

# real estate wrap

Your guide to what's happening in the Dubbo market

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## A Lease OR A Mortgage?

To rent or buy is a dilemma many people face at some point as they weigh up everything from their financial situation to lifestyle preferences.

While some would prefer the potentially short-term commitment of renting to the long-term one of buying, others want the security of owning their own home and are prepared to make the financial sacrifices necessary to get there.

The senior corporate affairs manager with Mortgage Choice, Kristy Sheppard, says Australians fed up with rising rents and a lack of available rental properties might be surprised to hear they could possibly afford to buy a property with little or no change to their current expenses.

"With interest rates almost certainly as low as they will possibly go and extra money on offer to purchase a first home, now could be a great time to stop paying your landlord's mortgage and start paying your own," she says.

According to homepriceguide.com.au, the median weekly asking rent for a house in Darwin, Australia's most expensive capital city, is \$500 a week, or about \$2214 a month.

In comparison, a \$300,000 home loan with a basic interest rate of 5.26 per cent a year over a 30-year loan period would be \$1658 a month in repayments.

This initial saving can be demonstrated to a lesser extent in other areas across Australia.

However, potential home buyers should not forget ongoing expenses such as interest rate rises, mortgage insurance, council rates, strata fees, maintenance and repair work.

"With housing affordability at a level we haven't seen for several years, renters should definitely give merit to property ownership, whether that's a home or an investment property," Sheppard says.

"At present, opportunities are fantastic for potential property owners who are backed with adequate savings, solid employment and confident of their financial situation.

"Those who are currently renting are paying their landlord's mortgage repayments when in fact they could be paying their own.

Earning a rental income themselves can also be motivation for many renters to make the move into property ownership."

A financial planner with Strategy First Financial Planning, Patrick Anwandter, says while it depends on the size of a mortgage, on a pure numbers basis it is generally cheaper to rent than to buy.

To use a basic example: if the average house price is \$550,000 and the average mortgage is \$350,000 on a 25-year loan at 7 per cent to 8 per cent interest rates, the repayments would be about \$580-\$680 a week.

If this property were rented at a 4 per cent yield, it would cost \$423 a week. But as Anwandter points out, the benefits of renting are not just financial.

"If you rent and find you can't afford it because you lose or change jobs, then you can move to a cheaper place relatively easily," he says.

"If the same thing occurs when you are paying off a mortgage, it can be a lot more expensive to sell and buy a smaller place.

"Based on the rough numbers, you can usually rent a newer place in a better suburb than you can buy in for the same outlay.

The flip side is that if you are paying \$650 a week in rent then it is dead money because part of the money would be going towards paying off a mortgage."

However owning your own home may be important because of the security it gives and the ability to gain an asset to leverage against to buy other assets. Anwandter's advice for a younger person wanting to eventually buy a home is to build up as big a deposit as possible.

A big deposit will avoid mortgage insurance but will also mean smaller repayments.

"Work out the type of house you want to buy," he says. "Invest the difference between the rent you are paying and what you would have to pay on a mortgage.

"Condition yourself to save the repayments and build up equity. When the time comes you will have a savings history as well as a deposit to help fund the purchase."

His advice to older clients who may be renting due to circumstances such as a divorce settlement is to use superannuation to build capital in a tax-favourable environment that they can use in retirement to fund a property.

### Case study

Lee Smith, 25, and Sarah Borg, 24, rented a house in Glenroy, Melbourne, for three years before deciding to take advantage of the first-home buyer grant to purchase their own place.

While they wanted to buy in the area, it was a "bit out of their price range", so they settled on a

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three-bedroom brick veneer home in nearby Roxburgh Park.

"It is the case that you can rent a better house than you can afford to buy but at the end of the day we got a great deal and are very happy," Lee says.

"There is just the two of us and it is spacious and on a good block of land."

Lee says the feeling of "comfort, knowing you don't have to go anywhere and can do whatever you like to the place" makes the purchase worthwhile.

"Rent was just money that was going to someone else," he says. "At least now we are paying for something that we own."

Lee says the whole process of finding somewhere suitable and then getting the loan was made all the more easy by Cheltenham-based Mortgage Choice franchise manager Chris Howitt.

"We were pretty new to it all and always had lots of questions and he was always more than happy to help out. At one stage we were ringing him every night and he is still talking to us," Lee says.

#### RENTING

##### PROS

- You don't have the debt burden of a mortgage with a bank.
- Rent is usually cheaper than repaying a mortgage.
- You have more disposable income as a result.
- You are liable only for the rent and cost of utilities, such as phone and electricity.
- The landlord pays the rates, body corporate fees and any repairs needed on the home or apartment.

##### CONS

- Rent money is "dead money". You are, in effect, contributing to paying off the landlord's mortgage and helping him or her acquire an asset.
- Lease insecurity, such as having to move because the rent goes up or the place is sold.
- Adding your own touches to your rented home is confined to moveable decor.
- In theory, you should have more disposable income but your savings are unlikely to reflect this.

#### BUYING

##### PROS

- Your monthly mortgage is paying off your own asset. Your regular payments work as a type of compulsory savings plan so you are building equity over time, which is an ownership interest in your house.
- You can borrow against this equity or convert it to cash by selling the house.
- You can keep mortgage repayments steady with the right home loan and avoid erratic rent increases.
- You have a more secure roof over your head. Family stability will benefit from knowing you will only have to move when you are ready.
- You can paint, renovate or landscape at any time without having to ask permission.
- Houses generally increase in value over time.
- Once your mortgage is paid off in full, there are no further repayments.

##### CONS

- You owe a debt to the bank.
- Much of your disposable income will go towards repaying the mortgage.
- You are at the mercy of interest rate movements. If they go up, you pay more.
- Financial constraints may force you to buy in a less desirable suburb.
- If the shower leaks or the garage door sticks, guess what? You have to deal with and pay for any repairs and renovations.

Bina Brown - The Sun-Herald

### Housing Finance Figures Released for August

In trend terms, the total value of dwelling finance commitments excluding alterations and additions increased 0.2 per cent. Investment housing commitments increased 1.4 per cent, while owner occupied housing commitments decreased 0.2 per cent. In seasonally adjusted terms, the total value of dwelling finance commitments excluding alterations and additions increased 0.7 per cent. An increase was recorded in investment housing commitments, up 7.6 per cent, while owner occupied housing commitments fell 1.7 per cent. In original terms, the number of first home buyer commitments as a percentage of total owner occupied housing finance commitments fell, decreasing from 25.3 per cent in July 2009 to 24.7 per cent in August 2009.

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Blueberries have more antioxidants than any other fruit or vegetables.

### Did You Know...

An apple, potato, and onion all taste the same if you eat them with your nose plugged. They all taste sweet.



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