

Private Rental as a Supply-side Response to Homelessness

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We know that private rental housing is an important source of housing for homeless people. Data from the Supported Accommodation Assistance Program show that the biggest proportion of clients of that program who needed assistance to obtain or maintain independent housing exited to private rental. Indeed, this was more than a third (39%) of those clients in 2007–08. (See Figure 1.)

Added to this, we know that the private rental market is an important source of housing for very low-income households, with private renting households comprising 54% of the lower-income households in housing stress.

It is therefore intriguing that supply issues around private rental do not seem to have much prominence in public policy responses to homelessness. There is no explicit addressing of this in the Commonwealth government's White Paper on homelessness, *The Road Home* (2008). In some other jurisdictions, such as Edinburgh city council, there is an explicit strategy on the role of the private sector in meeting housing need and an explicit link to the city's homelessness strategy.

It is very common to see private rental housing as the problem, and issues around unaffordability and insecurity present undeniable risks of homelessness for very-low income and disadvantaged renters. It is very uncommon to identify the role of private rental in a suite of possible solutions.

A common response to the problems in the private rental market is to advocate for more public housing as the alternative. But there are twice as many low-income people eligible for public housing who are not on the public housing waiting list as there are people who are on the public housing waiting list. A national survey of private renters in receipt of Commonwealth rent assistance who were not on a waiting list for social housing found that an overwhelming majority, 80%, did not consider public housing as a suitable housing solution for them (T Burke, C Neske and L Ralston, 'Entering rental housing', AHURI, 2004). Nearly a third (31.5%) considered that it would only be a last resort for them; a tenth (13.9%) said they would never consider it; and just over a third (36.5%) said they would consider it only if they could not afford the rent where

they were anymore. The reasons given by those very-low income renters for preferring to live in private rental were varied. The key point is that from a consumer choice perspective, the supply of (and affordability in) private rental housing are challenges that need creative public policy responses.

Private rental housing is being used by some state housing agencies as temporary emergency housing. Making it work for medium- or longer-term housing is another matter. There are a number of government schemes that source housing from private owners on a leasing basis but then turn the properties into social housing by having them managed by government or nonprofit agencies. Defence Housing Australia's leaseback scheme, Housing NSW's headleasing program (for public housing) and community housing leasing program, and the Queensland Department of Housing's community rent scheme are in this mould. Similarly, the Mental Health Coordinating Council of Australia report, *Home truths* (March 2009), refers to the northern NSW nonprofit service, On Track Community Programs, doing a similar thing. It arranges directly with private housing owners to do the property management of their dwellings, for a fee, and it does the tenancy management and provides support to tenants, being the agency's clients who are people with a mental health issue.

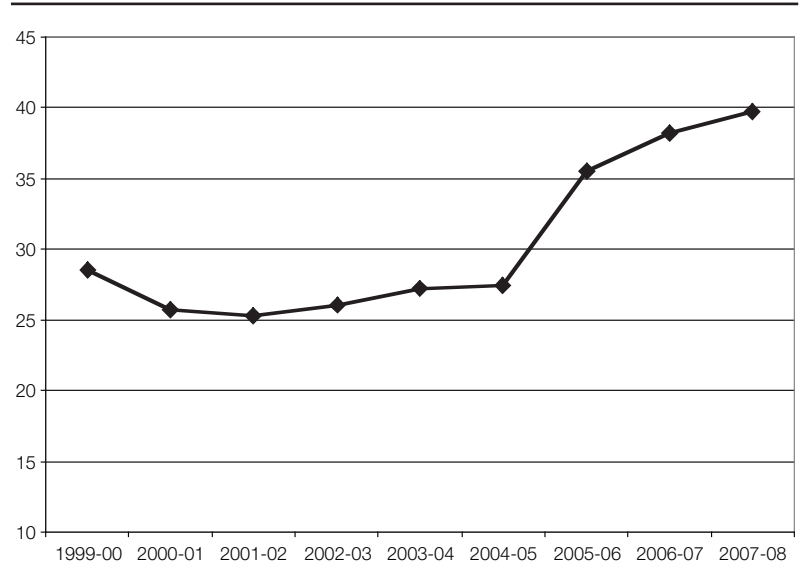
Beyond these programs that borrow private sector housing, there is the question of how this important sector might systemically work as a source of sustainable low-rent housing.

Here we are confronted with the reality of key dynamics affecting any private good, like profitability as a driver for supply and a direct relationship between price and quality.

You have to ask why people who own houses would want to rent them out to other people. There are many owners who do not want any return on dwellings they do not live in; indeed they do not want anyone else living in those dwellings either. The National Housing Supply Council identified over 800,000 unoccupied private dwellings in Australia (*State of supply report 2008*, March 2009). But most investors and owners of dwellings they do not want to live in do want those dwellings to generate income. Some owners might be prepared to accept a smaller income stream because they are 'community minded', a characteristic that is important for services like On Track Community Programs'. But most want to maximise rental income.

The problem is that residential property is not a particularly lucrative area to invest in. The main attraction has been an expectation of long-term capital gain. In addition, there are some tax arrangements in the Commonwealth tax system, concessions and a capacity to 'negatively gear', that

Figure 1:
Proportion of SAAP clients in private rental after a closed support period in which the client needed assistance to maintain or obtain independent housing



Source: AIHW SAAP national data reports



'It would be a bit of privacy. A place to be clean in, and have a shower. Do it without everybody else walking around you. Those little things, they mean a lot when you haven't got them.'

are attractive. As an investment class, it does not perform as well as commercial property, and it also competes with other types of assets. For this reason, rental housing does not seem to have attracted either institutional investors (banks and such) or large-scale residential investors (businesses who specialise in investing in and developing rental housing), who place greater weight on the income component of an investment's total returns. In contrast, smaller buy-to-let investors give greater weight to capital gains.

Recent studies in England and the USA have not been upbeat about the prospects of attracting institutional investors into this market in large numbers and quickly.

In England, the government commissioned a report from York University on the contribution and potential of the private rented sector (J Rugg and D Rhodes, *The private rented sector: its contribution and potential*, University of York, 2008). The authors noted the lament by some commentators about the lack of large-scale institutional investment in private rental —

though there have been developments of larger-scale private rental developments targeted to university students. But the authors suggested that there were few large landlords operating at a scale for institutional investment to be appropriate. They argued that the cottage nature of small-scale landlordism has some consumer benefits, primarily from the uncoded 'sweat equity' of those landlords in managing their properties, which is not priced into rents. They concluded that the main policy challenge was to help good landlords to expand their portfolios. This help should

extend to small and large landlords, since the larger landlords that were there tended to grow through portfolio acquisition rather than new-build.

In the USA, a Harvard University paper suggested that the first premise of a rational policy toward (smaller unit) private rental was that its preservation '*under continued dispersed private ownership*, is a sound, even essential objective' (A Mallach, 'Landlords at the margins: exploring the dynamics of the one to four unit rental housing industry', Joint Centre for Housing Studies, Harvard University, 2007). It thought that a major shift to ownership by large corporations or real estate investment trusts ownership would not materially change the fundamental pattern of ownership of this stock in the foreseeable future.

The USA, of course, provided the inspiration for Australia's National Rental Affordability Scheme (NRAS), in the form of their Low-income Housing Tax Credit. The NRAS is the most innovative initiative taken by the Commonwealth government to promote affordable rental housing, and the boldest. The degree to which it will contribute to increased supply of mid-market rental housing managed by *private* providers is still unknown. Many jurisdictions have chosen to tie the subsidies from this scheme to their plans to increase the supply of community housing, and indeed the private financing and leveraging aspects of the scheme make it the best path to increasing the supply of social housing in the medium-long term (beyond the pump-priming of the 'Nation-building and Jobs Plan' national partnership payment and the Social Housing national partnership payment which is also short-term and has an immediacy linked to homelessness-reduction targets).

The data provided in the public arena so far on the NRAS, from the round 1 offers, do not lend themselves to easy analysis of the extent to which the scheme will encourage supply of mid-market rent *private rental*. While it seems that at least 52% of the dwellings subsidised from round 1 will be managed by community sector agencies, that no more than 8% will be managed by government agencies, and at least 6% will be managed by private providers, a third of the dwellings might be managed by either nonprofit or for-profit landlords depending on the proposal: this information is not in the public domain.

What is novel about this scheme is that — of all the Commonwealth taxation concessions that assist investment in private rental housing (negative gearing, etc.) — this is the only one that links such a tax concession (in this case, a tax credit valued at \$6,000 per dwelling, indexed, for 10 years) to a consumer outcome. The scheme's tenant eligibility and rent-setting guidelines do not require targeting to very-low income tenants and payment of low rents, though they do not prevent this. But they do assume a product

for the 'intermediate' market. The Commonwealth presents this scheme, not unreasonably, in *The Road Home*, as part of its response to homelessness.

What the NRAS does not do is draw on the existing supply of dwellings that could be used for housing but are not so used because of no occupancy or under-occupancy; nor does it enable the participation of the majority of owners of Australian private rental housing in program delivery.

In addition to the 800,000 unoccupied private dwellings Australia-wide, 10% of Australian households (868,000 households) occupy dwellings where there are three or more spare bedrooms. And yet the National Housing Supply Council reported an additional 26,000 vacant private rental properties, mainly in New South Wales and Victoria, would be needed to lower the vacancy rate in the private rental market to 3% (being the 'equilibrium vacancy rate'). And it reported an absolute shortage of 146,000 dwellings in the private rental sector with rents below \$114 per week (i.e. affordable for those roughly in the bottom one-fifth of income distribution).

The profile of providers of private rental housing in Australia is largely that of 'mums and dads'. (The Australian Taxation Office distinguishes between investors in rental housing and people running a rental housing business.) More than 10% of individual income-taxpayers — over one and a half million Australians — own a rental property. Nearly three-quarters of those only own one, or part of one, property.

While rents have generally grown faster than incomes and dwelling prices in recent years, this has not been characteristic of the last two decades. The National Housing Supply Council identified rents in the last two decades as growing more slowly than incomes and dwelling prices, a trend accompanied by significant falling in rental yields. The average yield across rental dwellings has been around or less than 4% since 2001. Rental vacancy rates have also fallen over the last six years.

For investors and rental property businesses to get good returns on the dwellings they buy, they will generally want to rent the dwellings out to maximize rental income. When there was significant investment in private rental housing, in the early 2000s, this was mostly in premium dwellings at the upper segments of the market. The cost of housing in high-demand locations means that it is not possible for private investors to get a sufficient return from low-income tenants; indeed, any rental housing let at submarket rents would need a government subsidy for the provision to be sustainable. This is the case with non-profit affordable rental housing (intermediate housing and social housing) as much as with private-sector managed affordable rental housing.

How might we make better use of the dwellings that are already there, to cater for the people who need housing? How might we draw in a wider range of providers? In

Germany, though this case seems to be exceptional, private households are drawn into the pool of providers of affordable rental housing. They constitute over a third of providers of social housing: they get a subsidy in return for letting dwellings to tenants who meet income-eligibility criteria and at capped rents.

At the 2005 National Housing Conference in Perth, Terry Burke advocated a payable to a landlord who was willing to offer long-term secure leases (e.g. five or more years), to take tenants from a common waiting list, and agree to a fair rent (e.g. 85% of market value). His proposal applied to government and community housing landlords, and private landlords too. He described his model as different from the proposals to bring private finance into the social housing system because: 'This model proposes bringing private stock into the system instead.' Burke's model was discussed at a National Forum on Affordable Housing in Canberra in July 2006, along with a variant model proposed by Kath Hulse. While some of the notions they used were reflected in the design of the NRAS, there was no overhaul of the basic system when the Commonwealth, states and territories agreed to a National Affordable Housing Agreement: this is little more than a re-badging of the Commonwealth State Housing Agreement with the SAAP included.

Is it possible for the states to do more to encourage supply of private rental housing for low- or median-rent, beyond their matching subsidies under the NRAS? A state government does have some tools to encourage supply of private housing to low-income renters. These are broadly in the fields of:

- grant programs, e.g. subsidies to new boarding houses to help meet fire-safety and green-design standards;
- taxation programs, e.g. exemption from land tax for land used for low-rent accommodation, for boarding houses, and for caravan parks;
- deregulation, e.g. removing regulatory barriers to provision of new affordable private rental housing (including boarding houses, manufactured housing estates, and secondary dwellings) that exist in the land-use planning and development assessment system.

Any of these options has its strengths and weaknesses. Tax concessions, for example — whether state or Commonwealth, add to the complexity and inefficiency of our taxation systems. Some of these options are already being implemented in some states. But how governments might appropriately influence the private owners of dwellings to contribute to housing solutions for the homeless and the housing-stressed is a fair question to ask. ■

* This article does not necessarily represent the views of Shelter NSW.