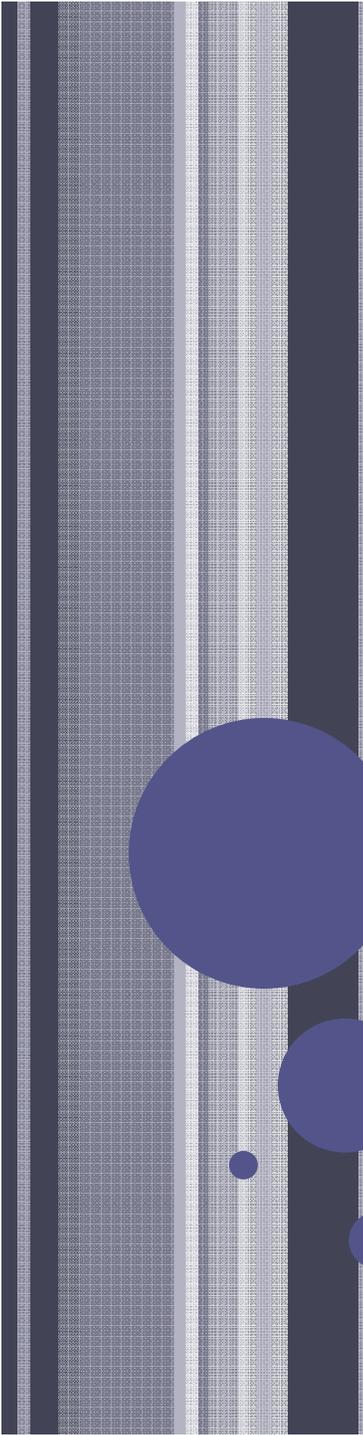


**ECONOMIC EXCELLENCE ZONES
&
REAL ESTATE:
ISSUES & OPPORTUNITIES**

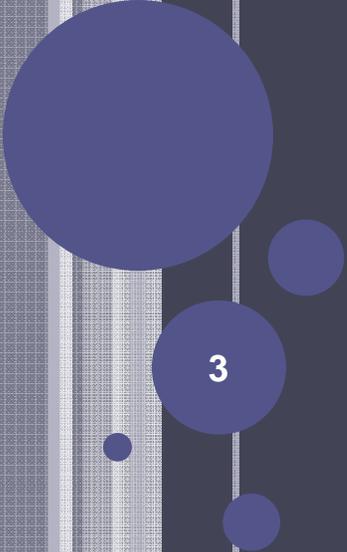
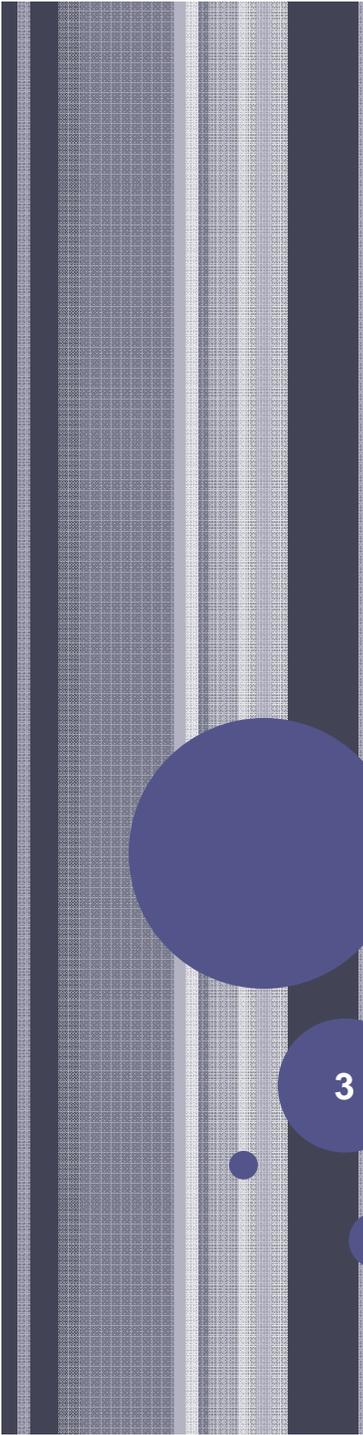
**Real Estate Issues
With Specific Reference to SEZs**

by **Salmon Leap Associates**



WHAT ARE THE ISSUES INVOLVED

- IN LAND ACQUISITION?**
- REHABILITATION POLICY?**



LAND ACQUISITION - ISSUES

3

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

Agricultural Land – only Single Crop permitted

- 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

Cheap may be Expensive...

ISSUES IN LAND ACQUISITION

- Lack of proper regulatory frame work
 - 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

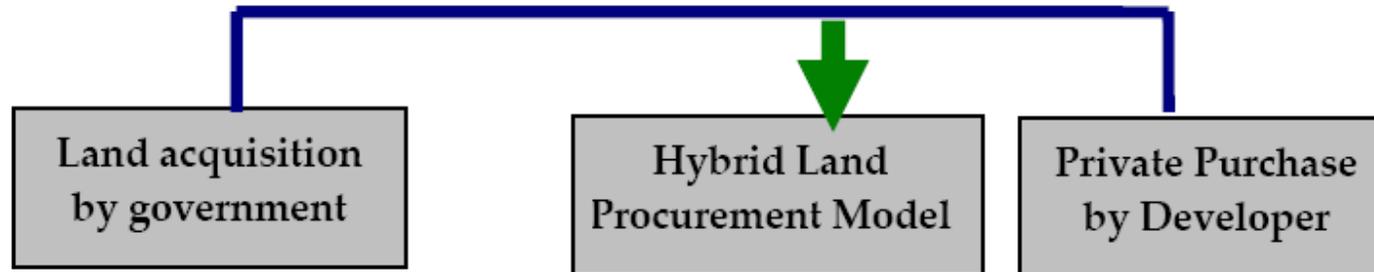
○ Key Challenges

- 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

DESIGNING THE PACKAGE

- Land Sale on Market Price
- Price as per location and type

- Specific Size of plots to each land seller
- Seller to be part of the development

- Cashless Equity of a pre-decided amount per acre as convertible debentures

- Professional training courses to enhance employability

- Health & Hygiene and Education Initiatives

*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 merts, 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

	SEZs for IT, Gems & Jewellery, Bio tech & Non Conventional Energy	FTWZ (Free Trade & Warehousing Zone)	Sector Specific SEZ	Multi-Product SEZ
Min Area	10 Ha.	40 Ha	100 Ha	<=5000 Ha
Min. Built up	<ul style="list-style-type: none"> - 1,00,000 Sq. mtr for IT/ITES - 40,000 Sq. mtr for Bio-technology - 5000 Sq. mtr for Gems & Jewellery 	not less than 1,00,000 sq.mts.	Min. Processing Area 50%	Min. Processing Area 50%
Net Worth	Rs. 50 crores		Rs. 50 crores	Rs. 250 crores
Minimum Investment	Rs. 250 crores	Rs. 250 cr	Rs. 250 crores	Rs. 1000 crores
Others	IT/ITES Required to be centrally air-conditioned	FTWZ within Multi-product SEZ shall not exceed 20% of the PA.		

LIMITS FOR BENEFITS

Particulars	IT/ITES/BT/G&J SEZ Total Area	Sector - Specific SEZ Total Area	Multi-product SEZ (per 1000 Ha SEZ Area)
Shopping Arcade, Retail Space, Office Space, Multiplexes	< 1000 Sq. Mtr	<50000 sq.mtrs	< 2,00,000 sq.mtr
Service Apartments Housing	<10,000 sq.mtr	Upto 7500 houses	25,000 houses <25,00,000 sq. mtr
Hotels, Service Apartments	Included in above	Hotel with 100 rooms/ 100 Service Apartments	Hotels with 250 rooms/ 250 Service Apartments
Clinic & Medical Centres	No Provisions	Max. 25 Bed <10,000 sq.mtrs	Max. 100 Bed <25,000 sq.mtr
School/Educational Institutions	No Provisions	Total Built up Area <25000 sq.mtr	Total Built up Area <2,50,000sq.mtr
Total Area in Area in Sq.mtr	11,000	8,37,323	29,84,293
Total Area in Sq.ft	1,18,360	90, 09, 598	3,21,10, 993

AN APPROACH



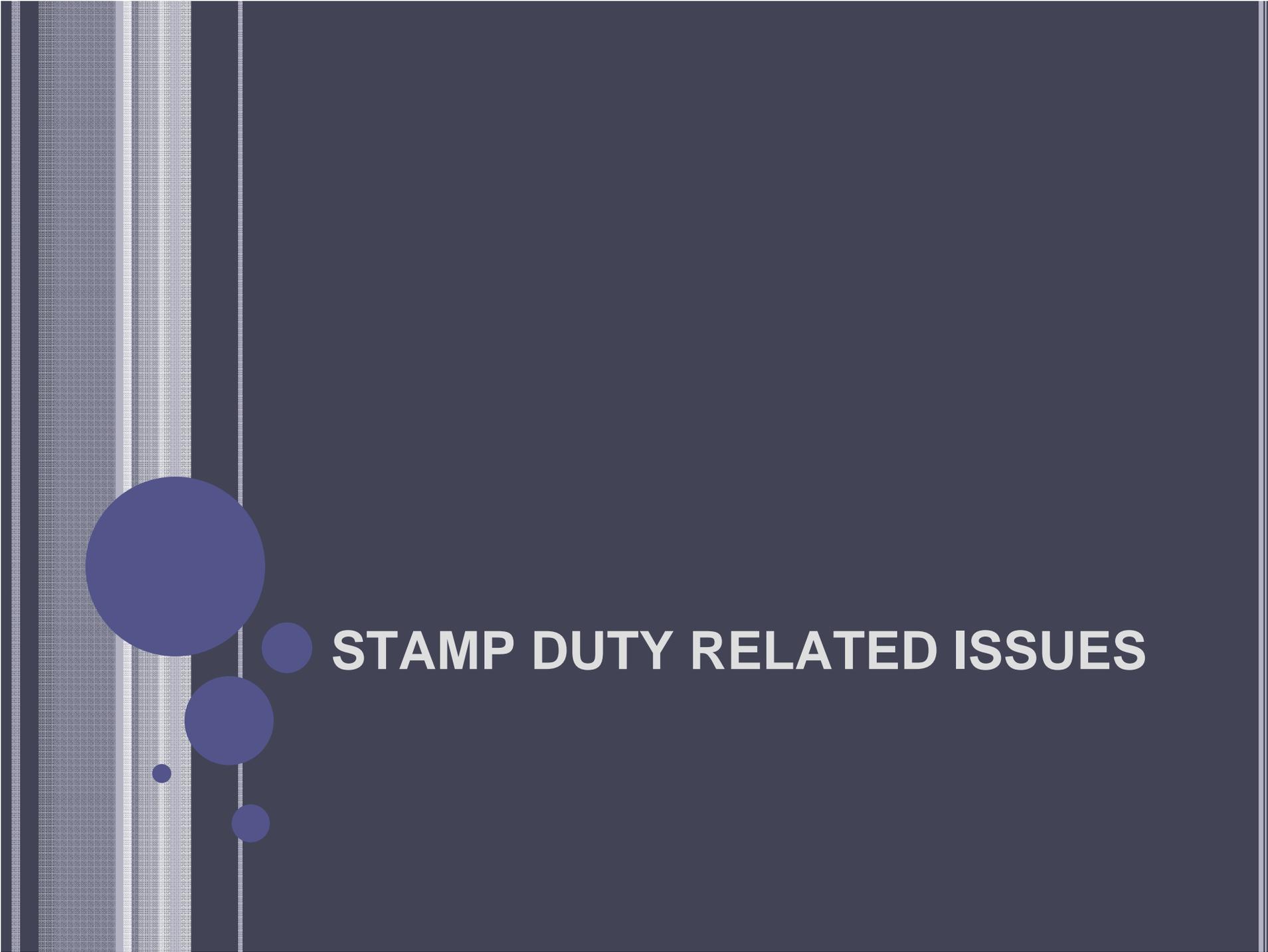
OR

If enough Land is not acquired /available initially

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

The background is a dark blue gradient. On the left side, there are several vertical decorative elements: a thin white line, a wider grey line with a fine grid pattern, and a solid dark blue vertical bar. To the right of these bars, there are four blue circles of varying sizes arranged in a cluster. The main title is centered in the lower half of the page.

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.

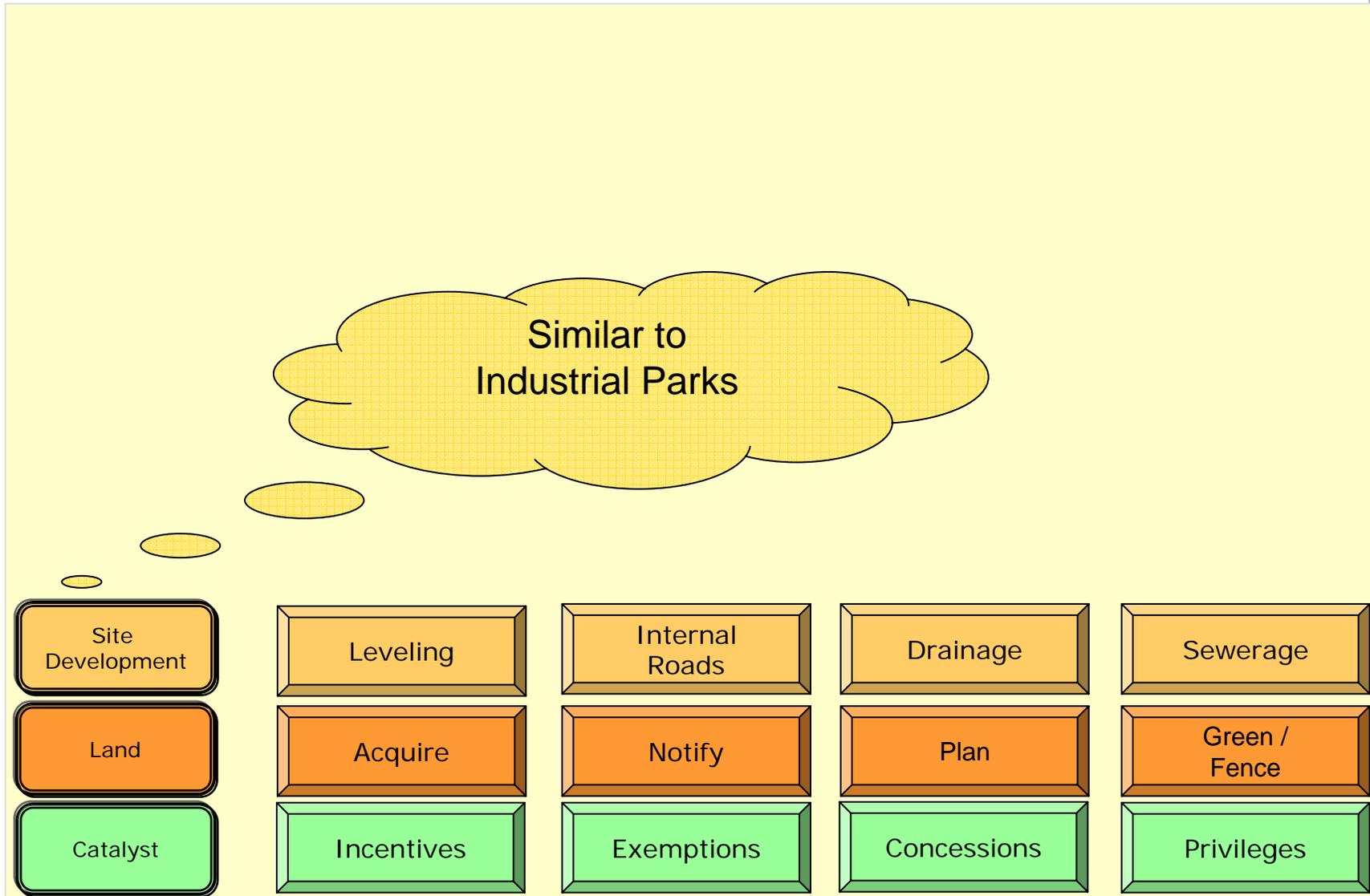


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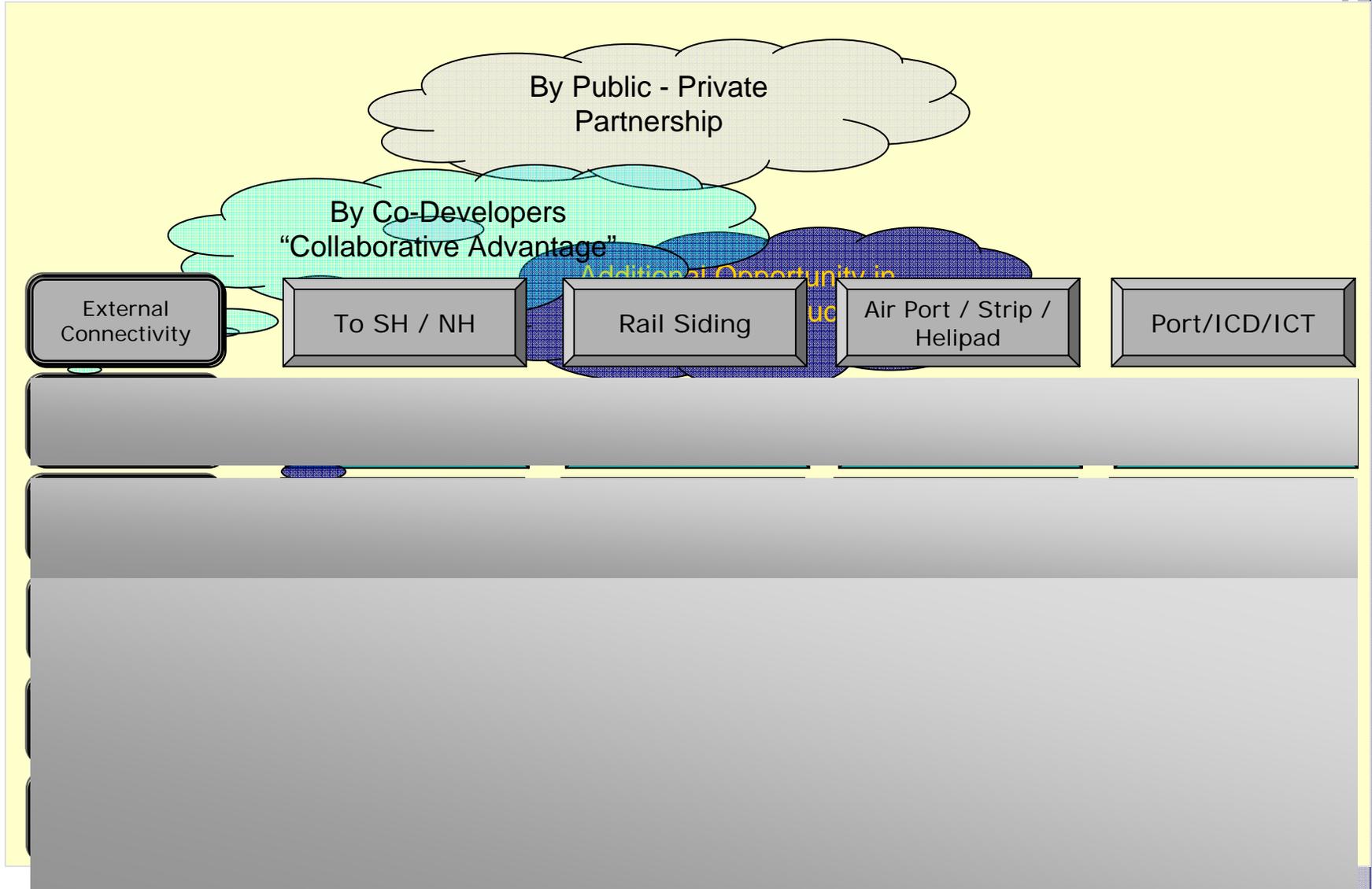
FINANCING OPTIONS

Issues & Challenges for SEZs

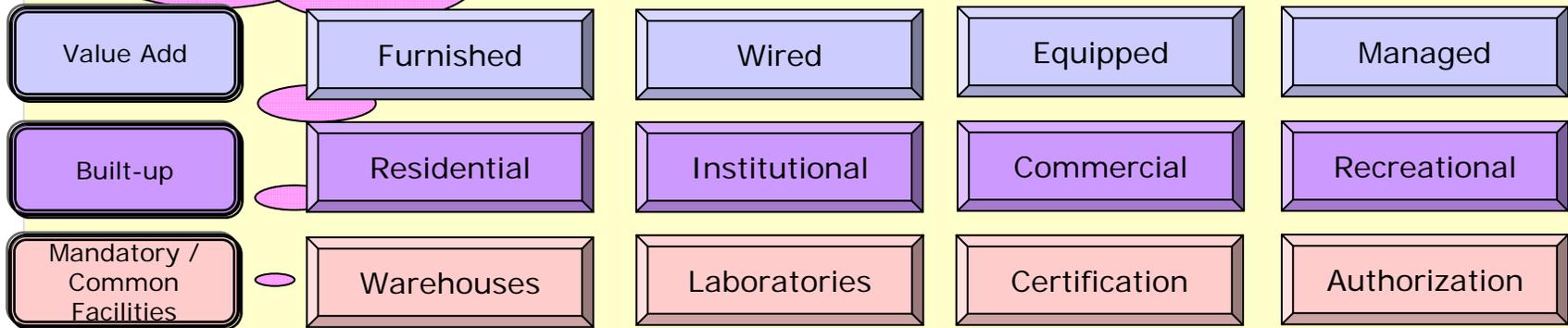
DEVELOPMENT OPTIONS



DEVELOPMENT OPTIONS



Fully Integrated
On Shared Cost Basis



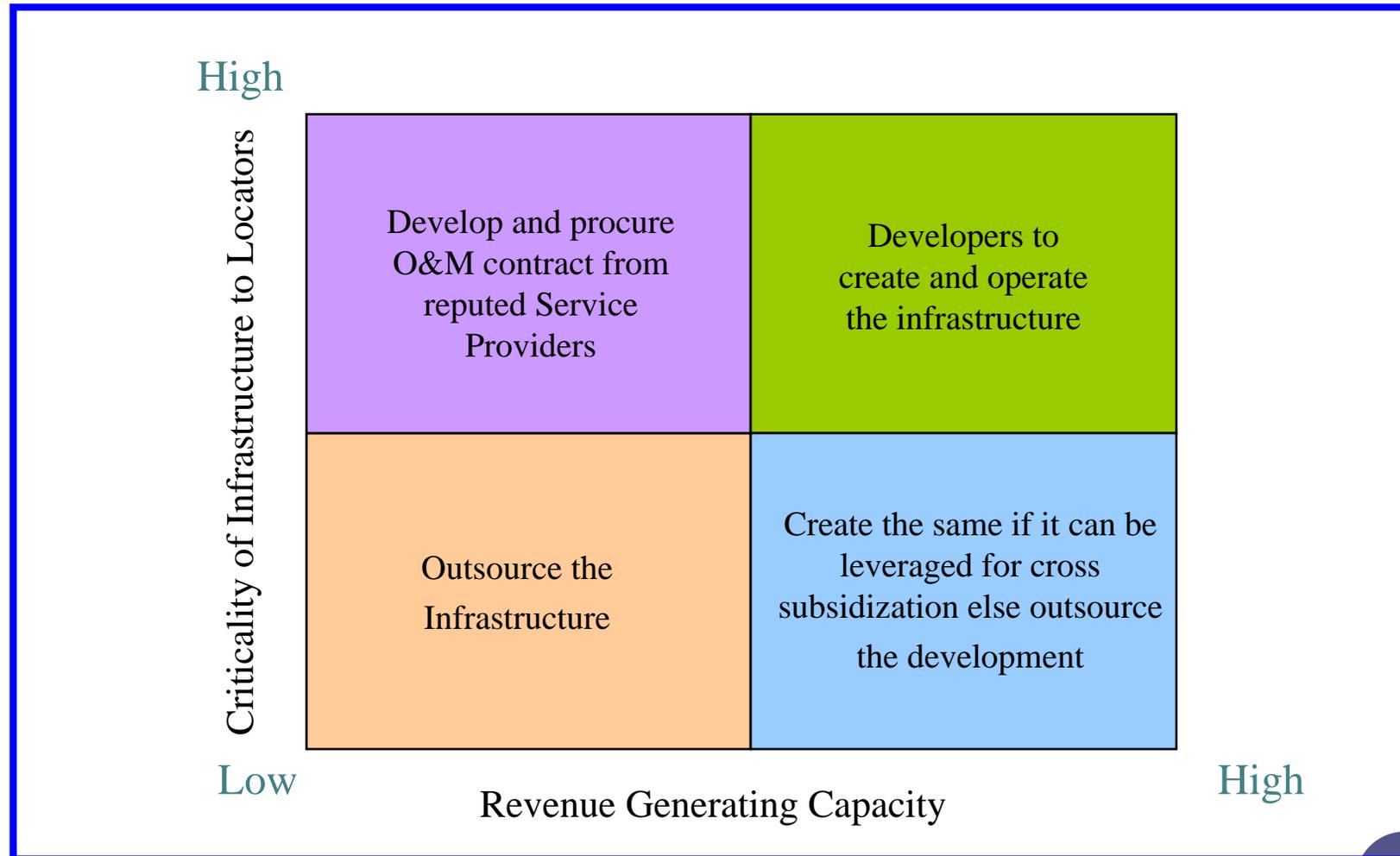
SEZ DEVELOPMENT MODELS

- 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



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

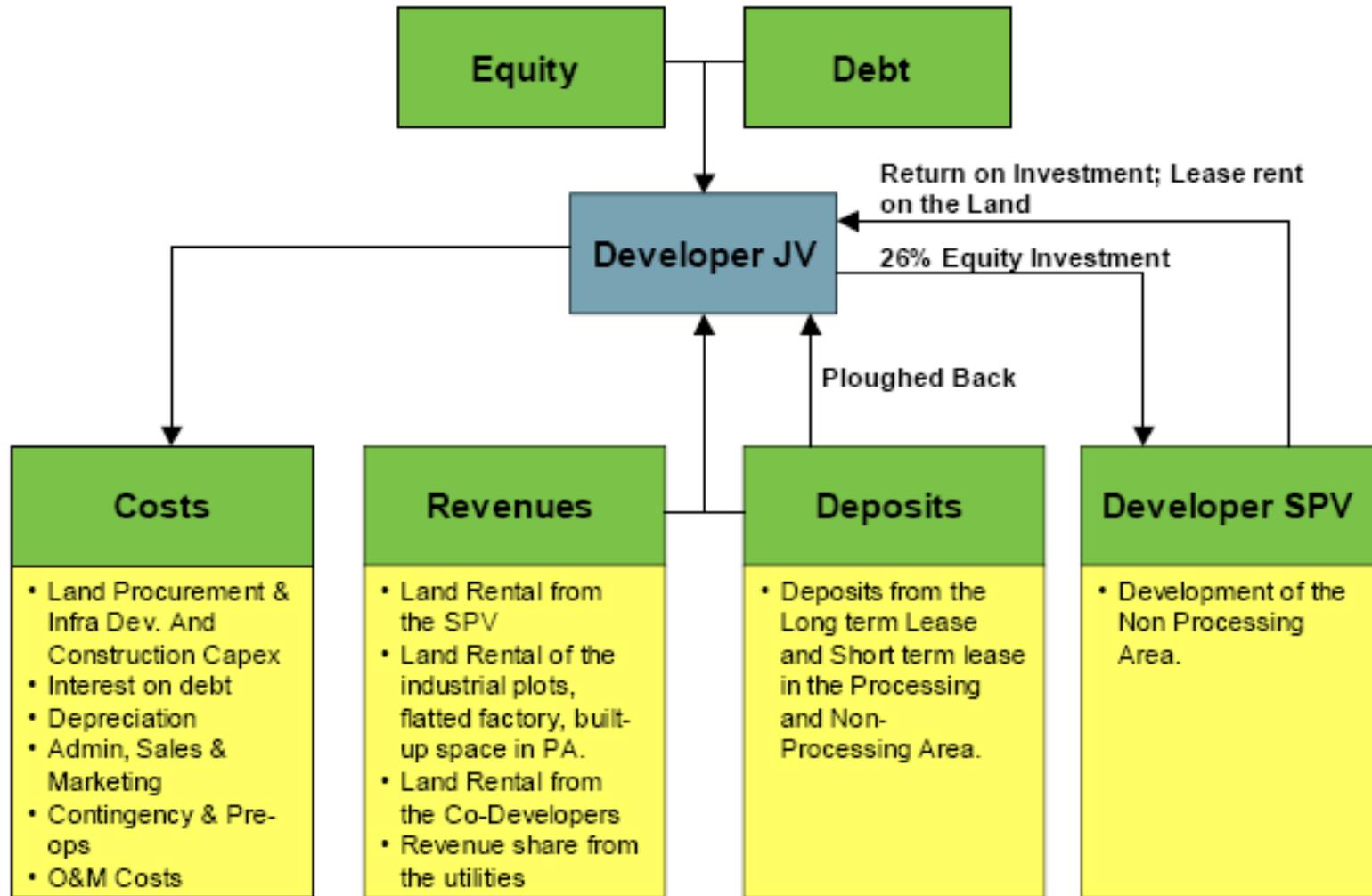
FINANCIAL CLOSURE

- 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 ... CONTD.

- 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



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

The logo for Salmon Leap Associates features the company name in a sans-serif font. The word "Salmon" is in black, "Leap" is in red, and "Associates" is in black. A thin black arc is positioned above the word "Leap".

Salmon Leap Associates

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