Balancing Act for Indian Real Estate

India

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"We have weathered the crisis but there is no room for complacency"- Pranab Mukherjee, Finance Minister of India

In these difficult times, when most economies are struggling to stay afloat, a healthy 7.1% rate of GDP growth makes **India the second fastest growing economy in the world.** Despite the global financial crisis, **inward FDI flows into India were USD 23.3 bn** during April – November 2008, a **growth of over 45%** over the same period in 2007.

Through a combination of fiscal and monetary measures in the last few weeks and the Interim Budget 2009-2010, the Government has announced the following policy measures to help ease liquidity constraints:

- **Reducing CRR, Repo and Reverse Repo rates and reducing** VAT (Value Added Tax) reduced by 4% points, **to bring additional liquidity of approx INR 2 bn.**
- **Revising External Commercial Borrowings (ECB's)** policy so it can be availed by borrowers for **development of integrated townships.**
- **Bank refinance for Public Private Partnership (PPP)**. Indian Infrastructure Finance Company Limited (IIFCL) is underwriting 60% of commercial bank loans for PPP projects in critical sectors over the next 18 months. 54 Central infrastructure projects amounting to INR 6.7 bn have been approved by the PPP Appraisal Committee in 2008-09.
- **New FDI Policy** - Prima facie, this allows foreign entities to invest in Indian companies across all sectors through downstream investment route. This would allow foreign capital upto a certain extent in real estate segments such as projects less than 50,000 sq m in which FDI is hitherto restricted. Further details on this are awaited.
- **Encouraging States to release land** for low-income and middle income housing schemes.

Despite these supply-side measures, liquidity continues to be a major concern area since a stronger and direct stimulus is needed to boost demand. DTZ suggests the following can be done to bring the much desired momentum in this sector:

- **Reducing costs for the end-consumer** by allowing mass housing to come under infrastructure projects with Public-Private Participation (PPP).
- **Debt restructuring** where the government along with banks, need to create a more friendly repayment mechanism in terms of payback time period, so that the developer is left with enough to plough back into the project.
- **Infusing liquidity** on two fronts, one by introducing liberal External Commercial Borrowings (ECB's) to the office segment of real estate in addition to integrated townships and second by lending to developers at competitive rates.
- **Streamlining tax structure** by clarifying the STPI tax status as to whether tax benefits will be extended and if the existing legal structure will allow for shifting of jobs to SEZs. To reconsider whether Section 80 (I) B, which provides tax holiday for homes less than 1500 sq ft , can be introduced for affordable housing.
- **Independent Regulator** to be set up in addition to an Affordable Housing Body to bring greater transparency and provide planned approach for meeting needs of all stakeholders.

While the above recommendations are for the Government, developers also need to adjust prices further and going forward have reasonable margin expectations in the foreseeable future.

Other announcements of Interim budget 2009-10

- INR 95 bn expenditure proposed for 2009-10.
- 6 million houses for weaker sections constructed under Indira Awaas Yojana by 2008-2009.
- Rural Infrastructure Development Fund corpus increased to INR 1.4 bn in 2008-09.
- Outlay on higher education increased 900% in the 11th Five Year Plan.
- Financial sector reforms strengthen regulatory mechanism of securities market.
- INR 6.5 bn debt waiver and relief given to 36 million farmers.
- Two new schemes-Indira Gandhi National Widow Pension and Indira Gandhi National Disability Pension schemes to be launched.
- INR 13 bn allocated to flagship programmes.
- NPAs of Public Sector Banks decline.
- Defence gets INR 14 bn in the interim budget.

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Log on to http://indiabudget.nic.in/ub2009-10(I)/ubmain.htm for the Interim Budget 2009-10 speech of The Finance Minister Mr. Pranab Mukherjee on 16 Feb '09.