

## Infra status likely for realty sector

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The realty sector, reeling under the effect of financial crisis and high interest rates, is all set to get a new lease of life with the government planning to accord 'core sector' status to all their activities barring purchase of land. The Centre is also looking into real estate developer's demand to formulate a policy on Special Residential Zones (SRZs) on the lines of SEZs for large-scale affordable housing projects.

Highly placed sources said the finance ministry has agreed to "positively" consider the suggestion for granting core sector status to the realty sector, taking into account the concerns of leading real estate players that several housing projects were being held up due to liquidity crunch. The real estate firms had also pointed out that a slowdown in construction activities would have a severe impact on related sectors including cement, timber, steel, apart from possible job losses.

"I have impressed upon banks to lend for housing and construction activities, which are growth sectors. In other economies, these sectors, put together with cements, steel etc. account for 50% growth," finance minister P Chidambaram said on Tuesday after meeting heads of public sector banks.

Once the realty companies get the much sought after 'core sector' or 'infrastructure' status, they will be able to obtain loans from banks at cheaper interest rates. Cheaper credit will help to reduce the demand supply mismatch, especially in the low-cost and mid-segment housing sector, industry sources said.

Sources said the government would have to ensure that the realty sector is specified as 'infrastructure' in the Income Tax act for banks to pass on the benefits to the sector while lending. They said the government would soon have meetings with the Reserve Bank of India to get the latter's opinion on notifying realty sector as 'infrastructure'.

Recently, top officials of leading realty firms like DLF and Unitech had met top government officials demanding that the sector be given access to cheaper credit and had cited the massive drop in the market capitalization of their companies due to the fall in prices and high lending rates.

Prakash Gurbaxani, founder and CEO, QVC Realty, said, "Tight credit has burdened the sector much more than other market factors. The government should not have any negative covenants

on lending to realty companies, and penalize banks for lending to the realty sector by increasing capital adequacy requirements and such norms.”

He said it was important that the government recognizes real estate as a core sector as it adds significant value to infrastructure and it creates a considerable number of jobs in the realty segment and in several other support industries. The leading five realty companies alone have helped in providing direct and indirect employment to over 2.5 lakh people across the country.

Early this year, commerce and industry minister Kamal Nath had said that the government would consider tax sops, including cutting duties and levies, for the realty sector, particularly to facilitate affordable housing to all, promote low cost housing and stimulate demand.

According to the Confederation of Real Estate Developers' Associations of India (CREDAI), taxes and levies comprise about 25% (or Rs 700 per sq ft) of the housing sector's pan-India average price of Rs 2,700 per sq ft (the total cost of floor space of an average housing unit). These include taxes on construction and building materials like steel, cement, state levies like octroi, electricity duty, and stamp duties on purchase of property.

The government had on October 24 decided to give infrastructure status to all activities of Special Economic Zones (SEZ), except purchase of land. Almost immediately after the SEZ Act and Rules came into operation, the Reserve Bank of India (RBI) started treating lending to SEZs at par with loans given to the commercial real estate sector, which carries much higher risk weightage than the infrastructure sector, making it difficult for SEZ developers to tap the local debt market.

RBI's fear at that point of time was that SEZs would become a pure-play realty business, taking advantage of the tax sops, and this would in turn result in a realty bubble in the country. But unlike then, funds are not freely available now. The recent fall in property prices in the realty segment and high interest rates had its impact on recent results of real estate majors.

The net profit of the country's largest realty company DLF had fallen by 4% at Rs 1935 crore in the July-September quarter, from Rs 2018 crore in the second quarter ended last fiscal. The second biggest real estate company Unitech had also announced that its consolidated net profit slipped by 13% to Rs 359 crore in the second quarter this fiscal, from Rs 410 crore the same period last year.

Also, in the same period, Unitech's net sales had shown a 3% decline to Rs 985 crore from Rs 1013.48 crore last year. Another leading real estate company, Parsvnath also reported that its net profit plunged 79% in this fiscal's second quarter to Rs 22 crore from Rs 103 crore in the same period last year, adding that its net sales also fell 45% to Rs 222 crore from Rs 401 crore during the said periods.

The revenue of another prominent realty player Omaxe also had a drastic 70% fall to Rs 204 crore, while its profit nosedived by 87% to Rs 20 crore.