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MCHI - CREDAI

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

Additional Chief Secretary (Retd.)
Government of Maharashtra

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January 2, 2014

To,
Shri Milind Mhaiskar (I.A.S.)
Secretary, (Relief & Rehabilitation)
Revenue & Forest Dept.
Government of Maharashtra
Mantralaya
Mumbai – 400 032

MCHI-CREDAI'S REPRESENTATION FOR STAY OF HIKE IN READY RECKONER RATES

Dear

Greetings from MCHI-CREDAI

We are most disturbed to learn that the Government is ~~seriously~~ thinking to revise 'Ready Reckoner' rates for Mumbai real estate. According to reports, the planned increases are said to be in the region of 15% to 30%.

We, at MCHI-CREDAI, strongly believe that such a measure would be not only counter-productive, but self-defeating. It would seriously jeopardize the Government's plan to achieve targeted growth in revenue through real estate. Further, it defeats the very cause of 'Affordable Housing' to which the DF Government has pledged itself through its manifesto of 2008.

Real Estate has been the biggest contributor to the Government's revenue. We would not grudge it, if the Government's resources were enhanced further. Except for the fact that the current scenario in real estate is one of deep recession. Over the past one year, reports, analyses in newspapers and periodicals (clippings attached) have touched upon the low figures in housing sales, the pileup of unsold inventory, and the burden on the realty sector that this casts. The State Government, too, has been an equal loser in that the number of registrations and payment of stamp duty have gone down in real terms.

Number of Documents Registered in Mumbai

In 2010	-	217466
In 2011	-	208486
In 2012	-	196044

Strong Reservations

It is not just the realty sector alone, but members of Maharashtra Legislative Assembly, cutting across party lines, are reported to be strongly opposed to any rise

3/1/14

Maharashtra Chamber of Housing Industry, Maker Bhavan II, 4th Floor,
18, V. Thackersey Marg, New Marine Lines, Mumbai - 400 020. INDIA
Tel.: (91) 22 4212 1421, Fax : (91) 22 4212 1411 / 407 • Email: ceo@mchi.net • Website : www.mchi.net

महसूल व वन विभाग, मंत्रालय, मुंबई - ३२.

in RR rates due to the current slowdown and deteriorating financial condition of the sector. Property buyers would have to shell out more as based on the revised RR rates, they would also have to pay higher value added tax, service tax and 50 per cent increased stamp duty.

The hiked Ready Reckoner rates could dampen any hopes of a revival, given the fact that home buyers are already burdened with service tax, sales tax, VAT, taxes and duties on construction materials, etc.

"About 25% of the real estate cost to buyers comprises of various taxes such as excise, VAT, service tax, stamp duty, octroi and local corporation taxes. Reduction of stamp duty and taxes brings down overall costs and increases the affordability of homes. Any increase in duty and taxes gets passed on to the end user, i.e., the buyer, and will reduce demand and therefore sales.

This is contrary to the Government's avowed aim to encourage and support affordable and mass housing. Reduced duties will encourage more buyers to register home purchase transactions. There is sufficient historic evidence to the fact that state revenues rise when stamp duty reduces, as this stimulates housing demand." *Source, Jones Lang LaSalle*

UNDUE TAX ON UNEARNED INCOME

Moreover, land owners will cite the increased Ready Reckoner values to demand higher prices for their plots. This will negatively affect land sales, as there is already a pronounced lack of liquidity in the sector. Developers will also feel the heat by virtue of having to pay higher capital gains tax.

Assessment tax of MCGM based on Ready Reckoner Rate.

May we state that the Real Estate Sector in Mumbai Metropolitan Region has never shirked from paying its dues and taxes to the State and Central Government. It is sensitive to the Government's needs for increased revenue to meet the state's goals of social and economic development. However, it should not adversely affect the sector which would kill the very purpose of reaching larger buyers and resulting in higher revenue for the state.

Sir, in closing, as the representatative body of real estate developers, CREDAI-MCHI would like to state that overall, across the country, the current economic scenario is one of stagnation; every sector has been affected adversely. Investments in almost every sector, including real estate, are down in real terms.

We understand the Government's constraints in providing fiscal incentives to the Real Estate Sector, and we are not asking for any such incentive, given the current economic situation. But we do hope that the Government will forbore from raising the anticipated Ready Reckoner Rates for Mumbai Real Estate, because it will ill-serve everyone involved: The Government will realize lesser revenues through lower sales, and the end-home-user-buyer will bear the brunt of every percentage of increase, and which will in sum, be multiplied across Registration Fees, Stamp Duty, VAT, Service Tax. I am afraid; it may not become a repeat of few years earlier experience in case of the registration of vehicles in Maharashtra State. It was noticed that the vehicles were not being registered in our state due to very high transportation/vehicle tax but they were mostly registered in our neighbouring states like Goa or Daman & Diu and in some other places. The State must have lost hundreds of crores in the process (Although the Property registration has locational advantage). Similarly, such higher Ready Reckoner Rate, increase every year, may unfortunately, lead to loss of registering Fee etc.

Therefore, in the larger interests of Mumbai City and its regions, it is the MCHI-CREDAI's earnest plea, and one that merits full consideration and acceptance, to refrain from effecting any increased revision in the Ready Reckoner Rates in the present scenario.

Yours

(S. S. Hussain)

CC to: Shri S. Chokalingam (I.A.S.)
Inspector General Registration and Controller of Stamp
New Administrative Bldg., Ground Flr.
Opp. Council Hall,
Pune - 411001

Move will further depress market sentiments

Home gets costlier: Govt to hike ready reckoner rates

Sudhir Suryawanshi
@ss_suryawanshi

Mumbai: The Maharashtra government has decided to give a black New Year gift to Mumbaikars. It has decided to increase stamp duty ready reckoner rates for both residential and commercial properties by 30% from January 1 onwards, according to a senior Mantralaya official.

And since property tax levied by the BMC is based on the capital value of the property, this levy too will go up. The cumulative effect of this is that prices of apartments and commercial premises will shoot up further. Already, the real market is passing through a lean period. The government's move will further depress market sentiments. Ready reckoner rates for paying stamp duty for registration of sale deeds are linked to the market value of the property concerned and it is annually updated.

The state revenue department official said the government is expecting to raise at least Rs5,000 crore more in 2014 from the proposed hike in ready reckoner rates. (See box)

Baba Siddiqui, Congress MLA from Bandra (West), has written to chief minister Prithviraj Chavan and revenue minister Balasaheb Thorat requesting them "not to raise the ready reckoner rates". He told **dna** on Tuesday that "the property market is already down. Developers are not able to sell the apartments. Besides, it will have a huge adverse impact on Mumbaikars. The increase in the incidence of property tax will be a big blow to property buyers. It is a double whammy".

He said when Narayan Rane was the revenue minister he had refused to hike ready reckoner rates in 2008.

Shailesh Paranjape, managing director of Paranjape Group, said the market is going through a tough time. "Buyers are paying several taxes. At least 15% of the cost of the house goes in taxes only. If the state government seriously wants to reduce property prices, then they should not increase the ready reckoner rates for at least two years," he said.

Revenue from stamp duty

Rs10,901 cr in 2009-10
Rs13,411 cr in 2010-11
Rs14,800 cr in 2011-12
Rs15,000 cr
likely by end 2012-13

DNA P-1 18 Dec'13

Housing prices fall 1.7% in April-June on poor demand

New Delhi

Housing prices in India fell 1.7% during the April-June quarter due to poor demand amid subdued economic climate and there are no signs of recovery, real estate consultancy Knight Frank said.
Housing prices in India fell 0.1% in the January- June period, while they rose 5.9 % during the 12 months ended June, according to the Knight Frank Global House Price Index, which tracks mainstream residential prices in 53 nations, including Dubai and Hong Kong.
The index reflects the weakening condition of the Indian residential market, Knight Frank India Chief Economist & Director-Research Samantak Das said.
"While disguised price discounts in the form of 80:20, rent back, waivers on floor rise, stamp duty and registration were the flavor for almost four-six quarters, with a decline of 1.7% in the latest reported quarter, price deceleration is becoming more profound. We are yet to see any green shoots of recovery in the residential market," Das said. He attributed the fall in prices to buyers postponing purchases because of subdued economy and low confidence in the market.

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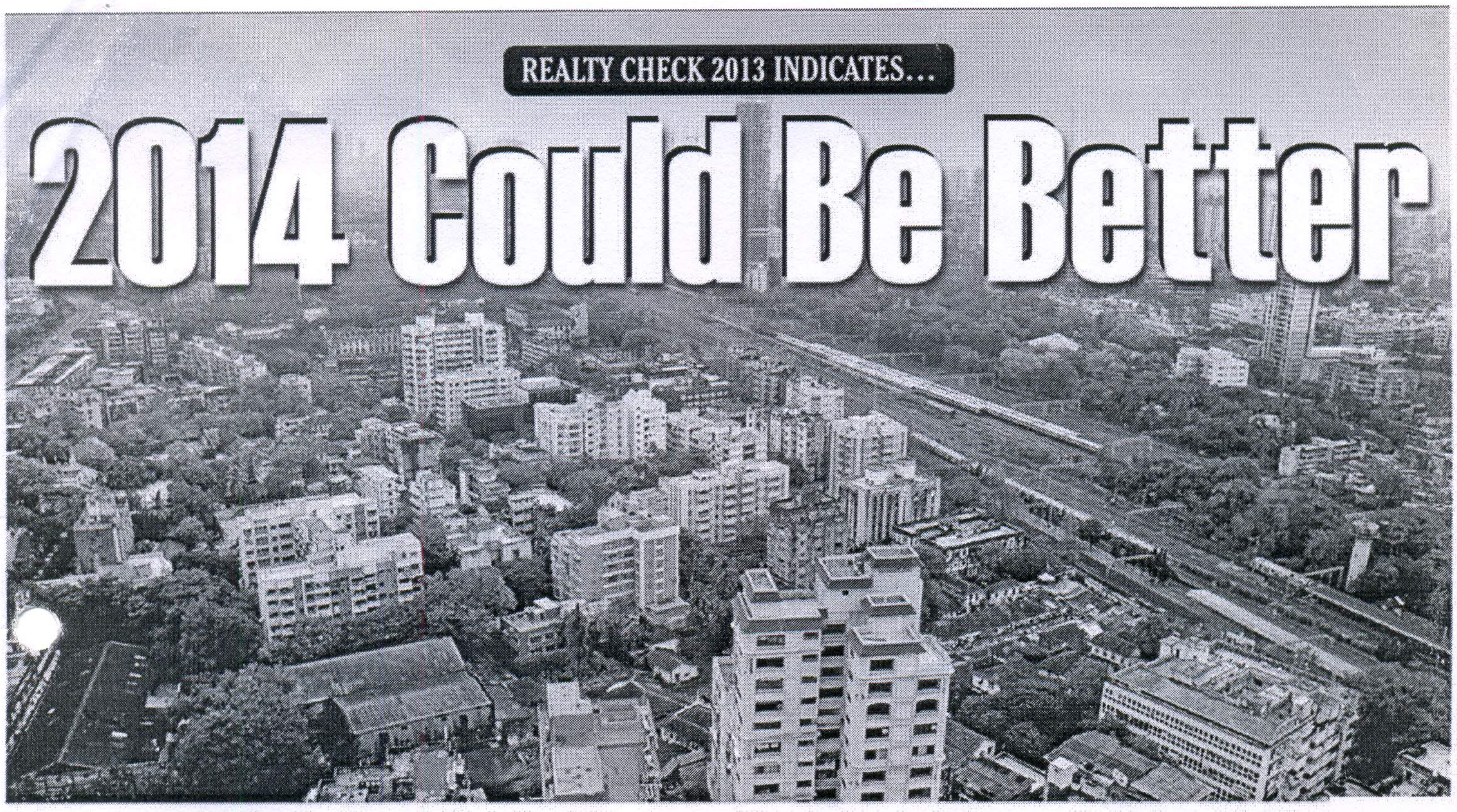
REALTY CHECK 2013 INDICATES...

2014 Could Be Better



The real estate sector through 2013 was plagued with numerous troubles. The overall economic climate, coupled with inflation and high interest rates, kept buyers at bay. But, if one is to believe the current trend in the economy, there is hope that year 2014 would bring in some good news for the sector. Overall, there were some policy decisions in favour and some not in favour of the sector in 2013. Mayura Shanbaug takes stock of the situation and events that have impacted the sector and how they would continue to do so in 2014 as well.

While the real estate market witnessed a drastic fall in sales across regions, property prices in some established markets dropped on account of an oversupply situation. However, in most regions, ...cially in emerging areas having ...ing projects, developers continued to hold on to their prices making some locations unaffordable. While the office space segment witnessed improved transactions through the first half of the year, the retail segment continued to face challenges such as supply of quality spaces affecting overall absorption. The residential demand improved during 2013; however, developers continued to struggle with unsold inventories and reduced cash flows for construction.

Major events in the last one year which impacted the sector were: a) RBI scrapping 80:20 housing loan schemes b) 1 % TDS on immovable property over Rs 50 lakh in the Budget c) Rs 1 lakh tax incentive for first time home buyer this too in the Budget and d) Introduction of real estate investment trusts (Reits) in the country.

"The Reserve Bank of India (RBI) asked banks to call off the dubious 80:20 and 75:25 schemes, as the banking regulator felt that such products increase the risk for both banks and borrowers especially if there is a dispute between the buyer and the builder or the project is not delivered on time," says Sachin Sandhir, MD, RICS (Royal Institute of Chartered Surveyors) South Asia.

The RBI advised banks to closely link home loan disbursal with the stages of construction of a housing project. "The move puts a check on price escalation, as it will dissuade investors or short-term buyers from investing in the otherwise popular under-construction projects," he says.

"Several viewpoints have been floated since the RBI announced this ban, largely speculating on a fall in real estate prices as a consequence," says Ashutosh Limaye, Head – Research & REIS, Jones Lang LaSalle India. "It has been opined that developers' holding power will be significantly reduce, forcing them to reduce prices. This analysis of the situation is based on the currently high levels of inventory that developers are saddled with, especially in larger cities like Mumbai, Bangalore and Delhi," he says.

"Despite the RBI's edict, it is important to note that there are other dynamics at play in some of these larger cities which could result in developers resisting price cuts. In the first place, the cost of land in these cities is already at astronomic levels. Secondly, the recent amendment to the Land Acquisition and R&R Bill will raise land owners' expectations, which means that developers will have to negotiate harder for available land. As a result, developers in these cities will now operate from the standpoint that overall real estate prices will, in fact, rise going forward," explains Limaye.

At a time when the real estate sector is reeling under a liquidity crunch

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2014 Could Be Better

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and poor sales, the Securities and Exchange Board of India (Sebi) has re-initiated the process of introducing real estate investment trusts (REITs) in the country.

"The decision to allow listing of Reits in India as an investment product has the potential to boost the liquidity situation of cash-starved developers, who are struggling to find funds for their construction activities. This will also boost the subdued investor sentiment in the country," says Sachin Sandhir.

"Reits will provide an investment avenue which is less risky than under-construction properties, as well as offer easier exit routes along with regular income," he says.

"Allowing Reits is a sign of the maturity of the Indian real estate market. Reits reduce individual speculation in real estate assets and allow for more professional investment and management in the sector," says Sanjay Dutt, executive managing director, South Asia, Cushman & Wakefield, a real estate consultancy.

According to Cushman & Wakefield, around 57 million square feet of office space is vacant in India and over 200 million square feet of investable 'Grade A' leased offices are unsold. These properties can be used by Reits to generate rental incomes. The residential segment, where annual rental yield is low (2-5%), will be better suited for capital appreciation.

Another affecting factor is that, amidst the global economic uncertainty, fiscal consolidation; the prevailing local market conditions have affected investor sentiments. According to the Department of Industrial Policy & Promotion (DIPP), the Construction Development sector received a total Foreign Direct Investment (FDI) equity inflow of INR 1,052 bn (USD 22.8 bn) during April 2000 to September 2013. These amounts to an 11.1% share of the total FDI equity inflow and are the second highest amongst all sectors, outlining the importance of the sector in attracting valuable foreign capital to the country.

From 2005, the DIPP allowed 100% FDI through automatic route in townships, housing and built-up infrastructure and construction developments, which drove up the FDI inflows in FY2008 and FY2009. However, post the global economic recession in 2008, which mainly affected real estate markets globally, FDI commitments to the sector were low. Hence, since 2010 onwards the sector has been attracting lesser FDI equity with its share falling to as low as 1% in 2011 and increasing up to only 6% in 2012.

"In the past few years, FDI investors were stuck in complicated approval processes, which made the time lines of projects they invested in uncertain and their financial planning estimates went wrong. Apart from cost overruns due to inflationary pressure on materials etc, the investors are worried about their timelines for exit which has been elongated and had adversely affected their returns on investments. Hence, the lack of certainty with regards to the time lines in the country risk compounded by the bureaucratic hurdles and corruption is further shaking the confidence of the investors," said Lalit Kumar Jain, Chairman of Confederation of Real Estate Developers' Associations of India (CREDAI) in a recently published white paper on the housing sector.

According to the CREDAI white paper, India is rated as one of the lowest destinations for attracting cross border investments in real estate globally. In fact it is the lowest even amongst the BRIC countries. Other Asian countries markets such as China, Singapore, Hong Kong, Malaysia, are ahead of India.

Given that the first six months of the current financial year have recorded FDI equity inflows into the sector at INR 41.6 bn (USD 685 mn), there are indications that the rest of the year could record FDI equity inflows at par with the figures observed last year.

"Hence, the Government needs to take some concrete steps to create international investor interest in order to attract more foreign equity capital into the country and cross the previous thresholds," says Jain.

ALL IS NOT LOST:

Pankaj Kapoor, managing director, Liaises Foras, a real estate rating and research company explains that the announcement of Rs 1 lakh tax incentive for first time home buyer in the Budget will continue to be a big boost to the affordable segment.

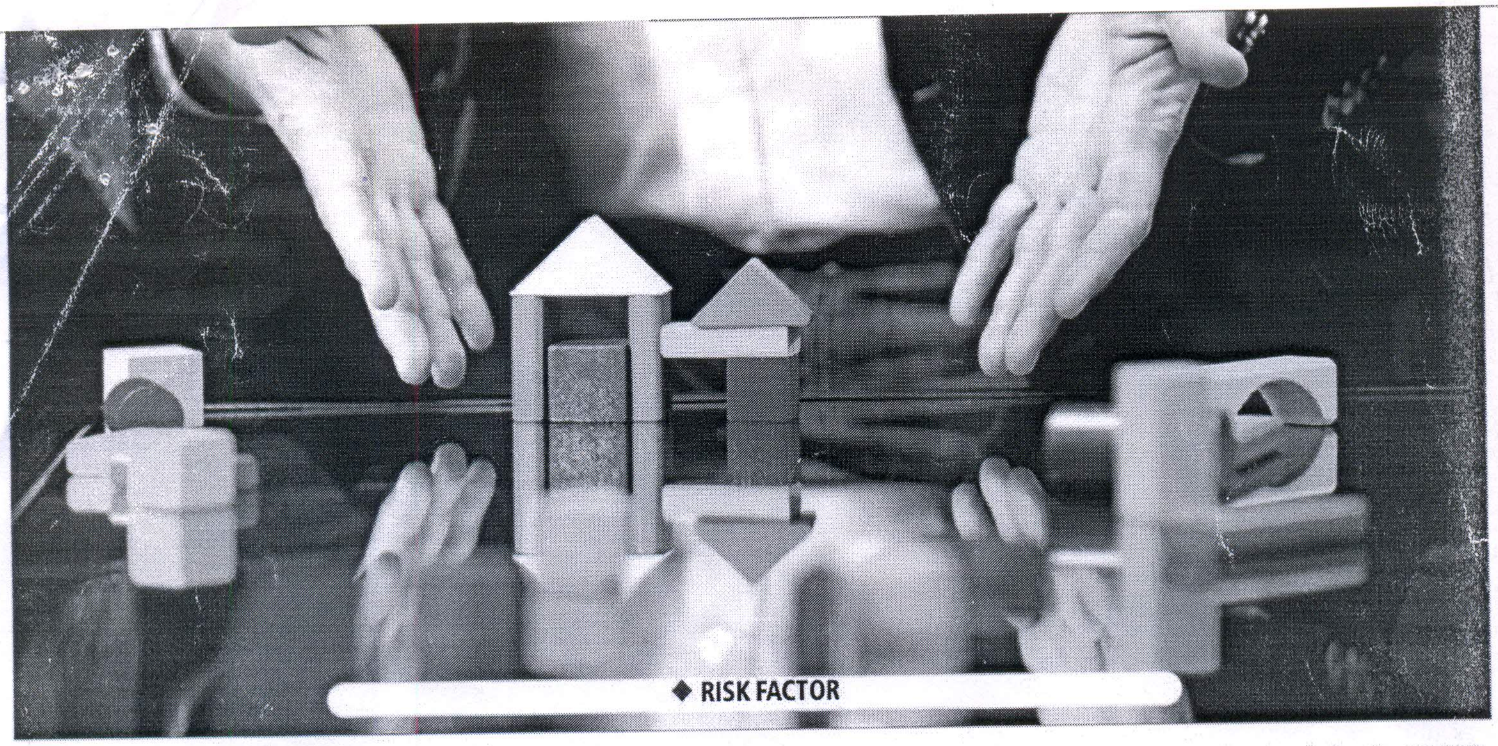
"For the first time in 12 years the Finance Minister had increased the interest benefit for the first time home buyers from Rs 1.5 lakhs a year to Rs 2.5 lakhs. So his interest rate benefit which was earlier 57 % of his total exemption has now gone up to 96 %, which is very good," he adds.

Though the housing sector has witnessed a total investment of INR 22.4 bn in the first three quarters of 2013 as compared to INR 25.1 bn investment during the same period last year, the total PE investments have increased from INR 37.5 bn last year to INR 47.2 bn in 2013 for the same period indicating greater interest.

Despite the continued large scale migration of the rural poor to urban areas, the Twelfth Five Year Plan (2012-17), has estimated the total housing shortage in rural areas at 43.67 million units. The slum population in India was projected to be 94.98 mn in 2012 and is expected to touch 104.67 mn by 2017. This increase in population, if not matched with the required increase in housing units could contribute to the development of further slums in urban areas, creating a social problem and becoming detrimental to the overall health of the Indian economy. Hence, the total housing demand in the country by 2017 could be as high as 88.78 mn units.

As per the latest Economic Survey of India, institutional credit for housing investment is expected to grow at a CAGR of about 18-20 % per annum in next three-five years and the housing sector's contribution to GDP is likely to increase substantially.

"In the coming year, for the first six to eight months, growth momentum may not be the same as it used to be during boom period between 2006 and 2008. However, economic indicators suggest that market is poised for growth in the second half of the year after the general elections in May 2014," concludes Sachin Sandhir.



ANSHUMALI RUPAREL

SOFT LAUNCHES CAN LEAD TO A HARD LANDING

Cash-strapped developers are resorting to pre-launch sales to lure buyers with discounted prices. Such deals have little legal protection and carry several risks

With the festival season turning lacklustre and with the RBI clampdown on 80:20 payment schemes and its variants, a good number of developers are increasingly opting for 'pre-launch' to lure buyers and to get their cash flows going. There is even a fancy name to this called 'soft launch'. Home buyers are flocking towards such schemes, unaware that the risks are greater than the discounts dangled before them. Legal experts term this 'illegal' while property consultants advise buyers to stay away from them.

THE CARROT

UNDER this scheme, the developer discounts the price by as much as 10-20 per cent of the prevailing rate in the locality. This is usually communicated, before work begins, through a network of brokers and old clients for a limited number of units and for a limited period.

Buyers who book by giving a token sum of around 10-20 per cent of the total cost are given a receipt, and not an agreement for sale. At most it can take the form of 'Expression of Interest'. Buyers are given the impression that it is a special discount, and a price rise is imminent once the official launch takes place. End-users feel they have landed a good deal, while investors believe they can plan their exit at a handsome profit.

"Pre-launch offers are illegal. There is no provision in law that the developer can launch the project before obtaining approvals. However, developers both small and big across the country are using this method," says Vinod Sampat, a Mumbai-based advocate and a real estate expert.

THE REALITY

The 'scheme' is just a fund-raising tactic for the developer. There are cases where developers do not even own the land but go ahead with pre-launch. There are some developers who have made a down-payment for the land, and will pay off the balance through collections from these buyers.

"Lending to the real estate sector is currently in a low-sentiment phase. Interest rates are high for funding that is still available, and some developers do not meet the required eligibility norms for funding at all. In such circumstances, they may seek to raise interest-free capital from the market by pre-launching their project," says Om Ahuja, CEO-Residential Services, Jones Lang LaSalle India.

Then there are others who own land, but have no approvals. Such developers open the pre-launch window to pile up as much capital as possible. They then close the offer and raise prices to make good the discount they had to give.

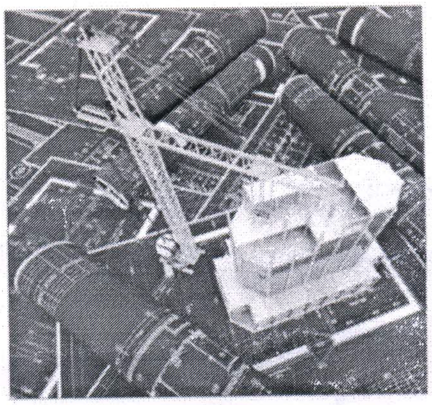
During pre-launch, developers do not disclose much details about the project. Buyers, however, do not raise many questions and are taken in by advertisements such as "limited period offer", "first come, first served", "prices to rise from next week" and so on.

"People are lured to investing in such properties and it needs to be stopped. This is deception," says Pankaj Kapoor, MD, Liases Foras, a real estate consulting firm.

"The main reason for such schemes is that without approvals and clear title, no lender will finance the project. But legal position is clear. One cannot sell something that does not exist," says Naresh Mehta, a Mumbai-based property consultant.

THE RISKS

Such schemes carry substantial risks, and it would be foolhardy to ignore them.



If the land is not owned by the developer, and in future if some legal or technical issues crop up, then the project could be a non-starter. If permissions do not come through, or some prohibitions are applicable to the plot or the project such as coastal zone regulations, then again the project will run into trouble. In such a case, the project may have to be down-sized, which means it may not remain viable anymore. The developer may abandon the project leaving the buyers to face the consequences.

If the developer begins the project with alterations and a down-sized plan, he may not keep his commitment of the pre-launch rate as it would be unviable since he has lost on his profits with the amended plan.

If the developer diverts the funds gathered from the pre-launch to another project, then be prepared for delays, and the financial consequences given the interest burden.

If due to non-compliance of any law or regulation, the properties of the developer gets attached, or auctioned off by a law enforcement agency, the pre-launch project is left in the lurch.

Factoring in these risks, the odds are loaded heavily against the buyer. Further, there is no legal document such as an agreement of sale, but only a receipt, which has no legal strength. In case the project does not take off, the buyer may get back the token amount, but after a while, but investors should factor in the opportunity cost of this deal.

There is another aspect, often overlooked. Once the project attracts significant interest at the market price, developers do try and offload the pre-launch buyer through some inducement so as to resell the flat to a new buyer at a higher price.

This can take several forms: giving a smaller unit than that promised, inferior placement (floor, wing or view), lower quality of amenities, extra charges for additional facilities or demand for market price for committed quality, simply terminating the agreement on a lame technicality by refunding the token sum or even without it, or entering into a legal battle with the buyer to make him give up to the developer's terms. There are several cases of developers who have trapped buyers through such methods.

"Investing in pre-launches is, generally speaking, not a route that end users are advised to take, unless there is a high degree of certainty implied in the builder's brand and track record," says Ahuja.

THE REMEDY

The Real Estate Regulatory Bill is currently with a Standing Committee of the Parliament, and there are expectations it could become an Act sometime next year. Once enacted, most of these ills would be taken care of under its provisions, as it will ban pre-launch offers, restrict diversion of funds, and mandate a model agreement between the developer and the buyer.

Although the Maharashtra Ownership Flats Act, 1963 has specific provisions prohibiting pre-launch and there is a clause that a developer has to execute the agreement before accepting any advance from the flat buyer, it has become an open trend. This indicates the lack of adequate checks from the authorities.

Haryana government has already cautioned buyers against this trend, and has advised buyers to contact the Department of Town and Country Planning to verify the licence given to the developer.

Buyers should insist on entering into an agreement for sale on the payment of the token sum. The agreement should contain all the details of the project. If the developer refuses or evades, it would be better to walk away.

Another route is to take the help of a lawyer to generate a search report of the project that includes the legal status of the property and detail of the owners and legality of its ownership along with any loans or obligations on it. Buyers can form a group and engage a lawyer to save on legal fees.

"Investing in pre-launched projects is a high-risk undertaking which can pay off as long as one has factored in all possible variables. It makes most sense to investors who have a high risk appetite and the ability to weather an eventual setback," says Ahuja.

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