APPCC

Association of Professional Property Consultants Chennai

A Comprehensive Update On Realty Scenario In And Around Chennai

Realty News

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Chennai continues to attract leading developers to come and invest in commercial projects.

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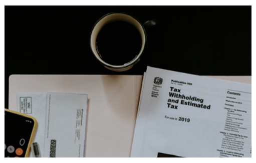


TAX PLANNING

Stamp duty valuations of the development agreements are based on maximum potential FSI.

OVERVIEW

Residential Mart on the Upswing

With limited project launches due to impact of pandemic and the pent up demand from end users improving, there is a spurt in demand for housing in and around Chennai, reports **V Nagarajan**

With RERA impacting corporatisation of real estate sector, there is already a dearth of developers in Chennai with limited number of players keen to continue to involve in housing development. Moreover, the impact of pandemic and the liquidity crunch have made homebuying difficult for end users while investing in housing. In a related development, the WFH option has necessitated the demand for larger homes with the result there is a surge in demand for luxury homes in city's prime areas. Even demand for rental homes in the luxury range is much sought after with limited options available.

"There is a sudden surge in demand for luxury homes and penthouses in city areas but the availability is limited and a few homeowners are able to strike a bargain deal in rentals,' said K Srinivasan, an APPCC member and a developer.

According to C Chockalingam, APPCC member, resale properties in the prime city areas, if well maintained, are sought after if the price is in

tune with the market realities. Even for rentals, well maintained properties are driving demand, he adds.

"In central areas of the city, rentals for medium range properties are stable and driving substantial demand. At the same time, resale properties' movement invariably depends on the unit price range after depreciation. In fact the price level has come down from the first lockdown and there is further pressure on the rental prices now,' feels Balasubramaniam of Bhoomi Realty and an APPCC member.

"Yet another significant development is the spurt in suburban properties driving substantial demand and jump in prices. For instance, the idyllic ocean view on East Coast Corridor has suddenly become the favourite destination for investors as price appreciation is encouraging and investors are able to reap rich dividends," said N K Raymond Thirupugazh, Managing Director of First Property Consultants, and a member of APPCC. "In fact retail land prices in areas like Akkarai, Uthandi and Muthukaadu have seen a spurt ranging from 10 to 40 per cent in 2-3 years. When compared to city land prices, investors and high-end homebuyers are able to get land at competitive prices and feel assured of price appreciation over a period of years.

"There is a rethinking again among commercial property investors in that they feel that industrial land and warehousing provide better ROI at 9 per cent and above. This trend has shifted investor mind-set towards investing in industrial and warehousing lands", said Raymond.

Chennai's developers sold 1,520 units during Q2 as against 2,680 units during Q1. Whereas residential property launches during Q2-21 was 1,990 units as against 1,810 units reported in Q1-21, according to Anarock Q2 survey.

Chennai's available inventory is 40,940 residential units and the average apartment price sold was Rs 4,400 per sqft. The city continued to record the lowest available inventory across major cities as of Q2 2021.

Chennai set to emerge as Key Data Centre Hub in the country

With the presence of large Indian data centre operators and the new entrants moving with their hyperscale investments, Chennai is gearing up to become a key data centre hub in the country, says **V S Sridhar**

TRENDS

The Indian data centre industry stands on the cusp of massive growth over the next decade. Rapid growth in data consumption, policy initiatives to promote data localisation and growing adoption of cloud, AI, IoT are driving the explosion of developer/investor interest in this industry. Chennai is well poised to take advantage of this interest in setting up hyperscale data centre parks due to several favourable factors. The city has four international cable landing stations, the second highest after Mumbai and land is available at competitive rates.

Developers and data centre operators can also avail uninterrupted power supply, a key requirement for energy-intensive data centres, and seismic risks are low. The state government is currently in the process of preparing a dedicated data centre policy which will provide an attractive package of fiscal and non-fiscal incentives and incentivize data centre investments further.

Chennai currently has a colocation capacity of 55-60 MW, but this is expected to quadruple over the next 5-6 years. The city is likely to account for around 20% of the PAN India cumula-

tive capacity addition over the medium term, the second highest among the Top 7 cities after Mumbai, with cloud firms driving a large proportion of demand. Major global cloud firms such as Amazon Web Services (AWS), Microsoft Azure and Google Cloud are already present in Chennai in some form.

Large Indian data centre operators including AdaniConnex, Yotta Infrastructure and CtrlS are moving ahead with their hyperscale investments. ST Telemedia, NTT, CapitaLand, Princeton Digital are some of the global players who have committed substantial capital over the next few years. This will enable Chennai to leapfrog other markets and emerge as a key data centre hub in the country. The future certainly looks brighter than ever before!

Mr Sridhar is Managing Director, Cushman & Wakefield, Chennai.

Realty Data

COIMBATORE WAREHOUSING - LAND RATES AND RENTS

Warehouse Cluster	Location	Land Rate	City	Amount
Avinashi Road cluster	Neelambur	No development of new warehouses	No Grade A	15-18
	IOC-L&T Bypass	No development of new warehouses	No Grade A	14-16
	Aspen SEZ/Karumathampatti	No development of new warehouses	No Grade A	13-15
	Avinashi	No development of new warehouses	No Grade A	13-16
	Tiruppur	No development of new warehouses	No Grade A	13-14
Pollachi + Palladam – Cochin Frontier Road cluster	Coimbatore-Pollachi Road	1.25 – 1.5	16 – 20	15 – 18
	Malumichampatty	1.25 – 1.5	16 – 18	13 – 15
	Palladam	1.00 – 1.25	16 – 18	13 – 14
	Walayar	1.00 - 1.25	16 – 18	13 - 14

Source: Knight Frank Research

CHENNAI OFFICE MART TRENDS

Sec	Nature	Threshold	TDS(%)	Key Points
192	Salaries	As per rate	Slab rate	
194	Dividend	Rs. 5000	10%	
194A	Interest on deposits	Senior Citizens: Rs 50,000 Others: Rs. 40,000	10%	
194C	Payment contractors	Some paid is greater than Rs 30,000	Individual / HUF - 1%; Others - 2%	
194I	Rent	Rs. 2.4 lacs	Plant/Machinery - 2% Land/Building - 10%	
194IA	Transfer of Immovable Property	Value of property is Rs 50 Lacs or more	1%	
194IB	Payment of Rent by Individual/HUF	Rent paid > Rs. 50,000 pm	5%	For non-tax audit persons
194IC	Payment under JDA	NO LIMIT	10%	
194J	Professional Fees & Technical Services	Sum paid or aggregate of sums exceed Rs. 30,000	Technical Services - 2% Others - 10%	
194M	Payment of Fee/commission by Individual / HUF	Fee paid exceeds Rs. 50,000	5%	For non-tax audit persons
194N	Cash Withdrawal	Return not filled - 20 Lacs; Others - 1 crore	Return filed - 2% Others - 5% if Rs 1cr	
194Q	Purchase of goods	Rs 50 Lacs	0.1%	PY turnover -> Rs. 10 crores

RESIDENTIAL PROPERTY PRICES IN AND AROUND CHENNAI

Location	Apartment price
Avadi	3,400 – 5,300
Ambattur	3,900 – 6,000
Anna Nagar	8,100 – 13,000
Adyar	9,500 – 16,500
Chrompet	4,200 – 6,300
Iyyappanthangal	6,800 – 9,800
Korattur	5,200 – 7,700
Kolathur	4,500 – 7,600
Madipakkam	4,400 – 6,400
Medavakkam	4,050 – 6,000
Nungambakkam	9,100 – 12,750
Perungudi	5,700 – 8,700
Pudupakkam	3,800
Perumbakkam	3,700 – 5,600
Perumbur	5,000 – 7,700
Pallikaranai	4,500 – 6,700
Sholinganallur	4,700 - 7000
Thiruvanmiyur	7,800 – 16,400
Valasaravakkam	7,000 – 9,800

Note: Rates are indicative only and they may vary depending on the location, developer, specification and other amenities offered in the project.

ORIGINAL PE INVESTORS INVESTING IN OFFICE ASSETS

Country	Amount invested	Grade A
UAE	1,695	2
Canada	2,997	7
US	7,539	27
Singapore	5,566	30
India	1,695	21

Source: Knight Frank Research

Note: Grand total represents investments since 2011.

KEY FOREIGN MNC INVESTMENT ANNOUNCEMENT IN 2020

B/G	Company Name	Sector	Origin Country	Investment (US$ million)	Location	Details of manufacturing unit
B	Samsung	Electronics	South Korea	652	Noida, Uttar Pradesh	Mobile & IT display production
B	Foxconn	Electronics	Taiwan	541	Chennai, Tamil Nadu	Mobile contract manufacturing
G	Wistron	Electronics	Taiwan	171	Bengaluru, Karnataka	Smart phones, IOT & Biotech devices
G	Pegatron	Electronics	Taiwan	149	Chennai, Tamil Nadu	Mobile contract manufacturing
G	First Solar	Renewable	USA	566	Tamil Nadu	Solar module manufacturing
G	Eickhoff Wind	Renewable	Germany	55	Tamil Nadu	Windmill component manufacturing
G	Alliance (ATG)-Yokohama	Auto+EV	Japan	168	Vizag, Andhra Pradesh	Tyre manufacturing
B	Kia Motors	Auto+EV	South Korea	54	Anantapur, Andhra Pradesh	Manufacturing SUV vehicles
G	Mitsubishi Electric	Electricals	Japan	68	Pune, Maharashtra	Electricals & systems manufactu4ring
GC	Emerson Electric	Electricals	USA	57	Pune, Maharashtra	Isolation & actuation values. Inaugurated Dec 2020.
G	Sami-Sabinsa Group	Pharma	USA	81	Hassan, Maharashtra	Nutraceuticals & cosmeceutical manufacturing
G	Pepsico	F&B	USA	110	Mathura, Uttar Pradesh	Potato chips manufacturing
G	AB Mauri	F&B	UK	54	Bundelkhand, Uttar Pradesh	Yeast manufacturing
G	Defence Manufacturing Co.	Defence	Russia	338	Salem, Tamil Nadu	Aircraft components & drones
G	Major Oil Co.	POL	USA	103	Raigad, Maharashtra	Lubricant blending plant
G	IMR Metallurgical	Metal+	Switzerland	1,622	Kadapa, Andhra Pradesh	Steel plant
B	Arcelor Mittal Nippon Steel	Metal+	Luxembourg	676	Hazira, Gujarat	Finished steel production unit

Source: JLL

DEVELOPMENT MODEL IN REAL ESTATE DEVELOPMENT

A Bonanza for Landowners

At a time when land owners are concerned about joint venture arrangement, a consortium of funds is coming to their rescue for a comprehensive range of services from concept to marketing, reports **V Nagarajan**

India's landowners are sitting pretty as they are now offered alternate option to joint venture development. It is not the property developers who are innovating this model but a consortium of funds from Japan and Singapore who are offering a new model of residential property development in India across select cities.

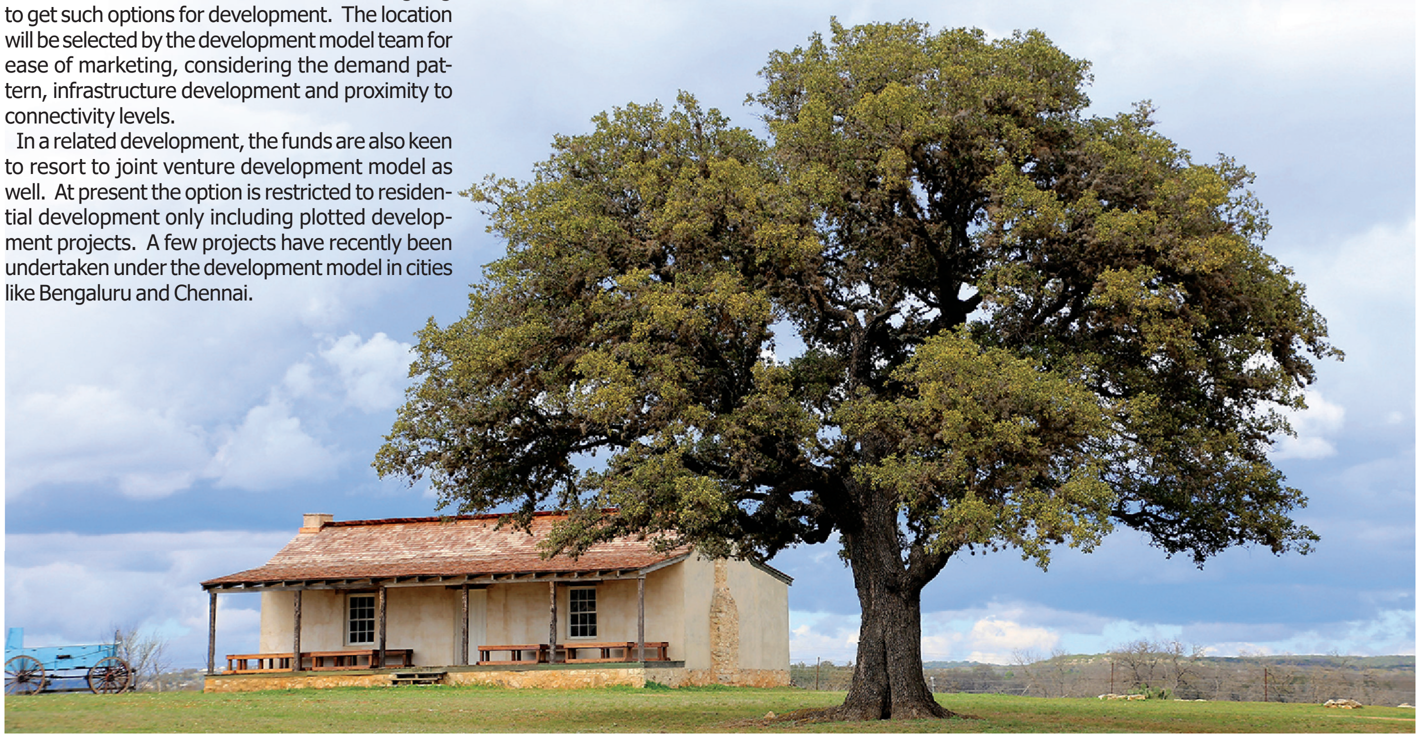
The development model provides a comprehensive range of services to landowners. These include funding, development including architecture and approvals, and marketing services. For landowners who are not accustomed to the intricacies of real estate development or financial implications on the development, this option is said to provide an assurance that professionally managed services would be made available.

In what way this model will have an edge over joint venture development? Here the funders bring with them not just the required expertise to carry out residential development, but additional services like construction finance, architectural expertise, project management team and what is more project marketing. All that the landowners will have to do is just to sit and watch the series of developments taking place to transform their raw lands into productive assets.

How does this model work? After deducting the expenditure towards the overall project cost, a service charge of 15 per cent is levied on the net profit by way of service charge on the landowners. Even this percentage is negotiated depending on the location, pricing and other factors. This will work out in favour of landlords as he gets a better return on investment on his land asset in comparison to joint venture model, according to property consultants familiar with the new concept taking shape in the market slowly but steadily.

It is not that all the lands in the market are going to get such options for development. The location will be selected by the development model team for ease of marketing, considering the demand pattern, infrastructure development and proximity to connectivity levels.

In a related development, the funds are also keen to resort to joint venture development model as well. At present the option is restricted to residential development only including plotted development projects. A few projects have recently been undertaken under the development model in cities like Bengaluru and Chennai.



Construction Sector gearing up for changes in Strategies

TRENDS

The construction industry in India is the second largest employer after agriculture representing 13% of the global GDP. A McKinsey report estimates that by 2030, India's 40% population (590 million) are expected to live in cities. There is a need to build 700-900 million sqm of urban space every year until 2030, a new Chicago sized space every year.

While a meaningful transformation through the use of alternative construction technologies and practices may take time, the change is likely to be accelerated due to the pandemic. This is because several stakeholders were affected by disruption in the construction industry. This fuelled the need to realign changes in strategies, business models and operating models.

According to a survey by CBRE on India's construction cost trends, the industry is likely to witness increased investment in technology oriented construction such as use of prefabricated and modularised components, digitisation of products and processes through BIM (Building Information Modeling) modules, automation in off-site production and on-site assembly among others. Although these technologies are likely to lead to an increase in construction capex but may offset the labour costs and reduce construction completion timelines.

Reinforcement steel prices in India witnessed an increase of around 8-10% in in the last 3-4 months on account of a rise in global steel prices, shortfall in domestic supply of iron ore and growth in domestic demand for steel. Prices of cement across all major Indian cities witnessed a y-o-y increase of 4-5% in Q4 2020 owing to a rise in fuel costs.

The Covid-19-induced lockdown led to a mass reverse labour migration from the Indian cities to small towns and rural areas. The 'Unlock India' initiative witnessed gradual resumption of construction activity across states; however, the first few months of the unlock phase continued to witness shortage of labour despite the

adoption of government-mandated health and safety measures on sites. Some developers also made provisions for on-site housing and arranged transport for their workforce to return to the sites. Labour costs, that contribute to 30-35% of overall construction costs, are likely to increase by 5-10%.

The COVID-19 pandemic has brought challenges to the fit-out industry. As labour and construction materials are the two most critical components in any real estate project, rise in material costs due to supply chain disruption after the pandemic has had a cascading impact on the overall project cost. In addition, lockdown imposition during the initial months of the pandemic and subsequent reverse migration of the workforce led to delays across several projects, thus impacting the overall project costs.

The cascading impact of all this is that it has fuelled the need to realign changes in strategies, business models and operating models. Therefore, in response to the industry transformation, various steps were undertaken to navigate in the new normal during 2020. Among the changes specified include emphasis on general contractor (GC) responsibilities, insertion of preliminaries section, inclusion of pandemic-related clauses in the agreement, modifications in design guidelines in terms of occupancy levels for common area and meeting rooms and rapid technology adoption for design and construction.

TAX PLANNING

Taxation of Development Agreement

BY NITESH MUKADAM-RAJADHYAKSHA

Taxation of development agreement is most complex issue in recent times because nowadays stamp duty valuations of the development agreements are based on maximum potential FSI. The structure of the development agreement and consideration involves two flows of consideration.

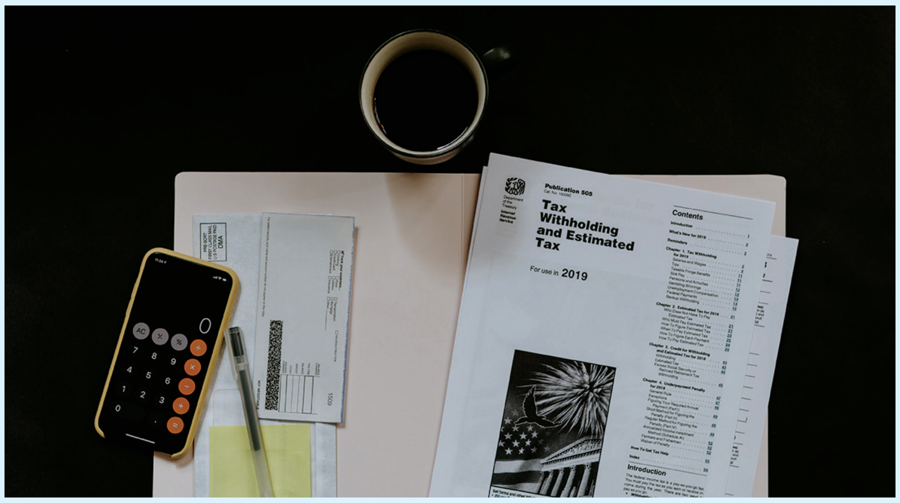
One flow is from developer to landowner in form of consideration in kind with the monetary consideration if any and second flow is from landowner to developer in the form of FSI

Earlier the stamp duty valuation was done in following manner:

1. Value of consideration given by developer to landowner in kind with monetary terms if any including valuation of supporting services like alternate accommodation etc.

OR

2. Valuation of basic FSI transferred by landowner to the developer



whichever is higher

Whereas now stamp duty valuation is done for the maximum available potential FSI transferred by landowner to developer. Such value is much higher than the said earlier value. This value includes notional value of the FSI which is actually not available with the landowner at the time of development agreement but potentially it might be available to developer in future and that too developer have to purchase the same from local sanctioning authorities or from the market at his cost.

At the time of development agreement , FSI available with the landowner is only the basic FSI and the developer can consume maximum potential FSI at later stage after loading the FSI's/TDR purchased by him from local sanctioning authorities or from the market. It means at the time of development agreement, there is no availability of maximum potential FSI but on which stamp duty valuation is done which is a notional valuation.

As per section 50C of the income tax act, "Special provision for full value of consideration in certain cases.— (1) Where the consideration received or accruing as a result of the transfer by an assessee of a capital asset, being land or building or both, is less than the value adopted or assessed by any authority of a State Government (hereafter in this section referred to as the "stamp valuation authority") for the purpose of payment of stamp duty in respect of such transfer, the value so adopted or assessed shall, for the purposes of section 48, be deemed to be the full value of the consideration received or accruing as a result of such transfer". It means stamp duty value should be considered as sale consideration in hands of landowner, same logic is applicable in case of 43CA as follows:

Section 43CA. Special provision for full value of consideration for transfer of assets other than capital assets in certain cases.—(1) Where the consideration received or accruing as a result of the transfer by an assessee of an asset (other than a capital asset), being land or building or both, is less than the value adopted or assessed or assessable by any authority of a State Government for the purpose of payment of stamp duty in respect of such transfer, the

value so adopted or assessed or assessable shall, for the purposes of computing profits and gains from transfer of such asset, be deemed to be the full value of the consideration received or accruing as a result of such transfer.

Further as per GST act, valuation of development rights is also considered the stamp duty value for paying off the liability of GST on the development rights under reverse charge in the hands of developer.

In effect it is clear that we have to pay off the tax liabilities under Income Tax Act and GST Act on the notional value as per above said stamp duty calculations.

Considering the above scenario, it looks like in most of the cases landowners and developers are end up with the paying relatively higher taxation. **(Source: taxguru.in).**

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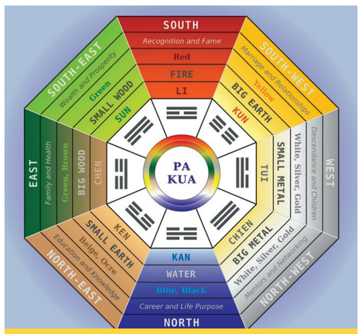

FENG SHUI FOR CORPORATES

Be Wary of Ground Realities

A plot and a house designed with a regular shape and without much of missing corners is considered auspicious and supportive to the occupants, says **S BS Surendran**

It is believed that by listening to the earth, we become attuned to the energy of the universe, for this energy is manifested in the air as wind, on the earth as water and land, and in the sky as stars. The earth is an entity animated by energy, energy flows in it, through it, and around it.

Investing in a property calls for a proper assessment hence Feng shui advice for plot selection is based on the study of multiple factors like direction of the site, type of soil on the site and the slope of the plot, compass directions, suitability to the proposed owner and afflictions due to surroundings.

When it comes to group housing, row houses or apartments one can still adapt all the basic tenets of Feng shui and Vaastu to ensure that the investment is fruitful and the place is in harmony with the occupants.

Although there are limitations in terms of room allocation and placements, techniques of Feng shui ensures that these factors could be overcome with minimal structural modifications.

Placement of corrective remedies at the spots identified mitigates the ill effects of a bad property and in turn enhances the quality of energy and the décor of the place.

The process of identifying the suitability of a property is an elaborate process, however, the time and money invested is worthwhile keeping the future prospects in mind.

A shape of the plot is quite important in ensuring proper flow of energy both in Vaastu and in Feng shui. Regular shaped plots have a steady and good flow of energy levels travelling diagonal across the meridians. Irregular shaped plots forming, triangles, trapezoids and even parallelograms are considered less auspicious with regard to energy flow due to their shape. An irregular plot can affect the house, which is constructed on it.

When you are looking for investing in a plot, first relax and walk on the plot you intend to buy, close your eyes

and take a deep breath how do you feel? If you feel nice while walking and relaxed the plot surely emits a positive energy, if you feel sick soon after stepping onto the plot or drained, then don't invest in such a property.

In addition to natural structures of one's building, it is equally important to be very observant of other man-made structures, which can also bring inauspicious luck or bad energy. Structures like transmission towers and large criss-cross beams of structures also direct negative energy towards the plots.

Similarly the shape of the building is also equally important to ensure harmonious flow of energy. Houses, which are "L", shaped, "H" shaped or "T" shaped and houses with many missing corners or cut corners are termed bad houses causing "misfortune" to the owners.

A plot and a house designed with a regular shape and without much of missing corners is said to contain smooth energy flow and such plots and buildings are considered auspicious and supportive to the occupants.

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