



AUGUST 2012

RESIDENTIAL TRACTION @ GLANCE

Knight Frank

Hyderabad

Market Overview

Hyderabad, known as the City of Nizams, is the administrative, financial and economic capital of the state and the largest contributor to the state's GDP. This city that once predominantly depended on engineering based industries and trade as a means of income has seen a dramatic change over the last few decades. With the IT boom, companies like IBM, Perot, Accenture, CA, HP, GE, Convergys and Franklin Templeton set up offices in Hyderabad. This led to the development of infrastructure facilities and general growth of the contiguous locations surrounding the Hitech City area, also referred to as Cyberabad, which has a coherence of its own due to the pace of development and the attraction of overseas investors.

In recent times, owing to the interest generated in the Hitech City, real estate development has picked up considerably in the adjoining Gachibowli area where a number of campus developments by IT majors like Microsoft, Infosys and Wipro are located. This has led to a substantial inflow of IT/ITeS professionals, thus escalating the demand for Grade-A residential projects across Hyderabad. Although the Hyderabad residential market is primarily driven by the IT/ITeS industry, it is also the growth centre of sectors like pharma and bio-tech with a number of SEZs and Industrial Parks that have underpinned the growing residential demand.

Real estate development has picked up considerably in areas near the IT investment destinations such as Madhapur, Kondapur and Gachibowli. Traditionally, residential development was concentrated in locations like Himayatnagar, Secunderabad and

Dilsukhnagar, while premium development came up in Begumpet, Banjara Hills, Jubilee Hills and Marredpally. Limited availability of land in these areas shifted the focus to newer locations such as Kukatpally, Nizampet, Miyapur, Chandanagar, Kondapur and Kompally.

Residential Micro-markets in Hyderabad

Central Hyderabad	Begumpet, Banjara Hills, Jubilee Hills, Panjagutta, Somajiguda
West Hyderabad	Kukatpally, Madhapur, Kondapur, Gachibowli, Raidurgam
East Hyderabad	Uppal, Malkajiri, LB Nagar
North Hyderabad	Kompally, Medchal, Alwal, Qutubullapur
South Hyderabad	Attapur, Rajendra Nagar, Shamshabad

Residential demand in the city central comprising areas like Begumpet, Maredpally, Somajiguda, Himayatnagar, Chikkadpally, Banjara Hills and Jubilee Hills is primarily driven by government officials, businessmen, corporate office employees and NRIs. These locations cater to high income groups as well as upper middle income segment. On the other hand, demand in the western part of the city consisting of locations like Kukatpally, Madhapur, Kondapur, Gachibowli, Miyapur, Hitech City and Gopannapalli is end-user driven and caters to the employees of IT firms in and around Hitech City and Gachibowli. The residential projects in these micro-markets have seen increased demand due to their proximity to workplaces, upcoming retail developments and supporting infrastructure in the form of connecting railway stations, the National Highway and Express Highway that connects with the airport.

The northern region has some of the most preferred residential locations and is primarily investment driven due to good infrastructural facilities and proximity to the cantonment area. Micro-markets such as

Kompally, Qutubullapur, Nagpur Highway, Yarpal and Shamirpet have seen the launch of a number of residential projects. The eastern zone comprises locations such as Uppal, Nacharam, Mallapur, Kapra, Cherlapalle, Pocharam, Kuntloor, Rampally and Ghatkesar. Phase II of the Outer Ring Road, which is presently under construction, is envisaged to improve the traffic situation and connectivity in the eastern zone. The southern part of Hyderabad encompasses locations such as Malakpet, Attapur, Upparpally, Saidabad, Santoshnagar, Rajendranagar and Shamshabad. With the development of Shamshabad International Airport and other developments like SEZs, Hardware Park and Fab City, this region has come up on the radar of real estate developers. However, distance from the city centre is still a deterrent to residential demand in the region.

Market Activity

Hyderabad residential market has primarily been an end user market and continues to offer affordable options to buyers. Although the city strove to pick up momentum post recession in 2010, several internal factors led its real estate market to come to a

WHILE THE FIRST HALF OF FY 2012 SAW A REASONABLE NUMBER OF NEW RESIDENTIAL PROJECT LAUNCHES, THE LATTER PART WITNESSED CONSIDERABLE SLOWDOWN, PRIMARILY OWING TO THE POLITICAL UNCERTAINTY AND UNREST IN THE REGION



THE RESIDENTIAL MARKET SENTIMENTS IN HYDERABAD HAVE IMPROVED CONSIDERABLY OVER THE PAST QUARTER APRIL-JUNE IN FY 2013 AFTER A RELATIVELY SUBDUED PHASE IN FY 2012

standstill. While the first half of FY 2012 saw a reasonable number of new residential project launches, the latter part of the year witnessed considerable slowdown, primarily owing to the political uncertainty and unrest brought about by the Telengana movement that was rekindled in September 2011. Besides, as the developers were not in agreement entirely with the land reservation regulation (Government order 45), that mandates allocation of 20% of the developed land to the economically weaker section and as low-income housing, Hyderabad's residential market witnessed a reduction in the number of new project launches across all segments. As a result, the city saw the launch of a mere 6,000 residential units by major developers in FY 2012, which is 45-50% lower than the actual potential of the city.

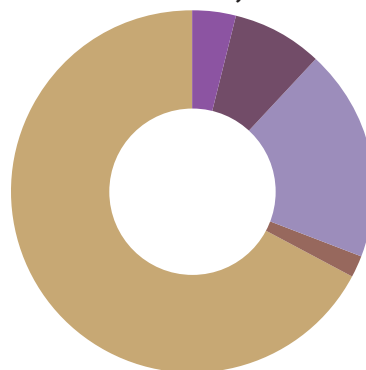
It has been observed that the residential market sentiments in Hyderabad have improved considerably over the past quarter April-June in FY 2013 after a relatively subdued phase in FY 2012. There has been a gradual but certain increase in residential demand and absorption. There has also been a marked increase in activity by developers who have gone ahead and launched their projects. This underlines the fact that they want to proceed with their plans and not hold on to their land, which had been lying undeveloped since the economic recession hit the country. Around 2,500 residential units were launched in Q1 FY 2013 by major developers, thereby portending a positive market trend in the city.

Supply

As of June 2012, around 58,000 residential units are under construction across various micro-markets in Hyderabad. Of the total upcoming supply in the residential market, the western region will account for a

significant share of around 67%. Most of these projects are located in and around Gachibowli, Manikonda, Kukatpally, Miyapur, Kondapur etc. Notable projects underway in the western region include Ramky Towers by Ramky Estates at Gachibowli and Lanco Hills Domina by Lanco Infratech in Manikonda, as well as Nile Valley by Janapriya Engineers Syndicate in Miyapur. There is the likelihood of a demand-supply mismatch in West Hyderabad in the near future, in case the developers who have their land banks in this region, and were holding on to them due to GO 45, decide to launch their projects after announcement of GO 245. As per the amendments mentioned in GO 245, the state government has reduced the mandatory allocation of 20% of the developed land for the EWS/LIG to 10%.

Micro-market Split of Units Under Construction as on June 2012



- Central Hyderabad - 4%
- East Hyderabad - 8%
- North Hyderabad - 19%
- South Hyderabad - 2%
- West Hyderabad - 67%

Source: eyestate

The western zone is followed by North Hyderabad as the region that accounts for the second highest number of residential units underway with projects by developers such as Aparna Constructitons, Modi Builders, PNR Infra, etc. Meanwhile, eastern Hyderabad will contribute 8% to the total upcoming residential supply with projects like Janapriya Lake Front at Sainikpuri and Indu Aranya Villas by the Indu Group at Nagole.

Central Hyderabad, though accounting for only 4% of the total residential supply, has a number of prominent projects as well. A mention can be made of projects like Central Park by India Bulls at Lower Tank Bund Road near Indira Park. The southern part of the city, however, does not have much residential

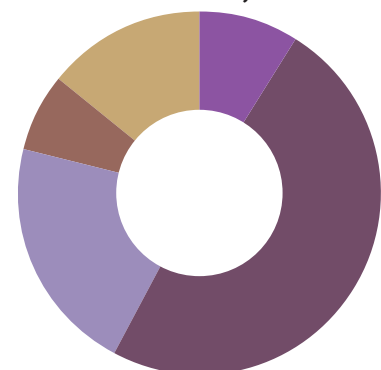
AS OF JUNE 2012, AROUND 57,000 RESIDENTIAL UNITS ARE UNDER CONSTRUCTION ACROSS VARIOUS MICRO-MARKETS IN HYDERABAD

activity and account for merely 2% of the total units under construction in the city.

On the pricing front, nearly 58% of the total number of residential units underway fell within the INR 5 million ticket size category. This signifies the acknowledgment of developers towards the fact that customers in the mid-end segment are the prime demand drivers of residential market in the city. Another 21% of the upcoming supply belonged to the INR 5-7.5 million ticket sizes, catering to the needs of the upper mid-end segment. On the other hand, just 14% of the total units under construction surpassed the ticket size of INR 10 million to fall under the premium segment.

An important trend witnessed in the Hyderabad residential market is the change in the preference for unit configuration. The city has seen a clear shift in the preference for affordable homes in the 2BHK configuration instead of 3BHK. This inclination of home buyers for smaller unit configurations can be largely attributed to the decreased budgets brought about by economic uncertainty as well as the political agitation in the region.

Ticket Size Split of Units Under Construction as on June 2012



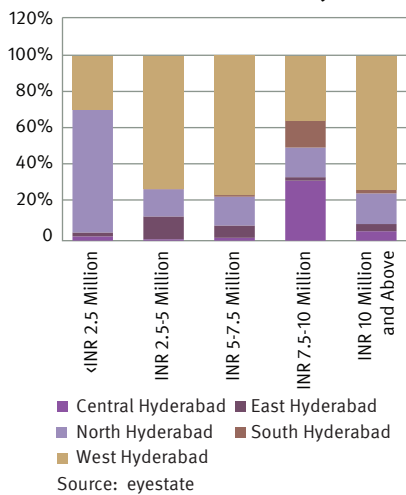
- < INR 2.5 Million - 9%
- INR 2.5-5 Million - 49%
- INR 5-7.5 Million - 21%
- INR 7.5-10 Million - 7%
- INR 10 Million and Above - 14%

Source: eyestate



An analysis of the ticket size split of new residential supply in the city throws up several interesting facets. It has been observed that West Hyderabad has considerable presence in most of the ticket size ranges, which shows that the region offers a variety of residential units to suit all income segments. This zone has the largest share of residential supply falling in the ticket size category of INR 10 million and above, primarily owing to the premium prices charged by high-end residential projects like Meenakshi Bamboos at Kondapur, Ramky Pearl and Lodha Bellezza at Kukatpally, Trendset Towers at Nanakramguda, etc. The northern region, too, has a sizeable presence in all the ticket size ranges, particularly in the ticket size category below INR 2.5 million. This implies the dominance of North Hyderabad in the affordable housing sector, more than any other region in the city. Central Hyderabad understandably has a presence only towards the higher end of the ticket size split, largely in the ticket size range of INR 7.5 million and upwards.

Ticket Size Share of Units Under Construction Across Micro-markets as on June 2012



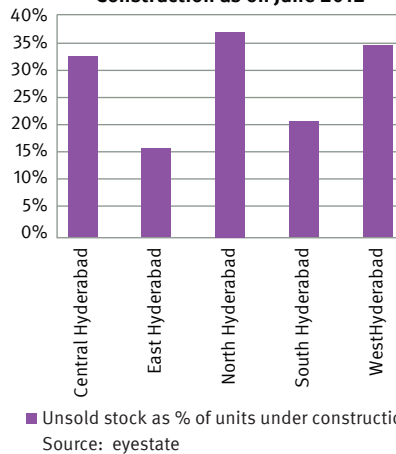
Absorption

FY 2012 witnessed the absorption of around 10,000 residential units. While the absorption trend remained almost subdued across the first three quarters of FY 2012, Q4 FY 2012 witnessed some amount of upward movements. This can be attributed to stable prices and various promotional offers by the developers resulting in an increase in enquiries, thereby leading to a marginal increase in sales in select residential micro-markets. This positive development

has continued on to FY 2013 as well and the absorption rate observed in Q1 FY 2013 has been encouraging, especially in the western micro-markets like Gachibowli, Kukatpally, Miyapur, Chandanagar, etc. The latent demand is manifesting now with genuine buyers coming out to acquire properties.

The vacancy level in the city's residential market as on June 2012 was recorded at approximately 33%.

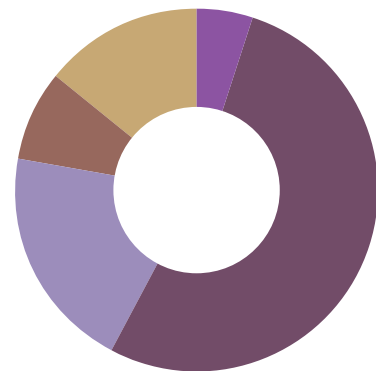
Unsold Stock as % of Units Under Construction as on June 2012



The northern zone, due to its price-sensitive nature, had the highest vacancy rate of 37%. This was followed by the western region with a vacancy level of 35%, which can be attributed to the large quantum of supply lined up. The central locations, too, had a considerably higher vacancy rate at 33%, thus denoting the unwillingness of the buyers to purchase high-end properties during a period of unrest in the region. On the other hand, the southern and the eastern part of the city, with a limited upcoming supply, had reasonable levels of vacancy, to the tune of around 21% and 16% respectively.

It has been observed that nearly 53% of the absorption till June 2012 has been in the ticket size range of INR 2.5-5 million, followed by the range of INR 5-7.5 million at 20%. Meanwhile, around 5% of the absorption in FY 2012 took place below INR 2.5 million. The clubbing together of these categories essentially denotes the fact that the affordable and mid-end segments have been responsible for the absorption of total 78% of the residential units booked or sold. The premium segment of INR 10 million and above consisted of around 14% of the total absorption in FY 2012.

Absorption by Ticket Size as on June 2012



Source: eyestate

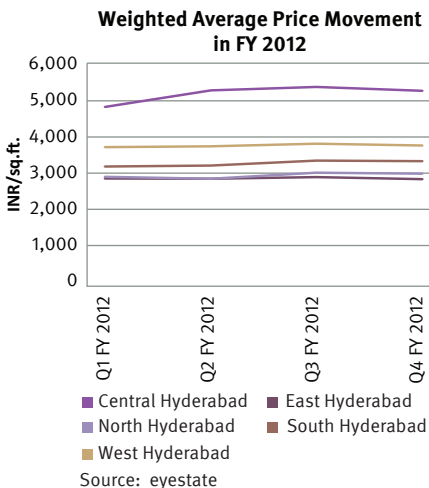
Price

With demand showing signs of revival in the past few months, developers have tried to keep the average property prices stable in order to sustain sales levels. Consequently, most micro-markets in Hyderabad did not witness much variation in weighted average of residential prices in FY 2012.

HYDERABAD RESIDENTIAL MARKET WITNESSED SUBDUED ABSORPTION DURING FY 2012 WITH MANY BUYERS POSTPONING THEIR PURCHASE DECISIONS DUE TO THE POLITICAL AGITATION IN THE REGION. HOWEVER, THE ABSORPTION RATE OBSERVED IN Q1 FY 2013 HAS BEEN ENCOURAGING, ESPECIALLY IN THE WESTERN MICRO-MARKETS LIKE GACHIBOWLI, KUKATPALLY, MIYAPUR AND CHANDANAGAR



In certain micro-markets of Central Hyderabad, weighted average prices in Q4 FY 2012 appreciated by around 8-10% over the prices in Q1 FY 2012. This price appreciation has taken place due to the reduced number of new launches and subsequent shortage of ready-to-move-in projects in the region. Marginal price appreciation was witnessed in a few western micro-markets as well.



** Prices are weighted average prices of under construction residential units and do not take into account the secondary market.

Outlook

Hyderabad residential growth in FY 2012 had been hampered by political uncertainties and government regulations, while other cities gained momentum post recession. However, going by the increasing demand observed in the recent two quarters viz. Q4 FY 2012 and Q1 FY 2013, the situation is expected to change for the better in the forthcoming quarters. The market is envisaged to pick up with the revised land reservation clause

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(GO 245) announced during the last week of Q1 FY 2013, which relaxes the reservation norms for EWS/LIG housing. Developers who had been lying low on account of the previous GO 45 are expected to launch newer projects in the next few months. The momentum seen in absorption since Q4 FY 2012 is estimated to continue during FY 2013 as well. Going forward, micro-markets like Shaikpet, Nanakramguda, Miyapur, Kukatpally, Chandanagar, Gachibowli, Gopanpally, Nallagandla and Lingampally are foreseen to emerge as preferred investment destinations as well as end-user markets.

On the pricing front, capital values of projects in select micro-markets such as Madhapur and Gachibowli, the IT and financial hubs of the city, are expected to appreciate due to increase in enquiries on the back of growing end-user demand. However, the present high level of unsold inventory remains a point of concern. This fact will definitely have an impact on residential property pricing in the mid-term.

GOING FORWARD, MICRO-MARKETS LIKE SHAIKPET, NANAKRAMGUDA, MIYAPUR, KUKATPALLY, CHANDANAGAR, GACHIBOWLI, GOPANPALLY, NALLAGANDLA AND LINGAMPALLY ARE FORESEEN TO EMERGE AS PREFERRED INVESTMENT DESTINATIONS AS WELL AS END-USER MARKETS

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