

# Cost Impact of RERA

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# Critical Points of RERA

Provision	Impact
Is RERA applicable in States which have notified Rules	No. RERA will be applicable when Central Government notifies Sec 3 of the Act
Is RERA applicable for Ongoing Projects	RERA Act – Yes RERA Rules - Yes
Have Rules gives some relaxation for Ongoing Projects	The final Central Rules have given relaxation for: <ul style="list-style-type: none"> <li>- Submission of amended plans</li> <li>- Giving revised possession date</li> <li>- Depositing balance amounts after deducting land and construction cost in Separate Account</li> </ul>
What is the expected date of implementation of RERA	Latest by 1 <sup>st</sup> May 2017
Will RERA lead to cost increase	Yes. By Approximately Rs 100 – 150 per Sq Ft
What should State CREDAI do with State Government	<ul style="list-style-type: none"> <li>- Compare State Rules with Central &amp; Other State Rules especially Maharashtra</li> <li>- Make representations to State Government for amending the Rules in case they have been notified</li> <li>- Make representation to State Government with suggestions for rules in case not yet notified</li> </ul>
Preparations under RERA	<ul style="list-style-type: none"> <li>- Read &amp; Study RERA Act, Rules and model Agreement carefully</li> <li>- Change current draft agreements keeping in mind RERA Act &amp; Rules</li> <li>- Staff, Broker etc, training (particularly site staff)</li> <li>- If possible, start Separate Project wise accounting</li> <li>- Identify RERA Consultant, Engineer, Architect &amp; CA as their services will be required when RERA is activated</li> <li>- If Project is nearing completion, try and get Completion Certificate and get out of RERA</li> </ul>

# Planning for Impact on Cost

## *Key Provisions which will impact Cost of Project*

Provision	Impact
Plan submission for Project Registration	Cost of all consultants will have to be incurred upfront as Registration with Authority will require detailed plans
Sale of Project after Registration <b>(NO PRELAUNCH)</b>	Capital of Promoter is likely to get locked for the 1-2 years from Land Acquisition to Launch of Project after sanction and registration with RER Authority
Entire Project to be sanctioned at start	Change in Layout will require permission of 2/3 <sup>rd</sup> allottees ; hence Promoters may have to pay all premiums and charges upfront and get full layout sanctioned
Deposit of 70% collection from allottees into Separate Account	Capital can be withdrawn in proportion to completion of the Project and hence will get locked up even after launch
Insurance	Title Insurance, Project Insurance and any other Insurance as may be prescribed by the Authority will add to the cost of the Project
Completion within time	Since there may be penalties for delayed possession, Developer will have to invest in new technology, better contractors etc.
5 Year Warranty	Promoter will have to rectify all defects upto 5 years from possession free of cost
Compliance with the Act	Promoter will have to employ qualified internal team to monitor compliance under the Act as well as appoint experienced Consultants for review as the penalty for defaults is huge

# Basic Assumptions

Project Saleable Area	1 Lakh Sq Ft
Land Acquisition & Approval Period	1 Year
Construction Period	2 Years
Selling Rate	Rs 4,000 per Sq ft
Interest on Unsecured Loans	18 %
Interest on Bank Finance	15 %
Land Cost on Saleable Area	Rs. 1,000 per Sq Ft
Construction Cost on Saleable Area	Rs 2,000 per Sq Ft
Approval Cost on Saleable Area	Rs 100 per Sq ft

# 1. Investment in Land Cost

Project Saleable Area	1 Lakh Sq Ft
Land Cost per Sq Ft on Saleable Area	Rs 1 ,000 per sq ft
<b>Pre RERA:</b> Financing by way of Investor / Pre-Launch Sale	Rs 500 lacs (50%)
<b>Post RERA:</b> Financing through own contribution or Unsecured Loan (assumed rate 18%) Rs 500 Lacs x 18% = Rs 0.90 Crs  Cost per Sq Ft = Rs 90 Lacs / 1 Lakh Sq ft	Rs 90 per Sq ft

## 2. All Approvals before RERA Registration

Project Saleable Area	1 Lakh Sq Ft
Approval cost Per Sq ft	Rs 100
<b>Total Approval Cost</b>	<b>Rs 100 Lacs</b>
<b>Pre-RERA:</b> Approval Cost upfront – Rs 50 Lacs (50%) Approval After 1 Year – Rs 50 Lacs (50%)	Nil
<b>Post-RERA:</b> 100% Approval Cost upfront Investment of Rs 50 Lacs locked in for 1 extra year $\text{Rs}50 \text{ Lacs} \times 18\% \times 1 \text{ yr} = \text{Rs } 9 \text{ Lacs}$ Cost per Sq Ft = Rs 9 Lacs / 1 lakh Sq ft	Rs 9 per Sq Ft

### 3. RERA Registration Cost

Project Saleable Area	1 Lakh Sq Ft
Registration Fee Per Sq ft for Residential Project	Rs 1
<b>PRE RERA</b>	Nil
<b>Post RERA</b>	Rs 1 per Sq Ft

## 4. Insurance Cost: Land & Building

Project Saleable Area	1 Lakh Sq Ft
<b>Total Cost of the Project</b> Land Cost per Sq Ft: Rs 1000 Construction Cost per Sq ft: Rs 2000 Total Cost Rs 3000	Rs 30 Crs
<b>Pre RERA:</b> Financing by way of Investor / Pre-Launch Sale	Nil
<b>Post RERA:</b> 0.20% of Land + Construction Cost Rs 6 Lacs Cost per Sq Ft = Rs 6 Lacs / 1 Lakh sq ft	Rs 6 per Sq ft

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## 5. Defect Liability: Material & Labour

Project Saleable Area	1 Lakh Sq Ft
Cost of “Finishing*” material that may need repairs / replacement – Rs 500 per sq ft	Rs 5 Crs
<b>Pre RERA:</b>	Nil
<p><b>Post RERA:</b></p> <p>a) Free of Cost Material Repairs / Replacement for 5 years – 2%  Rs 5 Crs x 2% = Rs 10 Lacs</p> <p>b) Maintenance Team (Supervisor &amp; few masons / plumbers for all sites) - Rs 30,000 per moth x 12 months x 3 years = Rs 10.80 Lacs</p> <p>Total (Labour + Material) = Rs 20.80 Lacs  Cost per Sq Ft=Rs 20.80 Lacs / 1 lakh</p>	Rs 21 per Sq ft

\* Waterproofing, Doors, Tiles, Electrical Works, Painting, Windows etc.

## Summary of Cost Increase due to RERA

Sr. No.	Item of Cost	Increase Rs per Sq Ft
1	Interest on Land Investment	90
2	Interest on Approval cost	9
3	Registration Cost	1
4	Insurance Cost	6
5	Defect Liability Cost	21
	<b>Total</b>	<b>127</b>

## Food For Thought: Is this Cost Increase on Account of RERA?

- ? 70% Money Locked in Separate Account
- ? Increase in Inventory cost due to Customer Preference for completed inventory
- ? Developer has to first spend money and then withdraw from Account
- ? Better Quality Manpower, Suppliers, Contractors, Consultants

## Exploring RERA effect

Vinit Deo, chartered accountant, chairman of Posiview Consulting Partners and realty expert, talks about Real Estate Regulation Act and its implications

The Real Estate Regulation Act (RERA) is a much awaited and welcome move for the not just the homebuyers but also for the developers. RERA will bring in the much-needed transparency in the real estate sector and boost confidence of buyers and investors, thus leading to growth of the industry. However as the saying goes, there is no free lunch. The million dollar question is at what price will this transparency come?

Let us look at the factors that will lead to an increase in cost for the developer.

### REGISTRATION OF PROJECT

After RERA comes into effect, all projects above a certain size (Land area of 500 sq.mtrs or eight apartment) will have to be registered with the Real Estate Regulatory Authority. Apart from fees for registration to the Authority, developers will also have to pay various consultants to get the documentation done for the registration. The registration process will also consume certain time that will lead to a bit of delay in the project. This will add to the interest cost of the developer as he will not be able to sell units till he gets the registration number.

### ALL APPROVALS BEFORE REGISTRATION

Post-RERA, the Authority will accept application for registration only when the project has received all approvals and permissions. This rule will lead to increase in investment of the developer in the project and thus his interest cost. Also, he will be able to do lesser number of projects with the same amount of capital leading to a decrease in supply in the market.

### DEPOSITING & USE OF FUNDS

RERA says that 70 per cent of amounts received from customers has to be deposited in a separate account and to be used only for the project for which they are collected. This is a welcome move which will ensure that the customer gets comfort of project completion. At the same time, it will lead to increase in borrowing cost of the developer every project will have to raise its finance independently from Banks. Any shortfall in customer collections will have to be financed from borrowings.

### INITIAL FUNDING FOR LAND AND APPROVALS

Unlike manufacturing industry, developers do not get funding for their raw material that is land. To buy land they have to either use their own funds which are limited or locked up in projects or do high cost private borrowing. At present there is another option of pre-launch sale to investors. This will no longer be available as RERA makes it compulsory to sell only post Registration of the Project.

### INSURANCE OF LAND AND CONSTRUCTION

RERA has made it compulsory for the developer to get insurance for land title insurance as well as building insurance for the construction part. At present, the type of insurance policy mentioned by RERA is not available with the insurance companies, but they are expected to introduce the same soon. This additional cost of insurance premium will be passed on to the homebuyer.

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## Exploring RERA effect

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### COST OF DEFECT LIABILITY FOR FIVE YEARS

Under RERA, the developer has to repair free of cost any defect in the property for a period of five years from date of possession. At present, the defect correction was being based on mutual understanding between homebuyer and developer as in many cases the developer had helped rectify the defects, which were not due to his fault just to maintain customer relations. Developers will start estimating the approximate value of such likely costs depending on their past experience and load it into all the apartments. Developers will start estimating the approximate value of such likely costs depending on their past experience and load it into all the apartments.

### COST OF COMPLIANCE WITH THE ACT

The developer will have to recruit additional personnel to monitor the compliances under the Act. He will also have to take services from professionals like architects, engineer and chartered accountant for monitoring the project and certifying every withdrawal from the separate account. Their fees and other expenses will add to the cost of the apartment.

### ORGANISATIONAL COSTS

Developers will have to change their policies, systems and processes to work under the RERA regime. They will have to take better quality staff and appoint senior professionals. They will also need to upgrade their suppliers, contractors, brokers et al so who are capable of working under the stringent conditions imposed by RERA. This will lead to an overall cost of doing real estate business.

### PENALTIES FOR DELAY IN POSSESSION

Developer may have to incur penalties like interest and compensation for delays in possession. To avoid such penalties, they will have to make a provision in costing for contingencies such as extra manpower, machinery that will be required to complete the project in time.

### WHAT WILL BE THE FINAL IMPACT?

As per our estimates, the net impact of all the above factors will be an increase of Rs 200 to Rs 250 in cost of the project. Developer will pass this on the homebuyer as they will not be able to absorb the impact of the same.

## Times of India – Property Times

17<sup>th</sup> Dec 20176

## Why RERA will lead to increase in Home Prices

## Planning for Construction Cost

# Basic Assumptions for Project Cost Analysis

- ❖ Cost is worked out on purchase of Material done by the developer
- ❖ Work executed through labour contractor
- ❖ Parking consideration:-
  - 7 Floor- Stilt Level Parking
  - 12 Floor – Stilt & Podium Parking
- ❖ Service Tax component on labour cost is not considered (We get 100% set-off )
- ❖ Cost is based on the certain specifications
- ❖ Material & Labour rates are as on June-16
- ❖ Size of the projects is 1,00,000 sft. Saleable, 125 units.
- ❖ Saleable area calculation – Carpet + 35%
- ❖ Planning – 8 Flats per floor are considered
- ❖ Cost is inclusive of stilt parking only (Other extra parking worked out separately)
- ❖ Foundation hard strata met at 1.5m.(min. required)
- ❖ For P+7/12 conventional RCC/ Masonry is considered.

**\*SOURCE:- Dilip Mittal, [dilip@mittalbrothers.com](mailto:dilip@mittalbrothers.com), Mittal Group, Pune**

Basic Rates : Major Materials	
Cement	Rs. 275/- per bag
Steel	Rs. 40/- per kg
CLC Blocks (600X200X150)	Rs. 52/- per No.
4" Red Bricks	Rs. 5.50 per No.
Crush Sand	Rs. 3150/- per brass
River Sand	Rs. 6000/- per brass
Metal ½", ¾"	Rs. 2600/- per brass
Gypsum - 25 kg	Rs.185/- per bag.

Basic Rates : Major Materials	
Wooden Door Frame	Rs. 4000/- per No.
Alum. Window (3 Track) 3/4" series	Rs. 225/- per sft.
Vitrified Tiles	Rs. 55/- per sft.
Green Marble	Rs.40/- per sft.
Toilet Tile	Rs.50/- per sft.
Kitchen Otta	Rs.1800/- per rft.
Checkered Tile	Rs.40/- per sft.
Skin Door Shutter	Rs.150/- per sft.

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## A. Building Cost

Building Cost		P+7 8 Flats / Floor	P+12 8 Flats/ Floor
1	Plinth + RCC	427	487
2	Masonry, Plaster / Texture	206	176
3	Gypsum Plaster /Putty for ceiling	20	51
4	Doors	30	77
5	Aluminum Window + Doors	25	31
6	Railing + Fabrication	16	16
7	Waterproofing	26	21
8	Flooring	110	154
9	Entrance Lobby + Stair Tiling	10	21
10	Kitchen Otta	20	21

Building Cost		P+7 8 Flats / Floor	P+12 8 Flats/ Floor
11	Painting	48	54
12	Plumbing, Sanitation	80	92
13	Electrical Works	90	93
14	Lift	40	40
15	Fire Fighting	11	8
16	Garbage Chutes	0	----
17	Pipe Gas System	0	12
18	Solar System	12	17
19	Misc.	12	20
<b>Bldg. Cost per Sqft</b>		<b>1163</b>	<b>1391</b>

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## B. Development Cost

Development Cost		P+7 8 Flats /Floor	P+12 8 Flats/ Floor
1	Plot development	2	2
2	Temporary Structures	18	18
3	Compound wall	20	20
4	Landscape	10	20
5	Electric Substation	35	35
6	Water Supply + WTP	24	24
7	Sanitation + STP	19	19
8	Road	15	23
9	Gas Bank + Garbage Disposal	4	4
10	Miscellaneous	17	17
	<b>Total Development Cost Per Sq ft</b>	<b>164</b>	<b>182</b>

**\*SOURCE:- Dilip Mittal, [dilip@mittalbrothers.com](mailto:dilip@mittalbrothers.com), Mittal Group, Pune**

## C. Escalation Costs

Escalation Cost	P+7 8 Flats /Floor 18 Months	P+12 8 Flats/ Floor 24 Months
In 1 <sup>st</sup> Year	38	38
In 2 <sup>nd</sup> Year	55	110
<b>Escalation</b>	<b>93</b>	<b>148</b>
<b>% Escalation</b>	<b>6.90%</b>	<b>9.30%</b>

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## C. Total Cost (A + B + C )

Description		P+7 8 flats /floor	P+12 8 Flats/ Floor
A	Building	1,163	1,391
B	Development Work	164	182
	Podium Parking	-	105
	Club House	38	38
	Consultants Fees	40	40
C	Escalation Cost	93	148
	<b>Total Construction Cost</b>	<b>1,498</b>	<b>1,904</b>
	Marketing / (5% on Rs 4000)	200	200
	Admin (2,50% on Rs 4000)	100	100
	<b>Total Project Cost</b>	<b>1,798</b>	<b>2104</b>

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## Thank You

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