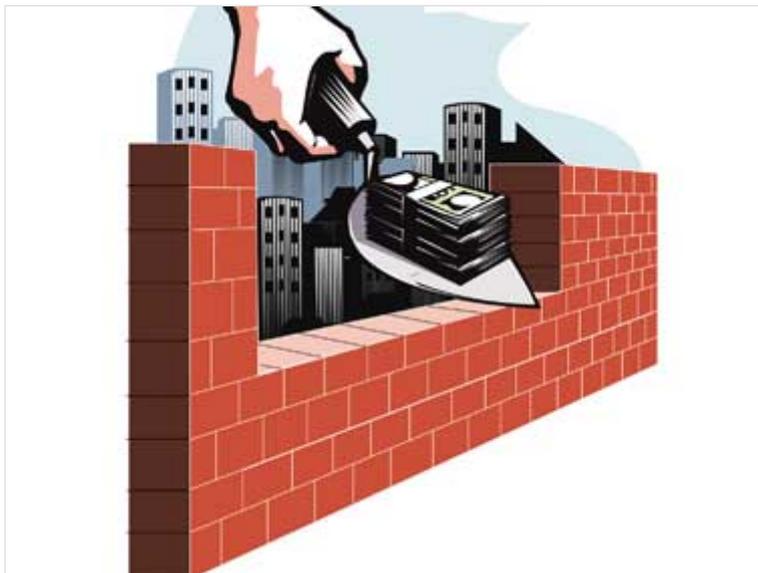




Buying a home abroad not just a dream anymore

Sanjay Kumar Singh | Jun 05, 2016 09:50 PM IST



If you trawl the internet, you will come across several news items of Indian billionaires purchasing prime properties in central London, Los Angeles, San Francisco, Seattle and New York. Indians are the biggest non-Arab investors in Dubai's real estate market. Incidentally, Indians own the largest number of apartments in the iconic Burj Khalifa. With India's domestic real estate market slowing down in the past couple of years, and the luxury segment in particular taking a hard knock, the well-heeled Indian is taking his love of real estate abroad and buying properties in some of the toniest localities all over the globe.

The drivers

Several factors are propelling the affluent to buy a luxury property (defined here as properties of \$1 million and above) abroad. The first is self-use. People typically tend to buy a property in a location where they go often, either for work or on holidays. London, a nine-and-a-half hours' flight from Mumbai, has emerged as the summer capital of the rich and famous. Among discerning real estate investors, it also has the reputation of being a 'safe' realty market.

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Children's education is another driver. Many high net worth individuals (HNIs) buy a house in the US, UK or Singapore because their children study and subsequently take up a job there.

The quest for investment return is another motivation. "At eight-nine per cent, the rental yield from residential property is much higher in a developed market like the UK or US than in India, where it hovers at three-four per cent. These markets are also very well regulated and safe, and properties can be easily managed with the help of a broker who charges 10 per cent of rent. Hence, you can look forward to a healthy and regular cash flow," says S G Raja Sekharan, lecturer on wealth management at Bengaluru's Christ University and an avid real estate investor.

HNIs are also venturing abroad because they want to diversify their real estate portfolios. "Investing in foreign markets enables the rich to hedge their real estate portfolio against single-market risk. This factor has become important in the wake of the weak performance of the Indian realty market in the recent past," says Shveta Jain, director-residential services, Cushman & Wakefield India.

Some investments also go into leisure and beach-front properties, such as in Mauritius, Thailand, etc.

FOR \$1 MILLION YOU CAN BUY

City	Space (sq ft)	City	Space (sq ft)
Monaco	183	Los Angeles	699
Hong Kong	215	Rome	807
London	237	Miami	829
New York	291	Moscow	893
Geneva	430	Tokyo	893
Sydney	430	Istanbul	1,011
Singapore	452	Berlin	1,033
Shanghai	495	Mumbai	1,065
Paris	613	Sao Paulo	2,184
Beijing	624	Cape Town	2,744

Figures are based on prime residential prices
Source: Knight Frank International View report

Funding the purchase

The first option is to transfer money under the Liberalised Remittance Scheme (LRS). A person (including minors) can remit \$250,000 per family member in a financial year. If you have four members in your family, you may send \$1 million in March and another \$1 million in April to use the potential of this scheme to the hilt. Some HNIs also use their income from global sources which doesn't fall under the purview of the LRS limit.

Location vs cost

As with all real estate purchases, choosing the right location and developer is crucial even within the luxury segment. "The location will depend on your budget, since in most cities the price range varies enormously from the centre to the periphery," says Jain. When buying for self-use look for a place that is close to where you work.

When buying for investment returns, you may consider upcoming locations where prices are still relatively low and there is scope for appreciation. Jain warns that when you invest in the developed world, you must have a longer investment horizon to enjoy good price appreciation. Check the market for the size of the property that enjoys high demand. Larger sized properties may fare better in some markets, such as in parts of the US, whereas smaller sized apartments may have greater demand, as in London.

If you are under-exposed to the Indian market, compare the returns you are going to earn from the foreign property vis-a-vis one in India. When buying a property for rental return, look at the area's rental yield. "Try to get an idea of the demand for rental housing. Places that are well connected to work hubs tend to enjoy high demand," says Ashutosh Limaye, head of research and REIS, JLL India.

Next, do the due diligence on the developer, especially when buying in an Asian market like Dubai (another favourite due to its proximity and high Indian population) or South East Asia. "Look up the developer's financials. Also, check the kind of price appreciation its past projects have given," says Limaye. Avoid players that are highly leveraged.

Financial planner Vishal Dhawan suggests investors should look up the past trend in currency movement. Over the long term, the rupee tends to depreciate against the US dollar, a factor that could provide a boost to your return. But if you invest in a country whose currency could depreciate against the rupee, your returns could get eroded.

Finally, evaluate the country's macro-economic environment. "If it is poor, your rental return could take a hit as people will have less money to spare for housing," says Dhawan.

Understand the tax implications

If you are a resident Indian, the rent you earn from a house abroad will be taxed in India. It may also be taxed abroad (though not in Dubai) and you may be entitled to credit on taxes paid abroad, depending on the provisions of the double taxation avoidance agreement (DTAA) between the two countries. The same rules apply to capital gain.

"To mitigate tax liability, many people set up a company abroad and buy the house in its name. If you do so, the rental income does not get added to your personal income and is not taxed in India," says Rakesh Nangia, managing partner, Nangia & Co. When people set up a company, they declare their shareholding in it, here in India. Often, they set up the company in tax havens like British Virgin Islands where the tax rate is low or zero. This route is perfectly legitimate.

Give a thought to estate planning

In developed countries like the UK, if you gift the property to your child and die within seven years, the latter has to pay an inheritance tax. So make the gift deed while you are still in good health. The rate of tax is reduced for gifts over the threshold of £325,000 made between three and seven years before death. This is known as taper relief. If the person gifting the property survives that period, no inheritance tax is payable. Today, in countries like the US, insurance policies are available which take care of the liability of estate duty.