



The Trends and Uncertainty in the Hyderabad Real Estate Market – A Case Study

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Abstract: *This paper address the following objectives 1) it examines the trends of the Hyderabad real estate market during the period 1990-2014 which is emerged as an under developed Tier III city to mega city. 2) It also looks at the problem of uncertainty in the Hyderabad real estate market in the context of different absorption level. Hyderabad being the productive city for the real estate and other sectors; emerged as an underdeveloped Tier- III city into energetic city with prosperous business opportunity and is the most important center of employment, able to occupy place in top ten cities in country. Hyderabad real estate and other sectors are not an exception from global crisis; since it has been badly affected by the global crisis 2008 as like the other cities. The political uncertainty due to strong agitation over Telangana has also affected the new launches and capital value of the real estate market and restrained the development of the real estate sectors' number of new launches has reduced and stagnated capital value. The new locations emerged at the peripheral of city namely Alwal, Telapur, Shamir pet and Nallagandla as new residential corridors. The capital value of real estate market had shown it peak level in 2008 only, after the political and global turmoil it could not reach its peak till now. But given the existence of strong real estate drivers like infrastructure and commercial activity in the city, the existing capital value provide the impression beneficial largely on account of undervaluation and affordability compared to other cities.*

Key words: *Real estate sector, Megacity, Uncertainty, Absorption level, Hyderabad, Global crisis, Political uncertainty, Capital value.*

1. Introduction

Real estate has been perceived as a very good opportunity to utilize capital or investment properly for both long and short-term investments. It is perceived to be relatively safe and is expected to fetch high profits or returns on investment as compared to the more unstable returns, which come from either the stock market or the very small and limited returns from bank deposits. According to the free encyclopedia definition real estate is a “Legal term that comprises land along with anything permanently fixed to the land, for example buildings”. To elaborate further, real estate, which is also defined as the immovable property or even realty, is frequently deemed

identical with real property comparison to personal property.

To be exact, real estate is not characterized by such physical components as land and buildings. Moderately, real estate is firmly synonymous with real property, the rights that associated with land and together with the fixtures, for intense roads and buildings that are always connected to the land¹.

During 2002 when the real estate market was progressing towards an expansionary phase

¹Dr. C. Anbalagan, B.V. Shivaram (2012).A study on Problems and Prospects of Investment in Real Estate in India. KKIMRC IJRFA Vol-1, No-2.

wherein increasing populace, rising income levels, rapid expansion of urbanization have all contributed to the growth of Indian real estate market. Some of the important characteristics of the Real estate economy are that the Real estate is a form of asset with limited liquidity in relation to other investments, it is also capital intensive and is prominently cash flow dependent. If these factors are not well comprehended and managed by the investor, real estate turns out to be a risky investment. The study of investors behavior reveals that different factors impact their invest portfolio in the real estate market.

2. Review of literature

Bharat Mittal, 2007 maintains that the Indian real estate investment area has witnessed incredible progress over the most recent couple of years as a consequence to the global and local factors. With the growth and enlargement of the real estate market, other areas experienced the growth, which assisted and generated the growth of the economy.

Gill,A, S.P Sharma, H.S Mand, N. Mathur, 2012 argue that globalization and expansion of new Multinational Corporations in India resulted in the expansion of real estate market and economic growth. Also, growth of populace, rise in pay level and rapid growth of urbanization are the factors that affected the growth of Indian real estate market. Since the Indian real estate market is developing market in an under developed economy, the role of real estate investors play a crucial part of Indian economy.

R.A. Nagy and R.W. Obenberger ,1994, explains about a middle man, the real estate agent immediately makes use of a sellers property data for sale; offers various listing services to gain the competitive advantages in the real estate market. All services are then conjoined with effective

marketing tools like advertising, which in turn help to increase the rate of arrival of potential buyers, who are better informed and thus better matches the seller's real estate property, causing a higher offers and profits.

Slovic, 1972; Alfredo and Vicente, 2010, Investment practices are characterized as how the speculators judge, figure, investigate and audit the systems for choice making, which contains information gathering, psychology, characterizing and comprehension, exploration and investigation. The entire procedure is called investment behavior.

Unintentional. Investors make investment decisions with a purpose to hold the property for either long term or short term. In short, literature review recognized that behavioral factors such as neutral Information, motivation from advisers, investment knowledge, and investment risk and over expectation, influence the investors to invest in the real estate market.

3. Research gap

Globalization and liberalizations policies were made the all the markets interlinked. The crisis in one country effects the markets of the others counties. In such phenomenon, to understand real estate sector, which is highly sensitive to the crisis and always consider as highly uncertain market, need more focus and research. Indian real estate sector generally, particularly Hyderabad real estate sectors has been affected very badly by the global and political crisis, in such scenario question arises regarding the trends and uncertainty in the real estate market of Hyderabad. Most of the studies on real estate sector has given importance and looked at the development of the real estate sector and much research not conducted on the Hyderabad real estate sector particularly on the trends and uncertainty of the Hyderabad real estate sector.

4. Methodology and data source

This study is systematic and expressive in form, more focus given on the two important issues, firstly it concentrate on the trends in Hyderabad real market and secondly it gives emphasis to find out reasons to uncertainty in the Hyderabad real estate market . This study depends on the secondary data only. Data has been collected from the different form of sources, such as reports, surveys, journals, books and newspapers.

The reports of the CRISIL, Cush man & Wake Field, Common Floor Survey, Indian Construction Industry Development Council, ICICI Property Services Group, Knight Frank, KPMG, Hyderabad real estate asocial reports have used, along with these reports, many journal and surveys also has taken as secondary source.

5. Trends in Hyderabad real estate market

Hyderabad real estate market has expanded rapidly, where it was concentrated in few areas in pre 1990. The real estate market expanded from center of the city to peripherals, having reached its high level in 2008. During pre-1990 the real estate activity largely concentrated in old city and other areas namely Abids, Musheerabad, Srinar colony, Begumpet, Marredpally etc.

During the period 1990-1999 development of new CBD (central business districts) areas nearer to erstwhile airport Areas such as Punjagutta, Banjara Hills, Soumajiguda, Jubilee Hills, etc. areas got reputation and expanded quickly. The Residential activity gained push in South East locations namely Dilsukhnagar, L B Nagar, etc.

In 2000-2008 the City was developed as one of the prominent IT/ITeShub of the country, areas surrounding the Hi Tech city were developed as a

new growth corridor. The Peripheral areas (outsirt) such as Madhapur, Miyapur, Gachibowli, Kukatpally, Tellapur and Kondapur gained importance from the IT/ITeS development in city. The capital values of real estate market augmented and residential market expanded faster than the other sub sectors of real estate market. This period has experienced huge supply and shocking price appreciation due to healthy market and absorption level and also it was backed by development of the human capital presence firm IT/ITes.

The time period 2008-2010 was characterized by negative global economic scenario. The Real Estate market stumbled with decline in new launches as well as absorption. All the major micro markets experienced a drop in capital values. Until first half of the year 2008, the real estate activity in Hyderabad was marked at its peak. Real Estate in the city was characterized by numerous new launches backed by positive market sentiments and optimistic developers. The city's real estate capital values increased at a scorching pace till 2006-07 after which it fell sharply.

Hyderabad real market boom was badly hit by market distrust originating from the global financial crisis. The period between first half of 2008 and second half of 2010 was seen fall in launches as well as absorption and colossal build-up of inventory peaking to an average of 28 months for the whole year in 2009. In post 2009, the inventory overhang has obstinately floated in the red zone. Even in the case of absorption more than demand as in the case of first half of the 2010, inventory overhang had not fallen down below 22 months. Recovery has been experienced by the all major market in Post H1 2010. Hyderabad real estate market was affected by uncertainty creating the political chaos over Telangana issue. Developers and buyers have been hesitating and running away

from the market due to fear of price crash in the event of violent agitations. All this has led the market in to stagnation in real estate activity and capital values in the city.

During the period 2010-2014 many development were initiated, specially the ORR (outer ring road) links Shamshabad airport, and benefited the city by circular connectivity and reduced burden of the inner road connectivity and also reduced time and distance of reaching out the destination, another major project, the Metro railway project is under construction, Phase I of the project will connect Miyapur and LB.Nagar, Nagole and Shilparamanam, JBS and Falaknuma. Unlike the Outer ring road, the Metro cuts through the city joining north with south and east with west in a linear manner, these are encouraging growth of residential market of above mentioned areas. The proposed Hyderabad Metro Rail Information Technology Investment Region (ITIR) is also expected to boost the real estate expansion in the city. Addition to these developments industrial park, free economic zone and ware housing zone, export units are also inducing growth residential sector.

Despite having sound infrastructure and other developments, Hyderabad city could not attain the expected level of growth due to political uncertainty. The investors could not dare to invest in such uncertain circumstances and it pushed back expected level of growth and expansion of all sectors of the real estate market. The political uncertainty over Telangana has broken on June 2, 2014. Now Hyderabad needs to focus on residential sectors' recovery which could not succeed due political uncertain in state and global financial crisis.

In case of the commercial space, Hyderabad emerged as one the large suppliers of Grade A commercial space, commercial leasing increased from 6.8% in 2011 to 8.6% in 2014. Residential supply in Hyderabad compared to the other cities in India has shown less than the robust trend in case of new residential launches over the past few years, since demand from homes have dropped by over 4% and also absorption level had fallen down. Residential sales have dropped over 27% to 7,300 units during H1² 2014 compared to the previous period. The year 2014 was a turning point to Hyderabad city, long term political stalemate has finally broken and the agitation over separate state issue has resolved, Telangana state was formed on 2nd June 2014. New born state had encountered the disturbed and tumultuous trends of residential market.

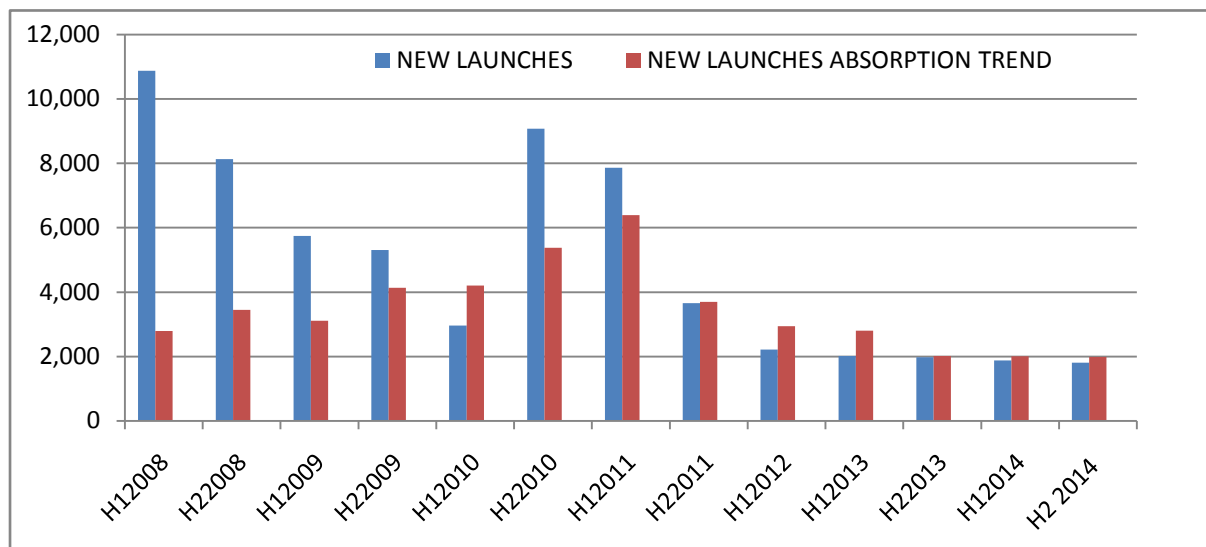
6. Supply and absorption level of Hyderabad real estate sector

² H1&H2 are the first off and second off of the year.

Table & Graph.2.1Supply-Absorption dynamics (H1 2008-H22014)

Year	NEW LAUNCHES	NEW LAUNCHES ABSORPTION TREND
H12008	10,878	2,791
H22008	8,129	3,453
H12009	5,749	3,111
H22009	5,305	4,134
H12010	2,958	4,208
H22010	9,079	5,379
H12011	7,869	6,397
H22011	3,655	3,698
H12012	2,213	2,947
H12013	2,016	2,806
H22013	1,976	2,018
H12014	1,884	2,013
H2 2014	1,806	1,991

Source: GouravPndey, AshutosKashyap (2012): Thinking bulbs Hyderabad: Back in reckoning & Hyderabad real estate association.



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The above graphical representation shows that the level of new launches in the period H12008 was very high but this trend has not been continued. The new launches were very high in the pre economic crisis period. There was tremendous decline in the new launches after the global crises in 2008. There was high rate of decline in new launches, where in H1 2008 number of new launches 10,878 but in the period H22009 it was

5305 only, there was 48 % of decline in new launches. This trend was continued till 2014 in H2 2014 number of new launches were 1806.

When it comes to the absorption level of new launches in the period H1 2008, there was very low level of the absorption, only 2791 launches were absorbed out of the 10,878 which only 25% of new launches, gradually the percentage of absorption level has been growing since there was decline in

the new launches. The level of new launches and absorption level were almost equal in the H2 2011. The new launches were very low mainly because of the two reasons one is uncertainty in the market due to the global financial crises and other one is political turmoil in the state due to the agitation over the separate Telangana state, it led into confusion, afraid in developers and investors.

7. Conclusion

Hyderabad is one of the top ten cities in the country, it developed from an underdeveloped city to mega city, and there are many reasons for such a development. Hyderabad as a mega city it has high level infrastructure facilities to attract the world class investments but these development could not attract the enough investments. On the other side global financial crisis severely damaged the real estate sector of the Hyderabad city; it could not able to recover fully from the global financial crisis till now. Addition to this, long last Telangana movement was also adversely affected the real sector and other related sectors developments, but the Telangana state was formed on June 2, 2014, this make the real estate developers and investors to look for positive growth in the sector.

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