

The Australian private rental sector: changes and challenges

authored by

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ACRONYMS

ATO	Australian Tax Office
CGT	Capital Gains Tax
COAG	Council of Australian Governments
CSHA	Commonwealth–State Housing Agreement
HILDA	Housing, Income and Labour Dynamics in Australia
LCBS	Low Cost Budget Standard
MCBS	Modest Cost Budget Standard
NAHA	National Affordable Housing Agreement
NRAS	National Rental Affordability Scheme
PRS	private rental sector
RA	Rent Assistance
SIH	Survey of Income and Housing (ABS)
SMSF	self-managed superannuation fund

EXECUTIVE SUMMARY

The private rental sector (PRS) plays a critical role in the Australian housing system. Problems of affordability and availability in the PRS can place pressures on the social housing sector and constrain ability to enter home ownership, while its flexibility for tenants, relative to both social housing and ownership, creates the ability for households to be mobile in response to changing personal and labour market needs.

The PRS has increasingly changed from its historical role as a transitional sector for households moving into home ownership or social housing to a long-term sector for a significant number of households. There is a dual paradox in policy settings as a result of this. On the one hand, the PRS is a place to live for an increasing number of householders who require some stability in their housing circumstances so that they and their children have the same opportunities as the rest of the community. On the other hand, it is seen increasingly as an investment opportunity characterised by increasing volatility, such that the sector is more unstable and less likely to provide good housing outcomes. The related paradox is that while some of the public policy settings for the PRS have changed markedly since the early 1980s, others have changed little at all, and in many respects there is now a disjuncture between the role and performance of the PRS and many of the policy settings.

The last major independent review of the sector was undertaken in 1996 for AHURI (Maher et al. 1997). Since then there have been a number of studies on particular themes or aspects of the PRS, including insights into market trends, analysis of the policy and legal settings for the sector, motivations of private investors, risk management practices by property managers and some investigation of the changing locational attributes of the PRS. This project provides both a synthesis of these earlier findings as well as generating a new evidence base on the role of the PRS as a longer term rental sector. The specific research questions are as follows:

- How has the PRS, and characteristics of private renter households within it, changed over time?

This broad question examines the nature of the PRS over time, including households living in the sector, the owners and managers of rental housing, and dwelling types and location. It also addresses the structure and performance of the PRS in view of these changes on outcomes, such as security/mobility and costs.

- Who rents long-term in the PRS (10 or more years) and how does longer term rental feature in their housing pathways?

This question is concerned with the housing histories, household characteristics and current housing circumstances of longer term private renters.

- How does long-term private rental relate to economic, social, health and housing outcomes, including for potentially 'vulnerable' households, over time?

How does long-term private rental affect key economic, social, health and housing wellbeing, over time? What are the outcomes for potentially 'vulnerable' groups such as families with dependent children, single-person households and older people?

This Positioning Paper addresses the first research question and outlines the methodological approach being deployed in the study. It is based on a review of the existing academic and policy literature and preliminary analysis of secondary data. The Final Report will focus much more on the second and third questions and provide a better understanding of the implications of the sector's transition, for many households, to one of permanent residence.

Chapter 2 provides an overview of changes to the housing market and socioeconomic context since the 1980s in the framework of policy settings which shape the contemporary PRS. It provides a comprehensive overview of key drivers of change, and reasons for lack of change, in the sector. Demand side changes include:

- Migration policy which has added substantially to the number of households entering Australia, of which a large majority (70%) start out in private rental.
- The huge growth in international student numbers, with only a small proportion of their housing needs being met by educational institutions providing student housing.
- Additional households forming and renting housing for longer periods before having children, and re-forming due to separation and divorce.
- Greater female participation in the workforce, enabling more women to set up independent households.
- Inability of low-income households to access social housing as a result of the relative contraction in the size of the sector and greater targeting.

Supply-side changes include:

- Sizeable growth in investment in the PRS fuelled by deregulation of the finance system, a favourable tax environment, and the growth of an investment industry soliciting residential rental investment.
- A growing focus of rental investment on the purchase of established dwellings rather than new stock, arguably fuelling dwelling price inflation and reducing affordability of home purchase, which in turn generates more rental demand.
- A focus on rental investment at the higher end of the market such that, despite the huge growth in investment, there are absolute shortages of lower cost rental housing in most metropolitan markets and some regional areas, exacerbated by many such dwellings being occupied by higher-income households.
- A shift of the more affordable supply to outer urban areas which, on the positive side, helps break up their mono-tenure and enables access by households which cannot afford to buy there. On the negative side, these areas often rate poorly in terms of public transport and access to services, leading to dependence on private vehicles, with greater risks from rising petrol prices and running costs.

Chapter 3 looks at trends in key actors in the sector, including residents, investors/owners and property managers. A key theme is how the rental sector is increasingly being understood more as an investment sector and less as a home for renters, with policy much more focused on the investment side than with creating a secure and stable living environment for tenants.

While there has been a huge increase in the amount of private rental investment, this appears to have taken the form of investment widening rather than deepening. It has brought many more single dwelling investors into the market rather than facilitating existing investors buying larger property portfolios. In this sense, the investment pattern has built on the tradition of small-scale ownership that existed before the investment boom, rather than bringing about a new investment pattern.

It is also clear that more and more of the investment is premised on assumptions of capital gain, for the long-term trends in yields have been down and in 2011 were well below that available from fixed deposits in the banks. This raises issues of:

- The sustainability of investment for many investors if there is not continued capital gain.

- The implications for tenants. Capturing capital gain requires the sale of property which can result in the loss of tenancy.

In short, there is a tension between the roles of the PRS as an investment sector and as a long-term place of residence for tenants.

This is the theme to be explored in Chapter 4 where greater detail will be provided on long-term residence in the PRS (who, for how long and why) and on the changing commercial nature of the sector.

1 INTRODUCTION

The private rental sector (PRS) plays a critical role in the Australian housing system. Just under a quarter of households live in this sector, in different circumstances and at different stages of their life cycle. A key feature is its role in accommodating a large number of households on lower incomes.¹ In numerical terms, for every lower income household living in social rental, there are two living in the PRS.

More households are likely to rent privately in the future as access to home ownership has become less affordable for those on low and moderate incomes (Yates & Milligan 2007; Hulse et al. 2010). A lack of investment over more than two decades (Hall and Berry 2007) also means that social housing is available only to those with the most complex and urgent needs. The national housing reform agenda envisages greater movement of lower income households from social housing into the PRS (Housing Ministers Conference 2009). There is evidence of longer term private renting of ten or more years (Wulff & Maher 1998; Hulse et al. 2011) and some households face the prospect of lifelong tenure in this sector.

What this suggests is that the PRS has changed from its historical role as a transitional housing sector for households moving into home ownership or social housing to a long-term housing sector for a significant number of Australian households. There is an apparent paradox in policy settings. On one hand, the PRS is a place to live for an increasing number of householders who require some stability in their housing circumstances so that they and their children have the same opportunities as the rest of the community. On the other hand, it is seen increasingly as an investment opportunity characterised by increasing volatility, such that the sector is more unstable and less likely to provide good housing outcomes.

In this context, it is critical that we have a comprehensive and detailed understanding of the PRS, including the market context and policy settings. The last major independent review of the sector was undertaken in 1996 for AHURI (Maher et al. 1997).² Since then there have been a number of studies on particular themes or aspects of the PRS. Notably, there have been three studies of the changing supply and demand for low-rent dwellings (Wulff et al. 2001, 2011; Yates & Wulff 2005) and analysis of vacancy rates (Wood et al. 2006) which provide insights into market trends. There has been some analysis of policy and legal settings (Hulse & Pawson 2010; Hulse et al. 2011; Wood et al. 2011) but very limited research into the role of housing assistance for private renters (Wulff 2000; Hulse 2003; 2007; Jacobs et al. 2005). There have also been a few studies on the motivations of private investors (Berry 2000; Seelig et al. 2009) and risk management practices by property managers (Short et al. 2008). In addition, there has been some investigation of the changing locational attributes of private rental (Randolph & Holloway 2007) and the environmental sustainability of the stock (Gabriel et al. 2010).

This project aims to contribute to the evidence base by investigating longer term private renters in the context of a comprehensive and contemporary analysis of the PRS. The research questions are as follows.

- How has the PRS, and characteristics of private renter households within it, changed over time?

¹ 'Lower income' refers to renters with incomes in the lowest two quintiles of all Australian household income.

² The federal Department of Social Security provided an overview of the PRS in 1997 in the context of its position on proposed reforms to housing assistance then being discussed (DSS 1997).

This broad question examines the nature of the PRS over time, including householders who live in the sector, the owners and managers of rental housing, and dwelling types and location. It also addresses the structure and performance of the PRS in view of these changes on outcomes, such as security/mobility and costs.

→ Who rents long-term in the PRS (ten or more years) and how does longer term rental feature in their housing pathways?

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This Positioning Paper addresses the first research question and outlines the methodological approach being deployed in the study. It is based on a review of the existing academic and policy literature and preliminary analysis of secondary data. The paper proceeds as follows.

Chapter 2 discusses changes to the housing market and socioeconomic context since the 1980s in the context of policy settings which shape the contemporary PRS. It provides a comprehensive overview of key drivers of change and reasons for lack of change.

Chapter 3 outlines how this overall context has shaped changes in the PRS, including the resilience and growth of the sector. It provides information on trends in key actors, including residents, investors/owners and property managers, and changes in the stock, including property type and location. It then discusses the nature of occupancy of PRS housing as it is shaped by market factors, legal and policy settings and cultural norms.

Chapter 4 sets out the methodology for the project, in particular, the research methods which seek to understand the phenomenon of long-term renting and its implications.

Finally, Chapter 5 briefly summarises the argument in the Positioning Paper.

2 A CHANGING ENVIRONMENT: SOCIOECONOMIC AND POLICY CONTEXT

The Australian PRS operates in a market and institutional environment which in many ways has seen major changes but in some ways remarkably little. In this section, we first examine some of the major changes in the socioeconomic context and in aspects of the policy environment which have affected the PRS. We also outline aspects of the policy environment which have remained relatively constant. The section concludes that there is a disjuncture between a changing market environment and a policy environment which in many respects is poorly equipped to deal with such changes.

2.1 The PRS in the context of the Australian housing system in the post-war period

The PRS is a ‘taken for granted’ concept among Australian policy makers and researchers alike. It refers to people who do not own the dwelling they currently live in and who pay rent to someone else who does not reside with them in exchange for the right to occupy this dwelling.³ There were two key periods of change in the role of the rental sector in the Australian housing system between 1954 and 2006. From 1954 to the 1960s renting in general was in decline due to an increase in home ownership. Since 1971, there has been relative stability in the tenure structure, with home ownership hovering around 70 per cent of households, and the percentage of households who rent stabilising, then gradually increasing again, as shown in Table 1. This relative stability is very different from many other developed societies where housing systems appear to be much more responsive to market pressures or changes in policy direction.

This picture of broad housing tenure stability disguises changes internal to the rental sector. The balance between government, private and ‘other renting’⁴ changed substantially, as shown in Table 1. From 1954 to the early 1970s, households renting privately declined steadily as a result of increasing home ownership and public housing. However, since 1981 there has been a slow but consistent revival in private rental and a decline in public rental. This can be attributed in part to a decline in investment in public rental but a larger part of the explanation is changes in the level and composition of demand for private rental and investment in the sector, which we discuss next.

³ Up to and including the first post-war Census of Population and Housing in 1947, all renters were grouped together. From 1954 onward, they were further classified according to whether they paid rent to a government landlord (state and territory housing authority) or ‘other’ landlord. The ‘other category’ (i.e. *not* public housing) was in effect what we now refer to as private rental (i.e. those paying rent to real estate agents or individuals not living in the dwelling) as well as ‘other landlords’ and situations where it was impossible to classify landlord type.

⁴ Private rental was a residual category in earlier Censuses, referring to all rental which was not public, i.e. not paid to a state or territory housing authority.

Table 1: Households in occupied private dwellings by housing tenure, 1954–2006

Tenure	1954	1961	1971	1981	1991	2001	2006
Owner/purchaser	63.3%	70.3%	68.8%	70.1%	68.9%	69.5%	69.8%
Renter	34.3%	27.6%	27.9%	25.7%	27.4%	29.0%	29.3%
Public landlord	4.3%	4.2%	5.6%	5.1%	5.3%	4.7%	4.8%
Private and 'other' landlord	30.0%	23.3%	22.3%	20.6%	22.1%	24.4%	24.5%
Other (incl. rent free)	2.4%	2.2%	3.3%	4.2%	3.6%	1.5%	0.9%
Total	100%	100%	100%	100%	100%	100%	100%
Households (000)	2,343.4	2,781.9	3,670.0	4,688.9	5694.2	6,737.4	7,056.1

Source: Australian Bureau of Statistics, *Census of Population and Housing* (various years)

Note: Excludes households where there was insufficient information to determine tenure (tenure not stated). Data for 2011 Census not yet available.

2.2 Long-term changes in demand for private rental

Traditionally the PRS was viewed as providing transitional housing for young people leaving home prior to entering home ownership or public rental, which were regarded as permanent housing options. However, since the mid-1970s massive social and economic changes have altered the demand for private rental and the role of the PRS in the wider housing system.

Housing markets exist because of household mobility, whether through additional demand or movement within the system.

First, demand for private rental has increased. This is in part due to population growth but more particularly due to a rate of household formation which has been greater than population growth since the 1960s (NHSC 2011, pp.20–21). The PRS is able to absorb additional demand more quickly than home ownership or social rental. Home ownership is a relatively illiquid asset which takes time to buy and sell, with high transaction costs, while it is very difficult to move within the social housing sector. Key changes affecting the PRS include:

- Changes to migration policy (permanent migrants) have added additional households formed when migrants move to Australia, either immediately or after living for a while with other family members.
- The growth in international students (temporary migrants) from countries in the region has added additional demand for rental housing, only a portion of which has been met by educational institutions.
- Social changes in respect of relationships have meant that additional households form and rent housing for longer periods before having children, and re-form due to separation and divorce.
- Female participation in the workforce enabling more women to set up independent households.

Second, the PRS is the default sector for households moving within the housing system. Additional demand is created in a number of situations, such as:

- Home owners whose circumstances change for reasons such as partnership breakdown, loss of employment or health reasons often move back to private rental (Burke & Pinnegar 2007). Crude divorce rates in Australia were 2.3 per 1000 in 2010, and based on these estimates around a third of all marriages in Australia will end in divorce (ABS 2012).

- Many low-income renters are now no longer effectively eligible for social housing. Such has been the long-term contraction in social housing funding and the lack of new construction that housing agencies (government and community) have adopted highly targeted allocations (Hulse & Burke, 2005). This means that while eligible in terms of income, most low-income renters can never get into social housing as they could have in earlier decades and now represent continuing demand pressures on the PRS.
- Some private renters opt not to move into social rental even if they are eligible (Burke et al. 2004) and others move out of social rental into private rental for reasons including relationship changes and experience of neighbourhood problems (Hulse & Saugeres 2008a).

For these reasons the PRS can be seen as the heart of the housing market, giving it much-needed flexibility at the level of the housing system as a whole, and arguably, the performance of the PRS shapes the health of the rest of the housing system.

Three groups have had a particular impact on demand for housing in the PRS: lower - income households, permanent and temporary migrants, and tertiary students.

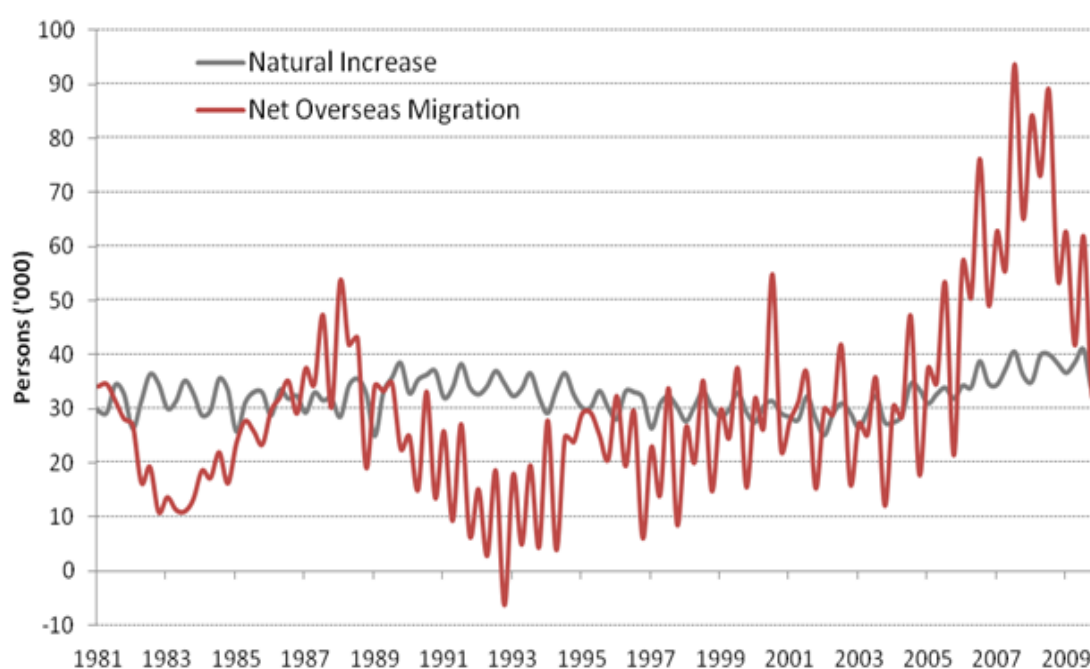
2.2.1 Lower income households

Increasing numbers of Australian households cannot afford to enter home ownership or may achieve this temporarily but return to the PRS due to partnership dissolution, loss or change of employment, financial stress or other reasons (Yates & Milligan 2007; Hulse et al. 2010). Others want to enter social housing but this option is reduced due to low rates of turnover, and tight rationing to those with the highest and most complex needs due to low levels of investment in social housing for over two decades (Hulse & Burke 2005). Additionally, not all lower income households want to access social housing due to lack of choice and control and other factors (Burke et al. 2004). Cumulatively these trends mean that the PRS is the default option for many lower income households which have to compete with other households often more attractive to landlords/agents on the basis of higher income, stable work and ability to pay higher rentals.

2.2.2 Permanent and temporary migrants

Both permanent and temporary migration add to demand in the PRS. There was an increase in net overseas migration from the late 1990s and a particular surge from 2005–08 as shown in Figure 1. This added additional demand to the PRS contributed to falling vacancy rates and sharp increases in rents (see Section 3). Since 2008 net migration has declined but remains volatile.

Figure 1: Net overseas migration and natural population increase, 1981-2010



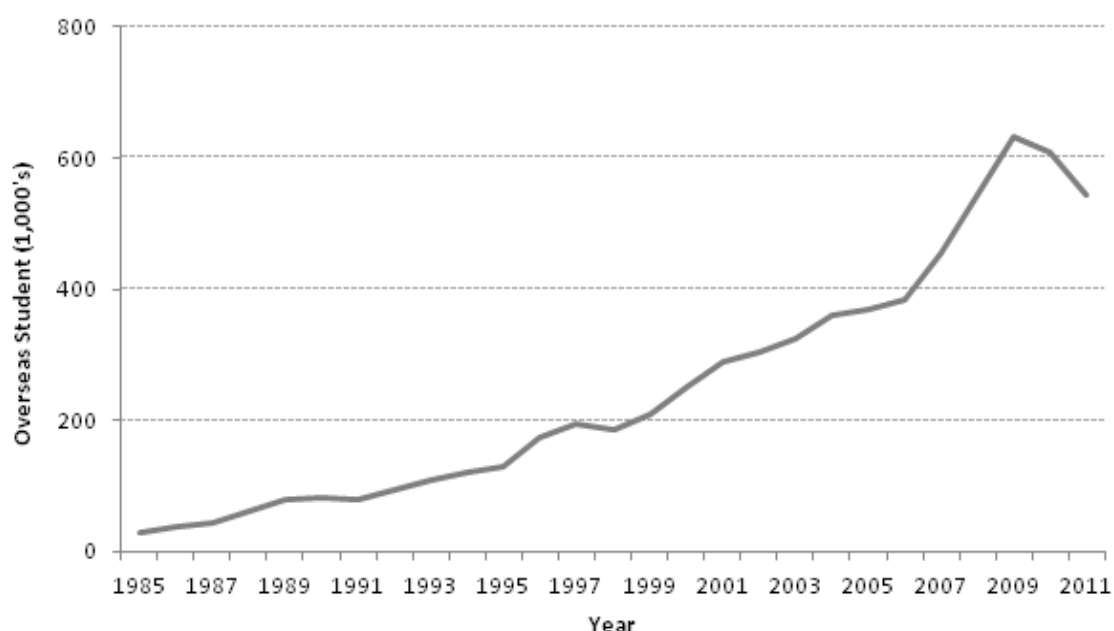
Source: Australian Bureau of Statistics, *Migration, Australia, 2010-11*, Cat. no. 3412.0

Upon arrival, permanent migrants immediately have to seek housing, creating additional housing demand; 70 per cent of new migrants are initially renters (NHSC 2011, p.37). What housing they gravitate to, where and for how long, in part will depend on their characteristics (e.g. age, income level, household type) and on their visa category. There has been a change in the composition of permanent migration with more business migrants who are most likely to move into the PRS initially, adding to demand, but who may have the resources to move subsequently into ownership. At the other end of the spectrum, refugees are unlikely to have many resources at all. Family reunion migrants live initially either with families or in the PRS and range from the poorly resourced to the well-resourced which affects their subsequent housing options.

2.2.3 Tertiary students

Tertiary students have always had some effect on the PRS. Historically, although most Australian students stayed at home while undertaking tertiary studies (Burke & Pidgeon 1991), those who did not lived predominantly in rental accommodation around the university campuses, largely in old, run-down inner city houses. In the 1990s the student market changed dramatically with the growth of international students. Fuelled by growing affluence in origin countries (China, India, Malaysia, Vietnam), an image of quality universities in Australia allied with targeted marketing by tertiary institutions, and policies on visas whereby it was easy for students to get work opportunities and subsequently citizenship relative to other countries, the number of international students arriving in Australia exploded from an estimated 30 000 in 1985 to around 469 000 in 2010, as shown in Figure 2 (Australian Government 2011a). International students entering on temporary student visas accounted for 46 per cent of net overseas migration at its peak in March 2008 (ABS 2011).

Figure 2: Overseas visitor arrivals for education purpose



Source; Australian Bureau of Statistics (2011), *Migration, Australia, 2009–10*, Cat. no. 3412.0, Australian Bureau of Statistics, Canberra.

While some international students found accommodation in purpose-designed university-owned and managed hostels, and others (mainly first year students) went into home-stay accommodation, most went into the PRS. This had a particular effect in inner city areas where they could outbid lower income households through sharing arrangements. The implications of the student market for the wider rental sector have been little explored. It is also important to note that the decline in net overseas migration since 2008 previously noted is largely due to a decline in international students. Reasons include a high Australian dollar which makes studying expensive relative to other countries, some negative publicity about the experiences of international students, and changes in federal policies on international students gaining citizenship. This decline has already had a demonstrable effect on vacancy rates in the PRS which is likely dampening down rent increases.

In summary, there was increasing competition for private rental from 2005 due to permanent and temporary net in-migration in addition to slowly increasing demand from domestic householders who do not want to purchase a home or cannot afford to buy, as well as difficulties in accessing social housing. The PRS is no longer a residual to the 'main game' of home ownership and social rental; it is at the centre of the housing system, giving the system its capacity to cope with external and internal changes in demand.

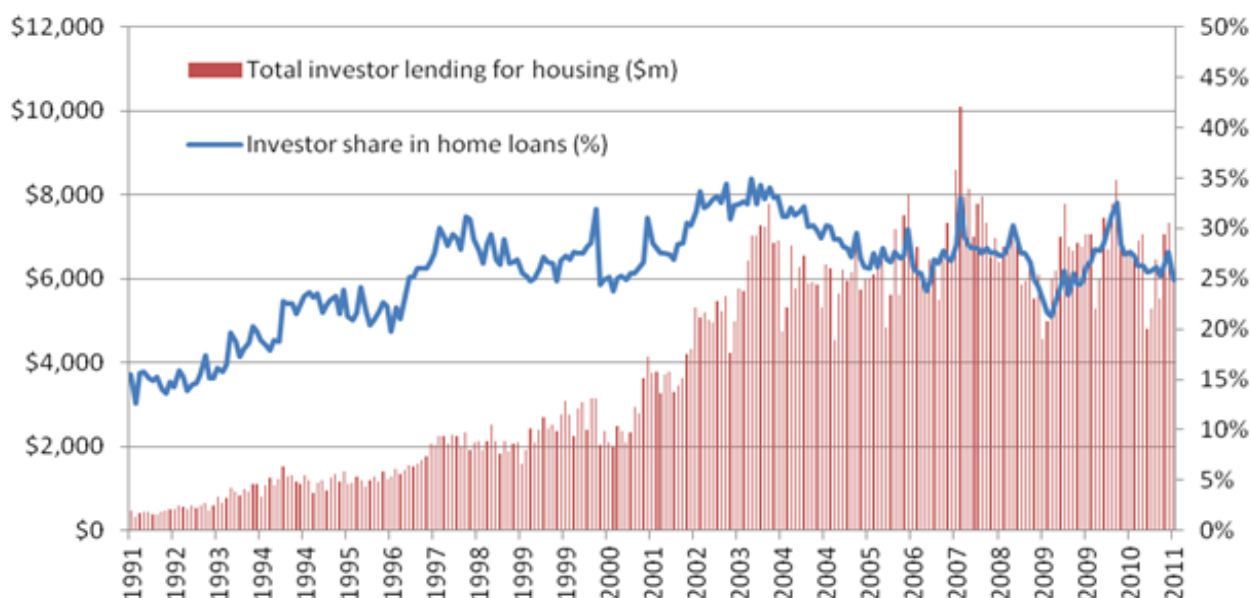
2.3 Long-term changes in supply in the PRS

Since the early 1990s, there has been a long-term trend of increased investment in dwellings for private rental. While 25 per cent of equity investors do not have loans outstanding against these properties, most are leveraged investors who have debt secured against rental properties (Australian Tax Office 2010).

The volume of lending to such investors for housing increased sharply from 2001–03, as indicated in Figure 3. Since then, the amount of lending for rental investment has remained high but there have been some sharp annual fluctuations. In the early 1990s, rental investors accounted for around 15 per cent of loans for property

purchase for residential use but, starting in the late 1990s, this increased to around 27 per cent, peaking at 30 per cent, also illustrated in Figure 3.

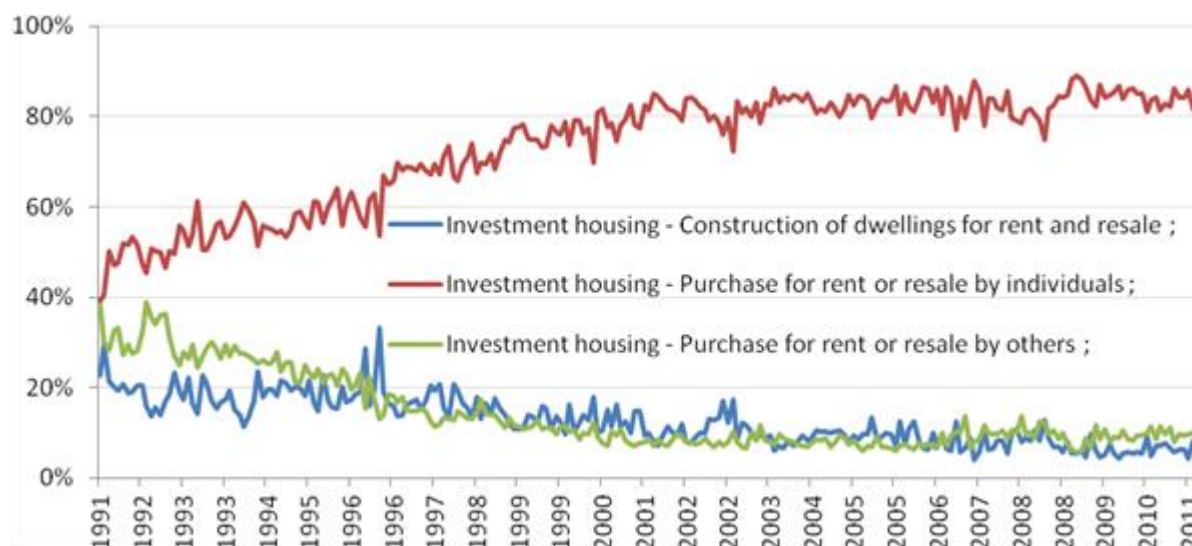
Figure 3: Investment share of total lending for property for residential use, 1991–2011



Source: Australian Bureau of Statistics (2011) *Lending Finance, Australia*, Cat. no. 5671.0, Table 15: Commercial finance commitments, fixed loans and revolving credit, Australia (original in \$000).

The important question is whether all this additional investment has improved the structure and performance of the PRS. The answer depends on many factors, one of which is particularly important. Did the surge in rental investment add to the supply of housing through commissioning building of new dwellings or was it channeled into established homes in competition with home purchasers?

Figure 4: Housing finance commitments for investment housing by purpose, 1991–2011



Source: Australian Bureau of Statistics (2011) *Housing Finance, Australia*, Cat. no. 5609.0, Table 11: Housing finance commitments (owner occupation and investment housing), by purpose: Australia.

It is clear from available data that most of this investment went into established rather than new dwellings. As shown in Figure 4, in the early 1990s, more than 20 per cent of lending to rental investors went to the construction of new dwellings. From the mid-1990s, as the rate of investment surged (as seen in Figure 3), the vast majority went into established homes and not into new construction to the degree that by 2011, investment in new rental construction had declined to 7 per cent of all loans to investors. The lack of investment in new supply has arguably had the twin effects of contributing to a large supply backlog (NHSC 2011) and to increased competition in the established home market, putting an upward pressure on house prices.

In brief, while there has been a surge of leveraged investment into the PRS since the early 1990s, much of this has not added to overall supply. Rather there has been increased competition between rental investors and buyers for established homes. This competition correlates highly with high rates of inflation in house prices from 1998 onwards. The question we address next is: to what extent changes to 'non-housing' policy settings helped shape these outcomes and what are the consequences for the PRS as a place to live.

2.4 Changes in 'non-housing' policy settings affecting the PRS

In some respects, public policy settings for the PRS have changed markedly since the early 1980s, and in others not much at all. In this section, we examine briefly some areas of major changes which have affected investment in the PRS which are within the domain of financial regulation and tax rather than housing policy, namely, financial deregulation and changes to tax policy.

2.4.1 *Financial deregulation*

Up to the early 1980s, the Australian finance system was highly regulated by government. In the banking sector there were two categories of banks. Savings banks serviced the general public, attracting deposits and lending primarily for mortgages to owner-occupiers. Trading banks serviced business rather than the general public and tended not to see rental investment as commercial business. Thus it was difficult to get loans for rental investment and, where these were obtained, a penalty rate on interest was charged which was often two or three percentage points higher than for home purchase.

After financial deregulation in 1984, most controls on bank lending were eliminated, providing banks greater freedom as to whom they lent to, on what terms and how much. This had enormous implications for rental investment, with a growing demand for finance from rental investors being matched by increased supply of funds with fewer conditions. The impacts were not just on the growth of investment in rental property but also on the rental product. The effects of deregulation were becoming apparent at the same time as more investors were becoming aware of the attractions of 'negative gearing' of rental properties against their income tax, which we discuss next.

2.4.2 *Changes to tax policy and provisions*

Negative gearing is much discussed in public and media discourse. It is a tax rule that allows all investors to write off the costs of borrowing used to acquire an asset as well as other holding costs against their total income. It applies to all investments and not just to residential property. It was a relatively little known and used tax provision in terms of rental investment and was so invisible in the early 1980s that the first major study of private rental in Australia (Paris 1984) made no mention of it.

In the 1980s, there was increasing awareness of negative gearing by rental investors who used the provision to decrease their personal income tax. The federal Labor government was concerned about future tax losses for what they saw as little housing benefit (O'Donnell 2005, p.4) and in 1986 brought in legislation to quarantine deductions such that they could not be used to reduce tax on other sources of income. Real estate interests ran a politically effective campaign against the legislation in the context of impending elections at the federal level and in New South Wales. In 1987 the federal government reversed the decision (Hayward & Burke 1988; Badcock & Browett 1991). The effect of the reversal of the quarantine and the real estate industry-led campaign was to make many more potential investors aware of the tax provision. Subsequently, and in the context of broader financial deregulation, an industry of brokers, marketers and property advisors emerged using negative gearing as the hook to attract investors into the residential property sector.

Capital gains tax (CGT) was introduced by the federal Labor government in 1985. One hundred per cent of the capital gain (after deducting allowance for any improvements and taking into account inflation) was taxed, paid upon sale of the asset (with the exception of owner-occupied property—the family home—which was exempt). This affected rental investment and other assets. In 1999, the federal Coalition government made two important changes: the CGT was reduced to 50 per cent of the capital gain and it applied to nominal rather than real gains. In effect, individuals pay CGT at half the rate at which they pay income tax. The changes have been described as a transition to an economically inferior regime (Fane & Richardson 2005, p.260). Although the 1999 CGT provision may not benefit all investors in that deductions for inflation are now allowed, its transparent advantage relative to taxation of other income may well have attracted even more investors into the rental sector in an era of escalating dwelling prices. It is often portrayed as part of a package by brokers and others involved in the real estate investment industry.

It is also worth noting that amendments to the legislation in 2007 permit self-managed superannuation funds (SMSFs) to borrow money for investment purposes, including rental properties. The property investment sector now advertises the attraction of SMSF investment and this may increase rental investment in future years.

There has been considerable concern about these tax changes. Much of this has focused on the substantial loss of tax revenue through negative gearing on rental properties. In 2008–09, rental investors claimed \$12.5 billion in rental losses (Australian Tax Office 2010) which at average tax rates would translate into an estimated \$4–\$5 billion loss on income tax revenue. There is some irony in this since the federal Labor government was concerned about a \$175 million tax loss in 1985 when they decided to quarantine rental losses. However, the effects of financial regulation and these tax changes on the PRS are broader than this, as we discuss next.

2.4.3 Effects of financial deregulation and changes to tax settings

The changes in financial regulation and tax settings, discussed briefly above, have had several important consequences for the PRS.

- Financial deregulation has provided scope for much larger-scale investment in rental housing, enabling the medium density and high rise apartment blocks which have been constructed in Australian inner cities since the 1980s. Prior to that time, rental investment in apartments was focused on two and three storey walk-up flats, sometimes colloquially known as 'six packs'. This was in part a function of planning policy but it was also related to the regulated finance system, which effectively discriminated against investment loans. Most investors could not get

bank finance and used solicitors' funds at interest rates well above a conventional home mortgage (Housing Industry Research Committee 1966). This meant rental flats had to be relatively small and low-cost units, as the finance costs would be much higher on large expensive apartments of the type being constructed today. Financial deregulation meant that developers can obtain finance for larger developments, particularly as they can minimise their risks due to pre-sale of units 'off the plan', an option that has only become possible with the widespread strata titling of apartment blocks. Unlike some countries in North America and Europe, this means that apartments are not built specifically for rental but are sold to a mix of owners and investors.

- Investment has been pulled toward the higher rent end of the market. There is no incentive to invest in lower rent housing, despite the robust demand from lower income households, students and some recent migrants on constrained budgets. As studies on supply of lower rent housing relative to demand have shown, there has been a steady shift in investment to the higher-rent products (Wulff et al. 2011; Yates et al. 2004). Investors can have greatest effects in minimising their tax if they borrow against higher-price properties which they then rent out. They are also likely to maximise their capital gain on these properties due to their location in high demand areas. The supply of lower rent stock has contracted such that there are absolute shortages in most metropolitan markets across Australia. This shortage is exacerbated as many such dwellings are occupied by higher-income households and are thus not available to lower income households (Wulff et al. 2011).
- Rental investment is volatile as investors seek capital gain rather than rental yields. Recent research confirms that, while there are a variety of motivations, much investment has been by households who are seeking capital gain (Seelig et al. 2009, p.31; Wood & Ong 2010, p.9). The change to CGT in 1999 means that rental properties sold after 12 months pay tax on only 50 per cent of nominal capital gains which may also have contributed to turnover with negatively geared investors holding their properties for shorter periods than other investors (Wood & Ong 2010, p.28), thus contributing to churning of the stock. It appears an increasing number of investors are active decision makers in relation to their investment buying and selling to minimise their tax and maximise their wealth. For households living in this stock, such short-term investment horizons mean very insecure living arrangements as properties are typically bought and sold with vacant possession (Hulse et al. 2011).

2.5 Housing assistance for lower income and vulnerable private renters

2.5.1 Demand subsidies for private renters (Rent Assistance)

The main housing policy instrument to assist lower income households renting in the PRS is Rent Assistance (RA). This derives from a small flat-rate supplement to the single aged and invalid pensions introduced in the late 1950s. By 1982, eligibility had been extended to include all pensioners, lone parents on supporting parent's benefit and some long-term sickness beneficiaries (DSS Annual Report 1984–85: pp.120–121).

In the early 1980s fundamental changes were made to the subsidy formula, converting the small flat-rate income supplement into an implicit housing allowance based on payment of a percentage of the gap between a minimum rent threshold and a maximum allowance cap, as well as increases in the maximum rate, the first since 1974. New public housing tenants were made ineligible for the payment on the

grounds that they were eligible for rent rebates, a provision later extended to all public housing tenants.

Despite a pledge to invest heavily in increasing the public housing stock, it soon became apparent to the federal Labor governments of the 1980s that even a massive and sustained injection of capital funds would only have a slow and partial impact in assisting the volume of income support recipients who rented privately. They turned increasingly to RA as the policy instrument to assist private renters, seeing this increasingly as part of a poverty alleviation strategy. There were further extensions to eligibility to other groups of income support recipients, changes to the formula to target households paying higher rents and households with dependent children, and increases in the maximum rate. These changes added significantly to the complexity of RA (Hulse 2002). By the end of the 1980s, the policy settings for assisting private renters were subsequently established with relatively minor adjustments. RA became the major form of housing assistance in Australia in terms of numbers of lower income households assisted, with 1.213 million recipients by June 2011 (FaHCSIA 2011, p.55).

The design of the payment performs well in many respects. For example, it does not provide the steep disincentives to entering paid work associated with income-based rents in public housing. However the outcomes are uncertain, despite annual expenditure increasing to \$3 billion by 2010–11. It has been clear since the work of the National Housing Strategy in the early 1990s that income support recipients form the majority of those who are in rental stress in the PRS (National Housing Strategy 1991, p.43) and this remains the case (Yates & Milligan 2007). As rents have increased due to high demand, regular indexing of RA payments has become increasingly ineffective in enabling lower income households to rent affordable housing (Colic-Peisker et al. 2010).

There has been considerable policy inertia in respect of RA, including at least two failed attempts at reform. Facing an election due in 1996, the federal Labor government proposed that it would be responsible for a new unified system of 'housing assistance payments' to low- income renters in which RA for private tenants would be 'substantially increased' and there would be protection for public housing tenants. These reforms were subsequently stalled after a change of government, due to a lack of consensus among the states on the details and a preoccupation with the effects on their public housing portfolios rather than the PRS (Caulfield 2000). A similar proposal was discussed in the context of negotiations in 2008 for the National Affordable Housing Agreement (NAHA), again through the Council of Australian Governments (COAG), but the states again failed to agree and there is little visible progress on this despite the proposal still being part of national housing reforms.

2.5.2 Private rental support schemes

RA has always been operated as part of the nation's income support system. The main agreements on housing assistance policy (successive Commonwealth–State Housing Agreements (CSHAs) and then the NAHA (NAHA 2009) also included much smaller-scale funding for assistance to private renters. Initially this too was outside of these agreements and there was no coordination between the two types of assistance, but from 1984, private rent support schemes have come under the auspices of the CSHA/NAHA.

The funds have been used primarily for bond loans and guarantees and rent in advance payments, and in some cases for assistance with rental arrears, relocation costs and in extreme circumstances to pay for temporary accommodation, although details vary between the states. The schemes are designed to limit the financial

hardship experienced by lower income households when faced with high transaction costs in entering or moving within the PRS. However, there is little information on either the efficiency of the program or on outcomes (Jacobs et al. 2005).

Subsidies to private renters are part of the core funding of the NAHA 2009. One of the desired outcomes of the agreement is that 'people are able to rent housing that meets their needs' and one of the outputs is the 'number of households in private rental receiving subsidies' (COAG National Affordable Housing Agreement 2011, p.4). It appears that in 2009–10 about 65 000 households received assistance with bonds, 64 000 with rental grants, subsidies and reliefs, and 15 000 with relocation expenses (the latter mainly in NSW) (COAG Reform Council 2011, p.96). The extent to which households receive more than one form of assistance is unclear. However, what is clear is that the number of households receiving assistance to enter private rental dwarves the number entering social housing, as shown in Table 2.

Table 2: Households in receipt of housing assistance by program and type of assistance, 2009–10

Program	Number of recipients
Households in private rental	
Rent assistance (RA) (see note 1)	1,105,154
State rental assistance (bonds)	65,561
State rental assistance (rental)	64,334
State rental assistance (relocation and other)	15,305
Households in social rental	
New allocations to public housing	32,858
New allocations to community housing	12,834
Households in public housing	325,726
Households in community housing	42,414

Source: Council of Australian Governments, Reform Council (2011, p.94)

Notes: RA recipients are counted as 'income units', i.e. the person in receipt of a payment and any dependents; all other categories are 'households'. Depending on the assumptions used about RA income units sharing, a conservative estimate of the number of households in receipt of RA is approximately 700 000.

There is an unknown amount of overlap between some of these categories, i.e. receipt of RA and state rental assistance, between types of state rental assistance, and between receipt of RA and living in community housing.

2.5.3 Attempts to stimulate the supply of lower rent private rental housing

In view of the failure of investment in the PRS to add to stock at the low-rent end of the market for reasons previously discussed, it is perhaps surprising that governments have not until recently attempted to stimulate such investment as an explicit part of housing assistance policy. In 1989 the federal government introduced the Private Rental Subsidy Scheme, outside the CSHA, to subsidise private investors to provide additions to low-income rental stock. Federal funds were to subsidise approved state government financial instruments for the use of private sector funds to acquire or construct private rental dwellings. The states were unable to establish appropriate off-budget financial structures because the government guarantees, which would be needed to attract investors, would have made such proposals ineligible for subsidy (Industry Commission 1993, p.86). The scheme was abolished in the 1992–93 federal budget.

More recently, the federal Labor government has established the National Rental Affordability Scheme (NRAS) which is loosely modelled on the Low Income Housing

Tax Credit Scheme in the US. The NRAS provides financial incentives to the private sector and not-for-profit housing providers 'to build and rent dwellings to low and moderate income households at a rate that is at least 20 per cent below the prevailing market rates'. The federal incentive is paid on an annual basis for 10 years as a refundable tax offset or direct grant and helps fund new rental housing for low to moderate income households with a contribution by the state in cash or kind. The aim is to fund 50 000 new rental units in this way. As at November 2011, 5144 rental units had been tenanted, with 34 798 incentives at various stages of approval and construction (Australian Government 2011, p.3). As yet there has been no evaluation of this scheme.

2.5.4 Housing assistance policy and the PRS

The main form of housing assistance in respect of the PRS in terms of numbers assisted is RA. As we have seen, this has remained relatively unchanged since the late 1980s. While a reliance on RA was intended to address financial poverty experienced by income security recipients living in private rental, the market changes discussed earlier in this section mean that RA has been increasingly ineffective since the late 1990s, particularly in submarkets with intense competition, such as many well-located inner and middle suburbs of major cities.

The states have extended their private rental schemes which are used by government housing agencies and welfare support services as a means of preventing or providing exits from homelessness. They are also a form of demand management for public housing, offering some temporary financial assistance to householders who in earlier years may have been able to access public housing (Jacobs et al. 2007, p.904). Viewed in a more positive light, they can be seen as part of a suite of housing options that housing agencies can offer households with differing degrees of urgency and complexity in terms of their housing needs.

Attempts to stimulate the supply of private rental housing have been few until the NRAS was launched in 2008. While there have been many issues of acceptance and implementation, it is stimulating a supply response which, unlike the tax changes discussed earlier, is directed at achieving key outcomes in terms of eligible households, submarket rents, design and locational criteria, and new supply.

2.6 Residential tenancy legislation

The final important policy context is that of residential tenancy legislation. Many Australian renter households, irrespective of income, but more so for lower income households, experience housing insecurity. The key dimensions of housing insecurity for lower income households were found in a recent study to be high levels of mobility, instability of housing, lack of safety, lack of privacy, lack of belonging and lack of physical comfort (Hulse & Saugeres 2008b).

There are many contributing factors to housing insecurity. One set of factors only indirectly connected to current housing includes childhood and subsequent living experiences, domestic and family violence, life course events such as relationship breakdown and unemployment, financial stress and health problems. A second set relates to the housing and neighbourhood, such as dwelling and neighbourhood design, the quality, amenity and condition of the dwelling, noise and other factors, which relate to housing design and management. A third set concerns the terms and conditions on which households occupy their rental housing, including the basis for setting and increasing rents.

The third set of issues are governed by state-based residential tenancy legislation which is typically seen as an aspect of consumer protection or fair trading rather than

housing policy (Hulse et al. 2011). Only on two occasions in Australian public policy has there been a focus on this legislation's role in shaping housing outcomes for lower income people. The first was the 1975 Commission of Inquiry into Poverty which was scathing about the state of residential tenancy law in Australia (Sackville 1975) and the recommendations of which triggered a period of substantial reform. The second was the National Housing Strategy in the early 1990s which commissioned a review of legislative provisions around Australia with a view to establishing minimum standards that could be applied on a national basis (Kennedy et al. 1995) which were never adopted. Since 1995, there has been continuing incremental changes to address specific issues. However, there has been no agreement about minimum national standards, despite continued advocacy of this approach from groups representing tenants (Blunden & Martin 2004). The only area on which there has been national concern has been in relation to privacy issues associated with tenancy databases.

While there have been incremental reforms over the last decade, state legislation varies in scope, coverage and provisions (National Shelter 2010), and by international standards is light in terms of providing security for tenants (Hulse et al. 2011), as we discuss further in Section 3. Yet, as the PRS becomes more and more of an investment outlet to be effectively run as a commercial business, it is arguable that the need to protect tenants against the vagaries of markets and investor whims has never been greater.

2.7 Planning

The land use planning framework of the states and territories in principle could, and in some case can, provide ability to protect and promote affordable rental housing, but this does not apply to private rental housing. For example, the [NSW Environmental Planning Policy \(Affordable Rental Housing\) 2009](#), provides floor space bonuses for affordable rental projects but only if managed by a community housing provider. However, some local governments in NSW, e.g. Waverley Council, have a floor space bonus scheme for residential developments that include an affordable housing component on site or alternatively may require a financial contribution, and this can be for private developments. However, across Australia most state land use planning frameworks do not include provisions for affordable private rental and at best exhort local governments to include in their planning instruments an objective to promote affordable housing and perhaps to identify unutilised or under-utilised land within their boundaries where affordable housing might be located. Most local governments have neither the wherewithal to include such things and no capacity to ensure outcomes even if they did.

In addition, there is the problem that few new multi-unit or higher density developments are purpose-designed for private rental. Strata titling legislation, first introduced in Australia in NSW in the early 1960s, enabled a new development to have multiple units each being sold to individual owners, whether that be for rental or owner occupation and with the common property owned communally (Easthope & Randolph 2009). Prior to then, the entire multi-unit development had to be one owner, or co-owned in a complex legal arrangement. What this means is that developers build not for ownership or rental, but for whoever wants to buy, making it much more difficult to use the planning process to ensure an increase in supply of a given tenure type.

At this stage the planning system must be seen as yet another of the policy levers poorly equipped to deal with the problem of the PRS.

2.8 Summary

After declining up to the 1970s, the Australian PRS has been slowly but steadily growing. It is the most flexible part of the Australian housing sector and accommodates both households which value this flexibility for work, life course or other reasons, and those who must live there by default because they cannot access (or remain in) either home ownership or social rental.

While there has been a steady long-term increase in demand for private rental, particularly since the early 1990s, there has been an upsurge of demand in recent years. Many factors shape this demand, but the substantial increase in permanent and temporary migration appears to be a very strong contributing factor. Lower income and other households which are seen as higher risk have faced very stiff competition for PRS dwellings, particularly in prized locations. There are some indications that this is moderating as migration rates have eased.

There has been both change and inertia in the policy settings which affect the PRS. The major policy changes have affected investment. Financial deregulation of the 1980s, widespread knowledge and uptake of negative gearing and the changes to CGT treatment in 1999 have facilitated increased investment. Not only has rental investment increased, but also patterns of investment have changed. Three-quarters of all rental investment is now debt-financed rather than equity investment, and investment is predominantly in established rather than new properties. These changes have resulted in a more volatile sector with many leveraged investors selling after a relatively short time and increased competition for established homes, contributing to higher house prices and generally exacerbating the supply shortage.

The policy inertia has been in relation to the PRS as a place to live. There have been only minor changes to RA since the early 1990s, with widespread concern about its effectiveness, and the states and territories have had to maintain and expand their private rental assistance schemes to provide additional support to lower income households. The increased volatility of rental investment does not bode well for those who must find a home in the sector over the longer term, including many lower income households, as rental properties are almost always sold with vacant possession, requiring the residents to move out. There has been slow and incremental change to legislation on residential tenancies without a more comprehensive consideration of the role of regulation in developing the sector as a place to live as well as a place to invest.

3 PROFILE OF THE PRS AND ITS ATTRIBUTES OVER TIME

This section provides a profile of the current PRS and examines how it has responded to major market changes, and the policy change and policy inertia, outlined in Section 2. It addresses research question 1: 'How has the PRS, and characteristics of private renter households within it, changed over time?' The section provides the essential context for understanding long-term private renting (research questions 2 and 3).

The section has two main parts: a brief profile of who lives in and who owns and manages private rental dwellings, and an examination of some key criteria which enable us to measure the performance of the PRS over time, including stock trends, locational attributes, rent levels, yields, affordability and vacancies.

The analysis is based on a number of secondary data sets, notably the ABS Census of Population and Housing and the ABS Survey of Income and Housing. The Final Report will update some of this information following the release of data from the August 2011 Census in mid-2012.

3.1 Who lives in the PRS?

3.1.1 Household type and age

More than three-quarters (76.4%) of all householders who rent their accommodation live in the PRS, and the sector is the dominant means of housing provision for renter households of all types (Hulse et al. 2011, ch.3). Almost half of all renters in the PRS are either lone persons or couples with no children, as shown in Table 3.

Table 3: PRS by household type, 1996 and 2006

	1996		2006		Difference
Couple with children	342,823	25%	382,831	23%	-2%
Couple only	246,067	18%	331,381	20%	2%
One parent family	191,909	14%	278,236	17%	3%
Other family	45,074	3%	36,138	2%	-1%
Lone person household	386,219	28%	465,266	28%	0%
Group household	175,717	13%	172,648	10%	-2%
Total	1,387,809	100%	1,666,500	100%	0%

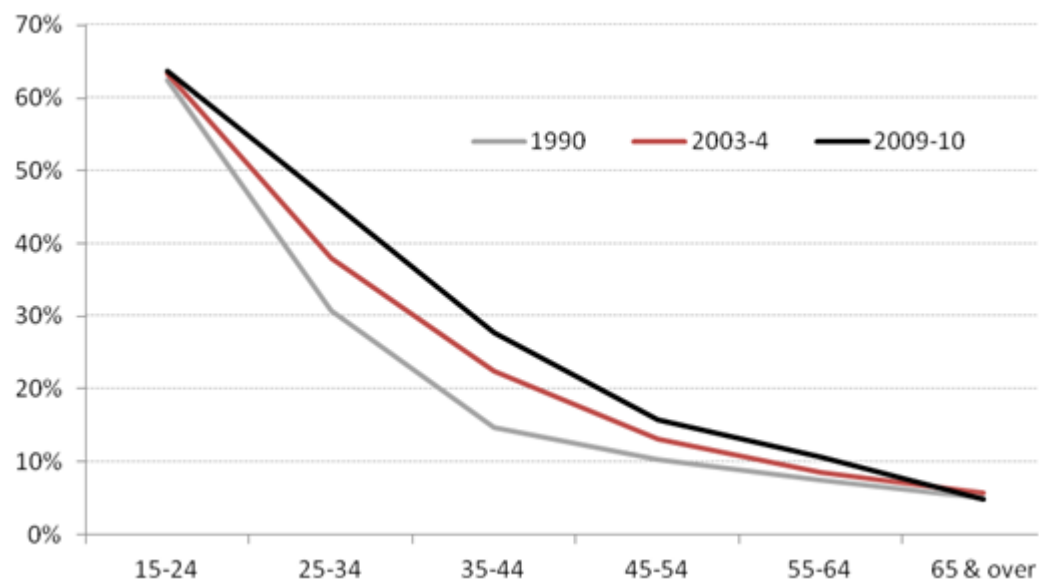
Note: Private rental refers to households renting from a real estate agent or landlord not living in the same dwelling.

However, about one-third of all households (more than 600 000) in the PRS in 2009–10 had dependent children. Given current policy settings, this raises questions about the degree to which the sector is an appropriate form of housing provision for such households (Hulse et al. 2011). However, as Table 3 shows, there is a changing balance in the type of households with dependent children. From 1996–2006 there was a very large increase in the number of one parent families and a lesser increase of couples with children. The degree to which this continued after 2006 will be explored in the Final Report.

Figure 5 shows the age profile of the rental sector over two decades and reveals little change in the residency rate of the 15–24 age cohorts which at the three time periods accounted for much the same proportion of all young persons in independent living households (around 63 per cent.). While the bulk of this age cohort is living at home,

most of those who are independent reside in private rental where they account for 30 per cent of all tenants. At the other age extreme, that is, 65 and over, there was also little difference, with only 5 per cent (85 678 households in 2009–10) in the PRS. The issues faced by lower income private renters in this age group have raised concerns (Morris 2009). By contrast with the stability of younger and older households, there has been quite marked change in the middle age cohorts, particularly 35–44-year-olds where 27.8 per cent were resident in the PRS in 2009–10 compared to only 14.7 per cent in 1990. This illustrates the point raised a number of times in this paper that more and more households are constrained to or are choosing to live longer in the sector than historically has been the case, and suggests the future will see more older households still in private rental.

Figure 5: Percentage of each cohort living in the PRS, 1990, 2003–04 and 2009–10



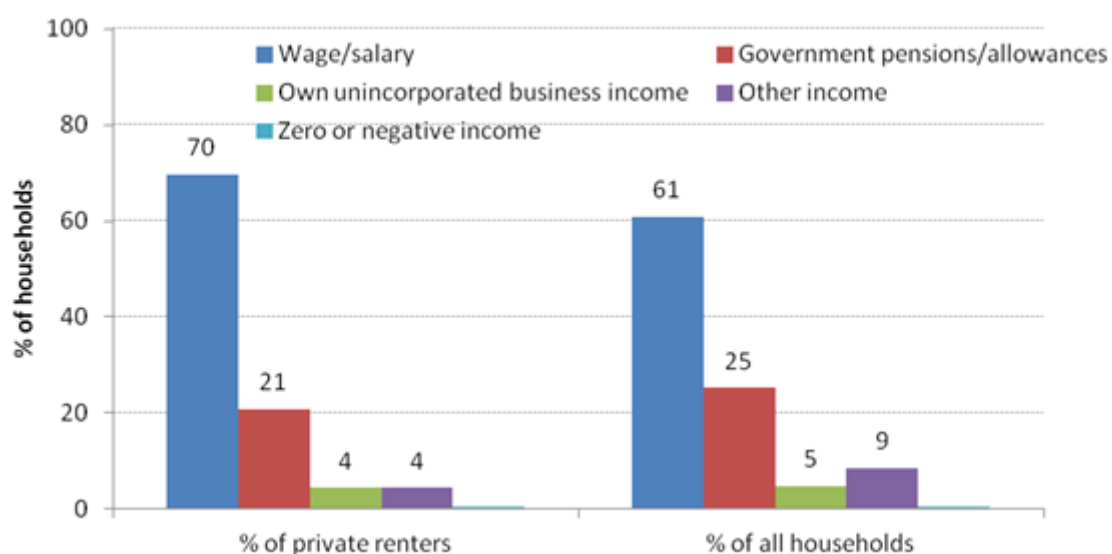
Source: Australian Bureau of Statistics, *Survey of Income and Housing* (various years), confidentialised unit record files.

Note: Caution should be exercised in interpreting the 15–24-year age cohort as this refers to households living independently and there has been a trend to younger people living at home longer since 1990.

3.1.2 Household income by source and level

Seven in ten private renter households (69.7%) have wages/salaries as their main income source and one in five (20.9%) have government pensions and allowances as their main income source, as illustrated in Figure 6.

Figure 6: Private renters and all households by main source of income, 2009–10



Source: Australian Bureau of Statistics, *Survey of Income and Housing* 2009–10, confidentialised unit record files.

The ABS Survey of Income and Housing 2009-10 indicates that government pensions and allowances are the *main* income source for 385 000 private renter households. At face value this is hard to reconcile with administrative data indicating that 1.1 million 'income units' were in receipt of RA in June 2011 (FaHCSIA 2011)⁵.

The explanation for this difference is revealed when we look at private renters who get both wages/salaries and government pensions/allowances, which is increasingly the case for working-age people. Many households receive RA in conjunction with a part pension/allowance and/or family tax benefit, with RA being the last part of the combined payment to taper off for pension/allowance recipients⁶ as earnings increase. Viewed in this way, 47.1 per cent of private renters (867 000 households) get some income from pensions/allowances/tax benefit which would in most cases make them eligible for RA, as shown in Table 4.

Table 4: Pension or allowance as percentage of household income by rental tenure, 2009–10

Pension or allowance as percentage of household income	Private renter	Public renter
Nil	52.9%	6.3%
> 40%	23.4%	8.7%
40–79%	8.4%	11.3%
80% and above	15.3%	73.7%
Total	100%	100%

Source: Australian Bureau of Statistics, *Survey of Income and Housing* 2009–10, confidentialised unit record files

⁵ There are inherent difficulties in converting RA income units into households. A number of attempts to do this (e.g. AIHW 2003; Wang et al 2004) have suggested a ratio of between 1.2 and 1.4 income units per household to take account of factors such as RA income units sharing accommodation. Using the more conservative ratio would suggest an estimated 785,000 households in receipt of RA.

⁶ For households who receive RA in conjunction with Family Tax Benefit (FTB), RA is reduced proportionally to reductions in FTB.

Private renters have a wide range of household incomes. While more than a third have incomes in the bottom two quintiles (using equivalised disposable household income), most have incomes in the top three quintiles, as shown in Table 5. However, it should be remembered that the household income distribution

at the lower end of the scale is influenced by the very large number of older outright owners who are dependent on the age pension (a point also made by Wulff et al. 2009, p.32).

Nevertheless, there are approximately two renters with household incomes in the bottom two quintiles who live in the PRS for each renter in public housing, and one household with an income in the lowest quintile for each one in public housing, indicating both the important role played by the PRS in accommodating lower income households and the important role played by the public rental sector in accommodating those on very low incomes.

Table 5: Renter households by renter type and household income quintile, 2009–10

Household income quintile	Private renters		Public renters		Other renters		All renters	
	No.	%	No.	%	No.	%	No.	%
Lowest 20%	166,223	13.7%	161,835	71.0%	40,859	22.5%	368,916	22.8%
40th percentile	262,469	21.7%	44,387	19.5%	46,696	25.7%	353,553	21.8%
60th percentile	279,701	23.1%	11,801	5.2%	32,518	17.9%	324,019	20.0%
80th percentile	287,301	23.7%	6,165	2.7%	33,377	18.4%	326,843	20.2%
Highest percentile	214,993	17.8%	3,625	1.6%	28,338	15.6%	246,956	15.2%
Total	1,210,686	100%	227,813	100%	181,788	100%	1,620,287	100%

Source: Australian Bureau of Statistics, *Survey of Income and Housing* 2009–10, confidentialised unit record files.

Notes: Excludes group households and those on nil or negative income.

Quintiles refer to equivalised disposable income for all Australian households, i.e. equivalised for different household sizes and post-tax.

In summary, the Australian PRS houses a diverse range of households in terms of type and income. Private renting still decreases with age, but the analysis suggests an increase in renting among the 25–44 age cohorts since the early 1990s. This suggests a combination of households renting for longer, into middle age, and some households returning to private rental from home ownership and social rental due to life course events and other reasons. Analysing this in more depth and more detail requires an analysis of the trajectory of private renter households over time, which will be a major part of the empirical part of the project and which is the subject of Section 4.

3.2 Who owns private rental stock?

Getting a handle on who owns the rental stock and why has always been a fraught research issue in Australia as there are few databases from which to build a picture. There were two surveys of rental investors by the ABS in 1993 and 1997, and even these had their limitations (Maher et al. 1997, p.260). Analysis indicated a predominance of small-scale ownership and limited institutional investment. This has been called ‘petty landlordism’, with most owners having only one rental property (Berry 2000, p.668). These two surveys were conducted before the major surge in rental investment from the late 1990s, discussed in Section 2, which may have changed investment patterns.

Other research was undertaken in the 1980s and 1990s on typologies of investors based on their motivation. This used survey techniques which limited any detailed quantification (Yates 1981; Core Consultants 1983; NSW Department of Housing 1990; National Housing Strategy 1991). While different labels were used for these typologies, these studies agreed on some broad observations. A sizeable minority were unintentional investors who had entered landlordism by accident, such as inheritance; there was a minority of informal investors (perhaps owner-occupiers sub-letting); and the remainder saw rental investment as a means of reducing tax and/or building equity. A sizeable percentage of investors managed their own rental properties and did not use a real estate agent.

To update these findings we have had to rely on Australian Taxation Office (ATO) unit record data and the ABS Survey of Income and Housing (SIH) 2009–10 as there have been no further surveys of rental investors by the ABS.

In 2009–10, 1 030 014 people as measured by the household reference person in the SIH, or 13.4 per cent of all reference persons, owned a rental property, although some of these may be commercial properties. This compared with 620 000 units reported in the National Housing Strategy (1991) using the 1988 ABS National Housing Survey. Of the roughly one million, only 3 per cent owned two or more properties. The SIH data are consistent with the taxation data which indicate that 13.5 per cent of all income tax payers claimed expenses against a rental property (Australian Tax Office 2010). In short, the investment boom appears to have attracted many more investors, indicating a widening rather than deepening of investment (investors buying more properties). It appears that the tradition of small-scale investment has been strengthened, not weakened by the surge in investment from the late 1990s.

ATO and SIH data do not enable identification of institutional investment, but the limited information available suggests that any growth is unlikely as returns are too low in a tax environment that assists small investors but not large ones. As Wood et al. (2011) show, small investors could make up to 18 per cent a year return from rental property, while superannuation funds could only make 7 per cent and companies at best 12 per cent. Other explanations are the high management costs and the small size of units available for investment (Berry et al. 1998), the latter related to a history of strata titling and fragmented ownership. This is in contrast to countries such as the US and Canada where there is greater institutional investment as most rental complexes are not strata titled and must be bought by one well-resourced owner (Schwartz 2011, p.148).

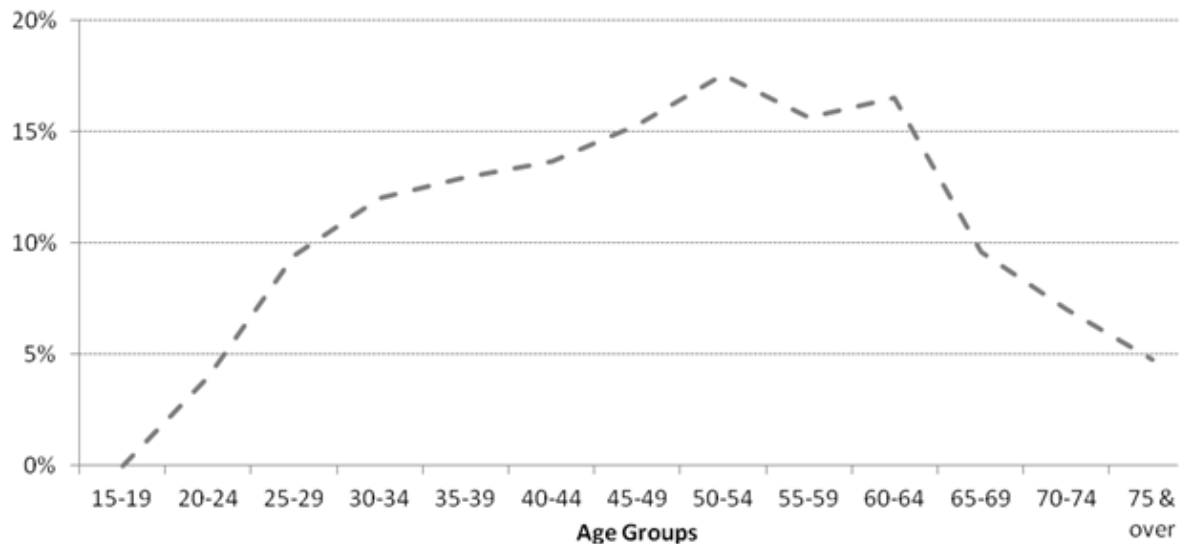
Most owners of rental property are themselves owner-occupiers (71% of investors) but 29 per cent are renters (ABS Survey of Income and Housing 2009–10). This means that 13 per cent of private renters are also landlords. One explanation is that these are younger householders who do not have the income to afford ownership (at least in areas where they want to live) but still want to acquire equity in property in what they see as an ever-rising market. This can be achieved by renting themselves, while purchasing another property to let to another household, with most of the costs covered by the rent and tax benefits.

People with higher occupational status and higher education are somewhat more likely to own rental properties than those of lower occupational status and lower levels of educational achievement. For example, 23 per cent of managers and professionals own a rental property compared to 15 per cent of technicians and trade workers, and 21 per cent of people with at least an undergraduate degree own rental property compared to 15 per cent of those who completed Year 11 schooling (ABS SIH 2009–10). Migrants who arrived here before 1995, particularly from Southern Europe and South-east Asia, have higher rates of rental property ownership than the Australian

born population (19% & 12% respectively) (ABS SIH 2009–10). These are differences in degree and not particularly significant

However, as might be anticipated, there is a clear connection between age and ownership of rental properties. Eighteen per cent of the 50–54 age cohort are rental property owners compared to 10 per cent of the 25–29-year cohort, as shown in Figure 7.

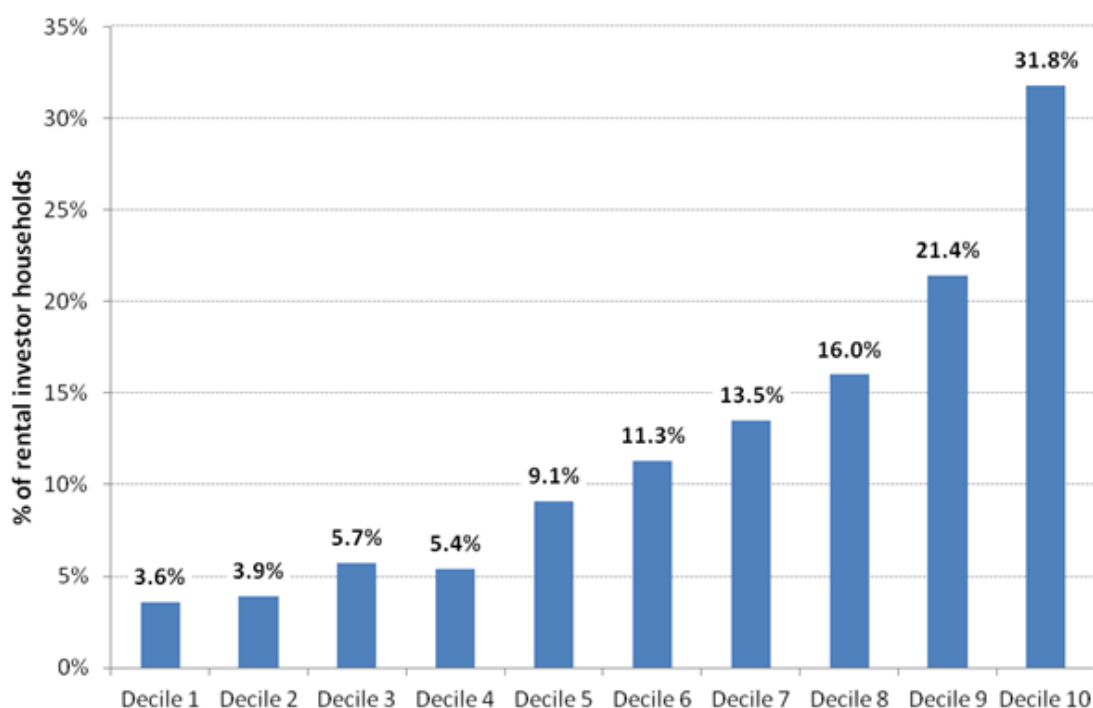
Figure 7: Percentage of age cohorts owning at least one rental property, 2009–10



Source: Australian Bureau of Statistics, *Survey of Income and Housing 2009–10*, confidentialised unit record files.

In terms of some of the major socio-demographic variables, with the exception of age, owners of rental properties are a broad cross-section of Australians. This is less the case when we look at household income, with almost 70 per cent being in the top 30 per cent of income earners, as shown in Figure 8.

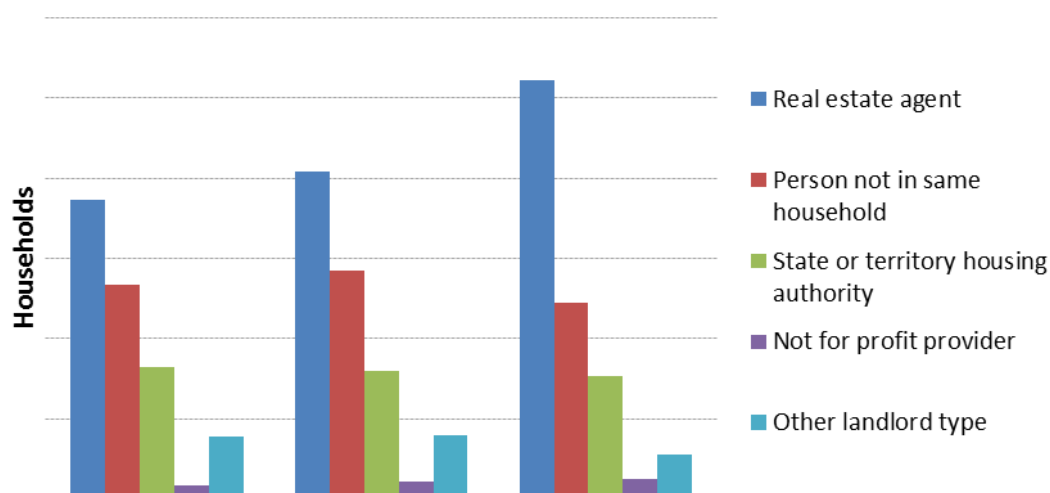
Figure 8: Rental property ownership by income decile, 2009–10



From the 1950s to the early 1980s, a dwelling was seen as a place of shelter and a home, with much investment being either unintentional or by migrants who had a greater tradition of landlordism and wanted security in their new country. There has been a dramatic cultural shift over the last 25 years. Concurrent with the relaxation of lending conditions enabling both easier investment and a widening of the potential pool of rental investors, a dwelling became increasingly seen as a source of investment for more and more Australians. Greater public awareness of the potential of rental investment to build wealth has also been associated with the growth in property investment advisors, residential investment magazines and home investment and renovation television shows.

One would expect in this context most of the additional investors would be intentional rather than unintentional investors and would make decisions based on a rational financial assessment. However, recent empirical research suggests that many are arguably naïve about investing and its likely outcomes' (Seelig et al. 2009, p.30). One would also expect that these more purposive investors would be more likely to engage a professional manager than in earlier times when many self-managed. This appears to be the case as one of the major changes since the mid-1990s, as illustrated in Figure 9, is the growth in rental properties managed by real estate agents.

Figure 9: Number of rental properties by type of property manager, 1996–2006



Source: Australian Bureau of Statistics time series data (*Census of Population and Housing*, time series profile, 2006).

Finally, households who own rental property have higher net wealth than those who do not. The more rental properties a landlord holds, the greater their net wealth. This is particularly the case for landlords who are home owners but also applies when the landlord is themselves a renter. As shown in Table 6, a renter's net wealth in 2009–10 was on average \$45 517 while a renter/landlord was worth \$310 189 if they owned one property and \$606 121 if they owned two. Of course, there is a 'chicken and egg' argument here: wealthier households can invest in rental properties, but an increase in net wealth is also often the result of their investment.

Table 6: Net wealth of household by number of rental properties and tenure of occupancy, 2009–10

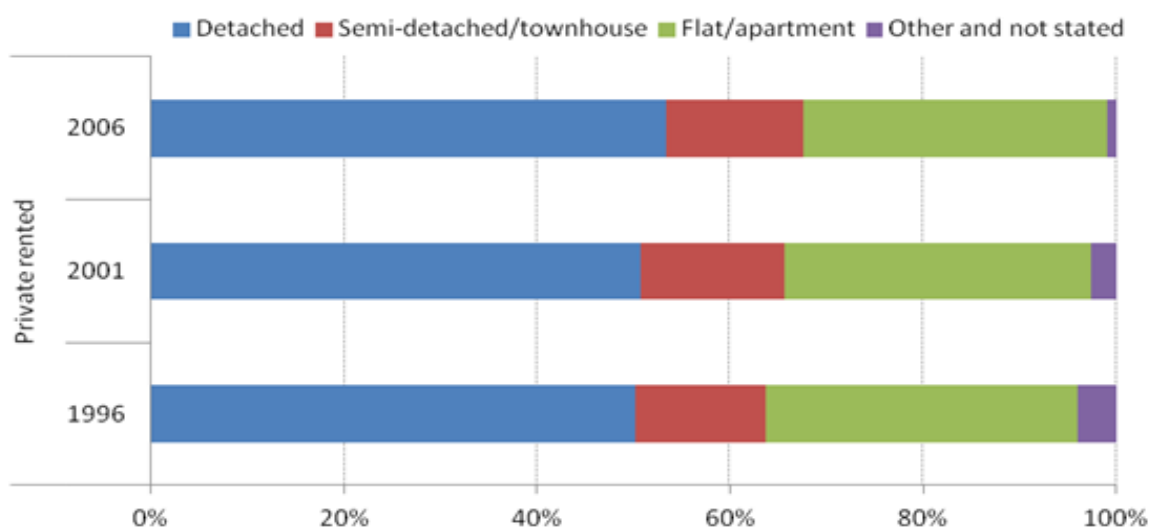
Household status	No rentals	One rental	Two rentals
Owner without a mortgage	\$630,200	\$1,284,279	\$1,949,131
Owner with a mortgage	\$419,019	\$789,886	\$1,273,075
Renter	\$45,517	\$310,189	\$606,121
Other	\$88,100	\$327,888	\$950,974
Total	\$347,125	\$856,681	\$1,411,440

Source: Australian Bureau of Statistics, *Survey of Income and Housing* 2009–10, confidentialised unit record files.

3.3 Profile of dwellings in the PRS

The Australian PRS is unusual by comparison with other developed countries in that most dwellings are detached (separate houses) rather than attached housing and apartments. As shown in Figure 10, the percentage of dwellings in the PRS which are detached increased between 1996 and 2006. This may reflect both households being priced out of inner city areas in which most of the attached housing and apartments are located and the preferences of investors and tenants.

Figure 10: Private rental housing by dwelling type, 1996–2006



Source: Australian Bureau of Statistics, *Census of Population and Housing* (various years).

Investors will be attracted to the suburbs both by the demand, for example, from families with children, higher yields relative to the cost of the investment, and avoidance of owners corporation/bodies corporate that are a feature of apartment accommodation. Detached dwellings can also be more problematic than apartments as there is more to maintain and maintenance can be a source of landlord–tenant conflict. From the tenants' perspective, a detached property provides greater opportunities to have pets, more space for children to play and the ability to have a shed. Some households may have neither the resources nor interest in garden maintenance, and disputes about garden care and the costs of water can be a problem.

3.4 Locational change

Historically, the bulk of affordable rental accommodation (and rental accommodation generally) was in the inner city where there were large concentrations of affordable apartments. Across Australia, gentrification has seen the inner and middle suburbs take on a new life, with associated impacts on property values and rents.

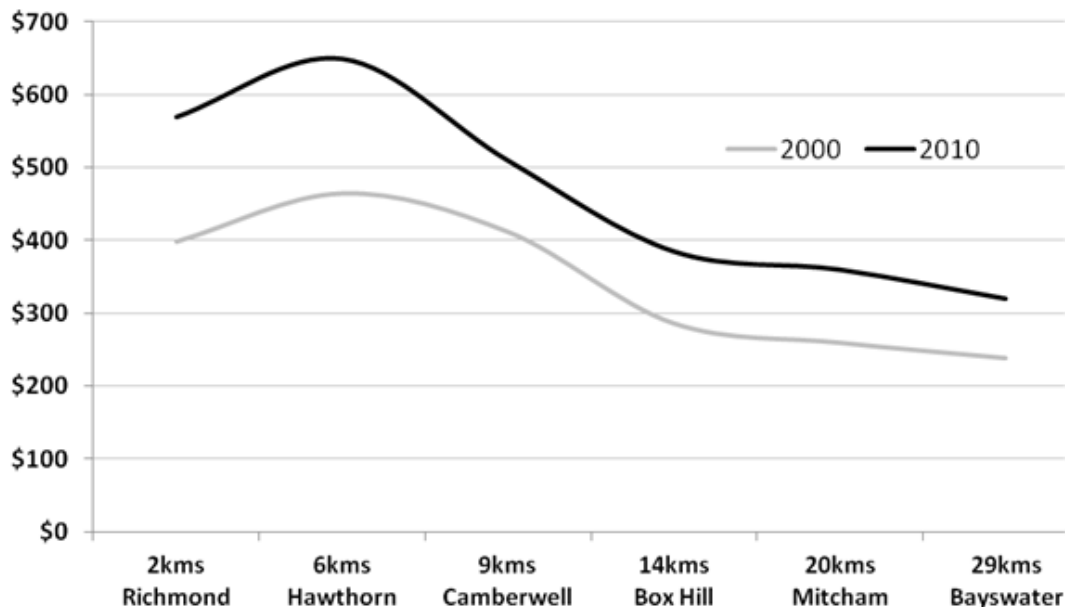
One long-established way of understanding the dynamics of housing submarkets is through a bid rent curve which graphs variations in land or property prices as distance increases from some point in a property market, usually the central business district (CBD) (Hulse et al. 2011). The point at which rents or prices are most intense reflects the most desirable locations (Alonso 1964). To illustrate the concept and how rental housing markets are changing, the following analysis uses the example of Melbourne where data are readily available to enable such an analysis⁷. While there are some geographical conditions that create differences in the dynamics of housing markets, it would be surprising if the changes identified were unique to Melbourne as the same economic and demographic restructuring affecting Melbourne also holds for other metropolitan cities. Thus Figure 11 shows the bid rent or price curve for the eastern corridor of Melbourne for 1981 and 2010 and indicates that:

- Rents at any distance from the CBD are higher now than a decade ago.
- The increase in rents over the decade has been greater in inner locations.

⁷ Analysis of all capital cities would be a huge task and beyond the scope of this Positioning Paper.

→ Outer urban rents relative to those of the inner city are more affordable than they were a decade ago.

Figure 11: Melbourne eastern corridor rent curve: three-bedroom houses, 2000 and 2010 (2010 constant prices)

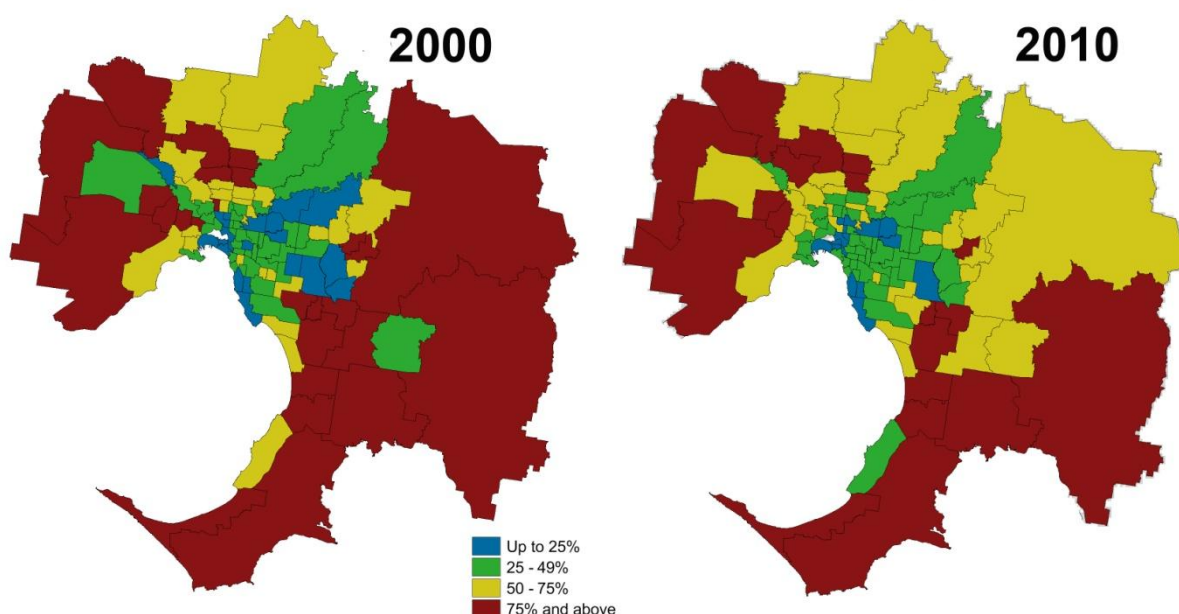


Source: Victorian Valuer General, *Property Sales Statistics* 2000, 2010.

This would suggest even over this relatively short time frame that more and lower income households are being constrained to seek accommodation in more outer areas of Melbourne (and one suspects other cities) than historically has been the case. One explanation is the huge growth in numbers of international students who prefer locations in the inner city and who can outbid lower income households for such stock, as through group living they can spread responsibility for rent payment in ways which a single person or sole parent cannot.

Figure 12 shows the percentage of properties affordable between 2000 and 2010, where 'affordable' is defined as the proportion below the median rent for all Melbourne. It illustrates that the number of highly affordable areas (those in brown) have become less over the decade, and how outer areas are increasingly important in terms of rental market activity as the only affordable areas are in these locations and even these are contracting in number.

Figure 12: Proportion of all rental properties below the median rent for all Melbourne by suburb, 2000 and 2010



Source: Department of Human Services, *Rental Report*, Sept. 2011.

These locational changes have both positive and negative effects. On the positive side, they break up the mono-tenure of many outer areas, enabling access by householders who cannot afford to buy there. On the negative side, such areas often rate poorly in terms of public transport and access to services, leading to dependence on private vehicles (Dodson et al. 2007; Baum & Gleeson 2010; Hulse et al. 2010). This exposes lower income renters in particular to greater risks in terms of rising petrol prices and running costs.

3.5 Trends in rents

Rents are fundamental to the functioning of the rental sector. For tenants, rents determine whether they can afford a property initially and whether they can sustain their tenancy. For landlords/investors, they represent a key component of the anticipated and actual returns that underpin the financial viability of investment. Both tenants and landlords/investors are concerned about both 'access rents' and 'ongoing rents'. Access rents refer to a newly leased property and are typically set at market levels as landlords and agents can reset rents when properties are re-let after vacancy. Ongoing rents can in theory be increased up to twice a year in line with market rents but this may not be the case if tenants want to remain in the property and the landlord/agent wants to keep a tenancy intact, for example, to retain a 'good' tenant and to avoid foregone rent through vacancies, particularly in a soft market where re-lets may be more difficult. Thus access rents are likely to be higher and more volatile than ongoing rents.

There are a number of data sources which enable tracking trends in rents.

- The ABS collects rental statistics through a number of methods: the Census of Population and Housing, the sample SIH and the Consumer price index (CPI). All are really measures of ongoing rent, with the rental component of the CPI being the most regular as it is provided quarterly for a constant quality of dwellings across Australia. Its limitation is that it is an index (there is no rental value) and

has limited spatial breakdown. Census data enable detailed spatial analysis but are available only once every five years.

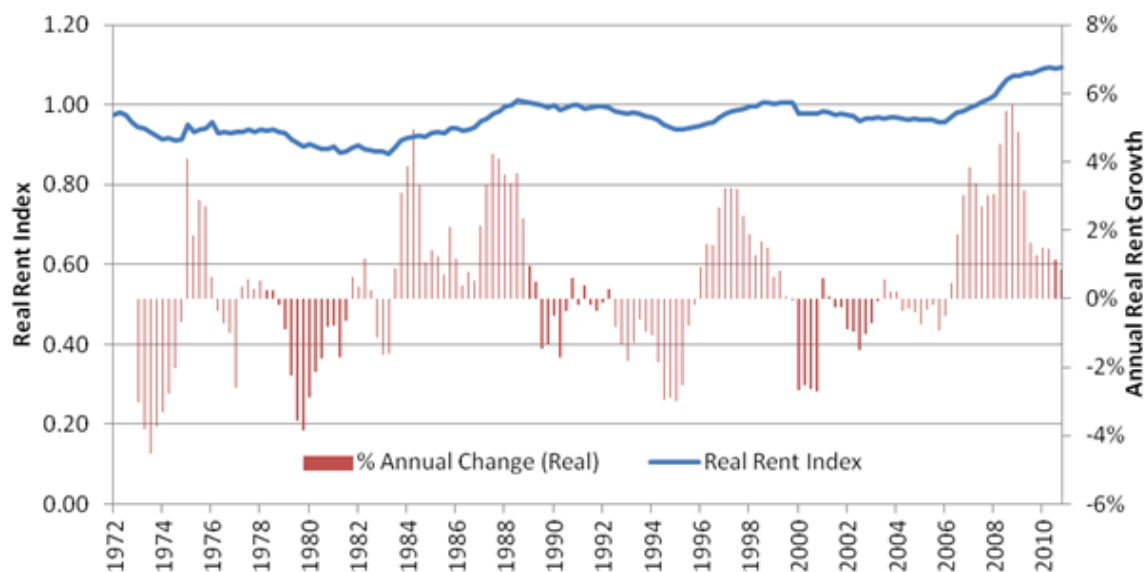
- The second major source of rental data is Market Facts published by the Real Estate Institute of Australia which draws on a variety of sources, differing from state to state (such as rental bond boards and advertised rents), and is basically a measure of access rates. It provides data for all capital cities on a quarterly basis.

Using available data, there are some striking trends in rents in Australia. The first is that real rents (adjusted for inflation) were very stable for much of the period 1971–2006, as shown in Figure 13. While there are clear cycles in which the percentage annual change varies, rents in real terms in 2006 were almost the same as 34 years earlier. Given the persistent upward movement in house prices over the same period, this is striking and would suggest that:

- There is little relationship between rents and house prices over the longer term.
- Rental yields would be tracing a long-term decline as house prices have increased in real terms over this period.

The implication is that for ‘rational’ investors who calculate the financial return, investment is likely to have been increasingly dependent on capital gain.

Figure 13: Long-term pattern of changes in real rents, average of six capital cities, 1972–2010



Source: Derived from Australian Bureau of Statistics, Cat. no. 6401.0. Index = CPI private rental component (average of 6 capital cities)/total CPI.

A second trend (or perhaps it is an aberration) is the recent increase in real rents. Whether this was a belated catch-up on the increase in the capital value of properties and will become locked in at this higher level, or whether it is a cyclical trend linked to the increase in migration and international student numbers, discussed in the previous section, is unclear. If the latter, it may well be that real rents are likely to fall for the next few years to restore rents to their historical trend. If this eventuates, it will benefit tenants and reduce the rental yield for landlords.

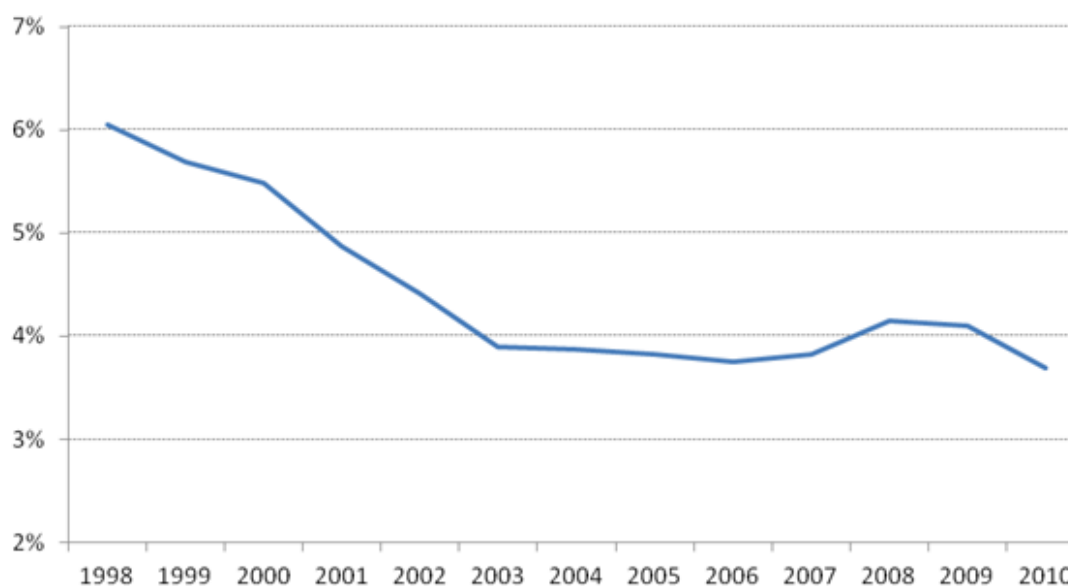
3.6 Yields on private rental properties

Rental yield or return is likely to be an important factor for all investors, even where it is not the main motivating factor. There are a number of ways of working out rental returns, including two main approaches.

- Gross yield is the rent as a proportion of the capital value of the property. This excludes rental costs such as any borrowings, rates, repairs and tax outlays, and rental benefits such as that from negative gearing. This is a commonly used measure and is easy to calculate from available data and can be tracked over time.
- Net yield factors in rental costs and tax benefits, but are investor-specific and therefore difficult to calculate and track over time.

Using metropolitan Melbourne as an example, it appears that gross yields on rental properties have been declining over the long-term, with some increase from 2006—09, as indicated in Figure 14. By 2011 the rental yield is 40 per cent lower than in 1998, and there is little reason to believe that the Melbourne market is different in this respect from major metropolitan areas elsewhere in Australia. Continuing falls in gross rental yield in part reflect large increases in house prices since 1998. This suggests that expectations of capital gain (which to date have been matched by reality) have compensated for declining gross yields, and that any period of flat or declining house prices may affect continued investment in private rental. It is possible but beyond the scope of this study to determine whether or not the increase in gross yields on rental properties between 2006 and 2009 relates directly to an increase in net migration around the same period (see 2.2.2).

Figure 14: Gross rental yields, Melbourne, 1998–2011



Source: Victorian Valuer General, *A guide to property values*; Department of Human Services, *Rental Report*, various years.

There is some spatial variation in gross yields. Using selected suburbs of Melbourne as an example, there is a consistent decline in all submarkets between 1991 and 2010, as indicated in Table 7. However, they are higher in the outer suburbs (shaded), reflecting the much lower price of properties in these areas. By 2010 gross yields irrespective of location were lower than government bonds and a number of

percentage points below bank fixed deposits, again highlighting the degree to which rental investment is now dependent on capital gain.

Table 7: Gross rental yields by suburb, Melbourne, 1991–2010

Suburb	1991	2000	2005	2010
Box Hill	5.5%	3.8%	2.8%	2.3%
Brighton	4.4%	3.2%	2.1%	2.0%
Brunswick	6.5%	5.1%	4.0%	3.5%
Camberwell	4.8%	3.4%	2.6%	1.9%
Caulfield	5.4%	3.7%	2.9%	2.4%
Cranbourne		7.6%	4.8%	4.6%
Doncaster	5.2%	4.3%	3.1%	2.5%
Frankston		6.9%	4.4%	4.1%
Hawthorn	4.8%	3.6%	2.9%	2.2%
Heidelberg	6.5%	3.6%	2.6%	2.2%
Kew	4.8%	3.5%	2.5%	1.6%
Malvern	4.4%	4.1%	2.4%	1.8%
Melton		8.3%	5.4%	5.0%
Northcote	6.4%	4.8%	3.7%	3.0%
Nunawading	6.4%	5.4%	3.7%	2.9%
Richmond	6.1%	5.1%	3.8%	3.3%
South Melbourne	5.6%	5.4%	3.3%	3.4%
St Kilda	5.5%	4.8%	3.8%	3.4%
Werribee		7.1%	4.7%	4.6%

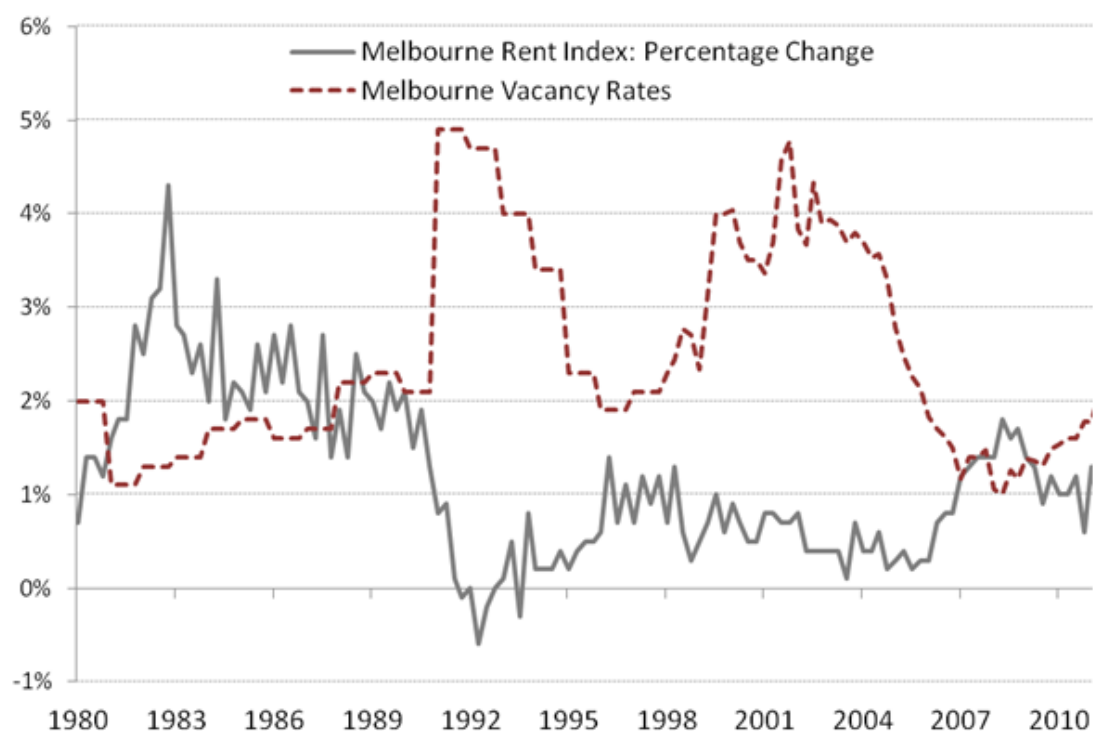
Source: Victorian Valuer General, *A guide to property values*; Department of Human Services, *Rental Report*, data tables.

3.7 Vacancy rates

A major measure of the efficient functioning of the rental markets is the vacancy rate, defined as the supply of accommodation available for new lets as a percentage of total rental stock. A major source of data is from the Real Estate Institute of Australia's Market Facts publication, which calculates vacancy rates from the rent rolls of its members. In Australia it is often said that a 3 per cent vacancy rate represents market equilibrium, although the origins of this normative measure are unclear.

Using this source over a 30-year period (1980–2010), it appears that vacancy rates do fluctuate considerably. As shown in Figure 15, they climbed steadily during the 1980s before peaking sharply at nearly 5 per cent in the recession of the early 1990s, fell in 1996 and then increased again in 2001. They then fell dramatically to 1 per cent before starting to increase again after 2008.

Figure 15: Vacancy rates and percentage change in rents, Melbourne metropolitan area, 1980–2010



Source: Australian Bureau of Statistics, Cat. no. 6401.0, Consumer Price Index, Australia, Table 13: CPI: group, sub-group and expenditure class, percentage change from previous quarter by capital city.

The paradox is that decreasing vacancy rates occurred at the same time as there was a surge in rental investment. Some of the explanations of this include, on the supply side, that the bulk of investment went into existing stock rather than new supply, and on the demand side, the big increases in migration and international student numbers, as well as general economic conditions. The tighter the rental market, as indicated by the vacancy rate, the more difficult it is for lower income households and those perceived as higher risk such as large families, Indigenous households and sole parents, to access the market. A tight rental market as expressed through vacancy rates also puts pressure on rents. As expected, there is an almost perfectly inverse relationship between vacancy rates and changes in rents in Melbourne over the period 1980–2010, as shown in Figure 15.

In the context of vacancy rates lower than 2 per cent, it is not surprising that there is some evidence of the emergence of a marginal rental sector where detached houses are effectively converted into rooming houses and rented out per room (Hulse et al. 2011).

3.8 Affordability and availability

There is a wealth of evidence that lower income households in the PRS face problems of affordability, whether using a benchmark method, that is, the proportion of households for which rent exceeds 25 or 30 per cent of household income, or a residual income method which calculates for different households how much is left over for housing after other basic living costs are taken into account. The AHURI national research venture on housing affordability for lower income Australians found that, in 2002–03, 51.7 per cent of all households paying more than 30 per cent of income on housing costs were private renters and that 460 000 lower income renters did not meet this benchmark (Yates & Milligan 2007; Yates & Gabriel 2006). This data

on affordability was updated to 2007–08 by Burke et al. (2011) and is summarised in Table 8. It indicates that, whatever method is used, high proportions of lower income renters have an affordability problem, ranging from 47.7—85.2 per cent depending on the measure (last row).

Table 8: Households with an affordability problem: LCBS, MCBS and 30% benchmark method

Household type	Below low cost budget standard	Below modest cost budget standard	Paying more than 30% of disposable income on housing	Paying more than 30% of gross income on housing
All households	14.1%	30.7%	21.0%	15.8%
All households, private renters	17.0%	32.8%	31.9%	27.0%
All households, private renters, lowest 40%	47.7%	85.2%	61.7%	60.2%

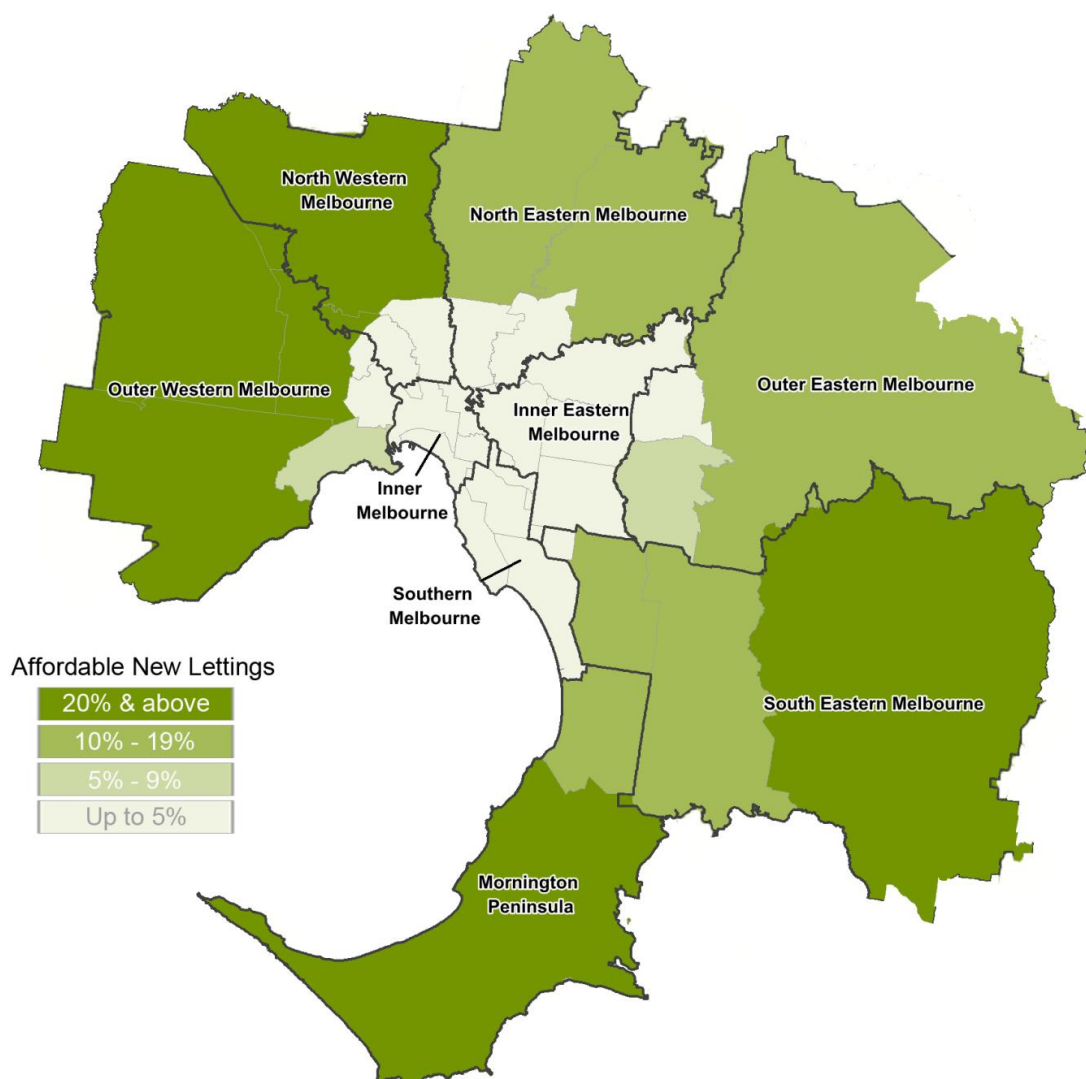
Source: Australian Bureau of Statistics, *Income and Housing Survey* 2007–08, unit record files

Notes: Low Cost Budget Standard (LCBS) refers to the minimum deemed necessary to live in contemporary Australia, while the Modest Cost Budget Standard (MCBS) refers to an adequate standard (see Burke et al. 2011).

The 30 per cent of household income benchmark is calculated in two different ways: based on net disposable income (after tax) and gross income (before tax).

The restructuring of Australian cities and their housing markets is pushing lower rental housing further out, while inner and middle ring locations are under intense demand pressures with rents rising substantially. This has implications for where lower income households can afford to live. We illustrate this again with the example of Melbourne in Figure 16 which shows the proportion of new lettings available to households on relevant Centrelink benefits, including RA (Victorian Department of Human Services, *Rental report*, Sept. 2011, for details). Access rents in all inner and most middle suburbs were not affordable, and the only affordable rentals were in some outer suburbs and growth areas. The long-term social and economic implications of a polarising rental market are unclear, although potentially highly problematic, given the relative lack of services and amenities found in outer suburban areas vis a vis inner metropolitan areas, notably: public transport, health services, educational facilities and strong local labour markets.

Figure 16: Proportion of new lettings affordable to Centrelink beneficiary households by location, Melbourne, 2011



Source: Victorian Department of Human Services, *Rental Report*, Sept. 2011

Note: 'Affordable new lettings' refers to those affordable to various household types on full Centrelink benefits.

3.9 Summary

The PRS in Australia houses a diverse range of households, both in terms of income, household type and, increasingly, age. Within this context, about one-third of households in the sector have incomes in the lowest two quintiles and the share of the market occupied by RA recipients is substantially greater than this, that is, 40 per cent. About one-third of householders in the PRS have dependent children, or more than 600 000 households, many of which have lower incomes.

The number of rental investors/landlords has increased substantially from about 600 000 in the early 1990s to more than a million today. The vast majority of these own only one property. The investment boom discussed in Section 3 appears to have attracted many more household investors, resulting in investment widening rather than deepening. The pattern of small-scale investment identified in two surveys in the 1990s has been strengthened, not weakened by the surge in investment from the late 1990s.

There is not a distinct PRS stock in Australia, unlike some other countries, and dwellings move in and out of the sector. Perhaps for this reason, relatively little is known about dwellings in the PRS (such as condition and amenity). What is known is that the Australian PRS is unusual by international standards in that more than half of the dwellings are single detached houses. While this in part reflects the dominance of this type of dwelling generally, it appears that new investment has reinforced rather than changed the type of dwellings in the sector. More PRS housing is now managed by real estate agents than in the past, indicating perhaps a move by investors to be more hands-off and to use professional management.

There are significant and growing problems with the structure and performance of the PRS in Australia in terms of access, affordability, appropriateness, security and location which have been documented in this section. These raise issues for households living in the sector and in some respects for investors/landlords. This provides support for the argument that the institutional settings shaping the PRS are increasingly inappropriate. This is particularly the case for longer term renters, including, but not only, those on lower incomes.

4 NEXT STEPS: DETAILED ANALYSIS OF CHANGES IN THE PRS AND THE EXPERIENCES OF LONG-TERM PRIVATE RENTERS

As noted in the Introduction, this is the first of two reports from an AHURI funded research project examining changes in the PRS over time and the experiences of households renting in the sector, in particular, increasing numbers of long-term (10 or more years) renters. This Positioning Paper has provided a broad national overview of changes in the PRS over a long period of time, including the market and policy context and a profile of private renters based on currently available data sources, specifically ABS Census data (1981–2006) and the ABS SIH 1981–82 to 2009–10.

In this section, we briefly describe the methodology for the project with an emphasis on the ‘next steps’. The findings will be presented in a Final Report due at the end of 2012.

4.1 Methodological approach

The research uses a mixed method, longitudinal approach. It has begun with a broad lens, focusing on the nature of change in the PRS and changes in the characteristics of households renting within it over time. As data become available this will be extended to consider state and territory jurisdictions and metropolitan submarkets. It then uses quantitative longitudinal analysis to focus on the housing pathways, housing circumstances and household characteristics of longer term versus short-term private renters. Finally, it drills down to explore, through detailed quantitative longitudinal analyses, the experiences and outcomes of longer term private rental, including for potentially ‘vulnerable’ households.

The empirical component of the project includes the analysis of three data types (repeated cross-sectional surveys, the Census of Population and Housing for various years, longitudinal household panel data) as well as several complementary analytic methods, which will result in an integrated series of findings. It includes analysis of housing system level change (macro level analysis) and a strong focus on household experience (micro level). The empirical analysis will be undertaken in three main stages, reflecting the three research questions.

4.1.1 Stage 1: Updating the temporal analysis and undertaking a more detailed spatial analysis

This stage will extend the analysis of changes in the PRS and characteristics of private renter households presented in this Positioning Paper. It will enable us to complete analysis to address the first research question: How has the PRS, and characteristics of private renter households within it, changed over time?

Data from the ABS Census of Population and Housing 2011 are expected to be released in August 2012 which will enable the temporal analysis to be updated and, importantly, a spatial analysis of dwellings and households in the PRS. Census data enable an analysis of the PRS in all the states and territories and a submarket analysis which will examine the sector’s role in the restructuring of selected Australian cities. This submarket analysis will not be done for all jurisdictions but for Hobart, Melbourne and Perth as representing cities of different sizes and affected by different drivers.

As discussed throughout this Positioning Paper, findings of this detailed analysis will have important policy implications, ranging from the local level (e.g. input into local area housing policy) and state level (e.g. what pressures long-term tenancy creates

for residential tenancy reform) to the Australian government (e.g. what might be the implications for housing assistance and supply-side assistance for the rental sector).

4.1.2 Stage 2: Investigation of long-term renters in the PRS

This stage addresses the second research question: Who rents long-term in the PRS (10 or more years) and how does longer term rental feature in their housing pathways?

We turn our attention from system level (macro) change to focus on the changing nature of households within the PRS (micro level) and the nature of private rental tenancies. Using a cross-sectional approach, person-level unit record data from the most recent ABS Survey of Income and Housing (2009–10) will be analysed. This survey represents a highly detailed account of household experiences of housing in Australia. Four key items will be examined: number of years lived in current dwelling; how many times moved in last five years; tenure of previous dwelling; and reasons for last move. Combined, these data will provide insights into the numbers of households now experiencing long-term private renting, and the extent of mobility within long-term tenancies.

Data from the Housing, Income and Labour Dynamics in Australia (HILDA) survey Waves 1–9 (2001–09) are used to supplement this analysis, again focusing specifically on the nature and experience of longer-term tenancies. The HILDA data are used to explore the nature of long-term private rental (10 or more years) for all households in the sample ($n = 1791$ approx.), including a focus on their housing pathways. Households with shorter- and longer-term tenancies, and the nature of private rental in their housing pathways (e.g. ‘transitional’ prior to home purchase or ‘fixed’ in longer term rental patterns), will be compared.

We use a ‘housing pathways’ (Clapham 2002, 2005) rather than ‘housing careers’ or ‘housing histories’ approach, to highlight and examine the potentially highly varied housing trajectories and preferences of long-term private tenants. Contextual variables such as ‘reasons for last move’ and ‘satisfaction with housing’ are to be included in the analysis where possible. While it is beyond the scope of the present study, additional insights about the housing pathways of particular sub-groups of private tenants could be made using a qualitative methodology in subsequent research.

4.1.3 Stage 3: Analysis of the outcomes for long-term private renters

This stage addresses the third research question: How does long-term private rental relate to economic, social, health and housing outcomes, including for potentially ‘vulnerable’ households, over time?

HILDA data Waves 1–9 will be used for detailed longitudinal analysis of the outcomes associated with longer term private rental. Economic outcomes (including employment, education, income support), social participation (including social support, civic and neighbourhood engagement), health (including disability and self-reported health) as well as housing wellbeing (location, dwelling type, security, costs, satisfaction) will be examined. Particular attention will be paid to groups potentially ‘vulnerable’ to risks associated with private renting, including couples and single-parent families with dependent children, single-person households, and couple and single older persons. This stage has implications for policies on the non-shelter domain, including that of social inclusion, as well as for delivery and targeting of housing assistance.

4.2 Data and variables

As described above, three main data sources will be used in the major empirical component of this research. Each has significant advantages, as well as limitations typically associated with quantitative data.

The Census data (1981–2011) enable a comprehensive, national account of major changes within the PRS and of household characteristics among private renters, including at each point in time as well as in comparison over time. It is also the only data source that enables a more detailed spatial analysis.

The SIH (1981–82 to 2009–10) similarly provides national data collected cross-sectionally over time, enabling detailed comparisons of the characteristics of households renting in the PRS to be made.

The HILDA data provide opportunity for detailed analysis of various types of households in relation to their experiences of private rental, including longitudinally, as well as the capacity to explore these longitudinal experiences in relation to a host of other social and economic factors and outcomes.

Table 9 presents a summary of the key variables to be used from each of these three data sources throughout the empirical analysis to follow.

Table 9: Key variables for the empirical analysis of the PRS, the nature of tenancies, and the characteristics and outcomes of households within it

Data	Key variables
ABS Census data, 1981–2011	Nature of PRS: housing tenure (private rental), location (inner, middle, outer metropolitan and regional), location characteristics (e.g. Socio-Economic Indexes for Areas (SEIFA)), dwelling type, housing costs. Characteristics of renter households.
ABS SIH, 1981–82 to 2009–10	Nature of PRS: housing tenure (private rental), location (national and state), dwelling type, housing costs. Nature of long-term private rental: number of years lived in current dwelling; how many times moved; previous tenure; reasons for last move. Characteristics of private renter households: person-level unit record files; extensive demographic data for person/ household level analysis.
HILDA Waves 1–9, 2001–09 Includes 1,791 private rental households (estimated using Wave 8 data), including: 499 families with dependent children. 763 single-person households. Older-person households.	Nature of long-term private rental: tenure at each wave; location; dwelling type; security/mobility; housing costs; satisfaction; housing changes over time. Characteristics of private renter households: person and household level; detailed demographic and socioeconomic information. Outcomes (person and household level): detailed economic data (employment, education, training, income); social participation (social support, civic and neighbourhood engagement); health (disability, self-reported health) and housing wellbeing.

5 CONCLUSION

This Positioning Paper has presented an institutional analysis of both broad policy and housing system specific changes which, together, have substantially altered the nature of the PRS since the 1980s and its place within the Australian housing system as a whole.

It has also presented illustrative data indicating some of the types of changes which have occurred and discussed their effects. These changes and the experience of households within the PRS form the focus of detailed empirical analysis, to be undertaken in Stage 2 of this research, which explores the first overarching research question in greater depth and also addresses the remaining two research questions.

The findings of the research will be generalisable at a macro level to inform our understandings of the nature and role of the PRS as it adapts to broader housing system change. They will inform policy concerns about the interaction of housing with economic, social, health and other systems, in a whole-of-government approach. As well, findings of detailed longitudinal analyses of the experiences and outcomes of long-term private rental will enable assessment of the best means of delivering housing assistance when and how it is needed most to enhance broad wellbeing outcomes.

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