Real estate sector’s revival hinges on relaxations

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Marching towards the end of Q1, the Covid-19 pandemic has forced a new way of life on us. As industries and businesses prepare to restart operations with diluted strengths, there are crucial sectors that will help India get comfortable with the new normal. Second to agriculture, the real estate sector armed with 200 plus ancillary industries, stand on firm ground to revive the national economy.

According to a recent study by a property consulting firm, global businesses will witness a surge once the pandemic dies down. India stands to benefit post recovery.

The road to recovery for the real estate sector will be a culmination of several critical measures—taken collectively by the government and private sector alike.

RBI’s announcement to increase liquidity in the market, lowered repo rates and the introduction of subsidised housing schemes by the government, will go a long way in creating the much-desired demand. However, to inject life into the system after a two-months of lockdown, there is an urgent need for more structural changes. These will ensure that the benefits get passed on to the end-user.

Rebuilding confidence amongst workers

After the exodus of construction workers from metros, developers are facing a severe shortage of workforce. Additionally, there is the unavailability of raw material. The cost of raw material has risen almost by 15% due to fragmented transport restrictions imposed selectively by states. To kickstart construction activities, the workers that form the backbone of the industry needs to be wooed back into the system.

This can be achieved through subsidised housing, and incentivisation. Taking construction workers into confidence and ensuring standard social security for all, will bring to life projects that have been delayed.

Similarly, raw material price needs to be monitored and interstate transport of raw material needs to be green flagged by all states in unison. At trying times such as these, immediate corrective steps in the right direction will be helpful.

Reduction of interest rate for housing/construction loans

Given that the nature of the pandemic requires social isolation, India’s age-old joint family system is bound to make way for nuclear families. With households looking to control their immediate environment, this shift has the potential to boost demand in the real estate sector.

Today a regular home loan offers various tax benefits. There is a deduction of up to Rs 1.5 lakh on the principal repayment under section 80C of the income tax Act and up to Rs 2 lakh on the interest paid under section 24 in a single financial year. To further infuse demand in the system, these deductions need to be looked at and relaxed further. In addition, the government should consider extending the GST Input Tax Credit to include new projects. The ready reckoner rates and the property taxes are on the higher side.

These need to be rationalised to generate demand in the housing segment. Steps taken in these directions are bound to have ripple effect for the national economy.

The Reserve Bank of India (RBI) can perhaps contemplate one-time restructuring of loans to reduce economic stress faced by the developers. While some banks have already reduced interest rates on home loans, a standardised reduction in home loan interest rate up to 5% will raise the confidence of fence-sitting home buyers.

Addressing challenges in Unlock 1.0

While announcing the Special Economic Package, Finance Minister Nirmala Sitharaman declared that all real estate projects registered under the Real Estate Regulatory Authority (RERA) expiring on or after March 25 will get a six-month extension.

This step came as a breather for the developers. However, unlock 1.0 has come with a new set of challenges. The foremost being fundamental shortages that have hampered the pace of recovery. The Ministry of Housing & Urban Affairs need to further extend the RERA project completion timeline by one year. This will provide developers adequate time to address immediate labour and raw material challenges and maintain their respective deadlines without incurring in additional penalties.

Even though the situation may seem distressful now, it is temporary. Real estate is still the preferred mode of investment.

NRIs too want to move back to their own country and have their own homes here. The developer community has already started work on creating more efficient designs and layouts for homes, factoring in a small office, a work-corner within the living spaces.

The HDFC bank has recently announced that its consumer finance loans have gone back to its pre-Covid levels. This is a clear indication about the strong Indian resilience and the will to live and fight back.

The Prime Minister’s clarion call towards building an Aatmanirbhar Bharat is the need of the hour.

We have the capacity to rise to the occasion, amply demonstrated with the manufacturing of PPE kits, masks and sanitizers which was almost non-existent in the country.

Real estate is working closely with the government bodies and we are certain that we will emerge stronger and help boost the national economy that our country needs today.

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