

SALES TAX MAY HAVE MINIMAL IMPACT ON HOUSING DEMAND

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The recent imposition of service tax on residential properties will have only a minimal impact on the demand for residential properties in the real estate sector as most buyers in the market are end-users than investors.

This service tax of 10.3 per cent on 25 per cent of the home value, which will translate into a close to 2.6 per cent of the home value on projects under construction, was proposed in the Union Budget of 2010-11. This proposed service tax has been effective since last Thursday and is expected to increase property prices in the near future.

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are more end-users in the market, demand will be sustained at the present level," Jackbastian K Nazareth, chief operating officer, Puravankara Projects Ltd, said.

After the lull in the residential demand in 2008-09 due

to the recession, there has been a revival of demand in the residential space with better hiring prospects and higher disposable incomes, he added.

He, however, said that the rise of close to 2.6 per cent in property prices were ex-

pected to be passed on to consumers as most developers were already dealing with price rises of raw materials like cement and steel in recent times.

Other developers also echoed similar sentiments regarding the overall demand situation in the real estate sector.

"The imposition of a service tax may increase the price to some extent. However, with the economy showing great momentum and improved business and job scenario, the present fiscal will be much better than the previous one," J C Sharma, managing director of Sobha Developers, said.

He also said, the recent rate hikes would have a minimal impact till home loan rates stayed in single digits.

However, industry experts have a different view.

"As property prices have already increased 15-30 per cent, any additional cost component will have some negative impact on the residential market," Goutam Chakraborty, region-

al director of real estate consultancy firm, Colliers International, said.

He also said, any rate hike in home loan segment could dampen the present growth scenario.

Further, according to real estate consultancy firm Jones Lang Lasalle Megharaj (JLLM), the recent service tax will burden the consumer who is already dealing with hike in property prices.

"Recent service tax imposition will increase the unaffordability quotient of homes, especially in cities like Mumbai and Delhi, where home buyers are already struggling with the recent spurt in residential property prices," Gautam Hora, vice president-capital markets of JLLM said.

He also said, in cities like Pune, Bangalore, Chennai and Hyderabad, where consumers were more price sensitive, developers would have greater challenges with rising prices.