

Private Rental in Australia

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Australia is one of a handful of countries where the private rental sector has been going through a period of expansion, with this modest growth being paralleled by a resurgence of public policy interest in the sector. The combination of market growth and renewed policy attention has set in train a process which, if sustained for two or three decades, may see the ascendancy of private rental to the degree that it will be challenging home purchase as the key tenure sector. Whether such a process is necessarily positive and in the long-term public good is a contested point and one which will be taken up in this chapter.

HISTORICAL ORIGINS

Australia's history of white colonisation and settlement is very recent. In 1788 there was no white population and no fixed settlements or housing as conventionally thought of. The growth of the Australian colonies was focused on city ports that serviced the expanding rural and mining sector. Contrary to 'outback' images, Australia from its colonial inception has always been a highly urbanised society with its demographic growth fuelled by international migration. Without the baggage of historical privilege and entrenched property ownership found in other societies, and with a hinterland rich in rural and mineral resources, the Australian economy boomed in the nineteenth century. By 1900, along with Canada and the USA, it was one of the richest countries in the world in terms of per capita income. Moreover, the dispersion of wealth and income was broad by the standards of the time, with a smallish industrial proletariat.

The housing system that emerged in the colonial cities of Sydney, Hobart, Melbourne, Adelaide, Brisbane and Perth was therefore one which had to take into account this urban dominance, rapid population growth, and an affluence created less by a burgeoning manufacturing sector than by mining and rural development and the associated financial and related services which they required.

In terms of housing form, this meant that there was no requirement for tenement housing to serve a poor manufacturing working class. The typical working-class housing in nineteenth century cities was single or two storeyed terrace housing, while middle-class – and a growing proportion of affluent working-class – housing was single detached and remained so into the twentieth century. In 1933, for example, only 4.8 per cent of the national stock were apartments or flats (ABS, *Census*, 1933).

The general affluence of Australians also affected tenure. Thus as early as 1880 at least half the housing stock was owner occupied, a proportion not reached in most other urban societies until the second half of the twentieth century. This tenure arrangement was fuelled by the lack of a gentry, which meant that the abundant land was an 'open go' area for property speculation and development. Facilitating this speculation was the emergence of financial institutions (building societies) that promulgated for the affluent working class a notion of a home owning democracy (Davison 1995, Cannon 1966). Many new immigrants also saw ownership as a symbol of escape from the

insecurity and harassment of private rental in the squalid industrial cities of Britain from which they came.

The effect of this was to cast private rental into a secondary status to ownership, almost from the inception of the Australian housing system. It can be argued that this reduced the political potency of any problems in the private rental sector – tenant issues being largely neglected – and minimised the interventions that have characterised the sector in Europe or even the USA. In fact, with the exception of relatively minor periods of rent control during the two World Wars, the major policy interventions have only evolved in the last decade or so, and are not designed to control any perceived excess of the sector but to actually facilitate its sustained provision.

Table 1 traces the private rental sector’s declining importance from the nineteenth century up to the 1980s when its relative tenure position began to improve. Although private rental by 1981 had declined to a low of 18.7 per cent, it remained a robust part of the Australian housing system, with little of the debate that has occurred in parts of Europe – particularly the UK – on how to revive the sector or what was its appropriate role. While the decline in private rental in the early postwar years echoes similar trends for the UK and parts of Europe – although not to the same degree – it was not necessarily for the same reasons. The contraction shown in *Table 1* was less because of disinvestment in private rental than faster growth of ownership due to the ‘long boom’ of postwar affluence, and the rise of public housing from a zero base. In absolute numbers, the sector only fell between 1954 and 1961, and then only marginally. Subsequently there has been numerical growth between all census periods up to 1996 and with proportionate increase post-1986. Investment data provided by the Real Estate Institute of Australia (REIA) would suggest a post-1996 strengthening of the position of private rental given that, in some of the largest capital cities (Sydney, Melbourne and Perth), investors in 1998 were accounting for between 23 and 33 per cent of all dwelling sales (compared to between 20 and 22 per cent a decade earlier) and over 30 per cent of all finance approvals for housing (REIA 1988, 1998, ABS 1998).

Table 1
Tenure Trends, Australia, 1911-96

	1911	1933	1954	1961	1971	1981	1991	1996
Private rental	42.0	40.0	29.9	23.2	22.1	18.7	20.0	21.7
Home ownership	46.0	54.0	63.0	71.0	68.6	68.1	72.0	68.5
Public housing	0	0	4.2	4.2	5.8	4.9	6.1	5.0
Other, including ‘not stated’	12.0	6.0	2.9	1.6	3.5	8.3	1.9	4.8

Source: ABS, *Census*, respective years

THE INSTITUTIONAL CONTEXT

The characteristics of the Australian private rental sector, as with any such sector, are moulded by the nature of the institutional environment in which it operates. At the macro level, to use Esping-Andersen's (1990) classification of societies, this is one of Australia as a market liberal society, albeit within the framework of a federal system. At a more micro level, this environment takes in the regulatory and policy environment – including taxation policy, the form of planning and building regulations, the legal and welfare systems, the nature of the finance system and the characteristics of exchange agents such as real estate agents.

As a market liberal society, Australia places considerable faith in the market and is highly protective of individual property rights and relatedly of home ownership which, it is argued, promotes values of individualism, self-help and conservatism consistent with the requirements of such a society (Kemeny 1983). The implications for the private rental sector of being embedded in such a society include, firstly, that the social housing sector has never been allowed to expand beyond a residual level (5 per cent), and even this is considered to be too high by some property interests. This means that, unlike in many European societies, private rental does not have to compete with social landlords, its real competitor being the home ownership sector. Secondly, it means that interventions – whether in the form of residential tenancy legislation, rent controls, taxation or housing allowances – in the sector have been limited by international standards, although there have been some changes in the last decade or so. The specific nature of these interventions is discussed in more detail below. Thirdly, it means that the behaviour of both tenants and landlords is mediated through labour markets, welfare systems and finance systems that are structured around the requirements of market liberalism. While it is impossible to go into the details of each, the relatively deregulated nature of the labour and finance markets and the minimalist nature of the welfare system shape different rental investment and consumption behaviours than in more regulated societies.

In any analysis of Australian housing, it is important to recognise that Australia has a federal system of government. The federation of the colonies in 1901 created a constitutional environment of significant implication for the housing system and for the private rental sector. The federal constitution has meant that most of the laws applying to housing – for example, residential tenancy legislation, property law, building regulations and planning controls – are state or local government based, with the states protecting their rights vigorously. Unlike in the USA or Canada, there is no largish federal agency responsible for policy directions in housing, with the result that there is nothing which resembles an Australian housing policy, either generally or for private rental. Moreover, as most states are of enormous size – Western Australia is five times as big as Spain, Queensland is three times the size of France – it is difficult to talk about the Australian rental market, as it really is one of market diversity based around the distinctive attributes of each state. While this chapter will talk about the Australian rental system, it is important to remember that this is really the product of separate state based housing markets, sometimes with quite sharp differences, as *Table 2* reveals. South Australia with, a greater tradition of public housing, has a relatively small private rental sector; the Australian Capital Territory, with highly mobile public servants, has a larger sector; Queensland has a largish sector, in part because of remote

resource projects where housing is usually privately rented; and New South Wales' size is no doubt due to its higher housing costs and greater inability to access ownership.

Table 2
Private Rental by State and Territory, 1981-96

	1981	1996
Australian Capital Territory	24.3	20.3
New South Wales	19.6	21.5
Northern Territory	14.5	16.0
Queensland	20.6	22.2
South Australia	13.7	14.0
Tasmania	16.5	14.8
Victoria	17.7	19.5
Western Australia	20.2	18.6
Australia	18.7	20.3

Source: ABS, *Census*, respective years

THE WELFARE SYSTEM

As a market liberal society, Australia has a lean welfare system by international comparisons, with pensions and benefits providing the most minimal safety net. For example, OECD data on unemployment benefits as a percentage of the average worker's income shows Australia near the bottom with benefits equivalent to 24 per cent, compared to 56 per cent in Canada, 59 per cent in Germany, and 70 per cent in the Netherlands (OECD 1996). Traditionally this has meant that a high proportion of households exist on or just above the poverty line, the bulk of whom – given a residual public housing sector – live in the private rental sector. Since the early 1980s rental assistance has been increasing, in order to top up the minimal incomes provided by pensions and benefits, but this assistance is far from generous.

A form of rental assistance called 'supplementary assistance' was introduced in 1958, but with very limited eligibility – mainly widows and single aged pensioners – and at the discretion of the Commonwealth Department of Social Services. Its limited eligibility is reflected in the fact that in 1963 there were only 9,518 recipients (Kewley 1973: 225). At the time, this approach was seen as a cheaper option than a more general pension increase. With some widening of eligibility, the scheme remained in place until 1983 when the newly elected Labor government expanded it to include almost all social security pensioners and other beneficiaries, as well as making it an entitlement rather than a discretionary scheme. Rental assistance is not designed to reduce rental outlays to some benchmark – for example, 25 per cent of income – but simply to improve rental affordability for social security recipients. Without it, 74 per cent of social security income units would be paying more than 30 per cent of income in rent, but with it the figure is reduced to 38 per cent; even with rental assistance, 9 per cent still pay more than 50 per cent (DSS 1998: section 5.2).

With the 1980s coinciding with a growth in numbers of old age pensioners and supporting parents – and, towards the end of that period, a sharp increase in unemployment – the numbers of recipients expanded almost exponentially. In March 1998 average rental assistance per recipient was A\$29.73 (US\$19), with some 900,000 recipient individuals or households. In 1997-98 it was estimated that the total outlays of the rental assistance program were A\$1.6 billion (US\$1 billion), compared to A\$210 million (US\$132 million) in 1984. In real terms this represents a fourfold increase (DSS 1998: section 5.2). By contrast, Commonwealth outlays for social housing have gone from A\$543 million (US\$335) in 1994 to \$1,017 (US \$627) in 1997-98, a real increase of only 6 per cent (Commonwealth of Australia 1993-94, 1997-98). Effectively, private rental assistance has now replaced public housing as the major platform for low income housing assistance in Australia. However, because it is not overly generous, many recipients are still likely to be in or near poverty even after its receipt. Importantly, it is seen and managed as an income support program; unlike rental assistance in Canada, the USA (Section 8) and most Northern European programs, there is no link to any supply side subsidies.

TAXATION

Until the early 1980s, the private rental sector – as one would anticipate in a home ownership society – was a poor cousin in terms of taxation benefits for investor purchasers. Owner occupiers benefited, and still do, from no imputed rent tax, and paid no capital gains tax. Moreover, for a short time in the 1970s they could also deduct mortgage interest payments. Landlords also paid no capital gains tax and could deduct maintenance repairs and rates from their taxable income. Claims for interest payments were limited and the depreciation allowances were small by, say, German or US standards. Along with the interest rate subsidies and first homebuyer schemes that existed until the early 1980s, this meant that the net cost of rental capital relative to ownership was much greater. In this context, it is surprising that private rental was as resilient as it was in the first three decades of the postwar era.

In the 1980s the tax environment improved for private rental. Investors in new properties could claim a depreciation allowance of 2.5 per cent and nominal interest plus other costs as a tax deduction. With a top marginal tax rate of 49 per cent currently, and 59 per cent when its use became widespread in the mid-1980s, these tax incentives provided a major boost for investment by individuals looking to reduce their tax burden. By contrast with the Commonwealth, state taxes are less conducive to investment, at least for larger-scale or corporate investors. State land taxes, as Yates (1996) points out, tax the cumulative value of property after an initial threshold ownership (typically one or two properties), a disincentive for multiple ownership within one state.

The ability to claim nominal interest on borrowings against taxable income (called ‘negative gearing’ in Australia) has become an almost inviolable taxation right. Critics have pointed to both the government revenue forgone and its completely untargeted nature in terms of housing outcomes, with the limited evidence suggesting that the main beneficiaries are relatively affluent individuals purchasing upmarket property (Leigh 1989). Any push to reform the tax provisions, however, are shrugged off. Despite Australia, as of mid-1999, going through a process of fundamental tax reform,

the Liberal prime minister has made a commitment to retaining the status quo for the negative gearing tax provisions. This is not because of any documented proof of its effectiveness, but fear of the property owning lobby – particularly in New South Wales – who have a tradition of running effective but often scurrilous scaremongering campaigns (Hayward and Burke 1988, Badcock and Browett 1991).

The new consumption tax on goods and services (GST) may raise the cost of landlordism by around 3 to 5 per cent. Whether this can be passed on to consumers will depend on the local conditions of supply and demand. In Sydney and Melbourne where the market is tight, the outcome is likely to be a rent increase. This is less likely in other areas where the vacancy rate is high, perhaps triggering the decision for some marginal investors to leave the industry. Further, part of the trade-off for a GST is a reduction in marginal tax rates, with the effect that tax benefits through negative gearing of a rental property will be reduced.

THE FINANCE SYSTEM

As in many other societies in the postwar years, the Australian finance system – particularly housing finance – was highly regulated. Banks and building societies were the major providers of housing finance; up until the early 1980s, the rate of interest on home loans was regulated to the degree that, in some years, real interest rates were negative. Moreover, there was a differential of the order of 2 percentage points between loans for residential investment and loans for owner occupancy, further raising the effective cost of investment in private rental compared to ownership. In the early 1980s the banking system was deregulated to the extent that it is now one of the least regulated in advanced capitalist societies.

The effect on private rental investment was twofold: firstly, the differential between ownership rates and investment rates effectively disappeared; secondly, and more importantly, home interest rates – now determined fully by market forces – soared to levels of up to 17 per cent in the late 1980s. This changed the relative investment climate between ownership and rental, because investors could claim tax deductions for interest payments at this high rate – almost halving their impact – while owner occupiers could make no such claim, as the short period of interest rate deductibility allowed in the 1970s had been abolished. Investors flooded into the residential property market, raising its whole profile as an investment sector. Where negatively geared residential property had been a little used investment outlet in the early 1980s, events at the end of the decade – including the stock market crash – had conspired to make it one of the most visible and readily available investments in Australia.

PLANNING

Residential planning is a state and local government responsibility, with the form and degree of responsibility for planning slightly different from state to state and over time. In the late 1990s some of the powers of local government have been eroded as the more deregulatory state governments intervened in order to facilitate fast-tracked development. Although there were state to state variations, residential planning controls up until the 1980s often restricted the construction of multi-unit accommodation – the dwelling form which is most commonly associated with private rental. Many local governments protected the sanctity of the owner occupied detached

dwelling because it represented what they saw as the things that Australians valued: family, open space and domesticity. Multi-units were anathema to such values and thus fell foul of development controls. For example, in 1980 in Melbourne – then with a population of 3 million – 75 per cent of the 56 local governments would not allow any multi-unit development of more than two storeys, and even one and two storey properties were restricted to certain areas (Indicative Planning Council 1980: 43). The most liberal municipalities were inner city ones; hence, the bulk of multi-unit accommodation, and by default private rental, was constructed in these areas. The legacy even today is a relative shortage of rental accommodation in outer metropolitan areas, despite new investment there in the last decade or so.

EXCHANGE AGENTS

About 60 per cent of rental properties are managed by private estate agents, with the remainder being self-managed, that is, landlord managed (ABS 1994b). Estate agents have two functions. The first and dominant one is to match sellers and buyers of residential property, largely a function related to owner occupancy. The other is to manage the rent roll for individual landlords who pay a fee of around 7 to 9 per cent of the gross rent for this service. To be an estate agent requires minimal education and training, although this varies from state to state, and what training there is largely focuses on the sales role rather than the rental role. In many cases, this means that private rental sector managers – in contrast to the professional property managers in the USA or Europe – tend not to be particularly professional, and many are indeed amateurish in managing this complex and fraught housing sector. This relative lack of management professionalism from estate agents – self-managers may be even worse – combined with the largish number of lower income tenants, many of whom may have associated social and economic problems, can be a source of conflict. Residential tenancy tribunals report that they are becoming overloaded with cases emerging out of landlord-tenant contestation (Burke 1998a).

LEGAL RELATIONSHIPS

Because Australia has a federal system, there is no national tenancy legislation. It is a state function with the various tenancy laws all inherited from the same source: English law of the nineteenth century, itself tracing its origins back to the fifteenth century, which was applied virtually unchanged to the separate colonies. The main feature was that a tenancy was primarily seen as a right to hold and use land, especially agricultural land, rather than as an agreement for housing. While housing issues were progressively grafted on to the system, residential tenancy law – even despite recent reforms– gives immense weight to property rights. In Tasmania, landlord-tenant relations as recently as 1995 were still directly based on nineteenth century principles and language, including reference to distress for rent over crops grown and with no provisions in respect of bonds, rent increases, termination of tenancy grounds, receipts etc. (Kennedy, See and Sutherland 1995: 17). The Commonwealth Labor government in its last few years (1994-95) flirted with the idea of national tenancy legislation but, confronted with objections about states' rights, gave up on the idea.

Reflecting these origins, residential leases were until the early 1980s heavily skewed in the landlord's favour, prompting calls for reform (Australian Government Commission

of Inquiry into Poverty 1975, Community Committee on Tenancy Law Reform 1978) which did occur to a greater or lesser degree from state to state over the next decade or so. Even these reforms brought few of the conditions that apply in much of Europe, and the short-term leasing that characterised nineteenth century English law still holds today. Leases are rarely longer than a year – typically six months – with notice to quit ranging from two weeks to three months. They can be terminated for any reason, so long as the minimum notice is given. Tenants normally have the right to give notice at any time before the expiry of the contracted lease, but may have to pay for any costs incurred because of this, for example, vacant rent periods. They must lodge a bond equivalent to four weeks rent prior to moving into the property, which is returnable upon a condition report at the end of the lease. This was a major source of conflict, as many landlords and estate agents concocted a rationale for not returning a bond which they held in trust on behalf of the tenant. Most states have now established rental bond boards, which are independent authorities for managing bonds. These boards reduce the potential for abuse, provide data on the private rental sector for monitoring and policy decision making, and – through the interest accumulated on the millions of dollars lodged as a bond – finance research and some housing programs.

In most states, rental disputation is handled by special tribunals rather than traditional courts, for example, magistrate's courts. The objective where possible is to deal with conflict through mediation rather than tribunal rulings. Despite beliefs that such tribunals would be used by tenants to make the life of landlord harder, the bulk of residential tenancy appeals in Australia are made by landlords, and then largely to terminate possession (Kennedy, See and Sutherland 1995).

As indicated earlier, the Australian housing system is built around the ideology of home ownership. This requires that the private rental sector operates as a complement or residual to home ownership. Investment in the sector is not based on the rental return alone but on the possible capital gains, whose level and rate is driven by what happens in the owner occupied housing market. In turn, this has required residential tenancy legislation in the various states to recognise the landlord's right to make decisions as to whether the property is to be used for owner occupation or rental. And, given that capital gain is a very important component of Australian investors' returns, the landlord must have the right to sell the property as they please, whether as a rental property with tenant intact or as a potential owner occupied property without the tenant. Short-term leases are thus required in order to maximise the investment opportunities for landlords. This means that the rental sector has no long-term security or certainty, with tenants regularly being evicted to enable sale of the property. This may be of no substantive importance if the sector plays only a transitional housing role for consumers, but if constraints are creating a new role for the sector – that is, one of long-term accommodation – then the residential tenancy environment fits poorly with consumer needs.

Up until the early 1970s only one individual or company could hold the legal title to a multi-unit building. Much of the multi-unit rental stock – accounting for at least half of the stock in most states – was owned by relatively large landlords, given that a typical multi-unit flat was at least six dwellings, but more often a dozen or more. In the 1970s new legislation called 'strata titling' was introduced, enabling individuals to own separate dwellings in a multi-unit building with common space – for example, halls,

roof, gardens, garages – managed by a body corporate for which owners, whether landlords or owner occupiers, paid a fee. Two decades on, most multi-unit accommodation has fallen into multiple ownership, with mixes of owner occupiers and tenants. This has made ownership of rental accommodation unattractive to large institutional investors, as they cannot manage the entire development. Conversely, it has made entry into the rental sector very easy for small investors who by purchasing, say, a one bedroom flat in a multi-unit dwelling, and borrowing with a 25 per cent equity, may be able to become a landlord for as little as US\$15,000. This legal arrangement effectively means that there is no permanence in what defines rental accommodation. An individual dwelling can slide in and out of private rental and owner occupancy and, over its lifetime, may take on a number of different tenures.

WHO'S AT HOME IN PRIVATE RENTAL?

It is now possible to examine how this institutional context has shaped the role and structure of the private rental sector.

For most of the postwar era, it was used and seen as a staging post before moving on to home ownership (for the majority) or to public housing (for a minority). Households in private rental were disproportionately young and of a non-nuclear family form: people sharing, singles, childless couples. Typically, they only remained there for relatively short periods of time. The experience of many European countries which have a substantial proportion of long-term renters (Maclennan 1998: 395) has until recently never been an Australian one. The general attributes of those in private rental still hold today, although there is evidence to suggest change.

Table 3 illustrates the tenure patterns of some major household types, revealing some of the sharp differences between private rental and other sectors. The private rental sector has greatly disproportionate numbers of young singles and group households, and is the largest tenure sector for sole parents and singles 25-54. As these are some of the most rapidly growing household types in Australia, this suggests a continuing strong demand for private rental. The household type with the largest absolute numbers, if not proportion, is couples with children. Given that it is the expectation in Australia that people in this lifecycle stage will have moved on to ownership, the numbers are surprising and are perhaps indicative of many households' growing inability to exit the sector. This is particularly the case with lower income households who figure disproportionately in the numbers resident in the sector for more than ten years (DSS 1996: section 3.1).

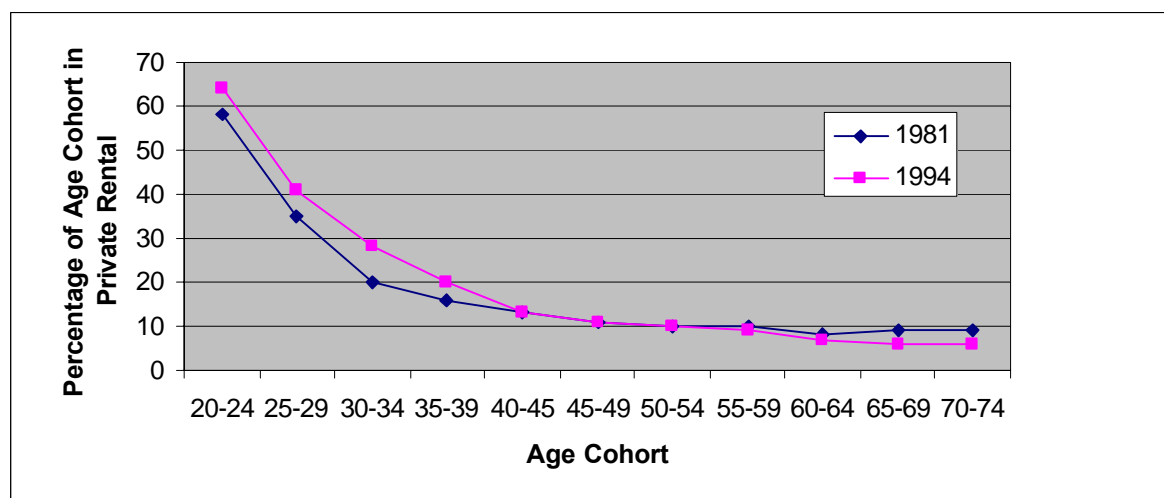
Table 3
Household Type by Tenure, Australia, 1994

	Owners	Purchasers	Private rental	Public rental	Other renters	Households
Singles (15-24)	3.5%	9.7%	63.6% (51,479)	7.3%	15.9%	80,943
Singles (25-54)	25.5%	27.1%	32.8% (220,080)	7.0%	7.5%	671,140
Couples only (15-54)	33.0%	39.2%	20.1% (183,915)	2.1%	5.6%	915,481
Couples with dependent children	29.1%	49.4%	12.3% (227,550)	4.3%	4.8%	1,850,096
Sole parents with dependent children	12.1%	22.2%	32.2% (120,428)	26.6%	6.8%	374,407
Group households	8.0%	16.7%	63.0% (193,641)	2.1%	10.2%	307,368
Total	41.8%	23.8%	17.9%	6.2%	5.7%	6,677,908

Source: ABS 1994a

By the mid-1990s there was growing evidence that the private rental sector was in a process of transformation, notably in terms of its transitory role. As observed by Wulff and Maher (1998), about 40 per cent of all renters as of 1994 had rented for more than ten years. It would appear that for many the sector is becoming tenure of permanence rather than transition – an alternative to ownership, rather than a complement to it. This greater permanence inevitably leads to a shift in the age structure of rental households. As *Figure 1* shows, there has been an increase in the 25-34 and 35-45 cohorts since 1981.

Figure 1
Private Renting by Age Cohort, Australia, 1981-94



Source: Wulff 1998: figure 2

One of the problems in using household type and age profile to suggest the role of the private rental sector is that such demographic profiles are cross-cut by income. Inserting income into the analysis affects our interpretation. Is the sector's role one of meeting the lifecycle/lifestyle choices of different households or age cohorts, or is it a sector of constraint where occupancy is imposed by low income and lack of a viable alternative? For better-off tenants, renting may be seen as a tenure of choice which gives them a certain flexibility in their housing career before moving on, in most cases, to ownership. But as Paris (1984: 25) observed with reference to Australia in the early 1980s: 'for poor tenants it is a miserably expensive cause of greater poverty and distress'. Which interpretation holds has significant public policy implications, particularly in an era – as in Australia – of social and political conservatism where 'client choice' is a mantra which is bandied about freely as a rationale for public policy, or sometimes for lack thereof. Of course the private rental sector, in any country, has never been able to house low income people in an affordable and appropriate way without public assistance. This has been the reason for various forms of housing interventions since the nineteenth century. Choice can be given to low income earners in the sector by various forms of rental assistance (accommodation supplements, allowances etc.), but the degree of choice depends upon the universality of such assistance, its level – that is, the degree to which the amount available reduces housing costs to an acceptable standard – and the spatial spread of private rental housing.

In terms of the choice-constraint dichotomy, the reality is that the Australian private rental sector serves a dual function, providing choice for the more affluent and constraint for the poor. It is the postmodern housing tenure, characterised by flexibility, diversity and increasing social polarisation. Indeed, its growth in Australia may be seen as a result of its ability to mesh with the increasingly deregulated post-Fordist labour market. More and more professionals – the knowledge workers – appear to be using it as its flexibility enables them to move between cities and countries without the ties and limitations of ownership. But even more of the poor are using it, suggesting that much of the growth of the sector is a response to increased poverty and social inequality brought about by the impacts of post-industrial restructuring.

Given the residual nature of public housing in Australia, the private rental sector has always accommodated sizeable numbers of low income households, many of whom were below the after-housing poverty line. In the early 1970s the first major national study of poverty in Australia was conducted – the Henderson Inquiry. One of its major findings was the high incidence of poverty in the private rental sector, observing that there was a lack of policy concern with this sector. While the inquiry did lead to a number of new policies for the sector and to a considerable improvement in residential tenancy law, the reforms did little to ameliorate the poverty. In fact, as *Table 4* shows, the proportion of all income units in poverty after meeting housing costs rose from 12.8 per cent in 1972-73 to 18.8 per cent in 1996, with private rental accounting for the largest absolute number of poor. The data is some confirmation of Whitehead's observation (quoted in Maclellan 1998: 402) that the best way to revive private rental is to make households poorer. Of the 480,000 additional income units in private rental between 1973 and 1996, 142,000 (30 per cent) were households who, after meeting housing costs, were in poverty. Thus the growth of private rental in Australia should perhaps be seen less benignly than has been the case (Yates 1996); in some respects, it may be seen as a function of widening social inequality and deepening poverty.

Table 4
Before and After-Housing Poverty by Tenure, 1972-73 and 1996

Tenure	Units poor after housing costs 1972-73	Percentage of all income units in tenure category 1972-73	Units poor after housing costs 1996	Percentage of all income units in tenure category 1996
Owner	38,000	3.7	108,000	4.3
Purchaser	45,000	3.9	135,000	8.4
Public housing	18,000	9.8	73,000	19.9
Private renter	107,000	12.8	249,000	18.8
Other	54,000	7.4	124,000	12.9
Total	262,000	6.7	689,000	10.3

Source: Burke 1998b: table 8.1

LANDLORDS, INVESTMENT AND RENTAL SUPPLY

Investment in the private rental sector declined for a short time in the 1950s and early 1960s, expanded from the mid-1960s and then accelerated from the mid-1980s, although there have been variations from state to state and within capital cities and regions. The reasons for the continued investment are many, and include the expansion of subsidy in the 1980s, the promise of capital gains and the growth in demand due to there being more low income households, and a lesser ability to enter either ownership or public rental, particularly in Sydney and Melbourne. Unlike many other countries, almost no dwellings are constructed specifically for private rental. Investors simply acquire a dwelling that has already been constructed at some time in the past. Given the current favourable investment climate for investors compared to first homebuyers, this means that they are potentially displacing first homebuyers in the competition for these existing dwellings.

In Australia, compared to Western Europe where companies own between a third and a half of the stock, the great bulk of landlords are individuals. Moreover, they are very small-scale landlords – 78 per cent own only one property, and another 12.8 per cent own two, with less than 10 per cent owning three or more properties (ABS 1994b). The ability of the individual to buy a rental property in Australia is due, in part, to the sheer numbers of detached houses and to strata titling. In many other countries, entry to the sector often requires buying an entire multi-unit block of apartments. The ease of entry and the attraction of bricks and mortar in Australia have meant that many investors are on relatively low incomes. It is a ‘mum and pop’ industry! The ABS (1994b) survey found that almost two-thirds of investors had an annual income of less than \$38,000 (US\$24,000). The amateurish nature of both landlords and their exchange agents, as discussed earlier, suggests an industry which is economically viable, but not mature in terms of management. The considerable evidence of conflict

and contestation in the sector is probably a result of poor management which is inherent in the particular structure of provision (Burke 1998a).

While the prevailing characteristic of most landlords is smallness, they differ in their motivations for entry into the sector. Various studies have attempted to classify the different types (Paris 1984, Elton and Associates 1991). The major categories are variations on 'unintentional' and 'investment driven' landlords, with the latter being divided into either 'security investors', 'tax reducers' or 'capital gain accumulators'. The unintentional landlords are those who have obtained a property by circumstance rather than by deliberate decision – for example, inheritance (estimated at around 25 per cent) – while the others are all conscious decision makers but driven by different investment intentions. The comments below mostly relate to the conscious investors.

A 1993 survey indicated that the major reason for investment was long-term security (52 per cent), which would imply that investors are in the sector for the long haul – but most are not. More than half of Australian landlords became investors within the last five years, and only a quarter acquired their first property more than ten years ago (ABS 1994b).

The two major factors taken into account in the decision to invest were capital gains and negative gearing (the tax provision for interest payments). The importance of capital gains may explain the constant turnover of property, with investors seeking to realise capital gain at times when they believe that the market is opportune. Return based on a long-term rent is much less important. Tenants' rights – which sweeps up the landlord-tenant legislation – was the least important factor, and consistently so over a ten year period (ABS 1994b, Elton and Associates 1991). This evidence never stops conservatives' fervour in opposing any tenancy reform, however minor, seeing it as the precursor to massive disinvestment in the rental sector (Paris 1984). Their analysis is rarely driven by anything as mundane as empirical data or an understanding of the institutional context, but rather by ideology and/or abstraction from the logical outcomes of pure market theory!

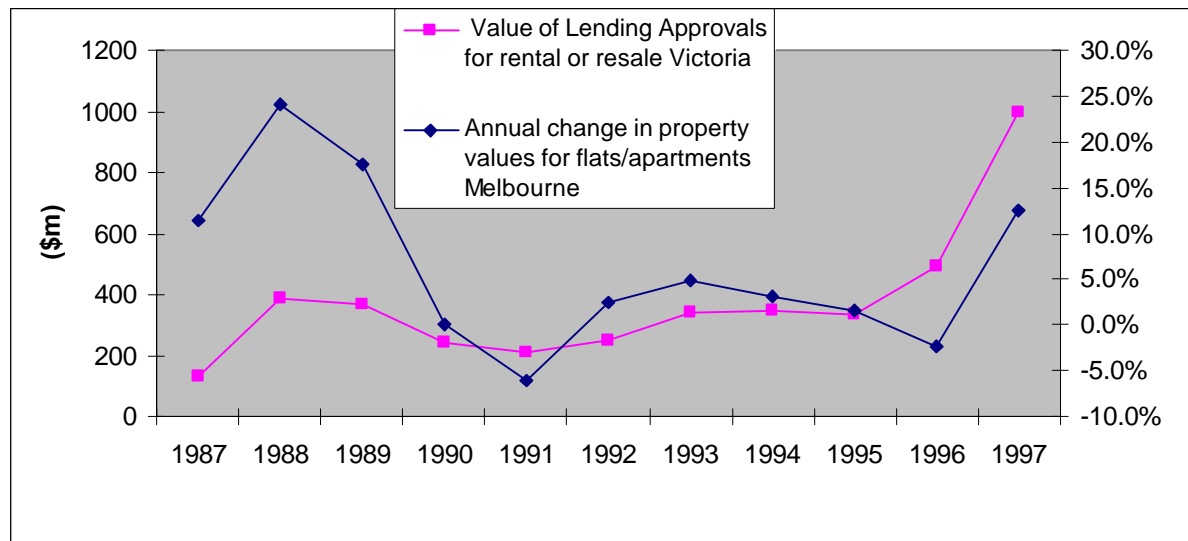
The dominance of the small landlord is significant in the provision of rental housing in Australia in a number of ways. Firstly, without them there would be little investment in private rental. Institutional investors are not attracted to it, being deterred by high management costs, high taxation (for multiple owners) and lack of liquidity relative to other investment forms.

Secondly, despite their professed concern with long-term investment, the reality would suggest short-term investment built around expectations of capital gain. Given that over a third of landlords in the 1993 rental survey were making losses, and another third were merely breaking even on net rental return, then it is easy to see the importance of capital gain – it is the major means of realising on one's investment! The conflation of weak security of tenure provisions and the existence of landlords who want to sell their property at regular intervals means, from the consumers' perspective, a highly insecure living environment. While external forces are constraining many households to live permanently in private rental, the institutional context is ensuring a sector that is unwilling and unable to provide permanence of tenure. Increasing disputation is likely to be one manifestation of this.

Thirdly, if investment is driven by expectations of capital gains, what happens if they are not forthcoming? In the period from 1945 to the late 1980s almost any part of Australia could be guaranteed some capital growth in property values, although there were marked variations in the rate of gain. The restructuring of the economy in the face of globalisation has devastated the viability of many areas. The local housing markets have reflected these changes, and since the early 1990s they have been experiencing real falls in residential property values. This is particularly the case in country towns and cities, but also in parts of some capital cities, for example, Adelaide, Hobart and the fringes of Melbourne. Cities and regions are increasingly being polarised into inner city areas of rapid capital gain, and outer areas and non-metropolitan regions of minimal or non-gain. Given the importance of capital gain in the investment decision, it is not surprising that there is insufficient new rental investment in such areas, with supply shortages as an outcome. Even the high rents relative to low levels of initial investment are insufficient to attract investment in such declining areas, with the result of increasing housing hardship, particularly for the many low income households. A related implication is the concentration of investment at the upper end of the market.

A final implication of small-scale landlordism is its instability. *Figure 2* shows the pattern of investment finance in private rental for Victoria (mainly in Melbourne) and changes in property values for flats and apartments for Melbourne. There are immense variations, with investment jumping sharply at the end of the 1980s, contracting by over half in the early 1990s, slowly increasing in the mid-1990s, and then increasing massively in 1997 to an amount which was eight times higher than a decade earlier. This instability bears no relation to underlying demand trends, which are much more steady; as revealed by *Figure 2*, it appears to be related more to expectations of capital gain. This reaffirms that any expectations of long-term deflation or low inflation of property values, in aggregate or regionally, may threaten the investment viability of the sector. Given the contraction in social housing, lower income households would be particularly vulnerable to any such disinvestment.

Figure 2
Private Rental Investment Patterns, Victoria, 1987-97



Source: ABS 1998; Valuer General, *Victoria: A Guide to Property Values*

SUPPLY

Australia is a country of detached dwellings. In 1996 they made up 79 per cent of the stock, compared to only 13 per cent flats or apartments. Given the relatively large size of the rental sector and the relatively small stock of flats and apartments, it is not surprising that around half of the rental stock consists of detached dwellings, with flats making up another third. However, in terms of tenure importance *within* housing types, private rental accounts for only 11.3 per cent of detached dwellings but 51.5 per cent of all flats and apartments (and this was much higher before strata titling). These figures vary quite substantially from state to state: New South Wales has many more private renters in flats, others such as Western Australia have more in detached housing. In non-metropolitan Australia, which is largely made up of small towns of less than 20,000 population, detached houses are more important.

Historically, most rental investment was in inner urban areas, partly reflecting their more flexible planning controls for flats; however, in the last decade, the private rental stock has become more diffused throughout the cities. There has been no research on this process, but one can hypothesise as to why. Firstly, the strata titling of flats – mainly in inner urban areas – saw the conversion of many rental units into low cost owner occupancy, with a consequent loss of rental accommodation. This was no doubt accentuated by the gentrification of the inner city, making it more attractive to owner occupiers than in the 1950s and 1960s. The effect of gentrification was to change the investment climate for dwellings, encouraging many existing landlords to sell for the substantial capital gains, rather than rely on rental returns. In Port Phillip, a municipality of inner Melbourne with some of the highest concentration of flats in Australia, there was a net loss of 14 per cent of the stock between 1981 and 1996 in the face of a metropolitan and national increase (City of Port Phillip 1997: 27-8).

This decline has occurred despite a large inner city boom in multi-unit housing, a good proportion of which is privately rented. The new rental stock is in an upmarket segment compared to that which was lost, which tended to be at the lower end of the market. The demand for upmarket inner city dwellings appears to be coming from young professionals who are attracted to what has been labelled the 'caffè latte' society – a lifestyle based around the multitude of cafes and related amenities such as theatres, galleries and gymnasiums that exist in the inner city but are relatively absent in the outer suburbs. Given the high costs of entry to ownership in the inner city – a small terrace house or flat typically costs at least US\$160,000 in Sydney or Melbourne – private rental is the only affordable way to gain access to this lifestyle.

The stock decline in the inner city was compensated by some increase in outer areas, principally in the form of investment in detached houses. The demand for such accommodation was no doubt fuelled by the growing number of low income households in outer suburbs, many of them victims of a restructured – that is, downsized – manufacturing industry and many, including younger households, who traditionally would have gone to the inner city but could not afford the escalating rents there. What appears to be occurring slowly and incipiently are two different rental trajectories: inner city rental of choice linked to lifestyle preferences, and outer urban rental of constraint linked to low income and employment difficulties. This process of urban change stands in sharp contrast to the USA where low income private rental is an inner city phenomenon.

The degree and timing of rental investment depends on anticipated returns relative to other investment sectors. Rental returns are a function of rents, capital gain, vacancy rates, costs (maintenance, local government rates and land tax) and the tax treatment of income. Calculating a typical return is extremely difficult as it depends so much on location and on the particular tax status of the investor and the timing of the investment. Both the Victorian Office of Housing and the Real Estate Institute of Australia produce estimates of returns on the basis of certain assumptions, for example, five year investment periods and negatively geared funding. The REIA data, depending upon city, indicated rates of return of between 10 and 14.6 per cent over the period 1986-96, which is not greatly different from other investment areas, for example, equities (12.9 per cent) and fixed interest (13.9 per cent) (DSS 1996: section 4.3). The Office of Housing (December 1997: 6) data for the five years to 1998 suggested a net rental yield of between 5.4 and 12.5 per cent, with the rate of capital gain largely explaining the difference.

These figures reaffirm the point made earlier about the sensitivity of investment to capital gains: without them, the sector will have difficulty in attracting investment. For reasons already discussed, this is a problem in non-metropolitan and some fringe metropolitan areas but, if low capital gains or even deflation become more generalised, then the growth of the sector which has been experienced in recent decades could cease very quickly.

CONCLUSION

Bringing the threads of all this information together, what can we conclude about the Australian private rental sector? Firstly, considerably more research needs to be done. The existing data lends itself to various interpretations. For market liberals, the sector suggests successful adaptation to demand, evidence of the flexibility of markets, and the lack of need for any policy interventions. Those of this disposition can point to sustained growth in private rental through continuing investment in additional rental accommodation, relatively high levels in satisfaction surveys, greater consumer choice compared to social housing, and flexibility – as measured in vacancy rates and investment patterns – in adjusting to changes in demand or economic conditions. The current Liberal (conservative) government shows little enthusiasm for social housing and sees the private rental sector as the future of low income housing.

For those of social democratic persuasion, the sector appears to be fundamentally flawed. The large numbers who are experiencing an affordability problem (including after-housing poverty), the discrimination (sometimes linked with the lack of professional management), the non-targeting of tax subsidy, the related inability to ensure supply of lower end rental housing (particularly in non-metropolitan and fringe urban areas) and the gentrification of stock in inner urban areas are used as evidence to indicate that it is a problem sector. More saliently, its very growth can be pointed to as a problem, given that this has occurred concurrently with greater after-housing poverty. The opportunity cost of an expanded private rental sector (with all its tax subsidies and rental assistance) may be seen as one of forgone social housing. Would there have been less poverty, fewer affordability problems and less discrimination if the social sector had been encouraged to expand over the last two decades? This more negative interpretation of the private rental sector may also suggest that the re-emergence of private rental is a return to nineteenth century oppression and control – a fundamental shift from housing for the people to housing for the interests of property and the economic elites. The ontological security provided by ownership and public housing is removed and replaced by the uncertainty of short-term leases and the trade-off of renting in amenity rich areas versus owning in amenity poor areas.

It can be argued that the resurgence of private rental is symbolic of a recasting of the housing system into one more suited to the Commonwealth government's objective of making Australia a globalised market liberal economy. Like all industrialised capitalist societies, Australia has been seduced by the imperatives of globalisation and the need to restructure to create greater international competitiveness. As Castells (1996) outlines, there is no one universal response to this pressure, with each country choosing the path which is consistent with its institutional and value structure. In a market liberal society like Australia, this has meant financial and labour market deregulation, weakening of trade unions, privatisation, substantial restrictions on the role of government – including tighter targeting of welfare – and, of course, greater dependence on private finance and 'free' markets. Housing systems can complement or weaken the ability to implement such strategies, depending on the form of the system. Private rental may be seen as the postmodern tenure form – the one that meshes best with the flexibility and diversity of a globalising post-industrial society. By contrast, home ownership and public rental can be seen as representing modernist tenures which have outlined their usefulness.

There is little doubt that the private rental sector is the most flexible housing tenure in terms of consumption and investment; both consumers and investors can exit and enter it more readily than either home ownership or social housing. While investors appreciate such flexibility, there is doubt about consumers – particularly lower income consumers. For affluent professionals of the information society, private rental may suit their need for a global lifestyle, unlike the more inflexible ownership sector. For the lower income victims of a restructured economy and society who are already experiencing substantial job insecurity, what they want is housing security. But, because of the institutional structure of the private rental sector, security is not an option. Nor is adequate housing affordability, given the low levels of rental assistance.

The danger in a market liberal society such as Australia is that housing policy will be cast into a form that suits short-term economic needs but ignores housing need. A system of flexible housing provision which is increasingly based on the private rental sector may create an outcome which reinforces the inequalities of the labour market and starts to create the spatial inequalities and social problems of the larger cities in the USA, albeit in a different spatial form. The challenge of housing policy in Australia is one of enabling the private rental sector to do what it does best – catering for the growing number of households whose income, lifestyles and labour market position require flexibility – while not simultaneously creating an oppressive housing system for the lower income groups. There is little evidence in current policy directions that this challenge is being taken up.

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