

Buying vs renting - is the time to purchase now?

According to ooba Home Loans CEO Rhys Dyer, "Unlike other 'flash in the pan' trends, the time to purchase a home is right now."



Rhys Dyer, CEO, ooba Home Loans

"For those with leases coming up for renewal," he says, "I'd strongly urge you to do the math and weigh up whether it truly is cheaper to rent than to buy."

The culmination of record-low interest rates, more 100% home loan application approvals and an increase in motivated sellers has resulted in a prolonged buyer's market. Interestingly, this trend has removed the barriers to entry for many first-time buyers, which may have a knock-on socio-economic effect in reducing housing inequality and access to homes in sought-after areas.

"Prospective home buyers can also breathe a sigh of relief knowing that there are no transfer duties on properties purchased below R1m," Dyer says.

Shift from renting to buying is set to continue in 2021

An all-time low prime interest rate of 7% is driving tenants to become property owners. "This is evident in the average age of ooba home loan applicants for Q3 of 2020. On average buyers are one-year younger from 38 to 37 years of age, while the age of first-time buyers has dropped from 35 to 34 years compared to Q3 2019," says Dyer.

"Monthly bond repayments are at an unprecedented low and we anticipate that the current interest rate will remain in place for majority of 2021. In saying this, we still urge potential buyers to factor in rising interest rates over the years to make sure that they are covered for every eventuality."

Dyer shares a guide to help prospective buyers assess their monthly bond repayments against what they are currently paying in rent.

Bond Amount	Monthly repayment*
R750,000	R5,815
R1,000,000	R7,753
R1,250,000	R9,691
R1,500,000	R11,629
R2,000,000	R15,506
R3,000,000	R23,259
R4,000,000	R31,012

*At an interest rate of prime, currently 7%.

Saving money now vs in the long run

While banks are increasingly approving 100% home loans (aka zero deposit bonds), Dyer urges prospect buyers to take the time to calculate how much their initial deposit could help to reduce their monthly repayments, thereby saving them money in the long-term.

“Taking out a 100% home loan will not only result in higher monthly repayments, but it could also mean higher interest rates,” he says.

“If you look at a 0% versus a 10% deposit on a R1m house, the repayment will be R7,753 a month versus R6,978 with a 10% deposit. This may not sound like a big difference now, but over 20 years at an interest rate of 7%, those without a deposit will have paid R186,071 more than those who put down an initial 10% deposit,” Dyer explains.

“Finally, putting down a deposit shows both the property seller and bond lender that you’re committed to purchase, improving your chances of having your offer accepted.”

Dyer concludes: “While we are seeing an increase in 100% home loans, we still strongly encourage prospective buyers to save up for and put down a deposit. Your future self will thank you, and by saving up and performing these calculations you’ve proven to yourself and to your lender that you are truly able to afford to purchase a home.”

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