

# Rents to skyrocket

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RENTS are set to skyrocket in Sydney as the number of new homes being built slumps across most of the country, a report has warned.

Analysts BIS Shrapnel, in its latest building industry prospects report, says rents in the harbour city could climb five per cent this year and 10 per cent next year because not enough new housing is being constructed.

It's a malaise that is likely to spread through the nation, with rents set to climb higher in all capital cities.

Report author Jason Anderson said even though home starts have fallen sharply in Sydney since 2002-03, there were not signs yet of a turnaround. He said supply would remain short of demand until 2008-09.

This meant rents would skyrocket, climbing a cumulative 40 per cent between this year and 2010.

"The extreme under-supply in the Sydney market will trigger a substantial and extended adjustment to residential rentals," he said.

"A very large increase in rents is required to improve yields on residential property in order to draw investors back into the market and push up the number of new dwellings back towards underlying demand."

The news is a bit better in Victoria, where dwelling starts are expected to fall six per cent this year. However, demand is getting close to supply.

Queensland dwelling starts are tipped to be down four per cent, kept afloat by strong demand in the state's north.

Mr Anderson said there was still an under-supply of new homes in the state's south-east, suggesting higher interest rates and high prices are keeping buyers out of the market.

South Australian building activity is tipped to fall six per cent, while in Tasmania the fall should be four per cent.

The situation appears worst in the ACT where dwelling starts are tipped to fall 41 per cent. However, this is affected by the one-off factors associated with the 2003 bushfires which destroyed close to 500 homes in the territory.

However there are still pockets of strength. BIS Shrapnel is tipping a 12 per cent lift in housing starts in WA this year, although this will turnaround to a four per cent fall next financial year.

Mr Anderson said the biggest issue facing WA was in Perth where housing affordability was now close to the level that Melbourne and Brisbane reached in 2004, before the markets there cooled.

The NT is experiencing strong growth at present, which Mr Anderson believes will accelerate to 19 per cent growth next financial year.