



"You can never cross the ocean until you have the courage to lose sight of the shore"
 -- Christopher Columbus

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Catalysing the home boom

By Ritwik Mukherjee Dec 31 2015
 Tags: New year special, Real Estate

Real estate sector needs a level-playing field for developers and buyers

It is indeed an irony that despite the grave housing shortage in India, there is a huge inventory of unsold stock in the real estate sector. While inflated pricing is the main reason for such a scenario, there are other issues as well that need to be attended to if we are to achieve the objective of housing for all by 2020.

What the sector needs is transformative infrastructure development, along with supportive regulatory and policy mechanisms that could catalyse India's affordable housing boom — not only for the poor and not so rich, but also for all income groups.

For that to happen, the key issues that need to be addressed include rationalisation of tax that constitutes 30-37 per cent of deal value that will incentivise housing development. This can be ushered in by reviewing its various constituent that include stamp duty, service tax and value added tax, land conversion charges and external development charges. Unification of stamp duty and other charges across all states along with exemption on excise duty for prefabricated housing components is a medium-term measure. Introducing the Benami Transactions (prohibition) Bill, 2015, and the undisclosed Foreign Income and Assets (imposition of tax) Bill, 2015 (popularly known as the black money bill), will curb the flow of black money into real estate, improving the overall affordability of the sector.

Consider what Amit Modi, director at ABA Corp, Delhi-based developer and vice-president at Credai, western UP, has to say. "Changing the present system of multiplicity of permissions and approvals from government authorities to single window clearance, granting industry status to the real estate sector to avail of legitimate finances from banks and other financial institutions, inclusion of bureaucracy in real estate regulation bill, anti-cartelisation bill for private sector to prevent increasing cost of raw materials due to cartelisation practices will make housing affordable for all income groups in the country."

Telangana, for instance, has already brought in TS-IPASS, a single window wherein in-principle approvals are given to industries within two weeks. It has been implemented so successfully that it has become a tool to attract investments. Similar to TS-IPASS policy, a chasing cell and escort officer has been suggested for the real estate sector to give approvals in two weeks, says C Shekar Reddy, former national president, Credai.

According to Modi, it is also important to bring down the unit size to make the apartments more affordable. "Most consumers are looking for safe and amenity-rich housing, but there is only a small niche that can afford ownership and maintenance of huge size apartments. In fact, one of the biggest trends in the coming years will be smaller, feature-rich affordable units within the ticket size of Rs 35-60 lakh," he says.

Shashank Paranjape, managing director at Pune-based Paranjape Schemes, with offerings in Maharashtra, Karnataka and Gujarat, believes that with the cost of land and construction rising, developers would not bring down prices to hurt their profitability. They would rather initiate some other measures. "They are now increasingly resorting to housing without frills and in small sizes to make them affordable," he says.

Meanwhile, the Union cabinet has approved 20 major amendments to the real estate regulatory bill that seeks to protect homebuyers as well as boost investments in the sector. The major amendments okayed now include:

The money collected from buyers is to be deposited within 15 days. It is to be maintained in an escrow amount, which will be 70 per cent of the construction cost, and is meant to be used only for the specific project

The term of imprisonment of three years recommended by the government has been upheld for all contraventions

The bill will be applicable on commercial or residential properties, which are more than 500 sqm in size or have eight flats or more

Carpet area has now been defined as the net usable area

All financial statements have to be audited within six months of financial year closure by a practicing chartered accountant

The interest payable by defaulting parties (developer or buyer) has been brought at par for both in case of default by either

Anuj Puri, chairman and country head at JLL India, says, "The bill will bring in much-needed transparency and accountability in the sector and create a consumer right protection umbrella for buyers of real estate, thereby increasing consumer confidence as well as creating lasting developer brands strong on quality and timely delivery of projects. The bill will have far-reaching positive consequences in terms of its operating procedures and also create a comprehensive consumer redressal mechanism. The industry is waiting with bated breath for the Rajya Sabha to finally pass this bill." The Centre has also indicated that it will streamline the approvals process and finally move towards a single-window clearance system. This, in conjunction with the regulator, will provide a positive impetus towards achieving the housing dream while ensuring a level-playing field for developers and buyers, says Puri.

He, however, adds that given the quantum of projects that the state regulator will have to cover now — due to norms on size of projects having been relaxed further from 1,000 sqm to 500 sqm — the onus on the state regulator will be huge, particularly for realty-heavy states like Maharashtra and Karnataka. In such a scenario, the regulator could operate through a hub-and-spoke model, with separate districts having a dedicated branch.

Anshuman Magazine, chairman & MD, CBRE South Asia, also believes that this could be a game changer for the Indian real estate market. "Not only will it protect the consumer, it will also encourage the individual buyer, besides financial institutions, both domestic and international, to invest in the real estate market. However, ease of doing business needs to be implemented through time bound approvals by the government/local/urban bodies," he says. Amid such optimism, Surendra Hiranandani, CMD, House of Hiranandani, offers some words of caution. "The growth of the real estate industry is a reflection of the general economy of the country. If one takes a close look, almost all the Indian infrastructure companies have aggressively expanded and pursued job works and contracts over the past few years. Today, they are deeply mired in debt because of project delays, red tape, defaults, litigations and non-payment from governments. If the infrastructure companies are deep in debt, how can we talk about infrastructure development? As a result, economy will continue to be sluggish," he says. According to Hiranandani, real estate is all about local demand and local market. Even though it attracts overseas funds, there is nothing to export. It has sold in the local market based on local demand. Without infrastructure development, the local demand is unlikely to grow. The real bellwether could be for infrastructure companies to get bank finances and more debt.

Since 2010, the economy went into a spin because of inflation and non-availability of labour. Even if developers quoted higher prices, they incurred huge losses. All projects launched in 2009-10 and which had to be delivered in the subsequent years, had to be delivered at a loss. Extremely high interest rates on bank loans also did not help. Hence, the government has to promote infrastructure like public transport, especially metros and suburban trains, as well as water and electricity.

If the government does not provide that, the builders can build cheaper houses, but what's the use?

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(With inputs from D Govardan, Michael Gonsalves, B Krishna Mohan)

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