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Developers in a bind over Rera, GST

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Mumbai, 1 August

After demonetisation, which almost brought house sales to a halt, real estate developers are grappling with the Real Estate Regulation and Development Act (Rera) and the goods and services tax (GST). "Real estate has gone through many down cycles since 1991. But I have never seen three tsunamis together," said Niranjan Hiranandani, managing director of the Hiranandani group, one of the country's oldest and largest property developers.

"This is the worst time in the careers of many developers. If you have rental income, you can stay. Otherwise, it will be very difficult," added Vijay Wadhwa, chairman of the Wadhwa group, a Mumbai-based developer. "The law is very strict and developers cannot be lackadaisical in their dealings anymore," said Wadhwa.

Life for developers, which are often criticised for opaque practices, has turned topsy turvy after Rera came into force from May 1. Most developers in

Maharashtra are focusing on completing projects or registering them with the Rera authorities. Rera has strict rules like 10 per cent penalty for not registering with the authorities. It also bars developers from pre-launching a project, a popular way of raising initial funds for construction and mandates them to put 70 per cent of project proceeds in an escrow account. Developers fear both the provisions to put pressure on their finances.

"Definitely cost of funds will go up for developers," said Ashish Puravankara, managing director at Bengaluru-based Puravankara group.

CHALLENGES FOR REALTORS

- Developers have stopped marketing projects to focus on Rera
- GST has hit sales of premium apartments due to increased tax
- Rera bans pre-launches, makes mandatory to put 70% in an escrow account
- Rera has also increased compliance work for developers

According to property consultant Knight Frank, launches have dipped 41 per cent in January-June from the same period a year ago, and sales are down 11 per cent. "For most developers, the past three months have been devoted to housekeeping. They are focusing on Rera compliance. They fear anyone can approach the authority on flimsy reasons," said the country head of a US-based private equity firm.

Rera compliance and the GST are pushing up overall costs for developers by five to six per cent. Pirojsha Godrej, chairman of Godrej Properties, said some of the costs would have to be absorbed, but other developers disagree. "Developers cannot absorb the increased tax as the markets are down. The 12 per cent GST rate is heavy," Wadhwa said.

The input credit for raw materials is not enough to cover the increased tax in the GST regime. Sale of premium apartments under construction had been hit by the tax hike, Hiranandani said.

"If developers absorb the hike, their margins will come down. But since there are no sales, they will be forced to absorb the hike," said Amit Bhagat, chief executive at ASK Property Investment Advisors. He expects developers' margins to drop by one to three per cent. "Sales could recover in the next two years," Bhagat added.

Shailesh Puranik, managing director of Puranik's, a developer in Maharashtra, said Rera would curb supply and result in higher prices. "Positive cues such as the monsoon and lower interest rates will push up prices," he said.