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Affordable housing: RERA effect to shield cost-sensitive buyers, but lack of clarity worrying developers

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The real estate industry in India is metamorphosing into a tightly controlled and regulated segment with The Real Estate (Regulation and Development) Act (RERA) enactment. And RERA is going to have a dramatic effect on affordable housing segment, but over time. For now, it will definitely add steam to the affordable housing sector.

As is seen, affordable housing is the tone everywhere in the country, people have purchased plots. And a number of India's big developers have already moved into the affordable housing domain because of the massive market base it represents, even if profit margins are smaller.

Our government too is determined to make its vision of 'Housing for All 2022' a reality. And RERA is one such mechanism that will make PM Modi's vision a reality.

The seed that has been sown by the central government to make real estate more transparent and viable will be reaped by the home buyers in the coming days. 2017 would be an interesting year to observe, says Manish Sinha (Head of QuikrHomes), as the real estate industry is seeing a paradigm shift and moving towards organised real estate practices.



Representational Image. Reuters

The government has now made it easier to buy land by providing offers to avail their own land at cheaper rates for affordable housing, says NAREDCO Maharashtra Vice-President and vice chairperson of Nahar Group, Manju Yagnik. Up to 2022, approximately 6 million houses will be built. In the past one year, looking at the huge demand, developers have modified their products into affordable housing segment. With

the implementation of RERA, now "carpet area" will be taken into account while measuring the size of residential unit. Also, the restriction of 30 square metres on the size of residential units will not apply to the places located within a distance of 25 km from the municipal limits of Chennai, Delhi, Kolkata or Mumbai.

The budget for 2017-18 pronounced affordable housing projects to be equivalent to infrastructure projects in terms of importance, thereby empowering the affordable housing sector with all the benefits accrued to the infrastructure sector, states Anuj Puri, Chairman - JLLR (JLL Residential). This also includes abatement in tax rates and an extended period of completion for claiming deductions (from 3 years to 5 years currently). For the first time, affordable housing projects can be identifiable based on the criteria of apartment sizes and location of projects. Many developers whose projects were in under-construction stage could tweak with the initial layout in order to convert them into affordable housing projects, which

would attract a higher demand and faster sales velocity.

In these troubling times of massive slowdown in residential sales, developers are feeling the need to construct affordable housing where demand is high, and the market seems poised for an increased supply of affordable homes.

Meanwhile, RERA will ensure that developers of affordable housing cannot unnaturally delay their projects or divert funds collected for them for any other reason. Also, RERA will eliminate fly-by-night operators who specialised in small projects which did not have all statutory clearances and used sub-standard construction materials, says Puri.

Implementation of RERA by states will bring back the consumer confidence in the market and accelerate the market sentiments, Sinha adds. Additionally, developers will start focusing on timely project completion, and complete information on the project and amenities promised.

For RERA implemented in states in its original intent will not only make the industry as a whole more transparent and responsible but it will also make sure the affordable housing segment, which has faced issues with small time builders cheating customers, will have the reputed and reliable brands delivering homes. It will give customers an assurance of delivery and quality. Like any asset class, real estate will become one, wherein information will flow freely and focus will be on cash flow management and delivery of projects, says Vidip Jatia, Director, Belmac.

More importantly, RERA will speed up construction in the industry and we are in to see a lot of consolidation of players if they want to survive! says Jatia.

With the additional cushioning of RERA, home buyers will buy affordable housing in a relaxed way being assured of the fact that the rules and regulations will protect their interests, says an experienced real estate adviser Amit Wadhvani, Director, Sai Estate Consultants. With on time possessions being guaranteed under the new Act, the consumers are ensured that their investment in the affordable housing is secured and would help them for a better future.

Secondly, the developers under RERA will have to give all the information on the amenities and facilities at the end as promised while the house is in the early stages of construction, hence, assuring the consumers that they will be getting what they had been promised earlier and nothing less. Consequently, all this will help in incentivising the positive sentiments of the consumers to invest in affordable housing.

Though the objectives are noble and correct, says Surendra Hiranandani, Chairman & Managing Director, House of Hiranandani, we believe lack of clarity on the various mechanisms proposed will only add to costs through delay, making projects not only more expensive, but ensuring that affordability continues to be a distant dream.

The law will ensure fiscal discipline, he agrees but increase the demand for credit. Owing to lack of holistic approach, the end price to consumers will continue to rise, putting a severe strain on affordability.

Also, in an attempt to protect consumers, the law has come down heavily on developers by including criminal penalties. This will further dissuade any new entrants from venturing into Indian real estate sector, says Hiranandani.

Indeed, this transitional phase will not be without its accompanying challenges. For developers, irrespective of segment- affordable, mid and luxury, it is now incumbent on them to align their business practices with the stipulations of the Act. And developers need to work fast to equip themselves and their teams to understand the impact of the regime, structure their organisations and align their operating processes to ensure compliance. For both affordable housing and other developers, adopting RERA in its true spirit will be a key differentiator to remain competitive and stay relevant in this changing environment, points out Shubika Bilkha, Business Head at REMI.

Policies such as RERA and PMAY, coupled with the clean-up effect of demonetisation and the incentives that the recent Union Budget provided, all bode well for affordable housing in India. Although RERA will protect the interest of the cost-sensitive buyers and ensure greater transactional and delivery vigilance on the part of the developers, RERA needs to progress so as to cover all possibilities as well as geographies unvaryingly. If implemented well it will benefit all segments, affordable or not.

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