



Rental Report

September 2023 Quarter

October 2023

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Overview

The rental market remains extremely challenged, with renters facing significant competition for the limited stock available. This has pushed the cost of renting much higher over the past year.

At the end of the September 2023 quarter, the national median weekly advertised rent on realestate.com.au was recorded at \$550 per week, an increase of 3.8% over the quarter and 14.6% over the year. While the national trend is showing strong demand and little supply, it is largely being driven by the major capital cities. Conditions are easing in smaller capital cities and most regional areas, with reduced demand and an increase in stock available for rent.

There has been a moderate increase in lending to investors so far this year, indicating that some investors are coming into the market. However, a heightened number of investor-owned properties continue to be sold, keeping the overall stock of rental properties low.





For first-home buyers, higher rents make it challenging to save deposits. Borrowing capacities have reduced by around 30% due to interest rate increases, and prices continue to rise, making it difficult to enter homeownership.

The rapid rate of migration to Australia is exacerbating competition for rentals, with the majority of arrivals not owning property. Over the 12 months to March 2023, the national population increased by 563,205 persons – a record-high increase – with net overseas migration driving the majority of this. The March 2023 quarter was the strongest quarter on record for net overseas migration.

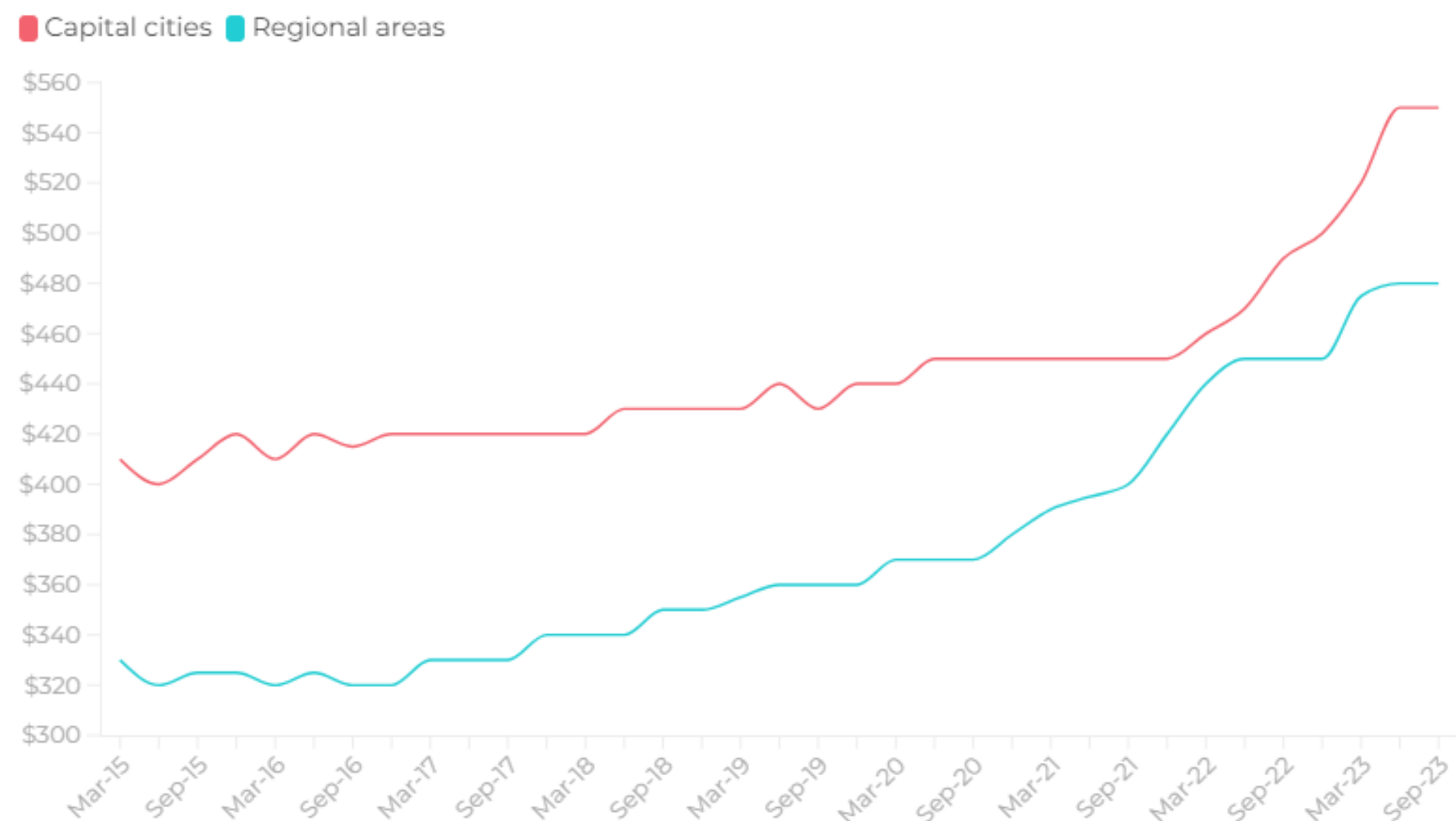
Given the persistent low supply of rental stock and the significant demand for accommodation, there is a critical need for additional housing, particularly in the major capital cities. The best way to address insufficient supply is to build more housing. The federal government has a goal to build 1.2 million new homes over the coming five financial years. However, dwelling approvals and commencements are at decade lows and it is unlikely this will change substantially in the near-term.

In the meantime, solutions should encourage better utilisation of current properties and investment in the housing market, or support first-time buyers into homeownership, freeing up the rental stock they currently occupy.

It appears unlikely that there will be any imminent relief from the tough rental market conditions in the major capital cities. We expect supply to remain tight and demand to stay persistently strong, which is likely to push rents higher.



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



Rental prices

The national median weekly advertised rent on realestate.com.au at the end of the September 2023 quarter was \$550 per week, up 3.8% over the quarter and 14.6% year-on-year.

The 3.8% increase in rents over the quarter was on par with the 3.9% increase in the June 2023 quarter, but higher than the 3.2% increase over the September quarter last year.

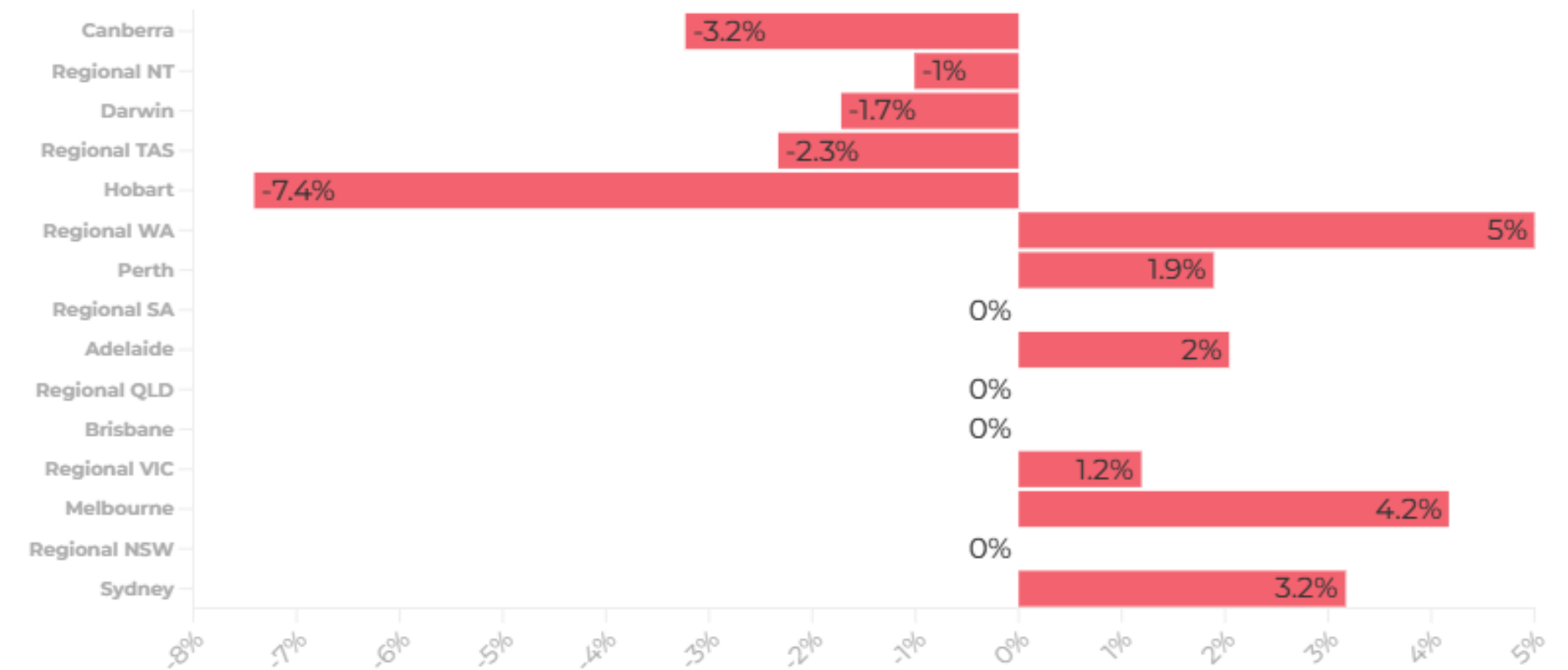
At the end of September 2023, the median weekly rent for a house was \$550 per week. It has now been unchanged for six months but is 10% higher than a year ago. Advertised prices for units rose 4% over the September 2023 quarter to reach \$520 per week, 15.6% higher than a year earlier.

In September 2023, the median weekly advertised rent across the combined capital cities was \$550 per week. Across the combined regional markets, it was \$480 per week. Although rents increased nationally over the quarter, they were unchanged across the combined capital cities and combined regional markets. Over the 12 months to September 2023, capital city rents increased by 12.2%, while regional rents were 6.7% higher.

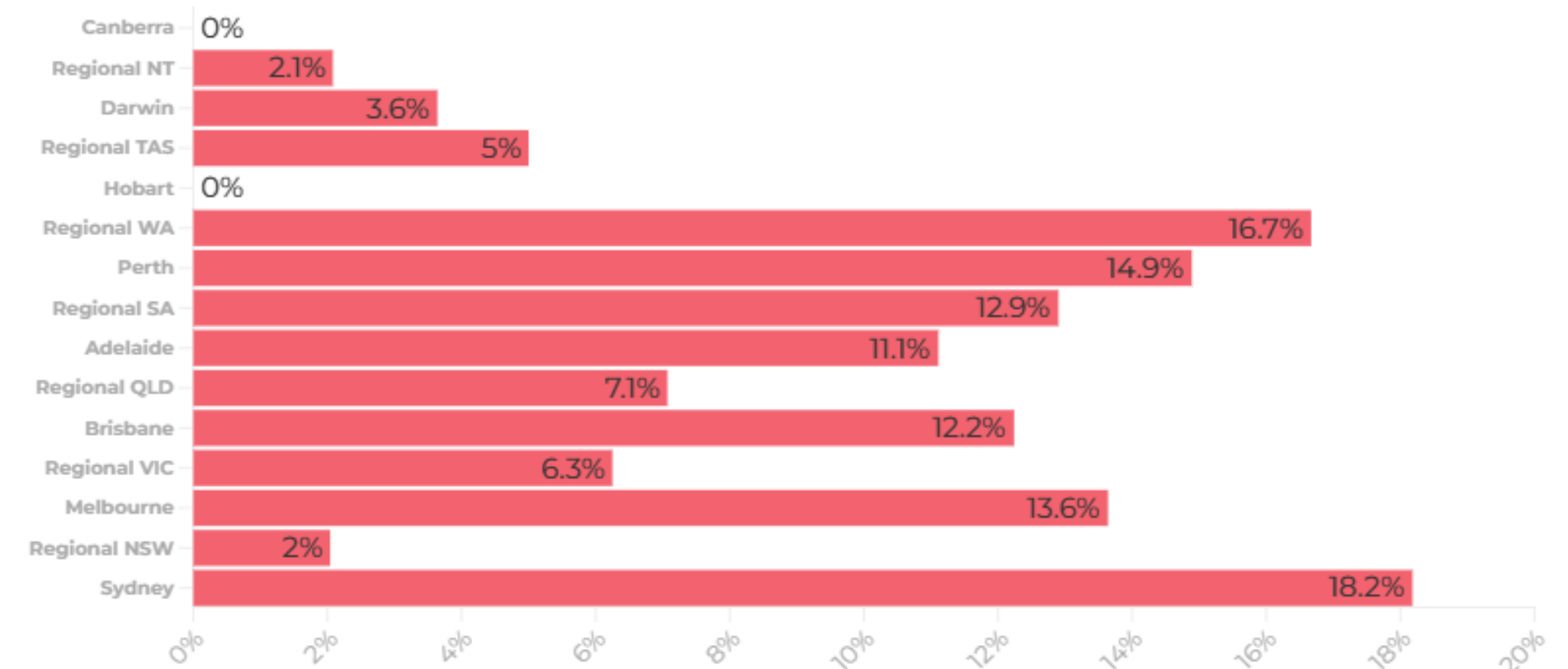
Advertised rents were lower over the September 2023 quarter in Hobart (-7.4%), regional Tasmania (-2.2%) and Canberra (-3.2%). The greatest increases in rents over the quarter were recorded in regional WA (+5%), Melbourne (+4.2%) and Sydney (+3.2%).

Hobart and Canberra were the only markets in which rents were unchanged over the year. The greatest increases in advertised rents over the past year occurred in Sydney (+18.2%), regional WA (+16.7%) and Perth (+14.9%).

Quarterly change in median weekly advertised rents
Sep-23



Annual change in median weekly advertised rents
Sep-23





The slowing of rental growth over the past quarter, particularly in the capital cities, was somewhat surprising. As the cost of renting has become higher, it is likely we will increasingly see renters looking for cheaper alternatives. Some renters will move further away for cheaper rents, while others will shift into units, smaller accommodation or move into share housing.

Given the rapid rate of population growth, which is projected to continue, we expect rents in the major capital cities will continue to climb. However, it is difficult to foresee that rents will continue to rise as rapidly as they have over the past year. In the smaller capital cities and regional markets, demand is generally easing, which is likely to lead to slower rental growth and potentially declines in some areas.

Rental yields

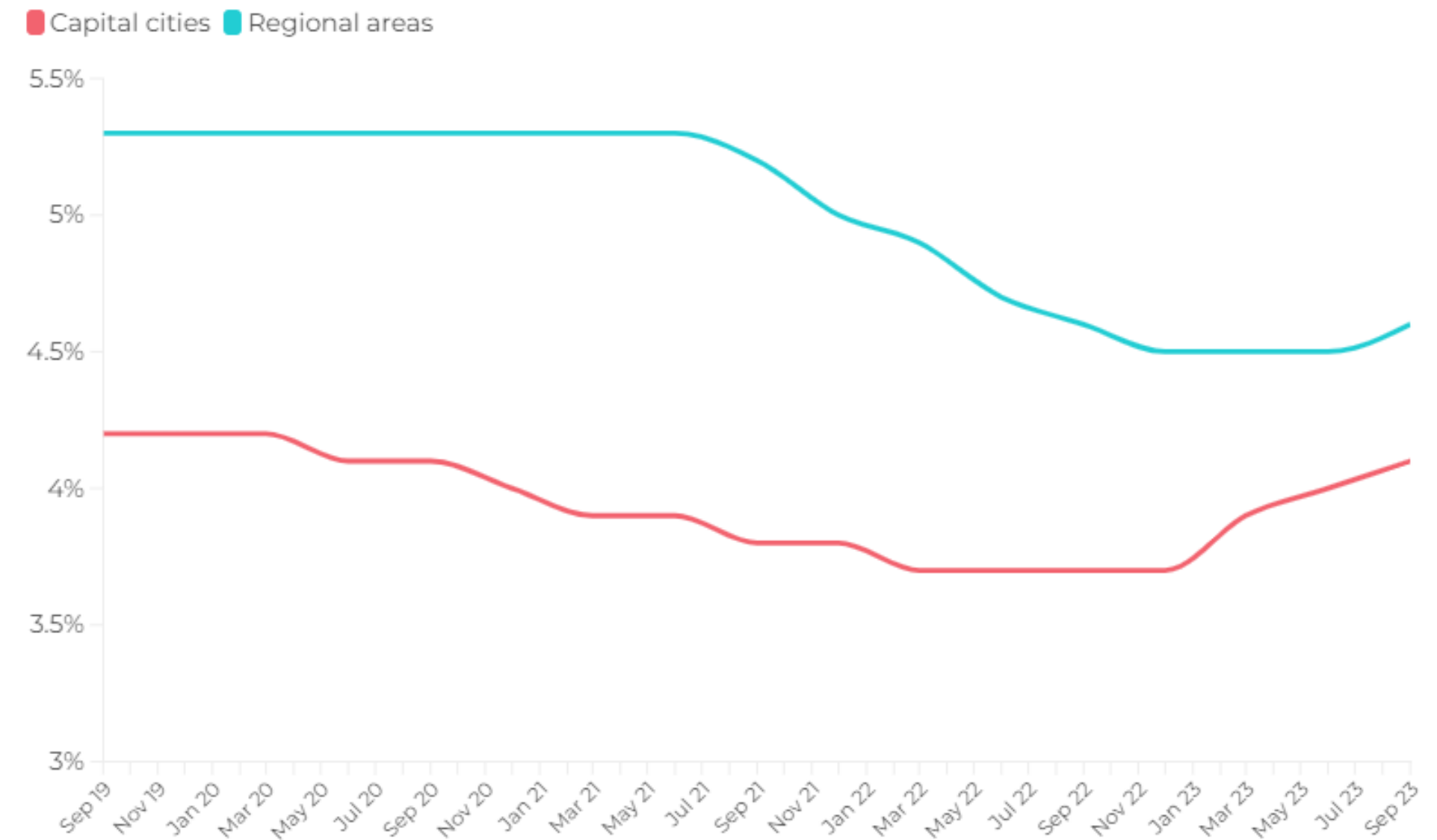
Gross rental yields fell during the pandemic as the strong period of home price growth saw home prices rise faster than rents. With rents climbing amid a moderate rebound in home price growth, rental yields have risen. In September 2023, the gross rental yield was 4.2%, up from 3.9% at the same time last year.

Gross rental yields throughout the combined capital cities increased from 3.7% a year ago to 4.1% in September, while they were unchanged at 4.6% in the combined regional markets.

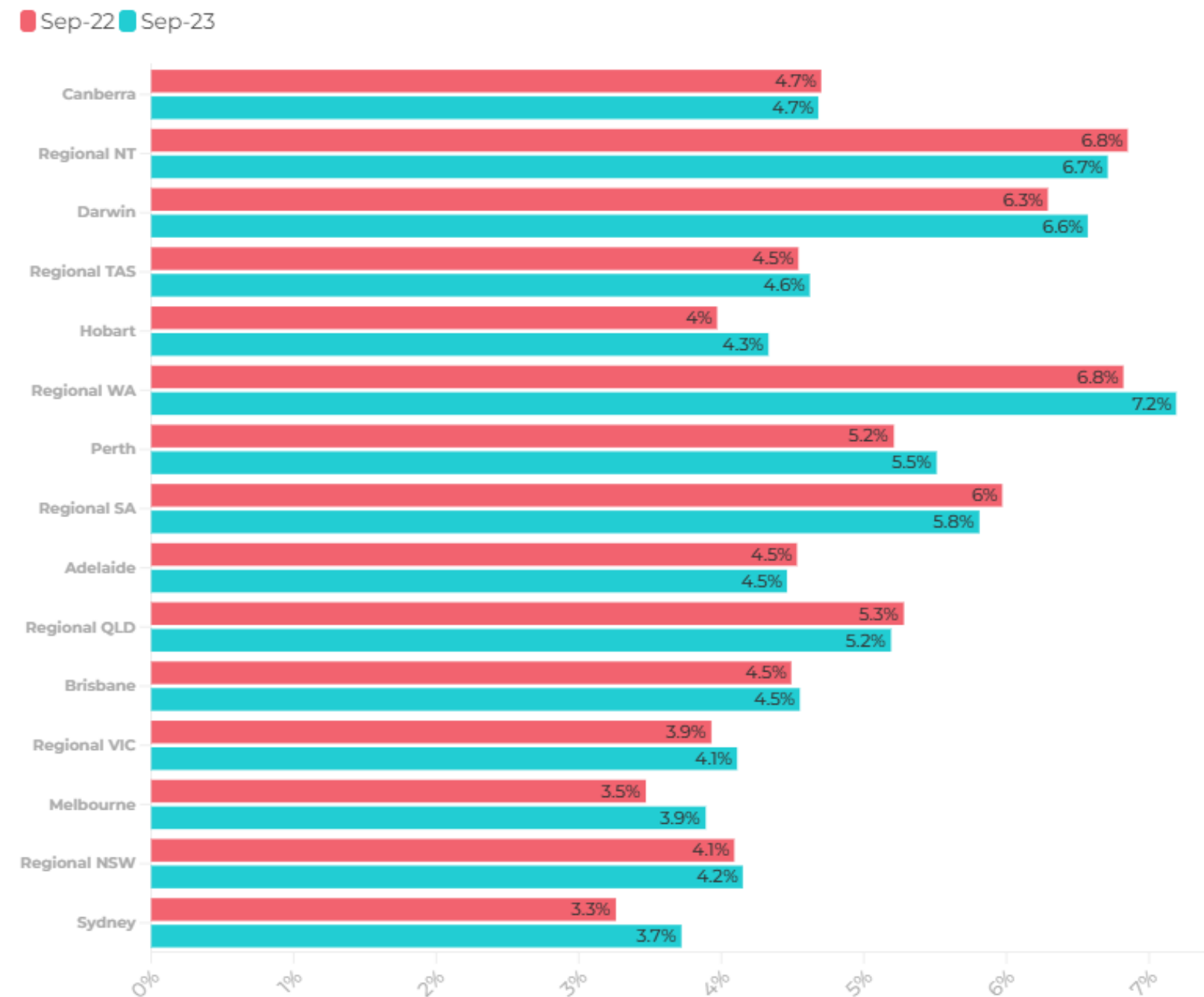
In September 2023, gross rental yields for houses were 3.8%, up from 3.5% at the same time a year earlier. Gross rental yields for units were 4.7% in September 2023, up from 4.2%. This highlights the rebound in yields as prices rose slower than rents, a trend that is particularly apparent for units.

The lowest gross rental yields in September 2023 were found in Sydney (3.7%), Melbourne (3.9%) and regional Victoria (4.1%). The highest gross rental yields were found in regional Western Australia (7.2%), regional Northern Territory (6.7%) and Darwin (6.6%).

Quarterly gross rental yields
(capital cities vs regional markets)



Quarterly gross rental yields Sep-22 vs Sep-23



In Sydney, gross rental yields increased by 0.5 percentage points over the year, with Melbourne, regional WA, and Hobart each recording a 0.4 percentage point increase. Gross rental yields fell by 0.2 percentage points in regional South Australia and 0.1 percentage points in regional Queensland, Adelaide, and regional NT.

In the major capital cities, we anticipate that gross rental yields will continue to improve over the coming quarters due to the exceptionally strong demand for rental properties and the ongoing low supply. In smaller capital cities and regional areas, there is likely to be little change in yields.

New rental listings

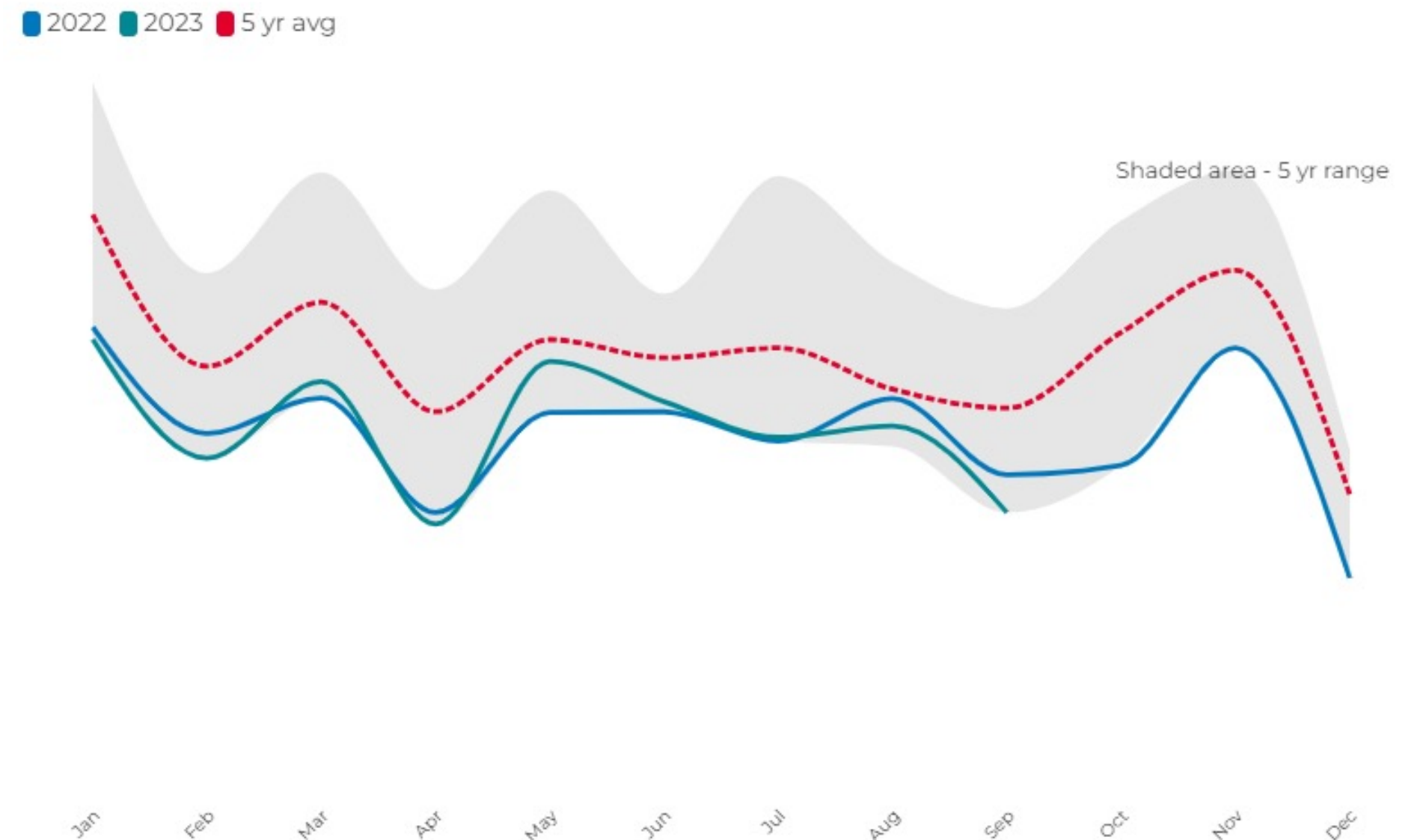
There were 5.7% fewer new rental listings in September 2023 than over the previous year - the fewest new rental listings in September for more than a decade. This put new rental listings 14.3% below their five-year average for September.

Across the combined capital cities, new rental listings were 8.3% lower than a year earlier, while in regional markets they were 2.3% higher.

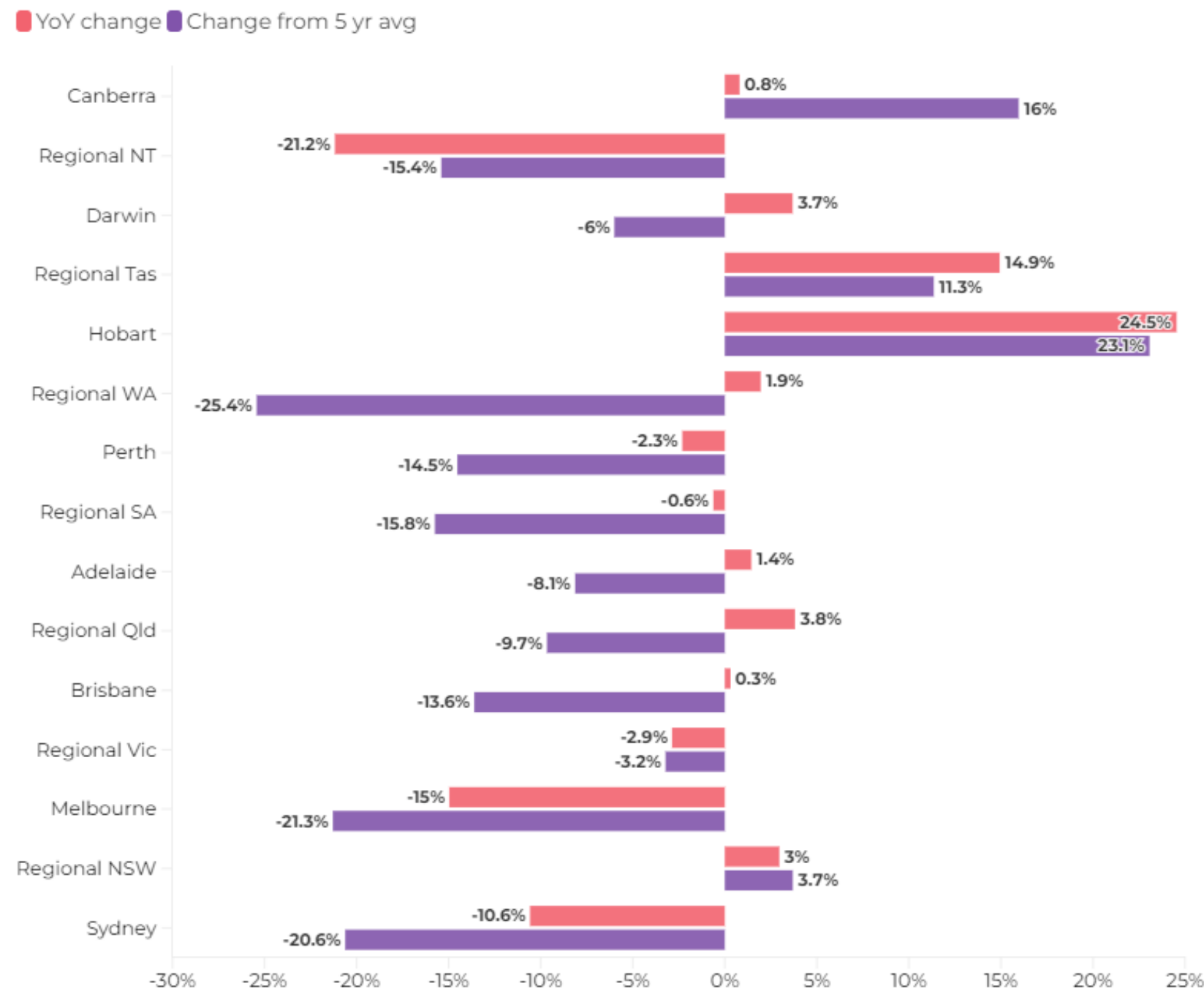
Compared to their September five-year average, new listings in the capital cities were 17.4% lower and in regional markets they were 4.4% lower.

Regional NT (-21.2%), Melbourne (-15%) and Sydney (-10.6%) recorded the largest annual falls in new listings in September 2023. Hobart (24.5%), regional Tasmania (14.9%) and regional Queensland (3.8%) experienced the greatest increases.

Monthly new rental listings, 2022, 2023 and five-year average



Year-on-year change and change from five-year average for new rental listings, Sep-23



Compared to the September five-year average, new listings were relatively much lower in regional WA (-25.4%), Melbourne (-21.3%) and Sydney (-20.6%). The greatest increases relative to the five-year average were in Hobart (23.1%), Canberra (16%) and regional Tasmania (11.4%).

The volume of new rental listings coming to market remains historically very low, highlighting the tight supply of rental stock. In each of the five largest capital cities – Sydney, Melbourne, Brisbane, Perth, and Adelaide – new listings were significantly lower than their five-year average in September. The supply of new listings coming to market for rent is expected to remain low over the coming months due to the ongoing strong demand for rental properties and the shortage of supply. This trend is likely to be most prevalent in the most populous areas of the country.

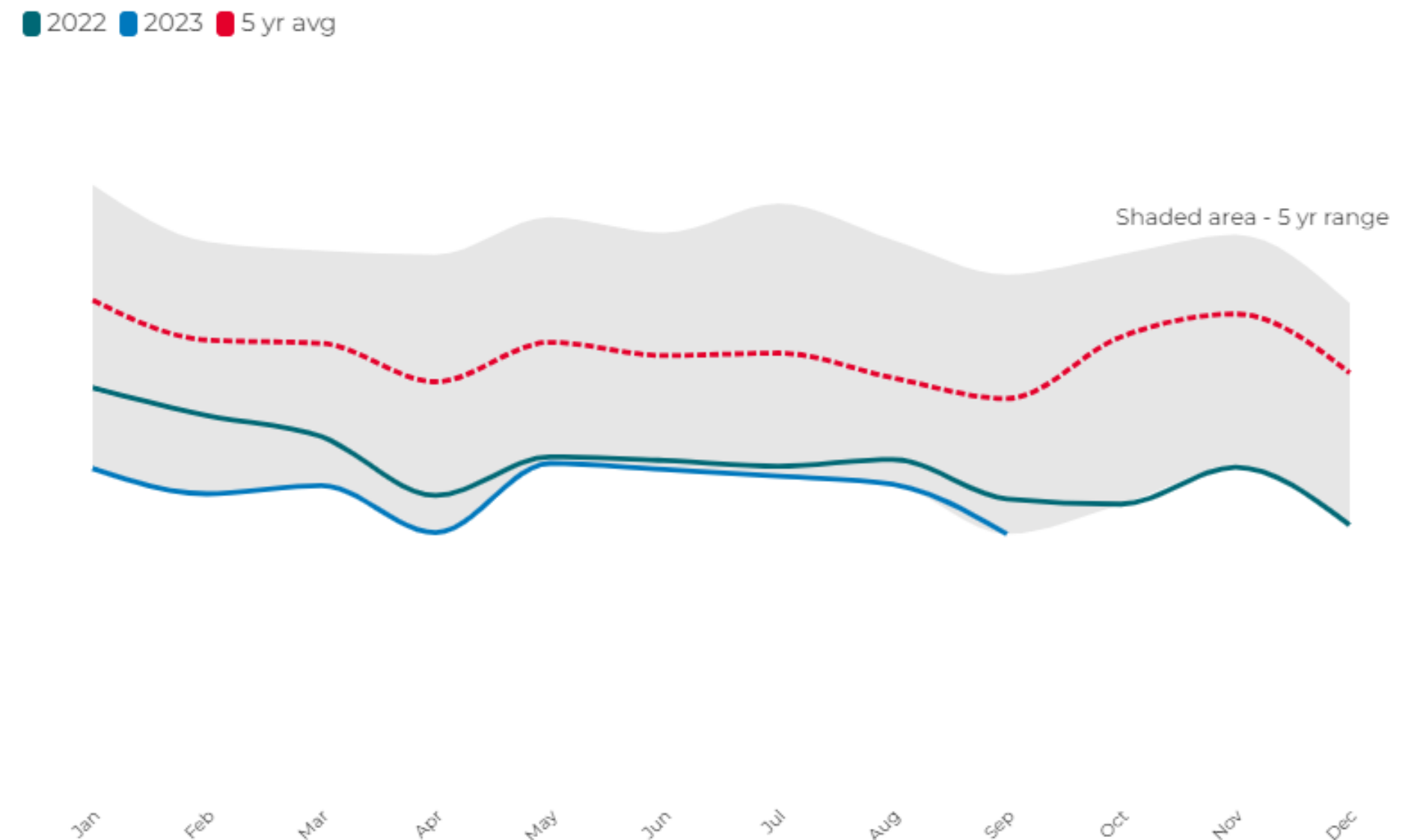
Total rental listings

With a low volume of new rental listings coming to market, the total number of rental listings fell by 7.1% in September 2023 compared to September 2022. The number of properties available to rent in September 2023 was at an historic-low and 22.8% below the September five-year average.

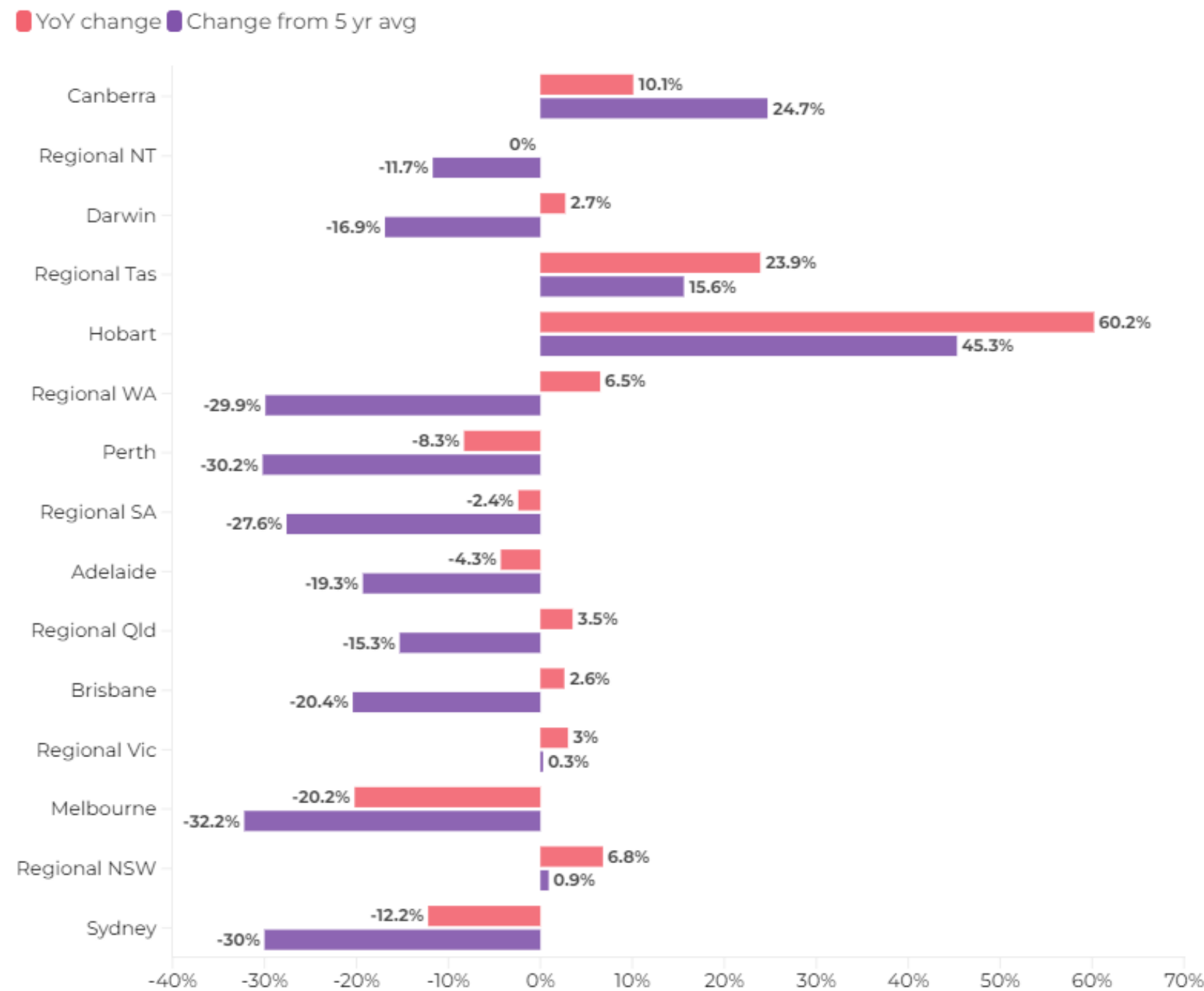
Across the combined capital cities, total listings were 10.9% lower than a year ago and 27.3% below their September five-year average. In regional areas, total rental listings were 5.1% higher over the year but were 7.5% lower than their September five-year average.

Although total listings were lower over the year nationally, this was largely driven by falls in Melbourne (-20.2%) and Sydney (-12.2%), with Perth (-8.3%) also seeing a comparatively large fall. The greatest increases in total rental listings over the year were in Hobart (60.2%), regional Tasmania (23.9%) and Canberra (10.1%).

Monthly total rental listings, 2022, 2023 and five-year average



Year-on-year change and change from five-year average total rental listings, Sep-23



Melbourne (-32.2%), Perth (-30.2%) and Sydney (-30%) saw the largest declines in total rental listings compared to their September five-year average. Conversely, Hobart (45.3%), Canberra (24.7%) and regional Tasmania (15.6%) recorded the largest increases.

Each of the five major capital cities had around, if not more, than 20% fewer total rental listings in September than their five-year average for the month. It seems unlikely that these conditions will change any time soon given population growth, the lack of significant new housing supply and the overall strong demand for rentals. In the smaller capital cities and regional areas, we are not seeing the same conditions and it is anticipated there could be further increases to rental stock.

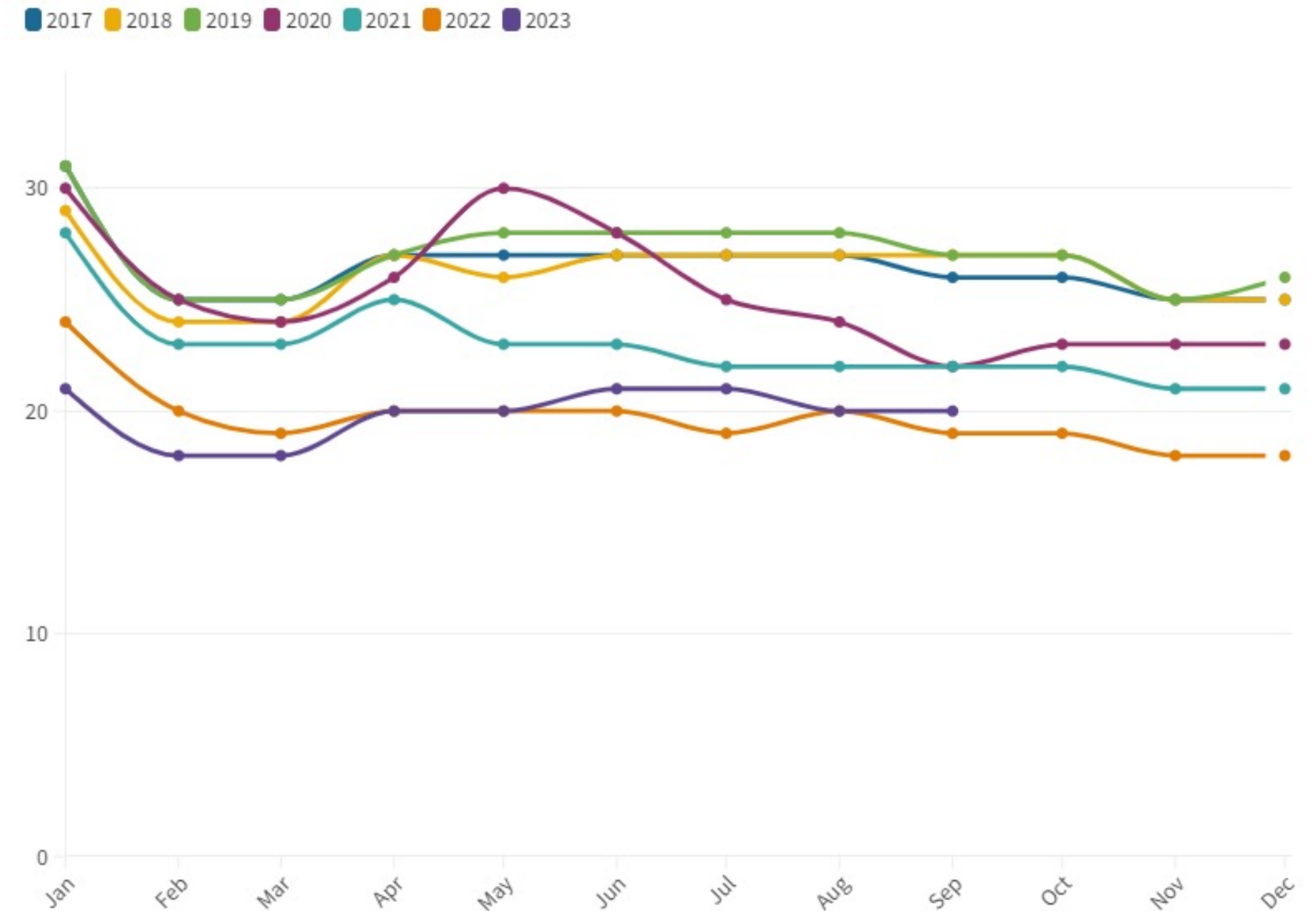
Rental days on site

The median number of days a property was advertised for rent on realestate.com.au in September 2023 was 20 days. This was slightly higher than the 19 days recorded a year earlier, although rental days on site remains historically low for this time of year.

The regions with the shortest rental days on site in September 2023 were Perth (15), Adelaide (16) and Brisbane (17). The longest days on site for rentals were recorded in Hobart and Canberra (both 27 days) and regional NT (26).

Throughout most regions, rental days on site was higher in September 2023 than a year ago. Melbourne (-2 days) and Perth (-1 days) were the exceptions, while they were unchanged in Sydney, Adelaide, and regional SA. The largest increases in rental days on site over the year were in Hobart (+10 days), regional NT (+7 days), regional Tasmania (+5 days).

Median days on site for rental listings
(national)



Median days on site for rental listings (Sep-22 vs Sep-23)



Historically, rental days on site remain at quite low levels. Given the tight supply of stock, low vacancy rates and strong demand in the most populous regions of the country, we expect days on site will remain low over the next year. In the smaller capital cities and most regional areas, days on site has shifted higher as demand for rentals has eased and supply has increased, which we anticipate will continue.

Rental vacancy rates

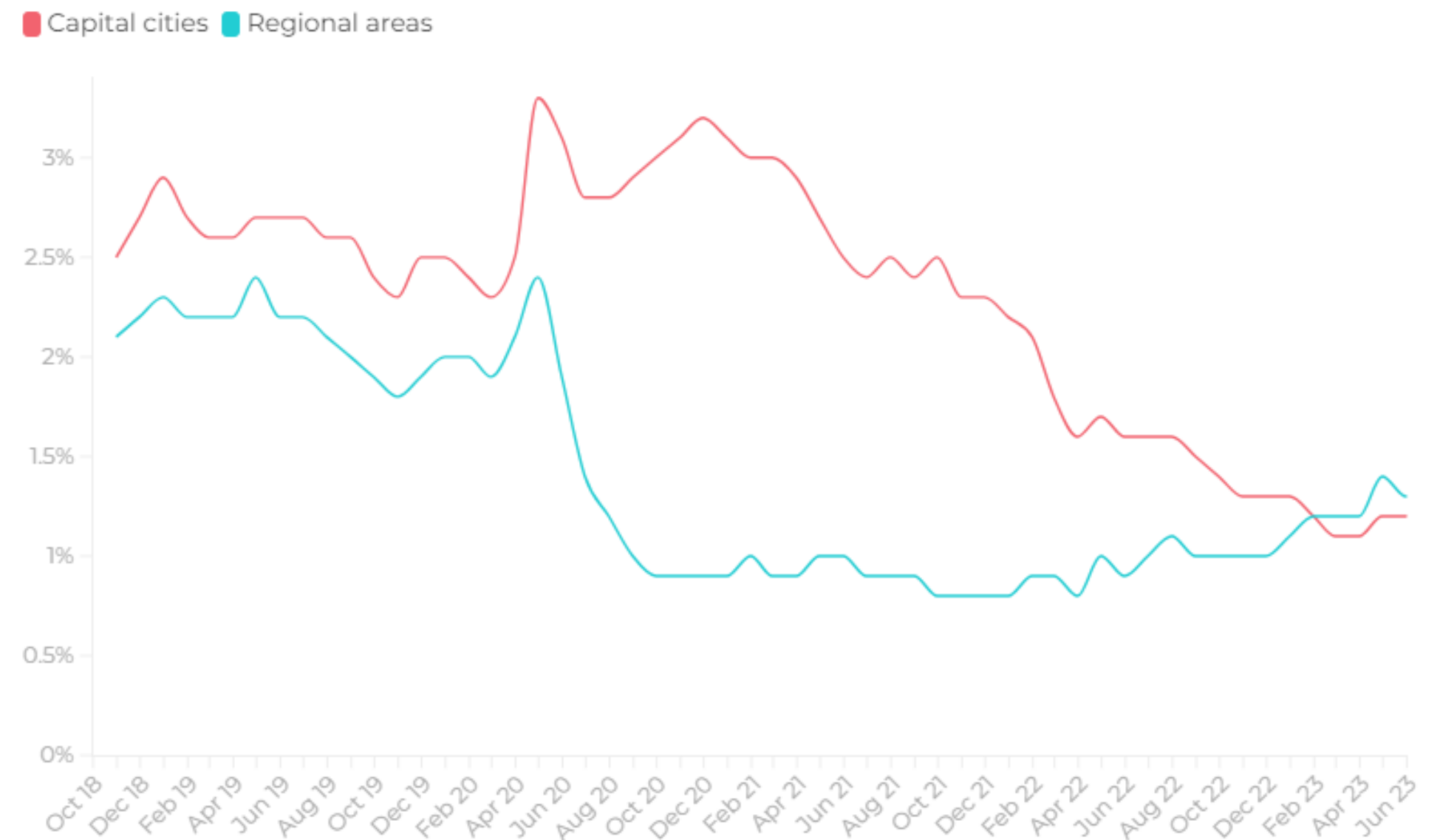
The national rental vacancy rate was recorded at an historic-low of 1.1% in September 2023, down from 1.3% the previous quarter and 1.3% in September 2022.

Although vacancy rates are at extremely low levels, house vacancy rates (0.8%) are much lower than unit vacancy rates (1.5%). Vacancy rates for houses are at an historic-low and down from 1.1% a year earlier. Unit vacancy rates are lower than the 1.8% recorded a year earlier but have drifted higher from recent lows.

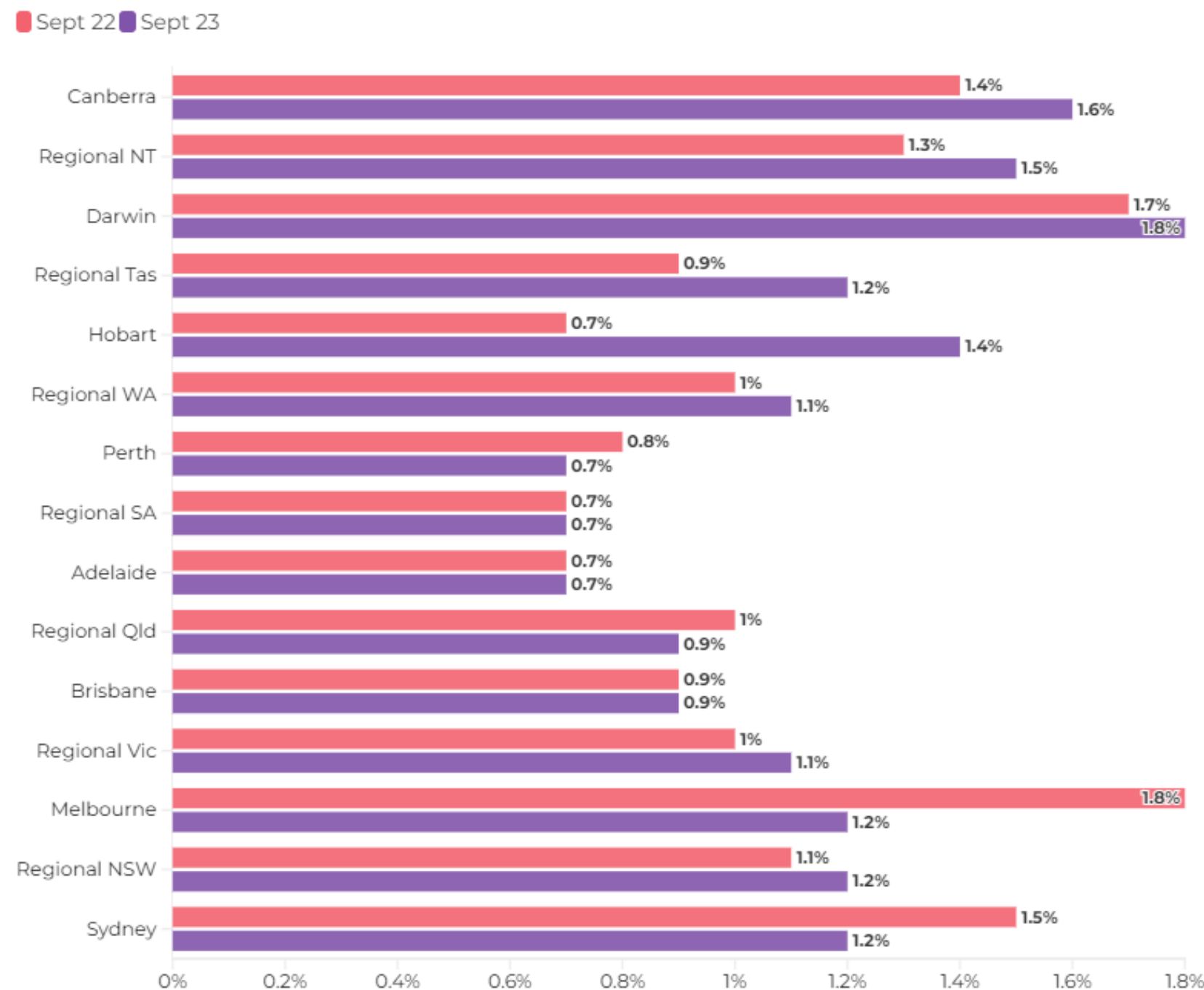
Throughout the combined capital cities, the rental vacancy rate is at an historic-low of 1.1%, down from 1.3% the previous quarter and 1.4% the previous year. In the combined regional markets, the rental vacancy rate was also 1.1%, which was lower than the 1.3% over the previous quarter but higher than the 1% recorded in September 2022.

The highest rental vacancy rates in September 2023 were found in Darwin (1.8%), Canberra (1.6%) and regional NT (1.5%).

Rental vacancy rates over time
(capital city vs regional)



Rental vacancy rates (Sep-22 vs Sep-23)



Rental vacancy rates were at their lowest in Adelaide, regional SA, and Perth, all of which had a vacancy rate of 0.7%.

Hobart (0.7% vs 1.4%), regional Tasmania (0.9% vs 1.2%) and Canberra (1.4% vs 1.6%) recorded the greatest increases in rental vacancy rates over the past year. The greatest declines in rental vacancy rates over the same period were in Melbourne (1.8% vs 1.2%), Sydney (1.5% vs 1.2%) and regional Queensland (1% vs 0.9%).

The data shows that conditions in the major capital cities are somewhat different to those elsewhere, albeit regional Australia is maintaining very low rental vacancy rates. Vacancy rates are much lower in Brisbane, Adelaide, and Perth than they are in Sydney and Melbourne and likely point to where vacancy rates are heading in the two largest cities. Elsewhere, rental supply is increasing and demand for rentals is easing, which could lead to further increases in the vacancy rate.

Enquiry per listing

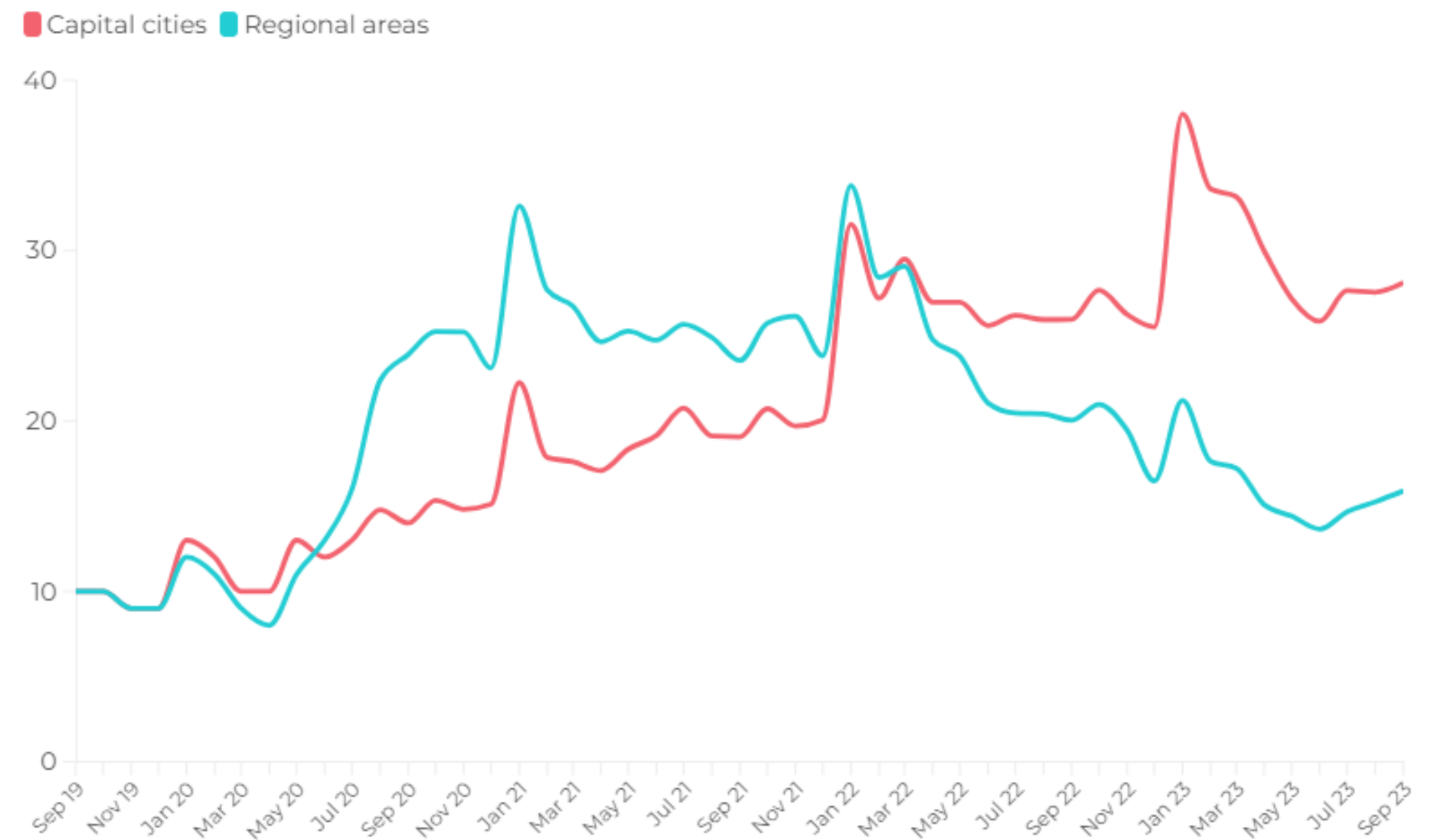
Enquiries per listing measures key actions tenants make on a rental listing that may indicate their interest in a rental property. These may include contacting an agent (via email, phone, or SMS) or other behavioural indicators, such as saving or booking inspection times.

There was an average of 24.8 enquiries per listing in September 2023, compared to an average of 24.5 a year earlier.

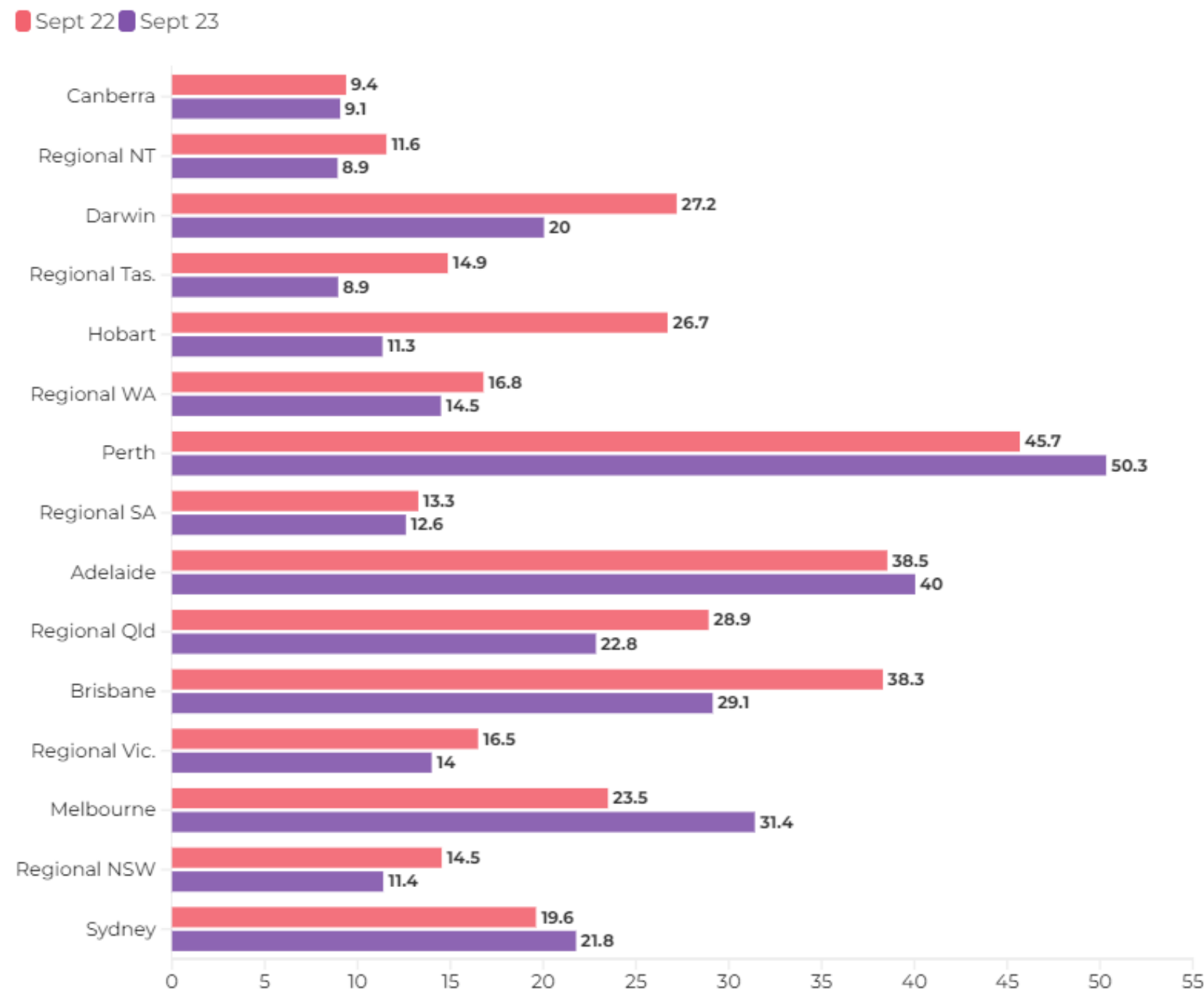
Enquiries per listing have increased across the combined capital cities from 26 in September 2022 to 28.1 in September 2023. Over the same period, enquiries per listing in regional markets fell from 20 to 15.9.

The number of enquiries per listing were greatest in Perth (50.3), Adelaide (40) and Melbourne (31.4) in September 2023. Over the same period, enquiries per listing were lowest in regional NT (8.9), regional Tasmania (9) and Canberra (9.1).

Average enquiry per listing
(capital city vs regional markets)



Average enquiry per listing (Sep-22 vs Sep-23)



Most regions of the country recorded a decline in rental enquiries per listing over the past year. The largest falls were experienced in Hobart (-57.5%), regional Tasmania (-39.8%) and Darwin (-26.3%). However, Melbourne (+33.7%), Sydney (+11%) and Perth (+10.2%) recorded the greatest increases.

The major capital cities are continuing to record a high volume of enquiries per listing, with each registering an increase over the past year, except for Brisbane. This highlights the strength of rental demand. In every other market, rental enquiry per listing was lower in September 2023 compared to the previous year, highlighting that demand has cooled in those areas.



Outlook

Rental prices increased at a rapid pace over the past year, but growth slowed over the past quarter, which is something to monitor. The volume of stock available for rent remains at historic lows, as do rental vacancy rates. Properties are leasing quickly and demand for rental accommodation remains elevated after rising over the past year.

These conditions are most prevalent in the major capital cities, while smaller capital cities and regional areas are seeing some of the heat come out of the market. In smaller capital cities and regional areas, rental growth has slowed, supply and days on site has increased, and rental demand has eased. However, rental vacancy rates remain at extremely low levels.

Nationally, there is a heightened number of investors exiting the market. There has been a rebound in new investor lending this year, however, it is not likely to be enough to improve stock levels. Construction remains a challenge, with high build costs, limited labour availability and decade-high financing costs resulting in dwelling approvals and commencements sitting at their lowest level in a decade.

These conditions highlight why it is so important to build more housing. Serious consideration needs to be given to the financing of these projects and the capacity to build the volume of housing we need.

From here, we expect rents will continue to climb in the major capital cities due to persistent low supply and strong demand which is being exacerbated by the rapid rate of population growth. Although population growth is forecast to slow, it will remain elevated this financial year and next.

It is difficult to imagine that rents will continue to climb as rapidly as they have in the major capital cities over the past year, but we do expect them to continue rising. This will drive some renters to look for cheaper alternatives including moving further away from where they are, shifting from houses to units or moving into share houses.

Outside of the major capital cities, we expect rental price growth to continue to slow, the availability of stock for rent to continue to ease and vacancy rates to start drifting higher.



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