

Budget constricts growth for developers

The real estate sector has welcomed some of the provisions but feels that they don't address the major concerns.

Our Chennai Bureau

The Union Budget for 2012-13 has a clutch of announcements relating to real estate development, aimed at enhancing fund flow, and a few incentives for the home buyer.

But it has left the housing sector largely dissatisfied, as the support is considered inadequate, given the market conditions. In the backdrop of the overall dissatisfaction expressed by the manufacturing sector due to the increase in costs and limited opportunities for growth, developers are worried this could translate into a slowdown in demand in the housing sector.

BUDGET PROVISIONS

The major announcements that have an impact on the sector are:

* Allowing National Housing Bank and HUDCO to raise Rs 5,000 crore each as part of the Rs 60,000 crore tax-free bonds in infrastructure.

* ECB for low-cost affordable housing projects, bringing down withholding tax on interest payments to 5 per cent from the prevailing 20 per cent.

* Credit Guarantee Trust Fund to encourage institutional credit for housing loans.

* Providing Rs 4,000 crore under the Rural Housing Fund.

* Continuing 1 per cent interest subvention on housing loans upto Rs 15 lakh for houses costing up to Rs 25 lakh.

* In addition, the budget has also enhanced investment-linked deduction of capital expenditure incurred in affordable housing to 150 per cent against the current 100 per cent.

* It has exempted from service tax construction services relating to residential dwelling and low-cost mass housing under the Scheme of Affordable Housing.

THE REACTIONS

Across the board, the feeling is that while ECB is welcome, the budget primarily addresses the fringe issues relating to affordable housing. There are no provisions that would have a significant impact for the housing sector.

Mr G. R. K. Reddy, Chairman & Managing Director, MARG Group, says that for infrastructure and real estate sectors, it is a mixed bag, except for some interventions in the affordable housing space. The hoped-for recognition of infrastructure status to the realty sector is absent. Access to ECBs for the sector as a whole, rather than just affordable housing, would have helped bring down capital costs; higher income tax exemptions on home loan would have boosted demand, as would have a larger quantum of interest subvention.

Mr Srinivas Acharya, Managing Director, Sundaram BNP Paribas Home Finance, said letting NHB float tax-free bonds could provide more funding sources for home loan providers at lower interest rates. Long-term funds will now be available to developers, even if not at



There are plans to drive the supply of affordable housing in small cities and towns.

cheaper rates, as they are allowed to borrow overseas. They will be able to acquire and hold lands. But not enhancing the exemption limits on home loan interest which is at Rs 1.5 lakh, and 1 per cent interest subsidy up to Rs 15 lakh is a disappointment.

Mr K. K. Raman, Executive Vice-President and Zonal Head, DLF India, said that it is helpful that the Budget has extended support to home loans upto Rs 15 lakh, with the 1 per cent interest subvention.

The support to buy residential units of a maximum of Rs 25 lakh and the ECB allowed for development of affordable homes will encourage development in small towns and cities, where that pricing is viable. The support from the Rs 5,000 crore tax-free bonds, to be raised each by Hudco and NHB, will augment the tight funding situation faced by the developers, he said.

Mr Om Chaudhry, Founder & CEO, FIRE Capital, and Chairman, Astrum Homes,

felt the Budget will not back a growth in demand in the real estate sector, and the benefit it would have on GDP growth.

Housing sector is linked to more than 250 ancillary industries, and employs more than 10 per cent of the workforce. The industry needs liquidity, relief from the high tax structure, and a viable regulatory policy. But the announcement to encourage affordable housing indicate that the government has recognised housing is as critical

as food and education, the two areas where the government is proactive.

Mr Rajamannar Ramaswamy, Group Managing Director, Inno Group, a global investment group, said the increase in excise and service tax by two percentage points to 12 per cent will push up the price of day-to-day items and services. Spiralling prices of land, materials and labour will, in addition, make housing a costlier proposition.

A reasonable increase in the deduction for home loan interest paid, as well as on principal repayment, would have given a big boost to the sector. While the government talks of reducing the housing shortage across segments, there hasn't been any proactive measure in the budget to support this cause.

Mr Jitendra Jain, MD and CEO, Neev Group, said the relaxation in ECB norms reduction in withholding tax will boost investments in the affordable housing sector, as developers get easy access to funds at lower interest costs.

Mr Amit Gupta, MD, Orris Infrastructure Private Limited, said the Budget

doesn't provide an impetus for the real estate sector. The introduction of TDS on the sale of immovable property, hike in service tax, and non-provision of bigger tax breaks for the home buying are negatives.

Mr Kamal Khetan, Chairman & Managing Director, Sunteck Realty, said permitting ECB in value housing will help projects facing a fund crunch and access lower cost funds. But continuing to deny industry status to the real estate sector shuts off the option to access loans at reasonable interest rates from domestic and foreign markets.

Mr T Chitty Babu, Chairman & CEO, Akshaya Pvt Ltd, said the silence on reforms and policies to increase housing stock is a disappointment.

Mr Pranab Datta, Vice-Chairman & Managing Director, Knight Frank India, said there is nothing in the Budget to look forward to.

There is an absence of any intent to address the issues concerning the real estate sector, as high property prices and low demand coupled with tight lending scenario have hit purchasing decisions.