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Half full or half empty?

Although the interim budget has not offered anything substantial to real estate, developers hope for something more than what apparently meets the eye, says Archana Sinha

While the government has taken steps to boost the real estate sector, the industry was expecting the momentum of sops to continue in the interim budget. But with the finance minister presenting only a vote-on-account, and not offering incentives, real estate companies feel let down. According to them in these 'extraordinary circumstances', the central administration has missed the opportunity to emerge as a dynamic and proactive government.

Says Kumar Gera, chairman, Confederation of Real Estate Developer's Associations of India (CREDAI), "I appreciate they have followed convention and not flouted the constitution, but this is a dynamic situation. Playing safe will not do. They should have used this opportunity to offer bold short-term measures to keep real estate on the growth track. The industry cannot afford a time gap of four months and wait for the new government to formulate laws." He adds, "The public sector banks have reduced interest rates substantially, which is good. But for the buyer to really put his hand in the pocket, the government could have given tax incentive on housing loans by raising tax deduction limit to Rs. 2.5 lakh from the current 1.5 lakh per annum, for a short period of 18 months to two years. They could even exempt the entire EMI from taxation, which includes principal plus interest amount for a short period to rekindle the mood. Incentives could be given on rentals too."

Government agencies and economic advisers say any reduction in taxes requires discussion in parliament. It is a long process that the government cannot afford. Moreover the two stimulus packages are beginning to show effects only now, and it is important to consolidate.

Abhinandan Lodha, Director, Lodha Group, comments, "Lack of clear direction towards policy initiatives was expected. But some initiatives on affordable housing and tax benefits for developers could have been offered. It will be important to see the next budget, which will set the ground in terms of policy initiatives."

Niranjan Hiranandani, MD, Hiranandani Group says, "Real estate is the largest employer only next to agriculture. More than 1.5 million workers have lost jobs. It was within the constitutional power of the government to cut prices of cement, steel, paints and bricks as they have been doing for the last two months. They could have easily announced more cuts. I would call it a lost opportunity to instill confidence."

Rajesh Vardhan, MD, Vardhman Group says, "Post budget, it is heartening to note that India is still the second fastest growing economy, even in times of downturn. This instills a feeling of optimism. Since this is an interim budget, no one expected major policy changes. Yet, small measures like reduction of interest on housing loans would have been welcome."

Hiranandani and Vardhan also felt re-introduction of section 80(IB), of income tax which is a tax benefit given to developers for dwelling units with a size up to 1000 sq. feet of built-up area, in a plot of one acre and above would be a good incentive at a time of slowdown.

Property consultants echo similar feelings. Anuj Puri, Chairman & Country Head, Jones Lang LaSalle Meghraj, says, "In the context of the real estate sector, nothing short of significant direct incentives to both developers and buyers, especially in the affordable housing segment, would have much of an impact. The rather unambitious purpose of this budget was to hand the economy over to the coming Government in running order. However, we continue to believe in the strong fundamentals of the Indian real estate sector, and know the Government does, too."

Milan Kothary, MD, GVA Intercapitalis says, "Proactive stimuli to promote real estate investment through specific one-time incentives for homebuyers as well as real-estate related infrastructure development would have not only given more employment but also triggered investment, thereby creating real as well as psychological momentum."

However, all is not lost, although a big opportunity could have been encashed, feels the industry. Fundamentally India's economy is sound, says Kumar Gera.

Mayur Shah, MD, Marathon Group, says, "I am not disappointed. The interest rates are low reducing almost 40 per cent of your EMI now. Property prices have corrected from 10 to 40 per cent. Government is announcing relief from time to time and will offer one more round of cuts despite the interim budget, before the elections. In general people have begun to come back to the market. What we need to do is to look at the glass being half full rather than half empty."

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