Buy a house if you don't plan to change city and can afford it

Renting, on the other hand, gives geographical flexibility, frees up finances

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With the residential real estate segment reviving after a prolonged period of stagnation, prices are likely to move up, albeit slowly. Those considering a house purchase may feel the pressure to lock into the current price. Simultaneously, high inflation is exerting pressure on household budgets. Home loan rates, too, are rising. A married person may also be experiencing parental pressure to 'settle down' (parental-speak for buying a house). For all those struggling to make the buy versus rent decision, here's a roadmap.

Buy if you will use it

Buy a house if you can tick a few boxes. "If you will live in the house, are sure you won't change your city, and can afford the house, you may buy it," says Arnav Pandya, founder, Moneyeduschool.

To check your affordability, see how much savings you have for making the down payment and the amount you can borrow. "The total of a family's EMIs shouldn't exceed 40-50 per cent of one spouse's take-home salary," says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors.

Next, check the area you can afford within your budget. "The house shouldn't be so distant from your spouse's or your workplace that the commute becomes a nightmare. Educational institutes for your children must be at a comfortable distance," says Pandya.

Use a financial calculator

Nowadays, financial calculators have become available that make it possible for you to decide whether to buy or rent. One such calculator is available from Fi, a neo bank (Arthayantra is another player that offers such a decision-making tool).

Fi can help calculate the net worth you will achieve in two scenarios. The first is if you buy a house by taking a loan for a certain tenure (10 to 30 years). To calculate the rate at which the house's value will appreciate, the calculator asks for the city of your choice and then uses National Housing Bank's data to provide a base rate of appreciation. You can tweak this rate, based on your degree of optimism about your micro-market.

The second scenario is where you decide to live on rent and invest the amount thus saved (EMI minus rent) for the same tenure as the loan. The calculator chooses a rate of return for these investments based on whether you are a conservative, moderate or aggressive investor.

Each year the rent will keep increasing until it becomes equal to the EMI. Thereafter, the calculator assumes that no further investment is made. The final net worth is calculated for both the options (at the end of the loan tenure).

YOUR MONEY

"The purpose of the calculator is to enable potential buyers to make the buy or rent decision. based on actual numbers. The calculator can also help the user decide by how much he can reduce his loan burden, tenure, and interest cost by delaying the purchase decision," says Praneet Battina from the investment research team at Fi.

Note that the calculator doesn't factor in the cost of maintaining the house, property tax, and the tax benefit from taking a home loan.

Dos and don'ts

If you have large outflows coming up, factor them in before making the larger commitment to buy. "Think very carefully and dispassionately about your job's stability," says Dhawan.

It is prudent for a double-income couple to factor in only one person's income. "One spouse may have to quit the job to start a family, look after aged parents, or pursue higher studies," says Dhawan.

When buying the primary residence, there is a tendency to exceed the budget and over-leverage. This must be avoided. Also, don't depend on inheritance to buy a house because the timing of receiving it may not match with your needs.

Finally, don't worry excessively about rising interest rates. "In most cases (especially younger borrowers) the EMI will remain stable, only the tenure will increase. Interest rates being cyclical, the home loan rate will rise and fall. Over a 20-year tenure, there will be three-four such cycles. Just ensure your loan is linked to an external benchmark so that rate transmission is quick and transparent," says Pandya.

POINTS TO PONDER BEFORE DECIDING

Benefits of ownership

- You acquire an asset which you can use, and the value of which is likely to appreciate over a long period of time
- If you don't live in it, you can rent it
- While rental yield is low (2-3 per cent), the rent gets revised upwards, so yield improves with time
- Don't have to pay escalating rental to a landlord or keep changing a house at intervals
- Long-term return from real estate can exceed return from fixed-income portfolio of conservative investors

Benefits of renting

- If you are likely to be transferred, or don't want to get tied to a city, renting provides flexibility
- You can change size of house based on change in family size
- Avoid expenditure on repair, maintenance, property tax, etc
- Avoid the pressure that comes from having an EMI — can take sabbatical, start a business
- Can live in a more central locality of a city