Australian Landlords Association

Housing White Paper

Practical not Political

MARCH 2024

Executive Summary

The current rental market is stressful for both landlords and renters. Renters are increasingly concerned about the availability and affordability of property. Landlords are increasingly concerned about reduced control over their property and the imminent risk of increasingly hostile government legislation and taxation.

Housing might still be a safe investment for homeowners, but it is a much risker investment for landlords. This significant increase in risk is why nation-wide and particularly in Victoria, landlords are exiting the residential rental market even though rents are at an all-time high in many locations.

The exit of landlords due to the increased risk is reducing the supply of residential rental properties at a time of increasing demand for dwellings. This increase in demand is due in part to a long-term trend in Australia of fewer people per dwelling (even through dwellings are increasing in size), as well as a significant increase in migration that is coinciding with a slowdown in dwelling construction.

Australians deserve practical not political solutions.

History shows that:

- Population and home ownership can increase in tandem. This occurred during the 1950s and 1960s.
- The availability of government housing in Australia has not kept pace with population growth. The percentage of Australians in government housing is half what it was twenty years ago.
- Australia has a fragmented housing and rental market. Location, dwelling type, affordability, and lifestyle preferences all have significant implications on market conditions and trends. This is true of both home ownership and residential rentals.
- Housing mobility is a major issue. Many older people live alone in dwellings designed for families. More than 15% of landlords live in rental accommodation.
- Government red tape and charges have increased the cost and reduced the supply of new dwellings.
- The property ladder that was once a path to home ownership has been badly damaged by the high cost of buying and selling property in Australia.
- There has been significant bracket creep in government charges on property (stamp duty in particular) because the brackets have not been indexed for increases in housing prices.
- International experience shows that build-to-rent dwellings lock people out of home ownership.
- International best practice places a life-span on multi-story residential buildings – ensuring they do not become slums of the future.

By implementing political responses rather than practical solutions to the rental crisis, national and state governments are making things worse.

The Australian Landlords Association recommends these practical solutions:

- Allow for different types of rental agreements for different segments of the property market, rather than a one size fits all approach in each state.
- Give property owners reasonable control of their property.

- Reduce the risk for landlords by replacing rental bonds with a national rental insurance scheme with insurance fees based on the history of claims associated with the tenant.
- Reduce black-market tenancy agreements by removing the variations in government fees and charges based on either the type of owner or the type of occupancy.
- Re-establish the property market as a path to home ownership via climbing the property ladder by reducing the very significant costs, particularly stamp duty, that are associated with buying and selling property.
- Put a cap on increases in property related taxes and charges including stamp duty and land tax.

Contents

Executive Summary 2
The politics of property 6
Property and voting intention 6
  Political battle lines 6
    Renting, not employed or employed by government 6
    Renting, employed by private sector 6
    Owner-occupied, not employed or employed by government 6
    Owner-occupied, employed by private sector 6
Politics, superannuation and housing 7
Property and state finances 7
Taxation without representation 7
Redirection of interest earned on bond deposits 7
Unions without members 7
The practical considerations of residential rental property 9
Capital gains 9
Negative gearing 9
Not a single market 10
Unique landlord profile 10
Increasing risk, shrinking reward 10
    Potential Rewards 10
    Capital gains 10
    Rental Income 11
  Potential Risks 11
    Interest rates 11
    Non-payment of rent 11
    Market sentiment 11
    Property damage 11
    Increased costs 12
In from the cold 12
High-rise residencies 12
Migration 13
Government intervention 15
Practical Recommendations 16
References 18

The politics of property

Property and voting intention

The best predictor of voting intention in Australia is the combination of accommodation arrangements and type of employer.

Most likely voting intention based on demographics	Not employed or employed by government	Employed by private sector
Renting	Approx. 20% of Voters • Under 30 – Greens • Over 30 - Labor	Approx. 15% of voters • Labor
Owner-occupied	Approx. 20% of voters • Labor	Approx. 45% of voters • Coalition

NB: this table is a predictor of likely voting intention, not all individuals will vote as indicated.

These voting patterns are well-known by the political parties and influence their policies and public statements.

There is a saying in political circles that people grow out of voting green. It is also a well-known fact that most politicians are landlords, although none are members of the Australian Landlords Association.

Political battle lines

Renting, not employed or employed by government

Greens vs Labor – key policy areas are climate policies and tenants' rights. With the benefit of never being in government, the Greens are able to take a harder line, whereas Labor needs to moderate its stance to avoid alienating other voter segments.

Renting, employed by private sector

Greens vs Labor and the Coalition – key policy areas are tenants' rights and access to superannuation to buy a home. Labor is fighting on two fronts in this sector, battling the Greens for long-term rental votes and the Coalition for would-be first-home-buyers.

Owner-occupied, not employed or employed by government

Labor vs the Coalition – key policy areas are government jobs, pensions and crime. With the number of retirees and government employees growing, Labor is trying to lock-down this segment as its own. However, the Coalition has a significant share of votes in this segment. Key policy issues in this segment are immigration and capital gains tax on the home.

Owner-occupied, employed by private sector

Coalition vs Labor and Teals – key policy areas are tax rates, economic management, security and crime. Whilst dominated by the Coalition, this is also the segment that traditionally has the highest number of swinging voters, and therefore has traditionally been the key policy battleground at elections.

Politics, superannuation and housing

The Labor Party, the unions and the industry superannuation funds form an unholy trinity. The superannuation funds are now worth more than all the companies on the Australian stock exchange combined. Any individual earning less than $40,000 will contribute more to the superannuation companies than they will contribute to income tax to the federal government.

In 2020, The Royal Commission into superannuation concluded that the best investment for retirement was to own your own home. Based on the Royal Commission's findings and recommendations the Federal Government moved to make it easier for people to use their superannuation for home ownership. This was strongly opposed by the superannuation industry and the Labor Party.

Since the introduction of compulsory superannuation contributions, home ownership in Australia has declined. (Note: This has reduced the size of the segment in which the Coalition has been most successful).

The recent push for 'build to rent' developments using a combination of government land, superannuation funding and union labour is more political than practical.

Property and state finances

Property related taxes account for more than half of the revenue of some state governments and this is predicted to increase. Landlords pay a disproportionate amount of this revenue.

Taxation without representation

Last century, local councils were elected by rate payers. Now they are elected by residents. It is no coincidence that the local councils with the highest proportion of rental properties have councils dominated by the Greens and Labour Party members. Meanwhile not all landlords receive a ballot paper from the local council for their investment property, even though they are eligible and can clearly be contacted by Councils that have no problem sending them the rates notice.

Redirection of interest earned on bond deposits

Due to the misuse of tenants' bond money by some unscrupulous real estate agents, residential bond deposits have been centralised into the care and control of Bond Boards overseen by state governments.

Each of these boards has a charter, however an underlying principle of the centralisation of bonds was that both the landlord and the tenant would share the benefits of the rental bond's investment equally.

To date tens of millions of dollars have been distributed to the Tenants Unions in various states, but none has been distributed to landlords or their associations.

In Victoria, the Victorian Government redirected the accumulated earnings to State Treasury. In NSW it remains in control of the board.

Unions without members

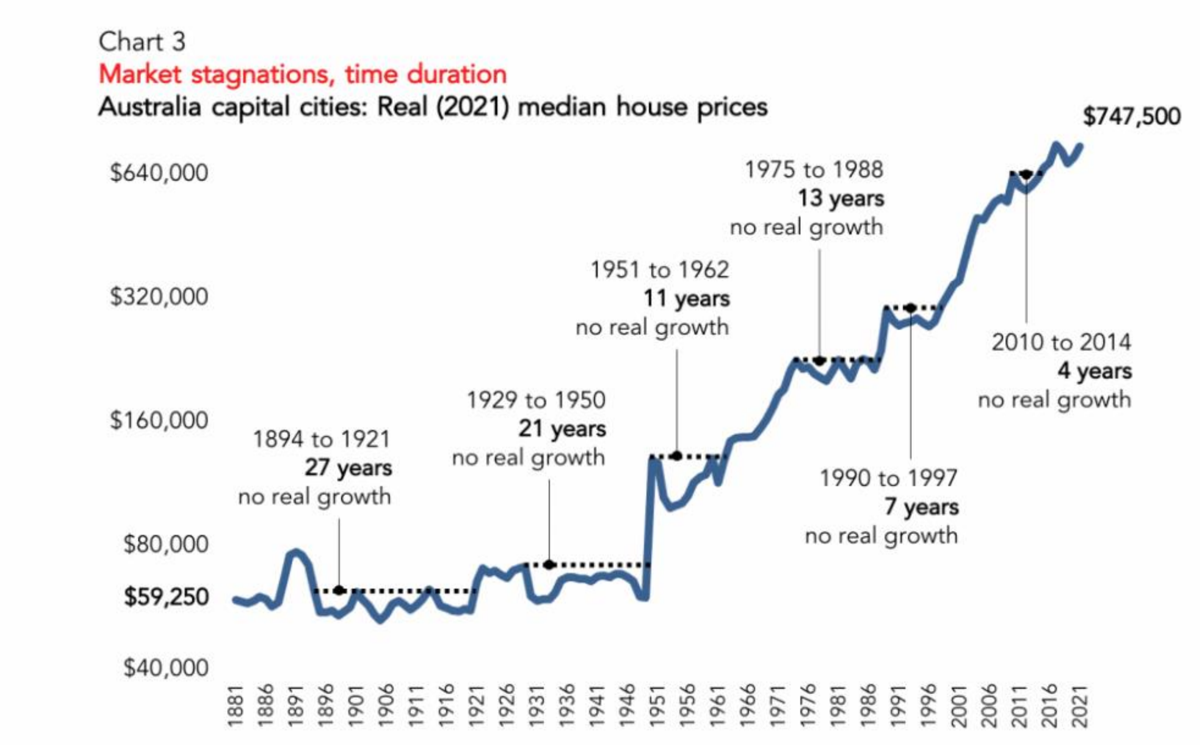
The tenants unions are not funded by members, nor run by members. Funded by grants from government and government agencies these state-based advocacy bodies have successfully pushed for increasingly hostile legislation toward landlords.

The tenant unions regularly have a seat at the table on state government housing policy committees. Tenant union employees are also regularly recruited to government positions in housing policy settings.

The practical considerations of residential rental property

Capital gains

Historically the national residential property market has long-term capital growth punctuated by intermittent periods of stagnation and decline. However, the vast majority (over 80%) of landlords own a single investment property, and at a micro-level house and unit prices are much less predictable.



Source: https://matusik.com.au/2021/07/06/140-years-of-house-price-data/

There are significant variations between locations. For example, housing prices in Western Australia and the Northern Territory are strongly influenced by mining activity and commodity prices. Whereas in Melbourne and Sydney prices and price-growth vary markedly between suburbs and within price bands – with clear affordability limits capping price growth in some suburbs. Similarly, the price differential between houses and units and their relative growth can vary markedly between locations.

Subsequently, there is no guarantee that even when the national house price index is showing significant increases that an individual property will be increasing in value.

Negative gearing

The practical consideration of negative gearing is that the cost of providing a rental property is higher than the rent received from the property. This puts property investment in-line with other business investments in which a tax credit is created when a business operates at a loss.

The benefit of negative gearing is dependent on the taxable income of the owner. With data from the tax office revealing that most owners of negatively geared properties having a personal income of approximately $80,000, they would still be paying for 67% of the gap between the rental income and the cost of providing the property.

When negative gearing was introduced by Paul Keating it was intended to keep more landlords in the market and put downward pressure on rents. The removal of negative gearing is likely to make investment properties unobtainable for many people, thus reducing the number of rental properties and increasing the cost of rent.

Negative gearing only makes sense if there is a significant capital gain on the property.

Not a single market

In recent years the fastest growing segment of the Australian residential rental market has been short-term rentals (less than 90 days), with this market dominated by online platforms like Stayz and Airbnb. Whilst this market has grown significantly, particularly in coastal towns and tourist destinations, it still represents less than 20% of the overall rental market.

Over the last 20 years, the segment of the market that has experienced the most significant decline is government housing – which has almost halved from five per cent to 2.6 per cent of dwellings.

Of long-term rentals, the average stay is less than two years. A very small proportion of tenants choose to stay in the same dwelling for multiple years.

The profile of tenants is as varied as the profile of properties available to rent.

Unique landlord profile

Australia has one of the highest rates of property investment per capita, and one of the lowest number of dwellings per landlord. One in ten adults are landlords, who typically own a single investment property – these landlords provide more than 80% of Australia's rental properties. Over 15% of landlords are also tenants. By profession, teachers and nurses are the largest group of landlords.

Note: A significant number of Australians are accidental landlords. Having purchased a property for their own use, they find that for other reasons (such as relocating for work) they are unable to continue to reside in their property, but rather than sell, they rent it out.

Increasing risk, shrinking reward

While property investment is often promoted as being 'as safe as houses', the reality is that there are considerable risks associated with property investment.

Potential Rewards

Capital gains

Capital gains is the primary source of return on investment in Australian residential property. However, this is by no means certain. While the media like to quote trough-to-peak and peak-to-trough price changes to illustrate their stories, for many individual properties the capital gains can be much less dramatic over the life of the investment.

The general rule for capital gains is that the land goes up in value while the building depreciates in value. With many unsophisticated landlords buying dwellings in which the land value is the minority of their investment value, it does not take much to turn their capital gain negative.

Also, unlike owner-occupiers, property investors need to pay capital gains tax which further reduces their return on investment.

Rental Income

While advertised rents have increased significantly in many parts of Australia in recent years so have the costs of providing rental accommodation. With significant increases in nine of the top ten costs headlined by rising interest rates, increased stamp duty and the additional cost of compliance with new government legislation. Also hidden from the headlines, is the fact that some landlords are offering good tenants lower than market rates to recommit to properties.

Potential Risks

Interest rates

According to the Australian Tax Office, interest rates are landlords' largest expense. Landlords also pay a higher interest rate than home owners. Subsequently it does not take much of an increase in interest rates to result in a negative return for landlords.

Non-payment of rent

While rental income is generally seen as a reliable revenue stream, rental delays or defaults are a permanent risk in the rental market. Particularly given that a successful result from a court action can take a long time to obtain and, even then, may not result in the landlord receiving unpaid rent.

Market sentiment

Property selection is personal, for both homeowners and renters. This means that demand for individual properties can fluctuate with market sentiment. An example of this has been the COVID restriction induced rise is Victorian regional property, followed by a gradual subsidence. This was led by tenants who took advantage of their relative mobility.

Similar trends for different reasons are also seen in other locations, with Western Australia and Northern Territory rents and property prices heavily influenced by the level of mining activity.

Like homeowners, landlords are aware of the potential impact that changes in market sentiment may have on their property.

Property damage

Property damage is a core issue in landlord tenant relationships. Property damage generally falls into four categories:

- Wear and tear – normal usage will result in wear and tear, particularly to floor services, utilities and appliances, with the tenant responsible for reasonable and responsible usage (including cleaning), and the landlord responsible for repairs and maintenance. It is worth noting that work-from-home has significantly increased the wear and tear on rental properties.
- Negligent or malicious – damage resulting from negligent or malicious tenant behaviour is a significant risk to landlords. This risk has increased with reductions in property access and delays in dispute hearings.
- Criminal – a significant risk to landlords is the use of their property for criminal activity. The most obvious example being its use to produce illegal drugs. This can

    - result in all permeable material needing to be removed from the property – curtains, carpets, wood, plaster, etc. This will typically cost several hundred-thousand dollars to repair.
    - Natural causes – like owner-occupiers' homes, landlords' rental properties are not immune to the forces of nature. However, insurance companies are aware that tenants don't tend to prepare or protect a rental property against natural disasters as thoroughly as a homeowner, particularly for cyclones, with the lack of preparation increasing the amount of damage to the property. The flow-on effect of this is that it is very difficult for landlords to get insurance across the north of Australia.

Increased costs

- Taxes and charges
    - It has been estimated by the Master Builders Association that one third of the cost of a new dwelling is government taxes, fees and charges.
    - In recent years some state governments have significantly increased land taxes and charges. There is significant risk of further increases.
- Compliance
    - The political push for tenant votes is creating impractical and unworkable compliance requirements. This is most evident in Victoria with tenanted dwellings being held to a higher standard so that a property that can be purchased and immediately lived in by an owner-occupier, is considered unliveable for a tenant.
    - The cost of independent inspections is also significant, particularly if the utility was installed prior to the latest inspection requirements such that things like the gas regulator is not readily accessible.
- Insurance
    - As tenants get more rights and control over property, the risk to the landlord increases. This is increasing the cost of insurance where it is still available.

In from the cold

With a decline in the availability of public housing, a growing segment of the population that would qualify for public housing is instead looking for rental accommodation. In many cases the rental market is not a viable option for them, leaving them out-in-the cold.

In the Australian Landlords Association whitepaper 2021, we recommended that this segment of the market could be catered for by adopting the approach taken by the defence force to meet its housing needs. This remains a viable option.

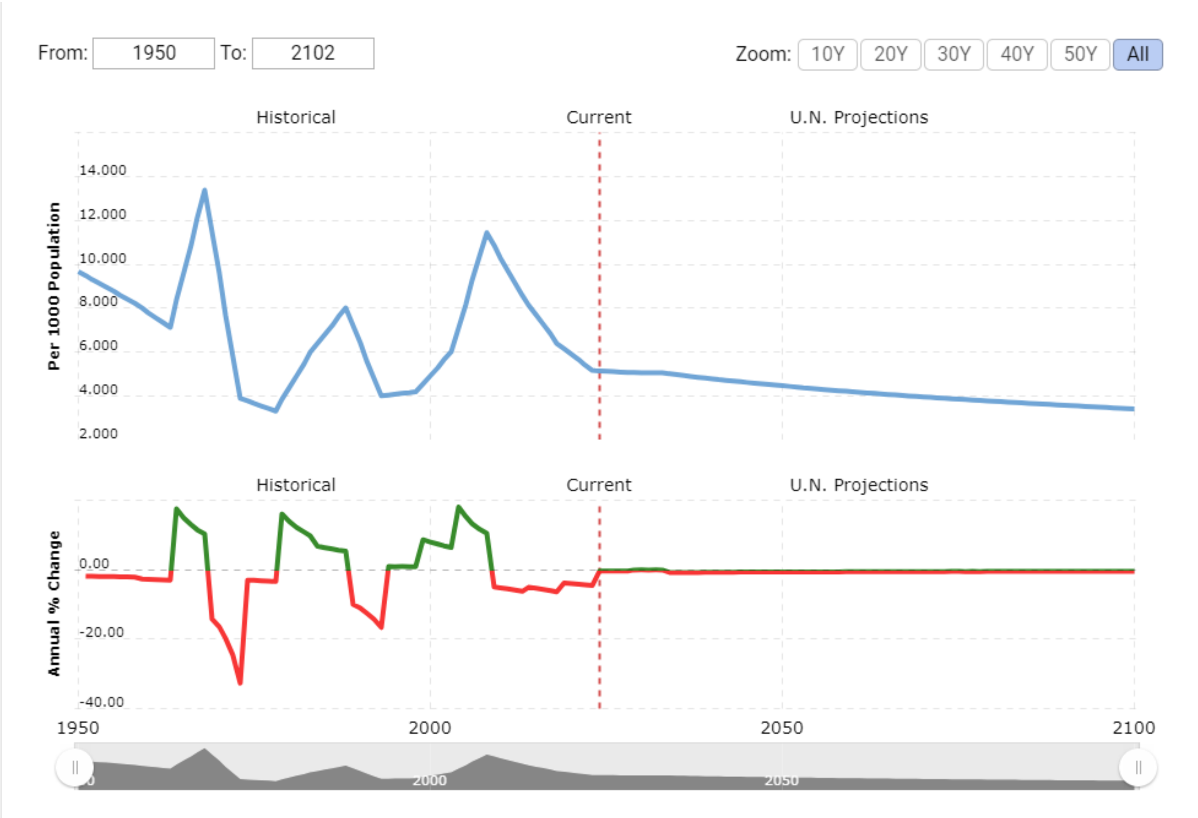
High-rise residencies

International experience shows that build-to-rent dwellings lock people out of home ownership. Residents of build-to-rent accommodation never have the opportunity to buy a dwelling in the same complex. Also, because build-to-rent dwellings are never individually market-tested, their valuation and rental charges can be manipulated.

International best practice places a life-span on multi-storey residential buildings – ensuring they do not become slums of the future. This is common practice in a number of countries, notably Singapore, which ensures that the ownership of individual dwellings within a common structure all terminate at the same time allowing for the entire building or building site to be repurposed.

Migration

While increasing migration during a housing crisis is ill-advised, migration is not the underlying cause of the problem. This is evident in the historical data that shows during one of Australia's longest periods of high immigration in the 1950s and 1960s, the rate of home ownership increased substantially.

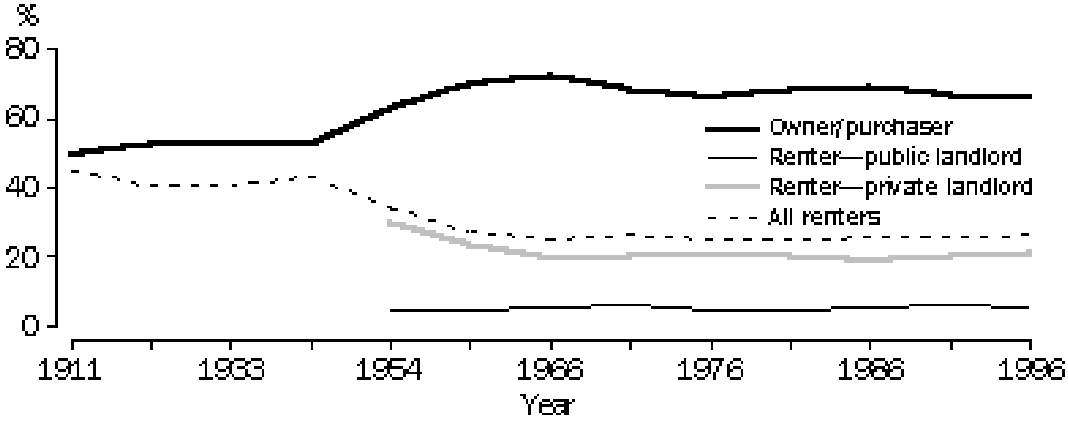


Data Source: United Nations - World Population Prospects

MLA Citation: <a href='https://www.macrotrends.net/countries/AUS/australia/net-migration'>Australia Net M

As outlined in the graphs below, over the last hundred years the ratio of dwellings occupied by tenants has fluctuated from over 50% to as low as 25%. Interestingly, the longest-running growth in owner-occupied dwellings occurred at the same time as some of the highest rates (as a proportion of population) of immigration during the 1950s and 1960s (see graph above).

8.9 TENURE STATUS—1911–1996

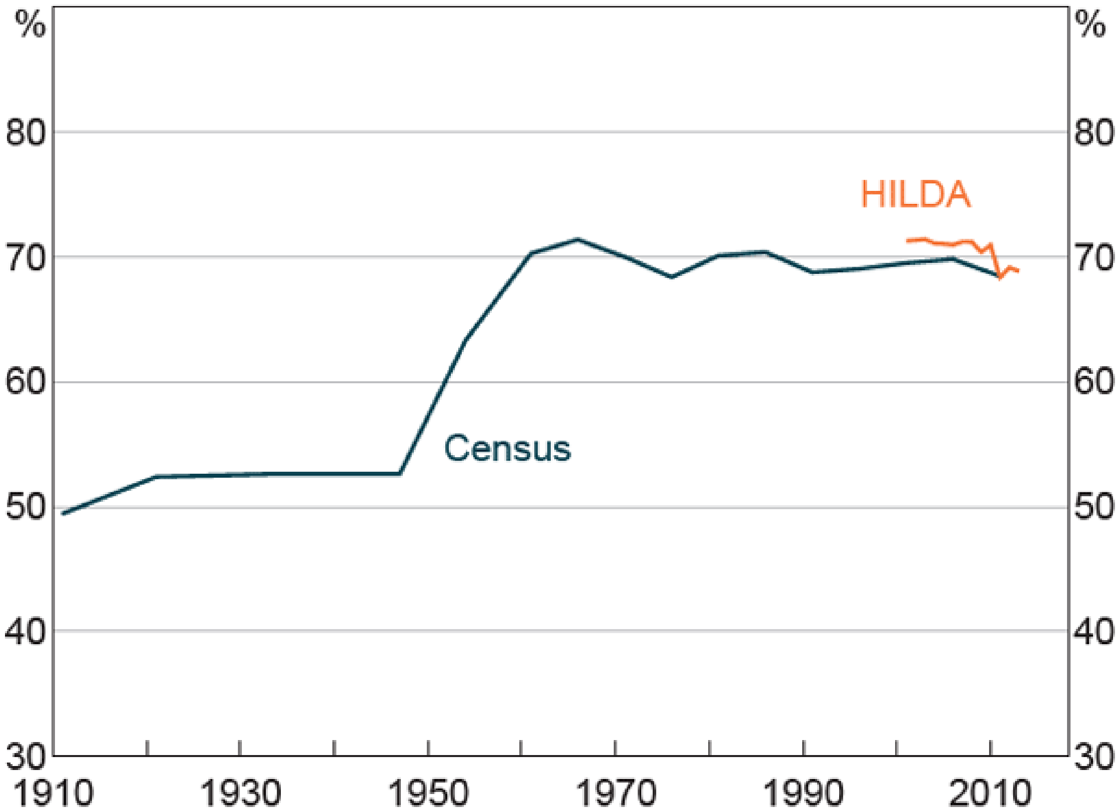


Note: Separate data for public and private renters not available prior to 1954.

Source: Data sourced from Census of Population and Housing. For details see Endnote 2.

Home Ownership Rate*

Share of all households



* Denominator includes households for which tenure type is unknown in Census years prior to 1954 and in 1991

Sources: ABS; HILDA Release 13.0; RBA

The sharpest rise in the cost of housing occurred between 1971 and 1975, when the average house price doubled over a four-year period. This coincided with Australia's lowest net migration on a per capita basis since 1950.

The key driver behind this change was a sharp rise in the cost of construction.

Government intervention

The last five years have been the most volatile period in Australia's rental market in decades. This has been very distressing for both tenants and landlords.

The rental crisis that took tenants, media and politicians by surprise was predicted in the 2021 Australian Landlords Association whitepaper. Three years later the underlying cause of the crisis remains – state and federal governments.

The politics of property has destabilised the Australian residential property market. Property investment is usually a long-term commitment, the uncertainty introduced into the market both during and post-COVID has significantly increased the risk and uncertainty associated with providing residential rental properties.

It is no coincidence that the sharpest falls in residential property availability are occurring in the jurisdiction with the most hostile approach to landlords. With Victoria leading the way in this regard, it is a worrying trend that other states are following them down this path.

Practical Recommendations

The Australian Landlords Association is recommending some practical solutions:

	Recommendation	Comment
1.	Allow for different types of rental agreements for different segments of the property market, rather than a one-size-fits-all approach in each state.	• The lack of flexibility on contractual arrangements between landlords and tenants makes it difficult for landlords and tenants to reach agreements that suit both parties.
2.	Give property owners reasonable control of their property.	• A rental car company has more control over the use of its vehicles than a landlord has over the use of their property. This is particularly true when it comes to making modifications, with recent legislation giving tenants the right to make changes to the property including painting and minor renovations, without any increase in bond allowance or recourse for the landlord to have the property returned to its previous condition.
3.	Reduce the risk for landlords by replacing rental bonds with a national rental insurance scheme with insurance fees based on the history of claims associated with the tenant.	• Rental bonds are a major financial impediment to some tenants, at the same time they are inadequate cover for the risks being faced by landlords. The rental bond should be replaced by compulsory rental insurance, (similar to compulsory third-party insurance for cars and WorkCover). Under this scheme any 'make good' required at the end of a tenancy would be covered by the insurance, and the tenant's insurance premiums would be adjusted up or down based on their renting history. This would also have the advantage of making rental properties more accessible to those from high-risk demographics.
4.	Reduce off-market tenancy agreements by removing the variations in government fees and charges based on either the type of owner or the type of occupancy.	• Off-market agreements between landlords and tenants are well and good when things are running as they should. However, they leave both parties exposed when things go wrong. The primary motivation for off-market agreements is the significant variation in government fees and charges applied to properties based on either the type of owner (individual, company,

	superannuation fund) or the type of occupant (primary residence, secondary residence, long term tenant, short stay).
5. Re-establish the property market as a path to home ownership via climbing the property ladder by reducing the very significant costs, particularly stamp duty, that are associated with buying and selling property.	• Long term data indicates that the average homeowner moves house every seven years. Traditionally this has been associated with a change in financial circumstance (increased income) and living arrangements (single, couple, family, empty nest). However, higher transaction costs (stamp duty, legal and agency fees) have reduced this fluidity. This is particularly true for investment properties where the additional costs of higher interest rates and capital gains tax have reduced the viability of using investment properties as a step on the property ladder.
6. Set a life-span on dwellings within multi-storey buildings that ensures that all ownership expires at a predetermined time to allow for the entire building or building site to be repurposed.	• International best practice places a life-span on multi-storey residential buildings – ensuring they do not become slums of the future. This is common practice in a number of countries, notably Singapore. It ensures that the ownership of individual dwellings within a common structure all terminate at the same time allowing for the entire building or building site to be repurposed. The life-span should be set based on the expected life of the building.
7. Put a cap on increases in property related taxes and charges including stamp duty and land tax.	• In some states, land tax is the fastest growing expense, some Victorian landlords have had their land tax increased by double digit percentages annually and more than double in less than 5 years. This is one of the reasons that governments are the major contributors to the current rental crisis.

References

https://www.aihw.gov.au/reports/australias-welfare/home-ownership-and-housing-tenure

https://www.housingdata.gov.au/dashboard/xm2m4wn6o9n1e6e

https://www.abs.gov.au/articles/back-my-day-comparing-millennials-earlier-generations#housing

https://www.savings.com.au/home-loans/by-the-numbers-australian-home-ownership-tenancy-statistics

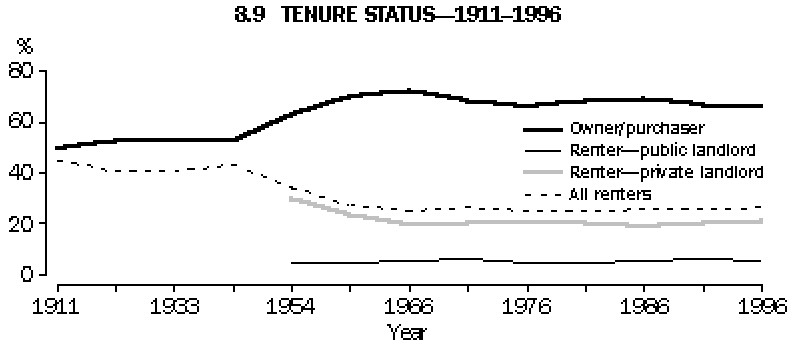
Table 1 **Annual median house prices ($) - capital cities**

Year	Sydney (a)	Melbourne (b)	Brisbane (c)	Adelaide (d)	Perth (e)	Hobart (f)	Darwin (g)	Canberra (h)
1970	18,700	12,800			17,500			
1971	21,200	13,400		11,900	17,750	11,875		18,000
1972	23,700	15,000		13,225	17,500	12,600		20,350
1973	27,400	19,800	17,500	16,250	18,850	15,200		26,850
1974	31,800	25,500	21,500	22,200	18,850	20,500		32,000
1975	34,300	28,700	23,700	26,150	24,500	25,850		33,600
1976	36,800	32,900	26,275	29,800	33,000	31,575		35,100
1977	39,200	37,000	28,600	32,600	36,400	34,500		36,700
1978	43,200	37,600	29,975	33,100	38,575	34,000		37,300
1979	50,700	38,000	31,450	33,750	38,600	34,750		39,000
1980	68,850	39,500	35,475	36,000	40,350	36,250		44,675
1981	78,900	44,000	45,325	39,100	43,825	37,100		57,750
1982	79,425	46,750	55,125	42,850	48,225	40,325		59,025
1983	81,425	52,500	55,525	47,950	49,000	42,500		68,150
1984	85,900	65,000	58,950	61,250	48,175	44,750		84,250
1985	88,350	75,200	61,550	72,200	52,050	55,500		90,625
1986	98,325	82,000	63,000	73,500	58,000	56,725	87,500	91,175
1987	120,025	89,500	63,500	74,500	61,225	63,450	81,075	90,125
1988	141,000	109,000	71,000	80,400	78,000	67,950	86,000	101,250
1989	170,850	132,000	96,000	90,400	102,500	77,325	90,750	115,000
1990	194,000	131,000	113,000	97,200	101,125	82,000	101,500	120,750
1991	182,000	127,000	120,000	103,900	99,500	89,650	111,550	136,500
1992	183,300	125,000	129,000	108,300	102,500	95,825	126,125	155,250
1993	188,000	126,000	136,500	111,200	112,750	104,250	150,500	159,375
1994	192,375	130,000	143,000	113,500	123,125	110,500	157,875	160,850
1995	196,750	129,000	147,000	111,500	126,788	106,750	165,375	155,550
1996	211,125	131,000	148,000	110,000	126,625	108,000	164,250	152,375
1997	233,250	142,000	150,000	113,500	134,125	108,750	176,500	152,750
1998	248,750	155,000	159,500	118,600	141,000	107,250	173,500	155,500
1999	272,500	175,000	161,000	127,000	147,500	112,225	179,375	161,500
2000	287,000	191,000	170,000	135,000	156,250	117,750	186,800	180,825
2001	322,500	225,000	178,700	150,000	168,375	120,575	188,000	206,250
2002	387,500	258,000	205,000	180,000	189,250	137,150	202,250	234,150
2003	454,250	276,000	249,000	225,000	205,000	172,500	211,333	293,667

https://www.robertmenziesinstitute.org.au/on-this-day/a-booming-population-with-homes-to-live-in

https://www.abs.gov.au/ausstats/abs@.nsf/Previousproducts/1301.0Feature%20Article172001?opendocument&tabname=Summary&prodno=1301.0&issue=2001&num=&view=

https://www.rba.gov.au/publications/submissions/housing-and-housing-finance/inquiry-into-home-ownership/home-ownership-rates.html



Note: Separate data for public and private renters not available prior to 1954.
Source: *Data sourced from Census of Population and Housing. For details see Endnote 2.*

https://www.abs.gov.au/ausstats/abs@.nsf/Previousproducts/1301.0Feature%20Article162001?opendocument&tabname=Summary&prodno=1301.0&issue=2001&num=&view=

https://www.macrotrends.net/countries/AUS/australia/net-migration#:~:text=The%20net%20migration%20rate%20for,a%204.16%25%20decline%20from%202020.

AUSTRALIAN LANDLORDS ASSOCIATION

www.australianlandlords.com.au