

# Impact of IT Sector on Bangalore's Residential Market

A Vestian Global Report  
In Association with Assetz Homes

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Bangalore has transformed from pensioner's paradise into a bustling metropolis. The city has emerged as the IT/ITeS capital of India; with this sector driving the growth of the city and generating over one hundred thousand jobs every year. An impact of this phenomenal economic growth driven by the IT/ITeS industry is the evolution of the residential real estate in Bangalore to cater to the wide array of needs of its population.

This report focuses on studying the growth of the residential market in Bangalore over four stages:

1. Nascent Phase: Early 1980s – 1990
2. Emerging Phase: 1991 – 2000
3. Growth Phase: 2001 – 2007
4. Differentiation Phase: 2008 – 2012

In the Nascent Phase, several domestic IT firms and MNCs commenced their operations in Bangalore. However, due to the small size of operations, the impact of IT sector on the growth of residential sector was minimal. With IT activity concentrated in CBD, residential activity was restricted to BDA layouts within a 5-8 km radius of the CBD, with single-family dwellings being the most preferred type of development.

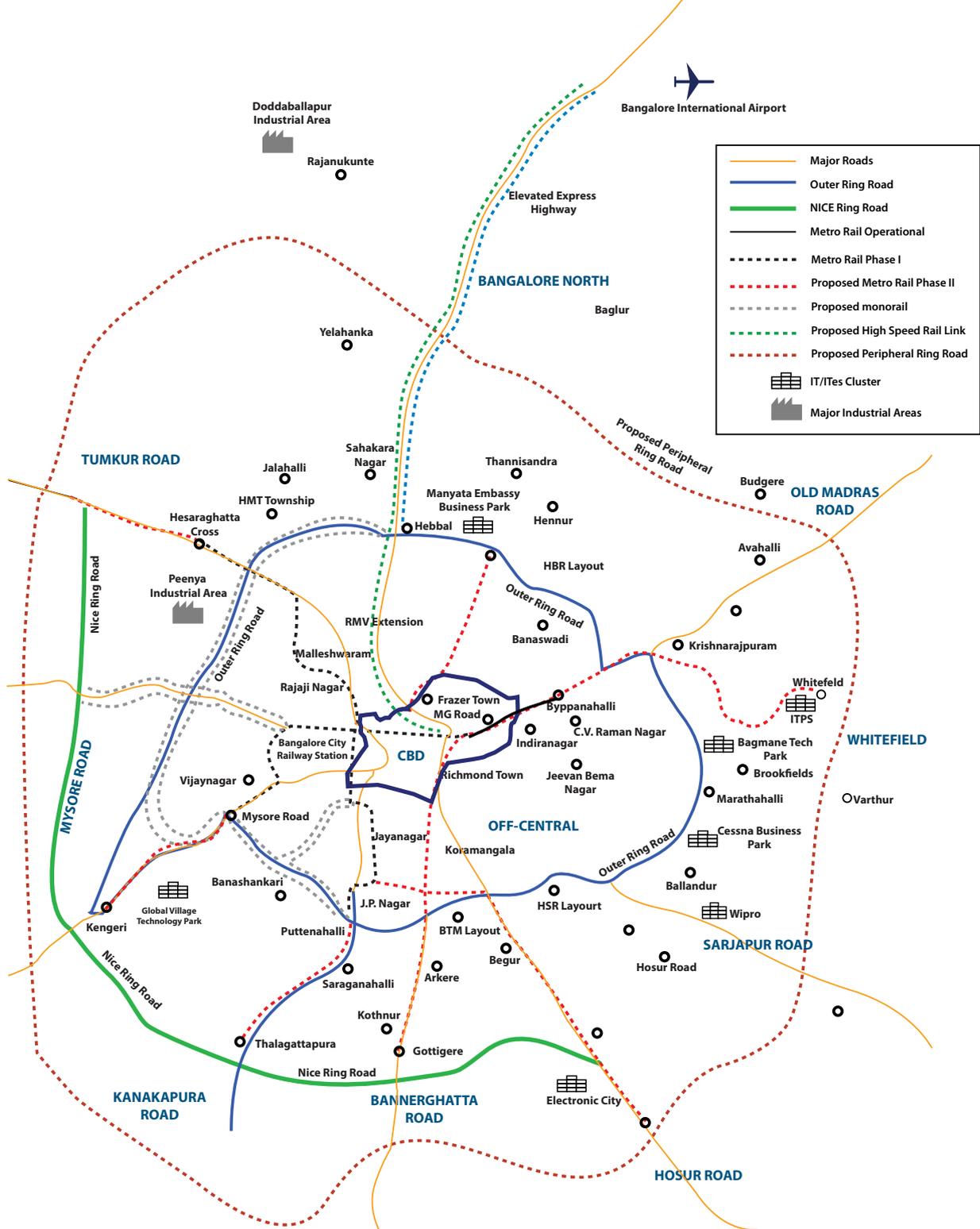
With the growth of IT activity in peripheral areas, especially Electronics City, residential activity in the Emerging Phase moved towards the BDA layouts and peripheral areas in the south-east quadrant of Bangalore. Residential products moved from single-family dwellings to apartments and villas. Size of residential projects increased from 12-20 units to 50-60 units. Annual average price appreciation during this phase was as high as 22%.

The Growth Phase saw the establishment of Bangalore as an IT outsourcing hub and the city witnessed an increase of nearly 150% in the average annual absorption of IT

space. With nearly 50,000 jobs created in the sector each year, demand for residential units increased to 8,000-10,000 units in this phase from 2,000-4,000 units in the Emerging Phase. The scale of projects also increased with the emergence of developments housing more than 100 units and inclusion of more amenities within developments.

In the current Differentiation Phase, post the global economic downturn, residential prices have corrected and are seeing appreciation. The South Eastern quadrant continues to be active in terms of residential activity, but new micro-locations in the North Eastern quadrant are witnessing medium to high levels of activity. The sizes of projects now range from a 100 units to as large as 2,000 units in large integrated townships completed in 2011 and 2012. The key highlight of this phase is the differentiation of product types catering to all income levels. Buyers are looking for value for money, while buyers of high-end and luxury segments seek lifestyle amenities.

In the next three years, almost 50 million sq.ft. of IT space is likely to enter the market in existing IT hubs around Outer Ring Road (ORR) and Whitefield, thereby keeping micro-markets like Sarjapur Road and Marthahalli in the South Eastern corridor active in the short to medium term. With the Government of Karnataka announcing new economic hubs like ITIR, Hardware Park etc. in Bangalore North around the Bangalore International Airport in Devanahalli, the North Eastern quadrant is likely to emerge as a new growth corridor. Integrated townships and theme-based developments will gain importance, while majority of new project launches are expected to be in the mid-segment. Integration of technology and sustainability aspects into residential development will be the key to growth of this sector so as to cater to the increasing population of Bangalore.



## Introduction

In the past, Bangalore City was known for its beautiful colonial bungalows and single family houses. Post economic liberalization and the establishment of Bangalore as the IT capital of India, the residential sector in the city transformed radically. The reasons for this transformation were:

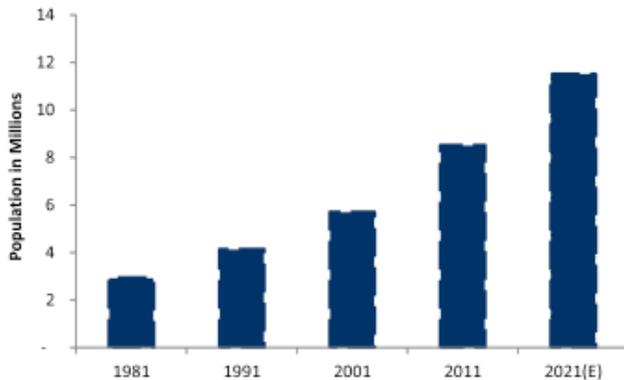


Figure 2: Decadal Population Growth in Bangalore (UA)

- Increase in population
- Increase in income levels
- Shift in policy allowing private sector participation in real estate development
- Improvement in urban infrastructure
- Easy availability of finance and change in the mindset of customers towards debt
- Increase in awareness among the end-users about products available in other parts of the world
- Emergence of residential Real Estate as an investment option

The following sections detail out the evolution of the residential market in Bangalore in response to the growth of the IT/ITeS sector. The study looks at four different phases namely:

1. Nascent Phase (Early 1980s-1990)
2. Emerging Phase (1991-2000)
3. Growth Phase (2000-2007)
4. Diversification Phase (2008-2012)

The period between early 1980s and 1990 is considered the Nascent Phase, as growth of the IT industry was in its initial stages, with several domestic firms like Infosys, Wipro and others commencing their operations. The influence of IT sector on residential market in this period is minimal due to its small scale of operations.

1991 – 2000 is considered as the Emerging Phase, wherein the IT industry played an important role in the economy of the city as a result of economic liberalization and the proactive role played by the government. Residential development during this phase witnessed phenomenal shift from the established model. The key characteristics of residential market in this phase included:

- Low supply
- Increase in demand
- Lack of technical expertise
- First mover advantage for existing players amid low competition
- High yield rates

The period after 2000 is considered the Growth Phase. This phase saw the transformation of Bangalore's IT sector to an export-oriented offsite software and service production center from a body shopping on-site production hub. This period saw a phenomenal increase in number of IT jobs as compared to the previous two phases, leading to increased supply and absorption of IT related office space as well as residential development. Key highlights of residential development during this phase included:

- Accelerated development activity
- Very high demand, therefore increase in sales
- Various sources of construction finance
- Decline in yield rates
- Rising rents and asset values
- New players entering the market

The growth period after 2008, is considered the Differentiation Phase, when the residential sector in Bangalore evolved in response to the global economic downturn and recovery. Key characteristics of this phase include:

- Focus on fundamentals
- Industry consolidation
- Emergence of new business models
- Realistic underwriting
- Diversification of risk
- Emergence of next generation leaders

The following section looks at the active and emerging economic hubs during each phase, number of jobs created by the IT sector, policies that affected office and residential segments, office space absorption, residential activity in the micro-markets surrounding

the economic hubs, residential product types, pricing, capital appreciation, amenities etc.

## **Nascent Phase: (Early 1980s-1990)**

Bangalore's association with Information Technology started in the mid- 1980s when companies like Infosys, Wipro and other private enterprises specializing in computer systems and software production began to establish their operations<sup>1</sup>. Bangalore's strengths included availability of skilled manpower and expertise due to the presence of academic and research institutions, as well as public sector enterprises. Till 1991, about 13 firms had started their operations in Bangalore, which included Texas Instruments (TI), the first multinational corporation (MNC) to set up shop in Bangalore.

Economic hubs: Initially operations of these companies were small and as they expanded, they started leasing multi-tenanted office spaces in the CBD and off-CBD locations for maximum visibility. During this period, the influence of IT sector was limited and didn't have any major impact on the residential development within the city.

### **Residential Activity:**

- With IT companies located in the CBD, residential layouts within 5-8 km radius from the CBD were preferred locations for residential development.
- Single family dwelling on a Bangalore Development Authority (BDA) allotted site was the most preferred development format, wherein BDA, the planning and development agency, was responsible for land acquisition, development and distribution of developed sites. Construction was carried out by individual site owners as per their resources.

<sup>1</sup> Heitzmann, James, 2001, 'Becoming Silicon Valley', [www.india-seminar.com](http://www.india-seminar.com), referred on 03 September

- Home ownership during this period was limited to a very small section of the population. Reasons for this included non-availability of land, non-availability of credit at low interest rates, securitization and people's negative attitude towards debt.
- Further, regulations like Rent Control Act kept the rental levels and the home price to rental ratio low, thereby acting as a disincentive to the idea of home ownership. Moreover, availability of land was further restricted by poor implementation of the Urban Land Ceiling and Regulation Act (ULCRA) that resulted in large tracts of land within the city limits being locked in litigation.
- Apartments were limited to the city center due to limited land availability.
- Some of the key developers active in during this period included Prestige Group, Embassy Group and Unitech.

### Emerging Phase (1991-2000)

<b>22%</b> Average Annual Capital Appreciation	<b>2%-5%</b> Annual Rental Yield Rate
<b>50-60 units</b> Average size of development	<b>2,000-4,000 units</b> Average annual absorption

Post the economic liberalization of 1991, the Central Government took steps that promoted the IT industry. The Software Technology Park scheme was announced in 1991, which provided facilities like broadband communication, infrastructure, tax-breaks and tariff-free imports of equipment for 100% export oriented units, to attract off-shore software production houses to India. The first of the six STPs developed by the Department of Electronics (DOE) was established in Electronics City, 18 km to the south of Bangalore's CBD. This led to the agglomeration of Electronics and IT companies in Electronics City during the period 1991-1996. One of the significant developments during this period was the relocation of Infosys Corporate headquarters to Electronics City.

In the period 1996-2000, the Government of Karnataka (GOK) took important steps that nurtured the growth of IT industry in Bangalore. The following are the major policy and infrastructure initiatives taken by GOK to promote the IT industry:

1. Development of International Tech Park (ITP)<sup>2</sup> , in Whitefield



Luxury Golf Villas on Sarjapur - Attibelle Road  
Developed by India Golf Assets in association with Assetz Homes  
[clovergreens.assetzhomes.com](http://clovergreens.assetzhomes.com)

<sup>2</sup> It was developed by a consortium which included the Government of Karnataka as well as private enterprises from India and Singapore.

2. Announcement of IT policy by GOK in 1997 under which, apart from other incentives, the government offered to acquire land for the companies, if required
3. Development of the Outer Ring Road, which opened new areas for development in peripheral areas.

The above three reasons led to development of the South Eastern quadrant with Electronics City to the south, Whitefield to the east and the stretch of Outer Ring Road connecting these two IT hubs as the 'IT corridor' in Bangalore.

While the IT corridor was the preferred location for companies with large headcounts and preferred campus style development, smaller companies and start-up firms took up multi-tenanted office spaces in the CBD or residential buildings in the suburban locations of Koramangala and Indiranagar.

During this phase the number of IT companies in Bangalore grew to 1,200 with a headcount of about 100,000. The total supply of commercial office space during this period was estimated to be around 10 million sq. ft.

The implementation of the 74th constitutional amendment in 1994 and the reforms in banking and housing sector brought in by economic liberalization led to the following shift in the real estate sector:

- Role of the government was changed from a provider to an enabler
- Encouragement was given to private sector participation in real estate development
- Easy availability of finance and the returns provided by real estate investment encouraged home ownership

- Increasing income levels of the population employed by the IT sector provided enough disposable income amongst young people to invest in property, thereby bringing down the median age of home ownership to 32 years in 2000 from 38-40 years in 1990 .

### Residential Activity:

- Residential development during 1991-1995 was seen mostly in the BDA layouts of the South like Jayanagar, JP Nagar, Koramangala, Indiranagar and BTM Layout, due to their proximity to Electronics City.
- Between 1996 and 2000 with the development of office campuses in Electronics City, Whitefield and Sarjapur Road, areas around Marthahalli, Varthur, Sarjapur Road, HSR Layout, Hosur Road and Bannerghatta Road started emerging as residential locations.

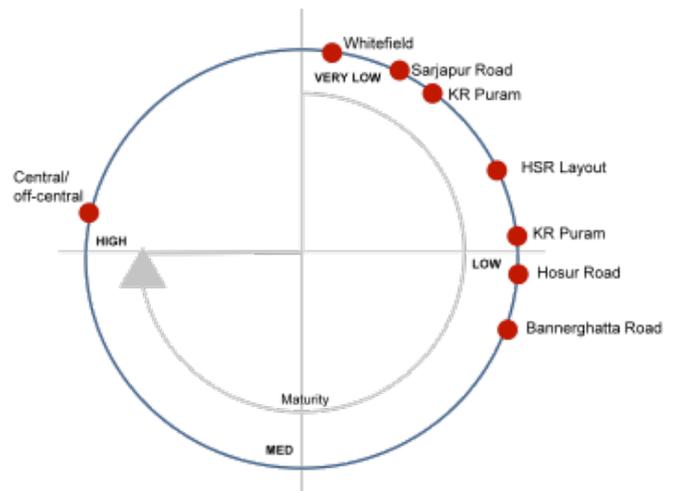


Figure 3: Maturity of various micro-markets during Emerging Phase (1991-2000)

- Throughout this period (1991-2000) apartment development in the central and off-central locations was active due to limited availability of land and proximity to economic hubs.
- Some of the prominent gated communities that developed during this period include: Fern’s Paradise (Marathahalli), Rainbow Residency, Rainbow Drive, Trinity Green Acres and Woods (Sarjapur Road), etc.
- Social infrastructure in the BDA layouts in the central and off-central areas were mature with schools, colleges, civic amenities like shopping complexes, parks, playgrounds etc. However, social infrastructure was poor in the emerging locations in the south-eastern quadrant.

Characteristics	Emerging Phase (1991-2000)
<b>Type of residential development</b>	Apartments, villas, row-houses, plotted development Concept of gated communities initiated
<b>Active developers</b>	Salarpuria, Adarsh, Sobha, Purvankara, Mantri etc.
<b>Capital Appreciation</b>	22%
<b>Rental yield rates</b>	2%-5%
<b>Size of development</b>	50-60 units
<b>Size of units</b>	Central areas - 3,4 BHK South east quadrant - 2, 3 BHK
<b>Area of units</b>	Central areas: 2,700-3,500 sq. ft. South east quadrant: 1,500-2,500 sq. ft.
<b>Rate /sq. ft.</b>	Average rate/sq. ft. in south eastern quadrant ranged from INR 900/ sq. ft.- INR 1200/ sq. ft
<b>Amenities</b>	Parks, children's play area, multi-purpose hall, club house etc.
<b>Key Projects</b>	Adarsh Vihar (Bannerghatta Road), Embassy Woods (Cunningham Road), Salarpuria Esplanade (Indiranagar), Unitech’s Deja View (Old Madras Road)

## • EAST POINT



Apartments for the Knowledge Worker on ORR, Bangalore  
Crafted by Assetz Homes

## Growth Phase: 2001-2007



By 2001, Bangalore had established itself as a major center of Technology in Asia. Electronics City, Whitefield and Outer Ring Road were established IT hubs in Bangalore, with an average annual absorption close to 6-7 million sq.ft. Some of the key policies that influenced real estate development during this period include:

- Announcement of the first FDI policy in 2002 which permitted upto 100% FDI in development of Integrated Townships including housing and building material. However, this policy only met with a lukewarm response due to large land requirement (minimum 100 acres) for each project.
- FDI policy was later revised in 2005, where the minimum land requirement was reduced to 10 hectares (approx. 25 acres).
- Special Economic Zone policy announced in 2005 that offered, among other benefits, profit- linked tax deduction to companies located within these zones.
- Repeal of Urban Land Ceiling Act also opened up industrial land, in the inner city areas for real estate development.
- The revised CDP of Bangalore 2015, released in 2007

encouraged high density residential development.

Active areas of economic development included Phase 2 of Electronics City, Whitefield and Outer Ring Road. With the availability of large parcels of land in Outer Ring Road and Whitefield, several SEZs projects were announced in these regions. Key SEZ developments announced included: Vrindavan TechVillage, Manyata Embassy Business Park, Pritech Park, Bagmane World Technology Center, and Cessna Business Park along the ORR and Divyasree Tech Park, and Gopalan Global Axis in Whitefield. The impact of the SEZ policy on the supply of office space was seen post 2007.

### Residential Activity:

- South Eastern quadrant continued to witness high level of residential activity
- Although there was residential activity in Whitefield, the area did not see much appreciation due to poor social infrastructure.
- Development of Manyata Embassy Business Park and Bagmane Tech Park in CV Raman Nagar led to low-medium residential activity in the North Eastern quadrant with micro-locations such as Hennur Road, Old Madras Road, Nagawara etc.
- Availability of industrial land in the off-central areas of Malleswaram, and Yeshwantpur led to redevelopment of these land parcels and, as a result, residential activities in these areas increased.



Figure 4: Maturity level of various micro-markets during Growth Phase (2001-2007)

- With the entry of FDI, construction financing was not an issue; and this led to the announcement of several large scale mixed use developments in the south-east and in the off-central areas.
- Large number of developers entered the residential real estate sector in Bangalore, leading to increased competition. National developers like DLF, Hiranadani and international developers like Emaar Group, Keppel Land, etc entered the residential market in Bangalore.
- Residential development was mostly targeted at middle income and high income groups.
- Social infrastructure developed along Bannerghatta Road, Sarjapur Road, Marthahalli etc. However, in Whitefield and Hosur Road social infrastructure was still lagging behind.

Characteristics	Growth Phase (2001-2007)
<b>Type of residential development</b>	Apartments, villas, row-houses, plotted development, gated communities, mixed use developments like integrated townships
<b>Active developers</b>	DLF, Hiranandani, Godrej, Mahindra Lifespaces etc.
<b>Capital Appreciation</b>	17% in south eastern quadrant
<b>Rental yield rates</b>	3%-5%
<b>Size of development</b>	100+ units
<b>Size of units</b>	Apartments: 2,3 BHK Villas: 3,4 BHK
<b>Area of units</b>	Apartments: 1,200-1,800 sq. ft. Villas: 2,500-4,000 sq. ft.
<b>Rate /sq. ft.</b>	Apartments: INR 2,500-3,500/ sq. ft. Villas: INR 4,500-5,500/sq. ft.
<b>Amenities</b>	Swimming pools, parks, children's play area, multi-purpose hall, club house, indoor and outdoor sports etc.
<b>Key Projects</b>	Sobha Cinnamon (Bellandur), Purva Fountainsquare, Purva Riviera (Marthahalli), Mantri Elite, Sobha Magnolia (Bannerghatta Road), Mantri Sarovar (HSR Layout), Jain Heights (Hennur Road), Total Environment's Windmills of your mind (Whitefield)  Villa projects include: Prestige Ozone, Adarsh Palm Meadows  Integrated townships namely Prestige Shantiniketan, Brigade Metropolis and Brigade Gateway were announced.

## Differentiation Phase: 2008-2012



The global economic recession in mid-2008 affected the IT/ ITeS sector. Office absorption dropped due to job cuts and freeze on expansion plans by several domestic and multinational firms. The real estate industry, which was at its peak in early 2008, when the realty index reached 13,484 points, witnessed a 90% erosion by the end of 2008. In Bangalore, the absorption of office space dropped to 5 million sq. ft. from an average absorption of 7 million sq. ft. in the previous years. However, by early 2010, Bangalore's office market was on the path to recovery. The average annual absorption of office space in Bangalore was in the range of 10 million sq. ft. per year. The supply is restrained and the absorption is high with pre-commitments in SEZ as well as non-SEZ spaces. It is expected that IT SEZ spaces will form about 30% of the total office stock by the Q4 2012.

Active locations for office space development are Outer Ring Road and Whitefield. With the commissioning of Bangalore International Airport, several projects were announced in Bangalore North, in business parks announced by GoK. However, none of them are in the implementation stage.

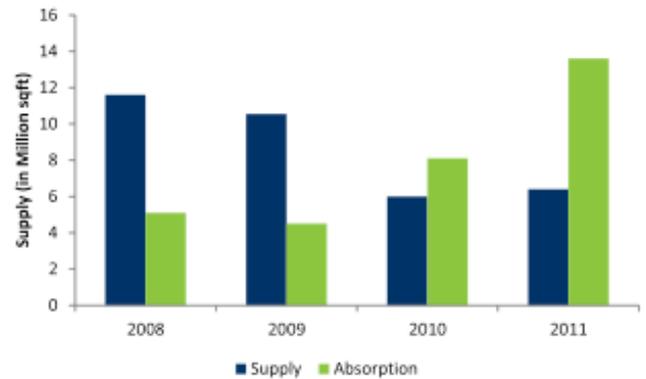


Figure 5: Supply and absorption of office space in Bangalore

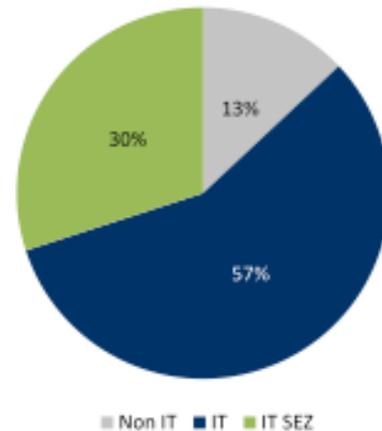


Figure 6: Break-up of office stock in Bangalore by Q4 2012

### Residential Activity:

- The downturn also affected the outsourcing industry, which was the primary demand driver for residential properties in Bangalore. This resulted in the drying up of funds from offshore and domestic investors, thereby pushing real estate developers in India into a liquidity crunch.

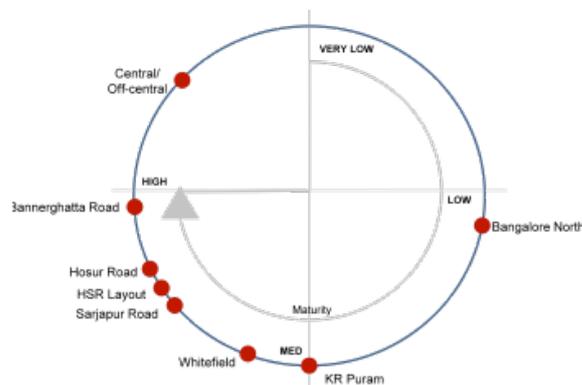
- Residential prices witnessed a steep correction between 2008 and 2010.
- In order to increase sales to improve liquidity, developers slashed prices drastically and announced projects in the INR 1,200-2,000/sq. ft. range by introducing 1 BHK apartments and by reducing the average area of a 1 BHK unit to 550-750 sq. ft.; 2BHK unit to 900 sq. ft. and a 3 BHK unit to 1,200 sq. ft. Some of the projects announced during this period include DLF Westend Heights, Nitesh Hyde Park (off Bannerghatta Road), Ozone Evergreen (off Sarjapur Road), Golden Gate Commune (Kanakapura Road) etc.

However, with the recovery of office market in early 2010, residential sales as well as project launches picked up.

- Currently, the most promising micro-markets in Bangalore are Sarjapur Road, ORR and Whitefield.
- Commissioning of Bangalore International Airport (BIA) has led to increase in residential development in Bangalore North.
- The stretch between Hebbal and Yelahanka on Bellary Road has several upcoming luxury apartment and villa projects.
- Old Madras Road is a potential site for residential growth due to its proximity to economic hubs Whitefield, ORR, Bangalore International Airport and CBD.
- Hosur Road shows signs of oversupply and low potential for future growth due to low activity levels of office segment.
- Social infrastructure in micro-locations like

Bannerghatta Road have matured, where as they are still improving in locations like ORR, Sarjapur Road. Hosur Road is still lagging behind in social infrastructure in terms of drinking water, malls and entertainment options etc. Whitefield has seen a lot of improvement in social infrastructure in the last four years and is now a self-sufficient residential neighborhood.

- Product types in Bangalore are evolving with new products like villaments, branded homes, affordable budget homes, weekend homes etc.



*Figure 7: Maturity levels of various micro-markets during Differentiation Phase (2008-2012)*

- This period saw the completion of several mixed use integrated township projects
- Target segment was the mid-income and high-income groups
- Buyers have now become more price-sensitive and are looking for value for money. As a result, 42% of the total supply of apartments fall in the mid segment with a ticket size of INR 25L-INR 50L and 38% falls under premium segment with ticket size INR 50L- INR 1Cr.

- Buyers are looking for a wide range of lifestyle amenities especially when buying units with ticket sizes above INR 1Cr.
- Also, in an effort to differentiate their products from the usual, developers are using technology and innovation to deliver products that are smart and sustainable.
- Post-recession, buyers have started giving importance to aspects such as reputation of developers, ability to deliver on time and ensuring that the project has obtained all necessary approvals, before deciding to buy in a particular project.
- In terms of developers, new leaders have emerged with sound financial/ investor backing and good implementation capacity in various asset classes.



Characteristics	Differentiation Phase (2008-2012)
<b>Type of residential development</b>	New product types such as budget housing, villaments, ultra-luxury branded homes, weekend homes etc.
<b>Active developers</b>	Equinox, Phoenix, Pashmina
<b>Average Annual Capital Appreciation</b>	13%
<b>Rental yield rates</b>	Apartments: 3%-6% Villas: 4%-7%
<b>Size of development</b>	100-2,000 units
<b>Size of units</b>	Apartments: 2. 3 BHK Villas: 4,5 BHK
<b>Area of units</b>	Budget: 550-1,200sq. ft. Mid segment: 1,200-1,800 sq. ft. Luxury: 2,500-10,000 sq. ft.
<b>Rate /sq. ft.</b>	Budget: INR 1,200- 2,000/ sq. ft. Mid segment: INR 2,200-4,500/sq. ft. Luxury: INR 5,000-10,000/sq. ft.
<b>Amenities</b>	Amenities in high end segment include golf courses, 5-star hotels, theme based developments, 24 hour concierge, valet parking, management by hospitality group etc.
<b>Key Projects</b>	Assetz Homes' 27 Park Avenue, Prestige Sunnyside (ORR); UKN Esperanza, Prestige White Meadows, Nitesh Flushing Meadows (Whitefield), Prestige Tranquility, Brigade Exotica (Old Madras Road);RMZ Latitude, Godrej Platinum, Embassy Boulevard (Bangalore North); Salarpuria Greenage, Pride Crosswinds (Hosur Road); Hiranandani Upscale and Mantri Pinnacle (Bannerghatta Road)

With Bangalore adding nearly 100,000 lakh IT/ITeS jobs every year, it is one of the most promising markets in the country for investment in residential sector. The economic outlook for the city is strong with several IT, engineering and automobile companies planning to grow aggressively in the coming years.

With nearly 50 million sq. ft. of IT office space under various stages of construction, micro-markets in the South-Eastern quadrant will remain active in the short to medium term. However, with the announcement of the ITIR and several business parks by GoK, Bangalore North is emerging as the next growth direction for IT. As a result, residential activity will increase in the north-eastern quadrant – Old Madras Road, Hennur Road, Thanisandra Road and Bellary Road in the medium to long term.

However, in the short-term Bangalore North may face an oversupply situation due to high activity levels. Capital appreciation in this micro-market may fall due to high activity levels in the micro-market unless economic hubs proposed by the government of Karnataka are implemented.

IT industry in Bangalore will be under tremendous pressure to maintain its cost advantage in the coming years, thereby keeping a check on salary levels. As a result, most launches will be seen in the mid-segment, with ticket size in the range of INR 25L- INR 50L.

With the success of Integrated Townships like Brigade Gateway and Prestige Shantiniketan it is likely that developers will announce many more mixed-use integrated township projects. In terms of residential products, a number of new concepts have evolved in the luxury segment to suit the requirements of buyers. However, there exists a huge scope for innovation in the budget and mid-segment housing. Increasing use of technology in various aspects like design, construction, project management, marketing, customer service etc is necessary to arrive at newer products.

In terms of social infrastructure, drinking water is a major problem in most peripheral locations of Bangalore. With the population of Bangalore expected to increase to 11.5 million by 2021, a shift in trend towards smart homes, green buildings and sustainability is a must.

Increase in transparency through the regulatory environment as well as good corporate governance is the key to transition of Bangalore's residential real estate sector towards maturity.

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