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Research Article

A Study Of Influence Of Goods & Services Tax (GST) On The Demand For Indian Real Estate Market

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ABSTRACT

Goods and Services Tax (GST) was introduced to plug the loop holes in indirect tax collection in India. It was also intended to bring about simplicity and transparency in the collection of taxes for goods and services. The primary objective was to streamline the taxation system by amalgamating numerous Central and State taxes into a singular tax framework, thereby alleviating issues such as cascading or double taxation and facilitating the creation of a unified national market. From a consumer perspective, the anticipated benefit would be in terms of reduction taxes levied on goods and services, estimated to range between around 30%. Additionally, the introduction of GST was anticipated to enhance the competitiveness of Indian products both domestically and internationally, consequently fostering economic growth. Notably, the transparent and self-regulating nature of GST was expected to streamline administration processes. The proposal for transitioning to GST was initially introduced by Finance Minister of India in the budget session of 2006-07. A committee constituted by the finance ministers of all the states was given the task of formulating a structure for GST building upon its prior experience in designing State VAT. A functional group consisting of representatives from central and state governments studied in details the various aspects indirect taxation. The first outcome paper on GST served as a foundational document for further discussion between the Centre and the States council members. The present study aims to assess two primary objectives: firstly, to gauge the immediate impact of GST on real estate demand within the residential sectors of Pune city; and secondly, to evaluate the level of awareness among the populace regarding demonetization and its associated benefits.

Key Words: Goods and Services Tax, Illegal Activities, Tax Evasion, Cash Transactions and Liquidity

1. Introduction

Construction is India's second largest industry after agriculture domain. Construction contributes 10.5 % of the total economic output in the year 2021-22 and is forecasted to be about 9.4 % of the total economic output in the year 2029-30. It creates employment approximate of 7.1 crore people in 2023. This industry has approximately 75 major enterprises and 28000 organised companies. The real estate sector in India is ready to grow and potentially it will reach to Rs. 3.4 lakhs crore domestic institutional capital. In the year 2016-17, the real estate sector was majorly affected by demonetization along with the Benami Transaction (Prevention) Act **(Nair, R. 2016)**, the Real Estate Regulatory Act, Goods and Services Tax. These factors in the short term negatively impacted the real estate sector. However, from the long-term perspective, the increased liquidity in the banking system due to demonetizations let to increase the loanable funds. Which imply the lower interest rate for funding the real estate sectors including home loan in India. This lower interest rate encouraged the home buyers to buy their dwellings. The lower interest rates due to different economic initiatives taken by the government such as demonetization and others mentioned above, has resulted the decreased of interest rate from 9.45% to 8.40% in the year 2017-18 and this has further increased by the purchasing power of real estate. The same EMI would, at a lower interest rate provide for a higher amount of home loan. The higher home loan used to purchase a home at a lower price would enable the customer to purchase bigger areas of dwellings. The real estate boom started with the metropolitan areas of Bengaluru and Delhi NCR. The market for real estate has shifted substantially away from metros and towards suburbs, as well as other major cities. In the old

taxation system prior to GST regime, the entire taxation mechanism was divided between the central and state governments. The central government earlier taxed manufactured goods and also services tax was charged only by central government. Customs duty and additional custom duty where also charged by central government in case of import of goods. The state governments levied taxed on goods sales and also in inter state sales the tax was charged and held by the originating states. The implementation of GST necessitated the constitutional reforms to empower both central and state governments to collect the taxes. GST necessitates the creation of distinctive institutional system laying out the framework and execution of GST by collaboration between central and state governments.

2. Objectives of the Study

i) To identify the challenges for real estate market due to implementation of Goods and Services Tax (GST) in India.
ii) To carryout impact analysis of GST implementation on real estate sector in India.

3. Review of Literature

Investment in the real estate sector after 2020 represents an unparalleled opportunity for investors in real estate and asset managers, but with increased risk. The real estate company is one of the major contributors to the growth of the Indian economy, with forward and backward linkages to over 250 sectors and related industries **(KPMG, 2016).** India has the world's largest housing market, which comprises more than 75-80 % of the global real estate market's total value **(IBEF 2016).** The growth potential is substantial since India would need to create over 17 crore homes by 2030 to meet the needs of India's burgeoning urban population **(Global Construction Perspectives and Oxford Economics, 2015).** Over the previous five years, the construction sector's contributions of Indian GDP stayed steady at 7-8% (Capital Market, 2016). Because of building delay and demonetisation, which affected sales of residential properties, the sector's expansion decreased in 2016 and is expected to decrease from 3.9% in 2015-16 to 2.9% in 2016-17 **(Vision IAS, 2017).** Indian real estate received the second-highest Private Equity (PE) investments in 2016, rising by more than 62% year on year to INR 38,000 crore **(Sandilya, 2017).** Foreign capital in the Indian real sector is low with as only Rs. 470 crore of investment reported between January and September of 2016 **(India, Ministry of Commerce and Industry, Department of Industrial Policy & Promotion, Government of India, 2018).** Over the previous five years, the construction sector's contributions of Indian GDP stayed steady at 7-8% **(Capital Market, 2016).** There is a scope of further increase of credit development in India, as the ratio of credit and GDP is only 9, significantly lower compared to developed nations. The urban housing shortfall is 1.9 crore units, with 95.6% in the Lesser Income Group (LIG) and Economically Weaker Section (EWS) **(MUHPA, 2017).** In June 2015, the Government of India established the housing for all scheme for urban (Pradhan Mantri Away Yojana) to solve the urban housing crisis. This scheme has targeted to achieve through interest subsidies to the banks or credits. Demand of residential units in the 8 major cities dropped to a 7 year low of roughly 2,45,000 units in 2016, owing to decreased demand over the three to four years prior. Similarly, new home releases fell to pre-2008 crisis levels in 2016, with only 1,76,000 units launched **(Knight Frank India, 2017).** Several difficulties have come up in the field of real estate, some of which are outlined below. While there is a significant housing shortage in urban areas, the eight largest cities in India are projected to have approximately a total of 6.4 lakh unoccupied housing units. At the current rate of acceptance, it could take more than five years to clear the inventory of homes in places like Delhi-NCR, which has the greatest demand in unsold inventory. Developable property is limited in cities and less developed regions of cities lack sufficient infrastructure for cities, increasing the overall project cost. One of the biggest and most urgent issues negatively impacting the housing sectors is the lack of correct property documents and title, which leads to legal complications and completion delays. Even though the real estate industry constitutes the third biggest part of the Indian economy, it gets only 3% of the total loans from banks **(RBI, 2017).** This limits access to long-term and low-cost funding channels, particularly through banking and external commercial borrowings (ECB). The real estate sector has been facing liquidity concerns and increasing liabilities. The total amount of balances owed by listed real estate companies in India grew from INR25,000 crore in FY07 to greater than INR83,000 crore in FY2016. The lack of a strong microfinance sector makes it difficult for the Economically Weaker Section (EWS) and Lower Income Group (LIG) to get housing finance financing. With over 30-35 regulatory permissions required for a developer to construct a real estate project in India, the entire procedure becomes onerous and causes delays, increasing project costs by 20-30% **(KPMG, 2016).**

4. Research Methodology

The study examines mainly primary data in addition to some secondary data. It uses structured questionnaires to collect data through personal interview methods.

Sampling method: Judgmental sampling.
Sample Size: 100

The Likert scale is a great instrument to gauge attitudes, behavioural shifts, values, knowledge etc. This scale provides a hierarchy to the individuals choice for best expresses their opinions. It is frequently employed to assess respondents' sentiments by asking how much their opinion matched or not with a specific issue or view. Likert-type or frequency measures use fixed-choice response formats to assess views or attitudes **(Bowling 1997; Burns & Grove 1997)**. Respondents may be given different choices like 5 or 7 or 9 close ended replies, with one balancing point of not agree or disagree. This is quite beneficial to assess the general worth of a specific situation. Likert-type evaluations are frequently employed by investigators to assess the level of degree or disagree. Every opinion is assigned a number, that is utilised to assess the attitude under examination. The replies gathered for factor analysis in this study produced such qualitative data. So, to gain a better knowledge of and predict the results of responses to real estate market demand patterns, we used the Likert scale.
The Likert scale adopted for this study is given below:

1. Strongly Disagree
2. Disagree
3. Neither Agree nor Disagree
4. Agree
5. Strongly Agree

For the data analysis, 20 factors that influence real estate buying are taken into consideration.

Table 1: Factors impacting Home Buyers due to implementation of GST

S. No	Factors	
1	Do you think implementing GST will lead to an increase in the cost of construction?	F1
2	Do you think GST will increase the monetary burden on the buyers?	F2
3	Will the GST cause the EMIs on home loans to go up?	F3
4	Do you think that there would be a great impact of the GST on property rentals?	F4
5	Will the implementation of GST affect affordable housing projects?	F4
6	Do you think GST will raise the prices for end users in retail development?	F6
7	Do you think implementing GST is no more tedious as compared to the taxes in the earlier regime?	F7
8	Will it increase the price of commercial and industrial units in real estate?	F8
9	Do you think that the introduction of input tax credit will decrease the cost of construction?	F9
10	Do you think by putting the Real Estate sector in 18% GST bracket will justify the investments of developers after investing 12% of GST on material cost?	F10
11	Do you think inflation will have adverse impact in the compliance of GST?	F11
12	Do you think implementation of GST will have easier redressal for tax in this sector?	F12
13	Under-construction buildings attract GST would increase the cost of construction	F13
14	Will the transaction period impact the developers and consumers in all?	F14
15	Will it help in re-structuring of the Real Estate market by associating vendors and service sectors with it?	F15
16	Leasing and renting of land and building would also invite GST	F16
17	Will property prices go up, with the GST being applicable on all construction-related materials and services?	F17
18	Will it bring more transparency in the real estate market?	F18
19	Demand of GST on residential real estate units	F19
20	Demand of GST on commercial real estate units	F20

The Factor Analysis was implemented to determine the major variables impacting the demand of housing due to the introduction of GST on July 1, 2017. It is used for distilling multiple variables into a small number of key elements.

5. Statistical Data Analysis and Results Discussions

In Sample Adequacy Test, we have used Kaiser-Meyer-Olkin to measure the sample sufficiency which lies within 0 to 1. The preferred magnitude of values is closer to 1 and the lowest magnitude of acceptance is 0.6. To tests the null hypothesis assumption, we have incorporated Bartlett's Test of Sphericity.

Null Hypothesis

H0: No statistically significant relation exists between factors influencing the success of the real estate sector in India and GST.

Alternate Hypothesis

H1: There may be a statistically significant relation between factors influencing the growth of the real estate sector in India and GST.

Table 2: KMO and Bartlett's Test GST

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.751
Bartlett's Test of Sphericity	Approx. Chi-Square	631.267
	Df	210
	Sig.	.000

Normally, 0 < KMO < 1 If KMO > 0.5, the sample is adequate. Here, KMO = 0.751 which indicates that the sample is adequate and we may proceed with the Factor Analysis.

Bartlett's Test of Sphericity

Taking a 95% level of Significance, α = 0.05. The p-value (Sig.) of .000 < 0.05, therefore the Factor Analysis is valid. As p < α, we therefore reject the null hypothesis H0 and accept the alternate hypothesis (H1) that there may be statistically significant interrelationships between variables.
The Kaiser-Meyer Olkin (KMO) and Bartlett's Test measure of sampling adequacy was used to examine the appropriateness of Factor Analysis. The approximate Chi-square is 631.267 with 210 degrees of freedom, which is significant at a 0.05 Level of significance. The KMO statistic of 0.751 is also large (greater than 0.50). Hence Factor Analysis is considered as an appropriate technique for further analysis of the data.

Eigen values (Select those components with Eigen Values >= 1) (Table 3)

The initial components are the numbers of the variables used in the Factor Analysis. However, not all the 20 variables will be retained. In the present research, only the 6 factors will be extracted by combining the relevant variables. The Eigen values are the variances of the factors. The total column contains the Eigenvalue. The first factor will always account for the most variance and hence have the highest Eigen values. The next factor will account for as much of the leftover variance as it can and the same will continue till the last factor. The percentage of variance represents the percent of total variance accounted by each factor and the cumulative percentage gives the cumulative percentage of variance accounted by the present and the preceding factors. In the present research, the first 6 factors explain 62.610% of variance.
The rotation sums of the squared loading represent the distribution of the variance after the varimax rotation with Kaiser Normalisation. The varimax rotation tries to maximise the variance of each of the factors.

Total Variance Explained

	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.752	23.762	23.762	4.752	23.762	23.762	2.927	14.637	14.637
2	2.409	12.047	35.809	2.409	12.047	35.809	2.233	11.166	25.803
3	1.662	8.311	44.120	1.662	8.311	44.120	2.179	10.896	36.699
4	1.480	7.400	51.520	1.480	7.400	51.520	1.804	9.019	45.718
5	1.175	5.874	57.395	1.175	5.874	57.395	1.713	8.565	54.283
6	1.043	5.215	62.610	1.043	5.215	62.610	1.666	8.328	62.610
7	.967	4.834	67.444						
8	.882	4.409	71.853						
9	.749	3.746	75.599						
10	.734	3.669	79.268						
11	.669	3.345	82.612						
12	.597	2.987	85.600						
13	.523	2.617	88.217						
14	.479	2.394	90.611						
15	.462	2.309	92.920						
16	.376	1.882	94.802						
17	.334	1.670	96.472						
18	.286	1.431	97.903						
19	.234	1.170	99.073						
20	.185	.927	100.000						

Extraction Method: Principal Component Analysis.

Table 3: Explanation of Total Variance-GST

The above matrix depicts the correlation between the variables and each of the extracted factors. Typically, each variable is heavily loaded in one component and less loaded in the other factors. To choose which variables are included in each component, the variable with the highest value in each row is chosen to be a part of that factor. The values in each row have been highlighted to help arrange the 20 variables into 6 fundamental components.

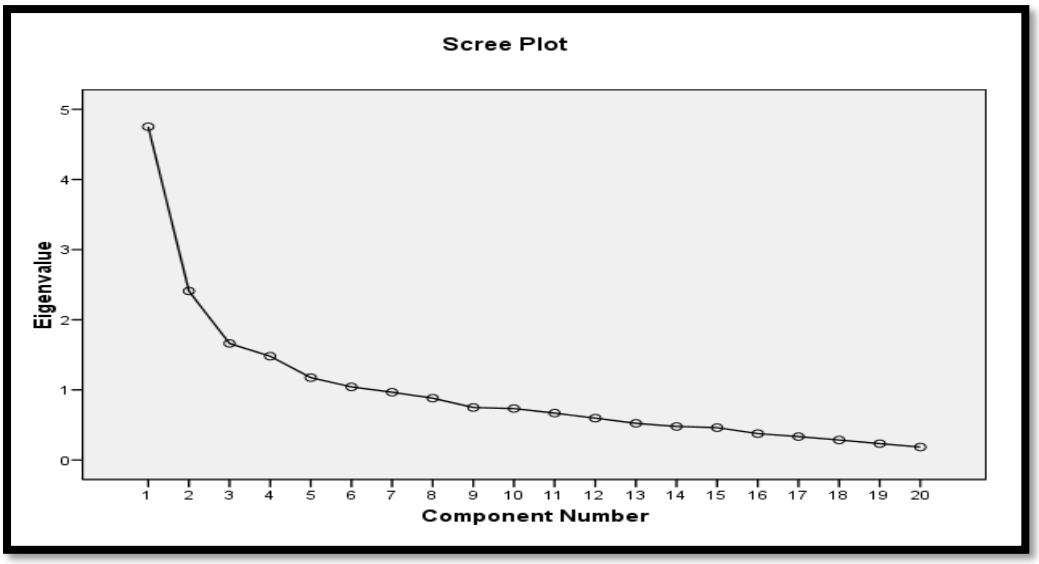

Figure 1: Screen Plot-GST

In the above figure, factor wise Eigenvalues and corresponding scree plots are shown. It has been observed that there is remarkable change of scree plot's curvature from factor 6 onwards. The total variance is very small thereafter.

Table 4: Core Factors Affecting GST

FACTOR NO.	FACTOR NAME	EIGEN VALUE	VARIANCE	CUMULATIVE VALUES
1	Increase in Construction Cost	4.752	14.637	14.637
2	Monetary Burden	2.409	11.166	25.803
3	Shoot of EMIs on Home Loans	1.662	10.896	36.699
4	Property Rentals	1.480	9.019	45.718
5	Affordable Housing	1.175	8.565	54.283
6	Price rise for end users in Retail	1.043	8.328	62.610

According to Table 4, most of the respondents feel that as different building material will attract tax under GST, the overall cost of real estate construction will increase. Respondents agree that due to GST the Monetary Burden will increase as the developer /contractor will not bear the extra burden of tax on them and that will result in the increased cost of the predefined real estate. A maximum of the defendants feels that if real Estate comes under GST then there will be a sharp increase in the EMIs of home loans as the loans themselves will also attract taxes. Due to this the EMI's will shoot up. A large number of respondents believe that property rents will increase because of GST as the owner of the rental property will have to pay more to buy the property. So, the owners of the rental property will try to increase the rent on that property. Many of the respondents feel that affordable housing projects will be affected if the real estate is brought under GST. They say that due to GST the prices of the houses will increase more as it will attract a common tax which would be more as compared to today. 50% of the respondents say that because of GST, there will be an increase in the cost of the supply chain which would ultimately result in paying of higher prices by the real estate end users.

6. Conclusion

The imposition of Goods and Service Tax (GST) will impact the Indian real estate sector in several ways. The GST will be charged on the different building material used in construction activities and so the overall construction costs in real estate sectors will go up. The price level for buyers will go up as builders will pass on the increased cost of construction to the buyers. The EMI burden along with down payment will increase on the buyers as the loan amount given by financial institutions will also be subject to GST. The final conclusion is that there is significant relationship between Goods and Service Tax (GST) and the dependent variables like increase in construction cost, monetary burden, increase of EMI on home loans, property rentals, affordable housing and price rise for end users in retail. These variables are the core factors involved in the real estate sector and also will have a direct impact on demand. Therefore, GST will have a considerable impact on demand of Real Estate in India.

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