THE STATE OF THE AUSTRALIAN RENTAL MARKET REPORT

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Title: How to calculate your local market share

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Executive summary

A year on, the Australian rental landscape is still feeling the impact of COVID-19, including a crippling shortage of rental properties and downward pressure on commissions (again). We (Console) wanted to learn how widespread these upheavals have been, and what agencies would like to see happen to stabilise the market in the future.

About the survey

In March 2021, we asked 130 property management professionals in Australia, ranking from CEOs down to junior property managers, what market conditions they were experiencing locally, and what they thought should be done to improve the sector's viability. These respondents were a nearly even mix of Console Cloud customers and non-customers.

The survey comprised 13 questions with a mix of pick-list, multiple choice and open-ended questions.

Here are the results.

The rental crisis is real

Vacancy rates hit an all-time low

Vacancy rates in suburban Australia are currently some of the lowest ever on record—

with some suburbs reporting an average of 0% vacancies.

The survey results reflect this, with 70% of responses identifying a lack of available properties a big problem for renters, and 45% of respondents reported that a lack of rent roll growth is a significant challenge.

Meanwhile, some agencies are facing precisely the opposite. Student accommodation, inner city suburbs, and apartment buildings are among those seeing dropping rents, high vacancy rates, poor quality owners and tenants.

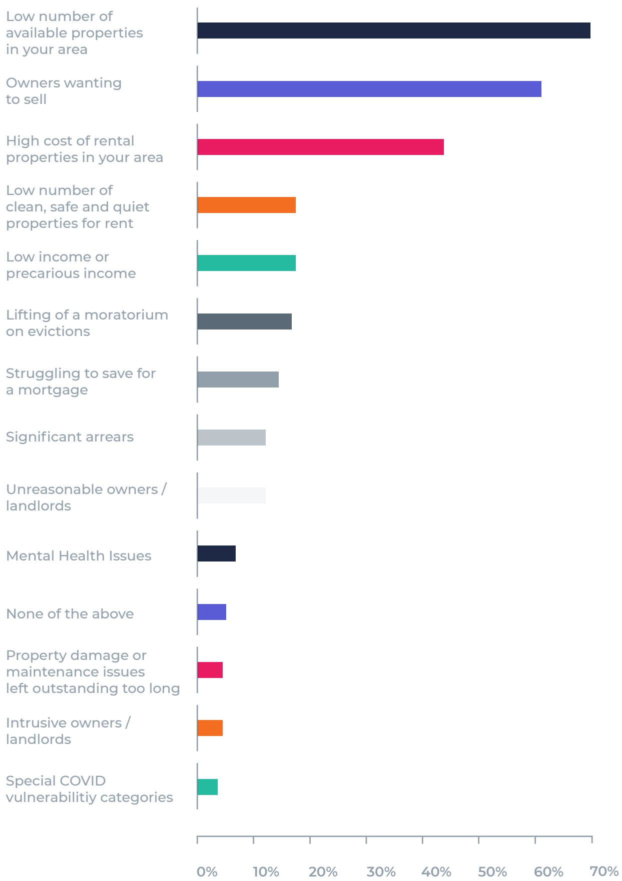
We need a new way of measuring performance

Vacancy rate has traditionally been used as a litmus test for agency performance and market health. In this regard, more than 60% of survey respondents indicated that the market was doing 'very well', based on the very low vacancy rate and higher rent prices.

Rent roll growth and profitability remains a huge problem for most agencies (44% and 22% of mentions respectively). This indicates that the rental market may not be performing as well as it appears on the surface. Tight competition between agencies to manage a shrinking number of properties has led to a price war on commissions and fees. And it's a war that that most agencies can't afford to participate in.

Vacancy rate in this climate loses its utility as a performance benchmark, because low vacancies are actually a symptom of the problem. That, because low vacancies are actually a symptom of a larger factor being rental stock scarcity.

What challenges are your tenants facing right now?



How should agencies measure themselves against each other?

1. **By using relative market share analysis and competitive intelligence**

   We explain how to calculate your relative market share in this ebook.

2. **By using Insights Pro in Console Cloud**

   Instead of vacancy rate, agencies can benchmark themselves against each other using:

   - arrears benchmarking
   - work vs income analysis (ranking your portfolio from most profitable to least), and
   - rental rates look-alike analysis (measuring the rent prices of your rent roll against look-alike properties managed by competitors).

   If you're a Console Cloud customer, you'll enjoy Insights Pro as part of the [Premium plan]

3. **By measuring profitability.**

   You can use your AAMI as a rough way to measure profitability.

Measure profitability

In a market where rent roll growth is limited, measuring performance by profitability rather than vacancy helps teams focus on maximising income per property. The more profitable your rent roll is per property, the more efficient your means of generating an income.

AAMI = average annual management income

You can calculate this by working out the average rent per week of your portfolio, and the average commission or management fees you charge per property. Multiply your commission by your average weekly rent and then multiply this by 52.

E.g. Your average rent is $450 per week, and your average commission is 7%.
0.07 x 450 = $31.50

$31.50 x 52 = $1,638.

Your AAMI is $1,638.

Market uncertainty looms large

By and large, respondents ultimately don't feel they have much to do but wait out the uncertainty of the current market.

Three survey questions asked survey respondents how they would respond to common challenges in the market they face should be solved. Of each of these questions, around 18% of responses mentioned just having to 'wait and see', and 'let the market correct itself'.

The term "unprecedented" was grossly overused in the last year, but it does seem that COVID has had significant impact on the unprecedented uncertainty regarding market conditions.

So if you're wondering whether it's just your agency that is experiencing this volatility and unpredictability, take heart: you're not alone.

Let's turn now to the particular challenges faced by each member of the property management triangle: agencies, tenants, and owners.

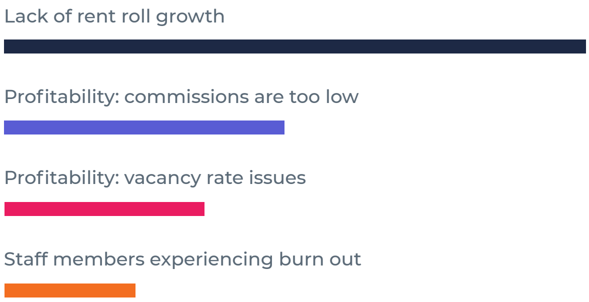
Challenges faced by agencies

The top internal issues faced by respondents includes:

1. **Rent roll growth**
2. **High maintenance owners and tenants**
3. **Limited BDM or marketing activities**
4. **Profitability issues: commissions, and**
5. **Staff experiencing COVID burnout**

Let's look at these in more detail.

What challenges is your agency facing right now?



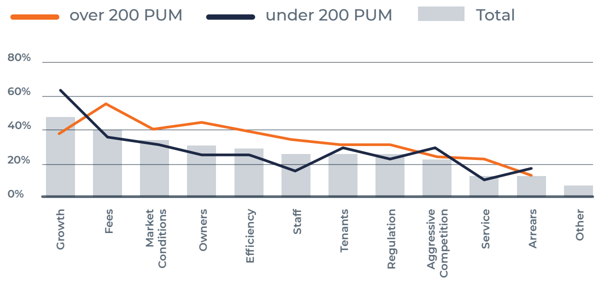
1. Rent roll growth

Nearly 45% of all responses mentioned rent roll growth as a challenge faced by their agency. This is consistent with past surveys. For example, in a 2019 survey that became the free ebook *Property management in the CX economy*, 47% of respondents reported rent roll growth as a top challenge.

Rent roll growth as an industry challenge is both a direct byproduct of Australia's property investment economy, and the result of a complex series of agency-level issues including marketing and business development activities, hiring the right team members, rent roll profitability, diversity of income portfolio, efficiency of generating income, time spent managing paperwork and systems, and so on.

Individual agencies will need to identify which particular issues impact their business most.

What have been some of the challenges for your agency's property management business in the past 12 months?



[A snapshot of the survey results from 2018-9]

2. High maintenance owners and tenants

When asked about why they ranked high maintenance owners and tenants as a top challenge, the majority of respondents mentioned the lack of understanding on the part of owners about their responsibilities and legal duties as a landlord (75% percent of mentions regarding high maintenance tenants and owners).

For those who listed high maintenance tenants as a challenge, only two responses mentioned a solution for dealing with high maintenance tenants. However, these responses were consistent with those who suggested solutions for high maintenance owners: more education is needed (25% of mentions regarding high maintenance tenants and owners).

3. Limited BDM or marketing activities

Those who listed limited business development and marketing activities as a challenge were also most likely to list rent roll growth as a challenge (52% of those who selected rent roll growth as a challenge also selected limited BDM / marketing as a challenge).

When asked about the reasons for these answers, respondents indicated they lacked the resources to carry out these activities—whether it be a lack of staff, a lack of time (4 mentions) or a lack of money, not mentioned directly, but frequently raised in the issue of downward pressure on commissions.

4. Downward pressure on commissions

A whopping 22% of agencies listed downward pressure on commissions as a top challenge. When asked what could be done to overcome challenges faced by agencies, numerous responses suggested standard industry commission fees so that agencies 'can compete on service, rather than costs'. Suggestions of this nature account for about 15% of mentions relating to commissions.

With widespread reports of agencies heavily discounting commissions to win properties, a standard commission rate for the industry would help the sector as a whole weather economic conditions such as shrinking markets.

Moreover, such industry standard fees already exist in other fields such as freelance copy and creative services (e.g. graphic design, copywriting) for the same reason.

5. Staff burnout

While not a top challenge, staff burnout came in as the next biggest challenge faced after issues of profitability and dealing with high maintenance owners, properties, and tenants, at around 10% of mentions.

Some suggested solutions to this problem were quite concerning, including:

"Instead of 8 hour days maybe minimum 12 hour days."

"Lose the competition. I need to employ an office assistant but can't afford to."

Other respondents are taking a different approach, opting to work smarter not harder to avoid burnout.

This includes looking at ways to improve processes, responsibility sharing and workloads to improve employee retention and mental load (aka burnout).

The pandemic has undeniably had a huge impact on the property management sector, with eviction moratoriums, constantly changing financial circumstances of tenants and owners in addition to a full year of bizarre dynamics regarding property sales and lettings.

While of course efficiencies and technology should be used to lighten the workload for staff, it may also be time to check in with your team. If burnout is a problem, the only way out is to help team members restore themselves to full health—physically and mentally.

Your staff are your biggest asset, so it's important to ensure their physical and mental health are looked after so your business can keep running at it's best.

Challenges faced by tenants

1. **Rental crisis from a tenant's perspective**
2. **Owners wanting to sell properties**
3. **Increased cost of rentals**

What challenges are your tenants facing right now?

Tenants are caught in a rental crisis

A whopping 70% of respondents listed a low number of available properties as a challenge facing tenants and prospective tenants right now. We see these figures reflected in record-breaking low vacancy rates that we explored earlier.

What's driving this? Landlords selling to owner occupiers, among other things

Landlords are selling properties in higher numbers to owner occupiers, and especially first homeowners (first home buying commitments were up by 56.6% in 2020). This appears to be reflected in the survey responses, with around 62% of all those who completed the survey listing this as a problem for some tenants on their rent roll.

On top of that, according to ABS, around 11,000 people left Australian capital cities in 2020 to move to lifestyle regions like coastal towns and leafy suburbs.

This is great news for owners in these areas. They can simultaneously ask the largest rent prices, and demand the lowest fees from agencies. For agencies, the feeling is mixed. Cut-throat pricing threatens to wipe out any chance of profitability in a tight market.

Tenants on the other hand are suffering from all sides, with the misery compounded for many by insufficient capital to buy a home and opt out of renting altogether (15% of responses mention the difficulty in saving for a mortgage with high rent costs).

For these renters-by-necessity, the current rental crisis raises questions about growing wealth inequality in Australia, as well as discrimination in tenancy applications, the right to shelter, and what should be done to better support disadvantaged and low-income families in a shrinking market who have nowhere to go.

Increased cost of rentals

In an ordinary market, rent prices tend to roughly correlate to market value. But we are not in a normal market. Some survey respondents reported that applicants are now going to extreme measures to secure a rental, such as offering months of rent in advance, rental bidding, and offering extra bond payments.

With JobKeeper payments finishing in March, we can expect to see people enter unemployment and financial precarity in 2021, according to the Treasury. In small towns and regional areas, this may leave some tenants with nowhere to live.

The way forward for tenants

When asked for their observations on this issue, and what could be done to rectify the situation, respondents suggested:

- **There should be tighter regulation around letting properties to tenants (9%).**

"We constantly negotiate with owners not to increase the rents too high. If they are good quality tenants we do our utmost to retain them."

"Rental asking price management (i.e. some kind of way to control rental pricing from being over the top expensive due to the high demand) though I don't see a way of this being feasible."

"Rents need to be looked at and possibly frozen for a period. I have tenants who would like to move to another property but the rents have increased, and they cannot afford it."

- There should be more government intervention to support tenants in precarious financial situations or to give them more certainty about their ability to pay rent (26% of all mentions, regardless of those who listed increased costs as a challenge), including the creation of more social housing.

"Better access to financial assistance for those who struggle to make ends meet. Also non-Australian residents really could have done with more support during Covid. There was little to no assistance provided to this demographic."

1) More social housing should be built for lower income families/singles. They struggle with the high costs of rents. More housing should be built for government employees (hospital staff, teachers etc.)

In this [the respondent's] town, the hospital rents at least 75 properties from both agencies and private landlords.

The education dept. also rents properties from my agency in addition to what they have with the other agencies in town.

2) Lower deposit amounts and bank interest rates for mortgages.

3) Less local govt. red tape when wanting to build. Many would-be investors interested in building units for rentals have been "scared off" with the requirements needed to build.

"More social housing availability as the lower socio-economic tenants cannot compete in the current rental market and will eventually become homeless if the government does not supply more housing."

"More of the COVID Rental Hardship grant, more outreach work, lifting the Job Seeker payment to a livable level, build more low cost housing so landlords are not social housing providers, reducing rent to keep a tenant who cannot afford their rent so they don't have a long vacancy."

- There needs to be more investment incentives for owners to grow the number of rental properties in the market (16% of all mentions).

“Making it more attractive for owners to be investors. We are on the way to major social housing issues, as investors are wanting to get out whilst the market is good. Where will all the rental housing stock come from?"

At this stage, it seems too late for any quick intervention to occur, as the low housing stock crisis is [in full throttle] right now. Encouraging long term investors into the market would be ideal.

“Educating owners regarding their maintenance and repair [obligations] and getting them to invest in their property is a challenge for us. We need to encourage more suitable properties and investors in those properties.”

On the flipside, some respondents suggested that

Tenants simply ‘have to earn more money to pay rent or become homeowners themselves,’ and

‘They [tenants] need to stop abusing the system and pay their expenses.’

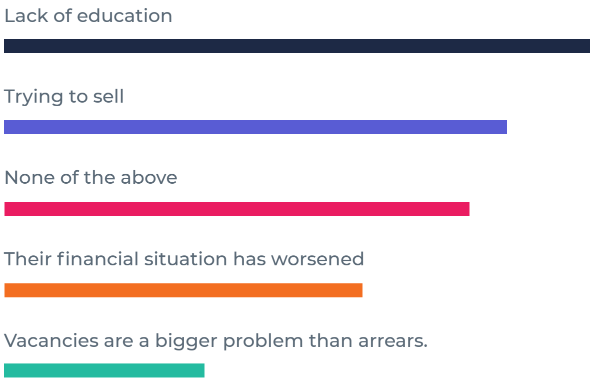
The need for a case-by-case approach

As with market challenges, there seems to be a fairly large divide in the ways many property professionals are thinking about tenants and the problems they face, and most likely, a broad range of tenants and owners’ situations to go with it.

If one common thread can be found in these responses, it’s that agencies dealing with struggling tenants should probably do so on a case-by-case assessment, rather than making broad claims about tenants behaving or being one way or another.

Challenges faced by owners

What challenges are your owners facing currently?



1. Lack of education

The most frequently cited challenge faced by owners is a lack of understanding or education about the responsibilities involved in owning an investment property (37% of all responses). While arguably this is not new news, the havoc wreaked on the property management sector in 2020 has brought the problem to boiling point.

Border closures, a lack of immigration and international student intakes, lockdowns, and repeated blows to the tourism industry all worked to destabilise the investment property sector, affecting vacancy rates, rental rates, and the number of properties on the market.

That translated pretty quickly into some difficult conversations that had to be had with owners about investment properties, particularly where the tenants were under financial stress due to lockdowns and restrictions.

When asked how these challenges might be met, respondents mentioned that more education about the pros and cons of owning an investment property, and perhaps even licensing or certifying owners before they sign management agreements.

Some notable responses include:

We are thinking about connecting our owners and tenants with a body like PICA (Property Investment Council Australia) to increase their own investment knowledge.

Property owners should be licensed and demonstrate a minimum level of understanding or knowledge before they can become a landlord. Mandated education should be ongoing.

The Landlords Information Statement is a good start, however, more factsheets directed towards landlords about things like rent arrears, repairs, maintenance and termination would assist. Tenants have the tenant advocacy service, but landlords rely on agents for this. Providing owners with the section of the Act and trying to explain how this applies can be a long drawn out process.

New landlords in particular need to be educated on what standard the property has to be in before it can be leased. They should also have a better understanding of the pros and cons of renting an investment property.

2. Trying to sell

While perhaps imperfectly characterised as a challenge faced by owners, there does seem to be some concern that owners are perhaps becoming a bit starry-eyed about the prospect of selling their investment property in what appears to be a white-hot real estate market. Roughly 31% of responses mention this as an owner-related challenge.

In this regard, some respondents voiced concerns that sales agents were luring owners into selling their property/ies, but few felt there was a way to overcome this challenge.

Some notable comments include:

> Providing clearer guidelines for owners as to what happens when selling a property, including tenants rights and their obligations of upkeep, and understanding restrictions on open homes. [The idea being this may give owners a reality check before they make the snap decision to sell.]

> Advising owners on the benefits of long-term investment in property, and the consequences of selling.

3. None of the above

Surprisingly, the third most common response to the question of challenges faced by owners was 'none of the above', clocking in at 29% of all mentions. While this could indicate we missed a key challenge faced by owners, it excludes the following issues for the majority of owners:

- Their financial situation has worsened
- The rental prices of their properties are too low
- Vacancy rates
- Significant tenant arrears
- Lack of visibility into their investment
- Late disbursements
- Poor standard of service

This is good news—whatever the changing forces are in investment property right now, stability of finances, good rental rates, minimal significant arrears and on-time disbursements are all factors that add stability. We can also say with some confidence that the reason so many owners are selling properties right now is not because of a worsening of their situation or that the investment type has become less attractive.

While a lack of investment properties to manage can be frustrating, there's no reason to panic about the survival of the sector just yet.

4. Their financial situation has worsened

Of course, not all owners escaped the pandemic unscathed. We see this reflected in the numbers: around 22% of responses mention a landlord who has been left financially worse off as a result of the pandemic.

However, this change is more likely a result of the owner's ordinary occupation (e.g. if they worked as a tourist operator) than a consequence of rent arrears. In fact, vacancies—something that 70% of respondents indicated was not a problem they faced right now—is listed as a more significant challenge than significant tenant arrears.

5. Vacancies are a bigger problem than arrears.

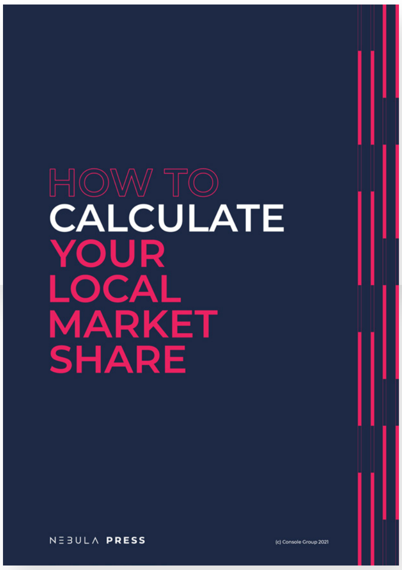
Speaking of significant tenant arrears, this issue clocked in at 11% of all mentions, right behind properties lying vacant, at 12% of mentions. Consistent with this, no suggestions to combat either vacancies nor arrears were mentioned by respondents beyond the obvious: reduce vacancies, and stay on top of arrears.

Conclusion

In summary, the state of the Australian rental market in 2021 is as follows:

1. There's a general feeling that the market is doing well, but property management businesses aren't reaping the profits due to commission price wars and excessive fee discounting.
2. Landlords are taking advantage of a super hot property market and are selling in higher numbers to more owner occupiers.
3. Super low vacancy rates are spiking rents in some places, while others are experiencing a drop in rents and spike in vacancies.
4. Top challenges for agencies include the perpetual concerns around business growth, profitability, managing owner expectations, and tenants facing financial difficulties.
5. Top challenges faced by owners are around understanding what is expected of them as a landlord, in particular, understanding responsibilities around maintenance, and the possible risk of financial loss that goes with all types of investments. There are some owners whose financial situation has worsened, but nothing on the scale of what tenants are experiencing.
6. Top challenges for tenants are mostly around difficulty securing properties, financial precarity, and drastically increasing rental prices, plunging more people than ever into homelessness (e.g. in Newcastle NSW, by as much as 38%).
7. Top solutions from respondents to common issues faced widely comes down to: education for tenants, assistance from the government, better regulation for agency commissions and rental prices for tenants, and investment incentives designed to increase the number of rentals in market'
8. Until the pandemic is behind us, most agencies are prepared to 'wait and see' before making major changes to how they do business.

Wondering what to read next? Here are some other free ebooks you may be interested in.



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