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December 28, 2018

To,
Shri Sanjay Kumar (I.A.S.)
Additional Chief Secretary
Housing Department
Government of Maharashtra
Mantralaya, Mumbai

लिपिक
अ.मु.स. (गृहनिर्माण) यांचे कार्यालय
28/12/18

Sub: Real Estate, the sleeping Giant - to be shaken up or left in deep slumber?

Respected Sir,

Importance of Real Estate

The Real Estate Sector contributes nearly 7.8% to the nation's GDP and provides employment to more than 30% of the country's workforce. By 2025, it is estimated that Real Estate shall contribute almost 13% of the country's GDP. As a sector, Real Estate has linkages with over 250 allied industries and lakhs of daily wage earners depend upon the sector for their livelihood and well-being.

Mumbai's Role in Nation Building

Mumbai, the commercial and entertainment center of India, contributes more than 5% of India's GDP and accounts for roughly about 25% of industrial output, 40% of maritime trade, and 70% of capital transactions to the national economy; Mumbai being not only the Commercial Capital but also the country's Maritime Capital with a 703 kms. of unhindered coastline.

With it's never say die attitude, the city has always been the barometer of the country's economic health, especially Real Estate. Globally, the changing dynamics of Mumbai's Real Estate has defined India's Real Estate Industry pulse. Traditionally whatever dynamic decision Mumbai / Maharashtra has taken for development of land, the whole country has followed!

The Crisis Surrounding Real Estate

As a humble submission to make, the industry today is going through a rough patch and some of the impediments, both revenue and non-revenue in nature are only making going tougher by the day. The specter of premiums coupled with the ever increasing Ready Reckoner Rates have resulted in a compounding effect leaving no further elasticity for developers to absorb prices with increased taxes. If such forced increases in costs, taxes & premiums by the State Government are not seriously looked into, it would only be detrimental to the industry's health and has the potential to result in catastrophic results with nothing available as affordable housing for millions of households. The various industry reports on huge inventory pile up are the harbinger of more difficult times to come. The ultimate loser is the aspiring house hunter.

The recent events in the financial markets, which started with ILFS defaulting on its Commercial Paper borrowing leading to Mutual Funds and Banks becoming cautious towards funding of NBFC's has only deepened the gloom that surrounds the sector. Over the last 12-18 months, due to the stress in the banking sector, banks had curtailed their exposure to the real estate and housing sector, whereby the only source of capital available to our industry was from NBFC's or Private Equity firms. This premise gets further strengthened by KPMG's report stating that till date USD 4 billion of FDI has been invested in the real estate sector this year and FDI investment is expected to increase to USD 1 trillion by 2030. It's also important to note that Indian banks can only fund a maximum of 5% of their balance sheet size to the real sector which also includes home loans. This is another key reason that the real estate and housing sector has no option but to rely on funding from NBFC's and Private Equity.

Estimated Capital Requirement to Fulfil "Housing For All"

The government's data on need for "Housing For All", published in 2016, stated that 6 crore urban homes were needed to meet the need of housing; even if we assume a conservative average home loan size of Rs.15 lacs per home, the total capital required for 6 crore homes is approximately Rs.9 lac crores.

As Real Estate Sector Crisis Hits the Zenith, Consumer Sentiments Hit the Nadir
Sir, it is important to mention that just at the time, post 6~8 quarters, when the real estate sector was just about showing initial signs of recovery, that it was hit by the NBFC crisis. This crisis has further pushed the sector into the doldrums from where, if some major corrective actions are not taken without any further delay, timely completion of under-construction projects and roll out of new ones would come to a standstill. Should the cascading effect of credit flow into the real estate sector is not resumed immediately, it is only a matter of time that while on one side many developers across the country will have to shut shop, the lakhs of daily wage earners that depend on this sector for livelihood, will not have an alternative. As customers confidence gets further dented, and their increased apprehension on the delivery credibility of even established names forcing them to keep away, for once, developers despite having physical assets backing them would be out of business for lack of liquidity / cash flows. The gravity of this crisis is much gloomier than it appears and this is really our "MAYDAY" calling!

CREDAI-MCHI's Prayer

Sir, we write to you today as we, as an industry, need your undivided support to bring us out of this vicious cycle or the current crisis may culminate in the shutting down of the industry. The industry today is in dire need of a comprehensive package to bail it out of this crisis, and we look forward unto you to kindly provide us with a path in order to achieve the following:

- 1) Until the liquidity situation eases, allowing a one-time restructuring of all developer loans as was allowed in 2008 during the Lehman Crisis including those that may have got classified as NPAs over the past one year;

- 2) To relook at the NPA recognition norm for NBFCs/HFCs and to make the same liberal by pushing recognition from 90 Days Past Due (DPD) to 180 DPD;
- 3) To allow PSU banks to take over and restructure even those developer loans that may have had a land component as part of the existing loan structure;
- 4) Immediate liquidity in the industry, either to the NBFC's or direction to banks to support real estate and housing funding by increasing their exposure norms, whereby the banks can re-start funding developers and home loans;
- 5) Allowing banks to fund land acquisitions; and
- 6) Urging Banks/ NBFC's to reduce the overnight increase in cost of borrowing effected by them.
- 7) Subsume Stamp Duty & Registration charges into GST to justify the objectives of "One Nation-One Tax"
- 8) Bring all Real Estate to an 8% GST slab with Input Tax Credit being made available

Sir, as in the past, we need your support at this break-point, as the industry finds itself caught in a tough cycle for none of its fault; and just because a company and a NBFC, which was an infrastructure company, has had financial issues, the ripple effect should not be allowed to bring an entire industry of NBFC's and Real Estate and Housing sector to a standstill. *This may well be our only chance!*

We sincerely request your immediate appointment to give our industry leaders a chance to present the pain and the case in person to you. We earnestly hope you would consider our request and thanking you in anticipation of a favorable response.

Yours sincerely,
For CREDAI-MCHI



Nayan A. Shah
President



Bandish Ajmera
Hon. Secretary



Sanjiv S. Chaudhary MRICS
CREDAI-MCHI Secretariat