

Currency ban: Input cost of developers may increase

Industry however is divided whether the developer will pass on this increased price on end-user or not. Ankit Sharma | November 11, 2016, 09:40 IST

NEW DELHI: With black money out of the picture, several components within the production chain of a project will incur capital gain tax eventually increasing the input costs of a developer.

Development of a residential or commercial project involves a lot of stakeholders: contractor, labourers, wood machinist, ceiling fixer, electrician, architect, civil engineer and painter among others. Majority of these people are paid in cash, an amount which is unaccounted for. If all of these are paid legitimately each stakeholder will have to bear capital gain tax on the entire amount, which is expected to be passed on to the builder.

The cash cost will be even higher in a project being developed by small scale developers.

Sachin Sandhir, Global Managing Director-Emerging Business, RICS gives an example of a landowner who 24 hours before the announcement may have entered into an agreement with a developer where part of the consideration paid would be unaccounted. "Now, since the landowner can no longer do that – he would either sit out on the land, stalling the entire development project, or charge a higher premium to maintain the same cash margins after tax. The same principle also works between developers, contractors and sub-contractors," he adds.

Industry however is divided whether the developer will pass on this increased price on end-user or not.

Sachin believes with progress of time, it will not be surprising to see prices go up as sellers come to terms with the fact that capital gains tax has to be paid on monies. Sellers are likely to factor that liability into the sale price.

On the other hand Ajay Jain, Executive Director, Investment Banking & Head, Real Estate Group - Centrum Capital Ltd says that prices may actually go down. "Due to RERA and strict regulations and penalties to deliver projects on time, developers will be left with no option but to reduce prices and sell existing inventory so as to complete their projects. Thus monetary loss with respect to reduced prices will be witnessed and will depend on the price cuts in different locations across different housing segments."

For M Murali, Managing Director, Shriram Properties high input costs and negligible profit margin means a stable market. "It may have some transitory impact expecting fall in prices, which of course is already bottomed out because of high input costs. Fence sitters may defer their decision for the time being but will understand the reality and come back soon," he says.