Urban Development Institute of Australia
WESTERN AUSTRALIA

UDIA WA Policy Priorities 2021
Key Priority Area

Fixing the rental crisis

SUMMARY

UDIA recently launched our *2021 Policy Priorities* wherein we highlight the impacts of the current rental crisis. This document looks into this in more detail providing in-depth information and key actions for how we can address and fix this issue.

UDIA congratulates the McGowan Government for the way it has successfully managed and avoided the potentially devastating health and economic impacts of COVID-19. Whilst this success provides us with an enviable platform for long-term growth, it has also brought new challenges.

Long-term decline in property investors has reduced Perth's supply of rental homes, which coupled with an increase in population throughout 2020 as residents have returned from interstate and overseas has driven the rental vacancy rate to less than 1%. With the rental market at full capacity, price and availability pressures will severely undermine WA's opportunities to attract highly skilled workers to support the growth and diversification of our economy.

As well as jeopardising our economy, the lack of private sector rental homes will place additional pressures on social and community housing providers, a sector already under struggling to satisfy demand. Recognising the identifies the lack of affordable rentals as a significant gap in Perth's housing market, the recently released State Housing Strategy sets out a target of providing an additional 130,000 homes. To meet this objective, a multi-faceted approach is needed, however many of possible the solutions, such as build-to-rent, are longer-term solutions that will not address the current rental crisis.

The most effective solution to the current rental emergency is to incentive investors to purchase newly completed apartments, immediate presenting stock to market and having a positive effect on the current vacancy rate.

Therefore, UDIA encourages the government to consider;

1. **Extending the current 75% stamp duty rebate for OTP to December 2022 and expand it to include under construction projects, with the rebate made available at the time of settlement (as per FHOG).**

2. **Urgently adopt incentives that encourage the purchase of newly built housing stock by investors to achieve the State Housing Strategy's target of the development a more diverse rental sector to support 130,000 households.**

3. **Collaborate with industry to ensure that the delivery of these incentives is effective.**

RESPONDING SUCCESSFULLY TO COVID-19

The Urban Development Institute congratulates the McGowan Government for the extremely successful approach the State has undertaken in managing the potentially devastating health and economic impacts of COVID-19. WA has greatly benefited from the courage and conviction shown by the Government in making many difficult decisions.

Above all, the willingness of the McGowan Government to listen to industry and collaborate on various measures has protected WA's economy to the extent that our State has not only survived this crisis but is again beginning to thrive.

Whilst this success means we are well positioned for sustained economic growth, our ability to manage the virus, maintain jobs and offer an attractive lifestyle has brought new challenges that we will need to overcome if we are to take full advantage of the opportunities ahead.

Already, signs of strain are starting to emerge in our property market. The historic low level of rental homes available jeopardises our economic recovery, undermining our competitive advantage and ability to attract new workers to our State.

Rental insecurity will increasingly threaten many low to medium income households and the most vulnerable within our communities. If unresolved, this will place additional housing pressures that extend beyond the capacity of social and community housing providers.

THE LACK OF RENTAL STOCK: A MARKET FAILING TO DELIVER

According to SQM Research, on the 9th December 2020, across Perth weekly rental listing totalled 3,311. This compares 6,420 listings a year ago in December 2019, whilst 3 years ago, on the 9th December 2017, 11,713 rentals were available. The current weekly listings total is the lowest since October 2012 which was arguably the height of the resource industry construction boom when weekly rent listing total 2,500. With our economy currently set for growth, the limited availability of rental properties is particularly concerning.

The current lack of rental availability has primarily been due to a decline in supply, which has fallen steadily over the past five years. Whilst this decline has been steady, it has also been dramatic. Property investor finance has fallen 75% over the past 5 years from an average monthly loan commitment of $889m in 2014/15, to just $218m in the 2019/20 financial year. This has led to a lack of supply which, coupled with ever increasing housing demand throughout 2020, caused by increasing numbers of Western Australians returning home from overseas and interstate, together with less interstate out flows from WA, has driven the rental vacancy rate the historic low level of 0.9% (REIWA).

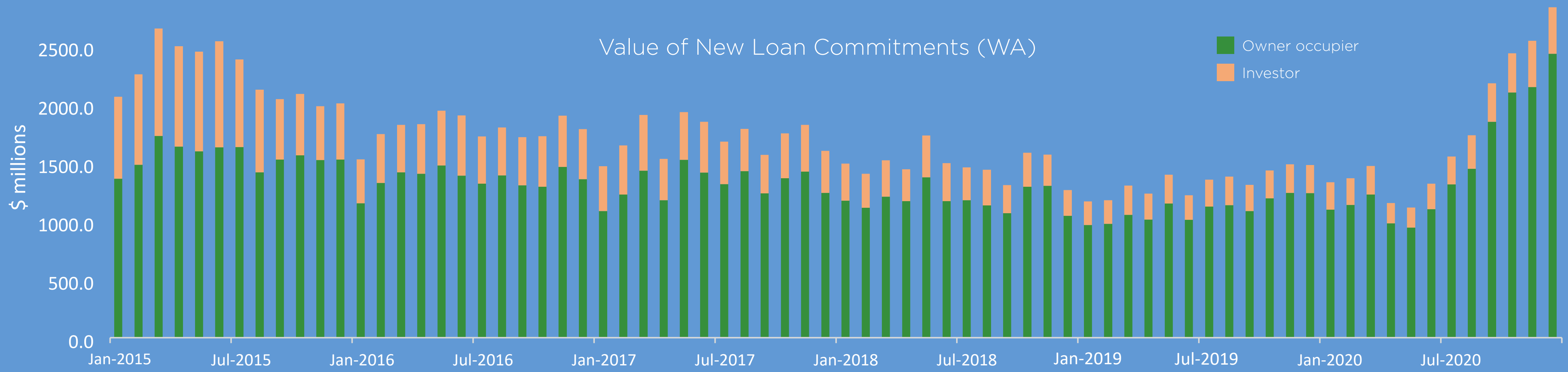
According latest ABS estimates, WA has the second highest population growth rate amongst all the states and territories at 1.5%. Even with restrictions on both overseas and interstate arrivals in place, the State's population grew by 39,000 in the 12 months to June 2020 whilst many more are almost certain to have arrived after this date. As a result of this population growth and despite the State Government's moratorium on rent increases, median rents for both houses and units have increased 5.4% and 4.4% respectively between June and September.

Although the moratorium has limited short-term price increases, it has also kept investors out of the market, further limiting supply. Whilst price increases may attract the return of some investors, it is clear that without intervention, the emerging rental crisis is likely to take several years to resolve.

Indeed, the recently released State Housing Strategy identifies the lack of affordable rentals as a significant gap in the housing continuum that is likely to increase as the Australian Government's National Rental Affordability Scheme, the largest source of affordable rentals in WA, ends in 2026. Accordingly, the Strategy sets out a target to 'develop a more diverse rental sector and support 130,000 households access private rental homes', whilst noting that "addressing this critical gap requires new rental models, sources of capital and alternative investment models that can deliver social and affordable rentals at scale.

Whilst 'build to rent' (BTR) offers an effective solution to many of our rental challenges, current taxation settings deter investment in this sector. To level the playing field and encourage the delivery of affordable BTR requires changes to Federal and State based tax obligations, specifically Managed Investment Trust and Land Tax. However, adopting these changes and allowing time for the market to respond sufficiently will take time, meaning that BTR remains a longer-term solution and not a quick fix that will resolve our immediate challenges. To address our current challenges, smaller-scale investors urgently need to be attracted back into the market to provide the immediate delivery of stock.

It is also worth nothing that the decline in investors has also eroded government transfer duties revenues, which have closely followed the decline in investors, with total annual revenues falling 40% $1,912m in June 2014 to $1,161m in June 2020.



LOST INVESTMENT & LOST JOBS

Whilst the loss of investors has negatively impacted all segments within the Perth property market, it has disproportionately affected built-form developers. In response to market demand and the changing purchaser profile from investor to owner-occupier, apartment developers have increasingly presented completed stock to the market to satisfy purchaser preferences to 'see and feel' their new home prior to buying.

Whilst the introduction of the 'off the plan' duty rebate in October 2019 has been successful in getting new apartment projects off the ground, creating jobs, its downside has been that completed stock is considerably less competitive than off the plan purchases which benefit from a 75% purchase duty rebate up to the value of $50,000 especially to Investors who are happy to wait for the apartment to be built before settlement As a result, at the end of September 2020, there are at least 1,693 completed and available apartments that remain unsold (Urbis Loop). With an average sales price of $598,840, the total value of these apartments is $1 billion, which if re-invested into back into the property market would generate 9,125 jobs using the Australian Government's estimates of 9 jobs per $1 million input.

RENTAL SOLUTION

An immediate solution to the current rental crisis is to find a way to incentive investors to purchase brand new completed product which would have an immediate positive effect on the current vacancy rate. Although there is considerable unsold stock held by developers, current State and Federal legislation make it financially punitive to rent out the apartments prior to the transfer of 'new / un-used' properties to investors. As a result, to get this new stock into the rental pool, either a concession in legislation is required (which is hard yards) or a transfer of ownership to incoming investors.

It is important to note that much of this stock is located in suburbs where there is currently a critical shortage of rental homes available with less than 50 homes listed for rent. At current levels, with investors totalling just 15% of all new loan commitments, very little rental stock is being added in these areas, which given their central location, will severely undermine the attractiveness of Perth's proposition as we emerge from the pandemic and seek to attract a highly skilled work force. Furthermore, the average sale price of apartments within these developments represents on average 73% of median house price, which highlights the relative affordability of this stock.

Development Area Sub-region	Apartments Available	Average Apartment Sale Price	Median House Price		Apartment Price to Medium House Price Ratio	Properties listed for Rent (suburb)
Inner City	611	$618,484	Perth	$690,000	90%	121
Fringe East	268	$563,350	Maylands	$690,000	82%	69
			Victoria Park	$640,000	88%	35
			Rivervale	$522,500	108%	121
Fringe North West	107	$517,235	Subiaco	$1,230,000	42%	34
			Leederville	$863,000	60%	6
Fringe South	177	$771,225	South Perth	$1,247,500	62%	63
Southern Coastal	120	$545,167	Fremantle	$790,000	69%	28
Western Suburbs	54	$790,375	Claremont	$1,395,000	57%	29
			North Fremantle	$1,150,000	69%	18
Outer Metro	356	$420,000	-	-	-	-
Total/Average	1,693	$598,840			73%	524

Source: Urbis Essentials as at September 2020 & REIWA

BUILDING ON OUR SUCCESS, DEVELOPING A BETTER FUTURE

The high level of rental demand and scarcity of housing supply is likely to give rise to significant price increases once the moratorium ends in April, and given the extent of the supply shortage, the market is unlikely to correct itself any time soon. In turn, this may harm our economic recovery with potential new skilled workers turned away due to a lack of suitable housing supply.

To help mitigate this impending housing crisis, achieve the objectives of the Housing Strategy and create a future supply of high valued construction jobs, UDIA encourages the government to consider;

1. **Extend the current 75% stamp duty rebate for OTP to December 2022 and expand it to include under construction projects, with the rebate made available at the time of settlement (as per FHOG).**

2. **Urgently adopt incentives that encourage the purchase of newly built housing stock by investors to achieve the State Housing Strategy's target of the development a more diverse rental sector to support 130,000 households.**

3. **Collaborate with industry to ensure that the delivery of these incentives is effective.**

Urban Development Institute of Australia
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Unit 26, Level 1
3 Wexford Street
Subiaco WA 6008

t 08 9215 3400
e udia@udiawa.com.au
www.udiawa.com.au

/UDIAWA

/Urban Development Institute of Australia (WA)

@UDIA_WA