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‘Tighter money, service tax may push up property prices’

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New Delhi, March 26 (IANS) Further monetary tightening by the Reserve Bank of India (RBI) and imposition of service tax on under-developed housing complexes, as proposed in the Budget 2010-11, will lead to increase in property prices, according to real estate companies.

India's central bank last week hiked two major policy rates - the repo rate and reverse repo rate - by 25 basis points each.

“The recent monetary tightening by the RBI was on expected lines, but further tightening will certainly lead to increase in property prices. Further rate hikes will impact affordability of home loans,” K.P. Singh, chairman of DLF, India's leading real estate developer, said here Friday.

“The monetary policy should be such as it encourages this important sector of the society. The policies should encourage people to buy homes, particularly the middle class who wants to buy,” he added.

In the budget, Finance Minister Pranab Mukherjee proposed to bring development of real estate complexes under the ambit of service tax.

At this, Singh said this is not the right time to impose service tax as the industry has just started recovering.

According to Navin Raheja, managing director of Raheja Developers, if the RBI hikes the key policy rates further and the government decides to impose service tax on under-construction apartments, “it will pressurise the real estate companies to pass on the burden to consumers.”

“The prices of properties will go northwards in that case.”