

Renting real estate can be a worthwhile option

Not, invariably, in the long run, especially for those who aren't wealthy; however, it does make sense in certain circumstances

CLIFFORD ALVARES

Possibly the biggest buying decision of your lifetime — purchasing your own house — has become a lot more difficult than before, with prices rising in the big cities of Mumbai and Delhi and several other parts. In certain prime locations, the affordability index has gone through the roof, posing big questions before property aspirants: To buy or to rent? Will property prices correct in 2014?

A few years ago, a typical two-BHK house was available for around 10 times the average annual income in, say, a technology hub like Bangalore. While incomes have not risen much, property prices have increased at a faster pace and are now 12-14 times one's average income.

In Mumbai and the National Capital Region, there has been a huge increase in property prices, making it unaffordable for one to own a house.

Demand for property prices everywhere is driven by the emotional need to own a home and a lower affordability factor. While there's a strong growth in

demographics and many new young workers would like to own their own home, affordability has been a niggling worry.

Income levels have stagnated and property prices have increased, making affordability difficult in 2014. High inflation and high interest rates have been a deterrent to new buyers in financing their own homes. This has seen demand in Mumbai and Gurgaon dip by around 25 per cent, though residential property prices have barely corrected.

Bank's thumb rule

A thumb rule of affordability that banks usually follow is to grant a home loan about 60 times your gross income. So, if your income is around ₹1 lakh a month, you could afford a house ₹60-80 lakh, given that you can make the down payment of around 20 per cent. On progres-

RENT OR BUY?

If property prices correct in 2014, renting now and buying later could be beneficial

Property price (₹)	3,00,00,000
Rental per annum @ 3% (₹)	9,00,000
Rent every month (₹)	75,000
Capital cost if price dips 10% (₹)	2,70,00,000
Savings (adjusted for rent) (₹)	21,00,000



WHEN RENTERS GAIN

- Rental yield are lower at 1-2% of current market value
- The property of your choice is not available and you don't mind a wait

WHEN BUYERS GAIN

- If the property is expected to appreciate typically in middle-income segments
- Buying is better if you stay in your own home for over three years
- Buyers of property in the lower end can save substantially due to tax rebates

sively lower incomes, banks grant a lower loan, after adjusting for living expenses.

In Mumbai, property prices have soared in many parts, with a decent two-BHK apartment costing around ₹1 crore or above in the suburbs and closer to ₹3 crore in central Mumbai.

This trend is prevalent across many cities. Says Bikram Sen, chief executive, Arthveda Funds Management: "Property prices in Mumbai are out of reach of the low and middle income segments, even in the suburbs. Many other cities are also seeing high prices."

On the other hand, rentals in many areas have not gone up commensurately. Says Sanjay Dutt, executive managing director, Cushman & Wakefield: "Property prices have increased in many parts of the country but rents have not gone up that much. Rental yields are one to four per cent on current property values and in certain parts have come down despite an increase in property prices."

So, should you buy a house or rent one? If looking for a property in premium places, there's a high likelihood that you

might not be able to earn good capital appreciation on your purchase from current levels in 2014, say experts. Premium property prices have peaked and are unaffordable for most buyers.

In such a situation, experts say it makes sense for a buyer to put his purchase plans on hold for now and look for property in areas that are cheaper.

Says Dutt: "If your area requirement is higher and you are not able to identify the location of your choice, it makes sense to lease property in upper-tier areas and buy in areas that are cheaper, so as to hedge your property risks."

Those wanting to buy upper-tier properties could consider renting for some time in high-end markets and wait for prices to cool off where you plan to buy a property. Annual rentals are one to four per cent of the property's price in many pockets.

Says Dutt: "If one buys in a location where chances of appreciation are better, while renting in places where the prices are high, you will reduce risk. You will hedge a price hike risk and at the same time get to enjoy property at high-end

locations. There will not be a sword hanging above your head if property prices correct in upper locations."

But renting is not a long-term option, though annual rentals are only about two per cent of the property price in many locations. Over the long run, factors like how fast prices and rents rise in a particular area and how long you plan to stay in your home play a big role.

Renting works best over a short period, say, one to three years, and if property prices correct a little at the location where you plan to buy property.

If one is looking for a house and can afford it, it's always best to buy one, rather than hope for prices to correct. Sen reckons if you can afford it, there's no reason not to buy a house for the long run, especially in the low and middle income segments.

Says Sen: "If you do not have your own place to live when you can afford to, you should buy. In some places like Mumbai, affordability for low and middle income segments is a problem. But in many other places, it's always good to have your own property to live in."