Residential Tenancies and Rooming Accommodation and Other Legislation Amendment Bill 2024

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Submission to the Queensland Parliamentary Committee on Housing in Queensland

by Dr Colin John Millar

The importance of individual property investors in a healthy, thriving rental market is frequently overlooked. Some people suggest that investors are wealthy individuals hoarding large numbers of properties. This is simply untrue. The research shows that mums and dads (with less than two rentals) are the most common investors and that they utilise property investment to help secure their future. They also provide an invaluable service to the community – supplying housing for tenants. Governments and their state-funded housing simply cannot do this job alone.

Asking rents are rising almost everywhere because there are not enough vacant rental properties to meet the demand. Property investors create rental supply, but rather than being rewarded, they are discouraged by falling prices, low rental yields and ever-increasing restrictions on landlord rights. Why on earth would anyone invest in residential property when the rental income doesn't cover holding costs, and falling prices may lead to an eventual capital loss? Even though that's already a lose-lose scenario for many investors, the rights of landlords are constantly being eroded while those of tenants are strengthened. The result is that fewer properties are available for rent because investors switch to other assets such as commercial, shares or even crypto.

Punishing landlords is not the answer

While it may be politically expedient to blame investors for rapidly rising rents, the facts are that we are facing a national shortage of rental accommodation. We are not building enough new housing because of rising costs and material shortages, yet housing demand is escalating at the same time. Based on current population growth figures, we need to accommodate around 150,000 new rental households this year, but right now there are less than 50,000 advertised rental vacancies in the whole of Australia. Rental vacancy rates are at critically low levels in every State and Territory and falling further. What are the only possible solutions to this issue? Our governments could engage in huge public housing construction programs, but all we have so far is the National Housing Accord Scheme announced in the last federal budget. The accord "will aim to include the target of building one million new homes by the end of 2029", but doesn't actually undertake to build any of them.

Given such double-speak, it is unlikely that government action will resolve the rental crisis, leaving the provision of more rental accommodation in the hands of private investors. This means that governments need to encourage more private investment in housing, not less. Landlord bashing may be politically popular, but it does nothing to resolve the growing shortage of rental properties and in the meantime, asking rents will keep soaring. (From Michael Yardley Report https://propertyupdate.com.au/why-we-need-more-property-investors/)

Without investors, tenants suffer

Property investors and the private rental market are essential to ensuring tenants can find appropriate housing. Without investors, tenants suffer through higher rents and fewer properties. The more property investors there are in the market, the more available rental stock there will be, the less competition tenants will face and the easier it will be to secure housing. The last year has been challenging for the Queensland rental market, which has faced low levels of investor activity, a shortage of rental stock, record low vacancy rates and high demand from tenants. Freeing up and incentivising investors to increase property supply is proposed as the answer to Australia's rental crisis. Private investors account for around 84% of all Australia's rental accommodation. Consider the following strategies.

1. Reducing Financial Regulations for Investors

APRA was turning investors into "scapegoats for poor practices in the financial sector". Investors face far more scrutiny when applying for loans than owner-occupiers. In addition, they are asked to pay interest rates well above those applied to owner-occupiers – despite being historically at less risk of default. The fact that the cap applied to interest-only loans was another impost. Opening up and lending more to investors would be hugely beneficial in stimulating rental supply.

To encourage more investors to add to the rental supply and to encourage existing investors to keep their current properties in the rental pool, we recommend:

- Stamp duty - Zero stamp duty for a period of time or at least make it equal to owner occupied property. Stamp duty is not only a barrier to entry to the market, it is also a barrier to mobility. In addition to adjusting stamp duty for investors, stamp duty for seniors should also be removed to encourage downsizing, which would free up suitable properties for families to rent or purchase.
- Tax implications when selling investment properties
- Lending - Reduce investment loan rates to at least the same as owner occupied property loans
- Review and reduce the lending restrictions on investors. . Higher interest rates on loans for investment properties and more restrictions on loan approvals and typically higher deposits required for investors
- Land tax - we propose that if a property is under a certain category and rented (with a particular formula to be tested and applied) then it shouldn't apply to land tax calculation. Plus, stop the Labour government from enacting their double land tax grab policy in the future (has been shelved at this point in time but not entirely ruled out)
- Rates - zero rates for a period of time or at least match Owner Occupiers (OO). Why does it cost more to empty bins of rental than OO? Short answer is it doesn't but the Council treats investors as a cash grab opportunity.
- Government taxes, charges and regulatory costs can add approximately 22% to the cost of new housing (PCA).

Currently, investors are penalised on multiple fronts that makes considering purchasing, keeping or adding an investment property to a portfolio more complicated. Here are the areas that investors are penalised:

- Simply increasing rents to cover the above costs isn't a viable option as the current cost of living increases and is putting pressure on renters while simultaneously the lack of available rentals has seen price wars between renters drive up prices.
- Interestingly, new exclusive industry research (https://www.pipa.asn.au/inflation-outstrips-rental-growth-for-more-than-a-decade/) has found that rents have grown at only half the rate of inflation for more than a decade ¬– even after allowing for the past year's rent increases and the current inflation spikes.
- Governments deserted the supply of affordable rental properties years ago, expecting private investors to simply take over this responsibility, however more and more investors

are deciding that it's just not worth it. It is clear that investors have had enough of being the cash cow for all levels of government.

- There is no incentive for people to invest in property other than the possibility of rental income but when so many other factors are diminishing that amount of possible rental return, people looking to grow their wealth are turning to other options.

2. <u>Construction and depreciation incentives needed</u>

Consider construction grants for investors to ensure more stock is available for rental and increasing the depreciation benefits available would help boost rental property numbers. Construction costs have risen in the past two years and are forecast to increase a further 4.3% to October this year – an impost amplified by interest rate increases Rising construction costs are starting to bite. Data released in January from the ABS shows an annual fall in dwelling commencements. Incentivising new construction through grants has provide fruitful in the past – but they must be extended to include investors as well as new homebuyers.

3. <u>Depreciation Benefits</u>

Reinstated and improved depreciation benefits could also encourage investors not to put money elsewhere, being a low-impact way to help more people own and run an investment property. Accelerated depreciation or instant asset write-offs would help immensely. The government must also reinstate some of the deductions for second hand plant and equipment assets too.

4. <u>Systemic erosion of landlords' rights' a problem</u>

The tide of regulation favouring tenants over landlords should also be turned. With potentially 269,000 dwellings lost due to investors selling out and owner-occupiers buying. Property Investment Professionals of Australia research found 6.7% of investors sold at least one property over the past two years, and 65% were bought by owner-occupiers. This exodus of investors has been driven in large part by the systematic erosion of landlords' rights via changes to tenancy legislation. There has also been onerous changes around the ability to end tenancies and the tenant's right to make structural changes to a property. These rules can substantially impact the financial wellbeing of investors which directly disincentivises investor participation in the market and causes fewer rentals.

5. <u>Decentralisation</u>

The decentralisation that Australia experienced during the pandemic could also be encouraged to continue, with signs that some people were beginning to move back to the major cities. A program of incentivising people to continue engaging with the regions would be a win-win. It makes regional living more appealing for tenants seeking cheaper, more easily available rentals, while also stimulating these non-capital city economies. The same attention needs to be given to city-fringe suburbs. The fringes are where developable land is plentiful and affordable rental availability is more abundant. Town planning changes, improved commercial hubs, and investment in transport would deliver enormous benefits.

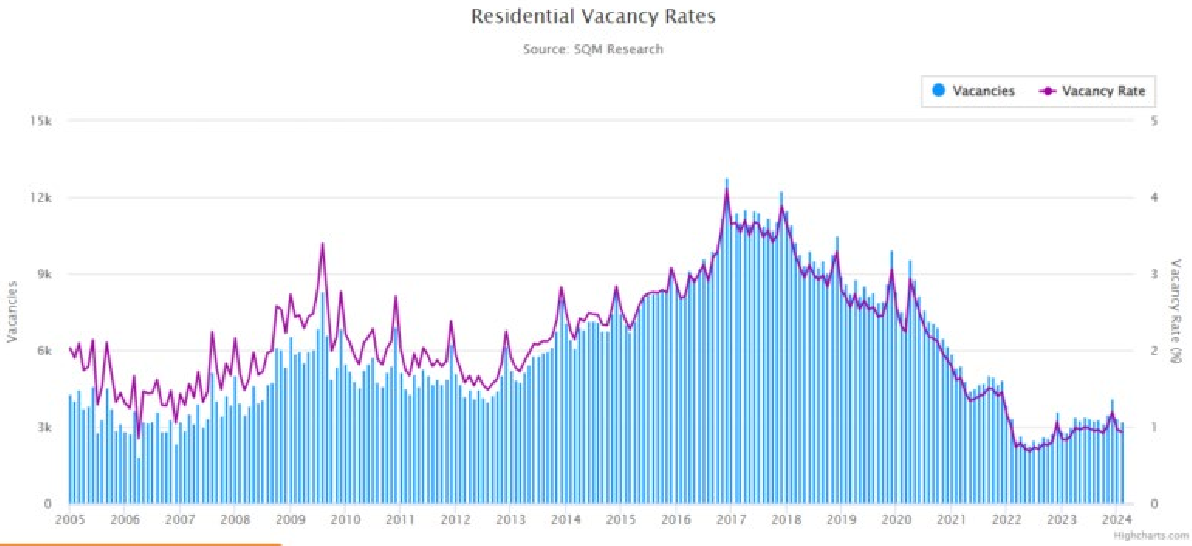
Brisbane's Rental Market Remains Exceptionally Tight

The Brisbane rental markets have commenced 2024 with more tough results for tenants with generally higher rents and continuing near record-low vacancy rates for both houses and units

Brisbane's vacancy rates for houses is 0.9% with rents rising 9.3% over the last year, and Brisbane's vacancy rates for units is 1.0% with rents rising 24.8% over the last year.

RESIDENTIAL VACANCY RATES

CITY: BRISBANE

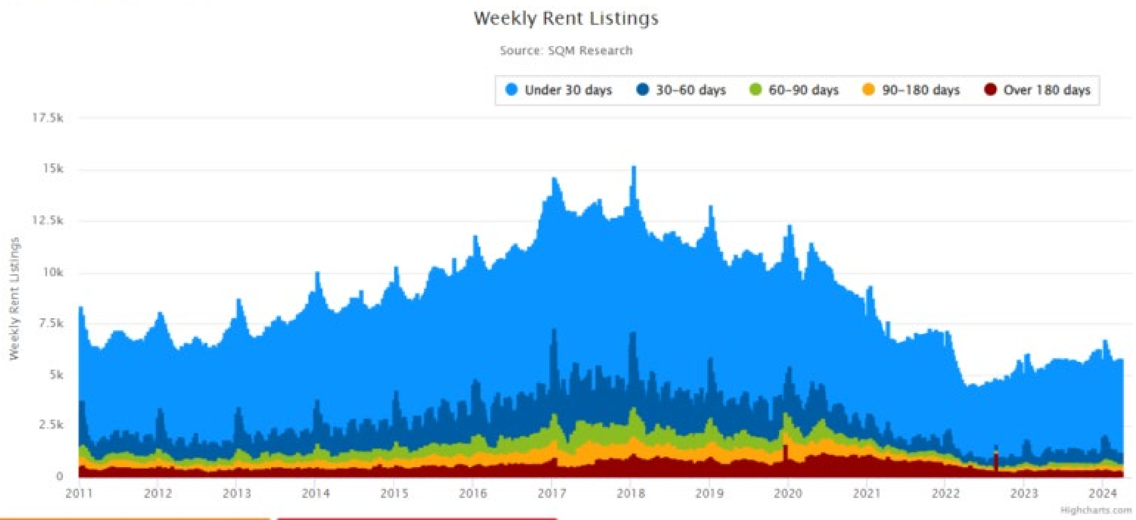


Source: [SQM Research]

Like everywhere else in the country, Brisbane's rental market is in crisis. The city has seen significant investment in recent years, and many people have moved to Brisbane to take advantage of job opportunities and high quality of life. But a migration surge has led to an increased demand for rental properties, which has kept the vacancy rate low. While the current vacancy rate in Brisbane may be good news for landlords, it only serves to exacerbate the city's already pressurised rental market with renters increasingly struggling to look for affordable housing.

WEEKLY RENT LISTINGS

CITY: BRISBANE



Source: [SQM Research]

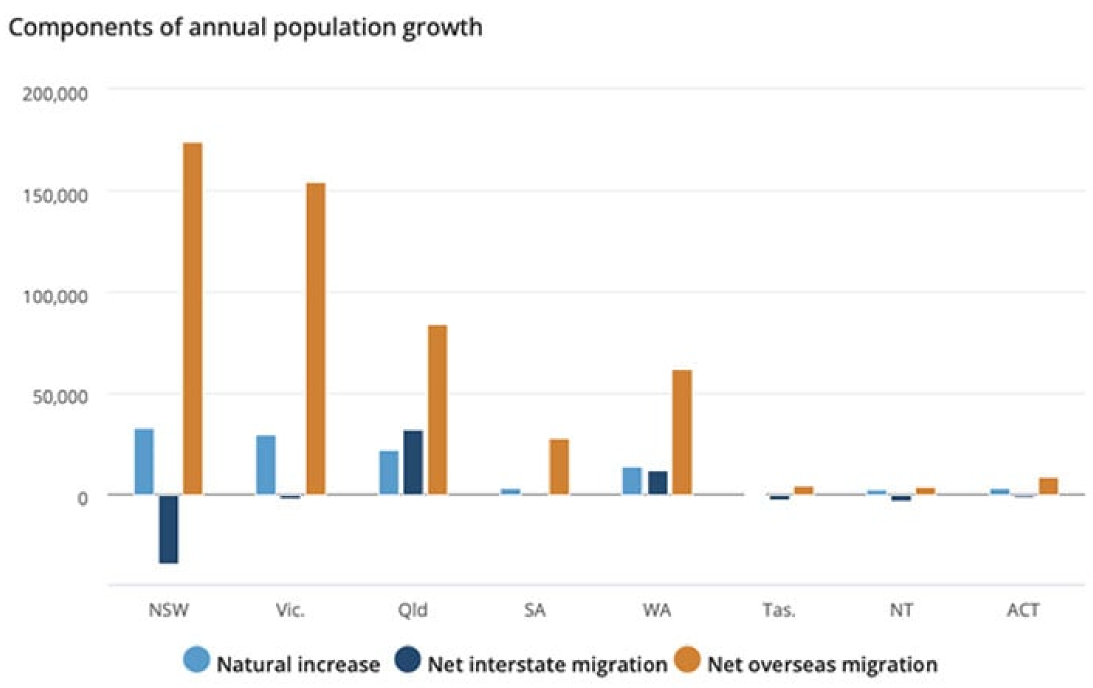
Brisbane's migration and population growth vs. property prices

Brisbane and Queensland can thank a huge influx of internal migrants for the robustness of their property markets – between the pandemic, lockdowns, and a surging property market many Australians, particularly from Victoria and NSW, flocked northwards to our Sunshine State in search of more affordable property in lifestyle suburbs. And the lifestyle move is one that still holds true today, having picked up pace throughout 2023. Popular areas of the Gold Coast and Sunshine Coast have enjoyed strong demand considering the increased flexibility of being able to work from home and commuting to the big smoke less frequently. At the same time property investor activity has been strong, particularly for houses, not only coming from locals but from interstate investors who see a strong upside in Brisbane property prices as well as favourable rental returns.

Of course, there is not one Queensland property market, nor one south-east Queensland property market, and different locations are performing differently and are likely to continue to do so.

Queensland recorded a population growth rate of 2.6% in the 12 months to 30 June 2023, above the national average (2.4%) and third highest among all states and territories - behind Western Australia's 3.1% increase and Victoria's 2.7% increase over the same period, according to the latest ABS data.

What sets Queensland apart from the rest, though, is that while the volume of net overseas migration dominates figures (as it does elsewhere in other states) Queensland's volume of net interstate migration is significantly higher and made the largest contribution to population growth in Queensland in the 12 months to June 2023



Source: ABS data

And there is more forecasted population growth on the horizon. Federal government forecasts suggest that Queensland's population is expected to grow by more than 16% by the time Brisbane hosts the Olympic Games in 2032.

And the population spread in Australia's most decentralised state is tipped to sway towards the city, with most Queenslanders expected to live in Greater Brisbane by the time the Olympic flame is lit at the Gabba. Greater Brisbane is expected to grow faster than the rest of Queensland, with a rate of 1.9% projected for the capital in 2022-23, compared to 1.4% for the rest of the state. That means that Queensland's population is set to boom in the coming decades, from the current 5.4 million people to as much as 8.27 million by 2046.

It seems that freestanding Brisbane houses within 5-7 km of the CBD or in good school catchment zones have grown in value particularly strongly.

Additionally, the expert consensus is that strong population growth and tight supply will continue to push property prices upwards as we move through this next stage of the property cycle.

Here are some of the most recent expert forecasts to take note of:

- ANZ forecasts a 9-10% property price rise in Brisbane in 2024.
- CBA forecasts a 6% property price rise in Brisbane in 2024.
- NAB forecasts a 6.5% property price rise in Brisbane in 2024.
- Westpac forecasts an 8% property price rise in Brisbane in 2024.

Stop penalising and instead incentivise investors to provide more rentals. Here is how it helps:

More investors = more rental properties. It's a very simple equation. Anything to support residential property investors to add more rental stock to the market supports the rental and housing crisis because above all the crisis is here because of a lack of supply.

When we look at who provides the majority of rental accommodation across the country it is private investors making up 90% of the properties available to rent. These are mainly mum and dad investors looking for a way to build their wealth and be able to retire without relying on the government. By incentivising (and not disincentivizing) those looking to invest in residential properties or making others aware or consider the possibility of becoming an investor, the region can fast-track the number of rental properties available and keep more homes available for rent rather than seeing a vast majority of them go to owner-occupiers.

The challenges faced:

Not only are new investment loans down but investors are leading the exit of the property market with interest rate rises and increasing regulations making investments appear too hard to start or maintain, not worth the effort and an easier option is to sell out. Where two in three home sales are going on the market from investors, only ⅓ return to the market as investment/ rental stock with more owner occupiers buying up previously rented homes and pushing renters out.

Impact on Renters

The rental crisis is obviously impacting those looking for rentals, but it is also in turn impacting businesses with the number of job vacancy numbers exceeding available rental supply. People are leaving the region or unable to move to the region for work because there's no where to live and so we need to correct this imbalance quickly in order to preserve our economy and community.

Not only can property investors support the economy by providing housing for workers, but it is also necessary to reduce the burden on the government for Australians who retire without enough money to support themselves. With an ageing population, and many retiring on less money it is beneficial to have more people generate wealth through property, particularly through self-managed super funds that both supports retirement and the needs of the community now. It is a holistic and long- term solution.

What we are looking at with adding incentives and removing disincentives for investors is not a matter of interfering with the market, rather it is supporting the market in a way that adds to supply and achieves the right outcome for the community. Giving incentives to first home buyers might help a few who are already looking to buy a property get in sooner, but it doesn't add to the housing supply. By incentivising investors you add more supply and more housing and also support more people to financially support themselves into retirement.

What's more frustrating is that despite it being fairly obvious that investors are needed, investors aren't even included in the government's discussions about how to resolve the housing crisis despite providing approximately 90% of rental housing. The Premier's summit to address Queensland's housing crisis was held in October 2022 without representatives of private landlords, who make up most of the state's rental market.

What needs to be done:

Firstly, the government and the community needs to recognise that property investors aren't greedy, rich people looking to swindle others from their cash. Instead, people should recognise that property investors are a major part of the solution to the rental crisis we currently face and the solution to our economic future. We certainly cannot rely on the government to provide all the required housing because they have never been able to deliver this and have been failing to take action on real solutions for decades despite all the warnings and recommendations from industry experts.

Secondly, incentives need to be provided to property investors to encourage them to purchase more residential property to add to the rental pool, or at the least the penalties and disincentives are to be removed.

Looking ahead

Moving forward, we need to ensure the outcomes of the upcoming Residential Tenancies Act review are fair and equitable for all parties, so that property investment isn't discouraged and there is enough available housing stock in the private rental market to keep up with tenant demand.

Video/Link/Resources

https://thenewdaily.com.au/finance/2022/10/17/alan-kohler-labor-policies/?fbclid=IwAR1eBjKGE7AXpBH1aCxVUbYSpftC-O5LA93g5CfGnlAdZzq5Kt8KNE8iMvQ

https://www.apimagazine.com.au/news/article/what-do-interest-rate-hikes-mean-for-property-prices?ce_code=AXqDHEd02khqqBVGzBWT4EiJuNlbgc4&utm_source=api+newsletter&utm_medium=email&utm_campaign=api+newsletter&utm_content=2022-08-04

https://www.corelogic.com.au/news-research/news/2022/unpacking-the-2022-23-federal-budget,-the-housing-accord-and-implications-for-the-residential-sector?utm_medium=email&utm_source=newsletter&utm_campaign=20221031_propertypulse

https://www.realestate.com.au/news/key-housing-groups-bizarrely-excluded-from-queenslands-housing-crisis-summit/

https://www.apimagazine.com.au/news/article/rental-crisis-sets-the-scene-for-growth-of-build-to-rent?ce_code=AXqDHEd02khqqBVGzBWT4EiJuNlbgc4&utm_source=api+newsletter&utm_medium=email&utm_campaign=api+newsletter&utm_content=2022-08-04

Rental growth not with inflation (supporting argument) https://www.pipa.asn.au/inflation-outstrips-rental-growth-for-more-than-a-decade/

Why inflation matters to renters https://www.nine.com.au/property/news/why-the-inflation-that-is-causing-rate-rises-matters-for-aussie-renters/1a553a46-fcd5-4b89-94af-d225b77ff10a

https://www.realestate.com.au/news/key-housing-groups-bizarrely-excluded-from-queenslands-housing-crisis-summit/

https://www.realestate.com.au/news/call-for-emergency-powers-for-qld-to-tackle-worsening-housing-crisis/?rsf=syn:news:nca:cm:socref

https://www.pipa.asn.au/queensland-rental-supply-plummets-30-in-two-years-as-investors-desert-market-pipa-investor-survey/

https://www.apimagazine.com.au/news/article/what-do-interest-rate-hikes-mean-for-property-prices?ce_code=AXqDHEd02khqqBVGzBWT4EiJuNlbgc4&utm_source=api+newsletter&utm_medium=email&utm_campaign=api+newsletter&utm_content=2022-08-04

https://www.propertyology.com.au/should-you-even-bother-with-queensland-relocating-jobs-real-estate/