New Insights into the Rental Market

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This article draws out new insights into the private Australian rental market using a new large administrative dataset of rental properties, which is an input to the Consumer Price Index (CPI). CPI rent inflation has picked up recently. Since 2021, rents have increased across inner-city and regional areas throughout all the states. Rent increases have also become more common and larger on average – particularly for the 2–3 per cent of properties each month that have a change in tenants. This is in contrast with the experience during the COVID-19 pandemic where rents fell in many suburbs close to central business districts but increased in regional areas, driven by a preference shift among many households for more space and net population flows.

Introduction

Access to appropriate and affordable rental accommodation is important for the wellbeing of renter households. According to the 2021 Census, close to 30 per cent of all households rent their home in the private rental market – a share that has risen over the past few decades. The 2019/20 Survey of Income and Housing (SIH) showed that renters tend to have lower incomes and spend a larger share of their disposable income on housing costs compared with owner-occupier households (both outright owners and those with a mortgage). The median private renter spends around 26 per cent of their weekly income on rent. Furthermore, rents (both public and private) currently make up around 6 per cent of the CPI basket, making it the second largest expenditure class.[1] Understanding the rental market is important for policymakers as it has implications for patterns of consumption and savings by households, as well as inflation.

The rental market has tightened since late 2021, with vacancy rates declining over this period (Graph 1). During the COVID-19 pandemic, lockdowns and health concerns prompted many Australians to desire more space and to live with fewer people (Ellis 2022). The associated decline in average household size is estimated to have contributed to around 120,000 additional households being formed, with some of this demand materialising in the rental market (Agarwal, Gao and Garner 2023). More recently, the return of international migration – and, in particular, the return of international students – has added to demand for rental properties in the major cities. Advertised rents have grown strongly and finding a suitable rental property has become more difficult as vacancy rates have declined.

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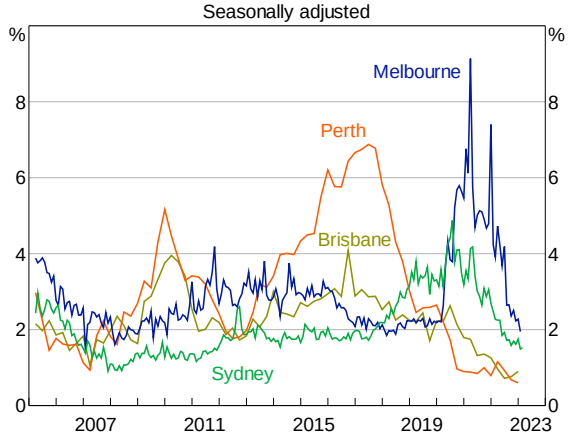
Graph 1

Rental Vacancy Rates*

Seasonally adjusted



* Data is monthly for Sydney and Melbourne and quarterly for all other series.

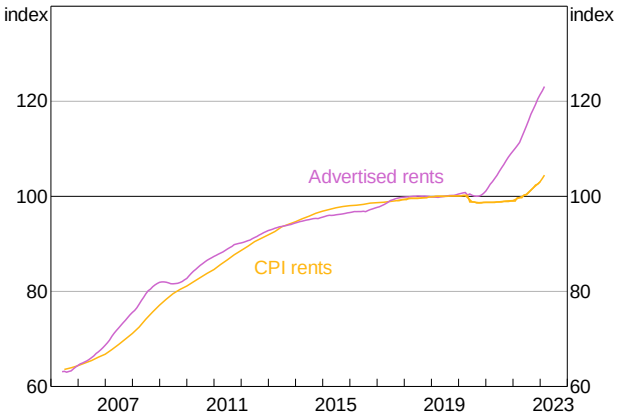
Sources: REIA; REINSW; REIV

Rents, as measured in the CPI, have also picked up of late but to a lesser extent than advertised rents, increasing by around 5 per cent over the year to February 2023 (Graph 2). Advertised rents measure the asking price for currently vacant properties; CPI rents measure price changes for the stock of all rentals.[2]

Graph 2

Rents*

June 2019 = 100



* With monthly data for CPI rents from September 2017; CPI rents are not seasonally adjusted, and advertised rents are seasonally adjusted.

Sources: ABS; CoreLogic

The new rents dataset

As outlined in a recent ABS information paper, from July 2022 the ABS has incorporated a new data source to measure the rents series in the quarterly CPI and monthly CPI indicator (ABS 2022a).

The new dataset is comprised of information about rental properties as entered by property managers.[3] The dataset begins in July 2018, is updated monthly and currently includes approximately 600,000 rental properties across both regional and capital city areas. In total, this represents 32 per cent of the national 2021 Census rental dwelling stock.

The dataset contains several variables of interest, including: weekly rent; property characteristics, such as type (apartment, townhouse or house), street name and postcode, and number of bedrooms; lease start and end dates; and a unique property ID.

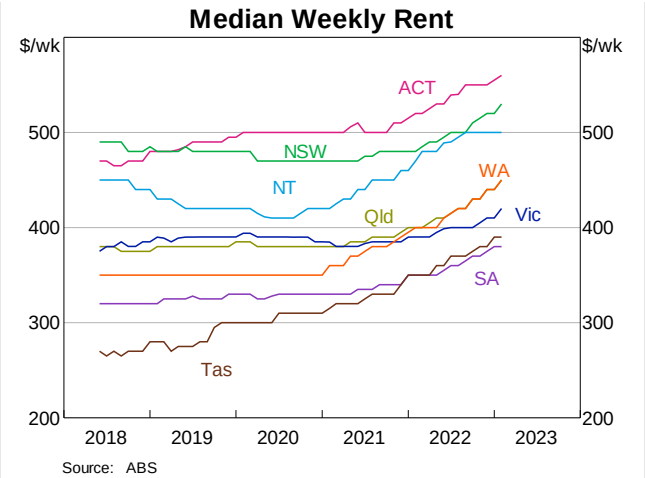
The dataset only includes private rental properties. As such, the results shown throughout the rest of the article reflect outcomes for the private rental market and exclude rental assistance. By contrast, the measure of rents in

the CPI includes prices for both the public and private rental market and accounts for rental assistance in the private rental market.[4]

Rental market characteristics

Median rents began increasing in all states in 2021 and have continued to increase over the past year. In February 2023, the median weekly rent amount was highest in the ACT at $560 per week and lowest in South Australia at $380 per week (Graph 3).

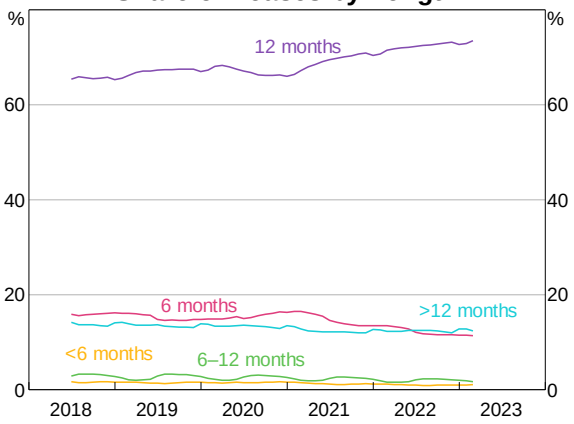
Graph 3
Median Weekly Rent



Source: ABS

Around 90 per cent of lease agreements are for 12 months or less, with the bulk of these being 12-month leases (Graph 4). The share of six-month leases has declined since early 2021 in favour of 12-month leases. These figures reflect the share of currently valid leases and therefore understate the typical length of tenancy because renters may enter into a new lease agreement or a rolling month-to-month arrangement after their lease expires.

Graph 4
Share of Leases by Length

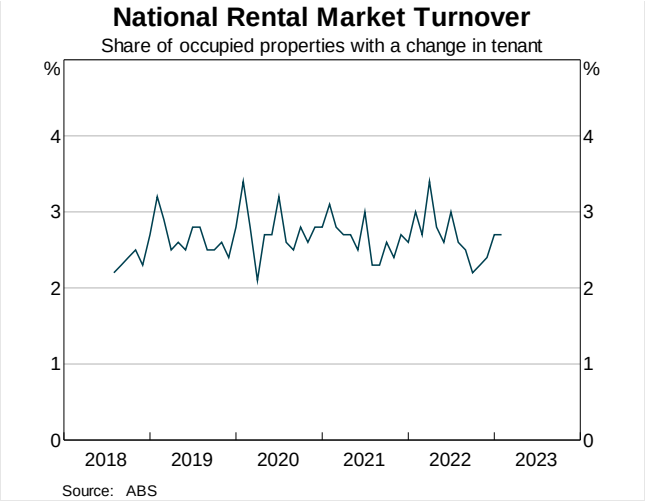


* Lease length is rounded to the nearest number of months. Includes only leases that are valid in the current month and excludes periodic leases with no end date (e.g. rolling month-to-month).

Source: ABS

Around 2–3 per cent of properties each month have a change in tenant (Graph 5). This turnover is similar across the states and has been broadly stable over the past four years or so. Quantifying the proportion of properties that have a change in tenant is useful as it helps to explain the large divergence between advertised rents and CPI rents. As discussed above, advertised rents have grown strongly of late; however, as they represent only a small proportion of the rental market, this has had a limited impact on the measure of rents included in the CPI.

Graph 5



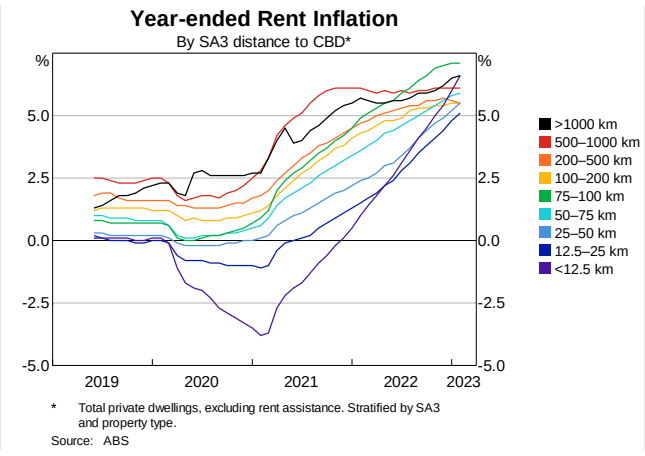
Regional versus capital city rents

Rental properties in regional areas make up over one-quarter of all rental properties, and 10 per cent of all households rent their home in a regional area. The new dataset covers regional areas as well as capital cities, providing a rich source of information about rent inflation geographically since 2018. This allows for an exploration of rent price measurement for both finer levels of geographical detail and a broader geographical scope than the CPI, which covers only the eight capital cities.

Developments in population flows, vacancy rates and changes in households' preferences over the past three years have been important drivers of rents. Early in the COVID-19 pandemic, demand for rental properties in inner-city markets declined as international students returned home, international migration slowed and some young adults moved back in with their parents. As well as overseas migration coming to an effective halt, people from parts of Australia that were not in lockdown at the time, including regional areas and smaller capital cities, tended not to move to cities that were in lockdown (Ellis 2022). The decline in international visitors and domestic business travel also encouraged some landlords to offer their short-term holiday rental accommodation on the long-term market, increasing the available rental stock (Evans, Rosewall and Wong 2020). Similarly, lockdowns prompted people to desire more space than densely populated inner-city areas could provide (Agarwal, Bishop and Day 2023).

As a result, rent inflation diverged during the pandemic across capital cities compared with regional areas. In general, rents increased the most in regional areas that are furthest away from a capital city, supported by net population inflows and low vacancy rates (Graph 6).

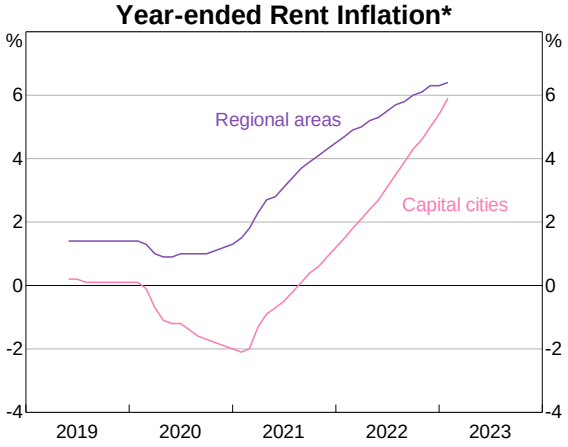
Graph 6



By contrast, rents decreased in some capital cities over the pandemic period, in part reflecting elevated supply of rental properties and weak demand because of travel restrictions and lower population growth. State governments also introduced mechanisms to enable tenants who became unemployed or lost income due to COVID-19 to negotiate rent reductions. Rent declines were largest in inner-city Sydney and Melbourne where renegotiations were most prevalent and where international travel restrictions led to the most pronounced increase in available rental properties (Evans, Rosewall and Wong 2020). More recently, rent inflation in capital cities and regional areas has picked up; both increased by around 6 per cent over the year to February 2023 (Graph 7). This is above the 4.8 per cent rent inflation published in the monthly CPI indicator for this period as the CPI also includes public rental dwellings and rental assistance properties).

Graph 7

Year-ended Rent Inflation*



* Total private dwellings, excluding rent assistance. Stratified by SA3 and property type.

Source: ABS

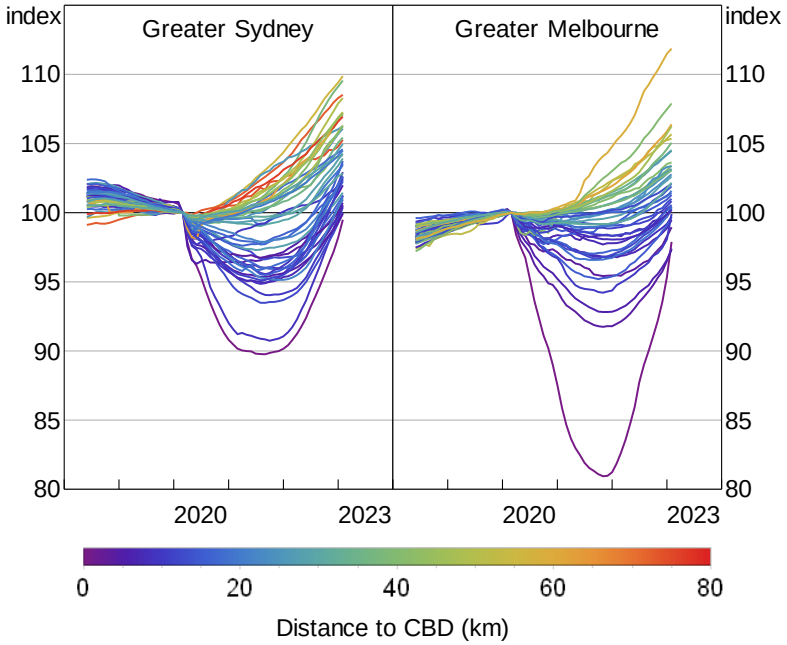
Rents in many inner-city areas remain below pre-pandemic levels

Although rents for properties that are close to a central business district (CBD) (less than 12.5 km) began to increase in 2021, rents for many inner-city suburbs in Melbourne and Sydney are still below pre-pandemic levels. In fact, 20 per cent of the 2021 Census capital city rental dwelling stock have rents below pre-pandemic levels, while 20 per cent have experienced rent increases of at least 10 per cent since March 2020 (Graph 8; Graph 9; Table 1; Table 2). Rent prices fell further and were slower to start increasing in Sydney and Melbourne compared with the other capital cities over 2020 and 2021. This was driven by the factors mentioned above, including a higher prevalence of rent reductions, higher vacancy rates and larger declines in net internal and overseas migration. Nonetheless, the rental market has tightened significantly in inner-city areas over the past year, particularly for new tenancies that have experienced large rent increases.

Graph 8

Rent Price Indices*

By capital city SA3, March 2020 = 100



* Total private dwellings, excluding rent assistance. Stratified by SA3 and property type.

Source: ABS

Table 1: Rent Prices Below Pre-pandemic Levels[(a)]

	Expenditure share of rental dwelling stock with rent prices below pre-pandemic levels Per cent			
SA3 distance to CBD	Sydney	Melbourne	All other capital cities	Total 8 capital cities
<12.5 km	49	62	0	36
12.5–25 km	10	17	0	9
>25 km	0	0	0	0

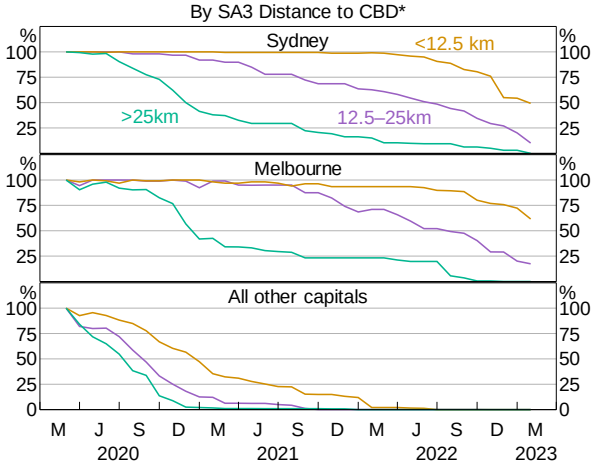
(a) To calculate these proportions, price indexes were created using rents for each SA3 by property type (e.g. houses, apartments and townhouses). Then, the proportion of rent expenditure for each SA3 by property type that index represented of total expenditure for the particular radius around the CBD was calculated. These proportions were then aggregated for those indexes below March 2020 levels in February 2023, to give the overall expenditure share of the rental dwelling stock with rent prices below pre-pandemic levels.

Table 2: Rent Prices At Least 10 Per Cent Above Pre-pandemic Levels

	Expenditure share of rental dwelling stock with rent prices at least 10 per cent above pre-pandemic levels Per cent			
SA3 distance to CBD	Sydney	Melbourne	All other capital cities	Total 8 capital cities
<12.5 km	0	0	45	15

12.5–25 km	0	0	71	24
>25 km	2	6	87	26

Graph 9
Share of Rents at or Below Pre-Pandemic Levels
By SA3 Distance to CBD*

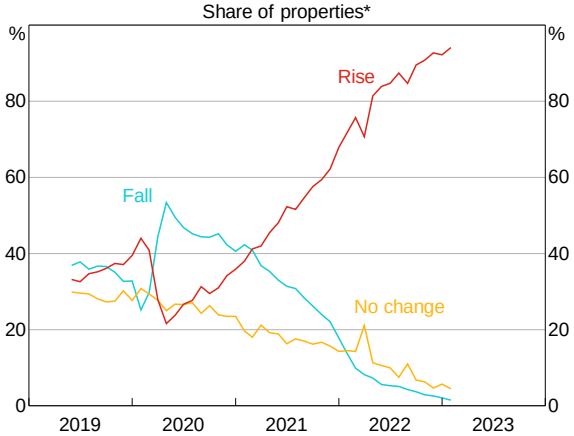


* Total private dwellings, excluding rent assistance. Stratified by SA3 and property type.
Source: ABS

A closer look at the distribution of rent changes

Rent increases have become larger and more common over the past year for most properties in capital cities. This is the case regardless of whether properties have a new tenant or not, although increases have been more pronounced for properties with a new tenant. Over the past year, rents have increased for almost three-quarters of properties, up from around one-quarter every year pre-pandemic. Rental prices for properties with new tenants are more likely to change than for properties with existing tenants. Over mid-to-late 2020, new tenants tended to pay rental prices lower than or equal to what was being paid for a given rental property the year prior (Graph 10). However, since mid-2021, the majority of new tenants have been paying higher rent than was charged for the same property the year prior. This share increased to as high as 94 per cent in February 2023, compared with 71 per cent for properties with existing tenants (Graph 11).

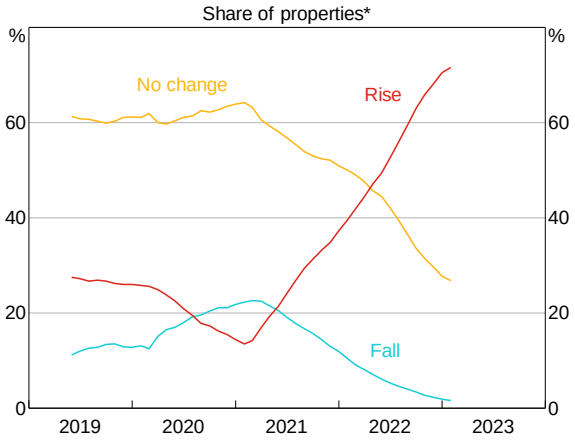
Graph 10
Year-ended Rent Changes – New Tenants
Share of properties*



* Expenditure weighted. Private rentals only excluding rent assistance.
Source: ABS

Graph 11

Year-ended Rent Changes – Existing Tenants



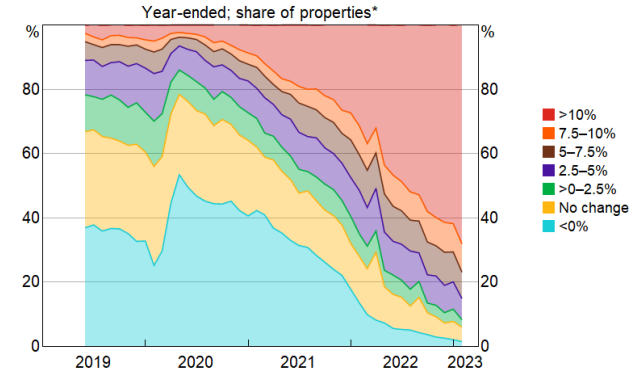
* Expenditure weighted. Private rentals only excluding rent assistance.

Source: ABS

The distribution of rent changes has shifted, with larger rent increases becoming more common for all properties regardless of whether tenants are new or existing. However, rent increases for properties with a new tenant have tended to be larger, on average, than for properties with existing tenants. In February 2023, over 60 per cent of properties with new tenants had rent amounts more than 10 per cent higher than 12 months earlier (Graph 12); this compares with only one-quarter of properties with existing tenants having rent increases of more than 10 per cent (Graph 13).

Graph 12

Rent Changes of Different Sizes – New Tenants



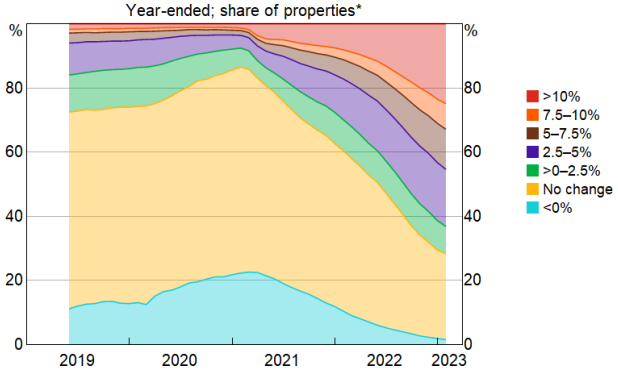
* Expenditure weighted. Includes private rentals only. It should be noted the distribution presented in this graph uses different methodology and sampling to the CPI.

Source: ABS

Graph 13

Rent Changes of Different Sizes – Existing Tenants

Year-ended; share of properties*



* Expenditure weighted. Includes private rentals only. It should be noted the distribution presented in this graph uses different methodology and sampling to the CPI.

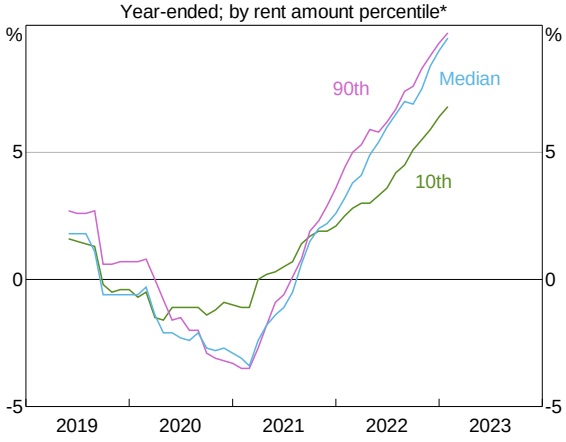
Source: ABS

Rents have increased at a faster pace for more expensive rental properties than for less expensive properties over the past year. Properties in the 90th percentile for weekly rent – that is, those properties with weekly rent amounts greater than or equal to 90 per cent of all properties – have experienced rent increases of 10 per cent on average over the year to February 2023 (Graph 14). By contrast, properties in the 10th percentile – or those properties with weekly rent amounts less than or equal to 90 per cent of all properties – have increased by 7 per cent on average.

Graph 14

Average Rent Changes

Year-ended; by rent amount percentile*



* Ranks properties each month by the weekly rent amount percentile and then calculates expenditure weighted average price change.

Source: ABS

While an increase in rents puts pressure on household budgets across the economy, lower income households typically have the most constrained budgets as they spend a greater proportion of their income on essential items and have lower financial buffers. For example, all else equal, a 7 per cent increase in rent for renters in the 10th percentile of the income distribution would reduce the amount of income available for other uses more than a 10 per cent increase in rent would for renters in the 90th percentile of the income distribution.

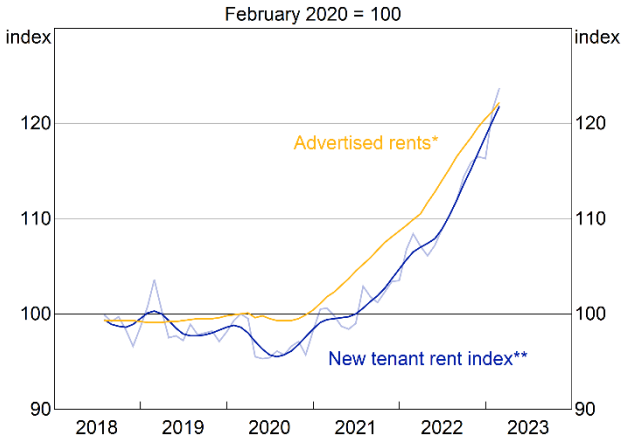
Measuring rents paid by new tenants

The rents paid by new tenants provide a leading indication of price developments in the total stock of rental properties. Previously, the best available indicator of rents paid by new tenants was advertised rents; however, this may not be the most useful measure because the actual rent agreed to by a landlord and a new tenant may be different from the advertised amount. To overcome this concern, an index of actual prices paid by new tenants can be estimated using the subset of properties in the dataset each month that have a new tenant.[5]

Actual rents paid by new tenants increased by 14 per cent over the year to February 2023, which is 9 percentage points higher than the increase in the monthly CPI indicator rent index (which measures all rents, not just those paid by new tenants). Since the onset of the pandemic in 2020, rents paid by new tenants have increased by 24 per cent and the CoreLogic advertised rent series has increased by 22 per cent (Graph 15). The index declined further than the CoreLogic advertised rent series earlier in the pandemic due to the actual rent agreed to between landlords and tenants tending to be lower than the advertised amount. More recently, rents paid by new tenants have increased above the CoreLogic advertised rent series because the actual rent agreed between landlords and tenants has been higher on average than the advertised amount.

Graph 15

Measures of Rent Prices for New Tenants



* Listed asking rents for vacant rental properties.

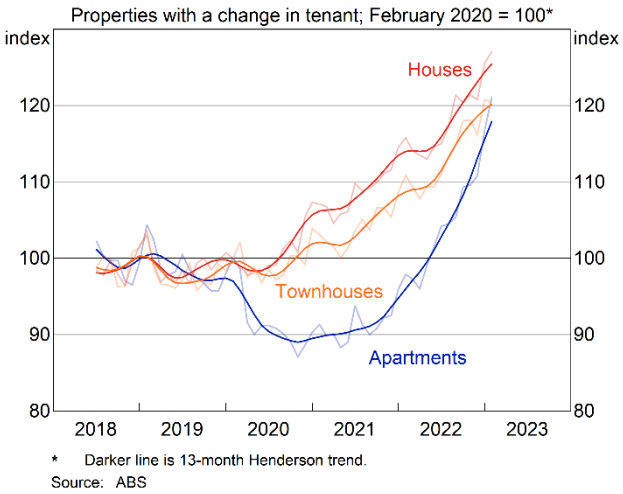
** Properties with a change in tenant. Darker line is 13-month Henderson trend.

Sources: ABS; CoreLogic

Rents for apartments with new tenants have been more volatile than for houses and townhouses over the past couple of years, in line with the developments in the rental market discussed above (Graph 16). Rents for apartments with new tenants fell sharply during the pandemic and remained below pre-pandemic levels until early 2022, while rent inflation for houses and townhouses with new tenants has generally been positive since the onset of the pandemic. Rent inflation for apartments with new tenants was 24 per cent over the year to February 2023, whereas the overall index increased by 14 per cent. By contrast, rent inflation for houses and townhouses with new tenants was around 10 per cent over the year to February 2023.

Graph 16

Rent Prices for New Tenants



If vacancy rates remain low, then stronger-than-normal increases in advertised rents are likely to persist. This will impact the CPI both directly, given that these properties are included in the calculations, and indirectly as increases in market rents influence landlords' price-setting behaviour in the rest of the rental market.

Conclusion

The rental market has tightened considerably since 2021. Rent inflation has picked up and is broadly based across new and existing tenants, property types and the states. Rent increases have also become more common, and larger on average. Properties with a change of tenant have experienced larger rent increases than existing tenancies, and so have been more closely aligned to changes in advertised rents. The new dataset on rental prices discussed here has enhanced the measurement of rents in the CPI and afforded new insights into the private rental market.

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[1] See ABS (2022b) for more detail.
[2] CPI rents also incorporate price information on rental assistance and government-provided rental properties, which advertised rents exclude.
[3] All Australian rental property data are supplied to the ABS by MRI Real Estate Software.
[4] Rent assistance makes up a small share of the total private rent index.
[5] The index simply takes the average price of rental properties with new tenancies in each period and compares it with the average price in the base period. The index is stratified by property type, number of bedrooms and capital city and is aggregated using 2021 Census expenditure data. Tasmania is excluded from the estimation due to small sample size. The index is volatile and subject to compositional change in the sample – this is because it is not

possible to have matched samples month-on-month as rental properties do not turn over every month. Trend lines are plotted to give an indication of the momentum in the market rents index.