

# Managing Property

The resurgence of investor activity has put the spotlight back on the rental market

## Vacancy rates affect returns

LOUISE BAXTER

Rising vacancy rates are starting to challenge property owners as rental returns decrease along with tenant demand, according to experts.

The Real Estate Institute of WA has reported that while the number of homes for sale is shrinking, the vacancy rate for rental properties is growing.

"REIWA's preliminary data for the June quarter found that there were around 12,800 properties on the market at the end of June but this has fallen to around 12,000 at the end of July," REIWA president Rob Druitt said.

"At the same time, our members are reporting a slackening vacancy rate for rental properties.

"This rate reached 3.5 per cent in the June quarter but has stretched out to 4.5 per cent at the end of July, according to preliminary reports."

Mr Druitt said the rental vacancy rate had not passed 4 per cent for more than six years and this made



Rob Druitt



John Percudani

the current figure unusually high. "The good news for renters is that there is now a lot of rental stock to choose from and this will likely place some downwards pressure on median rents over the short term."

Realkam director John Percudani said factors such as the First Home Owners Boost and low interest rates were enticing people out of rentals into their own homes, and the return of investors meant more properties were available for lease.

"A trend we are seeing is many sellers are choosing to put their



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properties up for rent rather than accept our sale prices," Mr Percudani said.

"We are also seeing some first-time investors entering the market with rental properties. Together these factors have driven up vacancy rates in the rental market and landlords are beginning to find it tough. Twelve months ago, renters were struggling to find properties and landlords were achieving incredible rental returns, now demand is decreasing and it's much harder to find quality tenants."



Gavin Hegney



Richard Young

REIWA statistics show rental yields have dropped 0.4 per cent for houses to 4.2 per cent for the June quarter, while units have decreased 0.3 per cent to 4.8 per cent for June.

Gavin Hegney, managing director of Hegney Property Group, said the coming year would be positive for tenants, with more properties to choose from and cheaper rents.

"Tenants will be winners (this year) as people decide to buy rather than rent, lessening demand for rental property, and investors buy homes off home-owners, increasing the supply of rentals," Mr Hegney said.

"There is scope to soften rentals and make it a little more in (tenants') favour than it has been for many years."

As more properties became

available for lease, landlords needed to be smart about their property investment, to ensure strong returns and quality tenants, said Richard Young, principal of Caporn Young Estate Agents.

"Landlords should understand that anyone who invests in residential property is not just investing in bricks and mortar, but the lifestyles of Australians," Mr Young said.

"People are increasingly demanding a higher level of fit-out for rental properties and are willing to pay a higher rent for them. Key lifestyle features now demanded by tenants include security, air-conditioning and a dishwasher.

"Rental properties with a high level of security are much easier to lease and, therefore, tend to have a higher rental return. A property which has these three features can often command an additional rent of \$20 per week and is likely to have a lower vacancy rate."

Mr Young recommended keeping the property well maintained, including carpets, paint and regular garden maintenance. Landlords could also consider leasing to a pet owner, because they might be willing to pay more to secure a pet-friendly property, he said.

## Investors gain heart with rates on hold

The Reserve Bank's decision to hold official interest rates at 3 per cent will further accelerate the return of investors to the Perth property market, according to a local financial broker. Loans Cafe general manager Murray Brede said inquiries and applications had gathered significant momentum in the past three months.

"We saw a 20 per cent increase in the combined total in the final quarter of the financial year compared to the second and third quarters, and the numbers have been maintained during July," he said.

"The Reserve's latest announcement, combined with the expectation that rates will remain stable until at least early next year, is giving heart to investors who have been on the

sidelines for more than a year now. Added to this are the early signs of a general property sector uplift, as indicated by the Australian Bureau of Statistics' latest Capital City House Price Index.

"This shows a 2.7 per cent increase in Perth prices over the last six months and comes at the same time as the Real Estate Institute is reporting a 4.6 per cent increase in the median house price."

Mr Brede said experienced investors had regularly communicated that the market was now at, or close to, the bottom of the price cycle and there may be fewer bargains available as stocks decline.

Louise Baxter