Rental Report
June 2023 Quarter

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Overview

The national rental market remains extremely tight. Rental vacancies and days on site have drifted marginally higher, but both remain low on an historic basis. At the same time, the volume of stock available for rent remains low and demand for rentals is broadly strong. As a result of these conditions, the cost of renting continues to rise.

At the end of June 2023, the median weekly advertised rent had increased by 11.8% over the year to reach $520 per week. Over the same 12-month period last year, rents had risen by 8.1%.

While the cost of renting has increased, we continue to see low levels of new investment in housing, which is keeping the supply of available rental stock relatively low. Higher interest rates have seen borrowing capacities fall by around 30% making it much harder for a would-be first home buyer to purchase their first home.
Adding to the challenging rental market is the rapid rebound in the number of people arriving in Australia. Over the 2022 calendar year, the population of Australia increased by 1.9% or 496,756 people. This represents the fastest rate of population growth since September 2009 and the largest 12-month increase in population on record.

While migration brings a lot of positives to the country, it does create more demand for limited resources such as housing and infrastructure. From a housing perspective, most people arriving in the country, at least initially, will require rental housing, creating more competition for available properties.

Given the factors highlighted above, there is a significant need for additional rental housing. This is particularly the case in the major capital cities, where most people need to be for work and where most migrants choose to settle when they come to Australia. The best way to address supply over the medium to long-term is to build more housing. In the more immediate term, attracting more investors to the market or utilising empty or short-term rental properties for longer term rentals is the quickest way to address the rental deficiency.
Of course, the demand side could also be addressed. Looking to shift demand however, is somewhat more difficult or less likely to occur. This would include slowing migration or finding ways to get more first-home buyers purchasing sooner and therefore vacating current rental properties.

Despite large rental price increases over the past year, a high interest rate environment means that for most people it is generally cheaper to rent than it is to service a mortgage. Given this, transitioning out of renting into a home is likely to be a challenge. However, as rents are expected to continue to rise, people may be willing to take on the additional cost of home ownership, in order to obtain secure tenancy.
At the end of the June 2023 quarter, median advertised rental price was $520 per week. Across the country median advertised rents increased by 2% over the quarter to be up 11.8% compared to June 2022. The rate of growth in advertised rents at 2% over the June 2023 quarter is a significant slowing from the 4.1% increase over the March 2023 quarter. Even so, rents are still growing at a rapid pace.

Median weekly rents for houses nationally were $550 per week in June 2023, increasing 1.9% over the quarter to be 10% higher over the year. Unit rental prices remain slightly more affordable, with a median of $500 per week. Even so, unit rents nationally also increased 2% over the quarter and were 11.1% higher year-on-year.

Advertised rents across the combined capital cities were $550 per week in June 2023. Across the combined regional markets they were $480 per week. Capital city rents rose 5.8% over the quarter and 17% over the year, while growth regionally was much more subdued with prices unchanged over the quarter and up 6.7% over the year.
The divergence in rental price trends becomes clearer considering capital city rental growth for the June quarter is up from a 4% increase seen in the March 2023 quarter. Regionally, rental price growth has also slowed from a 6.7% rise over the March 2023 quarter.

Over the June 2023 quarter, rents were lower in regional Queensland (-1%) and regional NT (-4.2%) and were unchanged in regional New South Wales and regional Victoria. The greatest rental increases over the quarter were seen in regional South Australia (6.1%), Melbourne (4.3%) and regional Western Australia (4.2%). Regional Northern Territory (-6.1%) was the only rental market nationally in which rents didn’t rise over the past year. Darwin (3.6%) and regional Victoria (5%) saw the smallest increases in rents over the year, while Perth (15.6%), Brisbane (14.9%) and Sydney (13.8%) saw the largest increases.
The cost of renting is continuing to escalate, however, the pace of rental price growth has slowed significantly in regional markets. At the same time, rents continue to climb rapidly in the capital cities, with growth accelerating most noticeably in Melbourne. The data also indicates that rental growth rates for houses are slower than those for units. This likely reflects the shift in demand back to inner-city areas, as well as heightened rental costs forcing renters to shift into more affordable units, as opposed to detached houses.

It is expected that major capital city rental markets will continue to see rent prices rise over the coming months, while rental price pressures continue to ease in the smaller capital cities and regional markets. The strength in demand in the major capital cities is being driven by low first-home buyer activity and high migration, as well as the ongoing low supply of stock becoming available for rent.
Rental yields
Throughout recent years, home prices rose at a faster pace than rents, pushing gross rental yields to historic lows. Currently, rents are rising at a faster pace than property prices, leading to higher rental yields. As of June 2023, the gross rental yield nationally was 4.1%, up from 3.9% at the same time last year.

Combined capital city gross rental yields are up from 3.7% to 4% over the year. Regionally, yields have fallen year-on-year across the combined markets from 4.7% to 4.5%.

In June 2023, gross rental yields for houses were 3.7%, up from 3.6% at the same time a year earlier. Gross unit rental yields were 4.6% in June 2023, up from 4.1%, highlighting the rebound in yields as prices rise slower than rents. A trend that is particularly apparent for units.

Sydney (3.6%) and Melbourne (3.7%) were the only capital city or rest of state areas with yields below 4%, with yields in regional Victoria sitting at 4%. The highest rental yields were found in regional Western Australia (7%), regional Northern Territory (6.7%) and Darwin (6.4%).
Although Sydney and Melbourne have the lowest yields, gross rental yields in these two cities have seen the greatest increases over the past year, with increases of 0.4% and 0.3% respectively. Perth and Hobart also saw 0.2% increases, while the greatest falls in yields over the year were in regional South Australia (-0.3%), and regional Queensland, regional South Australia, and regional Northern Territory who each saw 0.2% falls.

With rents expected to continue to rise faster than property prices, we expect a further firming of gross rental yields over the coming months. The firming of yields will likely be more prevalent in capital cities. Particularly within inner and middle-ring suburbs where rental demand is strongest and supply is particularly tight, exacerbating rental price increases.
New rental listings

The number of new rental listings in June 2023 was 1.3% higher than at the same time last year. Although new rental listings were higher than a year ago, they were historically low and 5.7% below their June average for the past five years.

Capital city new listings in June 2023 were 3% lower than a year earlier, while in regional markets they were 15% higher, highlighting the divergent trends. Compared to their June five-year average, new listings throughout the capital cities were 9.2% lower, while regionally they were 5.4% higher.

The greatest year-on-year declines in new rental listings in June 2023 were in Melbourne (-11.4%), regional Northern Territory (-6.8%) and Perth (-4.9%). The greatest increases were in Hobart (35.6%), regional Tasmania (33.4%) and regional South Australia (25.5%).
Compared to their June five-year average, new rental listings recorded their largest falls in Melbourne (-11.8%), Perth (-10.9%) and Brisbane (-10.5%). The greatest increases were in Hobart (37.1%), Canberra (27.7%) and regional Tasmania (25%).

Despite an uptick in new rental listings relative to a year ago, there are generally relatively fewer new properties being advertised for rent each month. This is particularly the case across the major capital cities, with the number of new rental listings well below five-year averages in each city.

Regional markets are seeing differing trends, with new listings typically higher than a year ago, and in many regions, well above the five-year average. We expect these trends to continue with little new supply being advertised for rent in major capital cities and more supply becoming available in non-capital city markets.
Total rental listings

With a low volume of new rental listings coming to market, the number of total rental listings has fallen by 2.3% in June 2023 compared to June 2022. Total rental listings in June 2023 were 18.5% lower than the June average for the past five years, highlighting the low volume of total stock.

Capital city total rental listings were 8.8% lower over the year in June 2023, 23% lower than the June average over the past five years. However, in regional areas total listings were 20.5% higher than a year ago. Despite the increase they were still 3.5% below their June five-year average.

Only Sydney (-7.8%), Melbourne (-22.7%) and Perth (-11.1%) recorded a fall in total rental listings over the year, while Hobart (59.6%), regional Tasmania (35.3%) and regional NT (29.1%) recorded the greatest increases.
While new listings were mostly higher than a year ago, a comparison with the June five-year average shows that most regions had far fewer total listings. Regional WA (-30.8%), Perth (-29.2%) and Melbourne (-27.6%) had the largest declines in total listings relative to the June five-year average. Hobart (45.6%), Canberra (33.7%) and regional Tasmania (17.7%) had the greatest increases.

The data again shows the divergent trends between capital city and regional areas. However, relative to longer-term averages, the volume of stock advertised for rent remains extremely low in capital cities and moderately lower regionally. It is expected that supply will drift higher across regional areas over the coming months, while the volume of stock for rent is anticipated to remain low in capital cities, particularly the major capital cities.
In June 2023, the median number of days a rental property was advertised for rent on realestate.com.au was 21 days. This was marginally higher than the 20 days in June 2022 however, it was lower than any month from the beginning of 2017 until late 2021.

The regions with the shortest rental days on site in June 2023 were Adelaide (17 days), Perth (17 days) and Brisbane (18 days). On the other hand, the regions with the longest rental days on site were regional NT (33 days), Canberra (28 days) and regional Victoria and regional Tasmania (both 25 days).

Sydney (-1 day), Melbourne (-3 days) and Perth (-1 days) were the only markets nationally, in which rental days on site in June 2023 was lower than a year prior. The greatest increases in rental days on site over the past year were seen in Canberra and regional Tasmania (both +7 days) and Hobart and regional NSW (both +6 days).
Even though rental days on site has dropped marginally lower, it is anticipated to remain low over the coming months. When you consider how quickly rental stock is snapped up in Brisbane, Adelaide and Perth, it may be the case that we could see days on site fall to similar levels in Sydney and Melbourne, given how tight these markets are. In regional areas, the number of days on site may drift higher over the coming months, given the higher supply and reduced demand for rentals.

These tight rental conditions are affording landlords the scope to lift rents.
Rental vacancy rates

The rental vacancy rate has risen slightly from its recent low of 1.3% in March 2023. However, it remains very low at 1.5% in June 2023, down 1.6% from a year earlier.

There continues to be a notable variance between house and unit vacancy rates. The rental vacancy rate for houses was 1.1% in June 2023, while unit vacancy rate sits at 2.2%. House vacancy rates were 1.1% the previous quarter and 1.2% the previous year, while unit vacancy rates were 1.8% the previous quarter and 2.7% the previous year.

The combined capital city rental vacancy rate in June 2023 was 1.4%, up from 1.3% in March 2023. Even so, the rental vacancy rate is down from 1.8% at the same time last year. Across the combined regional markets, the rental vacancy rate has increased from 1.2% in June 2022, to 1.5% in March 2023, the same as it is in June 2023.
The regions with the highest rental vacancy rates in June 2023 were regional Northern Territory and Canberra (both 2.1%) and Hobart (1.9%). The lowest rental vacancy rates were found in Adelaide (0.9%), Perth (1%) and Brisbane and regional South Australia (both 1.1%).

Over the past year, rental vacancy rates have fallen in Sydney (2.1% vs 1.7%), Melbourne (2.2% vs 1.4%), Brisbane (1.4% vs 1.1%) and Perth (1.2% vs 1%) while they have increased elsewhere. The greatest increases in rental vacancy rates have been in regional NT and Canberra (+0.9 percentage points) and Hobart (+0.8 percentage points).

This data illustrates the discrepancy between the performance of major capital cities and the rest of the market. Vacancy rates are low and are expected to remain so throughout the major capital cities. With rental pressures easing elsewhere, we may see increases in vacancy rates over the coming months.
Enquiry per listing

Enquiries per listing measures key actions tenants make on a rental listing which may indicate their interest in a rental property. These may include contacting an agent (via email, phone or SMS) or other behavioural indicators, such as saving or booking inspection times.

In June 2023, there was an average of 17 enquiries per rental listing, down 15% than at the same time a year earlier.

The number of enquiries per rental listing is unchanged over the year across the combined capital cities, while it has fallen by 35.3% throughout the combined regional markets.

Adelaide (30), Perth (29) and Brisbane (24) recorded the highest average number of enquiries per listing in June 2023. Canberra (6), regional Tasmania (7) and both regional NSW and Hobart (8) had the fewest.
Melbourne (35.3%), Perth (11.5%) and Sydney (0%) were the only regions that didn’t see a decline in enquiry per listing over the year. The greatest falls in enquiry per listing over the past year were in Hobart (-60%), Canberra (-45.5%) and regional New South Wales (-42.9%).

Enquiry per listing is much higher and proving much more resilient in the major capital cities while elsewhere overall enquiries is lower and has typically seen a larger fall over the past year. This highlights sustained strong rental demand in the major capital cities and reducing demand for rental accommodation elsewhere, trends we expect will continue.
Outlook

Nationally, rent prices are continuing to rise at a rapid pace, rental yields are improving, rental supply remains low on a historic basis, there are few rental vacancies and demand for rental accommodation remains strong. While this is the case, the report shows that there are divergent trends, mostly between the major capital cities and the rest of the country. It is likely that we will see this divergence continue.

The smaller capital cities and regional markets are experiencing reduced rental demand, as fewer people leave the capital cities, while some return post-pandemic, and strong net overseas migration continues, with most of these migrants settling in our major cities.
At the same time, the level of purchasing activity by investors (who add to rental stock) and first-home buyers (who enter home ownership mostly from rental stock) largely remains quite low. This means the population of the country is growing, yet there is little growth in rental stock, and relatively few people moving out of renting and into their own home.

The data also indicates that over recent years, the share of new listings and sales of investment properties has remained elevated, which has also led to a reduction in available rental stock relative to demand. Longer-term, this highlights the need to build significantly more housing, including rental housing. In the short-term, the best way to ease rental supply pressure is to see investors return to the market, or to get short-term rentals back into the long-term rental market.

Addressing demand pressures is more difficult, given the desire for a high rate of overseas migration. Demand can be addressed mostly by the higher cost of renting, forcing household sizes to increase as people start looking to share rental accommodation to save on costs.
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