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Bidding wars as rental market shrinks

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AUSTRALIA'S rental crisis is worsening and could signal an earlier-than-expected recovery in the property market as thousands of people are forced into home ownership.

Near-record low vacancy rates and a lack of new houses is putting pressure on rents in prime locations across the nation as increasing numbers of prospective tenants jostle for a diminishing number of properties.

JP Morgan chief economist Stephen Walters said the tightening could signal the early stages of house price growth as first-home buyers and investors make a return to the market.

"We should see some price growth this year because investors will be attracted by improving yields and, at the same time, first-home buyers will be attracted back because prices have been flat or down," Mr Walters said.

The rental shortage is worst in Sydney, where real estate agents are reporting bidding wars among prospective tenants, and some analysts are tipping rent rises of as much as 20 per cent this year in some locations.

The principal of Century 21 Double Bay, in Sydney's east, Rodney Prestia, said 37 people last Saturday inspected a rental property he had advertised, with the apartment finally renting for \$60 a week above the asking price.

"We had people coming down to the office straight after the inspection wanting to enter into a bidding war for the property," he said.

Business development manager Olivia Richards, 33, and Shane Shah, 30, have looked at more than 20 properties in Sydney's eastern suburbs during the past 10 days, but they've lost out every time. "There's just not enough properties on the market and every time we go to a viewing there's people queuing up to get in the door," said Mr Shah, an engineering firm project manager.

The couple began looking at properties advertised at \$550 a week, but have been forced to increase their target range to \$750 a week.

But while renters could put pressure on house prices, any upturn will be confined to blue-chip locations - particularly inner-city areas of the eastern capitals - with outer-ring suburbs still reeling from the effect of eight interest rate hikes in five years.

"On the outskirts of the capital cities, many owners are paying more in interest than they ever expected to and we are seeing distressed sales on the rise and large numbers of properties for sale," said Australian Property analyst Michael McNamara.

Data released by the Australian Bureau of Statistics yesterday showed loan approvals to investors rose by 4per cent in December. But analysts warned that those figures meant the current rental shortage could represent a "false dawn" for the housing market.

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