

Buying vs Renting – Which puts you in front in the long run?

At the end of the day, the decision to rent or buy is a very personal one, heavily dependent on both your short and long-term plans and goals. For most people, renting is the necessary option for at least a portion of their lives, with home ownership the long-term goal. Weigh-up the personal pros and cons of your situation to figure out the best option for you.

Renting

Pros

1 - Cheaper in the short-term

In a lot of areas the monthly rental is cheaper than paying off a mortgage on the same property. Generally the only upfront cost is the bond. The costs associated with owning a home are paid by the landlord.

2 – Flexibility

You are not locked into a long-term commitment. At the end of your lease, you're free to move, or stay on if it suits. There are no costs involved and you can move quickly.

3 – Financial stability

Without fluctuating interest rates and maintenance costs to worry about, and the cost of rents generally only changing upon renewal of your lease, you can potentially have more financial stability.

Cons

1 – The home will never be yours

It's true that at the end of day, the home you've been paying to live in will never be yours. Whilst renting gives you flexibility, it can also mean that at a time when you are looking to settle down, you don't have the stability of a home of your own. However, depending on the area and country you live in, research which has recently come out of Australia has begun to suggest that renters could be no worse off financially than home owners in the long-term. This is largely dependent on what you choose to invest in if not property though, such as shares.

2 – You won't be able to personalise your home

Things like renovations and home improvements usually can't be done on your rental property unless negotiated with the homeowner and even then, you might find that some things will be at your expense or will mean that your rent could potentially increase. It could also mean that things like pets aren't permitted, and you're restricted to looking for properties that will allow animals. So the look and feel of the home will usually not be up to you, and if you're looking for extras, like air-conditioning or ceiling fans, or features like security screens, your landlord may agree to put these in only if you agree to a higher weekly rent amount.

3 – Renting long-term has its pitfalls

If you decide to rent until retirement you will need to be able to afford rent even after you leave the workforce. Depending on your other investments, and how well you've saved for retirement, it may very well be feasible to continue renting for life. But if you're unable to continue renting in your area during your retirement years, you may only be left with the option of relocating to a less desirable area or a far more modest home.

Buying

Pros

1 – One day, you'll own your home

Once your mortgage has been paid in full, you'll have a home that you own. If you plan to sell your home after retirement, there's the potential that the property has increased in value, and you'll have more cash to put towards your nest egg.

2 – You can change the home to suit your needs

Even before you pay off your mortgage, the house is still yours to change as you see fit. This means painting, fencing, landscaping and large-scale renovations are up to you. This gives you a certain amount of flexibility too, if you buy a home in an area you love, but it's too small, or in need of work, then you can always address these issues down the track.

3 – Security

There's definitely a certain amount of security that comes from owning your home versus renting it. For instance, no one is going to tell you need to vacate because they've decided to sell the property or move back in themselves. This security can make it easier to plan for your future and consider things like pets and children without the risk that your living situation may dramatically change through no fault of your own.

Cons

1 – Upfront costs

A sizeable deposit is normally needed to enter the property market and there are other costs too such as solicitor bills.

2 – The cost of upkeep

Unlike renting, the costs associated with the upkeep of your home falls to you. Depending on the age and state of your home, location and whether or not you have a free-standing home or apartment/unit will all determine how much you may be spending in maintenance costs over the course of owning your home. It's best to factor this into your budget before committing to a mortgage.

3 – Your return on investment is not guaranteed

Of course it depends on your area and how this area fairs in the long-run, which can be pretty hard to predict without a crystal ball, but the costs of owning your home versus how much of a return you'll receive if you decide to one day sell might mean you could make a loss at the end of the day. Other things to factor in here are how long you plan to be in the home, how much work is needed on the property (could you see yourself taking out additional loans to cover things like renovations?), has the area experienced recent growth? What other long-term factors could impact the neighbourhood positively or negatively?

Latest Harcourts Sales Statistics (August and September 2015 Sales)

- 81% of properties sold for more than RV
- The average sale price was 15% over RV
- Highest sale price over RV was 39%

Dates to Remember!

Plumbing

- Galvanised pipe work was used from the 1930's to 1980's, if this is still in use it will be on its last legs and need to be replaced.
- Copper started to appear in the 1930's but is most common from the 1960's.
- Black Dux quest plumbing was used in the 1980's. This has had issues in the past with leaking connections and pin holes in the pipe work. This should be replaced if found.
- Mains pressure PVC is still being produced now, but be wary of older homes as this pipe can become brittle and should be checked if found.

Wiring

- Cloth wiring was introduced when we first got electricity. This was around in the early 1900's. It was often installed in conduit from the 1940's. If this is still in use in a dwelling a full electrical inspection by a registered electrician is recommended.
- Rubber Wiring was produced from the 1930's, once again this would require a full electrical inspection as it would only last around 25 years before the rubber gets brittle and cracks.
- Modern TPS has been used since the 1960's.

Asbestos:

Asbestos has been around since the early 1900's. It was produced in insulation in the 1930's to 1950's. The use of asbestos was banned from paints, textured coatings and construction products in the 1970's. However asbestos was still on shop shelves being sold through the 1980's as there was a run off period. Asbestos is found in roofing materials, exterior cladding's, pipe lagging, paints, plaster texture coatings. Vinyl flooring tiles and underlay. It's very hard to determine if asbestos is in a product or not, so the best way to confirm this is to get it tested at an asbestos testing laboratory to know for sure.

Changes in Property Tax Rules that you need to know about

The Government's Taxation (Land Information and Offshore Persons Information) Bill has a commencement date of 1 October 2015 and includes some changes that Investors and those with family trusts need to be aware of:

1. Buyers and sellers of residential property (other than their main home) will be required to provide their IRD numbers at the time of property transfer; and provide their Tax Identification Number from their home jurisdiction if they have tax residence in another country. Offshore persons will be required to provide evidence of a New Zealand bank account in order to obtain an IRD number.
2. Trusts transferring property will be required to provide the Trust's IRD number instead of the personal IRD numbers of individual trustees. This could be problematic as many Family Trusts do not have an IRD number and will need to obtain one.

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