



THE 'DO I BUY OR RENT?' DILEMMA!

As many professional long term investors would be aware, before the last decade of low mortgage interest rates there were many reasons for renting and purchasing an investment property versus buying your home as your first property purchase.

Not only have the incredibly low interest rates helped renters and adult children still living at home enter the homeowner market, the massive government incentives over the past few years have enabled many Australians to jump into the property market many years sooner than they probably would have.

You see when interest rates are at traditionally 'normal' levels (historically 5%-7%) or higher, a few things happen:

- Mortgages become more expensive (obviously).
- Renting becomes a comparatively cheaper option compared to a mortgage for the same property type.
- You are more likely to be able to 'live in' (rent) a much nicer or larger property (or one in a more salubrious suburb) than you can afford to purchase because your weekly rent is significantly cheaper than your weekly mortgage repayment.

- The total costs of renting and investing (rentvesting) combined with our great tax incentives in Australia can end up being a lot cheaper than owning and living in your own home.

Also, when you purchase an investment property, as opposed to purchasing your own home, your deposit to enter the market can be much smaller (as little as 12% including Lenders' Mortgage Insurance (LMI)) if you are prepared to pay this amount.

The best thing about investing first is you can usually enter the property market several years earlier than if saving for a home. This can provide you with the benefit from the potential capital gain you will achieve (in a rising market) that can sometimes be more than you can save in the same timeframe. The rental income and tax incentives also help to cover mortgage repayments.

The disadvantages however of buying a rental property first are that you may miss out on many or all the government incentives when you do decide to purchase your first home – a risk some experienced investors are prepared to take.

It is usually a race between you entering the market and gaining capital growth versus how much and how quickly you can save a larger deposit.

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So, 'do I buy or rent?' is still the dilemma.

According to the PropTrack Buy or Rent Report [June 2022], the past few years of property price increases, and now the potential ongoing interest rate rises, have started to reduce the attractiveness of buying.

Their claim is that at the moment only 27% of dwellings across Australia are currently cheaper to buy than to rent. Twelve months ago this figure was about 50%¹.

So, if 27% of properties are cheaper to buy, then doesn't that mean 67% are cheaper to rent?

Obviously 'Conditions differ significantly based on property type and location.' BUT 'Only more than a third of units across the country are estimated to be cheaper to buy than rent over the next 10 years.'

Not sure about you, but if two thirds of properties are going to be cheaper to rent than to purchase over the next ten years, wouldn't you want to be a landlord?

WARNING: Do not rush to rent a luxurious apartment in a trendy suburb and rent out your home without talking to us first.

Many homes do not make a good first investment as a financial alternative because:

- You have probably accrued significant equity by having already repaid a substantial amount of your mortgage (therefore reducing your maximum tax advantages)
- Your loan may not be structured properly (or be the type of loan investors typically use) to take advantage of the maximum tax incentives
- If you do not move back into your home for six years, it will be subject to capital gains tax (CGT)²

Make sure you contact us for our article on 'The Tide Has Turned – Renting Is Now Cheaper Than 67% Of Australian Suburbs.'

As confusing as these times are, a few things are certain...

While the cash rate continues to rise with the government trying to manage inflation and slow down the housing market, there will be winners and losers in the property and finance game.

It is our job to ensure, whatever you decide to do, that you:

- are armed with good advice
- are in an optimal financial position to move forward with your decision
- have a range of options for consideration, and
- have the support you need to help you through any difficult times you may encounter along the way.

Above all...

You don't need to do this alone.

Take advantage of our years of experience in helping people make good financial decisions, backed with quality research and a planned approach, to prosper in these times.

One of our favourite sayings is

'It is always a good time to invest in property.'

Be in it for the long term as history has proven house prices always go up over time.

Make sure you seek professional advice before making any financial decisions regarding buying and financing property.

While we have seen many people build wealth through property over the years, we have also seen many people fail. They listened to their non investor friends and family instead of seeking solid advice.

Sources:

1. PropTrack Buy or Rent Report [June 2022]
2. ato.gov.au/individuals/capital-gains-tax/property-and-capital-gains-tax/your-main-residence-(home)

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