Ref. No. MCHI/PRES/19-20/359 **May 25, 2020**

To,
Shri Shrikant Eknath Shinde
Member of Parliament
Constituency - Kalyan

Sub: Requisition to take up the issues with regard to the letter submitted by CREDAI National to Hon'ble Prime Minister on Survival of the Real Estate Sector

Respected Sir,

In this distressful situation arising out of the COVID-19 calamity, we in the Real Estate Sector seek immediate relief for our survival. We have done our best possible to mitigate the plight of the labour force (about 52 million employed in the sector) in terms of providing them food & shelter. We contribute substantially to the GDP & account for almost 11% of bank credit besides having backward & forward linkages with almost 250 industries including cement & steel etc. Our survival, therefore, is not just desirable, it is rather crucial for the economy. Liquidity crunch, stagnant demand and cartelization of the raw material are major impediments for the Real Estate Industry to kickstart. We, therefore, pray for immediate intervention on the following recommendations as below:

1. One Time Restructuring:

The RBI vide its announcements made on 27th March, 2020 and 22nd May 2020, has permitted a moratorium of three months each on payment of all instalments falling due between March 1, 2020 and August 31, 2020. While the said announcement regarding the moratorium may help the Real Estate industry survive in the short term, it may kindly be appreciated that the current situation is much worse than 2008 Global Financial Crisis (GFC) when RBI permitted a One-Time Restructuring (OTR) saving hundreds of industries and lakhs of jobs.

If a real estate project is cash flow positive as defined by Finance Ministry for the SWAMIH Fund a One-Time Restructuring (OTR) is in the interest of all, including the Lending Institutions, and the Apartment purchasers. Hence, a one-time restructuring scheme as was permitted by RBI in 2008 may be quickly instituted by all lending institutions**. Since real estate was already reeling under a cyclical downturn before COVID-19, such restructuring needs to be allowed for all accounts which were standard as on 31.12.2019.**

2. Additional Institutional Funding:

SBI vide Circular No. CCO/CPPD-ADV/192/2019 – 20 dated March 20, 2020 has also permitted additional credit of 10% of the existing fund based working capital limits for 12 months at 7.5% per annum rate of interest envisaged under the SBI Emergency Credit Line (CECL) to tide over the COVID-19 crisis.

Similarly, appropriate directions may be issued to all Banks and NBFCs including HFCs to institute a scheme to permit **additional credit equal to 20% of the existing real estate project related advances (whether by way or working capital or term loan or NCD's or any other instrument through banks/NBFC/HFC's or any financial institute) at the MCLR with no additional security, if need be by extending Government guarantees, without the classification of the project as NPA.**

3. **Waiver of Penal Interest:** In order that the pandemic is prevented from becoming a source of unjust enrichment for the lenders, it is requested that the penal interest charged by Banks and Financial Institutions are suspended for a period of one year or until such time as it takes for the pandemic to abate.

CREDAI-MCHI
Maker Bhavan II, 4th Floor, 18, V. Thackersey Marg, New Marine Lines, Mumbai - 400 020.
Tel: 42121421, Fax: 4212 1411/407 Email: secretariat@mchi.net Website: www.mchi.net

4. Policy Innovations for Triggering Demand/ Customer- centric Tax Treatment of Real Estate

For the survival of the Real Estate industry during these difficult times, it is absolutely critical that the stagnant demand for housing is revived and further boosted. The following benefits may be provided to home buyers to encourage investments in residential properties.

- **i.** Government should reduce the maximum rate of interest on new home loans to 5% by subsidizing interest component of EMIs for next five years.
- ii. Limit of Principal deduction on housing loan under Section 80C should be increased to 2.5 Lakhs.
- iii. Interest deduction under Section 24 on housing loan for homebuyers may be increased to Rs. 10 lakhs.
- iv. There should be no capital gains for residential properties held for a period of longer than 1 year
- v. To avert economic ruin due to collapse of housing market, it is imperative at this time that NHB and RBI withdraw circulars and direct resumption of subvention-based funding with only safeguards being the acceptable rating of the developers and the project.
- vi. The economic uncertainty and job insecurity at the moment would not allow purchase of residential property at this time. A scheme whereby a homebuyer would need to pay only margin money with no EMI for 24 months will address this insecurity. Hence, RBI may allow HFCs a 24 months subvention scheme to homebuyers from developers. This 24 months' subvention be adjusted by extending the loan tenure by 24 months with subvention amount recovered in the last 2 months.

5. Control on Cartelization of Raw Material for Construction

Even during these times, Cement and the Steel manufacturers are imposing a sudden increase in their selling price. Across various states, there has been an increase of Rs. 100-250 per bag of cement and about Rs. 2000-Rs. 2500 per metric tonne of steel. Such an abrupt increase in prices will be a bolt on the blue for the developers and will lead to increase in the construction costs and overall project cost. With wafer thin margins, many developers may be constrained to stop construction work, there by impacting the delivery of the projects, leading to penalties under RERA, other authorities and so on. Needless to say, this will have a cascading effect on the homebuyers also.

This abrupt increase in the prices is highly unethical and amounts to unfair and restrictive trade practices. Controlling this prise rise is highly essential for the construction to be started in full swing and to get the country's economy back on its growth path.

This issue of price rise of cement, steel, and other raw material may kindly be taken up on an urgent basis.

6. Applicability of GST and its Input Tax Credit (ITC) on Real Estate:

The current regime of GST provides a rate of @1% for Affordable Housing. The limit of Rs. 45 lakhs serves as a criterion of affordability for the purpose of GST. On all other housing, GST is applied at the rate of 5% without input tax credit. It has been felt that the criterion of Rs. 45 lakhs is too low an index of affordability anywhere across the country, and especially so in the metros.

Secondly, the flat rate of GST @5% for under construction residential housing is causing cost build up and is acting as a deterrent to the sale of under construction projects since there is no GST on completed units. It also needs no reiteration that the very principle of GST consists in availing input tax credit.

The revival of real estate in the present crisis crucially depends on setting right the skew in the GST regime by following:

- i. It will serve as an inducement to buyers in the metros if the benefit of GST at the rate of 1% is extended to units costing up to Rs. 75 lakhs.
- ii. The scheme of 5%/1% (for affordable housing) with no benefit of ITC may continue. However, an option of GST @12% for normal housing/ 8% for affordable housing (with 1/3rd deduction for land ie – effective GST rate of 8% for normal housing and effective GST rate of 5% for affordable housing) with ITC benefits in line with the scheme applicable for the works contracts for Government may be revived and made applicable to the Real Estate.

7. Quick operationalization of SWAMIH Fund:

Last year, Central Government had set up the AIF – SWAMIH Investment fund of Rs. 25,000 crores as a special window to expedite completion of stalled Affordable and Mid-Income Housing projects and infused Rs. 5000 crores. The fund has achieved its first closing at Rs. 10,500 Crores very quickly. However, actual disbursements from the project have been minimal.

The chief constraint in the operationalization of the fund is the rigidity in its mandate, wherein the existing lender (Banks/ NBFC's/HFC's/) is not being accommodated at all. Secondly, the AIF expects a return of about 12-15% on its investments in projects, which is very high given the fact that the projects in the ambit of the fund are "stalled". This high RoI leads to an increased in project cost, which eventually passes on to the already aggrieved homebuyer.

Given the current crisis at hand, it is only fair to ask that

a. The fund given by GOI is disbursed quickly to complete stuck projects.
b. Given the cuts in repo rates announced by RBI to 4%, the fund should be given within an expected RoI of 8-9%.

The guidelines of the SWAMIH fund may be amended to accommodate the above two impediments in its operationalization.

We shall be grateful for your much-needed intervention for the above-mentioned measures required to revive the Real Estate Sector.

Yours Sincerely,
For CREDAI-MCHI

Nayan A. Shah	**Bandish Ajmera**
President	Hon. Secretary