

# UNION BUDGET

2022-23



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## GROWTH-ORIENTED BUDGET WITH INFRASTRUCTURE, URBAN DEVELOPMENT, DIGITAL ECONOMY AS KEY PILLARS

The Union Budget 2022-23 comes at a critical juncture where there was support required for many industries in the immediate aftermath of nearly two years of pandemic, and on the other hand many new-age sectors have been on a sustained growth path and require an enabling ecosystem for global competitiveness. Fast vaccination coverage, gradual recovery in private consumption & business sentiments, and a stronger belief that subsequent waves of Covid has limited impact on markets were promising in terms of economic outlook. However, the industry had high expectations from the budget of kick-starting a new cycle of public investments given that private sector investments have not yet recovered fully. There was also need to chart-out a long-term growth path in keeping with the new aspirations of the nation.

The Union Budget FY22-23 aimed to achieve its objectives through four key priorities:

- PM Gati Shakti
- Inclusive Development
- Productivity Enhancement & Investment, Sunrise Opportunities, Energy Transition and Climate Action
- Financing of Investments



## KEY MACRO INDICATORS

- Economic growth expected at 9.2% in FY 2021-22
- Fiscal deficit in FY 2021-22 estimated at 6.9% of GDP; FY 2022-23 estimated at 6.4% of GDP
- Total expenditure estimated at FY 2021-22 at INR 37.70 lakh crores out of which capital expenditure is INR 6.03 lakh crores
- **Capital expenditure increased by 35.4% to INR 7.50 lakh crore in FY 2022-23, thereby comprising 2.9% of GDP**
- **Strong GST collection** in recent months is a big plus; allows government to increase CAPEX without raising taxes

From the measures announced, the finance minister has aimed at certain long-term growth prospects. Sharp increase in capital expenditure, particularly in nation-building infrastructure space, for FY 2022-23 will have a positive multiplier effect on the private investments, jobs and consumption. The government recognizes the need for efficient urban development given that half the population will live in cities by the next 25 years. Modernization of building bye laws, digitization of land records, town planning schemes and transit oriented development are potentially transformational initiatives.

Sustainability and the digital economy are key areas the Budget has focused on with dedicated announcements on electric vehicles, manufacturing of solar modules and provision of contracts for rural optical fibre networks. Data centres have been

accorded infrastructure status, a major demand of the industry and this will facilitate investments in fast growing sector.

Addition credit to the hospitality sector with an expanded guarantee cover will alleviate some of the business challenges that the sector has been facing. A major announcement was on GIFT City allowing the entry of foreign educational institutions, setting up of an international arbitration centre will help it emerge as a global educational and business hub. Thus, the Budget has not just sought to drive short term recovery momentum through targeted schemes but has also laid out a growth vision for the next 25 years, coinciding with 100 years of India's independence.

## URBAN DEVELOPMENT

### Overall Real Estate Measures

- **Modernizing building byelaws** could be a transformational change for the real estate sector. It would reduce the influence of unorganized players and increase organized development.
- **Orderly urban development:** 50% to live in urban by 100 years independence. Tier-II and III cities to take on the mantle – high-level committee with economists, urban planners and institutions will be formed to take decision on capacity building in an orderly manner.
- **Digitization of land records:** Unique Land Parcel Identification Number to facilitate IT-based management of records. 'One-Nation One-Registration Software' will be promoted as an option for uniform process for registration and 'anywhere registration' of deeds & documents.
- Central government's financial support for mass transit projects and AMRUT scheme to be used to formulate action plans
- Kisan drones to help in digitization of land records

#### Key takeaway

*Systematic, orderly development of India's cities is crucial for sustained economic growth, creation of employment opportunities and addresses issues surrounding climate change, mobility and creation of public spaces that deliver tangible benefits to citizens. With half of India's population expected to live in cities in the next 25 years, it is imperative to plan for the long term. The Budget has focused on potentially transformational changes such as digitization of land records, unified land registration process and modernization of building bye laws. This will positively affect not just Tier 1 cities but also Tier 2 and 3 cities over the next few years and develop centres of sustainable living.*

## INDUSTRIAL & LOGISTICS

- National Highways network will be expanded by 25,000 km in FY2022-23
- Contracts for implementation of four Multimodal Logistics Parks through PPP mode will be awarded in FY22-23
- A Unified Logistics Interface Platform to be set up which can support efficient movement of goods through different modes, reducing logistics cost and time.
- 100 PM GatiShakti Cargo Terminals for multimodal logistics facilities will be developed in the next 3 years.
- Existing SEZ Act will be replaced with a new legislation aimed at enhancing export competitiveness and reducing compliance burden for a larger set of industries.
- INR 19,500 Cr for PLI scheme to facilitate domestic manufacturing with priority to fully integrated manufacturing units from polysilicon to solar PV modules
- Extension of 1 year for date of commencement of manufacturing to 31st March 2024 for newly incorporated manufacturing units which avail a lower 15% tax rate

#### Key takeaway

*The focus on PLI schemes for boosting domestic manufacturing in Solar power and telecom sector along with impetus to EV manufacturers can drive demand in the land and industrial sector. Further, to support the growth of domestic capital goods sector, long standing import duty concessions will be selectively phased out.*

## DATA CENTRES AND DIGITAL INFRASTRUCTURE

Data Centres is a fast-emerging real estate segment and acts as a critical infrastructure for the new-age economy. In a short time period, India's current installed data centre capacity across top-7 cities stands at 824 megawatts, occupying nearly 9.5 million sq. ft. of area. Given the huge demand and data localisation policy of the Indian government, the additional capacity required is significant.

- **Data Centres** and Energy Storage Systems will be included in the harmonized list of infrastructure.
- Several initiatives have been rolled-out that would result in higher data consumption :-
  1. **75 Digital Banking Units (DBUs)** will be set up in 75 districts of the country by Scheduled Commercial Banks.
  2. Digital Payments: The financial support for digital payment ecosystem announced in the previous Budget will continue in 2022-23.
  3. **Auction of 5G spectrum** in 2022 to facilitate roll out of 5G services within 2023
  4. Digital Ecosystem for Skilling and Livelihood – the DESH-Stack eportal – will be launched.
  5. **Digital University** will be established to provide access to students across the country for world-class quality universal education
  6. **End-to-end online e-Bill System** will be launched for use by all central ministries for their procurements.

### Key takeaway

*The budget has been a positive for the sector, not only from a supply-side perspective but also demand-side. Given the huge momentum envisaged across various digital initiatives, demand for data centres is expected to rise rapidly over the next few years. Infrastructure status to data centres is a major announcement that will help the fast growing sector avail finance at cheap rates and attract larger quantum of investments and thereby facilitate development of the digital infrastructure.*

## HOSPITALITY

According to the World Travel and Tourism Council (WTTC), the contribution of travel and tourism to India's GDP was 6.8% in 2019. It fell to 4.7% in 2020 due to coronavirus-induced lockdowns, including travel restrictions around the world. Being one of the contact-intensive sectors, hospitality industry was the worst hit with travel restrictions and lockdowns in place. The government had announced some relief measures in the last budget, but the expectation was clearly to have a continued support on that front.

- Emergency Credit Line Guarantee Scheme (ECLGS) extended to March 2023 and its guarantee cover expanded by Rs. 50,000 crores to a total cover of Rs 5 lakh crore with the additional amount being embarked exclusively for the hospitality and related enterprises.



### Key takeaway

*While extension of ECLGS and additional cover for hospitality companies is good news for the sector, another key demand of restoration of input tax credit on standalone restaurants wasn't addressed in the Budget. This could probably be looked at separately given the business losses incurred by the industry during pandemic period.*



## HEALTHCARE

- **Ayushman Bharat Digital Mission:** a platform for the National Digital Health Ecosystem, will be rolled out will consist of digital registries of health providers and health facilities, unique health identifies, consent framework, and universal access to health facilities.
- **'National Tele Mental Health Program** will be launched. It will include a network of 23 tele-mental health centres of excellence; National Institute for Mental Health & Neuroscience (NIMHANS) will be the nodal centre and International Institute of Information Technology-Bangalore (IIT-B) will provide technology support.

## AFFORDABLE HOUSING/ RESIDENTIAL SECTOR

A sector within real estate that has high socio-economic relevance, housing sector is always going to be deserving fiscal attention. The low interest rate regime currently, along with local government incentives and a largely unchanged house prices in many years has led to rise in affordability. However, many large urban centres were some distance away from the ambit of affordability.

- To give impetus to Housing for All by 2022 initiative, the finance minister has allocated INR 48000 crore investment for the PMAY scheme for both urban and rural housing projects.
- For FY 2022-23, the government plans to complete 8 million houses for the middle class and economically weaker sections.
- Central government would provide support to the state government in expediting the construction and approval processes required for the affordable housing projects

### Some misses from key industry expectations

- 80C and 20(B) on home loan interest and principal amount deduction
- Affordable housing definition: capped at INR 45 lakhs could have been raised

## START-UPS

India has been amongst the top-3 global economies in terms of number of start-ups and also fund-raising activity in the start-up arena. Many of these start-ups have, in recent years, turned into Unicorns and occupy large spaces in Grade-A commercial buildings across top real estate markets. An impetus to start-ups bodes well for the commercial real estate.

### Budget announcements:

- Eligible start-ups established before 31 March 2022 had been provided a tax incentive for three consecutive years out of ten years from incorporation. The period of incorporation of eligible start-ups has been proposed to be extended by one more year up to 31 March 2023 as a relief owing to the pandemic.
- Venture Capital and Private Equity investors invested more than INR 5.5 lakh crore in 2021 and facilitated the start-up and growth ecosystem in the country. The budget provision to set a committee to scale up this investment will augur well from a regulation perspective.
- Further, the provision for promoting thematic funds to provide blended finance for sunrise sectors such as Climate Action, Deep-Tech, Digital Economy, Pharma and Agri-Tech will promote more businesses in this domain. Startups serving agricultural and rural sectors will be served with a fund mobilized via NABARD.

### Key takeaway

*Giving the necessary boost to this domain will augur well both for growth and employment generation in the knowledge economy, while aiding in new avenues for office space take-up. Tax incentives and facilitating investments in the start-up ecosystem will drive the new age economy with the increasingly important role it is playing.*

# SUSTAINABILITY

The rising thrust on ESG initiatives for a greener real estate sector and broader economy, in keeping with the Indian government's long term climate action plan featured as a key focus area in the budget.

- Energy efficiency and savings measures proposed for large commercial buildings through the Energy Service Company (ESCO) business model. With rising occupier preference for green certified buildings and ESG being one of the key objectives of large MNCs, provisions for ESCO would incentivize real estate developers to come up with green buildings or upgrade features in the existing ones.
- Sovereign Green Bonds will be issued for mobilizing resources for green infrastructure, the proceeds from which will be deployed in public sector projects. This in turn would attract higher investments and result in their fast-paced development. Fund mobilization for projects that reduce the carbon intensity of the economy will go a long way in holistic and sustainable development.
- Fast tracking of Green Clearances - the scope of PARIVESH, a single window portal launched in 2018 for all green clearances will be expanded, to provide information to the applicants. Environmental clearances to be put under one window system and tracking of the same would be enabled through Centralized Processing Centre-Green (CPC-Green). This would facilitate developers investing in green developments across asset classes by streamlining the regulatory process and lowering approval tenures.
- Government support for R&D and infrastructure development in sunrise sectors like Artificial Intelligence, Geospatial Systems and Drones, Semiconductor and its eco-system, Space Economy, Genomics and Pharmaceuticals, Green Energy, and Clean Mobility Systems shall assist sustainable development. This will in turn benefit development through introduction of new technologies and business practices.





# CONCLUSION

Beyond the core real estate sectors such as office, residential and retail, there are fast emerging segments in Data Centres and Industrial & Logistics. The Union Budget FY23 has touched-upon many of these emerging asset classes in more than one way. In that sense, the budget looks positive for real estate overall. Indian IT-ITES sector and Start-Ups are an important source of demand for office space in the top-8 real estate markets. With the new digitisation initiatives and further enabling of ecosystem for start-ups, a sustained growth of these key segments is likely. The orderly development of urbanisation and modernisation of building byelaws are important initiatives that could herald a new wave of formalisation in the real estate sector, benefiting growth of organised real estate across multiple asset classes. Poor land records in many states have been a pain point for the real estate sector from a transparency perspective. Addressing it through digitisation of land records by way of assigning unique identification number and through uniform registration process across states is a welcome move and will help enhance transparency. Multitude of announcements in the infrastructure and logistics space is going to help growth of industrial / warehousing sectors, a fast-emerging segment that has attracted a high interest amongst foreign private equity players in Real estate.

Some expectations of the real estate fraternity that did receive a miss from the budget. Developers and consumers were anticipating a rise in income tax deduction limits on home loan interest and principal components. Also, an upper cap of INR 45 lakhs in defining affordable housing do not augur well with many residential developers and buyers, particularly in urban locations. Nevertheless, there are sufficient positive take-aways for the real estate sector to overcome the negative sentiment from these minor misses.





## FOR MORE INFORMATION



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