Recommendations of 14th National Convention on
"Indian Real Estate — Unfolding the new era of growth" on
28th and 29th of August 2017 at
Hotel Taj Palace, S P Marg, New Delhi

1. AFFORDABLE HOUSING

a. Rationalise taxes and fees

It is necessary to rationalise various statutory charges and taxes, especially for affordable housing. This will make the segment more attractive and a feasible business proposition for developers. The total levies must be brought down to about 15 per cent of the cost of a housing unit. At present statutory levies such as Stamp Duty, Development Charges, value added taxes and Service Tax, etc. combined works out to over 25 to 30 percent of the total cost of the housing unit.

b. Rationalise ready reckoner rates

Ready reckoner rates (circle rates) should be aligned to prevailing market rates and should be dynamic cater for the economic cycle that the real estate sector witnesses. Presently, ready reckoner rates, at some places, are double the prevailing market rates, which lead to extra burden on buyers as well as sellers. Bringing down ready reckoner rates will help in reviving the sales.

c. Adopt independent third-party review model

To overcome the challenge of shortage of urban planners, the government may consider training private urban planners, civil engineers and building surveyors, who could then be empaneled and made accountable for their roles. This will prevent delays in providing building approvals.

d. Remove cut-off date of Section 80 1(B)A

The cut-off date should be done away with for all projects falling within affordable housing norms, to allow assesse to claim 100 per cent deduction of the profit derived in the previous year from such housing projects. This will attract interest of private developers as most of them find Affordable Housing segment unviable from financial point of view.

e. Reduce rate of interest on Home Loans

The rate of interest on housing loans up to carpet area of 60 square meters must be reduced by at least two per cent. There must be an additional 50-75 per cent deduction from taxable income for repayment of principal and interest cost of home loans. The eligibility of loan amount must be increased to 90-95 per cent of the total acquisition cost of housing units (including GST, stamp duty and other levies). These all put together shall provide much needed push to promote real estate transactions.

f. Solid waste management rules must be eased

Real estate projects, majority (85 per cent) of which are redevelopment projects, worth INR 2,000 crores, have been stuck in Mumbai, after the Bombay High Court held the state and the civic body guilty of lapses in compliance of rules governing garbage disposal. The court must lift the restrictions, at least for the redevelopment of those projects, for which the developers have come up with the plan for waste segregation. This would revive stuck projects, and create source of revenue for the State. The municipal corporations must speed up efforts to set up more solid waste disposal/management plants.

2. SIMPLIFICATION OF APPROVALS

a. NOC norms for vertical height once granted must not be revised

Development of large township projects may stretch over 10 to 15 years, including the approvals timelines. The gross planning of such projects are done based on norms prevailing at the start of the Project. Reduction in height of a project at a later stage would have adverse effect on the project and a significant financial loss for the developers. Hence the height approval once granted should be protected over the life cycle of project till completion. Further, the protection of approved height should not only be prospective but also retrospective, applied even to all those NOCs which have expired, so as to bring an end to the appeals / litigations, and to rectify the anomaly.

b. CRZ norms must be rationalised

The CRZ rules which have frozen development potential of Land at 1991 levels should be immediately lifted. Additionally, unrealistic restrictions should be done away with and uniform regulations be made, leaving no room for ambiguity and misinterpretation at the same time encouraging quality development. All projects in CRZ areas need approvals separately, which can take 6-9 months. This should be done away with to bring down the approval time. Approval mechanism in India is quite cumbersome, which is one of the factors for the delays in the real estate projects. Introduction of technology enabled single-window clearance mechanism is of utmost importance to reduce the time required for providing approvals.

c. Real Estate (Regulation & Development) Act, 2016 (RERA)

25 states/UTs have notified rules, out of a total of 35. Further, six states/UTs have permanent Real Estate Regulatory Authority (RERA) in place while some have interim RERA. All states are expected to appoint a permanent RERA soon. Government has allowed manual/offline registration until online portal/website becomes operational. It is suggested that provisions pertaining to licensing and rules of RERA be looked at, to overcome any anomalies between the two, which may act as a deterrent. Government must ensure that transparency and accountability is accompanied with the ease of doing business, to enable smoother transition and for the benefit of all the stakeholders. The rules of RERA are likely to initially cause disruption in the market, as small developers may find it difficult to comply with the rules due to lack of resources and expertise. Further, the sector is likely to undergo a major consolidation as mergers and acquisitions (M&A) are expected to increase going forward.

3. GOODS AND SERVICE TAX (GST)

a. Bring JDAs and TDRs under the purview of GST

Inclusion of Joint development agreements (JDAs), transferable development rights (TDRs) and area sharing agreements in GST will result in these alternate models gain traction, which would be a win-win situation for all stakeholders. Such models will also make more business sense, especially post the RERA.

b. Consider higher abatement for land

GST statute accounts for 1/3rd of sale value as land value – i.e. abatement of 33 per cent, which has increased the tax component on sale of property under construction. This abatement was around 70-75 percent of property value before GST regime (Service tax and VAT regime provided for 70-75 percent abatement). Therefore, a higher abatement for land should be provided, to bring down the cost of housing units, as land cost accounts for more than 50-60 per cent of the overall project cost.

c. <u>Consider Corporate Leasing set-off of GST</u>

GST is levied for goods and services utilised for construction of commercial property. GST is also levied on corporate leases. However, set-off (credit) on GST paid for input (building erection) is not permitted from applicable GST on leasing. This anomaly of double taxation is adversely affecting the industry. It is desirable that set-off of GST on corporate leasing against GST on construction should be provided to remove the anomaly of double taxation.

In certain cases, suppliers of raw materials might not have issued excise invoices for materials bought from them by the developers. Developers, however, might have already paid service taxe and VAT for goods and services procured for projects that are under different phases of construction. In such a scenario, developers will not be able to take full credit of taxes paid by the suppliers. This remains unaddressed under the GST law.

4. DIRECT TAX

a. <u>Reconsider taxing vacant properties</u>

Developers are not able to sell all housing units before completion certificate is issued and many of the completed ones are lying vacant, on account of slowdown in the real estate sector. At present, the notional income from vacant properties are being taxed by the government. It is suggested that such tax should be reversed as the said properties are stock-in-trade for the developers; and is not generating any actual economic benefit to them.

5. FUNDING TO REAL ESTATE

a. <u>Relook at risk-weightage norms</u>

There is a need to have a relook at the risk weightage norms for real estate sector. Lowering the risk-weightage will help in improving the liquidity of the developers, as they will be able to get more funds from the banks, which comes at a lower cost.

b. <u>Housing finance and mortgage</u>

Housing mortgage penetration (9 per cent) in India is quite low, compared to developed economies, and even BRICS nations. Government must consider issuing more new licenses to increase market penetration. Lack of strong micro finance sector makes it difficult for the

Economically Weaker Section (EWS) and Lower Income Group (LIG) to secure housing finance credit. CLSS scheme for EWS and LIG segments is a high risk, low income business proposition for Banks, which is one the reasons why it hasn't picked up well. The issue is not just the availability of finance, but the affordability of the person who is buying the house. The cost of houses have gone up substantially due to high land cost.

c. <u>PE funds and financial institutions view</u>

Majority of the PE investments are coming through high cost structured debt route, as PE investors are focusing on risk mitigation. Consolidation is expected to happen in warehousing, owing to GST. Hence, interest of PE funds in warehousing is expected to increase. Leased commercial assets with low vacancy levels have attracted high interest from foreign PE funds and pension funds. Domestic PE funds have primarily invested in residential assets through NBFC route. PE funds and institutional investors prefer real estate developers with proven track record and high corporate governance standards. Long-term funding at comparatively cheaper cost across the real estate development cycle can help in improving the financial health of the real estate sector. This can assist in reducing projects delays, as lack of appropriate funding is one of the issue currently being faced by many developers. Government must create a special real estate fund, on similar lines of an infrastructure fund, in order to help developers complete the projects that are delayed due to lack of funds.

6. RENTAL HOUSING

The government should expedite finalisation and implementation of the Draft Model Tenancy Act. A mix of rental and ownership housing is required to address affordable housing needs effectively. Certain incentives should be given, like, Enhancement of Standard Deduction from 30 percent to 50 percent; Removal of cap on adjustment of interest deduction on computation of house property loss which will promote rental housing stock and abolishment of Rent Control Act.

7. LAND

a. <u>Fast-track introduction of land title insurance and release of surplus land</u>

The Governments should expedite land title insurance process and make the same available to interested players to reduce litigation, which may help in increasing housing supply.

Governments also must release surplus land lying with the government for optimum utilisation of vacant government land. Alternately, land can be provided on long-term lease for developing affordable housing units. This can keep the home prices in check, once there is sufficient supply in affordable and mid-segments. The Governments should consider providing land at subsidized rates. There is already scarcity of developable land parcel with clear land titles and title insurance, as a result of which there are litigations that cause project delays and cost escalations. Another major challenge is of lack of proper land records to avail subsidies for affordable housing from the government.

b. Scrap section 20 of the ULC Act

The state government must scrap Section 20 of the ULC Act which some states are keeping alive even after the ULC Act had been scrapped. There is a dire need to revive the projects which have been stuck for past decade due to litigations arising out of Section 20. Few state governments have allowed deferment of various levies/charges due from developers to the government, to assist developers in utilising funds for completing delayed projects. However, in Maharashtra, Section 20 has been brought back by the backroom method of clarifications and 100 per cent premium is payable on all lands which have been exempted.

c. Digitization of land records

Digitization of land records must be expedited. Also, introduction of Geographic Information System (GIS) based master plans must be adopted. This can reduce litigations pertaining to land, and can also help in reducing unauthorized developments. For the first time, the central government has the list of land parcels with sick units, government organisations, and PSEs, which can be utilised for housing projects.

8. REAL ESTATE INVESTMENT TRUSTS (REITS)

REITs is one of the best investment options to invest in real estate assets, which gives secured returns. There was very narrow difference between the returns on G-Secs, bonds and anticipated returns from REITs in India. In past couple of months, returns on G-secs, FDs etc. have come down, making REITs comparatively attractive. Another factor which may make REITs even more attractive could be appreciating Indian currency. Stamp duty on transfer of asset to REITs or SPVs owned by REITs must be waived-off. Capital gains on REIT must be exempted by allowing complete pass-through status. Transfer of shares of an SPV by the sponsor in exchange of the REIT units must be exempted.

9. ADOPTION OF MODERN TECHNOLOGY AND INNOVATION

There is need to promote new mass housing construction technologies such as pre-fabricated, pre-engineered buildings (PEBs), modular homes and tunnel formwork technologies to name a few. Government can do so through public procurement efforts, uniform building codes and design standardization guidelines. Active R&D in modern technology space must be promoted to find out faster and cheaper ways of construction, by providing incentives such as tax breaks for initial 5–10 years, or allow tax deductions. The government must consider reducing import duty on special construction equipment, technologies, and materials. Alternately, government can incentivize manufacturing of modern equipment and technology through 'Make in India' campaign. Focus on training would have to be spearheaded by the government and private sector to bridge the skill gap. Government can promote setting up of construction development institutes in partnership with the private sector. Also, evaluation of skills is important to map the right skills as per the requirement.

10. ENVIRONMENT ISSUE

Considering expertise available with the State Governments for evaluating environmental related matters, the range of Built up area should be increased from 1,50,000 sq mtrs to 3 lacs sq. mtrs for granting environmental clearances by ULBs.

11. INFRASTRUCTURAL SUPPORT

<u>Create robust physical and support infrastructure</u>

The central and state governments should ensure that there is proper physical and support infrastructure put in place well before the real estate development starts in a particular region, to stimulate demand. Last mile connectivity should be provided to such regions to enhance accessibility especially to key economic corridors.

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