

Hyderabad Real Estate Outlook – 2008

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Executive Summary

Introduction

With the Indian economy growing at about 9% in the last three years, India is emerging as a global favourite investment destination. While India's realty sector was slow off the blocks, today it is catching up and is capitalizing on the country's blistering economic growth. The market drivers for the growth of realty sector in India include rising purchasing power of the Indian middle class, easy access to finance, and severe housing shortage in both urban and rural areas. In the past few years, Hyderabad real estate market has witnessed heightened activity, on account of a booming economy, growth momentum in the IT sector, entry of large real estate majors from India and abroad, and finally due to a growing demand for quality housing from customers in Hyderabad and Non Resident Indians (NRIs). In the period between FY2008 to FY2012, VRNetConsulting.com expects that the real estate sector in Hyderabad is expected to witness growth by about 15% across all segments, including residential, commercial, retail and hospitality sectors.

Residential Segment Out of the four sub-segments, residential real estate in Hyderabad, covers 85% of the total area under development. The industry is nascent in terms of growth, given that only about one half of the Greater Hyderabad population lives in permanent structures. As per the 11th plan estimates, the housing shortage in Andhra Pradesh was about 1.98 million houses, with the bulk of the shortage being below the poverty line housing i.e., EWS/LIG housing. The residential housing segment in Hyderabad is primarily driven by the IT industry and a significant percentage of IT professionals invest in real estate, a house/apartment for themselves, their family and also a piece of land for their children as today, investments into property provide high returns with relatively low risk in the long term. Further, with a significant NRI population from Andhra Pradesh, who have graduated from the state returning to India, or planning to invest in the real estate industry of Hyderabad, the demand for good quality housing is expected to continue. With IT and ITES industry likely to show a CAGR of 20% upto year 2012, along with growth of Pharma and Biotech industry, the demand for residential housing segment is likely to continue.

Residential Market – Upto 2005

Till the year 2000, the residential housing segment in Hyderabad was characterized by poor quality standards, and local demand for housing was met primarily by Andhra Pradesh Housing Board (APHB) and private players. From year 2002, with the growth of IT and ITES industry, demand for quality housing grew across Hyderabad, and large residential projects of more than 200 apartments in blocks of apartments of 4 to 10 with each block consisting of 50 apartments, gated communities with upto 200 villas were executed by local builders. Further, the initiatives of APHB to release quality residential housing stock was successful with the completion of both Singapore Township at Pocharam and the Malaysian Township at Kukatpally.

Leading players

The Hyderabad residential housing market is dominated by local companies such as Koncept Ambience, AMSRI, Aliens, NK Leasing, Aparna, Bhavya, Indu, Vertex, Jayabheri, Manjeera, Ashoka, Lumbini, Aditya Constructions, Sri Aditya Homes, Prajay Engineers, VamsiRam, My Home, Janapriya, SMR, Legend and Saket which have built/building large residential projects, townships, gated communities of villas and apartments across Hyderabad. The last two years have witnessed the entry of large local/ domestic infrastructure majors into the Hyderabad real estate market including companies such as IVR Prime, Lanco, Ramky, Maytas, NCC Urban and others.

Prices of property

VRNetConsulting.com expects that the prices of residential property in Hyderabad in year 2008 to be stable or marginally dip in view of the huge anticipated supply from large, medium and small players across Hyderabad. However, prices are not expected to dip below 20-25% the current quoted prices as most builders have new avenues to raise capital and further most large builders are not in desperation to sell.

Promising localities

In the last decade, considerable interest has been generated in the residential segment near HITECH city area. Prominently, real estate development has picked up considerably in areas near the IT investment destinations such as Madhapur, Kondapur and Gachibowli. Till the year 2000, residential development was concentrated in Himayatnagar, Kukatpally, and Dilsukhnagar, while premium locations were Banjara Hills, Begumpet, Jubilee Hills and Marredpally. With saturation and low land availability in these areas, large scale developments of residential properties happened in locations such as Kukatpally, Nizampet, Miyapur, Chandanagar, Kondapur, Kompally, and other

such places, where land was available in plenty. With the entry of international majors into the residential housing market of Hyderabad, large gated communities, townships with about 5000 apartments/ individual houses, and mini cities in suburban areas of Hyderabad around the proposed Outer Ring Road are underway. VRNetConsulting.com expects that the Hyderabad International Airport would be ready for commercial launch in March 2008 and it is expected to create substantial demand for residential housing in around Shamshabad and Maheshwaram. It is expected that in the next few years, beyond 2010, large residential townships would be focused in suburban areas of Hyderabad, where large economic activity is underway i.e., areas such as Shamshabad, Maheshwaram, Pocharam, Nagole, Ameenpur. This development is bound to ensure quality housing across entire urban and suburban Hyderabad. The total housing shortage in Hyderabad is estimated to be about 80,000 houses per annum, with the bulk of housing requirement in EWS/LIG housing segment. An estimated 80 million square feet of residential real estate is expected to be developed in the next five years in the Greater Hyderabad region, with an investment of about \$5 billion.

Commercial Segment There are two key trends in the commercial office space segment in Hyderabad. The central business district in Hyderabad is dispersed in few areas of Secunderabad, Begumpet, Abids, Somajiguda, Punjagutta, and Ameerpet; while the prime business district for commercial real estate focused on the IT and ITES industry is in the suburban and peripheral locations of Madhapur, Kondapur, and Gachibowli. With availability of large chunks of land a limiting factor and prices increasing to more than Rs 50 crore an acre (HUDA auctions for land in Jubilee Hills in 2006), commercial real estate development is moving to adjoining areas such as Kokapet, Gopanapalli, Tellapur, Manikonda, Raidurga and other areas such as Pocharam, where prices of land start from Rs 4 to 6 crore an acre.

In the days ahead, commercial real estate development around the proposed Outer Ring Road will be underway and will be led by the setting up of IT SEZs. In FY2009 and FY2010, supply of commercial real estate in Hyderabad is estimated to be at 5 million sq.ft per annum, with large commercial real estate developments in areas around Maheshwaram, Shamshabad, and Pocharam in the days beyond FY2010.

Response to HUDA auctions

The response to HUDA auctions in the year 2007 was lukewarm as the minimum cut off prices were pegged very high by HUDA. VRNetConsulting.com expects that HUDA

efforts to raise capital in year 2008 will fructify if it can gauge the demand for land and price it accordingly.

Retail Segment Hyderabad has still a long way to go in organized retailing. Even though large retail development is underway, supply still lags behind demand. FY2008 will see the completion of the much awaited GVK One mall. Today, 12 major malls are under construction across Hyderabad and the next two years i.e. FY2009 and FY2010, will see a supply of about 1 million sq.ft of premium retail real estate driven by majors such as DLF, IVR Prime, Inorbit, Kshitij, Prestige, GS Group, and other local majors.

Hospitality Segment Hyderabad is emerging as a leading Meetings, Investments, Conventions, and Exhibition (MICE) destination in South India, with the setting up of the convention/exhibition centre in the HITECH area. With the continued growth of IT and ITES segment, consolidation in the Pharma Industry, growth of arrivals of both foreign and local tourists into Hyderabad, the occupancy rates of all hotels including 2 star, 3 star and 5 star hotels has increased considerably. In Hyderabad, most of the star hotels are located near the existing airport in Begumpet, but the expected commercial inauguration of the new international airport at Shamshabad, in March 2008, has seen many new projects taking shape around the Outer Ring Road and Shamshabad area. In the next two years, Hyderabad will witness completion of atleast six star hotels, which are under various stages of execution, including those of global hotel chains and national players, leading to an increase of about 1200 hotel rooms in Hyderabad.

The Road Ahead The policy initiatives of the Govt. to develop infrastructure around Hyderabad has attracted investments from major global players, leading to the emergence of the city as a leading investment destination. In addition to the existing policies, there is also a need for the Govt. to further articulate its intent for positioning Hyderabad among other cities in India and the World. If these infrastructure initiatives materialize on ground in time, and are of a proven quality standard, it would mean that Hyderabad would emerge among the leading cities in the world by the year 2020.