# HOUSING AFFORDABILITY REPORT

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Rental Market Report – Special COVID-19 edition

CoreLogic®

ANZ

# RENTAL MARKET REPORT – SPECIAL COVID-19 EDITION

## This is the third edition of the **ANZ-CoreLogic Housing Affordability Report,** the pre-eminent guide to the trends and drivers of housing affordability across Australia.

Housing is a fundamental human requirement, as a form of both shelter and security. The focus of housing affordability is often on home buyers; prices, interest rates, deposits. But with an increasing share of Australians renting their home, it is imperative we also look at rental metrics when thinking about housing affordability. Home ownership is not for everyone, but secure housing is. Whether it is to buy or rent, access to housing at an affordable price is a necessity.

In the current crisis, the rental market has been more heavily affected than the buyers' market, with a combination of falling demand and rising supply.

Households who rent have been more widely impacted. People who work in the hospitality sector, where job and income losses have been the deepest, have a much higher likelihood of renting than owning homes. And while there has been a formal program to defer mortgage payments, relief for renters has been much less defined.

Rental market conditions will flow through to investor behaviour. Many Australians choose to save through investment in housing. The fluctuations in the rental market will directly influence investor demand over the next few years and flow through to both prices and construction, and in turn measures of housing affordability.

Housing affordability will remain a key focus for policy makers, with the COVID-19 crisis only exacerbating the challenges facing governments. The pandemic and its associated economic shock will have long lasting impacts on housing affordability. The financial impact has not been evenly felt, and the stimulus measures designed to offset it, will have varying impacts of their own.

Overlaying these issues, is the persistent problem of low income growth, which will continue to be a challenge for policy makers.

Over time, ANZ and Corelogic's tracking of a variety of housing affordability metrics will provide the data and analysis to inform the discussion around policies that aim to improve housing affordability for all Australians.

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# INTRODUCTION

One of the most impacted sectors of the housing market amid COVID-19 has been the rental market. Due to a mixture of negative demand and supply shocks, rental market conditions weakened over April to June. This came off the back of an already 'weak' rental environment, where annualised growth in rents has been subdued at 0.9% across the capital city markets for the past five years.

However, as with property values and transactions, Australia does not have a 'single' rental market. Australia has a collection of thousands of different rental markets with variations in demographic and workforce compositions, levels of supply and price points. This report seeks to highlight some of the ways that COVID-19 has exacerbated the nuances between different parts of the Australian rental market, leading to disproportionate declines in some areas over others.

The first section of this report examines factors that have affected rental demand as a result of the onset of COVID-19. It highlights the industries and employees most affected by the pandemic, and how this has disproportionately affected the rental market. It also looks at the importance of net overseas migration to rental markets.

The second section looks at the state of rental supply in the lead up to, and during, COVID-19. While narratives of increased rental supply have dominated in recent months, a combination of finance and listings data suggests that oversupply in rental markets is a somewhat localised phenomenon.

Before the onset of the pandemic in Australia, investor participation in the housing market was at its lowest since 2001. Investor finance fell sharply over April and May due to high levels of uncertainty. If sustained, this suggests that the decline in demand for rentals could be partially offset by a decline in the supply of rental property.

The third section of the report contains a summary of rental market metrics, namely the change in rental income and yields that have occurred in recent months. As with many housing market and economic indicators, rental market conditions eased from April to June. This section contains a snapshot of suburb-level data, highlighting the suburbs in which tenants may be most successful negotiating rent reductions.

The findings in this report suggest that there are mixed opportunities for landlords and tenants across Australia, depending on where they are located. For tenants, inner-city areas of Sydney and Melbourne present the greatest opportunity for negotiating a reduction in rent. For landlords, these same areas pose greater short-term risk.

Ultimately, the opportunity to secure lower rents is unequal across industry and location. Rental growth has broadly tracked below inflation and income growth, and rental affordability has held quite firm across the capital cities. However, for relatively unaffordable markets like Hobart, broad-based affordability measures should be considered for longer term improvements in affordability, rather than relying a global pandemic to reduce demand.

**Eliza Owen**
CoreLogic Head of Research Australia

# UNDERSTANDING RENTAL DEMAND AMID COVID-19

COVID-19 has uniquely impacted demand for rental accommodation. Demand for rental properties fell with the onset of the pandemic, which is reflected in both rental prices and rental listings. This was likely most attributable to:

- A disproportionate loss of income in industry sectors where workers were more likely to be renting; and
- The closure of Australian borders to international travellers and migrants, who tend to rent when they first arrive rather than buy.

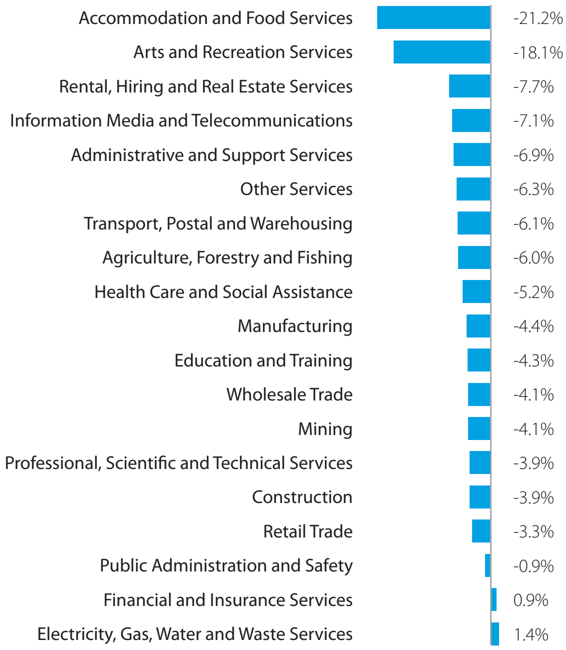
### THE SHUTDOWN OF 'SOCIAL' CONSUMPTION

Past research analysing the economic impact of a pandemic has highlighted the increasingly 'social' nature of consumption[1]. The COVID-19 pandemic required a self-engineered downturn that centred on prohibiting social gathering. This meant that any associated consumption was withdrawn from the economy.

On March 23rd, the federal government announced the temporary shutdown of bars, clubs, cinemas, places of worship, casinos and gyms. Coupled with progressive border closures, businesses across hospitality, tourism and the arts were immediately impacted. Furthermore, RBA analysis suggests that café, restaurant, accommodation and arts services tend to be more geared and less liquid than other industries[2] which creates additional challenges that has contributed to business closures. The rise in online shopping and food takeaway services has not been sufficient to offset the deterioration of business conditions in these sectors[3].

ABS data show that these industries, officially categorised as 'food and accommodation services' and 'arts and recreation services', have seen significant job losses to date. Analysis of payroll data from the ATO has allowed the ABS to measure changes in payroll jobs by industry, which is summarised in the graph to the right of this page.

#### CHANGE IN PAYROLL JOBS BETWEEN 14TH OF MARCH AND 27TH JUNE, AUSTRALIA




Source: ABS

The data suggest that between the week ending 14th of March (when the 100th case of COVID-19 was confirmed in Australia) and the week ending 27th of June, 21.2% of payroll jobs had been lost across accommodation and food services, and 18.1% of jobs had been lost across arts and recreation services. This compares with an average decline of 4.2% of jobs across other industries, and a 5.7% decline in total payroll jobs across Australia.

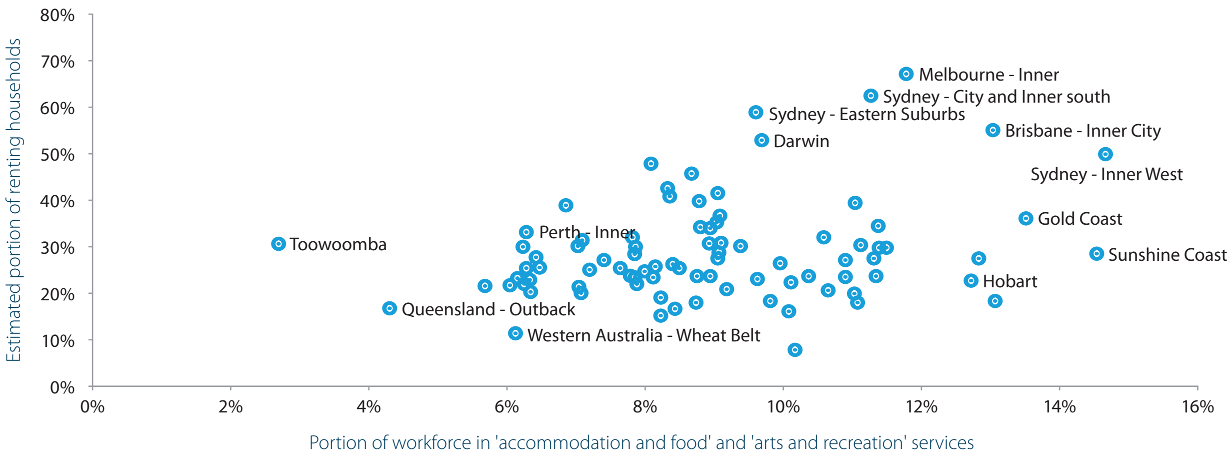
According to regional employment data from the ABS, the number of those employed across accommodation and food services and arts and recreation services averaged 1.17 million over the year to February 2020. This equates to about 9.1% of the labour force.

This has important implications for the rental market. This is because those that are employed in these industries are more likely to be renting[4].

1. Keogh-Brown, M. R., Wren-Lewis, S., Edmunds, W. J., Beutels, P., & Smith, R. D. (2010). The possible macroeconomic impact on the UK of an influenza pandemic. Health economics, 19(11), 1345-1360.
2. RBA, (April 2020), Financial Stability Review
3. RBA, (May 2020), Statement on Monetary Policy
4. RBA, (April 2020), Financial Stability Review, citing the 2018 HILDA survey data

CoreLogic data also shows that there is a high incidence of renting households where there is also greater workforce exposure to these industries. The scatter graph below highlights a correlation between housing markets with a high portion of rental properties, and a higher portion of employees in more precarious sectors. Regions of Australia where rental markets may be more exposed to a reduction in demand due to industry exposure include inner-city Melbourne, Sydney, and parts of south east Queensland.

## INCIDENCE OF RENTING HOUSEHOLDS V WORKFORCE EXPOSURE TO VULNERABLE INDUSTRIES



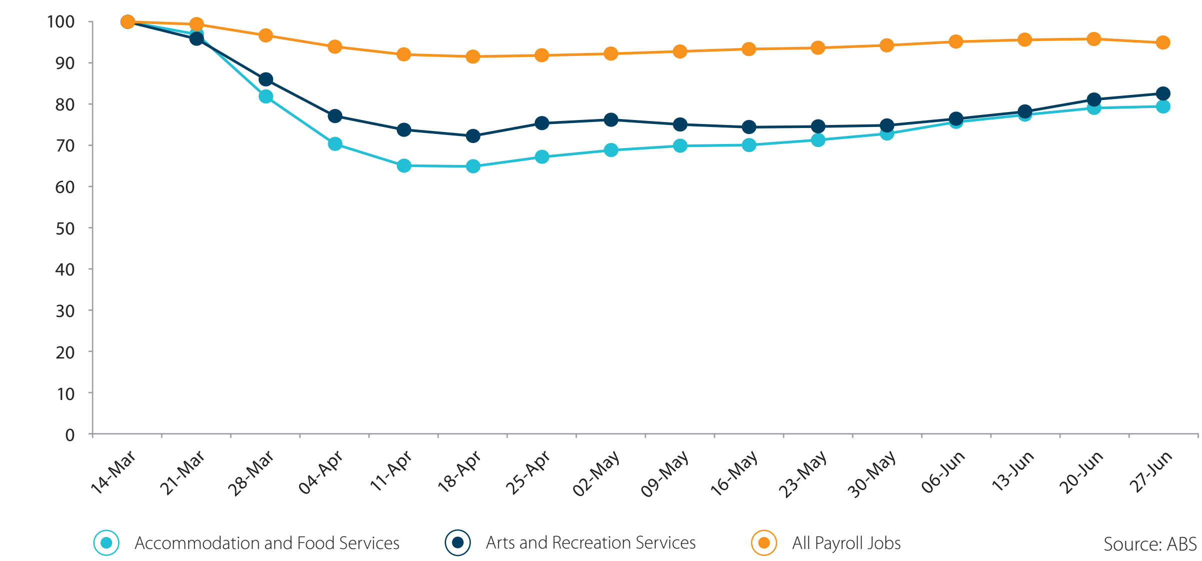

Source: CoreLogic, ABS. Note labour force data is based on an average of four quarters to February 2020, while household renting ratio is based on estimates from the CoreLogic property database from May 2020

While job losses in these sectors have likely already reduced demand for rentals in these areas, there are a couple of factors that will have helped offset these impacts.

The first are government boosts to JobSeeker and the introduction of the JobKeeper program, which would help tenants service rent in the event of unemployment or reduced hours.

Secondly, although job losses have been more severe across tourism, hospitality and the arts, an index of job changes since the 14th of March suggest that these sectors have had better recovery than total combined sectors over May and June. The jobs index for the arts and recreation services sector has recovered 7.8% since bottoming out in April. Accommodation and food services have recovered 19.0%. Total payroll jobs have risen just 4.2% in the same period. This could signal some stabilising demand in the rental market.

## INDEX OF PAYROLL JOB CHANGES BETWEEN 14TH OF MARCH AND 27TH OF JUNE



## OVERSEAS TRAVEL AND THE RENTAL MARKET

The other major demand factor for rental markets, which has been impacted by COVID-19, is the state of overseas migration and visitation to Australia.

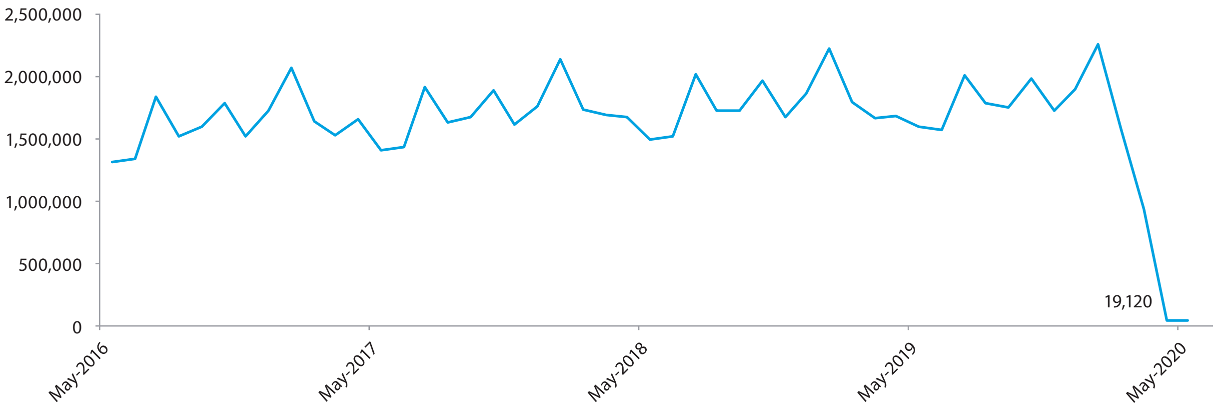
Travel from overseas has been progressively restricted since February. On March 19th, the Australian government closed its borders to all overseas visitors other than citizens and residents.

Provisional estimates from the ABS showed there was a 98.8% decline in overseas arrivals to Australia in May 2020 compared with May 2019. Recent overseas migration significantly affects rental demand. Past research has highlighted, about 80% of overseas migrants to Australia initially rent[5].

Departures over May 2020 outweighed arrivals. An estimated 300,000 temporary workers, students and tourists are estimated to have left Australia in the first few months of the year[6]. This group of temporary VISA holders were also more likely to be renting, creating a further withdrawal in demand.

As with employment data, the variation of impact on rental markets can be inferred by looking at historic regional migration patterns.

### ALL OVERSEAS ARRIVALS TO AUSTRALIA (PROVISIONAL ESTIMATES)




Source: ABS

5. Khoo, S. E., McDonald, P., Temple, J., & Edgar, B. (2012). Scoping Study of Migration and Housing Needs. Report for National Housing Supply Council Unit, Department of the Treasury, 31.
6. Creighton, A. (April 15th, 2020). COVID-19: Australia's great exodus revealed. The Australian. https://www.theaustralian.com.au/nation/covid19-australias-great-exodus-revealed/news-story/643e22b0b3023a177e9dacaa03b8c830.

The chart below shows SA4 regions across Australia by the number of net overseas migrants contributing to population growth over 2019.

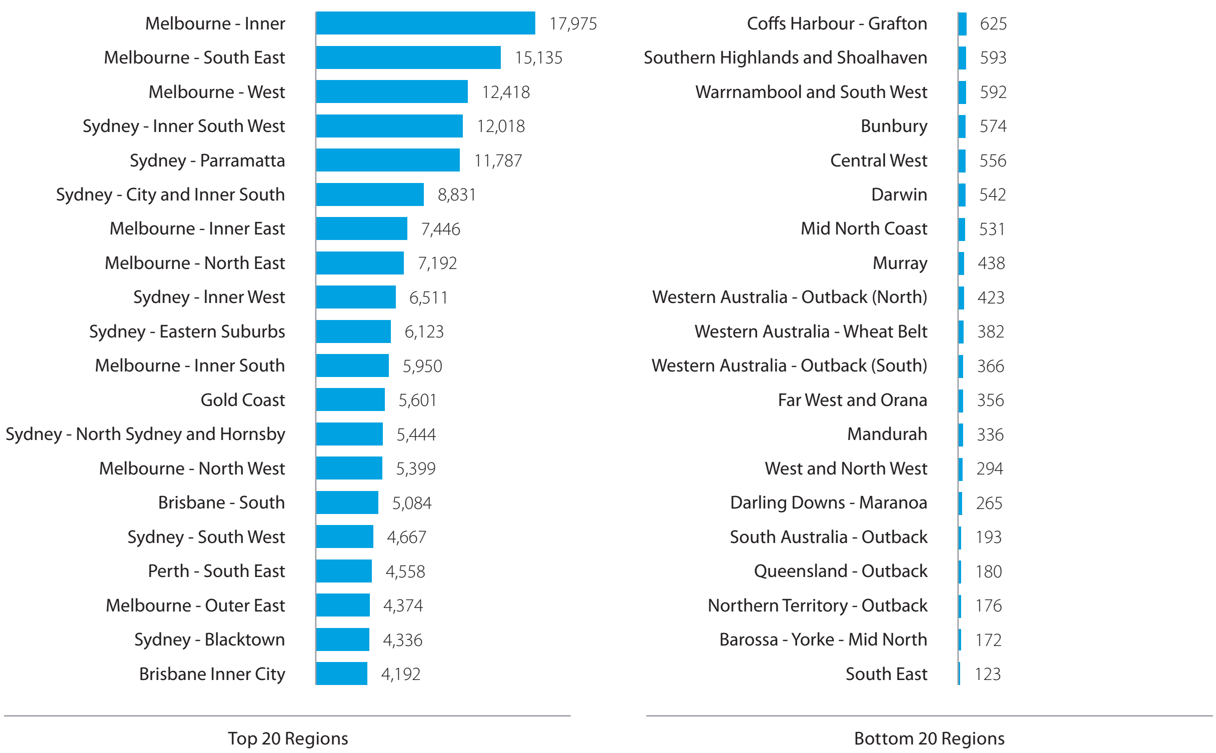
The graph on the left hand side shows the regions most dependent on overseas migration for population growth. This reflects some of the areas that may have taken a hit to rental demand because of the departure of temporary migrants or lack of new arrivals, such as inner-city Melbourne. But it also highlights areas further from the main CBDs, such as Parramatta and Blacktown in Sydney, and the Melbourne - South East region, which could be impacted by a decline in new overseas migration.

The areas experiencing the lowest levels of net overseas migration are largely represented by small regional areas, where rental markets are likely to be largely unaffected by the recent changes to migration flows. However, even some of these regional areas are likely to see some impact on the rental market, particularly those reliant on tourism for income prosperity.

International border restrictions in Australia are expected to last for at least another few months, and most likely longer. Between the national agenda and policies overseas, the Australian government estimates an 85% drop in net overseas migration for 2020-21, to around 36,000. Extrapolating an estimate of renting migrants and average people per household, this points to new rental demand from overseas falling from about 74,000 dwellings over 2019, to just 11,000 over 2020-21.

As well as creating an initial surplus of rental vacancies and downward pressure on rental prices, this will have longer term implications for the level of investor activity and supply of rental stock, discussed in the next section.

## TOP AND BOTTOM 20 REGIONS OF AUSTRALIA BY NET OVERSEAS MIGRATION — 2019



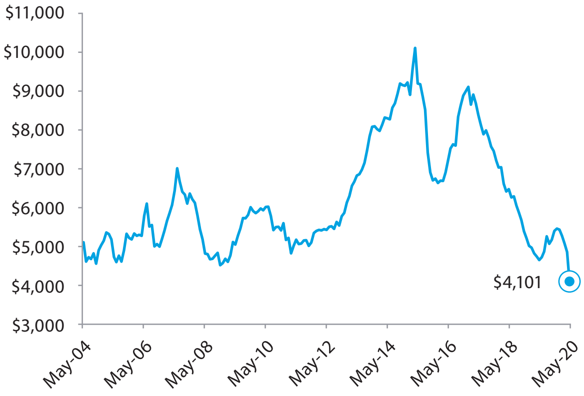

Source: ABS

# THE STATE OF RENTAL SUPPLY AND COVID-19

At the same time that localised reductions in rental demand emerge, there are several factors which have contributed to an increase in the supply of rental listings. Moreover, the uplift in rental supply stock also appears to be quite a localised phenomenon.

ABS finance data provides useful context in understanding the state of investor participation, and the subsequent delivery of new rental supply, in the lead up to COVID-19. The graph below shows the monthly value of new finance secured for housing investment lending across Australia.

**MONTHLY VALUE OF INVESTOR HOUSING FINANCE COMMITMENTS ($ MILLION)**




Source: ABS

Investor finance for the purchase of property surged from late 2012, partly due to a rate cutting cycle that saw the cash rate target fall from 4.25% from the start of 2012 to just 1.5% by August 2016.

New housing finance for investment purchases peaked at $10.1 billion in April 2015. Prior to this, the series average for lending to investors was $5.8 billion per month. This surge in investment activity slowed amid the implementation of macro-prudential policy announced in December 2014 that restricted lenders to growing their investor book by less than 10% per annum. However, this was followed by a second period of elevated investment between early 2016 and 2017.

Developer activity increased significantly to accommodate the demand from investors, particularly in the unit segment. In the 12 months to August 2016, unit approvals peaked at 123,404, which was 42.5% above the decade average. This contributed to a surge in rental listings, and a gradual loosening of rental market conditions in some markets.

The CoreLogic hedonic rental value index, which tracks changes in estimated rent values, shows that over this period rents did not fall on a national level. However, annual growth in rents did bottom out at a very weak 0.5% at July 2016.

More recently, much of 2019 and early 2020 saw a gradual reversal of earlier trends. A withdrawal in investor participation in the housing market occurred in response to tightened lending conditions designed to limit potentially risky housing lending. In September 2017, APRA implemented a 30% cap on the share of banks' new lending that was interest only, a loan structure largely utilised by investors[7]. The graph below shows that from this period, investor lending trended lower to reach record lows.

It is fortunate that in the lead up to COVID-19, investment participation in the property market had been correcting from very high levels. It means that more property was being purchased by owner-occupiers, who may be less likely to offload property assets amid economic uncertainty, thus reducing some overall risk to the property market.

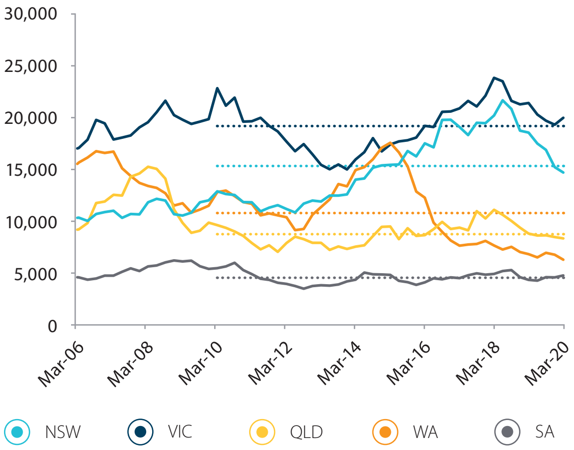
If investor participation remains low, this could keep rental market conditions relatively steady. It signals that the fall away in demand will be met with less new supply.

**INVESTOR HOUSING FINANCE COMMITMENTS AS A % OF TOTAL HOUSING FINANCE COMMITMENTS (BASED ON VALUE EXCL- REFI)**


Source: ABS

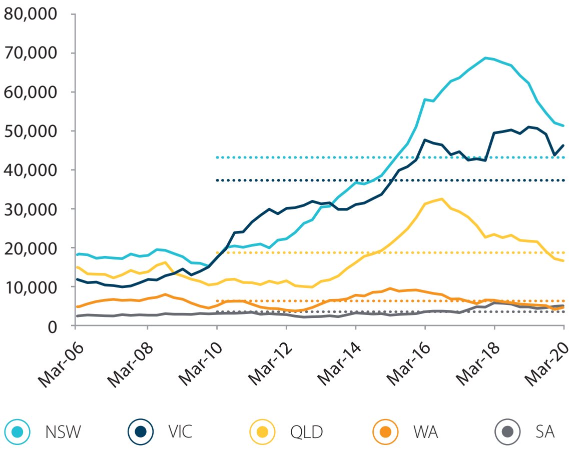
7. APRA. (2017). Residential mortgages: Update on interest-only lending. APRA Insight – Issue 4 2017. https://www.apra.gov.au/apra-insight-issue-4-2017#interest-only-benchmark.

**NUMBER OF HOUSES UNDER CONSTRUCTION, MAJOR STATES**




Source: ABS

**NUMBER OF UNITS UNDER CONSTRUCTION, MAJOR STATES**




Source: ABS

However, ABS building activity data suggests that even as approvals and commencements are moderating, there is still an above-average level of units under construction across Victoria and NSW. At March 2020, the number of units under construction was 18.8% higher than the decade average across NSW, and 24.0% higher across Victoria. This poses added risk to future return within these unit markets.

## AIRBNB – FROM SHORT TERM, TO LONG TERM, AND BACK AGAIN

Another factor contributing to increased rental supply is the conversion of short term accommodation, namely Airbnb, to the long-term rental market. This has been supported anecdotally, with real estate agents reporting that they have assisted Airbnb owners to market their property for a longer-term tenant[8].

Researchers from the University of Queensland estimate 346,581 unique properties, or about 4% of the country's housing stock, had been used for Airbnb at some point between July 2016 and February 2019. The highest counts of Airbnb listings by SA2 region were in Melbourne, Surfers Paradise, Point Nepean, Byron Bay and the Sydney-Haymarket-The Rocks region[9]. Additional stock from the conversion of holiday homes to longer-term tenure would ease rental prices.

However, the switch from Airbnb to longer term leasing is likely to be temporary. 'Long term' tenancies in Australia are relatively short, at 6-12 months, and landlords may see much higher revenues from Airbnb, particularly in tourism-centred markets. As domestic and international travel resumes, landlords may be keen to revert properties back to short-term holiday accommodation soon after the longer-term lease period expires.

8. Derwin, J. (March 25th 2020). Airbnb properties are flooding back onto the rental market across Australia, as short-term visitors dry up due to coronavirus travel restrictions. Business Insider AU. https://www.businessinsider.com.au/coronavirus-airbnb-rents-impact-rental-market-australia-2020-3.

9. Sigler, T., & Panczak, R. (2020). Ever wondered how many Airbnbs Australia has and where they all are? We have the answers. The Conversation. https://theconversation.com/ever-wondered-how-many-airbnbs-australia-has-and-where-they-all-are-we-have-the-answers-129003.

## CORELOGIC RENTAL LISTINGS

In assessing the state of rental supply, it is useful to consider changes in the level of advertised stock. CoreLogic rental listings are calculated on a rolling, 28-day basis. A count of the unique total and newly advertised property for rent across the capital city markets is considered.

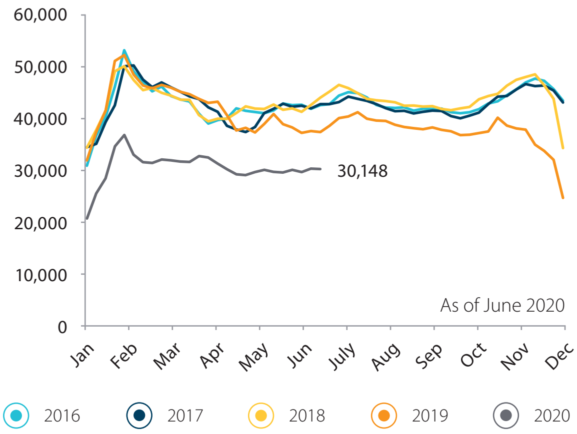
A summary of new and total rent listings across the combined capital cities is summarised in the graphs to the right of this page.

Interestingly, though rent listings have seen a rise in volumes over the past few weeks, they are still relatively low compared with the equivalent 28-day period in 2019. Total rent listings on market across the combined capital cities were down 15.3% compared with the same period in 2019, as investor participation in the housing market reached record lows in early 2020. However, the pile-up in rental stock amid COVID-19 is demonstrated by the fact that this gap is narrowing: the average gap between total listings volumes in 2019 and 2020 to May was -23.2%.

New rent listings across the combined capital cities increased 2.2% between the 28 days ending 28th of June, and the 28 days ending 31st of May. Total rent listings declined 3.7% in the same period. This suggests that there was an increase in the level of new listings coming to market over May, but that total rental stock had a period of stabilisation. This may be either through demand increasing slightly over June, or vacant rental stock being withdrawn from the market.

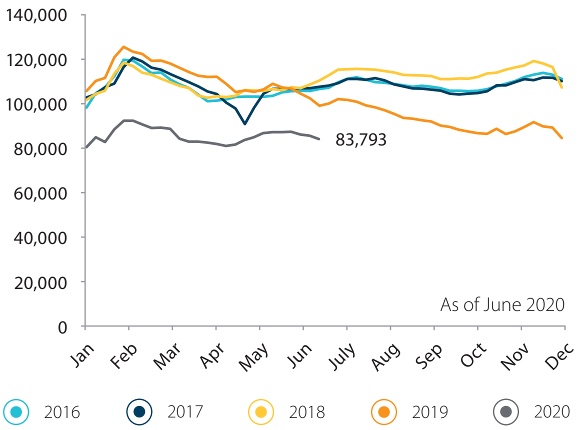
Notably, most of the build-up in rental listings is occurring in Sydney and Melbourne. The graph below shows the change in total rent listings counted in the 28-days to March 15, as Australia reached its 100th case of COVID-19, versus the 28-days ending 28th of June. Between these periods, rent listings across Melbourne rose by 3,730, Sydney rent listings rose by 1,043, and other capital cities saw a decline in rent listings on the whole.

### NUMBER OF NEW RENTAL LISTINGS, COMBINED CAPITAL CITIES DWELLINGS



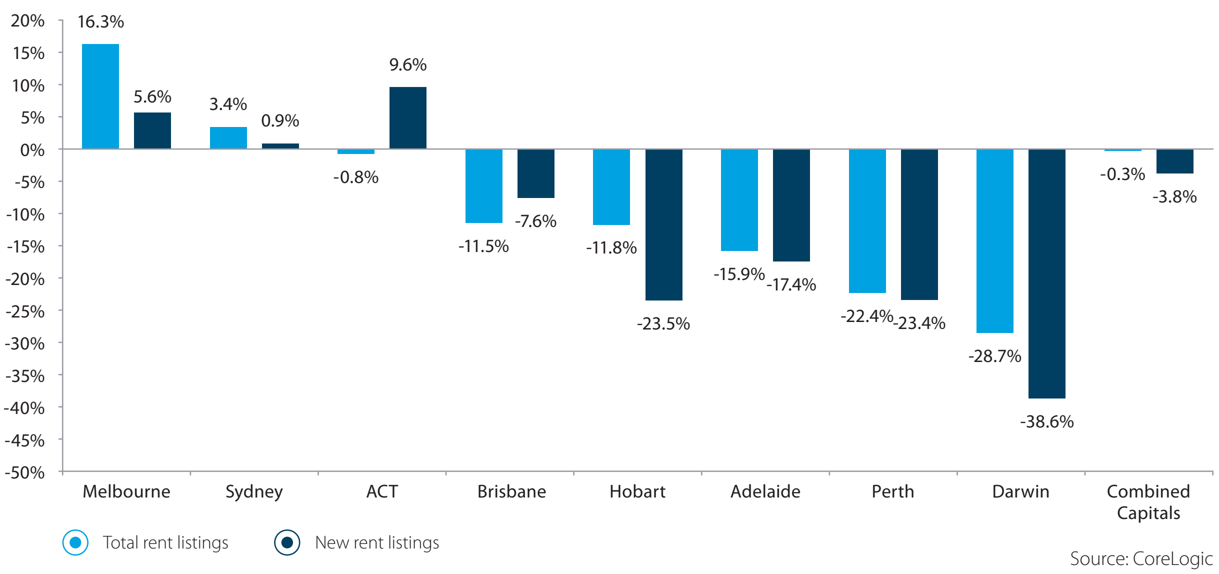

Source: CoreLogic

### NUMBER OF TOTAL RENTAL LISTINGS, COMBINED CAPITAL CITIES DWELLINGS




Source: CoreLogic

### CHANGE IN TOTAL AND NEW RENT LISTINGS BETWEEN 4 WEEKS ENDING MARCH 15TH AND JUNE 28TH




Source: CoreLogic

Breaking down rental listings by SA4 region shows a similar trend, where rent listings have seen a significant accumulation across inner-city Sydney and Melbourne.

Of the 88 SA4 regions for which total rent listings are counted, only 11 regions have seen an increase over the measurement periods. These 11 areas are relatively large rental markets however, accounting for 30.8% of estimated rental stock in Australia. 8 of the 11 regions are located across Sydney and Melbourne. Other regions recording an increase in rental listings include the Adelaide – Central and Hills Region, the Gold Coast and Brisbane Inner City. The increase in listings across the Gold Coast, which were up 5.1% between the two periods measured, may reflect the conversion of holiday accommodation to the longer-term rental market.

The differences across rental markets is crucially important to understand, because it empowers tenants and landlords in negotiating rents based on local conditions. It also highlights that the 'Australian' rental market is comprised of many markets with highly different dynamics.

This is reinforced by the rental demand factors discussed in the earlier section of this report, where variations in exposure to net overseas migration and precarious work are likely leading to variations in surplus rental stock. The following section provides insight into changes in rental values and yields, which also reflects increased supply in these regions putting downward pressure on rental prices.

### TABLE 1: RENT LISTINGS SA4

| SA4 Region Name | Total Listings Count - 28 days to 15th of March | Total Listings Count - 28 days to 28th of June | Change in Total Listings |
|---|---|---|---|
| Melbourne - Inner | 7,011 | 11,019 | 57.2% |
| Sydney - City and Inner South | 3,611 | 5,530 | 53.1% |
| Sydney - Eastern Suburbs | 2,189 | 3,094 | 41.3% |
| Melbourne - Inner East | 1,990 | 2,382 | 19.7% |
| Melbourne - Inner South | 2,218 | 2,654 | 19.7% |
| Sydney - Inner West | 2,421 | 2,729 | 12.7% |
| Brisbane Inner City | 2,426 | 2,665 | 9.9% |
| Sydney - North Sydney and Hornsby | 3,104 | 3,293 | 6.1% |
| Adelaide - Central and Hills | 1,060 | 1,116 | 5.3% |
| Gold Coast | 2,832 | 2,977 | 5.1% |
| Sydney - Ryde | 1,531 | 1,591 | 3.9% |
| Australian Capital Territory | 898 | 891 | -0.8% |
| Melbourne - North West | 1,349 | 1,290 | -4.4% |
| Sydney - Parramatta | 3,954 | 3,753 | -5.1% |
| Geelong | 962 | 912 | -5.2% |
| Melbourne - West | 3,291 | 3,107 | -5.6% |
| Sydney - Inner South West | 3,546 | 3,342 | -5.8% |
| Warrnambool and South West | 278 | 260 | -6.5% |
| Sydney - Northern Beaches | 1,141 | 1,054 | -7.6% |
| Brisbane - South | 1,816 | 1,671 | -8.0% |
| Perth - Inner | 2,206 | 2,026 | -8.2% |
| Melbourne - South East | 2,980 | 2,706 | -9.2% |
| Sydney - Sutherland | 627 | 563 | -10.2% |
| Sydney - South West | 1,960 | 1,756 | -10.4% |
| Central West | 920 | 824 | -10.4% |
| Sydney - Baulkham Hills and Hawkesbury | 783 | 701 | -10.5% |

| SA4 Region Name | Total Listings Count - 28 days to 15th of March | Total Listings Count - 28 days to 28th of June | Change in Total Listings |
|---|---|---|---|
| Melbourne - Outer East | 1,138 | 1,017 | -10.6% |
| Hobart | 644 | 568 | -11.8% |
| Melbourne - North East | 1,975 | 1,735 | -12.2% |
| Brisbane - West | 852 | 741 | -13.0% |
| Latrobe - Gippsland | 864 | 750 | -13.2% |
| South East | 86 | 74 | -14.0% |
| West and North West | 243 | 209 | -14.0% |
| Sunshine Coast | 1,550 | 1,324 | -14.6% |
| Brisbane - North | 1,116 | 942 | -15.6% |
| Newcastle and Lake Macquarie | 1,335 | 1,114 | -16.6% |
| Murray | 380 | 312 | -17.9% |
| Brisbane - East | 794 | 648 | -18.4% |
| Ipswich | 1,590 | 1,296 | -18.5% |
| North West | 345 | 281 | -18.6% |
| Sydney - Blacktown | 2,111 | 1,702 | -19.4% |
| Richmond - Tweed | 941 | 750 | -20.3% |
| Illawarra | 1,288 | 1,024 | -20.5% |
| Hume | 409 | 324 | -20.8% |
| Perth - South East | 2,830 | 2,241 | -20.8% |
| Adelaide - West | 749 | 593 | -20.8% |
| Logan - Beaudesert | 1,663 | 1,316 | -20.9% |
| Coffs Harbour - Grafton | 896 | 706 | -21.2% |
| Launceston and North East | 584 | 459 | -21.4% |
| Moreton Bay - North | 1,076 | 845 | -21.5% |
| New England and North West | 906 | 706 | -22.1% |
| Cairns | 1,384 | 1,066 | -23.0% |
| South Australia - South East | 764 | 585 | -23.4% |
| Moreton Bay - South | 785 | 599 | -23.7% |
| Northern Territory - Outback | 289 | 220 | -23.9% |
| Mornington Peninsula | 941 | 713 | -24.2% |
| Ballarat | 730 | 550 | -24.7% |
| Shepparton | 368 | 277 | -24.7% |
| Adelaide - North | 1,092 | 820 | -24.9% |
| Western Australia - Outback (South) | 822 | 617 | -24.9% |
| Barossa - Yorke - Mid North | 207 | 155 | -25.1% |
| Southern Highlands and Shoalhaven | 924 | 691 | -25.2% |
| Perth - North East | 1,193 | 890 | -25.4% |
| Hunter Valley exc Newcastle | 1,023 | 763 | -25.4% |
| Mackay - Isaac - Whitsunday | 1,022 | 761 | -25.5% |
| Sydney - Outer South West | 958 | 711 | -25.8% |
| Bendigo | 591 | 437 | -26.1% |
| Adelaide - South | 874 | 646 | -26.1% |

| SA4 Region Name | Total Listings Count - 28 days to 15th of March | Total Listings Count - 28 days to 28th of June | Change in Total Listings |
|---|---|---|---|
| Perth - South West | 2,404 | 1,764 | -26.6% |
| Sydney - Outer West and Blue Mountains | 1,539 | 1,128 | -26.7% |
| Western Australia - Wheat Belt | 539 | 390 | -27.6% |
| Bunbury | 922 | 662 | -28.2% |
| Darwin | 934 | 666 | -28.7% |
| Mid North Coast | 1,008 | 717 | -28.9% |
| Perth - North West | 2,537 | 1,804 | -28.9% |
| Queensland - Outback | 280 | 198 | -29.3% |
| Darling Downs - Maranoa | 573 | 405 | -29.3% |
| Central Coast | 1,449 | 1,020 | -29.6% |
| Central Queensland | 1,280 | 899 | -29.8% |
| Mandurah | 666 | 455 | -31.7% |
| Capital Region | 849 | 572 | -32.6% |
| Wide Bay | 1,086 | 725 | -33.2% |
| Townsville | 1,528 | 996 | -34.8% |
| Toowoomba | 775 | 504 | -35.0% |
| Far West and Orana | 572 | 371 | -35.1% |
| Riverina | 757 | 490 | -35.3% |
| South Australia - Outback | 485 | 313 | -35.5% |
| Western Australia - Outback (North) | 747 | 468 | -37.3% |

# RENTAL MARKET METRICS

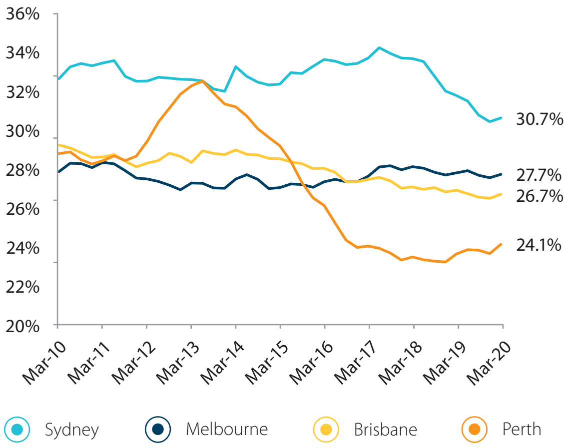
## RENTAL VALUES AND AFFORDABILITY

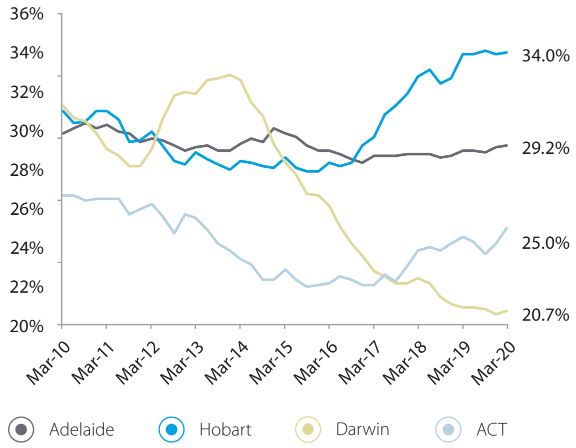
Rental affordability in the lead up to COVID-19 is captured by the proportion of household income required to service rent.

Utilising household income data together with the median weekly rental payment, the percentage of gross annual household is required to pay the rent is calculated. For example, a household earning $100,000 per annum in a city where the median weekly rent is $500 would be dedicating 26% of their gross annual household income towards paying their landlord.

A summary of the portion of income required to service rent is provided across Australian regions below.

### PORTION OF INCOME REQUIRED TO SERVICE RENT - CAPITAL CITY DWELLING MARKETS



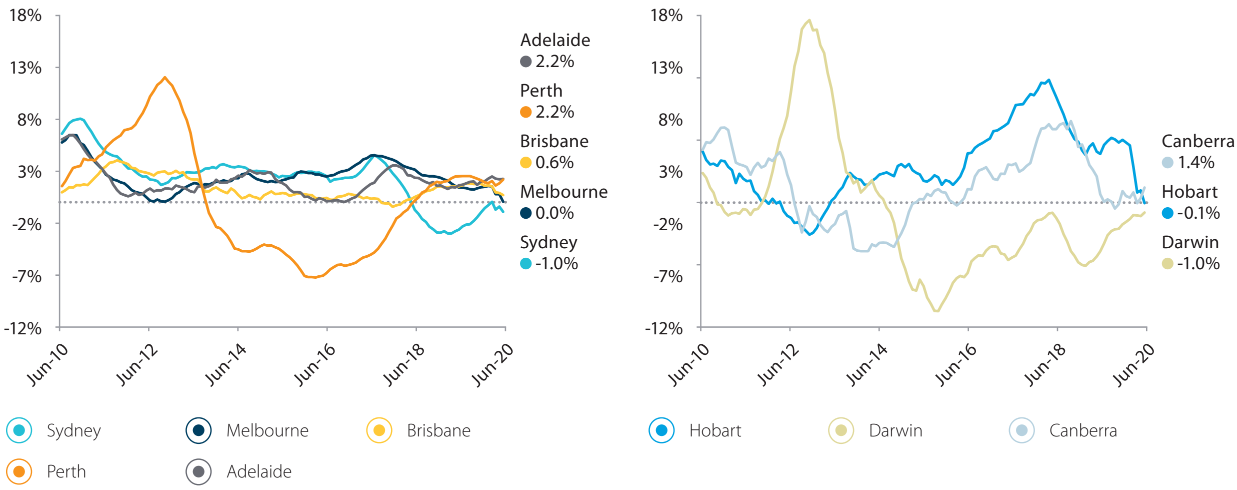

### TABLE 2: PORTION OF INCOME TO SERVICE RENT PAYMENT - DATA TO MARCH 2020

| | Sydney | Melbourne | Brisbane | Adelaide | Perth | Hobart | Darwin | Canberra | Combined capitals | Combined regionals | National |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **All Dwellings** | | | | | | | | | | | |
| Mar-20 Quarter | 30.7% | 27.7% | 26.7% | 29.2% | 24.1% | 34.0% | 20.7% | 25.0% | 27.4% | 30.3% | 28.5% |
| Dec-19 Quarter | 30.5% | 27.5% | 26.5% | 29.1% | 23.7% | 33.9% | 20.5% | 24.2% | 27.3% | 30.0% | 28.3% |
| Mar-19 Quarter | 31.8% | 27.8% | 26.9% | 29.0% | 23.6% | 33.9% | 20.9% | 24.5% | 27.6% | 30.1% | 28.5% |
| **Houses** | | | | | | | | | | | |
| Mar-20 Quarter | 33.5% | 28.0% | 28.0% | 30.0% | 24.1% | 35.1% | 22.9% | 25.7% | 27.8% | 30.4% | 28.4% |
| Dec-19 Quarter | 32.3% | 27.6% | 27.8% | 30.0% | 24.0% | 34.9% | 22.2% | 25.4% | 27.4% | 30.5% | 28.2% |
| Mar-19 Quarter | 32.4% | 27.7% | 28.0% | 30.2% | 24.5% | 35.0% | 22.4% | 26.4% | 27.6% | 30.7% | 28.5% |
| **Units** | | | | | | | | | | | |
| Mar-20 Quarter | 31.8% | 27.8% | 26.9% | 29.0% | 23.6% | 33.9% | 20.9% | 24.5% | 27.3% | 28.9% | 28.7% |
| Dec-19 Quarter | 30.5% | 27.5% | 26.5% | 29.1% | 23.7% | 33.9% | 20.5% | 24.2% | 27.1% | 27.9% | 28.4% |
| Mar-19 Quarter | 30.7% | 27.7% | 26.7% | 29.2% | 24.1% | 34.0% | 20.7% | 25.0% | 27.2% | 28.9% | 28.6% |

Rent value growth is measured using changes in the CoreLogic Hedonic Rental Value Index. The rental value index measures changes over time in the total value of estimated rents in a market.

Growth in rental values has been weak across some of the larger capital city markets over the past few years. This is symptomatic of the surge in investment and housing development that occurred between 2012 and 2017, particularly across Sydney, Melbourne and Brisbane.

## ANNUAL GROWTH IN HEDONIC RENTAL INDICIES — CAPITAL CITY DWELLING MARKETS




## TABLE 3: RENTAL VALUES SUMMARY - DATA TO JUNE 2020

| | Sydney | Melbourne | Brisbane | Adelaide | Perth | Hobart | Darwin | Canberra | Combined capitals | Combined regionals | National |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **All Dwellings** | | | | | | | | | | | |
| Median rent | $525 | $440 | $400 | $380 | $375 | $440 | $400 | $515 | $460 | $380 | $450 |
| Monthly change | -0.8% | -0.6% | -0.1% | 0.2% | 0.3% | -0.9% | 0.3% | -0.1% | -0.4% | 0.1% | -0.3% |
| Change since March | -1.3% | -1.0% | -0.6% | 0.1% | 0.9% | -2.3% | -0.1% | -0.4% | -0.7% | 0.2% | -0.5% |
| Year-on-Year change | -1.0% | 0.0% | 0.6% | 2.2% | 2.2% | -0.1% | -1.0% | 1.4% | 0.2% | 2.1% | 0.7% |
| **Houses** | | | | | | | | | | | |
| Median rent | $550 | $440 | $420 | $395 | $380 | $460 | $460 | $590 | $450 | $390 | $430 |
| Monthly change | -0.6% | -0.3% | 0.0% | 0.2% | 0.4% | -0.6% | 0.4% | 0.0% | -0.2% | 0.1% | -0.1% |
| Change since March | -0.7% | -0.3% | -0.4% | 0.2% | 1.0% | -2.0% | 0.1% | -0.3% | -0.2% | 0.2% | -0.1% |
| Year-on-Year change | -0.2% | 1.4% | 1.1% | 2.4% | 2.3% | 0.0% | -1.9% | 1.5% | 1.0% | 2.3% | 1.4% |
| **Units** | | | | | | | | | | | |
| Median rent | $520 | $440 | $395 | $350 | $360 | $400 | $370 | $480 | $470 | $360 | $450 |
| Monthly change | -1.1% | -1.1% | -0.4% | 0.0% | 0.0% | -1.8% | 0.0% | -0.5% | -0.9% | 0.0% | -0.8% |
| Change since March | -2.1% | -2.0% | -1.0% | -0.2% | 0.1% | -3.7% | -0.3% | -0.7% | -1.8% | 0.3% | -1.4% |
| Year-on-Year change | -2.1% | -1.9% | -0.8% | 1.5% | 1.2% | -0.5% | 0.4% | 1.2% | -1.5% | 1.5% | -1.0% |

Annualised growth in the combined capital city rental market values was just 0.9% over the past 5 years. This is more subdued than wages growth and inflation, suggesting a shift towards improved affordability for renters.

Over 2019, rental values began tightening as investment and development slowed. In March, annual growth in Sydney rents rose for the first time since May 2018. However, COVID-19 has started to shift this dynamic, with dwelling rents falling 1.3% across Sydney since March, led by a 2.1% decline in Sydney unit rents.

As may be expected, the Sydney regions with the steepest decline in rental values between March and June are the City and Inner South (-4.1%), followed by Sydney's Eastern Suburbs (-3.7%).

Melbourne and Brisbane rental values have seen steadier performance in the past few years. Across Melbourne, this has been supported by historically high international migration. Over 2018-19, ABS migration data records Melbourne having the highest number of net overseas migrants of the capital cities, at 77,369. The pause on international migration has so far contributed to Melbourne rents slipping 1.0%, driven by a 2.0% decline in unit rents, while house rents declined by a smaller 0.3%.

The Brisbane rent market has had the weakest growth in rent values outside of Sydney, Perth and Darwin, with annualised rental value growth of 0.6% over the past 5 years.

This is largely the result of a high influx of investor grade stock over 2016, when units were being built across Brisbane at an unprecedented level. ABS completion data suggests 21,342 units were completed, against a historic average of 11,585 per year. As completions moderated and interstate migration lifted, Brisbane rental values gradually gained momentum. However, COVID-19 has seen a reversal of this trend since March, particularly across the inner city market, where rents are down 0.9%.

In smaller regions like the ACT and Hobart, rent values were already seeing downward pressure in the lead up to COVID-19 as a result of affordability constraints for the renting population.

Rent values across Hobart have seen the steepest rate of decline of the capital markets from March to June, falling 2.3% over the period. For Hobart in particular, where rental markets have been the most unaffordable of the capital cities since December 2018, the compounding effects of COVID-19 on rental supply could be a great relief for tenants.

It is important to note that even while rents have fallen in the past three months, this does not mean that dwellings will become more affordable for renters. This is because of the significant income losses over the period. ABS analysis of Single Touch Payroll data indicates that total wages paid between the 14th of March and 13th of June fell 6.3%.

Rental affordability already showed signs of worsening in 4 of the 8 capital city markets over the year to March 2020. Affordability may deteriorate further in the coming quarters due to job and income loss. For renters who are less affected, or unaffected by the COVID-19 downturn, affordability may improve markedly, depending on the region in which they are located.

## WHERE ARE TENANTS MOST LIKELY TO NEGOTIATE LOWER RENTS?

Rental markets are proving to be highly varied in the current climate. The following section uses suburb-level data to identify where tenants may be most successful in negotiating reduced rental rates with landlords, based on estimated reductions in the total rental market value.

The following table draws on the 'top 10' suburbs by rental value declines between March and June across capital cities, where there were at least 10 listings in the suburb at the points of measurement.

### TABLE 4: CAPITAL CITY SUBURBS THAT HAVE SEEN THE LARGEST FALL IN RENTS

| Region | Suburb Name | Change in rents - 31st of March to 30th of June | Number of listings counted in June | Median rent value - June |
|---|---|---|---|---|
| ACT | Kingston | -2.2% | 111 | $554 |
| | Barton | -1.9% | 36 | $595 |
| | Forde | -1.7% | 12 | $660 |
| | Campbell | -1.6% | 37 | $728 |
| | City | -1.6% | 96 | $608 |
| | Dickson | -1.6% | 25 | $559 |
| | Griffith | -1.4% | 62 | $531 |
| | Watson | -1.3% | 32 | $510 |
| | O'Connor | -1.1% | 19 | $687 |
| | Gungahlin | -1.0% | 53 | $554 |
| Adelaide | Goodwood | -2.8% | 12 | $494 |
| | North Adelaide | -2.3% | 82 | $436 |
| | Adelaide | -2.2% | 404 | $450 |
| | Unley | -2.0% | 18 | $507 |
| | Fullarton | -1.4% | 14 | $503 |
| | Parkside | -1.4% | 25 | $506 |
| | St Peters | -1.2% | 15 | $519 |
| | Windsor Gardens | -1.1% | 19 | $388 |
| | Norwood | -1.1% | 56 | $462 |
| | Largs North | -1.0% | 13 | $402 |
| Brisbane | Brisbane City | -3.6% | 428 | $498 |
| | South Brisbane | -3.3% | 269 | $487 |
| | Hawthorne | -3.1% | 42 | $538 |
| | Fortitude Valley | -3.1% | 156 | $416 |
| | Spring Hill | -3.0% | 166 | $430 |
| | West End | -2.9% | 153 | $498 |
| | Highgate Hill | -2.4% | 55 | $469 |
| | Robertson | -2.3% | 14 | $531 |
| | Balmoral | -2.2% | 27 | $528 |
| | Salisbury | -2.2% | 27 | $437 |
| Darwin | Gray | -1.3% | 18 | $368 |
| | Nightcliff | -0.9% | 30 | $383 |
| | Millner | -0.8% | 13 | $372 |
| | Bakewell | -0.6% | 26 | $372 |
| | Coconut Grove | -0.6% | 28 | $345 |
| | Karama | -0.6% | 13 | $419 |
| | Leanyer | -0.5% | 17 | $452 |
| | Muirhead | -0.5% | 12 | $588 |
| | Wagaman | -0.4% | 11 | $423 |
| | Rosebery | -0.4% | 31 | $473 |

| Region | Suburb Name | Change in rents - 31st of March to 30th of June | Number of listings counted in June | Median rent value - June |
|---|---|---|---|---|
| Hobart | Battery Point | -5.6% | 37 | $536 |
| | South Hobart | -4.8% | 16 | $509 |
| | Lenah Valley | -4.8% | 13 | $478 |
| | North Hobart | -4.7% | 21 | $516 |
| | New Town | -4.7% | 27 | $500 |
| | Hobart | -4.7% | 39 | $523 |
| | Sandy Bay | -4.7% | 66 | $553 |
| | West Hobart | -4.0% | 23 | $532 |
| | Kingston | -2.6% | 22 | $479 |
| | Bellerive | -2.4% | 16 | $473 |
| Melbourne | Southbank | -7.0% | 1554 | $525 |
| | Melbourne | -6.9% | 2678 | $528 |
| | Docklands | -6.5% | 661 | $547 |
| | Carlton | -5.8% | 533 | $452 |
| | West Melbourne | -5.3% | 234 | $481 |
| | North Melbourne | -4.4% | 265 | $466 |
| | Parkville | -4.2% | 88 | $446 |
| | East Melbourne | -4.0% | 109 | $555 |
| | Port Melbourne | -3.9% | 299 | $623 |
| | Albert Park | -3.7% | 60 | $756 |
| Perth | Shelley | -1.3% | 13 | $448 |
| | Dalkeith | -1.0% | 11 | $955 |
| | Crawley | -1.0% | 44 | $466 |
| | Burswood | -0.9% | 39 | $428 |
| | North Coogee | -0.7% | 27 | $469 |
| | Wilson | -0.6% | 45 | $380 |
| | Riverton | -0.5% | 26 | $432 |
| | High Wycombe | -0.4% | 34 | $399 |
| | Byford | -0.4% | 36 | $373 |
| | Victoria Park | -0.4% | 88 | $396 |
| Sydney | Haymarket | -7.2% | 333 | $748 |
| | Barangaroo | -7.0% | 11 | $890 |
| | Sydney | -6.9% | 719 | $681 |
| | Millers Point | -6.8% | 42 | $831 |
| | the Rocks | -6.7% | 14 | $726 |
| | Kingsford | -5.8% | 289 | $656 |
| | Ultimo | -5.0% | 249 | $624 |
| | South Coogee | -4.9% | 21 | $1,014 |
| | Zetland | -4.9% | 429 | $693 |
| | Pyrmont | -4.8% | 417 | $698 |

Sydney, Melbourne and Hobart have seen the individual suburbs with the largest value declines. Among the top 20 suburbs across the capital cities for rental declines, 11 were located in Sydney, 5 were located in Melbourne, and 5 were suburbs of Hobart.

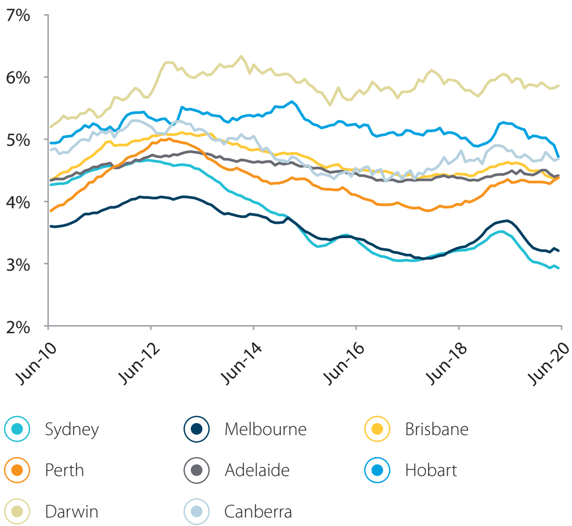
The largest decline in rental values has occurred across Haymarket in Sydney, where suburb rents fell -7.2% in the June quarter. This was followed by the suburb of Barangaroo in Sydney and Southbank in Melbourne, where rents in each suburb fell 7.0%.

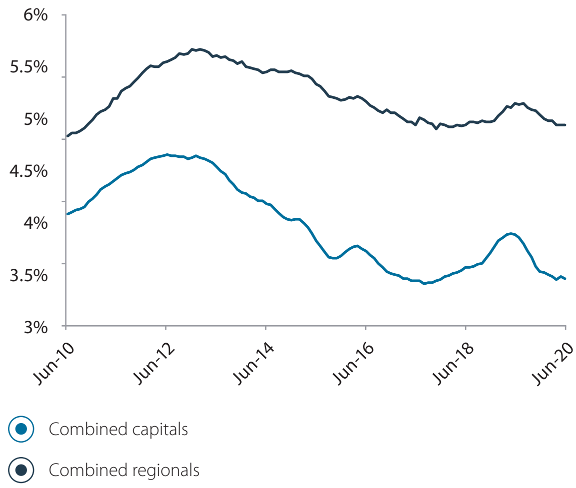
While many of the suburbs reflect the characteristics explored earlier in the report, it is interesting that some relatively high socio-economic suburbs appear on the list. This includes The Rocks in Sydney, Perth's Dalkeith, and Albert Park in Melbourne. However, overall there does not appear to be a significant relationship between percentage value declines and rental values.

While this data can empower tenant decisions, an individual's affordability will largely be determined by their ability to keep their job, or at least maintain a base level of income in the current downturn, making rental affordability a greater function of industry of employment and location.

## RENTAL YIELD PERFORMANCE

### GROSS RENTAL YIELDS — AUSTRALIAN DWELLING MARKETS




### TABLE 5: GROSS RENTAL YIELDS - DATA TO JUNE 2020

| | Sydney | Melbourne | Brisbane | Adelaide | Perth | Hobart | Darwin | Canberra | Combined capitals | Combined regionals | National |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **All Dwellings** | | | | | | | | | | | |
| Current yield | 2.9% | 3.2% | 4.4% | 4.4% | 4.4% | 4.7% | 5.9% | 4.7% | 3.4% | 4.9% | 3.7% |
| Yield 12 mths ago | 3.5% | 3.7% | 4.6% | 4.5% | 4.4% | 5.3% | 6.0% | 4.8% | 3.9% | 5.1% | 4.1% |
| **Houses** | | | | | | | | | | | |
| Current yield | 2.7% | 2.8% | 4.2% | 4.2% | 4.3% | 4.7% | 5.4% | 4.4% | 3.3% | 4.9% | 3.6% |
| Yield 12 mths ago | 3.2% | 3.3% | 4.4% | 4.3% | 4.2% | 5.2% | 5.7% | 4.5% | 3.7% | 5.1% | 4.0% |
| **Units** | | | | | | | | | | | |
| Current yield | 3.4% | 3.9% | 5.2% | 5.3% | 5.2% | 4.8% | 6.8% | 5.8% | 3.9% | 5.2% | 4.0% |
| Yield 12 mths ago | 4.0% | 4.5% | 5.5% | 5.4% | 5.2% | 5.4% | 6.7% | 5.8% | 4.4% | 5.5% | 4.6% |

Rental yields have remained relatively steady, albeit around historically low levels amid COVID-19 at the aggregate level. Across Australia, typical gross rental yields were 3.7% in June, which was relatively steady on March, but had compressed about 40 basis points from June 2019. This was largely a function of property values moving 7.8% higher year on year while rental rates held reasonably firm.

Across the combined capital cities, gross rental yields are recorded at 3.4%, which was steady on yields in March, and 43 basis points below June last year. Gross yields across the combined regional markets also declined over the year, but by just 21 basis points. This leaves regional rent yields at a relatively strong 4.9%.

Gross rental yields across the individual capital cities at the end of June 2020 were recorded at 2.9% in Sydney (a record low), 3.2% in Melbourne, 4.4% in Brisbane, 4.4% in Adelaide, 4.4% in Perth, 4.7% in Hobart, 5.9% in Darwin and 4.7% in Canberra.

The low yields in Sydney and Melbourne are unlikely to improve as dwelling values are tested in the coming months. Investors should note that inner-city unit markets pose a particular risk in the current environment, with rental values likely to fall alongside property values.

Overall, rent yields have been steadily falling across capital city markets amid the upswing in dwelling values across Australia between June 2019 and the start of 2020. Rental yields may be steady or compress slightly more in the coming months, as both property values and rent values are likely to see a decline.

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