Pros and Cons of Rentvesting and Owner Occupying.

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The large volume of conversations around rentvesting and owner occupying can leave first home buyers confused and at a crossroads about the right approach to take. There are a variety of pros and cons for both strategies, and the best solution is dependent on your goals, lifestyle and finances.

Rentvesting affords the benefit of living in the suburbs and areas you find desirable, while providing a rental income that can be used to assist with the acquisition of investment properties.

There is also the potential to purchase more than one asset, which can provide better financial return in the long-term.

One of the disadvantages of rentvesting is that it doesn't always take into account family and personal wellbeing, and can involve living in a couple of different rental properties.

On the other hand, occupying a home provides greater stability, as you are not at the mercy of a landlord. It also affords more freedom to renovate and decorate a property to your taste, which is something you generally cannot do when renting. In the present market, there are better interest rates on offer for owner-occupiers, with the potential for principal to be paid off sooner.

A disadvantage of choosing to own and occupy a home instead of rentvest is that you do not gain the benefit of incoming rent. This can hamper future loan serviceability to help with borrowing to build a real estate portfolio. The higher the owner-occupied loan, the less ability you have to maximise borrowings for investment purchases.

To shed light on how rentvesting measures up with owner occupancy, consider the following example scenario: Josh and Miranda are a Sydney couple with combined savings of $250,000 that they would like to put towards acquiring their home. They would like to start a family in the next five years, and during this time Miranda plans to take time off work. Servicing permitting, Josh and Miranda can use $250,000 to:

Rentvest

Josh and Miranda could purchase two $400,000 worth of investment properties interstate and leave $50,000 in offset for risk mitigation (20 per cent deposit and 5 purchase costs). Josh and Miranda will continue renting the unit in Sydney where they currently live and be close to their jobs, friends and family.

Purchase a property they intend to occupy

Purchase an $800,000 apartment in Sydney (20 per cent deposit and 5 per cent purchase costs, including stamp duty) and leave $50,000 in offset for risk mitigation.
Josh and Miranda will be in their own home, but will be slightly further away from their jobs, friends and family (Note: From 1 July, stamp duty waivers have been made available to those purchasing a first home of up to $650,000 and reduced concessions of up to $800,000 purchase price. This has been ignored for the purposes of this example).

Pros of rentvesting

1. Access to markets with enhanced capital growth

In this example, with the local market having increased significantly, Josh and Miranda may be able to gain better capital growth sooner by investing in another real estate market within Australia.

2. Rental income

Josh and Miranda will be able to use rental income to assist with loan serviceability to acquire further properties post the acquisition of the first two. If having a home of their own to occupy can wait, Josh and Miranda can maximise their borrowings and build a property portfolio sooner (loan servicing permitting). They will have to ensure existing investment properties are tenanted so they aren't forced to cover their own rent as well as a mortgage on their investment property.

3. Tax benefits

There is also tax deductibility available on investment lending and property expenses that Josh and Miranda will be able to access through rentvesting.

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Pros of owner occupancy

1. Minimise non-tax deductible debt

Josh and Miranda will have acquired a non-tax-deductible asset with their 'cash' savings, thereby minimising non-tax deductible debt.

2. Potential to extract equity

Provided Josh and Miranda have bought in a location with fundamentals, such as public transport, shops and plenty of development planned (infrastructure improvements, new retailers etc), they will do well in the long-term with the potential to extract equity (tax deductible) for purchasing investment properties down the track.

3. Lenders Mortgage Insurance (LMI)

If Josh and Miranda did not have enough deposit to begin with, they would have been able to acquire a home for a Loan to Value Ratio (LVR) of more than 90 per cent (up to 97 per cent including LMI capitalised). This is not available with investment properties, which are typically capped at 90 per cent LVR including LMI.

At the end of the day, when deciding between rentvesting and buying a home to occupy, it's important to look at both approaches objectively. What are your life goals? Think about where you will be five years from now – what do you want your life to look like? If a city is home for you, how likely are you to move away from where you live?

It's worth consulting an investment-savvy mortgage broker to help you weigh up your options and determine the best strategy to suit your lifestyle and budget.

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