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Date: 26.12.2022

To
Dr. Bhushan Gagrani (I.A.S.)
Additional Chief Secretary
Urban Development Department (I)
Government of Maharashtra
Mantralaya, Mumbai - 400032

Dr. Bhushan Gagrani
26/12/2022
महाराष्ट्र शासन
नगर विकास विभाग
मंत्रालय, मुंबई ४०० ०३२

Subject: Suggestion to make Real Estate Development in Mumbai competitive by Rationalizing Premiums levied

Respected Sir,

We would like to inform you that we had a pleasure of meeting Hon'ble Chief Minister Shri Eknath Shinde during the Loksatta Real Estate Conclave 2022 on December 15, 2022. It was heartening to hear from Hon'ble Chief Minister about his promptness and willingness to address the issues, which are hurdles in the upliftment of the State of Maharashtra and the real estate industry. We are sure that you will be positively considering the agenda discussed during the conclave with him.

Sir, the premium charged for real estate development was reduced by 50% for a year till December 31, 2021, as recommended by the Deepak Parekh Committee. The step helped in driving new launches and investments in the region. Recently, owing to its success and with an increase in revenues, there was a plea to extend the concession further till March 31, 2022.

Typically, the levies constitute about 1/3rd the sale price of the project in MMR and are prohibitively higher compared to other major cities. Further, reducing the one-time premium to 5% irrespective of class of land, can reduce the price and steer sales. Currently, premium is charged at 10-35% of the ready reckoner rates. The move will help reduce the costs from the 22 premiums and charges that are collected in MMR.

As a response to reduction in premium, the Brihanmumbai Municipal Corporation (BMC) saw a massive upsurge in premium collections as it crossed INR 11,000 crore before the end of December 2021. The average collection over the past 10 years have been in the range of INR 3500- 4000 crore, which shot up more than 2 folds, as a result of reduction in premiums by 50%. The collections for FY 2019-20 was about INR 3,800 crore, which dropped to INR 2,500 crore in FY 2020-21, as a result of pandemic led restrictions. The similar situation was observed by SRA, MHADA, Thane Municipal Corporation Vasai Virar Municipal Corporation and all other corporation. Evidently it was observed that even though the premium rates were halved, the volumes of collection increased and benefited the exchequer with a multi-fold increase in revenues. At the same time, it benefited the builders as many projects which were not viable due to high premiums, had become viable due to reduction in premiums by 50%.

Overall, the incentives introduced by the Maharashtra Government have triggered activity in MMR's residential market. It helped the market spring back from the dampened demand environment due to Covid 19. There was a direct benefit seen on affordable and mid segment demand, led by the incentives. However, there is still room for some continued support for homebuyers in an uncertain economic environment.

Maharashtra Chamber of Housing Industry

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As of now Mumbai, for development in both, the Island City and Suburbs, the BMC and Government of Maharashtra extract a huge quantum of premiums in order to permit any development.

For the development of commercial projects, the premiums levied in Mumbai is double that payable for residential developments. As a result, development in BMC limits is extremely expensive for the developer, squeezing margins substantially (in Mumbai the average PAT margin is in single digits).

The hefty premium payments not only result in margin deterioration, but also results in significantly increased working capital requirements, in an environment where lending has come to a standstill and lending institutions are reluctant to lend.

Payment of premium and charges in Mumbai when compared to other metro cities is substantially higher. For example, Chennai is 9 times cheaper, Bangalore is 47 times, Hyderabad is 50 times cheaper, Ahmedabad is 6 times cheaper, making Mumbai the most expensive city in India in terms of premium payable for development. The said fact diminishes any chance of making homes affordable in Mumbai. The detailed report on the premiums charges by other cities jointly prepared by CREDAI-MCHI AND Colliers (Leading International property consultant) is also shared along with this letter, which replicate how Mumbai has lost charm in compare to other cities like Bangalore Hyderabad, Ahemdabad Chennai etc.

Therefore, CREDAI-MCHI humbly request your good self to look into the premium issue seriously without any further delay and before the situation worsens as many societies and slums redevelopment won't take place they will be forced to stay in dilapidated condition risking their life especially during monsoon period.

Thank you and looking forward to positive response on the above points at the earliest.

Yours faithfully,
For CREDAI-MCHI



Boman Irani
President



Dhaval Ajmera
Hon. Secretary