

Should you buy or rent a home?



15 August 2018

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"These can often include the individual's personal financial circumstances - in other words, individuals decide to rent because they cannot afford to buy," says Dr Andrew Golding, chief executive of the Pam Golding Property group.

"In addition, there may be other personal influencers such as employment status and prospects, family composition, lifestyle preferences, hobbies and activities that play a role says Dr Andrew Golding, CE of the Pam Golding Property group.

"Generally speaking, within South Africa, there is a strong culture of owning and the desire to own one's own home both from an investment as well as a lifestyle perspective, and so this continues to be the dominant trend. However, in recent years the rental market has benefitted from the ever-increasing number of people who are unable to buy homes for whatever reason and this market remains very active, further fuelled by a younger generation of singles, couples and families who are financially not yet in a position - or able to raise sufficient finance - to purchase their first home.

"Other perceived advantages of renting include the flexibility and easier mobility that renting offers, in being 'locked into' a property for a relatively short period of time. It is easier to extricate oneself from a lease and relocate - than having to sell before being able to move. This makes the rental option ideal for contract workers relocating nationally or internationally."

Adds Dr Golding: "It's essentially a question of one's own financial situation and requirements rather than a case of one versus the other. If you can afford it then it is certainly preferable to purchase your own home as this has always proven to be a sound medium to long term investment - and remains so. This is despite the fact that there may be some valleys as well as peaks in the capital growth of the property along the way, depending on economic trends, the desirability of the property and its location, and so on. Added to this you would immediately be able to start enjoying all the lifestyle and other benefits of owning your own home, even if it really only starts to appreciate in value in six months to a year or more from an investment perspective."

Rent out an investment property

With interest rates still relatively low, is now the time to buy? Says Carol Reynolds, Pam Golding Properties' area manager for Durban Coastal: "I always believe that buying is first prize and the sooner you can get into the property market the better. One option to consider is to rent your family home, but then invest in a more affordable entry level apartment which can then be rented out as an investment in order to get your foot into the market. In this way you will enjoy a monthly income stream as well as capital growth on your investment over the longer term.

"If you compare the costs of a rental property with monthly repayments on a loan, on average, rental returns are about 0.5 percent of the purchase price. So if you require a bond of greater than 50 percent, your bond instalments will be higher than the rent you would pay for the same property. The ultimate reward is that your monthly bond repayments translate into ownership of your own home, which will appreciate in value in the medium to long term. My advice would be to secure a small investment and earn rental income from that, and perhaps rent a larger home as a dwelling.

"However, you also need to take into account the upfront costs of buying a home, such as a deposit, transfer duty, legal and removal costs, as well as homeowner's insurance, bank charges and municipal rates."

Interestingly, Reynolds adds that the coastal area to the north of Durban continues to see an influx of investors seeking property to rent out. "Durban is a great buy-to-let market as acquisition costs are low enough to make yields and gearing attractive. Umhlanga is also a popular buy-to-let market, because not only are yields strong, but capital appreciation is also very good. For example you can secure an apartment in the New Town area of Umhlanga for around R1 million and achieve a monthly rental return of between R7 000 and R8 000. If you simply pay a 30% deposit, your property is perfectly geared and the return on cash invested is excellent.

"Without question, this gets you started on your way to building a property portfolio and is a superb strategy for long-term wealth creation. Add to this the fact that bonds are the cheapest financing vehicle and it makes perfect sense."

Wealth creation via property

Adds Lanice Steward, head of training for Pam Golding Properties: "The question to buy or rent is always debated but the fact is, wealth is created through the purchase of property as owners have the ability to obtain a mortgage, upgrade or refurbish their properties - while making improvements to suit their own requirements and lifestyle - and sell and buy a more expensive property, and in so doing increase their personal net wealth.

"In the current market, a prospective buyer may feel more inclined to rent as it may be cheaper than the bond repayments in an area in which they want to live, or alternatively they may not be able to afford to buy in an area in which they wish to live.

"If the latter is the case, sound advice would be to if possible buy a property in an area you can afford and put in a tenant who will help you pay off the bond. You can then rent in an area where you want to live. Over a period of time you can either sell your rental property to give you a healthy cash contribution towards the purchase of the property in the area in which you want to live, or be fortunate enough to afford your new property using the rent from your investment property to assist with the bond repayments. In this way you can build up a portfolio of properties, increasing your net wealth through both capital appreciation and the tenants paying your mortgage."

Advantages of renting

From a tenant's perspective there are various reasons why one may choose to rent as opposed to buy, and not related only to affordability, says Dexter Leite, rental manager for Pam Golding Properties in the Western Cape Metro Region. "Many want the flexibility that renting offers – a good example being expatriates who have been out of the country for an extended period during which their specific needs may have changed considerably, for example, financial status, marital status or place of employment.

"They may also find that the South African cities they lived in previously have changed substantially with new infrastructure affecting commuting options, or new business hubs developed where they may wish to work. For these returning expats it can be beneficial to first rent for a term while they assess what their new requirements are, consider different suburbs where they may wish to settle and gain a feel for commuting times etc. Renting affords them the flexibility to make such decisions without pressure."

Leite says renting is also a good longer-term option for those who may be returning to the country but unsure regarding what they are going to do or where they are going to work. For instance, if there is a possibility that your career path may take you to another city, then it makes sense to first rent until you have a clearer idea of where you are going to settle. This also applies to those relocating to different cities within South Africa's borders.

"Buying a property is a major, costly and long-term exercise with many factors affecting the type of property one buys and its location. If you get a key element such as location wrong, it can be a difficult, expensive and time-consuming mistake to remedy – which is not the case with a rental property. When you consider it renting a home is cheaper than buying as you don't have to tie up your capital in deposits, costs, transfer duties and bond repayments. This capital can then be employed in other opportunities, such as business or other investment opportunities. Rates and other property taxes and insurance of the property are also for the owner's account, as well as for the most part, ongoing maintenance and repairs. For the owner or landlord the benefits are having an asset that appreciates over the medium to long term. The cost of the investment can be leveraged, enabling a larger investment with only a deposit required. It is of course essential to do one's sums taking into account all costs, type of property in demand in a specific area, vacancies and so on," says Leite.

Tips when renting

Further useful advice from Leite is to ensure that you have a written lease in place covering the period, rental payable and all the landlord and the tenant's responsibilities and obligations. Ensure that all material aspects are negotiated, agreed and enshrined in the lease - you have one chance at this, so if anything is agreed such as that the premises be repainted prior to tenancy, have it recorded in the lease. Keep the property in good condition and honour all tenant obligations, including paying the rent timeously.

Adds Retha Schutte, Pam Golding Properties Regional Executive, Pretoria: "Renting gives potential buyers an opportunity to go through a proper research process on suitable areas, accessibility to schools, highways and their work place. These days we are all time poor and travel time is one aspect that we have control over. It also affords the tenant an opportunity to do a comprehensive search for the suitable property at an attractive price. It must, of course also be understood that a rental contract will most probably be fixed for six months to a year and it may be an obstacle if you find the suitable property early on. The monthly rental also may be costly, so it needs to be affordable for your budget, while another factor is that the best or most attractive homes are not always available for rent.

"Whether it is better to rent or buy depends on circumstances. We find that clients that relocate for business or work purposes from coastal areas, prefer not to sell their properties and as a result they rent here. Clients that have fallen on financial hard times may not have an option but to rent, purely because of financial reasons. For young professionals, there are substantial financial implications when purchasing a property and it includes a deposit and transfer fees, all of which must be paid upfront, and so rental property provides for time to save for these expenses. Just remember that when renting a property, you are subject to annual rental increases which are impacted by inflation.

In the current market...

"As mentioned, it does depend on individual circumstances, and there are very good arguments for both. Renting does not incur additional expenses such as rates and taxes, maintenance and other related expenses that the owner has. However, owning property is an investment into the future as the property will gain capital growth year-on-year.

"It is very important to make sure that you do proper homework on an area, before committing to renting or buying. Things to consider: accessibility to amenities and place of work, feeding areas for schools, security in the area, the potential growth opportunity of the property, in other words, will the property's value increase year-on-year. The old saying that it is better to purchase the cheapest house in an expensive suburb than the most expensive

property in a lesser area, remains true.

“Always make sure that you do not over extend yourself when making a property decision, the rental on a property will increase year-on-year and if you need to rent for an extended period, it may mean that you will have to move every year. In the instance of a bond, the interest rate may increase and/or the rates and taxes, insurances and other associated costs with owning a home.”

For further information contact Pam Golding Properties on 021 7101700, [email](#) us.