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Real estate needs positive moves from the finance minister

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The real estate and construction sector in India is expected to be the third-largest globally by 2030, contributing over 15% to the Indian GDP, according to a report jointly released by National Real Estate Development Council (NAREDCO) and KPMG. It is also expected to be the largest employer in India by 2022, employing more than 75million people as estimated in the various media reports. The market size is expected to grow to $1 trillion in 2025, making it the fastest growing economy globally. As the dust of landmark economic policies reforms settles, real estate sector has witnessed an uptick momentum with ‘fence-sitters’ turning into ‘home buyers’.

With the upcoming interim Budget, the industry is being hopeful on the SOPs likely to be announced by the Finance Minister. As the year 2019 will be a decisive one for the country given the upcoming general elections, some positive sat the policy level for various sectors, including real estate, are expected. Despite various domestic and global challenges like economic policy reforms, crude oil price risk, trade war and currency fluctuations, the Indian economy has performed well.

The reforms initiated by the Indian Government have resulted in significant changes, bringing in transparency, increasing accountability and scaling up ‘ease of doing business’ rankings. Real estate, which was on a revival mode with pickup in sales momentum, was impacted by the ILFS and NBFC problems. This problem led to choking up the liquidity flow into the sector to meet the funding requirements of developers under the RERA-based escrow mechanism.

The current scenario in the real estate market looks sluggish due to potential home buyers not clocking actual sales in order to avoid the GST payable on under-construction projects.

Given these challenges being faced by real estate, revival will need positives in the budget. The recommendations are as follows:

1. **Rationalisation of GST** -.In the case of under-construction properties, it would be ideal to peg GST either at 5% without input tax credit or 8% with input tax credit.

2. **Stamp duty & other Levies under the GST purview**- Keeping stamp duty and other levies like registration charges and cess out of GST purview adds total tax burden on consumers. Therefore, it is recommended to bring it under the GST purview. This would help drive sales of under-construction properties.

3. **Incentivize Rental Housing** – In order to meet the acute shortage ofhousing, the government should focus on boosting rental housing apart from ownership homes. The government should incentivise and make conducive policies which would result in creation of rental housing stock. This will cater to the rising housing demand. Exemption from the burden of tax on notional rental income in addition to the deduction from rental income to be increased from 30% to 50% would have a positive impact.

4. **Financial Re-engineering**- Under the current credit squeeze scenario, the government, in tandem with RBI, needs to rejig liquidity funding solutions. The respective authorities and apex body should figure out alternative funding sources to resurrect the dried-up real estate sector in order to keep work in progress. Ideal solutions need to be worked out with the clear intent to balance the scales with consumer becoming paramount.

5. **Increase in Home loan interest deduction** - It is suggested to atleast raise the limit of home loan interest deduction from Rs 2lakh to Rs 3lakh in order to provide relief to the consumers

The major impetus granted to Affordable Housing kept real estate afloat in 2018. The infrastructure status granted to affordable housing sector resulted in major relief for developers in terms of raising long term funds. The various incentive schemes led by the government like Pradhan Mantri Awas Yojana, Credit Linked Subsidy Scheme and an effort to lower GST at 8% on affordable housing has keep this segment 'active'.

The industry also witnessed emerging of new asset trends like warehousing & logistics space not being dependant on Octroi, as an impact of GST; Co-living & Co-working spaces are the new flavour while organised retail will be among the new drivers of growth. These will need positive measures to drive growth and create new jobs opportunities.

We hope that the interim Budget will see the finance minister taking a holistic view, and proposes 'positives' for real estate.

About Niranjan Hiranandani

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