



State of the Market:

Australian Rental Properties 2023



Contents

Australian Rental Properties	1
State of market	
Key trends and takeouts	2
Executive Summary	3
Foreword by REIA President	4
Foreword by REA Group Chief Customer Officer	4
Profile of Australian renters and property investors	5
Renters	5
Property Investors	7
State of Market	
Investor trends	10
Investor trends	12
Investor Activity	13
Rental market condition	14
Appendix	TBC

ACKNOWLEDGEMENT OF COUNTRY

Proptrack respectfully acknowledges the Traditional Owners of Country throughout Australia and recognises their continuing connection to land, water, and community. We pay our respect to them, their culture and their leaders, past, present and emerging.

DISCLAIMER

REIA is a federation of state and territory Real Estate Institutes. Formed in 1924, it represents the real estate industry in Australia at national and international levels.

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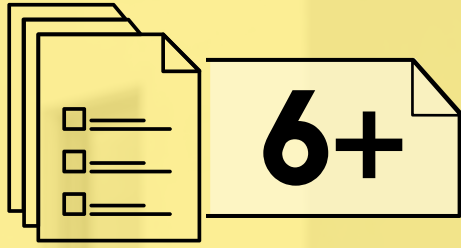
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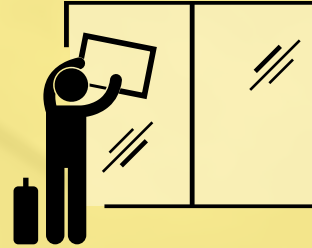
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AUSTRALIAN RENTAL PROPERTIES



The renter

- On average, renters actively searching have more than six rental applications in at any given point in time
- 75% of renters are compromising on property features in selecting their new rental home



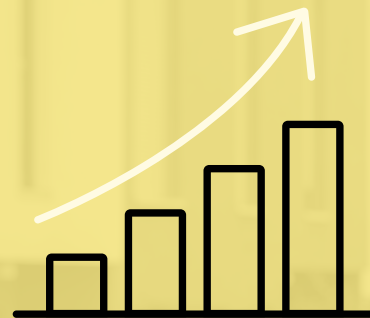
The Rental Market

- The vacancy rate has halved since the onset of the COVID-19 pandemic in 2020
- The national vacancy rate now sits below 1.5%



The Property Investor

- 70% of Australian property investors own a single rental property
- Property Investors have grown as a cohort from 4% of tax filers claiming rental income in 1980 to 15% in 2023
- Share of investor lending hit lows of 25% of total lending over COVID-19 but has recovered



The Property Investment Market

- Sale of investment properties increased over 2020-2022 with more investors selling than buying but this trend has reversed in 2023
- The average rental yield is 3.5% on houses and 4.4% on apartments
- Mortgage rates at 5.5% present a challenge to rental yields
- Current conditions mean that rents are likely to continue to grow over 2023

STATE OF THE MARKET:

Key Trends and Take-Outs

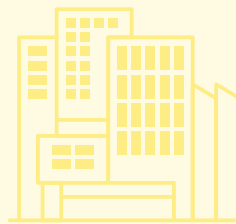
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30% of Australians are renters in private or public rental homes



2

Many investors capitalised on market conditions and sold rental properties over the pandemic



3

Lending criteria has impacted investor behaviour since 2014



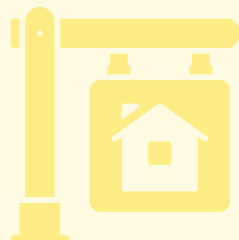
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Investor activity and lending has recovered after the COVID-19 pandemic



5

With rental properties in undersupply, pressure on private rental markets will continue in 2023



6

Around 15% of Australian tax filers claim rental income



Executive Summary

In this State of the Market: Australian Private Rentals highlights the unique relationship between Australian renters, property managers and property investors as a critical component to our housing spectrum.

Currently, the Australian private rental system is experiencing record pressure. Vacancy rates nationally sits below 1.5% with advertised rents for houses rising 6% and rents for units rising 9% over the past year.

Renters in Australia now make up around 30% of households and housing stock. They face a competitive market, applying on average for six rentals before securing a new rental home. 75% of successful applicants feel they have had to compromise on features in their rental.

Property investors in Australia have grown since 1980 where the cohort made up around 4% of tax filers. Today, this sits at around 15% of tax filers. An Australian property investor in 70% of cases owns a single investment property, holds a mortgage and comes from a working household.

The State of the Market examines key factors affecting private rentals and explores significant trends and influences impacting supply.



REIA PRESIDENT'S FOREWORD



It is my pleasure to present the State of the Market: Australian Private Rentals together with PropTrack.

It is fair to say rental conditions are now the tightest on record driven by a change in household formation, a complete undersupply of quality rental stock, severe constraints on Australia's home building industry and post-COVID 19 immigrations resuming in force.

There are many factors driving this 'perfect storm' but often the key relationships within a rental transaction are completely overlooked in the broader mega and macro debate: that of renters, property investors and property managers.

The State of the Market: Australian Private Rentals takes a close look at our renters, our investors and our property managers and examines the key trends impacting each stakeholder.

It busts some key myths around who our renters and investors are and how they are working in together to provide housing options for Australians.

I thank PropTrack for their support and expertise in providing the underpinning data to form this report.

Yours sincerely,

Hayden Groves
REIA President

REA GROUP CHIEF CUSTOMER OFFICER FOREWORD



In partnership with REIA, REA Group is proud to present this report on the current state of the Australian property investment market.

It's an incredibly important time for the property sector in Australia. Following an extended period of market volatility, we are now presented with a combination of changing economic conditions and pressing social needs.

Currently, there is a raft of ongoing challenges facing landlords, property managers and renters across the country. The 30 per cent of Australians that rent are reliant on the stability of the property investment market. This is why as an industry, the time is now to work together to address the big issues.

REA is currently in the process of developing and delivering initiatives which will help support the industry's advocacy for change within this challenged setting. Providing our customers and consumers with a more balanced view of the market via our data-driven insights also continues to be a key objective for REA. So far in 2023 we have seen the number of new rental listings increase, demonstrating that investors are hearing these messages. We need to share these positive stories to reengage investors and in turn address the rental shortfall.

Challenges present opportunities to think differently and create meaningful change - and our valued partnership with REIA allows us to bring together our trusted industry knowledge and insights to do so. We look forward to continuing to work together to find new approaches and collaborate across the industry to realise the immense possibilities ahead of us all.

Yours sincerely,

Kul Singh
REA Group Chief Customer Officer

Profile of Australian renters and property investors



Australian renters

Renting in Australia is a common and popular form of housing with up to 30% of Australian households renting their homes.

There is no set profile or demographic for an archetypal Australian renter as they come from diverse backgrounds and include young adults, families, seniors, international students and skilled workers.

Many renters appreciate the flexibility that renting provides, such as the ability to easily move to a different area or upgrade to a larger home.

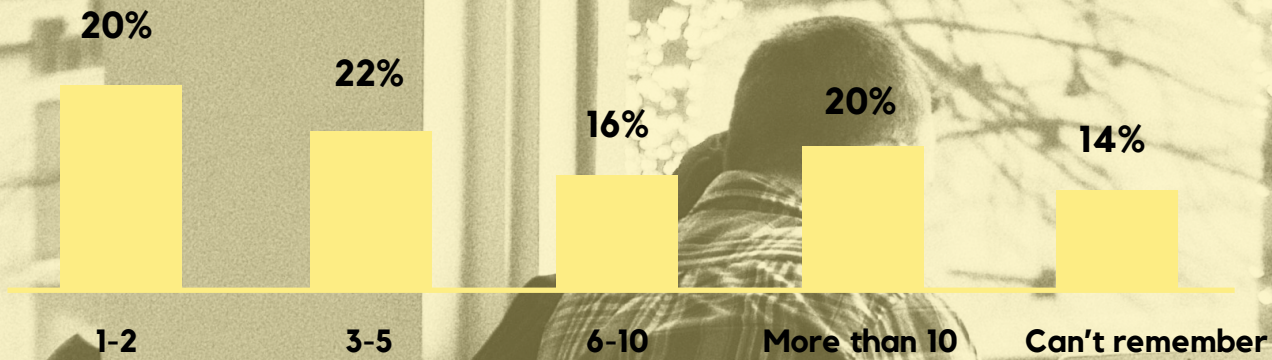
In general, Australian renters:

- Have a limited rental tenures ranging from 6 - 12 months.
 - Submit multiple applications to increase their chances of being selected.
 - 75% of renters are compromising into key features in the rental property.
-



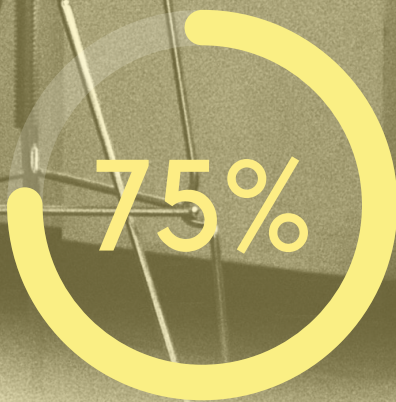
No. of applications at any one point in time

Average: 5.8* applications

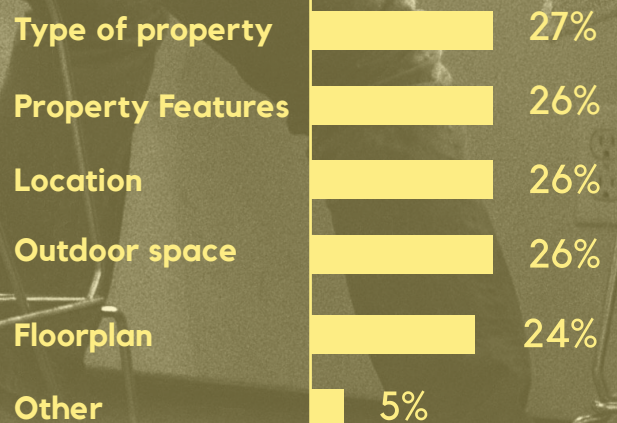


Source: REA Group Property Seeker Survey

Making compromises when choosing a rental



75% of renters had to compromise when choosing their rental in the past 12 months



Source: REA Group Property Seeker Survey

The Australian property investor

The Australian property investor is generally of working age and holds a mortgage. Investors are usually aged around 35-65 years old; and more 35-44-year-olds own investment properties than 65 - 74-year-olds.

70% of property investors only own a single investment property; and just under 20% own two investment properties. Less than 10% of all property investors own 3 or more properties.

Whilst investors are not common in Australia with less than 80% of households owning an investment property apart from their primary place of residence.

Nevertheless, property investment as a cohort is growing and has expanded from around 4% of all Australian tax filers in 1980 to 15% today.

Negative gearing remains an important component to property investment with 60% of tax files in 2018-19 claiming the deduction.

Owners of investment properties are much more likely to be 35-65

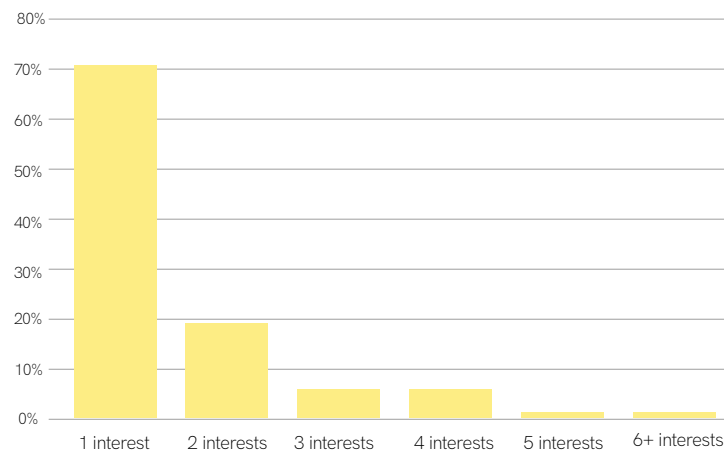
Age distribution by whether own investment property, age share of relevant population.



Source: ABS

Most people that own investment properties only own one

Share of tax filers with at least one interest rental property, by number of tenants



Source: ABS

State of the Market



Property investment has grown over time **despite lending conditions**

Property investors as a cohort have grown from 4% in 1980 to 15% today.

The share of lending to investors has remained below high levels seen before regulatory changes from late 2014 by APRA and ASIC that made it more difficult for investors to access credit.

This factor alongside other regulatory changes in the sectors, including increased compliance for rental standards, land tax and transfer duties, has seen investor activity plateau since 2014.

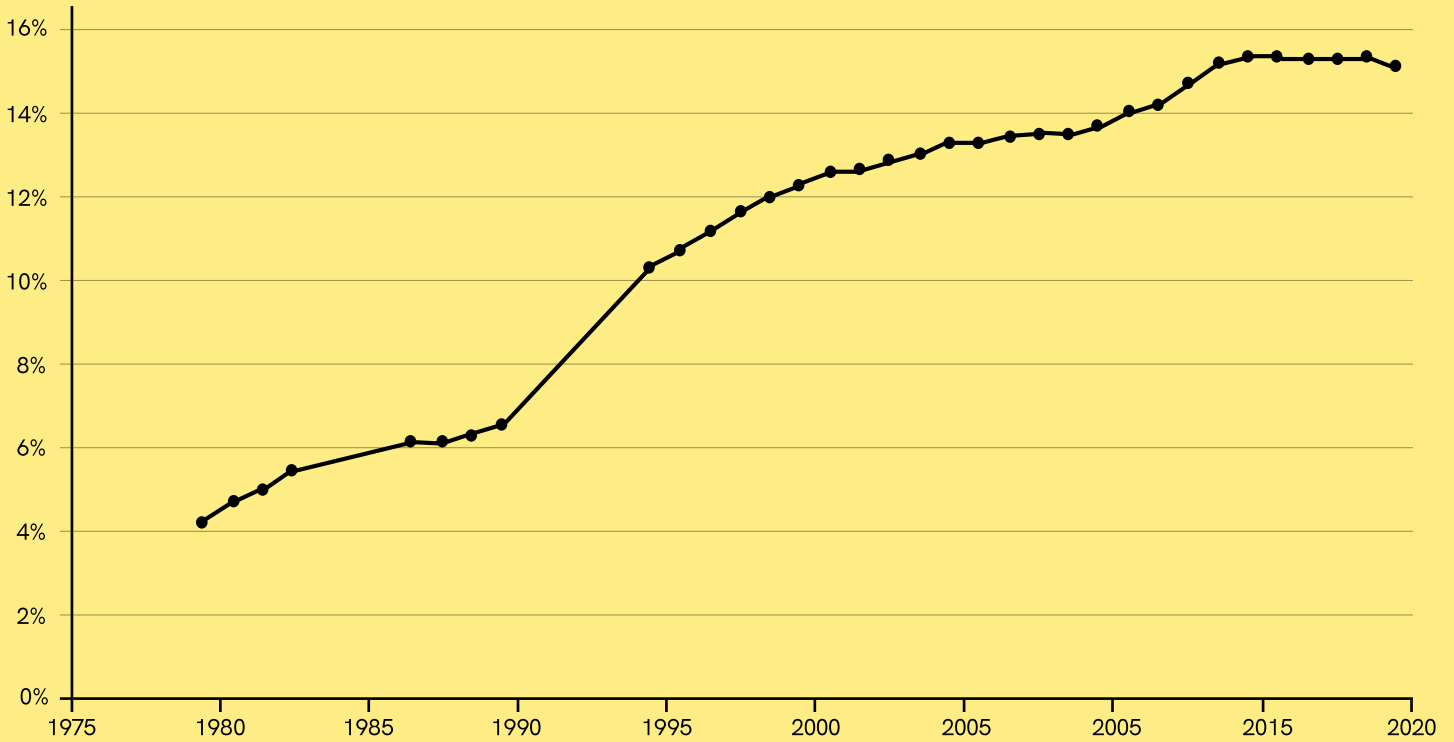
Investor lending fell from an average of 35% of all new lending to 25% during the pandemic, but has since recovered in 2023.

Around 15% of tax filers report rental income



The share of taxpayers earning rental income has increased from around 4% in late the 1970s to more than 15% as the most recent data

Share of taxpayers reporting gross rent, financial year



Investor Share of New House Lending

Seasonally adjusted



Rental market conditions are extremely tight, with rents growing quickly as a result

Current demand and supply conditions mean rents are expected to continue to grow significantly over 2023.

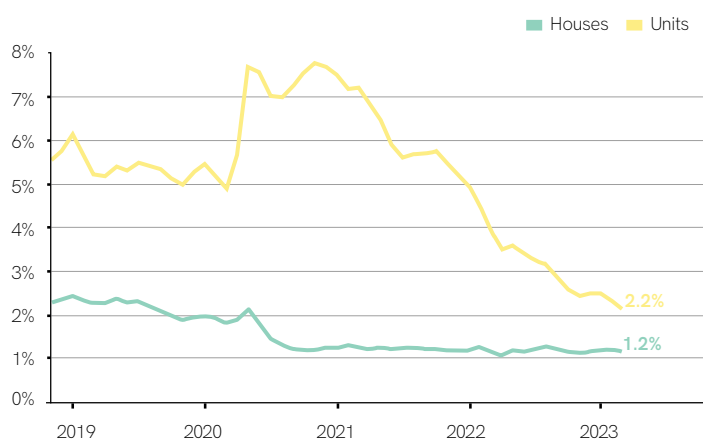
High rental demand is being driven by several factors, including strong household formation during the pandemic (as the average renter household size declined) and, more recently, surging migration after borders reopened.

Rental vacancy rates have declined to just below 1.5% nationally, half the rate seen before the pandemic.

The market for houses has been competitive since the onset of the COVID-19 pandemic. However whereas unit markets that saw increased vacancies in 2020 but have declined rapidly as demand for the cities has returned.

These conditions mean rents are growing strongly: up 6% over the past year for houses and 9% for units.

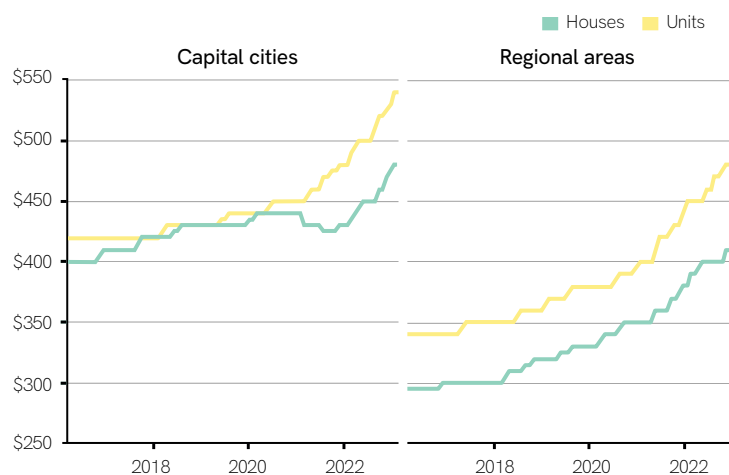
Rental Vacancy Rates



Source: PropTrack

Median Advertised Rents

Capital cities versus regional areas



Source: PropTrack

Investor activity has returned to pre-pandemic levels

Housing investor activity in Australia was significantly affected by the COVID-19 pandemic: more investors sold rental properties to capitalise on good market conditions as well as increased uncertainty about rental demand.

Fewer new investors brought new rental properties to market, leading to the rental stock significantly decreasing throughout 2021.

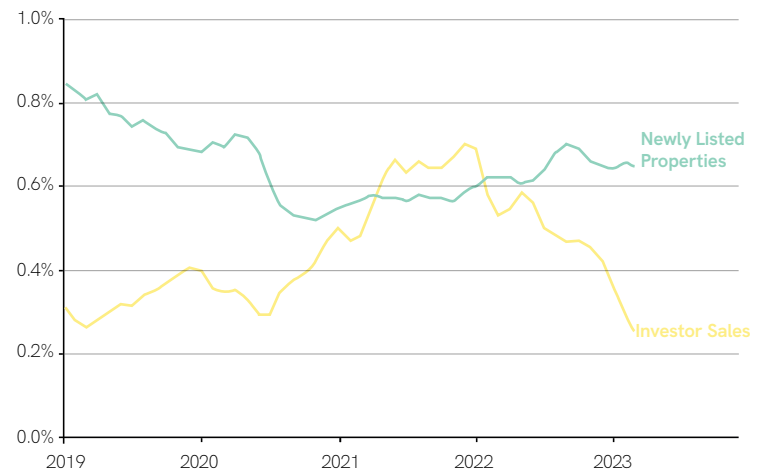
The increase in sales by investors came at a time when rental yields exceeded investor borrowing rates, showing the effect of structural factors, the regulatory environment and uncertainty on investor appetites.

However, over the past year, there has been a reversal of this trend, with more new rental properties being brought to market and investors selling at lower rates.

The recovery of investor activity over 2022 and 2023 despite substantially higher mortgage rates shows the long-run expectations of the benefits of investment in Australian property.

National Investor Activity

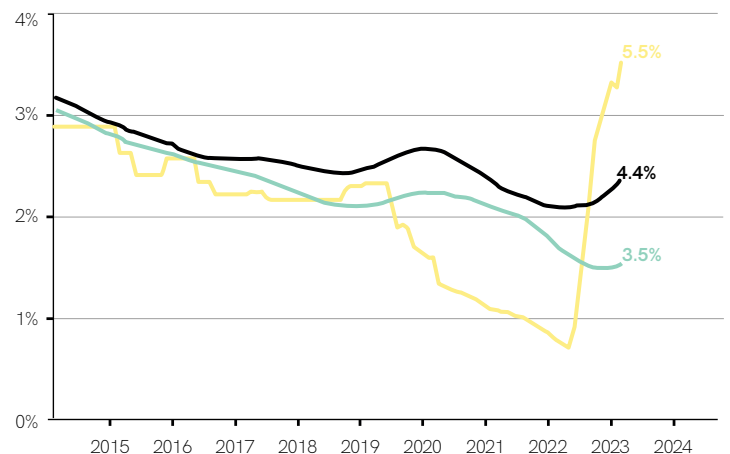
Share of rental stock



Source: PropTrack

Rental yields and mortgage rates

■ Mortgage rate ■ Rental yield - houses ■ Rental yield - units



Note: Newly listed rental properties a 3 month average; rental yields are gross 12 month averages

Source: PropTrack

Investor profits have increased strongly over recent years

Investors sold properties at a higher rate throughout the pandemic, with the majority of sales recorded taking a significant profit margin.

A combination of strong demand and rising prices meant that almost 90% of investment properties sold throughout the pandemic made a profit, up from below 80% just before the pandemic. Large price increases across the country over the past three years also mean recent property investor sales have made large returns.

Large price increases across the country over the past three years also mean recent property investor sales have made large returns.

The typical investment property sold since the COVID-19 pandemic has sold for \$175,000 more than it was purchased for. Even accounting for costs, this has resulted in healthy profits for Australian property investors.

This is a large increase in profits relative to the pre-pandemic period, where typical resales brought in \$50,000 to \$100,000 more.

Share of investor sales making a profit



Source: Proptack

Typical investor profits

Median return on investor sales



Source: Proptack



State of the Market:

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