

Grading framework for real estate projects

February 2020



Executive summary

The Real Estate (Regulation and Development) Act, 2016, seeks to protect the interest of home buyers and boost investments in the sector. The Act mandates the establishment of a real estate regulatory authority (RERA) in every state for the regulation and promotion of the sector.

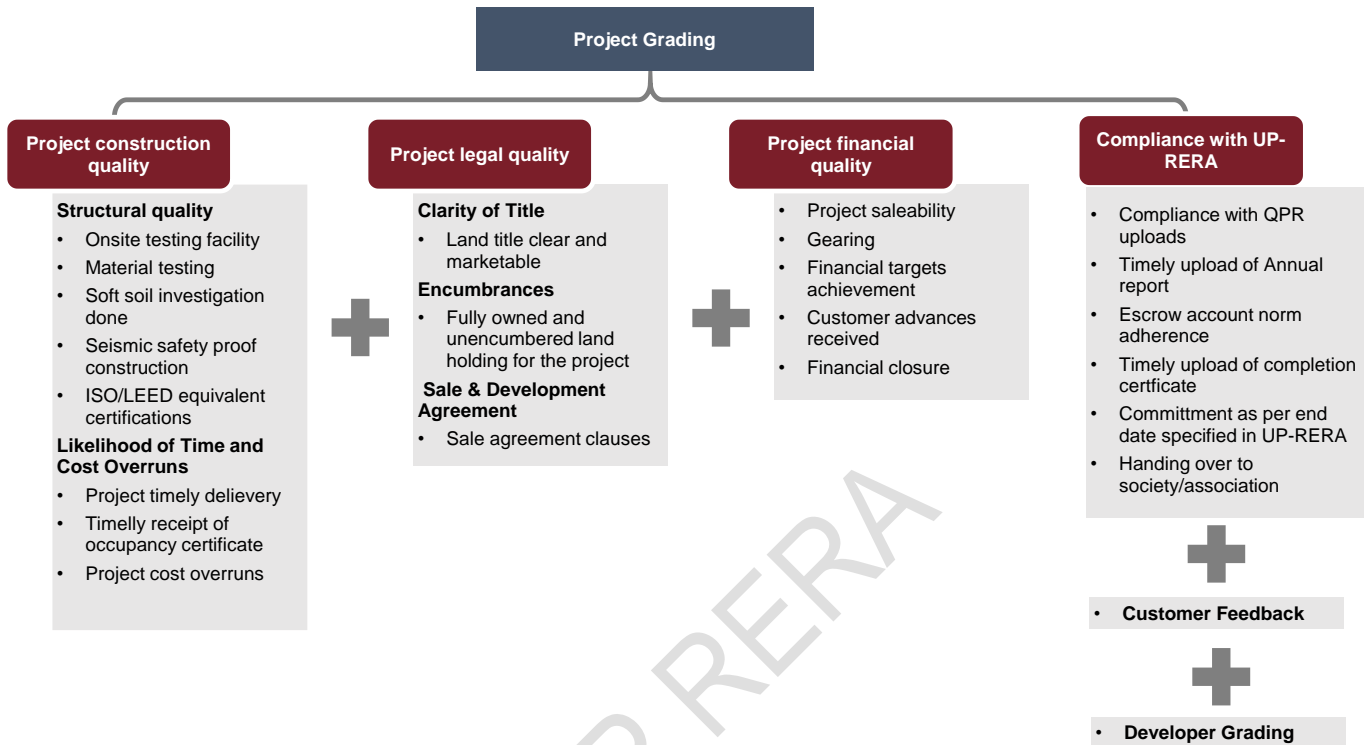
The RERA will ensure efficient and transparent sale of plots, apartments, buildings and other projects. It is mandated to safeguard the interest of buyers and to establish an adjudicating mechanism for speedy dispute redressal. Also, an appellate tribunal would be set up to hear appeals from the decisions, directions, or orders of itself and the adjudicating officer and for related matters.

As per Section 32(f) of the Act, the RERA will make recommendations to the state government regarding measures to achieve its mandate as elucidated in the Act and the rules laid down by the state.

Under the provisions of the Act, the following grading criteria have been developed for projects in Uttar Pradesh.

For UP RERA

Grading framework



Grading parameters

Project construction quality

This parameter assumes critical importance since it provides an independent assessment of aspects such as structural quality, construction quality and the likelihood of time and cost overruns. This parameter will be used to determine if the structures are designed as per the specified quality norms, seismic zone requirements and IS codes compliances.

Project sponsor quality (developer grading)

This parameter focuses on the developer's construction and legal track record, and evaluates its financial strength and ability to complete projects as per timelines. It also evaluates promoter's organisation strength, years of experience in real estate business and ISO or green building certifications for the organisation.

Project legal quality

This parameter examines the project's land title and encumbrances and customer agreement. A clear legal document will indicate that the builder is genuine and the actual owner of the property, and there are no disputes or litigation. Legal quality is one of the major factors in evaluation as any litigations on the land will mean entire title of the land is in dispute.

Project financial quality

This parameter assesses the viability of the project, as well as the financial flexibility of the developer. A developer's financial risks are assessed to ascertain its ability to complete projects on time. This entails an understanding of the company's past financial performance and financial flexibility in terms of saleability for the project and customer advances received for it. The ability to tie up a project's funding requirements (end-to-end) in terms of financial closure is also examined.

Compliance adherence

This parameter evaluates the promoter's compliance with the requirements of Uttar Pradesh RERA (UP-RERA). Compliance is a critical parameter as it measures the promoter's willingness to share information with the authorities, thereby increasing transparency.

Customer feedback

This parameter is crucial in measuring developer's ability to cope with customer complaints.

Grading scale, validity and definition

The grading evaluation for projects will essentially involve assessing the developer's track record in executing projects as per a stipulated schedule along with adherence to timelines and analysing the organisational, legal and financial risks associated with it.

A project's assigned grading will serve as a benchmark against other graded projects in the state. The grading will be applicable for all UP-RERA registered projects.

Grading scale:

The signifiers attached to each definition/grade are as follows:

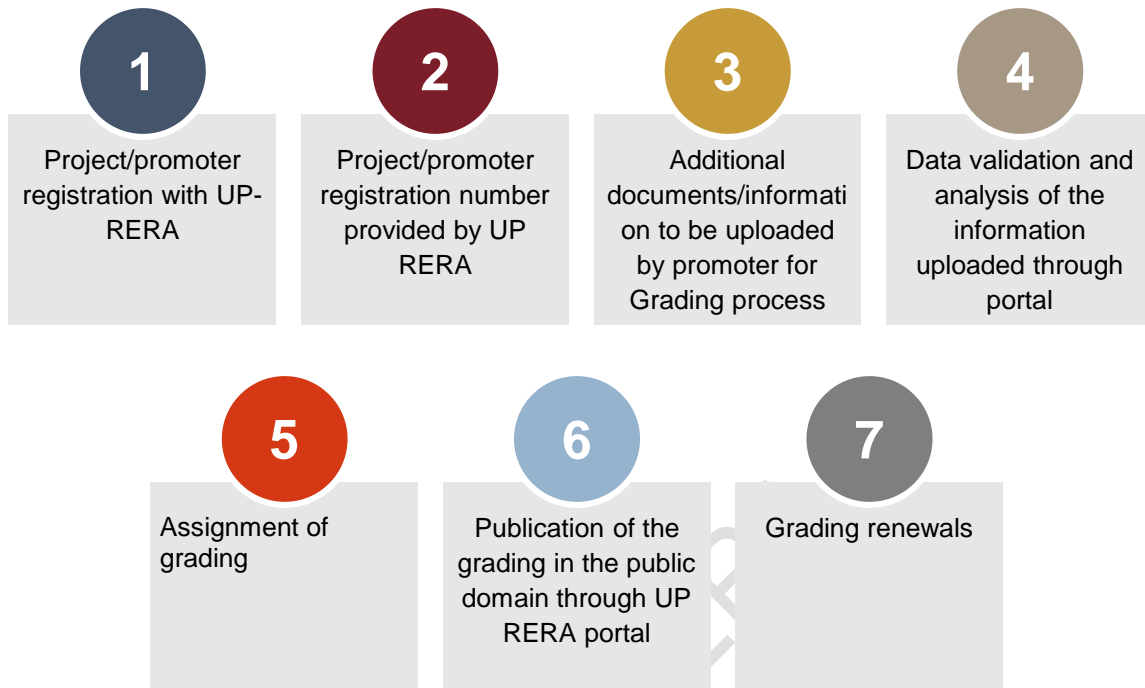
Grade	Definition
1 Star	Low Low likelihood of project being delivered as per agreed specifications and within the stipulated time schedule
2 Star	Below-average Below-average likelihood of project being delivered as per agreed specifications and within the stipulated time schedule
3 Star	Average Average likelihood of project being delivered as per agreed specifications and within the stipulated time schedule
4 Star	Strong Strong likelihood of project being delivered as per agreed specifications and within the stipulated time schedule
5 Star	Excellent Excellent likelihood of project being delivered as per agreed specifications and within the stipulated time schedule

Tolerance level

Delays in projects are a common feature in the Indian context despite the best intentions of developers. Given this, a graded approach is what offers more value and information to buyers and helps them differentiate between projects. So there is a graded/ differentiated approach to expected project delays, which CRISIL considers as per the table below:

Tolerance level (Expected delays)	
Delay in physical possession w.r.t UP-RERA end date	Grading capped at
0 months	5 star
4 months	4 star
8 months	3 star
12 months	2 star
> 12 months	1 star

Grading process



The promoter/project will be classified as non-cooperating in case of:

- Incomplete information from the promoter to commence the grading process
- Data discrepancy and mismatch in information submitted by the promoter
- Non-cooperation in submitting/uploading information for grading after follow-up by UP RERA

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For UP RERA