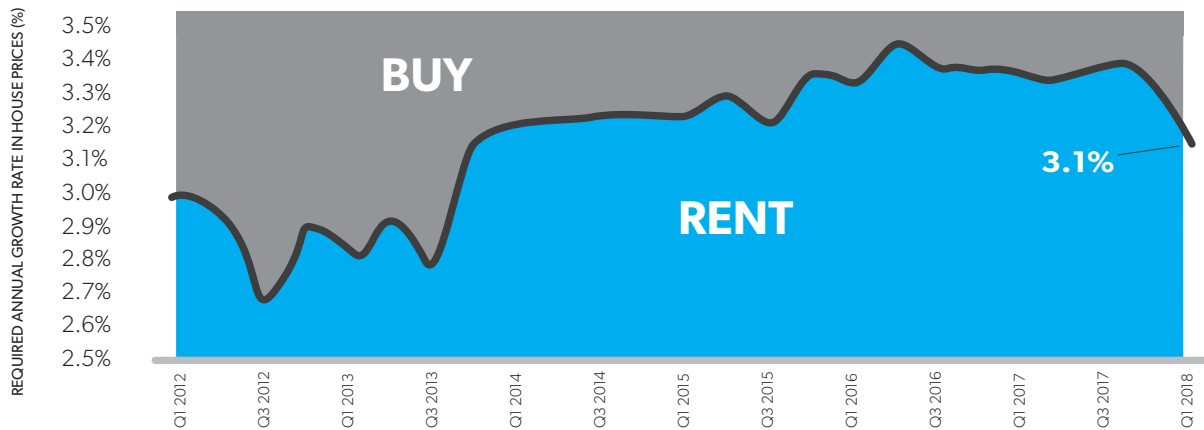


THE REIWA CURTIN BUY-RENT INDEX

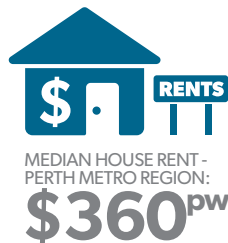
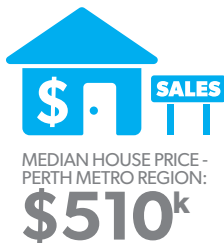
MARCH 2018 QUARTER

The REIWA Curtin Buy-Rent Index is a tool to assess whether it is better to buy or rent based on past and current trends in the economic climate. The index does not represent the performance of an individual property, but instead looks at the typical median priced house.

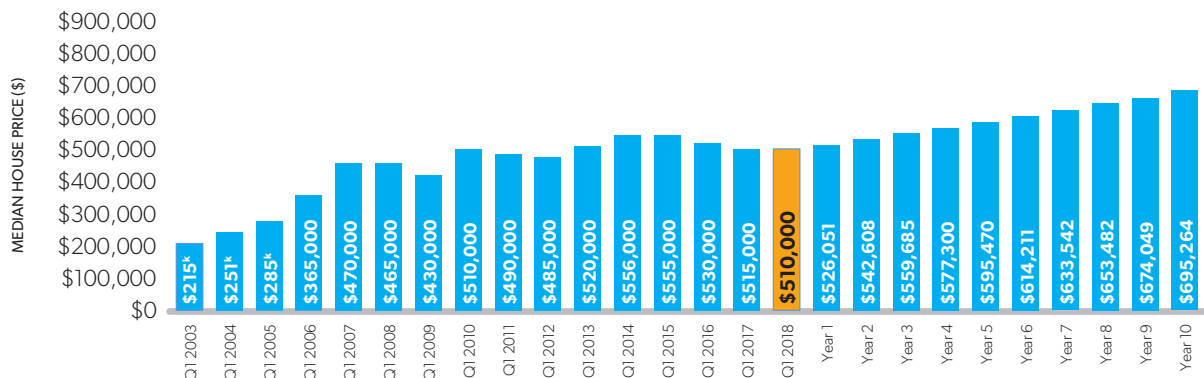
Based on the March 2018 quarter simulation, median house prices would need to grow more than **3.1 per cent annually** by the end of the next 10 years for the purchase of a house ('buy' decision) to be considered financially viable than renting ('rent decision').



Some of the variables used in the index:



Required annual growth in median house price (in \$)



Since March 2003, Perth's annual house price growth rate has been 5.9 per cent.

For the 'buy' decision to be considered financially beneficial than renting, the median house price would need to increase by an average annual growth rate of 3.1 per cent to over \$695,264 by the end of the next 10 years.

About the REIWA-CURTIN Buy-Rent Index

REIWA and Curtin University are invested in educating and informing the public on the financial cost and benefits of housing ownership. A potential home buyer needs to evaluate their current and future personal financial situation, preferences and economic conditions - an answer highly dependent on personal circumstances. The index endeavours to analyse the economic and financial components in accordance with mainstream research; where the financial viability of the home buying decision is highly dependent on house price appreciation.

The aim of this index is to simulate possible financial outcomes, based on formulated economic assumptions, to identify the annual house price growth rate required for home ownership to break-even. Estimating an outcome differs in all states and territories that have independent variables, with differing executable dates and geographical locations. The model estimates a 10 year financial cost benefit horizon in the buyers' and renters' circumstances based on current and historical data. These estimates are then discounted with a minimised default risk rate, in a net present value methodology, to identify a financial breakeven point between the buying or renting decision for the scenario. The result is the Compounded Annual Growth Rate (CAGR) in house price required to achieve the break-even scenario.

If the reader perceives that house price appreciation could be consistently higher than the house price growth rate for the next 10 years shown in the index, then the home purchase decision could possibly be financially advantageous. For example, if the index estimates a 3.00% CAGR in house price is required over the next 10 years as the breakeven point in a scenario; then a home buyer's personal expectation of 3.50% CAGR in house prices could indicate that the decision to buy is financially superior to renting and vice versa. The model is based around a non-first home buyer purchasing an established property.

Specifications and variables employed within the model

Inflation rate – 10 year average All Groups CPI Perth from the Australian Bureau of Statistics (ABS) will increase weekly rental, insurance & maintenance costs (0.5% of property purchase price), taxes and rates for local government and utilities (0.5% of property purchase price), moving cost in renting or buying; and security bond or deposit in renting.

Grants, Subsidies and Exemptions (GSE) – respective GSE that applies to the respective periods from the Department of Finance WA (DOF).

Taxes – estimated at 20% for the individual on interest earned on savings.

Loan variables - 10 year average owner-occupier standard variable bank housing loan from Reserve Bank of Australia (RBA) as the loan interest rate, a loan-to-value ratio of 80%, a 30 year loan term and equal monthly repayments of principal and interest.

Savings rate - 10 year average retail deposit and investment rates from three year banks' term deposit (\$10,000) from RBA.

Acquisition costs – approximated respective once off settlement fees on conveyances of titles as percentage of house price based on Australian Institute of Conveyancers WA Division Inc, deposit as a percentage of house price, bank fees, inspection fees to include timber pest, structural condition and bank instructed valuation; and stamp duty at the residential rate of duty (or other respective rates of duty) applicable in Western Australia for the respective period of simulation from DOF.

Discount rate - minimised default risk rate uses the Australian 10 year Government bond from RBA as a proxy.

Assumptions, exclusions and limitations

The exclusions and limitation to model and estimates (non-exhaustive):

- a) Employs a 10 year financial horizon. Results will differ on a shorter or longer horizon.
- b) Based on established house prices for non-first home buyers.
- c) Does not account for strata type properties that may incur additional costs such as strata or body corporate fees (which includes maintenance, insurance, rates and taxes).
- d) Makes no representation on buyers' capacity to borrow money or repay a loan; however assumes that the home buyer can afford to service the loan and is able to secure a loan based on the variables specified in the model.
- e) The house price is equal to the valuation price for mortgage and banking purposes.
- f) The home buyer has the capital for a deposit to maintain bank lending preference specified in the model.
- g) Does not account for the selling cost of the home at the end of the simulated period as the home owner may choose not to sell.
- h) Does not account for any personal circumstances, intangible value or other objectives of the home buyer or renter.
- i) Localised market assumption; where the purchaser would choose to purchase their home in the same localised market that they would rent to maintain the same level of utility.
- j) Renter will move once every three years and will incur a moving cost and two weeks of double rent during each move.
- k) If the rental simulation generates a saving in comparison to buying, the savings will be invested at a return generated through the savings rate specified in the model.
- l) Simulations are based on past and current financial performance, information and data, which should not be used as a reliable indicator of future performance.

*Note that assumptions, variables, model or results are subject to change or withdrawal without prior notice.

Changes to Buy-Rent Index methodology

*Revision to model: The REIWA Curtin University Buy-Rent Index has been updated to assess the Buy or Rent decision to estimate the break-even point of the buy or rent decision. The newly adjusted model focuses on the final outcome at the end of 10 years. The recalculated annual growth rate required has been updated.

Disclaimer/Disclosure

The REIWA Curtin Buy-Rent Index is for educational and informational purposes only. It relies on assumptions, historical data and current data to estimate hypothetical financial outcomes and may not be an accurate indicator of future outcomes (performance). The REIWA Curtin Buy-Rent Index does not account for individual circumstances, financial objectives or particular needs and should not be interpreted or relied upon as legal, financial or other professional advice. Neither the Author (J.Ho), Curtin University or REIWA accept any liability or responsibility for any direct or indirect loss or damage arising from reliance on, or use of, this Index or any information contained in it by any person. No representation or warranty is given as to the accuracy or completeness of the information by the Author, Curtin University or REIWA. Any person using the Index does so entirely at their own risk, and should seek professional/independent advice prior to any decision. Note that the variables and model may be subject to change without prior notice.

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