



Vacancy Rate Patterns in Private Rental Housing

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Abstract

Evidence of a decline in low rent housing stock is evident in Australia and overseas. Increases in homelessness numbers in this period have been linked to these declines. But there is a very puzzling aspect to these findings because it would appear that vacancy rates in the low rent housing stock are relatively high. This paper explores these issues using a unique panel database that permits measurement of various dimensions of housing supply across value segments in a metropolitan private rental housing market, and at different points in time. We describe vacancy patterns, the turnover of tenancies and the survival rate of properties. We find that vacancy rates are indeed higher and this is largely due to a higher tenancy turnover rate among low rent properties. Some evidence is offered in support of the hypothesis that investor managers are concentrated in this low rent segment, and their inferior screening mechanisms result in higher turnover rates because of a typically poorer quality landlord-tenant match.

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Introduction: Some Issues

Evidence of a decline in low rent housing stock is evident in Australia and overseas. Yates and Wulff (2000) using census data show that though the overall size of the private rental housing stock increases between 1986 and 1996, the number of low rent dwelling units actually declined. The impacts on affordable rental housing are exacerbated by the presence of higher income households in the low rent stock. A follow-up study found that between 1996 and 2001, the growth in Australia's private rental stock was solely in the top quintile of the rent distribution. Furthermore, there had been a slight increase since 1996 in the proportion of low rent dwellings being occupied by other than low income households (from 58 per cent in 1996 to 61 per cent in 2001) (Yates et al, 2004). The implication is that growing shortages are displacing lower income households into more expensive rental housing that leads to affordability related housing stress. The affordability problems may not be alleviated by the Australian Government's Rent Assistance programme (RA) because of upper rent thresholds that leave displaced lower income households exposed to high rent burdens. In the USA Park (2000) claims that between 1974 and 1993 there was a decrease in the nation's low rent housing stock from 8.5 million to 5.5 million in this period. Increases in homelessness numbers in this period have been linked to these declines.

But there is a very puzzling aspect to these findings because it would appear that vacancy rates in the low rent housing stock are relatively high. In the USA Jenks (1994) has shown that low rent vacancy rates are typically greater than high rent vacancy rates, and that low rent vacancy rates rose during precisely the period that rates of homelessness increased. Jenks interpreted his findings as showing that homelessness and affordability problems are not caused by a lack of housing for the poor. Rising low rent vacancy rates and rising rent burdens for the lowest income households can coexist if the latter's housing demand is shifting toward higher quality more expensive housing.

In Australia Landt and Bray (1997) have offered a similar analysis. They find that households in receipt of RA pay rents broadly similar to those paid by all rental households; they conclude that low-income households are choosing to participate in a wide spectrum of the rental market. The implication is that many of those low-income households with high rent burdens have chosen to occupy higher quality more expensive housing (with the help of RA), rather than being constrained by a lack of access to low rent (cost) housing. Demand side subsidies are then working well and the upper rent threshold, where additional RA cuts out, prevents RA recipients with a price elastic demand for housing from over-consuming housing at the expense of taxpayers.

This is a critical debate as its resolution one-way or the other has profound policy implications. The Yates and Wulff (2000) findings may be reconciled with the vacancy rate patterns in at least two ways. Firstly, low rent housing stock happens to be located in areas where there is little or no demand, and in areas where demand is strong there are few low rent-housing opportunities¹. Secondly, agency problems prompt some landlords to employ screening mechanisms that are designed to avoid such hazards. In Australia real estate agents use tenancy databases that list 'high-risk' tenants who have defaulted on rent payments, damaged property or breached the terms of a lease to screen prospective tenants. Agents argue that they are able to fill tenancies more quickly and efficiently with

¹ But this begs a further question. The total private rental stock increased by nearly 30% in the 1986 – 1996 period. If there were growing excess demand pressures in certain areas why were they not met from the healthy expansion in total supply over this period?

the aid of these databases (Adkins et al, 2003; Short et al, 2003). If agency problems are more severe in low rent segments and real estate agents have a smaller market share in these segments, higher vacancy rates will be evident in low rent segments. The paper's principal focus is on the second of these two possible explanations².

We begin by looking at nationwide vacancy patterns in private rental housing. A data source that can shed light on these issues is the Australian Bureau of Statistics 1997 Rental Investors Survey (1997 *RIS*). It permits measurement of vacancy rate patterns across value segments in private rental housing. We are then able to gauge whether vacancy rate patterns in Australia match those found in the USA.

We then use a panel data set that enables us to chart the vacancy, turnover and survival history of a sample of private rental dwellings in the city of Adelaide between 1990 and 2002. The vacancy, turnover and survival rates of this sample of properties are compared across value segments. In addition, the use of screening mechanisms and their impact is explored by comparing real estate agent managed properties with properties that are investor managed.

Vacancy Rate Patterns in Australia

Evidence from the 1997 *RIS* confirms that vacancy rates are higher in low value segments of the private rental housing stock in Australia. Table 1 presents our findings by property value decile. There are two vacancy measures. The first is the mean number of weeks that a property is vacant in the past 12 months as calculated for those properties that have been vacant at some time in last 12 months. This is a *conditional* vacancy spell measure. The second is the percentage of properties that have had a vacancy spell in the past 12 months. It is an incidence of vacancy measure.

The analysis by property value reveals that:

- There is a U-shaped relationship between mean conditional vacancy spells and property value deciles;
- The incidence of vacancies is relatively high in the lowest property value decile with almost 50% of dwellings vacant at some point in the previous 12 months. This incidence of vacancy measure is typically lower in middle-higher property value deciles.

² The researchers will also explore the first of these explanations.

Table 1

Property value decile V ¹	Mean no. of weeks vacant ²	Mean Maintenance per dollar of property value ratio	Percentage constructed at least twenty years ago	Percentage of owners intending to sell in the next two years ³	Percentage vacant in last 12 months	Mean of gross rent to property value ratio ⁴	Percent- age managed by an estate agent
\$ ('000s)	N	Weeks	Cents	%	%	%	%
10<=V<=69	278	11.4	1.39	77.8	29.8	49.8	9.8
69<V<=80	284	9.0	1.27	68.1	17.3	36.3	8.0
80<V<=95	308	8.5	1.16	53.9	20.7	37.6	7.5
95<V<=110	334	7.3	0.89	54.9	19.2	31.7	7.1
110<V<=120	211	7.2	0.76	49.3	20.9	35.7	6.7
120<V<=135	272	7.0	0.65	45.3	16.7	30.8	6.4
135<V<=150	300	8.3	0.70	45.1	17.2	33.2	6.1
150<V<=180	283	9.3	0.67	47.5	18.6	27.2	5.9
180<V<=240	249	7.3	0.65	52.7	19.4	30.2	5.8
240<V<=999	268	9.4	0.60	61.2	17.6	35.8	5.2
Total	2,787 ⁵	8.6	0.88	55.5	19.6	34.8	6.9

Source: Australian Bureau of Statistics (ABS), Rental Investors Survey (RIS), 1997

Notes:

1. The count for each decile is not 10% of the sample. This has occurred because at some decile cut-points there are a high number of cases for a particular rental value resulting in a high count for the decile and a lower count for the following decile.
2. N = 959 because only selected cases where property has been vacant at some time in last 12 months. The ABS Curf glossary states "weeks residential property vacant" = the total number of weeks the residential rental property was vacant in the twelve months prior to the survey reference date of June 1997. See survey questions 120, where asked 'since June last year have any dwelling units been vacant at any time', and question 121, 'for how many weeks in total were those dwelling units vacant'. Therefore, where case reported in excess of 52 weeks vacant, case set to = 52 weeks. Only five cases reported vacancy in excess of 52 weeks.
3. Proportion of property owners who know whether they intend to sell or not. Owners who report 'Unknown/maybe' are excluded.
4. Mean (gross annual rent/property value)
5. Total sample size is 2,787. There are 171 excluded cases because current property value reported as 'unknown'. All other variables reported as 'unknown' have also been excluded when computing values for that variable.

Table 1 also shows that over three-quarters (77.8%) of stock in the lowest property value decile was constructed at least twenty years ago as compared to 55.5% of the total rental stock. Furthermore, in the lowest decile typical maintenance expenditures per dollar of property value (at 1.39 cents) are more than double typical maintenance expenditures in the highest decile. It would seem that older, obsolete properties filter down the property value chain.

The gross rental yield measure also exhibits strong patterns:

- Gross rental yields systematically decline with increases in property value. At 9.8% the mean gross rent to value yield in the lowest decile is almost twice that in the highest decile;
- Despite the high gross yields just under a third (29.8%) of investors in the lowest decile are intending to realize their property investment in the next two years, as compared to one-fifth of investors (19.6%) across the whole rental stock and 17.6% in the highest property value decile.

We typically think of high vacancy rates putting downward pressure on rent yields, and low rent yields prompting the exit of investors. But these patterns are reversed in this data³. One final observation may be of some relevance in this respect and it is documented in the final column of table 1. In the lowest property value segment 48.6% of properties are managed by estate agents, which is below the market share of estate agents in the rest of the rental stock (60%). Estate agents typically access tenancy databases to screen tenancy applicants, and investor managers generally do not have such access (see appendix 1). In Adkins et al (2003) it is argued that tenancy databases could facilitate a speedier completion of the screening process, and thereby reduce vacancy spells. There is some evidence to support this in the Rental Investors Survey. The stock managed by real estate agents has a mean vacancy spell of 7.5 weeks while that managed by the landlord himself/herself has a mean vacancy spell of 10.1 weeks.

The database operators also claim that they provide a reliable means of identifying high-risk tenants⁴. Tenant histories are recorded on the databases and a tenant is 'listed' if it has in the past defaulted on rent payments, damaged property or breached a tenancy agreement in some other way. A key potential outcome of screening using these databases is displacement of 'listed' high-risk tenants from the estate agent managed segment of the stock. Estate agents exclusive use of tenancy databases allows them to fill vacancies with low-risk tenants. Investors using estate agents to manage properties will be more inclined to renew tenancies as compared to investor-managers who fill vacancies with a lower expected quality of tenant.

As a result of screening 'listed' tenants have more limited access since they can only sample rental housing opportunities offered by investor managers. The displacement of 'listed' tenants implies that the variance in tenant quality among prospective tenants is

³ Wood and Watson (2001) and Wood and Tu (2004, forthcoming) explore how tax factors are contributing to these gross rental yield patterns.

⁴ A reason (see appendix 1) for the emergence of these databases is the 1988 Commonwealth Privacy Act that prevented real estate agents gaining access to an individual's credit history as held on credit databases. Tenancy databases are however a legitimate means of tenant screening.

higher in the investor-managed stock⁵. The value of expected tenant quality will rise with time on the market, and the rate of increase will be a positive function of the variance in expected tenant quality. Investor-managed properties will be likely to register the greatest gains in tenant quality from time on the market, and will then be prepared to sample more tenant offers in the search for higher tenant quality.

There are then, three factors that could cause higher vacancy rates among investor-managed properties. First, real estate agents exclusive access to tenancy databases facilitates a speedier completion of the screening process. Second, use of tenancy databases results in the displacement of high risk tenants who can only sample vacancies in the investor managed stock. Since the variance in tenant quality will be higher in the investor-managed stock, investor managers will sample more tenant offers when filling a vacancy. Finally, high risk tenants will occupy the investor-managed stock, and thus turnover rates will be higher. If investor managers have a higher market share among low value properties, vacancy rates will be higher in this value segment.

Rental Bond Data

The Rental Investors Survey is a cross section database and has the limitations of such databases. In Australia, State Governments require the lodgement of bonds with Tenancy Boards or Tribunals who maintain records with regard to rent, dates at which bonds are lodged and returned, and a limited range of property and location characteristics. These records have been organised into panel databases (see O'Dwyer, forthcoming) that permit analyses of rental property histories. These databases represent a potentially rich source of information on the supply side dynamics of private rental housing markets. Results presented in this paper are drawn from the South Australian database but relate only to Adelaide, the capital city of the state.

Specifically, the panel databases consist of a number of primary variables from which a range of measures has been derived. The primary variables include:

- Bond lodge date: the start date of a tenancy is identified by the date that the bond was lodged with the Rental Tenancy Tribunal (RTT). The beginning of a new tenancy in a dwelling is identified by a subsequent lodge date. The analysis was limited to 30 tenancies per dwelling because it was found that over 95 per cent of dwellings had fewer than this amount over a ten-year period (O'Dwyer, forthcoming).
- Bond refund date: the date that a bond was refunded to the tenant. At the end of a tenancy, the tenant must submit an application for a refund of their bond (usually the equivalent of one month's rent). As this is the only information available regarding the completion of a tenancy, this variable is used as an end date to the tenancy⁶.

⁵ Both high and low risk tenants can sample vacancies in the investor-managed stock, but 'listed' high-risk tenants cannot sample vacancies in the estate agent managed stock.

⁶ Problems that arise from this assumption include the refund date reflecting the promptness (or otherwise) of the tenant to formally submit a refund application, and the possibility that the refund has been delayed or withheld due to a breach of lease arrangements.

- Weekly rent: the weekly rent paid at the outset of the tenancy is recorded on the bond form. This is not, however, updated throughout the life of the tenancy. The Consumer Price Index (CPI) was used to adjust all nominal rent amounts to the June 1996 dollar equivalent.

The panel database for the state of South Australia consists of 19,933 dwellings (10% sample) for which at least one bond has been lodged with the Rental Tenancy Tribunal (RTT) between 1990 and 2002. During 1990, however, the South Australian RTT was in the process of transferring records from hard copy format to computer records. Consequently, not all records had been computerised by the end of 1990. Our understanding is that by 1991 the computerisation of records had been completed and hence we begin our analysis of vacancy patterns using the 1991 stock. As mentioned, findings in this paper relate only to Adelaide, the state capital city of South Australia, and are drawn from a total of 15,315 dwellings. Using the above variables, measures of vacancy, turnover and survival have been computed and compared across rent segments for the private rental market in Adelaide.

The vacancy period is the sum of all vacant periods throughout the life of a dwelling in the rental market. Vacant periods are measured by calculating the difference (in days) between the refund date of the bond of the initial tenancy, and the lodge date of the bond of the following tenancy⁷. When a 'vacant' period extended for more than six months, however, these periods were excluded from all vacancy measures. It was decided that such a long 'vacancy' (many years in some cases), was more likely to be a temporary exit from the rental market, rather than a true period of vacancy. The length of time that a dwelling has spent in the rental market (its 'life' in the market), was measured from the date that its first bond was lodged with the RTT, to either the final bond refund date or, if the final tenancy continued, to the 31 December 2002 end date for the timeframe. The vacant periods of greater than 6 months were subtracted from this 'survival period'.

The vacancy rate employed in this study is the sum of all the days that a dwelling is vacant, divided by the length of time (in days) that the dwelling is in the rental market. For example, a dwelling may have three vacant spells of 15 days each during its life in the rental market. If the dwelling was in the market for 500 days, then the vacancy rate would simply be: $45/500 = 0.09$. Again, when the 'vacant' period was greater than 6 months it was not considered a vacancy and was not, therefore, used in the calculation of this vacancy measure.

The conditional vacancy spell measure represents the length of a vacancy for those dwellings that have experienced a change in tenant. The conditional vacancy spell is computed using the sum of all the days that a dwelling is vacant, divided by the number of tenancies in that dwelling.

The number of tenancies per dwelling equates to the number of bonds lodged with the RTT and has been used to measure the turnover rate per annum. This measure is calculated by dividing the number of tenancies in the dwelling, by the length of time the dwelling has spent in the rental market.

⁷ Delay in applying for a bond refund will result in an underestimate of the vacancy spell. Provided delay is a random occurrence our conclusions will be unaffected.

Vacancy and Survival Patterns

Our vacancy rate measure is the proportion of a property's 'life' that is spent vacant. We begin by analysing the vacancy and turnover history and survival patterns of rental properties that were being rented in 1991. There is a negative relationship between weekly rent and the vacancy rates, that is, low rent properties have relatively high vacancy rates (Table 2)⁸. In the stock as a whole the vacancy rate is 2.83%, but in the lowest weekly rent decile the rate is 3.4% while in the highest decile it is only 2.60%. The same conclusions are evident if the properties are grouped into deciles defined using the 1991 distribution of rents, or the weekly rent ranges employed by Wulff and Yates (2000)⁹.

The vacancy rate is a function of the conditional vacancy spell, i.e. the length of a vacancy conditional on a change of tenancy, and the turnover rate, i.e. the rate at which tenancies change. In more formal terms define λ as the probability of a household leaving a unit (quitting or terminated tenancy) and α as the probability of renting a unit in a given period as a function of the landlord's asking rent. The inverse $1/\lambda$ is then the passage of time from occupancy to vacancy (expected duration of tenancy) and $1/\alpha$ is the expected vacancy duration. Hence the steady state probability of vacancy (π_v) is given by (Guasch and Marshall, 1985):

$$\frac{\alpha}{\alpha + \lambda} \quad (1)$$

Note that the smaller is $1/\lambda$ the higher is the steady-state vacancy rate, so the turnover rate (the number of tenancies per period of time) positively contributes to the steady-state vacancy rate and implies that in properties occupied by transient tenants or managed by landlords or agents who are not inclined to renew tenancies, vacancy rates will be high¹⁰.

The measures of mean conditional vacancy spell and turnover rate in table 2 are relevant here. It would seem that there is relatively little variation in the conditional vacancy spell. Once a property becomes vacant the typical vacancy spell is around 14 days and this does not systematically differ by rent decile¹¹. On the other hand, there is a considerable variation in turnover rate with low rent properties more likely to become vacant (high λ , low $1/\lambda$) than high rent properties. This suggests that the quality of match between tenant and landlord is inferior in low rent properties.

⁸ The data reported in table 2 relate to those dwellings that were in the rental market at the end of the second quarter in 1991. As mentioned, the rents for these dwellings have been adjusted to the quarter two, 1996 equivalent dollar values. The decile ranges presented in table 2 are based on the distribution of rents in quarter two 1996. The data in table 2, therefore, comprise the rental stock of quarter two 1991 grouped to deciles based on the 1996 distribution of rents.

⁹ The results using these alternative definitions of rent segments are available from the authors on request.

¹⁰ Transient tenants are likely to be younger persons. If this group are more likely to be resident in small units belonging to low rent segments, the latter is expected to have high vacancy rates.

¹¹ Once again this conclusion seems to be confirmed using different definitions of rent segments. With the properties grouped into deciles defined using the 1991 distribution of rents the conditional vacancy spell in the lowest rent decile is slightly lower than that in the highest rent decile, and this same pattern is evident in the Wulff and Yates rent segments.

Table 2: Vacancy, turnover, survival and location patterns in the 1991 Adelaide private rental stock*

Rent deciles (\$/wk) end Q2 1996 n			Mean conditional vacancy spell	Mean no. of tenancies	Mean turnover rate per annum	Mean vacancy rate	Mean survival period	Survival rate – dwellings in rental market in Q2 1991 & Q4 2002		Mean location (km from CBD)
			Days				Years	n	%	
1	\$1-\$86	135	15.2	6.5	0.9125	0.0338	7.9	56	41.5	9.4
2	\$87-\$100	266	14.4	7.2	0.8994	0.0321	8.7	132	49.6	7.6
3	\$101-\$115	502	14.2	7.3	0.9151	0.0307	8.7	274	54.6	8.5
4	\$116-\$127	193	16.5	6.5	0.8389	0.0361	8.5	94	48.7	9.6
5	\$128-\$136	231	13.9	6.3	0.9467	0.0291	7.7	90	39.0	12.2
6	\$137-\$143	144	13.4	5.6	0.7508	0.0230	8.3	58	40.3	12.5
7	\$144-\$152	256	13.7	5.3	0.8324	0.0268	7.3	103	40.2	13.1
8	\$153-\$162	360	13.9	5.5	0.8481	0.0275	7.7	141	39.2	11.8
9	\$163-\$181	492	13.8	4.7	0.8054	0.0239	7.1	160	32.5	9.4
10	\$182+	526	14.2	4.5	0.8095	0.0260	6.4	129	24.5	7.5
	Missing rent	17	15.5	7.8	0.9039	0.0306	8.6	8	47.1	6.9
Total		3,122	14.2	5.8	0.8541	0.0283	7.7	1,245	39.9	9.7

Source: South Australian Rental Tenancy Tribunal (RTT) database

*Properties grouped to the distribution of rents in quarter two 1996

Table 2 also examines the survival attributes of rental properties by rent segment and presents information on their location relative to the CBD. The mean length of time a rental property survives in the market is 7.7 years. This is an underestimate since 39.9% of observations are right censored, and this bias is a caveat when comparing survival periods by rent segment. The mean survival periods in low rent segments are consistently higher than mean survival periods in high rent segments. Indeed the typical property in the lowest rent segment survives for 1.5 years longer than the typical property in the highest rent segment¹².

Thus a property that enters or filters down into low rent segments is more likely to survive in the rental market, a puzzling finding in view of the high vacancy rates in these segments and the decline in low rent housing stock that is evident from Australian Census of Population and Housing data (Wulff and Yates, 2000). Table 2 also lists the proportion of properties leased in quarter 2 1991 that remain leased at the end of quarter 4 2002. Only 24.5% of properties in the highest rent segment survive throughout the timeframe, but this survival rate is much higher in low rent segments, with a 41.5% survival rate in the lowest rent segment.

The higher vacancy rates among low rent properties might be due to adverse locations in neighbourhoods distant from job opportunities and public services. But in terms of distance to the CBD low rent properties differ little from high rent properties. It is of course conceivable that the rent segments are located in opposite directions from the CBD, with low rent segments located in inferior neighbourhoods despite a similar radial distance from the CBD. But if this were true we would anticipate longer conditional vacancy spells for low rent properties, and table 2 does not offer any support in this regard.

There are a number of possible reasons here:

- Tenants in this segment are more mobile. Transient tenants are likely to be younger persons. If this group are more likely to be resident in small units belonging to low rent segments, the latter is expected to have relatively high vacancy rates.
- Landlords are more likely to experience agency problems in this segment and are therefore less inclined to renew tenancies.

The last of these hypotheses can be examined further. Real estate agents manage around 52%¹³ of the housing stock and typically have exclusive use of tenancy databases that list 'high-risk' tenants who have a past record of default on rent, damage to property etc. This should enable real estate agents to achieve a higher quality tenant-landlord match than investor-manager landlords, who screen prospective tenants themselves without the aid of tenancy databases. Table 3 shows that real estate agent managed properties have a lower market share in low rent segments. In the lowest rent decile estate agent managed properties account for only 38% of properties, and this systematically increases, reaching 63% of properties in the highest rent decile. If vacancy patterns differ between investor managed and real estate agent managed rental properties, there will be a corresponding difference by value segment.

¹² These patterns are even more evident when we use alternative definitions of rent segments.

¹³ This figure is for 1991 only and is taken from the SA RTT database. Of the remaining properties, nearly 48% were managed by someone other than a real estate agent, and in about 1% of cases, the management type was unclear.

Table 3: Property managers by rent decile, 1991 Adelaide private rental stock

Property Manager		Q2 1991 stock grouped to Q2 1996 decile ranges										
		\$1-\$86	\$87-\$100	\$101-\$115	\$116-\$127	\$128-\$136	\$137-\$143	\$144-\$152	\$153-\$162	\$163-\$181	\$182+	Total
RE Agent	n	50	109	223	94	115	70	129	210	266	325	1,591
	%	37.6%	41.3%	44.8%	49.5%	50.7%	48.6%	51.0%	59.3%	54.7%	62.9%	51.9%
Private Landlord	n	83	155	275	96	112	74	124	144	220	192	1,475
	%	62.4%	58.7%	55.2%	50.5%	49.3%	51.4%	49.0%	40.7%	45.3%	37.1%	48.1%
Total	n	133	264	498	190	227	144	253	354	486	517	3,066
	%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: South Australian Rental Tenancy Tribunal (RTT) database

Table 4a: Vacancy, turnover, survival and location patterns of Adelaide private rental stock managed by real estate agents (1991)

Rent deciles (\$/wk) end Q2 1996		n	%	Mean conditional vacancy spell	Mean no. of tenancies	Mean turnover rate per annum	Mean vacancy rate	Mean survival period	Survival rate – dwellings in rental market in Q2 1991 & Q4 2002		Mean location (km from CBD)
				Days				Years	n	%	
1	\$1-\$86	50	3.1%	15.0	6.1	0.8496	0.0322	8.2	17	34.0	9.3
2	\$87-\$100	109	6.8%	16.3	7.8	0.8823	0.0359	9.7	61	56.0	7.3
3	\$101-\$115	223	14.0%	14.6	7.4	0.8741	0.0313	9.0	118	52.9	8.6
4	\$116-\$127	94	5.9%	17.1	6.6	0.8346	0.0371	8.9	47	50.0	9.8
5	\$128-\$136	115	7.2%	14.4	5.6	0.9341	0.0272	7.1	41	35.7	12.8
6	\$137-\$143	70	4.4%	13.4	5.4	0.7652	0.0224	8.3	28	40.0	13.0
7	\$144-\$152	129	8.1%	11.5	5.7	0.8371	0.0237	7.6	53	41.1	14.0
8	\$153-\$162	210	13.2%	13.8	5.4	0.8435	0.0277	7.6	81	38.6	12.5
9	\$163-\$181	266	16.7%	12.8	4.5	0.8013	0.0223	6.7	67	25.2	10.3
10	\$182+	325	20.4%	14.0	4.2	0.7805	0.0237	6.1	70	21.5	7.8
	<i>Missing rent</i>	5	0.3%	9.4	7.6	1.1416	0.0175	7.9	2	40.0	8.1
	Total	1,596	100.0%	14.1	5.6	0.8337	0.0271	7.6	585	36.7	10.2

Table 4b: Vacancy, turnover, survival and location patterns of Adelaide private rental stock managed by investors (1991)

Rent deciles (\$/wk) end Q2 1996		n	%	Mean conditional vacancy spell	Mean no. of tenancies	Mean turnover rate per annum	Mean vacancy rate	Mean survival period	Survival rate – dwellings in rental market in Q2 1991 & Q4 2002		Mean location (km from CBD)
				Days				Years	n	%	
1	\$1-\$86	83	5.6%	15.5	6.7	0.9555	0.0353	7.7	38	45.8	9.5
2	\$87-\$100	155	10.4%	13.1	6.8	0.9134	0.0299	8.1	70	45.2	7.8
3	\$101-\$115	275	18.5%	13.8	7.3	0.9487	0.0299	8.5	153	55.6	8.4
4	\$116-\$127	96	6.5%	15.8	6.3	0.8515	0.0357	8.1	45	46.9	9.1
5	\$128-\$136	112	7.5%	13.6	7.0	0.9630	0.0314	8.2	47	42.0	11.5
6	\$137-\$143	74	5.0%	13.3	5.7	0.7371	0.0235	8.2	30	40.5	12.0
7	\$144-\$152	124	8.3%	16.1	5.0	0.8327	0.0299	7.1	49	39.5	12.2
8	\$153-\$162	144	9.7%	14.0	5.7	0.8550	0.0276	7.8	58	40.3	10.7
9	\$163-\$181	220	14.8%	15.4	5.1	0.8049	0.0266	7.7	92	41.8	8.5
10	\$182+	192	12.9%	14.1	5.2	0.8506	0.0285	7.0	58	30.2	7.4
	<i>Missing rent</i>	12	0.8%	17.9	7.8	0.8049	0.0360	8.9	6	50.0	6.4
	Total	1,487	100.0%	14.4	6.1	0.8758	0.0295	7.9	646	43.4	9.3

Source: South Australian Rental Tenancy Tribunal (RTT) database

Tables' 4a and 4b address this issue. Table 4a presents the vacancy, survival and location patterns of stock managed by real estate agents and table 4b examines these patterns across the investor managed stock. The mean vacancy rate is 2.7% on stock managed by real estate agent and 3.0% on investor managed stock. However, the conditional vacancy spell is similar across the management types (between 14 and 15 days). But there is a more substantial difference in mean turnover rates with real estate agent managed stock turning over at the rate of 0.83 per annum compared to 0.88 per annum for investor managed stock, which is a 6% difference. Part of this is due to a greater market penetration by estate agents in higher rent stock where turnover rates are lower regardless of management type. It would seem that estate agents are no quicker in filling vacancies, but they achieve a higher quality tenant-landlord match so that separations are less likely.

There are also some differences in survival and location patterns. Estate agent managed stock survives in the market for shorter periods of time, and hence 36.7% per cent estate agent managed stock is leased at the end of our timeframe; while a larger 43.4% of investor managed stock survives until the end of the timeframe. Finally, estate agent managed stock is less likely to be proximate to the CBD. It has a mean 10.2 km distance from the CBD while investor managed properties are a mean 9.3 km distance from the CBD.

Conclusion

This work was largely in response to evidence of a decline in low rent housing stock in Australia and overseas, and puzzling further evidence suggesting that vacancy rates in this low rent stock were relatively high. Results from the Australia-wide *Rental Investors Survey (1997)* confirmed that vacancy rates are higher in low value segments of the Australian private rental stock, a finding that corresponds with evidence from US studies. This study also used a unique panel database that allowed the analysis of vacancy patterns, tenancy turnover rates and property survival rates across rent segments and property management types for the private rental market of Adelaide in 1991. The analysis of this database found:

- That low rent properties in Adelaide had relatively high vacancy rates, thus a negative relationship between weekly rent and vacancy rates was evident;
- There was relatively little variation between rent segments in the conditional vacancy spell measure;
- There was considerably more variation in the turnover rate, with low rent properties more likely to become vacant than high rent properties;
- Mean survival periods in low rent segments are higher than those in high rent segments;
- Mean survival rates are higher in the low rent segments with more properties remaining leased at the end of the study timeframe than in high rent segments;
- Properties managed by real estate agents are under-represented in the low rent segments compared to high rent segments;
- Investor-managed stock turned over at a higher rate than estate agent managed stock.

It would seem that the quality of the landlord-tenant match is inferior in low rent segments, and that this is the major cause of higher vacancy rates in these value segments. The inferior landlord-tenant match could be due to more severe agency problems that result in landlords being less inclined to renew tenancies. Since investor landlords are

concentrated in low rent segments, any agency problems are more closely associated with this management type. But we are unable to judge how far this is due to the preponderance of high risk or relatively mobile tenants in low rent segments, and how far it is due to poor management techniques employed by investor managers. These are issues for further research.

Finally, it is important to draw attention to the fact that Adelaide is one of Australia's smaller state capitals and its housing market has been relatively subdued during the timeframe of this study. We cannot, therefore, be confident that these findings can be generalised to other Australian cities. Future research will compare the Sydney and Brisbane private rental markets to investigate the degree to which the Adelaide findings are representative of all Australian cities.

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APPENDIX 1: Residential Tenancy Databases

Background

Residential Tenancy Databases (RTDs) are privately owned electronic databases that collect information on tenants to assist property managers and landlords in assessing risks and to identify potential problem tenants. RTDs were pioneered by Remington White Australia Pty Ltd in 1987, in response to two factors:

- Real estate agents losing access to credit reporting agencies with the introduction of the *Privacy (Amendment) Act 1990*, amending the *Commonwealth Privacy Act 1988* and;
- The introduction of, or amendments to tenancy legislation by state governments to provide for standard lease agreements, clearer rights and obligations and access to affordable dispute resolution mechanisms.

RTDs operate on a fee-for-service basis, providing information to real estate agents and lessors about prospective tenants, such as prior breaches of obligations under previous Residential Tenancy Agreements. Other personal information collected about the applicant during the course of their tenancy is also recorded and may be disclosed to the landlord, third party operators of tenancy reference databases and/or other agents. .

RTD Operation

Tenants may be listed on a RSD for a variety of reasons, and searches on the databases will advise of any of the following:

- Tenants recommended for their next tenancy by a Real Estate Agency;
- Tenants that have abandoned a property without notice;
- Tenants that have vacated owing money for damages, cleaning, rubbish removal, etc.;
- Tenants that have vacated owing money for rent arrears;
- Unpaid Court Orders reported by Agents;
- Tenants currently renting with another Agency;
- Referral back to a previous Agent in relation to a previous tenancy;
- Other RENT CHECKS run by other Agents (LAS 2004).

The length of time a tenant appears on a RTD depends on the circumstances of their listing. For example, tenants who breach their agreement, but do not have a debt are listed for 3 years. Tenants with a debt will remain on some RTDs until the debt is paid, or on others for 5 years.

While rules regarding the listing of tenants on RTDs vary from state to state, RTDs are subject to 'national privacy principles'. These national guidelines ensure that tenants have a right to access data held about them; the data must be complete, accurate and up to date and; tenants must give their consent before information can be passed on to third parties for 'secondary purposes'.

There are 8 database services throughout Australia, with the largest of these being the National Tenancy Database (NTD)/Remington White Australia Pty Ltd and Tenancy Information Centre Australasia Holdings Pty Ltd of Ashfield (TICA). The NTD operates in every state and territory and is officially endorsed by the Real Estate Institute of Victoria, Tasmania, the ACT and the Estate Agents Co-operative in NSW. The NTD has 4,000 members and more than 1 million tenant records.

Data from the NTD is only available to licensed estate agents and member groups that subscribe to the NTD system. In most cases, access to other RTDs is restricted to real estate agents, however some RTDs are available for use to property managers, including caravan park managers, restricted letting agents and self-managing landlords. The Australian Property Owners Database (APOD) is the only database available to self-managing lessors, however most operators do not accept individual landlords as customers. For example, membership to RTD Company, TICA, is

restricted to real estate agents; resident unit managers, caravan parks, housing cooperatives and government departments. Because the operation of RTDs is governed by National Privacy Principles, financial agencies do not have access to the databases.

Research

There has been, to date, minimal research undertaken into the use of RTDs in Australia. In 2003, AHURI (QLD) investigated the range and scope of RTDs and highlighted the perceived need for risk management in their use. A report commissioned by the Residential Tenancies Authority in QLD identified concerns with regard to inappropriate listings, unfair or poor database operating practices and reduced access to housing. More recently, problems with inaccurate and inappropriate listings on RTDs have resulted in Commonwealth/State Ministerial Council on Consumer Affairs announcing the establishment of a working party to consider options for a nationally consistent framework for regulating their use.