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Weighing the pros and cons

Bikram Sen, CEO, ArthVeda Fund Management, says, We agree with the intent behind the provisions pertaining to advertisements of projects. Clause 7 is related to misrepresentation about the project or services and we think it is fair that developers diligently make sure that their advertisements are designed to properly represent whatever is being offered. Clause 9 relates to advertisement of a project and taking bookings only after obtaining registration from the Real Estate Regulatory Authority.

We don't have any issue with this clause about obtaining permission before issuing advertisements and taking bookings and deposits after registration. However, it will affect the builders in terms of the//ir financing requirements, since some of the smaller ones did need the pre-launch bookings to finance the land acquisition and approvals process. Now they will need to be financed properly before launching a project and customer advances will be eliminated as a way of start-up finances. Banks cannot provide finances for land acquisition and expenses for obtaining approvals. This automatically enhances the role of organized real estate funds which can provide this kind of finances.

The effect on unscrupulous builders will be to restrain them from making misrepresentations in their advertising and taking small investors and customers for a ride. For the scrupulous builders it just raises the bar in terms of finding proper financing sources. The market will adjust to that and the reputed builders should be able to find it. However, small town builders in small projects will have difficulty finding proper financing from real estate funds since most real estate funds focus on Metros and Tier I towns and invest in large ticket (Rs. 50 Crore ticket sizes) projects.

Flat buyers will face an issue of fewer projects getting launched and more lead time before project launches. Hence in the near term there could be a reduction in supply. The costs to flat buyers might go up a little bit since all the additional costs of the additional regulatory process will be passed on to the customers. However, this will be more than compensated by the higher transparency and the lowering of risk to consumers from the unscrupulous builders.