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BUDGET2016

A push for realty in the Budget?

The Union Budget will be tabled in the Parliament on February 29. This year too the real estate sector has a wishlist. Here's what the sector will be looking forward to in this Budget

R RAJGOPAL

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One of the most awaited events every year is the Union Budget. It throws light on the initiatives of the government and the weightage it is according to various schemes aimed at promoting growth in the economy. The Union Budget for the year 2016-17 will be tabled on February 29 in the Parliament.

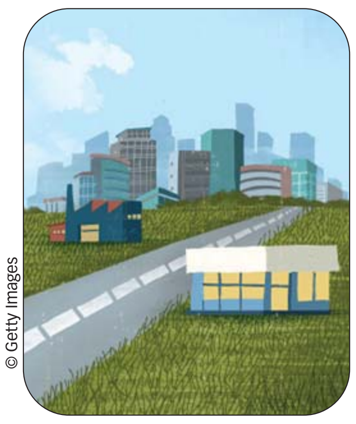
All sectors have high expectations from the Budget. The realty sector is looking for a push from the government to boost the growth numbers. Moreover, given the linkage realty has with other sectors - be it manufacturing or service - it is important that some positive steps are taken to put the sector on a higher growth trajectory. This year too there is a long wishlist of the realty sector.

Some of the expectations:

DEVELOPER-FRIENDLY BUDGET

Builders are expecting a developer-friendly budget. The realty sector has a strong linkage with many other sectors - both manufacturing (such as cement, steel etc) as well as with the service sector. As such, growth in this sector will push the other industries and sectors up too, leading to an overall improvement in the economic growth rate.

The sector is expecting more investor-friendly policies oriented towards the long term. The developers expect the government to come up with tax incentives for the infrastructure sector, including investment-friendly measures for public-private partnership (PPP) ventures.



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EASIER ACCESS TO FUNDS

Easier and cheaper funding options has been a major demand of the realty sector. The sector expects new schemes that will help a real estate developer access funds at a lower rate of interest easily. The interest cost forms a major part of the total cost of construction for a builder.

MORE SOPS TO PROMOTE REITS

Another expectation is measures to promote the setting up of Real Estate Investment Trusts (REITs). REITs have already been brought in. However, the concept is yet to pick up. It is expected that the Budget will bring in some more tax incentives and simplify the procedures further to help in the setting up of REITs.

GREATER FOCUS ON BUDGET HOUSING

Another expectation is an increased focus and budgetary allocations to affordable housing so as to meet the objective of 'Housing for all'. This means a push for rural and low-cost housing too.

SINGLE WINDOW FOR CLEARANCE

A major demand has been for a single window for clearances, and quicker statutory approvals. Steps need to be initiated by the government to ensure that approvals are granted quickly and without unnecessary delays so that projects can be completed on time.

STRONGER PUSH FOR SMART CITIES

The project of smart cities has already been initiated and the first list of qualifiers declared. These are supposed to be alternatives to the existing metros. A greater focus on the development of smart cities will be another welcome step. This will reduce the pressure on existing cities and improve the quality of life of people. It requires increased funding and the creation of infrastructure, for which more steps will need to be taken.

INDUSTRY STATUS

Another major demand is the grant of industry status to the sector. This will facilitate the greater development of the sector, and open up new avenues for funding too.

FAST FACT

EASIER ACCESS TO FINANCE AT LOWER COSTS IS A DEMAND OF BOTH DEVELOPERS AND HOMEBUYERS. BOTH ARE LOOKING FOR INITIATIVES THAT MAKE BUYING A HOME EASIER IN THIS BUDGET

BUDGET2016

BUYERS TOO HAVE A WISHLIST

Prospective homebuyers will be looking for provisions in the Budget that will make housing more accessible and affordable

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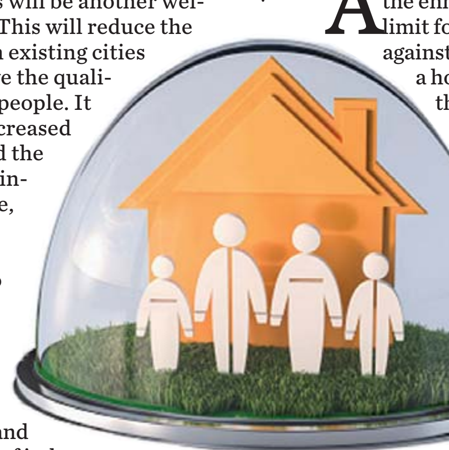
A long-pending demand is the enhancement of the limit for deduction against interest paid on a housing loan. Also, there is a case for enhancement of limit for deduction under Section 80C against the principal amount repaid, or for the creation a separate section for it.



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Clubbing it under Section 80 C is not of much use as other savings instruments tend to exhaust the limit.

More initiatives towards the creation of affordable housing as part of 'Housing for all' is another expectation. The government needs to take steps to ensure low-cost funds for buyers as well so that more can purchase a house.

Another major demand is for a reduction in stamp duty on property transactions. This will help in more disclosures and increase the revenue for the government too. When the stamp duty on registration and transfer of property is reduced, the incentive to under-value property by the parties will no longer be significant.

These measures will help many more acquire a home. Easier finance effectively brings down the cost of property. With the rapid urbanisation and growing demand for homes, more friendly measures are the need of the hour.

BUDGET2016

'Hike in deduction limit against home loan will help homebuyers...'

The Union Budget is around the corner. Prospective homebuyers and property investors will be tracking the developments to evaluate the market conditions in the light of changes expected. **Neeti Trivedi**, a chartered accountant and financial planner, throws light on some significant issues before property buyers

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What are you expecting for prospective property buyers in this Budget?

Every industry has high expectations from the Union Budget and the realty industry is no different. The industry is looking for sops that can help revive buyer sentiment.

From the buyers' perspective, there are a few things, which can be beneficial. Increase in the limit of interest deduction will definitely rate high for a homebuyer. Considering the average property price in any metro or tier I/II cities, the current limit of Rs 2 lakhs seems largely inadequate.

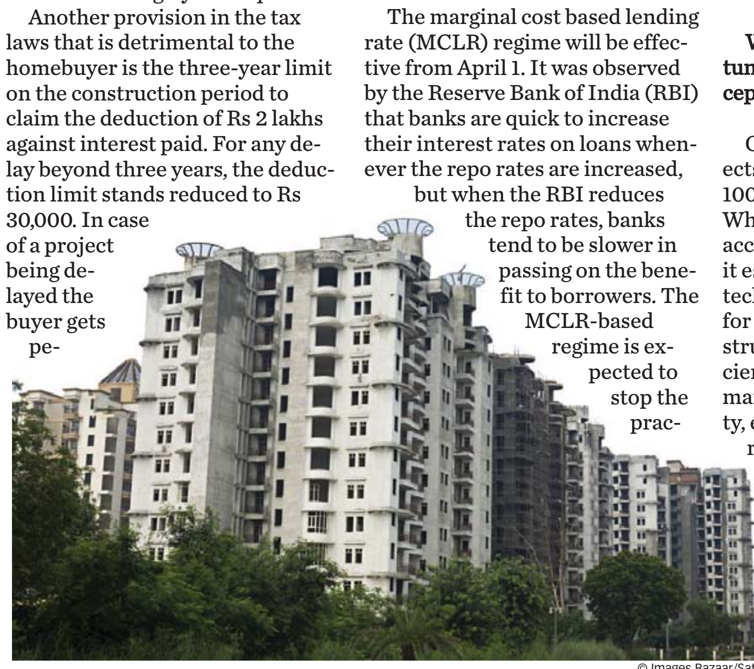
Another provision in the tax laws that is detrimental to the homebuyer is the three-year limit on the construction period to claim the deduction of Rs 2 lakhs against interest paid. For any delay beyond three years, the deduction limit stands reduced to Rs 30,000. In case of a project being delayed the buyer gets penalised for the delay. Allowing the deduction from the year of borrowing and not after receiving possession will help ease the burden on the buyer.

In the MCLR-based regime, do you see interest rates coming down in the near future?

The marginal cost based lending rate (MCLR) regime will be effective from April 1. It was observed by the Reserve Bank of India (RBI) that banks are quick to increase their interest rates on loans whenever the repo rates are increased, but when the RBI reduces the repo rates, banks tend to be slower in passing on the benefit to borrowers. The MCLR-based regime is expected to stop the practice of banks holding on to high interest rates despite a reduction in rates by the RBI. The detailed methodology for arriving at this rate is prescribed by the RBI.

The idea here is that floating lending rates should become more sensitive to changes in the policy rates. Initially, MCLR will have to be published by banks on a quarterly basis, and eventually on a monthly basis. This will mean the interest rates can get reset as often as monthly depending on the reset clause in the loan agreement. Of course, a bank can decide on the periodicity of resets provided two reset dates are not longer than one year.

So yes, it could mean lower interest rates for home loan borrowers.



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What sort of investment opportunities will the smart city concept open up?

One of the most ambitious projects of the government is to build 100 smart cities across India. While there isn't any universally accepted definition of a smart city, it essentially indicates the use of technology to make life simpler for its residents. Robust infrastructure, affordable housing, efficient water, waste and energy management systems, public safety, e-governance and a clean environment are some of the facets of a smart city. Smart cities hope to reduce the burden on the metros and Tier I cities.

Not only will they open up career opportunities, they may also prove to be a good investment destination in the real estate space, both commercial and residential. However, all plans take time to implement. Hence, one would have to be invested long enough to be able to reap the benefits.

Is the REIT an emerging avenue for investors?

The Real Estate Investment Trust (REIT) can prove to be a great investment option for retail investors who do not have the big bucks to get a pie of real estate in their portfolio. It can provide diversification to the investment portfolio beyond equity, debt and gold asset classes.

REITs pool money from investors and provide units in exchange, much like mutual funds. The investments will be made in commercial assets, which can provide regular rental income. REITs are required to be listed on stock exchanges where they can be traded. Hence, there are two kinds of returns that can be expected from REITs - dividend income and capital gains from sale of units.

Considering the fact that rental yields may not always be very high, the returns from REITs should not be equated with capital appreciation that can happen on a property over a short period of time. It will augur well for someone who is looking for consistent income without much risk. Whether it should be held for a long term or not will depend on the investor's profile, tax aspects and purpose of investment.

What are the basics of planning a property purchase for first-time buyers?

Buying a house is not just a financial decision but also an emotional one, especially if it is the first house. Often, rather than evaluating the practicality of owning a dwelling of their own, people get swayed by social pressures and emotional needs. There are a few basics to be kept in mind before one takes this big decision.

Can one afford the down payment and EMIs involved? The EMIs (on all loans) should not exceed 30-35 percent of the take-home income. Liquidating retirement savings such as provident fund for the down payment on a property is not a good idea. One must plan and save for the down payment.

Are the earnings stable? Since a home loan is a long-term commitment, there should be reasonable amount of certainty of future income before one decides to avail a home loan.

Check the credit rating and credit score. This will play a big role in whether a person is considered eligible for a loan and also at what rate it comes.

Do not ignore the peripheral expenses such as registration cost, maintenance expenses and costs on interiors. These could be one-time costs or may continue in future too.

TAX SOPS ON A HOME LOAN

SECTION 80C

The home loan principal amount repaid during a year can be claimed as a deduction under Section 80C to the extent of Rs 1.50 lakhs. Stamp duty and registration fee paid on the property are also eligible for deduction within this limit.

SECTION 24

A deduction of up to a maximum of Rs 2 lakhs can be claimed by a homebuyer against interest paid on a home loan during a financial year. This deduction cannot be claimed during the construction period. It can be claimed from the financial year in which the possession of the property is acquired.

Interest paid on a loan during the construction period can be claimed in five equal instalments starting from the financial year in which the possession is acquired. This is subject to the overall limit of Rs 2 lakhs during a financial year. It is to be noted that the limit of Rs 2 lakhs is applicable only in case of a self-occupied property. In case the property purchased is rented out, there is no limit on deduction against interest paid.

The entire interest paid during a financial year can be claimed as a deduction under this section in that case.

In order to avail this deduction, there is a condition that the construction of the property should be completed within three years from the end of the financial year in which the loan was taken. If this condition is not met, the deduction against interest paid is capped at Rs 30,000.

If the home loan has been taken for the purpose of reconstruction or repairs, only Rs 30,000 is allowed as a deduction against interest paid.

CALCULATING EQUATED MONTHLY INSTALLMENT (EMI)

In housing finance, equated monthly installment (EMI) refers to the monthly payment towards interest and principal made by a borrower to a lender. EMI is calculated using a formula that considers loan amount, interest rate, and loan period as variables.

The formula for calculating EMI:

$$\textbf{EMI} = (L \times I) \times \frac{(1+I)^{\wedge}N}{[(1+I)^{\wedge}N]-1}$$

Where
L = loan amount
I = interest rate (rate per annum divided by 12)
^ = to the power of
N = loan period in months

Assuming a loan of Rs 1 lakh at 11 percent per annum, repayable in 15 years, the EMI calculation using the formula will be:

$$\textbf{EMI} = (100000\text{x } 0.00916) \times \frac{((1+0.00916)^{\wedge}180\,)}{[(1+.00916)^{\wedge}180]-1}$$

$$= \frac{916 \times 5.161846}{4.161846}$$

Therefore, **EMI = Rs 1,136**