

Real Estate**Sector Impact – Positive****Background**

- During FY09, the Indian real estate sector was severely affected by the economic slowdown. The demand for commercial and retail property virtually evaporated as corporates put their expansion plans on hold. Transactions in the premium housing segment also came to a near standstill on account of apprehensions of job losses and pay cuts. Slackening sales resulted in acute shortage of liquidity, exacerbated by stringent lending policies adopted by banks. Consequently, developers were forced to reduce prices by around 30-40%.
- Reduction of risk weight for commercial real estate loans, permission for one-time restructuring of debt by the RBI, monetization of non-core assets and revival of capital markets have provided the much-needed liquidity, while the Government's stimulus package with reduced home loan rates, excise duty cuts on steel and cement has also provided the necessary growth impetus to the industry.
- Improved economic outlook, and reduced property prices and interest rates has led to demand in the residential segment picking up, albeit slowly, from March-April 2009. Commercial real estate market has also been showing signs of revival.
- Nonetheless, the sustenance of the growth drivers in the near future remains mired in uncertainty, given the possibility of the Government withdrawing its stimulus in the near future. In its mid-term review of monetary policy in October 2009, the RBI has already increased the provisioning on standard loans for commercial real estate development from 0.4% to 1%.

Budget Proposals

1. One per cent interest subvention on housing loans up to Rs.10 lakh (where the cost of the house does not exceed Rs.20 lakh) to be extended till March 31, 2011.
2. Under section 80-IB(10), pending projects to be completed within a period of five years instead of four years for claiming a deduction on their profits. Relaxation of norms for built-up area of shops and other commercial establishments in housing projects (earlier 5%) to enable basic facilities for their residents.

3. Allocation of Rs.1,270 crore for Rajiv Awas Yojana (RAY) and Rs.10,000 crore for Indira Awas Yojana (IAY).
4. Increase in tax slabs for personal income tax.
5. Increase in excise duty structure for cement and steel.

Duty Structure

(%)	Existing	Proposed
CUSTOMS DUTY		
• Steel	5	5
• Cement	10	10
• Articles of cement, concrete	10	10
EXCISE DUTY		
• Steel	8	10
• Cement Price below Rs.190 per 50 kg bag Price above Rs.190 per 50 kg bag	Rs.230 per tonne 8% ad-valorem	Rs.290 per tonne 10% ad-valorem
• Articles of cement, of concrete, of artificial stone (tiles, bricks)	16	Slabs or tiles classifiable under CETH 6802 or 6810 manufactured out of blocks of natural stone or agglomerated artificial are now excisable. All ceramic tiles, whether manufactured by using electricity for firing the kiln or not, will attract a single excise duty rate of 10% with cenvat credit.

Budget Impact: Industry

1. Extension of one per cent interest subvention indicates continued support to the lower and middle income housing. Developers catering to the affordable housing segment will be benefited.
2. Extension of tax holiday under 80-IB (10), would provide a breather to the industry affected by the downturn. It will have a positive impact on the margins of the real estate players.
3. Implementation of RAY, a scheme for slum dwellers and urban poor, would mean additional business in terms of redevelopment projects for the real estate players. Such projects usually

have quite high margins. Increased outlay for IAY would benefit the construction contractors and small real estate developers.

4. Increased disposable income due to reduced tax burden would spur spending for the housing sector.
5. Increase in excise duty of cement as well as steel would increase the input cost for the developers. These costs would mostly be passed on to the consumers.

Budget Impact: Companies

Company	Applicable Proposals	Overall Impact
DLF	1, 2,4,5	▲
HDIL	All	▲
Unitech	All	▲
Sobha Developers	All	▲
Indiabulls Real Estate Ltd	1, 2,4,5	▲
Parsvnath Developers	All	▲

Legends:

▲▲	Highly Positive	▼	Negative	◀▶	Neutral
▲	Positive	▼▼	Highly Negative	∅	No Proposals