NRIs and HNIs are banking big on this asset for handsome returns

Luxury second homes have emerged as more than just retreats for NRIs and HNIs. These valuable assets have transcended their traditional role, thus transforming into gateways of wealth and comfort

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Luxury second homes have become a wise and captivating choice for Non-Resident Indians (NRIs) and High-Net-Worth Individuals (HNIs) looking to expand their investment options. These individuals are realising the numerous benefits of owning a luxury second home. From potential increase in property value to having a personal retreat away from home, acquiring such properties presents a remarkable opportunity to indulge in luxury while diversifying financially.

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WHAT'S TRENDING?

"NRIs and HNIs are seeking premium properties with modern amenities and spacious layouts, often in scenic or well-connected locations. Preferences lean towards destinations offering a blend of lifestyle upgrades, potential rental income, and return in terms of value appreciation," says Sunil Dewali, co-CEO, Andromeda Sales and Distribution, a loan distribution network.

Luxury second homes are increasingly viewed as valuable assets by NRIs and HNIs, transcending their traditional role as mere retreats and transforming into gateways of wealth and comfort. These second homes also benefit the owners as they offer good returns in terms of rental yield. "Generally, such properties are located at prime tourist destinations and offer high capital appreciation over a period of time. Moreover, owning luxury second home properties at times, enhances social status and prestige within the community and among the Indian diaspora as well. Most homeowners look to invest in a two or three-BHK luxury villa with private pools and gardens, open showers, international standard interiors, etc. In addition, they also look for facilities such as restaurants, spas, banquet halls, party lawns, and gyms within the premises. Moreover, luxury second homes with energy-efficient designs, solar panels, green spaces, and sustainable materials are becoming more appealing to environmentally-conscious homebuyers," remarks Sachin Chopda, managing director of a real estate group.

Five popular luxury areas of Mumbai

Area	Price (Rs/Sq ft)
Worli	32,600-55,600
Bandra West	33,700-55,200
Colaba	33,500-49,300
Prabhadevi	30,200-52,500
Andheri West	18,000-28,800

Source: Magicbricks Research

A MATTER OF EXCLUSIVITY

HNIs and NRIs, equipped with the means to venture into exclusive territories, are increasingly drawn to the allure of luxury second homes. However, their motivations go beyond the conventional realm of monetary gains or rental income. For these discerning individuals, these opulent abodes symbolise more than just real estate holdings; they represent a lifestyle of prestige, indulgence, and personalised comfort.

"Beyond the financial considerations, the sociological preferences of this exclusive clientele play a pivotal role. Residing among like-minded individuals and fostering a sense of community add another layer of appeal to these luxury homes. This aspect taps into the desire for an elevated lifestyle, often complemented by luxurious and exclusive amenities and an environment that resonates with their tastes and aspirations. The shifting landscape of investment, coupled with the sociocultural preferences of this discerning customer segment, makes these properties not only a financial investment, but also a lifestyle choice that offers both, tangible and intangible benefits," says Ayushi Ashar, member of the managing committee of MCHI-CREDAI.

Dewali further elaborates, "A substantial number of luxury homebuyers, particularly those interested in properties situated in hill stations or vacation spots, utilise their residences for personal vacations on a limited basis throughout the year. Simultaneously, they capitalise on the property's potential by leasing it out on a daily or weekly basis to other vacationers. This trend is on the rise due to the attractive returns it provides, while also alleviating the burden of property maintenance expenses."

ASSET-BASED APPROACH

Luxury second homes in beautiful destinations often see a significant increase in value over the years. That's not all. "Real estate also acts as a safeguard against inflation and currency fluctuations. Plus, you can even pass down these luxury second homes to your children or grandchildren, allowing them to enjoy the property for generations to come," says Akash Pharande, managing director of a real estate firm.

On our website

Scan the QR Code to read about tax implications, home loan process, as well as stamp duty and registration procedures for an NRI homebuyer in India

Expanding on this topic, Anuj Puri, chairman of Anarock Group, describes how luxury homes have seen greater capital appreciation compared to budget-category homes. "Our recent analysis of average price trends in the top seven cities shows that luxury homes have experienced the highest average price appreciation of 24 per cent in the last five years. The average price of luxury homes in the top seven cities in 2018 was around Rs 12,400 per sq ft. By 2023, this figure has risen to approximately Rs 15,350 per sq ft. Notably, Hyderabad saw the most significant increase of 42 per cent in the average price of luxury homes during this period, going from around Rs 7,450 per sq ft in 2018 to nearly Rs 10,580 per sq ft in the first half of 2023. Bengaluru and MMR also experienced a substantial average price hike of 27 per cent each in the luxury home segment."

TAXATION FOR HNIs AND NRIs

Taxation rules differ for both, HNIs and NRIs, which means they may need to consider different factors when it comes to taxes. "HNIs generally have consistent tax and regulatory considerations, but they often fall into the highest tax bracket, resulting in the highest tax rates on their returns. On the other hand, NRIs face specific tax implications relating to rental income and capital gains. That's why NRIs need to understand the local tax regulations and seek expert advice. This approach is crucial to optimise the tax outcomes associated with owning luxury second homes," says Dewali.

Puri further elaborates on this point by saying, "Capital gain from the sale of property in India by an NRI is taxable under section 195 of the Income Tax Act, 1961.

Short-term capital gains tax: If one decides to sell their property less than two years from the date of purchase, one is liable to pay short-term capital gains tax at the rate of 33.99 per cent irrespective of tax slab.

Long-term capital gains tax: In case one exits their property investment after three years of holding it, they incur long-term capital gains tax to the tune of 22.66 per cent.

Re-investment of capital gains: To avoid paying higher taxes on long-term capital gains, you have a couple of options. Firstly, you can invest your capital gain in either property or tax-exempt bonds. If you choose to invest in a property, you'll have a two-year window from the date of sale to find another property to invest in. On the other hand, if you prefer investing in bonds, you'll have up to six months to make your investment. If you're an NRI, you can even apply for a tax exemption certificate from the IT Department under section 195 of the Income Tax Act, 1961.

Section 54: According to this section of the IT Act, 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."

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