



June 2023 / CE Ref-J3324B

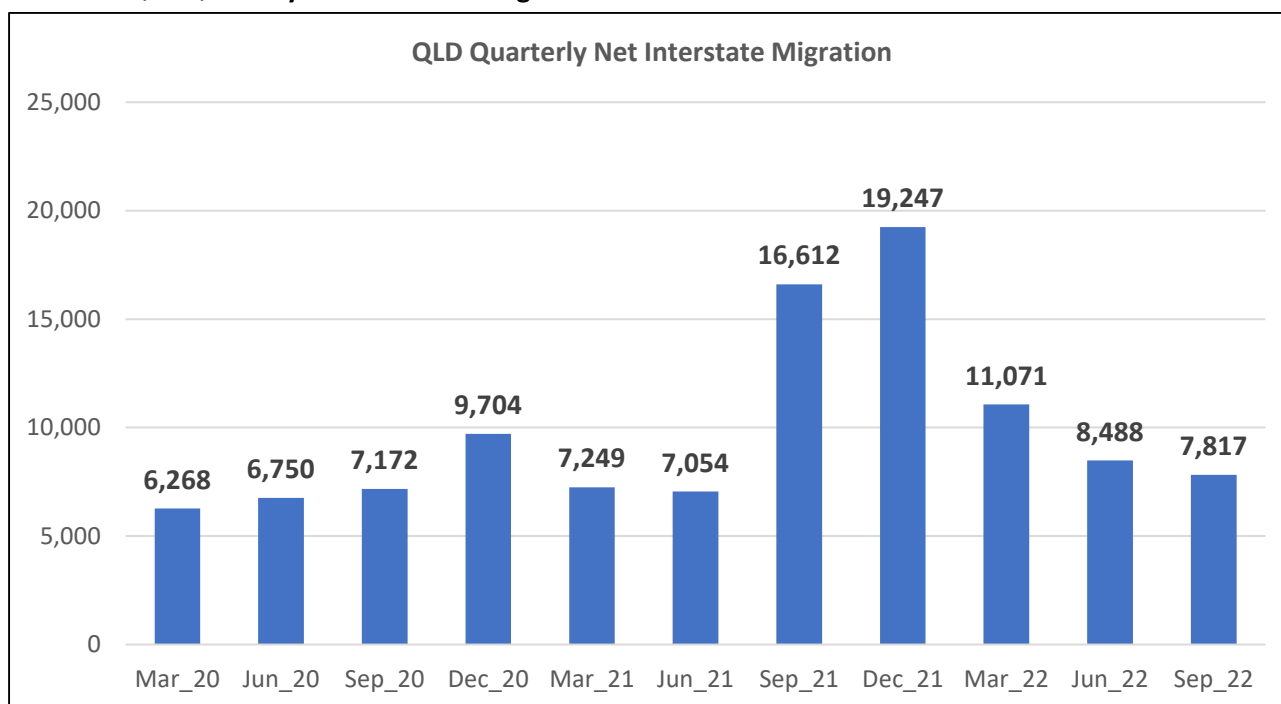
## Special Statistical Note

# FACTORS BEHIND THE RENTAL SHORTAGE

## INTRODUCTION

Rental vacancy rates (indicating a rental housing shortage), have fallen to very low levels in Cairns. Contributing to this has been the sharp jump-up in population growth in the post-COVID period, in part, due to the sharp rise in interstate migration into Queensland (see chart below).

**Chart 1 – QLD Quarterly Net Interstate Migration**



Source: Cummings Economics from Australian Bureau of Statistics data.

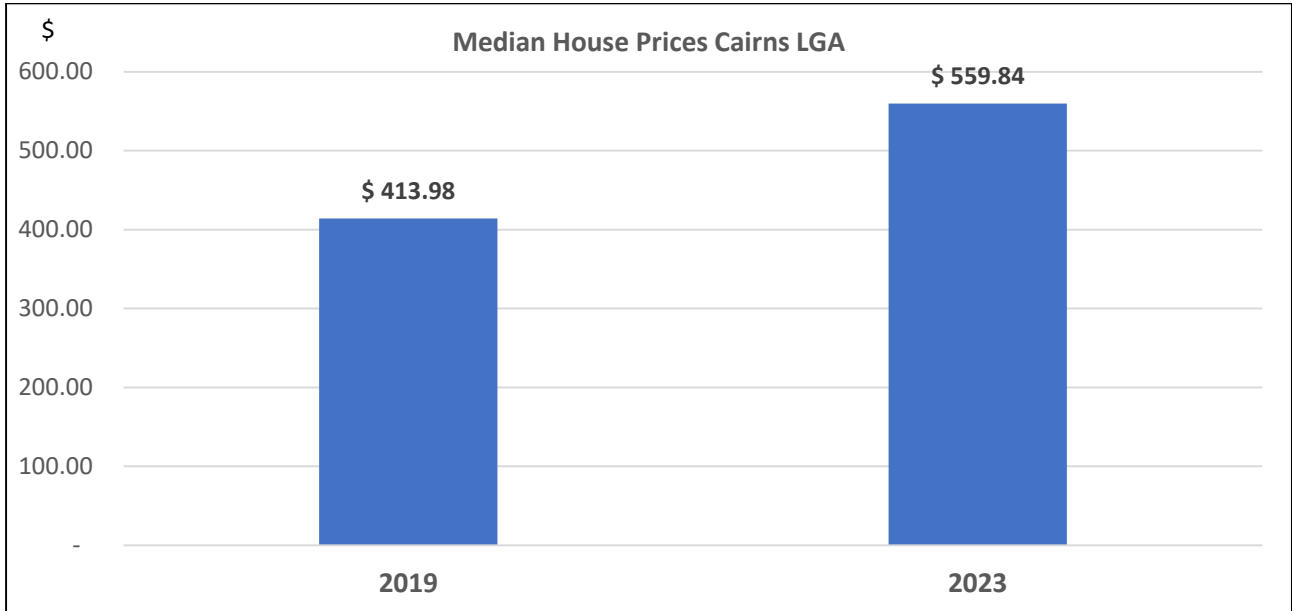
However, Cairns is not alone in recording a rental housing shortage.

The following charts are given to help understand the factors behind the nation-wide and local rental housing shortages.

## HOUSE PURCHASE AFFORDABILITY COLLAPSES

During COVID, extremely low interest rates plus major government moves to stimulate the economy, including incentives for first home buyers, saw house prices skyrocket in Cairns by about 35%.

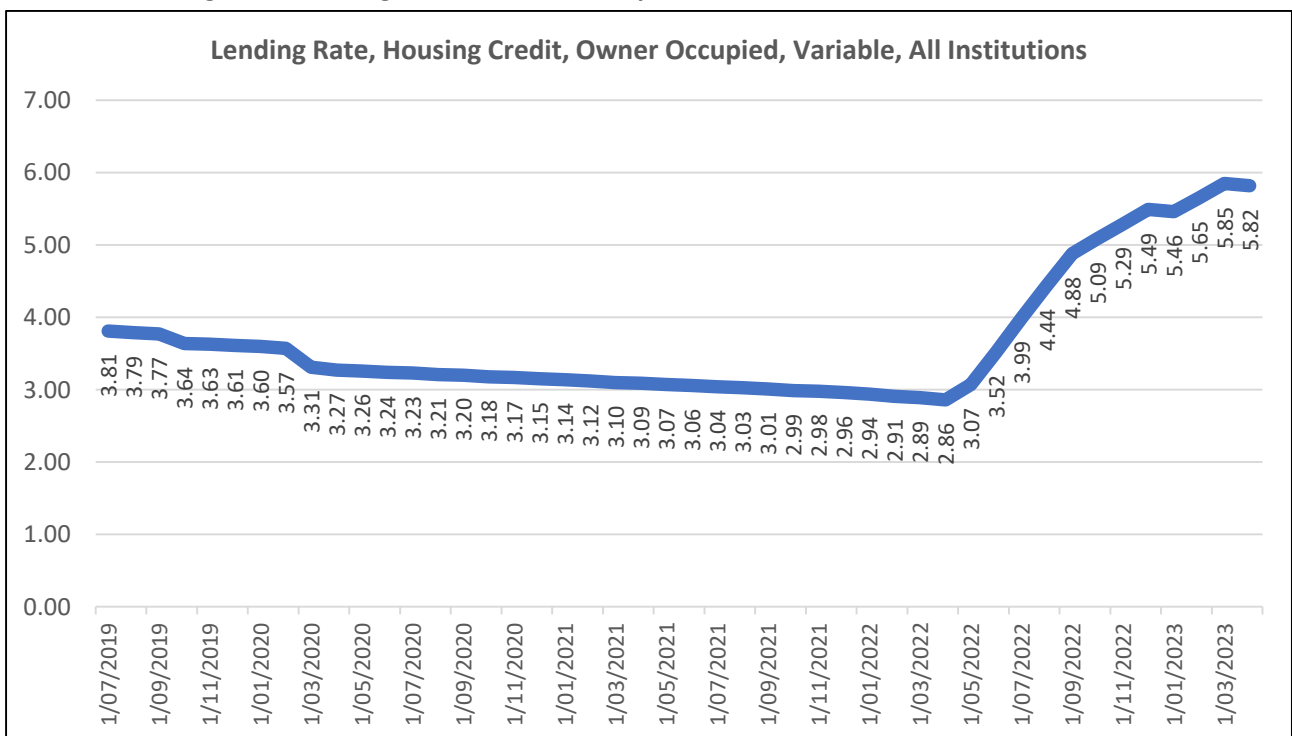
Chart 2 – Median House Prices Cairns LGA – 2023 compared with 2019



Source: Cummings Economics from realestate.com.au data.

Post-COVID interest rates facing house purchases have gone up strongly - since 2019 by over 50%.

Chart 3 – Lending Rate, Housing Credit, Owner Occupied, Variable, All Institutions



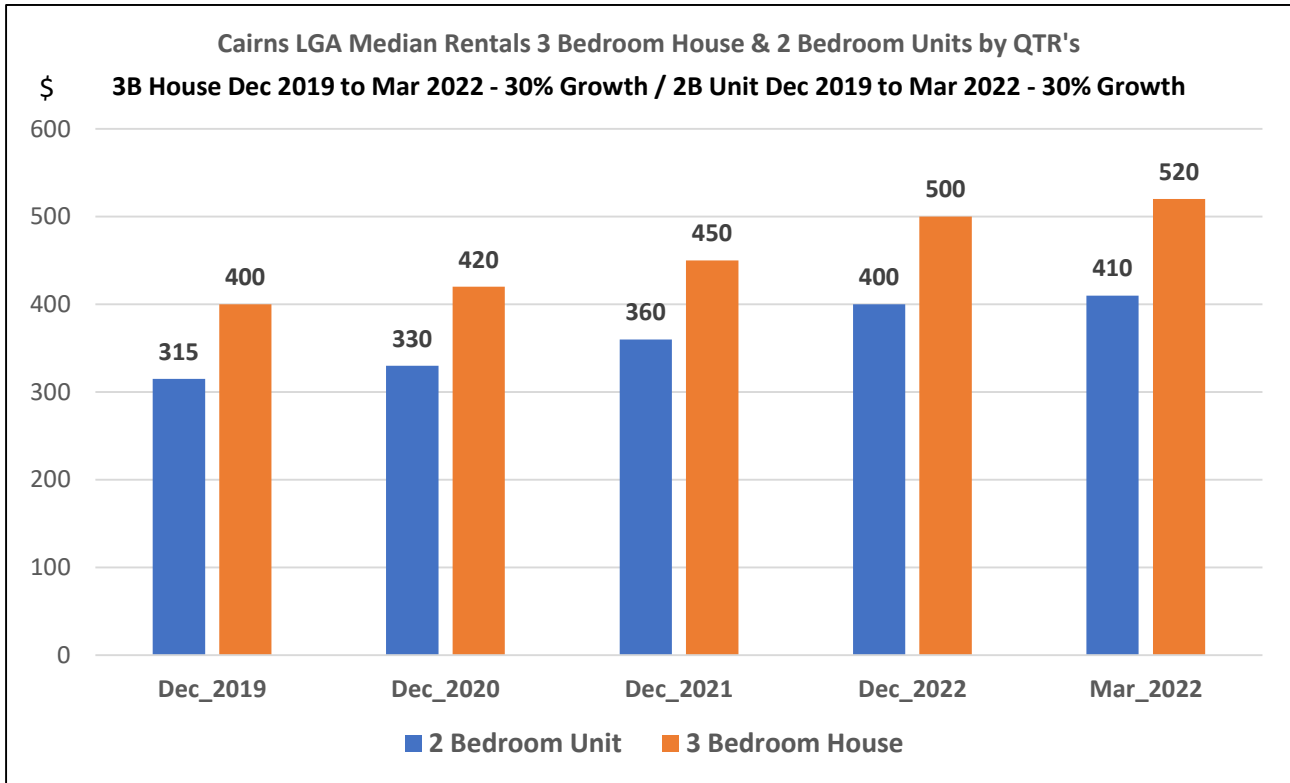
Source: Reserve Bank of Australia.

## RENTALS RISE, BUT LESS

Median rentals have increased but by a lower percentage (see Chart 4).

Since 2019, median rentals in Cairns have increased by about 30%.

Chart 4 – Cairns LGA Median Rentals 3- Bedroom House & 2-Bedroom Units by QTR's



Source: QLD Residential Tenancies Authority.

## RENTING BECOMES MORE ATTRACTIVE

The following shows the after-tax income a purchaser would need to buy a median priced three-bedroom house in Cairns in 2019 compared with end 2022, with 30% of income applied to house payments on a loan 85% of purchase price.

For comparison, it shows the after-tax income needed to rent a median rental three-bedroom house in Cairns over the same period with 30% of income devoted to paying the rent.

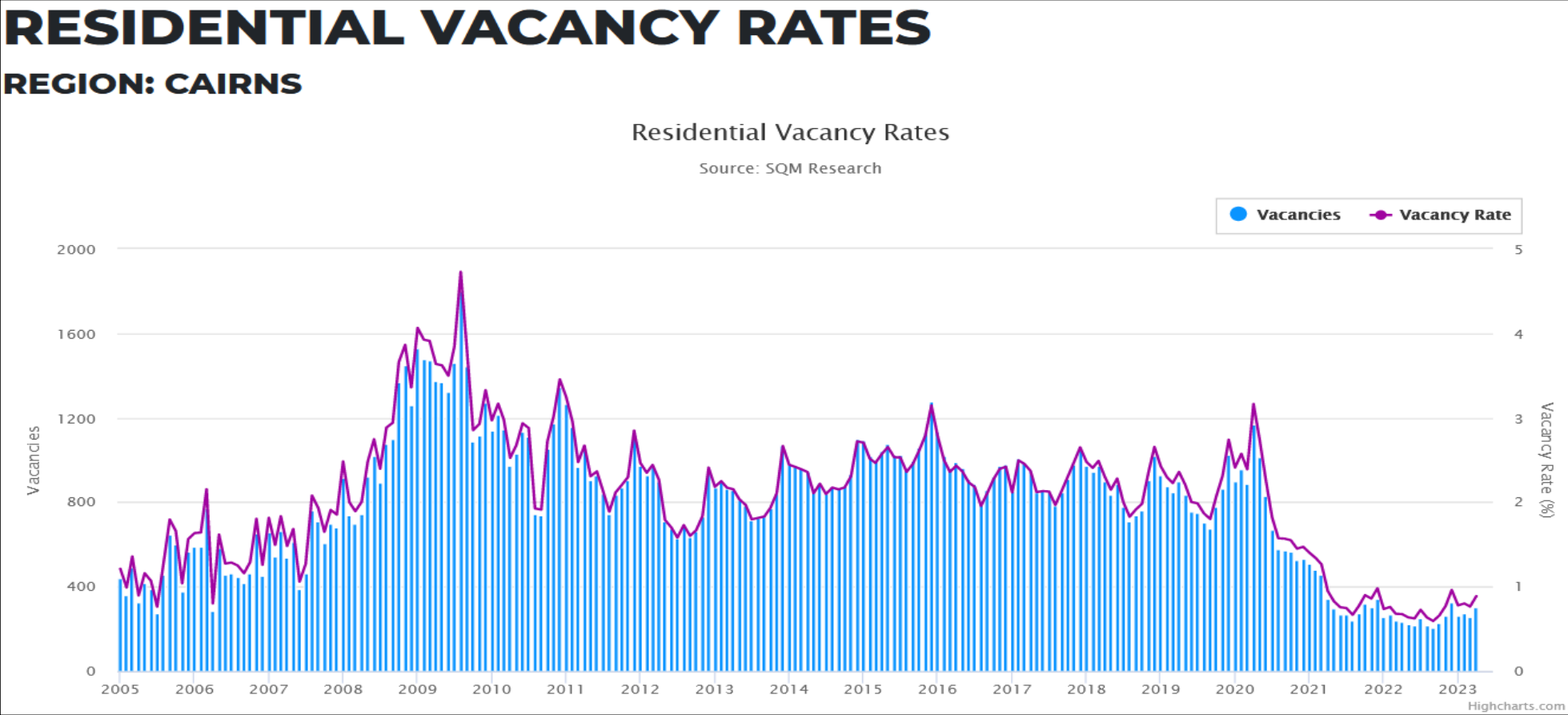
	<u>2019</u>	<u>2022</u>
• Buy 3-bedroom house.....	\$72,000.....	\$117,000
• Rent 3-bedroom house .....	\$69,000.....	\$87,000

The above indicates that in 2019, the income needed to buy or rent was about the same, but by late 2022, the income needed to buy was much higher. Income needed to purchase had risen by over 60%.

## RENTAL SHORTAGE – RESIDENTIAL VACANCY RATES FALL DRAMATICALLY

Information from SQM Research illustrates the extremely low rental vacancy rates that have developed.

Chart 5 – Residential Vacancy Rates



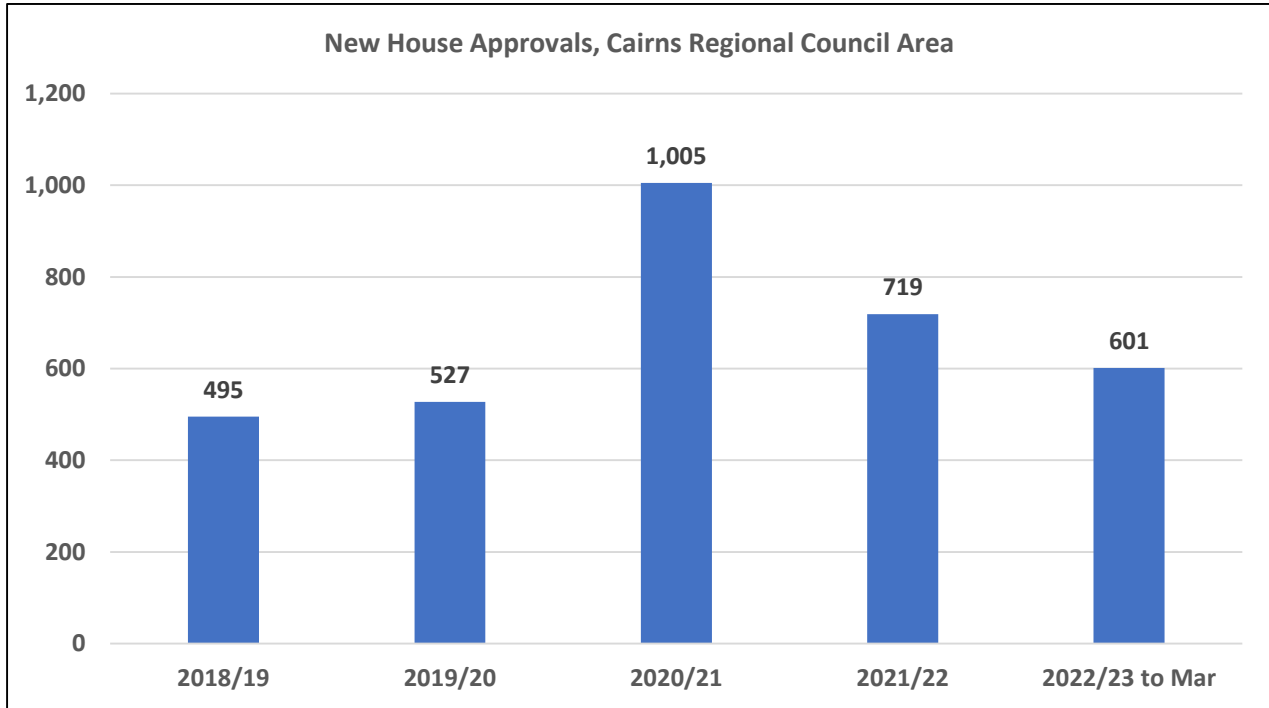
Source: SQM Research  
[https://sqmresearch.com.au/graph\\_vacancy.php?region=qld-Cairns&type=r&t=1](https://sqmresearch.com.au/graph_vacancy.php?region=qld-Cairns&type=r&t=1)  
<https://sqmresearch.com.au/>



## SUPPLY HAS NOT RESPONDED

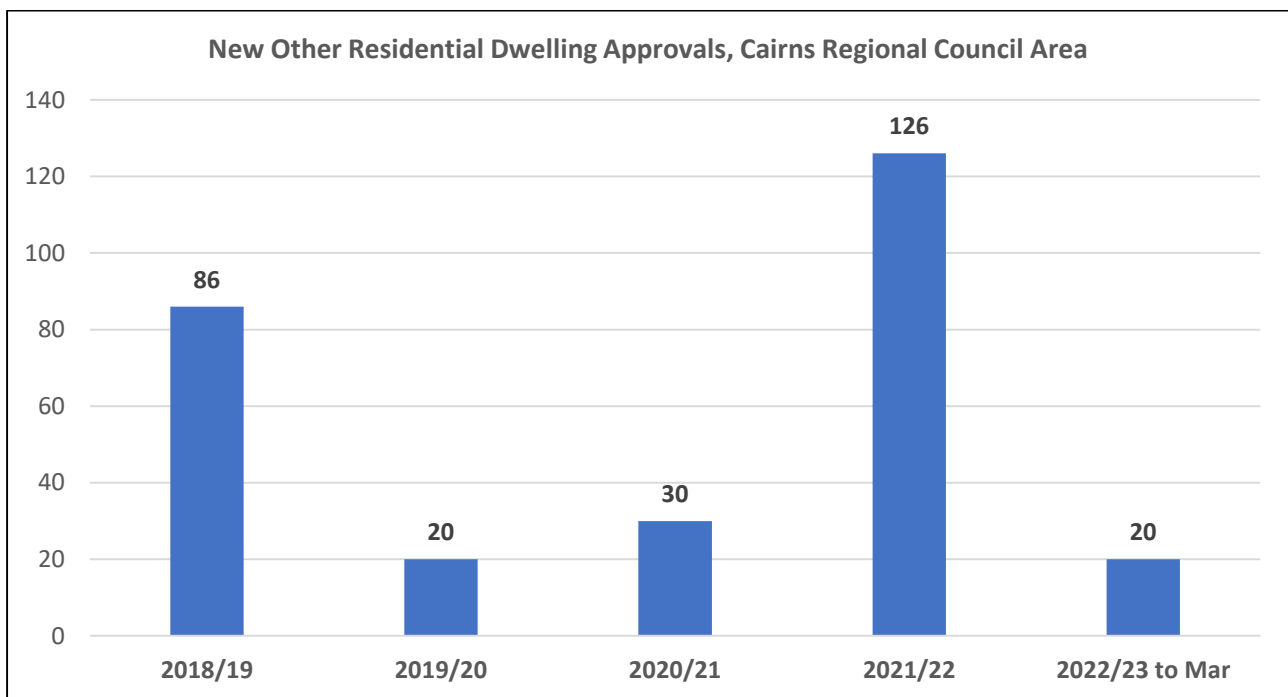
The following charts indicate that house approvals for 2022-23 in Cairns will come in at modest levels about the same as the previous year, but that non-house dwelling approvals are very low.

**Chart 6: Number of New House Approvals, Cairns Regional Council Area**



Source: Cummings Economics from Australian Bureau of Statistics.

**Chart 7: Number of New Other Residential Dwelling Approvals, Cairns Regional Council Area**



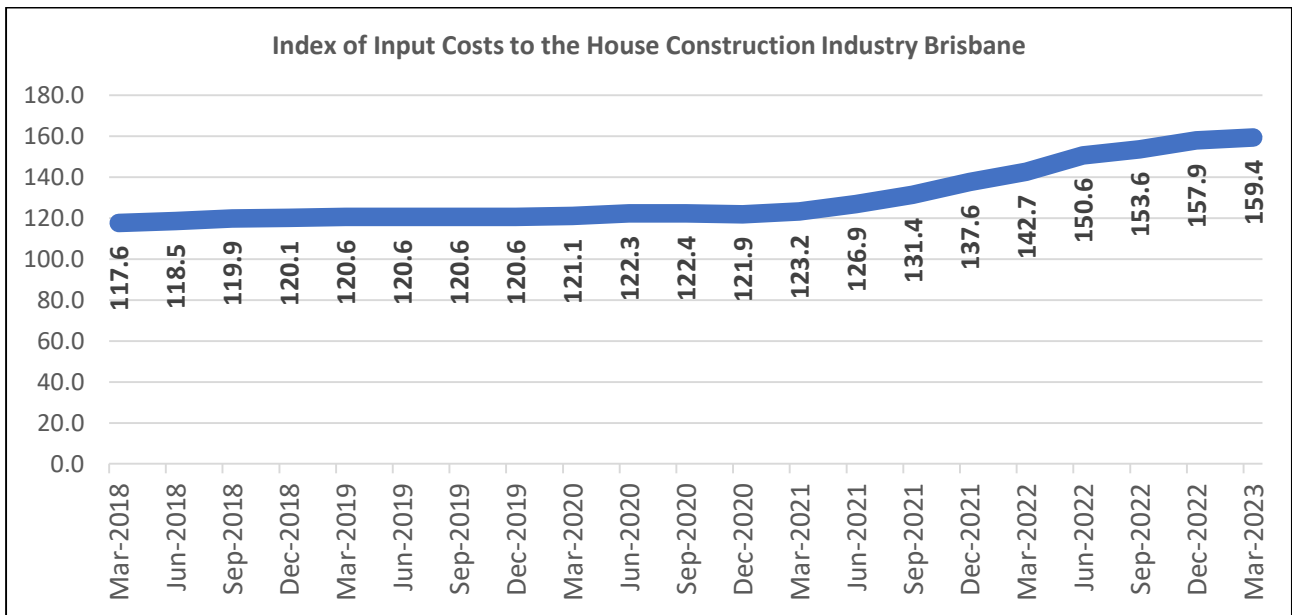
Source: Cummings Economics from Australian Bureau of Statistics.

## COSTS OF DEVELOPING NEW DWELLINGS HAVE SOARED

The following charts indicate that while median rentals have increased by about 30%, building input costs have increased also by 30% and costs for finance for this type of development have soared by over 40% in recent years. The indications are that building costs are continuing to rise although not as sharply. There are prospects of further interest rate rises.

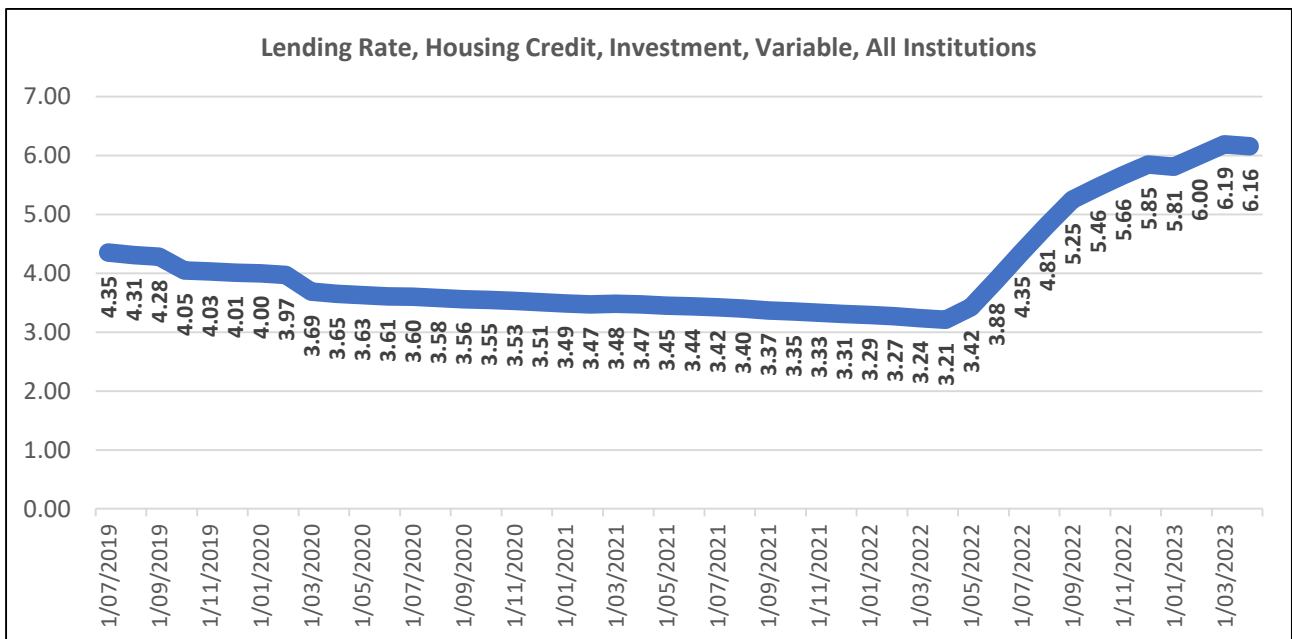
The indications are that rents will need to move higher for new development to become attractive.

Chart 8: Index of Input Costs to the House Construction Industry Brisbane



Source: ABS Producer Price Indexes, Australia.

Chart 9: Lending Rate, Housing Credit, Investment, Variable, All Institutions



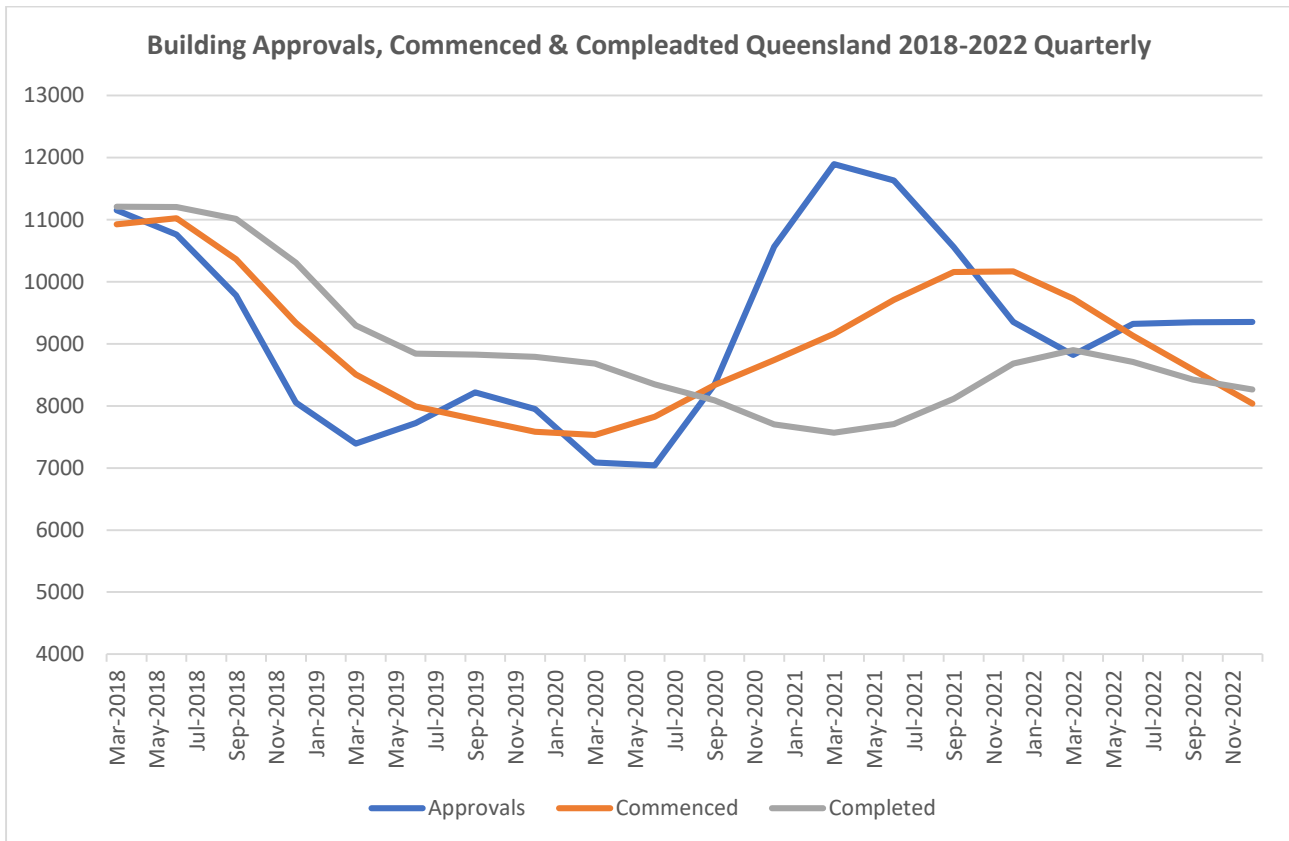
Source: Reserve Bank of Australia.

## LAG EFFECTS

The following chart gives Queensland dwelling approvals, commencements and completions in recent years up to end 2022. (Local figures have not been readily available.)

The chart indicates the difficulties the construction sector had in coping with the sharp increase in approvals during COVID. It also indicates that completions seem likely to be running ahead of commencements in Queensland overall into 2023.

**Chart 10: Building Approvals, Commenced & Completed, Queensland 2018-2022 Quarterly**



Source: QLD Residential Tenancies Authority.