Smashed Avocados

By Warwick Edwards

Let me state up front, this is not an article about how hard I had it when I bought my first house. Back then it was a very modest 3 bedroom, I bathroom house in a very average area in Western Sydney. In fact, at night I could see the glow from the lights of the Maximum Security Prison down the road!

As much as I dreamed of a McMansion with European appliances & a “parents retreat”, it just wasn’t going to happen. And this was at a time when the interest rates on my mortgages were 10% & 18% respectively. I had heard of avocados but couldn’t afford to buy one.

The world we live in now is a much different place though. Lifestyle is a much bigger part of the equation for most people today. Australia’s ma be some of the most endebted people in the world today but we still like to enjoy ourselves. And lets face it, who doesn’t like going out for a nice breakfast at your favourite café on the weekend? It’s a time to enjoy someone else doing the cooking, being waited upon & to get your people watching glasses on. Nothing quite says “we are okay” than sitting outside on a beautiful morning, having smashed avocados for breakfast.

But when we turn to read the papers, its full of stories of people being unable to save enough to buy that dream home. In Sydney & Melbourne you are somewhat judged by where you live & prices over the last few years have skyrocketed.

In fact in just 20 years, the average Sydney house price has increased more than fivefold from $233,250 in 1997 to $1,190,390 today, while in Melbourne prices over the same period have increased by more than six times from $142,000 to $943,100 today.

While it's true that wages have increased over this time, earnings growth has not kept up with house price growth. In 20 years, average annual full-time earnings have not quite doubled from $42,010 in 1997 to $82,784 today (source HuffingtonPost March 2017.)

Clearly a significant part of the issue is that demand for properties is outstripping supply. The impact of growing demand on house prices is most evident when prices are compared to average earnings. Twenty years ago, the average Sydney house was 5.6 times average annual earnings, while in Melbourne it was an affordable 3.4 times annual earnings. Today, Sydney homes are more than 14 times average earnings, and in Melbourne more than 11 times annual earnings. And wages growth in Australia today is not bridging that gap either.

So clearly its’ getting harder for those not in the property market, to join in. There are a few options still available though. One such option is being coined the term “rent-vestor”. This is a person or persons, who chooses to rent a property to live in, whilst buying an investment property to rent out. Typically, they rent in an area that best suits their lifestyle & buy an investment property in a more affordable area, to rent out to someone else. That way they ae in the property market at least. And renting gives you flexibility, something a lot of young people today desire. The deposit required to purchase the investment property would be less than that required for the area they would really like to live in.

First Advice Solutions have a Finance & Home Loan relationship with Balance Partners. We would appreciate the opportunity to talk to you, your children or your friends about how to become a “rent-vestor”. Then you can truly have your cake, or avocado & eat it!