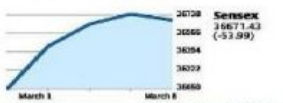
SATURDAY • MARCH 9, 2019
CHENNAI
₹8 • Pages 18 • Volume 26 • Number 58

THE HINDU
BusinessLine

www.businessline.in
businessline
thehindubusinessline



	LATEST	CHANGE
Nifty 50	11035.40	-22.80
P/E Ratio (Sensex)	27.17	-0.05
US Dollar (in ₹)	70.14	+0.14
Gold Std 10 gm (in ₹)	32150.00	+175
Silver 1 kg (in ₹)	37925.00	+70

INDIA INTERIOR
Azad Foundation's Women on Wheels programme helps the fairer sex take up driving as a profession p2

MEGA BUY
Major port trusts of Vizag, Paradip, JNPT and Deendayal will acquire 73% in Dredging Corp for ₹1,056 cr p5

BANKING ON TECHNOLOGY
Apollo Tyres is betting big on technology and branding to stay globally competitive, says Vice-Chairman and MD Neeraj Kanwar p5

Ahmedabad Bengaluru Chennai Coimbatore Hubballi Hyderabad Kochi Kolkata Madurai Malappuram Mangaluru Mumbai Noida Thiruvananthapuram Tiruchirapalli Tirupati Vijayawada Visakhapatnam
Regd. TN/ORD/16/2013-2014, RNI No. 55320/94

Home buyers stepping in to bail out stressed real estate developers

But experts feel the move has its own set of hurdles

VARUN AGGARWAL
GARIMA SINGH
Mumbai/New Delhi, March 8

Home buyers are increasingly resorting to bailing out stuck real estate projects which the developers are unable to deliver for want of funds. The amended Bankruptcy Law, which treats homebuyers on a par with secured financial creditors, is also facilitating this trend.

However, experts are of the view that the move has its own set of hurdles.

Last month, home buyers at a Mumbai luxury residential project received a go-ahead from the Bombay High Court to develop the project by raising money on their own. The buyers of the Orbit Terraces in Lower Parel managed to take over the project by negotiating a deal with the lending banks that agreed to sell off the project to recover their loans that Orbit Corporation had defaulted on.

"If there are cases where the project is nearing completion, then the project can be handed over to the buyers, but on the condition that the excess funds collected are refunded to the buyers," says Chitra Sharma, who has moved the Supreme Court against Jaypee Group.

Industry experts see it as a win-win situation for both buyers and developers. According to them, for buyers the uncertainty will end and for the developers the much needed financial support will be made available.

"This happens in the stressed projects and in this way not only the project gets completed on time, but also the unsold inventory after completion gets sold," said Deepak Kapoor, Director, Gulshan Homz. The real estate company has four residential projects in Noida.

Large projects

Manoj Gaur, Managing Director, Gaursons India, said, "As the homebuyers don't see much progress in the project, they stop giving money and as a result banks also restrict themselves and the project gets stuck". The problem of debt is more prevalent in the large projects, whilethe small ones get completed on time, he added.

Kushag Ansal, Director, Ansal Housing, said, "Likelihood of this phenomena becoming a norm is not on the horizon as developing a property entails expertise and requires deft project management skills".

In Mumbai, several buyer groups are now approaching Maharashtra RERA to take over stuck residential projects that the builders have been unable to deliver, Gautam Chatterjee, Chief of Maharashtra Real Estate Regulatory Authority, told *BusinessLine*.

For buyers, uncertainty over the project will end and for developers, financial support will become available, say experts

As many as 5.61 lakh units worth ₹4.51 lakh crore are stuck in various stages of non-completion across top 7 cities. These projects have been launched either before/during 2013, as per Anarock Property Consultants.

Interestingly, NCR has the maximum stock, comprising nearly 37 per cent of the overall stalled/delayed units. But Mumbai seems to be catching up too.

Non-banking financial institutions that are already facinga liquidity crunch are actively looking to sell such projects to whoever is willing to take over. In increasing number of cases, that happens to be the original buyers of the project themselves.

According to homebuyers in Delhi, the situation is starkly different where housing societies have sprawling amenities like swimming pools and gymnasiums. "This is not an acceptable precedent that can be applied uniformly across the board. In the case of Jaypee, there are 27 projects that are at various levels of completion. But the builder has collected 85 per cent payment from all buyers," Chitra Sharma, a homebuyer, said.

"In some cases, the money has been collected from the buyers but no construction has started. In such a condition, it is not prudent to push buyers to shell out more monies and hand them projects that are at varying stages of completion," Sharma said.

"We are being told that Jaypee Infratech has received occupancy certificates for some 1,200 flats from the Noida Authority on January 30. It is expected that the builder will be handing over these flats meant for residential societies of the Intelligence Bureau, Army arms, IndianOil and ONGC," another flat buyer said. "If the flats are handed over to the buyers then the UP government can immediately rake up nearly ₹100 crore," the flat buyer said.

"The issue of stalled/delayed project is one of the major pain points of the real estate sector. With buyers feeling the heat of this delay, many are now considering completing those projects by themselves which have sufficient cash flows but are delayed due to other multiple reasons," Anuj Puri, Chairman at Anarock Property Consultants, said.

NBFCs selling off

Project management and advisory firm SILA Co-founder Rushabh Vora said stressed NBFCs are willing to sell off such assets at cheaper cost in order to quickly recover their money, giving opportunity to buyer groups as well as third party developers to take over such projects.

"NBFCs are looking to protect their invested capital by partnering with reputed developers to complete stalled or slow moving projects that they have funded. Further, larger developers with strong balance sheets will have the opportunity to invest in stressed projects at favourable price," Vora said.

According to Anarock estimates, if the buyers manage to complete their stuck projects, the value of their property will increase by at least 20-30 per cent.

"Once completed, those looking to earn rentals can also do so or either save on their rental if they are living in rented houses. This will be far more beneficial than sitting over an incomplete project," Puri said.

Self redevelop

In Mumbai, buyers are also breaking the conventional norm of appointing developers to re-develop old and dilapidated projects. Instead, several housing societies have come forward to self-redevelop by appointing their own architects, contractors, and project management consultants in order to execute the project.

Boman Irani, Vice-President of MCHI-CREDAI, which represents builders, feels the idea of buyers taking over a project may not be ideal.

"In property development business, domain knowledge is very important. While one may hope that a group of buyers (who may not have the relevant experience) will be able to complete the development, it is often not the case. Further it's known that the developer needs to take decisions in the continuously changing landscape, which is taken faster as an experienced team member," Irani said.

(With inputs from Twesh Mishra)