

# Impact of RERA and REIT on Developers

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## ABSTRACT

Indian real estate sector is one of the maximum globally recognised sectors. It's far the second largest organization after agriculture with excessive increase opportunity. The real estate sector comprises four sub sectors - retail, hospitality, housing, and commercial. The boom of this region is well complemented by the growth of the corporate surroundings and the demand for workplace area as well as city and semi-city lodges. the construction enterprise ranks 1/3 a few of the 14 essential sectors in phrases of direct, indirect and precipitated effects in all sectors of the economic system. Considering that financial liberalization in India real property industry has been registering superb increase and nevertheless has capacity to increase. it's far the increase of Indian corporate region which have enlarged the demand for production of business structures and related infrastructures. It is real property and production sectors that have been leading to typical development of infrastructure of India. As a long way as funding opportunities are concerned for the traders of India, real estate enterprise grow to be one of the most appealing enterprise to spend money on for previous couple of many years. It's miles the industry that has been attracting to the foreign buyers too. The revolution on this enterprise in India is particularly because of growing economy and liberalized foreign direct funding regulation by means of the authorities of India which attracting overseas funding. On the other hand rapid boom of the Indian economic system improved the call for business property in phrases of present day workplaces, warehouses with right manner of storing inventories, accommodations and shopping centers as well. The present study intends to study the behavioral factors affecting property of Real estate developers and to study the impact of Real Estate Regulation Act (RERA) on the developers.

**Key words:** Real Estate Regulation Act (RERA), Real Estate, Real Estate Investment Trust, Foreign investment

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## INTRODUCTION

REITs were in existence in developed economies considering that numerous years and offer a stable investment opportunity for retail buyers, in addition to the real estate area. Taking instance from advanced economies, the Indian REIT regime echoes the world over followed standards, strategies and standards. The India REIT regime is aimed at presenting:

- an prepared platform for retail traders to invest and be player of the Indian real estate boom story
- a professionally managed environment this is hazard averse which ambitions at protective public interest.
- an outlet for the real property zone to ease out liquidity burden

On Sept. 14, 1960 President Dwight D. Eisenhower signed the legislation which formed a brand new approach to income-producing real estate funding – a manner in which the first-rate attributes of real property and inventory-based funding are blended. REITs, for the primary time, added the benefits of business actual estate investment to all investors – advantages that formerly were to be had only through big monetary intermediaries and to rich individuals. Over the years, traders responded to this new possibility, and more than 5 many years after their creation inventory exchange-listed U.S. REITs the enterprise has grown to a \$1 trillion fairness market capitalization and almost \$2 trillion in real estate assets. REITs within the U.S. and increasingly around the world now regularly provide traders with the opportunity for meaningful dividends, portfolio diversification, treasured liquidity, enviable transparency and aggressive overall performance. (REITs 2016). Making an investment in real property may be lucrative, if investor recognise what they're doing. However they are proper, except they use the services of a belongings control organisation, traders need to address landlord obligations. A actual property investment accept as true with (REIT) may be a precious manner to increase the quantity of actual property in investor's portfolio without requiring investors hands-on presence.

For several years, domestic clients have complained that actual property transactions were lopsided and heavily in favour of the builders. RERA and the government's version code, aim to create a extra equitable and sincere transaction most of the seller and the patron of residences, specially in the primary market. RERA, it's far hoped, will make actual estate purchase

simpler, by using bringing in better duty and transparency, furnished that states do no longer dilute the provisions and the spirit of the number one act.

The **RERA** will give the Indian real estate industry its first regulator. The actual property Act makes it mandatory for every kingdom and union territory, to form its personal regulator and frame the regulations that will govern the functioning of the regulator.

### OBJECTIVES OF THE STUDY

The study has been conducted based on the following two objectives:

1. To study the Behavioral factors affecting the property investors of Real Estate Developers & Agents
2. To study the impact of RERA on real estate developers.

### RESEARCH METHODOLOGY

Both secondary and primary data have been taken for the research. Primary Data has been collected from the through a structured questionnaire. A sample size of 50 developers has been taken for the study from Mumbai and Pune. For the primary data analysis on the survey conducted for developers and agents the following two hypothesis have been formulated.

**Hypothesis (H1): Behavioral factors significantly affects the Developers & Agents of Real Estate.**

#### Factor Analysis

The factor analysis was applied to six variables taken for the study. The KMO value of factor analysis is 0.585 which indicates that Factor Analysis is reliable to be done for the 6 items/variables. And also the significance value is coming to 0.016 which also relates the same.

**Table 1: KMO and Bartlett's Test Behavioral factors affecting the property investors of Real Estate Developers & Agents)**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.585
Bartlett's Test of Sphericity	Approx. Chi-Square	28.946
	df	15
	Sig.	.016

**Table 2: Total Variance Explained (Behavioral factors affecting the property investors of Real Estate Developers & Agents)**

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.745	29.087	29.087	1.745	29.087	29.087	1.664	27.728	27.728
2	1.082	18.039	47.126	1.082	18.039	47.126	1.164	19.398	47.126
3	.985	16.419	63.544						
4	.858	14.300	77.845						
5	.798	13.303	91.147						
6	.531	8.853	100.000						

**Table 3: Principal Component Analysis (Behavioral factors affecting the property investors of Real Estate Developers & Agents)**

Items	Component	
	1	2
1) to what extent property investors refer the past performance as an indicator of future performance and make their investment decision?	.746	-.268
2)To what extent property investors use trend analysis to make investment decision ?	.646	-.027
3)to what extent property investors use their predictive skills and hence have high expectations on the property returns beyond market expectations	.050	.766
4)To what extent do property investors set the value of the property based on the recent selling/buying price?	.546	-.121
5) to what Extent do Property investors, when they would have a sure gain are risk averse?	.556	.355
6)To what extent do property investors, when they would have a sure loss are risk takers	-.282	.603

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 3 iterations.

**Table 4: Identification of New Parameters by factor analysis**

Factors	Variables				New Parameters
Factor 1	Item 1	Item 2	Item 4	Item 5	<i>Performance</i>
Factor 2	Item 3	Item 6			<i>Expectation</i>

All the 6 variables is reduced to 2 factors. We have extracted the factors through varimax method and through principal component analysis where the eigen value should be greater than 1. Item no. 1, 2, 4, 5, which constitutes factor -1 which we named as *Performance* Items 3 and 6 constitutes factor -2 which we named as *Expectation*.

**Regression Analysis (Behavioral factors affecting the property investors of Real Estate Developers & Agents)**

The Multiple Regression Analysis is applied to the reduced factors to find out the significant factors that affects the property investor of Real Estate Developers and Agents. Also, to build a model of prediction by Multiple Regression Analysis to understand the influence of independent factors towards the dependent i.e. factors affecting the behavior of property investor of real estate developers and agents.

**Table 5: Model Summary of Multiple Regression (Behavioral factors affecting the property investors)**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.753 <sup>a</sup>	.567	.555	.33015

a. Predictors: (Constant), REGR factor score 2 for analysis 1, REGR factor score 1 for analysis 1

The R square value of the above model is 0.555, which means the dependent variable “Factors influencing the behavior of Real Estate developers and Agents” is influenced by all this two explanatory variables (Performance and Expectation) by 55.50 percent which is a good indicator for establishing a well set for Factors influencing the behavior of Real Estate developers and Agents.

**Table 6: Multiple Regression (Behavioral factors affecting the property investors) ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.697	2	5.348	49.070	.000 <sup>b</sup>
	Residual	8.175	75	.109		
	Total	18.872	77			

a. Dependent Variable: Dep

b. Predictors: (Constant), REGR factor score 2 for analysis 1, REGR factor score 1 for analysis 1

The ANOVA (F-test) indicates that the scale/ factor i.e. “Factors influencing the behavior of Real Estate developers and Agents” was quite significant for studying the behaviours. All the explanatory variables i.e. two factors for studying behavior of real estate developers and agents is quite significant. Further, it is seen from the table, that the significant value (p-value) of F-test are 0.000, which means that all the explanatory variables are highly significant with respect to the explained factor i.e. “Factors influencing the behavior of Real Estate developers and Agents”

Since, the significant value of ANOVA is coming 0.00. Thus the hypothesis “Behavioral factors *significantly* affecting the Developers & Agents of Real Estate” holds true.

The above table, determine satisfactory result as the significance level of the model is less than 0.01. Thus model that used in this research holds good.

**Table 7: Coefficients of Multiple Regression (Behavioral factors affecting the property investors)**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.590	.037		96.029	.000
	REGR factor score 1 for analysis 1	.324	.038	.655	8.615	.000
	REGR factor score 2 for analysis 1	.184	.038	.372	4.891	.000

a. Dependent Variable: Dep

Based on the Multiple Regression Output table of “Factors influencing the behavior of Real Estate developers and Agents” and its constituent variables, we able to derive the following equation.

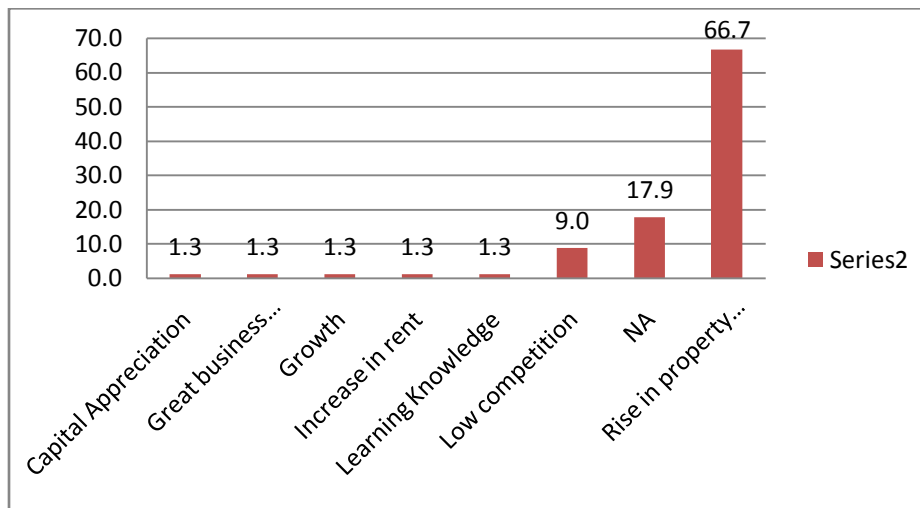
$$\text{Factors influencing the behavior of Real Estate developers and Agents (Y)} = 3.59 + 0.324 (F1) + 0.184 (F2)$$

This can be interpreted that the increase of 1 unit of delivery of Factor 1(F1), may incur the raise of 0.485 units in Factors influencing the behavior of Real Estate developers and Agents (Y). The highest Beta indicates that independent variable is the most significant variable toward it dependent variable. From the table above, the independent factor 1 of 0.324 is

highest among all, this mean that independent Factor 1 has contribute the most and has stronger effect toward the Factors influencing the behavior of Real Estate developers and Agents as compared to other independent variable. Further, it is seen from the table that the significant value (p-value) of t-test for all items are 0.000, which means that all these two reduced factor through factor analysis are highly significant with respect to the explained factor i.e. “Factors influencing the behavior of Real Estate developers and Agents”.

**Table 8: The reasons of agents join in the Real Estate Business**

Particulars	Frequency	Percent	Cumulative Percent
Capital Appreciation	1	1.3	1.3
Great business opportunity	1	1.3	2.6
Growth	1	1.3	3.8
Increase in rent	1	1.3	5.1
Learning Knowledge	1	1.3	6.4
Low competition	7	9.0	15.4
NA	14	17.9	33.3
Rise in property investment	52	66.7	100.0
Total	78	100.0	

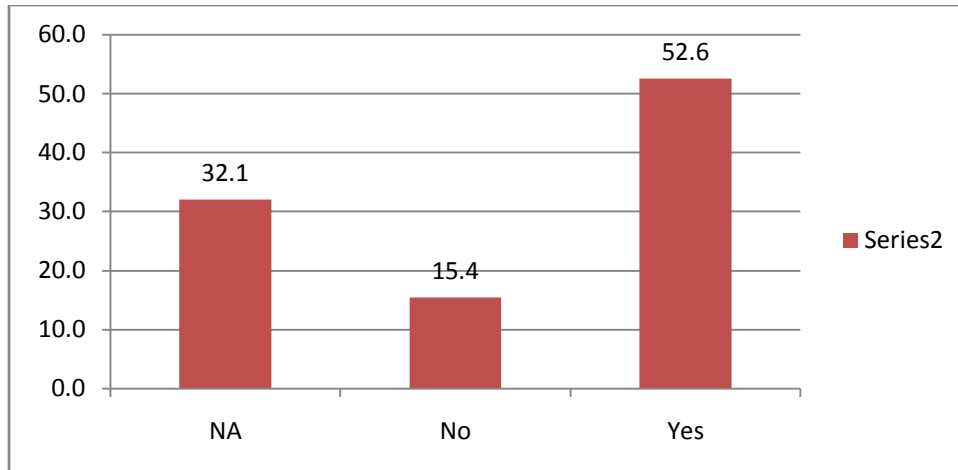


**Figure 1: The reasons of agents join in the Real Estate Business**

The above table and graph represents the reasons agents joined in the real estate business. The table reveals that “Rise in property investment” 66.7 percent (52 no.s) and “low competition” 9.0 percent (7 no.s.) and other reasons are 1.3 percent. Out of 78 respondents, 17.9 percent (14 no.s) are missing. The response reveals the agents are joining in the real estate business because of “Rise in property investment”.

**Table 9: The growth in the business in the last 5 years**

Particulars	Frequency	Percent	Cumulative Percent
NA	25	32.1	32.1
No	12	15.4	47.4
Yes	41	52.6	100.0
Total	78	100.0	

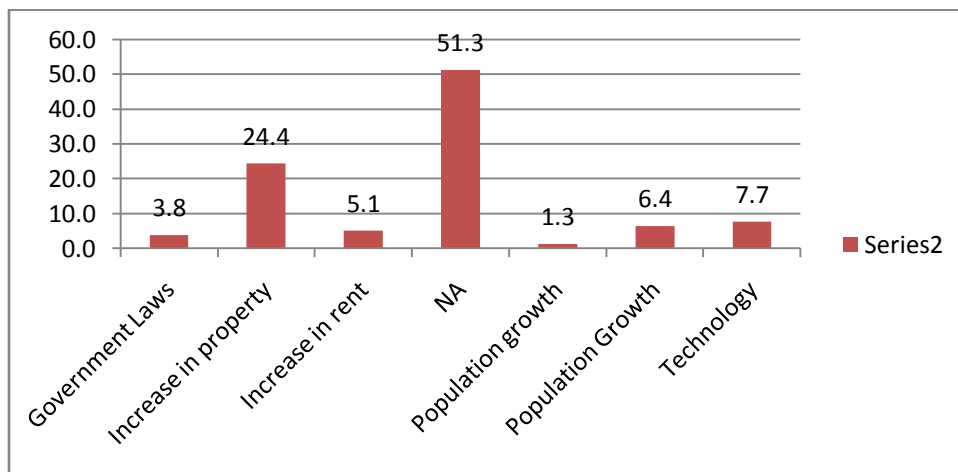


**Figure 2: The growth in the business in the last 5 years**

The above table and graph represents, whether growth has happened in the business in the last 5 years. The sample response reveals that 52.6 percent (41 no.s) says yes, 15.4 percent (12 no.s) are no to the response. 32.1 percent (25 nos) are missing. The response says, there is a growth of the business in the last 5 years.

**Table 10: The factors which has influenced the growth**

Particulars	Frequency	Percent	Cumulative Percent
Government Laws	3	3.8	3.8
Increase in property	19	24.4	28.2
Increase in rent	4	5.1	33.3
NA	40	51.3	84.6
Population growth	6	7.7	92.3
Technology	6	7.7	100.0
Total	78	100.0	

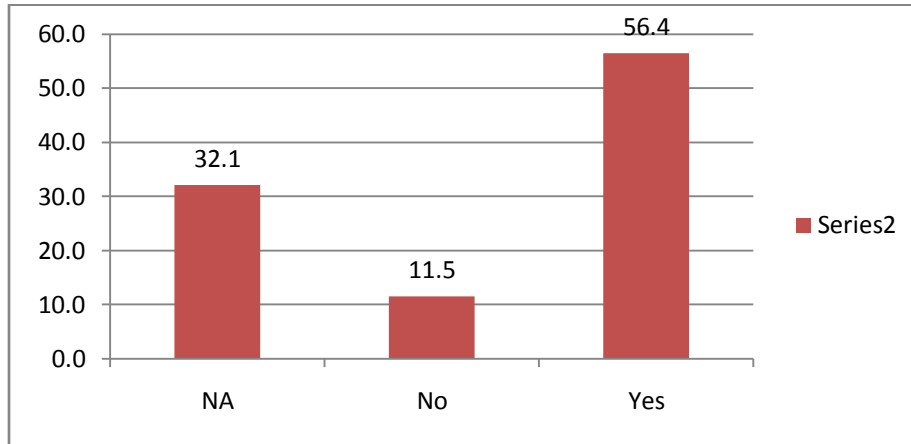


**Figure 3: The factors which has influenced the growth**

The above table and graph represents the factors which influenced the growth of the business. The sample response says maximum to “increase in property” 24.4 percent (19 no.s), Technology by 7.7 percent (6 no.s), Population growth 7.7 percent (6 no.s). 51.3 percent (40 no.s) of the respondents are missing.

**Table 11: The current boom in property development increased your client (landlords/property owners)base**

Particulars	Frequency	Percent	Cumulative Percent
NA	25	32.1	32.1
No	9	11.5	43.6
Yes	44	56.4	100.0
Total	78	100.0	

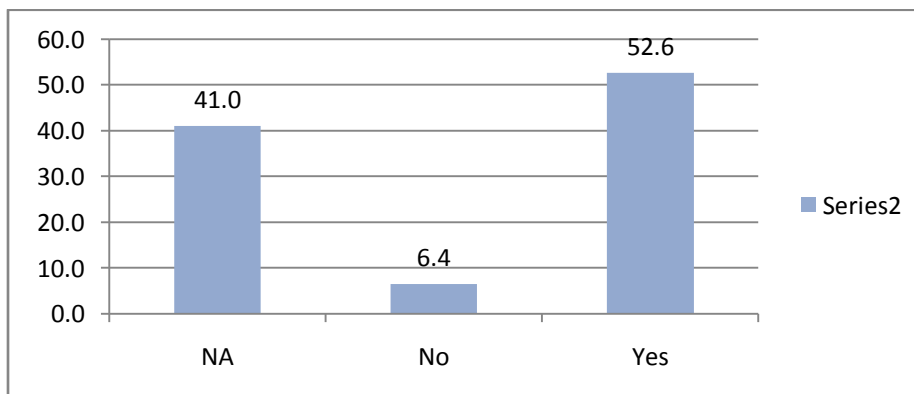


**Figure 4: The current boom in property development increased your client (landlords/property owners)base**

The above table and graph represents the weather “the current boom in property development increased your client (landlords/property owners)base”. Out of 78 number of sample respondents, 56.4 percent (44 no.s) says yes, 11.5 percent (9 no.s) says no and 32.1 percent are missing. The response reveals that current boom in property development increased the client base of landlords and property owners.

**Table 12: Which has led to increase in the business returns**

Particulars	Frequency	Percent	Cumulative Percent
NA	32	41.0	41.0
No	5	6.4	47.4
Yes	41	52.6	100.0
Total	78	100.0	

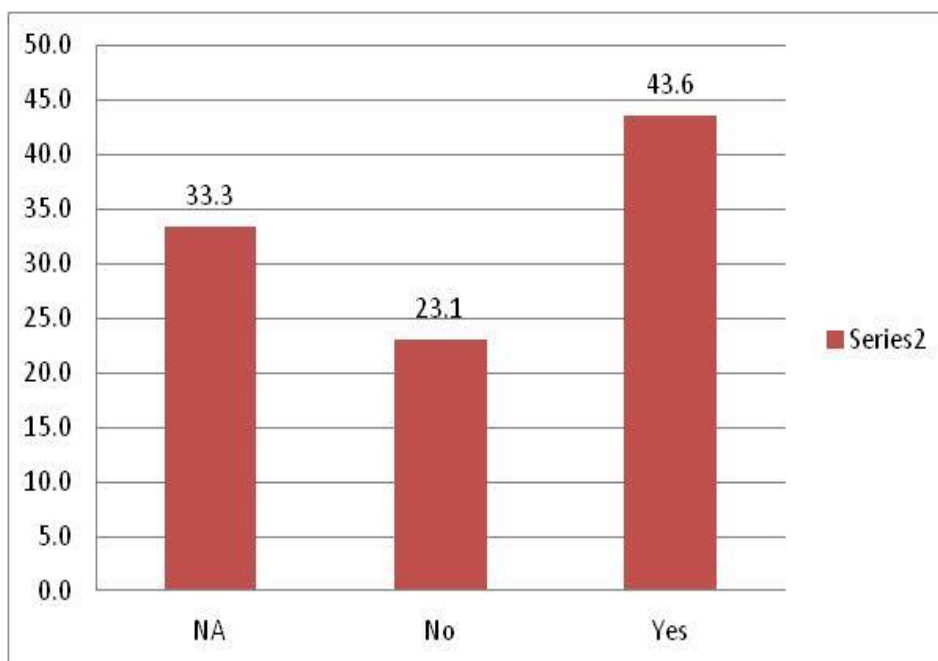


**Figure 5: Increase in the Business Returns**

The above table and graph represents whether the current boom in property development increased the business returns. The response say yes to 52.6 percent (41 nos) and No to 6.4 percent (5 nos) and 41.0 percent (32 nos) are missing. This reveals that “current boom in property development increased the business returns”.

**Table 13: The law or tax on property affected the in business**

Particulars	Frequency	Percent	Cumulative Percent
NA	26	33.3	33.3
No	18	23.1	56.4
Yes	34	43.6	100.0
Total	78	100.0	



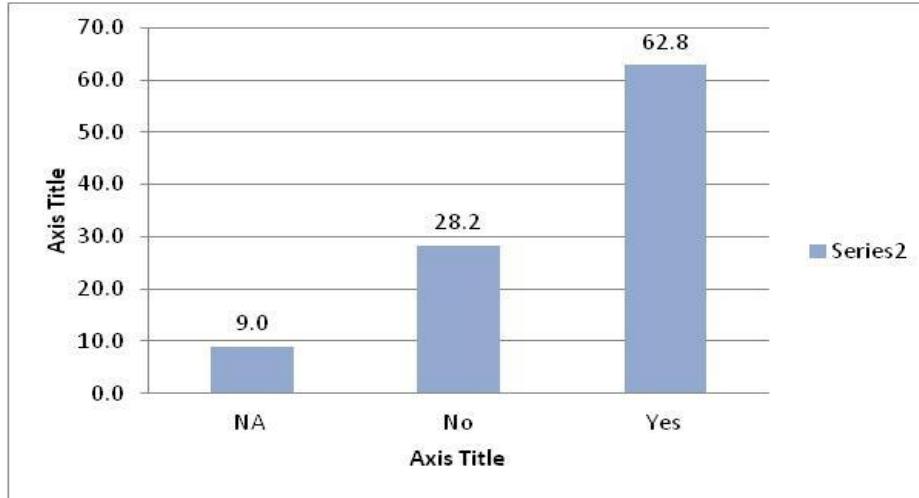
**Figure 6: The law or tax on property affected the in business**

The above table and graph represents whether the law or tax on property affected the business. The table reveals that 34 (43.6 percent) sample respondents says yes, 18 (23.1 percent) sample number says no and 26 (33.3 percent) of the respondents are missing. The response says “the law or tax on property affected the business”.

**Table 14: Aware of RERA(Real Estate Regulation Act )and its implications**

Particulars	Frequency	Percent	Cumulative Percent
NA	7	9.0	9.0
No	22	28.2	37.2
Yes	49	62.8	100.0
Total	78	100.0	



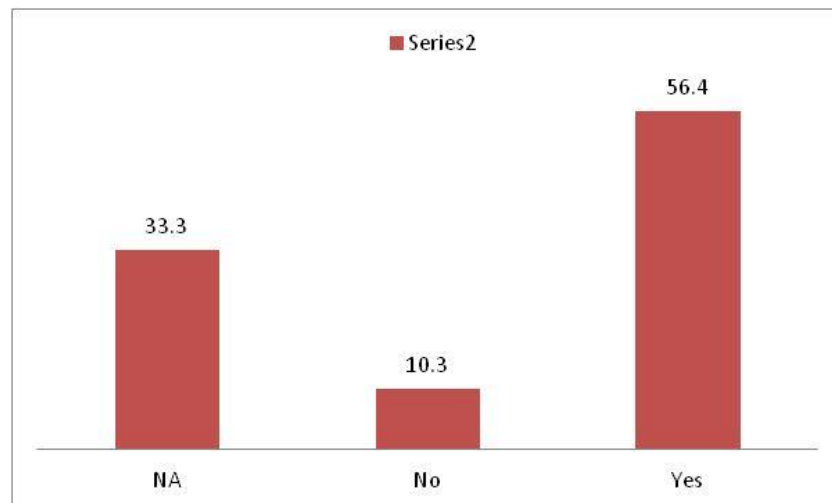


**Figure 7: Aware of RERA(Real Estate Regulation Act )and its implications**

The above table and graph represents the awareness of RERA (Real Estate Regulation Act) and its implications. Out of 78 number of sample respondents, 49 (62.8 percent) says yes, 22 number (28.2 percent) and 7 number of respondents response are missing. This response says respondents are aware of Real Estate Regulation Act and its implications.

**Table 15: The Role of RERA in the growth of the business**

Particulars	Frequency	Percent	Cumulative Percent
NA	26	33.3	33.3
No	8	10.3	43.6
Yes	44	56.4	100.0
Total	78	100.0	

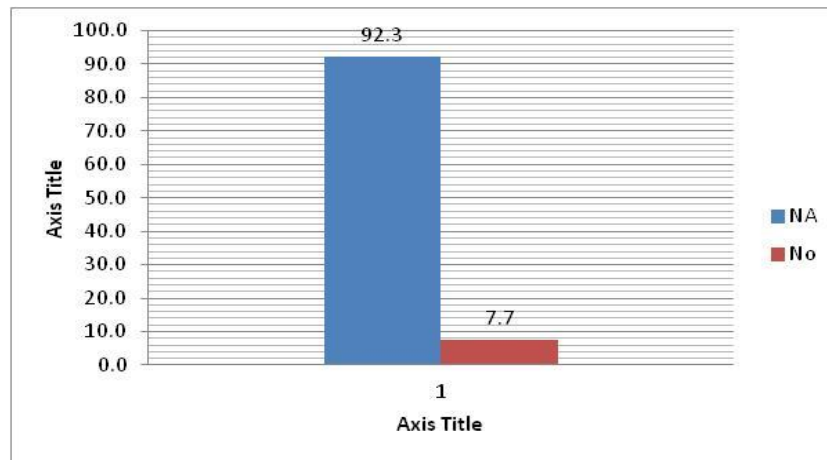


**Figure 8: The Role of RERA in the growth of the business**

The above table and graph represents about whether RERA play a role in the growth of the business. The result shows that 44 (56.4 percent) of the respondents says yes and only 8 no.s (10.3 percent) says no to the statements. Out of 78 number of sample respondents, 26 number of respondents are not given their response. The response say, RERA play a role in the growth of the business.

**Table 16: Would like to suggest any amendments in the laws and policies which could increase REITS growth rate**

Particulars	Frequency	Percent	Cumulative Percent
NA	72	92.3	92.3
No	6	7.7	100.0
Total	78	100.0	



**Figure 9: Suggestions in amendments in the laws and policies which could increase REITS growth rate**

The above table and graph represents the suggestion of any amendments in the laws and policies which could increase REITs growth rate. Out of 78 sample respondents, 72 numbers of respondents are missing (92.3 percent) and 6 numbers say no to the laws and policies. The result reveals that respondents do not like to have amendments in the laws and policies which could increase REITs growth rate.

### Impact of RERA on the Developers

The Real Estate (Regulation and Development) Act, 2016 (RERA) seeks to shield the interests of home buyers. It boosts investments in the real estate sector. The Act came into force with effect from May 1, 2016.

Some key provisions of the act are listed below.

1. The states will have to setup regulatory bodies as appellate tribunals to solve the disputes between buyer and developer. The disputes shall be solved within 120 days.
2. The developers will have to deposit 70% of the money collected from a buyer in a separate account. This is done to meet the project construction cost.
3. The act imposes strict rules and regulations on the promoter to ensure that construction is completed on time.
4. The buyer will pay only for the carpet area that is for the area within walls. The developer can't charge for the super built-up area, as is being practiced in the present scenario.
5. The developers will be able to sell projects only after the necessary clearances. Under RERA, developers and agents will have to register themselves with the regulator and get all projects with more than eight apartments registered before launch.

With the above clauses, it is obvious that RERA is very much concentrated towards home-buyer and hence doesn't benefit developers to a great extent.

According to Unishire MD, Pratik K. Mehta, the following can be the impact of RERA on the real estate developers.

1. Main effect of RERA may be on on-going projects. There might be a number of confusion which will not simplest postpone projects however will also result in creation of lot of troubles. Any regulation must be applied

prospectively and now not retrospectively. Too many projects at various ranges could be impacted and there may be a main upheaval within the marketplace if now not addressed correctly. The law ought to instead country a corrective direction of action instead of penalise on-going traits which seem to have deviated from the brand new regulation and to recognize the effects for purchasers, developers and financial establishments which might be all part of this play. also, too many initiatives will delay the registration method which in-turn will put off assignment deliveries.

2. The major delays and price escalations are created not by way of developers however by using numerous governmental government which sanction requisite projects and monitor for the duration of the path of development. Every person is privy to the long drawn warfare to firstly avail sanctions which now-a-days takes over 12-18 months and during the route of assignment, there are numerous demanding situations which have an effect on initiatives. Additionally, the notorious OC and diverse services take their own sweet time hereby delaying undertaking handovers. Until, this isn't addressed in toto, there are sure to be hiccups in projects.
3. Cost for developers will increase as sales can most effective manifest submit registration that's feasible only publish approvals. So long gone are the times of pre-launches in which first set of customers benefitted with an affordable fee at some point of early levels of projects. With higher retaining costs, those increases would subsequently be transferred to customers and hence expenses are sure to growth.
4. Refund in 60 days is unjustified as builders aren't banks with liquidity. all the cash is pumped into construction and incase of cancelations, there ought to be a re-allotment clause and no longer strict 60 day guideline for refund because it may be impossible for developers to do so in such situations. Infact, with RERA, there may be strict monitoring of monies via escrow account and this refund timeline isn't always applicable. If numerous shoppers are seeking to cancel at one pass, it may jeopardise the entire undertaking. Say, if there are 100 units bought in a the mission and out of 100, 40 buyers do now not make payments on time and therefore are problem to interest. however because of the postpone from 40 customers, the whole undertaking gets affected and consequently developer will ought to compensate the opposite 60 shoppers with hobby and for this reason that is unjustified.
5. With RERA, there could be a consolidation in the marketplace and therefore most effective fewer gamers can also exist. This is not proper for market as expenses for purchasers are sure to increase with lower in competition. Competition already continues fees in test and small builders who have been able to offer that additional dollar might stop to exist and customers will have constrained selections to select out of.

**Applicable penalties under RERA**

<b>Applicable sections</b>	<b>Offences committed</b>	<b>Applicable penalties</b>
Section 9 (7)	<ul style="list-style-type: none"> <li>• Registration secured via misrepresentation or fraud</li> <li>• Breach of phrases for which registration obtained</li> </ul>	Revocation of Agent Registration Number
Section 62	<ul style="list-style-type: none"> <li>• Breaking of Section-9 &amp; Section 10</li> </ul>	Penalty of INR 10,000/-day at some point of which the default maintains extending as much as 5% of value of unit sold
Section 65	<ul style="list-style-type: none"> <li>• Breaking of orders of RERA authorities</li> </ul>	Penalty up to 5% of cost of unit sold
Section 66	<ul style="list-style-type: none"> <li>• Breaking of orders of Appellate tribunal</li> </ul>	Imprisonment for up to 1 year or with exceptional fine up to 10% of cost of unit sold

**Benefits of RERA**

<b>Industry</b>	<b>Developer</b>	<b>Buyer</b>	<b>Agents</b>
<ul style="list-style-type: none"> <li>• Good governance and transparency in dealings</li> <li>• Project efficiency and</li> </ul>	<ul style="list-style-type: none"> <li>• Common and best practices</li> <li>• Increase efficiency</li> <li>• Consolidation of sector</li> </ul>	<ul style="list-style-type: none"> <li>• Significant buyers protection</li> <li>• Quality products and timely delivery</li> <li>• Balanced</li> </ul>	<ul style="list-style-type: none"> <li>• Consolidation of sector (due to mandatory state registration)</li> <li>• Increased transparency</li> </ul>

<ul style="list-style-type: none"> <li>• best project delivery</li> <li>• Standardization and quality</li> <li>• Enhance confidence of investors</li> <li>• Attract higher investments and PE funding</li> <li>• Regulated Environment</li> </ul>	<ul style="list-style-type: none"> <li>• Corporate branding</li> <li>• Higher investment</li> <li>• Increase in organised funding</li> </ul>	<ul style="list-style-type: none"> <li>• agreements and treatment</li> <li>• Transparency – sale based on carpet area</li> <li>• Safety of money and transparency on utilization</li> </ul>	<ul style="list-style-type: none"> <li>• Increased efficiency</li> <li>• Minimum litigation by adopting best</li> </ul>
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The RERA pass coupled with items and carrier Tax implementation is visible as a satisfactory flow into for the world. The primary issues plaguing real property in India have been transparency and obligation, which have been tackled now. Such has been the impact of RERA that once the internet web site have become launched in Uttar Pradesh country, 15000 complaints were registered in a unmarried day from Noida place (Bhowmick, 2017). However in a few states the response to RERA has been dissatisfactory. In Haryana, clients have complained that they're excluded from RERA in the occasion that they have got already moved in to the belongings. For this reason, they can't document a complaint for loss of offerings or centers provided with the resource of the builder (Jha, 2017). The full effect of RERA will come after quick time span can be one to 2 years due to the truth that each kingdom is putting in place its impartial law and a standardised degree for achievement will take time to build.

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