Should I Buy Or Rent A Home?

The Answer Changes As You Age

AnujPuri.com

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Have you ever asked, “Should I buy or rent a house?” You’re not alone. Millions of people want to know which is better.

There is, of course, no straightforward answer to the question of whether one should buy or rent a home. A lot depends on individual preferences, and preferences - led by mindset - change as we age.

Most millennials today prefer the ‘Uber’ way of life – buy nothing, rent everything and either save or invest money in mutual funds or stocks or other asset classes.

However, when Indian millennials cross the age of 40, they invariably experience a yearning to settle down. Their outlook on what constitutes a good financial decision also changes.

The two central arguments for buying versus renting a home are related to finance.

1. Investment in real estate is an investment in a performing asset. The asset either provides a roof over

one’s family’s head or can generate rental income and, with patience (given the current market scenario) also considerable long-term capital appreciation.
2. Rental outgo is a dead expense and not an investment at all - it pays for an immediate need but generates no returns, other than a small HRA tax benefit.

There are several contrarian arguments against these two rationales. One is that millennials want the flexibility to pack up and go as and when their jobs demand it.

Most of the other counter-arguments revolve around finance, the central one being that investment in stocks and mutual funds generate better returns on investment than property does.

In the current real estate market environment, that can certainly be true, depending on whether one considers the current returns on mutual funds spectacularly gratifying.

However, it is also true that one's outlook on life, and the perspective that this outlook brings forth, change with age.

The 'Uber way of life' has built-in limits to its logic. Buying a car is not the same as buying a home.

It is certainly true that it costs less to pay for rides rather than buy a car. The Paying for rides circumvents the hassles of finding parking every day and paying for vehicle maintenance.

However, automobiles and homes are two very different asset classes. A car begins depreciating from the moment one drives it out of the showroom, and it's more or less all downhill from there.

This is because cars are not scarce on the market - at any given time, supply heftily exceeds demand.

A home, on the other hand, appreciates because one locks in the value of an increasingly scarce commodity - space.

Investing in a freehold apartment is also investment into a share of the project's land. At some point, all urban locations stagnate to a point where no further development is possible.

It may not seem so in the current market conditions, but real estate is eventually an irreplaceable commodity whose value lies in future scarcity.

This is why real estate is so costly, and why housing prices cannot and will not soften beyond a certain point.

Unlike a home, buying a car is not a lifetime investment but an increasing liability. In fact, the 'Uber' way of thinking is not really pertinent beyond automobiles at all.

How Priorities Change As We Age

A typical Indian's life unfolds along fairly predictable lines. There will be a family in the picture by age 40, and putting down roots will have become a priority.

There is no way of speeding up this process, and there is also little point in arguing with the various denials that are the prerogative of youth.

However, this process of wanting to put down firm roots kicks in at some point. If it didn't, we wouldn't have a residential sales market at all - we would be predominantly a renting nation like the US or UK.

Apart from that, if nobody bought homes, there wouldn't even be a rental market since someone has to own rental homes.

If you haven’t invested in a property by the time this change in outlook occurs, things can get difficult.

Your salary increments may or may not have kept pace with inflation, but because of real estate’s scarcity quotient, property prices will definitely have increased.

In addition, you’ll have already made a number of inescapable financial commitments.

The Financial Booby Trap of Middle-class Life

Most Indians who have not reached the age of 40 have limited home-buying options. Your household income won't be anywhere close to a 'lifetime peak' by that age.

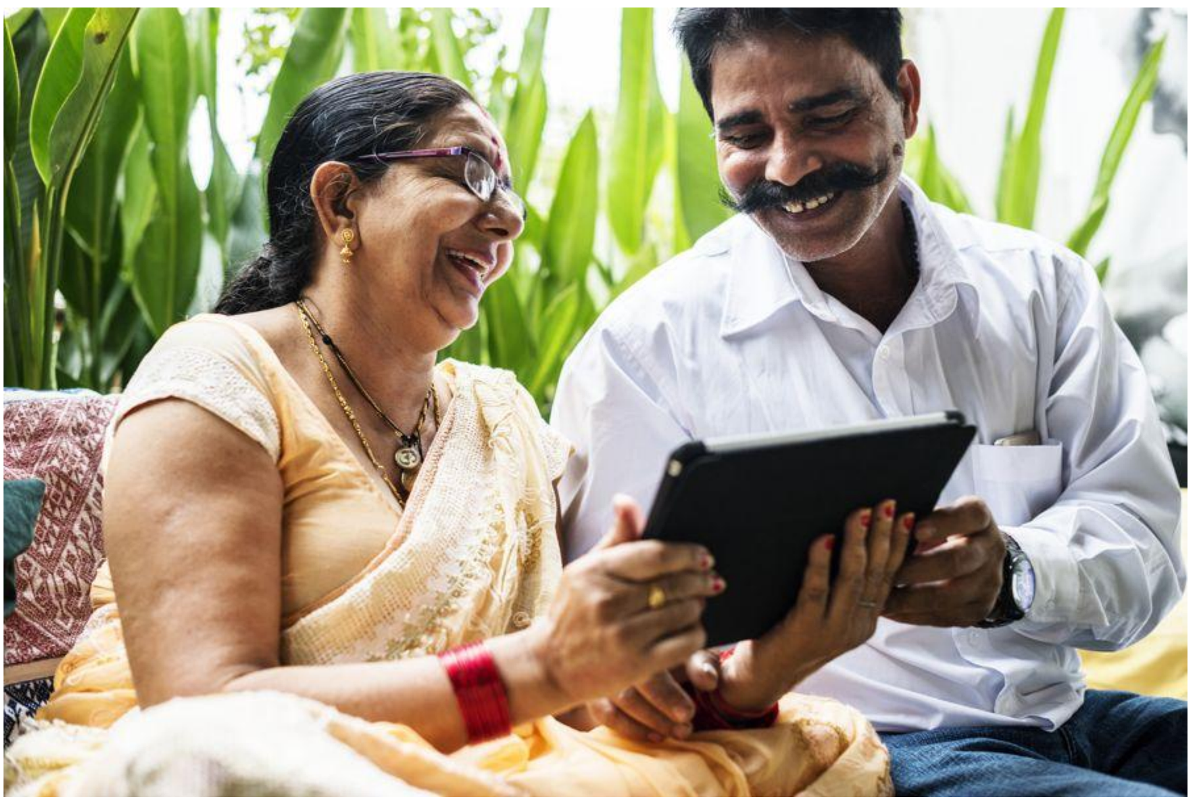
Making a sizeable down-payment and a long-term commitment to service a home loan is daunting, as a number of other facets of day-to-day life require steady infusions of money in these crucial years.

Insurance, pension plans, mutual funds, children's education and medical care for the family - especially children and elders - are inescapable realities.

These are all inalienable aspects of a typical Indian's life. Not investing in them at the right time, and to a sufficient degree, can and will lead to problems and regret later on.

While there is much to be said for investing in a home as early in life as possible, there is little merit in over-leveraging one's budget.

However, home ownership will invariably become a priority at some point. it would certainly be unfortunate if you take this crucial decision a little too late in life.



Beating the Odds Without Breaking the Bank

One of the ways around this conundrum is to buy a property in a cheaper emerging locality rather than in a costlier established area.

Given the rapid pace of urbanization in the country, a well-chosen location will develop quickly. The addition of transit infrastructure will, for all intents and purposes, bring it 'closer' to the main city.

To paraphrase a well-known Mumbai developer's hoarding for an upcoming township - *'If you think Panvel is far, think of Powai 10 years ago*.'

This is not only a clever promotion - it accurately captures the big difference improving connectivity makes in a location that seems remote and unimportant today. It also forms the basis of a very sound investment rationale.

Location, Location, Location

Lord Harold Samuel, a British real estate tycoon, has been credited with coining this famous saying - *'There are three things that matter in property: location, location, location*'.

Whether the late Lord indeed invented this timeless truth about real estate investment has been debated, but there is no argument about its core wisdom.

Emerging areas not only offer the most attractive property prices - they also have the highest appreciation potential. The key word in the term ‘growth corridor’ is ‘growth’.
If there is no scope for an area to grow further (in terms of civic and social infrastructure, economic drivers and overall real estate expansion) investments into it will not ‘take off’.

There can be tremendous advantages to investing in a home in such an area while it is still in its growth phase.

Locking in and fostering the 'equity' in such an investment can eventually yield a considerable return on investment, especially considering that more established areas - though costlier - don't see much appreciation.

If you have the budget for it - or, to be more precise, have reached the requisite degree of financial comfort - there is certainly wisdom in buying a home in an established area.

From an investment perspective, the rental income of a property in a central location is always higher. From an end-user perspective, there are several benefits of living close to the focal point of economic activity.

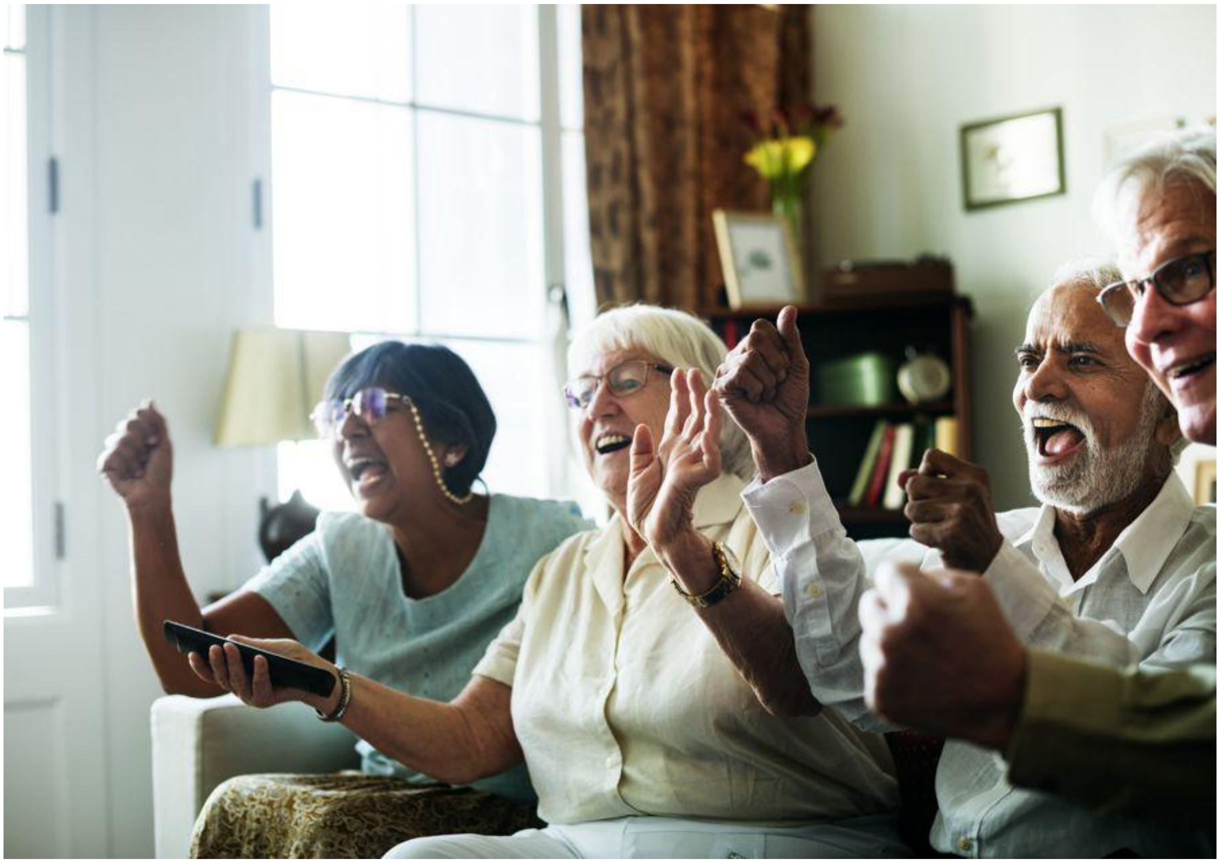
A shorter commute to work means better work-life balance. Living in a more central area also helps while scouting for better employment opportunities, and you have access to more exciting recreation and better healthcare.

It is because of these advantages that properties in established central locations cost a lot more. Of course, such properties also invariably involve more traffic congestion, air pollution and a higher cost of living.

However, when you are younger, you can put up with the 'hardships' of central city living to derive the undoubted benefits.

This brings up one final thought on how people's preferences with regards to real estate change as they age.

The fact that most senior living communities are on the outskirts of smaller towns and cities is no accident.



These communities are for people who have put in a lifetime of 'hard urban living' and now want to live in more peaceful environs, with the right facilities to make living easier than it was before.

Until that point in life, living as close or as well-connected to the centre of economic activity is indeed of paramount importance.

One of the most-asked questions during job interviews is, “Where do you see yourself five/ten years from now?”

The response to that question can tell a lot of about the person being questioned, such as their optimism, ambition and also their level of realism.

No matter how young you are, it pays to ask yourself a similar question about owning a home. How do you see yourself and your family living when you inevitably reach the age of 50 or 60?

On rent, tied into constant rent escalations brought on by space scarcity? Or in your very own home?