

# FINANCIAL REVIEW

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HD **Investors own the inner city**  
BY Rebecca Thistleton  
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Investors have bought up almost all the **residential property** around inner city suburbs – and more than 90 per cent in parts of Sydney.

The concentration backs suggestions that any macroprudential measures, mooted to stem investor-driven capital gains, could be effective if introduced based on location rather than according to buyer profile or through a blanket approach.

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Concentrated rental accommodation is common around international city centres with bulging populations and the trend has spread to Sydney and Melbourne, RP Data figures show.

Official housing finance data shows investor mortgages represent 47 per cent of new mortgage commitments. Investment loan values rise almost 30 per cent year-on-year to August 2014.

Historically high investment levels has prompted the Reserve Bank and the prudential regulator to flag unspecified macroprudential measures.

This could be done through higher risk weightings for investment loans or limits on the extent of investment lending by the banking sector.

Reserve Bank deputy governor Philip Lowe said on Tuesday that keeping official rates too low for too long would generate new dangers and warned investors against taking risks.

RP Data head of research Tim Lawless said suburbs with high investor concentrations tend to be close to major employment and education nodes, capturing office workers and university students.

While rental demand remains strong, increased supply and a rise in values has led to yield compression for some owners.

Asking rents have fallen in the inner cities, particularly Melbourne and Perth.

Investors tend to **buy** apartments because they tend to be built near transport and employment precincts and are at a lower price point than houses.

Record low interest rates, self-managed super fund buying and offshore investment have all been cited as forces pushing up investment levels.

Mr Lawless said investors may be "buying blindly" if their decision-making came down to low interest rates and broad **property** sentiment rather than due diligence.

Housing finance to June this year was up 34 per cent in NSW, 30 per cent in Victoria, 21 per cent in Queensland.

Foreign Investment Review **Board** approvals are also at an all-time high. The vale of **residential** real **estate** approvals as a percentage of sales was about 13 per cent nationally- 24 per cent in Victoria and just under 15 per cent in NSW.

Westpac chief economist Bill Evans said he was most concerned about Melbourne where foreign investor levels were highest. Mr Evans said there was likely to be a surge in offshore investment as more mainland **Chinese** moved their money out of **China**. Mr Evans said the difference between mortgage rates and rental yields was "almost indiscernible". He expects interest rates to rise in the second half of 2015, depending on the world economy.

**Property** analyst and director of SQM Resesarch, Louis Christopher, said the impact of self-managed super fund **purchases** represented a mere portion of investment properties. "But I agree with the notion that there is a risk of self managed funds over-gearing towards **property**," he said.

"It's not a good way to diversify your portfolio, particularly if you own your primary residence."

Real **Estate** Institute of NSW president Malcom Gunning has criticised suggestions that further jawboning and macroprudential efforts are necessary to take some heat out of the **property** market.

"While we admit that low loan-to-value ratios of 5 per cent are dangerous, and that this practice should be curbed by the banks being asked to be more responsible with their lending, it is not the RBA's place to use interest rates to restrict the **property** market," he said.

"Using a broad tool such as interest rates to affect one sector of the market is unjust on all areas of the market and is inappropriate."

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Key points Data shows investor mortgages represent 47 per cent of new mortgage commitments. RP Data head warns buyers may be 'blindly' purchasing **residential** properties.

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