

Ref. No. MCHI/PRES/19-20/323

April 28, 2020

To,

Smt. Nirmala Sitharaman

Hon. Finance Minister

Ministry of Finance

North Block, Central Secretariat,

New Delhi - 110 001

Subject :- Suggestions for revival of the real estate industry.

Respected Ma'am

We understand that the lock down is in place to slow the progression of the disease, NOT to eradicate it by 3rd May, 2020. We understand that till vaccine is found or protocol to cure infected person is established, the COVID-19 will not allow us to be back to normal. Social distancing etc will be norm for at least one year. This will lead to all industries to suffer, but main to sufferer are Aviation, Tourism, Hospitality and Real Estate. This means Real Estate Sector which was already in trouble, is going to suffer more for long period even post lock down.

The first priority of the government is to put money in the hands of people to survive. However this cannot be sustained on long term. So economy will have to be pushed and lifted up from the sudden closure. The stimulus packages from governments and actions by Central Bank across the world, is just to stop economy from collapsing further and preventing it from slipping into coma.

For India, the task is more daunting, with limited resources, and large population to support. If large stimulus package is brought, the resultant rising Debt to GDP, can hurt a lot, but if India do not give fiscal support, then economic activity will collapse so much that our Debt to GDP would be even worse. Other solution is to ensure that employment and Jobs remains protected.

We strongly believe **IT IS TIME TO FOCUS ON EMPLOYMENT AND TO ENSURE PROTECTION OF JOBS**. Earlier priority of the country has been to achieve fiscal discipline, but with this pandemic, the focus has to be on survival and protecting employment and jobs.

It is important that any organization continues its operation so that jobs are not lost. As on date, if any company is wound up or liquidated, then loss of jobs cannot be compensated by other company or organization or by other sector of economy. Hence all viable business has to be supported and given a chance to revive and protect jobs of all persons connected with it. Also it is not time to allow business to be wound up or liquidated, to ensure recovery of money invested, but need of the hour is to ensure that business are supported and jobs are secured and then money invested are recovered.

Real Estate Sector is employing the largest number of employees, both in organized and unorganized sector and it is important that these jobs not only remain protected, but at the earliest, it starts creating further employment. **Hence Real Estate Sector needs to be looked at from the point of providing jobs of crores of employees and also which can create further jobs in the shortest time, to support economic revival.**

The sector in last few years has been on the receiving end due to lower economic growth, shortage of liquidity, high interest rates and increased cost. Current COVID-19 pandemic has worsened the situation and the sector is worst affected sector. Various factors have reduced purchasing power of flat purchasers and fears in mind of flat purchasers due to economic scenarios has resulted in postponement of purchase of flats. Measures need to be taken to propel demand, flat purchasers, including NRIs, need to be motivated and incentivized for the purchase. Innovative loan and payment mechanisms to be developed to meet customers cash flow needs. Along with this cost of developing house has to be reduced to meet customers expectation by reducing charges towards approvals and premiums. Also on Regulatory compliance necessary support/ relaxation to be provided to overcome this once in a lifetime economic and pandemic catastrophe.

Madam. We as representative body of the Real Estate Sector, would like to support the Government in its effort to protect the employment, both in organized and unorganized sector, and also support revival of economy post this pandemic.

Also it is important to note, that Real Estate has more than Rupees four lakhs crores of inventory, which in turn has locked up capital and funds of banks and financial institutions. This inventory, if supported by Non Fiscal support, can unlock huge funds for the economy to kick start and take a giant leap.

CREDAI - MCHI on behest of its more than 1,800 real estate developer - members humbly requests for providing following Non Fiscal and Fiscal Support to the Real Estate Sector, to enable us to play effective role in the government's initiative to protect employment, increase the employment and also to reach five trillion dollar economy. Suggestions listed below are submitted in detail in Annexure appended to this appeal letter.

A) Non-Fiscal Support:

- 1) One time Restructuring of the loans and lendings to Real Estate Sector
- 2) To suspend operation of IBC for one year against Companies, Limited Liability Partnerships and Partnership Firms in Real Estate
- 3) For purchase of property till 31st March 2022 – purchase cost and interest thereon be allowed as a deduction under the Income Tax Act
- 4) Suspend linking of Ready Reckoner rate under Income Tax Act for sale or purchase of an apartment till 31st December 2021
- 5) RBI to adopt the definition for Affordable Housing as defined in Income Tax Act
- 6) Banks to fund complete cost of acquisition of an apartment including stamp duty, GST, other taxes and charges

B) Fiscal Support:

- 1) To provide vital liquidity to the sector by increasing sanctioned limit of term loan, overdraft facility and working capital limits up to 25%
- 2) To allow sale of apartments under subvention scheme where Pre-EMI interest on home loan is borne by Developer
- 3) At the option of Developer, to restore, input tax credit for Residential Housing Project with GST at 8%
- 4) For determining Affordable House for metro cities price cap of Rupees 45 lakhs to be removed
- 5) Provide housing finance loans at interest rate of 6% p.a. and lower EMI burden in initial period.
- 6) Abolish cap of Rs. 2 lakh while allowing set-off of losses under the head House Property
- 7) Encourage Rental Housing as an industry by providing long term financing at 6% interest and income tax holidays for 10 years.

- 8) Direct Bank and Financial institution that 70% escrow money only to be utilized for project completion expenses and loan servicing only from 30% non-escrow account. Existing facility to be restructured accordingly.
- 9) Grant additional flexibility to banks to allow conversion of loan into equity and charge step-up rate on interest considering project life cycle.
- 10) Increase fund corpus of Government sponsored SWAMIH Fund (managed by SBI Caps), widen its scope by including apartments having value of more than Rs. 2 crores for projects in Metro Cities.
- 11) Lower Income tax rate of 22% applicable to Domestic Corporate entities to be extended to Limited Liability Partnership (LLP) and Partnership Firms in Real Estate Sector.
- 12) Dividend Distribution Tax charged in the hand of recipient to be taxes at 15% plus applicable surcharge and cess.
- 13) In case of Amalgamation, Merger, Demerger or reconstruction of Companies/ LLP, NCLT Order, Court Consent terms etc. maximum stamp duty applicable should be Rs. 10 lakh, to facilitate consolidation/ restructuring of Projects. Also on such Amalgamation, Merger, Demerger or reconstruction No Capital Gain should be levied.
- 14) Grant rebates to Commercial assets owners i.e. offices, malls, multiplex, hotel etc. (similar to Singapore)

We request that both NON FISCAL and FISCAL SUPPORT measures should be implemented immediately to revive the animal spirit of the Indian Economy which will generate much higher revenue for the Government.

Thanking you,

Yours faithfully,

For CREDAI-MCHI



Vyomesh Shah (Vimal)
Past President



Nayan A. Shah
President



Bandish Ajmera
Hon. Secretary

ANNEXURE

These measures will also ensure that amount of money invested by Banks and Financial Institutions in the Real Estate sector, which is estimated in Lakhs of Crore, is also realized at the earliest by facilitating revival and growth in the Real Estate sector.

A) Non-Fiscal Support:

Following measures, will ensure that Employment in Real Estate Sector can survive this pandemic shock to economy, without stressing government resources at this juncture. These are concessions which can spur demand and will provide employment in the sector. Not only that, it will also act as catalyst for kick start of the economy.

1) One time Restructuring of the loans and lending to Real Estate Sector

One time Restructuring of the loans to Real Estate sector should be allowed. The restructuring should be allowed for standard, SM1, SM2 and NPA loans. The conditions on which such Restructuring should be allowed, is that project has to be viable. To make the onetime restructuring/rescheduling window given to banks and financial institutions for Real Estate Project more pragmatic so that the reasons of “adverse market conditions and resultant drop in demand” is also SPECIFICALLY permitted to be a reason for such restructuring. Currently the relaxation given is interpreted and implemented to the benefit of restructuring only extended to projects which date of completion (DCCO) is delayed due to reasons such as delay in approvals, natural calamity, act of God etc.

2) To suspend operation of IBC for one year against Companies, Limited Liability Partnerships and Partnership Firms in Real Estate

3) For purchase of property till 31st March 2022 – purchase cost and interest thereon be allowed as a deduction under the Income Tax Act

Any purchase of the property up to 31st March 2022, the purchase cost and interest thereon, should be allowed as a deduction under Income tax Act, over a period of seven years, provided the property acquired is self occupied or if it is not self occupied, then it is given on rent or leave and licence, for a period of not less than six months in each of the financial year. This will revive the demand, and unlock the entire capital and loans stuck in large built up of inventory in the Real Estate Sector, and boost economy growth.

4) Suspend linking of Ready Reckoner rate under Income Tax Act for sale or purchase of an apartment till 31st December 2021

5) RBI to adopt the definition for Affordable Housing as defined in Income Tax Act

6) Banks to fund complete cost of acquisition of an apartment including stamp duty, GST, other taxes and charges

B) Fiscal Support:

- 1) To provide vital liquidity to the sector by increasing sanctioned limit of term loan, overdraft facility and working capital limits up to 25%

The lock down has resulted in cascading impact wherein not only the Developer, but all other related stakeholders face the probability of Banks Loans going under default due to prolonged closure. Thus, the overall working capital cycle has been adversely impacted and hence, in order to sustain the business and the employment of the individuals as stated above during these unprecedented and testing times, the Financial Institutions and Banks shall be permitted to sanction working capital requirement of the businesses should be increased by 25%.

- 2) To allow sale of apartments under subvention scheme where Pre-EMI interest on home loan is borne by Developer

All loans sanctioned and disbursed between 01 June 2020 and 31 March 2021 should be allowed to be granted by banks/HFCs under subvention scheme.

- 3) At the option of Developer, to restore, input tax credit for Residential Housing Project with GST at 8%

At the current GST rate structure, the increased tax burden on the Developer and resultantly the cost pass-on to the Consumer is very high. It is pertinent to highlight that if the above measures relating to GST are not implemented, it would lead to a high dip in the expected GST collections from the real estate sector in FY 2020-21.

- 4) For determining Affordable House for metro cities price cap of Rupees 45 lakhs to be removed

Affordable house definition for metro cities where size of unit is up to 60 sq mt , the prices cap of Rs 45 lakhs should be removed for metro cities.

- 5) Provide housing finance loans at interest rate of 6% p.a. and lower EMI burden in initial period.

To provide housing finance @ 6% pa interest for all houses purchased on or before 31st March 2021. Further, to provide additional tenor for loan or lower EMI / pre EMI for initial 2 to 3 years for all the new housing loan takers so that affordability of the homes is protected even under the current sluggish economic and unemployment regime. After the completion of 3 years the EMI can be increased to recoup the shortfall in loan recovery in first 3 years. This will generate adequate gearing in the economy thru demand generation and also help accomplish Government's objective for home for all.

- 6) Abolish cap of Rs. 2 lakh while allowing set-off of losses under the head House Property

There is cap of Rs.2 Lacs on set-off of House Property loss (HP loss) against other heads of income in the same year. Until F.Y.2016-17, HP loss was allowed to be set-off without any upper limit or cap, against income arising under any other heads of Income during the same year. It is suggested to restore the earlier provision by removing this cap of Rs 2 Lacs on set-off of HP loss against other heads of income.

- 7) Encourage Rental Housing as an industry by providing long term financing at 6% interest and income tax holidays for 10 years.

To Encourage creation of Rental Housing as an Industry, all companies, which is in business of providing rental housing shall be provided with long term financing at the rate of 6% pa. To exempt rental income from taxes for next 10 years as it encourages Investors to buy units.

- 8) Direct Bank and Financial institution that 70% escrow money only to be utilized for project completion expenses and loan servicing only from 30% non-escrow account. Existing facility to be restructured accordingly.
- 9) Grant additional flexibility to banks to allow conversion of loan into equity and charge step-up rate on interest considering project life cycle.
- 10) Increase fund corpus of Government sponsored SWAMIH Fund (managed by SBI Caps), widen its scope by including apartments having value of more than Rs. 2 crores for projects in Metro Cities.

The scope of SWAMIH Fund shall be enhanced to cover all residential and commercial projects so that all customers can be benefitted by getting delivery of their homes and offices. Alternatively, a separate fund can be set up for targeting projects not covered by its scope. In Metro cities like Mumbai, lot of stuck projects have ticket sizes of more than Rs. 2 Cr. Further, the current IRR expectation of 15% per annum is too high in this crisis situation and the same should be reduced to 9% per annum. In addition, there needs to be additional Flexibility in terms of structuring investments to enable funding to partnership firms / proprietorship which at present is not available due to NCD structure.

- 11) Lower Income tax rate of 22% applicable to Domestic Corporate entities to be extended to Limited Liability Partnership (LLP) and Partnership Firms in Real Estate Sector.
- 12) Dividend Distribution Tax charged in the hand of recipient to be taxes at 15% plus applicable surcharge and cess.
- 13) In case of Amalgamation, Merger, Demerger or reconstruction of Companies/ LLP, NCLT Order, Court Consent terms etc. maximum stamp duty applicable should be Rs. 10 lakh, to facilitate consolidation/ restructuring of Projects. Also on such Amalgamation, Merger, Demerger or reconstruction No Capital Gain should be levied.
- 14) Grant rebates to Commercial assets owners i.e. offices, malls, multiplex, hotel etc. (similar to Singapore)