

## ASSESSMENT OF DEVELOPMENT RIGHTS TRANSFER FOR RESIDENTIAL HOUSING PROJECT CASE STUDY OVERVIEW

The CD company had entered into a development agreement with XYZ Pvt. Ltd. on 10th February 2015. The XYZ was also promoted by the directors of the AAA group and now relatives of the KMP of AAA Limited. The project “ABCD” - comprising 560 units allocated in 7 Residential Towers, at Sector, Gurgaon, Haryana is to be constructed as per development agreement.

The XYZ had entered into an agreement with ABC Estates Pvt. Ltd. and others (Land Owners) for development and transfer of rights for the residential group housing project on a part of their land to transfer and assign all the development rights along with all marketing and selling rights on identified part of land admeasuring 10.218 Acres with scheduled FSI thereon i.e. 7,78,847 Sq. Ft.

The XYZ had further entered into development agreement with CD on the said land Gurgaon, Haryana. The licenses were issued by DTCP (Haryana) in the name of land owners. The Zoning License no. 123 of 2012 dated 00.00.0000 was issued, which is now suspended/ cancelled.

The CD and XYZ have a sharing ratio of 80:20 for the constructed inventory.

Required valuation of development rights as on 01, May 2019

### 1. Project Overview

Particular	Details
Project Name	ABCD
Location	Sector ____, Gurgaon, Haryana
Land Area	10.218 Acres
Licensed FSI	7,78,847 Sq. Ft. (as per agreement)
Agreement Date	10 February 2015
Development Sharing Ratio	CD: 80%, XYZ: 20%
Zoning License No.	123 of 2012 (Currently suspended)

### 2. Area Calculations

Description	Value (SFT)
Total Licensed FSI	7,78,847
Developer's Share (80%)	6,22,877.6 (~6.23 lakh)
Third-Party Share (20%)	1,55,969.4 (~1.56 lakh)

## DIRECT TRANSFER OF DEVELOPMENT RIGHTS

### *Apartment Market Rate*

The average selling price per square foot of constructed apartments, based on prevailing market trends.

### *Loading Factor*

The percentage increase used to convert **carpet/FSI area into super built-up area** (which includes common areas like lobbies, stairs, etc.).

### *FSI Rate*

**Definition:** The derived price per square foot of FSI (Floor Space Index) area, calculated by adjusting the apartment market rate for loading.

### *Development Cost*

**Definition:** Estimated cost per SFT to construct the apartment ( include mention below :-

- **Materials:** Cement, steel, bricks, sand, tiles, glass, plumbing & electrical fittings, etc.
- **Labor:** Skilled and unskilled labor charges for masonry, plumbing, electrical, painting, carpentry, etc.
- **Machinery & Equipment Usage:** Rental and operation costs of construction equipment like mixers, lifts, scaffolding, etc.
  - Landscaping
  - Roads, driveways, and pathways
  - Boundary walls and gates
  - Storm water drainage and sewage systems
  - Water tanks and borewells
  - External electrification and lighting
  - Architect's fees
  - Structural Engineer's fees
  - MEP consultants (Mechanical, Electrical, Plumbing)
  - Landscape architects
  - Environmental consultants (for approvals)
  - Contractor's profit margin
  - Mobilization costs
  - Temporary site offices, storage, and facilities
  - Contingency margins
  - Project management consultants
  - On-site supervisors and engineers
  - Quality control and safety staff
  - Routine administrative expenses
  - Building permits

**Net Residential FSI Rate :**The residual value per SFT of FSI after deducting development costs.

**Developer's Profit :** The notional margin or profit assumed for the developer, commonly taken as a percentage of the net value.

**Fair Market Value (Development Right)** : The total estimated market value of the FSI area after deducting development cost and developer's margin.

Note:- "Construction value has not been considered, as the building is in poor condition due to deterioration caused by prolonged exposure to the environment."

## Valuation-Case Study

### 1. Area Considered:

- Land area: **10.22 Acres** & FSI area: **7,70,000 SFT**
- Developer is entitled to **80%** of the super built-up area (20% retained by another party)
- Thus, available FSI for Revenue (Cost of Construction liability totally of CD):  $7,70,000 \text{ sft} \times 80\% = 6,16,000 \text{ SFT}$  & Balance Development area- = 1,54,000 Sft.

### 2. Market Rate Derivation:

- Apartment market rate: Rs 5000/ sft (Builder had been sold all 370 Flats as information provided also confirm from vicinity)
- Adjustments:
  - FSI RATE = Rs 5000/sft
  - Less development cost: Rs 2,500/sft (Development scope mentioned above)
  - Net residential FSI rate:  $5000/\text{sft} - 2500/\text{sft} = \text{Rs } 2,500/\text{Sft}$

This method **already assumes** that any profit margin the developer expected is **reflected in the market rate**. Here's why:

#### 1. Market Price Already Includes Developer Profit:

- Builders set the sale price (Rs 5,000/sft) based on what the market can bear and what gives them acceptable returns.
- So, **deducting profit again would be double-counting** and would undervalue the development rights.

#### 2. Residual Method Logic:

- This method estimates the **maximum price a developer can pay for land/FSI** and still make the project feasible.
- Whatever remains after deducting construction and soft costs is the **developer's allowable budget for land acquisition** — i.e., development rights.

#### 3. You Are Not Valuing the Developer's Business; You're Valuing the Land Right:

- You're not trying to replicate the developer's full financial model.
- You're only asking: What would a rational developer be willing to pay for the development right, given market rates and costs?

**Note-** A **rational developer** would be willing to pay for development rights (FSI) based on what **surplus remains after recovering all project costs and achieving a reasonable profit margin**. This is often assessed using the **residual land value method**.

"A rational developer, aiming to ensure financial viability, will only pay for development rights what remains after covering all project costs. If the market sale price already includes expected profits, then no further adjustment for profit is needed. The net residual value after costs becomes the fair value for development rights."

**Fair Market Value (Development Right** = 6,16,000SFT @ Rs 2500/ sft = **Rs 154.00 Cr**

**Deduct Cost of construction for balance area of total FSI for third party as developer will complete the whole project** = 154000 @ Rs 2500/ sft = **(-) Rs 38.50 Cr**

Net Fair Market Value (Development Right) = Rs 154.00 Cr (-) Rs 38.50 Cr = Rs 115.50 Cr.

### 3. Pending Dues as data given by the IP/IRP:

**Rs 55.85 Cr** (for EDC & IDC etc) for full project i.e 18 Acre hence for **10.20 Acre** will be **Rs 31.65Cr**

And for cost of license for renewal will be Rs 40 Lakh/ Acre for 10.20 Acre = Rs 4.08 Cr

**Total Dues = Rs 35.73 Cr\***

Total flat sold recorded in the books	370 approx
Amount received from these allottees	Say Rs 100.00 Cr
But: <b>Rs 100 Cr received</b> is <b>not a deduction</b> unless it needs to be refunded or accounted as liability. If already used in construction, it's not reducing value directly.	

**4. Fair Market value** as on 01 May 2019 = **Rs 115.50 Cr (-) Rs 35.73 cr. (-) Rs 100 Cr = (-) Rs 20.23 Cr.**

In general, liquidation value is typically 15% to 25% lower than market value, as it reflects a scenario where the asset must be sold within a limited time frame. The exact discount depends on factors such as site condition, market demand, and urgency of sale."

### Explanation for Negative Project Valuation

The negative value of the project can be attributed to the following key factors:

- 1. Advance Received from Buyer:** The developer has already received an advance from the buyer, which is to be adjusted against future project costs or liabilities. This advance reduces the project's net realizable value.
- 2. Outstanding Dues to Government Authority:** An amount of Crore is still pending as dues payable to the relevant government authority. This liability further impacts the project's financial viability.
- 3. Third-Party Development Obligation:** Approximately 20% of the total project work, is to be developed by the developer on behalf of a third party. This obligation represents a cost that does not generate direct revenue for the developer.

These factors collectively result in a negative net valuation for the project under the conditions as on 01.05.2019.

"If the project has a negative value due to advance liabilities, government dues, and third-party obligations, why would a rational developer take over such a project?"

### ***Reasons a Developer Might Still "Put Hand" in Such a Project:***

#### 1. Strategic Location or Future Potential

- The project may be in a **prime area** where land is scarce.
- Despite current negatives, the **long-term upside** (e.g., future market price increase, upcoming infrastructure) may justify the risk.

#### 2. Discounted Acquisition Price

- The developer may negotiate a **deeply discounted price** or acquire the project **through distress sale/NCLT**.
- The **net acquisition cost** might become attractive enough to absorb existing liabilities.

#### 3. Leverage Over Creditors

- A developer with **stronger financials** may settle dues with government authorities or banks at **discounted terms**.
- This improves the economics significantly.

#### 4. Asset-Backed Recovery

- Some value might still exist in **partially completed construction, FSI, or unsold inventory**.
- The developer may believe they can recover costs by **re-planning or optimizing layouts**.

#### 5. Related Party or Obligation

- Sometimes the developer is **already involved** or has a contractual obligation.
- Or the buyer of the project has other interests in the same area or group of projects.

‘Despite the current negative project valuation as on 01.05.2019 — primarily due to advance buyer liabilities, pending government dues, and third-party development obligations — a developer may still consider acquiring the project if strategic, financial, or location-based factors indicate potential for turnaround. However, such a decision would be speculative and dependent on future planning, negotiations, and cost-reduction strategies.’

