

## **Impact of RERA, 2016 on The Growth of Real Estate in India**

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### **ABSTRACT**

*Investing in real estate in India is complex, involving substantial savings, extensive research, and numerous legalities. The Real Estate (Regulation and Development) Act of 2016 (RERA) has significantly improved the sector by promoting transparency, accountability, and protecting homebuyers. Historically, India's real estate evolved from traditional systems to a regulated market under British rule, with RERA further transforming the landscape, especially in regions like Gurugram. RERA mandates project registration, accurate advertising, standardized carpet area definitions, timely project completion, and efficient dispute resolution. These measures ensure buyers have reliable information and protections, making the market more trustworthy. The COVID-19 pandemic heavily impacted the sector, causing project delays and financial difficulties. Despite these challenges, the residential sector rebounded post-pandemic due to increased demand and supportive government policies. Real estate is vital to India's economy, contributing significantly to GDP and employment. It is the second-largest employment generator after agriculture, providing around 5.5 crore jobs. The sector drives urbanization and infrastructure development, supports related industries, and offers significant investment opportunities, enhancing economic stability and growth. Overall, the survey paints a positive picture of RERA's impact on the real estate sector, particularly in terms of increasing investor confidence and enhancing transparency and accountability. However, it also underscores the need for continuous improvements in awareness, enforcement, and procedural efficiency to fully realize the potential of RERA. By addressing these challenges and implementing the suggested improvements, RERA can further strengthen its role in transforming the Indian real estate landscape and ensuring a more secure and transparent environment for both residential and commercial real estate investments.*

## **1. Literature study**

### **1.1. Introduction**

Investing in real estate is not a cakewalk, though it eats into a huge chunk of a buyer's savings. There are many things to remember, much to research and check, and so many laws and formalities to abide by. In a large and populous country like India, problems like lack of transparency and accountability have also been rampant in the real estate sector. But luckily though, things are now a little easier with RERA.

The Real Estate (Regulation and Development) Act of 2016, commonly known as the RERA Act marks a watershed moment in India's real estate sector. This groundbreaking legislation was enacted with a dual purpose: to safeguard homebuyers' interests and instil transparency, accountability, and discipline in an industry that used to leave homebuyers vulnerable to unscrupulous practices.

### **1.2. History and Motivation**

The history of real estate in India is a fascinating narrative spanning centuries, shaped by cultural, economic, and political factors. While the concept of property ownership dates back to ancient times, the modern real estate sector in India has evolved significantly over the past few centuries. During the pre-colonial era, land ownership was primarily based on traditional systems like zamindari, where land was owned by landlords who collected revenue from peasants. With the advent of British colonial rule, the concept of private property rights was introduced, and land became a tradable commodity under the British legal system.

This Act has the impact of changing the entire landscape of the real estate sector around the country, including Gurugram, which is said to be the nerve of the real estate sector. The Act is redefining the process of how real estate sales happen in the country and this has not only imparted the developers' community, but all the stakeholders in the sector. Every stakeholder including the Promoter, and real estate agent is learning new ways of operating and getting aligned with the new systems/processes as per the provisions of the RERA Act.

### **1.3. KEY PROVISIONS UNDER RERA ACT, 2016**

RERA aims to bring transparency, accountability, and efficiency to the real estate market by regulating both developers and real estate agents through several key provisions:

**Mandatory Registration:** Under RERA, all commercial and residential real estate projects exceeding a certain size must be registered with the respective state's Real Estate Regulatory Authority. This registration process requires developers to provide detailed information about the

project, including land titles, approvals, layout plans, and financial details. This ensures that buyers have access to comprehensive information before making a purchase decision.

**Transparency in Advertising and Selling:** RERA mandates that developers can advertise and sell projects only after obtaining all necessary approvals and registering them with the regulatory authority. Any promotional material must accurately represent the project's status, specifications, and amenities, preventing misleading advertising practices.

**Carpet Area Definition:** RERA defines the carpet area of a property, ensuring consistency and transparency in measurement across projects. This prevents developers from inflating the size of units through ambiguous calculations and provides buyers with a clear understanding of the actual usable space they are purchasing.

**Timely Project Completion:** Developers are obligated under RERA to adhere to the project's promised timeline for completion and delivery. Any delays must be justified, and developers are liable to pay penalties for late delivery. This provision safeguards buyers from indefinite project delays and helps maintain accountability among developers.

**Dispute Resolution Mechanism:** RERA establishes fast-track dispute resolution mechanisms through Real Estate Regulatory Authorities and Appellate Tribunals to address grievances between buyers and developers. This provides a transparent and efficient platform for resolving disputes, ensuring timely redressal of complaints, and enhancing buyer confidence in the real estate market.

The RERA registration has become a strong tool to help customers better compare the property and demand just what is promised by the developer, thus expediting better decision-making while getting their dream home. All these factors will make the real estate market in India more trustworthy for years to come.

#### **1.4. Impact of Covid-19**

The RERA Act has primarily focused on the public, and it is impacting the real estate sector's economy while somehow causing them a great deal of difficulty in their company. The RERA Act has brought significant changes in the Indian economy and business, especially during COVID-19. Although it has come into the picture in the year 2016 but its contribution has been substantial.

A worldwide pandemic of coronavirus occurred. The real estate sector experienced significant declines, but so did other industries. The real estate industry has reached its lowest point as a result of COVID-19. Financial problems are already there in the real estate industry, and

COVID-19 made matters worse. The project is behind schedule, and people currently lack the funds to invest in properties such as buildings or plots. The lockdown had a significant impact because it had halted business. It was already difficult for the real estate industry to accept the RERA. The real estate sector has faced numerous difficulties over the past ten years, including demonetization, GST, RERA, and now COVID-19.

According to information on the state real estate regulator's website, the number of real estate projects—residential, commercial, mixed development, and planned schemes—registered with GujRERA decreased by 22.8% to 1,346 projects in 2020–21 from 1,745 projects in 2019–20. Additionally, a 28% decrease in the overall investment through these projects was suggested, from Rs 45,490 crore in 2019–20 to Rs 32,674 crore in 2020–21. The COVID-19 epidemic and the concerns it caused are blamed by real estate industry participants for the decline in project registrations.

After a COVID-induced two-year slump, housing prices have started to rise again due to increased demand. Despite challenges such as higher interest rates and rising property prices, India's residential sector has rebounded this fiscal year. The Wholesale Price Index for construction materials has increased, but recent government actions, such as reducing import taxes on key materials, are expected to help slow down the growth in housing costs.

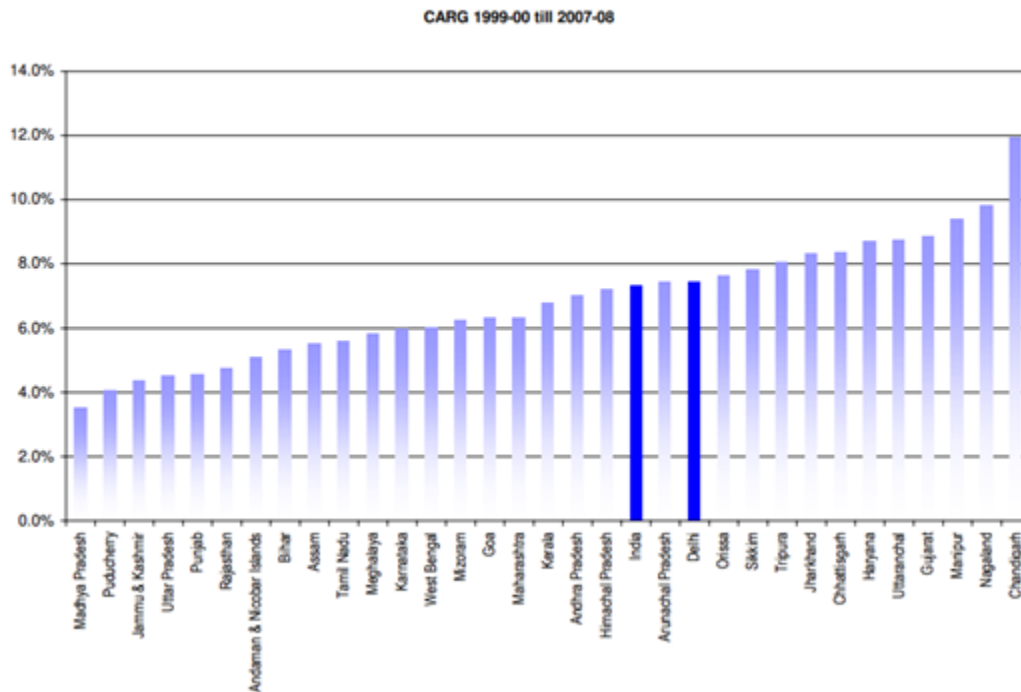
### **1.5. Quantitative Impact of RERA Act, 2016**

Real estate is tangible property, encompassing land and structures, bought, sold, or leased for residential, commercial, or industrial purposes. In real estate, “real” refers to physical property, including land and buildings, as opposed to personal property. It distinguishes tangible assets from intangible ones. Real estate holds immense importance in India, shaping its economic, social, and cultural landscapes. The sector contributes significantly to the country’s GDP, provides employment opportunities, and serves as a key indicator of economic growth and stability.

Real estate is a major contributor to India’s GDP, accounting for a substantial portion of the nation’s economic output. Currently making up 7% of the GDP, the real estate industry is predicted to increase that to 10% by 2025. The industry in India is expected to be worth INR 100,000 crore in the next years as the country strives for an INR 500,000 crore economy. The figure below shows the GDP growth of all the states and Union Territories (UTs) in India for the period 1999-00 to 2007-08. India’s GDP grew at a little above 7.3% and Delhi at 7.4% on an annualized basis, and 23 of the 35 states and UTs had a GDP growth between 5 to 9 percent annually. The construction and development of residential, commercial, and industrial properties generate substantial revenue, both directly and indirectly, through related industries such as

cement, steel, and finance. The sector’s growth fuels economic activity, stimulates investment, and drives infrastructure development, thereby playing a pivotal role in the overall economic development of the country.

**Figure 1: GDP Growth in India and its States**



Real estate is also a crucial source of employment, providing livelihoods to millions of people across various segments of the economy. The real estate sector is the second largest employment generator after agriculture in India, providing around 5.5 crore employment opportunities for people. This is due to the chain of linkages that this sector possesses with other sectors of the economy, such as the financial and business sectors. From construction workers and architects to real estate agents and property managers, the sector employs a diverse workforce, contributing to job creation and income generation. Additionally, ancillary industries such as manufacturing, transportation, and retail benefit from the demand generated by real estate development, further bolstering employment opportunities.

Moreover, real estate plays a vital role in urbanization and infrastructure development, particularly in rapidly growing cities. The construction of residential complexes, commercial centres, and industrial parks caters to urban populations' housing and business needs, fostering urbanization and facilitating the growth of secondary and tertiary sectors. Moreover, real estate

development drives the expansion of transportation networks, healthcare facilities, educational institutions, and other essential amenities, enhancing the quality of life in urban areas.

Furthermore, real estate serves as a significant investment avenue for individuals, institutions, and foreign investors. Property ownership provides a sense of security and stability while offering potential appreciation in value over time. Additionally, real estate investments generate rental income, diversify investment portfolios, and hedge against inflation, making them attractive assets for wealth creation and preservation.

## **2. Method**

### **2.1. Research Questions**

1. How familiar are you with the provisions of the RERA Act, 2016?
2. How has the implementation of RERA influenced your investment decisions in commercial and residential real estate?
3. Do you think RERA has had a different impact on commercial versus residential real estate markets?
4. What challenges or shortcomings have you encountered in the implementation of RERA?
5. Do you have any suggestions for improving the effectiveness of RERA in the real estate sector?

### **2.2. Participants**

The study involved 19 participants, consisting of 3 females and 16 males, who are real estate experts and entrepreneurs knowledgeable about real estate investing and the regulations of the RERA Act, 2016. Potential participants were excluded if they lacked familiarity with the RERA Act, 2016 regulations, or had no real estate investment experience. Each participant was carefully preselected to ensure the highest degree of accuracy in the results.

### **2.3. Material**

The data was collected through semi-structured interviews with each participant to ensure a high level of awareness and expertise about the RERA Act, 2016 regulations. This was followed by a short survey consisting of 5 questions to understand the impact of the RERA Act, 2016 on real estate investing in India. The survey ended by understanding the prominent shortcomings of the RERA Act, 2016, and asking for the customers' suggestions to improve the current state of real estate investing in India and the RERA Act, 2016.

### 3. Results

The Real Estate Regulation Act (RERA), 2016, has been a significant legislative development in India's real estate sector, aimed at enhancing transparency, accountability, and protecting the interests of homebuyers. A survey conducted with 19 participants sought to understand the impact of RERA on their investment decisions in commercial and residential real estate, their familiarity with the Act, the challenges they encountered, and their suggestions for improving the Act's effectiveness.

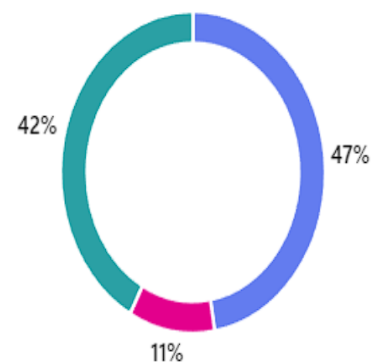
#### 3.1. Familiarity with RERA

The survey participants demonstrated a moderate to high level of familiarity with the provisions of RERA, with self-reported scores ranging from 5 to 9 on a scale of 1 to 10. The average score hovered around 7.5, indicating that while participants were generally well-versed with the Act, there was still room for improving awareness and understanding. This familiarity is crucial as it directly influences how investors perceive and react to the regulatory environment established by RERA.

#### 3.2. Impact on Investment Decisions

When asked about the impact of RERA on their investment decisions, the responses varied, reflecting a nuanced picture. Many respondents reported that RERA had "significantly increased their confidence" in the real estate market. This increased confidence is attributed to the greater transparency and accountability introduced by RERA. Investors felt more secure knowing that there are stringent regulations in place to ensure project completion and safeguard their investments. The Act's provisions for timely delivery of projects, mandatory registration of real estate projects, and the establishment of a Real Estate Regulatory Authority in each state have contributed to this positive sentiment.

- Significantly increased my confidence due to greater transparency and accountability. 9
- I have significantly increased my investments in real estate due to enhanced regulatory confidence. 2
- Neutral impact; I still consider delays to be a common issue. 8
- Somewhat negative impact; I feel the regulations may cause bureaucratic delays. 0
- I avoid RERA-registered developers due to perceived compliance costs and complexities. 0



However, not all responses were uniformly positive. A minority felt that RERA had a "neutral impact" on their investment decisions, indicating that despite the regulatory improvements, they still considered delays and other market risks to be significant. This group suggests that while RERA has brought about regulatory changes, the practical challenges and on-ground implementation still need improvement to alleviate their concerns completely.

### 3.3. Differential Impact on Commercial vs. Residential Markets

The survey also explored whether RERA had a different impact on commercial versus residential real estate markets. Responses indicated a consensus that RERA's impact was more pronounced in the residential sector compared to the commercial sector. Many respondents noted that RERA boosted confidence, transparency, and timely completions in residential markets. They highlighted those homebuyers felt more protected under RERA, which mandates clear disclosures by developers and penalizes delays.

In contrast, the impact on the commercial real estate market was perceived to be less significant. Some respondents felt that commercial real estate, often driven by different market dynamics and investor profiles, did not experience the same level of regulatory benefits. This perception suggests that while RERA has effectively targeted issues prevalent in residential real estate, its influence on commercial real estate might require further refinement and targeted measures to be equally impactful.



### 3.4. Challenges in RERA Implementation

Despite the positive feedback on RERA's influence, the survey respondents identified several challenges in its implementation. One major issue was the higher compliance costs associated with adhering to RERA regulations. Developers have to navigate a more complex regulatory environment, leading to increased costs that are often passed on to buyers.

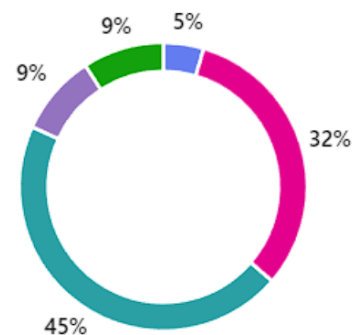


Another significant challenge is the lack of uniform enforcement across different states. While RERA is a central law, its implementation varies significantly from state to state, leading to inconsistencies in how the law is enforced. This patchy enforcement undermines the effectiveness of the Act and creates uncertainty among investors.

Awareness and understanding of RERA among homebuyers remain another area of concern. Many respondents pointed out that a large number of homebuyers are either unaware of RERA's provisions or lack a clear understanding of how to leverage them. This gap in awareness limits the Act's potential to protect consumers fully and ensure fair practices.

The slow approval and registration processes under RERA were also highlighted as significant drawbacks. Respondents noted that these delays could counteract the benefits of the Act, causing frustration among both developers and buyers.

- The slow approval and registration process causes project launch delays, affecting construction and... 1
- Lack of uniform enforcement across states leads to confusion and varying levels of buyer protection an... 7
- Many homebuyers are unaware or lack understanding of RERA's provisions, reducing their... 10
- Higher compliance costs due to RERA regulations are often passed on to buyers, raising property prices. 2
- Other 2



### 3.5. Suggestions for Improvement

To address these challenges and enhance the effectiveness of RERA, the survey respondents offered several suggestions. A prominent recommendation was to increase public awareness about RERA. This could involve comprehensive educational campaigns to inform homebuyers about their rights under RERA and how to use the Act to their advantage.

Expanding RERA's coverage to include projects launched before its enforcement was another key suggestion. Currently, many ongoing projects initiated before RERA's implementation are not covered, which limits the Act's reach and effectiveness. Bringing these projects under RERA could ensure uniform protection for all real estate investments.

Improving the accountability of government agencies responsible for RERA's implementation was also emphasized. Respondents suggested that these agencies should be held to stricter timelines for approvals and registrations to reduce delays and build confidence among investors and developers.

Finally, respondents proposed establishing direct communication channels between RERA authorities and individual buyers. This could involve regular updates and assurances to buyers about the status of their investments, helping to build trust and address concerns proactively.

#### **4. Conclusion**

The Real Estate (Regulation and Development) Act of 2016 (RERA) has been a pivotal development in India's real estate sector, aiming to enhance transparency, and accountability, and protect homebuyer interests. RERA has transformed the landscape by mandating project registration, transparent advertising, standardized carpet area definitions, timely project completion, and efficient dispute resolution mechanisms. These measures have made the market more reliable and have been particularly impactful in areas like Gurugram. Despite the challenges posed by the COVID-19 pandemic, which led to project delays and financial difficulties, the residential sector has rebounded due to increased demand and supportive government policies. Real estate is India's second-largest employment generator after agriculture, contributing significantly to GDP and urbanization, and offering substantial investment opportunities.

RERA's impact has been positive, increasing investor confidence and improving transparency and accountability. However, there is a need for better awareness, enforcement, and procedural efficiency to fully realize its potential. The survey with 19 real estate experts revealed a moderate to high familiarity with RERA, with increased confidence in the market due to the Act's provisions. The residential sector has seen more pronounced benefits from RERA than the commercial sector. Challenges in implementation include higher compliance costs, inconsistent enforcement across states, and slow approval processes. To improve RERA's effectiveness, suggestions include increasing public awareness, expanding coverage to pre-RERA projects, enhancing government agency accountability, and establishing direct communication channels between RERA authorities and buyers.

In conclusion, RERA has had a significant positive impact on the real estate sector in India, although there is room for further improvements to ensure its full potential is realized. The sector's resilience and recovery post-pandemic, coupled with the regulatory framework provided by RERA, bode well for its future growth and stability.

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