RESIDENTIAL
RESEARCH

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RESIDENTIAL TRACTION @ GLANCE

Hyderabad
July 2013

MARKET OVERVIEW

Nearly 69,800 residential units are under various stages of construction in the Hyderabad market. About 70% of this is expected to be ready for possession by the end of 2014.

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. The Hyderabad residential market is primarily driven by the IT/ITeS industry, coupled with the growth of the pharmaceutical industry. Biotech sectors and setting up of SEZs, industrial parks and IT campuses has also given ample impetus to the residential demand in the city. Largely an end user market, Hyderabad has witnessed an extended slump due to the prevailing political uncertainties. Weakened consumer sentiments have affected the market deeply with no signs of recovery since the past two years.

As per our research, Hyderabad shows the highest quarters to sell (QTS) ratio among the six metro cities. QTS refers to the number of quarters required to exhaust the existing unsold inventory in the city. Despite competitive capital values compared to other metros, the Hyderabad market has failed to pick up the anticipated pace. Political instability over the Telangana issue is the primary reason for this. Since the residential sector is highly sentiment driven, the Hyderabad market failed to attract buyers. However, select micro-markets closer to the IT/ITeS hub of Madhapur and Hi-Tech city have picked up momentum both in terms of supply and demand.

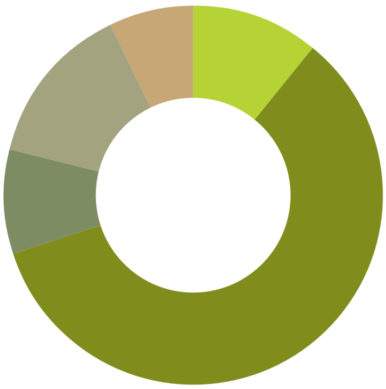
A number of infrastructure initiatives that are expected to provide the much needed thrust to the residential sector are underway in Hyderabad city. Outer Ring Road (ORR) an eight lane expressway is being built in the city, work is in progress on the last stretch between Shamirpet and Pedda Amberpet. A large part of the ORR is already operational providing good connectivity with Shamshabad airport. ORR provides a circular connectivity with the city and helps in decongesting the Inner Ring Road and major arterial roads. Hyderabad Metro is also under construction, Phase I of the project will connect Miyapur and LB.Nagar, Nagole and Shilparamanam, JBS and Falaknuma. Unlike the ORR, the Metro cuts through the city connecting north with south and east with west in a linear manner.

Owing to the new infrastructure developments, the Hyderabad market has also evolved during the last two decades. 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.

The western zone has seen immense development in all asset classes. Comprising locations like Kukatpally, Madhapur, Kondapur, Gachibowli, Miyapur, Hitech City, Gopanpally, it is the largest contributor to residential supply in Hyderabad. Demand in this region is end user driven, majority catering to the employees of IT firms in and around Hi tech city and Gachibowli. The supply in this micro-market has 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 connect to the airport.

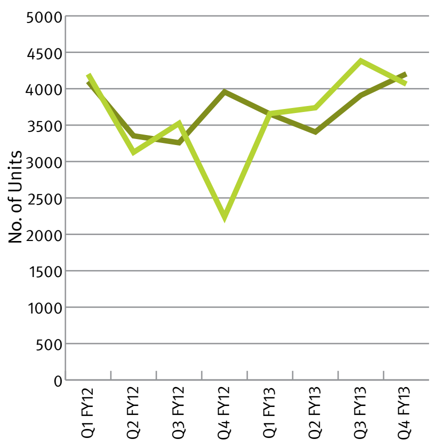
Despite an extended slowdown, Hyderabad's residential market is showing some signs of recovery. Nearly 8,500 units were launched in H2 FY13, showing an increase of almost 33% compared to H2 FY12.

Chart 1: Micro-market Split of Units Under Construction as on June 2013



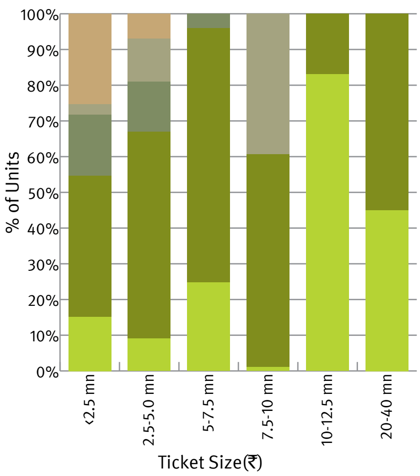
Source: Knight Frank Research

Chart 2: Hyderabad Residential Market Trend



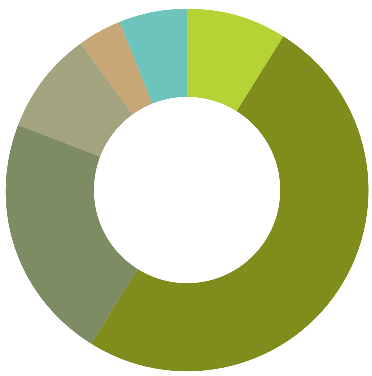
Source: Knight Frank Research

Chart 3: Micro-market Split of Launched Units Across Ticket Sizes in H2 FY13



Source: Knight Frank Research

Chart 4: Absorption by Ticket Size in H2 FY13



Source: Knight Frank Research

Residential demand in the central zone 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 higher income groups as well as the upper middle income segment.

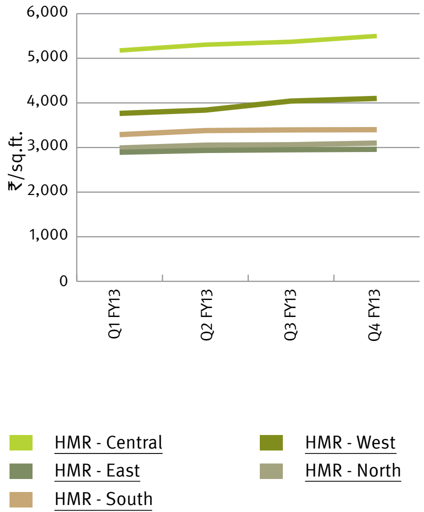
The northern zone is the second most preferred residential micro-market and is driven due to good infrastructure facilities and proximity to the cantonment area. Most of the supply in the north zone has come up in Kompally, Qutubullapur, Nagpur Highway, Yarpal and Shamirpet.

The eastern zone comprises locations such as Uppal, Nacharam,Mallapur, Kapra, Cherlapalle, Pocharam, Kuntloor, Rampally and Ghatkesar. Phase II of the ORR, which is under construction will improve the traffic situation and connectivity in the eastern zone.

Malakpet, Attapur, Upparpally, Saidabad, Santoshnagar, Rajendranagar and Shamshabad fall under the southern zone. With the development of Shamshabad International Airport and other developments like SEZs, Hardware Park and Fab City, this zone has been growing as a residential location. However, its distance from the city is still a deterrent to demand.

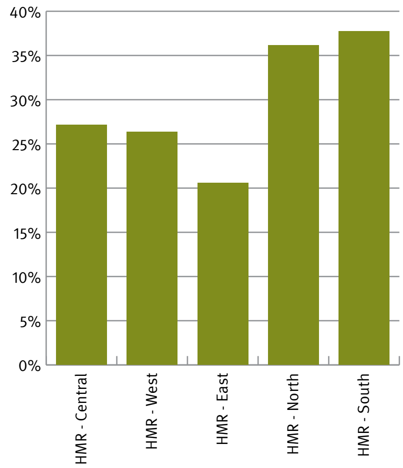
The residential sales volume has gone up by 11% in H2 FY13 compared to H2 FY12. Approximately 8,100 residential units were absorbed in H2 FY13.

Chart 5: Quarter-wise Weighted Average Price Movement



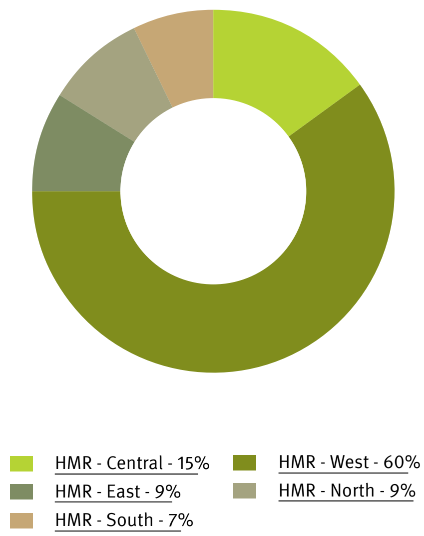
Source: Knight Frank Research

Chart 6: Unsold Units as a % of Under Construction Units as on June 2013



Source: Knight Frank Research

Chart 7: Micro-market Split of Absorbed Units in H2 FY13



Source: Knight Frank Research

Table 1: Residential Micro-markets in Hyderabad

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

*HMR refers to Hyderabad Metropolitan Region

Nearly 69,800 residential units are under various stages of construction in the Hyderabad market. About 70% of this is expected to be ready for possession by the end of 2014. Of the total units under construction, the western locations of Madhapur, Gachibowli, Kukatpally, Manikonda, Kondapur, Hi-tech city and Nallagandla account for a significant share of around 59%. High quantum of residential supply in these locations is due to strong demand, availability of large land parcels and proximity to the commercial hub. The north zone is the second largest contributor to Hyderabad's residential supply. This zone constitutes nearly 14% of the under construction units, with a bulk of projects in Kompally. The central zone contributes to a meagre 11% of the total units under construction, followed by East Hyderabad at 9%.

Market activity

Despite an extended slowdown, Hyderabad's residential market is showing some signs of recovery. Nearly 8500 units were launched in H2 FY13, showing an increase of almost 33% compared to H2 FY12. Developers continue to launch projects in the western zone, catering to the demand from the IT/ITeS sector. Nearly 57% of the project launches took place in this zone. Manikonda, Hitech City, Gachibowli were some of the favoured locations. Central Hyderabad followed as the region with the second highest number of launches. Most of the project launches in Central Hyderabad took place in Banjara Hills, Begumpet and Kavadigua in the price range of ₹ 7500-8500 per.sq.ft. The northern zone contributed to about 10% of the units launched in H2 FY13, Kompally remained the preferred location for launches.

As per our analysis the QTS ratio for Hyderabad stands at 9. This indicates that it will take more than two years to absorb the current unsold inventory.

It is interesting to see the ticket size wise split of launched units across micro-markets in the Hyderabad market. The west zone seems to have a good mix of affordable, mid-segment and high end housing options, making it a favourable destination for home buyers.

The residential sales volume has gone up by 11% in H2 FY13 compared to H2 FY12. Approximately 8,100 residential units were absorbed in H2 FY13. Considering that Hyderabad is an end user market, there is a stable sales appetite which is not highly influenced by the number of launches. Plummeting launches towards the end of year 2012 had little impact on the sales volume. Home buyers prefer not to book in a recently launched property but wait for the delivery of the project. The western micro-market has shown the highest absorption in terms of volume which can be attributed to the type and volume of inventory available in this market. Nearly 59% of the sale has been in the affordable and mid segment housing with a ticket size less than ₹ 5 mn.

Unsold inventory levels are quite high in the Hyderabad market. Nearly 28% of the total launched units till date remain unsold. Hence a steady absorption rate is required to sustain the prices. As per our analysis the QTS ratio for Hyderabad stands at 9.

At a micro-market level, the north and south zones have the maximum unsold inventory, despite having prices in the affordable range clearly showing a mismatch between the supply and buyer preference.

This indicates that it will take more than two years to absorb the current unsold inventory. Although this is quite high compared to the other metro cities, it may not be alarming. Since the QTS ratio of Hyderabad market has been alternating between 8 and 9 in the last two years. Hyderabad is the only market with a negligible presence of investors, leading to a slow and steady absorption. Majority of the home buyers are end users having a preference for booking a ready to move in property. Developers are under constant pressure to deliver the project on time.

At a micro-market level, the north and south zones have the maximum unsold inventory, despite having prices in the affordable range clearly showing a mismatch between the supply and buyer preference. The west zone has a comparatively lower ratio of unsold units, considering nearly 60% of the total under construction units fall under it. This shows that there is an inherent demand only for the right kind of product. Location of the project, socio-economic profile of the area, type of unit plans and presence of amenities are some of the key factors that impact the buying decision in Hyderabad. Another aspect that plays a pivotal role in the Hyderabad residential market is the type of developer. Credibility and trust on the developer have a high influence in choosing a property. A few Grade' A' national developers have entered the market and failed to deliver, leaving the buyers wary. Some of the prominent developers that have been doing well in the Hyderabad market are Aparna Constructions, Nagarjuna Constructions (NCC), Prajay Engineers, Janpriya Constructions and Lanco Infrastructure. Average unsold inventory of these developers ranges between 20-25% whereas, the average vacancy levels for Grade B and C developers range between 38-40%.

Prices

Although the Hyderabad residential market has shown signs of revival in the past couple of quarters, prices have not appreciated much. Prime residential locations of Jubilee Hills and Banjara Hills have seen an increase of about 7-10 % in during FY13 due to limited supply there. Jubilee Hills and Banjara Hills command high capital values ranging between ₹ 7000-7500 per.sq.ft., which is very high compared to other micro-markets. Western zone locations like Madhapur, Gachibowli, Kondapur and Kukatpally have seen price appreciation to the tune of 9% during FY13. Despite the price appreciation in the aforesaid markets, the capital values still fall short of the 2007-08 levels.

Outlook

H2 FY13 showed positive signs for the Hyderabad residential market, as there was an upsurge in project launches and sales. Since Hyderabad is primarily an end user market the sales volume tends to be steady and is not affected much by an increase in the number of project launches. Home buyers remain cautious while booking a property due to the instability witnessed in the past. Unlike other metros, buyers prefer a ready to move in property. Hence, demand is expected to remain steady in the coming quarters, especially in the western zone. The fact that the residential property in Hyderabad is relatively discounted provides immense opportunity for end users as well as investors. Investors' interest will be further heightened once a final decision on the Telangana issue is made. Capital values are not expected to shoot up drastically as there is ample unsold inventory in the market. Development of the ORR is also facilitating developers to launch projects in far flung locations at lower prices, without compromising on connectivity.

Research

Dr. Samantak Das
Chief Economist & Director, Research
T +91 22 6745 0101
samantak.das@in.knightfrank.com

Consultancy & Valuations

Saurabh Mehrotra
Director, Consultancy & Valuations Services
T +91 22 6745 0101
saurabh.mehrotra@in.knightfrank.com

Residential Agency

Mudassir Zaidi
National Director, Residential
T +91 124 4075030
mudassir.zaidi@in.knightfrank.com

Regions

Naushad Panjwani
Senior Executive Director – West
T +91 22 6745 0101
naushad.panjwani@in.knightfrank.com

Rajeev Bairathi
Executive Director – North
T +91 124 4075030
rajeev.bairathi@in.knightfrank.com

Satish BN
Executive Director – South
T +91 80 40732600
satish.bn@in.knightfrank.com

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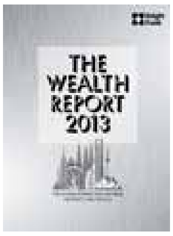

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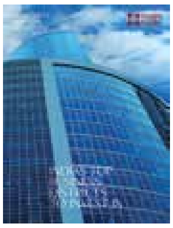
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