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ECONOMY & REALTY

Knight Frank

Economic Outlook

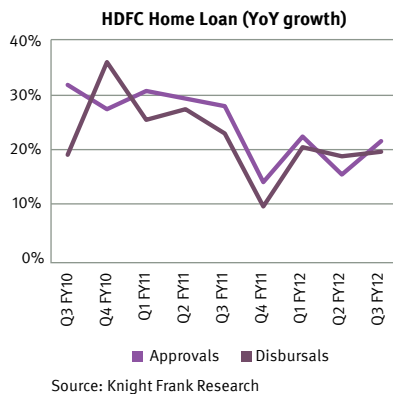
During 2011, high inflation remained the focal point of concern, debate and policy decision making. Year 2012 has begun with high interest rate being the agenda of debate and as it appears today most of the actions this year would center on it. The first signal came as the RBI announced a 50 basis points (bps) reduction in Cash Reserve Ratio (CRR) fuelling expectations of easing interest rate scenario.

For the interest rate sensitive real estate industry high stakes are involved when leveraged balance sheet and high home loan rate coincides with economic slowdown. At regular intervals, the industry has been raising its voice for reduction in interest rate on the premise of providing respite to the house buyers. However, it is noteworthy to debate who would be the real beneficiary if interest rates come down and whether reduction in interest rate is sufficient to boost housing demand.

disbursements grew by 19% in Q3 FY12 compared to 23% in Q3 FY11. Quantum of home loan approvals, which is an advance indicator of lending activity going forward, grew by 21% in Q3 FY12 in comparison to 28% in the same period last year. HDFC is the market leader amongst housing finance companies (HFCs) and the numbers for other HFCs could be worse since the pace of new project launches almost halved in 2011 in comparison to the previous year. During the last two years, the home loan interest rate has gone up by at least 300 bps thereby inflating housing loan EMI's by as much as 25%.

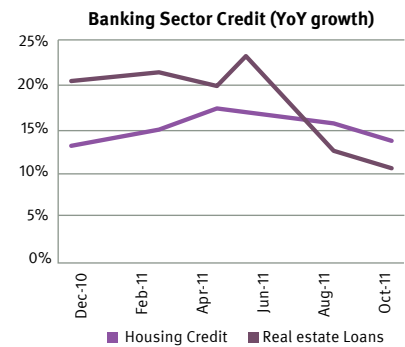
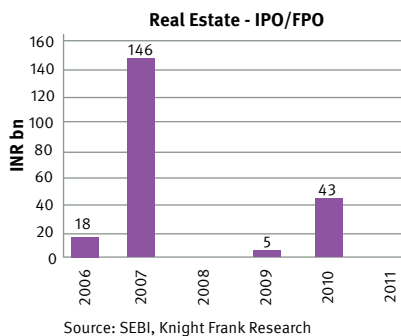
DURING THE LAST TWO YEARS, THE HOME LOAN INTEREST RATE HAS GONE UP BY AT LEAST 300 BPS THEREBY INFLATING HOUSING LOAN EMI'S BY AS MUCH AS 25%.

After a lull in equity offerings by realty players in 2008 and 2009, renewed interest was witnessed in 2010 as INR 43 bn of equity offerings came to primary market. This provided a renewed lease of life to developers and many of these players and even private equity firms operating in this sector lined up with the market regulator SEBI to garner money through the IPO route in 2011. Although a decent number of companies in sectors excluding realty raised money through this route, not a single realty player was successful in raising money through this avenue last year.



From the consumer's point of view, high mortgage rate, unaffordable property prices coupled with poor employment outlook ensured that buyers kept postponing their decision to buy a house. The data from home loan provider HDFC indicates that the

A closer look at the industry data should throw some light on the situation. Leveraged balance sheets of developers have been a cause of concern since quite some time now. Subdued property sales since last year has crippled the ability to service debt and interest payment forcing developers to explore avenues of fund raising.



Throughout the year banks shied away from lending to the realty sector. Even today, lending is happening on a very selective basis. The latest RBI data confirms the mood in the banking circle. The data for outstanding corporate real estate loans in November 2011 shows an annual growth of 10.6% in comparison to 19.1% growth in November 2010. Since the beginning of 2010 cost of funding has increased significantly on the back of 13 rounds of increments in the repo rate from 4.75% to 8.5% and a higher risk provisioning.

Sale of assets; land, TDR, under construction property or leased real estate asset, is vigorously undertaken to avert default. Since



loan restructuring was not an option unlike in 2008 downturn, high cost funding avenues like bridge loan from NBFCs, structured debt from private equity players and HNI's has come to the rescue. However, indiscriminate consumption of steroids for a long duration is fatal. Sooner or later a healthy lifestyle has to be adopted to lead a stress free life. Without doubt, advocating for a reduction in interest rate as a tool to boost housing demand is nothing more than beating around the bush.

Hyderabad Residential Market Market Overview

Hyderabad, also known as the second silicon valley of India has emerged as an IT/ITeS and biotech destination. It is the administrative, financial and economic capital of the state and is the largest contributor to the state's GDP. Although the Hyderabad residential market is primarily driven by IT/ITeS industry, it is also the growth centre of sectors like pharma and bio-tech with a number of SEZ's, Industrial Parks and IT campuses which have underpinned the growing residential demand. In the last decade, considerable interest has been generated in the residential segment near Hitech City area.

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

Table 1: 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

Source: Knight Frank Research

Residential demand in the Central zone comprising of areas like Begumpet, Maredpally, Somajiguda, Himayatnagar, Chikkadpally, Banjara hills and Jubilee hills is primarily driven by government officials, businessmen, corporate office employees and NRI's. These locations cater to higher income groups as well as upper middle income segment.

Western zone comprises of locations like Kukatpally, Madhapur, Kondapur, Gachibowli, Miyapur, Hitech City, Gopannapalli and it is the largest contributor to residential supply in Hyderabad. Demand in this region is end user driven and majority of upcoming supply will cater to the employees of IT firms in and around Hitech City and Gachibowli. The supply in these micro markets have seen a boost due to its proximity to workplaces, upcoming retail development and supporting infrastructure in the form of connecting railway stations, the National Highway and Express Highway which connects to the airport.

Northern zone is the second most preferred residential micro market and is primarily investment driven due to good infrastructural facilities and proximity to the cantonment area. Most of the supply in the Northern Zone has come up in Kompally, Qutubullapur, Nagpur Highway, Yarpal and Shamirpet.

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 under construction will improve the traffic situation and connectivity in the eastern zone.

The Southern zone encompasses locations such as Malakpet, Attapur, Upparpally, Saidabad, Santoshnagar, Rajendranagar and Shamshabad. With the development of Shamshabad International airport and other developments like SEZ's , Hardware Park and Fab City, this zone has been rapidly growing as a residential location, however distance from the city centre is still deterrent for demand.

Supply and Demand

Hyderabad residential market has witnessed an increase in the number of project launches in Q4 2011 compared to Q3 2011, due to which sales has also picked up. Most of the project

launches took place in the West. Projects such as Aparna Hill Park Avenues and Aparna Hill Park Boulevard were launched in Miyapur and Chandanagar respectively in the price range of INR 2,800-3,000 per sq.ft. Another project which was launched in Miyapur was Divya Shree Shakti at the price of INR 2,800 per.sq.ft. Sunway Opus in Miyapur, Golf Edge in Gachibowli , Pbel City on Outer Ring Road, Casa Paradiso in Sanath Nagar were some of the other launches.

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An estimated supply of 27,000 units is expected to enter the Hyderabad residential market between 2012-2014. About 50% of this supply is anticipated to be ready for possession by the end of year 2012. The Western locations of Madhapur, Gachibowli, Kukatpally, Manikonda, Kondapur, Hitech City and Nallagandla would be the largest contributor to the upcoming residential supply expected to enter the market by 2014. Western zone constitutes nearly 65% of the current residential supply in Hyderabad. High Quantum of residential supply in these locations is due to strong demand, availability of large land parcels and proximity to the commercial hub. Approximately 50% of the upcoming supply in this region will be accounted for by 3BHK units, with 2BHK units accounting for 20% and 4BHK units a further 10%. North Western regions like Bahcupally, Nizampet and Pragati Nagar feature development of villas and row houses, whereas Gachibowli , Madhapur and parts of Kukatpally primarily feature high end residential apartments. Northern zone represents the second largest contributor of Hyderabad's residential supply. This zone constitutes nearly 17% of the upcoming supply, with a bulk of projects under construction in Kompally.

Transaction volumes have gone up by 13% in Q4 2011 compared to Q3 2011. Even though

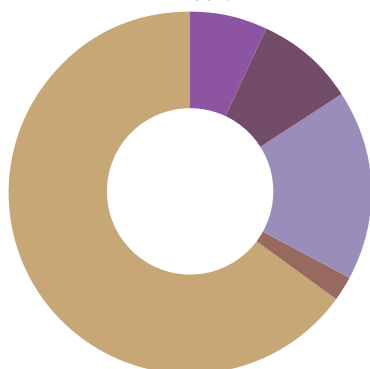


Table 1: Select Under Construction Projects in Hyderabad

Project Name	Developer	Location	Number of Units	Price./sq.ft(INR)	Possession
Saket Shreyam	Saket Engineers Pvt Ltd	HMR - East	353	2,600	Aug-13
Prajay Megapolis	Prajay Engineers Syndicate	HMR - West	836	2,700	Mar-14
Prajay Megapolis	Prajay Engineers Syndicate	HMR - West	836	2,700	Mar-13
Prajay Megapolis	Prajay Engineers Syndicate	HMR - West	912	2,700	Mar-14
Emerald Heights	Modi Builders	HMR - West	504	1,850	May-13
Fortune Homes	Agarwal Group	HMR - North	387	2,500	Aug-14
Ark Homes	ARK Builders	HMR - North	240	1,800	Aug-14
Aparna Kanopy Value Villas	Aparna Constructions	HMR - West	235	3,400	Jan-14
Aparna Kanopy	Aparna Constructions	HMR - North	480	1,900	Apr-13
Sri Nivas Heights	SH Group	HMR - East	256	2,200	Feb-13
Nile Valley	Janapriya Engineers Syndicate	HMR - West	1,400	2,050	Dec-13
Nile Valley	Janapriya Engineers Syndicate	HMR - West	252	2,050	Jul-13
The Annexe	Indu Group	HMR - West	336	3,050	Oct-13
Ozone Heights	CSE Welfare Association	HMR - West	345	2,000	Apr-13
GK's Pride	G K Developers	HMR - North	275	2,100	Apr-13

Source: eyestate

Distribution of Supply (2012-2014)



- HMR - Central - 7%
- HMR - East - 9%
- HMR - North - 17%
- HMR - South - 2%
- HMR - West - 65%

Source: eyestate

the residential sales volume has gone up, Central and Eastern micro markets have shown a negative trend in absorption. North Hyderabad has shown highest growth of about 39% in sales volume compared to Q3 2011, as new projects were launched in this micro market in Q4 2011 at affordable prices. Western market has shown the highest absorption in terms of volume which can be attributed to the high number of launches in

this micro market as well. Nearly 62% of the sales have been in the affordable and mid segment housing with a ticket size of less than INR 0.50 mn.

AN ESTIMATED SUPPLY OF 27,000 UNITS IS EXPECTED TO ENTER THE HYDERABAD RESIDENTIAL MARKET BETWEEN 2012-2014. ABOUT 50% OF THIS SUPPLY IS ANTICIPATED TO BE READY FOR POSSESSION BY THE END OF YEAR 2012.

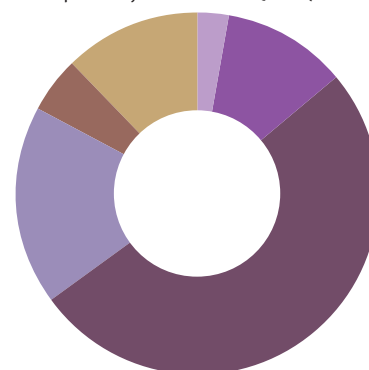
NEARLY 62% OF THE SALES HAVE BEEN IN THE AFFORDABLE AND MID SEGMENT HOUSING WITH A TICKET SIZE OF LESS THAN INR 0.50 MN.

Prices

Capital values for residential properties have remained stable across all micro markets compared to Q3 2011, since demand has

BASED ON THE ABSORPTION TRENDS, UNSOLD INVENTORY IN WESTERN ZONE WILL BE ABSORBED IN SIX QUARTERS WHERE AS NORTHERN ZONE WILL TAKE APPROXIMATELY THREE QUARTERS.

Absorption by Ticket Size-Q4 11 (INR mn)



- < 2.5 - 11%
- 2.5 - 5.0 - 51%
- 5.0 - 7.5 - 18%
- 7.5 - 10.0 - 5%
- 10.0 - 20.0 - 12%
- > 20.0 - 3%

Source: eyestate

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strengthened in Q4 2011. However prime residential locations of Jubilee Hills and Banjara Hills have seen an increase of about 4%-5% in Q4 2011 due to limited supply in these locations. Jubilee Hills and Banjara Hills command high capital values ranging between INR 6,500-7,500 per.sq.ft which is considerably high when compared to other micro markets. Western Zone locations have seen no change in the capital values during Q4 2011 as compared to Q3 2011. However, there has been a 4% increase in capital values from Q4 2010 with prices ranging between INR 2,800-3,700 per. sq.ft. Little or no appreciation of capital values in Madhapur and Gachibowli can be attributed to large quantum of residential supply planned in these locations which were to be completed by 2011.

Table 2: Average Residential Capital Value Change

Locations	% Change from Q4 2010	Q4 2011 (INR/SQ.FT)
Banjara Hills/ Jubilee Hills	5%	6500-7500
Begumpet	4%	2900-4500
Madhapur	5%	2800-3700
Gachibowli	5%	2800-3700
Kukatpally	8%	2900-4000
Miyapur	10%	2400-2800

Source: Knight Frank Research

Based on the absorption trends, unsold inventory in Western Zone will be absorbed in six quarters where as Northern Zone will take approximately three quarters.

Outlook

Hyderabad residential market has shown positive signs in the last quarter of the year 2011. Project launches have gone up showing a positive sentiment as developers are positioning their projects correctly and strategically correcting unit sizes and prices to improve the saleability of the projects. Demand is expected to remain strong in the early part of the year 2012. Prices are expected to further go up in locations like Banjara Hills and Jubilee Hills due to high demand and limited supply. Also, since a number of projects have been delayed in micro markets of Madhapur and Kukatpally, these locations might witness an increase in prices due to growing demand and limited availability of ready to move properties.

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