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Creating a 'smart city' from the ground up in India

Abhishek Lodha and Subbu Narayanswamy

Palava shows a future that may work.

Abhishek Lodha is managing director of the privately held Lodha Group, one of India's largest real-estate developers. It is currently building Palava, a 4,500-acre greenfield city near Mumbai. Construction started in 2010, and the first residents arrived in 2014. In an interview with Subbu Narayanswamy, a Mumbai-based McKinsey senior partner who leads the firm's work in real estate globally, Lodha spoke about India's rapidly evolving real-estate sector and what it takes to build a city of the future.

McKinsey: *How do you see India's real-estate market evolving? Where is the greatest potential for growth?*

Abhishek Lodha: India is among the fastest-growing major economies in the world, but organized real estate has a small base. Any projections on India's population and likely GDP growth over the next 10 to 15 years automatically imply growth for real estate. No major economy has grown without this happening. Real estate is a feeder to the consumption cycle because it allows wealth to grow on the asset side. As people become affluent, one of the most important things they want to upgrade is where they live and work. If India grows, real estate will do well. The big question is: how fast and sustainably can India grow?

Though residential and commercial are the largest segments now, I see growth across sectors because we lack good supply everywhere. Retail, hospitality, education, and healthcare are all growing fast. Over the next ten years, India is projected to move from a $2.2 trillion economy to twice that; all the growth sectors will need space to do business.

McKinsey: *What is your vision for Palava, the city you are building from scratch?*

Abhishek Lodha: For a greenfield city, you need to have a multigenerational, multiyear view.

Today we have about 34,000 residents (8,500 families); 70 percent of them work in a ten-kilometer radius. The typical family income for new buyers is in the $18,000 to $30,000 range. Palava caters largely to the middle class, although we will have people from all economic segments.

We want Palava to rank among the top 50 most liveable cities in the world by 2025; this is ambitious, because at the moment, no Indian city is ranked in the top 100. We will have half a million people living in Palava in 2025, with 100,000 jobs in and around the city.

McKinsey: *In India, there are debates about whether to build new satellite cities or to fix existing ones. You have done both. What has been your experience?*

Abhishek Lodha: The important question to ask is: where will people choose to live? The answer is often driven by economic activity and proximity to jobs. Developments within existing cities do not need to create their own economic activity. The disadvantage is that old cities have limited potential to rewrite the rules. They cannot significantly change people's living and working experience.

We cannot just go wherever we can find land and start building a new city. The economic nucleus needed to sustain growth would be missing, and that is too expensive for the private sector to create. Palava is a new city development, but only about 25 miles from India's economic capital, Mumbai.

Palava has been built with private money and without a rupee of government aid. Problems of many big cities can be solved if we can figure out a model where the private sector can address urbanization issues by building satellite cities.

McKinsey: What have you learned over the course of the Palava project?

Abhishek Lodha: One of our most fulfilling experiences is that residents have truly started caring about their public/common spaces and how the city is run. The quality of public spaces and city governance make a place liveable or an economy productive. So, for instance, even if Mumbai's infrastructure was fixed and we had smoothly flowing traffic, it still would not make the city the best place to live.

Common spaces are not valued in India. This is often because they are not well governed, or the legal framework makes it difficult for people to uphold their value. We see a difference in Palava, and this is probably explained by classical economics. Residents know that if their locality is well-governed and looked after, the value of the property goes up. Two things can help to get people to value the commons. One is if they receive a benefit or a payoff; the other is confidence that their efforts will not be sabotaged. When these conditions are satisfied, people make an effort to protect their public spaces.

You have to govern with citizen engagement, transparency, and cost efficiency. To get people to pay maintenance for the commons is not easy, and many are not used to it. We learned that you have to communicate the advantages continuously. What matters most for residents is everyday engagement through sport, art, culture, or at schools, and in community areas. This soft infrastructure element is often missing in India's urbanization.

McKinsey: What is a "smart city"?

Abhishek Lodha: A smart city is not just about technology. This misinterpretation has often led cities to make investments that are doomed to fail. Cities can be governed using technology but have to be designed with vision. I like to say that to make a place good to live, you need "CCTV" to work—citizens, community, technology, and vision. Probably because technology is more tangible than "community" or "vision," people tend to grab it when they define a smart city.

When we started building Palava, we began with the classical definition. We used the notion of 5-10-15, which means everything you require daily should be within 5 minutes of walking, what you need every three to four days should be within a 10-minute walk, and things you use within a week to a month should be within a 15- to 20-minute walk.

When you start designing an entire city with this in mind, there are multiple benefits. Given our population, India can never build enough roads to solve our traffic problems. What we can do is design cities so you don't need so many cars. It is also much healthier for people to walk more.

McKinsey: What has been the government's reaction to Palava?

Abhishek Lodha: Palava would not have been possible without government policies enabling it. These include the special township policy, which allows developers to take land, zone it properly, and put in the infrastructure in a time-bound manner.

Palava has truly come to life over the past 18 to 24 months. I think the government has started thinking about what it means, but it has not fully grasped the impact in terms of what private entrepreneurship in greenfield city development can achieve. Also, this will influence expectations of citizens in terms of how they should live and how they should be governed. I think the government will take note of it over time, but at this stage, I do not think that it is a significant item on the agenda.

McKinsey: What are the most important things you have learned about developing a city from scratch?

Abhishek Lodha: The demand for real estate among India's middle class is enormous. We need to figure out business models to cater to this demand. Consumer-product companies do this all the time, by being innovative, making sure costs are kept under control, and delivering good service. We are thinking in similar terms. Building Palava is like building a very high-value consumer product. Everything that applies to consumer-product companies in terms of innovation, quality control, and after-sales service also applies to this city.

One lesson is that we have to do even more to build facilities in common spaces. We have to deliver these faster and earlier, because expectations are going up. They may not be so expensive to build, but they are a product of thoughtfulness. Citizens want to belong to a city, and they can only belong if they have something to attach themselves to.

Last, if you do not have the city governance/administrative layer, there will be chaos. The Palava City Management Association, which is tasked with handling all of the city's operations, needs to keep getting even better. This layer is critical for success.

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