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Australia's rental system is 'broken' study reveals



Australia's residential rental system is "broken" and fails to provide affordable, secure housing for tenants or a solid investment option for landlords.

These are the key findings of a new analysis into Australia's private rental market from LongView and PEXA, as part of a three-part whitepaper series that explores the origins of the nation's housing crisis.

The second instalment – Private renting in Australia: a broken system – argues delivering long-term solutions for the 2.9 million households that rent and 2.2 million property investors relies on addressing the incompatibility of renters' needs for security and landlord's need for flexibility.

LongView Executive Chair Evan Thornley said the research showed that despite public perception of wealthy landlords, the rental market was not delivering for property investors and the way it is structured created worse renter experiences plagued by increased insecurity and poor housing stock.

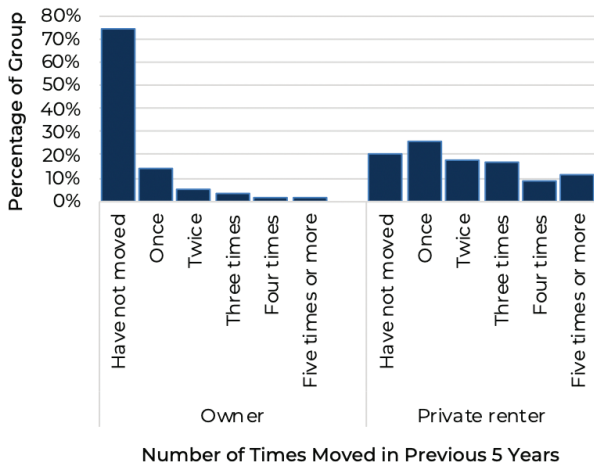
“There is a misplaced idea that a battle between landlords and tenants exists – in actual fact, the Australian rental framework has been broken for decades, and is not working for either party,” he said.

The research showed that more than 26 per cent of Australian households rented in 2021, up four per cent from 2006.

And while renting has traditionally been viewed as a short-term option before buying a home, increasing property prices has led to an increase in the number of people renting permanently, with 43 per cent of tenants renting for a decade or more.

But that hasn't resulted in security of tenure, with 36.5 per cent of renters moving at least three times in the past five years.

Figure 11 | Frequency of moving by occupant type.³⁶



Source: Private renting in Australia: a broken system.

“Secure shelter provides people with the feeling of dignity and security, enabling us to build relationships and feel part of a community,” Mr Thornley said.

“So the fact that we are facing the biggest rental crisis in a generation should be of concern to all of us.”

The reasons people rent range from not being able to afford mortgages or the deposits required to obtain a loan, along with trading off home ownership for location, dwelling quality and size.



LongView Executive Chair Evan Thornley

Yet, only 19 per cent of renters in 2022 said they preferred to rent.

While many lower income households cannot afford to buy a home, two-thirds also allocate more than 30 per cent of their disposable income towards rent.

In contrast, most other households spend between 10 per cent and 30 per cent, which is deemed in the affordable range.

Figure 8 | Rent as proportion of disposable income, low income, and other households (2019).²⁶



Source: Private renting in Australia: a broken system.

PEXA Chief Executive Officer Glenn King said that despite representing a significant portion of the housing market, the private rental system was plagued by a number of issues that have resulted in suboptimal outcomes, particularly for low-income families and the vulnerable.

“Australia is already one of the hardest places in the developed world to be a renter,” Mr King said.

“The biggest problem is insecurity – long term leases are rare, and renters live with constant uncertainty about whether they will have to move.

“For renters who are constantly required to move, this impacts their ability to feel part of a community, it affects continuity of schooling for children, and renters often face unexpected moving costs – often thousands of dollars per move – which could push many on low incomes into greater levels of financial stress.”

However, the exclusive analysis conducted for the Whitepaper also revealed that the private rental system was not working for two-thirds of the nation's 2.2 million property investors either.

Of these investors, 71.5 per cent own one property, 18.8 per cent own two, and 9.7 per cent own more.

The whitepaper revealed that the median total post-tax return of investment properties held for 4-10 years between 1990 and 2020 is just 6.3 per cent, using standard assumptions.



PEXA CEO Glenn King

This compares with the post-tax return of 7.4 per cent from a balanced superannuation fund, which involves considerably less risk and is much lower-maintenance.

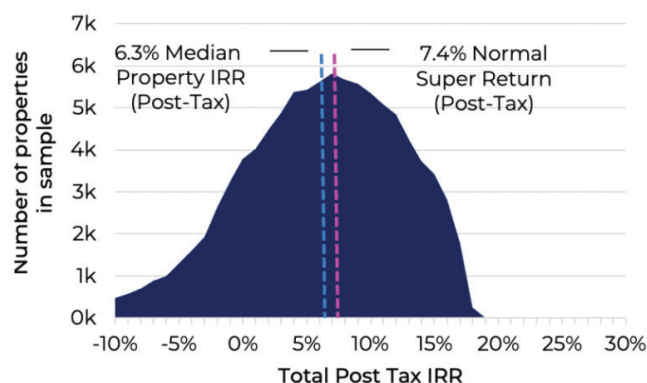
“For landlords, investment is often more complex, stressful, and risky than originally anticipated,” Mr Thornley said.

“It can be much more time-consuming than expected, with a range of unanticipated maintenance costs.

“And 60 per cent of landlords get returns lower than if they had put their money into superannuation.

“In most cases, this is because they bought poor-performing properties.”

Figure 21 | IRR distribution of actual 4 to 10-year property investments in Melbourne, Brisbane, and Sydney (1990-2020).⁷⁷



Source: Private renting in Australia: a broken system.

The whitepaper also revealed half of all investment properties exit the rental market within five years, and with rising interest rates, this figure could become worse.

With sale the most common reason for landlord-initiated lease terminations, the poor experience of landlords is closely related to the insecurity that underpins poor rental experiences for renters in Australia.

“The status quo creates problems for both renters and landlords,” Mr Thornley said.

“Solutions to these challenges need to create a greater separation between the needs of individual landlords and individual tenants, to create a system that works for everyone.

“Only then will Australia's private rental market serve the interests of renters and landlords in a way that is sustainable over the long term.”

The final instalment in the Whitepaper series, to be released in the second quarter of 2023, will examine solutions to Australia's housing affordability, rental affordability and rental experience crises.