

## **Submission to the Senate Community Affairs References Committee**

### **Turning tenants into owners: the long term solution to the private rental crisis.**

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**Monday, 24 July 2023**

*This short submission challenges what has become a “new orthodoxy” of thought around private rental housing and encourages a different path for Australian housing policy to that currently being offered to “Generation Rent”.*

*Our simple message to policy makers is this: Think long-term and listen to what Australians say they want from a national housing policy. For the overwhelming majority of Australians, the number one aspiration is to own a home of one’s own. Apart from the young and perhaps a small cohort of older wealthier people, there is simply no desire amongst Australians to be long-term tenants.*

*We need to redirect housing subsidies so that we turn as many private tenants as possible into home owners.*

#### **1 Introduction.**

- 1.1 There has been an enormous amount of housing research over the last thirty years that points to one firm policy conclusion: private renting is unable to deliver the housing outcomes that have come to be expected of it (Stone et al 2013, Hulse et al, 2019, Martin et al 2018,2022). It remains unable to offer secure, affordable long-term housing solutions, despite gobbling up very large amounts of subsidy for which government can show no long-term return to the public purse. Costs are socialised to the benefit of landlord’s private balance sheets.
- 1.2 It was not always that way. In the four decades after World War Two, private rental housing was expected to play predominantly a transitional housing role for younger households aspiring to, and indeed achieving, home ownership. For many other largely poor households it was the tenure of last resort. It was expensive, insecure and provided housing often barely fit for human habitation. There were few subsidies directed at it, for it was expected and planned to decline.
- 1.3 Over the last three decades, policy makers have given it a role for which it is ill-suited in the form of a long-term housing solution for those on middle and low incomes (Stone et al 2013, Burke et al 2020). Despite escalating subsidies to tenants and landlords, most

tenants continue to live in housing that is unaffordable. Too many live in over-crowded conditions. And all endure the insecurities that come with private rental housing that is, by western standards, governed by landlord-friendly legislation. Worst of all, their clear preference to become home owners is routinely ignored.

- 1.4 It is as if our policy makers have become obsessed with ways to enable a minority of Australians to make money out of housing by owning as many long- and short-term rental properties as they can by virtue of a mountain of government subsidies. Despite all those handouts, not only are housing policy outcomes poor and deteriorating, the public sector balance sheet has nothing to show in return.
- 1.5 Inquiries such as this need to ask whether Australia is to be an ownership or a rental society, for we know that the latter only brings with it lack of security, wealth inequality, housing stress, and an inability of occupants to be able to express personal identity through decoration and renovation.
- 1.6 Australia of the 1960s and 1990s was recognised internationally as a home ownership society. Today we don't even rank amongst the top dozen (Burke et al 2019).
- 1.7 It is time to reclaim our title, not by accident but policy design.

## **2. Killing home ownership, by default.**

- 2.1 By adopting terms of reference that understandably seek to improve the lot of private renters, the Senate Community Affairs References Committee could be seen to be the latest champions of private renting as a long-term tenure option. This would be regrettable.
- 2.2 We urge the Committee to make it clear that this is not its intention; that there is a pressing need for a national, long-term housing policy and that the goal should be to secure universal home ownership (defined as being a home of one's own for all those who aspire to it<sup>1</sup>).
- 2.3 It would, however, be appropriate to acknowledge the need for short term policy and program reforms that help ameliorate some of the problems that bedevil the sector today.
- 2.4 But the Committee must keep its eye on the main prize: over the long term we should be turning tenants into owners, and not the other way round.
- 2.5 The landlord lobby – most well represented by real estate agents -- is politically powerful and attempts to reign in generous tax provisions or effective nationally-consistent landlord-tenant regulations have been successfully resisted for decades.
- 2.6 We are now seeing another generation of property interests successfully secure a new set of subsidies in the form of tax breaks and regulatory deals for what is being called, "affordable housing" and "build-to-rent", without robust requirements being first put in place to ensure that the housing that is delivered offers to tenants promised benefits over the long-term. The national social housing regulatory framework is not fit-for-purpose and is in need of urgent reform to ensure all forms of subsidised housing are

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<sup>1</sup> In saying this we acknowledge there will be 10%-15% who either do not wish to own a home for good reason or whose precarious social circumstances make this unrealistic, at least in the short run.

covered, and that the framework is re-arranged so that tenants, not owners, are put at the centre of the regulatory picture.

- 2.7 By continuing to bulk up subsidies to landlords, we will price-out would be home owners from the housing market, with generous tax breaks enabling landlords to outbid owners in the competition to buy vacant dwellings. The reality is that the more generous the subsidies to landlords, the more we condemn young Australians, especially, to a lifetime of being a tenant.
- 2.8 The starting point for any discussion about the tenure direction of Australia should be with a well-developed and clearly articulated national housing strategy with universal ownership (defined as home ownership for all those who aspire to it) as the fundamental goal. Such a strategy should be developed jointly by the Commonwealth and the states with bi partisan consultation and support in the same way that our federation worked in policy unison in the post war period spoken of earlier.

### 3. Background

- 3.1 Tenure post war.** Up until the 1980s, Australia did not have a national housing policy as such. But there was a bi-partisan commitment by the Commonwealth and the States to support home ownership as the preferred tenure. Public housing was for a short time seen as the second string of a two-pronged policy, but this did not last for long.
- 3.2** Although State Housing Authorities remained substantial builders of new dwellings, much of their focus was on selling public housing to sitting tenants at a significant discount. Thus, stocks of public housing did not grow, despite substantial investments. Public housing became another vehicle to achieve home ownership.
- 3.3** Neither Party supported private rental housing, which was an unpopular option for the clear majority of Australians. The intent was to allow private rental housing to shrink over time, largely through neglect and the channelling of government support to home ownership.
- 3.4** An interlocking range of policy tools was used at the Commonwealth and State levels to achieve this long-term policy goal. Amongst other things, this included:
- The establishment of the Commonwealth and State Banks as vehicles for lending to home owners, which brought with it a control over the quality of the dwellings that were financed;
  - The establishment and growth of Building Societies, Credit Cooperatives and other non-bank lending institutions focused on home lending;
  - The establishment of the War Service Homes Scheme that offered affordable mortgages to returned servicemen;
  - The establishment and expansion of the right to buy program for sitting public housing tenants at a discount, funded by home lending programs operating within State Housing Authorities under the auspices of the Commonwealth State Housing Agreement.
  - Planning policies which facilitated building forms associated with ownership and deterred those associated with rental, ie, apartments.
- 3.5 The rise of private rental.** During the 1980s and 1990s this situation changed, not so much through a deliberate shift in government housing policy, but because of a series of

decisions that delivered to private landlords and developers easy access to credit as well as an ever-deepening pool of government subsidy.

- 3.6** Amongst other things, this included a variety of favourable tax amendments, including the re-instatement of negative gearing and the introduction of a 50% discount on landlord capital gains. It also included a massive expansion of rent assistance paid to tenants.
- 3.7** To this we can add the deregulation and privatisation of the financial system. This has led to the conversion of many non-bank lenders to banks and their eventual takeover by one of the big four private banks. After the Government intervened to guarantee the banks in the wake of the Global Financial Crisis, the consolidation of the home mortgage market was complete with the Big Four private banks accounting for the largest share of the home mortgage market in the nation's history.
- 3.8** Without the social licence that attached to the government-run banks, co-operatives and building societies, the private banks have diverted capital from supporting home owners to providing finance for investors. This process has been facilitated by planning deregulation, enabling the growth of apartments, much of it targeted at rental growth and with little evidence that any of this development provided greater housing affordability. It has certainly been accompanied by declining building quality, which has left many living in accommodation that is barely safe to live in.
- 3.9** In 2022/3, federal subsidies for private landlords — in the form of tax deductions, capital gains relief and rent assistance<sup>2</sup> -- exceeded \$50b (see Tables 1 and 2)

*Table 1: Estimate of aggregate landlord tax reduction arising from the ability to deduct costs including interest*

2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
19,400	18,600	17,000	18,000	24,400	26,600	24,800	25,800

*Table 2: Estimate of federal tax foregone because of 50% discount on capital gains tax for landlords (and trusts)*

2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
10,820	9,240	9,240	17,020	23,690	10,510	10,390	10,240

Source for both Tables: <https://treasury.gov.au/sites/default/files/2023-02/p2023-370286-teis.pdf>

- 3.10** At the same time, subsidies for social housing remain at an all-time low and the right to buy has become a distant memory.
- 3.11** **The death of ownership as a universal and achievable dream.** The result has been a cultural and real shift in housing policy outcomes, by osmosis rather than design.

#### 4. How might this be turned around?

<sup>2</sup> In 2022/23, Commonwealth Rent Assistance expenditures is likely to exceed \$5b. Rent assistance is not shown in Tables 1 and 2.

- 4.1 Rental Short run measures.** There is a widening and complex crisis surrounding private rental housing that will need an immediate fix while simultaneously developing a long-term housing strategy.
- 4.1.1 Rent Regulation.** There is a strong case for the state's to introduce thoughtfully administered rent regulation which limits rent increases based on an agreed metric such as wages growth, or the CPI and with exemptions or allowances for certain types of properties e.g. those that have benefited from made substantial capital investment in solar panels or insulation that effectively increase the real income of tenants by reducing their costs.
- 4.1.2** Several economists (see for example, Holden, 2023) have argued that rent controls like this would be disastrous, leading to landlords abandoning the sector and thereby making a bad situation worse. Much of this evidence is historical, is drawn from overseas, or is based on the hard rent controls of the earlier post war years.
- 4.1.3** There are a number of examples of more nuanced, recently introduced soft rent regulations introduced in places such as Ireland, Spain, and northern Europe. (Arnott 2003, Kholodilin K 2022 Marsh et al 2022,) There is evidence that such controls have worked, including those introduced in the ACT, Ireland (O'Toole 2023) and Spain (see <https://www.neweconomybrief.net/the-digest/why-is-spanish-inflation-so-low>), without leading to an exodus of landlords from the market. The inevitable alarmist commentary coming from the real estate sector about substantial disinvestment needs to be treated lightly given the vested economic interests behind them. Typically alarmist, these arguments are habitually run out to oppose every tenancy reform that seeks to make rental housing more secure or delivers to tenants the most basic rights (such as pet ownership or functioning bathrooms and toilets), or which involves tax changes that will ween landlords off the public purse.
- 4.1.4** Recently introduced rent controls in Spain provide an interesting example of the positive effect such measures can have on the economy more broadly. It successfully introduced rent caps now as part of a national housing strategy developed under the banner of, "the right to housing". Its success in limiting rent increases is argued to have been one of the key reasons as to why the Spanish inflation rate has been subdued relative to countries like Australia and the US which have not adopted such measures (see <https://www.neweconomybrief.net/the-digest/why-is-spanish-inflation-so-low>).
- 4.1.5** In the Australian case, roughly half of all landlords do so at a significant loss. They do so on the understanding that they can claim these losses as a tax deduction against other income. To the extent that rent caps mean a bigger loss than might otherwise obtain, that is unlikely to affect the decisions of these landlords who will be able to claim a significant portion of it back as a tax deduction.
- 4.1.6** Of those landlords who wish to be cash positive, a significant percentage will continue to earn a positive return, especially those that are debt free.
- 4.1.7** For all landlords, the prospect of a slower rate of growth in rental income will be balanced against longer-term judgements of likely capital gains, which for most remains the main financial motive for investing in private rental housing.

**4.2 Minimum rental standards and registration.** There is also a need to introduce national minimum standards for tenants. Landlord-tenant legislation should be harmonised and be based on the right of tenants to a secure and sustainable home.

**4.2.1** There is also a need to have a state (preferably national) registration of all landlords including address, property type, property attributes, mortgage status, energy consumption, number of properties owned and number of appeals to tenancy tribunals. This would restore a major information asymmetry whereby landlords and estate agents have a right to substantial information about tenants but tenants have no rights to information about their landlords

**4.2.2** Landlord subsidies in the form of tax breaks should be provided to new properties only. Existing landlords should be able to continue to receive existing subsidies on the condition that they meet minimum regulatory standards. Certain property types such as STRA accommodation and unregulated boarding houses should be excluded from any such subsidy.

**4.2.3** It is essential that the national housing policy makes it explicit that housing is a right and that investment returns from a housing policy perspective are second order concerns.

## **5 Is Build to Rent (BTR) a solution?**

**5.1** Let's be blunt. BTR does and will not provide affordable rental; it is not designed for that purpose. It is intended to be high end, offering to tenants access to gymnasiums, roof top gardens, theatres and restaurants in return for higher rent. It is simply not possible for build-to-rent apartments to be offered to those on middle to low incomes, whose incomes are too low even with rent assistance to generate the sort of return on capital expected by shareholders. BTR will concentrate on the higher end of the rental market because that is what it is intended to do!

**6 Short Term Rental Accommodation (STRA): a problem in urgent need of a solution.** This is a sector that has been allowed to grow again by policy osmosis rather than design, and at great social cost. It reflects the financialisation of property that is creating housing problems internationally, particularly in inner urban areas. Much of the stock being used comes from what would have otherwise been long term rental.

**6.1** In inner urban areas -- where much STRA accommodation is located -- the stock is predominantly multi-unit apartments managed by an owner's corporation. The starting point for any policy is a registration system with appropriate penalties for noncompliance. This could be achieved by inserting into state-based planning schemes short term rentals as a specific form of accommodation requiring regulatory approval, including the need for registration.

**6.2** This should be backed by legislation giving Owners Corporations the right to vote on whether they are willing to have Airbnb's in their buildings. Assuming they choose 'No' (a likely majority) this would release stock in those buildings to either the long-term rental market or the owner occupier market. Such legislation needs to be backed by an appropriate compliance regime to give body corporates the power to fine non-compliant landlords.

**6.3** Short-term rentals bring with them a host of externalities for adjoining properties, whether or not they are in multi unit apartments or in suburban streets. We recommend that all residents be given a voice in determining whether or not short term rentals are to be allowed in their neighbourhood.

**6.4** It is important for all jurisdictions to introduce state-wide regulations, licencing of STRAs and appropriate carrots (incentives) and sticks for investors to return STRA dwellings to the long-term rental housing sector. This needs to be a nuanced program appropriate to different sub markets (see Burke et al 2023)

**7 The Long Run** The thrust of this brief submission is that housing policy needs to be focused on the long-term and should be informed by the views of Australians, the overwhelming majority of whom wish to own a home of their own. People understandably do not wish to be part of Generation Rent. We should commit once again to a policy goal of near universal home ownership.

**7.1** It follows from this that the private rental sector needs to shrink (probably by around 500,000 dwellings). We need fewer landlords and fewer tenants.

**7.2** In the unlikely event that soft rent controls do result in landlords selling their houses, this should be seen as a welcome development when viewed in the context of the longer-term goal of achieving universal home ownership.

**7.3** If landlords sell, the housing stock will not shrink. For every seller there must be a buyer and in this case the dwellings sold will be bought by another landlord, or preferably by intending owner occupiers. With less demand from previously heavily subsidised landlords, prices may fall, giving a much-needed boost to affordability.

**7.4** Measures that should be considered include:

- Redirecting a large proportion of the \$50b of Commonwealth subsidies from landlords to aspiring home owners (negative gearing would for example shift from landlords to owner occupiers including tenants as aspiring home owners).
- Recognising that 10%-15% of the population will never be in a position to buy their own homes due to personal circumstance, it is essential to dramatically lift government investment in social and affordable housing through a bold program of publicly funded housing construction targeted at around 8-10 percent of the total rather than the current 3 percent.
- Designing a new “right to buy” policy that enables all tenants – whether they are in the private, public or not-for-profit sectors — a right to purchase the houses they live in. This could be funded by a careful redesign of Commonwealth Rent Assistance (CRA) to become a Commonwealth Housing Assistance program whereby eligible households could receive a payment equivalent to CRA for Purchase (capped for example for the first five years only). Alternatively, it might be achieved via governments taking an equity stake in dwellings with tenants allowed to convert their rental payments to mortgage repayments at no extra cost to them. **It is essential that sales of social and affordable housing are matched by new builds.**
- Requiring all private rental dwellings that receive government assistance – whether they are paid in the first instance as tax breaks to landlords or income

supplements to tenants – to meet performance measures associated with security, dignity and sustainability of tenancies.

- Redesigning Commonwealth Rent Assistance to be more effective in achieving affordability outcomes (see for example Ong et al 2020).
- Winding down first home owner grants – which end up being capitalised into house prices – and developing home purchase programs that accommodate a greater diversity of models such as joint equity (with Government as co-owners), ownership cooperatives (key drivers of ownership growth in Scandinavia) and below market covenant protected housing managed by not for profit housing associations.
- Encouraging state housing and planning agencies to take on a bigger role in housing development by assuming once again a greater responsibility in land supply. They must become developers of integrated housing estates that link housing to timely delivery of government services, from education, and health to public transport as well as minimise developer gain.

8. **Conclusion. Toward a New, Great Australian Dream.** Australia spends billions of dollars on housing subsidy annually, yet accountability is weak or non-existent. Public funding is effectively used to bankroll private balance sheets under the false and misleading pretence of helping tenants find a home. All the indicators show escalating subsidies coinciding with declining housing outcomes. Home ownership rates are falling, housing affordability is worsening, the scale of homelessness is a national embarrassment, and more households are living in situations of housing insecurity than ever before. Housing policy is literally a mess. We have created generation rent while happily allowing the public purse to be milked in order to grow the wealth holdings of private landlords.

8.1 We can do better, without increasing the level of subsidy. We have proposed here a package of reforms that seeks over the long-term to shrink the private rental sector and the number of private tenants. We deliberately have cast a policy agenda designed to purposefully discourage Australians from seeing housing as a way of making money. The long-term goal is to enable as many Australians as possible to escape the private rental sector and become owners of their own homes. The idea is to restore to the nation a once proudly held policy goal we used to call The Great Australian Dream.

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Very good literature review

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