



REALTY EXPECTATIONS



FROM THE UNION BUDGET 2016



Union Budget 2016 must reverberate the spirit of “Housing for all”

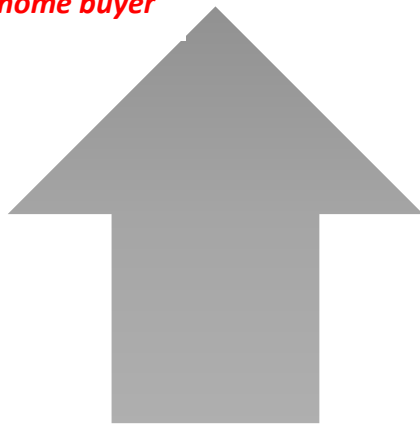
The Union Budget 2016 is knocking on the door and Indian realty sector stands with a heart full of expectations to welcome it. Especially after a less-than encouraging Budget 2015, this year’s budget is likely to grab more attention. Real estate sector in India is sensitive to major policy changes and this is what makes this budget more critical. The sector still has a lot of lacunae to be addressed and hence there is a long list of expectations to be met. Some of the key expectations that the realty sector has are:

Incentivize end users instead of investors

When the Government talks of Housing for All, it implies that its policies must be in line with its long term goals. The biggest hindrance to this project is the availability of funds for the buyers. There has to be some luring element to attract buyers and convert the fence sitters. Currently, it is the second time buyers who get maximum tax benefits.

Current tax benefits for each category of home ownership

Second home buyer



*Under **Section 24**, there is full tax benefit on the interest payable .If the house is an under construction property, then 20 %of the interest paid during the pre-construction or the initial phase is also allowed for tax exemption*

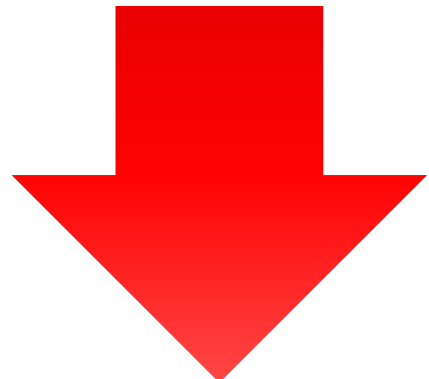
***Second homes are usually put on rent** by the owners. Rent coming from a property is an income but, you can also make it as **a tool for your tax deductions (HRA)**.*

***The rental yield is 1-2%, whereas the interest component is 95% of the loan amount**, due to this there is always a resultant loss under Income from House Property. This aids in reducing the taxable income*

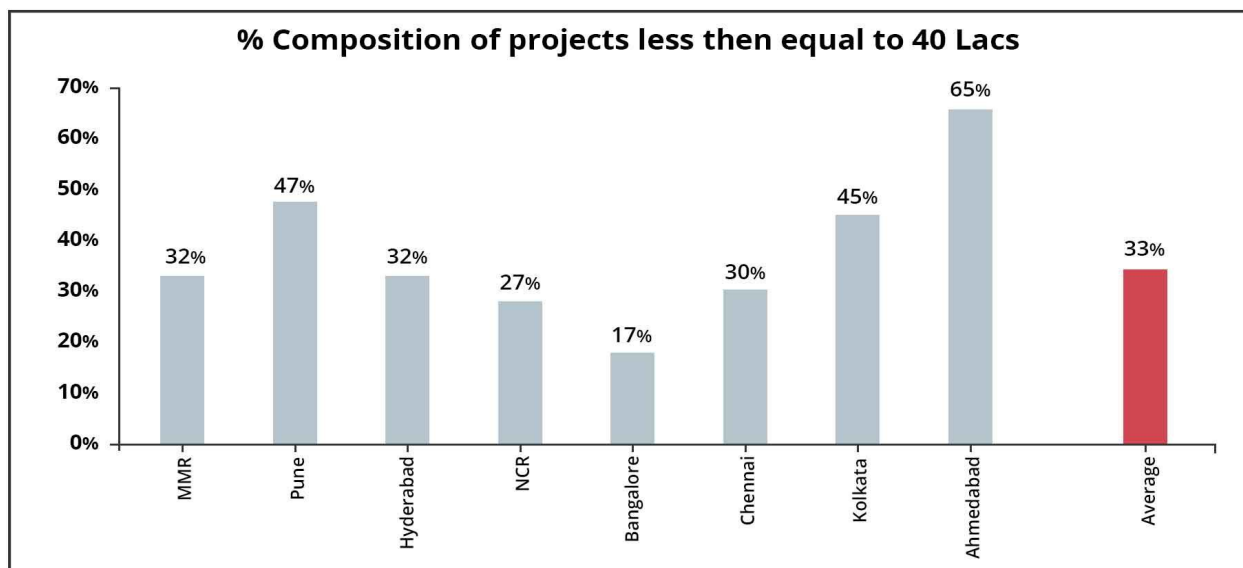
*Under **Section 24**, maximum tax deduction on interest component is upto Rs 2 lakhs if the house is acquired within three years of taking the loan.*

*Under **Section 80 EE**, for first time buyers additional deduction of Rs 1 lakh Loan amount should not exceed Rs 25 lakh. The value of the residential house property should not exceed Rs 40 lakh.*

Self-occupied property



Evidently, the tax benefits are skewed in favour of second time home buyers, so additional benefits are required for self-occupied property owners (first time property buyers). The existing section 80 EE has constraints and aims mainly towards affordable housing. It is eligible for residential housing only upto Rs 40 lakhs. In metro cities like MMR, NCR and Bangalore, this is of little relevance. From the below graph based on December 2015 quarter data, we can decipher that in metro cities (except Ahmedabad), the average composition of projects less than equal to Rs 40 lacs is only about **33%**. Ahmedabad being a largely end user market is the only exception with 65%.



Source: Liases Foras

Hence, our recommendations are:

- 1) Tax exemption limit for principal reduction should be increased and re-calibrated to be in tune with inflationary trends in a financial year.
- 2) The amount of tax exemption for interest expense on self-occupied property to be greater than Rs 2 lacs.

Developers to bear buyer's tax exemption loss in event of delays

Currently a tax deduction of Rs 2 lakh per year is allowed against payment of interest on home loans, if the house is acquired within three years of taking the loan. Delay in deliveries is a blatant practice in present and as a result buyers lose tax exemption— this is something they cannot foresee at the time of availing the home loan. Either developer should bear the loss of tax benefit that the consumers face due to delay in deliveries or the IT authorities should amend the clause and not make it a punitive one. Buyers are not responsible for delay in construction or delivery and already go through a lot of mental agony due to this. Penalizing them instead of the developers, defeats the purpose of this tax exemption.

Statistics of supply delayed in leading cities in India

Cities	Less than 6 months	6 Months -12 Months	12 Months -24 Months	More than 24 Months
Ahmedabad	54%	20%	19%	7%
Bangalore	64%	11%	16%	8%
Chennai	55%	15%	17%	13%
Hyderabad	30%	18%	20%	32%
Kolkata	55%	15%	14%	16%
MMR	43%	15%	20%	23%
NCR	29%	17%	24%	30%
Pune	47%	19%	22%	12%
Surat	72%	18%	7%	3%
Vadodara	76%	13%	10%	1%

Source: Liases Foras

DDT ambiguity to be removed from REITS

There has not been a single REIT listing in India despite a green signal last year. The primary reason is the ambiguity over the status of Dividend Distribution Tax (DDT). Developers and other asset holders need the government to abolish it in the Budget 2016. Until then REITS in India will be unable to realize its full potential. To give a fillip to the economy in general and drive revival of the real estate sector, the Union Budget must throw light on this issue.

Vacant land tax to be introduced

Developers sitting on piles of unoccupied apartments and vacant land parcels is a definite recipe for disaster in the economics of real estate pricing. If the tax is imposed on unused land, it will encourage landowners to develop vacant and under used land properly or allow others interested in development to take over. The tax on unproductive land will have a positive domino effect for the Government also. In a move to avoid tax, vacant urban land will be utilized for various purposes such as construction and creation of infrastructure on which the Government can impose Property Tax. This tax is a progressive tax wherein the heaviest tax burden will be borne by the wealthiest. A reduction in income disparities would be a direct consequence of this. Penalizing hoarding of idle land has the power to make property market more efficient. This will also support the Housing for All goal with increased supply on vacant land.

Further clarity on GST may be expected

Since the very beginning, GST has been caught in political imbroglios. But it could see the light of the day in 2016. Presently, home-buyers pay service tax and VAT on purchase of under-construction residential units. This, coupled with excise duty, customs duty, CST, entry tax, etc. paid by the developer on his procurement side, is factored while pricing the units. Though the proposed GST is expected to replace these multiple taxes under a single umbrella, the stamp duty will not be subsumed. A clear taxation structure and the announcement of a specific date for the implementation of GST is the need of the hour.

Passing of the Real Estate Regulatory Bill

The Real Estate Regulatory bill got the Union cabinet nod early December and now the entire sector is anticipating that it will come to fruition by 2016. Construction delay is a major hindrance to the Indian Real Estate sector and the cost of delay across 25 major cities impacts 1.32% of the nation's GDP. However, the delay with which it is coming into place cannot be ignored. The most important factor of any regulatory change is right timing. The passing of Real Estate Regulatory Act (RERA) is overdue and it is likely that the Government realizes that establishing an effective regulatory mechanism is the need of the hour.

Union Budget holds strings to a more efficient realty sector

In a nutshell “Housing for All” should be the keyword for Union budget 2016. Without incentivizing the end-user, this goal cannot be achieved. Another feature for promoting affordable housing is efficient pricing and delay in deliveries. Penalizing builders for delay and passing the Real Estate Regulatory Bill will go a long way in curbing this unfair practice. The sector also wants a good deal of clarity on the various taxation grounds. The vague air surrounding GST and DDT has to be removed and the functional norms should see the light of the day. The real estate sector is going through a shaky patch. While on surface sales figure seem good, underlying issues such as exorbitant pricing, project delays and piling stock need to be addressed through effective policy implementation.



Disclaimer

Neither the whole nor any part of this document or any reference to it should be copied or reproduced without Liasés Foras' prior written approval.

The data of real estate projects has been collected through field surveys as well as primary and secondary research. As a result of the methodology, sources of information are not always under control of Liasés Foras. The information and analytics also undergoes estimates and compilations derived out of statistical procedures. Liasés Foras does not by any means guarantee the accuracy of the information provided in the above document. However, Liasés Foras undertakes due care and statistical checks in the collection of the data and its research. LiasésForas makes no representation or warranty regarding the standing, credit or otherwise of any person, firm or company mentioned in the above document, or the suitability of the information for any purpose. A person is required to undertake his own due diligence with regard to its investment decisions, and investment decisions should not be purely based on the document presented above.

Under no circumstances shall Liasés Foras or any of its successors, parents, subsidiaries, affiliates, officers, directors, shareholders, employees, agents, representatives, attorneys and their respective heirs, successors and assigns be liable for any damages, including loss of money, goodwill or reputation, direct, incidental, punitive, special, consequential or exemplary damages that directly or indirectly results from the use of, or the inability to use, of the information by Liasés Foras in the above document.

Authors:

Mr. Pankaj Kapoor

Founder and MD-Liasés Foras Real Estate Ratings and Research Pvt. Ltd

Email id: pankaj@liasesforas.com

Ms. Namrata Sen Chanda

Content Manager

Email id: namrata@liasesforas.com

About Us

Liasés Foras:
The pioneer in scientific
research in real estate

Strategic Partner: **dmg** information

Founded in 1998, Liasés Foras is a non-brokerage research centric firm that offers data and advisory services. Our works on industry and scientific prognosis of the local market is highly regarded. We have an organized and structured data source on real estate and property trends in India, which is updated on quarterly basis by primary market survey.

With a team of MBA's, Urban planners, architects, chartered accountants and statisticians Liasés Foras is progressively done studies in field of valuation, risk assessment, future forecasting and price behaviour. Our clientele includes leading mortgage companies such as HDFC Ltd, Axis, among others, real estate fund houses, developers, government bodies and leading international research organizations. We are also research partner for CNBC Awaaz real estate awards from 2012 onwards.

In 2015, DMG information,UK acknowledged us as their strategic partners.

Segments, Services and Key Clients

