

Private rental housing provision in Australia: A Structural Analysis

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Abstract

Federal and State housing policy is becoming ever more reliant on the private sector to provide housing for low-income consumers. This policy direction is being driven by a number of factors, including funding constraints for social housing, changes in attitudes around the role of government in social policy affairs, and also by assumptions about the capacity of the private rental sector. At the same time, while the supply of rental stock per se is quite healthy, there is evidence of significant market failure in the private rental sector, particularly around the supply of lower cost housing.

Using the concept of 'structures of housing provision' as a framework for analysing the private rental sector, this paper investigates the institutional and structural processes of how rental housing is produced, exchanged and consumed, using Brisbane as a case-study. The structures of housing provision approach is used as a mechanism to help explain private rental housing trends and to assist in understanding how rental markets work. The paper, drawing extensively on recent, largely unpublished doctoral research into the political economy of private rental housing in Brisbane, seeks to raise important questions around the practicality of current housing policy approaches, which see a greater role for the private rental sector in the provision of lower cost housing. The argument is made that the social relations around housing provision are likely to have contributed to problems of supply at the low cost end of the market.

1. Introduction

The Australian housing system has a number of characteristics which distinguish it from many other housing systems (Burke, 1999b). Housing production, finance, distribution and consumption are processes very much dominated by the private sector. The private rental market¹ has always held a significant place within the Australian housing system, and plays an important role in housing large numbers of households during their housing careers. At the same time, private rental housing has historically been viewed as nothing more than either a temporary form of housing for the majority of tenants, or more recently as a “residual tenure of last resort” for low income households (Yates, 1996:38). As Berry (2000: 661) argues, “the tenure still exudes a somewhat neglected air”, despite having been the focus of much research over recent years (Yates, 1996).

In the context of renewed interest in the private rental sector among policy makers, this paper seeks to offer an insight into how private rental housing is provided in Australia, using Brisbane as a case-study. The paper draws on components of my doctoral research into the political economy of private rental housing in Brisbane (Seelig, Ph.D. Thesis forthcoming). Despite a large and growing body of literature about private rental housing in both Australia, and in other countries, key aspects of the sector remain under-researched and poorly understood. As Ball, Harloe and Martens (1988: 24) have argued, “Housing provision is rarely examined as a dynamic process of interaction between markets and the agencies operating in those markets”. While rental market failure has been previously identified (Industry Commission, 1993; Yates and Wulff, 2000; Wulff, Yates and Burke, forthcoming), little is known about why and how it comes about.

The research on which this paper is based has made use of a particular conceptual framework, known as “structures of housing provision” (Ball, 1983: 17; see also Harloe, 1985; Ball, 1986; Ball and Harloe, 1990). In summary, the structures of provision approach provides a framework and methodology for conceptualising and investigating housing markets and systems. Elsewhere, I provide a discussion of the evolution of the conceptual and practical application of the structures of housing provision approach, and arguments over its theoretical underpinnings and links with Institutional Economics (Seelig, 2001a; see also Hayward, 1986 for an early defence of the approach, and Burke, 1999a, who has sought to adapt the structures of provision framework in the context of Australian housing research).

In this paper, I provide a brief overview of current issues and problems in the private rental sector, before analysing the processes connected to the supply of private rental housing and the outcomes produced, as a means of making some tentative steps towards explaining current sector phenomena. The paper then moves to consider some of the consequences of the structures of private rental housing provision, and attempts to highlight some of the policy issues and implications that arise by examining current private rental sector macro-policy approaches.

2. Current issues in the private rental sector

The private rental sector in Australia experienced decline during much of the second half of the twentieth century (Hayward, 1992; Bourassa et al, 1995; ABS, 1992, 1996 Cat. No. 1320.0), mirroring the situation in a number of other industrialised countries (Harloe, 1985; van Vliet, 1990; Burke, 1996; van der Heijden and Boelhouwer, 1996). However, despite forecasts to the contrary (Paris, 1984, 1993), private rental housing in Australia has been growing over the last twenty years. At the end of the 1990s, this form of housing represented between 20-25% of housing in Australia (ABS, 1997 Cat. No. 2015.3).

The private rental sector is therefore an important part of the Australian housing system (Paris, 1993; Burke, 1999a), and has become more significant during the 1990s (Yates, 1996; Dalton and Maher, 1996). However, a number of researchers and analysts have highlighted a range of problems and issues in private rental housing, particularly affecting lower income households. These issues include the supply of lower cost private rental housing, housing affordability, access to housing, repairs and maintenance, and security of tenure².

The private rental market grew considerably during the decade to 1996 (Wulff and Yates, 2000). In Queensland, private rental housing stock increased significantly, by 93,000, or 52% in percentage change terms, between 1986 and 1996 (Wulff et al, forthcoming). Queensland Residential Tenancies Authority data indicate that private rental sector growth has continued since 1996 (Seelig, 2000; forthcoming). While the overall supply of private rental housing is seemingly quite healthy, stock growth has not been distributed uniformly across the rent spectrum. Recent research indicates that much of the additional stock is going to the higher end of the market, and the supply of low cost private rental housing has declined significantly across Australia (Yates and Wulff, 1999; Wulff and Yates, 2000; Wulff, 2000; Wulff et al, forthcoming).

In Brisbane, where although the private rental sector has grown absolute terms and in proportion to the other main tenures, there is a veritable crisis of supply in Brisbane's private rental market at the lower cost end of the sector (Seelig, 1999a; 2000; forthcoming). It should be stressed that these trends are not merely the outcomes of the specific rent cost segmentation applied. Similar tendencies are also revealed using alternative segmentations.

Not surprisingly, with a major contraction in lower cost housing, housing affordability is a significant issue (Yates, 1996; National Shelter, 1997; Maher et al, 1997; SCARC, 1997; Burke 1998b). While the concept of affordability is widely regarded as an essential indicator of housing conditions and outcomes, there is much less agreement on how affordability should be measured (Hulchanski, 1995; King, 1996; Smith and Oxley, 1996). A number of approaches has been used in Australia to quantify the extent of private rental affordability problems (Bourassa and Hendershott, 1993; NHS, 1991a; Karmel, 1997, 1998b; Landt and Bray, 1997), each with their own conclusions.

Nevertheless, while the notion of affordability is clearly problematic on both conceptual and measurement levels, it is clear that no matter how it is assessed, housing affordability in the private rental sector is a major issue. A crucial economic factor is that of rent levels, and in particular, claims that rents are increasing beyond the budget capacity of those on low incomes (National Shelter, 1997; ACOSS, 1998). Many low-income households simply do not have enough income to comfortably meet rents set by the market, as well as reasonable minimum costs related to other essential commodities (Seelig, 1999b, forthcoming). This is exacerbated by the fact that less than half of low cost housing is actually occupied by low income households, and only one-third of low income households rent low cost housing (Yates and Wulff, 2000; Wulff et al forthcoming).³ It has become more difficult for households on very low incomes to access low cost private rental housing because there is simply less cheap housing available.

This suggests that access to lower cost private rental housing for low-income households is not assured. Indeed, a new phenomenon in the private rental sector is the establishment of electronic tenancy databases, designed to block access to rental housing to tenants with a history of rent debts. Through these and other services, agents are becoming adept at minimising the risks associated with managing rental housing. The emergence of electronic tenant blacklist databases in the private rental market means that estate agents can effectively control access to the rental housing they manage (Seelig, 1997, 2001b), and they appear to be highly successful in reducing exposure to risk in the form of debts from rent arrears (Seelig forthcoming).

Other issues in the private rental market include maintenance and stability. Approximately one-quarter of private rental households experience some need for repairs to either the inside or the outside of the dwelling (ABS 1996 Cat. No. 4186.015.001). Whether the dwelling is low cost or not seems to be a stronger factor in the need for repairs than whether the household is low income or not. Meanwhile, on the stability front, private rental remains a transitional form of housing for many tenants (Yates 1996; DSS 1997), we know that for many others this is not so (Dalton and Maher 1996). A growing proportion of low and middle income households rent in the private market for a considerable period of time (ABS 1995), as either 'continuals' remaining in the sector or as 'returners' who have come back to renting from home ownership or public housing (Wulff 1997). Those remaining in the private rental sector do so either because of necessity or lack of alternative options, but some also remain by choice.

Mobility in the private rental sector is quite extraordinary, particularly when compared to other renters. Only 10% of private rental households had not moved dwelling in the last five years to 1994; 60% had moved three times or more; 20% five times or more (ABS, 1996 Cat. No. 4186.015.001). This is not something that is exclusive to low income renters, and in fact, non-low income renters move more than low income renters. Overall, these trends indicate that private rental households have little residential stability. Unpublished data from the Queensland Residential Tenancies Authority show that three-quarters of tenancies in Brisbane last for less than two years, and half are for just one year. What we don't know is the extent to which moves are voluntary or not, and what the key factors driving household mobility in the private rental market are (Seelig, 2001c). This issue is currently being explored through a joint Queensland Department of Housing / AHURI research project being conducted by QUT.

In summary, then, while the sector may cater for many tenants' requirements, it appears that a range of housing needs are not being met in the private rental market, at least as far as the needs of low income and longer term renter households are concerned. There are, undeniably, a number of problems in the private rental market. We might argue over how to measure the losses of low cost housing or how to define rental housing affordability. We might differ on the potential consequences of tenancy databases or the significance of the absence of security of tenure in private rental housing. But these debates are largely about the extent of problems, not whether the problems exist for low income households.

However, we need to move beyond describing what is happening and move towards trying to explain how and why phenomena in the sector occur. There is the need for mechanisms to help explain rental housing trends, and to assist in understanding how rental markets work.

3. Identifying the structures of private rental housing provision in Brisbane

Part of my doctoral research, summarised in this and the next sections, has involved seeking to identify the actual structures of private rental housing provision in Brisbane, and their potential consequences. Unless cited otherwise, the following material is based on my Ph.D. studies, which involved a number of methodologies, including primary analysis of raw rental bond unit data; primary qualitative research through a series of semi-structured interviews with leading developers, financiers, and estate agents in Brisbane; and analysis of unit record and time-series data from the Australian Bureau of Statistics and other sources.

My research has analysed how private rental housing is supplied to rental households in three distinct ways: through the supply of newly constructed private rental housing, via housing previously occupied by an owner-occupier (ie through a change in tenure within established housing), and through the supply of private rental housing from housing already being used in the rental. The research also identified and analysed major components of private rental housing ownership and management.

The supply of private rental housing from newly constructed dwellings

The process of providing newly-constructed private rental housing is inextricably tied to the provision of newly-built housing generally. While there are a number of developers and construction companies operating in the Brisbane property market, none promote themselves as being exclusively involved in building private rental housing. On the other hand, there would be very few players, if any, who did not end up developing some new dwellings that were then acquired by rental property owners.

Most new private residential dwellings, especially estates of detached houses, are produced primarily for the home ownership sector, and new private rental housing is generally drawn from the same dwelling stock as new owner/purchaser housing. The significance of this situation cannot be overstated, for it means that very little new housing is produced exclusively for the private rental sector. Indeed, even some of those dwellings that are intended to be used for rental purposes, such as those in many multi-unit developments, are often used as owner-occupied housing subsequently. Rental investors are important to estate developers as a sub-market, but the private rental sector fits into the picture in a largely residual sense. Multi-unit housing may be built with a higher level of rental investment in mind, but it too is not constructed exclusively for that one market, and generally new multi-unit housing is not exclusively acquired by rental investors.

During much of the 1990s, constructions for rental investors have represented between one quarter and a half of all dwellings built in Brisbane (estimates based on dwelling sales and housing finance data, and interviews with estate agents, developers and banks). Of those 'principal' rental investment dwellings⁴ available for rent at the time of the ABS 1997 Rental Investors Survey, 21.5% of rental investment dwellings Australia-wide were new when originally purchased. However, some of these will have been initially occupied by the purchaser, and over the shorter term, new housing adds only a small amount of stock to the private rental sector. New dwellings are generally more costly for rental investors to acquire than other rental dwelling, and they tend to cost a little more to tenants in terms of rent levels (ABS 8711.030.001), suggesting that newly built dwellings are most unlikely to end up at the low cost end of the rental market.

My research into how developers produce housing, the way they view their markets, and how they place rental investment within this context, highlights three issues. Firstly, the absence of any special or exclusive process for rental investment construction; secondly, the fact that home-owners and rental investors compete for new dwellings, and lastly, that essentially no new low cost private rental stock is being produced. In summary, the structures of new rental housing provision are significant for what is not present - namely any process specifically and exclusively designed to produce new lower cost or other rental housing - as much as what the structures are and how they operate.

The supply of private rental housing from owner-occupied housing

The buying and selling of established dwellings meanwhile is a much more significant source of housing in the private rental sector. Within the established housing market in Brisbane, my calculations based on dwelling sales and housing finance data suggest rental investors have been securing between 30% and 40% of all dwelling sales in Brisbane during recent years, and they are important players in the established housing market.

A second source of private rental supply that operates in Brisbane is therefore based on established housing in the owner-occupied sector. There are several ways in which an owner-occupied dwelling ‘becomes’ rental housing. The owner can simply cease to occupy the dwelling themselves and let it to another household, but still retain ownership. ABS data indicate that one quarter of rental investors had in fact previously lived in the principal rental investment dwelling, a rate consistent across both new and established housing (ABS 1997 8711.030.001). The owner-occupier could also sell the dwelling to an investor, who lets it to a rental household. Someone may inherit a dwelling previously occupied by its owner, and rent it out either as a temporary or a more longer term option. Each of these processes results in established owner-occupied dwellings being ‘converted’ into private rental housing.

Significantly, there are no major barriers through property and residential tenancy laws to any of these processes taking place. It is important to note that in most cases, there is also nothing preventing an investor from (re)occupying the rental property at a later date as an owner-occupier. In other words, private rental housing can revert to or become owner-occupied housing with ease, and without the need for any exchange in property ownership. This has implications for issues such as security of tenure.

The supply of private rental housing from existing private rental housing.

The third major form of private rental supply occurs through the letting of property already within the private rental sector to renter households. In practice this form is potentially less straightforward than might seem at first sight, and can take place under different conditions. Private rental housing may be vacated by one rental household (voluntarily or through eviction) and re-let to another rental household. Alternatively, there may be a sale of an occupied private rental dwelling. This could take place either with the tenant ‘in-situ’, or with the previous tenant household having vacated voluntarily or through eviction. In either case, there has been an exchange of property ownership, but there may or may not have been any change in which rental household occupies the dwelling.

My research has found that, in the short term, the vast majority of private tenancies take place in dwellings already in the private rental sector. Using building approvals, dwelling sales, rental investment and census data, I have estimated that while between 30% and 40% of private rental housing in Brisbane 1996 came from ‘outside’ of the existing private rental sector, some 60% to 70% was sourced from dwellings already being used for private rental housing purposes. However, rental investors, like owner-occupiers, acquire and dispose of properties over periods of time. Over the longer term, therefore, the exchange of dwellings plays a role in shaping level of supply of private rental housing.

The management, finance and exchange of private rental housing

Much of the investment in private rental housing in Australia is by individual, small time rental investors (ABS, 1998 Cat. No. 8711.030.001). My analysis suggests that it is most helpful to think about rental investors coalescing around three key groupings: ‘short term or temporary landlords’, ‘small-scale private investors’, and ‘professional and minor-corporate investors’. Most rental investors will fall into the first two categories. The ability to afford the purchase of an investment property is essentially the only prerequisite for deliberate entry into the private rental sector as an investor. Not all rental investors have ended up as landlords purposefully (Yates, 1996), and not all behave in response to economic considerations. The degree to which a number of financial factors and longer term intentions drive landlord behaviour vary, depending on which type of rental investor is under consideration.

Most investors buy their first rental property through a mortgage or loan, and in the absence of large-scale institutional or commercial investment in private rental housing (Berry, 2000), most rental investment finance instruments are for individuals. Most rental investors are owner-occupiers, who can use the equity accumulated in their own owner-occupied dwelling to facilitate access to rental investment finance (Yates, 1996: 48; ABS 1998 8711.030.001).

Estate agents play a significant role in private rental housing management, but less so at the lower cost end, where half of landlords self-manage (ABS 1998 8711.030.001).

Low cost private rental housing providers⁵

While there are some characteristics that sets them apart from other rental investors, unit data from the last ABS Rental Investors Survey (Cat. No. 8711.030.001) suggest low cost private rental housing providers are not a homogenous group of investors. Under my simplified taxonomy of rental investors, it has been hypothesised that some low cost landlords are found among short term or temporary landlords, and others as small-scale (longer term) private investors.

The main source of income for two-thirds of investors was wages and salaries from an employer ((ABS 8711.030.001). However, for landlords of low cost housing, the rate was lower at just over 50%. Income from own business or partnership was a significant principal source of earnings for low cost investors, and income from rental investments may account for much of this. Greater proportions of such landlords were also reliant on superannuation or annuities. Not surprisingly, lower cost investors were thus more likely than other landlords to be outside of the labour force, although 80% of all low cost providers were actually in employment (ABS 1998 8711.030.001).

Low cost landlords were more likely to have inherited the dwelling. They were also nearly twice as likely to have purchased the rental investment dwelling outright than other landlords. However, the clear majority - two-thirds - of low cost rental investors used a mortgage to buy the dwelling (ABS 1998 8711.030.001).

Table 1: How principal dwelling originally acquired

How dwelling acquired	\$1-99	\$100-149	\$149-199	\$200+
Mortgage / Loan	67.2%	79.7%	86.3%	80.3%
Bought outright	21.7%	12.5%	9.2%	13.1%
Inherited	8.9%	5.6%	3.2%	4.7%
Other	2.2%	2.1%	1.3%	1.9%
Total	100%	100%	100%	100%

Source: ABS 1998 8711.030.001

Low cost landlords are much less driven by either long term investment or capital gain factors, and are also less likely to see tax reduction as a key motivation. Conversely, these landlords are much more likely to be renting out the dwelling because they are unable to find a buyer, or because of family or other reasons. This suggests they have a greater propensity to be ‘residual’ providers of private rental housing.

Table 2: Reason for investment in principal rental dwelling by cost segment, 1997

Reason for investing	\$1-99	\$100-149	\$149-199	\$200+
Long term investment	36.9%	43.9%	45.3%	49.8%
Income from rent	10.0%	11.9%	8.6%	12.3%
Reduce Tax/ Negative Gearing	7.4%	11.0%	11.6%	11.4%
Possible future home	9.2%	9.1%	10.5%	11.6%
Potential for capital gain	2.1%	6.4%	6.6%	6.8%
Want to sell but can't find buyer	6.1%	4.5%	3.4%	2.5%
Potential for redevelopment	0.7%	1.0%	0.8%	1.9%
Family reasons	6.5%	2.8%	2.9%	1.8%
Other	10.3%	3.5%	3.1%	3.5%

Note: Multiple reasons allowed, so totals will not add up to 100%

Source: ABS 1998 8711.030.001

Low cost private rental housing providers were less likely to have disposed of rental investment dwellings than other landlords (6.7% of low cost landlords had done so, compared to 10.6% overall (ABS 19988711.030.001). However, such landlords were also much more inclined to sell their first investment property in the following two years from 1997. Of rental investors overall, 68% had no intention to sell, with 16% having such intentions, and a similar proportion undecided. As Table 3 illustrates, 21% of low cost landlords had clear intentions to dispose of their rental investment dwelling, and a further 14% were undecided.

Table 3: Intentions to sell first investment property in next 2 years (1997)

	\$1-99	\$100-149	\$149-199	\$200+
Intends to sell property	21.3%	15.8%	17.4%	12.7%
Doesn't intend to sell property	64.4%	67.1%	67.2%	72.5%
Unknown/maybe	14.3%	17.0%	15.4%	14.9%
Total	100%	100%	100%	100%

Note Reference person only

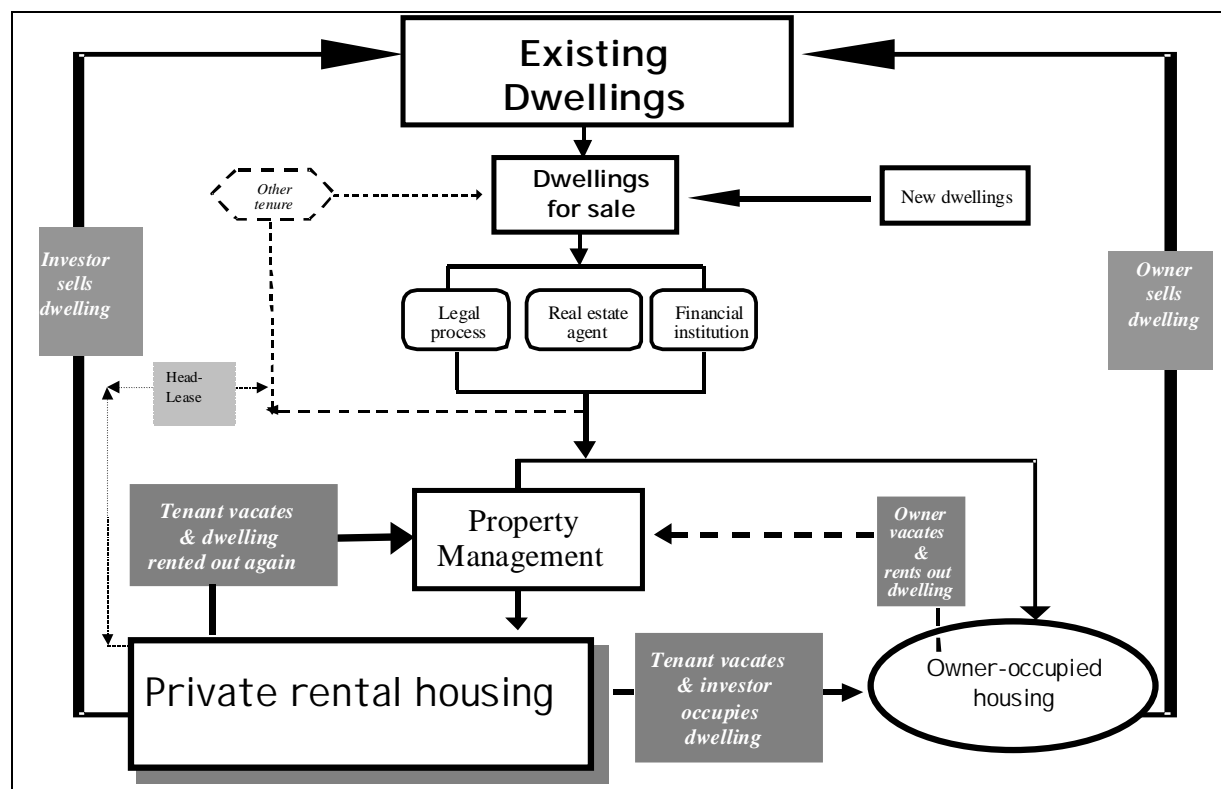
Source: ABS 1998 8711.030.001

While low cost landlords identified a number of factors for wanting to sell, some of which were shared in similar proportions by other rental investors, one stand-out issue was “Too much work/worry”. One third of low cost landlords intending to sell nominated this as the main reason, whereas a mere 13% of investors overall saw this as a the key factor (ABS 1998 8711.030.001). The ABS rental investors data highlights that low cost private rental housing providers were also less likely to buy investment property in the following two years from 1997 (ABS 1998 8711.030.001).

A composite picture of the structures of private rental housing provision in Brisbane

Figure 1 illustrates how the supply of private rental housing through constructions, housing previously occupied by an owner-occupier, and dwellings already in the rental sector come together to form the overall Structures of Private Rental Housing Provision in Brisbane. Whilst there are obvious links between each of the components identified, they relate to forms of provision that are different from each other in essential ways, and in some circumstances are open to different problems and pressures.

These structures of provision are not necessarily fixed, and the specific set of relations that are formed between agents in the processes may vary over time (Burke, 1999a). Thus, the structures of provision identified here do not necessarily reflect historical processes, and they may change in the future. They may also vary spatially, and this is one difficulty of looking at a regional housing market using the structures of private rental housing provision framework. However, while housing conditions may vary across cities, the structures of provision themselves, given their institutional make-up, are unlikely to be exclusive to Brisbane, or necessarily regionally-specific. There will therefore be little variation from the structures identified here in other major Australian capital cities.

Figure 1: The Structures of Private Rental Housing Provision in Brisbane

Source: Seelig (forthcoming)

4. Consequences flowing from the structures of private rental housing provision in Brisbane

There are a number of consequences that flow from the structures of provision associated with the private rental sector. Of particular interest are the implications for the ongoing supply of low cost, affordable and suitable rental housing that is accessible to lower income households.

Dwelling production and exchange

Housing producers operate in a highly unstable environment, and this has the potential to impact on the location, price, timing and volume of dwelling output. Producers therefore seek to focus on their most successful and profitable market - home-ownership. In practice, they also attach great importance to public image, and property developers play an active role in determining the level of rental investment in both new housing estates, and in higher density projects. The measures they adopt to control purchases by rental investors have implications for the type and location of private rental housing in Brisbane.

In new estate housing developments, developers are able to control, to some degree at least, who the buyer is. Rental investors are often only tolerated to a point where a loose ‘maximum 20% rule’ applies. In certain circumstances, and for smaller developers, this limit may be waived if land or housing has not been sold, and in this instance rental investors may be used as a secondary, residual market for developers. In many other cases, however, this does not occur, particularly amongst the bigger, quality developers. Rental investment is seen as being much more acceptable in multi-unit development, where rental investors are more welcome and are specifically targeted.

In the case of constructing new low cost rental housing, interviews with leading developers in Brisbane revealed that none are interested in this market. Big developers do not see low cost rental development as being good for business either in a profit sense or in an image sense. None of the big developers expressed a desire to build low cost rental housing, or thought it likely that their company would choose to develop projects for very low income private rental households. Aside from the obvious economic issues, it could be argued that part of the problem for developers in considering low cost housing as a niche market is a lack of exposure to such work. Developers have little opportunity to gain the interest, skills, experience, and credibility to develop lower cost housing.

The stock that is bought and sold by rental investors is not generally drawn from dwellings specifically connected to the private rental sector, at least not in the way that it was historically (Hayward, 1992; Paris 1993). It is a common pool of housing essentially shared with the home-ownership sector. The predominant use of existing private rental housing as the source of rental supply, in the short term at least, may challenge the claim that there is no exclusive stock of rental dwellings. Nevertheless, the supply of newly-built private rental housing, and more importantly, the exchange of established dwellings remain highly significant over the longer-term because of the temporary nature of much rental investment ownership (ABS 8711.030.001). This means there is “a high degree of substitutability between rental and owner-occupied stock” (Yates, 1996: 39).

One potentially positive outcome of this is the overall physical standard of the stock. The underlying condition of much private rental housing dwellings is surely enhanced by the fact that it is not residualised or isolated in a supply sense, as ‘younger’ dwellings are introduced into the sector. However, such benefits are moderated by the increased acquisition costs brought about by the same process, as well as the implications for providing long term stability to rental households.

Rental investment finance

My interviews with leading banks suggested that rental investors are used to boost home lending in many markets, and this has increased the need for lenders to attract rental investors. However, banks do not want to be seen over-encouraging investment in residential property, and they play a crucial part in shaping the acquisition of dwellings for use in the private rental sector. They are able to exercise some control over the location, type and level of investment in the private rental sector. A result is that it is difficult for rental investors to secure finance for lower cost rental housing. Banks are averse to supporting investments that will involve low capital gain or low income streams. It is thus unlikely that much if any new low cost private rental housing will be connected to supply through mortgage-based dwelling acquisition.

Ownership and management issues

The legal processes connected to property exchange facilitate entry into the supply-side of the private rental sector. Anyone can become a landlord by virtue of renting out a dwelling, and there are no practical barriers to the use of a particular dwelling for the purposes of rental investment. This is undoubtedly part of the reason why ongoing private rental housing supply has occurred, but it has several other consequences. For example, it has implications for the professionalism of landlords. While there may be a number of potential advantages with landlords not representing a distinct class, the fact that most are individual, small scale and usually part-time rental investors, means that there is a certain lack of sophistication to rental investment in Brisbane.

Tenancy laws allow easy 'escape' in terms of termination of non-fixed term tenancies. Short fixed term tenancy agreements and periodic agreements which allow unspecified grounds for termination ensures it is relatively easy to evict a tenant, to sell the dwelling for example (Burke, 1999b). Seen in this way, short term tenancy arrangements are as much connected to the ways that dwellings come into and out of the private rental sector, and who invests in private rental housing, as they have to do with demand factors. The structures of provision mitigate against the provision of long term security of tenure in private rental housing. For some tenants this situation will represent flexibility; for many low income renters, it is likely that it will be a significant problem.

The financial aspects of rental property ownership will impact on most rental investors, regardless of their initial motivations for becoming landlords. Despite using negative gearing to provide some incentive to continue investing while awaiting longer term returns through capital gains or positive cash flows, investors will nevertheless seek to minimise their costs as much as possible. Two ways this can be achieved involve limiting expenditure on repairs and maintenance, and controlling who they rent to. Rental investors spend relatively little on maintaining their dwellings (ABS 1997 8711.0), and this creates conflict for both tenants and managing agents. Indeed, when asked to nominate key tenancy issues encountered during the management of private rental tenancies, the most common problem nominated by managing

agents that I interviewed concerned getting landlords to undertake maintenance, rather than tenant-focussed issues!

Landlords and agents also prevent some tenants, most commonly those on low incomes who have had difficulties in a previous tenancy, from accessing the private rental market. This compounds the housing difficulties that those tenants experience. In many respects, the emergence of tenant databases represents a logical market response to perceived threats to investment returns, but there can be little doubt that tenant databases will have increasing significance for housing policy in Brisbane and elsewhere in Australia. The consequences of the tenant database phenomenon will be felt well into the future, as more low income renters, having had difficulties in a previous tenancy, are potentially barred from renting again in formal private rental housing. The exclusion of potentially risk tenancies helps to explain why I found that the large managing agencies no longer have much of a problem with rent arrears.

Economic implications

My research suggests that because there is no discrete supply of private rental housing, the sector is exposed to the vagaries and price volatility of the wider housing market. Many of the acquisition costs for rental investors are set, not by the private rental market, but by the producers of new dwellings or by existing home-owners. Rapidly rising property values in the home ownership market have traditionally ensured that price rises in rental investment housing have been sustained as well. This has meant reliable capital gains for many private rental housing providers, although there are significant spatial variations to values and hence capital gains. The other side of the coin, however, is that entry costs are also often rising, and the price paid for a rental dwelling will then impact on the internal economics of that investment. Upward house price movements represent entry hurdles to prospective rental investors, and add to the costs to be recovered as far as possible during the time the dwelling is held.

Establishing or maintaining housing costs that are affordable to low income tenants is clearly a major problem in the market. While market rents are not affordable for low income renters, they are often simultaneously insufficient to make a positive return, when analysed in conjunction with dwelling acquisition, management and maintenance costs. The ability to offset rental losses against other taxable income, through negative gearing, is also considered to be important by investors and, I believe, used quite extensively.

Mixed investment returns for some have not translated into a reduction in private rental housing supply overall, and continued investment can be understood in several ways. The temporary and short term nature of much investment means that some landlords will be oblivious to the economics of private rental housing provision. Many smaller investors may not always act in an economically rational way, and there has also been an important structural incentive to sustain levels of investment - the ability to wear losses in the shorter term through negative gearing. It is quite likely that negative gearing has, in fact, been central

to the viability of private rental investment *per se* (Paris, 1984; 1993). The question perhaps is whether it has assisted in any way with the supply of low cost private rental housing.

What this points to, however, is the difficulty in really understanding rental investment, and the almost chaotic nature of private rental supply. Real historical profit, misconceptions about potential rent and capital gains from rental investment, the financial, cultural and psychological barriers to alternative investment, and actions not based on economic influences at all, are each likely to be of great importance in explaining private rental sector investment behaviour. This is especially so when, in addition to actual and expected rental sector performance, the various motivations for investment and landlord types, and the institutional environment in which private rental housing exists are also added into the equation.

The economics of private rental housing provision are therefore not as straightforward as might be presumed. As the Industry Commission (1993: 51) suggest, “From an economic viewpoint, rental markets are far from perfect”. In truth, they are exceedingly complex, and economic activity in the rental sector does not always stack up against theoretical assumptions.

The future supply of lower cost stock

Economics has certainly contributed to the loss of lower cost stock, and the costs of provision may mean charging lower rents is impractical. Existing low cost landlords struggling to maintain viability, or those unwilling to remain in the sector, will eventually cease supplying low cost housing by either moving out of the sector, or increasing rents out of the low cost band. At the same time, the economics of private rental housing provision also appear to mitigate against much of an opportunity for new rental investors to be able or willing to enter at the low end of the market. It would also appear that there is a clear contradiction between maintaining a ‘healthy’ rental sector in terms of general supply and return to investors, and a rental sector that provides affordable housing for low-income households.

While it is possible that there will be a small number of additions to the low cost end of the market, it more likely than not that these will only be temporary. The most probable outcome is that those dwellings currently in the low cost end will be lost over time, and new additions will dry up. The ‘filtering down’ (Maher, 1979: 25) of dwellings from newly built, to recently built and previously owned, to older established, cannot be relied on as a form of low cost supply.

The absence of separate systemic processes for the provision of private rental housing often means that what happens in the private rental sector is the result of activities elsewhere in the housing system, and wider political economy. The lack of a long term discrete pool of private rental dwellings, for example, perhaps reduces the opportunities for rental-based acquisition costs, longer term views of rental ownership or occupation, and the tying of private housing assistance to specific providers or dwellings to secure better housing and broader outcomes.

As the structures of provision for private landlordism ‘collapsed’ prior to 1914 in Britain (Ball, 1983: 26, 359), so too have parts of the structure of provision for low cost private rental housing in Australia. The key differences here are that private rental demand has not diminished but has instead grown, and whereas private landlordism was eventually replaced by owner-occupation in the UK, no new effective housing form has emerged to fill the void created by the withdrawal of lower cost supply.

5. Future scenarios and likely responses

Private rental housing provision obviously takes place in a social and economic context. A number of social and demographic trends point directly to greater demand for private rental housing, especially lower cost and longer term private rental housing. In the first instance, this is apparent in tenure trends, which point to declines in other tenures (Bourassa et al, 1995; ABS, 1992, 1996 Cat. No. 1320.0), and especially as social housing options remain limited.

Household trends indicate a move towards more single person households, who have a greater propensity towards lower incomes than other household types (QDH 1999). Australia has seen a process of income polarisation (Wulff, 1998), and Wulff et al (forthcoming) report that in Brisbane, for example, the number of low income households renting privately between 1986 and 1996 increased by 85%, compared to a 66% change in the total number of households in the private rental market. Low income households already make up a large part of the private rental market, and a significant proportion of low income households rent in the private market for considerable periods of time (Wulff, 1997).

Changing tenure, household and employment patterns, and income-based inequalities all place particular demands on the housing system to provide affordable, appropriate and secure accommodation to the whole population, especially those on lower incomes. As Wulff and Yates (2000: 4) highlight, “Demographic, lifestyle, economic and policy changes have reshaped housing markets and have had profound changes on the housing choices open to households and on the constraints households face in framing and achieving their aspirations.” There is thus greater pressure on the private rental sector, which is already “a key provider of low income housing.” (ACOSS 1998: 3), to house more people for longer periods, maybe even permanently (Maher, 1997).

At the policy level, the challenge is being laid out to the private rental market to deliver adequate housing conditions for low income renters. Whether the sector has the capacity to meet this challenge is a valid question that must be considered. In terms of the current structures of private rental housing provision, if things remain as they are in the private rental market it would seem reasonable to postulate that the sector will struggle and probably fail to meet the challenge. The private rental sector presently has limited capability to meet current expectations regarding housing for low income households.

Whitehead and Kleinman (1986) rightly argue that increases in certain types of demand do not necessarily trigger private rental housing supply responses. Over the next few years, we would most likely see the complete disappearance of low cost private rental housing, with further pressure on rent levels leading to potentially rising and entrenched affordability difficulties for low income households. We may also experience greater economic discrimination in the market, as rental investors seek to further minimise their exposure to risk from tenants who will struggle to meet rent commitments. Ongoing problems with landlords failing to undertake necessary repairs and maintenance are also likely, as rental investors strive to limit their costs. Lastly, we are unlikely to see much change to the problems in providing longer term tenure security.

These tendencies are not necessarily inherent in private rental housing *per se*, but they are all products of the specific ways that private rental housing is currently provided, which result in the needs of many tenants being met more by accident than by design. Left to its own devices, there would be no good reason to anticipate any change to how the market operates. Because it is characterised by flexibility, diversity and uncertainty, the private rental sector has been described as both a “postmodern housing tenure” (Burke, 1999b: 11), and “very much a modern form of housing provision” (Kemp and Keoghan 2001: 134). In fact, the problem may be that the way that private rental housing is currently supplied is actually *anachronistic* to the present and future needs of many longer term, low income tenants!

We need to acknowledge the existence of a “choice-constraint dichotomy” (Burke, 1999b: 11) within private rental housing, and to distinguish between different types of renters and their circumstances and ability to take up alternative housing options. In other words, we may in effect have a situation where two private rental markets exist- one that caters for the needs of moderate to high income earners and temporary rental households, and another one that is more residualised (Yates, 1996), which houses those on lower incomes. The former market seems to be quite healthy in terms of growth in supply and in the way that it delivers housing that meets the needs of its occupants. The rental market may therefore be far less problematic. It is the second, residualised private rental market that policy makers need to concentrate on!

6. Perceptions of the Australian housing policy environment

It is clear that governments in Australia are heavily reliant on the private sector to provide housing for low-income consumers. This approach has been shaped by a number of factors, including the historical development of the Australian housing system (Burke, 1999b), by funding constraints for social housing (Yates, 1997; Wulff and Yates, 2000), and changes in attitudes around the role of government in social policy affairs (QDH, 2000). Despite indications that the private market is failing to meet the needs of many renters, Government has effectively become dependent on the private rental sector being able to function adequately to provide long term options for low-income households.

Crucially, this dependency has been driven in part by fundamental assumptions about the capacity of the private rental sector. It has developed in the absence of formal policy analysis concerning the private sector, and perhaps any real understanding of how housing provision takes place (Seelig, forthcoming). During the 1990s, we have had a number of inquiries and policy initiatives aimed at clarifying or redefining directions for housing policy, housing assistance and housing reforms in Australia. Following the National Housing Strategy (1991), there has been an Industry Commission Inquiry into public rental housing (1993), and a Senate Inquiry into Housing Assistance (1997), plus a host of research, debates and policies connected to the ending of the 1989 CSHA and the renegotiation of subsequent Agreements (National Shelter, 1997; Yates, 1997). Little of all this research and analysis has actually led to clear policy outcomes, but paradoxically, the housing policy development that has occurred has seemingly not always been based on sound research or evidence.

Effectively, a *de facto* policy exists about the private rental market, and its role in being an appropriate place for low income households to seek long term housing solutions. It appears to be mostly derived from the absence of any substitute strategies (QDH, 2000), although it would appear that in the past some key policy-makers have believed that the private rental sector functions well and equitably, even for low income households (DSS, 1997). In its submission to the Senate Inquiry into Housing Assistance, for example, the Commonwealth argued that:

“There is little evidence of chronic market failure in the private rental market For the majority of low income tenants, it would ... appear that access to housing should be possible in the private rental market, assuming that it is affordable for people on low incomes. ... there is not a chronic failure in the supply of private rental housing ... the rental housing market operates reasonably well for people without special housing needs.”
(DSS, 1997: 62-4).

It was further argued that “The private rental market ... has proven to be a robust and diverse sector which caters for a range of community needs.” (DSS, 1997: 52). Although leading housing researchers in Australia have also described the private rental market as “robust” (Yates, 1996: 35) and “buoyant” (Berry, 2001: 8), they have also highlighted a range of serious problems in the sector.

There has been a shift in Commonwealth housing assistance, away from tied funding for public housing through the CSHA, towards the cash-based Rent Assistance Program to private tenants (Hayward and Seelig, 1998; Wulff and Yates, 2000). It has been argued that this approach has been based in part on the assumption that housing affordability is essentially an income problem, and not due to a lack of (access to) low cost housing (Karmel, 1997; Yates and Wulff, 2000). Governments’ current support for the private rental market is essentially based on a *laissez-faire* approach, supported by cash assistance to tenants through Rent Assistance, and to landlords through negative gearing, with some level of regulation through residential tenancies legislation. My analysis, and I believe those of a number of prominent housing

researchers, suggests that this policy approach, which assumes a market-based response, has not worked.

An increase in the availability of affordable and well-maintained housing is required in Australia. During the last decade, this has been perceived to be achievable by increasing rental assistance in the private rental market, which would facilitate both housing affordability and ongoing lower cost supply. In the face of complacency about private rental market capacity, and despite the hopes and expectations of government, such an approach appears to have been relatively ineffective on both counts. The lack of market response to the need for low cost housing can thus be regarded as an example of structural market failure. As Darcy and Randolph (1999:) argue, “It is important to understand that market failure is not the same as a simple housing shortage. It is possible ... that there is an oversupply of housing in one price band while, at the same time, some households are unable to find affordable appropriate housing”. Indeed, it is also clear that dependence on rental assistance does not ensure access to lower cost rental housing or stability and security in the private rental market.

It seems to me that we need a more interventionist and supportive role for government in the private rental market. This will probably require more resources, but it will also require a mind-change. Accepting a greater role for government in the housing system does not necessarily mean though ‘old direct provision models’. We need to fundamentally change the structures of provision connected to private rental housing, and perhaps to blur the distinctions between social and private rental housing.

We often talk about bringing private sector influences into the public sector, to make it more competitive or efficient. Perhaps what we need in this instance is the opposite - more government involvement and influence in the private sector to achieve social as well as financial objectives. Where they have existed, assistance and intervention strategies towards private rental housing have tended to concentrate on the end-supply and consumption stages rather than other stages in the provision of housing, such as the production, financing, exchange or management of private rental housing. Perhaps it is time that some of these options were also examined.

Above all, as Professor Terry Burke, in his recent F. Oswald Barnett Oration eloquently highlighted, Australia desperately needs national housing policies, particularly relating to the future for social and private rental housing. This will first require a vision for what the future should look like, as well as a sense of direction for how we should begin to get there.

7. Conclusions

This paper has attempted, albeit in exploratory way, to provide an overview of how the private rental housing market operates in Australia, using a ‘structures of provision’ approach. Given the disparity between what appears to have been believed at a policy level to be taking place in the private rental market, and what seems to be happening in practice, it becomes necessary to consider how the rental market really works, why and how rental market failure comes about. Rental market phenomena are connected to the institutional processes of private rental housing production, financing, exchange and ownership, and the social relations of private rental housing provision have contributed to problems of supply at the low cost end of the market. Much of this is to do with internal economics of private rental investment, which are in turn connected to the structures of provision. Other aspects of the way that rental housing is supplied also come into play to produce certain outcomes in the market.

This highlights the tensions and difficulties that reliance on the private market can produce. An examination of the actual structures of private rental housing provision that currently operate in Brisbane suggest that there is little prospect for the ongoing supply of lower cost housing, and housing that can be relied on to meet the needs of low income renters. Assumptions about the capacity of the private rental sector to play a greater role in adequately housing low income households need to be questioned. If the private rental sector is to continue playing this role, new approaches and strategies have to be found. These will need to challenge or address the current structures of private rental housing provision, particularly to ensure additional supply of lower cost housing, better processes around low income access to housing, repairs, and the structural capability to deliver tenure security.

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Endnotes:

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- ¹ 'Private rental housing' and the 'private rental sector' have been defined here as 'privately produced and privately owned residential dwelling units currently legally occupied by households who are not the legal owners'. It is not intended that employment-related or informal tenancies be captured in this definition.
- ² For the most part, references in the paper to 'low cost' means '<\$100 pw rents', and 'low income' means '<\$300 pw income'.
- ³ As Yates and Wulff (2000) imply, despite the obvious poor affordability this produces, it has actually been seen by government (DSS 1997), Industry (REIA in Yates and Wulff 2000), and by researchers (Landt and Bray 1997) as a positive outcome, because it mitigates against a residualised low cost end of the private rental market (see also Pender 1996 who makes this point in his critique of the Industry Commission, 1993).
- ⁴ 'Principal rental investment dwelling' constructed from the ABS Rental Investors Survey confidentialised unit record file (Cat. No. 8711.030.001), through selection of first investment dwelling for either 'reference person' or 'partner', and filtering to exclude double counts. While not totally representative of all rental investment dwellings identified in the survey, this provides a good picture and captures the vast majority of dwellings and their characteristics.
- ⁵ There are no comprehensive data on low cost landlords. Again, this analysis has used the ABS Rental Investors Survey confidentialised unit record file (Cat. No. 8711.030.001). While they may not be representative of all low cost investors, this provides a useful insight into their likely characteristics.