PRIVATE RENTING IN AUSTRALIA — A BROKEN SYSTEM

Whitepaper 2
March 2023

LONGVIEW | PEXA

About LongView

New solutions to Australia's housing problems

Wherever you are in your property journey, LongView helps you go further. We are an integrated residential property business, working hand in hand with our clients to provide property buying, advisory and management services, and investment funds. The Australian housing market today does not deliver for many people. Many renters, aspiring first-home buyers, and residential property investors face a myriad of structural challenges. We are changing these by making homeownership more accessible, empowering buyers with expertise, and improving the rental experience for owners and renters.

Our team of property professionals has decades of real-world experience in buying and managing thousands of properties. We marry this field expertise with proprietary data science and innovative financial structures to deliver superior financial performance over the long term.

About PEXA

Transforming the way we settle property in Australia

Every time a house is bought, sold, or refinanced in Australia your lawyer, conveyancer and lender will most likely use a digital platform to settle your property, this is where PEXA comes in. PEXA's world-first digital settlement platform has revolutionised the way we exchange property in Australia. By providing quicker access to the proceeds of a sale and near real-time tracking on property settlements, our network of financial institutions and legal and conveyancing firms helps over 20,000 families a week safely settle their homes.

And this is just the beginning. Our data and insights are helping organisations unlock the intel they need to drive change and possibilities. We're also bringing our proven financial settlement model and expertise to the United Kingdom, working in collaboration with the housing industry to digitise the house purchase, sale, and remortgaging process.

Foreword

The Australian property system fails both renters and landlords. Renters face fierce competition for leases and poor tenure security when they do find one. Meanwhile, up to two thirds of landlords get poorer financial returns than if they had invested in super, alongside property management headaches and unexpected maintenance costs. It is only by fully understanding what has led to this dynamic that we can design solutions that will actually work.

This is the second of three Whitepapers from LongView and PEXA. All the Whitepapers combine the deep property expertise of LongView and PEXA with rigorous analysis of the underlying economics. Whitepaper One explored purchase affordability and Australian house prices, and Whitepaper Three will lay out solutions that swim with the tide of the economics of Australia's unique property market.

If allowed to continue on their present course, Australia's housing crises will transform the country for the worse. We hope to bring fresh, viable ideas for how private capital can contribute to solving some of the most pressing challenges facing our country.

Glenn King
CEO, PEXA

Evan Thornley
Executive Chair, LongView

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Executive summary

Australia faces three related housing crises: purchase affordability, rental affordability, and rental experience. This Whitepaper, the second of a series of three, focuses on rental affordability and experience. The first, on purchase affordability, was released in February 2023. A third Whitepaper will focus on solutions and will be released in the second quarter of 2023.

More than 26% of households in Australia rent in the private rental system, a proportion that continues to grow. People are also renting for longer: nearly 43% of all renters in Australia have been renting for ten years or more. In just a few decades, for many, renting has shifted from being a prelude to home ownership, to a long-term or permanent situation. We explore two distinct challenges for renters in the Australian private rental market:

First, rental affordability. Rental prices have increased over the last three decades at a speed that has outpaced inflation. Although median wages have largely kept pace, rent is increasingly unaffordable for lower income people, as well as for some of Australia's more vulnerable demographics. These include the recipients of government stipends, single parent households, and older households. With vacancy rates dropping to record lows in east coast capital cities in recent months, the problem of rental competition, and as a result affordability, has reached crisis levels.

Second, rental experience. Australia is one of the hardest places in the developed world to be a renter. The biggest problem is insecurity: long term leases are rare, and renters live with constant uncertainty about whether they will have to move. Maintenance is often a headache and there are few incentives for the landlord to improve properties, for example through energy retrofitting. Renters often have limited ability to make minor alterations. These factors together make it difficult for renters to make a home out of their rental accommodation.

But the system doesn't work for many landlords either. Investing in property is often perceived as a symbol of security, a tangible source of retirement income, and a legacy to pass on to future generations. Residential property is also one of the few asset classes that can be interchangeably used both personally (to live in) and for investment purposes (to rent). In this way, property investment is for many people an emotional decision as well as a financial one.

Yet property investment is often complex, stressful, and risky. It can be much more time-consuming than expected, and unanticipated maintenance costs are not uncommon. Since 1990, approximately 60% of all property investors would have profited more by investing in superannuation, often because they bought a poorly-performing property. Such difficulties partly explain why half of all investment properties exit the rental market within five years. With sale being the most common reason for landlord-initiated lease terminations, the poor experience of landlords is closely related to the insecurity that underpins poor rental experiences for renters in Australia.

The status quo creates problems for everyone: renters and landlords alike. Solutions to these challenges need to break the nexus between landlords and renters, to create a system that works for everyone. Only then will Australia's private rental market serve the interests of renters and landlords in a way that is sustainable over the long term.

1.

INTRODUCTION & CONTEXT

1. Introduction and context

This paper is the second in a series of Whitepapers on housing in Australia. We have identified three distinct crises:

- Purchase affordability
- Rental affordability
- Rental experience

The first Whitepaper looked at purchase affordability, and why Australian house prices have been increasing by so much for so long. This second Whitepaper considers the second and third of Australia's housing crises: rental affordability and rental experience. The third Whitepaper will draw together the findings of the first two papers and look at solutions to both problems that will work with the economics of the Australian property market.

The private rental system in Australia has long been a source of concern for policymakers and economists alike. Despite representing a significant portion of the housing market, the system is plagued by a number of issues that have resulted in suboptimal outcomes for both renters and landlords.

It is important to note that while social or 'non-market-driven' housing also plays a critical role in meeting the housing needs of the population, the focus of this paper is on the private rental system. This is not to downplay the importance of social housing, but rather to highlight the specific challenges and issues that exist within the private rental market.

Social housing

One of the most pressing issues facing Australia is the lack of affordable housing options. This has been exacerbated by a shortage of rental properties, which has driven up rents and made it increasingly difficult for low-income households to access suitable housing.

Housing All Australians advocates for increased provision of social housing. They argue that housing is crucial infrastructure that should be accessible to all and that the chronic shortage of 'non-market-driven' housing in Australia has long-term economic and social implications for society and the economy. Their 'Give Me Shelter' report maintains that decades of underinvestment in social and affordable housing by government has led to a shrinking stock of social housing, with less than 4% of all dwellings now designated as social housing, compared to 6% in 1996. [1] The report argues that left unaddressed, the additional cost to taxpayers caused by this shortfall will reach $25 billion annually by 2051.[2]

This Whitepaper focuses on the private rental sector in urban areas, where most renters reside. While rural and regional renters face a range of additional challenges including limited supply of rental properties and problems with access to services, these challenges are outside the scope of this Whitepaper.

[1] (HAA, 2022).

[2] Ibid.

To understand the problems with the private rental system, it is first important to understand what private renting looks like in Australia. This section considers three questions:

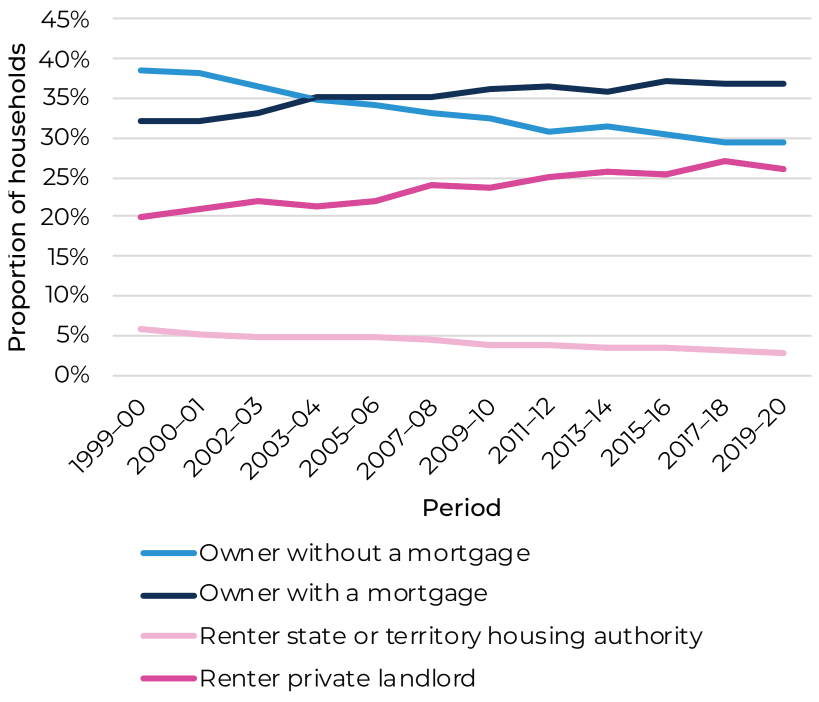
1. How many Australians rent and who are they?
2. How long do people rent for in Australia and why?
3. Who owns rental properties in Australia?

1.1 How many Australians rent & who are they?

More than 26% of all households in Australia rented privately in 2021, totalling more than 2.9 million households. [3] This number is growing, with the current proportion representing an increase of 4% from 22% in 2006. [4] This trend is matched by a decrease in home ownership over the same period (Figure 1).

The number of renters is increasing across all socio-economic groups and household types. [6] The proportion of renters is also increasing across all age groups (Figure 2).

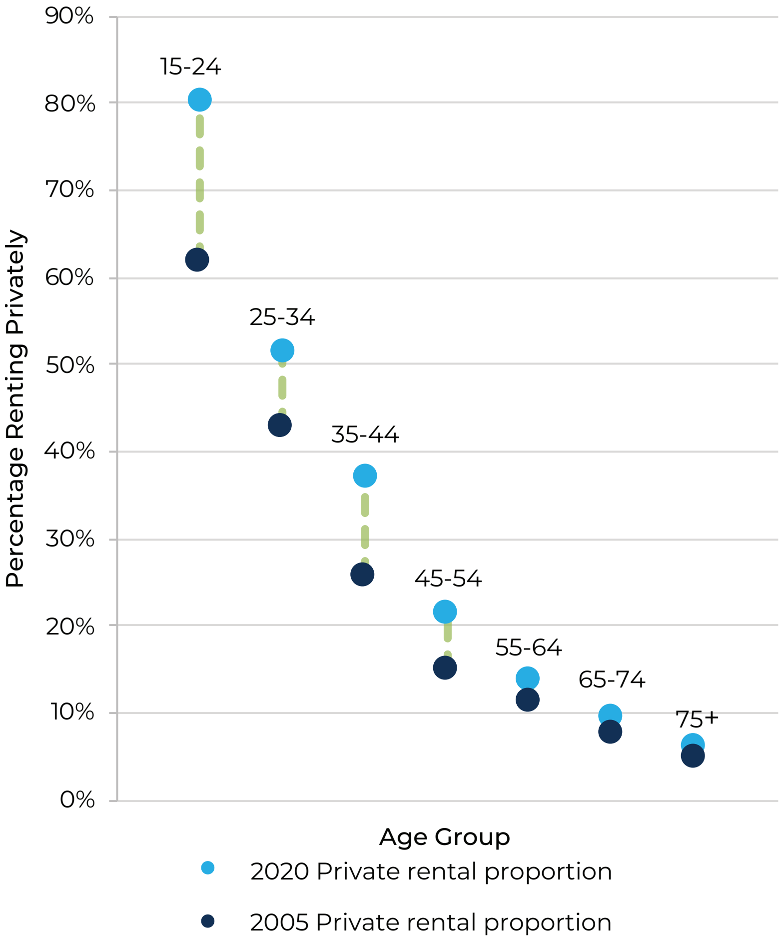
Figure 1 | Housing occupancy over time. [5]



[3] (AIHW, 2022)
[4] (ABS, 2022a).
[5] Ibid.

[6] Ibid.

Figure 2 | Proportion of private rental occupancy in 2005 and 2020 by leaseholder age. [7]



The largest increases in renting have occurred among low- and middle-income households. For all except the top 20% of income households, rates of renting have grown by 7-12%. [8] This has been mirrored by an equivalent decrease in rates of owner-occupation dwelling amongst those groups. [9]

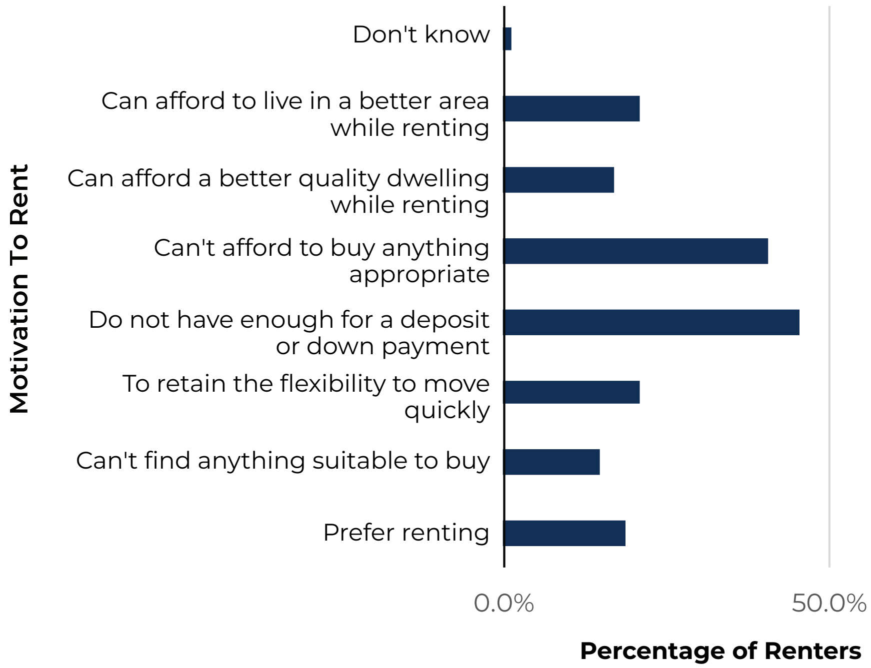
1.2 How long do people rent for in Australia and why?

Historically, renting has been viewed as a temporary arrangement, serving as a stepping stone towards homeownership. Nonetheless, the deteriorating affordability of housing has led to an increasing number of individuals remaining in rental properties on a permanent basis. Significantly, 43% of renters have been renting for a decade or more. [10] Few private renters stay in the same property for more than five years, with the majority moving relatively frequently. For example, Victorian government data reveals a median rental tenure of 19 months for metropolitan Melbourne, [11] indicating that the majority of renters are moving due to lease expiration rather than transitioning to homeownership. [12]

People rent for a combination of financial and lifestyle reasons (Figure 3). Because housing affordability has been worsening, people are increasingly unable to afford mortgages, particularly the deposits required to enter them. People are also trading off the security of home ownership for lifestyle factors such as location, dwelling quality, and size. However, only 19% of renters in 2022 reported preferring to rent, indicating that people do not believe that Australia's rental system in its current state is meeting their needs. [13]

[7] (ABS, 2022a), (ABS, 2007). Analysis excludes people living with parents.
[8] (AGPC, 2019).
[9] Ibid.
[10] (Shelter, 2017).
[11] (DFFH, 2022). Note that this is shorter than LongView's own experience – our tenure profile is typically 28 months. The difference is likely a consequence of product mix; LongView manages more family sized homes which often have lower turnover.
[12] (Choice et al., 2017), (Goddard, 2022).
[13] Ibid.

Figure 3 | Motivation for renting (Multiple Selection). [14]



Homelessness

The difficulty in acquiring and keeping private rental accommodation is a leading cause of homelessness.[15] Other related factors include family and domestic violence, family breakdown, mental and physical ill-health, trauma, barriers to accessing housing or support services, low incomes, low educational attainment, and unemployment.

Homelessness often follows eviction, which creates difficulty securing a new tenancy because the renter is more likely to be in financial hardship, and so will be considered a higher risk to potential landlords. Those at risk of homelessness are likely to report indicators of material deprivation such as skipping meals and being unable to heat their home. [16]

1.3 Who owns rental properties in Australia?

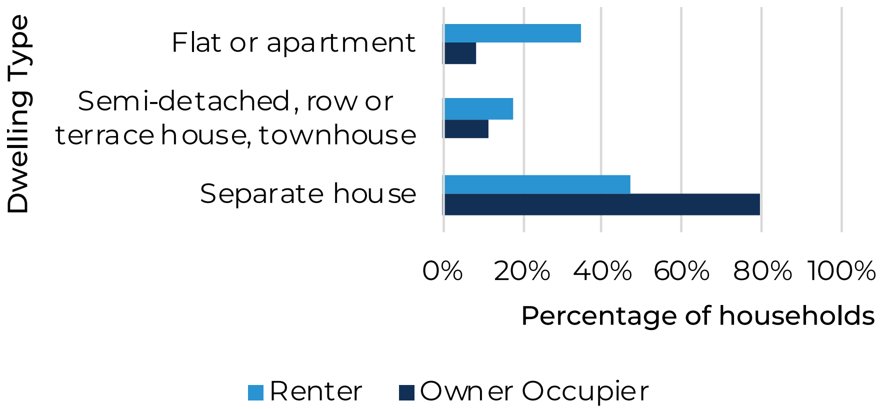
In Australia, rental properties are primarily owned by individual investors.[17] An estimated 2.2 million Australians have invested in property. Most rental properties are owned by individual investors who own only one or a few investment properties. Of these investors, 71.5% own one property, 18.8% own two, and 9.7% own more. [18]

[14] (Baker et al. 2022).
[15] (AGPC, 2022), (Hulse et al., 2018).
[16] (Batterham et al., 2021).
[17] (Martin et al., 2022).

[18] (Read, 2022). A possible explanation for the discrepancy between the total implied number of rental properties being much larger than the number of rental households is that vacation properties could be counted as investment properties.

Ownership of investment properties is also highly fragmented among many different demographics with diverse motivations, circumstances, and needs. For example, many investors did not acquire their property as an investment - 26% of investors have turned the property they previously lived in into an investment property, and 5% had received the property as a gift or inheritance.[19] Slightly fewer than half of all rental households reside in detached houses, a rate which is much lower than for owner occupiers (Figure 4).

Figure 4 | Percentage of household dwelling types by occupancy type. [20]



[19] (Martin et al., 2022).

[20] (ABS, 2022a).

2.

RENTAL AFFORDABILITY

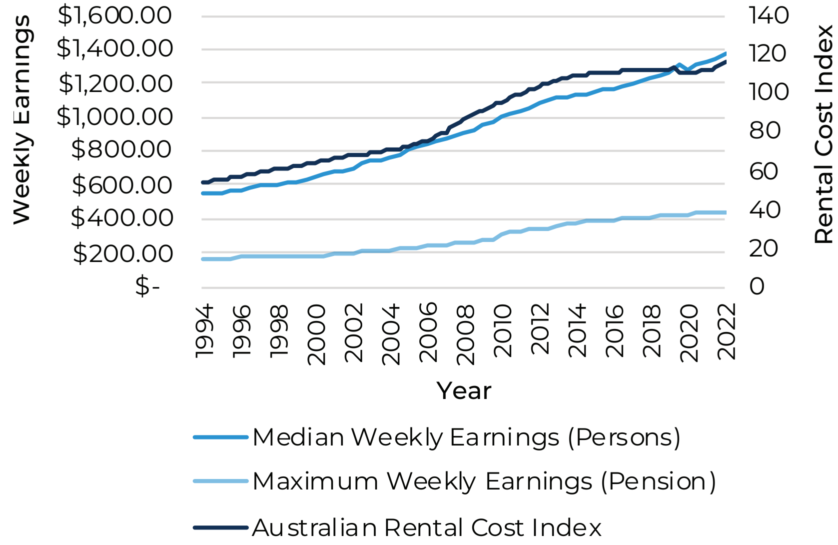
2. Rental affordability

2.1 Rents have increased consistently for decades.

Rental prices have been rising in Australia for decades. Although rents have grown at approximately a third of the rate of property prices, rental prices in Australian capital cities have grown more or less in line with inflation, doubling since 1994 (Figure 5). However, rental costs have not been increasing relative to median incomes, possibly because investor tolerance for lower rental yields reflects long-term expectations for strong capital gains. In aggregate, growth in rental costs have been slightly outpaced by growth in median incomes, but they have significantly outpaced pensions and other welfare benefits (excluding rent assistance). This reflects historic government expectations that the majority of age pensioners will own their own home. [21]

Over the past 25 years, the growth of incomes across all income levels in Australia has remained consistent. However, this does not mean that rental affordability has remained constant for everyone. The data shows that changes in rental prices affect lower income groups more. This is because, while people's ability to pay has stayed the same, the availability of affordable rentals has changed significantly. For example, in Melbourne the proportion of affordable rentals has decreased significantly over time, despite median income keeping pace with median rental costs in the market more broadly (Figure 6).

Figure 5 | Indicative rental prices in Australian capital cities (1994-2022). [22]



[21] (ABS, 2022c), (ABS, 2022d). The ABS rental index looks at the rents people are paying rather than the market price of rents at any given time. This means that recent increases in rents related to the post-covid migration trends and economic conditions have yet to fully flow through.

[22] Ibid.

Figure 6 | Proportion of Affordable Lettings for Lower Income Households in Metro Melbourne over time. [23]

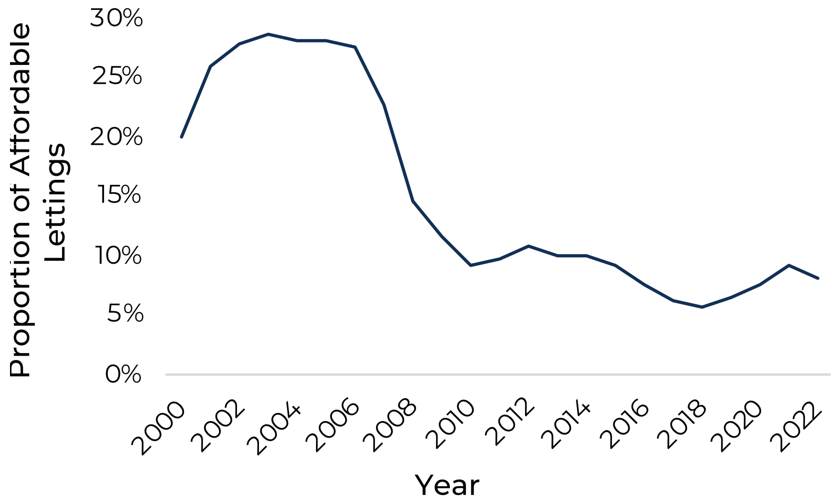
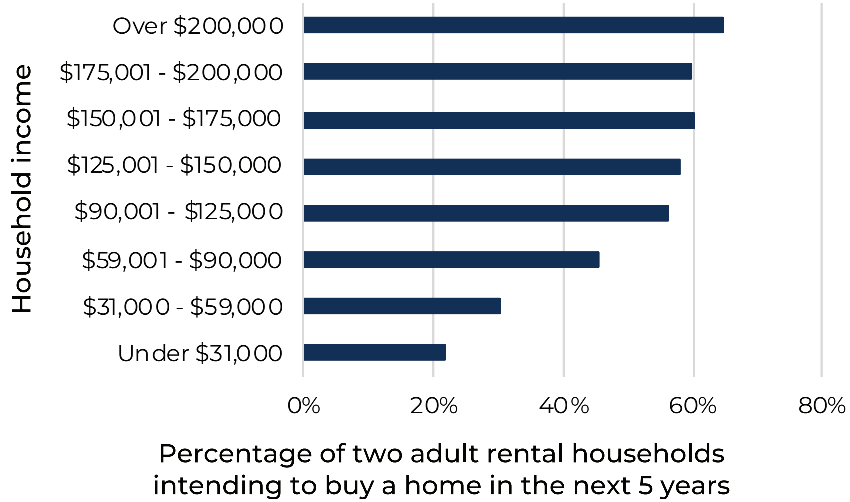


Figure 7 | Percentage of two adult households intending to buy a home in the next 5 years. [24]



2.2 Low-income households disproportionately rent, and pay a higher proportion of their income on rent

High house prices put home ownership out of reach for many Australians, particularly those on lower incomes. Among two-adult renting households, intent to buy over the next 5 years decreases dramatically as household income goes below $90,000 (Figure 7).

This suggests that those within the lowest income quintiles are forced to rent for the long-term due to being priced out of homeownership. Indeed, while the national average of renters who plan to buy a home stands at 41%, this proportion is substantially lower for single middle-aged women (23%), individuals on a disability pension (19%), and single parents (30%). [25]

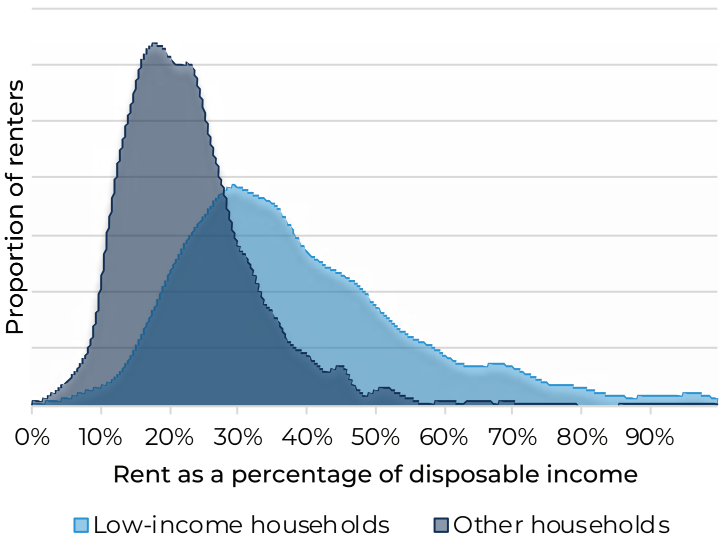
The graph in Figure 8 illustrates the distribution of the percentage of income spent on rent by different household types. The data reveals that low-income households tend to spend a higher

[23] (Data Vic, 2022). Affordability is when less than 30% of gross income is spent on rent and is considered based on the incomes of low-income households. Data is based on new lettings.

[24] (Baker et al. 2022).
[25] Ibid.

proportion of their income on rent compared to other household types. Specifically, two thirds of low-income households allocate more than 30% of their disposable income towards rent payments. On the other hand, most other households spend between 10% to 30% of their disposable income on rent, which is an affordable range.

Figure 8 | Rent as proportion of disposable income, low income, and other households (2019). [26]



2.3 Vacancy rates are at generational lows

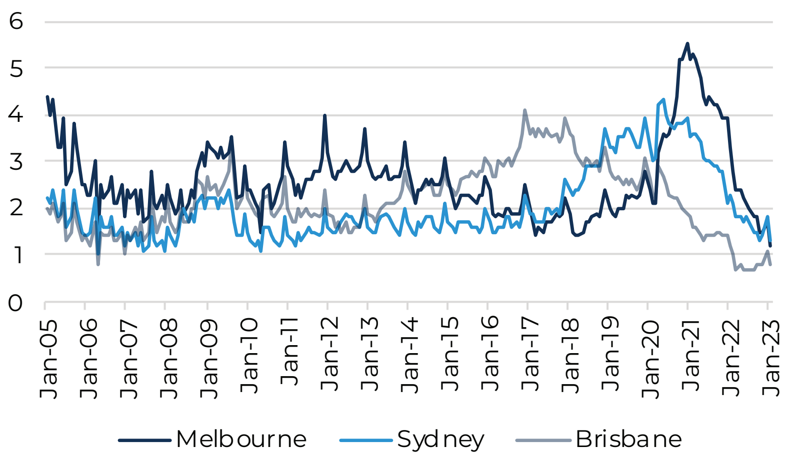
One of the biggest challenges for lower income renters is actually finding a rental at all. It is generally harder for these households to obtain accommodation because property managers are likely to preference higher income applicants who may be more likely to afford the rent.[27] In Sydney, it has recently been reported that 80% of renters pay more than asking price.[28] Indeed, renter selection is often entirely based on who the landlord believes is most likely to pay rent on time and in full every month.

At the time of writing, competition for rental properties is particularly intense. During the COVID-19 pandemic, the average household size decreased as the need to work from home during lockdowns led some households to seek more spacious living arrangements in less densely populated areas. The RBA estimates that this reduction added 140,000 additional households, offsetting the 200,000 immigrant households that did not arrive while Australian borders were closed. If this shift towards smaller household sizes persists even as migration resumes, demand for rental properties may be further increased. [29]

Figure 9 depicts the vacancy rates of Melbourne, Sydney, and Brisbane over the last two decades, revealing a noteworthy trend in the rental property market. While Sydney has sustained consistently low vacancy rates, Melbourne and Brisbane have historically experienced higher rates, averaging 2.5% and 2.3% respectively prior to the pandemic.

[26] (AGPC, 2019).
[27] (Parkinson et al., 2018).
[28] (Whelan, 2023).
[29] (Ellis, 2022).

Figure 9 | Vacancy Rates, Melbourne, Sydney, and Brisbane (%, 2005-23). [30]



The data indicates that after a pandemic-induced spike, vacancy rates are now at their lowest levels in 20 years across all three cities, signalling that the rental crisis will likely further deteriorate before improving. Although the difference may seem negligible when viewing the graphs, the decline of 0.3% to 0.5% from prior lows and 1% - 2% from historical averages has a substantial impact on the accessibility and affordability of rental properties. These seemingly small percentage rate changes make a significant difference to prospective tenants – for example, it is now more than five times as hard to get a property in Melbourne as in late 2020. Indeed, these numbers are largely responsible for the rapidly increasing rents reported by many property managers across all three cities.

[30] (SQM, 2023).

2.4 Supply constraints worsen rental affordability

Constraints in the overall supply of housing can limit the availability of rental properties and raise prices. In 2016, as part of a program to increase housing affordability, Auckland removed the single-dwelling limitation on 75% of its residential land, leading to a 5% increase in construction over just 5 years. [31] The increase in supply has resulted in rental costs growing 75% slower than the national average in Auckland, a trend particularly noticeable in lower cost rentals. Even in the past year, rents in Auckland have risen just 2% while the rest of the country has seen an increase averaging over 10%. These results demonstrate that well-planned increases in housing supply can improve rental affordability.

Supply constraints go beyond planning

Auckland's change in planning regulations led to an increase in rental affordability, but this has not been the case in all cities. For example, Brisbane, despite adopting similar policies following Auckland's success, has not seen its rental prices stabilise due to significant demand spikes for accommodation in recent years. Brisbane experienced a major population surge in 2020 and 2021 as people moved from Victoria and New South Wales to Queensland due to COVID-19. This, combined with a fall in housing stock brought about by successive floods in recent years, has led to a major shortage of accommodation in Southeast Queensland, raising prices. Consequently, Brisbane has since become one of the most expensive Australian cities for renting even with the zoning reforms.

[31] (Greenaway-McGrevy et al., 2019), (Greenaway-McGrevy & Phillips, 2022).

3.

RENTAL EXPERIENCE

3 Rental experience

In addition to high competition when searching for a property and low rental affordability, renters often face poor rental experiences. From substandard living conditions to the lack of security of tenure, the rental experience in Australia leaves much to be desired. This chapter explores four aspects of renting:

1. Tenure insecurity
2. Finding rentals
3. Rental stock quality
4. Maintenance

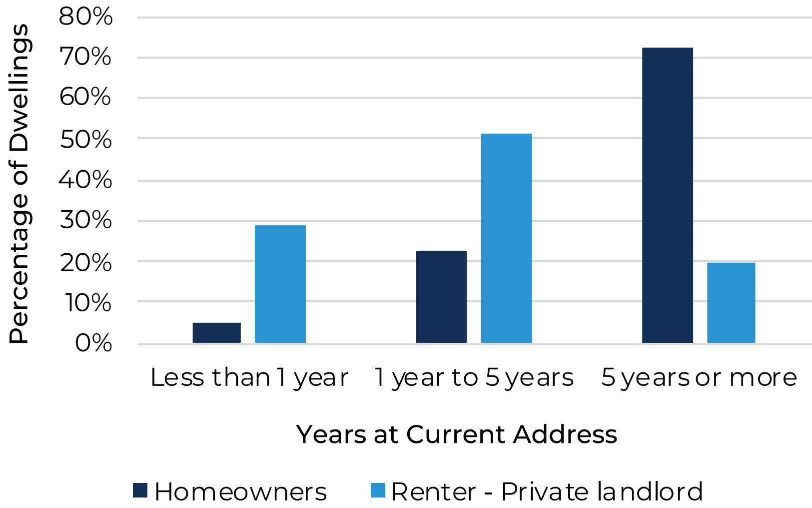
Private renters are typically unsatisfied with their experience with rental agents

A recent survey suggests that the typical Net Promoter Score (NPS) for rental agents is -6, the lowest of all industries.[32] This is in stark contrast to the average scores of other unpopular sectors, including health insurance companies, which have an NPS of 16, recruitment firms, with an NPS of 3, and mortgage providers, with an NPS of 4.

3.1 Tenure insecurity

Frequently moving property is a common experience among renters (Figure 10). These moves are not all by choice; up to 21% of moves amongst those who rent are involuntary (i.e., not the renters' choice) while others are as a response to poor rental conditions like unattended maintenance needs.[33] Up to 36.5% of private renters moved three or more times in last five years compared to 6.4% of owners (Figure 11).[34]

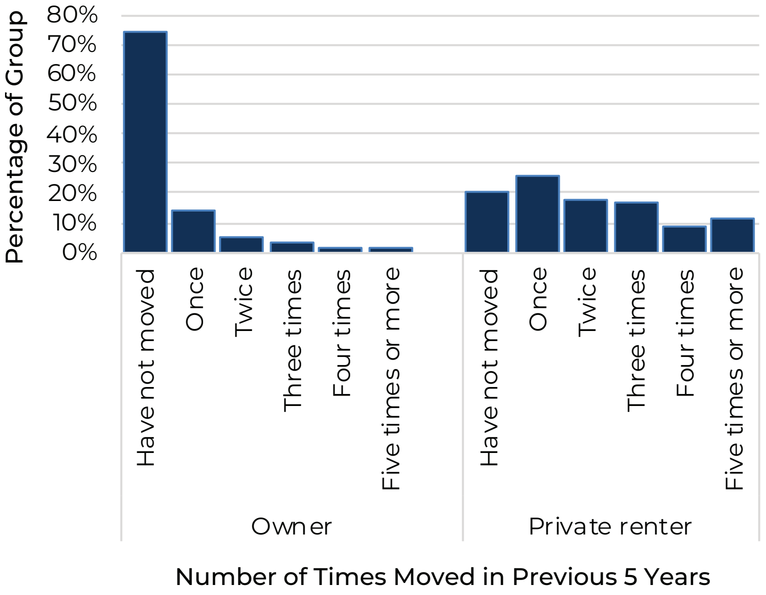
Figure 10 | Number of years in current dwelling (2019-20).[35]



[32] (Perceptive, 2022). An NPS is tool used to measure customer satisfaction with a service. NPS is calculated by asking customers to rate their likelihood of recommending a service on a scale of 0-10, and then subtracting the percentage of detractors (those who score 0-6) from the percentage of promoters (those who score 9-10). The resulting score, which ranges from -100 to 100, is a benchmark for measuring customer satisfaction and loyalty.

[33] (CAV, 2016).
[34] Ibid.
[35] (ABS, 2022f). All households include other landlord and tenure types.

Figure 11 | Frequency of moving by occupant type. [36]



Moving, and particularly forced movement because of termination of tenancy, creates three distinct problems for renters.

Insecurity

According to a 2016 survey, 21% of vacancies are landlord initiated and 79% are renter initiated.[37] LongView's own data since 2019 shows that 15% of vacancies are landlord initiated and 78% are renter initiated.[38] Of renters who think they will move property within the next five years, the most commonly cited reasons were to have more space (52%), and/or a better location (50%) (multiple selection). [39]

The reason for landlord termination doesn't vary by any identifiable demographic features in renters.[40] This is likely because landlords overwhelmingly terminate leases for reasons entirely separate to the renter, such as that they wish to move into the property, make it available to a relative, or sell it. This highlights how difficult it can be for renters to improve the security of their rental circumstances.

The most common reason for landlord-initiated vacancies is selling the property (41%).[41] The most common reason for selling is because it was perceived to be a good time to realise the capital gains (50%), with other common reasons including dissatisfaction with rental income (36%) and capital gains (27%).[42] The prevalence of selling is high; half of all rental properties leave the sector within the first five years of ownership, with the most common reason being sales.[43] Indeed in LongView's own experience, many landlords leave the sector because the private rental system is less lucrative and more stressful than they had anticipated.

Landlords frequently use fixed-term lease agreements of a year, which allow for the removal of renters at the end of the lease period. For the landlord, the shortness of the lease mitigates the risk of getting a "bad tenant", for example, one who does not pay their rent on time, or who causes damage to the property, and provides the landlord with flexibility on future use of the property. This does, however, prevent renters from having a sense of control over their living arrangements.

[36] (AGPC, 2019). Data is from 2013-14.
[37] (CAV, 2016).
[38] Data explaining reasons for moving for the remaining 7% is missing or unclear.
[39] (Baker et al. 2022).

[40] (CAV, 2016).
[41] (CAV, 2016).
[42] (Martin et al., 2022).
[43] Ibid.

Although most leases are terminated by renters, the landlord-renter relationship can create a dynamic of lingering insecurity, as renters may be compelled to move with limited notice. Families with children can face significant disruption when a landlord ends a tenancy. With public school zones and commute convenience tied to locations, moving children can involve interrupted learning and replacement of entire friendship groups, teachers, and routines.

Rental insecurity can even affect employment and job prospects. Renters are often uncertain about where they may have to move to next. The need to find accommodation quickly can lengthen commutes, and in some cases even lead to unwanted job changes. The time pressures of moving may also conflict with work schedules, particularly for those in casual employment. All these challenges are exacerbated for single parent families – a large proportion of whom are renters.

Community and Extended Family

A home is not just a place where people live, but a connection to a broader community. This takes the form of neighbors, local schools, shops, sports clubs, and social groups. When renters are forced to move, they are often taken away from these community groups, reducing their ability to create a sense of belonging.

Location can also be important for accessing extended family, which is particularly important for those with young children where childcaring responsibilities can be shared. It is also important for those caring for elderly relatives who cannot be easily moved. When people are forced to move further away from family due to uncertain tenancy, these important links are undermined.

Moving Costs

The cost of moving is steep. Moving can cost upwards of $500 for 1-bedroom apartments, and well over $1000 for 4-bedroom houses for even the simplest of moves.[44] Although costs can be lowered if renters do most of it themselves, appliances and furniture are typically prohibitively difficult to move without assistance. Renters face costs beyond the direct move, including professional cleaning, utility termination, and utility set-up fees.[45] Some renters also experience problems retrieving their rental bond, which can be a significant cash flow challenge for lower-income households. Table 1 outlines the approximate line-item costs of moving.

Table 1 | Potential moving cost breakdown for a 3-bedroom house. [46]

Expense type	*Price*
Basic Removal Services	$800-$1,050
Disassembly & Reassembly	$100-$200
Packing	$225-$275
Packing Materials	$0-$150
Professional Cleaning	$280-$350
Storage (1 Month)	$100-$150
Bond Payment [47]	$2000
Double Rent	$2000
Total	**$5,505-$6,175**

[44] (Dawson, 2022).
[45] (GGR, 2022).
[46] (Sirelo, 2022). Note: rental costs will be higher on average in Australia's large cities.

[47] This is eventually paid back at the end of the tenancy in most cases, but nonetheless can create significant cash flow difficulties for prospective renters.

Moving therefore represents a 25-30% increase in the total annual spend on housing for a median household in the year of a move.[48] Low-income renters already dedicate a larger proportion of their income to housing, and are often poorly placed to withstand financial shocks. An estimated 31% of households have less than a month of living expenses in liquid savings, an amount roughly equivalent to the cost of moving.[49] These households can be forced to draw on additional lines of credit, such as loans, to finance moving, compounding their financial vulnerability.

There are also practical challenges associated with moving. Most people need to take leave to find a new property and to organise the move, which can be difficult, particularly for casual workers who don't always have predictable work schedules.

Organising a move also involves finding and comparing removalists, organising your belongings so that they can be moved, and updating your address with government agencies and companies. Often, furniture and appliances like fridges need to be replaced because they are unsuitable for spaces in a new property. Perhaps most significantly, moving is deeply disruptive and difficult and can have a significant impact on individual and family wellbeing.

Timing a new lease can be tricky, and at times it can be unavoidable for renters to pay double rent so they can guarantee a new rental when their lease comes to an end. It can be highly variable how much flexibility a landlord can afford when starting a lease and is something that is not legislated.

Many renters are therefore in a position where they would find it difficult to move if they were forced to. In 2019-20, of the 8% of households that said they would like to move in the short-term, 25% said they could not afford the expenses associated with moving, while 22% said it would be too much effort. Most faced few alternatives if they did not secure a rental renewal; more than 60% could not afford to buy a new dwelling.[50]

The limited availability window of advertised properties is a contributing factor to the current rental market challenges.

3.2 Securing a lease

Property needs differ by demographics, so different rental properties have different demand. As more people of family age enter the rental market if current trends continue, the demand for larger properties will also increase. Factors like proximity to schools and school zoning are particularly important for parents.

With required tenancy forms and databases that disclose private information, property managers can efficiently sift through and screen applicants. A 'good' renter can mean a higher income renter perceived as more likely to pay their bills on time. Discrimination in the rental market also goes beyond income. Half of all renters report having experienced some form of discrimination when looking for a rental property in the last five years. This includes discrimination for having a pet (23%), receiving government payments (17%), age (14%), having young children

48 (ABS, 2022a).
49 (Kwiet-Evans, 2021).

50 (ABS, 2022f).

(10%) and being a single parent (7%). [51] Although some of these forms of discrimination are illegal, rejecting renters for these reasons is often easily disguised by using income or employment status as a proxy.

3.3 Rental stock quality

The condition of the dwelling, the landlord's willingness or financial capacity to do necessary repairs, and the renter-landlord/real estate agent relationship all contribute to a renter's ability to create a sense of home once a lease is secured. [52]

The quality of rental stock in Australia is generally poorer than owner occupied dwellings. With little incentive for owners, adequate heating and cooling are examples of features which many properties lack, and which significantly undermine liveability. Rented homes are far less likely to be able to be kept warm in the winter or cool in the summer, with lower income households the most affected (Figure 12 and Figure 13).

Figure 12 | Percentage of rental properties not able to be kept comfortably warm in winter. [53]

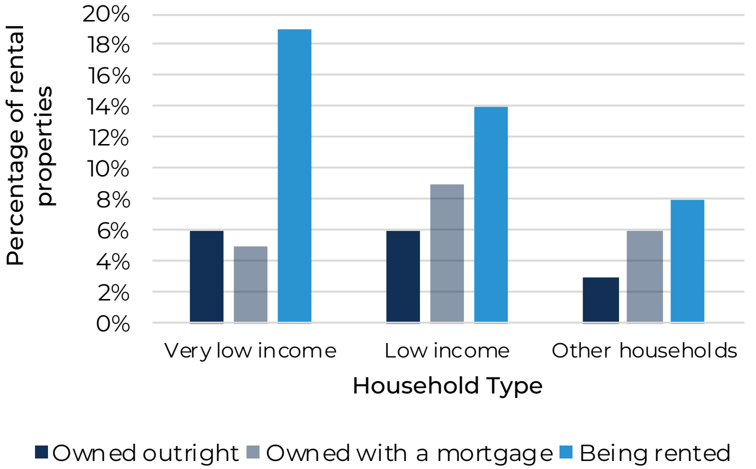
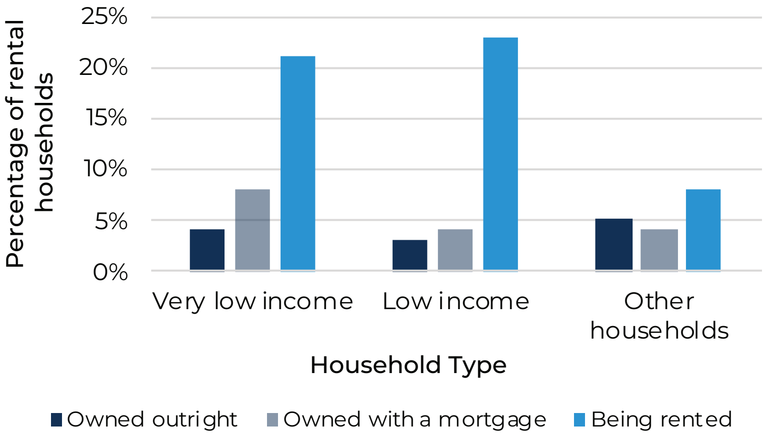


Figure 13 | Percentage of rental households not able to be kept comfortably cool in summer. [54]

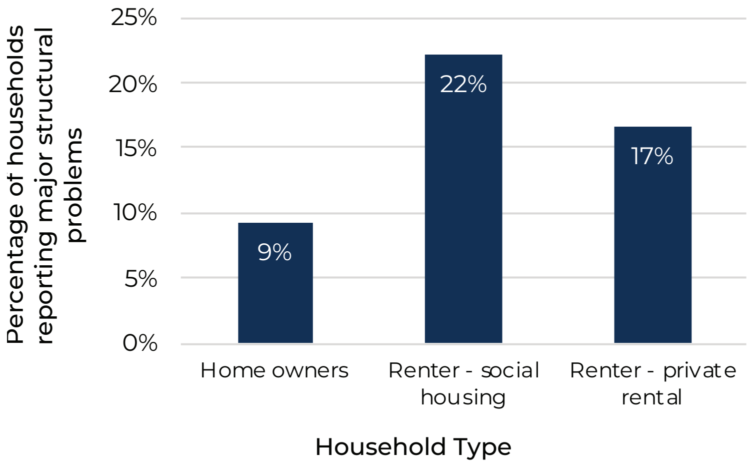


[51] (Renters Queensland, 2017).
[52] (Morris et al., 2021).

[53] (Per Capita, 2022).
[54] Ibid.

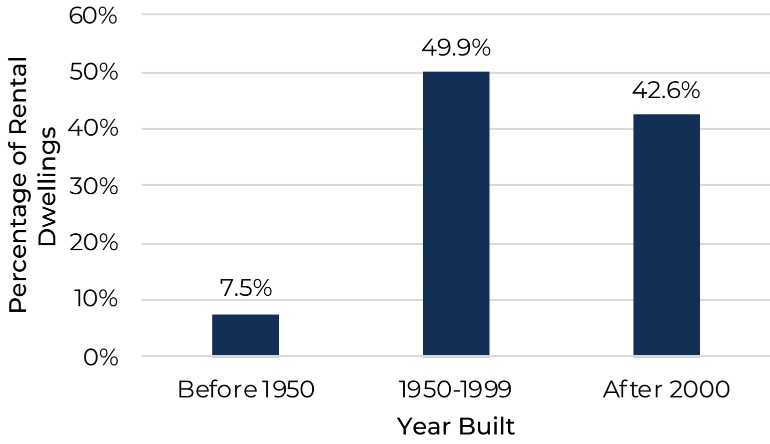
Rental properties are also more likely to have major structural defects which can significantly reduce the quality of a rental. Specifically, whilst just 9.2% of homeowners report major structural problems, nearly twice as many renters (16.6%) report major structural problems (Figure 14). [55]

Figure 14 | Percentage of households reporting major structural problems (2019-20). [56]



This is in turn informed by the age of rental stock; most rental properties were constructed prior to the year 2000 (Figure 15).

Figure 15 | Age distribution of rental dwellings. [57]



LongView Experience: mould is a common and expensive problem

A two-bedroom art deco rental apartment in Elwood had a mould problem despite having model renters. Working together, the landlord, property manager and renters tried various methods to address the issue, such as opening windows, using a dehumidifier, and anti-mould paint. Despite these efforts, mould remained in every room of the apartment, and was only resolved when the next tenancy happened to be a single person household. In this case, the property itself was the problem – the building could only accommodate the water usage of one person.

[55] (ABS, 2022f).
[56] (ABS, 2022f). Homeowners includes with and without a mortgage. All households includes other landlord and tenure types.

[57] (Baker et al., 2022).

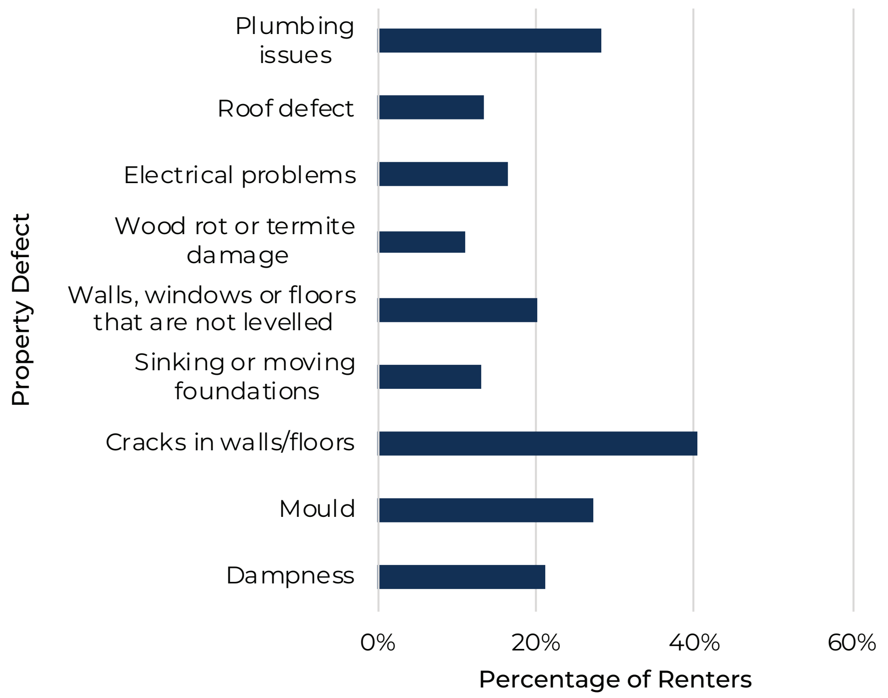
3.4 Maintenance

Properties can require a lot of maintenance – especially older properties. The problems that can arise if they fail to be maintained are innumerable, including plumbing issues, mould, termites, and other pests. Each of these has the potential to not only significantly undermine the liveability of a property, but to make it entirely uninhabitable.

If problems arise that cannot be resolved by the property manager, renters and landlords have the option of submitting a dispute resolution form through the relevant tribunal for things like rent increases, repairs, and tenancy termination. However, the process can be difficult, lengthy and costly. Renters might feel hesitant to follow up on repairs and maintenance as they fear potential rent increase or eviction if they are perceived as too demanding by the landlord. [58]

Notably, 29% of private renters report facing delay when raising issues. [59] This number increases to 33% for managed properties, suggesting that many property managers give minimal service to cut down on costs.[60] Only 32% of people say they have no issues with their property. Figure 16 shows the prevalence of different defects renters have with their rental properties. [61]

Figure 16 | Proportion of renters experiencing rental defects in their current property. [62]



[58] (Morris et al., 2021).
[59] (Baker et al., 2022).
[60] Ibid.
[61] Ibid.
[62] Ibid.

4.

AUSTRALIA IS UNUSUALLY BAD FOR RENTERS

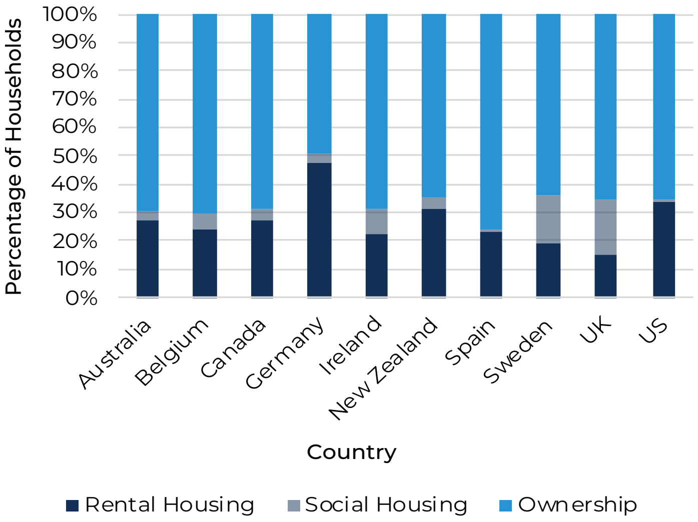
4 Australia is unusually bad for renters

The shortcomings of Australia's private rental system are brought into sharp relief when compared to international models.

4.1 How does the proportion of Australians who rent compare to elsewhere?

Australia is relatively normal in terms of the proportion of people who rent compared to other similar countries (Figure 16). [63] Nonetheless, Figure 16 demonstrates that there is a high variance in rental rates internationally. For example, whilst nearly twice as many Germans rent, less than half of those in the UK do.

Figure 17 | Percentage of occupancy type by country. [64]



4.2 Australia is one of the worst countries in the developed world to be a renter

Rental laws and regulations shape the experiences of renters and landlords, as they can affect perceptions of security, control, and attachments to home. Although rental regulations across international jurisdictions are varied and complex, they typically cover two distinct areas capturing four categories, with countries adopting different strengths of regulation within each.

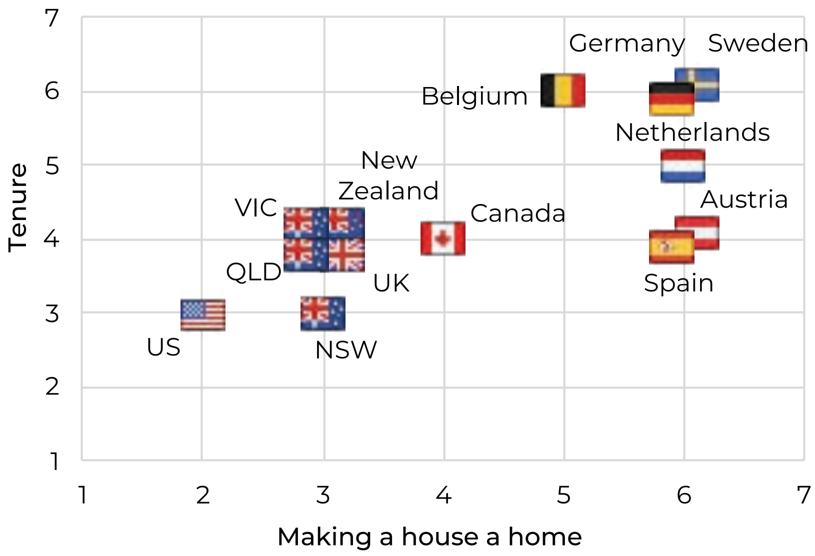
- Tenure: The first category of regulation is tenure, and encapsulates the typical term of a rental lease, and the grounds on which a lease can be terminated.

- Making a house a home: The second category of regulation is that controlling the ability for renters to make their property a home. Going directly to the nature of the rental experience, the two key categories of regulation for this area are the ability for renters to have pets, and to make minor alterations.

The weakness of Australia's rental system is clearest when we consider it in an international context. Figure 17 breaks down the regulation scores in Victoria, New South Wales and Queensland compared to other countries.[65] A high score within each category reflects regulation that 'favours renters', whilst a lower score typically 'favours landlords'.[66] Victoria, Queensland, and New South Wales score amongst the lowest of all jurisdictions considered in both categories, and approximately half the maximum score achieved in the comparison group. The full details of each country's regulations can be found in Appendix A.

63 (Savills, 2022).
64 (ABS, 2022a), (AHURI, 2022), (GFSO, 2022), (Statistica, 2021a), (TE, 2022), (Statistica, 2022a), (Statistica, 2021b), (TE, 2018), (Statistica. 2022b).
65 Note that each regulatory category has been given an equal weighting for simplicity. In practice it is likely that different regulations will have different levels of importance for different renters. Tenure in particular has a consistent and profound experience on overall rental experience which effects all renters significantly.
66 Note: Whilst maintenance is an important additional category, the differences in enforcement mean that it cannot meaningfully be compared through a matrix like this. It has consequently been excluded.

Figure 18 | Selected countries rental experience score breakdown. [67]



Recent State laws in Australia have made renting better for renters. For instance, in Victoria landlords must now have a valid reason for ending a rental agreement, such as selling the property.[68] Landlords also cannot refuse requests by renters to have pets without a good reason.[69] Nonetheless, these changes are small in the scale of rental regulation. Appendix A outlines a range of more renter-friendly regulations employed by other countries. The fact that it took so much political effort to make these changes show not only how far Australia is from some of its cousins overseas, but how unlikely it is that rental conditions are to further improve significantly in the short to medium term. Indeed, many advocates argue that the change had minimal impact on rental experience, as landlords instead used other mechanisms to evict tenants with undesirable pets.

Even within countries, tenancy regulations can vary significantly

Although we evaluate rental regulations at a national level for countries other than Australia, this obscures the complexity of rental regulations reality. Most countries apply rental laws at the state, province, or even city level, which can result in dramatically different rental experiences in different places. For example, while New York is famous for utilising rent control in some suburbs, this is not the norm for most of the United States. To account for this, we have applied an indicative score based on the typical regulations for each country, noting that there will be some variance in different locations within countries, in particular in relation to enforcement.

[67] (LongView analysis of international regulatory regimes. See Appendix A for details).
[68] (CAV, 2021).

[69] Ibid.

5.

THE SYSTEM ALSO FAILS LANDLORDS

5 The system also fails landlords

Renting in Australia has been described as a 'cottage industry', where most private rental properties are owned by landlords with only one or two investment properties. As we will explore in this chapter, this fragmented ownership has negative consequences for landlords as well as renters.

Although they do not face the same insecurity as renters, many landlords do not have as positive experience with their rental properties as sometimes assumed. There are three reasons for this:

1. The current model of individual property investment is much more involved and complex than many expect
2. Contrary to popular opinion, property is a highly variable form of investment, particularly when funded with mortgages
3. Despite this additional effort and risk, the overall median post-tax return on rental properties is often poorer than alternative lower-effort investments

The net effect of these three challenges is that half of all investment properties exit the rental market within five years, creating even more insecurity among renters; as many as 25% of tenancies are terminated when a property exits the private rental sector. [70] This chapter explores each challenge in greater detail.

[70] (Martin et al., 2022).

5.1 Property investment is much more involved and complex than many expect

Compared to other investments like investing in an index fund, property investment requires very active involvement. Many investors have misconceptions about the effort required when they enter the market. There are a range of complexities to profitable property management, which typically fall into four categories:

1. Engagement, maintenance, and ongoing cost issues

Typically, investors do not consider or anticipate the financial and non-financial cost of maintenance when entering the property market. Rental properties face a huge number of potential maintenance issues including leaks and water membrane issues, electrical faults, broken door handles, blocked drains, failing appliances, and mould. Dealing with these issues when they occur can be a significant and unplanned expense. For example, a minor roof leak can cost thousands of dollars to fix, which for an average property could equate to 10-30% of the annual rent. Moreover, the unpredictability of large maintenance expenses exposes investors to significant risk. In addition to maintenance costs, investors must also pay government tax, council rates, and strata fees. Many individual property investors make sacrifices to invest and are not well placed to meet unexpected cash flow shocks. This is without even considering the time required for the investor to act on these issues, which often need to be immediately dealt with.

These challenges are compounded by the fact that many landlords are not properly insured. Consequently, when damages occur, landlords can lack the capital to restore a property, making it un-rentable, and leading to further losses.

2. Real Estate Agency Challenges

As many as 75% of property investors use property management agencies to lease their property and manage the relationship with renters.[71] Property management can become problematic for landlords if an agency 'races to the bottom' on price at the expense of service. This means that when issues do occur many agencies are under-resourced to deal with them. Part of the problem is that low margins and frequent high stress interactions with renters and landlords makes maintaining staff a challenge for property management agencies. The average tenure for a property manager is only 18 months, and estimates suggest that up to a third of all property managers have left the industry in recent years. [72]

On the other hand, inexperienced and under-resourced property managers can have a significant impact on the bottom line for property investors. Inadequate advertisement, notice, and poor pricing practices can all increase the time it takes to let a property or reduce renter quality. Most significantly, when issues do come up, under-resourced property managers may take longer to address them.

Property management is a stressful industry

Inexperienced landlords can make uninformed decisions that can lead to problems in the long run. These decisions can include poor property selection, reluctance to buy insurance, and reluctance to spend money on small repairs that could save money – and further problems – in the future. As a result, when these issues inevitably cause problems for landlords. They may take out their frustration on the property manager, who find themselves caught in the middle between landlords and renters. It is perhaps unsurprising, therefore, that property managers have a high turnover rate. Almost a quarter of property managers plan to leave the industry.[73]

One of the reasons for these challenges is the fact that property management services are frequently an 'add-on' business for real estate agencies whose primary focus is property sales. The system creates incentives to under-fund property management operations to minimise expenses, as the primary objective is to generate business for the real estate agency when the property is ultimately sold.

[71] (RentBetter, 2022)

[72] (Kelly, 2021); (Scott Bateman, 2021)
[73] (MRI Software, 2021).

Experienced property managers add value to landlords

Property management expertise can have a positive impact on investor outcomes. One example of this is when an experienced property manager at LongView identified a renovation opportunity for a client. Recognising that properties with higher quality fittings were in greater demand in the area, the property manager convinced the landlord to renovate the property. As a result, the property was leased out for almost $100 more per week, an almost 15% increase in rental yield. The property value also increased. This demonstrates how proactive property managers can help maximise the returns on investment for investors.

3. Renter risk

Landlords hope that renters will take care of the property and provide a consistent stream of rental income, and most renters do. But the additional source of risk represented by the minority of renters who mistreat the property can loom large.

Some renters can damage properties

A LongView property manager asked a renter to refrain from flushing baby wipes, which were causing toilet clogs. However, the renter disregarded the advice and removed the entire toilet each time the plumbing became clogged to clear the block. Unfortunately, on one occasion, the renter failed to properly reinstall the toilet, leading to a leak and subsequent flooding of the house. This unfortunate event was compounded by the fact that the landlord was not adequately insured, adding further stress to both the landlord and property manager.

Additionally, when a renter is in rental arrears, it can cause harm to the landlord's own cash flows. In cases of both damage and arrears, dispute processes can be lengthy and time consuming. Long waits for tribunal appearances can lead to significant lost income which cannot be recovered.

4. High cost investment

Property is an expensive form of investment, with a high minimum cost. Not only do investors need to accrue a high minimum investment to buy property (particularly when compared to ordinary investment products), but due to the entry and exit costs associated with property, they are often locked into that investment for long periods of time. High minimum investment often compels people to take a mortgage to invest in property. Similarly to renters, this makes property investors vulnerable to financial shocks which could leave them unable to make repayments. This is compounded by the other ongoing costs of property investment (maintenance costs, strata fees, council rates, and land tax) which together with mortgage payments typically outweigh rental yields. Although the consequences of cash flow shocks are not as severe as they are for renters, they present a real challenge for many property investors.

[73] (MRI Software, 2021).

Many individual investors make sacrifices to finance properties

When we spoke with landlords for the purpose of this Whitepaper, we came across many stories of families who had to make sacrifices as a result of the initial investment or unexpected costs related to their investment properties, such as rising interest rates or large maintenance bills. One landlord spoke of years without holidays or takeaway food when they first bought their investment property.

This is often caused by the fact that many investment properties have negative cash flows. While some investors do this intentionally to take advantage of negative gearing, a large cohort of investors do not intentionally set out to employ negative gearing but find themselves in this position by underestimating holding costs. This is due to the fact that investment properties have much higher operating costs than other forms of investment. Although the total return for property can still be strong, this cashflow problem can have significant implications for ordinary investors.

5. Regulatory complexity

It is important to acknowledge that many individual landlords underestimate how highly regulated residential tenancies are. For example, the Victorian Residential Tenancies Act alone is almost 700 pages long, and is a minefield of regulatory compliance risks for ordinary property investors. Indeed, many landlords find themselves unknowingly in breach of the Act, particularly when building standards change, leading to enormous costs. Others are underinformed about how to handle such breaches, which can compound these costs once authorities like Victorian Civil and Administrative Tribunal (VCAT) and Consumer Affairs Victoria (CAV) become involved. Many individual investors become landlords unaware of these complexities, or the costs associated with them.

Property management is challenging, even for property managers with decades of experience

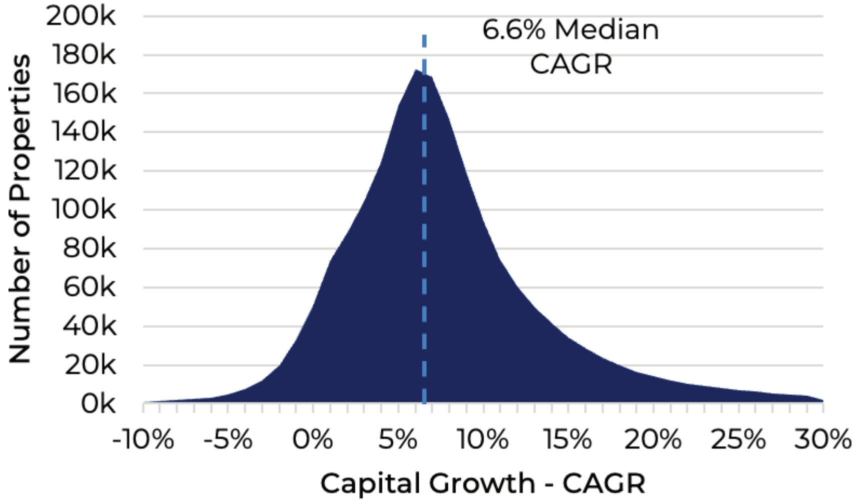
A LongView property manager managed a property where the renter became affected by methamphetamine and exhibited destructive behavior. The renter did not allow anyone into the property for inspection, threw furniture off the balcony, vandalised the inside walls and windows, and was behind on rent. It was challenging for the property manager to decide what to report to VCAT and file a breaching notice as VCAT does not permit multiple filings. The property manager had to decide between filing for property damage, disturbance of peace, lack of access or non-payment of rent. A landlord without a property manager would have likely needed to solicit legal advice to resolve this issue, which could have been extremely costly.

5.2 Contrary to popular opinion, property is a highly variable form of investment

Despite the consistency and relative stability of growth in Australia's property market as measured by price indices, the returns on individual residential investment properties are highly variable. Figure 19 displays the distribution of individual property capital growth in Melbourne, Sydney, and Brisbane that have been bought and then sold between 1990 and 2020, filtering for ownership durations of at least 4 years. It reveals that while the median return on these metropolitan properties was 6.6%, many properties underperformed this median, highlighting the risk associated with property investment.

Leverage plays an important role in property investment. Properties are typically purchased via a combination of owner equity and mortgage debt. A property is 'leveraged' when its purchase is partially funded by a mortgage because an investor only needs to invest a proportion of the property's price upfront and yet receives all the price growth (or fall). This introduces more risk (and potentially reward) to this equation. Many investment properties are owned with a mortgage. When the annual property price growth exceeds the mortgage interest rate, the investor amplifies the returns on their initial investment.

Figure 19 | Distribution of Capital Growth (CAGR) from subsequent property ownership periods for Melbourne, Brisbane, and Sydney (1990 – 2020).[74]

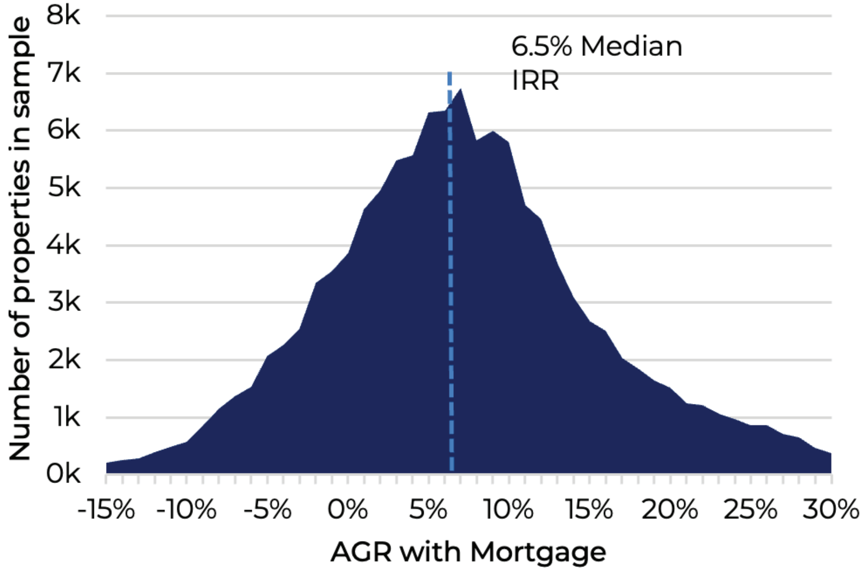


[74] LongView Analysis of Propic residential property data. The analysis considers the capital growth that has occurred between pairs of subsequent transactions in Melbourne, Brisbane, and Sydney between 1990 and 2020. The dataset includes some properties which have been substantially renovated or rebuilt and subsequently sold, which has artificially inflated some CAGRs. It is likely that most properties with CAGRS above 10% have done so because they have been subject to significant additional capital investment (such as through a rebuild) which is not visible in transaction data. Analysis filters out ownership periods of less than 4 years and does not include costs such as stamp duty or capital gains tax. Because the period is fixed, the sample used to generate this distribution contains a disproportionately amount of short transactions (with more variable CAGRs) compared to the distribution of ownership periods from a fixed start date. For example, there are few 29-year transactions periods (only 1990-2019 and 1991-2020) and no 31-year ownership periods in the dataset.

Notably, the last 20 years represented the best time in Australian history to utilise leverage, with mortgage rates maintaining historically low levels for many years. By contrast, in the late 20th century when rates consistently breached 10%, a significant proportion of fully levered properties lost money because their mortgage payments were greater than their growth rate.[75] This latter point is important because leverage goes both ways – just as it can compound growth, it can also compound losses.

The Internal Rate of Return (IRR) is the annual rate of growth at which the costs of a property investment (the deposit and mortgage payments) must have grown to cover the eventual returns at the time of sale. We use it as a measure of the annual returns. Figure 20 shows the wide spread of levered returns on property assuming 65% leverage, a 6.6% mortgage rate, 20-year mortgage, and a 10-year hold period. Because the mortgage rate has been the same as typical individual property price growth over the last 30 years, leveraging has effectively amplified risk without affecting median returns.

Figure 20 | Distribution of property ownership period leveraged returns for VIC, NSW, and QLD (1990 – 2020).[76]



[75] Note: Non-investor homeowners were not as significantly affected during this period due to capital gains exemptions on principal places of residence.

[76] Assuming an 80% loan-to-value ratio is held throughout an entire investment period of 10 years by repaying interest only at a mortgage rate of 6.5%. Both assumptions are generous; many (if not most) investment properties are bought at a 60% LVR, and the historic average mortgage rate is higher than 6.5%. Baseline capital growth was taken from 9.5-10.5 year ownership periods occurring from 1990 to 2020. The dataset includes properties which have been rebuilt and subsequently sold, which has artificially inflated some returns.

Some notes on the leveraged returns results

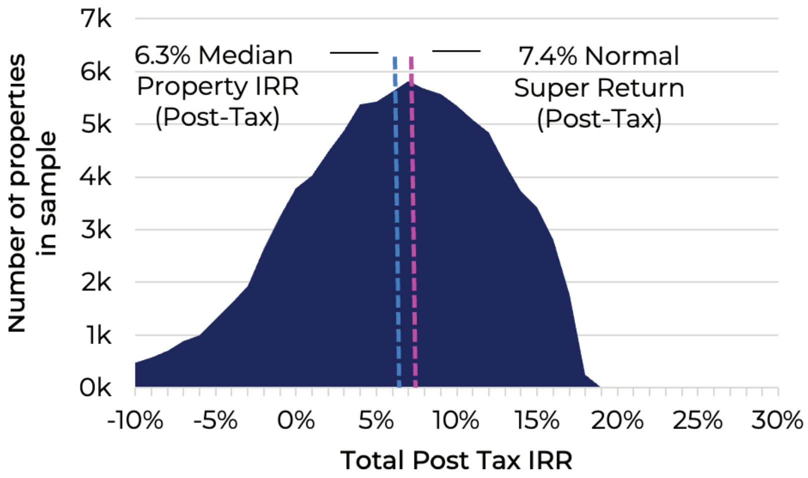
This result only serves to indicate that leverage is not a secure path to increased returns. Many properties grow below the mortgage rate and therefore have worse growth including leverage than they would if they were bought outright. This analysis is not representative of actual investment returns because it does not consider other factors like capital gains tax, ongoing costs, and rental income. This latter analysis is considered in the following section.

5.3 Many landlords would be better off investing in superannuation than property

In this section we estimate the actual returns received by property investors based on real property price growth data from 1990 to 2020 with ownership periods between four and 10 years. Because units have typically had worse capital growth than houses, they have also typically had worse investment returns. We have excluded properties with capital growth of above 12% from the underlying data because the excess returns are likely the result of construction or renovation which artificially inflate the apparent returns.

Calculating the post-tax expected return on investment properties is complex. There are many factors which influence total return on a property (outlined in Appendix A). Accounting for the factors (as well as the assumptions made to support them) the median total property investment IRR for investment properties is 6.3%. Figure 21 shows the estimated distribution of property investment IRR for investment properties between 1990 and 2020 with four to 10-year hold periods.

Figure 21 | IRR distribution of actual 4 to 10-year property investments in Melbourne, Brisbane, and Sydney (1990-2020). [77]



[77] LongView Analysis of Propic residential property data. The analysis considers the distribution of IRRs for 4 to 10-year property ownership periods. The data has been sampled to be 58% houses and 42% units to reflect actual investment property market mix. The distribution of CAGRS has been taken from ownership periods that have occurred between 1990 and 2020. The calculation of IRR is subject to the fixed assumptions of Table 1. The dataset includes properties which have been rebuilt and subsequently sold, which has artificially inflated some returns. Analysis based on representative sample of 100,000 Melbourne, Sydney, and Brisbane properties, weighted according to property investment market composition. Properties with sustained CAGR's greater than 12% have been excluded as outliers on the grounds that they have likely only achieved this growth over sustained period with significant capital investment and so are not representative of actual investment returns.

Figure 21 shows that the impact of taxes and fees largely counteracts the benefits of leveraging and negative gearing concessions. This means that the distribution of investment returns is similar to the initial distribution of capital growth. While some investors have done very well financially, others have had poor returns. In contrast, balanced funds held within Superannuation have historically delivered a 7.4% post-tax return over the long term, more than 1% higher than property.[78] Not only this, but the diversification of superannuation across many assets and asset classes has made it much less risky than investing in one or two properties in terms of return variability.

This isn't a perfect comparison. Super is an asset structure, as opposed to an asset class, and many Superfunds themselves invest in commercial property and property development. Further, while property investment has a constant cashflow yield in the form of rental payments, superannuation does not. Many investors, particularly retirees, invest in property for this cashflow. Nonetheless, it is likely that as many as 60% of landlords would have been financially better off putting their money into balanced Superannuation funds, usually because they have bought poorly performing properties.

The challenges faced by landlords are fundamentally related to the fragmented ownership of the private rental sector. Investors face significant risk from unpredictable maintenance costs, the potential for arrears, and inexperienced property managers.

Despite perceptions of stability in property price growth, at an individual property level investor returns are variable, particularly when amplified with leverage.

[78] (AustraliaSuper, 2022) taking the average percentage return of AustraliaSuper's balanced fund from 1990-2020 and multiplying by the 15% tax rate for superannuation.

6.

THE SYSTEM IS THE PROBLEM

6 The system is the problem

This Whitepaper's analysis highlights the inadequacies of the current private rental market in Australia. Many renters often have poor experiences, while many landlords receive insufficient returns on their investments, leading to decisions (such as selling the property and/or inattention to maintenance) which are detrimental to renters.

The interplay between properties, landlords, and renters, requires systemic solutions. Blaming landlords or renters is a false battle – the interests of both groups must be addressed if solutions for either are to be found.

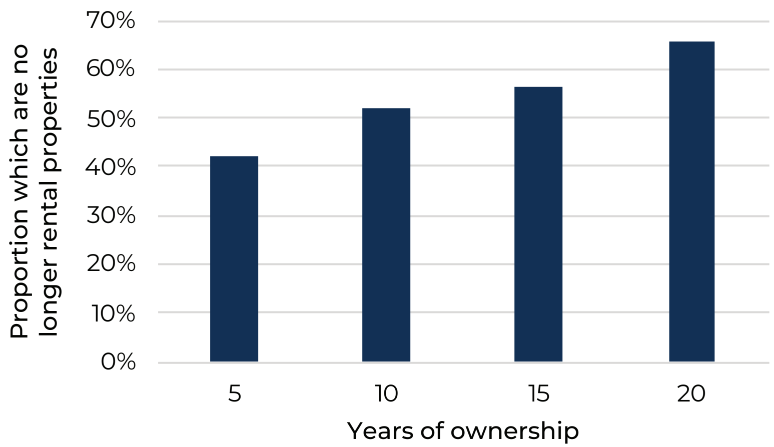
6.1 The nexus between individual landlords and renters

The relationship between landlords and renters is primarily driven by competing interests (see Figure 23), specifically in terms of flexibility and cost.

Flexibility

Landlords desire the flexibility over the use of their property for financial and non-financial reasons. The financial reasons investors cite include realising capital gains, shifting to other investments, and dissatisfaction with rental income and maintenance costs.[79] A smaller cohort of investors also value the flexibility of using a property as holiday accommodation or as a future home. Moreover, a lot is riding on the individual property from the investor's perspective because a high proportion of their wealth is tied to the property. The outcome of this is that many investors leave the rental property market soon after entering.

Figure 22 | Proportion of Melbourne investment properties first seen in 2000 which have left the sector. [80]



On the other hand, many renters value the security to rent the property for as long as they wish. Flexibility on the part of investors comes at the expense of renter wellbeing through short tenure, insecurity, moving costs, not being able to put down roots, and the difficulties of finding new tenancies. Moreover, this burden is increasingly being felt by the most vulnerable Australians. As renting is becoming a permanent mode of occupancy for many Australians, these persistent issues apply to a growing proportion of the population.

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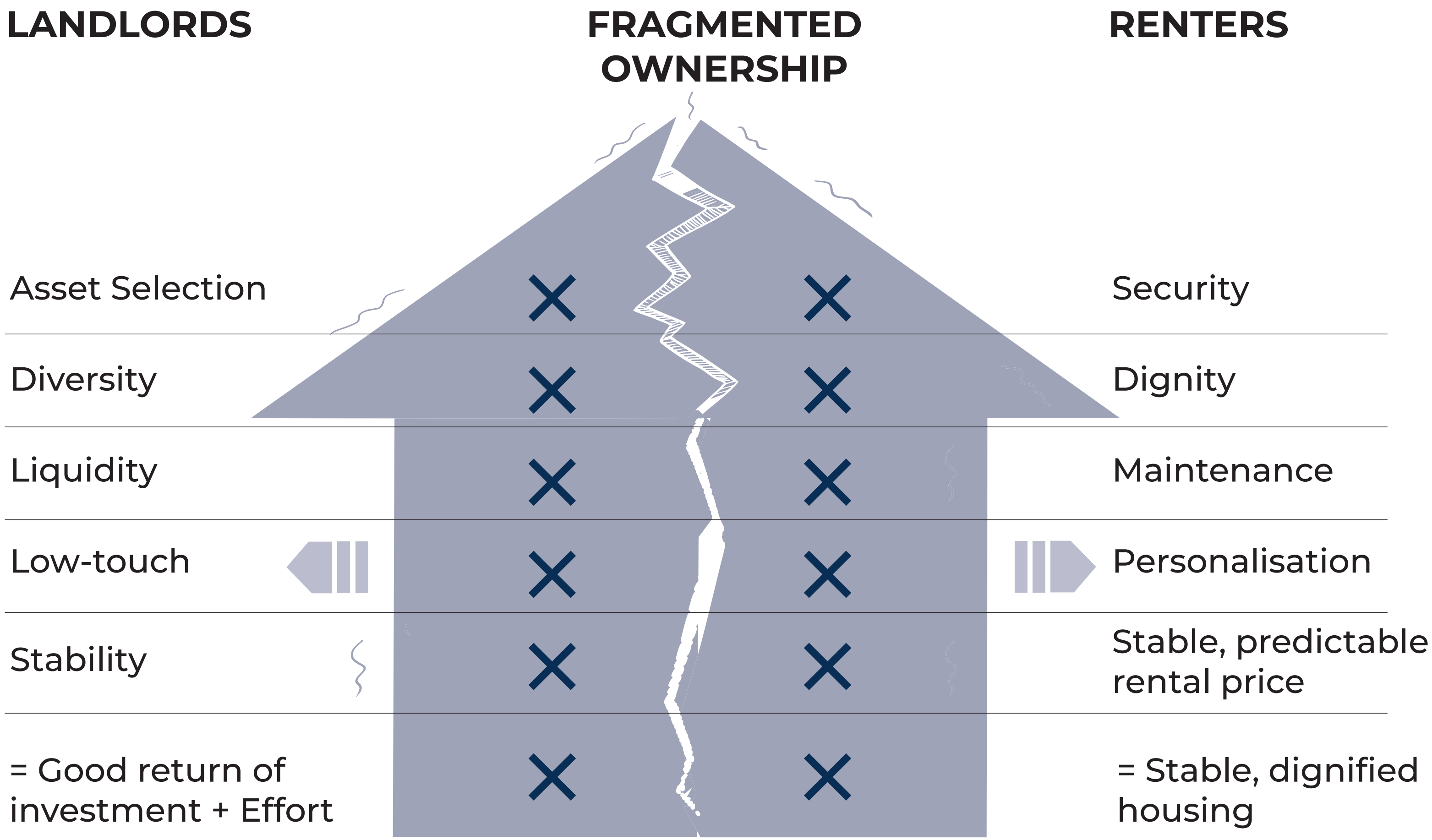
[79] (Martin et al., 2022).

[80] Ibid.

Figure 23 | Individual Landlord and Renter Nexus



Cost

Landlords wish to minimise maintenance costs on investment properties to maximise their profits or minimise their losses. Many investors insufficiently invest in the maintenance of their investment properties, meaning that the quality of rental dwellings is typically lower than for owner occupied dwellings, and gets worse over time. Ironically, limited maintenance of properties may also incur greater costs in the long term for the investor due to higher vacancy rates caused by tenant turnover, meaning that the decision of whether or not to conduct maintenance works is generally a false economy. Similarly, landlords wish to maximise the rental price of investment properties and seek to increase prices to match market inflation as much as possible.

On the other hand, renters seek the opposite – they rely on landlords to invest in the maintenance of their place of residence. Similarly, they hope for certainty in the costs of renting.

6.2 Landlords against renters is a false battle

If the nexus between landlords and renters continues to exist, it won't be possible to improve rental experience because the two parties have fundamentally incompatible needs. The increasing number of private renters in Australia makes the need for a solution to this broken system increasingly urgent.

Solutions to the three housing crises in Australia will be discussed in the third and final Whitepaper, scheduled to be published in May.

Appendix A: International comparison breakdown

Rental regulation scoring system

Table 2 breaks down the scoring system we have used to compare different countries.

Table 2 | Rental Regulation Scoring System

Category	Score	1	2	3
Tenure	**Typical term**	6-12 months	2-3 years	3+ years
Tenure	**Termination**	Any reason	Limited reasons with notice	Extremely limited ground only
Making a house a home	**Pets**	Only with consent	Subject to restrictions	Renter entitlement
Making a house a home	**Minor alterations**	None	Only with consent	Permitted

Rental regulation score summary

Table 3 outlines the general rental regulation score we have calculated for each country. Different countries have different levels of regulation in different locations, so scores should be understood as only generally representative.

Table 3 | Typical rental conditions in selected countries

Country	Lease Term	Lease Termination	Pet Ownership	Minor Alterations	Total
Sweden	3	3	3	3	**12**
Germany	3	3	3	3	**12**
Netherlands	3	3	2	3	**11**
Belgium	3	2	3	3	**11**
Austria	3	3	1	3	**10**
Spain	3	3	1	3	**10**
Canada	1	3	1	3	**8**
New Zealand	1	2	1	3	**7**
UK	1	2	2	2	**7**
VIC	1	2	2	2	**7**
QLD	1	2	2	2	**7**
NSW	1	2	1	2	**6**
US	1	1	1	2	**5**

Rental regulation scores by country

The below section expands upon the information in Table 3 by presenting it in a readable format.

Tenure
Factors impacting the duration and security of a rental lease.

Typical lease term
- **3 years +:** Germany, Sweden, Austria, Belgium, Spain, Netherlands
- **2-3 years:**
- **6-12 months fixed term and periodic:** Victoria, Queensland, New South Wales, New Zealand, UK, Canada, US.

Reasons lease can be terminated (other than end of fixed term lease)
- **Extremely limited grounds only:** Germany, Sweden, Canada (mostly), major US cities (with rent regulation), Spain, Austria, the Netherlands
- **Limited reasons with notice:** Victoria, Queensland, New South Wales, New Zealand, England, Belgium
- **Any reason with notice:** US (mostly)

Making a house a home
Factors determining the quality of life of a rental property.

Pet ownership
- **Renter entitlement:** Germany[81], Belgium, Sweden
- **Subject to restrictions:** Victoria, Queensland, UK , [82] Netherlands
- **Only with landlord's consent:** New South Wales, New Zealand, Canada, United State, Austria, Spain

Minor alterations
- **Permitted – considered normal:** New Zealand, Germany, Netherlands, Canada, Austria, Belgium, Spain
- **Only with landlord's consent:** Victoria, Queensland, New South Wales, UK, US
- **Not Allowed:**

[81] Landlords can still refuse pets with good reason e.g., resident with an allergy, the pet causes noise or disturbance, if it causes damage.

[82] New laws recently introduced to remove blanket bans on keeping pets, and landlords cannot unreasonably refuse.

Appendix B: Property investment model details

Table 4 | Property investment IRR model factors, assumptions, and explanations

CATEGORY	FACTOR	MODEL VALUE AND EXPLANATION
INVESTMENT RETURN	Purchase price	Actual property prices used.
	CAGR	Actual property CAGR's used. CAGRs above 12% have been removed as outliers.
	Property Mix	Units 42%, Houses 58% (This reflects a typical investment property mix)
	Yield	3.1% for houses and 3.7% for units (Median Capital City yield)[83]
	Occupancy rate	95% (Typical occupancy rate)
	Hold period	4-10 years (typical median hold period for new investments)[84]
LEVERAGE	Mortgage rate	6.6% (Average rate over the period analysed)
	Initial LVR	65% (Typical property investor LVR).
	Mortgage length	20 years (Typical mortgage duration for investment properties)
	Type	Principal and interest
ACQUISITION AND SALE	Stamp duty	Calculated based on the stamp duty levels of Victoria, Queensland, and New South Wales as of 2023 (note that there will be variability between states)
	Purchase costs	0.25% purchase price (Costs associated with the process of purchasing a property including conveyancing and legal fees, loan application fees, and building inspection fees)
	Sale costs	2.75% sale price (Costs associated with selling a property including the cost of a sales agent)
OPERATING COSTS	Maintenance	0.5% current value p/a (Typical maintenance costs)
	Insurance	0.2% current value p/a (Typical insurance costs)
	PM fees	7% of yield (Typical PM fees inclusive of leasing from LongView's experience)
TAXATION	Rental yield tax	32.5% + 2% (Tax bracket for $45,001-$120,000 plus the Medicare levy)
	Capital gains tax	17.3%[85] (Half of the personal tax rate as the hold period is longer than a year)
	Negative gearing	Yes where relevant
	Property Land proportion	60% for houses, 20% for units (A typical proportion of the property value consisting of land)
	Strata fees	0.3% for units and 0% for houses
	Land tax	0.5% of land value
	Council rates	0.3% current value p/a (Typical council rates)
CONCESSIONS	Owner occupier	No
	First home buyer	No

[83] Kusher, 2022). Units are disproportionately represented in investment properties and typically have higher yields than houses. However, units also typically have lower capital growth and the additional costs of strata fees, both of which have not been accounted for in the model. This means that we are overestimating investment returns.

[84] (Martin et al., 2022).

[85] When capital gain is negative the loss cannot be offset against other income but can be used to offset future capital gains. However, for the purposes of the model we have assumed that capital losses cannot be used to offset tax.

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