

NRI's : Where to Invest
A perspective on Investments into
Hyderabad Residential Property Market – 2008

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1. Background

Hyderabad till the year 1997 was a laidback city with very little economic development. Led by the growth of IT industry, the contours of Hyderabad have transformed in about a decade's time. Today, Hyderabad is a leading destination in the world's IT and ITES outsourcing market, with many of the Fortune 500 companies having their back offices and software development centres in the city. While there is a strong correlation between the growth of the property sector and the success of the IT sector, the drivers for the growth of the property sector in Hyderabad include high economic growth (national and state level), increasing incomes, changing demographics, severe shortage of quality housing and rising level of foreign and NRI investments into India.

2. Why Hyderabad?

As per 2001 census, the population of Hyderabad Metropolitan Area was about 6.5 million, spread over an area of nearly 1864 sq kms and ranking 6th in population among the major metropolitan cities in India. Hyderabad today is one of the fastest growing metropolitan cities with a decadal growth of 32%. The city has embarked upon an ambitious programme aimed at promoting domestic and foreign investments. As on 2008, the IT sector in the state is showing a CAGR of more than 30% per annum and is expected to record revenues of about Rs 25000 crore for the year ending March 2008. With the Rajiv Gandhi International Airport expected to be ready by March 2008 and cater to about 12 million passengers a year, Hyderabad will be among the well connected cities of the world by 2010. The Govt. Of Andhra Pradesh's efforts to improve the infrastructure around the city by building the Outer Ring Road, expressways, promote IT and hardware SEZs is expected to give a fillip to the development of Hyderabad. In the months ahead, the state of Telengana is expected to be a reality and in the new setting too, Hyderabad is poised to improve its ability to attract global investments in IT and allied sectors.

3. Who constitutes the buying population in Hyderabad today?

The population buying property across Hyderabad can be segmented into three distinct segments. Earlier investments into property as an asset class used to happen in the age group of around 28-34s, while today's generation are investing property from their first jobs onwards i.e., from 22 onwards. At the bottom of the pyramid the demand for property in Hyderabad is driven by the IT/ITES sector, manufacturing and government services sector. Incase of IT and ITES sector, customers here typically constitute of people with about 4-6 years of experience, with an income level of less than Rs 6 Lakhs. These customers are eligible for a

property loan of about Rs 20-25 lakhs. The middle end of the pyramid constitutes customers with about 6-8 years of experience, with an income level of up to 18 lakhs and is eligible for a property loan of about Rs 50-60 lakhs. At the top end of the pyramid constitute customers who earn more than Rs 18 Lakhs and are eligible for a property loan of more than Rs 60 lakhs. The customer groups in these segments include managers, senior managers of IT companies, senior Govt. staff and self employed professionals from across Andhra Pradesh and other leading cities of India. NRI segment is also at the top end of the pyramid and they constitute a significant customer group for builders in Hyderabad. In addition, the market includes investors/speculators, who make investment decisions into the market from across Andhra Pradesh and India.

4. What are the investments options in Hyderabad Property?

Hyderabad provides good opportunities for investment in the residential property sector. While, returns of about 20%-30% per annum was the norm during the years 2004- 2007 for investments in good property, beyond 2008 investments into the property in Hyderabad have to be made with extreme caution. While USA may be moving towards a recession and the housing market in USA may take time to recover from the sub-prime crisis, NRI investments into Hyderabad Property Market have to measure strictly on the appetite for risks and expected returns. Currently the investment vehicles for NRI's include apartments, row houses and land in the suburbs. For completed apartments and row houses, the rental yields range from 2% to 6 % of the property value per annum, while appreciation of property prices may be marginal up to year 2010. In case of investments into land, while the risks might be higher, the returns too will be higher. As in case of any property asset, the critical choice in making an investment decision is location, location and location. Land as an asset is illiquid, when you want to buy; you have many options, but when you want to sell there will be no takers for the price point of your expectation. Further, the sale process is lengthy and might run into few months. Hence real returns from investment into land takes time and as a word of caution short term funds should not be parked into long term return investments such as land. While, investments on land in the city appreciated with the property prices touching new highs in FY 2008, for the land in suburbs they were few takers and the prices have turned negative.

5. What are the investments options in Hyderabad?

For NRI's focussed on moving back, Hyderabad offers a boutique of options including apartments and individual villas in a gated community across the city. Investments in apartments and villas

While typical apartments costs range from about \$80-\$150 per sq.ft with the size varying between 1200 sq.ft(2 bedroom) to about 4500 sq.ft(4+ bedroom). Where to buy an apartment depends on the individual's interest of location, distance from the office, travel time, schools availability, budget, facilities, security, profile of the builder and other factors. In contrast, villas range start from \$ 300,000 in about 200 sq.yd to about a \$ 800,000 for a villa in about 500 sq.yd of land parcel. In comparison, residential villas in upmarket Jubilee Hills and Banjara Hills today are priced in the range of \$2- \$4 million for a land parcel with about 1000-12000 sq.yds. Some of the apartments built by the local builders target the luxury segment and are positioned as premium global life style apartments, condos and villas. Current areas popular with the NRIs and the software community include areas such as Gachibowli, Madhapur, Tellapur, Manikonda, APPA Junction, Kukatpally, Miyapur and Bachupally and others. New emerging areas for investments in apartments and villas include areas such as Ameenpur, Pocharam, Shamshabad and Maheshwaram.

Investments in townships promoted by global corporations

Across Hyderabad, residential townships promoted by global corporations are underway. Most of the ventures currently are on the drawing board and will be available for investments in the next few quarters. Promising among these ventures include projects by ICICI-Tishman Speyer at Tellapur, Opus-Sunway project at

Ameenpur, Hydcity Project near APPA Junction, Vishadh Park project near Ramoji Film city by Redhawk Investments Group and others.

Investments in Land

NRI's planning to investment in land in Hyderabad need to take abundant caution as many projects with huge marketing fanfare are being launched across Hyderabad. It is suggested that while investing in land, the risk return trade-off of each project need to be analyzed before investments are considered. In Hyderabad, we expect the demand for residential property in the next few quarters to focus on areas closer to the new international airport and along the Outer Ring Road including suburban areas which are witnessing economic activity such as Tellapur, Shamshabad, Maheshwaram, APPA Junction, Pocharam, Ameenpur and Bachupally.

Housing cooperatives

A new segment that is constructing apartments and township in a big way in Hyderabad for both local techies and NRI's is the housing cooperatives segment which is promoted by employees working in software companies. These cooperatives are buying land and sharing the cost of construction and marketing costs among the members. The cost of apartments in these ventures is about 20-30% lower compared to the one built by the builders and these ventures are currently located in the Tellapur region.

6. Who are the leading builders of Hyderabad?

While local companies cater to the residential projects, large Indian and regional companies focus on commercial, hospital and retail projects. After establishing their brand names in the local market of Hyderabad, Pan India and regional players are expected to launch their forays into residential property development in the next few years.

An important facet of the Hyderabad property market is its highly fragmented nature. More than 500 small and medium enterprises fiercely compete in this market. The entry barriers into the market are low and the primary sources of business for the Small Enterprises is the execution of projects with about 10 to 20 apartments in an area of less than 1200 sq.yd area of land across the Greater Hyderabad Municipal Corporation. In contrast, Medium Enterprises, work in projects of more than 40 apartment blocks, with more than 1500 sq.yd area of land. The large companies are those, who work on projects with more than 100 apartment blocks in an acre of land and execute projects worth more than Rs 20 crore in a year.

Companies in the industry can be categorized as follows according to their product/services sales turnover:

- Tier-1: large builders with a turnover of more than Rs 20 crore;
- Tier-2: medium level builders with a turnover between Rs 5 crore and Rs 20 crore;
- Small players with a turnover of less than Rs 5 crore comprise about 70% of the market.

As majority of the local players are unlisted companies and it is extremely difficult to get the financial turnover of players in Hyderabad.

The Hyderabad property market comprises of a diverse group of players, including local companies, regional companies, national companies and foreign companies.

- Pan India focused players such as Shapoorji & Pallonji, DLF, Raheja, Unitech, L&T;
- Regional companies such as Mantri, Divyashree, Prestige, RMZ, Sobha etc;
- Large Local players such as Indu, IVR Prime, Vertex, Lanco, Aditya, Sri Aditya, Legend, Prajay, Janapriya, Modi, Maytas, Aparna, Manjeera, MyHome, Lumbini, SMR, Bhavya's, Vamsiram, Saket, Koncept Ambience etc;
- Foreign companies such as IJM, Emaar, Tishman Speyer, Sunway etc

7. Outlook

As on January 2008, the Hyderabad residential market is facing a lull as supply has overtaken the demand. The increase in property prices in the last three years has been very steep. The growth in property prices over the last three years was more than 100 % across major cities in India and Hyderabad was no exception. The

rise in interest rates on property prices has acted as a speed breaker on the growth of property market. We expect that in the next financial year i.e., after the budget for year 2009, interest rates, will be at the current levels or marginally dip and the demand for property will be concentrated in a few micro markets only, where there is a substantial economic activity/developments in the near term. But prices are expected remain firm in FY 2009 as builders are not desperate to sell, with increased PE/VC investments, tapping of capital markets and having made record profits in the last three years. As more and more families are becoming eligible for housing loans, the market for residential housing is expected to show a sustained growth over a period of FY 2009 -2012 and demand is likely to pick up in the middle-higher income housing segments from year 2009-10. Priced publications of VRNETCONSULTING.com include

- Detailed and updated report on Hyderabad Residential Property Market covering residential, commercial, retail and hospitality segments with profiles of leading builders and detailed coverage of projects and upcoming locations
- A quarterly update on the demand and supply of Hyderabad Residential Property Market with detailed projections across various localities in Hyderabad.
- A report on SEZs in Andhra Pradesh which will be ready for publication in April 2008.

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