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Boosting Confidence in India's Economy:

A Regulator for the Real Estate Sector

An orderly revival of India's real estate sector, in respect of the flow of funds and consumer confidence, will go a long way in boosting confidence in the country's overall economy.

Vinod Rai[1]

It is assessed that India has about 76,000 real estate companies in India. Very few of them could have given genuine satisfaction to their clients. The grievances, in view of the sector being unregulated, were immense, and satisfaction levels very low. It is thus a very significant development that after about five years of a legislation having been contemplated to provide a regulator for the sector, it has finally received the approval of both Houses of Parliament. Parliament has passed the Real Estate (Development and Regulation) Bill 2016, which has brought a lot of cheer to the long-suffering clients in this sector. The sector was in total disarray, with the downturn in the economy adding misery to the clientele – payment in cash, unimaginable delays, and the diversion of clients' contributions by developers to other projects was rampant with no effective forum to redress grievances.

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The Bill seeks to remedy the following concerns:

1. Makes it mandatory for agents and real estate developers to register, with regulators across all States, for plots exceeding 500 sq. metres. (commercial and residential).

2. Developers are required to deposit 70% of the funds raised from buyers into separate escrow accounts to meet land- and construction-costs and ensure no diversion to other projects.

3. Standard contracts have been prescribed to impart transparency. Terms such as carpet area have been defined. Sales on super built-up area have been prohibited.

4. Builders will be obliged to get all clearances before they launch projects, and these will have to be transparently displayed.

5. In the eventuality of a developer seeking a change in his plans, it will have to be approved by two-thirds of the buyers.

6. There is also a provision to penalise developers who make misleading claims in advertisements and for the inadequacies in the product that they finally offer to the buyer.

These are some of the significant features of the Bill. Whilst the provisions are very comforting to a class of people who really had no recourse against a delinquent builder, much will depend upon the political will that is displayed by the States, as that is where the problems play out. Land is a State subject and they should not see this as an encroachment on what is essentially their turf. Secondly, the provisions of the Bill can take effect only if consequential changes are made in the approving processes of local bodies such as Corporations and Municipalities. Thus there is the need to persuade States to accept and incorporate these changes with reference to bodies such as Town Planning and other civic bodies. On the part of the Central government, it must ensure that the Regulator is provided with ample powers, thereby giving the institution the necessary space to tackle a sector which has attained notoriety in not delivering either in time or as promised.

The real estate sector has always been accorded a great deal of political patronage. It is also a sector where the cash economy plays out in a very ample measure. Large business interests have very high stakes in this sector. It is also commonly believed that if this sector could move away from the debilitated condition in which it presently is, it will send very positive signals for reviving the economy. The construction business employs a very large number of people.

It also generates economic activity in sectors such as steel, cement, wood and other ancillary industries. An orderly revival involving the flow of funds and consumer confidence will go a long way in boosting sentiment in the country's economy. To that extent the passage of the Bill has been a significant and a welcome development.

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