

q wealth: RENTVESTING

Rentvesting – Why do people do this and is it right for you?

Like anything you do in the investing space knowing which strategy to apply and when to apply it are powerful wealth creation tools. Rentvesting is becoming ever more popular strategy as more and more people have been priced out of their preferred markets over recent years. In essence the strategy of Rentvesting is investing into an investment property first (in either areas you can afford or where the investment fundamentals are better) whilst continuing to rent in the area you want (or can afford) to live in for lifestyle purposes.

And a 2017 poll by non-bank lender State Custodians Home Loans, which surveyed over 1000 people across the country – found that almost 3 in 4 people (74%) think Rentvesting is a good strategy for those struggling to enter the property market. Rentvestors make up about 8% of property buyers according to research prepared by Ipsos. Rentvesting is one that is particularly being adopted by Millennial's (those born between 1981-1996 making them between 22-37 years old in 2018). A Westpac study found that Rentvestors are typically young males, most likely single, with a bachelor degree level of education. They are earning relatively high incomes and they don't feel the same way the previous generation did about owning their own home. Besides often being priced out of their preferred markets they also often see property as an investment and a way to accumulate wealth, rather than a place to settle down a raise a family. So, how do you determine if rentvesting is right for you? Here's 5 things to consider:



1. Do You Have A Property Plan?

Obviously, whether you choose to use the strategy of Rentvesting, or any other property related strategy out there should come down to the question "Does it fit my plan?". Unfortunately, many investors fail to plan exactly how and when they are going to achieve their financial goals and as such may make decisions based around what sound good now without adequate consideration as to the long term plans they have for themselves.

2. What Size Deposit Do You Have?

Now depending on the suburb you want to ideally live in, the size of your deposit will be a determining factor in whether you can afford to buy or have to rent in that area? As a general rule multiply the size of your deposit by 4 to determine what you can afford to purchase. This assumes you are using a 20% deposit and a 5% allowance for other upfront costs such as stamp duty, legal fees, and other closing costs. Can you actually afford to buy in the area you want to live in? If not, you might like to consider Rentvesting as it may allow you to get into the property market sooner.

3. What Is Your Maximum Borrowing Capacity (M.B.C)?

Even if you have saved a big enough deposit does your income allow you to borrow the balance of funds required to purchase in your preferred lifestyle area? Because your own home or Principal Place of Residence (PPR) does not generally provide you with any income from the property you may actually be able to borrow less for a PPR than you would if the property is going to be rented out as an investment property. These days the banks will often use 80% of the rental income when calculating what sort of debt you can afford to take on. Given the recent tightening in the lending space working with a great investment focused mortgage broker is a big help working out mathematically what all the options are here.

4. Do You Know Where You Will Be in 1 Year, 5 Years, and even 20 Years from now?

Let's face it, when we are younger we may not know exactly where the future will take us or where we will ultimately want to call home. Rentvesting for example, may give you greater flexibility to decide where you will live in the future as rental leases are typically shorter and easier to move away from than relocating from a PPR typically is. You may have the opportunity to move interstate, or overseas, for work (or even for love) and not being tied to a mortgage may give you greater life freedom.

5. How Much Tax Do You Want To Pay (and when do you want to pay it)?

They say in life there is nothing as certain as death and taxes. However, the taxation treatment of a PPR and an investment property (IP) are very different. On the one hand your PPR is considered a non-tax deductible form of debt. That means that you will not be able to take advantage of any of the depreciation or tax-benefits that may be able to be applied to an IP. For example, if you are on a good income and your IP (after all of your cash, and non-cash deductions are factored in) might be negatively geared meaning you may be able to legally reduce the amount of tax you need to pay each year under current tax laws.

On the other hand, if you are likely to be trading properties regularly you might find it more cost effective to buy a PPR as a PPR does not attract any Capital Gains Tax (CGT). Or at least not until the financial year of sale if we are talking about the CGT calculated on the sale of an IP if held for greater than 12 months.

At the end of the day there is usually 2 different decisions that need to be made when assessing whether Rentvesting will be right for you. The first are financial decisions based around your property plan and involving often complex mathematical calculations taking into account things like the size of your savings, income levels, maximum borrowing capacity, and taxation benefits.

The other decisions are more emotional decisions and lifestyle driven such as where you want to live. This may include the type of access to schools, hospitals, work and transport that are important to you and whether you can handle the uncertainty of living in rental accommodation vs the convenience of living in your own home and being able to paint the walls or add on an extension onto the back of the house for example as your family grows.

Matthew Bateman and Luke Harris are co-founders of The Property Mentors, a Melbourne-based business comprising an elite team of property professionals who educate, motivate and facilitate clients from all around Australia. Their new book, Let's Get Real (Major Street Publishing \$29.95) is now available. For more information visit www.letsgetrealbook.com.au/giveaway

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