

EXECUTIVE SUMMARY

FINAL REPORT NO. 431

Planning for a two-tenure future



Authored by

Emma Baker, The University of Adelaide

Andrew Beer, University of South Australia

Chris Leishman, University of South Australia

Akshay Vij, University of South Australia

Wendy Stone, Swinburne University of Technology

Claire Morey, The University of Adelaide

Piret Veeroja, Swinburne University of Technology

Kavishka Indraratna, The University of Adelaide

Jim Dunn, McMaster University

Steve Pomeroy, McMaster University

Publication Date November 2024

DOI 10.18408/ahuri3130901

Title

Planning for a two-tenure future

Authors

Emma Baker, The University of Adelaide
Andrew Beer, University of South Australia
Chris Leishman, University of South Australia
Akshay Vij, University of South Australia
Wendy Stone, Swinburne University of Technology
Claire Morey, The University of Adelaide
Piret Veeroja, Swinburne University of Technology
Kavishka Indraratna, The University of Adelaide
Jim Dunn, McMaster University
Steve Pomeroy, McMaster University

ISBN

978-1-922498-98-4

Key words

tenure; rental; home ownership; Australia; policy; housing preferences

Series

AHURI Final Report

Number

431

ISSN

1834-7223

Publisher

Australian Housing and Urban Research Institute Limited
Melbourne, Australia

DOI

10.18408/ahuri3130901

Format

PDF, online only

URL

<https://www.ahuri.edu.au/research/final-reports/431>

Recommended citation

Baker, E., Beer, A., Leishman, C., Vij, A., Stone, W., Morey, C., Veeroja, P., Indraratna, K., Dunn, J., and Pomeroy, S. (2024) *Planning for a two-tenure future*, AHURI Final Report No. 431, Australian Housing and Urban Research Institute Limited, Melbourne, <http://www.ahuri.edu.au/research/final-reports/431>, doi: 10.18408/ahuri3130901

AHURI

AHURI is a national independent research network with an expert not-for-profit research management company, AHURI Limited, at its centre.

AHURI's mission is to deliver high quality research that influences policy development and practice change to improve the housing and urban environments of all Australians.

Using high quality, independent evidence and through active, managed engagement, AHURI works to inform the policies and practices of governments and the housing and urban development industries, and stimulate debate in the broader Australian community.

AHURI undertakes evidence-based policy development on a range of priority policy topics that are of interest to our audience groups, including housing and labour markets, urban growth and renewal, planning and infrastructure development, housing supply and affordability, homelessness, economic productivity, and social cohesion and wellbeing.

Acknowledgements

This material was produced with funding from the Australian Government and state and territory governments. AHURI Limited gratefully acknowledges the financial and other support it has received from these governments, without which this work would not have been possible.

AHURI Limited also gratefully acknowledges the contributions, both financial and in-kind, of its university research partners who have helped make the completion of this material possible.

Disclaimer

The opinions in this report reflect the views of the authors and do not necessarily reflect those of AHURI Limited, its Board, its funding organisations or Inquiry Panel members. No responsibility is accepted by AHURI Limited, its Board or funders for the accuracy or omission of any statement, opinion, advice or information in this publication.

AHURI journal

AHURI Final Report journal series is a refereed series presenting the results of original research to a diverse readership of policy makers, researchers and practitioners.

Peer review statement

An objective assessment of reports published in the AHURI journal series by carefully selected experts in the field ensures that material published is of the highest quality. The AHURI journal series employs a double-blind peer review of the full report, where anonymity is strictly observed between authors and referees.

Copyright

© Australian Housing and Urban Research Institute Limited 2024

This work is licensed under a Creative Commons Attribution-NonCommercial 4.0 International License, see <https://creativecommons.org/licenses/by-nc/4.0/>.



Executive summary

Key points

- **While home ownership remains the dominant tenure type, renting is on the rise in all capital cities across almost all age brackets.**
- **Only half of current renters expect to own a home in their lifetime.**
- **The ‘rental sector’ is far from homogenous and might be better described as a set of loosely related sub-sectors.**
- **Renters are willing to pay more for rent protection, property maintenance above minimum standards and the ability to extend their lease indefinitely.**
- **While private rental is becoming a long-term and mainstream housing option, there are inadequate policies targeted towards supporting this tenure change.**
- **Tenure decisions are not independent of property and financial asset investment decisions.**

Over recent decades, Australia’s tenure landscape has shifted. Australia was once a nation with a single, idealised housing ladder that people climbed towards home ownership. In this former tenure landscape, the private rental sector (PRS) was largely regarded as a ‘transition tenure’ – a place to pass through on the journey to home ownership. In 2024, Australia’s tenure landscape is very different. Many Australians are not climbing towards home ownership and a sizeable proportion will be lifetime renters. The rental sector is no longer a simple tenure of transition.

This project emerges from an acknowledgment among policy stakeholders of the shift towards renting as a dominant tenure in Australia. It is driven by concern for the nation's ability to adapt its housing market, governance structures and planning systems, and the population's ability to adapt its long-term aspirations. The purpose of the research is to identify the changes in Australia's tenure market, analysing housing tenure preferences, the suitability of the policy environment and implications of a changing tenure market. Specifically, this research will explore the current and future tenure landscape for Australia, following four guiding questions:

1. What are Australia's short- and long-term tenure trends?
2. What are the housing tenure preferences of Australian households now and over coming decades? What are the key components affecting decisions they make?
3. How could Australia's policy and regulatory environment better support the revealed tenure preferences of contemporary and future Australians?
4. What are the potential costs and benefits to the nation in an evolving tenure structure?

This project examined tenure change using a broad range of approaches. Building on the foundation of a descriptive analysis of national data, a discrete choice experiment (DCE) and stated preference analysis were conducted. We then used Delphi technique analysis and structured interviews to explore the policy environment. In response to the findings generated in the project, we commissioned an additional survey that enabled the testing, using econometric methods, of emerging cost-benefit questions.

Key findings

The descriptive analysis of national data from the Australian Bureau of Statistics (ABS) and the Australian Housing Conditions Dataset (AHCD) tracks a clear shift towards renting as a form of tenure in Australia. They also highlight the continued dominance of home ownership, both in terms of prevalence and as a preference.

Importantly, the profile of who rents in Australia is changing. The nation's rental sector is ageing. Whereas once private rental was seen largely as a tenure of transition in the early life stages on a journey to home ownership, renting now has a much more mainstream age profile. Renters are older, and elderly people are increasing likely to rent. An additional demographic trend is the lone-person shift, with renting becoming a key tenure option for lone-person households. Finally, the analysis suggests a growing trend towards 'strategic renting' in Australia, whereby a growing number of people appear to be choosing to rent to take advantage of the flexibility it may provide. While not a completely new trend, its prevalence appears to be increasing and expanding as more people participate in 'rentvesting' – that is, renting while also investing elsewhere in the property market.

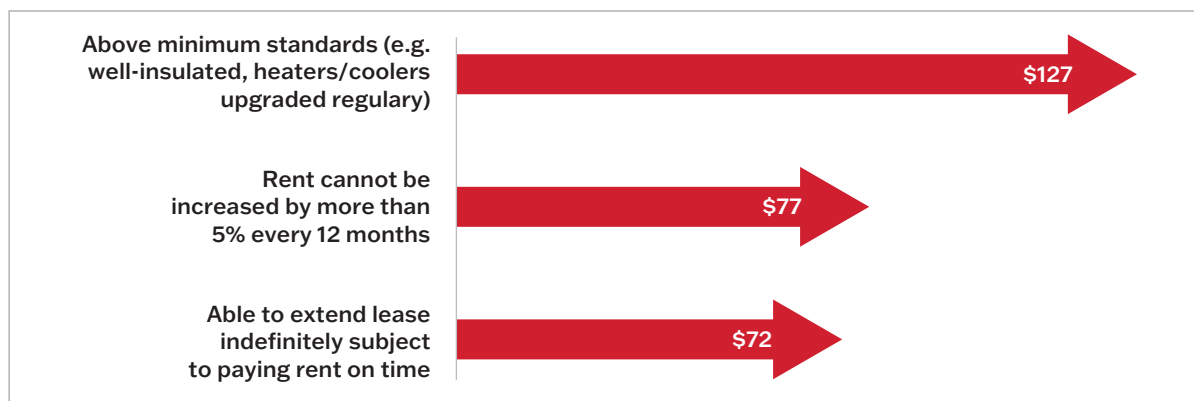
The analysis of national data also reveals a series of key indications about the population's expectations and aspirations. Importantly, only half of all renters in the PRS expect to own a home in their lifetime, even though home ownership is still the dominant tenure aspiration for Australians.

Interrogating the reasons Australians aspire to home ownership, there is evidence that housing tenure is seen as being capable of delivering the key attributes of housing that Australians want: ontological security and control over one's home environment.

Among Australian renters, the great majority (almost 80%) want to attain home ownership. Relatively few (less than 20%) see renting as a tenure that meets their housing aspirations, and these are primarily young adults. As well as eventual home ownership, current Australian renters value many of the elements provided by home ownership: security of tenure, housing quality and conditions, and the ability to modify dwellings.

The cost of home ownership is the single biggest deterrent for renters, with almost 60 per cent not confident that they will ever be able to afford to buy a home. Renters are keen for protections that will allow them to extend their lease indefinitely, have limits on the size of rent increases and have good quality housing, and they are willing to pay for these types of protection (see Figure 1). For example, the analysis suggests that current renters are willing to pay \$127 in addition to their weekly rent to have a home that is above minimum standard.

Figure 1: Renters' willingness to pay additional weekly rent for different renter protections



Source: Authors' own research.

Overwhelmingly, renters, regardless of whether they are pet owners themselves, want the freedom to have the right to keep pets, consistent with the findings of Stone, Power et al. (2021).

The stakeholder consultation provided substantial insight into Australia's current policy and regulatory environment. Importantly, informants were mindful that Australia's tenure structure sits at an important crossroads with many other parts of the economy: housing assets not only underpin much of the nation's wealth, but also underwrite income support in older age and other supports, including for persons with a disability.

The panels highlighted that the unsustainability of Australia's housing structure has developed over time, reflecting a growing focus on housing as an asset rather than as a human need. Sustained underinvestment in social housing has had long-term negative implications for all Australians, and additional public housing construction is needed as a priority. However, community and social housing is unlikely to grow significantly over the next three years. This places even more pressure on reform of the PRS.

Finally, the cost-benefit analysis explored some of the potential costs and benefits in an evolving Australian tenure structure, focusing on three previously little-considered cost-benefit scenarios: the wellbeing dividend, the potential utility benefits of renting and the potential for non-housing investment. Reflecting the complexity of housing choices (alongside other lifetime investment decisions), this analysis suggests that tenure decisions are not independent of property and financial asset investment decisions. There are distinct differences between current superannuation balances, the ideal target retirement balance and the property investment aspirations of the demand groups or rental sub-sectors.

Policy development options

In 1974, Professor Hugh Stretton, historian and deputy chair of the South Australian Housing Trust, reflecting on the housing history of Australia, spoke of a landscape comprised of home owners and people who rent because they 'want to be tenants' (Stretton, cited in Dufty-Jones and Rogers 2015). This report shows Australia in 2024 to be a nation comprised of home owners, a few people who rent because they 'want to be tenants', and a growing number of people who rent but would rather not be tenants.

This report shows a clear shift in the Australian tenure landscape. It documents a rise (or return) in renting and a gradual change in the way that Australians see this tenure. Our findings also suggest, perhaps, the slowness of policy to acknowledge the shift to renting and to plan for it. While home ownership is still the dominant tenure in Australia, more and more Australians are renting, and the renting population is very different to that of previous decades.

The policy challenge is to know who rents and why, and to make renting a good housing outcome for renters. Of particular concern are lower-income, older renters with limited superannuation who have 'failed to transition' to home ownership. The analyses presented in this report suggest a significant growth in older Australians needing to be accommodated in the rental sector in the next 10 years. In previous decades, many of these lower-income, older renters could access the safety net of social housing. However, in 2024 there is a need to look beyond social housing to alternative solutions. Importantly, while older renters are not a new phenomenon in the private renting system, older renters at this scale are. This suggests that an important policy focus should be understanding the requirements of older renters and enabling them to rent because they want to be tenants.

Looking beyond older renters to the wider Australian population, it is worth highlighting the commonality of the desire to have a safe and secure place to call home, especially as people age. This ambition provides a very straightforward (and achievable) goal for policy – and one that is less prone to being challenged by the well-known problems of infrastructure supply. In short, the legislation controlling private tenancies should be reformed to better align the protections provided to tenants with contemporary needs.

The results of the DCE allow us, for the first time, to look inside the trade-offs that people make in the housing system. Unsurprisingly, housing affordability is a significant concern for Australians. However, our analysis demonstrates that people value the security of longer lease lengths, protection from rapid rent rises, property maintenance and the ability to have pets so much that they are prepared to pay additional rent to access them. These areas provide direct priorities for policy development.

It will be no surprise that the policy community highlights the challenges from sustained underinvestment in the social housing stock. Additional public housing construction is needed as a priority to house the growing population of Australians unable to sustain leases in the PRS. Considering this, it is worth reflecting on the cost-benefit analysis presented in Chapter 6. Household Income and Labour Dynamics in Australia (HILDA) survey data show that, on average, existing social housing tenants report some of the highest relative levels of satisfaction with their home (second only to outright home owners).

Finally, we note a concerning dearth of data capturing the evolving housing aspirations of Aboriginal Australians. Without this, policy responses are at risk of being poorly formed or haphazard. There is a role for AHURI or similar organisations in the creation of this knowledge foundation, but it should be guided by First Nations people.

The study

The research explored Australia's current and future tenure landscape, utilising a range of data resources and disciplinary methods:

- Large scale national datasets: the three most recent releases of ABS data (2011, 2016, 2021), ABS Population Projections up to 2031, and the last two releases of the AHCD (2020, 2022) were used to describe recent and likely future tenure patterns.
- Australian Housing Aspirations (AHA): this dataset was analysed to consider the tenure preferences of Australian households, and identify insights to inform original data collection for this research.
- Discrete Choice Experiment (DCE): a commissioned DCE tested the specific housing and tenure preferences of 965 participants. The survey objectives were to: 1) test the trade-offs that people make when deciding their preferred tenure arrangement; 2) identify the key components affecting their current and potential tenure decisions; and 3) understand the role of non-housing factors, such as residential stability, income and region, in driving those decisions.
- Policy stakeholder panel interview: a modified Delphi exercise was used to test the impacts and policy implications of several tenure scenarios for Australia, considering the impacts of each on the Australian people, broader social welfare system and public sector budgets. The implications for key stakeholders, including public housing providers, community housing associations, governments and the home building and home financing sectors, were also examined.
- 'People's panel' survey: to better understand the cost and benefit decisions of Australian householders, 55 participants from various Australian states and territories and at different life stages (young, mid-life and later life) were sampled using a commissioned recruitment company.



Australian Housing and Urban Research Institute

Level 12, 460 Bourke Street

Melbourne VIC 3000

Australia


+61 3 9660 2300

information@ahuri.edu.au

ahuri.edu.au

 twitter.com/AHURI_Research

 facebook.com/AHURI.AUS

 Australian Housing and Urban Research Institute