

o/c

S. S. Hussain I.A.S. (Ex)
Chief Executive Officer

Ref. No. MCHI/CEO/17-18/015

August 02, 2017

Sub: Recalibration of Land ASR Rates in MMR

Ref: 1. Our letter bearing No. MCHI/PRES/16-17/234 dtd. July 19, 2017.
2. Our telephonic talk today morning.

Dear

With regards to the subject of Recalibration of Land ASR Rates in MMR jurisdiction, please find attached herewith my DO letter, a representation submitted by CREDAI-MCHI along with the copy of study report conducted by JLL addressed to Hon'ble Chief Minister, Shri Devendra Fadnavis with the CC to Hon'ble Revenue Minister, Shri Chandrakant Patil.

As discussed with you this morning, I would like to request you to kindly go through the same and expedite the issue at the earliest, please.

Yours



(S. S. Hussain)

To,
Shri Manu Kumar Srivastava (I.A.S.)
Principal Secretary (Revenue),
Stamp Duty & Registration
Revenue & Forest Department,
Government of Maharashtra,
Mantralaya, Mumbai - 400 032.

Encl: As above

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PRESIDENT-ELECT
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PRESIDENT, THANE
Ajay Ashar

PRESIDENT, KALYAN-DOMBIVLI
Praful Shah

PRESIDENT, MIRA VIRAR CITY
Ashit Shah

PRESIDENT, RAIGAD
Vilas Kothari

PRESIDENT, NAVI MUMBAI
Prakash Baviskar

Ref. No. MCHI/PRES/16-17/234

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

o/c
मुख्यमंत्री सचिवालय
महाराष्ट्र शासन
मंत्रालय, मुंबई - ४०० ०३२.
दिनांक १९/७/१७

July 19, 2017

Sub: Recalibration of Land ASR Rates in MMR

Respected Sir,

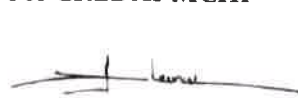
Let us thank you at the very onset to have heard our plea and put the increase in land ASR rates on hold for 3 months in MMR and to have given us an opportunity to present a scientific study justifying our long standing plea to recalibrate land ASR rates to upto 25% of sale rates across MMR. With this letter, we are attaching the key findings of an independent study conducted by JLI., an International Property Consultant of repute for your kind perusal and action.

The key findings of the study are as follows:

1. The ready reckoner rates in other key cities are increased only once in a block of 3 to 5 years
2. While the building-plan approval charges and premiums in other key big cities ranges from 3% to 10% of sale value, it is only in Mumbai that it is as high as 23% to 37%.
3. Using the residual income approach, the report puts in perspective that the land residual rate as ranging from 8% to 23% across sampled 10 micro-markets
4. Even GST now acknowledges that land rate cannot be more than 33% of the residential sale value.

We sincerely request your valuable time to discuss the details of this study and the way forward. We look forward to your confirmation of a convenient time and date when our delegation could meet you.

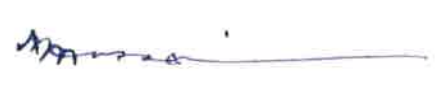
Yours faithfully,
For CREDAI-MCHI



Dharmesh Jain
President



Nainesh Shah
Hon. Secretary



S. S. Hussain I.A.S (Retd.)
Chief Executive Officer

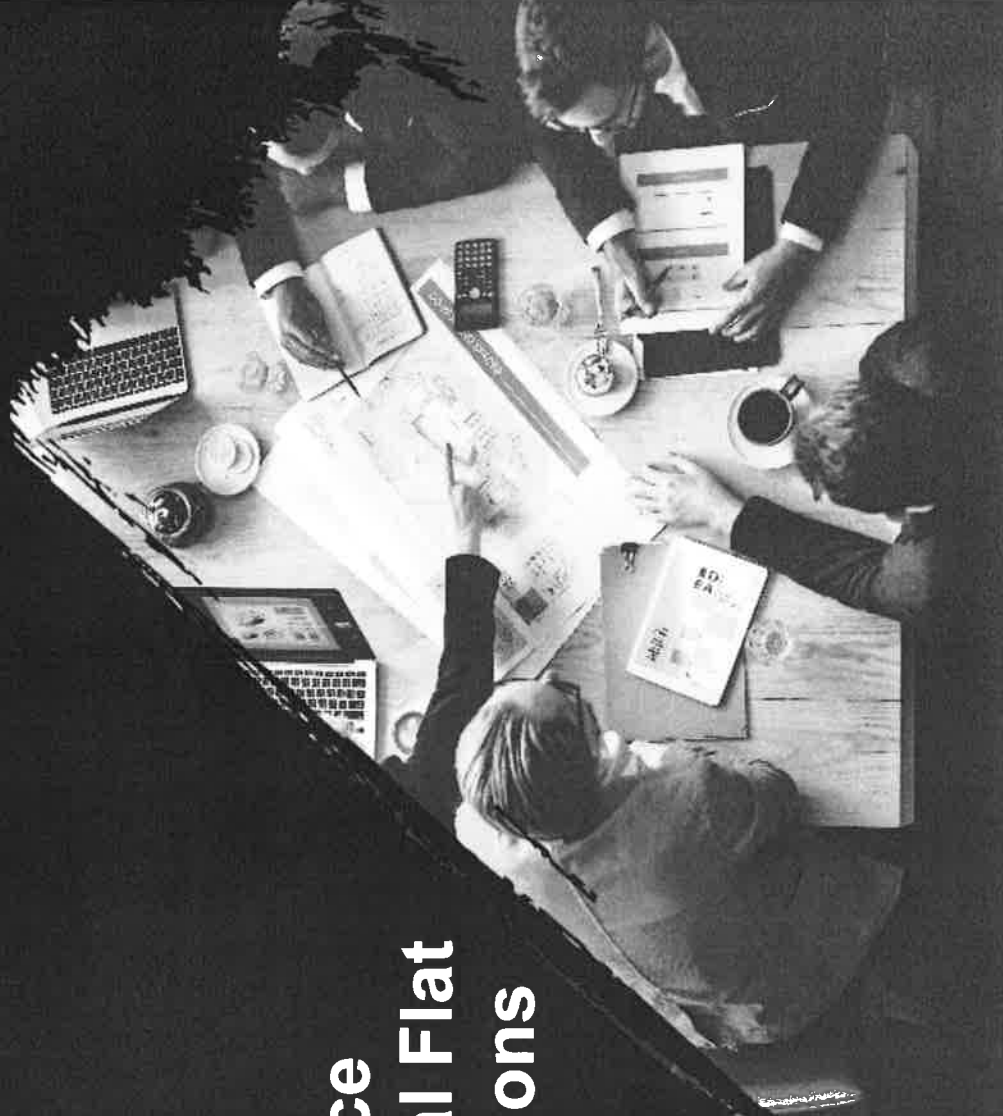
CC To:
Hon'ble Shri Chandrakant Patil
Revenue Minister
Government of Maharashtra,
Mantralaya, Mumbai - 400 032.

10 July 2017
लिपिक
महसूल, मंडळ व पुनर्वसन,
मंत्रालय, मुंबई - ४०० ०३२

Executive Summary

Empirical Study of Land Price Comparison with Residential Flat / Unit Prices at Select Locations in Mumbai

10th July 2017



RR Rate Comparison for Key Prominent Cities

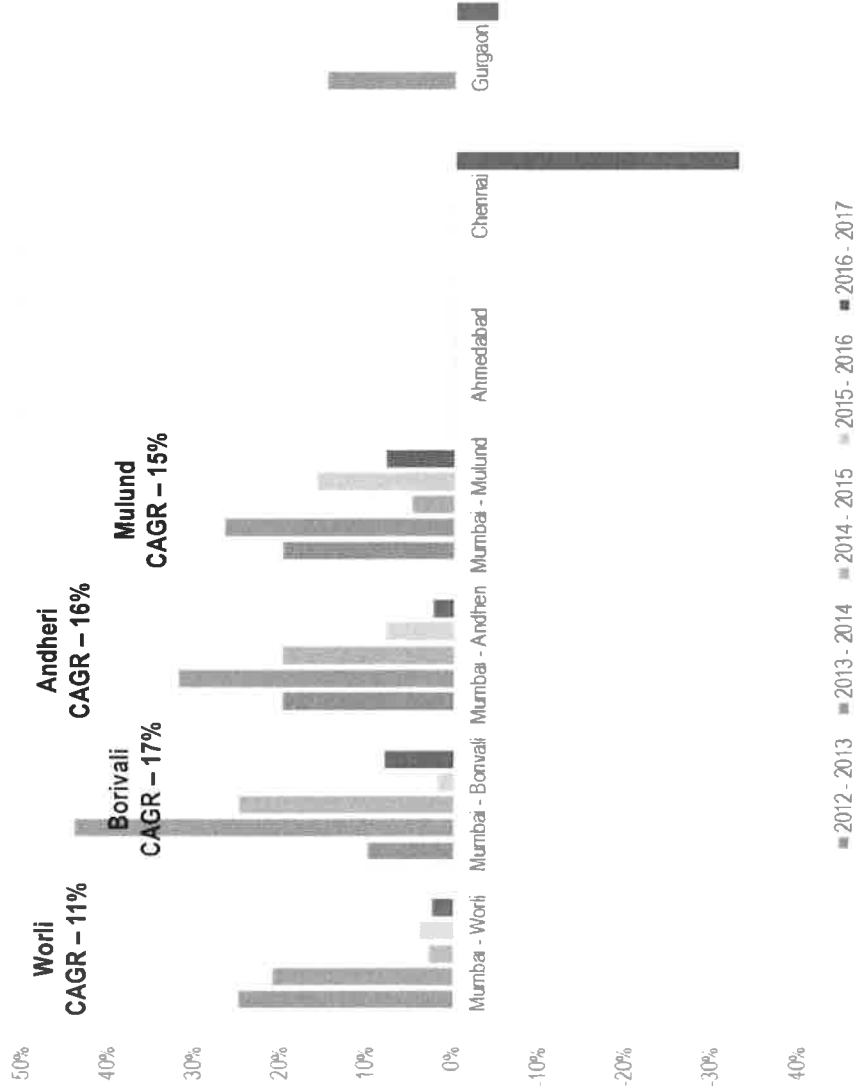


RR Rate trend for Prominent Cities (over last 06 years):

- Mumbai - Trend of yearly increase of the ready reckoner rate – irrespective of market situation and condition
- For most other cities, the increase in ready reckoner rate has only been in an interval of once every three to five years.
 - Ahmedabad – last increase in year 2011
 - Chennai – stable since year 2012. The RR Rates have been reduced by 33% in year 2017
 - Hyderabad – last increase in year 2013
 - NCR (Gurgaon) - last increase in year 2014. The RR rate dropped by 5% in year 2017

Continuous increase in RR Rate of Mumbai, resulting in increase of the product price beyond affordability levels of buyers.

Trend of Circle Rate in Key Cities over 6 years



Sanction & Approval Expenses



City	Base FSI	Undelying Factor	Premium FSI & TDR	Fungible FSI	Max. Permissible FSI Range	Approval & Sanction Expenses as a % of Residential RR Rate
Mumbai - Island City	1.33	Fixed	-	35%	1.80	20% to 24%
Mumbai - Suburbs	1.00	Fixed	1.00	35%	2.70	23% to 37%
Bangalore	1.75 to 3.25	Varies basis size of property and width of abutting road.	-	0%	1.75 to 3.25	3% to 5%
Chennai	1.50 to 2.50	Varies basis residential typology, size of property and width of abutting road.	20% to 40%	0%	1.80 to 3.50	5% to 10%
Kolkata	1.50 to 3.00	Varies based on residential typology and width of the abutting road.	10% to 20%	0%	1.65 to 3.60	3% to 5%
Gurgaon	1.50 to 2.00	Varies basis residential typology & size of property.	1.00	0%	2.50 to 3.00	5% to 10%

Sanction & Approval Expenses for residential projects in Mumbai (including Premium FSI & Fungible FSI Charges) is typically in the range of 20% to 24% (for Island City) & 23% to 37% (for Suburbs) of the Residential RR Rate. The same for other cities is much lower – Bangalore (3% to 5%), Chennai (5% to 10%), Kolkata (3% to 5%) & Gurgaon (5% to 10%).

This is because, in Mumbai majority of the cost heads are directly linked to Land ASR and with Land ASR escalating every year, burden on

Sanction & Approval expenses increases every year pushing the product prices upwards and beyond affordability of buyers.

GST Regulation – Impact on Land



Vide Notification No. 8/2017-Integrated Tax (Rate), 28th June, 2017, Ministry of Finance, Government of India has

notified that :

“in case of supply of service involving transfer of property in land or undivided share of land, as the case may be, the value of supply of service and goods portion in such supply shall be equivalent to the total amount charged for such supply less the value of land or undivided share of land, as the case may be, and the value of land or undivided share of land, as the case may be, in such supply **shall be deemed to be one third of the total amount charged for such supply**”

To summarize, the land component of a project cannot be more than 1/3rd (33.33%) that the sale price of the product.

Residual Approach & Findings



Particulars	Units	Western Suburbs			Eastern Suburbs			Central Mumbai		South Mumbai	
		Bandra	Andheri	Malad	Borivali	Powai	Ghatkopar	Mulund	Worli	Lower Parel	Girgaon
Sale Area	sq.mt	26,154	26,154	26,154	26,154	26,154	26,154	26,154	20,461	20,461	20,461
Market Sale Price	Rs per sq.mt	269,098	193,750	150,695	161,459	182,986	161,459	349,827	322,917	484,376	484,376
	Rs per sq.ft	25,000	18,000	14,000	15,000	17,000	15,000	32,500	30,000	45,000	45,000
Gross Sales Proceeds (incl. parking)	Rs in Crore	774.17	570.07	436.35	464.50	520.80	464.50	833.26	734.15	1,079.20	1,079.20
Marketing expenses	Percent	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Net Sales Proceeds	Percent	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
	Percent	97%	97%	97%	97%	97%	97%	97%	97%	97%	97%
All Costs as a % of Gross Sales Proceeds											
Sanction & Approval Cost	Percent	18%	24%	16%	18%	20%	20%	13%	12%	14%	14%
TDR Expenses	Percent	3%	3%	5%	4%	4%	4%	0%	0%	0%	0%
Construction Cost	Percent	15%	19%	25%	24%	25%	24%	18%	20%	15%	15%
Professional Fee + Admin. Exp. + Contingencies	Percent	6%	8%	8%	8%	8%	8%	5%	5%	5%	5%
Interest on construction Finance	Percent	7%	10%	10%	10%	10%	10%	6%	7%	6%	6%
Sub Total A (Total Development Cost)	Percent	49%	65%	64%	63%	67%	67%	42%	44%	40%	40%
Stamp Duty Charges (on land)	Percent	1%	1%	1%	1%	0%	0%	1%	1%	1%	1%
Holding Cost on Land	Percent	14%	7%	7%	8%	6%	6%	16%	16%	17%	17%
Developer's Profit Margin	Percent	16%	16%	16%	16%	16%	16%	16%	16%	16%	16%
Sub Total B	Percent	31%	24%	24%	24%	23%	23%	34%	33%	34%	34%
Residual Land Value as a % of Gross Sales Proceeds	Percent	17%	9%	9%	10%	8%	8%	21%	20%	23%	23%

Due to absence of sufficient transacted instances, Residual Approach has been used for valuation exercise.

Internationally accepted IVSC guidelines & RICS Red Book standards have been used for the valuation exercise.

Summary of Observations



- **Growth Trend of Land RR Rate** : The growth trajectory of Land RR Rates for most cities is flat and typically increases after every three to five years. However, for Mumbai, it is observed that the escalation in Land RR Rate is every year (irrespective of market condition / situation) and the CAGR of escalation for last six years varies from 11% to 17% for select prominent nodes of the city.
- **GST Implication on Land Cost**: Basis Notification No. 8/2017-Integrated Tax (Rate), 28th June, 2017, it could be summarised that the land component of a project cannot be more than 1/3rd (33.33%) that the sale price of the product.
- **Sanction & Approval Expenses for:** Sanction & Approval Expenses for residential projects in Mumbai is typically in the range of 15% to 20% (for Island City) & 20% to 25% (for Suburbs) of the Residential RR Rate. The same for other cities is much lower – Bangalore (3% to 5%), Chennai (5% to 10%), Kolkata (3% to 5%) & Gurgaon (10% to 15%).
- **Residual Assessment:** The residual approach (endorsed by RICS & IVSC and used across the globe) assessment carried out for about 10 locations across Mumbai clearly indicates that the residual value of land component cannot be more than 25% of the Gross Revenue for a project to be viable.

Basis all the above findings there is a strong case of moderation in Land RR Rates & the annual escalation factor.



Thank you

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