UNDER-CONSTRUCTION VERSUS 'READY TO MOVE IN'

Let risk appetite determine the choice of your housing

Consider lower price of under-construction property as compensation for betting on a riskier asset

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Residential real estate prices are once again moving up rapidly. According to the MagicBricks PropIndex report for the quarter ended December, prices across the top 13 cities moved up 18.8 per cent on average year-on-year. Many potential buyers are now thinking of buying an under-construction (UC) property instead of a ready-to-move-in (RMVI) one, as the former allows payments to be made more gradually.

Under-construction property: Pros and cons

Pricing is usually more attractive in a UC property. "In comparison to a finished project, you can get a discount of up to 30 per cent. As the value of the property rises over time, you can expect a larger return on your investment," says Santhosh Kumar, vice-chairman, Anarock Group.

The quality of construction can be better. "Construction technology has improved greatly. Newer homes also incorporate a lot of automation," says Ravi Shankar Singh, managing director, residential transaction services, Colliers India.

The financial burden gets staggered. "The entire amount does not go from your loan account in one shot. You can pay a pre-EMI during the construction period, which is essentially interest on the amount disbursed to the builder (which, in turn, depends on the stage of construction in a construction-linked plan)," says Adhil Shetty, chief executive officer (CEO), BankBazaar. The pre-EMI proves handy to those paying rent.

Delay and other risks: The biggest risk one faces in a UC property is that of delay in delivery. "The risk becomes pronounced in case of smaller, less financially strong developers. Their projects could face issues due to lack of funding, delays in regulatory approvals, or even legal disputes," says Kumar.

The property that is finally delivered may not live up to expectations. "The finished product may not match the promised specifications, design, or features. The construction quality may also be compromised," says Kumar.

YOUR MONEY

In a UC purchase, the buyer effectively finances the developer. "You do so without having an insight into his balance sheet, except in the case of listed developers," says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors.

Paying only the pre-EMI has its flip side. "It includes only the interest on the loan. No money goes towards repaying the principal," says Shetty.

Ready to move in property: Plus and minus points

The buyer avoids the risk of project delay. Moreover, what he sees is what he gets. According to Singh, one can get a more central location compared to UC properties, which tend to largely come up in more peripheral locations. "The carpet area you get for the stated super area might also be higher in an older property," he adds.

Higher pricing: The buyer invariably has to pay a premium for purchasing an RMVI property. "The premium can be between 10 and 30 per cent over the price of a UC property," says Kumar. The price gains that occur during the construction stage do not accrue to the buyer of an RMVI property.

Someone who buys an apartment in an older construction may have to spend on renovating the property. "The cost of renovation can push up the total acquisition cost substantially," says Dhawan. Singh points out that the amenities and facilities could be outdated or of a lower quality. Kumar adds that buyers may have fewer options to choose from as the inventory of RMVI property is limited currently.

How to decide

Make the decision to buy a UC or an RMVI property based on your risk-taking ability. "When you go for a UC property, you take a bet on the developer being able to deliver the house according to the promised timeline," says Dhawan.

People often take the risk of investing in a UC property thinking the underlying real estate provides a margin of safety. "But when something goes wrong, selling the property becomes difficult," says Dhawan.

He adds that while the buyer does get a more attractive price in a UC property, it should be viewed as compensation for the higher-risk choice he has made.

KNOW THE TAX NORMS

UNDER-CONSTRUCTION

- The taxpayer can claim tax deduction on stamp duty and registration fees under Section 80C (annual limit ₹1.5 lakh)
- The principal of the loan can be availed as a deduction under Section 80C
- The interest component cannot be claimed as deduction during the construction phase
- If the borrower pays a pre-EMI during this phase, the interest paid can be claimed as a deduction in five equal annual instalments from the financial year in which construction is completed
- GST has to be paid

READY TO MOVE IN

- The taxpayer can immediately start availing tax benefits on both principal and interest paid; latter has annual limit of ₹2 lakh under Section 24(b)
- No GST has to be paid

Source: RSM India