



How much can you afford to spend on a house?

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Home prices in India's top seven cities rose 59 per cent, from ₹5,826 per square foot (sq ft) in 2021 to ₹9,260 per sq ft in 2025, creating an affordability crisis for buyers, according to a recent report by Anarock. Buyers must carefully assess what they can afford.

Make sufficient down payment

Banks typically lend up to 75-80 per cent of the agreement value. They do not fund stamp duty, registration fees, furnishing and other additional costs. "Buyers often wrongly assume that the bank will fund about 80 per cent of their total cost," says Arvind Rao, founder, Arvind Rao and Associates.

Buyers should aim for a down payment of at least 20-25 per cent. "A down payment of 30-35 per cent is even better if affordable," says Vishal Dhawan, founder, Plan Ahead Wealth Advisors. A larger contribution controls EMI pressure and offers protection against rate increases.

Keep EMIs within limits

The home-loan EMI should ideally

remain within 25 per cent of net take-home income. "All EMIs together should not exceed one-third of income," says Arnav Pandya, founder, Moneyeduschool.

The appropriate ratio also depends on whether the household has one income or two. "All EMIs together, including the home-loan EMI, should ideally not exceed 40 per cent of one income in a dual-income household," says Dhawan. Using one income as the base protects a couple if one partner's income is disrupted.

Don't overextend tenure

The tenure should not extend beyond the borrower's working life. "Do not extend the tenure to 30-35 years merely to make the EMI affordable," says Pandya. A longer tenure raises the total interest cost. Borrowers who intend to prepay may opt for a tenure of up to 20 years. Older borrowers should choose shorter tenures because their job security is lower. "They should aim for a 10-15-year tenure," says Dhawan.

Watch for signs of overstretch

Difficulty in arranging the down

payment is one warning sign. "An EMI above 50 per cent of net take-home income is a red flag," says Rao. Other signs include using emergency or retirement savings and relying on more than two or three borrowing sources.

"Buyers who stretch must test whether they would still be able to afford the EMI after a job loss, a health-related income interruption or the loss of one income in a double-income household," says Rao.

Protect other financial goals

The price of defaulting on a home loan is high. "An unaffordable housing commitment forces the buyer to cut spending or investments elsewhere," says Pandya.

High home-loan EMIs could leave little room for discretionary spending such as travel. If the emergency or medical funds are depleted, this could lead to additional debt in case of illness.

Wealth accumulation, retirement and other financial goals

Factor in ancillary costs

- GST applies to under-construction properties
- Stamp duty and registration add to cost
- Loan-processing, valuation, documentation charges and stamp duty on loan amount apply
- Brokerage payable if broker used
- Parking, amenities, clubhouse carry extra charges
- Renovation, interiors and furnishings among largest additional costs

may take a hit.

A constant EMI burden also reduces career flexibility. The borrower may be unable to move to a lower-paying but more satisfying job, take a career break or start a business.

Delaying the purchase and renting preserves flexibility. The prospective buyer can save the difference between rent and EMI, build a larger down payment and take a smaller loan down the road.

Retain emergency savings

A two-income household should retain at least six months of expenses and EMIs, while a one-income household should hold about 12 months in the current environment of low job security, according to Dhawan.

Be prepared for higher rates

Most home loans carry floating rates. When rates rise, the tenure increases first and then the EMI.

Interest rates may move by about 2-2.5 percentage point from the bottom to the peak of a cycle. "Homebuyers should have the buffer to handle a 1.5-2 percentage points increase," says Dhawan.

Prepayments can offset the effect of interest-rate increases and are particularly useful during the early part of the loan. Switching is prudent when the benefit of a lower rate exceeds the total transaction cost. Finally, obtain a pre-approved loan before searching.

It reveals what a buyer can afford realistically. Prefer a ready-to-occupy property to avoid paying rent and an EMI together. Use bonuses and salary increases to prepay. Read Online