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Hurdle race

By Jharna Mazumdar May 02 2012

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Builders' concerns over delay in statutory approvals for their projects have only deepened, with no solution in sight

The red tape has continued to remain the biggest hurdle for real estate companies. Property developers and industry officials across the country are taking up their concerns with their respective state governments seeking an easy process that facilitates statutory approvals and helps them execute projects without delay.

Each project needs at least three dozen no objection certificates from various departments. The approvals are taken from respective municipal corporations for water, sewage, tree cutting (if any) and area of the project. For electricity connections, permissions are required from state electricity boards while for high-rise buildings approval from civil aviation is required. Among the tough ones are environment clearances — to check whether the project is on forest or agricultural land. The list just goes on.

The government seems to have tightened granting approvals to real estate projects after the Central Bureau of Investigation arrested number of high ranked officials from several financial institutions in India in connection with the bribe-for-loan housing scam in 2010.

The Mumbai Metropolitan region, the Mecca of real estate, is among the worst hit. Around 16-18 million sq ft of construction is stuck due to approvals. Vyomesh Shah, managing director of Hubtown (formerly Ackruti City), says that at least 300,000 homes are stuck in Mumbai for over a period of three years due to lack of approvals. Obviously, this has hit the supply badly.

Real estate companies operating in the Mumbai Metropolitan Region and their associations have submitted a presentation to the chief minister Prithviraj Chavan for speedy approvals of real estate projects since delays are contributing to rising cost of properties and is the biggest concern for the sector. The move from realty players comes at a time when there has been a 14.8 per cent decline in property registration (sales and purchases) during January-March 2012 in Mumbai, even as there has been an 11.72 per cent surge in lease and licences agreements.

This is not an issue in Mumbai alone. Property developers across the country rue the sorry state of affairs when it comes to approvals. Niranjan Hiranandani, managing director of Hiranandani Group, tells FC Build that the rules and regulations are dilatory and time-consuming. "There is a long gestation period between land purchase and project execution due to several approvals required for it."

In high inflation regime, time overruns lead to higher costs. Property developers are forced to pass on the increase in cost to buyers. "If approvals

come on time, it is possible to bring down 25 per cent of the cost of construction. Due to delays in project execution, developers pay higher interest and, thus, the cost of holding the property increases," says Boman R Irani, managing director of Rustomjee group.

According to Irani, last year 22.7 million sq ft of space was constructed in Delhi and NCR region, 14.8 million sq ft was constructed in Bangalore, but in Mumbai only 7.2 million sq ft of the space was constructed. And he blames it on the long delay in approvals.

Hari Prakash Pandey, vice president of HDIL, says the biggest problem lies in the fact that there is no uniformity in laws across states. "The duration of approvals is too long, and due to which, many a time, project execution gets delayed. What is required for the sector is more consistency. In a city like Mumbai, developers don't get approvals on the first day. They come as the project work progresses. If approvals get delayed, the project invariably gets delayed," he says.

Anuj Puri, chairman and country head of Jones Lang LaSalle, said, "In the past 12 months, only two files have been cleared in Mumbai that signifies the urgency of the

situation. On an average, approvals are taking around 18 months

across regions."

Almost 40 per cent of ongoing residential projects in the Mumbai Metropolitan Region (MMR) are facing serious execution delays with the most affected segment being the premium housing market. According to a report released by the real estate research agency PropEquity, almost half of the projects that are held up for lack of statutory approvals are in the luxury segment with the remaining in the affordable housing and mid-segments. The report has taken a close look at all such projects launched between January 2007 and June 2009 and were supposed to be ready for possession by January 2012.

The report has taken into account 1,920 projects in the National Capital Region (NCR)-Delhi and Bangalore Metropolitan Region (BMR), apart from MMR. "Several of the ongoing projects were those launched during the pre 2008 crisis and are now facing severe funding crunch, increased borrowing costs, falling global macro-economic trends and dwindling housing demand."

Of the three cities, NCR accounts for maximum delays as the number of projects launched in Gurgaon, Noida and Greater Noida is very large compared with MMR and Bangalore. In NCR, only 23 per cent of the projects were completed by January 2012 against 61 per cent in MMR and 66 per cent in Bangalore, according to the survey.

Rajeev Talwar, executive director of DLF said, "Around 25-30 approvals are required for each project which comes in a series. To get all the clearances it takes between two and three years, which is crazy. We have to run from pillar to post to get the clearances from the municipal bodies and municipal commissioners." Talwar adds that there are hardly any private residential new projects, which are coming up in Delhi and NCR region as approvals are delayed.

Even in the South, developers say the situation is similar. JC Sharma,

managing director of Sobha Developers, says that in Chennai and other southern cities, approvals are delayed by more than a year. "Of late, however, things are improving slowly."

"We plan our projects a little ahead so that delay in construction is avoided. Further things are changing and the approval process is slowly picking up pace," says Sharma.

Developers believe that if the approvals come early then not only will the cost come down but the supply will also increase which would further help reduce cost.

Hiranandani said there has always been shortage of land and it will continue to be scarce. The government should try to increase FSI like other countries to solve the

problem and also develop infrastructure and get far off places

connected so that more land gets developed and available.

jharnamazumdar@mydigitalfc.com