

## Industry status needed

*For development to continue without interruption, the business of construction should be accorded industry status, says Archana Sinha*

### Quick BYTES

#### **Giving industry status will improve the overall accountability and discipline in the sector**

Although the real estate sector has hailed the government's plan to incentivise infrastructure in its new budget, it was upset about housing being ignored. The least that could have been done, they felt, was to grant it industry status, and treat it on par with infrastructure.

Sukhraj Nahar, chairman, Nahar Group, says, "The finance minister has made encouraging announcements on the infrastructure front like higher public investment." Nahar is disappointed, however, that despite being the second largest employer in the country, the sector has not been given industry status. "I strongly believe such recognition would bring about discipline essential for successful implementation of government's mega housing plans for the poor," he says.

Only a few months back the Confederation of Indian Industry (CII) in its report sought similar facilities. According to CII, "infrastructure status" for integrated township development is akin to development of SEZs. To fulfill the need for 26.5 million dwelling units by 2011, several developers are undertaking large urban projects, including purchasing raw land and developing it into full-fledged townships. This would need massive government support.

The report recommended reforms such as increasing municipal limits of existing cities with a timebound plan to build infrastructure, simplifying conversion of land from agriculture to residential and commercial, relaxation of FSI to make available constant supply of large chunks of land for affordable housing.

Interestingly, a parliamentary committee has asked the government to explore the option of granting industry status to the real estate sector to help evolve a mechanism to encourage and regulate the sector.

"Granting industry status and infrastructure classification can help gather active support of the real estate sector for various housing schemes meant for low and middle income groups," it said.

The panel felt that setting up an authority for regulatory mechanism should be given priority to facilitate private investment for economically weaker sections and lower income groups. It asked the government to come out with an action plan.

What has stopped the government from recognising the importance of this sector? Mayur Shah, MD, Marathon group, and chairman, MCHI, says, "I think it was mainly because the industry grew in a haphazard fashion in its early days and there was no developers' body to represent its case to the government. Moreover, industry status, as you have in the manufacturing sector where a factory is set for 30-40 years, is not possible here as the nature of work is on a project basis. But when in 2007 infrastructure received a special status with the facility of funding and tax breaks, real estate and housing was left out. Housing is central to human survival and to catch up with the shortfall, it needs to be a priority sector just like infrastructure, as both work on similar model."

Nahar says, "The nature of the industry does not call for permanent labourers. However the government has to find a way to work around this. There are other industries which face similar problems."

Kaizad Hateria, general manager sales, Rustomjee Groups says, "I think it is the mental lethargy on the government's part and lack of will. There is no pressure from the industry. It is only in the last few years that CREDAI, BAI and other such bodies have started putting pressure on the government. Progress has been made but a lot needs to be done at a faster

pace."

Hateria adds, "If labour is the issue then the government can make proper labour laws. Recognising real estate as an industry will help sort out that problem too. In most cases labourers are uneducated and prefer working on a temporary basis, with no bindings. They often disappear without notice and are not traceable at the address they give to contractors. So it boils down to lack of education, training and awareness, and proper laws which only the government can look into."

Giving industry status enables tax benefits and will improve the overall accountability and discipline. Even raw materials can be availed at subsidised rates. Finance, which eludes the sector due to its non-industry status, will start flowing in which is essential for growth. In advanced countries like UK, USA and Canada, real estate is one of the biggest investment attractions through REITs and REMFs. The workings and dealings are transparent and it is a major revenue earner for its economy, say developers. No wonder, the parliamentary committee also calls for according real estate the industry status.

## **The benefits of industry status**

### **For a long time the developers of real estate have been asking the government to accord industry status to the business. Milan Kothary explains why it is important**

Until recent times India was looked upon as an also-ran state with insignificant impact on the global economy. Things have now changed. Back in those times it mattered not whether the real estate sector was considered an industry or not. Today it's different. Land is looked upon as a great investment instrument and more and more players irrespective of their qualification and experience are entering this sector with the sole aim of making money and nothing more. It is therefore 'imperative' that the outlook be changed to regulate the growth of this sector in a disciplined manner.

## **The benefits of being recognised as an industry**

The policy and regulatory reforms with a special reference to 100% FDI relaxation will result in a positive outlook of global investors who are looking towards establishing strategic alliances for synergetic benefits. India is attracting large international retailers to its doorstep, since it has been ranked the most attractive country for international retail expansion.

Real estate as a capital intensive sector will offer significant investment opportunities to global financial investors who are willing to invest through strategic investments in projects/companies and such investments primarily come in the form of opportunity funds, private equity and venture capital. According an industry status will result in the Indian real estate emerging as one of the most preferred destinations for global realty and investment firms.

The increasing thrust of the Indian Government on urban infrastructure development will lead to emergence of newer areas of development.

Increasing corporatisation of public authorities such as housing boards will pose strong and healthy competition to the private developers resulting in quality housing at competitive rates.

Established but modest players from the regional arena will be encouraged to expand their activities to the entire national arena and possibly in other global locations.

Emergence of anticipated albeit unexplored potential opportunities will accrue which will ensure sustained growth in the medium to long term across as-yet-to-be developed segments like: logistics and warehousing, healthcare infrastructure, low-cost housing, affordable housing, health cities and medical tourism centres, Hospotels or a combination of a hospital and hotels, slum rehabilitation, mass housing.

The opportunity spectrum for the already established asset classes like commercial, residential, retail, industrial and hospitality will widen.

This will lead to the entry of more global players, significant evolution of capital markets, impressive geographical diversification and introduction of reforms critical for a healthy growth of the industry.

Will inculcate corporate culture and industry discipline by introducing the concept of qualified real estate personnel and industry license, discouraging fly-by-night operators and unscrupulous brokers, leading to strict adherence to norms and guidelines that insist on the practitioner having knowledge of local laws, taxation, financials and better understanding of the role of innovation especially in service delivery.

Since the 'Real Estate' sector is the largest employment generator after agriculture in the country and housing contributes roughly five per cent of India's GDP, it is strategic to India's economic progress. Employees need to be well protected by labour laws and employee benefits enjoyed by the other sectors and according an industry status to the 'Real Estate sector will do just that.

According industry status will stop the sector from becoming a victim of slowdown. It will be offered protection during such a period and given maximum relief in terms of taxation and incentives for investors within a legal framework.

Above all the thrust on 'Infrastructure' calls upon a brand new outlook to the entire concept of 'Real Estate'.

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