THE SEARCH FOR RENTAL GROWTH

What signs should investors look for to identify investment locations with strong potential for rental growth?

SUPPLY and demand is often cited as the key driver of rental growth, but that's a fuzzy economic concept. API asked a number of experts to identify more tangible pointers to rental growth.

VACANCY RATES

Margaret Lomas says rental vacancy rates are the first factor for investors to look at in regard to the chances of securing higher rents on their investments. Low or decreasing rental vacancies are a sign of a tight market, which will drive rents higher.

Vacancy rates can be found at the back of every issue of API, in the Databank section. Investors can also use online property portals to search for vacant rentals in their suburb of interest, and repeat searches over time to create an indicator of how the market is tracking.

DAYS ON MARKET

Leah Calnan, director of Metro Property Management in Melbourne, says 'days on market' data is a "great indicator" that landlords will be able to secure a rental increase.

These figures measure how long vacant rental properties are on the market before they're rented. Subscribers to RP Data can get access to rental days on market numbers. Other investors could track their suburb of interest manually using online property search engines to see how long properties remain on the market.

MARKET REACTION TO ADS

The number of people enquiring about properties within 72 hours of marketing a property and the number of people showing up to rental inspections in a given suburb are also excellent indicators of the current level of supply and demand, Calnan says.

Investors will have to do a little legwork to see these signs, either by speaking to property managers in their area of interest or by attending rental inspections to see for themselves what the level of interest is.

Another approach some investors use is to place a cheap notice in the local newspaper, advertising a property for rent. This can be used to gauge demand even before an investor purchases a property.

POPULATION GROWTH

Lomas says a population that's growing faster than the national average adds permanent demand for rental properties, especially if the growth is sustained over time rather than being short-term growth due to one major project.

Carolyn Wright, director of Your Property Manager in Melbourne, says larger numbers of people arriving in a given suburb from interstate or overseas puts pressure on the rental housing market, driving up rents. "Some immigrants don't yet have the financial capacity to buy or don't have the inclination to buy, so this is a specific factor affecting the rental market," she notes.

"Another market force can be due to relocation of large firms and/or government agencies, which bring large numbers of people to a particular area in a short space of time."

Data on population growth rates is available via the Australian Bureau of Statistics website (www.abs.gov.au), while SQM Research (sqmresearch.com.au) features population projections at a postcode level.

LIKELIHOOD OF OVERSUPPLY

Chris Rolls, managing director of Rental Express in Brisbane, says an oversupply of rental properties can quickly drive rents down, so investors should consider whether this is a possibility in the location where they're purchasing property.

If there's a lot of developable land in the area, then an oversupply becomes more of a possibility than in a built-up location, especially for houses with land as opposed to units.

"You're not going to be able to go and build 1000 new properties at Clayfield (in inner north Brisbane) because there's just not enough land," Rolls says by way of example.

He notes that a strong supply of developable land won't always equate to a glut of rental properties. Here he gives the example of North Lakes in northern Brisbane, which he says is a rapidly growing area with a lot of development, but because of the infrastructure going in and the suburb's location midway between Brisbane and the Sunshine Coast, owner-occupiers are purchasing a lot of the new houses, making a glut of rental properties unlikely.

RIPPLE EFFECT

Wright suggests investors look at suburbs close to other areas that have already been established as "hot" rental areas.

"The domino effect happens in the rental market just as it does in the sales market," she says.

THE PROPERTY CYCLE

Rental increases and capital growth don't typically occur at the same time, Lomas says. As part of the property cycle, rental growth tends to follow after a period of strong capital growth, she notes.

INFRASTRUCTURE

Just as new infrastructure projects can have a major impact on property prices, so too can they affect the rental market by driving demand suddenly higher. Transport upgrades are definitely one area to watch. (*See last month's API cover story for more details on the impact of infrastructure on the property market.*)

PROPERTY FEATURES

Some features of a property will drive better rental growth at certain times. For instance, Calnan notes properties with air-conditioning are in greater demand during the summer months, increasing the pressure on asking rents.

NEW VS OLD PROPERTY

Calnan says newer properties generally rent for a premium over older properties, adding that a cosmetic refresh (paint, new floor coverings, low maintenance landscaping etc.) every three to five years will also help older properties achieve top dollar.

Wright notes that while new properties tend to rent for a premium when they're first built, their rental growth can actually be sluggish.

"My husband and I had a property in a suburb of Sydney that first rented when brand new for $330 per week because it was new and new properties were scarce, but that same property was still getting $330 per week 10 years later because the area was experiencing loads of new growth and development, which kept the lid on rental growth."

This can be related to the oversupply issue noted above, as new properties are most often located in housing estates with lots of potential for further development.

TIMING

The time of year a property is advertised as vacant can impact on the rent achieved by as much as 10 per cent, Rolls says. January is typically the peak period for demand as that's when a lot of people are moving, he says.

James Chalmers, partner with prorentals.com.au in Brisbane, confirms January can see more than 10 times the level of enquiry for rentals as other times of the year. He says this can especially be the case in suburbs close to universities.

"One of the very early lessons an investor would learn... is if you get the property vacant at the wrong time of year, your rents go down. Management of the lease is very important."

Chalmers says a $400 a week property in January may only achieve $350 a week in another month. Investors should always ensure the expiry date on their next lease will put the property back into the right cycle to capture peak demand, he says, even if that means signing a 10-and-a-half month lease as a one-off.

LIFESTYLE

Calnan says investors should be on the lookout for properties with 'lifestyle' appeal, including access to good transport, shopping and schools.

"We don't want to spend our weekends mowing the lawns. We want to go out for coffee, take the children to the park or exercise along local walking tracks," she says, citing the example of a flat in Melbourne that attracted 30 would-be renters to a recent inspection. The critical factors, Calnan says, were that it was walking distance to Chadstone shopping centre and public transport.

DEMOGRAPHICS

Just as population growth can drive demand for rentals in a given location, other changes in demographics can also shape the rental market.

Calnan says predictions that 30 per cent of the population will live alone within the next 10 years suggest demand for one-bedroom properties will increase dramatically.

"One-bedroom apartments and flats situated close to public transport, universities and lifestyle facilities such as cafes, restaurants, walking tracks etc. would be one I would watch," she says.