Inquiry into the future of the private rental sector

FOR THE

Australian Housing and Urban Research Institute

PUBLICATON DATE

August 2018

DOI

10.18408/ahuri-5112001

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| **Title** | Inquiry into the future of the private rental sector |
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| **ISBN** | 978-1-925334-67-8 |
| **Key words** | Investor, low income, private rental, private renter, housing tenure, industry, institutional, finance, regulation, international |
| **Series** | AHURI Final Report Number 303 ISSN 1834-7223 |
| **Publisher** | Australian Housing and Urban Research Institute Limited Melbourne, Australia |
| **DOI** | 10.18408/ahuri-5112001 |
| **Format** | PDF, online only |
| **URL** | [http://www.ahuri.edu.au/research/final-reports/303](http://www.ahuri.edu.au/research/final-reports/303) |

**Recommended citation**
Hulse, K., Parkinson, S. and Martin, C. (2018) *Inquiry into the future of the Private Rental Sector*, AHURI Final Report 303, Australian Housing and Urban Research Institute Limited, Melbourne, [http://www.ahuri.edu.au/research/final-reports/303](http://www.ahuri.edu.au/research/final-reports/303), doi: 10.18408/ahuri-5112001.

**Related reports and documents**
Parkinson, S., James, A. and Liu, E. (2018) *Navigating a changing Private Rental Sector: opportunities and challenges for low-income renters*, AHURI Final Report No. 302, Australian Housing and Urban Research Institute, Melbourne, [http://www.ahuri.edu.au/research/final-reports/302](http://www.ahuri.edu.au/research/final-reports/302), doi: 10.18408/ahuri-5112301.

Hulse, K., Martin, C., James, A. and Stone, W. (2018) *Private rental in transition: institutional change, technology and innovation in Australia*, AHURI Final Report No. 296, Australian Housing and Urban Research Institute Limited, Melbourne, [https://www.ahuri.edu.au/research/final-reports/296](https://www.ahuri.edu.au/research/final-reports/296), doi:10.18408/ahuri-5112101.

Martin, C., Hulse, K. and Pawson, H. with Hayden, A., Kofner, S., Schwartz, A. and Stephens, M. (2018) *The changing institutions of private rental housing: an international review*, AHURI Final Report No. 292, Australian Housing and Urban Research Institute Limited, Melbourne, [https://www.ahuri.edu.au/research/final-reports/292](https://www.ahuri.edu.au/research/final-reports/292), doi:10.18408/ahuri-7112201.
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Acknowledgements

This material was produced with funding from the Australian Government and state and territory governments. AHURI Limited gratefully acknowledges the financial and other support it has received from these governments, without which this work would not have been possible.

AHURI Limited also gratefully acknowledges the contributions, both financial and in-kind, of its university research partners who have helped make the completion of this material possible.

The authors acknowledge Professor Hal Pawson (UNSW) and members of the three research project teams: Dr Amity James (Curtin University); Dr Wendy Stone (Swinburne); Dr Edgar Liu (UNSW), Professor Terry Burke (Swinburne) and Dr Andrea Sharam (ex-Swinburne).

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Electronic copy available at: https://ssrn.com/abstract=3230571
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### Acronyms and abbreviations used in this report

| Acronym | Description |
|---------|-------------|
| ABS     | Australian Bureau of Statistics |
| AHURI   | Australian Housing and Urban Research Institute Limited |
| APRA    | Australian Prudential Regulation Authority |
| ASIC    | Australian Securities and Investment Commission |
| ATO     | Australian Taxation Office |
| CDC     | Consumer Directed Care |
| CRA     | Commonwealth Rent Assistance |
| FIRB    | Foreign Investment Review Board |
| GFC     | Global Financial Crisis |
| HILDA   | Housing, Income and Labour Dynamics Australia (survey) |
| LCL     | Large corporate landlord |
| LVR     | Loan-to-Valuation Ratio |
| MIT     | Managed investment trust |
| NDIS    | National Disability Insurance Scheme |
| NFP     | Not-for-profit |
| NHFIC   | National Housing Finance and Insurance Corporation |
| NRAS    | National Rental Affordability Scheme |
| NSW     | New South Wales |
| NTD     | National Tenancy Database |
| PRS     | Private Rental Sector |
| RBA     | Reserve Bank of Australia |
| REIT    | Real estate investment trusts |
| RTD     | Residential Tenancy Database |
| SMSF    | Self-Managed Superannuation Fund |
| UNSW    | University of New South Wales |
| WA      | Western Australia |
# Glossary

| Term                          | Definition                                                                                                                                                                                                                                                                                                                                 |
|-------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Boarding house                | Residential premises let in lodgings to unrelated persons, typically with some sharing of space or facilities, sometimes with other services provided (e.g. meals, laundry). Residents are typically boarders or lodgers, as distinct from tenants. Also ‘lodging house’, ‘rooming house’. ‘New generation boarding house’ is a NSW planning term for a building comprising small self-contained rental apartments. |
| Borderless investment         | Buying property in areas not near investor landlords’ homes.                                                                                                                                                                                                                                                                              |
| Buyer’s agent                 | Person or company acting on behalf of the investor landlord in property purchases.                                                                                                                                                                                                                                                        |
| Commonwealth Rent Assistance  | Payment made by the Australian federal government to eligible income support and family tax benefit recipients who rent their accommodation (other than public housing).                                                                                                                                                                               |
| Fractional investment         | Buying a part share in a dwelling or number of dwellings.                                                                                                                                                                                                                                                                                 |
| Fragmentation                 | In markets refers to a process whereby new segments emerge that cater for distinct sub-groups or niches.                                                                                                                                                                                                                                  |
| Intermediaries                | In the PRS intermediaries are the third party agents that bring together and mediate on behalf of landlords and tenants. This role has traditionally been played by real estate agents but increasingly other actors and online platforms are entering into the PRS to perform this function.                                                                                                           |
| Loan-to-Valuation Ratio       | Loan amount as a percentage of the valuation of the dwelling.                                                                                                                                                                                                                                                                              |
| Mortgage aggregators          | Wholesalers between lenders of housing finance and mortgage brokers.                                                                                                                                                                                                                                                                       |
| Mortgage broker               | Person or company arranging finance for investor landlord from a lender (often via a mortgage aggregator).                                                                                                                                                                                                                            |
| Mortgage referrers            | Person or company that provides the investor landlord with a referral service to lenders or brokers.                                                                                                                                                                                                                                      |
| Property advisor              | Person or company providing advice on property purchase strategy to meet client goals including mortgage strategy and property selection.                                                                                                                                                                                                     |
| Smart regulation              | A term coined by Neil Gillingham to extend conventional, unified and centralised forms of regulation or social control to incorporate more flexible and innovative forms of self-regulation and co regulation through the engagement of multiple groups and policy instruments, including peak organisations and other relevant parties. See for example Gillingham, N. and Sinclair, D. (2017). |
| Social Rental Agencies        | Are not-for-profit private rental intermediaries between landlords and tenants for low-income and vulnerable households. In Belgium, SRAs have been referred to as a ‘housing led’ approach that seeks to socialise private rental by sub-letting dwellings back to tenants at affordable rates. See for example De Decker (2012). |
| Term                          | Definition                                                                                                                                 |
|------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|
| Strata title                 | Form of ownership for multiple dwellings on one residential block with titles for individual dwellings/apartments separate to that for common property (e.g. driveways and gardens). |
| Syndicated investment        | Multiple investors pool their funds to buy property that they would not be able to buy on their own.                                         |
| Tenants' advocates           | Organisations representing the interests of tenants.                                                                                         |
| Virtual assistant            | Person or company that works remotely to provide administrative, technical and professional assistance to a client business.                  |
| Wealth advisor               | Person or company providing financial planning, investment advice and management and a range of other financial services (sometimes called wealth management). |

A list of definitions for terms commonly used by AHURI is available on the AHURI website [www.ahuri.edu.au/research/glossary](http://www.ahuri.edu.au/research/glossary).
Executive summary

Key points

- The Australian private rental sector (PRS) grew by 38 per cent over the period 2006–2016, more than twice the rate of all household growth: on present policy and market settings, this growth is expected to continue in the future.

- Growth in the PRS is not simply more of the same. The PRS has changed in a number of important ways since the mid-1990s:
  
  — Increased debt-financing of PRS properties often involving intermediaries.
  
  — Fragmentation of PRS provision with development of niche segments, a growing informal rental sector and a ‘supported housing’ sector; and
  
  — Transformation of PRS access by uptake of digital technology ranging from large online property portals to social media use along with an increase in real estate management of PRS properties (75% of PRS properties nationally in 2016).

- Comparing with other similar countries, Australia’s PRS stands out for:
  
  — Its greater degree of integration with the wider housing system, particularly the owner-occupied sector, and greater reliance on the household sector (although this predominates everywhere) without the increase in large corporate landlords (LCLs) seen elsewhere; and
  
  — The prominent role played by small business and franchised real estate agents in rental property management and the relative weakness of laws regarding tenants’ security and rents.

- While the PRS houses a wide variety of households on a broad range of household incomes, low-income and vulnerable households face particular difficulties, including:
  
  — Navigating through an increasing array of access points in the PRS, most requiring the capacity to use digital technology of different types; and
  
  — Increasing exclusion from the mainstream PRS through technologies which can profile households, with resulting reliance on the largely unregulated informal rental sector.

- Implications for policy include:
  
  — Considering whether diversification of PRS financing and provision beyond the household sector would produce better outcomes for renters; and
  
  — Developing standards and regulation where required for new types of digital technology used for PRS access and management.
Key findings

PRS growth and change

More than a quarter of all Australian households—some 2.1 million households—now live in the private rental sector (PRS). Over the ten year period 2006–2016, the PRS grew by 38 per cent, twice the rate of all households. This growth looks set to continue, largely due to a long term decline in access to home ownership, particularly among younger and mid-life age cohorts, because of high house prices and contraction of the social rental sector.

Growth in the PRS is not simply more of the same. The PRS has changed in a number of important ways since the mid-1990s, as summarised in the below table, and these changes look set to shape the future of the Australian PRS.

Overview summary of major changes in the PRS mid-1990s to 2018

|                        | The mid 1990s PRS                      | The PRS in 2017/18                                      |
|------------------------|---------------------------------------|-------------------------------------------------------|
| Tenants                | Transitional sector for young people  | Greater diversity of income groups and increasing long term and lifelong renting, including at mid-life |
| Landlords              | Single property ownership              | Some increase in properties owned by 'multi-landlords' |
|                        | Incidental investment                  | Strategies for wealth creation                        |
|                        |                                       | Drive for rental yield as well as capital gain        |
| Financing/provision    | Equity financed                        | Debt-financed often involving intermediaries          |
|                        | Properties in local area               | Borderless investment                                 |
|                        | Risk management through local knowledge| Access to online property data                        |
|                        |                                       | including via intermediaries                          |
| Access                 | Access through local real estate agents or directly via landlords | Access via digital platforms mediated by real estate agents/specialist property managers/self-organising networks |
| Management             | Property management as a routine administrative task | Outsourcing of routine property management functions to third party operators enabled by use of digital technology. |

Source: Mid-1990s view of the PRS draws on ABS (1994; 1997) and Berry (2000). The 2017/18 view is from literature reviewed for this project and original research for the Inquiry’s three research projects (Hulse, Martin et al. 2018, Martin, Hulse et al. 2018 and Parkinson, James et al. 2018).

International PRS trends and distinctive features of the Australian PRS

In most of the countries we reviewed, the PRS is growing. The strongest PRS growth has been in Ireland and the United Kingdom (UK), where the PRS grew either side of the Global Financial Crisis (2008–09) (GFC), and the United States (US), where the PRS had lost share to owner occupation before the GFC, but grew rapidly afterwards. Rapid change in the PRS and national

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1 The countries in the Inquiry’s international review were: Australia, Belgium, Canada, Germany, Ireland, New Zealand, Spain, Sweden, the UK and the US.
housing systems was driven by the combination of finance market and policy settings. This is especially so for countries that had experienced a housing boom and crash around the GFC and the subsequent recession, such as Ireland and the US. In countries most affected by the GFC, government programs for the disposal of impaired property-related assets have significantly increased the position of large corporations in the PRS, both directly as landlords (as in the US) and indirectly as owners of loans with PRS properties pledged (as in Ireland and Spain).

Smallholding private individual landlords predominate everywhere (except in Sweden). Most countries also have some large corporate landlords (LCLs), and a few have recently seen rapid growth in very large new LCLs. The origins of LCLs are diverse, but their recent activity has been facilitated by government activities: in Germany, municipal housing privatisation; in the US and Ireland, post-GFC programs for the disposal of impaired assets.

None of the recent growth in the PRS in the countries reviewed appears to have been prompted or unleashed by deregulation in the 2000s. On the contrary, Ireland and Scotland are examples of successively stronger regulation being implemented as the PRS has grown.

The Australian PRS is distinctive among the international countries reviewed in a number of respects:

- It is more integrated with the wider housing system, particularly the owner-occupied sector, than most of the other countries studied. Historically, the Australian PRS and owner-occupied sectors have a largely common built form, and properties transfer readily between the sectors (in contrast to Germany and Canada, where the sectors are more differentiated).
- It has the highest level of housing-related household debt (investment and owner occupied); international experience is that finance-driven change can happen rapidly and without reference to housing policy objectives.
- Real estate agents, organised mostly as independent or franchised small businesses, have an unusually prominent role in the PRS (managing 75% of PRS properties in 2016). In other countries, individual landlords are relatively more likely to self-manage, while those with LCL sectors have professional managers.
- It has comparatively weak laws regarding security and rent regulation. Australian states and territories form a group with New Zealand, the UK (except Scotland) and Spain, which also appear to have less differentiated PRSs and relatively weak tenancy laws.

Opportunities and challenges: financing and provision

The PRS will continue to be affected by local and international changes in the availability and cost of finance, but also by incremental institutional change, including new types of intermediaries and development/uptake of new and emerging digital technology.

An increase in lending to investor landlords, notably in the period 2011–2016, has triggered macro-prudential regulatory response, as in the other nine countries studied. An increasing array of intermediaries provides advice on investment in residential property as part of wealth creation strategies, drawing on digital data on property prices, rents, yields and housing markets. The willingness of households to debt-finance ‘investment properties’ also indicates some change in social norms and practices.

International and Australian property companies are seeking to develop a ‘multi-family’ (US term) or ‘Build to Rent’ housing (UK term) sector in Australia. Both these terms denote businesses that acquire/develop rental dwellings specifically for that purpose, and retain them as rental housing for a long term (i.e. ‘Build to Rent’ rather than ‘build to sell”).
Although the owner and renter sectors in Australia remain integrated by international comparison, this research finds that PRS provision is becoming fragmented into more specialised markets that attract and cater for distinct sub-populations, particularly at the low price end of the PRS. In addition to the mainstream PRS (properties owned by Australian households and managed by real estate agents), there are niche markets including ‘marginal housing’ (residential parks and registered rooming/boarding houses) and newer niches such as the student housing sector, new generation boarding houses (NSW), developer-retained rental units; an affordable rental sector of not-for-profit organisations; and some not-for-profit providers of ‘supported housing’. There is also a growing informal sector including room and short-stays rentals which are often under policy-makers’ radar unless there are health and safety issues.

Opportunities and challenges: access and management

In terms of people’s everyday contact with the PRS, the most transformative change is in access through digital technology, including major general online property portals, specialist rental portals, sharing platforms and social media.

Benefits for tenants include more information (e.g. property photos, floor plans and location relative to transport and jobs); greater efficiencies (one application for multiple properties and scheduling of property viewings); and innovation (e.g. alternative bond products rather than upfront payment of a large sum). There are also risks for tenants—in the amount and type of data collected, which go well beyond the rental tenancy databases that are currently regulated, including data use for ranking tenants, and selling additional products and services.

Restructuring of the real estate industry to achieve greater efficiencies has seen an increase in rental portfolios under management through organic growth and off-market acquisitions, as well as investment in information and communications technology and use of third parties, including those off-shore, for routine administrative tasks. These changes may provide more efficient services but there are risks for those who do not have ready access to the technology.

Policy development options

The PRS of the future will have to provide for diversity as well as growth. This will require innovation, flexibility and adaptability as well as protections for private renters so that they have the opportunity to make a home in the same way as other Australians.

Financing and provision

A major issue for policy development is whether diversification of PRS financing and provision beyond the household sector would produce better outcomes for the PRS in meeting future housing needs in terms of product types, management arrangements, service provision and tenancy conditions. Important issues to be addressed are:

- Will agreed government support for an affordable housing sector provided by the not-for-profit housing providers with access to cheaper funding through the new National Housing Finance and Investment Corporation (NHFIC) provide sufficient stimulus for non-household financing and provision of PRS housing at the affordable end of the market, or are new models of institutional/corporate financing and provision desirable? If the latter, are new models complementary to, or in competition with, current policy settings?

- Articulating the housing policy objectives for any government support for large scale landlords. If this type of support is seen as advantageous to the future of the PRS, it is important to set clear targets in terms of intended outcomes and develop smarter monitoring than was evident in the now-closed National Rental Affordability Scheme (NRAS) scheme.
• Developing hybrid rental arrangements for low-income and vulnerable households which include some combination of private financing and provision with NFP involvement in access and management to improve social equity. The main policy options appear to be 1) expanding the social rental sector to provide a different type of management for these tenancies; 2) introducing more social housing type conditions into the bottom end of the PRS as in Ireland and Belgium or 3) investing in the supported housing sector so that it can play a larger role in providing necessary support to vulnerable households in the PRS.

Access and management

Transformation of access to PRS housing as a result of digital technology allied with established and emerging intermediaries, some with new business models, has outpaced current policy settings and regulatory frameworks. Major priorities for policy development are:

• Reviewing online access portals and tools to assess not only improvements in efficiency but also implications for social equity. There is scope for regulatory reform on tenant access to data that may be collected or generated at the time of application (e.g. trust scores, ratio of applications to tenancies commenced) raising issues including data accuracy, access, moderation and removal.

• Developing modern legislation for the PRS of the future to embed a stronger consumer focus, as renters, and long term renters, increase. Some basic principles of regulation can be established and embedded in national minimum standards. Two main elements can be considered which are already in place internationally in countries in which small scale investor landlords provide PRS properties:

  — regulation of rent increases for current tenants, both as a measure that directly improves security and affordability for tenants directly, and to restrain the potential for other policy settings—particularly regarding negative gearing and capital gains—to generate speculation in housing.

  — removing ‘no grounds’ termination provisions from residential tenancies regulation—some other comparable countries with a growing PRS do not have this provision.

Developing policy and regulation in respect of the growing informal PRS, with new business models targeting low-income and vulnerable Australians. The informal sector by its very nature is innovative, adaptive and disruptive. Regulating the informal PRS is complex, as overly prescriptive approaches may result in parties changing their form of operation and regulators missing intended targets. More flexible institutional responses that draw on the principles of ‘smart regulation’, could be more effective than a blanket regulatory approach attempting to make the informal sector operate within the same institutional parameters as the formal sector. This would include ensuring the flexibility for rental arrangements to be determined individually but with the setting of effective and enforceable minimum standards in provision, access and management.

Organisations and structures

The Inquiry’s findings indicate a need for a more robust and comprehensive policy framework for the PRS of the future, in particular:

• Developing a strategy and policy for the PRS by considering finance, taxation, strategy, supply and demand-side subsidies, and regulation. Developing such a strategy and policy is based on acknowledgement that currently, and in the future, private renting is not a transitional arrangement on the way to owner occupation for many residents.

• Addressing some of the inequalities experienced by similar households living in different housing tenures. If recent trends of reduced access to owner occupation and longer stays in the PRS continue, policy settings will have to address the implications for greater inequality.
Establishing policy architecture that can consider these aspects of PRS development across all levels of government. This requires involvement of federal and state/territory governments with some involvement of local government in respect of niche markets.

**Cultural change**

Cultural change is often slow, and policy and regulation is contested and incremental, unlike the rapid uptake of technology in the PRS. The challenge appears to be to establish some common directions of change rather than reinforce adversarial positions as private renting increases, with concomitant visibility at a political level. Some key elements of this change are:

- encouraging investor landlords to see themselves as being in the business of being a housing provider, rather than in an informal arrangement to 'let' someone use their property. This could include registration of landlords, as for other service providers, and minimum safety, sanitation and security standards for property/ies that they rent out
- promoting an understanding that PRS tenants want a place to live, a home, and increasingly expect and require a high level of service for the rent that they pay, including timely and accurate responses to requests
- raising the status, recognition and training of rental property managers, with routine processing tasks outsourced to third parties, leaving the property manager to develop relationships and solve problems as they arise.

**The study**

The Inquiry into the future of the PRS had an explicit focus on institutional change, referring not only to formal rules (policies and regulation) but also organisations and structures, and informal rules (social norms and practices). Institutional analysis enabled a different way of thinking about the drivers and dynamics of PRS growth and change, adding to previous research into market changes and policy analysis.

The overarching Inquiry question was: ‘How can emerging trends in the institutions of the private rental sector in Australia and internationally create opportunities for, and present challenges to, improving equity, efficiency and effectiveness outcomes in Australia, including for low-income households?’ Research for the Inquiry comprised three supporting projects which investigated:

1. the dynamics and drivers of emerging trends in the institutions of Australia’s PRS and consequent opportunities and challenges for the sector
2. learning from institutional change in private rental sectors internationally and
3. evidence on how low-income tenants navigate the Australian PRS in the context of the sector’s changing institutional structures, practices and accommodation forms.

The research methods and data sources used across these three projects is summarised in the below table, comprising a mix of quantitative and qualitative methods and established and original data sources.
Research methods and data sources (three supporting research projects)

| Research methods                                      | Data sources                                                                                                                                                                                                 |
|--------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Scoping and mapping of institutions in the Australian PRS | Review of the academic and grey literature (including material elicited during the interviews)                                                                                                           |
| Analysis of available secondary data sets on PRS investor landlords and tenants | Cross sectional analysis of ABS Census of Population and Housing various years; ABS Survey of Income and Housing various years; HILDA (Household Income and Labour Dynamics of Australia) Wealth Module 2014. Longitudinal analysis of the HILDA and Journeys Home panel data sets. |
| Original research (Australia)                          | Semi-structured interviews (N=42) with key actors involved in PRS financing, development, access and management in Sydney, Melbourne and Perth. Semi-structured and in depth interviews undertaken with low-income renters (N=71) and community and private rental stakeholders (N=41) in Sydney, Melbourne and Perth. Online national survey of investor landlords (N=304) |
| Original research (10 countries)                       | Survey of institutional change in the PRS in 10 countries completed by national experts. Detailed case studies with country experts of four countries: Germany, Ireland, UK, US.                                      |

Source: Hulse, Martin et al. 2018, Martin, Hulse et al. 2018 and Parkinson, James et al. 2018.

This Inquiry Report distils key findings across the three projects to provide a higher level overview of institutional change in the PRS as well as reflecting on discussions with the Inquiry Panel. While it is intended to be read as a stand-alone document, readers who want to delve more deeply into these issues are referred to the Final Reports of the three research projects (Hulse, Martin et al. 2018; Martin, Hulse et al. 2018; Parkinson, James et al. 2018).
1 Introduction

- The private rental sector (PRS) is the growth sector of the Australian housing system, growing at more than twice the rate of household growth 2006–2016.
- Current public policy settings rely on the PRS to meet growing demand, including from low-income and vulnerable households.
- Previous research has focused on policy settings and market trends, adding considerably to our understanding of the PRS.
- A focus on institutions enables a comprehensive understanding of the factors which underpin not only PRS growth but also sector change: policies and regulation, established and emerging organisations, and social norms and practices.
- Institutional change can be sudden and in response to external ‘shocks’ such as the Global Financial Crisis but can also be gradual, incremental and cumulative.
- Understanding the institutional drivers and dynamics of PRS growth and change in Australia, and learning from relevant international experience, can inform opportunities and challenges for policy development for the future of this critical sector.

1.1 Why an Inquiry into the future of the private rental sector?

The Inquiry into the future of the private rental sector was funded by AHURI to provide a detailed, evidence-based understanding of the contemporary drivers and dynamics of institutional change in the Australian private rental sector (PRS) and the consequent opportunities and challenges for improving the performance of the sector for the future, including a focus on low-income individuals and households.

The PRS is an increasingly important part of the Australian housing system, growing at twice the rate of household growth over the decade to 2016, as shown in Figure 1. More than a quarter (26%) of Australian households are private renters or 2.1 million households. This trend can also be observed internationally, particularly in countries similar to Australia such as New Zealand, the UK, Ireland and the US (Chisholm, Howden-Chapman et al. 2017; Crook and Kemp 2014b; Whitehead, Scanlon et al. 2016).

Growth in the PRS does not only mean more of the same; the PRS is changing as well as growing. Once seen as a transitional housing tenure for young people between leaving the family home and becoming home owners, there are more private renters at mid-life (Sharam 2015; Sharam, Ralston et al. 2016) and more private renters with children (40% of PRS households). Importantly, there has been an increase in both lower and middle/higher income households in the PRS (Hulse and Yates 2017). Australians are renting for longer periods—a

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Calculated from ABS Census of Population and Housing 2016. In 2016, 31 per cent of Australian households rented their housing, the vast majority of whom—26 per cent of all households—rented in the private sector. The other 5 per cent comprised public and community housing and other rental arrangements.
third of private renters have been renting for 10 or more years (Stone, Burke et al. 2013; Pawson, Hulse et al. 2017).

**Figure 1: Change in housing tenure of Australian households, 2011–16 and 2006–16**

There are signs that the PRS is changing in other ways as well. These include increased debt financing by investor landlords (RBA 2017b); innovation in new products such as niche markets in student housing (Savills 2017); uptake of digital technology including online property portals and social media (Hulse, Martin et al. 2018; Parkinson, James et al. 2018); and the increasing role of intermediaries such as mortgage brokers, property/wealth advisors and real estate managers (Hulse, Martin et al. 2018). Collectively, and cumulatively, these indicate changes to the institutions of the PRS.

The Inquiry set out to investigate institutional change in the PRS enabling new drivers of PRS change, and explore the dynamics of change. It focuses on aspects of the PRS that have received less attention in recent research and policy than the market and policy analyses used in the majority of housing research and which have added considerably to our knowledge of the sector.

### 1.2 Policy context

Policy makers have identified a continuum of housing assistance in which the PRS plays a pivotal role between various forms of social rental for low-income households and home ownership for those who aspire, and have the means, to achieve this, as illustrated in Figure 2. Viewed in this way, the PRS includes privately owned dwellings that are rented by households in receipt of Commonwealth Rent Assistance (CRA) and also households not receiving this payment. There is also an embryonic ‘affordable housing sector’ which could be construed as part of either the PRS or the social rental sector, depending on ownership and management arrangements.
Current policy thinking (Figure 2) envisages movement of people/households along this continuum from temporary to long term housing, with various types of social and private rental housing seen as ‘stepping stones’ along the way to an end point of unassisted home ownership. Implicit in this framework is movement of people/households from ‘deep subsidy’ through ‘shallow subsidy’ to unsubsidised housing, with subsidies defined in terms of direct housing assistance rather than tax expenditures. It is important to note that specific accommodation niches are not included in this framework including rooming/boarding houses; residential caravan parks, off campus student housing, and informal sharing arrangements.

Major policies affecting the PRS include direct housing assistance, tax expenditures and regulation; these have changed only slowly since the 1990s. For example:

- The main form of direct assistance to private renters, CRA payments to income support and family tax benefit recipients, has essentially been in place in its current form since the early 1990s (Milligan and Pinnegar 2010).
- The combination of negative gearing of rental losses against general income for income tax purposes and a 50 per cent concession on nominal capital gains for PRS investor landlords has been in place since 1999 (Wood and Ong 2010).
- Despite programs of legislative review in the 2000s, changes to state/territory residential tenancies legislation have been incremental and difficult to implement. Regulation of electronic tenancy databases has been the only area of nationally consistent reform, driven by concerns about compliance with privacy legislation (Short, Minnery et al. 2006).

Proposals to change CRA have been mooted and discarded since the mid-1990s; changes to taxation arrangements for investor landlords are hotly contested at a political level and changing residential tenancies legislation is often a contested and drawn-out process, indicating ‘institutional path dependence and policy inertia’ (Hulse and Burke 2015: 149).
In the absence of major PRS reforms, policy makers are attempting to use other policy levers to grapple with a number of issues which reflect changes either within the PRS or in the relationship of the sector to the broader housing system, as highlighted in Table 1.

**Table 1: Examples of current policy development issues centring on the PRS**

| Level of government         | Policy development issue                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|-----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Federal level               | ‘Dampening down’ the rate of lending to household rental investors and improving lending quality, without causing ‘investor flight’ from the PRS—primarily through changes in macro prudential regulation (RBA 2017a).                                                                                                                                                                                                                     |
|                             | Increasing the supply of housing affordable to lower income households through the development of the National Housing Finance and Insurance Corporation (NHFIC) which will reduce the cost of finance for additional affordable housing supply (The Treasury 2017).                                                                                                                                                                                                                   |
|                             | Proposal to provide a portable CRA scheme to households in public as well as social housing to improve ‘competition and choice’ in human services (Productivity Commission 2017).                                                                                                                                                                                                                                   |
| Joint federal and state/territory level | Assessing whether governments wish to subsidise new models of PRS provision to supplement household level PRS providers, such as proposals for a new Build to Rent (or multi-family housing) sector.                                                                                                                                                                                                                                                                                                                                 |
|                             | Connecting housing assistance with social policy reform in areas such as the National Disability Insurance Scheme (NDIS) (Wiesel and Habibis 2015) and Consumer Directed Care (CDC) packages for older Australians (Cornell 2016).                                                                                                                                                                                                                      |
| State/territory level       | Developing more comprehensive state/territory level housing strategies that include measures to improve PRS performance for lower income and vulnerable households, connecting regulation with planning, housing assistance and support services (e.g. Victorian Government 2017).                                                                                                                                                                                                                       |
|                             | Reviewing residential tenancies legislation for a modern PRS, including a comprehensive review in Victoria with announcement of some reforms in 2017, with New South Wales and Queensland scheduled to announce reforms early in 2018.                                                                                                                                                                                                                                   |
|                             | Developing pathways for public housing tenants to move into PRS tenancies (Wiesel, Pawson et al. 2014) and to assist others into the PRS through various state/territory private rental assistance schemes (Tually, Slater et al. 2016).                                                                                                                                                                                                         |
| State/territory with local government | Responding to regulatory challenges associated with the growth of new types of marginal housing including the growth of ‘high risk’ rooming houses (Goodman, Nelson et al. 2013; Dalton, Pawson et al. 2015), sharing, rent by room, secondary units and short-term lets, some of which are not well covered by existing regulation of residential tenancies not local government responsibilities in the areas of health, environment and planning.                                                                                   |

Source: compiled by the authors.

Areas under consideration include a desire for better pathways between housing tenures; the challenges associated with new business models ranging from the ‘rent by room’ sector to the Build to Rent sector; and an understanding that policy and regulation could be better aligned. Table 1 also indicates that dealing with PRS issues is complex in that responsibilities are spread across the three levels of government and different portfolios (e.g. treasury and finance departments, consumer affairs/fair trading, housing/human services, and planning).
1.3 Existing research on the Australian PRS

Changes in PRS demand have been associated with a changing socio-demographic profile of private renters, as discussed earlier in this chapter. Research has also highlighted that changes in demand for the PRS reflect changes in the broader housing system. In Australia, ‘blocked home purchasers’ (Yates 2011) and households ‘falling out’ of home ownership and returning to renting (Wood, Smith et al. 2013) have boosted demand for PRS housing. Additional demand from low-income households has been explained by more limited access to social rental housing due to tight rationing as a result of declining investment and lower turnover (Auditor-General NSW 2013). While the PRS is often construed as a ‘residual’ sector dependent on changes in home ownership and social rental (Crook and Kemp 2014a: 5), there are some early indications of other drivers of change. For example, it appears that some households, mainly singles/couples, see the PRS as a more flexible housing arrangement that suits current lifestyle aspirations, the logistics of work and/or education and travel plans (Pawson, Hulse et al. 2017).

Research into PRS supply has investigated the behaviours of the 13 per cent of Australian households who own PRS housing (e.g. Wood and Ong 2010). Although research into motivations is limited, it appears that the growing number of investor landlords have expectations of capital gain as well as rental income, although the research indicates a cohort of conservative landlords who value perceived security in owning property for their retirement plans and enabling their children to ‘get into the market’ (Berry 2000; Seelig, Thompson et al. 2009).

A small, and separate, body of research has examined regulation of the PRS, identifying problems of affordability and insecurity associated with exposure to frequent and sometimes unpredictable rent increases, short-term fixed term leases and periodic tenancies, and ‘no ground’ eviction (NATO 2010; Hulse, Milligan et al. 2011; CHOICE 2017). Other PRS issues identified include the disruption and cost of frequent moves between PRS dwellings; lack of responsiveness to requests for repairs; and restrictions on the social practices associated with home making such as personalising a dwelling (Easthope 2014), including restrictions on pet ownership (Power 2017).

While the research discussed above covers the broader PRS, there has also been a distinct body of research focused specifically on low-income and vulnerable households in the PRS. A series of research projects have tracked the increased shortage of PRS housing affordable to low-income households (household incomes in the bottom 20 per cent of all Australian household incomes), a situation made worse by competition by middle and higher income households for affordable properties (Wulff, Reynolds et al. 2011; Hulse, Reynolds et al. 2014). Lack of affordable supply contributes to the affordability problems experienced by low-income renters which have been well documented (Yates and Milligan 2007; Rowley and Ong 2012). Such households have fewer resources to access PRS housing and to deal with involuntary mobility and re-establishing a home, including bond recovery and payment, rent in advance, relocation costs and connection to utilities (Stone, Sharam et al. 2015). There is also a body of research that has examined the connections between private renting, income security and geographical mobility (Campbell, Parkinson et al. 2013; 2014; Whelan and Parkinson 2017).

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3 Calculated from the ABS Survey of Income and Housing 2013–14.
4 Funding has been approved for this series to be extended to include the 2016 Census.
1.4 Inquiry conceptual framework

The Inquiry's conceptual framework had an explicit focus on institutions and institutional change. Institutions have been defined as ‘systems of established and prevalent social rules that structure social interactions’ (Hodgson 2006: 2). In practical terms, this means that institutions are not only organisations and structures but also formal rules (policies and regulation) and informal ones (social norms and practices). Institutions reflect and produce regularised practices which structure routine and often take for granted behaviour (Hall 2009: 204). The important point about institutions is that they are relatively settled for periods of time enabling some predictability (Mahoney and Thelen 2010: 4). Clearly institutional change can, and does, occur despite the factors which result in persistence or what has been called ‘institutional path dependence’. Change may come about for many reasons, such as when coalitions of support for current arrangements dissipate or there is non-compliance or challenges to rules as understandings shift (Mahoney and Thelen 2010: 10–12). Institutional analysis enables a different way of thinking about the drivers and dynamics of PRS growth and change from the framework used by policy makers outlined earlier. It has been used by Kemp (2015) in an analysis of private renting in the UK after the Global Financial Crisis.

There are two main types of institutional change:

- **A response to external factors or ‘shocks’**. Growth and change in the PRS can be a response to external changes in the global political economy such as the Global Financial Crisis (GFC) (Forrest and Hirayama 2015). In these cases, change occurs during ‘critical junctures’ when choices are made which result in new institutions. Once established, these new institutions then become settled and difficult to change (Pierson 2004: 135).

- **Internal, gradual, incremental change**. Change is often internally generated, incremental and cumulative rather than externally generated and sudden (Thelen 2009). This type of institutional change can occur for many reasons including reinterpretation of the formal or informal rules or a shift in the balance of power between the various participants (Mahoney and Thelen 2010: 10). By their very nature, these types of changes are more difficult to identify.

A focus on institutions (institutional analysis) can be summarised as analytical lenses, as illustrated in Table 2.
Table 2: Lenses for institutional analysis of the private rental sector

| Analytical lenses          | Scope                                                                 | Examples                                                                                                                                                                                                 |
|----------------------------|----------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Policies                   | Housing and non-housing policy design and implementation              | Financial assistance (CRA) to private renters in receipt of income support or family tax payments; tax settings affecting PRS investment (e.g. capital gains tax concessions, negative gearing, state land tax). |
| Regulation                 | Regulation through statutory legislation and other means affecting the PRS | Regulation of lending to investor landlords; of residential tenancies arrangements; of specific types of marginal housing, or real estate agents/property managers.                                           |
| Organisations and structures | Established, changing, new and emerging organisations               | Organisation change in financing, finance instruments, ownership vehicles, development mechanisms, rental housing providers, intermediaries, property management services, third party providers, online portals and social media. |
| Social practices and norms | Established and changing social practices around renting and rules/social norms governing these practices | Renting practices such as buying/selling vacant rental properties; expectations about short term tenancies, and terminology for referring to PRS actors and organisations. |

Source: authors.

1.5 Inquiry research questions and methods

The overarching Inquiry question was:

How can emerging trends in the institutions of the private rental sector in Australia and internationally create opportunities for, and present challenges to, improving equity, efficiency and effectiveness outcomes in Australia, including for low-income households?

This Final Report of the Inquiry provides a higher level overview of institutional change in the PRS informed by the findings of the three projects. The Inquiry findings are designed to provide a framework for policy making in the future, as well as indicating specific areas where policy development is required, informed by an in depth understanding of contemporary institutional structures and practices in a growing and changing part of the Australian housing system. As the focus of this final Inquiry report is on understanding the nature and policy implications of institutional change in the PRS more broadly, we do not focus at length on spatial trends and outcomes. However, it is recognised that the pace of change and its impact will be felt differently across Australian cities and regions. While this Final Report is intended to be read as a stand-alone document, readers who want to delve more deeply into these issues are referred to the Final Reports of the three research projects (see Table 3).
### Table 3: AHURI Inquiry into the future of the private rental sector: supporting research projects, methods and outputs

| Research questions                                                                 | Methods                                                                 | Outputs                                                                                                                                 |
|------------------------------------------------------------------------------------|-------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| What are the dynamics and drivers of emerging trends in the institutions of Australia’s private rental market and what are the consequent opportunities and challenges for the sector? | Scoping and mapping of institutions of the Australian PRS through academic and grey literature.                        | Hulse, Martin, et al. (2018) *Private rental in transition: institutional change, technology and innovation in Australia*, Final Report 296, AHURI, Melbourne. |
|                                                                                   | Analysis of secondary data (ABS Census of Population and Housing various years; ABS Survey of Income and Housing various years; HILDA (Household Income and Labour Dynamics of Australia) Wealth Module 2014. |                                                                                                                                         |
|                                                                                   | Semi-structured interviews (N=42) with key actors involved in PRS financing, development, access and management in Sydney, Melbourne and Perth. |                                                                                                                                         |
| What lessons can be drawn from institutional change in PRSs internationally which could enhance the equity, efficiency and effectiveness of the sector in Australia, particularly to improve outcomes for low-income tenants? | Review of the comparative literature on the PRS—academic and scholarly. | Martin, Hulse, et al. (2018) *The changing institutions of private rental housing: an international review*, Final Report 292, AHURI, Melbourne. |
|                                                                                   | Survey of institutional change in the PRS in 10 countries completed by national experts (Australia, Belgium, Canada, Germany, Ireland, New Zealand, Spain, Sweden, UK and US). |                                                                                                                                         |
|                                                                                   | Detailed case studies with country experts of four countries: Germany, Ireland, UK, US. |                                                                                                                                         |
| How do low-income tenants navigate the Australian PRS in the context of the sector's changing institutional structures, practices and accommodation forms, and what are the opportunities and challenges for improving their future housing outcomes? | Longitudinal analysis of HILDA and Journeys Home panel data sets. | Parkinson, James et al. (2018) *Navigating a changing private rental sector: opportunities and challenges for low-income renters*, Final Report 302, AHURI, Melbourne. |
|                                                                                   | Semi-structured and in depth interviews undertaken with low-income renters (N=71) and community and private rental stakeholders (N=41) in Sydney, Melbourne and Perth. |                                                                                                                                         |
|                                                                                   | Online national survey of investor landlords (N=304). |                                                                                                                                         |
|                                                                                   | Analysis of relevant literature including grey literature. |                                                                                                                                         |

Source: authors.
2 International trends and distinctive Australian PRS characteristics

Once seen as a tenure in international decline, private rental housing is now regarded as a mostly growing and increasingly diverse sector.

- The PRS is the second biggest housing tenure in most of ten countries studied, even in countries which have had a long history of social rental housing such as the UK;

- Recent PRS growth and changes have been strongly driven by finance market and policy settings, particularly in countries most affected by the Global Financial Crisis; and

- While small scale landlords predominate, there has been an increase in large corporate landlords in the PRS in the majority of the ten countries studied.

Australia’s PRS is distinctive in being less differentiated from the wider housing system than other comparable countries:

- Australia’s particularly high level of housing-related debt raises the prospect of finance-driven change affecting the PRS and the owner occupied sectors;

- Dwelling stock types and PRS households are more similar to the general housing system than most other countries; and

- Australia is also distinctive for the prominent role played by real estate agents, and the relative weakness of laws governing tenants’ security and rents.

2.1 Comparative research into the PRS

Comparative research into the PRS, in addition to the Australian literature detailed in Chapter 1, has added to our understanding of the sector.

Comparing countries’ housing systems is not an easy task and there has been robust debate about the conceptual and methodological approaches (Kemeny and Lowe 1998; Haffner, Hoekstra et al. 2010; Stephens 2011; 2016; Aalbers 2016). Comparative research for the Inquiry adopted a ‘system-embedded’ approach (Stephens 2011: 353) to international comparative analysis, which considers the particular PRS policy settings and institutions of the reference countries in the context of their housing and wider socio-economic systems.

In a supporting research project for this Inquiry, we reviewed the changing institutions of private rental housing in 10 countries in Australasia, Europe and North America, and examined four countries in more detail, through specially-commissioned country reports (Figure 3) (Martin, Hulse et al. 2018). The nine countries selected for analysis alongside Australia represent developed, market-oriented democracies and provide a mix of different historic and recent experiences in housing provision and policy.
In this chapter, we draw on existing comparative research and research conducted for the Inquiry, which includes the contributions of country experts who collaborated in the research, to explore the main themes of international change in private rental institutions, and the distinctive features of the Australian PRS.

### 2.2 International trends in private rental housing

Our review of the international comparative literature shows that private rental housing, once regarded as a sector in terminal decline, is now mostly growing and diversifying, and, in some cases, changing rapidly. The characterisation of Anglophone housing systems as ‘dualist’, in which the public housing sector is marginalised, private rental is uncompetitive and owner occupation is preferred (Kemeny 1995; 2001; 2006), is complicated by the growth of the PRS relative to owner occupation, and by the emergence of some hybrid ‘semi-social’ landlords (Hulse, Jones et al. 2010; Blessing 2016). On the other hand, the ‘unitary’ systems of Germany, Sweden and neighbouring countries, by which social housing competed with private rental and made both an alternative to owner occupation (Kemeny 1995; 2001; 2006) are also under challenge, with the withdrawal of subsidies and greater play of profit motives in housing markets (Lennartz 2011; Stephens 2016). These studies indicate divergences in the drivers of change and in the position of the PRS within national systems (Crook and Kemp 2014b: 10).

A rising theme in the literature is the ‘financialisation of housing’, which refers to the increasing importance of housing in financial markets and the increasing participation of households in finance, particularly through leveraging property ownership for consumption or investment. Studies by Aalbers (2016) and Whitehead and Lunde (2015) document over the past two decades rapid innovation in housing-related finance and expansion in housing-related debt, with

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5 International change in this context refers to countries in Europe, Australasia and North America which have been the subject of comparative research either by others or in the research conducted for this Inquiry.
different countries starting in different positions and following different trajectories over the period, particularly around the time of the GFC.

Another theme in the literature is PRS regulation (Haffner, Hoekstra et al. 2009; TENLAW, 2015; Whitehead, Markkanen et al. 2012; Hulse, Milligan et al. 2011); these studies indicate a diversity of approaches particularly to questions of rent regulation and security of tenure. There appears to be ‘no clear relationship’ between PRS size and growth and the degree of regulation (Whitehead, Markkanen et al. 2012: 69). It has been argued that ‘secure occupancy’ in PRS housing is something more than regulation (formal rules) on ‘security of tenure’ but rather the cumulative result of policies, subsidies, regulation, market structures and social norms (informal rules) (Hulse, Milligan et al. 2011).

2.2.1 The PRS is growing in countries where home ownership and social rental have declined

In most of the 10 countries we reviewed, private rental housing is the second biggest tenure, after owner occupation (and everywhere social housing runs third). Only in Germany is private rental the largest tenure. The impression, often heard in Australia, that ‘everyone in Europe rents’ is a misconception—most of the European countries we reviewed in fact have higher rates of owner occupation than Australia.

In seven of the 10 countries, the PRS is growing—mostly at the expense of the owner-occupier sector and, to a lesser extent, the already small social housing sector. The strongest growth has been in Ireland and the UK, where the PRS grew either side of the GFC, and the US, where the PRS had lost share to owner occupation before the GFC, but grew rapidly afterwards.

Regarding wider housing market conditions, almost all the countries reviewed experienced significant house price increases prior to the GFC, and some—Ireland, Spain, the US and, to a lesser extent, the UK—a post GFC housing crash. The exception is Germany, which had remarkably stable house prices over the period. House prices in all countries have been rising since 2011.

The built form of private rental housing in all the countries studied tends more towards apartments than does the rest of the housing system, and more towards small households and low-income households. However, the strength of this tendency—and hence the degree to which the PRS is differentiated from the rest of the housing system—varies significantly across the 10 countries. In this regard Australia is quite distinctive.
2.2.2 Rapid change in the housing system and the PRS is driven by the combination of finance market and policy settings

Across the 10 countries, housing investment is mostly financed by credit, which is predominantly provided by banks (although lately the US has become an exception, with non-bank lenders overtaking the banks) (Lux and Greene 2015; Lerner 2017). Over the past two decades, housing credit has expanded—albeit punctuated by the GFC—with the development of new funding sources, such as mortgage securitisation and wholesale lending by shadow banks, and with the opening up of new lending markets and products, such as subprime loans, equity release loans and PRS investment loans. Germany is the exception, having stable levels of housing-related debt and housing prices for an extended period. Following the GFC, nine of the countries reviewed have implemented housing-specific macro prudential tools as a financial stability measure.

There has been less innovation in housing tax settings across the 10 countries. All provide preferential treatment for owner-occupied housing. We found some surprising results, for example, Germany—which has had a remarkably long period of stable house prices—has negative gearing provisions and tax exemptions for capital gains, much like Australia, where these policies are blamed for driving speculative house price increases. Also notable is the heavier taxation of UK landlords than those in most other countries, although the UK has the fastest-growing private rental sector of the countries we reviewed.

However, these challenging findings should not be taken to diminish the explanatory power or effectiveness of these settings in each country’s housing policy. Rather, they show the necessity of considering taxation and other policy settings in interaction with each other and in wider systemic contexts. So, for example, Germany’s conservative housing finance practices, and regulation of rents, may dampen down the speculative potential of negative gearing and tax-free capital gains elsewhere.

Across several countries we found rapid change in the housing system and the PRS driven by the combination of finance market and policy settings; especially for countries that had
experienced a housing boom and crash around the GFC and the subsequent recession: Ireland, the US and, less severely, the UK. In each of these countries, the PRS share of the housing system grew substantially in the period following the crash. In those countries most affected by the GFC, government programs for the disposal of impaired property-related assets have significantly increased the position of large corporations in the PRS, both directly as landlords (as in the US) and indirectly as owners of loans with PRS properties pledged (as Ireland and Spain). The responses of Ireland, the UK and the US to their financial and housing crises have enabled some existing owner occupiers and large financial institutions to increase their position in the housing market, though with some curbs around riskier bank lending. This may be no more sustainable or equitable than the pre-GFC housing credit expansion.

2.2.3 Small holding landlords predominate but large corporate landlords are growing

Almost everywhere, smallholding private individuals are the predominant type of landlord: only in Sweden are housing companies more common. Most countries, however, also have some large corporate landlords (LCLs), and a few have recently seen rapid growth in very large new LCLs. The origins of LCLs are diverse, but their recent activity has been facilitated by government activities: in Germany, municipal housing privatisation; in the US and Ireland, post-GFC programs for the disposal of impaired assets.

The rising LCLs are not building much rental housing. Rather, they are active in acquiring existing properties and managing their portfolios through renovations, modifications and sales. The LCLs have been active also in mergers and, especially in the US, in devising new financial instruments, such as rental-backed securities. LCLs are often controversial and there is evidence of conflictual relations with tenants, particularly in Germany and the US (see Chapter 3, section 3.2.4 for further discussion).

2.2.4 There is no recent evidence that PRS growth stems from deregulation of tenancies

None of the recent growth in the PRS in the countries reviewed appears to have been prompted or unleashed by deregulation. Arguably the UK’s reforms of the late 1980s had this effect (Kemp 2015), but lately there has been no comparably significant weakening of tenancy regulation (only Spain has recently liberalised its tenancy laws, apparently without much effect on its small PRS). On the contrary, Ireland and Scotland are examples of successively stronger regulation being implemented as the PRS has grown. The view of tenancy regulation as ‘red tape’ is out of step with the recent experience of most countries.

The foremost approach to assuring tenants’ security is to allow landlords to terminate on prescribed grounds only. This is the situation currently in Germany, Sweden, Scotland, most of the Canadian provinces and some major US cities. Only Belgium and Spain rely on long fixed terms and Ireland has a unique regime of cyclical restrictions on termination by landlords. Only Australia, New Zealand, the UK (other than Scotland) and some US jurisdictions readily allow termination without grounds.

Rent increases are regulated in four countries—Belgium, Germany, Spain and Sweden—most of the Canadian provinces, and some major US cities, by limiting them to a stated guideline or reference rent. Ireland and Scotland do so in designated ‘rent pressure zones’—where rents have been increasing above certain thresholds.

Finally, it is noteworthy that registers of landlords—an old regulatory practice often used in rent control regimes in the previous century—are making a comeback, with new registers being implemented in the UK, Ireland, parts of Canada and some niche sectors in Australia (such as rooming/boarding houses and residential parks).
2.3 How is the Australian PRS distinctive?

2.3.1 The Australian PRS is unusual in the high level of integration with the owner-occupied sector

In most countries, the PRS is differentiated from the wider housing system in terms of building form (more apartments, fewer detached and semi-detached houses), household type (more singles, fewer households with children) and household incomes (more low-income households). By international comparison, the Australian PRS stands out by being less differentiated from the rest of the Australian housing system.

In terms of built form, about two-thirds of the Australian PRS, and about 90 per cent of the rest of the housing system, are single properties (detached or attached). By contrast, in Germany, the rental sector is 90 per cent apartment buildings, while the owner-occupied stock is almost 70 per cent single dwellings; and in Canada, the rental sector is 75 per cent apartments, and the owner-occupied sector about 85 per cent single dwellings. Other countries with less differentiated sectors include New Zealand (high proportions of single detached dwellings across both rental and owner-occupied sectors), Spain (high proportions of apartments across both sectors) and the UK (high proportions of single attached dwellings across both sectors).
This suggests that by international comparison the Australian PRS is more integrated with the owner-occupied sector. This is consistent with the observation of properties transferring between sectors by Yates and Wood (2005): about 40 per cent of properties in the rental market in 1991 were no longer there in 2001. An implication of this structure is that policy settings and market conditions applying to one sector may have effects that are transmitted readily to the other. So, for example, policies that make special or preferential treatment for owner-occupied housing may also induce purchase of housing for rental; and rental housing investor activity will directly affect prices in the owner-occupied sector and the accessibility of owner occupation.

This integrated structure has deep institutional roots. In particular, Australia’s early adoption of strata title opened up apartment buildings to owner occupation and encouraged the development of apartment construction on a ‘build-to-sell’ basis, whereas other countries saw apartments developed with ownership retained (e.g. Canada’s ‘purpose-built’ rental housing). There are some moves towards greater differentiation and fragmentation in the Australian PRS, through special built forms such as secondary dwellings and student accommodation, and considerable interest in the development of a ‘Build to Rent’ or ‘multi-family’ sector. Although currently marginal, international experience shows change can occur quickly.

In terms of household types, the Australian PRS is also less differentiated from the wider housing system than is the case in some other countries, as shown in Figures 6 and 7.
Figure 6: Household composition in private rental and other tenures, 10 countries

Source: Martin, Hulse et al. (2018: 24 (Figure 4)).

Figure 7: Rental households by income quintile, 10 countries.

Source: Martin, Hulse et al. (2018: 25 (Figure 5)).
2.3.2  **Australia appears exposed to finance-driven change in view of the high level of household housing debt**

In common with other countries reviewed, Australia has had a house price boom; uniquely, it has not experienced a recent housing crash nor a recession after the GFC. Australia stands out among the 10 countries for currently having the highest level of household debt, most of it related to housing (both owner-occupied and PRS). This raises the prospect of Australia being exposed to finance-driven change, which, from international experience, can happen rapidly and without reference to housing policy objectives.

At the level of the housing system, the integration between the Australian PRS and owner-occupied sectors heightens the prospect of investment in both sectors falling simultaneously, with little established institutional capacity for countercyclical investment that makes necessary additions to supply. Furthermore, at the household level, those high housing debts are not distributed evenly—owner occupiers and investor landlords have been incurring these debts, not primarily PRS or social rental tenants. In the event of a crash, these liabilities remain, and the question of their relief involves doing justice not only between creditors and debtors, but between debtor and non-debtor households. In Ireland, the UK and the US, finance sector focused responses to the GFC increased the position of large institutions in the housing sector, and renter households who sat out the housing boom have generally not seen their access to affordable home ownership or rental housing improve.

2.3.3  **Australia is distinctive in the widespread use of real estate agents/property managers in the PRS**

Australia is not unusual in having PRS ownership dominated by small holding private individuals; however, Australia’s sector of real estate agents is more distinctive. In other countries, it appears small holding individual landlords are relatively more likely than Australian landlords to self-manage, while those with LCL sectors have professional managers within the LCLs or operating as large scale managers (e.g. Greystar). Australia’s real estate agents, organised mostly as independent or franchised small businesses, have an unusually prominent role in the PRS.

This highlights the need to more closely examine how this institution is changing. Chapter 4 discusses this further, with a focus on new technologies that are opening agents’ work up to new institutional intermediaries.

2.3.4  **Australia has relatively weak laws regarding security and rent regulation**

By international comparison, Australia has relatively weak laws regarding security and rent regulation. Australian states and territories form a group with New Zealand, the UK (except Scotland) and Spain, which also appear to have less differentiated PRSs, and relatively weak tenancy laws. Nonetheless, the leading approach internationally to the legal assurance of tenants’ security, being the proscription of termination by landlords without grounds, is not incompatible with the less-differentiated structure of the Australian housing system. On the contrary, it could be argued that proscription of ‘without grounds’ termination, and provision for ‘just grounds’ termination only, is a relatively modest legal reform that works within existing structures, and does not require or drive deeper structural change.
2.4 Implications for policy

The characteristics of the Australian PRS, discussed above, have some broad implications for policy (developed further in Chapter 5):

- The degree of integration between the PRS and the owner-occupied sector means that both dwellings and households can transfer quickly between these sectors. Careful consideration is required when developing policies to encourage home ownership in that they will also likely encourage investor landlord purchases, unless carefully designed to avoid a cycle in which increased demand further increases housing prices, deterring prospective home owners.

- Developing strategy for the private rental sector should join consideration of finance, taxation, supply and demand-side subsidies and regulation with the objective of making private rental housing outcomes competitive with other sectors. Care should be taken to keep housing policy objectives in focus when responding to financial system challenges.

- There is also a case for considering stronger regulation of rents, both as a measure that directly improves security and affordability for tenants directly, and as a measure that may restrain the potential for other policy settings—particularly around negative gearing and capital gains—to generate housing speculation (as is the case in Germany).

- More than in most other countries, Australian households of similar composition and similar incomes differ by their housing tenure. Considering the traditional value and preference given to owner occupation in Australia, this suggests that housing tenure may figure strongly in the subjective experience of inequality. If recent trends of reduced access to owner occupation and longer stays in the PRS continue, policy settings will have to address the implications for greater inequality.
3 Transformation and innovation in the Australian PRS: provision and financing

Small scale landlords look set to predominate in the PRS of the future but there is evidence of more strategic investment in PRS properties facilitated by:

- Development and widespread use of digital technology which provides access to detailed property and housing market data from around Australia enabling ‘borderless investment’; and

- The growing number and types of intermediaries offering advice and services to investor landlords including accessing finance, investment criteria, market information and property services.

The extent of debt-financing of PRS properties 2011–2017 indicates change in social practices around owning property and the normalisation of borrowing against residential property to increase wealth.

The PRS of the future looks likely to include more large corporate landlords with business models centred on rental yields, based on experiences of other comparable countries and current experience of the niche student housing sector in Australia.

Some innovation in financing and provision is evident in Australia taking advantage of widespread use of digital technology: different models of PRS investment and new models of provision, including new forms of share housing and the rent by room sector.

3.1 Existing research on Australian PRS provision and financing

Research into PRS provision (defined in terms of ownership) shows the continuing importance of household level investor landlords. The ‘typical rental investor’ is a ‘middle aged high tax bracket individual with modest superannuation, little unsecured debt and a continuous employment record’ (Wood and Ong 2010: 2). Younger, ‘negatively geared’ investors, with relatively low levels of income and human capital are most likely to exit the sector at any time during their rental property ownership (Wood and Ong 2010: 1). Qualitative research on the motivations and expectations of what are colloquially called ‘rental investors’ based on research prior to the GFC suggests that many are conservative and not financially sophisticated and that there are emotional as well as financial reasons for owning PRS properties, including long term security (Berry 2000; Seelig, Thompson et al. 2009: 1–2). Above all, Australians feel ‘comfortable’ with property, seeing it as ‘safe, stable, and familiar’ particularly when compared with other investments such as shares (Seelig, Thompson et al. 2009: 2).

Finance for investor landlords is provided primarily through a small number of banks, building societies and credit unions, with the volume of lending to investor landlords increasing in the early 2000s to 2003; relatively flat from 2003–2011, then increasing rapidly from 2011–2017—at times exceeding the value of new loans to owner occupiers and driving the housing market (Hulse, Martin et al. 2018). The period from 2011 was also associated with the growth of interest-only loans for residential investment purposes, with more than 60 per cent of loan approvals to investor landlords in 2011–2016 being interest-only loans rather than conventional
loans requiring repayment of principal and interest. Most of this lending continued to be for established rather than new dwellings, although there was some increase in the latter during the 2011–2017 rental investment ‘boom’.

3.2 Opportunities and challenges associated with trends in PRS financing and provision

The rest of this chapter distils evidence across the three research projects conducted for this Inquiry, both in respect of the Australian PRS (Hulse, Martin et al. 2018; Parkinson, James et al. 2018) and the learning from comparative research of 10 countries including Australia (Martin, Hulse et al. 2018). It considers the research findings in the context of some key policy issues about PRS provision and financing which are important to the future of the PRS in Australia.

3.2.1 Will small scale investor landlords still be the predominant providers of PRS housing in Australia?

The comparative research for the Inquiry found that 9 of the 10 countries (including Australia) depend on households providing PRS accommodation, even where there are also other types of provision such as large scale corporate landlords. The only exception is Sweden, where housing companies (both privately owned and municipal) provide most PRS housing (Martin, Hulse et al. 2018). As discussed in Chapter 2, Australia is particularly dependent on households providing PRS accommodation to meet the likely continued growth in demand for PRS housing if, as expected, home ownership and social housing rates continue to fall.

Household supplying PRS housing in Australia are typically characterised as ‘mum and dad investors’ in policy and media debates. Research conducted for the Inquiry using household survey data7 confirmed previous research in that the typical investor landlord is an owner occupier, at midlife, in a household with two incomes (39% are couples with children—literally ‘mums and dads’) and most (72%) own one rental property, a proportion that seems to have been relatively stable since the mid-2000s (Hulse, Martin et al. 2018: 2.3). The research found that although households in all income quintiles own PRS properties, six in 10 investor landlords (59%) of those receiving rental income were in the highest income quintile and highest wealth quintile in 2013–14 (Hulse, Martin et al. 2018: Table 4). A separate AHURI research project shows how the benefits of current housing tax settings, particularly in relation to negative gearing and capital gains, are heavily skewed to the most affluent households (Duncan, Hodgson et al. 2018: 36).

There are some indications of gradual change in the profile of investor landlords discernible from currently available data. For example, one in eight households who own rental property themselves rent in the PRS, indicating some disentangling of decisions about investment from decisions about where to live. These have been identified in the literature as renter-owners (Hulse and McPherson 2014) but are known in the sector as ‘rentvestors’, reflecting a shift from incidental landlordism (for example, as a consequence of relocating for work or other personal reasons) to more purposive investment strategies.8 This shift is further indicated by industry surveys reporting a significant rise in first time buyers (up to 40%) buying as landlords (North 2017: 10).

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6 Reserve Bank of Australia (RBA) 2017a Financial Stability Review, April 2017a; 2: Household and Business Finances, https://www.rba.gov.au/publications/fsr/2017/apr/household-business-finances.html
7 The ABS Survey of Income and Housing 2013–14.
8 Indicating the commercial significance of this emerging market segment, the term ‘rentvestor’ is a registered trademark of the real estate franchise organisation LJ Hooker.
Thinking about the future of the PRS from the perspective of institutional change prompted the Inquiry to look at this in a different way. We asked who owns the housing that constitutes the sector; potentially an important issue from the perspective of tenants.

Viewed in this way, the percentage of all PRS properties that are owned by multiple property owners appears to have increased (RBA 2017b: 27 and Box B). This is potentially important as original research conducted for the Inquiry (using HILDA) found that those who own more than one rental property differ from those who own only one, particularly in respect of higher household income and wealth (Hulse, Martin et al. 2018: Tables 3 and 4).

It is also important to note that the conventional depiction of the PRS based on household surveys excludes PRS properties held by businesses of various types and in other legal structures such as trusts, self-managed superannuation funds and managed property trusts, nor do they include PRS properties owned by foreign residents. Although Australian households provide the majority of PRS housing, those interviewed for the Inquiry indicated an increase in these other types of ownership arrangements, which are more likely to view rental property ownership as a purely financial investment.

### 3.2.2 Are investor landlords becoming more strategic in PRS financing and provision?

Research conducted for the Inquiry, based on interviews with industry participants, identified a wider range of investor landlords ranging from incidental investors to high net worth individuals using property to build wealth, as shown in Table 4. Although there is still a conservative element of owners wanting the safety of ‘bricks and mortar’ which they are familiar with, interviews with industry participants pointed to an increase in what we have called more strategic investment to build wealth. These include young professionals, developer-referred investors, redevelopment investors and high net worth individuals/families.

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9 The Reserve Bank (2017b: 27) suggests that about half of all PRS properties are owned by investor landlords with multiple properties. However, this is based on individual tax data and appears to refer to an ‘interest in a property’ rather than the number of properties.
Table 4: Types of investor landlords identified in the research

| Type of investors                        | Comment                                                                                                                                 |
|------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|
| ‘Incidental’ investors                   | Lived in the property but decided to move. Advised not to sell but to retain and rent out. Sometimes property inheritance.               |
| Family-centred investors                 | Bought property for their children to study. Retained and rent out as security for their retirement.                                     |
| First time investors living at home      | Younger investors still living in the family home but buying properties, often with family support, which they rent out to help offset mortgage expenses. |
| Renter-owners (often called ‘rentvestors’) | Renting their own accommodation while owning other property which they rent out.                                                           |
| SMSFs                                    | Focused on retirement and aware of tax advantages of SMSFs. Generally conservative—prefer one property type or one area.              |
| Young professionals                      | Owner occupiers often on two incomes. Looking to build wealth and aware of rental yields.                                                |
| Developer-referred investors             | Referred to real estate agents for ongoing management as part of apartment sales or ongoing management part of the sales package.     |
| Foreign investors                        | Some overlap with domestic family-centred investors but also plans for migration in the longer term as well as perceived safety of a property asset in Australia. New properties only and affected by Foreign Investment Review Board (FIRB) rule changes. |
| Redevelopment investors                  | Buying properties to rent out in the short term with a view to demolition and development at greater density in the medium term.        |
| High net worth individuals/families      | Investing in property as a wealth-building strategy but typically using legal structures including trusts and managed investment funds. |

Source: Derived from analysis of interviews with real estate agents, self-managing landlords, wealth and property advisors and buyer’s agents.

The Inquiry identified two major factors which have supported more strategic investment in properties for rental:

- **Rapid development and uptake of digital technology** in the residential property sector. Prospective investor landlords can easily obtain detailed and comparable data about property price trends, rental yields and other housing market data across a wide variety of areas through two major online property portals (Domain.com.au and realestate.com.au); other specialist property portals; and a wide variety of websites and online property investor tools and calculators.

- **Significant growth in the number and type of intermediary organisations** who offer advice, information and other services on investing in residential property. These range from boutique agencies that focus on particular property types and specific geographic areas, such as such as inner city apartments, to large investor advisory structures which offer advice on financial planning, mortgage broking, and property market research intelligence. Some new business models have developed such as fully integrated businesses offering
advice to clients on all aspects of rental property including strategy, financing, purchase/acquisition and ongoing management.

Incremental institutional change can be seen in some quite significant changes in social practices over time. For example, digital technology and information/advice from intermediary organisations have led to an increase in what some of the interviewees called ‘borderless investment’, whereby the investor landlord can strategically buy property in other markets. These include Sydney and Melbourne-based investor landlords buying in areas that are considered to be undervalued such as middle/outer suburbs, regional centres, and other capital cities such as Adelaide and Hobart.

There are signs of change too in social norms, with more PRS owners seeing themselves as investors rather than landlords, manifest in both the language used (being a ‘rental investor’ rather than a landlord) and more deliberate strategies to purchase property for rental (rather than incidental ownership through inheritance or renting out a property which was their former home). There are prospective benefits and risks to private renters from these changes: such owners are less likely to terminate the tenancy because they want to live there themselves or house a family member but they are more likely to set rents to achieve maximum returns.

3.2.3 What are the implications of debt-financing PRS properties?

The learning from overseas is that finance settings have driven rapid change in PRS institutions rather than conventional housing policy objectives, particularly in countries that experienced a housing crash after the GFC (Martin, Hulse et al. 2018). This is the case in Australia where data on lending to investor landlords discussed earlier in this chapter provide clear evidence of the rise of debt-financed PRS investor landlords, with a high rate of interest-only loans. This trend has been discussed predominantly in terms of whether this type of lending is a potential threat to the stability of the financial system, particularly in view of the high rate of housing-related debt held by Australian households relative to the other countries in the comparative research (Martin, Hulse et al. 2018). Original research conducted for the Inquiry, however, found that investor landlords have an estimated two-thirds of their assets in property, but their debt-to-asset value appears quite conservative in most cases (Hulse, Martin et al. 2018: Table 5).

Concern about financial stability has been seen predominantly as an issue of regulation (formal rules) with the policy lever of choice being macro-prudential regulation, as in the other nine countries in the comparative research (Martin, Hulse et al. 2018). The most recent data from the regulator (APRA) indicate that this approach has curtailed the increase in lending for investment and decreased the percentage of new loans which are interest-only loans10. Industry participants interviewed during the Inquiry’s research pointed out that such controls, along with new rules about foreign investment, had significantly affected pre-sales and sales in the apartment sector. There was also some cynicism that this type of regulation produced mainly short term effects, since other factors were important to investor landlords including low interest rates (‘cheap money’), expectations about capital gains, and taxation regimes.

There are clear signs of institutional change in the growth in intermediaries involved in arranging finance for investor landlords: mortgage referrers, mortgage brokers and mortgage aggregators. A recent review of remuneration arrangement between these industry participants by the Australian Securities and Investment Commission (ASIC) found that loans through brokers are

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10 See Wayne Byres, Chairman Australian Prudential Regulation Authority, Remarks at A50 Australian Economic Forum, Sydney, 3 February 2018, [http://www.apra.gov.au/Speeches/Documents/Remarks%20for%20Regulators%20Panel%20-%20March%202018.pdf](http://www.apra.gov.au/Speeches/Documents/Remarks%20for%20Regulators%20Panel%20-%20March%202018.pdf) and also Michele Bullock, Assistant Governor RBA, Household Indebtedness and Mortgage Stress, Speech to the Responsible Lending and Borrowing Summit, 20 February 2018, [https://www.rba.gov.au/speeches/2018/sp-ag-2018-02-20.html](https://www.rba.gov.au/speeches/2018/sp-ag-2018-02-20.html).
on average larger and have a higher Loan-to-Valuation Ratio (LVR) than loans provided directly through lenders (ASIC 2017: 10); and brokers arrange more interest-only loans (ASIC 2017: 14). Interviews conducted for the Inquiry indicated that the widespread use of mortgage brokers had changed the matching between borrowers and lenders. Mortgage brokers assess the risk profile of investors and know which institutions to direct people to (Hulse, Martin et al. 2018). This was considered to have the effect of concentration of borrowers with particular risk profiles in particular institutions.

Not everyone agreed that mortgage brokers, despite their ubiquity, were that influential. Another view was that many investor landlords preferred to do their own research on financing rather than have a broker do this for them. They are assisted in this by a burgeoning of information online and through mechanisms such as property investment blogs.

The extent of debt-financing of PRS properties indicates gradual changes in social norms. Industry interviewees reported a change in sentiment about housing as prices increased, particularly in capital cities, and households realised that banks will lend against their increased equity in their homes. The implication is that older social norms about buying a house, living in it and paying off the mortgage are gradually being replaced by new norms about using equity to buy further properties for rental.

### 3.2.4 What scope is there for large corporate landlords providing PRS housing in the future?

The comparative research conducted for the Inquiry indicated that although in all 10 countries, household level PRS provision predominated, most countries also have some large corporate landlords (LCLs) and a few have recently seen rapid growth in very large new LCLs, e.g. the US (Martin, Hulse et al. 2018). In most countries, corporate landlords are active in niches of the PRS, particularly student housing. The development of the student sector centres on revenue streams and yields in a low interest rate environment where yields on alternative assets have come down (JLL 2016: 25). The model works because the units are smaller, with higher density, than the typical inner city units. With development margins absorbed by the operator and reliable revenue due to high occupancy rates and additional service charges, student housing can generate much better returns than typical inner city developments.

The student housing market provides an example of provision of furnished accommodation with access to utilities and facilities including Internet. The buildings are all rental and not strata titled which means that individual units cannot be sold off separately, providing opportunities for professional building management. Student housing has relatively high rents—typically A$1,200 per month for a room and A$1,600 per month for a studio/apartment (Savills 2017: 14).

The comparative research identified LCLs operating in the mainstream PRS in most of the 10 countries. Examples of LCLs in selected countries are given in Box 1.

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11 Treatment of these complexes varies in state planning systems, for example, in NSW they are developed as ‘new generation boarding houses’ which permit greater density.
Box 1: Examples of large corporate landlords in the PRS: selected countries

In the US ‘multi-family’ or apartment sector, the largest 10 multi-family landlords (real estate companies) currently own 691,000 units (about 2% of all multi-family units) and the largest 50 own almost two million units (5.5%). These LCLs have been joined by new entrants that rapidly acquired large holdings of single-family properties in the wake of the GFC.

In the UK, the largest PRS landlord is Grainger plc, a 100-year-old for-profit housing company that has lately stepped up acquisitions, development and fundraising. For some years the UK Government has sought to encourage the growth of institutional landlords, particularly as a ‘Build to Rent’ sector capable of developing newly constructed rental housing. Most Build to Rent activity to date has come from the non-profit housing association sector and council-owned companies, though new for-profit players are emerging (e.g. the PRS REIT plc).

Germany has a few very large landlords. The nine largest publicly listed housing corporations own a total of 890,000 units (3.8% of all rental dwellings). One of them, Vonovia, is now the largest private sector landlord in the world (333,000 dwellings). This sector grew from the privatisation of municipal housing and industry-related housing around 2000.

Sweden has a substantial sector of privately owned housing companies operating alongside municipal housing companies. The 20 largest own a total of 236,000 units (13% of all rental housing); the four largest own and manage a total of 100,000 units (5%).

Source: Martin, Hulse et al. (2018: 65-67).

Where they are a significant presence, LCLs do not always build a lot of new rental housing. This is particularly so in Germany, the US and Ireland, where LCLs have recently been active mostly in acquiring existing properties and managing their portfolios through renovations, modifications and sales. The LCLs have been active also in mergers and, especially in the US, in devising new financial instruments based on rental revenues. LCLs are often controversial and there is evidence of conflictual relations with tenants, particularly in Germany and the US. For example, tenant groups in Germany report conflict around repairs and renovations, and the use of energy efficiency modifications to increase rents out of line with regulations (Martin, Hulse et al. 2018: Appendix 1). In the US, the new class of single-family rental LCLs is associated with the foreclosure crisis, and there is some evidence that they more readily terminate tenancies than other landlords (Martin, Hulse et al. 2018: 67).

Australia’s largest mainstream rental housing landlord is the developer Meriton, with a portfolio of about 3,000 rental properties in strata-titled buildings developed by the company. Other international and Australian property companies are seeking to develop a more purposive ‘multi-family’ (US term) or ‘Build to Rent’ (UK term) sector in Australia. Both these terms denote businesses that develop or acquire portfolios of rental dwellings specifically for that purpose, and retain them as rental housing for a long term (i.e. ‘Build to Rent’ rather than ‘build to sell’). There was a high level of interest about these proposals among interviewees involved in finance and development, and over the course of the research there was an appreciable increase in promotion of the concept in property sector forums and events.

At the time of writing, actual developments are few—the Property Council recently indicated that it is aware of 23 Build to Rent projects in development—and there is a sense that barriers in the market and policy settings remain, but are decreasing. The main barrier historically has been the low yields in residential relative to commercial property, which individual residential purchasers have borne through preferential tax treatment, but this gap has narrowed as

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12 Ken Morrison, presentation to Property NSW Build to Rent preview event, Sydney, 21 March 2018.
commercial yields have declined. Development finance is still based on build to sell, and property sector stakeholders indicate that local financial institutions are wary of departing from that model—though overseas funds are more willing and are establishing relations with Australian developers in the niche sectors and overseas ventures. There is a wariness amongst developers too, with suggestions that some will want to have a bet each way and develop strata projects with the prospect of sale, though this may mean the efficiencies by which the yield gap is overcome are less likely to be achieved. In policy, barriers include the progressive structure of land tax, which continues to preference small holders and hence contributes to the yield gap, and uncertainty about the availability of real estate investment trusts (REITs) as an investment vehicle.

The New South Wales and Victorian governments are currently developing policy options with a view to encouraging the sector. It appears that concessions around land tax, planning system bonuses and access to government land are being considered—all of which have previously been discussed as ways of encouraging institutional investment in affordable rental housing. There is a risk that the policy instruments that might support the nascent affordable housing industry will be diverted to the for-profit development of high end Build to Rent products. Meanwhile, the Australian Government has also proposed reforms relating to its Managed Investment Trust (MIT) regime, which encompasses REITs; as discussed below, these further complicate the connection with affordable housing policy.

3.2.5 What other innovations in PRS financing and provision could contribute to the PRS of the future?

Other models for PRS financing identified in the comparative research include publicly listed real estate investment trusts\(^\text{13}\) (REITs). Eight of the ten countries studied have recently introduced or reformed their tax regimes to provide for REITs, which are emerging as a significant vehicle for PRS investment. REITs enable the assembly of larger portfolios of residential property, and are required to distribute to investors a high proportion of their revenues, which are subject to little or no taxation at the level of the REIT (the rationale being that rents are passive returns, with the REIT serving as little more than a vehicle through which they pass to investors). Proponents for REITs having a greater role in PRS investment put forward a number of advantages: by purchasing at scale or commissioning projects, REITs may reduce risk for developers; while for individual investors, ownership of REIT units would diversify their holdings (Newell, Lee et al. 2015).

In Australia, REITs have long been used in the commercial property sector, but not in the residential sector (Newell, Lee et al. 2015). Interest in their application to residential investment is rising—particularly in connection the emerging Build to Rent sector—but the legality of this under Australia’s MIT regime is uncertain. According to the Australian Treasury, the ‘conventional view’ is that the main purpose of investment in ‘residential premises’ is the receipt of capital gains, not rents, and this implies a level of activity (in trading properties) that is inconsistent with the passive, pass-through character of a MIT (Australian Treasury 2017: 26). (On the other hand, investment in ‘commercial residential premises’, such as hotels, student accommodation and boarding houses, is directed to rents, so may be conducted through a MIT.) To clarify the situation, the Australian Government in 2017 proposed legislation that would expressly disallow MITs from investing in residential premises, except where the premises are used for ‘affordable rental housing’; furthermore, such investment would be encouraged by related provisions for a capital gains tax discount on affordable rental housing. Following criticism by property sector representatives of the restrictive aspect of the legislation, the

\(^{13}\) Known in Australia before 2008 as listed property trusts, REITS are one type of the larger category of Managed Investment Trusts (MITs).
government introduced in February 2018 a Bill for the capital gains tax discount and other housing measures, but not the proposed provisions regarding MITs—so the ‘significant uncertainty’ identified by the government persists. It remains to be seen whether the government will legislate to restrict MITs to affordable rental housing investment, or legislate to allow wider use of MITs in residential investment—or if the ‘conventional view’ might be changed or worked around non-legislatively by Australian Tax Office rulings.

Arguably, a more comprehensive review is warranted. The associations of investment in ‘residential premises’ with capital gains and hence with activity, and of ‘commercial residential premises’ with rents and hence with passivity, are not clear cut. In practice, it is the revenue-focused investors in commercial residential premises who are more ‘active’ in terms of their provision of housing and other services. The proposed restriction of MITs to affordable housing also presents difficulties. The requirement that MITs distribute revenues does not sit easily with the objective of affordable housing providers to grow their portfolios through the accumulation of surpluses. Furthermore, the proposed incentive of a capital gains tax discount does not appear to fit well with the identified need for a recurrent subsidy for affordable housing provision. A clearer realignment of policy settings might see MITs allowed in residential investment generally, and a suite of other purpose-made incentives, such as access to inclusionary zoning, government land and operating subsidies, reserved strictly to not-for-profit affordable housing providers.

Another innovation, albeit at an early stage, is ‘fractional investment’, investment in part of a housing asset/s rather than the whole. Most of those interviewed for the project were aware of two fractional investment companies using digital technology: BRICKX and DomaCom. Attitudes to fractional investment among industry participants in the Inquiry’s research ranged from broad interest to scepticism to opposition to the idea (Hulse, Martin et al. 2018).

New business models are being developed outside of the ‘mainstream’ PRS, adding to previous marginal housing types such as rooming/boarding houses and residential caravan parks, which often have specific regulation (formal rules). The new business models constitute an informal PRS sector which includes sharing arrangements and the development of the ‘rent by room’ sector, facilitated through digital technology platforms (Parkinson, James et al. 2018). These new business models are financed by individuals or companies based on rental yields and maximum occupancy. Some are posing problems for local government in terms of issues such as change of use, maximum occupancy, and neighbour issues with some cross over with new global models such as Airbnb (Hulse, Martin et al. 2018).

Finally, a ‘supported housing’ sector is growing slowly with financial support from governments to not-for-profit (NFP) agencies. This sector includes schemes to assist with access into PRS properties such as rental brokerage schemes as well as tenancy sustainment (Parkinson, James et al. 2018). Some of the properties are in the PRS (i.e. private owners) but managed by NFP agencies as part of their tenancy support. Others are owned and managed within the PRS but a NFP agency provides support with access and management (Parkinson, James et al. 2018). These types of innovations have been difficult to scale up (Stone, Sharam et al. 2015; Tually, Slatter et al. 2016). There is also evidence of ‘fuzziness’ or blurring between housing tenures. Examples include NFP housing providers holding real estate licences and managing properties let at market rents, and PRS dwellings let to clients of NFP housing providers or homelessness services as a result of rental brokerage schemes (Parkinson, James et al. 2018).
3.3 Policy development implications: provision and financing

The provision and financing of PRS housing in the future is unlikely to be simply more of the same. The PRS will be affected by changes in the global and Australian financial systems, including the availability and cost of finance, but also incremental institutional change affecting the PRS including changes to regulation, new types of intermediaries and development/uptake of new and emerging digital technology platforms. Policy development is required on:

- Developing a more comprehensive picture of the ownership of dwellings in the PRS (rather than investor landlords) with consideration of implications for private renters of different ownership types.
- Considering the opportunities and challenges associated with large scale landlords moving into the PRS, including learning from the niche student housing sector, and outlining the housing policy objectives for any government support for large scale landlords and what outcomes are expected.
- Outlining the potential niche for LCLs, given already agreed government support for an affordable housing sector provided by the NFP housing providers (through NHRIC); are LCLs an alternative or competing model or can they be viewed as complementary?
- Identifying the opportunities and challenges associated with syndicated financing mechanisms for the PRS including REITs and fractional investment.
- Assessing the growth of the informal PRS as it involves new business models targeted at low-income and vulnerable Australians, e.g. the proliferation of the ‘rent by room’ sector.
- Developing more integrated policy for lower income and vulnerable households in the supported PRS sector, including housing assistance and ongoing support services where required as well as mediation between investor owners/real estate agents and tenants.
4 Transformation and innovation in the Australian PRS: access and management

- There is increasing fragmentation in the ways in which private renters access the PRS and in how tenancies are managed across different segments.

- The PRS is no longer a stepping stone on the way to home ownership; private renters will remain in the sector for longer periods and many low-income and vulnerable households will need ongoing support to remain in their tenancies over extended periods of time.

- Intermediary roles are becoming more specialised in facilitating tenancy access and management across formal, niche, informal and supported segments of the PRS.

- The emergence of IT platforms for search, matching, allocation and ratings, along with new business models, are key drivers of market specialisation of products and services across PRS segments.

- Within the formal sector there is also a move towards more centralised online access and management.

- This trajectory towards fragmentation and specialisation on the one hand and centralised access and management on the other has potentially wide ranging implications in terms of increased efficiencies but it comes at the cost of entrenching and creating new inequalities.

- Expanding the capacity of the community sector as a specialised institutional intermediary is vital in redressing widening inequalities.

4.1 Existing research on Australian PRS access and management

Existing reviews of tenancy access and management, particularly from the perspective of low-income renters, have focused on affordability barriers, arrears, evictions and sustaining tenancies (Beer, Slatter et al. 2006; Stone, Sharam et al. 2015; Stone, Parkinson et al. 2016) and the provision of and effectiveness of small scale private rental brokerage and head leasing programs in responding to these issues (Jacobs, Natalier et al. 2005; Jacobs, Seelig et al. 2005; Parkinson 2015; Tually, Slatter et al. 2016; Parkinson and Parsell 2018). Other research has revealed the long term persistence of discrimination and tenancy management practices among landlords and agents that adversely impact upon the maintenance of tenancy standards and rights to secure occupancy (Short, Minnery et al. 2006; Short, Seelig et al. 2008; Hulse, Milligan et al. 2011; Nelson, MacDonald et al. 2015; MacDonald, Nelson et al. 2016).

Recent emphasis has been directed towards understanding new adaptive ways of living in the PRS as a consequence of widening intergenerational inequalities leading to long term renting and the fragmentation of housing opportunities (Easthope 2014; Hulse and Yates 2017) and the need for rental dwellings to be environmentally sustainable (Wrigley and Crawford 2017). However, there has been limited focus on the expansion and role of new intermediaries and IT
platforms in transforming PRS tenancy access and management within this adaptive change literature. In this chapter, we outline the key themes across Inquiry reports on sector innovation in access and management and the ensuing implications for balancing competing policy aims of efficiency, equity and effectiveness in designing and responding to the PRS of the future.

4.2 Opportunities and challenges associated with trends in PRS access and management

Access to, and management of, PRS housing is an area of rapid, albeit uneven change, due to developments in, and rapid uptake of, digital technology; the associated development of intermediaries with new business models; and consolidation and a drive for efficiencies in the real estate management sector. This chapter provides an overview of these changes, with a particular emphasis on the implications for low-income and vulnerable individuals and households. We suggest that even though the Australian PRS is highly integrated with the owner-occupied sector, the experiences and trajectories of individuals and households within the PRS sharply differ depending on how their tenancies are accessed and managed. Rather than a single market for renters, our findings point to a PRS that is becoming more differentiated or ‘fragmented’ as it adapts to the needs and growth opportunities among distinct sub groups of renters.

4.2.1 Is a fragmented PRS the ‘new normal’?

Based on the findings of two of the research projects for the Inquiry (Hulse, Martin et al. 2018; Parkinson, James et al. 2018), it is clear that the continuum model on which housing assistance policy is based (see Chapter 1 Figure 2) is unravelling for significant groups, especially for those whose incomes remain low over time and for those who have entered into the PRS at a time of unprecedented house price growth.

The Inquiry research has identified how slow burning national, as well as international, social, demographic and market changes now coexist alongside more rapid technological disruptions that will continue to fragment household access and tenancy management within the PRS. It is clear that the sector is transforming in response to both market and institutional failure. Growing fragmentation is evident in the myriad of entry points that now exist particularly through the expansion of IT platforms and from the types of providers offering dwellings and rooms for rent as well as the changing characteristics and expectations of renters and investor landlords across formal, informal and supported segments of the PRS. Fragmentation is also evident in the uneven growth in house prices and rents that have reshaped unequal housing opportunities across our cities, regions and towns and between those with access to housing wealth and income from rental investment and those without (Parkinson, James et al. 2018; Hulse, Martin et al. 2018).

Emergent practices can be seen as adaptations to declining affordability in the home purchase market, such as ‘rentvesting’ and ‘live at home investing’, that blur the distinctions and expectations between renters and owners. These factors will continue to reshape new ways of purchasing, investing and renting practices into the future. Innovation within the community sector is also blurring traditional boundaries between the private market and social rental.

Further, the integration of the PRS within the wider housing sector in Australia (discussed in Chapter 2) means that distinctions between a rental property and one that is owner occupied have become less marked: the use of the dwelling might oscillate from an Airbnb at Christmas, long term rental throughout the year, and be owner occupied the following year. The prospect of providers letting dwellings and rooms intermittently rather than keeping them in the pool of rental stock has implications for the availability of long term tenure options and more careful
selection of tenants. The PRS is also adapting in response to changing household forms including the increased necessity for singles to share, particularly within the room rental segment. In this context, the percentage of one person households living alone in the PRS decreased from 27.6 per cent in 2006 to 24.4 per cent in 2016 (Hulse, Martin et al. 2018: 43, Figure 7).

4.2.2 What are the implications of increasing specialisation within PRS institutions?

A core finding of the Inquiry projects (Hulse, Martin et al. 2018 and Parkinson, James et al. 2018) is that growing fragmentation in PRS institutions increases the tendency towards the specialisation of intermediary roles and products on the one hand and the growth in informality on the other. What emerges from fragmentation in both demand and supply is a multi-tiered system for access and management that is increasingly directing different groups into different rental opportunities and living conditions across formal, niche, informal and supported segments of the PRS. The PRS now caters for an expanding profile of investor landlords, including those living overseas, different age groups, reasons for investing or in different locations some with multi-property portfolios that require monitoring and tenancy management of short through to longer-term rentals. Research for the Inquiry (Hulse, Martin et al. 2018 and Parkinson, James et al. 2018) found that the entry and growth of different groups of housing providers is directing practices towards more specialised or boutique intermediaries for tenancy access and management in addition to real estate agents and self-managing landlords. These include:

- Student housing providers such Campus Living Villages, Urbanest, Scape and Iglu as well as student housing specialist managers such as UniLodge
- Operators and managers of ‘new generation boarding houses’ (NSW)
- Developers retaining and managing rental housing (currently limited)
- Operators and managers of informal PRS arrangements such as the ‘rent by room’ sector
- Community agencies working with provider/estate agents to develop a supported housing response to lower income and vulnerable households.

The last of these examples is particularly important for low-income and vulnerable individuals and households. Community agencies are entering the lower end of the PRS in an attempt to secure access and specialised management for their clients. However, due to the small scale nature of program innovation, the sector faces ongoing challenges in attempting to make the market operate like a ‘non market’ or ‘hybrid’ that provides greater opportunities for low-income and vulnerable households and addresses discrimination in the ways that tenancies are accessed and managed.

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14 A separate AHURI Inquiry into the potential of new technologies to disrupt housing policy (AHURI 71150) is examining this aspect further https://www.ahuri.edu.au/research/research-in-progress/evidence-based-policy-inquiry-71150.

15 Specialisation, first coined by Adam Smith (1776) in ‘Wealth of Nations’ refers to the process of dividing labour and production processes into smaller parts based on repetition and creation of distinct market segments. Specialisation generates increased efficiencies by reducing production costs. Within a marketing approach specialisation is used to grow firm competitiveness through the deliberate targeting of products and services to niche segments or audiences (e.g. Kjell and Trond (2010))
4.2.3 What innovations in digital technology are reshaping PRS access and management?

Development and uptake of digital technology is increasingly reshaping access to PRS housing as well as having implications for ongoing management. IT platforms are now central to providing access to the PRS across formal, informal and supported segments, including shared housing and the rent by room sector. Technological innovation is allowing both professional intermediaries, self-managing and sub-letting landlords to reach and communicate with each other with unprecedented reach in the search, matching, application and allocation processes of tenancies. Platforms can be shared, accessed and advertised across all types of providers in a coordinated approach to filling their vacancies. Examples include: major general online property portals (Domain.com.au and realestate.com.au), specialist rental portals (e.g. rent.com.au); sharing platforms (e.g. flatmates.com.au; Gumtree) and social media as well as specific sites and applications for niche markets such as student housing.

The pace of technological innovation in access and management of the PRS brings increased efficiencies for both rental housing providers and renter households and has the potential to redress information asymmetries in favour of more empowered consumption choices. This capacity is likely to be further developed as more direct online matching and systems for rental rankings flow into the mainstream in a similar manner to other products and services traded online.

Within the informal segment there are now highly organised networks facilitated via social media networks that allow landlords and sub landlords to be targeted in their reach i.e. among culturally specific groups and community managed real estate such as Fairy Floss (see Box 2). However, the benefit of greater access to information gives rise to more opportunities for misinformation and fraudulent and rogue practices that have expanded reach, including accessing overseas and more vulnerable markets such as international students.

Box 2: Fairy Floss Real Estate

Fairy Floss Real Estate is a not-for-profit Facebook shared housing network established by PhD student Fabian Kong in response to the difficulties in locating and accessing rental housing in Melbourne. The social media platform provides a way for prospective and existing tenants and providers to post messages and upload rooms or dwellings to rent to other members on a short term through to longer term basis. Fairy Floss is largely self-governed and new membership monitored by the site’s originator. The network is rapidly growing and at the time of writing boasted an online membership of 146,000 individuals.16

16 Source: Denham Sadler, 23 January 2017, https://www.domain.com.au/news/
The mainstream PRS sector faces continued pressure to innovate its systems and replace increasingly archaic and uncompetitive models of access and management beyond more simplistic search functions. Fringe development or start-ups continue to explore avenues for replacing traditional models of person based intermediaries or ‘cutting out the middleman’ with more direct peer to peer or matching models similar to Airbnb. Further advances have come in outsourcing more mundane practices of PRS management via IT virtual assistants and financial administration. In the interim, it is likely that both rental housing providers and tenants will have a preference for maintaining a direct property manager while other early adopters will move towards a preference for peer to peer matching for all rental services that removes the role of an intermediary agent. There are indications that this split is already occurring across income groups, with boutique real estate agencies in higher income areas offering a range of services, but is most noted by those who are accessing the more informal room rental segment of the PRS.

Whether access and management is mediated online or via real estate agents, it is clear that both will likely continue to develop more sophisticated and intrusive means to respond to perceived risk of tenancies in a manner that reinforces and could well exacerbate covert and overt discrimination in the selection of prospective tenants. The privacy implications stemming from the collecting and retaining of personal data in accessing and managing tenancies will not only extend to those on Residential Tenancies Databases (RTDs) (or blacklists), but will continue to classify renters as more or less ‘desirable’ according to their whole online rental record, profile and resumes. This big data collection is not just a vehicle for facilitating access but is also enabling property management through the creation of social hierarchies for rankings. This raises not only critical privacy concerns, but issues with equity of access that will continue to disadvantage those who find that they are less able to compete according to the construction of their online profile or identity.

4.2.4 Will efficiency gains in matching people and properties risk greater inequity?

Despite some of the potential efficiency gains discussed above, more sophisticated search and matching processes do not guarantee access in locations where vacancy rates remain low, rents unaffordable and competition high. The growth of rental investment as a vehicle for wealth creation and income generation has increased the overall stock of and attractiveness of rental properties and rooms available to be rented on a short through to long term basis, notwithstanding an increase in vacant dwellings. This has opened up more options for providers as the market continually moves to diversify through the tailoring of new and innovative products to niche segments. However, there is clear evidence that rental property investment and provision is biased toward moderate rentals with limited and insufficient dwellings supplied at the low rent end (Wulff, Reynolds et al. 2011; Hulse, Reynolds et al. 2015). Recent discussions on the oversupply of dwellings, particularly in the apartment market, obscure the significant challenges that lie ahead in ensuring access to the PRS for all, particularly those with persistently low incomes and families attempting to maintain a secure home for their children.

It is foreseeable that the specialisation of the PRS will increasingly place moderate and especially higher income renters in a more advantaged position as landlords seek to develop niche products and vie for their longer term patronage. In such a market environment moderate to higher income renters have greater capacity to participate more competitively, including using online rent bidding applications to secure the dwelling. For low-income renters this specialisation of the PRS was found to be exacerbating difficulties of gaining entry into the formal or mainstream sector by increasing discrimination in the selection process, leading to more invasive and judgemental monitoring of tenancies and directing tenants to poorest quality dwellings (Parkinson, James et al. 2018).
Research for the Inquiry found that in an increasingly fragmented PRS it is not just low household income that matters but how individual earning potential combines with that of others in the household (Parkinson, James et al. 2018). Increasingly those most vulnerable in their rental over time are individuals that have limited opportunities to earn and progress through an employment career and whose household members also share this fate. The research found that although low-income renters least prefer to move, typically reflecting the potential relocation costs, in fragmented markets they are increasingly forced to move as dwellings and rooms are turned over at a more rapid pace (Parkinson, James et al. 2018: 50). Among those with persistently low incomes over time, demand for long term supported private rental will undoubtedly continue into the future as the stock of affordable social housing fails to meet even the most select needs. At the low end of the PRS, it is envisaged that the informal segment, particularly room rentals, will continue to flourish as existing market provision allied with current regulatory and policy institutional responses fail to adequately facilitate timely access into the formal sector for those on the lowest incomes.

4.2.5 Can the informal room segment adequately respond to the shortfall in affordable rental supply?

Significant numbers of low-income renters, particularly those with incomes in the lowest 20 per cent of income distribution, are excluded or find it difficult to enter into formal rentals, and the informal room rental or privately managed segment is increasingly expanding to fill the gap (Parkinson, James et al. 2018). Renting by the room in shared living arrangements can occur on a formal basis when everyone in the household is listed on a lease that is typically managed via a real estate agent. Alternatively, individuals can enter into room rental arrangements informally, where they are not listed on a lease and have limited to no security to remain in the dwelling, pay their rent and bills cash in hand, and may have limited say in the running of and sharing of the space with other members of the household. The informal room rental sector through the reach of online platforms is continuing to expand the supply chain of more affordable informal rental options to meet some of the shortfall at the low end for those seeking both short and long term rentals. Reliance on family, friends, unrelated persons and strangers for housing solutions is increasingly necessary in the absence of more formal alternatives but remains a short term solution that can lead to minor annoyances through to substantial violations of human rights. Although the informal segment provides a more accessible channel into private rental arrangements for some, rental experiences within this segment remain highly dependent upon individual relationships without proper adherence to tenancy laws where they exist and raises implications for how to address the emergent gaps where regulation is lagging behind.

The absence of affordable dwellings for single persons with Q1 incomes (those in the lowest 20% of income distribution) is likely to increase the flows in and out of homelessness and into less secure renting arrangements. Much of this insecurity remains hidden as individuals attempt to resolve their housing needs via whatever means they can access. Inquiry research (Parkinson, James et al. 2018) found that 40 per cent of Q1 individuals with recent experiences of, or risk of, homelessness paid rent to friends and family at some stage between September 2011 and May 2014 (Figure 8). This compared to 22 per cent of individuals with Q2 individual incomes, who were more likely to either be living in formal rental (31%) or in the supported sector within long term social rental housing (25%).
Research for the Inquiry (Parkinson, James et al. 2018) found that the experience of tenancy management within the informal sector is contingent on the quality of the relationship between sub-landlords, landlords and tenants. Exploitative practices can be difficult to substantiate, with the tenant often being unaware of their rights after entering the tenancy. Emergent practices are regulated through consumer information exchanges that seek to identify and make others aware of the potential signs of ‘rogue traders’. Relying on informal or more chaotic solutions to meeting rental housing needs for low-income renters is neither viable in the long term, nor equitable in enabling similar recourse for minimal standards and security to that of moderate to higher income renters or those who reside in social housing. The significance of this informal sector and its growth has not been systematically researched largely due to the difficulties of enumerating its activity and impact.

### 4.3 Balancing the rights of housing consumers and housing providers

Over the period of this Inquiry, there was a notable uptake in the prominence of issues about tenants’ experiences of renting in the media and in policy discourse—especially regarding the insecurity of housing in the PRS, and dissatisfaction with the quality of service received by tenants as consumers of housing services (Choice, National Shelter and NATO 2017). The theme of tenant dissatisfaction, raised by tenancy and consumer advocates, is also addressed by some of the new and emerging institutional actors in the PRS—Build to Rent, online applications portals and alternative bond providers all pitch their products as responding to tenants’ dissatisfaction with the status quo. Interviews with real estate agents indicated a
perception of rising expectations by tenants, particularly those with higher incomes, exerting pressure on agents and landlords to improve their service.

It is clear, however, the ability of tenants to exercise their power as consumers remains hampered by some basic inequalities: at the point of access, the relative urgency of a tenant’s need for housing over a landlord’s need for a tenant; and during a tenancy, the high cost (financially and emotionally) to a dissatisfied tenant of taking their custom elsewhere. While some new PRS products and services have offered convenience to tenants, landlords and agents, they have also opened up inequalities of access and opportunities for cost-shifting.

4.4 Policy development implications: access and management

- The major driver of improvement of tenants’ experiences in the PRS will continue to be regulation, although the effectiveness of regulatory approaches compared to other policy levers should be reviewed. Increased fragmentation and intermediation of the PRS, and the rise of new business models based on digital technology, presents new challenges for regulators. It is important that there is learning between jurisdictions and nationally, including the option of revisiting national minimum standards of residential tenancies and related legislation for niche segments.

- In the PRS of the future, renters will have varying capacities to navigate existing and emergent intermediaries. Many will continue to move through the sector with little need for additional assistance and the increased options for access will provide an efficient way for them to locate a rental house of their choice. Over time we can expect some improvement in products and services for middle and high income renters who are in a stronger position to bid or bargain for their rights. However, this is not the case for low income renters who will need appropriate and adequate consumer protection.

- Growth, reliance on and channelling of low-income renters into the informal PRS segment with inferior rental conditions and services raises fundamental issues of equity that need more deliberate and targeted policy review and action. Developing equitable and effective pathways out of informal rental arrangements should be a core focus of policy direction. This requires more sustained institutional change within the supported segment of the PRS to enable greater specialisation of community agencies as a core intermediary rather than ad hoc providers of small scale programs.

- Government agencies could play a more proactive role in identifying suitable landlords and the appropriate incentives that will facilitate access and more effective tenancy management at the low end of the sector.
5 Key findings and implications for policy development

Current policy and regulation has often lagged behind institutional change, in particular, new intermediaries and digital technology that is continuing to shape a more diverse and fragmented PRS.

It is important to realise potential efficiency improvements in the PRS while addressing issues of social equity. Major policy issues include:

- Deciding on the housing policy objectives of any support for large corporate landlords in the Australian PRS and whether this segment is complementary to, or competes with, agreed directions to develop a not-for-profit sector.

- Developing and investing in hybrid arrangements that would enable access to, and sustainment of, PRS housing for low-income and vulnerable households.

- Updating regulatory coverage of PRS access and management to take into account new business models and widespread use of digital technology.

- Developing smart regulation which encourages innovation and ensures basic safety and other outcomes for residents.

- Developing a strategy and policy for the PRS which includes finance, taxation, strategy, supply and demand-side subsidies, and regulation, requiring new policy architecture.

Data on PRS dwellings (as opposed to an individual and household focus) is inadequate to assess fully sector changes: more comprehensive data are required to support policy development for the future of the PRS.

The core question addressed in this Inquiry over three interrelated projects was:

*How can emerging trends in the institutions of the private rental sector in Australia and internationally create opportunities for, and present challenges to, improving equity, efficiency and effectiveness outcomes in Australia, including for low-income households?*

In responding to this question the Inquiry team found strong evidence to indicate that the Australian PRS is not only growing but that the institutional elements of financing, provision, access and management across the sector are changing. The PRS is becoming more connected to the global and Australian economies with respect to financing, is increasingly segmented in provision, more fragmented in terms of access and involves different types of management. Overlaying these changes has been an increase in intermediaries involved in the sector and the disruptive effects of digital technology. Many of these changes have the potential to offer greater efficiencies but there are questions about whether they will enable greater effectiveness and, in particular, greater equity between households within and outside of the PRS into the future.

These institutional and market changes have occurred in the absence of major policy or regulatory changes with a continued reliance on three main pillars: i) CRA to help income support and family tax benefit recipients afford private rentals; ii) tax concessions for investor
landlords to encourage PRS supply; and iii) regulation of landlord-tenant relations, the latter having seen minor incremental changes during the 2000s.

This chapter examines some priority areas for policy development in the light of the Inquiry’s overall findings. More detailed policy development options are included in the final reports of the three research projects for the Inquiry (Hulse, Martin et al. 2018; Martin, Hulse et al. 2018; Parkinson, James et al. 2018).

5.1 Improving outcomes for the PRS of the future—challenges for policy development

The PRS of the future will have to provide for diversity: across the life cycle (including older Australians and families with children); for newcomers to Australia (including recent migrants and students); for households with a range of material circumstances (low, middle and high income households) and meeting requirements for short, medium and increasingly longer term housing across a full range of locations. This type of diversity is greater than in other housing tenures. In strengthening future institutions to accommodate a more diverse PRS, policy makers will need to support continued innovation, be flexible and adaptable, while striving to ensure improved consumer protection across varying groups of private renters, to enable all to live healthily and well, make a home and, to the extent that they wish, connect to local community.

The key directions for strengthening PRS institutions into the future are outlined according to the findings within the four key institutional elements of financing, provision, access and management discussed throughout the report. While we discuss these themes separately there will be overlap in policy and practice, with developments in one element often having flow on effects into another.

5.1.1 Financing and provision

A major issue for policy development emerging from the findings of this Inquiry is whether diversification of PRS financing and provision beyond the household sector would produce better outcomes for the PRS in meeting future housing needs. The conventional policy wisdom in Australia is the current system of incentives to individuals/households (rather than institutional investors) works well and provides PRS housing at a range of price points and locations. However, current institutional settings do not enable sufficient supply at the affordable end of the PRS, and there are other adverse outcomes such as churning of properties which affect tenants’ security and quality in the self-managed sector. The learning from our international comparative review is that, although the household sector is dominant in PRS provision in all the countries studied, Australia stands out in its almost total dependence on this sector.

In this context, some specific areas for policy development are:

- Articulating the housing policy objectives for any government support for large scale landlords, including learning from international experience and the growing niche student housing sector in Australia. If this type of support is seen as advantageous to the future of the PRS (e.g. provision for more professional management and longer term tenancies in desirable locations), it is important to set clear targets in terms of intended outcomes and develop smarter monitoring than was evident in the now closed National Rental Affordability Scheme (NRAS) scheme.

- Considering whether agreed government support for an affordable housing sector provided by the not-for-profit housing providers, with access to cheaper funding through the new National Housing Finance and Investment Corporation (NHFIC), will provide sufficient stimulus for non-household financing and provision of PRS housing, particularly at the affordable end of the market, or whether new models of institutional/corporate financing and
provision are desirable. If the latter, are new models complementary to, or in competition with, current policy settings? Are they intended to supply a different product/service to a different segment of the market, or do they involve a market-driven alternative to NFP provision of affordable rental housing?

- Identifying opportunities and challenges associated with syndicated financing mechanisms for the PRS including REITs/managed investment trusts and new online fractional investment companies. Current policy settings prevent managed investment trusts from buying residential property except for affordable housing, but this is increasingly out of step with international practice and there are grounds for reviewing the rationale for this restriction. It may make more sense to reserve other policy measures for the development of the affordable housing. Such a review could consider what opportunities could managed investment trusts and other syndication mechanisms offer to Australian households, including those living in the PRS, and what legislative changes would be required to develop this sector and ensure it delivers intended housing policy objectives.

- Developing hybrid rental arrangements for low-income and vulnerable households which include some combination of private financing and provision with NFP involvement in access and management to improve social equity. The main policy options appear to be i) expanding the social rental sector to provide a different type of management for these tenancies; ii) introducing more social housing type conditions into the bottom end of the PRS, as in Ireland’s and Belgium’s ‘Social Rental Agencies’ or iii) investing in the supported housing sector so that it can play a larger role in providing necessary support to vulnerable households in the PRS.

5.1.2 Access and management

The Inquiry found that access to PRS housing is being transformed as a result of digital technology development and uptake by established and emerging intermediaries, some with new business models. Much of this has outpaced current policy settings and regulatory frameworks. There has been consolidation of management within the mainstream PRS but fragmentation in other parts of the sector.

The institutional changes in access and management identified throughout the Inquiry suggest that the major priorities for policy development now and into the future are:

- Reviewing online access portals and tools to assess not only improvements in efficiency but also implications for social equity. There is scope for regulatory reform on tenant access to data that may be collected or generated at the time of application (e.g. trust scores, ratio of applications to tenancies commenced) raising issues including data accuracy, access, moderation and removal. The development of new business models offering information technology to make specific offers for PRS properties (such as rent bidding) and alternative bond products have raised concerns.

- Developing modern legislation for the PRS of the future to embed a stronger consumer focus, as renters, and long term renters, increase. While there are clear differences in housing markets around the nation, some of the basic principles of regulation can be established and embedded in national minimum standards. Two main elements can be considered which are already in place internationally in countries in which small scale investor landlords provide PRS properties:

17 Queensland has had for some years a prohibition on advertising properties other than at a fixed rent, which restricts rent bidding and Victoria has recently announced that it will outlaw rent bidding.
regulation of rent increases for current tenants, both as a measure that directly improves security and affordability for tenants directly, and as a measure that may restrain the potential for other policy settings—particularly regarding negative gearing and capital gains—to generate housing speculation.

— removing 'no grounds' termination provisions from residential tenancies regulation. Other countries with growing PRSs do not have this provision.

• Developing policy and regulation in respect of the growing informal PRS as this involves new business models targeted mainly at low-income and vulnerable Australians. The informal sector by its very nature is innovative, adaptive and disruptive; these qualities need to be balanced against private renters’ need to access and remain in safe, secure and affordable housing without undue scope for rogue operators who provide substandard accommodation and exploit residents.

— Regulating the informal PRS is complex: it is a diverse sector, and expectations that are commonly held in relation to mainstream housing may not always be realistic or desirable in parts of the informal sector (e.g. the small shared spaces of room share accommodation may be tolerable for a gap year of travel or study). Overly prescriptive approaches to regulation may result in accommodation providers and residents improvising and changing their form of operation, and regulators missing intended targets. An example of this is NSW’s boarding houses legislation, which prescribes for all registrable boarding houses standards conceived of in relation to the traditional boarding house form (a subdivided mansion), but which in reality cannot be met in today’s room share apartment, with the result that the latter are hardly seen as boarding houses. Principles of ‘smart regulation’ (Gillingham and Sinclair 2017) are useful here, emphasising flexibility and scope for variation to suit individual circumstances, and sector stakeholder participation in setting and road-testing standards.

— The ACT’s approach of legislating for ‘occupancy principles’ is an example of smart regulation in the informal sector, setting broad minimum standards that are not too proscriptive, thus leaving some room for parties to come up with terms that suit their circumstances, and providing for the development of more prescriptive standard forms of agreement for different parts of the sector that might be worked up with sector representatives.

5.2 Broader institutional change

It is clear from the collective findings from the three Inquiry projects that change occurring across the institutional elements of the PRS are embedded in and have implications for the organisations and structures that support the Australian housing system more broadly. It is also clear that there will be a need to better understand the changing social norms around renting, investing, and adaptive uses of dwellings and rooms that will continue to shape preferences and aspirations from landlords, sub-landlords and tenants within the PRS into the future. As the PRS evolves and adapts, the need for new ways of measuring, counting and profiling the sector through improved systems of data collection will be critical. The suggested policy directions responding to each of these themes are discussed in turn.

5.2.1 Organisations and structures

The Inquiry’s findings indicate a need for a more robust and comprehensive policy framework for considering the PRS, in particular:

• Careful consideration is required when developing policies to encourage home ownership in that they will also likely encourage investor landlord purchases. The unusual degree of
integration between the Australian PRS and the owner-occupied sector means that both dwellings and households can transfer quickly between these sectors. Policy design should seek to avoid a cycle in which increased demand for residential property leads to further increases in housing prices, deterring prospective home owners and adding to the demand for PRS housing.

- Developing a strategy and policy for the PRS requires consideration of finance, taxation, strategy, supply and demand-side subsidies, and regulation. A key objective should be to promote outcomes for private renters competitive with other housing sectors, particularly in affordability and security, which are worse than in owner occupation and social housing. Developing such a strategy and policy is based on acknowledgement that currently, and in the future, private renting is not a transitional arrangement on the way to owner occupation or social housing for many residents, including most low-income private renters and older renters.

- Addressing some of the inequalities experienced by similar households living in different housing tenures. More than in most countries, Australian households of similar composition and similar incomes differ by their housing tenure. Considering the traditional value and preference given to owner occupation in Australia, this suggests that housing tenure may figure strongly in the subjective experience of inequality. If recent trends of reduced access to owner occupation and longer stays in the PRS continue, policy settings will have to address the implications for greater inequality.

- Establishing policy architecture that can consider these aspects of PRS development across all levels of government. This requires involvement of federal and state/territory governments with some involvement of local government in respect of niche markets. Strategies for achieving better outcomes in the PRS could be considered as part of negotiations for the National Housing and Homelessness Agreement and any subsequent negotiations. It is important to be able to monitor progress in achieving better outcomes.

5.2.2 Social norms and practices: shifting power relations

In the PRS of the future, the politics of renting appear likely to change as the number and percentage of private renters increases, and people and households realise that they will be renting for long periods, including lifelong renting. This will inevitably lead to pressure to re-balance the interests of renters and investor landlords, and provide support for measures that enhance consumer protection, as has already been the case in some inner city areas of large cities such as Sydney and Melbourne. Some key elements of this change are:

- encouraging investor landlords to see themselves as being in the business of being a housing provider, rather than in an informal arrangement to ‘let’ someone use their property. This could include registration of landlords, as for other service providers, and minimum safety, sanitation and security standards for property that they rent out.

- promoting an understanding that PRS tenants want a place to live, a home, and increasingly expect and require a high level of service for the rent that they pay, including timely and accurate responses to requests.

- raising the status, recognition and training of rental property managers, with routine processing tasks outsourced to third parties, leaving the property manager to develop relationships and solve problems as they arise.

Cultural change is often slow, and policy and regulation is often contested and incremental, unlike the often rapid uptake of technology in the sector. The challenge appears to be to establish some common directions of change rather than reinforce adversarial positions as private renting increases, with concomitant visibility at a political level.
5.3 Better data to enable monitoring of PRS trends and outcomes

The Inquiry highlighted the richness of Australian household surveys (such as Journeys Home, HILDA and the ABS Survey of Income and Housing) which provide data about individuals and households as consumers and/or investors. They do not, however, provide comprehensive data about the PRS, in particular the niche, informal and supported segments of the PRS.

Developing policies for better outcomes in the PRS requires data to answer some basic questions:

- Who owns PRS properties and on what terms do they let out their property, including whole dwellings versus rooms in the formal and informal sectors and for how long? This is a different question to how many households own PRS properties and how many properties they own. From a housing policy perspective, it is important to know how many PRS dwellings are owned not only by households but also by businesses of various types and in other legal structures such as trusts (as in New Zealand), self-managed superannuation funds (SMSFs) and managed property trusts, which are more likely to view rental property ownership as a purely financial investment.

- Monitoring and reporting on the share of the PRS comprising properties owned by debt-financed multi-property investor landlords18. While these are a minority of household landlords, in the PRS of the future they are likely to own an increasing percentage of all PRS properties. These investor landlords are more exposed to risk in the event of a downturn in housing markets and/or the economy more generally and more likely to raise rents to manage their interest repayments if interest rates increase. While debt-financed investment is seen primarily in macro level financial stability terms, there are increased risks for PRS tenants in this type of arrangement.

- Better, evidenced-based understanding of the extent of foreign ownership of residential property for rental is essential, particularly in higher priced Australian cities such as Sydney and Melbourne, and the implications of this type of investment for PRS availability and property churn.

Although the addition of new categories and questions to existing population surveys reflecting the institutional changes outlined will enhance the completeness of data available, the scope for doing so will be small, unless specific modules are introduced to sit alongside core survey questions. The construction of special purpose and linked administrative rental property data would be better. There is a potential opportunity to extend the scope of administrative data collected through rental bonds and the Australian Taxation Office on claimed rental income beyond rents and dwelling types, to the changing characteristics of landlords and their motivations. Administrative data could be enhanced in line with moves towards greater professionalism of landlords, through rental property registers akin to registration requirements of other businesses. In addition to improved administrative data there is also a need for the enhanced capacity to follow and monitor change over time via special purpose linked panel or longitudinal private rental sector surveys that include characteristics of rental dwellings and rooms, landlords, and the individuals and household living in them.

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18 This issue is currently seen as one of financial stability at a macro level and is monitored by the RBA and APRA. The type of policy development envisaged is in addition to monitoring of financial stability.
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