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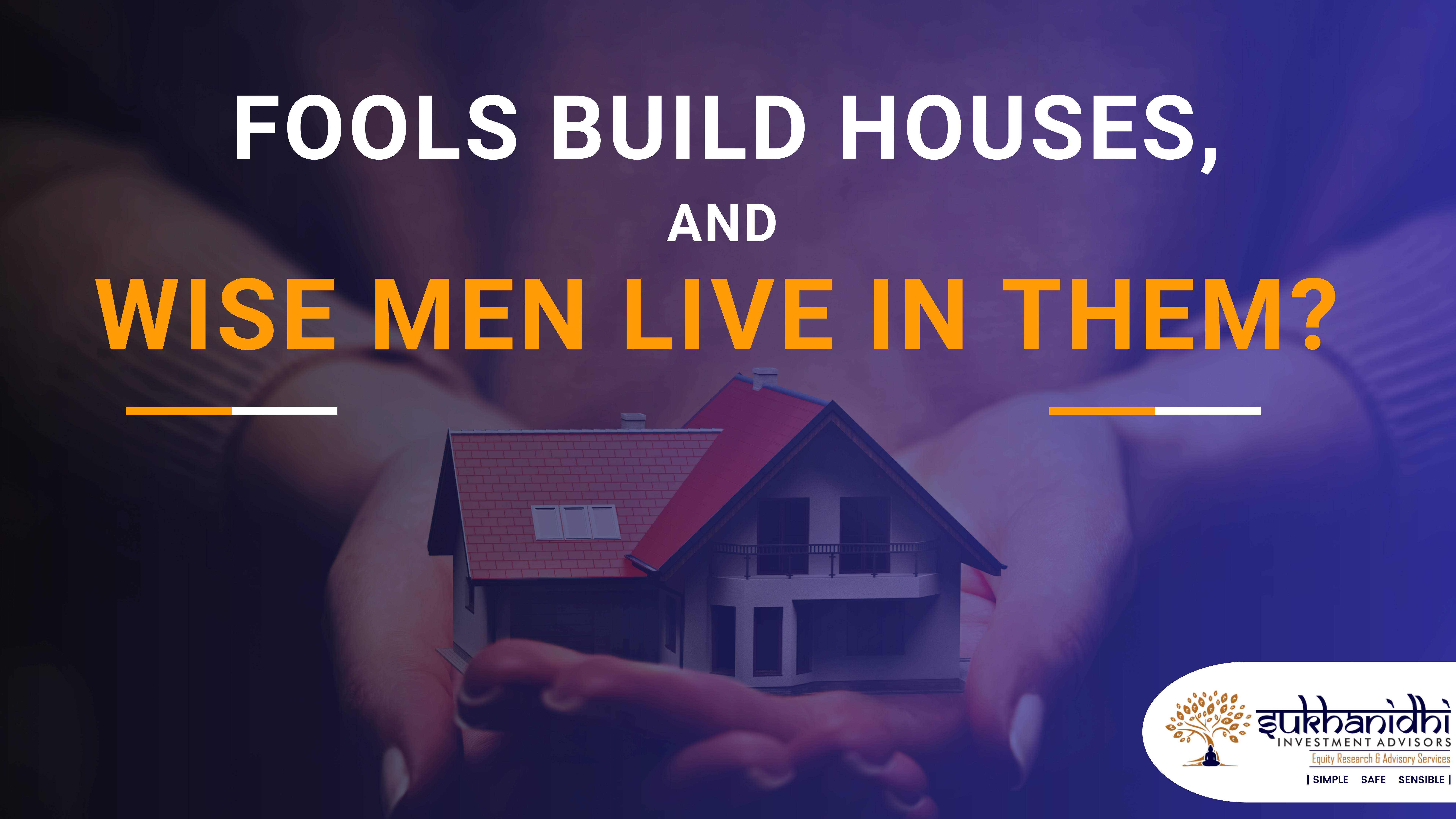
BUY A HOME WHEN YOU ARE FINANCIALLY READY,

RATHER THAN UNDER SOCIAL PRESSURE!

BUYING A HOUSE WHEN YOU AREN'T READY FOR IT FINANCIALLY, WILL ONLY GIVE YOU MORE STRESS THAN JOY!


FOOLS BUILD HOUSES,
AND
WISE MEN LIVE IN THEM?
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THE UNDUE RUSH TO BUY A HOUSE

Over the years, while speaking to my clients and prospects, I've figured that buying a house is number on the bucket list for most of them once they hit their thirties and have a decent bank balance.

While a lot of you may agree with them, I have only one thing to say: It's a foolish decision unless you've already built enough wealth first!

Now let me help you understand the math behind my logic.

Let’s assume the property is worth Rs 50 lakh and take into account the fact that average rental yield in India is between 2.5-3 percent (i.e., the rent you pay is Rs 1.50 lakh per annum (excluding HRA exemption). Home loan interest rates are around 7 percent per annum (post-tax, 5.6 percent, assuming 20 percent tax slab). So the EMI you pay works out to Rs 3.30 lakh.

Home loans are typically limited to about 80 percent of the property value, i.e., Rs 40 lakh (excluding home loan insurance), which means you have to pump in a substantial Rs 10 lakh from your hard earned life savings.

Not to forget, you need to spend another 5-10 percent of the cost on stamp duty and registration of property. Hence, the decision to buy a house should be backed by proper financial planning not based on emotions or peer pressure.

EXAMPLE

One Joshi came to me all stressed, since his company is laying off employees on account of the pandemic. As a result, he's been spending sleepless nights wondering if he's next in line, and worries how he'll pay his home loan EMIs, if his worst fears come true.

Just to give you a background, Joshi earns Rs. 10 lakh per year post-tax, of which Rs. 3.60 lakh goes towards his home loan EMI and another Rs 3.60 lakh is set aside for household expenses. The remaining Rs. 2.80 lakh are all he has left to take care of his family, children's education, pay insurance premiums, car loan EMIs, and also factor in contingencies!

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And if you think he has enough savings to help him sail through tough times, digest this. He has used his entire savings of Rs 10 lakh as well as borrowed Rs 5 lakh from his parents to make the down payment for a house and to take care of registration charges etc.

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SO, IF YOU THINK ABOUT IT LOGICALLY,

BUYING A HOUSE WHEN YOU AREN'T READY FOR IT (FINANCIALLY), WILL ONLY GIVE YOU MORE STRESS THAN JOY!

And Joshi is not alone. Ever since the onset of the pandemic, many others, especially youngsters (who would have otherwise not thought of buying a house at this point in life), have fallen into the trap of taking home loans because it’s been raining offers from realtors.

What if Joshi had chosen not to buy a house and continued staying on rent while investing in the savings (i.e., EMI minus rent) in a high-quality direct equity portfolio yielding a CAGR of 15 percent for the entire loan tenure, (i.e., an approximate difference of Rs 2 lakh per annum plus the one-time lump-sum investment of Rs. 10 lakh (down-payment).

THINK

Over a period of 20 years (i.e., the entire loan tenure) the valuation of a direct equity portfolio would grow to Rs 3.69 crore, whereas the value of home @ 7 percent growth rate would only be around Rs. 1.93 crore (excluding depreciation and the other expenses to be incurred such as maintenance, wealth tax, renovation expenses etc.). The rent Joshi would have paid for the next 20 years (entire loan tenure) at an increasing rate of 5 percent year on year is Rs 49.50 lakh. So he ends up making approximately Rs. 3.10 crores by choosing to stay on rent and Rs 1+ crore more than the value of the property.

While the valuation of the property might increase over a period of time, it is purely based on inflation and you can see the real gains only if you sell the house, which may not be your plan at all.

WHAT WARREN BUFFET'S SAYS ON SUCH MATTERS

Warren Buffet, famous American business magnate and amongst the most extremely successful investors, makes for a perfect example for prioritizing wealth creation over buying a house. He once shared how he postponed buying a house after marriage because that would have left him with negligible capital. Instead, he decided to focus on building wealth first and bought a house only when the down payment amounted to about 10 percent of his total net worth

In case you are wondering, you can calculate your net worth by subtracting your liabilities (debts) such as credit card, car, personal and other loans from your assets such as mutual funds, shares, fixed deposits, recurring deposits, PPF, NPS, commercial properties, land, cash in savings account, other assets etc. If your assets exceed your liabilities, you will have a positive net worth.

Look at the upside. Once you start reaping the benefits from your investments and create substantial wealth, you can actually buy a bigger and better house than you had initially planned. Above all, you can buy the house without having to take a loan at all or borrow a much smaller amount! At the same time, you'll have enough money not to let other expenses, EMIs and contingencies get your anxiety levels soaring!

CONCLUSION

I'm in no way saying that one should not buy a house. The game is all about the timing. So, avoid any big financial commitments such as home loans in the initial years when you start earning, and instead focus on sowing the seeds for long-term wealth creation by finding the right investment avenues such as equities. Trust me, it'll save you a lot of stress when you buy that house without having to borrow money, and leave you in a better position to live the life you've always dreamt of.

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Why low interest rates and property prices aren't reasons enough for rushing to buy a house

Buying a house when you aren't ready for it financially, will only give you more stress than joy.

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