



JOURNAL OF THE ROYAL LAUREATES ACADEMY

www.rlaindia.org

THE ROLE OF RERA AND REITS IN STRENGTHENING INVESTOR CONFIDENCE AND RISK MITIGATION IN THE INDIAN REAL ESTATE SECTOR

Raju Sabar

Research Scholar, Sunrise University, Alwar, Rajasthan

Dr. Snigdhadip Ghosh

Research Supervisor, Sunrise University, Alwar, Rajasthan

ABSTRACT

The real estate sector has long been considered a vital contributor to economic growth and urban development, yet it has also been associated with high levels of risk, limited transparency, and weak investor protection. In India, these challenges historically discouraged both domestic and foreign investors from fully participating in the sector. The introduction of the Real Estate (Regulation and Development) Act (RERA) and the establishment of Real Estate Investment Trusts (REITs) represent two landmark reforms aimed at transforming the regulatory and investment landscape of the real estate market. This study theoretically examines the role of RERA and REITs in strengthening investor confidence and mitigating various forms of risk within the Indian real estate sector. RERA enhances transparency, accountability, and legal enforcement by mandating project registration, disclosure of information, and protection of buyer interests, thereby reducing information asymmetry and project execution risks. REITs, on the other hand, provide a regulated and liquid investment avenue that enables diversification, professional asset management, and stable income generation, thereby lowering financial and liquidity risks for investors. Together, these frameworks contribute to improved governance, reduced uncertainty, and a more stable investment climate. This paper highlights how regulatory discipline and financial innovation operate in synergy to foster trust, encourage long-term investment, and promote sustainable growth in the real estate sector. The findings suggest that RERA and REITs play a crucial role in institutionalizing the market and aligning it with global best practices in risk management and investor protection.

Keywords: Real Estate Regulation, RERA, REITs, Investor Confidence, Risk Mitigation,

Indian Real Estate, Market Transparency, Institutional Framework

I. INTRODUCTION

The real estate sector occupies a central position in national economic development due to its strong linkages with infrastructure, construction, employment generation, and financial markets. It serves as both a consumption good and an investment asset, attracting households, businesses, and institutional investors. Despite its importance, the real estate market has traditionally been characterized by high levels of uncertainty, lack of transparency, and regulatory fragmentation. These issues have contributed to weak investor confidence, project delays, legal disputes, and significant financial risks. The absence of a uniform regulatory framework for many years resulted in asymmetrical information between developers and buyers, allowing opportunistic behavior and creating mistrust among stakeholders.

Investor confidence is a fundamental requirement for the sustainable growth of any market. In real estate, confidence depends largely on the predictability of project outcomes, clarity of legal titles, protection of buyer interests, and availability of reliable information. Historically, investors in the Indian real estate sector faced risks related to delayed possession, misappropriation of funds, ambiguous contracts, and limited legal recourse. These risks increased transaction costs and discouraged institutional participation, thereby restricting the sector's ability to attract long-term capital. The need for comprehensive reforms became increasingly evident as urbanization accelerated and housing demand expanded.

In response to these structural weaknesses, the government introduced the Real Estate (Regulation and Development) Act (RERA) with the objective of bringing greater discipline, transparency, and accountability into the real estate market. RERA established a formal regulatory authority at the state level and made it mandatory for real estate projects and agents to register with the regulator. It also introduced strict disclosure requirements, standardized contractual obligations, and mechanisms for grievance redressal. By mandating that a significant portion of project funds be maintained in escrow accounts and used only for the specified project, RERA directly addressed the risk of fund diversion and project incompleteness. These provisions not only protect homebuyers but also enhance the credibility of developers who comply with regulatory norms.

Parallel to regulatory reform, financial innovation in the form of Real Estate Investment Trusts (REITs) has significantly altered the investment dynamics of the real estate sector. REITs provide investors with an opportunity to invest in income-generating real estate assets through tradable financial instruments, similar to mutual funds. This structure enables diversification across multiple properties and locations, reducing exposure to individual project risk. REITs also offer liquidity, which is traditionally absent in direct property investments, allowing investors to enter and exit positions more easily. Furthermore, REITs are subject to strict governance and disclosure requirements, ensuring transparency and professional management of assets.

The combined effect of RERA and REITs represents a shift from an informal and fragmented market structure to a more institutionalized and regulated ecosystem. RERA strengthens the foundational integrity of real estate projects by improving legal certainty and accountability, while REITs enhance the financial attractiveness of the sector by offering standardized and lower-risk investment vehicles. This dual approach addresses both supply-side and demand-side challenges. On the supply side, developers are compelled to adopt better governance practices, while on the demand side, investors benefit from reduced uncertainty and improved access to information.

From a theoretical perspective, regulatory frameworks reduce market failure by minimizing information asymmetry and aligning incentives between market participants. Similarly, financial instruments such as REITs promote risk sharing and efficient capital allocation. Together, these mechanisms contribute to lower perceived risk and higher levels of trust, which are essential for long-term investment growth. The strengthening of investor confidence has broader macroeconomic implications, including increased foreign investment, improved housing finance systems, and enhanced market stability.

This study seeks to examine the role of RERA and REITs in strengthening investor confidence and mitigating risk in the real estate sector through a conceptual and theoretical lens. By analyzing their impact on transparency, governance, and financial discipline, the paper aims to demonstrate how these reforms contribute to a more secure and resilient investment environment. Understanding these dynamics is crucial for policymakers, investors, and developers who seek to promote sustainable development and ensure the long-term viability of the real estate market.

II. REAL ESTATE SECTOR IN INDIA

The real estate sector in India plays a vital role in the nation's economic development and urban transformation. It is one of the largest contributors to employment generation after agriculture and is closely linked with more than 250 allied industries such as cement, steel, bricks, and infrastructure services. The sector comprises residential, commercial, retail, and industrial segments, catering to the diverse needs of a rapidly growing population and expanding urban centers. With increasing urbanization, rising income levels, and the growth of the middle class, demand for housing and commercial spaces has consistently increased, making real estate a key driver of economic growth and investment activity.

Historically, the Indian real estate market was characterized by informality, fragmented regulation, and limited transparency. Property transactions were often marked by unclear land titles, lengthy approval processes, and lack of standardized practices. These issues resulted in project delays, cost overruns, and frequent disputes between buyers and developers. The absence of a unified regulatory framework created significant information asymmetry, which increased financial and legal risks for investors and homebuyers alike. Consequently, investor confidence remained relatively low, and institutional participation in the sector was limited for many years.

In recent times, the sector has undergone major structural reforms aimed at improving governance and transparency. The introduction of regulatory measures such as the Real Estate (Regulation and Development) Act (RERA), along with financial reforms like the establishment of Real Estate Investment Trusts (REITs), has transformed the investment landscape. These initiatives have strengthened consumer protection, standardized business practices, and introduced accountability among developers. As a result, the real estate sector is gradually shifting from an unorganized and speculative market toward a more institutionalized and professionally managed industry.

The real estate sector also plays a significant role in addressing the country's housing needs and supporting inclusive growth. Government initiatives such as affordable housing programs and urban development missions have encouraged private participation and boosted supply in the residential segment. At the same time, the growth of information technology hubs, business parks, and logistics centers has expanded the commercial and industrial real estate markets. This diversification has enhanced the sector's resilience and created new avenues for investment and employment generation.

Despite these advancements, the Indian real estate sector continues to face challenges such as regulatory inconsistencies across states, financing constraints, and cyclical fluctuations in demand. Market volatility, rising construction costs, and delays in project execution remain key concerns. However, the increasing role of institutional investors, improved regulatory oversight, and greater transparency are gradually reducing these risks. Overall, the real estate sector in India is evolving into a more structured and stable market, offering long-term growth opportunities while contributing significantly to national economic development and urban sustainability.

III. CONCEPTUAL ANALYSIS

The conceptual analysis of the role of regulatory and financial frameworks in the real estate sector focuses on understanding how institutional mechanisms influence investor behavior, market stability, and risk management. In the context of India, the introduction of the Real Estate (Regulation and Development) Act (RERA) and Real Estate Investment Trusts (REITs) represents a structural shift toward a more transparent and accountable real estate ecosystem. Conceptually, these reforms can be viewed as instruments that reduce information asymmetry, strengthen governance, and enhance trust between developers, investors, and consumers. By establishing clear rules and standardized practices, these frameworks aim to correct market imperfections that previously led to uncertainty and mistrust.

From a risk mitigation perspective, RERA functions as a regulatory safeguard that addresses operational and legal risks associated with real estate development. Mandatory project registration, disclosure of project details, and the requirement to deposit project funds in escrow accounts ensure that resources are used for their intended purposes. Conceptually, this mechanism limits opportunistic behavior by developers and reduces the likelihood of project delays and financial mismanagement. The presence of a regulatory authority and dispute

resolution system further enhances enforcement credibility, thereby lowering perceived legal and execution risks for investors and homebuyers.

REITs, on the other hand, operate as financial instruments designed to mitigate investment risk through diversification and liquidity. Conceptually, REITs transform illiquid physical assets into tradable financial securities, enabling investors to spread risk across multiple properties and geographic locations. This structure reduces dependence on a single project's performance and allows for better risk sharing among market participants. In addition, REITs are subject to strict disclosure norms and governance standards, which promote transparency and professional asset management. These characteristics strengthen investor confidence by providing predictable income streams and reducing uncertainty associated with direct property ownership.

The interaction between RERA and REITs creates a complementary framework that strengthens both the regulatory foundation and the financial architecture of the real estate market. RERA improves the quality and reliability of underlying real estate assets by enforcing compliance and accountability, while REITs enhance the accessibility and attractiveness of these assets as investment opportunities. Conceptually, this synergy leads to improved price discovery, efficient capital allocation, and a reduction in systemic risk. Investors benefit from both legal protection and financial flexibility, which together contribute to a more stable investment climate.

Overall, the conceptual analysis suggests that RERA and REITs collectively function as confidence-building mechanisms within the real estate sector. By reducing uncertainty, enhancing transparency, and promoting disciplined market behavior, these reforms align the sector with principles of institutional economics and modern risk management theory. The conceptual framework highlights that regulatory certainty and financial innovation are mutually reinforcing forces that support sustainable growth and long-term investor trust in the real estate market

IV. INTEGRATED PERSPECTIVE: RERA + REITS

The integrated perspective of RERA and REITs highlights how regulatory reform and financial innovation together reshape the structure and functioning of the real estate market in India. While RERA focuses on improving transparency, accountability, and legal certainty at the project and developer level, REITs provide an institutional investment platform that channels capital into income-generating real estate assets. Conceptually, these two frameworks operate at different but complementary levels: RERA strengthens the foundation of the real estate sector by ensuring disciplined development practices, and REITs enhance the financial dimension by offering regulated, liquid, and diversified investment opportunities. Their combined effect contributes to a more organized and trustworthy market environment.

From a risk mitigation standpoint, the synergy between RERA and REITs reduces both operational and financial risks. RERA minimizes risks related to project delays, fund diversion,

and contractual disputes through strict compliance requirements and enforcement mechanisms. At the same time, REITs reduce investment risks by allowing diversification across multiple properties and providing liquidity through stock market listing. Together, they address the major sources of uncertainty that previously discouraged investor participation. This integrated framework enables investors to rely on stronger legal protection while benefiting from professionally managed and transparent financial instruments.

The interaction between RERA and REITs also enhances market efficiency and investor confidence through improved price discovery and information flow. RERA mandates disclosure of project details, financial statements, and timelines, which increases the availability of reliable data in the market. REITs further contribute to transparency by publishing periodic performance reports and adhering to corporate governance standards. The availability of standardized and credible information helps investors make informed decisions, reduces speculation, and supports rational valuation of real estate assets. As a result, trust in the market gradually strengthens.

Overall, the integrated perspective suggests that RERA and REITs together promote the institutionalization of the Indian real estate sector. By aligning regulatory discipline with financial innovation, they create a balanced ecosystem that supports sustainable investment and long-term growth. This combination not only protects consumer interests but also attracts domestic and foreign institutional investors, leading to deeper capital markets and improved market stability. The joint influence of RERA and REITs thus represents a significant step toward building a transparent, resilient, and investor-friendly real estate environment.

V. DISCUSSION

The integrated perspective of RERA and REITs highlights how regulatory reform and financial innovation together reshape the structure and functioning of the real estate market in India. While RERA focuses on improving transparency, accountability, and legal certainty at the project and developer level, REITs provide an institutional investment platform that channels capital into income-generating real estate assets. Conceptually, these two frameworks operate at different but complementary levels: RERA strengthens the foundation of the real estate sector by ensuring disciplined development practices, and REITs enhance the financial dimension by offering regulated, liquid, and diversified investment opportunities. Their combined effect contributes to a more organized and trustworthy market environment.

From a risk mitigation standpoint, the synergy between RERA and REITs reduces both operational and financial risks. RERA minimizes risks related to project delays, fund diversion, and contractual disputes through strict compliance requirements and enforcement mechanisms. At the same time, REITs reduce investment risks by allowing diversification across multiple properties and providing liquidity through stock market listing. Together, they address the major sources of uncertainty that previously discouraged investor participation. This integrated framework enables investors to rely on stronger legal protection while benefiting from professionally managed and transparent financial instruments.

The interaction between RERA and REITs also enhances market efficiency and investor confidence through improved price discovery and information flow. RERA mandates disclosure of project details, financial statements, and timelines, which increases the availability of reliable data in the market. REITs further contribute to transparency by publishing periodic performance reports and adhering to corporate governance standards. The availability of standardized and credible information helps investors make informed decisions, reduces speculation, and supports rational valuation of real estate assets. As a result, trust in the market gradually strengthens.

Overall, the integrated perspective suggests that RERA and REITs together promote the institutionalization of the Indian real estate sector. By aligning regulatory discipline with financial innovation, they create a balanced ecosystem that supports sustainable investment and long-term growth. This combination not only protects consumer interests but also attracts domestic and foreign institutional investors, leading to deeper capital markets and improved market stability. The joint influence of RERA and REITs thus represents a significant step toward building a transparent, resilient, and investor-friendly real estate environment.

VI. CONCLUSION

The introduction of RERA and REITs marks a significant transformation in the structure and functioning of the Indian real estate sector. These reforms have collectively addressed long-standing challenges related to transparency, accountability, and investor protection. RERA has strengthened the regulatory framework by enforcing disclosure norms, ensuring timely project completion, and establishing effective grievance redressal mechanisms, thereby reducing legal and operational risks faced by investors. REITs, in turn, have expanded investment opportunities by providing a regulated, liquid, and diversified avenue for participation in real estate, mitigating financial and liquidity risks traditionally associated with property investments. Together, RERA and REITs have contributed to building a more trustworthy and resilient real estate ecosystem. By lowering uncertainty and improving governance standards, they enhance investor confidence and encourage greater institutional participation. Although challenges remain in terms of uniform implementation and market maturity, the overall impact of these frameworks has been positive in promoting stability and professionalism within the sector. In the long run, the continued strengthening of regulatory enforcement and expansion of REIT markets can further deepen investor trust and support sustainable growth in the real estate industry. These reforms represent a crucial step toward aligning the sector with global best practices in risk management and investment transparency.

REFERENCES

1. Das, S., & Sharma, R. (2022). India Excerpts and Perspectives: Global Real Estate Transparency Index. JLL Research. <https://www.jll.co.in/en/trends-andinsights/research/india-excerpts-and-perspectives-global-real-estate-transparency-index>

2. Economic Survey 2021-22. (2021). Government of India, Ministry of Finance, Department of Economic Affairs. https://www.indiabudget.gov.in/economicsurvey/ebook_es2022/index.html
3. Economic Survey 2022-23. (2023). Government of India, Ministry of Finance, Department of Economic Affairs. <https://www.indiabudget.gov.in/economicsurvey/doc/echapter.pdf>
4. India VIX computation methodology. (n.d.). National Stock Exchange. Retrieved February 21, 2023, from https://www1.nseindia.com/content/indices/India_VIX_comp_meth.pdf.
5. Kakkar, S., Udeshi, B., & Karlekar, J. (2023). 5 years of RERA progress The journey of increasing trust. JLL Research. <https://www.jll.co.in/content/dam/jllcom/documents/pdf/research/apac/india/jll-latest-report-5-years-of-rera-progress-the-journeyof-increasing-trust.pdf>
6. Kumar, H. (2022, October 17). Amid Pollution Concern, Here's How a Construction Ban Will Impact Housing Projects In Delhi-NCR. Outlook India.
7. Kurup, E. J. (2022, May 4). Sort out legacy issues to make realty plinth strong. Money Control. <https://www.moneycontrol.com/news/opinion/sort-out-legacy-issues-to-make-realty>
8. Kurup, E. J. (2023, January 27). RERA starts unravelling as key fixes in law are neglected. Moneycontrol. <https://www.moneycontrol.com/news/opinion/rera-starts-unravelling-as-keyfixes-in-law-are-neglected-9949121.html>
9. Livemint. (2022, October 7). A one-month ban on construction delays a project by 3-4 months: Anarock. LiveMint. <https://www.livemint.com/news/india/a-one-month-ban-onconstruction-delays-a-project-by-3-4-months-anarock-11665149733045.html>
10. Masaldan, A. (2022, March 7). India's ageing population offers housing sector tremendous growth opportunity. Financial Express. <https://www.financialexpress.com/money/indiasageing-population-offers-housing-sector-tremendous-growth-opportunity/2453307/>
11. NSO (2021), Elderly in India, National Statistical Office, Ministry of Statistics & Programme Implementation, Government of India, New Delhi.
12. Purohit, M., & Ghosh, I. (2022, December 5). India's housing market to remain resilient, defying global downtrend: Reuters poll. Reuters. <https://www.reuters.com/world/india/indiashousing-market-remain-resilient-defying-global-downtrend-2022-12-05/>

13. Real Estate Sentiment Index Q3 2022.pdf (34th Edition). (2022). KnightFrank-NAREDCO. <https://www.naredco.in/sites/default/files/2022->
14. Rebello, J. (2021, March 3). HDFC follows SBI, Kotak, cuts home loan rate. *The Economic Times*. <https://economictimes.indiatimes.com/industry/banking/finance/banking/hdfc-followssbi-kotak-cuts-home-loan-rate/articleshow/81314368.cms>
15. Reserve Bank of India. (2022). Financial Stability Report (Issue 26). Reserve Bank of India. <https://rbidocs.rbi.in/rdocs//PublicationReport/Pdfs/0FSRDECEMBER2022F93A2>
16. Singh, S., & Verma, S. (2021, May 14). Bank v HFC: Who transmits home loan rate cuts better? *The Indian Express*. <https://indianexpress.com/article/explained/housing-financecompanies-banks-home-loan-rate-cut-rbi-real-estate-covid-impact-7314248/>
17. Tausczik, Y. R., & Pennebaker, J. W. (2009). The psychological meaning of words: LIWC and computerized text analysis methods. *Journal of Language and Social Psychology, 29*(1),24–54. <https://doi.org/10.1177/0261927x09351676>.
18. The Real Estate (Regulation and Development) Act, MOHUA. (2016). Vishwanathan, V. (2015, October 18). Why reverse mortgage is unpopular. *LiveMint*.