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## Survey of investors in the private rental market in South Australia

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**Abstract:**
Private rental housing in Australia is provided by a diverse group of property owners ranging from householders to non-profit institutions, employers and corporations. However the largest group of providers is made up of private households who supply some 60 percent of all rental accommodation. This investor mix is matched against what has been quantified as a shrinking supply of low cost private rental housing in Australia. Sustained government withdrawal from the public rental sector and the lack of enthusiasm from the large commercial sector ensures that these small investors, that is household or family, will continue to supply significant levels of rental housing including the low cost properties

This paper is based on a project funded by the Australian Research Council into the supply side of the private rental housing market in Adelaide the state capital of South Australia. The project aimed to develop a better understanding of the incentives and barriers to investment in this market in order to increase the level of investment particularly at the low cost end. The project sought to assess the incentives for investment by first examining the yields and returns from some 1000 properties bought for investment between January 1997 and March 2002. Secondly by surveying a sample of investors who had bought within the same period and whose properties are represented in the analysis of returns. This paper reports on the survey of investors.

**Keywords:** rental housing, housing market, investment

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# Survey of investors in the private rental market in South Australia

## Introduction

This paper is based on a project funded by the Australian Research Council into the supply side of the private rental housing market in Adelaide the state capital of South Australia. The project aimed to develop a better understanding of the incentives and barriers to investment in this market in order to increase the level of investment particularly at the low cost end. The project sought to assess the incentives for investment by first examining the yields and returns from some 1000 properties bought for investment between January 1997 and March 2002. Secondly by surveying a sample investors who had bought within the same period and whose properties are represented in the first analysis of returns. This paper reports on the survey of investors.

## Background

Private rental housing in Australia is provided by a diverse group of property owners ranging from householders to non-profit institutions, employers and corporations (Berry 2000). However the largest group of providers is made up of private households who supply some 60 percent of all rental accommodation. This investor mix is matched against what has been quantified as a shrinking supply of low cost private rental housing in Australia (Wulff, Yates and Burke 2001). Sustained government withdrawal from the public rental sector and the lack of enthusiasm from the large commercial sector ensures that these small investors, that is household or family, will continue to supply significant levels of rental housing including the low cost properties.

With the growing pressure on the private rental market in Australia especially at the low cost end (Berry 2003; Berry and Dalton, 2000; Yates and Wulff, 1999) various incentives to encourage investment have been proposed. These have included taxation reform, construction subsidies and the issuing of government bonds (Wood 2001; Wood and Watson 2001; Stroder and Reiger 2001; Affordable Housing National Research Consortium (AHNRC) 2001). However, as most investors own only one property (Yates 1996), and with demand strongest at the low cost end of the rent scale, it is important to encourage as many participants as possible into the private rental market. Governments, including those in the United Kingdom (Hughes, 1999; Crook and Kemp, 1999, 2002), have been keen to modernise the ownership of private rental housing by enlarging the landlord base. This requires a better information base and the application of understood property investment criteria to raise interest in such opportunities.

The assumed relationship between rental sub-markets and the level and nature of return within them is typically regarded to be one of higher yields (returns) for lower income properties. Owners of higher income rental property are said to receive lower yields compensated by proportionally lower operating cost, greater capital gains and lower risk. For these views to be tested, market values, real capital gains and consistent rates of return across sub markets need to be calculated.

## Methodology of the survey

A confidential survey of investors, who had purchased a residential property between June 1997 and March 2002, was undertaken, based on the following steps.

1. Properties that had been purchased for residential rental investment were identified by matching the South Australian Sales History file with the file of rental properties held by the South Australian Rental Bond Data File.
2. The sales of residential investment property were filtered to eliminate purchases that were probably of a non-market nature, such as sales where the vendor and purchaser were related in some way. This is done in two stages. First, in the initial sample selection, sales where the vendor and purchaser have the same surname were removed from the sample. Second, at the survey analysis stage where a relationship between the vendor and purchaser was identified, these transactions were removed from any further analysis.
3. Only purchases where tenants were paying market rents were employed in the analysis. The survey questionnaire to investors identified where rents could not be regarded as being at market levels such as where

there is a relationship between the investor and the tenant, or where the purchase of the property was subject to an existing rental agreement.

4. Estimates of rental returns (yields) were based on actual sale prices rather than relying on owners' estimates of market value. Rents were obtained from the Rental Bond Data File and both were adjusted for time.
5. After the selection process described above a population of 1000 investment properties was arrived at from which a sample of 400 properties was taken A pilot survey was conducted using a small sample of observations.
6. The final questionnaire was sent to the full sample of investors.
7. Expected responses were estimated to be about 100 completed surveys after follow-ups.
8. The returns were then to be analysed to establish the reasons for private residential investment and to find preferences for investment.

**The Analysis of Investors would represent**

- Descriptive analysis
- Cross tabulations
- Scaled response analysis
- Qualitative analysis of responses**.**

**The Analysis of Yields from the survey would represent**

- Only purchases where tenants are paying market rents will be used in the analysis.
- Both rents and sale price are to be indexed to account for change over time
- Yield to be based on
    - **Value at purchase** to come from the sale price
    - **Rent** based on bond data and survey

## Findings of the survey

There were 133 responses to the survey which represented a 33 percent response rate. However 43 of these respondents did not wish to be part of the survey or were ineligible. Another seven failed to fill in the survey. This resulted in 83 responses which could be used for the analysis of investors. This equates to approximately 8 percent of the investor population in metropolitan Adelaide as determined by the matched sales and bond file which, after cleaning, contained some 906 addresses of investors for the years 1997 to March 2002. As such the 83 responses are considered to be a representative sample of this investor population. The survey results are discussed below and presented as tables.

## How representative the survey sample

Table 1shows how representative the sample of returns is when compared to the population of properties purchased for rental investment. Based on a comparison of the property characteristics the sample appears to be reasonably representative of the population of properties purchased for rental investment.

**Table 1 Comparison of characteristics of survey sample and population**

| | Characteristic | Number | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|---|
| sample | Land Area | 52 | 0.01 | 0.14 | 0.07 | 0.02 |
| pop | | 632 | 0.00 | 0.27 | 0.07 | 0.02 |
| sample | ROOMS | 80 | 3.00 | 6.00 | 4.68 | 0.87 |
| pop | | 883 | 1.00 | 12.00 | 4.85 | 1.03 |
| sample | Equiv Area | 83 | 0.00 | 209.00 | 100.73 | 29.98 |
| pop | | 894 | 35.00 | 325.00 | 106.93 | 1.15 |
| sample | Condition | 82 | 5.00 | 9.00 | 7.29 | 0.91 |
| pop | | 898 | 3.00 | 9.00 | 7.22 | 0.03 |
| sample | Year built | 82 | 1880 | 1997 | 1967.87 | 20.63 |

| | | | | | | |
|---|---|---|---|---|---|---|
| pop | | 898 | 1880 | 2001 | 1966.30 | 0.69 |
| sample | Sale Price | 83 | 41000 | 320000 | 110764.63 | 46393.88 |
| pop | | 905 | 25000 | 490000 | 107992.51 | 1821.38 |
| sample | RENT | 83 | 60.00 | 360.00 | 156.78 | 39.48 |
| pop | | 905 | 47.00 | 495.00 | 157.50 | 1.62 |
| sample | Gross Yield | 78 | 0.03 | 0.13 | 0.08 | 0.02 |
| pop | | 905 | 0.03 | 0.26 | 0.08 | 0.00 |

# Characteristics of investors

## Private or company investors

Table 2 displays the ownership type of the investor's most recently acquired rental property by the investor's age category. Most of the investors in rental properties acquired their latest property as private natural person ownership (88 percent). This dominance ran across all age groups. Only 2.8 percent acquired their latest property as a private company.

**Table 2 Rental investors by nature of ownership by age group**

| ***Ownership type of most recently acquired investment*** | | *Age in years* | | | | *All Investors* |
|---|---|---|---|---|---|---|
| | | *18 to 34* | *35 to 44* | *45 to 64* | *65 and over* | |
| **Private Company** | Number of Investors | 0 | 1 | 1 | 0 | 2 |
| | % of Total investors | 0.0% | 1.4% | 1.4% | 0.0% | 2.8% |
| **Private Individual** | Number of Investors | 9 | 19 | 39 | 2 | 69 |
| | % of Total investors | 12.7% | 26.8% | 54.9% | 2.8% | 97.2% |
| **Total** | Number of Investors | 9 | 20 | 40 | 2 | 71 |
| | % of Total investors | 12.7% | 28.2% | 56.3% | 2.8% | 100.0% |

## Age and sex of rental investors

The most significant age group for rental investment was the 45 years to 64 years category. This group comprised 50.9 percent of the investors who declared their age. A further 32.1 percent of investors were aged 35 to 44 years while 15.1 percent of investors were aged 18 to 34 years inclusive. Only 1.9 percent of the investors was 65 years of age and over. There were more male (54.7 percent) than female (45.3 percent) investors. Within the age groups 18 to 34, 45 to 64 and 65 and over there were more male investors than female investors, however, in the 35 to 44 age group there were more female than male investors.

## Household type

Eighty four percent of all investors were couples. There was no difference in the propensity of being an investor between couples with or without dependent children.
The largest sub-categories of all investors were:

- couples aged 45 to 64 years with independent children (24.6 percent);
- couples aged 35 to 44 with dependent children (21.7 percent); and
- couples aged 45 to 64 with dependent children (17.4 percent)

### Highest level of formal education

Fifty two percent of investors had a tertiary education. This was the largest education category of the investors followed by high school certificate (20.6 percent) no formal education qualification (15.9 percent), and trade or advanced certificate qualification (11.1 percent).

## Birthplace of rental investors

Over 76 percent of rental investors were born in Australia, with the next largest group seven percent coming from United Kingdom and Ireland.

## Income of rental investors

Some 40.6 percent of all investors had a weekly income of less than $750 per week equating to an annual income of $39,000. Over 59 percent earned less than $1000 per week (an annual income of $52000). The median income for all investors was in the range of $751 to $1000 ($39000 to $52000).

In general the proportion of male and female investors in each income category was very similar apart from the two highest income categories. In the 35 to 44 year age group there is a higher proportion of women investor in the lower income groups (less than $39000).

## Investor income & price paid

Table 3 displays the weekly individual net income of Investors by price paid for the latest rental investment property. There are more investors with net weekly incomes in the 1-750 and 751-1250 groups than those that have net weekly incomes more than 1250. The cross tabulation of the quintile groups of price paid with the net weekly income group of the investor is statistically significant at the 5% level (Kendall Tau b statistic .002.) suggesting that the price paid for an investment is associated with an investors net weekly income.

**Table 3 Price paid for rental investment by individual net weekly income**

| Quintiles of Price Paid for latest rental property | Net weekly income group ($) | | | Total |
|---|---|---|---|---|
| | 1-750 | 751-1250 | More than 1250 | |
| Less than $93000 | 6 | 6 | 2 | 14 |
| $93000 to $110000 | 7 | 6 | 1 | 11 |
| $110001 to $133000 | 5 | 8 | 0 | 13 |
| $133001 to $158000 | 5 | 3 | 2 | 10 |
| more than $158000 | 0 | 7 | 7 | 14 |
| Total | 23 | 27 | 12 | 62 |

## Main source of income of rental investors

Wage and salary earners comprise 68.1 percent of all rental investors. Some 57.1 percent of these were aged between 45 and 64 years. More female investors relied on wage and salary from their employers (87.5 percent) compared to male investors (62.1 percent). The next main source of income of all investors was income from their own business or partnership (18.1 percent)

## Number of residential investment properties held by investors

Table 4 displays the number of residential investment properties held by investors. The majority of investors (65 percent) owned more than one rental investment property. This suggests that for the majority of investors they are not inexperienced when it comes to making decisions regarding the purchase of a residential rental investment. The median number of residential investment properties held by investors was 2.

**Table 4 Number of residential investment properties held by investors**

| Number of rental properties | Frequency | Percent |
|---|---|---|
| 1 | 29 | 34.939759 |
| 1.5 | 1 | 1.2048193 |

| | | |
|---|---|---|
| 2 | 28 | 33.73494 |
| 2.5 | 1 | 1.2048193 |
| 3 | 11 | 13.253012 |
| 4 | 4 | 4.8192771 |
| 5 | 5 | 6.0240964 |
| 7 | 2 | 2.4096386 |
| 28 | 1 | 1.2048193 |
| 40 | 1 | 1.2048193 |
| Total | 83 | 100 |
| Mean | 2.95 | |
| Median | 2.0 | |

## Usual place of residence

Table 5 displays the usual type of residence of the investor. The majority of rental investors live in a home that they own outright (57.1 percent). Over 31 percent of investors live in a home that they are buying. A small percentage of rental investors live in a home that they are renting (5.2 percent) or stay with family and friends while they are renting their investment property (6.5 percent).

**Table 5 Usual residence of rental investor**

| | **Frequency** | **Percent** |
|---|---|---|
| Living in home your buying | 24 | 31.2 |
| Living in home owned outright | 44 | 57.1 |
| Living in home your renting | 4 | 5.2 |
| Staying with family/friends | 5 | 6.5 |
| Valid Total | 77 | 100 |
| Missing Data | 6 | |
| **Total** | 83 | |

## Types of rental properties bought by residential rental investors

This section examines the characteristics of rental investment properties when the sample covered by the survey was matched against the South Australian Sales History File and the South Australian Residential Bond Data File

## Dwelling type

Table 6 displays a cross tabulation of the type of dwelling with the price quintile paid for the investment property. More detached dwellings were purchased as a rental property (62 percent) compared to attached dwellings (38 percent). More detached dwellings were purchased in the higher price quintiles compared to the lower price quintiles while the reverse was true for attached dwellings. The cross tabulation is statistically significant at the 5 percent level (Kendall Tau b statistic .009) suggesting that the dwelling type is associated with the price paid for an investment property.

**Table 6 Dwelling type by price quintiles**

| | Price Quintiles ( % within Dwelling Type) | | | | | All |
|---|---|---|---|---|---|---|
| Dwelling Type | < $93000 | $93000 to $110000 | $110001 to $133000 | $133001 to $158000 | > $158000 | dwellings |
| Detached Dwelling | 15.9% | 15.9% | 15.9% | 27.3% | 25.0% | 62.0% |
| Attached Dwelling | 29.6% | 25.9% | 25.9% | 7.4% | 11.1% | 38.0% |
| Total | 21.1% | 19.7% | 19.7% | 19.7% | 19.7% | 100.0% |

Table 7 displays a cross tabulation of the type of dwelling with the quintiles of rent achieved as at 2001 by the investment property. Only a small percentage of detached dwellings fall into the lowest rental quintile (less than

$140 per week) compared with attached dwellings that have 41.2 percent of their total number achieving the lowest rent quintile. The cross tabulation is statistically significant at the 5 percent level (Kendall Tau b statistic .002) suggesting that the dwelling type is associated with the rental achieved for an investment property.

**Table 7 Dwelling type by adjusted rent quintiles**

| % within Dwelling Type | Adjusted rent Quintiles (% within Dwelling Type) | | | | | All Dwellings |
|---|---|---|---|---|---|---|
| Dwelling type | < $140 | $140 to $149 | $150 to $160 | $161 to $180 | > $180 | |
| Detached Dwelling | 4.3% | 19.6% | 32.6% | 19.6% | 23.9% | 62.0% |
| Attached Dwelling | 41.2% | 17.6% | 11.8% | 14.7% | 14.7% | 38.0% |
| Total | 20.0% | 18.8% | 23.8% | 17.5% | 20.0% | 100.0% |

Table 8 summarises the property characteristics of the rental properties in the sample. Typically the properties had 4 to 5 rooms, 600 to 800 square metres of land, 70 to 130 square metres of living area, in reasonably good condition, built between 1960 and 1990, achieving 120 to 200 dollars a week in rent, purchased (adjusted to 2001) between $85000 and $165000 and yielding between 5 percent and 8.5 percent per annum based on the initial purchase price (adjusted to 2001).

**Table 8 Characteristics of the rental properties**

| | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|
| Land Area | 139 | 1434 | 682 | 215.7 |
| ROOMS | 3.00 | 6.00 | 4.68 | 0.87 |
| Equiv Area | 46.00 | 209.00 | 102.08 | 28.51 |
| Condition | 5.00 | 9.00 | 7.29 | 0.91 |
| Year built | 1880 | 1997 | 1968 | 20.63 |
| Price (2001) | 47369 | 246582 | 126134 | 43552 |
| RENT | 60 | 360 | 159 | 39.91 |
| Gross Yield (2001) | .030657 | .118957 | .068651 | .017223 |

## Value of investment

Table 9 displays the purchase price, as quintiles, with weekly rent, as quintiles. Nearly 21 percent of investors purchased their latest investment property for less than $93,000 while a similar percentage of investors purchased their latest investment property for more than $158,000. The majority of investors, almost 60 percent, purchased their latest investment property for less than $133000. The median purchase price was $121,480.
The median weekly rent was $155. Twenty percent of investors received less than $140 per week in rent and 17 percent received more than $180 per week in rent.

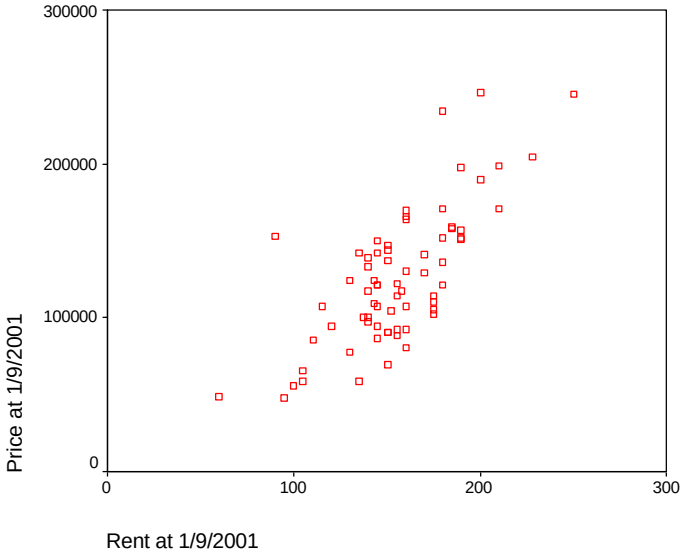
**Table 9 Purchase price (quintiles) by weekly rent (quintiles)**

| % within Weekly rent category | | | | | | | |
|---|---|---|---|---|---|---|---|
| Purchase Price quintiles[a] | Weekly rent quintiles[b] | | | | | All investors | |
| | < 140 | 140 to 149 | 150 to 160 | 161 to 180 | > 180 | Total | Median |
| < 93000 | 57 | 7 | 32 | 0 | 0 | 21 | $135 |
| 93000 to 110000 | 21 | 36 | 16 | 27 | 0 | 20 | $145 |
| 110001 to 133000 | 7 | 36 | 21 | 27 | 0 | 19 | $155 |
| 133001 to 158000 | 14 | 21 | 16 | 27 | 25 | 20 | $150 |
| > 158000 | 0 | 0 | 16 | 18 | 75 | 20 | $188 |
| Total | 20 | 20 | 27 | 16 | 17 | 100 | $155 |
| Median sale price | $81554 | $119072 | $114,194 | $128663 | $180108 | $122292 | |

[a] Purchase price adjusted to September 2001
[b] Weekly rent as at September 2001

The weekly rental received increased as the purchase price of the property increased. As depicted in Figure 1 there appears to be a linear relationship between price and rent (r square .54).

**Figure 1 - Scatterplot of price against rent**

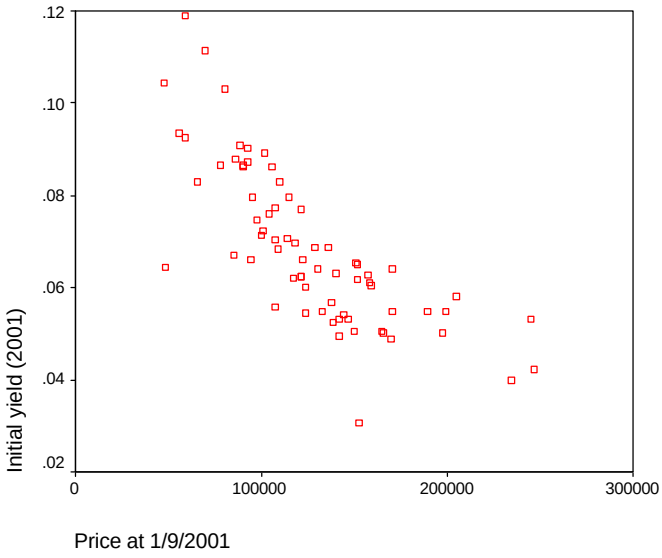



## Yield of the investment

The gross yield (purchase price adjusted to 2001 and annual rent adjusted to 2001) achieved by the investors ranged from .03 percent to 11.9 percent. The mean gross yield was 6.9 percent and the median gross yield was 7.4 percent.

A non-linear relationship exists between the gross yield and purchase price (Figure 2). The general nature of the relationship is that low priced rental investments achieve high gross yields while high priced rental investments achieve lower gross yields.

**Figure 2 - Scatterplot of initial gross yield against purchase price**



Investors used a variety of items in calculating their annual return. When asked to select more than one item most investors suggested they used actual annual expenses and/or purchase price in their calculation (Table 10). Only 14.5 percent of investors were not able to explain how they calculated their annual return.

**Table 10 Calculating annual return**

| Items used by Investors to Calculate Annual Return | | |
|---|---|---|
| | Frequency | Percentage |
| Actual Annual Expenses | 28 | 33.7 |
| Purchase Price | 18 | 21.7 |
| Actual Annual Vacancies | 17 | 20.5 |
| Before Tax | 10 | 12 |
| Current Rent | 9 | 10.8 |
| Rent at Purchase | 7 | 8.4 |
| Total Funds Invested | 5 | 6 |
| After Tax | 3 | 3.6 |
| Average Vacancies over Life of the Investment | 3 | 3.6 |
| Equity Funds Invested | 2 | 2.4 |
| Average Expenses over Life of the Investment | 2 | 2.4 |
| Current Price | 1 | 1.2 |

## Investment in rental property

The body of research in the existing literature suggests a variety of reasons for the different risks associated with the different priced investments and for the variation in yields that exists for same priced property. The reasons include the following.

- Lower priced investments have higher annual vacancies.
- Lower priced investments have higher amounts of bad debt from unpaid rent.
- Lower priced investments have greater risk due to damage to the property caused by the tenant.
- Annual expenses (council rates, taxes, repairs and maintenance, rental collection) are a greater proportion of the rent for lower priced investments.
- Lower priced properties may be in poorer condition and therefore require a greater amount of capital improvement.
- There is a greater chance of capital gain for higher priced properties compared to that of lower priced properties.

Therefore to compensate owners of lower priced properties for the additional risk they require a higher percentage of the purchase price as rent compared to that of higher priced properties.

The survey responses were analysed to examine if some of these assumptions held true.

1. **Assumption - Lower priced investments have higher annual vacancies.**

Investors were asked to report how many weeks their property had been vacant over the last 12 months. Only 3 (3.6 percent) of investors reported a vacancy. Two of the investors had purchased property for less than $93000 for a total of 23 weeks vacancy while one investor, who had a property in the $133001 to $158000 quintile, had a vacancy of 3 weeks. The sample size is too small to draw any robust conclusion.

2. **Assumption - Annual expenses (council rates, taxes, repairs and maintenance, rental collection) are a greater proportion of the rent for lower priced investments than for higher priced properties.**

Investors were asked how much they had spent on repairs/maintenance (including rates and insurance) on the investment property in the last 12 months. A cross tabulation of the banded expense data with the rent quintiles was not statistically significant at the 5 percent level (Kendall's tau-b sig.= .188), therefore the hypothesis that the rent

level is independent from the level of annual expenses, cannot be rejected. This implies that annual expenses are not related to the price of the investment property.

**3. Assumption – Lower priced properties require a greater amount of capital improvements than higher priced properties**

Investors were asked how much they had spent on capital improvements in the last 12 months of ownership. A cross tabulation of the banded improvement cost data with the purchase price quintiles (2001) was not statistically significant at the 5 percent level (Kendall's tau-b sig.= .187), therefore, the hypothesis that the capital improvement cost is independent from the level of the purchase price cannot be rejected. This implies that the amount of capital improvement is not related to the price of the property.

## Relationships between types of property purchased and demographic socio economic characteristics

**Do females and male investors purchase different priced properties?**
Results of the Mann Whitney test indicate that price paid for rental investment property is independent of the sex of the investor (sig. = .748). This would imply that there is no association between sex and price paid for an investment property ie female and male investors do not purchase different priced properties.

**Does the age group of the investor influence the price paid for the rental investment property?**
Results of Kruskal Wallis test indicate that price paid for rental investment property is independent of the age group of the investor (sig. = .534). This would imply that there is no association between age of investor and price paid for an investment property ie age does not influence price paid for an investment property.

## Reasons for Investment

In the literature there are a number of reasons cited for investor's deciding to purchase residential rental property. Survey participants were asked to assess the level of importance of each of these factors in their decision to lease their investment property. A summary of their responses is in detailed in Table 11.

**Table 11 Reasons for investment in residential rental property**

| | Not Important | Minor Importance | Very Important | Mean Score | Std. Deviation | |
|---|---|---|---|---|---|---|
| Long Term Investment | 1.2% | 4.8% | 93.8% | 1.93 | 0.31 | Very Important |
| Income from Rent | 1.3% | 33.3% | 65.4% | 1.64 | 0.51 | |
| Investment for retirement | 13.7% | 12.3% | 74.0% | 1.60 | 0.72 | |
| Capital Gain | 9.2% | 28.9% | 61.8% | 1.53 | 0.66 | |
| Reduce taxable income by negative gearing | 23.7% | 31.6% | 44.7% | 1.21 | 0.81 | Variable Importance |
| Income from rent better than share market | 37.1% | 28.6% | 34.3% | 0.97 | 0.85 | |
| Possible Future home | 64.4% | 20.5% | 15.1% | 0.51 | 0.75 | Not Important |
| Future redevelopment opportunity | 64.0% | 22.7% | 13.3% | 0.49 | 0.72 | |
| Given professional advice to purchase a property | 71.8% | 15.5% | 12.7% | 0.41 | 0.71 | |
| Eligible for First Home Owners Grant | 88.2% | 5.9% | 5.9% | 0.18 | 0.52 | |

The responses indicate that "long-term investment", "income from rent", "investment for retirement", and "capital gain" are all very important in investor decision making. "Reduced taxable income by negative gearing" and "income return from rent is better than share market" were of variable importance to investors. For the vast majority of investors all the other factors had little or no importance on their investment decision. While these remarks are generally true it is evident that for all the factors, other than ":long term investment", that there is some variation amongst the respondents as to the importance of the different factors. To explore possible reasons for the variation the responses were cross tabulated with other factors, such as the age of the investors, sex of the investors,

education of the investors, income of the investors, property type purchased, rent achieved from the property purchased, price paid for the property, and gross yield, to examine if there was any significant relationship. In order for the analysis to be robust it was necessary to use no importance and minor importance as a single response category. The result of this analysis is summarized in Table 15 to Table 25.

## Summary of Responses on Reasons for Investment

The level of education was associated with investor responses as to the importance of reducing taxable income by negative gearing. About 66 percent of investors who had a tertiary education responded that to reduce taxable income by negative gearing was very important while only 32 percent of investors who had only a high school education responded that this reason was important. The level of education also had a marginal association with investor responses as to the importance of rental property as an investment for retirement. Some 80 percent of investors who had a tertiary education responded that rental property as an investment for retirement was very important while only 57 percent of investors who had only a high school education responded that this reason was important.

The individual income per week of the investor was associated with investor responses as to the importance of income from rent. About 79 percent of investors who had low weekly individual incomes thought this was very important compared to only 40 percent of investors with high individual weekly incomes who responded that this was very important. The individual income per week of the investor was also associated with investor responses as to the importance of capital gain. About 77 percent of investors who had low weekly individual incomes thought this was very important compared to only 45 percent of investors with high individual weekly incomes who responded that this was very important.

The type of dwelling (detached or attached) purchased by the investor was associated with investor responses as to the importance of the future redevelopment opportunity. About 23 percent of investors who purchased a detached dwelling thought this was very important compared to none of the investors who purchased an attached dwelling.

The purchase price paid by the investor was associated with investor responses as to the importance to reduce taxable income by negative gearing. Of the investors who purchased high priced properties, 69 percent thought this reason was very important, while of those investors that purchased low priced property only 15 percent considered this very important. Also of the investors who purchased high priced properties, 77 percent thought capital gain was a very important reason, while of those investors that purchased low priced property only 38 percent considered this very important.

## Location of the investment property and management

Table 12 displays the type of management investor's use with the residential location of the investor. The majority of investors (62 percent) use a real estate agency to manage their investment property.

**Table 12 Rental investors by management of property by location of investment property relative to location of investor**

| % within locality by type of management | Investor location relative to investment property. | | | | |
|---|---|---|---|---|---|
| Manager | Same postcode | Same region | Same state | Different state | All Investors |
| Self | 66.7 | 40.7 | 57.1 | 0.0 | 36.7 |
| Relative | 6.7 | 0.0 | 0.0 | 0.0 | 1.3 |
| Real Estate Agency | 26.7 | 59.3 | 42.9 | 100.0 | 62.0 |
| Total | 100 | 100 | 100 | 100 | 100 |

Results as to whether the type of management could be associated with a better gross yield or greater rent increases, or whether more investors who have purchased low priced property self manage their investment properties, were not conclusive. The results of the analysis of cross tabulations to examine these questions reveal that the type of

management has no association with the gross yield achieved from the property investment. The type of management has only a marginal relationship with rental increases (Pearson Chi-Square sig. = .076).

## Satisfaction with investment in rental property purchased

Table 13 displays the investor's satisfaction with the annual return from the investment property. The majority of investors (87 percent) are satisfied with the return achieved from the rental investment.

**Table 13 Satisfaction with annual return**

| Response | Frequency | Percent |
|---|---|---|
| No below expected return | 9.0 | 11.7 |
| Yes exceeded expected return | 1.0 | 1.3 |
| Yes matched expected return | 67.0 | 87.0 |
| Total | 83.0 | 100.0 |

## Selling of an investment property

Six percent of investors have sold their most recently purchased investment property and a further seven percent of investors intend to sell their most recently purchased investment. These investors were asked reasons for the sale or intended sale. While the numbers were too small to provide conclusive results they do indicate that high property prices and realization of capital gains were very important reasons for on selling.

## Investing again

Table 14 indicates that most investors remained positive about their experience in the residential rental investment market. Almost 30 percent were actively looking for another property while another 58 percent were at least interested in buying another investment property. Only 11 percent of investors suggested they were never likely to buy another property.

**Table 14 Attitude towards future investment**

| Response | Frequency | Percent |
|---|---|---|
| Actively looking for another property | 25 | 30.9 |
| Would be interested in buying another property | 47 | 58.0 |
| Never likely to buy another property | 9 | 11.1 |
| Total | 81 | 100.0 |

Finally investors were asked to respond to an open ended question about what factors might attract or detract them from investing in the market again. Of those that were actively looking for another property factors many suggested that finding a property in the right location and at the right price was important (Table 26Also mentioned were the capital gains achieved, the return on investment in the market and negative gearing advantages.

Of those who might invest again the factors that would attract them most about buying another property were also the location of the property, the price of the property, the safety of the investment and the potential income. Other factors that were mentioned included the realization of capital gain, the lowering of taxes, the possibility of using the dwelling in retirement and negative gearing.

Of those who might invest again the main factors that would detract them from buying another property were the rising purchase price of the property as against the low level of rent that could be achieved, bad tenants and the cost of repairs Other factors mentioned included rising interest rates, high taxes and the removal of negative gearing.

Of those who were never likely to invest again the main factors that would detract them from buying another property were bad tenants and costs and expenses against insufficient return (Table 27)

## Implications of the findings

This research shows that investors in this sector are not an homogenous group. Nor are they necessarily naïve or inexperienced. They come from a diverse set of backgrounds, many own more than one property, they use a variety of methods for estimating their returns and most are satisfied with their returns. Despite the low level of information available most investors are happy with their investment. Based on the survey the main age group missing from the investor set would appear to be the retirement age group. Only 2.8% of investors fell into the 65+age category. Also a number of those currently investing who were approaching retirement were thinking of pulling out. While it is possible that the survey has some bias with respect to the age group of investors, the ABS 1993 Survey of Investors also shows a relatively small investor group within the aged 65+ category (8.5 percent). Thus both surveys show relatively small representation in this age group. Given the emphasis many investors place on regular income as an incentive, there may be a need for policy which encourages retired and those approaching retirement to remain in the rental investment sector.

One barrier to further investment identified by existing investors was price. A number of investors cited increasing house prices as a barrier to further investment even though they wanted to invest again. Given that the majority of investors, almost 60 percent, purchased their latest investment property for less than $133000, that over one third of investors (37 percent) had a weekly income of less than $751 and that the relationship between price paid and income was statistically significant, price rise in the housing market may represent a significant barrier to investment, particularly at the low cost end. .

Of those who were never likely to invest again one of the main factors that would detract them from buying another property were dissatisfaction with tenants. The focus groups also reported problems with tenants as a barrier to further investment. Two suggestions that came through were bonds used as insurance to cover the risk premium attached to low cost housing and improved communication between the public and private rental sectors.

In conclusion price rises and issues related to tenants would appear to be the main barriers to further investment in the rental sector. Otherwise most investors were happy with their investment and given acceptable prices would invest again. This begs the question: if so many of the existing investors are relatively happy with their investment why are there not more investing in this market. Part of the answer could be an information barrier. Those who have not joined are not aware of the returns that can be achieved in the low cost sector. However further research, which targets non-investors would be necessary to determine the validity of this position.

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**Table 15 Reasons for investment cross tabulated with age of the investor**

| Hypothesis | Significance level Kendall's tau-b | Hypothesis rejected |
|---|---|---|
| Responses are independent of the age of the respondent | | |
| Long Term Investment | Test not relevant | |
| Income from Rent | .943 | No |
| Capital Gain | .570 | No |
| Reduce taxable income by negative gearing | .614 | No |
| Income from rent better than share market | .952 | No |
| Possible Future home | 1.0 | No |
| Future redevelopment opportunity | .779 | No |
| Eligible for First Home Owners Grant | Test not relevant | |
| Investment for retirement | .373 | No |
| Given professional advice to purchase a property | Test not relevant | |

**Table 16 Reasons for investment cross tabulated with sex of the investor**

| Hypothesis | Significance level Kendall's tau-b | Hypothesis rejected |
|---|---|---|
| Responses are independent of the sex of the respondent | | |
| Long Term Investment | Test not relevant | |
| Income from Rent | .447 | No |
| Capital Gain | .421 | No |
| Reduce taxable income by negative gearing | .490 | No |
| Income from rent better than share market | .641 | No |
| Possible Future home | .557 | No |
| Future redevelopment opportunity | .753 | No |
| Eligible for First Home Owners Grant | Test not relevant | |
| Investment for retirement | .978 | No |
| Given professional advice to purchase a property | Test not relevant | |

**Table 17 Reasons for investment cross tabulated with education level of the investor**

| Hypothesis | Significance level Kendall's tau-b | Hypothesis rejected |
|---|---|---|
| Responses are independent of the education of the respondent | | |
| Long Term Investment | Test not relevant | |
| Income from Rent | .225 | No |
| Capital Gain | .930 | No |
| Reduce taxable income by negative gearing | .005 | Yes |
| Income from rent better than share market | .173 | No |
| Possible Future home | .902 | No |
| Future redevelopment opportunity | .789 | No |
| Eligible for First Home Owners Grant | Test not relevant | |
| Investment for retirement | .064 | Marginal |
| Given professional advice to purchase a property | Test not relevant | |

**Table 18 Reasons for investment cross tabulated with income of the investor**

| Hypothesis | Significance level Kendall's tau-b | Hypothesis rejected |
|---|---|---|
| Responses are independent of the income of the respondent | | |
| Long Term Investment | Test not relevant | |
| Income from Rent | .021 | Yes |
| Capital Gain | .029 | Yes |
| Reduce taxable income by negative gearing | .340 | No |

| | | |
|---|---|---|
| Income from rent better than share market | .797 | No |
| Possible Future home | .517 | No |
| Future redevelopment opportunity | .195 | No |
| Eligible for First Home Owners Grant | Test not relevant | |
| Investment for retirement | .764 | No |
| Given professional advice to purchase a property | Test not relevant | |

**Table 19 Reasons for investment cross tabulated with property type purchased**

| Hypothesis | Significance level Pearson Chi-Square | Hypothesis rejected |
|---|---|---|
| Responses are independent of the property type purchased by the respondent | | |
| Long Term Investment | Test not relevant | |
| Income from Rent | .396 | No |
| Capital Gain | .846 | No |
| Reduce taxable income by negative gearing | .912 | No |
| Income from rent better than share market | .409 | No |
| Possible Future home | .499 | No |
| Future redevelopment opportunity | .003 | Yes |
| Eligible for First Home Owners Grant | Test not relevant | |
| Investment for retirement | .718 | No |
| Given professional advice to purchase a property | Test not relevant | |

**Table 20 Reasons for investment cross tabulated with rent achieved from the property purchased**

| Hypothesis | Significance level Kendall's tau-b | Hypothesis rejected |
|---|---|---|
| Responses are independent of the rent achieved from the property purchased by the respondent | | |
| Long Term Investment | Test not relevant | |
| Income from Rent | .210 | No |
| Capital Gain | .274 | No |
| Reduce taxable income by negative gearing | .262 | No |
| Income from rent better than share market | .528 | No |
| Possible Future home | .922 | No |
| Future redevelopment opportunity | .319 | No |
| Eligible for First Home Owners Grant | Test not relevant | |
| Investment for retirement | .282 | No |
| Given professional advice to purchase a property | Test not relevant | |

**Table 21 Reasons for investment cross tabulated with price paid for the property purchased**

| Hypothesis | Significance level Kendall's tau-b | Hypothesis rejected |
|---|---|---|
| Responses are independent of the price paid for the property purchased by the respondent | | |
| Long Term Investment | Test not relevant | |
| Income from Rent | .317 | No |
| Capital Gain | .045 | Yes |
| Reduce taxable income by negative gearing | .002 | No |
| Income from rent better than share market | .430 | No |
| Possible Future home | .454 | No |
| Future redevelopment opportunity | .225 | No |
| Eligible for First Home Owners Grant | Test not relevant | |
| Investment for retirement | .950 | No |
| Given professional advice to purchase a property | Test not relevant | |

**Table 22 Reasons for investment cross tabulated with gross yield achieved by the property purchased**

| Hypothesis | Significance level Kendall's tau-b | Hypothesis rejected |
|---|---|---|

| | | |
|---|---|---|
| Responses are independent of the gross yield achieved by the respondent | | |
| Long Term Investment | Test not relevant | |
| Income from Rent | .737 | No |
| Capital Gain | .08 | Marginal |
| Reduce taxable income by negative gearing | .039 | Yes |
| Income from rent better than share market | .374 | No |
| Possible Future home | .178 | No |
| Future redevelopment opportunity | .4 | No |
| Eligible for First Home Owners Grant | Test not relevant | |
| Investment for retirement | .295 | No |
| Given professional advice to purchase a property | Test not relevant | |

**Table 23 Reasons for investment cross tabulated with number of rental homes owned.**

| Hypothesis | Significance level Kendall's tau-b | Hypothesis rejected |
|---|---|---|
| Responses are independent of the number of rental homes owned by the respondent | | |
| Long Term Investment | Test not relevant | |
| Income from Rent | .065 | Marginal |
| Capital Gain | .021 | Yes |
| Reduce taxable income by negative gearing | .662 | No |
| Income from rent better than share market | 1.00 | No |
| Possible Future home | .019 | Yes |
| Future redevelopment opportunity | .348 | No |
| Eligible for First Home Owners Grant | Test not relevant | |
| Investment for retirement | .172 | No |
| Given professional advice to purchase a property | Test not relevant | |

**Table 24 Reasons for investment cross tabulated with investment property purchased outright.**

| Hypothesis | Significance level Pearson Chi-Square | Hypothesis rejected |
|---|---|---|
| Responses are independent of rental home purchased outright by the respondent | | |
| Long Term Investment | Test not relevant | |
| Income from Rent | .932 | No |
| Capital Gain | .751 | No |
| Reduce taxable income by negative gearing | .695 | No |
| Income from rent better than share market | .780 | No |
| Possible Future home | .064 | Marginal |
| Future redevelopment opportunity | .314 | No |
| Eligible for First Home Owners Grant | Test not relevant | |
| Investment for retirement | .298 | No |
| Given professional advice to purchase a property | Test not relevant | |

**Table 25 Reasons for investment cross tabulated with type of management**

| Hypothesis | Significance level Pearson Chi-Square | Hypothesis rejected |
|---|---|---|
| Responses are independent of type of management of rental property by the respondent | | |
| Long Term Investment | Test not relevant | |
| Income from Rent | .407 | No |
| Capital Gain | .611 | No |
| Reduce taxable income by negative gearing | .836 | No |
| Income from rent better than share market | .859 | No |
| Possible Future home | .760 | No |

| | | |
|---|---|---|
| Future redevelopment opportunity | .000 | Yes |
| Eligible for First Home Owners Grant | Test not relevant | |
| Investment for retirement | .370 | No |
| Given professional advice to purchase a property | Test not relevant | |

**Table 26 Of those that were actively looking for another property the factors that would attract them most about buying another property**

| |
|---|
| Location close to amenities, land suitable for building units, capital gain. |
| Return on the investment. |
| Price and rent giving a good return at least 8 to 9 percent.. |
| Property location and resale possibility |
| Property location, projected capital gain, return on investment. |
| Capital gain, return on investment. |
| A chance to build on a portfolio and provide an income in retirement. |
| Location and property price versa return. |
| Negative gearing advantage. |
| Negative gearing advantage. |
| Income being over 10 percent per annum and or high capital growth potential. |
| Price and return on investment, long term capital appreciation. |
| If property prices went down, share market picks up and there were fewer people competing for property. Lower interest rates.. |
| As close to cost neutral or positively geared as possible in a location that is a growth area. |
| Location with better capital growth |
| Purchase price and expected income per week. |
| Possibly investing in commercial premises or vacant land. |
| Return and capital growth. |
| Return on investment. |
| Value for money in good location. |
| Cash flow neutral or positive with potential of over 9 percent. Average capital growth and potential to redevelop or subdivide in future.. |
| Negative gearing advantage. |
| Development potential. |

**Table 27 Of those who were never likely to invest again the main factors that would detract them from buying another property included the following**

| |
|---|
| Insufficient return on investment and fear of bad tenants |
| Large increase in housing prices and increase in lending rates from banks |
| Insufficient working life to pay off before retiring |
| High debt accumulated, 5 years to retirement |
| Not having the available funds to cover outlay. If interest rates, insurance etc. Banks interest rates being out of my control |
| Two rental properties is enough because there can be a lot of unexpected expenses |
| Bad tenants |