

WHY BUY A HOME?

We are all told that it is a good idea to own your home rather than rent one. Intuitively, it makes sense not to pay off your landlord's bond however, this may not be the most sensible thing to do. Very often, it makes real financial sense to rent a home for a few years whilst you save money to buy one.

SHARES BEAT PROPERTY

Over the last five years to December 2009, shares have grown by an average of 13.6% per year whilst house prices have grown by 10.8% per year. This difference might seem small but the gap gets bigger over longer periods of time. Since the 1960's, shares have outperformed houses by 3.5 times! If you judge the two as investments only, it makes sense to invest all your money in shares and not in property but as the mother in-law says, "you cannot live in shares" so we cannot make this decision on investment performance alone.

RENT THEN OWN

Almost all the proper studies on property ownership show that it is better to rent a home in a normal property market. For example, in Johannesburg, you can currently rent a R1.1m apartment in Athol for R8,000 per month plus electricity. If you were to buy the same apartment, it would cost you R10,982.18 in bond repayments (at prime) plus another R1,100 in levies and rates. This means it costs you R4,082.18 more per month to own your home than to rent the same property. Financially, it makes more sense to rent the apartment and invest the R4,082.18 difference in the stock market for the next 10 years. It is very likely that you will be able to buy the apartment with cash (or a tiny bond) in year 10. From that point onwards, you can keep saving the R4,082.18 to create additional investment capital.

There are other factors that you should consider, for example, you will have maintenance costs when you own your home and you will have to pay transfer and bond registration costs when you buy the property. In addition, you will have to pay an estate agent 5% - 7%. All these costs are not payable if you rent a home.

DISCIPLINE IS KEY

Unfortunately, most people are not good at saving their money. It is far too easy to sell investments to buy a new car, TV or go on holiday. If you are also an undisciplined saver, it might make sense to buy a home. Hopefully the fear of losing your home will be enough to force you to pay your mortgage every month. When making a decision about buying a home, there are also very important lifestyle issues that cannot be factored into a financial model. Many people derive emotional security from owning their own "castle" which would outweigh any other considerations.