ECONOMIC EXCELLENCE ZONES & REAL ESTATE: ISSUES & OPPORTUNITIES

Real Estate Issues
With Specific Reference to SEZs

by Salmon Leap Associates
WHAT ARE THE ISSUES INVOLVED
- IN LAND ACQUISITION?
- REHABILITATION POLICY?
LAND ACQUISITION - ISSUES
IDENTIFICATION OF LOCATION

- External Connectivity
  - Roads (National Highway, State Highway etc)
  - Rail, Air, Sea
- Distance from nearest Water & Power Sources
  (Proximity of source & Capacity)
- Distance from the nearest town, city or metropolitan
  (access to Social Infrastructure)
- Availability of Factors of Production
  - Raw Material
  - Manpower
  - If Yes, leverage it.
  - No then, Pull them in or Create Accessibility
- Backward & Forward Linkages - Details of other Industries in the vicinity
- Details of the habitations & settlements in and around the site
- Climatic Conditions
SITE SELECTION

- Topographical Conditions

- Type of Land
  - Agricultural Land
  - Non-agricultural Land
  - Barren dry Land

- Soil Conditions
  - Geotechnical & Geo-morphological conditions of the site
  - Lay, contours, dimensions of length and width
  - Seismic Zone
  - Poor Soil Conditions
    - Marshy Land
    - Poor Load Bearing Capacity – High Piling Cost

Agricultural Land – only Single Crop permitted

Cheap may be Expensive...
ISSUES IN LAND ACQUISITION

- Lack of proper regulatory framework
  - R&R Policy – *Much Awaited*
- Lack of uniformity in Land Acquisition Laws in various states
- Lack of Transparency
- Unfair Process of Valuation
- Acquisition not done at Market Rate
- “Hold out” problem
- Market distortions
  - High Transaction costs
  - Adverse Selection
  - Poor record of Property protection
  - Problems of Title
- Non-Agricultural Use, Clearance Value & Prices
RECENT CONTROVERSIES

- Acquisition of agricultural land causing large-scale displacement of farmers
- Agitations by farmers over Land Acquisition
  - Navi Mumbai
  - Nandigram
  - Singur
ACTION BY GOVERNMENT

- Formulation of a definite Relief and Rehabilitation Policy
  - Adequate compensation
  - Job guarantees
- Parliamentary Committee visiting the proposed SEZ sites Assessing
  - effectiveness of present land acquisitions
  - Relevant rehabilitation and compensation policy
AMENDMENTS IN RULES

- The Approval from GOI specifically makes the Developer responsible for making adequate provision for rehabilitation of the displaced as per the RR Policy of the State Government.

- Direction to State Governments / Proposed amendments to SEZ rules:
  - Land use in SEZ:
    - 40% of SEZ area should be greenery.
  - Land to be acquired for SEZ:
    - 90% of the SEZ should be barren, waste or single crop land, or
    - Not more than 10% of the area may be double crop.
E-GOM DECISIONS

Decisions of the eGOM held on 5.4.2007

- Size of a SEZ cannot exceed 5000 hectares. The State Governments would however be able to decide upon the lower limits.
- The minimum processing area limit to be fixed uniformly at 50% for multi product SEZs as well as sector specific SEZs.
- Pending applications for SEZs to be processed for in principle, formal approval, notifications subject to the condition that the State Governments would not undertake any compulsory acquisition of land for such SEZs.
- Ministry of Rural Development is requested to reformulate a comprehensive land acquisition act to address all relevant issues
- A comprehensive Resettlement and Rehabilitation Policy will be worked out ensuring livelihood from the project to at least one person from each displaced family.
REHABILITATION POLICY
TRADITIONAL LAND PROCUREMENT OPTIONS

- Key Challenges
  - Inadequate compensation as provided by the LAA
  - Impact on livelihood
  - Rehabilitation action in case of loss of homestead/workplace
    - Implementation of R&R by Govt. Machinery
    - Priority given to Land Acquisition & Re-allocation
    - R&R areas lack due attention on development of Infrastructure, facilities, community services

- Key Challenges
  - Free Market based Characteristics
    - Speculative forces cause inflation of certain parcels of land beyond the market value
    - The average price increases considerably
  - No legal directive of Land Acquisitions
    - Certain landowners (mainly speculators / Real Estate firms) might decide not to sell certain strategic land parcels
    - Can lead to contiguity issues in a Multi-product SEZ
  - Absence of State Support for verifying the title and possession rights
    - Possibility of litigation on the title of the land by various interested parties increases.
LAND ACQUISITION PRESCRIPTION BY GOVT. OF INDIA
(AS PER DRAFT R&R POLICY)

- GOI directives/proposals to ensure a smooth & efficient process of Land procurement for SEZ projects
  - Minimum involvement of State Government in the Land Acquisition process.
  - Encouraged the Private Purchase of land by the developer.
  - Above will ensure that land-owner gets the market value for his/her land.

- No acquisition of wet / fertile land

- Double crop lands to be acquired only if very necessary,
  - e.g. for maintaining contiguity

- Equity partnership / land plots in the SEZ/industrial project to be given to land sellers to ensure long-term benefit

- Government is likely to finalize and implement a National Rehabilitation Policy which is likely to address the issues of
  - loss of all livelihoods due to Land acquisition
  - R&R support that would be mandatory for the Developer/Govt. at the time of land acquisition.
  - Ensuring partnership through equity share or through an alternate plot of land.
HYBRID MODEL

- The key advantages of the Hybrid model
  - Maximum purchase through market determined model - *It ensures fair value of land to both the seller as well as the developer*
  - It also ensures that all the required land for the project can get procured without any unrest or resentment from the landowners
  - Inclusive development of the local community – involvement of both the Private Developer and the Government
KEY PRINCIPLES

Inclusive Approach
- Voluntary Land purchase Strategy
- Acquisition of the inevitable through Consent Award
- Symbiotic partnership of SEZ and land sellers
- Aim to include the entire region in the Development

Flexibility
- A Flexible basket of compensation offering that the seller can choose from
- Upfront cash compensation or medium to long term investment option to the land seller in the form of Plot/Equity

Social Responsibility
- Enhancing the employability of the region through structured training
- Provision of community services in health, hygiene education etc.
- Use the services of an NGO for Development of the Region in a sustained manner
<table>
<thead>
<tr>
<th>DESIGNING THE PACKAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>• Land Sale on Market Price</strong></td>
</tr>
<tr>
<td><strong>• Price as per location and type</strong></td>
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<tr>
<td><strong>• Specific Size of plots to each land seller</strong></td>
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<tr>
<td><strong>• Seller to be part of the development</strong></td>
</tr>
<tr>
<td><strong>• Cashless Equity of a pre-decided amount per acre as convertible debentures</strong></td>
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<tr>
<td><strong>• Professional training courses to enhance employability</strong></td>
</tr>
<tr>
<td><strong>• Health &amp; Hygiene and Education Initiatives</strong></td>
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</tbody>
</table>

*Acquisition of Balance Land may be then done through Consent Award*
NOTIFICATION LEVEL COMPLIANCES (AS PER SEZ ACT & RULES)

- Developer to furnish to the Central Govt. details in respect of identified area
  - proof of legal right and possession
  - and a certificate from state government or the authorized agency
    - that the area is free from all encumbrances
  - in case of lease hold land, lease shall be for a period of not less than 20 yrs.
- Area shall be
  - Contiguous and Vacant
  - And shall have no public thoroughfare

** BOA can relax the condition of contiguity on case to case basis, on meritis, for reasons to be recorded in writing

- Central Govt. shall notify the area as SEZ after receipt of details and
  - on fulfillment of conditions specified in the LOA
  - if area is not less than the minimum area prescribed
## PERMITTED OPTIONS

<table>
<thead>
<tr>
<th></th>
<th>SEZs for IT, Gems &amp; Jewellery, Bio tech &amp; Non Conventional Energy</th>
<th>FTWZ (Free Trade &amp; Warehousing Zone)</th>
<th>Sector Specific SEZ</th>
<th>Multi-Product SEZ</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Min Area</strong></td>
<td>10 Ha.</td>
<td>40 Ha</td>
<td>100 Ha</td>
<td>&lt;=5000 Ha</td>
</tr>
<tr>
<td><strong>Min. Built up</strong></td>
<td>- 1,00,000 Sq. mtr for IT/ITES</td>
<td>not less than 1,00,000 sq.mts.</td>
<td>Min. Processing Area 50%</td>
<td>Min. Processing Area 50%</td>
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<tr>
<td></td>
<td>- 40,000 Sq. mtr for Biotechnology</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- 5000 Sq. mtr for Gems &amp; Jewellery</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net Worth</strong></td>
<td>Rs. 50 crores</td>
<td>Rs. 50 crores</td>
<td>Rs. 250 crores</td>
<td>Rs. 250 crores</td>
</tr>
<tr>
<td><strong>Minimum Investment</strong></td>
<td>Rs. 250 crores</td>
<td>Rs. 250 cr</td>
<td>Rs. 250 crores</td>
<td>Rs. 1000 crores</td>
</tr>
<tr>
<td><strong>Others</strong></td>
<td>IT/ITES Required to be centrally air-conditioned</td>
<td>FTWZ within Multi-product SEZ shall not exceed 20% of the PA.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Particulars</td>
<td>IT/ITES/BT/G&amp;J SEZ Total Area</td>
<td>Sector - Specific SEZ Total Area</td>
<td>Multi-product SEZ (per 1000 Ha SEZ Area)</td>
<td></td>
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<tr>
<td>------------------------------------------------</td>
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<td></td>
</tr>
<tr>
<td>Shopping Arcade, Retail Space, Office Space, Multiplexes Housing</td>
<td>&lt; 1000 Sq. Mtr</td>
<td>&lt; 50000 sq.mtrs</td>
<td>&lt; 2,00,000 sq.mtr</td>
<td></td>
</tr>
<tr>
<td>Service Apartments</td>
<td>&lt;10,000 sq.mtr</td>
<td>Upto 7500 houses</td>
<td>25,000 houses &lt; 25,00,000 sq. mtr</td>
<td></td>
</tr>
<tr>
<td>Hotels, Service Apartments</td>
<td>Included in above</td>
<td>&lt; 750,000 sq.mtr Hotel with 100 rooms / 100 Service Apartments</td>
<td>Hotels with 250 rooms / 250 Service Apartments &lt; 25,00,000 sq. mtr</td>
<td></td>
</tr>
<tr>
<td>Clinic &amp; Medical Centres</td>
<td>No Provisions</td>
<td>Apartments Max. 25 Bed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>School/Educational Institutions</td>
<td>No Provisions</td>
<td>Total Built up Area &lt; 10,000 sq.mtr</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Area in Area in Sq.mtr</td>
<td>11,000</td>
<td>8,37,323</td>
<td>29,84,293</td>
<td></td>
</tr>
<tr>
<td>Total Area in Sq.ft</td>
<td>1,18,360</td>
<td>90, 09, 598</td>
<td>3,21,10, 993</td>
<td></td>
</tr>
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</table>
AN APPROACH

Kick Start with a Sector Specific SEZ & subsequently acquire enough land and develop multi-product SEZ

** Conversion to another class of SEZ allowed (Rule 5.(2).d)
- Sector specific SEZ if approved or notified and subsequently developer acquires more land and meets the criteria of multi-product SEZ then a sector specific SEZ can be converted into Multi-Product SEZ
STAMP DUTY RELATED ISSUES
CONFLICTS BETWEEN CENTRAL & STATE

- Approval of SEZ status by the Central government required registration of land with the State government concerned
- State authorities not prepared to grant exemption from stamp duty for registration without Central approval of SEZ status
- Examples
  - Andhra Pradesh provides refund of stamp duty to approved SEZs.
  - Gujarat gives some time limit for payment of stamp duty enabling the Developer to obtain the SEZ approval. If the approval is obtained no stamp duty is payable.
FINANCING OPTIONS

Issues & Challenges for SEZs
DEVELOPMENT OPTIONS

Similar to Industrial Parks

- Site Development
- Land
- Catalyst
- Leveling
- Acquire
- Incentives
- Internal Roads
- Notify
- Exemptions
- Drainage
- Plan
- Concessions
- Sewerage
- Green / Fence
- Privileges
DEVELOPMENT OPTIONS

By Public - Private Partnership

By Co-Developers “Collaborative Advantage”

External Connectivity
To SH / NH
Rail Siding
Air Port / Strip / Helipad
Port/ICD/ICT

Additional Opportunity in

Green / Fence
Site Development
Leveling
Internal Roads
Drainage
Sewerage
Utility Connections
Power
Water
Energy
Info-comm

Utility Plants
Power
Water
Energy
Info-comm
Fully Integrated
On Shared Cost Basis

Value Add
Built-up
Mandatory / Common Facilities

Furnished
Residential
Warehouses

Wired
Institutional
Laboratories

Equipped
Commercial
Certification

Managed
Recreational
Authorization

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SEZ DEVELOPMENT MODELS

- **Industrial Park**
  - Developer provides basic land and industrial infrastructure, very little social infrastructure.

- **Fully Integrated**
  - Developer builds everything including ports, airports, power plant, desalination plant, roads, and also provide social infrastructure such as hotels malls housing etc

- **Outsourced Utilities**
  - Developers outsource ports, air ports, power plant, roads, to co developer, often there is revenue sharing agreements.

- **Shared Infrastructure**
  - A few SEZ in the same vicinity come together to build and share infrastructure such as port or air ports or power plant. This model was popular in pudong, china.
DEVELOPMENTAL APPROACH

- All by us
- Some in JV
- Outsource
- An Appropriate Mix
NEED BASED APPROACH

- **High Revenue Generating Capacity**
  - Criticality of Infrastructure to Locators:
    - **High**:
      - Develop and procure O&M contract from reputed Service Providers
      - Developers to create and operate the infrastructure
    - **Low**:
      - Outsource the Infrastructure
      - Create the same if it can be leveraged for cross subsidization else outsource the development

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PARTNERSHIP OPTIONS

- Vendor
- Service Provider
- Design BOT
- Revenue Sharing
- Equity Participation
PARTNERSHIP RATIONALE

- Risk Sharing - Operations
- Risk Sharing - Expertise / Technology
- Risk Sharing - Business
- Capital Injection
- Financial Institution Requirement
APPROACH TO STRATEGIC PARTNERS

- The Component Approach
- Self Sustainability Criteria
- Opportunity Sharing
FINANCIAL CLOSURE

- Consider indicative project cost
  - Land Procurement
  - Land development
    - land cutting, filling, grading,
    - Road Development, Street Furniture, Parking Lots
    - Interchanges & Bridges
    - Compound wall, Fencing (Processing Area)
    - Utility Corridor
  - Utility provisions
  - Water Treatment plant, Sewerage Network, Solid Waste Management, Fire Fighting System
  - External linkages and off site infrastructure
  - Facilities and vertical infrastructure in Processing & Non-Processing Area
  - Cost associated with developing/enhancing USP
  - Soft Cost (Preliminary, Pre-ops, marketing, Contingency)
FINANCIAL CLOSURE … CONT'D.

- To be done in a phase wise
- Should consider Revenue and Cash Flows
- Should consider Financing Structure (Debt: Equity) for JV & SPV
  - Door - to - Door (7 yrs)
    - Time from getting the funds till its repayment

- Funding Sources
  - Debt funding sources
  - Equity Funding Sources
FINANCIAL PLAN

**Equity**

- Return on Investment; Lease rent on the Land
- 26% Equity Investment

**Debt**

- Ploughed Back

**Developer JV**

**Costs**
- Land Procurement & Infra Dev. And Construction Capex
- Interest on debt
- Depreciation
- Admin, Sales & Marketing
- Contingency & Pre-ops
- O&M Costs

**Revenues**
- Land Rental from the SPV
- Land Rental of the industrial plots, flatted factory, built-up space in PA.
- Land Rental from the Co-Developers
- Revenue share from the utilities

**Deposits**
- Deposits from the Long term Lease and Short term lease in the Processing and Non-Processing Area.

**Developer SPV**
- Development of the Non Processing Area.
FINANCIAL PLAY

- Self Sustaining Components
- Minimum Critical return for partners
- Expand don’t Share the pie
- Lender - Investor Parameters
- For all development Options
KEY REGULATORY CHALLENGES
KEY REGULATORY CHALLENGES

- State Policy for SEZ not in sync with the Central Government prescriptions
- Limited understanding amongst field formations
- Conflict in Definitional conflicts among extant laws
- Absence of SEZ Act at State level
- State level exemptions not streamlined
Thank