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# RERA – Estimated Cost of the Real Estate Project

- CA. Vinay Thyagaraj

The process of creating plans to spend and use finance in an organisation makes up budgeting (estimates). Budgeting (estimates) helps determine the spread of resources/finance available for project development. Execution of budgeting (estimates) in project management/development is essential. This ensures that project efficiency, standards, timely delivery of the project.

A good Project Budget sustains itself as a tool to estimate project costs. All costs that are likely to incur in a project can highlight in the planning stage. A good project budget would include the following cost planning:

1. Labour costs.
2. Material costs.
3. Operating costs.
4. Borrowing Costs

Considering the similar requirement while the development of Real Estate Project, the RERA Act 2016 has included the concept of "estimated cost of real estate project" and defined the under Section 2(v)"estimated cost of real estate project" means the total cost involved in developing the real estate project and includes the land cost, taxes, cess, development and other charges.

1. The Estimated Cost of the Real Estate Project has not been detailed in the Act or Rules. However, guidance is given by the State RERA authorities by way of formats of CA Certificates or explanatory notes or by circulars.

2. Promoters and professionals should know and understand the importance of The Estimated Cost of the Real Estate Project under RERA and how it impacts on the cash flow of the project. The details of such The Estimated Cost of the Real Estate Project shall be provided while filing an application for grant of registration of Real Estate Project.

3. As the term Estimated Cost of the Real Estate Project suggests, it is an estimate and cannot be accurate. Hence reasonable efforts shall be made by the promoters to arrive at the Estimated Cost of the Real Estate Project based on the scheme of the project, timelines for completion, funding for the project, specifications, offering by the promoters etc.,

The Estimated Cost of the Real Estate Project = Estimated Land Cost + Estimated development Cost

a.) Estimated Land Cost includes the cost of the land, rights acquired for additional construction by way of TDR / FSI etc, litigation or settlement amount, the amount remitted to clearance boards etc.,

b.) Estimated development cost includes - Onsite Costs, Off-Site Costs, Taxes, Borrowing Cost and any other costs associated in the development of the Real Estate Project

c.) Onsite Costs include all expenses related to the physical development of the project. Men, Material, machinery, consultants fees etc

d.) Offsite Costs would include administrative costs, management costs, which may be direct costs or on allocation or apportionment basis in case of promoter developing multiple projects / multiple businesses

e.) Taxes/levies - any taxes or levies in relation to the development of the project. Eg., Labour Cess, ground rent, property taxes, any other taxes as may levy by the state government or statutory authorities, GST if it is considered as Cost etc

f.) Income Tax is shall not be part of the Cost of the Project.

g.) Marketing or sales cost are not part of the Estimated Cost - as it is not associated with the development of the project (it is associated with sales and marketing activities)

h.) Borrowing / Interest cost - for the purpose of development of the project. Such borrowing cost shall have direct nexus to the project (many a time promoter does borrow based on the project, however, borrowed funds are deployed other than for the project. In those scenarios, such borrowing costs shall not be considered as part of the project cost)

i.) Borrowing/interest cost on land also can be considered as part of land cost.

j.) Various states have given guidance on the estimated cost of Real Estate projects.

4. Challenges and practical difficulties in arriving at The Estimated Cost of the Real Estate Project -

a.) As the Estimated Cost of the Real Estate Project is required to be mentioned in the application, the costs tend to change depending on various factors, scheme of the project. E.g., changes in material costs, cost of borrowing depending on cash flow, government levies.

b.) It is difficult to predict whether borrowing is necessary or not. As it depends on the sales velocity and collections (cash flows).

c.) Apportionment or allocation of Common Costs depending on the business and number

of projects or number of businesses etc., E.g., Promoter having multiple projects and development at a different stage of completion. Promoter having multiple businesses (eg., real estate, FMCG, Power etc)

5. Sensitivity and Importance of The Estimated Cost of the Real Estate Project –

   a.) Sensitive and important for the purpose of withdrawal of funds from the Project Designated bank account

   b.) Basis for the Authority for levy or imposition of Penalties Under Chapter VIII of the Act.

   c.) Allottees/customers evaluate the quality of offerings based on the cost of the development

   d.) Various statutory authorities viz., GST, Income Tax may consider these costs while assessment

   e.) Investors or Lenders or financial institutions take the reference during the transactions

6. Professional Advice:

   a.) Based on our experience over the years, we advise professionals and promoters shall prepare the Estimated Cost of the Real Estate Project scientifically with the help of experts of the field i.e., Engineers, Architect and CA at the time of filing an application for grant of registration.

   b.) Retain such Estimated Cost of the Real Estate Project workings, breakup and details as a reference till the end of the project.

   c.) Once the estimated cost of a Real Estate Project is filled in the application and registration is granted, then for all the practical purposes of issuance of professional certificates etc, the same shall be considered. If the promoter intends to modify such costs, then separate applications shall be filed with supporting documents and details.

   d.) Most of the states have referred how to arrive at the estimated cost of land in its Rules, acquisition cost or the guidance value as on date of application, whichever is higher shall be considered for the purpose of RERA Application.

7. Impact of not mention of the estimated cost of the real estate project -

   a.) It is observed that many applications were filed without mentioning the land cost, development costs are erroneous as the same is not calculated on a scientific basis. This is not correct and results in impacting the withdrawal of funds from the designated project bank account under section 4(2)(l)(D) of the Act.

## Questions frequently Asked on the estimated cost of the Real Estate Project -

1. In case if the Land is inherited, what is the estimated cost for the purpose of RERA application ?

- Most of the states have referred how to arrive at the estimated cost of land in its Rules i.e., acquisition cost or the guidance value as on date of application, whichever is higher shall be considered for the purpose of RERA Application.

2. Is it mandatory to mention the Land cost in case of Joint Development Agreement while filing an application for grant of registration ?

– Please note that the application for grant of registration is for the project (not for the promoter). The project includes Land and Development. Hence irrespective of the type of model (JDA, JV, Own, Lease) the Land Cost shall be mentioned in the application for grant of Registration.

3. What is the impact of mentioning the estimated cost of the real estate project excess or less than what is calculated ?

– promoter or professionals shall calculate the estimated cost of the real estate project scientifically based on the various parameters. If such calculation is erroneous or values mentioned in the application is having large variance (less or more), which will have a direct impact ability of withdrawal of funds from the 70 % designated bank account.

**a.)** **E.g.**, XYZ promoter mentioned 150 in place of 100 as the estimated cost of the real estate project. If promoter incurs 30 as cost, then the percentage of completion is only 30/150=20% instead of 30/100=30%. Means ability to withdraw is only 20% against 30 %, also the authorities levy penalty based on the estimated cost of the real estate project.

4. Can I amend the estimated cost of the real estate project once registration is granted ?

– promoters shall make a separate application and representation to the authorities to make necessary amendments along with necessary documents, affidavits and professional certificates.

5. Should I report to RERA in case of overrun of the estimated cost of the real estate project ?

– The engineer certificate has a reference, wherein the engineer shall certify the additional expenses and details thereon. Otherwise, as the name says it is only the estimate, always actuals vary. Reasonable escalation or reduction is acceptable.

6. Should I include GST as part of the estimated cost of the real estate ?

– Post amendment of GST applicable to Real Estate, in case of projects not eligible for ITC, can consider GST as cost. In case of projects that consume ITC, they can maintain separate ledger account

for input and output and need not consider GST as cost of the project (in case of commercial or mixed development project, the promoter may consider input and output method and need not consider GST is a cost)

7. Is borrowing cost on Land is part of the estimated cost of the real estate ?

– Yes, few RERA authorities have clarified that any interest incurred in relation to the acquisition of land can be considered as the cost of the land.

8. Can CA Certify the estimated cost of the real estate ?

- In line with the guidance note, a chartered accountant can participate in the preparation of profit or financial forecasts and can review them, provided he indicates clearly in his report precise terms of reference, sources of information, the basis of estimates and the major assumptions made in arriving at the estimates, relying on the work of the experts etc. (As per SA 620: The estimation of the total project costs requires technical expertise which the engineer and the architect possess. Therefore, the chartered accountant may rely on such estimated total project cost for the purpose of his certification certifying the percentage of completion of the project work. The chartered accountant. to this extent is using the work of an Auditor's Expert.

9. Under the Joint Development Agreement model, do I have the option to consider the cost of the development work pertaining to the share of the landowners as the cost of the land ?

– No, RERA rules or authority notifications defined how to calculate the estimated cost of the land. Hence promoters will not have any other option other than to mention as per Rules

10. Can I consider the cost of subvention as part of the estimated cost of the real estate project ?

– Yes, promoter or professionals shall calculate the cost of subvention (interest payout to the allottees in the project) based on the scheme of the project and offerings and shall be included under borrowing cost/interest cost

11. In case of the development of the project in a phased manner, what is the best method to arrive at common cost as part of the estimated cost of the real estate ?

– in many instances promoters register the project in phase-wise in accordance with the explanation to section 3(2) of the RERA Act 2016, in those instances promoter and professionals shall calculate various common cost scientifically. Eg., borrowing cost based on the utilization of funds. Management cost based on the % development of work in the project etc

12. Capital expenses viz., purchase of machinery etc., be considered as the estimated cost of the real estate ?

– In our opinion, the depreciation portion of the capital asset shall be considered for the purpose of the estimated cost of the real estate project.

13. Is advance money paid to the landowner to be considered as the estimated cost of the real estate project ?

– nonrefundable and refundable advance or goodwill shall be included as part of the estimated cost of the real estate. As RERA always look at the amount realized and utilized (inflow and outflow) .

14. Is payment made for the acquisition of TDR or additional FSI to be included as land or development cost ?

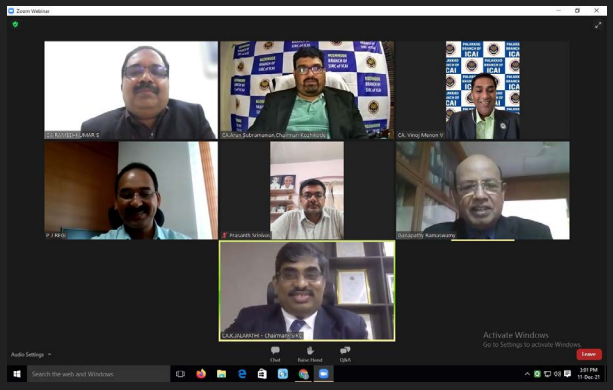
– the format of CA Certificate notified by the authorities mentions that the amount incurred towards the acquisition of TDR, additional FSI, compensation, litigation expenses, rehabilitation expenses etc shall be considered as part of the estimated cost of the Land.

**Conclusion** – promoters shall take the support of experts or professionals in the respective field and arrive at the estimated cost of the real estate project scientifically. Not to be casual about it, we have seen over the last 5 years that many promoters have suffered from more penalties or are unable to withdraw the funds from the designated bank account etc for the erroneous value of the estimated cost of the real estate project.

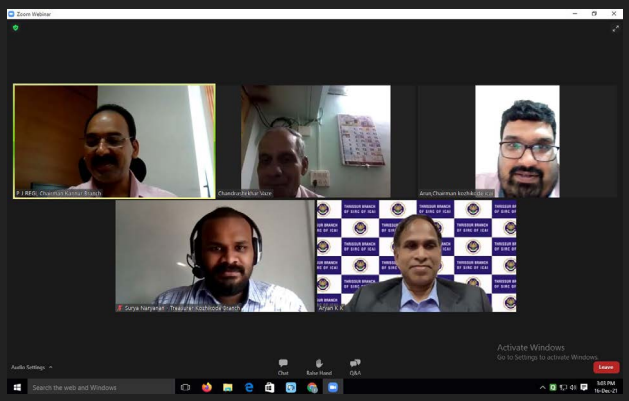
The author CA.Vinay Thyagaraj, partner at M/s.Venu & Vinay, Chartered Accountants from Bengaluru. For any RERA queries, please write to vinay@vnv.ca

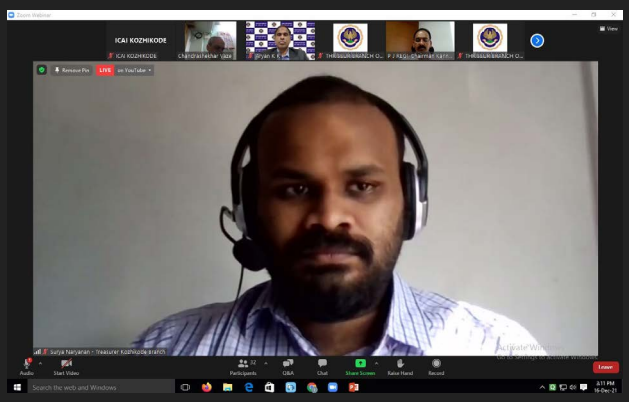
# ACTIVITIES - DECEMBER, 2021

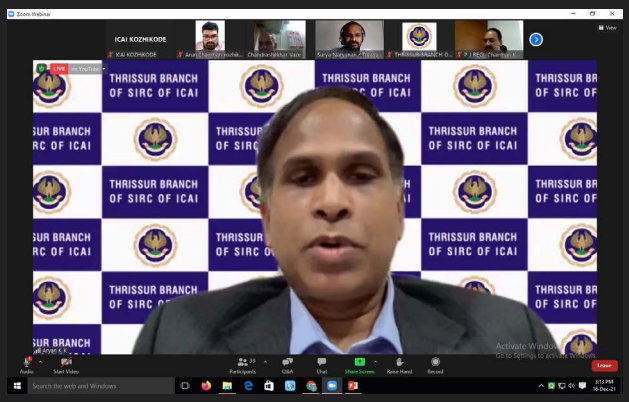
**Inaguration of New ITT centre of Kozhikode Branch at Mini Mansion, Jafarkhan Colony Road, Near ICAI Bhawan, Kozhikode by Sri. Ahammed Devarkovil, Minister of Kerala. 03.12.2021**



**Joint VCM with Palakkad, Kottayam and Trichur Branches of SIRC**
***Topic* - Empowering Young members to Tread The Turbulent Times**
***Speaker* - CA. G. Ramswamy, Past President, ICAI. 11.12.2021**

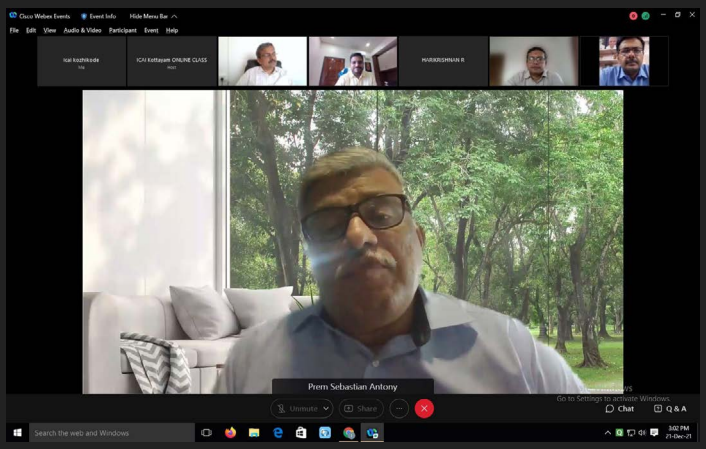


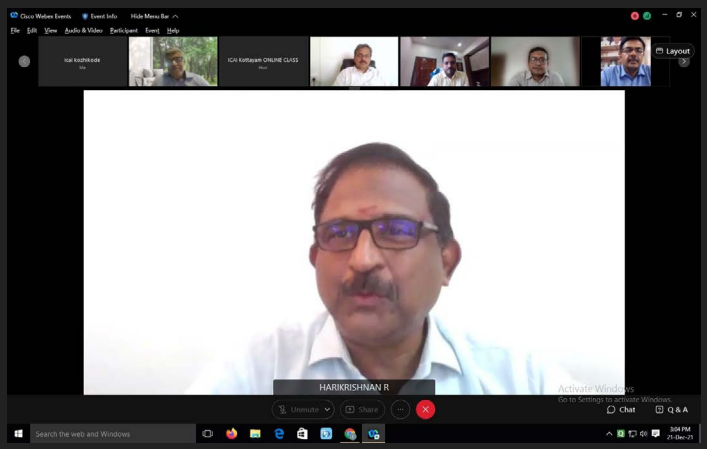


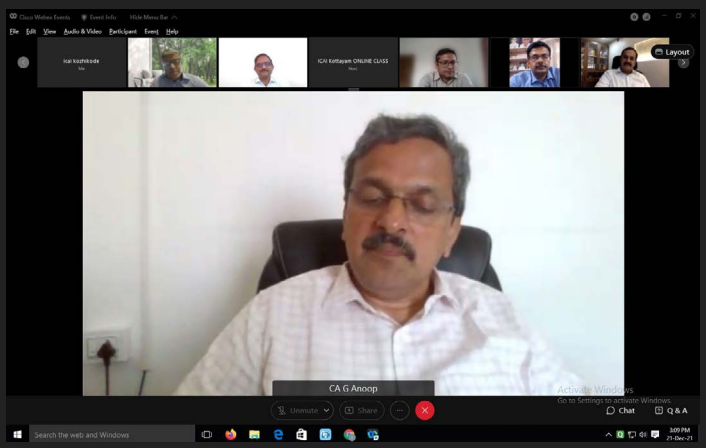


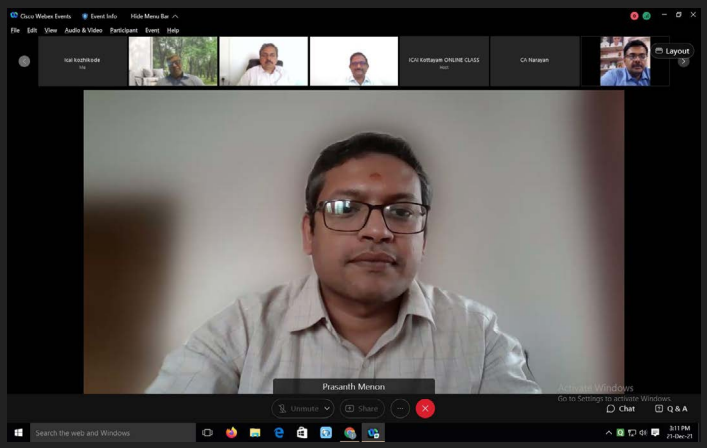
**Joint VCM with Kannur, Palakkad, Trivandrum and Thrichur branches of SIRC**
***Topic* - Ethical Standards**
***Speaker* - CA. C.N. Vaze , Mumbai. 16.12.2021**

**CA Family Get together & New Year Celebrations - 18.12.2021**




**Joint VCM with Kottayam, Alppuzha, Kannur, Kollam, Palghat, Thrichur and Thiruvanathapuram branches of SIRC *Topic* - Ringside View of Standards on Auditing SQC1, SA220, SA 240,SA 402, SA 600 & SA 610 *Speaker* - CA. Prashanth G. Menon, Thrissur. 21.12.2021**

## Contributions to e-newsletter

**Contributions in the form of articles, poems, jokes, travelogues etc. are invited from members for consideration in the monthly e-Newsletter. Interested members may email their contribution to *icaikoznewsletter@gmail.com* along with name, membership number and mobile number.**