UNION BUDGET 2010- AN ANALYSIS

- Cityinfo Team, February 27, 2010

We are glad to share our analysis of the Union Budget 2010 presented by the Hon. Finance Minister, Mr. Pranab Mukherjee with elaborate analysis of its impact on Indian real estate sector.

The Budget was presented with a view to drive the economy back to 9% GDP growth, curtail inflation and manage the fiscal deficit. The Budget attempted a balancing act to sustain momentum of domestic consumption through direct tax relieves and moderated by partial roll-back of the fiscal stimulus.

On account of partial rollback of fiscal stimulus, thrust on public spending and other measures, we believe the economy would continue its growth momentum. The risk of inflation continues to linger due to lack of substantial measures to curtail money supply or steps to mitigate rising commodity prices.

The budget did not represent a significant departure from the legacy of direct and indirect tax structures, as these are expected to be addressed comprehensively in the impending Direct Tax Code (DTC) and Goods and Services Tax (GST) to be implemented in the foreseeable future.

Capital markets reacted positively to the FM's vision of driving economic growth while maintaining the fiscal deficit below 5.5%. Effect of increased levy on fuel and partial roll-back of stimulus may dampen the corporate profitability.

On the real estate front, though several expectations like extension of tax sops to STPI units, granting the status of industry to real estate sector, exemption from service tax on renting immovable property, rationalization and reduction of stamp duty across all states, increase in exemption limit of interest on home loan etc. have not been met, certain measures like extension of stimulus package, increase in disposable income for individuals etc. are expected to have positive impact on real estate sector as a whole.

Overall, we feel that the budget is sector-neutral as far as real estate is concerned but over all growth oriented. Inflation is one prime area of concern. At micro-level, SEZs are likely to benefit while other commercial buildings which target IT and ITeS SMEs as the major occupants are likely to be adversely affected. But with NASSCOM and other trade bodies actively pushing the Union Government to extend the benefits under STPI scheme, a decision by way of a notification before 31.03.2011 is expected which will benefit IT & ITeS organizations.

The highlights of the budget which may impact real estate are:

- Allocation of Rs.1,73,552 crore, for infrastructure development in the country.
- Increase in allocation for road transport budget from Rs.17,520 crore to Rs.19,894 crore.
- Additional funds for upgrading infrastructure in rural and urban areas
- Increase of 5% in funding for metro rail projects
- Relaxation of norms for built-up area of shops and other commercial establishments in housing projects to enable basic facilities for their residents
- To extend 2% interest subvention for one more year for SEZs
- Income tax slabs revised which will result in more disposable income in hands of individuals

Budget Proposal	Impact on Real Estate	Comments
Personal Income Tax Slabs	+ve	More disposable income in the hands of individuals which may spur demand for residential sector.
Service Tax to cover lands handed over to developer for construction	-ve	Increased project cost to be passed on to the buyer.
Extension of 2% interest subvention for one more year for SEZs	+ve	May spur demand for SEZ space
No proposal regarding extension of tax benefits to STPI units	+ve for SEZs and -ve for other commercial buildings	May be reviewed before 31.03.2011. Else, SEZs will be the only tax haven for IT / ITeS companies
No Service Tax exemption on renting of property	-ve	Cost of occupation will remain high
Additional Banking License	+ve	May spur for demand for space, across Tier-1,2 & 3 cities. Demand for both retail banking space and back-office space likely to increase.

SPECIAL ECONOMIC ZONE & STPI UNITS

The Finance Act (No.2) of 2009 provided that the profits of SEZ Unit would be computed with reference to the proportion of the export turnover to the total turnover of the SEZ Unit (as against total turnover of the assessee). This amendment was made with effect from 1st April 2010. The aforesaid amendment is now made retrospectively applicable from assessment years 2006-07.

Besides this, the finance minister did acknowledge the contribution of SEZs to India's export-growth, and expressed the government's commitment to the continued growth of SEZs. One could therefore expect that the revised Direct Tax Code, which the government intends introducing by 1 April 2011 may not hopefully tamper with the fiscal incentives being offered under the SEZ regime.

STPI Tax Benefits: Tax benefits, currently available to Software Technology Parks of India, are scheduled to expire in March 2011. By not addressing the extension of the scheme, this budget marks a likely end to this scheme.

This could mean a direct demand fillip to SEZs, which would then be the only tax haven for IT/ITeS companies in India. IT/ITeS being the prime driver of office real estate market across major cities in India, both the development pace and pricing dynamics of SEZ could undergo a major change over the short to medium term. However, the government could extend STPI tax holiday via a notification before the expiration.

The BFSI sector has remained the second largest contributor to the demand for commercial real estate in major cities. Additional banking licenses to new players will result in a fillip to demand for commercial properties not only in major cities but in Tier-2 & 3 cities as well.

About Cityinfo:

Cityinfo Property Services provides real estate services to occupiers, developers and investors in all aspects of real estate transactions with special focus on lease transactions in commercial real estate and SEZ projects.

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