



Rent your way to riches

Reserve Bank asks whether a house is always worth the cost.

“I live debt-free”: Former home owner Martin Beard now avoids large home loans. Photo: James Alcock

**Jonathan Shapiro,
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The conventional wisdom behind the Australian dream of home-ownership could be flawed, according to a research paper published by the Reserve Bank of Australia which seeks to answer the ques-

tion: is it better to own or to rent?

The RBA's conclusion is that house prices would have to rise at the same rate as they have for the past six decades for owners to be as well-off as renters.

“If house price growth were to

be slower than the historical average, as some forecasters predict, then the average home buyer would be financially better off renting,” the paper says.

But if the pace drops, renters



would be the real winners.

Former real estate agent Martin Beard was pleased to hear it. He has been renting in Newtown for 11 years and has no interest in buying a property soon.

"I look at the massive amount of money that gets tied up in your home ... I live debt-free, basically," he said. "We live in a big home in a great suburb that is so close to

everything with big living areas and a lock-up garage, so I am happy with the compromise."

The 55-year-old said he previously owned three or four properties in the inner west but now "the equation" has changed.

"I think we bought our first house with a deposit of \$10,000 and the mortgage was relatively small," said Mr Beard.

"I don't think that incomes have changed that dramatically in that time but now property prices are astronomical."

Recruiters Daniel Poole, 36, and

■ **Continued Page 9**

A twist on the great Aussie dream: rent your way to riches

■ From Page 1

Monica Gibson, 29, who bought their first home in April, have no regrets about taking the plunge into home ownership.

The mortgage on the \$865,000 two-bedroom Erskineville semi is costing more than the \$2600 a month they paid in rent on the two-bedroom unit in Bondi for five years. But they are making other savings.

"It's working out about the same," Mr Poole says. "The area is a bit cheaper and transport costs to the city are cheaper."

The RBA analysed a range of costs involved in owning a house but not applicable to renters, such as council rates, interest rates and the purchase price.

It said that while there had been countless comparisons, its study was unique because it focused on Australia and used a larger and

improved data set.

There were limitations in the paper, the RBA said, noting that it

focused on owner-occupied purchases. Investors in housing may be better off because of tax reasons. The RBA also noted non-financial benefits such as security of tenure, pride of ownership and freedom to renovate.

It calculated that the annual rate at which the real (inflation-adjusted) price of a house must rise for an owner to keep pace with a renter financially was just below 2.5 per cent.

"If this rate of appreciation is expected to continue then our estimates suggest that houses are fairly valued," the paper said.

"Many observers have suggested that future house-price growth is likely to be somewhat less than this historic average. In that case, at current prices, rents, interest

rates and so on, the average household is probably financially better off renting than buying."

Assuming real house prices increased at the historical expected real rate of 2.4 per cent, buying

beat renting if the owner held for more than eight years. However if the expected real rate of 1.7 per cent experienced over the past 10 years was used, owning only beat renting over longer than 30 years.

Director of Raine & Horne Newtown, Gerard Hill, said some long-term renters were waiting for a correction in prices: "Some people rent because they are waiting for the bubble to burst, but they've been saying it will burst for years."