

Inquiry into the future of the private rental sector

Based on AHURI Final Report No. 303:
Inquiry into the future of the private rental sector



Australian Housing
and Urban Research Institute

What this research is about

This research into the future of the private rental sector (PRS) focusses on institutional change, including policies and regulation; organisations and structures; and social norms and practices.

The context of this research

The PRS grew by 38 per cent over the period 2006–2016, more than twice the rate of all household growth, with more than a quarter (26%) of Australian households (2.1 million households) being private renters.

Australians are renting for longer periods—a third of private renters have been renting for 10 or more years. The PRS is changing from a transitional housing tenure for young people between leaving the family home and becoming home owners to one with more private renters at mid-life and more private renters with children. Importantly, there has been an increase in both lower and middle/higher income households in the PRS.

The PRS is also changing with increased debt financing by investor landlords; innovation in new products; uptake of digital technology including online property portals and social media; fragmentation into niche markets; and the increasing role of intermediaries such as mortgage brokers, property/wealth advisors and real estate managers.

The key findings

International PRS review

This Inquiry reviewed the PRS in ten countries: Australia, Belgium, Canada, Germany, Ireland, New Zealand, Spain, Sweden, the United Kingdom (UK) and the United States (US). In most of these countries, private rental housing is the second biggest tenure after owner occupation and only in Germany is private rental the largest tenure. In every country surveyed, social housing is the third largest tenure.

The PRS is growing internationally. The strongest growth has been in Ireland and the UK, where the PRS grew either side of the Global Financial Crisis (2008–09) (GFC), and the US, where the PRS had lost share to owner occupation before the GFC, but grew rapidly afterwards.

Smallholding private individual landlords ('mum and dad' investors) 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; and in the US and Ireland, through post-GFC programs for the disposal of impaired assets.

The Australian PRS

The Australian PRS is distinctive in number of ways:

- Integration—it is more integrated with the wider housing system, particularly with 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).
- High housing debt—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. The integration between the PRS and the owner-occupied sector heightens the prospect that investment in both sectors can fall simultaneously, with little capacity for countercyclical investment that could increase housing supply.
- Role of real estate agents—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.

- Weak regulation—Of the 10 countries surveyed through Australasia, Europe and North America, Australia has comparatively weak laws regarding security of tenure and rent regulation.

Issues for lower income tenants

Low-income and vulnerable households face particular barriers, including:

- real estate agents will overlook applications from tenants who are not seen as conforming to ideas of being the ‘ideal tenant’
- navigating through an increasing array of access points in the PRS, most requiring the capacity to use digital technology of different types

- increasing exclusion from the mainstream PRS through technologies which can profile households, with resulting reliance on the largely unregulated informal rental sector.

Fragmentation into niche markets

The Australian PRS is fragmenting into more specialised markets that attract and cater for distinct sub-populations, particularly at the low priced 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

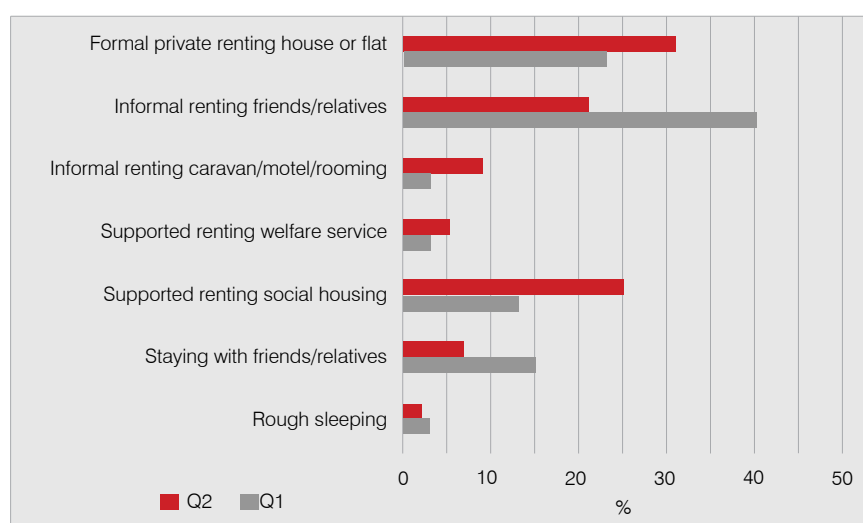
is also a growing informal sector including room and short-stays rentals which are often under policy makers’ radar unless there are health and safety issues.

It is foreseeable that the specialisation of the PRS will increasingly place moderate and higher income renters in a more advantaged position as landlords seek to develop niche products and vie for their longer term patronage. In such a market environment moderate to higher income renters have greater capacity to participate more competitively, including using online rent bidding applications to secure the dwelling. For low-income renters this specialisation of the PRS exacerbates difficulties of gaining entry into the formal or mainstream sector by increasing discrimination in the selection process, leading to more invasive and judgemental monitoring of tenancies and directing tenants to poorest quality dwellings.

Table 1: Security of tenure policy settings in Australasia, Europe, North America (select countries)

	Grounds for termination by landlord	Fixed term and periodic tenancies	Rent increases	Setting of new tenancy rents
Australia	No-grounds termination allowed; Victoria has proposed legislation to remove the ‘no specified reason’ ground	Short (6–12 months), fixed-term and periodic tenancies	Varies by state; mostly provision for disputing ‘excessive to market’ increases	No regulation
Belgium	Termination at end of fixed term allowed	9-year fixed terms, but most are 3-year terms	Increases in line with CPI	No regulation
Canada	Mostly prescribed grounds only; some allow termination at end of fixed term	Mostly short (6–12 months), fixed-term and periodic tenancies	Varies by province; most restrict increases to annual ‘guideline’ rate	No regulation
Germany	Prescribed grounds only	Little use of fixed-term tenancies	Restrictions by reference to ‘reference rents’ and caps; additional increases for improvements	Restriction by reference to ‘reference rents’ in specified areas (but regulation is in doubt)
Ireland	Prescribed 6-year cycle with lesser restrictions on termination in initial 6 months, then prescribed grounds only	Short fixed-term and periodic tenancies	Rents must not exceed market rent; high pressure zones	Rents must not exceed market rent
New Zealand	No-grounds termination allowed	Short (6–12 months), fixed-term and periodic tenancies	Restrictions against ‘excessive to market’ increases	No regulation
Sweden	Prescribed grounds only	Little use of fixed-term tenancies	Collectively bargained utility rents	Collectively bargained utility rents
Spain	Termination at end of and, in limited circumstances during, fixed term	3-year fixed terms with some provision for early termination	Increases in line with CPI; additional increases for improvements	No regulation
United Kingdom	No-grounds termination allowed (England and Wales); prescribed grounds only (Scotland)	Short (6–12 months), fixed-term and periodic tenancies	Provision for disputing excessive rent increases; in Scotland, high pressure zones	No regulation
United States	Varies by state and municipality: most allow termination without grounds, a few large cities allow termination on prescribed grounds only	Short fixed-term and periodic tenancies	Mostly no regulation; a few major cities have rent regulation (by annual guideline rates) and rent control	Mostly no regulation; a few major cities have rent regulation

Figure 1: PRS and other living arrangement of individuals who have experienced or are at risk of homelessness



Note: Q1 refers to individuals in the bottom 20 per cent of individual income and Q2 refers to those with incomes in the next highest 20 per cent, i.e. 21–40 per cent.

Source: Parkinson, James et al. 2018. Derived from the Journey's Home Longitudinal Dataset. Pooled data from waves 1–6. The sample is drawn from income support recipients with past experiences of, or at risk of, homelessness.

Australian landlords

The typical Australian landlord is an owner occupier, at midlife, in a household with two incomes (39% are couples with children) and most (72%) own one rental property, a proportion that seems to have been relatively stable since the mid-2000s. The research found that although households in all income quintiles own PRS properties, six in ten landlords (59%) of those receiving rental income were in the highest income quintile and highest wealth quintile in 2013–14.

There are signs more PRS owners see themselves as investors rather than landlords, manifest in both the language used (being a 'rental investor' rather than a landlord) and more deliberate strategies to purchase property for rental (rather than incidental ownership through inheritance or renting out a property which was their former home). There are prospective benefits and risks to private renters from these changes: such owners are less likely to terminate the tenancy because they want to live there themselves or house a family member but they are more likely to set rents to achieve maximum returns.

Australian PRS financing

The PRS is affected by local and international changes in the availability

and cost of finance, as well as 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 a macro-prudential regulatory response. An increasing array of intermediaries provide 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').

Digital technology

The use of digital technology, including major general online property portals, specialist rental portals, sharing platforms and social media, has had

the most transformative change in how people interact with the PRS.

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 the real estate industry to achieve greater efficiencies has seen an increase in rental portfolios 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 barriers for those who do not have ready access to the technology.

What this research means for policy makers

Policy architecture that considers PRS development should be established 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. Strategies for achieving better outcomes in the PRS could be considered as part of negotiations for the National Housing and Homelessness Agreement and any subsequent negotiations. It is important to be able to monitor progress in achieving better outcomes.

The Inquiry recommends a number of different policy developments, including:

- a strategy for the PRS which includes finance, taxation, supply and demand-side subsidies and regulation. Careful consideration is necessary when developing policies to encourage home

- ownership in that they will also likely encourage investor landlord purchases. Policy design should seek to avoid a cycle in which increased demand for residential property leads to further increases in housing prices
 - developing and investing in hybrid arrangements (e.g. forms of below market rent social housing supplied by community housing providers) that would enable access to, and sustainment of, PRS housing for low-income and vulnerable households
 - better data collection to enable a more comprehensive picture of the ownership of dwellings in the PRS (rather than investor landlords) with consideration of implications for private renters of different ownership types
 - considering the opportunities and challenges associated with LCLs moving into the PRS and outlining the housing policy objectives for any government support for LCLs. Policy makers should consider what outcomes are expected and whether this segment is complementary to, or competes with, agreed directions to develop a not-for-profit affordable housing industry
 - updating regulatory coverage of PRS access and management to take into account new business models and widespread use of digital technology
 - developing smart regulation which encourages innovation and ensures basic safety and other outcomes for residents.
- The informal PRS needs to be assessed as new business models are targeting low-income and vulnerable Australians (e.g. the proliferation of the 'rent by room' sector). Regulating the informal PRS is complex as it is a diverse sector, and expectations that are commonly held in relation to mainstream housing may not always be realistic or desirable in parts of the informal sector (e.g. the small shared spaces of room share accommodation may be tolerable for a gap year of travel or study). Overly prescriptive approaches to regulation may result in accommodation providers and residents improvising and changing their form of operation, and regulators missing intended targets.
- Policies targeting the informal PRS segment need to develop equitable and effective pathways out of informal and inferior rental arrangements for the benefit of low-income renters

Fully integrated policies need to be developed for lower income and vulnerable households in the supported PRS sector, including housing assistance and ongoing support services as well as mediation between investor owners/real estate agents and tenants.

Government agencies could play a more proactive role in identifying suitable landlords and the appropriate incentives that will facilitate access and more effective tenancy management at the low end of the sector.

Methodology

This research used a mix of quantitative and qualitative methods and established and original data sources, including: review of the academic and grey literature; analysis of ABS and HILDA; structured interviews with key actors involved in PRS financing, development, access and management in Sydney, Melbourne and Perth; interviews with low-income renters and community and private rental stakeholders; online national survey of investor landlords; and a survey of institutional change in the PRS in 10 countries.

Further information

TO CITE THE AHURI RESEARCH, PLEASE REFER TO:

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