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Ref. No. MCHI/PRES/18-19/197

To,

Hon'ble Shri Chandrakant Patil

Revenue Minister

Government of Maharashtra,

Mantralaya

Mumbai 400 032

March 8, 2019

Sub: CREDAI-MCHI's Prayers for immediate reduction of ASR across the board.

Dear Sir,

We at CREDAI-MCHI take this opportunity to thank you and your government to have amended the Stamp Act to pave the way for future reduction of ASR rates.

The real estate sector has been trying to recover from the impact of the various structural reforms like demonetization, RERA and GST which have hit the sector one after the other without any breather. While each has had its own impact on the sector, the single impact of 12% GST on under construction property has brought the entire sales to a standstill. The unprecedented subdued demand has not only put undue cash flow pressure on the developer, the unsold inventory has risen to levels that may take more than 3 to 4 years to clear. With new launches down dramatically by over 40%, with focus on clearing existing inventory, the developers are cutting prices reportedly by 20% to 30% across micro-markets, over and above the stagnant prices of the past two years. In fact, 2019 is expected to be another tough year for real estate developers, given the ongoing liquidity problem, owing to the NBFC crisis.

Over the past few years, we have been trying to represent the vicious cycle of 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 become untenable for the industry and it may lead to a catastrophic situation; with the end buyer at the receiving end. Affordability is compromised by this vicious cycle of ASR - 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) 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.**
- 2) 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%

- 3) The Ready Reckoner rates are arrived at on the basis of a few transactions which are recorded in the area in the last year. Rates are based on the basis of one or two flats and not on basis of volume sale, 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 rates are discounted suitably when a developer is the seller. This can be provided by way of footnote 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 sell. 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 sq.ft. the discount shall be 10%, for area between three lakhs to five lakhs sq.ft. then discount shall be 15% and for area between five lakhs to ten lakhs then discount shall be 20%; above ten lakhs sq.ft., the discount shall be 25%.

Our Prayers

1. Please freeze the ASR for three years.
2. Going forward, please review ASR only once in block of 5 years.
3. Please realign land rate to up to 25% of residential sale rate.
4. Reduce ASR by 25% to 30% across the board.
5. Under construction property to be discounted by upto 30% over ready premises with O.C.
6. Adequate discount to be applied to direct sale transactions of developers during fresh ASR assessment.

We humbly look forward for your positive consideration.

Thanking you,

Yours faithfully,
For **CREDAI-MCHI**



Nayan A. Shah
President



Bandish Ajmera
Hon. Secretary



Sanjiv Chaudhary MRICS
Chief Operating Officer