

Buying where you can afford while renting where you want to live: Cameron McEvoy

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In recent years, some Australians have adopted an interesting strategy of being a 'renter-investor'. I've written about this previously, and it is a trend I have kept an eye on ever since.

They will actually not buy a home to begin with, instead saving their deposit money for a property that will become an investment from day one. They will then rent for the duration of this. There are several situations or reasons why some people may opt for investment ownership instead of home ownership:

- Perhaps home ownership in the desired suburbs or areas where they most enjoy the lifestyle is too cost prohibitive to be a home owner.
- They may be a younger aspiring investor and be in a situation where they can continue to live at home with parents or relatives, rent-free, enabling them to pour their savings entirely and quickly into pure investment.
- Transient lifestyles. Those in military or international business jobs may not value home ownership much at all, as their lifestyle involves lots of travel or placement in other states and countries.
- Some investors may not see the value in home ownership in Australia. For some investors, the ongoing burden of a large mortgage may not seem to be the best use of their savings dollars.

The other option for renter-investors is to begin their investment career as a home owner, which is how I started out. Renter-investors will usually do this to qualify for any government grants, exemptions, or benefits offered to first home buyers, and then live in the property for the minimum time required. This is usually around six months. These investors will then move out of the property and into a rental property. This strategy works well for people who:

- Cannot save enough of a deposit for the home where they want to live, but wish to invest for several years to help them eventually afford to buy a home in the area they wish to live.
- For those investors looking to maximise the initial cash-flow when first buying, via accessing government grants that are paid at time of settlement. This can enable these investors to move quicker into the purchase of investment property number two.
- Those who are comfortable and flexible enough to live in a temporary home for six-12 months in an area that perhaps is not their dream area, but can view it as a necessary stepping stone to move into their desired area.

In fact, another emerging trend that goes part and parcel with the above strategy is to use home ownership as a temporary springboard into an investor life, all the while retaining a capital gain tax (CGT) exemption on one of the properties you own.

How does it work?

It goes something like this:

- An aspiring investor will purchase their first home in whatever investment area they can afford, and through their due diligence represents solid rental return and/or capital gain potential.
- This area probably won't be in their desired dream suburb or where they see themselves living for a long time.
- They then live in this property for the first six months or as long as is needed to qualify for any grants or stamp duty concessions/exemptions that are on offer by federal or state governments at the time.
- Then, the investor will move out of their home into a rental property in the area they actually want and desire to move to, and convert their home into an investment property.
- The investor can now continue to rent for many years and use any growth achieved in their home property as a springboard to purchase their next investment property.
- For future CGT minimisation purposes, the investor may move back into the home property in year five or six of ownership, perhaps also doing a mild renovation whilst living there again, before moving back out again and re-renting it out.

The advantage of using this strategy, as opposed to just starting as an investor from the outset, is that the investor gets to maintain a CGT exempt 'haven' which will help when selling the property in the future. This is a very simplistic approach, and it gets more complex as you grow a portfolio.

It is best to consult with a professional accountant and the ATO when considering a tax-minimisation strategy across a portfolio of properties. The very general rule of thumb though, is that the ATO will only allow you to claim one residence as your principal place of residence (PPR – otherwise known as your 'home') for tax purposes. So as some investors grow a portfolio of multiple, even dozens, of properties, and they continue to rent elsewhere, they will usually find ways to nominate the highest-value property in their portfolio as their PPR for taxation purposes.

Renting where you want to live, whilst investing where you can afford at the time, really is a strategy that can work for young and newly-starting investors. It offers the best of both worlds; enjoying the lifestyle of the area you want to live in, whilst establishing your investment career on the property ladder, at an earlier age and time in your life. This of course is ideal, because the earlier you can make your start on the investment property ladder, the more chance you'll have to acquire more properties and see them grow, through to retirement age.