# Rent, Buy or Rentvest.

## Which sets you up financially in the long term?

There's no 'one size fits all' when deciding to purchase your first home and repay your own mortgage rather than continue to rent and repay someone else's mortgage.

Let's face it though, the ever-increasing rise in property values has potentially put off many home buyers, especially first timers and those earning a low-to-average income[1].

You might be surprised that at the moment over a third of Australian properties are cheaper to own than rent[2].

This was calculated by approximating the mortgage repayments (using the assumption of a 20% deposit, interest rate of 2.4% and a loan term of 25 years) and comparing it against rental estimates for housing across Australia.

However, location plays a large part in determining where it is more affordable to buy versus rent. The majority of these locations are regional areas, while in capital cities renting could still be cheaper in the short term.

**Figure 1. Portion of Properties Cheaper to Rent or Buy**

| Greater Capital City or Rest of State Region | Portion of Cheaper to Buy | Portion of Cheaper to Rent |
|---|---|---|
| National | 36.3% | 63.7% |
| Combined Capital Cities | 26.2% | 73.8% |
| Combined Regionals | 60.1% | 39.9% |
| Regional NT | 96.4% | 3.6% |
| Darwin | 86.5% | 13.5% |
| Regional SA | 79.5% | 20.6% |
| Regional WA | 79.4% | 20.6% |
| Regional QLD | 73.1% | 26.9% |
| Regional Tas. | 71.4% | 28.6% |
| Perth | 59.6% | 40.4% |
| Brisbane | 55.3% | 44.7% |
| Hobart | 50.2% | 49.8% |
| Regional NSW | 48.2% | 51.8% |
| Adelaide | 47.4% | 52.6% |
| ACT | 43.6% | 56.4% |
| Regional Vic. | 43.6% | 56.4% |
| Melbourne | 7.3% | 92.7% |
| Sydney | 4.9% | 95.1% |

Source: CoreLogic. Mortgage assumptions based on 80% loan to value ratio with 20% deposit saved

So how can this be? The short answer is that in the current environment, most borrowers are able to obtain a loan at an interest rate that is below the rental yield that would be achieved on the property. As rental yields are generally higher in regional areas, the majority of properties that are cheaper to buy than rent are within these locations.

### Aside from location, there are additional factors to consider in buying vs renting:

**As an owner-occupier**

- You will need to factor in the cost of stamp duty, council rates, water rates and home maintenance costs that would otherwise be paid by the landlord if you were renting.
- While repayments may be higher than renting, you need to consider that part of your mortgage repayment is likely to be paying down your loan principal and deemed as forced savings.
- As an owner, you have the benefit of growth in the capital value of the property over time.
- Any surplus funds you have can potentially be used to pay down your mortgage making you closer to outright home ownership.
- At some time in the future, you will have repaid your mortgage unlike continuing to rent.

**As a renter**

- You never stop paying rent, even when the landlord has repaid their mortgage.
- Rental costs are likely to increase over time and are linked to the supply and demand for property, while repayments on a mortgage will be linked to movements in interest rates (that can also be fixed).
- Your rental tenure at the property can be out of your control should the owner wish to sell the property or have alternate uses for the property.

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- You have greater flexibility to move to a new property without all the responsibility of selling and buying property.

Still uncertain if you should buy or rent? Contact us for our guide on the pros and cons of both.

## Could now be the time to become a home owner?

### Take advantage of historically low interest rates[3]

Official interest rates and resulting borrowing rates are at an all-time low, having the effect of reducing your loan repayments. It is unlikely that repayments are going to be more affordable than they are in the current market.

### Government grants

For many the dream of owning their own home may feel like an unattainable goal. However, depending on your eligibility, there are government schemes available to help you get your foot in the property market.

- The $10,000 First Home Owner Grant (FHOG) is available to eligible first home buyers (FHBs) who purchase, build or substantially renovate a house, townhouse, apartment or unit
- An additional 10,000 places of The First Home Loan Deposit Scheme (FHLDS) for eligible low to middle income earners was made available on 1 July 2021
- The Family Home Guarantee scheme is available until 30 June 2025[4] to eligible single parents with dependants who want to build or buy a home with as little as a 2% deposit – subject to their ability to service a loan, regardless of whether that single parent is a first home buyer or a previous home owner

There are other state and territory grants, concessions and incentives available. Talk to your finance specialist (us) to help you understand which ones may be applicable to you.

## Struggling to afford a property, but still want to get into the property market?

Have you considered rent-vesting? This is where you continue to rent, however you purchase your first property as an investment property. While you may miss out on a number of the first home buyer grants, the rent from your tenant will assist you with the repayments making this a potential financially viable option.

The first step in determining your property journey is to understand and define your personal situation. **Book an appointment with the office and we will sit down and help you with your options.**


1 yourmortgage.com.au/mortgage-news/can-you-afford-a-home-as-a-lowincome-earner/277315/

2 corelogic.com.au/news/mortgage-serviceability-cheaper-renting-over-third-australian-properties

3 https://www.rba.gov.au/media-releases/2021/mr-21-14.html

4 nhfic.gov.au/what-we-do/support-to-buy-a-home/family-home-guarantee/


**Contact us** for a copy of 'Upside and Downside of Buying Versus Renting'



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