

Lack of investors will keep rental market tight

(FR 9/10)

John Breusch

Australia's tight rental market shows little sign of easing as high interest rates continue to ward off investment in new homes.

Figures released by the Australian Bureau of Statistics yesterday show that in trend terms, just 3551 approvals to build apartments were made in November — the lowest number since May 2001.

Although home building approvals figures tend to jump around from month to month, CommSec chief equities economist Craig James said a clear lesson had emerged.

“One thing is clear: conditions in the rental market won't improve any time soon,” he said.

Approvals to build new units or apartments continue to trend lower, now falling to the lowest levels in almost six years. Rental properties will remain in short supply, putting upward pressure on rents.

While 12,739 homes were approved during November, the Housing Industry Association's executive director of housing and economics, Simon Tennent, said that figure needed to rise to about 13,500 homes to satisfy Australia's



Monthly home building approvals need to rise to about 13,500 homes to satisfy the growing population.

Photo: GLENWOCURTVANE

growing population. “Sadly, with affordability still falling and investors favouring Australian equities over residential property, 2007 is likely to be another below-par year for the building industry which will

see rental markets tighten, and first-home buyers face even bigger hurdles,” he said.

The shortage of rental accommodation in Australia is at its most acute since the early 1980s, leading

the prices charged by landlords to rise faster than inflation. Vacancy rates in the September quarter last year ranged from 1.1 per cent in Canberra to 2.1 per cent in Perth.

UBS economist Scott Haslem said the combined effect of low vacancy rates and rising rental yields meant there were many positives for investors, which should help buttress the housing market as it struggled with higher interest rates.

It may be of little help to renters, but the housing construction industry is at least benefiting from Australian home owners' continuing fascination with making improvements to their houses.

Renovations have been one of the strongest points in the housing sector, rising 1 per cent in November to be up 11 per cent for the year.

“With this segment representing about half of overall housing activity, this is a significant positive for the near term,” said Westpac senior economist Andrew Hanlan.

“That said, the renovation market, while not as interest-rate sensitive as new dwelling construction, is not immune to some dampening impact from rate rises.”

Mr Tennent said the popularity of renovation work would help cushion the industry in what was otherwise looking like a tough year.

Property, page 40