Further evidence, Leo Patterson Ross for the Tenants' Union of NSW

<u>On Rents and Costs</u>

During the hearing we began a discussion of the costs of operating a rental property and I am pleased to offer some further information.

In Australia we are fortunate to have a rich dataset published by the Australian Tax Office which details the costs and income associated with the property.

There are a number of limitations of this dataset, namely
1. That each taxpayer completes a schedule for each property they have part ownership in. Joint ownership inflates the number of properties and deflates both costs and income.
2. That ownership may be for only part of the year, and this is not adjusted. This means a property sold partway through the year may not have a representative cost or income profile - including attracting higher than usual costs around sales, and lower than usual income or costs when considered across the full tax year without being able to correct for this.

These limitations mean that the dataset is best used to demonstrate relative rather than absolute costs, but still gives a good indication of the kinds of costs associated with ownership, including for shared ownership.

The statistics reveal a number of insights not well aired in discourse.

One in four property schedules reported no interest paid for the property during the year. This rate is higher in some states and territories, ranging from 30% in Tasmania to 20% in the Northern Territory.

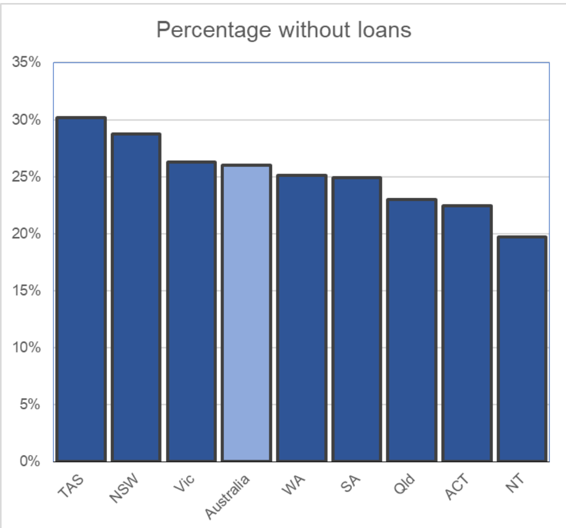

Table 1. Percentage of property schedules reporting no loans. ATO Taxation statistics 2020-2021, TUNSW Analysis.

There remains a persistent claim that rents have risen because of the rise in interest rates and other costs for the landlord, rather than because of a shortage of available, good quality homes relative to the community's needs. However by comparing the changes in rents for sitting tenants and the underlying cash rate in Table 2, we can see that the current rapid increase in rents paid started a full year before the rises in interest rates would have had an impact.

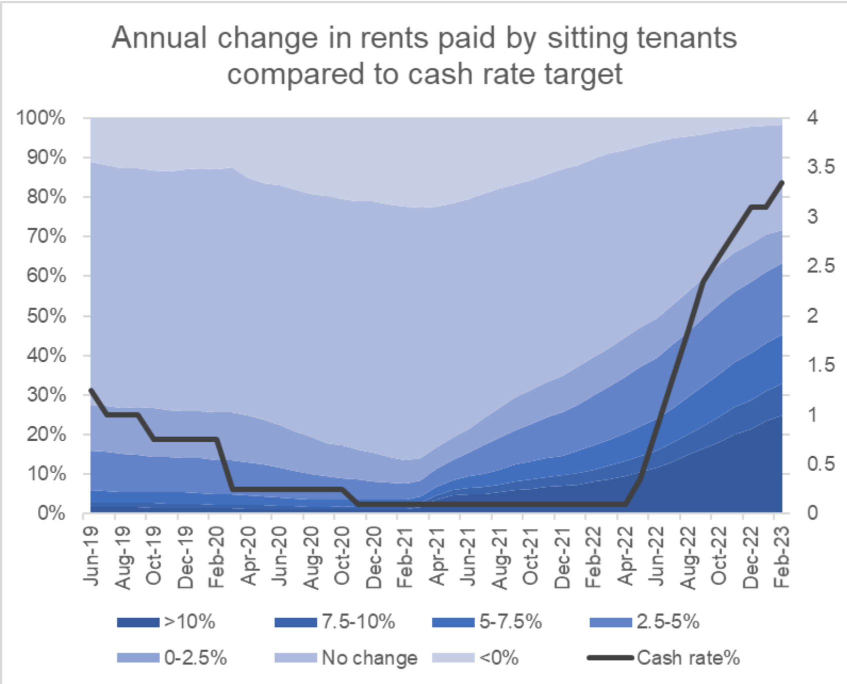

Table 1. Annual change in rents paid for existing properties compared to cash rate target.[1] ABS, RBA.

The impact of leveraged investments

Through special request to the ATO we have also obtained data concerning the costs of people with and without interest. We suggest that the cost of borrowing ought to be removed from the calculation. The loan gives a purchaser the capital to buy an asset, and should be considered more appropriately against the expected capital gain. This is quite dependent on the purchaser's already existing capital and their appetite for risk. The amount borrowed to purchase a property varies widely across investors.

In contrast, the costs of repairs and maintenance of the property are more universal and ought to apply to the property regardless of the investors particular financial position. It is these costs that rents may more reasonably be required to cover.

We calculate in Tables 3 and 4 that excluding the cost of the loan, landlords with and without loans face very similar costs and receive similar rents within their jurisdictions. The proportion of costs compared to rents nationally is 50-58%, leaving a large proportion of the rent collected above the required operating costs.

[1] Hanmer, F. and Marquadt, M. (2023) *New insights into the rental market*, *Australian Bureau of Statistics*
Reserve Bank of Australia (2023) *Cash rate target*

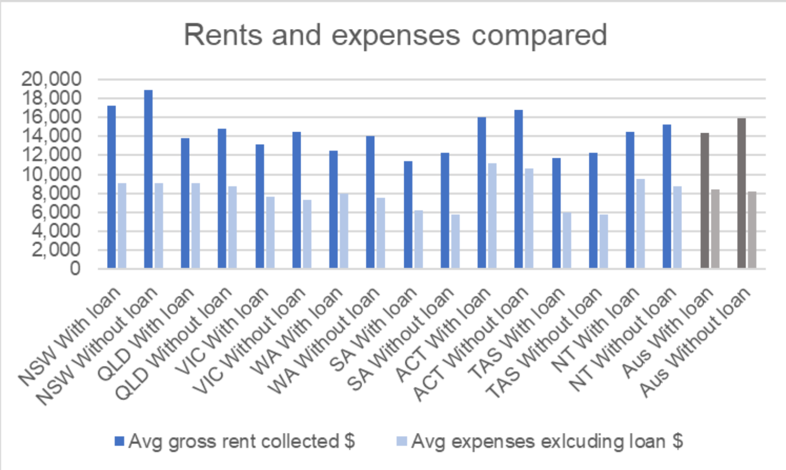

Table 3: Gross rents and expenses compared, ATO special request, TUNSW analysis

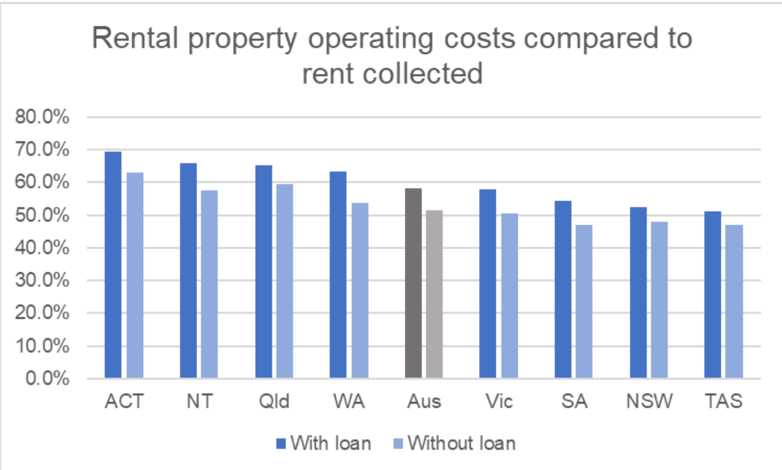

Table 4: Rental Property operating costs compared to rent collected, ATO special request, TUNSW analysis

This is an area that needs further analysis and insight but we hope gives a starting point for further conversation.