THE MORTGAGE MONTHLY

RESIDENTIAL

Cash Rate Update | increased to 1.85%

IS IT WORTH RENTVESTING IN 2022?

With house prices very near their all-time highs, many people are wondering how they might be able to get into the property market. One option that has become increasingly popular over recent years is rentvesting.

Rentvesting involves renting where you want to live and investing in a property elsewhere so you can get your foot on the property ladder.

There are a number of advantages and disadvantages to rentvesting in the current market, but it's worth considering depending on your personal goals.

Advantages:

Buy sooner
As property prices have risen so far in such a short space of time, it's increasingly difficult for first-time buyers to save a deposit and have the borrowing capacity to buy into their preferred locations. By rentvesting, you can buy a more affordable home faster.

Buy in growth areas
Most people choose to buy a home in a location they like and are familiar with. In reality, this is not likely to be the best location for potential capital growth. By rentvesting, you can buy in a growing market and continue to live where you want. This can help grow your property portfolio faster.

Boosts borrowing capacity
If you purchase a home to live in, more often than not you'll be maxing out your borrowing capacity. That means you won't be able to invest in other properties until your income grows enough to afford it. By rentvesting, you can have the best of both worlds and buy affordable properties that can help manage reductions in borrowing capacity.

Rent in better locations
In some circumstances, it's cheaper to rent than buy in most locations when you're comparing properties. Your rental money will be going a lot further than trying to buy in that same location.

Tax benefits
As a property investor, you are able to claim many of the costs of owning a property as a tax deduction. This is a big advantage over an owner-occupier who doesn't receive any major tax benefits on a year-to-year basis. There's also the possibility of negative gearing, depending on your circumstances.

__Disadvantages:__

Being a renter
While it's great to build a property portfolio, many people don't like renting and would rather own the home they're living in. Having to put up with rent inspections and leases can be frustrating and not everyone will be prepared to do it.

Capital Gains Tax
One of the biggest advantages of being an owner-occupier is that you don't have to pay capital gains tax on your home when you sell it. However, this is not the case if you have an investment property that you rent out, so be prepared to pay capital gains tax when the time comes to sell your property.

HOW TO BECOME DEBT-FREE

Debt levels have been steadily rising over the past few decades, but it's important to understand that not all debt is bad. If you use debt to invest in assets that appreciate in value, that is an example of using debt in an intelligent way.

On the other hand, using credit to fund discretionary purchases such as shopping or travel expenses can be an area where people fall into trouble. If you're finding yourself getting into too much debt through the use of credit cards, there are a few steps you can do to get out of it.

Start saving
The first place to start dealing with debt is to stop spending more than you can afford. If you are spending money on credit, it's likely that you are not managing your money that well. Start putting aside money every week so that when unexpected costs come up, such as your car breaking down, you don't need to reach for your credit card.

Start budgeting
You can't manage your money effectively if you don't know where it's going every week. Most people will only have one or two sources of income, but their list of expenses can be very long. Start writing down what you spend money on each month and break that down into different categories. There are even apps you can use to help you track your costs.

Pay debts first
Most people get their weekly pay cheque and go out and spend money, leaving their debts to the last minute. You should really be doing this in the opposite order. Start by paying off all your debts and bills as soon as you receive your pay. Then put some money aside for savings. *Then*, everything you have left can be spent on your various expenses. This way you are making yourself save and manage money by only spending what you can afford.

Consolidate debts
If you have a number of high-interest debts on things like credit cards or unsecured loans, it might be worth speaking to a broker about how you can consolidate your debts. Debt consolidation works by rolling all of your high-interest debts into one loan with a lower interest rate. This will save you money on interest and makes managing your repayments a lot easier. Then when you get your pay cheque, you are only paying off one loan. Be sure not to pay with credit in the future.

GETTING YOUR HOME READY TO SELL

With the spring selling season just around the corner, now is the perfect time to start preparing your home should you want to sell. There's no doubt if you're trying to market your property, it's vital that you are able to make it as appealing to as many people as possible.

Here are a few ways you can get your home ready to make a big impression when the time comes to sell.

Do any repairs
While it might be ok to live with a few problems in your home, when you're trying to sell it, these things can quickly turn buyers off. Things like dripping taps, broken windows or even more serious things like water-damaged walls and cracks should be looked at right away. You need to look at your home from the eyes of a would-be buyer and make sure they have no reason to avoid your property.

Declutter
It doesn't matter what home we live in, we all want more space. This is especially important for upgraders who need room for the kids, and vital for those that live in inner city apartments. The first thing to do is to start sorting your things and decluttering. If you have too many possessions, it might even be worth selling some excess belongings, or at the very least putting them in storage during the sales campaign. The odds are you'll need to thin some things out when you move, so why not do it now?

Give the home a good clean
First impressions count. Bad first impressions can really have a negative impact on a person's interest in your home. The easiest and cheapest thing you can do is to make sure the property is thoroughly cleaned before trying to sell it. Things like dirty carpets or even unmade beds can really stand out at a home open so make sure you give everything a deep clean, or even hire a cleaner to give it a good going over.

Style your home to sell
Depending on your budget and the state of your personal belongings, it might be worth getting your home styled. This involves hiring a styling company to bring in outside furniture and present the home as best you can. Oftentimes, they will have the right-sized furniture to fit your home and make it look spacious and desirable. People want to imagine themselves living in the home, and by styling it effectively, it can really help them visualise themselves being there permanently.

Speak to agents
It's always a good idea to speak with local real estate agents to see what the buyers in the market are looking for so you can try and make your property fit the bill. They can often give their thoughts on how to stage the property effectively and connect you with the right trades to get your property in top shape ahead of time.

4 WAYS TO CUT DOWN YOUR RENOVATION COSTS

Renovating a home is a great way to increase both its value and your rental yield, if you're an investor. With rising prices impacting all aspects of our lives, it's more important than ever to make sure your renovation comes in under budget. Fortunately, there are a number of things you can do to help slash the costs of your project.

Manage the project yourself
One of the quickest ways to reduce the costs of a home renovation is to take over a large portion of the project management. If you hire a construction company that specialises in renovations, you will ultimately be paying a project manager to handle all of the required work. This typically includes sourcing, organising and scheduling all of the relevant trades.

If the scope of your project is such that you can handle this part of it, then you could save yourself a considerable amount of money. Some people might even have the skills to take on certain tasks themselves. If you are able to do parts of the project yourself, that can save you even more money. However, doing everything yourself might actually end up costing *more* money, when you account for your own time.

Don't overcapitalise
The total cost of a renovation will always depend on how large the scope of work is. If you're adding a second storey to a house, then it is likely to cost you a lot of money. When assessing a renovation project, it's important that you only work to what the market wants. There's no point turning your simple outer suburbs investment property into a luxury home if the market in that area can't support it.

Stick to doing the basic elements that will give you the most bang for your buck. More often than not, you can replace the flooring, paint the walls and add new window coverings to make a huge change to your property. If you have a slightly larger budget, then focus on other areas such as replacing the kitchen cabinets. More often than not the bathroom is the most expensive part of the project – unless you're making structural changes to the property.

Choose cheaper materials
In the past few years, the cost of building materials has been rising and it is now integral to shop around for the best price. But it's also important to know where you need to spend money and where you don't. Some materials, such as tiles, can see a big difference in price and quality. The interesting part is that it is often the labour component of doing the tiling that actually costs the most money.

If you're going to spend money, it won't cost that much more to have high-quality Italian tiles in the context of the overall project. There are also other ways to source cheaper materials, such as using second-hand cabinets. Quite often people will give away or sell old cabinets cheaply when they update their kitchens and it's possible to use them again.

Don't move things
If you're really wanting to stretch your budget further, one way to save money is during the design stage. One of the major costs of a renovation project comes from moving electrical and plumbing to different areas of the property. For example, if you want to move the location of your shower, you will have to put in a new drain and all the associated pipes will need to be altered as well. This is normally done by literally cutting into walls and floors.

If you keep these key services in their same locations, it makes for a quick and cheap changeover. Similarly, if you want to start knocking out walls and making structural changes, the costs of your project can quickly add up. While it might be worth it to add appeal to the property, if you need to save money upfront this is something you could avoid doing.

SHOULD YOU USE HOME EQUITY TO FINANCE YOUR NEXT CAR?

If you've owned your home for a decent period of time, or you're ahead on your mortgage repayments, then you can potentially use some of the equity to purchase assets such as a car. While this might be a good option for some, it's worth weighing up the advantages and disadvantages of using your home equity on a new car.

Advantages:

Convenience
One of the main reasons people use their own equity to purchase a car is because it can be quick and easy. If you've got a redraw facility attached to your home loan, then withdrawing money can be as simple as logging into your internet banking and making a transfer. In contrast, finding a lender, getting all your documents together and applying can take some time, especially if you're not working with a finance broker.

Interest rates
For the most part, interest rates on car loans are always going to be higher than those on a home loan. In the short term, this might mean you're paying less interest on the money. However, it is worth considering the length of time you'll be borrowing the money.

Disadvantages:

Time
If you intend to pay the car portion of the loan back over 30 years, the interest payments can really add up compared to a typical car loan that might run over only 5 years. For example, redrawing $30,000 from your mortgage, at an interest rate of 5 per cent, could end up costing you more than $50,000 in extra interest over a twenty-year period. This means the total cost of your vehicle could work out to be over $80,000 if you don't pay off the car portion of the loan quickly.

Bad money habits
While it's nice to have a redraw facility, using the equity in your home on depreciating assets isn't always sound financial practice. It might be better to keep the equity in your home loan for other investments, or to simply keep paying down your mortgage. This will depend on your personal circumstances.

No redraw facility
If you don't have a redraw facility attached to your home loan, then you're likely going to have to go through the process of reapplying for a loan with the same or another lender to try and access the equity. In this event, it might be best to simply apply for a car loan.