

Real Estate Update

November 30, 2007

CEILED AND REPEALED: URBAN LAND (CEILING AND REGULATION) ACT

In a move that could substantially accelerate urban development in the state, the Maharashtra State Legislature ("State Legislature"), through a resolution passed yesterday, has repealed the Urban Land (Ceiling and Regulation) Act, 1976 ("ULCRA").

This move had been in the offing for quite a few months now. We, through our hotline of April 20, 2007, "[Repealing the Ceiling: Urban Land \(Ceiling and Regulation\) Act may finally be repealed](#)" had reported that the State Legislature was proposing to repeal ULCRA in its next session. However, it has taken 8 long months for it to be finally repealed.

The ULCRA was enacted in the first place to control holdings of urban land by a select few, and utilise the excess land available after the land ceiling for housing the poor. Therefore, no person was allowed to own more than 500 square metres in Mumbai and 1000-2000 square metres depending on the category within which the other urban areas of Maharashtra fell under. Contrary to achieving the objective of housing for the poor, ULCRA resulted in, amongst other things, increase in the real estate prices in these urban areas. In order to curb the same, an ordinance was passed, and through the Urban Land (Ceiling and Regulation) Repeal Act, 1999, an option was given to the various Indian States to adopt the same through their own legislatures. Except for Andhra Pradesh, Assam, Bihar and West Bengal, all other states have repealed ULCRA.

IMPLICATIONS OF THE REPEAL

- *Freeing up of vast tracts of land in cities such as Mumbai, Thane, Pune, Nagpur, Nasik, Solapur, Sangli and Kolhapur:* The total amount of land estimated to have been freed from the ULCRA shackles is pegged at a whopping 170,000,000 square metres. This will bridge the gap between the demand and supply of land in the realty sector of the State. While this is definitely great news for the developers, it will also leave its impact on the investments into the realty sector – whether such investments are made by foreign investors or domestic. Therefore, foreign direct investment ("FDI") in Maharashtra is expected to rise. However, on the flip side, it would have to be borne in mind that this freeing up of land is anticipated to occur over a period of 2 years, according to industry experts, and not instantly.
- *Housing sector shall receive a big boost:* Besides the common man, who shall definitely benefit from the increase in the supply in the housing sector, this increase shall also contribute to luring more foreign investment in Maharashtra. The Press Note 2 of 2005 series, as published by the Ministry of Commerce and Industry, Government of India, allows 100% FDI in connection with the construction and development of integrated townships, subject to fulfillment of certain conditions.
- *Stabilizing of the realty prices:* Due to this increase in the supply of land, the sky-rocketing real estate prices, will face a slow down. This will be more evident in the Tier II and III cities like Pune, Nasik and Nagpur, wherein larger tracts of land shall be freed. Again, this may not happen overnight, although its effects are surely going to be felt in the long term. This decrease in the prices shall bring a smile to the face of the consumers but may cause a fair bit of anxiety to the developers who were enjoying the benefits of the sky-high prices till date. It could also affect the valuations of the realty-sector focussed investments- domestic or foreign, which could now be lower due to the decrease in the realty prices.
- *Transparency:* The repeal will bring in the much-required transparency and efficiency in land acquisition, which would further encourage foreign investment in the real estate sector. The repeal of ULCRA would also aid the investment process and make it less complicated, as regulatory and legal hurdles imposed by ULCRA would no longer be a factor. The structures for these investments would be cleaner and simpler. Moreover, administrative fees payable under ULCRA, which are sometimes as high as Rs. 100 per square foot, would be done away with.
- *More funds for the State from the Centre:* The repeal would provide the State increased access to Central Government funding which was not available specifically due to the continuance of ULCRA. The State can now stake a claim to the benefits under the Jawaharlal Nehru National Urban Renewal Mission, wherein funds to the tune of Rs. 110 billion are expected to be released.

The repeal of ULCRA has definitely come at the right time. It would help the over-heated realty market by acting as a stabilizing factor. Not only would it achieve the goal of quality urban land reform but also result in the surge of development that will be a boon for the government and all participants in the real estate sector.

- Diptee Deshpande & Shafaq Uraizee

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Sources:

- *The Economic Times*, November 29, 2007
- *Business Standard*, November 30, 2007
- *The Hindu*, November 30, 2007
- *The Financial Express*, November 30, 2007
- *Sify*, November 30, 2007

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