

Will prime residential assets remain the mainstream investment avenue for HNIs in India?

By Sameer Chhabra, ET CONTRIBUTORS • Last Updated: May 20, 2024, 12:47:00 PM IST

Synopsis

Real estate, long favored by India's affluent, served as an inflation hedge in a socialist economy. However, liberalization altered dynamics, shifting focus to financial assets as domestic real estate faced cyclical volatility amidst changing economic landscapes.



Real estate has been a big draw for the super-rich in **India** for the longest time. Land and Built up residential real estate were the most sought after asset classes amongst the old wealthy.

Socialist India with its low growth rate and high inflation ensured that Real Estate became an inflation hedge as most investors saw Real estate as a linearly growing asset class. Moreover, lack of capital convertibility ensured all real estate acquired was in India.

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But with Liberalisation and subsequent growth, the economic dynamics changed completely. While Financial assets grew up to become more popular, domestic real estate started experiencing cyclical behaviour in that period. With the rise in **wealth**, Indians seeking the best **investment** opportunities have not restricted themselves to domestic opportunities. As a result, while residential real estate has continued to be a big draw within real estate, many **offshore locations** have provided far more attractive options compared to larger Indian cities. With higher rental yields or lower acquisition prices, many international cities provide better investment metrics compared to domestic real estate. The residential rental yields in Indian can be in range of around 2-3% whereas for many of the offshore locations like Dubai can get your yields in the range of 5-7%. Even the UK with yields of around 4 – 6% is much higher than India. Also with India experiencing economic growth, real estate prices have also seen a significant upward movement with **property prices** in Mumbai matching that of the Western world and still climbing. On the other hand, residential real estate in places like UK may not be witnessing growth and therefore offering better purchase values.

Another reason to include **international real estate** in the portfolio is that it provides better way to get global diversification geographically and across assets thus mitigating risks. It provides exposure to different real estate markets, offering better potential for capital appreciation and rental income. Offshore residential real estate also serves as currency hedge and an inflation hedge.

Additionally, besides investment returns, many Indians view overseas properties as a means to secure residency or citizenship in countries with better quality of life and educational opportunities for their families. Residency programs offering visa-free access are popular amongst Indians with the Dubai Golden Visa or Portugal's Golden Residence Permit Program being prominent. Indians are increasingly purchasing real estate abroad to fund their children's education and to obtain citizenship through investment.

Another trend visible amongst the emerging UHNW within India, particularly from the startup ecosystem, has been the need to establish **Family offices** and wealth governance structures in overseas locations as part of their Overall Wealth and estate planning. Acquiring residential or even commercial real estate becomes a component of this establishment. In many cases this has also been necessitated by the fact that monetisation of their wealth has occurred overseas and thus the establishment of an overseas family office. For all the above reasons, UHNW Indians have been bigger buyers of International Real estate in the recent times and some of the more popular destinations for residential real estate are London, Dubai, New York and Singapore

Going Forward...

This trend of UHNW Indians acquiring overseas residential properties will continue for the foreseeable future as options for Prime property remain limited within few metro cities in India. Also, with elevated price levels being seen in India, particularly post covid, the returns potential here onwards could be limited.

On the other hand, property options for investments in the overseas markets are significantly higher with better returns potential. Besides, real estate will continue to be a vital part of residency and citizenship programs being offered by various advanced countries thus attracting the wealthy within India. Thus the desire for enhanced returns, better diversification, better quality of life through mobility and expansion in global business opportunities will continue to drive UHNW Indians seeking residential properties beyond Indian shores.

(The author is Executive Director, Private Wealth, [JM Financial Ltd.](#))