Has Government schemes benefitted the Real Estate sector?

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Note: This report is mainly focusing on the schemes announced by the Government of India towards the Real Estate sector during 2020-21.

Overview

Real estate, which was once one of the booming sectors in the Indian economy has been experiencing a slowdown since the last few years. It started off with demonetisation in November 2016, followed by the introduction of RERA in May 2017 and the subsequent rollout of GST in July 2017. The liquidity crisis in the NBFC sector which led to the curtailment of lending too has added on to the plight of the sector.

In order to provide relief to developers with unfinished projects and to ensure delivery of homes to buyers, the Government of India during November 2019 had announced a stimulus towards aiding the ailing Real Estate sector by infusing Rs 10,000 crore into an Alternative Investment Fund (AIF) while the State Bank of India (SBI) and Life Insurance Corporation (LIC) contributed Rs 15,000 crore to the fund (Rs 25,000 crore overall).

The funds were to provide priority debt financing for the completion of stalled projects in the affordable and middle-income housing segment.

Now, in light of the situation which was created by COVID-19 it had worsened the persisting liquidity crunch in the real estate sector. Various restrictions imposed by the Indian Government to curb the pandemic had also led to a temporary halt in ongoing real estate projects which also had a domino effect w.r.t. the large scale reverse migration of labourers and disruption in supply chain of materials.

The hardships which were then being faced by the developers given the uncertainty of potential commercial transactions and business operations (not being able to deliver the project as per mentioned timelines and furbish the contractual obligation to service the construction finance/loans procured for the project), another government invention in order to uplift the beleaguered Real Estate sector was much needed.

As part of the stimulus package aimed in improving the economy, the Government of India had introduced the Atmanirbhar Bharat Abhiyan package which included measures towards improving the state of the affairs in the Real Estate sector as well.

Table 1: Atmanirbhar 1.0- Policy and Impact (May 2020)

Policy Measure Announced	Expected Impact
COVID-19 related disruption was to be treated as force majeure under Real Estate (Regulation and Development) Act provision and registration and project completion timelines would be extended by 6 months /9 months, depending on which part of the country the project is being constructed and if these were falling after March 25th , 2020	In order to safeguard the interest of all stakeholders as projects stand the risk of defaulting on RERA timelines due to adverse impact due to Covid-19. This measure is to de-stress real estate developers and ensure completion of projects so that the home buyers are able to get delivery of their booked houses.
Affordable Rental Housing Complex (ARCH) for migrant workers. The scheme will be implemented through two models: • Utilizing existing Government funded vacant houses to convert into ARHCs through Public Private Partnership or by Public Agencies. • Construction, Operation and Maintenance of ARHCs by Public/ Private Entities on their own vacant land.	ARHC has been introduced as a sub-scheme under the Pradhan Mantri Awas Yojana-Urban. This scheme aims to provide migrant workers and the urban poor ease of living at reasonable rents. Beneficiaries for ARHCs are urban migrants/ poor from EWS/ LIG categories. Such properties, it was hoped, would deter migrant workers from undertaking long voyages to their native places, when faced with a calamity or a pandemic such as COVID-19. *EWS- Economically Weaker Section LIG- Lower Income Group
Extension of Credit Linked Housing Subsidy* scheme- The credit linked subsidy scheme for the middle-income group (annual Income between Rs 6 and 18 lakhs) is to be extended till March 31, 2021. *Under the CLSS, home loan borrowers can avail interest subsidy up to Rs 2.35 lakh (under MIG-I group) and Rs. 2.3 lakh (under MIG-II group) for purchasing their first home. The final amount of subsidy will depend on the applicant's annual income in the last financial year, loan amount and the size of the house.	Extension of Credit Linked Housing Subsidy scheme is likely to benefit 2.5 middle income families during FY21 and create demand for affordable housing. As per the FM it may also lead to an investment of Rs 70,000 crs in the housing sector.
The RBI had also announced certain relaxations towards the Real Estate sector where - NBFCs can extend commercial real estate loans by 1 year if projects delayed are due to reasons beyond the control of promoters without treating it as restructuring.	This measure announced aims to maintain adequate liquidity in the system to promote the credit flow through financial institutions as well as ease financial stress.

Source: CARE Ratings

Atmanirbhar 1.0 progress post announcement

Till June 2020, 23 states' Real Estate Regulatory Authority (RERA) had extended registration of projects by 6 months and of 1 state by 9 months. The ARHC scheme under PMAY-U too was approved by the Cabinet in July 2020.

However, this was not nearly enough. A lot more could and should have been done to alleviate some of the pain points. The real estate sector was still hoping for further liquidity infusion as the measures announced were not enough to lift the beleaguered sector around. The sector was still expecting a one-time debt restructuring, last-mile funding for the stuck projects, concessions in GST & stamp duty and lowering of interest rates on home loans to boost housing demand. Small players/ developers were still unable to garner the required liquidity from the banks or any other financial institution.

The Finance Minister in November 2020 introduced Atmanirbhar 3.0 which contains measures to boost employment, making funds available to the MSME and stressed sectors, revival of the real estate sector, support to agriculture, ease of doing business, stimulate exports, financing of infra as well as towards R&D of COVID-19 vaccine. Under Atmanirbhar 3.0 the Finance Minister has made the following announcements pertinent to the Real Estate industry.

Note: Announcements made during Atmanirbhar 2.0 on 12th October 2020 were not pertinent towards the Real Estate sector.

Table 2: Atmanirbhar 3.0- Policy and Impact (November 2020)

Policy Measure Announced	Expected Impact
An additional outlay of Rs 18,000 crore for the urban housing scheme (PMAY-U). The allocated amount is over and above the Budget Estimates for 2020-21 (Rs 8,000 crore) for the PMAY-U and will be through additional allocation and extra-budgetary resources.	The following announcement is to help complete real estate projects in the affordable housing segment. It is to help start work on 12 lakh houses as well as complete 18 lakh houses, create 78 lakh new jobs and augment the demand for steel and cement.
Increasing the differential between agreement value and circle rate from 10% to 20% (under section 43CA) till June 30th, 2021. However, it is only applicable for the primary sale of residential units of value up to Rs 2 crore. Note: Circle rate is the government-approved minimum rate at which a property should be registered and the buyers need to pay stamp duty on this value. Even if the property value is lower than the circle rate, the buyers are required to pay stamp duty on the circle rate.	This is supposed to be a major relief for first time buyers and sellers - in terms of lower stamp duty and capital gains tax. Developers can also clear the unsold inventory w.r.t. property which is valued below Rs. 2crore. It will also effectively allow developers to reduce their price below the circle rate and bring down the registration cost for buyers if they buy the unit at a price lower than the circle rate, as the registration would not be at the circle rate.
Extension in the deadline for the Emergency Credit Line Guarantee Scheme-- ECLGS 2.0 until March 31, 2021. Note: Under ECLGS 1.0, collateral-free government-guaranteed additional credit was initially given to MSMEs units but it is now extended towards the 26 stressed sectors (Real Estate is also a part of it) identified by the Kamath Committee plus health care sector (with credit outstanding of above Rs.50 crore and up to Rs.500 crore).	Under the scheme, the mid-sized Real Estate companies with loan outstanding of Rs 50-500 crore will get a 100% collateral free additional loan up to 20% of the loan outstanding as of February 29th, 2020. There is no upper limit on annual turnover of these companies. The scheme is expected to provide a much needed relief by helping entities to sustain employment, meet liabilities and offer liquidity support.

Source: CARE Ratings

Specific measures undertaken by State Governments

W.r.t. State governments undertaking measures to boost consumer sentiment in the Real Estate space, the Maharashtra government announced a reduction in the stamp duty on property purchases. The reduction came into effect August 2020 onwards and the state brought down the stamp duty on property registrations from 5% to 2% till December 31st, 2020. After this period, buyers will pay 3% as the stamp duty on property registrations starting from January 1st 2021 to March 31st, 2021. This reduction is available to buyers only for a limited period only.

Madhya Pradesh followed suit with a reduction of the cess on stamp duty charged for registration of property to 1% from 3% in urban areas.

The Karnataka state assembly passed a bill that supports government measure to reduce stamp duty from 5% to 3% for flats priced between Rs 21 lakh to RS 35 lakhs and from 5% to 2% for flats costing up to Rs 20 lakh. The bill proposes exemption from registration charges and lower stamp duty for industrial units set up in backward areas. Reduction in the rate of stamp duty effectively leads to lowering the cost of purchase for buyers.

So what issues are still plaguing the Real Estate sector?

Residential Real Estate segment was already witnessing downturn since last few years with the sluggish property markets on the back of high unsold inventory, low demand and stalled projects and now the outbreak of COVID-19 has been latest challenge to the sector.

Post the announcement of increasing the differential between agreement value and circle rate from 10% to 20%, the industry has reacted quite positively towards it, as the discounts being offered by developers were inching closer to 20% in many geographies. Initially when the differential was capped at 10%, home buyers were liable to pay tax on the gains which was getting considered an 'income from other sources' according to the Income Tax Act. This was dissuading home buyers from closing in on their home purchases.

However this benefit is only available till June 30th, 2021 and it is only applicable for the primary sale of residential units of value up to Rs 2 crore. There are many residential units priced above Rs 2 crore on which this relief is not available and there are many cases wherein buyers are looking to purchase another flat where again this benefit is not available. The same is applicable to commercial real estate as well where deals are stuck because the price is lower than the circle rate by more than 10% and buyers as well as developers are not proceeding ahead as they will have to pay higher income tax at current rates.

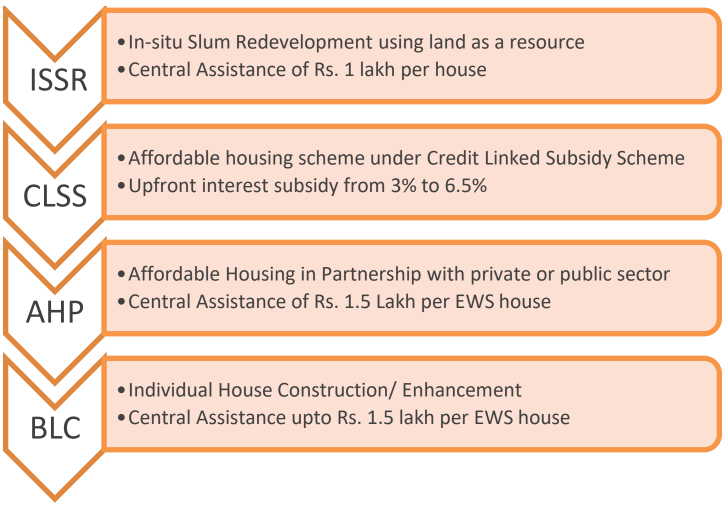
Commercial Real Estate too has been in a disturbed state with the onset of the pandemic especially w.r.t. commercial leasing. Since mid- March in order to maintain social-distancing, companies have announced a work-from-home policy to safeguard their employees. This has negatively impacted office leasing and even in the case of leasing of retail spaces it has been adversely impacted with rentals being not paid for almost half a year on account of mandated closure of malls and consequent waiver of rentals for occupiers mainly restaurant chains, and multiplexes.

Commercial Real Estate is now also witnessing a structural shift as many companies are adopting the remote working culture and have found it cost effective to have employees working from home. In the case of mall leasing, even after resumption, malls have been witnessing very limited footfalls and the outlook for the segment thus continues to remain negative especially with growing popularity of e-commerce.

Update on PMAY-U

Pradhan Mantri Awas Yojana – Urban (PMAY-U), was launched on June 25th, 2015 by the Government of India to address urban housing shortage among the EWS/LIG and MIG categories including the slum dwellers by ensuring a pucca house to all eligible urban households by the year 2022. The Mission covers the entire urban area consisting of statutory towns, notified planning areas, development authorities, special area development authorities, industrial development authorities or any such authority under State legislation which is entrusted with the functions of urban planning & regulations. The scheme has hence been divided into four verticals.

Chart1: Components of PMAY-U



Source: Ministry of Housing and Urban Affairs

PMAY -U achievement (P) as on 7th December, 2020

Table 3: Status of Physical progress of Houses Constructed (Unit: Nos in lakh)

Demand	Sanctioned	Grounded*	Completed*
112.2	108.2	67.1	38.6

Source: Ministry of Housing and Urban Affairs

* Includes incomplete houses of earlier NURM.

As of 7th December 2020, 108.2 crore houses have been sanctioned under PMAY-U out of which 18.7% of those houses are in the state of Andhra Pradesh (20.2 lakh), followed by Uttar Pradesh (17.6 lakh), Maharashtra (12.7 lakh), Madhya Pradesh (8.1 lakh) and Gujarat (7.3 lakh). Work has also started in 67.1 lakh houses as of 7th December 2020. Out of 38.6 lakh completed houses, UP is the leading state with 6.4 lakh completed houses, followed by Gujarat (4.6 lakh), Maharashtra (3.9 lakh), MP (3.6 lakh) and Andhra Pradesh (3.5 lakh) constituting around 57% of the total completed houses under PMAY-U.

Table 4: Credit Linked Subsidy Scheme

	MIG	EWS/LIG	Total
Beneficiaries under CLSS (in lakhs)	4.29	8.04	**12.3**
Interest Subsidy Released under CLSS (Rs. In Cr.)	9,001	18,867	**27,868**

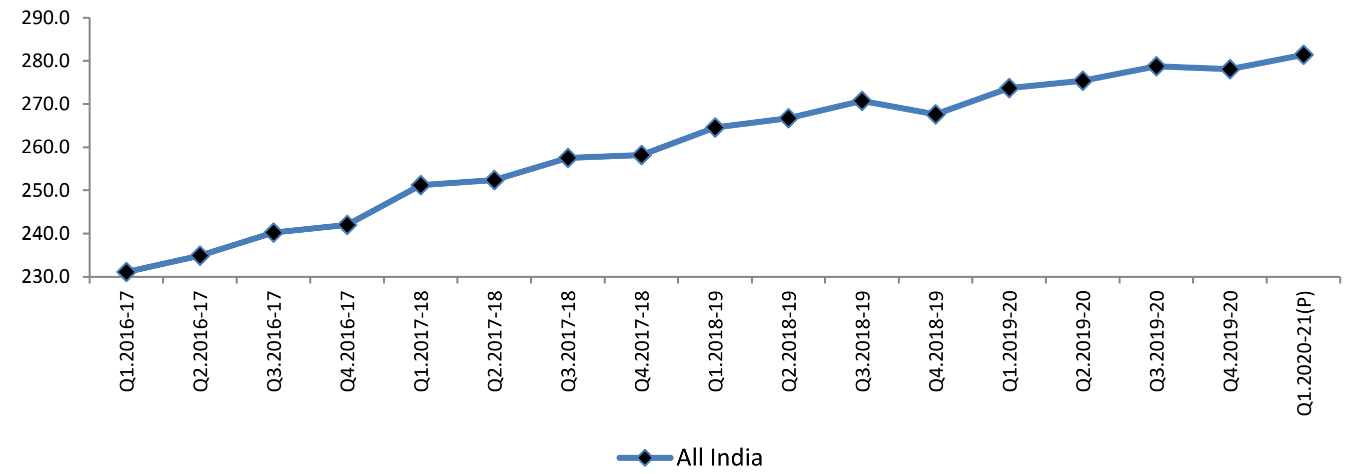
Source: Ministry of Housing and Urban Affairs

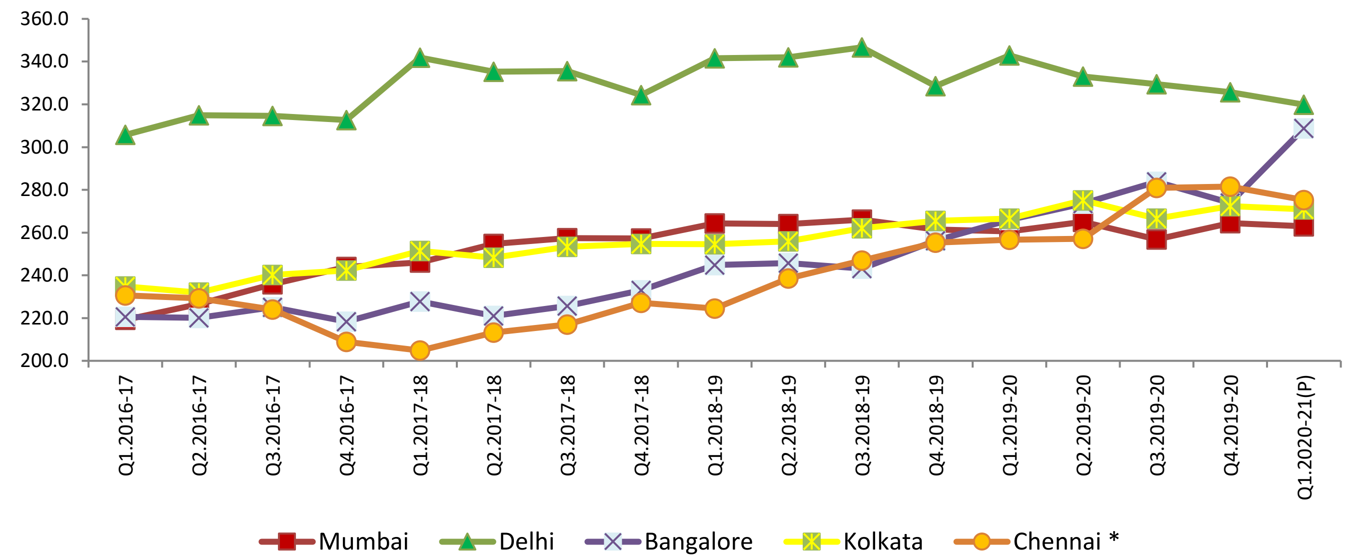
The government pays this subsidy in the beneficiary's bank account (where the home loan is availed) and after receiving the subsidy, the concerned bank will reduce EMI on the home loan. For the LIG/EWS category, the loan amount is up to Rs 6 lakh and interest subsidy is 6.5%. For MIG-1 category (annual income between Rs 6 lakh and Rs 12 lakh) the loan amount is upto Rs 9 lakh and interest subsidy is 4%. For MIF-II category (annual income between Rs 12 lakh and Rs 18 lakh) the loan amount is upto Rs 12 lakh and interest subsidy is 3%.

Note: CLSS can only be availed for first time homebuyers, if the applicant or his/her family members already have a property in their name then this subsidy cannot be availed.

Trend in Prices

Chart 2: House Price Index





Source: RBI

Note: All India index is a weighted average of city indices, weights based on population proportion. *Chennai index is based on both residential and commercial properties.

The industry faced disruption in the months of April and May 2020 when the construction activities came to a complete halt across the country due to the lockdowns whilst the industry was already reeling under subdued housing sales and liquidity shortage in the preceding year. Even when lockdowns were gradually eased, the economy came under substantial stress which further impacted the real estate industry. Despite the issues faced by the industry, the all-India HPI increased by 1.2% on a sequential basis (q-o-q) and by 2.8% during Q1-FY21 on an annual basis (y-o-y).

Sequentially, house prices in Bengaluru have increased by 12.8% during the quarter whereas in Mumbai, Delhi, Kolkata and Chennai it has declined by 0.5%, 1.8%, 0.5% and 2.2% respectively.

On an annual basis, growth in Tier-1 cities has varied from an increase of 0.9%, 16.1% 1.7% and 7.2% in Mumbai, Bangalore, Kolkata and Chennai to a contraction of 6.7% in Delhi during Q1-FY21. A year ago, during Q1-FY20 the housing price index had declined in Mumbai by 1.4% but had increased in Delhi, Bangalore Kolkata and Chennai by 0.4%, 8.6%, 4.7% and 14.3% respectively.

Financials

The financials of 134 Real Estate players have been analysed here.

Table 5: Financial Indicators

	2016-17	2017-18	2018-19	2019-20	H1-FY20	H1-FY21
Sales Growth (+/-)	0.4%	6.1%	20.3%	0.4%	8.9%	-35.2%
OPM (%)	26.2	24.3	23.6	25.0	31.9	26.1
NPM (%)	7.1	3.0	4.4	0.9	12.0	-4.9
ICR (times)	1.8	1.6	1.8	1.6	2.0	1.1

Source: ACE Equity, CARE Ratings

Sales revenue has increased at a CAGR of 6.5% during FY16-20, but in the current financial year, sales revenue has decreased by 35.2% during H1-FY21 compared with the 8.9% growth achieved during H1-FY20. The pandemic induced lockdown had brought down the sales to almost nil for most of the developers with construction activity completely halted during lockdown phase and collections were limited to the milestones achieved prior to lockdown. Even after resumption of operations during the unlock phase, sales have been subdued on the back of pessimistic sentiments of buyers.

This has led to a decline in the Operating Profit Margin and Interest Coverage Ratio and Net Profit Margin has entered the negative territory.

Concluding Remarks

The Indian Construction and Real Estate Sector play a vital role in the economic development of the country. It is estimated that the overall employment generation in the economy due to additional investment in the housing/construction sector leads to approximately 8 times employment through backward & forward linkages. The sector also supports more than 350 ancillary industries in the country. The Real Estate sector is expecting to see a lasting impact of the COVID-19 pandemic. Nonetheless, economic recovery and departure of pandemic would remain crucial for sentiments to improve.

Despite the reforms introduced by the government of India toward the Real Estate sector, the complete recovery is still expected to take a year as negative consumer sentiments and macro headwinds continue to persist.

- While the industry has accepted the increasing the differential between agreement value and circle rate as a welcome move, in retrospect the cap of Rs 2 crore and limiting the ambit of the scheme to only residential units will do little help in comparison to the extent of boost the sector requires.
- The government also needs to address the taxation front of Real Estate transactions and revise the circle rate in a more realistic way, to address the issues related to the fall in property rates and consider extending this relief beyond June 2021, include residential properties priced above Rs 2 crore and commercial properties or opt for location-based relaxation to allow more than 20% relaxation, to revive the market as in most cases, the circle rate is higher than the fair value of the property.
    - Residential transactions in Mumbai and Pune have been booming where stamp duty cuts have been declared which proves that if taxation is reduced, buyers are willing to buy.

New project launches in the industry are to be impacted during the ongoing financial year as developers focus on completion of under-construction properties and clearing their existing inventories. Moreover, restricted lending by banks and other financial institutions will also deter developers from announcing new projects.

- Under residential units, the affordable housing and mid-price houses are expected to witness better demand and early recovery as against units with high ticket size especially with continuation of credit linked subsidy scheme by Government.
- Luxury projects will continue to remain impacted.
- For commercial units, the demand would continue to remain subdued in short term with emerging work from home and shared workspace culture.
    - Despite, the emergence of concepts of work from home and work near home, occupiers with healthy financial profile in grade A office spaces have continued to meet their existing leases and commitments on time.
    - With festive season around the corner, malls are expected to clock higher footfalls which may bring some respite to the segment.
    - Post Q2FY21, there has been a slight resurgence in demand of office spaces.

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