

RERA: How you are gearing up for Compliance

February 2018





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Foreword from FICCI

Focusing on overall improvement and quicker pace of registration under RERA will help the sector recover faster.



The Indian real estate sector has witnessed transformative reforms in the last few years. The government has introduced several landmark policy initiatives to energise and give boost to the sector such as Real Estate (Regulation and Development) Act 2016 (RERA), Benami Transactions Act, Real Estate Investment Trust (REITs), Infrastructure status for affordable housing, easing of FDI norms - all of which will have positive impact in the long-run.

As the sector gears up to adopt this new era of policy reforms, RERA remains the hallmark towards bringing in more transparency, gaining trust of the customers, making the real estate sector more organised and creating a level playing field.

I am happy to share with you the findings of the FICCI-Grant Thornton Report on “**RERA: How you are gearing up for Compliance**”. This report has brought to light some interesting facts about RERA and its compliances. The report, a first of its kind, makes a holistic assessment on RERA compliances and how real estate developers are effectively able to embrace this change. Maintaining regulatory compliances with transparency is very important for developers in light of the introduction of RERA. Focusing on overall improvement and quicker pace of registration under RERA will further help recovery in the sector.

RERA, which came into force from 1 May 2016, is now seen as one of the most significant reforms in the real estate sector. According to RERA, all the state governments were to put in place the Act’s rules and regulations for their respective states by May 1, 2017. The Government of Karnataka has notified their rules in July 2017.

The release of the report in the conference on **Decoding Realty: The new era of RERA, GST and Insolvency Regime** on 20th February, 2018 would set the tone of deliberations and enrich the discussions at the conference.

I am sure that the findings of the report would be invaluable not only to realtors, but also to consumers, government, research, academia and the industry. The deliberations, ideas and the conclusions that arise from this report would go a long way in addressing the regulatory challenges and show the path for taking the real estate sector to greater heights.

Navin Raheja
Chairman, FICCI
Real Estate Committee

Foreword from GT

Like any other big reform, RERA has its own sets of initial challenges, which are causing a disruption in the sector.

RERA is undoubtedly one of the most significant regulatory development for the real estate sector. Over the years, real estate sector has been characterised by myriad unstructured practices, which has given a very different perception of the sector to the larger stakeholders of the economy. These practices have led to increase in the number of litigations, marked with worsening customer sentiments. RERA has the ability to address these unstructured practices and completely change the landscape of real estate sector, including the way the business transactions are being done.

Like any other major reform, RERA has its own sets of initial challenges, which are causing disruption in the sector. However, everyone including the developer fraternity, is positive about the long-term impact of RERA.

This publication is our third in the series of RERA and its impact on the sector. Our earlier surveys/publications clearly highlighted the positive response from the fraternity (larger stakeholders of the sector) on their expectations from this new legislation and how it is going to impact various business verticals of the developer, or rather, business on a day to day basis. This publication based on survey findings presents the status of preparedness of the developers towards compliance

of RERA. The survey has pointed out some very interesting perspective on how developers are gearing up for this big change and making appropriate changes to their systems and processes in addition to identifying areas where more focus is needed.

We hope you will find the insights in the report useful for your analysis and planning and certainly look forward to your feedback.

Neeraj Sharma

Director

Grant Thornton Advisory Private Limited



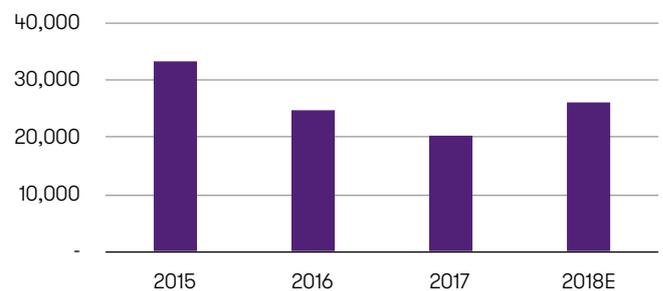
Bengaluru Residential Market

In the last eight years, Bengaluru market has grown consistently with IT/ITeS companies playing a vital role in generating demand. From 2011 till 2017, over 80 mn sqft of office space was leased/outright, out of which over 50 per cent was absorbed by IT/ITeS sector. This massive growth has led to an increase in population followed by a surge in demand for residential projects in the city. However, as a result of new regulations (RERA) and demonetisation, demand in the residential segment has shrunk by 25 per cent in last two-three years. While this brought down the average number of new launches by 22 per cent, unsold inventory increased by over 10 per cent.

Land values across the micro-markets of Bengaluru remained largely subdued, however few micro markets saw transactions resulting into increase in land values by 4 per cent on yearly basis. On the average capital values side, most of the micro-markets witnessed a decline to the tune of 8-10 per cent.

In 2018, we expect Karnataka Real Estate Regulation Act (KRERA) reforms to bode well for the Bengaluru residential market. Also, GST input tax credit will set the stage for overall recovery as markets have bottomed already and can only move north. We also anticipate that affordable housing will be the next big move in 2018 as majority of the developers have shown inclination to diversify into affordable housing segment. This along with renewed investor sentiments and incentives by the government will push the paddle for the real estate growth in the region.

New Launches (units)



Source: GT India Research

Residential Average Capital Values

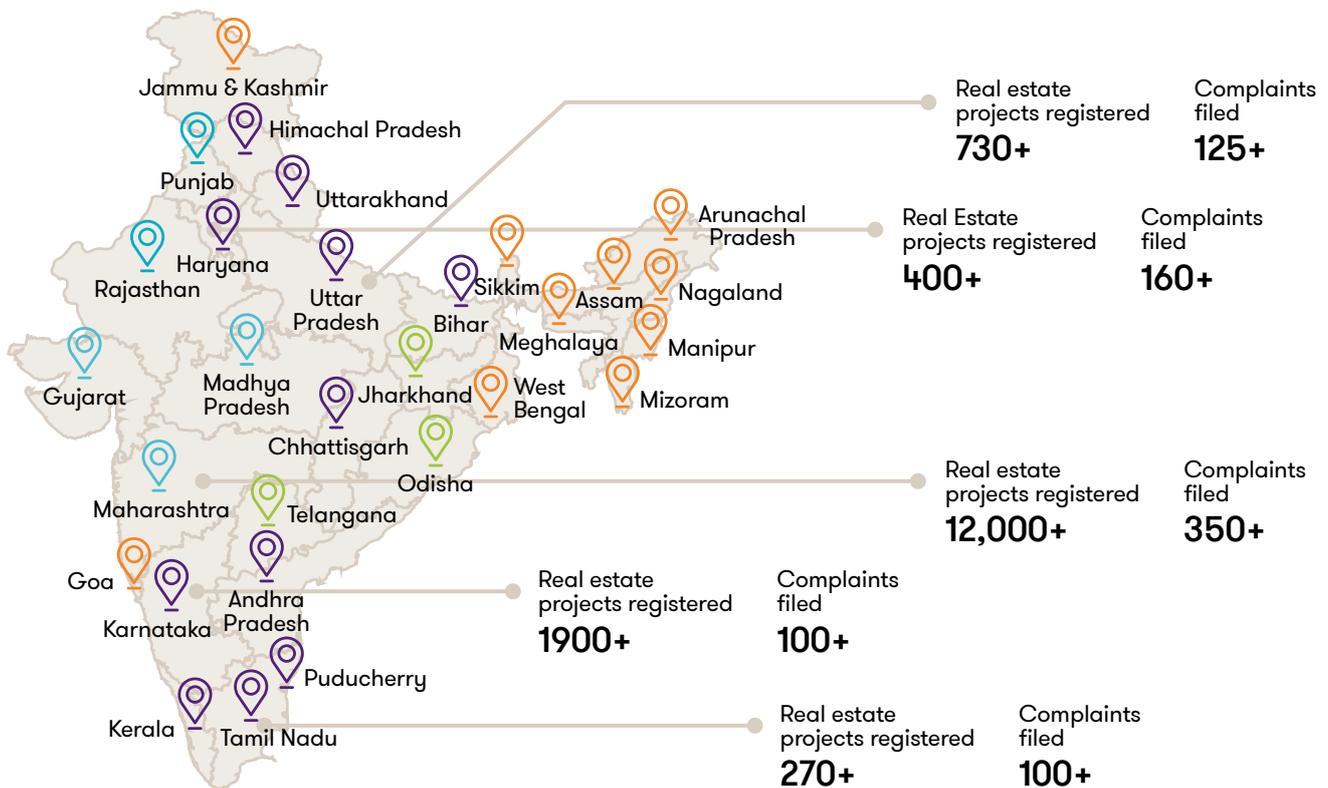
Mico-markets	INR/SF
Airport Road	8,000 - 14,000
Bannerghatta Road	4,500 - 7,500
Cooke Town	8,000 - 13,000
Electronic City	3,500 - 4,500
Hennur	4,100 - 5,200
JP Nagar	4,500 - 5,900
Kanakpura Road	3,400 - 5,000
Old Madras Road	3,000 - 5,000
Sarjapur Road	3,200 - 5,000
Silk Road	3,300 - 5,100
Whitefield	3,500 - 6,000
Yelahanka	4,000 - 6,000

Source: GT India Research

RERA - The National Footprint

RERA has moved through the legislative contours to finally becoming a regulation. This Act is changing the entire landscape of the real estate sector and redefining the process of how real estate sales happen in India. Every stakeholder, right from the government, bankers, PE to consumers, are unlearning the old ways of operating and aligning to the new systems/processes which are RERA-specific.

Below is the snapshot of how RERA is being implemented across states with some early statistics.



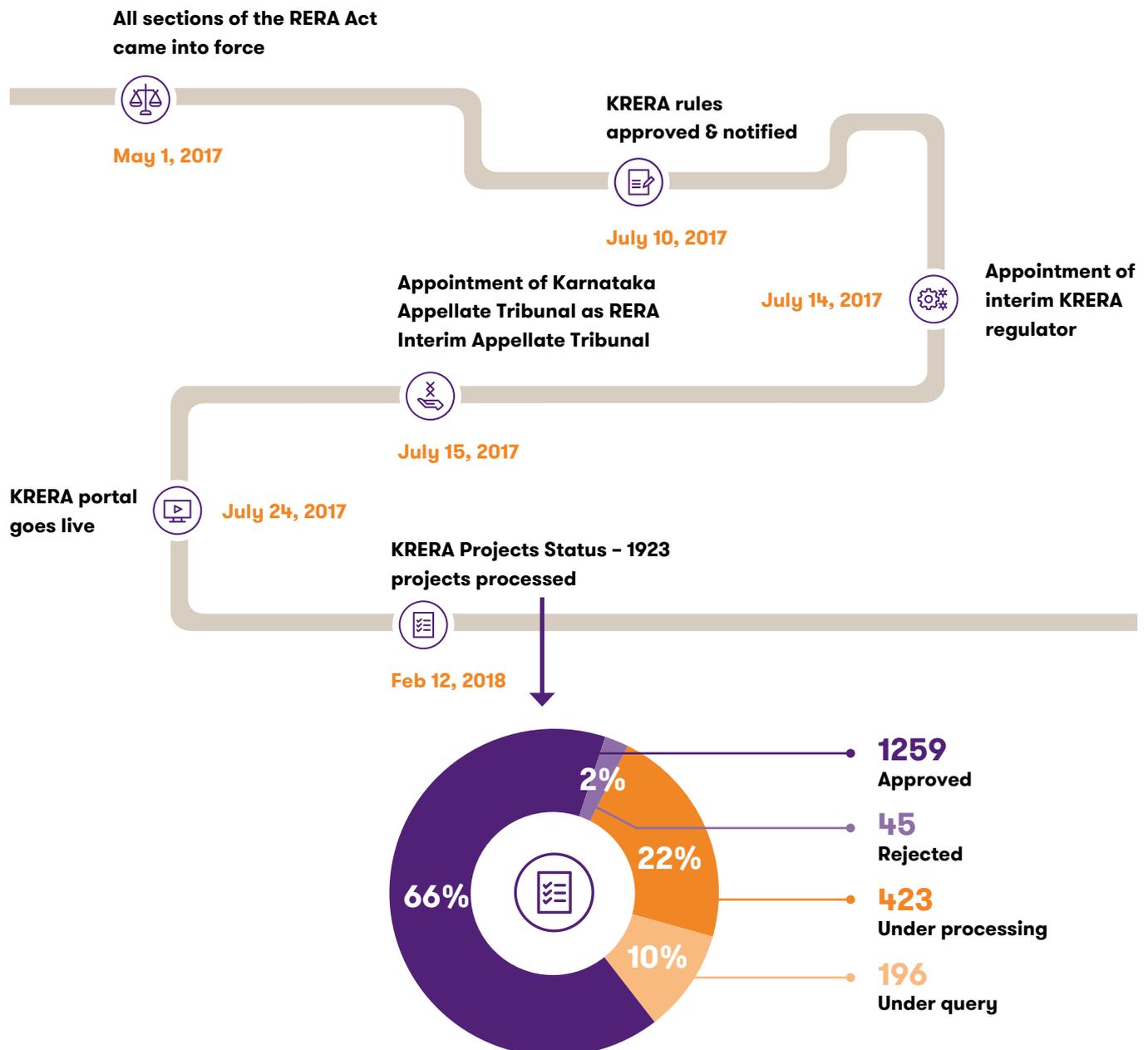
-  RERA rules yet to be notified
-  RERA regulator appointed & portal launched
-  Interim regulator appointed, but portal not launched
-  Interim regulator appointed & portal launched

Source: Housing and Urban Affairs Ministry, State RERA websites & secondary resources accessed on 20th Jan 2018

Karnataka Real Estate Regulation Act (KRERA) – Journey so far

Karnataka is one the leading states in establishing RERA among other states on 10th July, 2017, for regulation and promotion of real estate sector in Karnataka.

We looked at Karnataka in terms of RERA implementation. The status so far is summarised below:



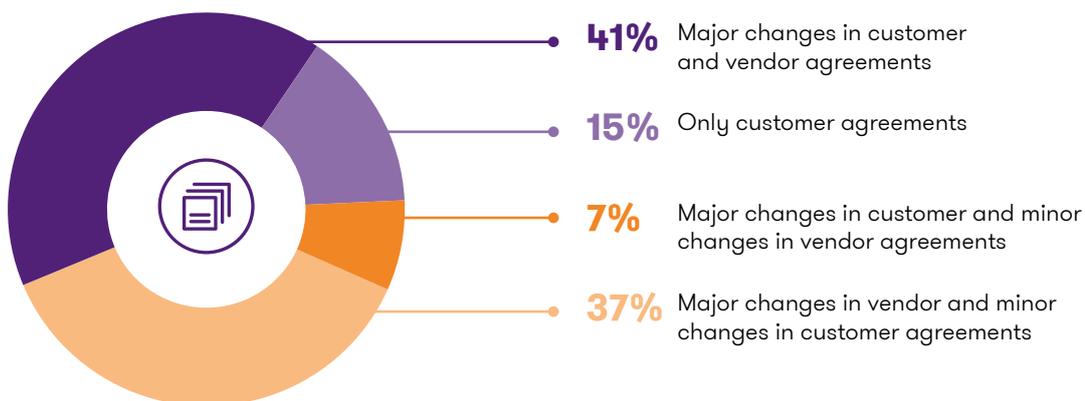
Source: KRERA, accessed on 12th Feb 2018

RERA Survey Findings: Assessing your compliance preparedness

While majority of the states are aligning with RERA, the real estate developers and other stakeholders also need to understand the implications of this new legislation and make appropriate changes to their current business practices and related systems/ processes.

Grant Thornton and industry body FICCI joined hands to conduct a joint survey to assess the readiness on the compliance side of the real estate developers and how effectively they are able to embrace this change.

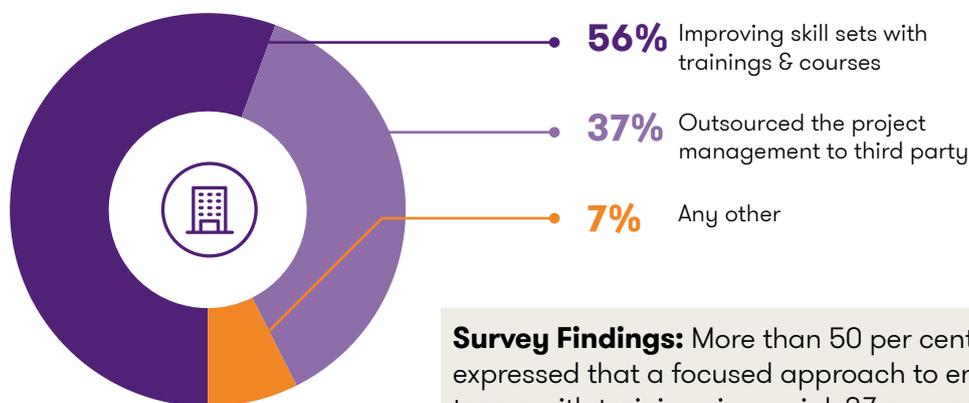
Q1. Post implementation of RERA which all agreements have undergone change in their key terms?



Survey Findings: More than 70 per cent of respondents felt that major changes have been made in both customer and vendor agreements, which establishes that post RERA, developer and vendor share equal liabilities under the contract.

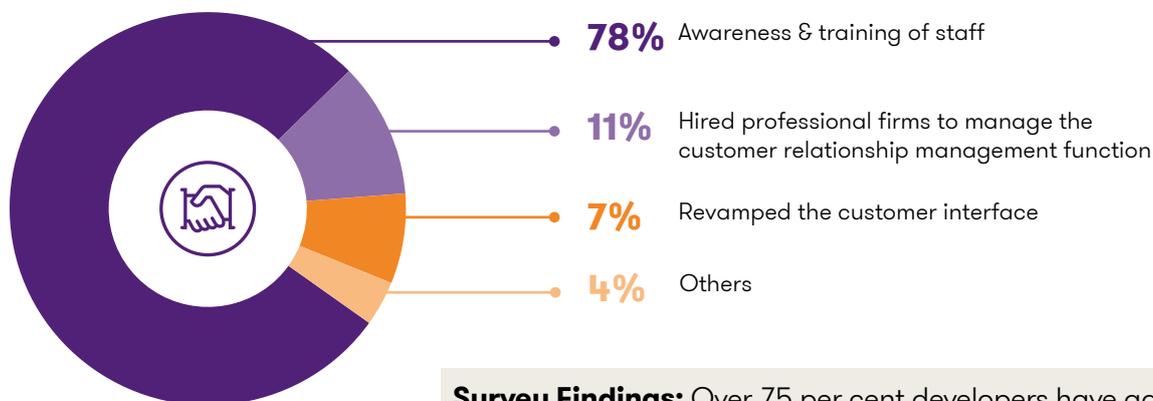
RERA Survey Findings: Assessing your compliance preparedness

Q2. Given that the completion of projects has become very critical and time-bound under the post RERA regime, what has your company done to strengthen project/planning and development teams?



Survey Findings: More than 50 per cent of the respondents expressed that a focused approach to enhance skillsets of internal teams with trainings is crucial. 37 per cent respondents felt the need to hire independent experts as PMCs to manage their projects.

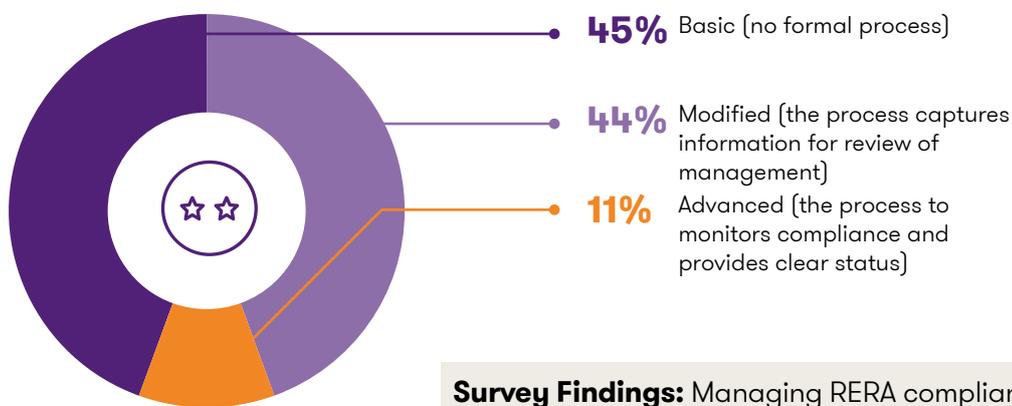
Q3. What have you done to improve customer experience post RERA?



Survey Findings: Over 75 per cent developers have adopted a typical approach where awareness is built by providing internal training to staff. Close to 11 per cent developers have hired professional firms to manage the CRM function.

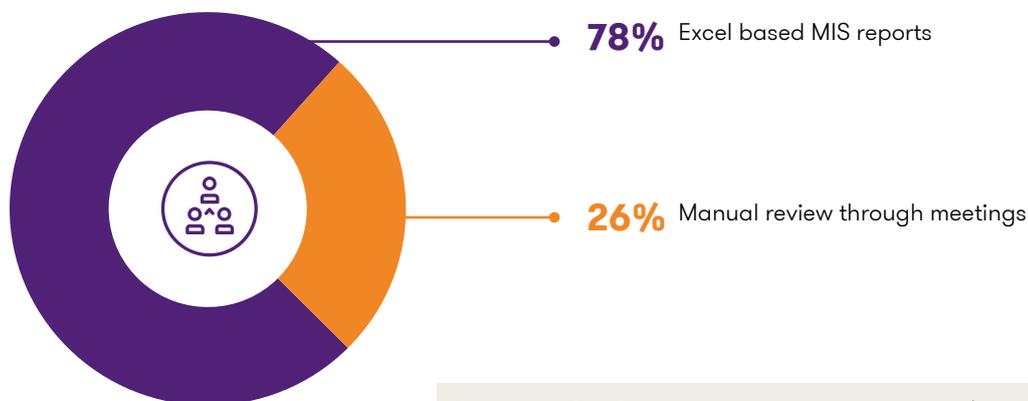
RERA Survey Findings: Assessing your compliance preparedness

Q4. How will you rate your compliance mechanism of RERA?



Survey Findings: Managing RERA compliance is the utmost priority of the developers. However survey reveals that 45 per cent of the developers have no formal process in place to manage compliance and about 44 per cent have made some modifications to their MIS.

Q5. How does board and senior management review RERA compliance?

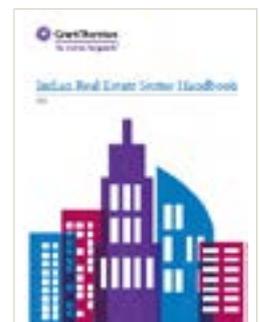
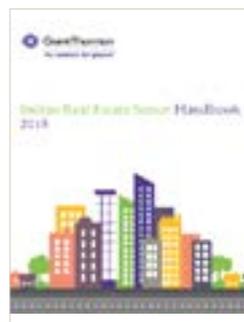
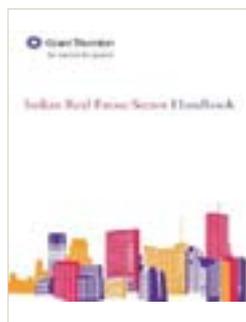


Survey Findings: Majority of the board/senior management (78 per cent) are using common methods like excel based MIS reporting to review RERA compliance.

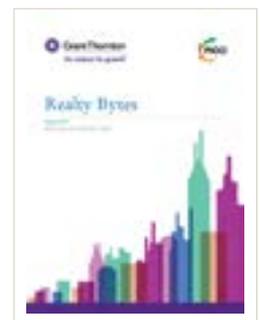
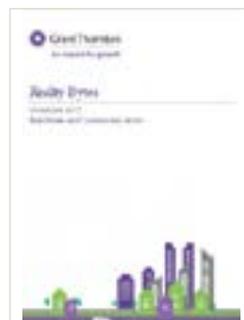
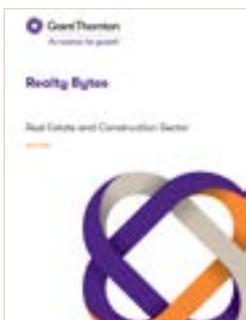
Insights for Real Estate Leaders in India

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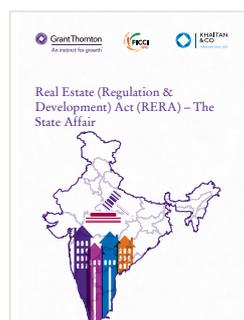
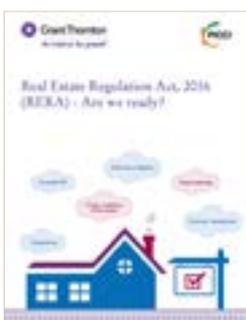
Annual Handbook: Snapshot of developments around the year



Realty bytes: Quarterly publication on key developments in the sector



Other thought leadership publications: Focusing on specific themes & impact on sector and stakeholders



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Established in 1927, FICCI is the largest and oldest apex business organisation in India. Its history is closely interwoven with India's struggle for independence, its industrialisation, and its emergence as one of the most rapidly growing global economies.

A non-government, not-for-profit organisation, FICCI is the voice of India's business and industry. From influencing policy to encouraging debate, engaging with policy makers and civil society, FICCI articulates the views and concerns of industry. It serves its members from the Indian private and public corporate sectors and multinational companies, drawing its strength from diverse regional chambers of commerce and industry across states, reaching out to over 2,50,000 companies.

FICCI provides a platform for networking and consensus building within and across sectors and is the first port of call for Indian industry, policy makers and the international business community.

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