

Real Estate

Sector update

- Oberoi Realty (BUY)
- The Phoenix Mills (BUY)
- Prestige Estates Projects (ADD)
- Godrej Properties (SELL)
- Sunteck Realty (BUY)

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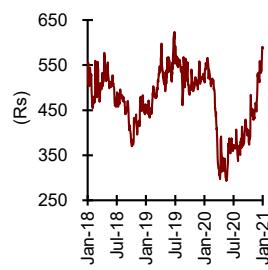
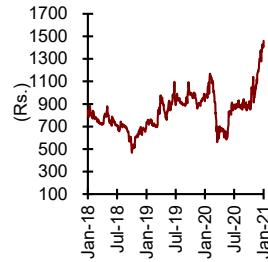
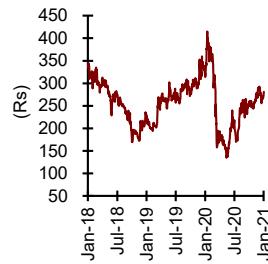
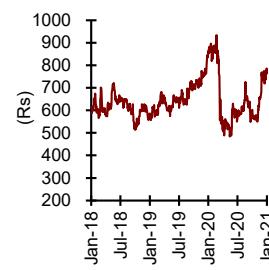
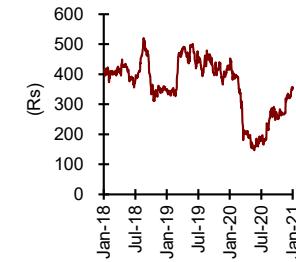


Real Estate

FSI premium waivers to benefit Mumbai developers

The Government of Maharashtra's Urban Development Department in a notification dated 6th January, 2021 has approved a 50% discount/concession on all the various premiums levied by the government on construction projects till 31st December 2021. This also includes concessions in the premiums levied by all planning authorities/local administrations in Maharashtra. A rider is that developers availing the discount need to bear the stamp duty costs of 5-6% of agreement value on behalf of buyers. While we await the fine print on the exact nature and terms of the FSI/premium waivers, key beneficiaries of the waiver will be developers who have adequate liquidity and have the confidence to launch and sell new projects, especially in the Mumbai city and suburbs. Hence, developers in our coverage universe with significant Mumbai exposure including Oberoi Realty, Godrej Properties, Phoenix Mills, Prestige Estates and Sunteck Realty stand to benefit.

- ▶ **How does a developer and customer benefit?** With reduced cost of premiums, a developer can look to pay the entire approval cost upfront and potentially launch a new project at an attractive price owing to cost savings and drive higher sales bookings during the initial launch of a project. While clarity is awaited on the conditions where a developer pays stamp duty on behalf of the buyer, the spurt in property registrations in Mumbai during the October-December 2020 period owing to the stamp duty waiver of 3% bear testimony to the potential benefits of the stamp duty concessions.
- ▶ **Reduction in FSI premiums to benefit developers with strong liquidity position:** We await the fine print on the exact nature and terms of the FSI/premium waivers for developers in Maharashtra. However, assuming that developers get 50% discount on all the various premiums levied by the government on construction projects till 31st December 2021, this may result in significant one-time cost savings for a developer. Currently, the various FSI premiums/fungible FSI and payments for other concessions account for between 25-33% of the overall project (including land) and the waiver may result in a 12-17% saving on overall project cost. We believe that the key beneficiaries of the waiver will be developers who have adequate liquidity and have the confidence to launch and sell new projects, especially in the Mumbai city and suburbs. Hence, all the developers in our coverage universe with significant Mumbai exposure including Oberoi Realty, Godrej Properties, Phoenix Mills, Prestige Estates and Sunteck Realty stand to benefit. As all these developers enjoy a comfortable liquidity position, they would be in a position to make upfront payments to save on FSI premiums and avail the benefits of these over the next few years for residential and office/retail projects.
- ▶ **What are the company specific benefits?** In theory, developers in our coverage universe can choose to avail this one-time window and pay the entire project premiums upfront and save 50% of the costs. With base FSI of 1.33x in Mumbai city and 1.00x in Mumbai suburbs, developers can currently go up to 5-6x FSI by paying for FSI premiums/TDR/fungible FSI which accounts for 25-33% of overall project costs. For Phoenix Mills, the estimated premium cost of Rs8bn for developing 1msf of offices and 0.5msf of retail space at its High Street Phoenix could effectively reduce by 50% to Rs4bn. Further, developers such as Oberoi Realty, Godrej Properties and Sunteck Realty which have many upcoming launches in Mumbai city/suburbs and in areas like Thane, Navi Mumbai and Pune (falling under the recently notified Unified DCR for Maharashtra) may significantly save on costs. However, depending on viability of individual projects, a developer may choose to defer payments over a four to five year cycle and not choose to pay these costs upfront.

Price chart**Oberoi Realty****Godrej Properties****Prestige Estates Projects****The Phoenix Mills****Sunteck Realty**

Source: Bloomberg

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