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मंत्रालय, मुंबई
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Ref. No.: MCHI/PRES/15-16/113

December 30, 2015

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

Sub: Freeze on Ready Recknor Rates

Respected Sir,

We take this opportunity to express our sincerest gratitude for you to have hosted us for a lively and highly interactive meeting at your office on the 7th November, 2015. In the meeting, we collectively as an Industry Body were able to demonstrate the key pain areas that each one of the developers operating in Maharashtra are going through, especially in the MMR.

1. **Disparity between rising Ready Reckoner Rates and real market trends**

It is a widely known fact that the ready reckoner rates have unilaterally only increased over the past few years, markedly so between 2008 and 2015. While the ground realities may be different and the various industry reports by independent third parties and various media reports may be suggestive of the sluggishness in the industry, we are intrigued that instead of depicting the ground realities, the ready reckoner rates have been increased 2.5 times during this period. (Ref. Annexure 1 - Tabulation of Sample CTS wise ASR Rates). There are various such reports, a copy of which are attached with this note for your ready perusal and reference, at best the prices on an average have either remained stagnant or have actually reduced over a period of last few quarters. We would once again wish to draw your kind attention to this huge anomaly.

2. **Basis of valuing land at 50% of sale rate**

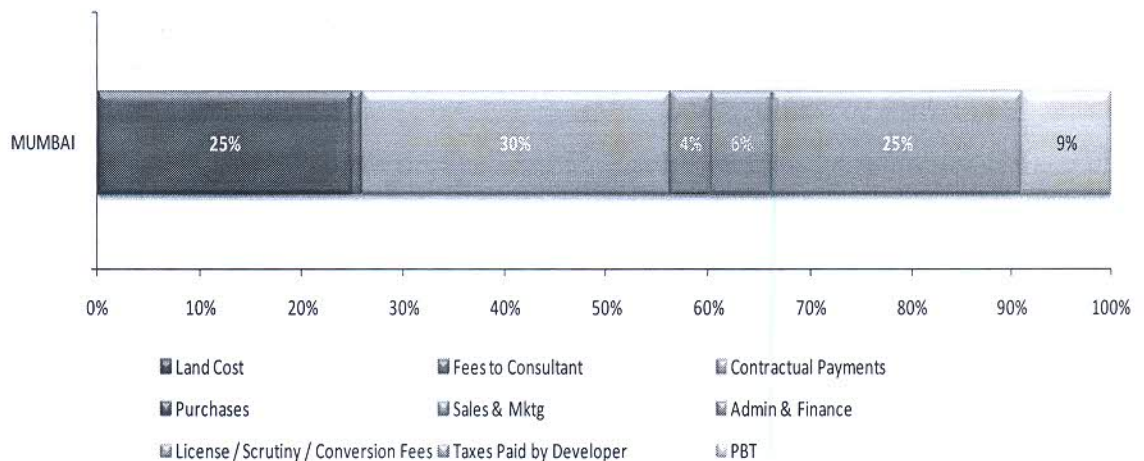
What MMR has always been deprived of is availability of land for green field development. This has been the primary reason why no land sales have been reported from within the MMR. Historically there may have been a time when land rates may have been 50%~60% of the per unit sale price of a housing unit, however, there has been a sea change in the share of the cost constituents. With reference to Annexure 1 - Tabulation of Sample CTS wise ASR Rates, it may kindly be diagnosed that the department still prefers to maintain a land to sale value ratio of 50%. While there may not be enough instances of land sales across BMC limits, while the very basis of arriving at and increasing land valuation is questionable, the pegging of land value at 50% of sale value is even more intriguing and needs a hard re-look and re-evaluation.

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3. Land rates at best 25% of sale rate

With ever increasing ready reckoner rates and majority of development approval linked premiums that are derived as a percentage of ready reckoner rates, the overall indirect taxes payable to the ULB has gone up almost 5 times. (Ref. Annexure 2 - Elasticity of Taxes & Premiums). While on one side it has vastly impacted the affordability of the housing units, the share of various indirect taxes payable to ULBs has shot up from approx.8% to approx.25% of the sale value of the housing unit.

As evident from the graph below, on an average, the land cost to the sale value of a housing unit, at most lies in the range of 22%~25%. Also, it can be seen from the graph that a developer usually pays around 25% of the sale value towards indirect taxes (central govt., state govt. & ULB premiums and charges). Besides this, a buyer in MMR is required to pay another 11.25% of the sale value towards Stamp Duty, Registration, VAT, Service Tax etc.



As such, the Open Land values should be lowered significantly as a major portion of the cost of the project in Mumbai is clearance cost of existing tenants/slums from the area, premiums payable to the statutory authorities (i.e. fungible premium, open space deficiency premium, staircase, lift, lobby premiums etc.), the premiums are charged by the MCGM are a percentage of the R.R. value.

4. Commercial properties no more a premium over residential

As for commercial property, there was a time when they used to command a distinct premium over residential property. However, post the Global Financial Crisis of 2008, this valuation gap between commercial and residential properties have only shrunk. It is with this ground reality that we request your department to take a hard re-look and accordingly re-align the commercial property rates with respect to residential property rates.

5. "All-inclusive" pricing resulting in 30%~40% discount over agreement value

As a humble submission to make, the industry has tried to keep the prices under check, with only a 7% year-on-year increase (Source : JLL's Mumbai Residential Market Report, April, 2015) in absolute terms but not in real terms. Over the past few quarters, seeing the stress in the market, slowing down of sales and the huge inventory overhang (Ref. Annexure 3 - MMR Sales & Inventory Analysis), which have created a huge cashflow problem for all developers, many developers have resorted to an "all-inclusive" pricing. While this has created lower realization in the developer's books, it has helped the buyers by virtue of improved affordability.

In the erstwhile days, if a developer used to charge Rs.100/- plus other charges like Stamp duty, Registration, VAT, Service Tax, Advance maintenance, Any other charges as may have been applicable. These charges used to constitute an additional liability of 20%~30% on the buyer.

Today, for every Rs.100/- charged to the end user, across many projects as per the various advertisements (Ref. Annexure 4 - Newspaper Advertisements) submitted along with this representation, the above charges have been built-in into the basic housing unit rate, thereby effectively giving the buyer an upfront built-in discount of 20%~30%. This is creating a huge anomaly as when the sale agreement would go for registration, it is this Rs.100/- that will be taken into account while the real cost of the housing unit would be 20%~30% discounted.

Over and above this, owing to interest subvention schemes currently being offered, the interest component @10% approx. also gets built into the Rs.100/- being charged which again may not get recorded / reported at the time of stamp duty payment and registration. In conjunction with the interest subvention, the interest burden being borne by the developer until delivery, the gross discount goes upto roughly 30%~40%.

It may be appreciated, Sir, that over the past few quarters, the home rates have in real terms softened to the tune of 30%~40% which we would earnestly request your department to look into and take due cognizance of.

6. Increasing Ready Reckoner Rates detrimental to redevelopment

Irrespective of the actual market transaction movements, the Ready Reckoner Rates have unilaterally only moved upwards! There are so many old buildings / societies in the suburbs, a few in highly dilapidated conditions, awaiting redevelopment. However, owing to mismatch in valuations of fair market values and higher ready reckoner rates, find themselves in a not so conducive environment! It may be brought to your learned notice that many society redevelopment plans have been stalled despite signed MOUs as builders now find their earlier commitments financially unviable owing to unilateral and unrealistic increase of Ready Reckoner Rates.

7. Methodology to fix Ready Reckoner Rates

Currently the simple concept of MEDIAN is being used to decide the Ready Reckoner value. Median is a concept whereby all the transactions arrived at by the respective zone office in the MMR region are arranged in either ascending or descending order for a particular zone and then middle value is picked as the Ready Reckoner value for the preceding year.

The Median approach may give poor results in case the Data set has skewed data with outliers beyond 2 Standard Deviations. In Statistics a large amount of time is required in cleaning of the data set; it is only prudent that analysis on the data should be done post the data is cleaned to ensure there is no/minimal skew/drift to achieve accurate results.

We are of an informed view that before the Ready Reckoner fixing exercise is undertaken, the data set should be first cleaned by removing all outliers that are more than 2 Standard Deviations away from the Data Mean. For the remaining cleaned data, a weighted average of the prices/values should be obtained which could be a better representative Ready Reckoner value of the subject market.

8. Aligning Ready Reckoner Rate change to Financial Year

Every year, the Union Budget is presented on the 28th February thereby giving a lead time of at least a month to the industry to plan and organize. It is with the same intent of giving some lead time to the developer fraternity to be able to plan and organize, we are sincerely requesting for the Ready Reckoner Values for the ensuing year to be made public either in the last week of November or the first week of December to be implemented after 1st January or 1st April (start of financial year).

If the aforementioned unilateral increase of the Ready Reckoner rates is not seriously re-looked into, while on one hand it is causing a lot of hardships for the common man, on the other, it would only be detrimental to the industry's health and has the potential to result in catastrophic results. There are innumerable industry and media reports that need to be read as the warning bells. The inventory overhang in the Mumbai markets is the highest in history, and there appears to be a direct co-relation between the rising Ready Reckoner Rates and the inventory overhang. A small sample of such reports has already been submitted to your department.

Therefore, MCHI-CREDAI would like to request you to kindly take serious cognizance of these leading market indicators, and with the sole objective of bringing in some sanity and affordability in the city's real estate, strongly advice / plead to the following:

1. As affordability is the biggest issue, the Ready Reckoner Rates that have increased by more than 200% between 2008 & 2015, they should be immediately rolled back by 20%~30% across MMR.
2. Reduce Land rates by 30%, Commercial Property rates by 30% and Residential Property rates by 20%.

3. Freeze any further revisions for the next 3 years, at the least.
4. Ready Reckoner Values for the ensuing year to be made public either in the last week of November or the first week of December and made effective from the new financial year, i.e. 1st April.
5. While there be no further increase in Stamp Duty Rates from 5%, there is room for the same to be rationalized to 3%.

We humbly request and draw your kind attention into the matter on priority. If ignored any further by Government, while the average dweller may find buying property completely unaffordable, the city may lose out on big ticket investments as it may not be able to provide housing, a basic need, for its citizens, resulting in muted to no growth.

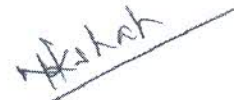
Thanking you,

Yours Sincerely,

For MCHI-CREDAI



Dharmesh Jain
President



Nainesh Shah
Hon. Secretary

Attached: ANNEXURE 1 - Tabulation of Sample CTS wise ASR Rates
ANNEXURE 2 - Elasticity of Taxes & Premiums
ANNEXURE 3 - MMR Sales & Inventory Analysis
ANNEXURE 4 - Newspaper Advertisements
ANNEXURE 5 - A Case Study