THE WEEK

Budget 2018 leaves realty players disappointed

By Nachiket Kelkar | February 03, 2018

Finance Minister Arun Jaitley's last full Budget made several proposals for the real estate sector, particularly the continued focus on the affordable housing segment was appreciated by many. However, one major grouse was that there was no mention of giving infrastructure status to the realty sector, a long-pending demand of developers.

In the 2017 Budget, Jaitley had announced infrastructure status to the affordable housing sector in a bid to encourage investments in that space. Therefore, the expectation was that this year it would be extended to the entire sector. But, the wish remained unfulfilled.

“This Budget saw the government offering several benefits to the infrastructure sector, at the same time missed out on a few important aspects of the realty sector. Infrastructure status to the entire sector is still not implemented. This could have reduced the developers cost of borrowing for projects,” said Amit Ruparel, managing director of Ruparel Realty.

Among the several major proposals for the sector in this year's Budget, the government aims to establish a dedicated affordable housing fund in National Housing Bank, funded from priority sector lending shortfall and fully serviced bonds authorised by the Government of India.

The government has set a target to build housing for all by 2022. Under the Prime Minister Awas Yojana over one crore houses are to be built in rural India, which includes 51 lakh houses in 2017-18 financial year and another 51 lakh in 2018-19.

In urban India, assistance has been sanctioned to construct 37 lakh houses.

“The announcement of a dedicated affordable housing fund in the National Housing Bank is a welcome move and could act as a catalyst in the government's vision of Housing for All by 2022,” said Surendra Hiranandani, chairman and managing director, House of Hiranandani.

The huge number of homes being constructed will not only create housing demand, but is also expected to generate employment opportunities.

Analysts also point out that the Budget tried to address the anomaly to tax real estate transactions at their real value rather than the value arrived at by applying artificially higher circle rates.

According to new proposals, if the circle rate does not exceed 5 per cent of transaction value, no adjustment is required towards the capital gains on a real estate transaction.

“It will help in terms of some extra savings if there is parity between the market rates and the ready-reckoner rates. Cities which are not under the heavy influence of real estate investors and where prices are rational may benefit from this announcement,” said Anuj Puri, chairman of Anarock Property Consultants.

However, this will hardly benefit transactions in the metro cities, said Hiranandani. Others also agree on that.

“The finance minister announced a 5 per cent deviation from circle rates to remove hardship faced by the real estate industry. However, this may not be enough as the actual deviation of circle rates to prevailing market is in many cases as high as 30 per cent, crippling transactions," said Nidhi Seksaria, partner, real estate at BDO India.

The sector has witnessed a slowdown in housing demand over the last couple of years. In 2017, sales volumes rose just 3 per cent year-on-year, while new launches declined 23 per cent, according to the latest report by consultancy Knight Frank.

Over that period, domestic retail investors have pumped in more than Rs 1.25 lakh crore in equity markets through mutual funds. The hope now is that the Budget proposal to levy a 10 per cent tax on long-term capital gains on stocks and 10 per cent tax on dividends distributed by equity mutual funds, will make real estate investment attractive once again.