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A slight ray of hope was seen for the sluggish real estate sector when Reserve Bank of India (RBI) cut the repo rate by 50 basis points to 6.75 percent in September. However, an increase in stamp duty will increase the prices of the flats.

















Surendra Hiranandani

The real estate market is set to face yet another blow at a time when it is experiencing one of the most turbulent phases. The state government of Maharashtra has decided to increase the stamp duty on property transactions by 1 percent with an aim to fund the infrastructure projects for Mumbai. After the government notifies the move, home buyers will have to pay 6 percent stamp

duty instead of the current rate of 5 percent. As a result, the direct impact of the decision will be on the home buyer who has been hoping for some relief in property prices since the last two years.

A slight ray of hope was seen for the sluggish real estate sector when Reserve Bank of India (RBI) cut the reporate by 50 basis points to 6.75 percent in September. With this decision, there was a cumulative reduction in the repo rate by 125 basis points since January 2015. Another reason for the gung-ho created in the sector recently was due to the RBI's decision of reducing the risks weight attached to properties in affordable category. It permitted loan up to 90 percent for properties that were valued at Rs 30 Lakh or less. Before this, the bank used to lend 90 percent of property value for homes that were of Rs 20 Lakh or less.

With these policy decisions some respite was expected for the home buyers who have been hoping for the real estate prices to be lowered. However, there hopes have been marred completely with the state government's decision of increasing the stamp duty rates by another one percent. The impact of the decision will be a lot more on properties in the category of mid-premium and premium category that are priced above Rs 1 crore. An increase in stamp duty rate by one percent for these properties will hike the stamp duty to be paid by buyer by nearly lakhs of rupees. This is definitely not a welcome sign when as per a report 80,000 flats remained unsold in the city by June 2015 of which 70 percent were priced in the category of above Rs 1 crore.

While the hike will come in to effect once the government notifies the decision, this action by the government has disappointed home buyers as well as developers. Both, the home buyers and the developers were elated with the two decisions by the RBI and hoped the real estate sector could gain some respite during the ongoing festive season with these two decisions. Their hopes have been ruined this festive season as a result of which the sector may perform less in comparison to the past festive season of Dussehra and Diwali.

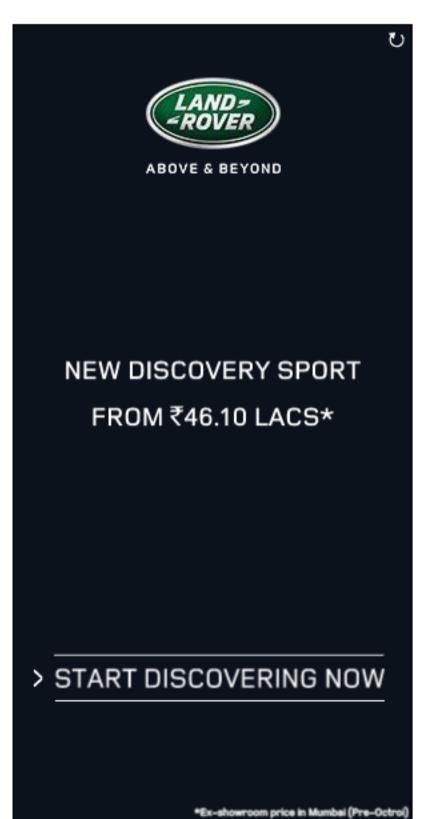
In past two years the sector has been experiencing a slowdown. Interestingly, real estate sector is one of the big drivers of the economic growth with a contribution of 5-6 percent contribution to the GDP of the country that comes from this sector. After agriculture, real estate sector is the second largest employment generating sector and stimulates demand for more than 200 ancillary industries such as building materials, furniture, fixtures etc. At a time when the government has been aiming for above 10 percent growth rate in the next couple of years, it cannot continue with the distressed attitude of the sector. The government should take measures that create a conducive environment for the sector. From the developers perspective the government should take steps that will reduce the cost of properties. Steps such as subsidies in land purchases, controlling prices of raw materials, simplify project approval norms, easy availability of finance will help in reducing property prices. From buyer's perspective, availability of properties at reasonable prices, availability of finance at low interest rates and subsidies in taxes and charges will encourage them to purchase homes.

In order to assist the developers to clear the pending housing stock and encourage home buyers to purchase home, there is an urgent need for government's intervention by introducing measures that are favorable for the real estate sector and the economy.

Author is founder & MD of House of Hiranandani

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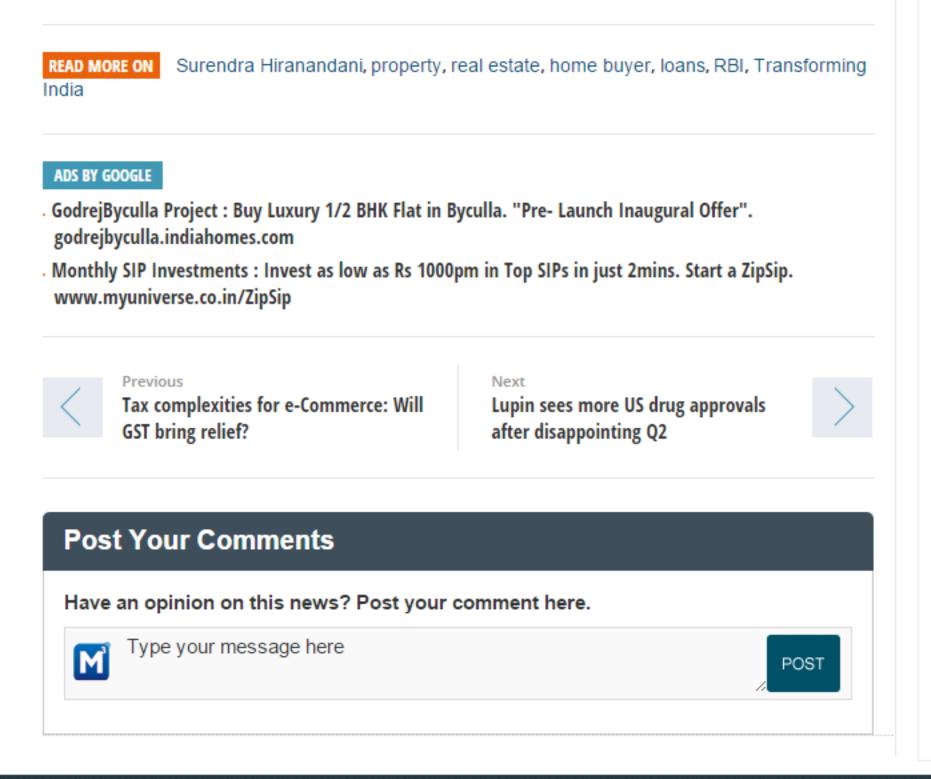
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