Regulating Rentals in Australia: What works?

August 2023

Centre for Equitable Housing
A Per Capita initiative

V&F HOUSING ENTERPRISE FOUNDATION

percapita
FIGHTING INEQUALITY IN AUSTRALIA

Contents

About Per Capita

Per Capita is an independent public policy think tank. We work to build a new vision for Australia based on fairness, shared prosperity and social justice.

Our office is located on the lands of the Wurundjeri people of the Kulin Nations, which were never ceded. We strongly support the Uluru Statement from the Heart and the call for a First Nations Voice to Parliament.

Per Capita's research and policy prescriptions are rigorous, evidence-based and long-term in outlook. All our publications and activities are intended to deepen political, social and economic democracy, and we are focused on challenges for the next generations rather than the next election cycle.

Our approach to public policy

Per Capita's approach to public policy challenges the dominant narrative that disadvantage arises from personal fault or failure by pointing out the policy choices that have deepened inequality and proposing alternative choices that will lessen it.

Our policy analysis and recommended solutions seek to recognise the challenges, and work within the complex economic, political and social conditions, of our age, such as:

- The impact of rapid climate change and extreme weather events;
- Growing economic inequality, with increasing returns to capital and a decline in returns to labour;
- The growing difficulty of accessing good jobs, adequate income support and secure housing; and
- The negative effects of privatisation and the deliberate shrinking of essential public services.

In doing so, we strive to incorporate new thinking in social science and economics, innovative ways of working with data, and effective evaluation tools to measure outcomes. We also engage actively with organisations across society, including the union movement, civil society, the community sector, academia, business, government and the public service, and social change movements.

In all our work, we seek to understand and highlight the experiences of those who bear the brunt of the effects of policy choices that exacerbate inequality, including underpaid and exploited workers, people who can't get a decent job, women, First Nations people, members of the LGBTQ+ community, people with disability and their carers, migrants and refugees, and others who are marginalised by our economic and social structures and denied their fair share of power and resources.

We live and work in hope and solidarity

The democracy Per Capita works for is one that shares its knowledge, wealth and power, to ensure all its citizens can live meaningful and fulfilling lives, able to take care of each other and of our shared planet.

About the Centre for Equitable Housing

The Centre for Equitable Housing (CEH) is a new initiative within Per Capita, which provides research, policy advice and public engagement on housing affordability-related issues.

The Centre was established with funding from V&F Housing Enterprise Foundation, in response to the failure of the housing market to deliver a pathway to affordable housing for many Australians in recent decades.

CEH works toward a future where all Australians have access to affordable, secure, and appropriate housing, regardless of their personal circumstances.

Housing meets a fundamental human need for shelter, safety, and stability. It is essential to individual and community wellbeing, as well as our shared economic prosperity. Home is a necessary foundation for building a productive and fulfilling life, and for raising children. But despite our growing national wealth is it increasingly difficult for Australians to find homes that are affordable and appropriate to their needs.

Housing policies at the national, state, and local level are failing to provide reasonable pathways to housing, contributing to unaffordability, and entrenching inequality. Policy making around housing is often described as a wicked problem because of the deep conflict of interest we have as a society: high property prices represent wealth for homeowners and investors, but unaffordability and insecurity for others.

And things are getting worse: many trends show that negative policy outcomes are being borne by an increasingly large proportion of society, while the benefits accrue to a shrinking share of the population.

Per Capita and V&F Housing Enterprise Foundation believe that the time has come for a significant overhaul of housing policy at all levels of government.

V&F HOUSING ENTERPRISE FOUNDATION

About the Author

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Matt has worked in project management, policy development and research for over 20 years.

His career includes work with the trade union movement, international development NGOs and with universities on issues of economic and social development, and social justice. His experience includes managing disaster relief and development projects, policy development, and research on industrial relations, education and livelihoods, in Eastern Europe, Russia, Central America, East Africa, Papua New Guinea and South Asia.

Before joining Per Capita Matt worked at the Australian Council of Trade Unions as an international officer. Prior to this, he worked at Islamic Relief International, Tufts University, Builders and Woodworkers International and Central European University. He also worked as a carpenter for several years.

Matt holds an MSc in International Relations and Development from the School of Oriental and African Studies (SOAS), University of London, and an MPhil in Political Economy from Central European University.

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Emma Dawson has worked as a researcher at Monash University and the University of Melbourne; in policy and public affairs for SBS and Telstra; and as a senior policy adviser in the Rudd and Gillard Governments.

Emma is the co-editor, with Professor Janet McCalman, of the collection of essays ***What happens next? Reconstructing Australia after COVID-19***, published by Melbourne University Press in September 2020, and author of numerous papers and chapters on social policy in Australia. She is a Fellow of the Women's Leadership Institute of Australia and an Adjunct Professor at the UTS Business School.

Lucy Tonkin, Andrew Herington Research Fellow

Lucy Tonkin is the current Andrew Herington Fellow at Per Capita, having commenced this program in September 2022. As the Andrew Herington Fellow, she assists and produces research into a variety of policy fields, with a focus on housing, urban planning and sustainability.

In 2021, Lucy commenced work with Per Capita as an intern while completing her Bachelor of Arts (International Studies) degree at RMIT University Melbourne. She is currently completing a Master of Urban Planning at the University of Melbourne.

Jennifer Sam, 2023 Winter Intern

Jennifer Sam is currently completing her Bachelor of Law and Arts (Criminology and Psychology) at Monash University. With a particular interest in social justice and examining the intersections between inequality and the law, Jennifer has experience in various community legal centres (including South-East Monash Legal Service and the ASRC Human Rights Law Program) where she assists in legal research and caseworking. She was the Winter Intern at Per Capita in 2023.

Executive Summary

After decades in which Australia's ever-rising house prices were seen as an unalloyed positive in our economic debate, the national conversation around housing affordability has become rancorous in recent months. Home ownership rates among younger adults are in freefall, and the vast majority of renters now believe they will never be able to buy their own home.

With almost a third of households now renting, a spotlight has been thrown upon the poor conditions in many parts of Australia's rental market: short tenures, an absence of quality standards, sudden unpredictable spikes in rental prices and a lack of affordable properties are pushing too many Australians into housing stress and putting them at risk of homelessness.

This paper seeks to shed some light on a heated debate. It examines the data to establish if there is, indeed, a rental crisis in Australia, and surveys local and international research to determine what would work to improve the experience of renting a home in the Australian market.

We start from a simple position: that the goal of government housing policy should be to ensure that everyone in our wealthy country has a safe, secure, affordable and comfortable home.

We find that, despite an increasingly rancorous political debate, there is no evidence of a rental price crisis at the market median: that is, the rents being paid by middle and higher income households as a proportion of their income is roughly consistent with the historical average.

While there have been significant spikes in asking rents over the last year, the actual rents paid by sitting tenants have increased much less sharply, and a quarter of tenants have seen no increase at all in the last year.

What is undeniable, and not news to anyone working in housing and homelessness services across the country, is that there is a genuine crisis for low-income households in Australia's rental market, one that has been brewing for over 20 years. While the average proportion of income paid as rent by middle-income households is around 30%, the definition by which that threshold denotes rental stress applies only to households in the bottom 40% of income distribution: and they are paying more than half of their income just to put a roof over their heads.

Too many people who live on fixed incomes such as welfare payments, and a growing number of award wage workers, often in key jobs in the care and services sector, are facing homelessness as the supply of social and affordable housing has utterly failed to keep up with demand over recent decades.

There is an urgent need to reform Australia's residential rental property system. Tenants here enjoy far less security in their homes than do renters in comparable countries. By international standards, we have low levels of protection for tenants from eviction, and inadequate, ad hoc regulations for the quality and maintenance of rental properties. The research clearly demonstrates that Australia's state and territory governments must overhaul rental regulations to give more power to tenants, and reform planning systems to provide more affordable and appropriate housing where people need and want to live.

We find that a significant cause of rental insecurity in Australia is the structure of our residential investment sector. Australia's housing market is dominated by small-scale, hobby landlords – so-called "mum and dad" investors, who are often highly leveraged and unable to properly manage or service the homes they rent, particularly at the lower end of the market.

This is in large part driven by the investor tax concessions that encourage speculation on property by ordinary income earners, vastly reducing the real cost of investment and fostering a market in which landlords eschew positive rental yields in pursuit of a short-term, heavily tax discounted capital gain.

The research contains some surprising findings: there is not, for example, an aggregate lack of supply in the housing market. Australia builds more homes per capita annually than do most comparable developed countries. There is plenty of market-rate housing available across the country; the problem is a severe and compounding lack of quality social and affordable housing for those at the bottom of the income scale.

What is also clear is that while median rents have remained relatively stable on aggregate, many individuals are suffering very high and unpredictable rent increases. This unpredictability of when and by how much rent increases occur is causing significant community concern. Given the nature of the current political debate, we investigate options for rent controls, examining the literature and evidence from markets in which rental price regulations have been implemented.

We find that first generation rent control, or a "rent freeze", would be a poor response to the real challenges facing Australia's housing system, almost certainly making the problem worse for those in real housing stress. Freezing rents has been shown to reduce supply at the lower end of the market, as investors shift to higher-yield property development and withdraw more affordable properties from the market altogether.

The inherent problems with freezing rents would be compounded by Australia's relatively lax tenancy regulations. Poor regulation of short-term rentals in many jurisdictions, and the allowing of no-fault evictions in various regions would likely see landlords flee the residential market or terminate leases to reset rents ahead of a freeze.

Our research finds that some form of second or third generation rent control, essentially stabilisation of rental increases, is feasible in Australia, and may reduce the prevalence of rent spikes and tenant insecurity. However, these would need to be carefully designed for the conditions of the local market in order to ensure that adverse consequences, most likely to hit those already in housing stress, are avoided.

We conclude that, in order for the real problems in Australia's housing market to be addressed, we require a bold and ambitious national policy that is focussed on significant government investment, and incentives for the private sector, to build more social and affordable homes. Alongside this investment must be a nationally coordinated housing policy process, and a body to oversee the implementation of multiple policy interventions in the housing market.

This must include addressing distortive tax concessions that create such instability in the investor class, an increase of market-priced housing in inner and middle suburbs, improved rights for renters, reform of the current system of Commonwealth Rent Assistance, and a long-term commitment to providing non-market – public and community – housing by all levels of government.

Introduction

Many renters in Australia are struggling. Advertised rental prices have increased dramatically over the past year, and it is not uncommon to hear anecdotal stories of rents increasing by 70% or even higher. The return of international migrants following the COVID19 border closures has added short-term pressures to stock availability. Demographically, more people are relying on the rental sector for longer periods of their lives. The decline in home ownership among younger Australians, with just 41% of 25-34 year-olds now owning their home compared to 61% in the 1980s, and the increase in older people in the private rental market, means that these problems are being felt more widely, adding fresh impetus for change.

Dramatic increases in asking rents and tightening availability rates have led to demands for significant government intervention in the housing market, such as major planning reforms to enable an increase in private sector supply, a national freeze on rental prices, or limits to immigration.

However, the focus on these short-run trends arguably obscures the real issues in Australia's problematic rental market. There are currently fewer immigrants than there were before COVID19 temporarily closed our borders, and the private sector has been building at a relatively fast rate for years, with as many as one new dwelling for every two new residents in Melbourne.

However, there are many parts of the rental sector that are in crisis: as this paper shows, Australia's rental market and regulatory framework has long held significant problems for renters, particularly those on low-incomes or reliant on welfare payments. In fact, there has been a low-income renter crisis building across our country for decades, but only now that similar pressures are affecting renters on higher incomes, with more social capital and political power, are policymakers finally paying attention.

It is critical that any policy responses decided in the heat of a national debate about a "housing crisis" are appropriate to these long term challenges rather than focussed on emerging, and probably temporary, spikes in asking rents and low vacancy rates in the private rental markets in inner-urban areas.

Australia, as in much of the world, has seen a major shift in the government's role in housing over the past three decades. Governments have deliberately moved from being housing market actors to being market-fixers on the periphery. The decline in government home building and a focus on demand stimulus over the provision of targeted supply has been one of the most pronounced policy shifts of the past 30 years.

As a consequence, the proportion of renters who lived in secure, rent-controlled public housing has declined from around a quarter in the 1980s to less than one in ten today. Rental stress for low-income households is particularly high and has been for some time, in part because the supply of low-cost housing by the private market has been woefully insufficient.

Poor tenure security, a volatile landlord sector, the lack of regulated quality standards and unpredictable rent increases are entrenched features of the Australian rental market that, following the economic shock of the COVID pandemic and a poorly targeted fiscal response between 2020 and 2022, have accelerated.

Further, due to the changing demographics of long-term renters in this country and the current inflation crisis, these long-standing but long-ignored market failures are causing significant hardship for middle-class households, not just for those who have long experienced rental stress and disadvantage.

It is in this context that rent control has become a contentious political issue, with the federal Labor Government's efforts to implement long-term strategies to encourage more private investment in affordable housing and secure long-term support for community housing providers being stymied in the senate by the Greens Party, which is demanding a national freeze on rental prices for two years.

Yet while a rent freeze may be appealing at face value, it is not an effective policy solution to the failures of Australia's housing market. Hard rent freezes, also known as first generation rent controls, have been shown to produce significant negative outcomes wherever they have been tried, discouraging supply and reducing landlord investment in property maintenance. A hard rent freeze across the nation would be unable to account for the differences between local markets; may, in the absence of other regulations, drive more owners into the short-term rental market, further reducing the supply of stable long term rental housing stock; and would almost certainly lead to a decline in the maintenance and provision of rental properties at the more affordable end of the market.

This paper makes the case that, in order to genuinely and permanently improve conditions for Australia's growing number of renter households, broad structural reforms are required: no single policy can be relied upon to resolve what are complex and long-festering issues.

Given the growing calls for some form of rent control, we explore how better regulation of rents could improve the functioning of the rental market, focussing on the welfare of renters both in the short and long term, and across all income distributions and social classes.

While the balance of evidence suggests that greater regulation of rents would be beneficial, it is also clear that the private rental sector (PRS) requires reforms across a range of areas other than price. The reforms required will necessitate a greater role for governments as "market shapers" rather than "market fixers" (Mazzucato and Ryan-Collins 2022). In particular, rent controls simply would not work without reforms in states and territories which still allow no-fault evictions, or in local areas where short-term rental options like Airbnb provide an easy exit from the residential tenancy market for landlords. Rent stabilisation policies could play a role in limiting the shocks of large rent price increases but will likely not reduce rent prices in the long run.

It is important to recognise that, while the private rental market does not serve low-income renters well, and recent spikes in asking rents have been disruptive for the roughly 30% of Australians who now rent their homes, median rents have remained relatively cheap in comparison to historical averages and international comparisons over recent years.

We begin, therefore, by examining the foundational assumption underpinning our current housing policy debate: that there is actually a rental crisis in Australia in 2023.

Is there a crisis of rental prices?

Rental affordability across the market

Much of the media debate at present is taken up by very rapid rent price increases for new or renewed leases, rather than the average rent paid across the whole market. These are known as asking rents, and they have increased significantly over the last 12 months, particularly in Melbourne and Sydney. It is important to note that these markets saw a very large drop in rent prices during the 2020-22 COVID lockdown period, and so to some extent these increases represent a rebound in prices.

As shown in Table 1, CoreLogic's rental price increase for Australia was 10.1% over the past 12 months. For Melbourne, rents increased by 3.7% in the quarter to March 2023, the fastest growth of any capital and significantly higher than the national average of 2.5%.

Table 1

Changes in Rents, Rental Yields and Vacancy Rates

			(all dwellings)		(all dwellings)		(all dwellings)	
Region	Median rent	Month	Quarter	12 months	Current	12 months ago	Current	12 months ago
Melbourne	$526	1.50%	3.70%	10.80%	3.40%	2.81%	0.70%	2.00%
Perth	$573	1.30%	3.60%	12.80%	4.85%	4.34%	0.60%	1.10%
Sydney	$699	1.60%	3.40%	12.60%	3.22%	2.48%	1.20%	2.10%
Brisbane	$599	0.80%	1.80%	12.30%	4.34%	3.51%	1.10%	1.20%
Hobart	$563	0.40%	1.80%	4.70%	4.39%	3.65%	1.70%	1.10%
Adelaide	$531	0.70%	1.70%	11.50%	4.09%	3.77%	0.30%	0.40%
Canberra	$674	-0.10%	-0.70%	0.30%	4.19%	3.82%	2.00%	0.70%
Darwin	$588	-0.40%	-1.00%	4.60%	6.39%	6.04%	1.80%	1.70%
Combined capitals	$594	1.30%	3.00%	11.50%	3.70%	3.00%	0.90%	1.70%
Combined regionals	$507	0.40%	1.20%	6.60%	4.60%	4.10%	1.40%	1.30%
National	**$570**	**1.00%**	**2.50%**	**10.10%**	**3.90%**	**3.20%**	**1.10%**	**1.60%**

Source: (CoreLogic 2023a)

For a household with a median income, a new or renewed lease at today's prices will take 30.8% of their income, which is not much different from historical averages.

However, for lower incomes households, servicing a new or renewed would require 51.6% of their income.[1] This is clearly unmanageable, and shows that our housing system is failing low-income

[1] CoreLogic 2023

households. Simply put, the volatility of price changes in the private rental market creates significant housing insecurity and stress for low-income households.

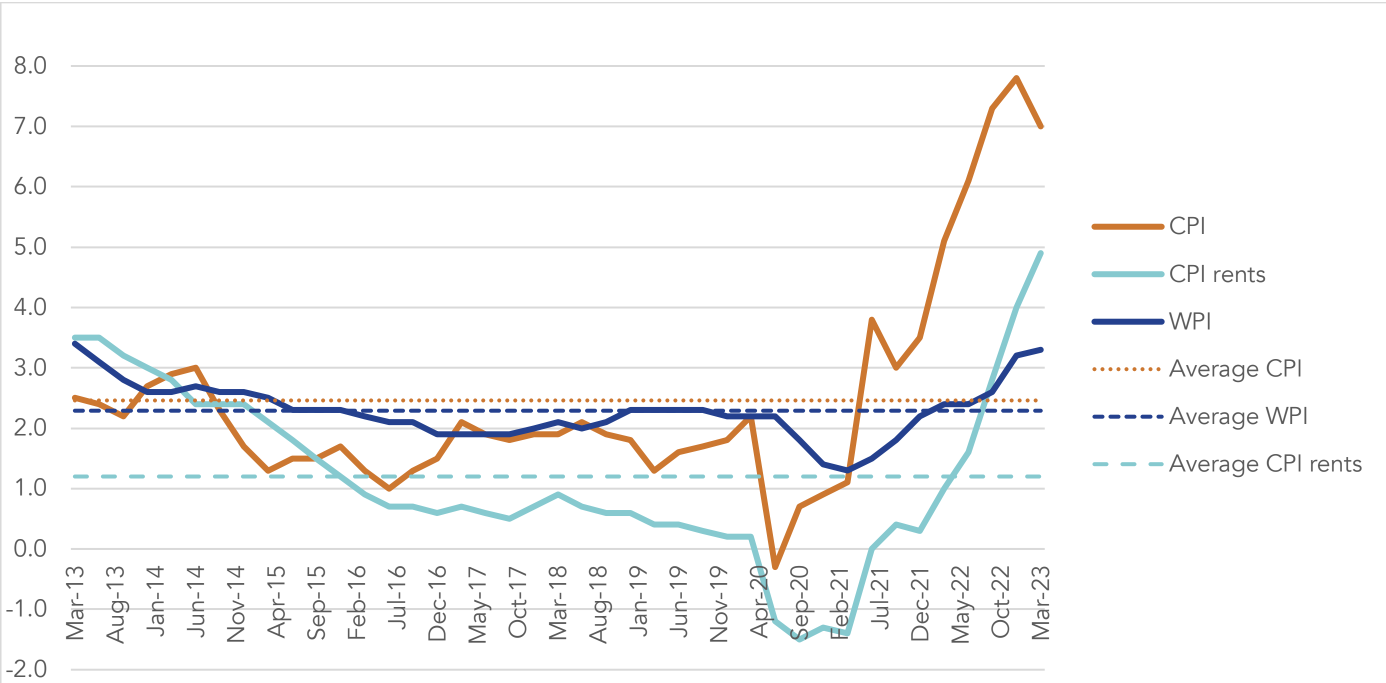
It should be remembered that these figures are based on asking rents: how much a landlord could charge a new tenant. This is markedly different from the average rent price paid across the rental market. Basing market interventions on asking rents is bad policy making, since they can change rapidly and do not reflect the reality for most renters.

The fact is that most people do not pay current asking rents. Some asking rents will filter into the stock of all rents paid, but not all, and not all at once. The Consumer Price Index (CPI) of rents is useful for exploring this difference, because instead of being based on the very small proportion of rental stock represented in asking rents, it is based on actual rents paid by a representative sample of the whole rental population.

As of March 2023, rental prices in the national market have increased significantly since December 2021. However, rental price increases have been significantly lower than inflation since 2017. This means that, so long as wages have been growing faster than CPI, rents have actually been declining as a share of income over that period.

As shown in Figure 1, the Wage Price Index (WPI) grew significantly more than rent prices for most of the time between 2013 and 2020. In fact, despite real wages declining slightly between 2013 and 2023, wages grew at 2.3%, nearly twice as fast as rents at 1.2%.

Figure 1
Wage growth, Inflation and Rental Increases, Annual Percentage and Average Annual



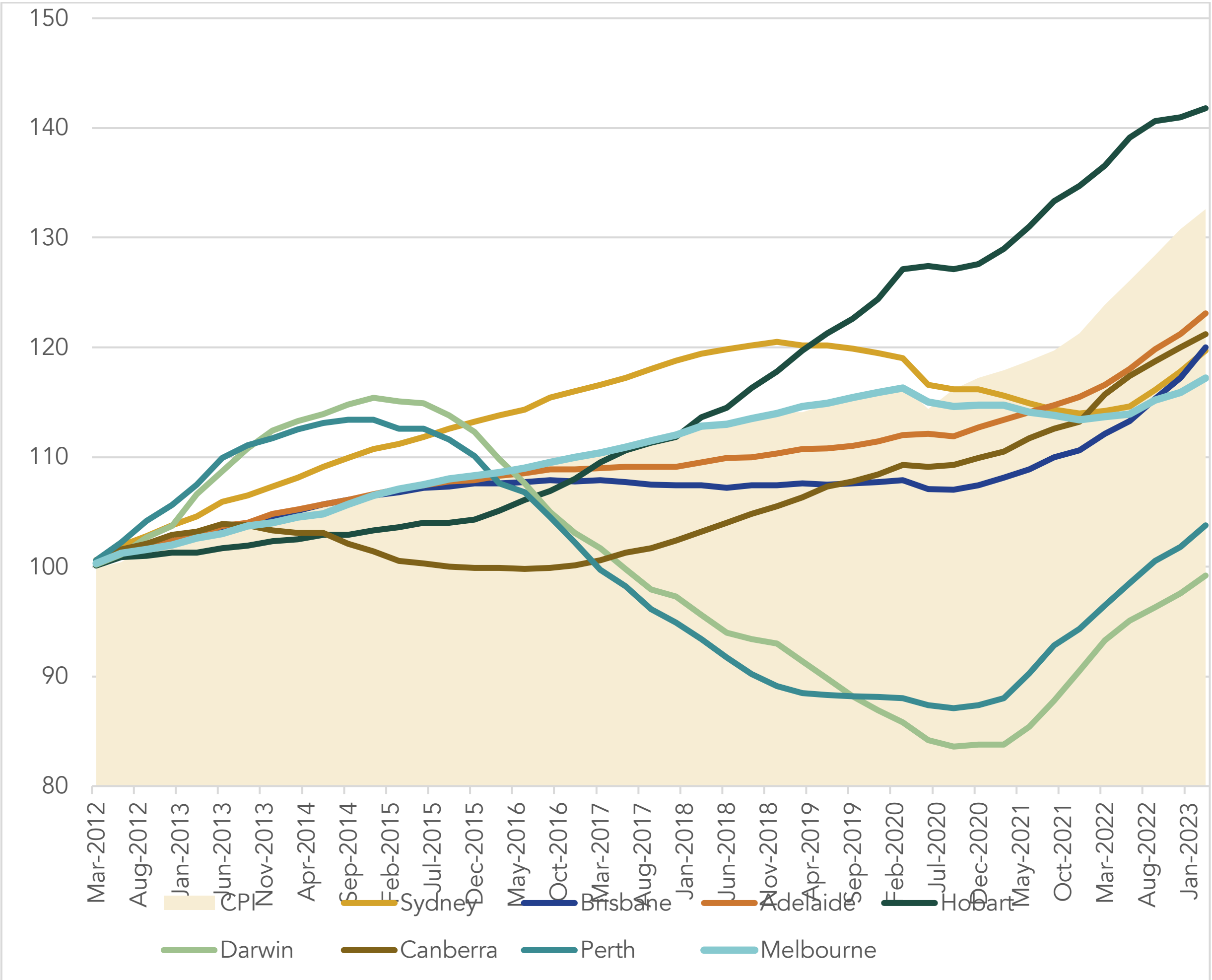
Source: Authors calculations, ABS releases (multiple)

Importantly, this indicates that rental affordability is driven by a failure of wage growth more than it is by any long-term growth in rent prices.

Looking around the country, most capital cities have experienced lower than inflation rent increases over the last decade, with Sydney and Hobart being significant outliers, and Darwin and Perth having a separate commodity boom-driven cycle (see Figure 2).

Figure 2

Capital City CPI Rents compared to the Consumer Price Index



Source: Authors calculations, ABS releases (multiple)

However, just as asking rents do not represent the whole market, nor do CPI averages tell the whole story.

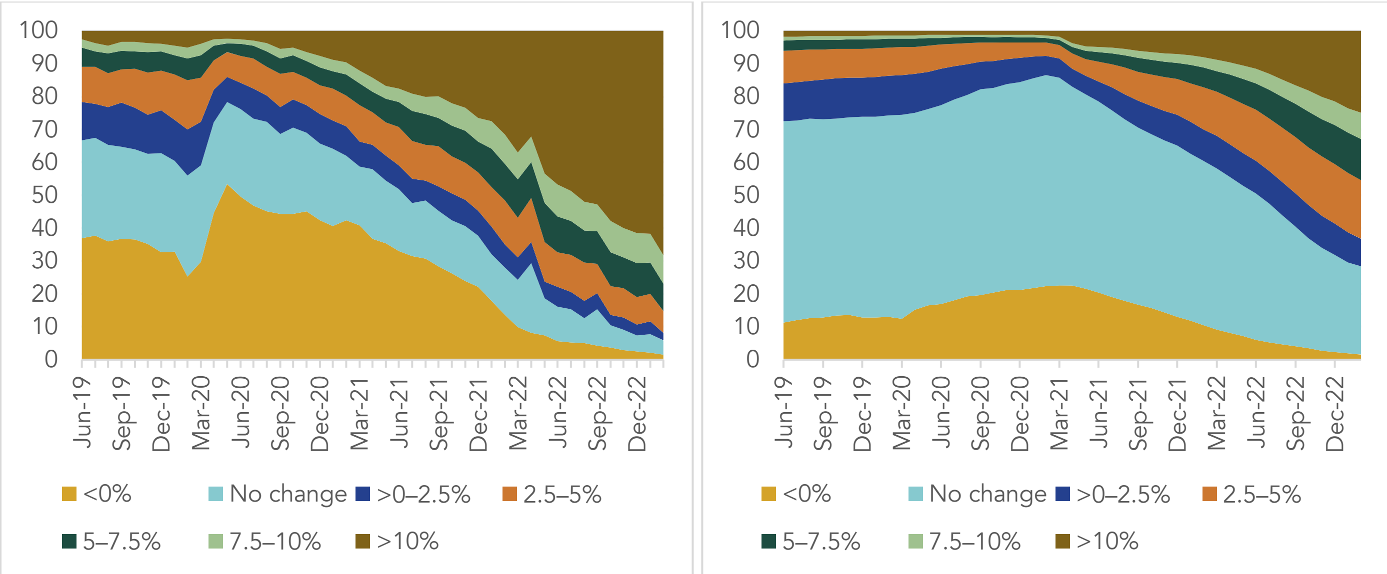
The high degree of variance in rental prices is such that, while 20% of rental homes now have cheaper rents than they did before the pandemic, another 20% have experienced increases of over 10% since March 2020 (Hanmer and Marquardt 2023).

Figure 3 shows on the left the very large and rapid increase in rent prices for tenants seeking a new place to live. In May 2020, only 2.5% of new tenants saw a rent increase of more than ten per cent, but by February 2023 68% of new tenants were seeing rent increases of more than ten per cent.

For sitting tenants, the increase in rents has been more muted, although higher than two years ago. In early 2021 nearly a quarter of existing tenants saw their rent shrink and 64% saw no rent increase. By February 2023, around a quarter were seeing their rent go up by more than ten per cent, but still many sitting tenants are seeing significantly lower rent increases and 25% of recent lease renewals involved no price increase at all.

Figure 3

Size of rent increases for new tenants (L) and existing tenants (R)



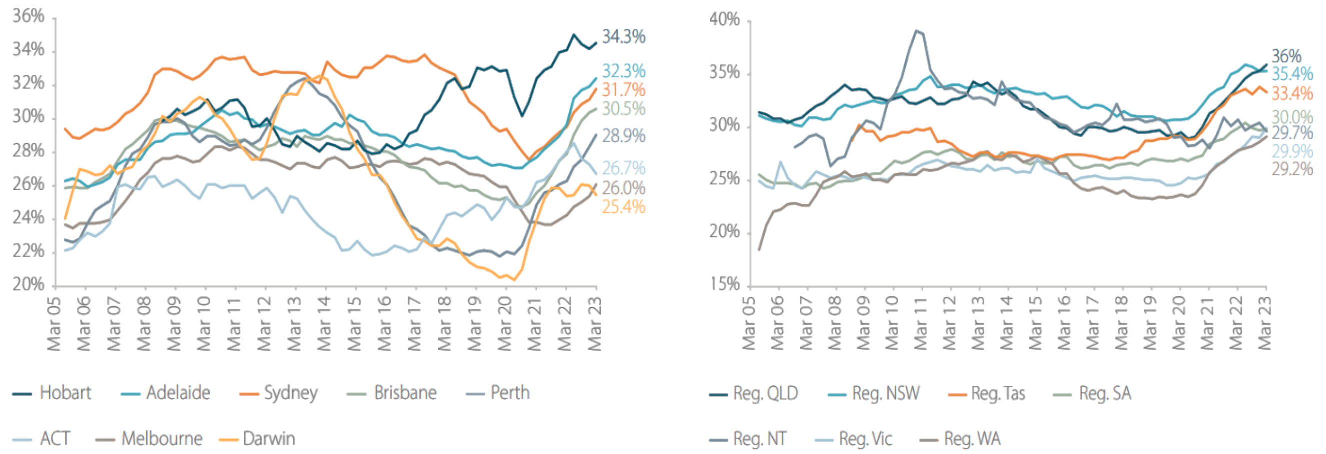
Source: (Hanmer and Marquardt 2023)

Across the country there is a significant discrepancy between affordability and the rate of rental increases (see Figure 4), suggesting that a blunt national rent price freeze would be unresponsive to differing local conditions.

Darwin, Perth and Melbourne do comparatively well at the median level. For Melbourne, despite a relatively rapid decline in affordability following the reopening of the city in 2022, rent prices as a share of income are the second lowest of any capital city, at 26% of median income, the lowest since prior to the Global Financial Crisis (GFC) 15 years ago.

Hobart, Sydney, regional NSW, regional Queensland and Regional Tasmania do significantly less well on this metric.

Figure 4
Portion of Income Needed to Service Rent, Capital Cities (L) and Regions (R) (median)



Source: CoreLogic/ANU

This data demonstrates that the overall growth of rents has not been too onerous over the past decade for the average household. However, rent price volatility and uncertainty are significant causes of economic pressure: renters just cannot forecast when and by how much their rents will go up, and when they do renters in many states can access only weak mechanisms to challenge excessive increases. This not only creates a great deal of worry in the minds of renters, but also prevents them from effectively planning their future.

Another issue is that as market rents increase, landlords may seek to re-lease their dwellings to capture the upswing. While some states and territories now limit the frequency of rent increases to once or twice per year, this is an insufficient protection where no-fault evictions still exist.

In some states such as the ACT, no-fault evictions are outlawed, meaning that there are far fewer reasons for which a landlord can evict a tenant. Effectively these reasons are: a failure of rent payment; because the landlord or their family wants to move in; or because the landlord plans to sell the property or engage in major renovations. In Victoria, no-fault evictions are only possible after the first term of a fixed rental contract. However, in other states and territories, landlords can evict tenants with a varying degree of ease. No-fault evictions are an ever-present threat to tenant security.

Rental affordability for Low-Income Households

While the data discussed above suggest that rent prices have been relatively affordable for middle-income renters for the past decade, this is not so for lower income households. Indeed, there has been a rental availability and affordability crisis for decades for people reliant on minimum wages or income support payments, as both social housing and welfare payments have declined in real terms. Around 43% of low-income households were in rental stress in 2018, equating to over one million households.

For people on fixed incomes, and many on minimum wages, rental costs are extremely high (see Figure 5).

Figure 5
Rental Affordability by Region and Cohort

	Single person on Job seeker	Single Pensioner	Pensioner Couple	Single Part time earner on benefits	Student share house	Minimum wage couple	Single minimum wage	Single full time working parent	Single income couple with children	Dual income couple with children
Greater Sydney	110%	66%	48%	59%	35%	31%	34%	24%	24%	14%
Rest of NSW	63%	38%	32%	40%	25%	21%	22%	16%	16%	10%
Greater Melbourne	79%	47%	39%	49%	28%	26%	27%	22%	22%	12%
Rest of VIC	58%	35%	30%	37%	24%	19%	22%	16%	16%	10%
Greater Brisbane	92%	55%	42%	52%	28%	27%	32%	22%	22%	12%
Rest of QLD	84%	51%	38%	48%	29%	25%	27%	20%	20%	12%
Greater Adelaide	71%	43%	34%	43%	26%	22%	26%	18%	18%	10%
Rest of SA	46%	28%	23%	29%	19%	15%	16%	12%	12%	8%
Greater Perth*	110%	66%	42%	52%	27%	27%	36%	20%	20%	10%
Rest of WA*	98%	59%	37%	46%	24%	24%	29%	18%	18%	9%
Greater Hobart	79%	47%	40%	49%	31%	26%	27%	21%	21%	13%
Rest of TAS	58%	35%	30%	37%	23%	19%	20%	16%	16%	10%
ACT	113%	68%	51%	63%	37%	33%	40%	24%	24%	14%

Key

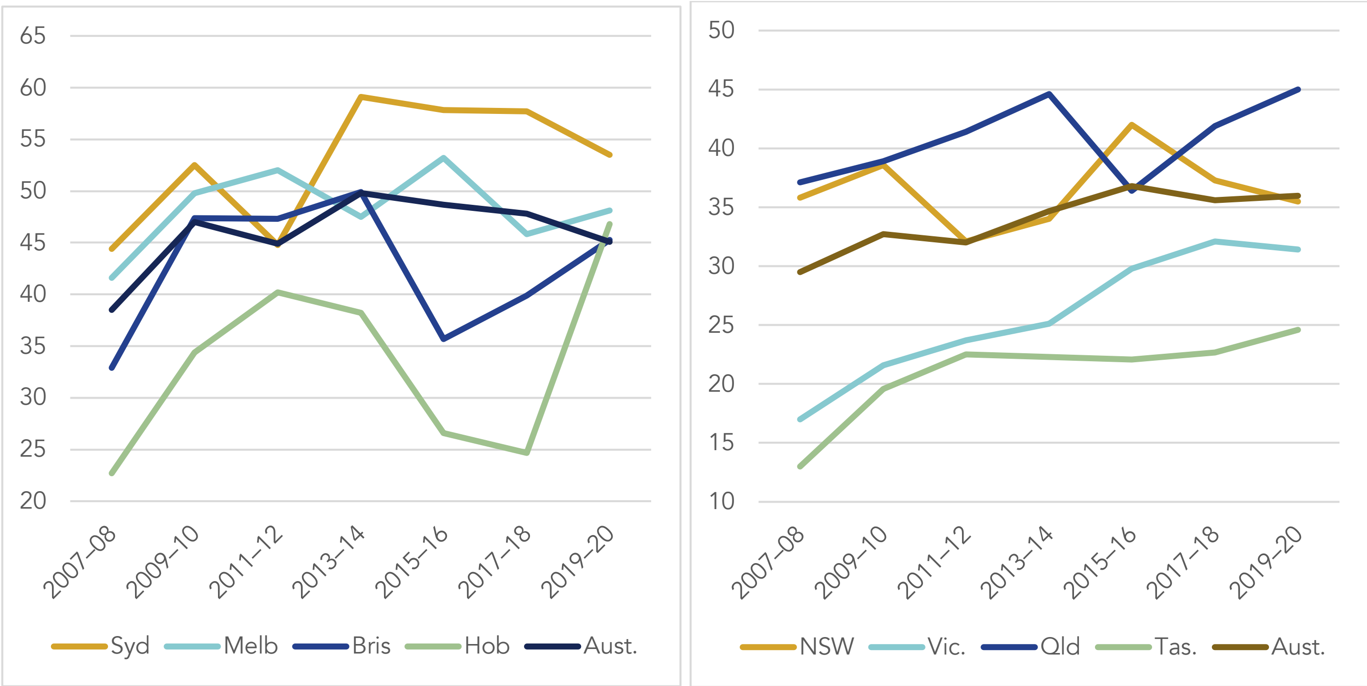
Share of income spent on rent	Relative unaffordability
60% or more	Extremely Unaffordable
38-60%	Severely unaffordable
31-38%	Unaffordable
25-30%	Moderately unaffordable
15-25%	Acceptable
15% or less	Affordable

Source: SGS Economics, Rental Affordability Index

In 2020, 46.8% of low-income renter households were in housing stress, which is defined as a household in the bottom 40% of the income distribution spending more than 30% of its income on housing costs. This equates to 643,126 households. Of these households, 200,633 were in severe stress, paying more than 50% of their income on rent. This trend has remained high since a large jump at around the time of the GFC.

The capital cities see the largest share of renter households in housing stress. For example, 53% of lower income households in Sydney experience housing stress. In regional areas, the share of low-income renters in rental stress were overall lower. However, this may have changed significantly since the latest data (2019-20) due to impact of COVID19. Indeed, there is a significant upwards trend in the regions, even before the pandemic. For example, in regional Victoria the proportion of low-income renters experiencing housing stress has roughly doubled since the GFC, rising quickly in comparison to other regional areas nationally.

Figure 6
Proportion (%) of lower income renter households in housing stress, Capital Cities (L) and Regional (R)



Source: ABS, Housing Occupancy and Costs, Australia, 2019–20, Table 13.1

At the median household income level, then, we do not find evidence of a rental price crisis in Australia.

There are, however, significant problems in Australia's residential rental market, including a profound and long running crisis of affordability for low-income households and an inherent unpredictability in rent price increases, which causes significant economic stress for households across the board.

These market failures require government intervention, and understanding their causes is critical to designing appropriate policy settings.

Causes of rental market failures

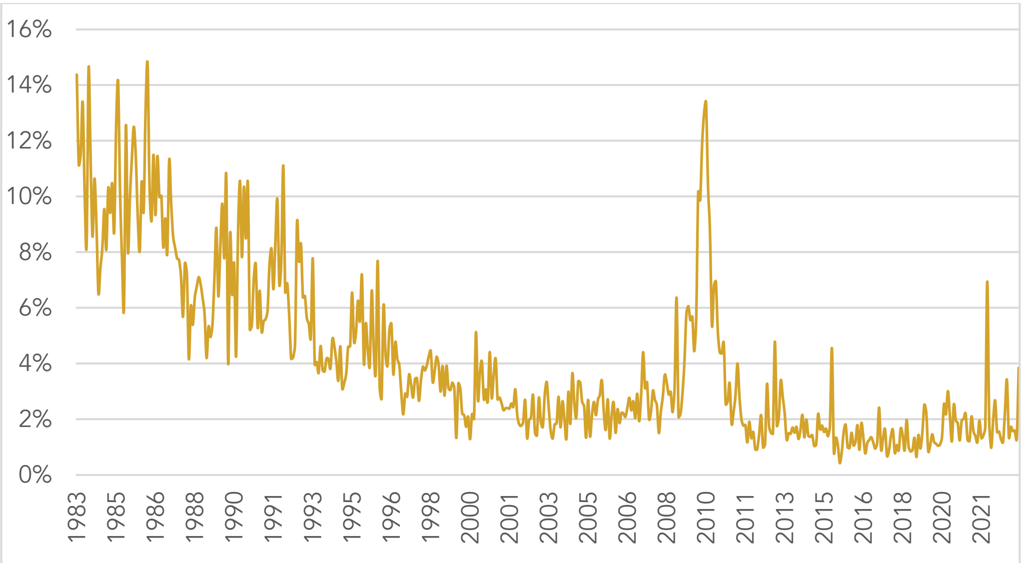
The Social Housing Crisis

Social housing is a critical protective measure for low-income households, particularly at times of rapid cost of living increases. It is the ultimate form of rent control, offering a non-market option to access a stable home at a fixed percentage of household income.

Social housing – which includes public (government-owned and operated) and community (government funded, operated by not-for-profit housing providers) housing, is targeted to those most in need and can be integrated with other essential social services often required by low-income households who are usually at least partly reliant on welfare. Secure, stable, and affordable housing is a bedrock for improved health outcomes, better childhood development, economic opportunity and social mobility.

Yet the proportion of social housing in the Australian market has been in decline since the late 1980s and, with the exception of an injection of federal funds during the GFC fiscal stimulus program, severely neglected by all levels of governments since the early 2000s (Figure 7).

Figure 7
Public Sector Housing Approvals as a Share of Total Housing Approvals



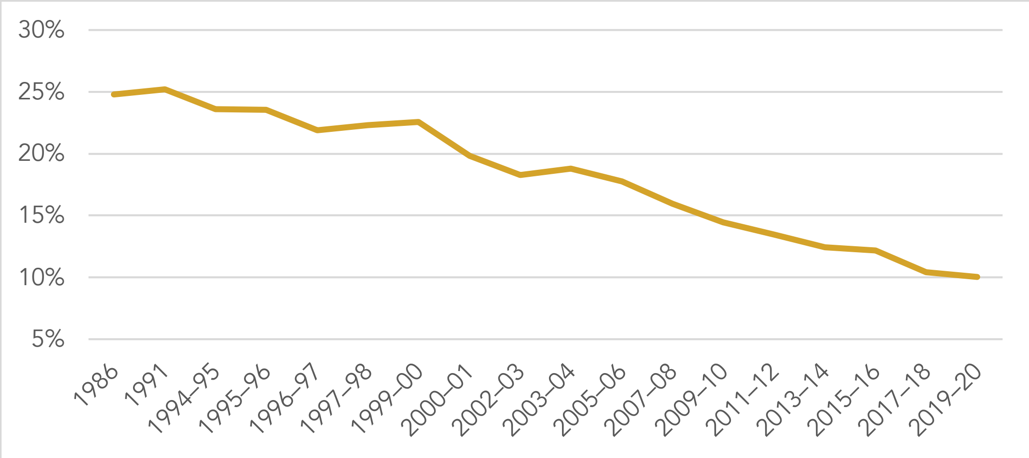
Source: ABS 8731.0 Building Approvals, Australia

The estimated unmet need for social housing is currently around 640,000 households and, on current policy trajectories, this will grow to 950,000 by 2041 (Van Den Nouwelant, Troy, and Soundararaj 2022).

Fewer than 30,000 applicants were granted a social housing tenancy in 2020-21, compared with 52,000 in 1991, a reduction of 42%. Over the same time frame, Australia's population increased from slightly more than 17 million people to just shy of 26 million. This represents a 61% reduction in successful social housing applications (Pawson and Lilley 2022).

Between 2002 and 2020, the proportion of renters in social housing halved from 18%, to 9% (see Figure 8).[2]

Figure 8
Social housing tenants as a share of all renters

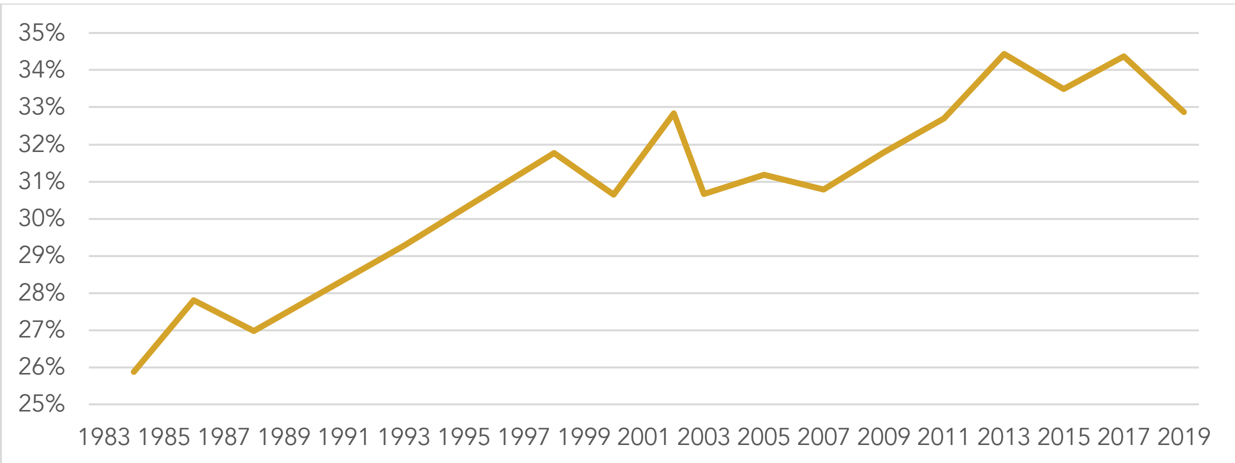


Source: Authors calculations based on ABS census data and ABS Housing and Occupancy Costs (various years).

This decline has led to a huge number of people who would once have been eligible for social housing having to enter the private rental market. The cost difference between the two is stark: in 2019-20 the median weekly housing for low-income private renters was $345, compared to $119 for social housing renters. This equates to housing costs being equal to 33.3% of income for low-income private renters, compared to 22.7% for social renters.

As a result, in 2019-20, there were 573,264 low-income renters in the private market experiencing housing stress (see Figure 9).[3]

Figure 9
Proportion of income spent on rent by low-income households



Source: (Interim Economic Inclusion Advisory Committee 2023)

[2] ABS, Housing Occupancy and Costs, Australia, 2019–20

[3] ABS, Housing Occupancy and Costs, Australia, 2019–20

A recent estimate of unmet need in each state can be seen below in Table 2. Unmet need represents a shocking 21% of all households in regional NT, with a low of 5.2% in regional WA. Unsurprisingly, the waiting list for social housing has increased dramatically: as an example, Queensland's waiting list numbers grew by 78% in the four years to June 2021 (to some 28,000 households), and the average waiting time for registered applicants increased by 83% (Pawson and Lilley 2022).

Table 2
Social Housing Unmet Need Around the Country

	Social housing unmet need	% of all households
Sydney	144700	7.60%
Regional NSW	76800	6.80%
Melbourne	109800	6%
Regional Vic	36300	5.70%
Brisbane	71100	7.50%
Regional QLD	81500	8.10%
Adelaide	301100	5.50%
Regional SA	8900	5.50%
Hobart	6100	6.20%
Regional Tas	7900	6.20%
Perth	43500	5.40%
Regional WA	10300	5.20%
Darwin	2900	5.80%
Regional NT	5300	21%

Source: (Van Den Nouwelant, Troy, and Soundararaj 2022)

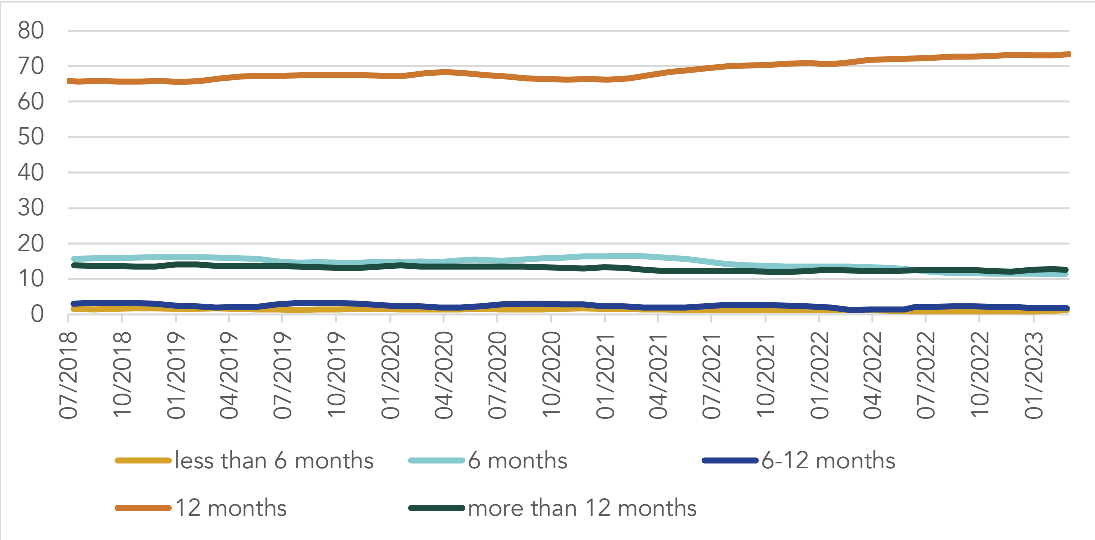
While price and stability of tenure are the obvious difference between private and social renting in Australia, there are other critical reasons why social housing is a better choice for many low-income households.

Landlords in the private rental sector are generally not equipped to provide the support and professional capabilities that tenants of public and community housing receive, and nor should they be expected to. Just as there are professionals dedicated to the health and educational needs of low-income households, so too there are expert bodies that can provide the kind of "wrap around" services needed by people moving in and out of homelessness and others who need access to social housing. These expert bodies provide assistance with the often complex social and individual problems faced by many people seeking a social home, many of whom have experience domestic and family violence, mental ill health, long term unemployment or substance abuse.

Market structure and contract lengths

Australia is an international outlier among developed nations in having extremely short rental contract lengths. Figure10 shows the average length of Australian leases, with fewer than 15% being more than 12 months. In most other OECD nations renters enjoy longer tenure. In Germany, rental contracts are indefinite, and the average rental tenure is 11 years. While Germany is itself an outlier in this respect, it is worth noting that even in the weakly regulated US housing market, 30% of rental contracts are for two years or more.[4]

Figure 10
Share of Lease Length



Source: (Hanmer and Marquardt 2023)

Part of the reason for such short-term leases is the tradition in Australia of considering renting merely a steppingstone between living in the family home and buying a property. This mentality has contributed to weak rental regulations that are insufficient for today's market, in which home ownership rates among young adults (those aged 25-34) have fallen from 61% in 1981 to just 44% in 2021.

Perhaps more salient, though, is the structure of the Australian landlord class. The Australian property investor class comprises mainly non-professional or "hobby" landlords: people who own just one investment property, often acquired through significant debt. 71% of landlords own a single rental property, 19% own two, 6% own three, and the remaining 4% landlords own four or more properties. This means that around half of all rental properties are owned by a landlord with a single investment property.[5]

The level of turnover within the small-scale, or hobby, landlord segment of the rental market is extremely high, with 21% of investors exiting the market within the first year, and 59% of them leaving within five years.[6] This leads to a high turnover of rental properties, with dwellings moving in and out of the rental

[4] https://www.bls.gov/spotlight/2022/housing-leases-in-the-u-s-rental-market/home.htm

[5] (Martin et al. 2022)

[6] (Martin et al. 2022)

market, contributing to short tenures. Short tenures tend to reset rental rates to the market maximum asking rents, rather than in-tenancy rents, which often grow at a slower rate, as shown in Figure 3 above.

Investor incentives drive rental market volatility

The instability of the hobby landlord class is the major cause of short tenancies and housing insecurity for tenants, and of the spikes in rental prices that occur when properties change hands or are leased to new tenants. It is in large part driven by Australia's unusually generous tax concessions for property investors, which incentivise ordinary income earners, without high levels of capital, to speculate on the housing market.

As Per Capita's previous research has shown, Australia is highly unusual in allowing property investors to offset income tax from all sources of household income against losses on investment properties: most countries that have negative gearing (NG) policies allow those losses to be offset only against the income from the property itself. Australia's arrangements encourage anyone with a small amount of cash, or enough equity in their own home, to borrow the funds to purchase an investment property by vastly reducing the real cost of servicing the mortgage.[7]

Coupled with the 50% discount on Capital Gains Tax that owners receive when selling a property, the incentives in our federal tax system encourage a high level of speculation in the property market, in which landlords chase a short-term capital gain from property price increases at the expense of a positive rental yield, which is a feature of most rental markets in comparable countries.

This also means that hobby landlords are often highly leveraged, with high mortgage costs that are not covered by rental income, and only recover their costs when the property is sold at a profit and tax concessions are realised. This is a contributing factor to the lack of maintenance of many rental properties in the private market: landlords simply do not have the capital or income to fund repairs and upgrades to their rental properties during the average life of a tenancy.

In comparable countries, larger institutional landlords are much bigger players in the private rental market. Where rental properties are held by specialist investment companies and regulated sufficiently to adhere to standards for the quality and upkeep of residential properties, the experience of renters is much better. They are able to live long-term in a rental home, to make modifications themselves and get quick and reliable repairs and standard upgrades from landlords: in short, to create a secure, safe, comfortable and affordable home.

Large institutional landlords do not themselves guarantee a better landlord class, and regulations of large corporate landlords needs to be designed with care as the sector emerges. However, the overreliance on highly leveraged hobby landlords contributes to many of the negative features of the private rental sector.

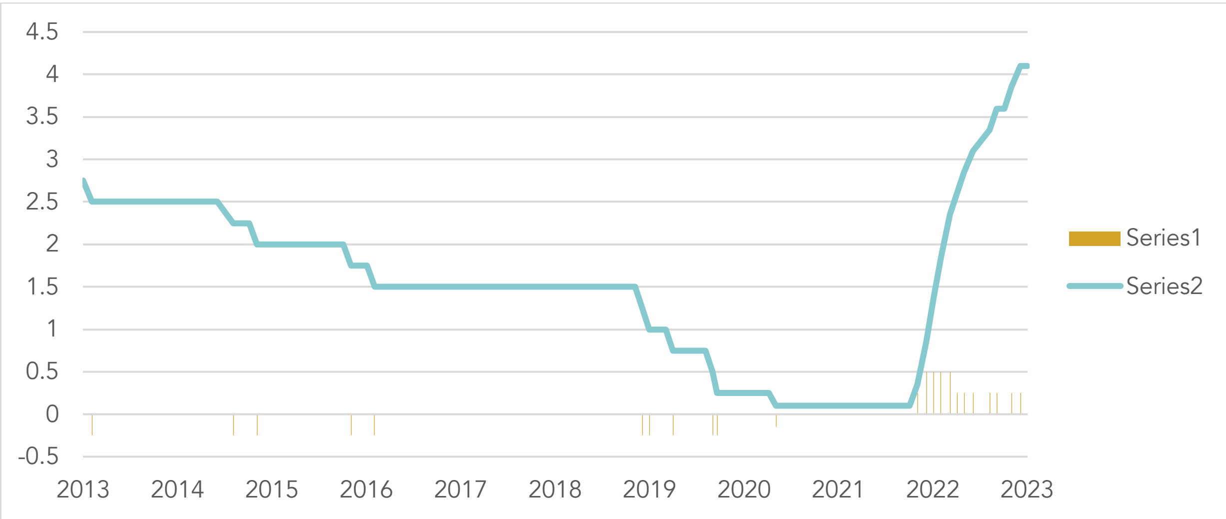
As long as Australia's market is dominated by "mum and dad" investors of the hobby class, with incentives to neglect property upkeep, eschew positive rental yields and simply chase a short-term capital gain, this situation will be difficult to change.

[7] Dawson, D'Rosario, Cape et al, "Housing Affordability in Australia: Tackling a Wicked Problem", Per Capita 2022.

Mortgage products and interest rate increases

A significant cause of rent price spikes is the structure of Australia's mortgage market. With 12 cash rate increases in the last 16 months (Figure 11), all of which have been passed through to borrowers, the interest rate on mortgages is at its highest in over a decade. Since house prices cost significantly more now than in previous rate hike cycles, the effect of each basis point increase has far greater weight on monthly mortgage repayments for owner occupiers and landlords.

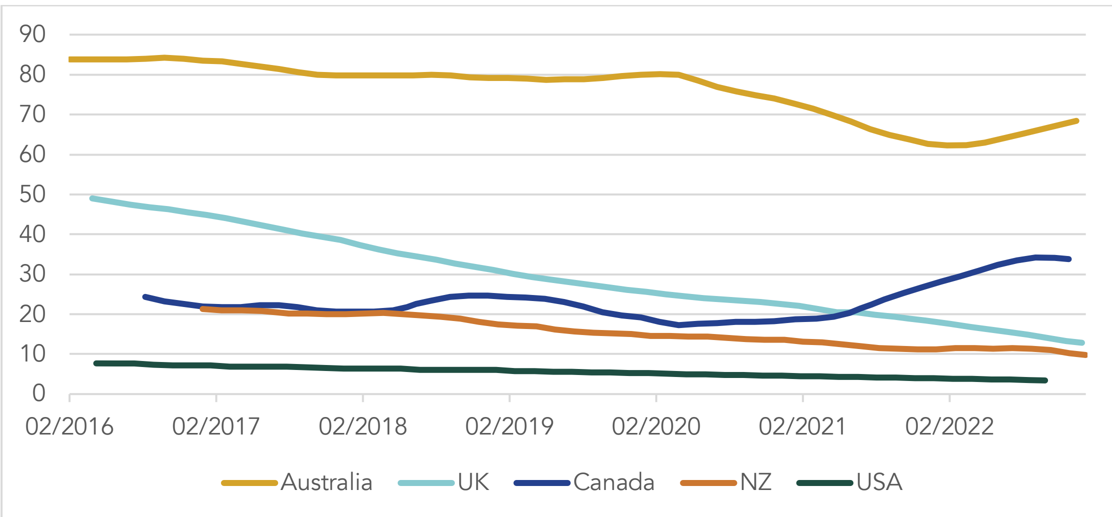
Figure 11
RBA Cash Rate Target and Changes



Source: Reserve Bank of Australia

These dramatic rate increases are more impactful on monthly cost than in many other countries due to our mortgage market structure. Unlike most comparable countries, the vast majority of mortgages in Australia are variable rather than fixed rate products (see Figure 12).

Figure 12
Variable Mortgages as a Share of All Outstanding Mortgages

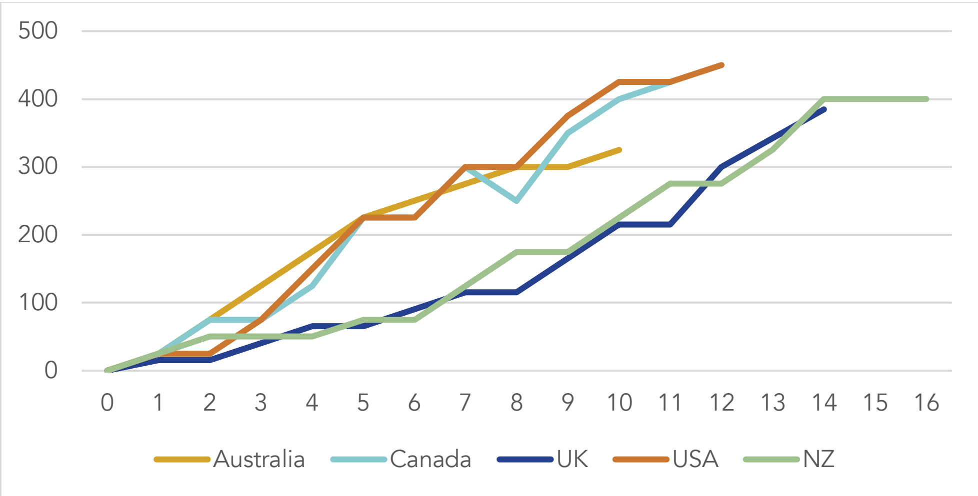


Source: RBA SMP Feb 2023, Box A

Obviously, month-to-month costs for mortgage servicing rise as mortgage interest rates increase. This is quite unusual – many comparable countries use state-owned financial institutions, or lending policies and regulations to promote higher stability in the mortgage market by offering long-term fixed rate mortgage products. Australia has no such non-market mortgage products or regulations.

Despite Australia having fewer rate increases, producing a lower overall lift in this rate hike cycle than the USA, Canada, or the UK (see Figure 13), the effect on mortgage rates is higher than every one of those countries, and entirely incomparable with the USA (see Figure 14).

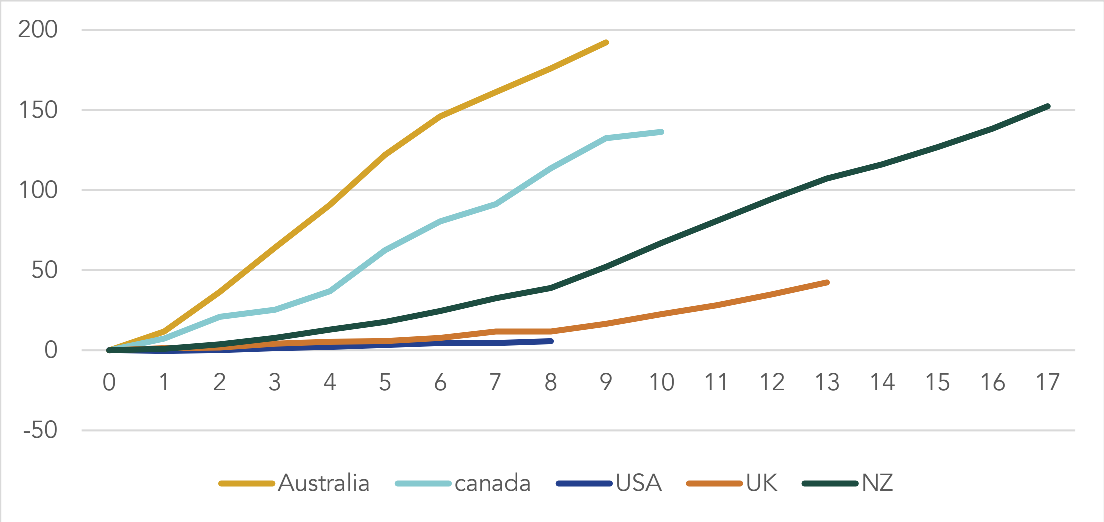
Figure 13
Changes in Central Bank Base Cash Rate (months from first central bank rate rise)



Source: RBA (2023)

This means that landlords are far more likely to raise rents to match their mortgage payments, which change far more frequently than for landlords in other countries.

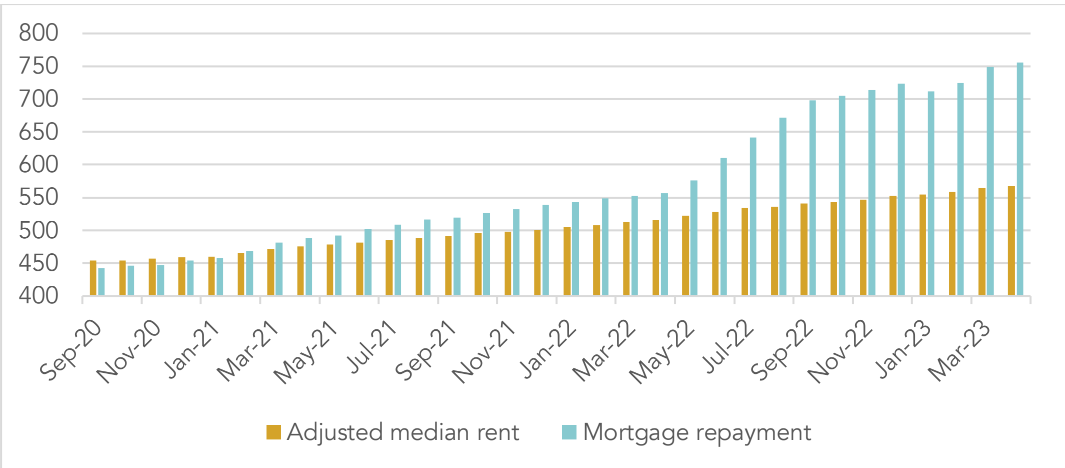
Figure 14
Changes to Mortgage Rates (BPS) for all Outstanding Mortgages (months from first central bank rate rise)



Source: RBA (2023)

For new investment rental properties, current rental yields do not cover mortgage repayments on high house prices and current interest rates. In fact, CoreLogic estimates that median mortgage costs for landlords are more than double median rental yields, despite the rapid growth in rent prices in the past year (see Figure 15). This is in part why there is no rapid supply response to the current spike in rental prices: normal supply and demand principles simply do not apply in the housing market.

Figure 15
Median Mortgage costs and rental yield[8]



Source: CoreLogic(2023a)

[8] Mortgage repayments are based on a 30-year mortgage with a 20% deposit on the median Australian dwelling value each month. Assumes average new variable rates for investors as reported by the RBA, adjusted for further rate increases. Rents are based on CoreLogic's hedonic rental valuation, closely related to asking rents.

Renter Rights and Standards

Australian renter rights lag those of most other high-income countries. In many countries longer minimum rental contract laws allow for greater tenure security. This issue has grown in importance due to the spreading of previously small demographic groups into the private rental market. For example, the proportion of households who particularly value stability and surety of tenure - families, low income households, recipients of fixed incomes and older people - in private rentals is increasing rapidly.

No-fault evictions are also an unusual quirk of the Australian system. Unlike most Australian states and territories, most rich countries do not allow no-fault evictions, with even the somewhat feudal UK system recently setting in motion legislation to outlaw them entirely.[9]

Housing experts note that legislating to prescribe acceptable grounds for tenancy termination has been internationally preferred to the imposition of long fixed terms. This is exemplified by established frameworks in Germany, Sweden, Scotland, most Canadian provinces and some large US cities. A regime specifying legitimate reasons for tenancy termination could also, it is argued, prescribe exclusion periods of different lengths, depending on "the urgency or 'justness' of the grounds" (ibid., p. 193). For example, the property sale ground could be excluded for the first 12 months of the tenancy" (Pawson, Milligan, and Yates 2020).

Table 3
Renter rights and standards in different countries

Country	Fixed term and periodic tenancies	Grounds for termination by landlord
Australia	Short (6–12 months), fixed term and periodic tenancies	No-fault evictions allowed, other than Vic &QLD (other than after first fixed term), and ACT.
Belgium	9-year fixed terms, but most are 3-year terms	Termination at end of fixed term allowed
Canada	Mostly short (6–12 months), fixed-term and periodic tenancies	Mostly prescribed grounds only; some allow termination at end of fixed term
Germany	Little use of fixed-term tenancies. Permanent contracts	Prescribed grounds only
Ireland	Short fixed-term and periodic tenancies	Prescribed 6-year cycle with lesser restrictions on termination in initial 6 months, then prescribed grounds only
New Zealand	Short (6–12 months), fixed term and periodic tenancies	No-fault termination allowed

[9] https://commonslibrary.parliament.uk/research-briefings/cbp-8658/

Sweden	Little use of fixed-term tenancies	Prescribed grounds only
Spain	3-year fixed terms with some provision for early termination	Termination at end of and, in limited circumstances during, fixed term
United Kingdom	Short (6–12 months), fixed term and periodic tenancies	Legislation in motion to outlaw no-fault evictions (England and Wales); prescribed grounds only (Scotland)
United States	Short fixed-term and periodic tenancies	Varies by state and municipality: most allow termination without grounds, a few large cities allow termination on prescribed grounds only

Source: adapted from (Martin, Hulse, and Pawson 2018)

Commonwealth Rent Assistance

Given the retreat of successive federal governments over recent decades from funding adequate social housing stock, Commonwealth Rent Assistance (CRA) is now the Commonwealth's main tool for addressing rental affordability for low-income households. CRA is payable at the rate of 75 cents for every dollar of rent payable above the rent threshold until the maximum rate of CRA payment is reached. Rent thresholds and maximum rates vary according to each applicant's family situation and the number of children they have. Rent thresholds and maximum rates are indexed in March and September each year to reflect changes in the Consumer Price Index.

In order to be eligible for CRA, a person or family must qualify for an eligible social security payment, more than the base rate of Family Tax Benefit Part A, or an eligible Department of Veterans' Affairs service pension, income support supplement or veteran payment, and pay or be liable to pay more than a minimum amount of rent, called the rent threshold, for their principal home.[10]

The maximum rate of CRA varies significantly. For a single person in receipt of ABSTUDY and income support in a shared dwelling with rent above $280.14 per fortnight the maximum payment is $104.80 per fortnight. For a family with three or more children on Family Tax Benefit, with rent higher than $550.76 the maximum payment is $208.74.[11] Given the levels of rental stress for low-income households, these rates are low, and many advocacy groups support at least a 30% increase to the maximum threshold. Prior to the 15% increase in CRA in the 2023 Budget, ACOSS recommended a 50% increase, which they argue would double the payment received (ACOSS 2023). This suggests that there is still a 35% gap between current levels and what ACOSS considers the appropriate amount.

CRA is broadly effective in reducing rental costs for recipients. Recent research found that:

- *Out of 1.41 million low-income private renter units, nearly two-thirds or 933,000 are assisted by CRA.*
- *Low-income private renters who are eligible for CRA pay, on average, 36 per cent of their gross income in rents prior to receiving CRA. After receipt of CRA, this average housing cost burden drops to 26 per cent.*
- *CRA also plays an important role in lifting low-income private renters out of housing stress. Around two-thirds of low-income CRA recipients would be in moderate to very severe stress if they did not receive CRA. This incidence plunges to 34 per cent after CRA is taken into account. (Ong et al. 2020, 1)*

However, it is questionable that the scheme does enough to support low-income households in Australia's highly volatile and expensive private rental market. Many critics regard CRA as being significantly flawed in several ways. Eligibility for CRA is constitutionally limited to being a supplementary payment to recipients of a social security payment. This means that there are issues with ensuring that those in most need receive the appropriate assistance, as many low-income people in the private rental sector are in housing stress, but do not qualify for the program because they are not in receipt of income support.

[10] https://www.dss.gov.au/housing-support/programmes-services/commonwealth-rent-assistance

[11] https://www.servicesaustralia.gov.au/how-much-rent-assistance-you-can-get?context=22206

Similarly, CRA does not take into account differences in rent prices across different parts of the country. This means that a recipient in Sydney might receive the same payment as someone in rural South Australia, despite the huge difference in rental prices.

The scheme is also criticised for allowing leakage of increases, with private rents increasing to absorb increases in CRA. Perversely, this most affects tenants in the lowest income groups, due to a shortage of rental options for the poorest households. Modelling has found that "[i]n moderately to severely disadvantaged areas, 6.6 per cent of any increase in CRA can be expected to be 'lost' to higher rents in this way. In severely disadvantaged areas, 32.4 per cent of CRA is absorbed by higher rents." (Ong et al. 2020, 3).

Finally, the scheme can be criticised for being a pure expenditure, the benefits of which are largely passed through to landlords. In contrast, investment in building and maintaining more social housing would produce an asset of significant and growing value for the government, and ensure that public expenditure was alleviating housing costs, rather than contributing to ever-rising home prices.

As such, Per Capita supports short-term increases to CRA only as an interim measure until investment in social housing is restored to provide a significant proportion of non-market housing, both public and community operated.

Effect of Short-Term Rentals

While holiday house and apartment rentals have long been a feature of tourist towns and major cities, the growth of peer-to-peer, short term rentals (STRs) have transformed the tourism industry worldwide.

Online peer-to-peer short-term renting is best associated with online platform Airbnb, founded in 2007. Airbnb launched in Australia in 2011 and has rapidly expanded to all states and territories. Airbnb now dominates Australia's short-term rental market, accounting for around 75% of activity in the sector.[12]

Between July 2016 and February 2019, 346,581 unique properties were listed at least once in Australia, growing by an average rate of 2.43% per month during this period.[13] The most recent estimate of the number of STR properties in Australia was 251,000 in September 2022, however this number may have grown as the country recovers from the COVID-19 pandemic.

The effect of STRs is felt mostly at the local level and is hard to quantify at the national level. In many tourist areas it is not unusual for over 20% of all dwellings to be listed on STR platforms like Airbnb. This means that STRs contribute to many localised shortages in the long-term residential rental market.

Research by Crommelin et. al (2018) found that a decrease in bond lodgement and increasing property vacancy rates are present in areas of Sydney and Melbourne which have high concentrations of Airbnb properties, demonstrating that short term letting is removing properties from the long-term rental market (Crommelin et al. 2018).

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[12] https://www.afr.com/property/residential/airbnb-wins-the-battle-for-australia-s-short-term-rental-market-20190410-p51ctw

[13] (Sigler and Panczak 2020)

Overseas research presents a cautionary tale of the effect of a proliferation of Airbnb on rental prices and availability. One study found that increasing Airbnb listings by 200 increases rents by 7% and dwelling transaction prices by 5.3%.[14] Analysis of the growth of Airbnb in Boston found that a one standard deviation increase in the density of Airbnb lead to a 0.4% increase in local rents.[15]

Similarly, the return of properties from the short-term to the long-term rental market can reduce upward pressure on rental prices. During the COVID19 pandemic, the return of 113 properties to the private rental market in Hobart occurred in line with a 9% drop in median rents, 65% of which can be attributed to the change in Airbnb numbers.[16]

Our research paper *Lighter than Air: Regulating Short-Term Rentals in Australia*, finds that the income from short-term rentals can eclipse long-tern rental income. In all the areas included in our study, short-stay rental properties had the potential to exceed median annual rental yields in less than 100 nights. In some areas like the Northern Rivers in NSW, the average Airbnb income exceeded the annual median rent after just 25 days.

Table 4

Airbnb yield compared to long term rental yield

Location	Average price per night on Airbnb	Average income on Airbnb	Median weekly rent[17]	Median annual income from renting out property	Airbnb nights to equal annual rent
Barossa Valley	$402	$28,094	$320.01	$15,975	39.7
Melbourne	$290	$16,833	$423.06	$21,119	72.8
Mid North Coast	$339	$18,801	$357.97	$17,870	52.7
Mornington Peninsula	$563	$18,796	$391.60	$19,549	34.7
Northern Rivers	$544	$16,951	$271.19	$13,538	24.89
Sydney	$363	$13,154	$509.84	$25,451	70.11

Source: Ibrahim, Lloyd-Cape and Tonkin, Lighter than Air, 2023

Our research also indicated that, in the parts of NSW where there are 180 day per year limits on STRs, a significant proportion of properties are not adhering to restrictions. For example, 22.15% of listings in Sydney and 21.03% of listings in the Byron Shire Council exceeded 180 nights booked in the year.

[14] (Garcia-López et al. 2020)

[15] (Horn and Merante 2017)

[16] (University of Sydney, Australia et al. 2021)

[17] Rent prices taken from 2021 LGA census data and adjusted for subsequent CPI rental changes

As such, reforms to the rental sector must incorporate strong enforcement mechanisms alongside short term rental regulations, to ensure that any regulation of the long-term rental market does not simply cause an outflow of properties into the short-term market.

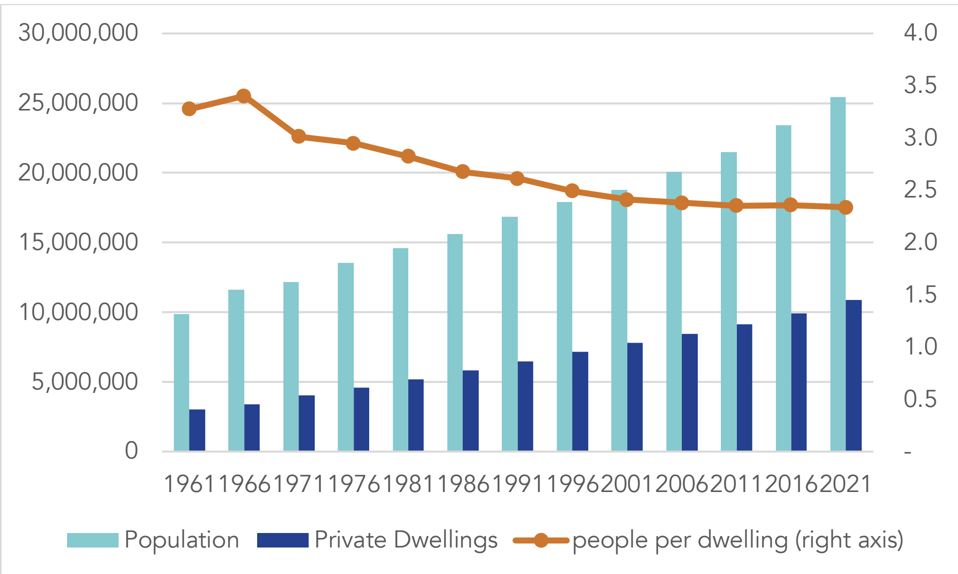
Immigration, Vacancy Rates and Supply

Vacancy rates and migration

A contentious strand of the current debate about the housing crisis revolves around population growth, immigration and vacancy rates. In the longer term, there has been in increase in smaller household formation for many decades, with people preferring to live as couples without children, or to live alone far more often and for longer periods. Intergenerational households have also declined.

Broadly speaking, dwelling construction has reflected this trend, with fewer and fewer people per home. In 2021 there were 10,875,248 homes for 25,422,788 people, or just 2.34 people per dwelling. This compares to 2.41 people per dwelling in 2001 and 2.82 in 1981. Given Australia's fast population growth rate, this level of contraction in household size is considerable.

Figure 16
Population and dwellings

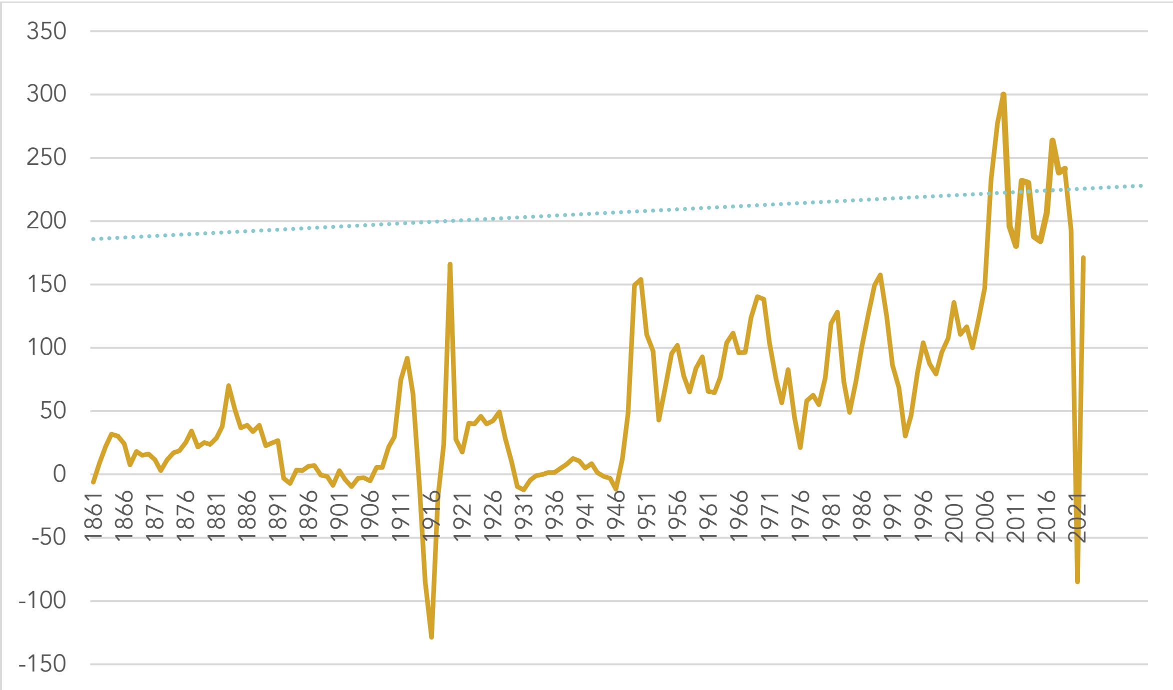


Source: authors calculations from census data

However, the short-run picture has fuelled a widespread view that there are insufficient homes to go around. Following the return of international migrants, vacancy rates are extremely tight, currently standing at just 0.7% in Melbourne.

As shown in Figure 17, the extraordinarily tight V-shaped net overseas migration figures during and after COVID19 restrictions are perhaps the most dramatic in our nation's history. Net overseas migration declined to minus 85,000 in 2020-21, the second lowest on record. This then rebounded in 2021-22 with a net gain of 171,000, the largest increase since the end of WWI.

Figure 17
Net Migration (000s) with 2009-2019 trendline



Source: (Australian Bureau of Statistics 2022)

There is undoubtedly a relationship between high returning migration figures and rental prices and availability. However, blaming the rental crisis on immigration does not stand up to scrutiny: net migration numbers are well below the 2009-2019 trend when rents were growing at a very low rate.

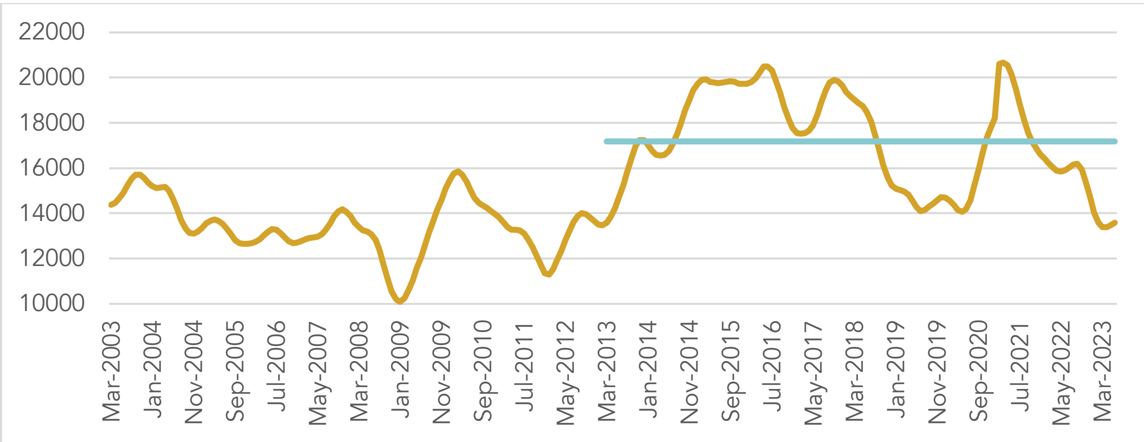
What is important is the speed at which the population has changed following the reopening of the country. The use of housing stock changed significantly during the COVID19 pandemic, with large swings in preferences between cities and regional areas, apartments and houses, share houses and living alone. This led to large drops in rent prices in some areas like Melbourne and Sydney, as the market adjusted to high vacancy rates, while the opposite occurred in desirable tree-change and sea-change locations such as Byron Bay in NSW and the Mornington Peninsula in Victoria.

With the return of migrants both domestic and international, many areas are in an adjustment period as housing stock is redistributed. There is reason to believe that current tight rental availability rates and the increases in rent prices that this has produced are temporary and will largely resolve themselves over coming months, as dwelling usage returns toward something closer to the pre-COVID19 normal.

Private sector supply

Many commentators have placed the blame for low rental vacancy rates and rent price increases on a failure of supply. There are certainly problems with the sector in the short term, as can be seen by the decline in construction approvals, which are significantly below the decade average (see Figure 18).

Figure 18
Monthly residential construction approvals – trend (with decade average line)



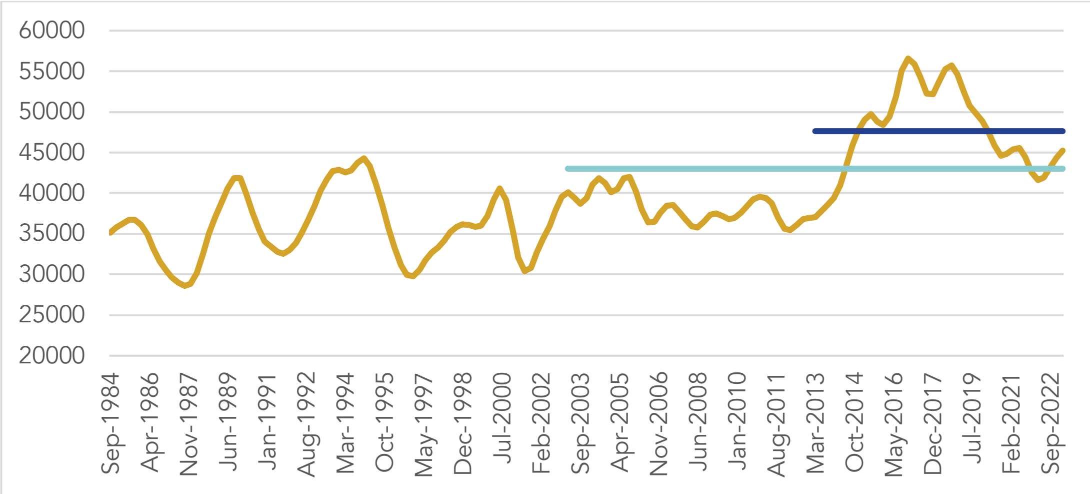
Source: ABS 8731.0 Building Approvals, Australia

But is a lack of private sector supply really the main culprit? Certainly, there is a lack of supply of housing for low-income households, as discussed above, and of the right type of houses in the right places, particularly for key workers such as nurses, teachers and paramedics who, on average incomes, increasingly struggle to find an affordable and secure home within reasonable distance of their jobs.

However, it must be noted that the private construction market is already very productive in Australia. We add around 1.75% to our building stock every year, the fourth highest rate in the OECD.[18] A whopping 4.8% of our workforce are in construction, a share far higher than the OECD (3.3%) or European (3.1%) average.[19] Even taking into account the recent decline in building completions, the current residential construction completion number of 45,211 is around halfway between the ten- and twenty-year averages (figure 19).

[18] OECD Affordable Housing Database
[19] Ibid

Figure 19
Monthly residential construction completions – trend (with 10 and 20 year average lines)



Source: ABS 8731.0 Building Completions, Australia

Melbourne's COVID19 experience is instructive in this regard, as work by Tim Helm has shown.[20] Melbourne is one of the fastest growing cities in the developed world, growing on average by 100,000 people per year. Construction has been equally rapid, and the average household size at 2.6 persons per dwelling has been maintained. During the pandemic, Melbourne shrank by around 175,000 residents. However, the rate of construction continued more or less unchanged.

> *Combined with the population outflow, that was as if Melbourne had doubled its rate of dwelling construction, generating an excess supply of 100,000 dwellings, or enough to house 260,000 people.*
>
> *The effect of this 'virtual building boom' was to knock down average rents by a maximum of 12% for about a year. Low rents did not last. Within a year, rents were back to their pre-pandemic levels despite there being fewer people and more houses.* (Helm 2023)

Another reason why an overreliance on the private sector is unlikely to resolve affordability issues is the current state of the construction sector. At present, the sector is experiencing significant headwinds, from the cost of financing construction projects to materials prices. This has led to an unprecedented fall in construction project approvals, which have dropped 31% below the decade average despite rent prices surging. Insolvencies in the construction sector have increased by 41% between 2021 and 2023. As property developer Tim Gurner recently said, "I don't think there's ever been a more challenging time for apartment developers… It's not easy. To bring on supply is incredibly difficult."[21]

No doubt, there any many gains to be made by enabling appropriate private supply wherever possible. Efforts must be made to amend state and council planning regulations to make residential zoning more friendly toward medium- and high-density housing in the established inner and middle suburbs of our

[20] (Helm 2023)

[21] https://www.afr.com/property/residential/rich-list-developers-holding-out-for-a-better-second-half-to-2023-20221222-p5c8cc

major cities, which have existing infrastructure and amenities and are located close to the majority of essential jobs.

But given high asking rent price growth, and a major slump in construction approvals, it is clear that there is no simple supply and demand mechanism operating in the rental market. To say that private sector construction can be the primary solution to rental supply and price is unrealistic under current circumstances. The best way for new supply to come on-line in difficult circumstances is for governments to build the right type of homes, in the right areas for those most in need. That simply means more social housing.

Policies to Improve the Rental Sector

A coordinated national approach

The problems at play in the housing system are so complex, operate in so many different policy areas, have so many competing incentives, and have such differing timeframes that only significant government policy intervention can produce the reforms required. A broad, ambitious, long term policy reform process that addresses the whole housing system can only be brought about by significant commitment from state/territory and federal governments.

Such significant reform will require coordination of local, state and federal government housing policies, meaning that strong intergovernmental agreements must be reached.[22] This must be underpinned through significant leadership at the Commonwealth level, and a strong set of State-Commonwealth targets, agreements and financing arrangements.

Chris Martin, Senior Research Fellow at UNSW puts the problem succinctly:

> *Within the Australian Government, housing policy making is divided. No one agency has overall responsibility for housing outcomes and for forming a strategic view of the housing system. Most intergovernmental activity has been around housing and homelessness conceived of as residualised welfare issues, concerned chiefly with housing services for individuals, rather than the whole system and structure of housing provision* (2023, 34).

Per Capita supports the proposals laid out by Chris Martin et al (2023) that the review of the National Housing and Homelessness Agreement (NHHA) provides Australian governments the opportunity to commit to and develop a strategic, mission-oriented national housing policy reform agenda. Such an agenda would help to establish and coordinate objectives for state and federal governments and prioritise housing policy changes for the next generation.

A mission-oriented housing policy framework

"As a national project, Australia should have a Housing and Homelessness Strategy with a mission: everyone in Australia has adequate housing.

The Strategy should be comprehensive, with a set of secondary missions:

- *Homelessness is prevented and ended.*
- *Social housing meets needs and drives wider housing system improvement.*
- *The housing system offers more genuine choice – including between ownership and renting.*
- *Housing quality is improved.*
- *Housing supply is improved.*
- *Housing affordability is improved.*
- *The housing system's contribution to wider economic performance is improved."*

Chris Martin et al, (2023), Towards an Australian Housing and Homelessness Strategy: understanding national approaches in contemporary policy, page 4

[22] See (Martin et al. 2023; Pawson, Milligan, and Yates 2020)

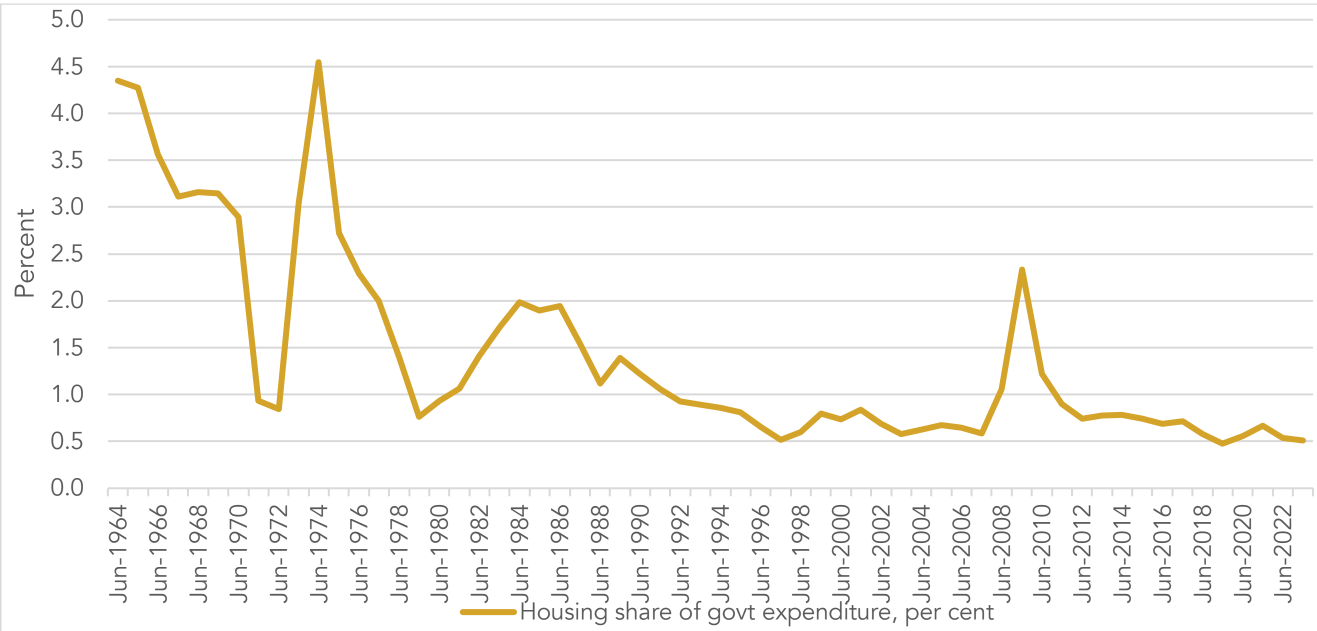
The scale of ambition and action that this entails is neither impossible nor unaffordable: we have done this before. Under the Commonwealth State Housing Agreements from 1945 to 1970, federal and state governments worked together to build a quarter of a million homes: an average of 10,000 per year at a time when the population was between 7 million to 12.5 million. The scale of the current housing crisis demands a similar level of ambition, commitment and resolve.

New approaches, consultative structures and targets should be coordinated by Housing Australia. Alongside the policy arrangements, state and federal governments will need to establish reasonable and appropriate funding arrangements. The current reconstitution of the National Housing Finance and Investment Corporation, and the proposed National Housing Supply and Affordability Council (NHSAC) should be used to coordinate appropriate financing structures of a scale and on a repayment timeframe appropriate to each state and territory.

Social housing

In the medium- to long-term, increasing social housing stock is critical to resolving rental unaffordability and insecurity. Any other attempt to tackle the housing issues facing Australian renters will simply not address those most in need, and those most failed by current policy arrangements. The current unmet need of 640,000 social housing dwellings means that, without an unequivocal recommitment to social housing by government, problems in the private rental sectors will be compounded.

Figure 20
Housing as a Share of Federal Government Expenditure (not including revenue foregone)



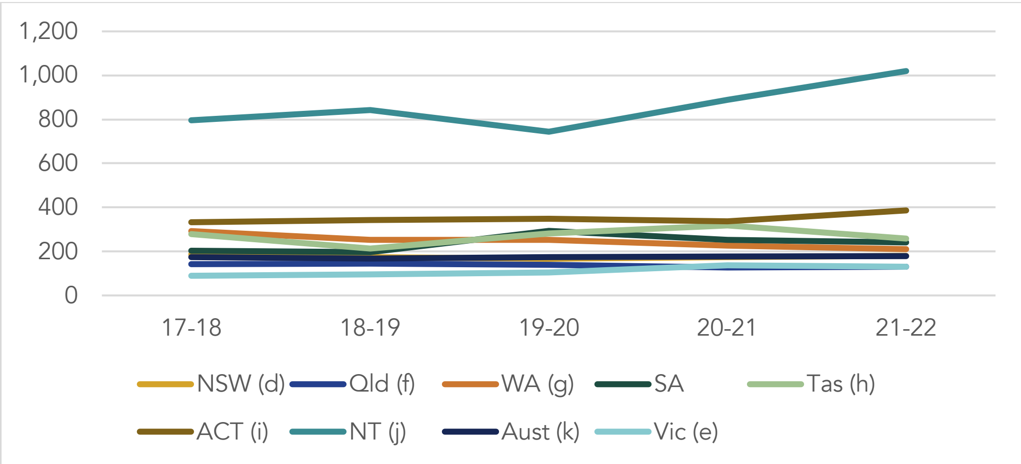
Source: PBO Historical Australian Government Data, ABS 6401

While Per Capita supports appropriate rent stabilisation policies, social housing is the best form of rent control. In the 1980s roughly one in four Australian renters was living in social housing; that figure is now less than one in ten. The transfer of social housing tenants to the private rental market has proven to be one of the most significant policy failures of the past 40 years, with a far higher proportion of low-income private renters now in housing stress, and a large cost to the taxpayer in terms of funding schemes such as Commonwealth Rent Assistance, costs to the productivity of the economy, a loss of social mobility, and increasing residualisation of the shrinking social housing stock.

As Figure 20 above shows, the share of federal budget allocated to housing has fallen from 4.5% 50 years ago to just 0.5% today. This level of investment simply cannot meet our requirements for low-income rental housing.

At the state and territory government level, expenditure on social housing has increased by just $3 per person on average over the past five years. Victoria, the NT and the ACT have increased their spending per person by significant margins, but the overall trend is not reassuring (Figure 21).

Figure 21
Expenditure on Social Housing per Person, State and Territory Government 2021-22 dollars



Source: (Productivity Commission 2023)

The CEH survey of housing experiences and attitudes, the Australian Housing Monitor,[23] found that around two-thirds of Australians are highly concerned about the decline in social housing construction. Furthermore, 73% support greater social housing spending. It is by far the most popular policy option among Australians for addressing the housing crisis, and there is a good deal of public goodwill to be harnessed.

Figures for capital expenditure on social housing show the scale of Victoria's Big Build. This shows that significant investment in new social housing stock is possible, but the scale needs to be dramatically increased. The cost could be offset to a large degree by reducing forgone tax revenue from negative gearing and capital gains tax discounting on investment properties discussed below. While the additional $2 billion for social housing announced by the Prime Minister this year and the ongoing funding provided by the Housing Australia Future Fund are a good start in taking the social housing crisis seriously, there is a great deal more to do.

[23] https://housingmonitor.org.au/

Per Capita supports the recommendations from the UNSW's City Futures Research Centre that the appropriate social housing financing mechanism would be for the Federal Government to provide state and territory governments with capital grants and NHFIC bond aggregator loans, and a committed operational subsidy that meets reasonable operating costs.[24]

Tax Reform in the Rental Investment Sector

In a perverse shift in government priorities over the last three decades, the amount of revenue currently forgone through investor tax subsidies such as negative gearing and capital gains tax discounting massively outstrips the amount spent directly on the provision and maintenance of social housing.

Negative gearing and the introduction of the CGT discount in 1999 have significantly increased house prices, favouring investors over first-time buyers, and reducing the opportunity for renters wishing to leave the rental market through a home purchase. The discount allows investors to realise large returns on housing investment, with negative gearing rules effectively buffering them from short-term losses until they can realise a medium-term, concessionally taxed capital gain.

These taxes are highly regressive, with the top 10% of households by income receiving around 35% of all rental tax deductions compared to around 4.5% for the lowest 10% of earners. Similarly, there is an enormous gender bias in these deductions, with men claiming 59% of rental tax deductions, compared to 41% going to women (Federal Treasury 2023; see also Tonkin, Lloyd-Cape, and McKenzie 2023).

The Treasury's most recent Tax Expenditures and Insights Statement (Feb 2023) and estimates from the Parliamentary Budget Office (PBO) last year show the scale of the revenues forgone through these tax concessions. This year is anticipated to see the largest amount of revenue foregone for landlord deductions, totalling over $48 billion. This compares to just $3.46 billion allocated in the Federal Budget to support housing for low-income households (Table 5).[25]

The cost of negative nearing is set to increase significantly as interest rates rise. Based on PBO modelling and Federal Treasury data, we estimate that landlord negative gearing and CGT discounts will cost the treasury nearly $200 billion between 2020-21 and 2032-33.

[24] Martin. Chris, and Pawson, Hal, 2023, Submission to the Senate Standing Committee on Community Affairs Inquiry into the worsening rental crisis in Australia

[25] Treasury Budget Data

Table 5
Landlord Negative Gearing and CGT Discount Revenue Forgone ($billions)

	2020 -21	2021 -22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Negative Gearing	3,298	5,450	7,388	7,570	7,656	8,128	8,570	9,099	9,720	10,392	11,103	11,850	12,674
CGT Discount	4,416	8,134	11,322	4,783	4,921	5,171	5,452	5,751	6,084	6,467	6,838	7,234	7,660
Total	7,714	13,584	18,709	12,353	12,577	13,299	14,022	14,850	15,804	16,859	17,941	19,084	20,334
Running Total	**7,714**	**21,298**	**40,007**	**52,361**	**64,938**	**78,237**	**92,258**	**107,108**	**122,913**	**139,772**	**157,712**	**176,796**	**197,130**

Source: Authors estimates from PBO 202 and (Federal Treasury 2023)

Improving renters' rights and security

Australia's rental regulations are overdue for significant reform. The Henderson Inquiry into Poverty fifty years ago excoriated the then rental laws and set in motion the processes for the development of current residential tenancy laws in each state. The time has come for a similar process. As such, the news that National Cabinet has asked each state and territory housing minister to develop a reform agenda to improve tenants' rights shows promise. It remains to be seen what outcomes may come from this process.

A obvious way in which tenure security could be improved would be by outlawing no-grounds evictions. No-grounds evictions, in which a landlord may terminate a tenant's rental agreement without any specified reason, create a situation of precarity for renters, which not only increases risks of losing housing but also harms tenant's mental health and wellbeing (Hulse and Goodall 2023). No-grounds evictions also decrease tenants' bargaining power. Tenants may be hesitant or unwilling to ask landlords to carry out repairs or other obligations when tenancies may be terminated at any time (Productivity Commission 2019). Tenant interviews carried out by Tennant & Carr for the Tenant's Union of Queensland found that many tenants issued with no-grounds evictions had recently had a dispute with a landlord or property regarding maintenance issues (Tennant and Carr 2012).

Involuntary moves from an unexpected eviction can impose high social and financial costs upon tenants. The average cost of moving house is approximately $1,600, while bond payments are often required before bonds from previous homes are returned. When moves are not voluntary, tenants may not be financially prepared and be unable to raise bonds or pay for required services such as removalists. Social costs are especially high for families with young children, who may need to change schools, with subsequent effects on wellbeing, educational achievement and social development (Productivity Commission 2019).

No-grounds eviction has recently been banned in Victoria, with rental providers now unable to issue a notice to vacate during a tenancy with no specified reason. Reasons including sale, demolition or change of use of a property must now be issued. No grounds-eviction was also banned in Queensland in October 2022 and is not permitted in Tasmania or the ACT. In the lead-up to the 2023 New South Wales State election, all major political parties committed to banning no-grounds evictions and creating a list of "reasonable grounds" for asking a tenant to leave a rental property (Razaghi 2023), but the necessary legislation has not yet been introduced to parliament.

While laws banning no-grounds evictions can increase tenure security, the reduction in landlord-initiated-cessation of tenancies may be countered by an increase in landlords ending leases with cause. This may include landlords citing permitted reasons, using a state or territory's civil or administrative tribunal to force eviction for tenant behaviour or increasing rent (Productivity Commission 2019). It should be noted that landlords continue to be able to give notice to tenants to vacate at the end of the first fixed term lease in states that have banned no-grounds evictions. The Tenant's Union of New South Wales has argued that such caveats "create an…incentive to increase the churn of tenancies in order to remain control over the premises". As such, legislation should seek to outlaw no-grounds evictions under all circumstances.

Improvements to the Landlord Sector

Federal and state governments should work to improve the professionalism and reduce the ease of entry and exit into the landlord sector. This should include reducing the high levels of rental property turnover and short-term tenancy agreements. In the small-scale or hobby landlord sector, this could be achieved by linking the federal capital gains tax (CGT) discount or negative gearing on investment properties to specific policy objectives in order to direct investment toward better housing outcomes.

When it comes to the CGT discount, eligibility could be limited to properties that have been held for a longer time period. If investors are to gain this valuable discount it should be in exchange for holding property assets for at least five years instead of the current one year. This would help reduce the incentive to flip properties in a rising market and would help incentivise landlords to seek long-term renters and keep rental properties in the market for longer periods.

Negative gearing (NG) reform could also be carried out based on improving the rental market. Per Capita believes that NG is indefensible in its current form, channelling financial rewards to the most wealthy in society, at a rate far higher than that spent on social housing (Dawson, Lloyd-Cape, and D'Rosario 2022).

NG quarantining, which would limit property loss tax offsetting only against rental income would bring NG laws more in line with international comparators. Alternatively, NG could be limited to only new build properties, and thus stimulate investment in increased housing supply.

Another method suggested by Martin et al (2018) that could improve the level of professionalism and data capture in the landlord sector would be a mandatory register for landlords. Such registers are increasingly common in other countries, and help government data capture of the rental stock, and contract details including rent prices and price changes. This could be used to introduce mandatory professional qualifications, to outlaw unfit persons from being able to lease a property and monitor trends in the market.

Finally, the improper use of technology to harvest, retain and sell rental applicant data must be considered a pressing issue for investigation by governments.

Diversifying the Rental Market

Diversifying the rental sector through institutional investors in the Build-to-rent (BTR) sector should help reduce the high turnover of rental stock and could reduce the need for landlords to increase rents at each interest rate increase. This is important as Australians increase their length of time in the rental market due to high purchase costs, and as the share of older Australians who rent increases since stability is particularly important for this group.

More private rental properties held by long-term, institutional investors may also help to mitigate the impact of short-term interest rate increases on rent price increases, if encouraged through legislation or tax benefits. While the BTR sector has so far not provided cheaper rental options in Australia, state governments could legislate requirements for the inclusion of affordable rental units within new BTR projects in return for land tax concessions or other incentives.
Current state taxation arrangements such as the 50 per cent Land Tax Concession for BTRs in Victoria should help develop the sector. The rollout of ground lease schemes, such as the Victorian Ground Lease Model,[26] could also produce more stable rental stock supply. This model allots the use of a parcel of land to a housing provider for a period of 40 years. During that period, community housing providers manage dwellings built on the site, but the land remains the property of the State Government and is transferred back at the end of the 40-year period.

However, it should be noted that build-to-rent does not guarantee ethical landlordism. Indeed, large corporate landlords in the US and Germany have been charged with a great degree of unethical behaviour, and with the capacity to do it at scale. What is important as the BTR sector develops is to ensure the right type of landlord is attracted, and that regulations are designed in such a way as to ensure the gains from this type of landlord are maximised.

The current negotiations and discussions underway in the Housing Accord are a promising step in the right direction, and it is hoped that greater public access to the workings and decision making of the Accord will be made available soon.

[26] https://www.homes.vic.gov.au/ground-lease-model

Regulating Short Term Rentals

Regulation of short-term rental properties in Australia has been piecemeal across states, territories, and local government areas.

Monitoring of the location and growth of short-term rental properties has been undertaken through the establishment of registration systems, the most widespread of which has recently come into operation in NSW. Similarly, some state and local planning systems require properties to obtain development approval before operating as an "entire-home" (in which a host is not present) in some or all zones. The high costs associated with development applications have led to concerns of a growth in Airbnb properties operating without a registration number or permit (Colahan 2023).

Another regulatory approach has been through revenue capture from short-term rental operations and incentivise conversion to long-term rentals, Brisbane and Hobart city councils have recently increased council rates for short-term rental properties by 50% (Stone 2022, 202) and 100% (Balen 2023) respectively.

New South Wales has been the first state to introduce a comprehensive state-wide framework for Airbnb regulation. As well as a code of conduct and registration system, the state also introduced a limit of 180 nights of operation a year for entire-home short-term rental properties located within the various LGAs in the Northern Rivers area, Greater Sydney and certain regions of the Muswellbrook area. Short term rentals exceeding this limit would no longer be classified as "exempt development" and would require a permit to continue, the granting of which would be determined by local councils (NSW Department of Planning and Environment 2022).

Given the extreme localised effects of Airbnb, Per Capita supports broad state regulatory frameworks, with a high level of variability to adapt to local conditions. This could at the state level include host registration, and data-sharing agreements with platforms, and the use of platform-monitoring to improve state and council monitoring and enforcement regimes (Dennien 2022). Fines for platforms for hosting illegal listings may also encourage self-regulation.

At the council level, limitations on Airbnb usage should reflect the local rental market. This could be achieved through an annual licensing system. For example, where family homes are in particularly short supply in the long-term rental sector, temporary limits could be placed on the number of new licenses of such homes. Alternatively, or concurrently, council rates could be raised when the effects of STRs are considered to have too many negative effects on local communities.

Commonwealth Rent Assistance

Over the long term, our position is that social housing investment should be at a level by which the need for rent assistance programs will be broadly eliminated. This approach would improve tenant security as well as price since social renters are far less likely to find themselves evicted than are those in the private rental market. However, while social housing stocks remain in such short supply, rental support payments will remain necessary.

Modelling of various options for CRA reform has found that, rather than focussing on raising the maximum rate of CRA, changing eligibility requirements could lead to an improvement in the effectiveness of CRA as a means to reduce housing stress and a reduction in the overall cost of the scheme. The research found that changing eligibility requirements to reflect housing costs rather than social security recipient status could "cut the population of low-income private renter income units in housing stress by 371,200 or 44 per cent. At the same time, it would generate an annual cost saving of $1.2 billion." (Ong et al. 2020, 3).

Such a change would require either a constitutional amendment to enable payments outside of the narrow social security powers. More pragmatically, a change in how the scheme is administered could be considered, with CRA being reformulated as a Commonwealth-State and Territory program, with the Federal Government making grants to state and territory governments to pay CRA to persons deemed eligible by federal standards (Ong et al. 2020, 61).

Inclusionary Zoning and land value uplift capture

Inclusionary zoning could play a significant role in increasing the supply of affordable housing. The term inclusionary zoning (IZ) "can encompass any framework in which an affordable housing contribution is specified for a given development scheme. Implicit here is that such a contribution must be promised by the scheme proponent as a condition for development consent." (Pawson, Milligan, and Yates 2020, 309).

IZ can refer to the inclusion of existing dwellings at market price or to include a proportion of below-market priced units in new developments. IZ is often associated with rezoned plots of land, where commercial or agricultural land is rezoned for residential purposes, or where land prices increase due to the addition of nearby new government amenities such as railways. This makes IZ a potentially very powerful tool for raising the stock of social and affordable housing, because it does not require revenue raising, but is funded through the uplift in land values. Under these circumstances, it may actually help reduce the spiralling of land values, since the overall resale value of the land is somewhat suppressed.

Around the country, several state governments have already enacted IZ policies, with varying degrees of success. The ACT government has established a target of 15-25% of all new land releases to be designated affordable, while in South Australia around 17% of all dwellings between 2005-15 in major residential development areas of SA were dedicated affordable homes (Gurran et al. 2018). NSW also has an IZ policy in the SEPP70 framework.

However, there are issues with compliance and policy design that are critical in ensuring success. The first is that in some instances, plots size or building quality were simply reduced, meaning that the value proposition of affordable homes was essentially identical to market rate homes. As such, only marginal land value uplift capture is evident. The second is to determine the type of home that is most needed. Under the NSW SEPP 70 framework, the expectation is that homes should be rental properties, potentially managed by community housing providers.

However, some homes under this scheme have been redesignated so as to be sold below market rate instead, which benefits the first buyer but no future owners. In the USA and the UK, there are more standardised national or state based limitations, for example, that IZ rental units must be rented out to qualifying social renters for a period as long as 30 years (Pawson, Milligan, and Yates 2020). Considering the cost to the state in administering the scheme and in offering concessions to developers, administrators should ensure that public benefits from IZ schemes continue for as long as possible.

State Governments should establish a target of at least 15% of land release to be allocated to social rental homes, which must remain social rental homes in perpetuity or with minimum terms of at least 25 years before units can be sold.

Rent Control

There are growing calls for Australian governments to enact some form of rent controls to address the growing crisis in rental availability and affordability. The Greens party, which shares the balance of power in the federal Senate, is demanding a two year freeze on actual and asking rents in return for its support to pass a package of measures the Government intends to support greater investment in social and affordable housing. Given the high proportion of young people who rent in capital cities, this issue has become a lightning rod in the national debate about housing affordability, but no-one calling for a rental freeze or other rent price controls has yet elucidated how such a market intervention might work.

What follows is an exploration of whether there is a case to be made for Australian states and territories to consider using rent control policies to support rental affordability and improve access to affordable homes in the private rental market.

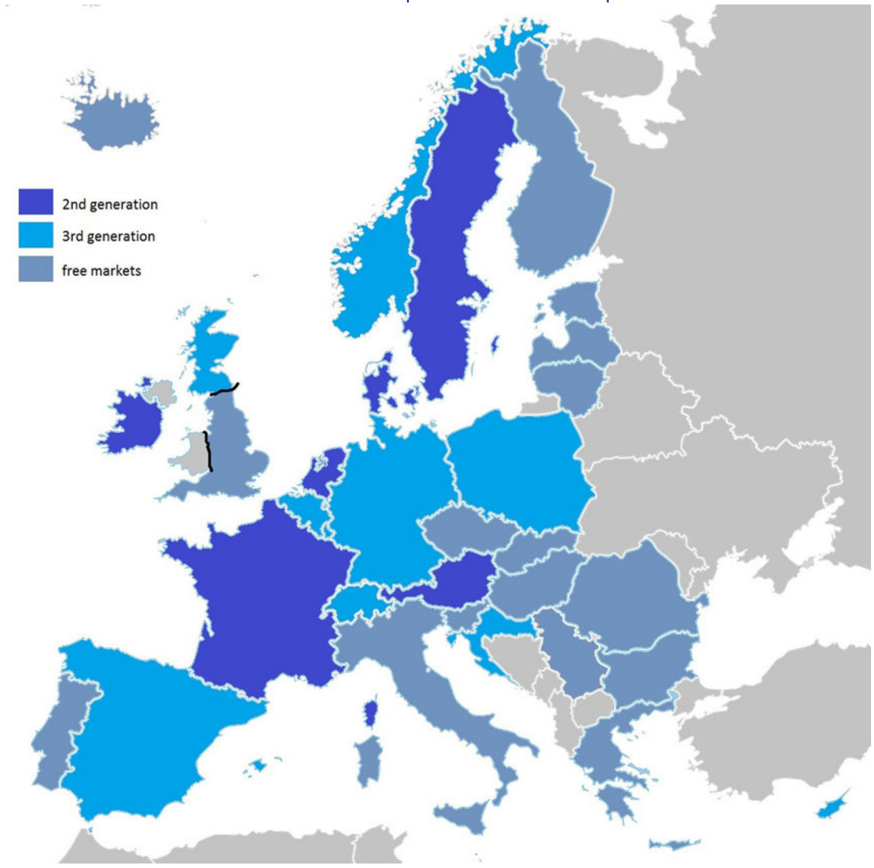
What is rent control?

The term 'rent control' is used generically to cover a multitude of different rent regulation mechanisms, which obscures some crucial differences between the various policy options.

Broadly speaking, rent control means a restriction on the amount that can be charged for rent, or a restriction of the amount that rents can be increased in a given time period. Other very closely related policies, such as the frequency with which rents can be increased are considered as separate to rent control, despite also being a mechanism for controlling rental increases: most states in Australia are not considered to have rent control, but there are regulations which establish how frequently rental increases can take place.

A large proportion of countries operate some form of rent control as part of their housing policy, usually at the municipal or state level. As shown in Figure 22, around half of European Union (EU) countries operate a form of rent control, as do regions of Canada, the USA, Korea and Japan. Rent control policies tend to be more popular in areas with higher proportions of renters, although this is not a hard relationship. For example, Canada has high levels of home ownership yet most provinces operate some sort of rent control measures.

Figure 22
Rent control policies in Europe



Source: (Kettunen and Ruonavaara 2021)

First Generation Rent Controls

There are several different generations of rent control: the most widely used distinction is between first, second and third generation rent controls.

First generation rent controls are the strictest form of rent control: they are effectively a dollar limit on how much can be charged to rent a home, often in reference to a state mandated set of rules. As Lind describes them "[f]irst generation rent control is a nominal rent freeze that leads to a fall in real rents and to a rent level that is significantly below the market rent level" (2001, 43). This is the form that rent controls took in the first decades of the twentieth century and is the type of intervention that the term rent control conjures in the public imagination. Australia experienced such rent price freezes during early parts of the 20th century, and again in Victoria during the COVID19 pandemic.

Many of the most forthright critiques of rent control are directed at first generation rent control. The effects of rent freezes can force landlords to leave the sector or reduce incentives for landlords to invest in repair and improvement of rental properties (Arnott, 1995, 2003). In places like New York where rent controls are not universal, they give tenants an incentive to stay even when their housing needs change, reducing the efficiency of housing stock usage, and can give both landlords and potential tenants an incentive to avoid and evade the law (Scanlon and Whitehead 2014).

Most contemporary proponents of rent control policies do not support hard rent freezes. In the last 50 years, very few policymakers have advocated or adopted a first generation rent control approach, recognising that they are not the best way to improve outcomes for individual renters or the rental market more broadly.

Table 6
Different Forms of Rent Control

Type of rent control	Also called	Features	Benefits	Critiques	Operation
First Generation	Rent control	Strict controls, such as regulation of nominal rent prices by fiat.	Rapid response to ensure people remain housed in a crisis. Anti-inflationary.	Can reduce investor incentives. Can create negative incentives for dwelling maintenance. Potential misallocation of housing stock.	Mostly historical in high income countries. In use throughout India, many African countries, and several Latin American countries.
Second Generation	Rent stabilisation	Less stringent controls, generally limitations of rent increases within and between tenancies. Allowed increases often tied to inflation or some other measure.	Stabilises rental prices. Reduces sudden price spikes. Provides certainty to tenant and landlord.	Can reduce PRS investor incentives.	Sweden, Ireland, France, Netherlands, Corsica, Austria, Catalonia since 2020.
Third Generation	Tenancy Rent Controls	Less stringent controls, usually limitations of rent increases within but not between tenancies. Allowed increases are often tied to inflation or some other measure.	Prevents sitting tenants being vulnerable to rapid market changes. Smooths out price changes while allowing a return to market rates.		Scotland, Norway, Belgium, Spain, Croatia, Switzerland, Cyprus

Second and Third Generation Rent Control

It is not uncommon for the media, economists or politicians to simply generalise this critique to second and third generation rent regulation, on the assumption that all rent controls have similar effects. However, there is a significant consensus that lumping all types of rent regulation into the same basket does not reflect the theoretical or empirical reality. As one expert put it, "second-generation rent controls are so different that they should be judged largely independently of the experience with first-generation controls" (Arnott, 1995, 118).

Second generation rent control is a term used to cover a multitude of possible arrangements, but the key principle is that they limit rental increases while aiming to moderate negative impacts of price regulation by allowing rental adjustments to reflect things such as the costs of refurbishment. As such they can be seen as a process of rent stabilisation. This may mean that in areas where rent increases exceed a certain amount, a cap is placed on all rental increases other than when a dwelling is refurbished. In some cases new supply is exempt to encourage new construction of rental properties. Rental increases are moderated both for sitting tenants and for new tenants, which helps suppress broadly rising rents.

Third generation controls are milder still, limiting rental increases for sitting tenants while allowing a return to market levels between tenancies. This allows rents to reset at market levels between tenancies maintaining a long-term, competitive rate of return for property investors (Coffey et al. 2022). This type of regulation aims to mitigate short run bidding up of rent prices which can encourage price gouging. Scanlon and Whitehead (2014) describe these policies as "tenancy rent controls".

More modern rent regulation regimes tend to look to offset these side-effects with calibrated policy design such as including exemptions for new supply and allowances for maintenance investment. Coffey et al (2022) suggest that "in terms of the optimal policy design to ensure efficient functionality, ensuring sufficient exemptions are in place to offset [negative] side-effects is important".

It is imperative to note that second and third generation rent stabilisation policies require a degree of tenant protection. For example, if no-fault evictions are still legal under a third generation rent stabilisation system, landlords can easily evict their tenants so as to let out their dwelling at a new higher rate.

With the current population and potential profitability in short term rental market, efforts must also be taken to prevent too many landlords simply listing their property on Airbnb, further reducing the long term private rental supply.

What is the evidence about rental control?

Investigation into the effects of rent control is one of the most hotly contested areas in economic policy, with significant divergence in opinion over its effects. Indeed, many researchers reach quite different conclusions based on the same data. There is also a significant divergence in opinion over ideas of generalisability. Many commentators are quick to point to one instance of rent control failure or success as proving the (in)appropriateness of rent control for another time and place (Marsh, Gibb, and Soaita 2022).

What is clear from a systematic review of the literature (EG: Turner and Malpezzi, (2003), Jenkins, (2009)) is that hard rent controls, such as rent freezes, have significant potential downsides.

Overall, the research seems to find that setting a hard cap on nominal rent prices, tend to induce high costs for landlords, and fewer benefits for tenants. Jenkins finds that rent controls in the US market are negative in terms of property upkeep (maintenance and repairs), and resource allocation (tenants don't move).

Based on a study of eight different countries, Whitehead and Williams (2019) conclude that significant lessons could be learnt from stronger rent regulation regimes. They note that, as with Australia, the relatively mild regulation of the length of tenancy, rent determination, and enforcement in England were causing increasing problems in the sector. Their key policy recommendation was for indefinite tenancies because they "provided both greater security and greater flexibility for both sides and removed many of the complexities around fixed term tenancies [...] – with no probationary period and rent stabilisation within the tenancy based on the consumer price index" (Whitehead and Williams 2019, p.26).

Closer to home, Martin et al. (2018) assessed the case for rental market reform based on an assessment of ten different country case studies. They note the increasing trend away from deregulation in many rental jurisdictions and suggest that Australia could follow this trend in order to protect the growing cohort of renters.

The authors conclude that institutional arrangements in Australia should be consistent in outlawing no-fault evictions, establishing a landlord register, and introducing a form of rent control. They suggest that states and territories could implement second-generation "market-related rent regulations (e.g. limitation to guidelines or indices)". (P5)

Table 7

Regulation of the private rental market rent control in Europe according to generation of Rent Control

	First Generation	Second generation	Third generation	Free markets	
Social democratic welfare states		Denmark Sweden	Norway	Finland Iceland	
Corporatist welfare states	Germany (Berlin 2020 rent freeze)	Austria France The Netherlands	Belgium Germany Switzerland Luxemburg		
Liberal welfare states	N. Ireland (v. limited to properties failing the Certificate of Fitness assessment)	Ireland	Scotland	England, Wales	
South European welfare states		Spain Cyprus		Italy Portugal Greece Malta	
Post-socialist welfare states			Poland Croatia	Bulgaria Czech Republic Hungary Romania Slovakia	Estonia Latvia Lithuania Serbia Slovenia

Source: Adapted from Kettunen and Ruonavaara (2021)

Based on their review of the international literature, Coffey et al (2022) note that "research suggests that regulatory regimes have had significant supply-side effects with studies demonstrating lower maintenance investment and market exits of rental properties. This can serve as a cost to potential new tenants". However, despite this they conclude that "[t]here is a clear economic rationale for the use of rent controls internationally in settings where the presence of market failures, information asymmetries or excess demand (coupled with inelastic supply) are prevalent… The research is clear in finding that existing tenants benefit from rent controls through lower rent levels or lower inflation rates."

Turner and Malpezzi conclude that rental regulation is neither good nor bad, rather 'what matters are the costs and benefits of specific regulations under specific market conditions' (2003, 15).

It seems clear then that rent control policies, in conjunction with other rental reforms, can improve the rental sector for tenants. But it is not a cost-free policy and ensuring that negative effects are not too onerous requires significant work in designing context-appropriate policy.

Case study: Ireland

Ireland suffered significant rental price inflation following the Global Financial Crisis, with rents increasing far faster than general inflation. Low and middle income households, particularly in urban areas, were badly affected, to the point that one in three renters not receiving state housing supports were considered as having insufficient funds post-housing costs to pay for basic goods (Corrigan et al. 2019).

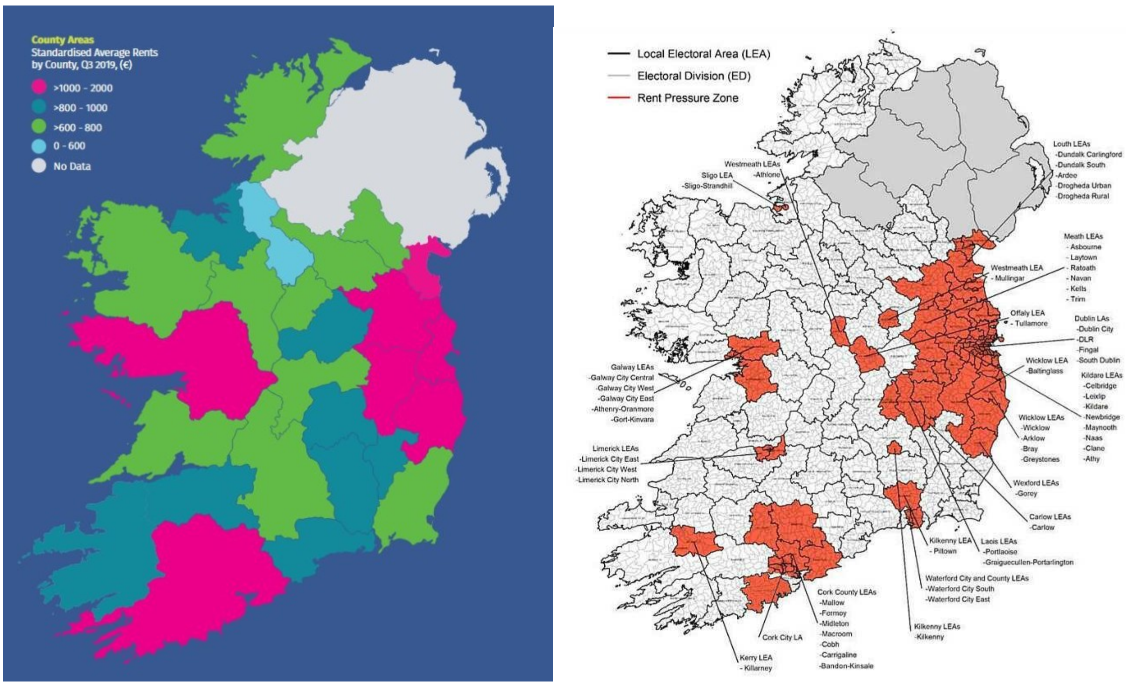
To address the rapid rise in private rents, rent controls were introduced in Ireland at the end of 2016. The Irish government attempted to stabilise rents in high-pressure areas by setting limits on the rent increases landlords may demand. Under the Residential Tenancies ACT 2021, rental prices increases in these "Rent Pressure Zones" (RPZs), were capped, initially at 4% per annum but then shifted to the lower of either annual inflation or 2%. Under the Act, basic contract length was also extended to six years, with only contract breach, property sale and family or own use being grounds for the landlord breaking the contract.

The initial legislation provided a range of exemptions. For example, all new build properties are exempt, and significant upgrading of a property enables the owner to apply for an exemption.

In Dec 2016, five RPZs were established at council level across Dublin and Cork city. These have since been increased to cover nearly 60 Local Electoral Areas across more than 20 councils. Figure 24 shows the distribution of rental prices in Q3 2019, and RPZs in December 2022.

Regulations were also introduced to prevent landlords shifting to the short term rental sector. Homeowners in RPZs wishing to let their residence as an entire-unit STR for over 90 days annually, or to rent out a secondary residence as a short-term rental, must apply for planning permission to change the use of the property. Unlike many other jurisdictions, where short term rentals are defined as being 30 days or less in duration, short term rentals in Ireland are defined as lasting up to 14 days at a time. A registration system for other short-term rentals in Rent Pressure Zones, including those exempt from planning permission requirements, is also in place. Penalties exist both for failing to add a property to the register or apply for planning permission where relevant (Citizen Information Board n.d.).

Figure 23
Rent prices by County (left), and Rent Pressure Zones in Ireland



Source: (Liu, Arnedillo-Sánchez, and Chen 2022)

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Impact on rental prices

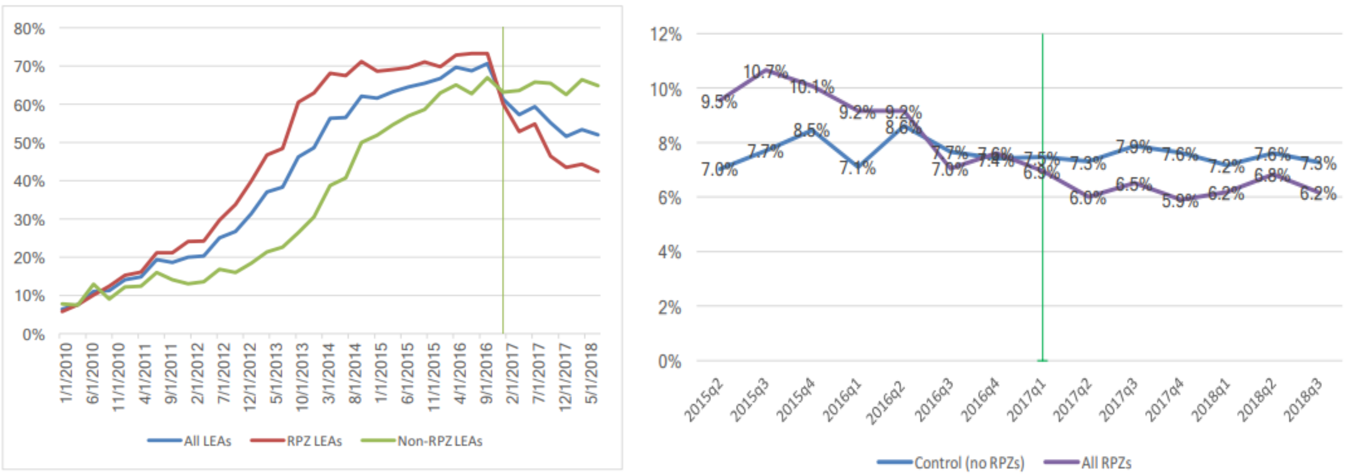
Econometric research into the effects of rental increases suggests success in capping overall increases within the RPZs.

The average rate of inflation just before the introduction of RPZs was between 8 and 9 per cent but reached above 10 per cent in particular areas (Coffey et al. 2022). An early assessment in 2019 found that rent price growth in rent pressure zones had been moderated by been between two and three percentage points (Ahrens, Martinez-Cillero, and O'Toole 2019). The ratio of above-threshold growth rates dropped sharply for the treatment group, from 73.2 per cent in Q4 2016 to 42.5 per cent in Q3 2018. In contrast, the share in the control group remains at a similar level throughout 2017 and 2018.

Figure 24 shows strong evidence that the RPZ reduced the number of tenancy agreements with annualised growth rates exceeding 4 per cent. The relatively high share of properties with increases greater than the 4% threshold was thought to be due to broad range of exemptions for new built dwellings and upgrades, which O'Toole suggests could be ratcheted up to improve the overall performance of the rental market stock.

Figure 24

Share of Tenancy Agreements in Ireland with Growth Rates Above 4 Per Cent (L), and Trend in Rent price Increases (R)



Source. Ahrens et al 2019

Follow up research suggests that the effects are growing, with rental price moderation being estimated at between two and five per cent (O'Toole 2023). It should be noted that the RPZ rent price growth ceiling was lowered to 2% in 2021, which may account for this change. However, there are significant outliers, with rents rising in Dublin at a rate far beyond the cap (Figure 24).[27]

[27] https://www.irishtimes.com/business/economy/it-s-not-just-us-rent-controls-aren-t-working-in-germany-either-1.3543256

Other effects

While these correlations between the introduction of rent pressure zones and rent prices suggest a an improvement in affordability, other effects also require examination. Some critics have argued that the price reduction effects are not delivering what was promised. The exemptions from the price increase cap of 4% per annum are seen as insufficient to bring in enough rental stock to reduce headline price inflation.

Coffey (2022) finds that the average rental price of new stock is higher than the average rental price across the market, suggesting that there may be an emphasis on higher end rental construction that allows for new dwellings, or those not rented in the past two years, to avoid the rent control measures.

Problems with the Irish model

Many experts criticise the Irish model for its complexity and need for significant data gathering. There is also a question of whether the RPZ zone actually plays a purpose worthy of the extra administrative burden: that is, if areas not designated an RPZ have slower growing rents, why not just include them under the scheme since they will not hit the criteria anyway?

Further, compliance and enforcement have been weak. It is up to renters to challenge unfair rent increases, rather than price increases being monitored by an appropriate government body. A new rent registry system is being introduced to address this issue,[28] but it may not tackle the key problem of enforcement: as in Germany, rent price regulation without a sufficiently empowered regulator means that landlords can ignore price limits, knowing that it is unlikely that they will be sanctioned.

Similarly, a lack of enforcement of regulations of the short-term rental sector appears to be exacerbating the problem, with initial research suggesting that compliance with STR regulations is low. One study found that over 50% of short term rentals analysed were breaching regulations (Liu, Arnedillo-Sanchez, and Chen 2022).

Case study: the Australian Capital Territory

The Australian Capital Territory is the only jurisdiction in Australia which currently sets limits on the amount that rents may be increased. Under the ACT's *Residential Tenancies Act 1997*, rent increases may only occur ever 12 months and are generally limited to a 'prescribed amount'[29]. The prescribed amount for rental increases is currently calculated at 110% of the Canberra rental Consumer Price Index (CPI). [30]

The ACT's form of rent regulation a mild version of rent stabilisation than Ireland's. Chief Minister Andrew Barr has described the policy as "[knocking] the rough edges off egregious rent increases" rather than being a rent cap".[31] Rent increases above the prescribed amount are permitted if allowed in the residential tenancy agreement, if the tenant agrees in writing to the increase after at least 8 weeks' notice

[28] https://www.independent.ie/irish-news/revealed-the-new-rent-register-plan-to-expose-rip-off-landlords/36814556.html

[29] (Australian Capital Territory Residential Tenancies Act 1997 2023)

[30] (ACT Civil and Administrative Tribunal n.d.)

[31] https://hansard.act.gov.au/hansard/10th-assembly/2023/PDF/P230627.pdf

has been given, or if approval is granted by the ACT Civil and Administrative Tribunal. Canberra's rental CPI grew by 4.5% in the two years prior to March 2023.[32]

Tenants may apply to ACAT to review a rental increase. ACAT may determine that a rental increase is excessive based on the previous rental rate, the amount of time since a previous increase, the current condition of the premises and rental rates of similar premises[33]. ACAT may disallow all or part of the increase if deemed excessive.[34] The *Residential Tenancies Act 1997* also includes provisions disallowing retaliatory notices to vacate in cases where the tenant had previously applied to ACAT regarding their tenancy agreement.

Rent regulation should be accompanied by restrictions on no-grounds eviction prevent landlords from ending tenancies to increase rents for new tenants.[35] While limitations do not exist for rent increases between tenancies, the ACT has instituted a ban on 'no-grounds' evictions, including at the end of fixed terms [36]. The effects of this ban are yet to be seen.[37]

Impact of the ACT system

Rent price increases in Canberra during the current price cycle have been more muted compared to other cities. While asking rents have risen by 10% over the year to May 2023 across Australia, asking rents in Canberra have fallen by 1.9%,[38] indicating that there is likely a moderating influence from the rent stabilisation policy in effect. Furthermore, residents of the ACT know that they are protected from significant rent price spikes, something that has a high value for households.

Over the longer term, though, CPI in the ACT rents have increased quickly. In the 4.5 years to February 2023, rents in the ACT increased by 19.1%, or 4.3% per year (see Figure 26). This is faster than all states other than Tasmania and WA.

[32] (Argarwal, Gao, and Garnder 2023)

[33] (Australian Capital Territory Residential Tenancies Act 1997 2023)

[34] (ACT Civil and Administrative Tribunal n.d.)

[35] (Australian Housing and Urban Research Institute 2018)

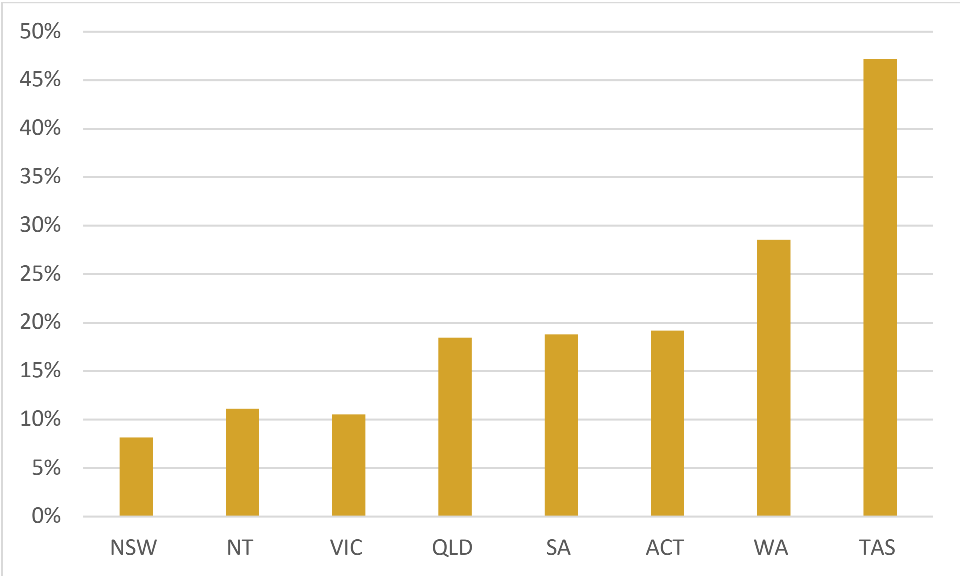
[36] (ACT Government 2022)

[37] (Australian Capital Territory Residential Tenancies Act 1997 2023)

[38](CoreLogic 2023b)

Figure 25

CPI Rent Increases, Jul 2018-Feb 2023



Source: (authors calcs based on Hanmer and Marquardt 2023)

As in Ireland, deficiencies in data collection have been identified as a limitation to the ACT's ability to oversee and enforce existing regulations.[39] Data compiled by the Real Estate Institute ACT states that approximately 85% of vendors selling rental property to owner-occupiers between 2019 and 2021 attributed "additional regulatory burden" as a reason for selling. However, little evidence of a link between increases in net sales and the 2019 regulations exist.[40]

The ACT's Chief Minister has stated that the Territory's rental limit regime is intended to work in tandem with efforts to affordable housing supply, including social housing.[41] Despite having declined in recent years, the ACT's public housing stock per resident is almost double the national average, at 22.6 public housing dwellings per 1,000 residents compared with an Australia-wide rate of 11.5 dwellings.[42]

As a very mild version of rent stabilisation, there is significant potential for landlords to find ways around the prescribed increase maximum of 110% CPI. As in Ireland, the onus is on tenants to challenge excessive rents, meaning that the potential for exploitation of vulnerable tenants remains.

Appropriate rent stabilisation policies in Australian States and Territories

As we have shown, it is not only the design and type of rent regulation that determines success but how that design fits local conditions. It is important to establish at the outset the objectives and intended effects: for example, is the policy objective to provide short term cost of living relief, to limit inflation, to improve long term affordability, or to provide market stability?

[39] (Greater Canberra 2022)
[40] (ACIL Allen 2021)
[41] https://hansard.act.gov.au/hansard/10th-assembly/2023/PDF/P230627.pdf
[42] (Mannheim 2023)

Any attempt to introduce rent stabilisation policies must take into account:

- the full balance of costs and benefits to tenants and landlords;
- the need for significant data monitoring to understand the effects of the scheme;
- an understanding of the interconnectedness between regulating rents and other regulatory requirements such as the short term rental market; and
- the dangers of half-hearted implementation, particularly around monitoring and compliance.

A recent large scale systematic review of the evidence base around rent control proposed three critical steps and one key commitment in the process of designing and implementing a rent regulation system.

1. *A vision of where policymakers wish to take the private rented sector based on an appreciation of how it works now, its multiple internal functions, and its important interactions with the wider housing system;*

2. *Based on this vision, a clear sense of the nature and design of rent regulation proposed; how and in what circumstances it is triggered; and how it is later wound down (the sunset clause); as well as how it would complement existing and proposed non-price regulation;*

3. *In order to achieve this clarity over policy objectives, design and operation, a strong commitment to a comprehensive, operational data strategy is required that will enable policymakers to undertake ongoing monitoring of the PRS within a clear market analysis strategy operating at the agreed market area level.*

> *Throughout these three stages there should be a commitment to drawing on the evidence base where it provides direction and also, where there is no conclusive evidence, a suitable degree of caution and reference to the data and evidence generated locally. At the same time, policy development and monitoring should be grounded throughout in deliberative and consultation mechanisms that give effective voice to tenants, as well as other stakeholders.* (Gibb, Soaita, and Marsh 2022).

Nature and design of rent stabilisation policies

As we have shown, at the median level, there is no rental price crisis in Australia at present. However, there has been a decades long low-income rental price and access crisis, and there is a problem of unpredictable and potentially high rent increases across the private rental sector.

For low-income households the best form of rent control is social housing, and any attempt to introduce a rent stabilisation system must be introduced alongside a significant increase in social housing construction. For the rest of the market, a rent stabilisation policy should focus on limiting rapid spikes in rental costs rather than on bringing down rents overall.

This means that the rent pressure zone system deployed in Ireland is not a good fit for Australian states and territories, not least because of the highly localised rent data gathering that is needed. Our current CPI data simply does not extend down to the LGA sufficiently to provide enough information.

However, there is also an argument for having slightly stricter regulation than currently operates in the ACT, removing carve outs where landlords can use their knowledge and experience to overcome the objections of less well informed and resourced renters. This is because culturally and legally, renters are in a relatively weak position compared to landlords. When the onus is on the renter to challenge a rent price increase, a lack of experience, a low understanding of rights and otherwise low renter protections may simply mean that renters simply accept the rise or move out.

One option being put forward by professors Chris Martin and Hal Pawson[43] is a system similar to that used by most Canadian Provinces. Under such a model:

- Rent increases would be limited during tenancies to a certain percentage, preferably to a measure of CPI;
- The frequency of increases would be limited to one per year (as they are in most jurisdictions);
- Tenants would have the right to challenge rent increases that are excessive to general market level for comparable premises, with an expansion of accessibility and funding for speedy resolution;
- Tenancies that are a series of fixed terms should be subject to the limits above; and
- Rent at the commencement of a new tenancy should be set by the market.

Allowing house prices to revert to market rates between tenancies allows for the long-term price to be set by the market, with high new tenancy rents still operating as a price signal to bring new supply to the market. This also helps to ensure the value of rental properties is maintained for the owner. Such a model should prevent the discouraging of investment in the market while at the same time shielding tenants from short run price spikes.

Another argument put forward for regulating rent increases only during tenancies is its legal and administrative simplicity. As Martin and Pawson put it:

> *All that is required is an amendment to the RTA to the effect that a purported increase beyond the limit for the relevant period is unlawful and invalid. There should be provision for a penalty, but mostly the regulation would be carried into effect by the contracts between landlords and tenants. By contrast, a regulation of new tenancy rents would be difficult, requiring the authorisation of some agency to determine new tenancy rents, including where the dwelling has not been let before; new records recording rents so determined; and investigations and enforcement processes where no contract yet exists between parties.*

That Australia's rental market is dominated by small-scale hobby landlords creates specific design challenges. For example, Scanlon and Whitehead (2014) note the beneficial effects of rent stabilisation in several European countries where institutional or large-scale landlordism is prominent, but also warn that there are fewer benefits to small scale landlords, particularly those who are more focussed on generating capital gains more than rental yield. Again, this is strengthens the argument for a system-wide approach to housing reform including addressing investor tax concessions and the diversification of the landlord sector, and for governments to provide greater support to the institutional build-to-rent sector.

[43] Martin. Chris, and Pawson, Hal, 2023, Submission to the Senate Standing Committee on Community Affairs

Conclusion

There is a rental crisis in Australia in 2023, but it not the one currently making headlines. Median rental prices have been remarkably low for a decade, and there is no evidence that middle- and higher-income renters are experiencing unreasonable rental price increases during tenancies *on average*. This is not to say that there are no problems with Australia's residential rental market: clearly there is significant scope for improving regulation throughout the market.

It is critical that our approach to such regulatory reforms is informed by the facts. For example, the constant cries that the only answer is to create more supply ignores the fact that private sector supply of housing in Australia is one of the highest in the OECD. One in twenty workers is in the construction sector, and there are very few countries that dedicate more resources to the construction of new homes than Australia.

What is incontrovertible is that there has been a genuine crisis in social housing for decades. The decline in government investment in social housing stock has failed those households who most need support. To our great shame, low-income households are no longer able to find a secure, safe, comfortable and affordable home in our wealthy country. Instead, they have been thrown into the private rental market, which simply does not have the capacity or intention to provide what they need.

Any reform to Australia's rental market must prioritise those at the bottom of the income distribution. Per Capita supports a significant reinvestment in social housing to restore the historical post WWII -1980s level of social housing construction. As a nation building project, there is no other policy that has the same level of positive economic and social externalities, intergenerational justice and support for social mobility.

The latest rent price cycle has also shown that unregulated rent increases cause widespread uncertainty and apprehension for renters who are already suffering from higher costs at the supermarket checkout and for other essentials. More Australians are living for longer periods in the private rental market, often at times of most financial stress, particularly for young families and those on fixed incomes like the age pension. Households simply cannot forecast and plan effectively if they may at any point be hit with a huge and unexpected rent increase. For this reason we support a rent stabilisation policy which allows the market rate to play the defining role in setting rent prices but in a moderated and predictable fashion.

Beyond social housing and rent stabilisation there are a host of policy changes that are vital for the long-term success of our rental system. Short term contracts and a high turnover of rental properties are exacerbated by the dominance of hobby landlords. The variable rate mortgage market pushes RBA cash rate rises straight onto mortgage holders, meaning landlords are pressured to raise rents to recoup costs. Our renters' rights remain some of the weakest among wealthy nations, with no-fault evictions still an every-day feature of most renters' lives.

In short, there is a need for significant reform of the rental sector, but it is critical that we identify and define the real issues, their causes and the appropriate policy responses. For the lives of Australia's 3.1 million renters anything less is a failure.

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Appendix 1: Summary of current rental regulations in Australia

	NSW	VIC	QLD	TAS	SA	ACT	NT	WA
Increases during fixed term	*Fixed term periods of under 2 years:* Only if rental agreement specifies the amount of the increase, or the formula to be used to calculate the increase. *Fixed term period of 2 years or more:* Permitted.[44]	Permitted with conditions if agreements allow for rent increases.[45]	Permitted if the rental agreement allows for rent increases and the agreement states the amount of the increase, and how it will be calculated[46].	Permitted when a fixed term lease agreement allows for rent increases.[47]	Permitted if the amount of the increase and the date of increase is included within a rental agreement, and how this will be calculated.[48]	Permitted only if there is a clause in the lease which specifically sets out the increase or a formula to be used to calculate the increase.[49]	Only permitted if there is a clause on the lease specifying the increase or calculation method to determine the increase.	Permitted if the amount of the rental increase or the formula to calculate the rent increase is included in the rental agreement.[50]

44 (NSW Fair Trading n.d.)

45 (Consumer Affairs Victoria n.d.)

46 (Queensland Government Residential Tenancies Authority n.d.)

47 (Tourism Tasmania 2019)

48 (SA.GOV.AU n.d.)

49 (Legal Aid ACT n.d.)

50 (Government of Western Australia Department of Mines, Industry Regulation and Safety n.d.)

Frequency of increases in a fixed term agreement	*Fixed-term agreement (2 years or more)* Once in a 12 month period with 60 days notice[51].	*Fixed-term agreement of 5 years or less:* If commenced before 19 June 2019, once every 6 months. If commenced on or after 19th of June 2019, once every 12 months. *Fixed-term agreements longer than 5 years:* Once every 12 months.[52]	Currently permitted once every six months if permitted in agreement. From 1 July 2023, one increase every 12 months will be permitted for all new and existing tenancies.	12 months must have passed between increases or entering into an agreement for both fixed-term and periodic leases.[53]	12 months must have passed between increases, or 12 months must have passed since the agreement commenced[54].	After 12 months of fixed term lease being signed, or after 12 months since the previous rental increase.[55]	At least six months after the tenancy has commenced, or six months after the previous increase.[56]	6 months must have passed since agreement was signed or the last rent increase took place.[57]

[51] (NSW Fair Trading n.d.)
[52] (Consumer Affairs Victoria n.d.)
[53] (Tasmanian Government Consumer, Building and Occupational Services n.d.)
[54] (SA.GOV.AU n.d.)
[55] (Queensland Government Residential Tenancies Authority n.d.)
[56] Nicola Bowes, 'Rent Increases (NT)', *gotocourt.com* (8 August 2022) <https://www.gotocourt.com.au/civil-law/nt/rent-increases/>.
[57] (Government of Western Australia Department of Mines, Industry Regulation and Safety n.d.)

Increases during rolling contracts	Permitted once every 12 months.[58]	For agreements commenced before 19 June 2019, once every six months. If commenced on or after 19 June 2019, once every 12 months.[59]	Currently permitted once every six months. New legislation will increase this frequency to 12 months.[60]	Permitted once every 12 months.[61]	Permitted once every 12 months.[62]	Permitted once every 12 months.[63]	Permitted at the start of every rental period (generally each month). Rental agreements may be terminated if tenants do not agree to the increase.[64]	Permitted once every six months[65]
Mandated increased	No limit.	No limit.	No limit.	No limit.	No limit.	A rent increase is considered "excessive" if the amount is above 110% of the Consumer Price Index.	No limit.	No limit.

[58] (NSW Fair Trading n.d.)
[59] (Consumer Affairs Victoria n.d.)
[60] (Queensland Government Residential Tenancies Authority n.d.)
[61] (Tasmanian Government Consumer, Building and Occupational Services n.d.)
[62] (SA.GOV.AU n.d.)
[63] (Legal Aid ACT n.d.)
[64] (Darwin Community Legal Service n.d.)
[65] (Queensland Government Residential Tenancies Authority n.d.)

						Landlords must apply to the ACT Civil and Administrative Tribunal for approval of rental increases over the prescribed amount.[66]		
Increase notice requirements	*Fixed Term:* If less than 2 years and specified in the rental agreements, no notice. If over 2 years: 60 days notice. *Periodic:* 60 days[67].	60 days notice required. A standardised form must be used.[68]	2 months notice is required[69].	60 days written notice required.[70]	60 days written notice is required.[71]	8 weeks notice is required.[72]	30 days written notice is required.[73]	60 days written notice required[74]

[66] (Legal Aid ACT n.d.)
[67] (NSW Fair Trading n.d.)
[68] (Consumer Affairs Victoria n.d.)
[69] (Queensland Government Residential Tenancies Authority n.d.)
[70] (Tasmanian Government Consumer, Building and Occupational Services n.d.)
[71] (SA.GOV.AU n.d.)
[72] (Legal Aid ACT n.d.)
[73] (Darwin Community Legal Service n.d.)
[74] (Flatmates.com.au n.d.)

Ability to dispute	Can be negotiated with the landlord. An application may also be made to the New South Wales Civil and Administrative Tribunal (NCAT) within 30 days of receiving the rent increase. The Tribunal can set the rent for the next 12 months.[75]	A 'rent assessment' may be carried out by Consumer Affairs Victoria if rent increase is deemed by tenants to be too high. If a rent assessment informs tenants that the rent increase is too high, and a rental provider does not lower rent based on this information, applications can be made	Tenants can apply to access the Queensland Residential Tenancies Association process conducted by a RTA Conciliator. If this process is unsuccessful, tenants can apply to the Queensland Civil and Administrative Tribunal (QCAT). [77]	Reviews of rent increases can be undertaken by the Tasmanian Residential Tenancy Commissioner. Findings by the Commissioner are made in a formal Order, with appeal rights for both parties at the Magistrates Court (within 60 days of the Commissioner's Order)[78]	Tenants can apply to the South Australian Civil and Administrative Tribunal (SACAT), who will review the rent increase and fix the rent for up to a year if found excessive[79]	Below the prescribed amount, the tenant can dispute by appeal to the ACT Civil and Administrative Tribunal (ACAT) Above this threshold, unless a tenant agrees to an increase, the lessor must apply to the Tribunal.[80]	An application can be made to the Northern Territory Civil and Administrative Tribunal (NTCAT). NTCAT can set the rent for the next 12 months[81]	An application can be made to the Magistrate's Court arguing against a proposed increase or to request a reduction.[82]

[75] (NSW Fair Trading n.d.)
[77] (Queensland Government Residential Tenancies Authority n.d.)
[78] (Tasmanian Government Consumer, Building and Occupational Services n.d.)
[79] (Legal Services Commission South Australia n.d.)
[80] (Legal Aid ACT n.d.)
[81] (Darwin Community Legal Service n.d.)
[82] (Government of Western Australia Department of Mines, Industry Regulation and Safety n.d.)

		to the Tribunal (VCAT). VCAT can set the rent for 12 months.[76]						

[76] (Consumer Affairs Victoria n.d.)

Appendix 2 - OECD Rent control in the private rental sector

(PH6.1 RENTAL REGULATION, OECD Affordable Housing Database – http://oe.cd/ahd)

	Control of initial rent levels			Regular rent increases	Comment
	Free	Regulated	Both		
Australia			x	No.	Tenancy law/regulations are a matter for individual State and Territory governments; therefore information at the national level is not available. Most state tenancy laws provide that landlords may increase the rent once every 6 or 12 months.
Austria			x	Yes.	Rent control only in the stock built before 1945/53.
Belgium	x			Yes.	Rent usually increases with health index, but rent can be revised every three years if value increased or decreased by at least 20%.
Brazil	..	..	..	Yes.	Rent increases tied to IGP-M index.
Bulgaria	..	..	..	No.	
Canada			x	Yes.	Rent control varies by province. Some provinces allow rent increased by any amount once or twice per year; others set a rate of allowable annual rent increases.
Chile	x			Yes.	
Colombia	x			Yes.	Rent can only increase at contract expiration, based on CPI.
Costa Rica	x	..		Yes.	Rent can be adjusted based on the inter-annual price index.
Cyprus	x	..		Yes.	
Czech Republic	x			No.	Landlords may increase rent levels as they wish up to 20% in 3 years.
Denmark			x	Yes.	Different types of rent regulation, covering a very large share of rental dwellings. Only in new dwellings, the rent is unregulated since 1991.
Estonia	x			No.	Rent increases for fixed term rent limited by specific amount, percentage or index.
Finland	x			Yes.	

France			x	Yes.	With respect to controls on the initial rent levels: Article 140 of the ELAN law of 2018 authorised some agglomerations to pilot a rent control measure for 5 years, whereby the initial rent levels are determined within a benchmark range (with some exceptions). With respect to controls on increases in rent levels: in certain agglomerations experiencing a tight housing market, in case of a new lease or the renewal of a lease, the last rent level paid by the tenant can only be increased based on a fixed rate benchmark index for rent (provided that the landlord did not make any improvements in the dwelling, in which case the rent may be increased by up to 15% of the total cost of the improvements).,
Germany			x	No.	Regulation of extortion in the criminal code limits free setting of rent levels and rent caps apply in certain areas, so that rent cannot exceed reference level by more than 10%.
Greece	x			No.	
Hungary	x			No.	
Iceland	x			Yes.	
Ireland			x	Yes.	Rent increases limited to annually 4% in Rent Pressure Zones (RPZ). In new leases in RPZs, rent is set in accordance with the RPZ formula.
Israel	x			No.	
Italy	x			Yes.	Rent level increases are limited for leases with agreed rent, which can be stipulated by joint agreement by representative organizations of tenants and owners in municipalities with high population density.
Japan			x	No.	
Korea	x			No.	
Latvia	x			No.	
Lithuania	x			No.	
Luxembourg	x			No.	By law, the yearly rent level cannot exceed 5% of the invested capital in the rental dwelling (cf. Law of September 21, 2006 regarding the rental contracts). Indexation of rents is explicitly forbidden.
Malta	x			No.	
Mexico	x			Yes.	Control on both the initial rent level as well as subsequent rent increases vary across states
Netherlands			x	Yes.	Rent increases can be inflation +1% at maximum. All dwellings with a rent below EUR 737.14 per month (in 2020) are regulated.
New Zealand	x			Yes.	Every 12 months, landlords can increase rents as they wish. Maximum rent based on the dwelling's quality applies to all rents below 710 euros per month.

					Currently rent regulation covers over 90% of the rental sector (social housing sector and small private sector).
Norway		x		No.	Agreed rent may not unreasonably exceed similar rentals. Rent may be index regulated yearly, if one of the parties request it.

Footnote by Turkey: The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognizes the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue";

Footnote by all the European Union Member States of the OECD and the European Commission: The Republic of Cyprus is recognized by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus

	Control of initial rent levels			Control of initial rent levels	Control of initial rent levels
	Free	Free	Free		
Poland	x			Yes.	Rent increases at more than 3% of the replacement value per year can only occur in justified case.
Portugal	x			Yes.	In the Affordable Rent Program (PAA), the rents are limited by law. General rents are increased with national price index, though a few units are not.
Romania	..	..	..	No.	
Russian Federation	x			No.	
Slovak Republic	x			No.	
Slovenia	x			No.	
Spain	x			No.	The rent can be freely determined by landlord and tenant; however, for a period of 5 years (or 7 years if the landlord is a company), rent increases cannot exceed the rise in the general price index.
Sweden			x	Yes.	Rent can be freely negotiated but shall not exceed rent of comparable units by too much (5 percent difference is considered reasonable). Rent increases must be collectively bargained.
Switzerland	x			Yes.	Rents can be freely negotiated but once the contract is binding, there exists a rent control regarding subsequent rent increases.
Turkey		x		Yes.	Rent increases with CPI.
United Kingdom	x			No.	Rent increases are only regulated in relation to periodic tenancies.
United States			x	Yes.	There are rent control and/or rent stabilisation regulations in a few major cities.

Notes: For Canada, Costa Rica, Cyprus, Denmark, Finland, France, Iceland, Israel, Japan, Korea, Luxembourg, Malta, Mexico, the Russian Federation, Spain, Switzerland and the United States, some information comes from the 2019 QuASH. Source: 2021 OECD Questionnaire on Social and Affordable Housing (QuASH).

Appendix 3 - OECD Lease features in the private rental sector

(Table PH6.1.2)

	Duration of rental contracts negotiable?	Typical minimum duration	Deposit (in equivalent of monthly rent)	Comment
Australia	Yes.		varies by state/territory	
Austria	Yes.	3 years	maximum 6 months, usually 3	
Belgium	Yes.	9 years or below 3 years	maximum 3 months	Duration is freely negotiable below 3 years.
Brazil	Yes.	..	3 months	
Bulgaria	No.		..	
Canada	Yes.	month to month	1 month	In most provinces, landlords and tenants are not required to sign a formal lease and many rental contracts are month to month.
Chile	Yes.	12 months	1 month	
Colombia	Yes.	12 months	not commonly used	The only guarantee that the landlord legally can demand from his tenant are for utilities at the time of the lease.
Costa Rica	No.	3 years	1 month	
Czech Republic	Yes.	12 months	maximum 6 months	
Denmark	No.	open-ended	3 months	Up to a maximum of 3 months' worth of security deposit and 3 months' worth of rent paid in advance.
Estonia	Yes.	..	maximum 3 months, usually 1-2	
Finland	Yes.	12 months	1 to 3 months	
France	No.	3 years	1 month (unfurnished), 2 months (furnished)	
Germany	No.	open-ended	3 months	
Greece	Yes.	3 years	No maximum	
Hungary	Yes.	..	maximum 3 months	
Iceland	Yes.	..	yes, but no detailed information available	

Ireland	Yes.	6 months	no legal maximum	Once a tenancy has lasted 6 months, a tenant has the right to reside in the dwellings for a further 5.5 years (i.e. total of 6 years). At the end of the 6-year period landlords can terminate the tenancy without reason. However, If a tenancy extends into year 7, the tenant accrues the right to stay for another 6 year tenancy. The Residential Tenancies Board recommend a deposit equal to no more than 1 month of rent.
Israel	Yes.	12 months	maximum 6 months	
Italy	No.	Duration of rent varies by type of lease: 3 + 2 years (agreed rent contract), 4 + 4 years (free rent contract), 1-18 months (transitional lease), 6-36 months (students rent)	maximum 3 months	
Japan	Yes.	..	yes, but no detailed information available	
Korea	No.	..	..	
Latvia	Yes.	..	No limit	
Lithuania	Yes.	..		..
Luxembourg	Yes.	mostly-open ended, but 12 months in case of fixed term	maximum 3 months	
Malta	Yes.	12 months	yes, but no detail information available	
	Duration of rental contracts negotiable?	**Typical minimum duration**	**Deposit (in equivalent of monthly rent)**	**Comment**
Mexico	Yes.	..	yes, but no information available	
Netherlands	Yes.	open-ended	No limit, but 3 months perceived as reasonable	Rental contracts for a determined duration exceeding five years do not automatically expire after this period and have to be terminated like a contract for an undetermined duration.

New Zealand	Yes.	..	4 weeks	Two main types of tenancy agreements: i) periodic tenancy (flexible, either party can end contract by giving notice) and ii) fixed-term tenancy (more secure; neither party can break agreement before end date without involving Tenancy Tribunal)
Norway	No.	3 years	maximum 6 months	
Poland	Yes.	6-12 months	3-12 months	Amount of the security deposit depends on the type of rental contract. In case of occasional renting, no more than 6-month rent; in case of institutional renting, no more than 3-month rent;
Portugal	No.	12 months	maximum 3 months	
Romania	Yes.	..	1 month	
Russian Federation	Yes.	..	..	
Slovak Republic	Yes.	..	yes, but no detail information available	
Slovenia	Yes.	..	yes, but no detail information available	
Spain	Yes.		yes, but no detail information available	The duration of rental contracts can be freely agreed, but the tenant can freely extend the contract during the first five years (or the first seven years if the landlord is a company)
Sweden	No.	open-ended	not commonly used	
Switzerland	Yes.	12 months	3 months	
Turkey	Yes.	..	yes, but no detail information available	
United Kingdom	Yes.	6 months	5-6 weeks	Landlords are not required to take a deposit. As of 1 June 2020, all deposits on new and renewed tenancies are capped at 5 weeks rent where the annual rent is less than £50,000, or 6 weeks' rent where the total annual rent is £50,000 or above.
United States	Yes.	12 months	usually 1-2 months (varies by state)	

Note: For the Czech Republic, Denmark, Latvia, Lithuania, New Zealand, Poland and Spain, some information comes from the 2019 QuASH. Source: 2021 OECD Questionnaire on Social and Affordable Housing (QuASH).

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