PropTrack

Rental Report

June 2024 Quarter

July 2024

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Contents

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Introduction

Rents were unchanged over the June 2024 quarter, as the volume of stock available to rent increased. However, demand for rental accommodation remains significant, supply is still limited and advertised rents remain elevated, with these conditions expected to persist.

National advertised rents were unchanged over the June 2024 quarter, remaining at $600 per week. The slowing of rental growth follows a 3.4% increase in rents over the March 2024 quarter but was a similar trend to the June quarter in 2023 where rents were also unchanged.

Although overall rents were unchanged there were moderate increases over the quarter for houses (3.3%) and units (1.7%).

Over the 12 months to June 2024, national advertised rents increased by 9.1%, or an additional $50 per week. This price growth is steady from the previous quarter but well down from the 13.4% increase over the 12 months to June 2023.

The typical capital city advertised rent ($640 per week) is $100 more expensive than the typical regional rent ($540 per week), and rents in the capital cities have grown at a faster pace over the past year compared to regional markets with increases of 10.3% and 8% respectively. Both capital cities and regional markets have seen annual rental growth slow compared to a year ago with the slowing more pronounced in the capital cities.

The high cost of renting appears to be encouraging more people to purchase their first home and more investors to enter the market. The number of first home buyer loans over the 12 months to May 2024 was 6.2% higher than the previous year and the annual number of loans to investors was 7.9% higher.

While more first home buyers free up rental stock and more investors create additional rental stock, the total of volume of rental stock advertised is 4.4% lower over the year indicating that conditions remain tight.

Australia's population is growing at a rapid pace, creating more competition for rental stock and exacerbating shortages. Over the 12 months to December 2023, the national population increased by a near-record 651,214 people. Of this increase, 547,267 were from net overseas migration of which, most are unlikely to own their own property and therefore rely on rental accommodation.

The persistent growth in advertised rents is indicative of excess demand for rental properties and insufficient supply, illuminating the desperate need for more rental properties and housing overall. With dwelling approvals and commencements at close to decade-lows, interest rates at decade-highs and construction insolvencies elevated along with material and labour costs, delivering a substantial volume of new housing as required is a challenge.

There are other strategies to alleviate rental market challenges such as supporting first home buyers into home ownership or encouraging those with homes that are too large for their needs to downsize into more appropriate accommodation.

Any significant imminent relief to the rental market challenges seems unlikely, with demand expected to remain elevated and supply to remain low leading to higher rents. However, we are expecting the slowing trend in rental growth to continue.

Rental prices

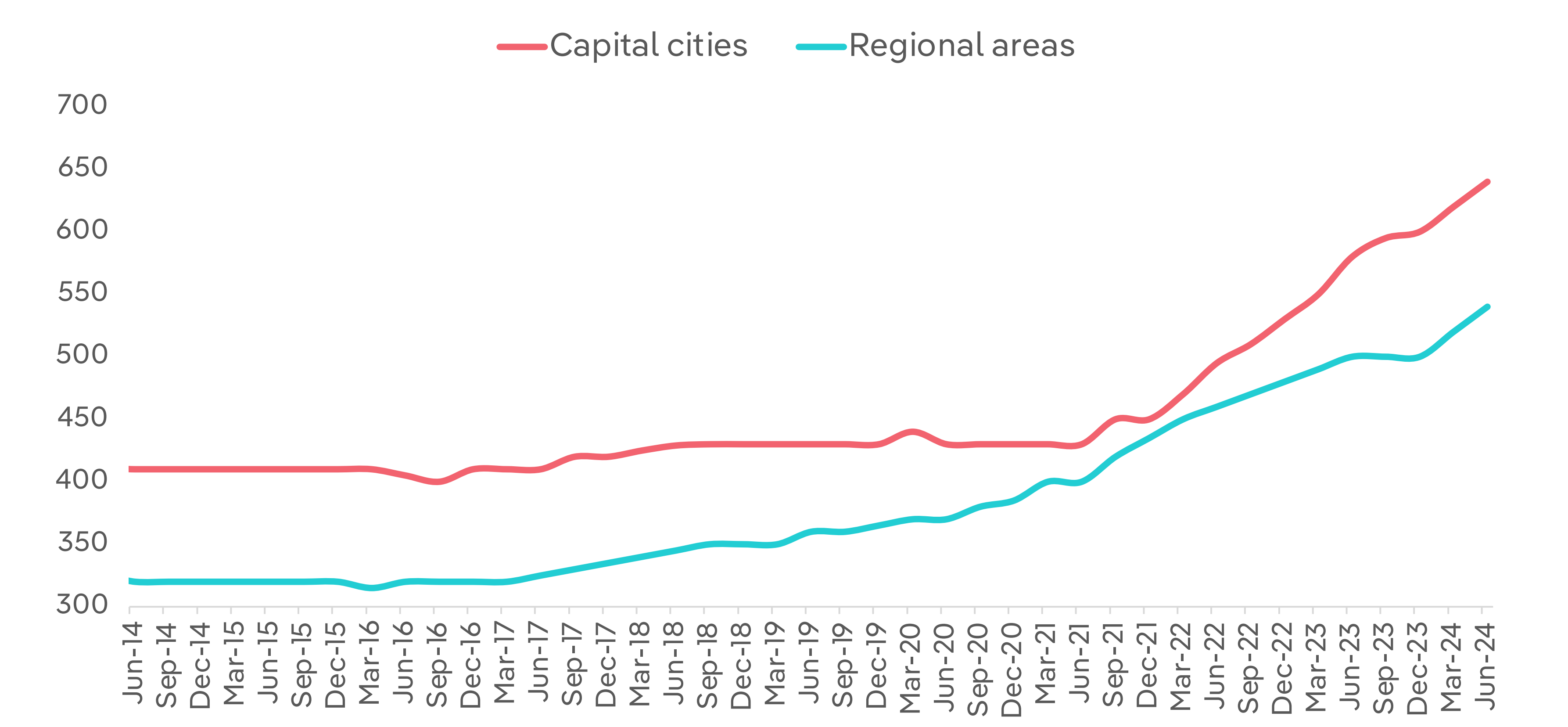
The national median rent of properties advertised on realestate.com.au was unchanged from the previous quarter at $600 per week in June 2024. While rents were unchanged over the quarter, they rose by $50 per week, or 9.1%, over the past year.

It is important to note that the June quarter of last year also recorded no change in rents and an increase in total rental listings, so these conditions are somewhat seasonal. Over the 12 months to June, rents have increased by 9.1%, which was a steady annual change compared to the year leading to March 2024, but slower growth than the 13.4% increase over the year to June 2023.

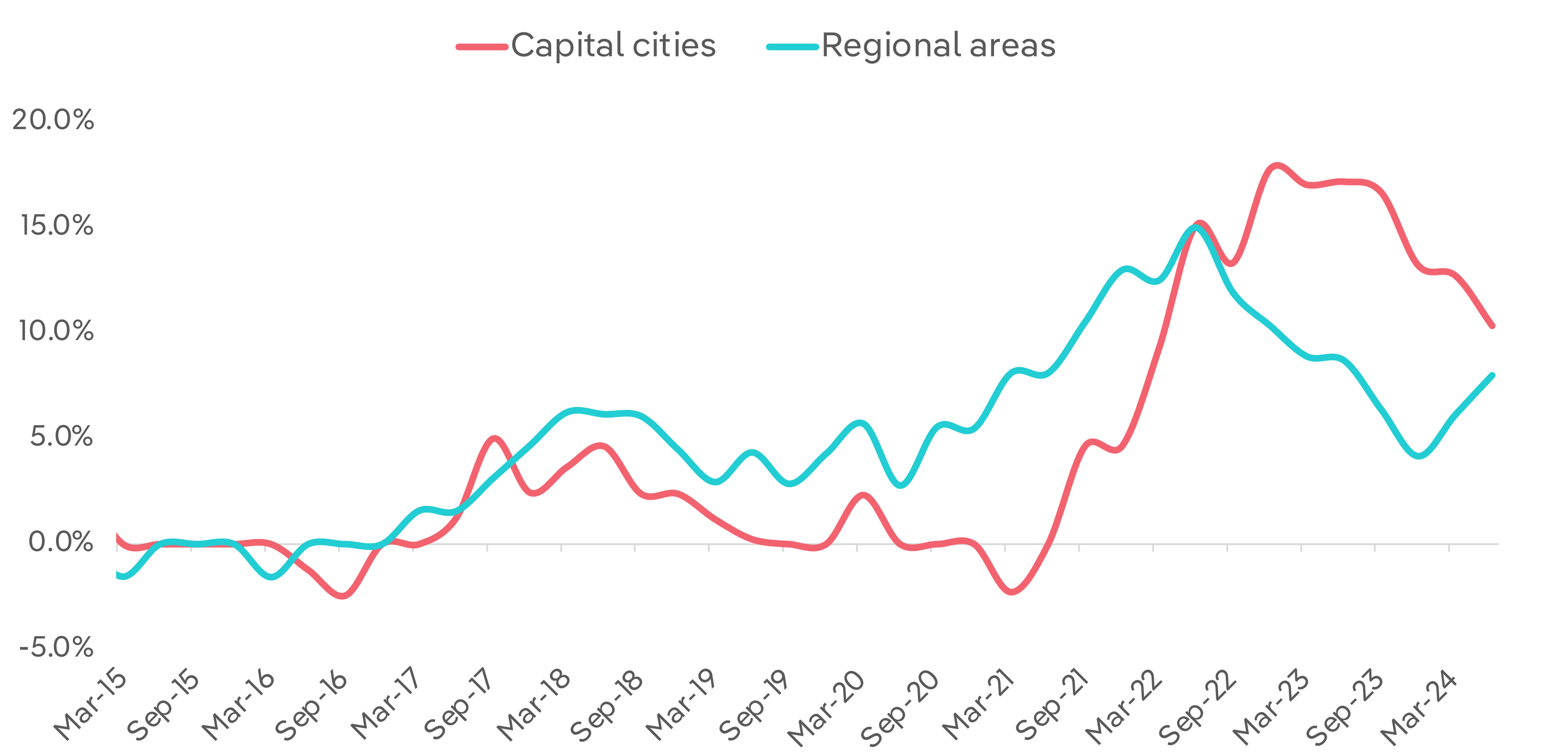
In June, median advertised house rents were $620 per week and median unit rents were $600 per week, with the gap between house and unit rents increasing by $10 per week over the quarter. House rents grew by 3.3% over the June quarter, while unit rents were up 1.7%. In the 12 months to June, advertised rents for houses increased by 8.8% and unit rents were 9.1% higher.

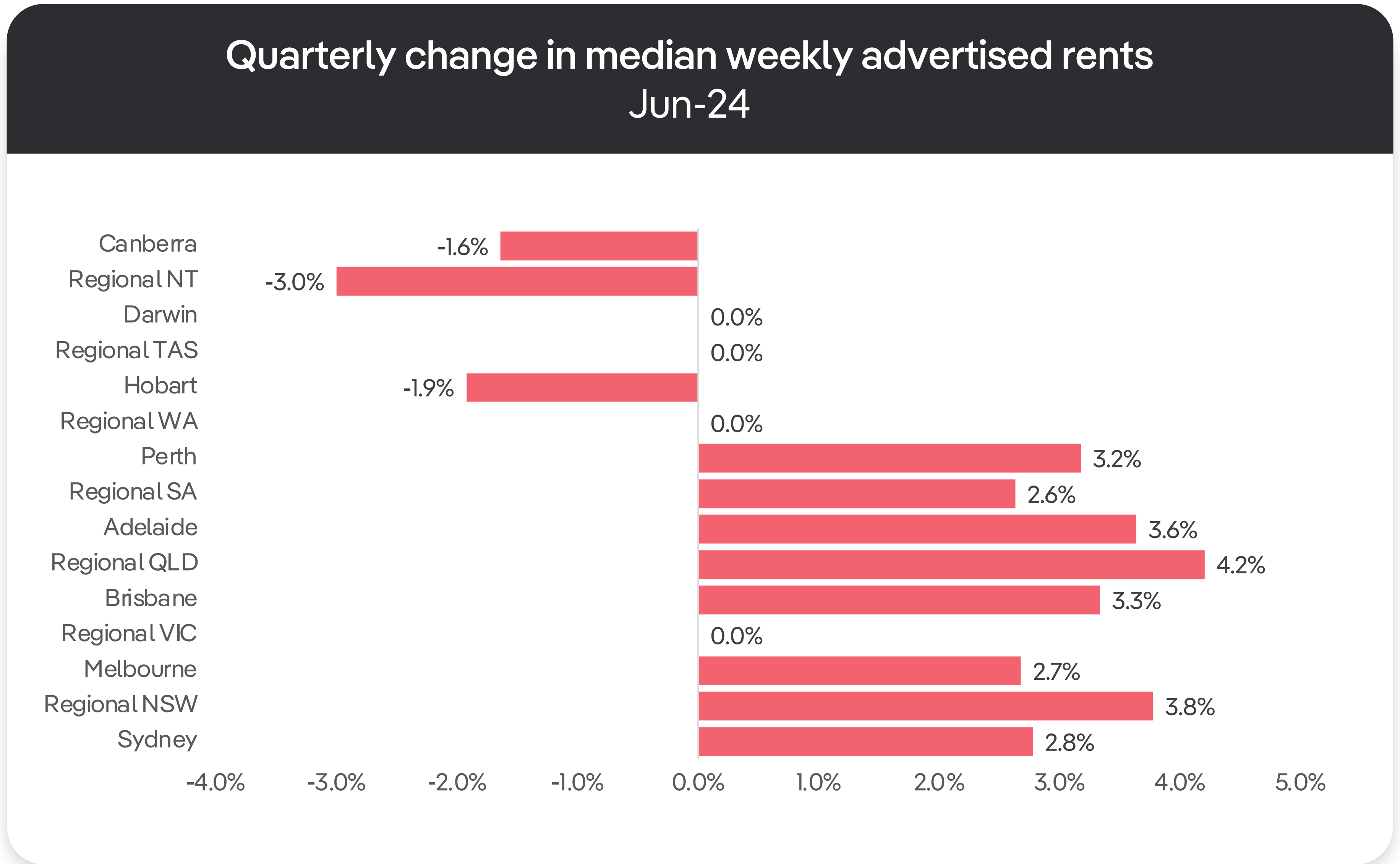
With a median house rent of $640 per week in the capital cities and $540 per week for units, the $100 per week gap in rent between the two was steady over the quarter. During this period, regional rent growth grew by 3.8% outpacing the 3.2% increase in the capital cities, however over the year the capitals outperformed the regions, up by 10.3% and 8%, respectively.

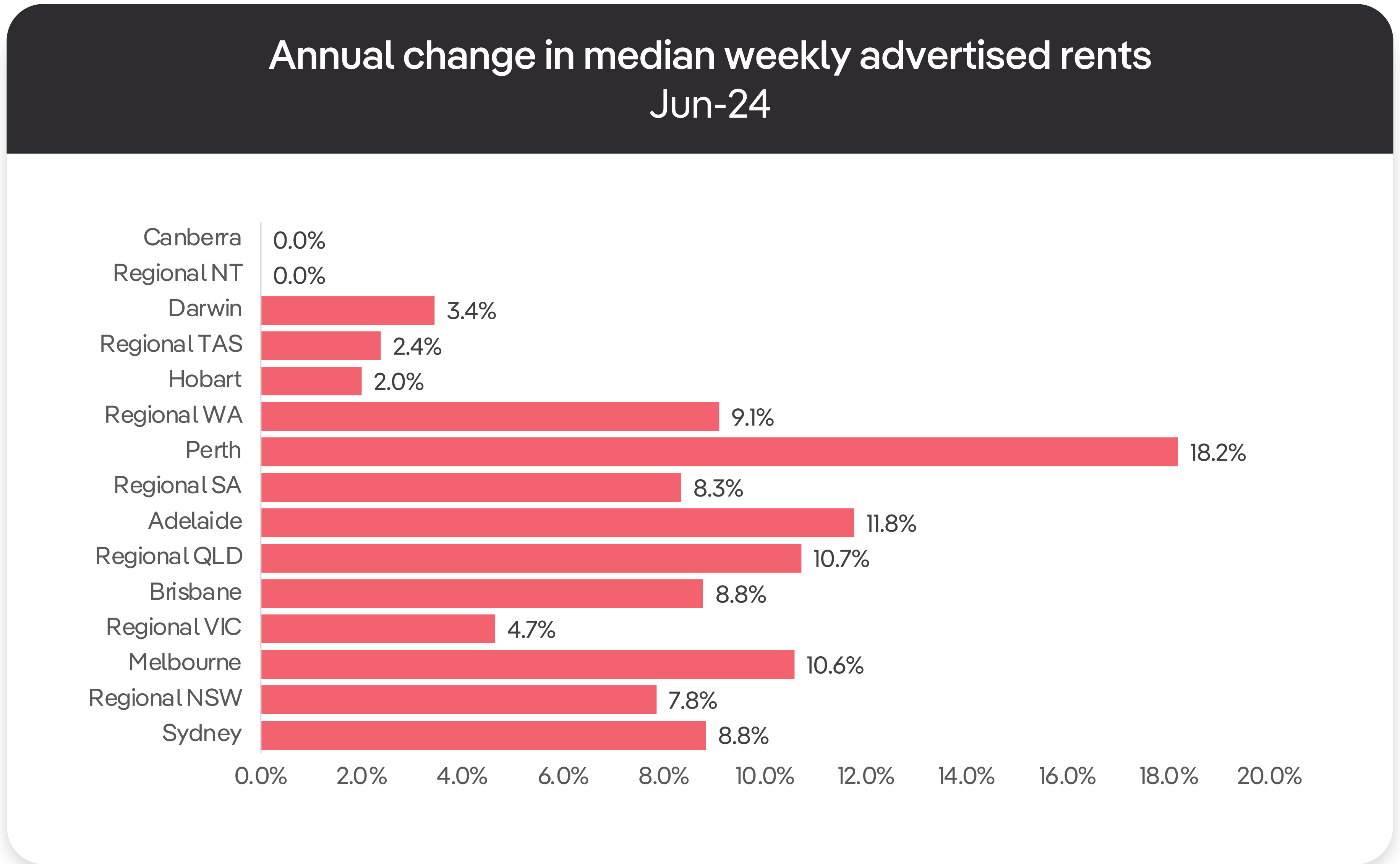
Quarterly median weekly advertised rents (capital cities vs regional markets)



Annual change in median weekly advertised rents







Rents are not rising as rapidly as they have been, and we expect that this trend will continue. The slowing rental growth likely reflects the trade-offs that renters are making due to the heightened cost of rent and cost of living. Some of these trade-offs may include renting smaller properties, renting in less desirable locations or sharing rental accommodation with other tenants.

Population growth is heightened but expected to slow from the current levels. Alongside this, increased lending activity to first home buyers and investors will see renters exiting the rental market while more people are purchasing rental properties, likely alleviating some rental pressures. As a result, we expect the rate of rental growth to continue to slow, however remain above the pace of inflation in most regions and major capital cities.

Gross rental yields

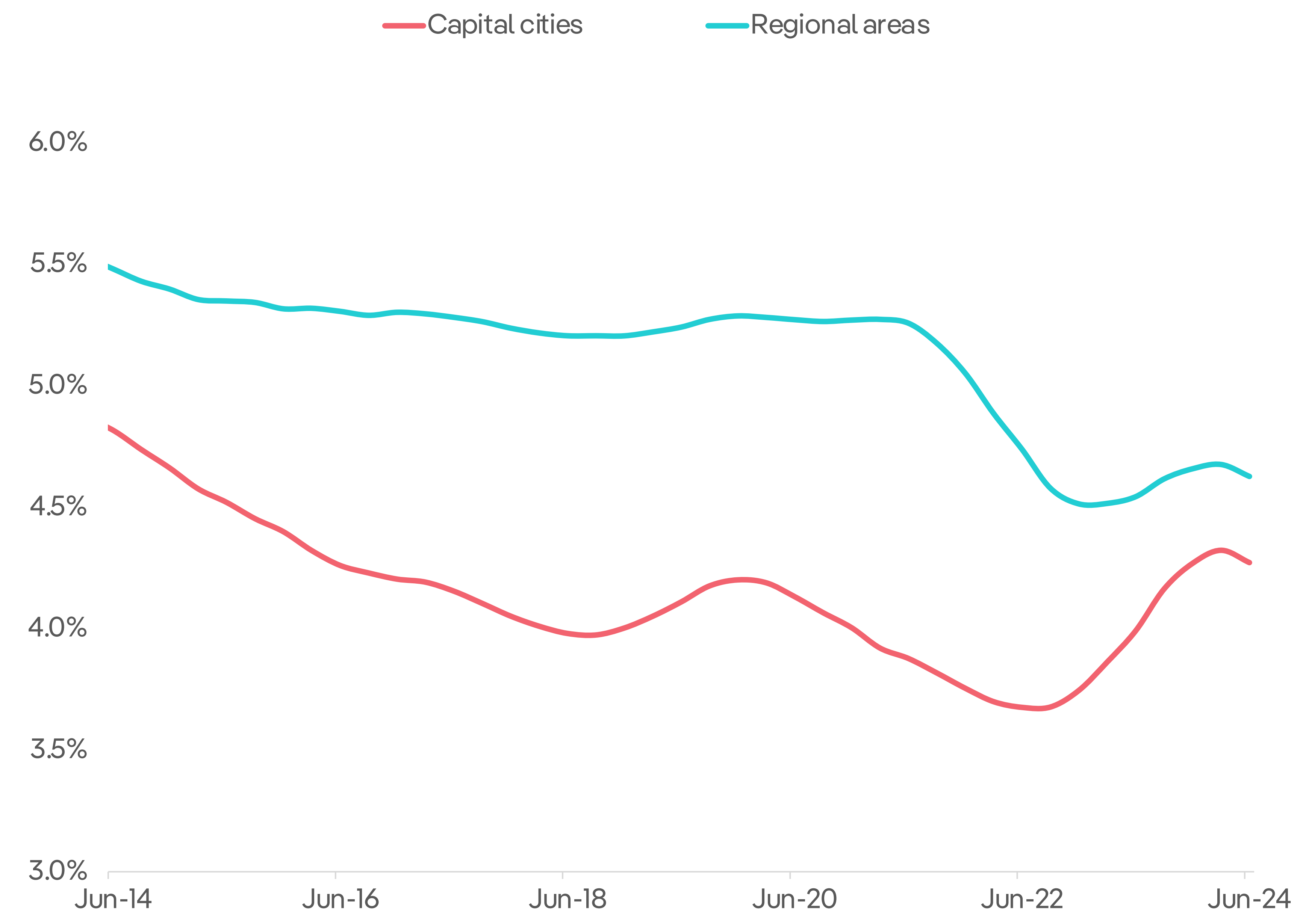
Gross rental yields have increased over the past year as rental growth outpaced price growth, but with the slowing of rental growth yields have edged marginally lower over recent months.

In June 2024, gross rental yields were recorded at 4.4% which was unchanged from the previous quarter and up from 4.1% in June 2023.

In most capital city and regional areas gross rental yields have increased over the year, the exceptions have been in regional Queensland and regional SA where yields have fallen, and regional NT where they are unchanged.

Gross rental yields in the combined capital cities were 4.3% in June 2024, unchanged over the quarter but up from 3.9% in June 2023. Combined regional market gross rental yields were 4.6% in June 2024, down from 4.7% in March 2024 but up from 4.5% in June 2023.

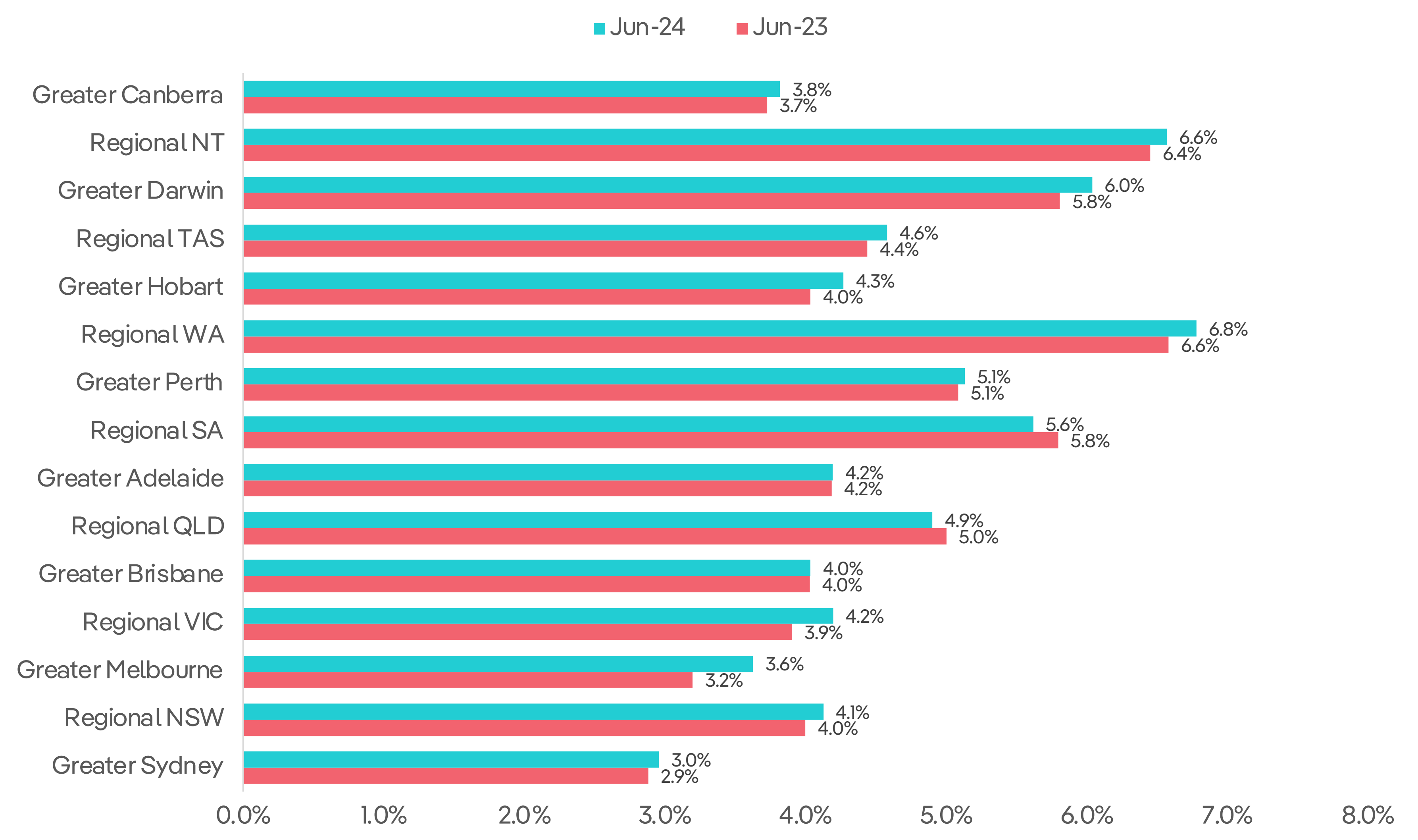
Quarterly gross rental yields over time (capital cities vs regional markets)



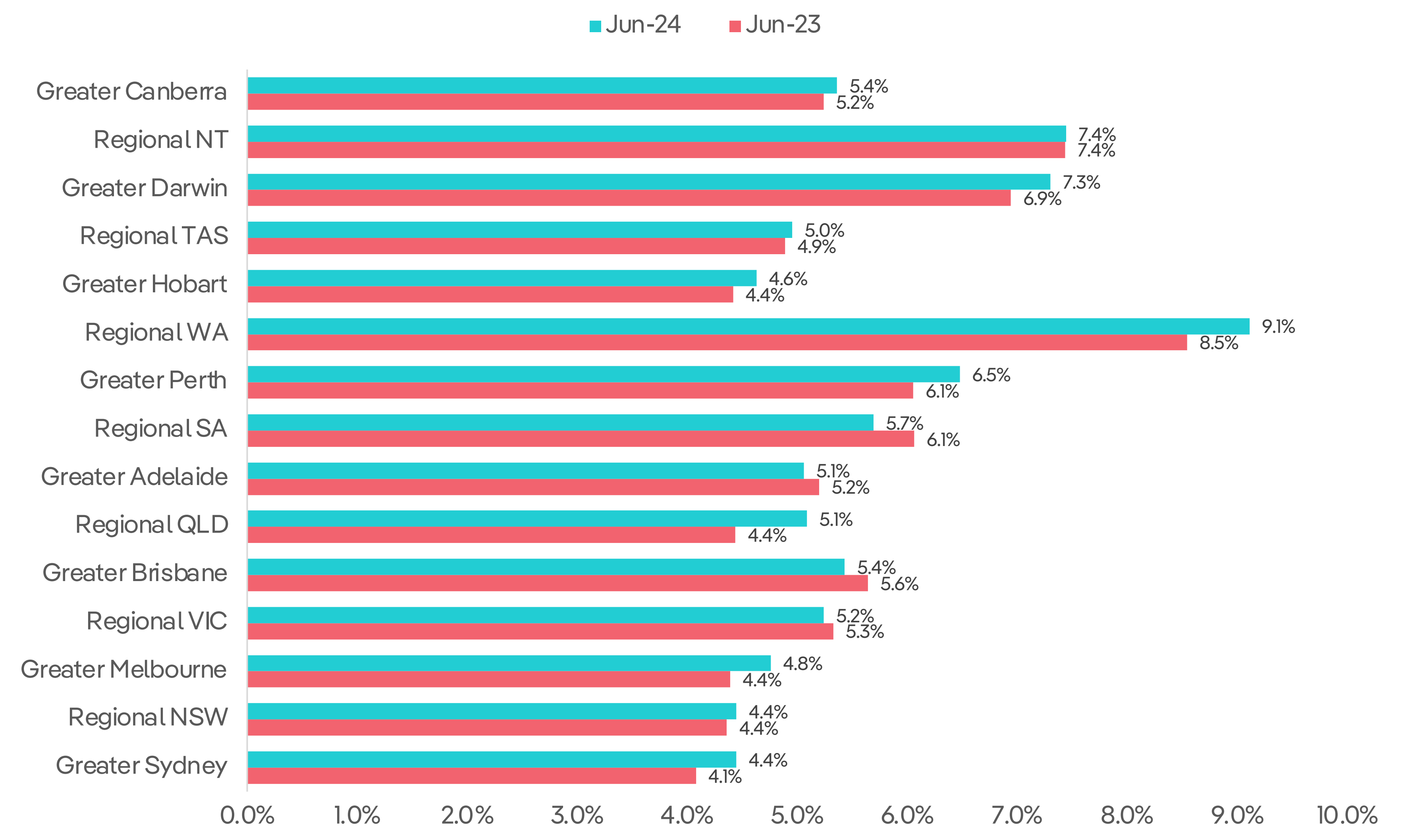
Gross rental yields for houses fell from 4.0% in March 2024 to 3.9% in June 2024, which was still higher than the 3.7% in June 2023. Unit rental yields fell from 5.0% in March 2024 to 4.9% in June 2024, which was higher than the 4.6% in June 2023.

Both rental growth and price growth are slowing and assuming these trends continue rental yields are likely to be stable over the coming quarters.

Gross rental yields (houses)



Gross rental yields (units)

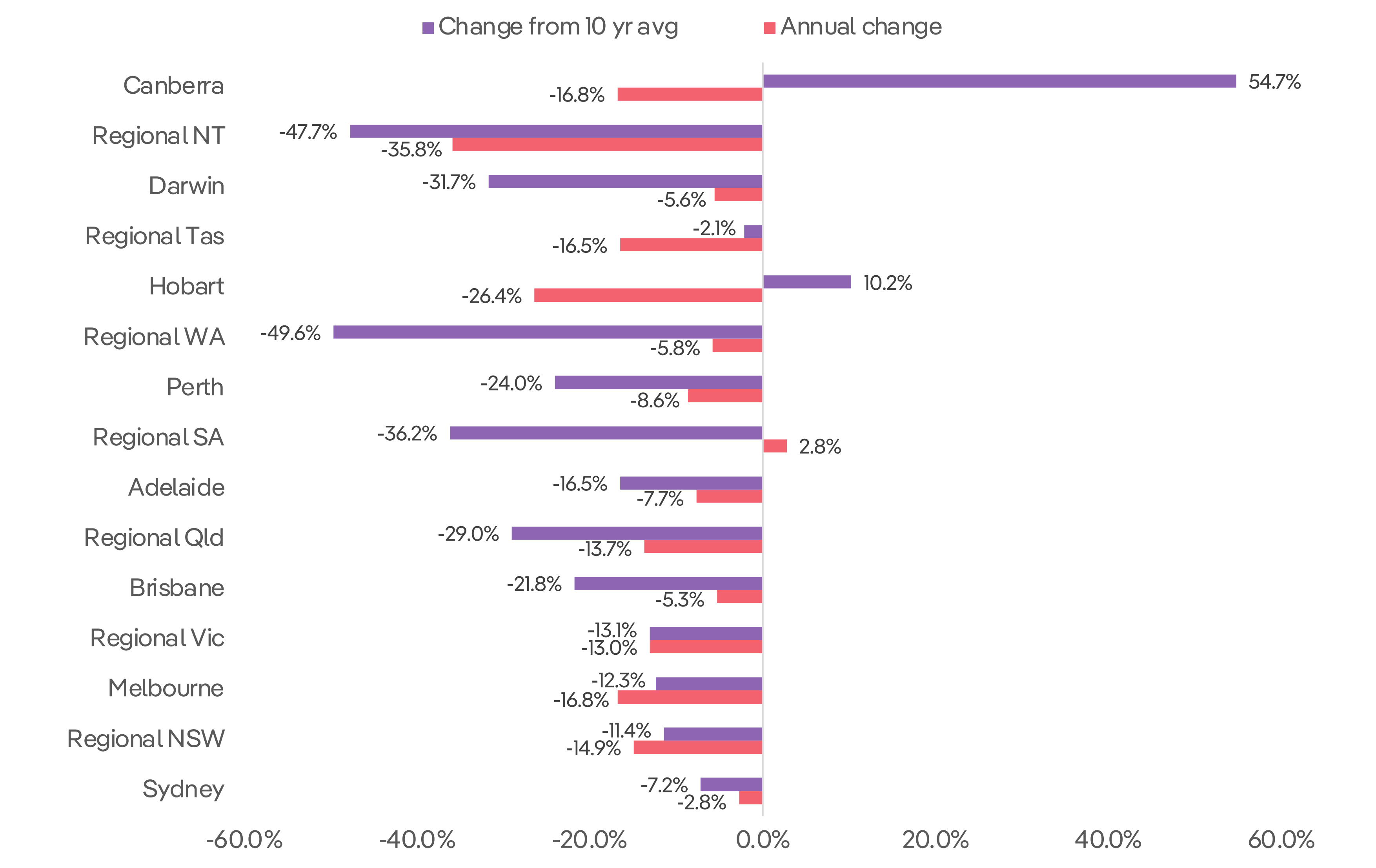


New rental listings

In June 2024, the number of newly advertised properties for rent was 4.7% lower than a year earlier, and at its lowest level for the month of June since 2010.

New rental listings in the combined capital cities were 2.1% lower year-on-year in June 2024 and in the combined regional markets they were 11.8% lower. Compared to the average number of new listings in the month of June over the decade to June 2022 , new listings were 12.7% lower across the combined capital cities and 21.9% lower in the combined regional markets.

Year-on-year change and change from ten-year average in new rental listings, Jun-24

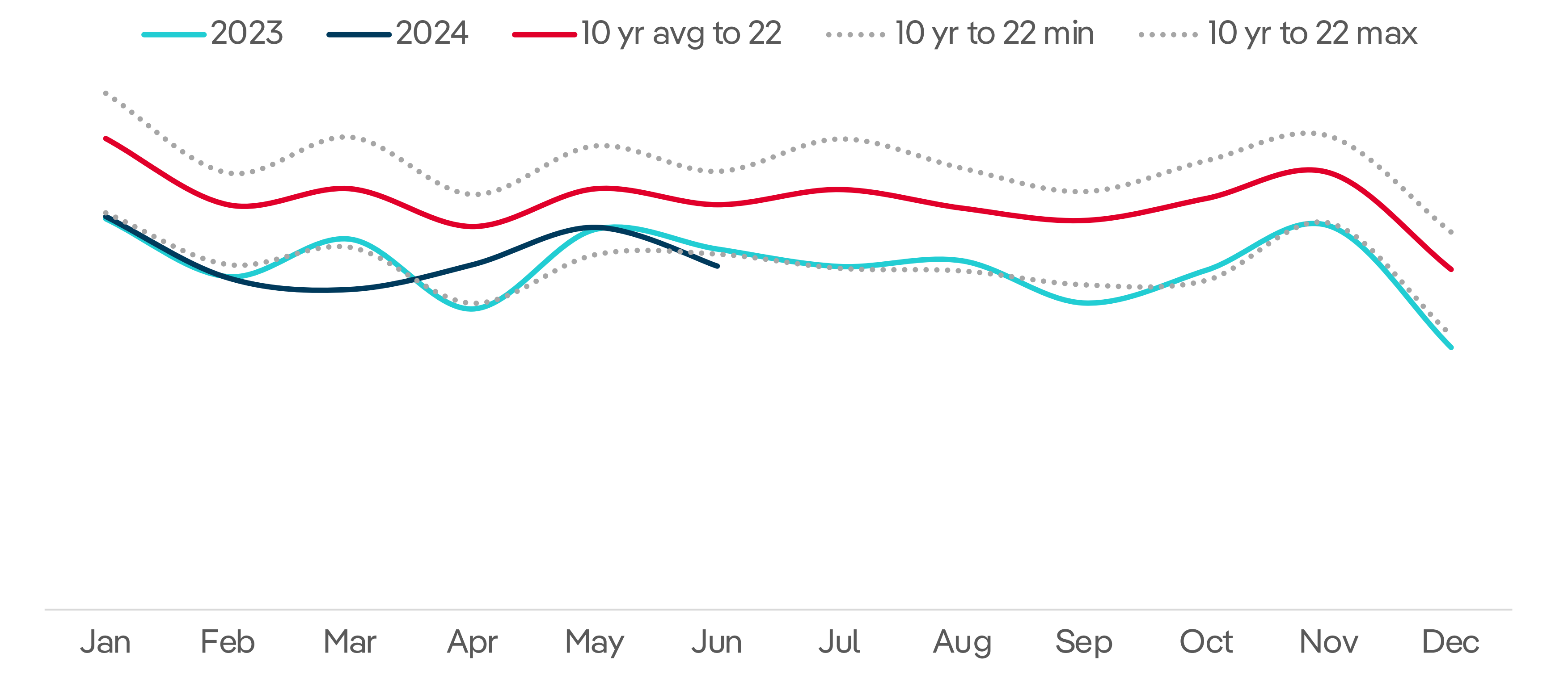


The lack of new listings coming to market reflects how rental properties are being tightly held by those that already have a rental as the overall stock of new rental properties is not growing significantly. This is reflected by most capital city and regional areas having fewer new listings than a year ago and all of them, except for Hobart and Canberra, having fewer new listings than the June average for the decade to 2022.

Although there has been a lift in new lending to first home buyers and investors which should alleviate some of the supply challenges, strong population growth and low new housing construction means that the supply of rental stock isn't expanding quickly enough.

Given these factors, the number of new rental listings coming to market is anticipated to remain low while demand for rental accommodation remains elevated.

Monthly new rental listings, National 2023, 2024 and ten-year average



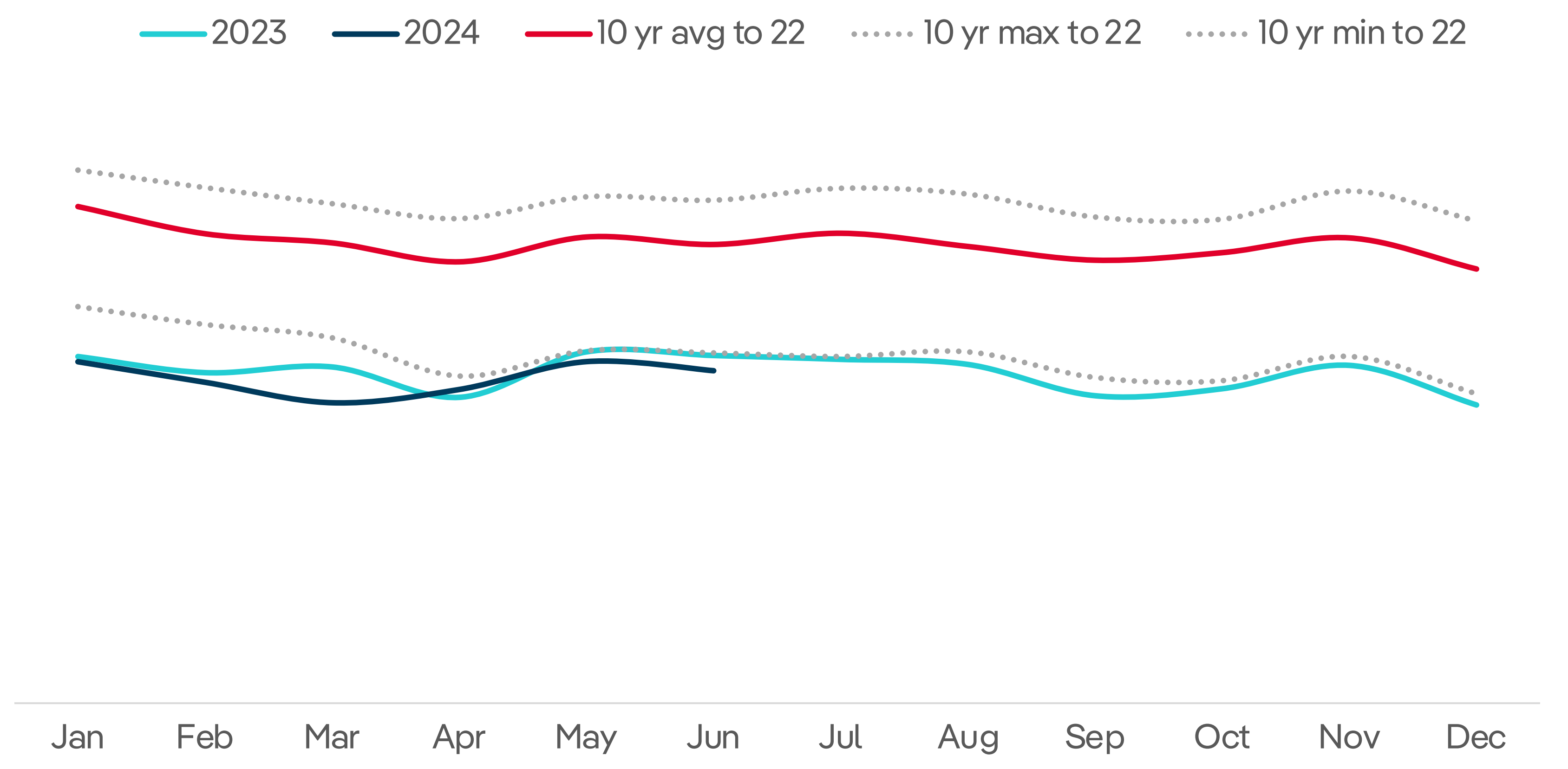
Total rental listings

With a low volume of newly advertised rental properties coming to market, total rental listings were also low in June 2024 – down 4.4% from June 2023, with the fewest total rental listings for the month of June since 2010.

Although June 2024 total rental listings were low, they have increased by 10.7% from March 2024 volumes, a similar albeit smaller increase was witnessed over the June quarter of last year.

The combined capital cities have seen a 1.7% reduction in total rental listings over the year to June 2024, sitting 24.2% lower than the June average over the decade to 2022. Regional markets have seen a larger annual decline in total rental listings of 12.5% and relative to the decade average for total listings are 35.8% lower.

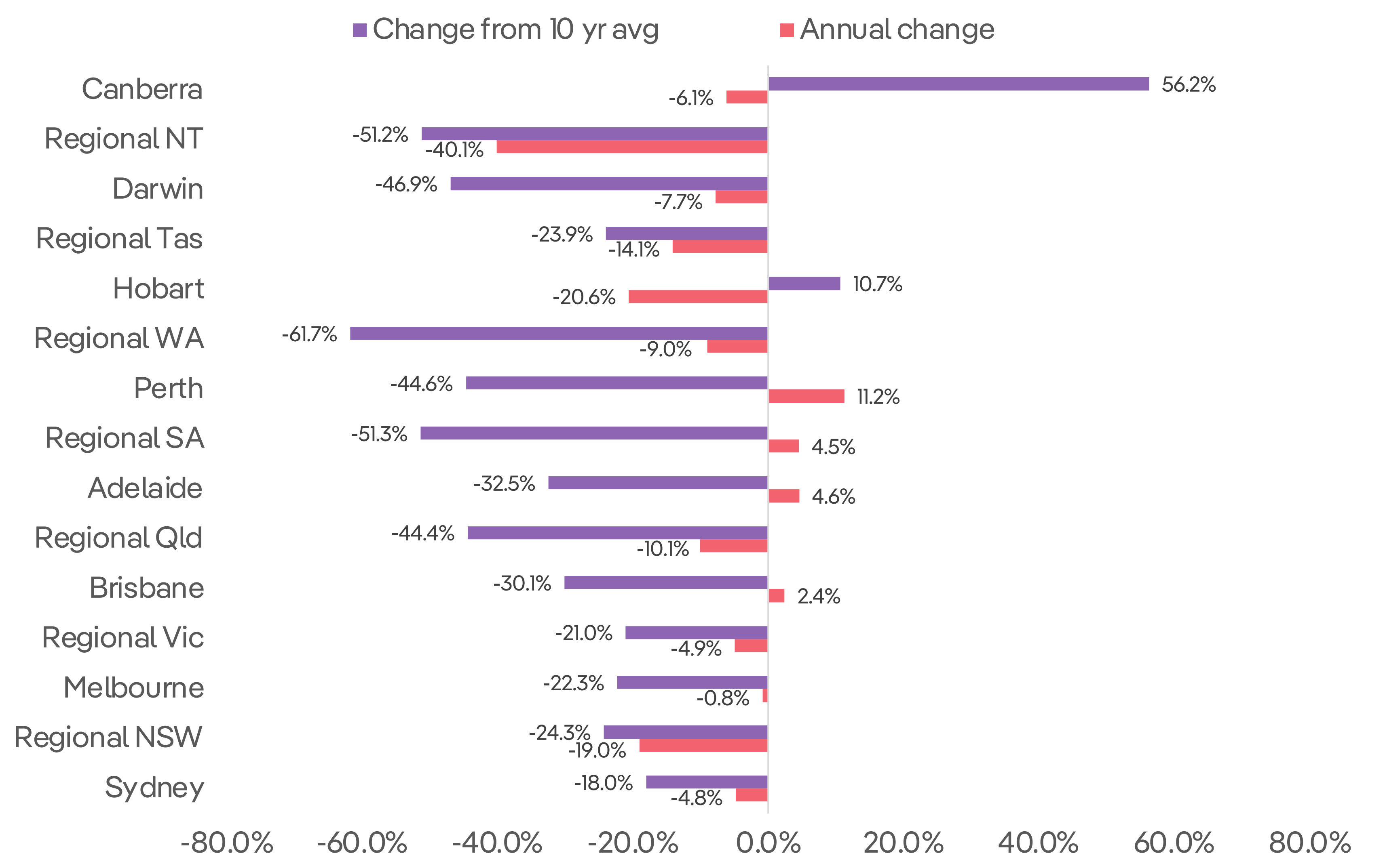
Monthly total rental listings, National
2023, 2024 and ten-year average



Compared to total listing volumes in March 2024, rental listings were 14.5% higher in June 2024 across the combined capital cities and just 0.8% higher in the combined regional markets.

Despite some recent increases in total stock for rent, supply remains historically low, most properties are leasing and there is no imminent increase in supply apparent. Given this, supply is expected to remain at low levels despite it potentially rising moderately.

Year-on-year change and change from ten-year average in total rental listings, Jun-24



Rental days on site

Properties advertised for rent on realestate.com.au are leasing quickly, with the median days on site in June 2024 recorded at 21 days. This was up from the 18 days in March 2024 and unchanged from June 2023.

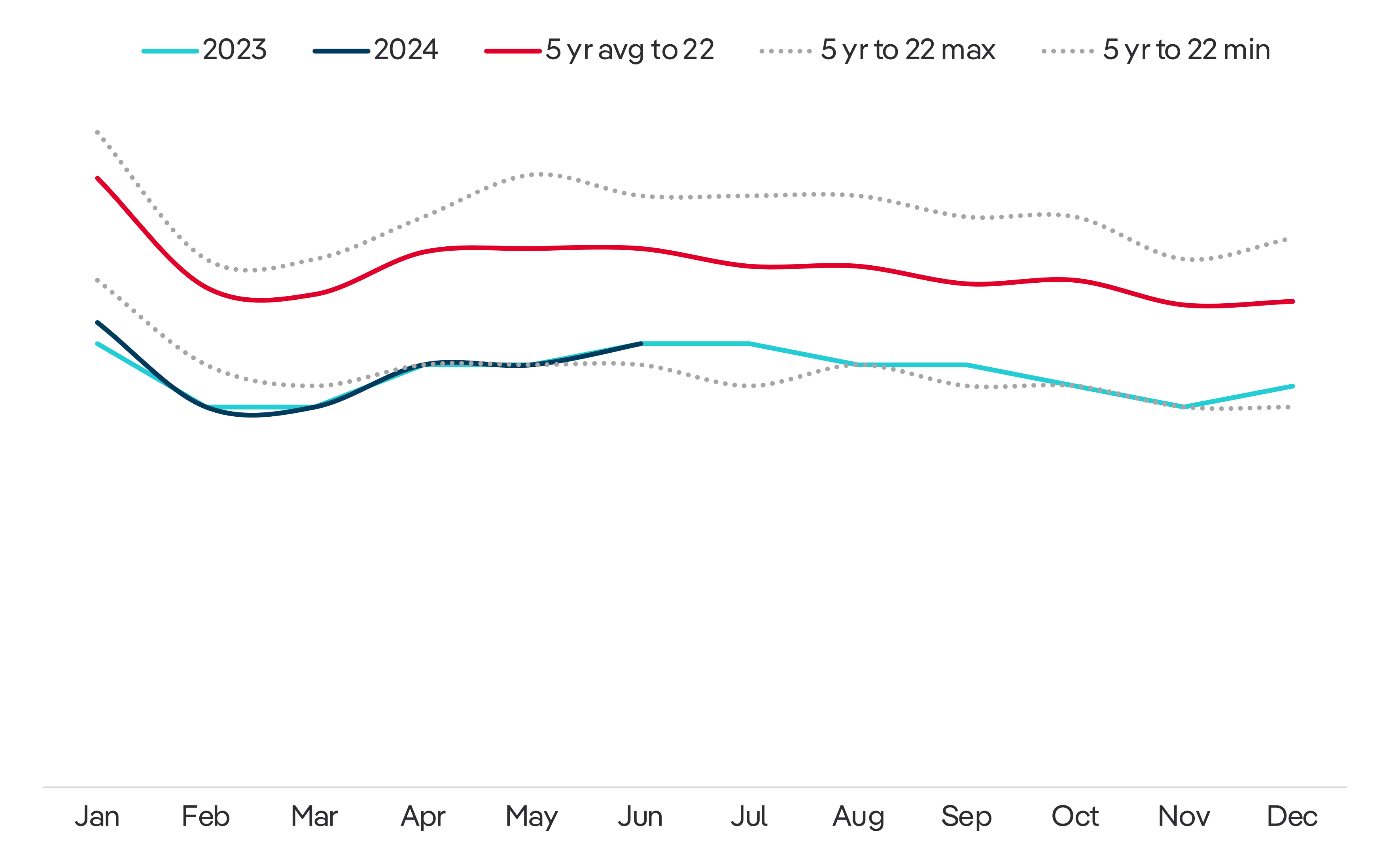
Over the five years to June 2024, the average days on site was 25 days, reflecting the current tight rental conditions.

The slight lift in days on site relative to March 2024 likely reflects the increase in the total number of properties advertised for rent, affording renters slightly more choice.

Despite this, supply is still relatively low, and properties continue to lease rapidly due to high demand exceeding low supply of rental stock. Property managers are reporting properties leasing much quicker than figures show, effectively being leased after their first open for inspection.

It seems unlikely that there will be any significant increase in rental days on site over the coming months considering the number of new rental listings remain low and, despite a moderate increase, total rental listings are still historically low. Hobart and Canberra could be the exception, with relatively more stock available for rent.

Monthly days on site for rental listings, National



Median days on site for rental listings (Jun-23 vs Jun-24)

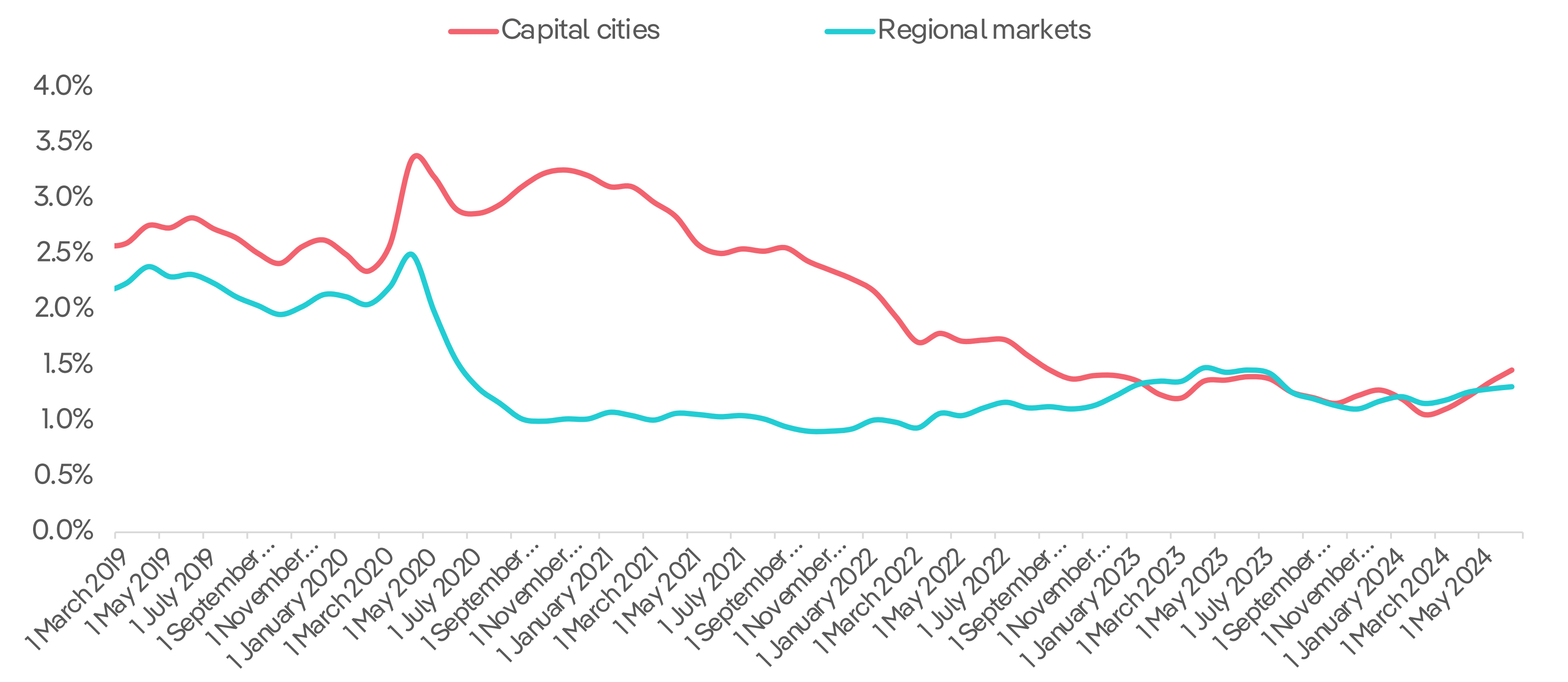
Rental vacancy rates

The national rental vacancy rate was recorded at 1.4% in June 2024, up from 1.1% in the previous quarter and unchanged compared to June 2023.

In June 2024, houses maintained a significantly lower rental vacancy rate (1.1%) compared to units (2.1%). The vacancy rate for houses rose over the quarter from 0.9% in March 2024, and remained unchanged over the year. Meanwhile, the vacancy rate for units increased from 1.6% in March 2024 but was lower than the 2.2% recorded in June 2023.

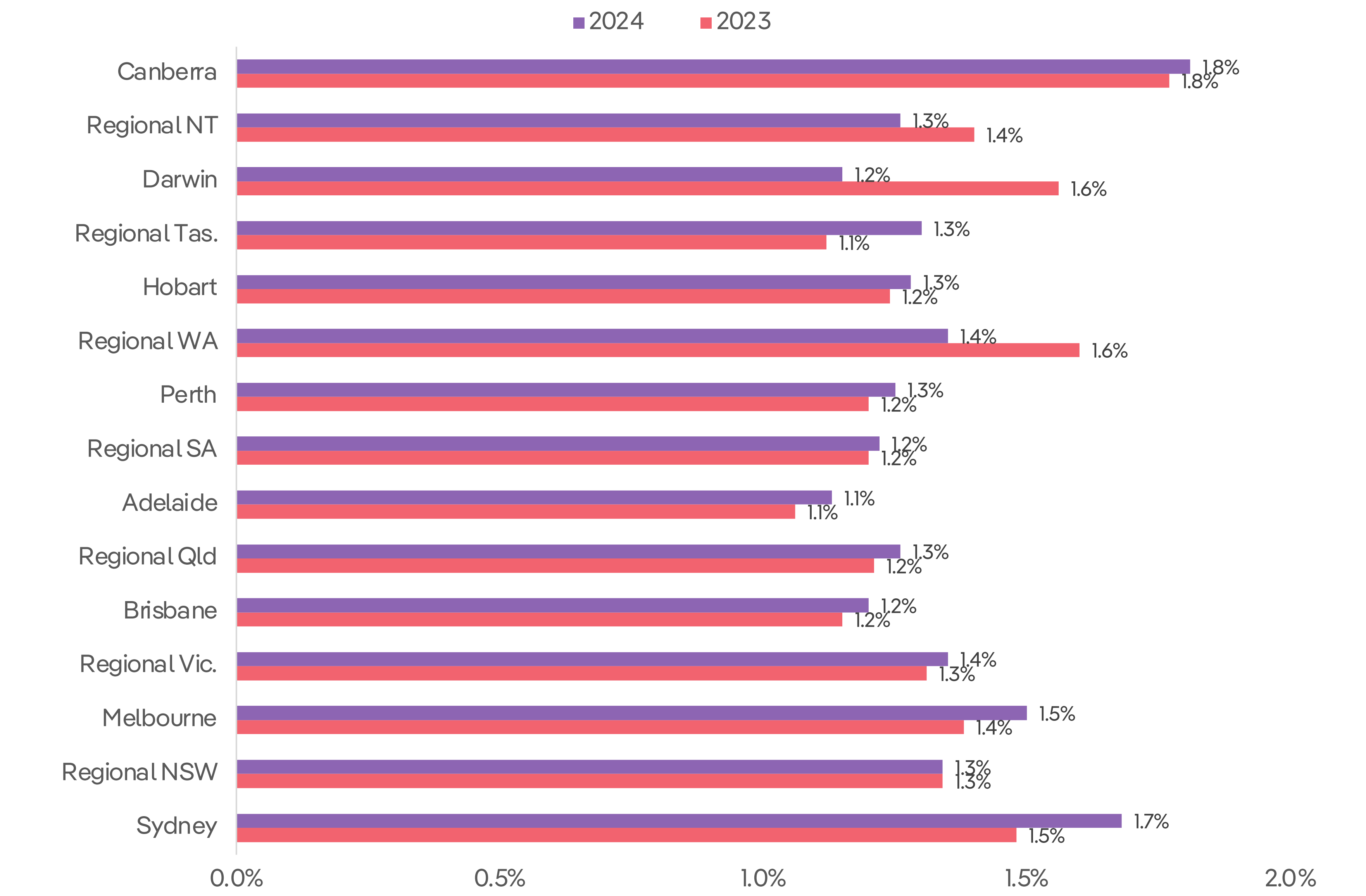
Rental vacancy rates in June 2024 were higher across the combined capital cities (1.5%) than the combined regional markets (1.3%). Capital city vacancy rates increased from 1.1% in March 2024 and 1.4% in June 2023, while regional vacancy rates had also grown over the quarter from 1.2% but were lower than the 1.5% recorded in June 2023.

Rental vacancy rates over time
(capital city vs regional)



Prior to the pandemic era, the national rental vacancy rate was typically around 2.5%, indicating just how much conditions have tightened. With limited new rental supply and persistent strong demand for rentals, the vacancy rate is anticipated to remain low. This highlights again how a significant lift in rental stock or reduction in rental demand is required to see more stable rental conditions similar to pre-pandemic.

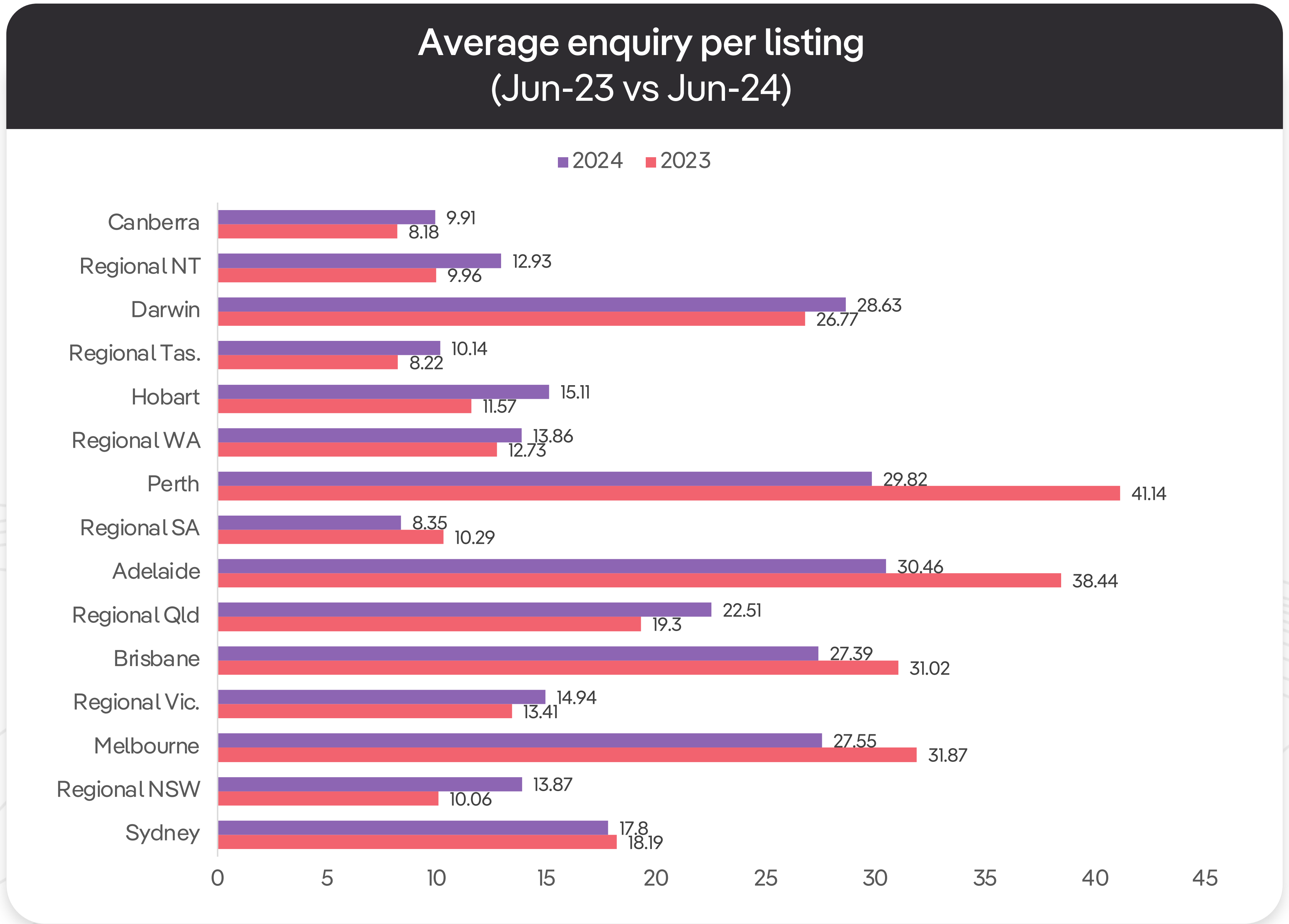
Rental vacancy rates
(Jun-23 vs Jun-24)

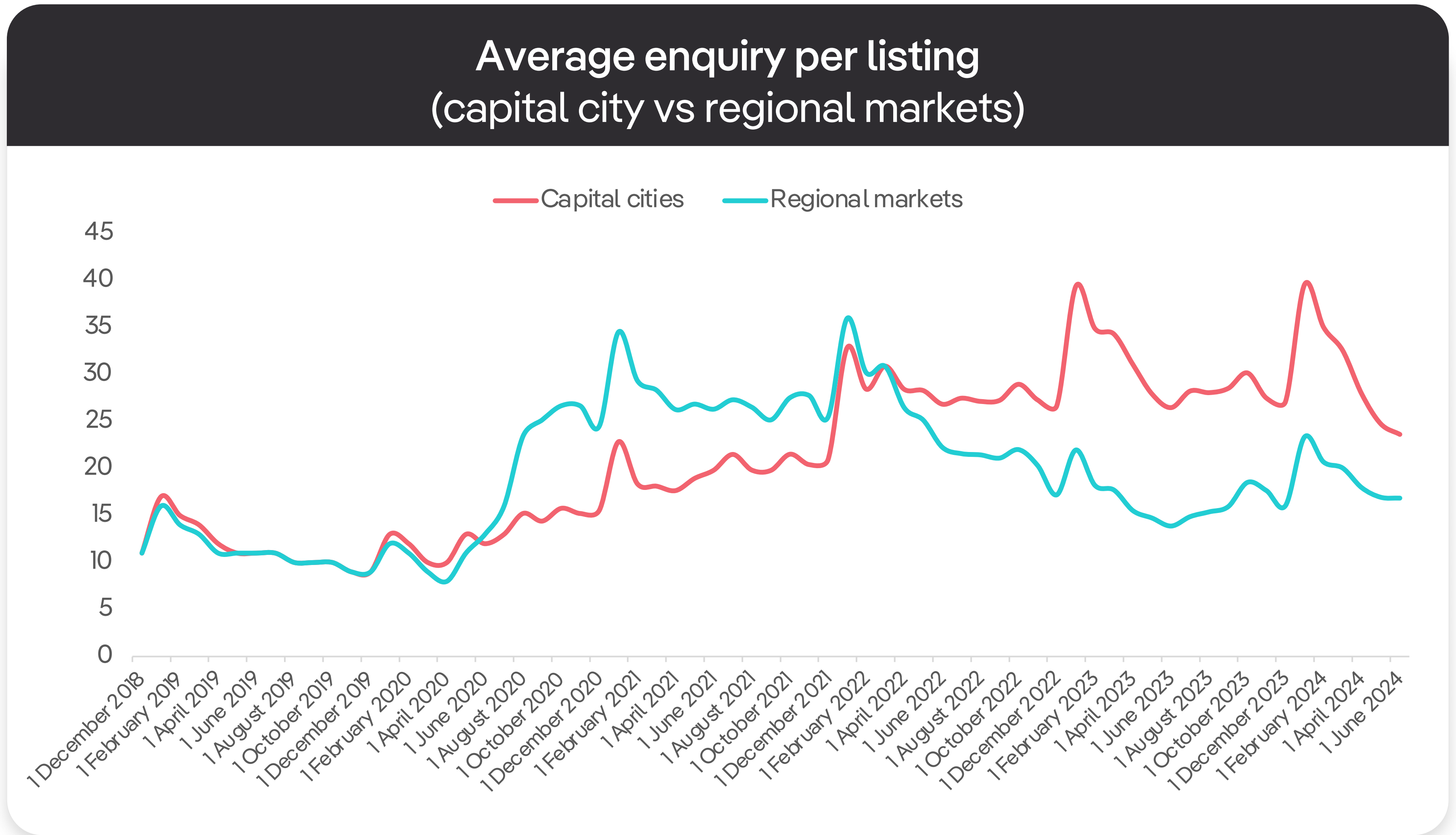


Enquiry per listing

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

In June 2024, there were 21.8 enquiries per rental listing on average nationally, compared to 28.9 enquiries in March 2024 and 22.9 enquiries in June 2023. Enquiries per listing were 4.6% lower over the year but remain elevated compared to pre-pandemic volumes.





In the combined capital cities, there were 23.6 enquiries per listing in June 2024, 10.8% fewer than the previous June. Across the combined regional markets, enquiries per listing were 21.4% higher over the year, reaching 16.9 enquiries per listing.

The increase in enquiries per listing in regional markets over the year likely reflects the growing relative rental affordability in these markets, with the largest increases in regional areas of New South Wales, Queensland and Northern Territory.

Although there has been a moderate decline in enquiries per listing, and this may continue as renters rationalise their preferences or shift to share housing due to the high rental costs, we expect that rental enquiries will remain elevated due to the ongoing excess demand and limited supply.

Outlook

Despite rental price growth having slowed over the past year, the 9.1% increase since June 2023 remains substantial and significantly exceeds both the rate of inflation and household income growth. As a result, an increasing number of renters are finding it difficult to afford accommodation.

The annual rate of growth was unchanged over the past three months but given the significant rise in rents over recent years, we would expect that rental growth should slow over the coming months. Fundamentally, supply remains far too low and demand far too high, but with the cost of living surging the capacity to pay rents is reducing.

In response to higher rents, people will look to reduce the size of their rental properties, move to a less desirable location in which rents are cheaper or share their rental properties with others to reduce the cost.

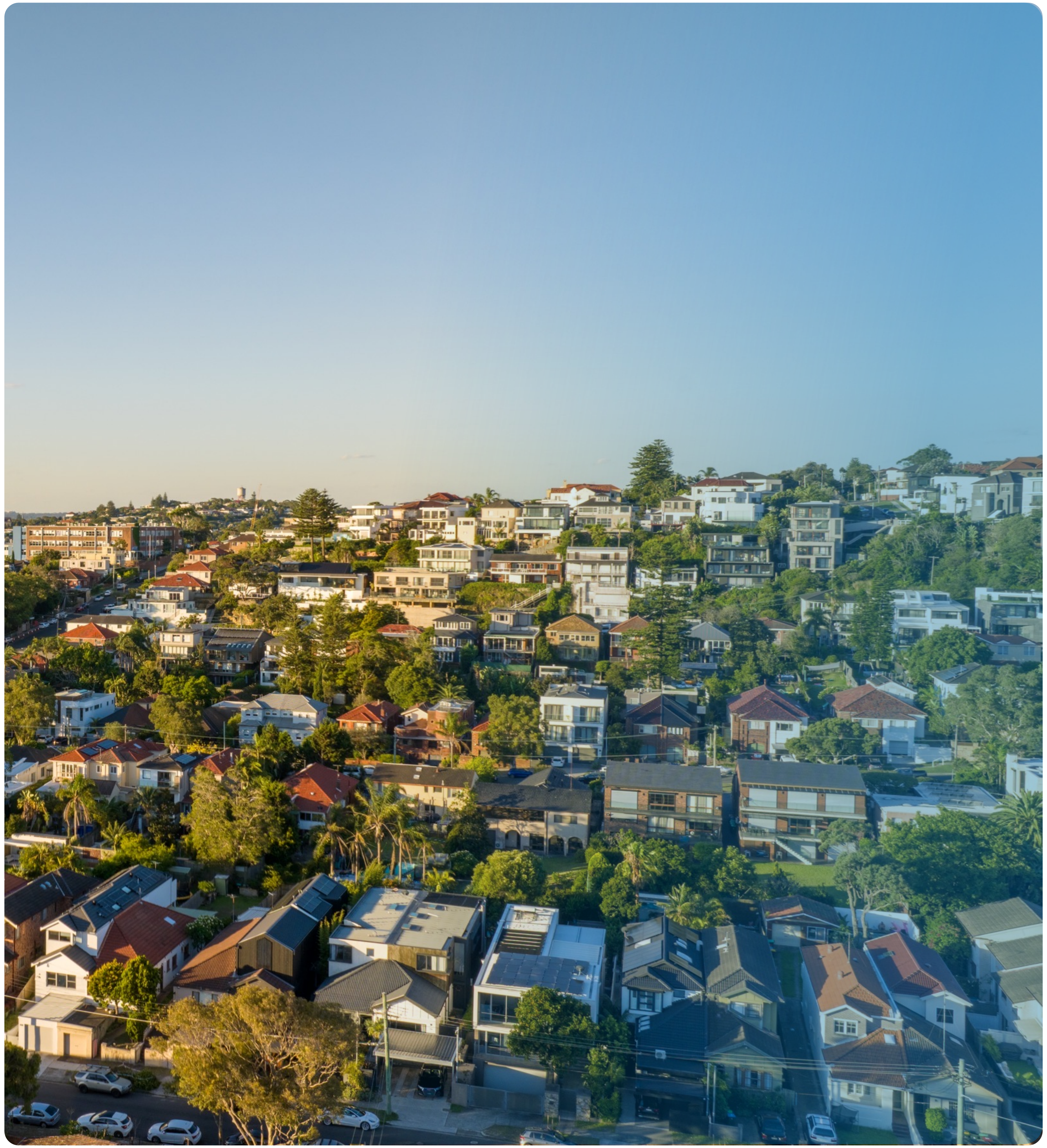
The heightened cost of renting is likely to encourage more renters, who have the means, to exit the rental market and purchase their own property. While owning a home generally costs more than renting, it offers greater cost certainty and security. However, a large cohort of renters are unable to leave the rental market and purchase their own home.

Although rental growth is expected to slow, it is anticipated to continue to outpace the rate of inflation. The imbalance between demand and supply persists, exacerbated by limited new housing construction, many investors selling, and a low volume of investors purchasing. Consequently, it is difficult to imagine rental prices stabilising. The primary driver of slower rental growth is likely to be the capacity for renters to afford rising rent prices.

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

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

As was the case in 2023, we expect that the rate of rental growth will slow in 2024 as the higher cost of rent and the overall rise in cost of living will limit rental increases. Renters will be increasingly looking for smaller and cheaper properties or forced into share house living to save on rental costs.



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