Impact of The Real Estate (Regulation and Development) Act, 2016 (RERA), on Homebuyers and Promoters

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Abstract
The Real Estate (Regulation and Development) Act, 2016 (RERA) was enacted to protect the interests of homebuyers and promote transparency in the Indian real estate sector. This paper examines the impact of RERA on homebuyers and promoters in India. RERA has brought about significant changes in the real estate industry, including the establishment of a robust regulatory framework, increased accountability of developers, and enhanced consumer protection.

For homebuyers, RERA has provided a sense of security and confidence in the market. The act has ensured that developers register their projects with the relevant authorities, providing homebuyers with a sense of assurance about the legitimacy of the project. Moreover, RERA has enabled homebuyers to seek redressal of grievances through a fast-track dispute resolution mechanism.

For promoters, RERA has brought about significant changes in the way they operate. The act has imposed stricter regulations on developers, including mandatory registration of projects, disclosure of project details, and adherence to timelines. This has led to an increase in transparency and accountability among developers, which in turn has reduced instances of delay and mismanagement.

Keywords: Homebuyers, promoters, RERA, impact, Act.

Introduction
RERA (Real Estate Regulating Act), 2016 bill was passed by RajyaSabha followed by LokSabha in the month of March in 2016 and then act came into force in May 2016. The act was established with the goal to ease the process of buying a property, protect the interest of the buyers, to encourage investment in the real estate sector and to do all of that in a transparent manner.

The main goal of the RERA is to restore buyer confidence in the real estate sector and to increase transparency in real estate transactions. RERA aims to protect buyers' rights by establishing the Real Estate Regulatory Authority (RERA), which will provide a grievance system in the real estate industry. It also aims to boost the credibility of the Promoters, Real Estate brokers, and agents, which will help to avoid unnecessary delays in the completion and delivery of the projects. The RERA Act mandates the establishment of an Appellant System for Grievance Redressal as well as the imposition of penalties and charges on defaulters. Prior to the Act's implementation, there were no uniform rules and regulations that had to been followed, which resulted in conflicts between developers and buyers, and there was no proper redressal mechanism to adjudicate the disputes.
Buyers face the issue of lengthy delays in obtaining possession of a property, as builders frequently exceed the deadlines stipulated in the sale agreement. Buyers face financial difficulties as a result of such delays because the entire transaction involves a significant sum. Section 18 of the Act provides a remedy for the builder's unnecessary and arbitrary delays in giving over possession.¹

**Impact on buyers**

Registration of builders is mandated by this act. No promoter can sell, buy, advertise, or invite customers to buy projects without registering the project with Real Estate Regulatory Authority.² Hence, all the activities of builders will be checked by the authority created by this act.

RERA guarantees buyers right to get details of the project which includes cost of land and construction, project completion time, phase-wise plans of development, any minor alteration in the project and so on.³ Over 13,000 projects have been registered with Maharastra RERA.⁴ Developers have to update project progress in every 90 days.

The act mandates formation of a Residents’ Welfare Association (RWA). Residents’ Welfare Association.⁵ Given that, the act mandates formation of such society, buyers will have a platform to direct their grievances to the promoters and post-allotment maintenance of the projects.

If any structural defect occurs in the unit within five years from the date of handling over the project to the allottee, developer is liable to fix such defect without charging the allottee. If developer fails to fix such structural defect within thirty days, RERA gives buyers right to file a complaint before RERA authority.⁶

The act prohibits builders to make any alteration in the project without obtaining consent of at least 2/3rd of allottees.⁷ In this way, the buyers are safeguarded against arbitrary action of the dishonest promoters over the project.

The act prescribes penalty on the developers if they fail to deliver the project on time. A developer will have to pay monthly interest on bank loan taken for under-construction project if delay occurs.⁸ In case, a promoter fails to comply by the aforementioned provision, the act prescribes for heavy penalties.⁹

If someone fails to comply with these rules, he will have to face proceeding in the Real Estate Regulatory Authority. One such case was initiated by Maharashtra RERA where a RERA registered promoter had put advertisement of an unregistered project. In this case, it was established that the act of the promoter had violated the § 10(a) of the 2016 Act and § 9(5) of the 2017 Act. Consequently, an order

¹Real Estate (Regulation and Development) Act, 2016), Sec. 18.
²Real Estate (Regulation and Development) Act, 2016 Sec. 3.
³Real Estate (Regulation and Development) Act, 2016Sec. 19.
⁴APNA RERA, More than 13k Ongoing Projects Registered with MAHA RERA, (July 04, 2024), http://apnarera.com/more-than-13k-ongoing-projectsregistered-with-maha-rera.
⁶Real Estate (Regulation and Development) Act, 2016 Sec. 14(3).
⁷Real Estate (Regulation and Development) Act, 2016 Sec. 14(2)(ii).
⁸Real Estate (Regulation and Development) Act, 2016 Sec. 18(2)(b).
⁹Real Estate (Regulation and Development) Act, 2016 Sec. 59.
was passed by the authority which included a penalty of Rs. 1,20,000 to be paid in instalments of Rs. 10,000 for 12 days.\textsuperscript{10}

FOR BUILDERS

With this act, the process of depositing payment will be smoothened. The act prescribes that buyers have to make payments on time. Secondary payments like registration charge, municipal taxes, and water and electricity charges are also included in this.\textsuperscript{11}

The act will also ensure that customers take possession of the respective units within two months of circulation of occupancy certificate.\textsuperscript{12}

The necessity of keeping 70\% of the total amount in a reserve account aims to solve the issue of delay. Earlier, builders used to divert funds stipulated for one project to a different project. Now, earnings of such an account can only be towards outflow of land and construction. Moreover, it’ll be verified by an expert.\textsuperscript{13}

The documents of projects will not be verified by RERA directly. There is provision for verification by an authorized architect after appropriate statement to the buyer.\textsuperscript{14} Hence, if any wrongdoing occurs, the promoter along with the architect will be liable.

Since, the act prescribes huge penalties in case of non-conformity of the rules\textsuperscript{15}, builders who aren’t customer-centric will be eliminated. Thus, there will be reduction in the total cost of ownership for consumer in the long run.

Further, cash transactions will likely become extinct and consecutive trail of transactions will be possible. This will check fraud and a good deal of anomalies will be solved. According to § 16 of the act, it is mandatory for the promoters to obtain insurances for title and land of the project and construction of the project. The act also makes promoters liable to pay premium in relation to the insurance. Further, promoters are expected to transfer documents and insurance to the buyers at the time of sale.\textsuperscript{16}

The act will also solve the problem of Floor Space Index (FSI) by bringing in the concept of ‘net carpet area’.\textsuperscript{17} It can be seen as a major step in eliminating corruption that used to occur due to haphazard implementation of FSI policies. Now, it’ll be determined by ‘net carpet area’. The habit of putting porch, balcony and roof within the ambit of ‘carpet area’ will come to an end. While this would lead to an increment in property rates, the buyers will be completely aware of the useable portion of the land.\textsuperscript{18} This would also cause the builder to provide a better design and productivity.

Consequently, RERA will have two-fold positive impact. At micro-level, this act will bring relief to homebuyers by facilitating quick delivery of homes. At marco-level, this act will heal the entire real estate sector by bridging the trust deficit between buyers and developers.

\textsuperscript{11}Real Estate (Regulation and Development) Act, 2016 Sec. 19(6)
\textsuperscript{12}Real Estate (Regulation and Development) Act, 2016 Sec. 19(10).
\textsuperscript{13}Real Estate (Regulation and Development) Act, 2016 Sec. 4(2)(1)(D).
\textsuperscript{14}Real Estate (Regulation and Development) Act, 2016 Sec. 14(2)(i).
\textsuperscript{15}1 Real Estate (Regulation and Development) Act, 2016 Sec. 59, 60.
\textsuperscript{16}Real Estate (Regulation and Development) Act, 2016 Sec. 16.
\textsuperscript{17}Real Estate (Regulation and Development) Act, 2016 Sec. 2(k).
Private equity investment

Investment documents usually endow rights to private equity investors to undertake projects and guarantee completion if builder defaults. Now, since the act mandates requirement of consent of 2/3rd of the allottees in the project, private equity investors will have to work on the side of the allottees.\textsuperscript{19}

In a case, the Apex Court stated, “While application of law and interpreting a particular provision, economic effects of a decision has to be kept in mind. Courts needs to avoid that particular outcome which has a potential to create an adverse effect on employment, growth of infrastructure or economy or the revenue of the State. It is in this context that economic analysis of the impact of the decision becomes imperative”.\textsuperscript{20}

While Private Equity fund would come under the ambit of ‘Promoter’, thus, incurring all the liabilities and obligations under RERA, the returns which would come as a result of the investment would also boost. This could be attributed to mandatory lock-in of funds till the time of project completion. This would benefit PE investors in a two-fold manner. Firstly, monetizing on the stake of PE fund before completion would become challenging. Secondly, PE funds could seek higher returns for the time-risk undertaken by it.\textsuperscript{21}

Now, since the act is already leaning on the side of the customers, RERA authorities should take cues from the aforementioned decision to encourage perpetual investments in the sector.\textsuperscript{22} If RERA achieves its objectives and black money goes down to minimal level, then, investors would need just sources of capital and that would boost private equity investment in the sector.

After analysing the act, we can conclude that RERA does carry a promise to bring transparency and rationalization which would certainly promote a constructive environment for private equity investment in the sector. Although, a lot will be determined on the way it is implemented across the country.

Salient provisions of the Act

Establishment of Real Estate Regulatory Authority (‘RERA’) and Real Estate Appellate Tribunal (‘REAT’)

The central and state governments must establish RERA\textsuperscript{23} which will consist of a Chairman and at least two whole time members to be appointed by state government.\textsuperscript{24} RERA can hear complaints filed by aggrieved persons for contravention or violation of provisions of the Act by any promoter, allottee or real estate agent.\textsuperscript{25}

RERA’s broad objectives and functions includes inter alia, ensuring transparency by registering and maintaining a database of real estate projects and publishing it on its website for public viewing, protection of interest of promoters, allottees and real estate agents, development of environmentally sustainable and affordable housing, rendering advice to the government and ensuring compliance with

\textsuperscript{19}Abhineet Kumar, PE investors cautious on real estate Real Estate (Regulation And Development) Act, 2016 (July04, 2024), www.businessstandard.com/article/economy-policy/pe-investors-cautious-on-real-estate-with-new-law117051000966_1.html.
\textsuperscript{21}KetanDalal, RERA – It Takes Two to Tango! Taxsutra (July04, 2024), http://www.taxsutra.com/blog/2/7/RERA%20%E2%80%93%20It%20Takes%20Two%20to%20Tango!.
\textsuperscript{22}SambhavRanka& Nitesh Tiwari, Real Estate (Regulation and Development) Act, 2016: A Private Equity Perspective, PRESS READER, (July04, 2024), www.pressreader.com/india/mintst/20170627/281621010346269.
\textsuperscript{23}The Real Estate (Regulation and Development) Act, 2016, section 20, March 26, 2016.
\textsuperscript{24}The Real Estate (Regulation and Development) Act, 2016, section 21, March 26, 2016.
\textsuperscript{25}The Real Estate (Regulation and Development) Act, 2016, section 31, March 26, 2016.
its Regulations and the Act in general. It can further govern both commercial and real estate transactions.

The persons aggrieved by the decision of RERA can approach REAT within 60 days of former’s order. REAT must dispose off the appeal within 60 days and will have all powers of a civil court.

Registration of real estate project with RERA
Every real estate project having a planning area of more than 500 square meters or more than eight proposed number of apartments must be registered with RERA. The promoter must deposit 70% of the amount realized from the allottees in an escrow account, maintained by a scheduled bank to cover the cost of construction and the land cost and the amount must be used for that purpose only. The amount withdrawn should be in proportion to the percentage of completion of project. This discourages the developers from notoriously diverting funds. It will also prevent delay in completion of project and handover to the consumers.

Definition of carpet area
Carpet area has been defined under the Act and developers can sell units only on carpet area which means the net usable floor area of an apartment. This excludes the area covered by the external walls, areas under services shafts, exclusive balcony or verandah area and exclusive open terrace area, but includes the area covered by the internal partition walls of the apartment. This will enable the buyers get the clear picture of the usable space.

Cap on the receiving of advance payment
A promoter cannot accept more than 10% of the cost of the plot, apartment or building as an advance payment or an application fee from a person without first entering into a written agreement of sale with such person and register the said agreement of sale, under any law for the time being in force. This is an aim towards curbing embezzlement of funds by notorious builders.

Adherence to sanctioned plans
The promoter cannot make changes (additions or alterations) in sanctioned plans, layout designs or specifications as approved by RERA without the consent of person who has agreed to take one or more of the plot, apartment or building.
For any other additions, alterations or assigning or transferring of majority rights and liabilities of the promoter, the consent of at least two-thirds of the allottees who have agreed to take apartments in such buildings and RERA should be taken, except the promoter himself.\(^{39}\)

This will discourage the developers from increasing the cost of the project midway or acting against the interest of the consumers.

### Compensations to the allottees
- If the promoter fails to complete the project or is unable to give the possession of apartment, plot or building then
- in case the allottee wishes to withdraw from project then he should receive interest and compensation as given in the Act or
- in case the allottee does not wish to withdraw from project then he should be paid interest for every month of delay at specified rate, till the handling of the possession.\(^{40}\)

Further, in case of a structural defect, defect in workmanship, quality or provision of services or other obligations of the promoter as per the sale agreement when brought to the notice of the promoter by the allottee within 5 years of handling of the possession should be rectified by the promoter within 30 days without any cost. Failure to do the same by the promoter entitles the allottee to compensation.\(^{41}\)

This is a refreshing change from the previous position where the developers were not penalized or held responsible.

### Penal provisions for promoters
There is a penalty of 10% of estimated cost of project or an imprisonment of three years for a promoter\(^{42}\) who advertises, markets, books, sells or invites people to purchase any plot, apartment or building without registration with RERA.\(^{43}\)

However, there are several projects that are exempted from registration such as where the land proposed to be developed is less than 500 square meters, where the promoter receives completion certificate prior to the commencement of Act or where the renovation, repair or re-development does not involve marketing, advertising, selling or new allotment of any plot, apartment or building.\(^{44}\)

There is a further penalty which may extend to 5% of the cost of project for providing false information to RERA while registration\(^{45}\) under the Act.\(^{46}\) The miscellaneous penalty can extend up to 5% of estimated cost of the project.\(^{47}\) This will discourage developers from indulging in under-hand dealings and come down heavily on those who do the same.

### Hurdles in implementation of the Act
Despite being a well-drafted piece of legislation due to various stages of negotiations that the Act has undergone in the past 9 years, there are many lacunae that it suffers from which has been discussed

\(^{39}\)The Real Estate (Regulation and Development) Act, 2016, section 14(2)(ii), March 26, 2016.
\(^{40}\)The Real Estate (Regulation and Development) Act, 2016, section 18, March 26, 2016.
\(^{41}\)The Real Estate (Regulation and Development) Act, 2016, section 14(3), March 26, 2016.
\(^{42}\)The Real Estate (Regulation and Development) Act, 2016, section 59, March 26, 2016.
\(^{43}\)The Real Estate (Regulation and Development) Act, 2016, section 3(1), March 26, 2016.
\(^{44}\)The Real Estate (Regulation and Development) Act, 2016, section 3(2), March 26, 2016.
\(^{45}\)The Real Estate (Regulation and Development) Act, 2016, section 4, March 26, 2016.
\(^{46}\)The Real Estate (Regulation and Development) Act, 2016, section 60, March 26, 2016.
\(^{47}\)The Real Estate (Regulation and Development) Act, 2016, section 61, March 26, 2016.
The requirement of depositing 70% of project money in an escrow account is a likely source of confusion. The onus of informing about the transactions in on the builder which can be manipulated. Further, the requirement of certification by an engineer, an architect and a chartered accountant before withdrawing any amount is futile since they are all paid by builders and are likely to make reports in favor of the builders. Hence, there is an obvious conflict of interest. Further delays and disputes in withdrawal of amounts might lead to litigations jeopardizing the projects. Hence, the Act fails to address the problem of black money investment in real estate business. Further, the cost of land and construction of the project might be higher than 70% of total cost of the project. This may lead to borrowing of funds to raise the cost of the project with interest cost which will ultimately increase the cost of the project and burden the consumers.

It will be difficult for builders to sell units based on carpet area for buildings which are under construction and where some units have already been sold under super built up area. Therefore, an exemption to this effect may be inserted under section 4(h) of the Act to resolve the conflict. Further the word ‘net usable floor area’ must be defined in the Act for greater clarity.

There is a provision on monetarily penalizing the promoter for delay in completion of projects. However, in case such a delay is caused due to delayed governmental approvals then the promoter should not be penalized. Hence, such an exemption should be added under the relevant provision.

The time limit for the adjudication process by RERA and REAT might not work as expected. There were time limits for adjudication of real estate disputes on the consumer courts as well, however, no complaint was disposed off within the time frame of 90 days. Hence, the time limits under the Act are also unlikely to work.

The allottees can receive benefits under the Act only after one year which is the time frame for the respective governments to establish RERA and REAT. There is also a time limit of six months for different states to make rules for carrying out provisions of the Act. Looking at the political will and stability of governments in different states, the adherence to the timelines might be patchy with some governments establishing efficient bodies while some may not.

Many departments and processes will have to streamlined along with up-gradation of land records and bringing parity between circle rate and market rate. Since, most of documents in real estate sector are hand-written, it will be a herculean task to capture all that on an online database which will also demand

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Id.


Supra at 20.


The Real Estate (Regulation and Development) Act, 2016, section 20(1), March 26, 2016.

The Real Estate (Regulation and Development) Act, 2016, section 43(1), March 26, 2016.

The Real Estate (Regulation and Development) Act, 2016, section 84, March 26, 2016.


a lot of time. Moreover, understanding the ownership pattern would be critical for ensuring transparency under the Act.

The Act may not be implemented efficiently due to dilly-dallying tactics in implementation of the provisions of the Act. This may be due to conflict of interest of the politicians who have a major stake personally in the real estate sector. Hence, political reluctance might be a major roadblock.

The laws relating to rights over land, land improvement and colonization of land are under the state list. Therefore, laws in the states of Haryana and Maharashtra differ from the Central Act and there might be conflict between the two laws. Though the Maharashtra Housing (Regulation and Development) Act, 2012 has been repealed specifically under the Act, the one for the state of Haryana has not been which will be continuous source of confusion in the state though the Central Act will supersede the state Act.

Conclusion

The Real Estate (Regulation and Development) Act, 2016 (RERA) has had a profound impact on the Indian real estate sector, particularly on homebuyers and promoters. The act has brought about a paradigm shift in the way real estate projects are developed and marketed, promoting transparency, accountability, and consumer protection.

For homebuyers, RERA has provided a sense of security and confidence in the market. The act has ensured that developers register their projects with the relevant authorities, providing homebuyers with a sense of assurance about the legitimacy of the project. Moreover, the fast-track dispute resolution mechanism has enabled homebuyers to seek redressal of grievances quickly and efficiently.

For promoters, RERA has brought about significant changes in the way they operate. The act has imposed stricter regulations on developers, including mandatory registration of projects, disclosure of project details, and adherence to timelines. This has led to an increase in transparency and accountability among developers, which in turn has reduced instances of delay and mismanagement.

RERA has been a game-changer for the Indian real estate sector. It has brought about a new era of transparency and accountability, ensuring that homebuyers are protected and promoters are held accountable for their actions. The act has also promoted competition among developers, leading to better quality construction and services.

However, despite the progress made, there are still some challenges that need to be addressed. The implementation of RERA is still evolving, and there is a need for more effective enforcement mechanisms to ensure that developers comply with the regulations. Additionally, there is a need for more awareness among homebuyers about their rights and entitlements under RERA.

The Act is a positive change in terms of increasing transparency in the real-estate sector, increasing accountability of the promoters and developers and establishing efficient forums for grievance redress. This will consequently lead to lower litigation due to stringent rules and regulations in the highly corrupt sector. Time bound approvals and transparency will also lead to greater flow of investment both domestic and foreign leading to reduction in cost of borrowing in the real-estate sector.

58 The Real Estate (Regulation and Development) Act, 2016, section 92, March 26, 2016.
win-win situation for both the developers and the buyers and will help the sector grow in the long-run, the discrepancies in the Act needs to be urgently addressed. Further, the Act cannot be implemented effectively till the political reluctance in implementing the Act is removed which is a major roadblock. Hence, the Act needs legislative amendments by consulting the stakeholders involved as there is a huge scope of improvement coupled with removing any conflict of interest that the political class might have in the implementation of the Act.

Overall, RERA has been a significant step towards creating a more transparent and accountable real estate sector in India. It is essential to build upon this momentum and continue to strengthen the regulations to ensure that they benefit both homebuyers and promoters in the long run.