

Does Regulating Developers Democratize Credit and Homeownership?

Sumit Agarwal

Mingxuan Fan

Pulak Ghosh

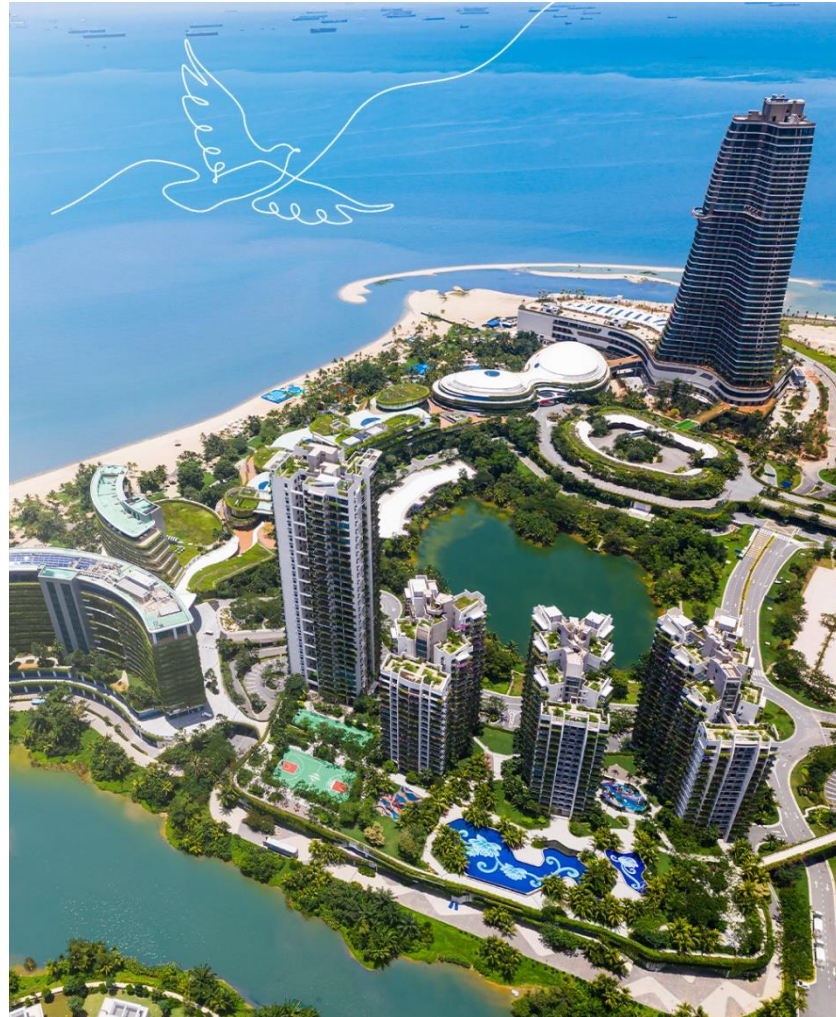
Arkodipta Sarkar

Xiaoyu Zhang

TC Lin

2024 ABFER

Country Garden Forest City Brochure



Country Garden Forest City Reality



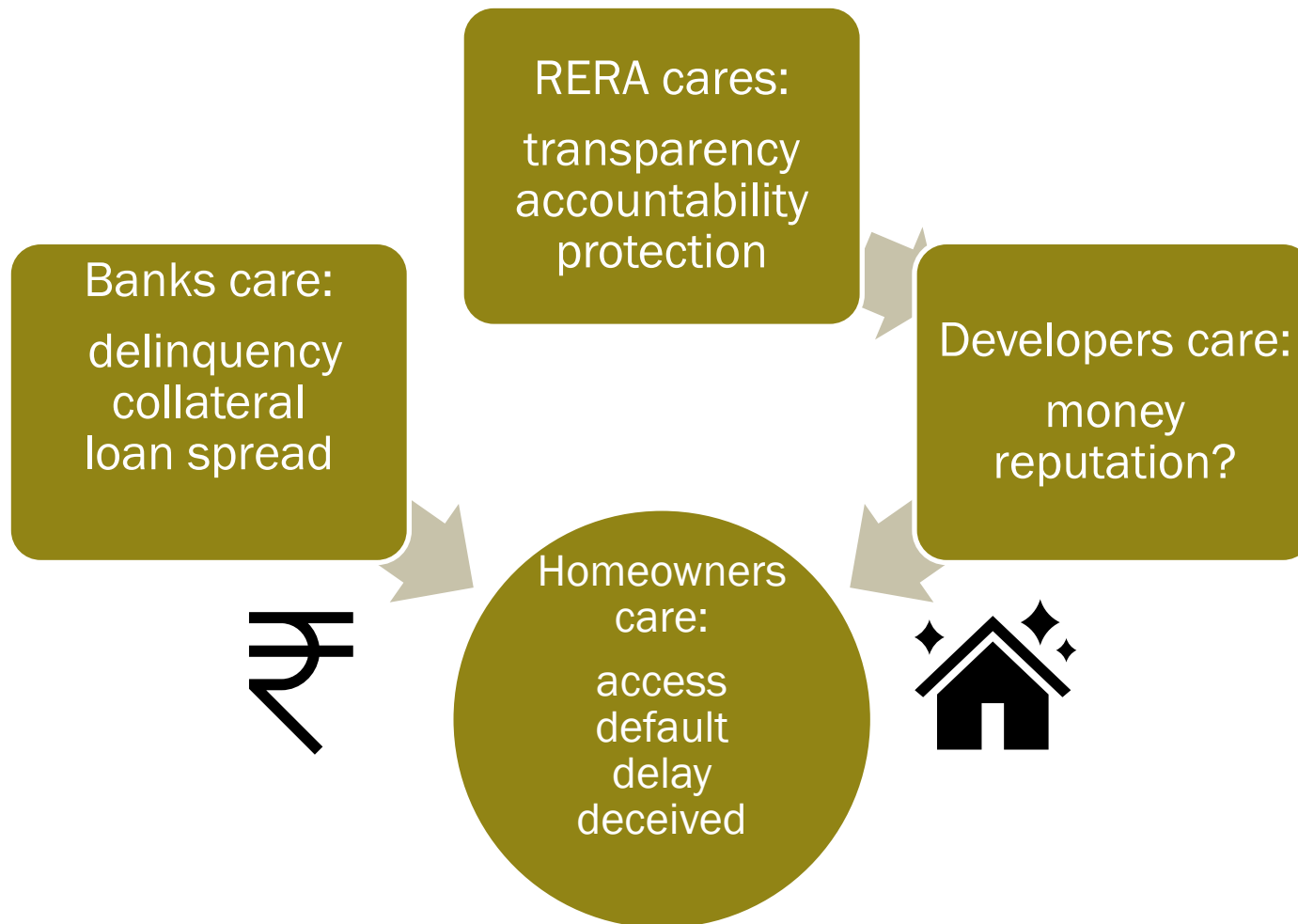
Buying real estate projects in India

- * Entering a forward contract but fully paid:
 - * Project may delay
 - * Project may fail
 - * Uncertainty of the quality
 - * Tunneling and Fraud
- * Staged payment might mitigate these issues
 - * Less incentives to delay, tunnel, and fraud
 - * The quality of the finished project is known to mortgage lenders

Real Estate (Regulation and Development) Act

- * Mandatory registration of real estate projects and agents
- * Detailed project disclosures
- * Adherence to project timelines via penalty for delay
- * Establishment of escrow accounts to prevent fund diversion

Real estate projects



Research question

- * Understanding who benefits from the passage of the RERA Act in terms of
 - * Homeownership
 - * Mortgage term
 - * Project delay
 - * Loan default

The main results I

- * Increase in mortgage origination
 - * First-time borrowers
 - * A redistribution of mortgages from metropolitan and Tier 1 cities to Tier 2 and Tier 3 cities
 - * Improved mortgage terms for women and marginalized castes
 - * Increased availability of mortgages for properties in emerging neighborhoods

The main results II

- * Greater propensity to provide more affordable, relatively smaller houses.
 - * Reduction in the availability of luxury housing
 - * Decrease in the price of affordable homes
 - * Increase in the price of luxury homes
- * Decline in delay of project completion after the implementation of RERA
- * Lower delinquency and lower default in mortgage loans.

The economic mechanisms of RERA

Positive ones:

- * Feeling protected by the RERA, individuals' home purchase demand may go up.
- * The collateral value and the relevant information for banks improve, leading to better extensive and intensive margin of mortgage.

Negative one:

- * Increased regulatory costs, which may lead to a reduced supply of low-quality estate projects.

Questions

- * What happens when overall demand goes up (mechanism 1) and overall supply goes down (mechanism 3), *ceteris paribus*?
 - Equilibrium P goes up
 - Equilibrium Q depends on which one shifts more
- * Q goes up, but do we also observe a higher housing price in the treated area?
- * Who are the new marginal home buyers under the RERA?

Questions

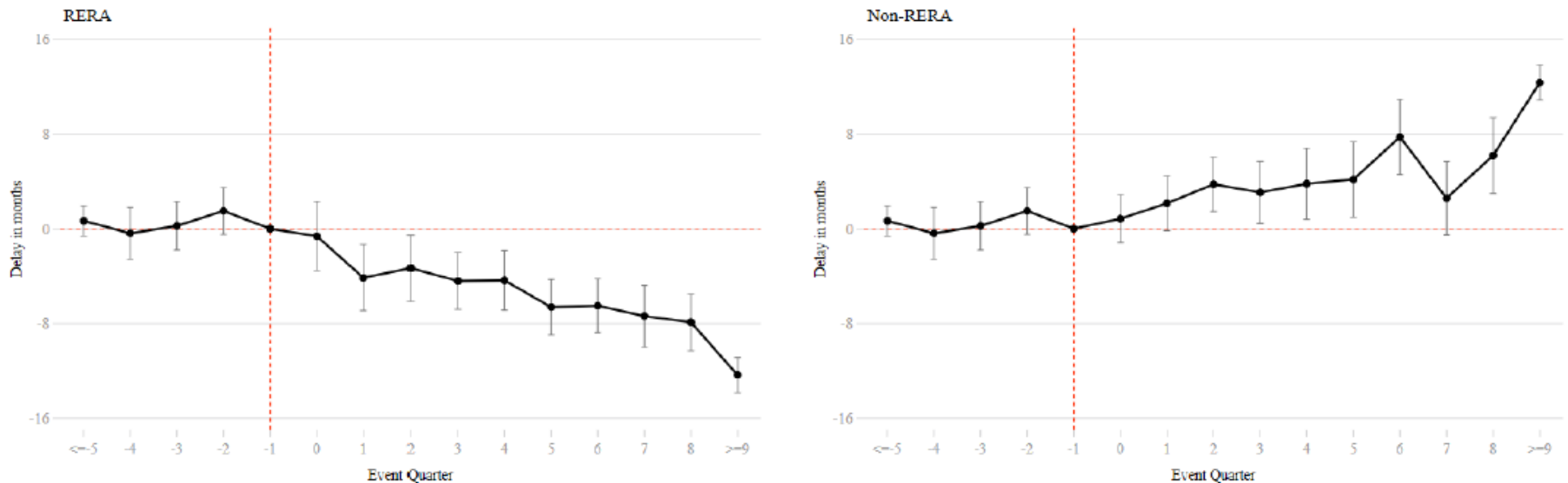
- * We see
 - * More mortgage origination (democratization)
 - * Lower delinquency in mortgage loans
 - * Lower default in mortgage loans
- * But how could these all happen together?
 - * Developers' operating efficiency improves?
 - * Reduction in project delay reduces extra costs for homeowners associated with the delay such that they could pay mortgage?

Questions

- * Low-quality developers who only survive by deceiving and delaying should be crowded out after the implementation of RERA
- * Who then serves the weaker homebuyers?
- * Will branches allocate mortgage funds to the treated areas such that the weaker homebuyers in the control areas face an even harder time accessing mortgages?
- * Overall, what is the catch of RERA?

What is the catch of RERA?

Figure 7 Panel b



(b) Delay

Substitution in loan allocation among Tiers 1 and 3 cities?

Table 4: Effect of RERA on Mortgage Lending – Geographic Disparity

Dep. Var.	(1) Binary loan = 1	(2) Amount of Loan	(3) Number of Loan	(4) Number of New Borrowers
Post*Tier 3	0.008*** (0.002)	0.157*** (0.036)	0.039*** (0.010)	0.024*** (0.008)
Post*Tier 2	0.002 (0.004)	0.032 (0.087)	0.012 (0.026)	0.009 (0.023)
Post*Tier 1	-0.006** (0.002)	-0.129** (0.049)	-0.037** (0.015)	-0.020 (0.012)
Observations	3,003,748	3,003,748	3,003,748	3,003,748
R-squared	0.375	0.387	0.434	0.416
Branch*Pin FE	Yes	Yes	Yes	Yes
Branch*YQ FE	Yes	Yes	Yes	Yes

The role of developers' reputation

- * Does the amount of mortgage a home buyer can borrow from a bank depend on the developer's reputation?
 - * The market value of an under-construction (presale) property should depend on the track record of a developer.
 - * The access to the mortgage and the terms should adjust accordingly.

Presale vs. resale housing

- * RERA is about regulating the developers.
- * The resale housing market and its mortgage should not be directly affected
- * Might be interesting to see how loan decisions to resale housing are affected

Reduction in the availability of luxury housing and Increase in the price of luxury homes, why?

- * Is it because the luxury projects are too costly and thus make the decentralized project-level constraints more binding?
- * The size and price per sqft of luxury projects go up.
- * The quality score and delay both worsen
- * The information asymmetry in luxury projects should be lower and thus less affected by the RERA.

Overall

- * Topic is important, and data sets are amazing
- * The empirical results are quite comprehensive
 - * 7 tables, 7 figures, 2 IA figures, and 9 IA tables.
 - * High dimensional fixed effects
 - * Heterogenous treatment effect in staggered DiD
 - * Count and count-like data
 - * Using only Border Districts
 - * Placebo tests
- * Recommend it to everyone!



Tse-Chun Lin
林則君
tsechunlin@hku.hk