



Recommendations for Reviving Real Estate

Honourable Finance Minister

August 11, 2019

1. Uniform Definition of Affordable Housing

Current Definitions of affordable housing are brought out in the table below-

Statute/Authority	Definition of 'Affordable Housing'
Section 80 IBA of IT Act	the built-up area of the residential unit comprised in the housing project does not exceed—(i) thirty square metres, where the project is located within the cities of Chennai, Delhi, Kolkata or Mumbai or within the distance, measured aerially, of twenty-five kilometres from the municipal limits of these cities; or (ii) sixty square metres, where the project is located in any other place.
GST Act	Affordable housing for the purpose of availing GST benefits comprises flats costing up to Rs 45 lakh and measuring 60 sq metre carpet area in metros (Delhi-NCR, Bengaluru, Chennai, Hyderabad, Mumbai-MMR and Kolkata) and 90 sq. metre carpet area in non-metros.
RBI: Priority Sector	Housing loan limits for eligibility under priority sector lending stands at Rs 35 lakh in metropolitan centres (house costing no more than Rs. 45 lakh) and Rs 25 lakh in other centres (house costing no more than Rs. 35 lakh). ...

Suggested Uniform Definition: Affordable housing comprises units either costing up to Rs. 45 lakhs or units with a carpet area as defined under RERA that does not exceed sixty square metres in the metros and 90 square meters elsewhere, as the case may be.

2. One Time Restructuring Scheme for Real Estate Projects

RBI circular on Prudential Framework for Stressed Assets (Ref. No. RBI/2018-19/203) dated June 7, 2019, top ups and Balance Transfers (BT) have been put in the restructured loans category requiring extra provisioning. Banks/NBFC have stopped lending.

Consequence: Healthy projects sliding into distress.

Hence, One Time Restructuring Scheme for loans to Real Estate Projects as follows.

- a. **Additional Moratorium:** An additional moratorium on principal repayment of between 1-2 years depending on the size of the project and stage of construction may be allowed. Repayment of loan should be modified to commence on project completion.

2. One Time Restructuring Scheme for Real Estate Projects (Contd.)

- b. Release of Security:** Proportional security and collateral security may be released on repayment of loan.
- c. Special Restructuring in Interest Rate:** Allow developers servicing interest on monthly basis at interest rate of Home Loans charged by the Bank and the difference being accumulated into a Working Capital Term Loan to be repaid as bullet at end of loan.
- d. Additional Working Capital as Top Up:** Provision of additional finance (Top up) to meet balance cost of construction without any provisioning may be allowed.
- e. Balance Transfers:** BT should be allowed amongst banks and NBFCs without provisioning. Further, all banks be allowed to take over and restructure developer loans with “land value margin component” in the loan amount.

3. Liquidity

a. NHB circular No. 96/2019-20 dated July 19, 2019 to be revised

Above circular prohibits housing loan products involving servicing of the loan dues by builders/ developers on behalf of borrowers (subvention). A significant percentage of under construction residential apartments were getting sold under subvention scheme. The circular may either be withdrawn or revised to allow HFCs and banks subvention-based funding linked to construction milestones.

b. Banks exposure to Real Estate be mandated at 10%

In view of the national mission of 'Housing for All by 2022', and the real estate share of GDP of around 7%, Banks should be mandated by RBI to extend at least 10% of their total loans sanctioned to real estate including housing loans.

3. Liquidity (Contd.)

c. ECB directly to Developers

RBI has restriction on funding via ECB for real estate activities which may be lifted subject to ECB being hedged against currency risk.

d. Institutional Finance for Purchase of Land to Real Estate Projects

Land accounts for 30 to 70 % of the total cost of real estate project. Besides, there are charges like TDR, premium & fungible FSI, fees /charges / deposits etc. After RERA, utilization of funds for completion of projects is fully ensured.

- Hence, allow land funding.
- Fix Debt Equity ratio of real estate projects at 75:25.
- Banks have stopped BT of old loans with any element of land funding. Allow disbursements in these cases.

4. Demand Creation

Demand Side of the Real Estate Industry has been severely impacted. Until and unless, the Demand is improved and Sales are given a push, the Mission of “Housing for All” by 2022 will be very difficult to achieve.

- a. Housing Loan up to Rs. 1 crore may be counted towards Priority Sector.
- b. World over Housing loans are available at very subsidized interest rate of 3% - 4% to customers. Direct Subsidy of minimum 5% in the Interest rates to buyers for the purchase of first house of the family (Husband, Wife and minor children). Alternatively, Home Loans could be provided to home buyers at a subsidised rate of 5%.
- c. Interest paid on the Home Loans, u/s 24 b, be fully exempted from the taxable income for the purchase of the first house of the family (Husband, Wife and minor children) and should not be limited to Rs. 2,00,000/- (and additional deduction of Rs. 1,50,000/- with conditions) available for deduction from their income as at present.

4. Demand Creation (Contd.)

- d. W.e.f. FY 2019-20, the amount of deduction available on the interest paid on the housing loan for two self-occupied houses has been restricted to Rs. 2 lakh. To give a great fillip to rental housing, entire interest of the second home, in cases where work of place of the individual is different than his permanent home address, allowed as a deduction, without any limits. Further, it be clarified that one such house may not be self-occupied..
- e. Section 43 CA of Income Tax Act inhibits sale of real estate below guideline/circle rate values. It is a barrier to natural price correction and the stalled project has a cascading effect on home buyers, banks and other stakeholders. this section should be done away with or at least, it should not be applicable on first sale properties valued at least up to Rs. 1 crore.

5. RERA to be made development-friendly through amendments

RERA should be amended to ensure timely completion of projects.

- a. Since purpose of RERA is completion of the project, refund to allottees for ongoing projects under Section 18(1) may not be permissible in case of ongoing projects as it jeopardizes the project. Further, if a project has been completed, refunds should be linked to the proceeds from resale of the unit surrendered or declined by the respective consumer.
- b. Under Section 4(2)(I) (D) of RERA 70% of the receipts from the project should be allowed to be used for construction, land, interest and project related expenses as against only cost of construction and land cost being permissible at present.
- c. Approving authorities may be brought under the ambit of RERA to minimize delays. Further, 'deemed approvals' in case of commencement certificate, completion certificate to be accepted as for purpose of fulfilment of Developer's obligations under RERA.

Thanks.

