

# The changing nature of private rental in Australia

## Based on AHURI Final Report No. 296:

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



## What this research is about

**This research is a comprehensive analysis of the private rental sector (PRS) and explores the interplay between regulation, organisations and structures, and social norms and practices of prevailing policies. It also explores the impact of innovation and digital technology on the sector.**

## The context of this research

The PRS occupies a 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 housing, but the steady growth of the PRS has drawn attention to Australian households as both consumers and providers of rental housing. 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 also provides accommodation for people in a wide range of other circumstances, including

international students and new migrants.

There is increasing realisation that the PRS in Australia may not be 'fit for purpose' for this changing and expanded role, being grounded in its historical role as a transitional sector where people moved on from rental housing to home ownership.

## The key findings

### The sector in a snapshot

The Australian PRS increased by 38 per cent over 10 years (2006–16), more than twice the rate of household growth. In 2016, 2.1 million Australian households, or 26 per cent of all households, lived in the PRS.

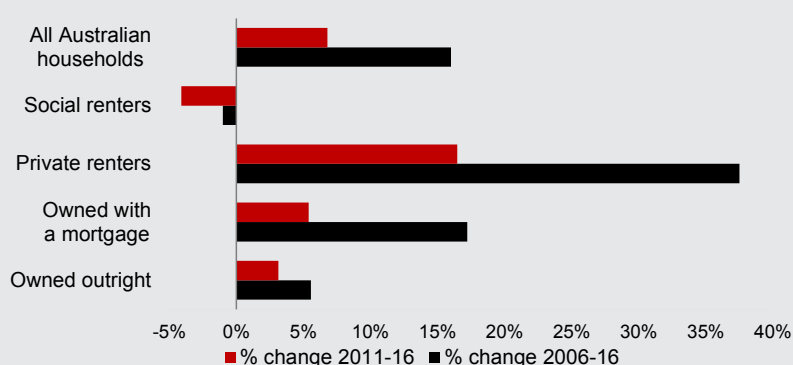
There has been a 42 per cent increase in the volume of lending to investors over the 10 years 2006–16 (compared to an 8.4% increase in lending for owner occupation), with lending for investment at times exceeding lending for owner occupation. In 2013–14, 1,135,000 Australian households were investor landlords, with 72 per cent owning one property.

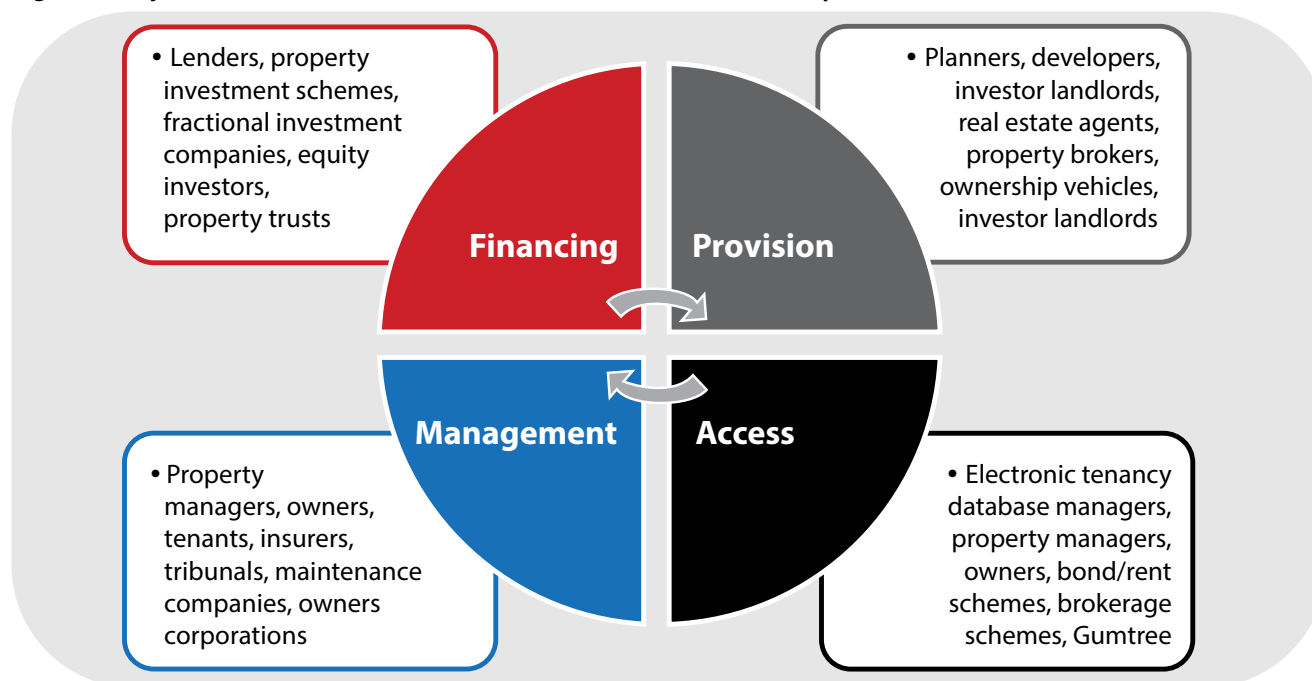
The typical investor landlord is an owner-occupier, at midlife, in a household with two incomes, although one in eight themselves rent in the PRS. Although private rental ownership is quite widespread, there is a concentration among higher income and higher wealth households.

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 28 per cent (with some disparity between data sources) but the multi-property investor share of all PRS properties has increased.

There are also longstanding concerns about the relatively large proportion of landlords who are in the sector for only short periods, contributing to insecurity and a lack of professionalism across the sector.

**Figure 1: Housing tenure change, Australian households, 2011–16 and 2006–16**



**Figure 2: Key dimensions of the institutional structure of the Australian private rental sectors**

The proportion of PRS properties managed by real estate agents increased 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 last decade is 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 including financing, provision, access and rental property management.

### Financing

Governments have focused on macro-prudential regulation policies to control funding in the sector. The Australian Prudential Regulatory Authority (APRA) has examined the lending practices and risk profiles of Australian housing lenders, including stress testing the largest Authorised Deposit-taking Institutions (e.g. banks, building societies) against scenarios of significant housing market downturn.

When lending to investor landlords reached new peak levels, APRA instituted changes such as a target of no more than 10 per cent per annum increase in lending to investor landlords; limiting interest-only lending

to 30 per cent of new lending rather than 40 per cent; limiting interest only lending where loan-to-valuation ratios (LVRs) exceeded 80 per cent; and restrained lending to higher risk market segments.

Interviewees for the project considered that these types 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 are signs of change in social norms and practices, with more landlords seeing themselves as investors with more deliberate strategies to purchase property for rental ..."

There has been a proliferation of intermediary organisations between lenders and investor landlords, including various types of financial intermediaries (including mortgage referrers, mortgage brokers and mortgage aggregators) and wealth advisors. These intermediaries connect the investor landlord with a lender, with each intermediary receiving remuneration for their role. In addition, wealth advisors have actively recommended debt-financed rental property investment to households and provided 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 with 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' (i.e. properties distant to the investor landlords' own residence), based on assessment of the potential of different housing

markets to deliver capital gain and rental yields.

### Innovation in providing housing

The sector is innovating with purpose-built rental accommodation that cannot be strata titled and sold as separate units. These include new generation boarding houses; student housing involving large corporate providers; and 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. These models are primarily financed through debt that is repaid through rental yield or cash flow.

### Accessing rental housing

The widespread development and the adoption of digital technology is affecting how people access properties and use information in the PRS.

There has been considerable institutional change in the way PRS properties are advertised 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 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 Residential Tenancy Databases (RTDs). There are risks in these developments in the amount and type of data collected, which go well beyond the RTDs that are currently regulated, including data use for targeted advertising, ranking tenants, and selling additional products and services.

There are changes to how tenants can pay their rental bonds. Tenants may obtain a bond loan (e.g. at 6% interest plus monthly administration fees) or buy a non-cash surety or guarantee in place of a cash bond. 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 at the end of the tenancy as a bond is. How the new alternative bond products fit with existing regulations around bonds, and state-based bond loan schemes, is not entirely clear.

### Management of rental housing

Between 2006 and 2016 real estate agents increased the number of properties they managed. This is associated with more purposive

investment and an increase in borderless investment.

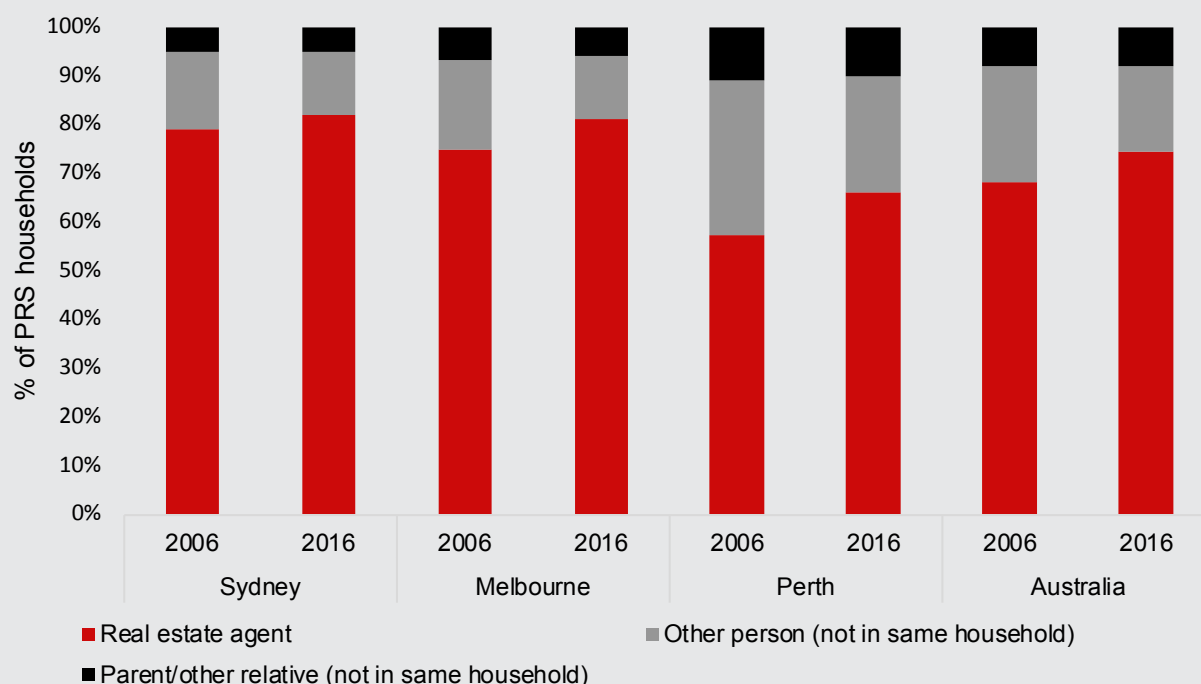
Rental property management has become more important to real estate agents because it is a source of stable revenue which covers an increased proportion, if not all, of the fixed costs of the business, enabling agencies to weather the volatility of housing sales since the Global Financial Crisis.

Restructuring of the real estate industry to achieve economies of scale has involved:

- increasing the size of rental portfolios under management, commonly referred to as 'rent rolls'. This occurs both organically and 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. Some of this work is now conducted off shore.

The need for greater professionalism in rental property management was a common theme in the research, including from those currently working within the sector.

**Figure 3: Type of property management in the PRS, Sydney, Melbourne, Perth and Australia, 2006 and 2016**



## What this research means for policy makers

### Financing and provision

Independent information, based on evidence of housing market performance, the role and remuneration of financial intermediaries, and innovative lending products, would assist potential investor landlords in building levels of financial literacy.

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.

Improved data on foreign ownership of residential property for rental and PRS

properties held by Self-Managed Superannuation Funds, trusts and other intermediary structures would develop a better, evidenced-based understanding of PRS financing and provision.

### Access and management

A review of current and emerging information technologies and practices, particularly in relation to access, would evaluate the adequacy of current regulatory regimes, and could result in placing reasonable limits on data collection and ensuring transparency in its use.

A review of the 'renting by room' sector would 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 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).

The effectiveness of regulatory approaches to residential tenancies compared with 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.

Services to vulnerable tenants in the PRS could be improved. 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.

## Methodology

This research reviewed government, academic and grey literature on the PRS, in particular the ABS Census of Population and Housing, the ABS Survey of Income and Housing and the Household, Income and Labour Dynamics in Australia (HILDA) survey.

Forty-two interviews were conducted with people involved in all aspects of the PRS, from financing, provision/development, access and management.

## Further information

### NOT FOR CITATION. TO CITE THE AHURI RESEARCH, PLEASE REFER TO:

**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.

↓ **Available** from the AHURI website at

[ahuri.edu.au/research/final-reports/296](http://ahuri.edu.au/research/final-reports/296)

## Contact details

### Australian Housing and Urban Research Institute

Level 1  
114 Flinders Street  
Melbourne Victoria 3000

T +61 3 9660 2300  
E [information@ahuri.edu.au](mailto:information@ahuri.edu.au)  
[ahuri.edu.au](http://ahuri.edu.au)



[twitter.com/AHURI\\_Research](https://twitter.com/AHURI_Research)



[facebook.com/AHURI.AUS](https://facebook.com/AHURI.AUS)



Australian Housing and Urban Research Institute