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 10 April 2015

Source: Property Observer 29 March 2015
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.

Figure 3: Rental yields (monthly) Sydney, Melbourne, Brisbane and Adelaide

Source: NHSC 2013, p.18, Figure 1.11, using RP Data Hedonic Gross rental yields (Imputation Method)
Note: Data are for all dwellings. Rental yields for other cities can be found in NHSC 2013.
Changing rental profile – national trends

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

Figure 6: Distributions of private rental dwellings by weekly rent paid, Australia: 1996, 2001, 2006 and 2011


Extracted from Hulse et al (2014b)
As in UK, Australian PRS v. socially diverse, but balance shifting slightly towards lower income cohorts:
- Using hhld 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
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

Source: ABS 5609.0, Table 11
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?
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)

- 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.
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

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

% PRS increase 2006-2014 by 2006 local median rent

Area median rent 2006 (2 bed property) – quintiles

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

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


Randolph, B. & Tice, A. (2014) Suburbanising Disadvantage in Australian Cities: Socio-spatial Change in an Era of Neo-liberalism; *Journal of Urban Affairs* 36(2)