

Real Estate April 2021 update

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Executive Overview

The Real Estate sector was in a very peculiar situation in the previous financial year. In light of the situation, which was created by COVID-19, the persisting liquidity crunch of sector had worsened and various restrictions imposed by the Indian Government to curb the pandemic had led to a temporary halt in ongoing real estate projects. This had a domino effect w.r.t. the large scale reverse migration of labourers and disruption in supply chain of materials

While one would assume the pandemic has bought about a standstill in buying of houses on the contrary with companies declaring "Work From Home" or a blended work from home situation, had led to homebuyers buying their own space or a bigger space. Demand for townships with a range of amenities has accelerated after COVID-19 emphasised the importance of having amenities within your project. This may include amenities ranging from a swimming pool to an office center.

Availing of cheap home Loans, lucrative payment plans, attractive prices coupled favorable government reforms the sector has seen an increase in home buying activity especially in places where buyers are able to avail taxation benefits.

Government policies introduced/ implemented during FY21 i.e. the Pandemic year

As part of the stimulus package aimed in improving the economy, the Government of India had introduced the Atmanirbhar Bharat Abhiyan package, which included measures towards improving the state of the affairs in the Real Estate sector as well. While some reforms were temporary in nature, and were to provide immediate aid to the sector, others were directed in uplifting the sector on a long-term basis.

- COVID-19 related disruption was to be treated as force majeure under Real Estate (Regulation and Development) Act provision and registration and project completion timelines would be extended by 6 months /9 months, depending on which part of the country the project is being constructed and if these were falling after March 25th, 2020.
- Introduction of Affordable Rental Housing Complex (ARCH) for migrant workers. The scheme will be implemented through two models:
 - Utilizing existing Government funded vacant houses to convert into ARHCs through Public Private Partnership or by Public Agencies.
 - Construction, Operation and Maintenance of ARHCs by Public/ Private Entities on their own vacant land.
- Extension of Credit Linked Housing Subsidy* scheme- The credit linked subsidy scheme for the middle-income group (annual Income between Rs 6 and 18 lakhs) is to be extended till March 31, 2021.
- The RBI had also announced certain relaxations towards the Real Estate sector where - NBFCs can extend commercial real estate loans by 1 year if projects delayed are due to reasons beyond the control of promoters without treating it as restructuring.
- An additional outlay of Rs 18,000 crore for the urban housing scheme (PMAY-U). The allocated amount is over and above the Budget Estimates for 2020-21 (Rs 8,000 crore) for the PMAY-U and will be through additional allocation and extrabudgetary resources.
- Increasing the differential between agreement value and circle rate from 10% to 20% (under section 43CA) till June 30th, 2021. However, it is only applicable for the primary sale of residential units of value up to Rs 2 crore.
- Extension in the deadline for the Emergency Credit Line Guarantee Scheme-- ECLGS 2.0 until March 31, 2021.

W.r.t. State governments undertaking measures to boost consumer sentiment in the Real Estate space, the Maharashtra government announced a reduction in the stamp duty on property purchases. The reduction came into effect August 2020 onwards and the state brought down the stamp duty on property registrations from 5% to 2% till December 31st, 2020. After this period, buyers will pay 3% as the stamp duty on property registrations starting from January 1, 2021 to March 31, 2021. This reduction is available to buyers only for a limited period only.

During that period, housing registrations saw a sharp uptick with the number in December 2020 and March 2021 setting new records as homebuyers rushed to avail the benefit of lower stamp duty payment.

Madhya Pradesh followed suit with a reduction of the cess on stamp duty charged for registration of property to 1% from 3% in urban areas.

The Karnataka state assembly passed a bill that supports government measure to reduce stamp duty from 5% to 3% for flats priced between Rs 21 lakh to RS 35 lakhs and from 5% to 2% for flats costing up to Rs 20 lakh. The bill proposes exemption from registration charges and lower stamp duty for industrial units set up in backward areas. Reduction in the rate of stamp duty effectively leads to lowering the cost of purchase for buyers.

Budgetary announcement

The FY22 budget too had made certain announcements towards the the Real Estate sector especially w.r.t. promoting the government’s affordable housing program.

- Increase in safe harbour limit from 10% to 20% for the specified primary sale of residential units.
- Proposals pertinent towards Affordable Housing: 1) Additional tax benefit pertaining to interest paid on affordable housing loans to the extent of Rs. 1.5 to be extended by another year to March 31, 2022; 2) Tax holiday on profits earned by the affordable housing developers is also proposed to be extended by another year to March 31, 2022.; 3) Tax exemption for notified Affordable Rental Housing Projects
- Dividend payments to REITs and INVITs is proposed to be exempted from TDS.
- Debt Financing of REITs by Foreign Portfolio Investors will be enabled by making suitable amendments in the relevant legislations.

Pricing

Chart 1: House Price Index (All India)

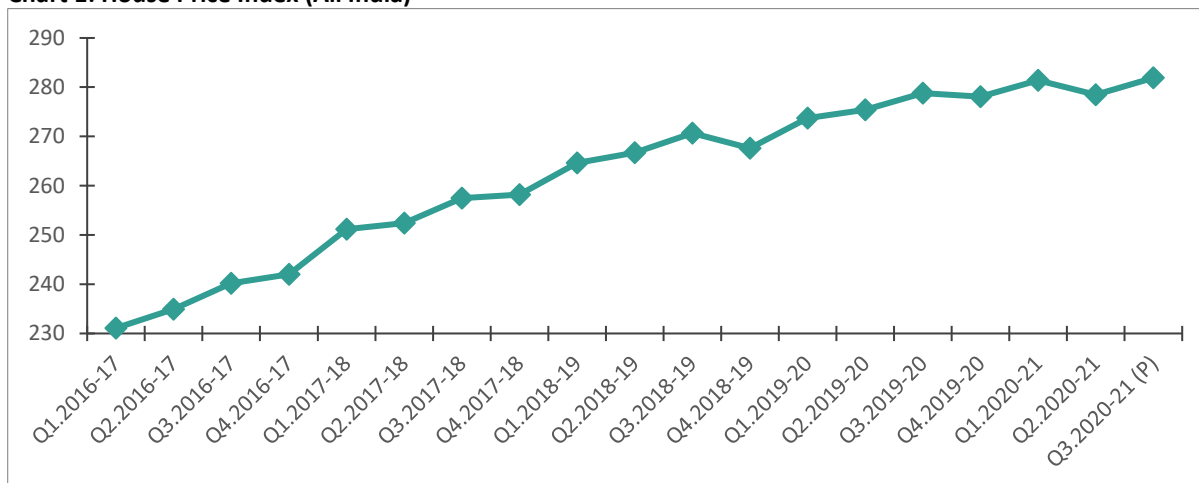
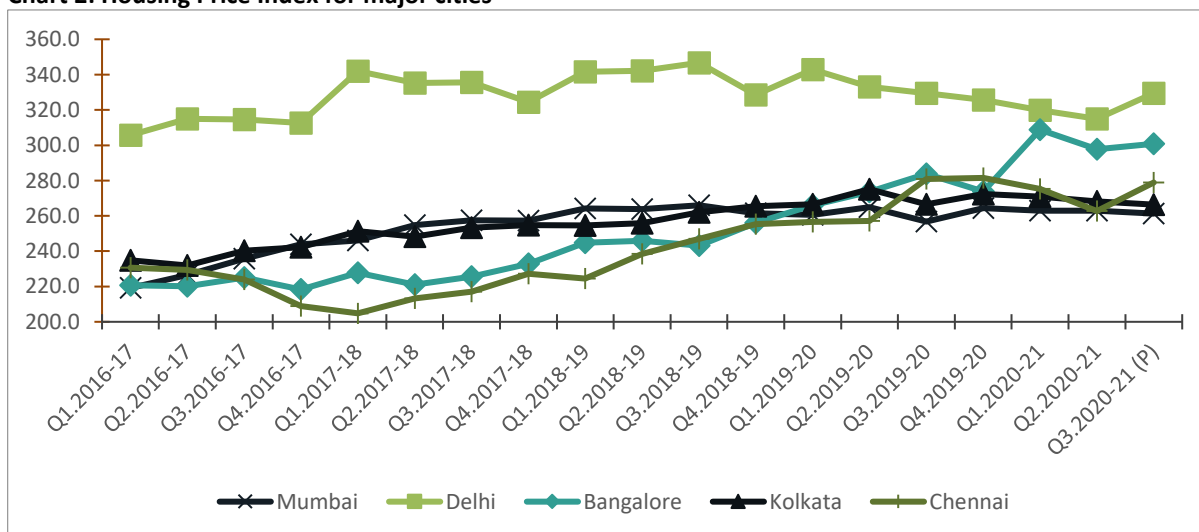


Chart 2: Housing Price Index for major cities



Source: RBI

Note: All India index is a weighted average of city indices, weights based on population proportion. Chennai index is based on both residential and commercial properties.

The All India housing price index recorded a quarterly growth of 1.2% in Q3FY21 and a 1.1% increase on a yearly basis on the back of resumption of economic activities due to ease in COVID-19 induced restrictions. Also, favourable measures brought out by the government supported this growth.

Similarly, house prices registered an increase of 6.1%, 4.6% and 1.1% in Chennai, Delhi and Bangalore respectively on a quarterly basis whereas in Mumbai and Kolkata house prices contracted by 0.6% each.

Further, on a yearly basis, house prices increased by 6% and 1.8% in Bangalore and Mumbai and declined by 0.7% in Chennai. Meanwhile, for Delhi and Kolkata, the house prices remained unchanged on a year-on-year basis in Q3FY21.

Update on Pradhan Mantri Awas Yojana – Urban (PMAY-U)

PMAY-U being implemented by Ministry of Housing and Urban Affairs (MoHUA) was launched on 25th June, 2015 to address the urban housing shortage among the EWS/LIG and MIG categories including the slum dwellers by ensuring a pucca house to all eligible urban households by the year 2022. The scheme has been bifurcated into 4 components:

1. ISSR (In-Situ Slum Development)
2. CLSS (Credit Linked Subsidiary Scheme)
3. AHP (Affordable Housing in Partnership)
4. BLC (Beneficiary-led Construction)

Table 1: Physical progress of Housing for All under PMAY-U as on 31st March, 2021

| Demand | Sanctioned | Grounded* | Completed* |
|--------|------------|-----------|------------|
| 112.2 | 112.5 | 80.2 | 48.0 |

Source: Ministry of Housing & Urban Affairs

Note: *included incomplete houses of earlier NURM

As on 31st March, 2021, 112.5 lakh houses were sanctioned under the PMAY-U out of which the highest number of units were sanctioned in Andhra Pradesh (20.3 lakhs units), followed by Uttar Pradesh (17.7 lakh units), Maharashtra (12.8 lakh units), Madhya Pradesh (8.4 lakh units) and Gujarat (7.7 lakh units) among other states. Also, 48.02 lakh units of houses were completed as of 31st March, 2021. The highest number of houses were completed in Uttar Pradesh (7.8 lakh units) followed by Gujarat (5.3 lakh units), Maharashtra (4.4 lakh units), Madhya Pradesh (4.3 lakh units) and Andhra Pradesh (4.2 lakh units) among other states. In addition to this, work had also started on 80.2 lakh house units.

Outlook for FY22

Residential Real Estate

Post the triple shocks of demonetization, GST and RERA, the Real estate sector has started seeing green shoots amidst the pandemic due to the availability of cheap housing loans, lucrative payment options, attractive prices coupled with favourable government reforms.

As the sector slowly trends on the path to recovery, it has to realign to face new realities and meet with buyers' new expectations. It is expected that new project launches may pick up pace in FY22 and developers are to focus on completion of projects that were delayed in FY21 due to COVID-19 induced restrictions. This is expected to have a positive impact on the demand for housing.

- Under residential units, the affordable housing and mid-price houses are expected to witness better demand and early recovery as against units with high-ticket size especially with continuation of credit linked subsidy scheme by Government.
- The finance minister has also announced the extension of the time limit to avail of benefits on purchase of affordable housing by one more year, to March 31, 2022.
- Tier-2 and tier-3 cities is to witness greater demand as the reverse migration, caused by the rise of the remote working culture has led to homebuyers purchasing houses in their hometowns now.

However, the recent spike in COVID-19 cases in the country and fears of second wave might hamper the recovery witnessed in the last 6 months. Even with the Maharashtra government, not extending the window of low stamp duty benefit could potentially affect homebuyer sentiment.

Commercial Real Estate

Commercial Real Estate is witnessing a structural shift as many companies are adopting the remote working culture and have found it cost effective to have employees working from home. In the case of mall leasing, malls too have been witnessing very limited footfalls with the resurgence of the virus and the outlook for the segment thus continues to remain negative especially with growing popularity of e-commerce.

For commercial units, the demand would continue to remain subdued during FY22 with emerging work from home and shared workspace culture.

- Office rentals is to be impacted with the emergence of “Blended Work from Home” culture.
- Malls footfalls seem to be performing well only during the festive season, which normally starts Q3 onwards.

On the contrary, despite the emergence of concepts of work from home and work near home, occupiers with healthy financial profile in grade A office spaces have continued to meet their existing leases and commitments on time which will not impact leasing agreements.

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