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Budget 2019: From easing of ECB norms to industry status, real estate seeks big sops from Budget

By: Sanjeev Sinha | Updated: July 5, 2019 9:50:06 AM

Budget 2019 India: With both banks and NBFCs unwilling to lend to the sector, easing of ECB (external commercial borrowing) norms would provide some relief to a cash-strapped industry and help tide over the liquidity crunch to prevent further spiralling of the crisis through stalled projects.



Budget 2019-20: The pain-point in the real estate sector is the residential segment, where delivery challenges, liquidity issues and massive unsold inventory have dampened the sentiments of both the developers and buyers.

Union Budget 2019 India: It's budget time and when everyone – from the common man to big business houses – is pinning their hopes on the new Finance Minister and Modi 2.0, why should the realty sector remain far behind? The real estate sector has lots of expectations from this budget, more because it is facing a downturn for a long time and has also got hit hard by some recent policy decisions.

So, if the government wants to realise its dream of 'Housing for All by 2022,' then giving some major boost to the sector has become the need of the hour. This has become a necessity because the real estate sector is one of the major contributors to the GDP growth and can help the Modi government resolve the shortfall in job creation quite a bit. Whatever be the case, industry players seem to be betting big on this budget for the upliftment in the sentiments in the sector. Industry experts say that while the government had taken some positive steps in the Interim Budget 2019 to support the real estate sector, the NBFC crisis has severely impacted access to capital, which remains the Achilles heel of the realty sector. With both banks and NBFCs unwilling to lend to the sector, easing of ECB (external commercial borrowing) norms would provide some relief to a cash-strapped industry and help tide over the liquidity crunch to prevent further spiralling of the crisis through stalled projects. "In addition to short-term support, the real estate sector needs more comprehensive financial solutions with flexibility and risk aligned to the sector's business cycles. While industry status has been a long-standing demand, the sector also needs more flexibility in dealing with stressed assets, tax-friendly instruments designed to encourage investment, special status for HFCs (housing finance companies) at par with banks and geography-based fiscal incentives for sectors like logistics," says Aashish Agarwal, Senior Director, Valuation & Advisory Services at Colliers International India.

The pain-point in the real estate sector is the residential segment, where delivery challenges, liquidity issues and massive unsold inventory have dampened the sentiments of both the developers and buyers. While the government has been trying to stimulate demand through the Monetary Policy, the elephant in the room is the lack of investor interest in the under-performing residential asset class. During H1 2019, private-equity inflows into real estate stood at \$3.9 billion, representing a 26% increase over the corresponding period last year. 73% of this capital has gone to the office and retail sectors. The government can create an enabling policy framework to facilitate and regulate the use of residential assets for rental housing, homestay aggregation, student housing and co-living, all of which are emerging business models that could revive investor interest in residential property.

“The government should also consider extension of the tax benefits on SEZs (Special-Economic Zones), which have the potential to create new jobs in the information technology sector. Extension of tax benefits under Section 80-IBA for affordable housing projects will also be required to achieve the government’s objectives of Housing for All by 2022. Broadly, the industry seeks policy support in the areas of investment, tax reforms to stimulate demand and structural solutions around capital, all of which have the potential to generate economic activity, create new jobs and enhance net revenues for the exchequer,” says Agarwal.

Hit hard by the recent policy decisions as well as slowdown in the sector, the developer community also has many expectations from the Union Budget.

“The Interim Budget 2019 has had a positive impact on the real estate sector. The government had provided industry status to affordable housing which gave a boost to the segment across cities. However, the grant of ‘industry status’ has been a long-standing demand of the realty sector. Once granted, this will facilitate availing legitimate finances from banks & other financial institutions along with faster approvals and transparency. The cost-benefit of obtaining low-cost loans from within the system can be passed on to the consumer,” says Ashish Sarin, CEO, AlphaCorp.

Ashish Arora, director-distribution, Viridian RED, says, “The long-standing demand of hassle-free approval mechanism should be taken into consideration and a one-stop solution should be established. Though the previous interim budget had announced incentives to strengthen the investment in real estate, so far the sector has witnessed only one REIT listing. We believe that the government should improvise the timelines of investment from 3 years to 1 year for capital gains taxation. This would encourage larger investment participation for the commercial sector.”

Developers also expect the government to abolish stamp duty in the upcoming budget. “As we all know that the stamp duty and registration charges continue to remain a burden for the buyers. They are keeping the buyers away from the market and are impacting the sector as well. Bringing the stamp duty under the purview of GST will further enhance the condition of the real estate sector,” says Amir Husain, president-sales and marketing, Orris Infrastructure Pvt Ltd.

A single window clearance system is also on the wishlist of many developers. "Offering a single window clearance system will be a big support to the real estate sector. It has been a long-standing demand also. The presence of such a structured system will help in the timely delivery of projects and also help in obtaining relevant certificates without the lapse of time that adds to the delay. We have high hopes that the government will bring this system to facilitate the swift approval process, which would benefit the realty sector," says Ravish Kapoor, MD, Elan Group.

Thus, while the list of expectations could be a long one, there are a few that are easy to achieve while others could be directional in nature setting tone for long-term stabilized growth. In the end, the government needs to weigh various options and adopt those that suit the macro parameters of the sector as well as the economy.