

PROPERTY

WILL HOME PRICES FALL?

Following the reduction in GST rates for under-construction homes, prices to fall 2-5 per cent, argue experts

JADAV.KAKOTI@timesgroup.com

Providing a fresh lease of life to flagging real estate sector, the GST Council has cut down the GST rates for affordable under-construction homes. This will be a win-win position both for developers as well as buyers. The announcement to slash GST rate to 5 per cent for non-affordable and 1 per cent for affordable has brought a necessary corrective action in the market, enabling a level-playing field for primary residential sales. This is definitely a positive move on

“Affordable housing projects which opt for the new scheme of taxation would have to lower the tax rates immediately from April 1, 2019 and thereby select projects would see a sharp decline in real estate prices”

■ Rajat Mohan,
partner, AMRG & Associates

the part of the government.

Rajat Mohan, partner, AMRG & Associates, says, “Affordable housing projects which opt for the new scheme of taxation would have to lower the tax rates immediately from April 1, 2019 and thereby select projects would see a decline in real estate prices. Anti-profiteering provisions mandate businesses to pass on the benefit of reduction in tax rates to consumer, thereby hypothetically speaking fall in prices should be close to 7 per cent of

gross value.”

Mohan has illustrated the impact of change in tax rates on a hypothetical property of 100 sq ft with the sale price of such an area being around ₹10,000 sq ft and the cost of the land is around ₹5000 sq ft. The material and other overhead cost is ₹2,500 sq ft. (This includes cement @ 25% GST, steel @ 12.5%, labour @ 12.5% and other finishing work @ 50%) loaded with estimated finance cost of ₹75,000. The total manufacturing cost to the developer will be ₹825,000 (excluding GST) and with ₹51,250 as GST, the total cost will be ₹876,250. With 8 per cent GST (with ITC), the outward GST liability for a developer will be ₹80,000 (ITC available is ₹51,250) and with 1% GST (without ITC) it will be ₹10,000. So, the GST liability payable in cash in case of first option will be ₹28,750 as against ₹10,000 in case of second one without ITC will be ₹10,000. If the price of the unit to customer is ₹10,00,000 (without GST), then The price will be ₹10,80,000 (with 8% GST) and ₹10,00,000 (with 1% GST). So, the net impact will be ₹70,000 benefit to the buyer. The cost to the builder will be ₹8,25,000 (with 8% (with ITC) and ₹8,76,250 (1% without ITC).

Also, as the sector is already grappling with low demand and high inventory pile up, developers are unlikely to raise

property prices. The move provides a major boost to affordable housing and thereby improving the sentiments.

Ravindra Sudhalkar, ED & CEO, Reliance Home Finance, says, “Doing away with ITC, the new tax rates which would be applicable from April 1, will directly benefit homebuyers as they won’t have to deal with uncertainties surrounding ITC. We estimate that buyers may have to pay at least 6 per cent less on

the overall purchase of property depending on the category. There are nearly six lakh under-construction homes lying unsold in the top seven cities. Of these, 34 per cent are priced below ₹40 lakh alone. With affordable housing now being defined within ₹45 lakh budget, more properties now fall under this category which coupled with the GST cut will make properties more “affordable”.

GST rate cut simplified

>>Around **7%** fall of gross value of affordable homes

>>A property of 100 sq ft will cost the developer around **₹825,000** (excluding GST) and with **₹51,250** as GST, the total cost will be **₹876,250**

>>With **8%** GST (With ITC), the outward GST liability for a developer will be **₹80,000** (ITC Available is **₹51,250**) and with **1%** GST (Without ITC) it will be **₹10,000**

>>A **₹10,00,000** (without GST) property will cost a consumer **₹10,80,000** (with **8%** GST) and **₹10,00,000** (with **1%** GST).

>>Net impact **₹70,000** benefit to the buyer

>>Cost to builder to be **₹8,25,000** (with **8%** GST (With ITC) and **₹8,76,250** (**1%** without ITC). (Rajat Mohan, partner, AMRG & Associates)

