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Faculty of Built Environment

City Futures Research Centre

Exploring the Geography of Australia's Private Rental Investment Boom

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Presentation draws on:

- Authors' back catalogue of research on Australia's private rental sector (esp. Hulse et al, 2012; Hulse et al, 2014a & b; Randolph & Holloway, 2005; Randolph & Tice, 2014)
- Ongoing 'private rental investors' study (UNSW/Swinburne)

Section 1 – Expanding private rental housing and the changing sector profile

Section 2 – Housing market dynamics of PRS expansion and possible links to changing urban social geography

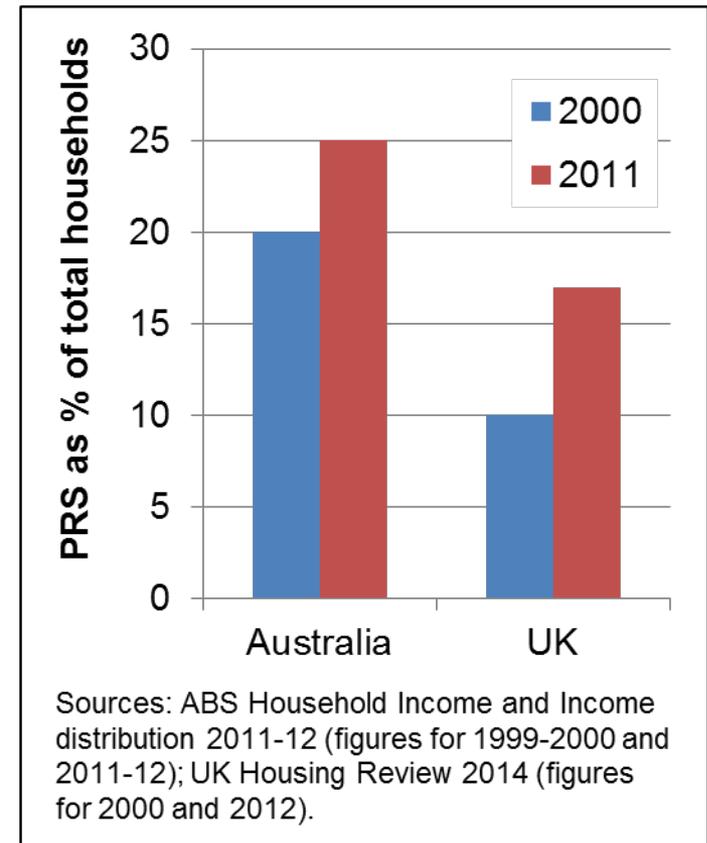
Section 3 – Rental investor landlords: profile, motivations choices

Section 4 – Exploratory research on the changing geography of Sydney's private rental housing

Section 5 – Conclusions and research themes

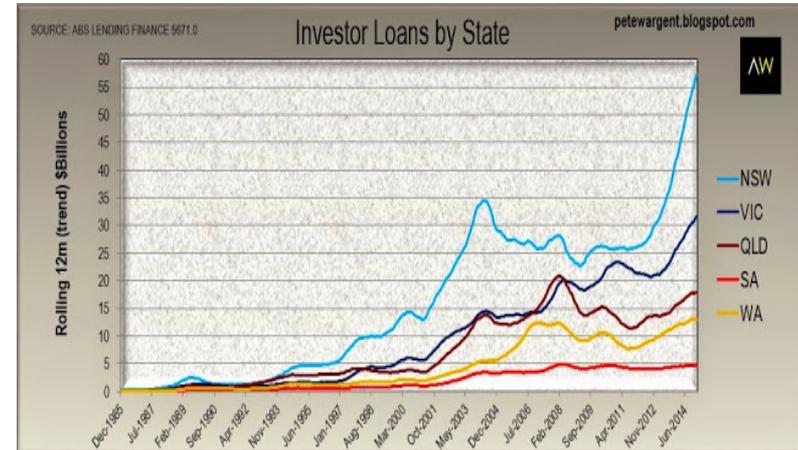
Section 1 – Expanding private rental housing and the changing sector profile

- Growing role for private rental in modern housing markets – partially compounded by GFC
- As in the UK, PRS the only Australian growth tenure over past decade
- Rising numbers of long term renters; family renters; emergence of ‘generation rent’
- Paralleled by expanding cohort of ‘investor landlords’ – rental income received by 14% of Aus taxpayers in 2010/11
- 40% of Aus mortgage approvals to investor landlords 2014 (50% in Sydney)
- Little previous research on geography of private rental expansion – either in Australia or UK

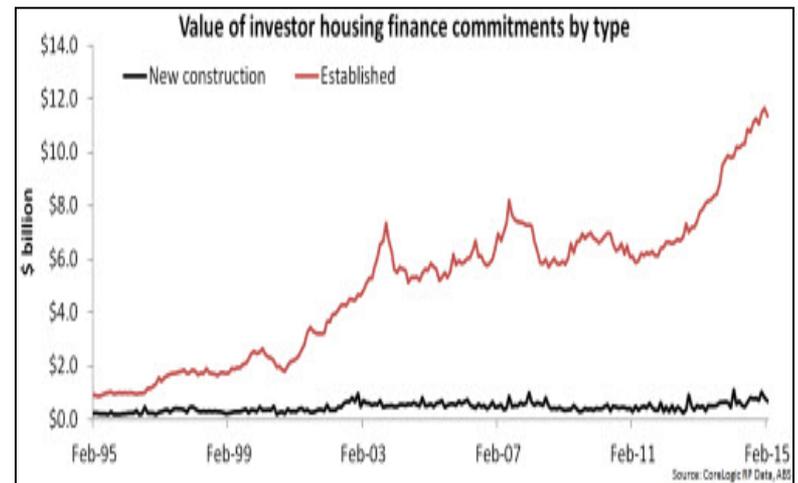


Overview of rental investment boom

- Housing finance approvals for 'investor landlord' acquisitions rapidly expanded in 1990s and post-2011
- Especially marked in hottest housing markets
- Overwhelming dominance of existing property purchase



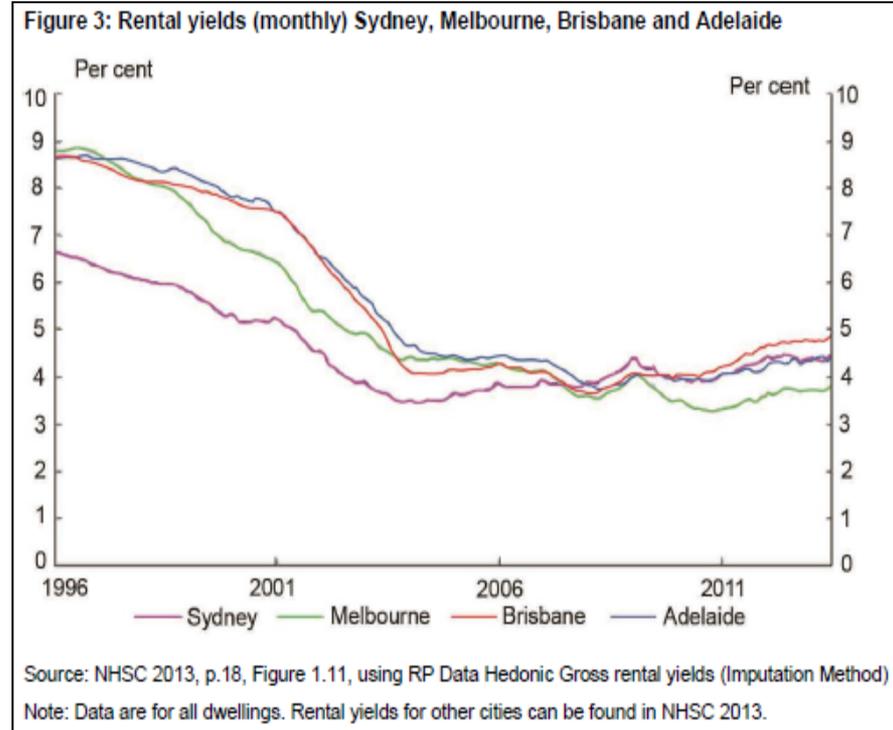
Source: Property Observer 29 March 2015



Source: Property Observer 10 April 2015

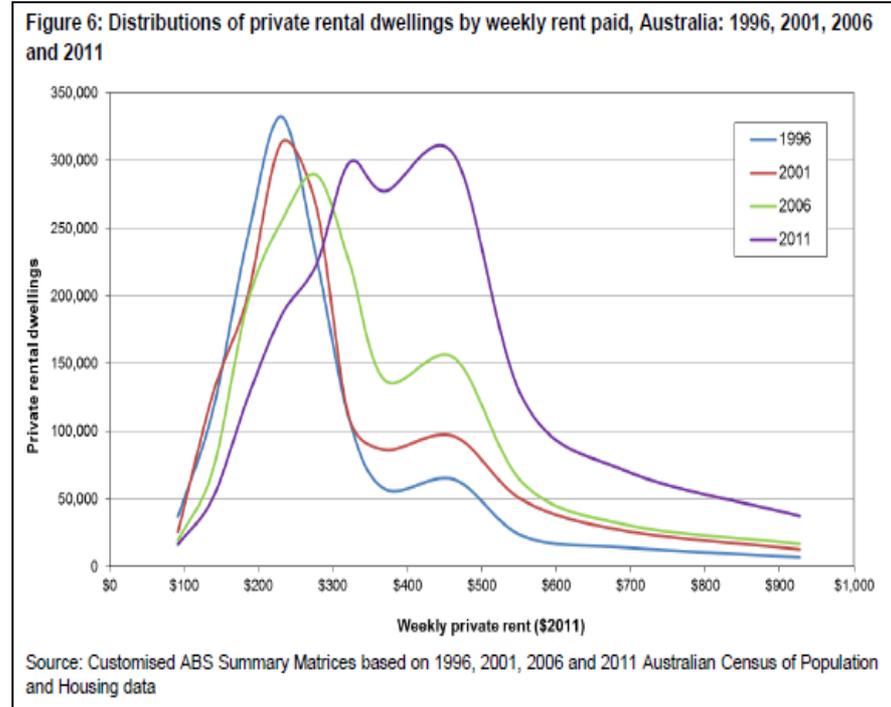
Trend in private rental returns

- Recent investor acquisition boom co-existent with historically modest gross rental yields
- Due to rapidly inflating property values post-2000 alongside more modest rent increases.



Changing rental profile – national trends

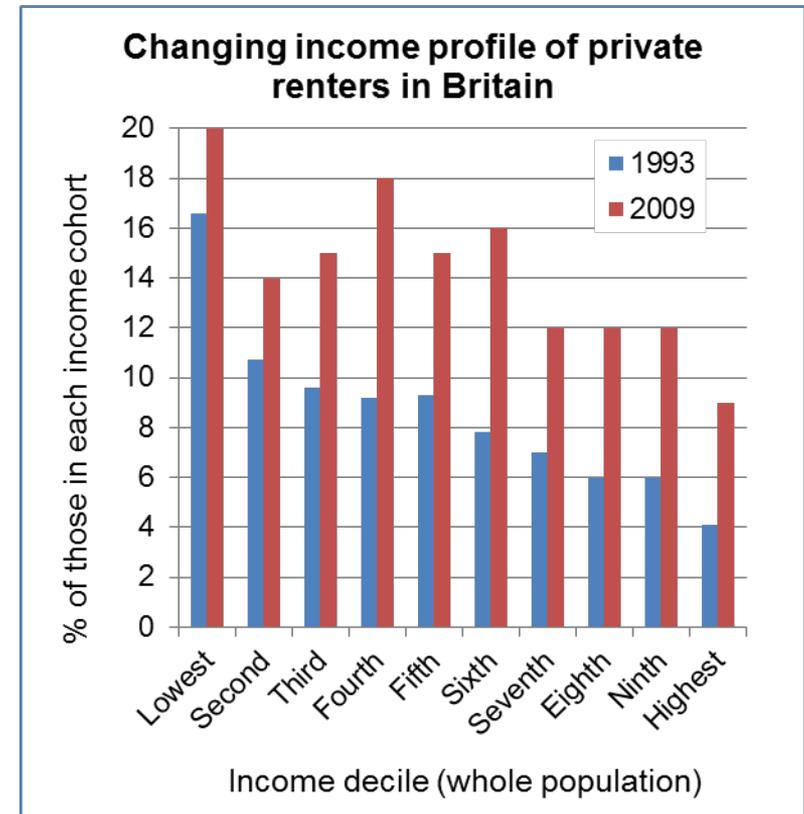
- Ongoing structural shifts as 'low rent' component of sector contracts
- Marked acceleration of process in 2006-2011 period



Extracted from Hulse et al (2014b)

Changing income profile of private renters

- As in UK, Australian PRS v. socially diverse, but balance shifting slightly towards lower income cohorts:
 - Using hhd income quintiles, 45% increase in Q1/Q2 private renters 1996-2011 – just above 41% overall PRS increase (Hulse et al, forthcoming 2015)
- UK comparator analysis (1993-2009) shows:
 - Rising % of lowest income cohorts living in PRS, but more substantial growth in middle/higher income cohorts
 - Overall trend – upmarket shift



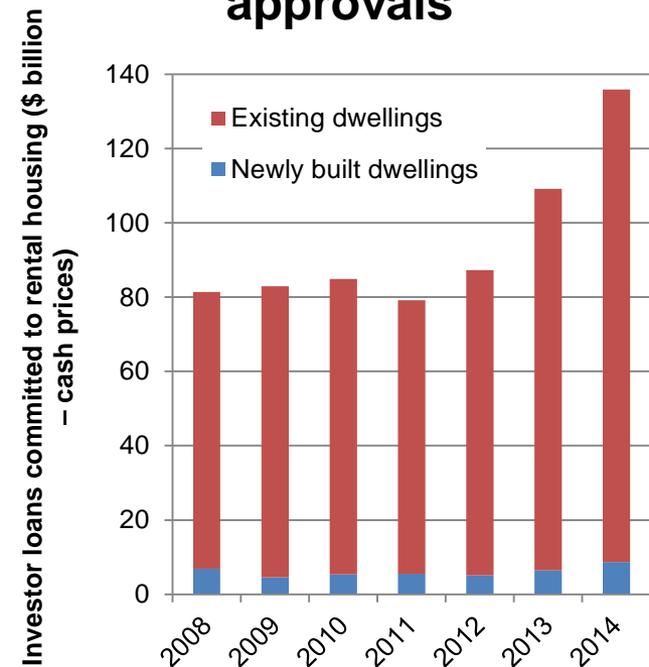
Source: Pawson (2012)

Section 2 – Housing market dynamics of PRS expansion and possible links to changing urban social geography

Housing market dynamics of expanding private rental

- Rise of PRS at expense of home ownership reflects:
 - Demographic change – incl. more small households; burgeoning migrant workers and students
 - Structural economic change – growing labour market insecurity → global rise of ‘precariat’ class
 - Lifestyle choices – incentivised by tax concessions in Aus (see later slide)
- PRS expansion largely involves existing (not newly built) properties – see graphic
 - Some trading of formerly PRS homes
 - Mainly ‘tenure conversion’ of formerly owner occupied dwellings

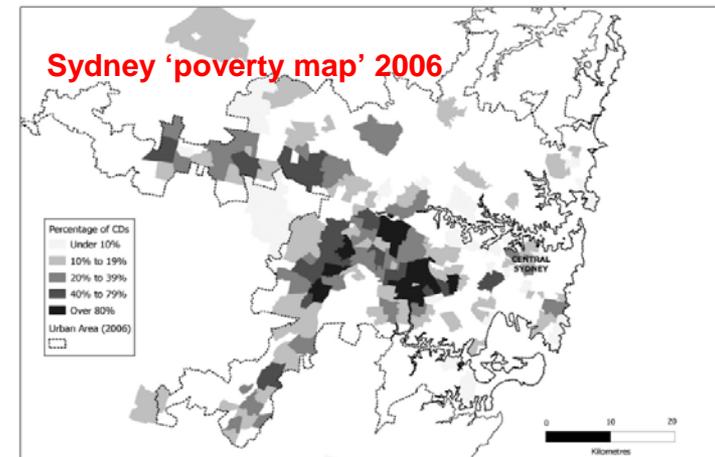
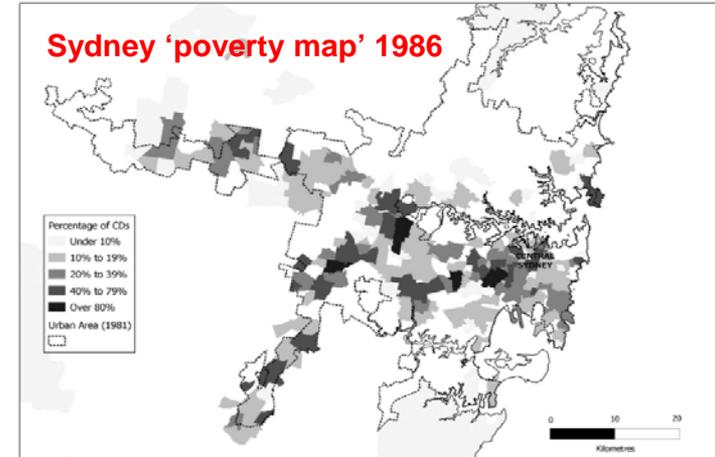
Rental investor loan approvals



Source: ABS 5609.0, Table 11

Expanding private rental: geographical implications at the metropolitan scale

- Australian socio-spatial context is 'poverty suburbanisation' dynamic ongoing in major cities since 1980s
- Decisive shift away from inner city focus
- Sydney's 2011 epicentre of disadvantage 34 km from CBD – moved >1km further out 2006-11 (Pawson & Herath, 2015)
- Similar trends in US and UK in recent years but sharper outcomes in Australia
- 2001-2011 ongoing suburbanisation of disadvantage paralleled by disproportionate PRS expansion in 'disadvantaged suburbs'
- Is the latter a continuing dynamic? If so, why, and with what implications?



Extracted from Randolph & Tice (2014)

Expanding private rental: geographical implications at the neighbourhood scale

- Nhood-scale patterns, implications?
- Transition: owner occupied → rental – obverse of ‘classic gentrification’
- UK instance – ex-RTB properties reverting to private rental
- *Studentification* – specific aspect examined by Sage et al (2012)
- Possible hypotheses around ‘downward’ filtering of ex-owner occ homes into PRS:
 1. Especially involves certain types of property, certain types of location
 2. Is contributing to ongoing socio-spatial polarisation
- Little studied in Aus or UK



Section 3 – Rental investor landlords: profile, motivations choices

Rental investor landlords: profile, motivations, choices (1)

- Vast majority individuals rather than companies
- ‘Mum and dad investors’ – existing domestic home owners
- Some foreign buyers: but only allowed for newly built properties
- Renter-landlords – not primarily ‘rent not to sell’ landlords as in UK but young domestic renters prioritising residence in preferred area
- 1 in 8 private renters also landlords in 2009-10 (Hulse & McPherson, 2014)
- Strategy involves:
 - Rent in ‘expensive area’ own in lower value market
 - Accumulate homeownership capital gains without being *owner occupier*
 - Rental losses offset against tax thru ‘negative gearing’
- Wider context: growing value placed on access to inner city ‘café culture’ and high value jobs

What is negative gearing?

Australia’s tax rules allow offset of a landlord’s ‘business losses’ against the tax payable on the taxpayer’s income from ***all sources***.

Thus, where loan payments and other expenses exceed rental income the loss reduces gross taxable income.

In effect, tax foregone (approx \$5bn p.a.) a subsidy to landlord investors
NG ‘works’ if annual capital gain > rental loss (minimised thru tax concession)

Rental investor landlords: profile, motivations, choices (2)

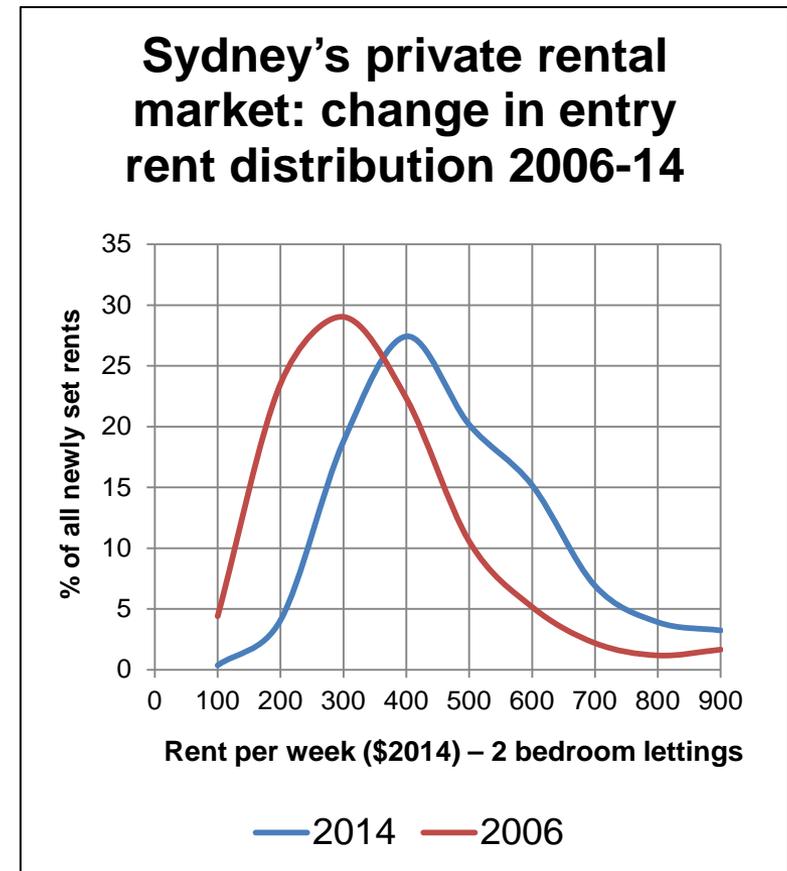
- Historical evidence (1991-2001) of growing spatial concentration of **low rent PRS** dwellings in Sydney (Yates & Wood, 2005)
- Relatively little known about contributory rental investor behaviour
- Existing studies suggest lack of sophistication in investor strategies
- Given recent boom in specialist real estate industry, possibly no longer accurate
- Recent increases in rental investor use of ‘SMSF’ (tax efficient) vehicle
- Does intensity of acquisition activity in low value areas reflect:
 - ‘More professional’ investment judgements?
 - Increasing incidence of investor landlordism further down income spectrum – property acquisition geography mainly reflecting desire for a ‘local’ portfolio on part of suburban-resident landlords?

Section 4 – Exploratory research on the changing geography of Sydney’s private rental housing

- Subsequent analyses utilise NSW Rental Bond Board records
- Residential Tenancies Act requirement for all tenants to lodge bonds generates valuable dataset
- Administrative database requires extensive address cleaning to facilitate geocoding
- Analysis usually focused on 'entry rents' (new bonds) to monitor market trends
- Our analysis also covers full dataset (all extant bonds) to reveal PRS provision

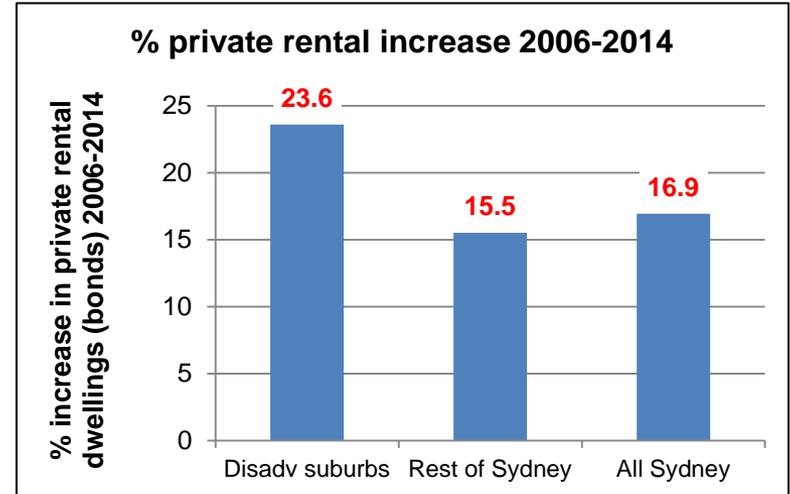
Changing profile of Sydney's private rental sector

- NG controversial partly because 'untargeted subsidy'
 - Allowed for existing and new property
 - No restriction based on property value – much support flows to 'upmarket purchase'
- Latter arguably reflected in ongoing diminution of 'lower rent' properties nationally and in Sydney – see graphic
- Focus on 2-bed lets narrower than national analysis (earlier slide)
- Marked 'upward shift' in Sydney distribution also reflects strong demand
- Typical rent up from \$300-\$400 pw.



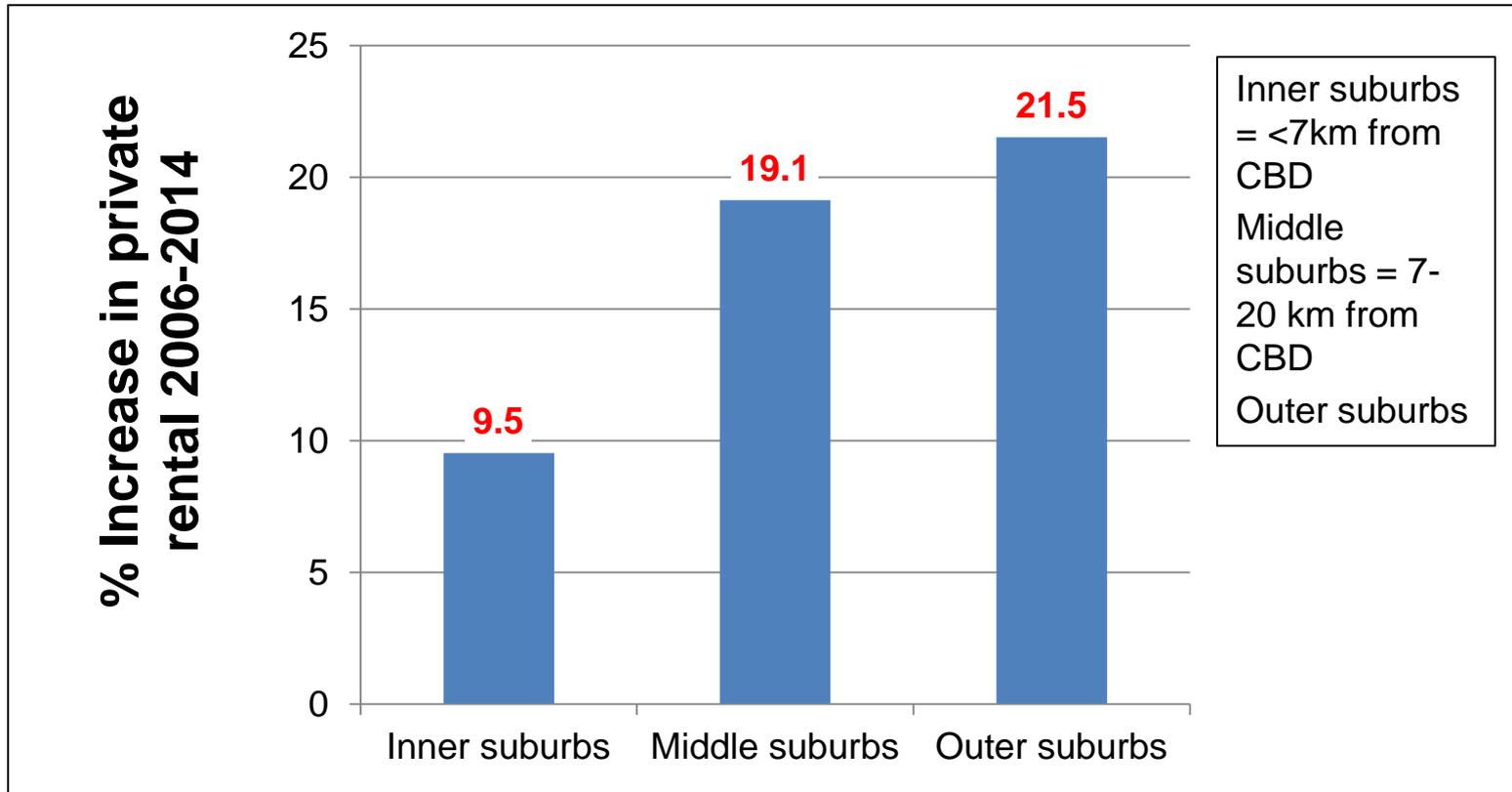
Geography of PRS expansion in relation to neighbourhood 'disadvantage' status

- 11% of Sydney suburbs classed 'disadvantaged' (Hulse et al, 2014a)
- In lowest quintile of national distribution on SEIFA deprivation index
- Predominantly in middle and outer suburbia
- Disproportionate PRS growth in DS areas 2006-2014
- Slight increase in share of citywide PRS housing in DS areas



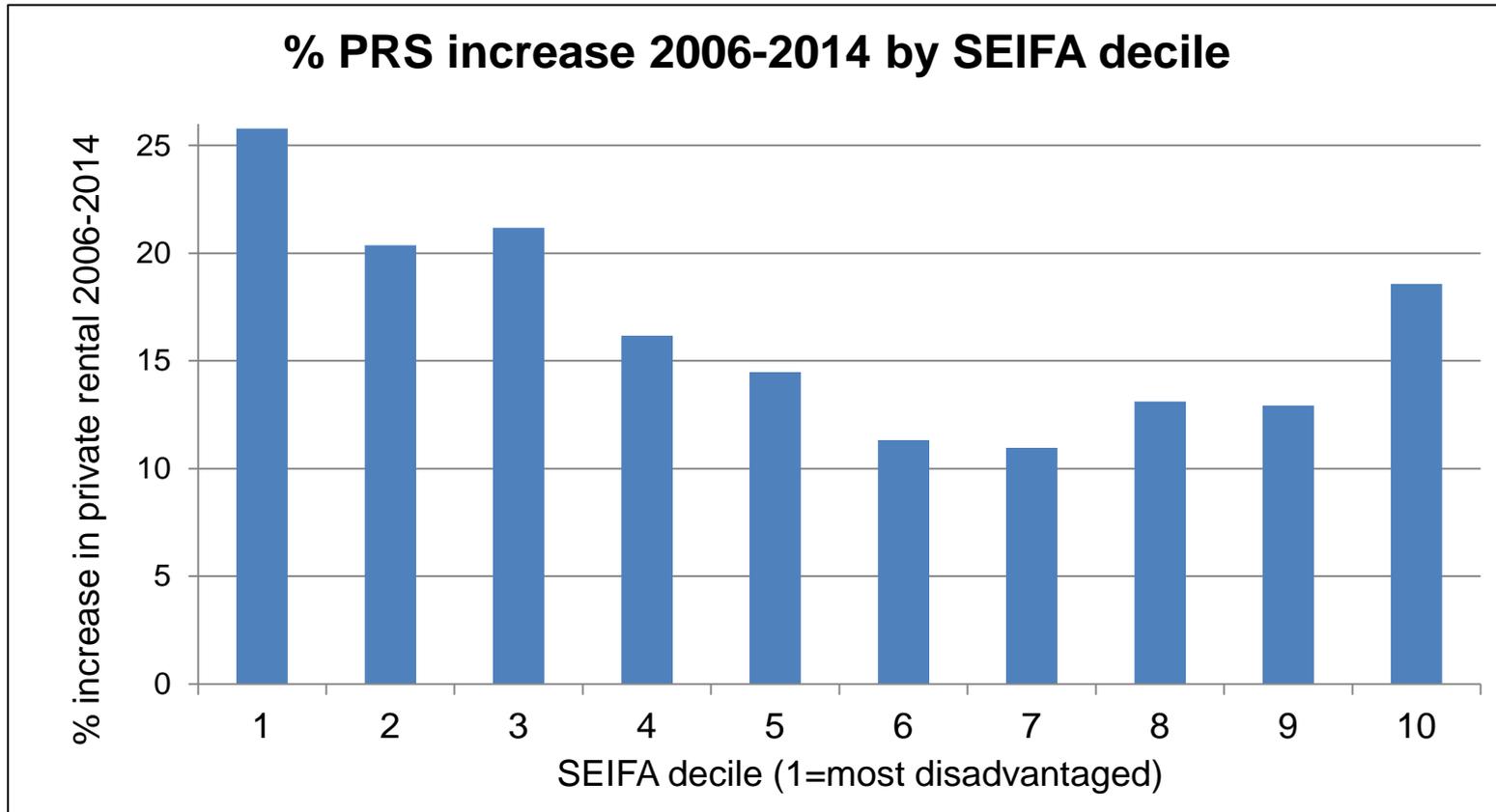
Area type	PRS 2006	PRS 2014	% change 2006-2014
Disadvantaged suburbs			
Isolate suburbs	1,752	2,719	55.2
Lower priced suburbs	49,408	60,861	23.2
Remote suburbs	9,392	11,142	18.6
Dynamic improver suburbs	12,185	15,187	24.6
All (sub-total)	72,737	89,909	23.6
Rest of Sydney	342,998	396,248	15.5
All Sydney	415,735	486,157	16.9

Geography of private rental expansion relative to CBD location



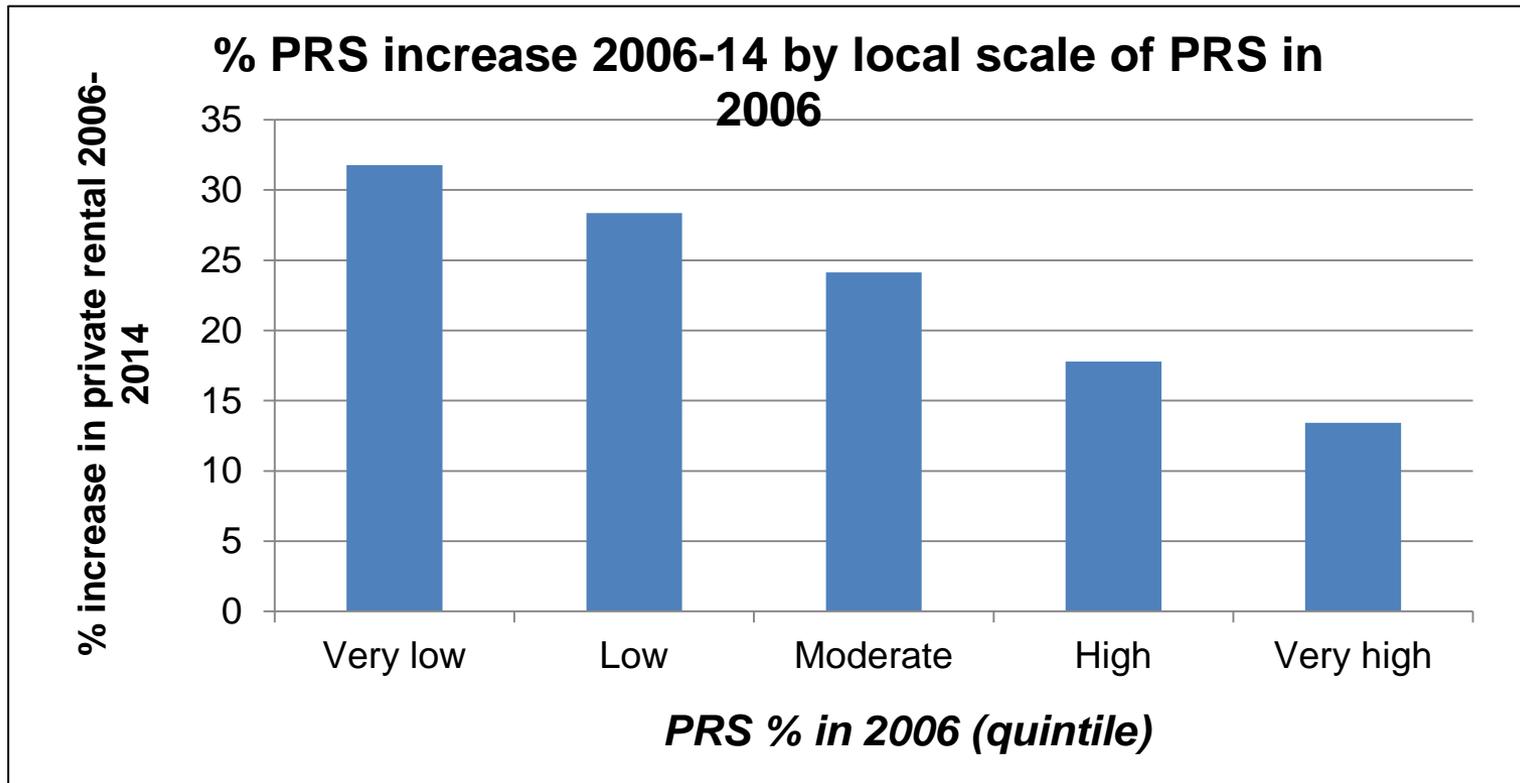
PRS dwellings in 'inner suburbs' down from 31% to 29% of total, PRS dwellings in outer suburbs up from 34% to 35%

Geography of private rental expansion in relation to n'hood deprivation status



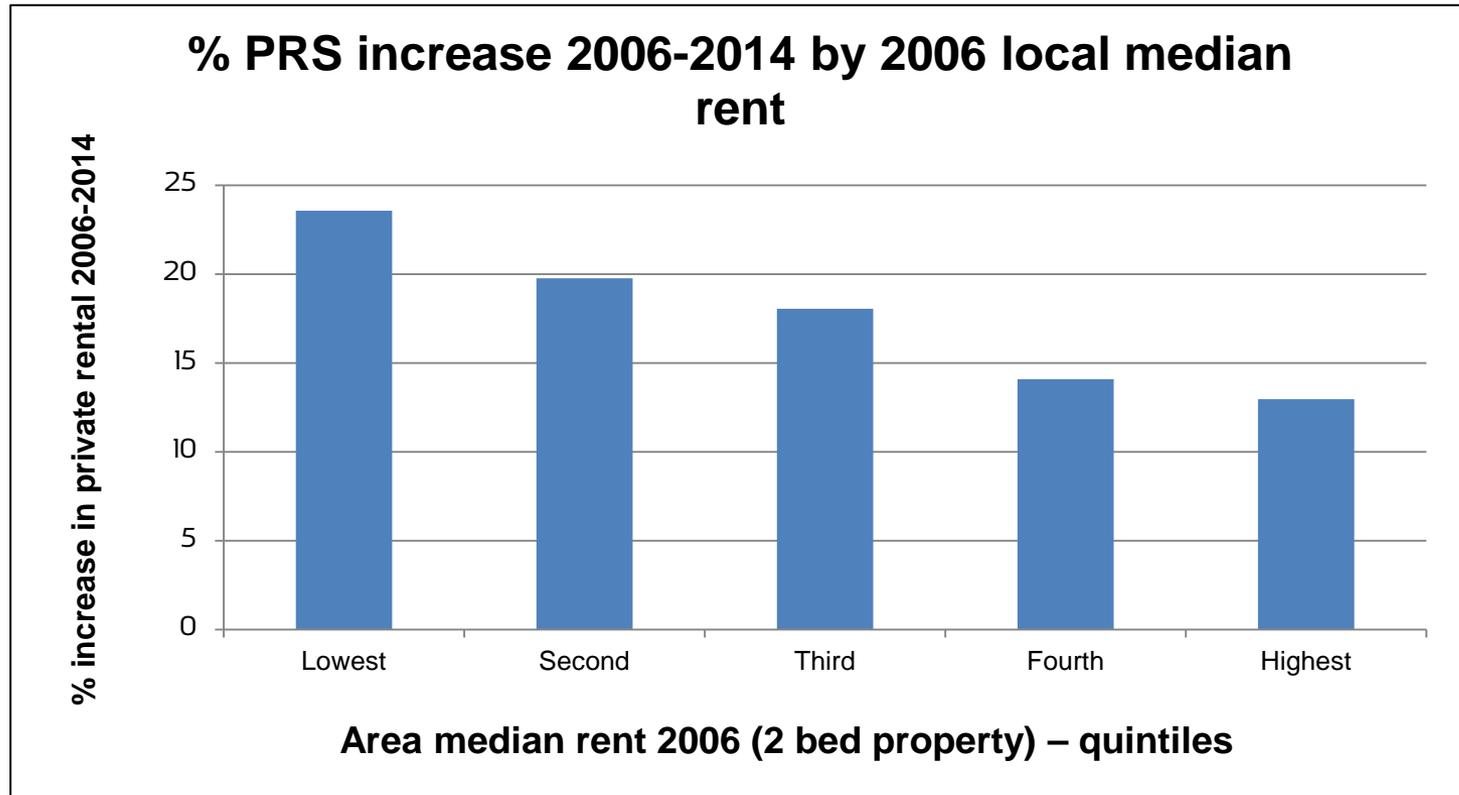
Pattern of change consistent with 'bifurcated sector'.

Geography of private rental expansion in relation to pre-existing scale of PRS



Area growth rates inversely related to existing scale of provision; spatial 'equalisation' dynamic? Or just a statistical artefact (standard nominal increases produce higher % rises in previously 'PRS sparse' areas)

Geography of private rental expansion in relation to local median rent



Inverse relationship between pre-existing rent level and growth rate – consistent with higher growth rates in middle and outer suburbs

Section 5 – Conclusions and research themes

Summary of stats review and exploratory research findings

- Private rental growth trend long-established in both countries
- As in the UK, expanding Australian PRS primarily thru' acquisition of existing, formerly owner-occupied housing
- Australian tendency for disproportionate expansion of:
 - higher rent sub-sector
 - lower income tenants
- Implication of declining rental affordability
- Geographically, aggregate impacts of investor decisions contributing to:
 - Increasingly suburbanised balance of provision
 - Disproportionate expansion in lower rent, low status ('disadvantaged') areas
- But pattern of change also consistent with bifurcated sector

Ongoing ARC Sydney/Melbourne study: proposed research questions and components



Question	Data source/technique
What is the changing profile of (domestic) private rental investors?	Analyse 2009/10 and 2013/13 ABS Survey of Income and Housing
What is the changing geography of low (private) rent housing?	Analyse Rental Bond Board (RBB) and/or ABS census data 2001-2014
What is the geography of rental property yields?	Modelling utilising RBB rents data and house sales data (unit records)
What factors underlie the profile and behaviour of private rental investors in different housing market contexts?	Postal survey of recently purchasing investor landlords (similar to Crook et al study in Scotland)
	In-depth interviews with rental investor landlords recruited via survey
What are the links between PRS investment patterns and the geography of disadvantage?	Analysis of ABS longitudinal census dataset to calibrate tenant residential mobility
	New tenants survey

Key references

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