

Mum and dad investors are key to rental relief

SCOUTING for a rental home is rarely fun.

But when Bridget Maidment, 29, and Nick Johnson, 30, trudged along to yet another open for inspection recently, the mood in the packed North Carlton house was strangely sociable.

"There was a queue to get in and it looked like a house party, there were so many people," Ms Maidment said.

"You run into the same people at four different places and develop a rapport."

The self-employed couple have already lodged dozens of applications since returning from overseas over a month ago.

"Luckily we've got friends with spare rooms otherwise we'd be on the streets."

It is a familiar story. Melbourne's rental vacancy rate has remained virtually unchanged at close to 1 per cent for years, according to the Real Estate Institute of Victoria (REIV). A rate of 3 per cent is considered healthy.

And the out-flux of tenants into first-home ownership has had no discernible effect on the rental squeeze, with rents up 5.4 per cent in the past year.

In fact, the city's surging population has combined with declining home ownership rates to produce one of the tightest rental markets ever.

The demand-supply imbalance of rental property, especially in desirable locations, has proved to be an intractable problem. So what can be done to fix it?

The Federal Government is attempting to tackle the shortage at the lower end through its National Rental Affordability Scheme (NRAS). The scheme aims to add at least 50,000 new dwellings nationwide by 2012, at 20 per cent below market rents.

In Victoria, more than 3000 were approved in the first few rounds. Applications for a third round, which will target institutional investors, are now open.

Given that the last census showed 330,835 rented homes in



MARIKA DOBBIN

Melbourne, there should be enough approvals so far to ease the vacancy rate by about 1 per cent. Right?

Wrong. In fact, even if those approved became available for rent tomorrow, it is doubtful whether they would make a sustained dent in vacancies.

Rather, a surge of rental stock, especially at the lower end, would likely be absorbed rapidly. Latent demand has been swelling for so long that people have been forced to crowd in wherever they can — including with other tenants, in the family home (sometimes aged into their 30s and 40s), in rooming houses and even in caravan parks.



Added to that, the majority of NRAS approvals so far have been to community housing organisations. Such organisations will target those most in need.

The scheme is not directly available to the small-scale private investors who currently provide 88 per cent of Melbourne's rental stock.

Such investment has flourished since the deregulation of mortgage markets that has provided easy access to credit. The mums and dads who now dominate the rental market rely on negative gearing tax support and capital growth to make a return. They buy the best quality property they can afford because it is mid to higher-end rentals that will make the most absolute gain in the long term.

They can also claim depreciation on new dwellings, which tend not to be in the lower end.

These are just some of the reasons behind a steady decline in affordable rental property.

But the NRAS fails to address these and other underlying issues. The Government's housing affordability strategy can hardly be viewed as comprehensive if it ignores the biggest players in the rental market.

The REIV, which represents agents, argues the solution to boost rental stock levels is even greater tax support for private investors across the board. At the other extreme, economists working on the Henry tax review have urged closing the negative gearing loophole used by more than a million housing landlords, by imputing a standard profit margin on rental housing investments.

Meanwhile, social activists such as the Tenants Union and Victorian Council of Social Services are big believers in inclusionary zoning, requiring an affordable housing component in every new development, through the state planning laws.

So, while the spectrum of opinion is divided on a solution, one thing is clear: not enough is being done to improve the odds for renters, especially those on low incomes whose options are narrowing by the year.

But not doing enough is still costing taxpayers a fortune in the blanket subsidies, tax concessions and rebates available to investors playing in all sectors of the rental market.

As part of its affordability agenda, the Government should assess how tax kickbacks can be better targeted at investment housing that actually meets renters' needs, especially at the affordable end. Is it prudent, for example, to subsidise million-dollar Docklands rental apartments through negative gearing?

While the NRAS is a worthwhile initiative, it needs to be complemented by a new strategy for private investors. Such investors hold the key to opening extra and more affordable doors

Getting hold of the keys to a rental property in Melbourne is fast becoming a modern urban myth. PICTURE: PATRICK CUMMINS



Melbourne rents up 5.4% in the year to the September quarter, according to the ABS.



Rates of home ownership are in decline, despite the first home buyer grants, with tenants staying in the rental market longer.