

**A FEW THOUGHTS AND COMMENTS AROUND NEW ZEALAND LONG TERM
HOME OWNERSHIP AND NEW ZEALAND LONG TERM HOME RENTING**

Some key assumptions to build the model:

- (1) Everything is in today's dollars.
- (2) A 30 year old couple with two children (three and five years) who have saved up \$125,000 to purchase a house and section on the outskirts of a major North Island city (\$25,000 is a loan from parents).
- (3) House purchase cost - \$625,000.
- (4) Combined gross income - \$125,000 - he is working 40 hours a week and she is working 30 hours a week.
- (5) They have borrowed \$500,000 from their bank at 3.85% with loan principal repayments at 2.5% per year - that is \$12,500 per year - at present, they are struggling with this mix but just balancing their monthly budget.
- (6) House insurance and rates are \$6,800 per year. The house is 10 years old with little repairs and maintenance required early on.
- (7) They each have a car but no expensive hobbies.
- (8) They are not far away from both sets of parents - schools are close by and a university 20 km away. Grandparents are looking after their grandchildren for several half days a week.
- (9) Both enjoy their present jobs where each have been employed for ten years - they hope to retire when they are both 70 years of age.
- (10) They are both good with money but will never be high earners.
- (11) They each have \$250,000 of pure term life assurance costing \$400 at present in total per year which would halve their term debt if the worst happened to one of them.
- (12) They have also looked at renting right through instead of purchasing - with the equivalent rental cost of their possible house to purchase being \$500 per week to rent.
- (13) When their youngest child turns six years old, she intends to work 40 hours a week which will bring their gross income up to around \$130,000 per year.
- (14) Basic family health insurance cover - \$2,800 per year.

Given this data, what might the ownership/rental comparison look like:

FAMILY AS PER KEY ASSUMPTIONS	40 YEARS OWNERSHIP COSTS	40 YEARS RENTING COSTS
1. Deposit paid	\$125,000	-
2. Loan interest (\$250,000 (average debt) 3.85% x 40)	\$385,000	-
3. Loan principal repayments (\$12,500 x 40)	\$500,000	-
4. Insurance and rates (\$6,800 x 40)	\$272,000	-
5. Repairs and Maintenance (\$3,000 x 30)	\$90,000	-
6. Rent (\$500 x 52 x 40)	-	\$1,040,000
7. Allowance for house unforeseen (\$2,000 x 40)	\$80,000	-
8. House renovations (say, \$20,000 x 4)	\$80,000	-
40 year totals	\$1,532,000	\$1,040,000
9. Less residual value of house (say original cost plus 1.0% increase in value each year)	(\$950,000)	-
10. Less investment return of, say, 3% a year based on the amount saved in total of \$388,000 (say average of \$9,700 per month x 3% x 40) (5)	-	(\$32,000)
Net overall cost over the 40 years	\$582,000	\$1,008,000
Average cost per week over the 40 years	\$280	\$485

Suggested Summary:

- (1) The ownership advantage is significant even if you made some key changes to the assumptions.
- (2) The interest rate at 5% instead of 3.85% would increase the ownership cost over 40 years by \$115,000.
- (3) A rent figure at \$550 per week instead of \$500 per week would increase the rent costs over 40 years by \$104,000.
- (4) The residual value figure of \$950,000 is some \$325,000 higher than the original cost - that is an increase of 52% - but the inflation rate would compound, hence the 52% rather than the 40% which a nominal increase of 1% per year would suggest.
- (5) Not many renters would put aside the monthly rent saved of \$1,025 and invest it over the 40 years on a continuous regular basis.

In conclusion (and from a historical viewpoint), I don't think it would matter how you alter the data, the ownership advantage would remain to quite a significant degree over the 40 years - trying to look forward like this for 40 years would always mean you would need to use conservative data throughout, but history would support this analysis.



Pita Alexander
PS Alexander & Associates Limited
DDI: 03 364 9330
M: 021 465 426
E: pita@alexanders.net.nz



Alister Stevenson
PS Alexander & Associates Limited
DDI: 03 364 9332
M: 021 843 820
E: alister@alexanders.net.nz



Karen Prue
PS Alexander & Associates Limited
DDI: 03 364 9344
M: 027 535 3191
E: karen@alexanders.net.nz