Wannabe landlords planning a plunge into flats need to make sure they avoid the nation's growing number of postcodes where supply massively outstrips demand and rents are falling.

Apartment block towers reshaping skylines and low-rise clustering suburban streetscapes are proliferating two times faster than cities such as Perth can absorb them, analysis shows.

Investors trapped with an empty apartment or having to compete with other landlords by cutting rent to attract a tenant could see their cash flows become cash-goes as revenues dwindle and costs rise.

It could be even worse for the huge numbers of self-managed superannuation investors that have been sucker-punched into buying off-the-plan high-rise apartments with promises of rental rivers of gold.

"It's the worst possible decision," says buyer advocate **Christopher Koren**, a director of Morell and Koren, who warns of uninhabited "ghost" apartments dotting clusters of big city skyscrapers.

"It's very alarming," **Louis Christopher**, head of SQM Research, says about the building binge in Perth that has continued after thousands of itinerant miners have packed their picks and shovels and gone home.

Christopher's research reveal inner-Perth vacancy rates are about 6 per cent, or two times what a comfortable market for landlords should be. It's the same story in Brisbane and marginally better for Melbourne, where it is about 2½ times.

Sydney, which for years was starved of housing investment and remains a migrant mecca, is in good shape, with demand pressuring available stocks.

For investors it should be obvious that when supply massively outstrips demand, there's going to be a big impact on apartment values and rent. The growth in value of apartments is a miserable 1.7 per cent, 10 basis points below the inflation rate, which means the real value of the property is falling by about 1 per cent a year.

By contrast, an investor can earn two and a half times as much in a high-interest online account without the hassle of setting up a mortgage, screening tenants or finding the right apartment.

Nationwide, apartment rentals have largely flatlined, with some cities, such as Sydney, posting rises, and parts of Melbourne showing falls. For example, research by the Real Estate Institute of Victoria reveals median monthly rents in metropolitan Melbourne have generally been flat or fallen, while vacancy rates have risen, particularly in central Melbourne.

Meanwhile, property developers in Melbourne are competing to increase supply with applications to build 70-plus-storey skyscraper suburbs in the sky.

Industry experts claim self managed super funds (SMSF), which have assets totalling more than $500 billion and account for more than 5 per cent of the population aged over 15 years, are a popular way to invest.

Official statistics hopelessly lag the market, but analysis of what is available suggest SMSF borrowings exceed more than $10 billion and appears to be annually growing by between 50 per cent and 100 per cent. SMSF could also stand for the mantra sell more sky-high flats being chanted by property developers and some financial advisers targeting investors seeking income and capital growth. A good property investment in the right postcode, offering convenience and unique features not easily replicated, is the crowning jewel in any investment portfolio.

If an investor has difficulty finding tenants the SMSF would [still] need to service the loan.
Adam Stanley, Pitcher Partners

But according to **Adam Stanley**, an executive director with Pitcher Partners, the wrong investment could be a crown of thorns, particularly for those gearing a SMSF to buy property. Stanley says: "If an investor purchases a property and has difficulty finding a tenant, then the SMSF would need to have sufficient other cash and liquid assets to service the loan."

It can get a lot messier when the scheme is required to pay members an income from the assets. "Minimum annual pensions will be required to be paid and if the yield on the property is insufficient to cover the outgoings together with the minimum pension payments, then the scheme trustees will have a problem," Stanley says.

"This again may result in a forced sale of the property at a less than opportune time in the market."

Sadhana Smiles struggled to find a tenant for her one-bedroom unit in inner-city Melbourne. PHOTO: PAUL JEFFERS

When even location isn't enough

Even high-flying property professionals like **Sadhana Smiles**, chief executive of **Harcourts Victoria**, are being caught in the turbulence of too many flats competing for tenants.

Smiles's $490,000, one-bedroom investment property in the rapidly gentrifying inner-Melbourne suburb of Richmond is new, fashionable, funky, convenient to the city and close to plenty of public transport.

But she had to drop weekly rent nearly 20 per cent, from $480 to $400, to secure a tenant in what is a popular, low-rise postcode. "What many investors don't appreciate is what happens when a lot of apartments become available at the same time," says Smiles.

She still considers it a great buy because the lower price attracted a tenant, there are no cash flow issues, the bank's happy and there is no pressure to sell. "For me, investments are a buy and hold," she says. "I plan to use this one to leverage up to the next investment."

But she warns conditions might be a lot tougher for those considering a purchase in central business districts, particularly Melbourne, where high-rise building booms have pushed up the skyline and apartment availability.

Look before you leap

1 Have a well thought-out investment property strategy.
2 Buy with your head, not your heart. Find a place that will be easy to rent, not where you'd like to live or retire.
3 Regularly review the portfolio.
4 Ensure you have flexible financing. Make sure a rent cut or delays finding a tenant will not cause financial distress.
5 Work out the unique selling points of the property. Is there a lot of competing property offering similar features?
6 Make sure the lease maximises investment returns and security of investment.
7 Consider lease lengths. Leases of two or more years lower legal, leasing and maintenance fees.
8 Set rents that attract the largest number of applicants to find the best tenants.