

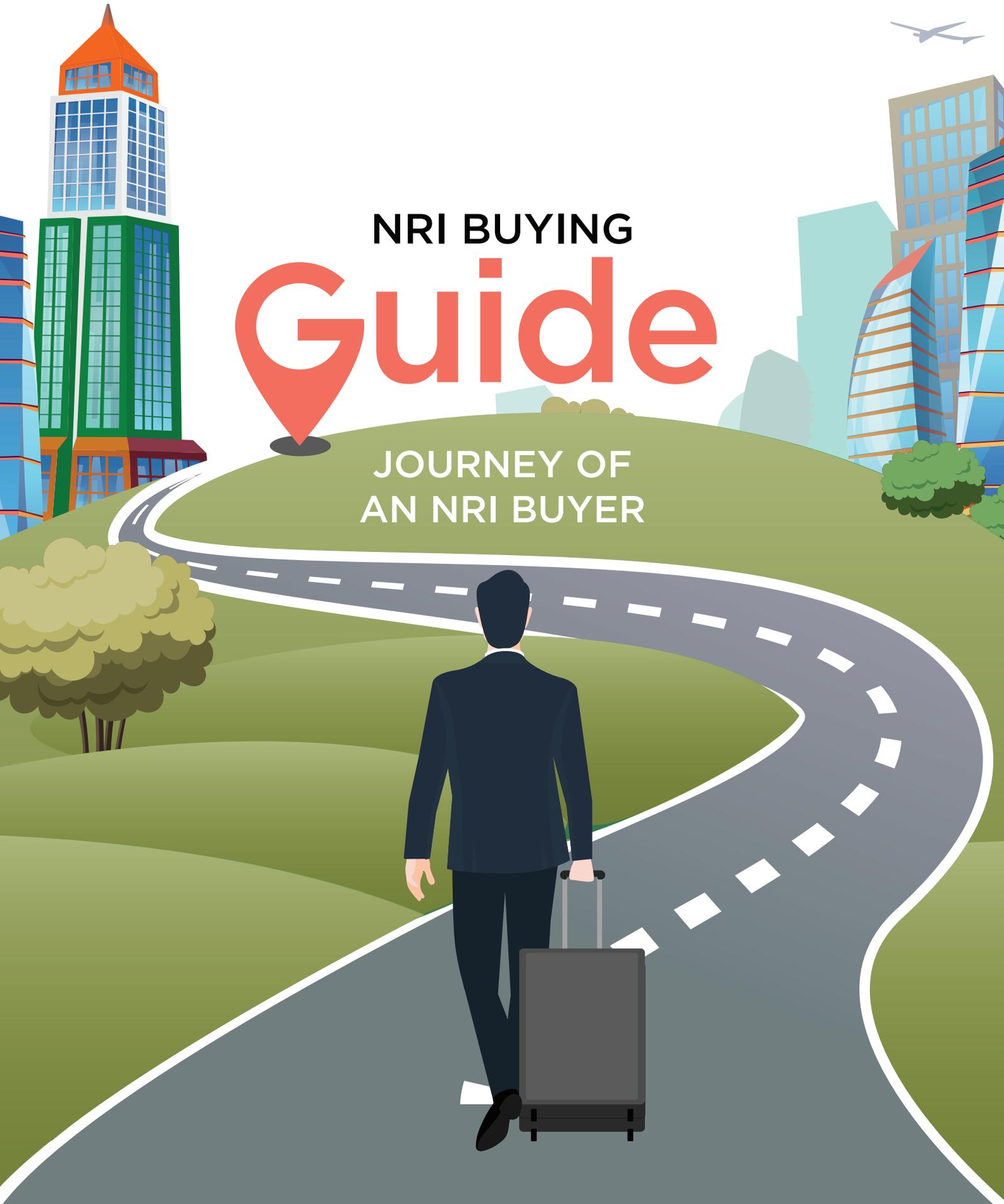
ANAROCK

VALUES OVER VALUE

NRI BUYING

Guide

JOURNEY OF
AN NRI BUYER



Foreword

NRIs have invested in property in India due to multiple reasons including a new reformatory environment, the depreciating rupee value against dollar and their preference to invest in the country of their origin. Real estate investment in India also serves other purposes for NRIs such as return on investment and securing their retirement plans. With laws now allowing 100 per cent FDI (foreign direct investment) in construction development and roll out of GST and RERA, the sector is set to receive major investments along with greater transparency and better governance.

From 2000 to 2014, NRI investments in Indian real estate reached substantial levels of 10-18 per cent annually. The 'good old days' of reaping fast and massive profits from real estate have given way to more realistic expectations on the returns on investment - ranging between 8-12 per cent annually. That said, affordable housing is the flavour of the season and for investors there is no better time than today to grab a pie of this segment. Affordable Housing is likely to fetch the highest returns in the long-term (almost 8-10 per cent annually) amongst all others considering that there is immense activity in the segment.

NRIs have traditionally parked their investment in high-end luxury properties back home that match their international lifestyle and generate sizeable rental income. They usually choose reliable and transparent developers and prefer their home state or city. However, in recent times, their focus has shifted to affordable and mid-segment housing for higher rental yield and better long-term appreciation. The implementation of the Real Estate Regulation Act (RERA) has proved to be the catalyst in influencing the buying decision for NRIs and given them the confidence in projects registered with RERA.

Yet, many NRIs still have many doubts and questions related to various aspects of purchasing a property in India and are looking for help on matters such as home financing, taxation, paperwork etc. We have attempted to answer these questions in our NRI Buying Guide that offers simple guidelines for a smooth and hassle-free property purchase.

We hope this guide will provide valuable insights to NRI buyers and simplify their journey of buying property in their homeland.



Anuj Puri
Chairman, ANAROCK Group

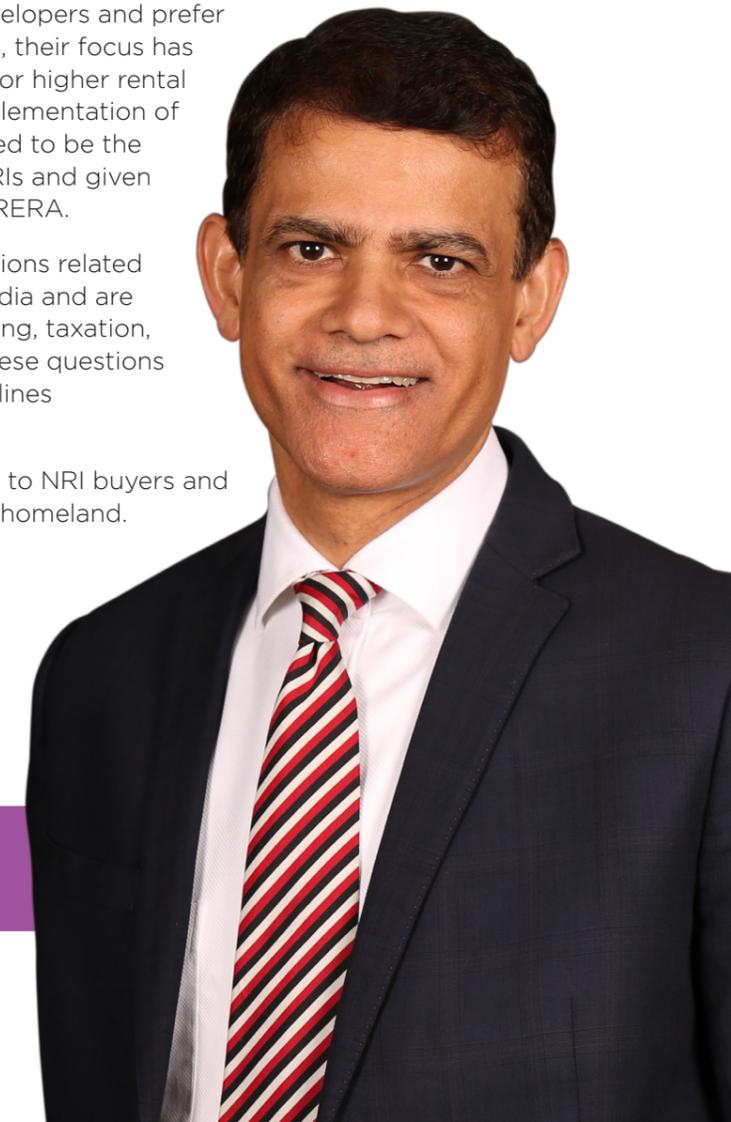


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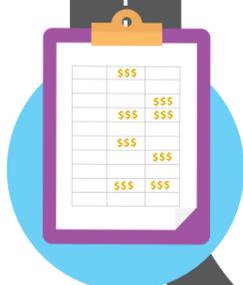
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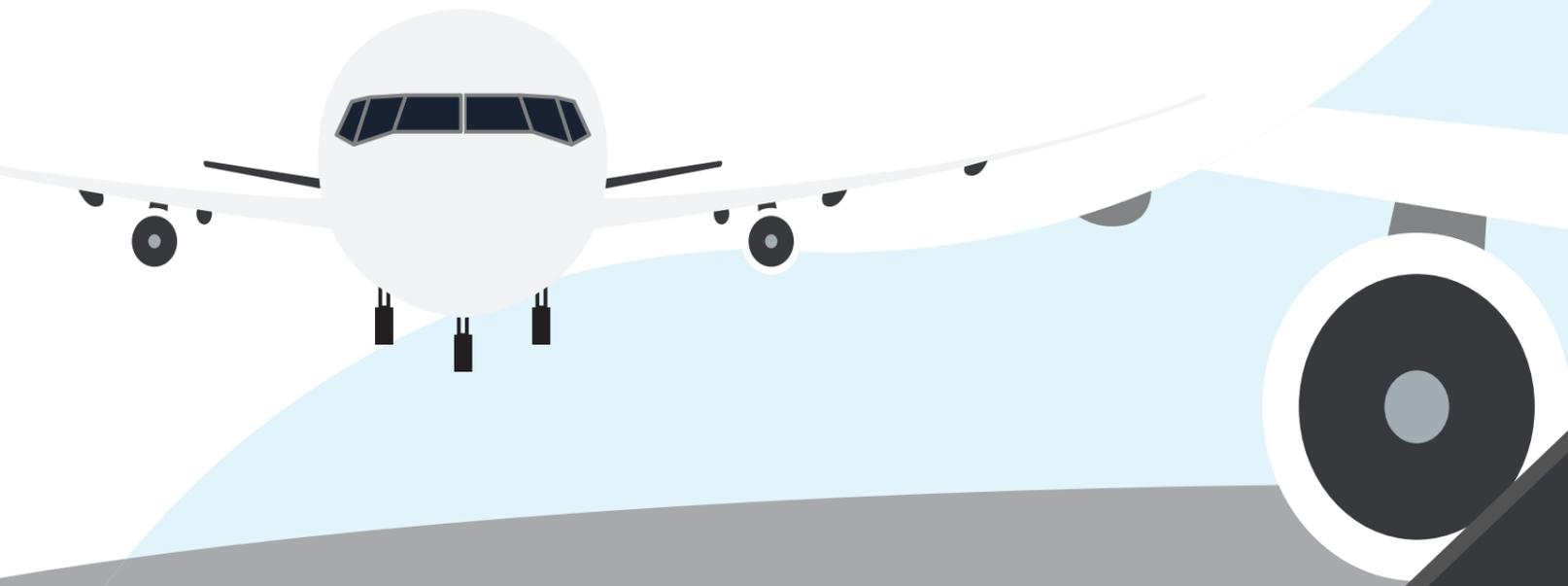
Chapter 1

Eligibility to Buy

This chapter will help you:

- Decode FEMA
- Understand Eligibility to Buy
- Comprehend Joint Ownership

Whether you are a resident of India or a Non-resident Indian, purchasing property is a complex process and depends on several financial, emotional and practical factors. Away in a foreign land, you nurture the dream of owning a place to call home in your native country. But you are confronted by a dozen questions about how to buy property, what kind of property to choose and when to take this major decision. This chapter offers simple answers to many such complex questions to help you make informed decisions.



Understanding FEMA and its implications

Real estate transactions by NRIs fall under the purview of the Foreign Exchange Management Act (FEMA) and it empowers the Reserve Bank of India (RBI) to frame necessary regulations for sale and purchase of properties by NRI. The guidelines of FEMA apply to the type of purchase and sale of property by an NRI, payment of property acquisition as well as repatriation of sale proceeds of the property.

Who am I? What am I eligible to buy?

As a Non-resident Indian (NRI), Person of Indian Origin (PIO) or foreign national you may be curious about your rights to purchase property in India and what kind of purchase are you eligible for. Firstly, let's understand what defines an NRI, PIO or OCI.

Non-resident Indian (NRI)

An Indian who hasn't resided in India for 183 days or more and is residing in a foreign country is commonly referred to as an NRI. The term NRI is legally defined under the Foreign Exchange Management Act (FEMA), 1999 and the Income Tax Act, 1961. FEMA defines an NRI as a citizen of India who either resides outside the country or is a person of Indian origin (POI) and doesn't reside in India for at least 183 days or more. Section 6 of the Income Tax Act lists a detailed criterion of who is considered as a resident and anyone who doesn't meet these criteria is an NRI. An individual is deemed to be NRI under Income Tax Act if:

1. He/she is not in India for a period of 182 days or more in that year; or
2. He/she is not in India for a period of 60 days or more during the previous year and 365 days or more during four years preceding that year.

Person of Indian Origin (PIO)

A Person of Indian Origin (PIO) would be a foreign citizen (except a national of Pakistan, Afghanistan, Bangladesh, China, Iran, Bhutan, Sri Lanka and Nepal):

1. Who has at some point of time held an Indian passport; or
2. Who or either of their parents/ grandparents/ great grandparents was born and permanently resident in India as defined in Government of India Act, 1935; or
3. Who is a spouse of a citizen of India or a PIO

Overseas Citizen of India (OCI)

An Overseas Citizen of India (OCI) would be a foreign citizen, who was eligible to become citizen of India on 26.01.1950 or was a citizen of India on or at any time after 26.01.1950. A person is eligible to register as an OCI if he belonged to a territory that became part of India after 15.08.1947. The minor children of such a person can also register as OCI. But any person who has once been a citizen of Pakistan or Bangladesh is not eligible for OCI.

Rights and Restrictions to Buy Property

Now that we have understood the various categories pertaining to NRI buyers, here's a look at your rights and restrictions to buy property:

NRI holding Indian passport



Rights

- Can purchase any property whether it is residential or commercial in India.
- Can receive immovable property as a gift from Resident of India, NRI or POI.



Restrictions

- Cannot acquire agricultural land but can acquire the same by inheritance or eligible to possess, if acquired before acquiring NRI status.
- Not eligible to receive agricultural land as a gift.

Person of Indian Origin (PIO)



Rights

- Can purchase, acquire through inheritance, receive as a gift, dispose, or hold any immovable property in India.



Restrictions

- Cannot buy agricultural lands, farmhouses and plantation properties.



Foreign national of non-Indian origin



Rights

- Citizens of Pakistan, Bangladesh, Sri Lanka, Afghanistan, China, Iran, Nepal, Bhutan, Macau, Hong Kong or Democratic People's Republic of Korea (DPRK), cannot acquire property in India without prior permission of the Reserve Bank, except on lease, not exceeding five years.
- Foreign nationals of non-Indian origin who are resident in India (except the 11 countries listed above) can purchase immovable property in India.
- Foreign nationals of non-Indian origin resident outside India can inherit property from a resident of India.



Restrictions

- Cannot purchase any immovable property in India on a tourist visa.
- Cannot buy immovable property jointly with NRIs and PIOs.

Foreign national of Indian origin

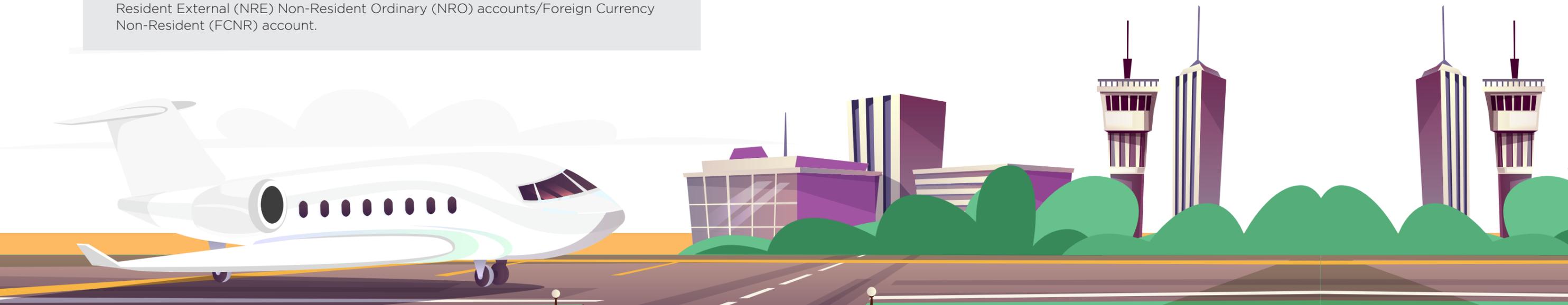


Restrictions

- RBI permission required to acquire, dispose, hold or transfer immovable property by sale or inheritance.
- Permission applicable only if the purchase is for bonafide residential use and if payment is remitted through normal banking channels in India or through Non-Resident External (NRE) Non-Resident Ordinary (NRO) accounts/Foreign Currency Non-Resident (FCNR) account.

Minimum/Maximum Amount Permissible for Investment

There is no restriction as to the number of residential or commercial property an NRI can purchase in India or even on the amount for a property in concern. If the investment is made in residential or commercial property, they are not required to intimate RBI about such a transaction.



Joint Ownership with another NRI, PIO or Resident of India

NRIs are entitled to joint ownership for properties purchased in single name or jointly with any other NRI. They can also purchase properties jointly with relatives in India. However, an NRI or a PIO cannot buy a property in India jointly with a foreign citizen.

The spouse of an NRI/OCI who is not NRI/OCI may acquire one immovable property (other than agricultural land/ farmhouse/ plantation property), jointly with his/ her NRI/ OCI spouse subject to the conditions laid down by FEMA.

Investment by Overseas Company/Subsidiary Company Owned by NRI

The real estate sector in India is eligible for 100 per cent FDI (Foreign Direct Investment) under the automatic route in the construction development segment, which includes townships, housing, built-up infrastructure. This means an overseas company or subsidiary company owned by an NRI is free to make an investment in Indian real estate.

Accepted Modes of Payment

According to FEMA regulations, payment for immovable property has to be received in India through banking channels and is subject to payment of all taxes and other duties/ levies in India. The payment can also be made out of funds held in NRE/ FCNR(B)/ NRO accounts of the NRIs/ OCIs. Payments should not be made through travelers' cheque and foreign currency notes.



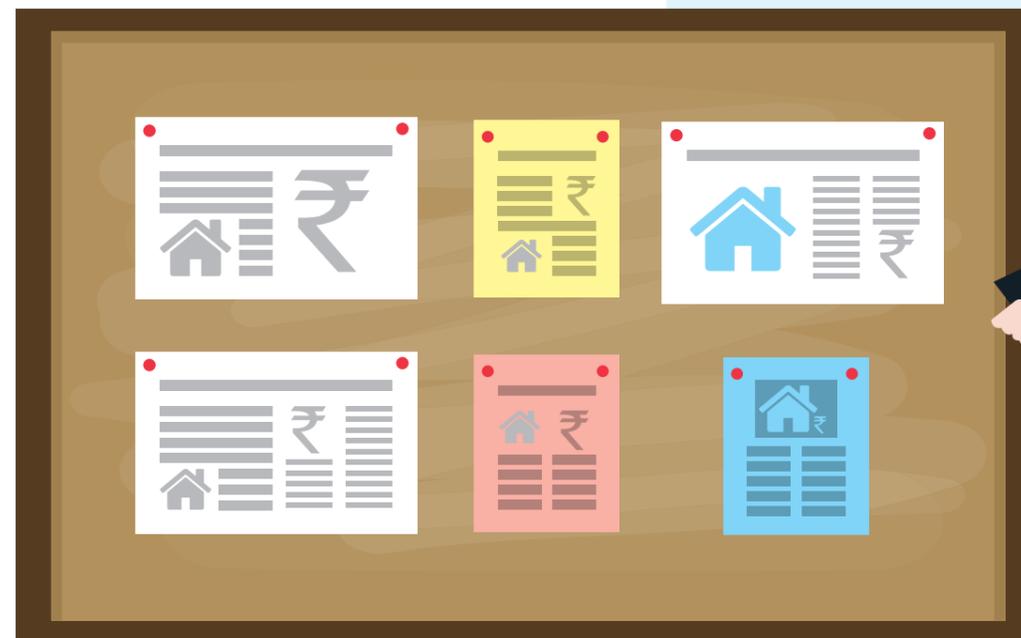
Chapter 2

Financing the Home

This chapter will help you:

- Understand Home Financing
- Calculate the Cost of a Home Loan
- Choose the Right Payment Plan

Just like resident Indians, NRIs are also free to invest in any number of properties in India and are also eligible to avail home loans for as many of these properties. There is no cap on the number of properties for which an NRI can avail home loan but certainly his repayment options are weighted and measured by most banks in concern. In India, most banks and non-banking financial institutions offer home loans to NRIs. Home loans can be availed for any property ready for possession or under construction, construction of property on an owned plot or for alterations to the existing property. However, the tenure of the home loan may vary, and the rate of interest is usually higher for NRIs.



Qualifying for a Loan

Taking a loan isn't as simple as asking for one. You have to qualify for a loan before you get even a single rupee from the bank. Here are the basic prerequisites you should meet so that you can finance your home with ease.

Eligibility Requirements

Any NRI can apply for a home loan as long as he/she is capable to repay the loan and meets the eligibility requirements that may vary a little from bank to bank. However, most banks follow these basic guidelines:

- **Age:** Applicant should be minimum 18 years and maximum 60 years of age. This age limit may differ between banks. For instance, Axis Bank lists 24 years as minimum age for NRI applicants.
- **Job Tenure:** Applicant should have been employed abroad for at least two years or should be serving a valid job contract abroad for a minimum period of two years.
- Applicant needs to open an NRE/NRO account.

Loan Amount Eligibility

Most banks will decide an NRI's loan amount eligibility depending on their income and credit history. Different banks set different income limits, and this may also vary for the country of residence. For example, \$24,000 a year is often set as the minimum income level for NRIs based in the US.

Some banks may allow NRIs to club their spouse or sibling's income with theirs to improve eligibility. However, some banks only consider the principal borrower's income. It's important to have a good credit history and high credit score as many banks insist on checking the credit report in the country of residence and India.

Documents Required for Availing Home Loan

- ✓ Valid passport and visa documents – for know your customer (KYC) exercise.
- ✓ Permanent address proof in India.
- ✓ Appointment letter, work experience certificate, work permit and contract of employment from the current employer in the concerned country.
- ✓ Salary pay-slips and statements of NRE/NRO accounts supporting these.
- ✓ Foreign land address proof, verified by the current employer (could be over mail as well), along with the tax return statements from the concerned country.
- ✓ A valid qualification certificate to pass eligibility criteria.
- ✓ General Power of Authority (GPOA) duly notarised.

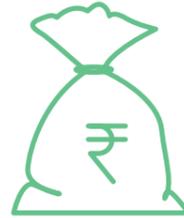
Applying for a Loan with a Co-applicant

A co-applicant is someone who applies for the loan along with you. The primary purpose of having a co-applicant on board in applying for a loan is to improve your chances of meeting the eligibility criteria. If you're wondering how that's possible, it's simple – your income and credit history is considered in combination with that of the co-applicant. Naturally, your loan application will be much stronger, and you can avail a bigger loan and consequently buy a bigger house! The co-applicant will also receive tax benefits along with you.



Costs of Taking a Home Loan

You must identify the different types of charges related to home loan processing. The charges of home loan processing are different for each bank. Depending on the cost, you can decide on a bank that charges you the least possible, in addition to other important features and costs like interest rates.



Here are the different costs associated with home loans:

- **Processing fee:** It is paid at the time of applying for a loan. It could cost you anywhere from a few thousand rupees to a certain percentage of the loan amount.
- **Administration fee:** To be paid at the time of loan disbursement. It ranges from 0.25 to 1 per cent of the total loan amount sanctioned.
- **Credit report expense:** This expense may be borne by the bank and part of the processing charges.
- **Legal evaluation fee:** This fee is for what you pay towards legal evaluation and verification of the property.

Closing Costs: All these costs are combined and called closing costs. Generally, these costs are to be borne by the buyer, unless the seller offers to pay them for you. Closing costs often amount to anywhere from 2 to 5 per cent of the home loan amount.

You can obtain a rough estimate of your closing costs using an online closing costs calculator. Several banks and real estate agencies provide such calculators online. Using them will give you a better understanding of how much money you'll need to save up as closing costs.

Choosing the right home loan

If you're confident of availing a loan and paying it back within the stipulated time, the next step is finding a loan that suits you best and brings maximum benefits. Interest rates and EMI policies can differ from one bank to another.

As an NRI, it makes sense to start searching for basic information on the web. You'll find a number of resources such as bank websites that give sufficient preliminary information. Let's take a look at some factors that you should keep in mind while searching for the right loan:

Types of Interest

There are primarily two kinds of interest that you should look out for, namely fixed and floating interest.

Fixed Rate: Fixed interest is calculated in a straightforward way and means that you'll pay a fixed instalment throughout the repayment period. If you're someone who doesn't like surprises, earns a fixed monthly income, can't afford to pay higher EMIs, and understands that interest rate is currently low, you would naturally opt for a fixed interest. A fixed interest rate tells you exactly how much you have to pay as instalments, and you can thus plan your finances accordingly.

Floating Rate: This rate of interest is not constant and changes according to market conditions. Floating rate usually work out much cheaper than fixed interest rates, by 1-2.5% in the short term, but they can go either way in the long run.

Fixed-Cum-Floating Interest: When it comes to picking a type of interest, you don't have to choose one or the other. Banks today, also have the option of a combined fixed-cum-floating interest. Such a scheme would have you pay a fixed interest for the first few years, say 3-6 years, and then start paying floating interest.

How Interest Rates Vary

The interest rate charged by the banks is linked with two very important parameters, namely the Repo or Repurchase Rate (RR), as set by the Reserve Bank of India (RBI), and inflation.

Repo Rate: It is the interest rate charged by the RBI on the banks when they approach it for short-term loans. Generally, repo rate is one of the tools that the RBI uses to control liquidity or inflation. If the RBI is charging a higher interest rate on the banks taking loans from it, the interest rate charged by the banks on the people will also be higher.

Base Rate: On July 1, 2010, the Base Rate (BR) was introduced in the Indian world of finance. It is the minimum possible interest rate a bank can charge its customers. This rate is mandated by the RBI and holds at all times except when the government directs otherwise. Simply put, if the base rate for a bank is 8 per cent, you'll never be charged an interest rate lesser than 8 per cent on a home loan you take from that bank.

Loan Tenure and Rate of Interest for NRIs

An NRI usually has to pay a higher rate of interest as compared to an Indian resident. At the same time, the tenure for a home loan to an NRI usually ranges between 5 to 20 years and in only select cases goes up to 30 years for salaried professionals.

The loan amount can start from a few lakhs and go up to crores, depending on how much is the bank convinced of one's eligibility.

Repayment of Loan

According to RBI regulations, NRIs can make the repayment of a housing loan including the down payment only through NRE account/NRO account and the amount must be payable in Indian Rupees only. The repayment EMIs also must be made either through the NRO or NRE account. The RBI directives state "Repayment of loan shall be made by way of inward remittances from outside India or by debit to the NRO/NRE/FCNR(B) account of the borrower or out of the sale proceeds of the shares or securities or immovable property against which such loan was granted."

Payment options offered by Developer

There are various payment options offered by developers to home buyers such as down payment plan, construction-linked payment plan, time-linked payment plan and flexi payment plan. Let's discuss each plan and their pros and cons briefly:

Down payment plan

As the name suggests the payment according to this plan is made upfront. Opting for this plan means paying 10-15 per cent of the property value at the time of booking, another 80-90 per cent within a small timeframe like 45-60 days. The rest of the payment is made at the time of possession. Apart from the balance amount of the cost of property, this amount includes stamp duty, registration fees, property tax, maintenance charges and any other charges of levied by the housing society.



Pros: Down payment plan usually comes with a discount as you are paying a hefty amount at one go to the developer.



Cons: This plan may go awry if there is a delay in construction and delivery of property and recovering money from the developer can be a challenge.

Construction-linked payment plan

This is a plan where payment by the bank is linked to the construction and progress of the project. The bank disburses the amount to the developer on your behalf every time a section of the project is completed. If you opt for this plan you will be required to pay a booking amount of 10-15% of the total cost upfront. The remaining amount is linked to construction milestones and payable at the time of completion of each milestone.



Pros: Considered low-risk as you have to make payments according to the construction progress of the project. This also puts the onus on developers to meet construction timelines and complete the project in a timely manner.



Cons: This could be a costly plan as the interest paid to the bank is stretched over a longer tenure. You may end up paying more to the bank as you have to pay only interest till the property is under construction and make principal repayment after possession.

Time-linked plan

This plan follows a pre-decided timetable for payments by the buyer and is not dependent on construction progress.



Pros: The developer may offer you a 8-10% discount for choosing this plan. This plan is often less risky than the down payment plan as the entire amount is not paid upfront and spread out over a longer period.



Cons: Such plans have lost favour with buyers because they run the risk of construction delays. You will be bound to pay instalments even if the project is stuck or delayed.

Flexi payment plan

This is a popular payment plan as it marries the benefits of a down payment plan and construction-linked plan. You will be expected to make a sizeable payment (almost half) at the time of booking and within a short period after that. The remaining amount is paid as the construction of the project progresses.



Pros: This plan is an ideal combination of down payment and construction-linked plans and can fetch you a decent discount.



Cons: This plan may be costlier than a construction-linked plan as you are liable to pay interest on almost half the amount from the first year.



Chapter 3

Finding the Right Property

This chapter will help you:

- Find the Right Location
- Choose Your Developer
- Pick the Right Agent

A property is much more than an investment for an NRI and a home in the native land always holds a special connection. But searching for a property that fits your needs and desires perfectly can be quite challenging and tedious, especially if you are not present in the country of its location. Having said that, thanks to internet-enabled property portals and real estate agents you can still find the property of your choice sitting thousands of miles away.



Exploring the Real Estate Market

The first step towards finding the right property is to get a macro view of the city of your purchase. Read up reports on the current price points, promising locations and projects and prospects of residential properties within the city.

Other search tools such as newspaper classifieds, online property sites and the websites of builders and developers can also help you get information about promising projects.

Suggestions from friends and relatives who have recently invested in real estate can also be of great help. You can seek the services of local real estate agents, provided you are prepared to pay a small percentage of the price of the property as the commission.

Online Real Estate Market

With increasing internet access and proliferation, millions of people today search for properties online. Real estate portals are instrumental in finding the right property have turned into a useful search tool for NRIs. Here's how property portals help NRIs find their dream homes:

- One-stop destination with data-backed analysis of each micro market and property.
- List of verified properties with real photos and videos.
- Map-based search to locate nearby hospitals, schools, parks, ATMs, malls etc.
- Virtual 3D tours with a 360-degree view of surrounding areas.
- Information on builders' track record along with past, current and upcoming projects.
- Assistance in legal aspects of purchase without charging any commission.



Investing in the Right Location

Property is all about location, location and location. This point cannot be overemphasized when you are scouting for residential real estate. As an NRI, you may not occupy the property, but the right location and locality will increase its rental income and capital value. Hence, it's imperative to do your due diligence regarding the location of the project as well as the surrounding locality. From the presence of physical and social infrastructure to good connectivity, proper roads and easy access, look out for these crucial factors while looking for property:

1. Connectivity

When it comes to zeroing in on a residential project, connectivity features high on an NRI's 'look out' list. Here are some important factors to consider when judging a property's connectivity:

- Ensure that it is easily accessible from major parts of the city and is well connected by public and private transport.
- Measure the distance from the city's major parts to the location of the project with map-based tools.
- Research the locality and the area's master plan well and take stock of current public transport options such as metro, bus and monorail.
- Look out for future connectivity plans like a proposed metro line or an expressway around the locality.



2. Proximity to offices

Any residential project's proximity to offices is significant to appeal to prospective tenants and buyers. Remember that projects in the vicinity of IT parks, corporate offices and commercial hubs attract tenants and can fetch you high rental income. If you ever consider selling your property, proximity to office spaces can help you fetch an attractive price.



3. Local Infrastructure

The infrastructure in and around a residential property plays a vital role in deciding its current and future value. For NRI buyers, it's vital to carry out due diligence into the various facets of local infrastructure. Look out for the following points while assessing the infrastructure around a residential project:

- The roads connecting to the society and the in-roads within the society should be well-built and maintained.
- Check for the hardness of the water in the area; also ensure that the TDS (total dissolved solids) count of the water is within the acceptable limit of less than 500 ppm (parts per million).
- The sewerage system and garbage disposal system should be systematic.
- Take stock of the power situation and load shedding in the area.



4. Access to Social Infrastructure

Complimenting the physical infrastructure of any area is the social infrastructure surrounding it. Whether you buy the property for investment or a second home, keep a close eye on the presence of hospitals, schools, colleges, malls, parks, theatres and entertainment options. Proximity to high-quality medical care is vital if your elderly parents are likely to occupy your home.



5. Security

Security in and around the residential property of your choice is non-negotiable. Even as you judge the property by its external appearance and amenities, don't lose sight of the security arrangements. Here's a list of security features to look out for:



- Check if the residential society is secured by a centrally-managed CCTV system.
- Inspect the checkpoints and how tight is the security within the gated community.
- Conduct a thorough research on the incidence of crime and illegal activities in the surrounding area.
- Interact with locals and other residents to understand their perception about safety and security.
- Check if additional security measures have been taken for women, children and the elderly.

6. Future developments in Locality

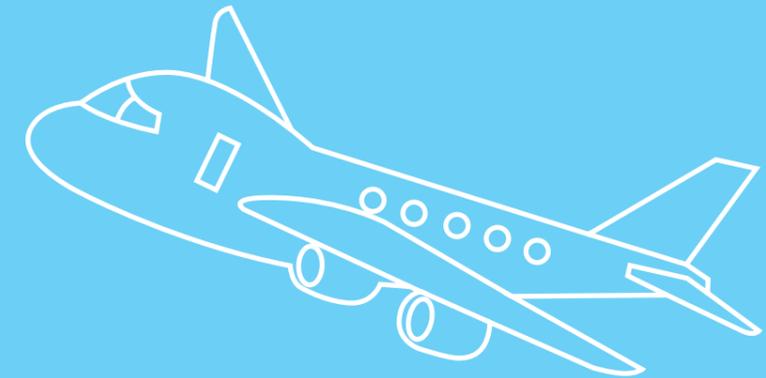
Lastly, a roundup of the future developments in the vicinity can help you make an informed decision and a good investment. Watch out for the following infrastructure initiatives that are likely to help your property's prospects:



- Proposed highway near the project.
- Proposed metro line that will improve connectivity.
- Upcoming industrial developments including IT Park, Special Economic Zone (SEZ) Industrial Corridor, National Manufacturing Investment Zone (NMIZ)

7. City or Suburb?

It's always a personal choice to invest in the city or the growing suburbs as each has its fair share of pros and cons. A lot depends on whether your purchase is an investment or if you are likely to occupy the property. Here's a snapshot of what works for properties in cities and suburbs respectively:



Advantages of city properties

- Proximity to major commercial areas, central business districts and employment hubs.
- Substantial saving of commute time to and from workplace.
- Vibrant social life as city properties are close to high streets, galleries, theatres and museums.

Advantages of suburban properties

- Bigger homes in a greener and more spacious settlement.
- Amenities such as club house, parks, cycling tracks, swimming pool etc. at a lower price tag.
- Lesser traffic and pollution in surrounding areas.



Choosing Your Developer

To zero in on the right project, be prepared to go that extra mile to ensure that you chose a reputed builder with a peerless reputation and good track record. Here are some points to consider while choosing the right developer:

- ✔ **Budget and type of property:** Developers usually cater to the needs of a specific income group and type of property. Determining the builders that offer projects that are within your budget can help you make the most of your property deal.
- ✔ **Market reputation:** Most reputed builders are members of Confederation of Real Estate Developers Association of India (CREDAI) and Builders Association of India (BAI), hence it is highly recommended that one deals with builders who are members of such organizations. You can also check online the number of consumer courts' cases that are pending and solved against a specific builder to get a deeper insight into their track record.
- ✔ **RERA registration:** As a buyer it's your right and responsibility to check if the developer has registered the project with RERA. Also remember that the developer cannot do any kind of marketing, advertising or selling of units before the registration of the project.
- ✔ **Track record:** It's advisable to gather information on the projects that were successfully completed by the builder's firm in the past. You can also ask for references and comments from the buyers who purchased property in the builder's previous projects.
- ✔ **Compensation offered:** In a recent judgement, the Supreme Court said that interest rates should be the same for both developers and home buyers in case of delays. As an informed buyer, you must check if the developer has followed these directives and is fair in his/her dealings.

Choosing a Broker or Agent

A real estate broker or agent is not only your guide but also your partner in the process of buying a property in your native country. The services of a professional and experienced agent can be of immense help in understanding the legalities, formalities and other minutiae of buying a home.

Given below is a step-by-step guide that will help you find the right real estate agent:

- ✔ **RERA registration:** RERA mandates that every real estate agent is registered with the authority and acquires a valid registration number before facilitating any real estate deal. Check if the agent has duly registered with RERA and has completed all necessary formalities.
- ✔ **Familiarity with area:** It is highly recommended that you hire the services of an agent who is familiar with the localities that interest you as a property. An ideal real estate agent is one who is fluent in the local language as well as is fluent in common languages such as Hindi and English.
- ✔ **Market analysis:** Ask prospective agents the methods they will use to find suitable properties for you. You can also ask for a comprehensive real estate market analysis in the specific locality and the details of the recent purchases facilitated by that agent.
- ✔ **Confirm the brokerage or consultation fee:** Last but not the least, check the brokerage charged by the agent and hire his/her services only if you are comfortable paying that much commission.



Chapter 4

Costing and Taxation

This chapter will help you:

- Compute the Cost of a Flat
- Understand Transaction Costs
- Decode Taxation

After finalizing the location and type of property, the next step is to understand its pricing. The price advertised on a property portal or newspaper classified is only indicative and the actual amount paid by you also includes stamp duty, registration charges, taxes and brokerage. It is of immense importance that one understands all kinds of costs involved in the whole transaction before finalizing the deal. Thorough research and due diligence on all kinds of fixed and recurring costs can help you make an informed decision.



Costing of a Flat

To arrive at the final cost of an apartment you must understand the various cost components and charges. Knowledge of these costs will help you to prepare your budget and finances for the final purchase.

Base Sale Price

This is the advertised price that appears in classifieds and is based on the size of the apartment and the rate of property per square feet (sq ft) prevalent in the area.



In addition to the base price of the home, you need to factor in the other costs associated with buying of the house. These costs generally remain hidden and could amount to **20 per cent** of the overall cost. The costs incurred while transacting for an apartment can broadly be divided into two categories: fixed costs and recurrent costs.

Fixed Costs

These costs are fixed and incurred only once at the time of the purchase.

External Development Charges (EDC)

External Development Charges (EDC) are levied by the developer for the development of common amenities like streetlights, roads, sewerage, water supply etc. This should not be ignored while buying a house as this may add up to 10 per cent of the base cost.

Infrastructure Development Charges (IDC)

The government levies Infrastructure Development Charges (IDC) on the builder for the creation of basic infrastructure around the project which may be passed on to the consumer.

Preferential Location Charges (PLC)

Preferential Location Charges (PLC) are levied by the developer when he offers the consumer a housing unit with some advantages over others in terms of location. For example, the apartment may have a sea-facing view from the balcony, or it may have better flooring.

PLC is generally a percentage of the base price and varies as per project, quality, alignment of flat, size, developer etc. PLC on floors differ as per the climatic conditions of the city. In Delhi-NCR, which has dry climate, PLC is higher for the floors closer to the ground while in the humid city of Mumbai, it is higher in case of upper floors and sea-facing apartments.

Car Parking Charges

It is still debatable whether the developer can legally charge for parking, however, these charges have now become common practice. You may be charged Rs. 50,000 – Rs. 1 lakh for a reserved parking spot. The charges also differ for open/covered parking.

Club Membership

Club memberships in the society also add up to a considerable amount in the cost of buying a house. The membership fees may be on a lifetime basis or on a yearly basis.

Recurring Costs

The expenses that are incurred regularly such as maintenance and security are known as the recurring costs. You should consider these costs carefully as paying significant recurring charges may cost much more in the longer term compared to buying a more costly property.

Maintenance Charges

Maintenance Charges are levied on a monthly, quarterly or yearly basis and include the expense incurred on maintaining roads, lawns, streetlights and other common facilities of the society. It may also include the charges for water and electricity backups.

Security Charges

Security charges are the expense incurred on the deployment of security personnel in the compound, creation and maintenance of security arrangements and systems like CCTVs, intercom etc. These charges may be levied separately or may also be included in the maintenance charges.

General Charges and Transaction Costs

Buying a property is only one part of the journey, the final step is to get it registered in your name. An NRI is entitled to pay the stamp duty and the registration fee like any other Indian resident while buying property in any part of the country. Additional charges that may have a considerable impact on your buying budget are stamp duty, registration charges, legal fees, brokerage etc. These charges put together could amount to 7- 10 per cent of the market value of the property. They must be carefully considered while buying a house to avoid any last-minute surprises.

Stamp Duty

Stamp duty is levied by the state government on the documents you need to register your property. It validates the registration agreement and proves your ownership legally in court. Stamp duty varies from state to state and may also differ for men and women. For example, Mumbai has a flat stamp duty of 6 percent, while in Delhi, stamp duty for males is 6 per cent and for females is 4 per cent and 5 per cent in case of joint ownership by male and female. Stamp duty is calculated using the Stamp Duty Ready Reckoner published annually by the state government. Not paying the stamp duty incurs a hefty penalty. The penalty is charged at 2 per cent of the stamp duty per month, up to a maximum of 200 per cent of the stamp duty.

Registration Fee

Registration fee is a fee paid over and above the stamp duty. The purpose of registration is to record the execution of the document. The registration cost comes to around 1-2 per cent of property cost and is paid to the court.

Brokerage and Legal Fees

The standard rate for brokerage paid for a property purchase is between 1-2 per cent and you should be prepared to pay this amount unless you are buying the property directly from the seller or developer. You are also liable to pay fees to a lawyer in case you seek legal help to examine the property's documents and understand other legalities.

Taxation

The Income Tax Act, 1961, and the amendments made to the Act across the years include key aspects of taxation for NRIs. By understanding the scope of the tax exemptions available to you, it's easier to plan taxation matters in the sphere of buying property.

Taxation has also evolved over the years. New taxes are added, and old taxes removed, in lieu of policy changes across time. This makes it necessary for you as an NRI to know all the taxes you have to pay while buying property and update your knowledge on taxation matters, such as tax liability, TDS (tax deduction at source), tax benefits, and special tax provisions.

Goods and Services Tax (GST)

With the enactment of Goods and Services Tax (GST), the taxation system in context of buying property has become relatively simplified and direct. Under the new unified tax regime, taxes such as Value added Tax (VAT) and Service Tax have been subsumed by a single tax - Goods & Services Tax.

Under-construction property

With the GST coming into effect in 2017, real estate was taxed at 12 per cent with input tax credit and eight per cent for affordable homes. The credit on the material used for the construction is known as input tax credit. However, in February 2019, the government revisited the tax slab prevalent on real estate and slashed it to five per cent for under-construction units and one per cent for affordable homes without input credit. Moreover, developers now have the choice to choose the old GST rate with input tax credit or opt for the new lower GST rate without input tax credit.

For projects in which construction started before 1 April 2019, the developer will have the option to opt for the old or new GST rate. However, for projects which started after 1 April 2019, the developer must opt for the new GST rate

Ready-to-move-in property

The good news about ready-to-move-in properties is that they are totally exempted from GST. However, you must ensure that the developer gives you a completion certificate issued by government authorities for such a ready project. GST is still applicable on the sale of ready properties that don't come with a completion certificate.

Tax Deduction at Source (TDS)

TDS stands for tax deduction at source. It's an indirect mode of collecting tax from the taxpayer. The Income Tax Act, 1961 put this provision into place to prevent the recurring phenomenon tax evasion. According to Section 194-IA of the Income Tax Act, 1961, TDS documents must be produced for the transfer or sale of immovable property in order to register your property. The buyer of the immovable property is responsible for deducting TDS.

TDS in a Nutshell

Purchasing from Indian resident	Purchasing from NRI
Properties sold at Rs 50 lakh and above - 1% TDS levied	Properties < Rs 50 lakh - 20.8% TDS levied
	Properties from Rs 50 lakh - Rs 1 Cr - 22.88% TDS levied
	Properties worth Rs 1 Cr and above- 23.92 % TDS levied

Property Tax/House Tax

Property Tax, also called House Tax, is a local tax levied on property, comprising buildings and the land belonging to the property. The authority within whose jurisdiction the property lies, levies the property tax. This tax derives its origins from the fact that property is considered a source of income in India.

The local government, under whose jurisdiction the property lies, is responsible for levying the tax. The money is used for developing basic physical and social infrastructure, in addition to providing civic administration services.

Property tax can only be levied if the property is occupied. Websites of most municipal corporations provide a gateway for paying property tax online

Capital Gains Tax

When you decide to sell the property, you'll have to pay capital gains tax as prescribed under the Income Tax Act. Capital Gains Tax is levied on any profit or gain accrued from the sale of a capital asset, which in this case is your property. Short term property gain is considered when you sell a property held by you for less than 36 months. To avail long-term capital gains benefits you must hold on to the property for over 36 months. Remember that you may be liable to pay capital gains tax in your country of residence if it doesn't have a DTAA with India.

- **Long-term Capital Gains Tax:** The TDS calculation at the time of sale is done at the rate of 20.6 per cent on long-term capital gains
- **Short-term Capital Gains Tax:** The TDS calculation is 30.9 per cent on short-term capital gains

Tax on Rental Income

As an NRI, you are liable to pay tax on rental income accrued from your property located in India. The taxable value of rental income is arrived at after deductions for municipal taxes, standard deduction at the rate of **30 percent**, interest paid on a loan taken for acquisition or construction and pre-construction interest.

Tax Breaks and Exemption

An NRI is entitled to almost all tax benefits related to purchase of property that a resident Indian does.

1. As per Section 80C of the Income Tax Act, NRIs can claim tax deduction on home loans on repayment of the principal amount and can also avail deductions for stamp duty and registration charges paid to purchase the property. The maximum deductions on both these amounts available is Rs 1.5 lakh per annum. However, to claim this benefit, the house should not be sold within 5 years of possession.
2. Interest deduction up to Rs 3.5 lakh for affordable housing (priced <INR 45 lakh) as against Rs 2 lakh earlier is available until March 31, 2020.
3. Under Section 24 of the Income Tax Act, one can claim tax deduction on the interest amount of the EMI up to maximum of Rs 2 lakh per annum for a self-occupied house.
4. If an NRI is availing a home loan to buy his/her first home, he/she is entitled to an additional deduction of Rs 50,000 per annum on the repayment of interest under Section 80EE. However, the loan amount should be Rs 35 lakh or less while the property cost should not exceed Rs 50 lakh.
5. According to Union Budget 2019, an NRI can claim exemption from long term capital gains from the sale of residential property by investing in up to two houses.
6. Earlier, the exemption of capital gains was restricted to only one residential property. The pre-condition to claim this exemption is that the gains from the sale of the property should not exceed Rs. 2 crores.
7. The TDS exemption on rental income has also been pushed from Rs 1.8 lakhs to Rs 2.40 lakhs.



Chapter 5

Legal and Regulatory Aspects

This chapter will help you:

- Get a Grip on Legalities
- Understand Power of Attorney
- Prepare Document Checklist

Buying property in India, whether for end-use or investment, is an elaborate process. As an NRI, you can't just select any property at a cursory glance and attempt to buy it. There are background checks to be run, documents to be collected and legal information to be gathered.

It is always advisable to consult with a lawyer in matters of legal proceedings and paperwork. However, you should also have a basic idea of the legal and regulatory aspects yourself, so that you don't have to rely on your lawyer for everything. Let's take a look at the essential legal aspects before you invest in property:



Understanding Legal Terms

There are several of legal technicalities involved in buying property. It is essential to be completely aware of all the legal and regulatory jargon, so that you can stay on top of the process.

Before buying property, you must make sure that the person or company you are buying the property from, has the authority to sell the property. For this, you must verify the title deed or the certificate of the property. A title signifies a person's collective rights pertaining to a piece of property. It is formally represented by an official document, the title deed.

Types of Property Ownership

A property owner is legally defined as someone who holds absolute and unrestricted rights over property. It may be a person, a group of people or an organization.

There are different types of property ownership. In this guide, we are discussing some of the most important types of ownerships:

Single and Joint Property Ownership

As the name suggests, in single property ownership, a sole benefactor owns the property. In such a case, that one person's consent is enough for the sale or transfer of that property.

In joint property ownership, multiple people co-own the property. Therefore, during a sale or transfer, the consent of all the owners is required for a successful transaction. For this, you must obtain a release certificate from all the other owners.

Freehold and Leasehold Property Ownership

A freehold property ownership provides the owners complete access and freedom over the property to do as they please. The property rights are absolute, undisputed and independent of time. Freehold property owners can sell, donate or gift it by transferring the property rights over, completely or partially, to anyone they want. Freehold property owners of a land also own whatever building or structure is built on the land.

Under leasehold property ownership, the actual owner of the property, or the 'lessor,' allows the purchaser or the 'lessee' to use the property for a pre-determined period.

Power of Attorney for NRIs

As an NRI, you can delegate someone in India to act on your behalf in your property transactions. By the Power of Attorney (PoA), you are bestowing upon your chosen agent, the right to make property transactions in your name. Therefore, you should properly measure your options and only entrust someone reliable with this responsibility.

Most lenders in India require a PoA while extending home loans to NRIs. The logic behind this requirement is that the NRI will be living in a foreign country and the lender would need someone in India to deal with. The PoA comes handy as it enables the bank to have a point of contact on home soil in case of any property or loan-related issue. Usually, lenders insist that the NRI borrowers appoint their parents, friends or children as the PoA-holder.



How to Grant a Power of Attorney



Document Checklist

One of the most important things to do before buying any kind of property is running background checks and examining relevant documents. You must check the following documents thoroughly to get clarity on the title of the property.

Title Deed

The title deed is a legal document proving a person's right to property. As a buyer, you need to check the title deed properly to ensure the authenticity of the transaction.

Things you need to check for:

- The seller should provide you with the original title deed for verification purpose and not a photocopy.
- The title deed needs to be in the name of the seller. You can ask for identification proof as well from the seller to ensure that he is the person who he claims to be.
- Check whether he is the sole owner of the property or not. In case of joint ownership, you will need proper legal approval of all the co-owners of the property.

It is advisable to get the current, as well as previous title deeds properly scrutinized by your lawyer to ensure that there are no loopholes.

Encumbrance certificate

The encumbrance certificate is important because it will prove whether the property you are interested in buying is under any kind of loan or mortgage or not. It is best to get the certificate properly scrutinized by your lawyer to ensure smooth functioning. It is available at the office of the sub-registrar where the land has been registered.

Release certificate

In some cases, the seller had previously pledged the land as a mortgage for taking a loan. You should ask the seller to get the 'release certificate' from the bank stating that there is no pending debt on the land. You should then get this certificate looked over by your lawyer to be sure that the land is indeed debt free.

Approved Plan of the Building

In case you are buying a flat, you should go over the approved building plan drawings. The Floor Space Index (FSI), which is the ratio of building area to land area, generally lies in the range of 1 to 2. You should also check whether the total number of apartments in the plan match with the number approved in the permit.

Building Bylaws

Local authorities issue a set of basic standards, called building bylaws that need to be followed in the building construction. For example, there are always setbacks (minimum distance between the building and the road) to be kept in mind. You should find out all such bylaws and make sure that the building sticks to them. This will avoid problems in the future with the local authorities.

NOC for Urban Land Ceiling and Regulation Act

The Urban Land Ceiling and Regulation Act (ULCRA) prevents excessive land hoarding in urban areas. In some states the seller will need to obtain a No Objection Certificate (NOC) before selling the property. You should ask for this NOC and verify it with your lawyer.

Zoning Laws

It is important to keep the zoning laws in mind. This means that you cannot buy land reserved for residential purpose and build a business on it. There are strict zoning laws according to the Master Plan of the city. A land zoned for a particular purpose cannot be used in any other way.

Occupancy Certificate

The Occupancy Certificate (OC) of a property is necessary if you intend to take a loan from the bank. It is the certificate that claims that the building is complete and ready- to-be- occupied. In case of a bank loan taken for buying an under-construction property, you must remember to get the OC after the building is completed; otherwise, you will face difficulties in selling it in the future.

The occupancy certificate will not be issued to you in case of illegal construction or violation of building, society and civic bylaws. Hence, it is also a proof that your property has followed all the necessary rules and regulations properly.

Receipt of Payment of Stamp Duty

You should have a proof that you have paid the stamp duty, either an online receipt or a stamp paper of the same value as the stamp duty amount.





Final Transaction

The final transaction consists of drafting the Agreement to Sell and the Sale Deed as well as payment of the Stamp Duty by the buyer.

Agreement to Sell

Your lawyer will issue a title certificate once he is satisfied with all the official documents. This title certificate states that the seller is entitled to sell the property. On receipt of the title certificate, the seller's lawyers will draft and register the 'agreement to sell'. The agreement must contain the signatures of two independent witnesses and contains basic information like location, purchase price, amount payable at the time of booking, payment schedule and date of possession.

Sale Deed

After the payment of the initial booking amount as agreed upon by both the parties in the agreement to sell, the seller's lawyers will draw up the sale deed. By executing the sale deed, property title will be transferred from the seller to you, thus making you the official owner of the property.

The sale deed needs to be signed by two witnesses and registered along with the copies of the PAN cards of the seller and the buyer.

Stamp Duty

The stamp duty is a tax that the buyer has to pay during the signing of the sale deed of transfer of property. Different states in India have different Stamp Acts and you must pay accordingly. You can pay by simply buying a stamp paper of the same value as the amount of the stamp duty and then drawing up the sale deed on it. You can also pay the stamp duty by buying adhesive stamps of the required value and getting them franked by special franking machines.

Registration Fee

The sale deed, once signed and attested, must be registered at the relevant corporation office. Without proper registration, the title of the property will not be fully transferred to you. The amount you have to pay during the registration is about 1% of the total property value.

Bequeathing/Gifting Property

An NRI can bequeath a property to his legal heir/s or to any one of his choice via a Will. An NRI can inherit any immovable property in India, residential or commercial and even agricultural land or a farmhouse, which they cannot otherwise purchase. An NRI is also free to inherit property from another NRI or resident of India. However, the RBI's permission is necessary, if the property is inherited by a citizen of a foreign state and is a resident outside India.

An NRI may gift residential and commercial property to a person residing in India, or another NRI. If the property is an agricultural land, plantation property and farmhouse, it can only be gifted to a person resident in India who is a citizen of India. Gifts received from relatives (as defined under Income Tax Act) are not taxed but at the time of registration, one has to pay the prevalent stamp duty and registration charges. Relatives include- spouse, brother or sister, brother or sister of the spouse, brother or sister of either of the parents, any lineal ascendant or descendant of self or spouse. If the gift was received on the occasion of marriage or from a registered trust, it is exempt from tax.



The Will and Probate of the Will

In many cases, a person may inherit property that he then wishes to sell off. According to the Indian Succession Act, a person who has inherited a property under a will cannot claim his or her right to property, unless certified by a court of competent jurisdiction in India. This certification of a will and a person's right to property is called probate of the will.

You must always keep in mind never to enter into any transactions in such cases of property inheritance, where the will has not been probated.

The Real Estate Regulation and Development Act (RERA), 2016

The Real Estate Regulation and Development Act (RERA), 2016 has ushered in transparency, compliance and accountability in the real estate sector. This landmark legislation has brought good news for buyers as it protects their rights as well as investments from fraudulent builders. The Act came into force on May 1, 2016 and has clearly listed the rights of the buyer as well as the duties of the agent and developer.

Since the time the Real Estate (Regulation & Development) Act, 2016 came into force until June 2019, almost 22 states plus 6 union territories have notified their RERA rules with 19 states having active online portals. The north eastern states of Manipur, Meghalaya, Mizoram, Nagaland, and Sikkim – which earlier shied away from RERA - have also agreed to officially notify RERA rules very soon. West Bengal is the only exception and has notified its own real estate law under West Bengal Housing Industry Regulatory Authority (WBHIRA) and has an active online portal.

While all properties may not be necessarily RERA-compliant and may vary from state-to-state, all properties must be registered under RERA. A property cannot be sold and marketed unless it is registered with RERA. A project's registration can be cancelled if RERA receives any complaints that are found to be true after an inquiry has been made.



Rights of the Buyer

Under the Act, buyers, or 'allottees' have more rights and entitlements pertaining to the property they have invested in:

- The buyer can obtain information regarding the approved building plans and the land permit, attested by proper authorities pertaining to the property that he/she is planning to buy.
- The buyer can make queries regarding the progress of the construction and the developer will have to keep him informed at all stages.
- The promoter shall refund the buyer his payment amount, if the he fails to deliver the project on time or fails in proper execution of the project as per the agreement of sell.
- The promoter must hand over the proper documents as required by the buyer during possession, including those for the common area.

Duties of a Real Estate Agent

- All real estate agents will need to register themselves under the Real Estate Regulatory Authority established by the Act.
- All real estate transactions need to be registered under the Real Estate Regulatory Authority before sale.
- The agent cannot falsely advertise any services, which he does not offer, nor can he claim any false affiliations.
- He must provide the buyer with all necessary documents that he would require for smooth possession of the property.



Developer's Duties

- It is the developer's duty to register projects upload details of the project on the RERA website. He must provide the buyer with the site and building layout plans as well as the stage wise construction plan of the building, including the water, electricity and maintenance provisions.
- He should be the one to obtain the completion certificate from local authorities and provide it to the buyer.
- The developer should provide with any essential maintenance services as per the service agreement till the association of allottees takes over the maintenance.
- He should take an initiative to form the association or the co-operative society of the allottees.
- The promoter shall not quote a sum of more than 10% of the total price of the property as an advance or booking fee.
- Developers must sell properties based on carpet area and not super built-up area.
- 70% of the amount collected from the buyers for a project needs to be deposited in a separate escrow account to cover the cost of the land and construction for that particular project.

Real Estate Regulatory Authority

The main purpose behind this authority is to ascertain the clarity and honesty of a fully efficient real estate sector in the country. Its basic functions include:

- Maintaining the construction of a certain standard of housing with appropriate materials and proper construction techniques
- Maintaining a record of all ongoing real estate projects
- Maintaining an easily viable list of defaulting agents and developers for the full view of the public
- Maintaining a database of registered real estate agents
- Ensuring consent of all the commitments of the promoters, allottees and agents as per the rules and regulations under this Act

Any person who is upset by any decision or order as made by the Regulatory Authority can appeal to the Appellate Tribunal. The Appellate Tribunal will be guided with the principles of natural justice and thus shall not be bound by any such rules. It shall have the power to standardize its own system.

The real estate sector has witnessed increased transparency and compliance post RERA boosting the confidence of NRI home buyers. Post RERA enforcement, registration of sale deed of a project unit cannot be done in the office of the sub-registrar without obtaining Occupancy Certificate or Completion Certificate. However, illegal construction activity hasn't stopped altogether, and one must continue to be cautious.



Chapter 6

Return on Investment

This chapter will help you:

- Understand Return on Investment
- Compare Investment in Metros to Small Towns
- Lease Your Property

ROI in real estate can be accrued in two ways – capital appreciation and rental income. Capital appreciation in value terms is calculated by simply subtracting the cost of the investment made from the overall sale price. Miscellaneous costs such as utility connection, property taxes, maintenance cost etc. also need to be factored in before calculating capital appreciation. To calculate net rental yield, which is a percentage return on investment, we take the net gain on the investment and divide it by the original cost of property including miscellaneous cost.

In case of residential property in India, NRIs can currently expect rental yield in the range of 2-3 per cent per annum depending on project and location. Earning a significant ROI involves knowing certain key market parameters and putting them into practice while investing. Once you know the essentials of real estate investment, you can make the right call. The aim of this chapter is to empower you with the right knowledge, so you can do just that.



Big Cities, Big Picture

Rising migrant population in tier 1 cities due to better job opportunities and rapid urbanization is leading to a massive demand for housing in the top 7 cities. As a result, there is an increased demand for rental housing in these cities especially by those people who just started to work or even by those who have transferred to a new city with their families. This gives a good option to those investors who want to earn a steady rental income. Several Tier-I cities remain lucrative for property investment and promise sizeable return on investment. Let's look at the real estate market trends in some of these cities:

Bengaluru

Burgeoning commercial activity, a cutting-edge start-up culture and realistic property prices dictated by end-user demand have kept Bengaluru's real estate market vibrant, and generally more resilient than other cities. The strong IT/ITeS economic dynamo continues to power most of the city's residential demand and supply, and housing sales have remained healthy despite all macroeconomic headwinds.

According to a consumer sentiment survey conducted by ANAROCK, Bengaluru remains the most preferred city for investment for 31 per cent NRIs. Relatively cheaper prices, more professionalism among builders and the buoyant commercial market has upped the game for the IT capital. In addition, Bengaluru has the lowest capital values when compared to Delhi and Mumbai. **The city offers an ROI of 19 per cent on residential property investment over a five-year horizon.**

Mumbai

As the country's financial capital, the city attracts development in all spheres of the realty sector. Infrastructure projects such as Mumbai Metro, Monorail, Eastern Freeway, Santacruz-Chembur Link Road have created an increased demand for housing in neighbouring areas. While the realty market has stabilized in the popular western suburbs and south-central markets, it's showing signs of revival in the central suburbs. Moreover, the city has witnessed a shift in NRI interest from upscale localities to affordable neighbourhoods. **The current ROI in Mumbai is pegged at 10 per cent for residential property.**



Delhi-NCR

The residential market here has been primarily investor-driven, although trends over the last few years suggest that end-users are starting to play a much bigger role in the market. In Delhi-NCR, a slew of infrastructure projects such as Dwarka Expressway, Eastern Peripheral Expressway and expansion of the metro network is likely to strengthen the connectivity and fuel residential housing demand in the city. **Currently, investors can expect an ROI of 2 per cent from property in Delhi.**



Pune

Pune is well-connected to Mumbai – the financial capital of India and well networked to other major cities across the country. As an education hub Pune generates a sizeable graduate workforce, which in turn has triggered the IT revolution in the city. Many top IT companies in the country have their presence here and the city also has a strong manufacturing base across auto and engineering. All these factors have led to massive real estate development in the city that remains largely affordable. **The current ROI for residential property in Pune is pegged at 37 per cent.**



Hyderabad

Political stability, infrastructure development and steady commercial space demand have led to growth in the residential segment of the southern city. The IT/ITeS and manufacturing sectors have largely driven demand for real estate in many parts of the city. Hyderabad remains a good bet due to availability of land, ease of doing business and proactive policies of the local government. **Moreover, a strong ROI of 18 per cent is a big draw for NRIs looking to invest in Hyderabad.**



Chennai

Chennai, known as the gateway to southern India, is known for its port-centric business as well as engineering, manufacturing, IT/ITeS sector, and other flourishing industries. Already home to major national and international automobile manufacturers, the upcoming Aerospace park at Sriperumbudur is going to metamorphose the economic landscape of the region. This will not only create an opportunity for increased investments and revenues but will also help generate tremendous employment opportunities, leading to rapid urbanisation.

NRIs can expect an ROI of 3 per cent from Chennai's residential properties.



Kolkata

The 'City of Joy' is home and home to nearly 1,000 industries registered in the city with a diversified economic base comprising textile, mining, pharmaceuticals, manufacturing, heavy engineering, IT/ITeS, defence, food processing, and many other sectors. West Bengal already has a rich deposit of coal and minerals which are the key ingredients for industrialization. Infrastructure is being augmented to leverage the same for future growth and re-establish the state as a major trade hub of eastern India. **The city currently offers an ROI of 15 per cent on residential property.**



Challenges of Investing in Metro Cities

While metros or tier-I cities still are potential investment destinations, they come with their own unique challenges. Let's take a look at some of the limitations of investing in a metro:

- **Saturated Development:** These cities are now saturated with development, primarily because of the shortage of land. This leaves little scope for price appreciation and consequently, maximizing ROI.
- **Congestion:** With the population increasing rapidly, the metros and Tier-I cities have become extremely congested. They may not be the right choice for you if you are looking for a relatively quiet and peaceful destination.
- **High Cost:** With prices rising in metros and Tier-I cities across several years, the cost of buying property is very high. Therefore, it will take much longer to break even and start earning a significant ROI.

One way of freeing yourself from these limiting factors is to invest in property either in an emerging city.

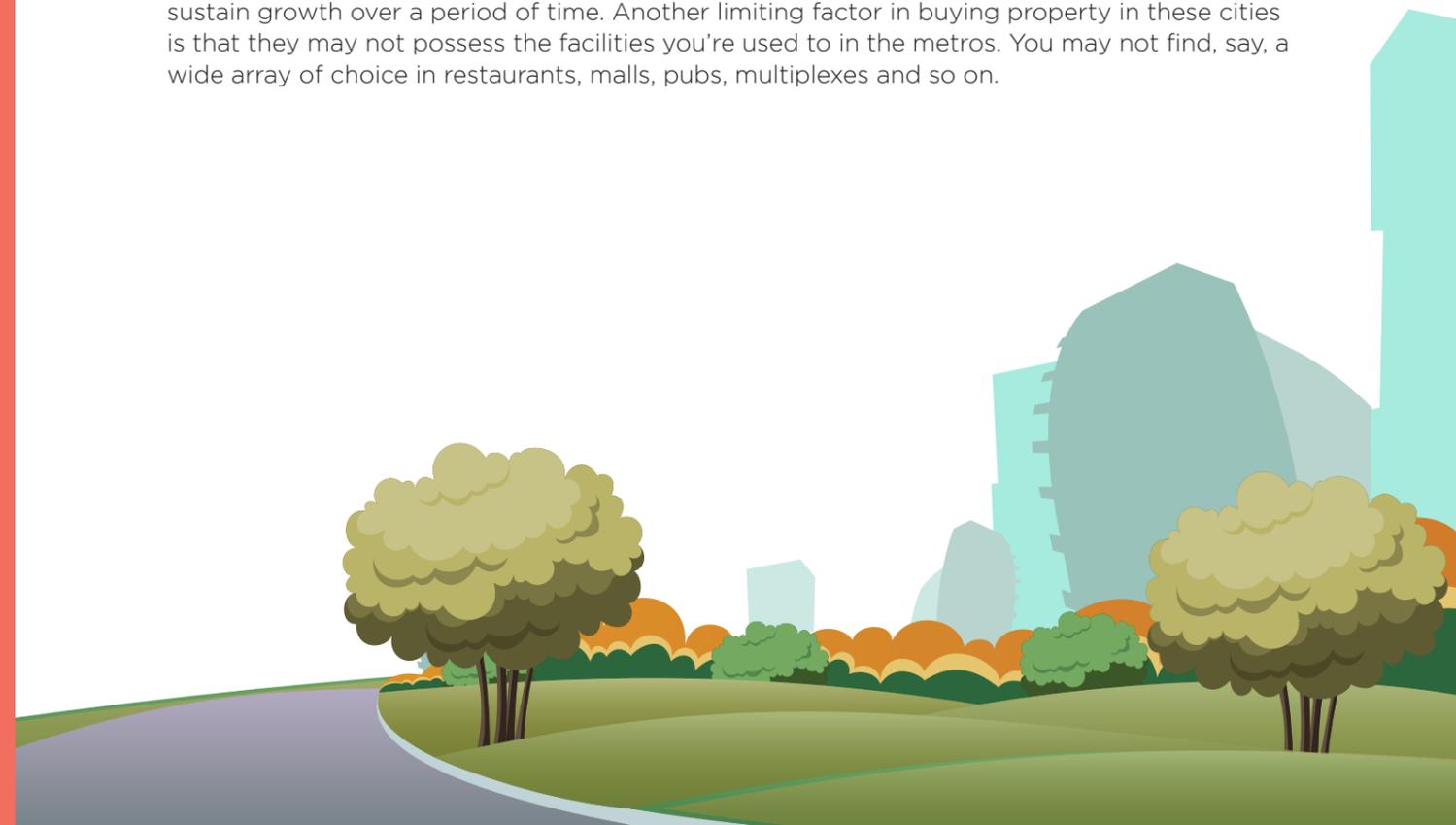


Investing in Emerging Cities

Low property prices coupled with improved infrastructure facilities in tier 2 & 3 cities are attracting maximum investors to plan their investment in these cities. Cities like Chandigarh, Kochi, Jaipur, Nagpur, Indore, Coimbatore, Nasik and Ludhiana have started to seal their spot as hot property investment destinations. Investing in an emerging city brings with it many advantages that help you make your investment in property profitable:

- **High ROI:** The return on investment (ROI) expected from buying property in tier-II and tier-III cities will most likely be much higher than that observed in tier-I cities and metros. This is because the land or property rates here are comparatively lesser. After a few years, when the property rates will be higher, you will earn a significant return on investment. At the same time, the rental income for apartments is relatively high translating into high rental yield compared to metro cities.
- **Diverse Customer Base:** As the hustle and bustle in these cities is less in comparison with metros, the residential realty sector here targets a different, more diverse, customer base. Whereas tier-I cities typically attract young, aspiring and ambitious professionals, these cities make for suitable living options for parents and retirees, in addition to young jobseekers.
- **Availability of Land:** The amount of land available in an emerging city is higher in comparison to the more developed cities. Therefore, the price at which you'll be able to buy the land here is lesser. Additionally, the availability of land leaves the government as well as developers with a lot of scope for construction and development activities.
- **Wide Range of Properties:** Many reputed builders are developing integrated townships, villas and bungalows in smaller cities. As NRIs, you can choose from a wide range of properties to suit your budget and lifestyle.

You should, however, understand that all is not rosy with investing in tier-II and tier-III cities. Investing in these cities can be risky. A city may show promise one year but may not be able to sustain growth over a period of time. Another limiting factor in buying property in these cities is that they may not possess the facilities you're used to in the metros. You may not find, say, a wide array of choice in restaurants, malls, pubs, multiplexes and so on.



Avenues for Property Investment

In India, new property investment options are opening up offering relatively high return on investment. Here's a look at some of the most popular choices for NRI investors:

1 BHK Apartments

Of all the types of apartments available, 1 BHK apartments are highly lucrative for a wide range of investor profiles. For a city brimming with young jobseekers, investing in 1 BHK apartments is a wise decision. Young aspirants would prefer 1 BHK apartments to the costlier and high-maintenance 2 or 3 BHK apartments. Similarly, students are more likely to find 1 BHK apartments affordable and convenient.

At the same time, the property tax payable for a 1 BHK apartment will also be lesser. The maintenance and utility costs can also be kept under control.



Vacation Homes

Vacation homes are a good investment option, especially if they're located in tourist spots such as Lonavala, Shimla, Manali and Ooty. You can invest in property in such a tourist location and earn significant rent every year. Although demand for the vacation home will exist primarily during the peak season of about 12 to 15 weeks, you'll earn sizeable returns in this period. You should, however, note that maintaining a vacation property is costly and needs to be maintained to the highest standards.



Retirement Homes

Retirement homes are another popular property investment option for NRIs. Cities like Coimbatore that boast of good weather are home to many retirement living complexes. Retirement homes are also typically available in temple towns like Haridwar, Varanasi and Tirupati.



Renting Your Property

You can easily advertise your property by placing an ad in newspaper classifieds or property portals to include details and photos. Property portals are an efficient medium to meet prospective tenants and get in touch with agents or brokers. For an NRI, it's recommended to hire the services of a reliable broker who can deal on your behalf.

Rent Agreement

A rent agreement is a legal document which ensures that the landlord and tenant abide by a set of conditions. This agreement is at the heart of every tenancy and acquires great importance in case of a dispute. It's imperative that all terms and conditions are clearly stated in the agreement to avoid any tussle. Also recommended is to register the rent agreement by paying the required stamp duty. Any rent agreement must include the following details:

- ✓ Names of people renting including all members of the tenant's family
- ✓ The term of the tenancy
- ✓ Occupying limit or the area that can be occupied by the tenants
- ✓ Rent amount, due date and payment procedure
- ✓ Amount to be paid as security deposit, date of returning it and deduction at the end of the tenancy
- ✓ Maintenance and repairing responsibilities of tenant
- ✓ Prohibitive activities or any restrictions

far.

Repatriation of Rental Income

The rent proceeds accrued from an NRI's residential property can be credited to the NRE or NRO account and can be freely repatriated. Since this income is earned in India, it is taxable. In fact, tax has to be deducted at source by the tenant and he/she must get a TAN number and deduct TDS of 30 per cent from the rent amount. The onus of paying the tax is on the tenant and he must also provide a TDS certificate for the same. Remember that your rental income may also be taxable in the country of your residence and you must check if it has a Double Taxation Avoidance Agreement (DTAA) to avoid double taxation.

The Rent Control Act

The Rent Control Act governs the renting of residential property in India, with each state having its own version. While controlling rent charges, the Act also protects the rights of tenants while enlisting the responsibilities of the landlord.

Responsibilities of Landlord

- It is the landlord's responsibility to ensure that the residential property meets the minimum standards of accommodation.
- He cannot resort to disconnection of essential services such as electricity and water to recover rental dues.
- To evict a tenant, the landlord must file a petition before the Rent Control Court. The petition can only be filed in case of a default in rent payment, subletting without the prior consent or not letting the landlord personal occupy the property.
- The landlord must serve the tenant a certain amount of notice for the termination of tenancy.
- He must return the deposit to the tenant at the end of the tenancy.

Rights of Tenants

- A tenant is entitled to a safe house that is fit to be lived in.
- He has right to privacy and the landlord cannot enter the property without prior permission or information.
- In case the landlord disconnects essential services such as power and water, the tenant can approach the Rent Control Court to restore essential services and act against the landlord.
- The tenant must be reimbursed for any repairs that he/she carries out.
- His/her legal heirs are also tenants and entitled to receive all the protection available under the Rent Control Act.
- The tenant has the right to refer any disputes to the Residential Tenancies Board (RTB).



Chapter 7

Exiting Your Investment

This chapter will help you:

- Explore Exit Options
- Understand Tax Implications
- Decode Repatriation of Sale Proceeds

With the implementation of regulatory policies, Indian real estate is maturing with greater transparency and accountability. Like any asset class, real estate is a long-term market and you must stay put for some time before your investment fetches returns. However, there could be mismatch between your expectations and the financial returns of your property. As an NRI you may find it challenging to manage your real estate investments from a distance. Travelling to India to check on your property may not be possible and could also feel bogged down with the task of paying property tax, maintenance charges and other society dues. In such cases, you may consider exiting your investment. The process of selling your residential property is simple as long as you know your exit options, taxation involved and the repatriation of sale proceeds. This chapter throws light on the aspects of exiting your real estate investment:



Exit options

As an NRI, OCI or PIO, you are free to sell any commercial or residential property you own in India. You can sell any residential or commercial property to a resident Indian or an NRI, OCI or PIO. The buyer could also be an NRI or an Indian resident. However, there is restriction on selling agricultural land or a farmhouse to another NRI. Such a property can be sold by an NRI only to an Indian citizen residing in India.

Taxation

You must be aware of the tax implications of selling a property before you decide to exit your investment. The tax liability of an NRI selling his/her property is different from a resident buyer. Let's take a look at the details of the tax implications:

Capital Gains Tax

Capital gain from the sale of property in India by an NRI is taxable under section 195 of the Income Tax Act, 1961. Since NRIs reside outside India, it becomes difficult to ensure compliance of capital gains tax. Hence, the buyer is given the responsibility to deduct TDS at the time of paying the NRI seller.

Short term capital gains tax: If you decide to sell your property less than two years from the date of purchase, you are liable to pay short term capital gains tax at the rate of 33.99 per cent irrespective of your tax slab.

Long-term capital gains tax: In case you exit your property investment after three years of holding it you incur long term capital gains tax to the tune of 22.66 per cent.

Tax Exemptions

Re-investment of Capital Gains: In order to save long term capital gains tax, long term capital gain can be invested in either property or tax-exempt bonds. You are given two years from the date of sale to invest in another property, or up to six months to invest in bonds. An NRI may apply for a tax exemption certificate from IT Department under section 195 of the Income Tax Act, 1961. Remember to make the application in the same jurisdiction as your PAN and submit the proof of reinvestment of capital gains.

Section 54: According to this section of the Income Tax Act, 1961, an NRI can sell a residential property after three years from the date of purchase and reinvest the proceeds into another residential property within two years from the date of sale. The profit from this reinvestment is not liable to any taxation. It's advisable for an NRI to consult a tax expert before making any investment decisions outside India to avail of tax benefits under Section 54.

Section 54EC: This section states that if an NRI sells a residential property after three years from the date of purchase and invests the amount of capital gains in bonds of National Highways Authority of India (NHAI) and Rural Electrification Corporation (REC) within six months of the date of sale, he or she will be exempt from capital gains tax. However, the bonds will remain locked in for a period of three years.



Repatriation of Sale Proceeds

There is no restriction on repatriating rental income or even sale proceeds for NRIs as long as the total proceeds are well within the set limit of \$ 1 million a fiscal year other than agricultural land, farmhouse and plantation property. However, it is subject to the following conditions:

1. The property being sold was acquired as per the foreign exchange regulations applicable during that period.
2. The amount being repatriated cannot exceed the cost of the sale proceeds from the transaction.
3. The sale proceeds from maximum two residential properties can be repatriated.
4. The maximum amount of repatriation of funds from a Non-Resident Ordinary (NRO) account is capped at \$1 million per fiscal year.
5. Funds can be repatriated only after settling all the applicable taxes and other charges.

In case the property was purchased with money received from inward remittance or debit to NRE/FCNR/NRO account, then the entire principal amount can be repatriated outside India immediately while the balance will be deposited in an NRO account.



Step 1

Get a certificate from a Chartered Accountant (CA) in India, issued in a form called 'Form 15CB'. The form can be downloaded from www.incometaxindia.gov.in. This form verifies that the money acquired was via legal channels and all due taxes have been paid. The CA verifies and signs the form.

Step 2

Fill another form called 'Form 15CA' which can be downloaded www.incometaxindia.gov.in. Once the form is submitted online, a system acknowledgement number is automatically generated and displayed. Take out a printout of the filled undertaking of Form 15CA displaying the system generated acknowledgement number and sign the form.

Step 3

Take the signed undertaking along with the CA certificate on Form 15CB to the bank where you have your NRO account. The concerned bank will check the forms and transfer your money abroad up to \$1 million in FY. The bank will also ask you for a copy of the sale document of the property. In case the property had been inherited, it will ask for a copy of the Will, legal heir certificate, death certificate of the person on whose death the property was inherited.

Tax Liability in Country of Residence

In case of the sale of a property, it is possible that the income earned would attract tax in India as well as in the country of your residence. This means that you would end up paying tax twice on the same income. To avoid this double whammy, look for the Double Tax Avoidance Agreement (DTAA), a tax treaty signed between two countries so that the taxpayers can avoid paying double taxes on their income.

DTAA does not mean that you can completely avoid taxes, but that you can save higher taxes in both countries. The treaty also allows NRIs to reduce their tax implications on the income earned in India.

Chapter 8

Role of Property Consultancy

Thousands of miles away from the ground realities of Indian real estate, NRIs could find themselves in a fix about various aspects of a property purchase. Modern tools like online listings and virtual tours may help you get a glimpse of some options but that may not be enough to finalise a deal. What you need is the help of a reliable and reputed property consultancy to guide you at every step of the journey. Given the evolving real estate scenario post RERA and GST, the professional guidance offered by a property consultant is imperative for landing a good deal.

The functions of a property consultancy cover a wide spectrum of services and includes not only shortlisting suitable options but also inspecting properties and negotiating prices on behalf of the NRI client. This chapter helps you understand the role of property consultancy and why it may be worth your while to engage one.



No Brokerage Paid

It's important to clarify the cost factor involving the services of a property consultancy right at the outset. NRIs should know that if they are buying a residential property, they don't have to pay the professional consultancy. Typically, a property consultancy doesn't charge any brokerage from the individual buyer but instead charges a fee from the seller. In fact, buyers must avail their services to ease their property buying journey because the consultancy will help at every step. And at no extra cost, the services of a professional and experienced property consultant are a steal.



Functions performed by a property consultancy

Finding the right location, project and developer

Property consultancies come with many years of experience and expertise in the real estate business and keep track of promising locations and projects. They have dedicated teams tracking major cities and micro markets and come out with regular research reports giving valuable data-backed insights. With this wealth of knowledge, property consultancies can help you zero in on the right location and project. They can also offer critical advice on other matters such as track record of developers, potential rental income and capital gains.



Negotiations with developer/seller

Even after choosing the right property, it may be several weeks or even months before you and the developer/seller agree on a suitable price. This is a time-consuming process and requires deft negotiation skills and tactics. Professionals employed with property consultancies are adept at these discussions and can negotiate with the developer/seller to get you the best possible valuation.



Site visits

Tracking the progress of an under-construction property is tough to manage for any NRI. The developer may send you update in the form of pictures and videos, but nothing matches on-ground inspection to get the true picture. A professional property consultancy will also assist you in this matter and conduct the site visits on your behalf. You can rest assured with authentic progress update sent by a property consultancy for your chosen project.



Assistance in legal matters and taxation

Property transactions involve many legalities involving several documents and important paperwork. NRI buyers can find it particularly challenging to handle the technicalities related to property documents. Hence, it makes sense to delegate this task to the legal department of a property consultancy. From performing legal functions to processing the necessary documentation, qualified and experienced professionals handle every aspect of your property deal. You can also approach the taxation experts for guidance on your tax liabilities and exemptions.



Property maintenance and rental services

Professional upkeep and proper maintenance of your property can also be managed by property consultancies. Dedicated departments manage the facilities around the property and also ensure that it's in fine fettle. A property consultancy also offers rental services and can help you find the right tenant for your residential property.





ANAROCK PROPERTY CONSULTANTS PVT LTD

ANAROCK is India's leading independent real estate services company with a presence across India and the Middle East. The Chairman, Mr. Anuj Puri, is a highly respected industry veteran and India's most prominent real estate thought leader.

The Company has diversified interests across the real estate lifecycle and deploys its proprietary technology platform to accelerate marketing and sales. ANAROCK's services include Residential Broking and Technology, Retail, Investment Banking, Hospitality (via HVS ANAROCK), Land Services, Warehousing and Logistics, Investment Management, Research and Strategic Consulting.

The Company has a unique business model, which is an amalgamation of traditional product sales supported by a modern technology platform with automated analytical and reporting tools. This offers timely solutions to its clients, while delivering financially favourable and efficient results.

ANAROCK has a team of over 1800 certified and experienced real estate professionals who operate across all major Indian and GCC markets, and within a period of two years, has successfully completed over 300 exclusive project mandates. ANAROCK also manages over 80,000 established channel partners to ensure global business coverage.

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