



# JANUARY 2011

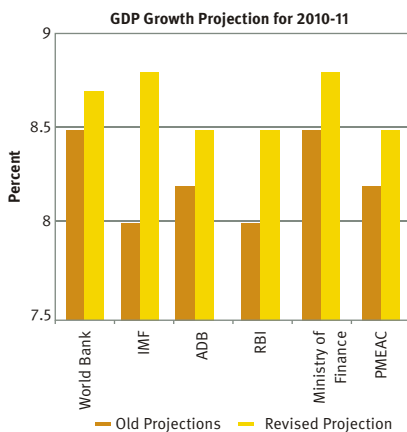
## E&R @ GLANCE

ECONOMY & REALTY

### Knight Frank

#### Economic Outlook

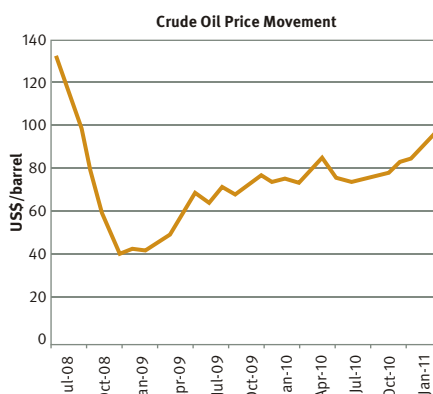
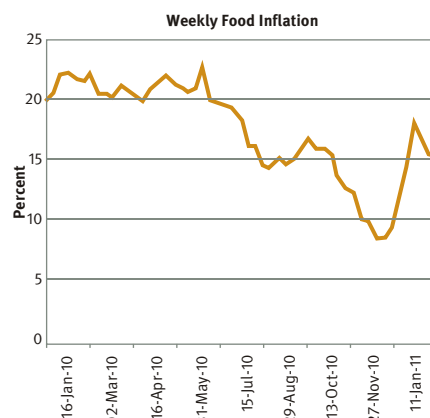
India, from being one of the most backward countries to becoming a dominant economic power in the world, has come a long way since becoming a republic 62 years ago. Despite the global economy still reeling under the pressure of the 2008 economic crisis, Indian economy has managed to grow at one of the fastest rates in the world. The strong quarterly GDP growth numbers of 8.9% during Q1 and Q2 of 2010-11 has resulted in most of the economic forecasting agencies revising their forecasts upwards for 2010-11. The Reserve Bank of India has projected the Indian economy to grow by 8.5% during 2010-11, a tad lower than Ministry of Finance's projection of 8.8% for the same period.



Note: International Monetary Fund (IMF), Asian Development Bank (ADB), Prime Ministers Economic Advisory Council (PMEAC)

Although the economic growth looks quite robust in the current year, the rising level of prices over the last one year has been a major dampener. Despite the various efforts taken by the government and the RBI, prices have still not softened and remained way above

the targeted rate of inflation. In its latest monetary policy review, the RBI has revised the baseline projection of Wholesale Price Index (WPI) for March 2011 from 5.5% to 7% indicating that prices will remain high in the coming months too. The rise in prices of food articles along with the increase in international crude oil prices have resulted in additional upward pressure on inflation. International crude oil prices have crossed its two year high of US\$ 97 per barrel.



The rise in prices has once again compelled the RBI to raise policy rates by 25 basis points (bps) in January 2011. The repo and reverse

repo rate stands at 6.5% and 5.5% respectively after the increase. The latest RBI monetary policy review evidently indicates that there will be further hikes in policy rates going forward. Considering this, banks are also expected to increase their lending rates more aggressively in the coming months thereby resulting in an overall tight liquidity condition in the economy. Banks like SBI and ICICI have already hiked their base rate to 8% and 8.25% in the last few weeks from 7.6% and 7.75% respectively.

News of strong growth in Indian economy and the perils of rising prices have kept the attention of public away from the growing nuisance of scams and scandals in the country that have erupted in the last few months. Involvement of politicians, bankers, corporates, lobbyist and bureaucrats in such scams has resulted in a major loss of face of the country in the eyes of investors and many international investors have now become cautious towards investing in India. Real estate sector has been no exception to this trend and the names of various reputed real estate companies had cropped-up recently for their involvement in such scams. Allegations have been leveled against developers and bankers for the alleged links that exist between them. Hence, many banks have now become cautious when lending money to real estate companies and this has resulted in a severe liquidity crunch for the entire sector.

The impact of such negative news is clearly visible on the stock prices of realty companies which have crashed drastically in the last couple of months.

#### India Research

**Samantak Das** National Head - Research  
+91 (022) 6745 0101  
samantak.das@in.knightfrank.com

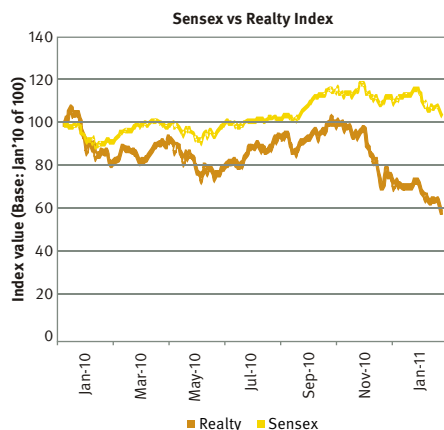
**KnightFrank.co.in**

This report is published for general information only. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects. Reproduction of this report in whole or in part is allowed with proper reference to Knight Frank Research.



The BSE realty index has fallen by more than 40% since January 2010 as compared to a rise of 5% in the broader market index represented by Sensex. This is despite the fact that most of the cities in India have witnessed a rising trend of real estate prices in the last one year. The growing pessimism amongst the investor community towards real estate stocks can be interpreted as the early indicators of price correction in Indian realty market.

THE BSE REALTY INDEX HAS FALLEN BY MORE THAN 40% SINCE JANUARY 2010 AS COMPARED TO A RISE OF 5% IN THE BROADER MARKET INDEX REPRESENTED BY SENSEX



## Hyderabad Office Market Summary

The office market in Hyderabad has evolved primarily with the growth of IT/ITeS sector. Hyderabad, also known as Cyberabad, is referred to as the second Silicon Valley of India after Bengaluru. Besides being a preferred IT/ITeS destination, the other major sectors which have their presence in the city include Biotechnology, Hardware, Pharmaceuticals and Telecommunications. These industries have primarily driven the demand for office space in Hyderabad.

EXTENSIVE INFRASTRUCTURE DEVELOPMENTS LIKE OUTER RING ROAD AND RADIAL ROADS HAVE LED TO THE GROWTH OF PERIPHERAL MICRO-MARKETS TOWARDS THE NORTH, EAST AND THE WESTERN ZONES OF HYDERABAD

The Hyderabad office market is classified into different sub-markets. Locations like Begumpet, Somajiguda and Rajbhavan Road form the Central Business district (CBD) whereas Banjara Hills and Jubilee Hills form the Suburban Business Districts (SBD). Other key micro-markets like Madhapur, Kondapur, Hitech City and Gachibowli which comprise the IT/ITeS hub form the peripheral office markets. Extensive infrastructure developments like Outer Ring Road and radial roads have led to the growth of peripheral micro-markets towards the north, east and the western zones of Hyderabad. With the setting up of the Genome Valley, biotechnology has received a further boost to enhancing biotech research, training and manufacturing activities in the northern zone.

The turnaround in the global economy had a major effect on all the commercial sectors of the city. Also, the uncertainty in the Hyderabad market due to the Telangana agitation marginally affected the demand and supply scenario since the last quarter of 2009. As a result of the economic downturn, many companies scaled down their operations which led to lower absorption in the office market, thereby leading to an increase in the vacancy levels. This led to a correction in the office market rentals in all the micro-markets of Hyderabad. However firming up of the overall economy and revival of the IT/ITeS sector from Q4 2009 thereon had a positive impact on the demand for

office space in Hyderabad. Q4 2009 and Q1 2010 witnessed an improvement in the office space absorption in the peripheral IT corridors consisting of Madhapur, Kondapur, Gachibowli and Nanakramguda.

Many companies relocated from the CBD to these locations due to attractive rentals and quality work spaces, leading to gradual exhaustion of office supply in these micro-markets. SEZ projects like Waverock by Tishmanspeyer at Gachibowli, Divyasree Omega by Divyashree Builders at Raidurgam and DLF SEZ by DLF at Gachibowli are fully occupied. A few prominent transactions were concluded in 2010 for companies like Wellsfargo and IBM with office space of 60,000 sq.ft. and 2,00,000 sq.ft. respectively at Divyasree Omega. Meanwhile, IT majors like Accenture and TCS took up office space in Waverock at Gachibowli with a built up of area of around 1,50,000 sq.ft. and 2,00,000 sq.ft. respectively.

The Hyderabad market witnessed a total supply of approximately 4.0 mn.sq.ft. in 2010 of which the peripheral locations of Hitech City and Gachibowli took up a major share. Some of the key projects that are ready for leasing in 2011 are Krishe Sapphire at Hitech City with 2,00,000 sq.ft., IT Tower 6-Lanco Hills at Manikonda with 3,83,800 sq.ft. and Arena Town Centre at Uppal with 6,50,000 sq.ft.

A TOTAL OF 3.75 MN.SQ.FT. OF COMMERCIAL SPACE WILL BE READY BY 2011. MAJORITY OF THE SUPPLY TO THE TUNE OF 79% IS COMING UP IN THE PERIPHERAL MICRO-MARKETS LIKE MADHAPUR, HITECH CITY, KONDAPUR AND FINANCIAL DISTRICT OF GACHIBOWLI



Table 1: Select transactions of 2010

Sr.No.	Tenant name	Location	Project name	Area Leased (sq.ft.)
1	Google	Kondapur	Divyasree Omega SEZ	3,00,000
2	MOL Shipping	Hitech City	Raheja Mind Space	30,000
3	TCS	Nanakramguda	Tishman Speyer	200,000
4	Zensar Technologies	Hitech City	SEEK	30,000
5	DST Worldwide	Gachibowli	Quinn City	60,000
6	I Space Technologies	Lingampally	Navayuga SEZ	30,000
7	Air Liquid	Hitech City	SEEK	45,000
8	GGK Technologies	Uppal	NSL Arena	20,000
9	Sunehra Technologies	Uppal	NSL Arena	7,000
10	Tata Motors Corporate Office	Begumpet	Cache Properties	25,000
11	ADP	Hitech City	Laxmi Cybercity	1,50,000
12	Verify	Banjara Hills	Laxmi Cyber Centre	10,000
13	Model India software	Gachibowli	DLF SEZ	18,900
14	Alexandria Equities	Banjara Hills	YSR building Stanford building	8,500

Source: Knight Frank Research

A total of 3.75 mn.sq.ft. of commercial space will be ready by 2011. Majority of the supply to the tune of 79% is coming up in the peripheral micro-markets like Madhapur, Hitech City, Kondapur and Financial District of Gachibowli. Around 21% of the supply is coming up in the suburban micro-markets like Banjara Hills. The CBD has no supply lined up for 2011. Some of the prominent projects under construction are listed in Table 2.

The relatively limited supply infusion of office space in 2011 depicts the cautious approach of developers in developing office projects due to market correction in the city.

Table 2: Select projects under construction

S.no	Project name	Developer	Location	Area (sq.ft.)	Scheduled completion
1	Kapil Towers	Kapil Engineers	Hitech City	1,20,000	2011
2	Lanco Hills	Lanco Group	Manikonda	3,83,800	2011
3	Ramky Towers	Ramky Estates & Farms	Gachibowli	5,00,000	2011
4	Meenakshi IT Park	Meenakshi Group	Gachibowli	5,00,000	2011
5	Meenakshi IT Park	Meenakshi Group	Hitech City	5,00,000	2011
6	TSI Wave Rock	TSI	Gachibowli	7,00,000	2011

Source: Knight Frank Research

Table 3: Select ready-to-occupy projects

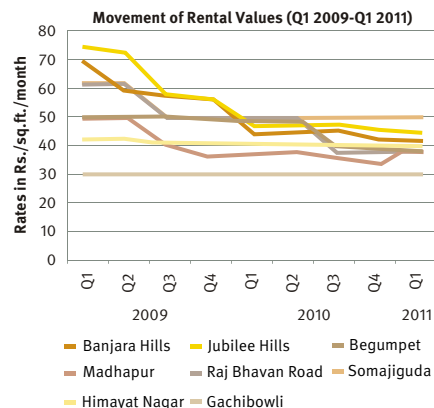
S.no	Project name	Developer	Location	Area (sq.ft.)	Current Status
1	Krishe Sapphire	Sri Krishna Jewellers	Madhapur	2,00,000	Ready
2	Arena Town centre	NSL Group	Uppal	6,50,000	Ready

Source: Knight Frank Research

Begumpet, Somajiguda and Rajbhavan Road showed an average rental decline of 20% from Q1 2009 to Q3 2010. The rentals in Begumpet were recorded at Rs.40/sq.ft./month in Q3 2010 and remained stable thereafter, while in Somajiguda and Rajbhavan Road rentals were recorded at Rs.50/sq.ft./month in Q3 2009, which remained stable thereafter.

Suburban micro-markets like Banjara Hills and Jubilee Hills saw rentals reduce by around 30% during the period 2009 - 2011. The rentals in the peripheral micro-markets like Madhapur and Hitech City also declined by 30% from Q1 2009 to Q4 2010. Q1 2011 showed signs of improvement in the peripheral micro-markets and the rentals have appreciated from Rs.34/sq.ft./month in Q4 2010 to Rs.41/sq.ft./month in Q1 2011. The prime reason behind this appreciation has been the increase in demand for office space in these micro-markets. This increase in demand may be attributed to the attractive rentals offered by the office projects thereby increasing the occupancy levels in the peripheral micro-markets while resulting in rental corrections in the CBD and other micro-markets.

The year 2010 has been the year of stability for Hyderabad office market while the year 2011 is optimistic with respect to the demand for office space. Rental values are expected to be consistent in the coming quarters without drastic upswings. The CBD and suburban micro-market rentals are expected to gradually increase due to lack of supply.



Source: Knight Frank Research

## India Research

**Samantak Das** National Head - Research  
+91 (022) 6745 0101  
samantak.das@in.knightfrank.com

**KnightFrank.co.in**

This report is published for general information only. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects. Reproduction of this report in whole or in part is allowed with proper reference to Knight Frank Research.