

## Real Estate's Expectations from Budget 2020-21 - Will Iran Crisis Play Spoilsport?

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- Anuj Puri -

As the countdown to Union Budget 2020-21 begins, all sectors hope that the government will unleash a plethora of goodies – from tax cuts and other consumption boosters to increasing credit off-take from banks to ease liquidity. Real estate particularly hopes for the quick implementation of alternative investment funds to rescue stressed residential projects. The pressure on the Finance Minister is as high as it could possibly go, considering the state of the economy.

Unfortunately, the recent Iran-US stand-off may throw a spanner in the works this year. Rising oil prices limit RBI's scope to decrease interest rates for home loans, and inflation is likely to head north. In short, some of the measures that the government could provide – such as hefty cuts in personal taxes – may not materialize.

These gloomy prospects notwithstanding, the real estate sector does contribute over 8% to the Indian economy – and has justifiable expectations from Union Budget 2020-21:

Hike the INR 2 lakh tax rebate on housing loan interest rates under Section 24 of the Income Tax Act - This could kick-start healthier demand for housing, especially in the affordable and mid-segment categories. Personal tax relief, either by a cut in tax rates or favourably readjusted tax slabs - The last increase in the deduction limit under Section 80C (to INR 1.5 lakh a year) was in 2014 and an upward revision is long overdue.

Include ITC benefit in GST for under-construction homes - While the GST rate on under construction properties was reduced to 5% in 2019, the previous ITC benefit was shelved. Already cash-starved developers cannot avail tax benefits for construction raw materials and the increased costs are passed on

to buyers. Providing ITC benefits is a great incentive to reduce property prices and make under-construction homes attractive again.

Immediate deployment of INR 25K crore AIF - The clock is ticking and the government needs to act immediately. The allotted stress funds need to be utilized to full potential without delay. Completion of stressed projects will improve homebuyer sentiment and boost demand. Any further delays will result in a domino effect and add more stressed projects.

Ease liquidity - The ongoing liquidity crunch has a cascading impact across sectors, including real estate. Project delays - the biggest fallout of the cash crunch - have severely dampened buyer sentiments. Easing liquidity will increase capital flow for developers and keep supply - most importantly of high demand ready-to-move-in homes - healthy. Increased supply also keeps prices in check.

Improve credit off-take from banks - The NBFC crisis has hit the sector hard, and there is enough justification to warrant credit off-take. Apart from recapitalization by the government and stringent measures by RBI, the gross NPAs of banks also improved to nearly 9.1% towards September-end 2019 (against 11.2% the preceding year).

More incentives for private sector investments in affordable housing - Despite the benefit of infrastructure status for this critically important segment, developers are unable to get funding from major banks and NBFCs at lower interest rates. The profit margins for affordable housing projects are unattractively low.

Speed up infrastructure development - The Government's hard focus on infrastructure development is beyond dispute, but its plan to spend INR 100 lakh crores on infrastructure over the next five years can only yield tangible economic results with speedier on-ground implementation. There is a dire need to iron out bottlenecks hampering infrastructure growth.

Implement land reforms - The new lower 15% tax rate for companies looking to set up new factories can be applied only if they are able to acquire land easily. Implementation of a unique identity numbers or UID for land will bring greater transparency to India's outdated land records system and help attract more foreign investors and limber up the approval procedure for real estate projects.

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