

Buying a home - invest or nest?

Interested in buying a home this spring buying season? Not sure if it makes more financial sense to own and occupy or buy and rent out? Weigh up these benefits and challenges.

Buying a home is likely to be one of the most important financial decisions you will make in your lifetime, and with the national median house price now over \$700,000¹, it's important to weigh up all of your options before you make a decision.

With that in mind, here are the benefits and challenges of buying an investment property versus a home to live in.

Buying to rent out

Benefits

- **Pays for itself** – As your property is an income generating asset, it could essentially pay for itself if it's managed well. A positively geared property could even provide additional income above mortgage repayments.
- **Tax benefits** – Any maintenance, improvements, repairs and depreciation of your property can be claimed as tax deductions. Speak to a registered tax agent for full details.
- **Equity** – Once your investment is receiving income, you could potentially borrow against the equity to purchase a new property and grow your portfolio.

Challenges

- **You won't receive the First Home Owner Grant** – To access the First Home Owner Grant, the home you purchase must be your primary place of residence. The time you need to live in the property to receive the grant changes from state to state, and even if you satisfy the requirements and then rent out the property, the government may deem your claim fraudulent and reclaim your grant.
- **Unpredictable costs** – As a landlord, you'll have to cover all maintenance, rates and associated costs for your property – and problems can crop up at the most inconvenient times.
- **Capital gains tax** – Your property is an income generating asset, so you'll be required to pay capital gains tax when you sell it.

Buying to live in

Benefits

- **You may be eligible for the First Home Owner Grant and other concessions** – If this is your first home purchase, you may be eligible to claim the First Home Owner Grant and land tax concessions. The laws governing these benefits differ from state to state, so it's important to contact a registered tax agent for advice.
- **You can customise your space** – Unlike renters, home owners can renovate, upgrade and repair their homes, and keep pets, without gaining permission from a property manager.
- **Added lifestyle security** – Home ownership also provides a greater level of lifestyle security than renting. Your accommodation isn't subject to the whim of a landlord.
- **No capital gains tax** – Unlike selling an investment property, if you sell a home that is your primary place of residence you won't have to pay capital gains tax.

Challenges

- **Live, afford or grow?** – Buying a home to live in often means compromising on location. Where you want to live, where you can afford, and where represents the best potential for capital growth are seldom in the same postcode.
- **Less tax benefits than property investors** – The flip side of not having to pay capital gains tax is that you miss out on some of the tax benefits available to investors. For instance, you won't be able to claim deductions for renovations, maintenance and interest payments.
- **No cash flow** – Without a tenant to provide you regular income, the only money your home will likely generate will come at its sale. You could always sub-let your property while you live in it, but this option comes with its own challenges.

What's the right option for you?

Purchasing a home is a life altering decision, so it pays to consult a professional for advice. A financial adviser can help you prepare for and manage a mortgage as part of a tailored financial plan.

Speak to your financial adviser today.

Important information¹ Domain Group, *Domain House Price Report*, June Quarter 2015