

Finance and Law



The affordable housing segment has been the mainstay of the real estate sector for quite some time. However, the sector is not without challenges

Affordable HOUSING: WAY FORWARD

The market is presently run by end-users with limited investor activity. Amidst such a scenario, there is visible flight towards more affordable projects. Affordable projects in the upcoming urban corridors are witnessing massive spurt in homebuyers demand

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The affordable housing segment received a big impetus with the Prime Minister announcing the ambitious 'Housing for All by 2022' initiative. Subsequently the segment was accorded infrastructure status enabling real estate developers easier access to finance. Cash incentives in the form of Credit Linked Subsidy Scheme (CLSS) to homebuyers in this

segment is yet another milestone for the segment. But notwithstanding all these positive steps the segment is not without challenges.

The market is presently run by end-users with limited investor activity. Amidst such a scenario, there is visible flight towards more affordable projects. Affordable projects in the upcoming urban corridors (which are generally located in proximity to business

parks) are witnessing massive spurt in homebuyers demand.

Amit Goenka, MD & CEO at Nisus Finance, says, "The biggest challenge the affordable sector faces is the drop in sales during slowdown. While this sector is the least affected there is a significant drop which has impacted the cash flows to the builder. The second major challenge this sector faces is in lending to the unorganised sector to customers who have bad

credit or no credit history. Very often this means that PMAY loans may not be sanctioned by banks and often this leads to a further slowdown in cash flows. The third major challenge this sector faces is the ability of the builders to refinance their home loans. Refinancing these loans can prove to be a roadblock for the builders and

this may mean a further slowdown in construction."

Sanjeev Arora, director, operations, 360 Realtors, outlines three major challenges before the affordable housing segment:

- Lack of single window clearance often results in delayed timelines for project completion
- Lack of liquidity in the market makes it very tedious to procure home-finance.
- Lack of innovative mass housing technologies

Aneesh Sood, director, Eros Group, says, "The biggest challenge to build affordable housing is the unlocking of land in urban areas. Unless sufficient land is made accessible, constructing two crore homes may be a distant dream."

CLEAR CO-ORDINATION:

In a project of this scale, it is significant for all the parties concerned to interconnect efficiently so that there is no misunderstanding. This is lacking here as at times professionals from various fields do not interact with each other.

MASSIVE CAPITAL EXPENDITURE:

A project of such a scale needs huge investments and a large skill development programme for timely completion. As of now large scale differences are present in gaining, design, and planning, implementation of advanced technologies that have a direct influence on execution.

CONNECTIVITY:

The lack of affordable and adequately-sized land parcels in internal urban areas has driven the growth of affordable housing to urban peripheries. This is turn often poses a test to the buyer, who needs well-organised connectivity to parts of work in city business districts.

CAN THE SEGMENT REVIVE THE FLAGGING REAL ESTATE SECTOR?

Sood further says, "Affordable housing is at the centre stage of India's real estate movement and this story is likely to unfold for many years. This segment has the prospective to offer opportunities to all its shareholders, provided there are intensive and allied efforts in a mutual direction. The private sector can play an important role in associating the current shortfall of affordable housing."

AFFORDABLE BOOST FROM GOVT

Credit Linked Subsidy Scheme (CLSS) under the Pradhan Mantri Awas Yojna (PMAY) provides for easy credit to Economically Weaker Section (EWS), Lower Income Group (LIG) and Middle Income Group (MIG) States to play major roles Housing for All by 2022' provides flexibility to states to choose the best option amongst the four verticals of the Mission to meet the demand of housing in their states.

Union Budget 2017-18 granted affordable housing segment an infrastructure status

To make these projects attractive 100 per cent deduction for profits was allowed

Minimum Alternate Tax (MAT) applicable on such projects

Providing 2 year-time to developers to pay tax on notional rental income on completed but unsold units

Reducing the tenure for long-term capital gains for affordable housing from three to two years

GST on under-construction affordable houses reduced to 1% (without Credit Input)



Second time LUCKY

Investment in a second home is quite a profitable proposition for a number of reasons

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Radhika Kheda is a software professional based out in Ahmedabad. She is single and her salaries allow her to lead a luxury life. She opted to buy a home in 2015. Now, she is a proud owner of a home at South Bopal. Now, she is mulling to buy a second home in Vadodara. Initially she was bit hesitant to park her money in the real estate again. However, following a closer look, she now feels assured that her investment plan will bring her lot of fortune in the long run apart from giving her some taxation reprieve.

However, Rituraj Verma, partner, Nisus Finance, has a word of caution. Verma adds, "The second home purchase does not come with a principal repayment tax break and only interest repayment can be deducted from tax. In addition, if the first home is self-used and second home is rented then income tax is payable on the entire income as it is treated like it is a business. This limits the returns on the property and as such it is not advisable as an investment product since even bank FDs will give a better return than a second home."

Kapil Sharma, partner, Lakshmikumaran and Sridharan, maintains, "In terms of erstwhile provision of Income Tax Act, 1961, the owner of the house property has to pay tax on the annual lettable value of the house property owned by him as income under the head 'house property'. The term 'annual lettable value' as defined would cover the higher of the actual rent received by the owner or the reasonable value for which the property can be let out. The tax was required to be paid by the owner on the notional income of the house property in a case where such property has not



The provisions relax levy of tax on notional income (i.e. in a case where the properties are owned and not let out). Thus, where the owner has actually let-out any of the properties owned by him, he will be liable to pay tax on the actual rent received by him

been leased by him."

However, the provisions of IT Act were recently relaxed vide Finance Act, 2019 to provide that in case the taxpayer owns two self-occupied residential houses (instead of one as it stood prior to the amendment), the annual lettable value of the property of these houses shall be deemed to be Nil (section 23(4)). The amendment seeks to relax the levy of income-tax on notional lettable value of house properties owned by the taxpayer. The

amendment will be effective only if the taxpayer demonstrates that the two residential properties (in respect of which exemption is claimed) are used by the owner either for his residence or could not be occupied by the owner owing to exercise of employment, business or profession at a place other than the place where these properties are situated.

The capping of interest may lead to unfavourable results for certain buyers. Prior to the amendment, if the second house resulted in a loss (after setting off the interest paid from the lettable value of the property), the loss could be set-off against the current years income subject the limit of Rs. 2 lakh and the remaining loss could be carried forward and be set-off against future year's income. However, post-amendment, the loss will be restricted to ₹2 lakh and the excess amount, if any, will be a sunk cost from a tax perspective.

Rajeshree Sabnavis, a tax consultant, says, "With effect from April 1, 2019, Section 23 of the Income Tax Act, 1961 has been amended to allow the assessee an option to claim 'Nil' annual value in respect of any two houses declared as self-occupied. In other words, a

taxpayer can now claim that he has two self-occupied house properties provided the conditions as specified under section 23(2) of the Act have been satisfied. As per the provisions of this section, a house property can be considered as self-occupied only if the house property is occupied by the taxpayer for his residence or it could not be occupied by the taxpayer due to his employment, business or profession in another location and he had to reside in that other location in a property which is not owned by him."

So, if either of the condition is not satisfied for a property which is not rented out, such house property would not be considered as self-occupied - it would be considered as deemed to be let out.

However, if either of the two conditions is satisfied, the taxpayer will mandatorily be required to disclose both the houses as self-occupied and would not have an option to consider either of the houses as deemed to be let out.

SERVICED APARTMENT: A COMFY LIFE

The facilities offered at serviced apartments are much like hotels but they provide better convenience, more space and privacy



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A serviced apartment is often a fully-furnished accommodation which is available for short-term or long-term stays, primarily for corporate travellers. These apartments come with basic amenities for daily use, which include a kitchen with cooking range, kettle, microwave, a washing machine etc., as well as complimentary breakfast, laundry in some cases. Concierge services, visitors lounge, business centre, health centre and gymnasium, broadband internet connectivity are other facilities being offered by developers of service apartments.

A local developer, says, "A fully-furnished apartment that provides all hotel-like amenities like housekeeping, room service, laundry room, meeting rooms, Wi-Fi facility, fully-fitted kitchen, etc is known as serviced apartment. The facilities offered at serviced apartments are much like hotels but they provide better convenience, more space and privacy. Just like a residential apartment

A fully-furnished apartment that provides all hotel-like amenities like housekeeping, room service, laundry room, meeting rooms, Wi-Fi facility, fully-fitted kitchen, etc is known as serviced apartment

they provide private cooking facility, washing machine, living, sleeping and dining areas."

The services offered by a serviced apartment also include making of bed, towel replacement, cleaning besides, access to concierges and other business hotel like services. Multinational companies frequently use serviced apartments to host their employees on local or international assignments. Even though serviced apartments are used mostly by business executives, they remain available for other people as well.

Some developers have incorporated service apartments in some wings of their

residential projects, so as to reap benefits from both - conventional residential projects and service apartments. Additionally, developers are also seen to be partnering with brands in the hospitality sector to offer premium service apartments.

Shiveta Jain, managing director-Residential Services, Cushman & Wakefield India, says, "Although service apartments came into existence in India in the late 1990s, it is only in the last few years that they have gained traction in the big cities."

She adds, "People are increasingly travelling inter-state for both, business and leisure and they are seeking long-term, cost effective accommodation options. They demand drivers for service apartments are IT/ITES, biotechnology, services sector, BFSI and medical tourism. Being a niche category of residential real estate, serviced apartments factor in the cost of various facilities that form a part of the offering. Hence, these are priced above a standard apartment in the same area. This segment, which is still shaping up, offers an opportunity for higher rentals (from the occupant) due to the various value-added services being offered."

These apartments have a decent standard of facilities like housekeeping service, security, home appliance, kitchen needs, laundry service, WiFi/Internet, power backup and many more, which gives the feeling of a home. With growing demand for this segment, price plays a secondary role for the customers. People prefer better quality, no matter if one has to spend more from their pockets.

According to Shishir Bajaj, CMD at Knight Frank India, "Concierge services, organizing closets, filling up groceries in kitchen shelves, car washing services are all offered at serviced apartments. Fully serviced apartments create less disturbance to the family when changing locations and finding foothold in a new city. A whole lot of hassles are taken care of. Settling down is easier for expats in these residences. A pet-friendly policy along with facilities to accommodate domestic support staff and caretakers makes it best suited for expats seeking long stays."

Another developer, says, "The concept of serviced apartments has been around in one form or another for around 10-12 years in India. Today, it works very well in the metros and larger Tier-II cities. Serviced apartments are an emerging trend in the corporate hospitality sector. Often, the volume of executives in many MNC and domestic companies is too erratic to justify a stand-alone company guesthouse. The needs of such business occupants are very different from those of the usual hotel occupants. Serviced apartments, which invariably offer suitable cushy services and facilitation level, are the natural choice of every customer."