How to clean up real estate?

Why in news?

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- Realty stocks have fallen almost a quarter after November 8, the day demonetisation was announced. One of the reason cited for the move was to reduce the prevalence of black money in real estate.
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- Prices could fall up to 25% in the next one or two quarters, builders reckon.
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What can be expected?

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- PM has said that the next crack down will be on benami property.
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- There is some talk doing the rounds that he may put a cap on cash transactions in the sector and anything above that will have to be paid in cheque.
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- The government needs to move urgently on this promise and block black money in real estate in every possible way.
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Why black money prevails in real estate sector?

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- It was precisely because of this prevalence of cash in the business that kept large corporations away from it. In the 1990s, many of them had said they would monetise their idle land holdings to launch real estate strong projects but they backed once they found out that a large chunk of the dealings were in cash.
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- The higher costs and the reasons for such a prevalence are -\n
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  - More than the primary real estate market, cash is prevalent in the secondary market. Sellers routinely **under-declare the value in order to save on tax**. This is how black money gets generated.
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  - It takes at least two years for a builder to get the mandatory sanctions from the government after he has purchased the land. During this period, the asset sits idle which **adds hugely to the builder's costs**.
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  - Moreover, builders normally **get credit at higher rates** than others. This is why most of them launch top-end projects — nobody these days seriously talks of affordable homes.
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  - Additionally, the **speed money** (bribe to speed up the process) paid by builders is always in cash and the amounts are huge. The builder needs to routinely replenish this cash, which he does by doing deals in black. This is a big reason why builders opt for cash, even in primary sales.
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- Unless these problems are fixed, any attempt to root out black money from real estate will fail to address the situation fully.
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What is the solution?

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- With the crackdown on black money in real estate, which could trigger a demand meltdown, land prices will hopefully begin to cool. This could help builders come up with affordable homes.
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- But for that, it is important to make all approvals transparent and remove all discretion from the hands of the bureaucrats. This will ensure that builders don't have to pay speed money and their land bank does not idle for long.
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- Here, the states will have to take the lead — each state has its own sets of rules and regulations for real estate. That is why you will find that there are no pan-India builders in the country. Each chooses to do business in one or two states because it is not easy to get a fix on the rules and regulations in all the states.
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- Regulation of builders, which protects home buyers, is important, but it is equally important to ensure that builders are not fleeced by errant politicians and bureaucrats.
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- However, there is strong resistance to any change from the people who stand to lose from such a move — for obvious reasons.
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