2nd December 2003.

The Chairman,
Review of Rental for Domestic Waterfront Tenancies
Independent Pricing & Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

By email: ipart@ipart.nsw.gov.au

Re: Rental for Domestic Waterfront Tenancies

Dear Sirs,

We would like to make the following submission re the proposed method of increasing rentals for waterfront tenancies.

1. We would firstly like to say that it would have been more fair and reasonable for the affected lease holders to be advised in writing as to the proposed rate review as was done in a previous review in 1991 by the MSB since many affected lease holders would be unaware of this Review Process.
2. We oppose the model of rentals proposed by the Department of Lands and the Waterways Authority.
3. It is argued that the basis of a "fair market rental should be based on the " rental return on adjacent residential properties being 6% pa. What is wrong with this premise is the following.
   a. Today, 2nd December 2003, in the Financial Review, page 57, "Rental yield close to the "why bother?" mark", it was stated by Amp's chief economist, Shane Oliver, that the average net yield on $700,000 properties was 2 % and after expenses was 1% net. The UBS chief Economist in the same article then confirmed these numbers.
   b. So where does a figure of 6 % rental return come from? –Is this an arbitrary method of raising the proposed rental by sixfold?
   c. In any case, the rental return described is for an improved property, i.e. a house or unit, not unimproved vacant land or " water". -What is the return on unimproved recreational land we ask?
   d. **We concede that many years ago rental returns on residential investment properties may have been 6% gross, but that was a long time ago, we are now evaluating a " fair " rate for the future not something in history.** In any case a realistic figure of current "net " market rent should be used.

e. If the proposed formulae were to include current data, then the rentals would be 50% of 1% i.e.0.50 %. I guess this would be more acceptable.

4. **We do have a particular problem in our location at Seaforth, which unfairly mitigates against us receiving a reasonable rental rate using the "Adjacent Land Value Model " because of the very small areas of our properties compared to average. (Ours is 297 m2)**
5. The effect of this when the Valuer General dollar value is divided by the land area, is to greatly increase the $/m2 rate compared to other similar leaseholds in middle harbour where land areas may be 600-1200m2. +
6. Not withstanding any of the above arguments, as we approach retirement age, the proposed rate increases should be reasonable and affordable for most people. We think that the proposed fee increases are neither reasonable nor affordable.
7. The Tribunal should be aware that the Valuer General currently includes in his basis of valuation of our properties, the area and value of Waterways and Council leaseholds. The use of the Valuer Generals property value for wetland leases results in a certain amount of "double dipping"
8. Not withstanding the comments above, our and neighbouring wetland leaseholds can be used and shared by the public at large hence lease rates should reflect this.

In conclusion, we thank you for the opportunity to make submissions and request that whatever the model you finally recommend will result in a fair and reasonable charge and not the one put forward by the Department of Lands and the Waterways Authority.

Sincerely yours,

F & J.Wegenaar

before announcing another rate rise.

Ms Ballard said that, overall, the property market was healthy. But

However, there were still some vendors who had not adapted to the change. They would need to drop

years ago, but the vendor reduced their target by $150,0 before the sale in recognitio cooling market.

Fin Review 2/12/2003

Rental yields close to the 'why bother?' mark

Tina Perinotto

A house in Sydney's inner-west is on the market right now for about $760,000, but the agent says you could probably pick it up for $700,000.

Ask what the rental proposition is and the agent will tell you about $300 a week. That's a yield of 2 per cent. After you pay the insurance, rates, maintenance bill and agent's fees that's about 1 per cent net. And that is exactly what AMP's chief economist, Shane Oliver, says is the average net yield on residential property.

The big question right now for investors is: why bother? If you believe that the experts are right and the market will be flat for a while, the $700,000 might be better off in the bank.

The low returns are simply a function of demand and supply, and in the past few years Australia's residential investment market has boomed like no other. According to the Reserve Bank of Australia, 40 per cent of all new lending for residential real estate is by investors, a figure the RBA says is unprecedented.

An article in *The Economist*, entitled "Shaky foundations, the higher house prices climb, the more they are likely to fall", says low yields worldwide will not worry investors if they believe there will be good capital gains on offer.

But if investors think the rising house prices are over, then other asset classes will start to look more attractive, which could stimulate more price corrections.

UBS chief economist Scott Haslem said residential investment returns typically tracked the 10-year bond rate, now at 3.5 per cent. Bond rates "cycle around a bit", Mr Haslem said, and when the 10-year bond rate was 2 per cent recently housing didn't look overstretched. "Now ... clearly they do," he said.

The picture really hit home when you looked at the longer-term trend of housing yields falling from 6 per cent to 2 per cent, he said.

And although the 10-year bond yields were "fairly volatile", he said, now because of the improving world economic outlook, "we're in an environment where bond yields aren't going to fall over the ne months".

Mr Haslem said there was a chance that these factors would stabilise the housing environme not through falling prices, through rising rents.

"We think it is quite possible if house prices were to stabilis could grow our way out of overvaluation."

In the absence of house p falls, rents would simply "g higher in line with the CPI," said.