

EXECUTIVE SUMMARY

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Affordable private rental supply and demand: short-term disruption (2016–2021) and longer- term structural change (1996–2021)

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Executive summary

Key points

- This report provides a unique point-in-time analysis of how the global health crisis of COVID-19 and policy and population responses temporarily altered the long-run structural trajectory of the private rental sector (PRS) in Australia.
- The COVID period saw private sector rents decreasing and vacancies increasing to mid-2021, but this had no effect on the acute shortage of rental properties affordable to households with very low incomes (quintile 1 or Q1).
- The shortage of affordable private rental homes for Q1 households in 2021 increased to 255,000 (up from 212,000 in 2016). This shortage deteriorated further to 348,000 dwellings that were affordable and available for Q1 households once utilisation of the stock by higher-income households was factored in (up from 305,000 dwellings in 2016).
- Responses to the COVID-19 pandemic resulted in a substantial increase, nationally, in stock affordable to households with Q2 and above incomes (2016–21), resulting in a very large surplus of 787,000 affordable dwellings for Q2 renter households in 2021 (an increase from 491,000 dwellings in 2016).
- Q2 households faced a problem of availability rather than supply, as even a surplus of this size became a shortage of 152,000 affordable and available dwellings in 2021 once occupation of the affordable stock by higher (and some very low) income households was factored in (down from the 2016 estimate of 173,000 dwellings).

- **Eighty-two per cent of Q1 PRS households nationally were paying unaffordable rents in 2021 (much the same as in 2016) compared to 27 per cent of Q2 households (down from 36% in 2016). Affordability outcomes were worse in metropolitan areas with 90 per cent of Q1 households and 32 per cent of Q2 households paying unaffordable rents in 2021.**
- **Some very low-income earners pay rent informally to family members or an unrelated cohabitating person. Even prior to COVID (2019–20), around half of Q1 income units were in this situation. Single people or single-headed households, particularly those more marginally attached to labour markets, and across all age groups, have experienced the greatest ‘retreat’ from the independent mainstream PRS.**
- **Since mid-2021 (after the 2021 Census), there has been a remarkable change in the PRS with rapidly increasing rents, very low vacancy rates and high levels of demand from migrants and additional households as the country rebounds from the COVID years.**

The study

This Final Report presents results from the latest in a series of projects that have analysed comparable, customised data from the ABS Census of Population and Housing to examine changes in the supply of, and demand for, affordable and available private rental housing for lower-income households over six, five-yearly Census collections (1996–2021). The first project in the series was conducted in response to policy discussions in the mid-1990s concerning a rising level of demand from low- and middle-income households in Australia’s PRS that was driven by a decrease in public housing funding and an increase in the difficulty of accessing home ownership (Wulff and Yates 2001). The policy issue underlying the first project of this series is still, unfortunately, critically relevant for Australian housing policy today: namely, to what extent can the PRS affordably accommodate lower-income households?

This series provides a unique opportunity to examine changes over both short-term intercensal periods (e.g., 2016–21) and the long term (e.g., 1996–2021), based on findings derived from the full series. As there are now 25 years of data and analyses from this series, it is possible to identify changes that appear to be cyclical and relatively short term, and others that appear to be structural and longer term.

For the current report, the short term was strongly influenced by population and regulatory reactions to, and the policies and programs associated with, responses to the COVID-19 pandemic of 2020–21, all relevant at the time of Census data collection in August 2021. From shortly after the Census to the present, the post-pandemic policy context has grappled with a rental affordability and supply crisis across not only urban but also regional locations – a situation not encountered in recent history.

Conceptually, the research approach assumes that housing can be assigned to households based on affordability to identify shortages or surpluses of rental units that are affordable to lower-income households (i.e., households with incomes in the lowest 40 per cent of the national gross household income distribution). The approach then measures whether lower-income households occupy rental dwellings that are:

1. *affordable*, based on a weekly rent of no more than 30 per cent of gross household income and
2. *available*, referring to the extent to which the affordable dwellings are occupied by lower-income households (rather than households with higher incomes).

Finally, the affordability outcomes for lower-income households are determined by identifying the extent to which the shortage of affordable stock impacts the proportions of lower-income households paying unaffordable rents. All estimates are calculated nationally, for aggregated metropolitan and non-metropolitan areas, individual state/territory capital cities and sub-city areas, and for 21 regional centres. 'Lower-income' PRS households are divided into two groups: quintile 1 (Q1), comprised of households with incomes in the lowest 20 per cent of all national incomes; and quintile 2 (Q2), households with incomes in the lowest 21–40 per cent of national incomes. Estimates for each group are presented separately. For the first time, this project includes an exploratory method for investigating individual rental arrangements *outside* of the mainstream private rental sector using four waves of the ABS Survey of Income and Housing (SIH). This analysis extends the existing household analysis to one that examines the rental arrangements of individuals and income units *within* the household and thus identifies potential hidden demand from people who are not currently living in the PRS.

This project has two aims:

- To update a data series that has, since the 1996 Census, provided careful and comparable analysis about the extent to which the PRS provides affordable housing for lower-income households (Q1 and Q2 households) every five years.
- To enhance the series by examining the links between changing household formation and mainstream PRS access among lower-income households (Q1 and Q2) and individuals through an in-depth, temporal analysis of the ABS Survey of Income and Housing (SIH).

Key findings

COVID-19 impacts

The COVID-19 pandemic delivered an 'unprecedented shock' to the Australian PRS (Evans, Rosewall et al. 2020). The rental market was impacted on multiple fronts including: a decrease in demand due to changes in migration and domestic mobility; a stable supply that increased in some locations due to investor actions; rent decreases; and vacancy rate increases, at least in the short term. These factors impact the findings derived from analysis of 2021 Census data and constrain our understanding of long-term and structural changes.

Change in size and structure of the private rental sector: rents

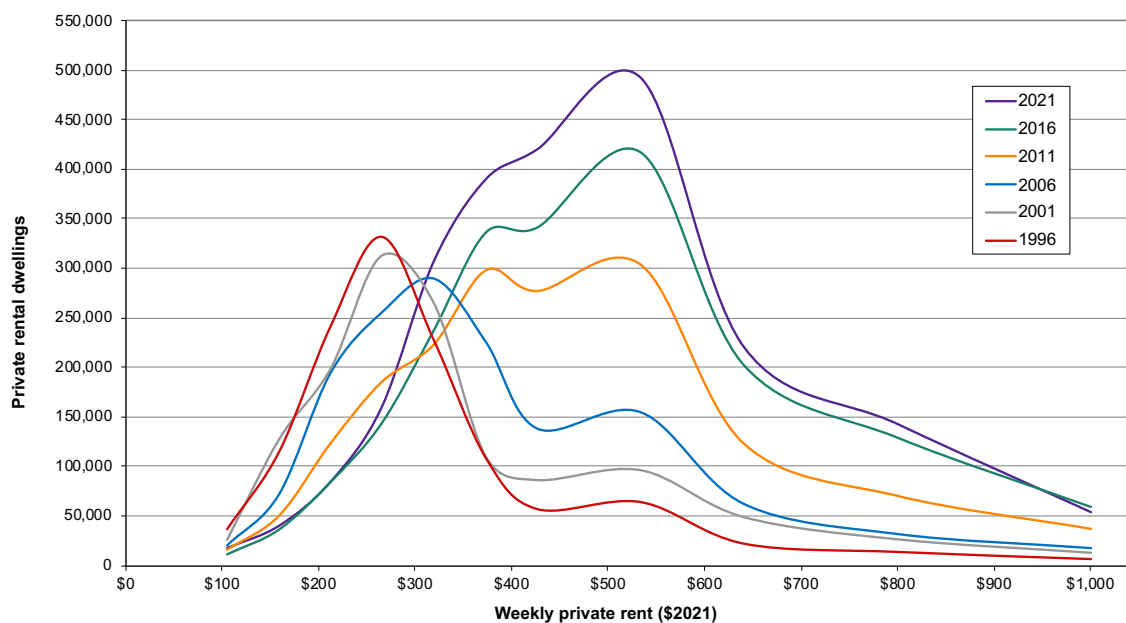
In 2021, the Australian PRS housed more than 2.363 million households, a 17 per cent increase of nearly 340,000 households since the 2016 Census.

This series has shown that growth in the PRS has been greater than total household growth in each intercensal period since 1996. PRS households have, therefore, increased their share of all households over this time: from 20 per cent in 1996 to just over 25 per cent in 2021. Private renter households have grown at a faster rate than home purchaser households at each intercensal period since 2006.

Longer-term structural changes and short-term cyclical changes in the distribution of real private rents nationally over 25 years are shown in Figure ES1.

- Intercensal growth was again concentrated at mid-market levels in 2016–21, continuing a trend first established in 2011 as a major change, and continuing in 2016–21 as a structural shift to a concentration of rents at mid-to-higher levels.
- This intercensal period also saw a small increase in the number of dwellings at the lowest end of the market, likely a short-term event, impacted by COVID-19 market conditions at Census time.
- Even with a small increase, these low-rent dwellings comprised only 13 per cent of the PRS stock in 2021: a segment of the market that comprised 59 per cent of the PRS stock in 1996 and half of the stock in 2001.

Figure ES1: Distributions of private rental dwellings by weekly rent paid, Australia, 1996, 2001, 2006, 2011, 2016 and 2021



Note: Derived from 12 rent categories established for the 1996–2001 analysis, and which have been updated to 2021 dollars enabling real changes in the profile of rents paid to be evident.

Data source: ABS customised matrices derived from the Australian Census of Population and Housing 1996, 2001, 2006, 2011, 2016 and 2021.

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Change in size and structure of the private rental sector: household incomes

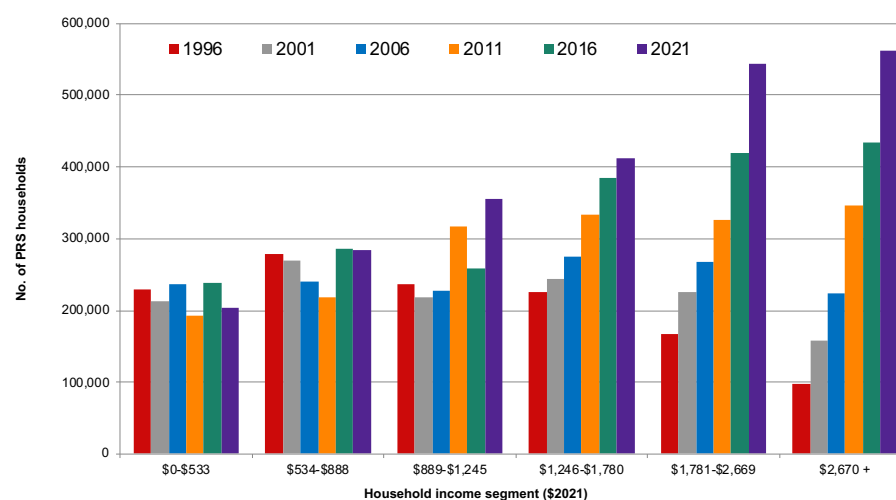
First, the most obvious long-term shift in the national distribution of PRS household incomes has been the growth of households with incomes at mid to high levels (\$1,246 a week and above, or \$65,000 and above per annum, \$2021) (Figure ES2).

- In 1996, these households (with 1996 equivalent incomes) comprised 40 per cent of all PRS households; in 2021, they comprised 64 per cent.
- Households with incomes in the top segment shown in Figure ES2 (around \$140,000 p.a. and above, \$2021), made up only 8 per cent of PRS households in 1996 but nearly one-quarter in 2021.

Second, there has been a consistent *volume* of lower-income (in real terms) households in the PRS since 1996 (with incomes up to \$888 per week, or \$46,000 p.a., \$2021) (Figure ES2).

- Due to the rapid growth of PRS households with higher incomes, households in these income segments have comprised a declining share of all PRS households over the long term: from 41 per cent in 1996 to 21 per cent in 2021.
- Their numbers, however, have remained relatively consistent over the 1996–2021 period, averaging around 480,000 households.

Figure ES2: Distributions of private renter household incomes, Australia, 1996–2021



Note: Based on 12 household income segments (real \$) that have been aggregated into six categories to enable easier communication of the main trends. These are not quantiles of any description (e.g., quintiles or quartiles). See Table A5 in Appendix 2 (Panel A) for underlying numbers.

Data source: ABS customised matrices derived from the Australian Census of Population and Housing 1996–2021. Cite as: Reynolds, M., Parkinson, S., De Vries, J and Hulse, K. (2024) Affordable private rental supply and demand: short-term disruption (2016–2021) and longer-term structural change (1996–2021), AHURI Final Report No. 416, Australian Housing and Urban Research Institute Limited, Melbourne: Figure 9.

Shortages of affordable and available private rental supply for lower-income households

Evident again in 2021 was the very low number of PRS dwellings affordable for very low-income (Q1) households (also documented in 2006–16). Importantly, the low and negative rent inflation patterns experienced at the time of the 2021 Census did not improve levels of supply or affordability for Q1 households between 2016 and 2021.

- Nationally, in 2021, Q1 PRS households faced an outright shortage of 255,000 affordable dwellings (up from 212,000 in 2016).
- The 2021 national shortage of affordable and available dwellings increased to 348,000 dwellings, from 305,000 dwellings in 2016.
- In 2021, 82 per cent of Q1 PRS households paid unaffordable rents (nationally) and 90 per cent in the aggregated capital cities (compared with 70% in non-metropolitan regions). These rates have changed little nationally and in the cities since 2006 and are the highest recorded in the series for the non-metropolitan region.

There was a substantial and unanticipated increase in the number of dwellings affordable to Q2 (and above) households in 2016–21, likely influenced by market responses to the COVID-19 pandemic in 2020 and 2021.

- Due to this unusual rise in stock affordable for Q2 households, a very large surplus of 787,000 affordable dwellings was recorded for Q2 renter households nationally in 2021.
- However, even a surplus of this size became a shortage of 152,000 affordable and available dwellings once occupation of the affordable stock by higher (and some very low Q1) income households was factored in.
- In 2021, 27 per cent of Q2 renter households nationally were paying unaffordable rents (36% in metropolitan areas): an improvement on 2016 rates (36% and 46%, respectively).

Changing rental demand in mainstream and non-mainstream rental arrangements

Findings drawn from analyses of the ABS SIH suggest that the full extent of the affordability crisis experienced by the lowest-income renters is likely to be undercounted at the household level.

- Single person occupancy within the independent mainstream rental sector has declined across all age groups between 2007–08 and 2019–20, but especially among those aged 15–34 years and 55–64 years. The share of single persons who work part-time, who are unemployed or who are not in the labour force has declined in the mainstream rental sector.
- In 2019–20, around half (49.7%) of Q1 individual income units paid rent outside the independent or group mainstream sector, either to another family member or with/to an unrelated cohabitating person. Around half of Q1 individual income units still paid unaffordable rents when cohabitating with others either informally or in a mainstream shared rental arrangement.
- Individual renters that are Australian born (19.8%), aged 15–24 years (45%), male (18%) and unemployed (30%) are more likely to be paying rent to a family member they live with.
- People paying rent to a family member they live with (15%) or cohabitating (19%) are more than twice as likely to be living in crowded conditions requiring one or more additional bedrooms based on the Canadian occupancy standard compared with people renting independently in the mainstream (6.5%).
- Only 20 per cent of all Q1 income units and 22 per cent of Q1 single persons renting independently in the mainstream sector were paying affordable rent compared to around 68 per cent paying rent to families.

Policy development options

This long-term analysis of affordable rental supply reveals the cumulative impact of market failure: relying on a private market to support the essential and basic need for housing for an ever-growing share of the population, including people in later life, is ultimately socially and economically unsustainable.

Drawing on the same methodology used since 1996 enables the disruption of longer-term structural trends of the past two decades to be understood in the context of profoundly divergent market dynamics and policy settings. What we learn from this long-term analysis is that it took nothing less than a global health and economic crisis to temporarily increase affordable supply to levels needed for Q2 households, but this did not extend to delivering affordable housing for the lowest (Q1) income households.

In normal times, without substantial policy interventions like those used during the COVID-19 pandemic, lower-income households cannot compete with households that have greater capacity to choose rentals across the price spectrum. For the lowest-income (Q1) renters, there is simply no affordable supply to choose from. While there has been policy development to increase affordable supply in the PRS since the last report in this series, it is difficult to see how the private market will deliver dwellings that are affordable for Q1 households and, importantly, keep this accommodation affordable over time.

In the short term:

- There is an immediate and urgent need for affordable and available (not occupied by higher-income groups) rental housing for Q1 households: that is, housing with rent that costs up to \$225 per week (\$2021). Only some form of social housing can, and will, do this.
- There is an urgent need for supply solutions to accommodate the diversity of single Q1 (and some Q2) households across the life course, notably younger households who are also affected by increased precarity in the labour market, and families with children (mainly sole parent families), and those in pre-retirement and retirement stages of life. Most will not be able to afford any type of private rental on their own and face the highest risk of homelessness.
- While general policy settings must work for the increasingly diverse group of households in the PRS, additional and targeted policy development is not only required to address the large numbers of Q1 and, increasingly, Q2 households paying rents in excess of 30 per cent of household income, but also those who are unable to gain entry or form their own rental household due to affordability constraints. This includes responding to issues of crowding among informal rental households.

- For Q2 households, a key issue is not only supply but also the availability of affordable stock that is rented by higher-income households who do not want to pay excessive rents and who want to save or redirect wealth building through other channels. Policy development for Q2 private renter households should include a broader range of measures in addition to affordable housing models such as those financed with funds raised through the National Housing Finance and Investment Corporation (NHFIC) and build-to-rent properties where these can be brought to market at rents affordable to Q2 households. Supply of affordable housing near to jobs and for key workers in inner-, middle-suburban and regional locations, especially Sydney, also needs improvement.
- The lack of supply of private rental dwellings (including those occupied by short-stay rentals) in regional areas as well as smaller urban centres of Tasmania (TAS), northern New South Wales (NSW) and Queensland (QLD) must be urgently addressed through targeted investment in affordable rental housing. At a more local level, further regulation to restrict the timing and use of short-stay rentals, as well as promoting the use and redevelopment of purpose-built tourist accommodation that does not reduce residential stock, is required.

In the longer term:

- The market and current policy settings are insufficient to tackle the scale of the institutional challenge ahead, including addressing the way in which housing is taxed and incentivised through the financialisation of housing as an asset class.
- Policy thinking to effect long-term change in the housing system is required, akin to responding to the challenges of climate change. To achieve long-term and transformative change, it is important to set clear goals for the PRS as part of the broader housing system for the longer term.
 - What would a good housing system look like and what is the role of the PRS within that system?
 - What transition pathways are required to achieve these goals?
 - What targets could be set to achieve these changes within specified time frames?
 - What governance arrangements would be most effective in achieving these targets (across various portfolios and levels of government)?



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