

Exploring Renting Or Buying A Home

The ongoing debate about whether to rent or buy your home has captured the attention of many. Our residents have asked our opinion and we thought we would share our thoughts on this important matter that has a very significant impact on your financial well-being.

When it comes to purchasing a home, it's often the most substantial financial commitment one can make. It's a decision that needs careful consideration and accurate information to determine whether it's the right step to take and when to take it.

As a company in the apartment rental industry, our aim in this article is to put any bias aside and provide you with a logical and factual opinion. We've been asked time and again why one should pay for someone else's bond (when renting) when they could be investing in their own place.

Over the last couple of decades in Johannesburg, the real estate market has not consistently yielded positive price growth when taking inflation into account. This means that if you bought a house in the past 10 to 20 years and sold it recently, the chances of making a real profit (accounting for inflation) are quite slim. Property values don't always increase like they used to as much as inflation, and in many instances, they have even decreased.

Now, you might be thinking, "But you own properties, don't you?" Indeed, we create substantial value by transforming office buildings into apartments or constructing apartments from scratch. However, the majority of people who buy homes pay the standard market price and can't add any significant value.

A significant chunk of your monthly bond payment goes toward covering the bank's interest charge, which is essentially an expense. This is why it usually takes around 20 years to fully pay off a bond. Over these two decades, you end up paying more in interest to the bank than the actual value of the loan you took out – this is how banks generate profits. This arrangement would work well if property prices were guaranteed to consistently rise as they used to historically. Unfortunately, due to factors like load shedding, corruption, emigration, fluctuating interest rates, global inflation, etc., it's more likely than not that property values in Johannesburg will continue to underperform for the foreseeable future.

An Illustrative Example: Imagine a 1-bedroom apartment costing R800,000 in the northern suburbs of Johannesburg. With a typical 80% bond, you'd need to put down R160,000 of your money as a deposit. In the first 12 months of a 20-year loan at the current prime interest rate at the time of writing (11.75%, which may increase even more), your monthly bond payment of R6,936 would only contribute R669 towards reducing your loan and R6,267 as interest. Evidently, during the first several years, a significant portion of your home loan payment is an expense towards making the bank money.

Over the course of the 20-year bond, assuming interest rates remain the same the total amount of interest you will pay for an R800,000 property would be R1,024,574 which is purely an expense!

Moreover, the sizeable deposit, in this case, 20% of the property's cost, could have been invested elsewhere for potentially better returns. This is called opportunity cost which is crucial to consider.



Figure 1: Source: www.ooba.co.za

Comparing Monthly Costs: The expenses associated with property ownership, including levies, rates, insurance, maintenance, and upgrades, along with interest, add up to a considerable sum. Renting, on the other hand, involves more straightforward and far lower expenses.

1 Bed	Costs to Buy (R800k with 20% Deposit)	Costs to Rent with Africrest	Comments
Deposit	R160 000	R3 250	<i>Rental deposits are returned at the end of lease term</i>
Transfer fees etc.	R53 924	R0	<i>Conveyancer, Bond Registration, etc. Note: Properties priced above R1.1m also attract transfer duties which range from 3% and up of the property value that the purchaser must pay.</i>
Total Once Off Costs	R213 924	R3 250	Where else could you invest R210k?
Monthly Bond/Rent	R6 936	R6 500	<i>Only R669 of the bond payment is going to paying off your bond, the rest is interest.</i>
Maintenance	R1 000	R0	<i>Besides day-to-day costs such as leaks, maintaining geysers and drains, larger costs such as kitchen and bathroom renovations are at the owner's cost.</i>
Levies	R1 200	R0	<i>This is to run the common area costs, e.g. security, maintenance, cleaning, gardening.</i>
Rates and Taxes	R323	R0	<i>Municipal charges for property owners</i>
Refuse	R245	R57	
Gym	R350	R0	<i>Free Gyms in Africrest Estates</i>
Fibre (Internet)	R650	R0	<i>Included in rent.</i>
Total Monthly Costs	R10 704	R6 557	

Monthly Saving when Renting	R4 147	Annual Saving when Renting	R49 764
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The expense gap between owning and renting is noticeable both upfront and monthly. Notably, failing to meet bond obligations could lead to property repossession, resulting in a lost investment. If one takes the upfront costs and the monthly savings and rather invests this money elsewhere and rents in the meantime, it is likely that in a few years, you will be able to afford a much better property that you will stay in for a longer time.

It is important to be able to commit to owning a property for a long time, experts say at least 7 years, as the transaction costs involved with buying and then selling a property eat away at value growth. Agent commission when selling a property which is paid by the owner is 5%-7.5% of the sale price and if the property cost is over R1.1m then transfer duties which is a tax when buying a property range from 3% to 13% of the value.

In our view, it's practical to consider renting before starting a family and when one has a family and values stability more than optimal investment returns buy a home. This mirrors a growing global trend of young professionals renting at built-to-rent estates.

It is also important to differentiate between investment properties that you buy to rent out and personal homes that you buy to live in, as they are completely different.

These insights are intended as guidance only, recognizing that individual circumstances vary. Please remember, this isn't financial advice. Africrest Properties is not a financial advisor.

Feel free to reach out with questions. Our intent is to inform, empowering you to make well-informed choices.

Warm regards,

Africrest Properties