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Why the nation's renters will be paying more

ROBERT GOTTLIEBSEN
Follow @BGottliebsen

By **ROBERT GOTTLIEBSEN**, BUSINESS COLUMNIST
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In most areas of Australia those paying rent for their residence face the real danger of much higher payments in coming years.

A series of forces are aligning where residential property owners will demand and obtain much larger returns. Most of those forces are unique to the property market but on Thursday night the world received another warning that the proposed actions of President Biden will lift US interest rates.

A significant benchmark indicator, the US 10-year bond rate, jumped to 1.5 per cent — almost three times the level of last August.

I set out the background to this new global development earlier in the weekunder the heading "US bond yield, copper price hints at higher interest rates to come".

It will take time for the US bond rate's upward trust to have a significant impact on Australia, but the early warning signs are there and this reduces the price of shares.

But the residential rent market is impacted by a much wider variety of forces and they spread around the nation. The only major residential property area where there is significant weakness is in inner city Melbourne apartments.

The first force that is set to boost rents is the shortage of rental property in so many parts of Australia.

And that shortage spreads to many regional areas. Yesterday I checked with a Victorian surf coast real estate agent to discover there were no rental houses on the books.

The combination of low interest rates, forecasts by the Reserve Bank that interest rates will remain low for the foreseeable future, and an abundance of bank credit for owner-occupier homeowners, have combined to cause a wave of Australians to buy their first home or to buy a dwelling that better suits their needs.

Naturally the prices of dwellings that are subject to these forces have risen. But normally when there is a strong residential home market investors are in there competing to buy.

But this time they are virtually absent. This is creating a shortage of rental supply and in the case of Victoria and Queensland state governments have taken action that they must have known would push up rents because they made the position of landlords more dangerous.

NSW has acted differently but with the same impact, by making it less attractive to build apartments and sometimes residential houses for rent.

I will detail these actions later. The vast majority of landlords in Australia are some two million “mums and dads” who directed their savings into residential real estate, often with the help of negative gearing.

The force of buyers wanting to reside in their own dwellings and not rent has pushed the value of these investments higher. But the confidence of landlords was shattered by the COVID-19 recovery set of measures where their rights were substantially reduced. The protests of the Australian Landlords Association were ignored and so a great many landlords owning both dwellings and shops took a severe income hit, which has reduced confidence and made them more reluctant to buy rental properties.

In addition loan credit is not as easy to obtain and costs more. Accordingly investors look at the higher residential prices and see existing dwellings offer low yields given their damaged confidence.

Given that most of the property rise action has taken place in cottages rather than apartments, it is that area which will be subject to the most severe rental squeeze and it is also where the rent vacancy rates are lowest.

Governments in Queensland and Victoria have both substantially increased the rights of renters. In many cases these are fair adjustments but in totality they make it harder for landlords to remove delinquent tenants and therefore that increases the risk. But the Victorian government has gone one step further to boost the risk and lower returns.

When a renter pays back overdue rent within 14 days, any notice to vacate issued by the landlord for that overdue rent is invalidated. This applies for the first four times it happens in a 12-month period.

That stipulation means that landlords cannot rely on their income because it can be interrupted four times every year. That takes the landlord risk of renting a property to a new level and that will be reflected in rents.

In NSW those investing or developing apartment real estate pay what amounts to a 15 per cent land tax, which is much higher than the other states. It was introduced when Chinese developers we’re boosting the price of Sydney land and the NSW government wanted a slice of the action. But now, along with the cumbersome approval process, it is squeezing the supply of Sydney apartments, which have risen slightly but nothing like other parts of the NSW residential market. Apartment rents have also edged up. But there is no vacancy overhang so if Chinese university students return it will boost rents substantially and may even affect student numbers in Sydney.

The Melbourne situation is totally different because easier approval laws delivered a big rise in apartment buildings to cater for the student market. There is now a huge overhang and rents are falling sharply. Melbourne desperately wants the students to return.

Looking at the longer term the surge in dwelling buying by owner-occupiers is good news for Australia. People who own their own dwelling tend to be happier and it means they have a solid retirement investment.

But those who have borrowed heavily to gain their own property should be aware of what is happening in the US and, to be safe, make sure that part of their loan is at a fixed rate.

ROBERT GOTTLIEBSEN, BUSINESS COLUMNIST
Robert Gottliebsen has spent more than 50 years writing and commentating about business and investment in Australia. He has won the Walkley award and Australian Journalist of the Year award. He has a place in t... Read more