### **How to Calculate Your Real Estate Affordability: A Step-by-Step Guide**

### Buying a home is a milestone, but overextending financially can lead to stress and instability. Calculating affordability isn’t just about loan eligibility—it’s about balancing your income, expenses, and lifestyle to find a property that fits your budget *comfortably*. Here’s how to determine what you can afford:

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### **1. Assess Your Income & Debt-to-Income Ratio (DTI)**

### Your gross monthly income (before taxes) is the starting point. Lenders typically use the 28/36 rule to gauge affordability:

### 28% Front-End Ratio: No more than 28% of your income should go toward housing costs (EMI + property taxes + insurance + maintenance).

### 36% Back-End Ratio: Total debt (housing + existing loans like car/student loans + credit cards) shouldn’t exceed 36% of your income.

### Example: If your monthly income is ₹1,00,000:

### Max housing cost = ₹28,000/month

### Max total debt = ₹36,000/month

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### **2. Calculate Your Down Payment**

### Most lenders require a down payment of 10–20% of the property’s value. A higher down payment reduces your loan amount and EMI burden.

### Savings Goal: Aim to save at least 20% to avoid additional costs like Private Mortgage Insurance (PMI) in some markets.

### Emergency Fund: Ensure you retain 3–6 months’ worth of living expenses post-down payment.

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### **3. Estimate Additional Costs**

### Beyond the property price, factor in these expenses:

### Registration & Stamp Duty: 5–10% of the property value (varies by state).

### GST: 1–12% for under-construction properties.

### Maintenance Charges: ₹2–10/sq. ft. monthly for apartments.

### Interior Work: ₹1,000–3,000/sq. ft. for basic to premium finishes.

### Property Insurance: 0.1–0.2% of the property value annually.

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### 4. Use the Affordability Formula

### Total Affordable Price = (Savings for Down Payment) ÷ 20% *(Assuming a 20% down payment)*

### Example: If you’ve saved ₹10 lakh for a down payment: Total affordable price = ₹10 lakh ÷ 0.20 = ₹50 lakh.

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### **5. Check Loan Eligibility** Banks approve loans based on income, credit score (aim for 750+), and existing liabilities. Use this simple formula: Max Loan Amount = (Monthly Income × 36) – Existing EMIs

### Example: If you earn ₹1,00,000/month and pay ₹15,000 in existing EMIs: Max loan EMI = (₹1,00,000 × 0.36) – ₹15,000 = ₹21,000/month. For a 20-year loan at 8.5% interest, this translates to a loan of ~₹30 lakh.

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### **6. Test Affordability with Scenarios**

### Use online EMI calculators to simulate different loan tenures and interest rates. Example:

### Loan: ₹40 lakh | Tenure: 20 years | Rate: 8.5%

### EMI: ₹34,900/month Add property taxes (₹1,000/month) + maintenance (₹3,000/month) = Total housing cost: ₹38,900. Ensure this stays below 28% of your income.

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### **7. Factor in Future Financial Changes**

### Interest Rate Hikes: Can your budget handle a 1–2% rate increase?

### Income Stability: Job security, bonuses, or career shifts.

### Life Goals: Marriage, children, or education expenses.

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### **8. Location & Lifestyle Costs**

### A ₹1 crore home in Mumbai may be a 2BHK, but the same budget buys a villa in a Tier-2 city. Prioritize:

### Commute Costs: Fuel, tolls, or public transport.

### Social Infrastructure: Schools, hospitals, and groceries.

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### **Affordability Checklist**

### **✅** Total housing cost ≤ 28% of monthly income. ✅ Down payment saved without draining emergency funds. ✅ EMI + existing debts ≤ 36% of income. ✅ Budget includes registration, taxes, and maintenance. ✅ Credit score is healthy for loan approval.

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### **The Bottom Line**

### Affordability isn’t just about what a bank will lend—it’s about what *you* can comfortably repay without sacrificing financial security. Always leave room for unexpected expenses, and avoid stretching your budget to buy a “dream home” that becomes a financial nightmare. Use tools like EMI calculators, consult a financial advisor, and prioritize long-term stability over short-term aspirations. By crunching the numbers upfront, you’ll invest in a home that enriches your life *and* your wallet.

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