

RERA INDUCES FASTER CONSTRUCTION AND ECONOMIC GROWTH



MAY 2019

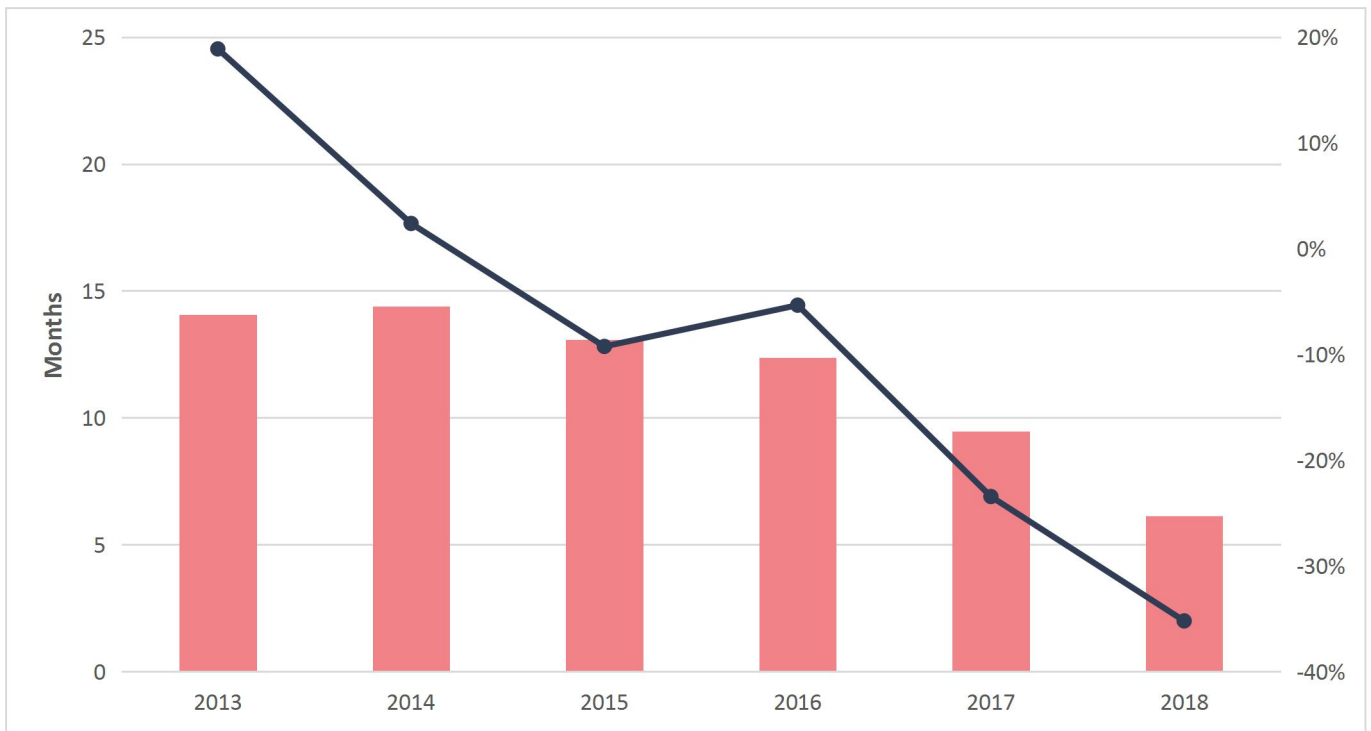


Data for 41 cities shows that the average time taken to complete construction work up to first floor after launch of a housing/real estate project has come down significantly from the time RERA (Real Estate Regulation and Development Act) has been enforced.

At present developers are taking an average of six months to complete work up to first floor slab. Historical analysis shows before 2016, average time taken to complete first floor after the project had been launched, used to be 21 months.

Among tier-I cities, Mumbai Metropolitan Region witnessed the maximum drop (of 63%) in the median timeframe (from 15 months to 5 months) between launch and completion of first floor slab while Chennai witnessed minimum drop, that being 27% (from 10 months to 7 months) between 2016 and 2018.

Figure 1: Median time taken across 41 cities between launch of project to completion of first floor slab



To assess the impact of Real Estate Regulatory Authority (RERA), the report is based specifically upon the average turnaround time between launch of project and completion of first floor slab. This duration could be considered as a buffer period that was earlier utilised by developers to secure necessary approvals after launching the project.

Maximum construction delay was noticed in NCR and Kolkata in the past among tier-I cities.

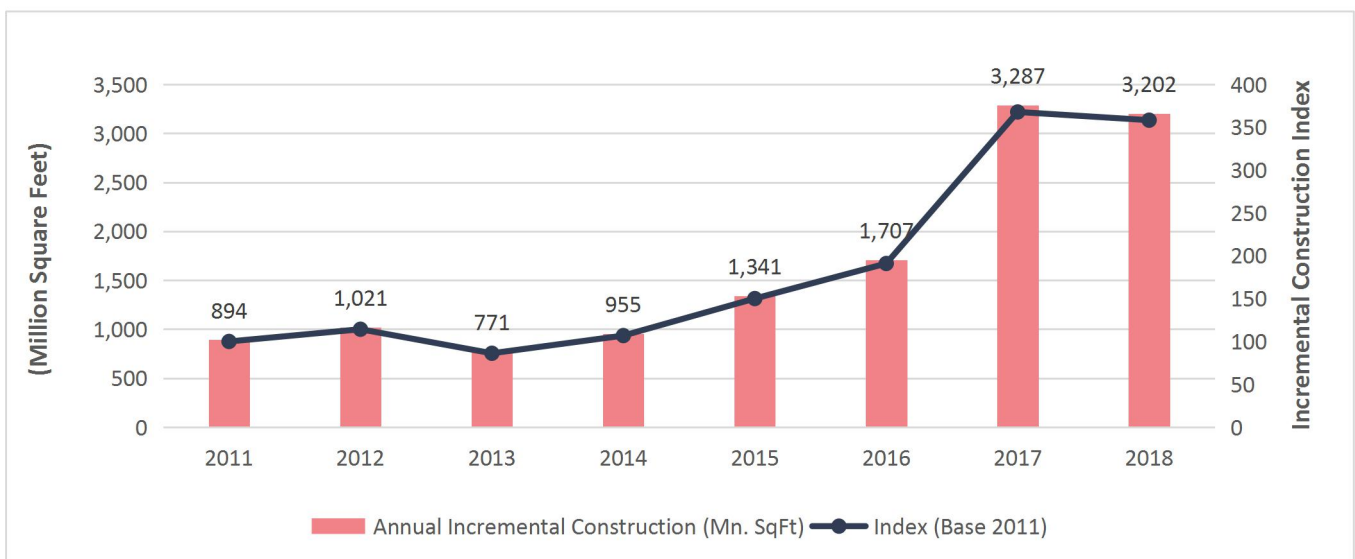


Figure 2: Median time taken across cities between launch of project and completion of first floor slab

City	Time Taken in Months			City	Time Taken in Months		
	2016 (Pre RERA)	2017 (RERA Implementation)	2018 (Post RERA)		2016 (Pre RERA)	2017 (RERA Implementation)	2018 (Post RERA)
MMR	15	10	6	Nashik	12	9	6
NCR	17	12	8	Bhubaneswar	16	9	5
Bangalore	14	11	6	Vijayawada	14	12	6
Pune	12	9	6	Cochin	16	11	8
Chennai	11	9	7	Vizag	8	7	4
Ahmedabad	11	9	6	Rajkot	12	9	5
Outer MMR	16	11	7	Dehradun	12	6	3
Kolkata	17	13	7	Mangalore	16	11	8
Hyderabad	12	8	6	Thiruvananthapuram	14	11	6
Bhopal	15	8	4	Goa	18	11	6
Indore	14	8	6	Guwahati	16	8	6
Surat	15	10	6	Kanpur	12	8	8
Jaipur	13	12	5	Neemrana	21	10	6
Lucknow	15	12	6	Ranchi	16	12	8
Vadodara	16	10	6	Tirupur	12	11	6
Chandigarh	14	9	5	Silvassa	8	9	6
Nagpur	14	8	6	Vapi	11	11	5
Raipur	12	9	6	Pondicherry	22	9	7
Patna	20	14	6	Daman	19	10	5
Outer Pune	17	8	6	Lonavala	18	10	10
Coimbatore	14	11	8				

It also turns out that floor space construction has also increased in the last three years. Data from top-8 cities shows that the incremental floor space construction has increased by 88% from 2016 and 235% from 2014. With enforcement of RERA in 2017, builders have increased the pace of construction in many of their projects in order to avoid registering these projects under RERA leading to a sudden jump in floor space construction in 2017.

Figure 3: Incremental Construction (Housing Production Index)



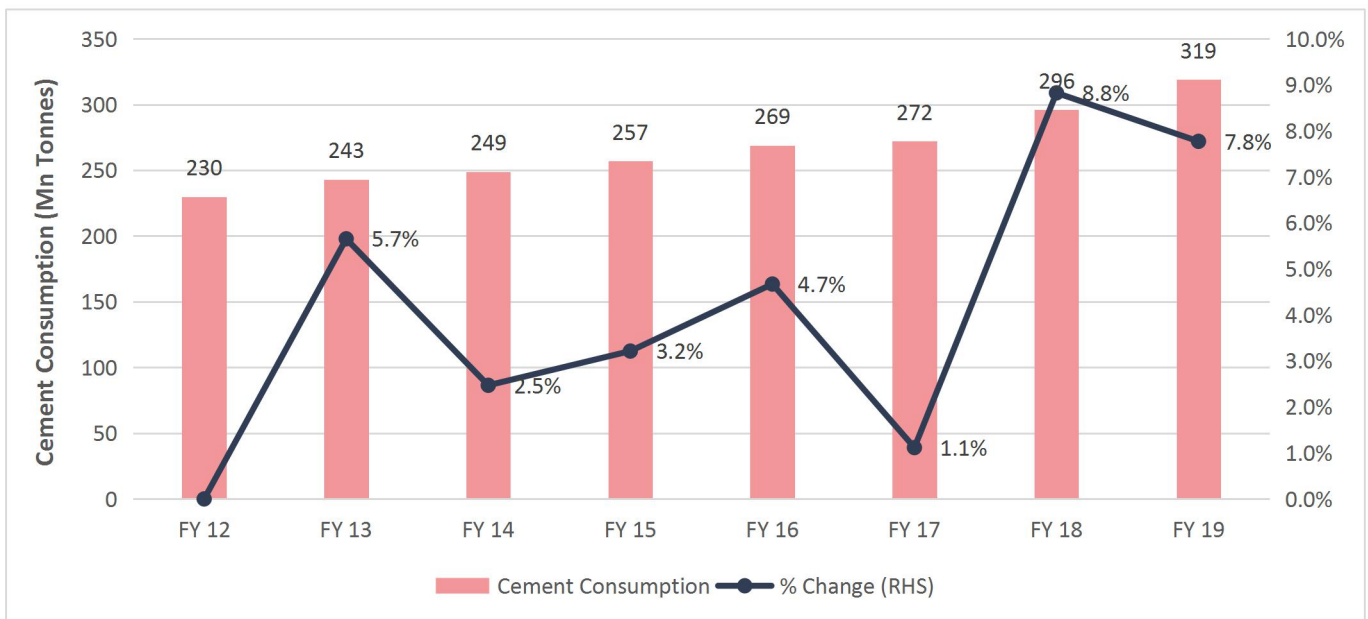


RERA leads to production and economy boost

RERA has come as a boon to not just real estate industry but to the economy as a whole. Increased accountability of developers has given boost to the cement consumption as well. Cement is not just a major material in building construction but also an indicator to the growth in construction and allied industries.

Cement consumption has grown by 9% between FY 17 and FY 18. It is expected to grow at the rate of 8% in FY 19¹ (forecast) as against a CAGR growth of 3.7% in the last five years. It should be noted that housing and real estate contribute 65% of the demand for cement. Another report by CRISIL² shows that the cement industry has grown by 12.5% to 13% during 9M FY 19 and is expected to scale rate of 11% to 12% in FY 19.

Figure 4: Cement Consumption Trend



It is evident that RERA is beneficial for industry as well as overall economy and more so for consumers as well as developers. Although RERA is yet to resolve and regularise the industry completely, it has definitely helped in reducing the delivery timeline of projects.

This improvement can also be attributed to government initiatives such as ease of doing business, faster approvals, quicker dispute redressal, among others. But RERA is definitely proving to be a game changer for the industry.

Real Estate (Regulation and Development) Act came into effect in May 2017 with an aim to protect the interest of home buyers, encourage greater transparency, accountability, financial discipline and to ensure fairness in the real estate sector. States have been given a mandate to establish a Real Estate Regulatory Authority to handle complaints and grouses of homebuyers.

There was no answerability of developers before RERA came into the picture and they used to divert funds (customer advances) to acquire new land or to complete other deals rather than using the advances to complete the same project. As a result delays were getting common and at times projects were stalled midway due to lack of funds. With escrow account coming into the picture and mandate for builder to use 70% of the project receivables towards construction, healthy construction progress has been ensured. Diversion of funds to other projects has become difficult and timely completion of underway projects has become key priority.

¹ India Brand Equity Foundation report on Cement, February 2019

² Sector Report: Cement, March-19; <https://www.crisil.com/en/home/our-analysis/reports/2017/09/sector-report-cement.html>



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Data & Coverage

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