

1. National Civil Aviation Policy 2016 states in Paragraph 12 (d), "There are restrictions on the use of land allocated for commercial use of airport. MoCA will explore ways to unlock the potential of the same by liberalising the end-use restrictions for existing (excluding PPP) and future greenfield and brownfield airports of AAI and future Greenfield and brownfield airport projects under PPP"

It is well recognized that Airports are catalyst for urban development. Since land for airports and for urban development next to airports is likely to be procured together, a mechanism has to be provided for allocating costs to the two components in a pragmatic manner. It means that land costs for the entire development (airport and urban development next to it) should be taken as a whole and allocated based on commercial viability which will differ in each case. In this scenario, as an example, even if airport takes up 2/3rd of the land mass while urban development takes up 1/3<sup>rd</sup>, the cost allocated to airport may be only 25% with the balance 75% being allocated to urban development component.

If, on the other hand, the urban development is carried out by the same entity as the one developing and operating the airport, the revenues projected to be generated from urban development should substantially mitigate the impact of land cost and keep the tariffs moderate.

In view of the above, a holistic approach guided by commercial considerations is advised in appraising airport projects cost including land and its financing pattern, for the purpose of determining airport tariffs.

## 2. Fair Rate of Return (FRoR) on Land

The cost of land, from the point of view of financing, has to be taken as a part of the composite cost to be financed by the Project sponsors/ owners. Therefore the rate of return on the Project cost also has to be seen as a composite return and determined accordingly. Excluding it from RAB as such is not a feasible approach.

As provided in the Greenfield Airports Policy Guidelines of 2008, the state government can provide land on a concessional basis, which is a matter of discretion for the state government. This may not determine AERA approach to calculation of FRoR on land in case the state is unable to bear the burden of procuring land and providing it on lease rental terms for the project.

Thanks and regards.

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