



## **Race on for investment properties**

**PROPERTY buyers . . . on your mark, get set, go.**

The race is on for residential investment properties before the competition gets too hot, according to two national forecasters. Record low interest rates and record high rents mean for many investors their new rental properties will be profitable from day one - without relying on negative gearing. However, the same conditions also make buying a first home cheaper than staying renting. But some potential buyers, both investors and owner occupiers, are still holding back because of uncertainty about the economy and job security.

This is only making prices and choices even better for those people with funds to buy. The window, however, could be about to shut. According to economic forecaster BIS Shrapnel investors and first home buyers are now the two biggest competitive forces in the housing market.

Rising rents and low interest rates are creating perfect conditions for both groups, according to BIS Shrapnel senior economist Jason Anderson. But they are competing for the same properties which is expected to push up prices at the bottom end of the market. First home owners are now finding that buying is a similar cost to renting, while investors can have positive cash flow from day one with the current mix of low rates and high rent.

"People can take out a fixed rate and lock that in for the next few years at less than 6 per cent. At the same time rental yields are up to 7 per cent with strong rent growth still to come," Mr Anderson said.

"The competition at the cheaper end could trigger a partial ignition of prices."

"The feedback is that in some of the cheaper parts of the market prices are already starting to come up."

"The feedback of that type we've had is that prices are up by about 5 to 6 per cent."

Some economists had forecast that the property market would show signs of increased competition in the second half. But Mr Anderson said it had already started. National property research company RP Data said on Friday a fall in house prices across the country was offset by an increase in weekly rents.

This provided further evidence that some households would be better off buying rather than continue renting. In Melbourne the median rent for a house increased from \$300 to \$350 a week during the past year. The median rent for an apartment or unit rose \$40 a week to \$320.

Rents were forecast to increase again during the year, RP Data research analyst Cameron Kusher said. However, first home buyers might still need an extra nudge to take the plunge.

"Throughout 2009 it is anticipated that rental growth will continue to be strong, although it may not be as strong as witnessed during the last 12 months," Mr Kusher said.

"Rental vacancy rates remain tight and although the government is offering up attractive incentives for first home buyers currently, many are still not in a financial position to purchase."

As long as there are more people wanting to be housed than there are houses available, higher rents and eventually higher purchase prices will remain. According to housing estimates from ANZ Bank, there is demand for about 180,000 new homes each year in Australia. In the year to September 2008 only 150,000 homes were built - leaving a shortfall of 30,000.

The Reserve Bank again cut the cash rate this month by 0.25% with the cash rate now sitting at 3%, the lowest they have been since 1960.

Market expectations as at market close on the 7th April 2009 show an expectation that the cash rate will bottom at 2.37 percent in October this year. Just how much of the further anticipated 0.6% cut gets passed on is anyone's guess.

Interest rates are lower than they have been in more than 45 years and with petrol prices down from last year's peak, the average home owner is enjoying having significantly more disposable income than they did during mid 2008. Whilst there has been uproar about the banks not passing on rate cuts, anyone with a mortgage must remember that nothing is certain and you always need to account for potential changes to interest rates. When working out whether or not to purchase one must always include sensitivity for increases in interest rates and should have a trigger point at which time they lock in their rates. Remember, good budgeting at the time of property purchase can help overcome most fluctuations in interest rates.

Consumer sentiment figures released this week by Westpac-Melbourne Institute show that during April, sentiment increased by 8.3% to 92.7 points. Although the index remains below 100 points suggesting pessimists still outweigh optimists it is a further positive sign that the market is showing an improvement in health. With news of share price increases, property value increases and an improving Australian dollar over recent weeks it is unsurprising to see a lift in confidence. Looming increases in unemployment are likely to see pessimism in the market outweigh optimism however, it is encouraging to see sentiment improving from its recent low.  
Source: RPData Industry Market Wrap 9<sup>th</sup> April

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