



Indian Chamber of Commerce

Real Estate staring at 65% Payment defaults: ICC

The Indian real estate industry, with its current worth of around US\$ 12 billion, ranks second in the world in terms of generating employment and contribute to about 5% of GDP. The recent lockdown due to COVID-19 is predicted to have catastrophic effect on already troubled Real Estate Sector. As per a report, residential sales, which in 2019 stood at approximately 2.61 lakh units in these markets, may now range between 1.70 lakh and 1.96 lakh units. New launches may also witness a 25-30 percent decline during the same period to anywhere between 1.66 lakh -1.78 lakh units.

The real estate sector already in a slump since last year is presently experiencing almost 65% payment default from customers paying the installments linked to construction, said a press release issued by ICC. Social Quarantining has created a drastic drop in sales with no clarity on revival. International Trade restrictions at present have halted the supply of raw materials essential to the RE Sector. China, although being the epicenter of Corona virus happens to be the biggest supplier to the Indian real estate industry. The present crisis could lead to a shortage of Raw materials critical to construction and might face escalation in prices in days to come.

The Commercial Spaces hired to the Retail & Hospitality Sector are closed due to the lockdown with practically no earnings. In Case of Shopping Malls additional expenses are being incurred such as food and sanitization provided to the manpower associated with the grocery sections which are open at present. Such businesses are only incurring expenses at present with no business to justify.

ICC suggests for Real Estate being one among the significant sectors should be primarily supported by the State Government with the waiver of Municipal taxes for at least one quarter. Additionally, organizations which are not able to clear up taxes or bills should not be penalized and given around 3 to 6 months' time for repayment of the same.

It remains unknown regarding how much time the projects under construction will take to be handed over depending on the present scarcity of labor, raw material, technical supportetc. Thus **ICC recommends** a period of 6 months should granted by the Housing Regulatory Authority to be exempted/ extended period of the delivery of projects. **ICC also suggests** the Delayed Payment Act prevalent in the MSME Sector should extended to the RE Industry. This will discourage payment default by customers enabling Constructors to charge penal interest on delayed payment beyond agreed period of time.

ICC also recommends **Interest free Loan EMI moratorium for 6 months** to be provided as a relief to this extensive manpower driven industry to survive this difficult

time. This will in turn prove helpful in protecting employment of the large manpower associated.

Construction supply from China such as steel and many more, dominates India RE Market. Resulting to present **withdrawal of such supplies due to Border Sealing** between India with neighboring countries can be a good opportunity for Indian manufacturers to enter and expand in the domestic market and spread across the International Markets. To facilitate this opportunity of expansion of Indian market, the **Government should restructure the tax component of such supplies**. This would encourage the manufacturing sector in the domestic & International market to grow along with it would curtail the dependence of the Indian RE Sector on China.

In many cases, the workers are still at construction sites. It may be a good idea to keep them engaged in some activity with strict sanitization protocols.

Finally, a weaker rupee may also revive demand among non-resident Indians, ICC feels. However, Real Estate sector desperately needs a bailout package on an urgent basis.