

# Will RERA impact real estate prices?

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The real estate sector got its own regulator from May 1, 2017, the date when the Real Estate (Regulation and Development) Act, 2016 (RERA) became effective in the entire country. Each state and UT will have its own Regulatory Authority (RA) which will frame regulations and rules according to the Act.

With the RERA in place, will the real estate prices move upwards especially in the residential market? The answer to this may not be as straight as an arrow. While the new rules call for a much stricter compliance and transparency, which may push the real estate prices up especially for the new launches, the large amount of inventory overhang in the system, will probably keep the price rise at bay till the supply gets over.

Ashish R Puravankara, Managing Director, Puravankara says, "With RERA's stipulated compliances and regulations, the project launches may occur with lesser frequency than before. With new launches getting spaced out the appetite for existing inventories will go up but will also eventually dwindle. This equation will alter the ongoing demand and supply proposition in the market affecting the pricing across the industry."



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## Existing inventory

A major portion of the existing supply relates to under-construction properties including 'unsold inventory' which could take anywhere around 12 months or more to complete. All such ongoing projects would now be required to be registered under RERA and hence adhere to new rules.

One such new rule relates to sale of real estate on the basis of 'super area' and not on 'super built up area'. Till now, the industry has been selling real estate based on super built up area. Now RERA wants projects to be sold on carpet area. Manoj N Kumar, Partner, Direct Tax, BMR & Associates LLP informs, "As per the current market trend, [carpet area](#) of a project is generally 30% to 35% lesser than the super built area of the project. Accordingly, sale of projects on a carpet area basis is likely to result in the per square feet price of the project going up by about 40% to 50% of the price based on the super built area."

But, even though per square feet (psf) price changes, the overall cost of the property may not be impacted much. Sunil Sharma, VP, Marketing & CRM, Mahindra Lifespaces says, "While the move to carpet area-based sales might not have a direct bearing on pricing, home buyers will now be in a position to make better informed decisions as there will be improved clarity on the space being offered."

Here's an example, how it may work. Currently, say a builder is offering 1000 sq feet at a price of Rs 5,000 psf. The area of 1000 sq feet is the super built-up area that developers advertise and on which the actual transaction happens. This translates into Rs 50 lakh as the cost of property. Going forward, developers will have to advertise the carpet area and hence have to transact on its price. Assuming the carpet area is 700 sq ft, the price has to be modified to Rs 7,143 (a rise of nearly 42percent!) so as to keep the cost maintained at Rs 50 lakh.

Puravankara says, "In accordance to RERA guidelines, it appears that a price readjustment may be in order, but not necessarily a primary price increase across the real estate sector. Developers have to align themselves to RERA compliances to sell projects on carpet area instead of super built up area."

## New launches

Unlike in the past where builders had a field day with the projects, various RERA provisions would now ensure stricter control on management of funds and timely delivery of projects. "There will now be a pressure to deliver projects on time and this pressure will be translated to contractors who in turn will demand much higher rates for construction. This in turn will lead to an upward pressure in prices for the end customer, however, on overall basis the total cost of ownership for the customer will actually reduce even though the sticker price of purchase goes up," says Rohit Gera, MD, Gera Developments and VP Credai, Pune Metro. Any delay in possession of a home results in increase in the total cost of ownership especially when it is financed through a [home loan](#).

So, as and when new RERA compliant project gets launched, the cost to a builder is expected to go up and therefore the prices. Kumar says, "With the implementation of RERA, the overall costs on development of real estate projects are expected to go up and the same is likely to result in increase in the prices of the real estate projects."

According to Kumar, "Some of the key reasons for increase in costs would be restriction on use of cash flows by developers through a separate account for 70% of the cash flows, restriction on sale of open car parking spaces, requirement to transfer common areas to housing societies, increased cost of compliances such as webpage maintenance, monthly updation, quarterly filings, etc."

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Surendra Hiranandani, Chairman & Managing Director, House of Hiranandani feels, "The Act does not bring the government authorities into the ambit who are responsible for the continuous changes in regulations, lack of transparency and predictability in functioning. If approvals are not streamlined in time, cost revisions and delays will become unavoidable. The outcome of this is going to be more expensive products for consumers. The World Bank in its report on Ease of Obtaining Construction Permit Index ranked India 185 out of 187 countries. This means India is in the same category as war torn countries where institutions have collapsed."

## Transfer of risk will lead to price rise

With RERA in place, in case if a default, the buyers will now have at least something to fall back upon. It's important to look at this from the risk point of view. Rohit Gera, MD, Gera Developments and VP Credai, Pune Metro, says, "Before the introduction of RERA, the risk on account of delays, quality, title, and changes in the project were all borne by the customer. As a result, most customers had to deal with some sort of the default and were forced to bear the cost of this default. These costs will now be borne by the developer and there will be a consequential premium that the flat purchasers will have to pay for transferring this risk to the developer. In my opinion there is no head room for developers to absorb these increased costs and immediately upon the first opportunity we will see this cost being transferred on to the home purchase by way of an increase in prices."

## Conclusion

Even by conservative estimates, the industry will not witness huge onslaught of new launches for few more quarters. Builders are already saddled with under construction projects and will face tough times in bringing them under RERA, complying with new norms, arranging funds that they would have already diverted and then completing those within the new agreed time period.

It's time to tread with caution for those buyers looking to book properties anytime between May 1 and July 31. Manoj informs, "Post demonitisation and RERA, there is an anticipation of a significant consolidation drive in the real estate sector that could result in a large number of small time and unorganized players being wiped out." So, if you are getting a lucrative deal and offer on the on-going projects from small-time builders, which are not yet registered under RERA, it's better to stay away from them.