Getting into the buy-to-rent market without risking everything

By Gary Palmer

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A low-growth economy and a rising cost of living has given property investors pause for thought. However, there is still money to made for the astute investor in the buy-to-rent market.

Economic constraints, generational choices and evidence that the real costs of owning a house can be twice that of renting are shifting the business models for both investors and developers. Finding the right partners to work with has never been more important for investors eyeing the property market.

Renting is attractive for many

While older generations still seem fixated about owning their own property, millennials (20 to 35) prefer a less constrained lifestyle. They move from place to place quickly as work and life opportunities present themselves. They are not nearly as driven by the need to own their own homes as either their Generation X or baby boomer parents.

Even if the average person wanted to own their own property, macro economic indicators are not in their favour.

Interest rates and home loan rates are currently at the highest level in six years at 6.8% and 10.5% respectively, while inflation remains high in the medium term at 5.8% in 2017.

Ownership costs are almost double the costs of renting

To add to the scenario, costs of owning a property are approaching two to one compared to renting.

When entering and exiting a transaction, investors will be looking at transfer costs, agent fees and net capital gains taxes. Maintenance and repairs costs are also on the rise, coupled with mercurial municipal rates.

While all these factors are driving the rental market, and make for an attractive investment opportunity, it will only be those who enter the buy-to-rent market at scale who will realise real returns.

Buying in bulk is better

Given the high costs of buying, owning and maintaining a property, buying one property as an investment does not make good financial sense at the moment.

If you want to make money in the current economic environment you need to scale your investment. Aggregating costs across multiple properties offers real benefits. When you buy multiple investment properties you take your yields from around 4% of a single property investment to around 10% if you own and manage multiple properties.

However, not many investors have the ability to do this.

The best way to achieve all the benefits of scaled ownership is through partnerships.

We believe 2017 will be the year of property partnerships. If you can find people with strong balance sheets, they can absorb the shock of any downside movement, and all fully benefit on the upside.

Many of the clients we have connected with partners are seeing excellent returns on their investments. What's more, they would never have been able to enter the buy-to-rent market unless they had leveraged the power of the collective.

In high risk economic times, such as we are currently experiencing, it's all about finding the right deal, doing your research and finding the right people to partner with you.

ABOUT THE AUTHOR

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