Property Council of Australia ABN 13 00847 4422
A Level 7, 50 Carrington Street, Sydney NSW 2000
T +61 2 9033 1900
E info@propertycouncil.com.au
W propertycouncil.com.au
@propertycouncil

1 September 2023

Committee Secretary
Senate Standing Committees on Community Affairs
PO Box 6100
Parliament House
Canberra ACT 2600

By email: community.affairs.sen@aph.gov.au

Dear Committee Secretary

Inquiry into the worsening rental crisis in Australia

Thank you for the opportunity to make a submission to the Senate inquiry into the worsening rental crisis in Australia.

The Property Council of Australia champions the industry that employs 1.4 million Australians and shapes the future of our communities and cities. Property Council members invest in, design, build and manage places that matter to Australians: our homes, retirement villages, shopping centres, office buildings, industrial areas, education, research and health precincts, tourism, and hospitality venues and more.

As the Committee is aware, the housing and rental crisis in Australia is real. Its impacts will continue to be felt in years to come.

The Property Council's concerns regarding the lack of rental supply were confirmed in the 2023 Intergenerational Report released by the Treasurer. That report projects that our population will reach 40.5 million in 2062–63. This number frames our future housing supply challenge. Australia will have a larger population, with more older Australians, requiring appropriate and affordable housing, and younger Australians renting longer and purchasing property later in life by 2062-2063.

To address this challenge, state and federal governments must avoid blunt policy measures that disincentivise investment in housing, such as rent pricing controls, whilst embracing more and diverse housing and rental options. This includes traditional rentals and high-community benefit housing types including Purpose- Built Student Accommodation (PSBA), Built-to-Rent (BTR) housing, as well as options for older Australians in retirement living communities. Supporting the growth of these housing types increases housing supply which, in turn, reduces the pressure on rental and traditional housing markets.

The Property Council has consistently called for more homes and a diverse housing mix to meet the existing and emerging housing needs of all Australians. Pleasingly, National Cabinet's recently announced housing package includes a national commitment to 1.2 million new well-located homes, a New Home Bonus, Housing Support Program, National Planning Reform Blueprint and a Better Deal for Renters. We welcome this package, while noting that further consultation is critical so that the package's positive intention is met through effective implementation.

The Property Council's position is supported by the Grattan Institute's research, which suggests that the extra 200,000 homes at the heart of National Cabinet's announcement could reduce rents by 4 per cent from what they otherwise would have been. This will save renters $8 billion over the first five years.

Rent controls will dampen investment and drive rental prices upwards

Everyone deserves an affordable home, whether it be to rent or own. National Cabinet's announcement sensibly omitted reference to imposing rent controls, such as freezes and caps, as these policies blunt the incentives necessary to drive new supply.

In their second 2023 white paper *'Private Renting in Australia – A Broken System',* PEXA and Longview outline the number of significant challenges that come with owning an investment property, including cost of maintenance and repair, real estate agency challenges, renter risks and impact of non-payment on cashflows, regulatory complexity, and the variable returns that owning a rental property provide. On the evidence, they find that many property investors – especially those who own units rather than houses – would have achieved better returns from superannuation than from their property.

Rent controls do not work. Where they have been implemented, globally and in Australia, they have failed.

Rent controls – in the form of caps or further restrictions – will exacerbate the already significant challenges for the 2.2 million Australians who have already invested in property. Such measures discourage direct investment into housing at a time when any investment in property comes with a larger risk due to escalating cost bases and higher interest rates.

In 2018, research from the Brookings Institute shows that rent controls can:

- reduce number of rental properties as landlords sell to owner occupants so that they can earn the market price for their real estate; and
- lead to disrepair of the rental housing stock as landlords may not invest in maintenance because they cannot recoup their investment by raising rents.

In the ACT, the only Australian market with a form of rent cap, rents have increased by 14 per cent since the laws came into effect in 2019, which is significantly higher than the national average of 4.6 per cent and Melbourne's 2.3 per cent.

Opportunities to improve rental affordability

Urgently boosting the supply of new homes is critical to support rental affordability. The Property Council supports the passage of the *Housing Legislative Package (No. 2)* by the Senate, without delay.

This passage of this legislation is urgently needed to commence the pipeline of additional social and key worker housing delivery for a growing and ageing population. Secondly, the establishment of a National Housing Supply and Affordability Council will provide the proper governance and accountability of all state and territory housing delivery for social, key worker and at-market rentals.

Every day by which the *Housing Legislative Package (No. 2)* is held back, is another day by which the delivery of much-needed new homes is delayed. Although, in time, we encourage the expansion of the Housing Australia Future Fund's capital investment from the proposed $10 billion to $20 billion, this is no reason to delay or oppose the Housing Legislative Package (No. 2). The Government, with the support of the Parliament, needs to be bold and take decisive action to deliver a national priority.

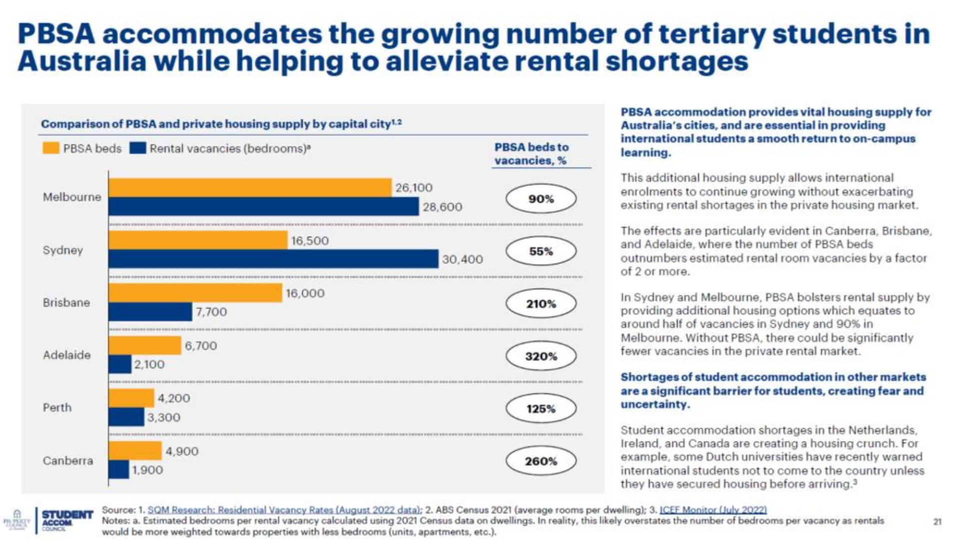
Recommendation: The Senate must pass the *Housing Legislative Package (No. 2)* in its entirety and without delay.

Address the investment barriers for dedicated student housing

Purpose-Built Student Accommodation (PBSA) is housing specifically designed and managed by private, commercial developers and operators. It differs from other rental options like rooming houses and private residential premises. PBSA buildings cater to students by providing purpose-built facilities located near universities and inner-city regions, offering scalability in bed capacity compared to residential colleges.

In 2022, the Student Accommodation Council produced research that shows that the PBSA sector comprises 200 buildings across the country, housing more than 76,000 students every year (which does not include university colleges). It is critical that the PBSA is enabled to deliver more dedicated student housing.

Students living in PBSA are not competing for beds with the general rental market. Without PBSA buildings, there would be around 800,000 extra students competing in the private rental market today. In NSW and Brisbane, without PBSA, an estimated 16,500 additional renters would be competing for private rental properties in each jurisdiction. In Melbourne, that figure is 30,000.



It is important that we have a strong pipeline of new PBSA assets in Australia to ensure our vital international education sector can continue to grow, and our CBD's are given the best opportunity to revitalise.

Recommendation: Work with the PBSA sector to remove the barriers to investment in this asset class. Expedited planning approvals, removing taxes like foreign investor fees and planning systems that prioritise PBSA close to places of study should all be a top priority for policy makers, having a direct positive impact on relieving greater pressure on an already-tight rental market.

Prioritise housing options for older Australians

As revealed in the 2023 Intergenerational Report, there are 4.6 million people around Australia aged over 65 today. This number will grow to 7.1 million by 2043.

With this in mind, retirement communities play an important role for older Australians to access affordable housing. The 2022 PwC/Property Council Retirement Census[1] highlights that retirement communities are providing units that are, on average, 48 per cent cheaper than the median house price in the same postcode.

Often retirement villages are confused with aged care. They are not the same thing. Retirement communities offer a unique housing option that enhances wellbeing and lifespan for older Australians, and delays – and can actually prevent - entry into aged care.

Independent data shows that residents in retirement villages are on average happier, healthier (both mentally and physically) and are more socially connected and active.

Importantly for the aged care and health sectors, research helps inform industry and government that residents in retirement communities have reduced interactions with GPs and hospitals and delayed entry into aged care. This results in significant efficiencies for governments – almost $3.5 billion per annum – thus reducing pressure on the aged care and health sectors.

As a result, there is great potential to increase these benefits to governments if the retirement industry is supported to evolve and grow to meet the increasing needs of Australia's ageing population. Some of these challenges have been outlined in the recently released Intergenerational Report.

The retirement living sector is also able to support women over the age of 55, who are the fastest growing cohort of homeless Australians.

The retirement living sector is at a pivotal juncture, evolving from a property-focused sector to one that focuses on health, wellbeing and care. It is critical that Government understands these opportunities as it plans for the significant increase of older Australians and aims to keep the aged care sector operational.

When older Australians make the decision to 'right-size' into a retirement community that offers safer and more supported living environments, it brings with it the added benefit of freeing up traditional housing stock for young people, couples and growing families.

Recommendations:

Through the national cabinet, work with states and territories to establish retirement living as part of the housing solution and reform planning requirements to increase land availability, streamline and expedite processes and elevate age-friendly communities to state importance in planning schemes.

Support the development of purpose-built rentals

Australia's demographics and needs are changing and planning and delivering a diversity of housing options is critical. BTR projects are purpose built and designed long-term residential rental accommodation which is predominantly owned, managed and operated by an institutional investor for a long-term investment period.

The emerging BTR sector is a component of the solution, in offering diverse housing at scale and at velocity, to alleviate Australia's housing crisis. Key benefits of BTR include that it:

- is a sustainable long-term delivery model, not a short-term cyclical response;
- provides improvements to the management and quality of available rentals;
- increases housing supply in desirable inner-middle ring locations, leveraging off private and public infrastructure including amenity and public transport; and
- accelerates housing supply due to the removal of pre-sale requirements – providing supply into the market more rapidly.

BTR projects typically offer long-term tenancies, providing security of tenure to renters and a typically younger cohort. Without the risk of eviction or the need to vacate a tenancy as frequently, the cost of rental bonds is reduced as is the often-significant cost of moving home – money that can otherwise be saved and put towards a home deposit.

BTR has the potential to increase housing supply at scale, at a time when there is an acute shortage of new rentals. Incentivizing the sector is likely to result in the delivery of tens of thousands of new homes across Australia, creating an institutional asset class and employing hundreds of thousands of jobs in both the delivery and operations phase, whilst at the same time attracting billions in new investment.

The Property Council welcomed the Government's budget announcement to reduce the managed investment trust withholding tax rate on BTR projects from 30 per cent to 15 per cent. This measure could encourage the delivery of an additional 150,000 new rental apartments over 10 years.

Recommendation: Through national cabinet, work with the states and territories to remove barriers to investment in BTR, including foreign investor surcharges, treatment under land tax regimes and design requirements.

We welcome the chance to meet and discuss our views in more detail. Please do not hesitate to coordinate with Sahil Prasad, Acting National Policy Director by email at sprasad@propertycouncil.com.au or 0401 954 966 to arrange a meeting.

Yours faithfully

Matthew Kandelaars
Group Executive, Policy & Advocacy