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Private rental housing provision in Brisbane: A case study of supply at the lower cost end of the private rental sector

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ABSTRACT

Brisbane's housing market is relatively under-researched, despite the value that can be gained from examining a residential property market operating in an environment of significant population growth through high inward interstate migration, and sustained urban building and development activity. The latter includes a rapid expansion in inner city apartment construction and concurrent ongoing major urban expansion at the urban fringe. Within this environment, issues of private rental housing supply, gentrification and affordability for renters are constant social policy factors requiring consideration.

The latest trends in private rental supply at the lower cost end in Brisbane suggest that previously identified tendencies towards loss of very low cost stock have continued into the start of the twenty-first century across the Brisbane metropolitan area as a whole. There has been a small increase in the supply of rental housing in the more broadly defined' lower cost quarter' of the market in Brisbane (very low and low-moderate stock combined) in absolute terms, although weighed against the significant growth which has taken place in the rental market overall, there has still been relative decline in this segment.

Important spatial distinctions in supply within the Brisbane metropolitan area are evident, and there has been a clear drift away from the very low and lower cost end of the market in the inner city, towards greater supply in outer urban locations of the metropolis. There are also temporal considerations, and differences appear to exist between the periods immediately prior to, and after turn of the new century.

This analysis does not attempt to resolve whether lower income households have directly benefited or suffered from changes in the supply of lower cost housing, nor does it seek to identify whether there has been any change to housing affordability in the rental sector. Nevertheless, the findings of this research potentially have significant policy and research implications. The de facto policy reliance on the private rented sector to house lower income households needs to be evaluated in the context of supply and other trends.

A number of possible explanations for these changes in supply exist, ranging from structural and systemic processes related to rental housing provision (in particular rental investor activity), recent government policy initiatives, and broader social phenomena. In practice, it is likely that a combination of all of these factors have brought about these most recent supply trends. The need to better understand the operations of the private rental market, and the behaviour of investors, tenants and other agents, remains, and ongoing monitoring of the sector using a variety of data sources and methodologies is crucial to achieving such an understanding.

INTRODUCTION

Private rental housing is an important part of the Australian housing system, and the sector occupies an increasingly significant place in housing policy considerations, albeit commonly in a *de facto* policy form (Seelig 2001a,b). In the context of Governments' hopes (QDH, 2000a; 2000b), and expectations (DSS, 1997a; 1997b), for the private rental sector to successfully play a stronger role in housing lower income households, an important housing policy issue concerns the supply of lower cost private rental housing stock.

The supply of lower cost housing has proved to be a major challenge for the sector, and a number of studies in recent times have pointed to declines in the supply of rental housing at the lower end of the market, both absolutely (number of dwellings), and relatively (in terms of proportion of the sector lower cost stock represents). Previous work by Wulff, Yates, Burke (2001), Seelig (1999, 2001b), and others has pointed to evidence of a significant reduction in the proportion of lower priced rental housing between the mid 1980s and the late 1990s across Australia, including Brisbane. Indeed, although the private rental sector grew in Brisbane in absolute terms and in proportion to the other main tenures, there was evidence of major supply problems in Brisbane's private rental market at the low cost end of the sector (Seelig, 1999; 2001b). Such trends appeared consistent across different rent cost segmentation methodologies.

Supply of low cost private rental housing is not really a new issue. Mowbray (1996), for example, cites previous research on losses of low cost housing in Australia in the 1970s, particularly in inner urban areas (Poulsen and Spearritt, in Mowbray, 1996: 53). Paris (1984: 55) also draws attention to this, arguing that government home purchase assistance to low income households facilitated the acquisition of erstwhile low cost private rental housing by owner-occupiers. The issue is also not unique to Australia. Hulchanski (1990: 316) refers to gentrification in Canada resulting in the loss of low cost inner city rental housing, and Malpezzi (1998: 355) also comments on the loss of low cost inner city private rental housing during the 1990s in the US.

A number of studies have pointed to a concurrent increase in low income households renting privately in Australia, suggesting that supply has not responded to demand for lower cost housing. Indeed, some (the present author included) have likened rental market trends up to the end of the twentieth century as being akin to a crisis in the market, and a major headache for policy-makers. At the same time, the rental market needs to be recognised for what it is, namely a highly dynamic sector, effectively made up of a series of submarkets, delineated in terms of formality, spatial distribution, and cost segmentation. Nothing can be taken for granted in terms of predicting future market directions, and crucially, rational-economic behaviour in the sector - particularly among investors - cannot be assumed.

Brisbane and the wider South-Eastern Queensland region are locations of rapid urban expansion and population growth, and represent significant places in terms of urban development and housing markets. Metropolitan Brisbane is thus an important city to monitor, analyse and understand. In the light of past supply trends, it is incumbent to assess whether they have continued into the start of the twenty-first century, and to examine the extent of ongoing lower cost private rental stock supply.

Accordingly, this paper looks at the trends in private rental supply in Brisbane which have occurred between 1997 and 2003, in particular changes in supply at the bottom end of the market, using data from the Queensland Residential Tenancies Authority (RTA)[1]. Some of the possible explanations for these changes in supply are then considered, including the structural and systemic processes related to rental housing provision, recent government policy initiatives, and broader socio-economic events. The paper concludes by reflecting on the policy and research implications arising from this analysis.

Defining 'very low cost' and 'lower cost' rental housing

A variety of definitions for rental housing located at the bottom cost end of the market have been used and applied to conduct rental sector analyses[2]. The approach used for this paper has been to define 'very low cost' with reference to the 'low' less than

1 Some potential methodological issues are discussed in an appendix to this paper.

2 The Wulff et al (2001) analysis divided rents taken from special matrix tables from the 1986 and 1996 Censuses into four categories 'low' ($1-99), 'low-to-moderate'($100-$149), 'moderate-to-high' ($150-$199), and 'high'($200+). Dollar values for 1986 were adjusted into constant 1996 dollar terms to eliminate the impact of inflation on the data.2 In a new AHURI-funded project, presently underway (Yates, Wulff and Reynolds, forthcoming), similar data for 1996 and 2001 are being used, but a broader, more sensitive approach has been taken in terms of segmenting the rental market in cost terms, with additional

$100 segment used by Wulff et al (2001), except that the analysis here takes the benchmark of $100 in 2003 dollar terms. Meanwhile, 'lower cost' private rental housing has been defined with reference to the lower quartile of rents in the Brisbane metropolitan area (Statistical Division) in June 2003, as recorded by the Queensland Residential Tenancies Authority for all stock (using current tenancies commenced within the last five years as a representative sample[3]). This equated to lower cost rents being defined as those at or below $155 per week. Rents from June 1997 and June 2000 were adjusted into 2003 dollar terms, to remove the effects inflation on the data.

Applying a cut-off point of less than $100 per week to categorise 'very low cost' rental stock remains a useful exercise, when the incomes of single persons and sole parents on statutory incomes may be below or only just above the $300 per week mark (Centrelink web site data). A commonly used benchmark for housing affordability is the test of '30% of income', and so a rent of up to $100 per week would roughly equate to one affordable for a households on a weekly income of some $300. Although $100 per week rent may not sound like much today, it remains a pertinent measure of supply for those on very low incomes.

The broader approach of segmenting the bottom quartile of stock was also adopted because it was felt that this would yield a more interesting picture than one focussed solely on the very low cost end (as previous analyses by the author have tended to do). More information on the precise nature of the data construction and analysis are included at the end of the paper.

Examination of recent trends in private rental supply in Brisbane

In their landmark study of rental supply trends between 1986 and 1996, Wulff et al (2001) indicated that total private rental housing supply increased across Australia, and particularly strongly in Brisbane and in Queensland as a whole, between 1986 and 1996. The data for Brisbane indicated a significant increase in the number of

categories compiled at the lower cost end. However, the series of segments are still limited to those categories included in the Census (actual rent amounts were recorded in the 2001 Census, but not the 1996 one).

3 This approach was taken because the rents recorded are those at commencement of tenancy. While most rent increases tend to occur at tenancy turnover, some do occur over time in current tenancies. Use of data for the last five years only thus

rental housing dwellings - by some 66% - almost twice the rate of change for Australia as a whole. However, the Wulff et al analysis indicated that supply of rental housing at the low cost end had declined dramatically.

Two key questions arise some seven years after the last data period for that analysis: have overall supply trends continued to be strong in Brisbane?, and what has happened at the lower cost end of the market, both in terms of absolute numbers and also in terms of the share lower cost housing represents?

Overall supply trends in Brisbane 1997-2003

Across the whole Brisbane metropolitan area, the number of tenancies recorded by the RTA rose from 114,202 in 1997 to 145,634 in 2003 – an increase of 31,432 or 28%. Within the metropolis, the highest growth was recorded in the Inner City area (61%), followed by the Outer City area (47%), but growth of 20% was also recorded in Middle City and Greater Metro areas.

Interestingly, when the 1997 – 2003 period is split, and data from the year 2000 are also examined, it emerges that while rates of growth were consistent during 1997-2000 and 2000-2003 in the Inner and Middle City areas, they were significantly lower post 2000 in the Outer City and Greater Metro areas. As Table 1 illustrates, in terms of the overall growth, roughly two thirds of the growth across the entire Brisbane metropolitan area in the last six years occurred between 1997 and 2000. [4] Nevertheless, the private rental market has continued to grow in absolute terms, and Census data indicate that in fact, the private rental sector in Brisbane has also grown relative to other tenures as well (ABS CDATA 2001).

may create a bias as some likely rent increases are not captured, but the bias will be a conservative one which would tend to slightly exaggerate the supply of very low and lower cost rental housing, rather than reduce it.

4 On a cursory analysis of data for the balance of the State and for all Queensland, this trend seems to apply to these other areas too.

Table 1: Rates of growth across private rental sector in Brisbane 1997-2000-2003

	1997-2000	2000-2003	1997-2003
Inner City Brisbane	27.7%	26.3%	61.3%
Middle City Brisbane	9.6%	9.2%	19.6%
Outer City Brisbane	32.2%	11.5%	47.3%
Greater Brisbane Metro	14.3%	4.9%	19.9%
Total	**16.3%**	**9.7%**	**27.5%**

Source: unpublished rental bond unit record files from Queensland Residential Tenancies Authority

Very low cost supply trends in Brisbane 1997-2003

Across Brisbane metro as a whole between 1997 and 2003, the sample RTA data indicate that in terms of the absolute rate of change in very low cost rental housing, there was a decline in supply of 27.5%. In other words, a sizable reduction in the number of dwellings available at very low cost took place The loss of stock during this period was consistent across spatial zones within the Brisbane metro area, although the specific rates of reduction varied in different parts of the metropolis. The decrease in very low cost supply was greatest in the Inner City – some 45% of the volume of stock that existed in 1997 was lost by 2003. Considerable reductions also took place in the Middle City, Outer City and Greater Brisbane Metro areas.

However, in terms of when the losses of stock at the very low cost end took place, most occurred during the period 1997 to 2000, as Table 2 indicates. In the Middle City and Outer City areas, there was some slight increase in very low cost supply between 2000 and 2003, although the absolute change in numbers of dwellings recorded in the RTA sample data indicated were extremely low. By comparison, in the Inner City, where growth in the rental market as a whole was exceptional, the rate of very low cost stock loss was consistent throughout.

Table 2: Absolute changes in Very Low Cost supply (<$100 in 2003$s) across private rental sector in Brisbane, 1997-2000-2003

Brisbane region	**1997-2000**	**2000-2003**	**1997-2003**
Inner City	-24.7%	-26.3%	-44.5%
Middle City	-31.1%	2.9%	-29.0%
Outer City	-23.8%	4.1%	-20.6%
Greater Metro Area	-10.2%	-7.0%	-16.5%
Total	**-21.9%**	**-7.1%**	**-27.5%**

Source: unpublished rental bond unit record files from Queensland Residential Tenancies Authority

The effect of these considerable losses of stock has been to further reduce the share of very low cost housing as a percentage of all supply (shown in Table 3). For the Brisbane metropolitan area as a whole, very low cost stock now represents less than 2.5% of all rental stock. In the Inner City, very low cost housing fell from representing some 9% of stock in 1997 to just 3% in 2003. Once again, most of the reductions in the share of all housing took place in the 1997 – 2000 period (Inner City excepting), although all areas saw further reductions during 2000 to 2003.

Table 3: Levels of the relative supply of Very Low Cost supply (<$100 in 2003$s) across private rental sector in Brisbane, 1997-2000-2003

Brisbane region	**1997**	**2000**	**2003**
Inner City	9.2%	5.5%	3.2%
Middle City	3.7%	2.4%	2.3%
Outer City	2.1%	1.2% *	1.2% *
Greater Metro Area	3.5%	2.8%	2.6%
Total	**3.9%**	**2.7%**	**2.3%**

* Figure for 2000 rounded down from 1.24%; figure for 2003 rounded up from 1.18%

Source: unpublished rental bond unit record files from Queensland Residential Tenancies Authority

Changes in very low cost supply trends across Brisbane 1997-2003 – postcode-based analysis

One final level of analysis which can be undertaken relates to scrutiny of very low cost supply trends at the postcode level (as RTA data are recorded by postcode). Maps 1 and 2 below indicate the supply of very low cost private rental stock within the Brisbane metropolitan area in June 1997 and June 2003 respectively. Levels of supply have been categorised into various bands on an individual postcode basis, and the ranges of stock are: ‘less than five percent’, ‘five and nine percent’, ‘ten and fourteen percent’, and finally ‘fifteen percent or more’.

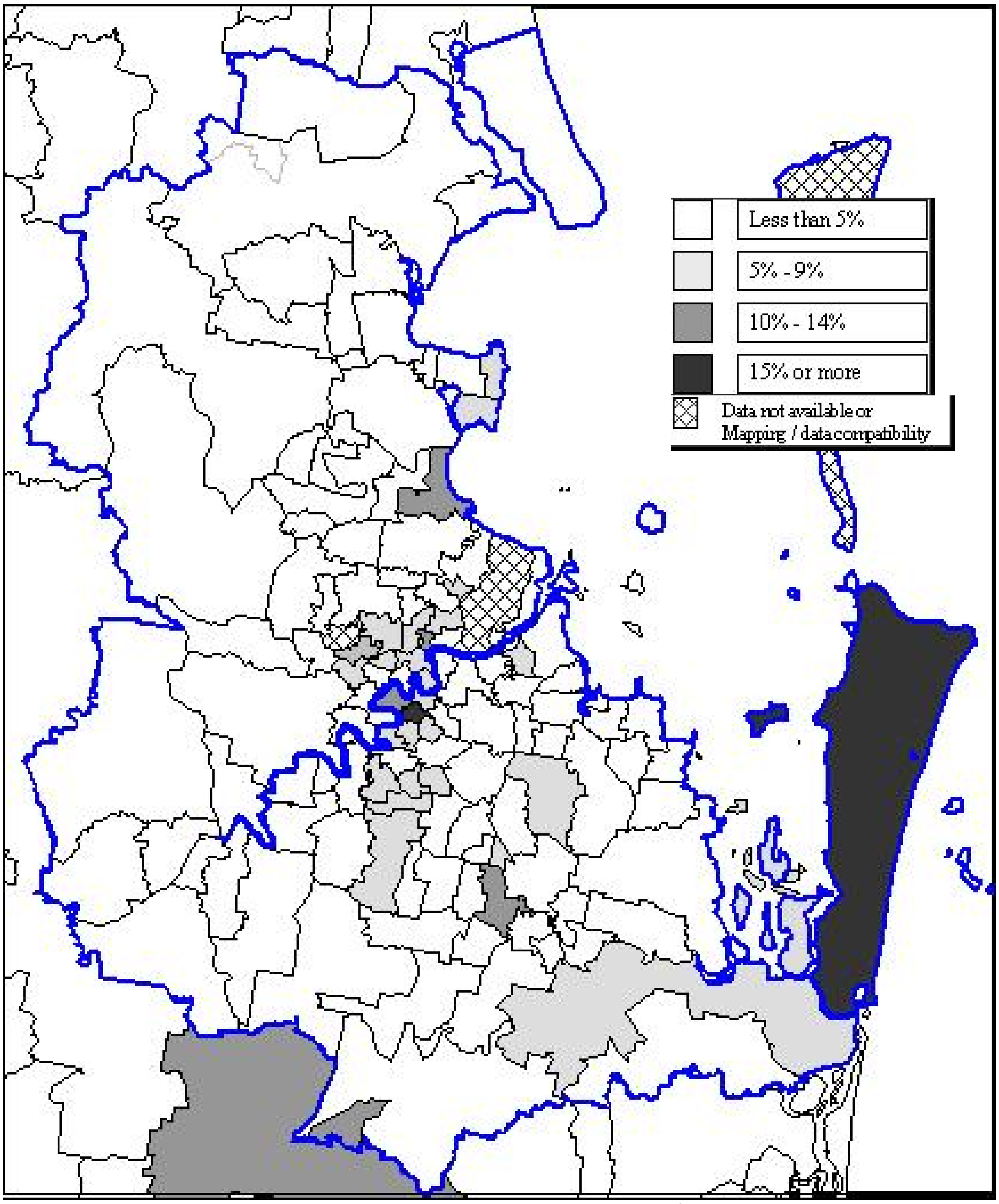
As these maps suggest, there have been some changes in the levels of supply of very low cost private rental housing at the postcode level, although most of the changes have occurred in areas where supply was above the five percent mark in 1997. Postcode areas where supply was extremely very low in 1997 have remained so in 2003; in most other areas, there have been movements downwards into the next category of supply or further down the scale. In 1997, most of the low cost stock was concentrated in inner city suburbs or adjoining areas, although there were also a few pockets of higher concentrations of low cost stock beyond this zone. By 2003, no postcodes had levels of very low cost private rental housing over 15%, and only a very small number contained levels which 5%.

Map 3 illustrates the rates of change on a postcode basis between 1997 and 2003 within the Brisbane metropolitan area, in the supply of very low cost private rental stock. This is analysed in terms of absolute volume of stock recorded from the sample data. These rates of change (the difference in actual supply between these dates divided by the original level of supply) have been grouped into those involving negative percentage changes of 50% percent or more (‘Significant Decline’), those involving negative percentage changes of less than 50 percent (‘Decline’), and those involving positive percentage changes of either less than 50% (‘Increase’) or 50% or more (‘Significant Increase’).

As this shows, while the majority of postcodes have experienced a decline, significant or otherwise, some have also seen an increase in the level of very low cost stock supply. Most of the absolute numbers in such cases are very small, and spatially tend to be located towards the middle and outer parts of the metro area, with a particular concentration of areas around the outer south-west. So, even though changes in supply have not all been in one direction, those areas that have seen an increase in the supply of low cost stock have only seen very marginal increases, and these are likely to be rather insignificant as far as the overall supply of low cost stock across Brisbane metro is concerned.

These statistics suggest that we may be witnessing the virtual demise of private rental housing at the very low cost end, notwithstanding some very recent, small turnaround in the middle and outer city areas. From a housing research point of view, it is perhaps still worth monitoring what will take place at the very low cost end of the private rental sector into the future. However, the next segment up from this very bottom end of the market – termed here as 'lower cost stock' - is likely to be of greater interest to government and the policy community, as it spans a wider range of dwelling types, number of bedrooms, and locations than stock at the very low cost end (analysis of unpublished RTA data).

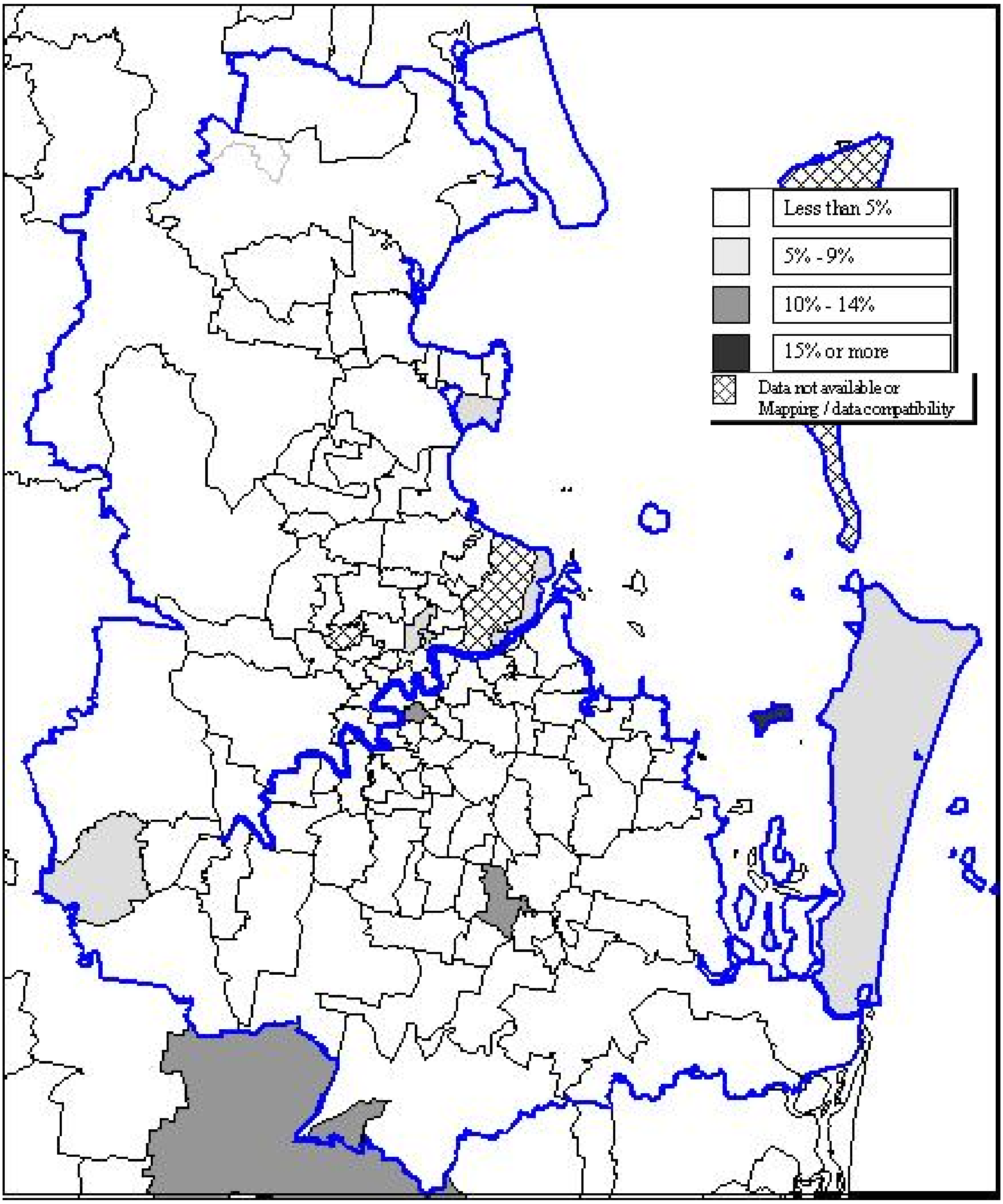
Map 1: Spatial analysis of levels of concentration in the supply of very low cost private rental stock as percentage of all private rental stock, Brisbane metropolitan area 1997 (sub$100) (rents reflated into 2003 dollar values)



Notes: Very low cost redefined as including rents below $100 per week

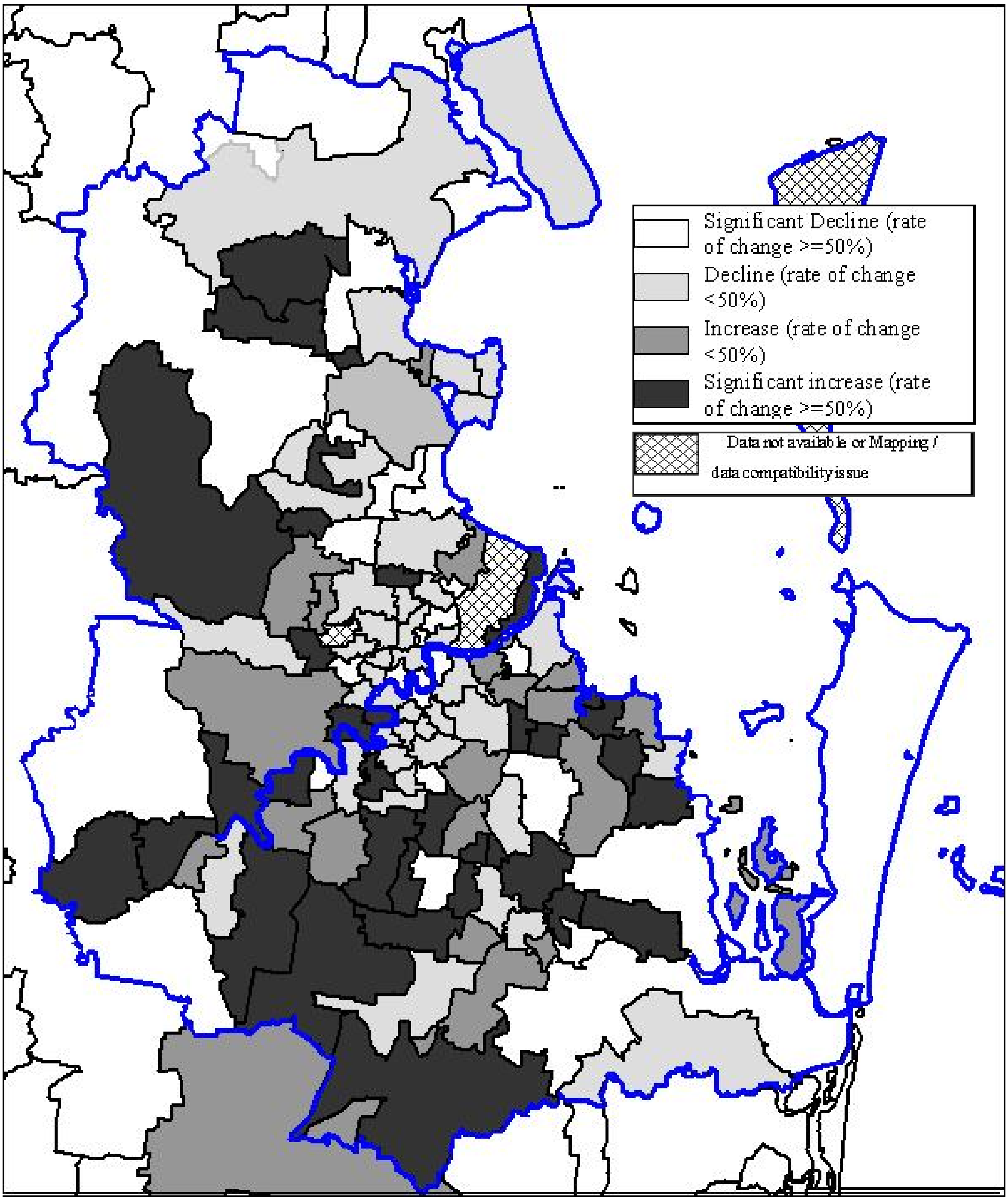
Sources: Residential Tenancies Authority rental bond unit data; CDATA/MapInfo GIS data; ABS (Timeseries) CPI: All Groups Index, Cat. No. 6401.0 TABLE 1B

Map 2: Spatial analysis of levels of concentration in the supply of very low cost private rental stock as percentage of all private rental stock, Brisbane metropolitan area 2003 (sub$100) (nominal dollar values)



Notes: Very low cost redefined as including rents below $100 per week
Sources: Residential Tenancies Authority rental bond unit data; CDATA/MapInfo GIS data; ABS (Timeseries) CPI: All Groups Index, Cat. No. 6401.0 TABLE 1B

Map 3: Spatial analysis of absolute changes in supply of low cost (sub$100) private rental stock by postcode, Brisbane metropolitan area, 1997-2003



<u>Notes:</u> Very low cost defined as including rents below $100 per week. Analysis takes into account the effects of inflation by reflating 1997 rents into 2003 dollar value terms.

<u>Sources:</u> Residential Tenancies Authority rental bond unit data; CDATA/MapInfo GIS data; ABS (Timeseries) CPI: All Groups Index, Cat. No. 6401.0 TABLE 1B.

LOWER COST SUPPLY TRENDS IN BRISBANE 1997-2003

In contrast to what has taken place at the very low cost end, it would appear there has been an absolute increase in the amount of rental housing at the more broadly defined 'lower cost' end across the Brisbane metropolitan area as a whole. At the same time, the relative supply of lower cost supply has fallen over the 1997 – 2003 period, and notable spatial and temporal variations remain within these overall trends.

Using the sample RTA data set and applying the first quartile $155 per week cut-off point to categorise lower cost rental stock, the absolute rate of change in lower cost supply across Brisbane metro as a whole between 1997 and 2003 was 10.8%, representing an increase in the number of dwellings available at lower cost. However, spatial variations are evident beneath this overall trend. In the Inner City and Middle City areas, there was an absolute decrease in lower cost supply, in the order of 4.6% and 3.2% respectively. For the Outer City and Greater Brisbane Metro areas, the rate of growth lay between 20% and 25%. Thus, virtually all the absolute increase in the number of dwellings available at lower cost occurred in the Greater Metro area.

As table 4 indicates, in contrast to what happened with growth in the rental market as a whole, almost all of the growth in this segment occurred between 2000 and 2003. In the case of the Inner and Middle City areas, there was a decline in supply during the 1997-2000 period, but growth (albeit moderate) in the later period. For the more outer-lying areas, there was growth in during both times, but the bulk of it occurred in the latter.

Table 4: Absolute changes in lower cost supply (<=$155 in 2003$s) across private rental sector in Brisbane, 1997-2000-2003

	1997-2000	2000-2003	1997-2003
Inner City Brisbane	-7.9%	3.6%	-4.6%
Middle City Brisbane	-7.3%	4.5%	-3.2%
Outer City Brisbane	2.0%	22.2%	24.6%
Greater Brisbane Metro	9.5%	11.8%	22.5%
Total	**1.2%**	**9.4%**	**10.8%**

Source: unpublished rental bond unit record files from Queensland Residential Tenancies Authority

Despite the growth in supply that has occurred in some parts of the Brisbane metro area, the share of lower cost housing as a percentage of all supply actually fell by some 2.5%. In the Inner City, lower cost housing fell by almost 14% in relative terms between 1997 and 2003, by which time it represented only on fifth of all rental dwellings. The only location of relative growth was the Greater Metro area, where lower cost housing went up from representing 34% of all stock in 1997 to 37% of all stock in 2003. Table 5 shows these changes in the relative supply of lower cost supply.

Table 5: Levels of the relative supply of lower cost supply (<=$150 in 2003$s) across private rental sector in Brisbane, 1997-2000-2003

	1997	**2000**	**2003**
Inner City Brisbane	34.1%	24.8%	20.4%
Middle City Brisbane	25.2%	21.9%	21.4%
Outer City Brisbane	14.4%	11.3%	12.7%
Greater Brisbane Metro	34.1%	33.7%	37.1%
Total	**28.0%**	**25.0%**	**25.5%**

Source: unpublished rental bond unit record files from Queensland Residential Tenancies Authority

Changes in lower cost supply trends across Brisbane 1997-2003 – postcode-based analysis

As with the very low cost stock analysis, the changes in supply in the broader lower cost stock segment can be examined at the postcode level. Maps 4 and 5 below provide a spatial analysis of varying levels of concentration in the supply of lower cost private rental stock as a percentage of all private rental stock, by individual postcode across the Brisbane metropolitan area, in 1997 and 2003 respectively. Levels of supply have been categorised into five bands, designed to be more reflective of stock rates in this segment on an individual postcode basis - the ranges of stock used are: ‘less than ten percent’, ‘ten to nineteen percent’, ‘twenty to twenty-nine percent’, ‘thirty to thirty-nine percent’, and finally ‘forty percent or more’.

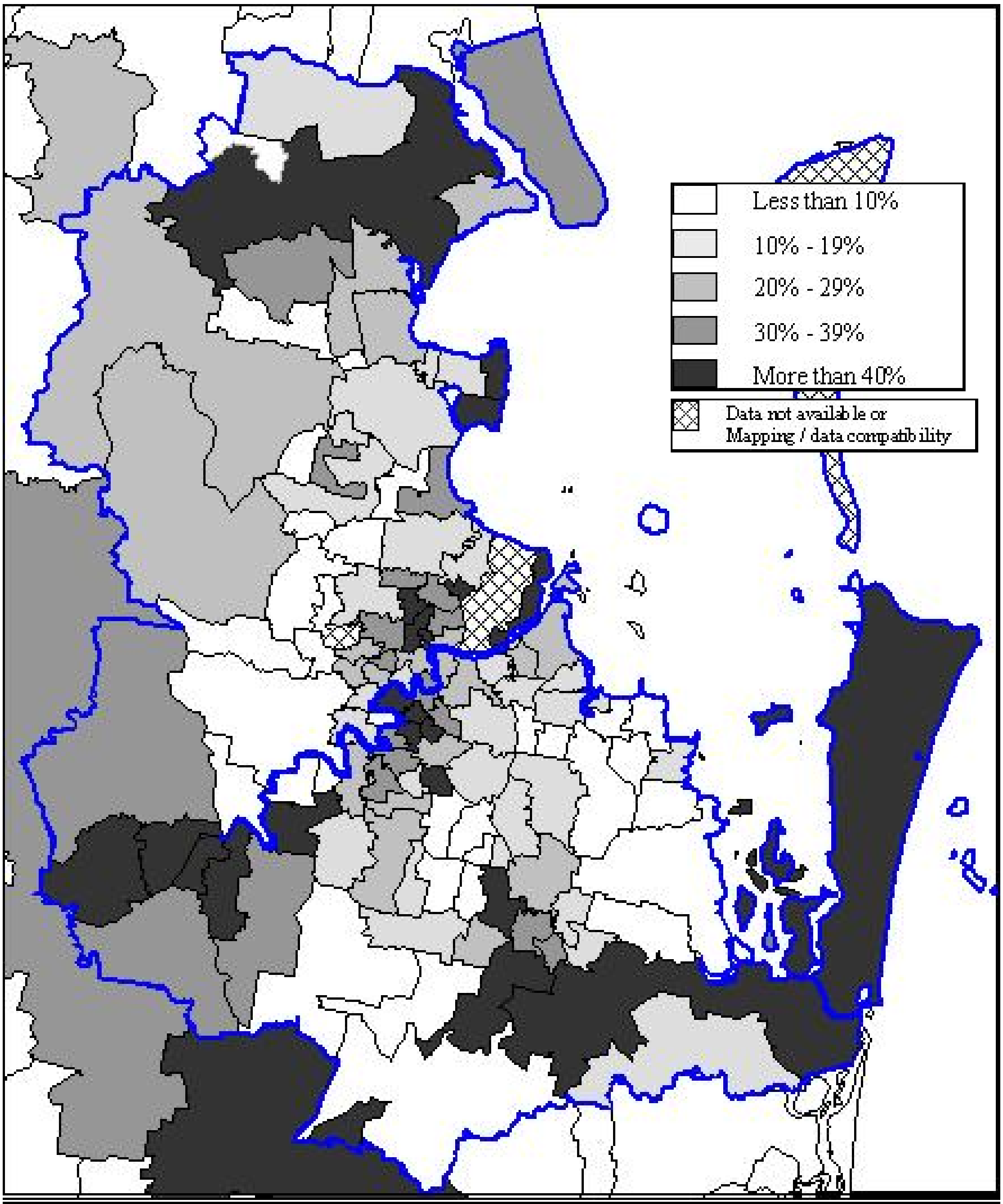
As Map 4 illustrates, in 1997 few postcode areas in Brisbane had a very high (40%+) rate of lower cost rental housing supply. Such a rate of supply was mostly found in the very inner southern city area, and dispersed across a small number of outer and greater metro areas. By way of contrast, the majority of postcode areas contained very low (<10%) or low (10-19%) levels of concentration of lower cost housing. Map

5 shows that by 2003, there was a notable increase the number of postcode areas which contained very high (40%+) or high (30-39%) rates of concentration, especially in the outer parts of the Brisbane metropolitan area. At the same time, in the inner city there some changes in the opposite direction.

To emphasise how these changes vary spatially, Map 6 illustrates the rates of change on a postcode basis between 1997 and 2003 within the Brisbane metropolitan area, in the supply of lower cost private rental stock. This is analysed in terms of absolute volume of stock recorded from the sample data. As with the very low cost analysis, these rates of change have been grouped into those involving negative percentage changes of 50% percent or more ('Significant Decline'), those involving negative percentage changes of less than 5o percent ('Decline'), and those involving positive percentage changes of either less than 50% ('Increase') or 50% or more ('Significant Increase').

This final analysis indicates that the areas seeing significant increase in lower cost supply (the black-shaded areas representing a relative increase of 50% of more) are generally located around the middle city, outer city and greater metro areas. Indeed, almost all of the postcode areas located in the outer city and greater metropolitan zone saw a significant increase in lower cost housing. Generally, postcode areas in the inner and eastern middle city areas have experienced more of a loss of lower cost rental housing than elsewhere.

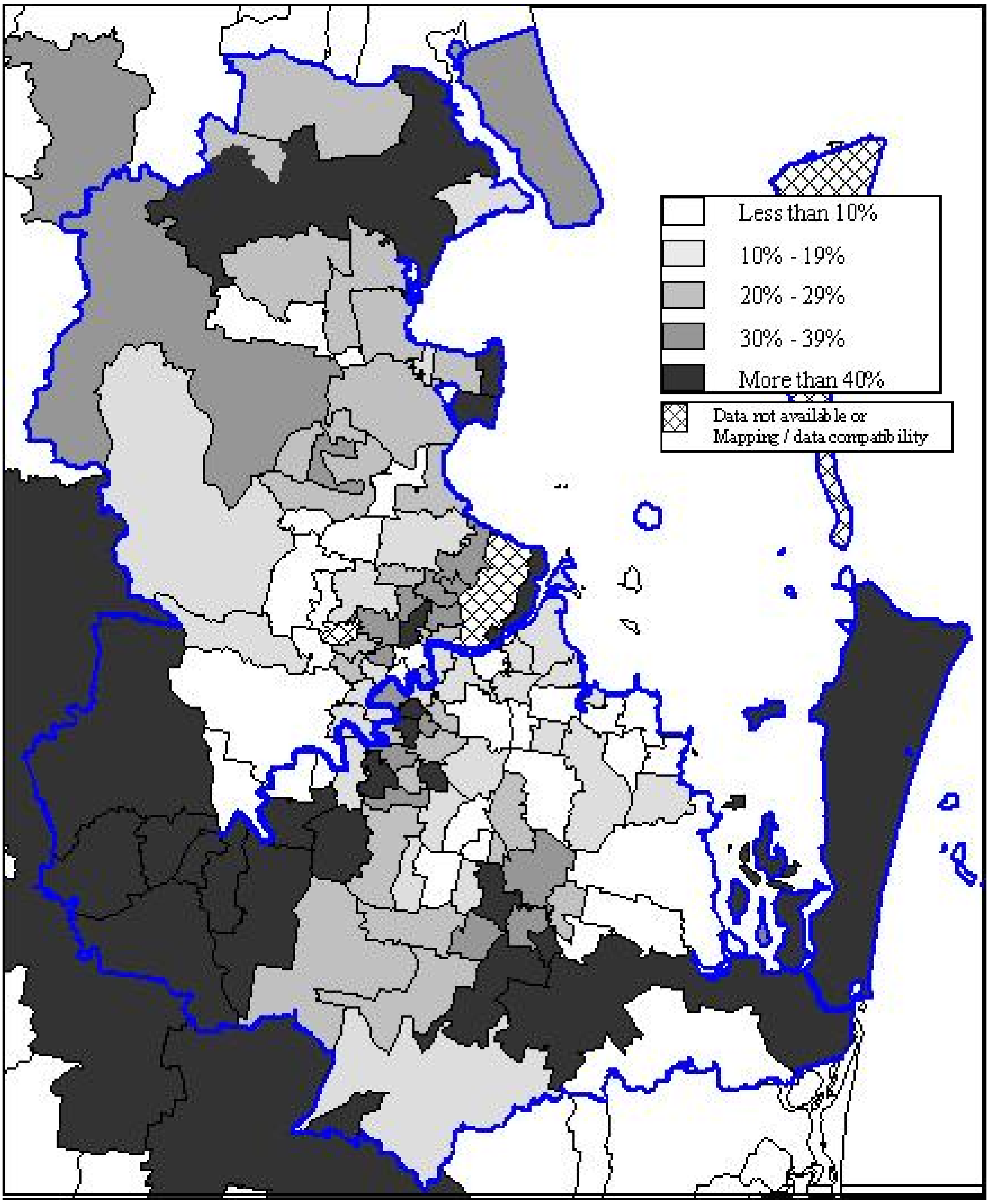
Map 4: Spatial analysis of levels of concentration in the supply of lower cost (1st Quartile) private rental stock as percentage of all private rental stock, Brisbane metropolitan area 1997 (1st Q'tile) (rents reflated into 2003 dollar values)



Notes: Lower cost redefined as including rents at or below 1st rent quartile Brisbane Statistical Division, June 30 2003, tenancies < 5years only (rents between $1 and $155 per week)

Sources: Residential Tenancies Authority rental bond unit data; CDATA/MapInfo GIS data; ABS (Timeseries) CPI: All Groups Index, Cat. No. 6401.0 TABLE 1B

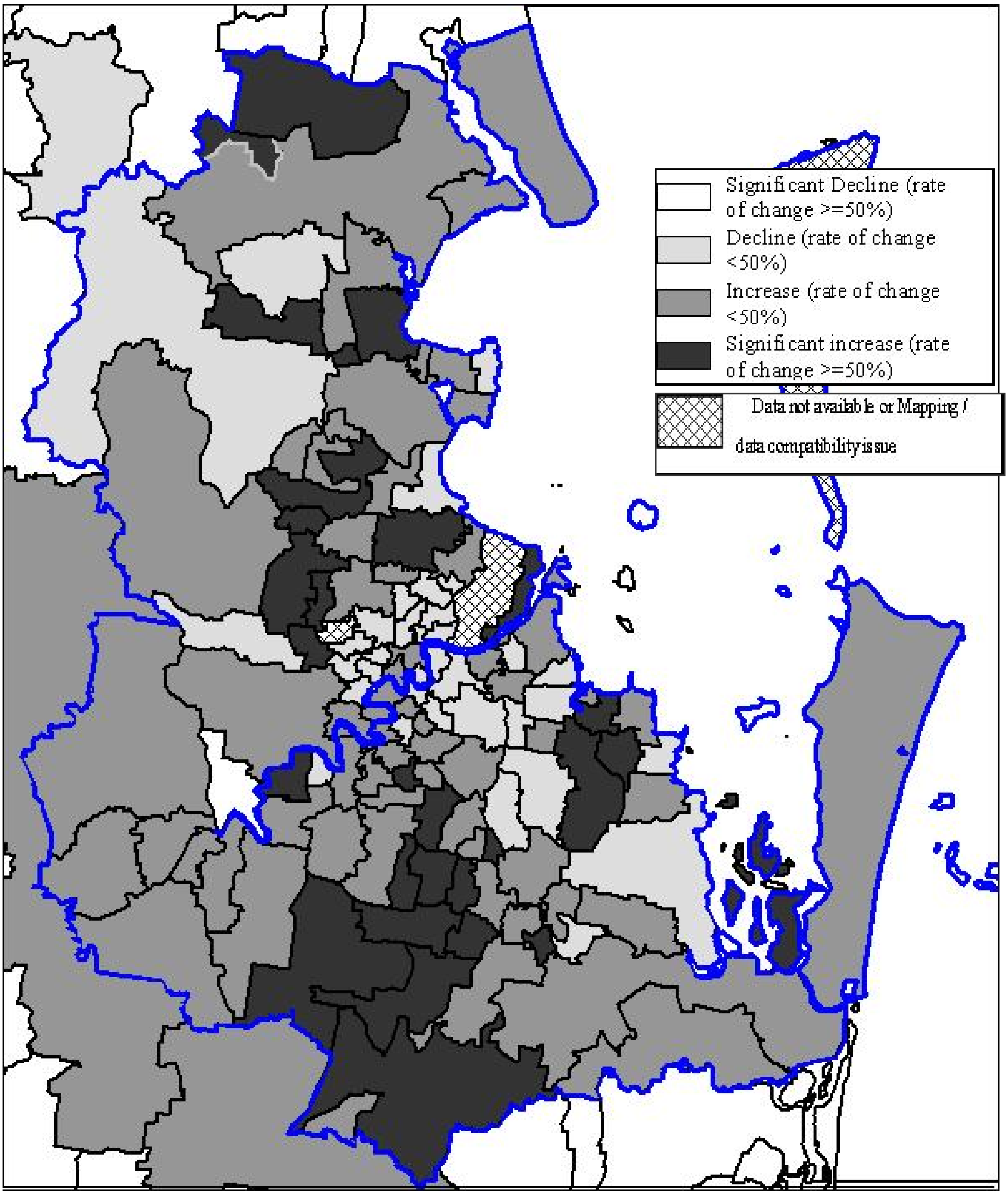
Map 5: Spatial analysis of levels of concentration in the supply of lower cost (1st Quartile) private rental stock as percentage of all private rental stock, Brisbane metropolitan area 2003 (1st Q'tile) (nominal dollar values)



Notes: Lower cost redefined as including rents at or below 1st rent quartile Brisbane Statistical Division, June 30 2003, tenancies < 5years only (rents between $1 and $155 per week)

Sources: Residential Tenancies Authority rental bond unit data; CDATA/MapInfo GIS data; ABS (Timeseries) CPI: All Groups Index, Cat. No. 6401.0 TABLE 1B

Map 6: Spatial analysis of absolute changes in supply of lower cost (1st Q'tile) private rental stock by postcode, Brisbane metropolitan area, 1997-2003



Notes: Lower cost redefined as including rents at or below 1st rent quartile Brisbane Statistical Division, June 30 2003, tenancies < 5years only (rents between $1 and $155 per week). Analysis takes into account the effects of inflation by reflating 1997 rents into 2003 dollar value terms.

Sources: Residential Tenancies Authority rental bond unit data; CDATA/MapInfo GIS data; ABS (Timeseries) CPI: All Groups Index, Cat. No. 6401.0 TABLE 1B.

SEEKING EXPLANATIONS FOR RECENT RENTAL SUPPLY TRENDS IN BRISBANE

The supply trends in the Brisbane private rental market tracked between 1997 and 2003 indicate that overall supply has been very strong. However, there are different pressures present in different segments of the private rental market. Previously identified tendencies towards loss of very low cost stock across the Brisbane metropolitan area as a whole have continued into the start of the twenty-first century. At the same time, Brisbane has seen an increase in supply of rental housing in the more broadly defined lower cost quarter of the market (very low and low-moderate stock combined) in absolute terms. This has been a very marginal increase, and crucially growth in this part of the sector has not kept pace with growth overall. Only in the greater metropolitan area did the share of lower cost housing actually increase relative to the market as whole.

Important spatial divisions and temporal distinctions in supply within the Brisbane metropolitan area are therefore evident. There has been a clear drift away from the very low and lower cost end of the market in the inner city, towards some increased supply in outer urban locations of the metropolis. The latter suggests a shift in directions at the lower end of the rental market, away from recent past trends[5].

Are these trends merely temporary phenomena or do they represent a more fundamental turnaround? Only time can answer this definitively! For now, it is worth identifying some of the factors which may account for what has taken place in the last few years in the Brisbane rental market. One important consideration is the fact that the lower cost supply trends for Brisbane as a whole, that is those at the lower end of the rental market (but not the very low cost end), would appear to be in stark contrast to the trends in some other major metropolitan rental markets such as Sydney and Melbourne[6], which have seen stock losses in the lower quarter of the market as well as at the very low cost end.

5 In terms of verifying the supply trends identified in this paper, the RTA data findings presented are entirely consistent with those to be reported by Yates et al (Sydney AHURI Research Centre forthcoming), who have used a different data source but who will be reporting similar rental supply trends for Brisbane. From provisional data analysis kindly made available by Associate Professor Judy Yates from her new AHURI work, which allows consideration of both very low and lower cost rental stock trends between 1996 and 2001 Censuses, it would seem that the Brisbane metro-wide trends identified in this paper are broadly substantiated (given study period differences) by ABS data.

The structures of provision in the private rental market

At first glance, the process of providing rental housing might seem reasonably straightforward. In practice, it entails quite elaborate and complex relationships within the housing system as a whole. A useful framework for seeking to understand the rental market is Ball's (1983) concept of structures of housing provision. Seelig (2001a,b) has previously expounded on the use of the conceptual framework of 'systems' or 'structures' of provision for the private rental sector, as a means of examining the institutional arrangements for private rental housing provision. It is not possible here to fully explore this concept or the specific structures of provision for private rental housing identified in Brisbane (see Seelig 2001c for more discussion on this). However, the following provide a sketch of some key considerations as far as the supply of rental housing is concerned.

Policy changes impacting on the private rental market

The years around the turn of the twenty-first century proved to be a significant time for housing-related policy activity at the Commonwealth level. Changes to Capital Gains Tax for rental investment, the GST and income tax cuts, and reinvigorated home ownership support via First Home Owners Grants, all took place during this period. They also occurred in an environment of very low interest rates and rapid expansion of home equity and line-of-credit mortgage instruments. While many of these specific policy changes were not claimed to be necessarily or exclusively about achieving housing outcomes, their effects on the housing system were nevertheless important.

Social and demographic trends in Brisbane, and activity in the Brisbane housing market – 1996 to 2001

Preliminary examination of census data for 1996 and 2001 (CDATA 2001) suggests that the rate of rental market growth has been much greater in Brisbane than in Sydney or Melbourne. In Brisbane metro as whole, the rental sector has grown absolutely. It has also grown relative to the other major tenures, unlike what has happened in Sydney and Melbourne, where the private rental market has declined in relative terms. Overall population growth has no doubt been a key factor in this, with Brisbane experiencing a 17% increase in population between 1996 and 2001, again much greater than Sydney or Melbourne.

6 Based on the above provisional data analysis from new AHURI work by Yates et al (Sydney AHURI Research Centre, forthcoming),

The analysis for this paper has only considered the supply of private rental housing, and has not examined the demand for lower cost housing, nor the matching of lower cost stock with lower income households. It is anticipated that Yates et al (forthcoming) and other research from Census unit data will provide detailed material on these issues. However, preliminary examination of census data for 1996 and 2001 (CDATA 2001) does indicate that as far as incomes are concerned, Brisbane has seen an absolute increase in the number of households on very low (less than $300 per week) and low-to-moderate incomes (less than $600 per week), contrary to what has happened in Sydney and Melbourne. The proportion of households on very low and low-to-moderate incomes is also notably higher in Brisbane. While unemployment fell in all of these capital cities, Brisbane has tended to have higher rates than Sydney and Melbourne, and Brisbane has also seen less of a reduction in unemployment between 1996 and 2001 than these other capital cities.

It is further worth noting that the total value of First Home Owners Grants issued in Queensland during 2001-02 was just under $400 million, more than twice the level of Commonwealth expenditure on the Commonwealth State Housing Agreement in Queensland for that year (data from the Queensland Office of State Revenue). Even as take up in the program dropped off, grants to first home owners in Queensland during 2002-03 were in the order of $220 million. And while ABS data (Cat. No. 5609.0, Table 10a) suggest that the proportion of dwellings financed for first home buyers has declined significantly in Queensland during 2002 and 2003, in the eighteen months prior to this, the rate topped 30% (considerably higher than in NSW, and more than in Victoria).

Although it is difficult to know for sure how the First Home Owners Grants impacted on demand for private rental housing, it can be speculated that it facilitated access to home ownership for those who may have been delaying entry into that tenure, either by choice or by constraint. If so, it would probably have impacted on demand in the middle and upper cost segments.

One potential explanation for the increase in supply of lower cost rental housing therefore lies in the magnitude of growth in the private rental sector in Brisbane, which occurred when demand from moderate to higher income renters was falling, but demand from low income renters was rising. In other words, there has been a large scale over-supply of rental housing in general terms. In a market seeing such high rates of growth and changes in demand, it would perhaps be surprising if some amount of increased supply did not end up at the lower end, or that the large volume of supply did not cause a trickle-down effect through price adjustments or filtering into the bottom part of the market.

At the same time, given that ongoing demand for very low and lower cost housing has not been matched by supply responses historically nor in other States, it would appear that simple supply and demand factors alone are unlikely to be the only explanation of recent market trends. Thus it is necessary to take a broader, more systemic look at how the private rental market operates.

Nature of rental investors and the irrationality of much rental investment

The vast majority of rental investors only own one or two dwellings (ABS 1998, Cat. No. 711.030.001), and there are several different types of rental investors. Three key groupings concern ‘short term or temporary landlords’, ‘small-scale private investors’, and ‘professional and minor-commercial investors’ (Seelig 2001a,b), and most rental investors fall into the first two categories. The degree to which financial factors and longer term intentions drive landlord behaviour varies, depending on the type of rental investor under consideration. Not all rental investors have ended up as landlords purposefully, and not all behave in response to economic considerations. But, financial aspects of rental property ownership will clearly impact on most rental investors. The major motivations for investing are capital gains, and to some degree rental income and cash flow profit (ABS 1998, Cat. No. 711.030.001). Negative gearing is also considered to be important by investors, and is probably now used extensively to provide some incentive to continue investing while awaiting longer term returns through capital gains or positive cash flows.

Investors occupy a special place in the provision process, because they are a consumer of the housing production and exchanges processes, but they are also the supplier of rental housing to the tenant, who is the end consumer. The ability to purchase an investment property is essentially the only prerequisite for deliberate entry into the private rental sector as an investor. Most investors buy their first rental property through a mortgage or loan, and in the absence of large-scale institutional or commercial investment in private rental housing (Berry, 2000), most rental investment finance instruments are for individuals. Rental investors can use the equity accumulated in their own owner-occupied dwelling to facilitate access to rental investment finance, and, “Most potential investors in Australia are already owner-occupiers whose investment in housing does not exhaust their investible wealth” (Yates, 1996: 48).

While analysis of unit data from the last ABS Rental Investors Survey (Cat. No. 8711.030.001) suggests that very low cost private rental housing providers in 1997 were not a homogenous group of investors, there were some characteristics that set them apart from other rental investors (Seelig 2001a,b). Landlords of very low cost housing were more dependent on income from rental investments, were more reliant on superannuation or annuities, and were more likely than other landlords to be outside of the labour force. They were much less driven by either long term investment or capital gain factors, were less likely to see tax reduction as a key motivation, and conversely were much more likely to be renting out the dwelling because they were unable to find a buyer, or because of family or other reasons.

Landlords of very low cost housing were much more inclined to sell their first investment property in the following two years from 1997, and were also less likely to buy a new investment property in the following two years from 1997 (ABS 1998 8711.030.001). In summary, they have a greater propensity to be ‘residual’ providers of private rental housing (Seelig 2001a,b).

Meanwhile, for most other investors, it has never been easier or seemed more attractive to get into rental investment. Periodic cuts to income tax rates have been instituted over the last few years, and these have tended to be of significant benefit to those on higher incomes. Very low mortgage interest rates have provided many households with even more disposable income. Innovative mortgage finance instruments such as home equity, lines-of-credit, and reverse equity loans have allowed many to borrow against the value of their own home with ease. Rising house prices have led to greater equity in the home, and thus increased borrowing capacity for investors. Ongoing worries about stock market returns, reflected in recent negative superannuation returns, have made rental investment look like a safe option, especially when dwelling price inflation is high.

When all these factors are put together, an explosive mixture of equity, motivation, and investment opportunity is created, and the effect has been a surge of investment in private rental housing. The fact that new rental investment has remained strong, despite high prices to acquire rental property and clear signs of the potential for over-supply, suggests that we cannot assume that all investors adopt rational economic behaviour.

Many investors probably know little rental markets, other than as past tenants. They are ‘mum and dad investors’, with considerable expectations for return through capital gain or rental income cash flow, who *en masse* have become landlords because of their capacity to invest, rather than with reference to demand for more rental housing or an understanding of rental economics. If their expectations are for significant investment returns over the shorter term, many could face potential disappointment, and some may also face financial losses, as rental and property markets adjust. The longer term picture for returns may be better, but are far from guaranteed and are probably dependent on location and amenity. Securing longer term profitability could require wearing significant investment deficits over the first few years.

Policy and research implications of recent rental supply trends in Brisbane

The supply of rental stock per se is very healthy, but nearly all of the additional stock has going to the middle and higher end of the rent spectrum. During the period 1997 – 2003, many parts of the Brisbane metropolitan area have experienced losses of lower cost private rental housing (all have lost very low cost stock), and the few areas that have seen increases tend to be located in the outer areas.

The availability of very low and other lower cost housing in a range of locations is a pre-requisite for establishing both widespread housing affordability in the rental marketplace, and for ensuring that lower income households are not excluded from places of employment and training opportunities, or family and support services. The absence of very low and other lower cost housing supply in inner urban areas may also result in low income households moving out these areas to outer urban, less well-serviced locations. The danger is that this effectively turns affordable housing supply problems into transport or environmental issues or problems of social or economic exclusion and concentrations of disadvantage.

Although the analyses here do not attempt to resolve whether lower income households have directly benefited or suffered from changes in private rental supply, *prima facie* demand for both very low cost and lower cost housing remains strong in Brisbane (CDATA 2001). The inability to access affordable rental housing obviously has the potential to place severe pressure on households on very limited budgets, which may manifest itself in a number of forms and dimensions. In particular, such households may be forced to make trade-offs in terms of housing costs, dwelling appropriateness, location and standards, and other non-housing expenditure. Reductions in both cost segments therefore indicate that there are ongoing difficulties with relying on the private rental market to deliver housing that will be affordable to lower income households.

A key policy question mark exists over which forms of housing assistance are best placed to respond to gaps at the very low and lower cost ends, particularly in inner and middle city area. Should assistance be focussed on supply or demand? Are rental subsidies to supplement affordability better than the direct delivery of social (public and community) rental housing? The recent *Commonwealth State Housing Agreement (2003-2008)* renegotiations have reaffirmed – albeit implicitly, and perhaps reluctantly in some cases – a belief in the capacity of the private market, and a strong reliance on private sector provision for low income households.

How sustainable is this policy reliance on the private rental market? At the very least, it would appear to be a rather hit and miss approach to housing policy; one which is wholly dependant on activity in the broader housing market. Even in the instances of where supply of lower cost rental housing has increased, two questions need to be considered: what are the long term prospects for supply, and are the increases in supply happening where they are required? As has already been mentioned, the urban spatial issues that arise from the trends identified in this paper concern labour market access, transport, place-based social/economic disadvantage and exclusion, and environmental concerns.

In terms of long term prospects for supply, predicting future market directions and investor behaviour are hazardous ventures. Overall, the private rental market continues to demonstrate that it is a highly dynamic sector, with important points of delineation around location and cost segmentation. The rental market has grown considerably over the last six years, but this has not always or necessarily led to more lower cost housing being provided. A distinct possibility is that the broader housing market will slow down considerably in 2004. If expected capital gains are not going to be realised because house prices flatten – at least over the short term – many investors will have to either commit themselves to a longer term investment period (with related financial pressures if interest rates increase) or look to rental income as their other means of return. Many investors may face a rocky time ahead, and this may not bode well for future perceptions of rental investment as a sound financial opportunity, and we could face different supply pressures in the future.

The supply trends identified earlier in this paper, and the features of rental investment and provision highlighted later, all have important implications for policy makers, the housing and urban research community, and also for individuals connected to the rental sector as investors or tenants. Undoubtedly, there is a need for to better understand the operations of the private rental market. Ongoing monitoring of the sector, and further research concerning the rentals markets and the behaviour of investors, using a variety of data sources and methodologies, is crucial to achieving such an understanding.

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APPENDIX - METHODOLOGICAL ISSUES

The main data source for the analysis was unit record files from the Queensland Residential Tenancies Authority. These are based on administrative information collected in the lodgement of rental bonds, and have been used here for three key reasons. Firstly, RTA data are available on a quarterly basis, and involve none of the delays in access that normally apply to Census and other ABS data. Secondly, the rent fields are based on actual rent levels rather than rent recorded in categories or bands (as has applied in some Censuses). Thirdly, the data are available at no cost.

As with most data sets, there are some limitations in using RTA data. Not all rental tenancies attract rental bonds, and there is probably some small amount of non-lodgement (despite regulatory requirements). Therefore, RTA data do not capture 100% of tenancies, and must be treated as a representative sample. The reliability of the rental bond data set rests principally with the representativeness of information about tenancies captured through bond lodgements, and there is little cause to question this. The reliability and representativeness of the data has previously considered by the author, and it is held that for Brisbane City and SD, they are generally reliable.

Supply analyses were based on three ‘constructed’ sets of rental data from the Queensland Residential Tenancies Authority. These data sets represent ‘snapshots’ of the Queensland private rental sector at specific points in time, namely and the last day of June in 1997, 2000, and 2003. They contain data relating to all current tenancies with bond lodged at these times. For each set of data, the raw data had to be ‘cleaned’ to remove missing and invalid postcode entries, and filtered to exclude unidentified or non-private rental dwelling types (those other than ‘house, flat, and townhouse). Additional data changes included conversion of rents into real ‘2003 dollar’ terms and the application of spatial and segment categories. Rent value adjustments were calculated from ABS time-series price deflator: CPI: All Groups Index Brisbane Quarterly (Table 1B), Cat. No. 6401.0. Finally, all rents entered as ‘$0’ or ‘less than $1’ were treated as missing values and therefore excluded from the analysis.

Analysis of overall supply was based on the total stock capture available. Analysis of the changes in supply at the lower end of the market was based on those current tenancies commenced within the last five years. This approach was used to avoid as far as possible creating a bias in the data given than any subsequent rent increases would not be captured. Any bias will tend to slightly exaggerate the supply of very low and lower cost rental housing, rather than reduce it.

For the purposes of this analysis, ‘Inner City’ was defined as being within an approximate 2-3km radius of the GPO in the City, ‘Middle City were based on postcodes between 3km and 7-8km from the GPO, ‘Outer City’ captured the remainder of postcodes within Brisbane City (SSD), and “Greater Metropolitan area’, was based on all remaining postcodes not in Brisbane City (SSD) but in Brisbane Statistical Division. The separation of Brisbane metro into these four areas is useful for indicative purposes only, and is not based on any scientific or objective foundation. It follows that the outcomes of spatial analysis of the suburban zones are totally dependent on how Brisbane has been divided, and a different basis for division would produce different results. Some minor postcode mapping anomalies were encountered, particularly where postcode boundary changes had occurred.

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