

# A Sneak Preview

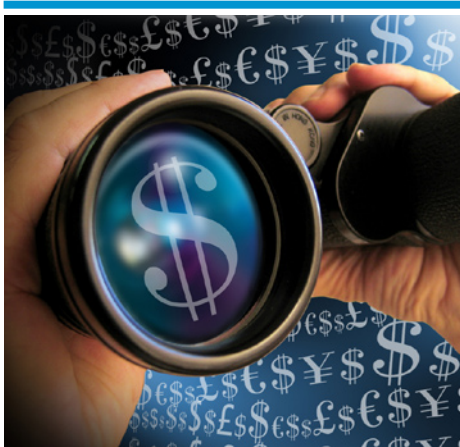


## UNION BUDGET 2011

### MARKET REACTION TO BUDGET

Company	Change (%)
BSE SENSEX	0.69
Realty Index	1.30
Anant Raj Inds	7.33
D B Realty	2.52
DLF	-0.38
Godrej Properties	2.89
HDIL	4.32
Indiabulls Real Estate	-0.24
Mahindra Lifespaces	1.46
Orbit Corp.	1.4
Parsvnath Developers	1.55
Peninsula Land	2.67
Phoenix Mills	1.98
Sobha Developers	1.83
Sunteck Realty	2.6
Unitech	1.5
Ackruti City	-1.24

Source: www.bseindia.com | Feb 28, 2011



## Budget Highlights: Real Estate

The Finance Minister Mr. Pranab Mukharji started the budget on a positive note stating that the economy is back to its pre-crisis growth trajectory, evident by the robust gross domestic product (GDP) of 8.6 percent in 2010-11 in real terms. He mentioned that in medium term, the three priorities of the Government would be sustaining a high growth trajectory; making development more inclusive; and improving institutions, public delivery and governance practices. The budget aims to provide inclusive growth across sectors emphasizing on rural development, agriculture, infrastructure and capital markets. The Finance Minister also proposed to implement Direct Tax Code by April 1, 2012, however, unlike DTC, decision on Goods and Service Tax (GST) was put on hold to take consent from various states.

From a real estate perspective, the budget remained silent on most of the major issues including status of STPIs (Software Technology Parks of India), Foreign Direct Investment in retail, Industry status to Real Estate etc.

### THE KEY HIGHLIGHTS OF THE BUDGET WHICH MAY IMPACT REAL ESTATE SECTOR ARE AS FOLLOWS:

- Increase in provision under Rural Housing Fund to INR 3,000 crore from the existing INR 2,000 crore. **Impact: It will provide housing finance to targeted groups in rural areas at competitive rates.**
- Liberalization in the existing scheme of interest subvention of 1 percent on housing loans by extending it to housing loan upto INR 15 lakh where the cost of the house does not exceed INR 25 lakh from the present limit of INR 10 lakh and INR 20 lakh respectively.
- Increase in housing loan limit from INR 20 lakh to INR 25 lakh for dwelling units under priority sector lending. **Impact: This will boost the affordable housing segment by providing cheaper loan.**



# UNION BUDGET 2011

## KEY HIGHLIGHTS (CONTD.)

- Proposed to launch a new scheme with an outlay of INR 300 crore to provide assistance to States to modernize their stamp and registration administration and roll out e-stamping in all the districts in the next three years. **Impact: This will introduce a modern and people-friendly e-stamping facility in the country and enhance transparency in real estate transactions.**
- Creation of a Mortgage Risk Guarantee Fund under Rajiv Awas Yojana for credit enablement of Economically Weaker Sections (EWS) and LIG households. **Impact: This would guarantee housing loans taken by EWS and LIG households and enhance their credit worthiness.**
- Setting up of Central Electronic Registry under the SARFAESI Act, 2002 by March 31, 2011. **Impact: This will increase transparency and curb the frauds in loan cases involving multiple lending from different banks on the same immovable property.**
- New scheme to be introduced by which units in SEZs will be able to obtain tax-free receipt of wholly consumed services within the zone and get their refunds in a much easier manner. **Impact: This will facilitate simplified and expeditious refund relating to tax paid on services used for export of goods.**
- Reduction on surcharge of 7.5 percent on domestic companies to 5 percent. Simultaneously increase in rate of Minimum Alternate Tax (MAT) from the current rate of 18 per cent to 18.5 per cent of book profits to keep the effective rate of the MAT at the same level. Levy of MAT on developers of Special Economic Zones as well as units operating in SEZs. **Impact: This will increase the tax liability of both SEZ developers and units; it may hamper potential investment in SEZs.**
- Reduction of customs duty on two critical raw materials for cement Industry viz. pet-coke and gypsum. and replacement of the existing excise duty rates with composite rates having an ad valorem and specific component with some rationalization. **Impact: Cheaper cement will result in reduction of construction cost.**

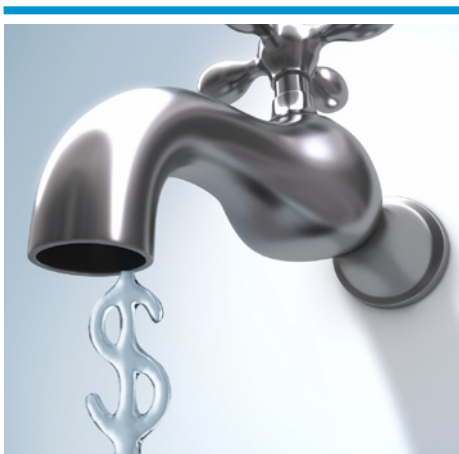


# UNION BUDGET 2011

## KEY HIGHLIGHTS (CONTD.)

- Enhancement of the exemption limit for the general category of individual taxpayers from INR 1,60,000 to INR 1,80,000 this year and INR 240,000 to INR 2,50,000 for senior citizens; extension of additional tax benefit by one year on investment of INR 20,000 in long-term infrastructure bonds. **Impact: Increase in disposable income in the hand of common man.**
- Allocation of INR 214,000 crore for infrastructure in 2011-12 which amounts to 48.5 percent of total budget allocation. This is an increase of 23.3 per cent over 2010-11.
- Allowed tax free bonds of INR 30,000 crore to be issued by various Government undertakings such as Indian Railway Finance Corporation National Highway Authority of India and HUDCO in the year 2011-12.
- Raised the corpus of Rural Infrastructure Development Fund (RIDF) INR 18,000 crore in 2011-12 from INR 16,000 crore in the current year. The additional allocation would be dedicated to creation of warehousing facilities.
- Creation of special vehicles in the form of notified infrastructure debt funds; interest payment on the borrowings of these funds to be subjected to a reduced withholding tax rate of 5 per cent instead of the current rate of 20 per cent; tax exemption on income from the fund.
- Increase in FII limit to USD 40 billion from existing USD 25 billion for investment in corporate bonds, with residual maturity of over five years issued by companies in infrastructure sector; permission to FIIs to invest in unlisted bonds with a minimum lock-in period of three years. However, the FIIs will be allowed to trade amongst themselves during the lock-in period.

**Impact: It will enhance the flow of funds to the infrastructure sectors; as the improved infrastructure will impact positively on real estate sector. These initiatives will indirectly boost real estate in the long term.**



From real estate perspective the budget seems to be neutral; the realty Index and most of the listed real estate companies behaved positively after the budget announcement. In fact the index rose to 3 to 4 percent the moment Finance Minister announced liberalization of the existing scheme of interest subvention of 1 percent on housing loans and increased housing loan limit under priority sector lending. The budget also announced various scheme to enhance capital flow in the infrastructure sector which will indirectly give impetus to the real estate industry.

Expectations 2011 Real Estate Perspective		
For Developers/Funds	Expectations	Results
	Reduction in cement prices, Exemption for refabricated slab to be maintained	Yes
	Simplification in FDI norms, more relaxation for FDI in Retail	No
	Introduction of GST to simplify taxation in Real Estate	No
	Relaxation in the deadlines proposed under Revised DTC for Special Economic Zones	No
	Extension of the external commercial borrowing (ECB) scheme to the entire Indian Real Estate Sector including Special Economic Zones and not only 100-acre townships, hotels, and hospitals.	No
	Extension of tax benefits under Sections 10A and 10B of the Software Technology Park of India (STPI) Act beyond FY11 for at least two-three years.	No
	Create Real Estate Regulatory Authority (RERA) for transparency	No
	Infrastructure status' to integrated townships and Group Housing under Section 80IA of the IT Act	No
	Extension of tax exemption under section 80 IA (4) for industrial parks	No
	Single window clearance for new projects	No
	Additional FSI to the developers to develop public parking and utilities	No
	Incentives for low cost housing technologies and raw material in the form of reduction in import duty, excise duty and sales tax	No
	Additional FSI for developing smaller affordable houses (300-500 Sq Ft)	No
	Creation of a dedicated affordable housing fund such as Infrastructure Fund exclusively for EWS/LIG housing and lend to developers at a cheap rate of interest.	Yes
For Housing Finance Companies (HFCs)	Expectations	Results
	To increase the bracket for priority lending for houses up to Rs 30 Lakhs instead of Rs. 20 Lakhs	Yes (Increased to 25 Lakhs)
	HFC deposits to be brought under the ambit of 80C for income tax exemption	No
For Individuals	Expectations	Results
	Increase in disposable income for individuals	Yes
	Extend tax benefit on infrastructure bonds by a year	Yes
	Reinstatement of the tax holiday benefits under Section 80IB- (10) for Affordable Housing projects.	No
	Increase in the exemption limit of home loan interest payable under section 24 (b) from 1.5 Lakh to 3.0 Lakh	No
	Tax bracket for rental income should be reduced from 30 % to 20 %	No
	Removal of Service tax on Under Construction Property	No
	Rationalization and reduction of stamp duty, registration charges across all states	Partially Yes
	Increasing the deduction u/s 24(a) of the IT Act for repairs, maintenance, etc. from the current 30% to 50%.	No

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