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By Shane Wright
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The rental market – an unhappy marriage headed for divorce

The nation's rental market is like a marriage, says entrepreneur Evan Thornley, and it's one that's on the brink of divorce.

"It's an unhappy marriage at the moment between the investor, the tenant and the property manager," he said.

The rental market is an unhappy marriage headed for the divorce courts, according to entrepreneur Evan Thornley. CREDIT:FLAVIO BRANCALEONE

Thornley, a former Victorian state MP, a philanthropist and now the executive chair of property company LongView, this week became the latest voice advocating change to a dysfunctional housing market that is a growing political and economic flashpoint.

LongView, along with property settlement platform company PEXA, released the final part of a series of research papers they have used to canvas the property crisis.

Their work has noted that potential home buyers have been priced out of the market, our cities struggle to work properly, Australian tenants have some of the worst outcomes in the world, and the nation's landlords would be better off sinking their money into superannuation.

This week, they argued it was time to consider several new approaches to rentals in Australia.

Instead of a 2.2 million army of mum-and-dad landlords, PEXA and LongView said it was time to consider the creation of trusts or businesses which would own hundreds or thousands of rental properties.

Potential property investors would put their money into these trusts or businesses rather than own an individual property, in a process widely used across the rest of the world.

"I say to people – I'd rather own 1 per cent of 100 homes than 100 per cent of just one home," Thornley said.

He admits the idea challenges a key aspect of the property market. Mum-and-dad investors largely chase a capital gain with their rental property, rather than the monthly rental cheque paid by the tenant.

But Thornley said most landlords were already worse off under a system that was failing both investors and the people in their homes.

The Grattan Institute's Brendan Coates said the rental market had to change, given falling home-ownership rates and people renting for longer.

"Getting institutional investors into the rental market could be a game changer," he said.

But Coates said while there were advantages to pooling investors into the property market, the tax system made it difficult.

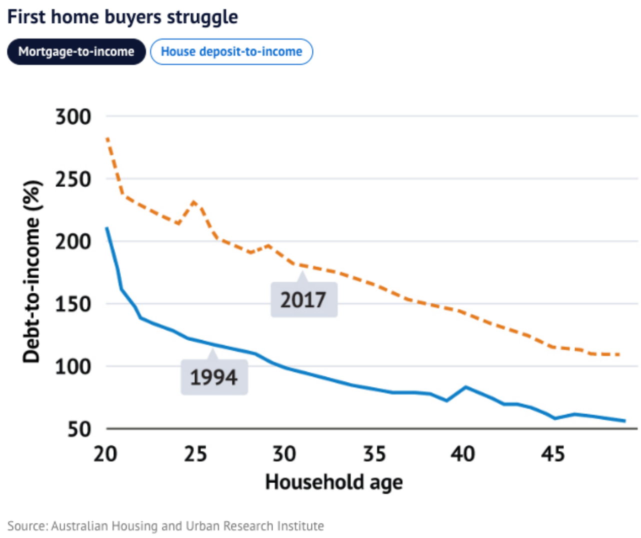
LongView's Evan Thornley says mum-and-dad investors would be better off with more institutional investment in the property market. CREDIT:LOUIE DOUVIS

"State land taxes should be offering a new land tax regime for institutional investors that doesn't punish large-scale investors, paired with a 'housing compact' where institutional investors sign up to strong regulations around offering security of tenure including waiving the right to no grounds evictions and to evict tenants in the event the property is sold, as well as longer-term leases," he said.

LongView and PEXA's research also found there was merit in rent-to-buy schemes, which received new advantages in the federal budget, build-to-rent schemes and for so-called shared equity systems. LongView already has a financial interest in shared equity products, offering them to potential investors.

Research released this week by the Australian Housing and Urban Research Institute showed that shared equity – where an investor (usually a government) helps buy a property in exchange for a share of its capital growth – would offer opportunities to first-time owners.

Shared equity schemes already operate across most states. The federal government is due to introduce its own version.



price problems plaguing the country.

It found the fall in interest rates between 1994 and 2017 accounted for a third of the 109 per cent jump in median house prices.

The surge in prices had contributed to the burden on new home buyers – be it the amount of debt they hold or the size of deposit required to get into the market – over the past 30 years.

According to the authors of the research, falling interest rates helped people borrow more money but they also hampered their ability to save for a deposit.

"Households cannot save any faster in 2017 than they did in 1994. In fact, building a deposit was more difficult in 2017 because deposit interest rates are also much lower, and savings earn interest at a much lower rate," they found.

"It is this failure to build sufficient deposits when house prices are high that accounts for the entirety of the decline in the home ownership rate by 2017.

"Our analysis suggests that although falling interest rates have reduced the cost of mortgage finance for home ownership, rising house prices have offset these falling costs."

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