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It pays to invest in homes under construction

If you carry out requisite due diligence and take some precautions, buying an under-construction property could be a sensible option, says Preeti Kulkarni

HOME TRUTHS

Purchased an under-construction flat in Mulund (a suburb in Mumbai) two years ago; has just got the possession

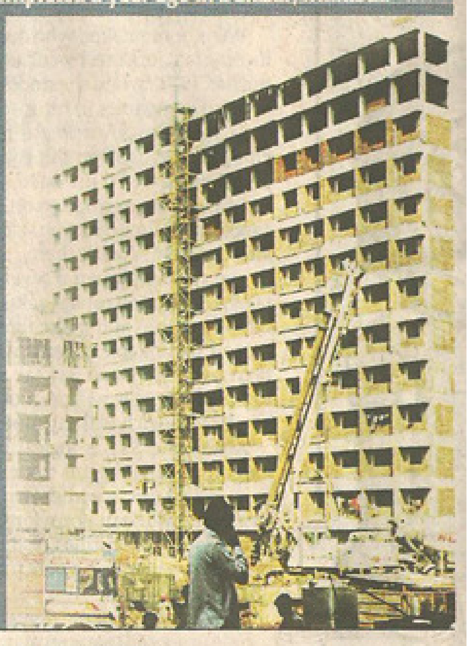
"If you buy a flat prior to the construction being completed, you can definitely secure it at a cheaper rate. As the construction progresses, the real estate prices rise. When I bought my flat nearly 2.5 years ago, the rate prevailing in the area was close to Rs 5,000 per sq ft; today it has gone up to Rs 6,400 per sq ft. I also decided to get some storage space created in one of the rooms. However, one needs to enquire with the builder if such changes could be made. Not all developers would accept the request as it extends the duration of construction

MEHUL PANDE

Bought a flat where construction is yet to be completed a year ago in Dahisar, Mumbai.

"We directed some money to the apartment primarily from an investment perspective. When we purchased the flat, the prices were hovering around Rs 2,700 per sq ft, now the rates have gone up to Rs 4,500. I believe property is capable of yielding good returns, perhaps even better than gold, and hence made the

RASHMI AND AJAY NAIK



MANY home-seekers are sceptical about buying under-construction flats as the transaction comes with an element of uncertainty. Ready-for-possession apartments, which do not pose such problems, always command a premium. However, carrying out the requisite due diligence and taking some precautions could help you land an attractive deal, mainly in terms of the discount in price and certain other benefits accruing to buyers along the way.

THE PRICE FACTOR

The key advantage of buying an under-construction property is, obviously, the discounted price per sq ft. "The price of the property increases in line with the stage of completion. If a developer has launched a project before excavation, the discount could be in the region of 25%. It could shrink to 20% once the project commences and the plinths are done," says Gulam Zia, national director, research and advisory services, Knight Frank, a property consultancy firm. As a project nears completion, the rate could be close to market prices.

ATTRACTIVE RETURNS

For those buying a property from an investment perspective, an under-construction flat could offer good returns. Such investors can consider investing their money in a project when it has just been launched. Many developers offer to take the soft launch route — where the project details are circulated among a select few prospective buyers, with a discount on offer — before making a public announcement. "The investor can sell the apartment to a third party and benefit from the appreciation. The only point to bear in mind in such transactions is that they are done on the basis of the allotment letter alone — the agreement is not registered and the stamp duty is not paid. However, it is a perfectly legal transaction," explains Mr Zia. Also, while taking the decision, keep in mind the developments likely to take place in and around the area, in terms of infrastructure projects as well as other amenities like malls, schools and healthcare facilities expected to come up in and around the area.

EASE OF PAYMENT

Buying an under-construction property offers you the leeway of making a deferred payment. "When you are buying an under-construction property, you do not have to pay up the entire amount upfront," says Akshay Kulkarni, executive director, residential services at real estate consultancy firm Cushman & Wakefield. If it is in the pre-launch stage, you may not have to pay more than 10-20% of the total cost. "Also, you would have nearly 2-3 years in hand for making the balance 80% payment, which could have a positive impact on your cash flows," adds Mr Zia.

TAX BENEFITS

If you avail of a home loan for buying an under-construction apartment, the tax law provides for a deferred deduction on interest payable during the pre-construction period. The total amount can be availed of as deduction in equal instalments over five years starting from the financial year in which the construction is completed. Pre-construction phase is defined as the period starting from the date of borrowing and ending on March 31 immediately preceding the year in which construction is completed. For instance, if you have taken a loan in June 2008 and the construction is completed in May 2010, the period from June 2008 to March 31, 2010 will be deemed to be the pre-construction period. "Now, let's assume the total loan amount is Rs 40 lakh, borrowed at the rate of 10% per annum. If the total interest payable for the pre-period is Rs 5 lakh, 20% of the amount — Rs 1 lakh — can be added to the interest component of each of the five years, starting from the year in which the construction is completed," informs Vaibhav Sankla, executive director, Adroit Tax Services. If your house is self-occupied, the deduction on interest payable would be restricted to Rs 1,50,000 per financial year. Also, it needs to be noted that deduction on repayment of principal amount can be claimed under section 80C only from the financial year in which construction is completed.

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