

# RERA



## Another Regulatory Authority

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The Islamabad Real Estate (Regulation and Development) Act, 2020 was enacted by Pakistan's National Assembly. The Act's purpose is to create the Real Estate Regulatory Authority (RERA), which will regulate and develop Islamabad's real estate market. The authority will protect buyer rights, improve transaction efficiency and transparency, regulate mages projects, and settle disputes expeditiously. Real Estate Authority and Appellate Tribunal, on the other hand, have yet to be established. Therefore, the evaluation of the act will look into the relevance of the objective with prevailing market fundamentals and requirements.

As highlighted by the PIDE Reform Agenda for Accelerated and Sustained Growth (2021), the real estate market in Pakistan is marked with insufficient information regarding the price and characteristics of the property. Land titles and rights in the real estate sector are vague and enforcement of rights is unsatisfactory. The formal dispute settlement mechanism is complicated with huge compliance costs. Many potential market participants, especially overseas Pakistanis, fearing getting an unfair deal may refrain from trading in the sector.

The evaluation of government intervention can be performed by either of the following criteria i.e., relevance, efficiency or effectiveness criteria. We have focused on the "relevance criteria" to assess the prospect of the real estate promotion through the RERA Act. Our evaluation procedure has covered the following essential issues, according to

Husain (2010).

- *Whether the proposed RERA would be able to eliminate the real estate market inefficiencies and to promote basic market characteristics?*
- *What are the prospects that the RERA will address the prevailing problems in the real estate sector?*
- *How much extra regulatory burden will be imposed on the real estate market by the proposed RERA?*
- *Do we need to establish a new Authority given the basic infrastructure is already in place?*

To identify the major problem faced by different stakeholders, we surveyed the real estate market of Islamabad. The survey involved in-depth interviews with key stakeholders. The leading concerns are as follows:

1. Transparency deficiencies in the market promote a corruption culture.
2. Dormant behavior of concerned authorities towards the implementation of rules and regulations.
3. Transactions and procedures are time-consuming.
4. Non-professional behavior of the real estate agents due to lack of training.
5. Existence of considerable illegal housing societies.
6. Fraudulent transactions due to file trading culture.
7. Prolonged trials in the court due to vague titles.
8. Price instability and recent price hike in construction industry due to inflation.

9. Complicated and inefficient tax mechanism.
10. Borrowing constraints.

The proposed RERA Act has addressed some inefficiencies, however, the approach is restricted. For instance, the Act remains silent on the key issue of price (mis)information. One potential way to address this issue could be to add a clause related to the provision of price information. RERA will facilitate the digitization process of land records. In some provinces, the practice of digitization performed in provincial jurisdictions is sub-contracted to the local governments by the federal government. The Act has also overlooked the importance of transaction technology as well. Starting with automation and moving towards block chain technology would address vague and unenforced rights issues. There are many examples around the world where formal training is required before getting the license for a real estate agent. Also the Act has not addressed the unique practice of file trading in Pakistan, which is one of the primary sources for fraudulent transactions.

The establishment of the RERA and the Appellate tribunal through the Islamabad Real Estate Act, 2020, will surely increase the regulatory burden in the real estate market. The Web listing of all approved real estate projects, developers, and real estate agents will reduce learning costs for the buyers to a degree. The objective of the Real Estate Appellate Tribunal is to provide swift dispute resolution. However, the actual impact of the Tribunal on the reduction of the litigation processing time may be marginal. The real benefits to society due to the RERA most likely be outweighed by the administrative burdens of the intervention. The Act identified that the Federal government would provide the seed money for the establishment of the Authority. Therefore, the minimal financial burden carried by the RERA is around Rs. 427.53 million annually, which ultimately falls on the shoulders of the buyers. In conclusion, the establishment of RERA will not be a turning point for the real estate sector in Pakistan. Instead, it will add more regulatory burden on the market. The more efficient way to achieve the desired goal could be to focus on implementation issues by nudging CDA.