

Unsettled: the experience of Australia's renters

Adrian Pisarski, Executive Officer, National Shelter

On February 16, 2017 National Shelter with CHOICE and the National Association of Tenant Organisations (NATO) launched *UNSETTLED: Life in Australia's private rental market*. The story touched a raw nerve and became the top trending story that day, reaching an audience of over 5.7 million.

The social media hashtag #RentInOz was the top trending hashtag on twitter, across Australia for twenty-four hours reached more than 1.7 million people. The media report listing stories across the nation was more than one hundred pages long, evidence that the story was picked up across urban and rural mainstream media outlets including television, radio, in print and on line.

Housing affordability has become the number one issue in Australia at the beginning of 2017 but even we were surprised that the story ran so strongly. Maybe it's because many journalists are renters and the story resonated with them; but it may be more to do with the desperate situation of renters and the poor quality of housing many in our rental markets endure.

A growing number of Australians are private renters who are dissatisfied with the affordability of housing available to them. Many of these are looking to our federal politicians to ease their financial difficulties.

I will get to the findings in the report, but consider this. The Australian government puts some \$1.313b into social housing per year¹. This maintains some 405,000 social housing properties and a further 35,000 National Rental Affordability Scheme (NRAS) properties, in total 440,000 dwellings rented at either 25% of income or up to 75-80% of market rents. A total subsidy of \$2,984 per property on average. Tenants of public and community housing generally have very high satisfaction with their rental².

There are 8.82 million properties³ in Australia, and approximately 31% are rented (this may be higher when 2016 census data is available) – some 2.54 million rental properties. To maintain this, the government pays tax concessions to investors of some \$11.7b⁴ (Capital Gains Tax Discount and Negative Gearing) or an average of \$4,279 per property. In return for these Federal subsidies, Australians rent some of the most expensive rental housing in the world; where low income households pay up to 85% of their income to attain housing⁵. The *Unsettled* Report shows that the experience of private renters is of insecurity, expensive housing and discrimination.

These figures are approximate; and I am not arguing all rental properties (or their owners) receive tax deductions. Some rented properties will be owned outright and so don't receive tax deductions. Nonetheless the broad point may be made that we are subsidising private rental investors to a higher level (74% more) than we are social housing; with little public good resulting and without ensuring a high-quality rental market or security of experience for tenants.

The government criticises the performance of the National Affordable Housing Agreement (NAHA) which has delivered increased affordable housing across the country, while continuing its exposure to negative gearing and capital gains tax discounts that have no performance measures to show how they support private rental, and come at a much higher cost to the Commonwealth.

So National Shelter wanted to have a good look at the experience of renters. It approached CHOICE and NATO to partner around this critical issue – CHOICE for their history and expertise as a consumer voice and protector of consumer value and product performance and NATO because they represent tenants in the private rental market and advocate for proper legal and regulatory protections.

National Shelter increasingly looks at the performance of our rental markets in terms of affordability and it was about time we also looked at the experience of renters as users of tenancy products. Most housing stress in Australia is in the rental market and issues of security and amenity are important along with cost and confidence.

More Australians rent than ever, approaching a third of all households. And housing affordability is becoming *the* issue for 2017, as Sydney and Melbourne house prices show no sign of easing and most other markets follow in their wake, albeit at a different pace. Perth, WA and mining regions are the exceptions.

Investors now make up close to half of all the dwelling purchases in Australia. Home ownership is in decline because new home owners just can't afford to break into the market or save the deposit and stamp duty required. And many existing mortgage holders may find it more difficult to sustain ownership if interest rates or underemployment rise.

Our basic findings showed:

- 83% of renters in Australia have no fixed-term lease or are on a lease less than 12 months long
- 62% of people say they feel like they can't ask for changes
- 50% of renters report experiencing discrimination when applying for a rental property
- 50% of renters worried about being listed on a residential tenancy database
- 20% renters experiencing leaking, flooding and issues with mould

- 8% of renters are living in a property in need of urgent repairs

Renters are renting for longer, with 43% having rented for 10 or more years and renters in regional areas are renting for longer than people in metro areas. Compared to a range of other countries, Australia has very short lease terms, generally 6-12 months. Australia has not learned from other countries, particularly in Europe, where there are leases without an end date (indefinite) or, as in Ireland, where tenants roll onto 6 year leases after 6 months.



Perhaps most surprisingly, the *Unsettled* survey respondents reported that the longer they had rented the less likely they were to make a complaint. My interpretation of this finding is that previous experiences have worked against long term tenants making complaints due to the fear of rent rises, evictions, blacklisting or leases not being renewed. Nearly double the percentage of people (21%) who rented for over 10 years, or who had moved more than three times (23%), held off making complaints compared to those who have rented for 5 years (11%) or moved 2-3 times.



SCARED OF REPORTING RENTAL PROBLEMS?

50% of renters are worried about being placed on a "bad-tenant-database".

14% haven't made a complaint or requested a repair because they're worried about the consequences.

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One of the major contributing issues for rental insecurity is the fact that at the end of any lease period in Australia tenants may be evicted without grounds or leases are simply not renewed. This contributes to the fear renters experience and the lack of complaint or bringing maintenance issues to the attention of owners and agents. It seems counter-intuitive that owners would tolerate delays in maintaining properties; but the *Unsettled* survey results indicated a range of maintenance and condition issues.



TOP 5 RENTAL WOES

- 1** Pests (cockroaches, moths, ants etc.) (27%)
- 2** Doors or windows that don't close properly (24%)
- 3** Peeling paint or tiles coming off (22%)
- 4** Leaks or flooding (21%)
- 5** Mould that is difficult to remove or reappears (25%)

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While a minority of renters report these issues, there isn't another product area we can think of where products received such high proportions of complaint as rental housing.

As CHOICE CEO, Alan Kirkland said, "It's hard to imagine a product or service this poor in any other sector. As consumers of rental properties, tenants have to deal with major quality issues like mould or flooding and are systematically denied access to a timely remedy".

One of the areas of greatest concern is the level of discrimination experienced by renters in applying for rental housing. Renters feel that having government payments, pets, children, or their age, have been reasons for discrimination.



DISCRIMINATED AGAINST WHEN RENTING?

50% OF RENTERS REPORT DISCRIMINATION WHEN HOUSEHUNTING:

- For having a pet (23%)
- For receiving government payments (17%)
- Age (14%)
- Having young children (10%)

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The infographic features a background image of a woman with a concerned expression holding a tabby cat. The text is overlaid on a white rectangular area on the left side of the image.

Renters also reported problems at the end of tenancies. While most renters end tenancies for their own reasons and on their own terms, 11% left due to an inability to afford the property, 9% because they couldn't meet an increase in their rent, 7% due to conflicts with neighbours or sharers, 5% due to conflict with lessors and 6% due to an unbearable state of the property.

A staggering 40% of renters reported having had disputes with lessors over their bond – mainly over cleanliness.

Although most renters did not report issues, the level of complaint with our renting system raises more questions about the level of financial support for investors and value for this money, the nature of our rental markets and tenancy legislation, and the regulatory framework around the rental industry.

National Shelter is unsurprised by these results but we are still shocked by them. We know that the nature of our rental market, almost uniquely made up of small investors, supported by tax subsidies and investing for a host of reasons, produces an irrational rental market investment culture.

We see a need to shift investment in residential rental housing to a greater institutional basis where scale investors hold large portfolios over long periods of time. It could still mean housing investment is a high value choice by individual investors, but it should shift away from individuals owning individual properties, to scale investors owning portfolios and individuals invest in the financial product rather than a property.

This will require reshaping our tax and housing culture. We are encouraged by discussion around an affordable housing bond with aggregators which could assemble capital and distribute it to community housing providers, backed by scale institutional investment. This will require a reshaping of how Australia arranges housing assistance but could result in a major improvement for renters.

At this point National Shelter has argued for lowering the discount on Capital Gains Tax for housing investors, perhaps along lines proposed by the Henry Review of. We also favour 'quarantining' the tax deductibility of housing losses and expenses to the same source of income.

We are encouraged by the ALP policy of halving CGT discounts and only allowing negative gearing for new housing rather than existing, but we see a case for a broader discussion of taxation at both commonwealth and state levels. This would include states moving away from stamp duties to a land tax while reforming the CGT discount and negative gearing. In this mix needs to be a way to level the treatment for institutional and individual investors or even shift the balance to institutional investment to attract the scale investment required.

We also need to reform our tenancy law to international standards, especially ending no cause evictions, and lift our game on regulation to ensure our rental markets provide high quality, secure and affordable rental housing into the future.

In the middle of preparing this article the Andrews Government in Victoria announced that a new standard lease will be for 5 years. It has always been possible for leases to stretch over longer periods in most jurisdictions but it hasn't been common practice. Of course there are risks in any attempt to rebalance the interests of renters and landlords, and there are concerns that this will be traded off for easier evictions or more responsibility for tenants to undertake repairs, which would not be an acceptable exchange.

But if there's one thing the *Unsettled* survey shows, it's that it's time for serious discussion – and political will – to deliver reforms to the rental market to make it a better experience and a secure place for renters to make a home.

¹ http://www.budget.gov.au/2016-17/content/bp3/html/bp3_03_part_2a.htm. Total payments to the National Affordable Housing Agreement (NAHA) amount to \$1.343b but some \$275m of this goes into homelessness so I am not counting that as social or affordable housing.

² <http://www.pc.gov.au/research/ongoing/report-on-government-services/2017/housing-and-homelessness/housing>

³ Average of ABS SIH data for 2013/14 aligns with proportion of rental market data @31%

⁴ <https://grattan.edu.au/time-to-fix-australias-unaffordable-capital-gains-tax-and-negative-gearing-policies/>

⁵ <https://www.sgsep.com.au/publications/rental-affordability-index>