

IMPACT OF GOVERNMENT INITIATIVES ON REALTY SECTOR IN INDIA

Abstract

The present study aims to investigate the impact of policy decisions of the government on the real estate sector. The initiatives taken in the last decade to bring about greater transparency and strength in the realty sector. Policies such as The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015, The Benami Transactions (prohibition) Amendment Act, 2016, The Goods and Service Act, 2017, The Model Tenancy Act, 2021 and change in GST rate announced recently are studied in context of its impact on real estate market. The results show that most of the initiatives saw significant negative abnormal returns. Thereby the sector responded negatively to policy decisions taken by the government. However, Acts like model tenancy didn't generate any significant reaction. And the GST initiative meant to bring down cost of construction and give boost to the sector didn't receive any significant response.

Background and motivation

The government has been working towards promoting a sound, transparent and responsive infrastructure for the economy. An important part of that infra is the real estate market. Over the last decade a lot of policies have been brought towards making the sector transparent, regulated and vibrant towards growth. The government of India had been preparing to control black money, corruption and counterfeiting through a series of policy initiatives. It began by introducing bills like The *Black Money (Undisclosed Foreign*



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Income and Assets) and Imposition of Tax Act, 2015, The Benami Transactions (prohibition) Amendment Act, 2016, the parliament passed The Goods and Service Tax (GST) Act in September 2016 whereas the state legislature and GST was rolled out on 1st July 2017. For a strong real estate push, The Model Tenancy Act, 2021 was rolled out on 2nd June 2021. Also, the changed GST rate announced on 3rd September 2025 came into effect on 25th September 2025 was meant to reduce the cost of construction.

In the process of controlling black money the central government experimented with a big and bold move on 8th November 2016 through demonetization. The idea behind these policy decisions was to destroy huge piles of black money. The introduction of bill on black money in 2015 imposed criminal liability for concealment and evasion of taxation on foreign income. It also gave one-time opportunity to disclose such income and assets. Next step undertaken was amendment of The *Benami Transaction (Prohibition) Act, 1988*. The benami transactions are defined as, “a transaction where a property is held by or transferred to a person, but has been provided for or paid by another person” it was extended to include all the cases where

the owner had no knowledge of the ownership of such properties. The amendment also sought to include such transactions retrospectively and made the penal provisions stricter. To further curb unaccounted money and implement a uniform, simplified indirect taxation the government passed *The Goods And Service Tax Act* in September 2016. The GST was further implemented in the country in July, 2017. The law was made more stringent and aimed at increasing the tax base. The tax payers could claim the input credit only if the supplier uploaded the invoice. Also, GST being controlled by centralized surveillance system could catch the defaulters quickly and efficiently. The last and final step undertaken by the government was demonetization in November 2016. Demonetization is the discontinuing of the circulating currency and replacing it with a new currency. The demonetization initiated in the country was aimed to curb terrorist funding, black money in circulation and tax evasion. It also gave an impetus to digitization in the country.

The series of policy implementation took a toll on realty sector which is notorious for parking unaccounted money. The laws implemented by the government gave a signal to the real estate industry that it would not accept illicit money in the economy. A large proportion of dealings in real estate include dirty cash. The transactions are under-reported to escape stamp duty and hide the source of money. It indicated that the volume and value of transactions in the real estate sector would go down as the government would clamp down on defaulters. When various laws were passed in the parliament the realty sector responded negatively to these policy implementations.

On the other hand, the government tried to push reforms through initiatives like *The Model Tenancy Act, 2021*. The aim of the model law was to push towards equitable rights for tenant and landlord. Also, an effective dispute redressal mechanism. The study tries to explore the effect of the initiative on real estate.

Lastly, it studies the impact of GST changes

on the sector. According to a report by CRISIL, GST on key inputs for realty sectors like cement, paint and air conditioners was reduced from 28% to 18%, marble and travertine, Granite block and Sandlime brick from 12% to 5% bringing about a total reduction in cost of construction by 3.5 %-4.5 %. Thereby translating into reduction of costs for home buyers by 1%-5%. Also, increasing the demand by the home buyer by 5%-10%.

Table 1

Event	Event date
<i>The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 (BMUFIA)</i>	1 st July 2015
<i>The Benami Transactions (Prohibition) Amendment Act, 2016 (BTP)</i>	1 st November 2016
Demonetization announced	8 th November 2016
<i>The Goods And Service Tax Act, 2017</i>	1 st July 2017
<i>The Model Tenancy Act, 2021</i>	2 nd June 2021
Goods and service tax rate change	25 th September 2025

Since the demonetization was initiated by the government of India, a lot of research has been conducted to explore its effect on the stock market (Upadhyay and Suvarna, 2018; Sardana and Gupta, 2018), banking and automobile sector companies (Padmavathy, Umashankar and Indhu's, 2017). The empirical findings show mixed results with some studies conclude that the demonetization didn't have an impact on the stock markets in India and others find significant abnormal average returns in the stock market.

However, the studies didn't explore the effect of other steps initiated by the Indian government to curb illicit cash. It also doesn't examine the affect of these events on the real estate sector. The policy tools implemented to suck out unaccounted cash from the system should have a crucial impact

on the real estate sector. This paper aims to fill the research gap. The paper also looks into the impact of policy decision to strengthen infra in real estate. The study investigates the recent changes in GST on the sector.

The purpose of this research is to use event methodology to analyze the impact of key policy decisions such as approval of The *Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015*, The *Benami Transactions (Prohibition) Amendment Act, 2016*, The *Goods and Service Tax Act, 2017* announcement of demonetization, The *Model Tenancy Act, 2021* and change in GST on the Realty sector index. The paper will aim to identify significant abnormal returns in the Realty sector index before and after these events.

Data and research methodology

The study considers daily closing prices for NIFTY REALTY INDEX and NIFTY 50 from the National Stock Exchange (NSE) website. The paper has selected following events:

Above are the event dates considered for the study. The study considers to a long-term window and short term window to analyze the impact of enactment of these laws on the realty sector. The long-term window has a pre-event window of -20 days and post event window of +20 days thereby a total event window of 41 days including the event day. Whereas, the short-term window has a pre-event window of -7 days and post event window of +20 days making the total event window of 28 days. The estimation window is -120 days before the pre-event window of 20 days. Other event studies have used similar windows (Sardana and Gupta, 2018). For this study single index model has been applied to estimate returns of NIFTY REALTY INDEX and NIFTY 50 has been used as market index. For the entire time period daily closing value of index are taken. The returns for the index are calculated i.e. $RI_t = \ln(I_t/I_{t-1})$. The following is the regression equation to estimate normal returns for NIFTY REALTY INDEX:

$$RI_t = \alpha + \beta RM_t + \varepsilon_t$$

Where;

RI_t is the realty index return for t time period

RM_t is the NIFTY 50 return for t time period

The abnormal returns are calculated on the basis of difference between actual returns and normal estimated returns. Cumulative Abnormal Returns (CAR) are calculated by cumulating across the window. Also, the Standardized Cumulative Abnormal Returns (SCAR) are calculated by dividing cumulative abnormal returns from standard deviation of the event window.

Results and Findings

We examine the NIFTY REALTY Index response to black money laws coming into force in the country. The results show that when The *Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015*, The *Benami Transactions (Prohibition) Amendment Act, 2016* and demonetization came into force in the country the realty sector responded negatively to it. And the Table 2 shows significant negative abnormal returns to these laws in the short and long window. The market feared that it would pull out cash from the system and create an environment of fear amongst the realty sector investors. The laws were bound to lower the volume and participation in the realty industry. However, the reaction to roll out of GST in the country has been significantly negative in the short term window. The realty sector didn't respond to the roll out for the longer window. On the other hand there wasn't any significant impact of introduction Model Tenancy Act although it was meant to strengthen the regulations that govern tenant landlord relationship making it stronger. Also, the change in GST was expected to bring down the cost of construction thereby boosting demand. However, the market reaction was lukewarm as it assumed that the announcement weren't going to bring down the project cost or their margins. The sector was expecting restoration of input tax credit which didn't materialize.

Event		BMUFIA	BTP	Demonetization	GST roll out	Model Tenancy	GST Change
		1.7.15	1.11.16	8.11.16	1.7.17	2.6.21	25.9.25
Short-term Window	CAR	-0.062*	-0.150*	-0.189*	0.0263*	0.01394	0.000735
	SD	0.0112	0.0235	0.0230	0.00910	0.01340	0.008761
	SCAR	-5.5476	-6.3778	-8.2259	-5.7962	1.0403	0.08385
Long-Term Window	CAR	-0.170*	-0.109*	-0.194*	-0.0022	0.01964	0.007787
	SD	0.0121	0.0211	0.01979	0.0101	0.012525	0.008137
	SCAR	-13.992	-5.1959	-9.8181	-0.2164	1.568117	0.956881

Table 2: Results reported for short and long window

(at * 1% and ** 5% level of significance critical value for two tailed t-distribution is ± 2.576 and ± 1.96)

Discussion and Conclusion

As the *The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015*, *The Benami Transactions (Prohibition) Amendment Act, 2016*, demonetization in November 2016 and *The Goods and Service Tax, 2017* the realty sector index gave significant negative abnormal returns. Thereby making the market vulnerable to abnormal earnings for investors. The *The Model Tenancy Act, 2021* and change in GST were expected to give significant positive reaction from the realty sector. However, the market saw the change in GST rates as a policy centric to consumer durables. There was no significant abnormal returns in the realty index.

The present study is useful for portfolio managers and investors to identify investment and trading strategies to make profits. Also, to the market regulatory authorities to frame policies to avoid abnormal earnings in the long term. MA

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