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The Australasian private rental sector; A tenure under severe stress

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Overview. Institutional Context

- Australia and New Zealand as market Liberal societies.
- Home Ownership societies (but in decline arguably because of growth of private rental)
- Policy environment not targeted at housing outcomes
- Private rental as an accidental tenure.
- Urban form; Low density detached housing cities in both countries
- Rapid household growth much of it from lower income households.

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Distinctive Features

Supply.

Pre dominantly small (one or two properties) investors (see figure 1)

Investor decision making intuitive rather than informed. (Seelig Burke 2007)

Little large scale or institutional investment (much more 30 years ago)

Most investment in existing not new stock

Growing numbers of renter landlords (15%)

Mix of Housing type (45% detached dwelling 55% apartment town houses NZ mainly detached housing)

Demand

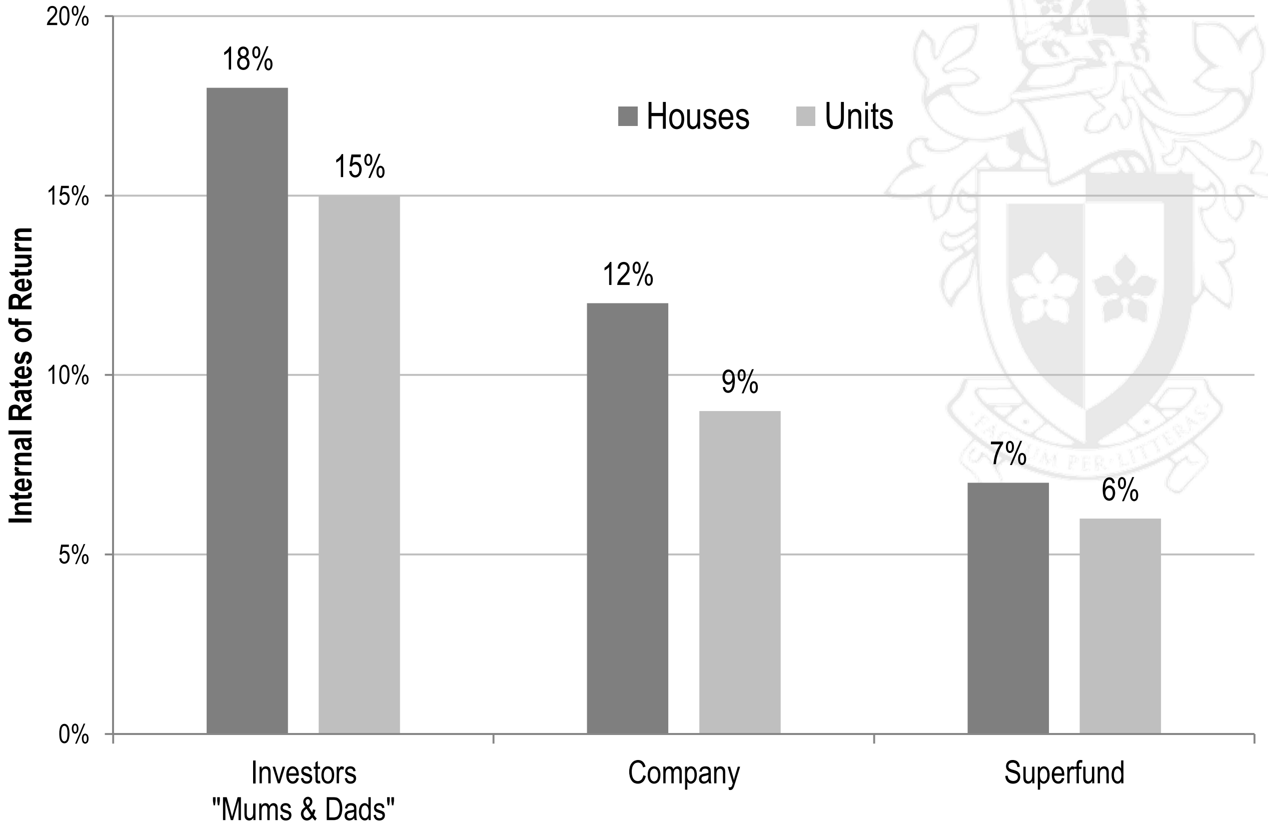
Three key segments:

- Younger Households (singles and couples)
- Tertiary students particularly international
- Lower income households (45% of total Aus)

Historically a transitional sector but increasingly long term (41% more than 10 years)

High rates of Mobility. (39% moved at least 3 times in last five years)

Figure 1.Internal Rates of Return: By type of investor, houses and units 1998 – 2009 Melbourne. Source: Wood 2011



Private Rental Policy Settings

Australia

Taxation;

- negative gearing
- Capital gains tax (50 percent at marginal rate)
- Land Tax

Income Support

- Pensions and Benefits low
- Commonwealth Rent Assistance

Security of Tenure (short term leases, no just cause provisions, minimum rent increase provisions

Supply- National Rental Affordability scheme

Planning – No inclusionary Zoning, resistance to multi unit development

New Zealand

Taxation;

- negative gearing
- Capital gains tax (50 percent at marginal rate)
- No land tax

Income Support

- Pensions and Benefits low
- Accommodation supplement

Security of Tenure (short term leases, no just cause provisions, minimum rent increase provisions

Supply No policy

Planning – No inclusionary Zoning, resistance to multi unit development

Why Problematic?.

Affordability.

- 47.7% of all renter households below the 40th percent income decile have an affordability problem. For singles over 65 it is 84%. (Burke et al 2011)
- A growing submarket affordability problem (see Table 1) Given size of cities a problem different to UK or Europe.

Supply. National shortfall of affordable dwelling units (298000 units equivalent to 900000 UK) (Wulff et al 2011)

Secure Occupancy. Poor by International standards (Hulse et al 2011)

Policy Levers inappropriate to changing role of sector; no performance requirements attached to policy

Emergent Quality problems. Growth of marginal private rental sector (rooming houses, caravans), sustainability problems with no reason for landlord to act)

Home Ownership Displacement First home buyers cant compete with investors; driver of house price inflation.

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Table 1: Percentage of affordable rental properties by region, Low and moderate cost budget standard. Melbourne, couple, 2010

Income	LCBS Inner	LCBS Middle	LCBS Outer	LCBS Fringe	LCBS Melb.	MCBS Inner	MCBS Middle	MCBS Outer	MCBS Fringe	MCBS Melb.
$0	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
$10,000 £ 6000	4%	8%	12%	8%	8%	0%	0%	0%	0%	0%
$20,000 £12000	15%	25%	45%	44%	30%	0%	0%	0%	0%	0%
$30,000 £18000	28%	46%	76%	76%	52%	0%	0%	0%	0%	0%
$40,000 £24000	44%	68%	92%	91%	71%	1%	2%	4%	2%	2%
$50,000 £30000	57%	78%	96%	96%	80%	5%	10%	14%	12%	10%
$60,000 £36000	85%	94%	99%	99%	94%	52%	74%	94%	94%	76%
$75,000	96%	98%	100%	100%	98%	88%	95%	100%	99%	95%
$100,000	99%	100%	100%	100%	100%	98%	99%	100%	100%	99%

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The Lessons from Australasia.

- The positive lessons to be learnt from Australian and New Zealand are from the past, ie, the 1960s and 1970s when an affordable and available sector was sustained alongside ownership and public housing and meshed well with both.
- It is now a negative lesson. Poorly targeted policy settings and outcomes opposed to a sustainable housing system; The private rental sector is the Australasian housing Problem

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