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## To Buy or Not to Buy?

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PGIM India wishes you a very happy, healthy and prosperous new year and a new decade. Quite a few things have changed in the last decade - the rise of an on demand economy, e-commerce, move towards a cash less society, advances in health tech, energy efficiency, and so on. With the advent of 5G, there will be even more rapid changes on the technology frontier which will have a profound impact on our day to day lives.

Amidst all the changes ushered by technology, one aspiration that doesn't seem to change for an average Indian is the dream of owning a house. The concept of being settled in life, centres around house ownership and is unlikely to change over the next decade. There are always two aspects to owning a house, emotional and financial. With the rise of an EMI culture, managing the financial aspect of owning a house became easier. The concept of EMIs made it possible for a common man to own a dream house. Sometimes a good thing, when taken to the extreme, becomes counterproductive for some individuals and this can happen in case of housing EMIs as well. The very house that was supposed to bring a sense of stability becomes the source of anxiety thanks to the EMI taking away a major part of ones income every month. A large portion of income going towards EMI payment also means that a lesser amount is available for financial emergencies and other life goals like children's education, retirement planning etc. Over a period it occurred to financial planners that for the financial well being of their clients, there has to be a framework around the two aspects related to owning a property viz. whether an individual should buy or rent a property and what portion of monthly income should go towards EMIs. From experience drawn from the developed world some thumb rules have evolved.

On the topic of buying vs renting a property, majority of the experts from the developed economies suggest that it makes sense to buy a house if the cost of buying the house is less than or equal to 20 times the annual rent. For India this number intuitively could be around 25 times. Assuming a flat is available for a rent of Rs. 3 lacs per annum then it makes sense to buy a flat if it is available for 25 times of Rs.3 lacs i.e Rs 75 lacs or less. If the cost of buying the same property is say Rs 90 lacs or above, then it makes sense to stay on rent and not buy it.

Let's say such a house is available for Rs. 70 lacs, what portion of the individuals income should go towards paying the EMI? Experts believe that from the point of view of long term financial wellness, the monthly EMI for buying such a property should not be more than 28-30% of the monthly income. For a person earning Rs 1 lac per month therefore, the ideal monthly EMI on your home loan should be Rs.28000 to 30000.

The other financial costs that should be factored before deciding to buy are property taxes, maintenance costs and the opportunity cost of money that is paid as down payment to buy a house.

The thumb rule for EMI is a bit tricky. It would need tweaking as per the life stage and type of career of the individual, hence its best to consult a financial planner.

People who have stayed on rent also know its pros and cons and would appreciate that buying a house is as much an emotional decision as a financial decision. If you are not comfortable with the concept of staying on rent even if it is a financially wise decision, it is ok to buy provided that outsized EMIs don't take away the joy of living and hamper your long term financial wellness.

As always staying away from commenting on economy, geo politics, etc because ultimately over a long run all these will be inconsequential and what will matter most is our ability to stick to a sound financial plan irrespective of the noise around us.

Happy 2020 once again and Happy investing.

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