

Column

ENABLE REAL ESTATE TO BE INDIA'S GROWTH ENGINE

By ASHISH R. PURAVANKARA

THE real estate industry is the second-largest employer in the nation, which makes up a sizeable portion of the GDP. Since over 250 ancillary industries, from manufacturing to services, are dependent on the realty sector, any incentives offered to homebuyers will strengthen the country's macro economy. While the continued demand for homes has helped the residential real estate market recover in 2022, additional steps should be taken in the budget to maintain the demand momentum. The forthcoming budget is expected to provide higher tax breaks and policy rationalisation to encourage affordable housing supply and create buoyancy in overall housing demand.

Last year, the availability of affordable homes declined sharply, with supply dropping to 21 per cent, compared to 40 per cent in 2019. At the same time, mid-range and premium segments drove growth. Pressure from rising costs of commodities and the supply of affordable housing is the biggest challenge the real estate sector faces today. While the government is pushing for the spread of affordable housing, there are not enough margins for developers, and this is leading to a reduction in availability. To begin with, the government must push through input tax credit (ITC) for developers under the Goods and Services Tax (GST) regime. This will also help ease housing prices.

The mid-income and affordable segments need a boost from the government to promote ownership and this can be looked at in terms of direct tax breaks for homebuyers. People buying homes, especially in the affordable and mid segments should get incentivised.

Rationalisation of tax breaks for homebuyers is urgently needed. The annual limit of principal deduction on housing loans is currently at Rs 1.5 lakh, which could be enhanced to at least Rs 4 lakh. Similarly, the deduction limit for interest payments on home loans should be enhanced from Rs 2 lakh





Photograph by Indiapicturebudget

a year to Rs 5 lakh. There should be some personal tax relief included in the budget, either in the form of reduced tax rates or revised tax slabs. The Section 80C deduction cap was last raised (to Rs 1.5 lakh per year) in 2014. It seems we are long overdue for another favourable revision given the pricing and the overall increase in the cost of housing as a result of increased inflationary pressures. These steps will encourage more homebuying which will lead to collection of more taxes through the indirect tax route in real estate and in ancillary industries resulting in much higher gains in terms of revenue for the government.

On a related note, the very definition of affordable housing also needs to be modified. We can no longer go by the standard definition of 60 square metres as affordable housing. In today's post-Covid world, it is difficult to live in 60 square metres or to buy homes in the price range defined by the government in most of the cities. This needs a relook to encourage first-time home buyers.

Prime Minister Narendra Modi has spoken several times about encouraging women to join or return to the workforce. In this context, we must push for increased ownership of property by women. The government must consider how it can incentivise home ownership by women by way of higher tax breaks or other suitable incentives.

Housing can be a leading indicator of economic growth as it has a multiplier effect on the economy as a whole. The government should promote overall housing across India, keeping in mind global uncertainties.

Wealth Creators

The China Plus One policy has augured well for India, as

several companies are looking to set up manufacturing hubs here. The government can capitalise on this further by ensuring that there are workers with the right skill sets available for companies looking to expand their manufacturing operations in India. There are three main areas the government should focus on:

Easing of labour laws: The government should ease the labour policy suitably, to be able to compete with China. This is an extremely important step, which if executed well, will augur well for the country and its manufacturing capacity going forward.

Incentivising domestic industry: For every major com-

The mid-income and affordable segments need a boost from the govt to promote ownership and this can be looked at in terms of direct tax breaks for homebuyers. People buying homes, especially in the affordable and mid segments should get incentivised

pany that comes to India to set up manufacturing units, an entire support ecosystem gets built around them. Domestic manufacturers must be incentivised with direct tax rebates so that they become the preferred partners of these multinationals as it increases private investments to create more jobs in the manufacturing sector, hence resulting in a virtuous multiplier effect.

Creating a pool of relevant skill sets: Today, we have several skilling programmes underway, however, these must be enhanced and expanded to create a larger and more efficient labour pool for the manufacturing sector. Most skilled workers end up in the construction or other allied sectors. Working in a factory requires a set of skills that is different, and we must urgently upskill our youth to be able to take up these jobs. **BW**

The author is Managing Director of Puravankara, a BSE-listed leading real estate developer headquartered in Bengaluru