

# GST ‘a momentary dampener in the real estate space’

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Chennai-headquartered Sundaram BNP Paribas Home Finance (SBPHFL), which has an established track record in the housing finance segment, expects 2018-19 to be a year of improved buyer sentiment, controlled new launches, better sales, declining inventory of unsold units, and consolidation. Srinivas Acharya, Managing Director of the company, spoke about the regulatory (RERA) and GST impacts on the housing sector, customer sentiments, and the liquidity crisis staring at the sector. Edited excerpts:

### **How was the growth in the first half of this fiscal?**

We achieved about 10 per cent disbursement growth in the first half of this fiscal. In Tamil Nadu, all regions have done well.

However, the Chennai market, which contributes 17-18 per cent of our business, has slowed down. In Kerala, the north has done well for us.

### **Was there an impact of GST on the real estate sector?**

In the retail segment, there seems to be some resistance from buyers in accepting a 12 per cent GST, though the same segment of buyers has gladly accepted GST in other areas. It has not killed demand, but it's not fructifying into sales. Hence, I would say GST is a momentary dampener in the real estate space.

Only builders who have enough working capital can complete construction with their own money. For such builders, when they offer as a fully completed project, there will be no GST for buyers.

### **What have been the benefits of RERA?**

There is some sanity in the real estate space because of RERA, even though there has been no serious implementation across all the States. Achieving complete unanimity in RERA in all States will add to its credibility. In Maharashtra, there has been full implementation and administration of RERA. Overall, buyers have expressed happiness with RERA coming into force as they see two clear positives – time-bound projects and completion within the set deadline – and the end-user funds being put in the right project for which it was meant.

### **How big is the affordable housing opportunity for you?**

Affordable housing is only to be sold through location advantage. Subsidy should come in terms of land availability and not cash subsidy. Creation of affordable housing should be complemented by enough jobs in and around that zone. At present, there is a lot of demand, and we are doing well in the affordable housing segment. About 40 per cent of our business accrues from this segment. Going forward, affordable housing will be a strong growth driver for us.

### **How is the demand in the second-hand home market?**

With no GST on second-hand sales, that segment has been doing well. One of the drivers for this is the buyer's belief in the concept of 'a known devil is better than an unknown angel'. Unlike a new construction, the buyer does not buy (second-hand flat) with his eyes closed. He has a clear view on the convenience available in the existing flat and the issues related to that.

Also, it is likely that a second-hand house is much nearer his choice of location than a new flat, which is likely to be far off. For Sundaram Home Finance, 18-20 per cent of the business comes in from the second-hand segment.

### **How do you view the interest rate scenario and the likely impact?**

While the interest rate is likely to go up, the rise will not be a major issue in terms of the buying decision. At present, the issue of unanimity of RERA and infrastructure developmental challenges are weighing down sales and not interest rate-related issues.

### **What are your fund-raising plans?**

Our plan is to raise around ₹3,500 crore this year. In the first half, we raised around ₹1,600 crore. We do not go much for short-term borrowing. There is no worry on the liquidity front for well-run companies with good governance. The challenge is more on the cost of funds.

### **What is your growth outlook for the second half?**

We are targeting a disbursement growth of about 10 per cent.

### **What will drive growth in the real estate space in Chennai? Will demand remain robust, going forward?**

The lack of employment opportunities in Chennai has been a hurdle to the growth of the realty sector. The market had estimated a big boom in employment generation, and that was the reason for the creation of a huge inventory. But with the boom not happening and jobs going elsewhere, a large part of the inventory has remained unsold.

The inventory is currently coming down, but that is because builders have stopped adding inventory. In the current scenario, staying power is required for the builder. Job creation is a critical factor for the demand. Chennai has a number of inherent positives, and the city has to use these to attract people. The government has to give an infrastructure push, and this will help dispel buyer resistance.