1. **What is a Joint Venture Development?**

Owner of the land doesn’t want to sell his land outright. Hence he calls a developer and in exchange for the value of the property, gets back a share of the apartments constructed there in by the developer. This type of agreement arrived between the land owner and the developer is termed as a “Joint Venture Development”.

2. **Under Joint Venture Development, what is the scope of a developer?**

His scope is demolition of existing buildings and structures if there are any, clear the site, site survey, soil test, preparation of detailed plans for approval, preparation of architectural, structural, services drawings, construction and supervision of the buildings as per the specifications, getting the electricity, water and drainage connections, etc., complete testing & commissioning of the services and amenities like lift, generator, etc. These will determine the cost of construction.

3. **What is meant by the Developer ratio : Land owner ratio in “Joint development”?**

In a Joint development, the owner of the land who wishes to develop his property into a residential or commercial complex, approaches a Developer (or Promoter) and offers his land. Developer in turn agrees to construct and hand over the apartment or Commercial complex on a percentage plinth area basis as per the specifications stipulated by the land owner/promoter subject to the Town Planning rules and regulations of that particular town. This percentage depends on the land value, specifications, FSI achieved, etc.

In a Joint venture scheme, the entire cost of construction will be borne by the Developer and after completion of the project, a specific percentage of completed buildings will be handed over to the land owner. Remaining portion will be marketed by the Developer. In the agreed ratio, first share is for the Developer and second share is for the land owner. For example, in the ratio 40 : 60, the 40% will be retained and marketed by the Developer for the construction cost, overheads and his profits and the 60% of completed building will be handed over to the land owner. The entire transaction will be governed by a Joint Development Agreement between the land owner and the developer.

4. **What is the necessity of going in for Joint venture development?**

   i) Being ancestral property, the landlord wants to live along with the future generations in the same place. He doesn’t want to live in another place. He avoids capital gains problems.
ii) The developer is not investing any money for the land. Since his financial burden is less, he can concentrate more in the development of the project.

5. **What are the two points which are criteria while fixing percentages of share between the landlord and the promoter?**
   i) Land rate
   ii) Construction cost

6. **What is the importance of specifications in a Joint Venture Development?**
   Specifications play an important role in a Joint Venture Development. The construction cost varies with reference to the finishes and amenities prescribed in the specifications and hence it affects the Joint Venture ratio between Developer and Land Owner.

7. **Which rate is to be adopted for land - Guideline rate or Prevailing market rate?**
   The prevailing market rate is to be adopted for land in which the proposed project is to be developed. Certainly it is not the guideline rate.

8. **What are the sources for arriving at the land rate? Who has to decide it?**
   i) Recent sale instances in the same locality can be considered.
   ii) Sale instances in the nearby locality or in the adjacent street can be taken as basis. This rate can be duly modified or adjusted based on the factors:
      - locational advantage
      - width of street
      - soil conditions
      - distance from the main road
      - FSI permissoble
      - zone classification
      - any specific nuisance
      - advantages / disadvantages factors
   iii) Sale value obtained from any auction which took place recently.
   iv) The owner has to fix suitable rate for his land and convince the promoter about the genuineness of the rate fixed by him.
   v) If no conclusion is arrived at, the services of an experienced valuer can be sought.
9. Who is responsible for fixing building rates? Is it based on PWD or CPWD rates?
   i) The building construction cost can be determined by the promoter based on:
      • type of structure, shape of the building
      • specifications proposed
      • soil conditions
      • internal amenities like wood works, wardrobes, etc.
      • external amenities like lifts, generator, solar system, swimming pool, rain water harvesting, children’s play, gym., etc.
      • services to be provided
      • lead distances
      • workability
      • availability of labour force
      • drawing approval
   ii) The PWD/CPWD rates can be considered only as guidelines and only prevailing market rates are the deciding factors to determine the net cost.
   iii) The promoter has to fix the building rate and if no conclusion is arrived at between the landlord and the promoter, the services of an experienced valuer can be availed.

10. What are the contents of building component while arriving at the rate?
   i) Main building: type of structure - shape of building - type of foundation - roof height - type of wood to be used - flooring materials - wall finish - sanitary and plumbing lines - electrical works - anti-termite treatment - temporary power connection, etc.
   ii) Services: water supply arrangements - drainage arrangements - compound wall-pavements - external electricals - rain water harvesting, etc.
   iii) Other structures: security cabin - generator room - common room for association-office room for association - gymnasium - children’s play area - swimming pool, etc.
   iv) Amenities inside the flat: wood work for loft, wardrobes, showcases, false ceiling-intercom - common gas connection - provision for R.O. system - U.P.S., etc.
   v) Amenities outside the flat: lift - generator - solar power system - R.O.plant, etc.
   vi) General: drawing preparation and approval - fees to be paid for architect, structural consultant, soil testing expert, vastu - any incidental charges, etc.
11. The land rates and building rates are fixed on a mutual consent or what?
   i) If there is a clear understanding and 'give & take' approach between the landlord and the promoter, the rates can be fixed with mutual consent.
   ii) If no such understanding exists, both the parties can approach a common arbitrator who is preferably an experienced valuer who has thorough knowledge in the subject.

12. Any deed is to be prepared and signed for joint venture development?
   A written deed for joint venture development is always necessary to avoid any litigation/dispute at a later date. It is preferable to include an arbitration clause in the deed.

13. Is it necessary that the deed to be registered? What is the advantage?
   i) It is advisable to get this joint venture development deed registered which will be helpful in the longer run.
   ii) The advantages are:
       • To create a psychological impact about the correctness of the deed.
       • Neither the landlord nor the promoter can violate their commitments.
       • Absolutely there are no misunderstandings on any specific clause.
       • Transparency is existing.
       • The prospective buyers of the flats are confident about the dealings.
       • The legal heirs have a clear idea about the understanding.

14. What is the role played by FSI in a Joint venture?
   i) More the FSI, less is the composite rate and vice versa.
   ii) More the FSI, more the extent of the building area enjoyed by the landlord and the promoter.

15. What are the advantages and disadvantages of a Joint venture?
   Advantages:
   i) The landlord is happy that he is not totally selling his land for any sentimental reasons. He is converting the vacant space into a solid building. He can occupy or let out. If let out, he gets regular monthly income. He can gift the flats to his children. He avoids capital gains tax to some extent.
ii) The apartment system is very successful where the lands are in a prime locality and where the land cost is considerably high. The developer is not investing any money in the land and hence his financial commitments on land and interest part are nil. If the flats are not sold immediately due to any reason, he is not worrying too much because his financial burden is not much.

Disadvantages:

i) If the land value shoots up suddenly due to any reason, the landlord insists the developer that he deserves a better percentage in his share of apartment.

ii) If the construction cost is increased rapidly, then the promoter insists the landlord that he deserves a more %age share in the apartment building.

iii) If the demand for the sale of flats is not that encouraging due to fluctuation of market conditions, the developer slows down the construction process.

iv) Both the landlord & developer show more interest in occupying the entire area of the ground floor for three reasons:
   - It can be sold for commercial activities.
   - The demand is more.
   - The rental value is more.

v) In many cases, the initial understanding does not exist till the completion of project due to misunderstandings between the landlord and developer even for small things. There is always a suspicion between them.

16. EXAMPLES

16.1. Example : 1

Mr. ‘X’ is owning a residential plot of 3,500 sq.ft. in Srirangam where there is an FSI restriction of 1.5. A promoter wants to construct an apartment building in that plot. The land rate is Rs. 3,500/sq.ft. (i) What is the ratio of development between the landlord and the promoter?. (ii) What will be the reasonable composite rate?. (iii) What is the profit the landlord is going to enjoy because of this joint venture?

a. Value of plot

<table>
<thead>
<tr>
<th>Extent of plot</th>
<th>= 3,500 sq.ft.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land rate</td>
<td>= Rs. 3,500/sq.ft.</td>
</tr>
</tbody>
</table>

Value of plot in the hands of the Landlord = 3,500 x 3,500 = Rs. 1,22,50,000/-
b. **Value of building**

Plot area = 3,500 sq.ft.
FSI = 1.5
Built up area = 3,500 x 1.5 = 5,250 sq.ft.
Building cost & amenities, say = Rs. 2,500/sq.ft.
Value of building = 5,250 x 2,500 = Rs. 1,31,25,000/-

c. **Total project cost**

Land lord’s share = Rs. 1,22,50,000/-
Promoter’s share = Rs. 1,31,25,000/-
Total project cost = Rs. 2,53,75,000/-

d. **%age for Landlord**

\[
\text{%age for Landlord} = \frac{1,22,50,000}{2,53,75,000} \times 100 = 48\%
\]

e. **Composite rate**

Land rate = Rs. 3,500/sq.ft
FSI = 1.5
Land component 3,500/1.5 = Rs. 2,333/-
Building component = Rs. 2,500/-
Land + building = Rs. 4,833/-
Add 20% profit margin (say) = Rs. 967/-
Composite rate = Rs. 5,800/sq.ft.

f. **Profit the landlord is going to enjoy**

Total built up area = 5,250 sq.ft.
Percentage for landlord = 48%
Landlord’s built up area = 0.48 x 5,250 = 2,520 sq.ft.
Composite rate = Rs. 5,800/-
Total value = 2,520 x Rs. 5,800 = Rs. 1,46,16,000/-

As against the value of Rs. 1,22,50,000/-, the landlord will be getting an addition of Rs. 23,66,000/- by going for a joint venture.

**16.2. Example : 2**

Mr. ‘X’ is owning a piece of residential plot of 10,000 sq.ft. in a central locality fit for development of apartment buildings. A promoter has approached him for development of an apartment building meant for residential use with a proposed FSI of 2.0. Land cost: Rs. 6,000/sq.ft. (i) What is the landlord’s share in the proposed project?. (ii) What is the reasonable composite rate?
i) **Landlord’s share**

- Extent of land = 10,000 sq.ft.
- Land rate prevailing = Rs. 6,000/sq.ft.
- Land value : (10,000 x 6,000) = Rs. 6,00,00,000/-
- FSI proposed = 2.0
- Proposed building area = 10,000 x 2 = 20,000 sq.ft.
- Average cost of construction of the building with the proposed specifications and amenities = Rs. 2,000/sq.ft.
- Cost of total building = 20,000 x 2,000 = Rs.4,00,00,000/-
- Total project cost = Rs. 6,00,00,000 + Rs.4,00,00,000 = Rs. 10,00,00,000/-
- Landlord’s share = $\frac{6,00,00,000}{10,00,00,000} \times 100 = 60\%$
- Landlord’s share in the proposed building = 0.6 x 20,000 sq.ft. = 12,000 sq.ft.

ii) **Composite rate**

- Land component $\frac{6,000}{2}$ = Rs. 3,000
- Building component = Rs. 2,000
- Land + building = Rs. 5,000
- Add 20% profit margin (say) = Rs. 1,000
- Composite rate = Rs. 6,000/sq.ft.

iii) **Value in the hands of the landlord** : 12,000 x 6000 = Rs. 7,20,00,000/-

16.3. Example : 3

A landlord is having a site of 4,680 sq.ft. within a municipal limit. A promoter has approached him for a joint venture development. The landlord insists that the project should be strictly as per the town planning rules. The promoter has prepared a drawing for stilt + GF + 2 floors for six flats \([(1,000 + 1,496) \times 3\]. The landlord insists that he wants 2 flats of 1,496, one in GF and one in FF and the rest of the value by cash. The guide line rate is Rs. 3,200/sq.ft. and prevailing market rate is Rs. 4,100/sq.ft.
Plinth area/floor = 2,496 sq.ft.
No.of floors = Stilt + GF +2
Total plinth area = 7,488 sq.ft.
FSI = 1.6

Questions are:
1. What is the percentage ratio for the landlord and the promoter?
2. What is the share of the super built up area for landlord and promoter?
3. What is the composite rate arrived at by the promoter?
4. What is the extra amount to be paid in cash to the landlord in addition to the two flats?
5. By entering into the joint venture, what is the profit the landlord is going to enjoy?

1. Percentage of share

<table>
<thead>
<tr>
<th>Component</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land rate</td>
<td>Rs. 4,100/sq.ft.</td>
</tr>
<tr>
<td>FSI</td>
<td>1.6</td>
</tr>
<tr>
<td>Land component rate</td>
<td>Rs. 2,563/-</td>
</tr>
<tr>
<td>Building - unit rate of construction + amenities + lift + compound wall + services, etc.</td>
<td>Rs. 2,250/-</td>
</tr>
</tbody>
</table>

Land component + building component = Rs. 4,813/-

\[
\text{percentage for landlord} = \frac{2,563}{4,813} \times 100 = 53\%
\]

\[
\text{percentage for promoter} = \frac{2,250}{4,813} \times 100 = 47\%
\]
2. **Share in plinth area**
   - Total super built up area for 3 floors = 2,496 x 3 = 7,488 sq.ft.
   - Share of super built up area for landlord = 0.53 x 7,488 = 3,969 sq.ft.
   - Share of super built up area for promoter = 0.47 x 7,488 = 3,519 sq.ft.

3. **Composite rate arrived at by the promoter**
   - Land component = Rs. 2,563/-
   - Building component = Rs. 2,250/-
   - Land + building = Rs. 4,813/-
   - Add profit margin, say, 22% = Rs. 1,059/-
   - Composite rate arrived at = Rs. 5,872/- say, Rs. 5,900/-
   - Total cost of project = 7,488 x 5,900 = Rs. 4,41,79,200/-

4. **Share value**
   - Landlord’s share in plinth area = 3,969 sq.ft.
   - Area of 2 flats of 1,496 sq.ft = 2,992 sq.ft.
   - Remaining plinth area for which the landlord wants to have cash (3,969-2,992) = 977 sq.ft.
   - Value of 977 sq.ft : 977 x 5,900 = Rs. 57,64,300/-
   - Value in the hands of landlord = 2 flats x 1,496 x 5,900 = Rs. 1,76,52,800/-
   - Cash extra to be received 977 x 5,900 = Rs. 57,64,300/-
   - Total = Rs. 2,34,17,100/-
   - percentage : (2,34,17,100 / 4,41,79,200 ) x 100 = 53%
   - Value in the hands of promoter = 4,496 x 5,900 = 2,65,26,400/-
   - Less cash paid to landlord = (-) 57,64,300/-
   - Net = 2,07,62,100
   - percentage: (2,07,62,100 / 4,41,79,200 ) x 100 = 47%
   - Total cost of the project : 2,34,17,100 + 2,07,62,100 = Rs. 4,41,79,200

5. **Profit to be enjoyed by the landlord in joint venture**
   - Original value of virgin land = 4,680 x 4,100 = 1,91,88,000
   - Value after development = Rs. 2,34,17,100
   - Therefore, profit he is going to enjoy = Rs. 42,29,100