

The influence of the Real Estate (Regulation and Development) Act 2016 [RERA] on real estate sector: A Review

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ABSTRACT

Real estate industry is a significant part of India's economy as well as among the most important driver source of employment development, making it a vital industry for national structure. Since 2015, the real estate business has been under significant strain, with many real estate designs coming to a halt or making little progress on the ground. Homebuyers who had committed their life money had few options for resolving their issues quickly. Developers were unresponsive, overburdened, and cash strapped. Earlier to the establishment of the RERA act, Real estate sector had numerous issues, involving irregularity of information, a shortage of financial discipline, biased dealings benefiting the property developer, and restricted unfairness in consumer dispute resolution forums. This review paper focuses on the impacts of the RERA act on construction industries and on various stakeholders. The study is based on significant analysis and explores existing knowledge from literature.

Keywords: Real estate sector, projects, RERA act 2016, homebuyers, construction companies.

1. INTRODUCTION

Housing is one of humanity's most basic needs, as is well known. A good place to live can be a precondition for happiness in terms of a few human constitutional rights, with employment rights, wellbeing, government disability, an election, protection, or instruction... Humans have a basic need for safe, secure, and adequate housing [4]. The housing industry is a major contribution to the country's GDP and job growth. Surprisingly, despite its importance, the real estate industry has remained mostly uncontrolled [5]. And it has been noticed that the projects are announced, and the booking of the flats or apartment is taken by the developer by charging a booking amount of 25% to 70% without even starting construction. Registration of sale agreement is not compulsory under "The Registration act of 1908". Hence makes it difficult for the government to track any projects. Only when possession gets delayed beyond the date promised by the developer, the buyer gets panicky and run for help here and there, knocking on the doors of various forums, courts, or Government departments [6]. Indefinite delays are a source of concern for a homebuyer who has invested his life savings in the property. Real estate agents or brokers took advantage of potential homebuyers by misleading them about the quality of construction and completion [7].

The State Government passed the real estate (regulation and development) act 2016, which received the president's assent on March 25, 2016, to address various structured issues in the real estate sector [9]. On 1 May 2016, the Act came into force. The remaining provisions took effect on 1st May 2017. The purposes of this act are to safeguard transparency and effectiveness in the real estate industry, whether it is pertaining to the sale of plots, apartments, buildings, or developments; Providing consumer protection in the real estate sector; Creating a dispute resolution mechanism for swift dispute resolution; and starting an Appellate Tribunal to hear pleas from the Real Estate Regulatory Authority's decisions, directions, or orders [14]. Later, this study intends to examine the consequences of the RERA act 2016 in real estate industry, various stakeholders in construction projects, and developers. The different methods which have been adopted to define the influence of this act are also determined

2. RERA ACT (2016)

RERA Act's Key Provisions

According to the act, everyone must register for RERA for projects larger than 500 square meters or eight apartments, including all phases, ongoing projects that have not obtained a completion certification as of the Act's effective date must

seek registration within three months [6]. As for the reason of reconstruction, repair, or redevelopment that does not include promoting, promotion, selling, or new allotment of any apartment, plot, or building as part of the real estate project. The law outlines the documentation and drawings that must be submitted by the developer for registration. [7]. Every developer must provide project information on the RERA's website. These contain the real estate project's site and layout plan, as well as the timeline for execution. [8]. Under the RERA Act, the purchaser has the complete right to ask a developer to fix all the construction flaws. If there is any flaw or fault in the apartment's construction, then it should be fixed by the concerned real estate developer [15]. The most common concern in the construction sector has been the diversion of money or funds. According to RERA, 70 percent of revenue collected from buyers for a real estate project must be deposited in a separate account to be kept in a scheduled commercial bank to pay the cost of building and land, and it must be used only for that purpose. After it has been certified by an engineer, an architect, and a chartered accountant, the funds will be withdrawn in accordance with the scope of the project completed, and it will be audited every six months. [16]. RERA has many important provisions as described by different researchers.

Real estate pre-RERA act

The most significant issue that buyers face is project delays. The reasons are numerous, and the impact is enormous. Table 1 illustrates the condition of different cities' projects before the RERA act. Projects started after the turn of the decade at least have also been delayed. Diverting funds to other projects, obtaining approvals, and other factors are among the reasons.

Table 1. The city-wise condition of residential projects before RERA

City	Residential project running behind schedule in terms of units (Before or during the year 2013)	Residential projects that are behind schedule in terms of cost (in crores) (Before or during the year 2013)
Pune	95,000.	57,000.
NCR	2,00,000	1,26,000
Kolkata	13,000	7,300
MMR	2,10,000	2,34,000
Chennai	10,000	6,500
Hyderabad	8,900	5,500
Bengaluru	39,000	28,000
Total	5,75,000	4,64,300

As shown in the table, prior to the adoption of RERA, a large sum of financing was stranded in real estate sector. Furthermore, many projects were delayed, with some delays lasting up to seven years. No investor or real buyer wants to wait seven years after booking home and paying nearly 100% of deposit. Basically, RERA was essential to simplify the developer & raise buyer sentiment so that real estate market could recover and remain capable of weathering the economic downturn. RERA was designed to address issues such as construction quality, cost, and delays [10].

Effect of RERA Act on construction stakeholders

This act has several measures that address the concerns of promoters, builders, real estate brokers, and clients. The act represents a significant improvement in the gov't's ability to regulate the real estate industry [4]. RERA has played a pivotal role in shaping the reality segment and expressed optimism about its future [11].

Promoters

The promoter's commitment will now be legally enforceable. Along with all of the needed paperwork, the promoter must make a declaration, backed up by an affidavit, specifying the timeframe for completion of the project or a specific phase [16]. He should offer and maintain the necessary services at a reasonable cost until the allottees' association assumes responsibility for the project's maintenance [7]. Each project must have its own escrow account, according to the developer of a real estate firm. Investors and buyers must deposit a minimum of 70% of their funds. This money is only allowed to be used for project construction and land costs [5]. If a promoter/developer fails to produce, he might well be sentenced to 3 years in prison or a fine of 10% of the scheme's total value, whichever is greater. The purchasers were concerned about the situation, and they were unable to return to their hometowns until the lawsuit was settled. Which triggers stress in their lifetimes and have an adverse impact on their financial condition [15].

Real estate agent

Only licensed real estate agents are permitted to assist in the sale or purchase of plots or apartments in licensed real estate projects. Every real estate agent must submit an application for registration to the authority in the form, manner, and time authorized, along with the fee and papers required [3]. Clause 9(7) of the RERA legislation states that if a real estate agent who has been granted registration violates any of the terms and conditions specified in the rules or regulations, Alternatively, unless the authority finds that the real estate agent obtained the license via falsehood or

cheating, then authority shall withdraw or cancel the real estate agent's registration for whatever period it deems appropriate, without regard to any provisions of the act.

Architect

Under the RERA act, an architect must issue a certificate in prescribed form 1 for registration of an ongoing project showing the percentage of the work executed of the respective building/wing and to give a certificate for withdrawal of funds by the promoter from a specified bank account in accordance with the amount of work accomplished. Architect also has to issue a certificate on form 4 confirming that the work of the respective building/wing under reference is completed in all respects and further, confirm that the building completion certificate is issued by the local planning authority thereof.

Civil engineer

RERA has assigned significant responsibility to the civil engineer to prepare the total estimate of construction costs to complete the project, as well as he has to issue form 2 to the promoter on a regular basis to enable withdrawal of the amount in the RERA designated bank account, taking into account the estimate of the cost incurred to complete the work until a specific date on form 2. He is also given the responsibility of providing the quality assurance certificate in form 2A prescribed in the RERA act.

Chartered accountant

Form 3 is the single most important certification issued by a professional CA in the application with transparency & control by RERA with respect to real street projects. When issuing form 3 at the time of registration, he must make a note that the promoter is not allowed to sell or accept money prior to project registration under RERA. He has to examine all the relevant documents like booking form, allotment letter, agreement to sale, and all other relevant documents book to understand and submit quarterly updates on the website.

Allottees

They are legally responsible to pay the interest at such a rate for any delayed payment on any amount as per agreement towards the cost of the apartment. He must take part in the establishment of an organization, society, or co-operative society. Allottees who have registered into a deed of sale to purchase an apartment must make all required payments in the befitting manner mentioned in agreement, as well as pay the share of registering fees, public taxes, electricity charges, water charges, maintenance, and other charges at the appropriate time and place.

3. REAL ESTATE PARAMETERS

Financial performance of different companies due to the RERA act.

Vyas [17] looked at how RERA affected the financial performance of DLF, Godrej Properties Ltd, Prestige Estate Projects, Oberoi Realty Ltd, and Phoenix Mills, among others. She conducted an eight-year study (2012-2019) and gathered financial data from BSE India. For data analysis, she analyzed profitability, liquidity, solvency, Activity/Efficiency ratios, and share price. After analyzing the data, she concluded that the introduction of RERA had a Significantly effect on the financial performance of the real estate market. Solvency as well as the share price of the sector, as well as the selected firms, have a positive influence. The financial performance does not demonstrate a significant shift in terms of profitability, liquidity, or efficiency ratios, and the study's findings also reveal that many organizations are not maintaining the optimal level of liquidity of money, which leads to poor working capital management.

Short-term profitability of Indian real estate developers.

According to research conducted by Singh Thakur [12], RERA's economic impact on real estate developers' profitability was investigated by collecting the statements of income from January (2017) to December (2018) of the top 10 real estate developers (DLF, India Bulls Real Estate, Oberoi, Godrej, Prestige, Sunteck, Sobha, Brigade, Omaxe, and Purvankara) ranked by market capitalization for analysis using a paired t-test. He found that RERA has a negative impact on real estate developers' profit margins, and as such, the disturbance produced mostly by the implementation of regulations in the real estate business has had a major short-term impact on the profitability of Indian real estate developers

4. STUDY FINDINGS

Additional factors such as schedule of the project, economic factor, transparency, value of home buyers who booked their flat on real estate projects of the western Mumbai region. Singh et al. [13], said that the most essential factor in the case of Real Estate is the location, for property finance, which determines the value and profits from real estate, India needs a better capital market foundation. The discussion on prospective introduction of REITs and real estate investments is headed on the correct path. At long last, she believes that real estate investing in India is a great financial opportunity. However, rising inflation and interest rates should be considered carefully while making this decision. Legal considerations should also be considered while purchasing home. While doing a literature review, authors have used different methods to measure the impact of the RERA act on construction companies, developers, and various aspects

related to the real estate sector based on the objectives of their research studies. Table 2 illustrates the methods used and their purposes.

Table 2. Methods adopted for different purposes of the study

Sr.no	Methods used	Purpose for using
1	Data collection, t-test with Mean values and significance values [17]	Analyzing the financial performance of listed real estate companies.
2	One-tailed paired T-test [12]	Determining the influence of RERA act on Indian real estate developers' profitability ratios.
3	Relative Importance Index (R.I.I) and the questionnaire [9]	Examining the influence of RERA on the Pune building industry.
4	Online questionnaire [16]	Identifying various causes of delays in construction projects.
5	Simple random sampling technique and questionnaire [14]	Consumer buying behavior
6	Ordinal Scale questionnaire and relative importance index [1]	Impact of RERA and GST on significant projects in Pune
7	Likert Scales questionnaire and multiple linear regression model [11]	Analyse the perspective of developers and impact with respect of the RERA Act.
8	5-point scale questionnaire [2]	Determining the level of implementation, concomitant and denouement of RERA.

CONCLUSION

After a vital literature review, it's possible to draw the conclusion that the Indian real estate sector experienced the influence of the enactment of the RERA Act and made great strides in the correct path in terms of raising awareness among clients, promoters, and builders, etc., as well as in the financial performance ratio of many companies. This act has positive changes in increasing transparency in the construction sector and the accountability of the promoters. The concept of an escrow account is very excellent as it aids in monitoring the diversion of allotted funds from one project to another, which reduces corruption. Earlier in 2016, the real estate sector in India was working in a disorganized and unorganized manner, but it was the RERA Act that led the sector in an organized manner. So, in the end, we can say that Real Estate (Regulation and Development) Act 2016 [RERA] is a step in the direction of modernizing the real estate sector in India.

Further research may shed some light on the impact of rules and regulations of the RERA act 2016 on various developers of different regions of Maharashtra such as Western Mumbai, thane, and Panvel.

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