IBISWorld

Where knowledge is power

BUSINESS ENVIRONMENT REPORT I4221

Residential property yields

January 2023

Key Statistics

Estimated value in 2022-23: 3.03%

2018-2023 Average Annual Growth: -0.02 percentage points

Forecast value in 2027-28: 3.30%

2023-2028 Average Annual Growth: 0.05 percentage points

Current Performance

IBISWorld forecasts residential property yields to rise by 0.60 percentage points in 2022-23, to 3.03%. Residential housing prices are set to fall over the year as rising interest rates start to bite, weighing on the total value of dwellings. Total gross rent is set to rise, with tight rental market conditions in capital cities pushing rent prices higher over the year. Rising interest rates have also hit construction activity, limiting growth in housing supply.

Rising residential housing prices over most of the past five-year period have weighed on residential property yields, boosting the total value of dwellings over the period. A low interest rate environment, combined with several tax initiatives like negative gearing and the capital gains tax (CGT) discount, have driven strong demand for residential property from both owner-occupiers and investors. Speculative property investment has also led to strong residential housing price growth, especially over the past two years as investors have returned to the market following the onset of the pandemic. Volatile demand conditions also hit rental markets throughout the COVID-19 pandemic, with border restrictions limiting demand from key markets, such as international students. At the same time, residential housing prices soared over the two years through 2021-22, despite the COVID-19 pandemic, with falling interest rates driving strong demand from owner-occupiers and investors.

Negative gearing legislation in Australia allows investment property owners to make a net loss on their property during the financial year and use this loss to claim a tax deduction on their taxable income during the same year. This practice can discourage property owners from raising rents substantially despite incurring a loss, as they can claim a tax deduction while still maintaining an asset that typically increases in value. The CGT discount also contributes to rising housing prices as investors pay tax on half of the capital gains if a property is purchased and held for at least 12 months. This further encourages investors with a positive outlook on property to enter the market and has driven additional demand for property and boosted property prices over the majority of the past five years. Overall, IBISWorld forecasts residential property yields to fall at an average annual rate of 0.02 percentage points over the five years through 2022-23.

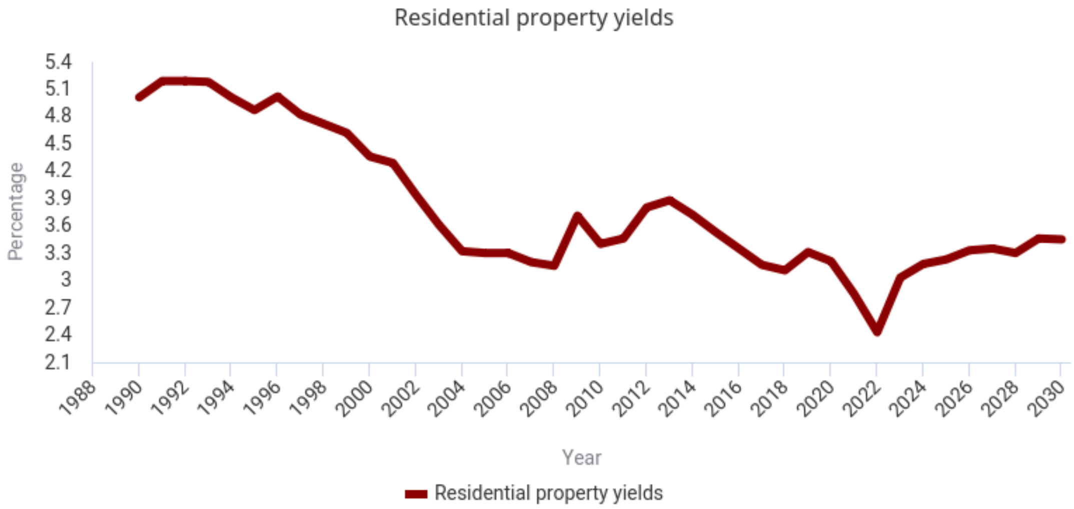
This report analyses residential property yields in Australia. This is calculated by dividing total gross rent by the total value of all dwellings. Total rent includes actual rent paid by tenants and the imputed rent for owner-occupiers and is sourced from the Australian Bureau of Statistics. The total value of dwellings represents the residential land and dwelling stock and is sourced from the Reserve Bank of Australia. The data for this report is measured in average percentage points over the financial year.

Outlook

IBISWorld forecasts residential property yields to rise by 0.15 percentage points in 2023-24, to 3.18%. Total gross rent is expected to rise as net migration continues to normalise, boosting demand for rental properties. The higher cash rate is also set to limit any recovery in residential property prices and cause some potential buyers to postpone house purchases and choose to rent instead. As a result, residential property yields are anticipated to rise over the year.

Over the next five years, rents are expected to be dictated by household disposable incomes. Growth in disposable incomes over the period is likely to drive rent higher, while declining mortgage affordability due to higher interest rates is expected to support demand for rental properties. The pace at which migration returns to normal levels will also influence demand for rental properties. Borders were reopened to international students in December 2021 and to fully vaccinated travellers in February 2022. However, the rate at which international students return to Australia may be slow due to an increased uptake of online education. Residential property yields are anticipated to rise over the next five years as growth in total gross rent outpaces the increase in the total value of dwellings. Overall, IBISWorld forecasts residential property yields to rise at an average annual rate of 0.05 percentage points over the five years through 2027-28, to 3.30%.

Data Volatility



Year	Percentage	Change
1989-90	5.01	N/A
1990-91	5.19	0.2
1991-92	5.19	0.0
1992-93	5.18	0.0
1993-94	5.01	-0.2
1994-95	4.87	-0.1
1995-96	5.02	0.2
1996-97	4.82	-0.2
1997-98	4.72	-0.1
1998-99	4.62	-0.1
1999-00	4.36	-0.3
2000-01	4.29	-0.1
2001-02	3.94	-0.4
2002-03	3.61	-0.3
2003-04	3.32	-0.3
2004-05	3.30	0.0
2005-06	3.30	0.0
2006-07	3.20	-0.1
2007-08	3.16	0.0
2008-09	3.71	0.6
2009-10	3.40	-0.3

Year	Percentage	Change
2010-11	3.46	0.1
2011-12	3.80	0.3
2012-13	3.88	0.1
2013-14	3.72	-0.2
2014-15	3.53	-0.2
2015-16	3.35	-0.2
2016-17	3.17	-0.2
2017-18	3.11	-0.1
2018-19	3.31	0.2
2019-20	3.21	-0.1
2020-21	2.85	-0.4
2021-22	2.43	-0.4
2022-23	3.03	0.6
2023-24	3.18	0.2
2024-25	3.23	0.1
2025-26	3.33	0.1
2026-27	3.35	0.0
2027-28	3.30	-0.1
2028-29	3.46	0.2
2029-30	3.45	0.0