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Prakash Baviskar

Ref. No. MCHI/PRES/18-19/114

January 8, 2019

To,  
Hon'ble Shri Devendra Fadnavis  
Chief Minister  
Government of Maharashtra,  
Mantralaya,  
Mumbai 400 032

मुख्यमंत्री सचिवालय  
महाराष्ट्र शासन  
मंत्रालय, मुंबई - ४०० ०३२  
दिनांक ८/१/२०१९

Sub. : (1) Land ASR cannot be more than 25% of Residential Unit Sale ASR  
(2) IT-ITeS to be valued at 50%~60% of Commercial Property Rates in ASR and land rate for IT / ITeS to be re-calibrated to 25% ~ 30% of Commercial premises rate  
(3) Premium for amenities like swimming pool, car park, club house should not be charged  
(4) Stamp Duty assessment and charge on Development Management Agreements (DMA)  
(5) Discounting on account of volume of the sale to be done and NPV consideration for Valuing under construction property  
(6) Road abutting premium should be applicable only for commercial establishments and upto a max. depth of 80~100 fts.

Respected Sir,

For the past few years, we as CREDAI-MCHI have been trying to bring to your notice the ever-increasing Ready Reckoner Rates and its impact on the cost of projects and thereby the landed price in the hands of the end buyer. The situation has already come to a point where it has already become untenable for the industry and it may lead to a catastrophic situation; it is the end buyer who suffers the most. The Ready Reckoners have become a kind of a vicious cycle - as the government increases the Ready Reckoner Rates, the market is forced to correct itself to at least match the increased rates thereby increasing the median rate of the market, in the absence of any other economic or civic factor to drive prices upwards.

**1. Land ASR cannot be more than 25% of Residential Unit Sale ASR**

Sir, land rates are the single most impacting component in a project's costing. Gone are the days when land rates in MMR were pegged at 70% of the project cost; they at best today are range bound from 20%~25% of sales. However, for some very strange reasons, despite there being no land transactions to support the basis, IGR has been fixing land rates arbitrarily at 50% and above of the residential ready premises sale rates across MMR.

Various analysis and reports have clearly brought out the fact that the current day premiums and charges payable to the government (all linked to land ASR) are around 20%~25% of the residential sale value. Another 30%~40% of the sale price goes towards the construction cost. **Accounting for other administrative,**

**marketing and finance costs which is another 15%~25%, the land rates cannot under any scenario, be more than 20%~25% of residential sale rates.**

With high land ASR and all premium and charges linked to Land ASR, land ASR only has a domino effect on the landed cost of the residential unit in the hands of the end buyer. It is pertinent to note here that ASR across MMR has been increased approximately 300% over the past five years. It is this one single factor that has created unaffordability in the markets, making it highly difficult and beyond financial reach of the common man to seek housing within MMR limits. Please find a detailed report on various premiums & taxes payable across 11 micro-markets with MCGM limits.

We at CREDAI-MCHI therefore very strongly request the following :

- A. Re-calibrate the land rates to upto 25% of Residential Sale Rates across MMR**
- B. Even GST now acknowledges the land rate to be 33% of the residential sale value. Should the State wish to, let the land rates be capped at 33% in sync with this Central Act, the Law of the Land!**

## **2. IT-ITeS to be valued at 50%~60% of Commercial Property Rates in ASR**

We bring to your notice one more anomaly in the ASR which has been a pain area for a while and has impacted sales in IT-ITeS Buildings across MMR. From being the IT-ITeS market, MMR seems to be losing out to other cities like NCR, Bengaluru, Hyderabad, Chennai etc. primarily owing to rates.

Vide provisions of guideline 8 (c) of the Government Guidelines & Instructions to be Used for Market Valuation as per Stamp Duty Reckoner, it is provided that IT / ITeS premises should be valued at the rate applicable to Industrial premises and where Industrial premises rates are not provided for, it should be valued at 110% of Residential premises rate in that zone.

A perusal of the ready reckoner for the year 2017-18 applicable to the key IT / ITeS destinations across MCGM limits, reveals the following :

- 1. For all the zones & sub-zones, industrial premises ready reckoner rates have been provided;
- 2. The industrial premises rates are almost at par with residential premises rates. Out of 50 sub-zone checks, only in 10 cases a slight variation was observed between the two rates. (Please refer Annexure I : 2017 ASR Rates of Sample Sub-Zones)
- 3. The industrial premises rates across these 50 sub-zones was found to be approximately 88% of the commercial premises rates.

Sir, the provisions of guideline 8 (c) is a welcome noting but does not help address the anomaly in any way. This is an anomaly in the ASR which has been a pain area for a while and has impacted sales in IT-ITeS Buildings across MMR. From being the IT-ITeS market, MMR seems to be losing out to other cities like NCR, Bengaluru, Hyderabad, Chennai etc. primarily owing to ready reckoner rates.

**[A] Re-Calibrate IT / ITeS premises at 50%~60% of Commercial Premises rates**

Sir, you would agree that IT-ITeS, for its inherent operational parameters cannot be treated at par with Industrial or at approximately 88% value of Commercial premises, and hence deserves a separate treatment. While the rent and capital values of IT-ITeS properties are 50%~60% lower than that of commercial in a location, for Stamp Duty purposes, as demonstrated above, they are valued at roughly 88% of that of Commercial Property rates (as per 8 (c)), thereby increasing the cost of transaction. For e.g., in Lower Parel, while IT-ITeS deals are happening anywhere between Rs.14,000/- to Rs.17,000/- per sq.fts., the ASR applicable under 8 (c) to IT-ITeS shall range from Rs.25,000/- to Rs.33,750/-. Many deals are stuck owing to this anomaly in valuation which is creating an ironical situation where while on one side, the Government's laudable & noble intentions and objective is to create jobs & affordable housing and such anomalies in taxation are leading to a flight of jobs to other cities.

In order to do away with the anomaly and to give IT-ITeS its rightful due, we as CREDAI-MCHI would like to sincerely request you to either have a separate appropriate column for IT-ITeS in the ASR table or else please update the guidelines to value IT-ITES at 50-60% of commercial rate applicable, as commercial premises provide for a better benchmarking of IT / ITeS vis-à-vis Industrial.

**[B] Re-Calibrate Land Value for IT / ITeS premises at 50% of the Stamp Duty Valuation of IT / ITeS premises**

Land ready reckoner rates remain another big impediment in making the IT Policy 2015 a grand success. Since the introduction of fungible FSI, all premiums approval charges have been linked to land ready reckoner rates. In case of IT / ITeS premises, it is a double whammy for the developer / promoter as while deals happen at almost 50% of the commercial premises rates, the stamp duty rate is roughly 88%, the developer / promoter is forced to pay all premiums and approval charges at standard land rates applicable to commercial premises.

It is our earnest request that land rates for IT / ITeS premises be re-calibrated in line with the re-calibrated IT / ITeS premises ready reckoner rate. As per our analysis of Annexure I, the standard land rate is on an average 53% of the Commercial premises rate. As proposed in the point [A] above, the ready reckoner rates should be made 50%~60% of the Commercial premises rate. So effectively, for an IT / ITeS proposal, the land rate should be taken as roughly 50% \* (50%~60% of the Commercial premises rate), that is to say, **land rate for IT / ITeS should be re-calibrated to 25% ~ 30% of Commercial premises rate.**

By bringing the afore-mentioned parity in the ready reckoner rates for IT / ITeS premises, not just would the IT Policy 2015 get a great fillip, it will help deals including FDI inflow that are currently stuck for this clarity and also help convert many lease transactions into outright purchases. This would only help generate

more stamp duty revenue for the state. (Stamp Duty for Leave & License is 1/10<sup>th</sup> of normal duty).

In summary, our two prayers for your kind perusal are :

- A. Have a separate appropriate column for IT-ITeS in the ASR table or else please update the guidelines to value IT-ITES at 50-60% of commercial rate applicable; and
- B. Land rate for IT / ITeS should be re-calibrated to 25% ~ 30% of Commercial premises rate.

**3. Premium for amenities like swimming pool, car park, club house should not be charged**

As a general practice, for stamp duty valuation, a notional consideration towards amenities like car park, club house, swimming pool etc. is added to the actual consideration of the flat, thereby inflating the valuation of the unit to be registered. It is pertinent to mention here that under RERA, or under the erstwhile MOFA, such amenities could not be sold for a consideration and that there has to be only one rate (basis carpet area) to be charged to the consumer. Even if there was a consideration towards such amenities, such costs are already built into the per carpet rate, which is the final consideration amount. When this consideration amount, already inclusive of such amenity costs is subject to stamp duty, there arises no justification for a premium to be added further to this consideration amount.

As CREDAI-MCHI, as such amenities are not separately sold and there is no separate consideration collected from the consumer, we sincerely request you to remove the application of premiums for all such amenities for stamp duty valuation purposes which unnecessarily burdens the consumer. Moreover, this would be against the provision of law and blatantly illegal. Officially the department should not become party to an illegal addition to the cost.

**4. Stamp Duty assessment and charge on Development Management Agreements (DMA)**

Sir, with ever increasing land ASR rates, it is becoming that much more difficult for builders to do a land transaction and achieve viable financial closure of their projects. With land deals becoming elusive, builders are resorting to entering into DMA to keep their business model asset light. Reputed Builders and regional players in the real estate industry are actively participating in DMAs (Development Management Agreements) wherein, the land remains to be with the land owner. There is a 10% revenue sharing between the landlord and the builder.

When such agreements go for registration, for stamp duty considerations, the value is capped at 110% of the revenue accruals, without justification. The assessment should actually be carried out on the actual consideration which land lord pays to the Developer. So, in case the developer is entitled to 10% of the revenue, then stamp duty should be calculated on the basis of 10% of the estimated sales realization based on discounted NPV value of constructed premises. Also, while earlier, only 1% stamp duty was levied, it has now been increased to 5%

putting undue financial pressure on the stake holders. It is such high stamp duty that is prohibiting many such deals to be stuck across MMR leading to revenue loss to the department.

As CREDAI-MCHI, it is our humble prayer that :

- A. Stamp duty assessment be carried out on the actual consideration of the Development Management Agreement of the consideration estimated to be payable to Developer and not sale value, as there is no sale transaction;
- B. Stamp duty rate be rolled back to 1% with immediate effect.

**5. Discounting on account of volume of the sale to be done and NPV consideration for Valuing under construction property**

- A. Sir, as a general practice, for stamp duty valuation, the ASR rate applicable on the date of valuation is taken as the valuation consideration irrespective of whether the residential unit is ready for immediate possession or is still under construction with a delivery 3~4 years from the date of valuation. It may be appreciated that from a consumer perspective, the flat becomes usable only post possession which is 3~4 years ahead in time. For this specific reason, **it is being requested that Net Present Value (NPV) method be applied to all such property valuations for which a discount table could be provided for in the ASR as below :**

Possession Date from date of valuation	Discount on ASR rate applicable
1 year	8.5%
2 years	15%
3 years	20%
4 years	25%
5 years	30%

- B. The Ready Reckoner rates are arrived at on the basis of the few transactions which are recorded in the area in the last year. Rates are based on the basis of the one or two flats and not on basis of sale of volume, which a developer has to achieve in order to complete the project. The developer has to sell large number of flats in a project in a fixed period, and hence cannot hold on to the price. The Developer also has to generate liquidity to ensure that he meets with project liability and repayment of loan and interest. For that also he needs to give discount to move the inventory into liquidity. Thus, developer will always be able to offload his inventory only at discounted value to what a retail seller achieves. This will depend upon the volume of the sale to be achieved by Developer. So, it is required that Ready reckoner rate is discounted suitably when a developer is the seller. This can be provided by way of note which



states that when a developer is selling a flat then the rate prescribed in Ready Reckoner be discounted by a prescribed percentage, which shall be graded as per the volume which Developer has to sale. For e.g., if the Developers project is for sale of one lakh sq.ft. then discount shall be of 5%, for the area of sale between one lakh to three lakhs, the discount shall be 10%, for area between three lakhs to five lakhs the discount shall be 15% and for area between five lakhs to ten lakhs, the discount shall be 20%; above ten lakhs the discount shall be 25%.

**6. Road abutting premium should be applicable only for commercial establishments and upto a max. depth of 80~100 fts.**

Sir, before 20 years, the land values were supposed to be dependent on frontage and depth of the plot. Plots abutting the roads would fetch more value, because of commercial and retail use possible. However, in the present day, the above situation is not true. The value of the property and constructed residential premises on the main artillery roads of city, do not fetch the premium any more. In fact, due to noise and air pollutions, the residential rate of the premises constructed on the artillery road are always lower than inner road. So, value of the land, which increases due to retail potential of the road abutting plot, gets reduced by lower value which residential premises will fetch. Retail component of any property cannot be more than 15% of the total plot potential and hence there is no justification of prescribing higher rate for road facing property in the ready reckoner rate then the property which is not abutting main artillery road.

It is thus as CREDAI-MCHI, we earnestly request you to apply a premium for road abutting properties only for commercial properties and that too for a depth of max. 80~100 fts. Value of land/FSI and Residential units should be valued at the same rate as is applicable for the Zone.

Sir, while the Central & the State Government's have been rolling out reforms and policies for the larger benefit of the economy and the masses, and these are all very laudable, there are certain grass-root issues with far reaching impact that need immediate attention. The anomalies in ready reckoner have been a pain area for quite some time and the time has come when a comprehensive approach is required to overhaul what ails the process of valuation. This is one such reform that has a direct bearing on the dream project of both our Hon'ble PM and Hon'ble CM, "Housing for All by 2022". In this context, presented below are CREDAI-MCHI's collective prayer for your kind consideration and action :

**A. Re-calibrate the land rates to upto 25% of Residential Sale Rates across MMR**

- Even GST now acknowledges the land rate to be 33% of the residential sale value. Should the State wish to, let the land rates be capped at 33% in sync with this Central Act, the Law of the Land!

**B. For IT-ITeS :**

- Have a separate appropriate column for IT-ITeS in the ASR table or else please update the guidelines to value IT-ITES at 50-60% of commercial rate applicable; and

- Land rate for IT / ITeS should be re-calibrated to 25% ~ 30% of Commercial premises rate.
- C. Remove the application of premiums for all such amenities like swimming pool, car park, club house for stamp duty valuation purposes
- D. Stamp duty assessment be carried out on the actual consideration of the Development Management Agreement of the consideration estimated to be payable to Developer and not sale value, as there is no sale transaction;
  - Stamp duty rate be rolled back to 1% with immediate effect.
- E. Net Present Value (NPV) method be applied to all such property valuations with a delivery 3~4 years from the date of valuation. (Please refer discount table under Point 5 above)
- F. Ready reckoner rate to be discounted suitably when a developer is the seller. This can be provided by way of note which states that when a developer is selling a flat then the rate prescribed in Ready Reckoner be discounted by a prescribed percentage, which shall be graded as per the volume which Developer has to sale. For e.g., if the Developers project is for sale of one lakh sq.ft. then discount shall be of 5%, for the area of sale between one lakh to three lakhs, the discount shall be 10%, for area between three lakhs to five lakhs the discount shall be 15% and for area between five lakhs to ten lakhs, the discount shall be 20%; above ten lakhs the discount shall be 25%.

We sincerely & humbly look forward to your appointment for a meeting at your convenient earliest to discuss in person the afore-mentioned issues.

Thanking you,

Yours sincerely,  
For CREDAI-MCHI



Nayan A. Shah  
President



Bandish Ajmera  
Hon. Secretary



Sanjiv S. Chaudhary MRICS  
CREDAI-MCHI Secretariat