

Credai-MCHI Change of Guard Ceremony

July 31, 2018

Honourable Chief Minister, Devendra Fadnavis, Gautam Chatterjee, Ajoy Mehta, Mayur Shah, Nayan Shah, ladies and gentlemen:

Good evening and thank you for inviting me to this very special handing over ceremony of the President of Credai-MCHI. From one “Shah” to another, I wish both, the outgoing and incoming Presidents the very best.

Today is not just about handing over the baton. We are gathered here today to brainstorm on critical issues impacting the real estate sector and together, we can hopefully find some solutions. We all understand the importance of the construction sector on the economy, on job creation and the stimulus this sector gives to a multitude of other sectors.

This platform should be less of monologues and more of free, frank and constructive dialogue. Each of us here have different jobs and responsibilities and therefore, we may have differing views on various issues. But the one thing that we are undisputedly bound by is taking forward the Prime Minister’s vision of Housing for All.

I have said this on many occasions, that in all my 40 odd years of working in real estate, I have never been as optimistic as I am currently. The central government has been at the forefront, having taken several measures to boost the housing sector.

Today, there is a distinct shift in the preference of developers who are now focusing on the affordable housing segment or smaller size units. Presently, across India, more than half of the new home launches are in the under Rs. 50 lac segment. In the first half of this year, Mumbai and Pune have both led with good growth in fresh launches and sales.

So with the supply of homes at affordable price points steadily rising, it is important to acknowledge that the face of the city is also rapidly evolving. Due credit must go to the Chief Minister for his relentless efforts on many marquee infrastructure projects across Mumbai that are underway such as the metro rail projects, Navi Mumbai airport, Nagpur-Mumbai corridor, Trans Harbour Link, Coastal Road Project, expansion of the existing suburban rail network amongst several others. As we all know, we can’t fulfill the dream of housing more people in our cities unless we improve connectivity. Every big infrastructure project spells great opportunity for expanding residential property.

The real estate industry has been amongst the most resilient sectors that I know of. Ask most developers and they will throw a long list of woes – demonetisation, GST, RERA, rising interest

rates, tighter liquidity conditions, slower sales, and stagnant real estate prices. No doubt, these are challenging times. The traditional business model of developers has been disrupted and as a result, there is a weeding out process going on where weaker developers will either have to partner with stronger ones to survive or they may eventually have to bow out.

Real estate companies have to learn to adapt as they recalibrate to new institutional and structural reforms. We must remember that any sector or business runs efficiently as long as there is trust and conversely, there is trouble and red flags get raised when mistrust sets in. The flurry of reforms in the real estate sector was to help restore that trust.

MahaRERA has stood out compared to other states as it has been recognised for truly upholding the spirit of the law. To my mind, RERA is building back the cycle of trust again. A strong regulator ensures discipline amongst the entire developer community, which in turn gives confidence to potential homebuyers to return back to the market, especially for under construction properties. When demand increases, financiers are more confident to lend and that is how the whole business cycle revives. At the end of the day, confidence and trust are the key pillars. While due credit must go to Gautam Chatterjee and his team, I must also warn that because of his outstanding performance, there is a buzz that Gautam may well get poached either by the centre or by another state. Talent retention is always a challenge!

I am given to understand that GST being levied on under-construction properties is a pain point for real estate developers. One must appreciate that GST issues are constantly being reviewed by the council and attempts are regularly being made to iron out various issues. I am sure this will be the case with GST on real estate as well. There has already been a recognition of the need to have a lower GST rate for affordable housing projects. Yet, there remains lack of clarity on input tax credit, abatement of land values and anti-profiteering provisions. The other issue is that stamp duty and registration charges are not subsumed with GST. And of course, the proposal to levy a surcharge on stamp duty has got developers worried again.

Now there are two sides to this argument. Developers say that the additional surcharge will further dampen the fragile real estate markets and will be an increased burden for homebuyers. The flip side of the argument is that additional resources are needed in order to generate funds for big ticket infrastructure projects in the city. Both arguments are valid, yet we need to find a via media.

To my mind, the solution lies in addressing two issues -- how do we make housing more affordable and how should we be looking at improving the ease of doing business? I don't want to spend too much time on this because I have for years been repeating myself on the need to have faster building approvals. Here again, there seems to be a disconnect. Builders have always said that it is the inordinate delays and cumbersome processes of obtaining building approvals

that result in time and cost overruns and it is the ultimate homebuyer that bears the burden. When this issue is raised with the local authorities, they say delays are not at their end.

I know I am raising an uncomfortable issue here, but we do need to be honest with ourselves if we want to see improvements. Last month, when the Prime Minister was in Mumbai, he met with various business heads and asked how things could be improved and as predictable as I am, I mentioned the need for faster building approvals. His office followed up after the meeting and requested me to collate a list of specific projects where building approvals were being delayed. When I reached out to developers to get these details, I was taken aback that most were reluctant to share this information for fear of a backlash by the local authorities.

This impasse strengthens the case to have a single window for approvals. There is a need to change the way approvals are given. World over, architects self-certify that construction has been in accordance with the approved building plans. We can have strict laws which will revoke the licenses of architects if deviations are found.

The current piecemeal approach of seeking approvals at different stages from different authorities needs to change. Some processes are unduly cumbersome. The Urban Land Ceiling Act was repealed by the centre in 1999 and Maharashtra repealed the act in 2007. Yet, there is still an ULC department in existence today. The multiplicity of approvals required from different authorities – defence, MOEF, civil aviation, railways etc. has to be streamlined to help reduce timelines. With the strides that the government has made on digitisation, integrating these approvals to one platform can be easily done. Once approvals are online, timelines can be transparently monitored.

If affordable housing is the key priority, then why can't at least approvals for residential affordable housing units be fast tracked?

I do not wish to take up any more time, but I am of the firm belief that Maharashtra should take this lead. It's a small effort, but this will place the state at the forefront in the ease of doing business and simultaneously help Maharashtra achieve its vision of being a US\$ 1 trillion economy by 2025.

Thank you.