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MONDAY, JUNE 18, 2018

06 MONDAY, 18 JUNE 2018
NEW DELHI

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Large builders eye township projects as small firms exit

Funding hurdles, stringent rules make mid-sized developers focus on smaller projects

Madhurima Nandy &
Bidyaa Sapam

BENGALURU/MUMBAI

Smaller and regional developers are slowly exiting the business of building townships because of funding challenges, scarcity of land and stringent regulatory norms, leaving a few large firms to rule this space.

Due to the ongoing slowdown, many mid-sized developers have tried selling off land and incomplete township projects to larger counterparts, as they concentrate on smaller projects.

Gaursons India, based in the National Capital Region (NCR), has always been into developing townships but may not take up new projects of large sizes any more. Managing director Manoj Gaur said he wants to build smaller projects of 10-12 acres that can be completed in 3-4 years. "Large land parcels are not available today. The financial model has changed, and with Rera (Real Estate Regulation and Development) Act, projects have become time-bound," Gaur said.

Townships have had a chequered history in India. In the boom years of 2005-06, many developers ventured into building large, 100-acre townships, but not every one wants to build them now.

At least three developers—one from Pune and two from the National Capital Region (NCR), said they have been in talks to sell their proposed township projects in parts as land or as a whole, but haven't been able to find buyers. They didn't want to be named. "The initial cost of kick-starting a township project is huge. The builder needs to provide the overall infrastructure but not all



ADHIT BHATLEKAR/MINT

Changing landscape in realty

► Integrated townships with mixed-use development are the way forward

► New townships are being built around a theme. Senior and student living are also part of new-age townships

► Property advisory JLL cites Lodha Group's Palava City in suburban Mumbai as a top example of a smart city or integrated township

► Regional developers are exiting township development, while large, pan-India developers are venturing into this space

townships eventually make money," said one of them.

"Earlier, project scale was important," said Ashutosh Limaye, head (research) at property advisory JLL India. "Images of the fully built township were shown to market to customers. With Rera, developers have to announce the completion date at launch, so they don't want to risk launching big townships in one go. They launch only a portion to ensure that they have more control on the construction activity."

Unlike before, most townships today focus on affordable housing. The new crop is also trying to give them a distinct theme, making them 'smart' and technology-enabled, along with concepts like student and senior housing that are being introduced.

Marking its entry into mid-in-

come housing, Embassy Group recently launched the first of the five phases of its 283-acre township in north Bengaluru. The apartments in this phase (12 acres) are being marketed as smart homes and Embassy has tied up with Amazon to integrate Amazon Echo devices. In the later phases, it may introduce student housing and senior living.

"The high investment needed upfront for land acquisition, the lengthy gestation phase of development and the long-term commitment of funds have created an entry barrier for integrated townships, which only large developers can scale," said Reeza Sebastian, Embassy senior vice-president, residential business. "Since acquiring land is a big hurdle and there are stringent rules on how you can roll out products, it may prove a chal-

lenge to be able to enter the space."

Shapoorji Pallonji Real Estate is in the process of aggregating 1,000 acres between Mumbai and Pune to build a massive township, which is currently being conceptualized.

CEO Venkatesh Gopalkrishnan says projects like these need to have a primary hook, a theme. "Our project will be built in the next 8-10 years, in phases around a theme," he said. "Master-planning of townships need to be well-thought, with right positioning and product mix. If you do it well, you build a lot of value."

Mohit Malhotra, managing director and CEO, Godrej Properties Ltd, says that while the firm is bullish on townships, they are complex to execute and need "financial and execution capabilities and organizational support" that smaller players will struggle to meet. Godrej has been collaborating with smaller developers to breathe new life into projects that the latter couldn't develop.

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