



JANUARY 2013

RESIDENTIAL TRACTION @ GLANCE

Knight Frank

HYDERABAD

Market Overview

Hyderabad has come a long way from being known as the City of Nizams. Over the last decade, the IT boom saw several major companies like IBM, Perot, Accenture, HP, GE and Convergys set up their offices in Hyderabad, thereby marking the city's presence as a preferred investment destination on the global map. The fast paced growth of the IT sector directed the development of infrastructure facilities and the general growth of the real estate sector as developers made haste to meet the housing demand of the IT/ITeS professionals. Besides the IT/ITeS industry, Hyderabad is also the growth centre of sectors like pharmaceutical and bio-technology with a number of SEZs and Industrial Parks which have played an important role in escalating the demand for premium residential projects as well.

Not surprisingly, residential developments have picked up considerably in areas near the IT investment destinations such as Hitech City, Madhapur, Kondapur and Gachibowli while the premium residential developments of the city continued to be located in central micro-markets like Begumpet, Banjara Hills, Jubilee Hills and Marredpally. However, of late, it has been observed that owing to saturation in these central markets, a number of premium residential projects have been launched in other locations as well. Other typically preferred residential micro-markets in the city include Himayatnagar, Secunderabad and Dilsukhnagar. Limited availability and/ or high cost of land in these areas have led to the emergence of 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, Malkagiri, LB Nagar
North Hyderabad	Kompally, Medchal, Alwal, Qutubullapur
South Hyderabad	Attapur, Rajendra Nagar, Shamshabad

Market Activity

Post 2008 and significant price corrections thereafter, the Hyderabad residential market has primarily catered to the end user market and continues to offer affordable options to buyers. Restrained IT/ITeS growth in 2012 also aided in toning down the residential prices. As a matter of fact, the weighted average capital values of the residential properties in Hyderabad are estimated to be the lowest among the metro cities.

POST 2008 AND SIGNIFICANT PRICE CORRECTIONS THEREAFTER, HYDERABAD RESIDENTIAL MARKET HAS PRIMARILY CATERED TO THE END USER MARKET AND CONTINUES TO OFFER AFFORDABLE OPTIONS TO BUYERS

THE PERIOD APRIL-DECEMBER 2012 SAW A NUMBER OF LAUNCHES BY REPUTED DEVELOPERS, TOTALING TO ABOUT 8,500 UNITS

The main reason behind the city lagging behind the others can be attributed to the political turmoil in the context of demand for a separate Telangana state to be carved out of Andhra Pradesh. Another factor that played spoilsport in the city's real estate market had been the uncertainty over the land reservation regulation Government Order (GO 45), which mandated allocation of 20% of the developed land to the economically weaker section (EWS) as low-income (LIG) housing. This regulation finally got revised during the Financial Year 2012-2013 (FY 2013) which relaxed the reservation norms for EWS/LIG housing and was met with positive response in the developer circle.

While the residential market in the city had become stagnant in the last two quarters of FY 2012, owing to the aforementioned factors, the succeeding periods in FY 2013 have been fairly encouraging as both developers and buyers came out of their shells. The period April-December 2012 saw a number of launches by reputed developers, totaling to about 8,500 units. Amongst the projects launched during FY 2013, a mention can be made of Aparna Cyber Zon and Sarovar Grande by Aparna Constructions, Prajay Virgin County by Prajay Engineers and Janapriya Classic and Silver Crest by Janapriya Engineers.



AS OF DECEMBER 2012, AROUND 65,000 RESIDENTIAL UNITS ARE UNDER CONSTRUCTION ACROSS VARIOUS MICRO-MARKETS IN HYDERABAD

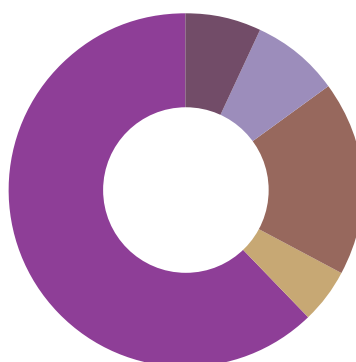
The improving market sentiments in Hyderabad portend well for the forthcoming quarters. There has been a noticeable upward movement in residential demand and absorption in a few western micro-markets and in select projects. Moreover, the new GO 245 has increased positivity in the market and has led the developers to go ahead and launch their projects. Thus, the Hyderabad residential market, that had seen its prices reach a peak in 2008 and hit a trough in the economic recession with most projects being stalled and land remaining undeveloped, has finally managed to achieve a positive traction in FY 2013.

As of December 2012, around 65,000 residential units are under construction across various micro-markets in Hyderabad. Of the total units under construction in the residential market, the western region will account for a significant share of around 62%. Most of these projects are located in Gachibowli, which is responsible for almost 30% of the units under construction in the western region, while micro-markets like Kukatpally, Miyapur and Kondapur are the other key contributors to the pie. Notable projects underway in the western region include Ramky Towers by Ramky Estates and The Botanika by Konzept Ambience Group, both projects being located in Gachibowli and Lanco Hills by Lanco Infratechin Manikonda.

The western zone is followed far behind by North Hyderabad as the region that accounts for the second highest number of residential units underway, to the tune

of 18%. Residential developments in this region include large scale projects by developers such as Aditya Constructions, Prajay Engineers, Ashoka Builders and Aparna Constructions.

Chart 1. Micro-market Split of Under Construction Units as on December 2012



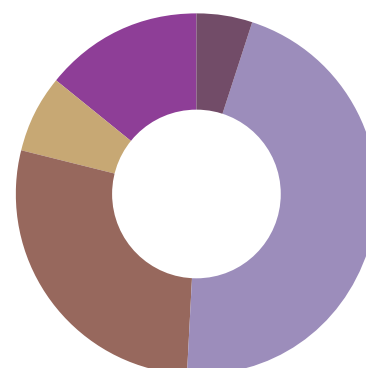
Central Hyderabad - 7%
East Hyderabad - 8%
North Hyderabad - 18%
South Hyderabad - 5%
West Hyderabad - 62%

Source: Knight Frank Research

The other zones of the city have relatively minimal contribution to the total under construction units. East Hyderabad will contribute 8% to the pie and has projects like Emerald Heights by Modi Builders in Annojiguda and Saket Sriyam by Saket Engineers in Kapra. Central Hyderabad will account for 7% with the presence of projects like Aparna Aura by Aparna Constructions and Aditya Empress Park by Aditya Constructions, both located in Jubilee Hills. The southern part of the city does not have much residential activity and accounted for merely 5% of the total units under construction in the city.

A noticeable trend during the year has been the launch of mid-sized premium projects by key developers at non-central locations. For instance, Hitech City witnessed the launch of the premium project My Home Abhra by My Home Constructions in FY 2013.

Chart 2. Ticket Size Split of Under Construction Units as on December 2012



< INR 2.5 Million - 5%
INR 2.5-5 Million - 46%
INR 5-7.5 Million - 28%
INR 7.5-10 Million - 7%
INR 10 Million and Above - 14%

Source: Knight Frank Research

On the pricing front, nearly 51% of the total number of residential units underway falls within the INR 5 million ticket size category. This signifies the acknowledgment of developers towards the fact that customers in the mid-segment are the prime demand drivers of residential market in the city. Another 28% belonged to the INR 5-7.5 million ticket sizes. On the other hand, just 14% surpassed the ticket size of INR 10 million to fall into the premium segment.

THE WEIGHTED AVERAGE PRICES OF LOCATIONS LIKE MADHAPUR, GACHIBOWLI AND KUKATPALLY THAT SAW CONSIDERABLE HOUSING DEMAND, APPRECIATED BY AROUND 7% DURING THE PERIOD APRIL-DECEMBER 2012



Absorption

There had been increasing apprehensions over the realty market in Hyderabad hitting a point of stagnation during the initial period of 2012. However, the city has been gradually bouncing back to normalcy. This can be attributed to affordable pricing and various promotional offers by the developers which resulted in an increase in enquiries. The absorption rate observed in FY 2013 till December 2012 has been encouraging with the latent demand manifesting itself now and leading genuine buyers to express interest in acquiring properties.

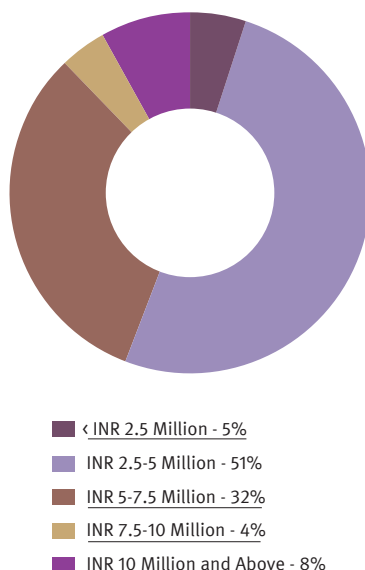
Chart 3. Unsold Stock as % of Under Construction Units as on December 2012



Source: Knight Frank Research

The unsold stock as percentage of units under construction in the city's residential market as on December 2012 was recorded at approximately 28%. The northern zone, due to its price-sensitive nature, had a proportion of 30% unsold stock. This was followed by the western region with 28%, which can be attributed to the large quantum of residential units launched here. The southern region, too, had similar level of unsold stock at 28%, primarily owing to the lack of infrastructure here. On the other hand, the central and the eastern part of the city had tolerable levels of unsold stock, to the tune of around 24% and 22% respectively.

Chart 4. Absorption by Ticket Size as on December 2012



Source: Knight Frank Research

It has been observed that nearly 56% of the absorption till December 2012 has been within the INR 5 million ticket size category, followed by the ticket size range of INR 5-7.5 million at 32%. The clubbing together of these categories essentially denotes the fact that the affordable and mid-end segment has been responsible for the absorption of total 88% of the residential units booked or sold. The premium segment of INR 10 million and above consisted of just 8% of the total absorption in FY 2013.

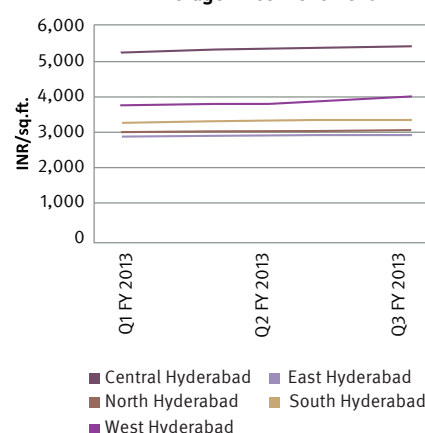
MICRO-MARKETS LIKE GACHIBOWLI, SHAIKPET, NANAKRAMGUDA, MIYAPUR, KUKATPALLY AND CHANDANAGAR WILL CONTINUE TO BE PREFERRED INVESTMENT DESTINATIONS AS WELL AS END-USER MARKETS

Another important trend witnessed in the Hyderabad residential market is the increase in preference for smaller unit sizes. This may stem from the fact that due to the global economic uncertainty, much of the sheen has been taken off the IT/ITeS sector. As such, there have been more of genuine budget home buyers than speculative investments.

Price

With demand showing signs of revival in the past few months, certain micro-markets of the city have witnessed upward movement in prices. The weighted average prices of locations like Madhapur, Gachibowli and Kukatpally, that saw considerable housing demand, appreciated by around 7% during the period April-December 2012. The central locations, due to limited number of new residential launches, also saw an appreciation of around 4% in the weighted average prices during the same period. However, prices in the other micro-markets of the city remained consistent with marginal variations during the year.

Chart 5: Quarter-wise Weighted Average Price Movement



Source: Knight Frank Research

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



OUTLOOK

Hyderabad residential market has been unable to maintain its growth momentum as witnessed in 2008, hampered by the economic recession. Much of it also relates to the political uncertainty in the region. However, going by the increasing demand observed in the recent months, the situation is expected to change for the better in forthcoming quarters. The fact that residential property in Hyderabad is relatively undervalued presents vast opportunity for end-users and investors alike.

On the infrastructure front, the city is gearing up for some major developments that augur well for the real estate sector. The upcoming Metro Rail project is expected to provide a boost to real estate activity in the micro-markets along the metro rail routes. The connectivity of the city's central to peripheral locations will improve and is likely to result in significant new project launches along the corridor.

Micro-markets like Gachibowli, Shaikpet, Nanakramguda, Miyapur, Kukatpally and Chandanagar will continue to be preferred investment destinations as well as end-user markets. Residential prices are envisaged to appreciate by around 5-8% in locations like Madhapur, Gachibowli and Kukatpally, which have seen high absorption in FY 2013.

Among the emerging micro-markets to watch out for in the near future, western locations like Lingampally, Narsingi and Kollur in the vicinity of Gachibowli are expected to become favoured residential investment micro-markets. This can be attributed to improved connectivity to these locations as well as the easy availability of land at competitive rates which has encouraged more developers to undertake residential development in and around these areas.

THE UPCOMING METRO RAIL PROJECT IS EXPECTED TO PROVIDE A BOOST TO REAL ESTATE ACTIVITY IN THE MICRO-MARKETS ALONG THE METRO RAIL ROUTES. THE CONNECTIVITY FROM THE CITY'S PERIPHERAL TO CENTRAL LOCATIONS WILL IMPROVE AND IS LIKELY TO RESULT IN SIGNIFICANT NEW PROJECT LAUNCHES ALONG THE CORRIDOR.