

o/c

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Ref. No.: MCHI/PRES/15-16/201

March 8, 2016

To,
Hon'ble Shri Eknathrao Khadse
Minister of Revenue Department,
Government of Maharashtra,
Manatralaya,
Mumbai

Sub. : MCHI-CREDAI's plea to reduce Ready Reckoner Rates across MMR and to Re-Calibrate Land ASR rates

Respected Sir,

At the very onset, we take this opportunity to congratulate you and your government to have successfully held and conducted the Make In India Summit through which you have been able to sign MoUs worth over Rs.8 Trillion across sectors, which is history by itself. MCHI-CREDAI is also proud to be associated with Government of Maharashtra to kick start construction of 5.69 lakh affordable houses in MMR with an investment potential of Rs.1.1 Trillion with the likelihood of generating direct employment for 765,000 people. The task is mammoth by any standard and can only be accomplished by your support. Sir, it may be useful to note that for this initiative, we have not asked for any fiscal or FSI benefits from the State but there are some factors that are likely to become the key impediments in the process.

Sir, for the past few years, we as an Industry Body 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 beyond which it shall become untenable for the industry; 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. We would sincerely like to bring to your notice the following burning issues with respect to Ready Reckoner.

1. Land Rates

Sir, land rates are the 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% of the residential sale rates across MMR. Please find attached a document outlining Land Ready

MCHI-CREDAI

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Reckoners across randomly selected 150 CTS nos. across Mumbai between 2008 and 2015 to demonstrate the same.

Please also find attached a short report on Land Cost to Total Project Revenue, wherein real time data from three different projects in Mumbai have been drawn to demonstrate the real ration of Land to Residential Sale Revenue, as per which, it can be clearly seen that land rates range from 21% to 25% of the sale revenue. As various premiums, levies and government taxes are taken as per prevailing norms, within the current market standards and as per actual incurred on the project, this range is not likely to vary much across other projects. We therefore very strongly request you to kindly:

- Make IGR take a hard look at the way land rates are fixed; and
- To re-calibrate the land rates to upto 25% of Residential Sale Rates across MMR

2. Market Slowdown

Over the past few months, many industry reports have been reporting of market slowdown, piling inventories and negative consumer sentiments. The latest in this list is the recently released Cushman & Wakefield Report, as per whose in-depth research records a drop in launch prices in high development activity markets of these cities. The analysis records that new residential projects in select micro markets are cheaper by 4% - 20% on **Average Weighted Basic Sale Price** over the last 2 years.

Sir, this itself is a testimony that prices in MMR have not been increasing but actually have been correcting themselves over time. The members of MCHI-CREDAI have consciously passed on whatever benefit they could, given the existing limited elasticity available with them.

- It is our earnest plea that in order to bring back some sanity into the markets and to help restore some consumer sentiments, freeze the ready reckoners for the next three years at the least.
- Given the current market indicators, there are very strong indicators that real estate prices across Mumbai have corrected in time by an average 4%~20%. As such, we strongly request you to effect this into the 2016 ASR thereby effectively reducing ASR by an average of 15% across MMR.

3. Ready Reckoner Rates vs. Market Rates in Mumbai

One of the IPCs undertook a random sample of market data from their database to compare real time market rates vis-à-vis the ASR with the objective to determine the difference between the two rates, the analysis of which is attached herewith for your detailed perusal. Some markets like Napeansea Road & Walkeshwar have market rates which are lower than the 2015 ASR.

Your immediate attention is drawn to such anomalies within MMR and request your intervention for immediate correction of the same.

It can also be seen that in the other markets, the market rates of premium Grade A properties are on average only higher by 23% than the ASR. This directly implies that Ready Reckoner Rates are not closer to the bottom of the market but are in fact within 25% range of the Premium Property Rates. It is common market intelligence that premium properties command at least a 40% premium over mass market.

The basis behind ASR is to provide a guidance value below which a transaction is not supposed to have been consummated, under fair market practices, for the purpose of determining stamp duty. It implies that ASR at best either should be the rock bottom price at which transactions have happened or are likely to take place or could be an average representative number of the bottom 10% of the market transactions.

- We kindly request your intervention in the complete review of the approach & methodology of fixing of ASR and get the re-calibration of the Ready Reckoner Rates with an ear to the ground realities and real transactions from the market.
- In simple terms, if premium properties were priced Rs.100/- in a market, the ASR today is at Rs.75/- while it should have been at the least at Rs.60/-. It clearly means a downward correction of 20% of the Ready Reckoner Rates from their current levels.

4. Interest Subvention Schemes

Sir, we would also like to bring to your kind notice that realizing unaffordability and to ease the monetary pressure on the end-buyer, most of the members today have today entered into agreements with various Banks & HFCs to extend interest subvention schemes wherein from the time of purchase until possession, the entire interest burden is on the Developer and the liability of the end buyer starts only post possession. Vide such schemes, Sir, an end buyer is benefitting by an in-built discount ranging from 20%~25% to the quoted price. This is an effect that will not get captured in the transaction value but gets covered in the sale agreement.

- It is our plea that IGR takes stock of this indirect discounting by virtue of which the landed cost in the hands of the buyer is effectively lower by 20%~25%; and this calls for the ASR to be reduced in proportion.

In sum Sir, while the state has taken many measures to ease the doing of business and has brought in many reforms with far reaching impact, Ready Reckoner has been one pain area that has been long hitting our industry hard

and needs an immediate attention. In order to bring back affordability to this market, ASR could be one single factor with far outreaching and direct effect. In conclusion, the following are our collective prayer for which we seek your kind and immediate perusal :

- To review the entire approach and methodology of IGR for affixing ASR for MMR
- To re-calibrate the land rates to upto 25% of Residential Sale Rates across MMR
- To freeze ASR for next 3 year i.e. from year 2016 to 2019
- Reduce ASR for residential units by up to 20% to 25% across MMR.

Therefore, MCHI-CREDAI would like to request you to consider our plea and direct the concerned officials to expedite the issues at the earliest.

Thanking you,

Yours Sincerely,
For MCHI-CREDAI



Dharmesh Jain
President



Nainesh Shah
Hon. Secretary



S. S. Hussain (Retd. I.A.S)
CEO