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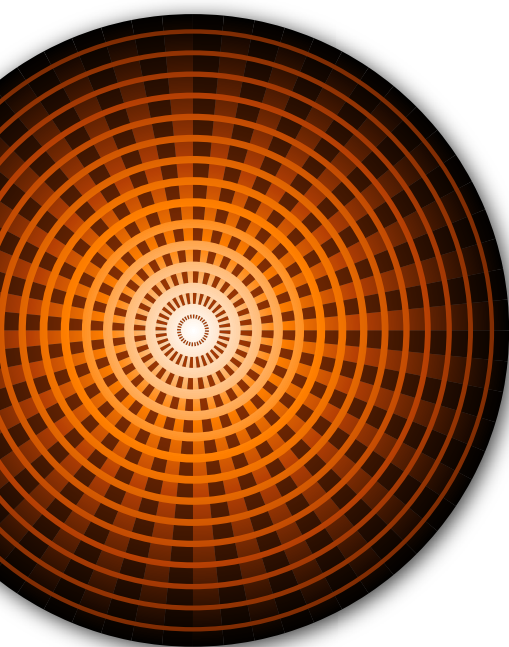


August 2012

GLOBAL PERSPECTIVES

to local, international & lifestyle real estate

► EXPLORING INDIA



The Indian Diaspora

Today there are more than 25 million people of Indian heritage living outside of India, making this the second largest expatriate group in the world after the Chinese. Though people of Indian descent have long been in Canada and the United States, it was only in the 1980s during the second Indian Diaspora that their numbers began to grow significantly.

The 2010 U.S. census reported that the Indian population of the United States was over 2.8 million, up over 69 percent since the 2000 census. In Canada, there are an estimated 1.3 million Indian residents, and their population has grown about 35 percent over the last five years.

What does this mean for your business? People of the Indian Diaspora actively maintain their social, familial and business ties to India. To be on one side is to be connected with the other. As a global agent, you should be aware of the ways in which Indian economic power intersects with North American markets. As the world becomes flatter and selling becomes more global, India could become a larger factor—both inbound and outbound—in your business.

This issue of *Global Perspectives* looks at the many ways people of Indian descent are investing in North American real estate. A newer phenomenon is also examined: Indians living in the U.S., Canada and elsewhere interested in acquiring property in India—a growing trend with positive implications for your global business. Read on to learn more! **GP**

INDIAN TRADE WINDS

Blow Across the Pacific

For people of India's richly complex culture, entrepreneurship has long been an important facet of upward mobility. Traditionally India's tiny middle class was rooted in small business, solo or family operations in the trades or markets. Savings were scraped together to send family members to other parts of the globe where they often restarted their lives as entrepreneurs.

Indian immigrants have flourished in the U.S. and Canada. Today they are the youngest, fastest growing, most highly educated and highly paid ethnic group. (See sidebar.) Meanwhile, back in India, the newly booming middle class have been saving at a staggering average rate of 35 percent of household income. Increasingly they invest abroad, and U.S. properties are attracting their attention.

Targeting the U.S.

As Indian investors flex their financial muscle globally, U.S. properties are coming into their headlights for a number of reasons:

ROI: Prices have bottomed out in certain markets and offer a good probable return over the next five to seven years.

Safety: U.S. properties tend to have stable yields that should provide a hedge against inflation during global economic uncertainty.

Value: Residential and commercial properties in major U.S. cities are much less expensive than leading cities around the globe.

Interest Spans all Sectors

Regardless of where they now live, Indian investors are purchasing residential and commercial properties in the U.S., Canada and elsewhere with an eye for appreciation. "Indian investors are motivated to buy in the U.S. because properties are more affordable than in India and the security of U.S. regulations makes it a safer investment," says Baro Shalizi, CIPS, founder and broker of Shalizi Real Estate in Santa Fe, New Mexico, and NAR President's Liaison to India.

India's ultra-wealthy, like the top one percent everywhere, are eyeing luxury properties as second homes in other countries. These properties aren't just status symbols. They're also great values

compared to similar Indian homes. For example, the average price per square meter of a home in Mumbai's Cuff Parade area is about 40 percent higher than a comparable property in New York City.

Ease of travel is a factor in choice of cities. "Direct flights are very important," says Shalizi. "They want convenient transportation and tend to look for second homes in New York, Chicago and Los Angeles, as well as London, Singapore and Dubai." This group also tends to buy homes and condos for their children completing their higher education or working abroad.

Action in Residential Property

Individual investors of all budgets are interested in condos and apartment buildings. Entry-level investors with budgets around \$100,000 are finding attractively priced condominiums with strong rental demand in Arizona, Southern California and Florida. Those who have less savings are pooling funds with others to buy into these markets. When an initial property starts generating cash, more purchases follow.

Wealthier investors are buying apartment complexes. Comparable properties in major Indian cities have skyrocketed in the last decade and tend to generate much lower yields. "In India, laws favor tenants which affects yields. Evictions are especially difficult," says Shalizi.

Commercial Spaces

Office and retail space is a big draw for individual investors and Indian companies looking abroad. Individuals looking for commercial space often gravitate toward retail storefronts. Lessees tend to be small retail businesses, sometimes with Indian owners.

Larger investors may be attracted to property in the \$3 to \$5 million range. Single tenant buildings with long leases generate fairly stable cash flows over the term of the lease. Through funds and real estate investment trusts, they also invest in substantial commercial properties.

Outsourcing Shifts

Over the last decade, many U.S. companies have relied on outsourcing certain business functions to India. The latest business trend is "nearsourcing." Indian companies are trying to bring their services physically closer to their customers. Some Indian call centers and firms specializing in back-office operations are placing as much as a third of their workforce in U.S. locations. So far, most U.S.-based employees have relocated from India.

Mumbai-based Aegis Communications has set up call center operations close to clients on Wall Street and in Dallas. Tata Consultancy Services is ramping up its North American presence in data centers and plans an employee base of 10,000 in the U.S. The new jobs will create residential and commercial sales opportunities for global agents.

Other types of Indian businesses, particularly in the service and information technology sectors, are expanding into North American markets and looking for space. If your local market includes a high-tech corridor, consider investigating this segment.

Niche Markets: One Example

Most Americans probably don't know that the U.S. hotel and motel industry is dominated by Indians. In the 1940s Indian immigrants began buying small motels and running them as family businesses. Today, Indian immigrants and Indian Americans own over 40 percent of the hotels and motels in the country, accounting for nearly two million rooms and property values in excess of \$100 billion. Most are in the budget segment.

Small beginnings have grown into some very large companies. Indians are among the largest franchisees of major chains like Hilton, Sheraton and Marriott Hotels. Indian conglomerate Sahara India Pariwar Ltd. recently made an unsolicited \$600 million offer to acquire the New York Plaza Hotel, but was not successful.

Areas attracting a large number of tourists tend to have many motels and budget hotels. If your market is in one of these areas, be aware that lodging properties might be a good fit for Indian buyers.

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Quick Facts about Indians in North America

- Indians are the fastest growing major ethnic group in the U.S. and Canada.
- In the U.S., Indians are the most highly educated ethnic group; in 2010, 67 percent of adults had Bachelor's degrees.
- Indians are the youngest ethnic group in the U.S. with a median age of 31.7 years.
- In the 2010 U.S. census, Indians had the highest average household income at \$90,711 versus \$50,046 for the total population.
- In Canada, over 70 percent of Indians live in the Toronto and Vancouver areas.
- In the U.S., nearly half of the Indian population lives in California, New Jersey, New York and Texas.

INDIAN TRADE WINDS

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Connecting Abroad

Traveling to India is one of the best ways to reach out to buyers and real estate professionals there. Here are two efficient ways to go about it.

Attend NAR-India's Annual Conference.

NAR-India (NARI) was formed five years ago to bring professionalism, education and a code of ethics to agents operating in India. Though still in its formative years, the organization sponsors an annual expo which has grown from a handful of people to over 1,000 attendees. It's a great venue for learning about the Indian market, its business practices, making connections with Indian real estate professionals and meeting prospective buyers. To get a jump on the event, contact Accredited Buyers Representatives (ABR®s) and International REALTOR® Members (IRMs) in India to prearrange meetings. (See page 6 for more details.)

Go on a trade mission to India.

Many U.S. states are courting Indian companies and investors. For example, Virginia's Governor and economic development officials recently conducted a major trade mission to tout its educated workforce, large Indian community and quality of life. The state is establishing representative offices in Mumbai, New Delhi and Bangalore. In place of tax benefits, Virginia will offer cash incentives to Indian businesses based on capital investment and number of jobs created in the state. Find out if your city, state or province is promoting itself or already has offices in major Indian cities and join the effort.

Cultural Differences

There's a world of difference between Indian and American social customs and business practices. Shalizi believes agents who adapt themselves to Indian customs and go with the flow will be more successful than those who don't. "Your

Indian buyers are the customer, so strive to show yourself in the best possible light from their point of view."

Stay professional. In meetings, hierarchical social relationships are observed. Don't be overly casual or too friendly. High status individuals speak first and those of lower status show deference and listen. Disagreements may not be expressed, but are dealt with later.

Don't talk business too soon. In this high context culture, there are socially standardized patterns for getting to know clients. A relationship will start with establishing common ground socially. This could be done through conversations about sports, movies and family. Trust and comfort must be established before business is done. Also, do not discuss business during meals unless the client initiates it.

Be accepting when your clients are late.

Indians operate on a different concept of business time. Though meetings are scheduled, it is common for participants to be late. You should always be on time and not show irritation when your Indian clients are late.

Understand that family and friends take priority.

Social and family obligations override business commitments. If a client has to miss a meeting because a family friend has an emergency, gracefully express your understanding of the situation. Do not view it as a comment on your abilities or your relationship with the client.

Manage Expectations

When it's time to show your Indian clients properties on your home turf, be cognizant of differences in real estate business practices. The more your clients know what to expect, the better you can manage the process.

For instance, listings are not exclusive in India. Indian clients expect to have to work with many agents to see properties. "You can't just tell your Indian buyers that it works differently here," says Shalizi. "You have to prove it. Show them the MLS, let them pick out properties and then take them on showings of other agents' listings." Do not be surprised if they still try to shop around.

Also understand that in India, transactions and agreements are often done verbally. You will need to educate your clients about the importance of real estate contracts and how purchase offers and counteroffers are used to complete negotiations. Explain that in the U.S. and Canada, real estate contracts fall under the Statute of Fraud and must be in writing to be enforceable.

If you work with Indian agents you may find them very hesitant to disclose any information about their clients. "I got a call from an agent in India who had a client interested in buying commercial property anywhere in the U.S. remembers Shalizi. "However, I wasn't able to work with him because he wouldn't tell me anything about his client or his needs." Remember that the lack of exclusivity in agency relationships in Indian real estate transactions fosters this type of behavior. Still, if the agent will not reveal enough client information to allow you to proceed, feel free to step away.

New Perspectives

Working with Indian clients will introduce you to a fascinating culture that is both ancient and fast-moving. Interactions can become warm and rewarding and earn you many referrals. Developing strong relationships and cultivating one or more niche opportunities can lead to substantial growth in both inbound and outbound transactions. **GP**



PASSAGE TO INDIA

After decades of emigrating out of India to find economic opportunities in other countries, a surprising reversal is taking place. People of Indian Origin (PIOs) and Non-Resident Indians (NRIs) are buying land and in some cases moving back to their homeland.

Indians who have spent much of their lives as expatriates are contemplating returning to India for their later years. As a step in that process, many are investing in second homes which will serve as rental properties until they retire. Others plan to expand their businesses to India. They are buying commercial property to generate lease revenue, planning to make it a landing spot for their business when they're ready to make the leap.

It's not only older well-established emigrants making the move. Young highly-educated Indian-Americans, many of them children of immigrants and eager to be entrepreneurs, are looking for ways to take part in the vibrant Indian economy. To do so, they plan to leverage their knowledge and family networks. Some call it a reverse flow of the brain drain. Still other young Indian-Americans are pooling their funds to invest in property as a way of connecting to the motherland.

A Special Relationship

Non-Resident Indians have traditionally had an important role in Indian society. They left India to improve not only their lives but the fortunes of extended families left behind by sending a substantial part of their earnings home. Their remittances are significant sources of funds for education, health care and small businesses.

According to the World Bank, remittances from expatriate Indians worldwide topped \$63 billion in 2011 and were the greatest of any country in the world, constituting 3.0 percent of India's GDP. While FDI and private equity investments in India have declined from 2008, remittances continue to grow at a rate of over 5 percent annually.

It's important to note that non-residents and citizens of other countries cannot buy land in India, except under special circumstances. Further complicating matters, India does not recognize dual citizenship. If an Indian becomes a U.S. citizen, they are no longer an Indian citizen.

Then how can Indian Americans buy land in India? India recognizes the importance of expatriates and Indian descendants by giving them special status in Indian society. (See *page 6 sidebar for details on these classifications*.) Once a non-resident of Indian descent has applied for and received NRI or PIO status, they can purchase residential and commercial property, but not agricultural land.

Why Now?

Several factors make this a good time for nonresident Indians to pursue their dreams of owning property in India. The economic boom, infrastructure improvements, and growth of the middle class over the last decade have made them believe they can now live the good life in India. Further:

- The rupee has declined dramatically against the U.S. dollar.
- It's a buyer's market. In some areas developers have overbuilt and prices have fallen to reflect the glut.
- Loans are now available to NRIs for up to 80 percent of the property's cost through specific types of bank accounts.

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Two Classifications for Overseas Indian Citizens

1. NRI: Non-Resident Indian.

An Indian citizen who resides outside of India.

2. PIO: Person of Indian Origin.

A foreign citizen whose parents, grandparents, or great grandparents were Indian citizens may apply for PIO status and may also apply for Indian citizenship after seven years residence.

Both NRIs and PIOs may:

- travel to India without a visa
- maintain a bank account in rupees or foreign currency
- own residential and commercial real estate
- sell agricultural land but not purchase it
- repatriate property sale proceeds for up to two properties

Four Ways to Connect with REALTORS® in India

1. Meet, network and learn at NAR-India's Annual Convention.

Visit narindiaconvention.com for more information.

2. Find Indian Accredited Buyers Representatives® (ABR®s) at rebac.net/MembershipDirectorySearch.aspx.

3. Connect with International REALTOR® Members (IRMs) by visiting realtor.org/rofindrealtor.nsf/pages/FS_FREALTOR?OpenDocument.

4. At the REALTORS® Conference & Expo, meet Indian real estate practitioners in the International & 2nd Home Networking Pavilion during India's assigned networking hours.

PASSAGE TO INDIA

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Property Preferences

Residential property is popular because many Non-Resident Indians are looking for second homes they can use later in retirement. Developers are targeting them by building NRI colonies tailored to the lifestyle expectations of returning expatriates. Amenities include pools, clubhouses, private gyms, and children's pools and play yards. In some areas, ultra-premium residential projects are underway.

On the commercial side, desirable properties include front office, IT office and high street retail space. The top cities for commercial investment are Mumbai and Pune in the west, Delhi and the National Capital Area (NCR) in the north, and Bangalore, Chennai and Hyderabad in the south. (See *map.*) For the last few months commercial prices have been declining due to high vacancy rates and the cash needs of overleveraged developers. In India, loan rates are high and material costs are rising. Many real estate professionals believe properties now may be undervalued by as much as 15 to 30 percent.

Market Challenges

Investors who are used to the mature real estate industry practices of the West may be surprised by the frontier-like style of the market in India. If you have nonresident buyers looking for properties there, prepare them for potential challenges.

India's real estate industry is not well regulated. Developers in particular differ greatly in terms of ethics. Buyers may experience widespread delays, requests for additional cash and delivery of substandard construction.

Agents are also unregulated and many have little or no formal education in the real estate market. The NAR-India organization is attempting to address these issues in its fledgling national association, which is newer and modeled after the National Association of REALTORS® in the U.S. It is working to strengthen the national body with an enhanced value proposition for its 20 local associations. U.S.-based franchises are also beginning to take shape in India and will further professionalize the industry, notably RE/MAX India, which in only three years has become India's largest real estate brokerage network and RE/MAX International's fastest growing region with over 100 offices.

State governments and the Confederation of Real Estate Developers' Association (CREDAI) are trying to improve industry standards. Proposed legislation would register and accredit builders, establish escrow requirements, enforce compliance with building codes, and increase efficiency and overall market transparency.

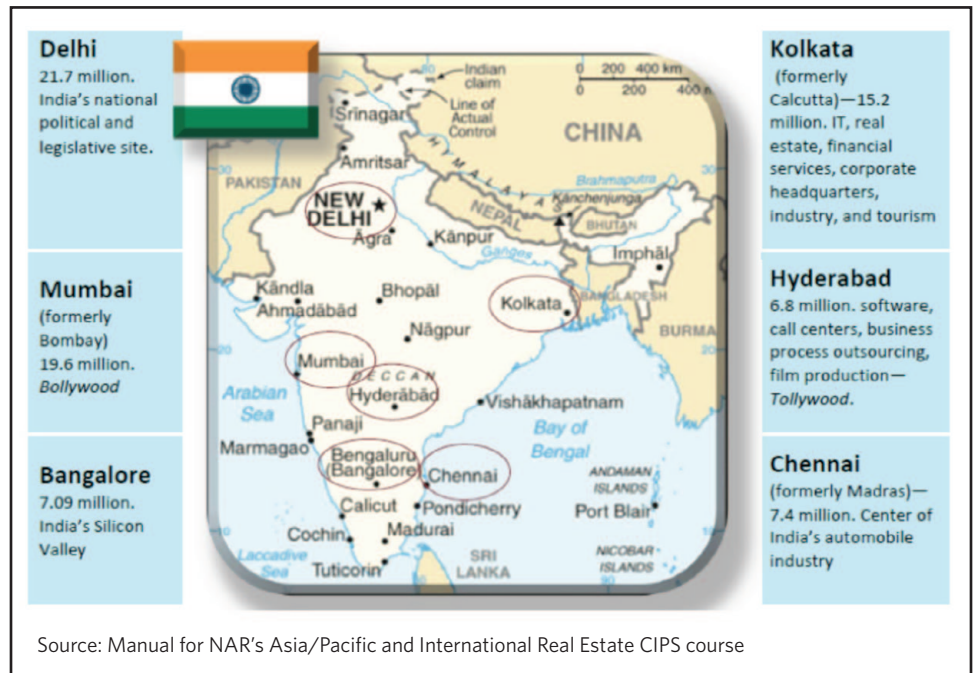


REALTOR.com/ international opens the door to India!

Over 5,000 listings in India will soon make their debut on

REALTOR.com/international.

You will be able to search properties, view photos, print brochures and contact listing agents.



There are other hurdles as well. India does not have a standardized MLS and listings are not exclusive, though change is underway. Pricing and comparable properties are hard to find. For those buying from abroad, exchange rates have been extremely volatile recently. Additionally, buyers living elsewhere will find few good property management firms. Traditionally, absentee landlords rely on local family to collect rent and solve property issues.

Making the Right Connections

Even with these barriers, there are still many Indian expatriates who are interested in investing in India. To assist them you'll need relationships with Indian real estate professionals.

A good way to network is to attend NAR-India's Annual Convention, held in Mumbai this year, but the location changes each year. There you'll meet India's top real estate professionals and developers as well as private investors, venture capital and private equity firms and legal and tax experts. (Go to narindiaconvention.com for more details.) You will soon be able to connect with Indian agents through their listings on REALTOR.com/international.

Other Considerations

Finding and working with reputable real estate professionals will go a long way towards improving your buyers' experience. Some other advice to pass along to buyers:

- **Check for title registration.** Look for prior claims, liens and encumbrances. There are no title companies to do it for you.
- **Find builders with a strong track record.** By dealing with reputable developers there's less chance of construction problems and more opportunity for long-term appreciation.
- **An Indian bank account is required for nonresident buyers.** Visit The Reserve Bank of India at nri.rbi.org.in for more information.
- **Taxes can be high, depending where the property is located.** Anticipate a four to ten percent stamp tax, registration fees, property taxes, and real estate agent fees of one to two percent plus 10.2 percent VAT.

A Two-Way Street

The Indian Diaspora creates opportunities for global sales on either side of the Pacific. Talk to Indian expats in your market about their dreams of owning property in their mother country. You may be able to help them make that purchase. **GP**

Ways to Tap Into Your Local Indian Community

- Dine at Indian restaurants and patronize Indian-owned small businesses.
- Join a local Indo-American Chamber of Commerce.
- Familiarize yourself with local Indian cultural associations and attend their events.
- Follow commercial listings of small retail space, businesses for sale, and lodging opportunities in your market. Many Indian immigrants want to run small businesses.
- Approach local companies that hire visa workers, Indian companies in your area that are relocating workers, and university campuses to offer housing assistance.

REALTORS® Conference & Expo



November 9-12, 2012 • ORLANDO

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The conference features countless opportunities to learn and network with the best in global business, including the following events:

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Features a full day of targeted sessions for international audiences, including an update from NAR Chief Economist Lawrence Yun. Sessions will be translated into various languages. Visit realtors.org/conference to view all the sessions.

EDUCATION SESSIONS

Visit realtor.org/conference, and click the "Search by Audience" link – select "International" to view sessions most relevant to our global audience.

INTERNATIONAL NETWORKING RECEPTION

A free event with hors d'oeuvres and cocktails to welcome our international delegates to the conference.

INTERNATIONAL NIGHT OUT

Join colleagues from around the world for our gala evening and CIPS Awards Ceremony, followed by a reception, dinner and live music to cap off this lively black-tie evening.

INTERNATIONAL & 2ND HOME PAVILION

Network with REALTORS® from around the world at their country networking hours in the International & 2nd Home Pavilion on the show floor. More than 40 countries represented!

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