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With huge stockpiles and inventories, promoters are opting once again for plotted development projects

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PLOTTED development by property developers, is back. As companies sit on huge pile of unsold but built apartments, some of them have dabbled with the idea of promoting plot development projects.

There are two obvious benefits. One, it helps to create cash flow and sustain the operations until the market turnaround happens; two, it also helps them to offload land banks in their possession in the peripheral areas of the cities.

Recently, Chennai-based TVH, an established player in the residential apartment space, launched a plotted development project at Mannivakkam, a developing southern peripheral region of the city. It was a runaway success.

A little earlier, Bangalore-based DivyaSree Developers, which had a large land parcel near Thiruporur on OMR, Chennai, launched a plotted development project. That too attracted substantial buyer interest.

"In the outskirts of a city, high rise developments take 5-7 years to mature as a destination and for the project to break even. With high interest costs, most developers are unable to sustain such an investment, which is leading to a rise in plotted developments. But, this holds true only in case of peripheral and far-flung areas of the city. For well-connected areas and those close to the heart of the city, plotted developments will not be a viable option owing to high cost of land," says Surendra Hiranandani, CMD, House of Hiranandani, which has a plotted development project on the outskirts of Hyderabad.

"Property developers looking at the option of developing and selling plots are not confined to cities, but can be found across the country. Typically, developers who are financially stressed, tend to experiment with this option. In the case of tier II and III cities, end users still prefer to buy a plot of land and then construct their house. As a result, this trend is present all around," points out Ashutosh Limaye, head - research & real estate intelligence service, JLL India.

The way he sees it, there are two advantages that developers have by getting into plot development. First, there is no pressing need to arrange large amounts of finance for construction and this business segment is a lot less risky than constructing and selling residential units. Second, the money comes upfront in plots, where the time to develop and sale is shorter. In the case of developing apartments, the money comes in phases and in such a market scenario, the bulk of it comes towards the end.

"Whenever times are tough, developers try to sharpen their focus on land development. And it happens mostly in fringe areas of a city, since large land parcels are not available inside cities and even if something is available, the costs are prohibitive for

a large segment of society. Largely, it is the small and medium developers who get into this. There was a time when even large players dabbled with this idea. For instance, during the financial crisis of 2009, all big brands got into land development from all four corners of the country. Large developers moved beyond their home cities and acquired large land parcels in other cities. However, over the last 4-5 years, they have managed to get rid of their land banks or exited by selling it off to overcome financial troubles and reduce their debt burden. However, the large players in their home cities or region, continue to focus on big township projects and hence offer developed plots too," Limaye explains.

The launch of plotted development projects by TVH and DivyaSree fits perfectly into the scenario mentioned above. The recent launch by TVH plots, developed over 22 acres at Mannivakkam, is part of a 100-acre township development plan by the company. Eventually, it will offer a mix of apartments, villas and even row houses. The launch of a plotted development project by DivyaSree is, again, part of its larger 150-acre township development plan.

"Traditionally, there are a segment of people who opt to buy plots and construct their own homes. But, they are also aware of the risks of buying it from individuals and unorganised players. That is why any plotted

development project launched by established players attracts more interest," says Dilip Joseph, head - sales, TVH.

His company has planned a large township development at Mannivakkam, off GST Road near Chennai in over 100 acres. "We offered plots of varied sizes, with good infrastructure, developed in about 22 acres in phase I. Instead of just selling off the plots, we also offered to handhold customers by offering to take up construction and also introduced them on to our architects to design as per their needs and requirements," he points out.

Beyond this, the 100-acre township will not only have residential apartments and villas to be

developed by us separately, it will also have all facilities, including shopping centres, restaurants and schools. "As a result, we offered 300-odd plots and over 200 have already been sold. Our plot sizes were varied, ranging from 600 sq ft, 1,200 sq ft, 1,500 sq ft, 1,800 sq ft and 2,400 sq ft. As a result, we could attract buyers across sections, from businessmen and IT professionals to government employees as well as first-time buyers and also those looking for second or third investment options," Joseph explains.

He adds: "While developing villas and apartments need a timeframe to be ready, customers who bought the plots, get to own them immediately. That's an added incentive."

There appears to be growing consensus on the subject. Points out A S Sivaramakrishnan, head-residential, CBRE India: "Plotted development projects offer a win-win scenario to both developers and buyers/investors. While for developers, the cash comes in upfront investors tend to take decisions easily in the case of plots over apartments. Since organised developers tend to do a good job than others in the market, the project hits the success mode from the launch itself. But, one important factor to remember is this: only plots that are appropriately priced succeed and not all projects, even if they are launched by reputed builders."

Interestingly, it is not as if apartments are not selling. How else would loan-financing companies report 8-12 per cent increase in loan disbursement year-on-year? There is a catch though. "The kind of sales witnessed earlier during the pre-launch and launch time is no longer happening. Buyers today are looking at a smaller window of timeframe, say 6-9 months, to buy an apartment and move in after completing the woodwork and other required facilities. As a result, they are looking at buying an apartment in a project that is either already completed or visibly nearing completion. Foundation stage investment is not happening any more. Even if it is happening, it is restricted to the close family and friends' circle of the developers," observes Nakshatra Roy, CEO, Wabi Projects, a marketing and financial consulting company for property developers.

He believes homebuyers are no longer willing to take the burden of pre-EMI on their head, since it accounts for 9-10 per cent of the cost and the property that they have booked is not appreciating by that percentage during a phase of 12-18 months in the present market scenario. "In addition, there is a category of investors, who always look to buy plots either for their children's education or marriages. This category will continue to exist, whatever the market situation," Roy points out.

Experts also believe that real estate investments are an emotional decision and land remains a favoured investment for a lot of people. The point is whether the systems to facilitate such purchases exist. "The biggest challenge encountered when investing in land is that there are no structured/organised developers who would help secure land parcels. While people prefer investing in land at suburban/future locations, lack of organised players in this segment leads to legal challenges. Now, it is a completely different scenario and we see many reputed developers entering this segment of plotted development, which is giving buyers the much needed confidence," asserts VS Sridhar, managing director Chennai, Cushman & Wakefield India. Well, that can only be considered good news. ■

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