

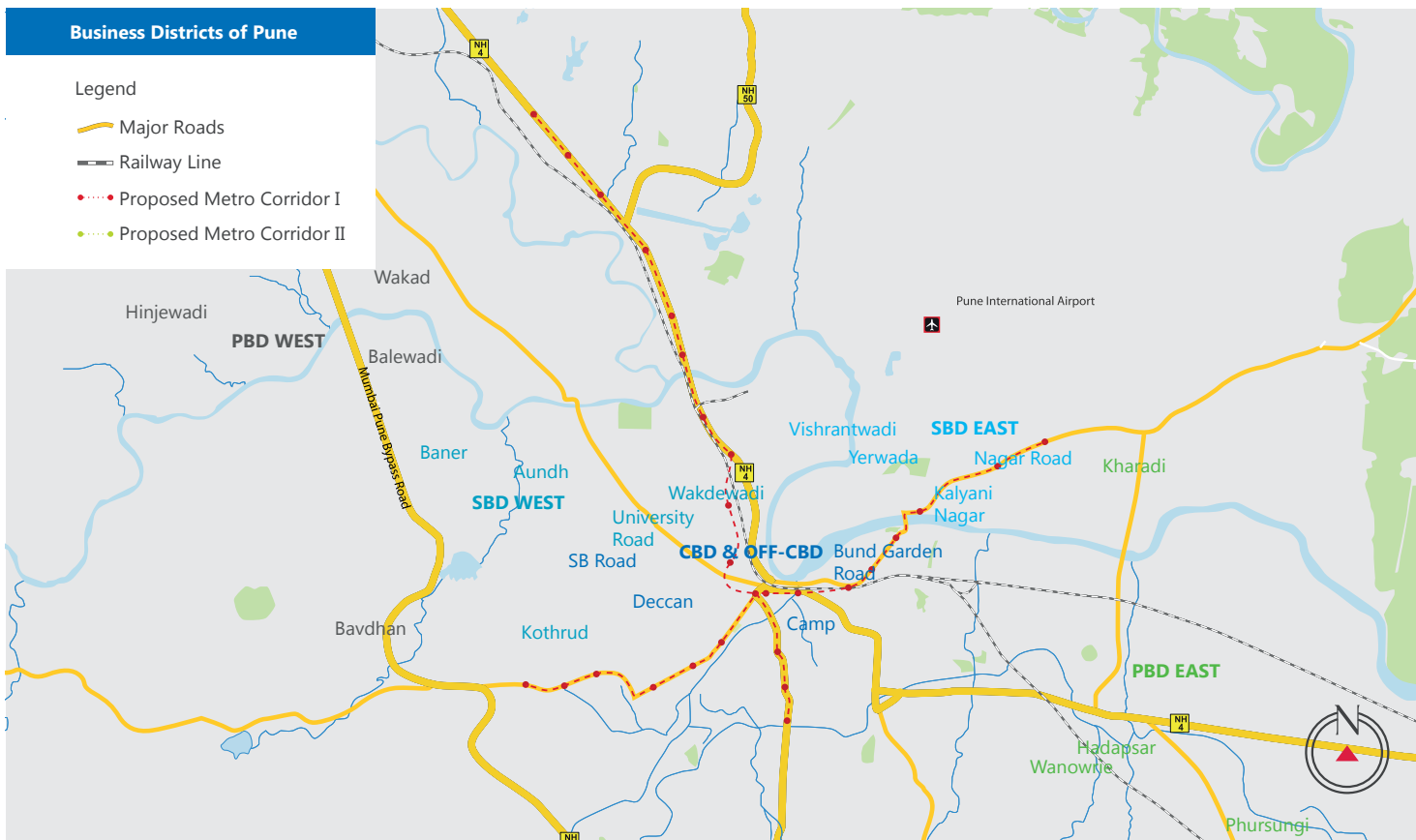
COMMERCIAL
RESEARCH



OFFICE TRACTION @ GLANCE

Pune
August 2013

MARKET OVERVIEW



Absorption numbers in Q1 FY 2014 have soared almost 58% from Q1 FY 2013 and more than doubled the volumes achieved during the preceding quarter.

Pune city is among the top ten largest metropolitan economies in terms of nominal GDP and per capita income in the country. It gained prominence as an industrial destination, when the automobile and pharmaceutical industries made large investments in the city and dominated its economic landscape. The last decade saw the emergence of the IT/ITeS sector which practically reformed the city's economy, catapulting it in to the forefront of India's IT/ITeS growth story. Pune today is among the leading software exporting cities in India. The pace at which the IT/ITeS industry

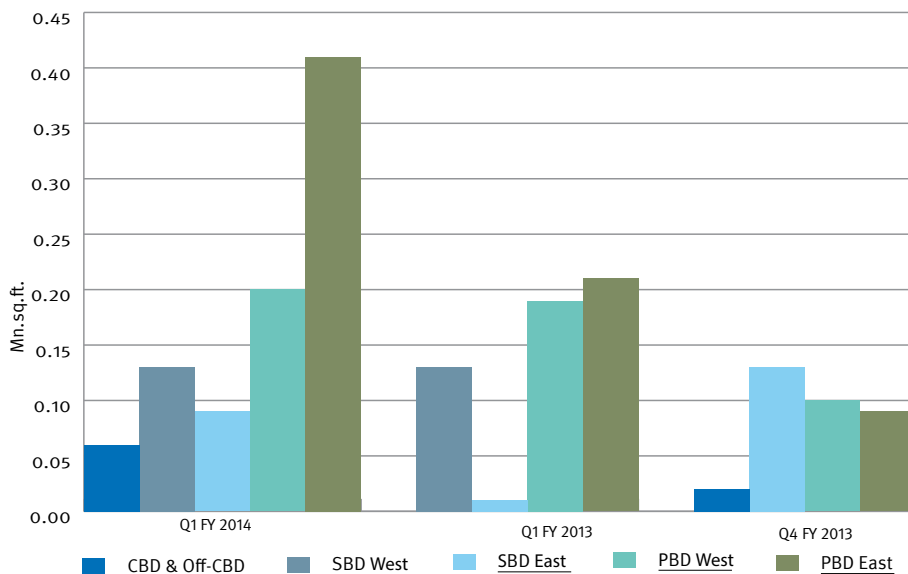
has grown, coupled with the growth in the manufacturing sector has sparked off a flurry of construction activity in the grade A office space market over the past decade. The eastern and north-western locations where the IT/ITeS sector has proliferated have the largest chunk of office space in Pune.

Table 1: A summary of Lease transactions:

Lease Transactions	Q1 FY 2014	Q1 FY 2013	Q4 FY 2013
Total Area Transacted (mn.sq.ft.)	0.89	0.53	0.35
Average Rate for IT/ITeS transactions (₹/sq.ft./month)	41	37	39

Source: Knight Frank Research

Chart 2: Location and quarter wise absorption in Pune



Source: Knight Frank Research

Business District Classification

Business District	Micro-markets
Central Business District & Off Central Business District (CBD & Off - CBD)	Bund Garden Road, S B Road, Camp, Deccan, Pune Station Road
Secondary Business District - East (SBD East)	Kalyani Nagar, Airport Road, Yerwada, Nagar Road, Vishrantwadi
Peripheral Business District - East (PBD East)	Hadapsar, Kharadi, Phursungi, Wanowrie
SBD West	Wakdewadi, Aundh, Baner, Kothrud, Unversity Road
PBD West	Hinjewadi, Bavdhan, Wakad, Balewadi

Source: Knight Frank Research

The fact that FY 2014 has started on a strong note is a powerful indicator of improving market traction.

Currently, the total office space stock in Pune is occupied resulting in a vacancy level of 20%. The vacancy levels have been declining consistently since 2009, when they peaked at 28% due to the huge influx of new supply during 2008 and 2009. More than 16 mn.sq. ft. of incremental office space entered the market during these two years. However, 2010 onwards the vacancy levels started declining as the quantum of new supply entering the market receded significantly

and absorption remained steady. The impact of this was reflected in the rental movement that witnessed steady appreciation in the last three years in most of the business districts.

An uninspiring global economic environment has caused expansion activity to stagnate over the past two calendar years.

Table 2: Distribution of office space across sectors

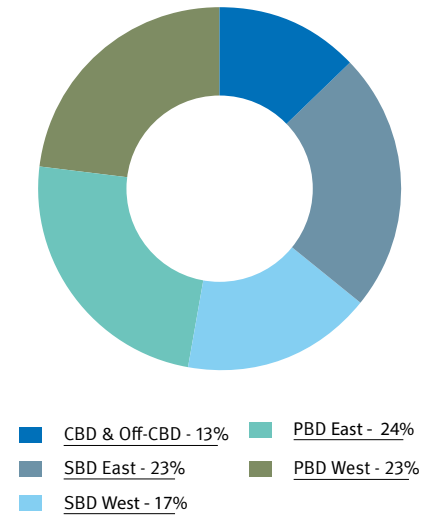
Broad Industry Classifications	Q1 FY 2014	Q1 FY 2013	Q4 FY 2013
BFSI*	25%	19%	35%
IT/ITeS	66%	73%	25%
Manufacturing	4%	8%	40%
Other Service Sector**	5%	-	-

*BFSI sector transactions include back office leases of BFSI companies

**Service sector companies besides those included in the BFSI and IT/ITeS category

Source: Knight Frank Research

Chart 1.0: Business District-wise split of Stock



Source: Knight Frank Research

The IT/ITeS sector which is especially sensitive to global economic cues, has been trading cautiously and suspending expansion plans while waiting for the business cycle to turn. However, Q1 FY 2014 has bucked this stagnating trend and seems to have staged a reversal of sorts. Absorption numbers in Q1 FY 2014 have soared almost 58% from Q1 FY 2013 and more than doubled the volumes achieved during the preceding quarter. Transaction activity is largely cyclical in nature and the initial few months of the financial year experience bulk of the action as location planning and budgeting activities tend to get executed during this period. The fact that FY 2014 has started on a strong note is a powerful indicator of improving market traction.

Sectoral Analysis

Traditionally, the IT/ITeS sector that accounts for majority of the space transacted has dominated the Pune commercial office market with the Manufacturing and BFSI sectors vying for second place a long distance behind. Accounting for 66% of the market, the IT/ITeS sector took up 0.59 mn.sq.ft. in Q1 FY 2014 which is a 52% jump compared to the previous reference period.

Almost 60% of the space transacted by the IT/ITeS sector was concentrated in Hinjewadi and Hadapsar. Four of the top six transactions during Q1 FY 2014 were accounted for by this sector and constituted almost 43% of the total absorption during the period.

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The BFSI sector share has grown at a healthy pace over the past year. Q1 FY 2014 saw the BFSI sector consume almost 0.23 mn.sq. ft., more than doubling the space taken up during Q1 FY 2013. Just two leases inked by Barclays and BNY Mellon constituted nearly 75% of the total area transacted by the BFSI sector.

Demand from the manufacturing sector has been on the rise providing a fillip to the health of the Pune office market as a whole. It has experienced tremendous growth during the last five years in and around Pune city limits. Prolific expansion by automotive giants like Volkswagen, Mercedes, Mahindra and Hyundai has resulted in their vendor companies setting up factories in Pune. This has generated huge demand for industrial land in locations like Chakan, Ranjangaon, Talegaon and in new industrial locations like Shirval. Most of these companies have taken

up offices in the CBD and PBD locations for design centres and sales and service offices. However, the upbeat mood of the market did not extend to the manufacturing sector in the current quarter as the sector's share fell considerably compared to both reference periods. It should be noted that the sector accounted for a massive 40% of the transacted space during Q4 FY 2013 which speaks for its underlying strength. We believe that the central government's focus on increasing the share of the manufacturing sector in India's GDP will enable this sector's share to recover and stay buoyant.

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Geographic Analysis

The PBD markets claim most of the transacted space in Pune as the office spaces here are tailor-made to suit the requirements of the dominant IT/ITeS sector. The PBD East market has featured prominently in Q1 FY 2014 claiming a massive 46% of the total transacted space in Pune

and seen an absolute growth of nearly 93% compared to the previous reference period. Nearly 67% of the 0.4 mnsq.ft. taken up in this market is concentrated at EON in Kharadi and Magarpatta in Hadapsar. Citibank and Barclays from the BFSI sector alone have taken up approximately 155,000 sq.ft. at EON while manufacturing companies are actively looking to buy office spaces to house their back office operations in this market.

The PBD West market saw the quantum of space transacted in Q1 FY 2014 increase by 8% compared to the previous reference period. A 0.2 mn.sq.ft. lease inked by Synechron at Ascendas IT Park in Hinjewadi accounted for almost the entire space taken up in the PBD West market. The IT/ITeS major has committed to take up an additional 0.4 mn.sq.ft. in the following quarters.

The SBD markets have a more diverse occupier profile compared to the PBD and constitute close to a third of the office stock of Pune. The SBD West consumed close to the same quantum of space in Q1 FY 2014 compared to the previous reference period. The IT/ITeS sector was the most active here taking up nearly 84% of the space transacted during the quarter. Aundh and Baner accounted for a massive 94% of the space transacted in the SBD West and Westend III and Amar Paradigm respectively were among the properties most active during Q1 FY 2014. A 0.08 mn.sq.ft. lease signed by the Centre for Development of Advanced Computing was the largest transaction in this market.

Table 3: Select transactions in the Pune Office Market during Q1 FY 2014:

Location	Building	Company	Industry	Approx. Area (sq.ft.)
Hinjewadi	Ascendas	Synechron	IT/ITeS	200,000
Kharadi	EON	Barclays	BFSI	125,000
Aundh	Westend III	CDAC	IT/ITeS	78,000
Hadapsar	Magarpatta	Crest	IT/ITeS	66,000
Hadapsar	Magarpatta	Inautix	IT/ITeS	44,208
Yerwada	Commerzone	BNY mellon	BFSI	40,000
Baner	Amar Paradigm	Xoriant	IT/ITeS	17,500

Source: Knight Frank Research

The PBD East market has featured prominently in Q1 FY 2014 claiming a massive 46% of the total transacted space in Pune and seen an absolute growth of nearly 93% compared to the previous reference period.

The SBD East saw its transaction volume jump multi-fold thanks largely to a 0.04 mn.sq.ft. lease inked by BNY Mellon at Commerzone in Yerwada. Commerzone, Marvel Edge and Giga Space accounted for nearly 72% of the total space transacted during this quarter.

The CBD & Off CBD market has experienced a significant increase in uptake in recent quarters. Q1 FY 2014 saw approximately 0.06 mn.sq.ft. being absorbed which is a huge improvement from the near negligible numbers achieved in Q1 FY 2013 and 0.02 mn.sq.ft. taken up in the preceding quarter. The IT/ITeS industry was the largest consumer of office space during the quarter and accounted for over half of the space transacted followed by the other service sectors. Properties such as Pride House on SB Road, City Mall on Ganeshkhind Road and Suyog Platinum on Tadiwala Road experienced maximum activity in the CBD and Off-CBD market during the quarter.

Table 4: Average transacted rental values in Pune (₹/sq.ft./month)

Micromarkets	Q1 FY 2014	Q1 FY 2013	Q4 FY 2013
CBD & Off-CBD	60	56	57
SBD West	42	39	40
SBD East	44	41	42
PBD West	36	33	34
PBD East	40	36	37

Source: Knight Frank Research

Just three office properties namely Ascendas IT Park in Hinjewadi, EON in Kharadi and Magarpatta in Hadapsar accounted for nearly 0.47 mn.sq.ft. which made up approximately 53% of the total area absorbed during Q1 FY 2014. It was also observed that Y-o-Y rental appreciation in IT SEZ properties like EON and Magarpatta SEZ was higher compared to STPI and commercial office properties.

Outlook

The fact that western economies are getting back on the growth track will provide a boost to market sentiment and carry forward the current momentum over the remainder of the financial year.

The Pune office space market has had a good start to the financial year and we expect these absorption levels to remain buoyant in the following quarters as well. The fact that western economies are getting back on the growth track will provide a boost to market sentiment and carry forward the current momentum over the remainder of the financial year. Nearly 4 mn.sq.ft. of office space is expected to come online in the following three quarters. However, vacancy levels are not expected to trend higher as demand remains strong.

The SEZ space accounted for bulk of the transacted space during the past six quarters leaving very limited inventory in this category. The trend will continue through the remaining part of FY 2014 resulting in further firming up of rentals in the SEZ space.

Research

Dr. Samantak Das
Chief Economist & Director, Research
T +91 22 6745 0101
samantak.das@in.knightfrank.com

Consultancy & Valuations

Saurabh Mehrotra
Director, Consultancy & Valuations Services
T +91 22 6745 0101
saurabh.mehrotra@in.knightfrank.com

Office & Industrial Agency

Balbir Singh Khalsa
National Director, Office & Industrial
T +91 22 6745 0101
balbirsingh.khalsa@in.knightfrank.com

Regions

Naushad Panjwani
Senior Executive Director - West
T +91 22 6745 0101
naushad.panjwani@in.knightfrank.com

Rajeev Bairathi
Executive Director – North
T +91 124 4075030
rajeev.bairathi@in.knightfrank.com

Satish BN
Executive Director – South
T +91 80 40732600
satish.bn@in.knightfrank.com

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