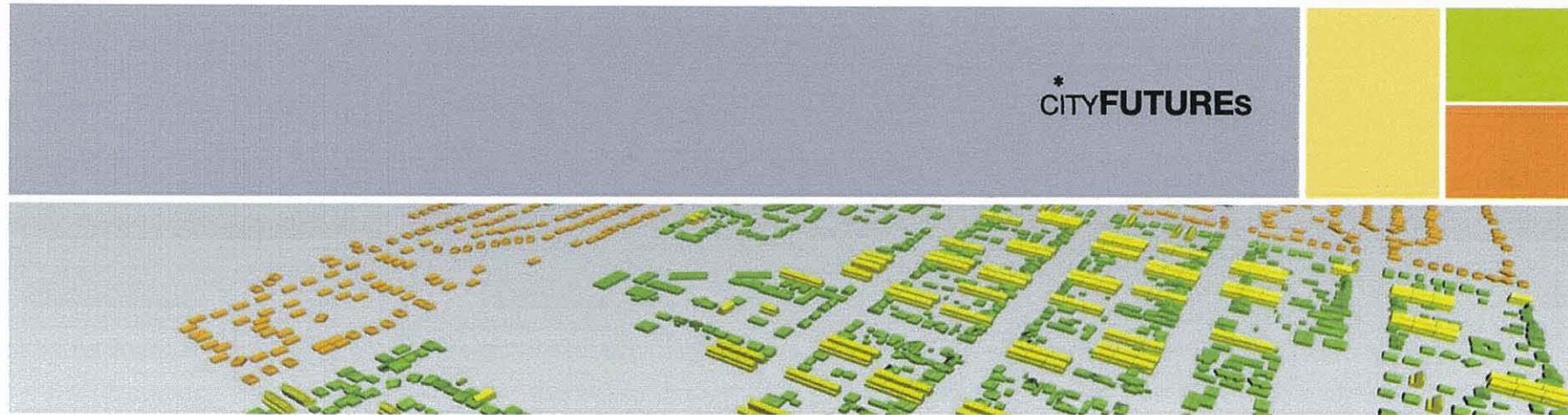


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Tendered by
Prof Bill Randolph
7 April 2009

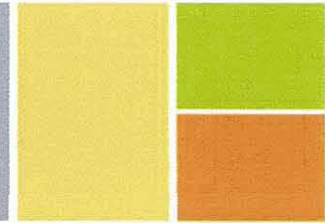


Perspectives on the Private Rental Market UNSW f b e

Prof Bill Randolph

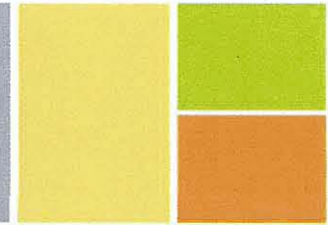


UNSW/UWS AHURI Research Centre and
City Futures Research Centre
Faculty of the Built Environment UNSW



Outline of presentation

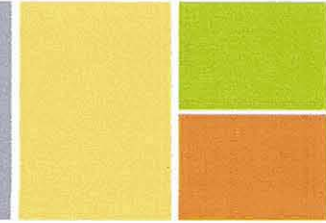
- ➡ **Review of recent AHURI research involving City Futures on aspects of the private rental market for lower income Australians:**
 - *Motivations of Residential Investors: Tim Seelig (UQ)*
 - *NRV 3 - Housing Affordability: A 21st Century Problem: Judy Yates (Sydney)*
 - *Spatial Concentration of Low Income Private Renters: Bill Randolph (UNSW)*
- ➡ **The policy context is largely Federal but with State a key mediator**
- ➡ **Concludes with some reflections on these findings for housing policy for low income households – is this a turning point?**



Understanding what motivates households to become and remain investors in the private rental market

**Tim Seelig, Alice Thompson, Terry Burke, Simon Pinnegar, Sean
McNelis and Alan Morris**

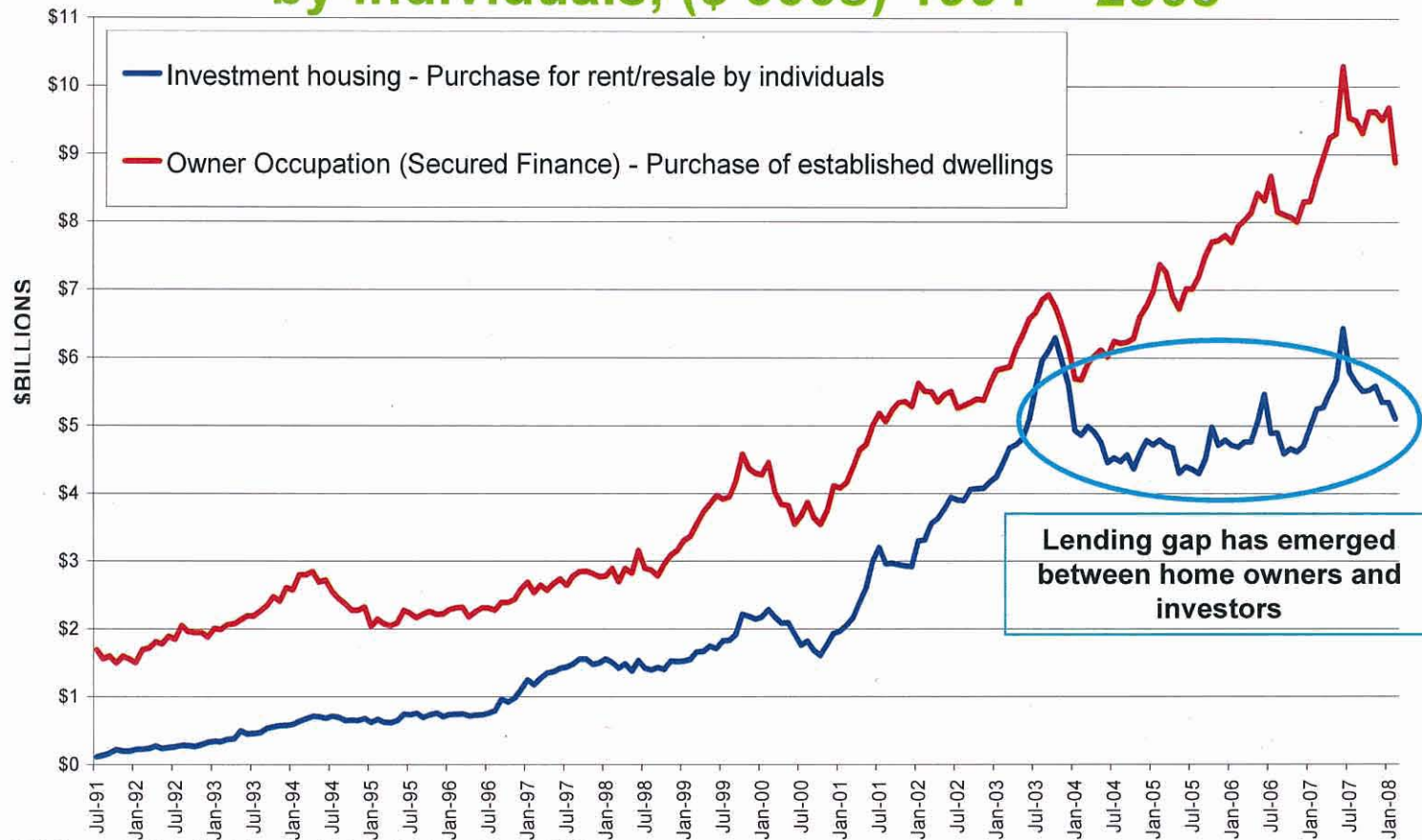
May 2008



Research approach

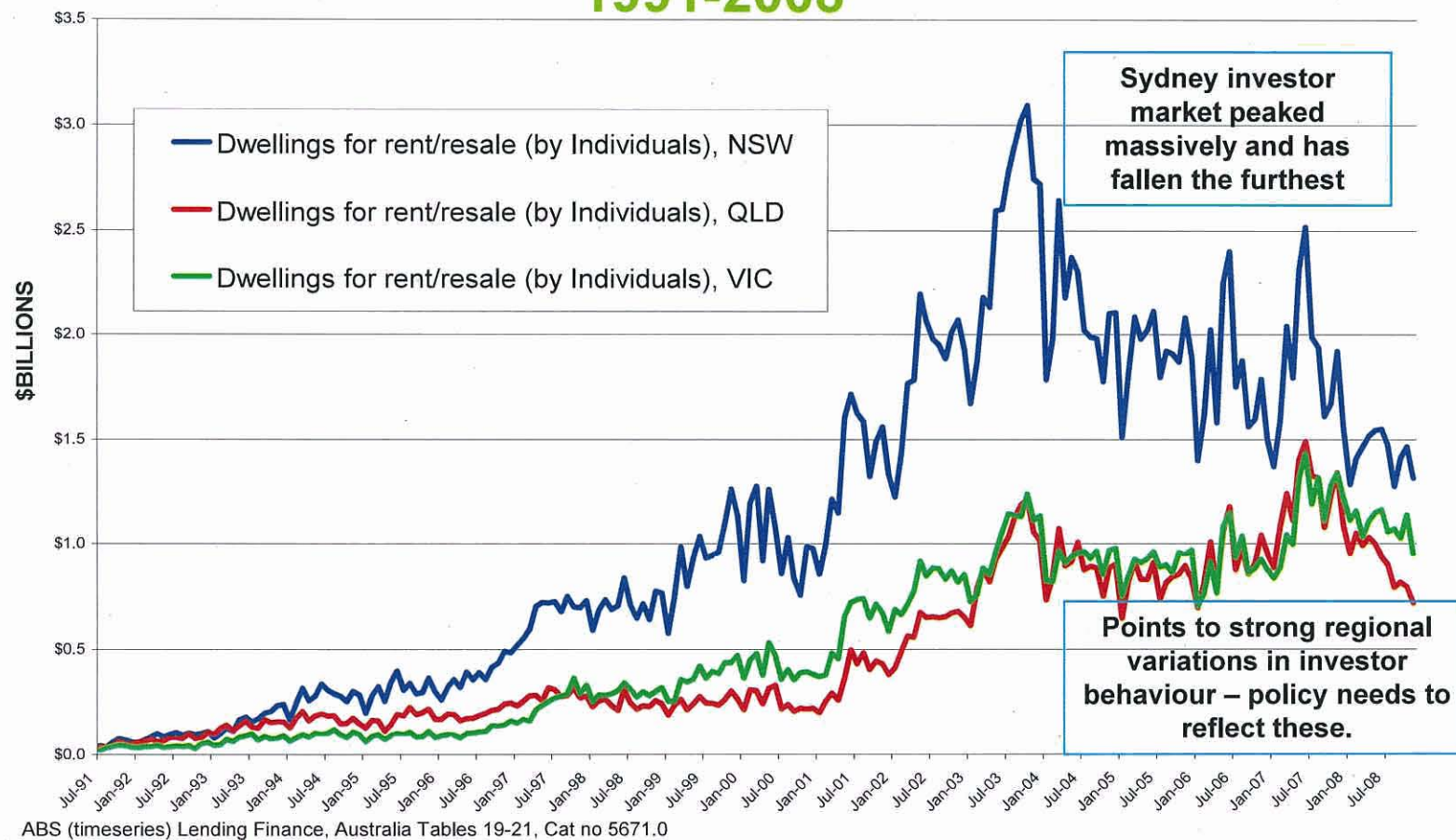
- **Qualitative research design**
 - **Semi-structured interviews with property reps and rental property managers in 3 States (NSW, Vic and Q'land)**
 - **In-depth face-to-face and telephone interviews with 80 investors**
 - **Range of locations – metro/non-metro (no differences)**
- **Fieldwork in 2006-7 i.e. after the investment boom had largely peaked**
- **Project focused on behavioural aspects of investing in rental property, and implications for the future**
- ***But first, some trends.....***

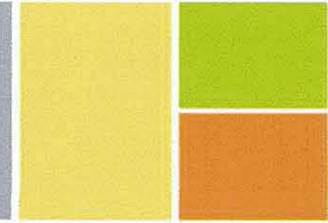
Lending for owner occupation and rental investment by individuals, (\$'000s) 1991 – 2008



ABS (timeseries) Lending Finance, Australia Table 8, Cat no 5671.0

Dwellings for rent/resale (\$'000s by Individuals), 1991-2008





The collapse of rental investment continues:

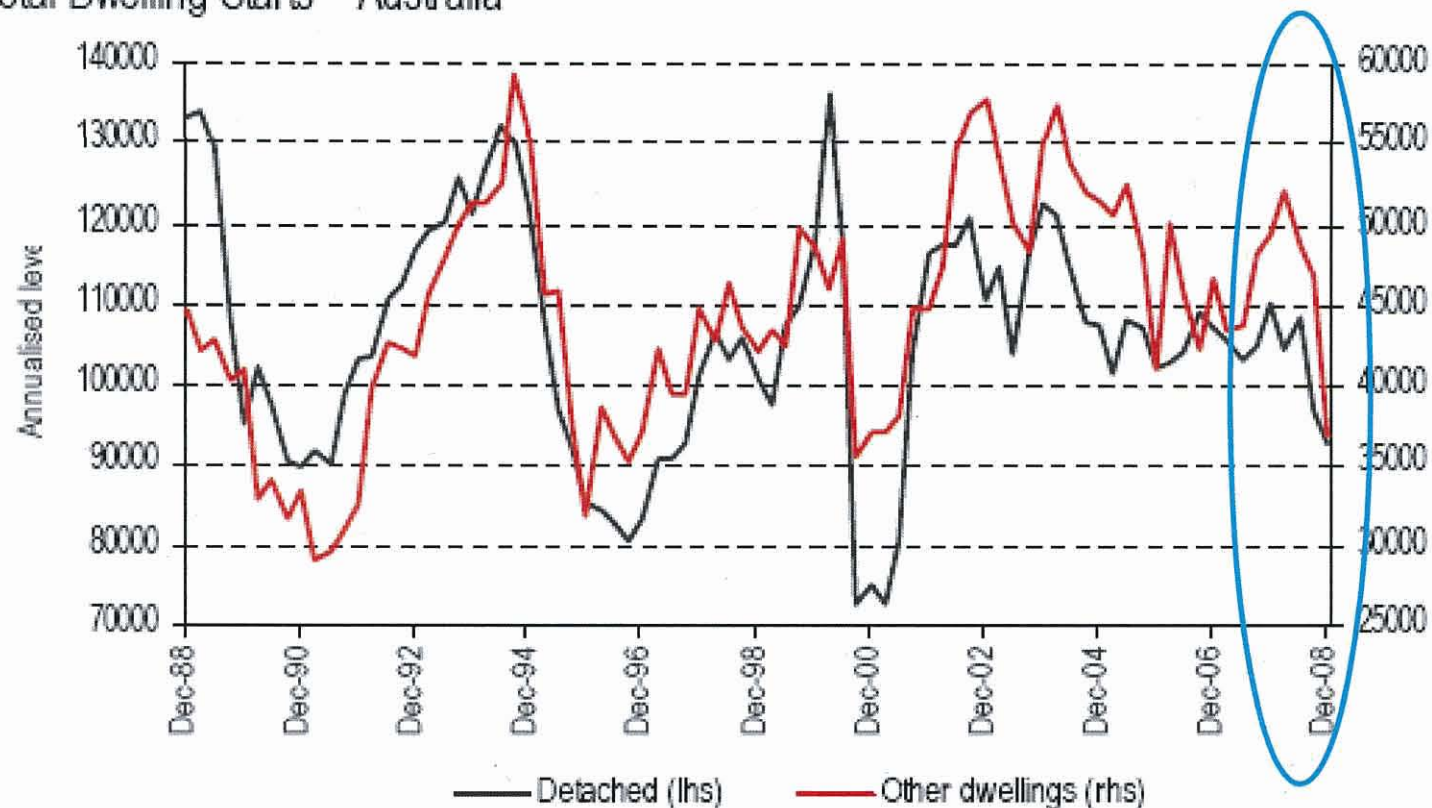
Over the three months to January 2009 the value of lending for construction of new rental dwellings in Australia dropped by 46% compared to the same period through to January 2008.

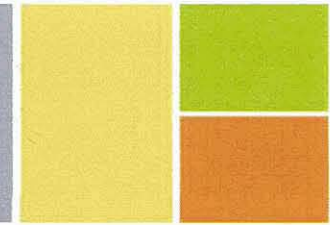
Will the Mum and Dad investor ever return?

Is there a better alternative?

The construction down turn continues....all eyes are on the Stimulus Package – but it has been much worse...

Total Dwelling Starts – Australia



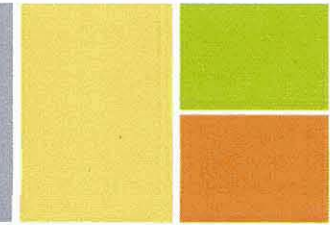


So, why become a rental investor?

Most prevailing analyses of rental investors date back to 1980s and 1990s. But the recent investment boom was quantitatively a new phase

Has the profile of investor landlords changed?

Not much – in 2006/7 they still seemed to be predominately small scale and ‘amateur’ in most cases – but some focused ‘professional’ landlords



Why become a rental investor?

Key finding: Wide range of motivations reflecting financial factors, personal goals and circumstances:

- Wealth creation
- Financial security
- Retirement income
- Financial opportunity
- Negative experience of shares
- Inheritance
- Re-partnering
- Relocation

Also

- Relative ease of entry/exit (“just like selling your own home”)
- Property is something you can see and manage directly.



The basis of investor's decision making

- Intuitive and emotional factors are evident in the selection process, and investors use their own subjective preferences as a measure of success
- Age and personal circumstances are dominant factors in decision making, rather than market conditions *per se*
- Nevertheless, many base their decisions on the perception of a long term investment with risk free capital gains a main driver. Rental income was not the primary motivation or negative gearing for many (50/50)
- Despite down turn, our investors reported high satisfaction levels with the returns they had generated. *Has this changed?*
- *What implications do these findings have for stimulating long term investment in rental property?*

What does this mean for policy making?

- The picture of the sophisticated, well-informed and economically rational investor is not the norm among rental investors.
- A mix of '*bounded rationality*' and '*emotional opportunism*' is a better descriptor of how people approach the housing market as rental investors.
- Highly variable mix of factors behind decisions – a highly fragmented investor base
- Capacity to change their behaviour through economic levers may be limited
- Little evidence they understood or valued CRA as a factor
- Long term capital growth was the basic driver – tended to override short term market fluctuations (a positive attribute): But is this basis enough for a stable long term *subsidised* rental housing system for low income households?

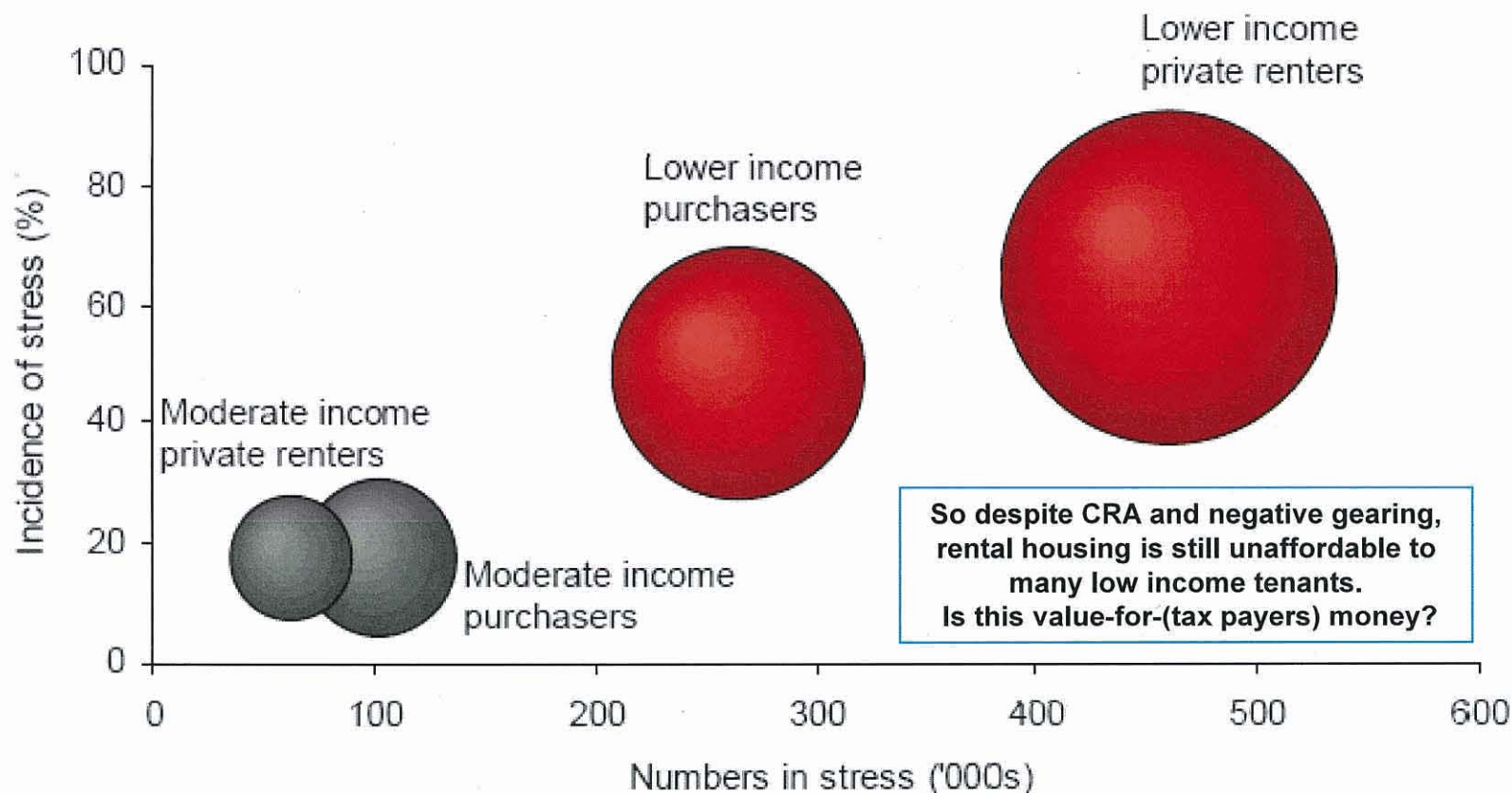


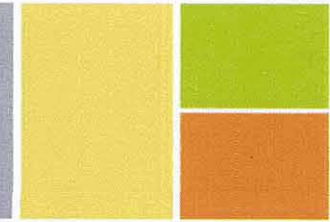
National Research Venture 3: Housing Affordability for Lower Income Australians

**Research Paper 9: Experiencing the housing affordability problem:
blocked aspirations, trade-offs and financial hardships**

Terry Burke and Simon Pinnegar with others (July 2007)

First, just remind ourselves where the problem lies: Numbers and incidence of households at risk





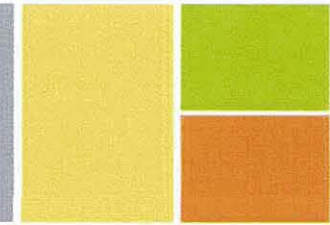
So who's in stress?

- In the lowest two income quintiles, the greatest numbers in housing stress are:
 - private renters
 - low income working households
 - households with children (both couple and sole parents)
 - single-person households aged less than 65 years
 - low income home buyers
- The incidence of stress for low income private renters was 65 per cent. For low income purchasers it was 49 per cent.
- Half of lower-income households in housing stress are *working households*
- *Which raises the issue of 'key workers'*

Which 'Key Workers' have affordability problems in Sydney? Its not the teachers or the police.....

| Top 10 occupations in housing stress in Sydney 2001 by percentage | In stress (%) | % with household income <\$1200 pw | Total no. of households in stress | Total no. of households |
|--|------------------|---|---|----------------------------|
| Hospitality Workers | 33 | 96 | 3,470 | 9,451 |
| Elementary Food Preparation Workers | 26 | 97 | 1,408 | 4,670 |
| Miscellaneous Elementary Sales Workers | 24 | 93 | 2,125 | 7,975 |
| Sales Assistants | 23 | 93 | 6,617 | 25,338 |
| Miscellaneous Intermediate Service Workers | 22 | 88 | 2,238 | 9,268 |
| Food Tradespersons | 21 | 94 | 1,694 | 6,956 |
| Receptionists | 21 | 92 | 1,871 | 7,746 |
| Hospitality and Accommodation Managers | 21 | 84 | 2,996 | 13,029 |
| Carers and Aides | 20 | 95 | 3,044 | 13,061 |
| Cleaners | 20 | 95 | 3,473 | 15,368 |
| All households | 14 | 79 | 141,014 | 902,576 |

Source: Yates, Randolph and Holloway (2005) Housing Affordability, Occupation and Location in
Australian Cities and Regions, AHURI



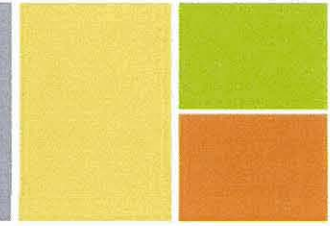
Lower income renter/recent purchaser groups in housing stress – a whole range of needs and aspirations....

For renters, 4 groups were identified:

- **Strugglers** – 30% (approx 140,000 nationally) – many over 35, trapped forever?
- **Backsliders** – 10% (approx 46,000) – the ex-owners, few will return alone
- **Pragmatists** – 30% (approx 140,000) – younger, making the best of it for now
- **Aspirant purchasers** – 30% (approx 140,000) – The FHOG/B target group

For purchasers, 3 groups were identified:

- **Stretched** – 40% (approx 106,000 nationally) – the first to go down in hard times
- **Focused** – 20% (approx 23,000 nationally) – hardship now, benefits later
- **Ambivalent** – 40% (approx 106,000 nationally) – unsure of the benefits



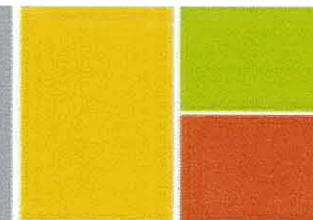
What does this mean for policy making?

- Those in housing stress are made up of a number of relatively distinctive groups with a wide range of needs and aspirations
- Highlights the *permeability* of the rental-ownership divide for some – movement into and out of ownership
- Do we need policy solutions for *all* of these groups?
- If so, what should the policy mix be and what should the subsidy structure be – ‘*continuum of assisted housing options*’.
- Implies a *much greater variety of subsidy and tenure options* rather than the simple subsidy system we have.
- What is the appropriate role of the private rental market in this mix?



Rent Assistance and the Spatial Concentration of Low Income Rental Households in Metropolitan Australia

Bill Randolph and Darren Holloway (May 2007)

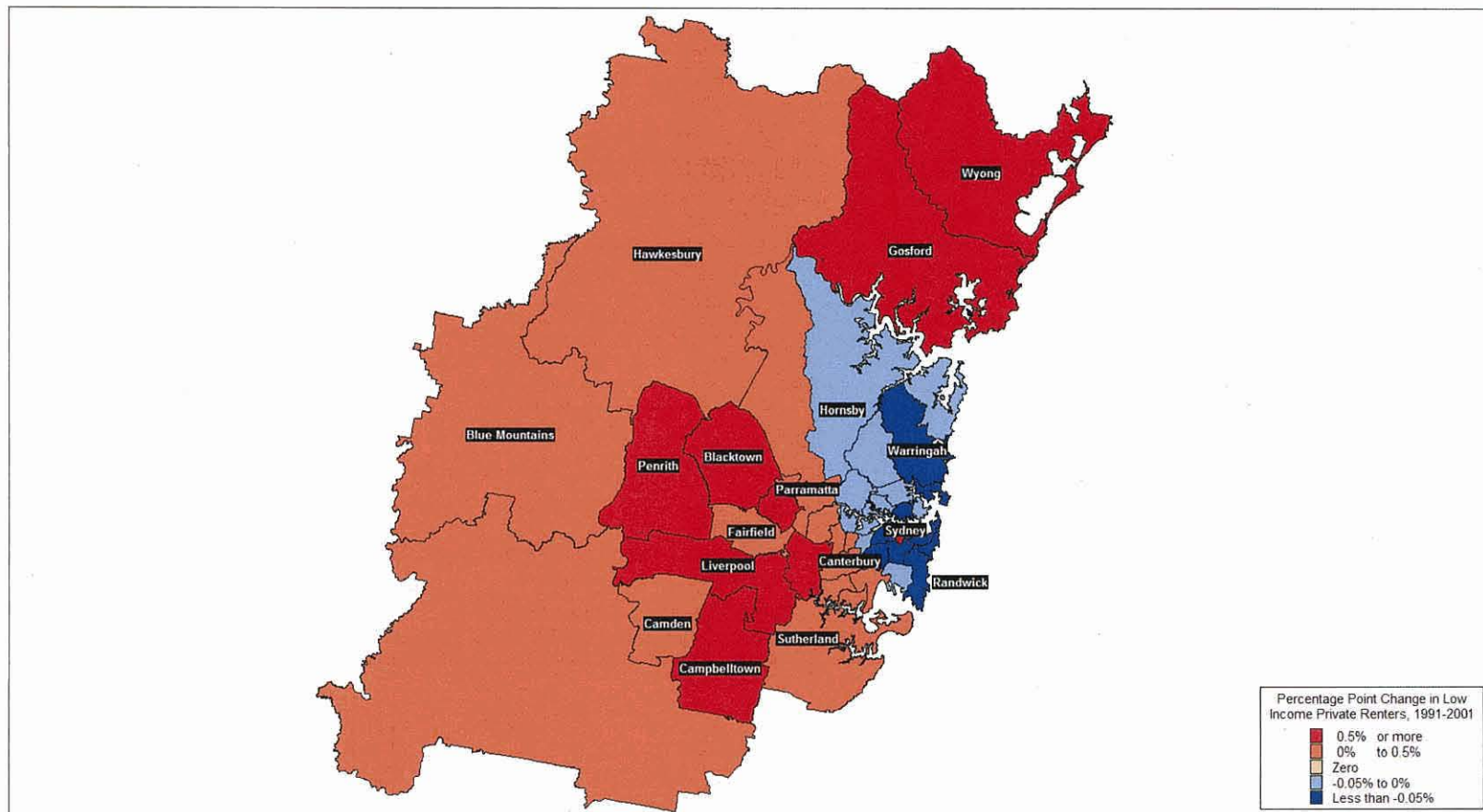


A brief profile of Private Rental Low Income Households (40th percentile)

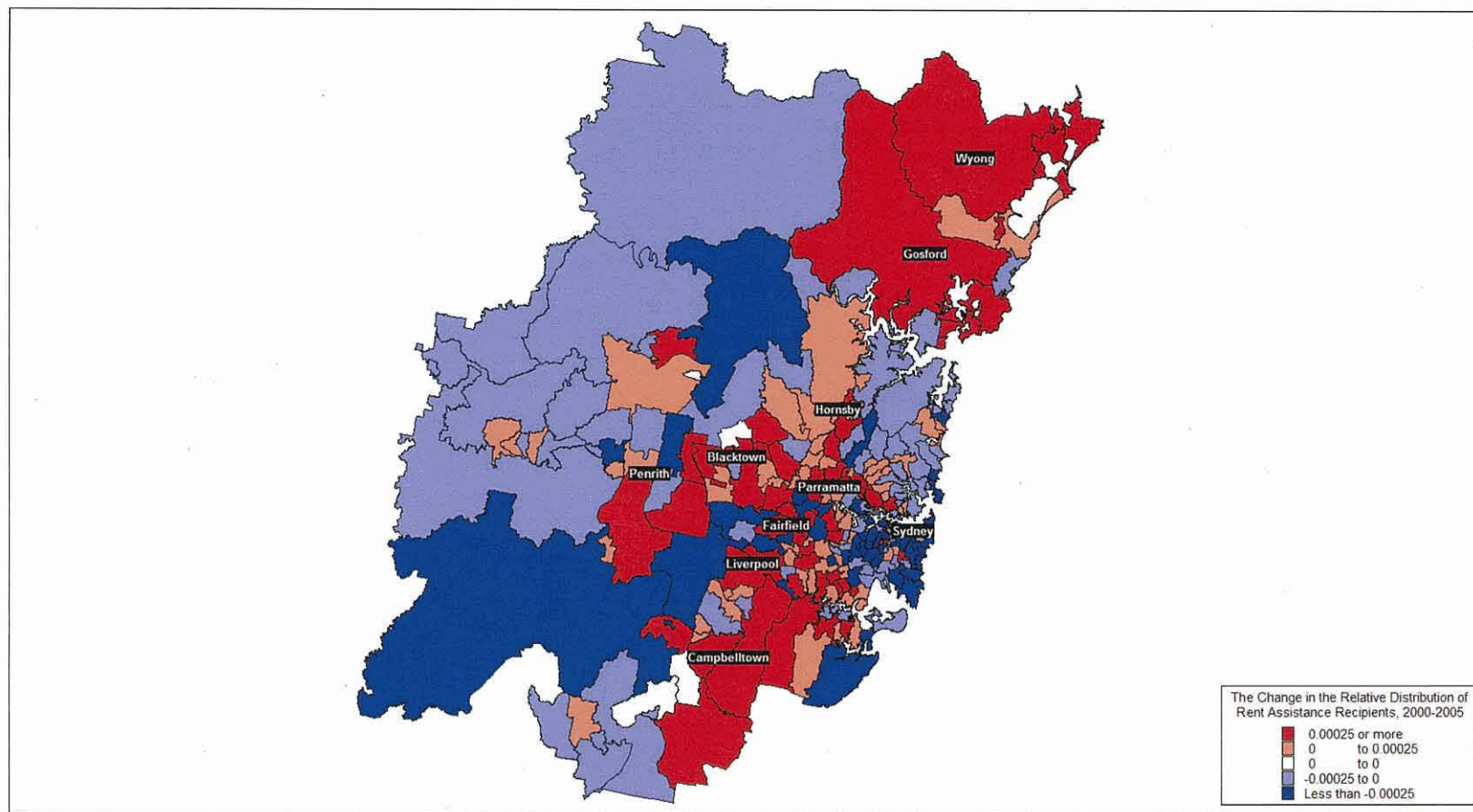
- **53% in Sydney, 42% in Melbourne and 36% in Adelaide live in flats**
- **Between 60% and 70% of PRLIHs in Sydney, Melbourne and Adelaide are lone person or lone parent households – i.e. *single incomes***
- **The proportion aged under 34 is significantly higher than that for the population as a whole**
- **The proportion aged over 55 is lower - *but will this change?***
- **Overseas born high in Sydney and Melbourne, but not in Adelaide**
- **Workers are over-represented in:**
 - **Elementary and Intermediate Clerical, Sales and Service jobs**
 - **Intermediate Production and Transport Workers jobs**
 - **Labourers and Related Workers jobs**

But the real story is in the changing location of this sector...

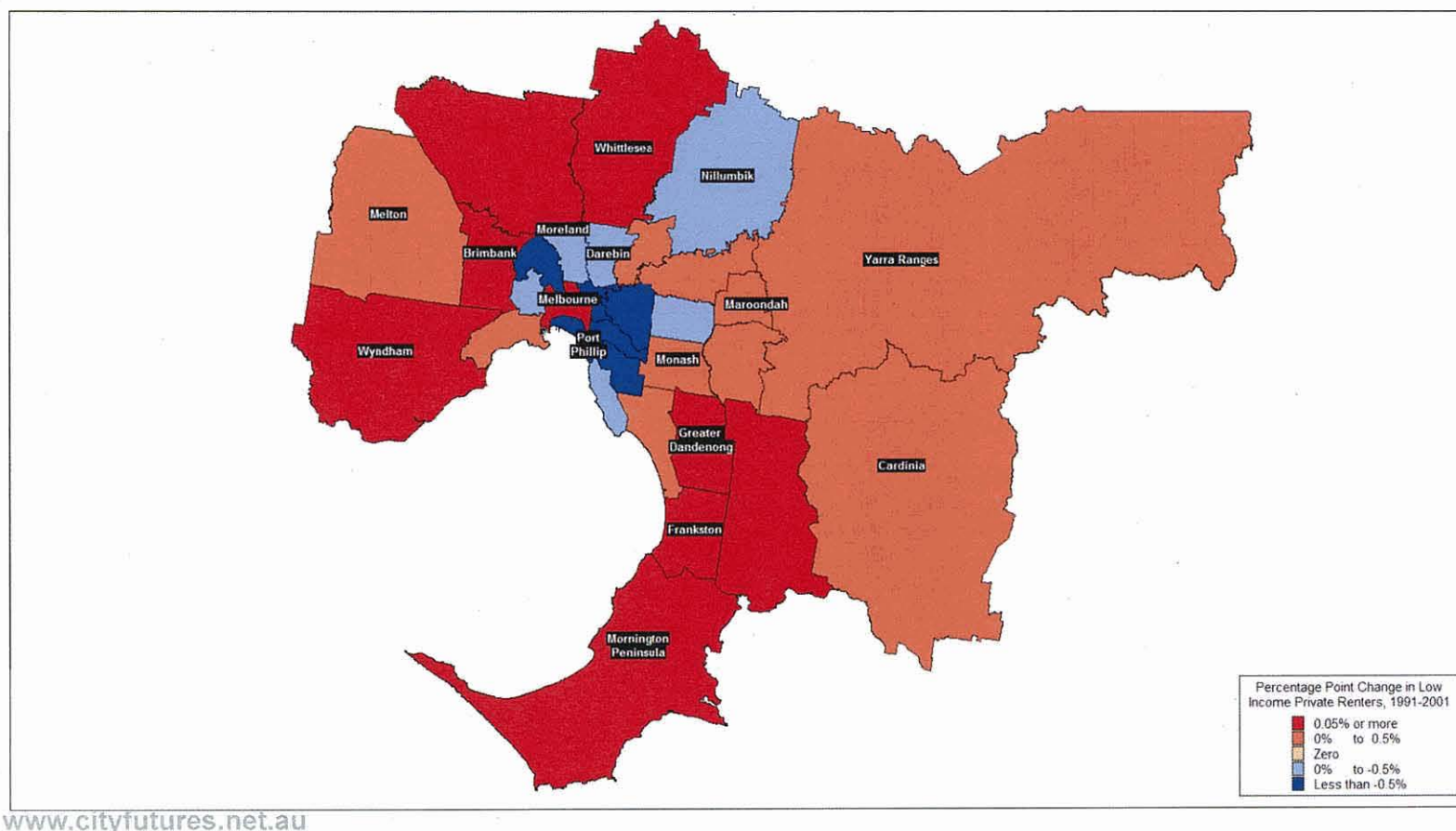
Percentage point changes in the proportions of Private Renting Low Income Households by LGA 1991 – 2001: Sydney



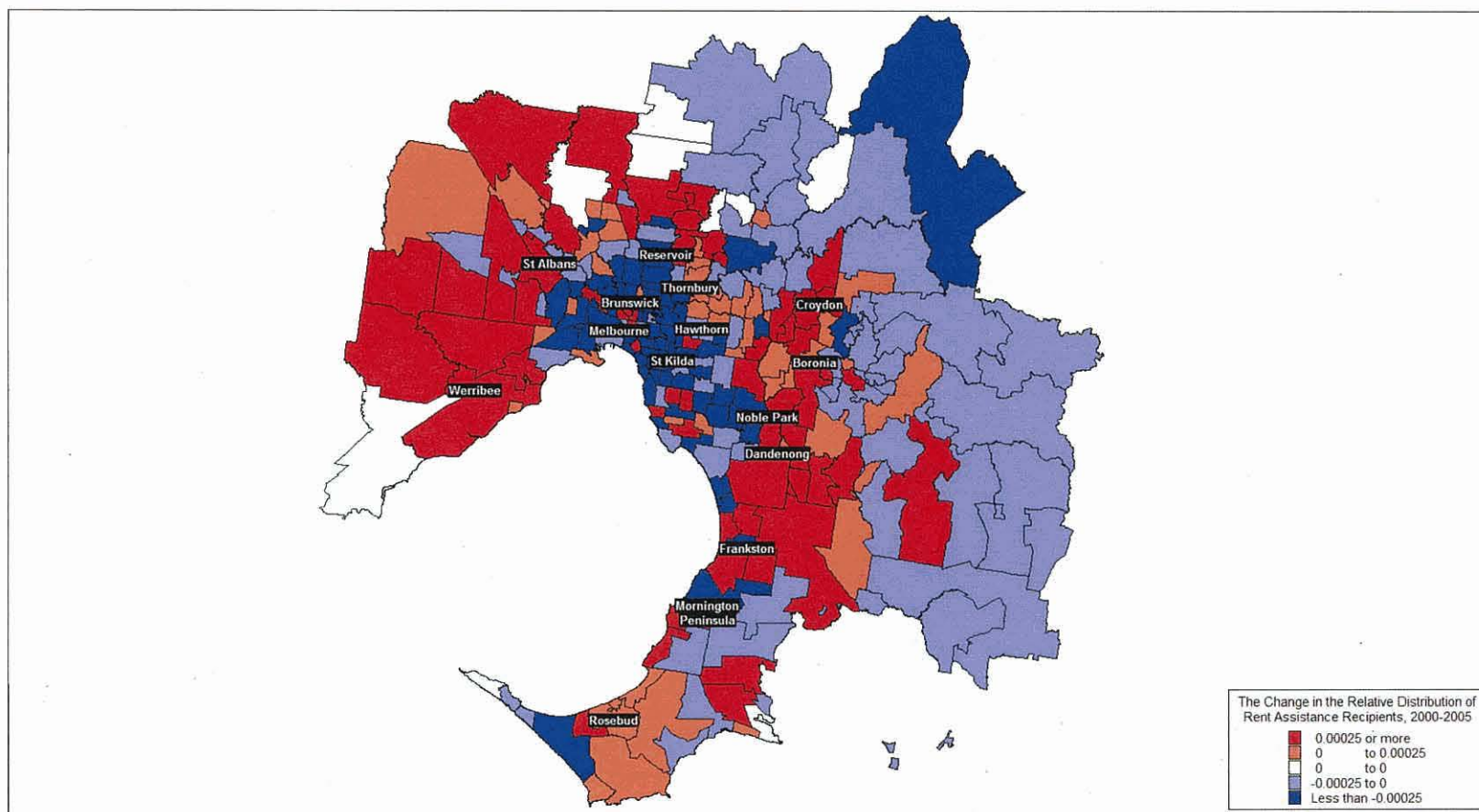
Change in the Relative Distribution of CRA Recipients by LGA 2000 – 2005: Sydney post codes

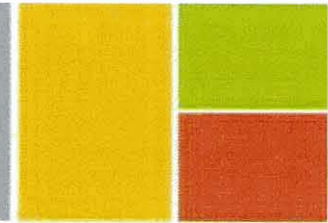


Percentage point changes in the proportions of Private Renting Low Income Households by LGA 1991 – 2001: Melbourne

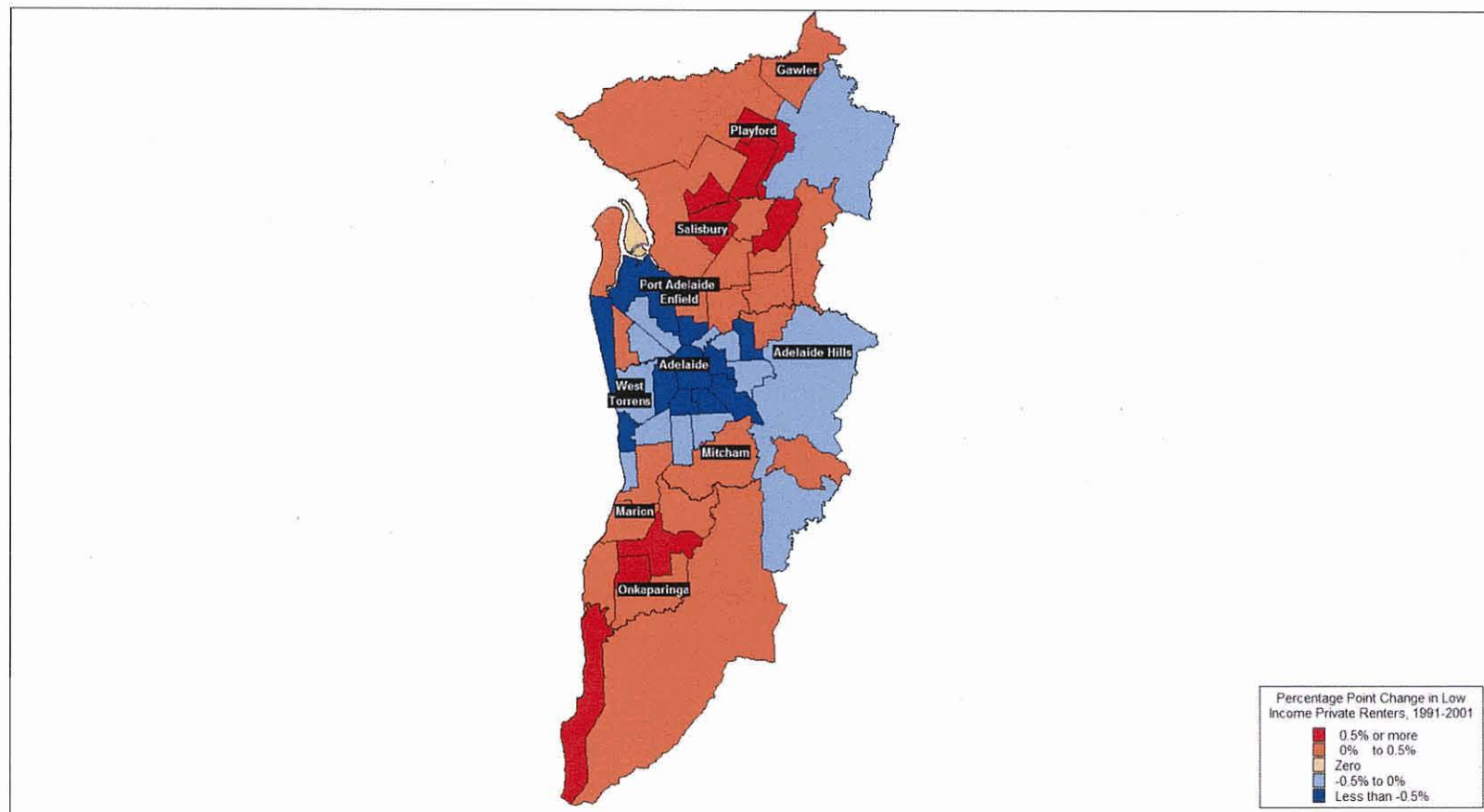


Change in the Relative Distribution of CRA Recipients by LGA 2000 – 2005: Melbourne post codes

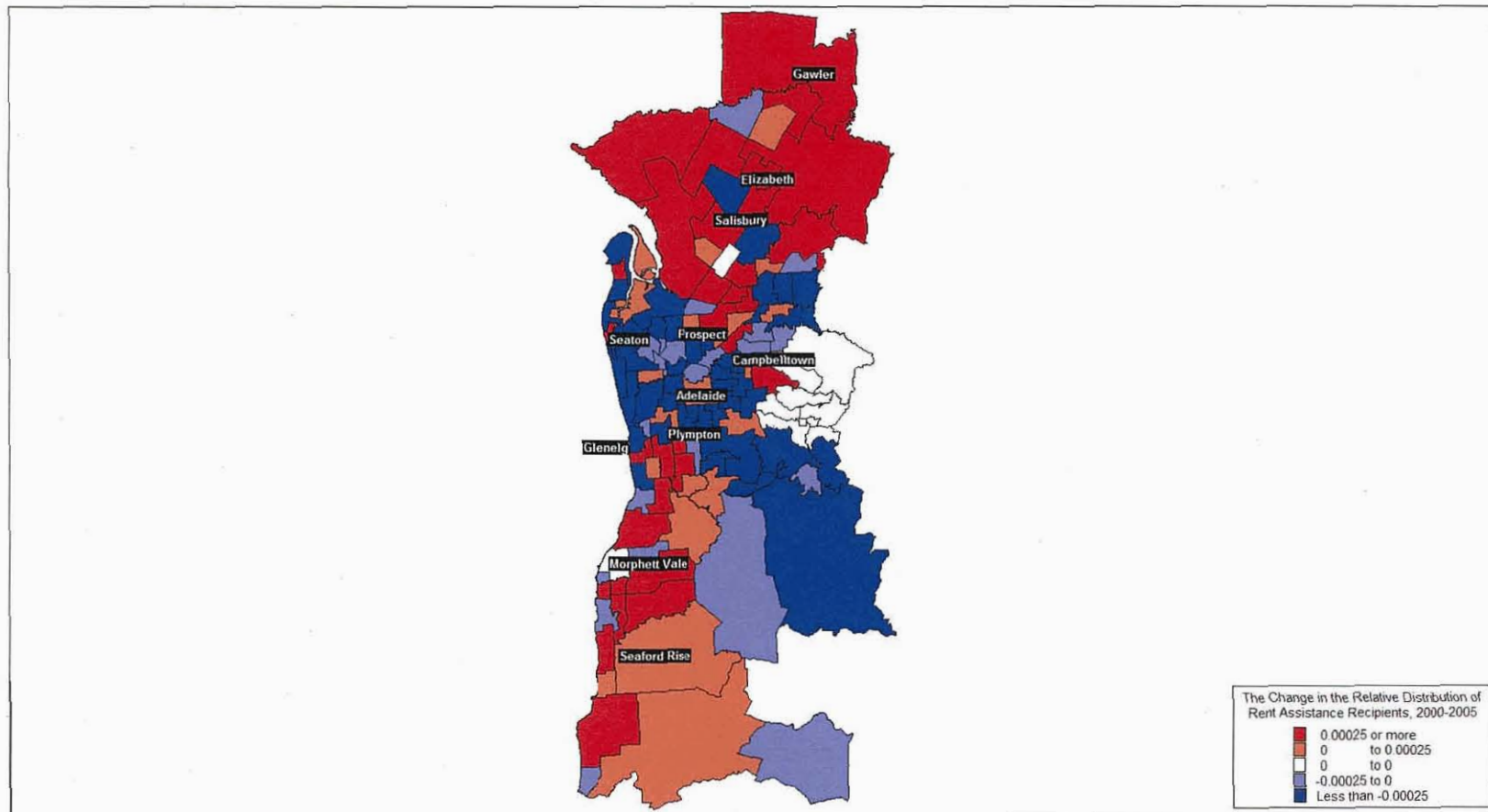




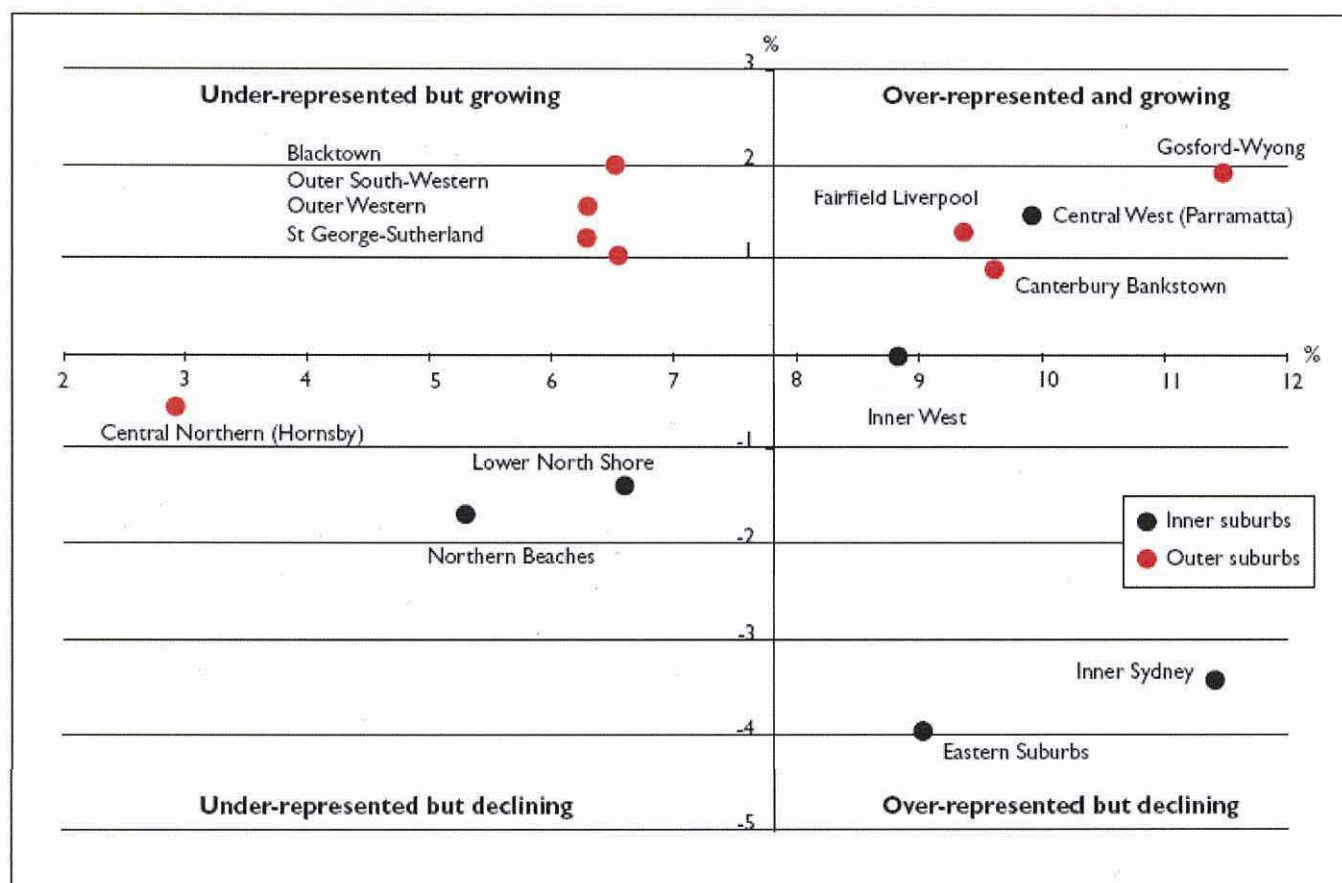
Percentage point changes in the proportions of Private Renting Low Income Households by LGA 1991 – 2001: Adelaide

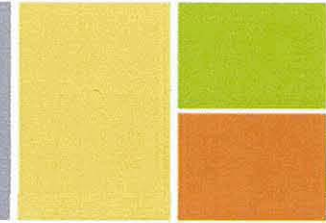


Change in the Relative Distribution of CRA Recipients by LGA 2000 – 2005: Adelaide post codes



Changes in the Percentage of Private Renting Low Income Households: Sydney Statistical Divisions 1991 to 2001





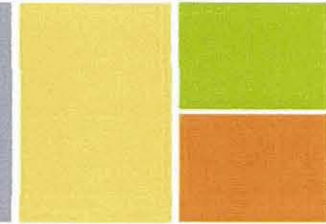
What does this mean for policy making?

- These results reflect investor decisions in the rental boom before 2004 – investors seeking higher capital growth in the suburbs
- But this sector is highly vulnerable to investor sentiment and volatility – exactly what has happening in outer Sydney with rents rising as supply stagnates or falls – and most low income working renters don't get CRA
- The results highlight the exodus of lower income rental housing options from the inner cities – *spatially unbalancing our cities*
- Suburbanisation of low income rental is likely to lead to greater job-home mismatch (although low income jobs have also moved out)
- Potential limits to this sector to absorb the fall out from future increase in unemployment without a further deterioration in affordability
- *Is there any reason to believe a return of the rental investor in its current form will lead to any other outcome on current policy settings?*



Conclusions

- Lower income *working* renters are one of the least supported housing sectors (negative gearing targeted to the higher end of the market and relatively few tenants get CRA, plus they don't get the tax breaks that home owners do)
- Relatively youthful – the *Pragmatists*: but are these long term renters – and will they become the *Strugglers* of the next decade or will they make the transition into ownership?
- Does it matter that the low income rental market is vulnerable to investor sentiment and has shifted into the suburbs? The current system does not support inner city supply
- Are these the results we would want from an *efficient, effective and equitable subsidy system* for lower income renters?
- What kind of subsidy structure would be needed to encourage private investors to increase the supply of well located, affordable private rental housing of an adequate standard for lower income households?
- *What kind of investor and what kind of landlord is needed (don't have to be the same), and are there alternatives that would work better in a low capital growth environment?*



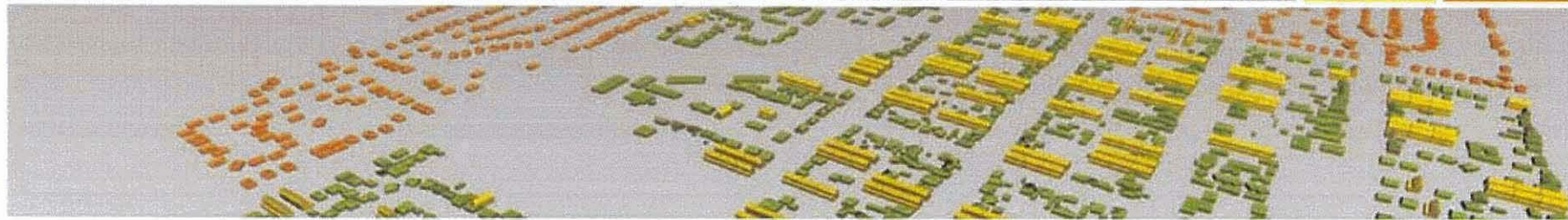
Alternatives

- ***Institutional investors*** – what is needed to bridge the yield gap? NRAS the way forward as rental yields return to ‘normal’ levels?
- ***Housing Bonds*** – time for a reassessment to offer securitised investment opportunities for the smaller investor rather than direct involvement?
- ***Role for Patient Capital*** – not tied to rapid returns or capital growth but can take a longer term perspective
- ***Role of non-for-profit landlords*** – much better suited to provision of lower income housing and working with public housing providers
- ***Role of a new N-F-P sector*** in generating urban renewal with mixed tenure outcomes (proposals with Housing NSW on this)
- ***Reform of existing subsidies*** – negative gearing and boosted CRA



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