TENANTS' UNION OF NSW

EVIDENCE PACKAGE:

Land Release and Housing Supply in New South Wales Inquiry

March 2018

TENANTS' UNION OF NEW SOUTH WALES

What bonds can tell us about insecure renting

For this issue of *Rent Tracker* we have created a new measure from Rental Bond data – the turnover, or "churn", of tenancies in the private rental market.

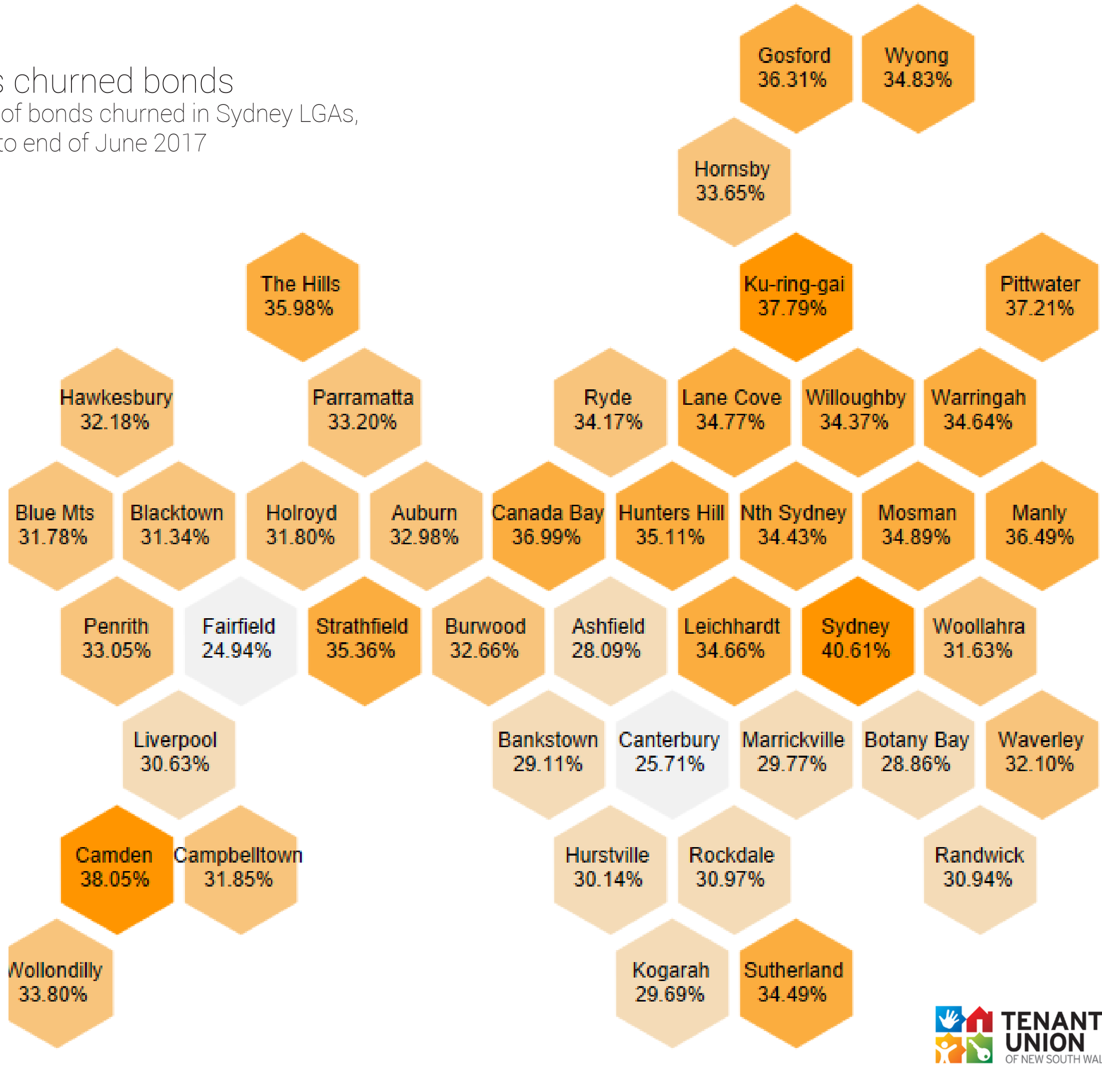
The data tells us that the vast majority of bonds lodged in any given period reflect tenants moving around the sector, with a relatively small number of bonds lodged representing growth of the sector. Every bond lodged with the Rental Bond Board represents money collected from either an existing household that has relocated or reformed, or from a household that has moved from another tenure or location to create an additional tenancy in NSW.

By looking at the number of bonds lodged in each time period, compared to the growth in all bonds lodged over time, we can see the net churn of sitting bonds.

Across NSW around one in every three bonds held by the Bond Board had been churned over the previous year, a total of 271,000 bonds. This represents around 400,000 people moving between homes within the rental sector in a year. In the map below, you can see that across the Greater Sydney area it is the CBD that experiences the highest rate of churn, with the highest number of tenancies ending compared to new tenancies beginning. There are some pockets where the churn is lower, but it doesn't drop far below 25% for any part of the metropolitan area.

Sydney's churned bonds

Percentage of bonds churned in Sydney LGAs, 12 months to end of June 2017



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For bonds lodged for tenancies in Greater Sydney during the year to March 2017, there was one additional tenancy for every six that reflect churn. For the rest of New South Wales, the ratio is 1:16.

We cannot see from this data the reason for any move – only that there is movement. These findings are consistent with information released by Fair Trading NSW in the Rental Bond Board Annual Report, showing two thirds of bonds refunded over 2015-16 had been held in the Board for less than two years. Clearly, renters move with relative frequency. Further research to understand what motivates tenants to move is required, and this is a function that should be considered for the Rental Bond Board to undertake when processing claims and refunds.

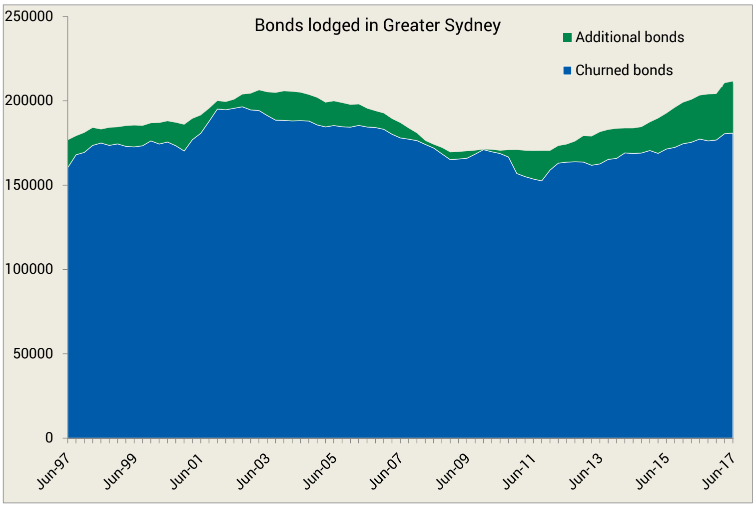
Comparing the Sydney region to the rest of New South Wales shows that the regional areas of the state have experienced a steadier supply of additional bonds over the last 20 years, where Sydney has experienced more obvious periods of contraction and expansion.

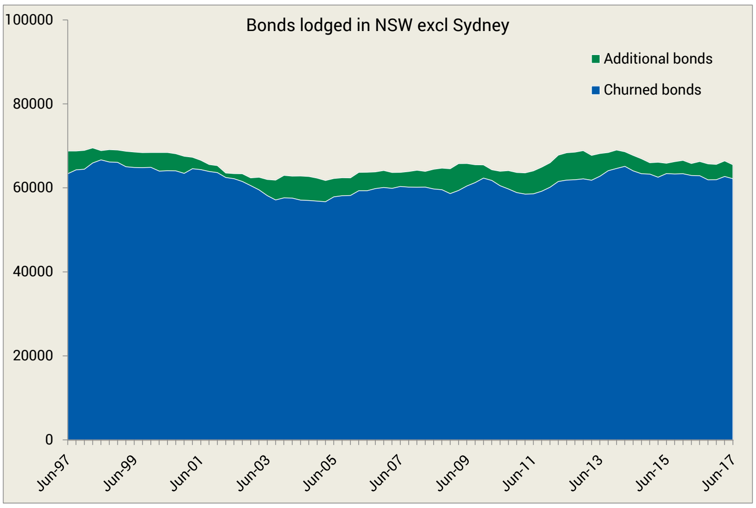
The churn rate has fallen over the last 20 years. As we cannot study the reasons for renters' moves, we can only guess what is causing this fall.

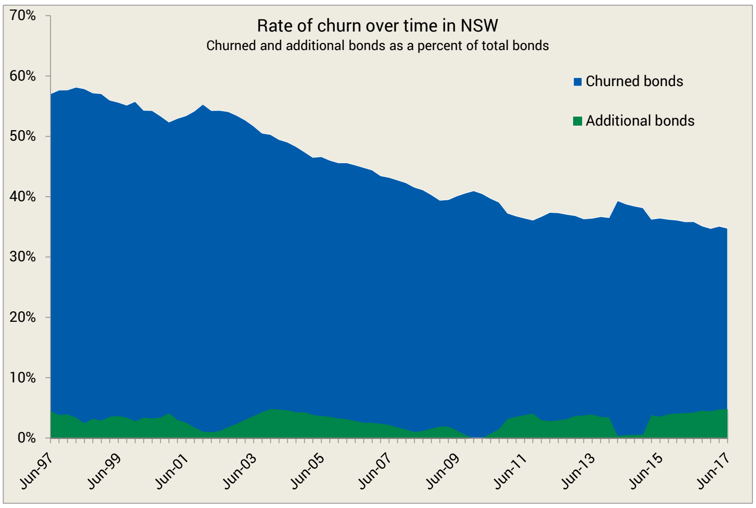
The '*Unsettled*' report released earlier in 2017 suggests that tenants technically ini

titate termination in the majority of cases. These were often reluctant or involuntary moves – tenants' only available response to rent increases, unmet repair needs or other unwinnable disputes. However the single biggest reason given by tenants was 'personal reasons'.

One possible reason for the fall in churn is a drop in tenant-initiated endings to tenancy agreements. In a changing rental market where more people are renting for longer, renters who are unable to access property ownership are inclined to stay for as long as possible in their homes. Families who rent do not seek to relocate in sync with things like university semesters or other seasonal factors.







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What impact does churn have on the rental market?

The high ratio of churned to additional bonds may have a substantial impact on considerations of demand and supply needs, and policy settings aimed at lessening pressure on the rental market.

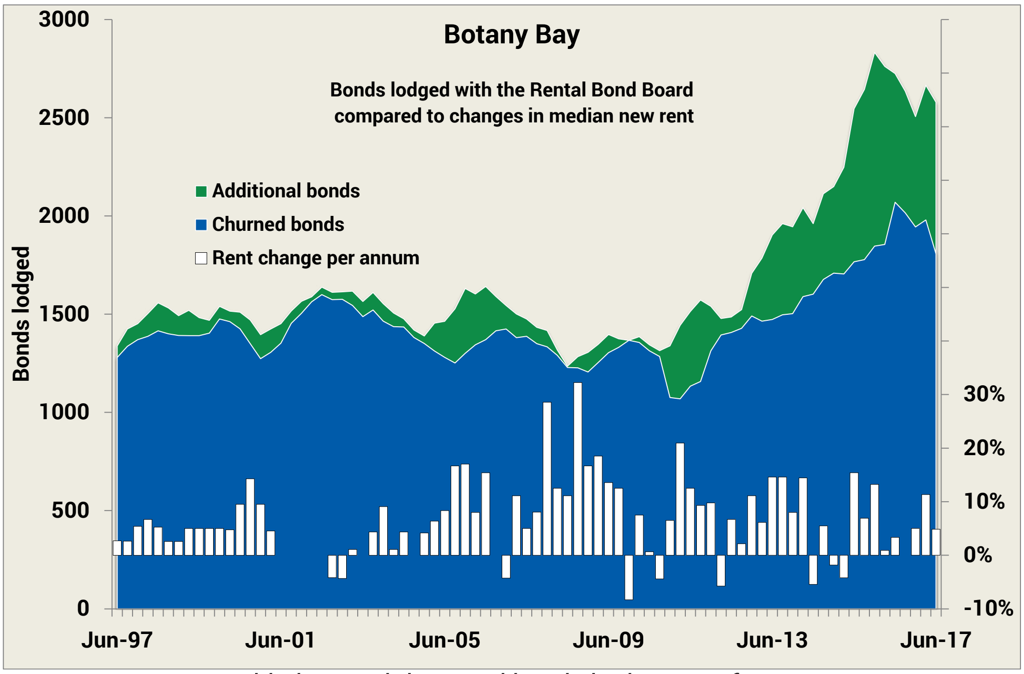
We have examined more closely the bond data for Camden, Ku-ring-gai and Botany Bay – the three council areas which have seen the largest increases in rental stock over the last 10 years.

In Botany Bay and Ku-ring-gai this is largely driven by an increase in units. In Camden there has been a large increase in both detached houses as well as units.

These areas show no consistent relationship between an increase in dwellings and the price of new rents. There are of course other factors, such as the labour market and other local population drivers that impact the ability of new supply to put downward pressure on rents.

It appears that alongside the very large number of bonds churned, the potential impact of new supply to which growth in rental bonds can be attributed is minimised. At the height of Botany Bay's growth in December 2015 there were 986 additional bonds lodged in the year prior. But there were still twice as many churned bonds lodged in the same time period. This means the number of people looking for a new tenancy in the area was potentially higher than the number of new dwellings coming into that market for periods of time.

Whether tenants are evicted, pushed into moving by circumstance, or choose to move of their own accord, the amount of churn in the rental market may be a problem which can only be solved by enabling longer tenure within the home. By reducing the number of tenants moving within the market, additional supply at a variety of price points can have a stronger impact on the market as a whole.



Botany Bay LGA added several thousand bonds in the years from 2011 to now. However the rent continues to rise. This chart shows that when new stock is added, it doesn't take long for the churn to kick in about a year later as the tenants in the new stock move, or are moved, on.

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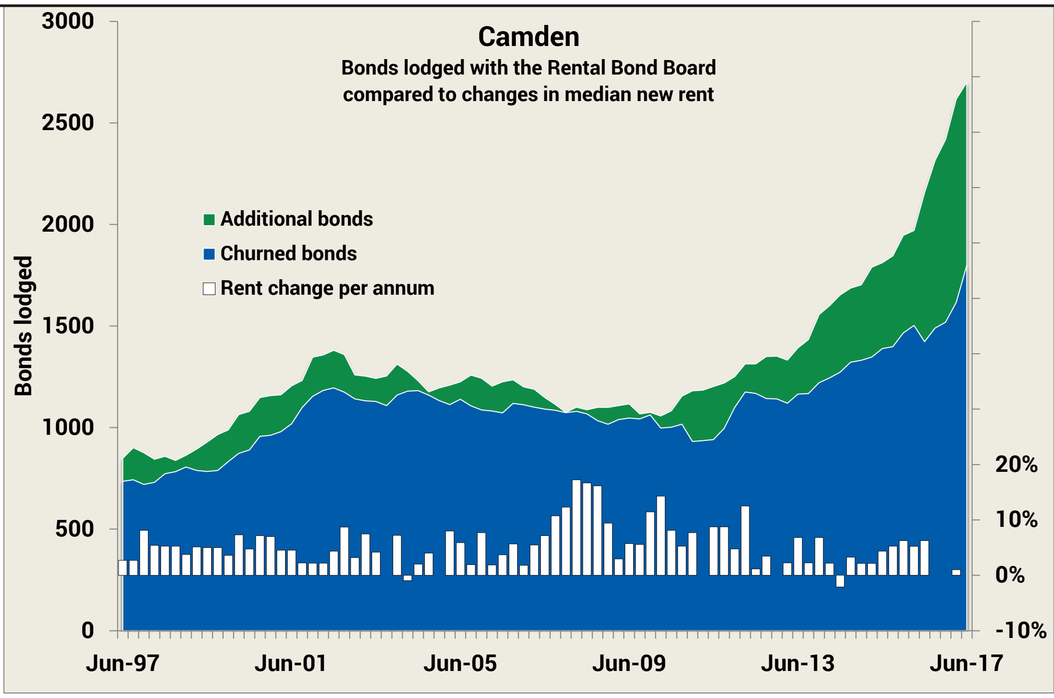
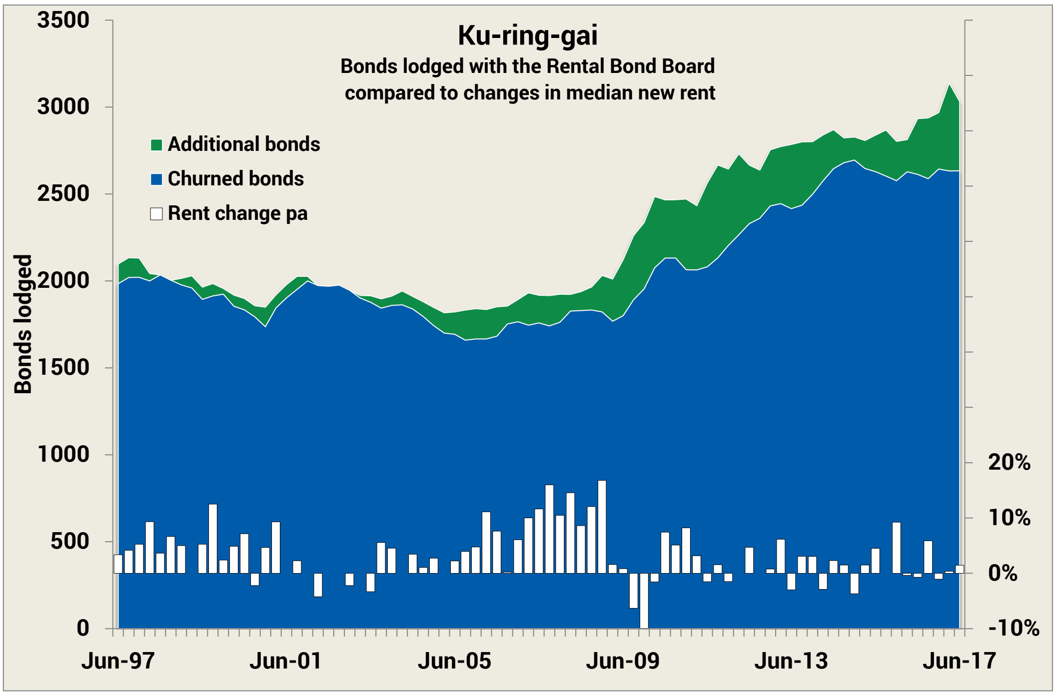


Camden LGA has been growing steadily over 20 years but as seen a doubling in the number of bonds lodged each quarter since 2010. While the last few quarters have shown new rents to be very flat, rents over the growth period have continued to consistently rise.



Ku-ring-gai has seen rapid growth in units, particularly along transport corridors, over the last decade. Rents in the area have shown wide variance in movements making it hard to attribute any relationship between additional bonds and rent prices.

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Properties affordable for lowest two quintiles as percentage of rental stock, 2011

Chart 1: Greater Sydney area

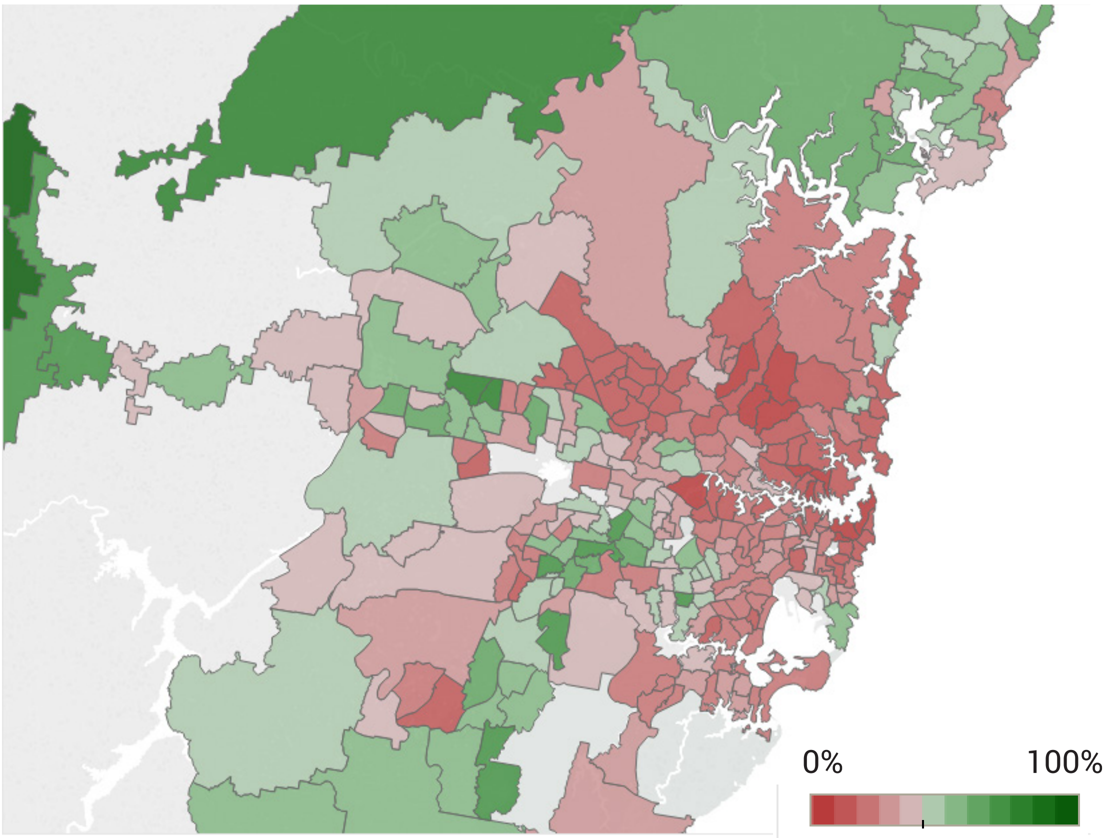
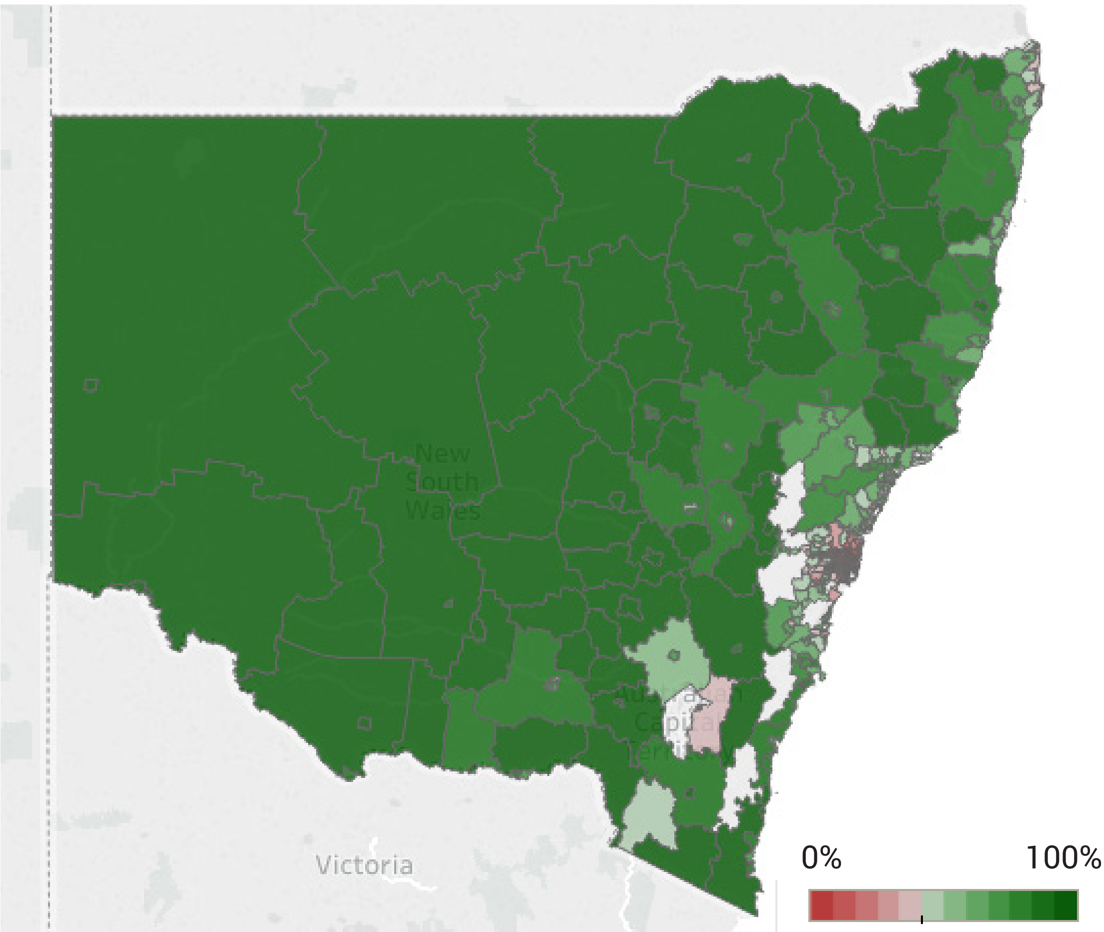


Chart 2: New South Wales



Properties affordable for lowest two quintiles as percentage of rental stock 2016

Chart 3: Greater Sydney area

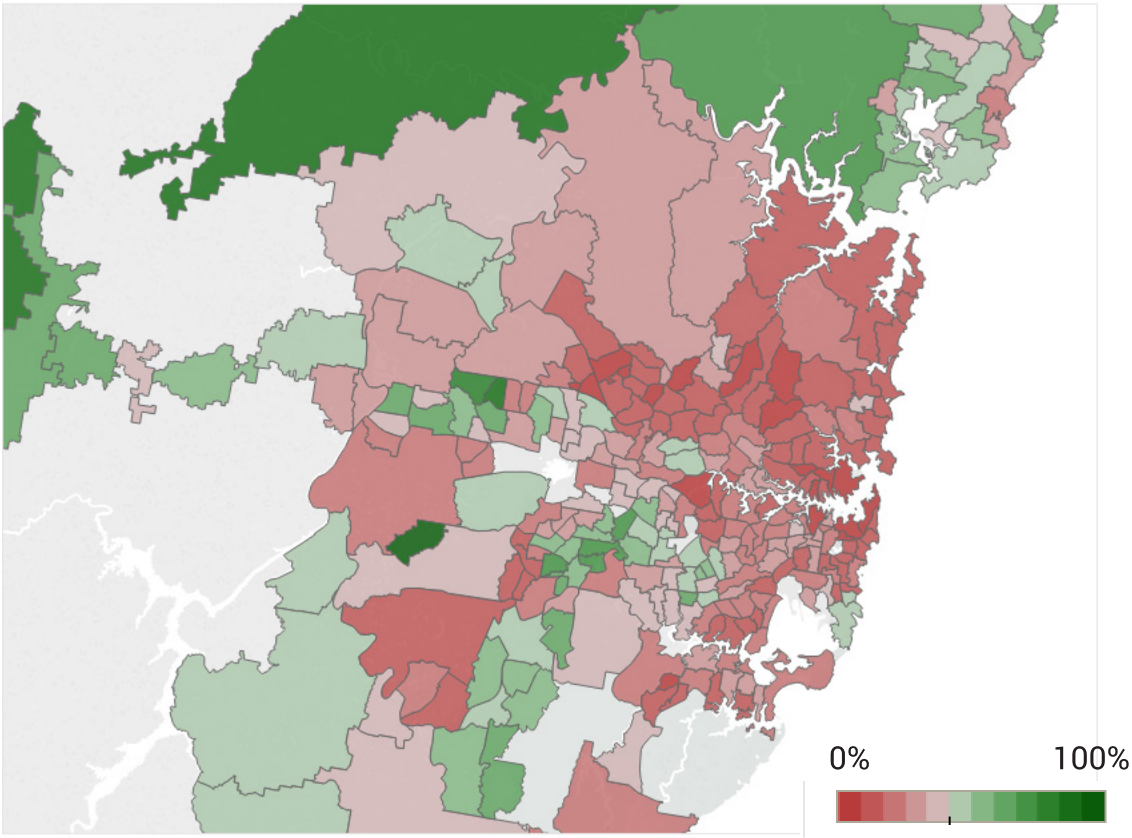
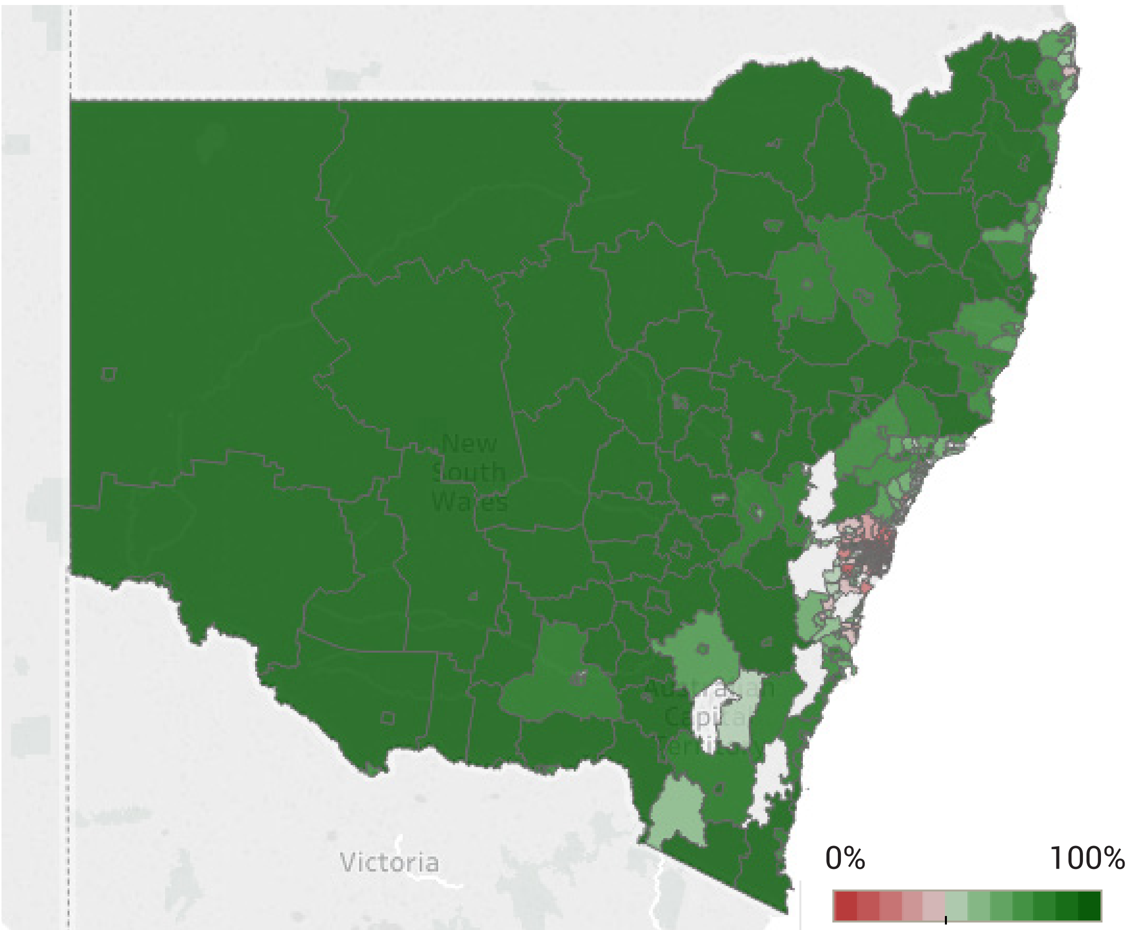


Chart 4: New South Wales



Change in percentage of rental stock which is affordable for lowest two quintiles 2011-2016

Chart 5: Greater Sydney area

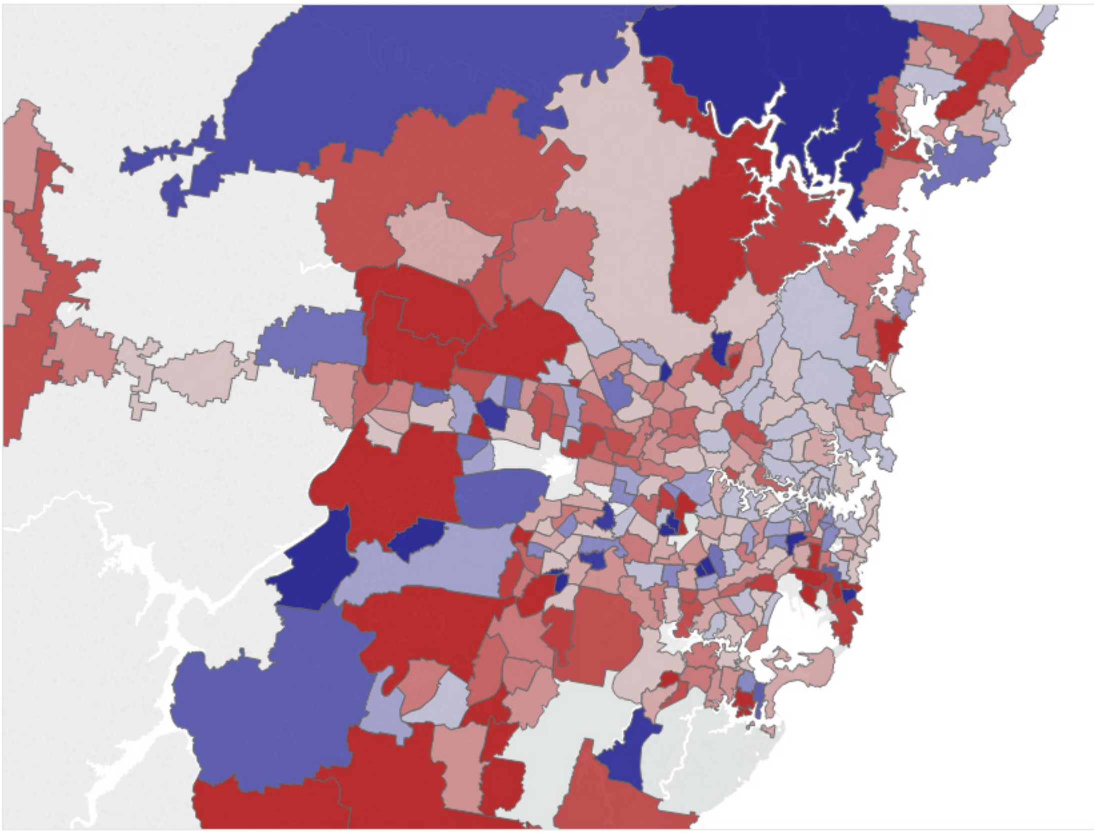


Chart 6: New South Wales

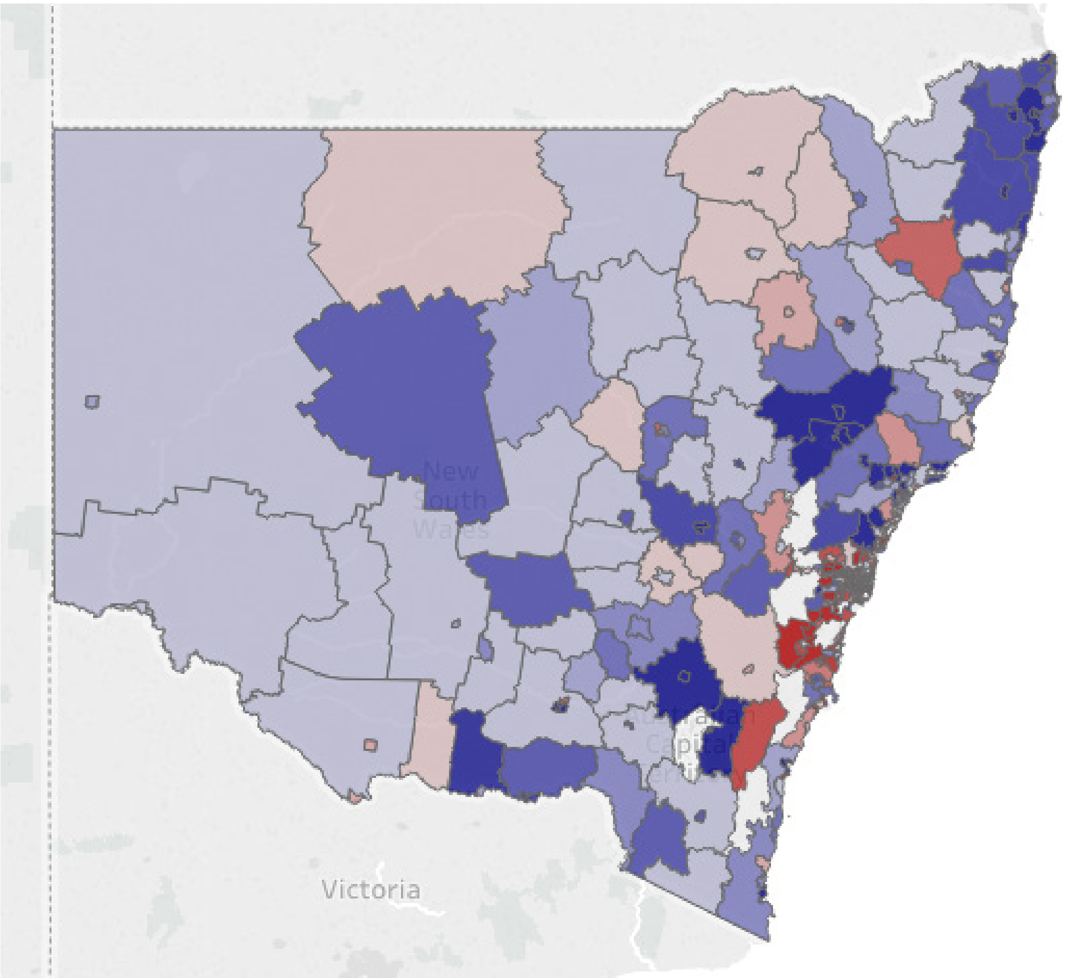
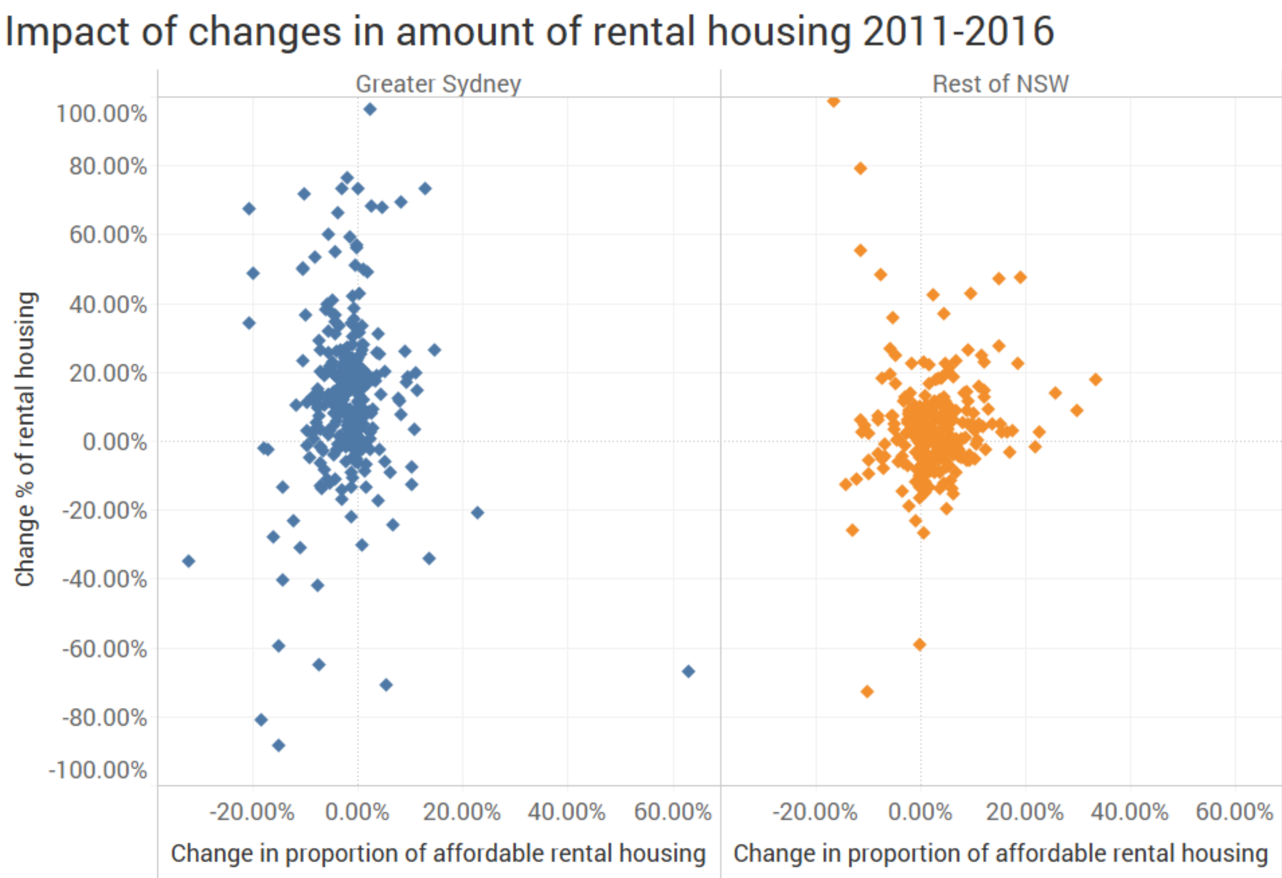


Chart 7:


Impact of changes in amount of rental housing 2011-2016
Greater Sydney
Rest of NSW
Change % of rental housing
100.00%
80.00%
60.00%
40.00%
20.00%
0.00%
-20.00%
-40.00%
-60.00%
-80.00%
-100.00%
-20.00%
0.00%
20.00%
40.00%
60.00%
Change in proportion of affordable rental housing
Change in proportion of affordable rental housing