

# Purchase of house a good investment?

There is a school of thought that believes it is better to stay on rent than buy a house. The logic is that purely from an investment point of view, a house purchase is a loss-making proposition

NAMRATA KOHLI

Who is wiser - the guy who bought the house he liked, or the guy who decided to take up on rent, the house he loved! From an investment point of view, a house purchase is not the best thing to do, or so believes one set of people.

The argument that supports renting accommodation treats a house as a liability and attributes several cost heads under the 'real' cost of housing like initial down payment, closing costs, initial upgrade costs, furnishing costs and upkeep, mortgage payments - principle, mortgage payments - interest, property taxes, insurance and maintenance plus brokerage at the time of sale. The cash flow in includes house price appreciation and the tax deductions. The returns are proven to be any day better, when you put the same amount in other financial instruments.

Dinesh Jain, an investor, says, "If you parked the same amount in other financial instrument, you would get far greater returns. But in reality, who cares about real estate market? Bull, bear or bubble?"

When it comes to housing, we need it so badly and we base our decisions on pure emotions rather than rationality. Most of the time, we are told by media, books and friends, that buying a house is a great deal and renting is throwing the money 'down the drain'. But in fact, renting is a wiser thing to do from a return on investment point of view."

Krishnan Srinivasan, Infrastructure consultant, does a mathematical analysis of investment in a house worth Rs 1 crore. He says that one needs to compute the cost of the house at buying time, holding period and selling time. If you have plans to sell the house and there is an exit time for this project. Also there is a cost associated with it.

Krishnan, says: "If we do the calculation for a house worth Rs 1 crore and consider down payment as 20%, 5% as closing costs, 5% as upgrade costs, the loan amount would come to Rs 85 lakh. Assuming the maintenance at



the rate of 0.25%/year; insurance at the rate of 0.25%/year; prop tax: 2%, brokerage at end of 30 years - 2% on sale value of house, upfront payment - Rs 25 lakh (Rs 20 lakh down payment plus Rs 5 lakh closing costs), rental income Rs 40,000/year with increment of 10% every 2 years and interest rate 9%.

"Assume that the house is not sold in between mortgage period; the house then would have to appreciate at least 9 times in 30 years for the houseowner to make Rs 1 crore in profit from this investment. If you invest the same in stocks and even get a return of 9% per year for 30 years (which is very conservative considering the economy rate of 9% now), you would make around Rs 13 crore! To get the same return from house purchase, the property would have to go up 24 times!"

"This is only possible if the house is bought at a very low rate and the area is developing rapidly (rule of thumb for such cases is property doubling in value roughly every 5 years). Now, when a little more finessing is done with 4% inflation, 30% tax rate, one finds that the house would have to appreciate 58 times to get the same post-tax return as a Rs 1 crore investment with a 5% real rate of return (about Rs

## QUICK BITES

Developed markets have rental yields of almost 5%, way higher than India and also 2% higher than inflation. Indian rental yields are just too low. With even fixed deposits promising 9%, financially, rental is a far superior investment unless you firmly believe that the capital value will skyrocket soon, since demand is way less than the supply. In India, people do not buy for rental returns as that is minuscule at the rate of 2-4% - they buy for the capital value appreciation. Besides, there are intangibles associated with home ownership - security, stability and pride - which play an important role as well

2.86 crore) and 30% tax rate. Rule of thumb says house prices double every 5 years - so, a house would go up by 64 times by end of 30 years theoretically. But this is rarely possible and depends on a number of factors."

In Delhi, and a majority of the cities in India, rental yields are less than 2-

3%. Sharad Duggal, a Gurgaon-based software professional, says: "Developed markets have rental yields of almost 5%, way higher than India and also 2% higher than inflation. Indian rental yields are just too low. With even fixed deposits promising 9%, financially rental is a far superior investment unless you firmly believe that the capital value will skyrocket soon, since demand is way less than the supply."

The primary reason for low rental yields may be that the capital value is in a bubble, if we assume rental to be a true indicator of demand and supply. The big question is - will prices actually keep doubling? Can they? In the US, this myth was broken rather painfully, as reality struck reality. So, renting is definitely better than buying a property if looking at it as purely an investment.

But that is one side of the argument. The other is that capital values appreciate in India at a rate, like they do nowhere else in the world. Ashok Mehta, who stays in Dwarka, says: "I bought my house in 2005 for Rs 30 lakh and in six years the value has increased to Rs 1.25 crore. The rental value today that my house fetches is Rs 20,000, which is over 8% of the initial capital investment. If you were to factor in the rate of interest of home loan which I paid over last six years at 10% per annum, then it sums up to approximately Rs 11 lakh, still the capital value appreciation has been four times over."

In short, the capital value appreciation typical to Indian real estate market, is what bails out the homebuyer; the rider is that one should have a long term horizon, a minimum 5-10 years!

Also, if you choose to invest in markets which are relatively new, the gains are many times over. In India people do not buy for rental returns as that is minuscule at the rate of 2-4% - they buy for the capital value appreciation. Besides, there are intangibles associated with home ownership - security, stability and pride - which play an important role as well and which cannot be quantified.

## Wonderful accessories

Beautiful accessories change the look of your home and make it more beautiful and welcoming too

ANJALI TIWARI

A house does not look beautiful, attractive, welcoming or inviting just because of the walls, floors, roof, etc. It is primarily aesthetic accessories that make it beautiful and make it stand out. Lamps, taps, handles, rods, etc, are accessories that bring a show to your home.

Handles give an elegant look to any house. In the market, you can find numerous designs of handles made out of different material - brass handles, wrought iron handles, cast iron handles, steel handles, wooden handles, glass handles, handles with antique polish, and many more. And these are available in every conceivable design.

Glass pull handle: It gives a unique touch to the door and it comes in C, H, S, etc, shapes. You can find this handle in brass, steel, iron also.

Peacock design: This handle is a little expensive as it has beautiful and intricate carvings on it. You can find this handle in silver, antique and gold finish.

Teddy handle: It is a great choice for the kids' room. It comes in different colours like red, blue, yellow, etc. You also get fish handle, Mickey handle, etc, in the market.



Besides these, you can also find handles with different figures like handles with adivasi figures to give an ethnic look to your room.

Lamps also play an important role in the accessories, as tube lights, bulbs and CFLs are going out of fashion. You can even find multi-purpose lights with clocks and phones! In the market, you can find metallic lamps, plastic lamps, paper lamps, clay lamps and many more in various designs.

Rods can also add beauty to a room. Be they curtain rods or rods to hang towels. Nowadays, you get fibre rods, metallic rods, wrought iron rods, glass rods, wooden rods, etc. These rods come in several designs. Wooden and glass rods are a little more expensive than others.

No home is complete without water arrangement and when water comes out from a beautiful tap, it gives a wonderful feeling. You have choice in antique, glass and metal. Always choose a tap that has arrangement for cold and warm water. Go for washer-less taps, which have ceramic dish, as they are more durable. These taps also come in beautiful designs.

## How to water indoor plants

The way you water the plants inside your home determines their health

Use your finger to check the moisture of the soil often. Avoid watering too often because too much moisture can be harmful to plants

If the plant is wilting from the stem out towards the leaves, it may be a sign that you are over watering the plant. Other signs of over watering are lower leaves drooping, discoloration, and plant stops growing

If the plant wilts along the outer tips of the leaves first, you may not be providing the plant with enough water

Pour enough water in the pot so it runs out through the drain holes. If the pot is resting on a saucer, be sure to dispose of the water that collects in the saucer

Use water at room temperature  
Use a self-watering technique if you do not remember to water your plants. One example is to saturate a wick and place one end of the wick in a dish of water. Insert the opposite end of the wick into the soil of the potted plant

Another way to do it is to insert a strip of felt into the base of a container plant with a stick.



Place the container on a raised surface in a dish of water. Allow the felt to rest in the water, and the felt will act as a wick, drawing water to the plant as moisture is needed

Opt for self-watering pots in plastic compartments along the base which the plant roots are able to grow through and receive water from a reservoir beneath.

## How to adjust in a small flat

Small homes are gaining a large clientele as they are easy to maintain and are cost effective. ET Realty tells you how one can settle for a small house happily

VIVEK SHUKLA

After living for decades in a spacious government accommodation in Lutyens' Delhi, S K Chopra (name changed), a senior government officer, shifted to a 2BKH flat in East Delhi post retirement. It was a nightmare for him, as well his family, to settle into such a small flat, in comparison to his government accommodation. The early days in the new home were a real challenge for the Chopra clan.

However, things started settling down once Chopra met an architect who suggested several measures to help accommodate his household stuff. Chopra says: "On the suggestion of an architect friend, we removed the huge ceiling fans and tube lights from the flat, to start with. Instead, I started using fluorescent bulbs that look less ostentatious and are equally effective. That brought a remarkable change to the place. It suddenly looks bigger."

Admittedly, it is a huge task to manage in a small flat after living in a bigger place. Azmal Zaheer Khan, an architect, says adjusting into a nano-sized house is a tough call for many. They find it really difficult to manage. Then, what is the answer to their woes? "It would be good for homeowners to opt for minimalism in their homes and workspaces. I feel that adjustment is the only answer to face the reality. If your house is small, then use your resources in a judicious manner. That way you not only help ease the burden on nature but also on your pocket," Khan says.

Interior decorators also suggest that one should avoid using heavy and ornate furniture. Instead, futons, Japanese furniture, and cushioned sit-outs are a more realistic option. Minimalist and stylish contemporary furniture can be ideal for making the most in design ideas for a small home.

A small house needs planning and careful selection of display items when it comes to the décor elements. Floating shelves can help in saving precious floor space. Moreover, try to avoid bright colours on the walls. They cut the light. You should opt for mint, lemon yellow. You can also use a huge mirror with an ornate frame to extend your room without knocking out a wall. Moreover, use light coloured curtains



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and wise planning.

Advocating the construction of more small flats, Sanjay Khanna, director of Kailash Nath Projects Pvt Ltd, says that such flats are easier to maintain. It is easier to heat or cool them. They are also easier to clean and their occupants spend far less to decorate them as there is less space to fill.

It goes without saying that if your flat is small, your kitchen cannot be big. Hence you can get vertical storage space made for your bottles. Nilima Sharma, a banker, says that once she shifted to her DDA flat after living in a spacious Chandigarh house, she also decided not to keep a dog with her. Nilima says: "While it was easy to keep a pet or dogs in a bigger home, it was not possible to accomplish this in smaller flats, though some people still manage." So, is it unthinkable to live in smaller homes after staying in big houses? Kajol Makhijani of Mak Realtors says that this is not true as a large number of people in areas like New Friends

to let the sun seep in. A huge mirror can benefit small room décor, adding to the existing space. A small apartment can look chic and elegant with clever designing

Colony, Friends Colony, Sukhdev Vihar, Kalandi or those areas which are close to the Yamuna are shifting to smaller homes in Noida. Reason? All these areas face a huge mosquito menace. Hence, people settle for small but clean locations for living. Moreover, they get a nice place on rent on far less sum than what they were paying in South Delhi. Given this, it cannot be said that those who lived in bigger places earlier, find it tough to settle into small homes.

Nuzhat Alim, an interior decorator and director of ILD group, is of the opinion that small home design requires planning at design level for storage options; storage in the living, kitchen and bathroom areas. Typically, small houses tend to be as small as 65 square feet! Small houses are gaining in popularity as homeowners realize the many benefits of sacrificing living space in order to save money. Small houses are also important to those with environmental concerns, as they realize how scaling back on space can save on gas, electricity, cooling costs and even building materials.

Sanjay Khanna adds that those who live in small homes are free from paying huge maintenance charges. And there is nothing big or small - it is your budget which decides everything. If you cannot afford big a home, settle for a small house happily and try to adjust there, sooner rather than later.

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