

HOME OWNERSHIP IN AUSTRALIA IS ALMOST AN ARTICLE OF FAITH. AS MUCH AS ANYTHING ELSE, THIS ATTITUDE SEEMS TO SPRING FROM AN ASPECT OF THE NATIONAL PSYCHE WHICH URGES UPON AUSTRALIANS FROM A VERY EARLY AGE AN UNCHALLENGED WISDOM OF OWNING THEIR OWN HOME.

This conventional wisdom prevails almost uncontested, notwithstanding that the level of home ownership in many other countries is well below that in Australia. For these reasons, and others which are beyond the scope of this article, the concept of home ownership in Australia is unlikely to be seriously challenged for a long time. Nor is there any obvious reason why it should be. There are very good psychological, cultural, family, financial and other reasons for owning your own home. So what is the point of undertaking a comparative financial analysis of owning and renting?

Even though such an analysis may be academic in practical terms, precisely because the concept of home ownership occupies a virtually unassailable position in the national consciousness, it forces us to consider some of the short-term and long-term issues involved in owning a home compared with renting. Perhaps even more important, however, it is also a good way of learning something about how basic investment analysis techniques can be used to analyse alternative investment opportunities.

Undertaking an analysis of home ownership forces home owners to realise that they already have, under their feet, a

very large property asset. In most cases, this will be the largest single asset which any one person or family will own. This is a non-income producing asset, however, and an analysis such as we are about to undertake should encourage home owners to reflect upon their overall portfolio balance.

A financial analysis of home ownership is best undertaken by way of example. In the example which follows, we will look at the purchase of a domestic residence which is held for 10 years and then re-sold. This will be compared with renting a place of residence for the same time period and investing free funds in other investment sectors. As with any financial analysis, certain assumptions first need to be made. And as with any financial analysis, the outputs are only as good as the relevance of the assumptions. We will look later at the effects of varying some of these assumptions.

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