



**REGULATION, TRANSPARENCY AND MARKET STRUCTURE: AN ECONOMIC
EVALUATION OF THE REAL ESTATE (REGULATION AND DEVELOPMENT)
ACT, 2016 IN INDIA**

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Abstract:

After India liberalised its economy, business activity rose, and more people moved for work. This pushed up the demand for both homes and commercial space, and real estate soon became an important part of the wider economy. The sector, however, still faces uneven information, frequent project delays, murky financing, and a steady presence of unaccounted money. This paper evaluates the economic implications of the Real Estate (Regulation and Development) Act, 2016 (RERA), which seeks to address these deficiencies through mandatory project registration, disclosure obligations, ring-fenced project finance, and a dedicated adjudicatory framework. The study adopts a doctrinal and analytical approach based on secondary sources. It inspects the macroeconomic setting of the sector, the flow of capital into real estate, the interaction of the sector with the parallel economy, the historical determinants of its market structure, and the effects of RERA on consumers, developers, investors and employment. The analysis advocates that RERA reduces information asymmetry, strengthens buyer confidence and favours well-capitalised, compliant developers, while simultaneously constraining developer liquidity and raising the cost of regulatory compliance. The paper concludes that the economic benefits of the Act depend on the quality of enforcement and on complementary reforms in land markets, housing finance and taxation.

Keywords: *RERA; real estate regulation; transparency; consumer protection; parallel economy; housing finance; employment*

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Introduction:

The Real Estate (Regulation and Development) Act, 2016 — better known as RERA — changed the way the Indian real estate market is governed. It was brought in to fix problems that had lingered for years, with the main aim of bringing more transparency, accountability and fairness to dealings between builders and buyers, and of making the market safer

and more balanced for both sides. This paper looks at the Act from an economic angle and asks how this kind of regulation changes the flow of information, the incentives facing different players, and the movement of capital in the sector.

The Act advances these objectives through several mechanisms. Promoters are required to register projects with the State regulatory authority and to



disclose project particulars, including schedules, budgets and approvals. Such disclosure reduces the information asymmetry that previously characterised the market and enables prospective buyers to evaluate alternatives on a more informed basis. The Act further obliges promoters to adhere to declared specifications and delivery timelines and prescribes penalties for default, thereby addressing the endemic problem of delayed or abandoned projects. The Act also requires a prescribed share of buyers' payments to be held in a dedicated account, which limits the diversion of project funds.

The economic consequences are potentially wide-ranging. Better-informed buyers and credible delivery commitments strengthen demand; timely completion accelerates the release of capital for both promoters and purchasers; and enhanced accountability may attract domestic and foreign investors. At the same time, stricter compliance requirements may drive smaller or less scrupulous promoters from the market, increasing concentration amongst established developers. Given the sector's linkages with construction, cement, steel and allied industries and its contribution to gross domestic product (GDP) and employment, these effects extend well beyond the sector itself.

1. Research Questions

- RQ1. How has RERA affected the transparency and accountability of real estate transactions in India?
- RQ2. What are the economic consequences of greater transparency for consumer trust and investment patterns?
- RQ3. How has RERA affected the timeliness of project delivery, and with what economic outcomes for developers and homebuyers?
- RQ4. How do the financial and competitive outcomes differ between compliant and non-compliant developers?

RQ5. To what extent has RERA influenced domestic and foreign investment in the sector, and what follows for its wider economic development?

2. Objectives

- (1) To examine the effect of RERA on transparency in the real estate sector;
- (2) To evaluate the accountability measures introduced by the Act and their influence on developer behaviour, project delivery and regulatory compliance;
- (3) To analyse the effect of the Act on consumer trust and confidence in real estate purchases;
- (4) To assess the influence of the Act on investment patterns and on the decisions of homebuyers and developers; and
- (5) To evaluate the effectiveness of the dispute resolution mechanisms of the Act and their influence on stakeholders' economic behaviour.

3. Methodology

The study is doctrinal and analytical, so a quantitative-cum-qualitative mixed-methods research design is used for the same. It relies on secondary sources, namely statutes, judicial decisions, books, journal articles, industry publications and reports of institutional bodies. Quantitative figures drawn from industry sources are reproduced as indicative estimates and are identified as such. The paper does not undertake primary empirical estimation; its findings are accordingly analytical in character.

Review of Literature:

The literature on the economic effects of RERA addresses four principal themes: transparency and trust, housing market behaviour, market structure and compliance, and investment.



1. **Gupta's Real Estate Act in India: Regulatory Change, Impact Analysis, and Insights** examines the economic side of the Act. It argues that greater transparency and accountability under the law have strengthened both investor confidence and consumer trust. The study also looks at how the Act has shaped developer behaviour, encouraged market consolidation, and affected the sector's contribution to the wider economy.
2. **Housing market behaviour.** Khan, Kumar and Chauhan, in *Real Estate Regulations and the Impact on Housing Markets*, examine the relationship between regulation and housing market dynamics. They consider how regulatory change, including RERA, influences market behaviour, developer strategy and consumer decision-making in Indian housing markets.
3. **Market structure and compliance.** Sharma and Patel, in *RERA: Transforming Real Estate in India*, examine the manner in which the Act has redefined the sector, with particular reference to developer compliance, market consolidation and economic contribution, and conclude that its consequences for the sector are far-reaching.
4. **Investment.** Chakravarty and Sen, in *Real Estate Regulation and Its Implications for Investments in India*, published in the *International Journal of Real Estate Research*, investigate the effects of regulation on investment patterns, distinguishing between domestic and international investors and describing the post-RERA shifts in investor behaviour.

The present literature thus converges on the proposition that RERA improves transparency and trust and promotes consolidation. It is less developed on three matters that this paper addresses: the interaction of regulation with the long-standing parallel economy in real estate, the historical determinants of the sector's concentrated market

structure, and the liquidity costs that ring-fenced project finance imposes on developers.

The Macroeconomic Setting of the Real Estate Sector:

Since economic reforms and globalisation, the Indian economy has changed a great deal and become one of the world's faster-growing economies. Growth has still been uneven, however, affected by demonetisation, successive policy changes, and external conditions. Output comes from agriculture, manufacturing and services, and the real estate and building industries account for a substantial share of GDP while also shaping the broader structure of the economy.

Three macroeconomic factors matter particularly for the sector. First, inflation shapes how consumers behave in the property market and, through the Reserve Bank of India's monetary tools, affects the cost of borrowing. Interest rates in turn influence how affordable housing is and how strong demand for property remains. Second, fiscal policy—tax reforms, budgetary choices and subsidies—affects both investment and consumption. The introduction of the Goods and Services Tax (GST), for example, changed the cost structure and valuation of property. Third, efforts to attract foreign direct investment, including the 'Make in India' initiative and steps to improve the ease of doing business, have drawn more foreign capital into the sector.

The sector's importance is reinforced by its linkages. Demand for cement, steel and glass supports manufacturing, while the sector also generates demand for architecture, interior design, financing and legal services. It is also a major source of employment, ranging from unskilled labour to specialised professions in architecture, engineering and project management. Lastly, real estate has traditionally been a favoured asset class for Indian households, serving both as a store of wealth and as a hedge against the



erosion of purchasing power by inflation. Household decisions on property are therefore sensitive to interest rates, tax rules and market sentiment, and are indicative of prevailing economic conditions.

Flow of Capital in the Real Estate Market:

1. Sources of Finance

Real estate projects are capital-intensive and draw on several sources of finance, summarised in Table 1.

Table 1: Principal Sources of Finance for Real Estate Projects

Source	Description	Principal advantages and constraints
Debt	Borrowing from banks, non-banking financial companies (NBFCs) and other institutions against mortgage or collateral, to fund land acquisition, construction and development.	Preserves ownership, but exposes developers to interest-rate risk and rigid repayment schedules that affect viability.
Equity	Capital from private equity firms, real estate investment trusts (REITs) and high-net-worth individuals in exchange for ownership or a share of profits or rental income.	Avoids repayment and interest obligations, but dilutes ownership and control.

Source	Description	Principal advantages and constraints
Internal accruals	Retained earnings generated from completed projects and applied to new ventures.	Reduces dependence on external finance; availability depends on developer performance, the pace of completions and market conditions.

Source: Author's synthesis of the sources cited in this study.

2. Liquidity and the Regulatory Effect

Real estate projects call for heavy spending right at the start—on buying land, getting approvals, construction, and marketing. Raising enough money at each stage is especially hard for smaller developers, and even more so when the economy is unstable. A developer's ability to stay liquid depends on how steady the financial markets are, how easily credit is available, and where interest rates stand.

RERA significantly changes this financial setting. Promoters now have to keep a separate escrow account for every project and put a fixed share of the money received from buyers into it. That money can be used only for the construction and land costs of that particular project. The rule is meant to stop funds collected for one project from being shifted to another, and in that logic it protects the buyer. At the same time, it limits how freely a promoter can use the cash and reduces the chance



of one project subsidising another. Developers therefore have to plan their funding more carefully and may need to lean more on outside finance. In effect, the Act trades some flexibility in developer liquidity for stronger protection of buyers.

3. Investment Trends

Investment in Indian real estate spans residential, commercial and industrial assets. Residential property has long attracted the middle class, for whom ownership signifies economic stability and protection against inflation. Institutional investors, including private equity funds and REITs, have become increasingly visible, financing large commercial and residential projects. Foreign investors, attracted by facilitation of business and regulatory reform, contribute international capital. Investment patterns are influenced not only by anticipated returns but also by market conditions, currency volatility, political stability and regulatory compliance. Financial institutions, for their part, supply the funds for land acquisition, approvals and construction, but are themselves subject to management of lending standards, interest rates and loan-to-value ratios, which shape both the availability and the cost of developer finance.

Real Estate and the Parallel Economy:

1. Economic Costs of the Parallel Economy

The parallel, or shadow, economy poses a serious threat to the Indian economy and is a significant source of lost tax revenue. Its costs are several. It undermines the legal framework that supports economic activity, since contracts in the shadow sector may be unenforceable and enterprises are reluctant to expand for fear of attracting official attention. It raises the tax burden on those in the formal economy. It misallocates national resources, since part of unaccounted wealth is held in assets that contribute little to productive activity

and a substantial proportion is devoted to conspicuous consumption. It also impairs policy-making, since the true state of the economy cannot be measured precisely, and it aggravates inequality and erodes social values.

The parallel economy has been the subject of repeated official enquiry, notably by the Kaldor, Wanchoo, Rangnekar, Chopra and Gupta committees and commissions. Causes commonly identified include the licensing and control regime, high tax rates, weak enforcement of tax law, cost-push inflation and the financing of political parties. According to estimates attributed to the National Institute of Public Finance and Policy, unaccounted income in 1985 amounted to roughly Rs. 1,00,000 crore, or about one-fifth of GDP (Chopra, 2010). Such estimates are inherently uncertain, but they indicate the scale of the problem and the extent to which official GDP may understate economic activity.

2. The Real Estate Channel

Real estate is a principal destination of unaccounted funds. Black income has diverted resources to the purchase of land and luxury housing and to the transfer of funds abroad through covert channels, resulting in loss of revenue to the exchequer (Dhar, 2003). Because property can be acquired with cash and valued with significant discretion, it offers an attractive store for unaccounted wealth, and the consequent demand inflates prices and reduces affordability for honest buyers. The presence of such capital also distorts developer behaviour by rewarding opacity. The transparency measures of RERA, in particular registration, disclosure and the use of dedicated project accounts, therefore have a significance beyond consumer protection, since they bring a greater proportion of transactions within the formal, noticeable economy.



3. Policy Responses

Successive governments have attempted to attract unaccounted wealth into the formal economy through several instruments, summarised in Table 2. The outcomes, in the assessment of the sources relied upon, have been partial.

Table 2: Principal policy measures against unaccounted income

Measure	Description
Demonetisation	Attempted in 1946 and again in January 1978 (high-denomination notes). The Direct Taxes Enquiry Committee observed that the 1946 exercise was ineffective because only a small part of notes in circulation was affected; of the notes demonetised in 1978, only a limited amount was tendered to the Reserve Bank by August 1981. A further demonetisation followed in 2016.
Special Bearer Bonds, 1981	Ten-year bonds of face value Rs. 10,000, issued at par to channel unexplained funds towards productive use, without registered ownership.
Voluntary disclosure schemes	Schemes such as the Voluntary Disclosure of Income Scheme allowed declaration of undisclosed income on payment of tax at prevailing rates, with immunity from penalty and prosecution.

Measure	Description
Enforcement and legislative measures	Searches, seizures and surveys by the Income Tax Department; amendments to the Finance Act (2004) providing for prosecution for falsification of books and for reporting and taxation of gifts above Rs. 25,000 from unrelated persons.

Source: Compiled from the draft study and the sources cited therein.

The determination of the parallel economy despite these measures suggests that episodic amnesties and one-off exercises are inadequate, and that durable reform requires structural measures that reduce the incentives and opportunities for unaccounted transactions, including the transparency architecture of RERA. The preventive character of tax-evasion measures is also important: closing loopholes in tax law reduces at source the generation of unaccounted income.

Land Policy and the Historical Market Structure:

The present structure of the real estate market in India's metropolitan areas owes a good deal to earlier government policy. Control by a limited number of operatives can be traced to laws such as the Land Acquisition Act of 1894, rent control legislation, the land policy of 1963, and the Urban Land (Ceiling and Regulation) Act, 1976, which together gave the State substantial control over the urban land market. The 1976 Act allowed the Government to acquire vacant urban land held above a fixed ceiling and restricted the transfer of land within urban agglomerations, creating a barrier to entry. Large-scale public acquisition under the 1894 Act, which became more prominent during the Third Five Year Plan, along with uncertainty about its reach, strengthened the sense of State involvement in the sector (Government of India, 1988). Land-use



freezes and the public purchase and distribution of land through development authorities failed to create the regulated urban land market that was intended; instead, limits on legal access to land pushed transactions into an unofficial market that only the wealthy could function in.

Housing supply followed a similar pattern. A substantial part of the demand in major cities was to be met by government agencies, but the supply was insufficient for demand from all socioeconomic groups, and housing was in practice allocated to those able to pay through informal transactions. Dange (1983) records that in Bombay two-fifths of newly constructed buildings were controlled by only twenty builders, and reports similar inspiration by real estate brokers in Madras and Calcutta. The case of Delhi is illustrative: with a single development agency, the Delhi Development Authority, the supply of flats fell well short of demand through the 1980s, producing a large backlog of allotments and the informal practice of transacting DDA flats through powers of attorney. These historical experiences provide substance for the assessment of RERA. They show that supply restrictions and discretionary State allocation encouraged concentration, informality and unaccounted capital. A regulatory framework that seeks transparency, rather than quantitative control of land and housing, addresses these problems from the opposite direction, but it also requires complementary reform of land markets if rent-seeking is to be reduced rather than reinforced.

RERA: Consumer Protection and Developer Behaviour

1. Principal Provisions and Their Economic Rationale

Table 3 sets out the principal features of the Act and the economic function that each performs.

Table 3: Key features of RERA and their economic function

Feature	Provision	Economic function
Registration	Projects above the prescribed threshold must be registered with the State regulatory authority before sale or advertisement.	Establishes a public record; reduces information asymmetry; supports market entry discipline.
Disclosure	Promoters must publish project particulars, including approvals, schedules and budgets.	Enables informed comparison and reduces the cost of search and verification for buyers.
Project escrow	A prescribed proportion of allottees' payments is deposited in a separate project account.	Limits diversion of funds and reduces the risk of non-completion; constrains developer liquidity.



Feature	Provision	Economic function
Delivery and penalties	Promoters must adhere to declared specifications and timelines; default attracts interest, refund and penalty.	Internalises the cost of delay; strengthens the credibility of delivery commitments.
Adjudication	State authorities and adjudicating officers, with an appellate tribunal, resolve disputes.	Provides a specialised, faster forum; lowers enforcement costs for buyers.

Source: Author's synthesis from the Real Estate (Regulation and Development) Act, 2016.

2. Consumer Behaviour and Affordable Housing

Consumer behaviour may be understood as the interaction of cognition, affect and behaviour in the process of evaluating, purchasing and using goods and services. In the present context, *cognition* denotes the buyer's knowledge and information processing in respect of a project or developer; *affect* denotes the favourable or unfavourable feelings towards it; and *behaviour* denotes the observable decision to purchase or not. RERA operates principally on the first two: disclosure improves the quality of cognition, and credible execution improves affect, in the form of trust, and both should be reflected in purchase behaviour. Attitudes and intentions vary across and within

regions, and real estate agents, who are now subject to registration, are important intermediaries in shaping the decisions of buyers.

The affordable housing segment illustrates both the opportunity and the limits of regulation. For low-income households, a home is typically the largest investment of a lifetime and the basis of long-term family security, and a well-built dwelling in a planned neighbourhood with sanitation, security, schools, health facilities and reliable utilities carries high aspirational value. Several obstacles remain, however. *Connectivity* is poor, since scarcity of affordable land in core urban districts pushes affordable housing to peripheral areas, where the absence of efficient mass transit raises commuting cost and time. *Financial access* is limited, since economically weaker and lower-income households often cannot document income and creditworthiness for formal credit, which has prompted NBFCs to enter the market and underscores the need for financial literacy. The *cost of ownership* is raised by scarce land and by taxes and levies, estimated in the sources relied on at 30 to 35 per cent of the cost of a home, and by local development rules oriented towards luxury housing. These restraints lie largely outside RERA, which designates that regulation of conduct cannot, by itself, deliver housing affordability.

3. Developer Behaviour, Competition and Investment

Compliance costs money, and those costs do not fall consistently. Smaller promoters with weaker balance sheets may find it hard to meet the registration, disclosure and escrow requirements, and some may leave the market. Larger, better-established developers with stronger finances and reputations are more likely to stay and gain ground. The possible result is greater consolidation. That can raise efficiency and quality, but it can also



reduce competition, a risk made sharper by the concentrated structure the sector has long had, as noted in Section 6. Competition authorities and State regulators should therefore keep an eye on concentration, and policy should make it easier for small but compliant developers to enter, for instance by simplifying the procedures they must follow.

As regards investors, improved accountability and disclosure should increase confidence among both domestic and foreign investors and institutional capital, and thus lower the risk premium attached to the sector. The effect is likely to be most pronounced for institutional vehicles such as REITs, which depend on transparent and enforceable property rights. The extent of the effect is an empirical question on which the literature reviewed in Section 2 offers directional support but limited quantification.

4. Dispute Resolution

An effective dispute resolution mechanism is an economic institution as much as a legal one. By offering buyers a specialised and speedier forum with statutory remedies such as refund and compensation, RERA reduces the cost of enforcing commitments and thereby the risk borne by buyers. This, in turn, supports the willingness to purchase off-plan and changes developers' incentives, since delay now carries an expected cost. The effectiveness of these mechanisms depends on the capacity of the authorities, the speed of disposal and the enforcement of orders, and weaknesses in any of these would erode the credibility on which the economic benefits rest.

Economic Growth and Employment:

The real estate sector contributes to economic development through output, investment and employment, and its dynamics are closely linked with legislative and regulatory change. Industry projections

suggest that India is moving towards becoming the third-largest real estate market in the world, with a possible market value of the order of USD 1 trillion by 2030 and a share of GDP in the range of 10 to 13 per cent in the medium term; some projections state a higher share. Such figures are forward-looking and depend on definitional choices, and should be read as indicative; they nonetheless underline the importance of the sector to the national economy.

The sector is among the largest sources of employment in the country. Industry estimates put its workforce at roughly 10 per cent of the national labour force, in excess of 50 million persons, placing it behind only agriculture among major employers. The sector employs several occupational categories: construction workers (masons, carpenters, electricians and plumbers) who build and maintain properties; architects who conceive and design buildings in accordance with clients' needs; engineers who ensure safety and structural integrity and prepare technical documentation; and real estate agents who facilitate sale, purchase and leasing. Growing population and urbanisation sustain housing demand, and thereby the demand for such labour.

RERA's effect on employment is ambiguous in the short term and positive in the longer term. Compliance costs, consolidation and the escrow prerequisite may slow launches and reduce activity among smaller firms, with transient effects on construction employment. Over the longer term, timelier completion, improved buyer and investor confidence and a more formal sector should support steadier, better-documented employment, and bring the many informal workers closer to the protection of formal measures.

Conclusion and Recommendations:

The study finds that RERA takes on three long-standing weaknesses in the Indian real estate market: the uneven information available to promoters and



buyers, the diversion of buyer funds that often leads to project delays, and the lack of a specialised forum for settling disputes. By dealing with these, the Act should help rebuild consumer trust, make promised delivery more credible, draw in more institutional and foreign capital, and bring a larger share of transactions into the formal economy. These gains, though, come with costs of their own. The escrow requirement reduces developer liquidity, compliance is more expensive for smaller firms, and concentration may rise further in a market that has already been dominated by a few players. The history of land policy, together with the continued presence of unaccounted capital in real estate, suggests that regulating conduct is necessary but not enough on its own.

The following recommendations arise from the analysis.

- **Strengthen enforcement capacity.** The economic benefits of RERA depend on timely disposal of complaints and on execution of orders; authorities and tribunals should be adequately resourced and their performance publicly reported.
- **Calibrate compliance for small developers.** Simplified procedures and standardised disclosure formats can limit the exclusion of small compliant developers and moderate consolidation.
- **Complement transparency with land and housing finance reform.** Measures to improve the supply of urban land, connectivity and credit access for low-income households are required to achieve affordability.
- **Reinforce the formalisation of transactions.** Digital registration, traceable payments and cross-linking of project and tax data would reinforce RERA's contribution to reducing unaccounted capital in the sector.
- **Build the evidence base.** Systematic collection of data on registrations, delays, complaints and prices

would permit empirical evaluation of the Act's effects and refinement of policy.

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