CUSHMAN & WAKEFIELD

UNION BUDGET 2024 - 25



Better never settles

INTRODUCTION

The Union Budget of 2024-25 marked the 50th day of the newly elected government. The finance minister was expected to not only help sustain the on-going economic growth momentum but also lay a strong foundation for growth over the 5-year tenure of its third term in the government. The Indian economy has been on a strong footing with three consecutive quarters witnessed growth exceeding all market expectations. The recently concluded FY2023-24 witnessed 8.2% growth, as against a revised expectation of ~7.6% by the government. Comfortable levels of inflation and fiscal deficit scenarios provides an assurance that the growth momentum isn't going to be challenged anytime soon.

Real estate has been immensely benefiting from this surging economic activity, with office, retail, industrial, warehousing and data centers, all witnessing healthy demand. Office sector has witnessed two consecutive years (2022 and 2023) of 70+ MSF of gross lease volume and demand has been more broad-based with sectors such as Engineering & Manufacturing, BFSI, Healthcare etc. complementing the IT sector. Record number of launches and sale of residential units across top-8 cities have kept residential developers on their toes, as consumers have been increasingly transitioning towards projects with better amenities and lifestyle quotient. Alternative assets such as warehousing, industrial and data centers are growing fast and racing towards becoming more mainstream.

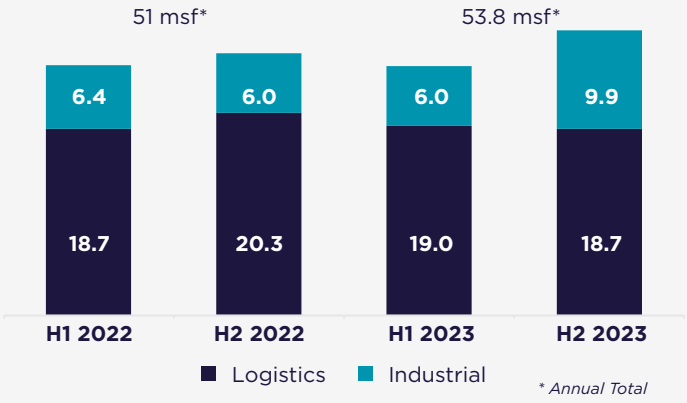
The real estate industry had high expectations from the budget in terms of removing potential roadblocks and creating a conducive environment for future growth. On the residential front, the industry was expecting the finance minister to announce measures to either increase disposal incomes or reduce tax burden over house ownerships. Commercial office sector was hoping for incentives towards Green building initiatives, clarity on SEZs, and assistance in creating an enabling framework for foreign companies to set-up operations here. Alternative segments such as warehousing, industrial and hospitality sectors had hopes of greater outlays for building infrastructure.

Walking on tight rope amidst industry expectations, the budget for FY 2024-25 did manage to create some excitement amongst the real estate community in India. While there could be limited channels of direct benefits doled out to the sector, the indirect benefits have been strong. Enabling further growth of the manufacturing sector, massive skill development initiatives, attracting foreign companies through tax rebates, and incentivising job creation across domains are seen as immensely positive for the overall development of real estate. Introduction of a simplified long term capital gains (LTCG) tax and complete abolition of Angel tax could be construed as steps taken towards ease of doing business in India, thereby benefiting investors and start-ups. Budget has attempted to encourage urban local bodies (ULBs) to adopt digitization of land records and bylaws with time frame of 3 years and the move has potential to unlock major investment opportunities in the medium-term. On the flip side, there are a few misses when compared with industry expectations, but we believe the Union Budget FY2024-25 has enough firepower to sustain the on-going momentum in commercial real estate for the near-to-medium term.

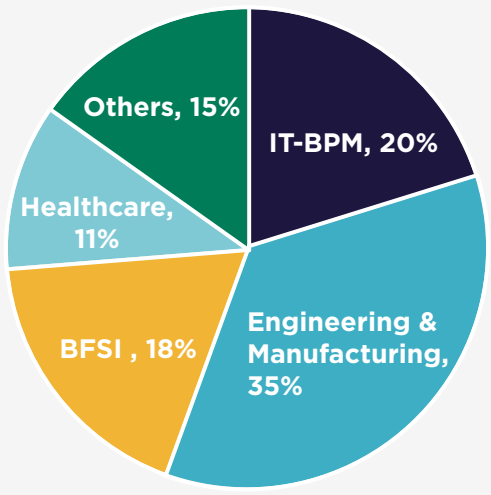
LOGISTICS & INDUSTRIAL SECTORS

"The Logistics & Industrial segment has been a fast-growing alternative asset class within the Indian real estate space, recording transaction volumes of 50+ MSF p.a. in recent years. This sector has been a major beneficiary of PLI scheme launched by the government in 2020, and the current budget seems focused on continuing to strengthen that framework. The enhanced focus on skill development through ITIs will be seen as a positive. New industrial corridors and digitalization of land records will provide further impetus to the sector."

L&I Consistently Delivering 50+ msf of Leasing Activity



E&M Sector Dominates GCC Leasing in India (2015-23 share of Leasing Activity)



Pre-Budget Top Expectations for Sector

1. Rationalisation of Customs Duty to promote domestic manufacturing
2. Introduce job creation incentives scheme similar to PLI scheme
3. Continued efforts on infrastructure development to reduce logistics cost

Budget Announcements

1. 12 industrial parks under the National Industrial Corridor Development Programme sanctioned.
2. 20 lakh youth will be skilled over a 5-year period. 1,000 Industrial Training Institutes will be upgraded in hub and spoke approach with outcome orientation
3. Rationalisation of customs duty for 25 critical minerals to boost domestic manufacturing industry.
4. Reduced custom duty from 7.5% to zero for capital goods utilised for solar panel manufacturing.
5. EPFO subsidy benefits for new employment for next 4 years within manufacturing sector.
6. Allocation under the PLI scheme for the automobile and auto components sector has been increased to ₹3,500 crore in the Budget from ₹484 crore to further enhance localisation.
7. Promote new industrial nodes in east and south along the existing industrial corridors.
8. Rental housing with dormitory type accommodation for industrial workers will be facilitated in PPP mode.
9. Land reforms in both urban and rural areas to create digital repository of information pertaining to title/ownership.

C&W Verdict Verdict

Positive

Contributor: Arun Nair, Manager, Research Services, India, arun.nair@cushwake.com

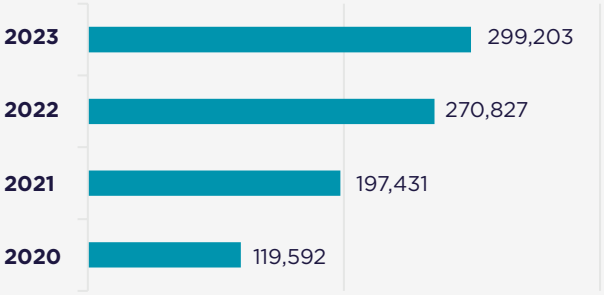
RESIDENTIAL SECTORS

"The animal spirits in the Indian residential space, stemming largely from high sales volume witnessed in high-end and luxury segments, has been a major attraction for developers and investors. The anticipation from budget was to bring some respite to homebuyers in the mid-segment and affordable categories too, as high interest rates and cost inflation were acting as deterrent. With the budget announcing new supply of affordable homes, one aspect has been taken care of, while there is hope that repo rate reduction will help mid segment in near future. The implications from LTCG rate reduction (without indexation) is a mixed-one, possibly done with the aim to curb short-term speculation. Against a barrage of expectations, we believe this budget was neutral for residential segment."

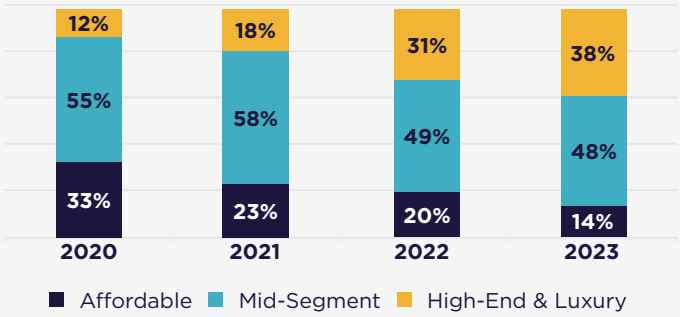
Pre-Budget Top Expectations for Sector

1. Given rising construction costs, increasing the subsidy support under PMAY-G to around 2.3-2.4 lakh from ₹1.2-1.3 lakh (per housing unit).
2. The need for a second tranche of SWAMIH fund with an additional ₹50,000 crore to address the issue of stalled projects to the tune of approximately 4.1 lakh housing units.
3. Restoring the Credit-Linked Subsidy Scheme (CLSS) can significantly boost demand in the affordable housing segment.
4. Increase deductions under the Section 80C for principal repayment from ₹1.5 lakh up to ₹3 lakh. The deduction under Section 24 should be increased to at least ₹5 lakh.
5. The current LTCG regime is complex, burdening taxpayers. Streamlining calculations can encourage long-term investments.

Total Residential Units Launches - Top 8 Cities



High end and Luxury Segment Propel Residential Market while affordable segment slowing down



Budget Announcements

1. Under the PM Awas Yojana Urban 2.0, housing needs of 1 crore urban poor and middle-class families will be addressed with an investment of ₹ 10 lakh crore. This will include the central assistance of ₹ 2.2 lakh crore in the next 5 years.
2. Provision of interest subsidy to facilitate loans at affordable rates is also envisaged.
3. States with high stamp duty advised to lower stamp duty rates, further lowering duties for properties purchased by women.
4. Long term capital gains tax on property reduced from 20% to 12.5% with indexation benefits withdrawn.

C&W Verdict Verdict

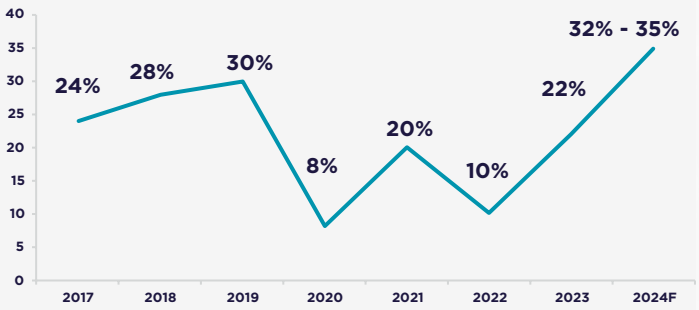
Neutral

Contributor: Aloka Majumder, Manager, Research Services, India, aloka.majumder@cushwake.com

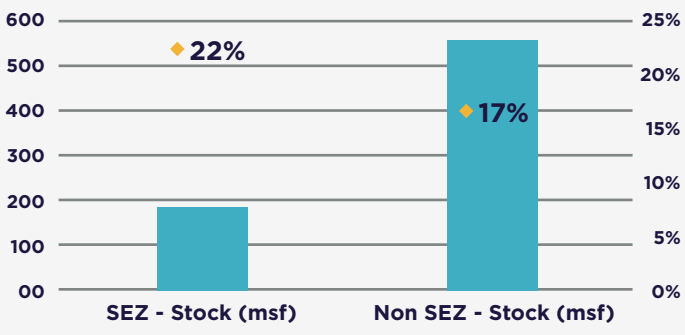
COMMERCIAL OFFICE REAL ESTATE

"Interestingly, the two segments that has driven commercial office leasing volume in recent past has been the Engineering & Mfg. and GCC segments, and both these segments have a lot to take-away from the union budget. Therefore, we believe the current momentum in office leasing will receive a further boost. Removal of Angel Tax is positive for the Indian start-up ecosystem, which has also been an active contributor to leasing of commercial space. Investor sentiment towards REITs will be upbeat as the holding period has been brought down to merely one year from 3 years earlier. The much-anticipated clarity on status of DESH Bill remains unanswered. From an overall office market perspective, we believe the budget is a positive."

GCC's Rising Share in Grade A Office Leasing



High vacancy in SEZ stock as opposed to overall Grade A



Pre-Budget Top Expectations for Sector

1. Reduce the corporate tax rate for foreign companies with Permanent Establishments (PE) in India from 40%.
2. Provide clarity on the future of SEZs, specifically whether the existing SEZ Rules will continue with new amendments or if the DESH Bill will be passed.
3. Extend the tax incentives currently provided to the International Financial Services Centre (IFSC) to other sectors beyond the financial services industry.
4. Propose tax benefits for foreign-domiciled Indian startups that relocate their corporate headquarters back to India.

Budget Announcements

1. Corporate tax rate on foreign companies reduced from 40 to 35 per cent.
2. One month's wage as subsidy (max of ₹15,000 per person) applicable to all formal sectors. This subsidy is to assist employees and employers in hiring of first timers as registered under EPFO.
3. One crore youth to be skilled by India's top 500 companies in five years while providing twelve months internship programme with monthly allowance of ₹5,000.
4. Budget proposed to abolish Angel Tax for all classes of investors to boost start-up eco-system.
5. To promote research and development within the space economy, a venture capital fund of INR 1,000 crore will be set up.
6. Reducing the long term capital gains holding period from 36 to 12 months bringing instruments like REITs at par with listed equities.

C&W Verdict Verdict

Positive

Contributor: AM Lakshmi, Assistant Manager, Research Services, India, am.lakshmi@cushwake.com

HOSPITALITY

We have witnessed sharp pick-up in tourism activity in India over the last 24 months since the "revenge travel" phenomena was witnessed post-Covid. Occupancies and room rates across leading hotels have touched record high, and the momentum appears to be continuing. With the budget promoting more tourist circuits as well as creating new streams of growth through Cruise tourism, we see this as providing boost to sentiment within the hospitality real estate space. However, the anticipated direct benefits by the industry were unaddressed in the budget.

Budget Announcements

1. Comprehensive development of Vishnupad Temple Corridor and Mahabodhi Temple Corridor, modelled on the successful Kashi Vishwanath Temple Corridor, to transform them into world class pilgrim and tourist destinations.
2. Continuing with religious tourism circuit development, a comprehensive initiative will be undertaken for Rajgir.
3. Government will support the development of Nalanda as a tourist centre besides reviving Nalanda University to its glorious stature.
4. Government will provide assistance for development of Odisha's scenic beauty - temples, monuments, craftsmanship, wildlife sanctuaries and natural landscapes.
5. Proposed a simpler tax regime for foreign shipping companies operating domestic cruises in the country.

C&W Verdict Verdict

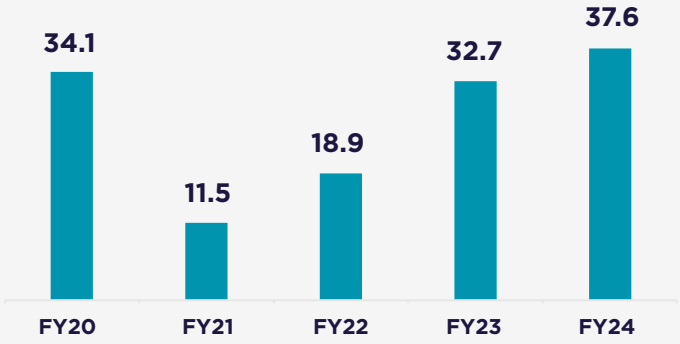


Neutral

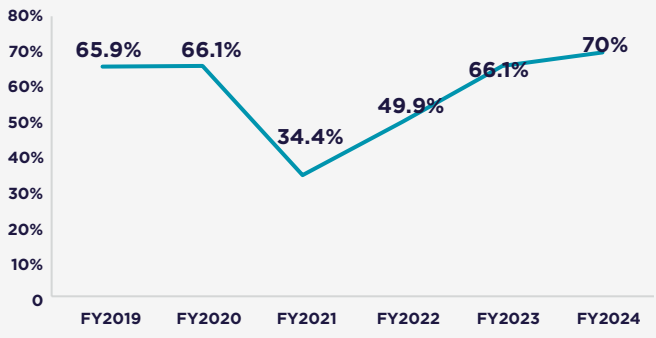
Pre-Budget Top Expectations for Sector

1. Industry status to hospitality sector to allow them access to funds at better interest rates with longer re-payment periods.
2. Hotel industry was anticipating benefits with regards to following:
   a. Higher rate of depreciation
   b. Reduced income tax rate
   c. Carry forward business losses for greater number of years
3. Remove petroleum goods and liquor from VAT and Excise regime and include them under GST to help hotels reduce costs and improve revenues.
4. The hospitality industry is expecting the budget to also focus on improving infrastructure, including airports, roads, and public transportation around development of newer tourist destinations and attractions.

Accelerating Growth in Air Passengers Handled (in Crores)



Occupancy Rates in Hotels in India

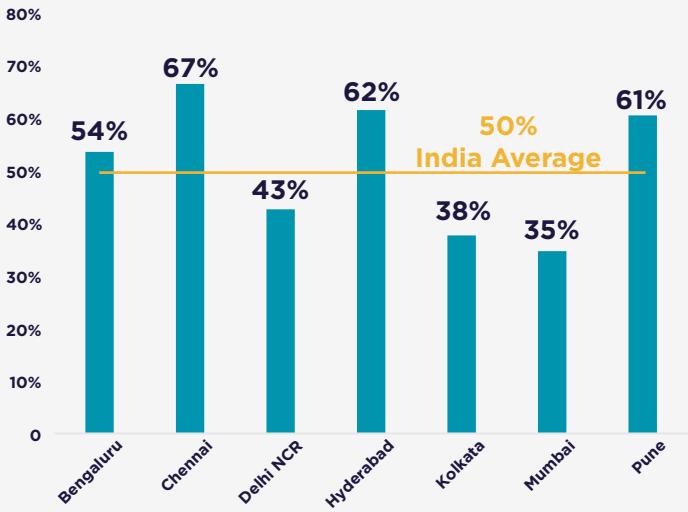


Contributor: Raghav Sand, Manager, Research Services, India, raghav.sand@cushwake.com

REAL ESTATE & SUSTAINABILITY

"Sustainability and climate change have turned out to be major disruptions for the commercial real estate sector, although it has brought with it opportunities for growth as well. Leading Indian developers, in their quest to attract foreign investment and occupier interests, have invested heavily into it. As per USGBC, India has the third largest concentration of GREEN buildings in the world. As we speak, nearly 50% of India's office real estate stock has been Green certified, making it a compelling proposition for global corporations to set-up operations here. With active support by government in promoting the green agenda further, real estate segments such as office, data centers etc. will benefit significantly."

Share of Green Certified Buildings in Total Grade A Stock



India ranked third in the US Green Building Council's (USGBC) annual list of top 10 countries and regions in the world for LEED (Leadership in Energy and Environmental Design). 248 projects, across both buildings and spaces, were certified for LEED in the country covering 7.23 million Gross Square Metres (GSM).

Pre-Budget Top Expectations for Sector

1. Tax incentives for Green Bonds, increasing green lending threshold by banks under priority sector lending
2. Performance-based incentives: Just like the Green Credit Program (GCP) issued last year, Industry was expecting incentives for companies that adopt green practices.
3. Investment in R&D: Higher funding for research and development of battery recycling infrastructure and technologies.
4. GST on lithium-ion batteries was expected to be lowered from 18% to 5%.

Budget Announcements

1. PM Surya Ghar Muft Bijli Yojana launched to install rooftop solar plants to enable 1 crore households obtain free electricity up to 300 units every month.
2. Taxonomy for climate finance for enhancing the availability of capital for climate adaptation and mitigation.
3. An investment-grade energy audit of traditional micro and small industries in 60 clusters, including brass and ceramic, will be facilitated. Financial support will be provided for shifting them to cleaner forms of energy and implementation of energy efficiency measures. The scheme will be replicated in another 100 clusters in the next phase.

C&W Verdict Verdict

Positive

Contributor: Shubham Sherugar, Assistant Manager, Research Services, India, shubham.sherugar@cushwake.com



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Author:

Suvishesh Valsan
Senior Director,
Research Services, India

suvishesh.valsan@cushwake.com

Editor:

Girish Basantani
Assistant Vice President,
Research Services, India

girish.basantani@cushwake.com

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