

# CoreLogic August Rental Index Results

Rental Review Snapshot – Released: September 7, 2016

## Rental rates continue to trend lower

- Weekly rents across the combined capital cities fell by -0.3% in August 2016 and are now -0.5% lower over the past year.
- Melbourne (2.4%), Hobart (6.8%) and Canberra (2.6%) are the only cities in which rental rates have increased over the past year while Sydney rents are unchanged.
- Large rental falls in Perth (-9.4%) and Darwin (-14.1%) have pulled the combined capital average lower, with rents also falling in Brisbane (-1.1%) and Adelaide (-0.3%) over the year.
- Currently, combined capital city rental rates are \$484/week for houses and \$466/week for units.
- The current rental market weakness is anticipated to continue over the coming months as overall housing supply grows.

## Rents fall -0.3% in August. Taking them -0.5% lower over the past year

The CoreLogic Rental Index shows that combined capital city rental rates fell by -0.3% in August 2016 following a -0.3% fall in July. Rental rates fell in all cities except for Melbourne, Darwin and Canberra.

The combined capital city median weekly rent is currently \$481, which is the lowest it has been since November 2014. Combined capital city rental rates have fallen by -0.5% over the past year and they are now -1.4% lower than they were at their peak in May 2015. At the same time a year ago, capital city rental rates had increased by 0.7%. A combination of factors is driving the current weakness in rental markets with most of these factors likely to persist for some time. These factors include: the softest wages growth on record, relatively high levels of housing investment following record highs recently, historically high levels of new dwelling construction (most of which are units which are more than twice as likely to be rented) and the slowing of population growth which creates less overall demand for housing. The combination of all these factors means that landlords have little scope to increase rents and they are unlikely to have this scope for some time.

The changing rental market will also potentially have repercussions for older stock, particularly units. With so much new unit supply being built, much of which is located in inner city locations, there is the potential for a flight of tenant demand towards higher quality tenancy options in newer buildings. It may be more difficult for owners of older units with less amenities to compete with better located and facilitated new unit stock, particularly if there is little pricing differential.

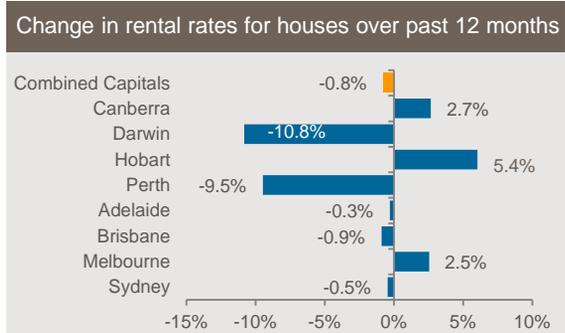
Over the past 12 months, rental rates have increased in Melbourne (+2.9%), Hobart (+6.8%) and Canberra (+2.6%). Rental rates are unchanged over the year in Sydney and have fallen in Brisbane (-1.1%), Adelaide (-0.3%), Perth (-9.4%) and Darwin (-14.1%). Melbourne, Hobart and Canberra have each recorded stronger rental growth over the past year compared to the previous year. At the same

## Rental Index results as at August 31, 2016

Region	CHANGE IN RENTS				YIELDS	
	Current	Month	Quarter	YoY	Current	12 Months Ago
Sydney	\$593	-0.4%	-1.2%	0.0%	3.0%	3.3%
Melbourne	\$458	0.1%	0.1%	2.4%	2.9%	3.1%
Brisbane	\$427	-0.5%	-1.1%	-1.1%	4.2%	4.5%
Adelaide	\$364	-0.4%	-0.4%	-0.3%	4.0%	4.2%
Perth	\$419	-1.4%	-3.7%	-9.4%	3.8%	4.0%
Hobart	\$359	-0.2%	1.0%	6.8%	5.2%	5.2%
Darwin	\$463	0.2%	-1.7%	-14.1%	5.0%	5.5%
Canberra	\$504	0.1%	0.7%	2.6%	4.0%	4.2%
Combined Capitals	\$481	-0.3%	-1.1%	-0.5%	3.3%	3.5%

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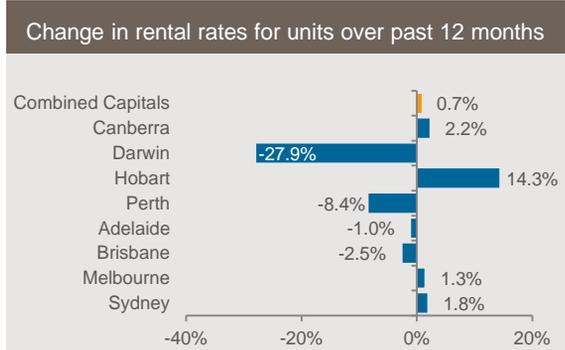
time, we are experiencing the weakest annual changes in rents on record in Sydney, Brisbane and Perth.



Combined capital city house rents were recorded at \$484 per week in August 2016 and unit rents were \$466 per week. Over the past month, house and units rents have fallen by -0.3%. Over the past three months house rents fell -1.1% and unit rents were -0.7% lower.

Over the first eight months of 2016, house rental rates have fallen by -0.6% compared to a 0.3% increase in unit rents.

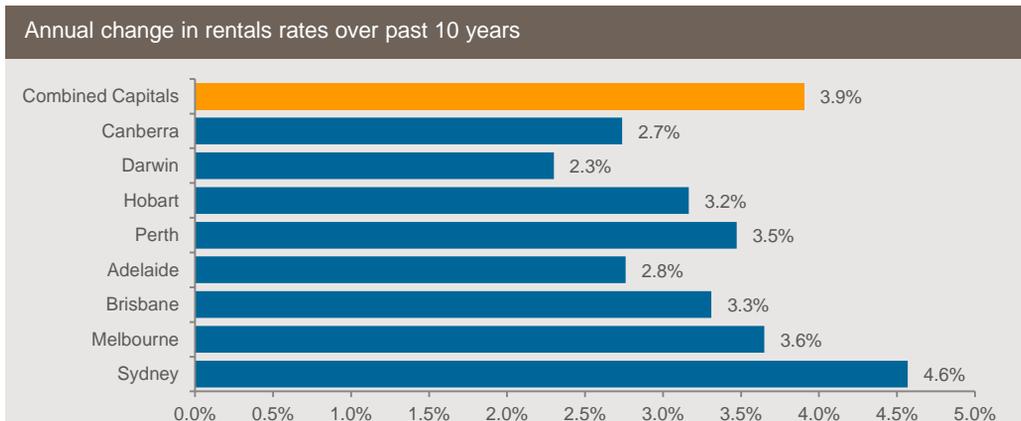
Throughout the past year, house rents are -0.8% lower while unit rents have increased by 0.7%. Both property types are recording annual rental changes at or close to historic lows.



Housing supply, and subsequently rental supply is continuing to rise and set to increase significantly over the coming years given the level of stock under construction. As growth in wages and the population continues to slow, it is unlikely we will see a turnaround in rental markets in the short-term. As a result, renters will continue to have more choice and will likely be able to move into superior rental accommodation for similar or even lower

costs. Over recent years landlords haven't had much incentive to push yields higher due to the low cost of debt and strong capital gains. However, with capital gains starting to slow, investors may place a renewed focus on maximising their rental returns which could prove to be difficult given the already soft rental conditions and substantial ramp-up in housing supply. Lower rents may also act as a disincentive for first home buyers to enter into home ownership as they may be able to save more for a future deposit.

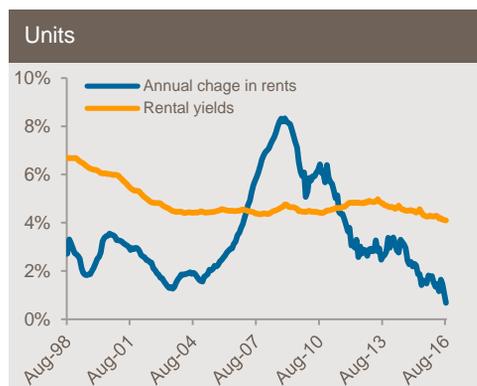
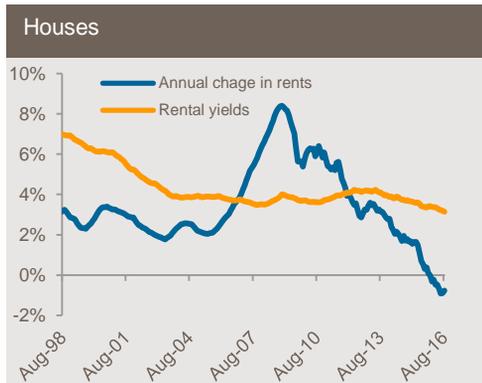
Melbourne and Hobart are the only capital cities where rental rates are currently at a record high level. Across the remaining capitals, the fall from peak for weekly rents has been recorded at: -1.5% in Sydney, -2.0% in Brisbane, -1.9% in Adelaide, -17.2% in Perth, -23.4% in Darwin and -6.5% in Canberra. It is anticipated that over the coming months most cities will continue to see rental rates shift further away from their previous peaks as conditions continue to weaken.



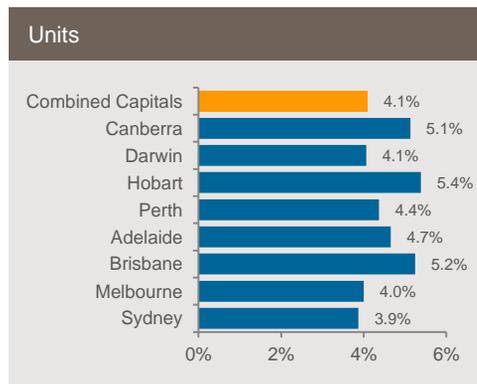
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Capital city rents are recording falls while home values continue to rise. As a result, gross rental yields are trending lower and are expected to soften even further over the coming months from their current record lows. At a combined capital city level, gross rental yields were recorded at 3.1% for houses in August 2016 and at 4.1% for units. A year ago, gross rental yields were recorded at 3.4% for houses and 4.3% for units across the combined capitals. With rental rates falling over the past year and an expectation these falls will continue, there is likely to be a further compression of yields over the coming months however, this will be dependent on growth in home values as well as the direction of rental rates. As a result, capital growth, which has slowed from its recent peak, will continue to be a much more important factor for property investors than rental returns.

## Annual change in rental rates vs. gross rental yields



## Gross rental yields, houses and units



Rental yields are lowest for houses in Sydney and Melbourne (2.8%) and highest in Hobart and Darwin (5.5%). Unit yields are lowest in Sydney at 3.9% and highest in Hobart at 5.4%. Rental yields for houses are at record lows now in Sydney, Melbourne and Canberra and at record lows for units in Sydney and Melbourne.

The low yield profile across Australia's two largest cities, which are also the cities that attract the largest investment demand, suggests that most recent investors, despite the low mortgage rate settings, are likely to be utilising a negative gearing strategy to offset their cash flow losses against their taxable income. With yields so low now in these two cities we may start to see investors turn their attention to other cities in which housing is more affordable and rental returns are superior.

Gross rental yields for houses have softened over the past year in all capital cities except for Hobart where they are unchanged.

Gross rental yields for units are unchanged over the year in Adelaide and have increased in Canberra, in all other capital cities yields are lower than they were a year ago.

# CoreLogic August Rental Index Results

## Key rental and yield statistics across the capital cities

All Dwellings	SYD	MELB	BRIS	ADE	PER	HOB	DAR	CAN	Combined Capitals
% Change Month	-0.4%	0.1%	-0.5%	-0.4%	-1.4%	-0.2%	0.2%	0.1%	-0.3%
% Change Quarter	-1.2%	0.1%	-1.1%	-0.4%	-3.7%	1.0%	-1.7%	0.7%	-1.1%
% Change YTD	-0.4%	1.7%	-1.0%	0.0%	-5.9%	6.1%	-9.1%	1.3%	-0.4%
% Change YOY	0.0%	2.4%	-1.1%	-0.3%	-9.4%	6.8%	-14.1%	2.6%	-0.5%
Median Rent (\$)	\$593	\$458	\$427	\$364	\$419	\$359	\$463	\$504	\$481
Current Yield	3.0%	2.9%	4.2%	4.0%	3.8%	5.2%	5.0%	4.0%	3.3%
Yield 12 mths ago	3.3%	3.1%	4.5%	4.2%	4.0%	5.2%	5.5%	4.2%	3.5%
Houses	SYD	MELB	BRIS	ADE	PER	HOB	DAR	CAN	Combined Capitals
% Change Month	-0.4%	0.1%	-0.4%	-0.4%	-1.4%	-0.1%	0.1%	0.1%	-0.3%
% Change Quarter	-1.3%	0.1%	-1.0%	-0.4%	-3.8%	1.1%	-1.5%	0.8%	-1.1%
% Change YTD	-0.8%	1.8%	-0.8%	0.0%	-6.0%	5.4%	-5.8%	1.3%	-0.6%
% Change YOY	-0.5%	2.5%	-0.9%	-0.3%	-9.5%	6.0%	-10.8%	2.7%	-0.8%
Median Rent (\$)	\$607	\$467	\$430	\$370	\$422	\$361	\$504	\$514	\$484
Current Yield	2.8%	2.8%	4.1%	4.0%	3.7%	5.2%	5.2%	3.9%	3.1%
Yield 12 mths ago	3.1%	3.0%	4.4%	4.1%	3.9%	5.2%	5.5%	4.1%	3.4%
Units	SYD	MELB	BRIS	ADE	PER	HOB	DAR	CAN	Combined Capitals
% Change Month	-0.3%	-0.2%	-0.8%	-0.7%	-1.2%	-0.3%	0.2%	0.1%	-0.3%
% Change Quarter	-0.7%	0.0%	-2.0%	-1.1%	-2.4%	-0.5%	-3.1%	0.0%	-0.7%
% Change YTD	0.8%	1.0%	-2.1%	-0.4%	-5.0%	12.8%	-23.3%	1.1%	0.3%
% Change YOY	1.8%	1.3%	-2.5%	-1.0%	-8.4%	14.3%	-27.9%	2.2%	0.7%
Median Rent (\$)	\$547	\$409	\$400	\$313	\$382	\$339	\$326	\$413	\$466
Current Yield	3.9%	4.0%	5.2%	4.7%	4.4%	5.4%	4.1%	5.1%	4.1%
Yield 12 mths ago	4.1%	4.1%	5.4%	4.7%	4.5%	5.5%	5.5%	4.9%	4.3%

## About CoreLogic

CoreLogic Australia is a wholly owned subsidiary of CoreLogic (NYSE: CLGX), which is the largest property data and analytics company in the world. CoreLogic provides property information, analytics and services across Australia, New Zealand and Asia, and recently expanded its service offering through the purchase of project activity and building cost information provider Cordell. With Australia's most comprehensive property databases, the company's combined data offering is derived from public, contributory and proprietary sources and includes over 500 million decision points spanning over three decades of collection, providing detailed coverage of property and other encumbrances such as tenancy, location, hazard risk and related performance information.

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