Developers go back to the drawing board to deal with new realty law

The Real Estate Bill was passed by the Rajya Sabha on 11 March, but builders have 16-17 months before the law takes effect at the state level

Under the new law, builders must provide full disclosure of their projects before launch. Photo: Indranil Bhoumik/Mint

Mumbai: Developers are rushing to complete projects and breaking down large ones into smaller, easier-to-finish projects before a tough real estate law takes effect.

The Real Estate (Regulation & Development) Bill was passed by the Rajya Sabha on 11 March, but builders have 16-17 months before the law takes effect at the state level.

Under the new law, builders must provide full disclosure of their projects—including all regulatory approvals, time for completion and master plan of the project—before launch. Each project must have an individual escrow account, with 70% of sales proceeds deposited in it. Non-compliance can result in a three-year imprisonment or heavy fines.

Mumbai-based Shapoorji Pallonji Real Estate and Radius Developers are planning to break down some of their large projects, or even townships, into different phases with fewer buildings or units. This means each phase would be registered and treated as an independent project.

“There is some planning in terms of how to execute our projects,” said Jai Mavani, executive director, Shapoorji Pallonji and Co. Pvt. Ltd. “Our approach towards project execution and development will need to be tweaked. It makes sense for us to execute projects like 100-acre townships by breaking up into smaller modules or phases and look each of them separately because the kind of capital required (post the implementation of the bill) would also increase.”

Shapoorji Pallonji is currently building residential projects in Mumbai, Bengaluru and Pune, apart from a 150-acre affordable housing township in Kolkata. Mavani said it is already compliant with several provisions of the bill, since it has adopted some of its learnings from Middle Eastern countries where it has executed construction work.

Real estate advisers say selling a smaller number of units is better for money management and timely project delivery.

“As per the new law, you can divide each project into different phases and each of these can be registered separately and treat them as an independent project. So, I think this is a better option as, right now, builders would generally open up all the units and take much longer time to construct and sell. That’s where they would default. So, in that sense, it would bring accountability in place and builders would not over-commit because now, whatever they say they have to abide by it,” said Pankaj Kapoor, founder and managing director, Liases Foras, a real estate consultant.

Ashish Shah, chief operating officer, Radius Developers, also agreed that breaking down his firm’s ongoing bigger projects into smaller phases would make them easier to handle and stay compliant with the Real Estate Regulatory Authority (RERA).

According to the real estate bill, a state-level real estate regulatory authority would be established to regulate all forms of financial transactions, both in residential and commercial projects. In addition, an appellate tribunal would be set up to address the grievances of the consumers.

“We may break large projects, which we thought we would initially do at one go, into phase-wise developments. This would ensure that whatever is released in the market or whatever we are selling is absolutely RERA-complaint. We can’t be overly aggressive like a lot of developers were earlier," Shah said. Radius Developers is currently developing 7 million sq. ft of housing projects across Mumbai along in joint venture partnerships with other developers like DB Realty.

Shah said after the bill was passed, his company set up a special team to study all of its projects and ensure that each one complies with the new law.

Many others are hurrying to finish construction and clear backlog before the new rules kick in.

Delhi-based Amrapali Group is planning to complete around 40 projects launched since 2011 across the country in the next 16 months. "We have completed 60-80% of the construction work for most of these projects. The completion time was around 2017 end, but we are preponing it by around six months as we don't want these projects to come under the ambit of RERA," said Shiv Priya, executive director, Amrapali Group.

Amit Bhagat, chief executive officer of real estate private equity firm ASK Property Investment Advisors, said a lot of developers do not want their ongoing projects to be part of the new regulation and may rush to complete within the next one or two years.

"Developers will try to finish their existing projects before the new regulation is implemented. Most of them will focus on execution and anything that... would not generate cash flow, they would try to sell or get in equity. They have to manage their cash flow and tighten their belt," Bhagat said.

Vineet Relia, managing director of Gurgaon-based Sare Homes, said the company is already working on a tight schedule irrespective of the timing of the bill. However, more clarity needs to be brought in on how the government plans to take the existing projects under the ambit of the bill, he added.

"We have already delivered 3,000 units across five projects in four cities. We are adding another 2,000 units before the regulation comes in. 60-70% of our projects would not come under regulation in case it is sorted under occupancy certificate," he said.

Rajiv Goel, vice-president (finance and investor relations) at DLF Ltd, said his firm is still awaiting the details of the bill when it is implemented at the state level, before making its next business moves.