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REDEVELOPMENT AN ECONOMIC & SOCIAL GROWTH ENGINE

REDEVELOPMENT OF BUILDINGS AND SLUM REHABILITATION PROJECTS ARE THE WAY FORWARD FOR LAND STARVED URBAN CENTRES. REALTY+ TAKES VIEWS FROM AN ARCHITECT, DEVELOPER AND A FINANCIER.

In a rapidly urbanizing world, inclusive development of city finds greater meaning. The megapolises bursting through the seams are exploring various ways and means to provide quality living to its residents. In such a situation, redevelopment of old dilapidated buildings in a planned way can help reduce the burden on city infrastructure.

Rahul Kadri - Principal Architect - IMK Architects states, “There is a dearth of land in Mumbai — therefore, most projects in the city tend to be redevelopment projects. Such buildings also tend to be located in prime areas with a good FSI, making the value and profitability of the projects very high. The redevelopment business model is usually a joint venture between the landowner and society in proportion to the land value and development cost. However, often, getting approvals from all society members and tenants is a hindrance.”

Amit Goenka, MD & CEO, Nisus Finance Services agreed that the major limitation is that the size of the developments are small and hence the amenities that can be offered in such small projects are often quite limited. “The small size of the plot also inhibits the parking design and cars are often double and triple stacked and cramped in the ingress. Another factor is that the small size of the flat and its high landed cost to the developer, severely inhibits the positioning of the project and creates a congested mid-market development. To alleviate this problem, the regulators have initiated clubbing policies, which give an extra incentive for societies to combine their properties under "cluster redevelopment."

Ram Raheja - Director - S Raheja Realty expressed, “The challenge with redevelopment is the greed and need of the people; since there are too views of individuals representing one housing society. In addition, the expectation from redevelopment projects is higher as every homebuyer is expecting better amenities and a larger space than their current household area. Hence it is essential

The market is ripe for institutional players to enter and provide a destination for societies to redevelop their projects in a reliable way. The sheer numbers of societies which require redevelopment makes it an attractive destination for volume and yield seeking PE firms.
Amit Goenka.

The future of redevelopment in metro cities especially Mumbai is very bright since there are constraints on the availability of open land within the city. Additionally, the suburban insatiability for fast-growing lifestyles leads to demand for upgraded or spacious houses.
Ram Raheja

Cluster development is better because many available plots are very small and it is not feasible to utilise the complete FSI of the plot given the open spaces that have to be left all around. When a cluster is developed it becomes easier to utilise the full potential of the plot.
Architect Rahul Kadri

to associate with credible and experienced developers who are known for building similar properties; doing this will help the homebuyers to be in safe hands."

CHANGING LANDSCAPE OF REDEVELOPMENT STRATEGY

Initially, redevelopment projects were mostly taken up by small scale builders and projects involved single buildings or small housing societies. Lately big organized developers have shown interest in this segment as it enables access to land in prime markets without huge upfront investment, the majority costs being compensation to homeowners for relocating during the construction period that are compensated with the sale of additional flats at market prices also bringing profit on investment.

Ram Raheja elaborated, "Location and connectivity are crucial for a successful residential project, and currently, the issue of the rise in land prices and lack of availability of land is growing interest of big developers towards redevelopment projects specifically in the suburban areas of Mumbai. (Bandra, Khar, Santacruz, Juhu etc). But, when consenting to a rebuild, it is critical to thoroughly review the paperwork and discuss all elements with the developer."

Amit Goenka, MD & CEO, Nisus Finance Services added, "Shortage of land and slow pace of redevelopment have forced regulators like MCGM, MHADA and SRA to change regulations and make it easier for large developers to commit substantial capital and evince interest towards the redevelopment space. Certain premiums, if paid before Dec 31, 2021, were discounted at 50% to improve the profitability of the projects. As a result, it is estimated that appx INR 14,000 Crores of premiums were collected in Mumbai alone, and almost every large developer invested heavily in the redevelopment space, to avail of the benefit. Another change was that approval costs could be defrayed over 4 instalments at an interest rate of 8.25%. Further, concessions & approvals have been fast tracked for redevelopment under DCPR 2034. Following COVID -19 societies have also been forthcoming to accept reasonable terms and prefer redevelopment with large developers. Hence, substantial opportunities on viable margins have emerged in the redevelopment space attracting large developers to make a foray into the segment."

THE RISING PE INVESTORS INTEREST IN REDEVELOPMENT MODEL

The redevelopment market is growing and attracting private-equity firms, prompted by the entry of big players in the segment. The method used by PE firms is however different and consists of underwriting the entire project cost in exchange for the allotment of the entire saleable inventory. As the project sells out, the PE firm pockets the difference between the underwritten price and the market price and nets an IRR of 20-30%.

"Since the turnaround times are short, the exits happen relatively faster and the investors are happy to provide the capital required to complete the project up front. Funds like Nisus Finance find greater returns on a risk adjusted basis in such redevelopment projects since, with a100% society consent there is no risk of litigations or legal issues on the project. The established and well known buildings in their micro market command the interest of the new buyer and there is strong alignment of interest of all stakeholders," adds **Amit Goenka**.

THE FUTURE FOR THE REDEVELOPMENT MODEL

Architect Rahul Kadri sharing his vision for the way forward said, "Covid-19 has shined a spotlight on the often-overlooked underbelly of Mumbai, where unusually high population densities and poor drinking water and sanitation facilities make social distancing virtually impossible. Elimination and clearance of slums have to be substituted by up-gradation of living conditions, access to basic services and participation of current residents in policy conception."

Ram Raheja expressing an optimistic opinion stated, "Since land is scarce in the city like Mumbai, stand-alone redevelopment projects are in most cases supported by favourable government regulations and norms."

Amit Goenka believes that the answer to making Mumbai into Shanghai or Singapore like cities lies completely in the world of redevelopment and has been the focus of the current state government which has come out with the SRA amnesty scheme, cluster development scheme, discount on approval costs, reduced stamp duty and several other innovative ideas. "In a recent survey conducted by BMC, the authorities identified a total of 337 dilapidated structures covering island city (70 structures), western suburbs (163 structures) and eastern suburbs (104 structures). With large redevelopment projects like BDD chawls, Kamathipura among others being taken up with earnest by state government, this segment will continue to attract institutional developers, foreign and domestic capital and see larger clusters being redeveloped into modern integrated developments over medium to long term. Nisus Finance continues to be one of the foremost domestic funds championing the private redevelopment and self-redevelopment space with its intelligent pools of capital and partnership structures."

THE REDEVELOPMENT BUSINESS MODEL BEING ADOPTED BY DEVELOPERS

The predominant method is the Development Agreement (DA) which is signed by the society along with payment of rent and corpus to the society. The developer typically offers a 35% increase in the FSI (equivalent to the fungible available) to the society members and keeps the balance as sellable to cover costs and make a profit. The developer is also responsible for funding the project including the cost of the approvals and the residents move out post IOD being in place and not before all funding has been arranged.

A second method is the self-redevelopment - Development Manager Model. In this model, the society engages a developer as a development manager to the project and keeps the profit, and funds the rent and corpus from advance sales to its own members. In this case, the funding is arranged by the development manager and the society jointly to ensure that the project is completed on time. The development manager typically earns a project management fee and may or may not be a promoter under the definition of RERA.