

Unnatural and Unbearable Rise in Apartment Prices.

**What has gone Wrong?
Who is to be Blamed?
Will we have only 1200 SFT and lower sized
Apartments, in Future?!**

**A REPORT ON CURRENT APARTMENT SCENARIO
In HYDERABAD**

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CONTENTS

- **The Growth Story.**
- **What has gone wrong for the buyers?**
- **Construction Activity Grinds to a Halt**
- **Natural price rise takes a beating.**
- **If the Govt. Sleeps over the matter?**
- **The Future – Will Carpet Area of Apartments, Shrink to 900 to 1200 SFT?**
- **What do we do?**
- **Impact of TRS**

SPIRALLING PRICE OF APARTMENTS IN HYDERABAD! WHO IS TO BE BLAMED FOR THE MESS?

- **The Growth Story.**

The growth story of Real Estate in Hyderabad is incredible but true. Last few years had seen explosive growth of commercial and IT activity. From the year 2000 to 2005 end, it has been steady growth with price rise matching with actual and projected growth in employment generation, in city and suburbs. The employment growth was triggered by positive policy initiatives by the then Naidu Govt. which was later taken forward by the current Govt.

But all of a sudden, the year 2006 has seen thing go awry with prices of residential units zooming up. What has gone wrong? Was there any specific or collective actions which has triggered this price crisis?

- **What has gone wrong for the buyers?**

The rise in price need to be juxtaposed with the increasing earning power of the collective mass of potential home buyers. From year 2000 onwards, the earning power has zoomed due to rising pay packets offered by BPO, Software and Technology Firms which has flooded Hyderabad. With this there has been consistent annual increase in price of apartment buildings

Historical Cost of Good New Apartment, in Hitec City Area.

Year	2000	2001	2002	2003	2004	2005	2006 Sept	Expected by year end-2006
Rate of Flat (Rs.)	950/sft	1100/sft	1400/sft	1600/sft	1800/sft	2200/sft	3200/sft	Upto 3600/sft
Cost of 1800 SFT Flat	1620000	1980000	2520000	2880000	3240000	3960000	5760000	6930000
% Increase		16	17	14	13	22	>60% on annualized basis	>84% on 2005 Price

Note: Add 2 to 3 Lakhs extra for Amenities

Observe the sudden rise in 2006? Its to be noted that the year is not yet through and on an annualized basis, the increase is 60 to possibly 84%. Can the salaried or even an average business man afford luxury of a flat anymore? **In fact, even 75% of NRIs are going to find this too hot to handle.**

The primary blame has to lie at the steps of the Govt of AP. It's the duty of the Govt. to frame rules and regulations **in the interest of the public, not for their undoing.** By lopsided policy decisions, the Govt is playing into the hands of the builders' lobby who has raised the price of up-market apartments, to as high as Rs.4000/sft. This has virtually pulled the lower and middle end of the market to very high levels with prices rising from 1500/sft level, to 2400/sft and above in middle class suburbs like Kukatpalli, Miyapur etc.

In March 2006, the Govt. released the now infamous, Government Order –GO MS 86. This was followed up by clarifications vide GO MS 176. Lets not go deep into merits of the GO, since we are right now faced with a crisis. (You can download these GOs at HUDA's website www.hudahyd.org)

- **Construction Activity Grinds to a Halt**

The booming construction activity ground to a halt since March 2006, in the wake of unrealistic new regulations. **The regulations, might have been devised in the interest of buyers but actually has turned totally against them.** If Govt. had intentions to provide well planned housing with required setbacks, greenery etc., **then it should have ensured this,** at the prevailing prices in February 2006.

In one stroke, the protector of the wealth of people, has destroyed their dreams to own a home. If Govt. is not capable of ensuring that construction happen with new regulations, it should have thrown these GOs into dustbin, several weeks ago. NO ONE wants 3 feet greenery around his apartment building and pay 100% more for a home. Whatever be the intentions, if the ultimate result is to make public pay double the price, then there is something terribly wrong with the regulations. May be the market is not matured enough to take HUDA type regulations. Govt. can not enforce super rich standards of HUDA on 90% of the population which are low or medium income group.

It's a matter of great concern that no one is raising the issue of alarming price rise of properties in Hyderabad, since MARCH 2006. Obviously when it comes to real estate, politicians of all colors (whether red, white, green, pink or orange) are all ready to have a ball! The more, the merrier!

Milk the public and support Builders lobby, by making unreasonable regulations. Or buy land in thousands of acres in remote villages and then announce IT Parks, there! These are all ploys by Politicians and the IAS lobby.

They are right now wrenching our throats.

- **Natural price rise takes a beating.**

In any developing city, there will be natural rise in prices driven by increasing collective purchasing power. From 2000 to 2005, we have seen steady price rise reflective of large scale development that was happening. In 2006, prices should have softened since housing loan interest rates started hardening and has now peaked at 10.5 to 11% from

lows of 7.5% Obviously the reduction in buying interest should have forced builders to put price rise on hold.

But the unfortunate act of the Govt. has overridden all natural market forces, creating artificial price rise. When will the Govt. awake to the situation? Will they or will they take price of flats to Rs.5000/sft in a few months time?

So it has been a double edged weapon with artificial price rise created by Govt. on one side and higher interests costs, on the other.

- **If the Govt. Sleeps over the matter?**

As usual the Govt. is more than likely to sleep over the matter since no one in the Govt. (neither the law makers nor the bureaucrats) are interested in the plight of the public. So, by the end of the year, we would be faced with staggering costs for apartments. Even in downtown Miyapur, the prices would scream up to 3000/sft while up-market apartments in Hitec, touch 4000/sft and above

Since land prices had already been driven through the roof by various Govt actions, including the recent HUDA auctions, the builders do not see sizable margin to accommodate price reduction for apartments with current regulations. They are not too keen either to build and sell at the current inflated market rates, since they know its gong to be tough to sell.

So basically we are faced with acute shortage of built up residential spaces, driving prices up for the available units, all due to the unmindful actions of the Govt..

The crisis is real. And before the dreams of millions of people are destroyed, its necessary for the Govt. act.

- **The Future – Carpet Area of Apartments will Shrink to 900 to 1200 SFT!**

At the moment the future for buyers look very bleak. The dreams of lower/middle income and salaried lies shattered.

Unless the Govt. comes up with major revisions to GO MS 86, the low availability will drive prices to unrealistic levels above 5000/sft soon. Obviously, no one can afford to buy apartments.

Even for NRIs Rs.3500/sft, is no more a comfortable number. In the months ahead, we will find new Apartment Projects with lower carpet areas. Apartment sizes will shrink to 900 to 1200/sft so that people can go ahead and buy. The era of luxurious living has been killed by the Govt.!!!

Now that price has been taken to 3500/sft levels in Hitec city area, its not likely to come down even if GO is relaxed. We can expect only stagnation of prices at this level.

Also once GO gets relaxed (lets hope so), there could be a sudden commencement of construction, throwing thousands of Apartments into the market. This should naturally make price to come down BUT in practice, we will see Builders hanging on and then delaying deliveries and construction to control availability and hence they would prevent price fall.

At the moment there are more than 15 High Rise Tower Projects and Large Apartment "Farms" which are not being pushed for approval, by Developers. The Reason off course is expectation of dilution of GO MS 86.

- **What do we do?**

1. Look for Apartments little away from central areas, at prices around 2000 to 2500/sft range.
2. Forget about walking down or zipping to office in 10 minutes. Be open to drive out.
3. Ask for Lower Carpet Area. Let developers come up with projects with smaller flats.
4. Send feelers to News Papers about the artificial price rise created by Govt.

- **Impact of TRS**

The impact of TRS on Hitec City, Guchibowli, Express Highway, ORR, Banjara, Jubilee and other prime areas would be insignificant. This is due to the fact that buying in these areas have been propelled by IT and Commercial growth. The buyers were and are not Govt. servants from Andhra who may migrate! In future too, the demand will be driven by the IT Sector and the reverse drain of NRIs into Hyderabad.

TRS will have no impact on prices in these areas. In fact all Political Parties, would make use of the screaming IT growth and project it as their achievement, while we all know that the Growth is driven by Indian entrepreneurs and Foreign Investments.

However, in outer areas, where people from districts have drove down and bought plots in bulk, like Kottur, Thimmapur and certain other Shamshabad areas, may see Price stagnation and fall.

In areas where plot layouts can be supported by possible economic activity and necessity for people to stay in future would see stability and rise in price. (for eg. Srisailam Highway)