

Investing in Real Estate in India

A recent report by the Chamber of Indian Industries pointed out that globally real estate is and should always be considered as an income-generating asset. This article explores investment in real estate in India from the perspective of NRIs.

FEMA- Permissible investments for NRIs

As per the provisions of Foreign Exchange Management Act (FEMA), NRIs can freely invest in real estate as follows:

- Upto 100% in an Indian company in the business of **real estate development** with full repatriation benefits i.e. both the business profits and sale proceeds of original investment can be repatriated. Real estate development means construction of residential and/or commercial properties, office complexes, etc. Mere trading in properties is not permitted. Further construction of farmhouses is not permitted.
- Acquire residential/ commercial properties in India by way of purchase/ gift/ inheritance from a resident Indian or a NRI. Agricultural land, plantation and farmhouse cannot be acquired by a NRI except by way of inheritance. There are no restrictions on letting out of properties and repatriation of income thereon after payment of taxes. The provisions relating to repatriation of sale proceeds are as follows:
 - Sale proceeds of property acquired by way of inheritance can be repatriated without any lock in period upto USD 1 million per calendar year.
 - Sale proceeds of property acquired out of Rupee resources is permitted to the extent of USD 1 million per calendar year subject to the condition that the property/ sale proceeds of property should have been held in India cumulatively for a period of 10 years.
 - Sale proceeds of immovable property acquired out of forex resources can be repatriated without any lock in period to the extent of equivalent foreign exchange originally invested. The profits can be repatriated to the extent of USD 1 million per calendar year. In case of residential properties, repatriation is restricted to two such properties.

The limit of USD 1 million per calendar year is a consolidated limit.

Analysis of real estate as an investment opportunity

The key evaluation criteria for investment in residential/ commercial property in India are analysed as below:

- Typically, leasing residential and commercial property in Mumbai could fetch a pre-tax return of 6-9% and 8-11% respectively. Capital appreciation, if any, would provide additional return on investment.
- Investment in real estate in India typically carries an entry load of 10-15% towards stamp duty, registration, brokerage etc.
- Real estate as an asset is not as liquid as investment in stock market, bank deposits etc.
- A power of attorney to a trusted friend/ relative/ professional would obviate the need of physical presence for legal formalities.
- Loans can be raised conveniently in India and abroad for investment in property.

- Loans can be raised in India by the owner and third parties against the security of the property for any bonafide purpose.
- Tax benefit is available on interest on housing loan raised in India.
- Tax exemption is available on re-investment of sale proceeds of property in eligible avenues.

The key considerations (from the perspective of real estate as an investment) to be borne in mind while selecting a specific property are:

- The prevailing lease rentals and scope for capital appreciation in the area where the property is located.
- Scope for infrastructure development around the property under consideration.
- Location and proximity to schools, hospitals, markets, public transportation etc.
- Actual property taxes to be paid.

Snapshot of recent developments in the Mumbai real estate market

- With the state government permitting the textile mills (covered under the National Textile Committee scheme) to sell their surplus land for development, approximately 150 acres has been added to the Central Mumbai (e.g. Lower Parel) supply pool. A number of residential and commercial projects are coming up in this area, which is expected to bring down the prices and rentals in South Mumbai.
- The Mumbai market is awaiting the completion of many more mega retail and entertainment projects that include multiplexes, malls, departmental stores and entertainment centres. According to a study conducted by retail consultants, KSA Technopak, the Indian entertainment industry is headed for a boom with revenue projections at Rs. 65,000 crore by 2005.
- Perceptible shift in commercial activity, hitherto concentrated in the Central Business District (e.g. Nariman Point and Fort) to the suburbs (e.g. Bandra Kurla complex, Andheri Kurla road, Malad link road).

If you would like to know of specific investment opportunities in real estate offering an attractive return or have any other queries, do not hesitate to contact us at:

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