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GST to impact property prices differently for under construction, ready-to-move-in houses

BT Online Last Updated: June 30, 2017 | 18:47 IST



The jury is still out on the possible impact of the GST on real estate, but experts agree that under construction projects and ready-to-move-in properties will get affected differently. There's also a consensus that there will be a lot to gain for consumers of the affordable housing sector. Here's what the experts have to say:

Surendra Hiranandani, Chairman & MD, House of Hiranandani: Goods and Service Tax (GST) is a forward-looking tax reform on part of the government. There is no

doubt that it will be a game-changer for Indian industry, bringing in a more comprehensive and uniform tax structure that will ensure greater transparency in the economy. However, there are certain areas in which we would like the government to intervene at the earliest and provide clarity on the same.

Demonetization, RERA and GST are all landmark developments in the country. They are all being implemented within a short span of each other which is bound to cause short term upheaval till the time the economy gets accustomed to it. However, in the long term all these are certain to make the industry more transparent which will boost investors confidence in India.

While the intent is to streamline the tax administration and bring more businesses in the tax net, it is unlikely that GST will have any impact on property prices. We feel that the current rate of 12% on under construction projects might marginally bring down prices in the affordable segment owing to the input tax credits, but it is unlikely that similar impact will be felt in mid-priced or premium developments.

More clarity will prevail once the GST gets implemented and the government clears its stand on the abatement available for the land cost for calculating service tax on under-construction projects. This will have a major implication on the final prices because if the cost of land is 10% of overall project, there is a possibility of costs not rising much. However, in major metropolitan cities of India the land cost is almost 50-60% of the total costs, so apartment prices will rise here.

While developers might still get some benefits for projects that are in nascent stage, they will have to bear the tax burden for ready-to-move in projects since they are kept out of GST ambit. One more area that needs immediate attention is stamp duty. It will continue to remain in force even after implementation of GST and the rates are varying for different states. The additional burden on the sector on account of the stamp duty averages 5%-7%. We hope that state governments abolish the same which will bring down the final cost of the apartment.

If these issues are addressed we certainly feel that the new regulations will help increase investments in the real estate sector thereby having a positive impact on the entire economy.

Shishir Bajjal, Chairman & Managing Director, Knight Frank India: The much awaited roll out of the Goods and Services Tax (GST) would be the single largest tax reform post-independence. Much like the initial heartburns caused by demonetisation it would trigger some momentary disturbances but augur well for the industry in the long term. Among the various economic policies of the Narendra Modi-led

government, this will be one of the most important milestones. So, it is a welcome move.

GST would be extremely beneficial for the logistics sector. With a wave of new infrastructure taking shape in the forms of ports, roads and rail networks, the new tax regime would draw massive investments which would potentially transform the look and feel of the warehousing industry.

The impact of GST on real estate would be primarily tax neutral but loaded with gains for the affordable housing sector. The Finance Ministry has made it very clear that there should be no additional tax burden on consumers. Developers who did not get the benefit of ITC (Input Tax Credit) in the pre-GST era will now be able to avail it. Both in case of under construction projects and new projects buyers are entitled to full ITC. It would also add another strategic push to affordable housing which in turn will drive the recovery of the residential sector.

The intention of GST is to bring in efficiency in the entire tax system, the implementation of which will see lot of teething issues. But eventually it will pave the way for an extremely efficient tax system for the country.

Joe Verghese, Managing Director, Colliers

International India: The implementation of the Goods and Services Tax (GST) will increase final product prices of commercial and residential products even though it positively enhances India's attraction as an investment destination. The positive impact will be through the demonstration of the government's intent for delivering on its commitments of reform aimed at encouraging greater transparency and ease of operation across all sectors.

The industrial property and warehousing segment will be the primary beneficiary of adoption of the GST system as operating efficiency is expected to increase. However, during the early stages of implementation, we expect costs to increase due to the negative impact on the supply chain through-put due to teething issues. On the other hand, commercial leasing transactions, which constitutes a major portion of overall commercial property business in India, will see an immediate increase of 3% in occupier commercial leasing costs. The biggest impact will be the double whammy of RERA and GST at the same time on the Residential Sector. Both of this would seriously affect supply and lead to further increase in prices"