

Property

Edited by rharley@afr.com.au

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Fewer starts push rents through the roof

Robert Harley

Housing rents will rise sharply next year – and keep rising until at least 2012 – in response to the pressures of rising demand and record low supply.

In an update to its *Residential Property Prospects, 2009 to 2012*, forecaster BIS Shrapnel predicted that housing rents would rise over the next three years at an average annual rate of 5 per cent or more in Sydney, Melbourne and Brisbane.

The ongoing rises have implications for housing prices, for public policy and for the Reserve Bank.

BIS Shrapnel senior economist, Jason Anderson, said that rental markets would inevitably tighten considerably in 2010, and remain very tight in 2011, because of the low rate of medium- and high-density dwelling construction.

About 30,700 medium- and high-density apartments will be started this year, a fall of 30 per cent on 2008 and the lowest level of starts since the depth of the recession in 1991.

At the same time, demand remains strong with net overseas migration in 2008-09 estimated at a record high of 300,000 people.

Mr Anderson said a strong upturn

Tough for tenants

Rental growth (%)

	Average annual 2002 to 2008	Forecast calendar 2009	Forecast average annual growth 2010 to 2012
Sydney	3.5	6.2	7.1
Melbourne	3.3	4.8	5.6
Brisbane	6.9	5.2	5.0
Adelaide	4.3	4.3	3.4
Perth	6.5	6.6	3.2
Australia	4.4	5.7	5.8



SOURCE: ABS DATA, BIS SHRAPNEL FORECASTS

in detached house construction in 2010 would provide some relief and, as construction continued into 2011, start to alleviate the undersupply.

Property research house SQM Research has noted a rise in vacan-

cies in many markets since the lows of 2007 but rents are still rising and managing director Louis Christopher said 6 per cent growth next year would not surprise.

“When we get to 2011, we will get

KEY POINTS

- BIS Shrapnel predicts the rises will average 5pc for the next three years.
- Low-income housing consumers have been hard hit by the climb.

more completions and then growth will slow,” he said.

For tenants, the worst city will be Sydney. BIS Shrapnel predicts that with new medium- and high-density housing starts at their lowest level since 1987, the city’s vacancy rate will fall under 1 per cent next year and rents will rise above 7 per cent.

Mr Anderson said rising rents would be another support for house prices, both because of investor interest and because renters would be forced to become owners.

He predicted that prices would rise nationally by 6 per cent next year despite recent interest rate rises.

National Shelter, the peak non-government organisation representing the interests of low-income housing consumers, noted last week that low- and moderate-income households had been particularly affected by rising rents.

About 60 per cent of the low- and

moderate-income households living with housing stress are in the private rental market where, according to National Shelter, there is a shortage of 250,000 homes for these families.

National Shelter called for a range of measures including a residential development taskforce, limits on the size of rent rises, and changes to the tax system including restrictions on negative gearing and the introduction of capital gains tax on homes above a threshold such as \$2 million.

Mr Anderson said the causes of rising housing costs required attention from governments at all levels.

The Reserve Bank faces a conundrum because rising rents drive inflation. To control inflation the Reserve Bank is likely to raise interest rates, which makes it harder to buy and build new homes.

“Given that underlying inflation remains high, relative to the Reserve Bank’s target range, we expect that the escalating shortage of rental properties will be a significant factor contributing to further interest rate rises,” Mr Anderson said. “Higher interest rates would dampen the construction of new dwellings, exacerbate the housing shortage, and thereby place upward pressure on rentals.”

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