Residential market at the mercy of investor activity

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- The Australian
- 12:00AM October 26, 2017

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The residential property market is changing and it's being driven by investor activity … or a lack of it.

Apartment demand on our site is dropping and with the majority of apartments owned by mum and dads, this is one indicator of investor activity.

August housing finance figures from the Australian Bureau of Statistics showed that investor lending increased yet again, but on realestate.com.au we saw a sharp slowdown in demand for apartments in September, with the ACT and Victoria the most impacted. In NSW there has now been a sustained decline in demand for apartments of 6 per cent in the past 12 months.

With demand declining — or stabilising demand depending on which state or territory you're in — we're likely at a turnaround point, which will signal the end of the record levels of apartment investment we've seen in recent times.

The biggest driver is undoubtedly access to finance, with restrictions continuing to increase for not only who can borrow, but also the locations in which they can invest. It's also getting more expensive to borrow money, with rates increasing far faster for investors than they are for owner occupiers.

As if that wasn't enough to quell demand, stamp duty concessions have been cut for off the plan purchases in many states and additional taxes on offshore buyers have been implemented.

But the biggest hit on investors may still be to come — this year's budget included minor changes to tax concessions for investors. However a change in government, which looks increasingly likely, could spell even more significant changes.

Due to the popularity of residential investment in Australia, it has, for a long time, seemed as though we would always have more investors in the market than we need.

If investors back off there may be challenges with the supply of rental housing.

In this regard, Melbourne and Brisbane should be protected for a time, but affordability for renters in Sydney continues to be a problem.

Less rental housing in Sydney caused by fewer investors and a growing number of permanent homes being moved to short-term rental platforms will throw even more people into housing stress. If investors do continue to pull back, now is the time to start looking at how we provide rental housing in Australia. In comparison to large parts of the world, we are unique in that almost all of our rental housing is provided by mum and dad investors.

We have virtually no investment from large institutions in multifamily or “build to rent” because our current tax system and low yields act as deterrents for this type of investment. Build to rent can provide a solution to the challenges many long-term renters face with uncertain tenure and potentially with market-determined rents.

For low-cost housing, the situation is even more challenging with the amount of social housing going backwards, despite billions spent on initiatives such as the National Rental Housing Affordability Scheme.

And while Australian superannuation funds are spending billions providing US citizens with affordable housing, they are investing virtually nothing in Australia.

Tapping into our superannuation money as well as pension money from overseas to provide affordable rental housing should be a priority, and the reasons why it hasn’t happened need to be fully understood.

While investors are pulling back, the good news is that first-home buyers are coming back in to the market.

Not only are there more generous grants available to them, but fewer investors in the market is creating less competition at auction or purchase time.

A more even balance is slowly being restored between owner occupiers and investors.

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