



UP RERA ON GRADING OF PROJECTS AND PROMOTERS

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ALERT: UP RERA ON GRADING OF PROJECTS AND PROMOTERS

Uttar Pradesh Real Estate Regulatory Authority (“UPRERA”) has been working on a system for grading of real estate projects (“**Projects**”) and project developers (“**Promoters**”) for which CRISIL Limited (“**Crisil**”) has been appointed as a consultant. Based on preliminary feedbacks received from the development authorities, industrial development authorities, associations of homebuyers, project developers, other stakeholders, etc., the grading system, as developed till now, has been put up on the UPRERA website and UPRERA is inviting feedback, suggestions, etc., on the grading system, which may be provided by May 13, 2020¹.

The grading system is being developed based on the mandate under Section 32 of the Real Estate (Regulation and Development) Act, 2016 (“**the Act**”). As per the said section, the authorities set up under the Act, in order to facilitate the growth and promotion of a healthy, transparent, efficient and competitive real estate sector, have been given the task to make recommendations to their state governments on various issues, which include measures to encourage grading of projects on various parameters of development including grading of promoters².

Grading Framework:

As per UPRERA, the grading framework will assess the Projects and Promoters registered with UPRERA and rate them on various parameters so that the homebuyers can evaluate both the Project as well as the Promoter before investing their money. Additionally, the system will also assist in better understanding of issues such as delays in possession, major slowdown in the Projects and level of the Promoter’s performance.

Promoter grading

In order to determine the performance and ranking of Promoters, the Promoters would be graded on the following parameters:

- a. **Financial quality:** - This would take into account the financial ability of the Promoter by considering the strength of its balance sheet including components like turnover, profit margin, net worth, etc.;
- b. **Organizational strength:** - This would rank the Promoter based on parameters like experience of promoters in real estate business, ISO certifications, green building certifications, etc.;
- c. **Track Record:** - The track record will be evaluated on the diversity in construction, total area developed, delays in execution, etc. Under this matrix, the Promoter would also be rated on how many of its projects have been completed as a percentage of total projects, how litigious the Promoter is, land issues, etc.;
- d. **Compliances:** - The Promoter would be evaluated on how compliant it is on various compliances to be undertaken by it under the Act, like filing of quarterly progress reports, annual reports, adherence to escrow norms, etc.; and
- e. **Customer feedback:** - Evaluation on the basis of number of customer complaints received against the Promoter.

¹ UPRERA Public Notice dated April 22, 2020 <https://up-rera.in/grading>

² Section 32(f) of the Act.

Project grading

In order to determine the ranking of the Project amongst other projects, the Project would be graded on the following parameters:

- a. Construction quality: - This would include evaluation of the Project on the basis of structural quality, international certifications on environmental design, energy efficiency etc. and also on likelihood of delay and cost overrun which the Project may incur;
- b. Legal quality: - This parameter would evaluate the title of the land, any encumbrance on the land, clauses in the customer sale docket, etc.;
- c. Financial quality: - Under this parameter, the Project would be evaluated on the financial viability of the Project which would include debt to equity ratio, financial closure, etc. The Promoter grading would also be taken into account;
- d. UP RERA Compliances: - The Project would be evaluated on how compliant it is on various compliances to be undertaken under the Act, like filing of quarterly progress reports, annual reports, adherence to escrow norms, etc.; and
- e. Customer feedback: - Evaluation on the basis of number of customer complaints received for the Project.

Grading scale

The grading would be on a scale of 1 to 5; 1 will be the lowest and 5 will be the highest. The Promoter grading would assess the Promoter's capability to execute the projects as per specified quality standards and within the stipulated timeline. The Project grading would assess the likelihood of the Project being delivered as per the agreed quality and within the stipulated time schedule.

Process of Grading

In order to obtain grades, the Promoter and Project registered with UPRERA would have to upload documents/information on the portal. After uploading documents/information, a process of data validation and analysis of the information uploaded would be done and based on such validation and analysis, the grades would be assigned to the Project and to the Promoter. Once the grades have been assigned, thereafter the same would be published in the public domain through UPRERA portal. The assigned grades would be renewed/reviewed annually.

The grading framework upon receipt of comments and after consultation will be approved by UPRERA. Further, Crisil would be undertaking the entire grading process for all the Promoters and Projects registered with UPRERA for two cycles in two years.

Note: The suggestions can be offered in the form provided for the purpose by using the link <https://forms.gle/1A2RXqSqohvs2ivm9>.

Amicus Insight

The abovementioned grading framework is a great initiative undertaken by UPRERA that would boost home buyers confidence and they would be able to make a well informed decision prior to investing in a Project and would save the homebuyers from investing in Projects of Promoters who are habitual defaulters. Moreover, it would also encourage the Promoters to maintain a good track record of completing the Projects on time, seeking all the approvals, being methodical and more professional in their work and proactively addressing the home buyers' grievances.

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