

Longer-Term Residential Tenancies

Policies to Manage the Risks

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January 2017



About Yfoundations

Yfoundations' mission is to create a future without youth homelessness. We are the NSW peak body on youth homelessness and represent young people at risk of, or experiencing, homelessness, as well as the services who provide direct support to them.

Since its formation in 1979 this organisation has called for reform and improvement to broader systemic responses to youth homelessness and young people at risk of homelessness. Yfoundations provides advocacy and policy responses on issues relevant to young people affected by homelessness and issues relevant to service providers.

Our aim is to promote, protect and build on existing good practice and excellence in addressing youth homelessness. We also strive to ensure that youth homelessness remains a priority in public policy on: homelessness, youth affairs, youth justice, education, child protection, employment, health/wellbeing, and housing. Our vision is to ensure that all young people have access to appropriate and permanent housing options that reflect their individual need.

In pursuit of these goals, we have identified five 'foundations' for the positive growth and development of a young person and the process of ending youth homelessness:

- Home & Place
- Safety & Stability
- Health & Wellness
- Connections & Participation
- Education & Employment

These foundations place youth homelessness in a broader context, recognising that it interrelates with a range of issues, and that ending youth homelessness will require coordination across silos. They provide a framework for reaching out to other service areas to explore collaborative and integrated solutions. We believe it is vital that each young person has the opportunity within each domain to thrive. More information about these foundations is available on Yfoundations' website.¹

¹ Yfoundations, *The Foundations* <<http://yfoundations.org.au/explore-and-learn/publications/the-foundations/>>

Introduction

Research into housing instability and those with high non-chosen residential mobility, i.e. frequently having to move house, has demonstrated that it causes or exacerbates a range of negative outcomes. This is of particular concern in the case of those from disadvantaged backgrounds who may be struggling with a range of issues already, and are more likely to be in rental situations with highly insecure tenure. Young people exiting homelessness are one such disadvantaged group. For this reason Yfoundations, as the NSW peak body on youth homelessness, is broadly in favour of efforts to facilitate the prevalence of longer-term tenancies.

However, because housing stability is of such high importance to those who are struggling, it is critical that the mechanisms used to incentivise the offering of long-term tenancies do not further entrench disadvantage. The structure of the Australian private rental market means that landlords have little existing incentive to offer longer-term tenancies. For this reason there is a danger that longer-term tenancies will only be available to renters through agreements that substantially increase their rent or other costs. This worsens the already significant rental unaffordability issues facing many, and will impact most strongly on those with low income and other disadvantage.

There are ways of avoiding this problem. If the benefits of greater housing tenure security are to be enjoyed by all, especially those that need it the most, incentives that do not raise rental costs need to be created for landlords. Some such incentives will require actions by the Commonwealth Government and the NSW Government could advocate for these. Others can be implemented at a state level. Two examples are: a discount on stamp duties when purchasing tenanted properties to remove incentives to terminate when selling, and mandatory training on longer-term leases for all Real Estate Agents.

Benefits of longer-term tenancies

Where an individual or family undertakes frequent moves, and these moves are not by their choice, the evidence is that this has negative effects on a number of aspects of their lives. It can, for example, have substantial impacts on health. Frequent moves exacerbate experiences of anxiety and depression,² and can compromise relationships with service providers, such as GPs, reducing overall health and wellbeing.³ This extends to the children of families that move frequently with research showing they experience significantly inferior physical health and lower levels of wellbeing.⁴

² Kath Hulse and Lise Saugeres, 'Housing insecurity and its link to the social inclusion agenda' (AHURI Research and Policy Bulletin No 113, Australian Housing and Urban Research Institute, May 2009).

³ Jeanette Lewis, 'How does security of tenure impact on public housing tenants?' (AHURI Research and Policy Bulletin No 78, Australian Housing and Urban Research Institute, August 2006).

⁴ Alfred Michael Dockery, Rachel Ong, Simon Colquhoun, Jianghong Li, Garth Kendall, 'Housing and children's development and wellbeing: Evidence from Australian data' (AHURI Final Report No 201, Australian Housing and Urban Research Institute, March 2013).

There is also evidence that moving frequently interferes with finding and keeping paid employment.⁵ (It should be noted that some research has found that increased housing security reduces work,⁶ but these studies have related to the move into the permanent security of public housing and the causes of this reduction do not apply in the cases of longer-term private rental tenancies.) Further it has been shown that, for children, high residential mobility is associated with poor educational outcomes and reduced completion of high school,⁷ which would lead to poorer employment outcomes for them in future.

Frequent non-choice mobility, and the feeling of instability that it causes, also interferes with developing social connections.⁸ And research overseas has shown that social capital can be significantly increased by reduced residential mobility.⁹

The research demonstrates that reducing non-choice residential mobility can have significant benefits for the health, education, employment and social connectedness of renters. These in turn have flow-on benefits to the whole community, such as reduced health care costs, improved employment participation and enhanced social cohesion.

Australia lacks incentives for longer-term tenancies

In Australia, unlike in many similar economies, the private rental property market is dominated by small investors rather than large institutional investors. This is at least partly due to Commonwealth level taxation breaks that favour small investors. This results in reduced incentives for longer-term tenancies. Whereas large institutional investors tend to be more interested in incomes derived from rent, small investors are more likely to be motivated by capital gains. This means that they have more interest in having the flexibility to sell their property, indeed they are twice as likely to sell within 12 months.¹⁰ Since there is a perception that selling a property tenanted reduces the value of the property, selling will often involve terminating the current lease if possible.

Due to the motivations of most landlords in the Australian context, there is much less incentive to offer longer-term tenancies as the potential benefits the tenancies offer in security of rental income is less important than the flexibility to sell their property untenanted that the tenancies remove.

⁵ Hulse and Saugeres, above n 2.

⁶ Lewis, above n 3.

⁷ Ibid.

⁸ Hulse and Saugeres, above n 2.

⁹ Catherine Bridge, Paul Flatau, Stephen Whelan, Gavin Wood and Judith Yates, 'How does housing assistance affect employment, health and social cohesion?' (AHURI Research and Policy Bulletin No 87, Australian Housing and Urban Research Institute, March 2007).

¹⁰ Peter Davidson and Ro Evans, 'Fuel on the fire: negative gearing, capital gains tax & housing affordability' (Tax Talks 2, ACOSS, April 2015).

Potential harms of longer-term tenancies

One way to incentivise an increase in longer-term tenancies would be to relax protections for renters, allowing them to bargain away some of their rights to secure longer-term tenancies. This might include tenants taking on some of the responsibility of maintenance and repairs. To some extent these types of negotiations are already possible, as is the possibility of paying higher rent for a longer-term tenancy. However, there are substantial problems with encouraging these sorts of agreements.

Due to the lack of incentives to offer longer-term tenancies, tenants may have to give significant concessions to achieve security. Factors such as high rental demand relative to supply, and that repairs effectively cost tenants more than landlords due to tax deduction arrangements,¹¹ only exacerbate this problem.

This dynamic is likely to mean that rental rates increase, further disadvantaging those on low-incomes. And the high additional costs of security may well be beyond the capacity of the disadvantaged who need it the most.

Avoiding the harms of longer-term tenancies

In order to avoid renters having to incentivise landlords to offer longer-term leases, other incentives must be provided. Given the benefits to individuals, especially the most disadvantaged in our society, and the flow-on benefits to the whole community outlined above, there is a strong argument for government involvement.

The argument is strongest for involvement at the federal level since, as mentioned, it is Commonwealth taxation breaks that skew the market towards the small investor who is less interested in longer-term tenancy agreements. Such changes would help the disadvantaged, have flow-on benefits to all, and be budget positive. The NSW Government should continue its efforts to lobby the Commonwealth on this issue.

However, in the absence of Commonwealth Government action, the NSW Government has access to policy levers that could increase the prevalence of longer-term leases without entrenching disadvantage. Two examples of mechanisms to promote long-term leases are provided below, but further consultation could no-doubt provide further ideas.

Reduce incentives to terminate when selling by a stamp duty discount:

Part of what makes it likely that small investors will terminate leases is the perception that an untenanted property will likely fetch a higher price. This may well be true as those buying to occupy may be discouraged by the presence of tenants, reducing the pool of potential buyers. A potential scheme to counter this could be a small discount on stamp duty when

¹¹ Tenants Union of NSW, *Running repairs? The cost of longer term tenancies: part 1* (30 November 2016) The Brown Couch <<http://tunswblog.blogspot.com.au/2016/11/the-cost-of-longer-term-tenancies-part-1.html>>.

buying a tenanted property. Since buyers would factor this discount into their budgets, sellers would know that they could likely obtain a higher value from the sale by allowing tenants to remain when selling. This would reduce housing mobility in itself by reducing lease terminations, but would also reduce instability by making longer-term leases less unattractive to small investors and thus more likely to be offered.

Increase familiarity through mandatory real estate agent training:

Part of the reasons for the low level of longer-term leases is self-perpetuating. Real Estate Agents are unfamiliar with offering them and so are unlikely to do so. Requiring all real estate agents to undertake a short course on longer-term leases that sets out the legal differences, and the benefits and detriments to their clients, would help reduce the unfamiliarity.