

# JDA's to boost real estate

Joint Development Agreements (JDAs) among developers are getting popular in various areas

JADAVAKHOTI  
@timesgroup.com

At a time when real estate is prospering across cities, one issue being faced by developers is scarcity of land. To tide over the problem of land, many developers have joined hands for joint development projects. Referring to the assistance real estate players, including landowners and development firms, may need, and opportunities offered by JDAs to navigate the present landscape, Gorkh Jhunjhunwala, managing director, Metraj, says, "Joint Development Agreements (JDAs) are pivotal to the growth of the real estate sector in India. Landowners are increasingly opting for JDAs as well as development management models. JDA is a popular method of contractual arrangement between a landowner and a developer to jointly develop a real estate project. JDAs allow landowners to monetize their land without losing ownership rights, and developers to access prime locations

without huge upfront costs. An estimated 70 per cent of real estate assets across residential and commercial segments in the city have been developed through JDAs."

The land acquisition spree of financially strong developers and entities continues, and 2023 was a stand-out year with several land deals closed. Latest ANAROCK data indicates that there were at least 97 separate land deals for over 2707 acres closed in 2023 across the country. In 2022, 82 land deals for over 2508 acres were closed across the country. Mayank Saxena, MD & CEO - Land Services, ANAROCK Group, says, "JDAs are generally a win-win deal for both developers and landowners, especially to the backdrop of rising land prices. By contributing land rather than capital, landowners can participate in lucrative real estate development projects without incurring high costs. They receive an agreed-upon share of the developed project's worth and can profit even more if they sell the land. The partnering developers assume the burden of approvals and construction, as well as construction and marketing of the project. It works equally well for developers since they get access to prime land in sought-after locations, at a lower cost than outright land acquisition. The landowners share in both the

profits and the risks."

However, JDAs are not always smooth sailing. Laws related to them vary from state to state and require a lot of due diligence and legal navigation. For example, land title disputes and encumbrances can cause delays in projects and raise the legal expenses. "Obtaining the necessary permissions from different authorities can be unpredictable and time-consuming. There can also be issues related to trust and transparency. The expectations of the developer and the landowner with regards to profit sharing, building quality and project schedules may not always align easily," Saxena says.

Sometimes, landowners may be at a disadvantage in discussions if they are not well-versed with real estate per se. For these reasons, it is important to have on board a qualified and experienced real estate advisor who can navigate the nuances and potential pitfalls to create a mutually satisfactory outcome for all concerned.

Harmohan Sahni, CEO, Raymond Realty, says, "JDAs are becoming increasingly important as land prices continue to rise."

Sahni outlines some of the key reasons for such a growing popularity of JDAs.

## FOR LANDOWNERS:

**Unlocking land value:** With high land prices, landowners can extract more value from their property through a JDA than selling it outright. They can receive a share of the developed property, which can be worth significantly more than the land itself.

**Reduced upfront costs:** Landowners needn't bear the significant financial burden of development, including construction, marketing, and approvals. The developer takes on these responsibilities.

**Expertise and resources:** Developers bring expertise in design, construction, and marketing, which can lead to a higher quality project and faster sales.

## FOR DEVELOPERS:

**Access to land:** With limited land availability, JDAs provide developers access to land they might not otherwise be able to afford or acquire.



PHOTO: ISTOCK

With rising land prices, landowners can extract more value from their property through JDAs

**Bureaucratic hurdles:** Obtaining necessary approvals and clearances from various government agencies can be time-consuming and frustrating.

**Reputational risks:** Poor execution or disputes during a JDA project can damage the developer's reputation and future business prospects.

By understanding these challenges and proactively addressing them through careful planning, clear communication, and expert guidance, developers can navigate the complexities of JDAs and increase their chances of successful project execution in Mumbai's challenging real estate market.

**Flexibility to retain ownership:** Landowners who prefer to retain their share of the property prefer JDA as compared to outright sale.

**Limited buyers for Capital-intensive deals:** Availability of partners for outright sale has always been a challenge. A few developers propose a deferred payment option (payment is done as per pre-agreed tranches). Landowners understand that developers either pay through sales receipt of the project or bank loan. Instead of 1.25 - 1.5 times higher valuation in case of a deferred payment transaction, landowners are willing to wait for project execution and earn 2 to 2.5 times of return through JDA.

**Reduced risk:** Sharing the development costs and risks with the landowner can mitigate financial risks for the developer.

**Faster project completion:** "With the landowner involved in approvals and clearances, JDA projects can sometimes be completed faster than those undertaken solely by the developer," Sahni adds.

## KEY CHALLENGES

**Negotiation and agreement complexity:** It is a key hurdle.

**Reaching equitable terms:** Balancing interests and negotiating a fair agreement that splits profits, costs, and responsibilities justly between landowner and developer can be complex and time-consuming.

**Unclear or missing ownership:** Situations with multiple landowners or unclear ownership titles can significantly complicate negotiations and delay project progress.

**Legal and financial intricacies:** Legal clauses defining rights, responsibilities, and dispute-resolution mechanisms require careful drafting and expert input from lawyers and financial advisors.

**Project execution and coordination:** Differing priorities and goals: Landowners and developers may have differing priorities, leading to conflicts during construction and decision-making.

**Communication and transparency:** Maintaining clear and open communication throughout the project can be challenging, especially with potential information asymmetry between parties.

**Delays and cost overruns:** Delay in approvals, clearances, or construction due to disagreements or unforeseen circumstances can cause cost overruns and negatively impact project viability.

**Technical challenges:** Integrating two sets of design and construction plans from different teams can lead to technical challenges and potential rework.

**Financial and contractual risks:** Hidden costs and liabilities: Unforeseen costs related to legal fees, taxes, clearances, or environmental issues can strain budgets and impact profitability.

**Dispute resolution and litigation:** Disagreements over financial obligations, quality, or project delays can escalate into expensive legal battles.

Performance guarantees and exit strategies: Defining clear performance benchmarks and outlining exit strategies in case of breach or dissatisfaction are crucial for managing risk.

## ADDITIONAL CHALLENGES:

**Market fluctuations:** Changes in market conditions during the project period can impact the final valuation of the developed property, potentially affecting profit margins.

