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How RERA changed the real estate landscape

RERA has been a potent instrument in addressing some of the pertinent issues afflicting the sector.

Amongst them, the impact is most visible in terms of completion/deliveries of projects

prescribing a model agreement that can be built upon by the respective states to bring about the builder-buyer relationship at an equal platform. This apart, the presence of some of the penal clauses brings about a sense of responsibility amongst the stakeholders, especially the developers. This, coupled with the disclosure norms as required under the Act, has helped bring about transparency. All such features of the Act have been enablers in boosting the confidence of the buyer community in the sector.

Elevated prices and an uncertain business environment continued to impact the purchase decisions of the consumers. In addition, consumer confidence in the real estate sector was at a low because of continuous delays in project deliveries. Consequently, consumer preference for finished inventory was high. With the entry of the RERA and with the focus of the developers shifting towards completing projects, ICRA believes the Act has been instrumental in instilling confidence in the buyers over the last 12 months since it became effective. This is reflected in the steady improvement of sales (value and volume) for ICRA's sample set. Following the RERA notification in Q2FY2017, sales plummeted to 3.95 million sq-ft with a value of ₹2,764 crore in Q3FY2017, compared to 4.95 million sq-ft, with a sale value of ₹3,560 crore in the previous quarter. However, this has improved steadily to 5.6 million sq-ft with the sale value of ₹3,914 crore in Q3FY2018.

ICRA believes the shift of consumers' preference for reputed brands can be viewed as a precursor to the consolidation in the sector as well.

Although the implementation of the real estate Act is a right step in regulating and developing the industry, some of the penal provisions, however, are likely to create an excessive fear in the minds of the developer community. Furthermore, issues such as under-staffing and streamlining of operations of the authority and tribunal, and absence of draft sale agreement formats will continue to impact the operational performance of the developers to an extent in the near term. Correspondingly, we observe a decline in new launches. Apart from poor demand, issues relating to registration under the RERA are also attributable to the delay in launches. Close to 25 states/UTs have notified the RERA with around 20 of them having an interim or final RERA authority. A slower-than-expected implementation has impacted

the launch pipeline in some of the cases.

For the long-term development of the sector, however, ICRA expects implementation and setting up of the requisite infrastructure to be a crucial factor. As a first step, alignment of the state RERA rules with the central rules across India will be a stepping stone to bring in uniformity and higher transparency in the sector. Currently, deviations of the state-specific rules from the central Act hinders the ability of the developers to roll out projects across the country. Rationalisation of rules across states will not only help the developers to channelise their resources towards better planning and development, but will also strengthen the buyer's confidence in the process. From developers' point of view, now with the changing business environment, they will have to focus a lot more on the planning and development of the projects. Enhancing the operational bandwidth by hiring more resources, employing technology or limiting the projects' underdevelopment can help them to

come up to the requirements of the Act. More importantly, ICRA expects that the ability to execute will become amongst the key differentiators in the real estate sector, going forward, which will help distinguish and create brand strength. Therefore, it would be imperative for the developers to have the funding and other required resources in place to be able to execute the project in a timely manner. This will be in contrast to the earlier

business environment where a large part of the funding was essentially dependent on incremental sales and there was no time line pressure with respect to the project completion.

The respective state governments will also have to play an important role and be proactive in tackling issues of under-staffing and streamlining of operations of the RERA authority and tribunal, apart from resolving issues like absence of draft sale agreement formats, etc. It is in the benefit of the states to create an environment and infrastructure for ease of doing real estate development and boost demand, given the sector's contribution to the overall economy in terms of employment and consumption-demand it offers to other core sectors like cement, steel, etc. Therefore, it remains to be seen how effectively the states implement the rules to protect the rights of the customers. Political willingness and administrative efficiency will remain key attributes in the process of implementation.

State governments have to be proactive in tackling issues of under-staffing and streamlining of operations of the RERA authority and tribunal

REGARDED AS AN unorganised and fragmented sector, marked by lack of transparency and lopsided builder-buyer relationships, the implementation of the Real Estate Regulatory Authority (RERA) Act with effect from May 1, 2017, was a stepping stone to bring about a change in the way the real estate sector operated. It was beset by noticeable issues like delays in possession/completion of projects, skewed builder-buyer agreement terms favouring the developers, prevalence of cash in property transactions, and existence of many fly-by-night developers who had limited financial and operational experience of carrying out the real estate business. Consequent to many such issues resulting in plunging consumer confidence, coupled with overall elevated prices and the subdued macro environment, the real estate sector had witnessed a slowdown in demand.

ICRA believes that the RERA has been

a potent instrument in addressing some of the pertinent issues afflicting the sector. Amongst them, the impact is most visible in terms of completions/deliveries. According to ICRA's research, there has been a marked improvement in project completions. Based on ICRA's sample set, of the 11 listed real estate developers who have projects across India, project completions increased from 30.02 million sq-ft in FY2015 to 42.94 million sq-ft in FY2016, and further to 45.51 million sq-ft in FY2017. In addition, in the nine months of FY2018, deliveries stood at 25.22 million sq-ft. Prior to the approval of the Act by both the Houses of Parliament in March 2016, the average quarterly deliveries were around 8.27 million sq-ft for seven quarters ending Q3FY2016, which witnessed a growth of 30.5% and increased to 10.72 million sq-ft for the eight quarters ending December 2017.

In addition, the RERA addresses the issue of the builder-buyer agreement by