

Building affordability, taxing luxury

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Encourage low and middle income home ownership and get the revenues from high price tag properties – that has been the dominant theme of this Budget. The four main proposals that are of interest to real estate industry and home buyers are as follows:

FIRST-TIME BUYERS GET BENEFITS

Interest deduction of an added Rs 1 lakh can be availed by first-time homebuyers from their total income for tax purposes, for loans of under Rs 25 lakh taken during FY14.

This one-time exemption is in addition to the Rs 1.5-lakh interest deduction already allowed for self-occupied properties. If the limit of Rs 1 lakh is not used-up in the first year, the balance may be claimed in the next accounting year.

This is a positive move for such buyers and is likely to increase demand for low-cost homes.

Besides the many unlisted developers who offer small to mid-sized homes, listed companies to benefit from this include DLF, Sobha, Purvankara, Prestige, Unitech and Godrej.

Realty Snapshot Year in Red



	Growth (%)
Net sales	-7.9
Dev & Constr cost	-8.5
Employee cost	6.9
Operating profit	-1.4
Net profit	-11.8
Interest costs	11.2

*BSE Realty Index companies, for the nine months ended Dec 2012 Vs Dec 2011.

LOANS FOR LOW-COST HOMES

The allocation to Rural Housing Fund, a scheme under the National Housing Bank (NHB) to provide finance for rural housing, has been increased by 50 per cent and an allocation of Rs 2,000 crore has been made for the creation of a new Urban Housing Fund. This may boost low cost and affordable home purchases in the rural and urban areas.

Companies that would benefit from this measure include Smart Value Homes (Tata Housing), Ansal, Purvankara,

Value and Budget Housing Corporation (VBHC), Foliage, Xrbia, Marg. Increased demand may also help bring additional players such as DLF, Omaze which moved out of this space and players such as Mahindra and TVS which are interested in entering the segment.

HIGHER SERVICE TAX

The service tax abatement for high-end property is reduced marginally from 75 per cent to 70 per cent, which effectively means that a larger portion of the home value will attract tax. Low-cost housing and single residential units continue to be exempted from service tax.

This is a marginal negative to home buyers in the premium housing segment. The raise is only marginal- 0.6 per cent increase in the value of the property, based on 12 per cent service tax. Keeping in view the higher price elasticity of this segment, it is hoped that demand will not be impacted. This measure has neutral impact on companies such as Oberoi, Nitesh Estates, DB Realty and Prestige.

TDS FOR PROPERTY TRANSFER

Tax deduction at source of one per cent is proposed for im-

movable property transfers with value of over Rs 50 lakh. But this may be a significant deterrent to high-value property transactions as it brings them under the tax net.

It bears mention that a similar proposal was introduced in the last budget, but with lower limits on property value (Rs 50 lakh limit for urban areas and Rs 20 lakh for all others). This measure was later withdrawn, citing higher compliance burden on buyers.

This is a positive measure in the long run, as it increases property sale reporting and capital gains tax collection. In the short-run, it is a negative for home buyers as they have to furnish proof of TDS and payment to the registering officers.

It will have a negative impact on redevelopment projects, as the additional burden of compliance needs to be borne by the developers or passed on to the buyers.

Companies such as HDIL, Akruti, Orbit and Omkar which are in the re-development space are likely to feel the impact.

The BSE and NSE realty index is down 2.8 per cent reflecting the disappointment for the sector.

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