

Bad news renters, more rises on the way

RENTS are set to rise a solid 7 per cent this year, boosting returns for property investors.

During the last three months of 2010, rents in Australian capital cities increased by 1.4 per cent; they rose 4.2 per cent during the year.

Rents in regional markets did not change during the quarter, rising just 2.9 per cent throughout the year.

Melbourne's median weekly advertised rental rate for houses was recorded at \$360 a week; for units it was \$350.

Rental rates increased by 2.9 per cent for houses in Melbourne during the final quarter of 2010 - beating the national average and taking the annual growth figure to 2.9 per cent.

Rental rates for units increased by 1.4 per cent during the quarter and by 6.1 per cent for the year.

Three-bedroom house rents performed better than four-bedroom properties during the year and quarter.

Home loans, savings accounts and more

The median weekly advertised rent for a three-bedroom house is \$350, with a four-bedroom \$7 more.

During the final quarter of 2010, rents on three-bedroom houses rose 2.9 per cent, compared with no growth in four-bedroom rents.

On an annual basis, three-bedroom rents have well and truly outpaced that of four-bedroom rents (6.1 per cent vs 1.2 per cent).

One-bedroom units have average rents of \$295 a week. Two bedrooms are averaging an extra \$55.

Neither recorded a rent increase during the last quarter; but two-bedroom rents rose 6.1 per cent during the past year, compared with 5.4 per cent for one-bedders.

With interest rates already at levels above average, and the expectation that they will increase further during 2011, the prospects of renters moving into home ownership is likely to deteriorate further.

The latest ABS housing finance data shows that last November Victorian first-home buyers totalled 16.3 per cent of all owner-occupier purchasers - the lowest proportion of first-home buyers since May 2004.

Higher interest rates coupled with continuing strong population growth in Victoria - and, more specifically, Melbourne - suggests there is a likelihood of increasing competition for rental stock.

Nationally, we are forecasting rental growth of about 7 per cent this year, in line with the average annual growth during the past five years. We expect a similar result for Melbourne.

While we expect rents to increase during 2011, RP Data anticipates limited home value growth.

We expect the growth in rental rates, coupled with likely wage growth due to a tight employment market, will make ownership a more viable option - especially if capital growth lags behind inflation, which would reduce home values in real terms.

Cameron Kusher is senior research analyst at rpdata.com