Property owners in Sydney face new risk amid policy crackdown

A crackdown on residential property investors could hurt the market. Picture: Getty

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Shocked residential property investors bracing for the spreading impact from the dramatic 20 to 25 per cent fall in Sydney inner-city used apartment prices are being threatened new blows.

NSW politicians are looking to follow Victoria and are considering draconian new laws to hit residential property investors even harder. But, as I explain below, an investor fightback is starting led by the largest apartment owner in Australia: Harry Triguboff.

Triguboff has threatened an effective capital strike on building rental properties. Politicians need to brace for shocks — helping one sector of the community to the detriment of another can backfire.

Both political parties operating at state level reckon they have found a new and huge pool of voters — those who are renting residences. And there is no doubt that renters in some situations have been treated badly.

But the politicians have decided that the small and large residential investors — often the local trades person — should be given a good hard kick to promote the cause of renter votes. Victoria's Andrews government started the game with a series of measures to limit rent rises and make evictions harder.

The NSW ALP saw what their counterparts in Victoria were doing and went much further; including giving tenants the option of five-year leases.

The NSW Coalition government could see that the ALP might be onto a vote winner, and so is looking at its options. There is great danger that in NSW, where renting is booming, competition will develop between the Coalition government and the ALP as to who will kick the investors the hardest, and therefore win the most renter votes.

Leave aside the need to protect renters, there could not be a more dangerous time to kick investors than when prices are falling in key areas.

Investors have accepted very low yields on rental properties because prices are rising. A falling market changes the dynamic.

Last night Australia's largest owner of apartments for rent, Meriton's Harry Triguboff, decided it was time to fight back on behalf of all residential property investors, including those in Victoria where he does not operate. He pulls no punches.

Triguboff: "Meriton is the only company which has thousands of apartments for rent. And we manage many more thousands for investors. If the government wants to bring in these new rules, do they apply for existing leases? I am planning to build many more thousands of rental apartments. Can I know how banks will be controlled not to make it hard for investors to get finance?

"Can someone tell me if the government will not discriminate against investors? If I don't get the answers, I will not renew any lease. I will sell all the rental properties, which I will vacate and I will not build any new ones. I will only build properties for sale and serviced apartments."

Given the size of Meriton and the fact that rental property represents about half the apartments he is currently building, NSW building volumes will slump and there will be less rental accommodation. Triguboff adds: "People usually follow me in the apartment field, so whatever I say will be magnified."

NSW Premier Gladys Berejiklian and Opposition leader Luke Foley will say: "Harry you are bluffing, you will never do it."

I might be wrong but I don't think he is bluffing when it comes to ceasing to build apartments for rent and ending rental leases when they expire.

But if Meriton stops rental construction, we are looking at an unprecedented investor strike led by the largest player. Rents will rise rapidly as construction in Sydney slumps. Those higher rents and lower supply will, over time, boost apartment prices but investors will demand much higher yields than they are currently accepting, given the higher risks that have been introduced into the market.

Remember that the apartment market has already been hammered by banking lending restrictions and higher investor interest rates and the removal of depreciation for used apartments. Fascinatingly, it was government action — the removal of depreciation from used apartments on July 1 — that triggered the big fall.

I set out 12 causes of the slump last week. Triguboff says that if five-year leases are mandatory, then tenants could not have leases terminated if they behaved. “But what happens if the rents drop? Is the tenant going to continue pay the original rent?”

“The people providing rental accommodation are usually small investors. What happens if the small investor has to sell and the rents have gone up? He does not win because he can only charge the original rent.

“In the case of Meriton, when the company finishes huge blocks it leases them quickly, by offering rental deals that are below market rent. But under the new rules Meriton may not be able to raise the rent.

“Let’s say I lease the property for five years and I am allowed to raise the rent once a year. The tenant can’t pay the new rent. Must I wait for five years until I can raise the rent, even though what I ask is the correct new rent?

“It is also dangerous to ask renters to sign a five-year lease because what happens if they get sick or lose their jobs — they are bound to that lease. At present they do not have that problem.”

The great danger politicians face is that they have forgotten history. Decades ago in some states, including NSW, governments introduced rent controls so that no one built for rent. Instead, housing commissions provided accommodation and the government helped in various ways for people to buy homes. If the scramble for renter votes gets out of hand and it becomes uneconomic for investors, then state governments may need to divert money from other areas.