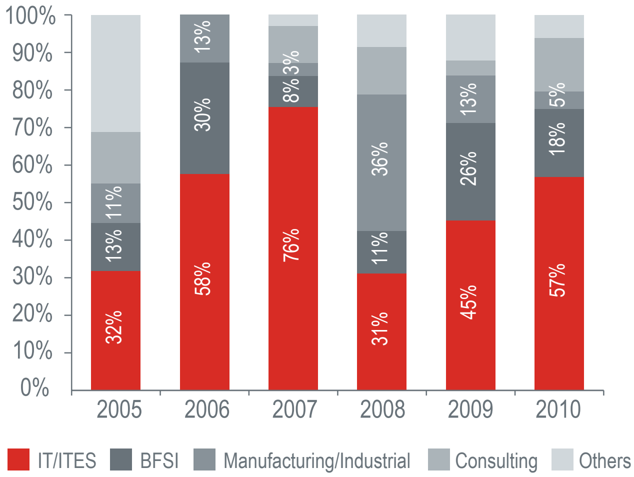
HYDERABAD

Occupier Traffic Lights	1H11	2H11	1H12	2H12	1H13	2H13	Stock	2Q11	22.9 mn sq ft
CBD/SBD							Supply	3Q11-4Q13	10.1 mn sq ft
Hitec City							Vacancy	2Q11	4.9%
Gachibowli							Population*	2011 Census	9.3 mn

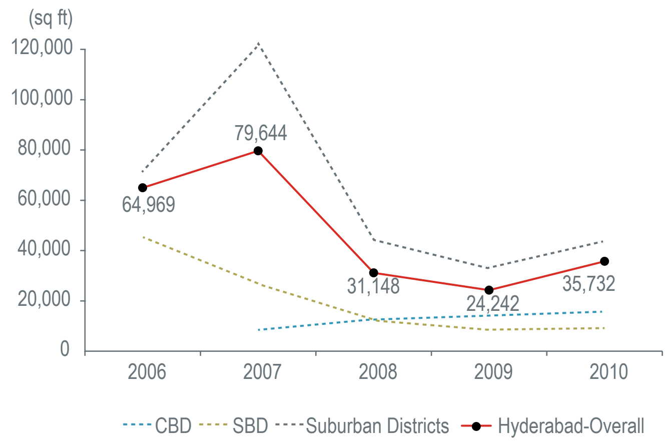
Hitec City and Gachibowli, with a very low vacancy of 5-6%, have witnessed healthy absorption of 2-2.5 mn sq ft each during 2010. However, going forward, the market should remain balanced until 2013, due to few quality developments in 2011 and 2012 as well as expected slowdown in the IT/ITES sector.

*Includes Hyderabad and Rangareddy districts

Sector-wise Contribution to Office Leasing Transactions



Average Size of Office Leasing Transactions



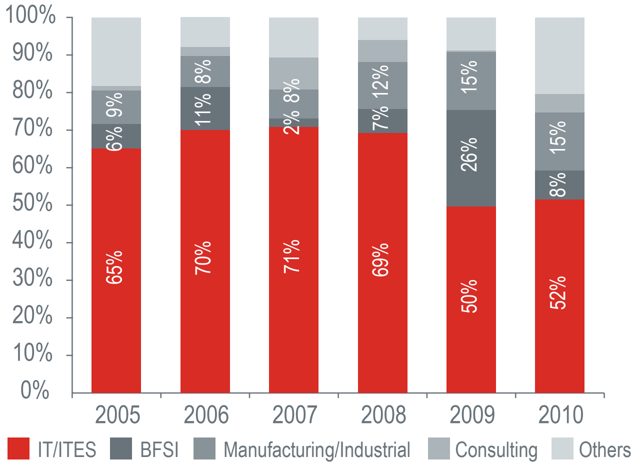
PUNE

Occupier Traffic Lights	1H11	2H11	1H12	2H12	1H13	2H13	Stock	2Q11	29.7 mn sq ft
CBD							Supply	3Q11-4Q13	15.0 mn sq ft
SBD							Vacancy	2Q11	15.8%
Suburbs							Population*	2011 Census	9.4 mn

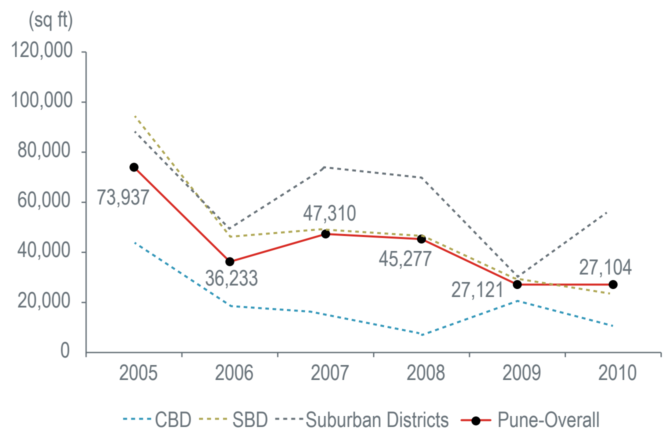
The office market of Pune is highly dependent on the IT/ITES sector, and should start favouring the landlords only by 2013. The IT SEZ projects in the Suburbs are expected to witness healthy demand. Being a consolidated market with few developers building most of the developments, the market is more organized and is expected to absorb 4-4.5 mn sq ft every year during 2011-2013.

*Includes Pune district

Sector-wise Contribution to Office Leasing Transactions



Average Size of Office Leasing Transactions



Legend		Landlord Market		Balanced Market		Tenant Market

Advantage Occupiers: Emerging Opportunities in Indian Commercial Office Markets

There is an ancient Chinese proverb, "Do not fear going forward slowly, fear only to stand still."

India's GDP grew 7.7% during 2Q11, witnessing the slowest pace of growth in the last six quarters. The economic outlook remains uncertain, creating a difficult operating environment for the occupiers for the next 12-15 months. Persistent high inflationary pressures along with monetary tightening by the Reserve Bank of India have induced liquidity constraints on the industry accompanied with rising input costs. In addition, a larger fiscal deficit limits the government's ability to provide a stimulus, if it is required due to slowing demand and consumption. With over 60%-70% of the demand for office space contributed by the IT/ITES and BFSI sectors, the outlook of commercial office markets is inextricably linked to the North American and European economies, which are facing fiscal pressures and a likely double-dip in growth. Additionally, the slowdown in residential sector is affecting the financial health of highly leveraged developers, which will increase execution risks in commercial office and retail markets as well.

Seeing ominous clouds over the horizon, the Indian occupiers, faced with compressed revenues and margins, will tread with caution in the coming months. However, the watchful ones will move ahead and stay competitive by tapping into the incidental opportunities, which were hitherto unavailable.

Figure 7: Emerging Opportunities in Commercial Office Markets in India

Upgrade the quality of location, building or space

Infrastructural developments will make certain locations attractive

Expected relaxation in policies will usher unique opportunities

Relocating with current landlord might offer better space as well as lease terms*

Prudent strategies in Corporate Real Estate (CRE) decision-making enable a holistic view to real estate portfolios

Negotiate increased flexibility to renew, expand or contract

Early renewal of leases can be done if passing rents are higher than market rents*

Lease incentives can be negotiated in high vacancy markets*

If passing rents are at par with market rents, a long term lock-in can be negotiated

Innovate the workplace strategy to retain talent

Early renewal of leases can be done if passing rents are higher than market rents*

Lease incentives can be negotiated in high vacancy markets*

If passing rents are at par with market rents, a long term lock-in can be negotiated

Source: Real Estate Intelligence Service (JLL)

Note: *Some points in the section have been sourced from Jones Lang LaSalle's whitepaper – Advantage Tenant released in 2009.

Upgrade the quality of location, building or space

Infrastructural developments will make certain locations attractive

There are several ongoing infrastructure projects, which will get completed during 2011-2012, and add to the attractiveness of several office markets. Occupiers should consider these infrastructural developments, while deciding for possible relocation, consolidation and expansion opportunities. These locations might not have factored the utility of improved infrastructure yet due to rising vacancy in the market and once the demand-supply mismatch reduces, they will record good appreciation in values.

Expected relaxation in policies will usher unique opportunities

Due to expected worsening of economic conditions, there are expectations of relaxation in government policies in terms of the occupancy of IT/ITES projects. This will provide unique opportunities for consolidation and relocation for Non IT firms to IT projects, which might offer relatively lower rental costs.

Relocating with current landlord might offer better space as well as lease terms

In a rapidly developing office market, several opportunities in newly completed or even operational buildings held by the current landlord might emerge. A motivated landlord might be in a unique position to offer a lower cost space alternative within the current building, or within another property in his portfolio. The occupier may benefit from a rent reduction in return for an early commitment to extend the term of the lease/move to a lower cost location within their portfolio, taking into account any capital expenditure required. The occupier may also have an opportunity to shed surplus space, enhancing the potential savings.

Prudent strategies in Corporate Real Estate (CRE) decision-making enable a holistic view to real estate portfolios

Prudent strategies in CRE decision-making include evaluating the entire real estate portfolio rather than individual properties to ascertain the possibility of relocations, consolidations and expansions. Through scenarios analysis, the decision to consolidate offices into a central location or decentralise to multiple locations can be achieved. In times of crisis, this prevents poor decisions to terminate seemingly negative leases that might otherwise be affecting the portfolio positively, and lease vice versa.

Negotiate increased flexibility to renew, expand or contract

Early renewal of leases can be done if passing rents are higher than market rents

If the rent is above market, a popular strategy is to reduce to market rates in return for an early commitment to extend the term of your lease. This “blend and extend” strategy allows the occupier to immediately reduce real estate costs. The landlord avoids the significant cost and risk of finding a replacement tenant. This also stabilizes cash flow, an important factor for property refinancing. Early renewals may also involve the shedding of surplus space and further improved tenancy provisions, providing the occupier with another option to immediately reduce costs.

Lease incentives can be negotiated in high vacancy markets

Rent free periods, fit-out allowances, and other contributions by the landlord can be negotiated to achieve higher cost savings. Lease contributions could be structured to respond to one’s particular situation. For instance, if capital outlay is an issue, occupiers can negotiate rent-free periods concentrated in the initial term of their lease. While another approach to overcome capital challenges would be to seek the landlord to pay for the fit-out upfront and amortise this back in the form of higher rent.

If passing rents are at par with market rents, a long term lock-in can be negotiated

Rents are at their cyclical lows in the office property cycle, and have remained stable over the past year in several markets. If the rent is at par with market rents, the occupier strategy should be to lock-in for a longer term under current market conditions, especially in markets, which are at their threshold lows. The strategy would be applicable in properties in the suburban markets of Bangalore, Chennai, Pune, Hyderabad, Noida and Kolkata which have low downside risk.

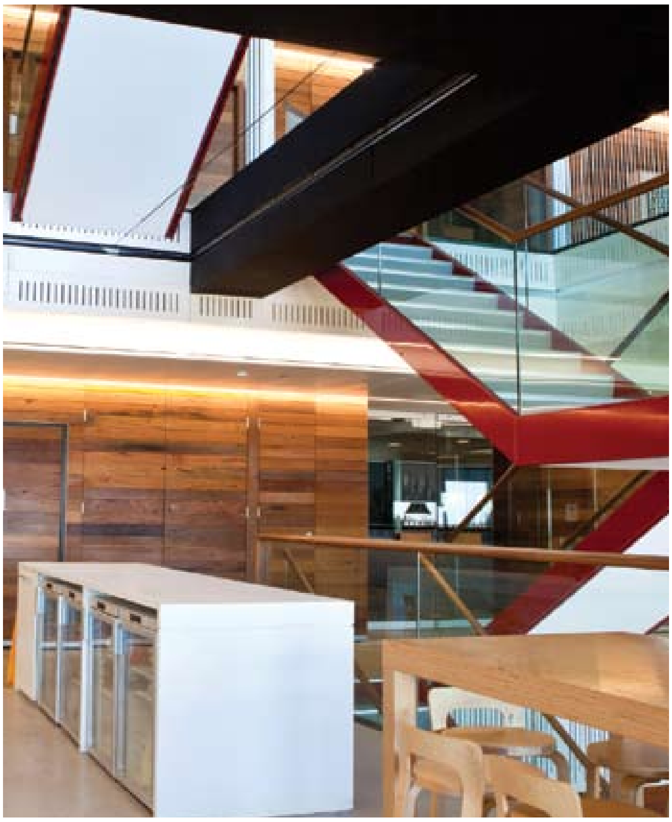
Innovate the workplace strategy to retain talent

Alternative Workplace Strategies can bring cost savings as well as enhance employee productivity

Industries with increasing workforce mobility are unable to utilise the office space adequately. Flexible work arrangements, work-from-home concepts (telecommuting) and use of Business Centres for flexible expansion are some of the alternative workplace strategies that firms can employ to bring cost savings in terms of real estate and conveyance. This can be implemented through remote collaboration, mobile-enabling technologies, reduced business travel and the replacement of assigned one-to-one workplaces. This will prevent the employees from spending less time per week on commute to the office. However, issues in terms of privacy, trust and the resistance to change still prevail.

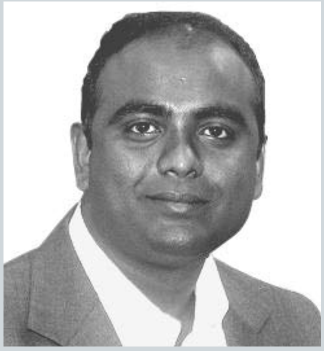
Balance between cost reduction and productivity should be maintained

CRE Executives need to balance between measures of cost reduction and employee productivity. The battle to attract and retain talent, and gain maximum productivity from the workforce will remain a top concern for firms in challenging times to come.



Authors

Srinivasa Reddy NS
Manager, Research & REIS
srinivasa.reddy@ap.jll.com
+91 80 4031 4833



Srinivasa Reddy joined Jones Lang LaSalle in March 2008. Based out of Bangalore, he contributes to research deliverables on the office, retail and residential real estate markets in India. He is also responsible for working on be-spoke projects and his expertise lies in the field of analytical market research, econometric modelling and forecasting.
With over five years of industry research and business consulting experience, Srinivasa Reddy holds a masters degree in Economics.

Himadri Mayank
Assistant Vice President, Research & REIS
himadri.mayank@ap.jll.com
+91 22 3307 1500

Himadri Mayank manages the operations of Jones Lang LaSalle's research offering – Real Estate Intelligence Service (REIS), and is responsible for the team's outputs, including research reports such as topical whitepapers. Since joining the firm in 2008, he has delivered several bespoke research projects in the office, retail and residential sectors based on specific client requirements.

Himadri holds a bachelor's degree from Indian Institute of Technology (IIT), Kharagpur and has over four years of experience in the field of real estate. He is pursuing the Chartered Financial Analyst (CFA) program offered by CFA Institute, Charlottesville and has passed the 2011 Level III CFA exam. He is the life member of Association for Promotion of Creative Learning, a not-for-profit organisation which aims to promote education for underprivileged through creativity and creative learning in society.

Ashutosh Limaye
Head – Research and REIS
ashutosh.limaye@ap.jll.com
+91 22 3307 1500

Ashutosh Limaye is responsible for overseeing research and REIS business of JLL. He is also responsible for effective business development, selection, grooming and growth of professionals in the research division.

He has 14 years of experience, including one and half years of post graduation in planning with specialization in Urban Planning. His contributions include real estate market intelligence and forecasting, formulations of economic and physical plans, assessments of policies, legislations and regulatory mechanisms for delivery of infrastructure services, study of urban governance initiatives for urban management programmes, identification of appropriate modes of private sector participation in infrastructure delivery for large-scale infrastructure and township projects in the urban context, financial cost-benefit analyses, project formulation and appraisals, and urban land management.

Jones Lang LaSalle

Real value in a changing world

About Jones Lang LaSalle

Jones Lang LaSalle (NYSE:JLL) is a financial and professional services firm specializing in real estate. The firm offers integrated services delivered by expert teams worldwide to clients seeking increased value by owning, occupying or investing in real estate. With 2010 global revenue of more than USD 2.9 billion, Jones Lang LaSalle serves clients in 70 countries from more than 1,000 locations worldwide, including 200 corporate offices. The firm is an industry leader in property and corporate facility management services, with a portfolio of approximately 1.8 billion square feet worldwide. LaSalle Investment Management, the company's investment management business, is one of the world's largest and most diverse in real estate with USD 45.3 billion of assets under management.

Jones Lang LaSalle has over 50 years of experience in Asia Pacific, with over 20,800 employees operating in 77 offices in 13 countries across the region. The firm was named the Best Property Consultancy in Asia Pacific at 'The Asia Pacific Property Awards 2011 in association with Bloomberg Television'. For further information, please visit our website, www.ap.joneslanglasalle.com

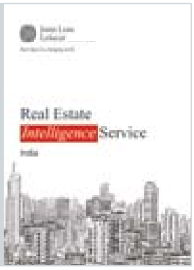
About Jones Lang LaSalle India

Jones Lang LaSalle is India's premiere and largest professional services firm specializing in real estate. With an extensive geographic footprint across eleven cities (Ahmedabad, Delhi, Mumbai, Bangalore, Pune, Chennai, Hyderabad, Kolkata, Kochi, Chandigarh and Coimbatore) and a staff strength of over 4000, the firm provides investors, developers, local corporates and multinational companies with a comprehensive range of services including research, analytics, consultancy, transactions, project and development services, integrated facility management, property and asset management, sustainability, warehousing and logistics, capital markets, residential, hotels, health care, senior living, education and retail advisory. For further information, please visit www.joneslanglasalle.co.in

Real Estate Intelligence Service (REIS) India is a subscription based research service designed to provide you with cutting edge insights into India's diverse and challenging real estate markets through collation, analysis and forecasts of property market indicators and trends across all major Indian markets across various real estate asset classes - office, retail, residential.

REIS empowers you with consistent and complete market data and analyses for all real estate indicators by specific micro markets. It is supplemented by value added services including client briefings, presentations and rapid market updates.

For more details, contact, **Ashutosh Limaye** - ashutosh.limaye@ap.jll.com



For more details, contact

Ashutosh Limaye
Head – Research and REIS
ashutosh.limaye@ap.jll.com
+91 22 3307 1500

Himadri Mayank
Assistant Vice President, Research & REIS
himadri.mayank@ap.jll.com
+91 22 3307 1500