

Changes in affordability and availability of rental housing in Australia



Australian Housing and Urban Research Institute

Based on AHURI Final Report No. 323:

The supply of affordable private rental housing in Australian cities: short-term and longer-term changes

What this research is about

This research charts the changes in the supply of affordable—and affordable and available—private rental housing for lower income households between 2011 and 2016. The research is the latest in a series of projects detailing changes in affordable rental housing supply every five years since 1996 using Census data.

The context of this research

The private rental sector (PRS) is the fastest growing part of the Australian housing system, increasing by 17 per cent between 2011 and 2016, more than twice the rate of household growth (7 per cent). In 2016, there were 2.02 million private renter households or 24 per cent of all Australian households, which is a two percentage point increase in the period 2011–2016.

The key findings

Changing PRS 1996—2016

In 1996 and 2001, rents were concentrated at the lower-rent end of the market but from 2006 onwards, as the sector increased in size, lower-rent properties have declined in both absolute and relative terms.

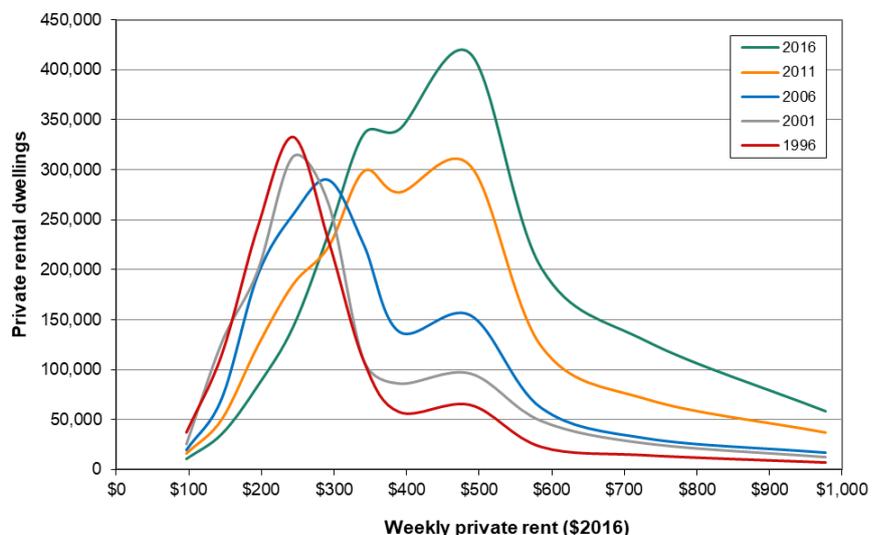
Over the decade 2006–2016, there has been a disproportionate increase in private renter households with middle and higher incomes. Households with gross incomes of \$1,628 per week (\$2016) and above (roughly \$85,000 per annum and above) comprised 42

per cent of all private renter households in 2016, whereas only 33 per cent of private renter households had incomes in this range in 2006 (in equivalent \$2016).

The number of lower income PRS households has remained about the same over 20 years, at about 500,000

households (incomes up to \$812/week or \$42,000 per annum [\$2016]). In 1996, this group comprised about 40 per cent of all PRS households but in 2016, only 25 per cent of PRS households had such incomes because of the growth in the number of households in higher income groups.

Figure 1: Distributions of private rental dwellings by weekly rent paid, Australia: 1996, 2001, 2006, 2011 and 2016



Note: Derived from 12 rent categories established for the 1996–2001 analysis, and which have been updated to 2016 dollars enabling real changes in the profile of rents paid to be evident.

Source: ABS customised matrices derived from the Australian Census of Population and Housing 1996, 2001, 2006, 2011 and 2016.

Analysis provides strong evidence of what appears to be structural rather than cyclical change in the PRS, with an increase in privately rented dwellings with mid-market rents that are affordable by Q3–Q5 households (see figure 1), and an increase in private renter households at middle and higher income levels.

The market is not supplying sufficient rental properties for those with household incomes under about \$60,000 per annum (about \$1200 per week gross) if they are to pay no more than 30 per cent of their income in rent. The challenge is to develop settings that can elicit a greater supply of lower-rent housing—and this challenge has become more urgent in view of our findings.

Shortage of rental housing 2006–2016

The analysis distinguishes between two groups of lower income private renter households:

- very low-income households: those in the lowest 20 per cent of all Australian gross household incomes—known as Q1 households, and;
- low-income households: those with incomes between 21 and 40 per cent of all Australian gross household incomes—known as Q2 households.

Household income quintiles are outlined in table 1.

Table 1: Gross unequivalised household income quintiles and corresponding affordable rent categories, Australia, 2016

	Gross household income \$2016		Affordable private rent \$2016	
	Weekly	Annual		Weekly
Quintile 1 (Q1)	\$0–\$673	\$34,996 or less	Rent 1 (R1)	\$1–\$202
Quintile 2 (Q2)	\$674–\$1,182	\$34,997–\$61,464	Rent 2 (R2)	\$203–\$355
Quintile 3 (Q3)	\$1,183–\$1,867	\$61,465–\$97,084	Rent 3 (R3)	\$356–\$560
Quintile 4 (Q4)	\$1,868–\$2,879	\$97,085–\$149,708	Rent 4 (R4)	\$561–\$864
Quintile 5 (Q5)	\$2,880+	\$149,709 & above	Rent 5 (R5)	\$865+

Note 1: Household income refers to gross, unequivalised—that is, not adjusted for household size or composition—income ranges (weekly) that represent the sum of the individual incomes reported by all household members aged 15 years and over.

Note 2: The affordable rent segments were defined by calculating 30 per cent of the upper value of the income quintile range—for example, $\$673 \times 0.3 = \202 .

Source: Categories calculated by the ABS, using method defined by authors, using imputed unit record data (held by the ABS).

‘Affordable’ and ‘Affordable and available’

Affordable means a household can access housing based on a weekly rent of no more than 30 per cent of gross household income.

Available means the extent to which affordable dwellings are occupied by lower income households, i.e. not being rented by a Q3–Q5 household (or a Q1 household in the case of Q2 households).

Most occupants of the big growth segment (R3 stock, i.e. stock that is affordable to Q3 households) are Q3 and Q4 households, but there are also increasing numbers of Q1 and Q2 households who are in very unaffordable housing.

Supply of R4 and R5 stock remains small and occupied mainly by higher income Q4 and Q5 households.

Shortage of rental housing for Q1 households

There was an acute and growing shortage of affordable—and affordable/available—private dwellings for Q1 households nationally in 2016, particularly in metropolitan areas.

- The national shortage of affordable supply for Q1 households in 2016 was 212,000 dwellings (up from 187,000 in 2011).
- The national shortage of affordable and available stock for Q1 households in 2016 increased to

305,000 (up from 271,000 in 2011) as many affordable dwellings are occupied by households on higher incomes (Q2–Q5). About half of the dwellings affordable to Q1 renters are occupied by Q2 households.

Across Australia four in five (80 per cent) of Q1 renters paid unaffordable rents, consistent with the previous decade (2006–2016), with 89 per cent paying an unaffordable rent in metropolitan regions and 66 per cent paying an unaffordable rent in non-metropolitan regions.

Shortage of rental housing for Q2 households

Only around one-third of the large number of R2 dwellings are occupied by Q2 households. A further quarter are occupied by Q1 households (who cannot access R1 rentals), leaving around 43 per cent of the stock occupied by Q3–Q5 households. An interpretation is that middle- and higher income households can find adequate accommodation at this rent level or they want to save money on rent—for example, to save for a deposit so that they can buy a house.

‘There was an absolute shortage of affordable housing supply for Q2 households of 5,900 dwellings in Sydney in 2016, which was a turnaround from a surplus of 35,800 affordable dwellings for these households in 2011. This is the first time since 1996 that an absolute shortage of dwellings affordable to Q2 households has been identified anywhere.’

Table 2: Estimates of shortage or surplus of affordable and available stock and affordability outcomes for Q1 private renter households, Australia, 2006, 2011, 2016

	Shortage/surplus of affordable stock			Shortage of affordable and available stock			Total number of Q1 households and % of these paying unaffordable rents		
	2006	2011	2016	2006	2011	2016	2006	2011	2016
Australia	-138,000	-187,000	-212,000	-211,000	-271,000	-305,000	268,000 (79%)	347,000 (78%)	384,000 (80%)
Metro regions	-107,000	-143,000	-165,000	-134,000	-171,000	-197,000	155,000 (87%)	196,000 (88%)	221,000 (89%)
Non-metro regions	-31,000	-44,000	-46,000	-76,000	-100,000	-108,000	113,000 (68%)	153,000 (66%)	163,000 (66%)

Source: ABS customised matrices derived from the Australian Census of Population and Housing 2006, 2011 and 2016.

The problem facing Q2 households is not supply, but availability. The initial large surplus of 491,000 affordable PRS dwellings—that is, R1 and R2 dwellings—for Q2 households becomes a shortage of 173,000 PRS dwellings affordable and available for Q2 households nationwide (see table 3). Much of the R2 housing stock (affordable to Q2 households) is occupied by households on middle and higher incomes (Q3–Q5), a demographic that has been increasing, but also some Q1 households for whom there is insufficient supply of affordable R1 accommodation. As a result, the gross surplus for Q2 households becomes a national shortage of affordable and available rental housing when occupation by other income groups is taken into account.

The shortage of affordable and available dwellings for Q2 households is more acute in metropolitan regions, where 46 per cent of Q2 households (136,000 households) have affordability

problems compared to 20 per cent (37,000 households) in non-metropolitan regions.

The outcome of these changes is that higher percentages of Q2 households are living in unaffordable housing compared with five or 10 years ago. More than a third of the 476,000 Q2 private renter households across Australia are now living in unaffordable housing, up from just under one-quarter 10 years ago.

Geographical shortage

Across Australia's capital cities, shortages for Q1 households increased 2011–2016, building on increases in the previous intercensal period (2006–2011).

The main contributor to shortages in each capital city is lack of affordable supply, not occupation by households on higher incomes, which serves only to exacerbate a supply problem.

Not surprisingly, the greatest numerical shortages in 2016 were in the two

largest capitals (Sydney and Melbourne), but shortages have increased in some of the smaller capitals including Adelaide and Perth.

There was an absolute shortage of affordable housing supply for Q2 households of 5,900 dwellings in Sydney in 2016, which was a turnaround from a surplus of 35,800 affordable dwellings for these households in 2011. This is the first time since 1996 that an absolute shortage of dwellings affordable to Q2 households has been identified anywhere.

Melbourne recorded the largest surplus of stock for Q2 private renter households at 96,900, a slight decrease on the surplus of 101,800 recorded in 2011. Other capitals generally had a reduced surplus; the exception was Perth, where the surplus was about the same as in 2011, reflecting an easing of the rental market in that city after the end of the resources boom.

Table 3: Estimates of shortage or surplus of affordable and available stock and affordability outcomes for Q2 private renter households, Australia, 2006, 2011, 2016

	Shortage/surplus of affordable stock			Shortage of affordable and available stock			Total number of Q2 households and % of these paying unaffordable rents		
	2006	2011	2016	2006	2011	2016	2006	2011	2016
Australia	+528,000	+521,000	+491,000	-87,000	-122,000	-173,000	360,000 (24%)	378,000 (32%)	476,000 (36%)
Metro regions	+303,000	+255,000	+216,000	-63,000	-94,000	-136,000	220,000 (29%)	228,000 (41%)	296,000 (46%)
Non-metro regions	+224,000	+266,000	+275,000	-24,000	-28,000	-37,000	141,000 (17%)	150,000 (19%)	180,000 (20%)

Source: ABS customised matrices derived from the Australian Census of Population and Housing 2006, 2011 and 2016.

Shortages inside cities

Restructuring of Australian cities in the period 1996–2016 has seen agglomeration of economic activity, particularly in inner urban areas, and substantially steeper house price/rent gradients—that is, higher prices/rents in inner and many middle suburbs compared to outer suburbs and satellite cities. Shortages of affordable and available housing for Q2 households increased notably in the inner and middle suburbs, indicating a spatial restructuring of rental housing markets, with more affordable rental housing in outer suburbs and satellite cities.

The proportion of Q2 households in unaffordable rental is relatively high in inner (62 per cent) and middle (55 per cent) areas of Sydney compared to outer (45 per cent) parts of Sydney and satellite cities (approximately 45 per cent). A similar pattern is evident for Melbourne.

What this research means for policy makers

There is an urgent need to develop additional rental housing affordable by Q1 households—that is, below \$202 per week (\$2016)—as the private rental market does not generate rentals at this level even when there is an overall increase in supply. It is also essential that rents be kept at affordable levels for the Q1 households. The only practical means of doing this appears to be a substantial capital investment in new social housing supply with appropriate management models for allocation to households and to retain affordable rents. Our research suggests that at least 200,000 additional units are currently needed, requiring a minimum program of 20,000 new units a year for 10 years.

Policy development is required to improve the increasing problems of availability of affordable dwellings for Q2 renter households who can afford rents up to \$355 per week. This would appear to be the market for new types

of affordable housing and could include a variety of not-for-profit models (such as housing associations, community housing providers) and for-profit models (such as Build to Rent).

The absolute shortage of dwellings affordable for Q2 households in Sydney is a remarkable change between 2011 and 2016. Customised policy development is required to boost affordable rental supply for Q2 households in Sydney so they can continue to participate in the Sydney employment markets.

Methodology

The research is based on analysis of customised data from the ABS Census of Population and Housing for years 1996, 2001, 2006, 2011 and 2016. It provides detailed analysis of changes in affordable rental housing supply for lower income households in metropolitan and non-metropolitan Australia, including in capital cities, 10 satellite cities surrounding major capital cities and 22 major regional cities.

Further information

TO CITE THE AHURI RESEARCH, PLEASE REFER TO:

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Contact details

Australian Housing and Urban Research Institute

Level 12
460 Bourke Street
Melbourne Victoria 3000

T +61 3 9660 2300
E information@ahuri.edu.au
ahuri.edu.au



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