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## Don't let your house set a money trap for you

Don't buckle under family pressure to buy a house; go for it once your goals are taken care of and you are sure you will live in it for the long term

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Amit Agarwal, 37, professor. Aggarwal bought a house in Ghaziabad before getting married. But later he had to move to a rented apartment near his wife's workplace. Photo: Pradeep Gaur/Mint

Amit Agarwal, 37, a professor at a college in Gurgaon, Haryana, bought a house about six years ago in Indirapuram, Ghaziabad. At that time, he was working at another college in Greater Noida, not far from where he bought his house. "I was

about to get married and my family was putting pressure on me to buy a house,” said Agarwal. Soon after, he got married, but his wife, Meenakshi Aggarwal, taught at a school in Dwarka, West Delhi, and her workplace was too far from their house. “It used to take her more than an hour to reach the school and it was very hectic for her,” said Agarwal. A couple of years later they had a child and they decided to move to a rental house near Deepsikha’s school, so that she could spend more time with her child and continue to work. “We had no option, so we moved to Dwarka. Later on, I got a job in Gurgaon,” said Agarwal. The family thought it was time to sell the house, but the market price was lower than what it cost them. “I bought the house for ₹42 lakh and spent an additional ₹4 lakh on stamp duty, registration fee, brokerage and other expenses, but the current offers are only around ₹45 lakh,” said Agarwal.

Agarwal’s family is not the only one that finds itself trapped. The false belief that real estate prices will always appreciate has driven many families into buying a house that does not suit their needs.

The impact plays out later and can jeopardize your finances in many different ways. Here are some of the ways in which a big investment decision taken too early can affect your finances.

## **Changing needs**

Buckling under family pressure, like Agarwal did, and buying a house too early on can pose many problems. At that stage, often, the house one can afford to buy is not the most suitable, in terms of location or size. Every job change or even a promotion can take you to a new location altogether. But moving a house that you own is not as simple as taking up a new job at a new location. While selling the house is not an issue, you may not be able to afford buying a house in another location. “Buying a home near an up-market area would put you in financial jeopardy,” said Nitin B. Vyakaranam, founder and CEO, Artha Yantra. Also, as your family expands, so will your needs for space and infrastructure around your house.



**Real estate is the most illiquid asset. It can take 6-12 months to liquidate your asset in good market condition**

Owning a house gives you a greater sense of achievement as compared to, say, your mutual fund portfolio, but in many cases, renting a house can make life easier. “It would be wise to stay on rent and avoid long commutes. Also, it makes sense to stay on rent when the value of the home being purchased would not match up to renting it with the same salary,” said Vyakaranam.

## Other goals in life

It is not uncommon to find people disregarding their other financial goals in the hurry to buy a house. “Many times education and retirement goals are compromised as people believe that a home is an investment rather than a consumption asset,” said Vishal Dhawan, founder and CEO, Plan Ahead Wealth Advisors.

“A very common argument used by our elders is ‘Why pay rent when you can pay EMIs?’. The desperation of buying a home at an early stage can leave you with a low surplus and hence jeopardizes long-term goals,” added Vyakaranam.

If you are at a stage where buying a house makes sense, ensure your other financial goals don't suffer. “Savings post EMI should be able to provide for other essential goals like education, travel, retirement or anything else that is essential to you,” said Lovaii Navlakhi, managing director and CEO, International Money Matters, a financial planning firm.

“The retirement goal is above buying a house. Start investing for retirement from your first salary. You might be forced to live at a rented place for a few years, but it's worthwhile. Once retirement savings are on auto-pilot, look to buy a house,” said C.S. Sudheer, CEO and founder, IndianMoney.com.

## Is it worthwhile?

Once your other goals are taken care of, it may be worthwhile to buy a house that you are sure you will live in for the long term, but it may not be the best investment asset in your portfolio.

**Low returns:** If you are getting swayed by the returns your uncle or neighbour made on a real estate asset, think again. Consider a house bought for just ₹20 lakh in 2000, which is now valued at ₹1 crore. While on absolute terms, it has increased five times in 18 years, calculate annual returns and it comes to just about 9.5% pre-tax. Compare this with the average returns by other assets like equity or even gold, which have given 13% and 11.75%, respectively, over the same period.

**Liquidity:** Compared to any other assets, real estate is certainly the most illiquid. It can take six months to a year to liquidate your asset in good market conditions. Besides, you may not get the true value of your asset, if you are in a hurry. Also, typically, it is not possible to dispose your asset in parts, and you have to sell it in entirety. Even in case of plots, until and unless you don't own large parcel of land, you cant sell them in parts.

**Transaction cost:** The other drawback associated with real estate investments is high transaction charges that you incur at the time of buying as well as selling. "There is an additional expense of stamp duty and registration charges. Stamp duty could be 7-8% of the property value, with 1-2% of property value as registration charges," said Sudheer. Legal fee and brokerage that has to be paid both at the time of buying and selling to the real estate agent are additional expenses.

Buying a house is one of the biggest financial decision of your life, so don't rush it. While it is tough to buy a house, it is tougher to sell it should the need arise.

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