THE UNIVERSITY OF SYDNEY

The Henry Halloran Trust

Submission to "The worsening rental crisis in Australia" Senate Inquiry

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Summary

- After eight years of rents rising slower than other consumer prices, rents have now begun rising more quickly.
- If this is a rental crisis today, then almost every year for the past two centuries has been a rental crisis.
- The rental price adjustments being observed in Australia and globally in 2022 and 2023 reflect the normal operation of housing markets.
- Cheaper housing is usually achieved by public provision of subsidised rental or ownership options, as it was historically in Australia, and is today in many places.
- Outside of these effective options, outcomes in private rental markets can be marginally improved by smoothing out sudden changes in rents.
- This can be done by regulating how quickly rents can be increased in a period, usually at a rate linked to a local price index, such as CPI inflation plus 3% points.
- To avoid tenants being evicted in order to raise rents above this limit, protections can be enacted to enable tenants to stay, even at the end of a fixed-term lease, by limiting evictions to only being allowed for three reasons:
  1. The landlord selling
  2. The landlord moving into the home
  3. Major renovations being undertaken.
- Claims that supply will fix rents, or stories about landlords selling if rents are regulated in any way, should be ignored. These stories are told by groups whose financial interests align with higher rents, not lower rents.

Background

When famous biologist Charles Darwin visited Sydney in 1832 aboard the HMS Beagle, he noted in his diary on his first day that "the number of large houses just finished & others building is truly surprising; nevertheless every one complains of the high rents & difficulty in procuring a house."[1]

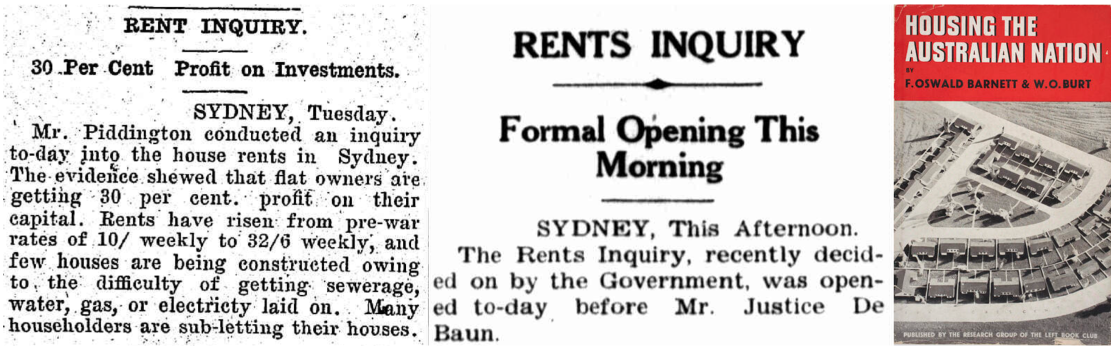
Housing rents are a timeless social and economic issue, though their political salience rises and falls with the macroeconomic cycle.

For example, after the financially strained1890s depression, the political push back against the power of landlords resulted in the Landlord and Tenant Act 1899.

In 1907 the famous Commonwealth Conciliation and Arbitration Court decision about the case of Hugh Victor McKay took account of the high rents in Melbourne, that were then 20% of typical wage, in their adjudication of a 'fair and reasonable' wage. This case shows how rental markets have always generated financial challenges for households near the bottom of the income distribution who must reside in major urban centres to earn their income.

In 1911, the New South Wales parliament created a Select Committee on the Increase in House Rents, which reported in 1912. This led to the Fair Rents Act 1915 and a variety of other changes to rental regulations. Like today, regulations that increased renter protections and security were argued by landlords to have "the effect of discouraging investment in rental housing."[2]

The federal government's Inter-State Commission conducted the Piddington Inquiry into housing rents in 1919, finding that the states should be in the business of building homes and that high rental prices were due to a shortage of housing (see left panel of Figure 1 for news reporting at the time).



RENT INQUIRY.

30 Per Cent Profit on Investments.

SYDNEY, Tuesday.

Mr. Piddington conducted an inquiry to-day into the house rents in Sydney. The evidence shewed that flat owners are getting 30 per cent. profit on their capital. Rents have risen from pre-war rates of 10/ weekly to 32/6 weekly, and few houses are being constructed owing to the difficulty of getting sewerage, water, gas, or electricty laid on. Many householders are sub-letting their houses.

RENTS INQUIRY

Formal Opening This Morning

SYDNEY, This Afternoon.

The Rents Inquiry, recently decided on by the Government, was opened to-day before Mr. Justice De Baun.

Figure 1: Sample of historical newspaper headlines and book on Australia's timeless "housing crisis"[3]

In the 1930s, multiple inquiries were conducted into housing rents, especially late in the depression. A 1939 Rents Inquiry formed the backdrop to a later rent freeze that was enacted nationally due to the outbreak of the Second World War. Near the end of the war in 1943,

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[1] Keynes, R. 1988. Charles Darwin's Beagle Diary. 1809-1883. Cambridge University Press. p396. Available at https://archive.org/details/charlesdarwinsbe0000darw/page/396/mode/2up

[2] https://openresearch-repository.anu.edu.au/bitstream/1885/116257/1/URU%20no.24.pdf

[3] Left: 23 October 1918, Tweed Daily Newspaper article
https://trove.nla.gov.au/newspaper/article/191052611
Centre: 21 April 1939 The Workers' Weekly newspaper article
https://trove.nla.gov.au/newspaper/article/209433453
Right: Barnett, F.O. and Burt, W.O., 1943. Housing the Australian nation. Book Depot, and the Research Group of the Left Book Club of Victoria.

the worsening underinvestment in housing led to numerous reviews, books, meetings and inquiries about how the government should actively involve itself in the housing finance, land development, and construction.

The post-war period was an historical anomaly when it comes to housing. The social problems arising from the degree of power of landlords over tenants were reduced by raising homeownership through subsidised housing such as War Service Homes, discounted private purchases of public housing, alongside rent controls and other mechanisms in the various Commonwealth State Housing Agreements (CSHAs) from the late 1940s to the 1970s. Homeownership in metropolitan areas expanded from 36% prior to the First World War, to 72% in 1966, which was a product of this directed government intervention to combat the problems faced by renters by making them property owners.

An important motivation in this period was to promote political stability. Liberal Prime Minister Robert Menzies desired to make households "little capitalists" and thought that the "vital problem of home ownership" needed public subsidies and schemes to remedy, lest the renter household be attracted to communist ideas and tempted into political action.

But these political motives fell away by the 1970s, and the economic forces that created ongoing rental cost issues in the pre-war period re-emerged and persist to the present day.

For example, the 1975 review into Poverty in Australia noted that households paying market rents in the private market were "[t]he group whose situation is worst after housing, and deteriorates most on a before and after housing cost comparison [...]."[4]

Since then, dozens of inquiries into homeownership, rental prices, housing supply and other elements of the market have been conducted.

In short, the experience of housing markets in recent decades is best seen as a return to the long-run normal housing market outcome rather than a recent anomaly. This normal market outcome is that rental prices grow in line with household incomes, but often in sudden bursts at certain times in the macroeconomic cycle, leading to displacement of renters and forced relocations for those whose incomes are not keeping up with the market.

It means that the slow but steady decline in homeownership, from 70% in 2001 to 66% in 2021, is likely to continue without non-market ways to create homeowners, which were what led to such high homeownership in the first place.

Looking at the commonalities with rental markets abroad, such as the United States, United Kingdom, Canada, and New Zealand, also reminds us that recent rental market dynamics that promoted the current inquiry are a global trend and reflect normal rental market adjustments. This only serves to reiterate the point that rental markets move with macroeconomic cycles, whether that cycle is local or global.

Recent rental market outcomes

Real (inflation adjusted) rents

The measure of rental prices within the consumer price index (CPI) captures the price of rents paid across all renter households. A comparison between this price index, and the total CPI, helps show whether rents are rising faster than other goods or services, or slower, providing important context for any analysis of Australia's rental market.

Prior to 2022, the CPI rental price index came from a "survey of approximately 4,000 rental properties collected directly from real estate agents." Since then, with automated data access,

[4] Henderson, R. F. 1975. Poverty in Australia First main report, April 1975 Australian Government Publishing Service http://nla.gov.au/nla.obj-1357060179 https://nla.gov.au/nla.obj-1928658469/view?partId=nla.obj-1930130333#page/n34/mode/1up

the scope has expanded to 480,000 rental properties, or about 17% of the total private rental stock.

This rental price index measures the rents paid by tenants on a like-for-like basis compared to previous time periods in order to capture pure price effects (ignoring increases in quality). However, the housing stock does improve in quality over time as new homes are built and old homes are renovated.

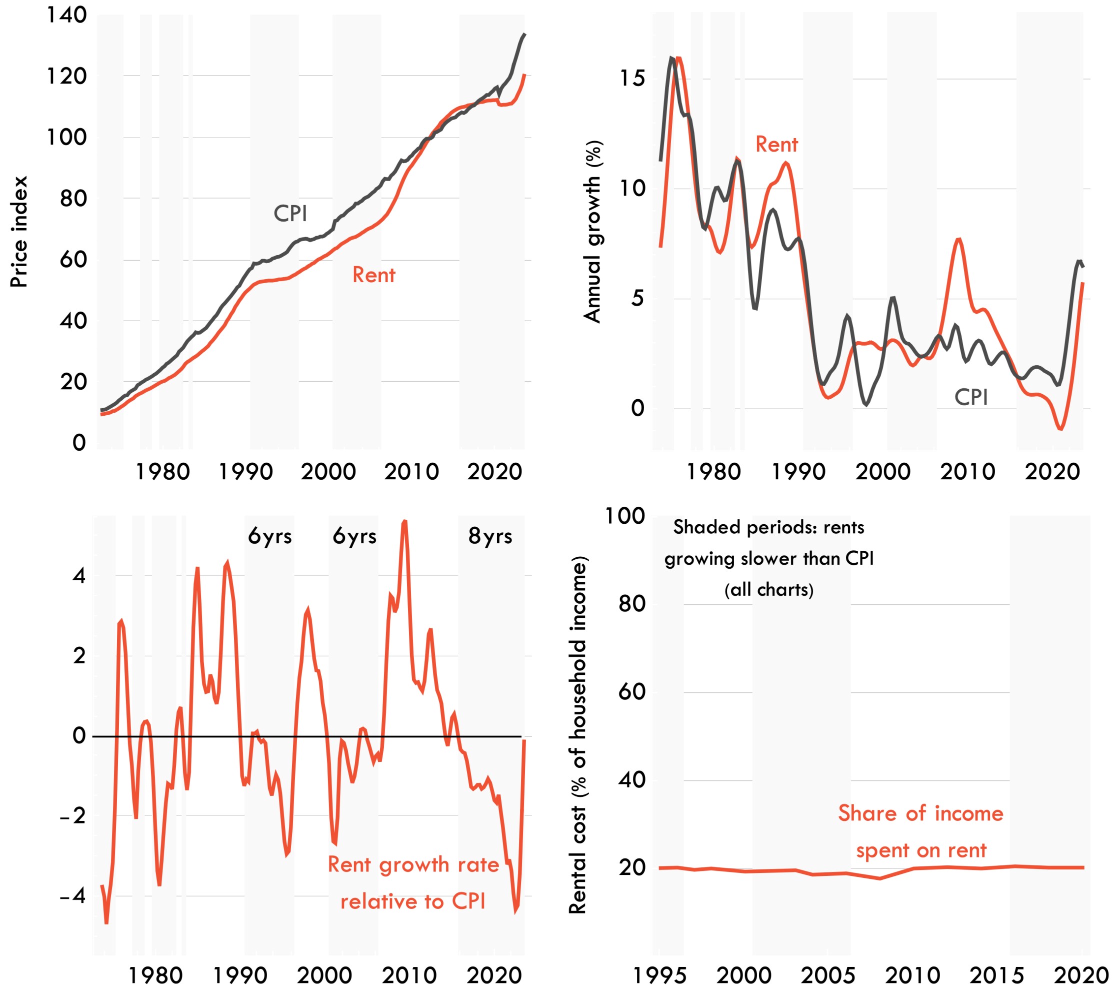

Figure 2: Australia rental prices relative to consumer prices and income[5]

The charts in Figure 1 show the CPI and the rental price index within the CPI in terms of their level (top left), their growth rate (top right), their relative growth rates (bottom left), as well as the total rent paid as share of income for renter households (bottom right).

The following patterns are evident.

- Most of the time since 1980 rental prices have increased slower than prices for other goods and services in the CPI, but with three major cyclical adjustment periods in the late 1980s, the late 1990s, and 2006 to 2015.
- From 2015 to mid-2023, rental prices have risen slower than prices for other consumer goods and services.

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[5] ABS. 2023. Consumer Price Index. Australian Bureau of Statistics. Table 7. https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/latest-release and
ABS 2022. Housing Occupancy and Costs. Australian Bureau of Statistics. Table 4. https://www.abs.gov.au/statistics/people/housing/housing-occupancy-and-costs/latest-release

- Rent as a share of income for renter households has been flat since 1995.

Simply put, there is no evidence in the Figure 1 charts of an abnormal "rental crisis" in recent years, only of normal rental markets with cyclical patterns reflecting macroeconomic conditions.

Advertised rent versus paid rent

While rents paid by all renter households, measured in the CPI, have only begun to increase relative to the price of other goods and services in recent months, there are reasons to suspect that this will continue for another year at least.

This is because advertised rents are a good leading indicator of rents paid in the CPI.

The difference between advertised rental prices, or prices on new leases, and the rental paid by all rental households in the CPI, is described by ABS as follows:

> A useful analogy is to think about a bathtub of water. The water in the tub represents all rents being paid by households, while the water entering the tub from the tap represents new rental agreements. The CPI series is measuring the overall temperature of the bathtub whereas an advertised rents series measures the temperature of the water flowing into the tub. It will take some time for the flow of water to change the overall temperature of the water in the bathtub.[6]

In Australia, advertised rents have surged since 2021, but the growth rate has now peaked in many areas, with declines now being seen in many cities. Rental prices in the CPI have not yet peaked and have recently started exceeding the CPI for other goods and services. However, it is unlikely that rents paid in the CPI measure will rise as fast as advertised rents have, just as they did not fall as fast during 2019 to 2021 when advertised rents fell.

Looking at the same patterns of advertised rents and all rents in the United States (Figure 2, left panel) shows that rents paid in the CPI are likely to peak soon after advertised rents peak, and with lower total growth.

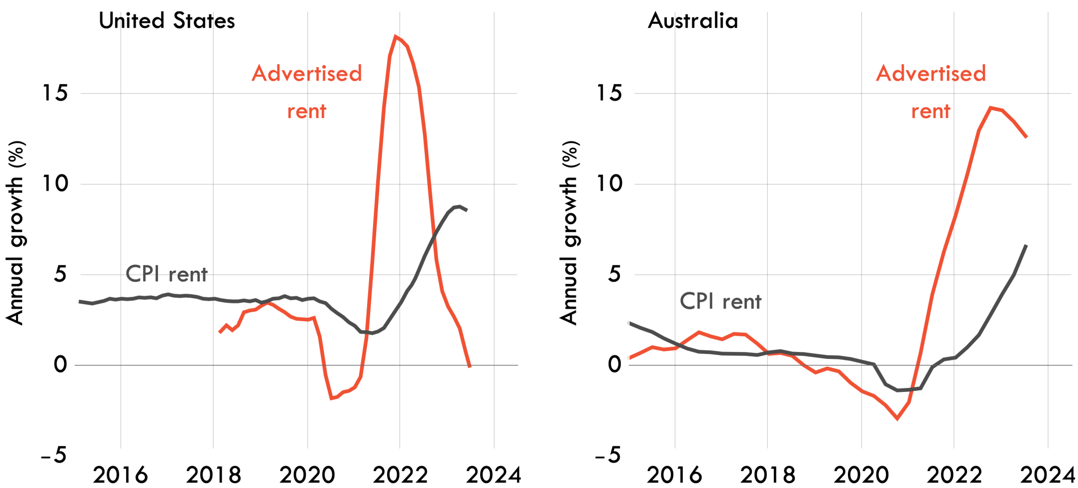

Figure 3: How advertised rents flow through to rents paid by all renters[7]

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[6] ABS. 2023. Consumer Price Index – Methodology. Australian Bureau of Statistics. https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/latest-release#methodology

[7] SQM Research. 2023. Weekly Rents – Capital City Average. Units and houses combined. https://sqmresearch.com.au/weekly-rents.php?avg=1&t=1 and

Rental equilibrium share of household spending

In the past three decades, rents have been 20% of gross household incomes for renter households on average (Figure 1, bottom right panel). This pattern also existed as far as we can tell in the early decades of the 20th century. In the United Kingdom, recent analysis shows that the rent-to-income ratio for renter households in the private market has been flat since 1980.[8]

The reason for this long run stability is because there is an economic equilibrium at play.

Housing is not only a single item purchased by a household, but a complete category of expenditure. When the relative price of a household consumption item falls, like clothes, or holidays, households buy more of it. Economics call this the "law of demand", and it also applies to rental housing.

A household rents more housing by renting a larger or better located home. Hence, when the rental price falls relative to other items, households adjust by buying more housing – in the form of bigger or better located housing – until they spend roughly the same 20% share of their gross income on housing.[9] This is a **rental equilibrium.**

This rental equilibrium is a market outcome, not an individual one, and the share of income spent on housing varies across household income levels. Lower income households spend a larger share of income on rent, and higher income households a lower share. But the overall market outcome, where the median household spends 20% of their gross income on housing, is an equilibrium that is persistent over long periods of time.

The vacancy rate is the 'unemployment rate of dwellings'

It is often claimed that low vacancy rates cause rising rents. This confuses the economics of housing and the way rental prices adjust.

Vacancy rates in Australia are a measure of the number of online rental advertisements (usually only those that are posted longer than three weeks), not the number of empty, or unoccupied, dwellings.

A way to understand rental vacancy is as a measure of the 'unemployment rate' of homes – homes that are ready and willing to work (be rented) but unable to find a job (tenant). Unoccupied homes are akin to people being outside the labour force.

Like a low unemployment rate is a symptom of high demand for labour, a low vacancy rate is a symptom of high demand for housing. This demand also leads to rents adjusting higher, just like it leads to wages adjusting higher in labour markets.

Low unemployment and rising wages are both symptoms of high demand for labour, and low vacancy and rising rents are both symptoms of high demand for housing.

Whether that demand is due to rising incomes, increased population, or some combination of both, the symptoms will be the same.

Apartment List. 2023. National Rent Index. https://www.apartmentlist.com/research/national-rent-data

[8] Mulheirn, I., Browne, J. and Tsoukalis, C., 2023. Housing affordability since 1979: Determinants and solutions. Joseph Rowntree Foundation. https://www.jrf.org.uk/report/housing-affordability-1979-determinants-and-solutions

[9] In economic parlance this means that the *price-elasticity* of rental housing is one. If we consider that as average incomes grow over time that the same share of income is spent on rental housing, then the *income-elasticity* is also one. However, to complicate matters, as a household's relative income grows compared to other households this *relative-income-elasticity* is less than one, as higher income rental households spend a lower share of their income on rents.

Housing supply economics

A blind spot in the many historical rental inquiries – which is likely to arise in this review – is that property owners do not have an economic incentive to build new homes at a rate that pushes down housing rents and prices.

Very few submissions will present a coherent economic view on how the market for new housing operates.

Another equilibrium, the **absorption rate equilibrium**, is important here. Just like property owners try to optimise the density of their development projects, they also optimise the timing of them to maximise their rate of return.

As economist Tim Helm describes:

> "Even when it is profitable to build, it can be more profitable not to build, because development-ready land rises in value through time, and over-supplying housing means selling at a discount. The absorption rate is determined by the balance of these considerations.
>
> Paradoxically, zoning rules can bind on each and every housing development, reducing the profits of each and every developer, without binding (constraining) the market rate of new housing supply. This is because most feasible development opportunities are rationally left undeveloped as strategic investments, in what is described as speculation or landbanking.
>
> This means that zoning rules just shape where housing goes and what it looks like – not how much is built.
>
> For example, if total demand growth is for six dwellings per year, zoning rules determine whether a city sees development of:
>
> a) Six buildings with single dwellings under low-density zoning;
> b) Two buildings of three dwellings each under medium-density zoning; or
> c) One building of six dwellings, with other sites held vacant, under high-density zoning.
>
> How much housing is built is a market decision."[10]

Just like the rental market appears to be functioning as normal, so too is the new housing development market – responding to cycles, but never flooding the market and bringing down rents in a sustained way. This is why historically, even prior to planning regulations and zoning, the rate of new housing development was never sufficient to keep rents down. Despite this economic limit on how quickly new homes will be built by private property owners, there are more, bigger, better dwellings per capital in Australia in 2023 than at any point in history.

Property market symmetry

There is a deep symmetry in property markets around the absorption rate and rental equilibria outcomes. This means that any policy or regulation that benefits renters by making rents cheaper compared to this outcome comes at an equal cost of landlords.

Here's a demonstration.

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[10] Helm, T. 2023. Statement of Evidence. In the matter of hearings of submissions and further submissions on the Proposed Wellington City District Plan. Newtown Residents Association. https://wellington.govt.nz/-/media/your-council/plans-policies-and-bylaws/district-plan/proposed-district-plan/files/hearing-streams/04/submitter-evidence/newtown-residents-association/submitter-evidence--t-helm-for-newtown-residents-association-440--fs74.pdf

In 2022, around $60 billion was paid by Australia's renters to landlords. A hypothetical policy that reduced rents by 10% on average would save renter households $6 billion, but cost landlords the exact same $6 billion.

There would also be a subsequent decline in property value to landlords. It would be even larger as it is proportional to the net rental decline, not the gross rental decline. For example, if gross rent was $23,000 per year for a property, which is about the Australian average, and ongoing maintenance, tax, insurance, and other costs, were $10,000, then a 10% reduction in gross rents reflects an 18% reduction in net rental income to a property owner.

How much this would affect the value of residential property assets of Australian landlords is not clear, but a rough estimate can be established. If the roughly 3 million rental homes are worth about $700,000 each – or 70% of the national average property price – then they are collectively worth about $2 trillion. An 18% price decline would wipe off $360 billion in value from the 3 million homes owned by Australia's 1.7 million landlords.

Such enormous asset price and rental income effects are the motivation for ongoing lobbying from landlord and property interest groups against regulations that make rents cheaper.

During this inquiry, there will no doubt be many representatives of the property industry who will argue that their preferred policy changes are good for tenants. But acknowledging the symmetry of property markets means taking such proposals with a grain of salt. A landlord lobby group supporting effective rental regulations is contradicting their financial interest.

Ignoring the advice of those who benefit from higher rents and prices will go a long way to ensuring this inquiry does not meet the fate of many historical rental inquiries that ultimately sided with landlord interests and made little change.

Rental regulation and examples

If the rental outcomes observed in recent decades are the normal outcomes of housing markets, the policy question becomes how to regulate or invest in housing in a way to improve on it.

Traditionally, shifting renters into homeownership was the primary way to do this. It was achieved via subsidised finance, subsidised land, or other means. Homeownership is the ultimate form of rent control, as the landlord provides rent-free housing to residents.

Another way of reducing the number of households paying market rents is to broaden non-market housing options, like public housing.

For most countries and most points in history, it has been a combination of subsidised homeownership and public rental options that have reduced housing costs on a permanent basis and allowed households to avoid sudden changes in the market price of renting.

Regulating permanently low rental prices in private markets face many political and economic challenges, and I argue that subsidised public rental and ownership options are a better way to achieve these outcomes.

One area where policy changes in private rental markets can improve outcomes is by smoothing out sudden rental price changes faced by tenants by limiting how quickly rents can be increased.

Smoothing out sudden rental increases seems desirable from a housing stability perspective. In fact, in Queensland and New South Wales, landlords who pay land tax have that tax smoothed out by regulations that apply the tax to a three-year average land value. This stops sudden large jumps in land value from having immediate large cashflow effects to landlords.

The same logic can apply to private rental to help tenants manage unexpected and unplanned sudden cashflow changes when the market rental price rises quickly. Smoothing rapid changes in rents also has much lower economic effects on landlords. Yes, any deviation below market rent is a cost to landlords, but these deviations are temporary.

Rules about when and how rents can be changed

There is much policy talk of a rental freeze. Temporary rental freezes have occurred in Scotland, Catalonia, Berlin in recent years, and probably more places.

In fact, every rental contract is an agreement between a landlord and tenant to freeze the rent for a fixed period of time, usually a year. There is nothing unusual about adding rigidity to rental prices, and in fact it is often desired but both landlords and tenants alike – landlords will often reward longer term tenants with below market rents to avoid the costs involved with changing tenants.

The benefit to renters of a temporary rent freeze in late 2023 is much lower than if a freeze was enacted a year prior, before the rapid adjustment in rents. Timing matters. In many Australian cities, rents were falling for many years prior to 2020, and a rental freeze then would have achieved nothing.

A better long-term approach to smooth out rental price changes is to enact tenancy rules (a state responsibility) that limit how quickly rents can be increased for sitting tenants, whether they have a fixed-term contract or an ongoing one (sometimes known as a periodic lease).

For example, limiting rent increases to once a year to a maximum of CPI would mean that in those periods when market rents are rising faster than CPI (whether because of local or broader market factors), sitting tenants would have their rents increased less than the market while that situation persists.

But that also means that when the market rent is rising slower than CPI that these renters can have their rents increased back towards the market rent.

The bottom left panel of Figure 1 shows that in very few periods rents across the whole Australian market rise faster than CPI, though some suburbs or cities will be seeing rapid rental price changes at each point in time.

Any regulation that limits increases in rents and creates a wedge between rents paid and market rents creates an incentive for a landlord to remove the tenant paying below market rents to get a new tenant paying the market rent.

This is why any regulation that even temporarily reduces rents below market must be accompanied by regulations that limit the ability for a landlord to remove a sitting tenant (known as eliminating no-fault evictions). Essentially, if a tenant is paying the rent and is otherwise complying with standard rental conditions, the landlord cannot ask them to leave, even after a fixed-period rental contract, but they can increase the rent up to the limit at the end of a fixed period contract.

The allowable reasons for a landlord to ask a tenant to leave, even at the end of their fixed-term contract, would be for the reasons of 1) moving in to occupy the home themselves, 2) major renovation works, or 3) selling.

A sensible option seems to be adopting a limit on rent increases to some number a little above overall CPI. The Netherlands currently has 'CPI increase + 3%' as their limit. If inflation is 4%, then landlords are limited to a once per year 7% increase in rents.

The Australian Capital Territory (ACT) has limits on the rate of increase for ongoing contracts of 'ACT CPI rental component increase x 1.1'. If the broader ACT rental component of CPI is rising at 3%, then a landlord can only increase rent by 3.3% in a year. This rule allows for exceptions if the tenant agrees but shifts the onus onto landlords to justify rental increases above this limit.

Any similar regulation combining an index-linked limit on the rate of increase, and security for tenants to stay after expiring contracts, will achieve a desirable rental smoothing function in the private rental market.

Minimum housing standards

Another common concern is the standard of rental housing. A workable solution to implementing any new standards (I won't comment on which standards to choose) is to learn from minimum standards of roadworthiness for motor vehicles.

Any new rule needs new enforcement and monitoring, and when to do that can radically change the cost of compliance. Motor vehicles are assessed for roadworthiness only when they are sold, for example. For property, an opportune time to assess compliance with minimum standards would be between tenancies.

One way to do this is to put the onus on property owners, like is done with smoke detector requirements. Managing agents and private certifiers, like in the case of motor vehicles, can ensure whatever minimum standards are met between tenancies.

Rental auction bans

A popular policy is to ban rental bidding. Such bans are hard to enforce and do not change the market price, only the type of auction used. A Dutch auction starts with a price and lowers it until the first bid. This is akin to advertising at a price and taking an offer close to it. An English auction starts at a low price and has buyers bid against each other.

Rental auction bans eliminate English auctions in favour of Dutch auctions. There is no price advantage to this, only a time saving for renters who do not need to bid at multiple auctions but can be assured that an offer at, or near, the asking rent will be acceptable to the landlords. A rental ban at most can only save renters time when looking for a new home.

Immigration and rental markets

A taboo topic when it comes to rental markets is the effect of high immigration. After a two-year pandemic period of low immigration, Australia, like many peer nations, has seen record high immigration since late-2022.

However, it is worth understanding that this period of high immigration is likely to be temporary and that the effects on housing of high immigration periods are temporary too.

To see how high immigration affects rents, we first observe that new arrivals cannot live in any home, but only in currently advertised rentals or properties for sale. Since the turnover of homes for rent or sale is a fraction of the total housing stock at any point in time, squeezing many extra people into these homes will substantially add to demand for them.

For example, if there are 50,000 rental homes advertised each month, that is because there are nearly 50,000 households moving and needing a home to rent plus some new homes entering the rental market.

If the immigration rate is 25,000 people per month (or 300,000 per year, which is similar to recent numbers) these new arrivals will typically require 10,000 dwellings to occupy, or about 20% of the available rental stock. This means that the extra 10,000 immigration households must squeeze into the 50,000 rentals available, alongside all the existing renter households who are relocating.

With high demand concentrated amongst few homes, rents will rise. In response, to rising rents, households will consolidate by moving into larger household groups. Over time, as more of the rental stock enters the market, and renters become buyers, households will continue to reorganise and spread the extra people across the total stock of 11 million homes in the country and over time, this stock of homes will grow too, pushing back to the rental equilibrium.

Landlords selling and first home buyers purchasing is the same thing

There are about 11 million dwellings in Australia, and about 170,000 new dwellings are added to the stock each year. About 3.7 million are not owner-occupied and are owned by landlords and rented in the private market or are second homes or public housing.

If landlords never sell, there will always be at least 3.7 million non-owner-occupied homes, even if the total stock of homes increases over time.

The most extreme way to increase homeownership without landlords selling is if only first-homeowners buy all the new homes. You could even call this approach an "investor ban on new housing", which is something that people think is very bad.

In this scenario, after ten years of the same level of new housing construction, there will be 12.7 million dwellings. But there will still be 3.7 million dwellings that aren't owner-occupied. The best we can do is go from 66% to 71% homeownership over a decade, assuming an investor ban on new homes has no effect on how many new homes are built.

Landlords not buying homes, or landlords selling existing homes, are equivalent ways to shift the composition of ownership of the housing stock.

This would be much more obvious if we lived in a world where one person owned all the dwellings – the way to increase homeownership in this world is for the owner to sell some of their dwellings to renters. The maths doesn't change when there are millions of landlords.

To boost homeownership back to its 71% peak level requires over 500,000 landlord sales in net terms – whether that is landlords not buying new homes or selling their existing homes. That's about a year's worth of normal turnover (sales) in the housing market. It would take nearly a million landlord sales to get us to 75% homeownership.

Publicly subsidised rental and ownership

There is nothing stopping any government from buying and building homes, ensuring they are of a quality standard they like, and renting or selling them to whoever they like at any price. In fact, doing this can make money while making housing cheaper.

The Smith Collective, Australia's first build-to-rent project and the former 2018 Commonwealth Games Athlete's village, is owned by a government. Just not an Australian government. It is owned by the Abu Dhabi sovereign wealth fund. That government thinks building new homes for Australians and renting them is a good investment.

Even owning housing and renting below market is a good investment. The Land and Housing Corporation (LAHC) owns the New South Wales public housing stock. The value of the housing assets it owns increased from $32 billion in 2012, to $54 billion in 2019, a massive $22 billion gain.[11] Despite housing high needs residents and extremely low rents, the ongoing cost was only around $800 million per year – an amount any negatively geared housing investor would be happy with on $22 billion gain in property equity over seven years.

In fact, Singapore's public Housing and Development Board has built most new homes in Singapore since the 1960s. By selling them cheaply to residents (often below half the private market price) it has boosted homeownership in that country from 29% in 1970 to 90% in 2015. Any rental market problems are greatly minimised when less than 10% of households rent privately compared to when 70% do.

The choice not to do this is a choice to have more households facing the cyclical market conditions in private rentals, with minimal ability to regulate the pace of change of those rents.

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[11] Murray, C. and Phibbs, P., 2023. Reimagining the economics of public housing at Waterloo. https://osf.io/s5jc8