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SHORTAGE OF AFFORDABLE PRIVATE RENTAL HOUSING INCREASING

DESPITE SUBSTANTIAL SECTOR GROWTH, THE NATIONAL SHORTAGE OF PRIVATE RENTAL DWELLINGS FOR VERY LOW-INCOME HOUSEHOLDS INCREASED FROM 211 000 TO 271 000 BETWEEN 2006 AND 2011, ACCELERATING A TREND SINCE 1996.

KEY POINTS

- The number of dwellings in the Australian private rental sector increased by 18 per cent between 2006 and 2011; twice the rate of increase of all dwellings.
- The national shortage of affordable and available dwellings for households with very-low-incomes (lowest 20% of all Australian household incomes) increased from 211 000 to 271 000 dwellings between 2006 and 2011.
- The main reason for the national shortage facing very-low-income households in 2011 was lack of affordable supply (contributing to 69% of the problem).
- The national shortage of affordable and available dwellings for low-income households (with incomes between 21% and 40% of all Australian household incomes) increased from 87 000 to 122 000 dwellings between 2006 and 2011.
- The shortages facing households in this second lowest income quintile arose because affordable dwellings were occupied by households that could afford to pay more, and households in the first income quintile who had to pay unaffordable rents.
- Shortages of affordable and available housing for lower income households are most acute in major capital cities,

*This bulletin is based on research conducted by **Prof Kath Hulse**, **Ms Margaret Reynolds** and **Dr Wendy Stone** at the AHURI Research Centre—Swinburne University of Technology, and **A/Prof Judith Yates** at the AHURI Research Centre—The University of Sydney, with **A/Prof Maryann Wulff** at the AHURI Research Centre—Swinburne University of Technology.* *The research estimated the shortage of affordable rental stock for lower income households using 2011 Australian Census data, building on the research of three previous studies.*

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particularly Sydney and Melbourne, but between 2006 and 2011 worsened in some regional areas particularly in Queensland (Qld), Western Australia (WA) and New South Wales (NSW).

CONTEXT

There has been increasing media and public debate about the lack of affordable housing for lower income households in the private rental sector. The Australian Government spends almost $4 billion a year in financial assistance to renter households, most of whom are in the private rental market. In addition, state governments provide financial and other assistance to enable low-income households to access private rental housing as there is insufficient social housing to meet demand, other than for those with the most urgent and complex needs. The success of government housing assistance schemes for lower income households in the private rental market relies on an adequate supply of affordable dwellings.

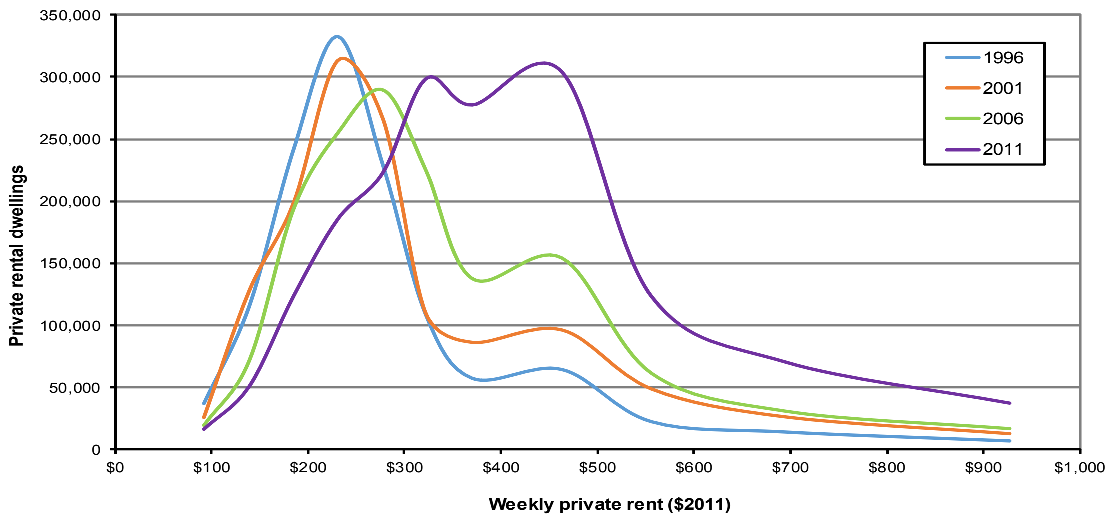
RESEARCH METHOD

This project was the latest in a series assessing the extent of, and inter-censal changes in, shortages or surpluses in rental dwellings affordable to lower income private renter households. The key research design concept on which these studies were based is whether lower income households are able to access housing which is '*affordable*' (using the 30% of gross household income benchmark) and '*available*' referring to the extent to which affordable dwellings are occupied by lower income households. The project used customised data from the 2011 ABS Census of Population and Housing (the Census). Lower income households were analysed separately as *very low* income, those with incomes up to the first national quintile level of $584 per week in 2011 (Q1 households), and *low* income, those with incomes between the first and second income quintiles of $585–$1074 per week in 2011 (Q2 households). Affordable rent categories were aligned with the gross household income quintiles at 30 per cent of the upper value of each quintile. Accordingly, Q1 households could afford a private rent of no more than $175 per week (referred to as R1 dwellings) and Q2 households could afford rents up to $322 per week (R2 dwellings). Comparable data by household income quintile were available for 1996, 2006 and 2011, enabling an assessment of change over a 15-year period.

KEY FINDINGS

The number of dwellings in the Australian private rental sector increased by 41 per cent between 1996 and 2011: almost twice the 23 per cent rate of increase in all dwellings. Between 2006 and 2011 alone, the private rental sector grew by 18 per cent (or 264 000 dwellings), twice the 9 per cent rate of growth in dwellings generally. By 2011, there were 1.735 million privately rented dwellings. If this increase was evenly distributed across the rental spectrum, it would have resulted in an increase

FIGURE 1: DISTRIBUTIONS OF PRIVATE RENTAL DWELLINGS BY WEEKLY RENT PAID, AUSTRALIA: 1996, 2001, 2006 AND 2011



Source: Customised ABS Matrices based on 1996, 2001, 2006 and 2011 Australian Census data in the number of dwellings affordable for lower income households. This has not been the case. In fact, both the supply in each census year and the increases in the supply between census years, have been concentrated at levels that were not affordable to Q1 private renter households (Figure 1). Between 2006 and 2011, past trends in the general distribution of rents were exacerbated by an even greater general upward movement of rents. At the same time, there was an increase in higher income (Q4/Q5) households renting privately, adding to competition for available rental stock.

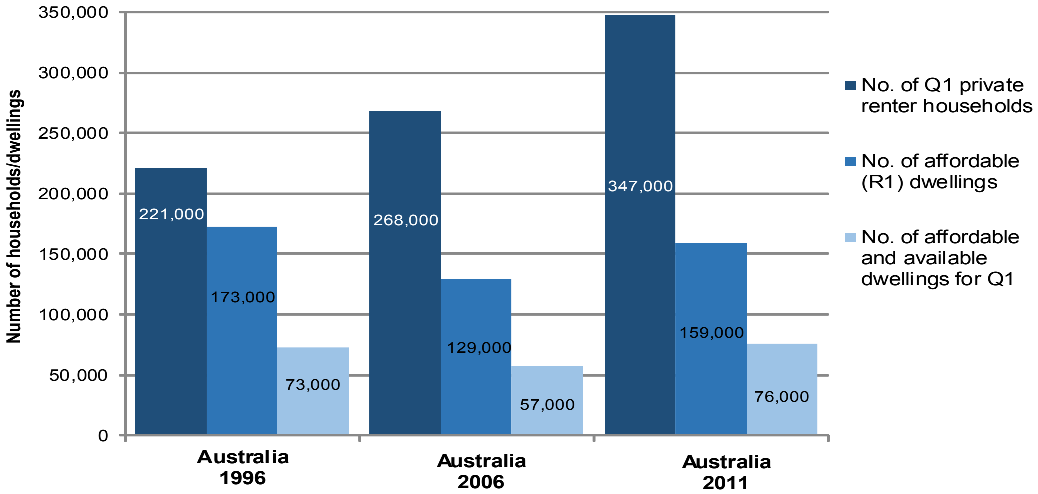
While the number of Q1 households increased between 1996 and 2011, the number of dwellings that were affordable to them decreased (Figure 2). In consequence, the national shortage of affordable and available dwellings for Q1 households increased over the last 15 years. In 1996, it was 147 000 dwellings, but by 2011 had increased to 271 000 dwellings.

The main reason for the national shortage facing very low-income households in 2011 was a lack of affordable supply (69% of the overall shortage, see Figure 2). Availability (i.e. occupation of affordable stock by households with higher incomes) accounted for the remaining 31 per cent of the shortage. This was a change from 1996 when availability was more important than a lack of affordable supply. In 2011 almost four in five Q1 households were paying unaffordable rents (using the 30% affordability benchmark), with a quarter of these paying severely unaffordable rents (in excess of a 50% affordability benchmark).

The national shortage of affordable and available dwellings for Q2 households increased from 87 000 to 122 000 dwellings between 2006 and 2011, in contrast to the previous 10 years (1996–2006) when the shortage had decreased. Since there was a sufficient supply of rental housing affordable to Q2 households, the shortage was entirely the result of occupation of affordable dwellings by moderate and higher income households, as well as by a substantial number of very-low-income households who had to pay unaffordable rents due to the shortage of affordable rentals for Q1 households. In 2011, 32 per cent of Q2 households did not occupy affordable rental dwellings, up from 24 per cent in 2006.

Shortages of affordable and available private rental housing varied spatially across Australia. In general, shortages for both Q1 and Q2 households are greater in metropolitan than non-metropolitan regions. Almost 40 per cent of the shortage of affordable and available housing for Q1 households was in two cities, Sydney and Melbourne, reflecting the concentration of population in these cities. However, there were also increased shortages 2006–11 in Brisbane and Perth; significant shortages for Q1 households in the rest of Qld and NSW, and increasing shortages in the rest of WA.

FIGURE 2: CONTRIBUTORS TO THE SUPPLY SHORTAGES FOR VERY LOW (Q1) INCOME HOUSEHOLDS, 1996, 2006, 2011



Source: Customised ABS matrices based on 1996, 2006 and 2011 Australian Census data

POLICY IMPLICATIONS

While Australia has a dynamic and growing private rental sector, rental investment and increased supply generally has not brought on to the market rental dwellings that Q1 households can afford. This situation has deteriorated over the last 15 years. New and/or enhanced strategies are required, for example:

1. Government investment directly into affordable rental supply for Q1 households, with stock managed by not-for-profit providers in a regulated environment to ensure that dwellings are allocated to very-low-income households and that rents remain affordable.
2. Develop a new institutional environment to deepen the rental investment market in residential property, rather than broaden it with more small-scale investors. For example, other recent research[1] has proposed a specialist financial intermediary, which could issue bond products to raise additional investment for affordable rental housing.
3. Re-calibrate existing taxation incentives to encourage the current profile of investors (individuals and households) to invest in lower rent segments of the market, such as through targeting of negative gearing and increasing the depreciation allowance for investors in low-rent properties. Accompany this with a mechanism to ensure that such properties are let to Q1/Q2 households to achieve desired outcomes in return for subsidy.
4. Moderate rent increases for current residents during their tenancy, which could prevent households moving into an unaffordable situation. Use policy settings like those in various types of social housing or more generally through regulation.
5. Develop an improved version of the National Rental Affordability Scheme (NRAS) with issues of design and implementation addressed. Importantly, retain a mechanism for ensuring that the affordable dwellings are allocated to eligible households and not outbid by higher income (Q3–Q5) households.

FURTHER INFORMATION

This bulletin is based on AHURI project 51018, *Changes in supply/demand for low-rent housing in the Australian private rental market, 2006–11*.

Reports from this project can be found on the AHURI website: www.ahuri.edu.au or by contacting AHURI Limited on +61 3 9660 2300.

1. *Lawson, J., Milligan, V. and Yates, J. (2012) Housing Supply Bonds-a suitable instrument to channel investment towards affordable housing in Australia? AHURI Final Report No. 188. Melbourne: Australian Housing and Urban Research Institute.*

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