



EXECUTIVE SUMMARY

Inquiry into the future of the private rental sector

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Related reports and documents

Parkinson, S., James, A. and Liu, E. (2018) *Navigating a changing Private Rental Sector: opportunities and challenges for low-income renters*, AHURI Final Report No. 302, Australian Housing and Urban Research Institute, Melbourne, <http://www.ahuri.edu.au/research/final-reports/302>, doi: 10.18408/ahuri-5112301.

Hulse, K., Martin, C., James, A. and Stone, W. (2018) *Private rental in transition: institutional change, technology and innovation in Australia*, AHURI Final Report No. 296, Australian Housing and Urban Research Institute Limited, Melbourne, <https://www.ahuri.edu.au/research/final-reports/296>, doi:10.18408/ahuri-5112101.

Martin, C., Hulse, K. and Pawson, H. with Hayden, A., Kofner, S., Schwartz, A. and Stephens, M. (2018) *The changing institutions of private rental housing: an international review*, AHURI Final Report No. 292, Australian Housing and Urban Research Institute Limited, Melbourne, <https://www.ahuri.edu.au/research/final-reports/292>, doi:10.18408/ahuri-7112201.

Inquiry panel members

Each AHURI Inquiry is supported by a panel of experts drawn from the research, policy and practice communities.

The Inquiry Panel are to provide guidance on ways to maximize the policy relevance of the research and draw together the research findings to address the key policy implications of the research. Panel members for this Inquiry:

Simon Cohen	Department of Justice and Regulation, Victorian Government
Hanna Ebeling	Social Enterprise Finance Australia Ltd
Nick Foa	Department of Health and Human Services, Victorian Government
Louise Gilding	Community Services Directorate, ACT Government
Heather Holst	Launch Housing
Jill Mills	Department of Social Services, Australian Government
Jacqueline Phillips	Australian Council of Social Service
Lydia Ross	Department of Social Services, Australian Government
Erin Turner	CHOICE

Glossary

Boarding house	Residential premises let in lodgings to unrelated persons, typically with some sharing of space or facilities, sometimes with other services provided (e.g. meals, laundry). Residents are typically boarders or lodgers, as distinct from tenants. Also 'lodging house', 'rooming house'. 'New generation boarding house' is a NSW planning term for a building comprising small self-contained rental apartments.
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.
Commonwealth Rent Assistance	Payment made by the Australian federal government to eligible income support and family tax benefit recipients who rent their accommodation (other than public housing).
Fractional investment	Buying a part share in a dwelling or number of dwellings.
Fragmentation	In markets refers to a process whereby new segments emerge that cater for distinct sub-groups or niches.
Intermediaries	In the PRS intermediaries are the third party agents that bring together and mediate on behalf of landlords and tenants. This role has traditionally been played by real estate agents but increasingly other actors and online platforms are entering into the PRS to perform this function.
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.
Property advisor	Person or company providing advice on property purchase strategy to meet client goals including mortgage strategy and property selection.
Smart regulation	A term coined by Neil Gillingham to extend conventional, unified and centralised forms of regulation or social control to incorporate more flexible and innovative forms of self-regulation and co regulation through the engagement of multiple groups and policy instruments, including peak organisations and other relevant parties. See for example Gillingham, N. and Sinclair, D. (2017).
Social Rental Agencies	Are not-for-profit private rental intermediaries between landlords and tenants for low-income and vulnerable households. In Belgium, SRAs have been referred to as a 'housing led' approach that seeks to socialise private rental by sub-letting dwellings back to tenants at affordable rates. See for example De Decker (2012).

Strata title	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).
Syndicated investment	Multiple investors pool their funds to buy property that they would not be able to buy on their own.
Tenants' advocates	Organisations representing the interests of tenants.
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).

A list of definitions for terms commonly used by AHURI is available on the AHURI website www.ahuri.edu.au/research/glossary.

Executive summary

Key points

- The Australian private rental sector (PRS) grew by 38 per cent over the period 2006–2016, more than twice the rate of all household growth: on present policy and market settings, this growth is expected to continue in the future.
 - Growth in the PRS is not simply more of the same. The PRS has changed in a number of important ways since the mid-1990s:
 - Increased debt-financing of PRS properties often involving intermediaries.
 - Fragmentation of PRS provision with development of niche segments, a growing informal rental sector and a ‘supported housing’ sector; and
 - Transformation of PRS access by uptake of digital technology ranging from large online property portals to social media use along with an increase in real estate management of PRS properties (75% of PRS properties nationally in 2016).
 - Comparing with other similar countries, Australia’s PRS stands out for:
 - Its greater degree of integration with the wider housing system, particularly the owner-occupied sector, and greater reliance on the household sector (although this predominates everywhere) without the increase in large corporate landlords (LCLs) seen elsewhere; and
 - The prominent role played by small business and franchised real estate agents in rental property management and the relative weakness of laws regarding tenants’ security and rents.
 - While the PRS houses a wide variety of households on a broad range of household incomes, low-income and vulnerable households face particular difficulties, including:
 - Navigating through an increasing array of access points in the PRS, most requiring the capacity to use digital technology of different types; and
 - Increasing exclusion from the mainstream PRS through technologies which can profile households, with resulting reliance on the largely unregulated informal rental sector.
 - Implications for policy include:
 - Considering whether diversification of PRS financing and provision beyond the household sector would produce better outcomes for renters; and
 - Developing standards and regulation where required for new types of digital technology used for PRS access and management.
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Key findings

PRS growth and change

More than a quarter of all Australian households—some 2.1 million households—now live in the private rental sector (PRS). Over the ten year period 2006–2016, the PRS grew by 38 per cent, twice the rate of all households. This growth looks set to continue, largely due to a long term decline in access to home ownership, particularly among younger and mid-life age cohorts, because of high house prices and contraction of the social rental sector.

Growth in the PRS is not simply more of the same. The PRS has changed in a number of important ways since the mid-1990s, as summarised in the below table, and these changes look set to shape the future of the Australian PRS.

Overview summary of major changes in the PRS mid-1990s to 2018

	The mid 1990s PRS	The PRS in 2017/18
Tenants	Transitional sector for young people	Greater diversity of income groups and increasing long term and lifelong renting, including at mid-life
Landlords	Single property ownership Incidental investment	Some increase in properties owned by 'multi-landlords' Strategies for wealth creation Drive for rental yield as well as capital gain
Financing/provision	Equity financed Properties in local area Risk management through local knowledge	Debt-financed often involving intermediaries Borderless investment Access to online property data including via intermediaries
Access	Access through local real estate agents or directly via landlords	Access via digital platforms mediated by real estate agents/specialist property managers/self-organising networks
Management	Property management as a routine administrative task	Outsourcing of routine property management functions to third party operators enabled by use of digital technology.

Source: Mid-1990s view of the PRS draws on ABS (1994; 1997) and Berry (2000). The 2017/18 view is from literature reviewed for this project and original research for the Inquiry's three research projects (Hulse, Martin et al. 2018, Martin, Hulse et al. 2018 and Parkinson, James et al. 2018).

International PRS trends and distinctive features of the Australian PRS

In most of the countries we reviewed¹, the PRS is growing. The strongest PRS growth has been in Ireland and the United Kingdom (UK), where the PRS grew either side of the Global Financial Crisis (2008–09) (GFC), and the United States (US), where the PRS had lost share to owner occupation before the GFC, but grew rapidly afterwards. Rapid change in the PRS and national

¹ The countries in the Inquiry's international review were: Australia, Belgium, Canada, Germany, Ireland, New Zealand, Spain, Sweden, the UK and the US.

housing systems was driven by the combination of finance market and policy settings. This is especially so for countries that had experienced a housing boom and crash around the GFC and the subsequent recession, such as Ireland and the US. In countries most affected by the GFC, government programs for the disposal of impaired property-related assets have significantly increased the position of large corporations in the PRS, both directly as landlords (as in the US) and indirectly as owners of loans with PRS properties pledged (as in Ireland and Spain).

Smallholding private individual landlords predominate everywhere (except in Sweden). Most countries also have some large corporate landlords (LCLs), and a few have recently seen rapid growth in very large new LCLs. The origins of LCLs are diverse, but their recent activity has been facilitated by government activities: in Germany, municipal housing privatisation; in the US and Ireland, post-GFC programs for the disposal of impaired assets.

None of the recent growth in the PRS in the countries reviewed appears to have been prompted or unleashed by deregulation in the 2000s. On the contrary, Ireland and Scotland are examples of successively stronger regulation being implemented as the PRS has grown.

The Australian PRS is distinctive among the international countries reviewed in a number of respects:

- It is more integrated with the wider housing system, particularly the owner-occupied sector, than most of the other countries studied. Historically, the Australian PRS and owner-occupied sectors have a largely common built form, and properties transfer readily between the sectors (in contrast to Germany and Canada, where the sectors are more differentiated).
- It has the highest level of housing-related household debt (investment and owner occupied); international experience is that finance-driven change can happen rapidly and without reference to housing policy objectives.
- Real estate agents, organised mostly as independent or franchised small businesses, have an unusually prominent role in the PRS (managing 75% of PRS properties in 2016). In other countries, individual landlords are relatively more likely to self-manage, while those with LCL sectors have professional managers.
- It has comparatively weak laws regarding security and rent regulation. Australian states and territories form a group with New Zealand, the UK (except Scotland) and Spain, which also appear to have less differentiated PRSs and relatively weak tenancy laws.

Opportunities and challenges: financing and provision

The PRS will continue to be affected by local and international changes in the availability and cost of finance, but also by incremental institutional change, including new types of intermediaries and development/uptake of new and emerging digital technology.

An increase in lending to investor landlords, notably in the period 2011–2016, has triggered macro-prudential regulatory response, as in the other nine countries studied. An increasing array of intermediaries provides advice on investment in residential property as part of wealth creation strategies, drawing on digital data on property prices, rents, yields and housing markets. The willingness of households to debt-finance ‘investment properties’ also indicates some change in social norms and practices.

International and Australian property companies are seeking to develop a ‘multi-family’ (US term) or ‘Build to Rent’ housing (UK term) sector in Australia. Both these terms denote businesses that acquire/develop rental dwellings specifically for that purpose, and retain them as rental housing for a long term (i.e. ‘Build to Rent’ rather than ‘build to sell’).

Although the owner and renter sectors in Australia remain integrated by international comparison, this research finds that PRS provision is becoming fragmented into more specialised markets that attract and cater for distinct sub-populations, particularly at the low price end of the PRS. In addition to the mainstream PRS (properties owned by Australian households and managed by real estate agents), there are niche markets including ‘marginal housing’ (residential parks and registered rooming/boarding houses) and newer niches such as the student housing sector, new generation boarding houses (NSW), developer-retained rental units; an affordable rental sector of not-for-profit organisations; and some not-for-profit providers of ‘supported housing’. There is also a growing informal sector including room and short-stays rentals which are often under policy-makers’ radar unless there are health and safety issues.

Opportunities and challenges: access and management

In terms of people’s everyday contact with the PRS, the most transformative change is in access through digital technology, including major general online property portals, specialist rental portals, sharing platforms and social media.

Benefits for tenants include more information (e.g. property photos, floor plans and location relative to transport and jobs); greater efficiencies (one application for multiple properties and scheduling of property viewings); and innovation (e.g. alternative bond products rather than upfront payment of a large sum). There are also risks for tenants—in the amount and type of data collected, which go well beyond the rental tenancy databases that are currently regulated, including data use for ranking tenants, and selling additional products and services.

Restructuring of the real estate industry to achieve greater efficiencies has seen an increase in rental portfolios under management through organic growth and off-market acquisitions, as well as investment in information and communications technology and use of third parties, including those off-shore, for routine administrative tasks. These changes may provide more efficient services but there are risks for those who do not have ready access to the technology.

Policy development options

The PRS of the future will have to provide for diversity as well as growth. This will require innovation, flexibility and adaptability as well as protections for private renters so that they have the opportunity to make a home in the same way as other Australians.

Financing and provision

A major issue for policy development is whether diversification of PRS financing and provision beyond the household sector would produce better outcomes for the PRS in meeting future housing needs in terms of product types, management arrangements, service provision and tenancy conditions. Important issues to be addressed are:

- Will agreed government support for an affordable housing sector provided by the not-for-profit housing providers with access to cheaper funding through the new National Housing Finance and Investment Corporation (NHFIC) provide sufficient stimulus for non-household financing and provision of PRS housing at the affordable end of the market, or are new models of institutional/corporate financing and provision desirable? If the latter, are new models complementary to, or in competition with, current policy settings?
- Articulating the housing policy objectives for any government support for large scale landlords. If this type of support is seen as advantageous to the future of the PRS, it is important to set clear targets in terms of intended outcomes and develop smarter monitoring than was evident in the now-closed National Rental Affordability Scheme (NRAS) scheme.

- Developing hybrid rental arrangements for low-income and vulnerable households which include some combination of private financing and provision with NFP involvement in access and management to improve social equity. The main policy options appear to be 1) expanding the social rental sector to provide a different type of management for these tenancies; 2) introducing more social housing type conditions into the bottom end of the PRS as in Ireland and Belgium or 3) investing in the supported housing sector so that it can play a larger role in providing necessary support to vulnerable households in the PRS.

Access and management

Transformation of access to PRS housing as a result of digital technology allied with established and emerging intermediaries, some with new business models, has outpaced current policy settings and regulatory frameworks. Major priorities for policy development are:

- Reviewing online access portals and tools to assess not only improvements in efficiency but also implications for social equity. There is scope for regulatory reform on tenant access to data that may be collected or generated at the time of application (e.g. trust scores, ratio of applications to tenancies commenced) raising issues including data accuracy, access, moderation and removal.
- Developing modern legislation for the PRS of the future to embed a stronger consumer focus, as renters, and long term renters, increase. Some basic principles of regulation can be established and embedded in national minimum standards. Two main elements can be considered which are already in place internationally in countries in which small scale investor landlords provide PRS properties:
 - regulation of rent increases for current tenants, both as a measure that directly improves security and affordability for tenants directly, and to restrain the potential for other policy settings—particularly regarding negative gearing and capital gains—to generate speculation in housing.
 - removing ‘no grounds’ termination provisions from residential tenancies regulation—some other comparable countries with a growing PRS do not have this provision.

Developing policy and regulation in respect of the growing informal PRS, with new business models targeting low-income and vulnerable Australians. The informal sector by its very nature is innovative, adaptive and disruptive. Regulating the informal PRS is complex, as overly prescriptive approaches may result in parties changing their form of operation and regulators missing intended targets. More flexible institutional responses that draw on the principles of ‘smart regulation’, could be more effective than a blanket regulatory approach attempting to make the informal sector operate within the same institutional parameters as the formal sector. This would include ensuring the flexibility for rental arrangements to be determined individually but with the setting of effective and enforceable minimum standards in provision, access and management.

Organisations and structures

The Inquiry’s findings indicate a need for a more robust and comprehensive policy framework for the PRS of the future, in particular:

- Developing a strategy and policy for the PRS by considering finance, taxation, strategy, supply and demand-side subsidies, and regulation. Developing such a strategy and policy is based on acknowledgement that currently, and in the future, private renting is not a transitional arrangement on the way to owner occupation for many residents.
- Addressing some of the inequalities experienced by similar households living in different housing tenures. If recent trends of reduced access to owner occupation and longer stays in the PRS continue, policy settings will have to address the implications for greater inequality.

- Establishing policy architecture that can consider these aspects of PRS development across all levels of government. This requires involvement of federal and state/territory governments with some involvement of local government in respect of niche markets.

Cultural change

Cultural change is often slow, and policy and regulation is contested and incremental, unlike the rapid uptake of technology in the PRS. The challenge appears to be to establish some common directions of change rather than reinforce adversarial positions as private renting increases, with concomitant visibility at a political level. Some key elements of this change are:

- encouraging investor landlords to see themselves as being in the business of being a housing provider, rather than in an informal arrangement to 'let' someone use their property. This could include registration of landlords, as for other service providers, and minimum safety, sanitation and security standards for property/ies that they rent out
- promoting an understanding that PRS tenants want a place to live, a home, and increasingly expect and require a high level of service for the rent that they pay, including timely and accurate responses to requests
- 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.

The study

The Inquiry into the future of the PRS had an explicit focus on institutional change, referring not only to formal rules (policies and regulation) but also organisations and structures, and informal rules (social norms and practices). Institutional analysis enabled a different way of thinking about the drivers and dynamics of PRS growth and change, adding to previous research into market changes and policy analysis.

The overarching Inquiry question was: 'How can emerging trends in the institutions of the private rental sector in Australia and internationally create opportunities for, and present challenges to, improving equity, efficiency and effectiveness outcomes in Australia, including for low-income households?' Research for the Inquiry comprised three supporting projects which investigated:

- 1** the dynamics and drivers of emerging trends in the institutions of Australia's PRS and consequent opportunities and challenges for the sector
- 2** learning from institutional change in private rental sectors internationally and
- 3** evidence on how low-income tenants navigate the Australian PRS in the context of the sector's changing institutional structures, practices and accommodation forms.

The research methods and data sources used across these three projects is summarised in the below table, comprising a mix of quantitative and qualitative methods and established and original data sources.

Research methods and data sources (three supporting research projects)

Research methods	Data sources
Scoping and mapping of institutions in the Australian PRS	Review of the academic and grey literature (including material elicited during the interviews)
Analysis of available secondary data sets on PRS investor landlords and tenants	Cross sectional analysis of ABS Census of Population and Housing various years; ABS Survey of Income and Housing various years; HILDA (Household Income and Labour Dynamics of Australia) Wealth Module 2014. Longitudinal analysis of the HILDA and Journeys Home panel data sets.
Original research (Australia)	Semi-structured interviews (N=42) with key actors involved in PRS financing, development, access and management in Sydney, Melbourne and Perth. Semi-structured and in depth interviews undertaken with low-income renters (N=71) and community and private rental stakeholders (N=41) in Sydney, Melbourne and Perth. Online national survey of investor landlords (N=304)
Original research (10 countries)	Survey of institutional change in the PRS in 10 countries completed by national experts Detailed case studies with country experts of four countries: Germany, Ireland, UK, US.

Source: Hulse, Martin et al. 2018, Martin, Hulse et al. 2018 and Parkinson, James et al. 2018.

This Inquiry Report distils key findings across the three projects to provide a higher level overview of institutional change in the PRS as well as reflecting on discussions with the Inquiry Panel. While it is intended to be read as a stand-alone document, readers who want to delve more deeply into these issues are referred to the Final Reports of the three research projects (Hulse, Martin et al. 2018; Martin, Hulse et al. 2018; Parkinson, James et al. 2018).

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