

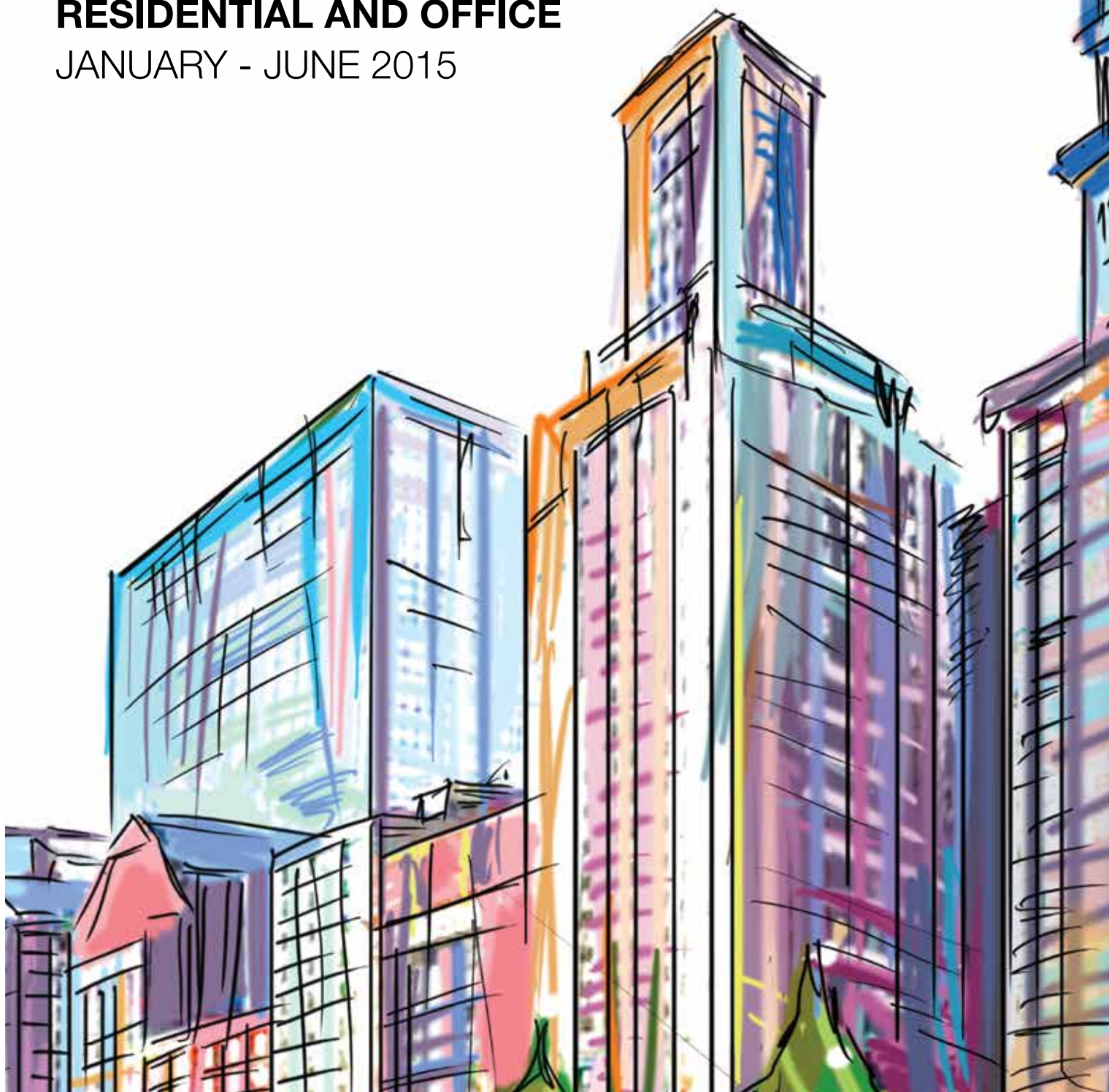
RESEARCH



# INDIA REAL ESTATE

**RESIDENTIAL AND OFFICE**

JANUARY - JUNE 2015



AHMEDABAD | BENGALURU | CHENNAI | HYDERABAD | KOLKATA | MUMBAI | NCR | PUNE



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# NATIONAL CAPITAL REGION

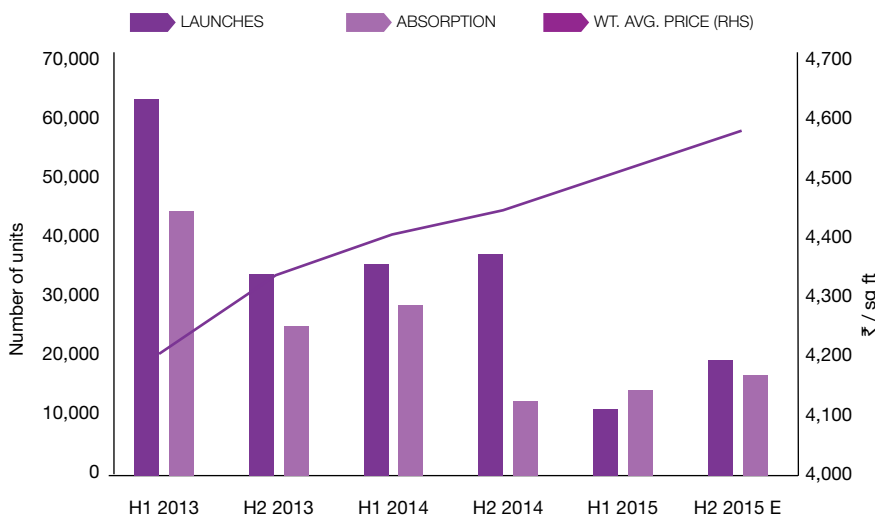
Residential & Office Market



## RESIDENTIAL MARKET

### LAUNCHES, ABSORPTION AND PRICE TREND

FIGURE 1  
NCR MARKET TRENDS



Source: Knight Frank Research

**NCR is now an end user-driven market – developers restrict new launches, while buyers carefully select clean projects.**

**Dropping by a stunning 68% in H1 2015, compared to the same period in 2014, new launches in NCR are at an all time low.**

- Predominantly an investor-driven market, NCR always showed a strong residential appetite, but the market bottomed in 2014. With investors not choosing real estate as an investment option and end users feeling let down by delayed projects, developers were pressed to restrict new launches during this half, resulting in the thinnest half-yearly supply observed in NCR.
- Registering a massive 68% drop from the same period in 2014, new project launches in NCR stood at 11,360 units in H1 2015.
- Policy fallacies such as the opening up of new land for development, allotment of group housing licences in areas with no infrastructure, project delays due to litigations and

the liquidity crunch, and stagnant incomes have affected NCR's real estate appetite adversely.

- The market refused to correct itself in the first half of 2015 and registered a YOY dip of 50%, with 14,250 units sold. However, if compared to the bottomed second half of 2014, there was an uptick of 18% in the sales volume.
- Residential projects under the Haryana government's Affordable Housing Policy 2013 contributed significantly to the new launches in NCR in H1 2015. Approximately 43% of the total new launches fall under this category.
- New developments, such as the clearing of the road construction challenges on Dwarka Expressway by the Punjab and Haryana High Court and the notification of operational guidelines for the implementation of the land pooling policy by the Ministry of Urban Development, are being watched closely by all stakeholders.
- Knight Frank research suggests that

**The largest residential market of the country is currently in a state of correction, with stakeholders staring at the piling-up inventory and bottomed-out sales velocity. While investors formed the major chunk of the market appetite in NCR till about two years ago, the demand today is driven mainly by end users looking for ready-to-move-in units. The stagnation in prices and slowdown in the real estate investment conversion cycle have filtered out short-term speculators from the market completely, while long-term investors are looking for a desperate exit.**

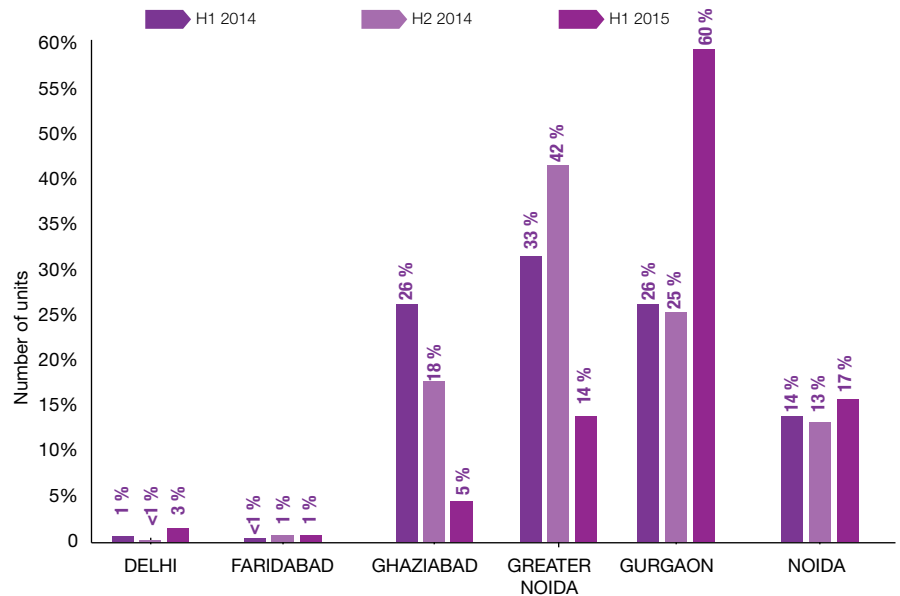
currently, the NCR market is primarily end user-driven with limited investor participation. Long-term investors who were with the developers over the 3–4 year construction period are now looking for an exit, owing to the depressed market sentiments. Stagnant prices and delayed project deliveries have contributed towards investors entering into a ‘distressed resale’ mode, as they are now offering to exit at a 15% to 20% discount than the primary market price.

- The growth rate of the weighted average price has been witnessing a downward trend since 2013, and has slowed down considerably, from 6% in H1 2013 to a mere 1% in H1 2015. This slump indicates that residential real estate is facing a strong price resistance against unattractive and unaffordable prices.
- We forecast this trend to continue in the coming six months and project the weighted average price in NCR to grow by 3% in H2 2015 compared to the same period last year.

## MICRO-MARKET SPLIT OF RESIDENTIAL LAUNCHES

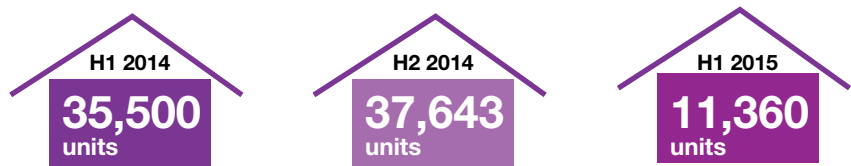
FIGURE 2

### MICRO-MARKET SPLIT OF LAUNCHED UNITS



Source: Knight Frank Research

**New launches in NCR have hit an all-time low with the thinnest ever half-yearly supply of residential units in H1 2015, 43% of which was fuelled by units launched under the Haryana government’s Affordable Housing Policy 2013.**



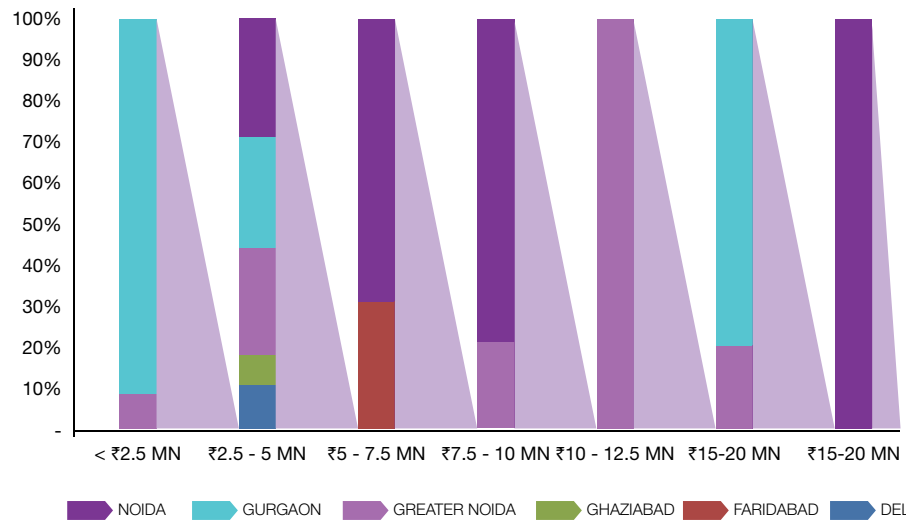
- New launches in NCR plummeted in the first half of 2015, with only 11,360 units launched in the country's largest residential market.
- Piling-up inventory and a low sales velocity have led developers to restrict the supply of new launches in this half.
- Of the new supplies added in H1 2015, most were in the 'affordable' segment, with a ticket size of less than ₹2.5 mn.
- Greater Noida continues the trend of having the maximum number of project launches in the affordable and mid-segment ranges, with 73% of the launched units falling in the ticket size of less than ₹5 mn.
- Zone L, Delhi, also saw launches in the ticket size of less than ₹5 mn in H1 2015.

## Gurgaon

- Backed by the Haryana government's Affordable Housing Policy 2013, Gurgaon skews the percentage share of new launches in NCR.
- The policy intends to build group housing projects of a predefined size via a private developer, which would be available to buyers at a predefined rate. The stipulated completion time for projects falling under this category is four years from the date of the approval of the building plan or the obtaining of the environmental clearance, failing which, there will be no renewal of the licence.
- The projects under this scheme are not charged with external development charges (EDC) and infrastructure development charges (IDC), thus making the homes more affordable than the private market.
- The scheme will help first-time homebuyers purchase a house in the expensive Gurgaon market and also give developers some traction in the current market slowdown.

FIGURE 3

### TICKET SIZE SPLIT OF LAUNCHES DURING H1 2015



Source: Knight Frank Research

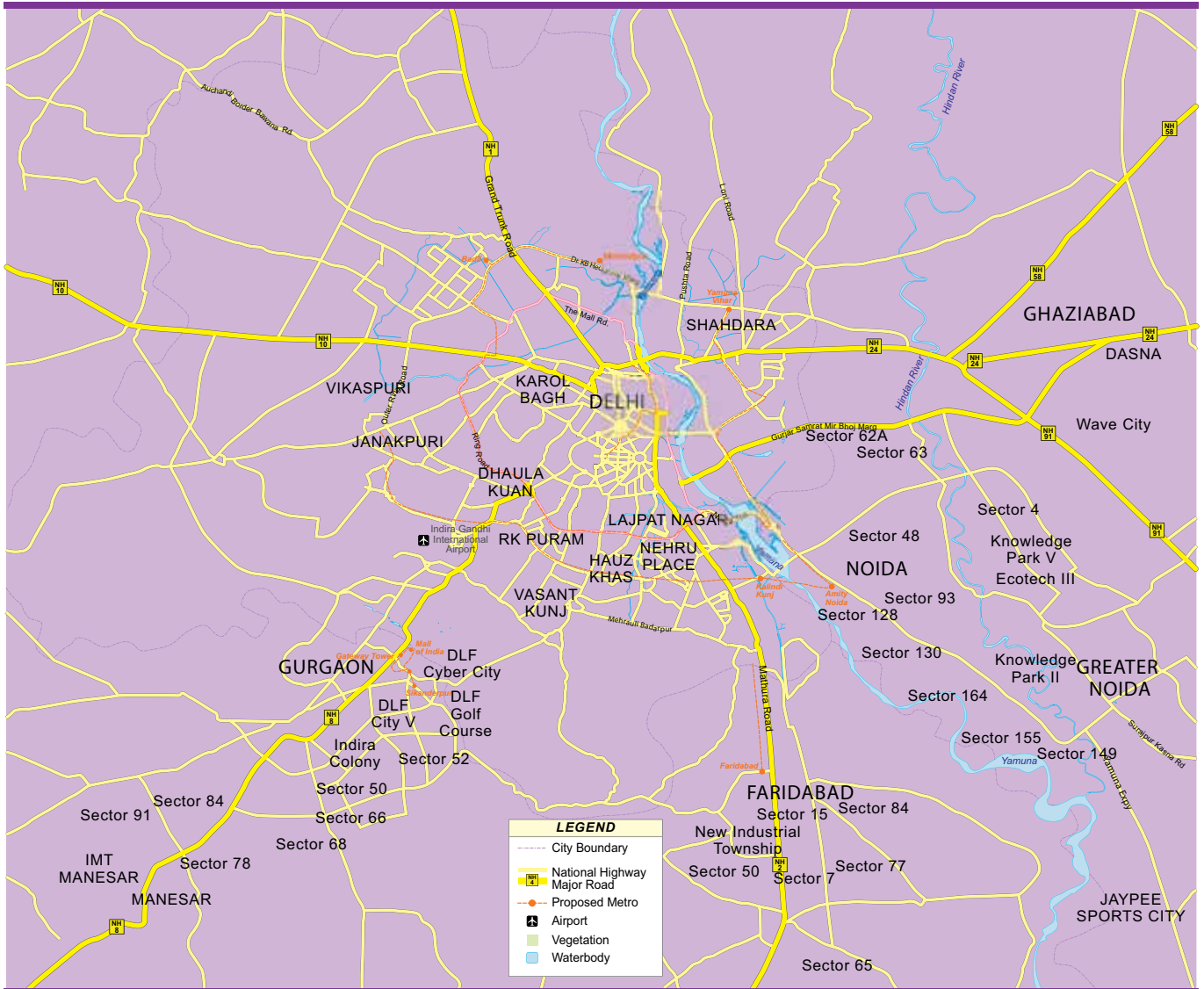
- The easing of litigations on the 18-km long Dwarka Expressway signalled a positive sign for the Gurgaon market. The area saw a few launches by prominent developers in H1 2015.

## Noida

- H1 2015 sees a further downward trend in new project launches in Noida, registering a 60% drop from the same period in 2014.
- The National Green Tribunal (NGT)'s stay on new constructions within a 10-km radius of the Okhla Bird Sanctuary, and the halting of construction activity in some areas of Noida Extension have slowed the pace of the Noida market severely.
- However, with the government clearing the revised draft of the Okhla green zone in H1 2015, Noida can expect some traction in new launches and project deliveries in the coming quarters.

**Taking cognisance of a market plagued by the subdued sales velocity and an inventory overhang of approximately 189,678 unsold units, cash-crunched developers in NCR have shifted their focus to the completion of in-hand projects instead of launching new ones.**

## NATIONAL CAPITAL REGION MAP

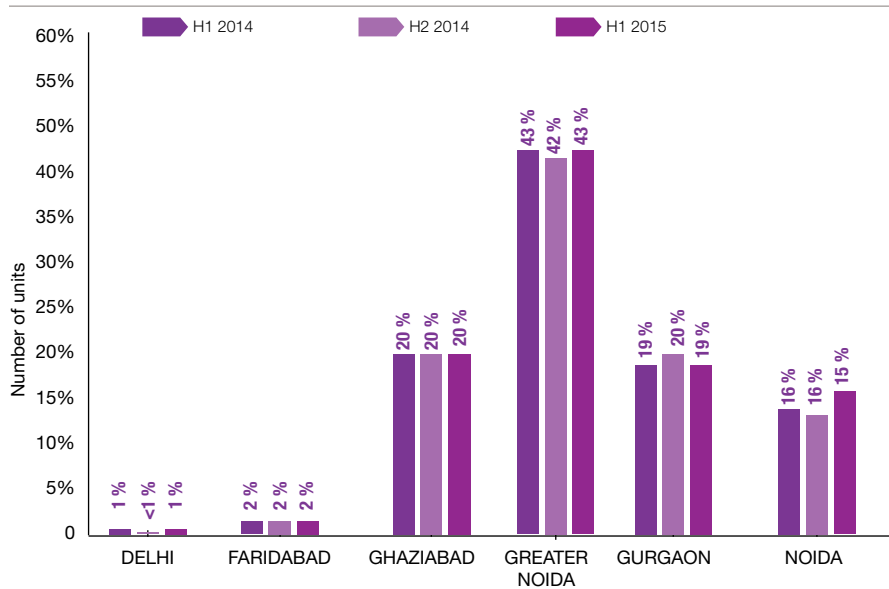


## MICRO-MARKET-WISE RESIDENTIAL SALES

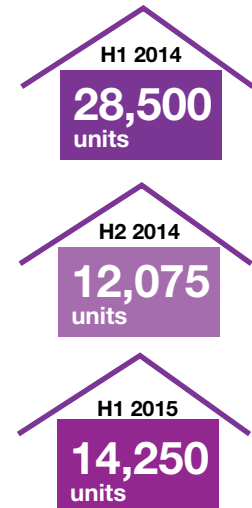
- Approximately 14,250 units were sold in the first half of 2015, compared to 28,500 units in H1 2014, thus registering a YoY drop of 50%. The sales volume remained muted and the percentage share of the micro-market showed negligible deviation from the past quarters.
- Along with the impact of macroeconomic factors, delays in the delivery of some major large-scale projects have put the buyers on the back foot.
- As some of these projects failed to deliver on time, areas such as Noida Expressway and Dwarka Expressway have started to look like ghost cities, with abysmally low occupancy. These project deliveries would have acted as anchors and induced end users to shift there.
- Our survey findings suggest that, while purchasing fresh property, buyers are making repeated site visits to check the progress of the projects, and are also likely to get more attracted to a developer with a good project delivery record. On the other hand, investors are looking for a desperate exit, which is giving the resale market substantial momentum.

FIGURE 4

**MICRO-MARKET SPLIT OF SALES**



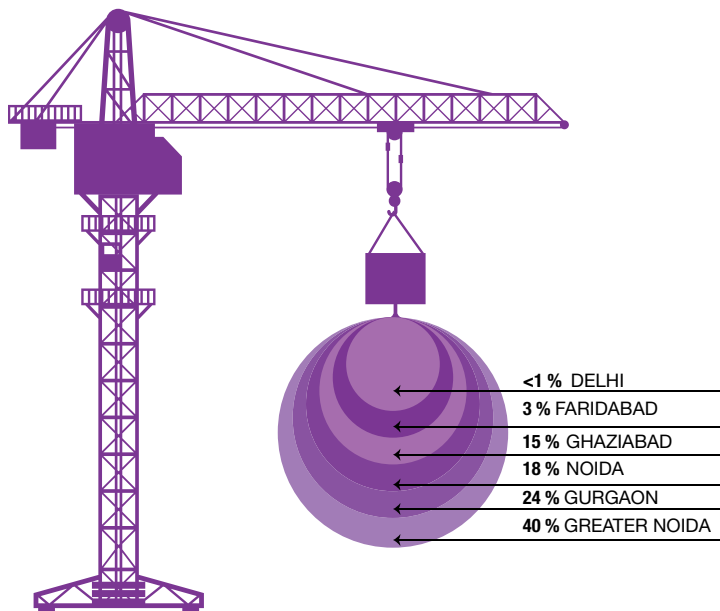
Source: Knight Frank Research



**MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS IN H1 2015**

FIGURE 5

**MICRO-MARKET SPLIT OF UNDER-CONSTRUCTION UNITS AS OF JUNE 2015**



Source: Knight Frank Research

- The bulk of the under-construction inventory is lying in the micro-markets of Greater Noida, Gurgaon and Noida.
- A significant 30% of the under-construction inventory in these micro markets was launched in 2009–10.

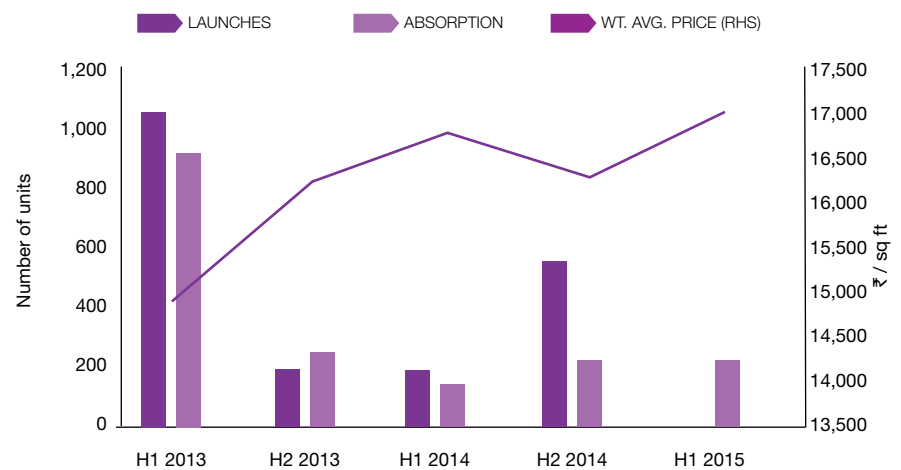
The looming uncertainty over project deliveries and the unaffordability of the existing supply have depressed buyer sentiments in NCR, leading to a bottomed-out sales velocity. Today, the market dynamics are such that they have restrained short-term speculators from making quick returns from real estate investments, while also cautioning long-term investors due to the muted price growth.

## PREMIUM RESIDENTIAL MARKET LAUNCHES, ABSORPTION AND PRICE TRENDS

Micro-market	Premium locations
Gurgaon	Sectors 42, 53, 54, 58, 59, 65, Gurgaon Faridabad Road
Noida	Sectors 16 B, 100

FIGURE 6

### PREMIUM MARKET TRENDS



Source: Knight Frank Research

**Note:** Premium markets include locations where the average ticket size of a residential unit is above ₹30 mn, are in close proximity to the central business district of the city and have witnessed new project launches in the preceding three years

The cooling off of prices and no new launches in the premium segment bear testament to the slump in the high-priced premium segment in NCR, which has been affected on both, the demand and supply sides in the current market scenario. Investors, comprising the majority of premium homebuyers, have either moved to the mid-income housing segment because of more pronounced exit options, or are looking abroad for places that promise huge returns.

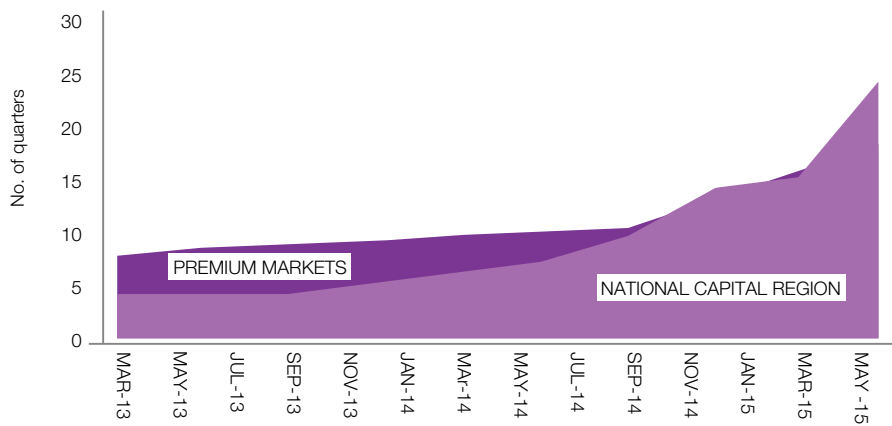
- The NCR agglomeration comprises five micro-markets, namely Delhi, Gurgaon, Noida, Greater Noida, Faridabad and Ghaziabad, of which Gurgaon and Noida are seen as premium markets.
- While developers curtailed new project launches in the affordable and mid-segment categories, no new launches were seen in the premium category in H1 2015. This indicates that due to weak demand, developers are looking to exhaust the current inventory instead of blocking capital in high ticket size projects.
- The trend shows that the demand for properties above ₹30 mn has declined considerably in NCR since 2013. Sales have dropped from 918 units in H1 2013 to 215 units in H1 2015, which is indicative of the overall market sentiment.
- Our survey findings suggest that investors in NCR have either moved to the mid-income housing segment because of more pronounced exit options, or are looking abroad for places that promise huge returns.
- Reflecting the overall market sentiment, the weighted average price growth in the premium segment remains muted in H1 2015. However, premium locations such as Sectors 42 and 53 in Gurgaon saw a 15%–19% price appreciation in H1 2015 over the same period in 2014. These sectors constitute the core of Golf Course Road in Gurgaon and have emerged as premium residential hub addresses. Rapid infrastructure development, such as the rapid metro extension, has also contributed to the surge in weighted average prices.



## NCR MARKET HEALTH

FIGURE 7

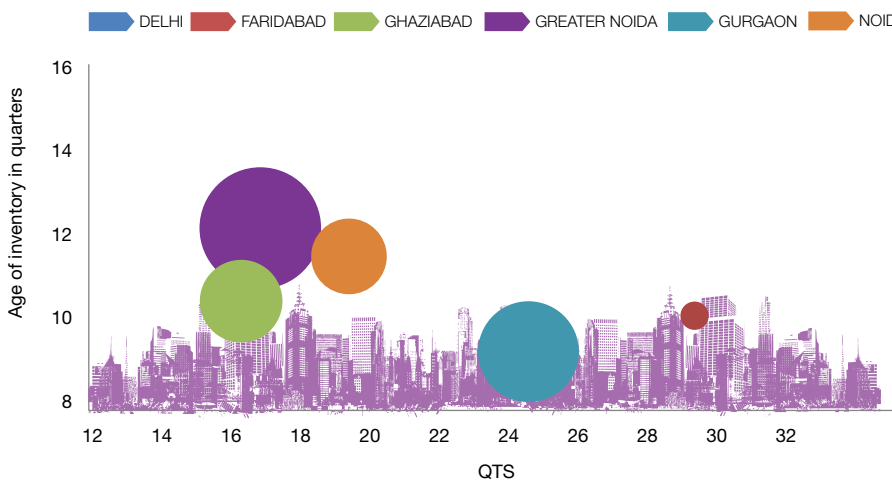
### QUARTERS TO SELL (QTS) UNSOLD INVENTORY ANALYSIS



Source: Knight Frank Research

FIGURE 8

### MICRO-MARKET-WISE QTS VS AGE OF INVENTORY



Source: Knight Frank Research

**Note:** The size of the bubble indicates the quantum of unsold inventory

- The quarters to sell unsold inventory (QTS) is the number of quarters required to exhaust the existing unsold inventory in the market. The existing unsold inventory is divided by the average sales velocity of the preceding eight quarters in order to arrive at the QTS number for that particular quarter. A lower QTS indicates a healthier market.
- NCR has moved from a QTS of 14 to 19 in a six-month period. Though H1 2015 was the leanest half in terms of new launches, the absence of sales velocity has pushed the QTS to nearly 5 years. The unsold inventory stands at approximately 189,678 units till June 2015. The opening up of new land parcels for development while the existing ones were still not fully utilised is seen as one of the reasons behind the inventory pileup in NCR.
- Faridabad is the unhealthiest market in NCR, with a QTS of 29, followed by Gurgaon and Noida at 24 and

Today, India's largest residential market is looking at an unsold inventory of 189,768 units – the highest in the country. Arising from a QTS of 8 quarters in 2012, the market is currently witnessing an inventory overhang that will take nearly five years to get fully absorbed at the current pace. The market became overly bullish with a flurry of new project launches and headed for oversupply in 2010–2012. However, demand did not keep pace with the supply, which led to the burst of the NCR residential market bubble.

19 quarters, respectively. The QTS of Gurgaon has increased from 13 to 24 in only two quarters owing to the declining sales velocity of the preceding eight quarters.

- Backed by consistent end user demand, Ghaziabad is currently the best performing market in NCR, with the lowest QTS of 16.

## PRICE MOVEMENT DURING H1 2015

- The fact that there has been no major price increase in the last four quarters is reflective of the fact that NCR is witnessing a price correction. Muted sales velocity and piling up inventory pressure have contributed to the stagnation of prices in NCR.
- Prices in the micro-market of

Gurgaon have hit a plateau and show no scope for further increase in the near term. Since the conversion cycle of a residential real estate investment in Gurgaon has slowed down considerably, it has filtered out short-term speculators looking for quick returns. Even long-term

investors are finding it difficult to make an exit as per their expected rates, given the current sentiment.

- The price stagnation has also affected the premium segment, with negligible deviations from the preceding quarters.

**Short-term speculator interest resulted in the inflation of property prices in NCR, making them unaffordable and unattractive for buyers. With no scope of further increase, the price growth in NCR has remained muted in the last two years, signalling strong price resistance towards the market. While the supply side is reeling under rising construction and land and labour costs, the demand-side sentiments are hit by looming uncertainty over economic growth, jobs and increase in income.**

### Weighted average price movement in NCR

Location	Price range in H1 2015 (₹/sq ft)	12 month change	6 month change
NCR	4,511	3%	1%
Premium markets	17,133	1%	4%

### Price movement in select locations

Location	Micro-market	Price range in H1 2015 (₹/sq ft)	12 month change	6 month change
Yamuna Expressway	Greater Noida	3,295–3,557	3%	0%
Sector Chi V	Greater Noida	3,448–3,514	1%	0%
Sector Pi	Greater Noida	3,545 – 3,576	2%	0%
Sector 16 B	Greater Noida	3,444–3,497	0%	1%
Sector 78	Noida	5,600–5,627	2%	-2%
Sector 70	Noida	4,000–4,083	0%	0%
Sector 100	Noida	6,600–7,750	14%	0%
Sector 117	Noida	4,850–4,905	0%	0%
Sector 131	Noida	5,900–6,000	2%	0%
Sector 48	Gurgaon	13,400–13,900	-6%	-6%
Sector 49	Gurgaon	11,000–11,600	5%	1%
Sectors 42, 53	Gurgaon	18,000–28,000	18%	19%
Sector 67 A	Gurgaon	8,100–8,990	3%	1%
Sector 82	Gurgaon	7,198–7,264	-1%	-1%
Sector 103	Gurgaon	5,000–5,300	1%	0%
Sector 113	Gurgaon	5,000–5,300	1%	0%
NH-24 Bypass	Ghaziabad	2,760–2,806	1%	3%
Raj Nagar Extension	Ghaziabad	2,800–2,873	1%	1%
Crossings NH-24	Ghaziabad	3,200–3,242	4%	1%
Sector 37	Faridabad	7,900–8,000	0%	0%
Sector 75	Faridabad	3,550 – 3,600	-2%	-3%
Sector 87	Faridabad	3,448–3,600	-6%	-5%

Source: Knight Frank Research

## OUTLOOK FOR THE NEXT SIX MONTHS

Projections	H2 2014	H2 2015E	Growth
Launches	37,643	18,000	-52%
Absorption	12,075	15,000	24%
Weighted average price (₹/sq ft)	4,444	4,570	3%

Source: Knight Frank Research

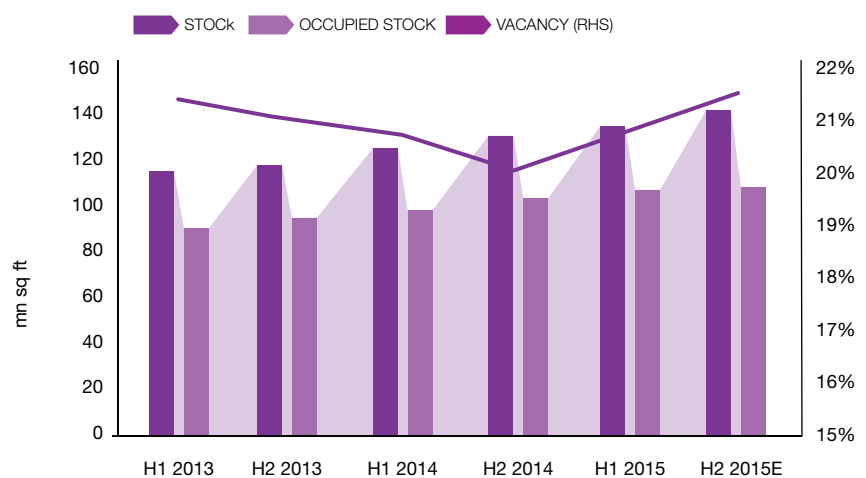
- The realty market in NCR will continue to remain muted in the second half of 2015. However, the sales volume in H1 2015 has shown an increase of 18% from the bottomed H2 2014. Knight Frank estimates sales to plug around 15,000 units in the coming two quarters.
- Taking cognizance of the market, developers will keep new launches in check in the second half of 2015. We estimate new launches to stay below 20,000 units in the second half, with stagnation in the weighted average prices.
- The dynamics of the NCR market have changed from being investor driven to an end user-driven market, and so, a residential project with no supporting infrastructure facilities will find limited buyers.
- The delays in projects have made buyers cautious of defaulting developers. Till they are fully convinced, the buyer will continue to assess the project and the developer before purchasing the property, and this is where the developer's brand and credibility will come into play.
- On the supply side, 'habitation plans' and 'customer experience centres' are being considered seriously, to pull the buyer to the project. Reworking their marketing strategies, developers are going back to the basics. Value addition of every penny spent has become the new sale mantra of some developers.
- The current market trend has filtered out short-term speculators from the NCR market, and is also slowly filtering out unprofessional developers.
- The real estate momentum in NCR will also be dependent on the related infrastructure developments. Recent developments, such as the clearance of the Dwarka Expressway litigation in Gurgaon, have had a positive impact on the market. With the 18-km expressway now completely litigation free, buyer interest in the zone is expected to revive, making some of the projects good investments.
- In Noida, the redefining of the Okhla green zone has given much-needed relief to buyers and developers in the area. The move is seen to boost the market sentiment; it can now expect some traction in the coming quarters.

**To boost the demand side, developers will have to reconnect with the buyers. 'Habitation plans' and 'customer experience centres' are going to trend, giving more importance to buyers. More significant, delivering committed projects will revive consumer confidence. Along with mainstreaming the project execution, developers that are launching in the right price band will see some traction in the coming quarters.**

## OFFICE MARKET

### STOCK, NEW COMPLETIONS, ABSORPTION AND VACANCY TRENDS

FIGURE 1  
NCR OFFICE SPACE STOCK AND VACANCY LEVELS



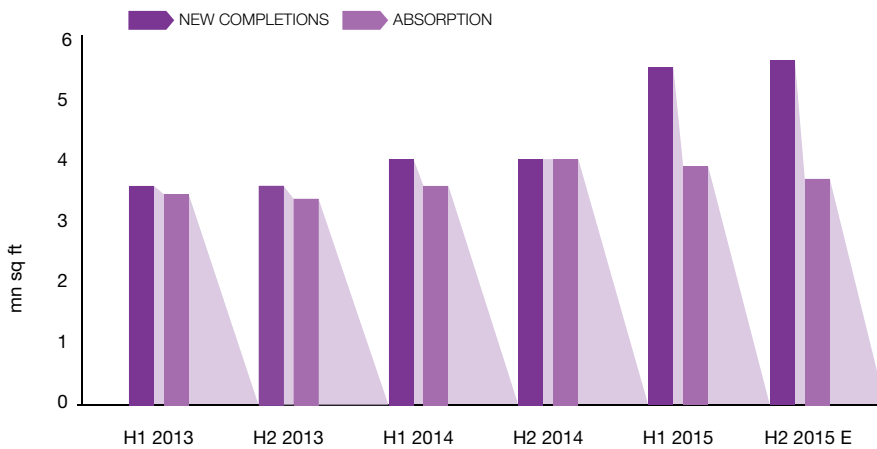
Source: Knight Frank Research

**Driven by corporate demand, the NCR office market absorption fared well and clocked 3.7 mn sq ft in the first half of 2015. However, new project completions pushed the vacancy levels to 20.7% in H1 2015.**

- The office stock in NCR stood at 132 mn sq ft till the end of June 2015, of which 104 mn sq ft is the occupied stock.
- The influx of pent-up project completions in the first half has been instrumental in nudging the vacancy levels from 20% in H2 2014 to 20.7% in H1 2015, with micro-markets such as Faridabad and Greater Noida contributing significantly to the new supply.
- On the demand side, office leasing in NCR saw a marginal increase of 6% in H1 2015, compared to the same period in 2014. The absorption reflects the subdued market sentiments and also follows past trends of leasing in the close range of 3.4–3.6 mn sq ft in the first half of the calendar year.
- Since the occupiers strategize their real estate demand in the first half of the year, action on expansion plans and consolidation takes place in the second half.
- Approximately 53% of the new completions in H1 2015 were either pre-committed or have come up in the peripheral business districts of Greater Noida and Faridabad.

FIGURE 2

NEW COMPLETIONS AND ABSORPTION

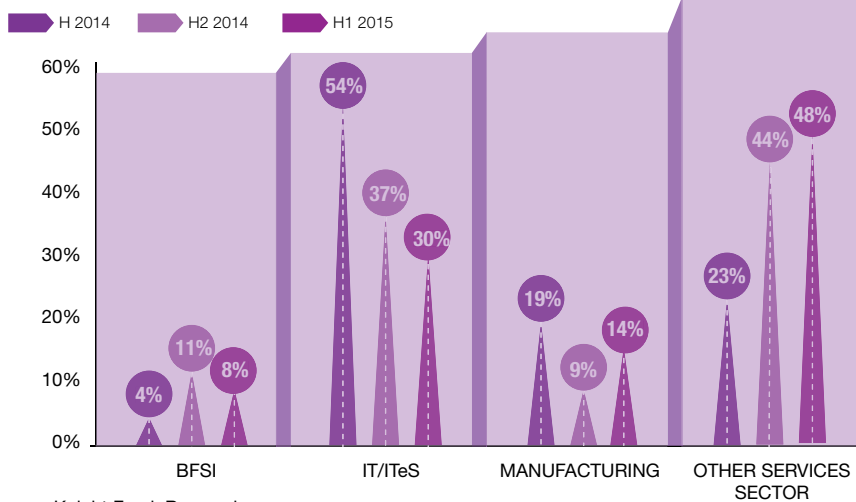


Source: Knight Frank Research

SECTOR ANALYSIS

FIGURE 3

SECTOR-WISE SPLIT OF ABSORPTION



Source: Knight Frank Research

Note: \* BFSI includes BFSI Support Services

The other services sector was seen to drive the office space demand in NCR during this half. Backed by strong leasing from consulting and e-commerce companies, the sector is slowly outpacing IT/ITeS in the overall market share. The change in the dynamics of the IT sector is responsible for its slowdown, which is increasingly emphasising on automation, which, in turn, is leading to a slowdown in hiring by larger IT firms, thus getting translated into dull demand and cautious moves for large office spaces.



Source: Knight Frank Research

- With corporate demand picking up, the IT/ITeS sector in NCR continues to lose out to the other services sector in H1 2015.
- The other services sector was seen to drive office space demand in NCR during this half, backed by strong demand from consulting and e-commerce companies. E-commerce has been considered as a part of the other services sector, since retail is the driving factor behind the business. Witnessing fast-paced growth, the sector made a massive threefold jump in the total

transacted space and moved from a total leasing of 0.2 mn sq ft in H1 2014 to 0.6 mn sq ft in H1 2015.

- Starting from a 6% share in the overall transacted space in H1 2014, e-commerce accounted for 16% of the half-yearly absorption in H1 2015. Snapdeal, Zomato, Lenskart, Expedia, MakeMyTrip and PropTiger are among the major occupiers in H1 2015.
- Another segment that saw growth in terms of transacted space was the BFSI sector, with the average size of transactions increasing from

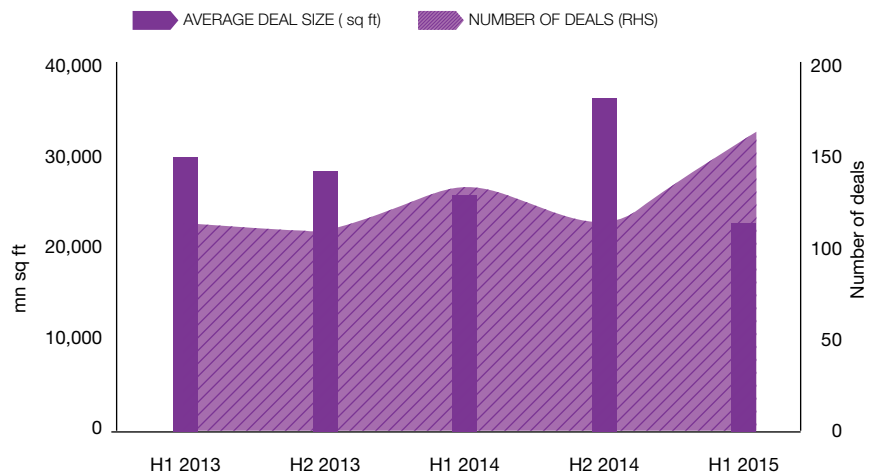
19,600 sq ft in H1 2014 to 33,900 sq ft in H1 2015. Take-ups by financial institutions such as the State Bank of India (SBI), American Express and HSBC contributed significantly to the sector's demand in this half.

- IT/ITeS saw a dip of 42% in the overall transacted space in H1 2015, compared to the same period in 2014. In terms of percentage share in the overall NCR transacted space, the sector is seen to be losing to the other services sector.

## DEAL SIZE ANALYSIS

FIGURE 4

### AVERAGE DEAL SIZE AND NUMBER OF DEALS



Source: Knight Frank Research

**Backend offices and small ticket size transactions in the range of 5,000–12,500 sq ft dominated the market activity in NCR in H1 2015. However, a few large-sized transactions by e-commerce companies, such as 0.5 mn sq ft by Snapdeal and 0.1 mn sq ft Zomato, pushed up the overall absorption levels in the first half of the year.**

- Small-size transactions in the range of 5,000 – 12,500 sq ft dominated the leasing activity in NCR in H1 2015. Though the first half of the year saw a 23% spike in the number of deals, there was a decline in the average deal size, which came down to 21,800 sq ft from 25,600 sq ft in H1 2014, owing to more demand from back-end offices.
- However, some large-ticket size deals took place in the office market as well, such as Snapdeal, which took up approximately 0.5 mn sq

ft in Udyog Vihar in the peripheral business district of Gurgaon.

- Gurgaon also leads in the tally of the number of deals, with 59% of the 169 deals in H1 2015, followed by 51 deal conversions in the central and peripheral business districts of Delhi.
- With cautious sentiments and emphasis on consolidation, the IT/ITeS sector observed a 42% drop in the average transaction size in H1 2015, plummeting to 36,500 sq ft from 62,800 sq ft, compared to the same period in 2014.

## Select transactions

Location	Building	Company	Approx. area (sq ft)
Udyog Vihar	ASF Centre, ASF Tower	Snapdeal	500,000
Golf Course Road, Gurgaon	One Horizon Centre	American Express	122,731
Golf Course Road	One Horizon Centre	Zomato	122,000
Sector 132, Noida	Express Trade Tower 2	Oracle	97,534
Sector 62, Noida	Okaya Blue	Kronos	70,000
Sector 127, Noida	Logix Techno park	Jubilant Life Sciences	67,000
Noida-Greater Noida Expressway	Stellar 135	Genpact	60,000
Sector 39, Gurgaon	Unitech Cyber Park	UnitedHealth Group	60,000
Mathura Road	Vatika Mindscapes	Larsen & Toubro	50,000
Saket	Religare	Amarchand & Mangaldas	44,000
Connaught Place	Red Fort Capital	State Bank of India	42,000
Sohna Road	Vatika Business Park	Tata Consultancy Services	40,000
Sohna Road	Bestech Business Tower	Convergys	40,000
DLF Cyber City	DLF Building 5C	Expedia	32,000
DLF Cyber City	DLF Building 8A	Bain India	23,210
NH-8, Gurgaon	Signature Tower	Knight Frank India	15,000
Golf Course Road, Gurgaon	One Horizon Centre	HKS India Design Consulting	10,000
Connaught Place	PTI Building	Bloomberg India	8,184

Source: Knight Frank Research

## BUSINESS DISTRICT ANALYSIS

### Business district classification

Business districts	Micro-markets
CBD Delhi	Connaught Place, Barakhamba Road, Kasturba Gandhi Marg and Minto Road
SBD Delhi	Nehru Place, Saket, Jasola, Bhikaji Cama Place, Mohan Cooperative and Aerocity
PBD Gurgaon Zone A	MG Road, NH-8, Golf Course Road and Golf Course Extension Road
PBD Gurgaon Zone B	DLF Cyber City, Sohna Road, Udyog Vihar and Gwal Pahari
PBD Gurgaon Zone C	Manesar
Noida	Sector 16, 18, 62, 63 and Noida-Greater Noida Expressway
Faridabad	Sector Alpha, Beta, Gamma and Tech Zone

**While commercial office demand drove leasing in the peripheral business district of Gurgaon, Noida continues to be a preferred office space for the IT/ITeS sector. The central business district of Delhi was in demand once again for back-end offices of institutional occupiers who prefer to stay close to government offices.**

## BUSINESS DISTRICTS OF NCR

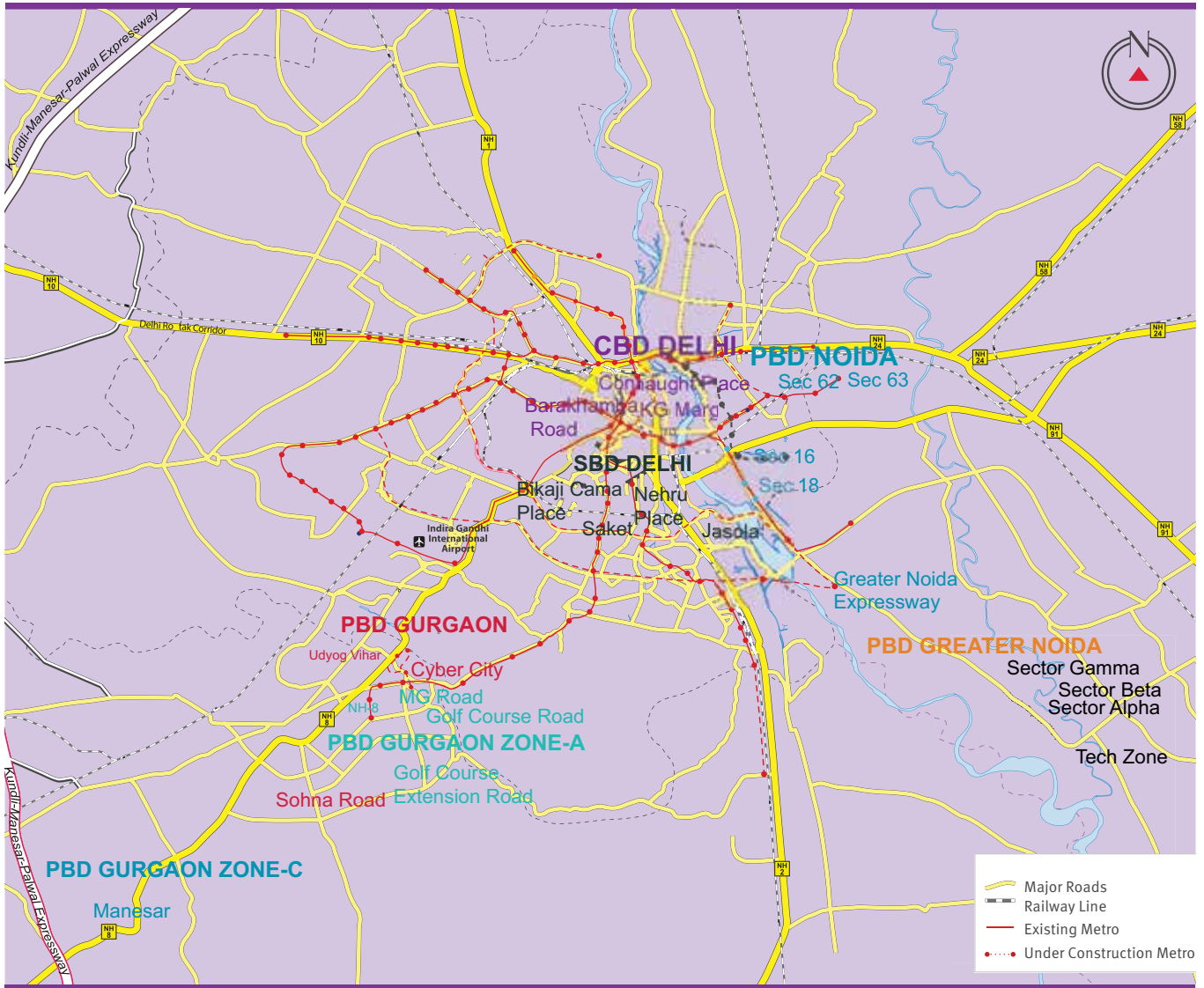
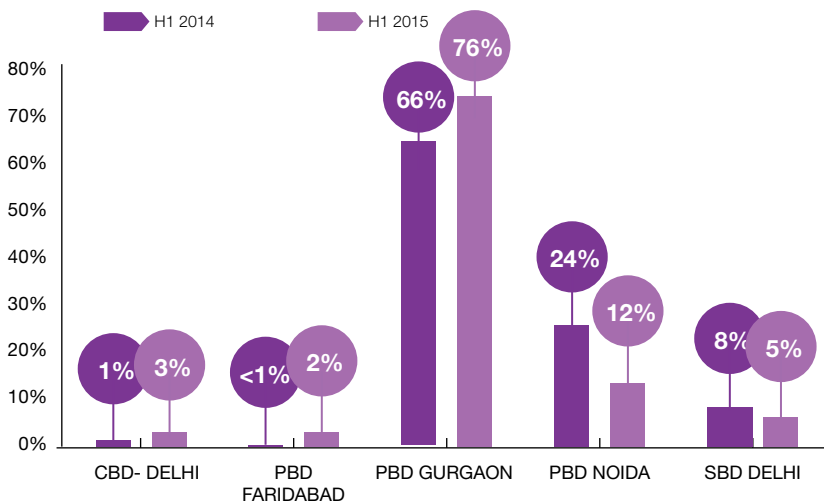


FIGURE 5  
BUSINESS DISTRICT-WISE ABSORPTION SPLIT



Source: Knight Frank Research



## Gurgaon

- PBD Gurgaon outperformed the leasing activity in NCR yet again, with a 76% share from the overall pie of 3.6 mn sq ft in H1 2015. The robust leasing in the business district led to a 20% increase in the overall transacted space in the first half of 2015, compared to H1 2014.
- The market also registered an increase of 16% in the number of deals over the same period in 2014, with a marginal decline in the average transaction size.
- Quality office spaces with associated infrastructure is driving the leasing activity in Gurgaon and making it a preferred office address for occupiers, especially corporates.

## CBD and SBD Delhi

- CBD and SBD Delhi show an upward trend in absorption levels, compared to the preceding quarters. The number of transactions saw a major jump in Delhi's central business district (CBD) in H1 2015, with the majority of the deals closing in the most prized Connaught Place and Barakhamba Road.

- Jasola and Okhla were among the favoured micro-markets in the secondary peripheral district (SBD), with Amarchand & Mangaldas, Neutralife and MapmyIndia among the notable transactions in those locations.

## PBD Noida

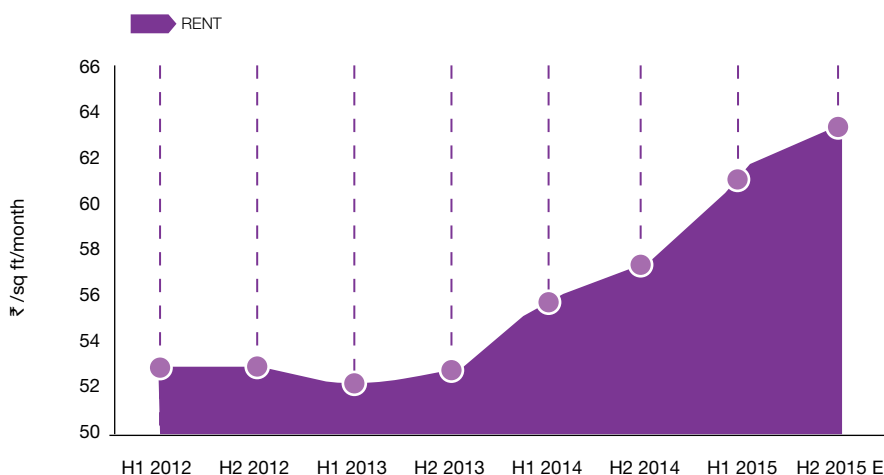
- Noida continued its lacklustre performance, with a declining percentage share in NCR's overall transaction pie. In terms of transacted space, this micro-market registered a 48% drop in the leased space in H1 2015, compared to the same period in 2014.
- Though the other services sector took the NCR reigns in the first half of 2015, IT/ITeS continues to drive leasing in Noida, with most transactions taking place along the Noida expressway. A downward trend in terms of the number of deals with a significant reduction in the average transaction size marked the leasing activity in Noida in H1 2015.

**The weighted average rentals in NCR stood at ₹62 in H1 2015, registering a healthy rental appreciation of 10% on a YoY basis. As the market is driven by commercial demand that does not shy from paying a premium for address and quality office space, rentals in key locations such as Golf Course Road and Aerocity will inch upwards in the coming quarters.**

## RENTAL TREND

FIGURE 6

### WEIGHTED AVERAGE RENTAL MOVEMENT



Source: Knight Frank Research

- Though new completions have pushed up the overall vacancy rates in NCR, the weighted average rentals seem to be firming up in the region.
- The weighted average rentals peaked at ₹62 per sq ft in H1 2015, registering a marked 10% increase from H1 2014.
- In Gurgaon, key locations such as Golf Course and Golf Course Extension Road, and Sohna Road will continue to see an uptick in rentals, owing to the quality of office space supply in these locations.

## Business district-wise rental movement

Business district	Rental value range in 2015 H1 (₹/sq ft/month)	12-month change	6-month change
CBD Delhi	200–350	2%	0%
SBD Delhi	90–160	2%	0%
PBD Gurgaon Zone A	90–152	10%	1%
PBD Gurgaon Zone B	60–128	15%	3%
PBD Gurgaon Zone C	25–35	1%	0%
Noida	44–64	10%	0%
Faridabad	45–55	0%	0%

Source: Knight Frank Research

## OUTLOOK FOR THE NEXT SIX MONTHS

Projections	2014 H2	2015 H2 E	Growth
New supply (mn sq ft)	4.1	5.6	37%
Absorption (mn sq ft)	4.1	3.7	-10%
Vacancy (%)	20.2%	21.3%	
Weighted average rental (₹/sq ft/month)	58	63	9%

Source: Knight Frank Research

**Knight Frank estimates the NCR office leasing to clock approximately 3.7 mn sq ft in H2 2015, pegging the total 2015 absorption levels at 7.4 mn sq ft, slightly lower than the outstanding 2014 absorption of 7.6 mn sq ft. However, with a healthy pipeline in place, the second half of 2015 can help outperform 2014 with a few large ticket size transactions.**

- Against the projected economic pickup in 2015, the two largest world economies—China and the US—registered a slowdown in H1 2015, affecting the overall market sentiment in turn. In a cascading effect, the office market is in a status quo situation that is cautiously assessing the demand as against the trend of bullish expansion plans. In contrast to the second half of 2014, which signalled the building of market confidence, H1 2015 began on a business-as-usual note for the NCR office market.
- Pent-up completions will continue to pump approximately five to six million square feet in the market, which will lead to an increase in the overall vacancy rates. However, key locations such as DLF Cyber City and Golf Course Road in Gurgaon, and Sector 62 and the Expressway in Noida, will see sustained demand for occupiers looking for large ticket-size office spaces.
- More than IT/ITeS, commercial office space will boost leasing in H2 2015. Sectors such as aviation, manufacturing and energy, along with e-commerce companies, are expected to drive the demand in the coming quarters significantly.
- Aerocity and Golf Course Road are expected to see increased traction by corporate occupiers that are willing to pay a premium for quality space and a prime office address.
- The weighted average rentals in NCR are forecasted to inch upwards by an average of 3% to 5% from H1 2015, while quality office spaces in PBD Gurgaon's Zone A and B will continue to see rental appreciation owing to their primacy and locational advantage, which will appeal to occupiers looking for swanky office spaces.

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