

## INNER CITY RENTALS

# Tenants fear sharp rises, investors dread sub-prime fallout

Capital cities are suffering from a drought in residential accommodation, and there is no relief in sight for tenants, writes **Susannah Petty**.

Frustration is widespread within Australia's property market.

Renters voice it each Saturday as they queue to inspect properties that will inevitably go to someone prepared to pay as much as \$100 a week more than advertised.

On the flip side, recent property investors are feeling it as they watch the quake in the American market continue to spread, suspecting that just as yields are improving, values may fall and capital gains erode.

And for prospective investors, the sentiment is no doubt rising as many vendors hold their ground on sales prices while interest rates have kept pushing north.

The scenarios add up to an unusual deadlock for property.

Analysts from the likes of BIS Shrapnel and the Housing Industry Association say the gap between rental demand and rental stock has never been so great. Yet the potential for investors to step in

and boost rental listings is the slimmest it's been in about a decade.

Just how we reached this point isn't as sudden as it seems. In fact the seeds were sown several years ago.

Much of it comes back to a slowdown in development, prompted by climbing construction costs, heavy tax burdens and cooling sales prices.

Figures from the HIA show that the annual total of housing starts has not increased since 2002.

Last year the hammers started swinging on just 153,213 new dwellings across Australia – 20,000 dwellings short of what was needed, the HIA found.

"We got down to 145,000 [housing starts] at one point in the last 10 years," says Chris Lamont, the HIA's chief executive of policy. "Having said that, we didn't have at that point the strong wage growth we have now. We also didn't have the strong immigration we have now. And, there's a healthier divorce rate now, so household formations are growing faster, but despite that we haven't been growing the supply of housing."

Population pressure is a force many analysts are pointing to as the main driver of demand placing such weight on this undersupply.

This pressure is coming from two fronts. Louis Christopher, head of property research at

Adviser Edge makes the point that for Victoria and NSW in particular there is a noticeable decline in the number of people shifting to Queensland.

International immigration is also affecting most states. As BIS Shrapnel's senior manager of building and construction forecasting Jason Anderson notes, Australia's sustained jobs growth has necessitated a lift in skilled migrants – "but a byproduct of that is those people will tend to live in rental accommodation".

"Even if we get a recovery in the rate of investor-financed construction, which we actually think will happen in the next 12 months but not of a particularly high magnitude, and also because we're coming from such a low base, I don't think we've got a historical

precedent for the level of pressure that will come through in Sydney," Anderson warns.

The pressure that has built to date forced a widely felt surge in rental prices last year. Figures from the Real Estate Institute of Australia show median rental

**We are locked into an extended period of strong rent growth.**

prices for houses climbed in every capital over the year – by between 6 per cent and 43 per cent.

Anderson is not alone in the belief there is plenty more lift to come in rental

prices. "[The situation] is very serious," he says. "It really is locked in now in terms of the extended period of a very strong growth in rents."

He expects a compound annual growth in rental prices of 11 per cent in Sydney, about 8 per cent in Melbourne and Brisbane, and slightly less in Perth, over the next three years.

Similarly, Adviser Edge's Christopher expects a national rental price rise of about 12 per cent this year.

Investors, however, have yet to make a notable return as the fact remains that although yields from rents are lifting, property values hang under a cloud, interest rates are high and buying opportunities are still limited.

Reports from the coal face suggest there has been a rise in investor activity in the past couple of months, but it appears modest.

Noel Dyett, president of the REIA, believes potential investors are probably treading water, although he points to recent clearance rates of about 65 per cent in places such as Melbourne – where back-to-back holidays have further unsettled the sales cycle – as evidence that the buying market remains reasonably active.

Robert Papaleo, director of property advisory group Charter Keck Cramer suggests it will take more than current pricing to entice many investors back.

