

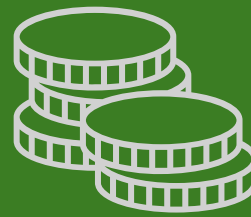


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HOUSING, HOMELESSNESS
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Rent Regulation: A housing policy challenge

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Issues Paper
September 2025



Acknowledgements

The research team would like to acknowledge the assistance of Professor Mark Stephens of the University of Glasgow for his assistance in the provision of information on contemporary Scottish rent regulation, and the cooperation of the Victorian Government in the provision on rent bond data.

The authors gratefully acknowledge AHURI and other university colleagues and research partners who have assisted in the research for this report and helped make the completion of the material possible.

The authors also thank Zoë Goodall and Mahdiah Salari for their assistance.

Any errors are the responsibility of the authors.

Recommended citation

Burke, T., Ralston, L., Kollman, T., McNelis, S. (2025) *Rent Regulation: A housing policy challenge*. HHAUS Issues Paper, Swinburne University of Technology. DOI: <https://doi.org/10.25916/sut.29999038>.

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Acknowledgement of Country

We respectfully acknowledge the Wurundjeri People of the Kulin Nation, who are the Traditional Owners Custodians of the land on which Swinburne University of Technology's Australian campuses are located in Melbourne's east and outer-east, and pay our respect to their Elders past and, present and emerging. We also acknowledge and pay respect to the Traditional Owners Custodians of lands across Australia, their Elders, Ancestors, cultures, and heritage.

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Acronyms and abbreviations used in this report

ABS	Australian Bureau of Statistics
AHURI	Australian Housing and Urban Research Institute Limited
BTR	Build-To-Rent
CL	Corporate Landlord
CPI	Consumer Price Index
DFFH	Department of Families, Fairness and Housing (Victoria)
DRIHL	Direction Regionale et interdepartementale de l'hebergement et du logement
GARYPP	Gross Annual Rental Yield Post-Purchase
GARYIP	Gross Annual Rental Yield at Initial Purchase
GRY	Gross Rental Yield
HICP	Harmonised Index of Consumer Prices (Ireland)
HILDA	Household, Income and Labour Dynamics in Australia Survey
HUD	Department of Housing and Urban Development (US)
IRTB	Ireland Residential Tenancy Board
LTR	Long Term Rental
NESC	National Economic and Social Council (Ireland)
NY	Net Yield
OECD	Organisation for Economic Co-operation and Development
PBLCI	Pensioner and Beneficiary Living Cost Index
PRI	Private Rental Market
PRS	Private Rental Sector
QRTA	Queensland Residential Tenancies Authority
REIA	Real Estate Institute of Australia
RBA	Reserve Bank of Australia
RPZ	Rental Pressure Zones (Ireland)
RR	Rental revenue
RROI	Rate of return on investment
RTA	Residential Tenancies Act
RTBA	Residential Tenancies Bond Authority (Victoria)
SIH	Survey of Income and Housing (ABS)
STRA	Short-Term Rental Accommodation
VCAT	Victorian Civil and Administrative Tribunal
WW1	World War 1
WW2	World War 2

Executive summary

Key points

- The 'rent crisis' in Australia, has put rent regulation on the policy agenda raising issues and debate about the effectiveness and appropriateness of rent regulation.
- Internationally there are various forms of rent regulation with most of the criticism of them applying to older (first generation) rent control. The evidence about more recent, i.e. second and third generation, regulation is much more nuanced with outcomes often depending on the market and institutional context. There is consensus that regulation does stabilise rent increases.
- The evidence around the 'what's', i.e. the outcomes of rent regulation is now substantial. The documentation on 'how' to design and implement is both much less and not readily accessible. This report helps fill this gap.
- Rent regulation can have very different design attributes depending on what are the objectives of regulation, perception of the form and scale of rental increases and the market and institutional context.
- Victorian case study data suggests a dual rent crisis, one structural and one point in time, suggesting that any rent regulation system consider the implication of both in terms of the balance between needs of tenants and the effectiveness of the rental system.
- Victorian rental data analysis suggests any negative side effects of a soft rent control, e.g., linked to the CPI, could be minimal and compensated by the greater security and less financial stress for renters. The reasons are; private rental sector (PRS) investment is not a large component of new stock creation, rental yields operate in parallel with capital gains and the latter would not be impacted greatly by regulation; many landlords already use consumer prices as a guide to rental increases; many landlords are in a strong financial position by virtue of having no or minimal mortgages, and econometric analysis suggests rental supply is inelastic to change in prices. This is what the data indicates but the behavioural response of landlords could be different.
- Given the objective of the report is to provide a framework for thinking about rent regulation it does not provide detailed policy recommendations.

Key findings

Research objective and key definitions

Post-COVID and inflation-induced rent increases have prompted debate around the need for some form of rent regulation with the Greens political party promoting a freeze. Over the last decade, many other countries and jurisdictions, pushed by similar rent pressures, have introduced or altered existing rent regulation to protect tenants from the insecurity and financial hardship of excessive rent increases. Australia, except for the ACT, has not!

This report is designed to assist policy makers, policy influentials and the lay public to understand the issues around rent regulation and how to design and implement regulation if so needed or desired. The report provides a case study data of the Victorian rental system including a small econometric supply elasticity study to look at trends in rents and what that data could tell us about likely outcomes from implementation of any regulatory system. It then reviews the international meta review literature for evidence as to whether rent regulation can provide protection for renters

without generating negative side effects and to provide guidance on design and implementation issues around regulation.

In this report, rent regulation takes in the equivalent terms rent control and rent stabilisation and distinguishes between first, second and third generation rent regulations as each generation is different in terms of attributes and potential positives and negatives.

First generation rent regulation, often called rent control, is where rents are fixed by legislation. It rarely allows for any increase. Here we talk about a 'rent freeze'. These were mainly introduced during periods of crisis such as WW1, WW2 and COVID and phased out when the crisis had mitigated. They are rare at present. Historically the bulk of rent regulation literature is disproportionately focused on this generation with largely negative findings.

Second generation rent legislation allows for rent increases but within specified limits, e.g. a cap of 3% annual increase and allowing variation only under certain circumstances such as making significant investment in the property.

Third generation rent regulations (often called rent stabilisation) are more nuanced again and may distinguish between existing and new tenancies, the age and condition of properties, different housing markets and have a diverse range of metrics by which to set a benchmark annual rent increase. While there are ambiguities, the distinguishing characteristics between generations is the degree of nuance and arguably complexity, with third generation the most sophisticated. This should be the direction of any Australian practice if deemed necessary.

A key finding is that the evidence on second and third generation regulation is much more nuanced than with first generation regulation. The now quite sizable number of meta reviews of rent regulation indicate that generally the former two do stabilize rent increases without substantial negative side effects although it depends on the policy design and the institutional and housing market context in which implemented.

The meta-review process also suggests that part of the research should focus as much on the 'how' of rent regulation as the 'what', i.e. outcome. This report is designed to assist in such a process.

The institutional and policy context

The policy and political context (the institutional context) in Australia have not been one predisposed to rent regulation. Beside the brief COVID crisis-induced regulation and the Australian Capital Territories regulation, Australia has not seen any substantive regulation since the 1950s. So, it is not part of our policy experience. The dominance of household investors and strong political and community views that impediments should not be put in the way of households' aspirations for wealth building is likely another factor creating an environment unconducive to regulation. Given that the PRS receives such substantial indirect subsidy through the taxation and income support system, notably Commonwealth Rent Assistance (CRA), this arguably provides a rationale for some form of performance management regulation equivalent to that of the social housing sector which gets much less subsidy. It could also be argued that the generous taxation system, particularly treatment of capital gains, creates an environment where capital gains is as important as rental yield in shaping investment decisions.

Two attributes of the policy context indicate that there should be no expectation that rent regulation in the short term will solve the structural rental crisis of Australia: to a great degree the structural problem for lower income households derives from the very low stock of social housing in Australia, the weakness in the supply of housing generally and from a lean, by international standards, income support system. Rent regulation can do little to solve this structural long-term

problem although could be an important compliment to any reforms in these areas or, in the absence of such reform, have an important role in mitigating the scale of long-term rent increases.

For the current rental crisis (2022-2024) some form of soft regulation could mitigate the issues flowing from the small social housing sector and the limitations of income support. Regulation provides security from the fear of any rent increases well beyond capacity to pay and limits the risks and costs of homelessness, relationship breakdowns and poorer health, education and employment outcomes associated with property loss from excessive rent increases. For those searching for property it could limit the scale of increase and widen housing search opportunities. But any such regulation would need confidence that the outcomes would not be an overall worsened housing market.

The design and implementation framework

The review of literature undertaken for the study is undertaken within a policy development framework of problem identification, policy choice and analysis, consultation and implementation. Key discussion points within this framework are:

- Is there are rental crisis justifying rent regulation and what might be the risks associated with it?
- If there is to be rent regulation what are the objectives and how can they be achieved?
- What are the types of regulation and what issues may be associated with them?
- What properties should be covered by regulation? Should it be all or should there be exceptions by type of let, e.g. newly leased, of a designated age, newly constructed, Build to Rent, student housing, boarding houses, The greater the exemption the more the risk of disinvestment from the regulated properties to the non-regulated properties.
- Who is responsible for administration and what sort of administrative structures are required for effectiveness and compliance?

The Victorian Case Study

Victoria was chosen as a case study as the availability of data from the Residential Tenancies Bond Authority (RTBA) for some 20 years created an ideal data base. Rental bond data supplemented by additional ABS data was used to firstly identify the trends in rent increases statewide, for metropolitan Melbourne and submarkets thereof. The data was then used to provide some understanding around several questions.

- Is there a rent increase induced rental crisis? The evidence presented suggests two rental crises. A long term structural one and a 2022-2024 'point in time' crisis with different implications rent regulation. The structural crisis with its affordability and security implications has its origins decades ago while the post covid 'point in time' crisis has overlaid the structural and pushed rents to historical highs. The risk is without intervention these will be locked in as the new normal with substantial implications for future renter well-being. Over the period 2023-2024 a sizable majority of Melbourne metropolitan new let properties had rent increases well above the growth in renters' incomes, e.g. 56.7% of flats and 19.6% of houses had real increases of more than 16% in real terms; suggesting exercise of market power and what the Australian Competition and Consumer Commission (ACCC), in other contexts, would call price gouging. By contrast Victorian average weekly earnings per person only increased 0.4 percent for the same period (ABS 2024c).
- Would regulation affect investor decision making? The data here, like other research on whether regulation affects investor decision making, suggests not greatly. Investors appear happy to

accept a relatively poor rental yield so long as they have the potential of capital gain so a marginally lower yield from CPI capping should not have impact. Many landlords already appear to be guided in rent-setting by the consumer price index (CPI) which is one the standard caps for rent-setting and many are in a strong financial position of landlords as they have no mortgage or a small mortgage. Moreover, as other research has indicated most do not invest in new stock and not all landlords own for standard investment reasons, e.g. they are acquiring for future use by themselves or children.

- What are the respective income and wealth positions of landlords versus tenants? Not surprisingly landlord have substantially greater incomes and wealth than renters and importantly most are not just ordinary households who have limited capacity to deal with any rent regulation. This point raises the question as to what degree should potentially market allocation outcomes be given greater weight than equity, fairness or social justice. This is an ethical and political decision for which data can only provide context not a policy making framework.
- If rent regulation had been in place, what might have been the effect? Here different caps were modelled over different past time periods with the conclusion that the timing of capping has major implications for the degree of rent reduction. Capping of rents by CPI for structural reform twenty years ago would have generated major improvements in affordability by 2024 while capping a decade ago by contrast would have only generated marginal improvement. Point in time CPI capping, e.g. beginning of 2023 or end 2022 would have substantial benefits to existing renters although much more so in Metropolitan Melbourne where current rents stresses are high compared to regional Victoria; the latter would have however benefited from a CPI cap pre covid. An upper cap on rents (twice CPI for example) for vacant properties (relets) to deal with the excessive increases of the 'outlier' rents that are way beyond the any increase in incomes would also be important in reducing financial stress and widening renters search opportunities.

The Econometric analysis

The study also included an econometric analysis of supply elasticity of the rental sector notably in relation to price, i.e. rent increases. The conclusion was that rental supply is relatively price inelastic, i.e. not very responsive to rent changes, with the key determinant of rental supply being growth in the supply of the total housing stock now recognised as the housing policy challenge for Australia.

Policy development options

- The report is designed to assist policy makers, policy influentials and the lay public to understand the issues around rent regulation and how to design and implement regulation if so needed or desired.
- The report does not suggest detailed policy ideas as the policy development framework of Section 4 is to provide a base for others to do so if interested.
- There are however five important policy recommendations:
 1. The need for better rental data for monitoring of rental market performance and what that might suggest for policy interventions and evaluation.
 2. The need to not see any potential rent regulation as a major solution to rental affordability and housing precarity but a complementary policy to a suite of more substantive policy reforms.
 3. The need for just cause residential tenancy reform.

4. Establishing a national housing register
5. The need for any rent regulation policy to be accompanied by a substantive consultation process given the contested nature of the issues and the range of often competing interests.

The study

This study is a collaboration between a team of researchers from Swinburne University of Technology. The research used three methods:

- A review of the Australian and international literature to identify what the literature is telling us about rent regulation.
- A case study analysis of Victorian rental bond data to identify the recent trends in rent increases and assess what they might suggest about the impacts of rent regulation.
- A brief econometric analysis to examine the rental markets supply responsiveness to price signals.

1. Policy and research context

1.1 Why this research?

Off the policy agenda in Australia for many decades, the sharp increases in rents post covid has put rent regulation back on the policy agenda hence this small project designed to assist in conversation as to whether Australia should move to rent regulation and if so, what would be the implementation issues; it is effectively a framework for understanding rent regulation.

In this report, rent regulation takes in the equivalent terms rent control and rent stabilisation. We also need to distinguish between first, second and third generation rent regulations as each generation is different in terms of attributes and potential positive and negatives although boundary classification particularly between second and third generation can be vague and there is some confusion about use between researchers.

The term rent control is mainly used for first generation rent controls where rents are fixed or frozen by legislation and rarely allow for any increase. Here we talk about a 'rent freeze'. These were mainly introduced during period of crises such as WW1, WW2 and COVID and phase out when the crisis has mitigated and so are rare at present. The rent regulation literature is disproportionately focused on this generation as this type of regulation has been predominant over time. Second generation rent legislation allows for rent increases but within specified limits, e.g. a cap of 3% annual increase and only allowing variation under certain circumstances such as making significant investment in the property. It is also regulation for increases during a tenancy and allowing rents to rise to market rates between tenancies, what in the US is called 'vacancy decontrol'.

Third generation rent regulations (often called rent stabilisation) are more nuanced again and may distinguish between existing and new tenancies, the age and condition of properties, different housing markets and have a diverse range of metrics by which to set a benchmark annual rent increase. While there are ambiguities, the distinguishing characteristics between generations is the degree of nuance and arguably complexity with third generation the most sophisticated. Internationally second and third generation rents are with some exceptions, e.g. Sweden, much more recent hence a relatively smaller amount of evaluative literature.

1.2 Policy and political context

AHURI research has documented for a decade or more that Australia has a rental problem but with little traction around substantive policy reform and, until recently, very little mention of rent control (the ACT regulation aside) as part of any interventions (Baker, et al. 2024, Hulse, et al. 2018; Hulse, Reynolds et al. 2019; Parkinson, James and Liu 2018; Stone, Burke et al. 2013). During COVID and post-COVID, rent regulation has been well and truly on the policy agenda in part because the language has changed; we now talk of rental crisis and not a rental problem. Talk of crisis, and its common usage in the media, has elicited political responses in a way the term 'a problem' has not.

The major responses have been firstly the commissioning of government inquiries into the rental crisis (Parliament of Victoria 2023; Senate Standing Committees on Community Affairs 2023) with such inquiries specifically including reference to rent regulation, and secondly, the proposal and promotion of a two-year rent freeze by the Greens political party. The key

contextual factors that arguably have shaped debate and actual rent regulation intervention (or lack thereof) in Australia are outlined below. Understanding these factors is important in terms of working through any implementation strategies if rent regulation was to be introduced.

1.2.1 The long silence on rent regulation in Australian housing policy

Australia has previously had first generation rent regulation largely related to period of crisis, principally in times of crisis (WW1, WW2 and the early post war years, and for a short time during Covid 2020). By the 1970 all states had phased out these regulations and since then states and territories have implemented residential tenancies legislation on a broadly common model, which regulates rent increases during tenancies only lightly and does not regulate the setting of rents at the commencement of tenancies. The various reviews and legislative changes around residential tenancy regulation over this time have been conspicuously silent on the topic of rent regulation. The effects of the lack of policy discussion about rent regulation were evident during the COVID-19 emergency, when Australian governments were suddenly confronted with the issue in the context of the income shock experienced in the early lock downs, and the eviction moratoriums agreed by National Cabinet. Five governments implemented rent freezes, and all encouraged landlords and tenants in hardship to negotiate rent variations, though with little guidance and variable results (Baker, Beer et al. 2024). These regulatory changes were quickly removed when Covid impacts mitigated but have provided experience and research knowledge that hitherto had been lost.

1.2.2 Dominance of household landlordism

The growth of the private rental sector over the last four decades has been driven by small (predominantly one property) household landlordism. As Martin, Hulse et al. (2018) document, Australia is not unique in the dominance of small holding landlordism although it is at the high end compared to most equivalent countries (Crook and Kemp 2014, p15). Small-scale ownership creates a particular discourse of political influence namely the notion of landlords as ‘mum and dad’ investors and, as such, deserving of encouragement and reward for their initiative (Hulse, Reynolds and Martin 2020) and this often means any attempts to regulate or limit tax benefits to landlords in Australia tends to invoke stories from pro-market interests of the negative impacts on those hard working ‘mums and dads’ aspiring to build self-sufficiency through property investment.

However, we need to recognise that within the household PRS there is considerable diversity of investor types with varying motivations for investment including inheritance, and equity building for children or self while interstate or overseas (Hulse, Parkinson and Martin 2018). We therefore cannot be certain of the reaction to any proposed rent regulation as the investment rationale for some investor types may be completely unaffected by such an intervention. Unfortunately lack of data means we know little about the scale of and behavioural attributes of these different investor categories.

Most householder landlords contract management to estate agents who through their peak association, e.g. the REIA, effectively become lobbyists for the householder landlord. Estate agents given the importance of the rent roll and their commission and fee system have an incentive for them to encourage landlords to increase rents as well as property turnover as it generates higher incomes.

1.2.3 Nascent corporate landlordism

Corporate landlords (CLs) in the Australian PRS were common in the early post war years before strata titling but declined in the 1970s. They re-emerged in the early 1990s in the form of build-to-rent (BTR) international student housing. In the last decade broader based 'BTR' CLs have emerged, and the sector has been seen as a solution to the rental supply problem but not necessarily the affordability one (Pawson et al 2019).

1.2.4 Tax environment

The Australian rental system is underpinned by two tax instruments and one income support program, Commonwealth Rent Assistance (discussed in Section 1.2.6 below). The two taxation provisions are negative gearing (the ability to claim all costs against household income not just rental income) and capital gains tax provisions. Given that many Australian rental investors are as much driven by expectations of capital gain as yields (Pawson and Martin 2021; Seelig, Thompson et al. 2009), a large proportion of investors are willing to put themselves into a risky income-losing context knowing it will be a tax deductible with the hope that this will be more than compensated for on the sale of property and the capture of capital gain. This suggests that the current taxation provisions, may provide for negatively geared investors a ready-made cushion for increased losses on the introduction of rent regulations.

1.2.5 The supply narrative

As soon as any ideas around reshaping rental policy are raised, the supply narrative is wound out. This is premised on the efficiency of markets and the belief that any reforms (at least those of greater regulation) will impact on housing market supply and accentuate the problem, e.g. affordability, that reform is targeted at. Thus, the standard economics argument is that increasing rents are key market signals for suppliers to increase supply; any limit on price increases therefore blunts market signals. Just as importantly, if rent is blunted it could also induce a behavioural response by landlords to sell their properties, further accentuating supply and thus affordability and homelessness issues (Coates and Moloney 2023).

Early economics analysis of first generation rent controls was grist to the mill for such arguments as they did evidence a supply reduction, but that research now needs qualification by the findings of the evaluative research on second and third generation rent interventions (see Section 1.3 on existing research).

1.2.6 Commonwealth income support, Commonwealth Rent Assistance and social housing

The functioning of the private rental sector is not only dependent on its relationship to the wider housing system but also the income support system. This can cut two ways in terms of rationales for policy intervention or reform. For some, a rationale for some form of rent control is the limitations of these other interrelated systems. Because of the very small size of the social housing sector by international standards (around 4 per cent of stock), most poor households are in the private rental sector and at the mercy of market processes; access to a social housing rent is largely denied. Therefore, rent regulation could be a mechanism to mitigate the issues flowing from the small social housing sector.

A similar argument could be made with respect to income support. Australian income support in the form of job seeker, disability and aged pensions are lean and mean by international standards (Community Affairs References Committee 2020; Whiteford, Innis et al. 2019). For

example, Newstart (now Jobseeker) combined with the Commonwealth Rent Assistance, was the lowest payment in the OECD for the short-term unemployed (Whiteford, Innis et al. 2019). Given that most low-income Australian households excluding pensioners are in the private rental sector, the limited nature of such income support accentuates the risks from sharp increases in rents, such as homelessness or severe financial stress with implication for personal or household wellbeing.

Both the features could mean that Rent regulation should therefore not be seen as a solution but a complement to a restructured and/or increased rent assistance perhaps along the lines suggested by Ong, Pawson et al. (2020) and an expanded social housing sector.

1.2.7 Legal and values context

Australia has no 'housing as a human right' legislation which limits the ability to leverage a rent regulation case off such rights. Property rights by contrast are defined and protected in law. Moreover, the former arguably has relatively little awareness among the Australian population perhaps because the majority being owners are protective of their own property rights. The notion of housing rights has never really been in the public domain for consideration and if it is used it is more associated with homelessness and seen as a marginal issue rather than a broader right of renters. (see AHURI 2024, Bell 2024)

1.2.8 Market context and crisis

The Australian rental market post-COVID has been under considerable pressure. Hence, rent increases and concerns about a rental crisis. The question in terms of policy responses such as rent regulation is whether this is a short-term problem followed by a market correction or a structural and enduring problem. The former suggests minimal policy intervention; the latter substantive intervention, with the broad view and evidence suggesting the latter holds. Rapid population growth fuelled by migration (ABS 2023b) and contracting home ownership (Burke, Nygaard and Ralston 2020) are built into long term demand, while all the evidence such as weakening construction rates relative to household growth (Nygaard, van den Nouweland et al. 2022), inelastic housing supply (Ong, Dalton et al. 2017) and sustained investment in existing stock rather than new rental stock, means rental supply will likely continue to be short of rental demand

Rental crisis is not just defined by the scale of rental increases (which are high by historical context) but by outcomes such as the growth on homelessness, declines in affordability, weakened housing security, and sheer absence of stock; in short by greater housing precarity. Evidence for the latter can be documented by Official statistics and the grey literature. For example the Productivity Commission's 2024 Report on Government Services confirms that of the low-income households renting private homes, two in five (42.9%) were in rental stress and at risk of being pushed into homelessness in 2022-23, and a third (34.9%) of people seeking help from Specialist Homelessness Services who needed accommodation did not have their housing needs met, a huge 33.9% increase over the previous year. Anglicare's annual rental affordability assessment of 45000 private rental properties concluded lower income affordability "is the worst it's ever been", with average rents \$200 per week higher than pre-pandemic levels (Anglicare 2024) while the Victorian government's Rental Report for the June quarter 2024 showed only 23.6 percent of all rental properties in regional Victoria were available to a single parent with one child on a Centrelink income compared to 43.95% pre Covid (June 2019) while In Melbourne it was down to 1.3% from the already impossible 1.4% in 2019. Similarly, Consumer Affairs Victoria annual report (2022-23 p26) shows there were 5400

requests to review rent increases in 2022-23 up massively from 752 in 2020-21 and 2452 in 2021-22. And REIV rental vacancy rates across Australia have been for the last two years at record low levels (REIA, various years).

But it is the grey media that really captures the change; the almost daily stories and photos of the growth of tent cities of the homeless, a previously non-existent problem (ABC 2024); of caravan parks and motels increasingly accommodating those unable to afford private rental (Stevens 2024), the two-thirds of Victorian renters seeking legal assistance for rental increases and disputes being turned away by overextended tenancy support services (Carmody 2023) and the ever present personal stories of individuals or households pressed to the margins of precarity by rent increases out of all proportion to income increases.

1.3 Existing literature

A body of literature on rent regulation from both an empiricist and theoretical/analytical tradition can be traced back as far as the 1930s and has expanded greatly in the last decade. The theme of much of the early literature, virtually all coming out of the economics discipline, was that rent regulation distorted market outcomes resulting in reductions in rental supply as landlords exited the sector, deterred new investment and created inequitable shelter outcomes between those renters protected by regulation and those who were not (Ault 1981).

Most of this literature focused on first generation rent controls operative in various countries and cities after WW1 and WW2 even though many such jurisdictions after the 1970s had abandoned such regulation and moved to second generation regulation. This was more diverse in characteristic and often softer in impact. Much of the early empirical work of economists provided confirmation as to the potential negative supply and equity effects of first generation rent regulation. Recent research and analysis suggest both theory and evidence while appropriate for first generation controls would be somewhat misplaced in the current context of second and third generation rent regulation.

Most of the negative research of first generation rent regulation was in the form of econometric analysis which can be problematic in complex policy areas such as rent regulation principally because of the assumptions required to build the econometric model (typically competitive housing markets and rational behaviour) and the use of only the measurable dimensions of reality, i.e. the variables to be put into the model (see Marsh, Gibb and Soaita 2023 for more detail). The broad historical, institutional and policy context can rarely be reduced to measurable variables and are largely assumed away or not used. Moreover, the bulk of the earlier econometric research came from the United States and thus tends to not pick up the many nuanced forms of rent control elsewhere in the world. There can also be problems in how to interpret findings. For example, if a review of rent regulation identifies a lower turnover of renters in a regulated tenancy is this a negative, i.e. an impediment to mobility or a positive such as a more stable and secure housing situation. Similarly, if there is rental supply disinvestment (interpreted as a negative) but the properties are acquired by owner occupiers is this a positive instead? The answer probably depends on the institutional and market context in which regulation takes place.

In recent years there has been a substantial volume of meta studies of all generations of rent control and even more recently several articles documenting the impacts of recent rent regulation reform. These are reviewed in Section 2 and Appendix 6. One of the points to emerge from the more recent academic and grey literature is that the research and its

interpretation is deeply imbedded in political and ideological values. The many different interests in rent regulation (property interests, policy influentials, tenants, academics) can design their research, or choose the research findings, to fit their ideological position. Those who see rental system as characterised by competitive markets and protection of property rights can create or extract the information that fits that perspective just as those who see the rental system characterised by market imperfection and protection of tenant rights can create or find their desired information. This creates a major challenge in any consideration of rent regulation.

1.4 Research Methods

The report has four distinct research approaches: three related to research techniques and the fourth a commonly used policy cycle framework. The first is a literature review identifying what the international literature is telling us about the implications of rent regulation and issues of design and implementation. The second is a data analysis of the Victorian private rental market using rental bond data supplemented by relevant ABS Data. The objective here was to look at the short- and long-term performance of the Victorian PRS and to draw out implications for rent regulation; is it needed and what might be impact of such a policy. The third method as an econometric analysis looking at rental elasticity. Finally, the policy cycle framework is an adaption of a now fairly standardised model of the policy process as one of a sequence of stages; agenda-setting or problem identification. policy formulation/analysis, policy option decision making, consultation, implementation, and evaluation (for example, May and Wildavsky 1978; Bridgman and Davis 2004; Althaus 2022). The information from the other three methods provides the inputs to the policy process analysis.

The literature review method necessarily focused both on peer reviewed academic material and grey literature. Given the longish publication delays on academic literature and the focus on very recent policy changes equal weight in the review process was given to the grey literature, i.e. that which is published informally or non-commercially. This can appear in many forms, including government, not for profit and think tank reports, as well as media commentary and in most cases has not been peer reviewed. Grey literature particularly government policy or procedure documents, was also important as it was such literature that provides examples of the actual mechanics of policy, e.g. how a rental housing registers is designed, and data collected.

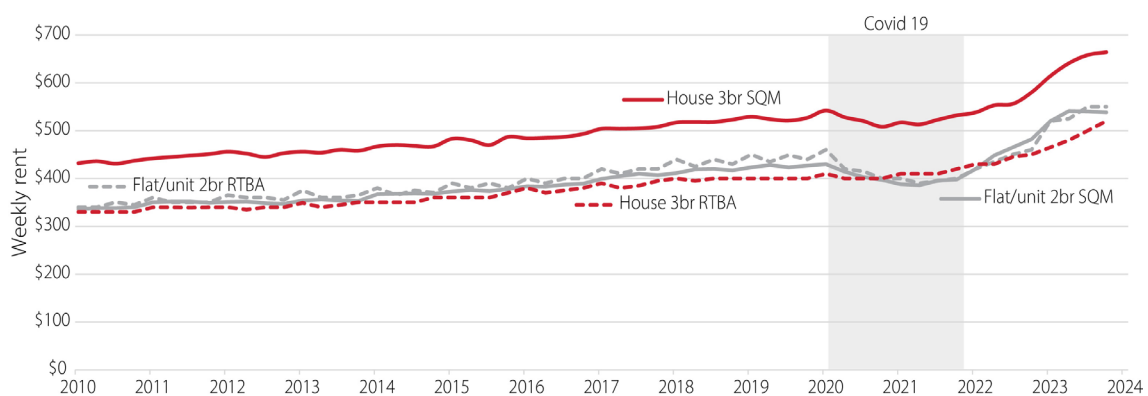
The data analysis section uses Victorian rental bond board data to illustrate the use of data sets for identifying a policy problem (scale and form) in this case the rental problem and potential implications of regulatory interventions. Victoria is used as an example recognising that other jurisdictions might have slightly different rental market performance although at the time of research all were experiencing high demand relative to supply

The Victorian bond data is also supplemented by ABS and HILDA data sources where relevant. Rental bond data come from records kept by the Residential Tenancies Bond Authority (RTBA). The RTBA is responsible for receiving, registering and refunding all bonds associated with private residential leases in Victoria. Bonds are paid at the time of a new lease, so the data is only for new tenancies and not existing tenants which is one of the limitations of the data as rent increases are likely to be greater when starting a new tenancy rather than an existing tenancy. For new tenancies the data is arguably more accurate than the data provided by private property data sites such as SMQ research which use advertised data with the problems

that not all properties are advertised as in a tight market estate agent have wait lists and properties are occupied without need for advertising. In addition, not all properties trade for the advertised rents; in a tight market rent can be higher than advertised and in a weak one less.

Figure 1 illustrates the above point. It compares the advertised rent from SMQ research for 2-bedroom apartments and 3-bedroom houses with the same properties using the rental bond data. While quite similar for flats there is quite a large difference for 3-bedroom houses in fact by end 2023 almost \$100 dollars a week. Perhaps more significantly the advertised rent shows a more rapid rate of increase in the last 18 months or so than bond rents although there is no denying the crisis of the last two years.

Figure 1: Rental bond rent changes compared to SMQ Research advertised rents, Melbourne 2009–2023



Source: SQM Research (2024) and RTBA (2024)

Bond data is collected for specific property types and bedroom sizes so where median rents are used in this report the specific property type is identified. Note that if the research was to be duplicated in other jurisdictions, the rental bond data there is for leases rather than properties which can mean higher numbers as there could be several leases to a property. One of the methodological decisions the researchers had to make was to whether to present rent increases in real or nominal terms, an issue of households' perceptions of reality. If rents, in nominal terms, go up 6% after a prolonged period of say 3% per annum tenants feel hard done by and experience anxiety and concern even though their income or indexed pension might have gone up by the same 6%—in reality they are no worse off. Or do they recognise the latter and accept that there is not a real difference in their situation? On the assumption that the data should best match reality rather than perceptions, this report provides data on rent increase in real terms.

The third method is an econometric analysis of the elasticity of rental housing supply. The elasticity of housing supply measures how responsive the quantity of housing supplied is to changes in its price. A higher elasticity signifies that small price changes can significantly affect the quantity supplied, while a lower elasticity indicates that supply is less responsive to price fluctuations. Factors influencing this elasticity may include the availability of land, dwelling values, regulatory environments, costs and availability of construction materials, and the time and complexity involved in construction (Ong, Dalton et al. 2017; Saiz 2010). These factors determine how quickly and effectively the housing market can adjust to shifts in demand, impacting prices and the availability of housing. The econometric method here uses a

modelling strategy called the instrumental variables (IV) approach which, within Australia, is an established method for measuring the elasticity of housing supply (Gitelman and Otto 2012; Liu and Otto 2017; Melsner, ViforJ and Wood 2022). The details of this are outlined in Appendix 4.

2. Existing research: meta-reviews of rent regulation

A substantive body of literature now synthesises, reflects on, and critically analyses the rent regulation literature of the pre-COVID era. Such Meta-reviews create the opportunity to extract all the behavioural and market outcomes that researchers have identified as potentially flowing from the various forms of rent regulation. Box 1 lists the outcomes under positive and negative categories and while meta reviews conclude that overall, the rent regulation does stabilize rents and provide greater affordability there is contestation is about the scale and form of the negative such as impacts on dwelling supply and households' mobility. The literature also draws attention to black market activities and 'under the counter' transactions in regulated regimes, e.g. search costs, requirements of key money, vicarious evictions etc however these are not listed as unique to regulated markets as in the current tight Australian market there is also accounts of similar behavioural practices (SBS 2023; Renters and Housing Union Victoria 2023 p17-28).

Box 1: Potential outcomes from the different forms of rent regulation

Negative outcomes of rent regulation	Positive outcomes of rent regulation	Mixed outcomes of rent regulation
It deters new construction of rental stock, accentuating the rental problem)	Rents are more affordable than in non-regulated markets	Existing renters (not necessarily low-income ones) being protected (have lower rents) when new renters are not
Causes disinvestment in existing rental stock, creating tighter vacancies	Renters face less financial stress, less forced relocation and potentially less homelessness	Mixed outcomes of rent regulation
Causes the maintenance of existing rental stock to be weakened	Greater security of tenure, potentially enabling better education, health and employment outcomes.	
Reduces the market value of regulated properties	Reduces the market value of existing properties, thus building better long-term housing affordability	
Reduces renter mobility and thus increases inefficient use of stock (overcrowding) and reduces labour market opportunity.	Mitigates wealth inequalities between landlord and property owners.	

Negative outcomes of rent regulation	Positive outcomes of rent regulation	Mixed outcomes of rent regulation
Leads to anomalies in rent levels for similar properties, as well as for the same property under different ownership.		
Encourages gentrification and displacement of lower income households as landlords retreat from lower end properties		
Creating rental stock short falls and blockages for potential renters, limiting the ability to move into independent living		
Causes spillover of prices or investment to non-regulated locations.		

The bulk of the literature documenting the negative impacts largely come from the USA and with a disproportionate focus on first generation rents. Examples of these include Jenkins (2009), Arnott (1995) and Turner, Malpezzi and Persson (2003). In the USA, at present, there are still a few jurisdictions where some of the stock is controlled through first generation regulations, such as New York, but most are now second-generation controls with some form of limit on rate of increase either fixed caps or indexed. There are hundreds of jurisdictions with rent control in the USA, but all are at the local government level (cities or towns) and are in 7 states only plus the District of Washington. Other states have no controls, and many have legislation banning such regulation. However, in some states the regulation (by European standards) is as much designed to accommodate the property lobby than protect renter well-being. Oregon for example has a cap of 7% plus the Consumer Price Index for All Urban Consumers, which as of early 2024 would mean a 10% per annum increase and, in the Australian context for most renters a higher rent than that of actual market rents (Sisson and Bowyer-Pont 2023, Figure 18). The major US only meta review and which includes all three generations is that of Goetz, Damiano et al. (2021) which covered 200 jurisdictions while Keating et al. (2019) provides a historical overview and analysis of US rent regulation. Box 1 provides key takeaways from Goetz et al. (2021) with the overall message that the outcome is not as categorical as that of earlier studies, second and third generation controls now muddy the water so it is no longer possible to excoriate them as an indefensible distortion of the market. The takeaways can be broadly seen as positives except that overall rent regulation is associated with rental stock reduction. However, this does not necessarily mean a reduction in housing supply for as Kholodilin and Kohl (2023a) point out any changes in the overall housing supply depends more on economic and demographic factors with little evidence that second and third generation rent regulation affects new construction. Moreover, if rental stock is likely to be converted to owner-occupied housing the outcome could be judged a societal positive although a personal loss or hardship for the households that may have lost their rental property. One of the reasons the USA literature throws up many negatives of the type listed in Box 2 is the fact that they are very local jurisdictions or as in New York only apply to certain categories of rental accommodation; landlords are therefore more able to make behavioral adaptations of investment by switching to non regulated locations or property types.

Box 2: Key takeaways from the Goetz, Damiano et al. (2021: 1) study of 200 US jurisdictions

- ‘The empirical research indicates that rent regulations have been effective at achieving two of their primary goals: maintaining below-market rent levels and moderating price appreciation. Generally, places with stronger rent control programs have had more success preventing large price appreciation than weaker programs.
- There is widespread agreement in the empirical literature that rent regulation increases housing stability for tenants who live in regulated units.
- Little empirical evidence shows that rent control policies negatively impact new construction. Construction rates are highly dependent on localized economic cycles and credit markets. Additionally, most jurisdictions with rent stabilization specifically exclude new construction from controls, either in perpetuity or for a set period.
- Rent regulations are shown to be related to an overall reduction in rental units as owners have commonly responded to rent regulation by removing units from the rental market via condominium conversion, demolition, or other means.
- There is little evidence that rent regulations cause a reduction in housing quality. Some evidence shows that major capital improvements keep pace with need, but that more aesthetic upkeep may suffer. Most programs allow for the pass-through of capital improvement costs.
- There is considerable debate in the empirical literature about whether most of benefits from rent stabilization go to the neediest households’

Meta-reviews which cover Europe as well as the USA and Canada are Whitehead and Williams (2018), Marsh, Gibb and Soaita (2023), Gibb et al (2022) and Kholodilin (2024). Around one third of European countries do not have specific regulations on rental increases or on rent levels, with most of these countries being in Eastern Europe where perhaps the very high rates of ownership by Australian standards blunt the need for rent regulation; like Australia in the early post-war decades private rental there is a residual sector. The European countries that do have rent regulation in the form of second-generation rents, i.e. those that have a simple metric and/or limit price increases during a tenancy only, are Belgium, Croatia, Cyprus, Germany, Luxembourg, Norway, Poland, Scotland and Switzerland. Third generation are more complex systems and are used by Austria, Denmark, France, Ireland, the Netherlands, Spain and Sweden (Coffey, Hogan et al. 2022; Kettunen and Ruonavaara 2021; OECD 2023; Sisson and Bowyer-Pont 2023). However rental markets and policy are so dynamic that these are not fixed categories, for example, as of early 2024 Scotland is reviewing its system.

The reason for the accelerated take up of rent regulation internationally is the rate of recent rent increases and the decline in affordability of the rental system. There is growing awareness that this is a structural issue deriving from the financialisation of residential property whose origins can be traced back to the deregulation of financial, planning and housing systems in the 1980s onwards (see Kemp 2023). Re-regulation is thus becoming a counter to deregulation.

The meta-review of Marsh, Gibb and Soaita (2023) looked at 82 published studies since 2000 across a range of countries categorised as liberal, Nordic and continental regimes. In undertaking the review, the authors decided to avoid where possible duplicating the material

of Turner, Malpezzi and Persson (2003) with their analysis focusing as much on the methodology of these studies as the housing market outcomes. Whitehead and Williams (2018) also look at the more recent literature and pay attention to the market and institutional context of the different countries in which regulation occurs. Kholodilin's (2024) analysis was of 206 studies but with a focus on just the findings not the methodology or the market context. He concludes that rent controls are quite effective in terms of lowering housing rents or slowing down their growth (which is the objective), but they also lead to a wide range of adverse effects impacting both landlords and tenants including supply and mobility issues. Unfortunately, Kholodilin does not differentiate between type of regulation or time period meaning the bulk are first generation studies and mostly American.

The overall conclusion of these meta-reviews is best summarised in the conclusions of two major meta studies. Gibb et al (2022: 741) state that 'rent control can have a negative, positive or neutral effect on housing and related markets, depending on the assumptions you feed into the model', while that of Whitehead and Williams (2018: 7) argue that 'the impact of rent control depends on its form and economic context (notably inflation and the costs of delivery) plus crucially the nature of the welfare system in place'. Gibb et al also make three other key points.

Firstly, evidenced-based research has played little role in shaping rent regulatory policy. The drivers of policy or non-policy are more about the institutional context including any crisis or process that prompts a political response.

Secondly the direction of rent regulation is not linear. Some regimes with a long history of regulation are weakening that regulation, e.g. Nordic regimes, while others are reintroducing or introducing regulation because of the different contexts they face.

Thirdly, the publications are disproportionately economic with 68% being quantitative. Specific points emerging from this observation are that much of this research (with much focused on first generation rent controls) has been methodologically flawed: problems or issues include an assumption of free markets and landlord rationality with the consequential failure to recognise that market structure and behaviours vary greatly; the limited ability to separate out regulation per se from broader policy changes; the problem of seeing all landlords as a homogenous group with different associated motivations. However, the quality of econometric modelling has improved substantially and in certain cases has tried to work through the above issues.

Fourth a question as to whether risks associated with rent regulation can be mitigated by good design to which their answer is ambiguous. This is not because design is unimportant but the problem of identifying good design and whether the elements of good design in one context can be transferred to another that may have a very different institutional context, i.e. the problem of policy transfer. Part of this problem, linking back to the methodological problems they noted, would be the lack of emphasis in most studies on design and implementation issues. They conclude, however, that this is not a recipe for policy inertia and abandonment of evidence-based research but rather highlighting that future research should be less focused on the 'what', i.e. whether to have or have not rent regulation, but more on 'how', i.e. how to implement policy in a particular institutional context. Hence Section 4 of this report.

Sisson and Bowyer-Pont (2023) and Lloyd-Cape, Dawson et al (2023) are Australian reviews with findings that are consistent with earlier international reviews. Lloyd-Cape, Dawson et al. (2023) outline that recent third generation rent regulations of other countries appear largely

unproblematic but, reaffirming the point of Marsh, Gibb and Soaita (2023), that policy transfer, particularly that of Rent Pressure Zone (RPZ) would be challenging not least because of the inadequacy of key data sources to inform regulatory decision making, e.g. identifying periods and place of rental price pressures justifying regulatory intervention. They do however suggest some form of soft rent control although details are not specified. They also make the key point that regulation is not a silver bullet and that the crisis of the rental market is institutional and long term. More substantive housing policy reform is required.

Perhaps the most informative research relevant to the Australian context post-COVID is that of Sisson and Bowyer-Pont (2023). The key conclusion from this report, consistent with other recent studies, is that rent regulation in third generation format, does not have dire market impacts and that while there are institutional differences in the Australian context that have to be worked around, the study recommends implementation of rent regulations within tenancies through either a fixed percentage cap or inflation-linked cap limited by a maximum percentage. They also suggest that further research should guide the appropriate cap—including appropriate indexes—and provisions for exceptions.

Whether it is setting an initial rent, through various methods of regulating subsequent increases, to the level of government responsible for regulation, this summary obscures the detailed design features within each country's regulatory system. These are explained more fully, and issues associated with them, in Section 4.

There have been several international rent reforms and reviews not captured in any meta reviews, i.e. post 2022, and for the countries of Germany, France, Spain, Scotland, Ireland and Canada. These are summarised in Appendix 6 and findings from them are also woven into Section 2.

Table 1 adapts and expands a summary table from Sisson and Bowyer-Pont and shows the broad but different approaches to methods of rent-setting for 26 jurisdictions.

Table 1: Rent regulations, select international comparators

	Base Rent	Fixed percentage caps	Index-based caps	Combined fixed and index caps	Other indexing	Operating cost/utility value	Deliberation and bargaining	Frequency limits	Level of Government
Australia – historic (national security and NSW) pre 1970s	Yes, by formula					'Formula' and 'basic rent plus's methods			State
Australia – current ACT			110% of Canberra CPI Rent component					12 months	State
Australia – current others								6 or 12 months	
Austria (Complicated formula considering property age conditions and costs.			
Belgium			Health Index (CPI excluding tobacco, alcohol, fuel)					12 months	National but regional variations allowed
Canada – British Columbia		3.5%						12 months	Province

	Base Rent	Fixed percentage caps	Index-based caps	Combined fixed and index caps	Other indexing	Operating cost/utility value	Deliberation and bargaining	Frequency limits	Level of Government
Canada— Ontario		2.5%						12 months	Province
Cyprus		6%						2 years	National
Denmark	Yes. For properties over 5 dwellings a base rent is created by relationship to an expenditure formula	4% (except operating cost regs apply)				Dwellings built before 1991: 7% of property value in 1973 plus tax, fees, insurance, maintenance		12 months	National
Finland			CPI or Cost of Living Index (per lease)					12 months	National
France	Base rent is the price per square metre of standard living space. But only for a given housing category and geographical area.		Reference rent (but note fixed cap in 2022 and 2023)	Lesser of reference rent and 3.5% (2022 and 2023)				12 months	National but only in certain local areas meeting rent pressure criteria

	Base Rent	Fixed percentage caps	Index-based caps	Combined fixed and index caps	Other indexing	Operating cost/utility value	Deliberation and bargaining	Frequency limits	Level of Government
Germany			Reference rent (but not more than 15% over 3 years)					12 months	National but local variations within national guidelines and only for "tight" housing markets
Ireland				Lesser of CPI and 2% (in RPZs)				24 months (in Rent Pressure Zones)	National but only for locality specific (tight housing markets)
Italy					For standard leases (usually four years) rents over the four years can only be increased by 75% of CPI Increase		Non-standard leases are to follow guidelines set by the national landlords and tenants associations. These "special" contracts have low rent ceilings and rent increases cannot exceed the ceiling set by the agreement between the associations.	Typically, 4 years months	National

	Base Rent	Fixed percentage caps	Index-based caps	Combined fixed and index caps	Other indexing	Operating cost/utility value	Deliberation and bargaining	Frequency limits	Level of Government
Netherlands	Base rent set by points-based system for properties below a certain value classification				Private rental properties above value classification can increase rents annually but with a cap on the amount of increase. This cap is set annually by a central government committee and in 2023 was 4.1% marginally less than the 4.5% rate of inflation.	Base rent set by points-based system for properties below a certain value classification		12 months	National
Norway			CPI (annually) or to market level (after three years)					12 months or 3 years	National
Poland			Either CPI index for previous year (most common) Or see column eight)				No more than 1.5% of outlays of purchase or construction or 10% for permanent improvements	6 months	National

	Base Rent	Fixed percentage caps	Index-based caps	Combined fixed and index caps	Other indexing	Operating cost/utility value	Deliberation and bargaining	Frequency limits	Level of Government
Spain		Maximum of 3% (2024)	New index to be developed (from 2025)	From the fifth year of a lease the rent may be increased by an amount equal to the legal interest plus 3% on any investment made to improve the property, with a maximum increase in the rent of 20% being the limit.				12 months	National but only for stressed rental markets and only if supported by local government.
Sweden	Formula coming out of Collective bargaining between tenants' unions and landlord associations						Collective bargaining between tenants' unions and landlord associations	12 months	National
UK – England								12 months for periodic tenancies A fixed-term tenancy can only be increased if your tenancy agreement permits this.	

	Base Rent	Fixed percentage caps	Index-based caps	Combined fixed and index caps	Other indexing	Operating cost/utility value	Deliberation and bargaining	Frequency limits	Level of Government
UK—Scotland		3% (in 2023)	Adjudication and scaled increases to be developed (from 1 April 2024)					12 months	
US – New York							'Rent stabilised' dwellings subject to increases per Rent Guidelines Board determination after hearings	1 or 2 years, per Rent Guideline Board determination	
US – Oregon				Lesser of 10% and CPI+7%				12 months	
US – Paterson, New Jersey		5% (or 3.5% for over-65s)						12 months	
US – St Paul, Minnesota		3%						12 months	
US – San Francisco and Oakland			60% of Bay Area CPI (and not more than 3% in Oakland)					12 months	

	Base Rent	Fixed percentage caps	Index-based caps	Combined fixed and index caps	Other indexing	Operating cost/utility value	Deliberation and bargaining	Frequency limits	Level of Government
US- city of Portland Maine			equal to 70 percent of the change in the Consumer Price Index (CPI-U) for Greater Boston Metro Area					12 months	
US Maryland-Montgomery country				the lesser of the Consumer Price Index for All Urban Consumers for the Washington-Arlington-Alexandria (CPI-U) plus 3% or 6%				12 months	

Source: Adapted and expanded from Sisson and Bowyer-Pont (2023)

3. Data analysis

This section examines statistical data for what light it might shine on understanding the current Australian rental crisis and the likely implications of rent regulation. Being a small project and designed for exemplification purposes on the analysis focuses on Victoria only. Victorian rental bond data is the major source although supplemented by various ABS and HILDA data.

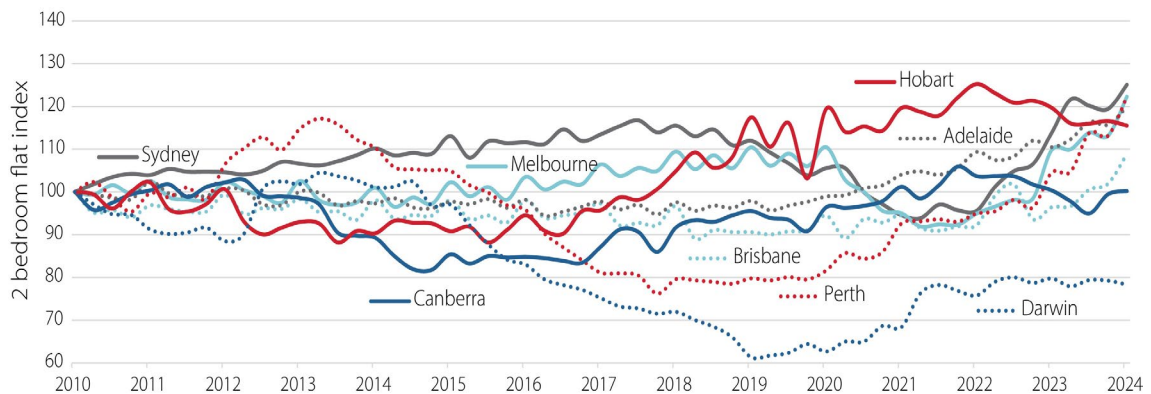
The disadvantage of a single jurisdictional analysis is that each state and territory will have different experiences in of rental market performance and that Victoria's experience might be somewhat different although post covid most jurisdictions have been experiencing tight vacancy rates and supply shortages. Over the longer term there may be variation in timing and scale of rental increases by virtue of different demand and supply drivers; international students more important in Melbourne and Sydney, mineral industry spillovers in Western Australia, demographic changes and STRA impacts in Tasmania for example. But while there can be differences, as various AHURI research has shown, all have experienced over recent decades weakening of supply at the lower end of the market, continued and worsening affordability problems and by virtue of the limitations of residential tenancies law sustained insecurity of renters associated with relatively weak protection against excessive rent rises.

Figure 2 (flats) and Figure 3 (houses) shows the real increases in rents for all capital cities (index year of 100 is 2010) and illustrates that Melbourne increases post 2020 have been at the higher end of the scale along with Hobart, Sydney, Perth and Adelaide. It is therefore not an outlier whereby the findings of this report could not be seen to hold for other Australian jurisdictions.

The outliers in terms of apartments are the ACT (Canberra) and Darwin where rents in real terms are lower than in 2010 and for Houses, again Darwin and Canberra for which rents are much the same as a decade previous. Given that the ACT is the only jurisdiction with some form of capped rent control it is significant that rents here are so different to the experience of all the states.

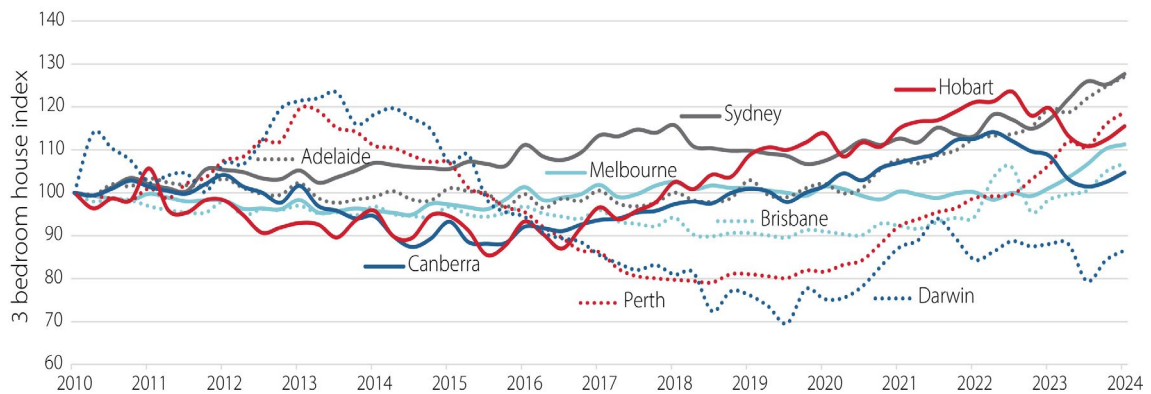
All other cities post covid have had substantial house rent increases. The trajectories between 2010 and 2023 are quite different in several cases; Hobart having seven years of falls (both houses and flats) then more or less continued increase, Sydney slow rise for houses and flats to 2017 then fall for flats to 2022 and stable to 2021 for houses then like most cities other than Brisbane rapid increases. As an aside the figure also shows how rents are a major contributor to ABS CPI inflation data. Given the large weighting of rents in the CPI (6%) rent increases will inevitably increase the inflation rate whenever the rent component exceeds the general CPI as it has in most jurisdictions since 2021. Rent regulation capped at the CPI would have the spillover benefit of reducing inflation.

Figure 2: Real increases in rents, 2010 to 2023, Australian capital cities. 2-bedroom flats, indexed to CPI



Source: Real Estate Institute of Australia, Market Facts, various years

Figure 3: Real increases in rents, 2010 to 2023, Australian capital cities, 3-bedroom houses, indexed to CPI



Source: Real Estate Institute of Australia, Market Facts, various years

Rental Bond data, the source of most figures and tables, is only for newly registered tenancies. Consequently, the data does not cover rent changes for existing tenancies although another data source (HILDA) does allow for some observations. The inability to include existing bond tenant data is disappointing as it is likely that rent increases are likely to be lower for existing tenants given many landlords want to hang on to tenants (a vacant dwelling has costs) with the result that aggregate rent increases may be less than the publicised ones which are just for new tenancies. Some evidence for this comes from three sources. The first is exemplified by the Irish experience where from the second quarter 2023 the Irish Rental Tribunal began publishing existing and new tenancy increases for the first time. Year on year increase for the third quarter 2023 for existing tenants were more than half the rate of growth of new tenancies (Ireland Residential Tenancies Board 2024b, pages 4 and 6). The second source, discussed in Section 3.2.5, is HILDA data for tenants that have moved and those that did not move over the last six years, revealing much bigger increases for the former. The third source is the RBA Hanmer and Marquardt study (Hanmer and Marquardt 2023) which used a new large administrative dataset of rental properties, including existing tenant rents, as entered by property managers and supplied to the ABS by MRI Real Estate Software. The study showed that nominal rent increases for properties with a new tenant have tended to be larger, on

average, than for properties with existing tenants. In February 2023, over 60 per cent of properties with new tenants had rent amounts in nominal terms more than 10% higher than 12 months earlier (Hanmer and Marquardt 2023, Figure 12); this compares with only one-quarter of properties with existing tenants having rent increases of more than 10 per cent (Table 2 and Graph 9). Unfortunately, this data set is only available to Commonwealth and state government agencies not academic researchers and therefore cannot be accessed to put the Hanmer and Marquardt data into real rather than nominal terms.

This section illustrates the use of data for problem identification with conclusions drawn from that data. However, this PRS data is about aggregations of properties. They do not reveal how individual people or groups therefore see and experience the PRS and how it may shape their housing aspirations and expectations. For that information the combination of dedicated quantitative and qualitative research of the type exemplified by Australian Housing Aspirations (2018) survey of 7,343 participants is required (Stone et al. 2020a). These data indicate that three out of five (59%) private renters don't think they will ever be able to afford to buy a home of their own clearly indicating how increased rents and affordability issues impact aspirations (Stone et al. 2020b; Baker et al. 2024). Extended in a dedicated qualitative study of young people's housing experiences and suggested solutions were in 2024, the aspirations approach suggests a 'ratcheting down' of housing aspirations over time (Stone, et al. 2024).

For existing tenants rents rising faster than incomes (on top of other cost of living pressures) will mean financial pressures to the degree that some households notably the many low- and moderate-income households in private rental it could mean having to relinquish their accommodation. And just the fear of a rent rise will create anxiety and feelings of insecurity not helped by awareness that if forced to move the market is against them.

Specific questions focused on in this case study analysis are:

- What is the nature of the rental crisis?
- Does the rental and investment history of the rental sector suggest rent regulation would make a substantial difference to affordability?
- The likely degree to which rent regulation would impact landlord profitably and provide incentive for disinvestment in **existing** stock?
- Is rental supply largely determined by other factors to the degree that regulation would be relatively unimportant?

What the study does not do, alluding to the earlier comment, is provide new evidence of tenants' or landlords' actual experience and views about the rent problem. But there is substantial other literature on this and this is referred to at relevant points.

3.1 Context: The Victorian rental sector

The Melbourne PRS has two key features. First, stock is predominantly in the inner city mostly in the form of apartments largely due to two factors, a historical resistance by more outer municipalities to apartment development pre the 1990s and the use of planning controls to limit growth, and the growth of tertiary international students and their desire or need to be located near the inner-city universities. Second, the overall dominance of detached dwellings

in Melbourne resulting in the growth in private rental, particularly in the outer areas, has had to occur by investment in detached housing.

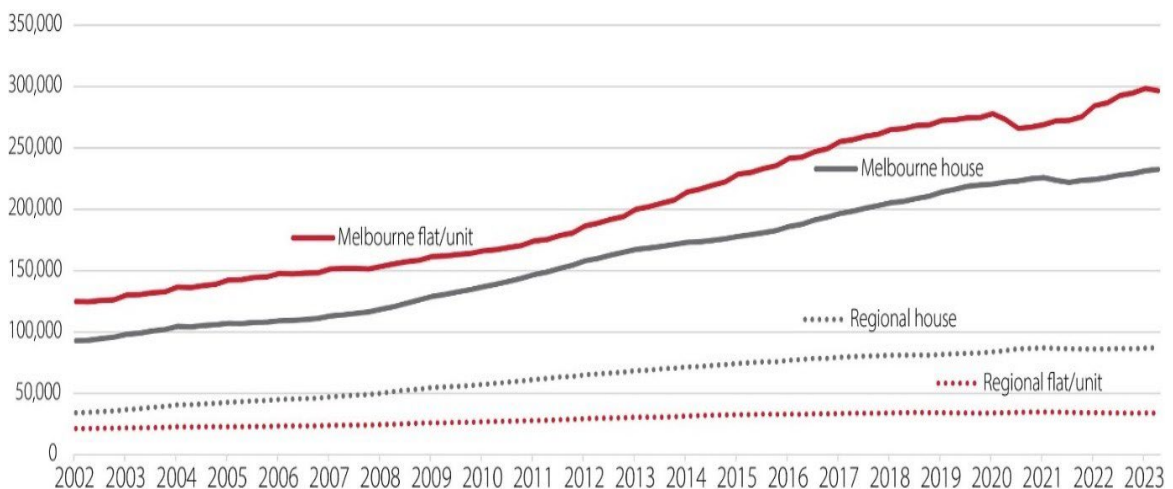
Regional Victoria has had even greater resistance to apartments (particularly buildings more than two storeys) with the result that most rental stock is largely detached dwellings and villa units, i.e. single storey units, typically two or three to an allotment or block. Moreover, the proportion of all stock in regional area is lower than Melbourne partly because greater affordability has not engendered the same level of contraction of ownership.

3.2 The data: how does data build knowledge around regulatory reform?

3.2.1 Rental pressures

Rent increases at the simplest level of analysis derive from the interaction of supply and demand. In the Victorian context, the major drivers of rent increases post-COVID are a combination of supply and demand changes but with the emphasis on demand. Figure 4 shows the long-term trend (2002-2023) in the number of rental bonds for both metropolitan Melbourne and regional Victoria and shows contraction in bond numbers during the COVID period but an increase in new bonds (effectively new rental supply) to a record 300,000 tenancies in 2023. However, it took from March 2020 to early 2022 for bond numbers to get back to pre-COVID levels and this no doubt contributed to rental pressures. By 2023 bond numbers increased substantially but rental pressures remain to present suggesting demand rather than supply from mid-2022 onwards was the key factor. Demand was fuelled by returning international students, high migration rates, and potential homebuyers deterred by dwelling price inflation and higher interest rates. Post-COVID rental demand has shifted to houses rather than apartments with implications for submarkets and dwelling prices. Despite stock growth, the available stock has been insufficient to meet demand, and in view of the historical rate of new rental formation as reflected in new bond growth, a surge in rental supply to meet such growth is not likely; sustained rental pressures can be expected given no change in the factors driving demand.

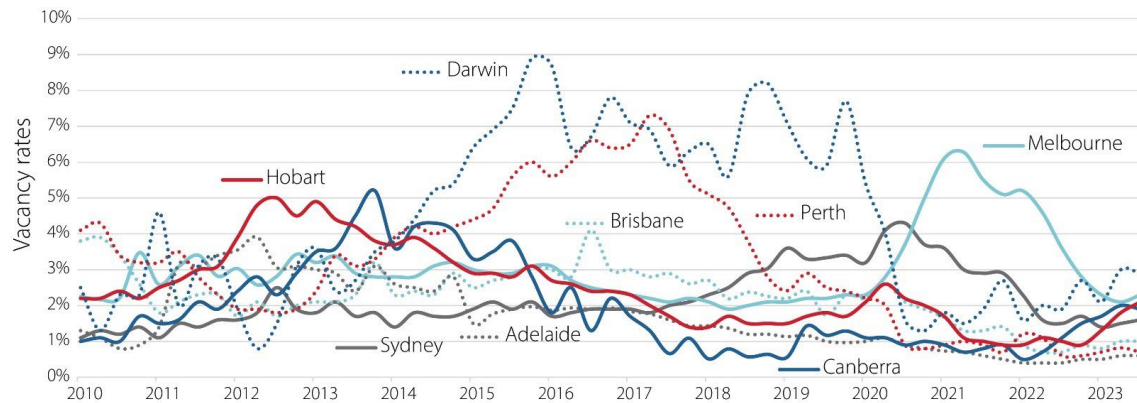
Figure 4: Total bonds, 2002-2023, metropolitan Melbourne and regional Victoria, houses and flats/units, number



Source: RTBA

Vacancy rates are indicative of such rental pressures. Figure 5 shows that at first quarter of 2024 all Australian capital cities had vacancy rates below 3 per cent (the common Australian benchmark used to measure market balance). Melbourne during COVID had the highest rates of vacancy peaking at over 6 per cent but interestingly Brisbane, Perth and Darwin, historically, have had higher vacancy rates in periods not associated with any form of national or international crisis. This reveals capital city rental markets vary greatly dependent upon local circumstances suggesting if there was to be rent regulation a jurisdictional based model (or some hybrid model) rather than national model may be desirable.

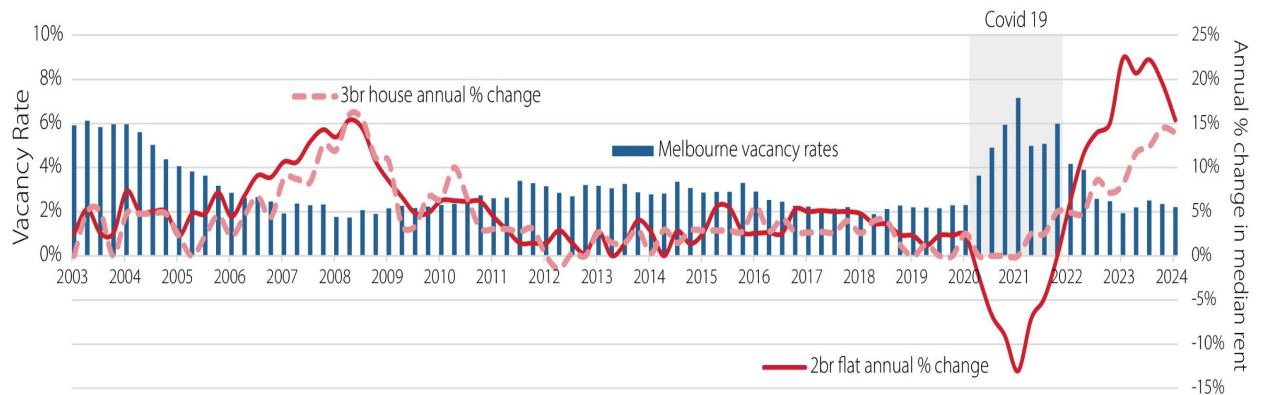
Figure 5: Vacancy rates, 2010–2024, capital cities



Source: Real Estate Institute of Australia, Market Facts, various years

Figure 6 combines vacancy rate data and rent data for metropolitan Melbourne and regional Victoria. It highlights the close relationship between vacancy rates and rent changes. The rent data is for 2-bedroom flats and shows an almost direct relationship of vacancy rates to rent changes; the two periods of tightest vacancy rates over the last 20 years, 2009-2012 and 2023-24, show high rates of rent increases corresponding with periods of very low vacancy rates, while low rates of rent increases in 2003-2004 and 2000-2002 correspond to higher vacancy rates. Although more work needs to be done here this does suggest the capacity for say quarterly vacancy rates changes to be used as a trigger mechanism for any short-term rent regulation strategy.

Figure 6: Vacancy rates and median rent changes, metropolitan Melbourne, 2-bedroom and 3-bedroom properties, 2003–2024



Source: RTBA, REIA Market Facts, various years

3.2.2 The rental crisis

Is there a rental crisis? Social and traditional media have repeatedly used the term rental crisis but what does the data show? One measure is the increase in rental hardship and homelessness as documented in Section 1.2 but in terms of rental data the two important ones are whether increases are of a scale that are historically exceptional and whether they are of scale that have little relationship to renters' capacity to pay, i.e. increases in income relative to that of rent increase. Rental Bond data would suggest both are in play.

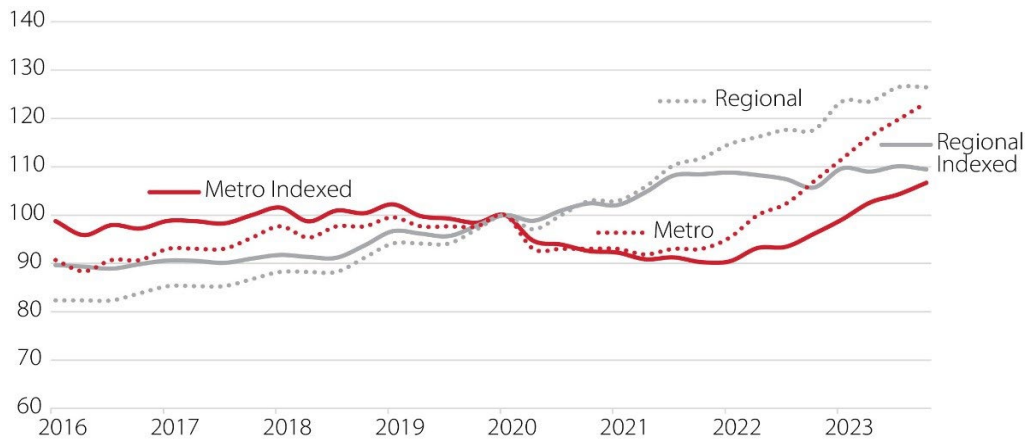
What is the nature of the rental crisis? The data would suggest that two rental crises are in play, a current 'point in time' crisis where rents are increasing at a rate historically high and in many cases of a scale having little relationship to household income growth. The point in time crisis is a function of the restructuring of housing supply and demand created by the impacts of Covid, e.g. demand for houses rather than apartments, demand for regional and outer urban areas, return of international students and high interest rates and construction workforce/material shortages dampening new dwelling supply.

The second crisis is a long term structural one but with the latter related to the former. The structural is reflected in some twenty years of AHURI research on declining rental affordability, lower-end stock availability and lack of security of tenure (Yates, Wulff and Reynolds 2004; Wulff, Dharmalingam et al. 2009; Burke, Stone and Ralston 2011; Stone, Burke et al. 2013; Wulff, Reynolds et al. 2011; Parkinson, James and Liu 2018; Hulse, Reynolds et al. 2019). The structural crisis relates to processes to some extent shared internationally such as the financialisation of property but accentuated in the Australian context by its own institutional attributes including the rate of household growth and nature of the policy environment. However, a key point looking at the history of rent increases is that a point in time crisis become a platform for ratcheting up rents to new levels which accentuating the long-term affordability, rental security problem.

3.2.3 Point in time/short-term crisis

Covid had several effects on housing markets both spatially and for types of dwelling. Figure 7 shows the importance of deflating to constant dollar using 2020 (pre covid) as base year as well as providing longer term data. While the nominal rents for metropolitan Melbourne show substantial increases compared to earlier years once deflated are until end 2022 much the same as they were eight years ago. However, from 2022 onward they rose rapidly and by 2024 they are much higher than any time in the recent past. Regional have a different story. They experienced slow real increases until Covid but between 2021 and 2022 kicked up to historic high levels and have remained at these levels subsequently. Subsequent data drill deeper into this recent period.

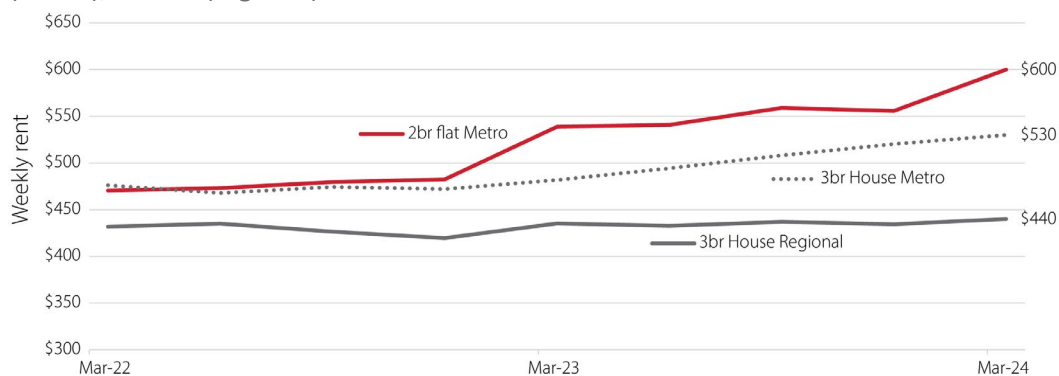
Figure 7: Real and nominal rents, metropolitan Melbourne and regional Victoria, 2016-2024



Source Authors calculations from ABS CPI Series and RTBA

Figure 8 shows real rent increases from March 2022 to March 2024 by location and dwelling type. In Victoria rents for apartments collapsed largely driven by the return of tens of thousands of international students to their country of origin and the cessation of all migration. By contrast demand for houses held up in Melbourne and increased in regional Victoria as many households relocated from Melbourne or from inner to outer Melbourne. Rents in real terms remained stable for Melbourne and increased for Regional Victoria as a result (see Figure 10). Victoria, with its long lockdown times, never recovered from Covid until 2022 when rents took off. From the downs of 2020-21 apartments increases took rents to new heights and of course new levels of poor affordability. While house prices held up during Covid from mid-2022 house rents also increased to new levels meaning an existing structural crisis of affordability has now been overlaid by a post covid crisis which as of early 2024 shows no evidence of weakening. The risk is these levels becoming the new normal with accentuation of already problematic affordability and tenancy security issues, most obviously for lower income households. By contrast regional rents (houses only) following large increases in 2020-21 have slowed but are still increasing in real terms which has been the long-term trend in regional areas.

Figure 8: Real rent increases, March 2022 to March 2024 (point in time crisis), flats and houses (metro), houses (regional)



Source Authors calculations from ABS CPI series and RTBA

Table 2 illustrates something of a paradox. Using rental bond data, it shows new lettings have declined over the last five years. On the surface this suggests a weakening of investment and a rationale for regulatory opposition. But as Figure 13 (Section 3.2.9) shows actual investment increased from 2019 to 2023 although it has been flat for the last eighteen months. There are two explanations of this. One is that most new investment is going into turnover of old rental stock i.e. one group of landlords are selling properties to another with little new change in stock. The second is that in a tight vacancy market with tenant awareness of big rent increases in vacant properties tenant mobility is reduced; tenants are remaining in place, so fewer properties are available for relet, a similar problem to that of the social housing sector. This could suggest that some form of short-term rent control on vacant properties might increase tenant mobility turning one of the arguments often used for regulation on its head.

Table 2: New lettings for metropolitan Melbourne, regional Victoria and Victoria, September quarter 2019-2023

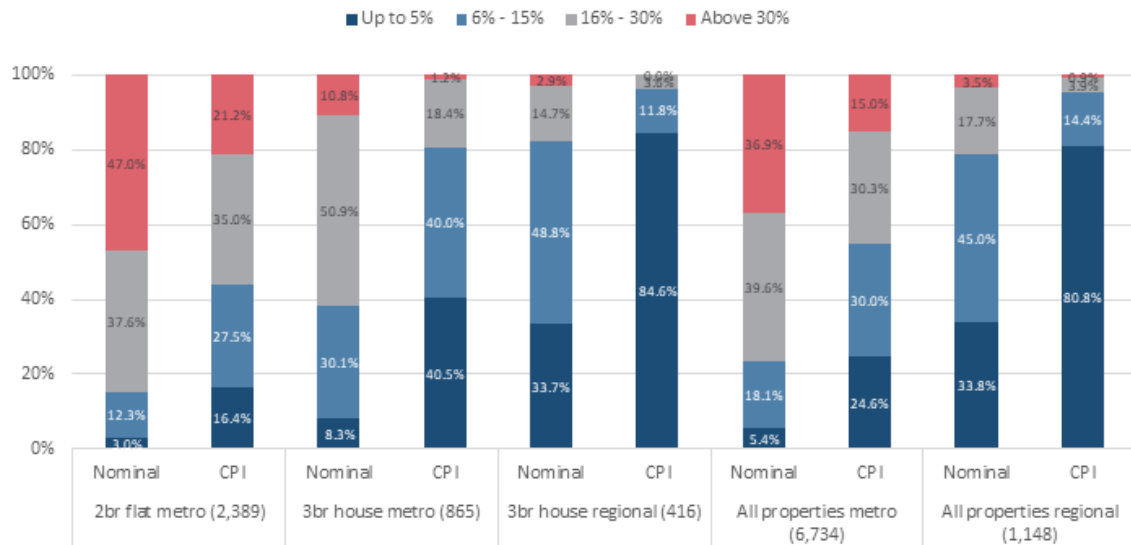
Region	Sep-23	Sep-19	Change
Metropolitan Melbourne	44,336	48,188	-8.0%
Regional Victoria	9,912	10,650	-6.9%
Victoria	54,248	58,838	-7.8%

Source. Authors calculations from RTBA

Another cut on the degree of rental change post Covid is provided by Figure 9. This uses hitherto unused bond data and shows rent changes for the **same** properties that commenced a tenancy in March 2022 and again in March 2024; the property in that time has become vacated and relet. In such cases the opportunity for largish rent increases is there because there is no need for the landlord or estate agent to reflect on the implications for an existing tenant. It tells us something of the dynamics of the rental market with the turnover of tenants in relative short time frames creating the opportunity for a rent reset on the same property. The sample size here was 7822 properties and excludes rooming houses, student housing and caravans and the figure is for Melbourne, regional Victoria and Victoria total and both real and nominal increases.

For metro two-bedroom flats and three-bedroom houses 16.4% and 40.5% respectively had no real increase meaning a largish proportion of landlords are keeping rent increases to or around the CPI. At the other extreme 56.7% of flats and 19.6% of houses had real increases of more than 16% in real terms; in the case of flats 21.5% were more than 30%. Some of these large real increases may have been because of landlords taking the opportunity to renovate or upgrade the properties but it is likely the bulk is landlords simply capitalising on market circumstances and capturing windfall gains. The story for regional Victoria is different. There 84.6% of houses (the flat stock is small) had no rent increases at all in real terms indicating the point in time crisis is in Metropolitan Victoria not regional Victoria. A short comment on the nominal increases. Some 61% of house rent seekers would have been looking at increases of 16 percent or more which would lead many renters (and probably some media commentators) to feel they were experiencing rental circumstances unparalleled given a history of relatively little nominal increases since 2010. But many may have neglected the fact that their incomes also increase substantially compared to the past.

Figure 9: Real rent increase by scale of increase, March 2022 to March 2024, location and property type



Source: Authors calculations from RTBA

The data suggests the crisis media stories are perhaps built around a sizeable but not majority percentage (around 35% of total stock with very large increases) and it is these increases that it could be argued provide a rationale for rent regulation as these increases are of a scale that have no relation to capacity of pay and could precipitate considerable housing stress for many. A minority of this size represents tens of thousands of households in Victoria (hundreds of thousand Australia wide) who would have found it much harder to find an affordable dwelling in 2024 compared to 2021 and much worse than earlier years. On the other hand, the data also suggests a largish proportion of landlords keep rent rises close to or at the rate of inflation which has implications for how we might think about rent regulation design.

In other countries areas of identified rental pressure (rental pressure zones) are often signalled out for spatially focused regulation. Appendix 5 overviews differences in the Melbourne Metropolitan regions and within regional Victoria and in the Melbourne context from 2019 to end 2023 there are major difference with greater increases the further the distance from the CBD. Between 2019 and 2022 the more inner-city areas had real declines in rents most notably for apartments. However, post 2022 all Metropolitan Melbourne is under stress and experiencing real increases and in outer areas very large ones. As the drivers of rent increases for houses in outer urban areas include post covid lifestyle changes and working from home, processes shared across Australia is it likely there would be the same locational trends. In regional Victoria by contrast post 2022 the rent pressures have mitigated (but now locked in a new normal) although more fine-grained analysis would no doubt find individual cities and towns still experiencing rental pressures because of localised factors and this too would no doubt be replicated Australia wide. Such submarket variations might suggest the option for regional and outer urban metropolitan regulation but the issues here are three fold, first that would not deal with the excessive rent rises in areas outside any designated RPZ, secondly drawing the boundaries of such areas, notably in the large cities, where there are no clear governance or geographical boundaries would be both methodologically and politically difficult and thirdly there would likely be spillover effects on areas adjacent to any RPZ. Finally in areas where there are no rent pressures implementation of a general CPI cap would leave

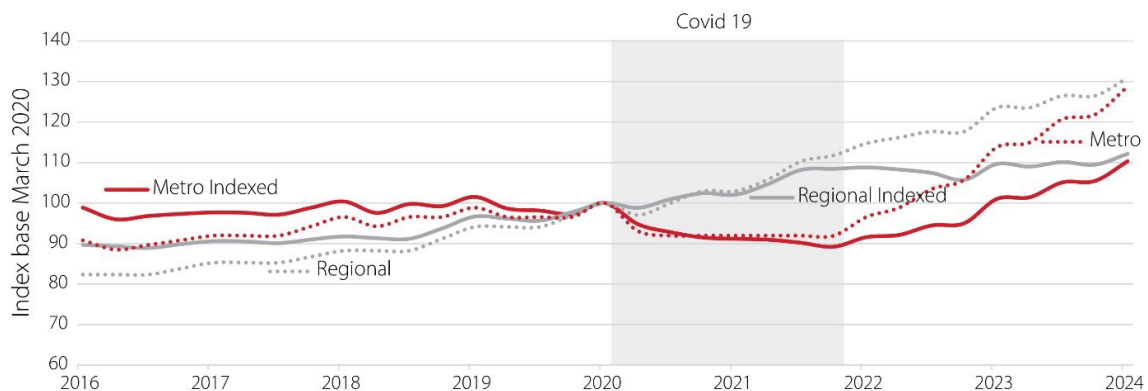
them unaffected. Thus, a general cap across the board for all Metropolitan and regional areas would be administratively easier and more likely prevent the market distortions associated with locality specific regulation.

3.2.4 Structural or long-term crisis

Figure 10 shows rents in real terms since 2002 for flats and houses and for Metropolitan Melbourne and regional Victoria. For Melbourne the figure shows over the long-term real rents have increased for both flats and houses but with the bulk of the erosion in affordability because of sharp rent increases occurring in the period 2007 to 2010 and again in the last eighteen months. Between 2010 and 2022 real rents were flat except for the up down effect for apartment rents during and after Covid. For regional Victoria it is a different story as here there has been a steady increase in rents over time both for flats and houses.

What appears to have happened between 2007 and 2010 is that a short-term crisis like now which ratcheted rents to a new level but did not fall back; there was no market adjustment and thus the new rent level becomes the new normal. This is the risk in the present point in time crisis; this too may see no market adjustment and thus all the problems identified in the multiple AHURI reports on private rental over the last decade will be magnified in the future. Would rent regulation back in 2008 prevented such a ratcheting effect have prevented this long-term problem is the same question we have to ask for the present. Would point in time regulation address both a short term and long-term problem?

Figure 10: Real rents, Melbourne and regional Victoria, 2002-2023



Source: Authors calculations from ABS CPI Series and RTBA

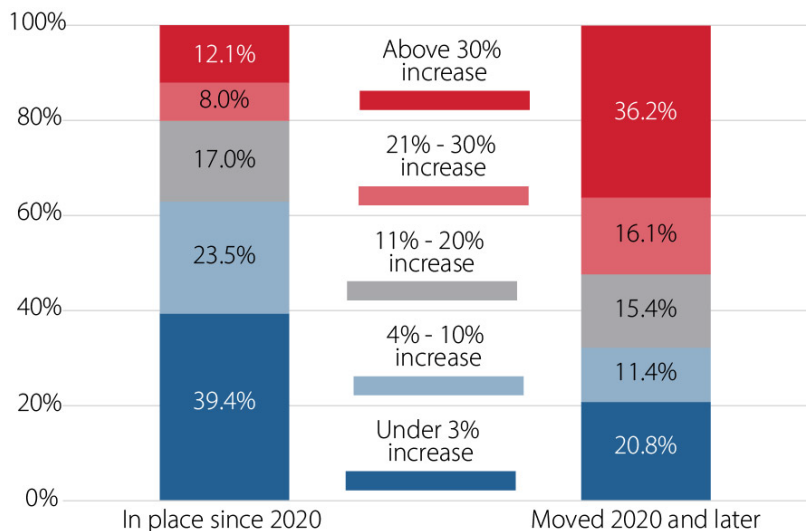
3.2.5 Existing tenancies vs new tenancies

To date the story both structural and for the 2022-24 point in time crisis has been around new let rent increases but there is some data available which can tell us something about existing tenancies. The Household, Income and Labour Dynamics in Australia (HILDA) Survey is a household-based panel study of some 17000 persons who are surveyed annually on a range of lifestyle questions including housing. Figure 11 uses HILDA data for all Australia on the rent situation of the 2,881 renters over the period 2019 to 2022 the period prior to the rapid increase in rents from 2022 to 2024. During this time, the rent changed for 2,050 households who remained in place (existing tenants) and for 831 households who relocated over that period. The data categorizes rent increases from under 3% to more than 30% over the period indexed to a 2019 base. Over this time 67% of non-movers experienced increases of less than 3%. On the other hand, and providing a rationale for rent regulation, 21% had increases more

than 11% in real terms with 6% above 30 percent. Increases on this scale appear to exhibit abuse of market power and have no proximation to a fair rent. These may not appear a large proportion, but it would in the Victorian context represents some 40,000 households many, perhaps most, of whom would have been put under some form of financial or family stress or even homelessness. Given the growing evidence of the social and costs of such housing pressure (Nygaard and Kollman 2023; Gibb and McCall 2023) these are likely to be much greater than to landlords from some form of soft rent regulation.

Turning to movers the data again reveals how a vacant property creates the opportunity for rent increases. Of the movers, 22.6% found that rents in their new dwelling were greater than 30 per cent more than previously and only 34.9% (still the largest percentage) were less than a 3% increase. Movers face a different situation leasing a vacant property. Some increases could relate to upgrading of location or the quality of property, nevertheless that 22% of households had to deal with real increases of 30% plus on movement is a concern and illustrates the challenges for more and more households seeking and finding a new property that is affordable. The data reaffirms that both for new and existing tenancies most rent increases are not excessive but for a sizable minority of properties the increases are arguably excessive and unfair, most notably for existing renters where in most cases there is no rationale for a rent increase based on improvement to the property or to its location.

Figure 11: Rent increases for non-moving and moving renters, Australia 2019-2022



Source: Authors calculations from HILDA (unweighted)

This all suggests some form of soft regulation may be required to deal with the excessive rent increases that could impact renter well-being and security of tenure. But is it feasible? There are several ways data can be used to test how landlord/investors are likely to respond to any such regulation. One is to look at the degree to which rental yields are key to landlord investment and disinvestment decisions, a second is to look at the financial position of landlords, a third is to look at actual rent setting practices and the final one is to model the potential impact of soft regulation either as a CPI or 3% benchmark or cap and likely. The latter looks at the potential financial cost to landlords and the financial benefits to tenants.

3.2.6 What do investors invest in and associated risk

One of the major arguments historically about rent regulation is that it will cause disinvestment or less investment in new housing supply and in first generation research the evidence for this is strong although most was US research. But second and third generation suggests the evidence is weaker and should consider market and institutional context.

Thus, in Australia we need to know what property sectors investors invest in and the potential implications for supply. It could be argued that the bulk of investment is in existing stock (around 75 percent for the six years to 2024) and therefore the impacts on new supply would be limited. However, the key question is what proportion does the other 25% accounts for of total new supply i.e. of new construction and newly erected dwellings. Table 3 shows for all household dwelling finance that is owner occupiers, first home buyers and investors how much is accounted for by investors. It shows that in terms of new supply i.e. construction and purchase of new dwellings the role of investors is substantial; in September 2014 household investor finance accounted for 50.7% of all household financed construction and 21% of purchase of newly constructed dwellings. This suggests some risk from rent regulation if there were any associated investment impacts. As with some other countries this risk can be minimised by excluding newly constructed dwellings from regulation either completely or for some specified time e.g. 5 years. This may also have the side effect of incentivising new construction rather than investment in existing stock.

Table 3: Investor financing (numbers) by investment sector 2019, 2024 Victoria

	Construction of dwellings	Purchase of newly erected dwellings	Purchase of existing dwellings	All
Sep-19	25.4%	32.7%	30.1%	29.6%
Sep-24	50.7%	21.0%	28.9%	31.5%

Source calculated from ABS (2024b) 5601.0 Lending Indicators

3.2.7 The financial position of landlords

As Hulse, Reynolds and Martin (2020) point out in their discussion of the politico-cultural framing of landlords, Australia tax data is typically used to show landlords are just ordinary households with a net taxable income of less than \$100,000 per year (Gladstone 2023). The implication here being that any regulation could be a financial burden particularly given many landlords in early years do make losses, hence the term negatively geared, and the number will have likely increased in recent years. However, taxable income figures include the effects of adding in rental income and deducting rental expenses (including interest payments) against general personal income. Investors have a higher income if rental income and rental expenses/deductions are removed and as Hulse, Reynolds and Martin (2020) illustrate in their Table 1, landlords who made a loss had a mean income 1.7 times that of non-investors.

Data from the ABS Survey of Income and Housing (SIH) provides another option for examining the household income of landlords and their net wealth position. Table 4 shows the income and wealth position of landlords who are homeowners (outright and mortgage) and excludes the small number and statistically unreliable number of renters who are also landlords. It shows that households that own just one rental property had, in 2019-20, a gross income from all sources (including rent) of \$151,180 while those with two or more properties have a

median income of \$175,552 which is twice that of the median income of renters (\$87,724). Part of the difference will be about different household composition as landlords have a large proportion of two-income households (see Hulse, Reynolds and Martin 2020, Table 1) while renters have a larger proportion of single-income households but overall, landlords have very generous incomes by comparison to renters.

Table 4: Annual household income, landlord’s vs renters, 2019-20

Type of income	Number of properties		
	One	2 or more	Nil
Landlord—annual household income from all sources	\$151,580	\$175,552	
Renter—annual household income from all sources			\$87,724

Source: Authors calculations based on ABS Survey of Income and Housing Survey, 2019-2020

The net wealth positions are even more marked. Table 5 shows the wealth of homeowners who own nil, one or two or more rental properties. Contrast this data with the average net wealth position of the 92% of renters in 2019-20 who owned no property (\$91,000). Landlords who own one property have average net wealth of \$1.4 million and those who own 2 or more just over \$2.0 million. Even compared to all the households that do not own a rental property (81.6%), the wealth positions are greatly different. We can conclude looking at the income and wealth positions of landlords that they are far from being ordinary Australians. They have higher income and greater wealth and, as Hulse, Reynolds and Martin (2020) note, they are disproportionately represented in the higher income professional occupations.

Table 5: Average household wealth, owner-occupiers and landlords by number of properties, Australia, 2019-20

Number of properties rented out	% households	Average household wealth
Nil	81.6%	\$814,002
1 property rented out	12.3%	\$1,432,089
2 or more properties rented out	6.1%	\$2,060,345
Total	100.0%	\$911,373

Source: Authors calculations based on ABS Survey of Income and Housing Survey, 2019-2020

Landlords may aspire to build their wealth, and they cannot be criticised for that. But the data does suggest that most landlords would appear to be in a position, relative to renters, of being able to afford an element of financial loss because of any rent regulation raising the question to what degree potential market allocation outcomes be given greater weight than equity, fairness or social justice? This is an ethical and political decision for which data can only provide context but not any policy making framework.

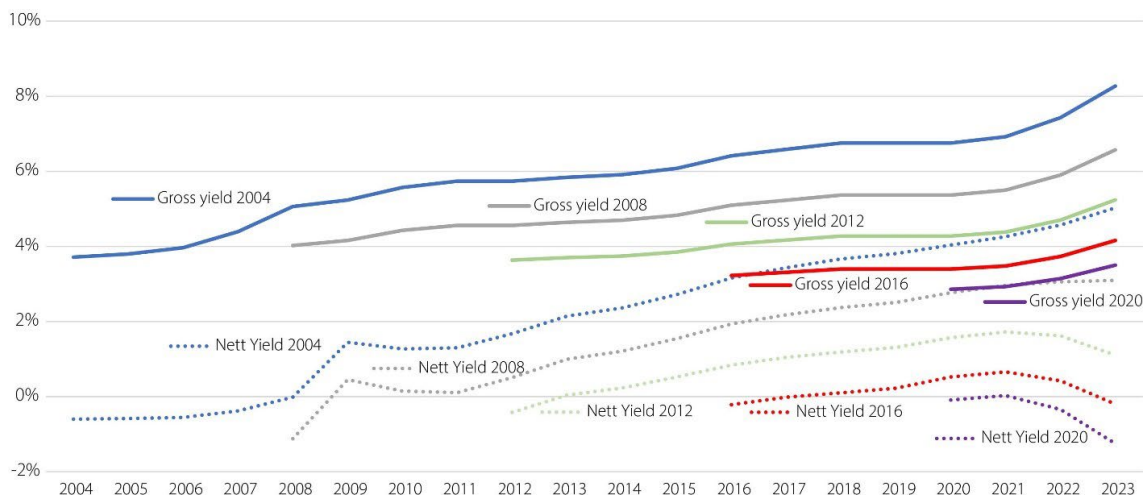
3.2.8 The economics of investment in the private rental sector

Why do Australians invest in the private rental sector. Understanding yields can provide some answers but how best to measure yields is complex. So, a brief and simple overview of the financial context within which rental investors operate is provided here. Other AHURI reports

have discussed the financial aspects of rental investment in Australia, particularly taxation arrangements, in more detail (Eccleston, Verdouw et al. 2018; Martin, Hulse et al. 2022; Wood and Forbes 2001) while Martin, Hulse et al. (ibid) also look at reason for investment.

In Appendix 2, we provide an overview, definitions and examples of some of the measures used by investors to assess the performance of their investment: gross rental yield, net rental yield, and rate of return on investment. The data shows the different results of the various investment measures and the trends over time assuming different periods of original investment, e.g. 2, 5, 10 and 15 years. Figure 12 summarises the findings from the detailed investment data of Appendix 1 and shows how the gross yield (rent revenue as a proportion of capital cost of dwelling at the time of purchase) increases to over 6% after 20 years. But gross rental yield does not factor-in all costs nor tax provisions over that time—that is what net rental yield does. As Figure 12 shows returns are negative in early years and even after 15 to 20 years never achieves yields anywhere near superannuation funds or in equities.

Figure 12: Gross yields compared with net yields



Source: Authors calculations see Appendix 1 for data and Appendix 2 for method.

Thus, the data indicates some contradictions in investor behaviour. Martin, Hulse et al. (2022, p.47), in a survey of landlords, found that the major single reason for investment was rental income just ahead of capital gains. Yet the data would suggest that investment on a rental return basis is poor. It may be the situation that landlords combine both investment rationales; they are happy to get relatively poor rental income while they hang in there for capital gain. If the objective is to get a high return rental yield is unimportant and landlords are happy with adequate returns, then any form of rent regulation which marginally reduces that yield should have little investment impact and, as noted by Martin, Hulse et al (2022) with respect to residential tenancy legislation it would be largely irrelevant in decision making. A simple way to illustrate this is to consider the effect on yields if rent regulations was introduced in a form capped at the rate of the CPI in December 2021. Using data from Appendix 1, Table 12, such a cap for a 2-bedroom apartments in Melbourne would have been reduced gross yield from 5% in December 2021 to 4.6% in December 2023, a marginal contraction and still above the actual yields foremost of the last twenty years when rental investment was high.

Even more dramatically consider the effect of longer-term rent regulation, i.e. one imposed in 2016 with the CPI as the index factor. The results are little different; the return would have

been reduced from 5.4% in 2016 to 4.9% in 2023. These returns are unlikely to create landlord flight in a rational evidenced-based world, but we recognise that human behaviour is not always rational.

The weakness of rental yield even over time indicates the importance of capital gains, or exchange value, which can be of an order that can more than compensate for low rental yields. Given the history of Australian residential house price inflation, this is a rational decision. Facilitating this decision is the tax environment whereas Bangura and Lee have demonstrated ‘negative gearing is being used to cushion any net rental loss during periods of low yield while expecting capital growth over their holding period’ (2024: 39).

While investors expect capital gain, their ability to realise it and how much will vary greatly across housing markets and submarkets. Table 6 illustrates the potential of capital gains. This simple 5-year example highlights how after-tax provisions and rental operations, i.e. after taking account of recurrent costs in earning a rental income, what a difference capital gains makes. In the case of the negatively geared investor borrowing 80% for purchase resulting in a return on rental operations, the average rate of return is 15.3% per annum, whereas a positively geared investor, i.e. providing sufficient capital to ensure a positive rental return (65% of capital in this instance), the rate of return was 6.4% per annum. These returns are in part facilitated by generous taxation provisions – offsetting rental income losses against other income to reduce income tax liability and capital gains tax concessions.

Table 6: Return on a \$520,000 house purchase over 5 years, negatively geared and positively geared

	Negatively geared (Option 1)	Positively geared (Option 2)
Purchase Price	\$520,000	\$520,000
Sales Price (5 years)	\$720,000	\$720,000
Initial investment	\$104,000	\$338,000
After tax rental operations	-\$24,961	\$4,523
After tax capital gain	\$104,320	\$104,320
Net return	\$79,359	\$108,843
Average rate of return over 5 years	15.3%	6.4%

Source: Authors calculations. See Appendix 1 for data and Appendix 2 for method.

Because of the historical rate of dwelling price inflation in Australia combined with a taxation system which provides capital gains concessions, long term investment is not necessary for a strong return; rapidly increasing prices such as those of the last four or five years can create the conditions for early sales and a relatively quick investment return. This is likely to be one of the reasons that that almost 50% of investors sell their property within five years (Martin, Hulse, et al. 2022, p12).

As net yield data shows and evidenced by taxation data, a large proportion of landlords are making negative net rental income in the early years of investment. This is partly compensated for by the ability at tax time to deduct costs including interest payments from their total personal, not just rental, income and so reduce their tax liability. In a context of rapid increases

in mortgage costs, some negatively geared investors could decide to sell. However, despite substantial increases in interest rates over the last 3 years, new bonds in Victoria have not fallen. As recent ABS housing finance data shows, in February 2024 new loan commitments to housing investors have increased 23% on the previous year (ABS 2024b). If a landlord had purchased a property in 2020 with a \$600,000 mortgage his annual payments would have gone up \$1350 dollars with little evidence that it has affected investment. If landlords can manage such interest rate increases, they should be able to manage some form of soft rent regulation which is not an actual financial hit as interest increases are but an income forgone.

Data from the ABS Survey of Income and Housing provides additional information on the rental yield context. The above gross yield data assumes a mortgage which is progressively paid down over time hence the slow buildup of gross yield over time. However, the ABS Survey of Income and Housing suggests that a good proportion of landlords either through length of ownership or inheritance (an unintentional landlord) are in a position where interest rate increases as a justification for rent increases is irrelevant.

Table 7 shows whether landlords have a mortgage and if so the size of the mortgage. Nearly 50% of landlords either have no mortgage (42.1%) or a small mortgage of less \$100,000 (7.3%) and thus, would be unaffected by the interest rates increases of the last few years. Arguments about interest rate increases justifying rent increases is over done for a largish proportion of landlords. This raises policy issues of whether rent regulation should in some way relate to the differential financial position of landlords.

Table 7: Households with residential rental property, household income distribution, 2019-20

Household type	Nil	Under \$100k	\$100–\$249k	\$250–\$499k	\$500–\$999k	\$1m plus	Total
Total	42.1%	7.3%	10.9%	18.5%	14.2%	7.0%	100%

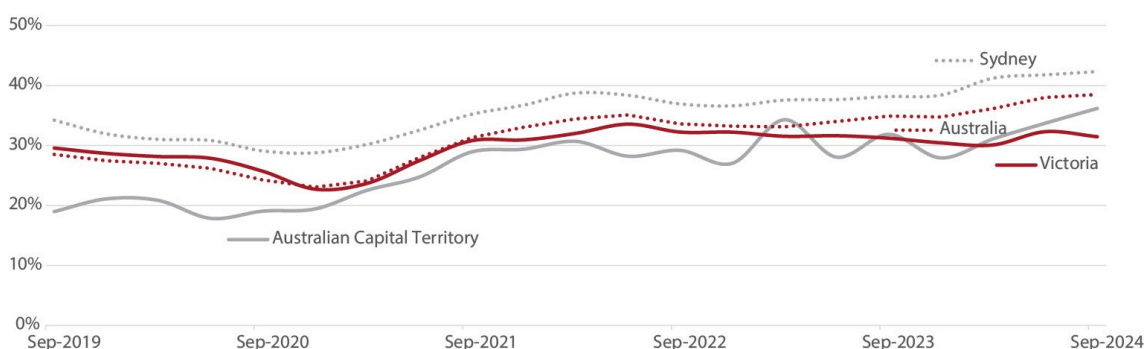
Source: Authors calculations based on ABS Survey of Income and Housing Survey, 2019-2020

Overall, the evidence would indicate that landlords are in a better position than renters to accommodate a reduction in income. As an aside questions must be asked about a rental housing system that appears to require continued capital gain underpinned by tax provisions to sustain investment. It is not one that will deliver affordable rental or ownership and that is the underlying structural problem.

3.2.9 The ACT regulatory experience

In 2019 the ACT introduced rent regulation for existing tenants in the form of a cap at the rate of 110% of the CPI. In the absence of data on existing tenant rents it is difficult to evaluate the effect on rents. The key point in terms of the objectives of this section are however did the rent regulation impact investment as many would argue would be the effect. Figure 13 compares the proportion of investor finance to all private dwelling finance over the period since ACTs' rent regulation and suggests no impact. In fact, if correlation was the objective rather than causation the figure would suggest a positive; investment in the private rental sector in the ACT has increased at a greater rate than Australia and non-regulated Victoria or Sydney.

Figure 13: Percentage of household investors of all new Dwelling finance; Australian Capital Territory, Victoria, Australia, Sydney (numbers).



Source. Authors calculations from ABS (2024b) 5601.0 Lending Indicators

3.2.10 Criteria by which landlords increase rents

On what criteria do landlords increase rents? The conclusion that rent regulation may have little negative impact is reinforced by data by on the reported reason for landlords increasing rents. Table 8 provides data from the ABS Survey of Income and Housing (SIH) on the reasons why landlords increased rents. It shows the major reason is keeping pace with the consumer price index (33.5%), followed by the opportunity created by a new lease (23.8%). The HILDA data for 2019-2022 also found some 67% of non-movers experienced increases of less than 3% per annum. It could be argued that the SIH and HILDA surveys preceded the post-COVID rent increases when vacancy rates were not at tight as in 2023-2024. However, even then around 30 percent of landlords in the recent point in time crisis period did not increase rents in real terms Rent regulation linked to a metric such as the consumer price index might not get much push back as it fits with existing practice. Given the findings in Figures 11 and 12 that many landlords have not increases rents much more than inflation it still suggests that even in a period of inflation many landlords use the CPI as a benchmark to guide decisions about rental increases.

Table 8: Reason for reported rent increase

	Real Estate	Private renter other	Private renter relative	All private
CPI index change	32.9%	35.1%	41.6%	33.5%
New lease	26.6%	12.2%	5.1%	23.8%
Landlord keen to retain tenant	5.9%	13.9%	3.0%	6.9%
Very low vacancy rates/tight rental market	3.1%	3.9%	1.4%	3.1%
Change in income	0.6%	0.2%	6.7%	0.7%
Dwelling refurbished/upgraded	0.6%	2.4%	10.7%	1.3%
Not known	25.2%	21.1%	17.8%	24.4%
Other	10.6%	18.3%	21.7%	12.1%

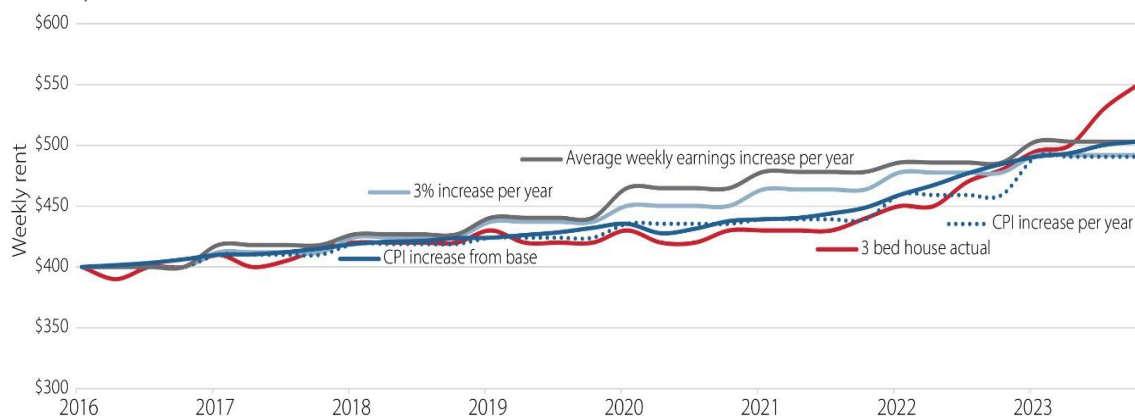
Source: Authors calculations based on ABS Survey of Income and Housing Survey, 2019-2020

3.3 Modelling rent regulation metrics

The case study data would suggest that there may be a case for some form of rent regulation. Rents in real terms have recently increased substantially beyond any levels of previous experience and the external environment appears to be such that there is little chance of short-term supply responses to mitigate rent pressures. This raises two questions, first if there is to be a rent regulation by what metric are rents to be increased and secondly are they about dealing with the structural rental crisis or the current point in time crisis? Section 2 on international practice identifies several regulatory methods but some are so institutionally grounded and complex that policy transfer would be impossible. The most common is a cost-of-living increase, normally the rate of increase in the CPI, or a flat rate, commonly 3%. As this is the simplest, and as we also have the working example of the ACT, this would logically be the most appropriate for Australia. We model both but also include the idea of a capacity-to-pay increase, in this case based on average weekly earnings (AWE).

Looking first at the longer-term structural crisis the data illustrates what would be the effect of these on rents? The examples illustrate the importance of the base year. Thus, if we use 2016 as the base compared to one of 2002, we get very different results. Figure 14 uses 2016 as a base and applies it to the example of a three-bedroom Melbourne house and highlights that it would have yielded an outcome over the seven-year period to early 2023 much the same as actual median rents, around a median rent of around \$510 per week. It is only in the last two quarters of 2023 where actual rents depart from the metric by jumping to \$550 compared to the \$510 by any of the three metric caps. The figure also shows that the 3% cap and AWE between 2019 and mid 2022 would have produced a rent higher than the actual rent is landlords has used such as a benchmark. It is the CPI that appears to produce the least problematic benchmark perhaps reflecting the point illustrated earlier that a large percentage of landlords appear to use the CPI as a measure of and rationale for rent increases. Putting aside the last six months' departure of median rents from the benchmark caps, the figure also highlights, for this specific period, rent regulation for a longish period would not have done anything by way of creating greater affordability.

Figure 14: Potential impact of different rent regulation metrics on rents, 3-bedroom houses, metropolitan Melbourne, 2016–2024



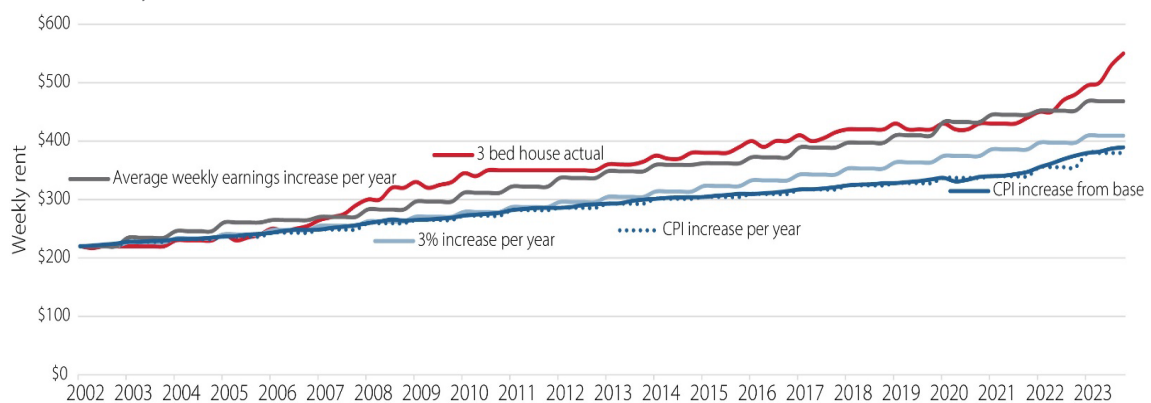
Source: Authors calculations from RTBA, ABS Average weekly earnings and CPI Series
 Source: Authors calculations from RTBA, ABS Average weekly earnings and CPI Series

The above example used 2016 as the base year. What in terms of dealing with the structural crisis an even longer period was used. The first point to make is that rent increases over the

long term are a product of all the prementioned institutional factors and that rent regulation will not address these factors. However, it may mitigate the effects of them particularly large point in time increases be ratcheting into subsequent longer-term rents. As discussed in Section 3.2.4, the long-term story for Melbourne is not one of sustained long-term increase in rents but of two points in time increases, the present situation and the period 2007-2010. The latter period is when Melbourne’s rents really increased and is why AHURI research has been saying the problem has been around for decades despite that period not eliciting the same media and political response as the current crisis. The regional trend however is different; this does show steady twenty-year increase in rents for both apartments and houses and indicating sustained erosion of affordability in regional areas.

What a different base time periods can impact policy understanding is illustrated by Figure 15 which highlights what the effect of rent regulation would have been if it had embraced the point in time crisis of 2027-10. Regulation would have slowed the increase for the next two years and the ratcheting effect would have cut in at a lower level for the next decade. For a 3-bedroom dwelling (base year 2002) that rents in 2023 irrespective of the benchmark cap would have been around \$100 less than it was in early 2022 and \$160 less than in end 2023. Using rent regulation to achieve greater affordability requires either regulation to be sustained over a long period of time or alternatively to have regulation targeted at point in time crisis to avoid the rents of such period becoming locked in and becoming the new norm.

Figure 15: Potential Impact of different rent regulation metrics on rent, 3-bedroom houses, Melbourne, 2002-2024



Source Authors calculations from RTBA, ABS Average weekly earnings and CPI Series

Table 9 focuses on the current point in time crisis and illustrates potential results, if based on some trigger point information such as changes in vacancy rates, regulation had been introduced for Metropolitan Melbourne from the first quarter of 2022. What would have been the outcome for flats and houses for Metropolitan Melbourne and houses for regional Victoria using CPI as the benchmark cap? For two-bedroom apartment rents would have been a substantial \$129 a week less, for a three-bedroom house \$54 a week less and for a regional 3-bedroom house just \$8 a week reflecting the point earlier that the pressures came off the regional market post Covid. Financial saving to renter households of these scales particularly in the context of wider cost of living pressures would have been substantial and may have mitigated major personal and social costs. On the other hand, landlords would have been unaware of the sort of rents they could have been charging by March 2024 and most therefore may have been happy that at least they could increase rents in line with inflation.

Table 9: Example of the effect of a CPI cap introduced as a point in time regulation, metropolitan Melbourne and Regional Victoria, March 2022 to March 2024

		Median (Nominal)	CPI increase
2-bedroom flat metropolitan Melbourne	Mar-22	\$425	\$425
	Dec-23	\$550	\$466
	Mar-24	\$600	\$471
3-bedroom house metropolitan Melbourne	Mar-22	\$430	\$430
	Dec-23	\$515	\$471
	Mar-24	\$530	\$476
3-bedroom house Regional Victoria	Mar-22	\$390	\$390
	Sep-23	\$430	\$425
	Dec-23	\$430	\$427
	Mar-24	\$440	\$432

Source: Authors calculations from RTBA

Between December 2022 and December 2023 rents for 2-bedroom apartments increased \$100 or 13.5%. If CPI linked rent regulation had been in place rents would have risen by 4.4% or \$19 per week while making landlords for that one year \$79 per week worse off (much of it tax claimable) than under market conditions. The question to be asked given the respective income and wealth positions is who is most able to absorb cost changes, a renter with a \$100 a week increase or landlord a \$79 a week income reduction?

3.4 Rental supply responsiveness in Australia

We followed up the simulations of modelling rent regulations, by exploring the responsiveness of rental stock to changes in rental prices. This analysis will provide insights into the potential impact that any implementation of rent regulations may have on the growth trajectory of rental stock within Australia.

The elasticity of housing supply measures how responsive the quantity of housing supplied is to changes in its price. A higher elasticity signifies that small price changes can significantly affect the quantity supplied, while a lower elasticity indicates that supply is less responsive to price fluctuations. Factors influencing this elasticity may include the availability of land, regulatory environments, costs and availability of construction materials, and the time and complexity involved in construction (Ong, Dalton et al. 2017; Saiz 2010). These factors determine how quickly and effectively the housing market can adjust to shifts in demand, impacting prices and the availability of housing.

While there is a substantial literature that explores the responsiveness of overall housing supply to demand changes and its underlying determinants (see Ong, Dalton et al. (2017) and Melser, ViforJ and Wood (2022) for a discussion of recent literature and applications within Australia), the corresponding literature that explicitly attempts to estimate the responsiveness of rental supply has been conspicuously absent. The few published studies uniformly involved studying multi-family dwellings in the United States more than a quarter-century ago.

DiPasquale (1999) summarises much of the research up 1999 on housing supply but does not explicitly categorise studies on whether they explore rental supply or housing supply more broadly. De Leeuw and Ekanem (1971) is the earliest cited study which found that the long-run elasticity of supply in the United States ranged between 0.3 and 0.7 from a 1967 survey sample of 39 cities. Rydell (1982) used data from the Housing Allowance Program Supply Experiment in the 1970s to estimate a short-run elasticity of rental supply from 0.24 to 0.83, with a long-run supply elasticity of 11.5. Lastly, DiPasquale and Wheaton (1992) found a long-run elasticity of rental supply of 6.8.

Recent literature has instead focused on price impacts from new housing supply. These often focus on measuring the impact of a supply shock (i.e. local construction of apartments) on local rents, particularly within low-income neighbourhoods. Asquith, Mast and Reed (2023) find evidence that market rate apartment housing decreases nearby rents approximately 6% when compared to units either developed further away or constructed later. They find evidence that the increase in supply was stronger than any increase in perceived or actual amenities driven by the construction.

Boustan, Margo et al. (2023) further explore whether construction of condominiums lead to gentrification which may lead to the relocation of lower-income households. Taking advantage of policies within some cities that had restricted the development of condominiums, they found little evidence that construction of condominiums led to gentrification, but within the United States, gentrification appeared mostly to be a demand-side phenomenon of wealthier households looking to relocate within the central cities. Nevertheless, Damiano and Frenier (2020) note that when conducting a sub-market analysis in Minneapolis from 2000-2018, new construction may have yielded 3.2% lower rents in the higher end market—they found that lower-priced housing saw rents increase 6.6%. These results appear consistent with Nygaard, van den Nouweland et al. (2022) who found little evidence that the supply of new higher quality dwellings ‘filtered’ down into lower sub-markets within Australia.

As mentioned earlier, most research into the elasticity of supply has focused on the housing market more broadly with little attention on the rental market. Within Australia, the most recent work has been Melser, ViforJ and Wood (2022) who estimated separate elasticity of supply for 341 local government areas (LGAs). They found that for houses, the elasticity ranged from 0.17 at the 25th percentile to 0.44 at the 75th percentile, while units ranged from 0.56 and 1.17. While not the primary focus of the report, Nygaard, van den Nouweland et al. (2022) found that elasticity of supply was near zero in Melbourne using data at the neighbourhood level (collection district). At the national level, Ball, Meen and Nygaard (2010) found the price elasticity of supply in Australia to be 0.34.

While the overall housing supply may be inelastic within Australia, the exact relationships need not necessarily hold for the rental market. Instead, as demand for rental housing increases, the rental elasticity of supply may capture the responsiveness of new construction but is also likely to be affected by existing rental rates as vacant, owner-occupied, or short-term rental can be converted into long-term rentals.

What then are the findings?

We measure the elasticity of supply for rental stock using annual data for 79 LGAs within Victoria from 2001 to 2021, inclusive. Given the potential differences in dynamics for housing and units as well as family size, we model elasticity separately for 1- and 2-bedroom

units as well as 2- and 3-bedroom houses. A full model, discussion of data sources and summary statistics are found within Appendix 4.

Table 10 reports a summary of the estimates of the rental elasticity of supply. The base specification follows Equation (1) in Appendix 4, while the subsequent specification also includes the total stock of units for the specifications estimating the elasticity for units, while including the total stock of houses for the estimates of elasticity for houses. For each dwelling type, the summaries report a set based on all coefficient estimates that were able to be estimated with the available data, while ‘Sig.’ represents the subset of coefficient estimates that were statistically significant at the 10 per cent level of significance or lower.

The base specification matches the general approach by Liu and Otto (2017) as well as Melsner et al. (2022). These results indicate that rental supply is elastic, while larger units as well as houses are relatively more elastic. However, it is important to note that both for units and 2-bedroom houses, several estimates of rental elasticity of supply are less than one, suggesting that there are areas within Victoria which have inelastic supply.

Interestingly, when compared to previous estimates of housing elasticity, we note that the estimates for units are less responsive than housing. However, given that housing has a higher share of existing owner-occupancy, this would be consistent with a scenario where owner-occupied dwellings were converted into long-term rentals.

Table 10: Estimates of rental elasticity of supply across LGAs

		Base Specification					Includes Total Stock				
		Percentiles					Percentiles				
		N	Mean	25th	50th	75th	N	Mean	25th	50th	75th
1-bed unit	All	61	1.64	0.75	1.51	2.05	61	0.48	0.10	0.39	0.85
	Sig.	55	1.62	0.72	1.24	2.05	28	0.59	0.23	0.59	0.85
2-bed unit	All	70	1.31	0.76	1.31	1.65	70	0.16	0.07	0.13	0.25
	Sig.	67	1.38	0.95	1.31	1.65	24	0.27	0.16	0.40	0.51
2-bed house	All	72	1.66	0.57	1.25	2.65	72	0.54	0.03	0.68	1.19
	Sig.	61	1.87	0.66	1.38	2.76	32	1.04	0.68	1.07	1.76
3-bed house	All	79	2.14	1.15	1.87	2.96	79	-0.18	-0.69	-0.10	0.15
	Sig.	78	2.15	1.14	1.92	2.96	34	-0.40	-0.90	-0.76	0.42

Note: Coefficient estimates of rental supply estimation were based on the model specification found in Appendix 4. ‘All’ indicates all possible coefficient estimates at the LGA-level which had sufficient data to be estimated. ‘Sig.’ indicate the coefficient estimates which were statistically significant at the 10 per cent level of significance or better. The base specification is based on Equation (1) within Appendix 4, while “Includes Total Stock” adds in a measure of total stock of houses (units) as denoted in Equation (2) within Appendix 4. Summary statistics are weighted by measures of total stock. Prices have been adjusted using the Melbourne CPI.

Source: Author’s calculations from RTBA, ABS Census 2011, ABS Catalogue 6524.0.55.002; ABS Personal Income in Australia, ABS Catalogue 8731.0; ABS Building Approvals, Australia and Reserve Bank of Australia (Indicator Lending Rates and Advertised Deposit Rates).

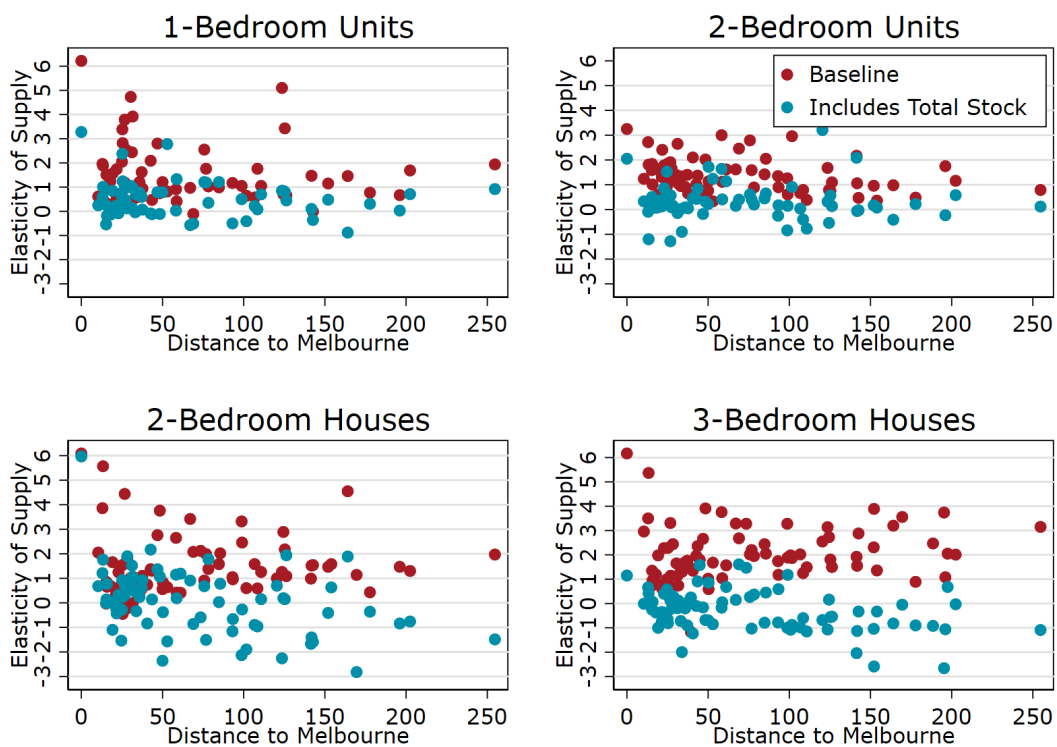
One challenge within interpreting the base specification is that unlike when measuring the elasticity of housing supply, changes in rental supply can come through two channels. The first is through new construction, while the second would be the conversion of existing dwellings to long-term rentals. Therefore, including the total stock in the specification yields insight into

whether changes in rental stock a function of additional construction is largely and to what extent does rental prices appear to remain relevant to explaining the growth in rental stock.

Ultimately the results are suggestive of the hypothesis that it is growth in new housing and units that is driving the increase in rental stocks. Due the method requiring us to estimate elasticities for each LGA, the individual coefficient estimates are not shown. However, we found that the relationship between overall stock is highly correlated with rental stock for both houses and units.

When controlling for total stock of units, we find that the rental elasticity of supply estimates is now mostly inelastic and are much less likely to be statistically significant.¹ In the case for 2- and 3-bedroom houses, the estimates of housing supply are in many cases are negative. These results suggest that once we control for changes in total stock, rental stock overall is growing more slowly than the rate in rental demand.

Figure 16: Rental elasticity of supply by dwelling type over distance to Melbourne



Note: Coefficient estimates of rental supply estimation were based on the model specification found in Appendix 4. The base specification is based on Equation (1) while “Includes Total Stock” adds in a measure of total stock of houses (units) as denoted in Equation (2). Distance to Melbourne is based

¹ We additionally tried an alternate specification which pooled the sample of LGAs for each dwelling type. This yielded rental elasticity of supply estimates that remain elastic when including the measures of total stock, but consistent with our finding that rental elasticity is lower when controlling for total stock. However, Sargan statistics indicate that the instruments are weak.

on the distance from the centroids of the 2016 LGA boundaries when compared to the centroid of the LGA of Melbourne. Prices have been adjusted using the Melbourne CPI.

Source: Author's calculations from RTBA, ABS Census 2011, ABS Catalogue 6524.0.55.002; ABS Personal Income in Australia, ABS Catalogue 8731.0; ABS Building Approvals, Australia and Reserve Bank of Australia (Indicator Lending Rates and Advertised Deposit Rates).

To understand whether there were regional differences, Figure 16 graphs several scatter plots of the rental elasticity of supply estimates over distance to Melbourne. The plots show a similar pattern to the summary of the elasticities in Table 10 in which controlling for total stock yields lower estimates of the rental elasticity. Interestingly we see that for the houses, it is increasingly likely that the estimated elasticities are negative. Although we should interpret these results with caution, we find that the estimates are more likely to be negative as the distance from Melbourne increases. This could suggest that rental prices are less likely to be the driving factor in rental stock in regional areas for houses.

Overall, the results of the analysis indicate that rental stocks are not particularly responsive to rental prices, particularly for larger units and houses and spatially elasticity appears weakest the further the distance from central Melbourne which fits the earlier bond data finding of higher rent increases in outer suburbs of Melbourne and regional areas. The relationship appears to be dominated by the changes in overall stock in the local market of units and houses. Therefore, it is not as clear in the role that changes in rental prices have in influencing rental stock outside of any influence it has on overall construction in the area. However, as that was not tested in this section, that role is left for future research. The sobering finding here is that once we control for changes in total stock, rental stock overall is growing more slowly than the rate in rental demand. The challenge here is how to grow the total housing a problem outlined by the 2024 National Housing Supply and Affordability Council's State of the Housing System report (NHSACS 2024)

3.5 Conclusion from case study

What do we conclude from the case study data? The recent low vacancy rates across virtually the entire PRS have resulted in sustained increases in rents and the problem is getting worse. To reaffirm 20 years of AHURI research, however, this is not just a crisis of recent events; there is now both a long-term structural crisis and a 'point in time crisis' where real rents are being ratcheted up to levels which risk becoming the new normal. Given all evidence including the report of the National Housing Supply and Affordability Council (2024) and Commonwealth Budget Paper no 1 Statement 4 (2024) there will be no short-term supply relief to the rental sector nor indeed the entire housing system.

While the bulk of landlords are not abusing the rental shortage a not small proportion of landlords are increasing rents by what is arguably an excessive amount and can be seen as a rationale for some form of rent regulation in an environment of sustained rental scarcity. The rental shortage and price pressures are not, as in the case of Europe of the USA, confined to specific rent pressure locations, which suggests any regulation should be broad based not locationally specific. The data also suggest the risk of negative market outcomes from any rent control may be mitigated by key characteristic attributes of the Australian rental system:

(a) While landlords' investors are important in new housing supply risks here could be addressed by regulatory exemption for new dwellings.

(b) Many landlords already appear to be using the CPI as a guide to rent setting

(c) Financial analysis would suggest most landlords invest as much of capital gain as rental yield and a CPI cap would only marginally reduce yields.

(d) Landlords overall have higher incomes and substantially greater wealth and are thus able to ride through a small reduction in rental income better than most renters and increase in rents,

(e) A good proportion of landlords are debt free and therefore in a very strong position to cope with a slight weakening in their rental income and

(f) the ACT rent cap appears to have had no impact on rental investment in that jurisdiction.

Finally, we must recognise two other often neglected key points, First, landlords are not a homogenous group—they are landlords for diverse reasons (for example, inheritance, asset building for children or retirement)—and therefore rental yield may be irrelevant. Second, rental properties do not vaporize on sale. They will be bought for some alternative use. The two obvious ones are that they would be bought by another landlord—hence no change in rental stock—and the other a return to ownership which most Australians would see as a positive. Other uses, such as leaving a property vacant or reinvestment to other property areas, e.g. Airbnb, could be handled by other interventions, e.g. vacant land tax.

Turning to the econometric analysis. Again, the conclusion is that there is very little evidence that rent increases were the primary driver of changes in rental supply. Instead, changes in rental supply are largely a function of changes in the overall stock of housing and units within an area. Therefore, we would not expect soft rent regulations to necessarily have a significant impact on rental stock.

In short, the data may suggest that some form of soft rent regulation would have little negative impact, a data story which fits findings from international literature. On the other hand, it would reduce the uncertainties, anxieties and stress that hang over renters and reduce the individual and societal problems flowing from excessive or what could be labelled 'unfair' rent increases. But how could this be done?

If there was to be rent regulation, how would it best be done? This is the function of Section 4 using international practice as a framework for policy development.

4. The policy process and regulatory design

Building on the observation of Marsh, Gibb and Soaita (2023) that rent regulation analysis should now be less focused on ‘what’, i.e. evaluating rent regulation, than on ‘how’ to implement policy this section uses the ‘policy cycle process’ to illustrate how we might better understand rent regulation. This is the cycle of problem identification, formulation, consultation, and implementation.

4.1 The policy agenda or problem

How does a policy get to the stage where government attention is required? Part of this is driven by media commentary which in terms of private rental has become very visible in the last eighteen months and where there is common use of the word crisis. But policy making is more complex than a simple response to media and popularist concerns. Does other evidence indicate a rental crisis suggesting a need for greater regulation?

- **The data.** The rental bond data as used in Section 3 might suggest yes. A good proportion of rental increases of the last eighteen months have been of a scale not experienced in more than a decade and not related to tenants’ capacity to pay with associated implications for greater financial stress and homelessness. And is there any evidence that market adjustment will restore a supply demand imbalance? The evidence here would suggest not. Overall housing supply is failing to meet household growth suggesting not quick market fix. The data would also suggest a need to see the ‘rental crisis’ with some nuance. There is both a short-term crisis and a long-term structural crisis with rent regulation potentially having some role in mitigating the effects of both. There is also a need to distinguish between trends in rent increases for existing tenants and newly vacated properties. Data is limited for the latter unfortunately.
- **The international experience.** The international review (Section 2) tells us Australia would not be alone in introducing rent regulation. Dozens of international jurisdictions have introduced, reintroduced or modified rent regulation to deal with such increases and the literature would suggest that such recent second and third generation regulation has in most cases stabilised rents without major side negative side effects although it depends on the form of the regulation and market context.
- **The housing welfare nexus.** Whitehead and Williams’s (2018) meta review drew attention to the importance of the institutional context of regulation and in picking up that point it is important to acknowledge that with one of the smallest social housing sectors of advanced societies Australian low-income groups are much more vulnerable to private rents increases than in equivalent countries. Despite their much larger social housing sectors most Western European countries have still introduced rent regulation. In these countries lower income households have the double protection of social housing and rent regulation. Those of Australia have neither and with little evidence of a sizeable increase in the former this is another justification for some form of rent regulation.
- **Government inquiries.** Governments have had to undertake inquiries into rental affordability (Parliament of Victoria 2023, Commonwealth of Australia 2023) and the evidence provided to them, including calls for rent regulation, can also be drawn on to evidence ‘crisis’ and potentially a need for rent regulation.

- **Other Reports.** AHURI and various think tanks also are a source for rental performance and indications of the need for interventions. For example, several of the AHURI reports for over a decade have been signalling an actual or impending rental crisis.

While there might be evidence for regulation to protect tenants that evidence must be balanced by understandings of risk. Here two standouts. The first is the risk that regulation might well benefit tenants in the short-term by stabilising rent increases but landlord and investor responses to regulation may have long term effects, e.g. reduce overall housing supply, encourage a switch of investment into other areas, e.g. STRA, deter new rental investment etc (see Section 2, Box 2). The second is political. Investors, landlords and property interests generally are politically powerful and can create political pushback. Both needs to be understood and managed if the challenge of rent regulation is to be taken up.

The Victorian data analysis (see summary in Section 3.5) illustrates how the former risk can be better understood by providing a better understanding of the market and institutional attributes of the Australian PRS. Risk also derives from the actual form of any regulation, and this is where the learning from the international experience is important. The following section discusses the lessons from international practice in terms of policy formulation, implementation, evaluation and monitoring and consultation.

4.2 Policy Formulation

The policy formulation stage requires working through several key questions.

[What is the plan for the PRS in terms of its housing role and relationship to the wider housing system?](#)

What type of housing system is desired for Australia drives this question and what time frame are we concerned with? This implies or requires a process to identify the structural weaknesses of the housing system such as issues of housing supply, tenure preferences, housing quality, environmental sustainability, and housing appropriateness and what strategies would be appropriate to achieve such a plan. The question that would be asked of rent regulation is what form could be designed to assist in the achievement of such a plan? For example, if part of any plan had the vision of rebuilding home ownership over a two- or three-decade time frame this could suggest a harder first generation type regulation to deter investment in private rental and divert it to homeownership in the same way it was argued back in the 1950s that rent control encouraged home purchase (Institute of Public Affairs nd).

Given the Australian institutional context, such a tenure strategy, however some might think desirable, is unlikely. Two less visionary ways of seeing the future housing system appear most probable, one in terms of a steady-as-she-goes policy direction with the assumption of temporary crisis and faith in the market to restore rental supply. This could either mean doing nothing or a short-term regulatory policy, e.g. a two-year cap on rents strategy, while awaiting a return to market stability. Another as assumed in the recent AHURI rental report (Baker, Beer et al. 2024) could be sustaining rental growth but with an assumption of the PRS as a permanent tenure for many households. This means model mean remaking of the PRS in a way to give greater protection for tenants (affordability and security) but without undermining landlord incentives. This strategy might mean light touch, but long-term rent control paralleled with other related policy reform, most notably that of residential tenancies legislation.

Other strategic objectives, e.g. housing supply, quality, sustainability can also be addressed by specific design attributes of any rent regulation system. The key point being regulation can be designed to serve whatever is the desired system plan or policy intent and desirably would not be a stand-alone policy but part of a suite of interventions as part of a broader plan.

What are the specific objectives?

Specific objectives can be both formal and informal, the latter often flowing from side effects of the formal. Regulation can also have multiple objectives:

- Regulation for sector wide stabilisation, i.e. mitigate the scale of rent increase across the entire PRS and all renters. If in place for the long term, rather than for a short-term rental crisis, this could assist in improving rental affordability. All international evidence indicated this virtually a guaranteed outcome.
- Regulation for security of tenure, i.e. prevent rent increases weakening renter security of tenure through sharply rising rents. This would mean regulation for existing tenants, i.e. maintaining market freedom for vacant rental dwellings and requires a review of tenancy laws to prevent evictions of existing tenants through excessive rent increases.
- Regulation to provide lower income renters with housing affordability, i.e. limiting rent increases for that part of the PRS that is more likely to house lower income renters. The challenge is how to identify such stock given, as successive AHURI reports on rental stock composition has revealed, that much of the lower cost stock is occupied by higher income households (Hulse, Reynolds et al. 2019; Reynolds, Parkinson et al. 2024; Wulff, Dharmalingam et al. 2009; Wulff, Reynolds et al. 2011). Alternatively, landlords housing CRA recipients could increase rents by the Pensioner and Beneficiary Living Cost Index (PBLCI) (ABS 2023c) rather than say the CPI, if the PBLCI is greater than movement in the CPI for an indexation period. The risk here, as US reviews illustrate, that if regulation is only for a subset of rental stock both landlords and renters may adopt negative behavioural responses, e.g. disinvestment by landlords or reduced household mobility by tenants.
- Regulation for better housing quality or sustainability, i.e. attaching provisions whereby regulatory exemptions can be provided for landlords providing quality upgrades, e.g. provision of solar panels, meeting certain energy standards or general upgrade of fittings and fixtures. This is the case with many third generation rent regulation programs internationally and with the ACT and can be seen as a way on incentivising higher quality standards. This could also mean setting a base-rent (first time rent) where the base rent considers quality or environmental attributes.
- Regulation for local area outcomes, i.e. targeting locations of ‘housing crisis’ or ‘rental hotspots’ to address affordability or security of tenure in specific housing submarkets. This occurs in Ireland, Scotland, Germany, Spain and Belgium and certain US cities. Again, the risk here is that if regulation is only for certain locations both landlords and renters may adopt negative behavioural responses e.g. disinvestment or reduced household mobility.
- Regulation to minimise supply impacts. If rental dwelling forms are considered key to building supply, e.g. BTR, or recent construction then a system can be designed whereby such properties might be exempt.
- Regulation for market monitoring and addressing information asymmetry. Better rental market and property attributes is desirable for informed policy making and addressing

information asymmetry. This addresses the problem that landlords and agents have considerable information about the tenant or applicant, but the latter knows little about the former or the property attributes, e.g. energy consumption building quality, age of property, criminal record of landlord, history of rental disputation.

What is the base-rent?

For a first-time rental property, how is that rent to be determined? Two broad methods could be used:

- Landlord (often through a real estate agent as in Australia) determines market value for equivalent property types and sets a market rent. This is the most common base-rent method and is the method used in most countries including Australia. However, it raises questions as to whether rents should be set on a more transparent 'market equivalents' process, which recognizes the asymmetric information process between landlord and tenant, and perhaps (depending on objectives) related to property attributes. In a context of tight vacancies (as regularly reported by Tenant Unions in Australia), renters often must accept accommodation of a standard that is completely inappropriate and where quality is not captured in the market equivalent rent. Market based regulation could be designed to produce a transparent documented process as to how the market rent was set, which enables a tenant to access the same information and has an appeals process against what is perceived as an excessive base market rent relative to the property attributes, e.g. provision of documentation on rents for three clearly equivalent properties.
- Base-rent is established by a specific government agency or tribunal considering both market conditions and specific attributes of the property. This method is used in the Netherlands, Austria, and Denmark (Koessl 2022; Netherlands National Government 2024; Denmark Ministry of Social Affairs 2024, 19ff). For example, in Denmark this method lets a landlord of a property built before 1991 gather all the costs of operating and maintaining the building and adding roughly 7% interest for the costs of the investment. Typically, this would let a landlord charge about \$304-\$340 per week for a 100 square metre apartment in Copenhagen. Post 1991 properties have rents set by local area market equivalents. Given property costs in Australia, this would not be viable. (See Klokkerholm 2024; Scanlon 2023). In the Netherlands, a largish proportion of the stock has a points-based system applied to it, where the number of points establishes the level of base-rent with the objective of improving or sustaining quality standards. However, if there is to be a quality objective, what qualities are to be considered; condition? size? fitting and fixtures? age? And how are these then be related to rents?

How would rent increases be regulated?

As Table 1 showed internationally there is a wide range of methods for regulating that rate in rent increase. These include formulas related to cost of living, cost of service provision and formalised landlord tenant consultation, increases

Each of these methods require methodological choices. For example, if CPI what CPI, all groups, selected groups (for example, Belgium excludes tobacco and alcohol), or just the rental CPI? But Australia has its own example, that of the ACT which simply uses the all-groups CPI of the previous quarter.

In the Australian context, as Sisson and Bowyer-Pont (2023) document in their section 3.6, some of these metrics, from example those of some US jurisdictions, when applied to the

Sydney context introduce even higher rents than would be the actual case (Sisson and Bowyer-Pont 2023, Figures 9-25). However, as Section 3 of this report illustrates with reference to Victoria, the effects will depend on time scales and on the objectives of rent regulation.

What tenancies is regulation to apply to?

Rents could be capped for all residential properties or a distinction made between tenanted and newly tenanted properties or sometimes with variations which make the latter distinctions less categorical. Four forms of tenancy regulation can be identified:

- 1 Rent-capped tenanted properties:** most international jurisdictions as part of second or third generation rent controls have rent caps for existing tenants only although not necessarily for all tenanted properties as certain types might be exempt by virtue of age, location or condition. Problems here include: (1) landlords evicting tenants to move their property to a vacant status—although this can be addressed through protections in residential tenancies legislation, and (2) excessively large increases in rents once vacated and relet, undermining objectives of rent stabilisation. The excessive rents of a smallish number of Australian landlords of vacant properties illustrate this point.
- 2 Initial market rate but relet capped newly tenanted properties:** once a property is vacated, rents are allowed to be set at market levels although once re-tenanted existing caps become operative.
- 3 Delayed market rate vacant properties:** jurisdictions have attempted to deal with the problems flowing from just capping tenanted properties by requiring rents set for vacated properties via a base-rent process (see above), normally a process of establishing a base-rent by reference to a set of equivalent properties, e.g. Spain. Scotland, as of early 2024, is in the process of having existing controls applied to a relet if that property becomes vacant no more than a year ago and the property is substantially the same. In such a case the rent at the start of the current tenancy may be an amount that is not more than the final rent under the preceding relevant tenancy (Scottish Parliament 2024). In the Australian context, one way to deal with the potential risk is a variation of the Scottish provision. If the property becomes vacant because of landlord initiated eviction the new rent may be no more than the final rent under the preceding relevant tenancy.
- 4 Free market lets:** Once a property is vacated rents are allowed to be set at market levels with all future relets after that to be also at market levels. This approach may be seen appropriate where the objective is crisis management with the various rent regulations at the time of COVID exemplifying this approach.
- 5 Rent Capped vacant properties.** The non capping of vacant properties can lead to adaptive behaviour by both tenants (reluctance to move from a regulated property) and landlords (forced evictions) but also have impacts on those searching for a property if rent increases on vacated properties become excessive. The problems summarised in Section 1.2.8 are largely a function of this rent issue. Possibilities here are to have the same caps as tenanted properties or some escalating of the CPI, e.g. 150 percent of the CPI increase. There is no formula for choosing any escalation such escalation just a judgment as to what is required for tenancy protection and investor incentive.

Several jurisdictions have dual system. For example, Ottawa in Canada have all rental investment dwelling acquired or built pre-2018 rent capped but only tenanted properties post-2018 capped. Thus, free market lets apply post-2018 for vacant properties.

Are there different provisions for pressured submarket?

A problem in establishing rent regulation is not all rental markets perform in the same way. Some are under intense pressure with low vacancy rates and increasing rents, others less so. Third generation regulation is paying more attention to this with Spain, Scotland and Ireland being the best example although in some respects the more localised variations across the USA are also examples.

In Spain, legislation in 2023, established the notion of 'strained' zones whereby additional provisions over and above the national regulation metric of 3% per annum are in place. In such areas, the rent cannot exceed the value (rent) charged in the same lease for the same property over the last five years plus the update percentage, i.e. 3%. However, small landlords can increase the rent by up to 10% in relation to the value charged (previous five years rent) if the property was renovated, had improvements which resulted in 30% energy savings or undergone accessibility improvements. These illustrate the objective of building quality into rent regulation design.

Ireland has no jurisdiction-wide rent regulation but only rent regulation in what are called Rent Pressure Zones (RPZ) which are areas where rents are highest and rising quickly. The system for calculating allowable rent increases in RPZs has changed several times since introduced in 2016 but currently (early 2024) are capped in line with the rate of general inflation or 2% a year, whichever is lower. If a landlord has not reviewed the rent for several years, the 2% cap applies every year since last review. So, for example, if you moved into rented accommodation in December 2016 and the rent hasn't changed since then, the general inflation rate since that date would apply when calculating the rent increase. (See Housing Rights UK 2024).

In Germany, a municipality can be declared to have a tight housing market if one of four conditions is met: (a) rents increase more than the national average, (b) rent burden is higher than the national average, (c) residential population is growing without the necessary living space being created through new construction activity, and (d) low vacancy rate with high demand for housing (Sagner and Voigtländer 2023).

Scotland also has RPZs whereby rents in the area are rising too much, the rent rises are causing problems for the tenants, and the local council is coming under pressure to provide housing or subsidise the cost of housing as a result. While the Scottish government designates a rent pressure zone, it is the responsibility of local governments to document the case for having a RPZ and meeting the guidelines. This requires a detailed rent market assessment by the local government and includes a local plan for the RPZ including designated geographical boundaries (Scottish Parliament 2024).

France also has designated pressure zones called tense or stretched areas, and these are mainly in the large capital cities but with variations within the cities. The interesting attribute of the French model is that they have a simulator which is an interactive map where landlord or renter can go into a specific location and with additional information such as year of construction, type of rental property and rental period it will suggest the appropriate rent increase (DRIHL 2024).

Problems with the notion of RPZs include developing robust measures of performance and boundary designation. If within a metropolitan area, a large rent gap can emerge between rents in the RPZ and neighbouring areas. This has emerged in Berlin and Ireland potentially affecting both landlord and tenant decision-making as to investment or where to live. In the Australian context, RPZ might work best in designated regional areas where there is less likely to be spatial spillover effects. In Metropolitan areas it would be more problematic and arguably is irrelevant for Australia—all metropolitan cities in 2023 and 2024, and probably many regional areas, could be seen as pressured rental areas.

[If a short-term rent regulation instrument is to be introduced, how is a crisis point identified and triggered?](#)

If a short-term rent regulation instrument is to be introduced, it requires a triggering signal or metric. This metric could signal the introduction of rent regulation such as a rapid fall in vacancy rates over some time period, e.g. three or six months. On top of such a metric a locationally specific one is needed if the regulatory system focused on rental hotspots only. For example, in Ireland two features are required:

- The annual rate of rent inflation in the area must have been more than 7% in at least four of the last six quarters,
- The rent in the area in the previous quarter must be above the appropriate standardised average rent for that area (Ireland Residential Tenancies Board 2024a).

The former means that potentially 18 months could have elapsed before rent regulation can be triggered. Given how rental markets can be so sensitive to changed market conditions, this seems rather long.

In the Australian context, it is very clear that rent changes are related to vacancy rate changes (see Section 3.2.1). Vacancy data would appear therefore to provide a good trigger for rent regulation at a broad level, e.g. metropolitan or regional, but there are doubts as to their appropriateness at the submarket level—are they robust enough at this level? A forthcoming AHURI project may be able to throw more light on this. Rental bond data, however, based on some variation of the Irish model could potentially be used in this role.

[What properties are regulated and what are not?](#)

One of the defining features of second and third generation rent regulations are the exemptions of certain property types or locations. These exemptions are designed to limit the negatives associated with first generation controls but also to send signals for better renter and property outcomes from the regulation. These can apply whether properties are tenanted or vacated tenancies.

Stock exemptions—certain properties may be exempted from regulation depending on the objectives of the regulation. The potential problem here is that landlords may switch investment to unregulated properties. For example, there is some evidence from Scotland, which exempts student housing from regulation, of a switch of investment from the regulated sector to unregulated student housing facilitated (as it would be here) by the post Covid growth on international students. Given Australia has a very large and lucrative student housing sector as well as a problematic private rooming house sector the risk in Australia of investment shifts would likely exist. The Short-Term Rental Accommodation (STRA) sector is also potentially problematic particularly in certain submarkets. This would suggest including student housing, private boarding houses and STRA. In the case of the latter, it would not be

about administering rent regulation in the same form as long-term rental but about complimentary policies to minimise LTR providers avoiding regulation by switching to STRA (See Burke, Ralston et al 2023 and Gurran, Zhang et al 2018).

This is also an issue of governance. If one state of territory was to introduce rent regulation but others did not there would likely be some switch of investment to non-regulated jurisdictions. This risk might not be as great as one might expect given as an AHURI study on investor motivations most invest locally where they are familiar with the market and can keep an eye on the market and the property (Seelig, Thompson et al. 2009, p26). However, to minimise risk it would be desirable for any regulation (principle and rules) to be national although perhaps with administration at the jurisdictional level.

In recognition that there may be unintentional impacts on supply some jurisdictions exempt new properties, while others more focused on rewarding property upgrade provide exemptions for certain forms of capital investment typically of a form that represents a substantial improvement in the property and well-being of renters, e.g. new kitchens or bathrooms, solar panels or other investment which improve environment sustainability. There need to be decisions made as to what residential property is covered. Properties that may be exempted in various countries include:

- Dual occupancies dwelling where the other dwelling is owner occupied.
- Social housing dwellings where a different rent setting model applies, e.g. a household rent.
- Short term Rental Accommodation such as Airbnb.
- Accommodations in a hospital, convent, church, religious facility, or extended care facility.
- Privately provided student housing.
- Student housing owned and operated by a tertiary institution of higher education, e.g. university.
- A newly constructed unit that has been offered for rent for less than some nominated years, e.g. 5 years.
- A licensed assisted living facility or nursing home.
- A dwelling subject to a regulatory agreement with a governmental agency that restricts occupancy of the unit to low- and moderate-income tenants, e.g. affordable housing.
- A residential caravan or mobile home park.
- Boarding or rooming houses.

There is a risk that exclusion of some types of these properties could create a switch in investment, so consideration must be given to the likelihood of this and of measures to limit it. Private student housing, STRA, caravan and mobile home parks, and private boarding houses maybe accommodation forms in the Australian context where this risk could be high. Moreover, without appropriate design there is always the risk of forcing more households into the informal and unregulated housing market, e.g. share housing than is already the case (Gurran, et al. 2020; Huda, Kamruzzaman et al 2024).

Capital improvement exemptions

Second and third generation rent regulations in many countries recognise that landlords should not be disincentivised to make capital improvements to the property in fact the opposite. Thus, where there maybe annual rents caps there are exemptions for substantial improvements via capital works. But what is home improvement? The broad rule for example in the Netherland is that the landlord may only increase the rent if the following conditions are met:

- The work has led to something new: changes to existing facilities or the addition of facilities that were not yet present.
- The work has led to an increase in living enjoyment (no replacement from old to new).
- It must concern additions or changes that are physical (real estate) in nature.

But these general rules require further specification. The Netherlands Rent Assessment Committee (Huurcommissie.nl) provides guidance on allowed and not allowed renovations (see Box 3). Other countries have similar guidelines.

In Australia the Victorian government via amendments to the Residential Tenancies Act proposes regulating for minimum energy efficiency standards for rental properties. To be introduced in late 2024, and while not an exhaustive as the Netherlands guidelines, it is easy to be seen how these could be integrated with any rent regulation provisions or exemptions (Victorian Department of Government Services 2024).

Box 3: Allowed and not-allowed renovations, Huurcommissie, Netherlands

Allowed renovations	Not allowed renovations.
Adding facilities that were not yet present. This includes, for example, adding built-in appliances, a bath, mechanical ventilation;	The maintenance and/or repair of foundations, facades, galleries and balconies;
Installing physical energy-saving measures that were not yet present;	The maintenance and/or repair of the lift;
Enlarging the balcony;	The maintenance and/or repair of the roof or gutters;
Replacing single glazing with double glazing or HR++ glass.	The maintenance and/or repair of sewerage or gas, water and electricity pipes;
Adding facilities that were not yet present. This includes, for example, adding built-in appliances, a bath, mechanical ventilation;	Replacing old with new exterior frames, windows and doors;
Removing asbestos and solving moisture problems	Replacing old with new sanitary facilities or kitchen;

Source: Huurcommissie (2024)

Is rent regulation a stand-alone policy or part of an integrated national housing strategy?

A housing system view would also embrace whether any regulation requires additional or modification to existing policies to best achieve rent regulation objectives. For example,

Taxation and income support provisions could be modified to compliment any regulatory provisions, e.g. non-complying landlords being ineligible for receipt of CRA tenants or negative gearing. Spain, for example in its recent housing policy reforms including rent regulation offered differential tax incentives to reward landlords setting rents below the market level or targeting specific client groups. There would also be implications for existing residential tenancies law. For example, is it consistent with no ground's eviction? The problem with no ground's eviction, if rent regulation only applied to existing tenants, is that landlords could evict renters in order that the property become a new rent property and full market rents with potential for charging full market rents.

Rent regulation raises the issue of its relationship to broader housing policy. Is it part of a national housing strategy to achieve system wide housing outcomes or is a one-off stand-alone policy not directly related to or complimented by other policies? For example, in Austria, the Netherlands, Sweden and Denmark and very recently Spain, rent regulation is part of a comprehensive suite of housing policies with rent regulation part of that policy architecture. In the case of the first four of these countries, rent regulation has been part of a broad suite of housing policies for decades reflecting a view that rent regulation has a role in dealing with the very structure of the housing system and its objectives rather than a temporary solution to a contemporary crisis. This point relates back to the starting question: what vision does a country has for its housing system? Australia has never really had a housing strategy or vision although the immediate post-WW2 Labor government got close and given the lack of bipartisan viewpoint on what a housing system should look like, this is not likely in the future. The more likely probability is a national housing plan with a set of incremental initiatives but even here the design of rent regulation could take in the relationship to such policy.

What type of complementary policy could there be?

Complementary policy changes are designed to minimise secondary outcomes from regulation. These include residential tenancy and taxation changes. For example, the 2023 Spanish regulation was accompanied by landlord tax relief on their net rental income at the following percentages:

- 50% reduction for new agreements, i.e to bring a property onto the long-term rental market important in a country where in many cities much stock has been lost to the STRA sector
- 60% reduction if the property has been renovated in the two years prior to signing the contract
- 70% reduction if the property is rented to young people between the ages of 18 and 35 years, or as part of subsidised rental programmes
- 90% reduction for new contracts that charge at least 5% less rent than the previous contract
- Vacant rental dwellings will be subject to additional property taxes depending on the number of years the property has been unoccupied (Narcizo 2023; TLA 2023).

In the Australian context, and Dodson and Davies (2024) have outlined in some detail how Commonwealth taxation and income support could be adapted to mesh with a National Rent Regulation System (NRRS) and at the state level governments could change land tax, provisions whereby landlords are exempt from land tax for housing certain household types, e.g.

indigenous households, single parent households receiving Centrelink payments, designated key workers in specific locations.

The Spanish Act also changed planning law to designate areas for affordable and social housing and made more general changes to residential tenancy law including provisions whereby:

- A letting contract is not extinguished if the landlord sells the property to a third party. The new owner takes over the obligations of the contract including regulated rent and replaces the previous one during the term of the contract
- The tenant is entitled to a right of pre-emption, i.e. the right to buy before open market sales with the tenants having 30 days to accept or decline
- The right for a renter in stressed rent regulated areas to request an extraordinary extension of the lease term (up to seven years) with maintenance of the same terms and condition (TLA 2023).

4.3 Consultation

While little has been written about consultation as a process in rent regulation policy design a review of various countries' rent regulation history suggest problems resulting from lack of consultation including lower levels of governments not engaging other levels, successful (legal) push back from property interests who were not consulted, and post implementation changes which may have been prevented if there had been consultation at the point of design. As alluded to several times rent regulation is highly contested and grounded in strong political and ideological position as much as based on evidence. This makes consultation imperative.

A possible exemplar for any rent regulation review is that of the social housing regulation review (VicGov 2023) whereby a panel of experts was appointed to engage with a range of stakeholders in the social housing sector to draw out and identify the appropriate regulatory arrangements for the Victorian social housing sector. The consultation process provided a set of information papers for identified stakeholders and a range of questions under different issue areas for stakeholders to offer views around. Consultation involved surveys, workshops, face to face interviews and an interactive process where information extracted from the first round of consultation were worked into subsequent information papers for further discussion.

4.4 Implementation

[What jurisdiction is responsible for the legal and administrative governance of regulation?](#)

Regulation can be national, regional (for example, states and provinces) or local (for example, cities) or a mix of these, i.e. where the national government sets the legal framework but allows for local area administration. In part, it depends on the form of government. Most federal systems of government (Germany appears to be an exception) leave rent regulation to the states, territories or provinces, while unitary systems tend to be national, e.g. Scotland, Ireland, Denmark, Netherlands. In the latter actual management of regulation may be devolved to local government, e.g. Denmark Scotland and Germany. In some such as Scotland, local area rent regulation would appear to impose an administrative burden and complexity as each local government that has a designated RPZ is responsible for administration of regulation for the RPZ and must have some form of agency to undertake this. However local governments are resourced to do this although whether adequate is difficult to determine.

In Australia individual jurisdictions are responsible for residential tenancy regulation and administration and have a long history of such. This would suggest any rent regulation should build on this infrastructure although actual regulation and an associated landlord register should be national.

How does a landlord register to be established?

Rent regulation requires some form of register of landlords to ensure performance and compliance. Australia has no landlord registration requirements nor attached performance measures despite the substantial public investment in the sector. Social landlords by contrast with much less public subsidy must be registered and meet substantial performance criteria.

Some countries such as Scotland, Ireland and the Netherlands have established registers as an explicit part of rent regulation (see Table 11), others such as Germany and Denmark have a defacto system which is equivalent to the bond registration process of Australia. When a new tenancy is lodged the tenant or landlord registers that tenancy with an appropriate authority and that becomes the basis for regulation. Northern Ireland, which does not have rent regulation, nevertheless has a compulsory landlord registration requirement and is one of a few that appears to have been reviewed with a conclusion that such registration is an effective ways of monitoring PRS performance and providing better outcomes for tenants (Nidirect 2024). Table 11 shows the typical information required from a landlord registration process

Table 11: Landlord Registration, required data inputs Northern Ireland, Scotland and Ireland

Northern Ireland	Scotland	Ireland
Full name	Full Name	Private Landlord: Full name/ address/ PPSN/Date of Birth.
Date of birth		Dwelling Type (i.e. Whole of House/Apartment/Flat Bedrooms.)
Address, email address, telephone numbers, including mobile telephone numbers	Email address, telephone numbers, including mobile telephone numbers	Rented Dwelling Address.
Postal address that must be in Northern Ireland if different from above	Addresses for the past 5 years Addresses of all your rental properties	Bedspaces & Number of Occupants.
Company registration number if the landlord is a company	All owners of a property must individually: <ul style="list-style-type: none"> • register • renew 	Approximate Floor Area in Square Metres.
Name, address and contact number of any agent acting on your behalf	Details of any person or business managing your property on your behalf	Energy rating

Northern Ireland	Scotland	Ireland
Address and postcode for each property let or to be let	Any criminal convictions and court or tribunal judgements any anti-social behaviour orders against you or any of your tenants any unlawful discrimination Repairing standards enforcements orders (RSEOs), issued to you or your tenants	Local Authority in which rented dwelling is located.
Year each property was built	Repairing and tolerable standard Gas safety certificate Electrical installation condition report or a current electrical installation certificate Electrical appliance test details Fire, smoke and heat detection details Carbon monoxide Public water supply Energy performance certificate Legionella risk assessment Rental property insurance Common repairs Tenancy deposit	Tenancy Commencement Date.
Name and contact details of any joint owners		
House in multiple occupation registration certificate number if applicable to a property		Company Landlord: Registered company name / CRO number.
Rent charged once tenanted	Rent charged once tenanted and rent history	Rent charged once tenanted

Source: Ireland Residential Tenancies Board (2024d), Nidirect (2024) Scottish Landlord Register (2024)

The type of registration process, like the establishment of rent regulation itself, depends on the objectives of the registration. Registration could be set up for rent-setting, e.g. providing a rent comparator, quality assurance, renter-landlord transparency, rent-change monitoring, compliance or PRS trend monitoring and evaluation in general. The data that is attached to registration could be light if tenancy rent-change monitoring is an objective but substantive if PRS monitoring and evaluation is the objective. The Scottish system requiring local governments to develop rental market assessments and justify delineation of Rent Pressure Zones will be enabled by their registration system. Evaluation is desirable if unintended side

effects are to be identified, e.g. stock loss or if there are issues in particular locations or types of landlords (such as multiple vs single property landlords) and different rent range cohorts. Some countries such as Wales and Northern Ireland have a mandatory landlord register even though they do not have rent regulation—the objective is to monitor PRS trends and identify emergent issues or problems.

In Australia, market rents can be challenged by a tenant but there is no clear formula for doing so. A rent comparator such as used in Denmark can be the required instruments for determining a fair market rent. An accessible data base built around a rent register would enable both renter and landlord to use the registers comparator to find equivalent properties and agree on a fair rent.

Renter-landlord transparency can be another objective of a landlord registration process. In many rental systems, not least Australia, renters and landlords operate in a context of asymmetric information; landlords require detailed information about the renter, but renters have minimal information about the landlord or the property. Landlord registration, as exemplified by the Scottish model, could include information as whether the landlord has a criminal record, contravened any provision of the law relating to housing or landlord and tenant law, are a company or private individual, are single or multiple property owners, the energy performance of the property, the age of the property and a history of renter complaint against the landlord. Such information requirements might mean that some landlords are refused entry to the register because of a poor history. At one level this a positive for renters but at another a negative as it could mean that rogue landlords operate informally and potentially exploitive outside of the formal and registered PRS. To facilitate such transparency, the Scottish system has a portal where by entering the landlord's registration number or address, renters can find out relevant landlord information (see <https://www.landlordregistration.scotland.gov.uk/search>).

Quality assurance not only comes from screening out problematic landlords but also because registration could also include the option of registering as accredited landlord. This has the potential benefit of tenants more likely wanting to rent properties from accredited landlords rather than non-accredited ones. This of course requires the creation, as in Scotland, of a landlord accreditation agency which accredits to a set of principles including history of complaints and disputes, communication with renter, quality of the property, repairs and maintenance history etc. (Landlord Accrediation Scotland 2024).

Without a register of all PRS landlords (with penalties for those who do not register) compliance is difficult. Scotland, for example, has fines up to \$90,000 for non-registration.

But registration at what level of government? Many jurisdictions make it at the local level, and this requires multiple registrations for landlords with property across different local areas. It also means multiple fees and administrative jurisdictions. In Scotland, for example, there are 32 local authority registers. Ideally in the Australian context to reduce the administrative burden to government and landlord there would be one national PRS registration system.

4.5 Evaluation and monitoring

A landlord register would be a huge rental dataset that could provide invaluable information for sophisticated and complete monitoring of the PRS. Much of this data should be open access, although some information such as some names and addresses could be

confidentialised. A further issue is whether the landlord register ran separate from the bond lodgement process or whether they could be integrated with ability to link rental performance with question of to what degree do landlords return bonds in full and are the variations across submarkets, and how many disputes annually across landlord types and submarkets.

Registers are digital but such systems have issues. In a 2023 consultation, the Irish Residential Tenancy Board that administers the Irish register found that the current version of the platform is too time-consuming and remains problematic. Many landlords who want to be compliant are frustrated by the experience of trying to register but found IRTB difficult to access. The site contains good information but, the view was that data was difficult to find and may be outdated. The IRTB acknowledges that the site needs more resourcing and support (Ireland Residential Tenancies Board 2024c).

The big question, however, is what jurisdiction is to establish a landlord register. In Australia, for national monitoring and evaluation a national register would be desirable but other objectives and issues (for example, the relationship to residential tenancies administration and bond lodgements and management) would make it preferable at the state level.

How to ensure compliance?

Like all systems they are only effective insofar as compliance is ensured. Despite hundreds of rent regulation studies, little systematic research has been undertaken on compliance and it is an area for more research. However, one very recent French evaluation (CoStar 2024) found that a quarter of rent increases exceeded the rent cap with lack of penalty the major explanation. Typical compliance issues include:

- What agency is to monitor compliance?
- How to ensure landlords keep within rent cap rules?
- If there are infringements, what process are there for remedial action?
- If a housing register is introduced, how to ensure that landlords register?

Most rent regulation regimes appear to put the burden on tenants to keep the system honest by taking the landlord to the relevant courts or administrative agency if they believe their rights, including excessive rents, are violated. In the USA, Germany and France, it is mainly the conventional legal system (courts) that is used rather than designated agencies such as Australian residential tenancy tribunals. In Germany, multiple tenants' associations with large memberships and resources are assist renters in a way which does not exist in most other countries. In Denmark, all municipalities have an assigned rent assessment committee which several municipalities share to reduce administrative costs. Each rent assessment committee deals with tenant-law issues within the municipalities assigned to the rent assessment committee. The risk for tenants is that an appeal costs around \$80 and if the tenant or landlord lose the cost of \$1,000 is administered against them. The rent assessment committees indicate relatively short turn-around times (two weeks plus) probably deriving from having multiple agencies rather than one as in Australian jurisdictions.

For those countries that have landlord registers compliance is largely through financial penalties, for example in the case of Scotland, operating as an unregistered landlord is a criminal offence which may be subject to a penalty on conviction of up to A\$90,000 and a ban on letting properties of up to 5 years (Scottish Government 2024).

The politics of rent regulation

Rent regulation implementation (or not) is a political process and requires consultation and negotiation. The international review identified that push back on regulation was often substantial and, in several jurisdictions various interests took the regulation to the court—in the case of Berlin and Spain temporarily ended regulation until new legislation was enacted. Some of the legal opposition, relevant to a federal system like Australia, was about constitutional rights of rent regulation. The obvious point to make here is that there are many interests potentially impacted by rent regulation and a consultation process is necessary for policy implementation.

Policy Evaluation

The interesting finding from the international literature was that there appeared to be no formal evaluation process built into the regulatory models. Virtually all evaluation was done by academics or external researchers.

4.6 The need for consultation

Rent regulation policy is to be accompanied by a substantive consultation process given the contested nature of the issues and the range of often competing appropriate regulatory agencies.

Debates around rent regulation are imbedded in political and ideological values. The many different interests in rent regulation (property interests, policy influentials, tenants, academics) can design their research, or choose the research findings, to fit their ideological position. Those who see rental system as characterised by competitive markets and protection of property rights can create or extract the information that fits that perspective just as those who see the rental system characterised by market imperfection and need for tenant protection rights can create or find their desired information. This create a major challenge in any establishment of rent regulation and indicates that there could be little way forward by way of design without extensive and well managed consultation. The Victorian social housing regulatory review could be considered as an example of consultation design with not dissimilar objectives.

5. Policy development

This report provided a statistical analysis of the Victorian PRS using data from the RTBA and illustrated how the data might suggest need for rent regulation and how some of the possible side effects of any such regulation might be mitigated by the attributes of the Australian PRS.

The report followed that by a review of the international literature to (a) identify what it says about the potential benefits and costs of rent regulation and (b) what is the international practice and how can that be worked into a policy development framework if rent regulation was to be undertaken.

The report is designed to assist policy makers, policy influencers and the lay public to understand the issues around rent regulation and how to design and implement regulation if so needed or desired. It is not designed to suggest what should be actual policy. Hopefully guided by this report that is the role of others. There are, however, four contextual policy suggestions as outlined below.

5.1 Greater availability of rental data

Despite the importance of the rental sector, data availability for monitoring of performance is very limited. Bond data on **existing** tenancies is held by the various jurisdictional Rental Tenancy agencies but do not make it available and provide no data analysis themselves. Data on **new** tenancies is available from some jurisdictions but not all and with different methods of collection, i.e. property data vs tenant data. Data on new tenancies is also available from the private property data sites but at a cost and their advertised data is not as accurate of the rental experience as bond data. Consideration should be given to (a) making available bond board tenancy data for performance research (b) providing access to MRI Real Estate Software (which has existing tenancy data) as provided to the ABS for research on the same basis as ABS confidentialised data is for academic research. AHURI could be the conduit for such a process.

A national landlord register, if so established, would provide important rental information depending on design and this is discussed separately.

5.2 Rent regulation as a partial solution

Any potential rent regulation is not a major solution to rental affordability and housing precarity but a complementary policy to a suite of more substantive policy reforms.

The problems of the Australian PRS as outlined by multiple AHURI reports over the last decade are many and the causal factors are equally many with no agreement as to which are predominant or how to be they should be addressed. However, there is little doubt that many of the PRS problems rest not within the PRS but in the attributes of the wider market and institutional context not least the small size of the social housing system and the relative leanness by international standards of income support. Rapid household growth and inability to match that sector through market supply compounds these two safety net issues. These areas should be the principal foci of policy reform but given that the resource commitments are substantial and time lags great rent regulation could have a role but as a complement only.

5.3 No/just cause eviction

If rent regulation was to be introduced no cause eviction regulation is essential. No or just cause regulation limits the causes for which a landlord can evict a tenant or refuse to renew a lease. In the absence of such a legislation and where there are differences in regulation between sitting tenants and vacant tenancies landlord may evict so that the property becomes vacant and exempt from the regulatory provisions that attach to tenanted properties. They minimise the risk of residential tenancy law from being weaponized against existing tenants and empowers them seek improved living conditions without fear. Virtually all jurisdictions in the USA and Europe with rent regulation have no cause eviction legislation as does the ACT in Australia and as of late 2024 Victoria has a similar intent.

5.4 Establishing a national housing register

Any rent regulation should be desirably integrated into an appropriate data and regulatory infrastructure, a national rent regulation system (NRRS). However, an NRRS would be desirable independent of any rent regulation and would facilitate the monitoring and evaluation of the PRS in the same way the social housing system is regulated and monitored. The justification for a national register is threefold. First, a national register is desirable not just for regulation administration and compliance of any rent regulation system but would also facilitate more effective monitoring of the performance of the rental sector including the big gap in Australia around quality performance. Given the substantial indirect subsidy of the PRS via Commonwealth taxation and income policies, the Commonwealth should have the capacity to monitor and evaluate the PRS in the same way as the social housing sector (Productivity Commission 2023). Second, some landlords invest across several jurisdictions and as corporate investment increases, so will the number of cross-jurisdiction investors. One registration process (although still documenting multiple properties) would reduce the administrative burden. Third, and again picking up the administrative burden, it would be much more cost-effective to have one agreed registration form nationally and with one jurisdiction responsible for processing the registration than having multiple jurisdictional systems. The data and interrogation ability would be available to all jurisdictions for compliance, monitoring and evaluation purposes.

Such a register would not replace jurisdictional tribunals or Commission but complement their role.

5.5 The need for consultation

Rent regulation policy is to be accompanied by a substantive consultation process given the contested nature of the issues and the range of often competing appropriate regulatory agencies.

6. Conclusion

The study had two objectives. The first was to provide policy makers, policy influentials, and the lay public with the ability to understand the issues around rent regulation and how to design and implement regulation if so desired. Toward this objective the report reviews the international meta review literature for evidence as to (a) whether rent regulation can provide protection for renters without generating negative side effects such as substantial disinvestment or redirection of investment and (b) guidance on design and implementation issues. The second was to provide a Victorian rental market case study including a small econometric supply elasticity analysis to look what that data could tell us about both the need for some form of rent regulation and likely outcomes from implementation of any regulatory system. Out of this process was several findings. These are:

- Hard regulation (rent freezes) which characterised first generation regulation largely produced negative outcomes but the evidence for the second and third generation regulation is much more nuanced with outcomes depending on the market and institutional context.
- The rental data, both historical and recent, suggest Victoria (and Australia) has both a long term structural rental crisis and a short term (current) crisis. The recent crisis has manifested itself in a proportion of rent increases being of a scale which for many renters has little relationship to tenant incomes, landlord costs, or to successful market clearance; despite these higher rents new rental bonds have declined suggesting rental supply is driven by wider factors than rent changes.
- The long-term crisis has a different face. What appears to happen here is that short-term crisis rent increases, e.g. 2007-2010 and 2023-2024, ratcheted up rents to a new level, but which do not fall back; the new rent level becomes the new normal with rents then increasing broadly in line with the CPI until the next crisis. Each ratcheting up however moves the rental system to a new level of unaffordability.
- The impact of these rent increases is having major implications for affordability, tenure security, rental housing search choices, financial stress and homelessness.
- Given the importance of and the social costs of short-term crisis all this may suggest a need for some form of rent control.
- The likelihood of major disinvestment in rental supply from regulation is not likely to be substantial given historically many landlords and even in a tight rental market appear to use the CPI for rent setting; that the bulk of investment is in existing stock, that capital gain as much as rent yield drives investment, and that changes in costs and income for many landlords is muted by the effect of the tax system and the fact that many are mortgage free. But the actual behavioural outcomes could be different from what the data suggests.
- The econometric analysis found the rental system is relatively price (rent increase) inelastic. However, of significance is the relationship between growth in rental stock and the growth in new housing stock generally; the latter is an important driver of rental supply. This is a finding in accord with industry and government views that the housing affordability and availability issues confronting Australia are to be solved by increasing supply. How this is to be done is the challenge facing Australia.

- International experience tells us that the variations in design and implementation of regulation are substantial thus considerable consideration must be given to what is the best approach given the political, policy and market context.

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Appendix 1: Median prices and rents, net yields by year, houses and flats/units, Melbourne, 2002-2023

Table 12: Median prices and rents, net yields by year, houses and flats/units, Melbourne, 2002-2023

Year	House					Flat/unit					
	Median house sale	3br house		All houses		Median flat/unit sale	2br flat		All flats		
		Weekly rent	Yield	Weekly rent	Yield		Weekly rent	Yield	Weekly rent	Yield	
2002	\$259,000	\$205	4.1%	\$220	4.4%	\$260,000	\$195	3.9%	\$190	3.8%	
2003	\$291,500	\$210	3.8%	\$220	3.9%	\$272,000	\$200	3.8%	\$200	3.8%	
2004	\$308,850	\$220	3.7%	\$230	3.9%	\$275,000	\$210	4.0%	\$210	4.0%	
2005	\$320,000	\$225	3.7%	\$240	3.9%	\$285,000	\$225	4.1%	\$220	4.0%	
2006	\$345,000	\$235	3.6%	\$250	3.8%	\$305,000	\$240	4.1%	\$235	4.0%	
2007	\$372,000	\$260	3.6%	\$275	3.9%	\$340,000	\$270	4.1%	\$260	4.0%	
2008	\$385,000	\$300	4.1%	\$310	4.2%	\$355,000	\$300	4.4%	\$295	4.3%	
2009	\$418,100	\$310	3.9%	\$330	4.1%	\$385,000	\$325	4.4%	\$310	4.2%	
2010	\$495,500	\$330	3.5%	\$350	3.7%	\$449,000	\$340	3.9%	\$330	3.8%	
2011	\$493,000	\$340	3.6%	\$350	3.7%	\$445,000	\$350	4.1%	\$340	4.0%	
2012	\$485,000	\$340	3.7%	\$350	3.8%	\$435,500	\$360	4.3%	\$350	4.2%	
2013	\$520,000	\$346	3.5%	\$360	3.6%	\$460,000	\$365	4.1%	\$350	4.0%	
2014	\$556,000	\$350	3.3%	\$370	3.5%	\$481,500	\$375	4.1%	\$360	3.9%	
2015	\$600,000	\$360	3.1%	\$380	3.3%	\$510,000	\$385	3.9%	\$365	3.7%	

Year	House					Flat/unit				
	Median house sale	3br house		All houses		Median flat/unit sale	2br flat		All flats	
		Weekly rent	Yield	Weekly rent	Yield		Weekly rent	Yield	Weekly rent	Yield
2016	\$641,000	\$380	3.1%	\$400	3.3%	\$520,000	\$400	4.0%	\$380	3.8%
2017	\$720,000	\$390	2.8%	\$410	3.0%	\$555,000	\$420	3.9%	\$400	3.8%
2018	\$740,000	\$400	2.8%	\$420	3.0%	\$570,000	\$430	3.9%	\$410	3.8%
2019	\$720,000	\$400	2.9%	\$420	3.0%	\$580,000	\$450	4.0%	\$420	3.8%
2020	\$750,000	\$400	2.8%	\$425	3.0%	\$600,000	\$420	3.6%	\$400	3.5%
2021	\$875,000	\$410	2.4%	\$435	2.6%	\$631,000	\$400	3.3%	\$375	3.1%
2022	\$892,500	\$440	2.6%	\$460	2.7%	\$620,000	\$440	3.7%	\$410	3.4%
2023	\$770,000	\$490	3.3%	\$520	3.5%	\$560,000	\$540	5.0%	\$490	4.6%

Yields: (median rent x 52.14)/median property price

Source: Valuer General Victoria A guide to property values, RTBA data

Appendix 2: Calculating rates of return for rental properties

This appendix expands on the return to investment data used in Section 3.2.8.

A primary reason, but not the only reason that individuals and corporations invest in the rental market given the diversity of landlord types and objectives, is to make a return on that investment. Rental investment is an earning asset and as such it not only generates a rental income for the investor but also appreciates (but sometimes depreciates) in value over time. So, rental investors have two sources of returns from their investment:

- annual earnings through rental operations, and
- capital returns realised on the sale of the dwelling.

The finance system for rental investment can therefore be divided into two interrelated parts: the first regards rental operations whereby the ongoing costs of managing and maintaining the dwelling are met through the provision of housing services to tenants for a price (rent); and the second regarding the rental dwelling as an asset and involves its acquisition, capital improvement and sale.

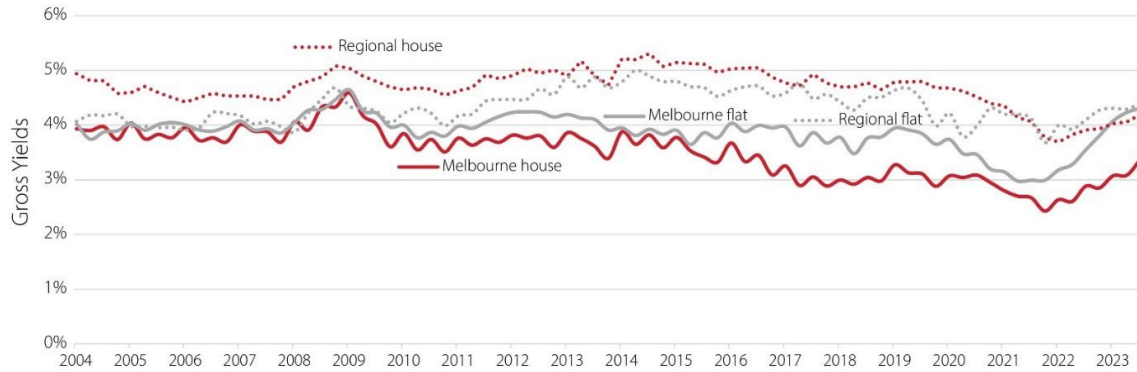
Rental revenue (RR) is the amount of rent collected annually and is source of calculating returns on investment. This return can be calculated in several ways. The simplest is that of the rental revenue at the time of purchase divided by the purchase price, i.e. Gross Revenue Yield at Initial Purchase Time (GRYIP), another is that of Gross Annual Rental Yield Post Purchase (GARPP) which is the annual rental revenue over time as a proportion of the original purchase value of the dwelling. This should increase over time as the rental revenue rises in relation to the purchase price of the dwelling. A third and a standard measure is the annual rental revenue as a proportion of the current market value of the dwelling (Gross Rental Yield GRY). The problem with all these yield measures is that they take no account of the ongoing costs of serving the investment. These need deduction from rental revenue to generate a net yield (NY). In the early years of investment these can be negative, the so called negatively geared situation which in the Australian context is tax deductible. These recurrent costs include management costs, maintenance, taxes, utilities and mortgage costs (only the interest component of mortgages is tax deductible).

Finally, there is the rate of return on investment (RROI) which factors is capital value of the property if sold minus the initial investment, i.e. the purchase price of the dwelling, The is the capital gain. But capital gains are taxed so to generate the RROI it is necessary to deduct from the sales price eligible expenses incurred in purchasing and managing the property including professional property inspection, valuation, stamp duty, conveyancing, legal fees, title transfer, mortgage establishment, Lender's Mortgage Insurance etc and from the residual amount after deducting these items calculate the relevant capital gains tax.

Figure 17 uses the Gross Revenue Yield at Initial Purchase Time (GRYIP), for Melbourne and regional Victoria for the fifteen years to September 2023. The measure of yield is the median bond rent for the calendar years (year of potential purchase) divided by the median dwelling price for the same year (Valuer General 2023). For 3-bedroom houses the gross yield has been, with some variations, on a downward path from 2002 (4.1%) to 2023 (3.2%) while for flats it has been relatively constant around 4.0 per cent. The rental increases of 2023 have produced a

slight increase in yields for houses (largely due to a fall in dwelling prices) but not back to levels of the past. Whether for houses or flats these are not high yields relative to say superannuation returns—7%, 2002 to 2023, (Superguide 2024) or for secure fixed-rate bank deposits—4.0% per annum 2002-2023 (RBA 2024). On top of this we must remember these are gross yields and take no account of mortgage costs if any, and other recurrent costs. Such yield is certainly not the attraction of investment.

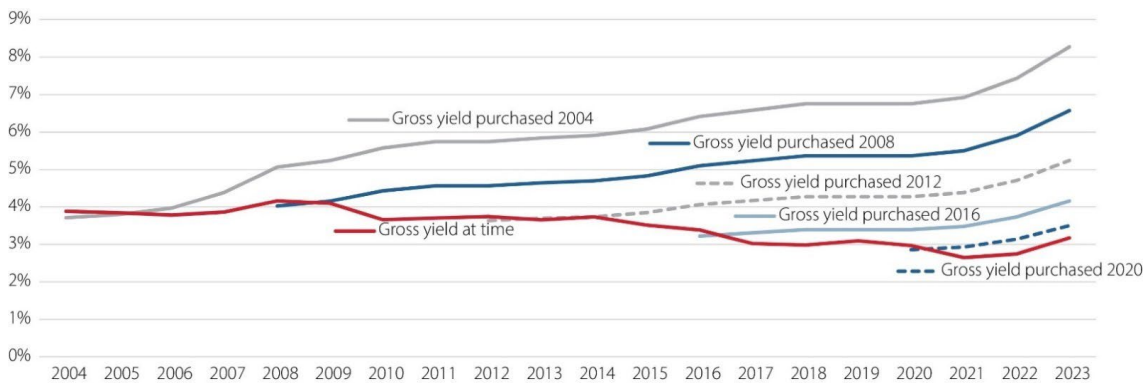
Figure 17: Gross revenue yield on initial purchase



Source Author's calculations based on below method and RTBA data

Another measure is that of Gross Annual Rental Yield Post-Purchase (GARYPP) meaning as rents increase from the time of purchase the rent yield relative to initial purchase will increase. Investors would arguably accept a low purchase yield for higher yields over time. Figure 18 compares gross rent yields over four different purchase periods and highlights how it increases the longer the period of ownership. In 11 years, gross yields go to 6.5% but by 19 years (2004) it is more than 10% and in the meantime the value of the property has been appreciating and most if not all a mortgage if any would have been paid off. The qualification here again is that this is a gross yield.

Figure 18: Gross revenue yield post purchase, 2004-2023

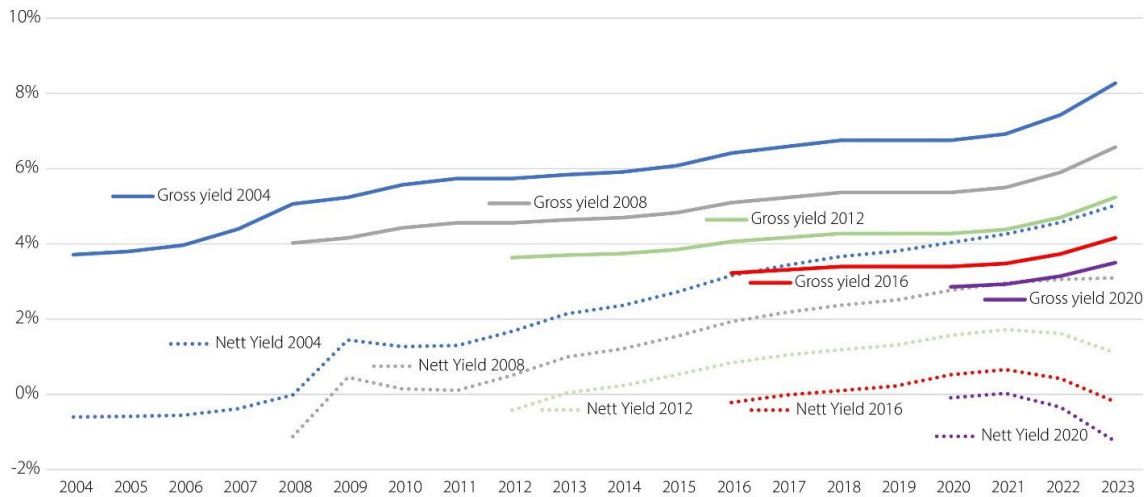


Source: Author's calculations based on below method.

While much real estate marketing is built around gross yields, it is net yield that is potentially more important in terms of how long to invest for. The overall investment yield, i.e. net yield will balance the rental income against all the costs incurred in earning that income with those costs muted to a great degree by generous tax system comes which allows most costs including interest on mortgage payments as a tax deduction. Figure 19 shows typical net investment yields for different investment time periods factoring in income from rents,

mortgage costs, rates, utilities, maintenance and tax provisions (negative gearing and capital gains tax). The example for these investment returns uses a 2-bedroom flat in metropolitan Melbourne. It illustrates that while gross yields were not brilliant, net yields are poor even with tax provisions. In the early years they are negative (hence negative gearing) and only the investor of 20 years or so gets to achieve yields more than 4% which is still inferior to shares or superannuation. Hence the importance of capital gains as illustrated in Section 3.2.8, Table 6.

Figure 19: Gross yields compared with net yields



Source: Author's calculations based on below method

The following sub-sections expand on the methodology used above.

Measuring annual earnings

Rental investors use several financial measures on which to base their investment decisions such as gross rental yield and net rental yield.

Gross rental yield (GRY) is the annual rental revenue as a proportion of the current value of the dwelling (MV).

$$GRY = RR/MV * 100$$

Example 1: Gross Rental Yield

Year 1 = $\$18,040 / \$520,000 * 100 = 3.47\%$
 Year 5 = $\$20,335 / \$720,000 * 100 = 2.82\%$
 Year 8 = $\$20,856 / \$750,000 * 100 = 2.78\%$

Market Value (MV): Year 1 = \$520,000, Year 5 = \$720,000, Year 8 = \$750,000

Annual Rent: Year 1 = \$18,040 (\$346 per week), Year 5 = \$20,335 (\$390 per week), Year 8 = \$20,856 (\$400 per week)

Net rental yield (NRY) considers ongoing costs and is the difference between rental revenue and ongoing costs as a proportion of the current value of the dwelling.

$$NRY = (RR - OC) / MV * 100$$

Example 2: Net Rental Yield

Year 1 = $(\$18,040 - \$8,840)/\$520,000 * 100 = 1.77\%$
Year 5 = $(\$20,335 - \$12,240)/\$720,000 * 100 = 1.12\%$
Year 8 = $(\$20,856 - \$12,750)/\$750,000 * 100 = 1.08\%$
Market Value (MV): Year 1 = \$520,000, Year 5 = \$720,000, Year 8 = \$750,000
Annual Rent: Year 1 = \$18,040 (\$346 per week), Year 5 = \$20,335 (\$390 per week), Year 8 = \$20,856 (\$400 per week)
Ongoing costs: estimated at 1.7% capital value

Note that in both gross rental yield and net rental yield all the components - rental revenue, ongoing costs and the value of the dwelling – are moving values that change year on year and so require the rental investor to review regularly their investment decision.

Yields are a function of the market value of the property, rents and ongoing costs. They vary between sub-markets. Gross rental yields, for instance, can range from as low as 2% to as high as 8% depending upon the sub-market (Kusher 2024; Ng 2024; Grosvenor 2024; Shubina 2023; 2024).

After tax returns: rental operations – negative gearing

Rental operations are further complicated by taxation arrangements. The most prominent is negative gearing provisions.

An investor can borrow funds to acquire a dwelling. The extent of the borrowings and the conditions under which borrow (for example, type of loan and interest rates) can result in the dwelling being positively geared, i.e. the investor makes a profit on their rental operations, or negatively geared, i.e. the investor makes a loss on their rental operations.

Each tax year a property investor can deduct many of the ongoing costs of managing and maintaining a dwelling or dwellings (see above) from both their rental revenue and other sources of income such as salaries and other non-housing investments. Where the dwelling is negatively geared, ongoing costs exceed rental revenue and in deducting annual losses from their taxable income, an investor can reduce their overall tax liability. Investors on higher marginal taxation rates derived greater benefit from negative gearing than those on lower marginal taxation rates.

Negative gearing is a way in which a rental investor can minimize their current taxation liabilities by claiming current losses as deductions. A rental investor is trading off current losses against the expectations of future capital gains.

In an environment where interest rates are increasing, investors who are negatively geared will have increasing rental losses and some investors who were positively geared will now find themselves negatively geared. Thus, taxation expenditure due to negative gearing will increase.

Example 3: Positive and negative gearing: net gain/loss from rental operations

	Positive gearing [#]			Negative gearing [^]		
	Earnings	Tax liability on rental operations	Net gain from rental operations	Income loss from rental investment	Tax gain from rental operations	Net loss from rental operations
Year 1	\$1,920	\$711	\$1,210	-\$7,440	\$2,753	-\$4,687
Year 2	\$815	\$301	\$513	-\$8,545	\$3,162	-\$5,384
Year 3	\$826	\$306	\$520	-\$8,534	\$3,158	-\$5,376

[#]Positive gearing: 65% equity; 35% debt finance

[^]Negative gearing: 20% equity; 80% debt finance

In the 1980s, negative gearing was quarantined, and investors could not claim the losses on rental operations in the year in which it occurred against other income. However, investors could still carry these losses forward and claim them against any future gains on rental operations or against capital gains on the sale of the dwelling.

Rental dwelling as an asset

Capital finance is required to acquire a dwelling. Capital arrangements can take the form of equity provided by the investor and borrowings. The types, conditions, terms and rates of interest of borrowings vary. The acquisition of a dwelling not only requires capital to meet its market price but also may require additional funds to meet the associated costs of professional property inspection, valuation, stamp duty, conveyancing, legal fees, title transfer, mortgage establishment, Lender's Mortgage Insurance (LMI) and property improvements (some of which may occur later). Through the sale of a dwelling, the investor not only realises the value of dwelling but may also incur associated sale costs of advertising, real estate agent fees and conveyancing.

In simple terms, capital gain/loss on a dwelling is the difference between the purchase price (PP) of the dwelling and its sale price (SP).

Example 4: Capital gain

Capital gain = \$892,500 - \$520,000 = \$372,500

Purchase Price (PP): \$520,000

Sale price: \$892,500

But capital gain/loss must also consider the cost of acquiring the dwelling (CA), the cost of selling it (CS) as well as any capital improvement (CI).

$$CG = (SP - CS - CI) - (PP + CA)$$

Example 5: Net capital gain (after expenses and capital improvements)

$$\text{Net capital gain (NCG)} = (\$892,500 - \$20,000) - (\$520,000 + \$31,000 + \$21,000) = \$300,500$$

Sale price: \$892,500

Costs of sale: \$20,000 – Real estate agent fees: \$15,000; Conveyancing, legal and other fees: \$5,000

Purchase Price (PP): \$520,000

Costs of purchase: \$31,000 - Stamp duty: \$26,000; Conveyancing, legal and other fees: \$5,000

Capital Improvements: \$21,000

After tax return on sale of asset

Capital Gains Tax is the tax paid by a rental investor on the profit received when a dwelling is sold for more than it cost to buy. If the property had been owned by an investor for more than 12 months, only 50 per cent of the nominal capital gain after allowing for associated costs (as specified by the Australian Taxation Office) is assessable as income. This taxable income is taxed at the investor's marginal tax rate (MTR). Those investors on higher marginal taxation rates pay higher amounts than those on lower marginal taxation rates. However, many investors, particularly those approaching retirement delay selling dwellings until after retirement when their marginal taxation rate is lower and thus, their tax liability is lower.

$$\text{After tax capital gain} = \text{NCG} - \text{NCG}/2 \times \text{MTR}$$

Example 6: After tax capital gain

$$\text{Capital gains tax liability} = \$300,500/2 \times 37\% = \$55,593$$

$$\text{After tax capital gain} = \$300,500 - \$300,500/2 \times 37\% = \$244,908$$

Marginal Tax Rate of investor: 37% (Taxable Income between \$120,000 and \$180,000)

Return on Investment

For a rental investor, however, what is most relevant is neither the net rental yield nor capital gain, but rather their rate of return on investment (RROI) particularly after taxation. This RROI is based upon their initial investment (II) for acquiring the dwelling, i.e. their equity contribution plus the associated costs of professional property inspection, valuation, stamp duty, conveyancing, legal fees, title transfer, mortgage establishment, Lender's Mortgage Insurance as well as any equity contribution to property improvements.

The returns on their investment (3) are realised through rental operations and capital gains over the years between acquisition and sale. Thus, the sum of (1) rental operations and (2) capital gains:

(1) Rental operations

$$\text{Annual return/loss on rental operations} = \text{rental revenue} - \text{ongoing costs}$$

After tax return/loss would adjust any gain by income tax liability and/or any loss by negative gearing offset

Total return is **sum** of annual after-tax return/loss over y years. (ATR)

(2) Capital gain

Capital gain (CG) = (Sale Price – Costs of Sale – Capital Improvements) – (Purchase Price + Costs of Acquisition)

After tax capital gain (ATCG) = CG – CG/2 x MTR

(3) Return on investment

The return on investment (ROI) = ATR plus ATCG

The rate of return on investment (RROI) = (ATR + ATCG)/y years/Initial Investment (adjustment for inflation – net present value)

Example 7: Return on investment: negatively geared and positively geared

	Negatively geared (Option 1)	Positively geared (Option 2)
Initial investment	\$104,000	\$338,000
After tax rental operations	-\$52,638	\$6,511
After tax capital gain	\$244,908	\$244,908
Net return	\$192,270	\$251,419
Average rate of return over 10 years	18.49%	7.44%

Appendix 3: Rent regulation metrics, metropolitan Melbourne, 2002-2023

This table shows the rent differences given three different rent caps: 3%, CPI and Average Weekly Earnings (AWE). Thus, a house where the actual rent in 2016 was \$400 per week and is now \$550, would have the rent reduced by \$58 to \$492 if the 3% cap was in place.

Table 13: Modelling of different rent regulation metrics, metropolitan Melbourne, 2002–2023

		Actual rent start March quarter	Rent in December 2023			
			Actual rent end December 2023	3% increase per year	CPI increase per year	Average weekly earnings increase per year
Flat	2002	\$195	\$515	\$363	\$336	\$415
	2010	\$325	\$515	\$477	\$453	\$488
	2016	\$379	\$515	\$466	\$465	\$477
	2019	\$420	\$515	\$473	\$486	\$480
House	2002	\$220	\$550	\$409	\$380	\$468
	2010	\$345	\$550	\$507	\$481	\$519
	2016	\$400	\$550	\$492	\$491	\$503
	2019	\$430	\$550	\$484	\$497	\$491

How to read Table 13: for a flat in 2002, the rent started at \$195 per week. By 2023 it had increased to \$515 per week. If a 3% cap increase started in 2002, the December 2023 rent would be \$363 per week. If a CPI cap increase, rent would increase to \$336 per week by December 2023, and if an AWE increase, it would have increased to \$415 per week.

Source: Authors calculations from RTBA and ABS CPI series and ABS Average earnings series.

Appendix 4: Elasticity of rental supply model, data sources and summary statistics

The modelling strategy in Chapter 4.4 is an instrumental variables (IV) approach. Within Australia, this is an established method for measuring housing elasticity of supply (Gitelman and Otto 2012; Liu and Otto 2017; Melser, ViforJ and Wood 2022).

We begin with a basic rental housing supply function for LGA i :

$$\ln Q_{ti} = \alpha_i + \beta_i \ln R_{ti} + \varepsilon_{ti} \quad (1)$$

where $\ln Q_{ti}$ is the log rental stock in LGA i and year t and $\ln R_{ti}$ is the real median rent. The coefficient of interest β_i is an LGA-specific estimate of the elasticity of supply of rental. This is a simplified model of supply driven by the lack of data that may otherwise impact the supply curve outside our expectation that rental stock is a function of the total stock available in the market.⁹

However, unlike overall housing stock, the change in rental stock may be a reflection not only of rental prices, but driven by changes to the total housing stock:

$$\ln Q_{ti} = \alpha_i + \beta_i \ln R_{ti} + \delta_i \ln S_{ti} + \varepsilon_{ti} \quad (2)$$

where $\ln S_{ti}$ is the log total stock of housing or units which will include both owner-occupied and renter-occupied dwellings in LGA i and year t .

As both the supply and demand curve for rental housing is simultaneously determined, Equation (1) is not identified if estimated using OLS. Moreover, as the direction of the bias is based on the relative shape of the supply and demand curves, we cannot pre-determine the direction of the bias using OLS. Therefore, we use an IV approach to identify the supply curve by modelling an inverse-demand curve for rental housing in an LGA that contains exogenous variables that can be excluded from the supply curve:

$$\ln R_{ti} = \delta_i + \theta_i \ln Q_{ti} + Z_{ti}' \gamma_i + \eta_{ti} \quad (3)$$

where Z_{ti} is a vector of time-varying exogenous rental demand shifters within LGA i that are then used to isolate any changes in prices that are driven by changes in demand, leaving us with consistent estimates of the supply curve for rental housing. In this report, we focus on five demand shifters: population, nominal mortgage rate, real mortgage rate, deposit rate and real income. Total stock, population and real income vary across LGAs, while the nominal mortgage rate, real mortgage rate (nominal rate less the rate of inflation) and deposit rate are based on national levels. For equation (3), all exogenous instruments are logged.

As noted above, we estimate Equations (1) and (2) separately for each LGA and for 1- and 2-bedroom flats and 2-, 3- and 4-bedroom homes. This approach allows us to explore how the rental elasticity of supply varies not only across LGAs, but also dwelling type.

As one of the goals is to look at differences in elasticities between capital cities and regional areas, this approach allows us to cleanly separate the estimates and explore trends.

Data

Our measure of rental stock uses Victorian rental bond board data from 2001 through 2021 provided by the RTBA. The data captures an annual snapshot of total bonds held by the RTBA in March for the given year and is split by LGA, dwelling type and number of bedrooms. Likewise, the real median rent is calculated from the median of the current stock when sufficient bonds are held to accurately calculate the median and then adjusted using the CPI index for Melbourne within ABS release of Consumer Price Index, Australia.

Annual estimates of the population by LGA, defined as the number of people linked to a place of usual residence, were obtained from the 2022-23 release of Regional Population by the ABS. The nominal mortgage rate is obtained from Table F5, "Indicator Lending Rates" via the Reserve Bank of Australia which was calculated by averaging the monthly rate for the year. Likewise, the monthly nominal deposit rates were taken from Table F4, "Advertised Deposit Rates" and similarly averaged over the year (RBA 2024).

Estimates of the mean personal income were obtained from the 2001-02 through 2020-21 financial year from the ABS. Between 2001-02 to 2016-17 the ABS released personal income estimates under Catalogue 6524.0.55.002. Since 2017-18, the data can now be found within the releases of Personal Income in Australia (ABS 2023a). Estimates of average total income from 2001-02 to 2004-05 were created by taking the total income from all sources and dividing by the total persons receiving wage and salary income.

Estimates of total stock of homes and total stock of units follows the approach of Melsner, ViforJ and Wood (2022). While we do not have estimates of stock that vary by the number of bedrooms, they nevertheless provide a proxy for the changes in housing stock which will increase the capacity for new rental stock. The stock is first derived from the number of detached dwellings (homes) and all other categories (units) from the 2011 Census. We then estimate the annual change in housing (unit) stock by adding housing approvals (ABS 2020; ABS 2022) for years after 2011 and subtract from the years prior to 2011.

Summary Statistics

Table 14: Summary statistics for supply elasticity regressions

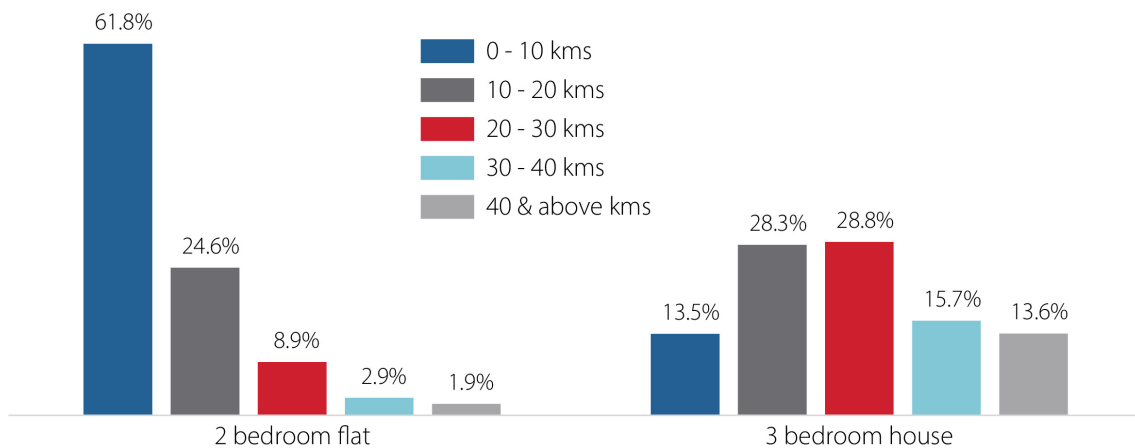
	Levels			Annual Growth		
	Obs.	Mean	Std.Dev	N	Mean	Std.Dev
Real Median Rent (\$ Weekly)						
1-Bed Flat	1,184	257.9	85.9	1,145	2.5	14.4
2-Bed Flat	1,405	327.2	100.9	1,400	2.0	4.9
2-Bed House	1,430	351.2	115.0	1,407	2.1	4.7
3-Bed House	1,557	393.9	147.0	1,547	2.2	3.9
4-Bed House	1,394	510.5	205.2	1,369	2.2	5.9
Rental Stock (Count)						
1-Bed Flat	1,184	1,011.2	2,277.7	1,124	4.3	9.8
2-Bed Flat	1,405	1,778.7	2,682.0	1,335	3.1	6.0
2-Bed House	1,430	434.2	461.6	1,360	3.1	8.1
3-Bed House	1,557	1,663.8	1,761.2	1,478	4.2	5.5
4-Bed House	1,394	621.8	990.5	1,327	8.5	9.8
LGA within Melbourne	1,558	0.4	0.5			
Population ('000s)	1,558	72.6	65.9			
Average Personal Income ('000s)	1,558	49.1	13.8			
Total Stock of Homes ('000s)	1,558	17.7	16.2			
Total Stock of Units ('000s)	1,558	5.9	9.2			

Source: Authors calculations from RTBA data and ABS Census of Population and Housing (population and average personal income).

Appendix 5: Submarket rent changes

The main report focused on regional and metropolitan data but had relatively little comment on the submarket of spatial variations in rental performance. Figure 20, using RTBA data shows the rental structure of metropolitan Melbourne as represented by new lettings for designated distances from the CBD. For 2-bedroom flats, 63.5% are in the inner Melbourne (within 10k) while for 3-bedroom houses, only 17.3% are so located with the majority (55.8%) between 10k and 30k from the CBD. These market attributes become important in explaining the submarket rental changes in metropolitan Melbourne with implications for the renter’s experience and how we might think about rent regulation.

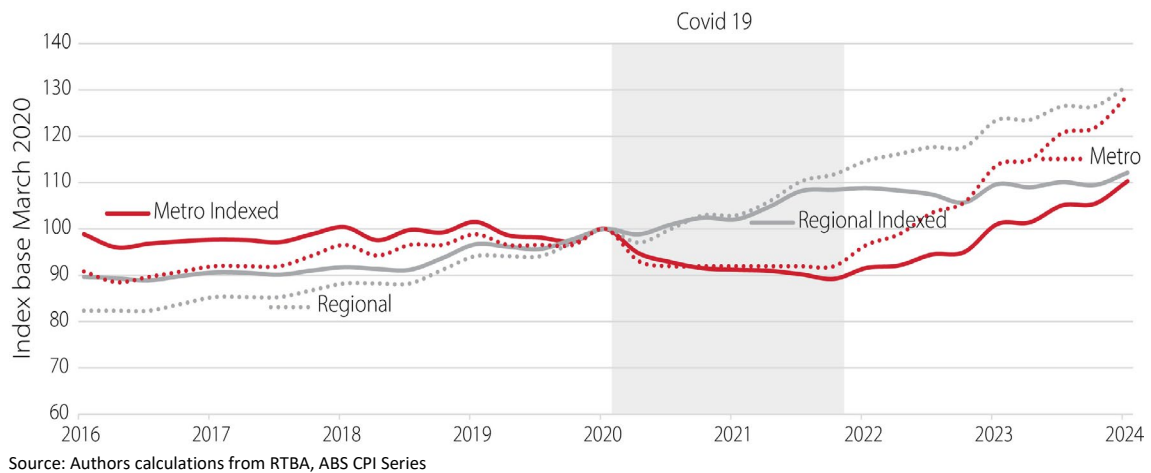
Figure 20: Proportion of new lettings by designated distances from the CBD



Source: Authors calculation from RTBA data

The following data and commentary reviews different spatial outcome of rent changes over the last seven years and highlights that there can be major variations spatially, Figure 21 reveals that regional Victoria over the last 8 years has experienced increases much worse than Metropolitan Melbourne which is a concern given more lower income households live in regional Victoria. However, the ‘point in time’ crisis has not impacted on regional area as overall rents have stabilised since 2022 although certain regional town reflecting local circumstances a likely to be experiencing rent pressures equivalent to Melbourne. The stabilisation of regional Victoria (although at record levels might suggest exempting regional areas from rent regulation but given the steady erosion in affordability over time in such areas and the likelihood of areas still under stress exempting regional areas may be unwise. Given evidence that real rents over the last four years in most regional areas have been around the CPI growth any regulation should not be an investment deterrent.

Figure 21: All properties (reference March 2020), indexed using Melbourne CPI



Now let's turn to Metropolitan Melbourne. Figure 22 is for submarket areas as defined by distance from the Melbourne CBD and shows the changes in real bond rents for Flats/apartments from the March Quarter 2020 (the index period) immediately before COVID to that of the December Quarter 2023. The effect on rents in inner Melbourne (0-10k) of COVID was dramatic; even in real terms rents fell substantially to some 20 percentage points below pre-COVID levels. Rents increased substantially post-COVID to levels slightly higher than pre-COVID by end 2022 but have dropped back to the 2020 levels by June 2020. The issue here is that while overall inner-city rents have not changed in five years the latter part of that time meant rents did increase at historically unexperienced levels to compensate for the COVID falls with such increases potentially grist to the mill for media stories of excessive rents. The reason for the sharp inner city rent drop (which was not replicated for houses) is that many apartments were vacated by international students, younger people moving back with parents or relocating to regional or outer urban areas. As post-COVID demand returned landlords in the inner urban area increased rents to pre-COVID levels.

For outer areas, notably beyond 30k, COVID was a trigger for increased rents which has been sustained and built on subsequently and with suburbs beyond 40k from the CBD experiencing accelerating real growth in 2023. Post early 2023 flats more than 20 k from the CBD have joined this growth. This appears to be a restructuring of the Melbourne rental market in the sense that outer urban areas once rental orphans with relatively stable demand for decades and at rent levels well below the inner urban area outer areas now find themselves in fashion. These locations are probably the source of many of the hard done by rental stories as renters in these areas would not be ready for rent increases of the order experienced with the increases way beyond growth in incomes. These increases are for new bonds meaning a greatly constrained search process for renters compared to previous years and if existing tenants in these outer suburbs experienced even a milder version of these increases there would have been real hardship for many. This raises the issue of whether any regulation should be targeted at rental hotspots as is the practice in many international jurisdictions but to signal policy findings we do not conclude this. It creates administrative complexity and a simple 'one size fits all' cap would still deal with the issue.

Figure 22: Rent Index, Melbourne, 2-bedroom flats, distance from the CBD, 2016–2024

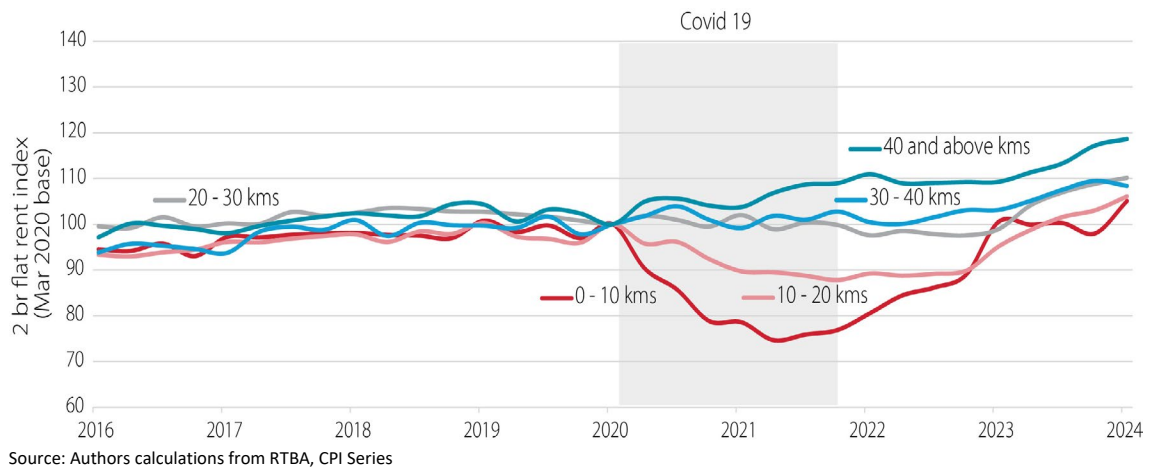
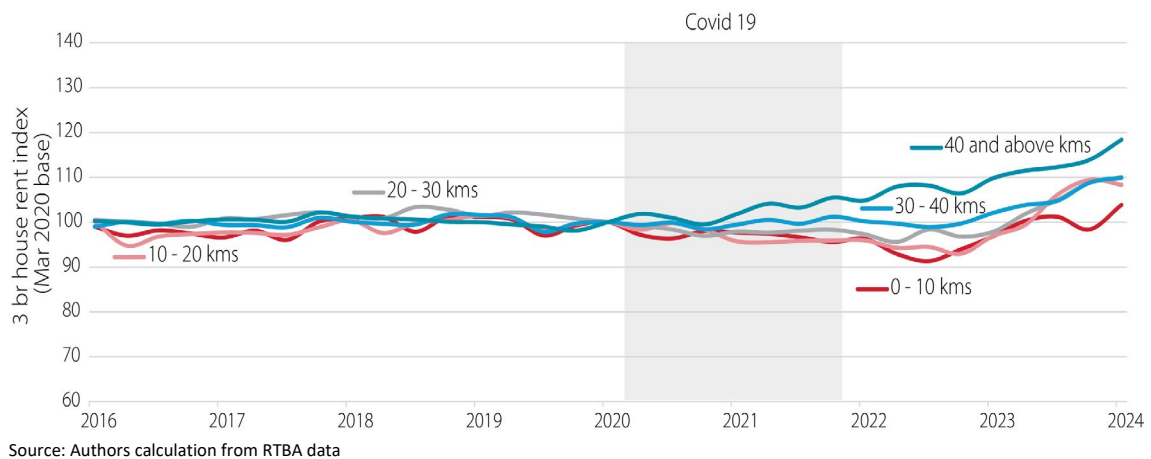


Figure 23 shows the same index based on bond date for houses in Metropolitan Melbourne. Here the experience is a slightly different outcome to flats. For example, inner-city rents (0-10k) never fell as greatly as apartments and have returned to pre-COVID levels, but outer areas are well above pre-COVID levels and the greater the distance the higher the rate of increase with acceleration of growth in the last eighteen months for 20-30 and 30-40K. This also reflects the changes in demand to outer areas linked to post-COVID aspirations for a detached dwelling rather than apartments and with outer areas predominately houses the ability to achieve that aspiration. The scale of outer urban increase is however not as great as for apartments no doubt related to the greater stock availability. Again, the scale of these increases suggests a need for regulation but not for any rent pressures areas as virtually all metro Melbourne is under stress, a situation likely paralleled in all capital cities.

Figure 23: Rent Index, Melbourne, 3-bedroom houses, distance from the CBD, 2016–2024



Appendix 6: Further literature reviews

The meta review literature of Section 2 takes-in rent regulation up to 2021. Since then, further literature has become available for a few countries which has not been included in any meta review. Short commentaries are provided here.

Germany

German cities particularly Berlin experienced rapid rent rises in the 2010s against a longish history of only moderate increases. The German government in 2016 introduced a rent break policy which was a second-generation form of regulation aimed at newly agreed rents in tight housing markets. Most large German cities were so defined and from 2016 onward they thus had regulation. A few academic articles documented the results including a meta-study by Mense, Michelsen and Kholodilin (2023) which found that regulation did reduce most rents but only marginally while others continued to increase rapidly suggesting a problem with compliance.

In Berlin, these increases prompted a rent freeze (a first-generation control) in 2020 (announced pre-COVID) which lasted six months before being found, like that of Spain, unconstitutional as it could not override national rent brake policy (Blackman 2019; Sagner and Voigtländer 2023). This still allowed time for evaluation with one study by Sagner and Voigtländer (2023) using new lease registration data finding that while decreasing rents by 10.3%, i.e. well below market rents, the negative effect on number of dwellings offered for rent was five times as large (51.8% reduction). Another study by Hahn, Kholodilin et al. (2022) using advertised rents as the data base reaffirmed the findings Sagner and Voigtländer (2023) identifying a substantial rent gap between regulated and unregulated areas (rents in the latter increased substantially) and the number of available properties for rent dropped significantly. These findings would appear to reinforce the substantial historical literature on rent regulation; first generation controls, while achieving the short-term goal of reducing rents, are often outweighed by the negatives.

Ireland

Until the late 2010s, Ireland had a rental housing system much like Australia with relatively weak residential tenancy law and no rent regulation. The same rent pressures as other countries resulted in greater regulation of the sector in 2016 including the introduction of rent regulation for pressured submarkets called Rental Pressure Zones (RPZ). A capped price system in RPZ was initially set at 4% in 2016 but continued rent pressures meant further change and, as of 2024, rents were capped at 2% or the annual change on the Harmonised Index of Consumer Prices (HICP) (which is much the same as the Australian CPI) (Ireland Residential Tenancies Board 2024a). Certain properties are exempted from RTZ regulation including first time properties to the rental market and those that have not been leased for two years. One academic assessment of the Irish system (O'Toole 2023) found the caps in RPZs have decreased rents 2 to 5 percentage points compared with other non-RPZs while rents for new tenancies remained above 4%. The Ireland Residential Tenancy Board (IRTB) that monitors rent changes quarterly documented that on an annualised basis, rents for existing tenancies grew by 5.2 per cent in the third quarter of 2023, less than half the rate observed for new tenancies suggesting that regulation is more successful for existing tenancies than new (although some of these are exempt from control) (Ireland Residential Tenancies Board 2024c).

In a report on private rental in 2023, the Irish National Economic and Social Council (NESC) documented that rental supply has been falling in the last decade with much of the fall coming from landlords exiting. However, the report did not single out rent regulation as the main cause with one of the factors being the conversion, as in Australia, of long-term rental into short-term rental accommodation (STRA), e.g. Airbnb (NESC 2023). The Irish government is currently in the process of regulating that sector with the objective of bringing 12,000 dwellings back into long term rental. The concurrent growth of STRA alongside the introduction of rental regulation highlights the problems in controlling for other variables in assessing the impacts of residential tenancy law.

Scotland

In contemporary Australia, Scotland is one of the most referenced *regulatory* systems perhaps because it is seen to have a more similar institutional context and government information is easily accessible. Currently the Scottish system allows for a 3% cap for existing tenants and to set rents freely between tenancies and on commencement of a new lease although this is currently being reviewed. It also has a complex system of rental pressure zones. An unpublished paper by Gibb (2024) kindly provided to assist this report and using grey literature does suggest the current system has created some loss of stock to the non-regulated sector including student housing and some leakage of investment into nonregulated areas. Yet little formal review literature is available, although Marsh, Gibb and Soaita (2023) provide a different focus to most rent regulation literature in that it is concerned with how Scottish policy is implemented, who has influence and to what degree does evidence-based research guide policy. In terms of the latter, the answer is not much—they reaffirm the point that ‘rent regulation policy, and policy change, can be better understood as a product of the institutional complex of different housing regimes and of political contestation. The usefulness of this paper is in the message of the need for more work on the ‘how’s’ of policy making if evidenced-based research is to have policy impact. Section 2 owes considerable debt to Marsh, Gibb and Soaita (2023) in helping frame the content of that section.

Spain

One of the most interesting countries to examine in terms of rent regulation is that of Spain which like Australia has a high rate of ownership, a small social housing sector and, a recent history of private rental stress and rent regulation reform.

In response to declining rental affordability, several rent regulation regimes have been put in place post-2020, varying across jurisdictions and in form. These were ruled unconstitutional by the Spanish constitutional court in March 2022. But they were then replaced by national legislative reform in 2023 as part of a wider national housing strategy. This enabled local jurisdictions to regulate.

One of the interesting points about the Spanish regulation (being third generation rent regulation) is that having rent pressure zones, like Ireland, some areas were exempt from regulation and others not, so allowing for comparisons of outcomes. Jofre-Monseny, Martínez-Mazza and Segú (2023), in a comparison of regulated and non-regulated rental stock in Catalonia, found no evidence of a reduction in supply in the former but strong evidence of lower rents and improved affordability. Illustrating how methodology can change the story, Monras and Montalvo (2023), in a study of the same jurisdiction and for the time period, but using a different methodology, also found clear evidence of rent reduction but some loss of supply. Importantly this study drew attention to compliance, an often-neglected dimension

of such studies, and found that many contracts signed were well above the regulated requirement despite the existence of potential financial sanctions. If no enforcement, any regulation will have reduced impact!

Canada

Canada is a federal system like Australia and like Australia has a dispersed population over a large geographical area very different economic and demographic drivers and attributes across the regions of the country. There is greater housing market performance variation within Canada than Australia with not all provinces and territories (and cities and towns within) having the same rental pressures. Those that are pressured are for very similar reasons to Australia, high migration, ownership affordability issues and supply constraints. Of the 13 Provinces and territories six have introduced rent regulation in the last decade because of rent pressures (Canadian Centre for Human Rights 2023). These are British Columbia, New Brunswick, Ontario, Prince Edward Island, Manitoba and Quebec and none have the same mechanism. Manitoba currently has a rent freeze, New Brunswick rent increases have to be justified by comparable rents for similar property in the same area, Ontario has a rent cap equivalent to CPI but is referred to as a guideline only, British Columbia has an arbitrary cap set annually (currently 3.5%), Prince Edward Island set as new cap annually via a Regulatory Commission and this is based on vacancy rates, CPI and economic outlook. Quebec is unusual. Landlords have provided to them via a Tribunal *administratif du logement* a complex guideline formula for setting rents based on the CPI increases for different cost inputs such as utilities, maintenance and building services. The Tribunal *administratif du logement* provides an online tool for assisting in the calculation of the rent but that rent does not have to be accepted by the tenant. They have a month to appeal the rent and how determined (Quebec Tribunal *administratif du logement* 2024). These provisions apply to existing tenancies. For all jurisdiction new tenancies, the rent is set at whatever amount the tenant and landlord agree to as part of the tenancy agreement.

There is no recent review of the outcomes of regulation directly but an analysis of the impact of Canadian residential tenancy reform including rent regulation did make some observation on soft rent control (Dylan, Clarke and Gold 2024). The paper studies the consequences of landlord-tenant laws changes since the 1990s on quality and prices in the rental housing market of five cities across several jurisdictions using econometric analysis. While the main objective was to look at the degree to which changes in residential tenancy law might have affected landlords desire to maintain their property potentially creating a diminution in housing quality it indirectly looked at the impact on rents. They found there was little evidence of an increase in city-level average two bedroom rent prices, which was likely due to rent control measures included in the RTA reforms of many provinces. Additionally, they found no evidence that the reforms induced a substitution of housing from the rental market into owner occupation. Nor in terms of their main research objective did they find a reduction in quality, in fact evidence of improvement.

France

France has had some form of rent regulation for three decades. Up to 2022 the setting of rents for new rentals (first time or rentals with a change of tenants) was free but once let the rent increase cannot be higher than the previous lease adjusted by the inflationary increase in the rent reference index or Indice de reference des Loyers (IRL). This is not a component of the CPI but a special construction of the Institute national de la statistique (equivalent to the ABS) for ensuring tenants rent related to purchasing power but also landlords rents were financially

viable. However, since 2022 it has been replaced by a flat rate of 3.5 percent and extended to 2026. There are other important qualifications:

- Since 2019 certain communes (LGAs) have additional regulation. These tend to be the large cities where there are rent pressures. The communes can establish the ceiling for maximum rent increases. In 2024 the number of communes to which maximum rent ceilings were allowed was expanded substantially.
- Poorly insulated dwellings (there is an identified thermal insulation ratio) are not allowed to increase rent at all while properties that exceed a nominated consumption cannot be rented at all.

In mid-2024 the Pari Urbanism Agency (APUR) (responsible for rent regulation in Paris) provided an evaluation report outlining the findings from a review of Paris rent regulations from 2019 to 2024. Only summary findings are available in English, and these are:

- Rents had been moderated over the five years and most substantially in the period mid-2022 to mid-2023 when price pressures were the greatest (APUR).
- Each year since 2019 more than a quarter of rental ads exceeded to authorised rent ceiling (even more so in the 2024 Olympics year indicating a weakness in compliance) (APUR).



Burke, T., Ralston, L., Kollmann, T., McNelis, S. (2025) Rent Regulation: A housing policy challenge. HHAUS Issues Paper, Swinburne University of Technology. DOI: <https://doi.org/10.25916/sut.29999038>



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