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REAL ESTATE INSTITUTE QUEENSLAND

WHAT IS “RENT-VESTING” AND WHY IS IT ON THE RISE?

We hear a lot about housing affordability and the struggle of younger generations to get into the market and this has given rise to a new trend that is taking hold in cities such as Sydney and Melbourne and may soon be making its way to Brisbane: “rent-vesting”.

What is “rent-vesting”?

Rent-vesting is the term to describe the situation where someone rents in a more desirable (ie more expensive) suburb and buys their first property in cheaper suburb to then rent it out. So, they are renting and investing – ie rent-vesting.

We are seeing this trend emerge in younger demographics, the Gen Y and Gen Z group who are facing greater affordability challenges to their dreams of home ownership than any generation has previously faced.

- It takes 12 times the national average income to buy a property in Sydney.
- It takes eight times the national average income to buy a property in Melbourne.
- It takes four times the national average income to buy a property in Brisbane.

As lending criteria tightens and banks reduce their exposure to the housing market, home buyers are being forced to save up to 20 per cent deposit. In a market such as Sydney, where the median house price is close to $1 million, this means they have to save a deposit of around $200,000.

So, rather than give up on the dream of home ownership, many are choosing a strategy that gives them the best of both worlds. They become home owners, while still maintaining a lifestyle in the inner or middle ring of the major city.

The strategy has been gaining traction in Sydney and Melbourne where house price growth is consistently in the high double digits. We are not yet seeing it much here – we’ve heard a few stories, from sales agents, buyer’s agents and investment advisers, but nothing consistent yet.

Brisbane doesn’t face the same affordability issues that Sydney and Melbourne have.

Our capital growth has consistently been around 4% year on year, and this is very modest, especially when compared with Sydney and Melbourne. But the same principles apply. Houses are cheaper on the outer fringes of the city than they are in the inner ring.

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Younger people are learning to look at investment in property in a very different way to previous generations. For Boomers and Xers home ownership was about building an asset that will provide a roof over their heads in retirement.

However, the Gen Ys and Zs will likely embrace a more aggressive investment strategy – ie buying multiple properties to hold in a portfolio – as a highly desirable wealth-building tool. They're coming at it from a very different angle and we believe this will bring about very different results.

We'll see greater numbers more comfortable with investment in property and as a result, more investment properties per investor.

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