

Don't go by the MRP

Most developers desperately need cash to complete delayed projects and start new ones. You can wrangle discounts if you know how to drive a hard bargain.

There was a time when developers used to quote a fixed rate and offer up to 3% discount if you paid the entire sum within 60 days of booking an apartment. Things are different now. The 3% discount is just the starting point to begin your negotiations as most developers desperately need cash. Also, in some parts of the country, sales didn't pick up last year between October and January, the period that accounts for approximately 40% of the annual sales of residential projects. This is why it may be the best time to wrangle a good price.

Seen from another angle, since there is no sanctity of an MRP, developers try to load charges surreptitiously and not in the quoted price which they want to seem affordable. So, always keep some extra money at hand.

The discounts will continue, so don't be in a hurry

Builders are more desperate to sell than customers are eager to buy. They will continue to offer discounts even if it means taking a hit on margins.

Ask any builder and he is bound to tell you that his project is almost sold out and that prices will be revised upwards very soon. The fact is that builders today are more desperate to sell than buyers are eager to buy. Overheated markets, sliding share prices and rising interest rates have made matters worse. While the IPO window is now closed, at least for the short to medium term, listed real estate stocks have taken a beating and tighter lending norms by banks have made capital scarce.

Debt is a big worry, too. The ₹25,000-crore debt—which the RBI allowed to be restructured following the slowdown—is due for repayment. While private equity investments have thrown open an opportunity, investors are driving hard bargains and looking for higher safety and returns. Another comparatively cheaper opportunity for listed developers is to borrow against shares held by the promoters. But with most companies already highly leveraged and stock prices continuing to be low, there isn't much scope on this front.

The only cheap source of money available to realtors is through the sale of their projects. Given that the situation is unlikely to get better any time soon, the moment a builder realises that you are a serious buyer, he will be ready to negotiate the rates.

The best deals may not be available with the builder

Brokers usually book multiple flats and can offer you the choicest properties.

Real estate brokers have always made news for the wrong reasons—fleecing both buyers and sellers, selling one property to more than one buyer, and conniving with builders to create a hype. While much of this is true, in some cases brokers may also get you the most attractive individual discounts. Some large ones command the best deals from builders because they book multiple properties and then sell them to individuals; it is their way of benefiting from buying in bulk. So once you have zeroed in on a property, check with the broker in the locality about the best rate he can offer. A broker could also help you identify properties that are distress sales and so available at a lower rate.

Another fast emerging layer between the builder and buyer is the underwriter. These underwriters buy a major chunk of the project from the builder and sell it in the market at a premium. In these cases, the developer cannot offer you a lower rate than the underwriter, but the underwriter may be willing to cut his margin if the sales are low.



5 WAYS TO GET A GOOD DEAL

Realty is no longer the asset that always gives good returns. The ground reality has changed. So have the investing norms. Rakesh Rai explains the new tenets and ways to exploit these for maximum gains

Nothing comes for 'free'

The cost of freebies is usually factored into the price of the property. Try getting a 10% discount instead.

From registration fee to modular kitchens, even cars, all are being offered free when you book an apartment in a project. Don't fall for these lures. The catch is that all freebies are already factored into the price of the apartment. The same goes for schemes on offer. The latest to catch investors' fancy is the 'attractive' 10:90 scheme being offered—you pay just 10% of the cost now and the rest on possession. The truth is that developers urgently need the cash and many of the projects have not even got approvals. As HDFC Chairman Deepak Parekh puts it, "Within days of buying a plot, builders are putting out advertisements accepting booking at 10% upfront payment."

Another such lure is the 'attractive' financing schemes that builders offer by tying up with banks. In most cases, you will get a better deal by approaching the bank directly. 'Guaranteed returns' is another bait being used by builders to trap investors. It is only after you make the down payment that you are

told about the fine print—you get the returns only if you share the property with two others or the advertised returns are only for an investment above a certain amount.

Grouping to get best deals

Teaming up with other customers can not only get you a good discount but also helps in making your voice heard.

It's common knowledge that builders are desperate to clear their inventories, but they can offer discounts to individuals only to an extent. "For developers, bringing down the prices may work like a downward spiral; every new customer starts quoting the previous base price and asks for a better deal," says real estate consultant Mahesh Raghupati. However, this hurdle can be overcome if the builder realises that he can clear a certain percentage of his project at one go by selling it to a buyers' group.

Today, most builders are willing to offer a decent discount if they can sell more than five units at a time. "The smaller the project and developer, the higher the discount a group can get," says Raghupati. Some builders are even willing to construct a separate tower if the



Online advantage

Group discount websites offer rebates on property too.

- Register on a group buying website like *GrOffr.com*
- Join an existing active group or form a new group
- After the group reaches a critical number, the website announces a closing date
- If the group doesn't get enough people, it becomes dormant
- The website negotiates a deal and presents it to the group
- If most group members accept it, the deal goes through

numbers are big enough, he adds. "We get a lot of corporate bookings where 50-100 flats are bought. Usually, the discounts are given based on the location. If it is a good location and it's boom time, then discounts could be as low as 4-5%. But in times of recession, corporates can get good discounts," says Niranjan Hiranandani, MD, Hiranandani Group.

If you think you do not have enough friends to team up with, log on to group buying websites like *GrOffr.com*, which get potential buyers for a project together for group discounts. "In the first deal that we made, we sold about 35 flats in one day for Oberoi Splendor in Andheri (East), Mumbai, at a discount of 32.5%.

The market rate for these apartments was ₹10,000 per sq ft and we sold these at ₹6,500 per sq ft," says Sandeep Reddy, founder, *GrOffr.com*. *GrOffr.com* has now forayed into the home loan segment, enabling potential borrowers to get home loans at rates 0.25-0.75% lower than the market rate, with zero processing fee. This will be a much-needed relief for the borrowers who are already feeling the pinch of high property prices as well as the rising interest rates.

—With Amit Shanbaug

Benefit from the likely dip in rates

Find out how investors could make gains from lower rates, says Uma Shashikant

The high interest rates in the short-term debt market have been the focus of investor attention in the recent past. The traditional bank depositors are being lured by the spiked rates, making most other bonds unattractive, while the wholesale deposits are being offered on even more attractive terms, leading to a slew of fixed maturity plans (FMPs). Based on the assumption that such steep rates may not persist, a tactical investment opportunity may be present in the short-term debt markets.

What has led to this spike in interest rates? There are three primary reasons. First, the high inflation rate has sparked a hike in policy rates by the Reserve Bank of India. The rate at which the central bank is currently willing to lend to banks is 6.75%, as opposed to 3.25% a little over a year ago, when banks were lending to the RBI as there was a slowdown in the demand for loans.

The second reason is that while the demand for bank loans has moved up sharply, the growth in deposits has not kept pace. Third, there have been frictional pressures on short-term rates, especially due to the high level of unspent current account balances of the government that are held with the RBI.

The current market view is that there will be a correction in interest rates. Investors want to look beyond the FMP in a rising interest rate market, when a new plan offers a higher rate. Those who have chosen to buy high interest deposits and FMPs have decided to stay invested till maturity and may not care about the changes in interest rates in the interim.

Investors are being plagued by two questions: Is a correction likely in the short-term rates? If yes, which product will help capture this gain the most? The gains that investors make from short-term debt funds can come from two sources—interest income and capital gains from a fall in market interest rates. If the rates have gone up by 3-4% in the past six months, they are unlikely to fall to

the same extent. This is because a majority of this increase was due to the rise in policy rates by the RBI, and given the inflation levels, the central bank is unlikely to let the interest rates fall. The government's balance with the RBI has already returned to normal levels. The only correction then is likely to be in bank deposit rates, provided the banks have managed to mobilise the volume of deposits that they had planned through aggressive pricing. The correction in deposit rates is likely to be about 1%, or even less.

For a tactical play on this possible turn in rates, an open-ended, short-term plan could be a good bet. However, two caveats are in order: First, the gain from falling rates in short-term debt funds could be small. This is because they all offer very low average tenures. The low tenure, along with low rate change, results in low gains.

Second, reduced rates will mean lower interest income in the future, so the overall return may be lesser than that being currently offered by these funds. The funds that have enhanced their tenures in anticipation of a drop in rates may be under-performing their peers, but if the prediction about the short-term interest rate plays out as expected, they may gain the most. Tactical rebalancing is about taking a risk by positioning your portfolio based on a particular view, rather than waiting for performance numbers to play out.

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RAJ

Now, you can take a loan to pay school fee

With this new facility, you can avail of loans ranging from ₹30,000-₹4,00,000 from specific banks for classes up to senior secondary

Nupur Anand

It's very likely that the fee your parents paid to educate you from kindergarten till graduation is less than the annual fee that you pay for your child's playschool today. In a metro city, a playschool can make you poorer by ₹35,000-1 lakh a year, while primary and secondary education in a private school can cost between ₹50,000 and ₹5 lakh a year.

Paying such high fees could be a problem if you face a financial crisis, but there's no way you can remove your child from school, can you? Now, you can resolve this dilemma by simply stepping into a bank. Yes, banks have started offering education loans for children's school fees, a phenomenon that took off about a year ago.

LOAN CRITERIA

Earlier, education loans were offered only for professional courses. Now, you can take them to pay the school fee for classes ranging from nursery to senior secondary. The banks that offer this facility include public sector entities, such as Bank of Baroda, Central Bank of India, State Bank of Hyderabad and J&K Bank. The loan amount usually varies from ₹30,000-1 lakh, but the Bank of Baroda has an upper limit of ₹4 lakh. Though you don't need an account with these banks to

avail of the facility, account-holders are given preference. As a senior official from the Central Bank of India affirms, "We will give a loan to a customer even if he does not have an account with us, but serving an existing customer will be our first priority." Another condition is that the school should be affiliated to ICSE, CBSE or any state education board.

The loan is primarily meant to fund the tuition fee, but it can also be used to pay for other expenses, such as buying a laptop or apparatus needed for projects. However, in such a case, the equipment will remain in the bank's name as security till the total amount is paid.

COST OF LOAN

Another option to tide over the difficult period is taking a personal loan, but this comes with a

high rate of interest, which ranges from 14-19% and can go up to 24% in certain situations. On the other hand, an education loan is available at 12-13%. Despite the fact that both are unsecured loans, the one for education is cheaper. If you are taking a loan to finance your daughter's education, you will be able to get an additional con-

cession of 0.5-1% on the existing rate.

"Generally, education loans are based on the parents'/guardian's income level and their capability to repay. The interest rates also depend on the income and the credit profile of the borrower. You could also get a concession if you provide a collateral," says Adhil Shetty, CEO of BankBazaar.com, a financial services firm.

FUND FOR COACHING

Coaching classes, which help students prepare for various entrance exams,

have become a vital part of the education system. Ranjana Sharma, who scored 95% in her higher secondary, aspires to become a doctor, but her father cannot pay the hefty fee demanded by the coaching institute. He can now approach the banks as they provide loans for coaching taken for professional courses. So, students appearing for entrance exams for civil services, medicine, chartered accountancy, engineering, etc, can opt

for this loan.

The Central Bank official says, "The coaching class loan scheme has witnessed a good response, with many parents coming forward to avail of this facility." However, it comes with certain conditions. "A caveat is that you have to appear for the entrance exam of a recognised course, otherwise you will not be eligible for the loan," says Kartik Jhaveri, director, Transcend Consulting, a financial planning firm.

CONFUSION OVER TAX

According to Section 80E of the Income Tax Act, the interest that you pay on an education loan is a deductible expense. Earlier, only the loan taken to fund professional courses came under this ambit. This has been amended from the assessment year 2010-11 to include vocational courses pursued after passing the senior secondary exam.

However, there is some confusion about the inclusion of coaching classes. "Typically, one can't claim tax deduction for coaching fees. However, under Section 80E, it is suggested that a loan taken for the purpose of higher education be available for tax exemption. So, it is possible to claim an exemption on the loan taken for coaching classes. This is in contrast to Section 80C, where tuition fee is specifically mentioned," says Paras Savla, a CA who runs Paras Savla & Associates.

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- Mutual funds for your child
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