Inquiry into the rental and housing affordability crisis in Victoria

Introduction:

The Property Investors Council of Australia (PICA) is the peak not-for-profit body representing property investors throughout Australia. We provide this submission as a direct voice for the majority of rental property owners, both living and investing in Victorian property, for the consideration by this inquiry in relation to the rental market.

How did we get here?

There is a mix of reasons why Victoria currently finds itself in this position. Looking at long-term factors, it's clear in the data that respective Victorian Governments have failed to invest in the adequate supply of social and public housing spanning some 40 years.

Looking at the shorter-term factors our evidence points to the following summarised reasons which have resulted in decreased rental properties volumes across Victoria.

- Higher interest rates, forcing the sale of investment properties, as these increased costs are shouldered primarily by the investor and not the tenant,
- APRA's macro-prudential lending restrictions introduced from 2014 and targeted primarily at investors,
- The introduction of 133 tenancy law reforms in March 2021, resulting in increased compliance costs and investor having less control over their property assets, such as the loss of no ground evictions,
- Other states having more competitive investment cost bases (lower stamp duties and land tax premiums – not to mention the latest Covid Levy introduced) has seen Mum & Dad investors buy in other jurisdiction instead of Victoria for the time being,
- Federal Liberal Government changes to Depreciation and Travel expense claims for property investors.

Acknowledgement:

PICA fully recognises and appreciates there are people within Victoria residing in private rental accommodation and higher rents for these tenants makes for a very challenging and difficult scenario at present.

During Covid, property investors who owned property in Victoria, and right across Australia for that matter, demonstrated their commitment to tenants during this unprecedented time, accepting the moratorium on evictions and in thousands of demonstrated cases, offering up reduced rents during this period.

Unsustainable Costs for Many:

As highlighted in the summary above, with the 12 (to date) increases in the cash rate, and the introduction of higher compliance costs, resulting in increased ongoing operating costs, property investors find themselves in a very difficult financial situation.

By way of a simple yet powerful example:

A typical $400,000 outstanding mortgage on an investment property has, at the time of preparing this submission, seen an interest rate increase of 400 basis points since May 2022. This has resulted in an increase of $16,000 over a 12-month period in interest costs alone.

If that same property saw a rent increase of $100 per week over this 12-month period ($5,200), this reflects an interest cost increase recovery of just 32.5%, leaving the property owner to cover the additional $10,800. Money they either need to find from their existing family budget, or if they can't find it, they may be forced to sell the property, reducing the available rental stock pool further.

Misleading Information:

There is a lot of reports and data being used by certain lobby groups to help advocate for their proposed changes to existing legislation.

One such report doing the rounds in both State and Federal circles is the Australian Housing and Urban Research Institute released in November 2022, which suggested limited evidence linking residential tenancy laws to investment in private rental housing.

We challenge the validity of this report on the grounds it refers to bond records for the greater metropolitan regions of Sydney and Melbourne from the 20-year period up to Q1 2020. This data predates the introduction of the 133 reforms in Victoria in March 2021 we highlighted earlier and reforms in New South Wales in March 2020. In effect, the date of the data renders these findings without merit, as it excludes the impacts of such law reforms.

We call on this inquiry to investigate, analyse & make public the current bond records since 2020 until present day and compare the impact against the 10- & 20-years trends prior.

It's our confident view that political and regulatory interference in the marketplace is having a direct and meaningful impact on the current and future supply of rental accommodation in the state of Victoria.

This view is supported by a survey of property investors performed by the Property Investment Professionals of Australia (PIPA) Annual Property Investor Sentiment Survey in 2022, which revealed that 25.1% of respondents cited changing tenancy legislation as a reason for selling their investment property in the last 12 to 24 months, stating that it had become too costly or difficult to manage. Many others mentioned the loss of control over their property and increased compliance costs. Whilst this is a national survey, these changes are being felt across the Victorian market as investors explore other markets or asset classes in response to growing administrative and financial burdens, not to mention narratives from some political parties referencing 'greedy property investors'.

Unintended Consequences:

Whilst PICA appreciates and, in some cases, has supported some of the reforms being introduced, such as only annual rental reviews, it's clear the higher costs and reform agenda in the state of Victoria is negatively impacting the supply of private rental accommodation, as these reforms have resulted in unintended consequences.

Any further reforms such as rental caps or freezes will have a similar, if not more damaging, impact on the rental supply in the State of Victoria. All other state and territory leaders, including the Federal Labor Government, have ruled out such a move. If Victoria once again wants to lead the way in this type of reform, the unintended consequences will be:

- A further sell-up of Victorian property by private investors
- More investors buying in other states and territories.
- A critical shortage of rental accommodation for Victoria to attract the best and brightest to their state, as immigration numbers increase.

And whilst some political and self interest groups might think it desirable to remove Mum-and-Dad investors from the market and replace them with ‘Big end of town’ corporate build-to-rent investment dollars, it will take decades, not years, for any meaningful volume of supply to make a material difference to the marketplace. Time Victoria, nor Victorian’s, can afford to wait.

Conclusion / Action:

We have several ideas we see as important opportunities for Victoria to help address the rental crisis. We welcome the opportunity to present these recommendations and to present further research we are currently collecting to support the views expressed in this submission. We don’t want to see Victoria maintain it’s position as the least preferred property investment state in all of Australia.

As the direct voice of private property investors, we believe it’s important that we have an opportunity to part of the conversation and the solution to help address the issues being faced currently in Victoria. We look forward to receiving an invite to attend and be interviewed as part of this enquiry at one of the upcoming hearing days scheduled.

For due consideration and kind regards,

Victorian State Advisory Council
Property Investors Council of Australia