



# PROPERTY ONE ASIA RESEARCH

**MUMBAI COMMERCIAL REAL ESTATE  
MARCH 2009**

**ASIA COMMERCIAL**  
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## Market Outlook

- City's premier commercial business district of Nariman Point has been witnessing a growing number of empty offices. The vacancy rate has gone from 2% to 8%.
- In fact, the business hub has seen vacancy levels in grade A buildings of BKC rise to 11%. Till recently, the vacancy level was barely 3% in this area. Since the last quarter of 2008, all the prime commercial business districts such as Nariman Point, Bandra-Kurla Complex and Parel have been affected.
- The prices as of now have come down by nearly 30% in places like Andheri, Malad. Most of the companies who were willing to earlier pay Rs.175/- to Rs.250/- range in areas of Andheri want the rents to be now in the range of Rs.75/- to Rs.150/- even for an A grade office building of Andheri.
- Lower Parel was quoting Rs.250/- but the offers from the companies are now in the range of Rs.150/-. Andheri East the offers are coming in the range of Rs.90/- to Rs.120/- Bandra Kurla Complex which has seen the high rents quotes of Rs.400/- have come down to Rs.225/- in Grade A buildings. Nariman Point is seen correcting from Rs.500/- to Rs.400/- in Grade A buildings.
- Thane is coming up very well with commercial and it has nearly 4 Million sq. ft. of good quality stock getting ready through the end of 2009.
- At least 5 million sq ft of office space is expected to hit the market this year in the mill land enclave of Lower Parel.
- Vacancy levels, in Andheri (E) and Malad have gone up by 15%, this is because of more number of commercial buildings coming up at no demand for the same.
- Commercial market will take another 1 year to stabilize. BPO's and KPO's in SEEPZ have been relocating from an expensive location to a cheaper location of Vashi.
- In Mumbai it is financial services, Pharma, telecom and IT/ITES sectors which are the key demand drivers together accounting for about 75-85 per cent of absorption. There is a total of 6.4% overall vacancy in Mumbai. Mumbai received almost 9.5 million sq ft of office space, leading into an excess supply situation in certain locations. This trend will continue in the first few months of 2009 as a large supply of 16 million sq ft is expected
- Most of the supply is coming up in the region of Andheri and Malad to an extent of 1.5 million sq. ft.
- No major lease transactions have taken place in the last quarter.
- Any PE deal has also not taken place last quarter.

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**LEASE RENTALS**

- Lease rates have been corrected by 15-20% in most areas of Nariman Point and BKC and in Andheri (E), Malad and Lower Parel by around 50% due to more supply and no demand.
- The lease rates vary according to the area, the anchor client, the reputation of the investor.
- IT/ITeS is the largest tenant for commercial space and contributes to 75-80% of absorption. IT hiring has been adversely affected with the demand environment worsening due to ongoing global recession. Slowdown in IT hiring would put additional pressure on commercial demand hence the lease rates falling to an extent.

The current rental value of office space in IT Parks in SEEPZ is approximately Rs.100-450 per month per sq. ft., depending on the grade of the office. We expect that the rental values of IT Parks in Mumbai will remain stagnant till 2009.

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**GRADE A**

LOCATION	COMMERCIAL (figures in Rs.)
Nariman Point	375-400
Worli	250-300
Bandra (E)	200-250
BKC	300-375
Goregaon	150-170
Andheri (E)	100-150
Andheri (W)	200-250
MIDC	130-150
Lower Parel	100-250
Wadala	80-150
Chembur	40-150
Powai	100-250



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Grade B

LOCATION	COMMERCIAL (figures in Rs.)
Nariman Point	250-275
Worli	190-230
Bandra (E)	140-175
BKC	210-275
Goregaon	105-120
Andheri (E)	70-100
Andheri (W)	140-175
MIDC	105-125
Lower Parel	70-125
Wadala	48-120
Chembur	35-70
Powai	80-120

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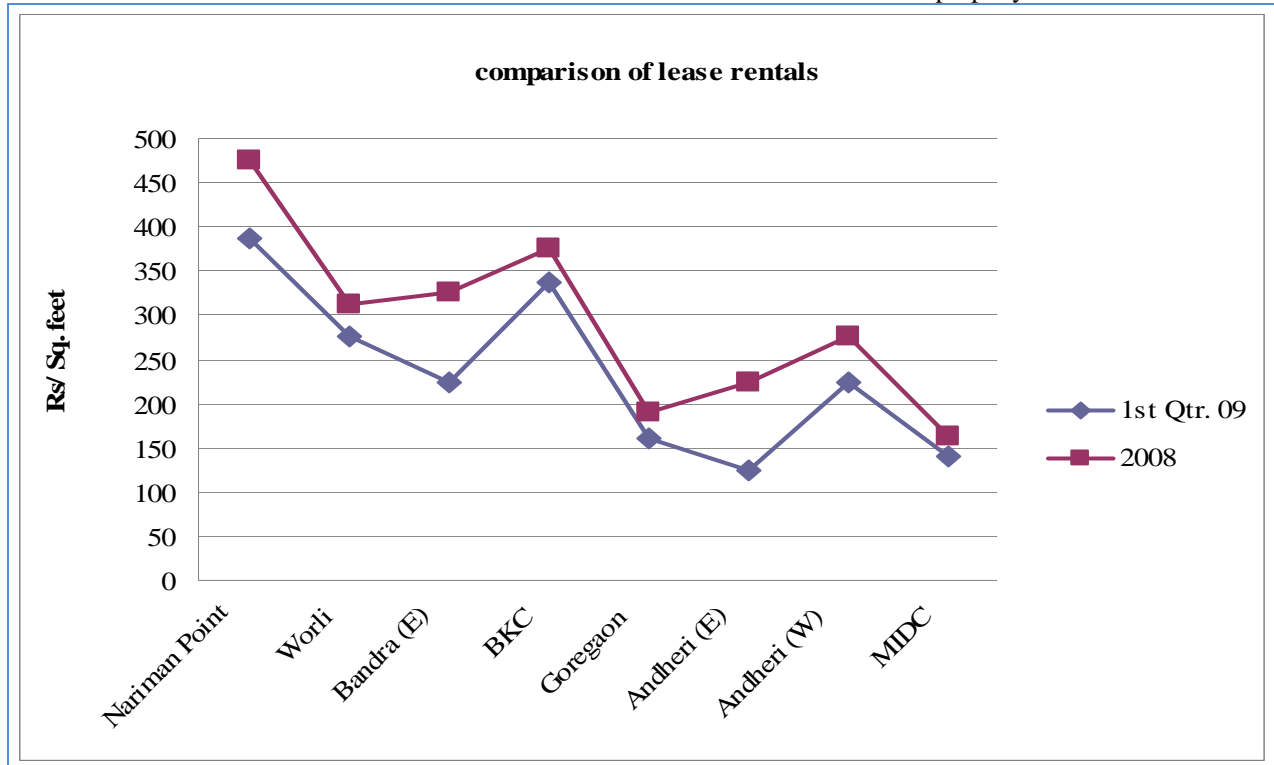
Rentals have fallen and that there have been few transactions in this segment. The gap between the asking rental and the final rental has also gone up. Somebody may demand Rs 300 a square feet in BKC and settle for Rs 225.

LOCATION	Nariman Point	Worli	Bandra (E)	BKC	Goregaon	Andheri (E)	Andheri (W)	MIDC
1st Qtr. 09	388	275	225	338	160	125	225	140
2008	475	313	325	375	190	225	275	163

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**CAPITAL VALUE**

The capital values of offices in IT Parks in Mumbai in SEEPZ and MIDC were between Rs. 10,000-16,000 per sq. ft. in the second quarter of 2008 and there seems to be a correction of around 13% this year due to fall in recession in IT jobs.

Capital Value:

**GRADE A**

LOCATION	COMMERCIAL (Rs. in '000)
Nariman point	16-30
Worli	12-18
Bandra (E)	10-15
BKC	15-20
Lower Parel	9-15
Andheri (E)	4.5-8.5
Andheri (W)	12-18
Powai	6-8
Malad	5-6.5



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### GRADE B

LOCATION	COMMERCIAL (Rs. in '000)
Nariman point	12-15
Worli	5.5-10
Bandra (E)	9-12
BKC	9-15
Lower Parel	6-12
Andheri (E)	2.5-4
Andheri (W)	6-7
Powai	4-5
Malad	2.5-3.5

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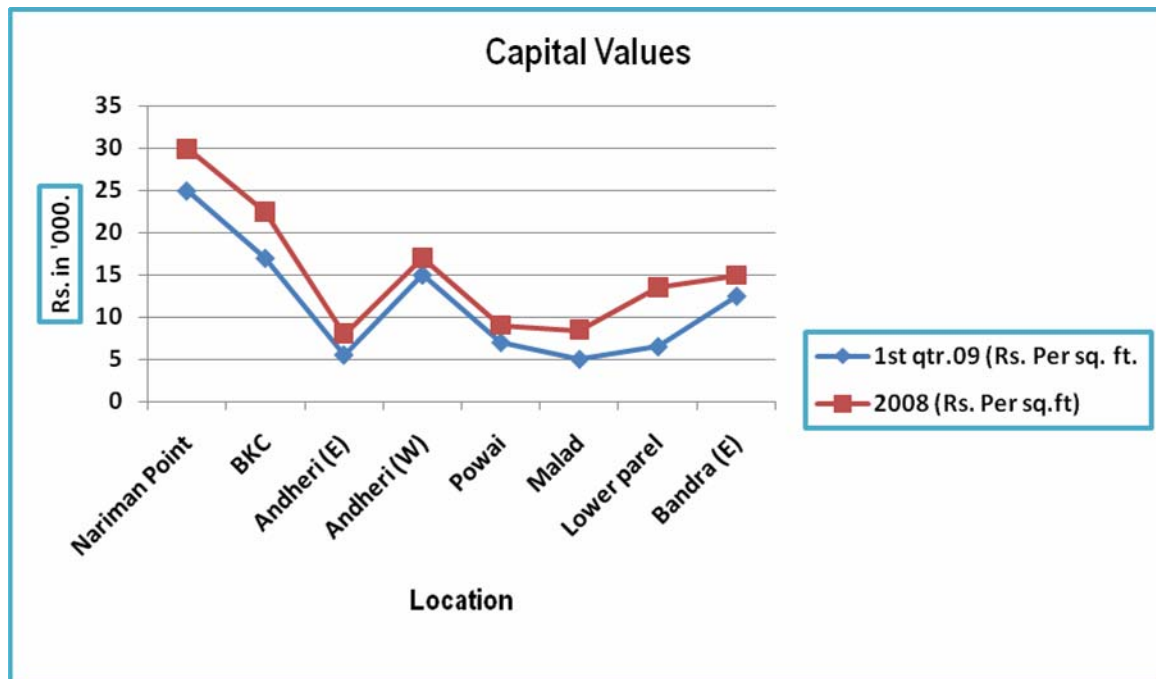
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All these rates quoted are subjected to change depending upon various factors i.e. the place, the anchor client, foreign client, demand for the product, product in physical. It very much depends on how much the developer is being able to bargain the rates looking at the current situation.

### Comparison of Capital Value



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**Demand**

- As seen in the year 2008 there was ample of supply of 7.5 million sq. ft. available but what was lacking was demand, which was only 4.5 million sq. ft. This has led to the fall in rentals and capital values in certain locations. This drop has even been seen in the prime locations of Mumbai such as BKC, Malad, Andheri (E), Lower Parel
- The demand we can see is emerging in the suburban areas of Wadala, Goregaon due to lower rentals.
- Demand for real estate comes major from the diamond merchants, people dealing in stock and the amount of liquid money available with the consumer. Now we see that the diamond sector, stock market is badly hit due to which the real estate market is going down.
- We expect that the demand of IT/ITES space will reduce by approximately 15-17% by 2009 in major locations of Andheri, SEEPZ and MIDC due to shifting of offices to Vashi, Navi Mumbai.

With the emergence of IT, ITES and BPO companies, demand for large commercial complexes has been created and they are mainly located at Malad-(W), Goregaon, Andheri-(E), Powai, etc.

The tax concessions given to Software Technology Parks are expected to end in 2009. The suspense about the continuation of the tax benefit will make IT/ITES companies to move to IT-SEZ. With the development of peripheral areas of Mumbai, for example, the Navi – Mumbai area including Vashi, it is anticipated that IT/ITES companies may move to these areas as the rental values are 30-35 percent less than that of Mumbai. Also an International Airport is being proposed in Navi-Mumbai, this will further lead to fleet of companies from Mumbai. All these can lead to sharp increase in the vacancy rate, specifically in the IT/ITES sector.

80% of the total constructed area of 4.5 million sq. ft. will be utilized for financial services, besides IT & ITES, of all upcoming IT parks and IT specific buildings in Mumbai. This development could create an unanticipated result for the demand for commercial space of Mumbai. The tax concessions given to Software Technology Parks are expected to end in 2009. Therefore, real estate developers are showing more interest for the SEZ space.

The Government has decided to give more attention to National Knowledge Centres by interconnecting all knowledge institutions through a digital broadband networks. We expect this to incite more demand for commercial space in IT/ITES.

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**Supply**

- As far as the supply is concerned it plays a major role in deciding the lease rentals.
- Supply to come up in this qtr. was around 8.9 million sq. ft.
- New supply has come to a stand still. Whatever supply is coming in the market is the completion of some old project which had been put to a standstill.
- As stated by one of the analysts of HDIL, the supply projected in the previous years were a prediction of whatever was done on papers but physically nearly only 20-30% of 8.9 million sq ft. is completed
- Supply is directly related to demand and here we see hardly any new demand for commercial places.
- Lease rentals which were to be prevailing in the year 2009 have gone down to 2011. There is no deal happening. Now it fully depends on the developer and the strength of his B/S whether he wants to hold on with his project or lease it out for negotiable rentals. If the developer has huge working capital and he may not sell it outright but would wait for the situation to be better.
- There is no land available in Mumbai so if there is any foreign client coming than definitely it is the existing top developers who will be approached and this will lead to extension of their earlier projects.
- As stated by one of the executives of Orbit Corp. supply coming up is because of the earlier projects which were put on hold. Hence the supply out rightly has increased 2 to 4 folds. Even Orbit Corp. has bought land and not started construction yet, reason being they are waiting for a suitable client who is in need of space. There is already oversupply and they do not want to add on to it much. He even stated that huge commercial hub is Nariman Point and BKC but now looking at the increased rentals and the oversupply in Lower Parel companies have started shifting to Lower Parel area.
- Lower Parel is catching up because it is coming up with all the necessary amenities as well as it is well connected and accessible by CBD, South Mumbai as well as suburbs. People staying in these areas are of mixed income group i.e. high income group as well as low income group people. Many foreign clients are coming in these. Hence we see that supply is increasing from 2 fold to 4 fold.
- Companies in areas like Nariman Point and BKC whose lease agreements are coming to an end, instead of renewing it are moving to areas with low rentals such as Lower Parel and suburban areas.

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Currently, out of the total supply of commercial space in Mumbai, about 40-45% is IT/ITES specific supply. We expect that by end 2009, IT/ITES specific supply to reduce to 30-35% of the total supply of 4.5 million sq. ft. There are not many IT Park-projects coming up in Mumbai as the place is already saturated.

The ongoing average vacancy rate is approximately 10-15%. We expect that the vacancy rate of IT Parks in Mumbai to increase to 25-30% by 2009.

The major locations of commercial space in Mumbai are Cuffe Parade, Nariman Point, Colaba, Churchgate, Fort, Ballard Estate, Tardeo, Worli, Mahalaxmi, Lower Parel, Prabhadevi, Dadar, Bandra, Santacruz, Vile Parle, Andheri, Malad, Powai, etc. Malad and Powai being the hot spot for IT offices.

Major IT/ITES companies like Accenture, Deutsche Bank, Infosys, Patni Computers, TCS, Wipro, World Network Services, etc are present in Mumbai.

The major supplies available in some areas are as follows:

LOCATION	SUPPLY
	in '0000 sq. ft.
Goregaon	196
Andheri (E)	250
Andheri(W)	22
BKC	104



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Lowerparel	290
Mulund	41
Kurla	150
Santacruz	655
MIDC	235
Nerul	100
Thane	102

\* All figures are subjected to change as per economic conditions.

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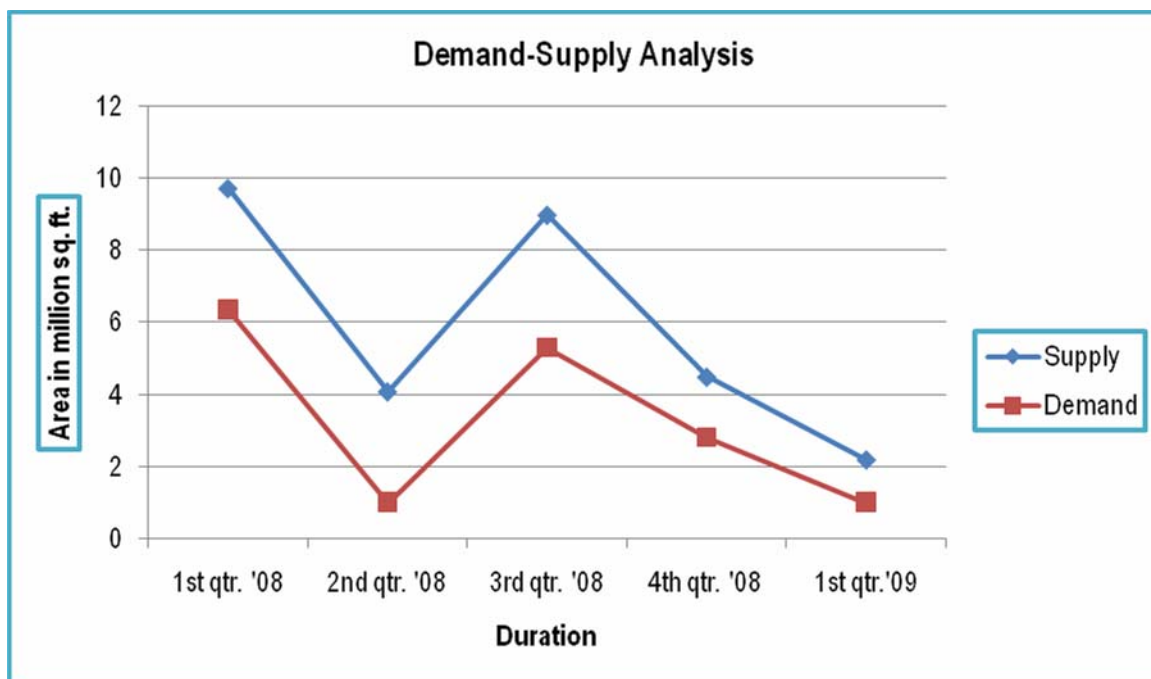
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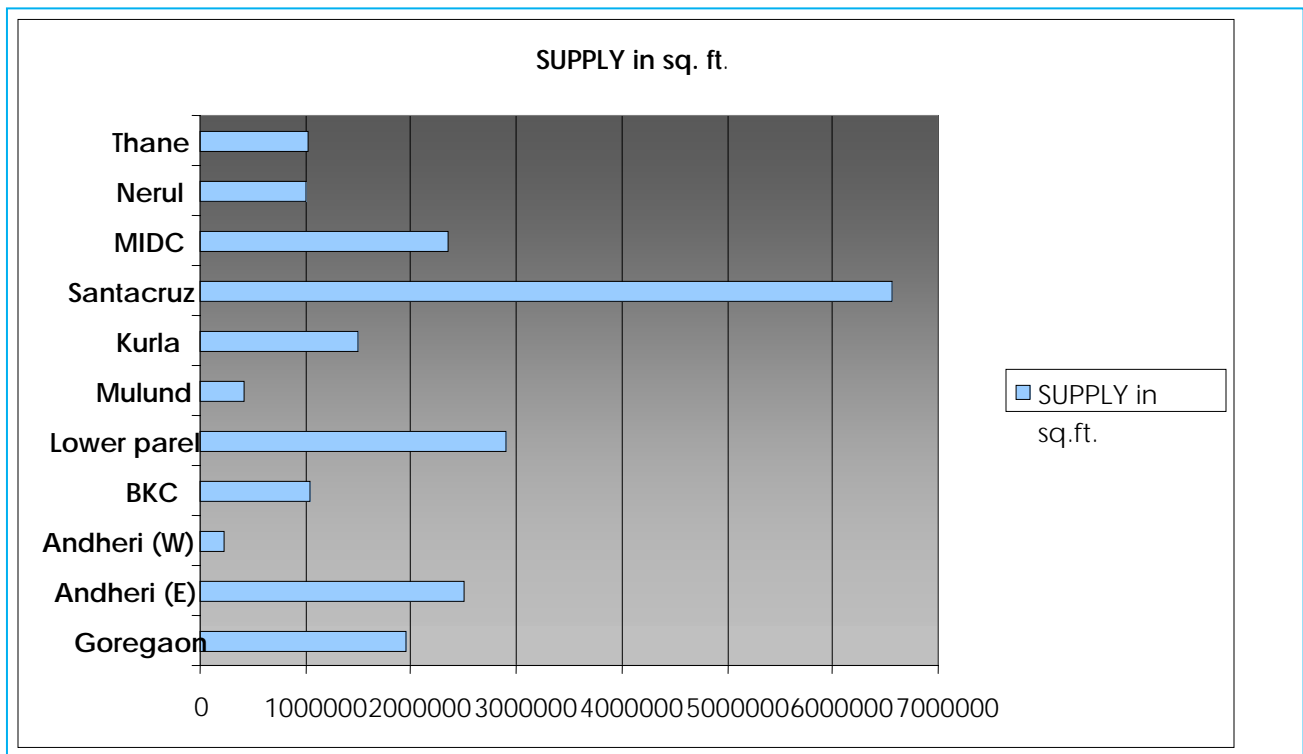
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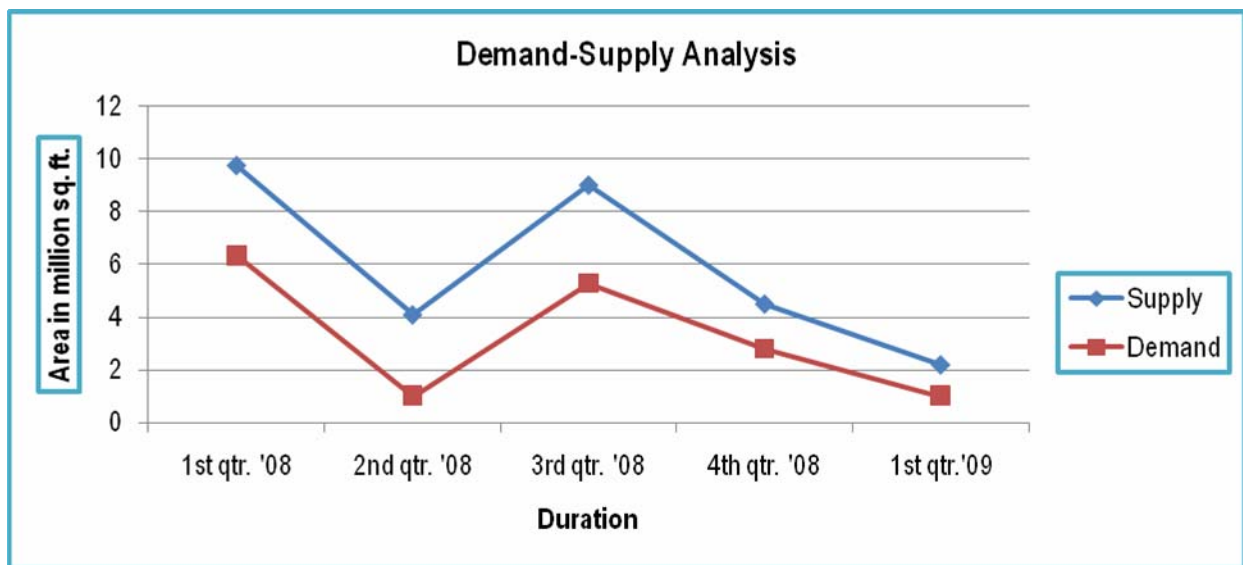


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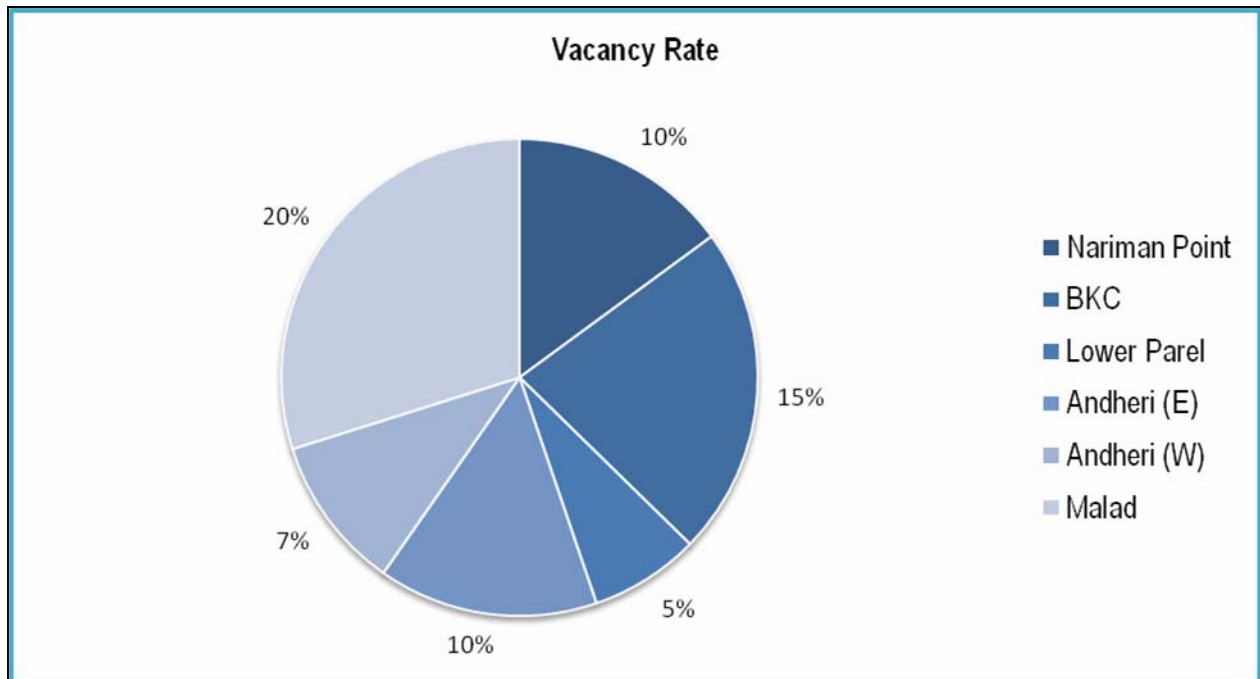
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**VACANCY RATE:**

- Vacancy rates have increased across all micro markets due to increase in lease rentals.
- Grade A buildings in Nariman Point, BKC are the ones which are hit the most
- In areas like Nariman point, BKC which had 100% occupancy rate are also experiencing vacancy to the extent of 8-9%.
- Places like Thane, Navi Mumbai, and Lower Parel have emerged as hot spots and have increasing occupancy rates. Occupancy Rates have increased from 70% to 85%.
- Vacancy Rate in Lower Parel, Andheri (E), Malad is to an extent of 12-15%. This is because of abundant supply available to an extent of 1 million sq. ft. and demand available to an extent of 400000 sq. ft.





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### LATEST TRANSACTIONS:

Project	Location	Area (sq. ft.)	Status
Akruti Sphere	Andheri (E)	313143	Upcoming
Akruti Topaz	BKC	64000	April '09
IRIS	Andheri (E)	650000	March '10
Akruti Star	MIDC	350000	December '09
DB Realty (Orchid Corporate Park)	Andheri (W)	850000	Upcoming
DB Centre	BKC	650000	Upcoming
Oberoi Commerz	Goregaon	700000	50% leased
Oberoi Chambers	Andheri (W)		
RNA Webfold	Santacruz	550000	Under Construction
RNA Petals	Goregaon (W)	646700	Under Construction
RNA BIZZ	Bandra (E)	200000	2011
RNA Corporate Park	Bandra (E)	200000	25% leased
Naman Chambers	BKC	135000	70-80% leased
Kalpataru Properties	Andheri (W)	2500000	80% leased



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Indiabulls (Elphinstone mills)	Lower Parel	1200000	Completed
Peninsula Centre	Lower Parel	91000	Under Construction
Peninsula Corporate Park	Lower park	1000000	
Peninsula Business Park	Lower Parel	550000	

*Source:* Northbridge Research

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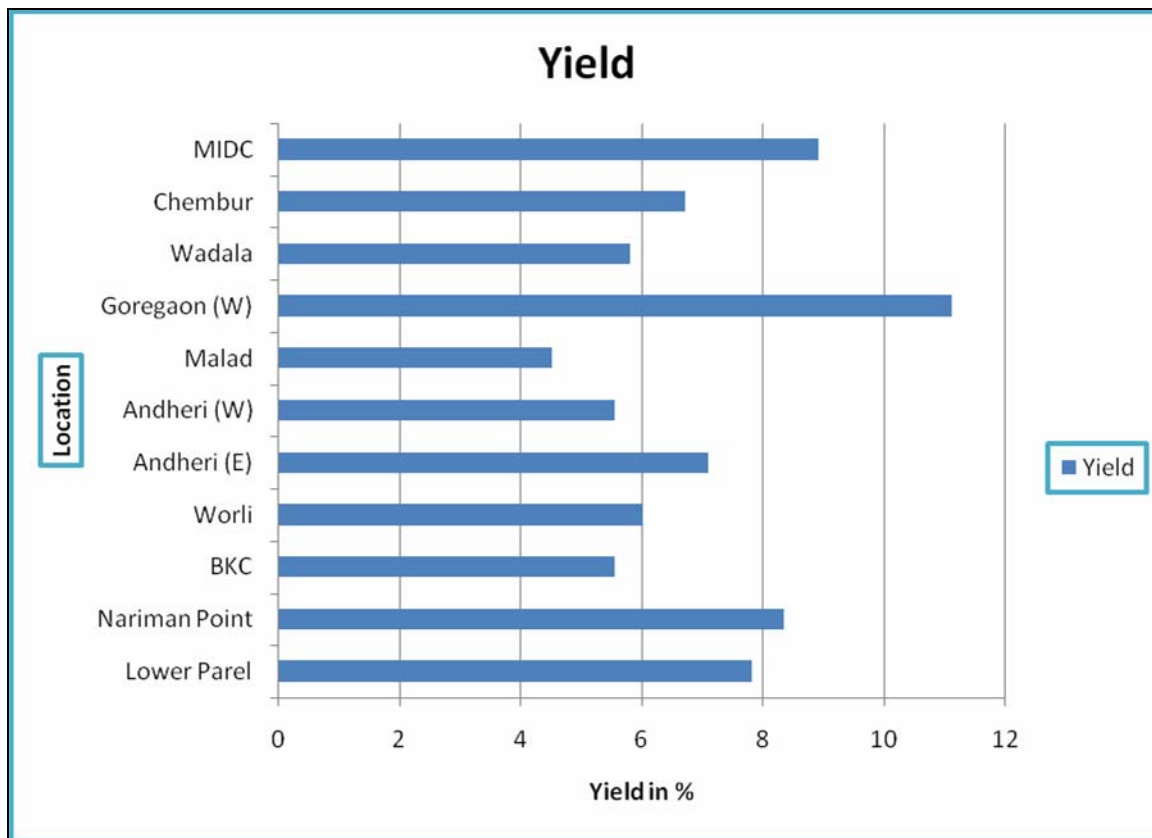
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YIELD

It is generally worked out on the total investment made for the project. After talking to many developers the conclusion comes out that on an average the yield expected by most of them is around 15-20% of their investment. Many of them think it to be too confidential to be disclosed.





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**OPINION**

Looking at the current situation I see most of the supply coming up in Bandra, Goregaon, Andheri (W). Though the work is at a slow process but it is expected to be come up in a year from now.

Total supply coming up in Mumbai is 4.5 million sq. ft. of which the demand is to an extent of 1 million sq. ft.



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