

## Modi Properties view on the Telangana issue

Date: 10.02.2010

There is an uncertainty in the minds of purchasers of flats/villas in Hyderabad. Most purchasers are unsure about the future growth of Hyderabad and the stability of real estate prices.

There are three possible scenarios:

Scenario 1: Andhra Pradesh remains undivided. Not much will change and after a brief period of uncertainty, business will come back to normal.

Scenario 2: Telangana state is formed with Hyderabad as its capital. In the current federal structure of India, about a third of the revenue of the centre from income tax, service tax, excise, etc., is devolved to the states from which the revenue is collected. The main source of revenue of the states is through commercial taxes, stamp duty, sale of real estate and share of revenue from centre. In both the cases, revenue is collected from the registered office/address of companies irrespective of the location or spread of their business or facilities. Accordingly, Delhi and Bombay generate more than a third of the central government revenue. In case of Andhra Pradesh, more than a third of the state government revenue comes from Hyderabad. At the moment the revenue generated in Hyderabad is used for development of all areas in the state.

Once Telengana is separated, the state will have surplus revenue. Any major rural development or infrastructure projects will take atleast 5 years for planning, approvals and tendering process. Till such time, the large revenue generated by Hyderabad will get utilized primarily for development of the twin cities. In the long term too, government spending in Hyderabad will increase as compared to the present day.

Scenario 3: Hyderabad becomes a union territory or a joint capital. This is the best scenario as the revenue generated by the government in Hyderabad will get primarily used for its development.

All three scenarios are likely to result in a better outcome than at present. Under any circumstances, the future looks better than today.

Due to the financial crisis in 2008 the real estate prices have already bottomed out. 60% to 70% of organized builders, having very large projects are selling at break even or below break even cost. This situation cannot continue. Either the prices have to rise or most builders will suspend their development activities resulting in a drastic reduction in supply, which will eventually lead to higher prices.

Conclusion: The political scene and the real estate market are at its rock bottom. It cannot get any worse. Therefore, in all likelihood both political and the business scenario can only go up from here. A smart investor should recognize this opportunity for making. There is lot of loose talk about large companies specially in the IT sector moving out of Hyderabad. Most of the newspaper reports are sweeping generalizations not based on hard facts. Hyderabad continues to be one of the largest exporter of pharma and IT services.

Primarily, most hitech companies have moved into Hyderabad due to the availability of highly skilled manpower, lower real estate cost, easy availability of housing and better infrastructure. Hyderabad (including AP) has been the largest exporter of doctors and engineers to the west for the last four decades. Most companies in Hyderabad are now run by such NRIs. The fundamentals have not changed. It takes most companies 3 to 4 years to move from conception to full-fledged operations. Such decisions are not made overnight. In the short run, it is highly unlikely that any company would take a decision to move out.

Speculation about people from Andhra region being thrown out of Telangana are mischievous reports spread to cause panic. We are the largest democracy in the world with every citizen entitled to their rights under our constitution. They can not be a restriction on any citizen of India choosing to work, reside or purchase property in any part of Telangana / Andhra. Besides, even if Telangana is formed, its assembly does not have rights to amend the constitution. Constitution can be amended only by a two-thirds majority in the Lok Sabha and Rajya Sabha (Central Government). There is absolutely no question of people being driven out of Hyderabad. Most prominent MLAs from Andhra region reside in Hyderabad. For political reasons, even if MLAs want to move out of Hyderabad, their families will be unwilling to do so, as there is complete lack of social infrastructure like schools, colleges, hospitals, restaurants, clubs and other such facilities in other cities.