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# Damp squib

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The full-fledged Union budget presented by Arun Jaitley last week although good on canvas, is in reality, a dampener. Captains of real estate and honchos of the Confederation of Real Estate Developers' Associations of India or CREDAI, representing over 9,000 developers in 22 states and 128 city chapters, property consultants and analysts concede that the immediate impetus for housing has been overlooked.

Although, the Union budget has touched upon long-term policies and vision like housing for all by 2022, it has not walked the talk by laying out an achievable road map for the homeless or its much-vaunted plan for 100 smart cities. Neither are long-pending demands of according infrastructure status to housing, among other issues, on the table.

"The budget is good on large canvas but most disappointing for the realty sector," Lalit Kumar Jain, chairman at CREDAI and chairman and managing director at Kumar Urban Development told Financial Chronicle. He adds, "the government has lost a big opportunity to address core issues. It is all fine to talk about policy and vision but the budget does not offer a direction towards executing them."

In addition, developers are now left in no doubt that the service tax and fuel cost hike would make housing dearer. Far from getting the goodies, the finance minister proposed an increase in service tax, which would lead to an inevitable price escalation. Also include the price hike in building material like cement and steel, and any idea of 'acche din' can be safely kissed goodbye.

There is, however, applause for Jaitley's decision to overhaul capital gains taxes to pave the way for the listing of Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs). REITs are expected to bring some succour as another window for revenue generation has just opened up. Investors in REITS will be able to spread their risks by investing in various REIT entities, rather than pooling in their investment in one property at a time.

Developers are disappointed that a clear roadmap on the development of proposed 100 smart cities does not find any mention in the budget, other than assurance of GIFT city as a model smart city by March 2016. However, they believe that increased allocations for infrastructure to the tune of Rs 70,000 crore would contribute to the shaping of smart cities. "While the budget failed to provide any explicit inputs on the government's 'smart cities' initiative, increased allocations for rail-road development, penetration of education and training centres and the Digital India initiative can help shaping `smart cities,' Anuj Puri, chairman and country head at JLL India, points out.

JC Sharma, vice chairman and managing director at Sobha Limited concurs. "It is disappointing that real estate has not been considered as part of infrastructure or given industry status,'' he says, adding out that the largely unchanged tax slabs for individual tax payers and unchanged interest structure on home loans means a lost opportunity.

Kishor Pate, chairman and managing director at Amit Enterprises Housing, says while the budget did not have any specific reason to cheer, it did indicate a favourable long-term view of the fundamentals, including a sharp focus on infrastructure and job creation in the IT sector.

Ditto with Anil Pharande, chairman and managing director at Pharande Spaces, who agrees about the long-term advantages but remains skeptical of about its ability to meet any specific demands, which the sector had set forth.

According to Brotin Banerjee, managing director and CEO at Tata Housing Development Company, key measures such as Rs 70, 000 crore investment into the infrastructure sector, Rs 22,407 core towards urban development and housing, six crores homes by 2022, 1 lakh km of road, Rs 1,200 crore towards the DMIC corridor, and tax free infrastructure bonds would boost the real estate growth trajectory in the long term.

He said it would be interesting to see how the PPP model is revitalised to make participation easier for the private sector, especially in the affordable housing segment where intervention of the government is required for obtaining land parcels. “Though industry expectations like infrastructure status and tax exemptions for affordable housing sector, higher personal tax exemptions towards housing loan and interest have not been extended, the outlay and allocations towards infrastructure and housing coupled with efforts to reduce unemployment and increase the disposable income of the poor will benefit housing, and in particular affordable housing sector,” Banerjee believes.

For a long time, homebuyers have been at a disadvantage because of the double whammy of high inflation and high interest rates. Rahul Nahar, chairman and managing director at XRBIA Developers, says REIT norms introduced by the government last year had met with little success due to ambiguity on taxation-related matters. “Removal of capital gains tax regime for REITs this year shall enhance liquidity, release equity and stimulate the next phase of development in the cities,” he said. However, the move is essentially going to benefit commercial real estate rather than residential markets, Nahar said, adding that this would allow retail participation in ownership of office, retail assets and provide transparent mechanisms of owning high quality rental assets for the common man, he said.

Vishwajeet Jhavar, chief executive officer at Marvel Realtors and Developers, agrees. He says rationalisation of capital gain tax regime for REITs would help to make it financially viable for Indian markets and push REITs into the Indian market. It would help raise funds for commercial real estate and will also be an alternative trading avenue.

However, the increase in service tax from 12.36 per cent to 14 per cent would affect the cost of raw material. “This is detrimental to the vision of housing for all,” explains Jhavar.

If that were not enough, the increase of excise from 12 to 12.5 per cent, says Ashish Puravankara, joint managing director at Puravankara Projects, would also impact the builder’s input cost. “This is a marginal increase and would not drastically affect the current profitability levels of the builder and developer,” he states.

However, Amit Modi, director at ABA Corp, predicts that prices of properties would go northwards with escalation of cement and steel prices unless regulations are in place to avoid cartelisation in these sectors. “The rise in raw material costs has affected the housing sector badly. Following the 2.7 per cent hike in freight charges for cement in the Railway Budget 2015-16, it has come as a shocker to those planning their dream homes,’’ he says.

Rohit Gera, executive director at Gera Developments says the finance minister has followed the government's stated position of not providing sops, remove concessions and focus on the long-term growth of the country. “While this may disappoint the real estate sector in the short term, I am sure this approach will in the long term pay rich dividends,” he said.

Ramesh Kelkar, head-credit and risk (WL & SME), Capri Global Capital, a listed NBFC focused on lending in the affordable housing segment and SME/MSME, believes the budget has failed the provide the much-needed booster dose. “It may not have given any immediate lift but steadily intends to encourage investment, making it more transparent and hassle-free and creating a demand-oriented growth atmosphere,” he said. But he believes, much will depend upon implementation.

Lalit Kant, executive vice-president at Real Estates, Arthveda Fund Management, a DHFL subsidiary, with real estate fund in AIF category 1 and 2, focused on lower and middle income housing projects, points out that despite the sector contributing around 6-7 per cent to the GDP and being one of the biggest employers, the lack of patronage by a seemingly forward looking budget was surprising. “Universal demands for industry status, land title transparency and ease of approvals have yet again, not been addressed comprehensively. The sector which could have played a major part in triggering the economy seems to have been side-lined,” he avers.

Kant believes the increase in service tax by 2 per cent would impact the overall cost of housing at the buyers’ end, which is already sluggish. “As GST implementation is targeted at 2016, buyers in the interim period will not avail of any price reduction in cost of materials,” he argues. But he does believe that lowering corporate tax from by 5 per cent in the next few years should help attract investments from domestic and foreign companies. Many developers and buyers would hope that is the case. zz

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