

Study of Impact in Construction Project Due to Introduction of RERA in Pune

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Abstract: For Indian real estate sector has been facing a slump since 2012. This is due to factors like unemployment, inventory pile-up, recession, low rental yield, unclear taxes and arbitration. However, the property prices have not stabilized accordingly (The Indian Express). As a result, the demand for property has decreased further. This reduced demand is causing a slowdown in the recovery of investment builders. The major issue facing the sector is lack of transparency. The system until recently was opaque with regards to price, construction delay, construction quality, ownership (title) and litigations. Of these, the biggest issue is the delay in the delivery of property to buyers. During the last two decades, the number of under construction properties rose to an all-time high. Particularly in major cities, many builders have flouted norms by failing to keep up with project deadlines (The Economic Times, 2017). For a homebuyer investing his life savings in the property, indefinite delays are a cause for worry. Property agents or brokers took advantage of prospective homebuyers by misinforming them about the quality of construction and completion. They misled homebuyers regarding amenities of the property. They would give assurances orally regarding property documents which were often missing or incomplete. Furthermore, the agents would hide the status of properties under litigation from prospective buyers (Sharma, 2017).

Keywords: Authority, mechanism, real estate, RERA, projects, disputes.

1. Introduction

To address the various structured issue in the real estate sector, the Central Government enacted “The Real Estate (Regulation and Development) Act, 2016” which received the President’s assent on 25th March 2016. The Act has been partly notified On 1st May 2016, as far it concerns to the establishment of Regulatory Authority, Central Advisory Council and Appellate Tribunal and administration. However, the operative part of the Act is yet to notified. In all probabilities this will come effective only after the States have put the administrative mechanism in place.

The real estate bill was passed by Rajya Sabha on 10th March, 2016 and the Loksabha on 15th March, 2016. The bill was passed by the Honourable President on 25th March, 2016. The act was published by honorable President was published in the Official gazette on 26th March 2016 for public information. According to RERA, each state and union territory will have its

own regulator and set of rules to govern the functioning of regulator. Centre has drafted the rules for Union territories including the national capital. While many states are still behind on schedule for notification of RERA rules, many have notified rules and a regulator will start functioning. Some of states which are notified till 31st July 2017 are Maharashtra, Andhra Pradesh, Bihar, Chattisgarh, Gujarat, Hariyana, Karnataka, Kerala, Madhya Pradesh, Odisha, Punjab, Rajasthan, Tamilnadu, Uttar Pradesh, Uttarakhand. Delays in projects are the biggest issue faced by buyers. The reasons are many and impact is huge. Since last 10 years, many projects have seen delay up to 7 years. Projects launched after the turn of this decade have faced delays as well. The reasons include diversion of funds to other projects, changes in regulation by authorities, the environment ministry, national green tribunal etc and bodies like those who involved in infrastructure and governing transport. In many places, land acquisition becomes an issue. Errant builders often sell projects to investors without the approval of plans, bad quality of construction, project stuck in litigation etc. RERA seeks to address issue like delays, price, quality of construction, and other changes. The promoter of a real estate development firm has to maintain a separate escrow account to each of their projects. A minimum 70% of the money from investor and buyers will have to be deposited. This money can only be used for construction of projects and cost of borne towards land. RERA requires the builders to submit the original approved plans for their ongoing projects and alteration that they made later. They also have to furnish details of revenue collected from allottees, how the funds are utilized, the timeline for construction, completion and delivery that will need to be certified by an engineer/Architect/Practicing Chartered Accountant.

It will be responsibility of each state regulator to register the real estate project and real estate agent operating in their state under RERA. The Details of all the registered projects will be put on the Website of public access. Developers can’t invite, advertise, sell, offer, market or book any plot, apartment, house, building, investment in project, without first registering it with the regulator authority. Further, more, after registration, all the advertisements inviting investment will have bear the RERA registration number.

In RERA ACT No promoter is allowed to advertise, market,

book, sell or offer for sale, or invite persons to purchase in any manner any plot, apartment or building in any real estate project or part of it, in any planning area, without registering the project with the RERA. The advertisement or prospectus issued or published by the promoter shall mention prominently the website address of the Authority and the registration number obtained from the Authority. Where any Allottee sustains any loss or damage by reason of any incorrect, false statement included therein, he shall be compensated by the promoter in the manner as provided under this Act. The entire investment along with interest and compensation shall be returned to allottee if he intends to withdraw from project. The promoter shall make an application to the Authority for registration of the project within a period of three months from the date of commencement of this Act for ongoing projects and whose completion certificate is not issued.

A. No registration of the real estate project required where

- The area of land proposed to be developed does not exceed 500 square meters or the number of apartments proposed does not exceed eight inclusive of all phases.
- The promoter has received completion certificate for a real estate project prior to commencement of this Act;
- For the purpose of renovation or repair or re-development which does not involve marketing, advertising selling or new allotment of any apartment, plot or building, under the real estate project. Act specifies the list of documents and drawings which the promoter has to submit for Registration. The promoter shall create his web page on the RERA website and enter all details of the proposed project in all the fields as provided, for public viewing, including:
 - details of the registration granted by the Authority
 - quarterly up-to-date the list of number and types of apartments or plots booked, garages booked, approvals taken and pending subsequent to commencement certificate and status of the project;
 - such other information and documents as may be specified.

It is the right of Allottee to get all the above information from time to time.

He is responsible for all obligations, responsibilities and functions till the conveyance of all the apartments, plots or buildings. With respect to the structural defect or any other defect continue even after the conveyance deed, its promoter's responsibility to execute.

B. Responsibility of promoter

- To obtain the completion certificate or the occupancy certificate, or both.
- To obtain the lease certificate, where project is developed on a leasehold land.
- For providing and maintaining the essential services, on reasonable charges, till the taking over of the maintenance of the project by the association of the allottees.
- Enable the formation of an association or society or co-

operative society or federation of the allottees, under the laws applicable.

- Execute a registered conveyance deed in favour of the allottee.
- Pay all outgoing until he transfers the physical possession of the project to the allottee or the associations of allottees.

C. Requirements in RERA Acts

In Maharashtra the promoter is required to submit the following certificates:

- Architect's certificate: Certifying the percentage of completion of construction.
- Engineer's certificate: Certifying the estimated cost to complete remaining construction of each of the building/wing of the project.
- Quality Assurance certificate: Certifying the quality of materials being used on the project
- CA certificate: Certifying the balance cost to complete the project.
- CA certificate: Certify the
 1. balance amount of receivables from the apartments /flats/premises sold or allotted with respect to those in which agreements have been executed, and
 2. estimated amount of receivables from unsold units calculated at the prevailing Annual Statement of Rates (ASR).

The number of apartments sold or allotted to allottees and the basis on which they were sold/allotted. (Basis over here refers to carpet area, super area, super built up area). In case of plotted development, the area of plots sold to allottees and details like the extent of share of common areas and amenities.

2. Literature review

Title: Detailed Study and Analysis of RERA Act, Author: Aditya V Kadam, Rushikesh R Jangam, Rushikesh R Pawar, Ashwini A Sagavekar, G. D. Parulekar, S. S. Patil

Abstract: Housing sector is one of the top contributors to country's GDP and employment creation. Surprisingly, in spite of being such an important part of the economy, the real estate sector has remained by and large unregulated. The Real Estate sector is, to a limited extent, controlled and regulated at the local government's level with every state government having its own set of rules and regulations for real estate development. Taking benefit of country's abysmal judicial system, the developers have been taking property buyers for a ride, and putting real estate sector on the bottom of customer protection and satisfaction pyramid.

Title: Immediate Impact of RERA on Construction Industry

Author: Ar. Madhavi Ashok Khandar, Ar, Aparna Panganti

Abstract: The Real Estate (Regulation and Development) Act, 2016 is an Act of the Parliament of India which seeks to protect home-buyers as well as help boost investments in the real estate industry. The bill was passed by the Rajya Sabha and the Lok Sabha in March 2016. The Act came into force from 1

May 2016. Remaining provisions came into force from 1 May 2017. The objectives of this act are to Ensure Transparency & Efficiency in real estate sector in regards to sale of plot, apartment, building or real estate project; Protecting the interest of consumers in real estate sector; Establishing adjudicating mechanism for speedy dispute redressal and Establishing Appellate Tribunal to hear appeals from the decisions, directions or orders of the Real Estate Regulatory Authority.

Title:- Analysis of Dilutions of the Real Estate (Regulations and Development) Act 2016 by State Governments, Author: Shripad S. Merchant, Rajesh Pedneka and D. B. Arolkar

Abstract: This paper aims at analysing the Rules passed by the States in India for implementing The Real Estate (Regulation and Development) Act (RERA), 2016 passed by the Parliament. The law is passed to protect the interest of the consumers. However, many States have diluted the provisions of the law and notified the Rules. The provisions regarding the definition of on-going projects, payment schedule, liability for noncompliance, norms for escrow withdrawal have been diluted jeopardising the consumer's interest. In certain cases, the Rules lack clarity on these aspects. Whether the dilutions made by the States is within their power or not have been examined. The research paper analyses the shortcomings of the diluted Rules in favour of the developers and the steps to be taken by the central government to enforce the law in its true spirit.

Title: Effect of RERA: Real Estate Regulation and Development Act, 2016 on Built property prices

Abstract: As well-known by all the real estate enthusiasts, RERA was approved and passed by "Rajyasabha" on 10 March, 2016. All the important points have been discussed and uploaded on our page SATF on 29 July, 2016. This article will brief you about how this Act will affect property prices and what are the reasons behind it.

Title: Indian Express (Dec 26th, 2012)

Abstract: Indian real estate sector has been facing a slump since 2012. This is due to factors like: Low rental yield, Unclear taxes and arbitration. However, the property prices have not stabilized accordingly (The Indian Express, 2017). As a result, demand for property has decreased further. This reduced demand is causing a slowdown in recovery of investment for builders. Due to this reasons detailed study of this act is done by us.

3. Problem statement

There was no clarity on the carpet and loadings on the built-up area. Every builder had their own calculations. There was a sort of monopoly of builders regarding the areas, rates, modes of payments. There was no clear picture of project, possession, sanctions, legality and rates which lead to frauds and confusions to clients.

4. Objectives

- To Study of RERA act and understanding the provisions

given in the ACT.

- To study of the impact of RERA on construction Industry in Pune region.
- To analyses the impact of RERA on construction Industry in Pune region.

5. Methodology

- It consists of introduction, history, advantages and disadvantages, salient features. Also introduce the objectives of this study.
- Literature review related to the project.
- Study the impact and Improvement of Rera on the construction industry.
- In project we have made survey of builder and contractors.
- Conclusion and lastly discussed on future scope of this project. clients.

6. Impact of act

The Real Estate (Regulatory and Development) Act was rolled out on 1 May 2017. The Act provides a regulatory system for the Real Estate Industry which is distributed among the states separately. The State Cabinets and Authorities are responsible for notifying the final rules of the Act, which has already been done by most of the states. RERA is expected to bring transparency between the investors and the developers. Another benefit of the Act enforces the builders to put 70% of the investor's amount in separate escrow accounts for the purpose of construction fund, to prevent from insolvency and other frauds. RERA also helps by providing a separate window for complaints, which is serving as a big relief for homebuyers to take a step against the fraudulent developers and brokers. RERA also makes it mandatory for all the real estate agents to register with the Act, which will weed out all the fraud agents of the real estate sector. Because of the guidelines and rules of the Act, the builders will have to deliver the projects on the aforementioned date, with a flexibility to choose the date of delivery. In a glance, RERA provides a win-win situation for the whole real estate sector and will strengthen it in the coming years.

7. Data collection

As discussed earlier the data is collected by distribution of the questionnaire to all the mentioned namely Builder, customer, Legal advisor. The respondents involved in the survey were having participants from government as well as from the private sector of construction which were involved in different construction projects and townships. The group of respondents has a good amount of experience as discussed earlier. Hence we can say that the result obtained is of a high value of reliability. The details of the questionnaire distributed and response received is briefly summarized in table 1 below.

Table 1
Questionnaire distributed and response received

Respondents	Questionnaire Distributed	Questionnaire Response	Response percentage (%)
Builder	06	04	66.67
Customers	21	16	76.19
Legal Advisor	02	02	100
Total	28	21	75

8. Analysis of data and results

Relative Importance Index (R.I.I)

The relative importance index values have been calculated by the formula given below and was adopted from (Enshassi and Mohammed 2009, Desai and Bhatt 2013) to get optimum results.

$$RII = \frac{\sum W}{A \times N} (0 \leq \text{value of significance} \leq 1)$$

Where;

W - Weightage of significance given to each factor by the respondents.

$\sum w$ - Total weightage of significance to the factor assigned by all the respondents.

A - Highest value of significance given by the respondent.

N - Total number of respondents.

Sample Calculation (R.I.I)

R.I.I - For Builders,

$$= \frac{(1 \times 0) + (2 \times 2) + (3 \times 1) + (4 \times 1) + (5 \times 0)}{(5 \times 4)} = \frac{0 + 4 + 3 + 4 + 0}{20} = \frac{11}{20} = 0.55$$

Table 2
R.I.I. of builders

No.	Questions	R.I.I	Rating
1	Effect of MAHARERA on construction?	0.55	AVG
2	After MAHARERA, are you in benefit?	0.45	AVG
3	Problems facing due to MAHARERA ?	0.45	AVG
4	Cost of construction project increase or decrease ?	0.45	AVG
5	Effect on possession due to MAHARERA?	0.60	AVG
6	Financial problems during construction ?	0.35	BAD
7	Effect on sale due to MAHARERA ?	0.55	AVG
8	MAHARERA is good or bad for construction industry ?	0.60	AVG

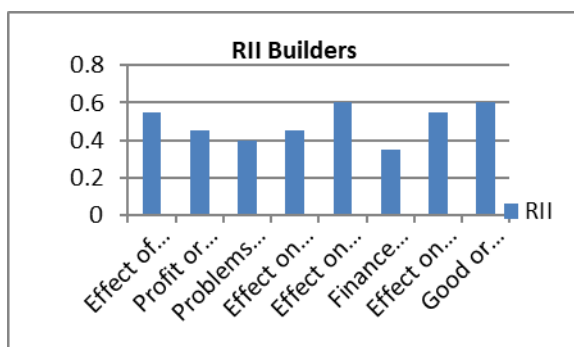


Fig. 1. RII Builders

Table 3
R.I.I. Customers

No.	Questions	R.I.I	Rating
1	Awareness about MAHARERA?	0.75	Good
2	Benefit due to MAHARERA?	0.75	Good
3	MAHARERA is helpful for homebuyers ?	0.85	V. Good
4	Effect on possession due to MAHARERA?	0.8875	V. Good
5	Effect on construction quality due to MAHARERA ?	0.65	Good
6	Carpet area assurance due to MAHARERA?	0.8125	V. Good
7	Transparency of all information while purchasing flat ?	0.7325	Good
8	5 years defect period due to MAHARERA is sufficient or not ?	0.887	V. Good

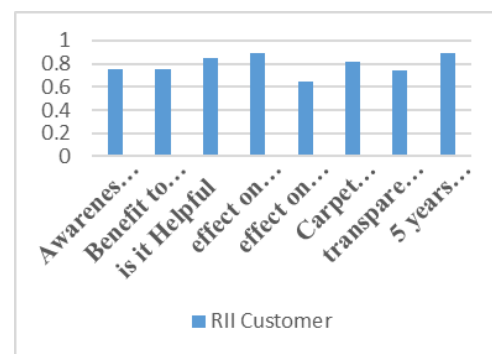


Fig. 2. RII Customer

9. Conclusions

- The act is a positive change in terms of increasing transparency in the real estate sector, increasing accountability of the promoters and developers.
- RERA is likely to attract more number of buyers as well as investors in the real estate market hence marking a positive outlook for the Indian real estate sector.
- As per survey, we can see that builders are more likely to be negative because of maharera. Due to Maharera mostly builders are facing financial problems.
- Due to Maharera all customers are positive but they have doubt in construction quality and process of flat purchasing.

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