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RBI CUT: ICING ON THE CAKE!

The timing of the reduction in policy rate by the RBI could not have been better. Not only will this improve the overall sentiment, it will also boost the housing market, which is already showing signs of recovery

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The RBI's decision to cut repo rate — the rate at which the central bank gives short-term loans to banks — by 0.25 percentage points and a change in policy stance to neutral from “calibrated tightening” indicates easy availability of funds at comparatively lower rates, thereby driving growth of the economy. **This is an indication that controlling inflation is not the only responsibility of the central bank, as stated so far, but driving growth in the economy is also part of its charter.**

The home loan rates are also likely to be cut. With the prevailing low inflation rates, 2019 may see a lower interest rates regime benefitting loan takers. **Abheek Barua**, chief economist of HDFC Bank, said that “growth” has re-entered the central bank’s vocabulary — as something to be cherished and not to be viewed exclusively as something that raised the risk of inflation.

This is good news for real estate sector, easily the worst affected by the current high interest rates.

Jaxay Shah, national president of Credai, said: “Reduction of repo rate by 0.25% and change in policy stance to ‘neutral’ by RBI will boost investment sentiments in the economy and add momentum to growth impulses through the interim Budget 2019-20. The consequential reduction in EMI burden for consumers should pep up housing demand further. With inflation down to historic levels, India is now all set to leap forward into higher growth trajectory for a long time to come.”

“We continue to expect another 50bps (0.5 percentage points) cut in the rest of 2019 as inflation outlook remains benign and global rate cycle is peaking out,” **Edelweiss Research** said in a report, drawing attention to the prevailing low inflation rates in the country. **HDFC Bank**, too, anticipates another round



The interim Budget has announced a slew of measures to boost the real estate sector. Some of them are:

Capital gains on residential units and their investment: The benefit of rollover of capital gains under Section 54 of the Income Tax Act

has been increased from investment in one residential house to two residential houses for capital gains of up to Rs 2 crore. The benefit can be availed only once in a lifetime.

Earlier, one could invest the capital gains on the sale of a house to buy only one house. This restriction has been relaxed now.

Currently, income tax on notional rent is payable if one has more than one self-occupied house. Keeping in mind the fact that families may need to maintain a house at two locations owing to their job profiles, there has been a proposal to exempt levy of income tax on notional rent on a second self-occupied house.

The TDS threshold for deduction of tax on annual rent has been increased from Rs 1,80,000 to Rs 2,40,000.

Affordable housing, Section 80 IBA: Where the gross total income of a developer includes any profits and gains derived from the business of developing and building housing projects, there shall be a deduction



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of cut in the policy rate in its report.

If banks' cut home-loan rate by one percentage point in 2019, the EMI on a Rs 50 lakh loan will come down by Rs 3,215 — from Rs 46,606 to Rs 43,391.

Anshuman Magazine, chairman and CEO (India, South East Asia, Middle East, and Africa) of CBRE, said: “The Reserve Bank of India’s decision to slash the repo rate by 25 basis points is welcome. This will spur investment and boost demand. The rate cut coupled with the budget stimulus for the economy, and the real estate sector in particular, will impact consumer sentiments positively.”

Ramesh Nair, CEO and country head of JLL-India, said that RBI’s decision to reduce repo rate by 25 bp has mainly come on the back of declining headline inflation below 4% and stable macroeconomic indicators. **He said 2019 has started on a positive note for Indian real estate with a welcome Budget that has given a slew of incentives for homebuyers and developers with adequate focus on affordable housing.**

“With residential sales and new launches on an upward trend in 2018, genuine homebuyers are now actively considering a serious buying decision. Overall, this is going to have a positive impact on the housing market and we expect sales and launches to gain momentum on the back of improved economic scenario,” Nair said.

of an amount equal to 100% of the profits and gains derived from such business. This, provided the house is approved on or before March 31, 2019, which has now been extended to March 31, 2020.

Tax on notional income:

Developers are currently taxed on the unoccupied units in their completed projects on notional rental income. A relaxation of one year from the completion date was given to them for liquidating their inventory in Budget 2017-18. This time, the limit has been extended to two years.

Manoj Gaur, MD of Gaur's Group and vice-president of Credai National, says: “With the RBI reducing repo rate after keeping it unchanged for the last two monetary policy reviews, it shows a softer stand towards lending. I am sure banks will also reduce lending rates, which can boost sentiment in the market. Coupled with the repo rate cut and the push that the government gave for affordable housing segment in Budget 2019, where income tax rebate was extended to Rs 5 lakh, I am sure end users will now be more motivated to purchase houses.”