Abstract:
Real Estate Regulatory Act (RERA) came into force across India on 1ST July 2017. Various state level regulatory authorities were established to regulate the real estate sector of their respective states. RERA covers both existing and new projects under its ambit. The Real Estate Regulatory Authority (RERA) was formed to bring transparency, accountability and efficiency into this sector with the rights and duties of both buyers and developers being clearly defined. This paper envisages to explore the economic impact of RERA on profitability of real estate developers. Income statements from January 2017 to December 2018 are used to gauge the impact of RERA on profit margins of real estate developers. The top 10 real estate developers by market capitalisation are considered as the sample for this analysis. After using paired t test for analysis we conclude that thus disruption caused by introduction of regulation in the real estate industry has impacted the profitability of Indian Real Estate developers significantly in the short term.


I. INTRODUCTION

Real estate can be defined generally as space delineated by man, relative to a fixed geography, intended to contain an activity for a specific period of time.1 Real estate can be classified as: Residential new houses and existing houses for resale, Commercial shopping centres and offices, Industrial and manufacturing buildings and property and vacant land and farms. In simple words we can say that a person having any one of the above property is called a Real estate owner. Land is a property comprising of land and the structures on it, alongside its normal assets, for example, yields, minerals, or water; undaunted property of this nature; an intrigue vested in this; (likewise) a thing of genuine property; (all the more by and large) structures or lodging when all is said in done. Real estate sector, which has forward and backward linkages with more than 250 different sectors, is the second largest employment generator in India after agriculture. The sector correlation with GDP is high at 0.78x (every INR1 invested in the sector directly adds INR0.78 to the GDP) and there is significant room for improvement, as real estate sector correlation in other large economies (such as China, the U.S., the U.K., Germany, Spain) is at least 0.9x. According to the Economic Survey 2015-16, the real estate sector constituted 7.4 per cent of India’s GDP in 2014-15.2 Before the introduction of The Real Estate (Regulation and Development) Act, 2016, Indian real estate customers had little legal recourse and consumer protection was offered to them under various acts such as: The Indian Contract Act, 1872; The Consumer Protection Act, 1986. Indian consumers had to approach various authorities such as, Consumer Courts and Civil courts, to get their grievances addressed. Before the passage of the act, no single regulatory authority existed for regulation of real estate sector and buyers were facing problems like timely delivery of projects, possession not being handed over by the developer, high rate of interest being charged on late payments, multiple bookings for the same property, mis-selling of projects etc. The developers were facing issues like delay in construction permits, late payments by homeowners and operations in a non-transparent environment. The Real Estate Regulatory Authority (RERA) was formed to bring transparency, accountability and efficiency into this sector with the rights and duties of both buyers and developers being clearly defined. This research aims to evaluate the short term impact of Real Estate (Regulation and Development) Act, 2016 on the real estate developers.

II. REVIEW OF LITERATURE

(Singh, 2009): In her paper titled “Problems and Prospects of Real Estate in India”, she states that the different types of real estate are: Agricultural, Residential and Commercial. She also states that features of real estate market are: Immobility, Heterogeneous, Durability, Both an investment good and consumption good, long time delays, High transaction costs.

(Das, 2017): In his research report titled “RERA through a magnifying glass “he states that “The implementation of the Act, in its entirety, will have a far-reaching impact on the real estate sector. The Act will be a game changer for the entire sector and will transform the entire paradigm in which the sector operates and the manner in which different stakeholders interact with each other. Implementation of the provisions of the Act will cause some teething troubles in the short term but in the long run, the sector will stand to gain. The Act will require developers to recalibrate their business model so that it complies with the various provisions of the Act. Participation from homebuyers will galvanise the fortunes of the sector and help the cash-strapped developers. The confidence flowing into the sector, from the provisions of the Act, will also rub off on
in institutional funds and banks, thus enabling them to lend to the sector. The access to funds at competitive rates, which in the present day are pretty high, could lead to rationalisation of prices within the sector thereby making it a win-win situation for all the stakeholders. Most importantly, the Act will ensure that only serious and strong players remain within the sector. Therefore, going forward, a consolidation among players within the sector cannot be ruled out. The success of the new rules of the game will however, lie in having the necessary systems and processes across states so that the act can be implemented in full letter and spirit without causing much distress among the relevant stakeholders.”

(Sharma N., 2018): In his article titled: “Developers to focus on ramping up systems for RERA compliance” he states that “Over the years, real estate sector has been characterised by myriad unstructured practices, which has given a very different perception of the sector to the larger stakeholders of the economy. These practices have led to increase in the number of litigations, marked with worsening customer sentiments as seen in the recent times.”

(Housing News Desk, 2018): In their article titled “What is RERA and how will it impact the real estate industry and home buyers?” they state that “Impact of RERA on real estate industry will be Initial backlog, Increased project cost. Tight liquidity, Rise in cost of capital, Consolidation, Increase in project launch time.”

III. RESEARCH METHODOLOGY

Objective
To study the impact of RERA on profitability ratios of Indian Real estate developers

Importance of study
The study will be useful in determining the impact of RERA on real estate developers in the short term. This research will be descriptive in nature. Publically available quarterly income statements from real estate developers have been used. Convenience sampling will be used in this study. Sample is of top 10 listed developers ranked by market capitalisation. The data collected can be classified as ratio data. The population is assumed to be normally distributed i.e. the profit margins of all real estate developers follow a normal distribution. Since the type of data and normal population, one tailed paired T-test has been used to evaluate the impact of RERA on net profit margins on real estate developers.

ASSUMPTIONS
1. Profit margin on sales for population (real estate developers) follows a normal distribution
2. All developers are in compliance with provisions of RERA
3. Sample real estate developers derive most of their revenue from products covered under RERA
4. Sample size of 10 is large enough to have good power of paired t test
5. Only short term effects of RERA are considered
6. Other external shocks to the real estate industry have been ignored
7. Only income from normal operations has been considered.

IV. LIMITATIONS OF STUDY

This study is able to gauge only the short term impact of RERA on real estate developers due to non- availability of data. Also, data shall be collected from listed public real estate developers since their accounting methods are most transparent and they will comply to the maximum extent with the provisions of RERA. Impact of inflation on income statements has been ignored.

V. CONCLUSION

The null hypothesis is rejected at a level of significance of 5% and thus RERA has a negative impact on profit margin of real estate developers. Thus disruption caused by introduction of regulation in the real estate industry has impacted the profitability of Indian Real Estate developers significantly in the short term. The impact of RERA on other financial parameters can be calculated using the same methodology. Also the medium / long term impact of RERA can be gauged once enough time passes post implementation of RERA.

VI. REFERENCES

[1]. CRISIL. (2017). RERA is all about effective implementation. CRISIL Research.

REFERENCE

[1]. (Grasskamp, 1981)
[2]. Jadoun, 2014)