

# Price Structure of Housing Properties in India

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## 1. The Background

There are many unique characteristics about housing properties distinguishing it from other goods. It is a universal necessity. Home ownership is a social goal, bringing social status to the buyer. Housing is also a relatively expensive asset, often soaking up a lifetime's savings. The supply of housing is inelastic and hence housing prices respond to demand changes. Housing properties have a downward sloping demand curve, which means that less people would effectively buy when prices are high and *vice versa*. At high prices, buyers postpone their buying decisions and opt for rented accommodation. At low prices, people often purchase more than one house. Disposable incomes determine purchasing power. Government policies relating to interest rates, mortgage subsidies and other taxes also impact the housing property market.

The sector is marked by a variety of taxes and regulations. These are meant to ensure the safety of houses for occupation and to confer rights of ownership to enable further transactions. Given that building or acquisition of a house usually involves several intermediary agents (either statutory like registration of various title documents or facilitating agents such as brokers, builders or financiers), the final cost of acquisition includes not just the price of the property that is paid to the seller (in case the property is purchased) but also all the intervening TC (TC).

One of the major problems that both buyers and sellers experience is high TC. It also substantially pushes up property prices. Besides, high TC also result in understating the values of housing to avoid taxes, thus resulting in revenue loss. When the 'middleman' or other 'intermediaries' are involved in such transactions, their fees also add to the TC.

The 'price of the property' to the buyer, therefore, includes the TC as well as the cost of construction and other amenities that go with the house. Here, TC include taxes and duties that must be paid before the ownership of the property is transferred and also the services that are incidental to the process of acquisition. An important component of the TC, stamp duty, constitutes 7-10 per cent of the value of the transaction. The costs associated with the search for

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This work was done under the leadership of Dr. S. Bhide.

the house, often done through the property agents and charged as ‘broker’s fee or ‘legal services’ or ‘documentation processing fee’ and so on, could often work out to be quite significant.

The TC, as well as the price of the property, is expected to vary. However, as housing regulations are the jurisdiction of state governments and municipalities, the variation in TC may be significant across states and even cities within states.

Given the significance of the TC in the housing property markets, an understanding of the extent of these costs is important as preparation for development of policies for the housing sector.

The National Housing Bank (NHB) commissioned the National Council of Applied Economic Research (NCAER) to carry out a study to analyse the various components of housing property prices as well as determine their importance *vis a vis* the total cost of housing property. As there are inherent differences in the housing market for residential, commercial and institutional properties, the various types of properties are separately examined.

## **2 Objectives**

The main objectives of the study are as follows:

- To develop a template for the structure of total price of housing property- residential and commercial for both urban and rural areas in the country.
- To map the process of various activities in real estate/ housing purchase/ construction.
- To examine the existing status of legal and taxation issues such as stamp duty on properties, charges on registration of mortgages, registration charges, stamp duty on instruments of securitisation and other legal and taxation levies/ charges, etc.
- To suggest, with or without empirical evidence, and present arguments favouring measures for improving the efficiency in the above areas with a view to ensuring orderly development of the housing/ real estate finance market.

Thus, as these objectives of the study indicate, the outcomes would help improve the transparency of real property markets. The study would provide a basis for measures for cost reduction in real property transactions and for assessing the economic efficiency of these

transactions. The study also helps understand the efficiency of the institutional framework pertaining to housing property markets in India.

### **3. Methodology**

As the objective of the study was to obtain the main components of price, the key informants were property dealers, developers and housing finance agencies in each area. Identifying the 'buyers of property' was not feasible within the parameters of the study. So, the intermediaries were selected for the survey. In order to capture the variations across the country, it was decided to carry out the exercise in 45 cities spread over 16 states (excluding Delhi).

The 'cost of property' to the buyer has been taken not simply as the 'value' of the property at which the transaction takes place between the buyer and the seller. It includes the costs involved in the transaction such as the statutory fees and charges, the fees for the professional services in the transaction and any other expense. As the survey was based on the intermediaries in the housing market, some of the costs like those associated with delays in completing the transactions, are difficult to capture. Such details can only be obtained from actual buyers, rarely the agents.

The three main components of cost that the survey has focused on are:

- (i) TC: duties and fees and other charges to complete the transaction
- (ii) Finance Cost: Application fee, processing fee, pre-EMI (Equated Monthly Payment) costs and expenses other than interest and EMI expenses involved in obtaining a loan for the transaction.
- (iii) Cost of land, construction of property and other development charges.

There are no lists of property dealers and developers available for each city. Therefore, it was decided to select a small number of property dealers. Five housing finance agencies were also contacted in each city. We expected to get information on just five transactions carried out in 2007 from each of these intermediaries. Among these transactions, three were to be on residential and one each for commercial and institutional properties. In addition, two district

centres in each state would be used to collect information on transactions in the rural areas of the respective districts.

The following sample size was specified for each city:

Property agents: 30

Building contractors: 10

Housing finance agencies: 5

The survey was also designed to provide information on transactions covering different price segments of the property market.

It was expected that we would have approximately 100 transactions in the case of urban residential property transactions, 30 urban commercial property transactions, 10 rural residential property transactions and 10 rural commercial transactions in each city.

An attempt was made to collect information on the sample as set out above.

In all, information was collected on 3,281 urban and 249 rural property transactions. Only urban residential housing property transactions were fairly well represented in the sample. In other cases, the number of transactions is relatively small at both city and state levels. One reason for the small number of cases on which data could be obtained was unavailability of the requisite number from each respondent. The respondents did not retain the data systematically, but relied mostly on their memory.

As pointed out earlier, the data were obtained from three types of respondents: Property dealers, property developers or builders and housing finance agencies. The number of transactions by type of respondents is provided in **Table 1**.

**Table 1: Distribution (number) of transactions by type of respondents**

City	Type of Respondent				Total
	Dealer	Developer	HFCs	Commercial Banks	
Hyderabad	28	2	1	4	35
Visakhapatnam	25	5	1	3	34
Nellore	26	5	0	4	35
Patna	123	24	6	6	159
Gaya	29	0	0	18	47

City	Type of Respondent				Total
	Dealer	Developer	HFCs	Commercial Banks	
Saharsa	0	0	0	6	6
Ahmedabad	60	11	21	0	92
Surat	29	13	11	0	53
Mehsana	14	13	7	7	41
Faridabad	74	9	6	8	97
Panipat	76	3	0	5	84
Sonepat	71	5	0	9	85
Shimla	0	0	6	9	15
Bangalore	25	12	3	5	45
Mysore	27	6	3	0	36
Udupi	32	5	5	4	46
Kochi	45	15	0	10	70
Thiruvananthapuram	55	15	0	14	84
Kozikode	41	15	0	11	67
Indore	72	18	10	12	112
Bhopal	79	12	21	6	118
Gwalior	78	17	0	20	115
Greater Mumbai	72	11	3	3	89
Pune	85	14	5	10	114
Sangli	55	6	2	7	70
Bhubaneswar	54	11	3	8	76
Cuttack	24	14	2	6	46
Puri	16	4	0	12	32
Ludhiana	76	12	12	0	100
Amritsar	58	10	6	6	80
Bhatinda	82	8	5	6	101
Jaipur	45	9	0	9	63
Jodhpur	61	8	0	9	78
Alwar	58	9	0	9	76
Chennai	72	21	19	0	112
Coimbatore	72	12	3	12	99
Thanjavur	42	15	2	15	74
Kanpur	76	15	0	9	100
Lucknow	57	13	0	9	79
Aligarh	75	17	0	19	111
Dehradun	75	15	3	8	101
Roorki	63	1	0	15	79
Kolkata	74	18	0	15	107
Durgapur	77	50	0	45	172
Behrampur	76	12	15	0	103
Total	2,454	510	181	393	3,538

Note: Cities are arranged by state. In Himachal Pradesh only one city (Shimla) has been selected. For Uttarakhand it is only two (Dehradun and Roorki), while for the others, it is three each.

## **4. Findings of the Study**

The information collected by the study is examined for variations across types of property- new or resale transaction, urban or rural, residential or commercial- wherever adequate data are available. The analysis is also extended to cover the type of respondent: property dealers and developers in one group and housing finance agencies in the other group.

### **4.1 Price structure of residential properties**

The survey revealed that capital and TC respectively account for 90 and 10 per cent of acquisition costs. The finance cost component is relatively small, less than 1 per cent of the total. This aggregate cost structure pattern is not significantly different between urban and rural properties. The study analysed the cost or price structure by differentiating between new and resale properties and transactions facilitated by property dealers and developers as one group and transactions facilitated by housing finance companies and commercial banks as the other group.

#### **Urban and rural houses**

On an average, TC have a higher share of the total cost of urban houses while the proportion of finance costs is higher for rural properties. The magnitude of differences, however, is very small in both the cases. In the case of capital costs there is no significant difference in its share in total cost, between urban and rural properties.

If we distinguish between new and resale properties, new properties have higher shares of transactions and finance costs in urban areas as compared to rural areas. Comparisons also reveal that new properties have higher transactions costs, while the resale properties have higher finance costs in rural areas. The difference in both cases is notable. Transactions costs account for 10.18 per cent in new and 8.67 per cent in resale property transactions. The difference is more striking in the case of finance costs. The percentage share of finance cost in total cost is three times higher for resale properties as compared to new rural properties.

The new properties would be expected to have a different structure of the capital costs than the old properties. However, information was not collected on the age of the property. If the property

were fairly old, then the appreciation or depreciation of the property value would be capitalised in the total value of transaction leading to higher valuation and a lower share of transactions cost.

In the previous study by the NHB cited earlier (NHB, 2007), transactions cost was estimated between 7.6 and 27.6 per cent of the capital cost. Given our estimate of capital cost at about 90 per cent of the total cost, TC in the present study works out to 10.6 per cent of the capital cost.

To summarise, the estimates presented in **Table 4.1.1** do show that the share of TC in total cost is slightly higher for new property transaction than in the case of resale in both the rural and urban areas. The difference in the share of TC in total acquisition cost between new and resale properties is sharper in the rural areas than in the urban areas.

#### **4.2 Differences in the price structure across types of intermediaries in property transaction**

TC can be expected to vary with the type of intermediary chain that the consumer or buyer follows in the house property transaction. In principle, taking a loan from a housing finance agency does not necessarily eliminate the need for a broker in the transaction. However, a few housing finance companies and commercial banks have started assisting their borrowers to locate suitable property by charging relatively lower fees. Some others have tie-ups with property brokers and developers to help their borrowers with suitable services. This aspect seems to be resulting in an important difference in the structure of TC for the house buyer. Alternatively, the buyer may have already accomplished the search and other associated steps in the acquisition of property and hence these costs are not reported.

As can be seen in **Table 4.1.1**, the share of TC in the case of responses from property dealers/ developers is lower by 1.4 percentage point as compared to the case of responses from housing finance agencies. The difference is greater in the resale properties in the urban areas than in the case of new properties. The difference is sharper in the rural transactions than in the urban transactions.

The share of finance cost, in contrast to the above trend, is greater in the case of transactions reported by the housing finance agencies than in the case of transactions reported by the property dealers/ developers

The estimates show that there can be significant variations in the structure of costs depending on the particular process that is followed by the consumer. The cost would clearly be related to the requirement of the intermediary services. In the case of transactions where the buyer approaches the housing finance agency for financing, the need for a broker may be lower than in the case where the consumer has to shop around for a property to buy from another seller.

The estimates show that TC may go up to 10 per cent of total cost of the property if the transactions are through property dealers/ developers than through a housing finance company or commercial bank. In the latter case, the share of TC in total cost is 9 per cent.

The finance costs are relatively higher in the case of transactions reported by the housing finance agencies. The financing costs such as processing fee, application fee and other charges have been reported to be about 2 per cent of the value of the loan (IPIRE, 2007).<sup>2</sup> If the actual loan amounts are lower than the full value of transaction, then the lower share of finance cost in the total TC as indicated in the survey result is likely.

#### **4.1.2 Price structure of commercial properties**

The findings summarised in **Table 4.1.2** show that price structure patterns observed in the case of residential housing properties hold good for commercial properties also. Urban properties have significantly higher transactions cost but lower finance cost as compared to commercial properties in rural areas. The share of TC in total cost is higher in the case of new properties than in the case of resale properties in both urban and rural areas. The share of FC is also higher in urban new property prices as compared to that of old properties. As for rural properties, much similar to the residential properties, FC has higher share in acquisition cost as compared to urban areas.

If transactions are distinguished by type of intermediary, FC has greater and TC has smaller share in the case of urban transactions reported by the housing finance agencies as compared to the transactions reported by property dealers/developers. However, the same doesn't hold good in the case of rural properties. The shares of both TC and FC are relatively lower in the case of properties facilitated by property dealers and developers.

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<sup>2</sup> India Properties Institute of Real Estate, "Property Matters Made Easy", Pune, 2007.

Although the differences are not significant in all the cases, the estimates do point to the fact that there are differences in the price structures of new and resale properties. This is seen across rural and urban properties as well as new and resale properties. The differences are also manifested depending upon the type of intermediary. FC and some other intermediary services are significant part of the cost of transaction in housing property.

**Table 4.1.1: Composition of total cost to the buyer: residential properties (%)**

All responses	Urban			Rural		
Component	New	Resale	All*	New	Resale	All
TC	9.74	9.41	9.65	10.18	8.67	9.64
FC	0.38	0.24	0.32	0.41	1.25	0.71
Cap Cost	89.88	90.35	90.03	89.41	90.08	89.65
Total Cost	100	100	100	100	100	100
No. of observations	1730	960	2692	125	67	193
Property dealers & developers	Urban			Rural		
Component	New	Resale	All	New	Resale	All
TC	9.90	9.67	9.80	10.53	8.81	9.94
FC	0.30	0.14	0.23	0.32	1.27	0.64
Cap Cost	89.80	90.19	89.96	89.15	89.92	89.41
Total Cost	100	100	100	100	100	100
No. of observations	1445	823	2274	109	65	183
HFC/ Commercial banks	Urban			Rural		
Component	New	Resale	All	New	Resale	All
TC	8.88	7.86	8.78	7.78	4.09	7.64
FC	0.80	0.81	0.79	0.98	0.75	1.02
Cap Cost	90.32	91.34	90.42	91.23	95.16	91.34
Total Cost	100	100	100	100	100	100
No. of observations	285	137	423	16	2	18

Note: TC= TC, FC= Finance cost, Cap cost= Capital cost

\* Information obtained on some property transactions did not specify if the transaction is new or resale.

Therefore, these transactions are included in 'ALL' category while they are not counted as either new or resale categories.

**Table 4.1.2: Composition of total cost to the buyer: commercial properties (%)**

All responses	Urban			Rural		
Component	New	Resale	All*	New	Resale	
TC	9.44	8.76	9.19	8.96	8.61	8.68
FC	0.48	0.13	0.34	0.46	0.60	0.45
Cap Cost	90.09	91.11	90.46	90.58	90.79	90.88
Total Cost	100	100	100	100	100	100
No. of observations	345	174	519	21	4	27
Property dealers & developers	Urban			Rural		
Component	New	Resale	All	New	Resale	All
TC	9.73	8.87	9.42	8.93	8.61	8.67
FC	0.28	0.03	0.19	0.43	0.60	0.37
Cap Cost	89.99	91.10	90.39	90.64	90.79	90.96
Total Cost	100	100	100	100	100	100
No. of observations	274	154	430	14	4	23
HFC/ Commercial banks	Urban			Rural		
Component	New	Resale	All	New	Resale	All
TC	8.29	7.87	8.13	9.02	NA	9.02
FC	1.26	0.91	1.06	0.51	NA	0.51
Cap Cost	90.45	91.23	90.81	90.47	NA	90.47
Total Cost	100	100	100	100	100	100
No. of observations	71	20	91	7	NA	7

Note: TC= TC, FC= Finance cost, Cap cost= Capital cost

\* Information obtained on some property transactions did not specify if the transaction is new or resale. Therefore, these transactions are included in 'ALL' category while they are not counted as either new or resale categories.

## 4.2 Composition of transactions cost of housing property acquisition

As outlined elsewhere above, the transactions cost consists of statutory and professional fee components. The statutory transactions costs are stamp duty, registration and other statutory fees that in turn comprise of land conversion charges, transfer and mutation charges, and others. The professional TC comprises brokerage, document preparation charges, due diligence, society transfer fees and others. With the TC accounting for about 10 per cent of the total cost of housing property to the buyer, it is important to examine the relative importance of its different elements.

### 4.2.1 Residential properties

In both urban and rural areas, stamp duty accounts for bulk of the TC. In the urban areas, it works out to 70 per cent of TC and in rural areas about 65 per cent. The statutory transactions cost (stamp duty, registration fee and other fees imposed by government agencies), makes up more

than 80 per cent of the TC in both rural and urban areas. This implies that more than 8 per cent of the total cost paid by the buyer goes towards these statutory transaction fees. The other taxes paid in terms of taxes on inputs for construction and for obtaining various permissions from the local government authorities as well as the taxes to be paid in future as wealth tax and so on are not accounted for in this estimated payments to government agencies.

### **Urban vs. rural residential housing properties**

Stamp duty share in TC is higher in urban areas while the share of registration fee is more than 1 per cent higher in rural areas. Other statutory costs have a share of 3 per cent in TC of urban properties. The same is 5 per cent in the case rural properties.

New properties have lower share of stamp duties and higher share of registration fee in TC in urban areas. In the case of rural properties the share of stamp duty is similar in both new and resale properties.

As regards the professional charges component of TC, broker's fees work out to be the most important component of it. Its share ranges from 65 to 80 per cent of the professional TC. The survey reveals that brokers charge relatively higher fees for facilitating resale property transfers as compared to that of new properties.

### **TC structure by type of intermediaries**

It is noticed that the statutory transactions cost has relatively lower share in total TC if a property brokers facilitate the transaction. However, in such instances, the share of professional transactions cost has higher share.

These patterns reveal that in the case of new properties and those where housing finance agencies are involved directly, the involvement of brokers is relatively less significant.

### **4.2.2 Commercial properties**

**Table 4.2.2** presents the decomposition of TC in the case of commercial properties. Relative to the residential properties, the share of stamp duty and registration charges is smaller in the case of commercial property transactions. As compared to a share of 70 per cent in the case of residential

properties, the stamp duty accounts for 67 per cent of the TC in the commercial property transaction in the urban areas.

The share of broker's fee is significantly lower in rural areas than in the urban areas. However, we should also note that the number of transactions on which data were available for rural commercial property transactions is very small and may not be adequate for strong conclusions.

As may be expected the broker's fee becomes more significant component of TC in the case of resale properties rather than new properties. The transactions reported by housing finance agencies also give a smaller share of broker's fee in TC.

**Table 4.2.1** provides a break- up of the TC for residential property transactions.

**Table 4.2.1 Composition of TC: residential properties (%)**

All respondents	Urban			Rural		
Components	New	Resale	All*	New	Resale	All**
Stamp duty	68.58	73.34	70.28	65.75	64.45	64.97
Registration fee	9.24	7.51	8.61	10.69	8.30	9.84
Other statutory fees/ charges	4.08	1.04	2.99	5.10	4.85	4.99
Broker charges	13.34	15.53	14.16	12.44	15.40	13.79
Other costs	4.76	2.58	3.96	6.02	7.00	6.41
Total TC	100	100	100	100	100	100
No. of Observations	1709	961	2672	128	65	194
Responses from property dealers/ developers	Urban			Rural		
Components	New	Resale	All	New	Resale	All
Stamp duty	67.36	72.22	69.11	63.58	65.28	63.91
Registration fee	9.01	7.09	8.30	10.44	8.19	9.48
Other statutory fees/ charges	4.01	0.81	2.85	5.58	5.00	5.33
Broker charges	14.89	17.22	15.77	13.92	15.89	14.82
Other costs	4.73	2.66	3.97	6.48	5.64	6.46
Total TC	100	100	100	100	100	100
No. of Observations	1437	824	2267	111	63	183
Responses from housing finance agencies	Urban			Rural		
Components	New	Resale	All	New	Resale	All
Stamp duty	75.04	80.00	76.71	79.95	NA	79.95
Registration fee	10.46	10.07	10.31	12.31	NA	12.31
Other statutory fees/ charges	4.48	2.42	3.78	1.96	NA	1.96
Broker charges	5.15	5.38	5.25	2.76	NA	2.76
Other costs	4.87	2.13	3.95	3.02	NA	3.02
Total TC	100	100	100	100	100	100
No. of Observations	272	137	410	17	2	17

Note: \* Information obtained on some property transactions did not specify if the transaction is new or resale. Therefore, these transactions are included in 'ALL' category while they are not counted as either new or resale categories.

**Table 4.2.2: Composition of TC: Commercial Properties (%)**

All respondents	Urban			Rural		
Components	New	Resale	All*	New	Resale	All
Stamp duty	65.97	70.04	67.34	70.80	72.91	70.44
Registration fee	10.67	8.35	9.89	10.63	10.05	10.67
Other statutory fees/ charges	5.93	1.59	4.48	3.44	2.48	3.16
Broker charges	12.55	17.07	14.06	9.22	11.04	10.26
Other costs	4.88	2.95	4.23	5.91	3.52	5.47
Total TC	100	100	100	100	100	100
No. of Observations	344	173	517	21	4	27
Responses from property dealers/ developers	Urban			Rural		
Components	New	Resale	All	New	Resale	All
Stamp duty	64.89	69.23	66.40	67.05	72.91	67.72
Registration fee	10.60	8.63	9.88	11.27	10.05	11.23
Other statutory fees/ charges	5.20	1.67	4.04	3.15	2.48	3.96
Broker charges	14.22	17.60	15.41	11.00	11.04	11.30
Other costs	5.09	2.86	4.28	7.52	3.52	5.79
Total TC	100	100	100	100	100	100
No. of Observations	273	154	429	14	4	23
Responses from housing finance agencies	Urban			Rural		
Components	New	Resale	All	New	Resale	All
Stamp duty	70.13	76.56	71.49	78.28	NA	78.28
Registration fee	10.93	6.14	9.92	9.34	NA	9.34
Other statutory fees/ charges	8.75	0.89	7.09	4.03	NA	4.03
Broker charges	6.12	12.77	7.53	5.65	NA	5.65
Other costs	4.07	3.63	3.98	2.70	NA	2.70
Total TC	100	100	100	100	100	100
No. of Observations	71	19	90	7	NA	7

Note: \* Information obtained on some property transactions did not specify if the transaction is new or resale. Therefore, these transactions are included in 'ALL' category while they are not counted as either new or resale categories.

Statutory TC are imposed on the declared value of the property at the time of registration of the property. The system provides incentives for undervaluation, as it would reduce the tax burden to the buyer. This problem is addressed to some extent by revising the circle rates, which define the minimum value of property prices, at regular intervals. The professional transactions costs, as noted earlier, are paid on the actual transaction value of the property as against the registered value. The real estate broker's fee is the main element of this category of costs.

### **Patterns of price structure across states and cities**

The overall estimates of the price structure of housing properties have shown that TC account for about 10 per cent of the cost of the property. Both urban and rural housing property transactions conform with this pattern. In the previous section it was also noticed that stamp duties turn out to be the most prominent component of the TC. Do these patterns vary across states and cities? In this section, we briefly point to these patterns.

### **Composition of total costs: urban residential vs. urban commercial**

The results point out substantial variations in the share of TC in total cost across the states. It also reveals an interesting pattern. The TC are generally more prominent in the total price of the property in the relatively economically weaker states than in the stronger states. For example, UP, MP and Orissa are among the top five states in terms of the share of TC in the total cost of urban residential properties. Kerala and West Bengal top the list although they are not among the 'low performing states' in terms of overall income levels. The states of Gujarat, Maharashtra, Haryana and Punjab, the 'stronger states' have lower TC relative to total cost. One possible reason for this result is the fact that the property prices in general are higher in these better off states and the transactions cost turns out to be relatively lower.

The pattern is similar for both residential and commercial properties in the urban areas.

### **Composition of total costs: new vs. resale urban properties**

It was noticed that except in Haryana, Punjab and Kerala, new properties have higher shares of transactions cost as compared to 'resale' properties. In the case of urban commercial properties, TC have higher shares in resale properties as compared to new properties only in Orissa, UP, Uttarakhand. Therefore, the share of TC in total cost is relatively greater in the case of 'new' properties than in the 'resale' properties.

One explanation for this pattern of TC across new and resale properties is the higher taxes and fees for 'new' transactions as compared to 'resale' properties. Another explanation for the pattern may be the greater need for intermediaries in the transactions involving the purchase or sale of new properties which in turn increase the TC. We explore these issues through a decomposition of the TC.

### **Stamp duties: new vs. resale urban properties**

The share of stamp duty in TC does not show strong correlation with the ‘economic performance’ of the states. However, the share of stamp duty in TC is relatively low in the case of Maharashtra, Gujarat and Karnataka and high in the case of MP, UP and Bihar. The pattern is more complex in commercial property transactions.

Thus, it is not the stamp duties alone that lead to high TC in the relatively weaker states, but other fees and charges are equally responsible.

The stamp duty as a percentage of TC is lower in a majority of the states considered here in the case of ‘resale’ transactions as compared to the ‘new’ property transactions. The pattern is similar in the case of commercial properties although the data points are small in number to draw stronger conclusions.

The variation in the stamp duty across states is significant. For a comparison of these actual duties, we have summarised the information available from various sources on the actual rates in **Table 4.2.3**. The information also confirms that the stamp duty on transactions in rural areas is lower than in urban areas in a number of states.

**Table 4.2.3. Stamp duty rates across states**

Sl. No.	State	Rate of Stamp Duty
1	Andhra Pradesh	8%
2	Bihar	8%-urban & 6%-rural
3	<b>Gujarat.</b>	4.9%
4	Haryana	<b>Urban:</b> 8%-male & 6%- female; <b>Rural:</b> 6%-male & 4%- female
5	Himachal Pradesh.	5%
6	Karnataka	8.4%
7	<b>Kerala</b>	13.5 %- urban, 10% -rural
8	Madhya Pradesh	10%- male, 8 %- female, 9%- joint registration
9	<b>Maharashtra</b>	5%-male & 6%-female
10	Orissa	11%-urban & 8%-rural
11	Punjab.	<b>Urban:</b> 8%-male & 7%- female; <b>Rural:</b> 5%-male & 4% -female
12	Rajasthan.	6.5%-male & 5%- female
13	Tamil Nadu	8%
14	Uttar Pradesh.	10 %- Male, 8 %- female
15	Uttaranchal	10%-male, 8%- female
16	West Bengal.	6% if value of property is <=25 lakh, 7% for

		properties valued > 25 lakh; duty is also lower by 1% for panchayat areas.
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Source: Various sources such as state government websites, information collected from state governments during the survey.

### **Duration of the transaction**

The time taken to complete the housing property transaction is a part of TC. The study has attempted to assess the time needed to complete one phase of housing property transactions. We define the duration for transaction as the time gap between the sale agreement and sale deed execution. It therefore excludes search costs and other due diligence process. The duration captured here reflects the time taken for completing the statutory process.

In the case of new properties, normally a buyer enters into agreement for purchase with the developer at the time of booking. The agreement is executed only when the construction of the house is completed, generally between two and three years. In the present study, however, the information sought is limited to the time taken to complete the housing property transfer process and not the construction time of the property. Therefore, only the resale property information is analysed for this purpose.

As can be noticed from **Table 4.2.4**, completion of housing property transactions takes more time (eight days on average) in rural areas than urban areas. In urban areas, there is no difference in the duration between residential and commercial properties. However, if HFCs or commercial banks mediate the transaction, commercial property transactions take six days more time than residential properties.

**Table 4.2.4: Duration of the transaction (No. of days )**

<b>State</b>	<b>Duration</b>
<b>Urban Residential</b>	
Property Dealers/Developers	38
HFCs/Commercial Banks	40
<b>Urban Commercial</b>	
Property Dealers/Developers	38
HFCs/Commercial Banks	46
<b>Rural Residential</b>	
Property Dealers/Developers	46

The total time taken for the process of acquisition to be completed even after the sale agreement is signed, is about 45 days.

## **A composite view of structure of transactions cost and total cost**

We now present an analysis of the incidence of stamp duty as a proportion of TC and TC as a proportion of total price (cost) of housing properties emerging from the present survey.

### **The state-level patterns**

Three broad trends emerging at the state level from the transactions cost information collected from the survey are:

- (a) Stamp duty and TC account for the highest percentage of property prices of both commercial and residential properties in UP and MP as compared to the other states.
- (b) Stamp duty and TC, as a proportion of Cost, are among the lowest in Karnataka, Maharashtra and Gujarat for both commercial and residential properties

### **Urban residential properties**

- HP, Maharashtra, Karnataka and Gujarat have relatively lower incidence of stamp duties and lower TC in the Cost.
- On the other hand, it is observed that UP and MP have relatively higher stamp duties and higher TC in Cost.
- If we distinguish between new and resale properties in HP, Maharashtra, and Karnataka states, the incidence of stamp duty and TC is lower for new properties.
- In the case of urban residential resale properties, Maharashtra and Gujarat have the lowest TC.
  
- UP and Uttarakhand have both highest stamp duty and highest TC relative to Cost.

The general patterns that we referred to earlier with respect to the overall economic situation of the states and the TC in housing property price are reinforced here in this analysis.

**Table 4.3.1: Stamp duty and TC: urban residential - all properties**

% of TC in Cost	% of stamp duty in TC		
	<=70	70-75	>75
<=8%	HP	Punjab	
	Maharashtra	Haryana	
	Karnataka	Rajasthan	
	Gujarat		
8-10%		TN	Andhra Pradesh
		Bihar	Uttarakhand
>10%	WB	Orissa	MP
		Kerala	UP

**Table 4.3.2: Stamp duty and TC: urban residential – new properties**

% of TC in Cost	% of Stamp Duty in TC		
	<=70	70-75	>75
<=8%	HP	Punjab	Rajasthan
	Maharashtra	Gujarat	
	Karnataka	Haryana	
8-10%		TN	Andhra Pradesh
		Bihar	MP
			Uttarakhand
			UP
>10%	WB	Orissa	
		Kerala	

**Table 4.3.3: Stamp duty and TC: urban residential - re-sale properties**

% of TC in Cost	% of stamp duty in TC		
	<=70	70-75	>75
<=8%	Maharashtra	Haryana	
	Gujarat	Punjab	
8-10%	HP	Rajasthan	Andhra Pradesh
	Karnataka	TN	
	Bihar		
>10%	WB	MP	UP
	Kerala		Uttarakhand

### Urban commercial properties

- Maharashtra, Karnataka and Gujarat have relatively lower percentage of stamp duties and lower TC.
- Uttar Pradesh and Madhya Pradesh have higher stamp duties and higher percentage of TC.
- In the case of resale properties, in addition to Gujarat and Maharashtra, Haryana also has shown relatively lower TC.

**Table 4.3.4: Stamp duty and TC: urban commercial - all respondents**

% of TC in Cost	% of stamp duty in TC		
	<=70	70-75	>75
<=8%	Karnataka	Haryana	Punjab
	Maharashtra		
	Gujarat		
8-10%	HP		Andhra Pradesh
	Rajasthan		TN
>10%	WB	Kerala	MP
	Uttarakhand		UP
	Bihar		
	Orissa		

**Table 4.3.5: stamp duty and TC: urban commercial - new properties**

% of TC in Cost	% of Stamp Duty in TC		
	<=70	70-75	>75
<=8%	Karnataka	Punjab	Haryana
	Maharashtra	Gujarat	TN
8-10%	HP		MP
	Rajasthan		Andhra Pradesh
>10%	WB	Orissa	
	Uttarakhand	Kerala	
	Bihar	UP	

**Table 4.3.6: stamp duty and TC: urban commercial - resale properties**

% of TC in Cost	% of stamp duty in TC		
	<=70	70-75	>75
<=8%	Gujarat		Punjab
	Maharashtra		
	Haryana		
8-10%	Rajasthan	TN	Andhra Pradesh
			Uttarakhand
>10%	Orissa		MP
			UP

**The city-level patterns**

The two-way analysis of TC is extended here to the patterns emerging at the level of the cities for which data have been collected. While there is no information on the general economies of the cities, the similarity of patterns over a large number of cities would help in generalising some of the trends observed earlier.

**Urban residential properties**

- City-wise tables reveal that Udipi in Karnataka, Greater Mumbai and Pune in Maharashtra and Mehsana and Surat in Gujarat have shown lowest percentage of stamp duty and TC. Shimla and Amritsar also show similar trends.
- Bhopal, Gwalior, Roorki, Lucknow and Kanpur have the highest share of stamp duty and TC in the Cost of properties.

**Table 4.4.1: Stamp duty and TC: urban residential - all respondents**

% of TC in Cost	% of stamp duty in TC		
	<=70	70-75%	>75
<=8%	Udupi	Faridabad	Panipat
	Shimla	Ahmedabad	Bhatinda
	Greater Mumbai	Sonipat	Alwar
	Pune	Ludhiana	Saharsa
	Mahesana	Jodhpur	
	Amritsar		

	Surat		
8-10%	Sangli	Jaipur	Visakhapatnam
	Durgapur	Coimbatore	Hyderabad
	Thanjavur	Mysore	Nellore
		Chennai	Bangalore
		Gaya	Aligarh
			Dehradun
>10%	Baharampur	Kochi	Bhopal
	Kolkata	Bhubaneswar	Gwalior
		Thiruvananthapuram	Roorki
		Cuttack	Lucknow
		Patna	Kanpur
		Indore	
		Puri	
		Kozikode	

**Table 4.4.2: Stamp duty and TC: urban residential - new properties**

% of TC in Cost	% of stamp duty in TC		
	<=70	70-75	>75
<=8%	Udupi	Sonepat	Ahmedabad
	Shimla	Surat	Panipat
	Greater Mumbai	Chennai	Saharsa
	Pune	Bhatinda	Jodhpur
	Mahesana		Alwar
	Amritsar		
	Faridabad		
8-10%	Sangli	Coimbatore	Indore
	Durgapur	Ludhiana	Bangalore
	Thanjavur	Mysore	Roorki
	Jaipur	Visakhapatnam	Hyderabad
		Gaya	Nellore
			Dehradun
			Gwalior
			Aligarh
			Kanpur
>10%	Baharampur	Kochi	Lucknow
	Kolkata	Bhubaneswar	Bhopal
		Thiruvananthapuram	
		Cuttack	
		Patna	
		Puri	
		Kozikode	

**Table 4.4.3: Stamp duty and TC: urban residential - resale properties**

% of TC in Cost	% of stamp duty in TC		
	<=70	70-75	>75
<=8%	Udupi	Faridabad	Sonepat
	Greater Mumbai	Ludhiana	Bhatinda
	Ahmedabad		
	Surat		
	Panipat		
	Pune		
	Amritsar		
8-10%	Shimla	Jodhpur	Hyderabad
	Mahesana	Chennai	Visakhapatnam
	Gaya	Alwar	Nellore
	Thanjavur	Jaipur	Coimbatore
			Dehradun
			Bangalore
>10%	Baharampur	Indore	Gwalior
	Sangli	Bhopal	Mysore
	Kochi		Roorki
	Patna		Kanpur
			Aligarh
			Lucknow
			Kozikode

### **Urban commercial properties**

- Urban commercial property price structure has the lowest percentage of TC and stamp duty in Karnataka, Maharashtra, Haryana and Punjab.
- On the other hand, commercial property transactions face higher percentage of stamp duty and TC in Kerala, Orissa and M.P.
- There is similarity in trends in the case of new and resale commercial properties.

**Table 4.4.4: Stamp duty and TC: urban commercial – all respondents**

% of TC in Cost	% of stamp duty in TC		
	<=70	70-75%	>75
<=8%	Udupi	Sangli	Gaya
	Amritsar	Mehsana	Surat
	Pune	Sonipat	Panipat
	Ahmedabad		Bhatinda
	Greater Mumbai		Roorki
	Faridabad		Chennai
8-10%	Shimla	Coimbatore	Visakhapatnam
	Durgapur	Hyderabad	Thanjavur
	Jaipur	Bangalore	Nellore
	Alwar		Ludhiana
	Jodhpur		Aligarh
			Kanpur
>10%	Kolkata	Thiruvananthapuram	Indore
	Baharampur	Cuttack	Kozikode
	Dehradun	Kochi	Bhopal
	Bhubaneswar	Lucknow	Puri
	Patna		Gwalior

**Table 4.4.5: Stamp duty and TC: urban commercial – new properties**

% of TC in Cost	% of stamp duty in TC		
	<=70	70-75	>75
<=8%	Amritsar	Ahmedabad	Gaya
	Udupi	Sangli	Faridabad
	Pune	Sonipat	Visakhapatnam
	Greater Mumbai	Mehsana	Panipat
			Roorki
			Chennai
			Surat
			Thanjavur
8-10%	Shimla	Coimbatore	Nellore
	Durgapur	Bangalore	Bhatinda
	Alwar		Gwalior
	Jodhpur		Ludhiana
	Jaipur		
>10%	Dehradun	Aligarh	Bhopal
	Kolkata	Thiruvananthapuram	Indore
	Baharampur	Cuttack	Kozikode
	Bhubaneswar	Kochi	Puri
	Patna	Lucknow	

**Table 4.4.6: Stamp duty and TC: urban commercial – resale properties**

% of TC in Cost	% of stamp duty in TC		
	<=70	70-75	>75
<=8%	Mahesana	Coimbatore	Sonepat
	Ahmedabad		Bhatinda
	Greater Mumbai		Panipat
	Pune		
	Faridabad		
	Amritsar		
8-10%	Surat	Thanjavur	Visakhapatnam
	Jaipur	Hyderabad	Nellore
	Alwar		Ludhiana
	Jodhpur		Dehradun
			Aligarh
>10%	Cuttack		Indore
			Lucknow
			Bhopal
			Gwalior

#### **Determinants of transactions cost**

In the backdrop of the above findings, we now provide through regression analysis an assessment of the significance of the association between TC and their determinants. Two single equation multiple linear regression models are estimated to examine the statutory transactions costs, and professional transactions costs separately.

The list of explanatory variables used for this purpose includes property location (urban/rural), property status (freehold/leasehold), type of property (residential/commercial), type of buyer (individual/firm), property seller (individual/firm), gender of the buyer in case of individual, type of property (new/resale), transaction value, and per capita net state domestic product. The dependent variable is logarithm of statutory TC.

The results of the estimated regression models are:

**Table 4.4.7 Determinants of statutory transaction fees: regression results  
(Dependent variable: logarithm of statutory transactions cost)**

Variable	Coefficient	t-value
Constant	1.27	5.3***
Value	1.01	108.9***
Pensdp	-0.4	17.1***

Location	-0.05	1.37
Status_fhld	0	0.02
Buycat	-0.06	1.34
Selcat	0.05	2.27**
New	0.06	2.81***
Respondent	-0.06	2.41***
proptype	-0.09	3.66***

Adjusted R square=.79; Method of estimation: OLS

Note: Constant stands for the intercept of the model. Value is the transaction value of the property in logarithms, pcnsdp stands for percapita state net domestic product in logarithms, location stands for urban/rural (urban=1, rural=0), status\_fhld stands for freehold status of the property (freehold=1, leasehold=0). Buycat stands for type of buyer (individual=0, institutional=1), selcat2 represents dummy variable for a seller (individual=0, firm=1), new stands for new or resale of property (new=1, resale=0). Respondent indicates respondent category (banks&hfps=1,dealers&developers=0), prop-typ stands for residential/commercial (residential=1, commercial=0).

(Level of significance for each coefficient: \*\*\* for 1%, \*\* for 5%, \* for 10%)

These results indicate that statutory TC varies positively with the value of the property in about the same proportion. Progressive states- the states with higher per capita net state domestic product- impose lower statutory duties as compared to the others. The results pertaining to location, property status and type of buyer do not show statistically significant impact of these characteristics on the statutory transactions cost.

As for the sellers category, statutory TC paid on properties bought from firms are higher by 5 per cent than what is paid on properties bought from individual sellers. The results also confirm incidence of higher statutory fees for new houses (6 per cent on average) as compared to resale houses. It can also be noticed that the incidence of statutory fees is more in case of property transactions facilitated by commercial banks and housing finance companies. The results also indicate that statutory transactions costs paid are relatively lower in the case of commercial properties as compared to residential properties. All these results are robust and confirm to the patterns observed earlier.

### **Professional fees in TC**

The linkage between different property attributes and professional fees/ charges involved in TC are different from that observed in the case of statutory TC. In this case, only transaction value, state per capita GDP, location, and types of respondent are statistically significant determinants of professional fees/ charges. As for the direction of impact and robustness of individual explanatory variables, there is a significant difference between statutory and professional TC. The estimates are given in the following table.

**Table 4.4.8 Determinants of professional fees/ charges in TC: regression results  
(Dependent variable: logarithm of professional transactions cost)**

Variable	Coefficient	t-value
Constant	-5.11	10.5***
Value	0.81	42.3***
Pensdp	0.38	8.0***
Location	0.25	3.3***
Status_fhld	-0.18	1.48
Buycat	0.13	1.32
Selcat	0.03	0.68
New	-0.04	0.9
Respondent	-1.21	20.2***
Prop_type	0.01	0.16

Adj. R square=.49 Method of estimation: OLS

Note: Definitions of independent variables remain the same as given in the note to Table 4.4.7.

## 5. Summary and Recommendations

Some of the key recommendations based on the present study are:

- With a 10 per cent share in the total price tag of a property, TC is a significant part of the cost of acquiring a house. However, the broker's fee does not include the expenses incurred for carrying out 'search' of the property. It also does not include the costs due to delays in getting necessary clearances from the government agencies before the transaction could be completed. The study estimates that about 40 days are needed to complete the process of execution of the sale deed from the time of signing the sale agreement. Delays may occur due to the time taken to bring the deal to financial closure and to complete the necessary legal process. It is necessary to make the legal process as efficient as possible.
- An indication of the significant levels of TC is the reported undervaluation of properties to reduce tax obligations. Stamp duty being the largest component of TC, there are incentives to under-report property prices. The high duty levels also have a cascading effect as these are applied at each sale. Stamp duty is paid on both the purchase of land and also on the price of the property. There is a need to rationalise these rates on a 'value added' basis.

- Reduction in the duty levels could help in promoting the development of the housing sector by making entry into the property market more affordable to individuals. Stamp duty levels are anyway higher in India than most other countries. Empirical evidence on the revenue effects of stamp duty reduction is not well established, but studies do point to the correlation between the growth in the number of registrations and reduction of stamp duty. It is necessary to harmonise the rates and bring them down in order to make the housing market more inclusive.
- The provisions of the Rent Control Act and ULCRA led to considerable restrictions on the growth of the housing market. Though these acts have been liberalised and done away with in most states, the liberal provisions often cover only the new properties. It is necessary to bring the old properties also under liberal provisions.
- It is necessary to create a positive environment for the development of housing property markets. It is necessary to have efficient systems of record keeping and open up buyer-seller access to these records. The title and sale deed record offices should be brought together in one office.
- The development of the institutional housing finance sector has catalysed demand for housing from people with high and middle-level income in the organised sector. It is necessary to develop financial products for those in the unorganised sector as well. Reduction in intermediary costs would help the low-income groups and would go a long way towards realising the demand potential from this group.
- Benefits under the tax concessions for housing are essentially limited to the tax paying public. The others, at the lower income group, would have to benefit from more efficient markets. This also implies that the tax concessions would have to be limited to serve one-time housing requirements of individuals. Rather than depend only on tax concessions, it would be more effective to have lower tax rates because it would stimulate demand.
- Some TC are not visible to the buyers and sellers of properties as they are built into the prices. These include the plethora of clearances and approvals needed to build a house. It is necessary to monitor the working of these regulations and take steps to simplify the process. If revenue generation is the sole objective of the government agencies, then it

should not lead to restriction of economic activities. Ineffective enforcement also implies scope for corruption.

- Assessment of housing property prices based on primary data is not common in India. So, the present exercise has provided a number of valuable leads for studies of this type. Firstly, the respondents in the present survey are the intermediaries in transactions rather than the actual buyers or seller. Some of the costs such as ‘bribes’ or understatement of valuations cannot be fully captured through this approach. Though there are no other approaches to fully address this limitation, information from actual buyers and sellers is likely to be more complete. So, a survey of intermediaries should be complemented by one of sellers and buyers.
- To fill the information gap collected in the present study, we believe that a case study of a few transactions would be necessary. This would contribute to our understanding of the key areas where costs are incurred to complete the transaction process. A study that captures the costs for the property developer and the individual buyers and sellers would provide a fuller understanding of the TC. A metro city situation, smaller cities and some rural transactions could be followed up. The study should also take up cases of power of attorney transactions to assess the issues involved.

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