

Real Estate (Regulation and development) Act, {RERA}2016

Key Stakeholders' Perspective

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Discussion Points

- ❖ Real Estate Business Model
- ❖ Real Estate Revenue Streams
- ❖ Current Scenario of Indian Real Estate
- ❖ Impacts of RERA on Key Stakeholders
- ❖ Future Outlook
- ❖ Open Discussion



Real Estate Business Model

- ❖ Land (Direct, Tender, FSI, JDA, TDR, ALM)
- ❖ Master Planning (Single use, Mixed use)
- ❖ Financial Modeling (Viability)
- ❖ Award of Contracts (Departmental, Outsourced)
- ❖ Project Approvals (Local, Safety, Environmental)
- ❖ Launching of Project (In-house team, Brokers)
- ❖ Funding of Project (Internal, External)
- ❖ Delivery Schedules (Phases, Stages, Activities)
- ❖ Project Monitoring and Delivery (Time bound)
- ❖ Facility Management for Occupants (Ongoing, Handing over)



Real Estate Revenue Streams

- ❖ Fixed Rentals (Bare shell, Warm shell, Fit out)
- ❖ MGR based Revenue Sharing
- ❖ Business Centre Rentals
- ❖ Co-working Space Rentals
- ❖ Sales Consideration (Component wise, All inclusive)
- ❖ Payment Options (DP, TLP, CLP, Subvention, Buyback)
- ❖ CAM Charges (Housekeeping, Security, Lift, Other amenities)
- ❖ Electricity Charges (Grid, DG)



Current Scenario of Indian Real Estate

(Source: Indian Brand Equity Foundation)

- ❖ The real estate sector is one of the most globally recognized sectors. In India, real estate is the second largest employer after agriculture and is slated to grow at 30 per cent over the next decade.
- ❖ The Indian real estate market has become one of the most preferred destinations in the Asia Pacific as overseas funds accounted for more than 50 per cent of all investment activity in India in 2014, compared with just 26 per cent in 2013.

Current Scenario.....contd.

- ❖ The construction industry ranks third among the 14 major sectors in terms of direct, indirect and induced effects in all sectors of the Indian economy.
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- ❖ The Indian real estate market is expected to touch US\$ 180 billion by 2020. The housing sector alone contributes 5-6 per cent to the country's Gross Domestic Product (GDP).
- ❖ During the first nine months of 2015, PE funds invested about US\$ 2.4 billion in the real estate sector, across 53 transactions compared with US\$ 1.3 billion across 57 transactions in the same period last year.

Current Scenario.....contd.

- ❖ Private Equity (PE) funds and Non-Banking Financial Companies (NBFCs) in India have been now increasingly investing jointly in real estate projects, in order to hedge risk and undertake bigger transactions.
- ❖ India's office space absorption stood at 35 million sq ft during 2015, which is the second highest figure in the India's history after 2011, and has been driven by corporates implementing their growth plans.
- ❖ India had the strongest activity in office leasing space in Asia and accounted for half of Asia's total office leasing in third quarter of 2015, with Delhi being the most active market.

Current Scenario.....contd.

- ❖ The growing flow of FDI into Indian real estate is encouraging increased transparency.
- ❖ Developers, in order to attract funding, have revamped their accounting and management systems to meet due diligence standards.
- ❖ SEBI has notified final regulations that will govern real estate investment trusts (REITs) and infrastructure investment trusts (InvITs) which will enable easier access to funds for cash-strapped developers and create a new investment avenue for financial institutions and high net worth individuals.



Impacts of RERA on Key Stakeholders

(Customers, Developers, Investors, Brokers, Contractors, Professionals, Environment, Government)

- ❖ RERA will disallow the common practice among many developers to pre-launch projects without getting requisite approvals from the local authorities.
- ❖ The cost of capital for developers will go up because they will have to now look for equity rather than structured debt to finance land buys. This is because developers cannot sell homes or offices before they get the project approvals.

Impacts....contd.

- ❖ Buyers would also have the option under RERA, to continue with compensation or to exit from a project that if it is delayed.
- ❖ As developers will have to keep 70% of their money in a separate account, it may result cash flow issues in the short term. However, as demand would return in the long term and PE funds take renewed interest in the sector, the developers would stand to be benefited, as a whole.
- ❖ A major drawback of RERA is that it misses out to place higher accountability for government agencies. There are no punitive measures under RERA on sanctioning authorities for delay in approvals which is also a major cause in project delays.

Impacts.....contd.

- ❖ Developers will have to manage seamless construction to ensure completion of their projects on time due to the high amount of penalties and other implications involved in project delays.
- ❖ Banks will find themselves in more secure situation because of dedicated portion of project cash flows from a project specific separate account thus adding comfort for debt servicing.
- ❖ Brokers' consolidation is bound to happen and hundreds of part time brokers will have to leave the field. Even for the full-time brokers, real estate would be a serious business to engage.
- ❖ For developers while RERA implies stricter regulatory control, it also translates into better demand due to increased buyers' confidence.



Future Outlook.....

- ✓ Infrastructural Development
- ✓ Economic Development
- ✓ Smart Cities Plan
- ✓ Housing for All Plan (Affordable housing)
- ✓ Government Initiatives (Startup India, Make in India)
- ✓ State Governments and Local Authorities (Critical role)

To sum up, RERA is a growth oriented Act to balance the key priorities of buyers' interest, investors' confidence, good governance and to build the trust between the two most important real estate stakeholders; builders and buyers as against the current situation of trust deficit.

Thanks!

About CMA Pankaj Jain

Seasoned CMA with spirit of entrepreneurship and having over 26 years of diversified experience across wide spectrum of industries while working at India and overseas with proven track record of aligning strategies with business and building trust based relationships globally.

Have managed numerous strategic business initiatives involving Venture Formation, Business Modelling, Strategic Financial Planning, Corporate Alliances, Demergers, Divestments, Cost Optimization, Business Restructuring, Capital Structuring, Corporate Governance and Corporate Financing for successful businesses with global foot prints and hold distinction of turning around the financial position of company through dynamic initiatives.

A post graduate in commerce from CCS University and has affiliations with leading professional bodies such as Institute of Cost Accountants of India, Institute of Company Secretaries of India, Indian Institute of Management, Calcutta, Institute of Directors, All India Management Association, Institute of Internal Auditors, Computer Society of India and he is also founder of Young Entrepreneurs Network and Indian Society of Management Accountants.