Private rental: can it deliver affordable housing to low-income tenants?

Issues paper

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1. Introduction

The role and potential of the private rental market in providing affordable housing to people on low and moderate incomes is emerging as a key issue because significant numbers of households who twenty years ago would have obtained affordable housing in the public sector are now unable to access that system. This change is the result of a number of factors including:

- funding for public housing under the Commonwealth State Housing Agreements has reduced significantly; and,
- the supply of public and community housing has not increased despite population growth and long waiting lists.

At the same time the private rental market has not been responsive to consumer demand from households on low and moderate incomes because:

- new residential investment has tended to be at the top-end of the private rental market;
- there has been a decline in the supply of affordable private rental housing stock available to low-income earners; and,
- there is a change in the pattern of private renting, with more people living in this tenure for longer time periods.

Since the 1950s there has been an alternative for those who could not afford either home ownership or private rental – they could apply for public housing. However, direct grants by the Federal Government for housing assistance in Australia continue to shift away from the public housing sector towards private rental as expenditure on rent-based subsidies (called Commonwealth Rent Assistance) increases.[1] Recent changes to public housing in New South Wales mean that, in the future, only those individuals and families with high levels of special needs will be offered public housing. Further, when their situation improves, these people will be required to move out.[2] This begs the question: to what? It is expected that most will be looking for housing in the private rental market.

In effect governments are now expecting the private rental market to play a much more significant role in providing affordable housing to low and moderate income households.[3]

In August 2005 the Commonwealth, State and Territory Ministers for Housing, Local Government and Planning agreed to a 'Framework for National Action on Affordable Housing' for determining ways of meeting the growing shortfall in affordable housing. It is important to note that they perceived 'affordable housing' as being across all tenures: 'affordable housing is housing which is affordable for low and moderate income households across home ownership, private rental as well as public rental tenures.'[4]

For the purposes of this paper the private rental market is defined as 'occupied private dwellings in which the household pays rent to either a real estate agent or a person not living in the same household'. This is the standard Australian Bureau of Statistics' definition.[5]

Given theses changes in policy at both the Federal and State levels, how well does the private rental market meet the needs of low-income households?

Issue 1: What changes are necessary in the private rental market for it to meet the needs of low-income households?

2. Housing affordability

The proportion of private households in Australia renting their dwellings has increased over the last decade – from 18 per cent in 1994-95 to 21 per cent in 2003-04.[6] Table 1 shows that this proportion is higher in Sydney than in the balance of the NSW and Australia.

Table 1: Households renting from private landlords, 2003-2004

	Number of households	Percentage of households
Sydney	376,000	24.2
Balance of NSW	189,000	19.5
NSW	565,000	22.4
Australia	1,640,000	21.2

Source: Australian Bureau of Statistics, 'Household Income and Income Distribution, Australia, 2003-04', Catalogue No. 6523.0, Tables 14 to 16, 4 August 2005

For private renters across Australia, real weekly average housing costs (after adjusting for inflation) rose by 12 per cent over the same ten year period.[7] This raises the question as to how affordable is the private rental market for low income households.

A number of measures of housing affordability are used in Australia.[8] Each is valid but has a different purpose. Two common methods are the ratio measure and the residual measure.

The *ratio measure* is generally associated with studies of financial 'housing stress'. This expresses the housing costs of low income households as a proportion of their income and then relates this proportion to some accepted benchmark. 30 per cent is a widely accepted benchmark. A low income household is said to be experiencing 'housing stress' when the proportion of their housing costs to their income is 30 per cent or higher.

There have been a number of estimates of housing affordability using the ratio method. Each uses different ways of defining what constitutes a low income household. Table 2 shows the proportion of low income households in private rental who are experiencing housing stress according to the different authors. Regardless of the methods used for defining low income households, more than half of low income households in private rental – whether across Sydney, NSW or Australia – are found to be experiencing 'housing stress'. The Centre for Affordable Housing estimates 175,000 households in private rental housing in New South Wales are in housing stress and, of these, most are young single people, sole parents and older people.[9]

Table 2: Low income households experiencing housing stress

	Year	Catchment area	Number of low income households in housing stress	Number of low income households in private rental in housing stress	Proportion of low income households in private rental who are experiencing housing stress
Yates and Gabriel[1]	2002-03	Australia	862,000	460,000	65 %
ABS[2]	2003-04	Australia	425,000	255,000	51 %
Centre for Affordable Housing[3]	2005	NSW		175,000	
Department of Planning		Sydney		114,179	54 %

Sources: Judith Yates and Michelle Gabriel, *Housing Affordability in Australia*, Australian Housing and Research Institute, Sydney Research Centre and Southern Research Centre, Background Report, February 2006, p 3; Australian Bureau of Statistics, 'Housing Occupancy and Costs', Australia, 2003-2004 Catalogue No. 4130.0.55.001 Table 5; Andrew Larkin, 'Opportunity knocks for affordable housing', Presentation to Affordable Housing Network workshop, Parramatta, 9 December 2005, pp. 2,3; Department of Planning, 'City of Cities: A Plan for Sydney's Future', Metropolitan Strategy Supporting Information, December 2005, p. 127

Notes:
(1) Here, households are said to be experiencing 'housing stress' if they are lower income households (meaning households whose household income is in the lowest two income quintiles defined by the equivalised disposable household income distribution) and are paying 30 % or more of their gross household income in housing costs. This is known as the 30/40 rule.
(2) Here, households are said to be experiencing 'housing stress' if they are lower income households (meaning households whose household income is between the bottom 10% and bottom 40% of the equivalised disposable household income distribution) and are paying 30 % or more of their gross household income in housing costs.
(3) Here, households are said to be experiencing 'housing stress' if they are on very low, low or moderate incomes (defined in Section 8 of the State Environmental Planning Policy No 70 – Affordable Housing (Revised Schemes) as households receiving up to 120% of the median gross household income) and are paying 30% or more of their income in housing costs.

The estimate by the Australian Bureau of Statistics is more conservative than that of Yates and Gabriel. This is because of the way in which the former has defined 'low income households'. They limit low income households to exclude the bottom decile of the distribution of equivalised disposable household income because 'the incomes of many of the people falling into the lowest decile are not an appropriate indicator of the resources available to them'.[10]

The *residual measure* of housing affordability looks at the income available to a household after its housing costs have been met. Two measures which have been employed here are one that calculates a poverty line which became popular after the Commission of Inquiry into Poverty and, more recently, a low cost budget standard measure developed by Saunders.[11] Applying these measures, Yates and Gabriel estimate that 398,000 households in private rental housing across Australia fell below the poverty line and 500,000 households in private rental housing fell below the low cost budget standard.[12]

Burke[13] cites figures which show the proportion of all income units[14] in poverty after meeting housing costs rose from 12.8 per cent in 1972-73 to 18.8 per cent in 1996, with private rental accounting for the largest absolute number of poor.

The private rental market is more affordable for higher income earners than it is for lower income earners. In 2001, private rental housing stock let out at low rents accounted for just 15 per cent of the total rental stock and private rental housing stock let out at low and low to moderate rents accounted for 50 per cent of the total rental stock.[15]

The Department of Planning[16] states that the provision of housing through public housing and other dedicated programs recognizes that the market is unlikely to be able to directly provide affordable housing to the most disadvantaged. For this reason the State Government has established an Interdepartmental Committee to consider ways to improve access to affordable housing in both the home ownership and rental markets for low to moderate income groups.

Issue 2: More than half of low-income households in the private rental market are found to be experiencing 'housing stress'.

3. Whither the private rental market?

There has been significant investment in the private rental market in Australia since the 1980s.

Paris[17] explains the relative prosperity of the private rental market in Australia, compared to comparable countries, in terms of the interaction of the expansion of home ownership and the advantageous tax treatment of rental property investment – the latter being largely the combination of negative gearing and a modest capital gains tax.

Burke[18] cites investment data provided by the Real Estate Institute of Australia which suggests a post-1996 strengthening of the position of private rental versus other forms of investment - in some of the largest capital cities (Sydney, Melbourne and Perth) investors in 1998 accounted for between 23 and 33 per cent of all dwelling sales and over 30 per cent of all finance approvals for housing.

There was a surge in investment activity in private rental in the early 2000s, peaking in late 2004. In the early 2000s there was a growing trend for buyers to be investors rather than owner-occupiers. Investors accounted for nearly 49% of the value of total housing loans in New South Wales in the first quarter of financial year 2003-04, compared with 37% in the first quarter of 2000-01.[19] This was probably related to factors like historically low interest rates, stock market fluctuations and federal taxation arrangements. Yates, Wulff and Reynolds[20] attribute the reason for this to taxation provisions that encourage negative gearing amongst investors facing high marginal tax rates and which, through the interaction of depreciation allowances and capital gains taxes, encourage investment in new rental dwellings.

Between 1996 and 2001 there was a 7.6 per cent growth in the number of private rental dwellings.[21] However, this overall increase in the rental housing stock masks an important fact. The increase in private rental stock has been largely at the top end of the market and at the same time *there has been a loss of stock at the bottom end of the market.* There was a shortage of 11,000 rental dwellings in 2001 for low-income households, Australia-wide.[22] This is not unique to Australia. Indeed, Yates, Wulff and Reynolds[23] point to a decline in supply of low rent dwellings in countries other than Australia.

In Sydney's housing markets rental affordability pressures are increasing. Rent growth continues for well located housing in the inner and middle rings of Sydney, due largely to their high levels of access and amenity.[24] But, there is a long-term trend to declining amounts of low cost stock in the private rental market.[25]

Wood[26] provides three possible explanations for the contraction in low-income rental housing (rental housing that is available to low-income households at affordable rents) which he then seeks to test:

- Federal government taxation. The typical landlords of low income rental housing are disadvantaged by taxation arrangements that raise their after-tax costs in comparison to the landlords of high income rental housing. Consequently they earn insufficient returns on their rental investments and exit the market …;
- Economies of scope. The management costs incurred in leasing a high value rental property are proportionately lower than those associated with operating two rental properties of the same aggregate market value. Such economies are reinforced by ways in which land taxes are levied … ;
- higher maintenance costs. Older and more poorly maintained properties could be disproportionately represented among low income rental properties …. Operating costs are consequently higher with adverse impacts on returns.

Wood[27] demonstrates that taxation arrangements seriously disadvantage investors from low-tax brackets. Using data from the ABS 1993 Rental Investors' Survey he establishes that the ownership of housing at the cheaper end of the private rental market, where rents are more affordable to low-income households, is concentrated in the hands of landlords from lower income tax brackets.[28] (At the same time, the ownership of high income rental housing is concentrated in the hands of landlords from higher income tax brackets.)

Wood (writing with Watson and Flatau)[29] finds that marginal suppliers[30] are concentrated in low-income rental housing. He thus is able to say that any stock losses due to poor returns will then typically occur in this low value segment of the stock. This concurs with the finding of Yates, Wulff and Reynolds that there had been a contraction in the stock of low-income rental housing.

Wood[31] also finds a concentration of properties with higher maintenance costs in the low-income housing segments. Thus he concludes it is to be expected that investors from low-tax brackets are exiting the private rental market, leading to a reduction in the stock of rental housing affordable to people on low incomes.

The type of rental stock is also changing. New investment tends to be in multi-unit developments rather than free-standing houses. The *Sydney Morning Herald*[32] reports that, since 1998, the proportion of houses in inner Sydney's rental market has fallen from 11.5 per cent to 9.8 per cent, and in suburbs 10 to 25 kilometres from the city centre the proportion has fallen from 33 to 28 per cent. The article cites Rental Bond Board data as the source of this information.

Little attention has been paid by researchers to non-metropolitan private rental markets. An exception in the Australian context is Beer[33] who studied the relationship between labour market change and the private rental market in non-metropolitan South Australia for the period 1990 to 2000. He found that private renters are being locked out of fast growing non-metropolitan regions simply because they cannot gain access to rental housing.

Traditionally private rental has been viewed as a transitional tenure: a temporary phase before moving to either home-ownership or public housing. Burke[34] states that by the mid-1990s there was growing evidence that the private rental sector was in a process of transformation, notably in terms of this transitory role. As of 1994 about 40 per cent of all renters had rented for more than 10 years. Thus he argues that the private rental sector has come to serve a dual function: providing choice for the more affluent and constraint for the poor. He gives the example of Melbourne where the inner city has become 'rental of choice' linked to lifestyle preferences, and the outer urban areas 'rental of constraint' linked to low income and employment difficulties. This analysis is equally applicable to Sydney. He concludes that the growth of private rental in Australia may be seen as a function of widening social inequality and deepening poverty. Indeed, these changes have far reaching consequences in terms of the distribution of wealth in Australia. Peter Saunders, a sociologist with the Centre for Independent Studies, believes the 'asset gap' between home owners and the rest of society is one of the key social developments of our time: ‘The average wealth difference between home owners and renters in Sydney is now estimated at $436,000 … This division is much deeper and more enduring than the much debated ‘gap’ between high and low income groups.’[35]

Low-income households are being squeezed out of the private rental market because, as well as facing this dwindling supply of stock at the bottom end of the market, they are facing competition from better-off tenants for low-priced rental housing.[36] Other forms of housing at the bottom end of the market, such as caravan parks and boarding houses, are also fast disappearing. We are also seeing a change in the pattern of private renting, with more people living in the private rental market for extended periods of time.[37] This all coincides with a decrease in real terms in Commonwealth funding for the social housing sector.[38]

In concluding this section it is worth referring to the point made by Milligan[39] that there is no coordinated national housing policy response to the situation of low-income households in the private rental sector. This is because it is formally considered a state responsibility, even though it is heavily affected by national fiscal, monetary, income support and immigration policies.

Issue 3: The increase in private rental stock has been largely at the top end of the market and at the same time there has been a loss of stock at the bottom end of the market.

Issue 4: Investors of low-priced rental housing tend to have lower incomes. They tend not to get the full benefits of Commonwealth tax breaks and therefore disinvest. What measures are necessary to encourage investment at the low-priced end of the private rental market?

4. Private landlords

To understand what is happening in the private rental market – or to start unravelling its complexity – it is important to know what types of landlords exist and how they are likely to act.[40]

Allen and McDowell, writing about the private rental market in Britain, proposed a classification of landlords based upon ‘causal powers’.[41] Paris applied this type of framework to the private rental market in Australia. His typology distinguished seven types of landlords operating in Australia: temporary landlords, individual investors, corporate investors, owner managers, employer landlords, other institutional investors and informal landlords.[42]

Seelig, Burke and Morris[43] provide an overview of the different typologies of landlords, especially those developed in the Australian context.[44] The most recent typology is one proposed by Seelig: short term or temporary landlords – they may or may not act according to financial considerations and include those wanting to return to the property or sell in the near future; small scale private investors – they will nearly always act according to perceived financial advantages, but their economic perceptions may not be objective (they invest in housing rather than shares because they think 'bricks and mortar' is safe); professional and minor-commercial investors – they will always act according to perceived financial advantages and will consider the viability of rental housing investment in relation to other types of investment (they make decisions 'rationally').[45]

Most commentators agree that investment in rental property is the domain of small, individual investors who rarely own more than one or two dwellings.[46] Two-thirds are 'mum and dad' investors.[47]

Mowbray administered a questionnaire to a sample of landlords across New South Wales in the mid-1980s. Adapting the typology used by Paris he found that one third (33 per cent) of the landlords were temporary landlords and just over half (54 per cent) were investors.[48] Mowbray estimated that during the 1980s landlords owning a single property held between 40 and 50 per cent of all residential rental properties across New South Wales.[49]

Elton & Associates writing in the early 1990s stated that individual investors owning one or two properties accounted for 70 to 80 per cent of landlords nationally. Corporate investment was low, with Sydney the only market with any significant corporate presence: although corporate landlords accounted for as little as 5 per cent of landlords, they controlled 10 to 15 per cent of the market nationally. They also found a virtual absence of large corporate or institutional investors in all states.[50]

The 'Household Investors in Rental Dwellings, Australia' survey conducted by the Australian Bureau of Statistics in June 1997 found that 6.5 per cent of all income units[51] living in private dwellings in Australia owned or party owned residential rental property; and that most investors were small investors, with 76% owning or partly owning only one property. [52] Also, rental investors owning low-priced rental properties were more likely to own only one dwelling than rental investors generally.[53]

The Reserve Bank of Australia stated that the share of households with an investment property rose from around 8 per cent in the early 1990s to around 12 per cent in 2001. This is double the proportion in the USA and Canada. In United Kingdom, less than 2 per cent of households owned a rental property.[54]

Two-thirds of investors get their main source of income from salaries and wages, and 18% from their own business or partnership. However, income from own business or partnership was a significant source of earnings for low cost investors who were more likely to be outside of the labour force.[55]

Significantly, individuals who invest in low rent private rental housing tend to have lower incomes than rental investors overall. As a consequence such landlords receive fewer tax advantages and potentially are the most likely to leave the market.[56]

Around 70% of rental property owners hire a real estate agent to manage the property, with 29% directly managing their lettings.[57] However, landlords of lower cost housing are more likely to manage the properties themselves than use an agent.[58]

Seelig sought to paint a picture of providers of low cost private rental housing. He stated that they are not a homogenous group of investors, however:

> they are more likely than other investors to own just one dwelling; to be more reliant on income from investment and business sources but to have lower levels of income and to be retired; to have purchased the dwelling outright or to have inherited; to own older dwellings; to self- manage the rental dwelling; to have been a landlord for longer; and to be residual providers in that they would like to get out but cannot sell. They are less likely than other investors to have an investment mortgage; to be interested in long term investment; and to seek further investment acquisitions.[59]

Changes to the way in which multi-unit buildings are owned has facilitated the growth of small investors in the private rental market. Burke refers to the fragmentation of ownership in multi-unit buildings in the 1970s with strata titling legislation. He states 'two decades on, most multi-unit accommodation has fallen into multiple ownership, with mixes of owner occupiers and tenants. This has made ownership of rental accommodation unattractive to large institutional investors, as they cannot manage the entire development. Conversely, it has made entry into the rental sector very easy for small investors …' [60] Seelig, Burke and Morris[61] state 'it could be argued that the boom in inner-city apartment construction [in the 1990s] was one premised on strata titling. It enabled developers to pitch their market at anybody that was interested – not just landlords and not just owner-occupiers.' The same writers foreshadow a potential problem for investors in the new high rise inner-city apartments – this being body corporate fees of a scale disproportionate to the level of investment or the level of rental income.[62]

In recent years investors have received a low rental return on residential property. The Reserve Bank of Australia stated that the combination of rapid increases in housing prices and relatively low increase in rents has meant that gross rental yields – rent received as a percentage of the market value of the property – had fallen to low levels by the end of 2003, with gross rental yields typically around 3 to 3.5 per cent for houses and a little higher for apartments. This drops at least one percentage point lower after taking into account costs such as council rates, strata levies, management fees, repairs and maintenance.[63]

As stated above, individual investors (and temporary landlords) are the dominant types of landlords in the private rental market. Such types of landlords generally hope to get an adequate return on their investment through use of negative gearing to minimize personal taxation during the period of the investment and by obtaining a capital gain on sale.

Burke[64] argues that investment in the private rental sector is not based on rental return alone but on the possible capital gains, whose level and rate is driven by what happens in the owner occupied housing market.

The way in which landlords get a return on their investment has implications for tenants and for the overall role of the private rental market. Because a capital gain is an important component of investors' returns, and generally landlords believe they will enhance the capital gain on their property by selling it with vacant possession, our residential tenancies laws enable landlord to obtain vacant possession with relative ease. This means that for tenants the rental sector has no long-term security or certainty.[65] Burke[66] argues:

> This may be of no substantive importance if the sector plays only a traditional role for consumers, but if constraints are creating a new role for the sector – that is, one of long-term accommodation – then the residential tenancy environment fits poorly with consumer needs.

Neil Youren has argued that an 'investment grade product' attractive to institutional investors will lead to the provision of longer leases.[67] Yet, unlike many other comparable countries, Australia does not have a tradition of institutional investment in private rental dwellings. Berry, Whitehead, Williams and Yates[68] state:

> Prominent by their absence have been professional and institutional investors. … The absence of the institutions from the rental sector has been caused by a number of economic and institutional factors that cause expected returns on equity to fall well below that required to compensate for a range of risks, including vacancies, tenant behaviour, illiquidity, poor market information and weak property management. These barriers to investment apply particularly at the lower cost end of the rental market.

Indeed, financial institutions such as superannuation funds are looking for socially responsible investment opportunities but choose not to invest in affordable housing for the reasons stated above.[69] The financial pages of the daily newspapers often discuss new offerings by fund managers seeking to attract investment from superannuation funds in the retail, office and industrial property markets, but not rental housing. [70] It is therefore important to address supply-side strategies that can attract private investment to the provision of secure, long-term, affordable housing in the residential rental market.

In summary, the dominance of the small scale investor is significant in a number of ways[71]:

- Firstly, without them there would be little investment in private rental.
- Secondly, the reality of small landlords would suggest short-term investment built around expectation of capital gain which is the major means of realizing one's investment. 'The conflation of weak security of tenure provisions and the existence of landlords who want to sell their property at regular intervals means, from the consumer's perspective, a highly insecure living environment.'
- Thirdly, if investment is driven by expectations of capital gains, what happens if they are not forthcoming, for example in country towns and cities, leading to

insufficient new rental investment in such areas, with supply shortages as an outcome … with the result of increasing housing hardship, particularly for many low-income households. A related implication is the concentration of investment at the upper end of the market.

- Fourthly, a final implication of small-scale landlordism is its instability. This was evidenced by the pattern of investment finance in private rental … with immense variations through the 1980s and 90s in Melbourne. Given the contraction in social housing, lower income households would be particularly vulnerable to any such disinvestment.

Issue 5: Investment in rental property is the domain of small, individual investors who rarely own more than one or two dwellings.

Issue 6: The dominant types of landlords reserve the right to obtain easy vacant possession in order to sell into the owner-occupation market and maximise capital gain. What are the implications of this for tenants' security of tenure?

Issue 7: Australia does not have a tradition of institutional investment in private rental. Can institutional investors, such as superannuation funds, be enticed into the low-priced end of the private rental market?

5. Government assistance on the demand side

5.1. Commonwealth government

Hulse[72] reports that in many European countries, North America and New Zealand, housing demand subsidies[73] have become the main means of assisting low-income households with their housing. She cites Kemp who offers three main reasons for this:

(i) a redefinition of the housing problems of low-income households as due to lack of income rather than lack of housing;

(ii) demand for reduction in public expenditure and reduced role for governments … housing demand subsidies are attractive because they appear to assist more households for less money and allow the timely removal of subsidy when it is no longer required;

(iii) renewed emphasis on markets as efficient, flexible and attuned to consumer preferences and a disenchantment with public sector provision as inefficient, inflexible and inefficient … housing demand subsidies are attractive because they appear to offer recipients more choice and control over their housing.

In Australia, Commonwealth Rent Assistance is a housing demand subsidy. It is a supplementary payment within Australia's national income security system. The Commonwealth government pays Rent Assistance to persons on Centrelink payments who rent in the private rental market.[74] It is available where the private renter is paying rent above a designated threshold. It is paid on a sliding scale depending on household type and the amount of rent paid. The top rate of payment is capped when rent reaches a certain level.

Rent Assistance was first introduced in 1983 by the Hawke Labor Government in an attempt to improve housing affordability for social security recipients who were renters. It replaced a more modest payment called 'Supplementary Assistance' which had been introduced in 1958.[75] Eligibility for Rent Assistance was expanded in 1986 to include those on unemployment benefits. [76] It was expanded again by the Howard Coalition Government in 2000 to include recipients of the newly introduced Family Tax Benefit (Part A).[77]

In 2004-05, the Commonwealth spent $2.1 billion on Rent Assistance. This is more than the amount spent on the various supply-side housing assistance programs financed through the Commonwealth State Housing Agreement ($1.3 billion in 2004-05).[78] The Rent Assistance program is funded through the Commonwealth Department of Family and Community Services budget. Expenditure on Rent Assistance has increased by 7 % in real terms from 1993-94 to 2003-04. Over the same ten year period, total government expenditure under the Commonwealth State Housing Agreement has declined by 54 % in real terms.[79]

In March 2005, 941,120 households[80] across Australia received Rent Assistance.[81] Of these:[82]

- 35% (324,613 households) were spending over 30% of income on rent;
- 9% (83,509 households) were spending over 50% of income on rent.

In Sydney: [83]

- 48% (80,371 households) were spending over 30% of income on rent;
- 16% (26,497 households) were spending over 50% of income on rent.

Rent Assistance improves housing affordability for recipients. Without Rent Assistance, 71% of its NSW recipients would be in financial housing stress. The provision of Rent Assistance enables this to drop to 40%.[84]

Melhuish, King and Taylor[85] state that Rent Assistance is important for improving housing affordability for approximately one million income support recipients in the private rental market. Using a benchmark for affordability of rent being less than 30% of income, Rent Assistance takes the proportion of households in affordable housing from one-third to two thirds.

Whilst the above figures show that Rent Assistance does make a different for most households, other writers have focused on those renters for whom it has not achieved housing affordability.

Johnson[86] cites Berry and Hall who undertook research for the Affordable Housing National Research Consortium and concluded that Rent Assistance is failing to make a significant impact in reducing housing stress in major urban areas. They investigated whether Rent Assistance helped recipients alleviate housing stress in Sydney and Melbourne between 1994 and 2000. They found:

- For single persons and couples without children eligible to receive Rent Assistance, there was almost no type of (average priced) rental dwelling that was affordable in any local government area in either Sydney or Melbourne in 1994 or 2000.
- Rent Assistance provided no substantial alleviation of housing stress for single persons and couples without children.
- The number of locations where single person and no-child couple households will not experience housing stress declined significantly since 1994.
- For single persons with 1 or 2 children and eligible to receive Rent Assistance, only one-bedroom flats were affordable in 20% of locations (that is, all other dwelling types were not affordable by this group in any local government area) in 2000, and Rent Assistance was far less effective in widening choice in 2000 than in 1994.
- Couples with 1 or 2 children and eligible to receive Rent Assistance had a wider range of locational and dwelling choices than any other group, but Rent Assistance was providing greater choices in 2000 than in 1994 for this household type only where this group was renting 3-bedroom housing.

Berry and Hall[87] concluded that Rent Assistance was much less effective in broadening dwelling and locational choices in 2000, than in 1994, in either Melbourne or Sydney, and that the level of effectiveness achieved was largely confined to family types in which there were dependent children. They argued that the program could have been maintained at the effectiveness of 1994 levels only with a significant increase in the rent cut-off levels and maximum amount of assistance payable.

A major criticism of Rent Assistance is that it treats households in similar circumstances in the same way wherever they live in Australia; that is, a uniform, national Rent Assistance scheme ignores the fact that private rental housing markets differ substantially across the country.[88] It also ignores the housing needs of working households on low-incomes without children because they are ineligible for any Centrelink payment.[89]

National Shelter and Australian Council of Social Service[90] argue that there is a case that Rent Assistance should take account should take account of geographical variations in rents, possibly by introducing a ‘zoning’ system.

Melhuish, King and Taylor[91] argue that concerns about the uneven regional effect of Rent Assistance on housing affordability, to some degree, can be addressed by adjusting the nation-wide rules of Rent Assistance rather than developing complex regional formulae.

By changing the nation-wide settings of Rent Assistance, policy makers can alter the geography of housing affordability. For example, a decrease in the minimum rent threshold would tend to improve affordability for those in regional Australia; an increase in the maximum rate of Rent Assistance would tend to improve affordability for those in metropolitan areas.

It has always been assumed that one of the advantages of housing demand subsidies, such as Rent Assistance, over supply subsidies was improved consumer choice. However, Hulse questions whether such choice does operate. She cites research in Melbourne which found that, whilst Rent Assistance recipients are more dispersed than public housing renters, low-priced private rental housing is increasingly concentrated in a number of inner suburbs and older industrial areas.[92] She adds that reforms to Rent Assistance for private tenants and plans to improve and co-ordinate Rent Assistance with supply-side subsidies under the Commonwealth State Housing Agreement, as proposed by both Labor and Coalition governments in the 1990s, have dropped off the political agenda.[93]

Hulse concludes[94]:

> Whilst Rent Assistance provided welcome additional income for many households on low incomes, it results in different affordability outcomes for different types of households and in different parts of Australia. Although Rent Assistance improves affordability, it does not make housing affordable for significant numbers of households, using common affordability benchmarks.

Johnston[95] provides an exhaustive overview of the effectiveness of Rent Assistance. He argues[96] that there is a reasonable body of public policy literature that critiques Rent Assistance as a program and identifies three major strands of criticism. These are:

- it does not achieve affordability for all low-income private renters, either because the amount of assistance is not enough or some private renters are not eligible for it;
- it helps provide an inferior model of housing to that provided through supply-side assistance; and
- it is less cost-effective than provision of in-kind support (public housing) over the long term.

He also makes one point that has been omitted by other writers: that Rent Assistance is a key lever for the viability of community housing, which has to tap diverse revenue streams to be sustainable.[97] Nevertheless, his conclusion is similar to other writers:

> … the stock of low-rent private housing is diminishing and the amount of subsidy through rent assistance does not achieve housing affordability for a too significant minority of private renters.[98]

Issue 8: Rent Assistance does not achieve housing affordability for a significant minority of private renters.

5.2. Other private rental support programs

State and territory governments provide demand-side assistance to people in the private rental market. Jacobs and others[99] surveyed what they termed 'private rental support programs' (PRSP) across Australia. These are best understood as a spectrum of separate programs rather than a single form of provision.[100] The primary aim of such programs is to assist clients to move into the private rental market. However, in some jurisdictions, this aim is extended to include maintenance and sustainability of tenancies. In practice these programs also have a latent aim: this is the need to manage shortages in public housing.[101] They concluded that:

> … overwhelmingly clients and workers in all jurisdictions see PRSPs as positive and valuable for those who seek to enter the private rental market but do not have the financial resources to do so unsupported. … However, in the absence of consistent and comparative performance indicators that can measure outcomes in the longer term, more quantitative data on the extent to which they are able to do this is unavailable. So too are measures of the effectiveness of different PRPS models in achieving these aims.
>
> What is clear is that there are a series of barriers which impact on more effective facilitation of access to accommodation. These are not related to the functioning of the programs themselves, but rather reflect the demands and expectations of prospective landlords in the housing market.[102]

The authors state that there is no conclusive evidence of discrimination against PRSP recipients, but rather they face intense competition for accommodation, the expectation that they have ready access to bond and rent in advance and occasionally illegal landlord practices – all of which mean prospective renters do not always have access to a wide range of choice in accommodation or are unable to effectively compete. The high cost of renting means that financial support may be withheld when the rental costs exceed a certain proportion of the applicant's income. Even with financial support, some households are not able to accumulate all monies necessary to effect a move into accommodation.[103]

In New South Wales the main financial support program is called Rentstart which is administered by the Department of Housing. It is primarily for people entering the private market whose income is from social security payments, but is also available to help a tenant maintain a tenancy or to rent temporary accommodation. Generally, Rentstart assistance will contribute up to 75 per cent of the cost of rental bond. For people in severe financial and housing circumstances Rentstart Plus will provide up to the full bond, up to 2 weeks advance rent (3 weeks for furnished accommodation), up to 4 weeks rent arrears or up to 4 weeks rent in temporary accommodation. [104] NSW spent almost $23 million on Rentstart in 2004-05, assisting over 34,000 households.[105]

The Department of Housing also operates two schemes targeting people living with HIV/AIDS and people with disabilities who rent in the private rental market – the Special Assistance Subsidy – Special and the Special Assistance Subsidy – Disability, respectively. These schemes pay the difference between what rent the tenant would pay as a public housing tenant and a reasonable market rent for the dwelling they occupy. [106] NSW spent almost $8.8 million on the Special Assistance Subsidy Program in 2004-05. This was made up of just under $4 million for people living with HIV/AIDS and $4.9 million for people with a physical disability.[107]

In the last few years the Department of Housing has also piloted two new initiatives in the private rental market. Since May 2003, the Department of Housing has been piloting a Tenancy Guarantee scheme which targets people who are able to manage and sustain a tenancy in the private rental market, but who are experiencing difficulties securing approval to rent a property due to barriers such as discrimination, no tenancy history or a problem with their rental history. The scheme covers possible arrears or damage to property to a maximum value of $1,000 over the full amount of the rental bond. During 2004-05, 560 guarantees were issued and 170 activated. The Department of Housing has piloted a private rental brokerage service in Coffs Harbour which it is expanding to other locations. The Department's role is to act as broker between clients, support services and real estate agents for people with complex needs, such as serious health condition, social isolation, substance abuse, mental health issues, disabilities or dysfunctional behaviours. During 2004-05 1000 clients were assisted into private tenancies through the project. [108] This program works in non-metropolitan locations where there is a supply of low cost housing stock.

The NSW Government funds 22 community organisations to provide a network of tenants advice and advocacy services under the Tenants Advice and Advocacy Program. During 2004-2005 the program assisted around 25,000 people. The program is administered by the Office of Fair Trading. Funding allocated in 2004-2005 was just over $7 million and comes from interest earned on the 'Real Estate Agents' Trust Account' (50%) and the Rental Bond Board statutory accounts (50%).[109]

The state government licenses commercial boarding houses accommodating two or more people with disabilities, through the Department of Disability, Aging and Home Care. The government has been seeking to relocate people with disabilities out of this form of housing, but there could be some 1,000 or more people with disabilities who stay in boarding houses. The commercial boarding house sector is, however, a marginal business activity and the stock is largely located in suburbs undergoing gentrification, so there is chronic decline in the supply of this sub-sector.

Issue 9: What new initiatives could the State Governments take to directly assist low-income renters in the private rental market?

6. Government treatment of the private rental market on the supply side

Governments assist the private provision of rental housing. This is primarily through the taxation system. Abelson lists the major taxes and tax exemptions and concessions affecting housing. Those affecting private rental housing are shown in Table 3 below.

Table 3 Major taxes and tax exemptions and concessions affecting rental housing

Tax or subsidy	Main features
Taxes	
Land taxes – State	Taxes on land valued over a specified threshold used for rental properties.
Local government land taxes – Local	Local governments levy rates on most residential properties (whether used for owner-occupation or rental).
Stamp duties on transfers of land and housing – State	Most state governments levy stamp duty (‘transfer duty’) on value of property when it is transferred.
GST on home maintenance and renovations, land sales and new buildings – Cwlth	10% GST applies to (a) maintenance and renovation expenditure for existing housing and (b) sales of land and new buildings.
Infrastructure developer charges – Local and State	Local governments may levy developers for infrastructure costs where there is a link between a new residential development and a need for public amenities and services. The state government proposes a special infrastructure charge to help finance urban infrastructure in growth centres in southwestern and northwestern Sydney.
Tax exemptions and concessions	
Non-taxation of rental services (GST) – Cwlth	There is no goods and services tax (GST) on housing rents.
Concessional capital gains taxes – Cwlth	Property investors pay tax on half the nominal capital gains.
Depreciation allowance – Cwlth	This enables write-off initial construction costs of a rental property at the rate of 4% a year over 40 years[1]. Owners of such property may include other costs in the capital base of the property and depreciate some items[2].
Tax treatment of losses on rental property (negative gearing) – Cwlth	Investors can deduct 100 per cent of nominal losses from rental property against other taxable income.
Low income accommodation – State	If located within 5 kilometres of GPO, exemption from land tax.
Boarding houses – State	If primarily let to long term boarders, exemption from land tax.

Source: Adapted from Peter Abelson, ‘Taxation and Subsidies for Housing and Land: Market Impacts and Economic Efficiency Implications’. Paper to the 34th Australian Conference of Economist, Melbourne, September 2005, Table 1, p. 3

Notes:
(1) Rate is 4% where construction of building commenced between 18 July 1985 and 15 September 1987.
(2) Examples are carpets, furniture, hot water systems where deductions are based on effective life of the asset.

From the above table, tax provisions that relate to the supply of rental housing are:

- taxes on land and housing – state taxes on land valued over a specified threshold used for rental properties, local government rates, state government stamp duty on the value of the property when it is transferred, and the federal GST on home maintenance and renovations.[110]
- tax exemptions and concessions – at the federal level no GST on rents, concessional capital gains tax with property investors paying tax on half the nominal capital gains, depreciation allowance of 2.5 per cent and negative gearing; at the state level, exemptions from land tax for low-income housing within 5km of the Sydney GPO and exemption from land tax for boarding houses.

Seelig, Burke and Morris[111] highlight a further capital gains tax concession that is available to some investors. The capital gains tax provisions provide a capital gains tax exemption where a tax payer sells his or her family home. However, a tax payer who ceases to occupy his or her main residence may continue to treat it as their main residence even though it has ceased to be so and irrespective of whether it has been used to produce rental income. Where the house is used as a rental property it may continue to be treated as the tax payer's main residence for a period of up to six years. So in such circumstances, a tax payer may avoid capital gains tax altogether.

Abelson estimates that investors and renters of private rental properties jointly receive an estimated net subsidy of $250 per rental property per annum. This is substantially less than homeowners who receive an estimated benefit of $2,000 per household per annum.[112] (Subsidies include private rent subsidies and first home owner grant.)

Karantonis identifies eight taxes directly impacting on residential investment property in New South Wales.[113] These are set out in Table 4.

Table 4: Taxes on residential investment property in New South Wales

	Federal	**State**	**Local**
Income	Rent		
Consumption	GST on repairs and maintenance	Stamp Duty on mortgage (to be abolished in New South Wales by 2011)	Section 94 and 94A contributions (Environmental Planning and Assessment Act)
Wealth	Capital gains	Land tax	Rates
Transfer		Stamp duty on sales	

Source: Adapted from Angelo Karantonis, 'Risk free profit from property – the government, the risk free partner', unpublished paper, 2005, p3.

The NSW Government imposed a vendor duty for agreements for sale of land and transfers exchanged or executed after 1 June 2004 and prior to 2 August 2005, when it was abolished.[114] In March 2006 the NSW Government announced that a raft of state taxes will begin to be phased out in 2008'.[115] Stamp duty on mortgages will be phased out by 1 January 2011.[116]

Deregulation of the finance system in the 1980s resulted in more choice and greater flexibility for rental property investors around loan arrangements. New providers and new products came onto the market giving small investors many more funding options.[117]

Burke [118] states that in the 1980s the federal tax environment improved for those wishing to invest in the supply of private rental housing. 'Investors in new properties could claim a depreciation allowance of 2.5 per cent and 'negative gearing' (the ability to claim nominal interest on borrowings against taxable income). With a top marginal tax rate of 49 per cent currently, and 59 per cent when its use became widespread in the mid-1980s, these tax incentives provided a major boost for investment by individuals looking to reduce their tax burden.'[119]. In the early 1980s the banking system was deregulated. With home interest rates soaring to levels up to 17 per cent in the late 1980s, investors could claim tax deductions for interest rates at this high rate – almost halving their impact – while owner occupiers could make no such claim. Burke [120] argues that negative gearing is both government revenue forgone and completely untargeted. He cites Leigh who suggests that the main beneficiaries are relatively affluent individuals purchasing upmarket property. Burke [121] states that its retention has nothing to do with any documented proof of its effectiveness, but more a fear of the property owning lobby – particularly in New South Wales – who have a tradition of running effective but often scurrilous scaremongering campaigns.

Berry[122] cites estimates by Colebatch that total losses claimed on rental dwellings by small landlord-investors were likely to reach $10 billion in 2002-2003, generating tax benefits of almost $4 billion.

Seelig, Burke and Morris[123] cite Australian Taxation Office figures that show for the 2003 financial year, over 1.3 million taxpayers had declared rental income of $13.7billion and claimed rental deductions of $14.9bn.

An article in the *Sydney Morning Herald*[124] on 13 October 2005 reported: 'Capital gains tax and negative gearing rules should be altered to discourage speculative investment in rental properties and help reduce Australia's chronic debt burden, a Senate committee is expected to recommend today.' In its report, the Economic Reference Committee of the Senate noted that the Productivity Commission has recommended that the Australian Government establish a review of those aspects of the personal tax regime that have recently contributed to excessive investment in rental housing, with a focus on the capital gains provision.[125]

The Business Coalition for Tax Reform, which includes the Master Builders Association and the Property Council of Australia, has called for negative gearing on rental properties to be abolished or seriously curtailed. In a report entitled 'Personal Income Tax Reform' they argued that 'Australia's personal tax system gives rise to a variety of distortions, resource misallocations, arbitrage opportunities, avoidance and evasion incentives and increased costs for business.' [126]

Wood, Watson and Flatau[127] found that the combined effect of negative gearing and the Building Write-off Allowance (Depreciation Allowance) is small at the low-rent end of the market. This disadvantages investment at the low-rent end of the market. Further, they found that the alliance has negligible effect on tax burdens because allowances are recaptured on sale of the rental property, through the capital gains tax. They argue that an alternative means of reducing the tax burden of landlords and of directing investment to the low-rent end of the market is the Low Income Housing Tax Credit. They also found that the State and Territory taxes, such as Land Tax and Stamp Duty, deter the emergence of multiple property landlords by increasing the effective tax burden on such landlords. Burke [128] reiterates this point. He states that, by contrast with the Commonwealth, state taxes are less conducive to investment, at least for larger-scale or corporate investors. State land taxes tax the cumulative value of property after an initial threshold ownership and this acts as a disincentive for multiple ownership within one state. In New South Wales, this means that typically an investor with more than one or two properties will attract land tax.[129]

On the other hand, from a state government perspective, Warren suggests that property taxes, such as land taxes, are efficient because the supply of land is fixed, the base is immobile, and they are difficult to evade.[130] Property taxes are therefore an important source of revenue for the state government independent of federal tax revenue (on which all states governments are over-dependent). Revenue from land tax and transfer duties provided 30% of the NSW government's revenue from its own sources in the 5-year period 2000-01 to 2004-05.[131]

The NSW state government has a number of small programs with a supply-side focus, all benefiting low-income tenants. Property owners who provide 'low cost accommodation' within 5 kilometres of the Sydney GPO are exemption from land tax (involving foregone tax estimated at less than $1 million a year). Property owners who provide boarding houses where at least 80% of the accommodation is let to long-term boarders are exempt from land tax (involving foregone tax estimated at $4 million a year). [132] The state government also gives an exemption from land tax for residential parks primarily occupied by retired people and residential care facilities for older people.[133]

The Department of Housing has a financial assistance (grant) scheme for boarding house owners to fire safety works. Community housing associations headlease some 5,300 dwellings from private real estate agents and sublet to low-income households. The Department of Housing has a number of 'long-term leases' with private landlords for properties which it then sublets to public housing tenants or to community housing associations.

Issue 10: Negative gearing is both government revenue foregone and untargeted to supply of low-rent private rental housing.

Issue 11: The way in which the State Government calculates land tax is not conducive to multiple investment in low-priced rental housing.

7. Reviewing supply-side strategies

Berry[134] states that the problems of declining affordability are especially severe for low-income private tenants. Further, he adds that it is even more worrying [that] increasing (trapped) demand in this segment of the housing market has demonstrably *not* resulted in a significant positive supply response – in fact, supply continues to fall. He argues[135] that 'one notable area ripe for policy reform focuses on attracting more private investment into the supply of affordable housing targeted at groups most in need.'

Berry, Whitehead, Williams and Yates[136] reiterate this point. They state that one of the persistent recommendations of policy reviews and enquiries over the last decade in Australia has been the need to encourage increased private investment into affordable housing at the lower end of the rental (and owner-occupied) market. A review of the literature shows that major commentators in the debate see the most feasible solutions more in terms of enhancing the role of not-for-profit housing providers with a capacity to leverage private finance for affordable housing. In such situations, where private investors are given tax advantages, their property should be head-leased to community housing providers to ensure that low-income renters receive the benefit of the affordable housing.[137]

The Allen Consulting Group[138] state that the key barrier to attracting investment in affordable rental housing is that the rents required to deliver investors an acceptable rate of return are not affordable to low and moderate-income households.

Yates, Wolff and Reynolds[139] suggest that the shortage of low rent stock in the private rental market might be addressed through policies that pursue either 'replacement' or 'market supplementation'. 'Replacement' occurs by creating a secondary rental market for low-income tenants to ensure that the low-income stock that does exist is allocated to those households most in need of it. The current head-leasing in social housing is an example of this, but it does not address the need to increase the total stock. 'Market supplementation' sees a role for supporting institutions prepared to fund potential housing providers. This may require new tax breaks, guarantees or other forms of direct subsidy[140] and also calls for re-examining tax incentives that currently underpin provision of rental housing in the private market, with tax reform directed towards investment in low-priced housing targeting low-income tenants.[141]

A study by Berry[142] outlines three models which, he argues, are likely to be attractive to institutional investors: a Commonwealth outlay subsidy to support the States and Territories borrowing to finance an increase in the stock of social housing; launching an equity vehicle on the Australian Stock Exchange, dependent on a Commonwealth equity injection and state revenue subsidies to meet investor returns; and a non-profit company financed by an initial non-refundable, dividend free equity injection by a State government, complemented by State borrowings and voluntary developer contributions. In each model, the government subsidies provided were significantly ‘leveraged’ by private investment.

Berry, Whitehead, Williams and Yates[143] examine a number of models designed to attract investment at the affordable end of the market. All require some form of subsidy. One, which was developed by the Affordable Housing National Research Consortium,[144] (called ‘the Consortium model’) is where government assistance is used to leverage institutional funds into investment in affordable housing. The preferred option requires State and Territory Governments to each sell long-term bonds at market prices to private investors. Capital raised in this way would be used by each state housing authority to develop housing to be leased at affordable rents to eligible tenants. Another model developed by Macquarie Bank would pool the savings of professional retail investors into a fund to be used to acquire housing for rental managed by community housing organisations. Investors would receive an overall return based on both the rental yield and the capital gain. Macquarie Bank also suggests a model that trades on the current nature of the private rental market as a ‘cottage industry’. This approach simply rests on governments providing specific incentives to small investors to leave more of their savings in affordable rental housing: incentives being a tax exemption on part of their rental income when they lease their dwellings to community housing organizations. State governments could also offer land tax and local rate exemptions. These savings and subsidies can then be passed on to the tenant as lower rents.

Berry and others cite a model proposed by Gavin Wood to deliver greater incentives for small landlord investors to provide more low cost rental housing. Wood proposes[145] capital gains thresholds and low-income housing tax credits as two measures that can lower the costs of low-income rental housing for landlords and hence improve their returns, providing financial incentive for existing and prospective private landlords to remain in and expand the low rent segment of the market.

Berry[146] states that Wood’s analysis suggests that, properly targeted, subsidies delivered through the income and capital gains tax systems could increase the financial incentive for existing and prospective private landlords to remain in and expand the low rent segment of the market. Also, Berry, Whitehead, Williams and Yates[147] state that this approach depends for its effectiveness on landlords who receive the tax benefit actually passing it on in lower rents *and* renting their dwellings to lower income tenants. Wood, Watson and Flatau[148] argue that this could be achieved by making eligibility for low-income housing tax credits conditional on private landlords entering into head-leasing arrangements with social housing organisations.

Nevertheless, Berry[149] concludes that those approaches that rely on subsidies delivered through the tax system are less feasible politically. ‘Central agencies at both federal and state levels are focused on the task of reducing special taxation benefits to particular investment areas. Policy advocacy in favour of creating new recipients of targeted tax relief is likely to get short shift’.

The Allen Consulting Group argues that private sector finance will be an important element of any long term solution that addresses the shortage of affordable rental housing. They state: ‘… much of the nation’s housing affordability problem can be overcome if governments can stimulate institutional investment in affordable rental housing … [targeting] low and moderate income households.’ [150] They examine three policy options: bonds, partnerships and tax credits and demonstrate that the financial costs are modest while the economic and social benefits would be substantial.[151]

Two articles in the *Sydney Morning Herald* report the establishment of real estate investment trusts targeting residential property – in Britain and in Australia. One article reports that the British Government will be introducing real estate investment trusts from January 2007. These will be directed at both the commercial and residential property investment markets.[152] Another article reports that Westpac had bought $100 million of residential property from the Defence Housing Authority as the seed asset for a new residential property trust. It states that real estate investment trusts are part of the investment landscape in the United States and Europe where the large availability of generic apartments and housing makes them viable. The article mentions that Lend Lease is looking at a similar vehicle but finding it a ‘challenge’.[153]

Burke[154] proposes a new funding system for social housing that draws private rental housing into the social housing system. This encompasses a two tiered rent assistance system for both public and private rental. The first tier is basically as is, with a direct payment to the tenant. The second tier is an additional payment to the landlord, who must be willing to take tenants from a common waiting list, offer long-term secure leases, and agree to a fair rent. He defines long-term leases as leases of five or more years and a fair rent as 85% of market value.[155] In order to encourage the participation of private landlords in such a scheme, he proposes a special tax depreciation provision whereby, for the duration of their participation in the assisted housing program, they could claim an annual 1 per cent depreciation allowance on the capital value of the property or have a negative gearing rate of 120% of allowable costs.[156] One advantage of this proposal is that the problem identified by Yates, Wulff and Reynolds, of much of the low cost stock being occupied by higher income earners, would be partly addressed by providing a mechanism for encouraging private landlords to explicitly house lower income households.[157] It should be noted that this proposal was developed before the introduction of more tightly rationed eligibility for public housing in NSW (proposed to be phased in from July 2006). Accordingly, a scheme along the lines proposed by Burke should include low-income households in ‘housing stress’ but not eligible for public housing.

Over the last six months two State Governments have announced initiatives to deliver a new supply of affordable housing in the private rental market. On 16 December 2005 the

Tasmanian Premier announced the formation of a new non-government Affordable Housing Organisation which will build, sell and then oversee the leasing out of 700 privately owned houses to people who are in need of affordable housing. Under the scheme, investors buying a new house from the organisation will sign a long-term contract, expected to be about 10 years. In return for accepting the organisation's tenants, investors will have council rates paid, most non-structural repairs and maintenance costs covered and be guaranteed a stable, long-term financial return. The State Government will contribute $24 million to the organisation over the first four years as well as making $35 million worth of public land available.[158]

On 30 March 2006 the Queensland Minister for Housing, addressing the Australian Financial Review Housing Congress in Sydney, announced a proposal called *Home-link*[159], which is 'designed to deliver new supply of affordable residential private rental properties for lower income households. It provides benefits to both tenants and investors. It can also benefit government by reducing potential demand on programs like social housing.' The Minister outlined the proposal as follows:

- The proposal aims at building 1,000 new units of private rental housing.
- It requires the Commonwealth Government to contribute an up-front non-taxable grant to investors equivalent to ten years' Rent Assistance at existing rates.
- Tenants will not receive Rent Assistance whilst occupying the premises.
- The Queensland Government will contribute an up-front grant of $6,000 for each residential unit and pay the cost of tenancy management.
- Local governments will provide a 25% concession on general rates.
- The model provides a potential return to investors which is approximately 15% above expected returns in the existing residential market over a 10 year period.
- The model provides tenants with an overall rent reduction of around $30 per week and the potential for security of tenure through longer leases.

Issue 12: Tax incentives – at both the Commonwealth and State levels – that currently underpin the provision of private rental housing need to be re-examined, with tax reform directed towards investment in low-priced housing targeting low-income tenants.

Issue 13: Can Commonwealth Rent Assistance be delivered in innovative ways in order to increase the stock of affordable housing for low-income tenants?

8. Summary of issues

This Issues Paper highlights the urgent need for governments – both Federal and State – to focus on the capacity of the private rental market to meet the needs of low to moderate-income households for affordable housing.

A summary of issues follows. These are cross-referenced with the page where the issue is raised in the document:

Endnotes

[1] Judith Yates, Maryanne Wulff and Margaret Reynolds, *Changes in the supply of and need for low rent dwellings in the private rental market*, Australian Housing and Urban Research Institute, Sydney Research Centre, June 2004, p. i.
[2] Department of Housing, 'Changes to tenure for Public Housing', Factsheet April 2005. A more detailed account of this policy is NSW Department of Housing, *Reshaping Public Housing Reforms: Targeting & Tenure Access, Allocation & Tenure Framework Policy Proposal*, 27 March 2006
[3] The same point has been made by Tim Seelig, Terry Burke and Alan Morris, *Motivations of investors in the private rental market*, Australian Housing and Urban Research Institute, Queensland, Swinburne/Monash and UNSW/UWS AHURI Research Centres, May 2006, pp. 6,10.
[4] Joint Meeting of Housing, Local Government and Planning Ministers, 4 August 2005, Agenda Item 4 Attachment 1.
[5]Cited in Yates, Wulff and Reynolds, *Changes in the supply of and need for low rent dwellings in the private rental market*, pp. i-ii.
[6] Australian Bureau of Statistics, 'Housing Occupancy and Costs', Australia, 2003-2004 Catalogue No. 4130.0.55.001 13 March 2006.
[7] Australian Bureau of Statistics, 'Housing Occupancy and Costs'.
[8] For a discussion of approaches to measuring housing affordability, see Peter Chapman, 'Housing Affordability in Australia', *AHURI Research & Policy Bulletin*, Issue 68 February 2006*;* Vivienne Rae Milligan, *How different? Comparing housing policies and housing affordability consequences for low income households in Australia and the Netherlands*, Nederlandse Geografische Studies 318, Utrecht 2003, pp. 68ff.
[9] Andrew Larkin, 'Opportunity knocks for affordable housing', Presentation to Affordable Housing Network workshop, Parramatta, 9 December 2005, pp. 2,3.
[10] See Australian Bureau of Statistics, 'Housing Occupancy and Costs', Explanatory Note 21.
[11] Cited in Judith Yates and Michelle Gabriel, *Housing Affordability in Australia*, Australian Housing and Research Institute, Sydney Research Centre and Southern Research Centre, Background Report, February 2006, p. 36.
[12] Yates and Gabriel, p.38.
[13] Terry Burke, 'Private Rental in Australia', 1999, pp. 11, 12 available at <http:www.sisr.net/cah/publication.htm
[14] Income units are analogous to family units but with the distinction that non-dependent children and other adults living in the same household are treated as separate income units.
[15] Yates, Wulff and Reynolds, *Changes in the supply of and need for low rent dwellings in the private rental market*, p. 11.
[16] Department of Planning, 'City of Cities: A Plan for Sydney's Future', Metropolitan Strategy Supporting Information, December 2005, pp. 119,127.
[17] Chris Paris, *Housing Australia*, MacMillan, Melbourne, 1993, p. 176.
[18] Burke, 'Private Rental in Australia', p. 2.
[19] NSW Government submission to Productivity Commission inquiry into first home ownership, October 2003, p.19.
[20] Yates, Wulff and Reynolds, *Changes in the supply of and need for low rent dwellings in the private rental market*, p. 5.
[21] Yates, Wulff and Reynolds, *Changes in the supply of and need for low rent dwellings in the private rental market*, p. 4.
[22] Yates, Wulff and Reynolds, *Changes in the supply of and need for low rent dwellings in the private rental market*, p. 12.
[23] Yates, Wulff and Reynolds, *Changes in the supply of and need for low rent dwellings in the private rental market*, p. 2.
[24] In the last year there has been a tightening of the private rental market in Sydney. The vacancy rate in Sydney in June 2005 was 2.5. The vacancy rate in Sydney in February 2006 was 2.1%, with the middle ring hit hardest with a vacancy rate of 1.7%. (See Steering Committee for the Review of Government Service

Provision, *Report on government services 2006*, Productivity Commission, Melbourne, 2006, Table 16A.69; *Sydney Morning Herald*, 25-26 February 2006, p. 1.)
[25] Department of Planning, p. 127.
[26] Gavin A Wood, 'Promoting the Supply of Low Income Rental Housing', *Urban Policy and Research*, Vol 19 No 4, 2001, pp. 425-6.
[27] Wood, 'Promoting the Supply of Low Income Rental Housing', pp. 427-8.
[28] Gavin A Wood and Richard K Watson, 'Marginal Suppliers, Taxation, and Rental Housing: Evidence from Microdata', *Journal of Housing Research*, Volume 12 Issue 1, 2000, p. 110; Wood, 'Promoting the Supply of Low Income Rental Housing', p. 432.
[29] Gavin Wood, Richard Watson and Paul Flatau, 'A Micosimulation Model of the Australian Housing Market with Applications to Commonwealth and State Policy Initiatives', Australian Housing and Urban Research Institute, Western Australia Research Centre, March 2003, p. 7.
[30] Wood refers to the providers of rental housing with the highest economic costs relative to the property value as 'marginal landlords'. See Wood, 'Promoting the Supply of Low Income Rental Housing', Endnote 7, p. 432.
[31] Wood, 'Promoting the Supply of Low Income Rental Housing', p. 432.
[32] *Sydney Morning Herald*, 21-22 January 2006, p. 7.
[33] Andrew Beer, 'Labour Market Change and housing Segmentation in South Australia's Non-Metropolitan Private Rental Market', *Urban Policy and Research,* Vol 19 No 4, 2001, pp 441-466.
[34] Burke, 'Private Rental in Australia', pp. 10, 11,
[35] Michael Duffy, 'Priced out of the boom town', *Sydney Morning Herald*, 6-7 May 2006, p. 11.
[36] See also Yates, Wulff and Reynolds, *Changes in the supply of and need for low rent dwellings in the private rental market*, p. i.
[37] Seelig, Burke and Morris, p. 10.
[38] Department of Planning, p. 12.
[39] Milligan, 'How different?', p. 156.
[40] Seelig, Burke and Morris found that much of the Australian literature discussing rental investors dates back to the 1980s or early 1990s. This is evidenced from the literature surveyed in this section. Their paper is the first step in a study of direct residential property investment by individual landlords. The main part of their study will involve in-depth, semi-structured interviews with individual investors, property managers and others in the sector in order to improve 'knowledge of contemporary investment motivations, behaviour and intentions of rental investors … [in order to] … help identify the forms of policy interventions which could be utilized to preserve existing investments, or to encourage/facilitate new supply across the sector and at the low cost end'.
[41] J. Allen and L McDowell, *Landlords and Property: social relations in the private rented sector*, Cambridge University Press, Cambridge, 1989 pp. 49-58.
[42] C. Paris, 'Affordable and Available Housing: The Role of the Private Rental Sector', AIUS Publication No. 117, Australian Institute of Urban Studies, Canberra, 1984.
[43] Seelig, Burke and Morris, pp.31-34.
[44] Other writers who developed a typology of landlords in the Australian context were Core Consulants in 1983, NSW Department of Housing in 1991, Elton and Associates in 1991, Mowbray in 1996.
[45] Seelig, Burke and Morris, p. 33.
[46] Paris, *Housing Australia*, p. 189.
[47] Australian Bureau of Statistics, 'Australian social trends 1999: Housing – housing stock: rental investors', November 2002; see Seelig, Burke and Morris, pp. 27, 28 for an overview of studies examining characteristics of rental investors.
[48] Robert Mowbray, 'The Nature of Contemporary Landlordism in New South Wales: Implications for Tenants' Rights', Ph D thesis, Faculty of Architecture, University of Sydney, 1996, p. 202. The sample of landlords was drawn from Rental Bond Board data which excludes informal landlords. These figures represented the market share of properties held by each category of landlord, not the distribution of landlords per se.
[49] Mowbray, p.248.
[50] Quoted in Mowbray, p. 68.
[51] See Endnote 14

[52] Australian Bureau of Statistics, 'Household Investors in Rental Dwellings, Australia', Catalogue No. 8711.0, June 1997, p.5.
[53] Seelig, Burke and Morris, p. 25.
[54] Ross Gittins, 'To let: a nation of landlords with long-term views', *Sydney Morning Herald*, 26 November 2003, p.13; Reserve Bank of Australia, Submission to Productivity Commission Inquiry on First Home Ownership, November 2003, pp. 18-19.
[55] Seelig, Burke and Morris, p. 27.
[56] Also cited in Yates, Wulff & Reynolds, *Changes in the supply of and need for low rent dwellings in the private rental market*, p. 39.
[57] Keys Young Pty Ltd, *Fair trading issues in the rental property market: research report*, Department of Fair Trading, 1998, pp. 54, 111.
[58] Seelig, Burke and Morris, p. 34.
[59] Seelig, Burke and Morris, p. 34.
[60] Burke, 'Private Rental in Australia', p.9.
[61] Seelig, Burke and Morris, p. 21.
[62] Seelig, Burke and Morris, p. 21.
[63] Gittins, p.13; Reserve Bank of Australia, pp. 19-20.
[64] Burke, 'Private Rental in Australia', p. 8; also see Seelig, Burke and Morris, *Motivations of investors in the private rental market*, p. 20.
[65] Mowbray (p. i.) argued that the dominant types of landlords reserve the right to obtain easy vacant possession in order to sell into the owner-occupation market with vacant possession so as to maximise capital gain; further, it is not in their interest to prejudice the ease of obtaining vacant possession by agreeing to long term leases.
[66] Burke, 'Private Rental in Australia', p.8.
[67] Talk given at the National Affordable Housing Conference in Sydney in June 2005.
[68] Mike Berry, Christine Whitehead, Peter Williams & Judith Yates, *Financing Affordable Housing: A Critical Comparative Review of the United Kingdom and Australia*, Australian Housing and Urban Research Institute November 2004, p. 54.
[69] Mike Berry, 'Expanding the supply of affordable housing in Australia', *AHURI Research & Policy Bulletin*, Issue 13, September 2002, p.4; Berry, Whitehead, & Yates, p. 57.
[70] 'AMP's new offering of a multi-vitamin fund', *Sydney Morning Herald*, 10 August 2005, p. 25.
[71] Adapted from Burke, 'Private Rental in Australia', pp. 13-14.
[72] Kath Hulse, 'Rent Assistance: Time for a Policy Review?' Institute for Social Research, Swinburne University of Technology, Melbourne, Working Paper, February 2001 p. 3.
[73] Commonwealth Rent Assistance paid to a tenant in the private rental market is an example of a demand subsidy, whilst Commonwealth State Housing Assistance funds given to a state housing authority to build new homes is an example of a supply subsidy.
[74] Commonwealth Rent Assistance is also paid to persons who rent from community housing providers and Aboriginal housing organisations.
[75] John Wilkinson, 'Affordable Housing in NSW: Past to Present', NSW Parliamentary Library Research Service, Briefing Paper No 14/05, November 2005 p. 20; Burke, 'Private Rental in Australia', p. 4.
[76] Wilkinson, p. 20.
[77] Wilkinson, p. 30.
[78] Steering Committee for the Review of Government Service Provision, *Report on government services 2006*, Productivity Commission, Melbourne, 2006, Table 16A.75.
[79] National Shelter and Australian Council of Social Service, 'Rent Assistance: does it deliver affordability', September 2003, p7
[80]Strictly, these figures are 'income units', not households. 'Income unit' is the basic unit used to determine eligibility for social security payments. See Endnote 14.
[81] Steering Committee for the Review of Government Service Provision, Table 16A.44; data for 4 March 2005.
[82] Steering Committee for the Review of Government Service Provision, Tables 65, 66.
[83] Steering Committee for the Review of Government Service Provision, Tables 65, 66.
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[85] Tony Melhuish, Anthony King and Elizabeth Taylor, 'Housing affordability and Commonwealth rent assistance', *AHURI Research & Policy Bulletin*, Issue 59, August 2005, p. 2.
[86] Craig Johnston, 'Rent Assistance to private and community sector tenants', Shelter NSW, Background Paper, January 2002, p. 22.
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[95] Johnston, pp. 17ff.
[96] Johnston, pp. 37-38.
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[100] Jacobs and others, p. 50.
[101] Jacobs and others, pp. 30-31.
[102] Jacobs and others, p. 50.
[103] Jacobs and others, p. 50.
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[106] Department of Housing – Policy SAS0100A: Special Assistance Subsidy – Special; Department of Housing – Policy SAS0100B: Special Assistance Subsidy – Disability.
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[108] Department of Housing, Annual Report 2004-2005, p. 27.
[109] Office of Fair Trading, 'Fair Trading: serving consumers and traders in NSW, A Year in Review 2004-2005', p. 33; Rental Bond Board, Annual Report 2004-2005, p. 16.
[110] Peter Abelson, 'Taxation and Subsidies for Housing and Land: Market Impacts and Economic Efficiency Implications'. Paper to the 34th Australian Conference of Economist, Melbourne, September 2005, p. 3.
[111] Seelig, Burke and Morris, pp. 11,12.
[112] Abelson, p. 21.
[113] Angelo Karantonis, 'Risk free profit from property – the government, the risk free partner', Unpublished paper, 2005, p.3. At the time of writing his paper New South Wales had imposed a Vendor Transfer Duty, but this was abolished from 2 August 2005 and so has been excluded from the list of taxes on property.
[114] Viewed on Office of State Revenue website at www.osr.nsw.gov under 'Vendor Duty Contract arrangements' on 4 April 2006.
[115] *Saturday Daily Telegraph*, 1 April 2006, pp. 1-2.
[116] Viewed on Office of State Revenue website at www.osr.nsw.gov under 'Five Stamp Duties Abolished' on 2 June 2006.
[117] For a discussion of financial deregulation, see Seelig, Burke and Morris, pp. 17-19. There is a reference to Meriton financing small investors who buy into their developments on p. 22.
[118] Burke, 'Private Rental in Australia', p. 5.
[119] On 9 May 2006 the Federal Treasurer announced in his budget speech that the top marginal tax rate will be reduced to 45 per cent from 1 July 2006.

[120] Burke, 'Private Rental in Australia', p. 5.
[121] Burke, 'Private Rental in Australia', p. 5; see also Seelig, Burke and Morris, pp. 12,13.
[122] Mike Berry, 'Why is it important to Boost the Supply of Affordable Housing in Australia – and How Can We Do it?', *Urban Policy and Research*, Vol. 21, No. 4, December 2003, pp. 419-420.
[123] Seelig, Burke and Morris., p. 13.
[124] *Sydney Morning Herald*, 13 October 2005, p. 1; see also reference to Draft Report of the Productivity Inquiry into First Home Ownership referred to in Seelig, Burke and Morris, p. 14.
[125] Economics Reference Committee, 'Consenting adults deficits and household debt', The Senate, October 2005, p. 79.
[126] 'Negative gearing will go if business has its way on tax', *Sydney Morning Herald*, 3 February 2006, p. 4.
[127] Gavin Wood, Richard Watson and Paul Flatau, 'Increasing the supply of affordable private rental housing', *AHURI Research and Policy Bulletin*, Issue 29, November 2003, pp. 2-3.
[128] Burke, 'Private Rental in Australia', p. 5.
[129] Land tax is a tax levied on the owners of land in NSW as at midnight on 31 December of each calendar year. It excludes principal place of residence or land used for primary production but includes investment properties. For the 2006 land tax year the land tax rate is 1.7 per cent, plus $100 on the combined value of all taxable land in excess of $352,000. Viewed on Office of State Revenue website at www.osr.nsw.gov under 'Land Tax' on 2 June 2006.
[130] Neil Warren, *Benchmarking Australia's intergovernmental fiscal arrangements: final report*, NSW Treasury, Sydney, 2006, p.61.
[131] Commonwealth Grants Commission, *2006 relative fiscal capabilities of the states*, Canberra, 1996, p.13.
[132] See links on NSW Treasury website regarding land tax exemptions for 'low-cost accommodation' and 'boarding houses':
http://www.osr.nsw.gov.au/portal/page?_pageid=33,332598&_dad=portal&_schema=OSRPTLT#a2
The number of landlords (and others who own properties not their principal place of residence) who receive relief from payment of land tax was increased as a result of an announcement by the Premier on Wednesday, 25 January 2006: 'Some 12,000 property investors have been released from the land tax net as a result of an adjustment to the threshold, which will be increased for 2006 from the $330,000 announced in the budget to $352,000', *Sydney Morning Herald*, 26 January 2006, p. 3.
[133] NSW Treasury, 'Other land tax exemptions', 18 February 2005, online at <www.osr.nsw.gov.au/portal/page?_pageid=33,332598&_dad=portal&_schema=OSRPTLT#a1>, viewed 19 April 2005.
[134] Berry, 'Why is it important to Boost the Supply of Affordable Housing in Australia', p. 414.
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[136] Berry, Whitehead, Williams and Yates, p. 56.
[137] For example, see Vivienne Milligan, *Directions for Affordable Housing Policy in Australia: Outcomes of a Stakeholder Forum*, Background Report, Australian Housing and Urban Research Institute, July 2005.
[138] The Allen Consulting Group, 'Better housing futures: Stimulating private investment in affordable housing'. Report to the Affordable Housing Forum, 2004, p.19.
[139] Yates, Wolff & Reynolds, *Changes in the supply of and need for low rent dwellings in the private rental market*, p. 40.
[140] Yates, Wolff & Reynolds, *Changes in the supply of and need for low rent dwellings in the private rental market*, p. 40.
[141] Judith Yates, Maryann Wulff and Margaret Reynolds, 'Supply and demand in the low rent private market', *AHURI Research and Policy Bulletin*, Issue 50, February 2005, p. 2
[142] Berry, 'Expanding the supply of affordable housing in Australia', p. 3.
[143] Berry, Whitehead, Williams and Yates, pp. 56-60.
[144] The Affordable Housing National Research Consortium was an ad hoc group comprising the Housing Industry Association, Australian Council of Social Service, Real Estate Institute of Australia, Australian Council of Trade Unions, National Community Housing Forum, Urban Development Institute of Australia, Property Council of Australia, Royal Australian Institute of Architects, Master Builders Australia, and Royal Australian Planning Institute.
[145] Wood, 'Promoting the Supply of Low Income Rental Housing', p. 437. Wood's proposal is set out in Gavin Wood, Richard Watson and Paul Flatau, 'Low Income Housing Tax Credit Programme Impacts on

Housing Affordability in Australia: Microsimulation Model Estimates', *Housing Studies*, Vol 21, No 3, May 2006. An earlier version of this paper by the same authors is 'Would a Low Income Housing Tax Credit Programme Ease Housing Affordability Stress Among Low Income Australian Rental Tenants', AHURI Working Paper No 1, October 2004.
[146] Berry, 'Why is it important to Boost the Supply of Affordable Housing in Australia', p. 429.
[147] Berry, Whitehead, Williams and Yates, p. 60.
[148] Wood, Watson and Flatau, 'Low Income Housing Tax Credit Programme Impacts on Housing Affordability in Australia', pp. 53-54.
[149] Berry, 'Why is it important to Boost the Supply of Affordable Housing in Australia', p. 432.
[150] The Allen Consulting Group, p. vi.
[151] The Allen Consulting Group, p. 49.
[152] 'UK's new trust regime takes shape', *Sydney Morning Herald*, 25-26 March 2006, p 74.
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[154] Terry Burke, 'Social housing over the horizon: Creating a contemporary social housing system'. Paper presented at National Housing Conference Perth, 27 October 2005.
[155] Burke, 'Social housing over the horizon', p. 9.
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[157] Burke, 'Social housing over the horizon', p. 11.
[158] *The Mercury*, 17 December 2005
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