



# Private rental in transition: institutional change, technology and innovation in Australia

Inquiry into the future of the private rental sector

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# Contents

<b>List of tables</b>	<b>vii</b>
<b>List of figures</b>	<b>viii</b>
<b>List of boxes</b>	<b>ix</b>
<b>Acronyms and abbreviations used in this report</b>	<b>x</b>
<b>Glossary</b>	<b>xi</b>
<b>Executive summary</b>	<b>1</b>
<b>1 Institutional change in the Australian private rental sector</b>	<b>8</b>
1.1 Investigating institutional change	8
1.2 Policy context	10
1.2.1 Direct housing assistance	10
1.2.2 Measures to increase the supply of affordable rental housing	10
1.2.3 Regulation of residential tenancies	11
1.2.4 Social policy reforms	11
1.2.5 Coordination across levels of government and portfolio areas	12
1.3 Conceptual framework	12
1.4 Research methods	14
1.4.1 Changes in the institutions of Australia's PRS since 2000	15
1.4.2 Drivers and dynamics underlying the key institutional developments in the Australian PRS since 2000	15
1.4.3 Opportunities for, and challenges to, achieving better PRS outcomes	16
1.5 Structure of this report	17
<b>2 The Australian private rental sector in the 2000s: key institutional changes</b>	<b>19</b>
2.1 Established institutions of the Australian PRS	19
2.2 Financing	20
2.2.1 Key changes in financing for PRS investor landlords in the 2000s	20
2.2.2 Established institutions	22
2.3 Provision	23
2.3.1 Growth in the number of investor landlords	23
2.3.2 Profile of investor landlords	23
2.3.3 Multi property ownership	24
2.3.4 Investor landlords: household income and wealth	26
2.3.5 Debt to asset ratios of investor landlords	26



2.3.6	Established institutions	27
<b>2.4</b>	<b>Access</b>	<b>28</b>
2.4.1	Changing profile of private renters	28
2.4.2	Changing profile of dwelling stock in the PRS	29
2.4.3	Established institutions	30
<b>2.5</b>	<b>Management</b>	<b>31</b>
2.5.1	Rental property management	31
2.5.2	Established institutions	31
<b>2.6</b>	<b>Summary</b>	<b>32</b>
<b>3</b>	<b>Financing: regulation, intermediaries and innovation</b>	<b>33</b>
<b>3.1</b>	<b>Regulation</b>	<b>34</b>
3.1.1	Increased role for macro-prudential regulation	34
3.1.2	Regulation of foreign investment	35
<b>3.2</b>	<b>Organisations and structures: the rise of intermediaries</b>	<b>37</b>
3.2.1	Intermediaries in the financing process	37
3.2.2	Wealth advisers	39
<b>3.3</b>	<b>Innovation in PRS financing arrangements</b>	<b>40</b>
<b>3.4</b>	<b>Changing social norms and practices</b>	<b>41</b>
<b>3.5</b>	<b>Summary</b>	<b>42</b>
<b>4</b>	<b>Provision: intermediaries, new entrants and product diversity</b>	<b>43</b>
<b>4.1</b>	<b>Growth in intermediaries and intermediary structures</b>	<b>43</b>
4.1.1	Buyer's agents and property advisors	43
4.1.2	Intermediary PRS ownership structures	45
<b>4.2</b>	<b>PRS product diversity</b>	<b>46</b>
4.2.1	Greenfield developments	46
4.2.2	The build-to-sell apartment market	46
<b>4.3</b>	<b>Innovations in PRS provision: rental yield models</b>	<b>47</b>
4.3.1	The student apartment sector	47
4.3.2	Developing a build-to-rent sector	49
<b>4.4</b>	<b>Summary</b>	<b>51</b>
<b>5</b>	<b>Access: regulation, institutional change and new digital technologies</b>	<b>52</b>
<b>5.1</b>	<b>The access process</b>	<b>52</b>
<b>5.2</b>	<b>Regulation and access</b>	<b>53</b>
5.2.1	Advertisement, disclosure and anti-discrimination	53
5.2.2	Applications, information protection and residential tenancy databases	54
5.2.3	Offers and pre-contractual regulations	55

5.3	Access: institutional change	55
5.3.1	Advertisement: institutional change	56
5.3.2	Applications: institutional change	58
5.3.3	Offer: institutional change	61
5.4	Summary	62
<b>6</b>	<b>Management</b>	<b>63</b>
6.1	Regulation: institutional layering and policy linkages	63
6.1.1	Residential tenancies regulation: the notion of 'balance' and new frames for reform	63
6.2	Industry restructuring: organisational change	67
6.2.1	Industry restructuring	67
6.2.2	The geography of rental property management	68
6.2.3	Growing rent rolls: rent roll brokers	69
6.3	Innovation in technology	70
6.4	Changes in social norms and practices	72
6.4.1	Changing views of tenants	72
6.4.2	Professionalisation of rental property management	73
6.5	Summary	74
<b>7</b>	<b>Opportunities and challenges for policy development</b>	<b>76</b>
7.1	Financing and provision	76
7.1.1	Improving household level financing/provision	76
7.1.2	New forms of financing and provision	77
7.1.3	Improved monitoring of PRS financing and provision	77
7.2	Access and management	78
7.2.1	Policy directions for improving access	78
7.2.2	Policy directions for improving rental property management	79
7.3	Final remarks: cultural change	79
	<b>References</b>	<b>81</b>
	<b>Appendix 1: Key housing market and PRS characteristics for Sydney, Melbourne and Perth</b>	<b>88</b>
	<b>Appendix 2: Additional information about research methods and data analysis</b>	<b>90</b>

## List of tables

Table 1: Lenses for institutional analysis of the private rental sector	13
Table 2: Completed interviews by type of institution and participant	16
Table 3: Households with no, one and two or more rental properties by wealth quintile, Australia, 2013–14	25
Table 4: Household disposable income quintiles and wealth quintiles for private rental investor landlords, 2013–14	26
Table 5: Debt-to-asset ratios among investor landlord households who have owned 1, 2, 3 or more rental properties in previous 12 months	27
Table 6: Property investment relative to other forms of investments among households who have owned 1, 2, 3 or more rental properties in the previous 12 months	27
Table 7: Major providers (build/manage) of student housing in Australia	48
Table A 1: Key population and housing data, Sydney, Melbourne and Perth, 2016	88
Table A 2: Investor landlords by age group, Australia, 2013–14	90
Table A 3: Investor landlords by their current housing tenure, Australia, 2013–14	90
Table A 4: Summary weighted and unweighted counts of investor landlord, other property owners and non-owners in HILDA wealth modules (2006, 2010, 2014)	91
Table A 5: Number of investment properties owned by investor landlord households in previous 12 months	92
Table A 6: Tenure of occupancy among of investor landlord households who have owned 1, 2, 3 or more rental properties in previous 12 months	93
Table A 7: Number of investment properties owned by investor landlord households in previous 12 months, showing total household wealth (quintiles)	93
Table A 8: Completed interviews by type of institutional agent	94



## List of figures

Figure 1: Key dimensions of the institutional structure of the Australian private rental sector	3
Figure 2: Housing tenure change, Australian households, 2011–16 and 2006–16	8
Figure 3: Institutional structure of the private rental sector	14
Figure 4: Established institutions of the PRS, Australia	20
Figure 5: Housing finance commitments (\$2016) by Authorised Deposit-taking Institutions: annual volume figures, Australia, 2000–16 (\$2016)	21
Figure 6: Housing finance commitments by state by Authorised Deposit-taking Institutions, annual volume figures, NSW, VIC and WA, 2000–16 (\$2016b)	22
Figure 7: Investor landlord by household type, Australia, 2013–14	24
Figure 8: PRS households by household type, Australia, 2006 and 2016	29
Figure 9: Types of dwellings in the PRS, Sydney, Melbourne and Perth, 2006 and 2016	30
Figure 10: Type of property management in the PRS, Sydney, Melbourne, Perth and Australia, 2006 and 2016	31
Figure 11: Intermediaries in the Australian housing finance market	37
Figure A 1: Change in housing tenure composition, Sydney, Melbourne, Perth and Australia, 2006–2016	88

## List of boxes

Box 1: A note on terminology	17
Box 2: Examples of digital technologies applied to PRS applications in Australia	59
Box 3: Innovation in PRS bond products	61
Box 4: Examples of using technology to streamline rental property management functions and outsourcing to third parties	71
Box A 1: Housing market factors in the 2000s, Sydney, Melbourne and Perth	89

## Acronyms and abbreviations used in this report

ABA	Australian Bankers' Association
ABS	Australian Bureau of Statistics
ADIs	Authorised Deposit-taking Institutions (e.g. banks, building societies)
AHURI	Australian Housing and Urban Research Institute Limited
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investment Commission
ATO	Australian Taxation Office
CDC	Consumer Directed Care
FIRB	Foreign Investment Review Board
GFC	Global Financial Crisis
HILDA	Housing, Income and Labour Dynamics Australia (survey)
LVRs	Loan-to-Valuation Ratios'
NDIS	National Disability Insurance Scheme
NFP	Not for Profit
NHHA	National Housing and Homelessness Agreement
NSW	New South Wales
NTD	National Tenancy Database
PIPA	Property Investment Professionals of Australia
PRS	Private Rental Sector
RA	Rent Assistance
RBA	Reserve Bank of Australia
REBAA	Real Estate Buyers Association of Australia
RTD	Residential Tenancy Database
SIH	Survey of Income and Housing (ABS)
SMSF	Self-Managed Superannuation Fund
SRP	Supporting Research Project
SRS	Social Rental Sector
UNSW	University of New South Wales
VCAT	Victorian Civil and Administrative Tribunal
WA	Western Australia

## Glossary

Bond assessments	Inspection of premises by real estate agent/landlord at the end of a tenancy to assess deductions from bond
Borderless investment	Buying property in areas not near investor landlords' homes
Buyer's agent	Person or company acting on behalf of the investor landlord in property purchases
Fractional investment	Buying a part share in a dwelling or number of dwellings
Loan-to-Valuation Ratio	Loan amount as a percentage of the valuation of the dwelling
Mortgage aggregators	Wholesalers between lenders of housing finance and mortgage brokers
Mortgage broker	Person or company arranging finance for investor landlord from a lender (often via a mortgage aggregator)
Mortgage referrers	Person or company that provides the investor landlord with a referral service to lenders or brokers
Owners' corporation	Body comprising owners of individual houses/units/apartments within a strata title subdivision (sometimes called body corporate)
Property advisor	Person or company providing advice on property purchase strategy to meet client goals including mortgage strategy and property selection
Purposive investment	Decision to purchase a property to rent out rather than incidental investor landlordism (e.g. through inheritance)
Rent rolls	Portfolio of privately-rented dwellings under management by a real estate agent
Online reputational analysis	Technology enabling automatic collection and assessment of online data, including reviews, ratings and 'likes', about individuals to determine their credibility
Strata subdivision	Form of ownership for multiple dwellings on one residential block with titles for individual dwellings/apartments separate to that for common property (e.g. driveways and gardens)
Tenants' advocates	Organisations representing the interests of tenants
Up-selling	Practice of attempting to sell products or services to a consumer in addition to the one that they have already agreed to purchase
Virtual assistant	Person or company that works remotely to provide administrative, technical and professional assistance to a client business
Wealth advisor	Person or company providing financial planning, investment advice and management and a range of other financial services (sometimes called wealth management)

## Executive summary

### Key points

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- The Australian private rental sector (PRS) increased by 38 per cent over 10 years (2006–16), more than twice the rate of household growth.
  - 2.1 million Australian households lived in the private rental sector (PRS) in 2016 or 26 per cent of all households.
  - Debt-financed investment in PRS dwellings has increased with a 42 per cent increase in the volume of lending to investors over 10 years (2006–16), with lending for investment at times exceeding lending for owner occupation.
  - 1.135 million Australian households were investor landlords in 2013–14, 72 per cent owning one property, with some increase in multi-property landlords.
  - PRS properties under management by real estate agents increased nationally from 68 to 75 per cent 2006–16, with differences between cities—Sydney (81%); Melbourne (79%) and Perth (66%).
  - Increased growth and diversity of the Australian PRS in the 2000s has been associated with institutional change, including new types of organisations, technologies and practices.
  - There is an increase in the number and type of intermediary organisations involved in all aspects of the PRS: financing, provision, access and rental property management.
  - Global and Australian real estate companies and developers are entering the PRS with rental yield models such as off campus student housing and the proposed build-to-rent model.
  - Uptake of new technology within the PRS has been extensive, including online property, specialist sharing and generalist portals, and property management software which collects more data on private renters, providing considerable benefits, but also increasing risks of data use for screening for eligibility, ranking applications and targeted selling of additional products and services.
  - Practices in the PRS are changing with real estate market restructuring, the uptake of new technology and outsourcing to third parties; indicating some change from administrative processing to service provision, although this change in modus operandi also requires a cultural shift.
  - While many PRS activities have been viewed as issues of regulation, there are clear signs of the need to reconnect regulation with policy goals in the context of institutional change and the emergence of new technologies and business models.
-

## The policy issue

The private rental sector (PRS) is the fastest growing part of the Australian housing system. Previous research has shown that the PRS is no longer a transitional sector for younger people between leaving the family home and becoming home owners. There are now more private renters on lower *and* higher incomes, more households with children; more households renting at mid-life, and more long-term renters (10+ years).

The PRS is critical to the success of a range of public policies. Housing assistance policies rely on good outcomes in the PRS to prevent homelessness; manage demand for social rental and enable movement out of the social rental sector; as well as enabling those in receipt of rental assistance to access affordable housing. Broader reforms of social policy for people with disability and older people rely on the PRS to provide accommodation in conjunction with various support and care packages. The PRS also provides accommodation for people in a wide range of other circumstances, including international students and new migrants.

A critical policy issue in view of these trends is the extent to which the PRS enables good outcomes for a diverse group of households, including those renting for short/medium/long periods; those on low/medium/high incomes; and a variety of household types. Research to date has indicated that while the PRS provides a range of accommodation types in different locations, there are ongoing concerns about outcomes for private renters. These include: lack of affordable supply, frequent rent increases, lack of security, prohibitions that limit home-making (such as on pet ownership) and varied experiences of housing quality and services.

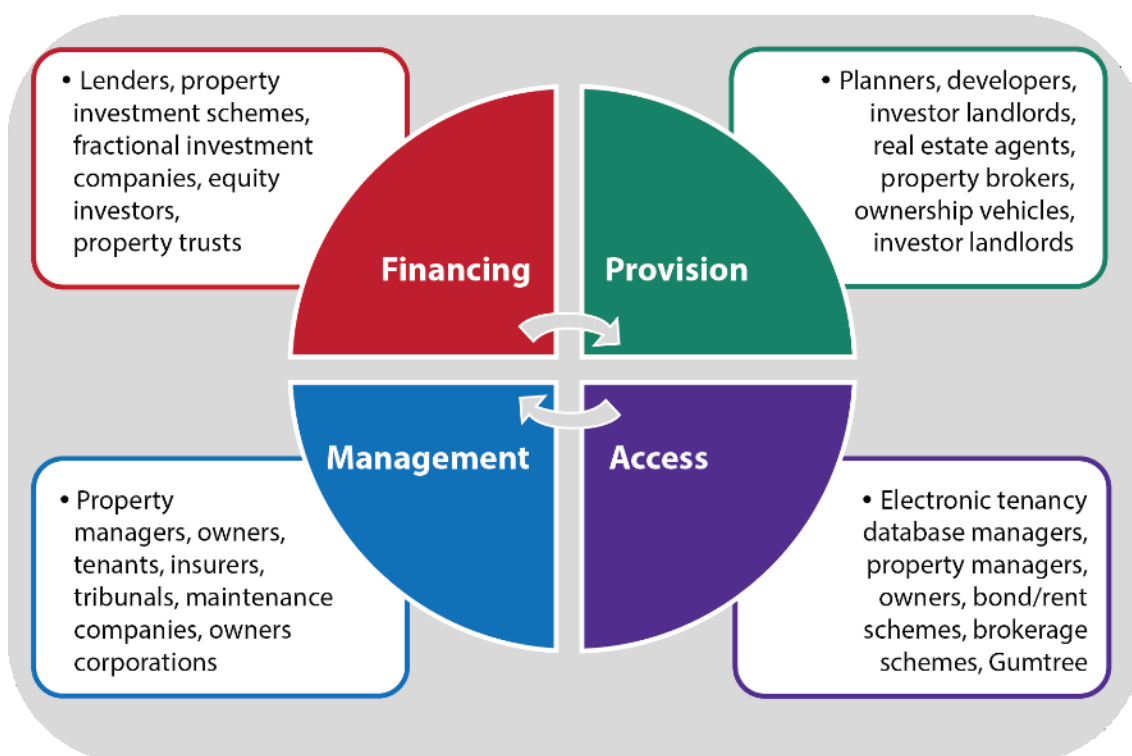
This Final Report presents a *comprehensive institutional analysis* of the PRS, which explores the interplay between i) regulation, ii) organisations and structures and iii) social norms and practices in the context of prevailing policies on the PRS. It provides a critical and empirical investigation of the conventional categories which shape understanding of the PRS through exploring a much fuller range of organisations involved in the sector as well as the impact of innovation and digital technology. Through focusing primarily on sector/industry changes, it provides a different perspective on the PRS to existing research which centres on government policy settings and resident experiences.

## Key findings

Within the overall framework of policies, regulation, organisations and structures, and social norms and practices, the research investigated four interrelated dimensions of the PRS as illustrated in the Figure below—financing, provision, access and management. The key findings are organised in this way.



**Figure 1: Key dimensions of the institutional structure of the Australian private rental sector**



*Note: These are example of organisations in the PRS and are not exhaustive or mutually exclusive.*

Source: Authors.

## Financing

Housing finance for PRS investment increased by 42 per cent in real terms 2006–16 (compared to an 8.4% increase in lending for owner occupation); indicating the growing importance of debt rather than equity financing of the PRS, with a particular increase in interest-only loans. Lending for rental investment surged to new highs briefly in 2003–04 and then in a more sustained way during 2013–17, largely for established rather than new housing.

These trends have been seen predominantly as issues of regulation.

- The policy lever of choice has been macro-prudential regulation. Interviewees for the project considered that this type of intervention produced mainly short-term effects, since other factors were important to investor landlords including low interest rates ('cheap money'), expectations about capital gains, and taxation regimes.
- There were differing views on foreign investment in the PRS, with the Australian Government implementing tighter controls on this type of investment. Those interviewed for the project considered that these controls dampened down demand in the apartment construction sector affecting pre-sales.

There has been a proliferation of intermediary organisations between lenders and investor landlords, including various types of financial intermediaries and wealth advisors.

- Financial intermediaries provide linking services to connect the investor landlord with a lender (including mortgage referrers, mortgage brokers and mortgage aggregators<sup>1</sup>), with each intermediary receiving remuneration for their role.
- Wealth advisors have been active in recommending debt-financed rental property investment to households and providing services to facilitate this.

Innovation in PRS financing through schemes in which investor landlords purchase a part of the housing asset (known as fractional investment) has the potential to be 'disruptive', although those interviewed for the project generally took a 'wait and see' attitude.

There are signs of change in social norms and practices, with more landlords seeing themselves as investors, manifest in more deliberate strategies to purchase property for rental (rather than incidental ownership through inheritance or renting out a property which was their former home). More purposive investment of this type has been associated with a rise in 'borderless investment', based on assessment of the potential of different housing markets to deliver capital gain and rental yields.

## Provision

Households are still the primary providers of PRS housing in Australia. The typical investor landlord is an owner-occupier, at midlife, in a household with two incomes, although one in eight themselves rent in the PRS.

- Although PRS ownership is quite widespread, there is a concentration among higher income and higher wealth households.
- Investor landlords have an estimated two-thirds of their assets in property, but their debt-to-asset value appears quite conservative in most cases.
- The percentage of households with more than one rental property appears relatively stable at just under 30 per cent (with some disparity between data sources) but the multi-property investor share of all PRS properties has increased.

There has been a growth in intermediaries such as buyer's agents and property advisory services which help shape PRS provision by households.

Innovation in the sector comes primarily from debt financing based on rental yield or cash flow models of purpose-built rental accommodation that cannot be strata titled<sup>2</sup> and sold as separate units:

- New generation boarding houses facilitated by changes in state planning provisions (NSW).
- Student housing involving large corporate providers, which is significant in Melbourne and Sydney and to a lesser degree in Perth.
- Global and Australian real estate companies' proposals to introduce a new build-to-rent (or multi-family) model in Australia, with high density, purpose-built rental housing.

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<sup>1</sup> Mortgage referrers (e.g. real estate agents, financial planners, lawyers and accountants) refer the investor landlord to a lender; mortgage brokers are specialists in arranging finance for the investor landlord from a lender typically via a mortgage aggregator who provides technology, administrative support and training for mortgage brokers.

<sup>2</sup> Strata title is an Australian property innovation from the early 1960s which enabled individual ownership of dwellings in multi-unit buildings along with shared ownership of common property (e.g. driveways, foyers and gardens) through a legal entity known in different Australian states as an owners' corporation, body corporate, strata company or community association (Strata Community Association, What is Strata?, <https://www.strata.community/understandingstrata/what-is-strata>.)

## Access

Many organisations are involved in the tenant PRS access process—the media *facilitates* access, residential tenancy databases are used to *check* access through screening applicants, and managing agents do both. Current regulation focuses primarily on those who check and manage access.

Dynamic changes in PRS institutions are associated with more widespread development and the adoption of digital technology is affecting all parts of the access process.

- There has been considerable institutional change in *advertisement* of PRS properties through major online portals, specialist sharing portals and general online classified advertisements, casting a wider net for prospective tenants and providing greater property information, including photos, floor plans and location relative to transport and jobs.
- At the *application* stage, software enables one application (rather than multiple applications for multiple properties) and more streamlined property viewings with benefits for prospective tenants and managing agents. There are also risks in these developments in the amount and type of data collected, which go well beyond the rental tenancy databases that are currently regulated, including data use for targeted advertising, ranking tenants, and selling additional products and services.
- At the *offer* stage, online reputation analysis technology<sup>3</sup> is already being launched in Australia with an alternative bond product in association with landlords' insurance. It appears that there is also some 'upselling'<sup>4</sup> of additional products/services to new tenants such as internet access and contents insurance.

## Management

The increase in management of PRS properties by real estate agents in 2006–16 is associated with more purposive investment and an increase in properties not in close proximity to the investor landlords' own residence (termed 'borderless investment').

Rental property management has become more important to real estate agents because it is a source of stable revenue which covers an increased proportion, if not all, of the fixed costs of the business, enabling agencies to weather the volatility of housing sales since the Global Financial Crisis.

Restructuring of the real estate industry to achieve economies of scale has involved change in rental management activities through:

- The increasing size of rental portfolios under management, commonly referred to as 'rent rolls', both organically but also by mergers and acquisition, the latter involving specialist rent roll brokers and raising finance against the value of a rent roll in predominantly off-market transactions
- Investment in information and communications technology and use of third parties for aspects of management including 'virtual assistants'<sup>5</sup>, property condition reports, rent collection/receipting, maintenance workflow and property inspections, including those required at the end of a tenancy to assess any maintenance deemed necessary beyond

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<sup>3</sup> Online reputation analysis technology automatically collects and assesses online data, including reviews, ratings and 'likes', about individuals to determine their credibility.

<sup>4</sup> Upselling refers to the practice of attempting to sell products or services to a consumer in addition to the one that they have already agreed to purchase.

<sup>5</sup> 'Virtual assistants' is a term used in the real estate sector to denote routine activities outsourced to other people or organisations who are not located in the real estate office.

normal wear and tear to support any part/whole retention of bond monies. Some of this work is now conducted off shore.

There appears to be a slow change in social norms and practices, with agents reporting that some tenants have greater expectations in terms of service, including more timely, transparent and accurate information about response to their requests. The need for greater professionalisation in rental property management was a common theme in the research, including from those currently working within the sector.

## **Policy development options**

### **Financing and provision**

The key issues around financing and provision revolve around the benefits and risks of debt-financed provision by households vis-a-vis other models.

- Independent information for potential investor landlords based on evidence of housing market performance, the role and remuneration of financial intermediaries, and innovative lending products, would assist in building levels of financial literacy. Dependence on debt-financed PRS provision by households enables growth and provides housing system flexibility, but also carries risks for individuals/households in the event of a housing market and/or economic downturn.
- It is important to articulate expectations of investor landlords as housing providers. Investor landlords could be expected to apply the same diligence to their purchase and ongoing financial situation as other businesses providing services. Policy discourse should represent investor landlords as housing providers rather than ‘mums and dads’, which arguably diminishes expectations of them.
- Detailed assessment of the opportunities and risks associated with a build-to-rent model in Australia is essential. This work should consider whether build-to-rent complements, or is viewed as a market-driven alternative to, current work on enabling cheaper and more reliable finance for not-for-profit providers through a bond aggregator model. The focus should be on outcomes relative to any government contribution in terms of subsidies, concessions or tax expenditures.
- Developing a better, evidenced-based understanding of PRS financing and provision through improved data on foreign ownership of residential property for rental and PRS properties held by Self-Managed Superannuation Funds (SMSFs), trusts and other intermediary structures.

### **Access and management**

Technological advances have opened up possibilities for new types of institutions and business models for access and management, requiring policy development work:

- It would be timely for Australian governments to conduct a thorough review of current and emerging information technologies and practices in the PRS, particularly in relation to access. This would enable assessment of the adequacy of current regulatory regimes, and could result in placing reasonable limits on data collection and ensuring transparency in its use.
- A comprehensive view of the ‘renting by room’ sector would appear appropriate, to include issues such as the trustworthiness of online matching portals, change in occupancy use of premises and change in building structures to enable multi-room renting.

- The development of alternative bond products may have some potential benefits for tenants in accessing PRS housing but also raises some concerns, indicating a need for policy development in this area.
- The effectiveness of regulatory approaches to residential tenancies vis-a-vis other policy instruments should be reviewed, with a view to learning between jurisdictions and nationally. One option would be for the Australian Government to revisit national minimum standards in this area as part of its negotiations with the states/territories about a new National Housing and Homelessness Agreement.

## The study

The overarching research question that this Final Report addresses is:

*What are the dynamics and drivers of emerging trends in the institutions of Australia's private rental sector and what are the consequent opportunities and challenges for the sector?*

Three sub-questions were developed to guide the research:

- What changes have occurred in the institutions of Australia's PRS since 2000?
- What drivers and dynamics underlie the key institutional developments in the Australian PRS since 2000?
- What opportunities do new and changing institutions in Australia's private rental sector create for achieving better PRS outcomes and what are the main challenges to their achievement?

The comprehensive institutional analysis deployed in this study involved identifying, analysing and synthesising multiple sources of data and information on change in the Australian PRS in the 2000s to present a national overview with some focus on three cities (Sydney, Melbourne and Perth). An initial scan of the academic and grey literature on the PRS identified established and new institutions, and a preliminary categorisation helped shape the conceptual framework for the project. Analysis of secondary data sets relevant to the PRS was undertaken, in particular on households as investor landlords and as private renters: the ABS Census of Population and Housing 2016 (and previous years); the ABS Survey of Income and Housing (SIH) and supplementary analysis from the 2014 wealth module of the Household, Income and Labour Dynamics in Australia (HILDA) survey.<sup>6</sup> Forty-two interviews were conducted with informed people involved in all aspects of the PRS (financing, provision/development, access and management). The interviews also elicited further grey literature and industry intelligence, which assisted in preparing a comprehensive picture of institutional change in the Australian PRS.

This report focuses on institutional change and the selection of interviewees had an industry focus. A companion project for the Inquiry examined in detail the ways in which lower income and vulnerable households navigate the PRS in the context of institutional change from the perspective of private renters and the agencies that provide them with support (Parkinson, James et al. 2018). A third project examined institutional change in the PRS in 10 countries, enabling change in Australian institutions of the PRS to be viewed in a wider focus (Martin, Hulse et al. 2018). The Inquiry's Final Report will provide a high level analysis of key issues for the future of the PRS based on the three research projects and informed by two meetings of the Inquiry Panel.

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<sup>6</sup> HILDA is managed by the Melbourne Institute for Applied Economic and Social Research (University of Melbourne) and financially supported by the Australian Government.

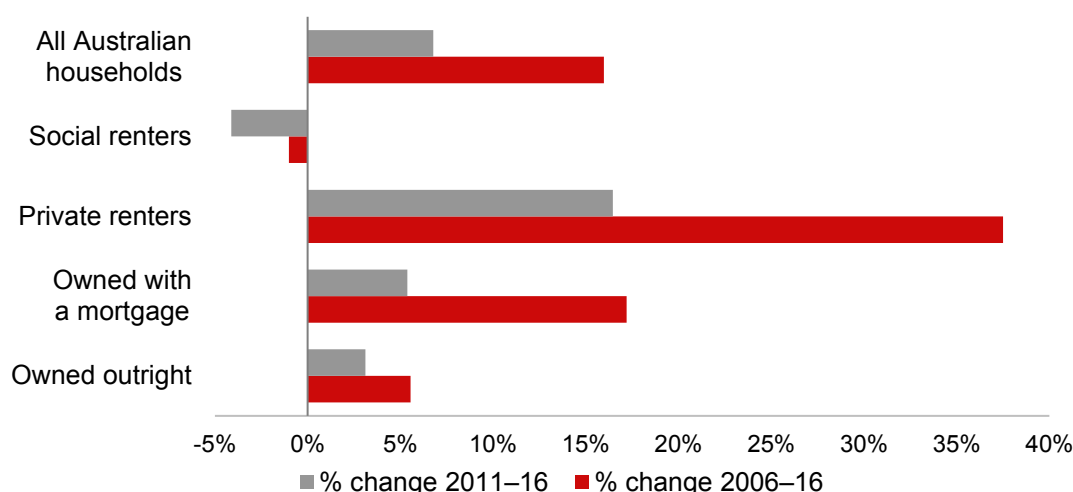
# 1 Institutional change in the Australian private rental sector

## 1.1 Investigating institutional change

For many years, private renting in Australia was widely viewed as a declining sector, mainly meeting the transitional needs of young people between leaving their family home and buying a home of their own (Paris 1993: 178). From the mid-1990s, and accelerating in the 2000s, there has been a sustained increase in private renting so that by 2016 more than a quarter (26%) of all Australian households, or 2.1 million households, rented their housing in the private rental sector<sup>7</sup>. This trend can also be observed internationally, particularly in countries similar to Australia such as the UK, Ireland and the US (Crook and Kemp 2014; Whitehead, Scanlon et al. 2016) and, within the region, New Zealand (Chisholm, Howden-Chapman et al. 2017).

The Australian PRS has been growing at a greater rate than can be accounted for by household growth alone since the mid-1990s, when less than one in five households rented their accommodation in the private sector (Hulse and Yates 2017). Over the past decade (2006–16), private renter households<sup>8</sup> increased at more than twice the rate of all Australian households,<sup>9</sup> as shown in Figure 1 below. In contrast, home ownership did not keep pace with household growth and social rental declined further relative to household growth.

**Figure 2: Housing tenure change, Australian households, 2011–16 and 2006–16**



*Notes: PRS comprises paying rent to a real estate agent or person not in the same household. Social rental comprises paying rent to a state or territory housing authority or housing cooperative, church or community group. All Australian households also includes: 'other renters', 'other tenure' and 'tenure not stated'.*

Source: Calculated from ABS Census of Population and Housing, Basic Community Profile (2006, 2011) and General Community Profile (2016).

<sup>7</sup> Calculated from ABS Census of Population and Housing 2016. In 2016, 31 per cent of Australian households rented their housing, the vast majority of whom—26 per cent of all households—rented in the private sector. The other 5 per cent comprised public and community housing and other rental arrangements.

<sup>8</sup> Following the ABS, the private rental sector is defined as households paying rent to a real estate agent or person not in the same household/dwelling.

<sup>9</sup> Private renter households increased by 37.5 per cent to 2006–16 compared with all household growth of 16.0 per cent (authors' calculation from ABS Census of Population and Housing 2006, 2016).



The private rental sector (PRS) occupies an increasingly critical position in the Australian housing system, providing much of the system's growth and flexibility. Housing policy settings, however, have focused historically on home ownership and social rental but the steady growth of the PRS has drawn attention to Australian households as both consumers and providers of rental housing:

- A broader range of households now live in the contemporary PRS. There are more private renters at midlife (Sharam 2015; Sharam, Ralston et al. 2016); more families with children renting privately and more long-term (10+ years) private renter households (Stone, Burke et al. 2013). There are also more private renters across the income spectrum including an increase in lower income households in the PRS (Hulse, Reynolds et al. 2014). The term 'Generation Rent' has been popularised to convey concern about these trends (e.g. Eaquad and Eaquad 2015) albeit with a particular focus on the housing prospects of Millennials (formerly Generation Y).<sup>10</sup>
- Australian households, rather than institutional investors, own properties that are rented out in the PRS (Hulse and Burke 2015). These households are colloquially referred to as 'mum and dad' investors and include a wide variety of people and households (Berry 2000; Seelig, Thompson et al., 2009). While households can reap financial benefits which improve their financial position over the longer term in an era of asset-based welfare (Lowe 2011), rental yields can be low, particularly in Australia's high-priced urban housing markets (Wood and Ong 2013) and high levels of indebtedness mean that some are exposed to financial risks as a result of this type of property ownership (RBA 2017b). The term 'Generation Landlord' has been deployed elsewhere to draw attention to the increase in investor landlords (Ronald and Kadi 2016).<sup>11</sup>

There is increasing realisation that the private rental sector in Australia may not be 'fit for purpose' for this changing and expanded role, being grounded in its historical role as a transitional sector. Policy debates have covered some aspects of regulation, such as short-term leases and continuing periodic (monthly) tenancies with multiple grounds for termination at short notice (Hulse and Milligan 2014; NATO 2010); the persistence of 'no grounds' eviction provisions; regulation that enables regular rent increases with no cap; and prohibitions on personalising a dwelling and owning pets (Easthope 2014; Power 2017). Research has highlighted some adverse outcomes of some of these established regulatory settings including unaffordable rents, particularly for lower income households (Wulff, Reynolds et al. 2011; Hulse, Reynolds et al. 2014); frequent rent increases (Hulse, Milligan et al. 2011); insecurity with frequent and expensive moves (Hulse and Saugeres 2008) as well as difficulties in home-making (Easthope 2014) and sustaining tenancies (Stone, Sharam et al. 2015).

Growing interest in the increase in private renting, and its corollary declining home ownership, has been reflected in news media stories (print and broadcast), social media (e.g. blogs) and general public debate. There is now much greater awareness that the PRS is an important part of the housing system for many Australians, and will be more important in the future (e.g. CEDA 2017). Unsurprisingly in this context, new types of organisations, technologies and practices are emerging which relate to established institutions in sometimes complex ways.

This is the Final Report of a research project that aimed to scope, map and analyse institutional change in the Australian private rental sector (PRS) since the turn of the century and to

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<sup>10</sup> The term 'Generation Rent' seems to have appeared first in a report on a survey commissioned by the Halifax Building Society and undertaken by the National Centre for Social Research in the UK, but is now widely used in the Australian media. It refers to people born between about 1982 and 2001 (although the birth dates vary considerably in different accounts).

<sup>11</sup> The term 'Generation Landlord' is sometimes used in the UK but only sparsely in the Australian media.

consider implications of this change for future reform of the PRS to improve sector performance. The research findings are intended to provide policy maker and others with a comprehensive and up-to-date understanding of the dynamics and drivers of institutional change in the PRS, to inform the development of public policies which harness the opportunities associated with institutional change and mitigate potentially adverse effects.

This report is a companion piece to two other studies that form part of the AHURI Inquiry into The Future of the Private Rental Sector: one of these studies examines institutional change in the PRS in 10 countries including Australia (Martin, Hulse et al. 2018) and the other which focuses on the ways in which lower income and vulnerable households in Australia navigate the PRS in the context of institutional and market change (Parkinson, James et al. 2018).

## **1.2 Policy context**

The policy context for the PRS encompasses several policy domains and types of policy instruments across different levels of government. Four types of policy settings are discussed briefly below, with examples drawn from the national policy context and from the three states that were the focus of the empirical part of the project (NSW, Victoria and Western Australia). The examples of policy context cited are not intended to be exhaustive, but to illustrate the broad range of policies that can impact on PRS performance.

### **1.2.1 Direct housing assistance**

Direct housing assistance involves both the Australian and state/territory governments and there are clear connections between homelessness, social rental housing and the PRS.

- Difficulties in accessing and sustaining tenancies in the PRS are a major factor in contributing to homelessness, including for families with children (Stone, Burke et al. 2013).
- Most jurisdictions manage demand for social housing through brokerage and other schemes to assist applicants to rent in the private sector (Stone, Burke et al. 2015).
- Policy makers have the aspiration that some households are able to move out of social rental housing into the private rental sector once their circumstances are stabilised/improve to create vacancies for households with more urgent and complex needs (Wiesel, Easthope et al. 2012; Wiesel, Pawson et al. 2014).
- A well-functioning PRS is critical to the success of the major form of housing assistance in Australia, Rent Assistance, which is paid to households in receipt of income support and/or family benefits to help offset some of the additional costs of private rental.

### **1.2.2 Measures to increase the supply of affordable rental housing**

There is strong evidence that there is a shortage of affordable PRS housing for lower income households and that this shortage has been increasing (Wulff, Reynolds et al. 2011; Hulse, Reynolds et al. 2015), but little consensus to date on the means of remedying this or the roles of different levels of government. Debate has centred around: i) how to channel lower cost finance into affordable rental housing provided by not-for-profit providers; ii) changes to federal taxation settings to encourage greater supply of private rental housing affordable for lower income households; and iii) using state/territory planning systems to enhance supply of affordable rentals.

- 'Institutional investment' in the PRS, referring to institutions such as pension funds and intermediaries such as real estate investment trusts, while important in other countries (Martin, Hulse et al. 2018), remains elusive in Australia's residential sector. The Australian Government's Affordable Housing Implementation Taskforce is developing an affordable

housing bond aggregator model to enable cheaper private finance over a longer period for affordable housing supply including a National Housing Finance and Investment Corporation and a National Housing Infrastructure Facility (The Treasury 2017).<sup>12</sup>

- Reforms to other taxation settings such as negative gearing for investor landlords and the concession on capital gains for investor landlords are controversial and politically contested. There has been some small scale reform including an increase in the capital gains tax concession for investors in affordable housing (in the Australian Government's 2017 budget).<sup>13</sup>
- At the state/territory level, there have been some moves to use the planning system to improve the supply of affordable rentals, e.g. the proposed introduction of 'smart' planning to speed up the supply of affordable housing in inner/middle suburbs and growth areas in Victoria (*Homes for Victorians*, Government of Victoria 2017) and in NSW for the development of specific types of rental housing, including boarding houses and secondary dwellings (granny flats).<sup>14</sup> There have also been proposals for modest inclusionary zoning in both NSW and Victoria.<sup>15</sup>

### 1.2.3 Regulation of residential tenancies

There has been ongoing policy work on regulation of different types of tenancies at a state/territory level, including:

- The Western Australian Government is examining options for regulation of boarders and lodgers and provision for victims of Domestic and Family Violence, following changes already implemented in most other jurisdictions.
- A review of the *Residential Tenancies Act 2010* in NSW proposes further marginal changes to the law: in particular, to facilitate the use of long fixed term tenancy agreements, and to make special provision for tenants affected by domestic violence.
- The *Fairer Safer Housing Options Paper 2017* was produced as part of the review of the *Residential Tenancies Act 1997* in Victoria. At the time of writing, the first of a package of reform measures have been announced by the Victorian Government.<sup>16</sup>
- Moves by both the NSW and Victorian Governments to enhance the regulation of the rooming house/boarding house sector and to strengthen residents' rights with new frameworks introduced in both states from 2012.

### 1.2.4 Social policy reforms

A well-functioning PRS is also critical to the success of reforms in a number of key social policy areas involving the Australian and state/territory governments:

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<sup>12</sup> A final report by EY was presented to the Treasurer in September 2017 on 'Advice, modelling, evidence and an implementation plan for the establishment of an affordable housing bond aggregator', [https://static.treasury.gov.au/uploads/sites/1/2017/09/c2017\\_222774\\_EY\\_report-2.pdf](https://static.treasury.gov.au/uploads/sites/1/2017/09/c2017_222774_EY_report-2.pdf).

<sup>13</sup> Another AHURI Inquiry is examining 'Pathways to Housing Tax Reform' (AHURI 41110).

<sup>14</sup> State Environmental Planning Policy (Affordable Rental Housing) 2009 (NSW) (AHSEPP).

<sup>15</sup> The Greater Sydney Commission proposed in 2016 that 5–10 per cent of the additional floor space permitted by a higher-density rezoning would be directed to use as affordable rental housing. The *Homes for Victorians* strategy (2017) envisages some inclusionary zoning in conjunction with the sale and development of government land.

<sup>16</sup> Announcements include the introduction of data bases to monitor undesirable landlord/agent behaviour as well as the removal of the ban on domestic pets in tenancy agreements, <http://www.theaustralian.com.au/news/nation/victorian-rental-reforms-pet-bans-lifted-as-bad-landlords-face-blacklist/news-story/15dc2e2b0908b26587587c1549bd0fba>.

- providing accommodation for people with disabilities in conjunction with support for independent living provided through the National Disability Insurance Scheme (NDIS)
- enabling older people to live well and age in place. If social policies such as Consumer Directed Care (CDC) are to be effective, some older people will need to be able to access affordable and suitable housing in the PRS.

The Productivity Commission's (2017) draft report on improving competition and user choice in human services envisages paying Commonwealth Rent Assistance to social housing tenants such that there would be portability between the social and private rental sectors. If implemented, this would require a supply of affordable and appropriate PRS housing so that households could exercise choice of sector, landlord, type and location of housing and rent level.

### 1.2.5 Coordination across levels of government and portfolio areas

A key challenge in improving the performance of the PRS is better coordination of different policy instruments, across different portfolio areas and levels of government. There has been some recent activity at a state/territory level to address the first and second of these, most recently the Victorian Government's Strategy on *Homes for Victorians* (2017) which includes a broad range of policy, planning and regulatory changes.

More broadly, the Australian Government announced in its 2017–18 budget that it would negotiate a new National Housing and Homelessness Agreement (NHHA) with the states/territories to set targets for types of assistance including supply of affordable rentals.<sup>17</sup>

## 1.3 Conceptual framework

The conceptual framework for the research is based on an understanding that markets do not exist in a vacuum but are 'embedded' in broader social, political and legal structures (Granovetter 1985). While institutions are conceptualised in different ways in different disciplines (e.g. Amin 1999; Bathelt and Glückler 2014; Gibb and Nygaard 2006), a recent interdisciplinary review argued that institutions are 'systems of established and prevalent social rules that structure social interactions' (Hodgson 2006: 2). In an application of this type of approach to the private rental sector in the UK, a similar definition of institution was used: 'a relatively enduring collection of rules and organised practices embedded in structures of meaning and resources' (Kemp 2015: 606, based on March and Olsen (2006: 3)).

In referring to the institutions of the PRS, therefore, we mean not only public policies and legislation/regulation, but also established and new actors and organisations and the predominant social practices that shape the sector and associated housing outcomes. Table 1 below identifies four analytical lenses for an institutional analysis of the PRS.

This project will extend the understanding of PRS drivers and dynamics, primarily through a focus on regulation and organisations/structures with some reference to social practices and norms. There has been quite extensive research into policies relevant to the PRS, including a current AHURI Inquiry which is examining housing taxation<sup>18</sup>. There has been some national (e.g. Blunden and Martin 2004; NATO 2010) and comparative research (e.g. Hulse, Milligan et al. 2011; Scanlon and Kochan 2011) into regulation (type 2). However, because this is a

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<sup>17</sup> Budget 2017–18 Fact Sheet 1.7 A New National Housing and Homelessness Agreement, [http://www.budget.gov.au/2017-18/content/glossies/factsheets/html/HA\\_17.htm](http://www.budget.gov.au/2017-18/content/glossies/factsheets/html/HA_17.htm).

<sup>18</sup> AHURI Inquiry into pathways to housing tax reform, <https://www.ahuri.edu.au/research/research-in-progress/inquiry-41110>.

dynamic and rapidly changing market sector and policy area, such analyses quickly become dated. There has been less research drawing on analytical lenses (type 3 and type 4). These refer respectively to organisations and structures and social practices and norms in relation to the PRS.

**Table 1: Lenses for institutional analysis of the private rental sector**

Analytical lenses	Scope	Examples
(1) Policies	Housing and non-housing policy design and implementation	Financial assistance (Rent Assistance) to private renters in receipt of income support or family tax payments; tax settings affecting PRS investment (e.g. capital gains tax concession, negative gearing, state land tax).
(2) Regulation	Regulation through statutory legislation and other means affecting the PRS	Regulation of lending to investor landlords; regulation of residential tenancies arrangements.
(3) Organisations and structures	Established, changing and emerging organisations	Organisational structuring of financing finance instruments, ownership vehicles, development mechanisms, property management services, rental housing providers, and online portals.
(4) Social practices and norms	Established and changing social practices around renting and rules/social norms governing these practices	Renting practices such as buying/selling vacant rental properties; expectations about short-term tenancies, and terminology for referring to PRS actors and organisations.

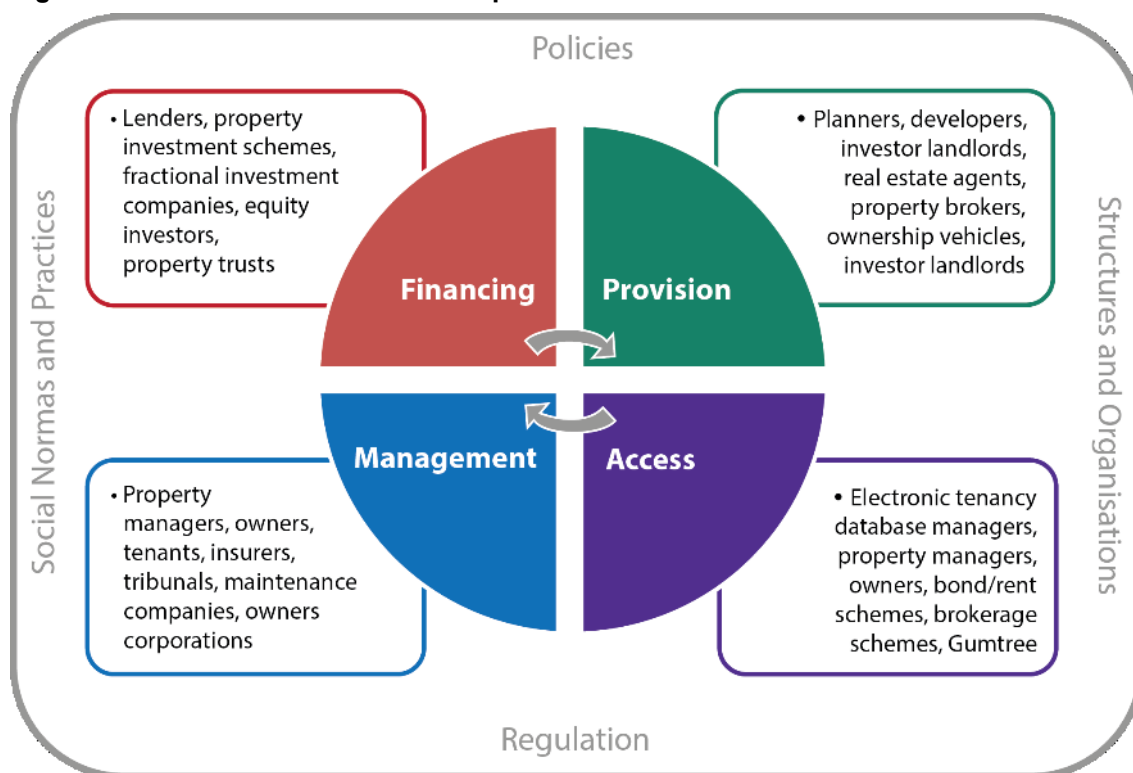
Source: Authors.

Institutional analysis of this type enables explanation of both the persistence of housing systems over time (e.g. long-standing institutional support for home ownership in countries like Australia) and change (e.g. a dismantling of some institutions and the emergence of others). Using this approach, the structuring of rental housing vis a vis other parts of the housing system has been described as ‘the product of a politico-legal construct’ which is ‘the result of cumulative legislation and policy over many decades’ (Kemeny 1995: 27). By taking this approach, the project complements, and builds on, existing market analyses of PRS market change (e.g. Wulff, Reynolds et al. 2011; Hulse, Reynolds et al. 2014; Hulse and Yates 2017). In brief, this is an understanding that private rental markets are embedded in institutions, which help shape market activity and contribute to outcomes. This idea of the embeddedness of markets is reflected in the use of the term private rental *sector* rather than private rental *market*, the former having a broader scope to include regulation, organisations and structures and social norms and practices.

There has been increasing recognition internationally of the importance of institutional change on the performance of the PRS. A recent example is work by Kemp (2015) in the UK in identifying the types of processes that can generate gradual but transformative change in the institutions of the PRS, building on the work of Thelen and colleagues (Thelen 2009; Mahoney and Thelen 2010; Streeck and Thelen 2005). Kemp argues (2015: 617) that institutional changes in the PRS must be located within changes in global political economy. The latter include low yields available to investors in the post- GFC low interest environment that makes private rental housing more attractive and are also attracting individual/household level investors and institutions and corporations into different types of rental housing and cross-national investment.

The framework developed by the research team for this type of institutional analysis is given in Figure 3 below. The research used this framework to identify key institutional actors involved in financing, development/provision, access and management, who were interviewed in the empirical part of the project. These actors/organisations operate within a broader context that includes policies, legislation and regulation, structures and organisations outside of the PRS and social norms and practices, as well as the broader global economic and political context.

**Figure 3: Institutional structure of the private rental sector**



*Notes: i) The outer circle of policies, legislation/regulation, structure and organisations and social norms and practices relate to all types of organisations and all four key dimensions (financing, provision, access and management); ii) These are examples of organisations in the PRS and are not exhaustive or mutually exclusive.*

Source: Authors.

## 1.4 Research methods

The overarching question that this Final Report addresses is:

**What are the dynamics and drivers of emerging trends in the institutions of Australia's private rental sector and what are the consequent opportunities and challenges for the sector?**

To answer the overarching question, three research questions were developed to guide the research, each of which required using a combination of methods.

- 1 What changes have occurred in the institutions of Australia's PRS since 2000?
- 2 What drivers and dynamics underlie the key institutional developments in the Australian PRS since 2000
- 3 What opportunities do new and changing institutions in Australia's private rental sector create for achieving better PRS outcomes and what are the main challenges to their achievement?



### **1.4.1 Changes in the institutions of Australia's PRS since 2000**

The methodology involved identifying, analysing and synthesising multiple sources of data and information on change in the Australian PRS since 2000. As the analysis mapped new ground in a rapidly changing environment, no single dataset could be used for this analysis. Instead, analysis was undertaken via an integrated approach as set out below. The purpose was to present a national overview with additional detail on the three cities of particular focus (Sydney, Melbourne and Perth).

An initial scan of PRS, established and new institutions, and a preliminary categorisation based on a review of scholarly and grey literature, helped shape the conceptual framework for the project discussed above. While the scholarly literature about the Australian PRS was relatively well known, this stage elicited a wealth of grey literature from industry sources.

The research included quantitative analysis of established secondary data sets relevant to the PRS, in particular on households as investor landlords and as private renters. Three data sets were included in the research:

- The ABS Census of Population and Housing 2016 released by the ABS in June 2017 was analysed to prepare an updated profile of private renter households as well as types of landlords/managers in the PRS. These data were able to be compared with Census data from previous years.
- The ABS Survey of Income and Housing (SIH) data provided an economic/demographic profile of investor landlords, the number of investment properties, and the quantum of rent/proportion of income. SIH data collected in 2013–14 were used to provide a broad national account of the incidence of household investment in residential rental property.
- Data from the Household, Income and Labour Dynamics in Australia (HILDA) longitudinal survey's most recent wealth module 2014 were analysed to investigate investor landlord activity and characteristics in relation to household assets and earnings.<sup>19</sup> HILDA is an underutilised but rich source of information about the longitudinal nature of investing within individual investor portfolios.

The research team mapped new and emerging institutional elements in the PRS through a purposive exploration, identification and analysis of available information/data, using grey literature and industry information. This was an exploratory part of the research and the information/data varied in extent, quality/reliability and accessibility.

### **1.4.2 Drivers and dynamics underlying the key institutional developments in the Australian PRS since 2000**

Building on the secondary data analysis, national scanning and mapping outlined above, this part of the research focused more specifically on three cities (Sydney, Perth and Melbourne), chosen because of their differing policy context, housing markets and PRS histories—see Appendix 1 for further details about the three cities. It was expected that there could be some variation in the type of institutional change and policy responses in response to these factors.

The main research method was 42 semi-structured interviews completed across these cities with a range of organisational actors identified in the first stage of the research. These were as follows:

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<sup>19</sup> HILDA is managed by the Melbourne Institute for Applied Economic and Social Research (University of Melbourne) and financially supported by the Federal Government.

**Table 2: Completed interviews by type of institution and participant**

Institutional type	Interviewees
Financing and provision/development	<ul style="list-style-type: none"> <li>Developers (small to large)</li> <li>Finance innovators</li> <li>Wealth/property advisers</li> <li>Rent roll brokers</li> <li>Buyer's agents</li> <li>Private landlords (family firms to franchises)</li> <li>Regulators</li> </ul>
Access and management	<ul style="list-style-type: none"> <li>Online real estate advertising</li> <li>Software developers</li> <li>Real estate agents (independent, larger, franchise)</li> <li>Tenants' advocates</li> <li>Industry organisations</li> <li>Regulators</li> </ul>

*Note: Further details at Appendix 2.*

Source: Authors.

Interviewees were recruited to obtain varying perspectives on institutional changes in the PRS. The interviews provided rich and detailed information about institutional and market change in the PRS and elicited additional data sources and grey literature made available by participants. Analysis of the interviews drew on the conceptual framework discussed above (financing, provision, access and management) with a view to eliciting perspectives on institutional persistence and change including examples.

### **1.4.3 Opportunities for, and challenges to, achieving better PRS outcomes**

Answering this question required integration of the findings of the various research methods outlined above and discussion with the Inquiry Panel at two meetings held in November 2016 and August 2017. Integration of research findings using this institutional approach was not an easy task akin to assembling a jigsaw puzzle in which there is no picture or clear edges to offer guidance, or sometimes a missing piece, due to lack of data. The objective was to present a different account of the PRS which took into account institutional as well as market change.

One of the issues faced in such an account of changing institutions was the use of colloquial terminology that reflects dominant discourses about PRS organisational actors.<sup>20</sup> These relate to social norms and practices that are specific to context and that change slowly over time. Box 1 below notes how issues of terminology were dealt with.

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<sup>20</sup> A glossary is provided at the beginning of this report explaining PRS terms and industry jargon.

### Box 1: A note on terminology

There are some interesting differences in social practices and norms about naming the major institutional actors in the PRS. Those who acquire, own and rent out residential property are known colloquially in Australia, and in the media and grey literature, by two different terms:

- 'landlords' in residential tenancies legislation although not uniformly across Australia<sup>21</sup>
- 'rental investors' in much political, policy and public discourse.<sup>22</sup>

'Landlord' may have a slightly negative connotation (a media report might refer to 'bad landlords' but never 'bad rental investors'). 'Rental investor' has mainly positive connotations implying purpose and investment knowledge and decision-making, self-reliance and self-provisioning.

In contrast, those who rent in the PRS are referred to in legislation always as 'tenants' (unless they are boarders, lodgers or rooming house residents, or in another marginal tenure category). In everyday language, they may be referred to as tenants or renters. Tenant may have a slightly negative connotation (e.g. media reports about 'bad tenants').

Tenants are not usually referred to as consumers of a housing product/services, even though the relationship could well be construed in this way—as consumer tenants.

In this report, we try to keep the language as neutral as possible and refer predominantly to:

- **investor landlords**, reserving the term 'landlord' for specific aspects of the legal relationship with tenants
- **renters and/or consumers** for easy comprehension/readability, using the term 'tenants' when referring specifically to legal relationships with landlords (as above).

## 1.5 Structure of this report

This report proceeds as follows:

Chapter 2 provides an analysis of changes in the established institutions of the PRS since 2000, with a particular focus on the decade 2006–16, drawing on available secondary data and academic and grey literature.

Chapters 3–6 examine the drivers and dynamics that underlie the key institutional changes in Australian PRS in the 2000s. They examine changes to regulation, organisations and structures, and social norms and practices (the latter to a limited extent) based on detailed analysis of the grey literature and primary research for this project (interviews) in respect of:

- **financing**, in particular the role of regulation and intermediary organisations and structures (Chapter 3)
- **PRS provision** including the evolving role of intermediaries and the development of new PRS products (Chapter 4)

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<sup>21</sup> While referred to as 'landlords' in legislation in NSW, Victoria, South Australia and the Northern Territory, they are 'lessors' in Queensland, Western Australia and the Australian Capital Territory legislation. In Tasmanian legislation, they are simply 'owners'.

<sup>22</sup> This is unlike the situation in the UK where the term 'Buy-to-let landlord' describes both of these situations and a type of mortgage instrument, the 'Buy-to-let mortgage' (Council of Mortgage Lenders, 2017 Buy-to-let mortgages and the private rented sector, Policy Update (June), <https://www.cml.org.uk/policy/policy-updates/all/buy-to-let/>).

- access to PRS dwellings in an era of widespread use of technology and new digital products and services (Chapter 5)
- changes to the **management** of PRS housing in the light of real estate industry restructuring and technological change (Chapter 6).

Chapter 7 draws on the research findings to identify opportunities for policy development that could lead to better outcomes in the PRS in the context of post-2000 institutional and market changes.

## 2 The Australian private rental sector in the 2000s: key institutional changes

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The established institutional context for the PRS is one of regulation: of financing at a federal level and of provision, access and management at state/territory levels.

Housing finance for PRS investment increased markedly in real terms during the 2000s, at times exceeding 50 per cent of all new housing loans.

PRS provision depends primarily on household-level investors:

- The number of investor landlords increased during the 2000s to 1,135,000 (or 13% of all Australian households) in 2013–14, with an increase in debt-financed investment, particularly via interest only loans.
- The percentage of multi-property landlords (with more than one investment property) appears relatively stable at 28 per cent of investor landlords (although there is some disparity between data sources).
- The typical investor landlord is an owner-occupier, at midlife, in a household with two incomes, although one in eight themselves rent in the PRS.
- Investor landlords have an estimated two-thirds of their assets in property, but their debt-to-asset value appears quite conservative in most cases.

Households living in the PRS are becoming more diverse with more households at midlife and more households with children; PRS properties are also quite diverse indicating greater complexity in access.

Three-quarters of all PRS dwellings are now managed by real estate agents rather than investor landlords themselves, with some differences between cities.

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This chapter provides an overview of changes in the established institutions of the Australian PRS in the 2000s, drawing on available national secondary data sets, including ABS Housing Finance data, the ABS Census of Population and Housing, the ABS Survey of Income and Housing and HILDA wealth module 2014. Where possible, the chapter indicates where there are differences between the three cities chosen for the empirical analysis (Sydney, Melbourne and Perth).

### 2.1 Established institutions of the Australian PRS

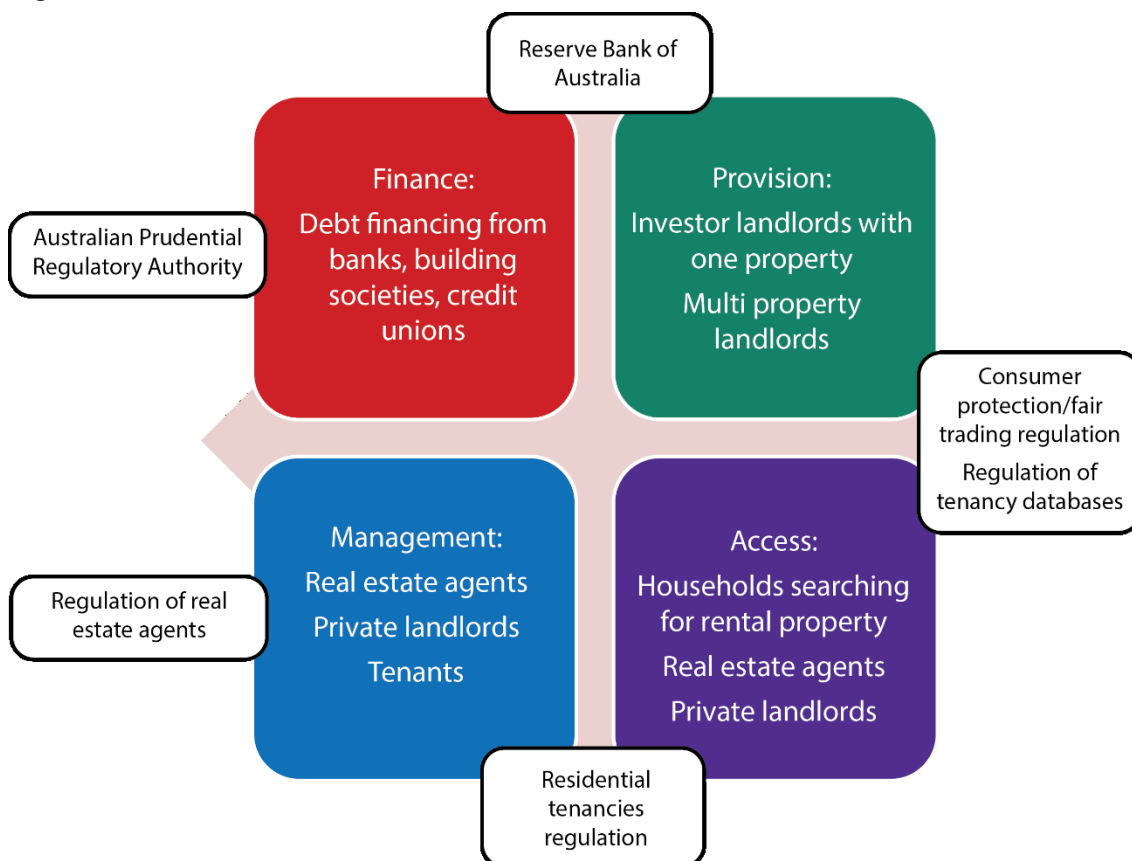
Conventionally, the Australian PRS is viewed as involving a limited number of institutions:

- established financial institutions which provide loans to investor landlords
- investor landlords—mainly individuals/households—who provide properties for rental
- investor landlords directly and/or real estate agents acting on their behalf, who match available properties with prospective tenant households

- investor landlords and/or real estate agents who provide on-going property and tenancy management services to tenants.

To complete the picture, regulation of financing is predominantly a federal responsibility while provision, access and management are primarily or solely the subject of state/territory regulation. The established institutional structure for regulation of the PRS is set out in Figure 4 below.

**Figure 4: Established institutions of the PRS, Australia**



Source: Authors.

## 2.2 Financing

### 2.2.1 Key changes in financing for PRS investor landlords in the 2000s

There have been important changes in financing for PRS investor landlords in the 2000s,<sup>23</sup> as illustrated in Figure 5 below:

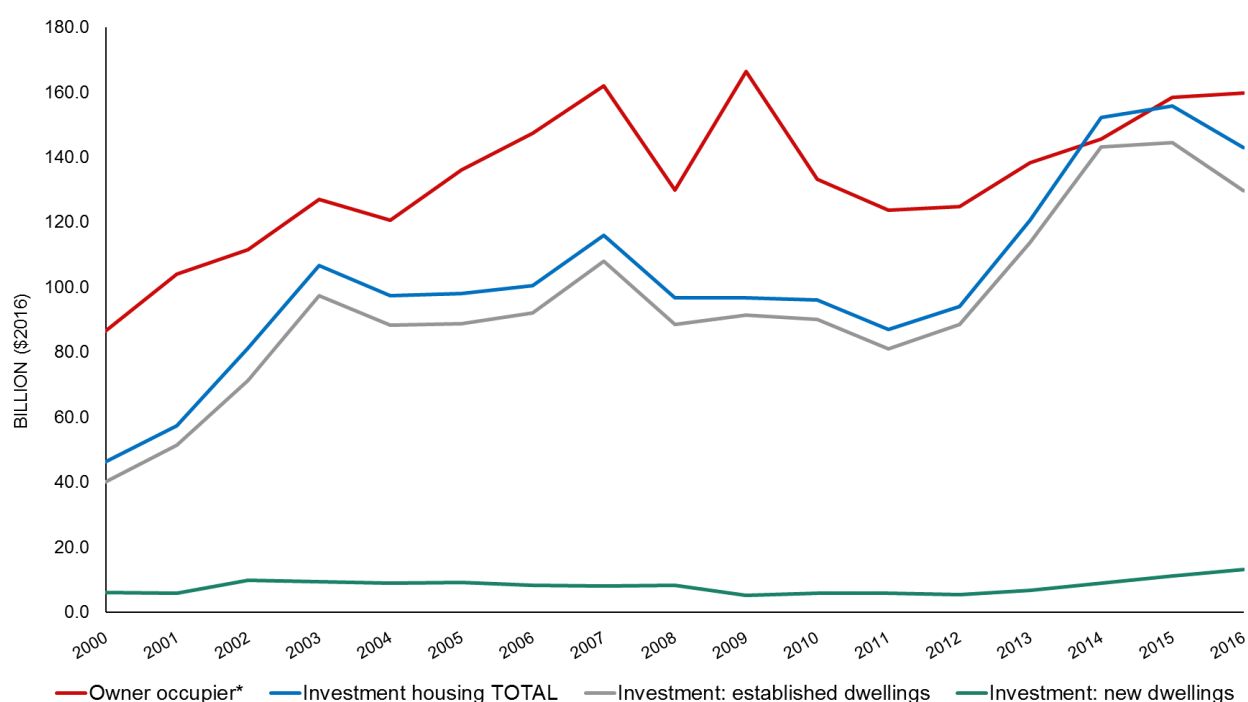
- Housing finance for investment purposes increased in real terms during the 2000s, reflecting the importance of *debt-financing* rather than equity financing in the growth of the PRS.

<sup>23</sup> A number of key trends in financing the PRS can be distilled from analysis of available housing finance data collected by the Australian Bureau of Statistics (ABS) from Authorised Deposit-taking Institutions (ADIs)—banks, building societies and credit unions. This is the primary source of data on housing finance in Australia.



- While real increases in lending for investment have at times tracked increases in lending for owner occupation, lending for investment surged to new highs briefly in 2003–04 and then in a more sustained way in 2013–17.
- In 2003–04 and 2013–17 lending for investment was around 50 per cent of all new lending for housing nationally (excluding refinancing for owner occupation), indicating that debt financing to investor landlords shaped the housing market as much as debt-financed purchases by owner-occupiers.
- Lending for investment was predominantly for established dwellings; very little lending was for new construction, although some upswing can be seen in the PRS investment boom of 2013–17.

**Figure 5: Housing finance commitments (\$2016) by Authorised Deposit-taking Institutions: annual volume figures, Australia, 2000–16 (\$2016)**

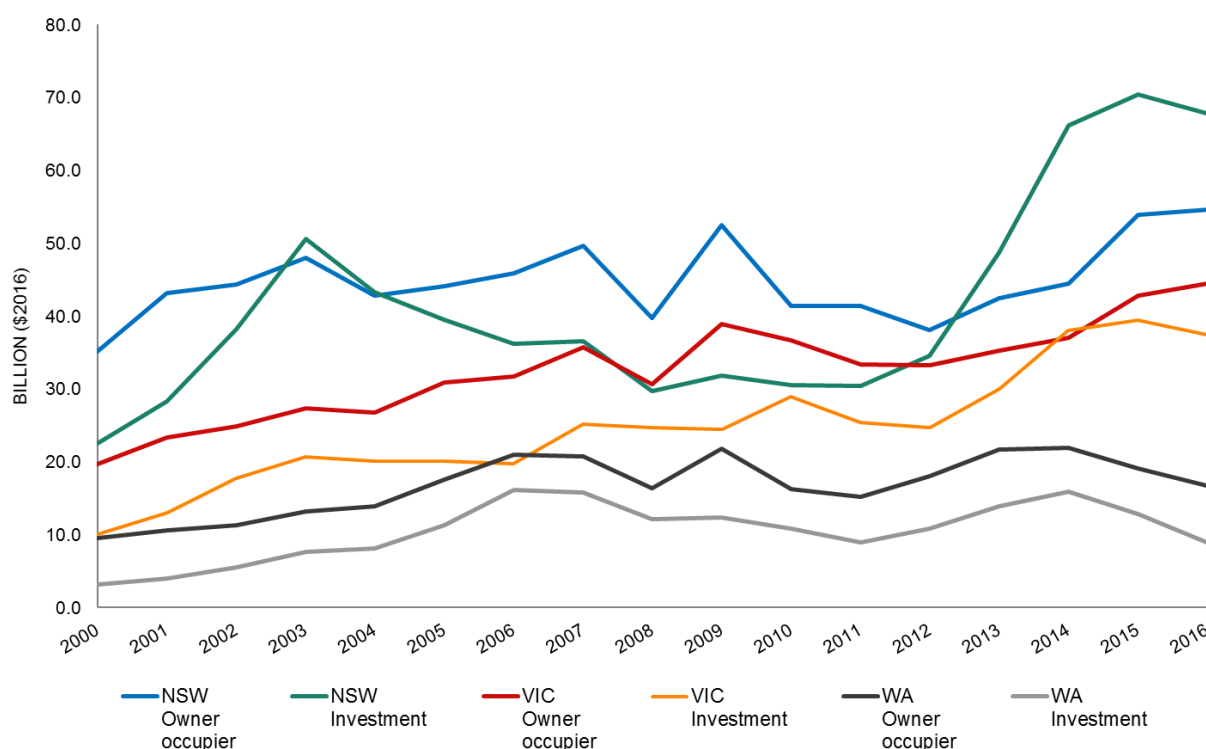


Notes: \*owner occupier excludes amounts for refinancing of established dwellings; amounts have been inflated to 2016 dollars by the All Groups CPI (Australia).

Source: Calculated from ABS Cat. no. 5609, Table 11.

During the 2000s, there was considerable variation between Australian states in the volume of housing finance commitments, as shown in Figure 6 below. In examining the three states in which our study cities are located (NSW, Victoria and Western Australia), not only does NSW as the most populous state have a higher volume of housing finance commitments across the period (as expected), but what is remarkable is the peak in lending for investment in NSW in 2003 and then again, more dramatically, after 2013, when this type of lending far exceeded lending to owner-occupiers. In Victoria, a similar peak can be seen after 2013, with lending to investors briefly exceeding that of lending to owner-occupiers in 2014, but then stabilising at a lower volume. In Western Australia, lending for owner-occupation has exceeded that of lending for investment consistently throughout the 2000s. Figure 6 indicates why there has been such a policy concern with debt-financed investment for PRS dwellings in the Sydney property market.

**Figure 6: Housing finance commitments by state by Authorised Deposit-taking Institutions, annual volume figures, NSW, VIC and WA, 2000–16 (\$2016b)**



Notes: \*owner occupier exclude amounts for refinancing of established dwellings; amounts have been inflated to 2016 dollars by the All Groups CPI (Australia).

Source: Calculated from ABS Cat. No. 5671, Tables 19, 20 and 23; ABS Cat. No. 5609, Table 10b and Table 7.

## 2.2.2 Established institutions

The established institutions involved in financing investor landlords are banks, building societies and credit unions. Known officially as Authorised Deposit-taking Institutions (ADIs),<sup>24</sup> they provide finance funded through customer deposits and other sources. Housing finance is the biggest business of ADIs, representing just under two-thirds of the aggregate loan portfolio and around 40 per cent of banking industry assets.<sup>25</sup> ADIs accounted for 92 per cent of the home loan market (including loans for owner-occupation and investment) in December 2016, with other types of lenders accounting for 8 per cent (ASIC 2017).

Two national organisations form part of the established institutional structure for overseeing housing finance to investor landlords (and owner-occupiers): the Australian Prudential Regulation Authority (APRA) and the Reserve Bank of Australia (RBA). The Australian Prudential Regulation Authority (APRA), funded by ADIs, has a remit to oversee these institutions to protect depositors.<sup>26</sup> The Reserve Bank of Australia (RBA), Australia's central

<sup>24</sup> ADIs refer to established financial institutions authorised under the Banking Act 1959 and include banks, building societies and credit unions which are regulated by the Australian Prudential Regulation Authority (APRA), APRA, Authorised Deposit-taking Institutions, <http://www.apra.gov.au/ADI/Pages/default.aspx>.

<sup>25</sup> Wayne Byres, Chairman of the Australian Prudential Regulation Authority (APRA) 2015, Banking on Housing, Australian Business Economists Lunchtime Briefing, 26 August, Sydney. <http://www.apra.gov.au/Speeches/Documents/1508-ABE-Lunchtime-Briefing-Banking-on-housing-26August2015.pdf>.

<sup>26</sup> Established in 1998 on the recommendation of the Wallis Financial System Inquiry, APRA oversees banks, credit unions, building societies, general insurance and reinsurance companies, life insurance, private health

bank, monitors and reports on financial stability as part of its mission to contribute to the 'the economic prosperity and welfare of the Australian people'.<sup>27</sup> The RBA reported a 'continuing concern' with housing markets in Sydney and Melbourne due to increasing levels of household indebtedness, 'investor activity' and house price growth whereas in Western Australia with the end of the mining construction boom, population growth and incomes have slowed since 2015 and dwelling prices have fallen (RBA 2017a). The RBA echoed APRA's concerns about the growth of interest-only loans for residential investment purposes, with more than 60 per cent of loan approvals to investor landlords from ADIs during 2011–16 being 'interest only loans' rather than conventional loans requiring repayment of principal and interest.<sup>28</sup>

More active involvement by these two regulators has occurred in an environment of increasing and then declining interest rates in Australia before and after the Global Financial Crisis. The target cash rate is the key aspect of the nation's monetary policy and is set by the RBA at its monthly review. There is a strong association between the cash rate falling to 3 per cent in December 2012 and then falling further to the present rate<sup>29</sup> and the increase in lending for investment, indicating the importance of the global political economy, as noted by Kemp (2015) in his work on institutional change in the PRS in the UK.

Chapter 3 takes this context of increasing debt-financed investment in the PRS and examines associated institutional change, including new types of intermediaries.

## 2.3 Provision

### 2.3.1 Growth in the number of investor landlords

Provision of PRS dwellings is predominantly by household investor landlords. The number and percentage of individual/households owning rental properties appears to have been slowly increasing in the 2000s. Analysis of available secondary data sources shows that:

- about 13 per cent of households (or about 1.135 million households) own property that is rented out, based on analysis of the ABS Survey of Income and Housing 2013–14
- about 15 per cent of individuals declare income from rental properties for tax purposes<sup>30</sup> according to Australian Taxation Office Taxation Statistics 2013–14.

### 2.3.2 Profile of investor landlords

Households with children form a substantial cohort of investor landlords (39%)—most are literally 'mum and dad' investors and two-thirds have two incomes (Figure 7 below). This is consistent with the recent body of evidence in Australia that shows that households now require two incomes to buy residential property (Burke, Stone et al. 2014) and that single parent

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insurance, friendly societies and most members of the superannuation industry. It is funded largely by the industries that it supervises and was established on 1 July 1998, <http://www.apra.gov.au/Pages/default.aspx>.

<sup>27</sup> About the RBA, <http://www.rba.gov.au/about-rba/>.

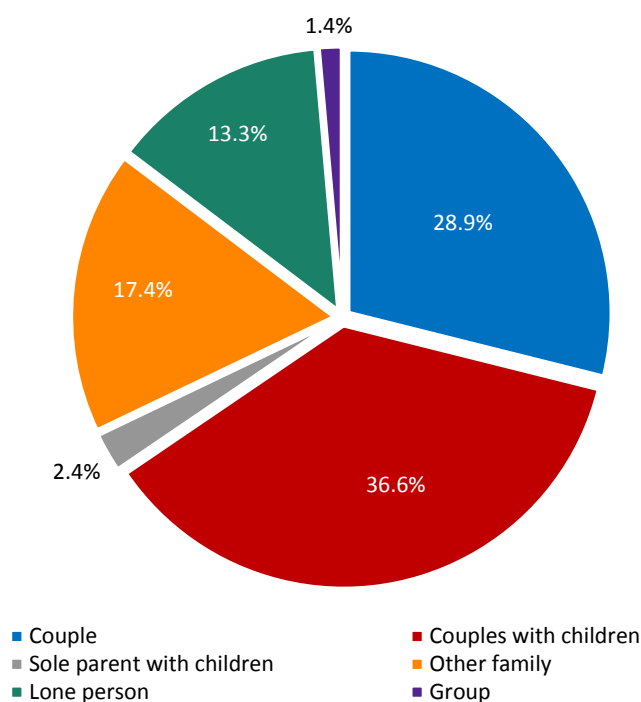
<sup>28</sup> RBA 2017 Financial Stability Review, April 2017, 2: Household and Business Finances, <https://www.rba.gov.au/publications/fsr/2017/apr/household-business-finances.html>.

<sup>29</sup> In February 2000, the cash rate was 5.5 per cent, increasing to 7.25 per cent in March 2008 before the GFC. Since then the cash rate has been decreased to stimulate the economy until reaching a record low of 1.5 per cent in August 2016 where it remains at the end of 2017, Reserve Bank of Australia 2017, Statistics, Cash Rate, <http://www.rba.gov.au/statistics/cash-rate/>.

<sup>30</sup> ATO Taxation Statistics 2013–14, <https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Taxation-statistics/Taxation-statistics-2013-14/>.

families with dependent children are increasingly likely to live in PRS including long-term rental rather than be property owners (Stone, Sharam et al. 2015).

**Figure 7: Investor landlord by household type, Australia, 2013–14**



Source: Calculated from ABS *Survey of Income and Housing 2013–14*

Further analysis of the ABS *Survey of Income and Housing 2013–14* indicates that:

- The majority of investor landlords are in the peak earnings part of the life cycle (aged 35–64), with half being aged 35–54; however, 12 per cent of investor landlords are aged 25–34.
- Most investor landlords are themselves home owners purchasing their home with a mortgage (48.8%) or outright owners without a mortgage (34.2%). 12.6 per cent of investor landlords are themselves renters in the PRS, confirming the findings of prior research into so-called renter-owners (Hulse and McPherson 2014). Many of these are in the younger age group.

### 2.3.3 Multi property ownership

The growth of the PRS, and the growth of lending for investment in residential dwellings, raises an important question: Is PRS investment widening (more people/households with one investment property) or deepening (more with multi-properties)?

- Analysis of the ABS *Survey of Income and Housing 2013–14* indicates that 72 per cent of households owned one property and 28 per cent two or more properties in 2013–14.<sup>31</sup> This rate appears to have changed little over the relatively short period that comparable

<sup>31</sup> Excluding properties that the household lives in or holiday homes that are not rented out.

information is available, despite media coverage of the increase in multi or portfolio investors.<sup>32</sup>

- The Reserve Bank of Australia, using unpublished data from the Australian Tax Office, suggests that 70 per cent of *individual* investor landlords own one property, 20 per cent own two, and 10 per cent own three or more, with some increase in the number of multi-property investors between 2013–14 and 2014–15. It finds that about half of all PRS investment properties are owned by investor landlords with multiple properties (RBA 2017b: 27).

The profile of household multi-property owners compared to those owning one rental property (from analysis of the ABS *Survey of Income and Housing 2013–14*) is as follows:

- More than two-thirds (68%) of investor landlords with two or more PRS properties have wealth in the highest quintile whereas those owning one rental property are spread largely over the three highest income quintiles (Table 3 below). This is not surprising since the value of property held contributes to overall household wealth, however, it illustrates the role of property ownership as a means of reinforcing or maintaining wealth holdings.
- The age at which households are most likely to hold more than one investment property is later within the working age years (45–64 years) (not illustrated). This is consistent with the idea that for some of the households with multiple property investments, wealth generates wealth, and takes time to accumulate over the life course.
- Reflecting the age and wealth distribution of multiple investment property activity, owners are four times as likely as renters to own multiple investment properties from which they receive income (not illustrated)—4.8 per cent of purchasers and outright owners own two or more PRS investment properties, compared with 1.2 per cent of renters with similar investment profiles.

**Table 3: Households with no, one and two or more rental properties by wealth quintile, Australia, 2013–14**

	Lowest wealth quintile	2nd wealth quintile	3rd wealth quintile	4th wealth quintile	Highest wealth quintile	Total	Households
No properties	22.6%	21.9%	20.5%	19.2%	15.8%	100%	7,631,426
1 property	2.8%	9.0%	20.3%	26.9%	40.9%	100%	818,633
2 or more	1.3%	2.4%	7.2%	20.8%	68.3%	100%	316,366
All Households	20.0%	20.0%	20.0%	20.0%	20.0%	100%	8,766,425
Households	1,753,345	1,753,194	1,753,671	1,751,768	1,754,448	8,766,425	

Source: *Original analysis of ABS Survey of Income and Housing 2013–14.*

<sup>32</sup> Analysis of the HILDA wealth module for 2014, however, gives a roughly comparable account of single dwelling investment although results differ for multiple property ownership, illustrating some of the complexities in collecting survey data about investment activities. Original analysis of data from the 2014 HILDA wealth module indicates 61 per cent having one rental property and 39 per cent owning two or more rental properties. However, due to the way questions in the HILDA wealth module are worded it is unclear in some cases whether these additional properties are all used for residential purposes as well as whether all attract regular residential rental income (see Appendix 2 for details).

A number of reasons for the large proportion of single rather than multiple property owners have been mooted in prior research including the taxation disadvantages facing larger investors such as the cumulative nature of land tax and the low rate of return on residential property investment (Wood and Ong 2010). Additional detail on rental property ownership is provided in Appendix 2.

### 2.3.4 Investor landlords: household income and wealth

The extent to which household investors in the PRS (or at least those benefiting from negative gearing) comprise a range of ‘ordinary Australians’ or mainly higher income and wealthy individuals and households has been the subject of some political and media debate. Analysis of the 2013–14 data from the ABS *Survey of Income and Housing* (Table 4) indicates that:

- six in ten investor landlords (59.0%) receiving rental income were in the highest income quintile and highest wealth quintile
- there is some spread of investor landlord activity among households with modest income and wealth profiles—for example, among households in the second and third income and wealth quintiles
- wealth appears to be more important than income in relation to the ability of households to have investment properties, although these two facets are clearly closely related
- the opportunity or ability to invest peters out only at the lowest level of wealth holdings, with households in the lowest wealth quintile (2.8%) unlikely to have investment property.

**Table 4: Household disposable income quintiles and wealth quintiles for private rental investor landlords, 2013–14**

		Wealth quintiles					Total	Households
		Lowest quintile	2nd quintile	3rd quintile	4th quintile	Highest quintile		
Disposable income quintiles	Lowest quintile	2.8%	11.7%	19.7%	18.2%	47.7%	100%	97,848
	2nd quintile	2.7%	13.6%	9.9%	25.5%	48.3%	100%	111,488
	3rd quintile	3.3%	8.4%	22.7%	28.1%	37.5%	100%	176,045
	4th quintile	2.7%	7.7%	21.1%	30.0%	38.4%	100%	279,893
	Highest quintile	1.7%	3.9%	12.7%	22.7%	59.0%	100%	469,724
	Total	2.4%	7.2%	16.7%	25.2%	48.5%	100%	1,135,000
	Households	27,239	81,358	189,077	286,333	550,993	1,135,000	

*Note: Original analysis of ABS Survey of Income and Housing 2013–14.*

Source: Both row and column percentages included.

### 2.3.5 Debt to asset ratios of investor landlords

Despite these wide disparities in investment activity related to income and wealth holdings among private households, household investors appear to have highly similar debt to asset ratios, irrespective of whether they invest in one, two, or three or more properties (Table 5 below). This suggests that at all levels of the income and wealth continuum, households appear to be responding to institutional settings in similar ways and that (household) investor landlords are exposed to similar debt to asset risk profiles in relation to rental investing activity. It should also be noted that almost 4 per cent of those owning more than three properties have debt greater than their assets, indicating a group at financial risk.

**Table 5: Debt-to-asset ratios among investor landlord households who have owned 1, 2, 3 or more rental properties in previous 12 months**

		Number of other properties (2014)			
		One	Two	Three or more	Total
Debt to assets	Debt not determined	19.9%	22.0%	20.9%	20.4%
	No debt	16.7%	13.0%	13.0%	15.5%
	Under 25% of assets	27.3%	29.2%	28.1%	27.8%
	Between 25–50% of assets	18.9%	18.8%	20.6%	19.1%
	Between 50–100% of assets	16.7%	16.5%	13.7%	16.3%
	More than 100% of assets	0.6%	0.6%	3.7%	1.0%
	Total	100	100	100	100

*Notes: Number of other properties includes properties from which rental income is reported in the last 12 months. Wealth quintiles are based on household composite wealth.*

Source: Original analysis of Household, Income and Labour Dynamics in Australia, 2014.

Where there are differences between investor classes is in the ratio of property as investments relative to other forms of investments, measured in total financial value. Two aspects of note shown in Table 6 below are, first, that when the dollar value of all property and other investment holdings are compared, we find all investor landlord households included in the HILDA survey own more property than other investment types. For households with one rental investment property, the difference is approximately 60:40 property to other investments, rising to 80:20 among households reporting owning three or more investment properties.

**Table 6: Property investment relative to other forms of investments among households who have owned 1, 2, 3 or more rental properties in the previous 12 months**

		Number of other properties (2014)			
		One	Two	Three or more	Total
Financial assets to other property assets	More investments in property than financial	60.60%	67.60%	79.10%	64.40%
	More financial investments than property	39.40%	32.40%	20.90%	35.60%
	Total	100	100	100	100

*Notes: Number of other properties includes properties from which rental income is reported in the last 12 months. Wealth quintiles are based on household composite wealth.*

Source: Original analysis of Household, Income and Labour Dynamics in Australia, 2014.

### 2.3.6 Established institutions

Although there remain inconsistencies and gaps in the available data on investor landlords, it appears that household level investor landlords dominate provision in the PRS. While households at a variety of income and wealth levels invest in PRS properties, those with higher



wealth and income are more likely to be investor landlords and more likely to own multiple properties. At face value it appears that there is little institutional change, but the primary research for the project identified development of intermediaries promoting more purposive investment in rental housing which may have implications for sector performance as well as some change in social norms and practices (see Chapter 4).

## **2.4 Access**

### **2.4.1 Changing profile of private renters**

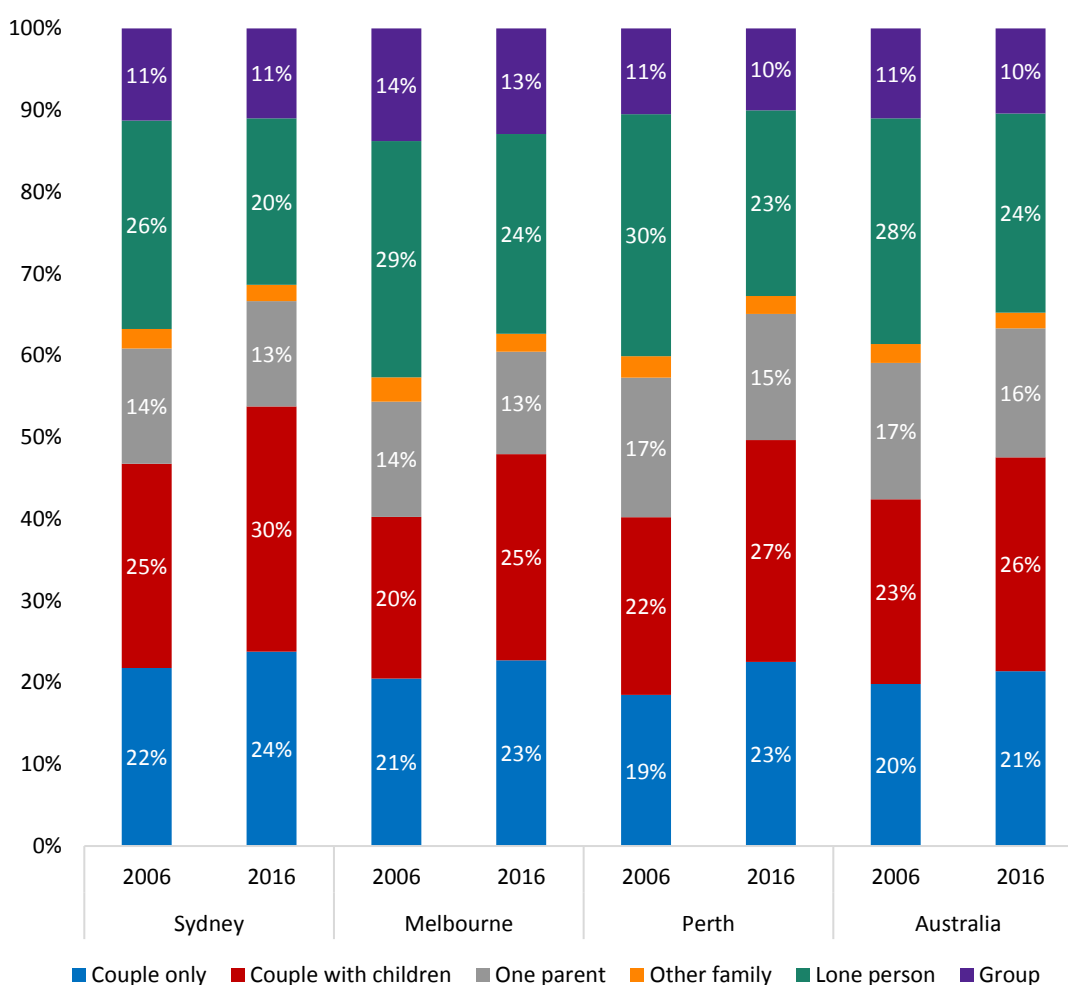
The PRS is changing not only because it is growing (more households/more dwellings), but also due to increased diversity among private renters in terms of age and household type. Analysis of data from the 2016 Census (Figure 8 below) indicates that there was:

- a higher percentage of private renters in each age cohort in 2016 compared to a decade previously (with the exception of the 75 years plus age group)
- a percentage point increase in private renting by 25–34 and 35–44 years age group which was particularly pronounced (an additional 8% compared with an all-household increase of 4%).

The percentage of older people in the PRS remains low (5% of all 65–74 year olds and 6% of those aged 75 and above are private renters nationally). However, as this demographic is increasing, the absolute number of older private renters has increased. In 2016, 162,683 households headed by someone who was 65 and over rented privately, more than the 115,005 who rented social housing. In 2006, the numbers of those aged over 65 in these two types of rental were almost the same.

An increasing percentage of renters are families with children, mirroring international trends (Scanlon, Fernandez et al. 2014). Nationally, 42 per cent of all private renter households in 2016 were families with children, with some differences between the three cities, as shown in Figure 8 below. On the other hand, the percentage of PRS households who are lone-person households has declined nationally and in the three cities. It may also be that lone persons are deterred from renting for financial reasons, perhaps entering into more informal arrangements such as house sharing or staying longer in the family home if available.

**Figure 8: PRS households by household type, Australia, 2006 and 2016**



Source: Calculated from the ABS Census of Population and Housing, various years.

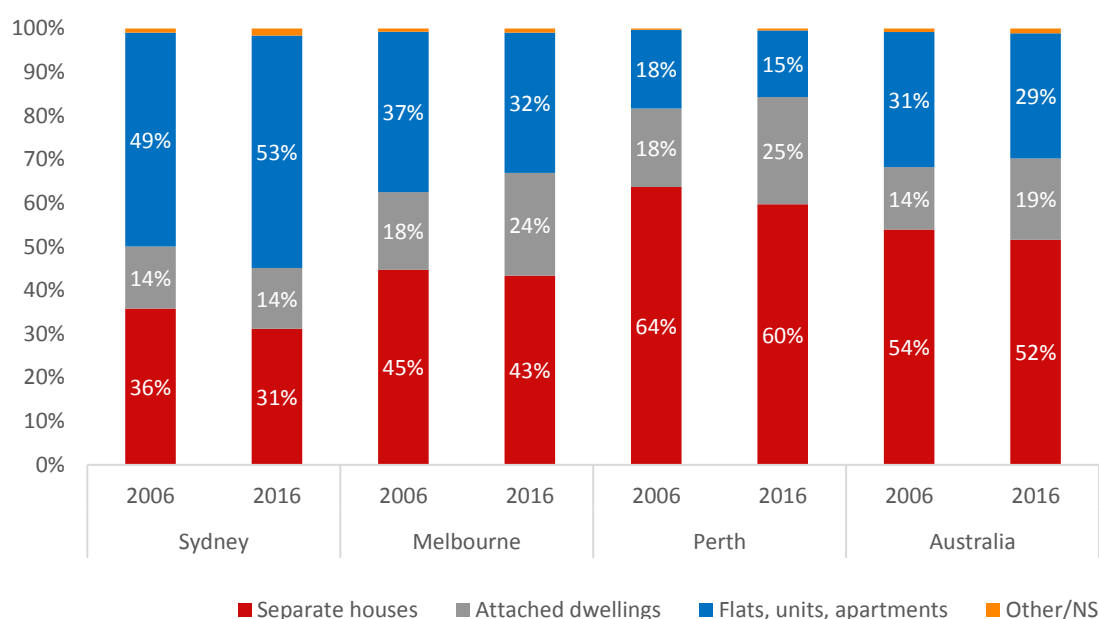
The most recent Census data indicate a further move away from the PRS as a transitional sector for young Australians and towards a sector that accommodates households through early and mid-working life and at different stages of the life cycle. These changes in the composition of PRS households indicate the importance of two incomes in paying rent and/or a group of 'blocked home purchasers' who, in other circumstances, would buy (Hulse and Yates 2017). They also have implications for the type of PRS dwellings suitable for this demographic as well as highlighting some variation between cities in the profile of private renters.

#### 2.4.2 Changing profile of dwelling stock in the PRS

Apart from detailed analysis of shortage of rentals affordable to lower income households (Wulff, Reynolds et al. 2011; Hulse, Reynolds et al. 2015), there has been relatively little investigation of matching households with PRS properties on other criteria, such as dwelling type and size.

Just over half of all PRS units nationally are detached houses, reflecting the preponderance of this type of stock, with the remainder being either attached or flats/units/apartments (Figure 9 below).

**Figure 9: Types of dwellings in the PRS, Sydney, Melbourne and Perth, 2006 and 2016**



Source: ABS Census of Population and Housing, various years, TableBuilder

Analysis of change in the composition of PRS dwellings during 2006–16 (see Figure 9 above) highlights considerable variation between the three cities:<sup>33</sup>

- The share of PRS dwellings in Sydney that are flats, units or apartments has increased and in 2016 was more than half of all PRS dwellings in the city.
- In Melbourne, the percentage of PRS dwellings that are flats, units or apartments has declined, indicating that investor landlords are buying detached and attached dwellings.
- Most private renters in Perth live in detached dwellings notwithstanding some increase in attached dwellings in the PRS, reflecting the predominance of this type of stock.

### 2.4.3 Established institutions

There has been little consideration of the institutional settings for access of households to the Australian PRS and the challenges of matching diverse PRS households with privately rented dwellings that differ not only in rents but also property type and location (with exceptions being Short, Minnery et al. 2003, 2006; Short, Seelig et al. 2008). PRS dwellings are increasingly managed by real estate agents rather than directly by investor landlords, which raises different issues about access. The increased use of technology and third party providers in the real estate sector was identified in the primary research for the project and has implications for access that are considered in more detail in Chapter 5.

<sup>33</sup> The percentage of detached housing in the three cities in 2016 was Sydney, 57 per cent; Melbourne, 68 per cent, and Perth, 77 per cent. In contrast, the percentages for apartments in 2016 were 28 per cent; 17 per cent, and 7 per cent respectively.

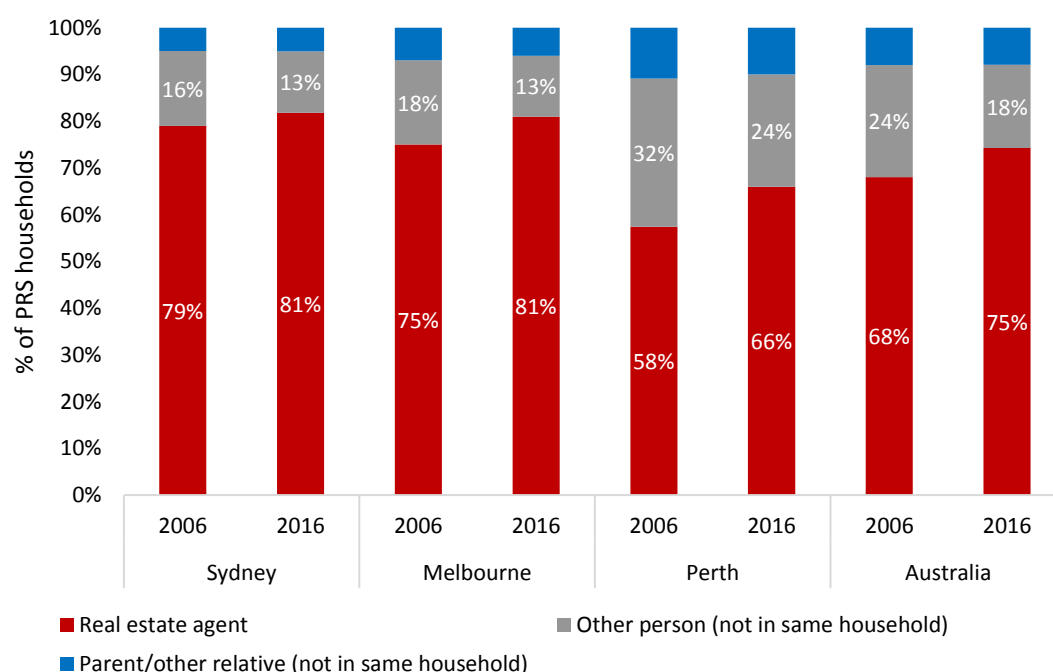
## 2.5 Management

### 2.5.1 Rental property management

Our review of the academic literature found a substantial gap in relation to rental property management: its structure, organisations, linkage with property sales and the impact of technology. Limited data are collected on real estate management at a national level—for example, the last survey of the real estate industry by the ABS was in 2002–03.<sup>34</sup>

A key feature of growth and change in the PRS observable from the ABS Census of Population and Housing has been an increase in the proportion of properties managed by the real estate agent sector and the consequent reduction in the share of properties managed directly by landlords (Figure 10 below). There are also differences between the cities in our study. In particular, the percentage of landlord-managed properties in Perth is greater than in Sydney or Melbourne where real estate management has increased over the decade to 2016.

**Figure 10: Type of property management in the PRS, Sydney, Melbourne, Perth and Australia, 2006 and 2016**



Source: ABS Census of Population and Housing, various years, TableBuilder

### 2.5.2 Established institutions

In the Australian context, rental property management is regulated by states/territories through residential tenancies legislation which also applies to the social rental sector. NSW, Victoria and Western Australia all made changes to their core legislation in the 2000s<sup>35</sup> (Bradbrook 2003;

<sup>34</sup> The ABS ran five surveys of the real estate industry (1987–88, 1992–93, 1995–96, 1998–99, 2002–03).

<sup>35</sup> NSW: Residential Tenancies Act 2010; Vic: Residential Tenancies Act 1997 (and regulations); WA: Residential Tenancies Act 1987.

NATO 2010). The broader activities of real estate agents are also regulated at a state level.<sup>36</sup> The real estate sector is represented by industry associations at a federal (Real Estate Institute of Australia) and state/territory level (i.e. Real Estate Institutes of NSW, Victoria and Western Australia).

A review of the grey literature indicates that the real estate/property management industry is undergoing significant restructuring. Rental property management has taken on increased importance because it is a source of stable, fixed revenue that covers an increased proportion of the fixed costs of the business, if not all the fixed costs, enabling real estate agencies to weather the volatility of the housing sales market, particularly after the GFC (Macquarie Bank 2014). Restructuring of the real estate industry to achieve economies of scale involves institutional change—for example, through mergers and acquisition of rent rolls (PRS management portfolios), investment in information and communications technology, and the use of third parties which are not readily observable for established sources of secondary data. We explore these in more detail in Chapter 6 based on our primary research.

## 2.6 Summary

This chapter has outlined a number of important changes to the established institutions of the PRS in the 2000s from available data sources, viz:

- *Financing*—a real increase in debt-financed investment in established dwellings for rental in the PRS and an increase in the percentage of loans to investors, with a high rate of interest only loans. These changes have raised questions about the financial stability of the sector as well as the broader housing and finance systems.
- *Provision*—a continuation of highly fragmented ownership, with many debt-financed investor landlords, spread widely, but with a concentration among higher wealth and higher income households. While many households have one PRS property, it is estimated that up to half of all PRS dwellings are now owned by those with more than one property.
- *Access*—an increasingly diverse range of households renting in the PRS, including families with children and an increasingly diverse housing stock, indicating greater complexity in access through a myriad of small transactions.
- *Management*—increased management by real estate agencies rather than direct management by investor landlords, with agencies realising the value to their business of their rental portfolios in the post-Global Financial Crisis environment.

Available data sources enable a patchy overview of changes in the established institutions of the PRS in the 2000s. While there are good trend data on financing and household level provision, data on non-household provision is not available and data on PRS access and management is very limited.

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<sup>36</sup> NSW: Property, Stock and Business Agents Act 2002 and Regulations 2014; Vic: Estate Agents Act 1980 and regulations; WA: Real Estate and Business Agents Act 1978.

### 3 Financing: regulation, intermediaries and innovation

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Policy settings for PRS financing are largely subsumed within regulation of the housing finance and broader finance sectors.

Regulators have acted on concern about the volume and quality of lending to investor landlords, in particular the more than 60 per cent of approvals for interest-only loans. Tighter macro-prudential regulation has been accompanied by some changes to regulation on foreign investment in the PRS.

There has been an increase in the number and type of intermediaries involved in arranging finance for investor landlords including:

- mortgage referrers (e.g. estate agents, financial planners, accountants and lawyers)
- mortgage brokers who assist investor landlords to source loans from lenders (traditionally small businesses, but the two major online property portals have announced that they are moving into this business)
- mortgage aggregators, who provide technology, administrative support and training for mortgage brokers; with the major financial institutions either as owners or having a major financial interest, and
- wealth/property advisors who provide an integrated range of property-related services with clients ranging from small-scale investor landlords to high net worth individuals.

There is potential for further innovation through schemes in which investor landlords buy only a part of a housing asset (fractional investment), albeit that this is at an early stage.

PRS provision by household investor landlords indicates some change in social norms and practices towards more deliberate investment to build wealth through property purchases and family-oriented practices to support children getting into the property market.

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This chapter and the three following (Chapters 3–6) identify and examine changes in established organisations; emerging institutions, including intermediaries; the adoption of technology, and some changes to social practices and social norms. They draw on interviews conducted for the project and the grey literature.

This chapter examines institutional changes in the financing of PRS dwellings. It considers changes in regulation, the growth of intermediaries and new investment practices, before considering potential innovation in PRS financing as well as the normalisation of debt-financed rental investment and use of rental property as a means of building wealth.

## 3.1 Regulation

### 3.1.1 Increased role for macro-prudential regulation

The Australian Prudential Regulatory Authority (APRA) has played an increasingly important role in respect of lending to investor landlords, a development discussed in media and public debate. A recent article in the financial press describes it thus: 'It was the version of the "macroprudential" policy lever that had come into vogue globally as central banks had exhausted their monetary policy ammunition in trying to revive economic growth from the financial crisis'.<sup>37</sup>

APRA has been particularly active since 2011 in examining the lending practices and risk profiles of Australian housing lenders, including stress testing the largest ADIs against scenarios of significant housing market downturn.<sup>38</sup> When lending to investor landlords reached new peak levels in late 2014 and again in early 2017 (as highlighted in Chapter 2), it took further action:

- In December 2014, APRA wrote to ADIs: i) introducing a target of no more than 10 per cent per annum increase in lending to investor landlords; ii) reinforcing that there should be a loan serviceability buffer of at least 2 per cent above the loan product rate, with a minimum floor assessment rate of 7 per cent; iii) reinforcing guidance on prudent lending in relation to matters such as loan-to-valuation ratios.<sup>39</sup>
- In March 2017, APRA wrote further to ADIs to: i) limit interest-only lending to 30 per cent of new lending rather than 40 per cent as was the then practice; ii) strictly limit interest only lending where loan-to-valuation ratios (LVRs) exceeded 80 per cent; iii) manage lending to keep to a benchmark of 10 per cent annual growth in lending to investor landlords; iv) tighten up on serviceability metrics, and v) restrain lending to higher risk market segments.<sup>40</sup>

Interviewees in the finance and development sectors discussed the APRA interventions. It was argued that this had resulted in decreased demand for new construction, particularly in the city apartment market, resulting in difficulties in getting the pre-sales necessary to obtain finance for new developments. Some developers were managing by selling the majority of their property and, if necessary, renting out the rest at least for a time until lending conditions for investment improved. However, there was also a view that the APRA intervention was necessary as the housing market was 'over-heated' and that some borrowers were able to borrow too much due to then lending practices:

*The crashes are borne by people, you know, getting in debt that they shouldn't have been in. So I see what APRA's done is 100 per cent good. And one of the reasons that a few markets like in probably Melbourne and Brisbane are a little bit overheated or overshot the mark is because of poor lending practices. (Developer)*

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<sup>37</sup> James Eysers, 'How APRA became the regulator of choice', *Australian Financial Review*, 14 September 2017, <http://www.afr.com/business/banking-and-finance/how-the-financial-regulator-went-from-minor-player-to-dominant-power-in-just-one-generation-20170913-gyh0ep>.

<sup>38</sup> See Wayne Byres, *Banking on Housing*, Australian Business Economists Lunchtime Briefing, 26 August 2015, Sydney, for a list of APRA actions prior to that date.

<sup>39</sup> APRA, *Reinforcing sound residential mortgage lending practices*, issued 9 December 2014, <http://www.apra.gov.au/adi/Publications/Documents/141209-Letter-to-ADIs-reinforcing-sound-residential-mortgage-lending-practices.pdf>.

<sup>40</sup> APRA, *Further measures to reinforce sound residential mortgage lending practices*, issued 31 March 2017, <http://www.apra.gov.au/adi/Publications/Documents/Further%20measures%20to%20reinforce%20sound%20residential%20mortgage%20lending%20practices.pdf>.



Of the various components of the APRA intervention, interviewees suggested that it was the changes to calculation of serviceability of loans that made the most difference that is, applying a benchmark interest rate in assessing serviceability of the loan rather than a cap on loan-to-valuation ratio:

*So, on this notion of APRA, a lot of people say 'oh APRA is about lowering the LVRs and what-not'. No, that wasn't the issue with APRA, the issue with APRA was—and I say issue, I kind of use it loosely—because I think it was a good thing. What they did was they killed your borrowing capacity. (Developer)*

There was also some discussion of whether there were unintended effects of the APRA intervention with non-bank lenders<sup>41</sup> who were not affected by APRA interventions said to be still lending into the sector, calculating loans and serviceability at actual rather than benchmark rates.

*And so groups are coming in now to lend to residential, whether it be superannuation funds, mortgage funds are coming back, but in a different structure, offshore banks, offshore private equity, high net worths—because everyone's chasing yield, and the rise of non-bank financial lending. (Wealth advisor)*

Another view was that while APRA makes announcements about its interventions to restrict lending to investors or for particular stock types, such as high density apartments, they gradually loosen these controls without announcing any change.

*But they never do a grand announcement they've loosened up again. You just have to hear it through the mortgage brokers and then finally make a few calls yourself and realise they have. There's no announcement ever made. It's just done. (Wealth advisor)*

Some doubts were expressed as to whether the APRA interventions would have the desired effect since prices had not dropped (except in Perth after 2015) and interest rates remain at record lows. It was also argued by some that although the rise in investor landlords was facilitated by the availability of finance, other factors were also important, in particular, changes to capital gains tax in 1999 that made a capital gains producing investment relatively more attractive than other investments and investors generally being influenced by their beliefs about future capital gains of different classes of assets. While APRA measures were seen by interviewees as creating 'fundamental strength for the next downturn', some argued that interest rises predicted for the next 18 months would still create risk for marginal or highly leveraged borrowers, which could spill over into a downturn in the housing market.

### 3.1.2 Regulation of foreign investment

Investor landlords who are foreign nationals not resident in Australia have attracted media attention in terms of vacant dwellings that are alleged to be held by foreign investors but not tenanted.<sup>42</sup> The key regulator of foreign investment in real estate for investment or owner occupation is the Foreign Investment Review Board (FIRB)<sup>43</sup> which issues guidance on purchase of residential real estate, including both established dwellings and newly-constructed

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<sup>41</sup> Non-bank lenders do not have banking licences, do not take deposits and are not regulated as ADIs. Non-bank lenders mentioned by interviewees include large companies, such as Liberty and Bluestone.

<sup>42</sup> See, for example, The Conversation, 31 May 2017, <http://theconversation.com/sydneysiders-blame-foreign-investors-for-high-housing-prices-survey-77959>.

<sup>43</sup> The Foreign Investment Review Board is an advisory board to the Treasurer and not a statutory authority (<http://firb.gov.au/about/>).

dwellings. Decisions and implementation are the responsibility of the Treasurer and his/her Department, not the FIRB.

Recent media reports provide what may well be inflated figures about the extent of foreign investment in major markets, suggesting problems including properties not being tenanted and lying vacant.<sup>44</sup> The FIRB guidelines generally prohibit purchase of established dwellings by 'non- resident foreign persons' but allow them to purchase newly constructed dwellings. In its May 2017 budget, the Australian Government announced stronger rules about foreign investment in Australian housing to tackle affordability issues.<sup>45</sup> These were to: i) limit foreign ownership to a 50 per cent cap in new multi-storey developments with at least 50 dwellings; provide for an annual charge on properties owned by foreign investors that are not occupied or available to rent for at least 6 months of the year, and increase the withholding tax for capital gains made by foreign residents.<sup>46</sup> There has also been some state responses, with Victoria, for example, announcing plans to tax properties left vacant for six months or more but not rented out.<sup>47</sup>

There were differing views among interviewees on the activities of foreign investors in the market. Some were said to be buying for family reasons—for their children who are studying in Australia and/or as a precursor to their family's migration to Australia. It is difficult to get good data on foreign investor landlords as, by definition, they are not picked up in household surveys in Australia. However, it appears that, unlike domestic buyers who rely heavily on loans, some foreign buyers also have a high proportion of cash to put towards their property.

*Most of them are financed. If they're a local buyer, they're heavily financed. If they're buying through me, so from my experience in sales, if they're overseas buyers there can often be a high proportion of cash, it seems to be the case. (Real estate agent)*

There was some support for the view that restrictions on foreign investment in established housing had merit since it could serve to exercise a downward influence on prices for the local population, but for new developments, foreign investment was viewed as an important contributor to increased supply. This applied particularly to the apartment market in Sydney and Melbourne. Foreign investors are important for pre-sales to convince lenders that a project is viable.

*When it comes to new stock our view is that provided it's monitored and policed correctly, foreigners can actually add to the supply of stock in the market place, in our opinion, which is ultimately what you want. (Wealth advisor)*

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<sup>44</sup> For example, Nick Lenaghan, 'Chinese buy 1 in 4 new properties in NSW: Credit Suisse', *The Australian Financial Review*, 11 October 2017, <http://www.afr.com/real-estate/chinese-buy-1-in-4-new-properties-in-nsw-credit-suisse-20171010-gvy7nd>.

<sup>45</sup> The Treasury, 2017, *Reducing Pressure on Housing Affordability*, Fact Sheet 1.6: Stronger rules for foreign investors owning Australian housing, [http://www.budget.gov.au/2017-18/content/glossies/factsheets/html/HA\\_16.htm](http://www.budget.gov.au/2017-18/content/glossies/factsheets/html/HA_16.htm).

<sup>46</sup> The Treasury, *Budget 2017*, Fact Sheet 1.6, Stronger rules of foreign investors owning Australian housing, [http://www.budget.gov.au/2017-18/content/glossies/factsheets/download/FS\\_16\\_Housing\\_Affordability.pdf](http://www.budget.gov.au/2017-18/content/glossies/factsheets/download/FS_16_Housing_Affordability.pdf).

<sup>47</sup> Michael Bleby, 'Victoria's vacant housing tax, 1 per cent seen as the thin edge of the wedge', *Australian Financial Review*, 7 March 2017, <http://www.afr.com/real-estate/victorias-vacant-housing-tax-1-per-cent-seen-as-thin-edge-of-the-wedge-20170307-gus821>.

## 3.2 Organisations and structures: the rise of intermediaries

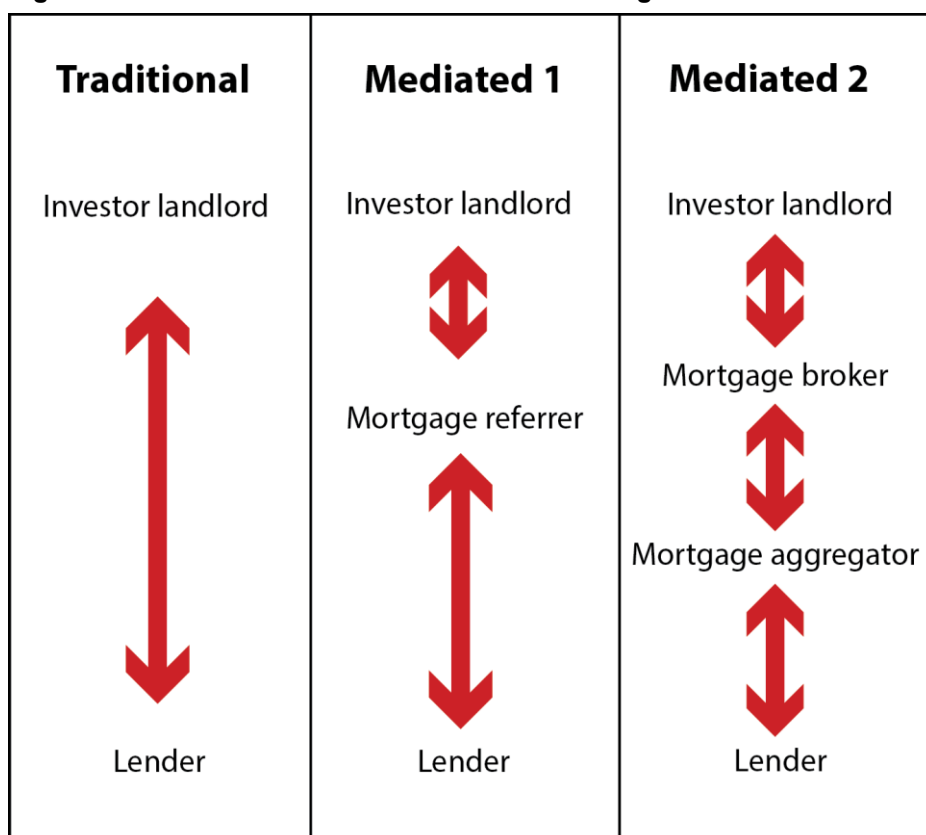
### 3.2.1 Intermediaries in the financing process

Traditionally, investor landlords arranged their own finance through contacting a lender about a loan (as did owner-occupiers). A major change in the 2000s has been the decline in direct lending and an increase in intermediaries who arrange loans from different lending institutions (Figure 11 below).

The main types of intermediaries are mortgage referrers such as estate agents, financial planners, accountants and lawyers, who directly refer housing loan applications to particular lenders. Lenders pay an upfront commission if the loan application is successful (ASIC 2017: 21). Other major intermediaries between the borrower (investor landlord) and the lender (ADI or non-bank institution) are as follows:

- Mortgage brokers are an intermediary between the investor landlord and the lender. Many brokers operate under the Australian credit licence of an aggregator rather than having their own licence. Aggregators charge brokers for their services.
- Mortgage aggregators are intermediaries between mortgage brokers and lenders, providing technology and administrative support, for example facilitating loan processing and providing training and professional development for brokers (ASIC 2017: 7). Lenders pay commissions to aggregators rather than brokers. Lenders own or have a financial interest in the aggregators, for example the National Australia Bank (NAB), Commonwealth Bank of Australia (CBA) and Macquarie Bank (ASIC 2017: 17–18).

**Figure 11: Intermediaries in the Australian housing finance market**



Source: ASIC (2017: 7, 17–18; 21); Sedgewick (2017).

Mortgage brokers, in particular, have played an increasingly important role in financing housing post-GFC and are responsible for arranging just over half of all home loans (investor landlords and owner-occupiers) in Australia (54.3% in 2015) (ASIC 2017: 8). According to one source,<sup>48</sup> there are 6,850 mortgage broker businesses in Australia. They are mainly small businesses, but indications of industry change can be seen with the REA Group, which owns realestate.com.au and Fairfax which owns Domain.com.au (the two major online property portals in Australia) having recently announced entry into the mortgage brokerage business.<sup>49</sup>

The Australian Government asked the Australian Securities and Investment Commission (ASIC) to investigate mortgage broker remuneration (ASIC 2017). The ASIC review, while including all types of home lending, identified some particular issues that are particularly relevant to lending for investment purposes:

- loans through brokers are on average larger and have a higher Loan-to-Valuation Ratio (LVR) than loans provided directly through lenders (ASIC 2017: 10)
- brokers arrange more interest-only loans—at least 50 per cent more interest-only loans for the eight lenders reviewed in detail by ASIC (ASIC 2017: 14).

A further review commissioned by the banking industry (the Australian Bankers' Association) also considered product commissions and product-based payments in the Australian banking sector (Sedgewick 2017). The Sedgewick Review examined not only arrangements for incentives, commissions and bonus payments for retail staff of banks, but also third parties (including brokers, aggregators, introducers and referrers).<sup>50</sup> This review, while not seeing any systemic risk in current arrangements, recommended the cessation of bonus payments to mortgage brokers in some circumstances.<sup>51</sup>

The interviews elicited some interesting perspectives on these arrangements. The widespread use of mortgage brokers was considered to change the matching between borrowers and lenders. Mortgage brokers assess the risk profile of investors and know which institutions to direct people to. This was considered by some of the interviewees to have the effect of concentration of borrowers with particular risk profiles in particular institutions.

*So back in the old days before brokers, you would go to your bank and maybe try a couple of other banks and see who would give you a loan. Whereas now, if you're looking for an 85 per cent loan-to-valuation ratio with this particular configuration, with this particular feature, and there's only one bank that offers that particular configuration and feature, well, that bank will get all of the customers like you.*  
(Regulator)

Interviewees suggested that this included going to more conservative lenders first who assessed mortgage serviceability against benchmark rates (as per recent APRA interventions discussed above) and then going to second and third tier lenders for serviceability to be assessed against current and not benchmark interest rates. These arrangements create issues for ADIs who have to do a different type of supervision of their agent (the mortgage broker) as

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<sup>48</sup> IBISWorld Australian Industry Reports—*Mortgage Brokers*, <http://clients1.ibisworld.com.au/reports/au/industry/ata glance.aspx?entid=1821>.

<sup>49</sup> David Chau, 'Domain and real estate.com.au enter the mortgage broking business', *ABC News Online*, 29 June 2017, <http://www.abc.net.au/news/2017-06-29/domain-enters-mortgage-broking-business/8663148>.

<sup>50</sup> Sedgewick, S. (2017) *Retail Banking Remuneration Review: Report*, [http://retailbankingremreview.com.au/wp-content/uploads/2017/04/FINAL\\_Rem-Review-Report.pdf](http://retailbankingremreview.com.au/wp-content/uploads/2017/04/FINAL_Rem-Review-Report.pdf), pp.33–39.

<sup>51</sup> Sedgewick Review Recommendation 16, p.35. These circumstances are volume-based incentives additional to up front and 'trail' commissions; temporary increases in commissions to support product sales, and 'soft dollar' payments.

opposed to their direct employees, to ensure that lending policies are being followed. This is important in an environment in which the regulator (APRA) has been trying to control the quantity and quality of lending to investor landlords.

Mortgage brokers also suggested specific financing strategies to their clients.

*Experienced mortgage brokers will ask questions of their clients, now, to say, 'Are you ever considering using this as an investment property, because if you are you might want to create an offset account. Don't put all your money on the actual mortgage, but put it in this offset account and that gives you flexibility and options down the track. (Buyer's advocate)*

Not everyone agreed that mortgage brokers, despite their ubiquity, were that influential. Another view was that many investor landlords preferred to do their own research on financing rather than have a broker do this for them. They are assisted in this by a burgeoning of information on the internet and through mechanisms such as property investment blogs.

*The vast majority of investors coming into the market are operating on their own. So they're not necessarily being influenced by advisors or whatever else, they've just done their own research. (Real estate agent)*

### **3.2.2 Wealth advisers**

To complete the picture of change in intermediaries involved in financing PRS properties, the interviews indicated the development of organisations that provide a wide range of services for investor landlords, including not only financial planning and mortgage broking but other property related services as well.

*Some of our clients through our assistance, as we're helping them with investing, because we've got financial planning as well, so we're helping people with investing long-term. So some of our landlords would have six properties now with us over a period of time, because we put them on a path to create wealth and that's what it is. But most of our investors and landlords would be first-time investors and not really extremely sophisticated investors. (Developer)*

Some of these are targeted at small-scale investors with an integrated business providing a range of services for those who have little experience in this area. Typically, these include financial planning and securing financing arrangements for property investment, although the interviewees also elicited examples of businesses that also provided advice and assistance with buying specific properties and, in some cases, also managing the properties.

*We provide services from financial planning to mortgage broking to property investment advisory and also buyer's agency services for our clients. So it is very much focused on providing mum and dads with the ability to invest in property and to live off the passive income as a long-term investment strategy. (Wealth advisor)*

At the other end of the spectrum are wealth advisory services that provide an integrated range of services related to purposive investment to build wealth.

*Very much more, sort of, corporate feel, if you like, and they're much more institutional in their type of set up, and they're much more about investor advisory structures. They might have a multi-discipline team where they might, you know, have a finance planning arm, a mortgage broking arm, etc. (Buyer's advocate)*

Typically, these services assist in accumulating a portfolio of rental properties, advising regular revaluation of properties so that the investor landlord can borrow more, with the key issue cash flow to sustain the portfolio.

*So, they've got to manage their cash flow which is an issue here because areas that are typically giving good capital growth are not necessarily delivering the cash flow required to do this, so they have got to very much balance their whole portfolio. So, the first one might be a big strong capital growth earner and the next one they might be looking for cash flow, then they might look for another capital growth earner and, sort of, do it that way. (Buyer's advocate)*

The interviews indicate the important role of intermediaries, and emerging types of intermediary organisations, in financing PRS properties in Australia. The diversity of these arrangements means that many more organisational actors are now involved in PRS financing, with different remuneration arrangements, with apparent effect on the size and type of loans to investor landlords, and posing greater challenges for regulators.

### 3.3 Innovation in PRS financing arrangements

There has been broad media interest in the idea of fractional investment, referring to investment in part of a housing asset rather than the whole.<sup>52</sup> Most of those interviewed for the project were aware of two fractional investment companies:

- BRICKX<sup>53</sup> aims at those who want to invest in part of a rental property (bricks), offering the prospect of both rental income and capital gain on sale.
- DomaCom<sup>54</sup> is self-described as a managed investment fund that enables investors to select properties of their choice to invest in. Investors can commit as much as they want toward the eventual purchase of property/ies of their choice with like-minded investors via a crowdfunding campaign.

Among interviewees, attitudes to fractional investment ranged from broad interest to scepticism to opposition to the idea.

Typical of the first of these views was that it was going to be a long, hard haul for these two companies as disrupters in the industry to get traction.

*Conceptually, the idea of creating a secondary market for property is an interesting concept. Until such time as there is an audience for that secondary market, it is going to be heavy lifting for these two innovators and disruptors in that space. (Wealth advisor)*

Those who were more sceptical were concerned about getting the settings right. Among suggestions made were that a minimum \$50,000 investment should be introduced to make this a viable operation.

*It hasn't taken off yet, not to say that it won't. I think one of the attractions of investing in property is that you can go and see it and feel it and you can drive past it and if the lawn is too long you can ring up your property manager and tell him to mow the lawn. Whereas fractional ownership of investment properties, it's almost like investing in a*

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<sup>52</sup> See for example, Anthony Keane, 'Pieces of property are the new trend for Australian investors', 27 February 2017, *news.com.au* (online), <http://www.news.com.au/finance/money/investing/pieces-of-property-are-the-new-trend-for-australian-investors/news-story/f6934cee390a83872d4a79d4dd91b1ed>.

<sup>53</sup> BRICKX, *How it Works*, <http://www.brickx.com/how-it-works>.

<sup>54</sup> DomaCom, *About*, <https://www.domacom.com.au/about-domacom/>.



*real estate trust, it's kind of just like investing in a portfolio of shares (finance innovator)*

Those who were opposed to fractional investment were concerned about the quality of the asset and the ease with which investors could release their equity.

*The question is, for the fractional ownership model, is the quality of the underlying assets, the quality of the management, and the liquidity mechanism. And if you can get all those three things right, then that's very important. But you need all three things right. You can't have one or two, because it will end in tears. (Wealth advisor)*

With such divergence of views expressed by interviewees, it is not clear at this stage whether fractional investment will turn out to be a disrupter in the financing of PRS dwellings.

### **3.4 Changing social norms and practices**

The existing academic literature on investor landlords suggests that they are very conservative and focused on having a 'safe' asset for retirement with a rental income stream and prospective capital gain (Berry 2000; Seelig, Thompson et al. 2009).

Analysis of the interview data suggests a rise in debt-financed investor landlords who purchase properties for rental as a deliberate strategy to build wealth. Two resultant changes in practice were highlighted—considering a broader range of markets to buy into and buying and selling rather than retaining.

Traditionally investor landlords bought in areas that they were familiar with and often near to home. The interviews highlighted that this practice is changing for some who look for opportunities for capital gain in a variety of markets, either using online property data and/or advice from property advisors. Strategies included buying interstate (for Sydney and Melbourne investor landlords) and in lower socioeconomic areas in cities or regional areas where prices are lower and rental yield is generally higher.

*Yes, so they'll put their eggs in different baskets and make their money work for them. A little bit different to traditional landlords, I believe ... So now we're going 'okay where's capital growth; let's focus on that area, where's the next booming area?' I think it's definitely changed. (Real estate agent)*

The interviews further suggest an increase in buying and selling rental properties, perhaps with some renovation to add value and even potential to subdivide and develop.

*Investors are looking ... almost all. Lots of land, close to—in the under-appreciated suburb, potentially sub-dividable, potential of rezoning is a big hit here. Close to transport nodes, yeah depending on the budget obviously. Quite a range. (Buyer's advocate)*

Many of the interviewees reported a change in sentiment about housing as prices increased, particularly in capital cities, and households realised that they have a lot of equity in their homes. There is a high level of awareness that banks will lend against this equity.

*So, that has changed the way people think about their own homes, for instance, in terms of what they can do with it and providing for their own future, as well. (Buyer's advocate)*

Interviewees also expressed some scepticism as to whether there had been a shift in social norms around debt-financed rental investment. They suggested that investor landlords, particularly those with one property, are increasingly owner-occupiers who are moving house for



family and/or employment reasons, and when they go for finance on their new place, mortgage brokers and others suggest that they keep their current house and rent it out.

*So they were never sort of going down this path thinking, 'I'm an investor'. It's accidentally happened. There's two very different mindsets in those people. An investor sees it as a business. Whereas these people still see it as their family home. (Real estate agent)*

A further change centred on family-centred financial strategies, which can be seen as adaptations to high price housing markets that make it difficult for young people to buy their own house. Parents help adult children by enabling them to continue to live in the family home while assisting with buying a rental property which they could not afford to live in, so-called 'first time investors'. For these investor-landlords, rental income could help offset their mortgage payments in a way that would not be possible if they lived in the property themselves. Families also help young people who are renting, but who buy an investment property (renter-owners) in their attempt to buy property and 'get a foothold in the property market'. The term 'rentvestor'<sup>55</sup> has become popular in the media to describe this group and there were differences of opinion among those interviewed about the scale of this type of activity. There was also a view that some renter-owners were rational about their investment:

*If you are able to buy property, it's more with your head which you rent out. So you're a renter yourself and you buy to rent out, you're actually often in a much better position because it gives you far more flexibility on the capital and upscale during the changes ... If you own a house, it's psychologically, fundamentally different to renting, but it's changing. That's certainly a massive change. (Real estate agent)*

### 3.5 Summary

In a context of increased real lending to investor landlords, a number of institutional changes can be observed:

- a focus on macro-prudential regulation to moderate the volume and quality of lending to investor landlords
- greater controls on investment in residential property by non-Australian residents
- the rise of financial intermediaries between lenders and investor landlords, in particular the widespread use of mortgage brokers associated with higher loan-to-valuation ratios and more interest-only loans
- the emergence of new companies with the potential to disrupt established models of financing through fractional investment
- some indications of changes in social norms and practices around debt-financed rental investment to build wealth, sometimes on advice of intermediaries.

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<sup>55</sup> Rentvestor is a registered trademark of the national real estate franchisor L J Hooker.

## 4 Provision: intermediaries, new entrants and product diversity

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- The increase in PRS provision has been associated with growth in intermediaries including buyer's agents and property advisors.
  - There has been some growth in intermediary structures such as self-managed superannuation funds to hold rental investment properties.
  - Growth in PRS provision has been associated with some diversity of rental product including Greenfield developments and the build-to-sell apartment sector.
  - There has been a move to rental yield models of PRS provision, particularly those involving new higher density development in and around inner cities and university precincts, and specially-developed student accommodation.
  - The embryonic 'build to rent' sector in Australia based primarily on rental yield is being promoted as an innovation that can add to PRS supply.
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This chapter investigates changes in the institutional settings for PRS provision drawing on a variety of grey literature and the interviews conducted for this project. It considers growth in intermediaries, diversification of PRS stock and the emergence of yield-based PRS provision for specific groups, including student housing, and lobbying for an alternative build-to-rent model in Australia.

### 4.1 Growth in intermediaries and intermediary structures

The interviews and grey literature identified an important role for intermediaries in the purchase or development of dwellings for rental.

#### 4.1.1 Buyer's agents and property advisors

Buyer's agents developed originally to assist owner-occupiers who had large budgets but limited time to buy properties to live in, but now often advise investor landlords as well. The interviews suggest that there are two main types of buyers' agents:

- boutique agencies that assist a mixture of owner-occupiers and investor landlords, many with a focus on particular property types and specific geographic areas
- agencies that operate as investor advisory structures with a multi-disciplinary team, for example, offering advice on financial planning, mortgage broking, and property market research intelligence.

The boutique agencies assist small-scale investor landlords, often buying one rental property. Their clients include people investing in property as part of their superannuation and younger people trying to get into the housing market. They take on people who have sufficient capital, cash flow and borrowing power to buy in the areas that they work in.

*So they're buying as a private person ... because they have a purchasing power and they think it's a good way to save for their old age. (Buyer's advocate)*

The larger agencies assist higher-wealth individuals and multi-property owners. They prepare an investment plan; doing the numbers to see which property investments stack up financially, for example, through research into areas that are undervalued. These organisations look at location in terms of schools, industry/employment, employment providers, income levels, income increases, population growth, and gentrification, to assess which markets to advise their clients to buy in, with some promoting the idea of 'borderless investment'.

*I will stick to a geographical limit in my business, but those other businesses will actually—they, sort of, entertain this concept of borderless investment. So, they will actually chase where they see opportunities or growth opportunities across markets, so will look across Australia at the different markets for people to invest in. (Buyer's advocate)*

The interviews highlighted differences of approach with some buyers' agents encouraging investor landlords to buy off the plan from what they see as a good developer or builder, while others focus much more on the established dwelling market. Our interviewees indicated that some buyer's agents and advisers are better described as 'property spruikers', because they work for sales agents and do not represent the interests of the buyer at all. Some in the property investment advisory sector are attempting to professionalise, raise qualifications, and promote best practice. There was a view that the term 'property investment advisers' should be restricted and that they should be licensed (as is now the case with financial services advisers).

*The term 'buyer's agent'—it should be exclusive to people who are actually licensed to be buyer's agents but it isn't, and so you will find that property spruikers are labelling themselves at times as buyer's agents when what they are actually are sales arms for developers. So, there's an enormous amount of confusion out there in the marketplace. (Buyer's advocate)*

In a sector in which there are currently low barriers to entry, buyer's agents established their own industry association, Real Estate Buyers Agents Association of Australia (REBAA), in 2000 to raise the industry profile and promote good practice in the sector.<sup>56</sup> Another industry body, the Property Investment Professionals of Australia (PIPA) aims to be the peak industry body of property investment professionals in Australia. PIPA is more geared to the larger investment advisory agencies and wealth advisers and sees specialist property advisers as offering: i) personal advice through mortgage brokers, conveyancers/solicitors, accountants, financial planners, etc. and ii) property advice through real estate agents, valuers, buyers' agents, lenders, builders/developers, etc.<sup>57</sup>

Interviewees reported that financial advisors in the past have been reluctant to suggest residential property to their clients as there are no commissions attached, unlike other types of investment. Some new types of fully integrated businesses have been established to step into this space offering advice to clients on all aspects of investing in rental property including financing, purchase and on-going management. For example, one company in WA specialises in affordable infill low-rise developments and provides property management as a value add for investors.

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<sup>56</sup> Real Estate Buyer's Agents Association of Australia, *About REBAA*, <https://rebaa.com.au/about/>.

<sup>57</sup> Property Investment Professionals of Australia, *About Us*, <http://www.pipa.asn.au/>. It has a Code of Conduct that members must subscribe to; their property investment advisers must work towards obtaining a qualification, and PIPA aims to promote good practice and professional development.

#### 4.1.2 Intermediary PRS ownership structures

The RBA, in its monitoring of financial stability, has noted that national legislative changes<sup>58</sup> have increased the accessibility and attractiveness of property investment via self-managed superannuation funds (SMSFs). They consider that this may have encouraged some, particularly younger, people to set up an SMSF. The RBA also cites increased promotion of SMSFs, including their use for geared property investment (RBA 2013). It estimates that about 15 per cent of SMSF assets are in direct property ownership although they 'are also likely to have a small share of indirect property holdings through trusts and managed funds' (RBA 2013). An estimated 23 per cent of directly-owned property in SMSFs is residential.

Interviewees raised the use of intermediary structures for PRS investment. Some considered that SMSFs have become more attractive to investor landlords. In particular, they attracted people whose assets had declined in value in the GFC and who decided that they wanted to have more control over their money, preferring property because they can see and touch it.

*So, there's a lot more comfort in owning property in your super fund, but I do think it does go back to that fundamental Australian [idea] that property—you know, that's a fundamental dream, so over the last decade I think just that awareness of financial products or lending products that give you access to equity that you would not otherwise have used to buy an investment property. I think that's a big thing that's driven people to get into it. (Buyer's advocate)*

A contrary view was that people were moving away from SMSFs due to the rules associated with their operation. It was said that using an SMSF made it more difficult to release money when required and that the costs of running a property in an SMSF can be higher than running one outside. Ownership in an SMSF also restricts investors from redeveloping or improving properties. It was suggested by a buyer's agent that there has been an increase in the use of non-SMFS trusts and other legal arrangements for the ownership of property.

*You know, it's getting more difficult to release the money, the age threshold has gone up, the cost of releasing money, the cost of running superannuation is much higher than running a property outside of it. People, they get warm to the idea, they think about it and then when they realise the cost element, and the fact that it's so difficult to release, every time you are doing it yourself through superannuation, and it's difficult. They're doing other, they're trust arrangements and different arrangements to have more freedom. That's my experience. (Buyer's advocate)*

It is difficult from the interviews and grey literature to gauge the extent to which people use SMSFs to acquire rental properties, but there was a high level of awareness among interviewees about their significance. Information on rental property held in non-SMSF trust structures is not readily available.

In addition to changes in intermediary organisations and structures, the changing institutional context for the PRS also plays out in the attractiveness of types of residential property to investors as we discuss in the next section.

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<sup>58</sup> September 2007 changes allowed SMSFs to borrow money to purchase assets under limited recourse conditions, whereas prior to this SMSFs could not borrow money for investment, which limited the ability to invest directly in property. Further changes in July 2010 clarified the rules about limited recourse borrowing and protected other assets in the fund (RBA 2013).

## 4.2 PRS product diversity

### 4.2.1 Greenfield developments

Many PRS dwellings in Australia are originally built for the home ownership market and transfer into the sector. While Greenfield developments are marketed primarily to owner-occupiers there is also demand from investors for a product to rent out on the private market. Some new houses for rental come onto the market as part of greenfield developments in growth zones, particularly on the fringes of Melbourne and Perth, but less so in Sydney, as suggested by the data on change in the composition of PRS dwellings by type in Chapter 2 above. Developers interviewed for the project reported little differentiation in the product for the investor-landlord market.

*We try to have our product that do owner-occupiers and investors, so it's not specifically for just investors. So the product holds value a lot better. (Real estate agent)*

Some of the demand for new house/land packages from investor-landlords is reported to be from 'Asian'<sup>59</sup> investors, with cultural preferences reported for houses rather than apartments. Greenfield developers would not consider retaining stock to rent out as they do not want to tie up capital in this way and the rental yield is considered too low.

*... but it's one of our residential land subdivisions, there's a component of people, investors, who buy into those estates and create rental product. But we don't actively participate in owning stock to rent out, because the yields are too low, and it's an inefficient use of our capital. So we tend to develop and sell. (Wealth advisor)*

For the most part, Greenfield development is a develop-and-sell model as is the new apartment sector which we consider next.

### 4.2.2 The build-to-sell apartment market

The current model for development in the Australian apartment market can also be characterised as build-to-sell. Apartment developers require capital and debt finance up front. In obtaining finance for individual development projects, developers must demonstrate pre-sales to prospective owner-occupiers and investors. To achieve the desired level of pre-sales, developers may do this themselves through a marketing department or engage real estate companies to market the properties pre-sales. This is different to the Greenfield model where the developer buys the land on deferred terms and stages the development such that sales revenue from the first stages can be reinvested in the next stages.

For the apartment model, as properties are sold, and the finance paid down, the developer moves on to other projects and does not have an ongoing relationship with the apartment building (other than legal obligations to rectify building faults). The on-going management of the building exterior, common facilities and grounds is managed by an owners' corporation/body corporate representing owners not tenants. Most developers operate in this way and do not retain any stock for rental, considering the yield is too low. Interviewees reported that yields have come down from 5 per cent to 3 per cent in Sydney because so much household investment activity has helped push prices up.

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<sup>59</sup> The perspective of some of the developers interviewed was that there is a strong cultural preference for detached houses among Indian households (for owner-occupation and investment), whereas Chinese households prefer apartments for investment purposes.

*So you're not going to get your institutional investors chasing 3 per cent on the hope that there's going to be some capital gain later on. Like there's going to be no capital gain for a long, long time in my opinion. There's just no interest from them.*  
(Developer)

Interviews with apartment developers confirmed that a large (but varying) proportion of sales in the apartment market comprises investors. Once purchased, investor-landlords typically engage their own real estate agent to manage the property for them. This means that many real estate agents can be involved in managing tenancies and properties within a large apartment block.

There are very few exceptions to this model of apartment development in Australia. One major developer reports publicly that it has accumulated over 3,000 apartments for rental in Sydney over the last 15 years, worth an estimated \$3 billion. In addition, this developer offers management services for units that they have developed and sold to investor-landlords, giving the company a rent roll of over 6,000 properties.<sup>60</sup>

The interviews elicited further small-scale examples of developers holding properties, but this appeared mainly to manage the sales process and avoid flooding the market and/or as part of a financing strategy for future developments.

*...and by holding them long-term over a period—the properties have gone up in value, so typically we have them revalued every two years, which we can release some capital out by refunding. So that helps us to put those funds into further properties down the track, so it's a perpetual thing.* (Developer)

Some developers said that they would only hold onto residential property for rental if there was help from the government, for example cheaper land, tax concessions, planning bonuses and/or flexibility in planning—see discussion on build-to-rent in section 4.3.2 below.

### **4.3 Innovations in PRS provision: rental yield models**

As highlighted in Chapter 2, current PRS provision depends heavily on the household sector and in particular tax-driven activity to take advantage of concessions on capital gains tax in an environment of rapidly increasing house prices. If house price growth declines, or even reverses, a recent assessment is that 'speculative tax-driven investor interest is likely to decrease' (Yates and Yanotti 2016: 49). In this context, it is important to examine innovations in PRS provision based on alternative models.

#### **4.3.1 The student apartment sector**

A major change in the 2000s has been the growth in off campus student housing; described by a global property company as 'a pioneer sector, showing us all how a niche specialist and opportunistic property investment can become part of the mainstream' (Savills 2017: 3). This was also the view of the developers and wealth advisors/managers interviewed for this project.

*Student housing is now an asset class in its own right now.* (Developer)

The development of the student sector centres on revenue streams and yields in a low interest rate environment where yields on alternative assets have come down (JLL 2016: 25). A key point made in recent reviews of student housing is that Australia is relatively underserved in this area relative to a high international student intake and provides scope for investment by

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<sup>60</sup> Harry's Apartment Portfolio Tops 3000, Meriton, <http://www.meriton.com.au/harry-s-apartment-portfolio-tops=3000/>.



global companies who want to diversify their asset portfolios (JLL 2016; Savills 2017). The market is considered to be underserved relative to other countries, with some 90,000 purpose-built student housing beds in Australia catering to 6 per cent of enrolled students compared to 24 per cent in the UK (Savills 2017: 14). There are also some differences in demand between cities, with Victoria having a bigger share (36%) of total international student enrolments compared to NSW (28%) followed by Queensland (14%) (JLL 2016: 9).

*... so they've seen that it's a very safe investment. Students even in downturns are still going to be at the university. So their returns are going to be pretty much the same, no matter what. So they're very good defensive investments for them.*  
(Developer)

The largest providers of student housing by size (beds owned) operating in Australia are set out in Table 7 below. It is estimated that commercial providers now provide at least as much student accommodation in Sydney and Melbourne as universities (JLL 2016: 13). In addition, there are specialist student housing property managers, such as UniLodge<sup>61</sup>, which manages student housing on a fee-for-service basis. Student housing has attracted institutional finance, as seen in the examples in Table 7.

**Table 7: Major providers (build/manage) of student housing in Australia**

Company and Australian student beds (including pipeline)	Locations	Major investor/s
Campus Living Villages (CLV) 9,734 (Australia)	Australia, NZ, UK and US. 1 <sup>st</sup> site with University of Sydney in 2003.	Parent company Transfield Holdings
Urbanest 6,633	Melbourne, Sydney, Adelaide, Brisbane. Has announced expansion into UK market	Funded by Washington State Investment Board. Former owner GSA Asia Pacific has stated that it plans to re-enter the market.
(Scape Student Living UK) Scape Australia 5,593	UK (mainly London) Sydney, Brisbane, Perth.	Dutch pension fund managers Bouwinvest and APG, and China's ICBCI International. Telopea Capital.
Blue Sky Private Real Estate 3,246	Melbourne and Adelaide	JV partner Goldman Sachs
Iglu 2,328	Sydney, Brisbane, Melbourne.	Majority stake in company by Macquarie Capital and Singapore's sovereign wealth fund GIC.

Sources: JLL (2016: 25); Savills (2017: 7); Australian Financial Review, various;<sup>62</sup> The Australian Business Review 2015; 2016.

<sup>61</sup> UniLodge operates on a property management model except in Melbourne where it has a more integrated model for investors, including purchase, management and sales. UniLodge has financial backing from the Quebec Pension Fund (The UniLodge Commitment to our Investors, 2017, <https://unilodge.com.au/investors/>).

<sup>62</sup> Australian Financial Review, 09 November 2016, 'Blue Sky builds student digs in Melbourne and Adelaide', <http://www.afr.com/real-estate/blue-sky-builds-student-digs-in-melbourne-adelaide-20161109-gsl60r#ixzz4rrbotpiN>; 9 November 2016, 'Macquarie Capital buys Iglu stake', <http://www.afr.com/real-estate/residential/macquarie-capital-buys-iglu-stake-20161109-iy67y#ixzz4rrcpijsS>; 29 April 2014, 'Blue Sky



Demand in the (international) student market is for small furnished units, which are safe and near to universities in capital cities. Purpose-built student accommodation generally offers two rental products: self-contained studios and shared apartments which vary in size. Self-contained studios/apartments in Sydney are 18–23 m<sup>2</sup> with a small ensuite bathroom and kitchenette. Shared apartments vary in size, but the most popular is 4–5 bedrooms. Each bedroom may have an ensuite bathroom or in some cases two or three shared bathrooms plus a shared kitchen. In all states, they come with study desks and facilities such as internet and access to services. Student housing has relatively high rents—typically A\$1,200 per month for a room and A\$1,600 per month for a studio/apartment (Savills 2017: 14), providing a good ongoing revenue stream.

*So, that's a fully furnished room, includes all utilities and will include a pretty sizeable internet provision per month which tend to vary from 20 to 50 gigs. And so effectively all the student needs to do is bring a duvet and a laptop and away they go. (Wealth advisor)*

The model works because the units are smaller, with higher density, than the typical inner city units.<sup>63</sup> With developer profit and reliable revenue due to high occupancy rates, student housing providers can get much better returns than typical inner city developments. As one interviewee put it, the alternative to these studio/shared apartments is to get a big uplift from apartment development at the luxury end of the market because of lack of sites and very high land prices.

The interviews also elicited some smaller scale responses to demand for student accommodation. For example, one family-owned real estate agency has developed a model for international students:

*But what happened was there was a synergy whereby investors were looking to invest and saw that there was the opportunity to create investment style properties specifically for primarily international students. Although it is not just wholly and solely international students that want to rent or lease furnished properties, but primarily it is. (Real estate agent)*

### 4.3.2 Developing a build-to-rent sector

The grey literature and interviews elicited information on market-based proposals being developed by international and Australian property companies seeking to develop a 'multi-family' (US term) or 'build to rent' housing (UK term) sector in Australia.<sup>64</sup> Both these terms denote businesses that develop new rental dwellings specifically for that purpose, and that own and manage them as rental housing for a long term. As shown in our related project (Martin, Hulse et al. 2018), in both those countries smallholding private individuals dominate the ownership of private rental housing; however, in the US large multi-family landlords have operated for decades, while in the UK the government is devoting considerable attention to the development of this nascent sector. There was a high level of awareness among interviewees involved in finance and development about these trends.

*You know, the private residential rental market in Australia will inevitably take off in the next year to two years and there's already institutions that are circling it and looking at it with experience of what they call multi-family from the US. You know, that, I guess,*

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builds student digs in Melbourne, Adelaide', <http://www.afr.com/real-estate/blue-sky-builds-student-digs-in-melbourne-adelaide-20161109-gsl60r#ixzz4rrbotpiN>.

<sup>63</sup> Treatment of these complexes varies in state planning systems, for example, in NSW they are developed as 'new generation boarding houses' which permit greater density.

<sup>64</sup> From an investment perspective, residential buildings for rent are seen as one of four primary asset classes internationally (the others being offices, shopping centre warehouses) (EY 2017: 1).

*as another sort of specialised area of residential investment, is something that we will see growth in the Australian market. At this point in time it hasn't really taken off.*  
(Wealth advisor)

According to media coverage of the potential for the build-to-rent model,<sup>65</sup> Macquarie Capital and Greystar (major US real estate group) announced late last year that they are forming a joint venture to provide rental housing in the Asia-Pacific. Other developments noted from the same source have included a meeting held in Sydney by the Urban Land Institute for 'influential institutional investors' and residential developers, including AMP Capital and Scape (student accommodation provider) to discuss 'the emergence of the build-to-rent sector in Australia'. A large Australian developer is also reported to be interested in forming a group of build-to-rent investors to provide \$1 billion to build hundreds of long-term rental apartments.

A driving force for promotion of the build-to-rent sector is the search for yield in the post-GFC world. While yields on residential rental property were previously seen as too low to attract large corporate investors and developers, it appears that compression of yields on other assets makes investing in build-to-rent properties a more attractive proposition. There is also a view that existing apartment blocks under the build-to-sell model face the twin difficulties of settlement issues and breaching of sunset clauses and may be better converted into build-to-rent apartments.<sup>66</sup>

*But if you've got institutional capital and institutional investors who are prepared to accept yields as low as what we see in the private rental market, then we will start to see more activity in that space. And I'm talking sort of net yields of in the 4 per cent type range which is a lot lower than what we've seen across other asset classes, but the type of investors who are now looking at the Australian market accept those type of returns in other more mature multi-family markets.* (Wealth advisor)

Media coverage of these developments quote industry sources as reporting that the sector does not need the government to intervene, but if it does it will grow more quickly.<sup>67</sup> Some of the interviewees for this research, however, expressed reservations about whether a build-to-rent sector in Australia was viable without some government subsidy, as in the UK built-to-rent model.

*There's a big push for institutional ownership of rental stock. And as we said earlier, it's offshore. You've seen how well it's worked offshore. It makes sense. For whatever reason, a lot of people have different views, it hasn't happened in Australia. But we constantly look at different opportunities for it. It's just you need to find the interest for it in terms of capital, because these are big, heavy, expensive buildings. So never say never.* (Developer)

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<sup>65</sup> Su-Lin Tan and Nick Lenaghan, 'Build-to-rent great for big investors, good for overpriced cities', *Australian Financial Review*, 1 September 2017, <http://www.afr.com/real-estate/residential/buildtorent-great-for-big-investors-good-for-overpriced-cities-20170831-gy89xv>. Note that the terminology 'build-to-rent' appears to be used more widely in Australia than in multi-family.

<sup>66</sup> Sarah Thompson, Anthony Macdonald and Joyce Moullakis, 'Mirvac to pioneer build-to-rent sector', *Australian Financial Review*, 31 August 2017, <http://www.afr.com/street-talk/mirvac-to-pioneer-build-to-rent-sector-20170829-gy6vgb>.

<sup>67</sup> Su-Lin Tan, 'Renting in Australia is generally 'miserable' but doesn't have to be', *Australian Financial Review*, 6 April 2017, <http://www.afr.com/real-estate/residential/why-longterm-renting-is-about-to-become-a-reality-for-australia-20170406-gvfdkl>.

Interviewees also raised the potential for built-to-rent coming from manufactured housing groups that have come to the Australian market, for example Gateway Lifestyles, Eureka and Ingenia, which are closest to the US multi-family rental model.

*... and that's sort of the closest thing that we have to a listed rental model in Australia, unlike the US where about a quarter of the listed property market, or they call it real estate over there, but at least a quarter of the real estate market in the US is made up of multi-family apartments, whereas we don't have that here. (Wealth advisor)*

Development of a build-to-rent sector in Australia has been promoted by some in the finance and development sectors as a strategy to improve housing affordability for renters.<sup>68</sup> It has been argued that large institutional investors in the Australian PRS may be better equipped than 'mum and dad' investors to invest in new housing supply in good locations, practice more professional and efficient property management; and offer the prospect of more secure tenancies (EY 2017). It has also been suggested that this could work in conjunction with the not-for-profit sector which could acquire a share of the units for affordable housing or head lease an entire block and sublease to key workers, with a guarantee from government.<sup>69</sup> Other observers have cautioned that the current Australian system of incentives to individuals/households (rather than institutional investors) works well and provides PRS housing at a range of price points and locations.<sup>70</sup> The Australian Government to date has accepted this latter view and moved to stop managed investment trusts from buying residential property except for affordable housing.<sup>71</sup>

## 4.4 Summary

Growth in provision has been associated with some important changes, viz:

- a rise in intermediaries, buyer's agents and integrated property advisory services
- new build-to-sell products sold to investors in greenfield areas and (primarily) inner city apartment markets
- development of a build-to-rent (or rental yield model) of PRS provision targeted specifically at the student apartment market
- industry-promotion of the build-to-rent market beyond the student sector by some large global corporate landlords and Australian companies.

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<sup>68</sup> Elizabeth Redman, 'Build-to-rent could boost affordability: EY', *The Australian*, 3 July 2017.

<sup>69</sup> See EY (2017); Elizabeth Redman, 'Build-to-rent could boost affordability: EY', *The Australian*, 3 July 2017; Su-Lin Tan, 'Renting in Australia is generally 'miserable' but doesn't have to be', *Australian Financial Review*, 12 April 2017, <http://www.afr.com/real-estate/residential/why-longterm-renting-is-about-to-become-a-reality-for-australia-20170406-qvfdkl>.

<sup>70</sup> Michael Corcoran, 'Major lessons for Australia from US build-to-rent sector', *Australian Financial Review*, 7 September 2017, p.30.

<sup>71</sup> Jacob Greber, 'Build-to-rent breaks unfair: says Treasurer', *Australian Financial Review*, 18 September 2017, p.4.

## 5 Access: regulation, institutional change and new digital technologies

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- Access to the PRS is generally lightly regulated, but there are some important regulatory interventions targeted at institutions and practices that check access: for example the operation of residential tenancy databases (RTDs), discriminatory practices and upfront fees and charges.
  - Real estate agents/property managers are the dominant institutional actors in mediating access, but they are increasingly using digital technologies provided by third party service providers, such as online advertising and application portals.
  - Some of these technologies are opening up possibilities for avoiding agents as intermediaries, and making new marketing offers, such as facilities for ‘rent bidding’ and non-cash alternatives to bonds.
  - These new digital technologies collect a lot of data about prospective tenants, including from tenants themselves, which is used to vet applications.
  - There is the potential for such tenant data to be used to shape the advertisements a prospective tenant sees, or the portals to which they have access, thereby affecting access earlier in the process. This may work for already advantaged applicants but disadvantage those who already face barriers in accessing the sector.
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In Chapter 2 of this report, we introduced the issue of ‘access’ to the PRS by observing the changing profiles of both the households seeking housing in the sector, and the stock of dwellings (section 2.3). Here we consider the process by which PRS households and dwellings, and the dwellings’ owners, are brought together in the market and the role of other institutions and current and emergent practices, based on a review of the grey literature and interviews conducted for the research project, particularly those with real estate agents, self-managing landlords, online portal operators, software developers and tenants organisations.

### 5.1 The access process

Historically, the PRS access process has involved three steps for prospective tenants and landlords:

- 1 Landlords **advertise** a property to let, nominating the amount of rent they seek and furnishing other information about the property, including through making the property available for inspection. At this step, prospective tenants screen for suitable properties on the basis of advertised information and what they find out at inspections.
- 2 Prospective tenants **apply** for selected properties, putting forward information to establish their suitability for a tenancy. They might also attempt to negotiate terms, including the rent. At this stage landlords vet applications, using the information provided by applicants and information from third parties. The willingness and ability of applicants to pay a reservation fee or deposit may also test their credentials.

- 3 Landlords **offer a tenancy** to their preferred applicant. Terms may be negotiated, particularly as to the rent, start date and fixed term of the tenancy. For most PRS tenancies, the tenancy will also be conditional on the tenant's payment of a bond or security deposit and rent in advance.

Various PRS institutions are involved at each step. As we saw in Chapter 2, most landlords engage real estate agents, who organise advertisement of properties to let via media organisations, including online portals, and their own offices, and conduct property viewings. Agents are also heavily involved in the second step, assessing and advising landlords on the applications received, with residential tenancy databases (RTDs) also important at this point.

Regulatory institutions are also involved throughout the process, although lightly, and mostly towards the later steps in the process. These regulatory institutions include anti-discrimination laws, laws relating to RTDs and other uses of information in the application process, and the provisions of residential tenancies legislation about pre-contractual payments and terms.

More conceptually, the process of access to housing in the PRS can be thought of as the combination of two functions: the **facilitation** of access, by which the exposure of available properties to prospective tenants is maximised, and the **checking** of access, by which prospective tenants are screened out so that a property is placed with the most qualified applicant. These functions are distributed among the institutions involved in the access process—so the media facilitates access, RTDs check access, and agents do both—with regulation targeting those that check access.

Current changes in PRS institutions may be changing the distribution of these functions—disaggregating them, or combining them in new ways—and new institutions, services and practices that appear to facilitate access have the power also to collect and use information in ways that may check access.

To provide a more detailed account of the institutions involved in PRS access, we begin by examining regulation, even though these regimes are mostly focused on the checking of access towards the end of the process. We do so because some of these regimes are designed with existing institutions and functions in mind, but may have implications for the new and rapidly changing institutions in the media and in the products and services used by agents.

## 5.2 Regulation and access

The legal regulation of institutions of access to the PRS is light. There are few specific rules around the advertising of properties to let; no prescribed standard application form for tenancies; no specific proscriptions on what agents and landlords can ask applicants to provide by way of supporting information and documents; and few restrictions as to what criteria may be used by agents and landlords in deciding which applicant to offer a tenancy. There are no legal limitations on the amount of rent that landlords may seek, and they and applicants are free to bargain over the rent and the length of the fixed term of the tenancy. There are, however, some rules, relating to anti-discrimination, information protection—including specific rules about RTDs—and pre-contractual matters under residential tenancies legislation.

### 5.2.1 Advertisement, disclosure and anti-discrimination

The form and content of PRS property advertisements is mostly unregulated. Neither New South Wales, Victoria nor Western Australia regulation require advertisements to specify the amount of rent sought, though most advertisements in fact do; by contrast, Queensland requires advertisements to specify a 'fixed amount' of rent. Some jurisdictions require the disclosure of certain information about properties: for example, in New South Wales, landlords and agents must disclose any current proposals to sell a property, and must not conceal certain 'material

facts' (e.g. the premises are on the Loose Fibre Asbestos Insulation Register, or have been the site of flood, bushfire or a serious violent crime in the past five years).<sup>72</sup>

Perhaps the strongest regulatory influence on advertisements is anti-discrimination legislation, which applies across the application and offer stages, and throughout a tenancy too. Stand-alone anti-discrimination Acts were first enacted at state and federal levels in the 1970s, and have been amended since then mostly to expand the grounds on which discrimination is unlawful. Currently, discrimination in the provision of accommodation on grounds of race, sex, disability, sexuality, age, marital status and transgender status is generally prohibited throughout Australia. Interestingly, discrimination on the grounds that a person has children gets unusual legislative treatment—in Western Australia and Victoria, this is unlawful under residential tenancies legislation, rather than the main anti-discrimination Acts, as in most other states.<sup>73</sup>

Anti-discrimination legislation also makes some specific exemptions—for example, the prohibitions on discrimination mostly do not apply where the accommodation provider lives at the premises with fewer than a certain number of other residents—in other words, share housing and small lodging arrangements. There also remain numerous grounds on which it is not unlawful to discriminate—notably, income, and whether a person is in receipt of Centrelink payments or other assistance. It is also not unlawful to discriminate against persons because they own an animal, other than an assistance animal related to a person's disability. In a recent survey of tenants by CHOICE, National Shelter and the National Association of Tenant Organisations, pet ownership (23%) and receipt of government payments (17%) were the most common grounds of lawful 'discrimination' experienced by tenants (2017).

The incidence of unlawful discrimination in the Australian PRS is under-researched compared to countries such as the US.<sup>74</sup> In Australia, only one large-scale, formal paired test study of discrimination in access to the PRS has been conducted (MacDonald, Nelson et al. 2016). This study focused on differences in the treatment of persons of 'Indian or Muslim Middle Eastern' backgrounds and 'Anglo' background searching for accommodation in the Sydney PRS which found significant differential treatment on a number of measures just prior to the application stage. In particular, agents were more likely to provide Anglos with individual appointments for property viewings, information about other available properties, and follow-up phone calls.

### **5.2.2 Applications, information protection and residential tenancy databases**

In the tenancy application process, agents and landlords may ask applicants for information about themselves (subject to implications of unlawful discrimination discussed above). They can also access and consider information gathered elsewhere, but there are some restrictions on their use of information collected by third parties. In particular, agents and landlords cannot access credit information held by credit reporting bodies, such as Equifax;<sup>75</sup> this information is restricted to credit providers by Part IIIA of the Privacy Act 1988 (Cth).

Agents and landlords do have access, however, to specialist residential tenancy databases (RTDs) operated by a number of private companies: e.g. TICA Pty Ltd, TRA Pty Ltd, Barclay

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<sup>72</sup> Residential Tenancies Act 2010 (NSW), section 26; Residential Tenancies Regulation 2010 (NSW), clause 7.

<sup>73</sup> In New South Wales, a prohibition on discrimination against tenants with children, at section 38 of the Landlord and Tenant (Amendment) Act 1948 (NSW), predated the anti-discrimination of the 1970s.

<sup>74</sup> In the US, there is a large body of research by academics and housing regulators into discrimination using paired tests (i.e. testing outcomes for persons who are equivalent in all respects, except their race, disability status or other factor).

<sup>75</sup> In February 2016, US-based Equifax acquired Veda Advantage, the leading Australian credit reference agency, which had originally incorporated as a mutual association, the Credit Reference Association.



MIS, Datakatch and NTD (which is owned by Equifax, but a separate database). These operate on a subscription basis—subscribing agents (and less commonly, landlords) may list information about a tenant on the database, and search the database for information listed by others.

Originally developed in the late 1980s in response to restrictions around credit reporting bodies, RTDs operated without regulation for more than a decade, and became notorious as ‘blacklists’ that could effectively exclude a listed person from accessing the PRS (Short, Minnery et al. 2003). From 2001, RTDs and other private sector organisations have been subject to the National Privacy Principles (from 2014, the Australian Privacy Principles) under the federal Privacy Act. These provisions established that information listed on RTDs had to be accurate, and accessible to the individual persons concerned, but did not restrict the circumstances in which persons could be listed, nor impose effective timeframes for the removal of listings. All states and the ACT now regulate RTDs specifically under their residential tenancies legislation. This is relatively recent and follows a long campaign by tenants’ organisations drawing attention to the inadequacy of regulation and the hardships caused by RTDs.<sup>76</sup>

The legislation in each jurisdiction limits the circumstances in which landlords and real estate agents may list information about tenants—generally speaking, only after a tenancy has ended, and there has been a breach by the tenant, and reasonable attempts to notify the tenant have been made. Each jurisdiction’s legislation also provides for applicants to be told about and get access to listed information, time limits on listings (in most cases, listings must be removed after three years) and resolution of disputes about listings (through the tribunals and tenancy divisions of courts).

These provisions are based on a number of assumptions that reflect historical practice. It is assumed that RTDs function as blacklists, with listing being for negative purposes only, and that information for listings will come from landlords and agents. As such, the RTD regulation does not really contemplate databases of information listed by tenants themselves. As we discuss below, this has implications for new and emerging developments in access technologies.

### **5.2.3 Offers and pre-contractual regulations**

State and territory residential tenancies legislation regulates the conditions on which tenancies may be offered, by prohibiting contracting out of the standard terms for agreements under residential tenancies law and, apart from the amount of rent itself, limiting what prospective tenants may be required to pay as a condition for entering into a tenancy. All place limits on the advance payment of rent. They also regulate the bonds or security deposits that landlords require to be paid, limiting the amount that may be required (to four weeks’ rent, in most cases) and, in most jurisdictions, including NSW and Victoria, requiring that bonds be lodged with a state agency. Western Australia, unusually, also allows bonds to be held in an account with an authorised financial institution. The state bond lodgement systems have developed into a significant source of PRS market data and, through the investment of bond monies, contribute to the funding of fair trading agencies, tribunals and other dispute resolution services, and tenants advice services and other consumer protection programs.

## **5.3 Access: institutional change**

Apart from the regulatory institutions, discussed above, real estate agents are the single most important institution across the access process, from the advertisement stage, where they have

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<sup>76</sup> Developed under the auspices of a working party of the Ministerial Council on Consumer Affairs and the Standing Committee of Attorneys General, the provisions are mostly consistent, though there are differences as to wording between jurisdictions.



special connections with the media, through the administration of applications and offers of tenancies, where they are influential advisors to landlords. The increase in PRS properties managed by real estate agents nationally has reinforced the importance of their role. The research found, however, that their work is changing and a range of third party service providers are becoming involved.

### 5.3.1 Advertisement: institutional change

Historically agents advertised properties to let in local newspapers and in the windows of their high street offices. Each of these activities has been transformed by digital technologies, particularly online property portals realestate.com.au (REA), Domain.com.au (Domain) and the specialist PRS portal, rent.com.au (RNT). As these platforms have supplanted print media advertising, the established print media companies have shifted into these platforms, with REA now majority-owned by News Corporation and Domain now the dominant group of business units within Fairfax Media.

Real estate agents are a key customer of these online portals in respect of both rentals and sales. As we discuss below, there is also the potential for online portals to allow landlords and prospective tenants to avoid agents, and some portals are positioned that way, but these are currently small or directed to non-mainstream PRS housing, such as share housing.

The online portals have obvious advantages over print media for landlords and prospect tenants: greater reach for advertisers and greater search functionality for viewers. The portals can display more information about properties—for example photos and floor plans—including information collected or gathered from sources other than the landlord or agent. For example, one online portal displays for each property its 'Walk Score' as calculated by the US-based data company of the same name; it also calculates commuting times between properties and a viewer's place of work. An online portal operator looked forward to including ratings of properties—and more:

*We're also bringing in ratings. I love the idea of ratings, and so does everybody, except when you ask them to be rated. So that's the challenge for us. So initially we will rate properties ... it's got to be done mathematically, the rating. We think that we've worked out a rough model that we're building on, because I can't have expensive properties being better than poor properties, basically. So we've worked out a way to do that which hopefully takes a bit of the emotion out of it. (Online real estate advertiser)*

The interviewee raised the prospect of including ratings and other information about landlords in advertisements, including the prospect of enabling some long-term leases.

*On our own database ... we have a number of people that have multiple properties ... So they're unlikely to go and move into that house in five minutes. So how can we start to move it around a bit and get some longer duration leases in there? That's my goal. We just lived near ... a very popular school. So there was a lot of families that would rent, and they owned houses elsewhere but they would move into that school zone just so they can get their kids in the school. So if you've got a daughter that's hitting Year 8, all you want is five years. So you can't get that in the market. So that's the sort of thing we want to change. (Online real estate advertiser)*

Interviewees who supported rating PRS properties were also grappling with the question of how to rate tenants. As we discuss further in the next section on applications, this question has yet to be resolved. However, information about prospective tenants is already being collected and used in the advertisement stage. The portals collect data about viewers and their search activity, which agents interviewed for the project report that they use both as a measure of the

relative effectiveness of the portals, and as an instrument for targeting communications to individuals.

Other new information and communication technologies are being used by agents to facilitate contact with prospective tenants. These include online platforms for organising the property search and booking initial inspections, such as InspectRealEstate and tApp Open for Inspection (operated by the RTD operator TRA). The agents we interviewed emphasised the benefits of these technologies to prospective tenants, in terms of convenience of searching, and to agents themselves, in terms of information gathering.

*With leasing, we have a program that we use called 'Inspect Real Estate', and that means that potential tenants are able to book a viewing online 24/7 and the system also collects a database of tenants looking. So, previously to that, we would have people call the office, 'I want to view a property'. The property manager would have to call them back, book in a time—very labour intensive, plus the phone call cost. And so [now] basically the system just collects it all. Tenants have control, the public has control of their viewings, and they get reminders, so it's good from a service point of view. They feel they're getting a good service because it's an automated system, and because we've now got a database which previously you wouldn't collect, when you get a new property come on board, as soon as we enter it, it goes straight out to that database. (Real estate agent)*

These technologies are augmenting agents' abilities as advertisers, but online technologies also open up possibilities for landlords and prospective tenants to connect without the intermediation of agents. For example, the online portal RNT promotes its services to self-managing landlords, as well as agents, and the advertising platform RentWolf, which launched in 2017, promotes itself as 'rent without agents'. There are also the generalist online classified advertisers, such as Gumtree, which does a lot of business in share housing advertisements, as well as some self-managed rental properties.

More significant are the online portals that use information technology to make specific offers that challenge the role of agents. One such specific offer is a facility for rent bidding. RentWolf has such a facility, and the US-based rent bidding portals Rentberry and Live Offer are reported to be preparing to launch in Australia (Robb 2017). The rent bidding facility allows prospective tenants to submit, as part of an application, a proposal for the amount of rent to be paid, with the facility also indicating to applicants how many other bids have been made. Rent bidding facilities are part of a larger and more widespread innovation—online applications—which we discuss in the next section. RentWolf's practice is to advertise a single specified price sought by the landlord, then facilitate the making of proposals by applicants for other amounts, appearing to comply with the Queensland rule (discussed above). An alternative interpretation of 'fixed amount' of rent, however, would mean that the rent in the agreement cannot be other than the rent advertised—which would rule out all proposals for other rent amounts. At the time of writing, the Victorian Government has proposed to 'crack down on rental bidding' (Government of Victoria 2017), but it is not known how it will do so.

Other portals provide a service in relation to parts of the PRS that agents have not traditionally served, such as share housing. Some of these portals and related issues of access for low-income households are considered in detail in a companion research project (Parkinson, James et al. 2018). Here we note some aspects of the share housing portals that are of wider significance—a significance indicated by REA's 2016 purchase of the largest share housing portal, flatmates.com.au. One share housing portal operator contended that earlier forms of print and online share house advertising had problems with security and fraud, which the application of more sophisticated portal technologies had addressed, improving the reputation of share house advertising and share housing itself.

*When we started, share accommodation was a bit, for want of a better word, kind of like a black market sector ... When we came in, we changed a lot of that quite significantly in bringing in security systems and just a site that is specifically designed to do what it should do, which is people finding each other so they can live together. And that changed the industry quite a lot from the point of view that it brought in a huge number of people into the sector that wouldn't have been involved otherwise. (Online real estate advertiser)*

As well as bringing to the portal the traditional share house sector—that is, tenants seeking another occupant for a spare room—the improved security and reputation had also brought property owners to the sector.

*We've seen over the last four years a huge increase in the number of home owners which are actually renting rooms in their houses and that's now over 30 per cent of the rooms that are offered, are actually in a property that someone owns. So we've seen a big transition there and it's something that we're really happy about. (Online real estate advertiser)*

The research also indicates that the share housing portals advertise persons seeking rooms, as much as rooms to let, enabling a matching service.

Several interviewees raised the presence of Airbnb as a rising alternative to the major portals and the agents that use them. One interviewee observed that Airbnb already promotes its current service—facilitation of short-term lettings—for the purpose of 'trying out' a location before deciding to reside there, and suggested that if Airbnb were to offer long-term rental housing, it could attractively package credibility and insurance.

Both share housing portals and Airbnb's platform indicate the possibility of mainstream PRS portals adopting a 'matching' model; that is, using information about prospective tenants, as well as properties, to facilitate matches between the two, rather than casting advertisements widely and relying on prospective tenants, in the first place, to narrow the field by screening for suitable properties. The portals have not yet developed to this stage but appear to be moving closer through the collection of tenant information at the application stage.

### **5.3.2 Applications: institutional change**

The application stage of the access process is also changing through the adoption of new digital technologies, particularly online application portals. These allow tenants to enter and store personal information in a format suitable for tenancy applications; landlords and agents can then peruse and vet applications, including by checking details against RTDs. Box 2 below gives examples of online application platforms available in Australia.

## Box 2: Examples of digital technologies applied to PRS applications in Australia

- 1form (1form.com.au) is the largest of these platforms and integrates with both the general REA and Domain online portals. Established as a start-up in 2006 and purchased by REA in 2014, it claimed at the time of the buy-out to hold applications by 2.4 million persons and to account for three-quarters of applications on rental property listings (Hutchinson 2014). 1form also integrates with the residential tenancies databases TICA and NTD, allowing agents and landlords to run online checks on applications against those RTDs.
- RNT and RentWolf have their own online application portals. RNT claims 175,000 tenants have created what it promotes as a 'Renter Resume' (RNT 2017a), and encourages prospective tenants to use the resume to direct landlords and agents to their portal. RNT integrates with NTD and, for a fee, allows tenants to check their details against that database.
- Another online application platform is tApp, established in 2010 by the RTD operator TRA.
- A further RTD operator, TICA, also runs its own online application platform, ApplyReply, as well as integrating with 1form.

On the online application platform, operators promote their services as convenient for agents and landlords and convenient, even advantageous, for prospective tenants: 'we put our renters in suits', one operator told us in an interview. However, as the presence of REA and the RTDs in this area indicates, the information collected by online applications has more potential than just offering convenience to the parties. At present, 1form aggregates tenants' data to generate reports about rental market demand for purchase by investors. In an interview, an online portal operator looked forward to individual tenant's application data to be joined with tenancy history data in a comprehensive record.

*A by-product of this process is that we will ultimately be ranking renters. Which I've got to be honest, I have zero problem with ... We want to ... say rightio, they've been in that property for a year so they get a green tick. Think of status credits for Qantas or whatever. So we can start to build up their resume. So when they automatically hit the apply button in six months' time or 12 months' time, we've already got all their pervious history ... It's all about making it easier for people ... We'll be able to rank people, and I know it sounds horrible to rank people, but it is life, and I don't look at it as poor people or negative people getting disadvantaged, I look at it as good people getting advantaged. (Online real estate advertiser)*

At present, this level of tenancy history data cannot be derived from the established RTDs because they are restricted to taking only negative listings in limited circumstances and must delete listings after three years. An online portal operator interviewee indicated how they might collect more comprehensive information themselves, including through facilities for 'endorsements' from third parties ('bit like LinkedIn': online portal operator), and from cultivating ongoing relationships with users:

*So what we're trying to do is change it so that we know if that person rented that property. Now the only really reliable way is for that person to come back to us and tell us. So that's a big ask, right, to ask someone to come back in once they've found their*

*property. We have a very FIFO<sup>77</sup> audience—they come in, do their business, find a property, then they disappear until their lease is up. (Online real estate advertiser)*

This gap in information collection has yet to be resolved. A share housing portal operator interviewee indicated a similar problem in plans for reviewing and rating users, and suggested it arose from the relatively long-term nature of transactions for housing:

*We haven't been able to solve that problem. A site such as Uber can do that because they actually know when the transaction's complete, so they can only ask for reviews on people they know that have interacted with each other. We don't have that level of detail because our transactions—we start them, but we don't know whether they actually go ahead, and we don't know when they end either ... So we've actually got a quality issue and we've also got a quantity issue when it comes to reviews. (Online real estate advertiser)*

One potential source of additional data for the continual assessment or rating of tenants may be social media. At this writing, online reputation analysis technology is being used in an alternative bond product, TrustBond, launched recently in Australia by the Spanish start up, Traity, in partnership with the landlords' insurance provider, Terri Scheer. Traity 'measures trustworthiness using online data including networks, ratings and reviews from Facebook, Twitter, LinkedIn, Airbnb, eBay and Uber to determine a tenant's TrustScore', for the purpose of pricing its product (Property Observer 2017). We discuss TrustBond and other alternative bond products below. It is not known whether this technology is currently being taken up by the online application portal operators.

Meanwhile, the established RTDs continue to operate on their conventional blacklist model, with some 'innovation' at the margins. NTD currently offers packaged searches of its tenancy database with searches of public bankruptcy and court appearance records (NTD 2017). Both TICA and Barclay MIS offer facilities that allow agents to be alerted when a current tenant makes an application elsewhere. TICA does this through its Virtual Manager software, which is available to agents for use as a local database in which they may enter their own tenancies, with a facility to 'flag' them to receive an email alert whenever the tenant's details are searched against TICA's tenancy history database (TICA 2017). Barclay MIS maintains, in addition to its 'Tenancy Track' RTD, a 'Property Track' database into which subscribers may enter the addresses of properties currently let, and which generates an email alert if a listed address is searched against the Tenancy Track RTD (Barclay MIS 2017). In each case, the recipient of the email may then contact the searcher and disclose information about the tenant. There are potential implications for access, because a current agent could frustrate the tenant's applications for other properties.

Notwithstanding all of these developments in information technology, landlords remain the final arbiters of applications. This could work in an applicant's favour as indicated by one real estate agent who suggested that there was a scope for disadvantaged applicants to put their case and for landlords to exercise discretion, with the agent making it clear that it was a matter of choice for the landlord.

*Our business is based upon if the owner wanted the tenant, it was their choice. So there was always a choice to the owner. We rented to people who had bad tenancy records, like through TICA and things like that, if they came in and they were really honest about it and then showed what they had done about it and things like that ...*

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<sup>77</sup> Australian colloquial term 'Fly In Fly Out' referring to workers who live in one place and fly to another for rostered periods, particularly in the mining industry. The interviewee was using it metaphorically.

*and then putting their case forward to the landlord for their decision. (Software developer)*

There are, however, constraints on this decision—for example, it may be a term of the landlord's insurance that they not accept applicants who are listed on an RTD. Agents too are a strong influence; another agent interviewee described the checking role of agents at the end of the application stage, with an eye to potential problems that might arise for them as managers of the tenancy.

*It's far easier to say no and just make the landlord wait until we get the right person because... tenants have a lot of rights. And when you sit up at VCAT [Victorian Civil and Administrative Tribunal], it's a waste of time. And any agent that sits up in VCAT with a tenant, it's the agent's fault because you should have picked someone better. So, we turn them upside down and check them inside and out now before they go in. It's easier to say no rather than say yes. (real estate agent)<sup>78</sup>*

It may be that the new information technologies can better inform each of these decisions as to whether to approve an application or not. However, in the aggregate, it may also mean that some tenants already relatively advantaged in terms of their record and attractiveness to landlords will have an even higher rate of success—without really needing it—while others already disadvantaged may be unsuccessful even more often.

### 5.3.3 Offer: institutional change

At the final stage of the access process, there is emerging innovation around bonds,<sup>79</sup> as shown in Box 3.

#### Box 3: Innovation in PRS bond products

Bond loans:

- RNT offers tenants a bond loan (at 6% interest plus monthly administration fees)
- BondSure packages bond loans (at 15–17.5% interest) with an insurance policy on which the tenant may claim if the landlord makes a claim on the bond (RNT 2017b; BondSure 2017).

Alternative bond products:

- Traity's TrustBond and Snug's BondCover, each of which provide a non-cash surety or guarantee in place of a cash bond. In the case of each product, the tenant purchases the surety from the issuer, who certifies to the landlord that the issuer will pay claims on the surety, up to the applicable bond limit, if the tenant owes money at the end of the tenancy. The price of the surety to the tenant is a fraction of the amount of the equivalent bond—but it is a charge, and is not refundable as a bond is—and under the terms of the surety, the tenant is liable to the issuer if it pays out a claim to the landlord.<sup>80</sup>

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<sup>78</sup> VCAT is the Victorian Civil and Administrative Tribunal, which hears and decides civil and administrative legal cases in the State of Victoria, Australia. It has a Residential Tenancies Division which hears and decides on cases brought under the State's Residential Tenancies Legislation.

<sup>79</sup> Bonds are payments made by the tenant that are held as surety in the event of property damage or undue 'fair wear and tear' on the premises which needs to be rectified when the tenancy ends.

<sup>80</sup> Pricing of the surety varies: Traity prices its sureties according to the tenants' TrustScore, as calculated by Traity from personal information provided by the tenant and data as to their online reputation. Snug's Bond Cover is priced as an annual fee of 5–9 per cent of the bond, with provision for loyalty and no-claim bonuses; it also claims to provide sureties subject to a 'comprehensive risk assessment' of the tenant, which appears to involve checking them against the NTD RTD.



At the time of writing, Traity's TrustBond is available only in South Australia, but it is advertising more widely in anticipation of a further rollout, while Snug advertises BondCover as being available throughout Australia, except Queensland and the Northern Territory. Snug's focus is on encouraging existing tenants, landlords and agents to return bonds currently lodged and replace them with a BondCover surety; in the case of agents, the encouragement is in the form of payment of a referral fee (Snug 2017).

How the new alternative bond products fit with existing regulations around bonds, and state-based bond loan schemes, is not entirely clear. As noted above, residential tenancies legislation generally provides for the payment of limited amounts of rent in advance and a bond, and prohibits other commencement charges and guarantees; and where bond is paid requires that it be lodged—lawful non-cash 'bonds' are not expressly contemplated.<sup>81</sup>

## 5.4 Summary

There are a number of implications for policy arising from recent and emerging developments in the access process, particular relating to the proliferation of digital technologies.

- The collection and use of information about tenants is proliferating. Historically, the collection and use of information was directed to the vetting of applications, and our current regulatory regimes are focused on the institutions—landlords, agents and RTDs—operating at that point in the access process. Now, however, information is collected from tenants as they prepare to make applications, and affects targeting of advertisements. There is the potential for such tenant data to be used to shape the advertisements that a prospective tenant sees, or the portals to which they have access, thereby affecting access earlier in the process.
- The entry of new technology and service providers into the PRS access process is changing business models as new and existing institutions try to develop markets. In particular, the model of advertisers charging agents, who charge landlords, may be changing, with tenants being looked to as a potential source of revenue.
- These changes may work for already advantaged applicants but disadvantage those who already face barriers in accessing the sector.

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<sup>81</sup> The word 'bond' is defined similarly in the NSW, Victorian and WA Acts as 'an amount of money paid or payable' (NSW), 'an amount paid or payable' (Vic) and 'an amount payable' (WA).



## 6 Management

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- PRS management has traditionally been seen as an issue for regulation on residential tenancies rather than housing policy although there have been some recent attempts to reconnect regulation to housing policy development.
  - Key issues arising from the growth of the PRS requiring more comprehensive approaches to rental property management include: i) longer term tenancies; ii) sharing and renting by room, and iii) management challenges associated with supporting vulnerable tenants in the PRS.
  - The real estate industry has seen considerable restructuring with franchises more evident in middle and outer areas and an increase in boutique agencies in inner city areas with high numbers of renters.
  - There has been growing appreciation of the importance of growing rent rolls to the financial sustainability of real estate agencies, either organically through new business or by acquisitions using rent roll brokers.
  - Innovation is apparent in the uptake of technology associated with outsourcing of some aspects of rental property management to third parties to contain costs and generate efficiencies in a volume business, although take up is patchy.
  - There is some evidence of changing social norms and practices, with a focus on service rather than administrative processes.
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There has been a growing trend towards management of Australian PRS properties by real estate agents as reported in Chapter 2 above. A review of the academic literature on housing, however, found a substantial gap in relation to institutional change in rental property management: its structure, organisations and the impact of technology. This chapter starts to fill some of that gap through an exploration of rental property management based on the grey literature, including material collated by industry organisations, and interviews conducted for this project with directors of real estate firms, self-managing landlords, industry associations, tenants' organisations and different types of regulators.

### 6.1 Regulation: institutional layering and policy linkages

#### 6.1.1 Residential tenancies regulation: the notion of 'balance' and new frames for reform

The development of residential tenancies regulation<sup>82</sup> provides an example of institutional layering (van der Heijden 2011) in which new regulatory approaches are layered onto existing regulation as perceived problems arise. The main focus has been on regulating the rights and responsibilities of landlords and tenants in 'mainstream tenancies'. Such legislation/regulation is

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<sup>82</sup> Regulation is used here in its broadest sense and encompasses statutory legislation.

enacted at state/territory level, and all jurisdictions' legislation involved variations on a common model of:

- wide application, covering mainstream PRS and social housing tenancies
- standard forms of agreement, with prescribed terms and notice periods (e.g. for rent increases, access and termination)
- consumer information requirements (e.g. written agreements, condition reports, receipts, notices)
- market rents, with limits on other costs and charges (e.g. bonds)
- ready but orderly termination
- accessible dispute resolution.

Legislative details vary considerably between jurisdictions, particularly as regards to exclusions from coverage, terms and notice periods. This model of residential tenancies legislation was first proposed in the 1970s under the auspices of the Commission of Inquiry into Poverty (see Bradbrook, Henderson et al. 1975) and since then has been enacted and periodically reviewed, with numerous incremental changes made in each jurisdiction (Bradbrook 1998; NATO 2010). Some typical changes (though not enacted in all jurisdictions) include:

- specific regimes for some otherwise excluded categories of rental housing (e.g. boarding houses and residential parks)
- increasingly differentiated treatment of social housing tenancies (e.g. specific grounds for termination)
- specific provisions regarding residential tenancy databases (RTDs)
- requirements addressed to specific safety and security issues (e.g. smoke detectors and residual current detectors)
- adaption to technological changes (e.g. provision for electronic payment of rent and lodgement of bonds)
- provisions addressed to the needs of survivors of domestic and family violence (e.g. special provision for tenants to terminate early).

Most state-led reviews of residential tenancies legislation have had the objective of finessing a 'reasonable balance' between the rights and responsibilities of landlords, as small-scale providers of housing services, and tenants, as consumers. Concerns raised by tenant and industry organisations/advocates about 'reasonable balance' in regulation have been well represented during reviews of legislation and these perspectives were also represented in interviews for this project.

The original 1970s elaboration of the current model of residential tenancies law had an express connection with wider contemporary policies for consumer protection and action against poverty, and there are signs now that policy maker are again starting to connect regulation with wider policy frames. Contemporary housing strategies at a state/territory level are increasingly seeing this type of legislation/regulation as one component of a broader housing strategy, the most recent example being the Victorian Government strategy, *Homes for Victorians* in 2017 which includes reform of the *Residential Tenancies Act (Victoria)* 1997 among its strategies to improve affordability and security for private renters.<sup>83</sup>

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<sup>83</sup> Along with other reform elements (extension of state private rental assistance schemes to assist in sustaining tenancies; enabling long-term leases including through online matching; providing better protections for those

Key themes that emerged from the interviews in connecting regulatory change with housing policy were:

- implications of the rise in longer term tenancies
- shared housing and renting room arrangements
- particular challenges for tenancy management arising from the increase in low-income tenants in the PRS.

On the first of these, many interviewees were very conscious that households were renting for longer and that this had implications for their expectations of the tenure. The changing profile of tenants in the 2000s, in particular, an increase in younger, working professionals who are educated and digitally literate was mentioned by many interviewees. It seems that demographics play a huge role in tenant expectations about services. A number of interviewees highlighted that higher income tenants in prestige areas paying high rents have higher expectations of property management. These interviewees reported that educated and empowered tenants required an experienced property manager, not just because 'they write better e-mails' but because if they vacate, it is a huge cost to the investor landlord in lost rent during vacancy and will be a cost to the real estate agency. It was recognised, however, that there can be problem tenancies in affluent inner areas as much as in lower socio-economic areas.

*So in metro areas of Sydney, inner city Sydney you've got a lot of professionals who are very busy, tech savvy, want to ensure that there's communication generally in writing, expect a really quick response time. Their expectations in terms of service are much greater and higher than perhaps someone in the Central Coast or a similar regional area. (Real estate agent)*

Not all longer term tenants are empowered in this way, but a significant aspect of the power of these tenants is their ability to take their business elsewhere. This needs to be kept in mind when considering another aspect of long-term renting: its insecurity. The introduction of longer fixed term leases has long been mooted as a means of providing additional security for longer term tenants. Current 6 or 12-month fixed terms were seen as providing little security for vulnerable groups such as the elderly:

*It's not going to be fun being 80 and moving every couple of years, because you'd have a 12-month fixed term tenancy. (Tenants' advocate)*

Many of those interviewed suggested that people want to rent because of the flexibility, although noting that this was not necessarily the case for lower-income households who had no alternative. Where renters did ask for a longer lease, this was seen as difficult in view of current provisions around rent increases which are difficult to predict.

*People do sometimes ask for 24 months, but the problem with that is, if you do a 24-month lease, a landlord is likely to put rent reviews halfway through and I personally don't like doing rent reviews halfway through because I think the owner is getting the benefit of having a secure tenant for 24 months and that's their benefit, and the tenant is getting the benefit of having a fixed rent for the 2 years. So, for me, that's a fair compromise. (Real estate agent)*

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living in residential parks, and improving standards for new apartments) (Government of Victoria 2017, *Homes for Victorians*, [http://www.vic.gov.au/system/user\\_files/Documents/housing/FINAL%20PDF%20DTF046\\_Q\\_housing01.pdf](http://www.vic.gov.au/system/user_files/Documents/housing/FINAL%20PDF%20DTF046_Q_housing01.pdf)).

There were also questions raised about the practicality of introducing longer fixed term leases, particularly if there was a trade off with tenants' additional responsibility for repairs as has been mooted in NSW.

More fundamental questions were also raised as to whether the existence of a fixed term lease added to feelings of insecurity, highlighting the complexity of security as a concept. This supports some of the literature which distinguishes between *de jure* security and *de facto* or perceptual security (Hulse and Milligan 2014; Fitzpatrick and Watts 2017).

*So it's a funny thing. When you've got a fixed term lease for a tenant, then they're on their mind that they have to move or you will move them out unless they sign another fixed term. Unlike a periodic [lease], where maybe they'll just live there because they're not constantly being thinking, oh, I need to move or I have an end date to the lease. (Software developer)*

Second, while shared rental houses have been a part of the PRS for a long time, particularly near universities, the interviews indicated a concern about new types of sharing as a response to problems of affordability. These include the development of renting by room arrangements that did not fall under existing boarding/rooming house provisions, or at least were 'under the radar'. There was a view that regulation should be extended to cover agreements in share housing and other types of rental arrangements not covered by legislation.

The regulation of boarding houses and shared accommodation also involves local government, particularly as regards environmental standards (Dalton, Pawson et al. 2015). In many cases, the complaints local councils receive are not about traditional boarding houses, but rather about apartments or units being used as long or short-term accommodation for sharing, sometimes involving many such units as a business model. Local councils are empowered to act if there are breaches of planning regulations, such as unauthorised building works to split an apartment into smaller sleeping places, or an unauthorised change of use. Planning regulations distinguish between the use of a dwelling as a private residence and as a boarding house and councils can act on unauthorised change in use, but it may be difficult to tell when subletting rooms amounts to a change in use to a boarding/rooming house.

*It's a very grey area that's not really regulated because you see that it's—half the quality of a boarding house where people come, stay and go, but at the same time it's not really captured by the boarding houses legislation. (Regulator)*

Third, a number of issues were raised among those interviewed about challenges posed by the increase in low-income and vulnerable tenants in the PRS.<sup>84</sup> On one hand, interviewees in the real estate sector raised the important role played by investor landlords in providing housing for this group and the concern that this provision could be reduced if changes were made to tax settings, particularly negative gearing. On the other hand, the same interviewees were concerned about difficulties faced by rental property managers (and investor landlords) in dealing with people with complex behaviours.

*Private landlords and property managers should not be being asked to manage these very complex tenancies because they really need a multi-skilled approach. (Real estate agent)*

Connecting regulatory responses to housing policy remains a live issue, requiring coordination across portfolio areas and potentially across levels of government. Many saw this as complex

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<sup>84</sup> A companion project in this Inquiry focuses specifically on how lower income and vulnerable households navigate the PRS (Parkinson, James et al. 2018, forthcoming) so only brief reference will be made to this issue here.

and challenging, involving not only regulation and policy, but also various types of services and support (discussed in detail in a companion report (Parkinson, James et al. 2018, forthcoming)).

*How do you support people who otherwise would be in community and public housing to be successful in the private housing sector, and what are the right settings around that? And, when can you turn off that support, or how do you continue it? (Regulator)*

Interviewees in the real estate sector acknowledged that there is a low standard of education and training in the rental property management sector associated with a traditional view of property management as a less important and less glamorous activity in what has been a female-dominated and lower paid sector. The industry has an extremely high turnover of staff and high job vacancy rates. Some of the real estate agents and franchises have developed strategies to increase the professionalisation of property management, including some good practice networks. We return to this issue when discussing cultural change in Section 6.4.

## **6.2 Industry restructuring: organisational change**

Restructuring of the real estate industry (not including PRS properties which are managed directly by investor landlords) to achieve economies of scale involves institutional change, for example, through mergers and acquisition of rent rolls, investment in information and communications technology, and the use of third parties that are not readily observable from the established sources of secondary data used in Chapter 2. This section draws primarily on the data from interviewees in the real estate sector to explore these changes.

### **6.2.1 Industry restructuring**

Review of the grey literature and the interviews indicate that the real estate industry is undergoing significant restructuring with fewer agencies, although national data are limited, as highlighted in Chapter 2.

Previously viewed as a 'poor cousin' to sales, rental property management has in the post-GFC environment taken on increased importance because it is a source of stable revenue that covers an increased proportion, if not all, of the fixed costs of a business, enabling real estate agencies to weather the volatility of the housing sales market. Whereas in 1992–93 property management accounted for an average 23 per cent of real estate industry revenue (ABS 1995), in 2014 it accounted for 44 per cent (Macquarie Bank 2014). This was well recognised by interviewees. There was a national average of 508 properties under management per agency in 2014, up from an average 375 in 2009 and agencies now cover an average of two-thirds of fixed costs from recurring property management income (Macquarie Bank 2014).

*So, yeah, growing our property management department is a big pathway for us as well as when it comes to selling a real estate agency it's actually your rent roll which has the value and the worth. Although sales make good commissions, the value of our business is in our rent roll and we should acknowledge that. (Real estate agent)*

Those interviewed for the project foresaw a decrease in traditional family real estate agencies, suggesting that they were too highly dependent on sales and could not afford the expenses of being part of a franchise arrangement. It is a sector with an ageing workforce and many agents are looking to retire rather than investing in new technology. Part of this process is looking at succession plans that can lead to either selling or buying rent rolls.

### 6.2.2 The geography of rental property management

The interviews suggest that the rental property management industry has a strongly geographical structure, with a difference between the inner-city investment apartment market and the lower density markets in middle and outer suburbs.

In the inner-city apartment market, there is an increasingly strong relationship between property sales and property management. This includes vertical integration in which property developers sell packages to investors for apartment sales and ongoing management with the additional prospect of commissions from future sales as investor landlords on-sell. The concentration of apartments in a defined area allows for the economies of scale in management to be realised. Interviewees familiar with this sector reported strong competition in terms of management fees with some concerned about the quality of services if fees are reduced too heavily.

While traditionally, there has been a split between development and management in the build-to-sell model discussed in Chapter 4, in the inner-city apartment market some companies are now starting to develop a property, sell off some of the dwellings to investor landlords (on pre-sales) and then offer to manage those that are being put up for rent.

*When you say to an overseas or a local investor, 'We've got this property, it's going up, it's this nice new development' and so on, more and more just offering a nice investment is not enough. You almost have to have a complete package where you also then can guarantee that ... you are able to look after the property and really manage it. (Real estate agent)*

In addition to the involvement of larger organisations in the inner city, interviewees reported an increase in competition for rental property management (particularly in Sydney and Melbourne) from boutique agencies servicing higher income areas and small start-ups including people working from home.

*In the early days it would have only been, say about 12—maybe not 12, maybe even 10 agencies or so in our area, it's now gone to about 35 independent sort of agencies that are springing up throughout the area. (Real estate agent)*

In the detached house market in lower density areas, smaller independent agencies that are unable to benefit from economies of scale are merging in the face of competition from agencies that are part of a franchise group or cooperative-type network offering access to marketing, training and ICT support.

Despite this, many independent agencies with a strong principal appear to be thriving. Property management is fundamentally a relationship business, which requires a localised geographical presence. As discussed in Chapter 3, investor landlords are diversifying their portfolios and rental property managers are picking up properties in more diverse areas. This puts pressure on real estate agents' costs.

*We're finding with property managers is that they are geographically diversifying their portfolios. So I think historically, if you had, say, a Mandurah-based real estate agent, they would have a portfolio of rental properties in Mandurah and that's not happening anymore. They are picking them up wherever they can get a property to manage. (Regulator)*

Growth, particularly in apartments with their geographical concentration has created the conditions for obtaining finance for expansion of real estate management and the considerable economies of scale in production have become apparent, further fuelling industry consolidation, as we discuss next.



### 6.2.3 Growing rent rolls: rent roll brokers

Industry restructuring in both the apartment and detached housing markets with the aim of increasing economies of scale has seen the exit and absorption of some smaller independent real estate firms and the entry of larger players. Expansion is occurring through both organic growth, business development resulting in acquiring more properties to manage, and acquisitions, through buying existing rent rolls.

*We're also seeing a change whereby the better performing businesses and the better performing proprietors are buying more rent rolls because they see it as a great asset class moving forward. That's one thing I've noticed. I've also noticed a higher number of potential old current owners of land and rent rolls are very stressed and tired and would like to leave the industry. (Rent roll broker)*

Some of those interviewed supported organic growth of rent rolls for their business. They believed that this type of growth suited them because they had more control over the quality of properties and investor landlords that they took on as well as over the location of the properties, which had implications for the costs of rental property management. Generally a smaller number of more expensive rentals could have lower costs/higher profits than a lot of cheaper rentals. However, they recognised that using this method, business development was critical and growth could be slower than hoped for.

*Well, I would never purchase a rent roll. I believe in organic. It would be either through word of mouth or someone contacting us. (Real estate agent)*

On the other hand, some interviewees had grown their rent rolls through acquisitions or knew others who had. The advantages of this type of approach were seen as quicker growth than the organic approach, less work in terms of business development/marketing, and an increase in cash flow from a larger rent roll that could offset fluctuations in income from sales, particularly when markets were down in terms of sales volume or prices. The potential disadvantages were the risk that investor landlords would not agree to a change of managing agent and the varied location of properties and landlords, some of whom had existing issues.

The growth in the PRS and concomitant technological changes is attracting some large private equity investors who see further economies of scale (via reduced retail floor-space requirements, off-shore handling of back office processes) allied with the potential to sell other types of products/services to investor landlords, such as insurance, financial services and utilities. The growth of the PRS increasingly presents the opportunity to publicly list real estate companies, although a number of interviewees pointed out that this strategy had had mixed success.

*Unfortunately there was a big one where they bought a lot of rent rolls, formed a public company, bought a lot of rent rolls and it never quite went to where it needed to be and it hasn't dissolved, but it has changed. (Real estate agent)*

It appears that there is considerable competition for existing rent rolls, although there is little transparency in this market. Specialist rent roll brokers provide advisory services in assessing the quality of a rent roll and its strategic value. They report that transactions are off market because it is important not to let competitors know if a rent roll is for sale and it is important not to alarm investor landlords (since the sale is based on relationships with investor landlords) or staff of the selling agency.

*So my role is to facilitate and broker that relationship to merge those two people together to see that the transaction moves as smoothly as it can. (Rent roll broker)*



The value of a good rent roll is upwards of three times the annual income of the rolls<sup>85</sup> (and sometimes more in high demand markets like Sydney). Specialist lending services within major banks will, upon due diligence, finance purchases up to 50–60 per cent of the value of the rent roll.

*Because obviously the value of an estate agency's based around the value of a rent roll and whether it be on three times or three and a half times, that's the value of the good will; there is no good will for sales. (Real estate agent)*

Whatever the mechanism, there appears to be increasing appreciation that with the application of technology, a large rent roll can deliver profitability and reliable revenue. Large financial institutions are investing heavily in this area, including roles as advisors, lending for rent roll purchase and purportedly as a direct equity investor in property management.

*... and so what we look at is the income per property per year as being the key figure, because obviously it's more beneficial to have 100 properties bringing in, say, \$2,000 a year, as it is compared to a property rent roll with 100 properties only bringing in \$1,200 or \$1,300 a year. So you're looking after the same number of properties, but your profitability is a lot stronger. So it's very much financially based. It's not an emotional purchase. (Rent roll broker)*

This type of consolidation was widely reported by interviewees who were of the view that agents could not survive on sales alone, but would need to achieve viable rental management portfolios and also move into the sale of related items such as insurance.

*And it's going to drive a huge consolidation in the sector. And one of the reasons why we encourage our officers to have a rent roll, because you're not going to be able to live off sales anymore, because there's just not going to be that many in your market. (Real estate agent)*

### 6.3 Innovation in technology

PRS property management is a volume business with multiple repetitions of key tasks. These are business development (marketing, attracting new investor-owners and arranging for management authorities to be signed); leasing (attracting and recommending suitable tenants), property management (rent collection and arrears management; repairs and maintenance, property condition reports and routine inspections, etc.) and trust accounting<sup>86</sup> (making sure that bonds and rent in advance are properly accounted for as per state regulations). Some of those interviewed saw management of rental properties by agents as a sector in need of change.

*I think it desperately needs to change. I think it's ripe for disruption. You look at the cost model and the overhead model, and it's a lazy, lazy run business at the moment. (Developer)*

Notwithstanding this view, it appears that real estate agents are turning to information technology and third-party providers to generate the economies of scale and reduce costs in managing rental property, seeing this very much as a margin business. The extent of take up and the impact of technology varies across the industry. Technology can assist in generating

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<sup>85</sup> Annual income from the rent roll for the purposes of due diligence includes annual management fees and generally excludes letting fees and ancillary fees which are harder to predict.

<sup>86</sup> Trust accounts are held with approved ADIs for clients' money including in the case of rental properties rental bonds paid in cash prior to lodgement with a Bond Board, rent in advance, etc.

greater efficiencies in leasing, rent payment and arrears management, and repairs and maintenance, and tenant exits as well as compliance with various regulations. It can provide more timely and personalised information to tenants when they need it, and generate greater efficiencies and cost savings for agents.

*And why that is, is property management is—it's a repetitive thing. You do the same thing for the 1,706 properties all the time. And so it lends itself to a process to reduce the labour if you can have the software do things, because it's just repetition.*  
(Software developer)

Many third-party providers are now involved in rental property management, more agencies are outsourcing certain functions so that rental property managers can manage more properties and business owners have fewer staff to manage. Box 4 below provides some examples of the use of technology and outsourcing to third-party providers.

#### **Box 4: Examples of using technology to streamline rental property management functions and outsourcing to third parties**

**Virtual assistants** for 'behind the scenes' administration are used quite commonly across the sector. They can include data entry, maintaining client data bases, creating letters, research, and managing social media accounts. Companies have been set up to provide such services<sup>87</sup> which, as mentioned by several interviewees, include work done in the Philippines.

**Property condition reports** as part of leasing and exiting a tenancy that can be based on videos or photos taken on site, but the report preparation is outsourced, sometimes as reported by interviewees also to the Philippines.

**Rent collection and receipting** has been made more efficient through use of technology such as Corum eCommerce bill paying solutions. Tenants pay rent by using BPay cards and internet banking. Rather than manual systems, payments can be made by card which streamlines processing because the rental property manager gets one bank file that automatically receipts amounts.

**Workflow**, particularly in terms of maintenance, has been streamlined through use of technology. This increases transparency around logging maintenance claims, selecting trades, appointing trades, making payment and reporting.

**Routine property inspections and final bond assessments** at exit are sometimes outsourced as an efficiency measure. If this is done in-house, the real estate agent has to provide a vehicle and it means that rental property managers are out of the office particularly if their portfolio is geographically dispersed.

**Cloud-based trust accounting** systems have been introduced into the industry. This provides better service, for example through providing receipts for rents. Also owners can access it to see if a tenant's rent is up-to-date and have a bit more control where maintenance is up to. For those who are behind with rent, the system enables an e-mail reminder and SMS. These systems also enable a quicker turnaround on tasks and more transparency for all concerned.

There are a number of integrated software solutions for rental property management in use in the real estate industry. For example, one of the most common software packages used in NSW is the Rockend product REST. Rockend was originally in the business of accounting

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<sup>87</sup> See for example, [OutsourceWorkers.com.au](http://outsourceworkers.com.au) Virtual Assistant Services for the real estate sector, which are advertised as costing \$7 an hour, <http://outsourceworkers.com.au/>.

solutions but subsequently developed property and strata management applications.<sup>88</sup> REST Professional is an online portal for tenants and landlords which includes access to statements, invoices, and completed inspections. Realestate.com.au (REA) have also moved into the technology side of the business selling integrated software for rental property management, enabling economies for agents. In addition to 1Form and RegisterOnline (discussed in Chapter 5), this includes Virtual Property Manager.

Interviewees in the real estate sector reported that these changes brought about many practical improvements in routine tasks such as banking, recording and receipting rent payments.

*So our tenants use BPAY cards. That helps us as an agency. It means we're only downloading one file, one bank file in the morning, and that automatically receipts all the individual rents, as opposed to us sitting there and receipting 500 rents per week from our bank account. (Real estate agent)*

In the same vein, some rental property managers also use chatbots (often part of Virtual Assistants) so that people can ask basic questions on a computer rather than ringing the property manager, and they can also use social media, such as Facebook Messenger and What's App.

*One of the biggest criticisms of real estate agents is that they never call back and never respond to emails. With such a tool, what it actually does is a lot of the basic questions can be answered up front and, let's be fair, much more reliable than the average real estate agent would answer. (Real estate agent)*

Some interviewees expressed concern about the use of technology and outsourcing to third parties. Those in boutique agencies, for example, expressed pride in providing a high level of service and viewed rental property management primarily as a relationship business.

*I can see value in outsourcing reporting and data entry and stuff like that, but when it comes to a property and a tenancy, I think it needs my property manager's eyes. (Real estate agent)*

Others expressed concern about the potential use of technology-enabled databases to 'upsell' other products/services by real estate agents at the time of leasing, in a bid to improve on the relatively low margins on the rental property management business. Examples of this type of selling cited by interviewees included utilities, internet, insurance products and other services. The concern was that tenants moving into properties might feel pressured to buy these on-going services without an option to consider other suppliers in a way that could be considered anti-competitive.

## **6.4 Changes in social norms and practices**

### **6.4.1 Changing views of tenants**

A number of interviewees noted that tenants used to be regarded as 'second class citizens' but appreciation of the value of the rent roll to the real estate business discussed earlier means that good tenants are becoming more valued (as are good landlords) and have to be well selected. This was highlighted in a conversation between two real estate agents interviewed:

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<sup>88</sup> See Rockend Products, <https://www.rockend.com.au/products>.

*A1: Long gone are the days where the tenancy was a second-rate citizen; that's so yesteryear. If an agency's still running that system, it's going to go out of business eventually; it'll die a dismal death because people expect ...*

*A2: Tenants are clients as well; potential business ... No-one wants a bad review, because they're so easy to find online. (Real estate agents)*

However, there was some scepticism that this cultural change was widespread, notwithstanding an increase in longer term tenancies. This was particularly the case where a household had previously lived in a dwelling before renting it out and still had a sentimental attachment to the house rather than considering it as an investment or a small business.

*And, again, this is where people don't get it in terms of the culture and that's where I think we need a big shift and it will come because the longer tenants stay, the more we need to understand that this is their home, or the investors need to understand that this is the tenant's home and they have rights because it's their home. But everyone goes, 'but it's my [investment] property'. And it's really a difficult divide to get over. (Regulator)*

Some of the interviewees reflected on whether TripAdvisor type reviews of PRS properties would assist with this cultural change. There was some interest, although they were thought not to be currently relevant to the sector. Examples of such sites cited were: RateMyAgent although this appears to be mainly about sales; BadLandlordAustralia (Facebook site); Don'tRentMe (TripAdvisor type site) and also use of Google Plus and Facebook. None of these sites appear to have the traction of some UK sites, such as Generation Rent (advocacy by the National Private Tenants' Organisation Ltd) and Vent your Rent (more akin to a TripAdvisor type site).

*... now rating sites for tenants and good tenants are becoming valuable. And in periods where you've got, you know, it's a tenant-driven market versus a landlord-driven market, you want to select good tenants because they can—the tenant can indirectly or directly change the return profile of your investment, whether they're bad payers or whether they damage the property or whatever else. (Real estate agent)*

#### **6.4.2 Professionalisation of rental property management**

We saw in Chapter 2 that the percentage of self-managing landlords is decreasing as more owners engage real estate agents to manage their properties indicating some greater professionalisation of rental property management. Nevertheless, there are still some self-managing landlords, particularly in Western Australia. The interviews highlighted three main reasons why landlords self-manage—they do not see the value of an agent and want to save money on fees; they have the time and interest to self-manage; and/or they have had a negative prior experience with a real estate agent. According to the interviewees, investor landlords' understanding of systems, processes and compliance is extremely low, some do not have basic landlord insurance and/or do not have a lease for the tenancy.

*If you're going to be a landlord where people have a licence and they're trained and professional development every year, then you should be at that standard too. I don't know why they allow it, honestly. (Private investor landlord)*

With the real estate sector, a common theme in the interviews was that 'a good property manager is hard to find'. Although this was partly about skills and pay, with more money to be made from commissions on sales, it was also about culture.

*There's this very old mentality in the industry where service isn't full front of what they're trying to achieve. It's more of a process rather than a service to many property managers. (Real estate agent)*

An aspect of culture that was mentioned was resistance from some rental property managers who did not want tenants to have access to too much information.

*So there still is a long way to go in general in real estate businesses really embracing good technology that's going to ultimately provide a better service to their clients. For me, someone who's constantly training staff, I get resistance from property managers that say 'No, we don't want our clients to see that statement or to see when their rent was paid ...'. They're not thinking about the clients' best interest. They're thinking about the backlash that they might receive as a result. (Real estate agent)*

There were calls for more training and greater recognition of rental property management to reduce staff turnover and keep good people in the industry. A frequent comment was that it is the agents who have the brand and reputation and not the investor landlords. An analogy with Quest apartments was suggested<sup>89</sup> in which if there are complaints about a bad product or bad service, it reflects on the Quest brand and not the individual owners of the serviced apartments. The cultural challenge posed was in understanding this and increasing training with the industry to reflect the increasing importance of rental property management.

*So a big portion of what we do while, yes, it's administrative, but a big portion of it is handling people's complaints and dealing with things that are very close to their heart because while it's just a tenancy to a property manager, it's a home to a tenant or it's an investment property and something that a landlord is going to rely on for their financial future. So I think there's a big element of lack of training in the industry and I think that turnover is a result of that lack of training. (Real estate agent)*

## 6.5 Summary

- Management of PRS properties has been seen as an issue of regulation rather than policy. The regulatory coverage of different rental arrangements has increased incrementally over many years.
- The recent growth and increasing diversity of the PRS in the context of substantial housing market restructuring, particularly in major cities, is resulting in an acknowledgement of the need to better connect housing policy and regulation. Three issues were highlighted as requiring attention:
  - addressing security for an increased number of longer term private renters
  - expanding coverage to encompass recent developments in shared housing and rent-by-room arrangements
  - addressing issues faced by lower income and vulnerable tenants in the PRS.
- In the post-GFC environment, real estate agents have taken on more PRS management and increased rent rolls provide a greater contribution to agency operating costs and financial sustainability relative to sales than previously.
- The real estate sector has introduced new digital technology and associated third-party provision in managing PRS properties, although take-up across the sector is patchy.
- There are signs of some cultural shift in attitudes to PRS management in response to higher expectations by some renters, such as a greater focus on service rather than administrative

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<sup>89</sup> These are serviced apartments that are individually owned but managed by a building manager

processes and acknowledgement of the need for more training and professionalism in rental property management.

## 7 Opportunities and challenges for policy development

This report has provided an institutional analysis of the PRS in Australia that enables a deep and rich understanding of both the persistence of established institutional patterns and the dynamics of sector change. It has demonstrated change in some of the established institutions of the PRS, particularly in respect of intermediaries, and the emergence and growth of new institutions, many making extensive use of innovations in digital technology. It is clear from the research that there are both opportunities and challenges for policy development from these developments as we outline in this concluding chapter.

### 7.1 Financing and provision

The research suggests three main avenues to be pursued in terms of policy development on financing and provision: i) improving the quality of provision by the household sector; ii) establishing clear outcomes for new types of financing and provision; and iii) improving data across the spectrum of financing and ownership of PRS dwellings.

#### 7.1.1 Improving household level financing/provision

While there are gaps in the data about PRS ownership, it is clear that small-holding investor landlords dominate the sector. Furthermore, despite the current enthusiasm for the emergence of a build-to-rent sector, it is likely that household-level investor landlords will continue to dominate PRS provision for the foreseeable future. While households at a variety of income and wealth levels invest in PRS properties, the HILDA analysis (reported in Chapter 2) indicates that those with higher wealth and income are more likely to be investor landlords and more likely to own multiple properties. While this is the case, the interviews did raise concerns about the financial literacy of some households borrowing to buy investment properties, particularly on interest-only arrangements; the influence of intermediaries in respect of borrowing strategies, particularly where multiple lenders were involved, and the promotion of negative gearing as a reason for investing rather than taking into account the quality of the asset and likely demand for the property. There are also longstanding concerns about the relatively large proportion of landlords who are in the sector for only short periods, contributing to insecurity (Wood and Ong 2010), and a lack of professionalism across the sector.

Further policy development to improve sector outcomes should focus on lifting standards for investor landlords across the range of their activities. Policy approaches should include:

- **Treating rental property investment as a small business.** Currently, political and policy discourse represents investor landlords as ‘mums and dads’, which arguably diminishes expectations of them as housing providers. As housing providers, investor landlords could be expected to apply the same diligence as other businesses providing products/services, whether managing directly or via engagement of a real estate agent or property manager. This could be supported by establishing public registers of landlords; going further, it might be a requirement of registration that registered landlords show that they are ‘fit and proper persons’ (i.e. a positive or negative licensing regime). Minimum property standards in relation to safety and security, and improved provision for consumers to raise issues without retaliatory action would also lift standards. This would involve a considerable cultural shift—that is, viewing the PRS not as ‘letting people use my property’ but more about being in the business of PRS provision (and management).
- **Improving financial literacy and the quality of product and service provision to investor landlords.** It is important to raise the quality of investment information and advice available to investor landlords. This could include better information about the types of loans



and their implications, tools to test repayment capacity against several scenarios, particularly where multiple properties are involved, and information about likely rent revenue and costs, taking into account likely vacancies, agents' fees and charges, and repairs and maintenance. It is essential that this is provided independently rather than by those who seek to benefit financially. Indeed, greater transparency of information about the extent of commissions and fees, including between lenders and intermediaries, is highly desirable. The theme of a program for improved investment information should be consistent with the first point about regarding rental property investment as a business—that is, it will make demands on investor landlords as service providers, that it carries financial risks as well as potential benefits, and that it is not an activity suited to everyone.

### 7.1.2 New forms of financing and provision

Another means of improving PRS outcomes and performance is to encourage the introduction of new forms of financing and provision that could enable greater diversity in product and more professional management. The student housing sector has attracted institutional investment (on a global scale) and demonstrated a market-led built-to-rent model in the Australian market under certain conditions. It works for a specific category of singles or small shared households in markets with high land/construction costs and provision for high-density development. An obstacle to more general application is that the rents are not at the affordable end of the market for lower income singles although could be attractive to other groups such as work-focused singles working in inner cities and requiring small accommodation. The corporate student housing providers can, in many respects, be seen as forerunners of a built-to-rent market.

Policy development in relation to new PRS providers should include:

- **Critically examining the build-to-rent model in the UK and the multi-family model in the US** (discussed in Chapter 4). Some of the issues to be addressed are the potential of the model for providing affordable rental housing (and for which income groups), whether and to what extent, the model would depend on subsidies or other contributions from governments, such as access to government land, and the extent to which such a model could provide longer term rental housing with more professional management.
- **Clarifying the relationship between build-to-rent and affordable housing.** There are important policy issues to be discussed as to whether a build-to-rent model would complement current work on enabling cheaper and more reliable finance for not-for-profit providers (different market segments) or is seen as a more market-driven alternative.

### 7.1.3 Improved monitoring of PRS financing and provision

While there is reasonable data on household level PRS financing and provision from ABS housing finance and household survey data, it is not possible to compile a complete view of PRS financing and provision from existing sources. Policy development should encompass:

- **Improving data as to ownership concentration and distribution.** If we take a sector-wide view, half of all investment properties (i.e. those that are rented out in the PRS) are owned by investors with multiple properties. It is important to be able to monitor the implications of this rise for tenants who are in these properties, both in terms of projected benefits (e.g. more professional management) and risks (e.g. rent levels and frequency or rent increases, levels of repairs and maintenance and level of property churn).
- **Better understanding the extent of foreign ownership of residential property for rental,** particularly in higher priced Australian cities such as Sydney and Melbourne, and the implications of this type of investment for PRS availability and property churn. Foreign investor landlords are not included in Australian household surveys from which figures on investor landlords are derived, although the interviews highlighted their activity particularly in the apartment market.

- **Improving data on intermediary structures** used to hold residential properties for rental including SMSFs, trusts and other structures.

## 7.2 Access and management

PRS access and management have traditionally been seen as issues of regulation for states/territories. It appears that, over a long period, residential tenancies legislative review processes had become somewhat disconnected from housing policy, and that a new framing of questions of tenancy regulation in terms of housing market change and policy objectives could better guide reform in a diverse and growing sector than vague notions of ‘balance’ between landlords and tenants. The research highlighted many institutional changes in access to, and management of, PRS properties, with the growth of the sector and technological advances opening up possibilities for new types of institutions and business models both in terms of access and management.

### 7.2.1 Policy directions for improving access

Developments in technology and new business models are opening up new areas where policy development is desirable, particularly in relation to access. Regulations must be kept current with developments in technologies. Priorities should include:

- **Keeping reasonable limits on data collection and ensuring transparency in its use.** It would be timely for Australian governments to thoroughly review current regulatory regimes in light of current and emerging information technologies and practices in the PRS access process, with a view to maintaining the integrity and spirit of the reforms focused on RTDs. The review should include consideration of the collection and use of more comprehensive data about tenants other than by RTDs as currently defined, which could be used to rate tenants and rate properties, raising issues including data accuracy, access, moderation and removal.
- **Examining online access portals and tools.** Information collected at the time of application can be used not only by agents and landlords to assess the application, but also by portal operators at an earlier stage of the access process—the advertisement stage—with other, novel implications for access. The portals currently allow tenants to amend and delete the information they have entered about themselves for application purposes, but there is scope for regulatory reform on whether they would have similar access to any additional data that may be collected or generated (e.g. trust scores, ratio of applications to tenancies commenced).
- **Examining rental bidding.** The development of online portals that use information technology to make specific offers for PRS properties, such as facilities for rent bidding, noting that one state (Victoria) has just announced that it will outlaw rent bidding in this way. In a fast-changing environment, with new businesses emerging, it is important to develop consistent regulation on rent bidding.
- **Examining alternative bond products.** The development of alternative bond products that may have some potential benefits for tenants in accessing PRS housing also raises some concerns. For example, it may be possible to devise a register of non-cash sureties and to maintain the collection of PRS market information currently carried out by the cash bond lodgement system (the most current source of information about market rents and tenancy turnover). Part of the consideration is that interest revenues currently accruing to state agencies from the current bond system would be foregone.

### 7.2.2 Policy directions for improving rental property management

Arising from the research, there are a number of opportunities for policy development in relation to rental property management. These include:

- **Establishing national minimum standards for the regulation of residential tenancies.** While there are clear differences in housing markets around the nation, some of the basic principles of regulation can be established and embedded in minimum standards. This could be done as part of the Australian Government's negotiation with the states/territories for a new National Housing and Homelessness Agreement (NAHA), and build on the learning from extensive reviews of regulation in recent years, including in the three jurisdictions covered by the research (NSW, Victoria and Western Australia).
- **Improving outcomes in the renting-by-room sector.** While renting-by-room arrangements appear to be proliferating, it appears that current regulation is inadequate and incomplete in terms of these types of arrangements. A comprehensive review of the renting-by-room sector is warranted, including contractual issues, the operation of online matching portals, and the regulation of use of premises, change in building structures and safety.
- **Improving provision of services to vulnerable tenants in the PRS.** There are clear problems in managing some vulnerable tenants in the PRS that need to be addressed. Current proposals by the Productivity Commission (2017) to develop a form of Rent Assistance transferable between the social and private rental do not adequately address the additional support issues required to sustain private tenancies. The main policy options for dealing with these problems appear to be expanding the social rental sector to provide a different type of management for these tenancies, or enabling property managers in the PRS to access the support they require to manage these tenancies successfully.
- **Raising standards in property management.** The need for greater professionalisation in rental property management was a common theme in the interviews, including from those currently working within the sector. With a changing tenant profile, expectations of service are increasing and there could be work with the sector to develop better preparation for the sometimes difficult role of rental property management. These could build on some industry-led initiatives to improve practice in rental property management, including better training and good practice networks.

## 7.3 Final remarks: cultural change

The need for cultural change to move towards a modern PRS underpinned many of the issues raised in the research. There were a number of elements to this including:

- encouraging investor landlords to see themselves as being in the business of being a housing provider, rather than an informal arrangement to 'let' someone use their property
- enabling more financially literate household level investment in the PRS
- acknowledging that private renters are not second-class citizens and increasingly expect and require a high level of service for the rent that they pay, including timely and accurate responses to requests
- ensuring that regulation advances housing policy objectives, primarily the right to a secure and dignified home life
- raising the status, recognition and training of rental property managers, with routine processing tasks outsourced to third parties, leaving the property manager to develop relationships and solve problems as they arise.

In this context, it appears that cultural change is often slow, and policy and regulation often contested and incremental, in the face of sometimes rapid uptake of technology in the sector. The challenge would appear to be to establish some common directions rather than reinforce adversarial positions as private renting increases, with concomitant visibility at a political level. These issues are taken up in the Final Report of the Inquiry into The Future of the Private Rental Sector, to which this report contributes, along with two others.

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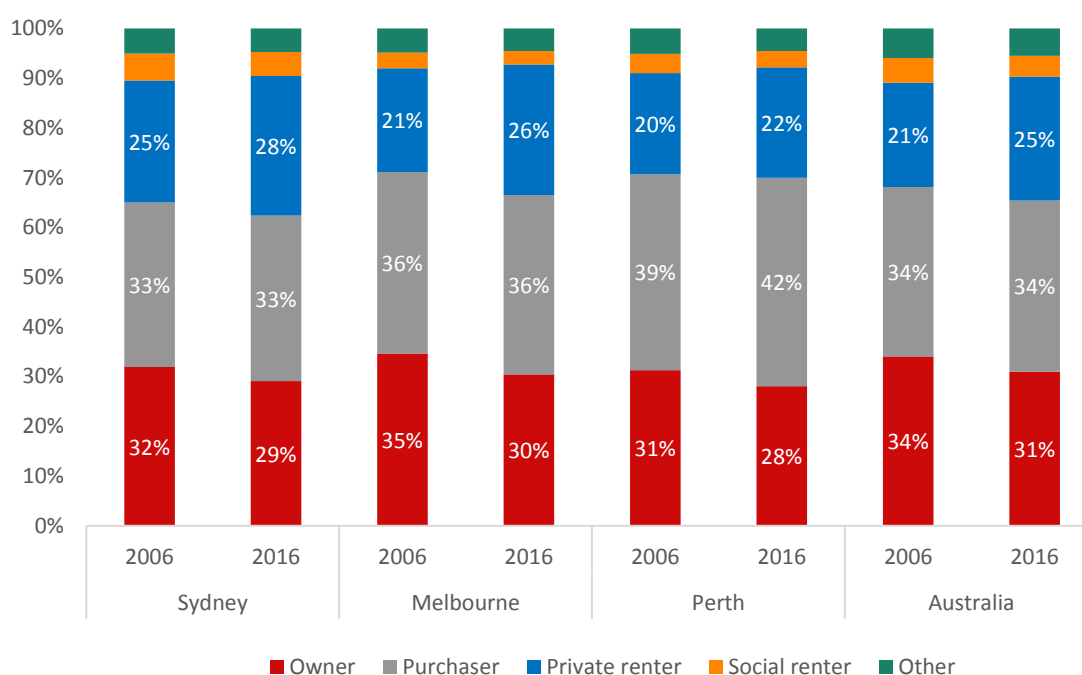
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## Appendix 1: Key housing market and PRS characteristics for Sydney, Melbourne and Perth

The size of the PRS and its growth varied between the cities between 2006 and 2016, as shown in Figure A1 below. The PRS is biggest in Sydney (28% of all households in 2016), but Melbourne experienced a greater percentage point increase in 2006–16 (from 21% to 26% of all households). The PRS in Perth is a smaller part of the local housing system and increased at a rate less than for the other two cities and Australia as a whole.

**Figure A 1: Change in housing tenure composition, Sydney, Melbourne, Perth and Australia, 2006–16**



Source: Calculated from ABS Census of Population and Housing 2006, 2016.

These differences reflect some of the fundamentals of the cities' economic and demographic contexts that affect their housing markets, as illustrated in Table A1 and Box A1 below.

**Table A 1: Key population and housing data, Sydney, Melbourne and Perth, 2016**

	Sydney	Melbourne	Perth
Population 2016	4,823,991	4,485,211	1,943,858
Population growth 2011–16	9.8%	12.1%	12.4%
Median rents houses Dec 2016	\$540 per week	\$410 per week	\$380 per week
Median rents units Dec 2016	\$520 per week	\$380 per week	\$340 per week
Median prices houses Dec 2016	\$991,00	\$720,000	\$512,000
Median prices units Dec 2016	\$722,600	\$507,200	\$405,000
Gross rental yields houses	2.8%	2.7%	3.6%
Gross rental yields units	3.9%	4.1%	4.2%

Sources: ABS (2016), Domain (2016), CoreLogic (2016).

## **Box A 1: Housing market factors in the 2000s, Sydney, Melbourne and Perth**

### **Sydney**

Sydney is Australia's largest city (population 4.8 million in 2016) with the most expensive housing market. The population grew by 18 per cent over the previous decade (ABS 2017), with a large contribution from international migration; most (86%) overseas migrants to New South Wales settled in greater Sydney (DIBP 2017: 11). Sydney experienced a short rapid house price boom in the early 2000s, followed by a period of flat, if high, prices through to the GFC, followed by a longer, more volatile boom from 2010 to the present (Hulse, Reynolds et al. 2014). Residential building construction declined over the period of flat if high prices, but has taken off during the recent boom, particularly in the apartment sector, and even more particularly in high-rise apartments. Also notable, but on a smaller scale, is the growth of 'new generation boarding houses', and specialist student accommodation. Traditional boarding houses have continued to decline, while an informal boarding and lodging sector has grown. The residential park sector is now almost entirely absent from Sydney, though it remains a significant part of some coastal New South Wales towns and a few inland regions. Institutional investors in the Sydney PRS include student accommodation providers and a large developer. There is also a growing sector of multiple property owners in 'new generation' boarding houses.

### **Melbourne**

Melbourne is Australia's second largest city (population 4.5 million in 2016). It experienced stronger price and rent growth than Sydney in the decade 2001–10 (Hulse, Reynolds et al. 2014) before prices/rents plateaued from 2011–13 and then increased rapidly in the following years. Like Sydney, there are high rates of in-migration from overseas migrants and Melbourne has the largest numbers of international students of any capital city (JLL 2016). This has precipitated an increase in apartments in areas close to the inner city and other university campuses, particularly in micro-apartments and shared facility complexes aimed at the student market. Notwithstanding the visible increase in apartments, Melbourne retains a greater stock of detached dwellings than Sydney in middle and outer suburbs, including those in the PRS.

### **Perth**

Perth is Australia's fourth most populous city (population of 2.0 million in 2016). From the mid-2000s, it experienced considerable economic and population growth followed by an economic slowdown from early 2013 due to the end of the construction phase of the mining boom in Western Australia. This resulted in a softening of the labour market (Housing Industry Forecasting Group 2016) and unemployment increasing to 6.9 per cent at the end of 2016 (Real Estate Institute of WA 2016a) and a decline in immigration from overseas and interstate. These factors have affected demand for residential housing in the state. As a result, median house prices fell from 2015 and the volume of sales increased. These changes have had implications for the private rental sector with falling median rents for both houses and units (Real Estate Institute of WA 2016a). The vacancy rate rose from 4.4 per cent in March 2015 to 6.4 per cent in December 2016 (Real Estate Institute of WA 2016b). Recent research, however, has found that despite the falls in median rents, there are few affordable housing options for low-income households and the sector remains unaffordable for those on low incomes (Duncan, James et al. 2016).

## Appendix 2: Additional information about research methods and data analysis

### Additional data from ABS Survey of Income and Housing (SIH)

**Table A 2: Investor landlords by age group, Australia, 2013–14**

	Households		%
Age of reference person	15–24	4,083	0.4%
	25–34	138,703	12.2%
	35–44	258,487	22.8%
	45–54	322,710	28.4%
	55–64	256,342	22.6%
	65–74	103,077	9.1%
	75 & +	51,597	4.5%
	Total	1,135,000	100.0%

Source: Original analysis of ABS Survey of Income and Housing 2013–14.

**Table A 3: Investor landlords by their current housing tenure, Australia, 2013–14**

	Households		%
Tenure of household	Owner	388,375	34.2%
	Purchaser	554,252	48.8%
	<i>All owner/purchasers</i>	<i>942,627</i>	<i>83.1%</i>
	Renter Private	143,055	12.6%
	Renter Public	1,699	0.1%
	Renter other	26,986	2.4%
	<i>Renter</i>	<i>171,740</i>	<i>15.1%</i>
	Not stated/ not applicable/other	20,632	1.8%
	Total	1,135,000	100.0%

Source: Original analysis of ABS Survey of Income and Housing 2013–14.

### HILDA wealth modules—identification of investor landlords

Investor landlords in the private rental market were identified primarily via responses to the following multiple response item:

'Household member owns other property:

- second home/holiday house not rented out
- second home/holiday house also rented out
- other houses and units (including investment property)
- vacant land
- farms
- commercial property



- other
- unsure what type
- none of the above.'

Households identified and defined in this analysis as PRS investor landlords included a household member who reported owning 'other houses and units (including investment property)'. This categorisation was cross-checked against related questions related to the quantum of properties a person earned rental income from in the previous year, as well as an item checking that more than one property is owned. It enabled distinction between households identified as investor landlords, households that own other types of property, and non-investors (see Table A4 below).

**Table A 4: Summary weighted and unweighted counts of investor landlord, other property owners and non-owners in HILDA wealth modules (2006, 2010, 2014)**

	2014 Wave N		2010 Wave J		2006 Wave F	
	Weighted	Unweighted	Weighted	Unweighted	Weighted	Unweighted
Non-other owner	6,968,356	7,588	6,573,985	5,828	6,115,520	5,685
Owens other	697,733	766	713,192	618	639,317	610
Owens rental dwelling	1,147,738	1,184	1,008,555	871	940,687	844
Total	8,813,828	9,538	8,295,733	7,317	7,695,524	7,139

Source: Original classification of owners of rental dwellings HILDA 2006, 2010, 2016.

Related information in the analysis included household demographic characteristics, characteristics of the nominated reference person, the housing and occupancy circumstances of PRS investor landlords, as well as a focus on the income, wealth and debt characteristics of investors with small, large, varied and increasing/non-increasing residential investment portfolios.

Analysis of the HILDA wealth module (2014) provides some additional information about investor landlords' property ownership in the context of household finances. It enables a distinction between ownership of 1, 2, 3–9 and 10+ properties by private households. The results indicate that:

- Most of those owning rental property own only one, but the proportion in this category is less than for the SIH data (61 compared to 72%).
- While a fifth own two properties, 16 per cent own between 3–9 properties indicating small rental portfolios.
- Ownership of 10+ properties is unusual.

The data extend the SIH analysis as respondents to the HILDA survey who are investor landlords are able to indicate how many residential properties they have invested in and, among these, those who receive rental income can be identified.

**Table A 5: Number of investment properties owned by investor landlord households in previous 12 months**

Variable	Values	2014
Number of other properties	One other property	61.3%
	2 other properties	21.9%
	3–9 other properties	16.0%
	More than 10 other properties	0.8%
	Total	100%

Source: Original classification of owners of rental dwellings HILDA 2014.

These different rental investment holdings relate to varied household profiles and strategies in relation to resources and assets, as well as current earnings. Analysis of HILDA wealth module data (2014) on those owning one, two and three or more rental properties indicates as follows:

- Couples are the most likely household type to engage in investment activity across small, medium, and larger rental property portfolios.
- A majority of households who invest in smaller, medium or larger portfolios are Australian-born (reflective of larger proportions of Australian-born in the wider population). In each case, this is more than two-thirds of investors (around 70% in each case).
- Households with small to larger rental holdings are overwhelmingly those in which reference persons are employed or not in the labour force (many of whom are retirees). Around 80 per cent of investors with 1, 2, 3 or more properties have at least one employed household member.

Among home owners, for those with larger rental property holdings, we find owners with no mortgage on their primary home account for a larger proportion of households (42%) with larger rental portfolios (3 or more properties) than owners with mortgages (Table A6 below).

**Table A 6: Tenure of occupancy among of investor landlord households who have owned 1, 2, 3 or more rental properties in previous 12 months**

		Number of other properties (2014)			Total
		1	2	3+	
Tenure of household	Owner	32.6%	37.5%	46.2%	35.3%
	Purchaser	41.9%	49.5%	42.3%	43.4%
	Renter private	19.9%	8.7%	7.6%	16.1%
	Renter public	0.7%		1.1%	0.6%
	Renter other	4.8%	4.3%	2.7%	4.4%
	Not stated/ not applicable/other	0.1%			0.1%
Total		100.0%	100.0%	100.0%	100.0%

*Note: Original classification of owners of rental dwellings HILDA 2014.*

Source: Household, Income and Labour Dynamics in Australia (HILDA) (2014).

With the exception of the lowest wealth households (wealth quintile 1), households across the wealth distribution are able to invest in one rental property. In contrast, high wealth households dominate investor households that own either two rental investment properties, or three or more rental properties. Within the HILDA sample, highest wealth quintile households account for 60 per cent of those with two rental investment properties and 70 per cent of household investors who report owning three or more rental properties. The wealthiest 40 per cent of households account for 90 per cent of all investor landlords reporting owning 3 or more rental properties (Table A7 below).

**Table A 7: Number of investment properties owned by investor landlord households in previous 12 months, showing total household wealth (quintiles)**

		Number of other properties (2014)			Total
		1	2	3 or more	
Wealth quintiles	Lowest quintile	3.7%	1.3%	5.7%	3.5%
	2nd quintile	15.0%	7.7%	2.1%	11.9%
	3rd quintile	17.8%	11.0%	3.1%	14.6%
	4th quintile	24.8%	20.0%	17.9%	23.0%
	Highest quintile	38.7%	60.0%	71.2%	47.1%
Total		100.0%	100.0%	100.0%	100.0%

*Notes: Number of other properties includes properties from which rental income is reported in the last 12 months. Wealth quintiles are based on household composite wealth.*

Source: Original analysis of Household, Income and Labour Dynamics in Australia, 2014

## Additional information about interviews

**Table A 8: Completed interviews by type of institutional agent**

Institutional agent type	VIC	NSW	WA
<b>Financing and provision</b>			
Developer	✓✓	✓✓✓	✓
Financing innovation	✓		
Wealth advisor	✓✓	✓✓	
Rent roll brokers	✓		✓✓
Buyers advocate		✓	✓
Private landlord	✓	✓	✓✓
<b>Access and management</b>			
Online real estate advertising		✓	✓
Software developer	✓		
Real estate agents	✓✓✓	✓✓✓	✓✓✓✓
Tenants' advocates	✓	✓	✓✓
Industry bodies	✓		✓
Regulators	✓	✓✓	✓
Other	✓		

Notes: i) One interviewee was a software developer and ran a rental property manager business, another was a developer and landlord; ii) The codes refer to states that were responsible for the interviews and include a small number of interviews with a national remit.

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