

Regulating a new regime

SANJAY BORADE



Domestic real estate sector is undergoing a transition post RERA

It is now almost one year since the Real Estate (Regulation and Development) Act (RERA) has been introduced to the domestic real estate market. After having come into being on 1 May 2017, the Central regulation has completely changed the dynamics of the real estate sector, which had been moving in an unorganised manner. RERA has been a watershed event for the real estate industry, which in the last couple of years, has witnessed a series of disruptive policy initiatives. While, post-RERA, the industry is still under transition, the regulation presents tremendous potential to transform the entire landscape of the industry, going forward.

Reforms led by RERA are helping the property sector to commence its second growth phase, where market will move in a much transparent

and organised manner. The process has started to create a market place, where all stakeholders act in a much accountable fashion and thus entail the much-needed depth to the market structure and its functions in the long run. While the market is gradually in the process of coming out of the short-term disruptions like demonetisation, GST and others, the long-term reform such as RERA is showing its impact on the overall functioning of the real estate business in the country.

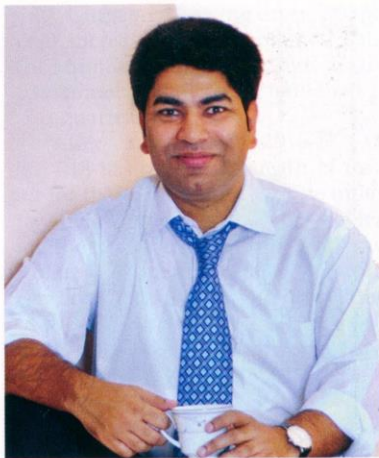
On the implementation front, Maharashtra has been among the few states that have been proactive in putting up the desired infrastructure and mechanism for implementing the regulation in its true spirit. Of about 25,000 projects registered under RERA across the country so far, as many as 15,000 are from Maharashtra alone.

In fact, Maharashtra, the first state to implement the Act, has recently also formed a forum of 33 conciliators to set up 15 teams comprising two members each, one from realty developers' industry body and another from consumer forums, representing homebuyers. Under this mechanism, homebuyers' complaints against builders can be resolved through a consensus. If there's no consensus, the homebuyer will have the option to lodge a formal complaint against the builder with MahaRERA, the state regulatory authority.

"The implementation of RERA has completely revolutionised the Indian real estate industry," says Jaxay Shah, president, CREDAI National. "Enhanced levels of transparency and accountability have greatly improved the homebuyer sentiment, which is also evident from an increase in sales in the sector. RERA has also led to an increase in the number of compliances and has introduced a different set of standard



Shah: different set of standards



Magazine: an uptick in project launches



Hiranandani: towards an organised market

operating procedures”.

“With RERA coming in, the real estate landscape in the country is going through a transformation. Developers have channelised their efforts towards ensuring that all their projects are RERA compliant. The implementation of the Act has also instilled confidence among investors towards the housing market. Under the new regime, we are witnessing an uptick in new project launches. Additionally, funds/institutional investors are also slowly returning to the market,” says Anshuman Magazine, chairman, India & South East Asia, CBRE.

Niranjan Hiranandani, national president, NAREDCO & committee member, MahaRERA conciliation committee, is of the opinion that, like Maharashtra, other states will also have to take a proactive role in implementing the Act, which has all the needed ingredients to transform the real estate sector in the country. “Having such a regulatory framework was long due and now that we already have this Act in place, it is the responsibility of each state to implement it with concerted effort,” adds Hiranandani. “This regulatory mechanism will pave the way for much organised and matured property market in a country like India where housing is a big issue”.

“The implementation of RERA has helped in bringing complete transparency and providing a unified legal regime for purchase of residential apartments,” stresses Manju Yagnik, vice-chairperson, Nahar group.

“It has helped in rebalancing the relationship between the builder and buyers. Transactions have become more transparent, which has enhanced the confidence of investors. The reforms and legislations in the real estate sector are also driving consolidation post RERA, which is beneficial to the overall development of the sector”.

J.C. Sharma, vice-chairman & managing director, Sobha Ltd, feels that, while protecting the interests of homebuyers, RERA also benefits the developers by enabling them to understand their responsibility and work within their competencies. This ensures faster execution of projects and on time delivery. Further, this will consolidate the sector and help create a level playing field for organised developers with a strong balance sheet, transparent dealings and a great track record of timely delivery. However, any noteworthy policy changes such as RERA are expected to cause transitional challenges, requiring time to reflect the benefits.

Transition period

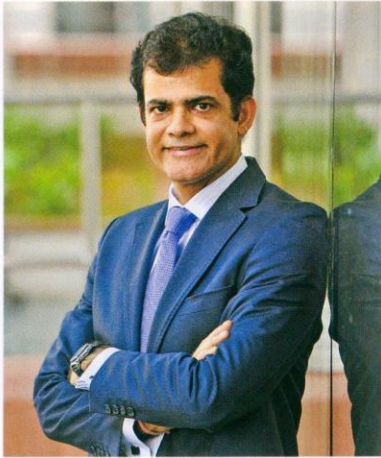
“With RERA implementation, the real estate sector that was unorganised previously is slowly getting an organised shape,” says Rohit Poddar, MD, Poddar Housing & Development. “It has brought a lot of transparency and structural process in the sector as every project need to be registered and share their construction status on the RERA website. Home buyers are protected by the regulator in terms of timeliness,

possession on time and no extra cost for anything, charge as per carpet area. The implementation of RERA has brought an overall potential growth in the sector by enhancing professionalism and standardisation”.

Experts are of the view that, after the advent of RERA, the industry has undergone a transition, and that it will take some time before the industry settles down to reap its actual benefits. The transition period is expected to be prolonged as the Act is preceded by events like demonetisation and followed by GST. Moreover, there are other reforms as well, which have exerted pressure on the industry, as it was adjusting to embrace a completely new regime.

“What we are witnessing is a part of migration from one system to another,” says Amit Haware, CEO & joint MD, Haware Properties. “In fact, the last couple of years have seen a whole basket of reforms, something that never happened in the last few decades. Besides, there are macro economic factors also in play. But all said and done, as an industry we have not only shown a remarkable resilience, but also zest to be part of a larger implementation process”.

“The industry is trying to adjust itself to the newer regime,” says Rajesh Prajapati, MD, Prajapati Developers, and a member of the recently formed MahaRERA Conciliation and Dispute Resolution Forum. “In the short run, there will be challenges. However, in the long run, we are heading for a much



Puri: seeing green shoots



Nair: positive environment



Haware: remarkable resilience

matured and organised market place where all the stakeholders will have to play a more accountable role towards the holistic development of the industry. RERA is undoubtedly a remarkable event that has happened for the industry."

So far as the residential market is concerned, 2017 had witnessed a significant fall in new launches across the top seven cities, which declined by 45-50 per cent, when compared to the previous year's figures. While, in 2016, the top seven cities had added about 240,000 units, new launches shrunk to just 125,000 units in 2017. In fact, according to ANAROCK Property Consultants, last year saw the lowest rate of new project launches in last five years. Due to this massive burden of unsold stock and low demand, the average property prices in these cities either remained stagnant or corrected by 3-7 per cent in some areas.

However, things are certainly looking up lately. According to ANAROCK's latest report, 2018 has started on a positive note, with residential unit launches making a comeback and recording a 27 per cent increase in the first quarter of 2018 over what was achieved in the previous quarter, across the top seven cities of India. With policy reforms and structural changes now in place, developers intend to make up for the lost ground. The top seven cities recorded new unit launches of about 33,300 units in Q1 2017-18, as opposed to 26,300 units in Q4 2016-17. Key cities contributing to Q1 2017-18's new

unit launches included Mumbai Metropolitan Region, Bengaluru and Kolkata, altogether accounting for 66 per cent of addition. In Q1 2017-18, sales across the top seven cities too have risen by 12 per cent, when compared to Q4 2016-17, indicating that serious homebuyers are back, attracted by the new environment of transparency, accountability and financial discipline.

"A series of policy reforms and structural changes have transformed the way Indian real estate business is conducted, which has been a definite blessing," says Anuj Puri, chairman, ANAROCK Property Consultants. "The sector is by no means out of the woods yet, but we are now seeing some green shoots of recovery. The market has turned end-user friendly and 2018 is bringing new launches that match demand. The days of product mismatch are on their way out. Moreover, the crazy days of pre-launches and soft launches have come to an end, and the market has gained some amount of sanity."

New launches

The increase in launches in the top seven cities during Q1 2017-18, when compared to the previous quarter, resulted in overall unsold inventory decreasing by a meagre 2 per cent – from 727,000 units in Q4 2016-17 to 711,000 units by Q1 2017-18. A notable aspect of new launches in Q1 2017-18 was that the share of Tier I developers increased to 40 per cent in the last quarter from

35 per cent in the quarter previous to that. Evidently, the expected RERA effect in terms of boosting organised players is making itself felt.

In terms of sales during Q1 2017-18, almost all the cities recorded a rise over the previous quarter (Chennai, which recorded a 12 per cent decrease, was the only exception). Now, there is an overall quarterly increase of 12 per cent in sales, which is a good indicator of reviving demand. About 49,200 units were sold in Q1 2017-18, with NCR, MMR, Bengaluru and Pune together accounting for 80 per cent of the sales. Kolkata's sales increased by 42 per cent – from 2,400 units in Q4 2016-17 to 3,400 units in Q1 2017-18. Sales in Bengaluru (at 11,500 units) and Pune (6,800 units) increased by 15 per cent over the previous quarter.

MMR sales rose by 12 per cent during the same period – from 11,000 units in Q4 2016-17 to 12,300 units in Q1 2017-18. NCR's sales increased by 11 per cent – from 8,200 units to 9,100 units. While the quarterly rise was restricted to double digits, the region recorded a year-on-year rise of 25 per cent in new launches, indicating a slight improvement in market conditions. Sales in Hyderabad remained almost stagnant over the previous quarter, with 3,800 units sold in Q1 2017-18. Chennai was the only city that recorded a dip in sales at 12 per cent – from 2,600 units in Q4 2017 to 2,300 units in Q1 2018.

"RERA has increased the confidence of not only the developers but also



Goradia: massive consolidation

the end buyers," affirms Farshid Cooper, MD, Spenta Corporation, Mumbai. "The real estate market has shown positive signs of revival as various aspects of RERA law has helped build customer confidence in the sector at large. With the overall market moving towards ease of doing business, we are expecting that buyers will relook at the market for investment opportunities again as the market is picking up".

Since the market is consumer-friendly, buyers can invest in luxury and affordable housing segment owing to great options at prices and good investment returns with time bound possession. In terms of pricing, right now the environment in the industry is competitive. Therefore, buyers should take advantage of it with the protection of RERA.

In its recently released *Realty Decoded Report* for Q1 2018, PropTiger.com (part of Elara Technologies Pte Ltd, which also owns Housing.com and Makaan.com) has indicated the turnaround, which is being seen after a continuous drop in sales for the last four years and raises hopes of a revival in the market. As per the report, sales across top nine cities increased by 33 per cent over the first quarter of last year. Nearly all cities have shown positive growth in sales, except Hyderabad (where the sales dropped by about 30 per cent) and Ahmedabad (where the sales remained stagnant). Most importantly, after languishing for long, Delhi-NCR has witnessed a strong turnaround, with both Noida

and Gurgaon showing over 60 per cent increase in sales volumes. Sales in Mumbai and Pune were nearly five times of new units launched in this quarter.

"After a stressful 2016-17, Q1 2017-18 has come as a breath of fresh air for the residential real estate industry, rekindling hopes of a revival for the sector during this year," says Ankur Dhawan, chief investment officer, PropTiger.com. "For the first time in this quarter, we saw developers willing to reduce prices to sell their unsold units and improve their cashflows. We now expect the market to start showing a steady improvement in sales going forward".

The ANAROCK report shows the residential property prices across the top seven cities remaining largely range-bound in Q1 2017-18, when compared to the previous quarter. The primary reason was the significant unsold stock to the backdrop of limited improvement in demand. Affordable and mid-segment housing dominated, with 74 per cent of unit launches (24,600 units) coming in with price tags under ₹80 lakh. Supply is now being visibly geared towards end-users, and this is a major shift from Indian real estate's previous investor/speculator-driven orientation.

Equity infusion

RERA, coupled with other reforms such as GST, Benami Transactions Bill and others, have certainly helped boost the confidence level of investors, even as the actual benefits are yet to fructify. Private equity and debt investments in India's real estate sector jumped 12 per cent in 2017, led by global investors such as GIC Pte Ltd, Canada Pension Plan Investment Board and The Xander Group Inc. However, debt transactions, the mainstay of residential projects, declined as cautious investors stayed away from over-leveraged developers.

Private equity and debt investments in real estate grew to \$4.18 billion across 79 transactions in 2017, compared to \$3.73 billion across 138 deals in 2016, as per News Corp's VCCEdge. Of these, 31 were equity deals (\$2.85 billion), while the remaining 48 (\$1.33 billion) were debt transactions, as against 25 (\$1.46 billion)



Sharma: benefits for all

and 113 (\$2.26 billion) in equity and debt respectively in 2016.

Experts view that most of the liquidity issue in the residential segment in the last couple of years have primarily been addressed through debt (or structured mechanism) platform as investors have been averse to risks in the given situation. But as the regulatory dusts settle down and the RERA-led impacts start showing up, the equity investment will become more appropriately priced for the associated risks and this will ensure more infusion of equity into the system which is facing severe cash flow issue.

"Post-RERA, gradually things are falling in place," says Ambar Maheshwari, chief executive, private equity, Indiabulls Asset Management Co. Ltd. "Investors seem to be more assured now. Capital available today is only for select developers and the distinction between good and bad developers is more pronounced. But funds are realising that they need to take more risks and do equity deals because that's the need of the hour". Maheshwari believes that the RERA, together with other reforms, will further enhance the attractiveness of real estate as an asset class and India as an investment destination.

Alternative investment avenues too are emerging within real estate nowadays. Like other global markets, in India also, the market is undergoing segmentation, thus giving rise to more specialised sub segments, such as senior housing, student housing,



Yagnik: complete transparency



Piramal: positive impact



co-working, healthcare, education, data centres, self-storage facilities, warehousing and logistics. "This will provide investors more avenues and thus opportunities to build a much diversified portfolio," says Ashok Kumar, managing director, Gennex Partners. "This will also pave way for increased inflow of institutional funds into the Indian real estate and thereby ensure institutionalisation of the entire set-up for the long term growth of the industry".

According to property consultant JLL, in the next 10 years, private equity inflow in the sector is likely to grow at 10 per cent CAGR to \$100 billion by 2026, with Tiers I and II cities being the prime beneficiaries of it. In the past 12 years (2006-17), India has seen investments of \$42 billion, while the next 10 years (2017-26) are expected to see inflows to the tune of \$58 billion, says the report.

"India's attractiveness as a global investment destination has been steadily rising," says Ramesh Nair, CEO & country head, JLL India. "We have seen numerous measures that have created a positive economic environment, bringing in key factors like transparency, accountability and ease of entry into various sectors in India. This gives India a fillip in attracting capital".

And, according to Anand Piramal, executive director, Piramal group & founder, Piramal Realty, "Recent reforms will have a positive impact and the fruits of which will ripen in

coming years. The implementation of RERA will pave the way for best practices in the sector. Foreign investors eyeing Indian real estate have hailed the recent government reforms as the harbinger of transparency and accountability in the sector".

Strict norms

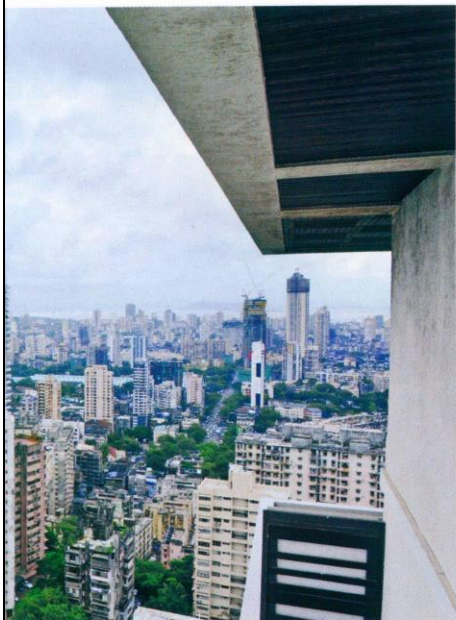
RERA, coupled with other reforms, has already started showing its effect on the structure of the Indian real estate sector. Under strict compliance norms and accountability in the RERA regime, many small businesses may not be able to manage the requirements and may choose to exit. Due to the crack-down on black money and benami transactions, not-so-serious players are gradually pushed out of the market. Moreover, the market is also seeing the emergence of specialised developers who will focus on certain segments of the business.

"As a result, we are likely to witness a massive consolidation of real estate businesses in 2018, even as the process has already started in different forms," feels Deepak Goradia, vice-chairman & managing director, Dosti Realty and vice-president, Maharashtra Chamber of Housing Industry. "This will include all stakeholders of the real estate sector, including developers and real estate consultants. Post cleansing of the system, only good players with the right business intent will continue to operate in the Indian real estate sector".

Snehdeep Aggarwal, founder-

chairman, Bhartiya group, believes RERA is one of the best developments to have happened to the real estate sector in India. The industry needed a regulator for a long time for protecting the interests of buyers and developers equally. The industry is getting consolidated into developers, with proper infrastructure and resources to undertake the activity. "It's a serious business, where people invest their life's earnings into buying a house," comments Aggarwal. "Slowly, with the increase in customer confidence, there is an opportunity to tap a huge potential for the economic growth by addressing the housing shortfall in the country".

"Implementation of RERA is indeed a dream come true for the sector," says Ashok Mohanani, chairman, EKTA World & vice-president, NAREDCO West. "For the industry as a whole, it has brought proper governance, ensured project delivery, ensured governance and promoted a regulatory environment. However, even after a year, there is still non-uniformity of its application in different states. There are only seven states that have implemented the provisions, yet the rules of one state differ from the other. The consolidation of RERA as a common Act across the nation would help



SANJAY BORADE



Kukreja: will transform the industry



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Kumar: more opportunities

streamline the sector further”.

While phenomenon of consolidation has commenced, the industry in the post-RERA regime has tilted further in favour of actual buyers, thus continuing to be a buyers’ market. The actual buyers will rule the market and play a decisive role in the long run. In the last couple of years, the Indian real estate sector has been extremely buyer-friendly. This trend is likely to continue going forward as well and may, in fact, be strengthened amidst limited new launches.

“We see RERA as a harbinger of transparency, which will increase professionalism in the sector, ensure timely delivery and accountability and provide ring fence protection to buyers’ money,” says Ravi Ahuja, senior executive director, developer services, Colliers International India. “Developers should take this opportunity to harness the increased demand by adopting the practices dictated by the Act as early as possible”.

“RERA, as an Act, has all the potential to transform the Indian real estate business,” says Dikshu C. Kukreja of C.P. Kukreja Associates, a premier architectural and engineering organisation. “Currently, we are witnessing challenges which are inevitable when a system move from one regime

to another. Having a regulator and implementation of this regulatory framework in an effective manner will be quite crucial for the industry”. CPKA is ranked amongst the top 100 architecture firms in the world and top 10 in Asia.

According to M. Murali, managing director, Shriram Properties, after its implementation, RERA is looked upon as ensuring formalisation of the Indian real estate sector with required transparency and strengthening the relationship between consumer and developer. With this policy established players in the market will grow in strength, edging out smaller developers in the process, which will bring in better planning, pricing and better execution and timely delivery. “In fact, RERA will definitely increase the competitiveness and maturity of the market,” adds Murali.

Big respite

All in all, RERA envisages significant changes to the way in which the real estate sector operates in India. The Act aims at greater accountability, disclosure norms, investor protection and e-governance. It should also facilitate transparent and efficient working in the real estate sector by enforcing fair practices and accountability norms and fast-tracking dispute resolution. The regulation directionally sets the groundwork for the next round of transformation in the Indian real estate sector.

The implementation of RERA has

helped expedite the whole process of market getting more organised and gaining more depth and maturity. The need for putting up an organised and transparent set-up has been overdue for long and the introduction of RERA has come as a big respite for both buyers and investors. A sign of consolidation has been taking place in the last couple of years and this will gain further momentum. Lack of transparency and organised scenario has adversely impacted the inflow of institutional money into the system and thus affected the overall development of the industry. But, now, with RERA and other reforms in place, the issues on the liquidity front will be addressed, to a large extent. Moreover, the cost of funding will also see southward movement, making the supply much more competitive and robust.

All said and done, the industry continues to face challenges as implementation of RERA takes shape. Most of the states have struggled to implement this Central regulation in its true spirit, the exceptions being Maharashtra, MP and Gujarat. Undoubtedly, every state has got its own dynamics and, hence, needs to device the requisite infrastructure and mechanism suiting their intricacies. But, there is a need to be proactive in implementing this path-breaking regulation which has the capability to revolutionise the entire real estate market.

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