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The Week In Real Estate

City Rents Rise As Vacancies Fall

Capital city rents continue to rise as vacancy rates fall further throughout Australia.

SQM Research managing director Louis Christopher says vacancy rates in the smaller capital cities are below 1% and around 2% in Sydney and Melbourne. Vacancies are under 1% in most regional markets.

Capital city average asking rents have increased to $627 per week for houses and $447 per week for units. This follows significant decreases in vacancy rates in all cities in the past month and over the past year.

Christopher's analysis found that Perth, Brisbane and Canberra had the largest increase in asking rents for houses during the four-week period.

The latest increases mean asking rents have increased by 14% in the past 12 months for houses and by 8.5% for units.

"Given a dramatic tightening in vacancy rates, we are seeing an ongoing acceleration in weekly market rents across the capital cities," he says. "We can expect capital city rents to rise by over 10% in 2022."

Big Shortfall Of Dwellings Looms

Australia is forecast to have a 163,400 shortage of dwellings by 2032.

Mirvac chief executive Susan Lloyd-Hurwitz and Boral CEO Zlatko Todorcevski have told a National Housing Finance and Investment Corporation panel the shortfall is a result of an increase in single-person households and the return of migration-driven population growth.

Lloyd-Hurwitz says adding to the issue is that planning regulations around the country are convoluted and complicated, particularly in New South Wales. "We have migration turning on at the same time as we're going to have an undersupply of housing," she said. "So that takes us right back again to the supply issue and the need urgently to get more supply into the market."

The NHFIC's State of the Nation's Housing 2021-22 report predicts the number of single-person households will rise from 25% (2016 Census) to 27.5% by 2032. Lloyd-Hurwitz and Todorcevski say this means unit developments will be an increasingly important part of Australia's housing picture.

Quote of the Week

"Given a dramatic tightening in vacancy rates, we are seeing an ongoing acceleration in weekly market rents across the capital cities."

Louis Christopher, Managing Director of SQM Research

Cashed-Up Buyers Fire $10mil Sales

The number of houses sold for more than $10 million increased by 66% in 2021 on the back of huge demand from owner occupiers during the pandemic.

Real estate economist Nerida Conisbee says 640 homes worth a total of $6.4 billion sold across Sydney, Melbourne, Brisbane, Adelaide and Perth.

Sydney had the highest number of houses selling for more than $10 million with 478 properties sold in 2021, 70% higher than 2020.

Melbourne recorded 100 sales worth $10 million or more, Brisbane had 34, Perth had 27 and Adelaide had one.

Mosman in Sydney had the largest number of $10 million plus sales last year, with 50 transactions.

"Sydney and Melbourne dominated the luxury sales tally, largely due to the size of the broader property market and higher median house price," Conisbee says.

"There is still no shortage of money at the higher end – the economy is growing quickly and international borders are now open again."

Record Loans Go Into SMSF Property

The value of property bought by Self-Managed Superannuation Funds (SMSF) increased by 22% in the past year to a record $140 billion.

Borrowing by Self-Managed Superannuation Funds to buy residential and commercial properties also increased by 22% during the same period ,according to Australian Taxation Office figures.

Tracey Scotchbrook of the SMSF Association says in 2021 the biggest increase in property investment was by company owners purchasing their offices, warehouses or factories and leasing the premises back from the SMSF.

The ATO figures show about $91 billion was invested in non-residential property.

Tax specialist Mark Chapman of H&R Block says there are strict rules for buying property in an investment fund. He says tenants are still required to pay a market rent and while it might be a worthwhile investment for a business owner they still needed to consider if it was a good investment for their superannuation. He says owners need to take into account the yield and expected growth.

East Coast Apartment Shortage Looms

A slow-down in development of new apartment buildings, plus a trades and materials shortage,could lead to an undersupply of apartments along Australia's east coast.

Market forecasts by Charter Keck Cramer on the Brisbane, Sydney and Melbourne markets predicts the number of apartments completed in 2024 will be about half of what is developed this year.

It says this could result in a severe undersupply of new homes in two years' time which will add further pressure to the rental market.

Charter Keck Cramer's Angie Zigomanis says overseas investors drove previous apartment building booms, but he does not believe there will be the same level of demand for investment even with international borders now open in Australia.

He says investment will more likely come through institutional funding in the future.

With vacancy rates at historic lows in many regions, the looming shortage of new apartments is expected to make it even tougher for renters to find and afford rental properties.