How corporates see lucrative real estate opportunities in COVID-19

Corporates with better balance sheets are making use of attractive market conditions to buy luxury apartments for their directors or promoters in the name of the company and save on taxes

By Sunil Tyagi, Managing Partner

Source: Moneycontrol.com

It's not only the fence sitters or Bollywood stars who have benefited from real estate deals, thanks to the low-interest regime during the pandemic. Several companies, too, have jumped into the fray.

On July 1, soft drink manufacturer Rasna Pvt Ltd bought a 1,439 sq ft apartment in Juhu for Rs 10 crore. The per sq ft price works out to be around Rs 70,000. It paid a stamp duty of Rs 50 lakh, which is around 5 percent of the total sale consideration, documents made available by **Zapkey.com** show.

Zapkey is an online platform that collates publicly available property registration data.

On June 16, Poonawallah Aviation Pvt Ltd, a Pune-based non-scheduled operator incorporated under the Poonawalla Group of companies which offers its clients a bespoke charter experience, bought a duplex in ABIL Mansion on Hughes Road, Girgaum Chowpatty, Mumbai, for Rs 12 crore, registration documents, a copy of which is with *Moneycontrol*, showed.

The company paid a stamp duty of Rs 60 lakh on the deal, according to the documents.

On May 28, Parle Biscuits Pvt Ltd registered the sale deed of two residential units it bought in the Rustomjee Seasons complex in Bandra East. The two apartments, spread across 1,928 sq ft, were bought for around Rs 10.7 crore each. The company paid a stamp duty of Rs 32 crore on the deal, documents accessed by Zapkey.com said.

There was no response from the three companies.

On March 10, 2021, a bungalow in Delhi's Sunder Nagar area, spread across 867 sq yards (roughly 725 sq m) was registered for Rs 67 crore. The house was bought by a famous industrialist in the name of the company, according to data by Zapkey.com.

Real-estate experts say that about 20 percent property deals take place through this mechanism.

Buying property through a limited firm

Indian corporates have become very proactive in managing their real-estate portfolio after the outbreak of COVID-19. The strategy for several companies has primarily been driven by the need to liquidate assets to generate cash flows.

"Corporates with better balance sheets are making use of attractive market conditions to buy luxury apartments for their directors/promoters or senior management," says Gundeep Singh, *co-founder of Simplease, a platform that offers property management and sales services in Mumbai, Thane and Gurugram.*

"Companies generally buy real estate assets in the corporate entity's name due to various reasons. One is that there is no mortgage interest relief restriction for limited companies. Limited companies have a significantly lower tax rate than individuals who pay income tax. Also, creditors do not have access to your personal assets. These entities can also have access to better loan amounts when looking to grow their businesses," said Ritesh Mehta, head, Residential Property Sales, JLL.

This means it is often more tax-efficient to purchase an investment property through a limited company. When you own a property in your personal name, you need to pay tax on any profit you receive from that property, even if you are intend to use the profits to reinvest in more property. With a limited company, all the profits can be kept in the company and used to reinvest.

Selling shares of property than property itself

Also, in the event of the company which owns a property wants to sell it, there is an option to sell shares of the property rather than the property itself. So, if one is selling the company itself, one does not have to pay stamp duty for the property, which is part of the company.

According to Sunil Tyagi of Zeus Law, often family owned businesses or companies float a special purpose vehicle (SPV) to purchase real estate properties. In the event a property held by the SPV is sold, the company

may not have to pay stamp duty on the transaction as it would entail only a transfer of shares from one owner to the other and saves stamp duty on transfer of property.

Also, most companies have the funds to purchase such high-end properties, which an individual may not have. If one transfers money from a company to his individual account, it will be taxable.

Thus, transfer of money from a company to an individual will attract tax but by buying property in the company itself, such tax can be saved. The mechanism of buying property in the company is sometimes not only tax-efficient but also helps saving on stamp duty, he adds.

The examples cited above typically fall under category 2, where the property has been bought by the company but stamp duty is payable as the property has been purchased and shares have not been sold. Only shares of a company which owns the property are transferred, stamp duty may not be levied.