

# Home Service

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**Prices of properties have come down or plateaued largely due to entry of fresh supply even as sales volume has gone up It's not only demand and supply. Other factors, too, determine prices. Credai has said demand and sales of properties will take a hit, thanks to imposition of service tax on residential property**

QUITE like other products and services, property prices too are determined by demand-supply dynamics. A drop in price always augurs well for property buyers or end-users. A price correction comes as a reality check to the developers.

By some accounts, prices of residential and commercial properties have come down or plateaued largely due to entry of fresh supply even as sales volume goes up. Some property analysts think that the prices would eventually go up with huge latent demand driving the market. "Going forward, the outlook across the country looks sombre with a correction round the corner," Gulam Zia, national director, research and advisory services, Knight Frank India, told FC Estate.

He said, "The fact that Indian economy recovered from the global recession quicker than expected only strengthened the faith of various new entrants in the real estate industry. Most of the developers with projects at various stages of construction somehow dragged on as the economic scenario started improving. Thus, the new offerings and completed projects steadily kept on adding, thereby increasing supplies. The demand also rebounded in most of the markets, giving the developer the much-needed confidence that recovery is not just a story but a reality."

"The demand supply dynamics always varies in different parts of the country and, hence, these markets behave differently. So, when most of the markets across India are either stagnant or on the verge of decline, some markets such as south Mumbai, Rohini in Delhi, for example are still on an upswing, albeit in the short-term."

Mayank Saxena, associate director, Jones Lang LaSalle Meghraj, told FC Estate, "Last year, supply was more while demand moved out of the market, thanks to increasing interest rates and other factors. People did not want to risk buying a property or investing in it. Now, with things looking up, there is a huge latent demand from end-users, which is driving the market now. I think prices will eventually go up at least for the next two-three years."

Citing examples from Kolkata, he said that prices of properties at Rajarhat have already escalated 10-15 per cent. If things move the way they are doing now, prices will jump 30-40 per cent in the near future. Supply is still not as healthy as it should be. But, it's not only demand and supply. There are some other factors that determine prices at times. And in what can give a significant twist to this demand-supply dynamics in the realty space, Credai has come up with its views that overall demand and sales of residential properties will take a significant hit in all cities, thanks to imposition of service tax on residential property.

Saxena, however, thinks that the issue of taxation was not as worrying as inflation, which is pushing up input costs. But, Credai feels that the applicability of service tax on under-construction real estate projects, especially in the residential space, will escalate project cost and in turn impact affordability for consumers significantly when the net price per unit shoots up by 2-3 per cent approximately.

An estimation done by Credai on percentage of service tax payable by a certain purchaser on an under-construction property worth Rs 30 lakh shows that the purchaser has to pay service tax on 25 per cent of the instalment at close to 10.3 per cent, which comes to around 2.6 per cent.

Santosh Rungta, president, Credai, told FC Estate, "The construction of property and transaction of the same now considered as a service is utterly confusing. On the one hand, when the government emphasises on development of housing in the country through its National Habitat Policy urging all state governments to reduce the stamp duty and bring it down to 2-3 per cent in order to make home buying affordable, imposition of service tax is just the contrary step that will hit affordability factor for the end consumers." With the provision coming into effect from July 1, housing will become dearer in both the cases of pre-bookings in under-construction properties as well as purchase of finished apartments.

While for under-construction properties, homebuyers will now have to pay a service tax at the rate of 10.3 per cent, in case of finished projects the pricing is expectedly higher on account of the appreciation. This is notwithstanding the fact that India, according to many estimates, has a phenomenal housing shortage of 25 million units.

Consider what Gautam Hora, senior vice-president, capital markets, Jones Lang LaSalle Meghraj, has to say about the whole issue. "The implementation of service tax on residential properties will result in increase in the price of homes for end consumers. Developers will justifiably be unwilling to absorb this new tax burden and naturally pass it on to the buyers. The increase would be to the tune of 2.58 per cent."

He said, "This is enough to make homes unaffordable, especially in cities like Mumbai and Delhi, where home buyers are already struggling with the recent spurt in residential property prices.

In cities like Pune, Bangalore, Chennai and Hyderabad, where consumers are more price sensitive, developers will have greater challenges with increasing prices.

Overall demand and sale of residential properties will take a significant hit in all cities. The service tax on all cities. The service tax on homes comes at an inopportune time, since the revival in residential real estate is still in its early stages. Such a setback will present yet another stumbling block."

The other concern, according to many property analysts, is that if demand for completed projects goes up, it will drastically stagger the funding cycles of projects, thereby reducing capacity of the developers to develop multiple projects.

This will adversely impact the growth of the industry, given the fact that the service tax imposition on under-construction projects will drive customers to the secondary market for completed projects.

Credai, in its representation to the finance ministry, said that the sale of immovable property is governed by the Transfer of Property Act and should not have been under the ambit of services, which will create utmost chaos and confusion resulting out of double taxation in the form of payable stamp duty on the transfer or sale of apartments. Service tax coupled with stamp duty charges, VAT, central excise, service tax on contractors and consultants, municipal taxes, sanction fees and development charges, drainage and water charges among others will further escalate purchase price and lead to higher construction cost, affecting developers and the buyers nationwide, it said. Credai estimates about 21-27 per cent of the costs is attributable to various taxes and duties and development charges imposed by the department and authorities.

The applicability of the service tax has also been linked to the issuance of completion certificates. The provisions and methodology for issuance of completion certificates vary across states and different practices are prevalent in terms of norms to be followed, compliances to be undertaken, legal formalities, timing of issuance, among others. Linking service tax liability with issuance of completion certificate would, thus also pose practical difficulties. Besides, confusion will also emerge on the date of enactment of the provision ('cut-off date') due to difference of timing between construction activity, date of payment and date of agreement, Credai said. ritwikmukherjee@mydigitalfc.com Up, up and away The fact that Indian economy recovered from the recession quicker than expected only strengthened the faith of new entrants in the industry The demand supply dynamics always varies in different parts of the country and, hence, these markets behave differently Last year, supply was more while demand moved out of the market, thanks to

increasing interest rates and other factors With things looking up, there is a huge latent demand from endusers that will make prices jump 30-40 per cent in the near future Service tax coupled with stamp duty, VAT, central excise, municipal taxes and development fees, among others will further escalate the price Credai estimates about 21-27% of the costs is attributable to various taxes and duties and development charges imposed by the authorities

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