OPINION

Hyderabad's FSI deregulation: A missed opportunity

PREMIUM

Hyderabad's approach has been blanket deregulation, unlike some cities which have used FSI bonuses as levers for affordable housing and infrastructure finance

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Hyderabad must integrate FSI with public objectives | Photo Credit: RAMAKRISHNA G

Hyderabad's blanket FSI deregulation in 2006 was a missed opportunity on two critical fronts: infrastructure financing and housing equity. No frameworks were established to use bonus FSI for affordable housing, nor to direct value capture towards infrastructure in high-density zones. Hyderabad's affordable housing supply reportedly dropped by 70 per cent — nearly double the national average of 36 per cent — despite steady demand and only few new project launches in the segment.

Contrast this with Mumbai, where additional FSI is tied to the provision of affordable housing. A targeted increase in FSI led to a 28 per cent rise in housing units and 29 per cent fall in per-unit prices in treated areas. Developers receive additional build rights in exchange for social contributions, aligning private gain with public good.

According to a new report by The Infravision Foundation (TIF), a Gurgaon-based think-tank, the 2006 move was a bold and rare effort in urban policy to eliminate FSI caps citywide and offer developers unprecedented freedom to build tall. The intent was clear: to catalyse vertical growth, unlock land value, and position the city for globally competitive expansion. Two decades on, it is clear that deregulation worked, but only where market demand made density profitable, revealing that freedom to build does not guarantee vertical growth.

Uneven skyline

According to the report prepared for TIF by Professors Raghu Dharmapuri Tirumala and Piyush Tiwari of the University of Melbourne. Hyderabad's skyline remains uneven. Towers have risen in the city's western arc — HITEC City, Gachibowli, Kokapet, Tellapur — where economic demand, land values, and infrastructure converge. But this verticality fades quickly beyond these zones. Across the city, most apartment projects remain mid-rise. Of the 15,000+ properties analysed, 67.2 per cent have five or fewer floors, 8.7 per cent of properties exceed 30 floors, and the tallest building peaks at 63 floors — far below Mumbai's 117-floor structures.

A 5-10 km radius around HITEC City shows an average FSI of 4.89, supported by high land values and strong demand. But in outer areas, the 20-50 km band, the average FSI drops sharply to 1.45. Even in well-connected zones like the Outer Ring Road (ORR), the FSI average barely reaches 3.70, nearly identical to areas beyond ORR (3.65). Moreover, the citywide average FSI is only 2.11, far below the theoretical maximum enabled by deregulation. Developers opt for mid-rise formats in areas where the cost of verticality is not justified by returns.

The fiscal disconnect comes at a cost. Outdated circle rates mean stamp duties are assessed on values far below real market prices, limiting public revenue to build infrastructure that supports higher density. In zones like Nanakramguda and Kokapet, official rates lag by 30-50 per cent, starving the State of funds needed for infrastructure. Properties within 2 km of HITEC City have average circle rates of ₹27,000 per square yard, but this drops to ₹4,600 beyond 20 km — with little regard to FSI, building height, or development potential.

In many cities, high-rise corridors strain infrastructure — sewage, water, and roads struggle to keep up. Developers pay FSI-based impact fees, but poor valuation benchmarks limit public gains. Meanwhile, apartments, though driving density, are taxed lower per square foot than houses or plots, weakening the State's revenue and deepening socio-spatial inequities.

Unlike cities that have used FSI bonuses as levers for inclusion and infrastructure finance, Hyderabad's approach was a blanket deregulation with no mechanisms to ensure affordability or revenue for infrastructure development. In Gurgaon, verticality is not left to chance but is guided by transit-oriented development (TOD). FSI incentives are offered in proximity to metro corridors, ensuring that density clusters where infrastructure can absorb it. Similarly, Bengaluru, though still conservative with FSI caps, is piloting upzoning near transit hubs, backed by betterment levies to finance public amenities.

What these cities share is not deregulation, but planned intentionality.

They use FSI as a tool — not just to build more, but to build wisely. Density is earned through contribution, not simply permitted. The outcome is a more inclusive and sustainable urban form.

Realign policy tools

To move forward, Hyderabad must realign its policy tools with public outcomes. This starts with overhauling valuation systems to reflect real prices and development potential. Circle rates should be updated regularly, locally calibrated, and sensitive to FSI and market intensity. Second, the city must integrate FSI with public objectives — linking higher density to affordable housing quotas, infrastructure readiness, and climate resilience. Third, peripheral zones need more than just FSI incentives — they need enabling infrastructure and transit connectivity to become viable alternatives to the saturated west. Hyderabad's experiment has shown that FSI is not just a technical metric — it is a strategic lever.

The next step for Hyderabad is not deregulating further, but governing wisely. This will also mirror the shift in India's urban policy towards "creative redevelopment" of brownfield cities through area-based development and land value capture, reinforced by the announcement of the ₹1 lakh crore Urban Challenge Fund and the narrative of "Cities as Growth Hubs".

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