Real estate sector bets big on Union Budget 2017: 10 key expectations

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Hit hard by the Modi government's demonetisation drive, the realty sector has been betting big on the Union Budget 2017 for revial of fortunes as this year's budget is believed to be crucial for its survival, at least in the short term.

Experts say the activity in the real estate sector over the last few years has been muted. New launches and absorption dropped drastically, which lead to the higher inventory pile. The government took some measures on policy per say to revive the sector, like passage of RERA, REIT, InvITs, etc. But there are some areas where the government needs to pay attention to and device strategies which can create positive sentiment for the overall sector.

Atul Banshal, President-Finance & Accounts, M3M Group, says, "The overall economic conditions post the demonetisation drive are sluggish and the economy needs a booster dose to be back on track. People have lots of expectations from the current government and, therefore, timely rationalization measures will encourage people to adopt digitization, declare higher income and move towards a cashless and transparent economy."

"From the real estate perspective, a tax-friendly budget combined with the recent rate cuts will ensure growth and trigger consumption demand in a big way. With incresed purchasing power, people will prefer to invest in real estate as interest rates on deposits are expected to decrease, thus making them less lucrative."

Here are the key expectations of realtors from the Budget:

1. Clarity on GST: The realty sector awaits an accommodative stance by the government in the budget. Even as the government has finalised GST rates and fixed the slabs at 5%, 12%,18% and 28%, the sector needs to know which tax rate will be applied to it. "A 12% slab is preferred by the sector as it will reduce the cost of apartments and increase affordability for end users. Developers too stand to gain as this would positively impact sales in the market. A higher rate of 18% is expected to increase the cost of homes, especially in under construction projects, unless there is clarity provided on the composition scheme (abetment of cost of land), and VAT charges (if they have been paid by developers for under construction properties)," says Surendra Hiranandani, Chairman & Managing Director, House of Hiranandani.

2. Single window clearance: A major impediment to real estate development in India remains the approval process. While the government has done a lot to ease the functioning of the real estate sector and protect the consumers, it must get the statutory authorities responsible for clearing the projects within the purview of law. Administrative reforms should be made to facilitate quicker approval process which will help developers complete and handover projects on time. This will infuse confidence in home buyers and make it attractive to global institutional investors as well.

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3. Award industry status to realty sector: Industry status for the realty sector has been long awaited and it would be a game changer if approved this time. "This would pave way for cheaper financial options for real estate developers. In its absence, developers are forced to borrow at high interest rates and comply with a stringent evaluation process. Currently most industry rules are applicable to the sector, but denial of industry status for funding will only worsen the slowdown in demand because of erosion of capital," says Hiranandani.

The National Real Estate Development Council (Naredco) has also demanded that infrastructure status be given to the real estate sector and taxation-related incentives be increased to enhance purchasing power of home buyers.

4. Bigger income tax incentive for first-time home buyers: First-time home buyers were given additional Rs 50,000 tax exemption in the last Budget for a house worth upto Rs 50 lakh with a loan of upto Rs 35 lakh. "This announcement mostly benefited end-users in tier-II, III cities but not as many in the bigger metros where housing is largely above this specific limit. Can the upcoming Budget bring in similar tax exemption for first timers in the metros too? A higher limit specific only to the bigger metros can be introduced," says Anuj Puri, Chairman & Country Head, JLL India.

Also, can middle class youth buying their first house in an affordable project get additional income tax incentives for at least five years? Given the lack of institutionalized rental housing in Indian cities, such a move could spur many fence-sitters into moving out from their rented apartments into owned houses. It could also make developers come up with products suiting this segment.

5. Increase tax deduction limit for housing loans: The government should increase the tax deduction limit for housing loans, especially for buyers in metropolitan cities. The Rs 2 lakh limit is insignificant for metropolitan home buyers, as ticket size is over and above Rs 60 lakh. Also, tax concessions on house insurance premiums could be introduced to encourage end-users to insure their homes.

6. Raise house rent deduction limit: Salaried persons get house rent allowance (HRA) as a component of their total salary, and can therefore claim a substantial deduction in cases where the salary and its HRA component are

higher. However, self-employed persons and those who draw lump sum pays without an HRA component can only claim a maximum deduction of Rs 5,000 a month under Section 80GG. The Budget should address this anomaly.

7. Clarification on PMAY beneficiaries: The government recently announced that interest subsidy of 3% would be applicable on loans of up to Rs 12 lakh and 4% on loans of up to Rs 9 lakh, under the Pradhan Mantri Awas Yojana (PMAY). Now that two new income categories can avail higher loans with interest subsidies, realtors expect some more clarity on actual definition of beneficiaries who can avail of these benefits. For example, "would young urban professionals hoping to buy their own apartments but not belonging to either the EWS (Economically Weaker Section) or the LIG (Low Income Group) segments be allowed similar subventions? Also, affordable housing is largely available in the fringe areas of metros and tier-II, III cities. Would certain redevelopment projects within the metropolitan city limits – and meeting the affordable housing definition – be granted similar benefits?" asks Puri.

8. Thrust on investment in infrastructure: The government must allocate an amount exclusively for developing infrastructure and improving connectivity in the peripheral areas of cities, especially the metros. Realtors expect this year's budget to focus upon improving infrastructure in the country in order to bring smaller regions into the limelight. This in return will allow the conversion of rural to urban regions, thereby promoting smaller cities to gain real estate momentum and increase job opportunities.

9. Make housing more affordable: The government can take some proactive steps towards reducing prices and making overall housing more affordable by taking the following measures:
a. Increase in FSI, thus bringing down per unit cost that will encourage a pass on of the price benefit to the buyer. Reduced prices will trigger demand and activity in a rather lackluster and prevailing stagnant sales market.
b. Introducing subvention schemes for ticket sizes of Rs 15 lakh in non-metros and Rs. 25 lakh in metros. This will permit credit offtake which is the need of the hour post demonitisation.
c. Awarding 80IB Income Tax Waiver status to Affordable Housing schemes and projects that develop compact unit sizes of 600-800 sf carpet area.
d. "Create Special Residential Zones, just like Special Economic Zones. These may be promoted in industrial corridors leading to agglomeration and further incentivizing and boosting Make in India campaign," says Ravi Ahuja, Executive Director-Office Services & Investment Sales, Colliers International.

10. Simpler tax norms of REITs: Until today, the real estate sector has not benefited from any REIT listings, with the model in its current format still weighed down with multiple taxes. "Taxation for REITs needs to be simplified to allow developers and investors to benefit from REIT listings. It is necessary that the Union Budget 2017-18 recognizes the importance of REITs and provides lower taxation on REIT income, reduction/removal of service tax with leased premises, and waiving capital gains during transfer of property to REIT," says Kishor Pate, CMD, Amit Enterprises Housing Ltd.