

NRI INVESTMENTS IN INDIAN REAL ESTATE



Research by 360 Realtors

Foreword

India has a huge diaspora spread around the world. The latest UN estimates suggest that the Indian diaspora is to the tune of 17 million spread around the Middle East, Africa, North America, Europe, and various other parts of the world.

Indian diaspora or Non-Residential Indians (NRI) as they are called, collectively represent a strong economic force as well. A large portion of the Indian expat community is employed in blue chip companies in senior profiles. Likewise, many run successful businesses.

Collectively, NRIs have amassed large amount of wealth, which is also a positive sign for Indian Real Estate. Out of the annual remittance of around USD 70 billion, a sizable part is diverted towards Indian Real Estate.

Many NRIs plan to come back to India after a while and hence prefer to own a home in the country of their origin. Even if they do not foresee a permanent settlement, they still like to have a foothold in India.

Many are also buying properties from an investment point of view. GOI has also facilitated NRI investments in Indian Real Estate through simplified rules and regulations.



ANKIT KANSAL,
Founder & MD, 360 Realtors

Interestingly, COVID, although a major medical and economic crisis, has furthered NRI investments in Indian Real Estate. During times of global uncertainties, many NRIs prefer to own a home in India as a hedge against future contingencies.

A steep decline in the value of the Indian rupee, the plethora of attractive payment plans by the developer fraternity, and healthy moderation in the economy have also expedited NRI investments.

In FY 21, NRI investments in Indian Real Estate have amounted to USD 13.3 billion, climbing by 6.4%. Despite investments feeling the heat during the 1st quarter, the volume of NRI sales recovered in subsequent quarters, staging a strong comeback.

In FY 22, it is expected to grow by another 12% reaching USD 14.9 billion, as per the research conducted by 360 Realtors. The depreciated value of the rupee, attractive payment plans and flight towards tangible assets like Real Estate will continue to foster growth in NRI investments in India.



India's
Favourable

POLICY IMPETUS THE GROWTH ENABLER OF NRI INVESTMENTS

The upturn in NRI investments in recent years has been backed by favourable policies by the regulatory agencies. RBI has allowed NRIs or Persons of Indian Origin (PIOs) to purchase as many residential or commercial properties in India as they wish.

(It should be noted that in property purchase, NRI and PIO are termed as similar terms without any differentiation.) This has opened a new avenue for NRIs in their home country.

The NRI investments have also received a shot in the arm with the constant drive towards bringing in more transparency in Real Estate transactions. The regulatory bodies introduced RERA in 2016, which has been a major confidence booster for NRI capital inflow in the domestic realty market.

RERA has greatly made the overall transaction space a level playing field amongst buyers and developers, which earlier was believed to be a little biased towards the latter.

Post RERA, an unprecedented amount of transparency and structure has been enforced across realty transactions. Through RERA, strong fund management guidelines have been set and developers are made accountable to use funds effectively and transparently to deliver on time.

Punitive actions have been outlined in case of non-adherence by developers. This, in turn, gave a massive morale boost to NRI buyers, who despite their physical absence are now enticed to play out loud in the Real Estate market.

MAJOR POLICIES OF NRI INVESTMENTS IN INDIA

- ✓ An NRI can purchase as many properties as they wish
 - ✓ An NRI can also avail as many home loans as required for property purchase.
 - ✓ Although there is no cap on a property purchase for NRIs, they are not eligible to buy agriculture lands and plantation properties without prior permission from RBI. (This also entails that NRI buyers can't buy farmhouses.)
 - ✓ However, RBI can permit such transactions on case-by-case basis.
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- ✓ In case an NRI is not physically present, he/she can appoint a person with Power of Attorney who can carry on with the transaction.
 - ✓ NRIs are liable to pay all the required taxes such as registration fees, stamp duty, annual property charges, etc.
 - ✓ NRIs can make rental income from their properties. However, a TDS of around 30% will be deducted following which the remaining amount will be transferred.
 - ✓ Likewise, NRIs are liable to pay taxes (capital gain taxes) on sales of property. The TDS is to the tune of 20-30%.



TECHNOLOGY BRIDGING THE GAP

A remarkable change that has swamped the industry post-COVID has been the rising use of technology. After the crisis, when physical visits were curtailed, property developers, marketers, and brokerage firms actively pivoted to online property launches, virtual property viewing, and digital transactions. This has not only helped the industry stay afloat in a time of crisis but also paved the way for faster technological adoption in the subsequent months.

Online Real Estate has been present in India for a while but COVID acted as an inflection point to spur its rapid growth.

In a time of mandatory lockdown, which was followed by self-imposed isolation, technology has played a crucial role in showcasing various property options, addressing customer queries, and facilitating smoother transactions, alongside driving overall engagement. Face-to-face meetings and property events were soon replaced by teleconferencing, webinars, and virtual property exhibitions.

The time was also marked by a growing proliferation in augmented reality, virtual reality and 3D rendering-based technologies that allowed buyers to view, explore, and learn more about upcoming properties in the comfort of their homes.

This has also been a boon to discerning international home buyers to know and learn more about properties and eventually make their decisions without the need for actual visits. Innovations and technologies have largely bridged the market gap.

Similarly, it will continue to play a major role in attracting NRI attention towards Indian properties. While RERA has given them confidence, technologies have made it easy for them to participate conveniently in the property market, learn about various property options, get their queries addressed, and eventually make the final decisions.

NRI INVESTMENTS IN INDIA IN FY 2021

NRI investments in India have gone from strength to strength in recent years. In FY 19, NRI investments reached USD 11 billion, which jumped to USD 12.5 billion in FY 20. In FY 21, the total inflow from the NRI quarters reached USD 13.3 billion. (Interestingly, it has inched up against the earlier estimates of USD 13.1 billion).

In the 1st quarter, the numbers shrank by 35% due to the worldwide lockdown that triggered a massive panic. The sharp slowdown in economic and business activities integrated with the full-blown medical crisis weighed badly on the NRI investment sentiments.



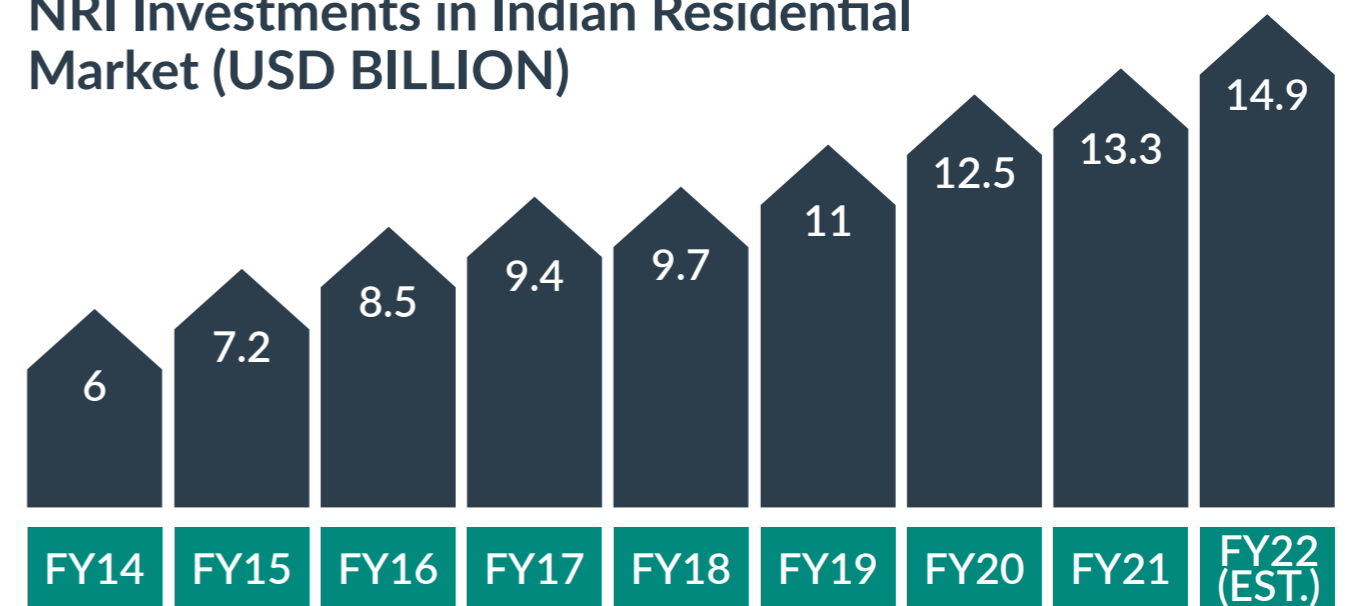
However, the situation improved significantly in the 2nd quarter, as numerous attractive payment plans started luring NRI buyers.

This was also a time when liquidity infusion by the GOI helped in improvising the overall economic climate as well as lowering the home loan rates.



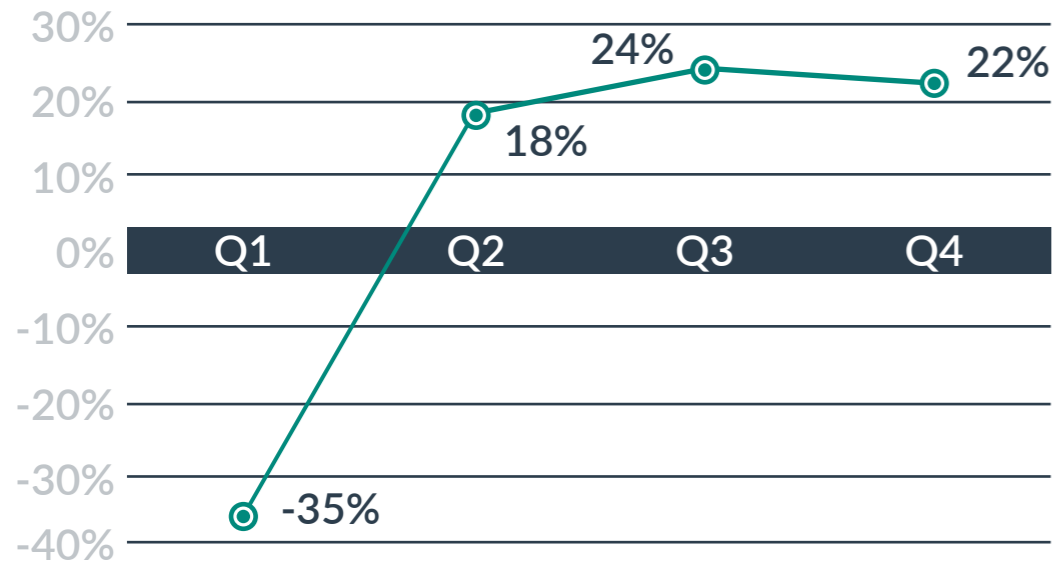
NRI buyers started realizing that the time is opportune to purchase a property in India. There were plenty of attractive payment plans in the market. The dip in the value of the rupee further gave the impetus.

NRI Investments in Indian Residential Market (USD BILLION)



Investments from NRI source markets continued in Q3, climbing by 24% yearly. During this time, states like Maharashtra and Karnataka reduced their stamp duty, which acted as a force multiplier for NRI investments alongside renewing optimism in the domestic market.

Quarterwise change in NRI Investments yeh (FY 21) compared to previous year



In the current FY, the investment volumes are set to rise fast backed by favourable investment conditions and evolving macroeconomic metrics.

In a time which has been marked by fatigue in the stock and bond market and despite healthy moderation in the economy, the market-induced uncertainties are far from over, interest towards tangible assets such as Real Estate is bound to rise.



Indian Real Estate is no more as attractive an investment option as it was during the beginning of the last decade.

The time of double-digit growth rates is over as the rate of appreciation has decelerated.

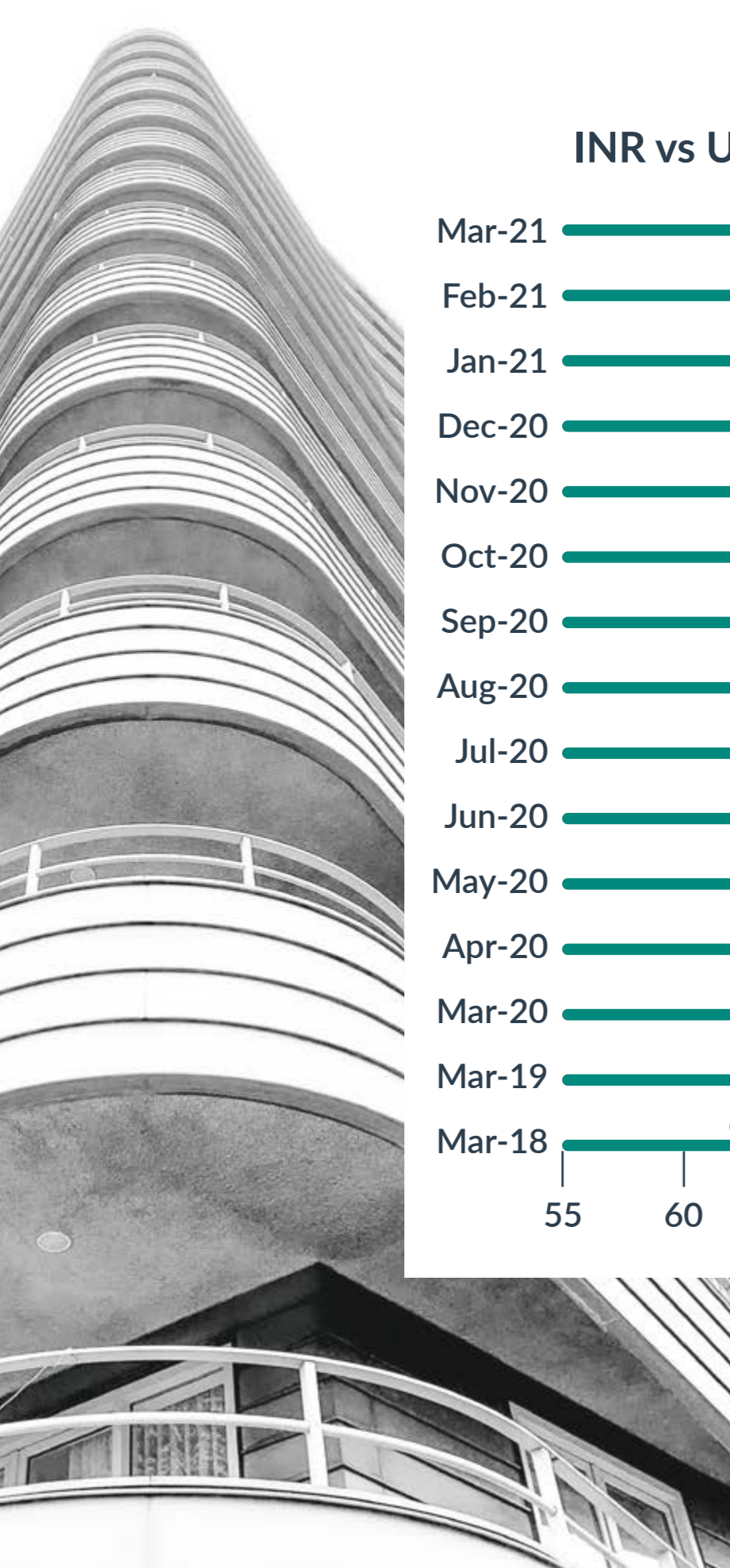
However, investment in Real Estate still can offer prudent returns in addition to smart rental income.

Moreover, it is a tangible asset and is risk-averse, which further makes it an attractive proposition for invest capital.

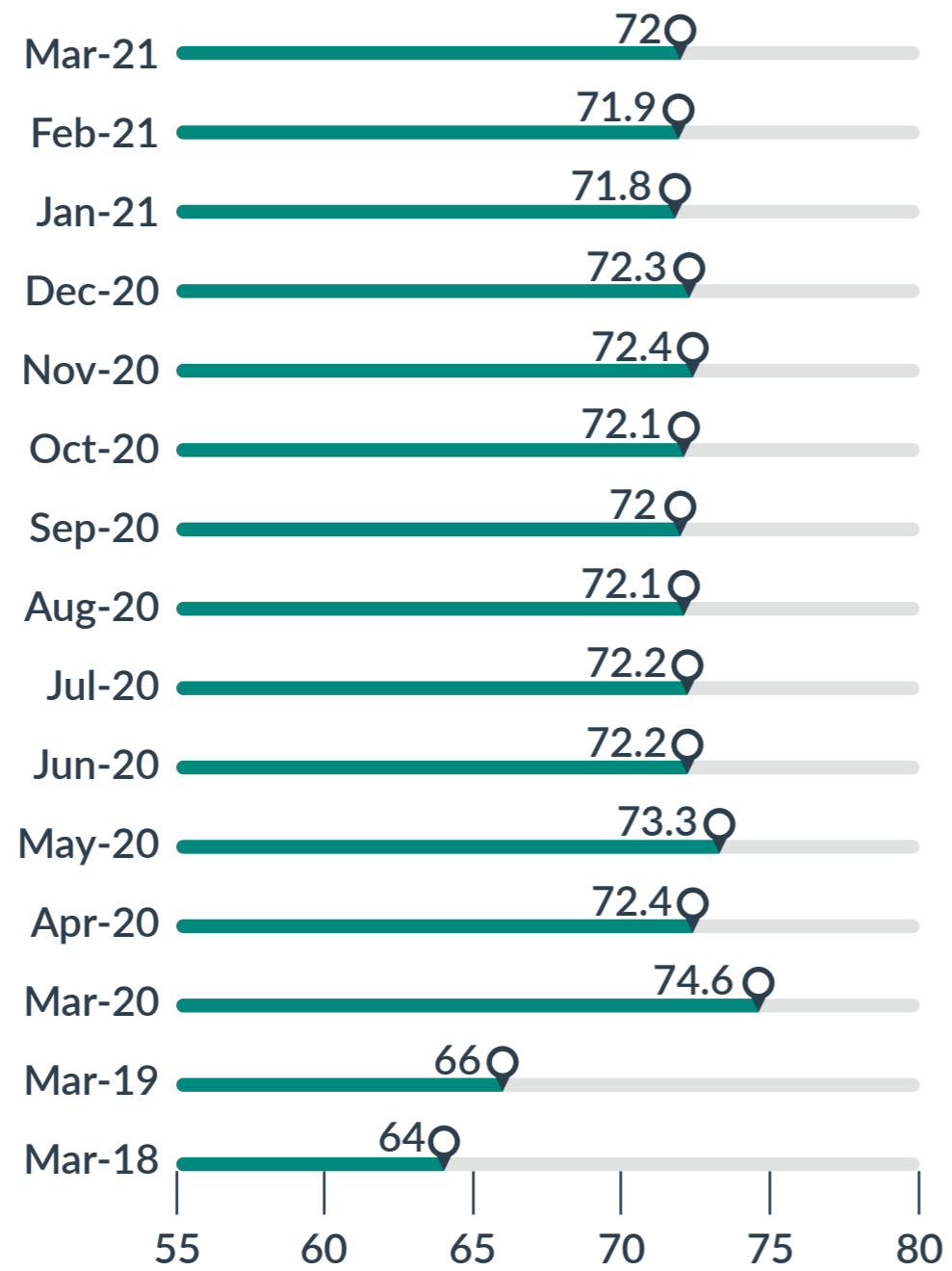
NRI buyers will also understand the significance of Real Estate from an investment point of view and hence will continue to pour money into the sector.

NRI investments in India are also gaining a lot of momentum due to the correction in the value of the Indian rupee against international currencies.

A depreciated value of the Indian rupee is giving great impetus to expat buyers to buy properties.



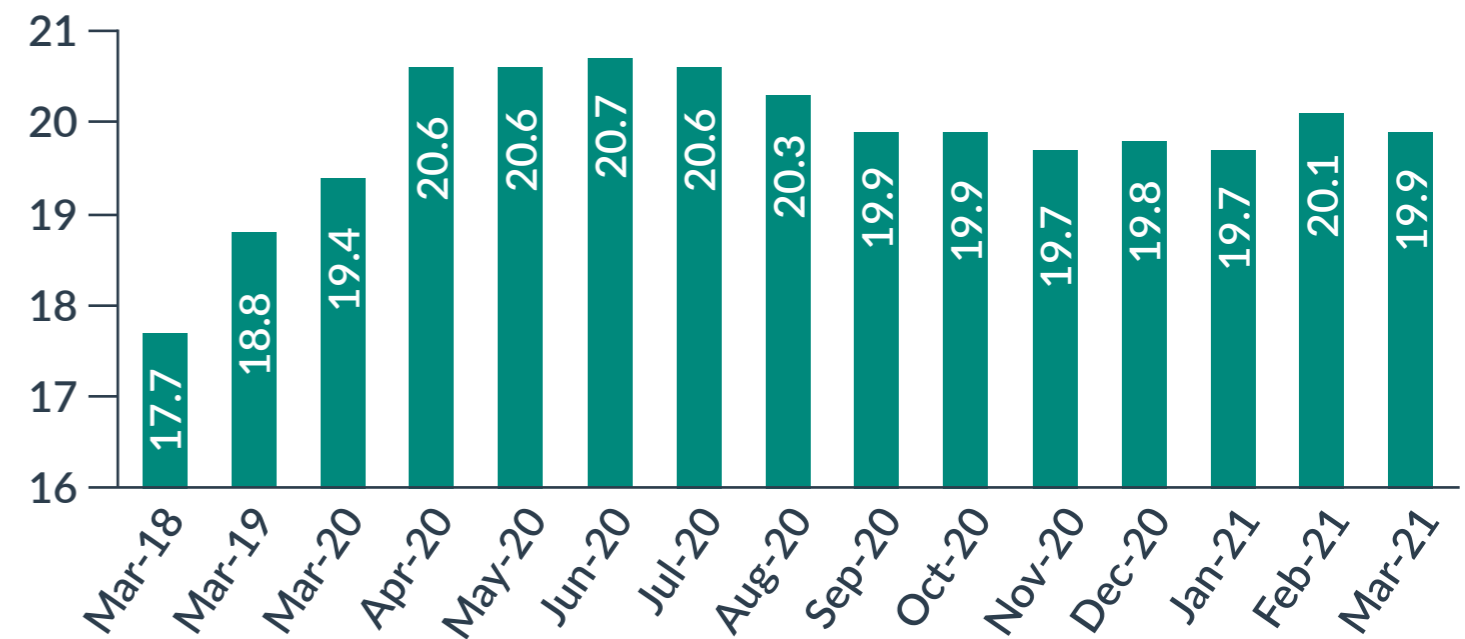
INR vs USD



As seen in the graph, the value of INR has reduced by more than 13% on March 20, when compared to a year before. The decline in the value is further steeper when compared to figures on March 18.

This has been a huge motivation for the discerning international buyers, as any correction in the value of the rupee translates into direct discounts for such home buyers.

INR vs AED



Average Ticket Size of INVESTMENTS

An interesting phenomenon in the current FY has been a rise in average ticket sizes of investments. Similar sentiments have also been chronicled among domestic buyers.



ATTRACTIVE PAYMENT PLANS

AND HEALTHY MODERATION IN ECONOMY

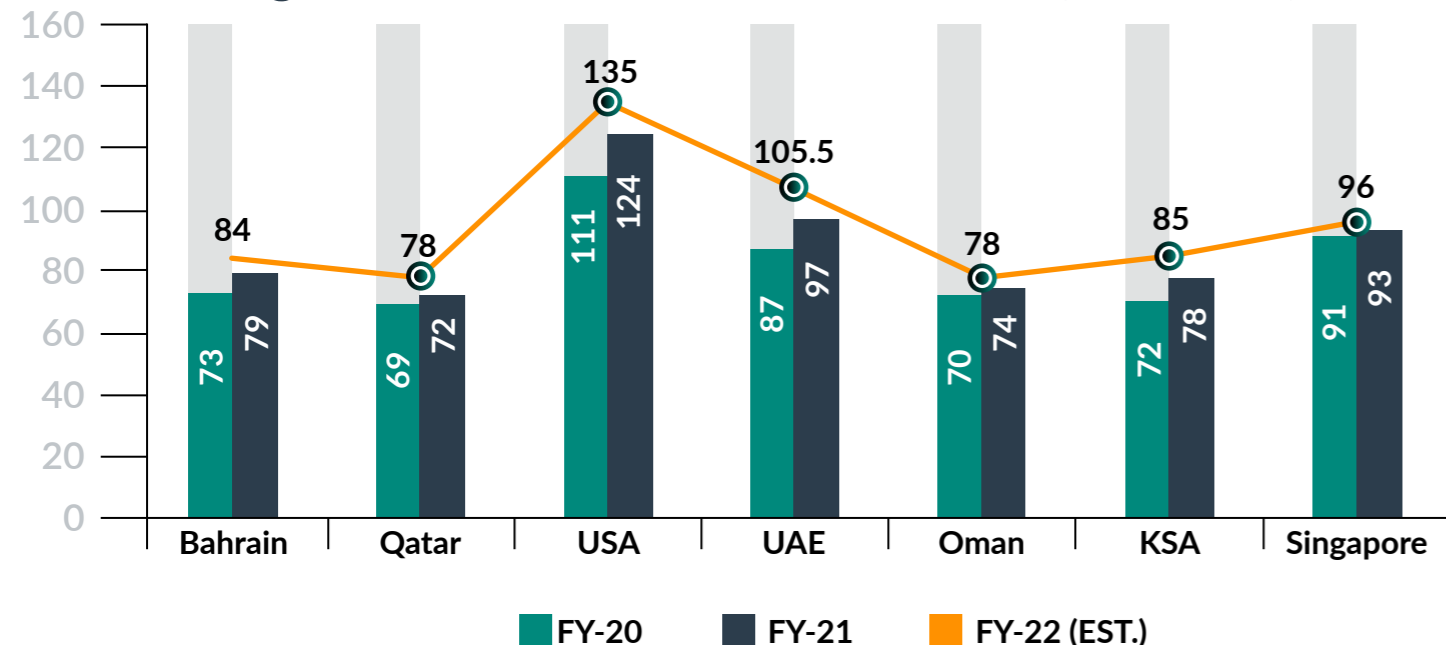
In the foreseeable future, NRI investments in Indian Real Estate will continue to move in an upward trajectory. Numerous other key factors are fuelling the uptrend besides favorable policy frameworks, a dip in the value of the rupee, and Real Estate's reputation as an asset class that de-risks investments.

Mostly, it has been seen in the past that ticket sizes of purchase have dipped for NRIs due to preference for smaller residential units comprising studio, 1 BHK, etc. However, post-pandemic many buyers are now looking for personal use and hence opting for bigger units. Consequently, the demand for luxury properties along with bigger units in suburban areas has also increased, thereby moving the average ticket sizes upward.

India will continue to be one of the bright spots in the global economy and this will continue to give a positive push to its Real Estate industry, which constitutes around 8% of the GDP. It is believed that after witnessing a dip in the last year, the economy is set to expand aggressively in FY 22. Amidst a stable macroeconomy, the expat community will try to make safe investments in the market and de-risk their investments from any possible future shock in the global market.

The buoyancy in the market will also be catalysed by various attractive payment plans by property developers. There are numerous attractive payment plans by the developers such as 10:90, 5:95:5, 20:80, assured rentals, etc. where one has to make a small initial payment to book homes and the remaining could be paid afterward with a lot of conveniences. Additionally, developers are also floating numerous discounts & offers such as free parking charges, clubhouse charges, modular kitchen and furnishing, gift items, etc. which will also incentivize sales.

Avg. Ticket Size of NRI Investments (USD 000)



RESEARCH METHODOLOGY



Besides Bangalore, which has traditionally been the bastion of NRI investments, cities in Maharashtra such as MMR and Pune will also pique a lot of interest. The state of Maharashtra has reduced the stamp duty charges which has played a major role in the market revival. Recently, the construction premium has been reduced for developers by 50%, provided they pay the stamp duty on behalf of the buyers. ”



This is a major benefit for the buyers as not only the stamp duty charges will be discounted but also a further cut in property prices may be expected. Construction premium generally constitutes 12-15% of the property charges and even if 3% of the stamp duty is paid on behalf of developers, there will be additional headspace of 4-5% for the price cut.

As an Institutional Channel Partner (ICP), 360 Realtors holds a dominant position in the NRI market space. As a dominant ICP in the international market, the company has access to a tremendous amount of the latest data, trends, and insights in the NRI market.

Each year the company compiles the NRI report that tracks key metrics such as investment inflow analysis, average ticket size assessment, country-wise ticket size study, etc. Through a regression-based futuristic model, investment inflow from the NRI quarter for the subsequent financial year is also calculated.

Besides consolidating the company's thought leadership in the NRI Space, 360 Realtors' research report can render a lot of actionable insights and data to home buyers, governing agencies, research and media houses, other brokerage houses, etc.

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