

## **Australian Rental in Context**

**Extract from Professor Terry Burke's presentation for the Tenants' Union of Queensland's 20th anniversary conference, October 2006, Brisbane.**

### **Historical Origins**

Australia's history of white colonisation and settlement is very recent. In 1788 there was no white population and no fixed settlements or housing as conventionally thought of.

The growth of the Australian colonies was focused on city ports that serviced the expanding rural and mining sector. Contrary to 'outback' images, Australia from its colonial inception has always been a highly urbanised society with its demographic growth fuelled by international migration. Without the baggage of historical privilege and entrenched property ownership found in other societies, and with a hinterland rich in rural and mineral resources, the Australian economy boomed in the nineteenth century. By 1900, along with Canada and the USA, it was one of the richest countries in the world in terms of per capita income. Moreover, the dispersion of wealth and income was broad by the standards of the time, with a smallish industrial proletariat.

The housing system that emerged in the colonial cities of Sydney, Hobart, Melbourne, Adelaide, Brisbane and Perth was therefore one which adapted to the lack of existing landownership arrangements, this urban dominance, rapid population growth, and an affluence created less by a burgeoning manufacturing sector than by mining and rural development and the associated financial and related services which they required.

### **Everyone invested in property**

In terms of housing form, this meant that there was no requirement for tenement housing to serve a poor manufacturing working class. The typical working-class housing in nineteenth century cities was single or two storied terrace housing, while middle-class - and a growing proportion of affluent working-class - housing was single detached and remained so into the twentieth century. In 1933, for example, only 4.8 percent of the national stock were apartments or flats. This has important implications for the nature of Australian private rental. The entry costs for investment in a single cottage are very different to those of a block of tenements in New York or Glasgow or apartments in London, Paris, Stockholm, or Berlin. The former meant that investment was possible by people of relatively modest means where the latter meant you had to be rich or a company investor.

### **Private rental seen as secondary to ownership, from the start**

The general affluence of Australians also affected tenure. Thus as early as 1880 at least half the housing stock was owner occupied, a proportion not reached in most other urban societies until the second half of the twentieth century. This tenure arrangement was fuelled by the lack of a gentry, which meant that the abundant land was an 'open go' area for property speculation and development. Facilitating this speculation was the emergence of financial institutions (building societies) that promulgated for the affluent working class a notion of a home owning democracy. Many new immigrants also saw ownership as a symbol of escape from the insecurity and harassment of private rental in the squalid industrial cities of Britain from which they came.

The effect of this was to cast private rental into a secondary status to ownership, almost from the inception of the Australian housing system. It can be argued that this reduced the political potency of any problems in the private rental sector - tenant issues being largely neglected - and minimized the interventions that have characterized the sector in Europe or even the USA. In fact, with the exception of relatively minor periods of rent control during the two World Wars, the major policy interventions have only evolved in recent times, and are not designed to control any perceived problems inherent to the sector but to actually facilitate its sustained provision, e.g., negative gearing, strata titling.

Table 1 trace the private rental sector's declining importance from the nineteenth century up to the 1980s when its relative tenure position began to improve. Although private rental by 1981 had declined to a low of 18.7 per cent, it remained a robust part of the Australian housing system, with little of the debate that has occurred in parts of Europe - particularly the UK - on how to revive the sector or what was its appropriate role. While the decline in private rental in the early post-war years echoes similar trends for the UK and parts of Europe, although not to the same degree, it was not necessarily for the same reasons.

## **The Institutional context**

The characteristics of the Australian private rental sector, as with any other country, is moulded by the nature of the institutional environment in which it operates. At the macro level the two key institutional contexts are that; Australia is a market liberal society with an emphasis on the market, small government, low taxes and individual property rights and consumer choice and secondly a federal system of government.

At a more micro level, this institutional environment takes in the regulatory, and policy environment relating to taxation, planning and building regulation, the legal system, including residential tenancy legislation, the welfare systems (e.g. the nature of benefits), the finance system and the characteristics of exchange agents such as real estate agents.

### **Private rental overruns public rental**

As a market liberal society, Australia places considerable faith in the market and is highly protective of individual property rights and relatedly of home ownership which, it is argued, promotes values of individualism self-help and conservatism consistent with the requirements of such a society.

The implications for the private rental sector of being embedded in such a society include;

- Firstly, that the social housing sector has never been allowed to expand beyond a residual level, around 5 percent, and even this is considered to be too high by some property interests. This means that, unlike in many European societies, private rental does not have to compete with social landlords. Its real competitor being the home ownership sector.
- Secondly, it means that interventions - whether in the form of residential tenancy legislation, rent controls, and taxation or housing allowances - in the sector have been limited by international standard and weighted in favour of property interests.
- Thirdly, it means that the behaviour of both tenants and landlords is mediated through labour markets, welfare systems and finance systems that are structured around the requirements of market liberalism.

### **No federal housing policy**

In any analysis of Australian housing, it is important to recognise that Australia has a federal system of government but unlike the USA, Canada or Germany it is one where the third tier, the local government level, has a much smaller role. The federation of the colonies in 1901 created a constitutional environment of significant implication for the housing system and for the private rental sector. The federal constitution has meant that most of the laws applying to housing - for example, residential tenancy legislation, property law, building regulations and planning controls - are state or local government based, with the states protecting their rights vigorously.

Unlike in the USA or Canada, there is no largish federal agency responsible for policy directions in housing, with the result that there is nothing which resembles an Australian housing policy, either generally or for private rental. One reason for the larger federal government role in Canada and the USA is the larger local government role including much housing provision. While provided at the local level it is federally funded.

Moreover, as most of our states are of enormous size – the state of Western Australia is five times as big as Spain, Queensland is three times the size of France - it is difficult to talk about the Australian rental market, as it really is one of market diversity based around the distinctive attributes of each state.

### **Households on the poverty line**

As a market liberal society, Australia has a lean welfare system by international comparisons, with pensions and benefits providing the most minimal safety net. For example, 2004 OECD data on unemployment benefits as a percentage of the average worker's income shows Australia near the bottom with benefits equivalent to 24 percent, compared to 56 percent in Canada, 59 percent in Germany, and 70 percent in the Netherlands.

Traditionally this has meant that a high proportion of households exist on, or just above, the poverty line, the bulk of whom - given a residual public housing sector - live in the private rental sector. Since the early 1980s rental assistance has been introduced to top up the minimal incomes provided by pensions and benefits, but this assistance is far from generous and still leaves most low income renters well short of the 30% rent to income affordability benchmark.

### **Massive increase in need for rent assistance**

Rent assistance in Australia had its origins in 'supplementary assistance' which was introduced in

1958, but with very limited eligibility, mainly widows and single aged pensioners. In 1963 there were only 9,518 recipients of rent assistance. At the time, this approach was seen as a cheaper option than a more general pension increase. The scheme remained in place until 1983 when the newly elected Labour government expanded it to include almost all social security pensioners and other beneficiaries, as well as making it an entitlement rather than a discretionary scheme. Rental assistance is not designed to reduce rental outlays to some benchmark - for example, 25 per cent of income - but simply to improve rental affordability for social security recipients.

With the 1980s coinciding with a growth in numbers of old age pensioners and supporting parents - and, towards the end of that period, a sharp increase in unemployment - the numbers of recipients expanded almost exponentially. In 2005 total outlays of the rental assistance program were A\$ 1.8 billion compared to A\$210 million in 1984.

### **Low income households directed to private rental**

Effectively, private rental assistance has now replaced public housing as the major platform for low income housing assistance in Australia. However, because it is not overly generous, many recipients are still likely to be in or near poverty even after its receipt. Importantly, it is seen and managed as an income support program; unlike rental assistance in Canada, the USA (Section 8) and most Northern European programs there is no link to any supply side subsidies.

### **Exchange Agents**

About 60 per cent of rental properties are managed by private estate agents, with the remainder being self-managed, that is, landlord managed. Estate agents have two functions. The first and dominant one is to match sellers and buyers of residential property. The other is to manage the rent roll for individual landlords who pay a fee of around 7 to 9 per cent of the gross rent for this service. To be an estate agent requires minimal education and training, and what training there is largely focuses on the sales role rather than the rental role. In many cases, this means that private rental sector manager, in contrast to the professional property managers in the USA or Europe, tend not to be particularly professional, and many are indeed amateurish in managing this complex and fraught housing sector. This relative lack of management professionalism from estate agents, and self-managers may be even worse, combined with the largish number of lower income tenants, many of whom may have associated social and economic problems can be a source of conflict.

### **Contract termination without reason**

The short-term leasing that characterized nineteenth century English law still holds today. Leases are rarely longer than a year, typically six months, with notice to quit ranging from two weeks to three months. They can be terminated for any reason, so long as the minimum notice is given. Tenants normally have the right to give notice at any time before the expiry of the contracted lease, but may have to pay for any costs incurred because of this, for example, vacant rent periods. They must lodge a bond equivalent to four weeks rent prior to moving into the property, which is returnable upon a condition report at the end of the lease. This has been and still is a major source of conflict, as many landlords and estate agents concocted a rationale for not returning a bond which they held in trust on behalf of the tenant. Most states have now established rental bond boards, which are independent authorities for managing bonds.

### **Tribunals service landlords**

In most states, rental dispute is handled by special tribunals rather than traditional courts, for example, magistrate's courts. The objective where possible is to deal with conflict through mediation rather than tribunal rulings. Despite beliefs that such tribunals would be used by tenants to make the life of landlord harder, the bulk of residential tenancy appeals in Australia are made by landlords, and then largely to terminate possession.

### **Conclusion**

For those of social democratic persuasion, the sector appears to be fundamentally flawed. The large numbers who are experiencing an affordability problem, the discrimination (sometimes linked with the lack of professional management), the non-targeting of tax subsidy, the related inability to ensure supply of lower end rental housing (particularly in non-metropolitan and fringe urban areas) and the gentrification of stock in inner urban areas are used as evidence to indicate that it is a problem sector. More saliently, its very growth can be pointed to as a problem, given that this has occurred

concurrently with greater after-housing poverty. The opportunity cost of an expanded private rental sector, with all its tax subsidies and rental assistance, may be seen as one of forgone social housing. Would there have been less poverty, fewer affordability problems and less discrimination if the social sector had been encouraged to expand over the last two decades rather than considerable indirect subsidy of private rental? Further the ontological security provided by ownership and public housing is removed by private rental growth and replaced by the uncertainty of short-term leases and the trade-off of renting in amenity rich areas versus owning in amenity poor areas.

### **Seduced by globalisation**

It can be argued that the resurgence of private rental is symbolic of a recasting of the housing system into one more suited to the Commonwealth government's objective of making Australia a globalised market liberal economy. Like all industrialised capitalist societies, Australia has been seduced by the imperatives of globalisation and the need to restructure to create greater international competitiveness. In a market liberal society like Australia, this has meant financial and labour market deregulation, weakening of trade unions, privatisation, substantial restrictions on the role of government, including tighter targeting of welfare, and greater dependence on private finance and free markets. Housing systems can complement or weaken the ability to implement such strategies, depending on the form of the system. Private rental may be seen as the post-modern tenure form - the one that meshes best with the flexibility and diversity of a globalising post-industrial society. By contrast, home ownership and public rental can be seen as representing modernist tenures which have outlined their usefulness.

### **Flexibility, for whom?**

There is little doubt that the private rental sector is the most flexible housing tenure in terms of consumption and investment; both consumers and investors can exit and enter it more readily than either home ownership or social housing. While investors appreciate such flexibility, there is doubt about all tenants want such flexibility. For affluent professionals of the information society, private rental may suit their need for a global lifestyle, unlike the more inflexible ownership sector. For the other tenants of a restructured economy and society who are already experiencing substantial job insecurity, what they want is housing security. But, because of the institutional structure of the private rental sector, security is not an option. Nor is adequate housing affordability, given the low levels of rental assistance. Greater attention has to be given to resolving the affordability and security problems of the sector.

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