

A Room With A View

Special purpose vehicles for both primary and secondary market transactions can solve many of the housing sector's woes

THE realisation has dawned. That the housing sector has the potential to revive the economy. That there is substantial evidence to prove that the stock markets alone is not the barometer of the economy. That the real estate and housing sector are also a measure of performance of the economy.

The government has suggested sweeping changes in the legal and policy framework. Major changes have been proposed in the Urban Land Ceiling & Regulation Act, 1976, stringent foreclosure norms in housing loans are being relaxed, foreign direct investment in the housing sector has been allowed up to 100 per cent, steps to develop a secondary mortgage market have been suggested by the core committee on housing, that there is a need to develop a rental market. As national debates rage on all these issues, let us look at some new strategies through which existing resources can be used more professionally.

Institutional players can play a very crucial role in solving many of the problems of housing finance.. The imperfections in the sector present a very perfect business opportunity for an institutional player. It can offer numerous value-added services in the form of legal consultancy, identification of right property, due diligence, price negotiation, completion of transfer formalities, drafting of agreements, registration, maintenance of property till sold, leasing first hand property to corporate clients.

In fund-based services, an institutional player can purchase properties in bulk and get a bulk discount on the purchases. The discount could be to the extent of the intermediary charges paid by the actual purchaser to various brokers, consultants etc.

The entire transaction can be done by cheque so that the state government gets an additional



income by way of increased stamp duty, since the contract price would be realistic or actual. It can form a separate special purpose vehicle (SPV) for this purpose or undertake the function under its present structure. The SPV can also finance corporate builders and monitor the progress of construction till the building is transferred to the housing society. The assets till then remains on the balance sheet of the SPV and in case it is required, the dues can be recovered by selling the housing units directly to the consumers/purchasers.

THE funds of most of the institutions are not fully invested in today's market. Hence they invest surpluses in the money markets where they get less returns and their main business objective is not achieved successfully. The SPV can acquire assets and improve the return on capital invested by selling these properties to the needy, depending on the market trends. The purchasers can also borrow money from the SPVs to fund the purchase. The security shall not be a problem for funding these transactions since assets would remain in the books of SPV till repayment. Moreover, this will weed out the unprofessional builders and architects.

The SPV can also develop a reliable inventory of authorised

constructions as per the quality of construction within the metros. The properties can be sold to the SPV and just like securities transactions, real estate can also become a tradable commodity.

In the long term, all such SPVs can come together and establish a stock exchange. The investments in real estate would become more liquid in this manner. More security can also be provided to the residents of such flats. The flats can be designed to incorporate certain standard and modern amenities such as

cable and Internet connections, cable intercom, vemiculture and biogas plants and solar panels to make them more environment-friendly.

Even in secondary market transaction, SPVs can be of great help. According to the suggestions of the core committee on housing, an SPV can be formed for the secondary mortgage market. The funds for these SPVs can be raised by issuing debt instruments, which should be free from stamp duty. The SPVs can then act as intermediaries between the primary lenders and investors of long term and fixed income securities by purchasing housing and other mortgage loans.

SPVs can also help rebuild illegal constructions. Demolishing illegal constructions is a waste of national resources. If these constructions do not cause any harm to the environment and safety of the residents, it should be first confiscated by the municipal authorities and then sold to these SPVs at nominal or suitable price. The SPVs, after certain alterations if required, can resale these properties to social institutions. It would be a win-win situation for all.

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