PropTrack

Rental Report

March 2023 Quarter

April 2023

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Overview

The national rental market was extremely tight over the first quarter of 2023. Rental vacancy rates were edging lower due to exceptionally strong demand for rental accommodation and an ongoing shortage of supply. As a result of these conditions, properties were leasing quickly, and landlords were afforded scope to increase rents.

At the end of March 2023, the median weekly advertised rent nationally was $500 per week, increasing by 11.1% over the past 12 months. To put this increase in perspective, rents had increased by just 4.7% over the prior year.

The challenges for renters are being exacerbated by the fact that higher interest rates have reduced borrowing capacities. This is making it harder for renters to transition into first home buyers and for investors to purchase properties, restricting rental supply. In February 2023, the value of lending to first home buyers was $3.5 billion which was 26.8% lower year-on-year. The value of lending to investors was $7.6 billion, down 32.6% over the year.

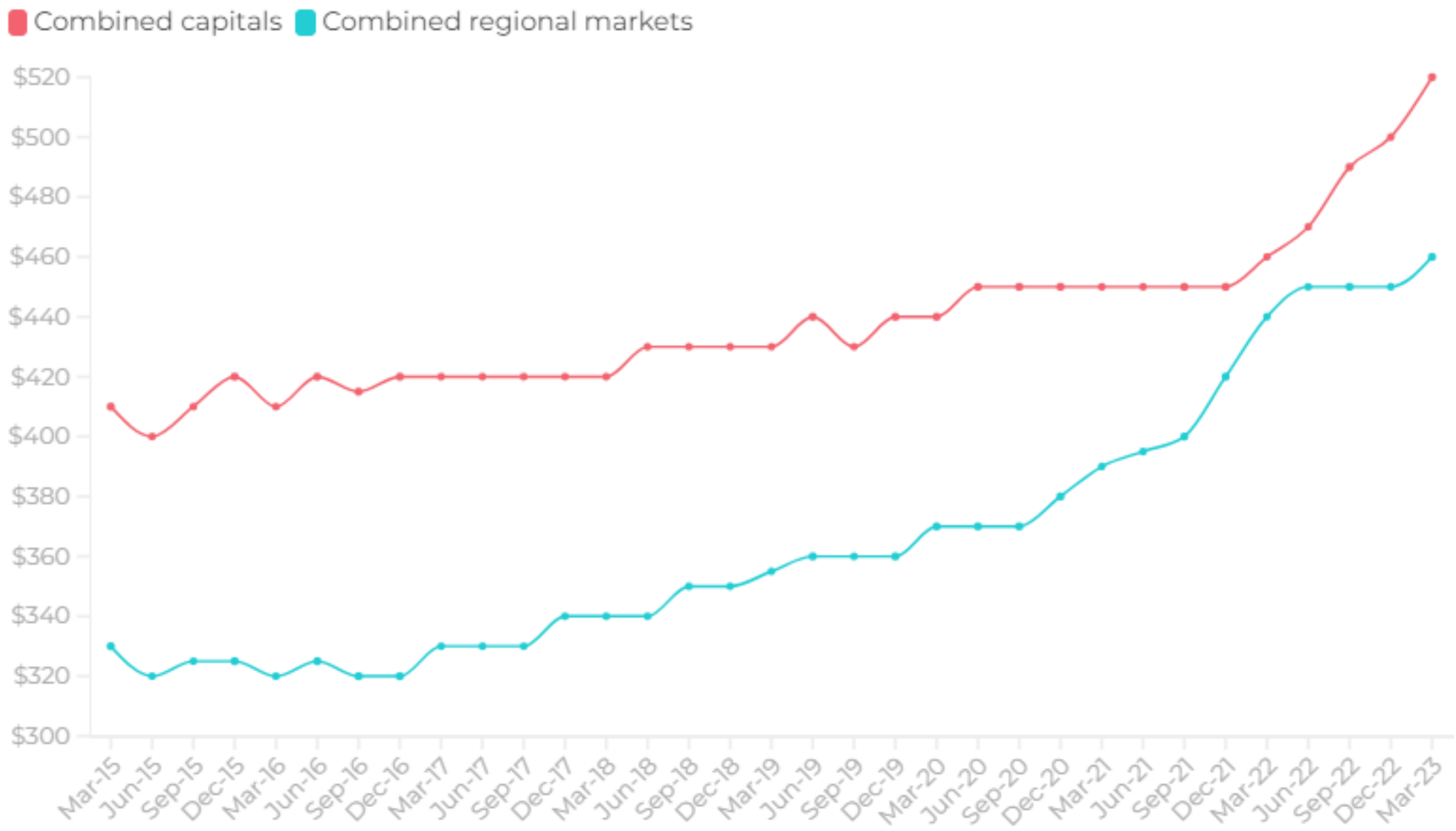
Lending to first home buyers has consistently been below its long-term average since December 2021 and lending to investors has been below its long-term average since mid-2017.

The rapid rebound in migration to Australia is increasing competition for rental properties, resulting in higher rental costs. The March 2022 quarter saw the highest net overseas migration to Australia on record, with that figure then eclipsed over the September 2022 quarter. More up-to-date overseas arrivals and departures data showed that permanent and long-term overseas arrivals in February 2023 were at record levels. Temporary student visas for higher education arrivals were the highest they've been since February 2019. Most of the people arriving in Australia don't own a property in the country and will be seeking somewhere to rent, intensifying competition and rental supply shortages.

There is a significant need for additional rental properties, particularly in the largest capital cities where most migrants arrive and live. Finding ways to provide more supply is critical given the alternative – reducing demand – is much less likely to occur. The answer to more supply in the short-term is encouraging more housing investors into the market. Long-term, it is building more housing of all types, including market, build-to-rent, social and affordable housing.

Although property prices have fallen and rents are increasing, it is still cheaper to rent than pay off a mortgage in most instances. Transitioning to home ownership from renting is likely to remain a challenge for many people, keeping them in the rental market and exacerbating rental shortages.

Quarterly median weekly advertised rents (capital cities vs regional markets)



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Rental prices

At the end of the March 2023 quarter, the median advertised rental price was $500 per week, which was 2% higher compared to the quarter prior. Over the 12 months to March 2023, national advertised rents increased by 11.1%.

Advertised rents for houses increased by 6% over the first quarter of 2023, while rents for units were 4.3% higher. Over the 12 months to March 2023, advertised house rents increased by 10.4%, with unit rental growth marginally higher at 11.6%.

There is a growing divergence between advertised rental price growth in capital cities and regional markets. Combined capital city advertised rents were $520 per week in March 2023, increasing by 4% over the quarter and 13% over the year. Combined regional market advertised rents were $460 per week in March 2023, rising 2.2% over the quarter and 4.5% over the year.

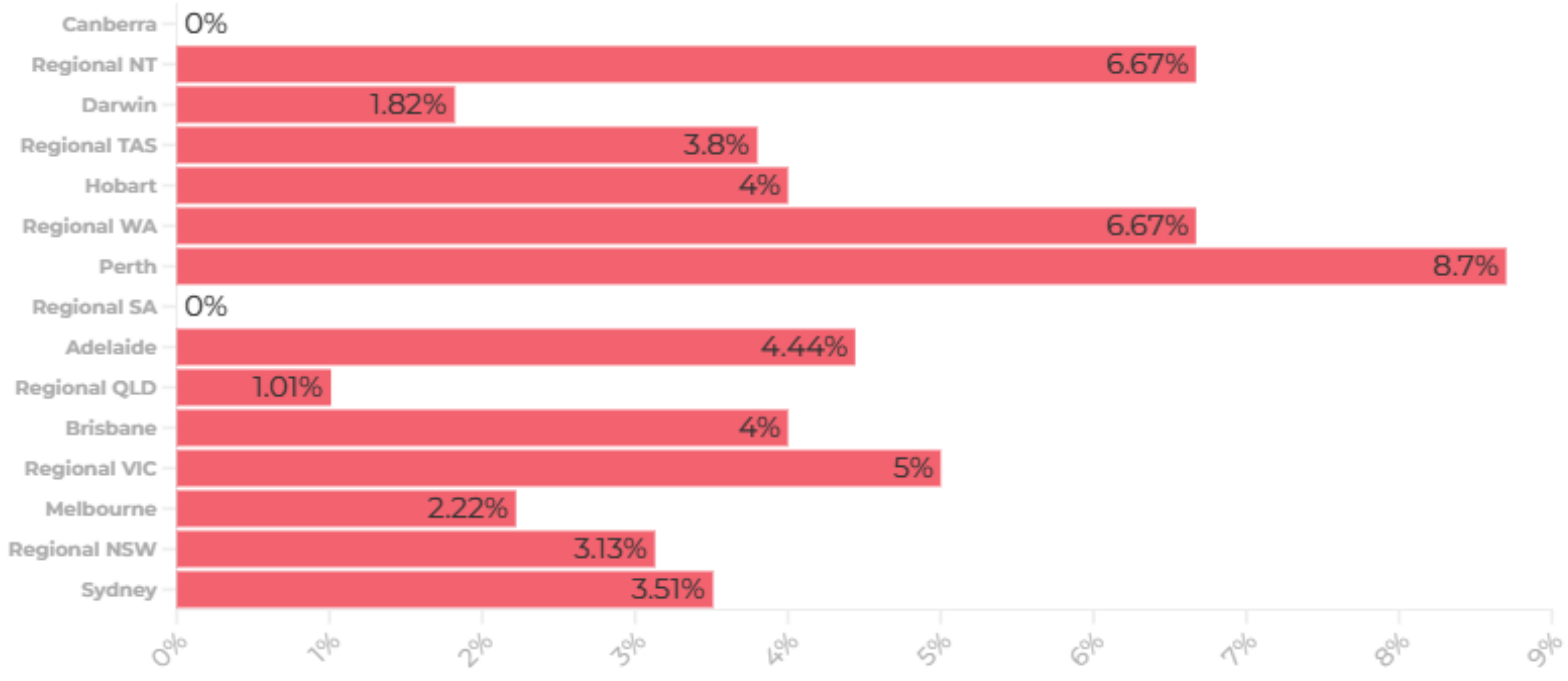
Most capital cities and regional areas saw an increase in advertised rents over the first quarter of 2023. Regional SA and Canberra were the only exceptions, with rents unchanged.

The largest quarterly increases in advertised rents were recorded in Perth (8.7%), regional WA (6.7%) and regional NT (6.7%).

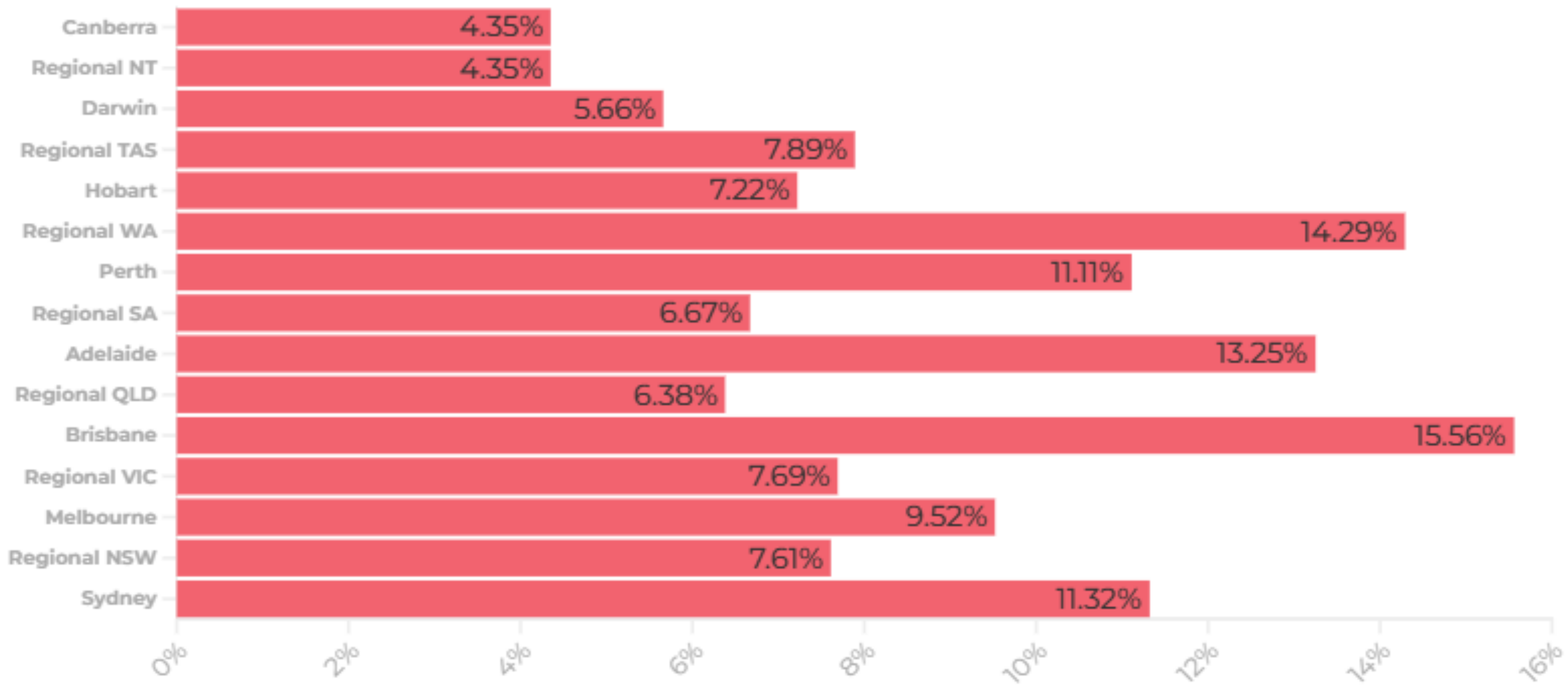
Each capital city and regional area recorded an increase in advertised rents over the year to March 2023. The largest increases were in Brisbane (15.6%), regional WA (14.3%) and Adelaide (13.3%), with regional NT (4.3%), Canberra (4.3%) and regional Queensland (6.4%) seeing the smallest increases.

Rental prices are growing across the country, however, there has been a shift. Capital city rent growth is outpacing growth in regional areas, a reversal of the trend we saw during the pandemic when regional rents were growing faster. There’s also been a shift in growth from houses to units. With the cost of renting now restrictive for many and supply limited, we expect more renters will be looking for cheaper alternatives such as moving from houses to units or into share houses. We expect that rental prices are likely to continue increasing at a rapid pace over the coming quarters, particularly in the major capital cities, due to strong demand and ongoing limited supply.

Quarterly change in median weekly advertised rents
Mar-23



Annual change in median weekly advertised rents
Mar-23



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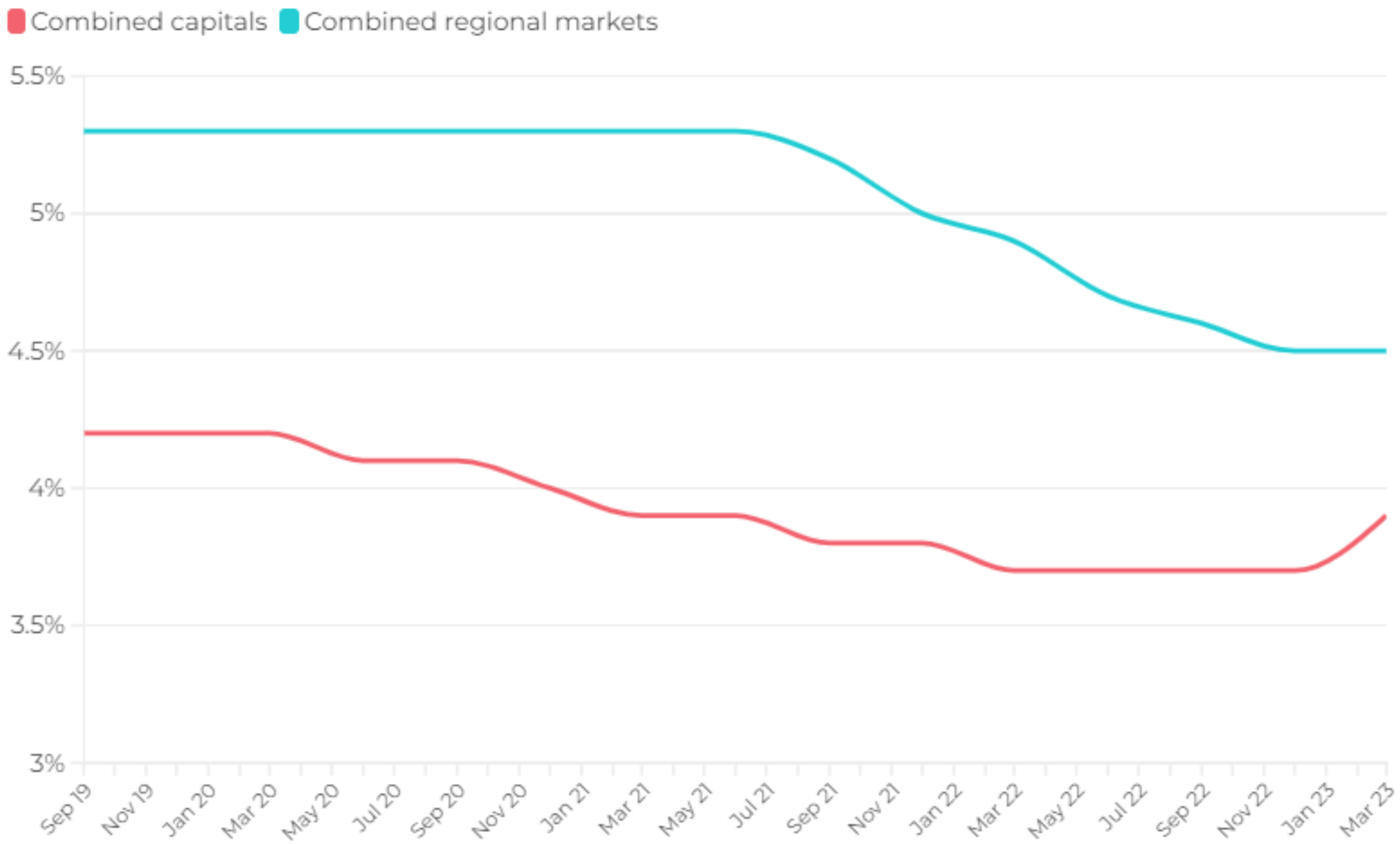
Quarterly gross rental yields
(capital cities vs regional markets)



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Rental yields

Although property prices and rents have increased throughout recent years, property prices rose at a faster pace for most of this period, pushing gross rental yields lower. This is now changing, with rents rising at a faster pace than property prices, lifting gross rental yields from their record lows. As of March 2023, the gross rental yield nationally was 4%, up from 3.9% a year earlier and higher than the low of 3.8% reached in the middle of 2022.

Gross rental yields in the combined capital cities in March 2023 were 3.9%, up from 3.7% a year earlier. While capital city yields increased over the year, regional yields fell from 4.9% to 4.5% in March 2023.

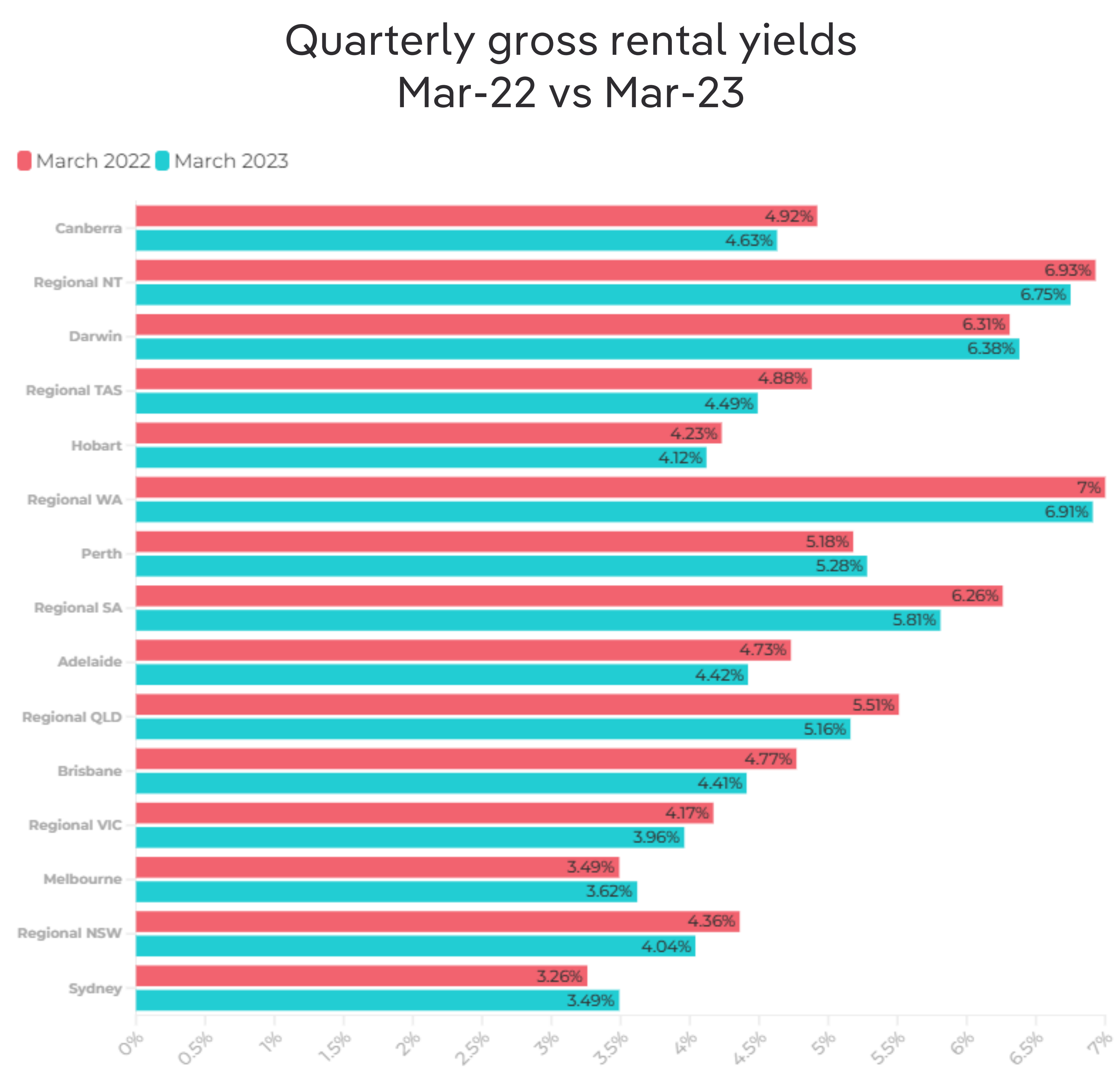
Rental yields for houses were recorded at 3.6% in March 2023, down from 3.7% a year earlier. However, they were up from their recent low of 3.5%. For units, gross rental yields were 4.1% in March 2022 and increased to 4.4% in March 2023. Unit yields are now the highest they have been since November 2020.

In March 2023, gross rental yields remained lowest in Sydney (3.5%), Melbourne (3.6%), regional NSW and regional Victoria (both 4%). The highest rental yields were found in regional WA (6.9%), regional NT (6.8%) and Darwin (6.4%).

In Sydney, Melbourne, Perth and Darwin, gross rental yields increased over the past year. In each other capital city and regional market, yields were lower in March 2023 than they were in March 2022.

Mining and resource sector markets continue to have the highest rental returns. On the other hand, Sydney and Melbourne and their surrounding locations overwhelmingly have the lowest rental yields in the country.

Recently, the declines in property prices have moderated, with prices increasing over the start of this year. However, rental price growth remains much stronger than property price growth, which is expected to result in some improvement in yields over the coming year. Even though many regions have seen yields fall over the past year, most of these regions have started to see yields rise over recent months. With rental pressures persisting, we expect this trend to continue.



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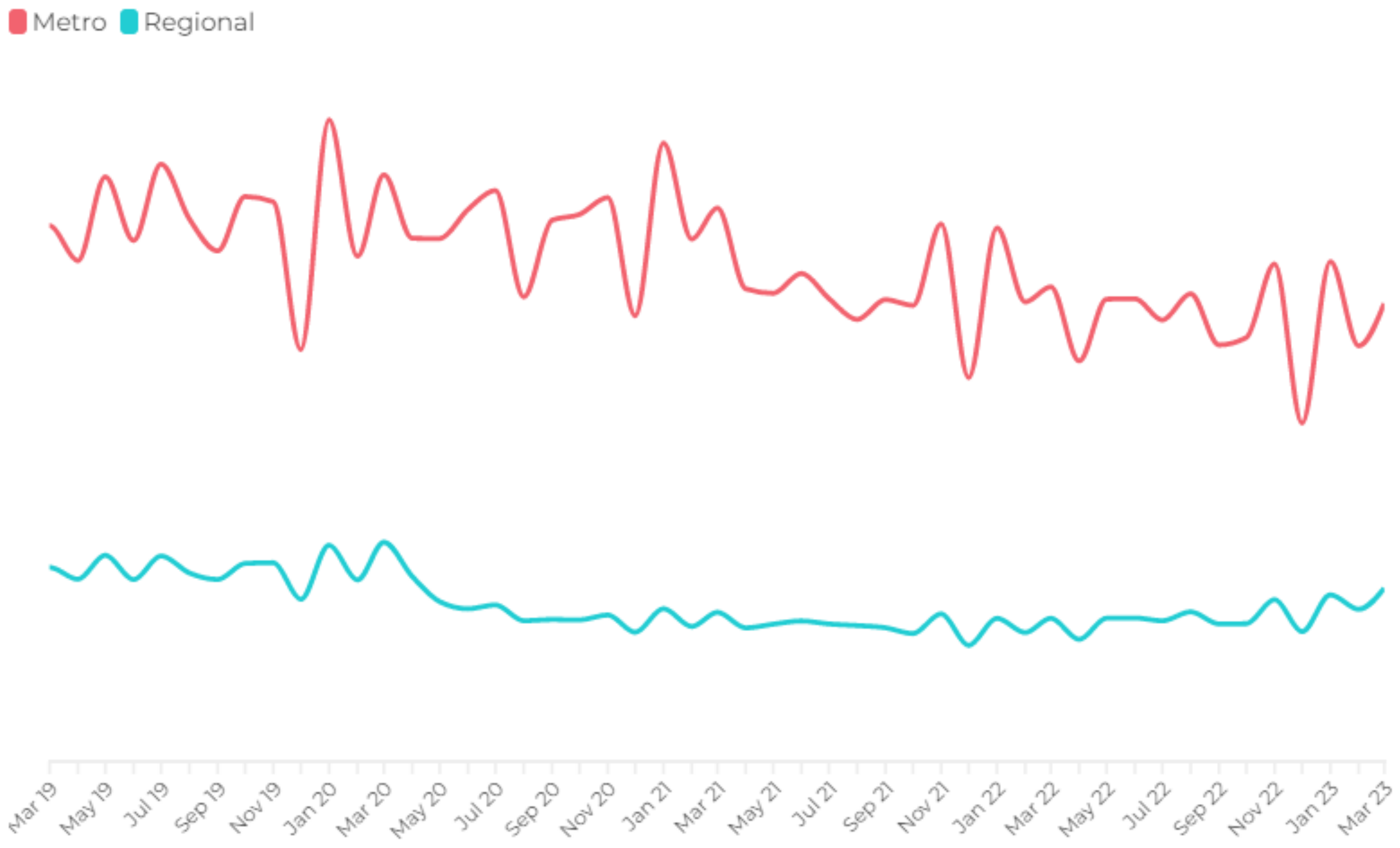
Monthly new rental listings
(metro vs regional)



New rental listings

At the end of March 2023 there were slightly more new rental listings coming to market than there were a year ago (+2.2%). Despite the small increase, new rental listing volumes remain historically low.

The 2.2% increase in new rental listings in March 2023 marked the first time since December 2020 that there had been a year-on-year increase in new rental listings. This highlights just how tight the supply of stock available for rent has been.

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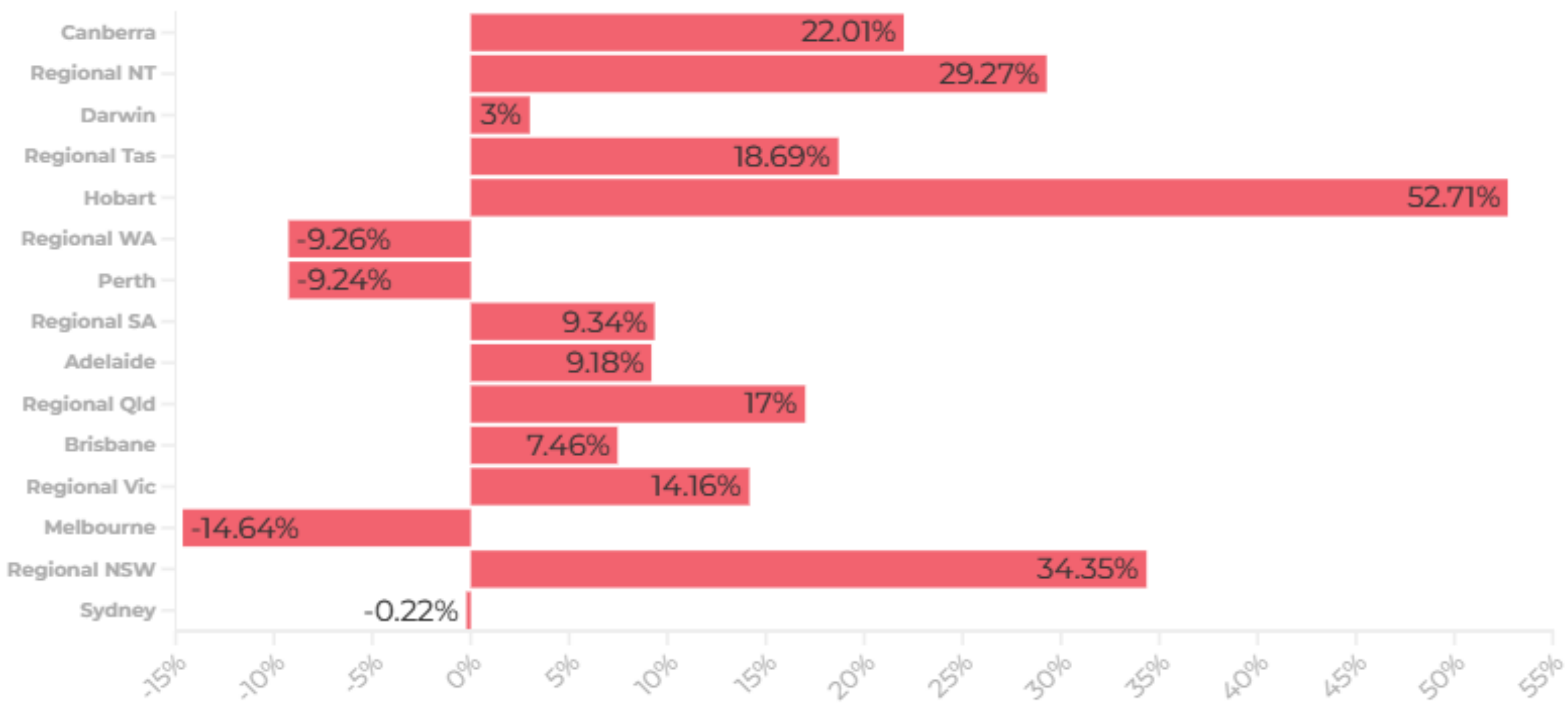
A large increase in new rental listings regionally drove the national increase in new listings over the year. Capital city new listings were 3.5% lower in March 2023 than they were a year earlier, while regional new listings were 20.9% higher. This was the greatest number of new rental listings regionally since April 2020.

Throughout the capital cities and regional markets, the biggest year-on-year falls in new rental listings were in Melbourne (-14.6%), regional WA (-9.3%) and Perth (-9.2%). The largest increases were in Hobart (52.7%), regional NSW (34.3%) and regional NT (29.3%).

Rental market pressures in capital cities and regional markets are diverging, with more rental stock coming to market in regional areas. Relatively little stock is hitting the market in capital cities, particularly Sydney, Melbourne and Perth. With demand for rentals remaining elevated and a lack of stock becoming available for rent in larger capital cities, the competition for rental stock is expected to remain significant.

Year-on-year change in new rental listings (Mar-23)



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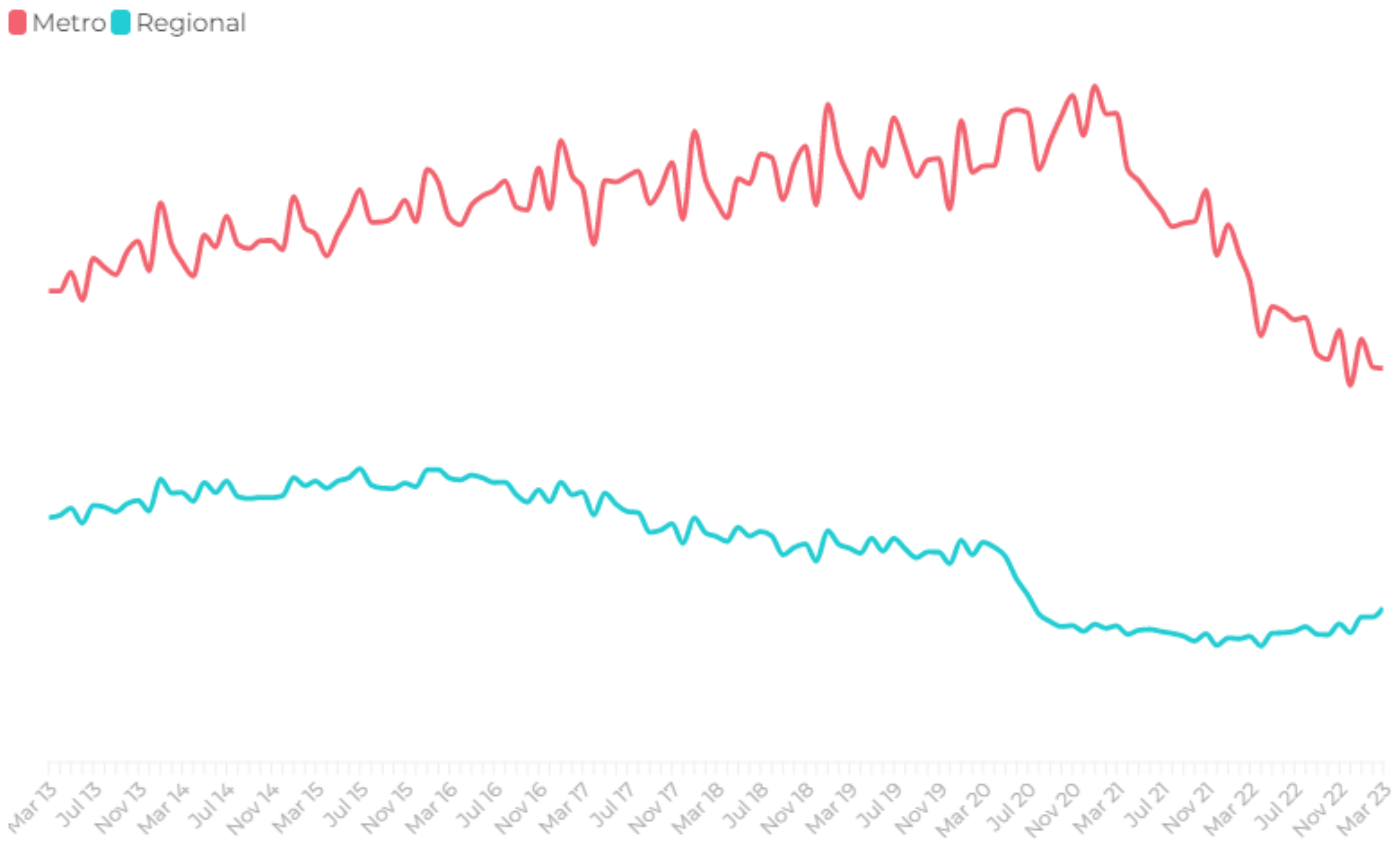
Monthly total rental listings
(metro vs regional)



Total rental listings

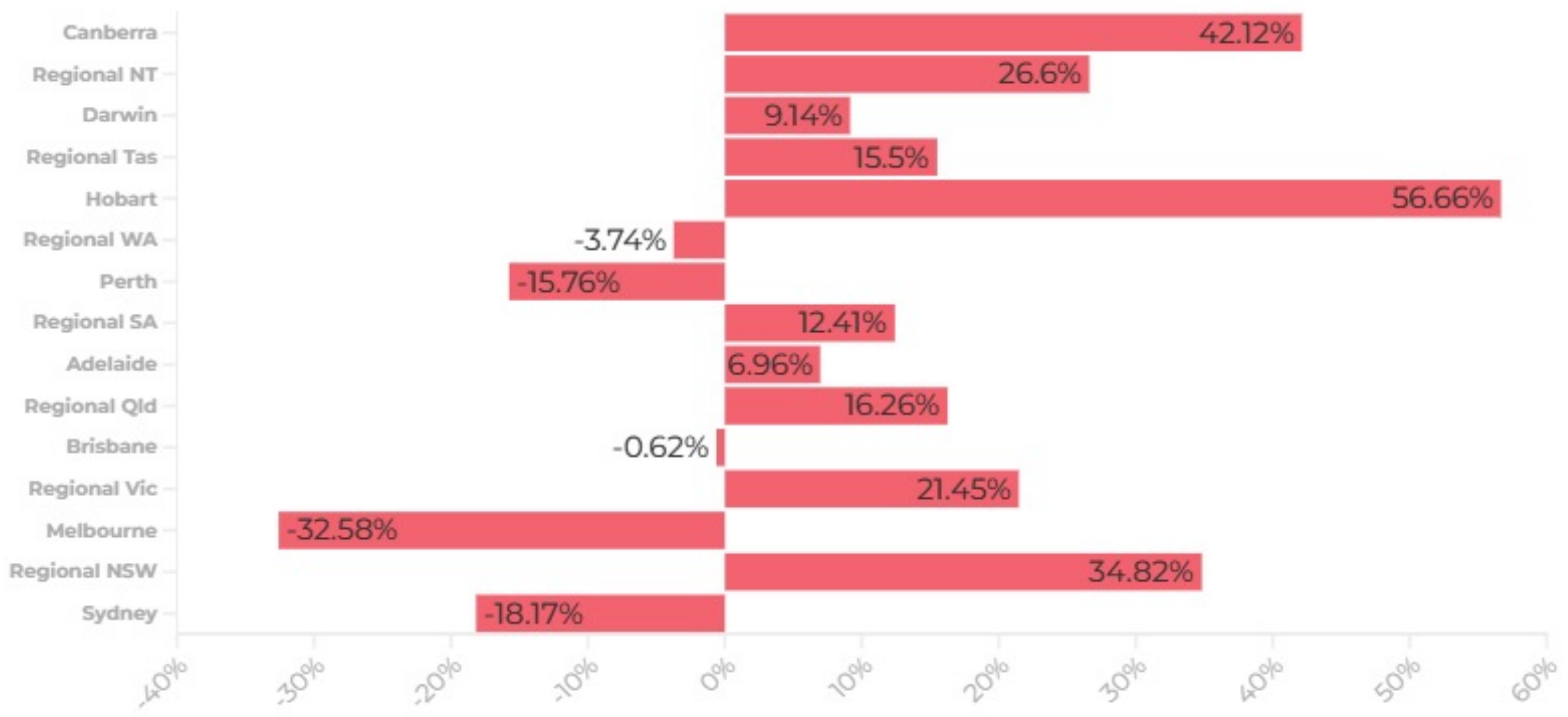
With few new listings becoming available, there has been a fall in the total number of properties available for rent over the past year. In March 2023, the number of properties listed for rent was 9.8% lower than it was throughout March 2022, with total rental listings remaining at historic-low levels.

The divergence between capital cities and regional areas was also evident across total rental listings. Total rental listings in the capital cities were 18.3% lower over the year, remaining at historic lows. In regional markets, they were up 22.5% year-on-year – the largest year-on-year increase since December 2010 – to sit at their highest level since July 2020.

The biggest year-on-year declines in total rental listings in March 2023 were in Melbourne (-32.6%), Sydney (-18.2%) and Perth (-15.8%). Hobart (56.7%), Canberra (42.1%) and regional NSW (34.8%) recorded the greatest increases in total rental listings over the year.

Supply is easing in regional areas, affording renters more choice. In Sydney and Melbourne in particular, rental supply is tightening, making it harder for renters to find accommodation. With new rental listings also persistently low, it seems likely that finding a rental in Sydney and Melbourne is going to remain tough.

Year-on-year change in total rental listings (Mar-23)



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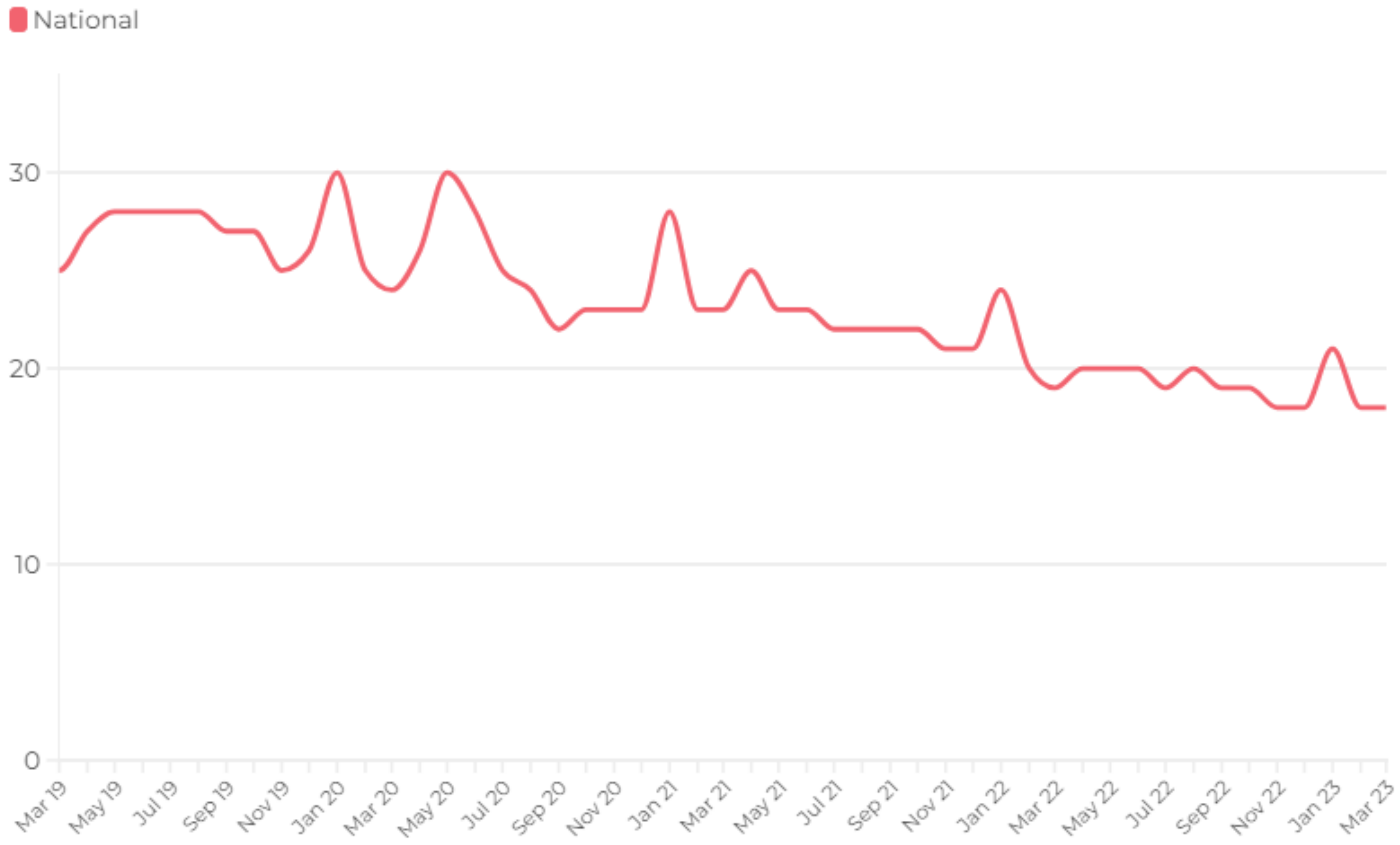
Median days on site for rental listings (national)



Rental days on site

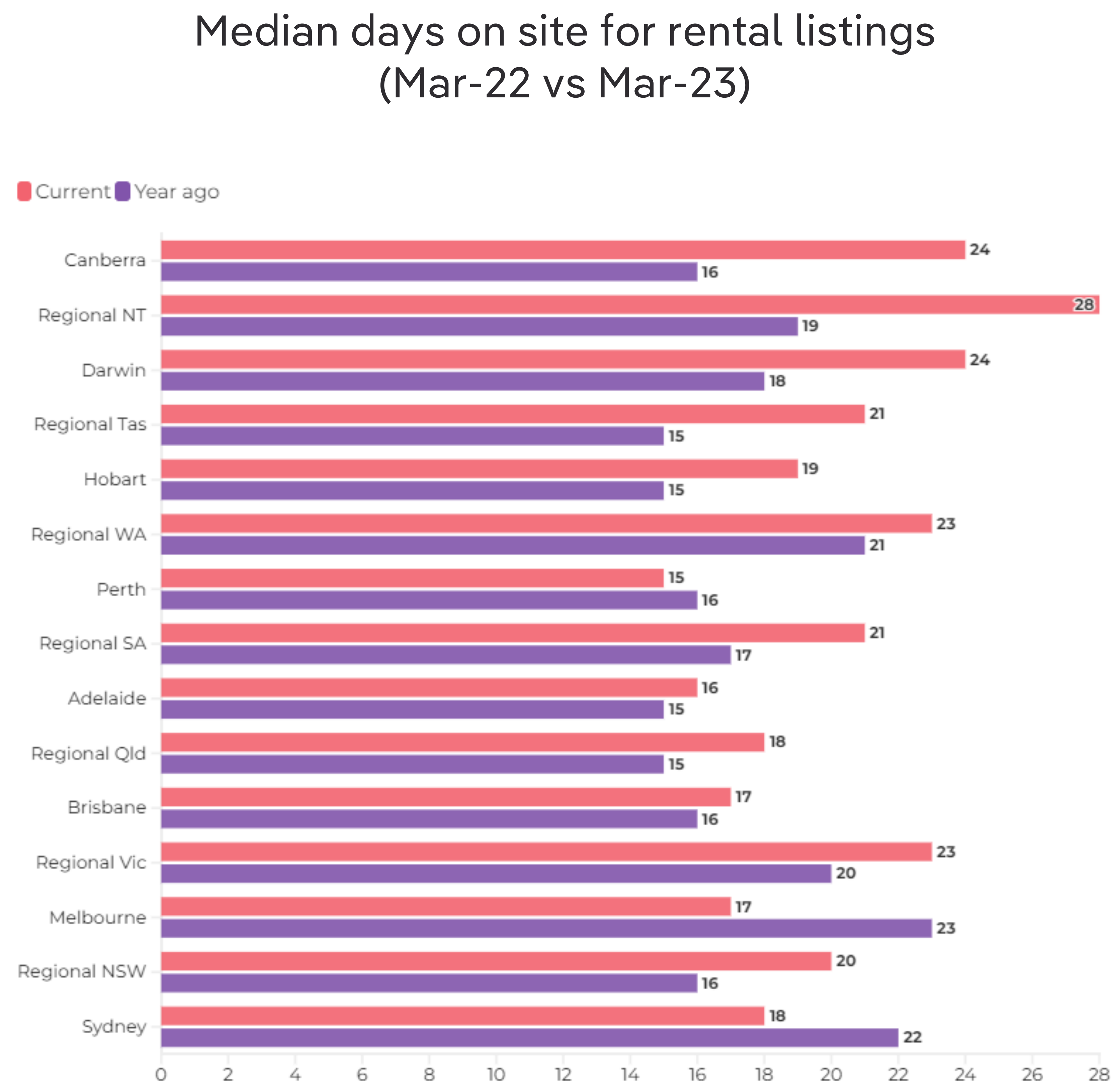
The number of days a property was listed on realestate.com.au in March 2023 before leasing returned to its historic low of 18 days. With strong demand and a lack of stock available to lease, rental properties are moving quickly. At the same time a year earlier, rental days on site was 22 days nationally.

The fall in national rental days on site is largely being driven by Sydney, Melbourne and Perth, which all had historic low days on site in March 2023. These three cities were also the only ones in which days on site were lower than a year ago, with falls of four days in Sydney, six days in Melbourne and one day in Perth. The regions with the largest year-on-year increases in days on site were regional NT (+9 days), Canberra (+8 days), Darwin (+6 days) and regional Tasmania (+6 days).

The regions with the shortest rental days on site in March 2023 were Perth (15 days), Adelaide (16 days) and Melbourne and Brisbane (both 17 days). The regions with the longest days on site were regional NT (28 days), Darwin and Canberra (both 24 days).

Rental days on site is set to remain low and possibly fall even further over the coming months. This is due to the ongoing tight rental conditions in Sydney and Melbourne and the low volume of supply for rent across the other larger capital cities. We expect days on site in regional areas may extend over the coming months with supply increasing.

The low median number of days on site means that most landlords are leasing their properties quickly, which is affording them scope to increase rents.



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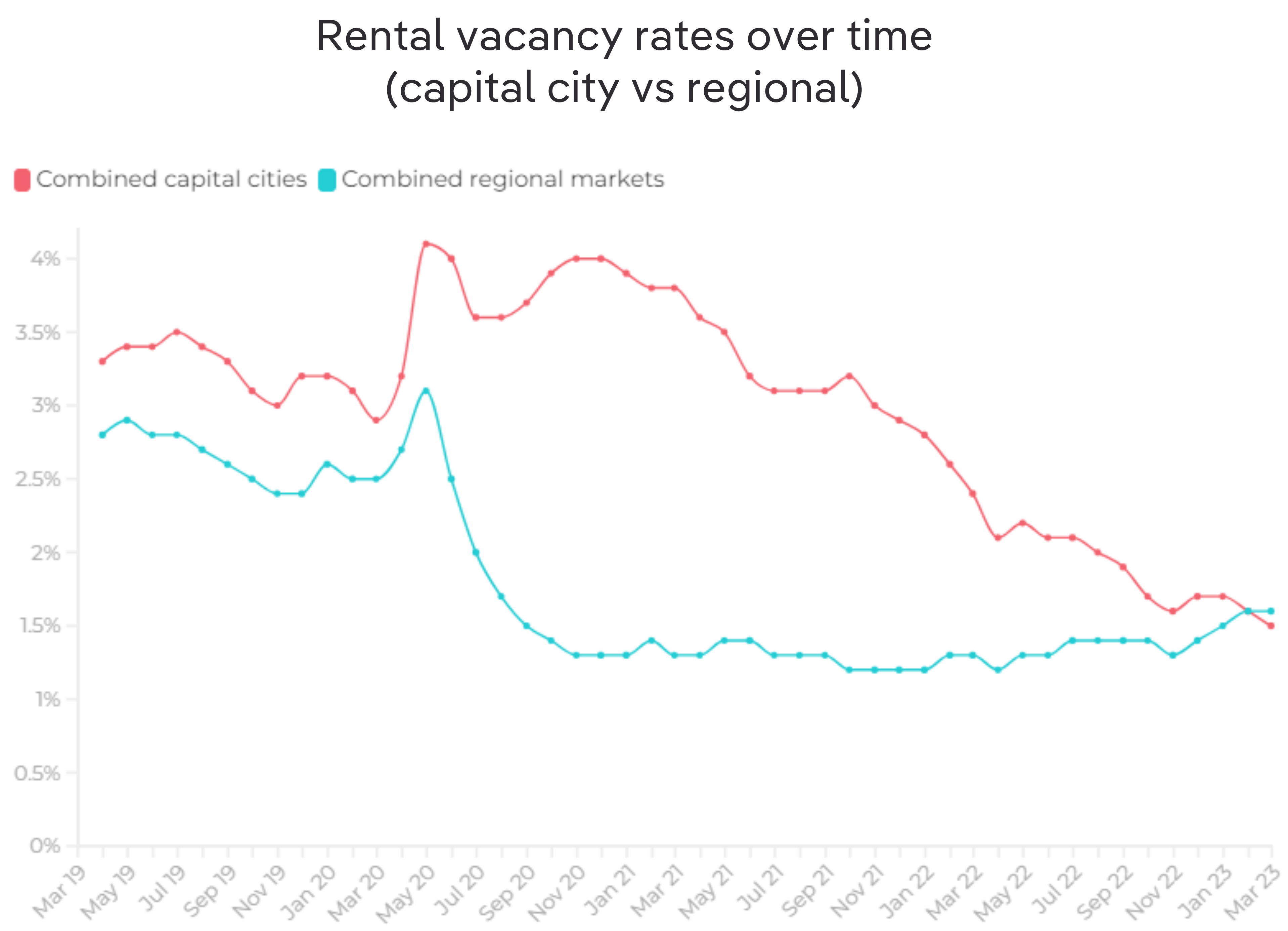

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Rental vacancy rates

The national rental vacancy rate was sitting at 1.5% in March 2023. It was down from 1.6% at the end of the previous quarter and 1.8% in March 2022.

There continues to be a large difference between house and unit vacancy rates, with the house vacancy rate at 1.2% in March 2023 and the unit vacancy rate at 2.2%. House vacancy rates were 1.6% the previous quarter and 1.8% the previous year, while unit vacancy rates were 2.5% the previous quarter and 3.5% the previous year.

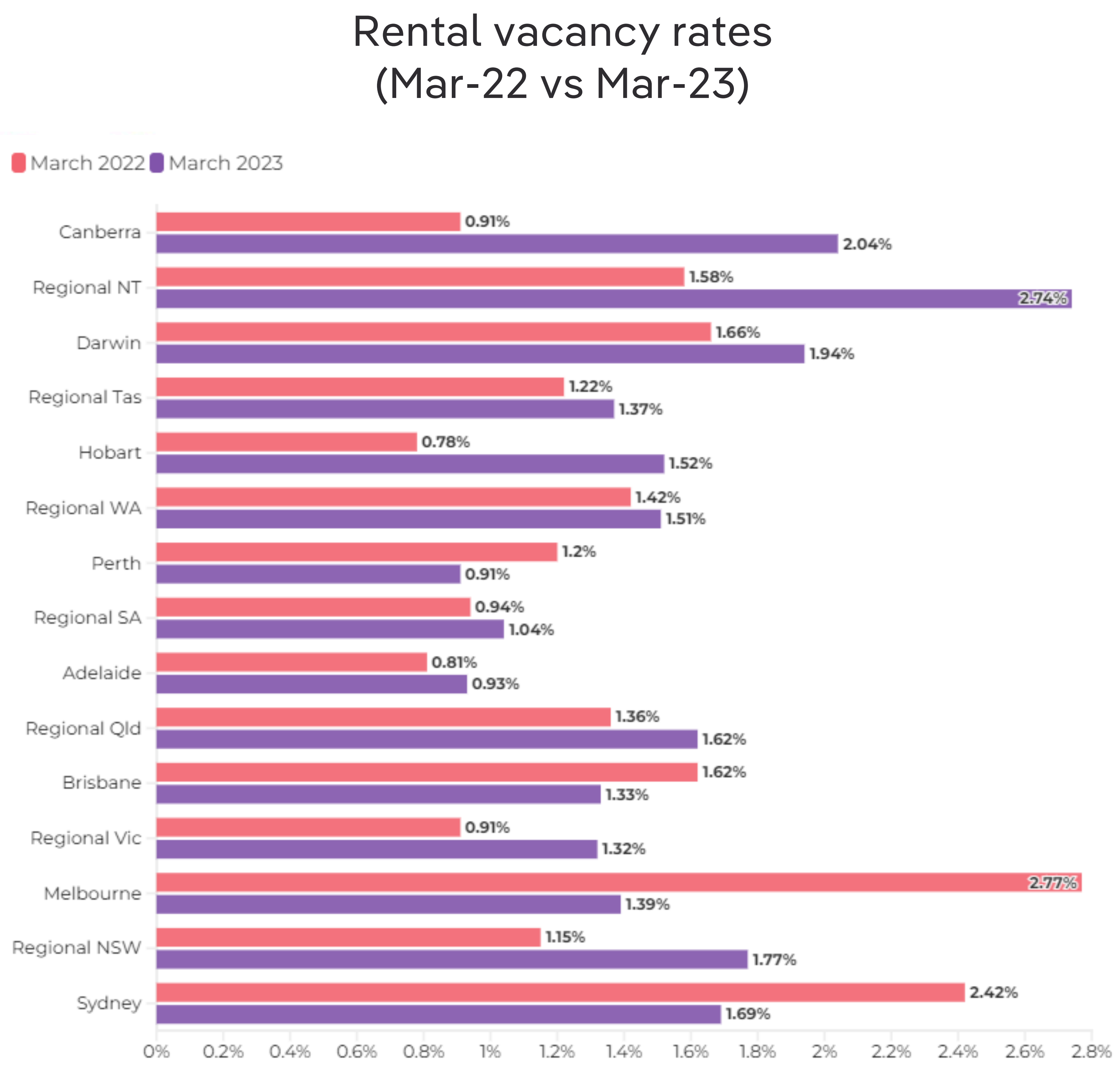
Capital city rental vacancy rates were 2.1% in March 2022, falling to 1.7% by December 2022 and down to 1.4% in March 2023 – a record-low. Across regional markets, vacancy rates have shifted higher over the year. They were 1.2% in March 2022, 1.5% in December 2022 and 1.6% in March 2023, which was the highest they've been since June 2020.

Outside of Hobart, rental vacancy rates were either unchanged or lower across all capital cities over the past three months, with Sydney and Melbourne at record lows. Most regional markets have experienced an increase in rental vacancy rates over the past quarter. Regional Queensland and regional WA, where vacancy rates were unchanged, were the exceptions.

The lowest rental vacancy rates in March 2023 were in Adelaide (0.9%), Perth (0.9%) and regional SA (1%), while the highest vacancy rates were in regional NT (2.7%), Canberra (2%) and Darwin (1.9%).

Although Sydney and Melbourne had historically low rental vacancy rates in March, Brisbane, Adelaide and Perth had lower vacancy rates. Given rental stock is declining in Sydney and Melbourne, it seems likely vacancy rates will fall further over the coming months.

Vacancy rates will continue to tighten across the capital cities, particularly the larger capital cities, while rental vacancy rates will keep easing regionally as supply lifts and demand reduces.



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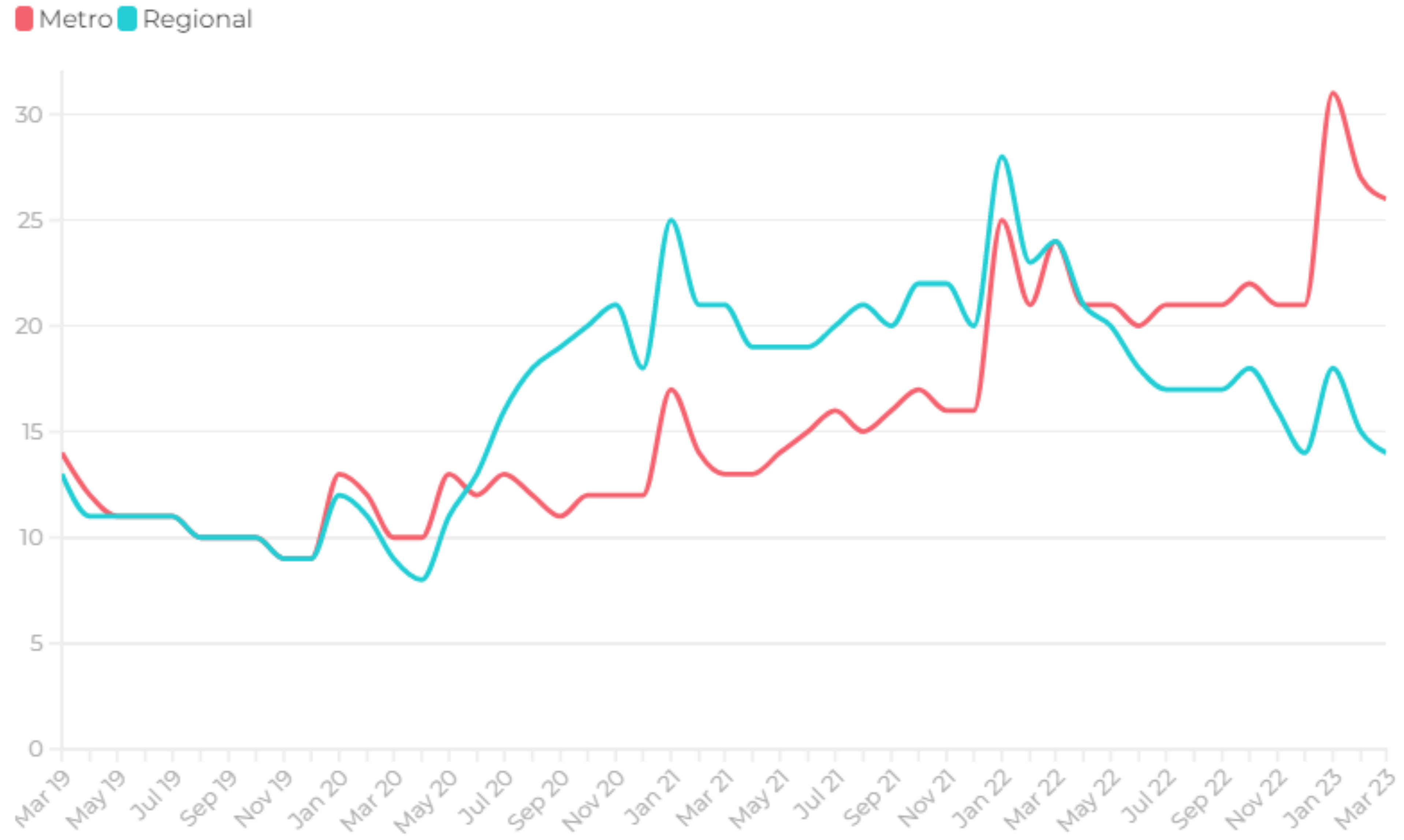
Average enquiry per listing (capital city vs regional markets)



Enquiry per listing

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

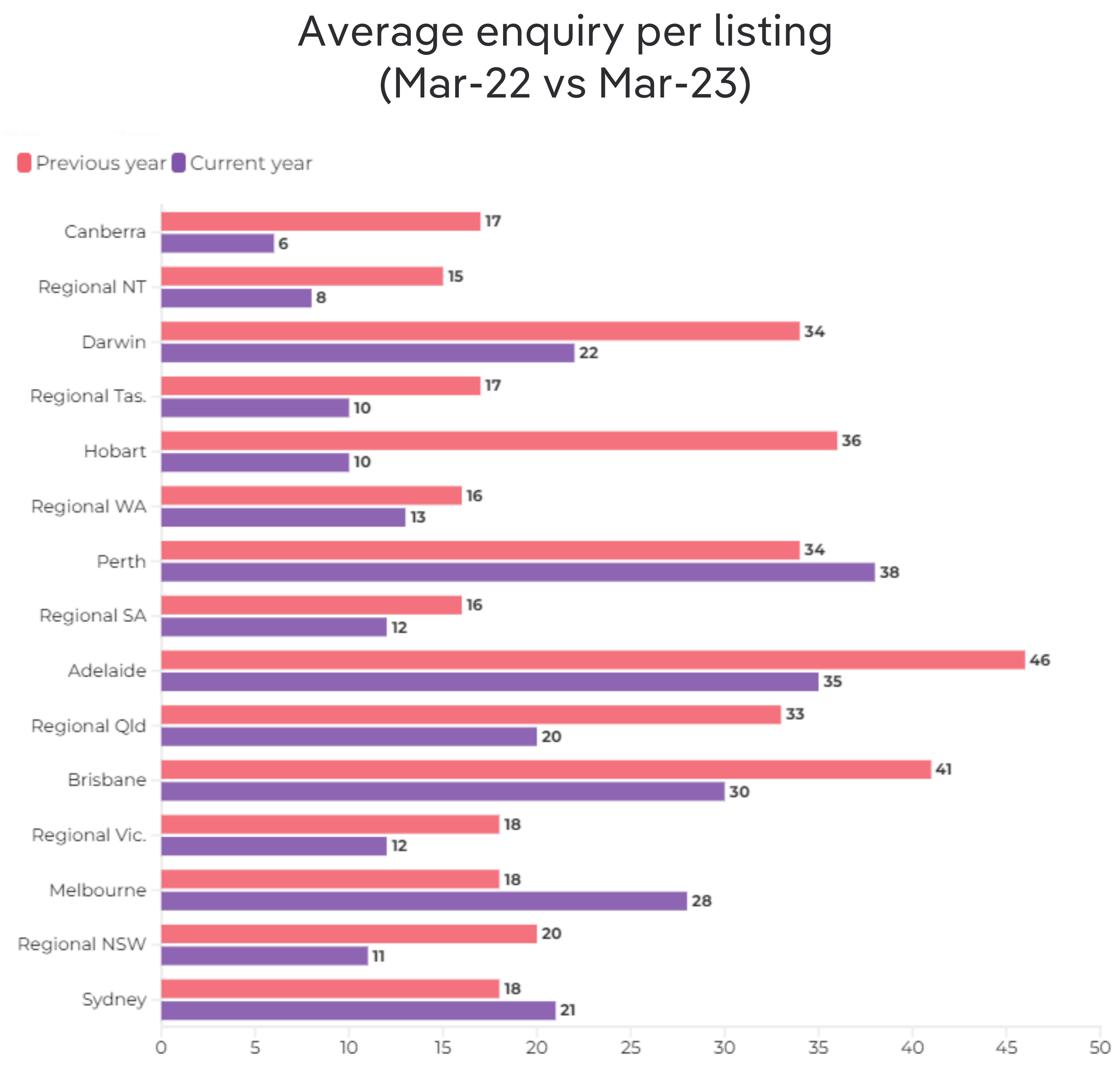
In March 2023, there was an average of 23 enquiries per rental listing which was 4.2% lower than at the same time a year earlier.

While national enquiry per listing was lower over the year, it was 8.3% higher across the combined capital cities. In regional markets, enquiry per listing was 41.7% lower compared to a year ago.

The highest number of enquiries per listing was recorded in Perth (38), followed by Adelaide (35) and Brisbane (30). Canberra (6), regional NT (8) and Hobart and regional Tasmania (both 10) had the lowest.

Looking at changes over the year to March 2023, the greatest increases were recorded in Melbourne (55.6%), Sydney (16.7%) and Perth (11.8%). The largest falls were in Hobart (-72.2%), Canberra (-64.7%) and regional NT (-46.7%).

Throughout the capital cities and regional markets, the average difference in enquiry per listing is 12, highlighting the wide gap between interest in city and regional rental properties. To put this in perspective, a year earlier the gap was zero. This highlights the waning demand for regional rental properties and the surging demand in capital cities, particularly Sydney and Melbourne. We expect this shift to continue over the coming months.



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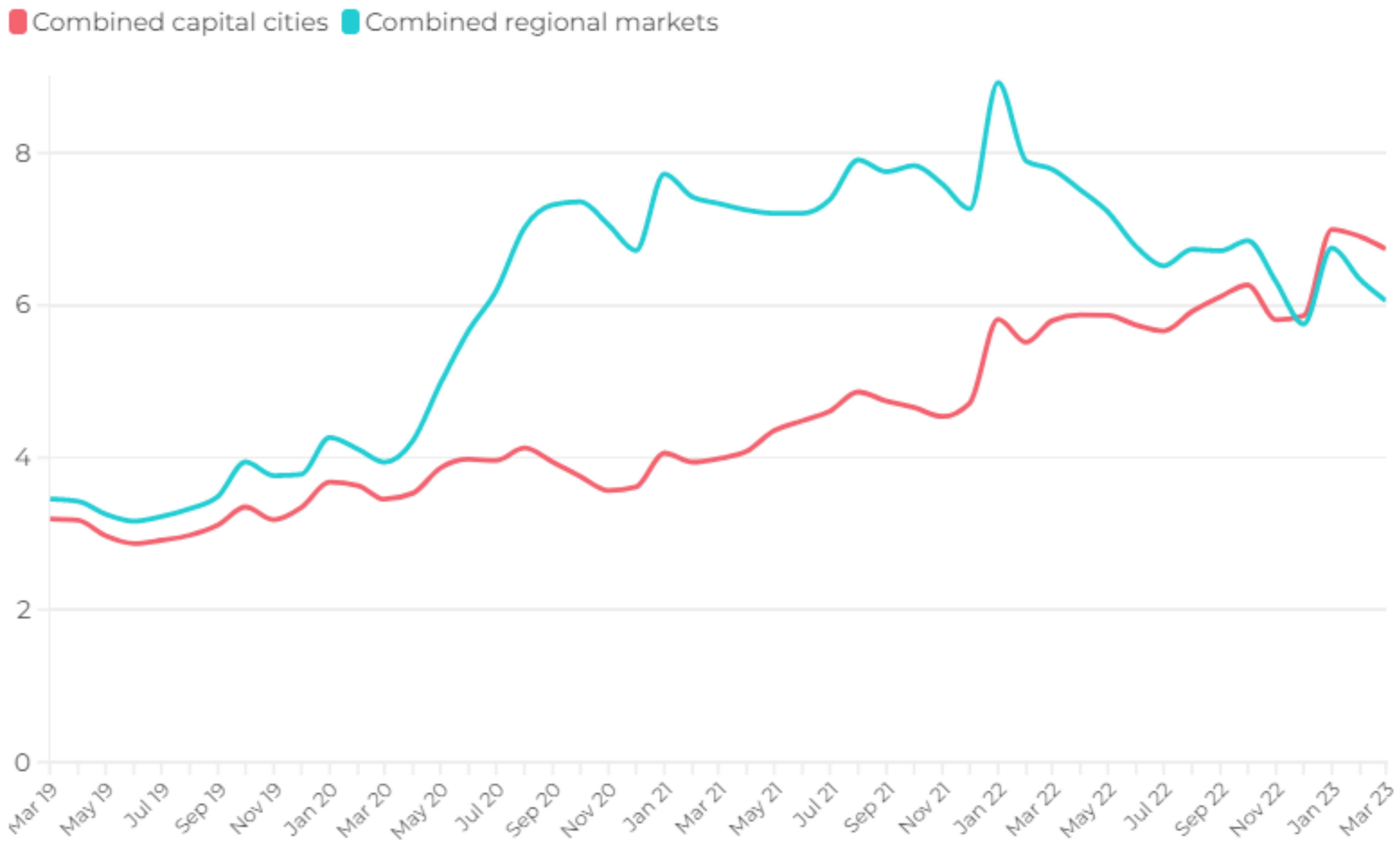
Potential renters per rental listing
(capital city and regional markets)



Potential renters

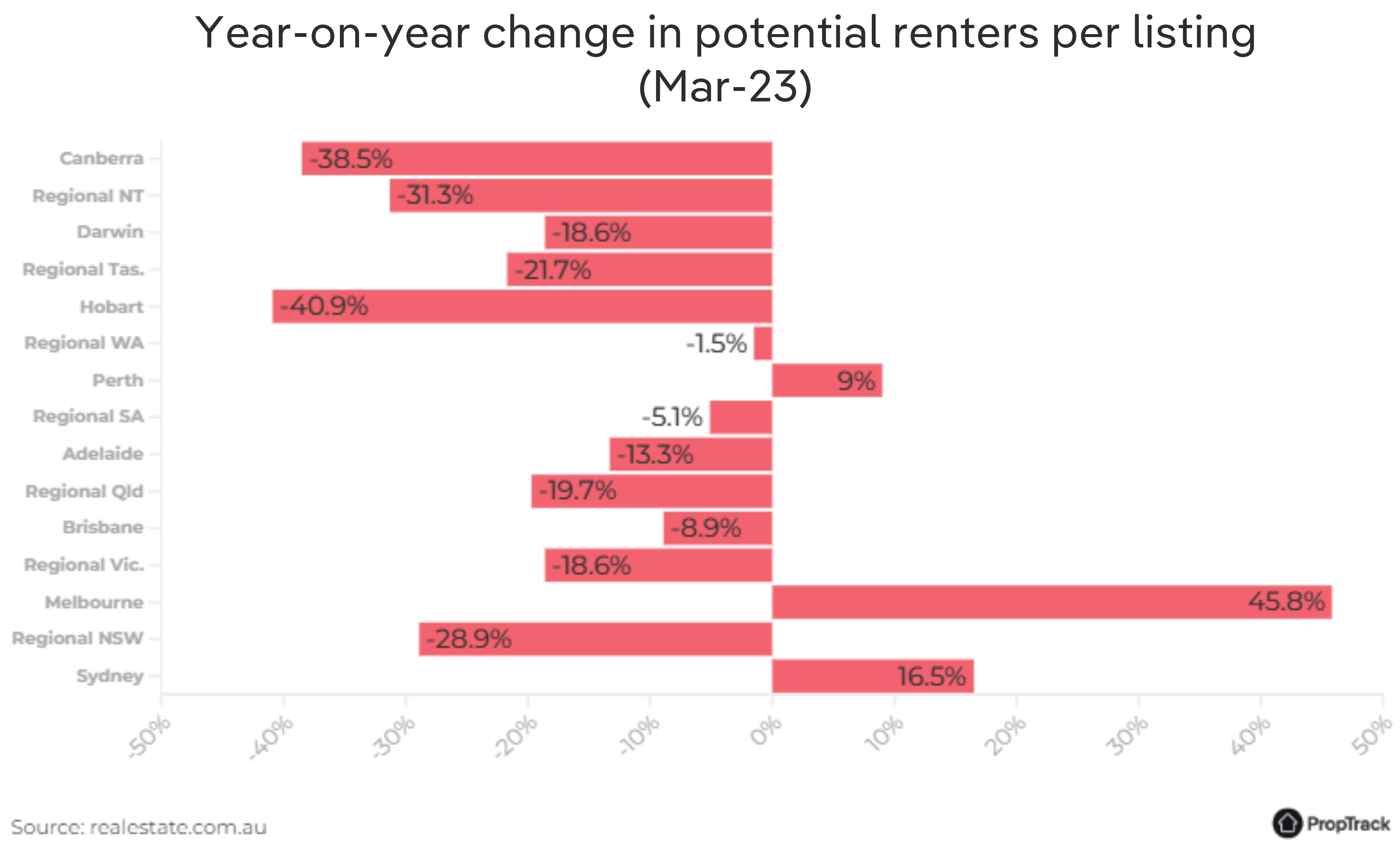
The number of potential renters metric looks at how people are interacting with rental listings on realestate.com.au and determines how interested they are in a property based on those interactions. It looks at enquiry but also measures people that have heightened interest in a property that may not have made contact with the agent yet.

The number of potential renters per listing in March 2023 was 12% higher over the quarter and 5.8% higher over the year, reflecting the reduction in supply of rental properties.

The number of potential renters per listing was 16.3% higher over the year in capital cities and 22.2% lower in regional markets, highlighting the shift in rental demand between the two broad regions.

The increase in capital city potential renters per listing is being driven by three cities, Melbourne (+45.8%), Sydney (+16.5%) and Perth (+9%). All other capital cities and regional areas recorded year-on-year falls. The largest falls were recorded in Hobart (-40.9%), Canberra (-38.5%) and regional NT (-31.3%).

The shift in demand for rentals from regional areas to capital cities is again evident. With migration rebounding rapidly and temporary student visas also lifting, this is going to create more competition for rental stock and make it more difficult and expensive for people to find a rental property.



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Outlook

While rental pressures are easing in regional areas and smaller capital cities, they continue to mount in Sydney, Melbourne and Perth. With migration lifting significantly, and investor and first home buyer purchasing remaining low, it is becoming increasingly competitive to find rental properties.

Regional markets are experiencing reduced demand as pandemic-induced trends subside. Fewer people are leaving capital cities for regional areas, some are returning to the capital cities and those who are staying regionally are likely now purchasing. These trends are expected to continue, leading to a further easing of regional rental pressures.

The biggest strain on the rental market is the lack of new rental supply. Investors are exiting the market at a greater rate than new investors are entering. Although there is a lot of housing supply under construction, most has been targeted towards the owner-occupier market rather than investors, unlike previous construction booms. Absent a return of investors to the market or a big increase in first home buyer numbers, it seems unlikely that the strong demand and insufficient rental supply will be rectified any time soon.

Addressing the demand and supply dynamic will take some time which means that supply is likely to remain tight and the cost of renting will continue to rise, particularly in capital cities. While this will undoubtedly be tough on renters, many will respond by choosing more affordable options. This will mean opting for a unit rather than a house or moving into share houses rather than an individual property. Even with these changes, the cost of renting in a capital city looks set to continue to rise.

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