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Flat sales to financiers reworked after RERA

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SEVERAL REAL ESTATE companies that had sold apartments in bulk to financiers, a strategy in vogue until last year, are now reworking their agreements to avoid registering such transactions, people in the know told FE.

Conditions under RERA regulations reduce the attractiveness of such funding wherein a developer could offload scores of apartments to either a PE fund or a HNI at a significant discount, collect an upfront amount with a caveat of a minimum guarantee. For all practical purposes, it is as good as a pre-sale to a customer, a practice that RERA curbs.

Now, every sale has to be registered, posing a two fold problem. For one, financiers are unwilling to incur a 7% additional cost to register, that too, on the basis of current ready reckoner rates.

Moreover, sources said, in some cases, such deals were done at a deep discount, even lower than the prevalent circle rates, which might now have income tax obligations, should such transactions be registered.

This has fund managers and real estate companies worried and conditions of many such agreements are being changed to make them RERA complaint.

"It depends on how specific deals were structured. If the financier, for instance, was identified as a partner or a co-promoter of the project, it does not need to be registered," said Gaurav Gupta, co promoter and director at Omkar Realtors. Two years back, the company had done a bulk transaction with Piramal Fund Management. Gupta did not disclose particulars of this deal. But some differ in their assessment. "While it is an option to redefine the roles of stakeholders, an investor would not want to be defined as a partner because it opens him up to all the risks that a promoter has to bear, including jail time," said Anuj Puri, chairman of ANAROCK Property Consultants, which also runs a segregated fund, invested in bulk transactions.

It is hard to generalize a solution but on a case to case basis, it needs to be seen how dynamics of these agreements can be altered, said Anish Sanghvi, partner at PwC.

Going forward though, Sanghvi does not think bulk transactions will make a major comeback because the current regulation defeats its very purpose.

Apart from ANAROCK, Piramal Fund Management, Nisus Finance, Centrum owned IPAL, ICICI Prudential, Edelweiss and Blackstone are funds that have previously engaged in bulk buying of apartments. Although FE could not determine exactly how many apartments were sold under this scheme, majority of these were sold in Mumbai and the NCR.

True to Sanghvi's prediction, in the past one year, as the market has gotten close to implementing RERA, bulk deals seems to have vanished.

It remains to be seen what happens to funds that were specifically raised to invest in bulk inventory and were partially deployed. "Bulk investments will continue but developers will no longer be able to raise such funds before getting approvals so it will take 12 to 18 months before one can get financed," Puri said.

But if the stage of financing changes, so will the return expectation. In the past, apartment funding fetched funds a predetermined return ranging between 22% and 25%.