

A BIG DRAW FOR ALL

According to industry experts, the prevalent subvention schemes offered by developers to attract more buyers towards their real estate projects are win-win deals for both the stakeholders



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Nowadays, 'book now, pay later' or 'no EMI till possession' are some of the most popular gimmicks of financial scheme floated by real estate developers to attract more buyers towards their real estate projects. Technically known as interest rate subvention schemes, these offers are nothing but usual mortgage finance structured to provide payment flexibility and ease burden on the buyers. The term has been derived from the latin term 'subventus' or 'to help'. According to industry experts, the subvention scheme is a big draw for buyers particularly because it can directly impact savings. Post the initial amount (as agreed mutually) the buyer need not pay anything until possession. In such an ideal scenario, the developer gets a buyer for his project while the latter need not pay until possession.

Sahil Kapoor, regional director, RE/MAX India, is of the view that this is a big help to those customers who are bearing an EMI and rent at the same time. "This doesn't necessarily help in overall price reduction as there are no additional discounts and schemes offered which are available under down pay-



ment plans and construction linked plans," says Kapoor. However, it definitely eases the flow of money from the customer's pocket.

Have you ever wondered how these schemes work? In subvention scheme, a tripartite agreement is signed between the builder, buyer and the lending institution. All three stakeholders undergo an agreement as per which the buyer makes an initial down payment on a property

while the bank agrees to pay the remaining balance to the builder and the builder agrees to pay the bank the interest payments due on the buyer's loan until the buyer receives possession of the property. The banks release funds to the builder according to the construction schedule. Simply put, a subvention scheme is one in which the buyers, builders, and banks interest are aligned.

This scheme could be 20:80,

30:70, 10:90, 5:95 or even 1:99 and the buyer can decide the minimum amount he is willing to pay while booking a home. "Anything which is better than what was being previously offered is definitely a welcome move," adds Kapoor. Experts also believe that the subvention scheme is a good idea as they intertwine the interests of stakeholders in a project. "A subvention scheme lowers the buyer's payable interest burden until the buyer takes

possession of a house and also improves developer's credentials as it is in the developers' interest to complete the project as soon as possible," says Hari Challa, managing director, Aliens Group. Such schemes also lead to greater trust between builders and banks as banks may be more willing to lend to a less well-known builder who is a part of a subvention scheme. "A subvention scheme disciplines builders and lowers the risk

faced by buyers because the buyer is liable to the bank only for the amount paid at each successful stage of completion and not for the entire loan as would otherwise be the case," adds Challa.

However, there can be drawbacks to participating in subvention schemes one of which is that builders often price such properties higher because they are required to pay interest on the buyer's loan. Such a scheme can also be harmful to the credit score of buyers because a developer's inability to pay interest on the loan will harm the buyer's credit score. "For buyers to truly take advantage of subvention schemes we recommend that they read the fine print before entering such an agreement. I believe it is a well-crafted instrument that can be helpful to some first-time homebuyers provided it is adhered to as stated by all parties. We are also preparing ourselves to evaluate this option before giving it a go in our upcoming affordable homes projects in Hyderabad, so that we can pass on the advantage to our esteemed buyers," furthers informs Challa.

Subvention has been instrumental in mobilising end user interest in Gurugram also as it mitigates risk to a greater extent. "Subvention schemes offered by reputed developers are of great benefit to homebuyers and serve a long way in fulfilling their dreams of owning a home. We at Chintels offer various such schemes to help our customers fulfill their desires of a better living at an affordable cost. Transparency, honesty, integrity and humility is the motto of our company and we make sure that we inculcate these values while dealing with our customers irrespective of the schemes on offer," says Prashant Solomon, managing director, Chintels India Pvt. Ltd. and hon. treasurer, CREDAI-NCR and convener of CREDAI National (media

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Hence, at a time when developers are keen to offload inventory and buyers are looking for deals where the risk factor is minimum, a subvention scheme can act as a blessing in disguise for both buyers and builders. "A subvention scheme can significantly reduce the burden of upfront payment from a buyer's perspective and on the other hand ensures steady cash flow for developer. "This also reduces the risk associated with project delays and provides timely deliverable. Such schemes also come up as a bonus to the developers as it helps increase the property sales with more buyers investing in the projects offering the scheme. It also allows balanced flow of funds to the developers with low risk factor," asserts Ashish Sarin, director

and CEO, AlphaCorp.

According to Rohit Kishore, COO, Lotus Greens, a buyer can reap in benefits of price appreciation during the construction period and enjoy higher returns on the partial, down payment after a few years, the developer at the same time can focus on construction activity rather than worrying about arranging the finances to complete the project. Such schemes boost the consumer's confidence at a time when salaries are increasing at a modest pace and home loans are also not affordable by many people," evaluates Ashwini Katariya, vice president-sales, Nivesh Global. So, as per Kataria, enthusiast homebuyers can get property paying just 5-15 per cent of the total cost at the beginning and then the rest could be paid once he gets the possession.