Measures to ease the rental market crisis

NSW Industry Workshop
## Market challenges

<table>
<thead>
<tr>
<th>Rental demand is strong and available homes are scarce</th>
</tr>
</thead>
<tbody>
<tr>
<td>The number of actively searching renters and applications per rental listing remains high.</td>
</tr>
<tr>
<td>In Sydney, rental vacancy rates are 1.65% - less than half the level seen before the pandemic.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rent prices are increasing rapidly and financial stress is high</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market conditions continue to put pressure on advertised rents – which increased 14.5% over the past year in Sydney.</td>
</tr>
<tr>
<td>Renters experience far higher rates of financial stress than homeowners – even before these large rent rises.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investor conditions remain challenged</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher interest rates have increased costs faster than yields for many investors.</td>
</tr>
<tr>
<td>Nevertheless, sales of rental properties have slowed and the rental stock in New South Wales is now growing at pre-pandemic rates.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Construction rates have slowed since the pandemic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uncertainty and costs have hampered high density development.</td>
</tr>
<tr>
<td>Slower building rates have led to 72,000 fewer dwellings being built in NSW since the pandemic.</td>
</tr>
<tr>
<td>Public housing has not increased to fill this deficit.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The location of planned development is concentrated and peripheral</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planned development in Sydney is concentrated in a small number of regions to the west and south-west of the city, far from existing residents and services.</td>
</tr>
</tbody>
</table>
### Key recommendations

<table>
<thead>
<tr>
<th>Improve housing utilisation and availability</th>
<th>Coordinate planning and incentivise effective development</th>
<th>Maintain incentives for property investment</th>
<th>Improve renter security of tenure</th>
<th>Ease renter financial pressures and improve suitability of homes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve use of existing properties and land through <strong>higher taxation on underused properties</strong> (e.g. vacant homes) and <strong>reduced taxation on property transactions</strong> (e.g. stamp duty), and unlock new development with new pathways for the development of government owned land.</td>
<td><strong>Develop coordinated planning processes</strong> between local and state governments which are <strong>transparent, ambitious and incentivise</strong> councils to facilitate <strong>fast and effective development</strong>. Increase support for social and affordable housing.</td>
<td><strong>Greater consumer protections</strong> for newly built dwellings. Consideration of the importance of investor incentives and the <strong>potential effects of regulation or rent limits</strong> for the provision of high-quality rental accommodation.</td>
<td><strong>Promote long-term tenancies, genuine rent-to-own options and improved strata governance</strong> for renters. Improve property management services for renters through a combination of technology, training and career development for managers.</td>
<td>Ease renter costs by <strong>increasing the energy efficiency</strong> of rental homes through <strong>higher minimum standards</strong> for new dwellings, and formal habitation inspections of existing rental properties.</td>
</tr>
</tbody>
</table>
On behalf of REA Group, I am proud to present this report that delivers industry-informed recommendations to address the critical issues within the New South Wales rental market.

REA is firmly committed to working closely with our customers, and it was our customers who asked us to help facilitate workshops across the country to bring together diverse industry voices and drive positive change.

This report was produced following our NSW Industry Workshop, which focused on identifying the most pressing issues impacting the rental market in the state, and importantly, establishing a series of informed solutions.

Participants came together with open minds and engaged in honest dialogue. It was encouraging to see alignment on many issues, despite being from such a broad spectrum of the industry.

We all know we need to increase supply, and finding the most efficient and effective ways to do so remains ripe for innovation and collaboration. Investment needs to be encouraged, not penalised, and setting the right regulatory landscape is essential.

We also need to address the current challenges in attracting and retaining property managers. This may involve innovation in technology, education and career development, which would result in better outcomes for both investors and renters.

The group put forward ideas such as introducing formal inspections, much like a roadworthy certificate for cars, that identify changes needed for habitability and suitability of existing rental properties. The inspections would ensure a property is fit for purpose.

Having these insights is crucial, but knowledge without action is of no use to anyone. We cannot afford to be passive at this critical time. REA will continue to engage with our customers, industry and government to work towards solutions that improve housing outcomes for all in NSW now, and well into the future.
Rental industry workshop information

Details
Friday 12 May 2023. 9am-12pm.
REA office, Sydney – Level 17, 309 Kent Street.

REA Group would like to thank each of the representatives from the NSW property sector for their advice, leadership and dedication to ensuring a rental market of the future that delivers for all members of the New South Wales community.

Workshop Objectives

- Unite a broad spectrum of the property sector to identify and prioritise the most prominent issues impacting the rental market in New South Wales
- Establish industry-led solutions to address the rental market crisis in New South Wales
- Create meaningful change for the sector through ongoing collaboration with industry and government

Participants

Industry Representatives

Michael Bishop  National Manager Policy & Strategy Planning, Stockland
Josh Carney  Head of Build to Rent (Multifamily) Operations, Salta Properties
Nick Georges  GM, Property Management LJ Hooker
Lachlan Malloch  Director, Office of the NSW Property Services Commissioner
Steve Mann  CEO, UDIA NSW
Tim McKibbon  CEO, REINSW
Emily Sim  CEO, Property Management Ray White Corporate
Leo Patterson Ross  Tenants’ Union of NSW
(Not present, contributed on a separate occasion)

REA Group

Kul Singh  Chief Customer Officer
Marini Gils  Commercial Growth and Industry Partnerships Director
Paul Ryan  Senior Economist
Sam Nokes  Industry Partnerships Manager
Ellana Katos  Senior Corporate Affairs Manager
Contents

- Development outlook
- Renter experiences
- Investor conditions
Development outlook
During the pandemic government stimulus boosted building, but predominantly for detached homes on the periphery of Sydney.

Economic uncertainty, resource usage by infrastructure projects and supply constraints hampered higher-density developments, which usually contribute significantly to rental supply.

As a result, 72,000 fewer dwellings have been built since the pandemic than pre-pandemic construction rates would have implied across the state.

Public housing, which in the past has contributed strongly to the construction of dwellings, has not increased since the pandemic.

Going forward, development conditions remain constrained by higher financing, materials and labour costs.

For a number of reasons, construction rates have slowed down since the onset of the pandemic.

During the pandemic government stimulus boosted building, but predominantly for detached homes on the periphery of Sydney.

Economic uncertainty, resource usage by infrastructure projects and supply constraints hampered higher-density developments, which usually contribute significantly to rental supply.

As a result, 72,000 fewer dwellings have been built since the pandemic than pre-pandemic construction rates would have implied across the state.

Public housing, which in the past has contributed strongly to the construction of dwellings, has not increased since the pandemic.

Going forward, development conditions remain constrained by higher financing, materials and labour costs.
Policy changes could unlock housing supply, by building more homes and better utilising existing homes

Government policy has started to recognise the need to enable more housing development. In New South Wales, state and federal tax changes (land tax, foreign withholding, depreciation rates), along with government partnerships, are aimed at encouraging build-to-rent projects to increase rental supply.

However, there remains a significant underutilisation of existing housing. 68% of homes in Sydney have a spare bedroom, and the majority of these are well-located, close to the CBD.

Large disincentives prevent more efficient uses of well-located parts of Sydney. Existing residents are discouraged from selling by stamp duty and pension eligibility costs, while new development is hampered by the costs and limitations of the zoning and planning system.

Planned construction in Sydney, based on approved dwellings, remains far further from the CBD than existing renters live, which suggests the profile of building is not well-matched to future needs.
New development is not evenly spread across Sydney. A few regions account for a disproportionate amount of planned homes. Furthermore, almost all of this planned development is concentrated in the west and southwest of the city.

This development pattern means homes are not being built where people most want to live: where prices are highest, close to the city. It also means the costs of providing services to new homes – schools, hospitals, public transport – are higher since these regions tend not to be as well served.

Small segments of Sydney are responsible for almost all planned development.

Conditions

New development is not evenly spread across Sydney. A few regions account for a disproportionate amount of planned homes.

Furthermore, almost all of this planned development is concentrated in the west and southwest of the city.

This development pattern means homes are not being built where people most want to live: where prices are highest, close to the city.

It also means the costs of providing services to new homes – schools, hospitals, public transport – are higher since these regions tend not to be as well served.
Costs and uncertainty for developers

**Issues**
- High and escalating construction material costs
- Constrained trade availability and high labour costs
- Propagation of financial stress between firms due to interlinkages within the construction industry
- Reduced confidence in capacity to deliver projects
- Demand affected by low consumer confidence in development quality
- Competition for resources among related projects (market housing, affordable housing, infrastructure)

**Solutions**
- Many of these issues relate to market and global macroeconomic conditions which are difficult to resolve
- Improvements to training and career development of tradespeople in the building industry would ensure a sustainable pipeline of trades for the industry
- Government risk-sharing agreements could facilitate large projects that are hampered by uncertainty
- Consumer confidence in new builds could be supported by enhancing design guide standards

Housing utilisation and availability

**Issues**
- Pipeline of development needs to be increased to meet demand over the short and long terms
- Vacant government land not available for development
- Infill development is difficult, which drives development outward
- Inefficient use of current housing stock: empty homes and inefficient matching of households to homes

**Solutions**
- Taxation of vacant or under-utilised properties to encourage their use (e.g. vacant property taxes and/or shift away from stamp duties to land taxes to encourage the most efficient use of land and homes)
- New pathways for the development of government-owned land
- Completion of NSW state infrastructure contribution reforms
Planning and government policy

**Issues**

- Development and planning approval process inhibits building: approval delays and associated costs are onerous
- Insufficient consistency in planning processes and requirements between councils, which limits broader suburban redevelopment and economies of scale for developers
- Lack of planning and policy coordination between levels of government to provide infrastructure and public transport where it is needed for development
- Community aversion to development (particularly social housing)
- Lack of incentives for affordable housing development in particular
- Risks of changes to taxation policy for large projects

**Solutions**

- A significant focus on solutions for the development outlook was on coordinated planning processes between and within local and state governments:
  - New zoning and planning systems
  - New precinct approaches to development that are agreed across levels of government
  - Councils to publish transparent summaries of what development they want to encourage
  - Rewards for councils that process applications quickly to enable consistent and efficient development
  - More planning resources, including more planners and better data and analytics infrastructure to speed up the development process, with funding potentially from development value capture and uncapping local rates
- Government support for affordable and social housing: financial support through schemes such as sponsored debt or equity, or through simplified (and preferential) planning arrangements
- Taxation changes and certainty for Build-to-Rent developments
- Government review into optimal rates of stamp duty for revenue, the effects on turnover, and benefits of refunds for homes bought to be renovated and sold
Renter experiences
Renters are finding current conditions extremely challenging

It is extremely difficult to find rental accommodation across New South Wales. In Sydney, rental vacancy rates are half the levels seen in early 2020 and are now well below 2% - a level where available rentals are considered very scarce.

Monthly advertised rents in Sydney have increased 14.5% over the past year. Typical advertised rents for houses have risen more than $100 per week since early in the pandemic, following modest increases over previous years.

Unit rents saw prices decrease early in the pandemic as demand for inner-city locations moderated. However, over the past year demand has forced advertised prices well above pre-pandemic levels.
Current competition for rental properties suggests that the difficulty finding rental accommodation and strong rent increases are likely to continue for some time.

There remains substantially more potential renters competing for each rental listing than before the pandemic in New South Wales.

The number of rental applications per listing has decreased significantly in regional New South Wales, but in Sydney remains very high – above levels seen in 2022.

Higher interest rates have limited first-home buyers’ prospects of moving out of the rental market by purchasing a home. Loans to first-home buyers have already fallen back to pre-pandemic levels. This will contribute to continued high competition for rentals.
Current rent increases, on top of strong general price inflation, is putting significant financial pressure on renting households. These financial pressures will affect more households as leases update to reflect increases in market rents. New leases are now priced at an almost $90/week premium to current leases in Sydney, compared with $10 prior to the pandemic.

Renters already experience significantly higher rates of financial stress than other households. The rate of Commonwealth Rent Assistance – the payment to private renters receiving social support payments – has not kept up with rents paid by low-income earners. The 15% increase to the maximum rate announced in the 2023 Federal Budget still leaves support well below market rents for many of the 1.35 million Australian households receiving the supplement.
Financial pressures for renters

<table>
<thead>
<tr>
<th>Issues</th>
<th>Solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Rents increasing rapidly</td>
<td>• Continue to support incomes of the most vulnerable through social support payments or utility support</td>
</tr>
<tr>
<td>• Low availability of rentals, in particular a lack of affordable rentals</td>
<td>• Reduce costs for renters by improving energy efficiency of rental properties. This can be encouraged by skills development through vocational training for energy performance</td>
</tr>
<tr>
<td>• Rent bidding exacerbating financial pressures</td>
<td>• Fair statutory rental tenure and lease terms that provide flexibility and certainty on changes to costs for both tenants and landlords</td>
</tr>
<tr>
<td>• High demand, including from catch-up migration</td>
<td></td>
</tr>
<tr>
<td>• High financial barriers to entry for first-home buyers reducing their ability to transition into owning property</td>
<td></td>
</tr>
</tbody>
</table>

Suitability of rental accommodation

<table>
<thead>
<tr>
<th>Issues</th>
<th>Solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Housing stock sometimes not matched to community requirements and preferences</td>
<td>• Improve the suitability and quality of newly-built homes through:</td>
</tr>
<tr>
<td>• Poor condition of many rental properties</td>
<td>o connecting developers to market research on renter preferences</td>
</tr>
<tr>
<td>• Renters lack the ability to personalise their spaces</td>
<td>o reforms to design guides</td>
</tr>
<tr>
<td>• Few available pet-friendly rentals</td>
<td>• Improve the suitability and quality of existing homes by:</td>
</tr>
<tr>
<td></td>
<td>o improved minimum standards for rental accommodation</td>
</tr>
<tr>
<td></td>
<td>o new expert habitability inspections that identify changes needed to be suitable rental properties</td>
</tr>
</tbody>
</table>
## Low tenure security for renters

<table>
<thead>
<tr>
<th>Issues</th>
<th>Solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Long-term leases and flexible tenure arrangements are rare</td>
<td>- Improvements to rental application processes to streamline applications and improve information on rental histories</td>
</tr>
<tr>
<td>- Concerns about short-notice evictions</td>
<td>- Promotion of genuine rent-to-own options in the market</td>
</tr>
<tr>
<td>- Lack of professional property management</td>
<td>- Attract and retain property management talent by uplifting professionalism and career development opportunities in the industry</td>
</tr>
<tr>
<td>- Rental history and suitability often given little regard in new rental applications processes</td>
<td>- Consider incentives for long-term rental leases to benefit renters</td>
</tr>
<tr>
<td></td>
<td>- Improved strata governance arrangements to empower renters</td>
</tr>
</tbody>
</table>
Investor conditions
Conditions for investors remain challenged.

Throughout the pandemic, uncertainty about economic conditions and demand for rental properties kept many investors out of the property market.

Lately, the fastest interest rate increases on record have limited the appeal of many investment opportunities, and the number of new investor loans in New South Wales has fallen back to levels seen early in the pandemic.

However, investor lending has remained relatively resilient. Investor lending has returned to comprising around a third of new credit, after falling to approximately a quarter through the pandemic.
Investor activity in the New South Wales housing market has returned to pre-pandemic levels. Sales of investment properties, which increased significantly throughout the pandemic following increased uncertainty, have now moderated. As a result, the number of rental properties in the market is growing at pre-pandemic rates again.

This is despite interest rate increases over 2022 and 2023 increasing investor borrowing costs at a far faster rate than rental yields have improved. This suggests there remains long-term confidence in property investment as an asset class.
Financial concerns

Issues
- Low yields compared with other investment classes
- Economic, financial and regulatory uncertainty
- Interest rate risks
- Scarcity of property managers which increases management costs

Solutions
- An assessment of the costs and benefits of prudential settings that lead to higher interest rates paid by investors
- Allow rents to adjust to reflect market conditions and maintain investment incentives to provide high-quality rental accommodation

Taxation and regulation

Issues
- Onerous property taxation settings at the state and territory level
- Unintended consequences from rental regulation reducing incentives for property investment
- The property ownership model lacking diversity and limiting entrants into the sector

Solutions
- Greater consumer protections for purchasing new homes (e.g. the treatment of deposits and warranty periods for new builds)
- Avoid limits on rents that may restrict investment in the supply of new housing
- Consider incentives for multi-property investors