

REAL ESTATE INSTITUTE OF AUSTRALIA

Submission to the inquiry into the worsening rental crisis

August 2023



ACKNOWLEDGMENT OF COUNTRY

The Real Estate Institute of Australia (REIA) acknowledges the Traditional Owners of Country throughout Australia. We pay our respect to them, their culture and their leaders, past, present and emerging.

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ABOUT REIA

The Real Estate Institute of Australia (REIA) is the professional body for Australia's real estate sector and was established in 1924.

Today, REIA represents real estate practitioners and agencies through our State and Territory Real Estate Institutes in work across policy and political action, media advocacy, market research and evidence, industry excellence and national leadership and networks.

Our practitioners are sales agents, property managers and operational staff.

Real estate is the backbone of Australia's economy and business sector, as agencies represent 46,793 Australian businesses.

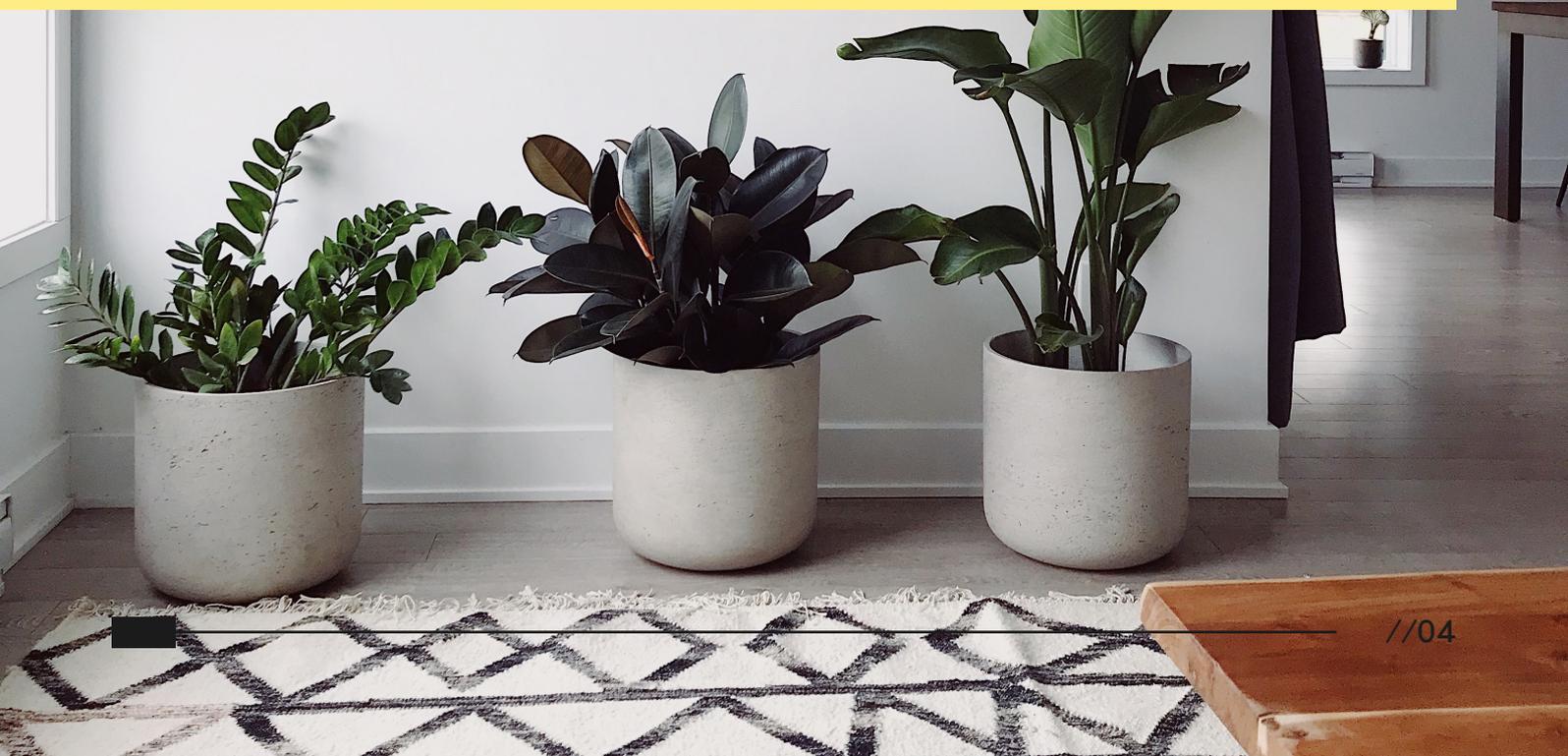
Agencies employ 130,000 Australians and the Australian property industry is worth \$300 billion to the Australian economy as a measure of GDP.

Real estate is a relatively unique sector as it's a large segment of the Australian economy servicing nearly all Australians almost exclusively by small businesses.

To put this in perspective, there are 44,000 Australian real estate agencies Australia wide with 99% of these being small businesses.

At the same time our consumer base is considerable, with our footprint estimated to be:

- 6.9 million Australians helped into home ownership or rentals each year.
- \$350 billion in home sales settled the last recorded financial period.
- \$78 billion in rent receipts collected annually.
- \$3 trillion in rental assets under management.
- Combined residential real estate asset value of \$9.3 trillion.
- Combined commercial real estate asset value of around \$1 trillion.

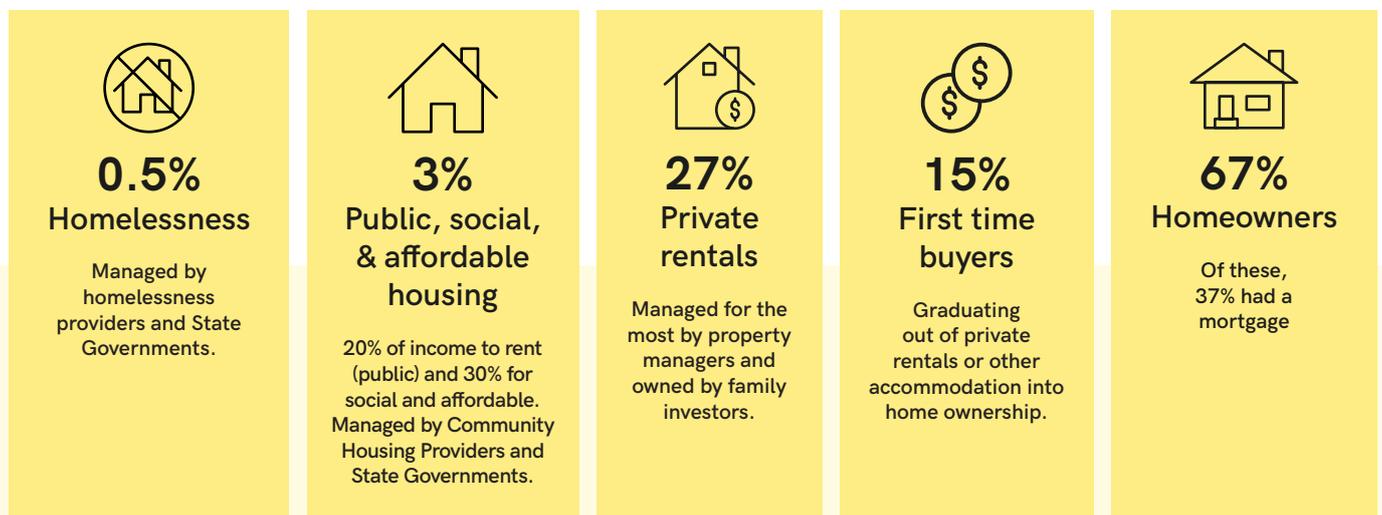


THE ROLE OF REAL ESTATE IN SUPPLYING PRIVATE RENTALS

Australia has a unique property market and housing spectrum with renters making up approximately one third of our housing market. The Australian real estate industry plays an essential role in the delivery of private rentals.

REIA's collective membership, represented through our State and Territory Institutes, operate what is referred to as property management or 'rent roll' businesses and have an estimated \$3 trillion in collective rental assets under management by our workforce of property managers.

The Australian housing spectrum



Source: NHFIC, ATO

Managing a tenancy

STAKEHOLDER	The Australian Tenant	The Australian Property Manager	The Australian Property Investor
ROLE	Rents accommodation	Manages tenancy	Owens accommodation
SEGMENT	<i>8 million Australian tenants</i>	<i>41,000 Australians working in property management</i>	<i>2.2 million property investors</i>
PROFILE	<ul style="list-style-type: none"> All ages Average lease 6 - 12 months Applying for 6 homes before securing a new rental 	<ul style="list-style-type: none"> Average age of 42 67% female workforce Manage 75% of private rentals Australia wide 	<ul style="list-style-type: none"> Generally, owns a single rental property Working age 35 - 65 Holds a mortgage on rental property

Source: NHFIC, ATO , ABS

TERMS OF REFERENCE

REIA thanks the Senate References Committee on Community Affairs (the Committee) for the opportunity to provide a submission against the following Terms of Reference:

- a. the experience of renters and people seeking rental housing
- b. rising rents and rental affordability
- c. actions that can be taken by governments to reduce rents or limit rent rises
- d. improvements to renters' rights, including rent stabilisation, length of leases and no grounds evictions
- e. factors impacting supply and demand of affordable rentals
- f. international experience of policies that effectively support renters
- g. the impact of government programs on the rental sector
- h. any other related matters.

REIA has focused on providing recommendations against the Terms of Reference which seek to solve housing supply, are Constitutional and fit within the Federal Government's remit.

SUMMARY OF RECOMMENDATIONS

BETTER NATIONAL DATA

1. That the ABS work with State and Territory bonds agencies to develop a consistent national snapshot of bonds held and rent tenures.
2. That better national monitoring and reporting is undertaken of pain points within the rental system, particularly tenancies that are not professionally managed.

BETTER INFORMATION FOR RENTERS

3. A cohesive industry-government national program of information and awareness materials are developed for direct distribution to renters to help them navigate managing changes within and to their tenancy.

BETTER USE THE HOMES WE ALREADY HAVE

4. Develop a suite of incentives for vacant properties and short stay rental providers to bring them back into the long-term rental pool.
5. Commit to long term stamp reform; and offer immediate stamp duty waivers for purchases of rental properties in areas of high need.
6. Commission an immediate occupancy audit across Government owned and funded housing across the three tiers of Government.
7. Develop a feasibility study for re-purposing non-residential real estate into residential housing.
8. Examine options for non-conventional rapid build homes in high areas of economic growth and housing need.

BUILD MORE HOUSES

9. Implement the National Cabinet to build 1.2 million homes by 2030 and have performance mechanisms that hold governments and industry accountable to achieve this.
10. Pass the Housing Australia Future Fund Bill.

THE EXPERIENCE OF RENTERS AND PEOPLE SEEKING RENTAL HOUSING

Australian renters are increasingly of all ages and are from all walks of life.

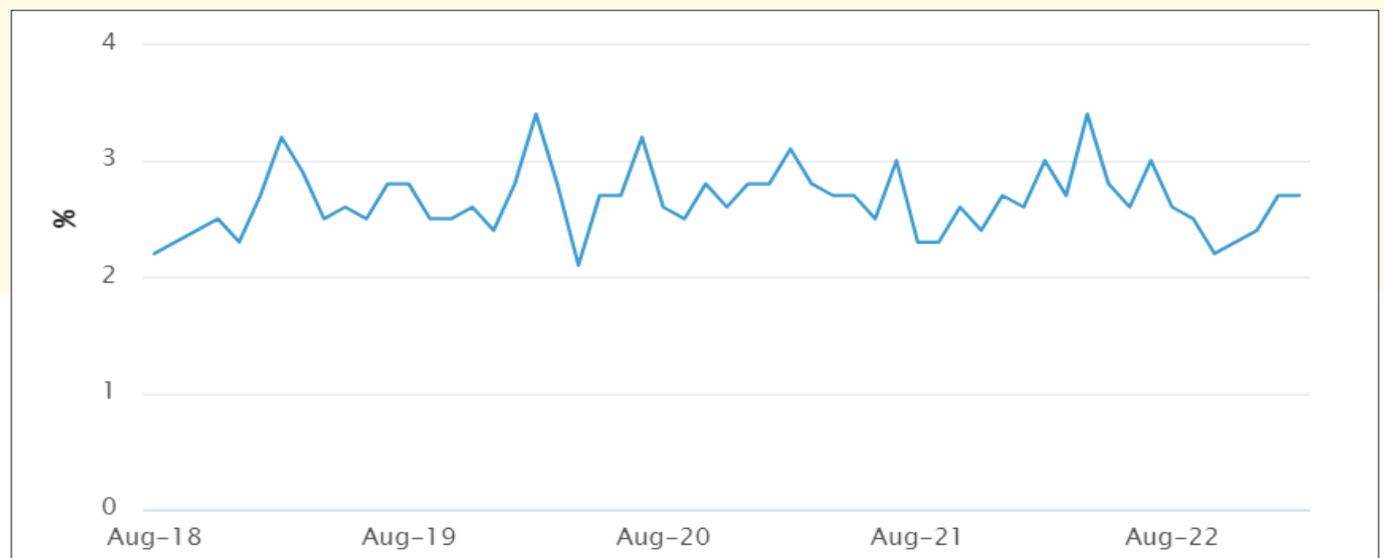
The ABS Census 2021 reported that 31% of Australians are renters.¹ 76% of renters reported being satisfied with their dwelling (as opposed to 86% of homeowners).

Today, it is estimated that roughly 7 million Australians rent their homes.

A typical Australian renter:

- Has an initial lease of 6 - 12 months by their own choice²
- Applies for at least 6 rental properties before securing new accommodation
- In 75% of the instances feels that they have compromised on some feature of the rental property

Chart 1: National Rental Market Turnover



Source: ABS

The ABS indicates that national rental turnover now sits under 3% which is consistent with the 5-year average and showing only small elasticity within the renting population.

Better data collation on lease tenures from State and Territory bonds agencies collated nationally by the ABS would allow an evidence-based understanding of these trends.

¹ Source: [Housing | Australian Bureau of Statistics \(abs.gov.au\)](https://www.abs.gov.au/Housing)

² Source: reia.com.au/wp-content/uploads/2023/05/REIA_FINAL-INVESTORS-REPORT-1.pdf

RECOMMENDATION: That the ABS work with State and Territory bonds agencies to develop a consistent national snapshot of bonds held and rent tenures.

It is however critical to note that length of tenancies is in the first instance determined by the tenant.

It is one of the great urban myths surrounding the current debate that only short-term leases are offered to tenants and there is no security of tenure for tenants.

Most renters prefer a flexible lease approach as they are traditionally a demographic that is highly mobile.

Tenants can negotiate longer lease periods or a 'longer term lease option' when they sign a lease, and most investors will welcome the opportunity to secure a long-term tenant.

RECOMMENDATION: A cohesive industry-government national program of information and awareness materials are developed for direct distribution to renters to help them navigate managing changes within and to their tenancy.

Finally, it is REIA's anecdotal observation that many consumer complaints and concerns within tenancies often fall outside of a professional property management system.

They are often directed at self-managing landlords (who according to the ATO manage 25% of all private rentals) with far less regulatory scrutiny placed on these tenancies than licensed real estate agents regulated by state and territory consumer protection agencies.

RECOMMENDATION: That better national monitoring and reporting is undertaken of pain points within the rental system, particularly tenancies that are not professionally managed.

RISING RENTS AND RENTAL AFFORDABILITY

RENTAL AFFORDABILITY 2003 - 2023

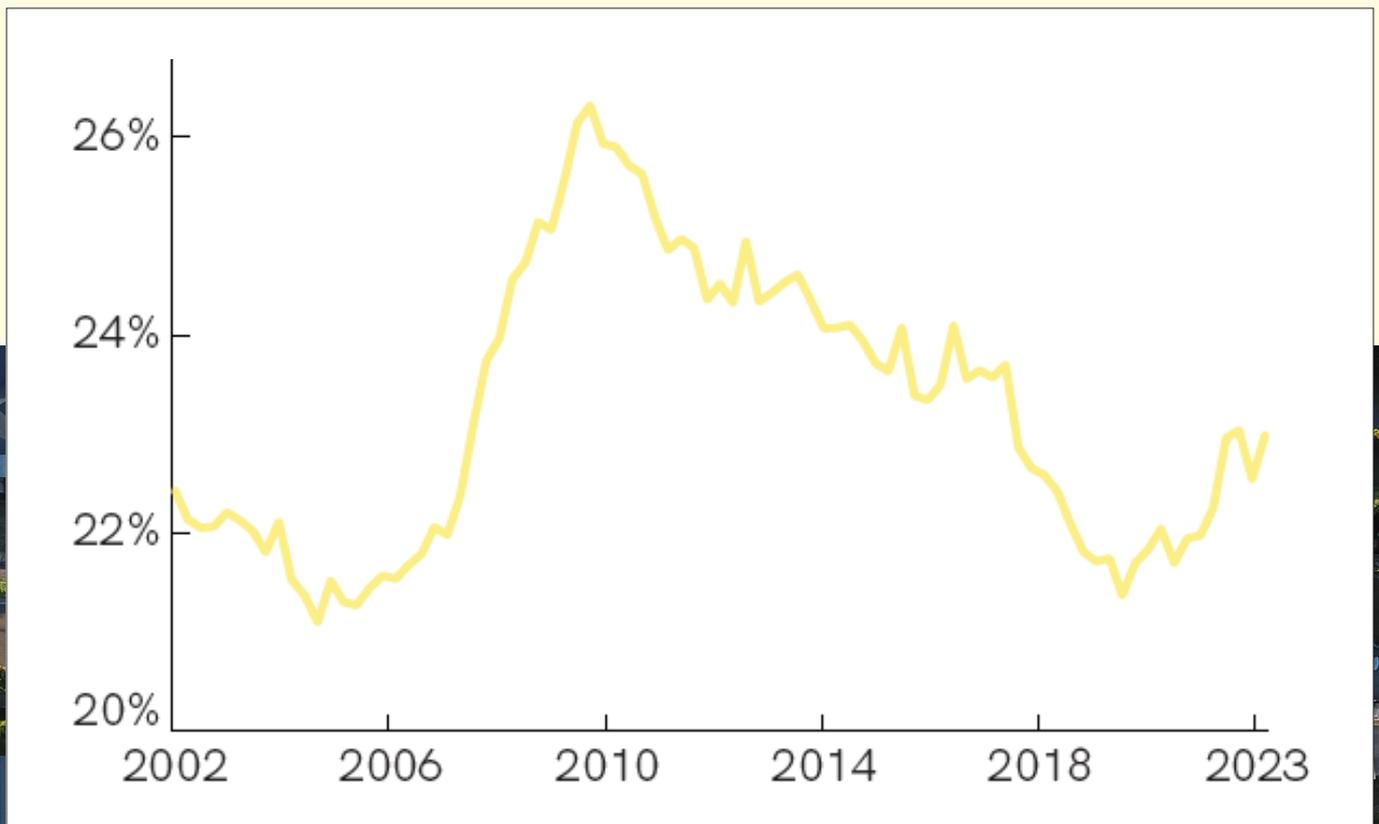
REIA measures rental affordability by median family income (money in) to rents paid (money out).

In real terms, this allows us to understand that rental affordability as a median income-to-rent measure remains in a historically stable range with Australia wide the current proportion of income required to meet median rent now at 23%.

In the March quarter 2023, the proportion of income required to meet median rent increased to sit at 23.0%. This was an increase of 0.5 percentage points over the quarter, and an increase of 0.8 percentage points over the past 12 months.

This falls well short of the rental affordability crisis of the Global Financial Crisis (GFC) where income to rent required peaked at 26%.

Chart 2: Proportion of family income required to meet weight average median rent

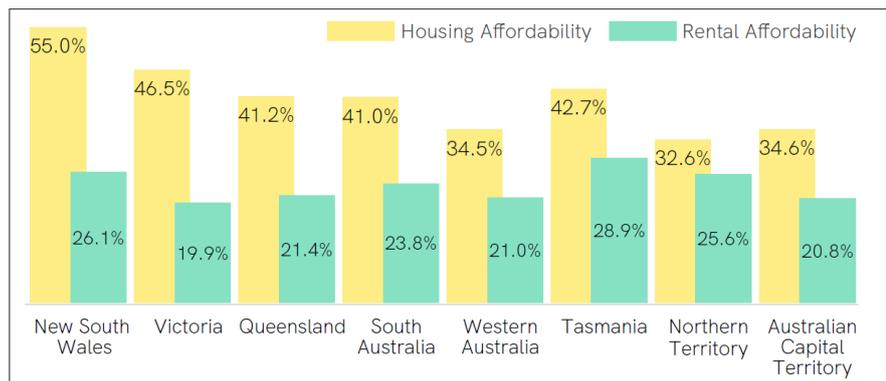


Source: REIA

State by state, Victoria is the most affordable state to rent with rent-to-income required sitting at 19%; and Tasmania the least affordable at 28.9%. Over the quarter, rental affordability declined in all states and territories, except the Australian Capital Territory where it improved.

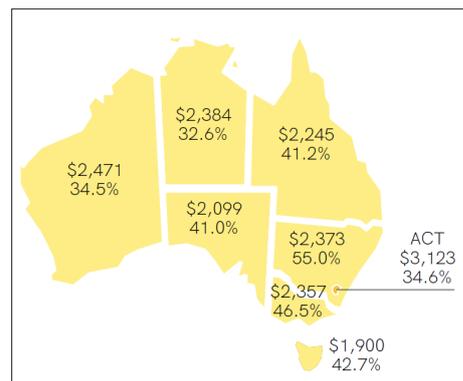
The least affordable state or territory in which to rent a property continued to be Tasmania, where the proportion of income required to meet median rent increased to 28.9%. This was 5.9 percentage points higher than the national average. Victoria remained the most affordable, where the proportion of income required to meet median rent was 19.9%.

Chart 3: Housing and rental affordability, March quarter 2023



Source: REIA

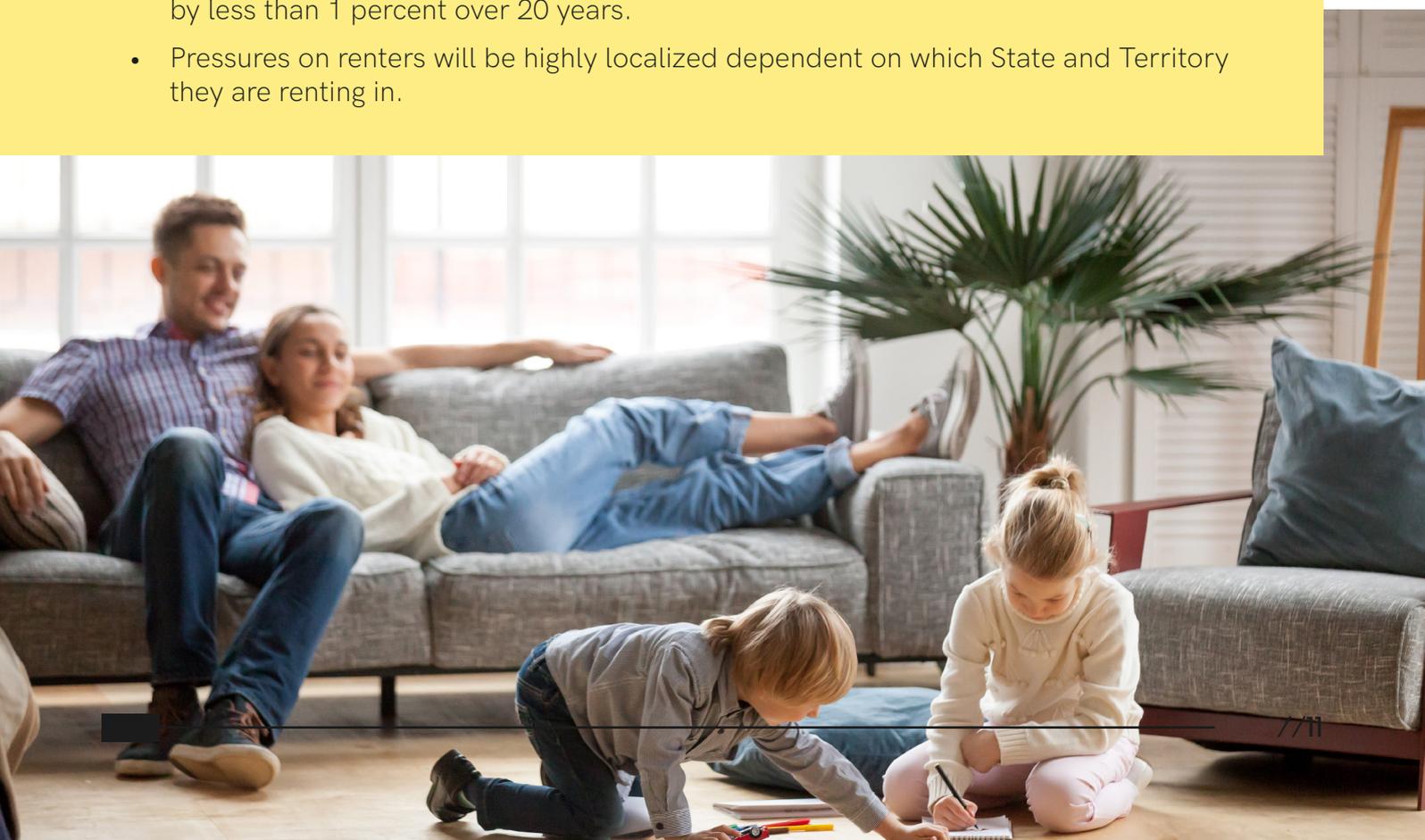
Chart 4: Family Income & Weekly Repayments



Source: REIA

The broad conclusion here is that:

- Rental affordability has remained relatively stable over the past twenty years falling by less than 1 percent over 20 years.
- Pressures on renters will be highly localized dependent on which State and Territory they are renting in.



RENTAL AVAILABILITY 2003 - 2023

Australia has suffered from a prolonged housing supply shortage over the past 20 years, and this is clearly reflected in vacancy rates across the country.

A vacancy rate of 3% to 3.5% is an industry benchmark range that reflects a healthy rental availability.

Vacancy rates lower than 3.0% indicate stronger demand for rental accommodation, whilst rates higher than 3.5% are generally considered to reflect an oversupply of rental accommodation.

Over the past 20 years the average vacancy rate was 2.6%. The vacancy rate was at its lowest at (1.4%) in the March quarter 2007 and at its highest (4.5%) in the December quarter 2002.

The key points here are that:

- There has been inadequate rental supply Australia wide to service Australia’s tenants since the Global Financial Crisis (GFC).
- The COVID-19 pandemic caused a reformation of households that reversed trends in vacancy rates.
- We are still yet to reach GFC level lows for rental supply but are perilously close.
- Renters experiences will vary by location and regional real estate market.

Chart 5: Rental vacancy rate 2002 - 2022

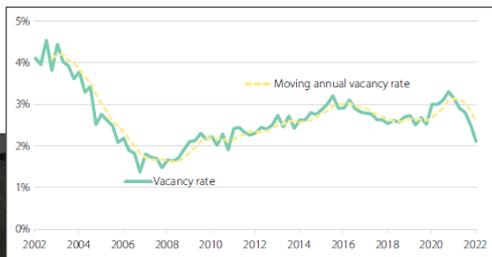
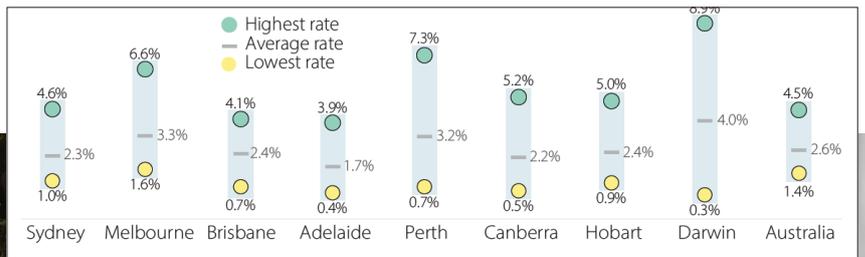


Chart 6: Average vacancy rates by capital city 2002 - 2022



Source: REIA

ACTIONS THAT CAN BE TAKEN BY GOVERNMENTS TO REDUCE RENTS OR LIMIT RENT RISES

It is REIA's strong view that it is not a role for any Australian government to interfere with rental pricing, or any components of the private property market.

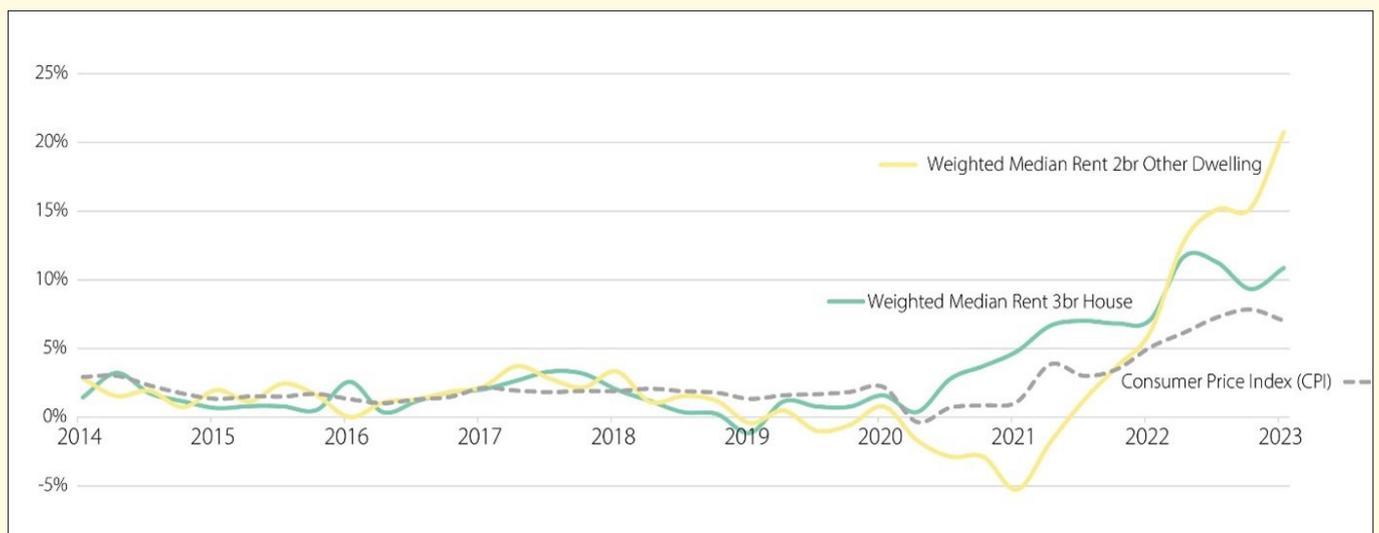
That State and Territory Governments, through the 16 August 2023 National Cabinet, emphatically agreed on this and rejected a rent freeze and rent control system.

REIA thanks our first ministers for this economic common-sense approach and welcomes the commitment by State and Territory jurisdictions to adopt an annual single rent rise model nationally.

REIA would like to point out that rents historically have fallen well below CPI and are expected to return to this trajectory once inflation has abated and housing supply returns to adequate levels.

Suggestions therefore relating to a CPI based rental system would represent a policy proposal with critical unintended consequences if entertained, especially when the rental market normalises.

Chart 6: Weighted median rents versus CPI 2014 - 2023



Source: REIA

REIA's view on rental market intervention, supported by Australian Governments, all property sector stakeholders and the majority within the research community and civil society groups is that the most effective structural way to deal with rental affordability is to increase rental supply. There are a broad range of policy levers that can be undertaken to achieve this across existing housing stock and building more homes that are pragmatic, Constitutional and aligned with existing reform processes within the Federal Government remit.

RECOMMENDATION: Better use our existing housing stock.

- Develop a suite of incentives for vacant properties and short stay rental providers to bring them back into the long-term rental pool.
- Commit to long term stamp reform; and offer immediate stamp duty waivers for purchases of rental properties in areas of high need.
- Commission an immediate occupancy audit across Government owned and funded housing across the three tiers of Government.
- Develop a feasibility study for repurposing non residential real estate into residential housing.
- Examine options for non-conventional rapid build homes in high areas of economic growth and housing need.

RECOMMENDATION: Build more houses.

- Implement the National Cabinet to build 1.2 million homes by 2030 and have performance mechanisms that hold governments and industry accountable to achieve this.
- Pass the Housing Australia Future Fund Bill.



IMPROVEMENTS TO RENTERS' RIGHTS

INCLUDING RENT STABILISATION, LENGTH OF LEASES AND NO GROUNDS EVICTIONS

REIA notes an existing nine-point plan approved by National Cabinet (16 August 2023) aimed at achieving *A better deal for renters*.³

This guide for States and Territories appears to deal with all the elements of this Terms of Reference.

REIA would like to further point out there is a need to overcome many of the perceived obstacles and pain points within the rental system.

There are many aspects of the renter's experience that could be overcome with greater education and awareness over regulation.

Importantly to the Terms of Reference to this Inquiry three key areas have been identified:

1.

**Rental
tenure**

2.

Evictions

3.

Arrears

³ Source: Prime Minister. Available: [Meeting of National Cabinet | Prime Minister of Australia \(pm.gov.au\)](https://www.prm.gov.au/news/2023/08/16/national-cabinet-approves-nine-point-plan-to-improve-renters-experience)

MISUNDERSTANDING	FACT CHECK
<p>Only short-term leases are offered to tenants and there is no security of tenure for tenants.</p>	<p>As outlined on Page. 7 the length of tenancies is in the first instance determined by the tenant.</p> <p>Tenants can negotiate longer lease periods or a 'longer term lease option' when they sign a lease, and most investors will welcome the opportunity to secure a long-term tenant.</p> <p>Most renters prefer a flexible lease approach as they are traditionally a demographic that is highly mobile.</p> <p>As a rule of thumb, longer term tenants with strong references are highly desirable, and this will only add weight to a rental application.</p>
<p>Evictions are common.</p>	<p>Evictions are in every case a 'destination of last resort' for all parties to a rental transaction: tenants, property managers and investors.</p> <p>It is in fact a property manager's job to select tenants and manage a successful tenancy.</p> <p>As it stands in Australia, all jurisdictions rightly have significant legal protections against unfair tenancies. In only extreme circumstances evictions will be dealt with by jurisdictional tenancy tribunals or courts.</p> <p>Data reporting on enforced evictions in each State and Territory is extremely opaque and could benefit from more transparency but REIA - based on experience within rent roll business - would suggest this figure to be extremely low as a percentage of all tenancies.</p>
<p>Arrears result in evictions.</p>	<p>Tenants experiencing rental distress should communicate with a property manager as early as practicable.</p> <p>In the majority of cases, tenants unable to meet their obligations under the lease will seek 'break-lease' provisions in fixed-term tenancies and relocate efficiently to less expensive accommodation without penalty.</p> <p>As above, significant legal protections for evictions apply in most jurisdictions and most arrears matters can be resolved with effective and early communication.</p>

It is REIA's view that many of these factors could be overcome with a better program of education and awareness for renters as is run by REIA⁴ and many State and Territory REIs.

**RECOMMENDATION:
A cohesive industry-government national program of information and awareness materials are developed for direct distribution to renters to help them navigate managing changes within their tenancy.**

⁴ For example: REIA - STAY WARMER THIS WINTER: NEW RENTER RESOURCE LAUNCHED BY REIA AND TENANCY SKILLS INSTITUTE

FACTORS IMPACTING SUPPLY AND DEMAND OF AFFORDABLE RENTALS

It is REIA’s view that inadequate housing, combined with a shrinking of the existing pool, is the absolute dominant factor in the current supply of rentals.

Australia’s building program has not kept up with consumer demand; and existing rental inventory has become stressed by economic conditions, excessive regulation, taxation and reduced returns. This is important as Australia’s rental stock is in the absolute majority held by 2,245,539 private individual or family investors.⁵

The ATO reports that 75% of these rentals engage the services of a professional licensed property manager. Far more so than large corporates or government, it is these individual and family providers who supply the lion’s share of rental accommodation in Australia.

Ensuring that investor confidence remains for this cohort is fundamental to continuing to enable rental supply. We need more family investors, not less of them.

Chart 7: Australian property investors

Property interests no.	Net rent loss no. 2019–20	Net rent neutral/profit no. 2019–20	Total individuals no. 2019–20	Net rent loss no. 2020–21	Net rent neutral/profit no. 2020–21	Total individuals no. 2020–21
1	856,436	736,447	1,592,883	759,783	845,267	1,605,050
2	227,742	190,895	418,637	201,004	222,463	423,467
3	67,753	61,637	129,390	59,187	71,189	130,376
4	23,709	23,056	46,765	20,390	26,892	47,282
5	9,647	9,624	19,271	8,323	11,121	19,444
6 or more	9,858	10,037	19,895	8,264	11,656	19,920
Total	1,195,145	1,031,696	2,226,841	1,056,951	1,188,588	2,245,539

Source: ATO

It is REIA’s expectation that future iterations of the ATO data on the number of family investors providing rental properties that are either positively or negatively geared (to be available in June 2024) will reflect this reduction in rental supply and lag effect.

⁵ Source: ATO. Available: [Individuals statistics | Australian Taxation Office \(ato.gov.au\)](https://www.ato.gov.au/Individuals-statistics)

THE IMPACT OF GOVERNMENT PROGRAMS ON THE RENTAL SECTOR

REIA welcomed National Cabinet's categoric rejection of rent freezes and rent controls on 16 August 2023.⁶

Obviously, continued media and political uncertainty in relation to rent controls and rent freezes has been heavily impacting on investment appetite for private housing investors as well as institutional housing investors.

This is in addition to a clear trend in an increase in regulatory and economic measures introduced for housing investors, particularly in the last ten years, across all States and Territories such as:

- Increased stamp duties.
- Increased land taxation.
- Changes to deductible expenses relating to established properties.
- A suite of additional regulatory requirements for investors.

It is REIA's view that this myriad of new legislative and cost burdens has had a significant impact on the number of active investors in the market, combined with current economic conditions and cost-of-living pressures.

Again, we expect this to bear out in the ATO 2024 data (Chart 7) on investors that are negatively and positively geared.

⁶ Source: Prime Minister. Available: [Meeting of National Cabinet | Prime Minister of Australia \(pm.gov.au\)](https://www.prm.gov.au/Meeting-of-National-Cabinet)

CONCLUSION

REIA thanks the Committee for the opportunity to comment on this most serious situation for Australians.

We are committed to working with consumers and the three tiers of government on this matter.

We commend our ten recommendations to the Committee which seek to solve housing supply, are Constitutional and are aligned to current reform process within the Federal Government's remit.

THANK YOU

