

Should you build or buy a home?



It's the age-old housing debate, is it better to build or buy your own home?

For the time being, Australia appears to have flattened the curve and stopped the spread of COVID-19.

Lockdowns and restrictions have been rolled back, including the ban on open houses and auctions, paving the way for buyers and investors.

According to the Australian Bureau of Statistics, building approvals rose 1.3% in March, although this was before the worst of the pandemic restrictions had set in.

The hope then is some sense of normality will resume in the coming months.

So, if you're looking for a new home, should you build or buy?

Arguments can be made for both until the sun goes down (and longer), but we've tried to hone in on the key points to find the answer.

Is it cheaper to build or buy a home?

There are so many differing opinions on whether building a home or buying one is the way to go but for the majority of people, the biggest deciding factor in any decision comes down to money.

A house will typically be the most expensive thing a person owns in their life, so the cheaper option will often be the more popular option.

Let's first look at the cost of building a home.

It's hard to overstate just how difficult it is to pinpoint how much it costs to build a house.

The Urban Development Institute of Australia's (UDIA) annual State of the Land report for 2020 revealed the median costs and lot sizes across the country.

Using their data, we can see the median cost of buying a lot of land across the capitals in the table below.

Sydney unsurprisingly had the most expensive median lot price, followed closely by the Australian Capital Territory, while Adelaide had the cheapest median lot price.

Data for Hobart and Darwin was not recorded.

While building a home doesn't require you to pay stamp duty on the building itself, it is required on a lot of land, which, as evidenced in the table below, can be extremely costly.

First home buyers are eligible for exemptions on stamp duty, with differing legislation across the states,

City	Median lot price	Stamp duty
Sydney	\$459,000	\$16,374
Melbourne	\$327,000	\$13,685
Brisbane	\$327,000	\$10,794
Adelaide	\$180,000	\$7,617
Perth	\$217,000	\$6,935
ACT	\$423,000	\$9,344
National average	\$322,000	\$10,792

Source: UDIA, Stamp Duty Calculator Australia

While it's relatively easy to find the cost of a lot of land, the exact cost of building a home can vary massively,

Data courtesy of Rider Levett Bucknall detailed Australia's construction building costs from the 2018 fourth quarter for custom-built, single and double-storey dwellings.

As seen in the table below, Victoria had the highest build cost at \$423,808, while South Australia was the cheapest at \$314,736.

City	Lower range cost per sqm	Average floor area m ²	Low range total cost
NSW	\$1,780	220.5	\$392,490
VIC	\$1,720	246.4	\$423,808
QLD	\$1,800	231	\$415,800
SA	\$1,580	199.2	\$314,736
WA	\$1,400	236.5	\$331,100
ACT	\$1,700	242.5	\$412,250
National average	\$1,633	229.4	\$381,697

Source: Rider Levett Bucknall's Riders Digest 2019 Melbourne, Australia Edition

It's important to understand these figures are an extremely rough estimate and should be treated as such. They don't take into account if the land needs to be levelled, use high-quality materials or accessories, delayed timeframes, and a plethora of other factors that come with building a home.

So, using our very rough estimates, we can garner an idea of how much it would cost to build a house in Australia by totalling the median lot cost, stamp duty, and low range cost of the build.

As seen in the table below, Sydney marginally comes in as the most expensive place to build a home, followed closely by the Australian Capital Territory, with Perth by far the cheapest.

City	Total build cost
Sydney	\$867,864
Melbourne	\$764,493
Brisbane	\$753,594
Adelaide	\$502,353
Perth	\$554,935
ACT	\$844,594
National average	\$714,489

We can then compare these total cost of building estimates to median housing values to gain an insight into which roughly may be cheaper.

CoreLogic figures for April, released in May, reveal the median house prices for the capitals as well as the national average.

Comparing them in the table below with the total build cost estimates, we can see the only capital city it's cheaper to build in is in Sydney.

The national average suggests it could be around \$90,000 cheaper to buy than it is to build.

Again, these are extremely rough estimates and by no means should cost be the only deciding factor in whether you build or buy.

These figures are also based off of the capital cities, with figures not easy to find for regional areas, and as a result, it may be cheaper to build rather than buy or vice versa, in regional areas across the country.

City	Total build cost	Median housing value + stamp duty	Which is cheaper?
Sydney	\$867,864	\$925,761	Build
Melbourne	\$764,493	\$734,423	Buy
Brisbane	\$753,594	\$518,584	Buy
Adelaide	\$502,353	\$461,972	Buy
Perth	\$554,935	\$464,108	Buy
ACT	\$844,594	\$644,445	Buy
National average	\$714,489	\$624,882	Buy

Source: CoreLogic

Pros of building a home

There are a number of advantages that come with building a home compared with buying one, which include:

1. Personalisation

Building a home from scratch will typically mean you're involved in each step: finding and buying a lot of land, choosing your builder, deciding how many storeys there are, bedrooms, bathrooms...the personalisation options are endless. The construction

and building industry are partly so massive because of the variety of homes and features available. If you want to build a ten-pin bowling alley in your house and have the funds to do so, you can! Finding a house that meets your every need can be far more difficult when simply buying an existing home.

Additionally, choosing higher-quality materials means there's less chance of your home requiring maintenance down the line, as well as improving the value of your home. In contrast, an established home may have existing maintenance issues prior to your arrival.

2. First Home Owners Grant

The [First Home Owners Grant \(FHOG\) eligibility](#) and payments differ between states and territories. However, the one constant is that it's available for those building a home. Homebuilders can expect to receive \$25,000 from government to assist them in paying for the building which can hugely help when saving for a deposit. The FHOG is also available to those buying a brand-new home. [The Australian Government's HomeBuilder program](#) provides eligible owner-occupiers, including first home buyers, with a grant of \$25,000 to build a new home

3. Stamp Duty

As evidenced above, stamp duty costs can rack up into the tens of thousands of dollars. If you're a [first home buyer](#) then you may be eligible for a concession but many people aren't in this boat. Building a home means you only have to pay stamp duty on the lot of land and not the property itself. To show you how much that can make a difference, let's take Sydney as a case study.

Building on the median \$459,000 land lot in Sydney will mean you have to pay around \$16,000 in stamp duty on the land. In comparison, buying an established property in Sydney at the median price of \$889,000 will cost you around \$35,000 in stamp duty, more than double what you would pay if you built.

4. Energy efficiency

Part of the personalisation aspect of building a home means you can choose the materials, lighting, and cooling used throughout the home. Choosing energy efficient options when building your home can save you thousands on electricity and gas costs. High-quality materials like double glazed windows and doors will block out noise and reduce heat penetration by up to 40% compared to standard glass. While installing solar may be expensive upfront, it could help you save on energy bills in the long run.

Cons of building a home

As many positives there are for building a home over buying one, there are a number of negatives too, which include:

1. Time

Unless you've signed up to a 'Block-esque' type show, where they build your home in under a week, chances are your build will take time and lots of it. While buying a home means you can move in upon completion of finance and paperwork, building a home could take anywhere from six months to a year, or even longer. That could mean spending money on rent in that time or living in a place you hate.

2. Construction loans

A construction loan is a specific type of home loan designed to assist the funding of a new home's construction. Although construction loans are great for when you're building home, when compared with normal home loans, they have a number of downsides. Most notably, they typically have higher interest rates, which could cost you more over the life of your loan. Furthermore, they can have higher fees, require a larger deposit and they don't tend to function as a normal home loan does, drawing out the process through financial red tape.

3. Factors out of your control

The elements are fickle creatures and something humans have no control over (yet). If it rains for three weeks solid at your build site, then construction will be halted, lengthening the time it takes to build your home and costing you money. Delays could also come as a result of poor workmanship, equipment failures, labour shortages and council approvals.

4. Outside of the CBD

This article has mainly focused on the building of a house on a vacant lot of land. Chances are you won't be able to embark on such an endeavour in the heart of a CBD or on its outskirts. Cities are typically apartment-orientated, which buyers can easily move into. Building a property may require you to look further out into suburbia to build your dream home.

Pros of buying a home

Buying a home over building a home has a number of advantages, which can include:

1. Convenience

Finding a home to buy can be as easy as going online and scrolling through properties as if you were looking for an interesting YouTube video to watch. In today's age, you can buy a property without ever seeing it in person and complete the whole process online. Some lenders now boast they can process loan applications in a matter of hours, which means once you sign off, you could be in a new home only a week after finding it. Of course, this is hypothetical and things are rarely that easy, but compared to building a home, buying one is often a vastly more streamlined process.

2. Location

As Australia's population swells, so too does the amount of housing build. For those who wish to build, spots to do so are fast drying up in cities and even regional areas. Buying an established home means you can choose your desired location with ease, without being restricted by the size or type of property.

3. Lower financing costs

Financing can be much simpler when buying a home compared to building a home. While a 20% deposit is typically favoured, many lenders will allow you to borrow up to 95% of the property's value (provided you pay Lenders Mortgage Insurance). As well as often having lower interest rates than construction loans, normal home loans also have the advantage of a greater variety of loans (fixed or variable) as well as a larger range of lenders for you to choose from.

4. You know what you're getting

It's true building a home means you get to personalise much of the property, but things rarely turn out the way they're supposed to. There are often hitches, miscommunications and mistakes which mean your gold-plated bath turns into a copper toilet. When buying a home, you know exactly what you're getting, especially if you have an inspector look at the place prior to purchase (which is a must).

Cons of buying a home

As good as it can be buying a home over building one, there are downsides which include:

1. Wear and tear

Buying an established property means someone else will have lived in it. That will mean some degree of wear and tear which you'll bear the brunt of. Wear and tear will only be more prevalent and increase over time with older properties like old Queenslanders, which will see you potentially have to foot a hefty repair bill. Older houses may also have higher electricity costs due to poor insulation and fewer energy efficient options.

2. Higher Government fees

As seen above, stamp duty can cost you tens of thousands more when buying a home over building one. Furthermore, if you're a first home buyer, state governments are less likely to help you with the purchase of an established home. Most states only provide grants to those buying or building a brand-new home.

3. Unavailable features

Building a home means you can install all sorts of wild and interesting features. Such features won't be available in many established properties, so you'll be restricted in your searches. While features such as a bowling alley will obviously not be readily available, features like a pool or two-car garage may be hard to find in your desired location.

Our opinion

Chances are even prior to reading this article you knew whether you were going to build or buy your home.

It's an innately personal decision, with some people dreaming of building their perfect home their entire life, while some people simply want somewhere, they can move into quickly which suits their needs.

Whatever decision you make, it's important to understand the costs involved with each process. Additionally, compare the pros and cons to nail down which avenue is best for you.

From a money perspective, the numbers in this article should be used as an extremely rough estimate to gain an idea of how much each option will cost. Consider consulting a qualified financial adviser before making any major decisions.

Useful links

Applying for the First Home Owner Grant:

<https://www.sro.vic.gov.au/fhogapply>

The Australian Government's HomeBuilder program:

<https://www.sro.vic.gov.au/news/homebuilder-grants-eligible-owner-occupiers>

Land transfer (stamp) duty calculator:

<https://www.sro.vic.gov.au/calculators/land-transfer-calculator>

Enquire with us:

Please feel free to contact our friendly team to discuss your preferences when it comes to buying a property or building your home from scratch.

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