



# MAHARASHTRA REAL ESTATE REGULATORY AUTHORITY

## महाराष्ट्र स्थावर संपदा नियामक प्राधिकरण

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### Inviting Suggestions on the Consultation Paper on Framework for Grading of Real Estate Projects in Maharashtra

Under Section 32 (f) of Real Estate (Regulation and Development) Act, 2016, one of the key functions of MahaRERA is to facilitate grading of projects on various parameters of development including grading of promoters in Maharashtra.

Therefore, MahaRERA has prepared a consultation paper on framework for Grading of Real Estate Projects in Maharashtra.

All the stakeholders are requested to submit their suggestions / views on the proposal contained in the Consultation Paper latest by 15 July 2023 by email to [suggestions.maharera@gmail.com](mailto:suggestions.maharera@gmail.com)

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# Consultation Paper on Framework for Grading of Real Estate Projects

Maharashtra Real Estate Regulatory Authority (MahaRERA)



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## 1. Background

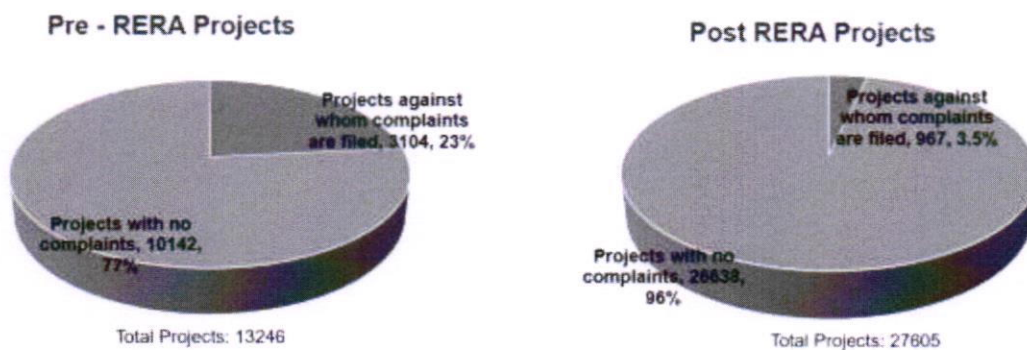
In India, a country of 1.4 billion people, housing has a unique socio-economic and symbolic significance. A thriving and transparent real estate sector can give a fillip to Gross Domestic Product (GDP) growth and enable holistic socio-economic development. Real estate sector contributes 6 to 7% of country's GDP and is India's second largest employer after Agriculture.

Government of India introduced Real Estate (Regulation and Development) Act (RERA) 2016 for regulation and promotion of the real estate sector in the country. Under this Act, Government of Maharashtra established Maharashtra Real Estate Regulatory Authority (MahaRERA), vide Notification No. 23 dated 8 March 2017.

MahaRERA has brought about a transformative era in Maharashtra's real estate sector, characterized by enhanced transparency, accountability, customer centricity, and financial discipline. Homebuyers are at the core of this transformation, with their rights protected, capital efficiently utilized for home completion, and access to comprehensive project information for informed decision-making. The introduction of a speedy dispute resolution mechanism further empowers homebuyers, ensuring a fair and efficient resolution process. Overall, MahaRERA is continuously working towards improving real estate experience for homebuyers, fostering a more transparent and consumer-centric environment.

This is evident in the number of complaints received by MahaRERA. In Projects launched Pre-RERA, MahaRERA has received complaints against 23% of the projects, whereas in Projects launched Post-RERA, Complaints have been received against 3.5% of Projects only.

Only 3.5% of Projects launched Post-RERA have complaints against them Vs 23% of Projects Pre-RERA





Some of the salient practices adopted by MahaRERA to ensure Home-buyers interest are protected include:

- All Information of Real Estate Projects including Approvals, Apartment Details (Carpet Area, Booked / Unsold etc.), Project Professionals, Project Progress, Litigations etc. is online for public view.
- 70% of the amounts realized from the allottees is deposited in a separate account to cover the cost of construction and the land cost only
- Building Plan Approvals (Commencement Certificate) to be in place before registration & marketing / selling any project
- Increased assertion on the timely completion of projects and delivery to the consumer. Failing which Interest Payments shall start.
- Consent of 2/3rd allottees for any addition or alteration
- Model Agreement & Allotment Letter: Max 10% of the booking amount can be taken before entering into Sale Agreement. Introduced Non-Negotiable Terms in Agreement
- Fast Track Dedicated Adjudicating Mechanism for Complaints under the Act

Aligning with its mission to empower homebuyers, MahaRERA proposes to introduce a Grading system for real estate projects in the State. This initiative aims to enable homebuyers, even those who may not comprehend technical details such as approvals, to assess the quality of a project and make well-informed decisions. By implementing the Grading system, MahaRERA seeks to enhance transparency and facilitate easier understanding of project details for homebuyers.

Further, under Section 32 (f) of the Act, one of the key functions of MahaRERA is to facilitate grading of projects on various parameters of development including grading of promoters. Therefore, MahaRERA has released this consultation paper outlining the framework for grading real estate projects, inviting public suggestions and objections. By seeking public feedback, MahaRERA aims to refine and develop a comprehensive framework that aligns with the needs and expectations of the real estate industry and homebuyers alike.

## 2. International Examples

Ratings / Grading system in Real Estate Sector is well-established Mechanism internationally.



## 2.1. Singapore

Building and Construction Authority (BCA), Government of Singapore is the statutory authority responsible for safety, quality, inclusiveness, sustainability and productivity of Real Estate Sector in Singapore.

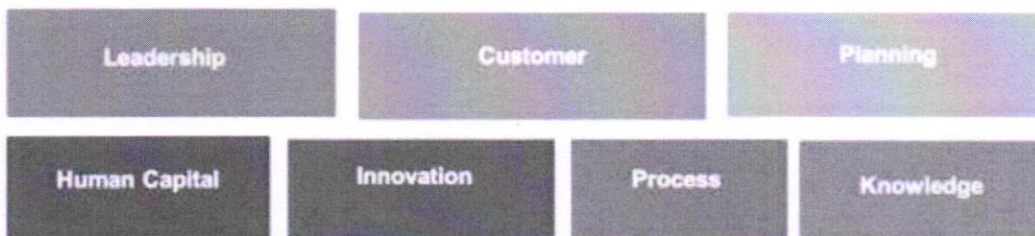
Since 1989, BCA has introduced several Assessment Frameworks for rating including Construction Quality Assessment System (CONQUAS), Green Mark, CONQUAS Manager and Supervisor Certification and so on.

Integrated Construction Quality Assurance Scheme (ICQA), is the latest rating system introduced by BCA to ensure greater quality, productivity, sustainability and safety in real estate sector.

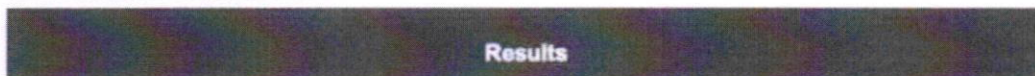
Performance is mapped to a tiered rating system to benchmark the promoters' standing against their peers. There are eight (8) categories within the ICQA framework namely Leadership, Customer, Human Capital, Planning, Innovation, Process, Knowledge and Results

### ICQA framework

#### System Requirements

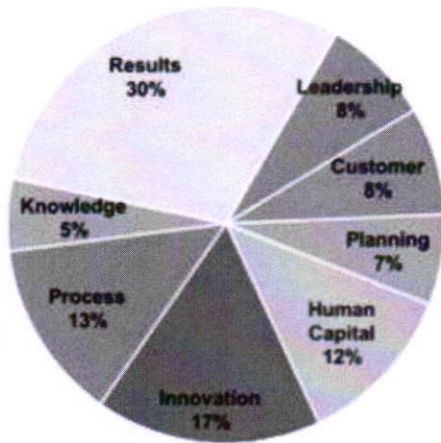


#### Performance Requirements



### ICQA Rating

Promoters are required to achieve minimally 50% of the total marks in each ICQA category. Firms can rate their performance under a 3-tiered rating, as follows:



✓ Tiered rating

Firms will be graded under a 3-tiered rating

-  **Excellent** – Achieved overall score of  $\geq 85\%$   
Excellent and sustained in all areas
-  **Merit** – Achieved overall score of  $\geq 70\%$   
Good in key areas
-  **Certified** – Achieved overall score of  $\geq 50\%$   
Meet requirements

The Rating system allows homebuyers to make informed decision on the Projects and Promoters.

## 2.2. Dubai

Dubai Land Department has introduced 1-4 star ratings for its buildings - and additional '4Plus' rating for sustainability features. The star rating system provides an incentive for building owners to try and aim for a higher category. As of now, 4 Star ratings have been assigned to around 20 per cent of existing buildings.

دائرة الأراضي والأماكن  
Land Department



حكومة دبي  
GOVERNMENT OF DUBAI

A star classification system based on engineering efficiency and design parameters will help guide property buyers and tenants as to what the pricing should be. At the same time, the ratings will also help explain the differentials in pricing between buildings in the same area.

The building rating process starts with a building plot being assigned to an inspector via a GIS-expert administrator. The inspector then visits the site on foot and conducts the survey of the building, going into every floor and taking pictures of the building. The inspectors are trained to maintain and respect the privacy of the building occupants in line with the law and entry is restricted to the common areas of the building only. The inspection ends with a list of all the units



and floors in the building as well as filling out the 60-point questionnaire. The building then receives a star rating based on 60 carefully tailored requirements.

### 2.3. Australia

Property Council of Australia (PCA) provides framework for classification of Australian office buildings based on parameters and criteria that typically influence perceptions of building quality held by occupants and investors. The existing classifications are Premium, Grade A, Grade B and Other.

The quality of grades is often skewed and subjective depending on where you are analysing. Therefore, each building is classified based on the supply to the market within the area.

The classification of office grades is consistent for all Australian office towers and is influenced on certain criterions, as listed below:

- Building Age
- Building Net Lettable Area (NLA)
- Floorplate NLA
- Location
- Lifts (speed, size and number of lifts to building per NLA ratio)
- Environmental credentials (NABERS, Green Star ratings)
- Building management control systems (BMCS) and so on



### 3. National Context

In India, Rating and Gradings are being used extensively by Regulators to better inform the citizens & businesses on financial & investment risk.

#### 3.1. SEBI Registered Credit Rating Agencies

SEBI (Securities and Exchange Board of India) authorizes and regulates all Credit Rating Agencies (CRAs) in India as per SEBI Regulations, 1999 of the Securities and Exchange Board of India Act, 1992.

Credit Rating Agency (CRA) assesses, calculates and assigns the credit ratings to companies, organizations and enterprises. It performs a detailed analysis of financial instruments of various entities. These CRAs help lenders and investors determine the potential risk involved in lending money to a particular borrowing entity.

It depicts the risk involved with investing in debt instruments. The rating scales used by the Credit Rating Agencies are usually from 'AAA' to 'D', wherein 'AAA' stands for highest ratings and 'D' as lowest or Bad Credit Rating.

**Investor Protection Guidelines:** SEBI (Disclosure and Investors Protection) Guidelines, 2000 deals with primary issues of shares, debentures, and various other financial instruments, and regulation 2.5.1A prohibits any public issue or rights issue of convertible debt instruments unless a credit rating is obtained from at least one CRA registered with SEBI.

In case of an IPO the SEBI ICDR Regulations, 2018, regulation 10 additionally requires the issuer of a convertible debt instrument to mandatorily obtain a rating from one CRA and to disclose all the grades obtained by the CRAs which were approached by the issuer in a red herring prospectus.

#### 3.2. RBI accredited Credit Rating Agencies

Reserve Bank of India (RBI) has a list of accredited credit rating agencies for the purpose of assigning risk weight to assets for capital adequacy purposes by the banks. On a review, banks are advised to use the ratings of the following domestic credit rating agencies for risk weighting their claims for capital adequacy purposes.



The capital adequacy ratio, also known as the capital-to-risk-weighted-assets ratio (CRAR), is used to protect depositors and promote the stability and efficiency of global financial systems.

### 3.3. Star Rating of Hotels

Star Ratings of Hotel is well established international concept. The need for a star rating is essentially to set the expectation level of the travelers and also for other legislative purposes like government subsidies.

In India HRACC (Hotels and Restaurants Accreditation Committee) falling under the Ministry of Tourism ranks the hotels based on certain parameters.

Procedurally the hoteliers should apply for their star rating and the committee responsible will visit and judge based on the facilities provide, how well the guests are served etc. Based on these, they give them star ratings ranging from 1 star to 5 stars.

The basic parameters on which the officials grant the star ratings are number of rooms, size of bathrooms, air-conditioning details for guest rooms, public areas, details of public areas like lobby/lounge; restaurants; bar; shopping; banquet/conference halls; business center; health club; swimming pool; parking facilities (no. of vehicles), facilities for the differently abled guests, details of Fire Fighting Measures/ Hydrants, security-related features etc.

### 3.4. Ratings in Real Estate Sector

There are several types of Rating mechanism that exist in Real Estate Sector in India

- Credit Rating of Real Estate Companies as per regulation of SEBI & RBI for IPO, Bank Financing and so on.
- The Indian Bureau of Energy Efficiency (BEE) , is an agency of the Government of India, under the Ministry of Power created in March 2002 under the provisions of the nation's 2001 Energy Conservation Act. They have launched a five-star rating scheme for office buildings operated only in the day time in three climatic zones, composite, hot & dry, warm & humid on 25 February 2009.



## 4. Need for Grading of Real Estate Projects

Homebuyers are often investing a significant portion of their lifetime savings into buying a home, so it is important for them to be aware of the risks involved. Real estate projects can vary greatly in terms of quality, location, and amenities. By grading projects, homebuyers can get a better sense of which projects are the best fit for their needs and budget.

By considering the factors that are included in a grading, home buyers can make more informed decisions about whether or not to invest in a particular project.

Some Risks that Real Estate Grading need to highlight are:

- Financial Risk:
- Legal Risk
- Technical Risk
- Timely Completion Risk

It is important to note that a real estate project grading is not a guarantee that there will be no problems with the project. However, a high grading can give home buyers peace of mind and make them more confident in their investment.



## 5. Proposal

The real estate market is a complex and often confusing place for homebuyers. There are many factors to consider when making a decision about where to buy, and it can be difficult to know which projects are the best investments.

One way to help homebuyers make more informed decisions is to introduce a grading system for real estate projects. This system would assess projects based on a variety of factors, including the project's financial viability, Technical Approvals by Competent Authority, ongoing Legal Litigations, Promoters Track Record on Compliance in the Project and so on.

With this background, MahaRERA proposes to introduce Real Estate Project Grading System. Further, under Section 32 (f) of the Act, one of the key functions of MahaRERA is to facilitate grading of projects on various parameters of development including grading of promoters.

In the first instance, MahaRERA would involve itself with the grading of Projects as opposed to grading of developers. In due course, as the system stabilises the authority would seriously consider a matrix to grade promoters also.

### 5.1. Phases of Grading

It is proposed to introduce grading in a phased manner. The real estate sector in India is still in the early stages of transformation from an unorganised to an organised sector. There is a need for more maturity before grades are assigned to the projects. This is because the grading system would need to be based on a number of factors, such as the Promoters track record on compliance, Legal Litigations, Quality of Financing of Projects and so on. These factors can take time to develop, so it is important to give the real estate sector some time to mature before grades are assigned. MahaRERA, hence proposes a graded and staggered approach towards achieving a robust grading system.

Accordingly, it is proposed to adopt following phases for Grading of Projects

#### Phase 1: Information Disclosure Phase

The Information Disclosure Phase would focus on objectively listing all project information. This information would include the



- **Project's details:** Location, developer, amenities, and other relevant details
- **Technical Details:** Status of Various Approvals like Commencement Certificate, Promoters Quarterly & Annual Compliances, Booking Percentage, Status of Formation of Society etc.
- **Financial Details:** Financial Encumbrances, Financial Progress of Projects, Annual Audit Certificate etc.
- **Legal Details:** Litigations & Complaints against this project, Warrants Issued, Legal Encumbrances etc.

This would help to make it easier for potential buyers to compare different projects and make informed decisions.

#### Phase 2: Project Grading Phase

After some time, when the real estate sector has had more time to mature, it is proposed to introduce a grading system to rate the projects and subsequently, promoters on basis of the above-mentioned and other suitable & relevant criteria.

The phased approach to grading would allow the real estate sector to mature and develop before grades are assigned. This would ensure that the grading system is fair and accurate, and that it provides a valuable resource for potential buyers.

### 5.2. Framework for Information Disclosure

It is proposed to adopt following procedure for implementation of First Phase of Grading.

#### 5.2.1. Eligibility Criteria

All Projects which have registered Post January 2023 shall be eligible for Grading of Projects

#### 5.2.2. Frequency

Grading shall be conducted bi-yearly. The First period for grading shall begin from 1<sup>st</sup> October 2023 to March 2024. Grading process shall commence once the due date for last quarter QPR uploading is done i.e. 20th April 2024.



### 5.2.3. Tools for Grading

Grading shall be automatically generated through MahaRERA's IT Solution MahaCRITI on basis of information submitted by the promoter.

### 5.2.4. Parameters for Grading

The Project Snapshot shall broadly contain of four categories:

- (i) Project Overview
- (ii) Technical Snapshot
- (iii) Financial Snapshot
- (iv) Legal Snapshot

In the first phase, the information against these Parameters shall be displayed to the home-buyers for making informed decisions.

The identified parameters for Project Snapshot are as follows:

| A. Project Overview   |   |   |
|-----------------------|---|---|
| 1                     | Project Name  |   |
| 2                     | Promoter Name   |   |
| 3                     | MahaRERA Registration Number  |   |
| 4                     | Location  |   |
| 5                     | Type of Project   | Residential / Commercial / Plotted Development etc. |
| B. Technical Snapshot |   |   |
| 1                     | Quarterly Progress Reports Submitted  |   |
|                       | Quarter Ending Dec 2021   | Submitted / Not Submitted                           |
|                       | Quarter Ending March 2022   | Submitted / Not Submitted                           |
|                       | Quarter Ending June 2022  | Submitted / Not Submitted                           |
|                       | Quarter Ending Sept 2022  | Submitted / Not Submitted                           |
|                       | Quarter Ending Dec 2022   | Submitted / Not Submitted                           |
| 2                     | % of Work Completed of Building / Wing / Layout / Plotted Development (From Engineer's Certificate) |   |
| 3                     | % of Work Completed of Internal & External Development Works (From Engineer's Certificate)          |   |
| 4                     | % of Time Elapsed   |   |