Rental houses pushing boom

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INVESTORS are driving Victoria's real estate market, taking out almost half of new lending in May to buy existing homes.

The Bureau of Statistics reports that Victoria is the only state where bank lending for housing increased in the 12 months to May - but the entire growth is in lending to investors buying rental properties.

In May, investors borrowed a record $2.2 billion from the banks and other lenders to buy existing real estate in Victoria - almost matching the $2.4 billion lent to owner-occupiers.

The ABS keeps no statistics on how many properties investors are buying. But the figures imply that investors are buying almost every second house sold in Victoria.

In dollars, lending to owner-occupiers in Victoria was down 1 per cent from a year earlier, but lending to investors was up 47 per cent, from $1.4 billion in May 2009.

Melbourne has been the epicentre of the property boom, largely because it has become the hot city for rental investors.

The ABS figures show that lending to investors to buy in other states grew just 9 per cent year on year - with more than half the national growth in investor activity in Victoria.

Total lending to people buying existing homes in Victoria jumped 17 per cent in May from a year earlier, setting a new record of $4.6 billion.

Real estate monitor Residex estimates that the median house price in Melbourne grew 20 per cent in the year to May to a new peak of $582,000, while the median price of units rose 18 per cent to $445,000.

There are signs that the market is cooling, with auction clearance rates last weekend just 68 per cent, down from 85 per cent a year ago. But the growth in prices is expected to slow or stabilise, rather than fall.

Financial markets still expect the Reserve Bank to leave interest rates on hold until 2012. But economists in the same financial houses are predicting another two rate rises this year.

Tax Office statistics show that two-thirds of rental investors claim to be losing money on their investments.

But this does not appear to be deterring more investors flocking in, to claim losses and reduce their taxable income.

The tax statistics show that one in 10 taxpayers is now a negatively geared investor.