

NRI investments in India: The essential checklist

Presently, Indian real estate is a very popular investment option for most NRIs. However, since they live abroad, it becomes more important for them to do proper due diligence before risking their money.

Mandatory checks

Nowadays, many Indian developers conduct roadshows abroad. NRIs should not be entirely convinced by impressive presentations and glossy brochures. They should have someone trusted visit the property's site and check the ground realities. Like all real estate investments, the location of the project should be attractive and should enjoy good connectivity.

Pricing is another important issue. "Often, the prices quoted by builders to buyers abroad, are higher than those quoted to domestic buyers. Also, builders don't offer discounts when selling abroad," points out Sanjay Sharma, managing director, Qubrex Realty, a Gurgaon-based real estate consultancy. In such a scenario, the international buyer must learn the rate at which the project is being sold in India. Furthermore, they should avoid paying a large part of the cost upfront. In fact, they should opt for either a construction-linked payment plan or the 80:20 or 70:30 scheme. In such schemes, a small portion of the cost is paid upfront at the time of booking, and the balance is paid on possession. Better still, they should opt for finished apartments to avoid the risk of delay in possession.

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It may also be wise for NRIs to take a small bank loan, even if they don't need the money. "When an NRI takes a loan, the bank will do the due diligence on their behalf," explains Sharma. "It will check whether the builder owns the land on which he is developing the project and has obtained the requisite licenses. This will avoid a lot of trouble," points out Sharma, adding that he has witnessed quite a few examples of NRIs investing in small builders' projects and then regretting not having done timely research.

Understanding the law

NRIs investing in India must understand the laws that govern real estate transactions. There are, for instance, restrictions on how quickly the profit from a real estate transaction can be repatriated. NRIs also need to learn whether their gains will be subject to double taxation.

Watch out for

The real estate sector in the developed markets is better governed and more evolved, unlike India. Here, buyers are often subjected to a lot of hassles. Unless an NRI has a trusted person running errands in India, buying real estate in India could be challenging. Then there's the management of the property as there are not many companies in India still that offer such services. This makes it all the more essential that an NRI has an agent to collect the rent as well as look after its maintenance.

ROI expectations

"The theory of mean reversion suggests that returns from real estate, are likely to be lower than they have been in the recent past," explains Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors. "Therefore, NRIs investing in residential real estate at this point of time, should have reasonable return expectations over a long-term period," he says. Finally, NRIs also need to be aware that the depreciation of the rupee against their home currency, will also have a bearing on their returns.

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