



## Big Picture- Reviving Real Estate

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<https://youtu.be/audtcMUe2YI>

A recent study, conducted by **National Real Estate Development Council** and **FICCI**, states that the outlook for the country's real estate sector till Sept 2019, is at the same level as it was in 2014, which is quite bleak.

Recently, the Finance Minister had indicated that the next round of reforms are likely to be focussed on the real estate sector. The Government is working closely with the [Reserve Bank of India](#) to address the issues faced by the real estate sector.

### Where the Root Problem Lies?

As of 30<sup>th</sup> June, 2019, 421 real estate developers are under the [corporate insolvency resolution process](#). The root cause of the problem lies in the liquidity crunch faced by the real estate developers.

- **Diversion of Funds:** The problem begins with the **diversion of funds** by developers to other

projects. The developers get the required funds from the buyers at the time of booking which they use as the collateral to secure a loan from the banks, which means they have the required resources.

- The problem lies in the deployment of funds. The developers build new projects without bothering to complete their previous ones. Over the period of time they got caught in a vicious cycle creating shortage of adequate cash.
- **Affordable Housing:** Real estate sector is mainly concentrated in luxury housing while need is of affordable housing. The target customer is mainly upper middle class which leaves a very small customer base for developers and makes these projects unaffordable for other sections of the population. This causes **huge stock of unsold inventories**.
- **Social Infrastructure:** Housing projects are being developed without proper linkage to social infrastructure i.e. schools, hospitals, market place or adequate connectivity to metro rail, bus stand etc.
- **Ghost Occupancy:** On one hand there is huge stock inventories (flats) and on other side the sold inventories face the problem of occupancy. Investments in real estate are being made with the expectation of good future returns which lead to the problem of unoccupied houses (ghost occupancy).

## Other Key Challenges Faced by Real States Sector

- **Land Rates:** High land prices in metro cities makes affordable housing projects unviable.
- **Goods and Service Tax (GST):** For under-construction projects, the GST rate has been reduced from 12% to 5%, but still it is quite high considering the quantum of money to be paid.
- **Drop in Property Prices:** Post demonetization and implementation of **RERA Act 2016**, there has been a sharp decline in the property prices across the country.
  - **RERA Act 2016** has increased **transparency** by preventing diversion of funds, curbing the infusion of black money in the real estate sector, which contributed to the drop in the prices.
- **Implementation Issues:** Implementation of existing provisions in a fair and transparent manner is a big issue in real estate sector.
  - **For example:** There is a provision of **economic weaker section (EWS)** building in every housing project. But, generally these buildings do not go to EWS people and are occupied by working professionals and others.

## Ripple Effect of Downturn in Real Estate Sector

- **Unstable Economy:** Real estate is the second largest contributor to the GDP, therefore, crisis in this sector will lead to destabilization of the economy.
  - Demands in steel and cement industry is closely linked to real estate sector. Therefore, crippling real estate sector is also affecting other important segments of the economy.
- **Job Crisis:** The **Periodic Labour Force Survey (PLFS)** of the National Sample Survey Office (NSSO) showed that the overall unemployment rate in the country in financial year 2018 was at 6.1%.
  - Since, real estate sector is the **second largest** contributor to labour force and employment, down-turn in this sector is aggravating the job crisis in the country.

## Drishti Input

### Real Estate (Regulation and Development) Act, 2016

- RERA Act 2016 is a step towards reforming the real estate sector in India, encouraging greater transparency, citizen centricity, accountability and financial discipline.

- It had been made **mandatory** for each state and union territory, to form its own regulator and frame the rules to govern the functioning of the regulator.
- Real estate projects mandatorily need to be registered with State Real Estate Regulatory Authority.
  - Promoters cannot book or offer these projects for sale without registering them.
  - Real Estate Agents dealing in these projects also need to be registered with Real Estate Regulatory Authorities.
- The act makes it **mandatory** for developer to deposit **70%** of the collected amount from buyers in an escrow bank account for construction of that project only.
- The act also provides for fast track dispute resolution mechanism through Real Estate Regulatory Authority and Appellate Tribunals across the country.

### National Real Estate Development Council

- National Real Estate Development Council (NAREDCO) was established as an **autonomous self-regulatory body** in 1998 under the aegis of **Ministry of Housing and Urban Affairs**.
- It was formed with the mandate to induce transparency and ethics in real estate business and transform the unorganized Indian real estate sector into a matured and globally competitive business sector.

### Steps Taken by Government

- **Fund:** An [Alternative Investment Fund \(AIF\)](#) of ₹25,000 crore has been approved by cabinet to revive stalled affordable and middle-income housing projects across the country.
- **Relaxation of Extra Commercial Borrowing (ECB) Guidelines:** ECB guidelines will be relaxed to facilitate financing of housing sector who are eligible under **Pradhan Mantri Awas Yojana (PMAY)** in consultation with RBI.
- **Housing Building Advance:** To encourage government servants to buy new houses, the interest rates on **House Building Advance** will be lowered and linked with 10-year government-security yields.
- **GST Rate Cut:** The government has reduced GST rates to marginal 1% for affordable housing project and 5% for under-construction houses.
  - Lower tax burden on home buyers is expected to push demand in the segment which, in turn, will keep developers committed to build more affordable homes.

### Way Forward

- The government must not look to penalise the developers but optimize the opportunity so that stalled project can be completed and buyers could get their dream houses.
- It should ensure that **funding from AIF** goes to genuine developers who are willing to complete the stalled project and handover the inventories to buyers in given time frame.
- The government should focus on framework to assess the requirement of housing at local levels and then allowing the requisite amount to be developed i.e **need based planning** at local level.
- **Infrastructure status** to housing segment may lead to flow of funds at cheaper rate and can significantly help in tackling liquidity crunch but government needs to be cautious that fund flows to affordable housing sector only.
- Generally, in manufacturing we first produce, then sell and earn profits but in real estate sector, we first sell and earn profit and then produce which leads to corruption and undelivered promises.
  - In this regard, the government could also try **Singapoarian model** where government created the housing stocks and then sold it off.

The real estate sector has so much to contribute to the people's life in terms of providing shelter, employment etc . But the problem has come to a stage where we need 1.5 crore housing units and at the same time lakhs of housing units remain unsold.

Majority of projects are still viable and can be handed over to buyers therefore capital infusion to genuine developers who are willing to complete the stalled project should be provided with the opportunity.

It is high time to strike the root cause of the problem and convert the crisis into an opportunity to create good solutions and boost the economy.