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Real estate: Foundation for a stronger future
BusinessLine

Highs and lows: Established players look to make gains from consolidation in the realty sector, but the optimism is not universally shared - Photo: PV SIVAKUMAR

October 10, 2017:
The first 100 days of the GST regime seem to be have brought happy auguries for the real estate sector, with consumers and investors alike aligning themselves with the new tax framework.

While residential real estate is still languishing on weak economic sentiments, investments in commercial and warehousing segments are witnessing a bit of traction, sectoral data show.

Rushabh Vora, Co-Founder and Director, SILA, said, “GST has reduced the cost of construction as developers are now able to use input tax credits for material and services, which was a challenge under the earlier indirect tax regime. In order to avail themselves of these input credits, developers have starting using organised vendors and suppliers, which will result in improved quality of construction and efficiency in delivering projects."

Jasmine Singh, Head, Industrial & Logistics Services, India, CBRE South Asia, said, "In anticipation of GST and its impact, the development of new warehousing spaces saw a decline in recent months. Under the GST regime, we expect warehousing developers to focus on consolidation and expansion of their hubs. This may lead supply of grade A warehousing and development of large logistics parks to be constrained in the short to medium term."

Impact on SMEs

Industry players to whom BusinessLine spoke said SME vendors were getting bogged down by the mechanics of uploading tax details.

Deep Kantawala, Head - ICS Real Estate Partners, says, "Businesses will have to cope with increased compliance and cost under GST. There is a lack of full awareness and preparedness, particularly on the part of SMEs."

Amit Goenka, MD & CEO, Nisus Finance says, "The benefits of GST will take time to percolate to the consumer. Larger firms have created systems to tackle regulatory changes, but there are adaptation challenges among SMEs. There will be inflationary pressure, inefficiency in cash management and allied costs, which will impose margin and liquidity pressure."

Real estate players are now also insisting that vendors and suppliers furnish invoices.

Surendra Hiranandani, Chairman & MD, House of Hiranandani said that GST is a "forward-looking tax reform" on the part of the government. "While the intent is to streamline the tax administration and bring more businesses into the tax net, it is unlikely that GST will have any impact on property prices," Hiranandani noted.

Where optimism fades

However, the sanguine outlook on the sector is not universally shared. In Chennai, in particular, the mood is somewhat despondent. "There is zero demand for real estate projects. There are barely any enquiries and no conversions," laments Sridhar Neelakandan, a Chennai builder.

While most builders feel that GST will help in the long term by enhancing transparency, the hiccups in the initial stages will take a while to get over.

Real estate comes under the 12 per cent tax slab mostly; however, construction in premium locations that have high guidance value like city centres, invite tax at 18 per cent. In the case of construction materials, the tax ranges between 5 per cent and 28 per cent. Also, ready-to-move-in projects that have completion certificates do not come under the GST ambit. Only projects that are under construction and are to be developed invite GST.

RERA complications

In addition to GST, the sector is coming to terms with the impact of the Real Estate Regulatory Authority's stipulations. The Tamil Nadu Real Estate Regulatory Authority came into force on June 22, barely a week ahead of GST, which added to the complexity. Neelakandan, General Manager, Ramaniyam Real Estate Private Limited, said, "Both of them were implemented almost the same time. It added to the confusion."

Arun Kumar, Founder and Managing Director, Casa Grande Private Limited, said it took time for the developers to get clarity on input tax credit on most of the raw materials under GST.

In addition, the Tamil Nadu government has levied additional 'shelter fees' for buildings constructed, which will be passed on to consumers.

Price hike inevitable

Arun Kumar said, "When you take all of these factors into account, the price will increase by 7-8 per cent, not including stamp duty and registration charges." Ajit Chordia, President of the Tamil Nadu chapter of the Confederation of Real Estate Developers Association of India, said, "The increase in prices will take effect with a lag of 9 to 12 months."

A Shankar, National Director of real estate consultancy Jones Lang LaSalle, agrees that under GST, costs have gone up for the sector. Under the VAT and service tax regime, the tax was 4.5-5.5 per cent in most States. This has gone up to 12 per cent under GST.

However, he feels that once the developers work out the benefits of input tax credits on raw materials, the net impact of the GST regime will be neutral for construction services.

Consumers cautious

With things yet to settle down, sales and new launches have taken a hit, say developers.

T Chitty Babu, Founder, Akshaya Homes, agrees there is not enough traction for ongoing projects and barely any new projects have been launched in the past year. But he feels that consumer sentiment is picking up.