Generation Rent

New research by the Financial Services Council (FSC) shows that home ownership is drifting ever further out of reach for New Zealanders. Just 40 per cent of Kiwis between the ages of 18 and 39 own a home, and that figure is set to fall in the coming years. The unprecedented rise in property prices, particularly in the past year, has left many who were looking to purchase a home behind.

Dubbed “Generation Rent”, this demographic is increasingly pessimistic about their prospects of becoming homeowners. Despite this, the majority of Generation Rent is saving and still actively working toward the goal of purchasing property within the next 5 years. Whether they’ll be able to do so, however, is another matter. To cope with ballooning home prices, Kiwis are making significant financial sacrifices, while finding innovative ways to invest. This may ultimately help them to overcome the high price barrier—provided they get the help and sound financial advice they need.

Kiwis still view property as the best investment
Property is seen as the ticket to long-term financial security by 84.3 per cent of respondents. At the same time, though, 82 per cent believe that property prices are now “unaffordable” for the average Kiwi. This presents a significant problem for Kiwis looking to use homeownership as a way to achieve financial security, especially with regard to their retirement.

Property ownership makes such an attractive form of investment because it allows former renters to convert their monthly housing expenditures into home equity. The housing crisis, however, is forcing people to continue to rent longer, effectively reducing the amount they’ll be able to save before retirement. To compensate for this, Kiwis need new avenues to invest and to build wealth, as well as to have their access to the property market restored.

Property prices are impacting wellbeing
Most of Generation Rent, over 80 per cent, are “somewhat” or “very” worried about property price increases in New Zealand and 70 per cent indicated that financial issues have begun to impact their mental health. Most Kiwis, but especially those between 18-39, are making lifestyle sacrifices from cutting spending to delaying childbirth to help them buy their first home sooner.

Despite this, 3 in 4 rate their financial wellbeing as “moderate” or better. This is reflected in their financial behavior. Just 17 per cent of Generation Rent have no investments (excluding property), while over 40 per cent have at least some investments up to a value of $50,000, and approximately another 20 per cent have investments between $50,000 and $150,000. The most popular investment vehicle is KiwiSaver, though many Kiwis are also turning to alternative investment options such as micro-investing platforms or digital currency trading. Overall, this paints a picture of a frugal demographic, intent on achieving their dream of property ownership, but also paying a steep price just to keep hope alive.

Our View

While they are saving and preparing to purchase a home, fully 40 per cent of those surveyed indicated that they are waiting for property prices to go back down. It's certainly possible that the bubble will pop, but it's not desirable in economic terms, as history has shown this kind of correction to have dangerous knock-on effects for everyone.

Instead, it's likely that steps will be taken to slow growth in the housing market via taxes or tightening of lending guidelines, allowing the rest of the economy (and the investments of prospective home buyers) to catch up. At Trustees Executors, we consider our role in this to be to provide Kiwis with the advice and innovative financial products they need to overcome these financial barriers as soon as possible, and to help draw attention to issues like this through our sponsored research with the FSC.

If you'd like to learn more about how we can help you achieve your financial goals, reach out to us today!