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## Budget musings

Bindu Gopal Rao, Feb 20, 2015:



**It is time for another budget. Will it bring good news for the realty sector? asks Bindu Gopal Rao, as she speaks with experts on the need for FDI, tax rebates on loans and an overhaul of the property laws.**

Come February and there is a sense of expectation and anxiety in the air, thanks to the impending financial budget. Every year, industries look forward to the same in anticipation of better tidings. The realty industry puts forward its wish list.

### Friendly policies

Real estate industry is pinning its hopes high on this year's budget with the Finance Minister indicating the start of second-generation reforms in the country.

Recently, the Finance Ministry floated a draft cabinet note to amend the Foreign Exchange Management Act (FEMA) to permit overseas funds in Real Estate Investment Trusts (REITs). "Easing the REITs norms and making it investor-friendly by reworking the provision of three-year lock-in period and minimum alternate tax (MAT) will benefit the sector largely," says Sumit Jain, co-founder and CEO, CommonFloor.com.

With the plan of 100 smart cities in the country, there is promised growth in the real estate sector. For this, it is essential that the government comes clear on REIT policies. "Most real estate projects have come to a standstill because of lack of funds. Through REITs, this will become easy and we should be able to mobilise many projects. This will not only propel growth for the sector, but shall also increase employable opportunities," seconds Susil Dungarwal, chief mall mechanic, Beyond Squarefeet Advisory Pvt. Ltd.

Anil Mithas, CMD, Unnati Fortune Group, adds, "Even the long-term capital gains should also be

exempted for sponsors of REITs. Even for people who avail home loans, this will be a noteworthy effort for the sector.”

### **Bank on it**

Apart from REIT policies, the recent cut in repo rate is being hailed as a good beginning. “What is needed is a roll back of all liquidity-tightening measures and easing the situation to make cost of funding for both, home buyers and developers cheaper than what it is today. A reduction of 200 basis points (reduction of interest rate by two per cent) within short span is needed. And if the RBI doesn’t act, the government must take appropriate steps to ease fund restrictions for realty,” opines Lalit Kumar Jain, CREDAI chairman and CMD of Kumar Urban Development Pvt. Ltd.

Anil Kothuri, president and head, Retail Finance, Edelweiss, adds, “The housing finance industry (HFI) should be given infrastructure status. HFIs can issue infrastructure bonds which qualify for tax benefits. Further, they can raise funds in the overseas markets through the External Commercial Borrowing (ECB) route. Funds raised in these ways will be cheaper, even after factoring the cost of hedging, thus leading to lower lending rates.”

Another rate cut by RBI can invoke positive sentiment in the investor and buyer community. “Foreign Direct Investment (FD) in the real estate sector should be pushed harder since it will not just infuse liquidity in the system, but also bring along technological expertise and global standards in business practices,” says Ramesh Nambiar, cCo-founder and managing director of Nambiar Builders.

According to Srinivasan Gopalan, CEO, Ozone Group, “Developers should be able to get contractors from abroad, to help speedy construction, using modern technology and processes. External commercial borrowings should be allowed for residential projects.”

### **The loan factor**

Currently, the real estate sector is struggling with low-demand and hence it is imperative to stimulate the home buyers to make positive decisions. “If more tax benefits are given to the prospective home buyers, they will definitely flock to the market in large numbers. And the developers, on the other hand, have been delaying their future expansion plans due to low business sentiments in the market, that has emerged out of the policy uncertainties,” says Manoj Kumar Singh, chairman, Mangalya Group.

Vikas Arora, director, sales and marketing, Runwal Group, explains, “We expect that the exemption for home loan interest payments should be increased from the current limit to at least five lakh rupees per annum.” Inventory level tells that the customers are postponing buying decisions for two reasons – one, little elbow room because of low savings and second, high interest rates. “If government announces tax rebate on home loan interest and increases tax slab, it will ultimately promote saving. And, when the people make savings, they will buy properties,” says Aman Nagar, director, Paras Buildtech.

“Further, the government could also extend additional benefits to the affordable housing segment. By bringing in clarity on the issue of taxation in case of JDAs, rationalisation in applicability of service tax and VAT on construction contracts, they can open many doors,” says Santosh Shetty, chairman and managing director, Expat Group.

According to Arjunpreet Singh Sahni, executive director, Solitairian Group, "If the provision of remarkable tax incentives for the development of affordable housing projects in this budget is given, more and more developers would be encouraged to develop housing for the masses and they will be instrumental in supporting the government's vision of providing housing for all by 2020."

There is also a need to reintroduce the interest subvention for affordable housing, which was one per cent on housing loans of up to Rs 25 lakhs for houses that were valued at up to Rs 40 lakhs. "The Government should provide tax benefits for green developments like solar installations, water recycling and energy-friendly installations. This will spur new development and will also lead to a greener future," opines Sandeep Ahuja, CEO, Richa Realtors.

### **Administrative reforms**

A long-pending issue in this sector is single-window clearance. Currently, the approval process is very lengthy and takes around one-and-a-half to two years. The cost of delay in approval adds further to customers' spending by 25-40 per cent. Says Suresh Hari, secretary, CREDAI, Bengaluru, "This sector is covered under innumerable labour laws, some of which are repetitive and also archaic. A comprehensive law to govern the industry with clear rules to avoid misinterpretation would be welcome."

There is also a need to demolish the cost of borrowing as capital has always been a matter of concern in real estate. "Cost of building material should be standardised as fluctuation in the cost of materials lead to rise in property rates. There should be fast project approvals as it will help bring the prices down," says Deepak Mittal, director, Pushpanjali Realms and Infratech Pvt. Ltd.

### **The long-pending Real Estate**

Regulatory Bill needs to be settled upon and implemented at the earliest. "Another major concern is making more land available to the developers; revised and re-revised version of LARR Act has been a big disappointment in this regard," says Prashant Tiwari, chairman, Prateek Group and vice president, CREDAI NCR, Western UP Division.

The country needs to boost low-cost or affordable homes to fulfill the dream of housing for all. "For this, government can bring easy land acquisition steps to avoid disputes and allow deduction in compensation, too. Another major provision should be cost of building materials that hugely affects projects offering home for common people," says Shivakshi Gogia, CEO, Ascent Buildtech.

### **Tax woes**

Currently, housing sector pays about 36-37 per cent of sale prices to the Centre, State and local municipal bodies by way of direct and indirect taxes. There is a strong need for the government to reconsider the decision to impose levies such as MAT and Dividend Distribution Tax (DDT) in SEZs. "Introduce uniform tax regime Direct Tax Code (DTC) and Goods and Services Tax (GST) and rationalise stamp duty across states so that there is a higher degree of standardisation," says Sanjay Dutt, executive managing director, South Asia, Cushman & Wakefield.

Kumar Bharat, director, BCC Infrastructures Pvt. Ltd. says, "The government also needs to focus in the direction of scraping the service tax for under-construction projects and higher tax exemption limits on repayments for home buyers in affordable housing projects. Providing tax holiday benefits for affordable housing projects will put impetus on this segment and ease the burden of the home buyers."

The need of the hour is to ensure that the customer is not burdened. "The government should also give some relaxation in the existing structure of service tax, at least for MIG and affordable housing, which will send a signal to the states also, to reduce VAT, stamp duty, making housing more affordable," says Kailash Advani, CEO, Vaswani Group.

Developers were allowed IT exemptions on their profit made between 2007 till 2012 in the process of developing housing units up to 1000 sq ft and 1500 sq ft under Sec 80IB (10) so as to mitigate housing shortage. "This has propelled large scale production of housing stock during that period resulting in reducing the shortage of housing to some extent. This exemption should be reintroduced and the benefit should be available for units starting from 250 sq ft to 1500 sq ft so that 23 million sq ft shortage of housing in affordable segment can be erased in the shortest time possible," says A Balakrishna Hegde, managing director, Chartered Housing.

Bijay Agarwal, managing director, Salarpuria Sattva Group, adds, "Many developers have planned projects based upon few schemes like 80IA, which has not been notified by the government later on. They should notify such schemes at the earliest, so that development on such projects can start immediately."

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