



The big question: rent or buy?



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Your view on where interest rates are heading should be a key factor in your decision-making

A generation of would-be property buyers have been sitting on the fence: some put off by the negative equity experience of those who came before them, others trying to call the bottom of the market and get a bargain.

As both rents and property prices rise, potential first-time buyers face a tough dilemma: should they rent or should they buy.

Figures released by property website Daft.ie last week indicated that rents in many parts of the country are continuing to increase, with a year-on-year increase in the average rent nationwide of 7.1 per cent.

Meanwhile, recent figures from the Central Statistics Office (CSO) showed that residential property prices were up 6.4 per cent nationally in the year to December. This national increase is driven by significant hikes in Dublin property prices, with residential property prices in the capital rising by 15.7

per cent last year.

To rent

According to the recent Daft report, the average advertised rent nationwide is now €865, compared to €790 two years ago.

Rents in Dublin have jumped by 18 per cent in the last three years, and are now just 15.7 per cent below the peak levels of 2007, according to Daft's statistics. Average rents in Dublin now stand at €1,210, up 11.2 per cent year-on-year.

Ronan Lyons, an economist at Trinity College Dublin and author of the Daft report, said that the "ongoing acute shortage of rental accommodation in Dublin continues to affect rents in the capital".

"Elsewhere, rents are largely stable, although if rents continue to rise at close to 5 per cent a year in other cities and in Leinster, this will be problematic for Ireland's competitiveness," he said.

In Lyon's view, there's likely to be

strong rental demand in the capital for the next few years, meaning little sign of rent reductions ahead.

To buy

For many of those who want to buy, especially in Dublin, rising prices are just one part of the puzzle. According to mortgage expert Michael Dowling, a lack of suitable supply and not being able to secure the right property is a major problem for would-be buyers.

"We've a lot of customers who are loan approved that can't source a suitable property in their price range," he said. "They are all chasing the same limited pool of properties in that starter home bracket."

And so the spiral continues, as competition among first-time buyers in the capital for scarce houses drives prices up further.

Dowling said that most first time-buyer couples in Dublin were looking at "three-bed semi" properties in the €275,000 to €350,000 range. "But there are a lot of properties that were €300,000 a few months ago that have jumped up to €325,000 or so now," he said.

This increase in prices has a big impact on the amount that borrowers will have to repay each month. A couple buying a property for €300,000 with a 10 per cent deposit would face a monthly repayment of about €1,360, according to Dowling's calculations.

However, if that property jumped up to €325,000, the same couple would need a bigger sum for their 10 per cent deposit and would also see their monthly repayments increase to about €1,470 per month. For a €350,000 property with a 10 per cent deposit, Dowling said the couple would face

monthly repayments of about €1,580.

Weighing it up

According to Lyons, deciding whether to rent or buy is "a question of doing the maths". "It's such a broad question. There's never one right answer for everyone," he said.

He said that much of the decision hinged on what you expected to happen to interest rates. "If you expect interest rates to go up, then the maths is different," he said.

John McCartney, director of research at Savills Ireland, agreed. "If you buy a property, you probably have to borrow money, so the long term cost of finance is a critical factor," he said. "If you rent you don't have to invest a lump sum in a house deposit, so you have more cash to earn interest.

"So in a high interest rate environment, generally buying property becomes less attractive, and renting becomes more attractive, as the cost of finance goes up and the yield on deposits is better," McCartney said.

For now, a low interest rate environment prevails and this looks set to continue. "The European Central Bank has given forward guidance that indicates that rates will remain low for a considerable period," McCartney said. "If anything, there's pressure for a further reduction. The ECB is worried about deflation."

Interest rates aside, the rent or buy debate will vary hugely for would-be buyers in different parts of the country. "It also depends hugely on where you are looking. In Dublin, both rents and house prices have jumped significantly in the last two years. That's putting pressure on people to buy. Demand is there but supply is tight, which is encouraging people to move now," Lyons said. "However, in other areas, there's less pressure."

Often would-be buyers are not comparing like with like. For example, a professional couple renting a city centre apartment might like to buy a three-bed semi in the suburbs.

Let's take Joe and Mary who currently rent a two-bed townhouse in Dublin's Kilmainham. They've been living there for two years, paying €1,150 per month in rent. Their landlord now wants to increase the rent to €1,300 and Joe and Mary are wondering would they be better off buying a house. There's a two-bed house for sale nearby

for €200,000. Based on a 10 per cent deposit, buying this property would translate to a monthly repayment of about €900, according to Dowling's calculations.

However, if they wanted to buy a three-bed home in the suburbs, they might not see as much of a difference between rent and mortgage repayments each month.

For Joe and Mary, on the face of it buying a two-bed home makes sense, but there are a number of factors to consider. "There's this general idea in Ireland that renting is dead money," McCartney said. "But rent takes the risk out of it too. If something breaks, the landlord fixes it."

Ken Murray, director of the Association of Expert Mortgage Advisors (AEMA), said that the rent or buy question was a matter of personal preference. "Some people like the freedom of renting, others like the security of ownership," he said.

And even if it stacks up to buy, Murray said potential buyers needed to consider whether they were "mortgage ready". "Do you have a deposit? You'll need at least 8 to 10 per cent for the deposit alone, plus other costs. And secondly, you'll need to be able to show repayment capacity," he said.

Changes ahead

Property experts believe that the current lack of supply in the Dublin property market is skewing the market. "One of my concerns is that there's a false market at the moment," Dowling said. "In a more normal market, first-time buyers would have a choice between new and second-hand homes. But there's been no new homes for five years."

A move by one of the country's pillar banks last week could go some way towards alleviating the lack of supply that experts say is pushing up property prices in certain areas. Last week, AIB launched a €350 million new homes development fund to "support the construction and supply of new homes in the cities and suburbs of Dublin, Cork and Galway".

Ken Burke, head of business banking at AIB, said that the bank recognised "the acute shortage of available housing in key locations around the country". "This €350 million fund will support experienced operators in constructing

quality housing units to help meet demand," he said.

Figures from Savills indicate that AIB's new initiative could finance the development of up to 1,750 new housing units, according to McCartney.

But Murray said it was about more than building houses. "It's about building the right sorts of property in the right locations," he said.

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