Senate Community Affairs References Committee: Worsening Rental Crisis in Australia

Property Investors Council of Australia Submission

Areas of Inquiry Noted:

- *being a renter and seeking rental accommodation;*
- *rising rents and rental affordability;*
- *actions governments can take to reduce rents or limit rent rises;*
- *improvements to renters' rights;*
- *access to affordable rental accommodation;*
- *policies that support renters in other countries;*
- *impacts of government programs on the rental sector; and*
- *other related matters.*

We welcome opportunity to provide evidence-based insights and feedback on behalf of the nation's 2.2 million everyday investment property owners.

PICA is pleased to have the opportunity to provide relevant and important feedback to this inquiry into the current rental market in Australia.

We also welcome a further invitation to participate in any live hearings planned as part of this inquiry. Engaging in evidence based constructive dialogue, in the interests of improving the current rental accommodation situation is just as much in the interests of Australia's investment property owners, as it is the renters and more broadly the economic and social interest of this great country. For property investors, ownership of a property asset is akin to running a small business, with equivalency in decisions around managing that asset to deliver an adequate investment return in concert with their overall investment goals and financial wellbeing.

About Property Investor Council of Australia (PICA)

The Property Investors Council of Australia (PICA) is the peak not-for-profit body representing the nation's 2.2 million property investors.

We have a dual purpose: 'Advocate & Educate.'

1. Ensure our “small business” property investors are informed and educated with their investment decisions, whilst avoid financial risks and pitfalls, when providing tenants with safe and quiet enjoyment to the property asset.
2. Help inform and educate government, regulators, and the public about the positive social and economic impact these investors have on the communities in which they provide important accommodation.

Without this supply of short- and long-term accommodation by these owners, no town or city would form, develop, or continue to grow, to reach their full potential of serving the people who choose to reside within them.

Unintended, but predictable outcomes:

There are a key number of contributing factors over the past decade which has resulted in a significant decline in supply of rental accommodation to meet growing demand and rising rents.

In this submission we are keen to highlight and outline these contributing factors which have significantly interfered with market dynamics and has led to the present situation.

Furthermore, these contribution factors have their origins in both State & Federal Governments decision, political party agendas or in APRA’s macro-prudential measures. Whist we recognise that governments, politicians, and the regulators believed their decisions and proposals were well meaning, the unintended consequences have resulted in the current rental shortages we see across the country today.

The following information relates & addresses these following areas of interest as set out by the inquiry:

Rising rents and rental affordability

Access to affordable rental accommodation

Impacts of government programs on the rental sector

Government & Regulator Interventions or Proposed Interventions
Over the past 10 years there has been increasing interventions or proposed interventions into private rental property markets, in addition to increased taxes and charges associated with operating a small property investment like a business.

These small business property owners, invest hundreds of thousands of dollars via savings and borrowings, to make these significant investments in real estate.

With extremely high entry costs, including stamp duty, and on-going holding costs, namely mortgage repayments & insurances and taxes, the return-on-investment results occur over a gradual time period. With this understanding, any property investment purchase is made with a long-term investment horizon to accommodate for the ‘risk-adjusted’ returns versus the opportunity costs of an alternative investment available to them, with their money and their time.

Property investors are becoming more suspicious and concerned about the increased level of government and regulatory intervention occurring at both the Federal and State levels and, as such, many have changed their decision to invest in Australian residential real estate.

The below timeline highlights a recent history of actual and proposed interventions:

December 2014	APRA introduces measures to ‘throttle’ the Banks growth in lending business, whereby they cannot grow their investor loan book by greater that 10% per month.
July 2016	Labor takes significant negative gearing reforms policy to Federal election
March 2017	APRA introduces cap of 30% of interest only lending for Banks

May 2017	Federal (Liberal) Government introduce the removal of claiming travel expenses to inspect a rental property & significant reform to fixture and fitting depreciation write-downs
May 2019	Labor takes significant negative gearing reforms to second federal election
July 2019	ARPA introduces 7% floor rate or 2% buffer rate to reduce lending capacity of borrowers
March 2020	NSW Liberal Government introduce new tenancy reforms into law, giving tenant increased rights
March 2021	Victorian Labor Government introduce new tenancy reforms into law, giving tenants greatly increased rights, including no grounds evictions, and adding increased compliance costs for landlords.
June 2021	Queensland Labor Government proposed the introduction of collection higher land taxes based on owner's land holdings across Australia
October 2021	ARPA increases buffer rate to 3% further restricting lending capacity for borrowers
October 2021	Queensland Labor Government introduces new tenancy reforms into law, giving tenants increased rights and promising to introduce further reforms
December 2022	NSW Greens introduce a Bill to parliament proposing a rental freeze
April 2023	ACT Labor Government introduces new tenancy reforms into law, including rental cap increases
April 2023	Federal and NSW Greens party announce proposal to introduce a Rental Freeze and a freeze to interest rates
May 2023	WA Labor Government announce recommended tenancy reforms for WA, giving tenant greater rights
May 2023	Victorian Labor Government announces 10 Year increased Land Tax Levy to pay for COVID lockdown measures

Like all business owners and investors who invest their hard-earned incomes for the long term, property investors want stable market conditions and assurances that the market will not experience any political or government interference risk. What we showcase above is growing evidence that such risks are not currently guaranteed, and the natural consequence is a lack of trust and confidence by property investors to stay invested or make new investments into the market.

This diminishing interest and investment as outline later in our submission on both fronts – existing investors selling up and, secondly, a reducing number of new investors taking their place to provide a critical supply of rental accommodation that would meet current and growing demand levels.

The net sum of these interventions (in addition to the growing lack of trust, confidence, and scepticism that interventions will not continue) is summarised below:

- Higher compliance costs on the back of tenancy reforms
- Higher holding costs, such as on the back of APRA's macroprudential interference, investors now pay higher interest rates for investor loans compared to owner occupier loans, *(interestingly considering evidence suggest there is a greater mortgage default rate for owner occupiers loans than investor loans)*
- Reduced ability to claim legitimate expenses in running these investments as a small businesses *(Travel and Fixture and Fitting wear and tear)*

Other behavioural impacts affecting supply include:

- An increase in investors switching properties over to short-term accommodation to help recovery increase cost or avoid new 'restrictive' tenancy reforms.
- Compelling evidence of investors currently selling up and the risk of this divestment accelerating, given the lack of certainty about the future property investment landscape and

property marketplace, both looking forward, but also the retrospective impacts on their investments.

- A risk of further intervention, namely rental caps, freezes, negative gearing changes, or capital gains changes, which all would have a material impact on these small business operators.

Compelling evidence of property investors exiting the market:

It is clear there is a direct connection between this series of Government/s and Regulator interventions in terms of the number of willing small business property owners to remain invested in private rental accommodation, as evidenced by the examples shown below.

Example 1:

ATO Data - Individuals with Rental Property Income

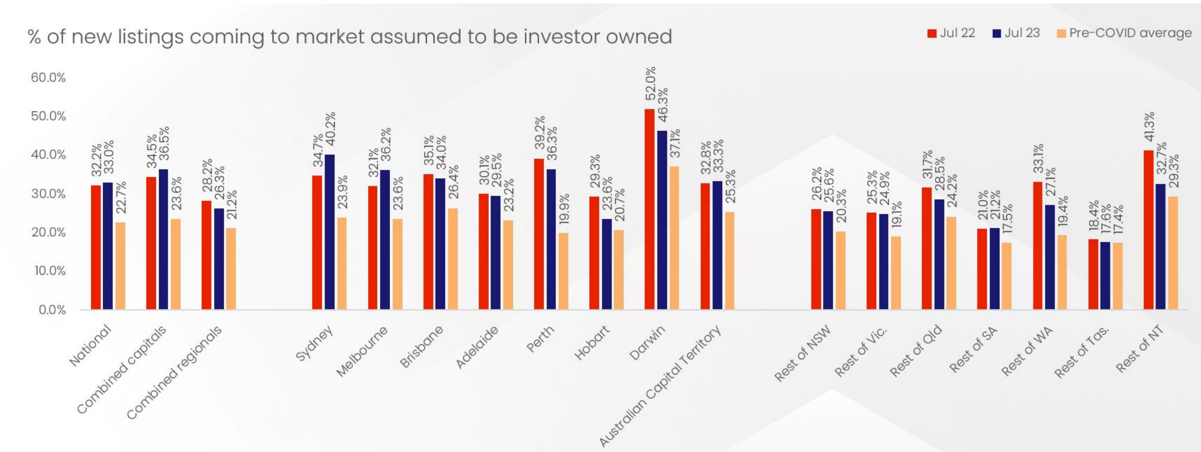
Year	Individuals	# Previous Yr. Chang	% Pervious Yr. Change			
2011/12	1,854,519	88,639	5.02%			
2012/13	1,942,339	87,820	4.74%			
2013/14	2,010,923	68,584	3.53%			
2014/15	2,051,517	40,594	2.02%	5 Yr Avg		
2015/16	2,097,382	45,865	2.24%	66,300		
2016/17	2,156,319	58,937	2.81%			
2017/18	2,207,893	51,574	2.39%			
2018/19	2,227,174	19,281	0.87%			
2019/20	2,226,841	-333	-0.01%	5 Yr Avg	Var #	Var %
2020/21	2,245,539	18,698	0.84%	29,631	-36,669	-55.3%

Source: ATO

Individual investors numbers are slowing, as the impact of actual market interference or threatened market interventions, are seeing less investors choosing rental property as one of their preferred investment options.
These slowing investor numbers in concert with other ATO data, also showing that 71.5% own one investment property and a further 18.8% own two, is resulting in the number of investors and overall stock levels falling below growing demand for rental properties, whilst our population continues to grow.

Example 2:
CoreLogic Data – Diminishing Stock of Rental Supply

Even despite what economists and commentators would say are improving investment property market conditions, this recent chart from CoreLogic further evidence of diminishing stock of rental properties across Australia, as more investors sell up on the back of the key reasons we have set out in this submission.



This selling trend right across Australia must be a wake-up call for Governments, politicians, and regulators that their actions are having an impact on tightening supply.

Example 3:

Victorian Tenancy Reforms:
In March 2021 Victorian Government introduced the most aggressive rental reforms of any state or territory – 133 changes. Some were welcomed by property investors, but some changes were very strongly opposed.

Property Investors reported serious concerns about losing control of their own asset and higher compliance costs to now operate their property business in Victoria. The Victorian Labor Government was warned this would result in some investors selling up and less future investment in private rental accommodation in Victoria or a switch to short term rental accommodation – the trending data now supports this outcome based on the latest Bond Registration which are detailed in the table below.
Furthermore Victoria is now facing even greater property investor challenges. The state now has the highest property taxes given the recently announced increased land tax Covid Levy, effective from January 2024. We expect the exodus of property investors to continue in Victoria, as they look for more property-investor-friendly states or territories to invest in (or alternate investments outside of residential property altogether).

Date	Count	Qtrly %		Annual %	
Jun-16	562151	0.61%		4.51%	
Sep-16	569950	1.39%		4.82%	
Dec-16	575442	0.96%		5.00%	
Mar-17	585559	1.76%		4.80%	
Jun-17	589897	0.74%		4.94%	
Sep-17	596895	1.19%		4.73%	
Dec-17	601438	0.76%		4.52%	
Mar-18	608763	1.22%		3.96%	
Jun-18	611057	0.38%		3.59%	
Sep-18	616635	0.91%		3.31%	
Dec-18	619172	0.41%		2.95%	
Mar-19	627822	1.40%		3.13%	
Jun-19	631708	0.62%		3.38%	
Sep-19	637769	0.96%		3.43%	
Dec-19	640057	0.36%		3.37%	
Mar-20	645579	0.86%		2.83%	
Jun-20	643222	-0.37%		1.82%	
Sep-20	638471	-0.74%		0.11%	
Dec-20	642314	0.60%	Avg. Qtrly % Last 5 Years until March '21	0.35%	Avg. Annual % Last 5 Years until March '21
Mar-21	645256	0.46%	0.72%	-0.05%	3.27%
Jun-21	645480	0.03%		0.35%	
Sep-21	642498	-0.46%		0.63%	
Dec-21	647088	0.71%		0.74%	
Mar-22	655685	1.33%		1.62%	
Jun-22	657731	0.31%		1.90%	
Sep-22	664820	1.08%		3.47%	
Dec-22	666731	0.29%	Simple Avg. Since tenancy Reforms (June '21 - March '23)	3.04%	Simple Avg. Since tenancy Reforms (June '21 - March '23)
Mar-23	666237	-0.07%	0.40%	1.61%	1.67%
			Avg. Qtrly % Long Term Avg: (March '99 - March '21)		Avg. Annual % Long Term Avg: (March '99 - March '21)
			1.09%		4.22%

Source: 'dataset/rental-report-quarterly-data-tables

Victorian bond registrations (source: dataset)

The 23-year quarterly trend was 1.09% growth per quarter. The 5-year trend has dropped to 0.72% and since the Andrews Government introduced their significant tenancy reforms it's dropped down to 0.40% growth. The annual rolling quarterly change confirms this declining outcome also.

To expand on the impact on supply let's use ABS data, which reports new property completions are typically between 160,000 to 200,000 p.a. Assuming Victoria generates around 50,000[1] of those completions and historically 32% would typically fall into the rental property pool, then Victoria should be increasing Bond registrations by approximately 15,000 to 16,000 per annum.

However, when you measure the change in actual Bond registrations from last September 2022 until the March data, total bond volume has only increased by 1,417. Victoria is now facing a revolt from

[1] https://www.housingdata.gov.au/visualisation/housing-market/building-activity-dwelling-construction

investors and as a consequence, a very difficult challenge to supply adequate rental accommodation. For many property investors' Victoria remains off-limits and is now considered an "anti-property investor" state.

Example 4:

Voice of the Investor – Why they are selling?
In the Property Investors Professionals of Australia (PIPA) 2022 (8th annual) Investor Sentiment Survey [2]the feedback from investors was clear – further intervention will result in further divestment, reducing rental stock to critically low levels, all during a time of increasing demand led by population growth.

Investors have had enough of political and price pressures

A staggering 16.7% of investors sold one or more properties in the past 12 to 24 months. Of those investors, 77% sold one property, 15% sold two, the remaining 8% sold three or more properties over the period.

According to the 2022 survey, about 33% of respondents sold a property to an existing homeowner, while 33% sold to an investor, and 24% sold to a first homebuyers.

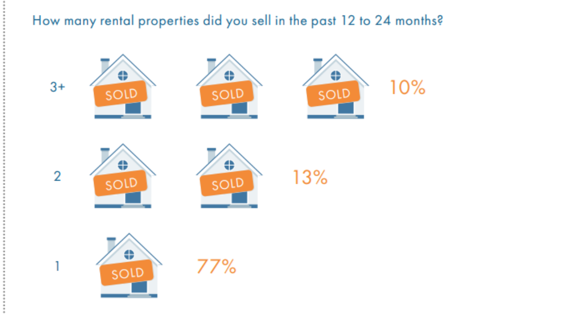
Using 2021 Census as the baseline of 2.478 million private rental dwellings in Australia, it is estimated that hundreds of thousands of rental properties were sold in the past two years, with further analysis finding nearly two-thirds of these being purchased by existing homeowners. Clearly, this would explain the undersupply of rental properties available for tenants around the nation.

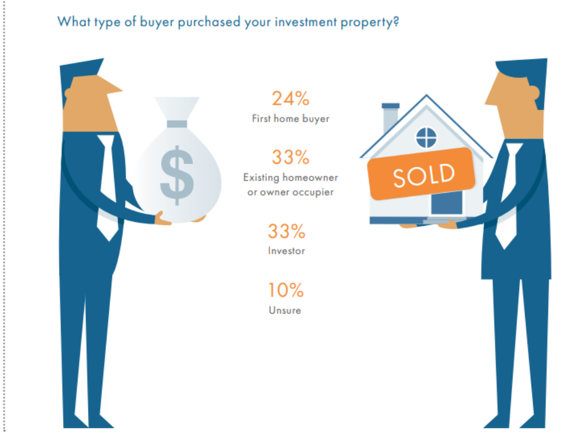
The survey did find that 45.1% of investors sold a property or properties in Queensland – the number one location by a long stretch – over the past two years. Using 2021 Census as the baseline of 553,432 private rental properties in Queensland, further analysis has found this equates to about 162,239 fewer rental properties - or a reduction in supply of nearly 30% in just two years - in Queensland.

The reasons why investors sold over the period included positive selling conditions (47.1%) – especially for Queensland investors who may have being waiting for a decade for any significant price growth – to reduce total borrowings (30.8%), and changing tenancy legislation making it too costly or hard to manage (25.1%).

Unfortunately, in a sign of more rental stress for tenants to come, the survey found that about 19% of investors are considering selling in the next 12 months as well. If that comes to fruition, about 35% of investor would have sold one or more of their properties since the start of the pandemic.

Tellingly, the reasons why investors are thinking of selling include Queensland's new land tax law that will penalise owners of property in other states/territories (30.8%), changing tenancy legislation making it too costly or hard to manage (29. 6%), the threat of losing control of your asset because of new or potential government legislation (27.5%), and the threat of rental freezes being enforced by governments (23%).





Outside on the investors who sold to realise positive selling conditions during the 12 to 24 month period (47.1%) within this survey, these small business owners are also highly concerned about total borrowing costs (30.8%), changes to tenancy rules (25.1%). Those considering selling are worried about further tenancy reforms (29.6%), the threat of losing control of this property via new or potential government legislation (27.5%) and the threat of rental freezes (23%).

A compelling case that more investors than ever before are looking at the benefit vs. the risks and costs.

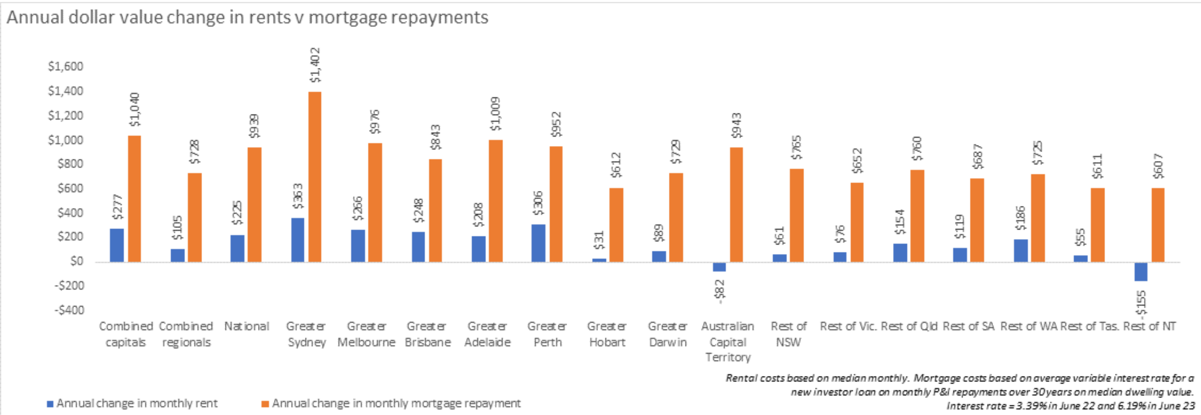
Whilst it's important to also highlight significantly higher loan repayments are a strong contributing factor in the current sale of some investment properties, this change in investor behaviour in terms of lack of trust and confidence in what Governments of the day will do next should be a clear message that investors are well informed. As such, if any level of Government interventions similar to that of Victoria were widely introduced, they will be met with one of three direct outcomes – investors will invest in other jurisdictions (if any are an option), or they'll switch to short-term rentals, or they'll invest their money in other asset classes.

[2] https://www.pipa.asn.au/pipa-annual-property-investor-sentiment-survey-2022/

This would be a massive risk to the Australian economy and the critical volume of existing supply, as well as the future supply needed to meet growing renter demand. If this demand is not met, then rents will continue to be put under pressure to recover more of the existing costs being experienced (example of which is provided in the next chart below) or any future cost increases.

The impact of higher holding costs

The biggest cost challenge for most property investors over the past 12 to 15 months has been the rapid increase in mortgage payments. The following chart from CoreLogic shows the comparison between increased holding costs for the owner and the increased rental costs being passed onto the tenant (when contractually and legally available to the owner and supported by market forces) across all capital cities and rest of state.



The outcome is property owner are carrying the majority of the increased cost burden and it's certainly not the case that property owners are profiteering from renters.

We believe this is important to recognise and acknowledge as fact. There has been a lot of misinformation, fake-news (some even generated or promoted by current politicians) and bias reporting regarding claims of rents increasing by $100 per week etc, without any qualifying context to such increases – lacking balanced journalism.

If any such story were to also acknowledge the actual cost increased experienced by the property owner, things would be different. Say by way of example – an investors costs had increased by $400 per week, and that $100 extra a week they are asking from their tenant is required to help the owner from having to forcibly sell their property, then we suspect this would bring a more 'balanced' narrative to the story and also restore maturity into the debate. Instead, what we get is sensationalist and intentionally misleading narrative, which just divides our community, rather than takes it forward.

Most investors are trying to do what they can to keep rental supply available. There is no profiteering happening for most, when costs are blowing out.

Our own investigations have yet to uncover any materially significant or systemic price gouging or profiteering of renters by these small business property investors.

Whilst it is statistically probable that a handful of unscrupulous investors may be taking advantage of market conditions, we are confident the vast majority (99.9%) of Australia's 2.2 million property investors can demonstrate valid cause/s for the rental price increases being entertained.

For the benefit of this committee's understanding, cost have been rising significantly in the following areas:

- Interest Rates
- Insurances
- Taxes and Charges

- Compliance Costs associated with Tenancy Reform Laws

Case by Case Proposition

As we know each owners' circumstances are different and as such, significant holding costs variations are common. If an owner has a large debt on their property, they're holding costs would have increased significantly compared to an investor who may have little or no debt. Generally speaking, our members find it very offensive when they are portrayed (mostly by politicians seeking their own political advantage) as greedy or self-serving, as it misleads and misinforms the public and creates unnecessary and unwelcomed division between landlords and their tenants.

Politicians hold an important office of power and influence, and this type of behaviours is unprofessional, unwarranted, and divisive to the millions of small business property investors who play a vital role in providing investment and critical accommodation in Australia. Without them, who is going to deliver the millions of properties needed to house renters?

Furthermore, our findings clearly show the reason why these households invest is to provide an investment return that will help them self-fund their own retirement and not be a financial burden on future governments. In fact, most will continue to contribute paying income tax after they retire, further supporting government revenue, which in turn is spent by government to provide the services they do to all Australians.

High Taxes and Charges (Input Costs) – wrecking any chance of affordable land & building:

It has been previously reported by the Housing Industry Association of Australia that upwards of 40% of the cost of building a new house can be made up of taxes, charges, and duties. If you want to make housing and rental housing more affordable, you must reduce the upfront costs to build and buy property.

Here is quick summary list of some of these taxes, charges, and levies etc:

- Windfall Gains Tax
- Utility Charges
- Growth Area Infrastructure Charge
- Affordable Housing Levy
- Rezoning Applications
- Energy Rating Fees
- Metropolitan Planning Levy
- Development Application Fees
- Biodiversity Levy
- Planning Permit Fees
- Negative Vegetation Offset
- Building Inspection Fees
- Land Title Fees
- Building Certificate Fees
- Open Space Levies
- Statement of Compliance Fees
- Workcover
- Special Infrastructure contribution
- Foreign Investors Land Tax
- Lease Variation Charge
- Infrastructure Charge
- Building Warranties
- Land Tax
- Car Parking Levy
- Council Rates

- Insurance Tax
- Drainage Fees
- FESL
- Payroll tax
- Stamp Duty
- Foreign Investor Stamp Duty
- Covid Levy

What is clear from this list is that housing affordability will remain challenging for any builder, developer, or budding property owner, unless something is done here. And on the back of these costs, supply will continue to remain challenged for all property buyers.

Either Government's need to learn how to spend less, or property prices are going to continue to have significant input costs built into their construction and acquisition costs, as governments keep looking for more ways to tax property owners and Australians.

Rental Cap and/or Freeze Policy

Initially we did not take any talk of rental caps or freezes seriously. The very idea is such a dangerous economic and social policy play, we did not think it would ever see the light of day.

Given the mounting evidence we have detailed above regarding the negative impact that Tenancy reforms and constant market interference is having already on existing supply levels, a policy of this nature will set back future supply for years, or even a decade, as investor will judge the private rental property market no longer safe, stable, or suitable for their goals.

And if this was the case, who or where is the hundreds of billions of investment funds going to come to supply the millions of future rental properties that Australia will need to meet demand.

Investors have already clearly demonstrated their waning appetite for investment in residential property. We believe these more extreme cap and freeze proposals may well remove that appetite all together.

We concluded the following impacts:

- Further sell up of private rental property
- Flight to short term rental by some investors
- Chronic shortage of rental accommodation will become critical
- Share homes will be overcrowded
- Immigration will be impacted in attracting the best and brightest from overseas
- The economy will be impacted on the back of human capital mobility
- Higher taxes needed to pay for additional housing to supplement the decline of investment by private investors
- Renter conditions may be impacted as landlords look to manage improvement costs
- The risk of a 'shadow rental market' emerging as some desperate owners look to operate outside of the traditional property lease contractual laws.

That's our view, but I'll leave the final word to the Australian Housing and Urban Research Institute [3]when it said:

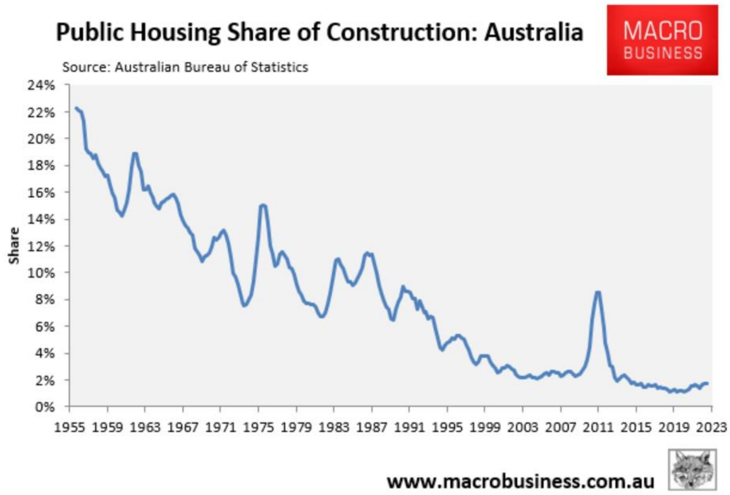
- *it can reduce number of rental properties as landlords sell to owner occupants so that they can earn the market price for their real estate*
- *it can lead to 'mis-match' between tenants and rental units. Once a tenant has secured a rent-controlled apartment, they may choose not to move in the future and give up rent control, even if their housing needs change, which can lead to an inefficient allocation of housing resources*

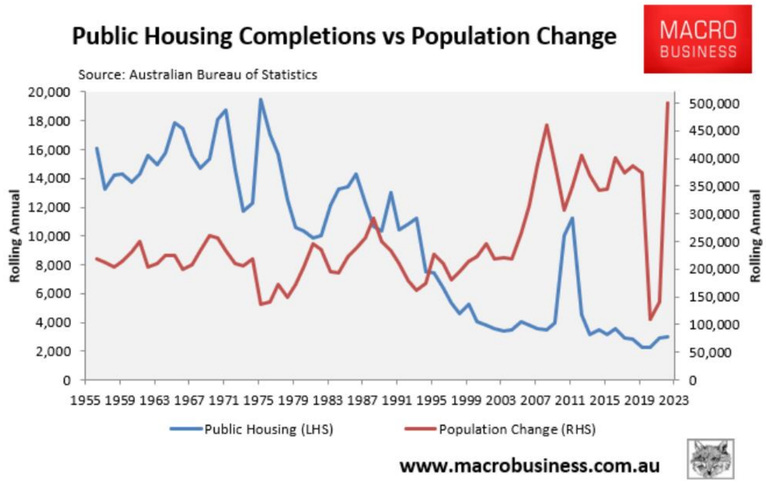
[3] https://www.ahuri.edu.au/analysis/brief/understanding-what-rent-freeze-rent-cap-or-rent-control

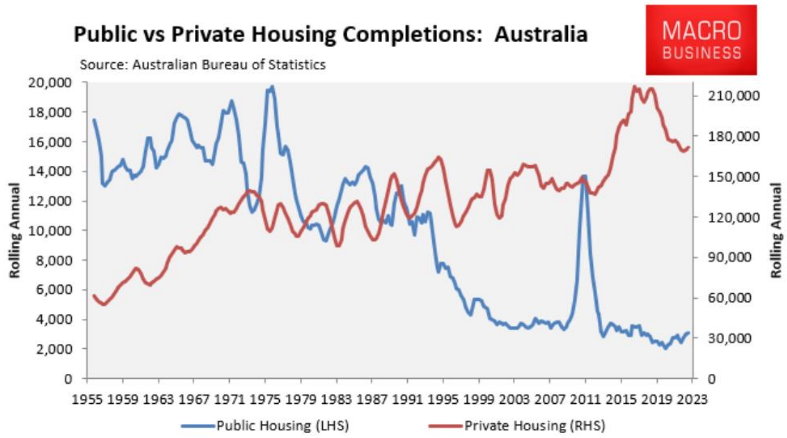
- *renters may choose to consume excessive quantities of housing*
- *it can lead to disrepair of the rental housing stock as landlords may not invest in maintenance because they can't recoup their investment by raising rents.*

How did we get here? - Falling Government Investment in social & public housing
It's well documented that governments tend to run inefficient and costly public housing programs when compared to the agility and efficiency of private investors. Despite this, there's still a great need for public housing to be provided to the most vulnerable members of our communities. Governments of the day have a duty of care to provide such accommodation.

Yet, as evidenced in the charts below, their investment in the supply of such accommodation has not been consistent or forthcoming over the past few decades (source: Marco Business)







In real completions terms, past Federal and State Governments during their terms in office haven't made the necessary investment in housing supply required to meet the needs of these most vulnerable members of our communities.

Making the financial investment required to meet diminishing private investment is going to be major cost for all levels of government and that will ultimately be borne by the citizen of this country. How will all members of the public feel about higher overall taxes to supply accommodation that up until recently private investors were willing to provide.

Conclusion:

Current governments find themselves in a difficult position, but they are making conditions even more challenging by attacking and taxing their major stakeholder in the supply of rental accommodation off-side.

Small business property investors are not the cause of this current rental crisis. As documented, most are not even covering the increased costs to hold their properties so as to keep them in the rental pool.

In fact, their actions to ensure they remain as active private rental accommodation providers should be applauded, not criticised. Without their efforts, the current rental situation would be even more dire. Investors should be thanked for their important contribution to housing, yet instead some politicians try to lay the blame at their feet, which disappointing and not based in fact.

These investors want confidence when investing hundreds of thousands of dollars over the long term. They want to trust the governments of the day that they will not be mistreated or taken advantage of. Their current actions are telling you all they are getting tired of it and are becoming dis-interested in helping play a vital role as one of the key stakeholders.

PICA has many recommendations we believe will improve investor confidence, and ultimately the supply of new rental accommodation, which will reduce the pressure on rental prices.

We ask for the opportunity to meet directly with the committee to share these views and ideas with a view to improving outcomes for all Australian renters .

We await your invitation to open dialogue on this topic.

The National Board

Property Investors Council of Australia

August 4th, 2023.