

Responding to changing housing trends for renters and home owners of the future



Based on AHURI Final Report No. 431: Planning for a two-tenure future

What this research is about

This research identifies the changes in Australia's tenure market (i.e. homeownership and rental markets), analysing housing tenure preferences, the suitability of the policy environment and the implications of the changing tenure market.

The context of this research

In the twenty-first century, it is evident that home ownership is in decline; Australians are now more likely than ever to be long-term renters and never purchase their own home. This trend has parallels in other market liberal countries, including Great Britain, Canada, the United States, Ireland and New Zealand. Renters are older, and elderly people are increasing likely to rent. There has also been a trend with renting becoming a key tenure option for lone-person households.

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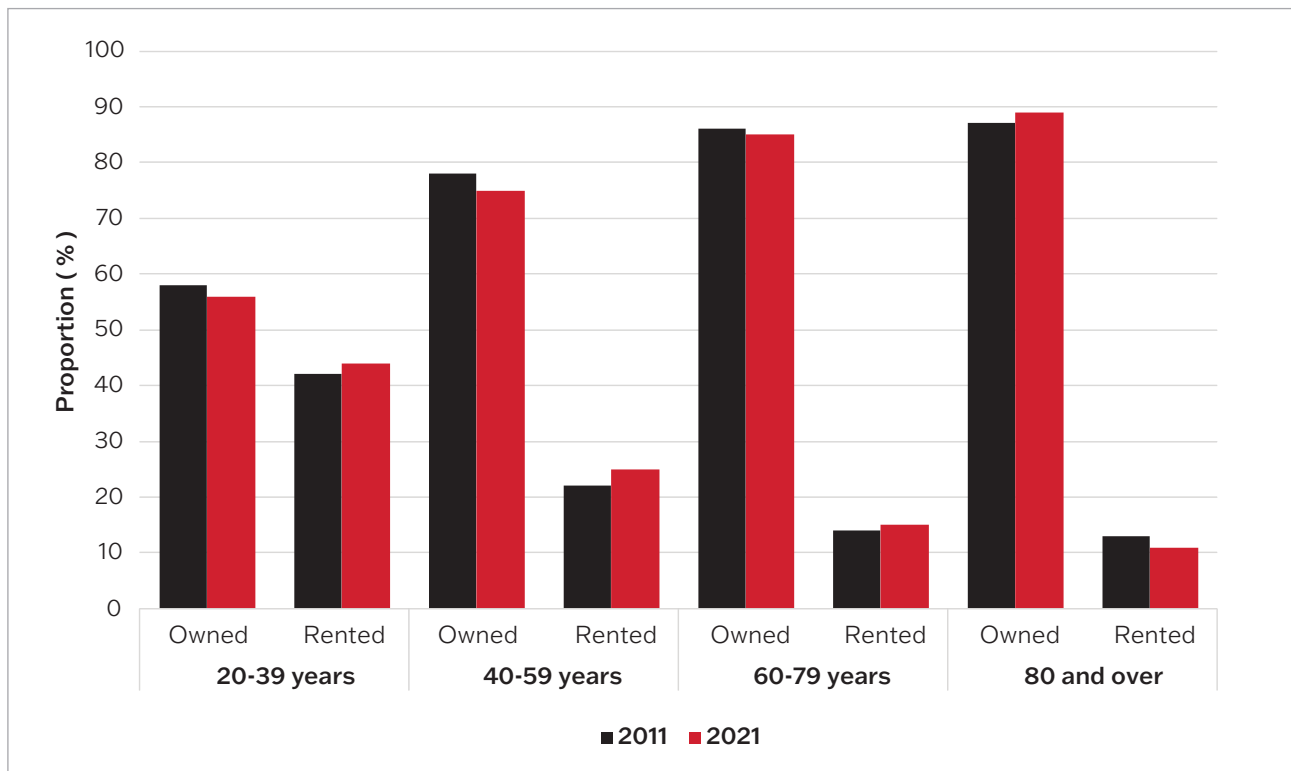
The key findings

Home ownership rates are falling

One of the key drivers of the increase in people renting is decreasing affordability, particularly for younger Australians. Australian Census data from the last 30 years reveal a significant decrease in home ownership for each successive generation of 25–39 year olds. The proportion of Australians who own their homes outright has also decreased across all age cohorts (except the 80 and over cohort in most parts of the nation).

Forty-four per cent of Australians own their own home with a mortgage, 27 per cent own their own home outright and 26 per cent rent privately, either from a real estate agent or from someone not in the same household. Comparatively few (less than 5%) Australians are social renters. Social housing has been found to provide better psychosocial benefits over more insecure private rental, including stability and security, improved mental health and better prospects regarding social, familial and employment opportunities.

Figure 1: Home ownership is decreasing and renting increasing for most age groups.
Proportion of renters and owners by age cohort, 2011 and 2021



Over the next 20 years, rental rates are expected to keep growing while overall home ownership is forecast to fall from 67 to 63 per cent. Millennials, for whom private rental has become the primary tenure option, are being priced out of the housing market. Facing delayed or uncertain home ownership, some millennials appear to be placing less importance on home ownership and more on the perceived flexibilities offered by renting.

Census tenure trends for Australian cities

Hobart, Darwin and Canberra have the largest proportion of public renters (5%, 6% and 5%, respectively). Perth and Canberra have the highest proportion of homeowners with a mortgage (50% and 48%, respectively). The largest proportion of outright owners live in Adelaide (27%) and Hobart (29%). Finally, Darwin has the highest proportion of private renters (34%) and public renters (6%), as well as the lowest proportion of outright owners (18%).

Unlike the rest of Australia, where private renting has increased for the youngest three age brackets, private renting in Sydney has increased across all age groups, including in the 80 and over group (where private renting has increased from 5% to 6.1%). This trend is also evident in Brisbane (with an increase from 7.4% to 8.3%) and, to a lesser extent, in Canberra (2.9% to 3.3%), Adelaide (4.3% to 4.7%) and Melbourne (5.1% to 5.5%).

Overall, these trends suggest that the so-called 'rise of renting' is a multigenerational phenomenon.

Expected future increases in number of ageing renters

Across Australia there will be substantial growth of the older population to 2031; the number of people aged 80 years and over is expected to increase by 53 per cent and the population aged 60–79 years is expected to rise by 20 per cent, reaching almost 1 million people.

Evidence suggests that increasing numbers of lower-income Australians are moving out of social housing and into the private rental sector, where they are less protected against insecure elements of renting, such as rent increases and short leases. As a result, affordable rent will be an ongoing challenge for significant numbers of older people.

Lone-person households experienced significant shifts from 2011 to 2021, with the percentage of lone-person households in public housing decreasing from 10 per cent to 4 per cent. Tenure stayed relatively stable for single-parent families, couple families with no children and couple families with children.

People are living in shared houses for longer

Share houses have traditionally been a temporary housing tenure to improve affordability while people are on lower incomes due to studying or early in their working career. However, it is now recognised that Australians are not just renting for longer, but also living in share houses for longer. This increased sharing lifestyle has several impacts on society, including delaying major life course events such as family formation and buying a first home.

Housing and rental costs have been rising since 2011

Nationwide, rental costs increased between 2011 and 2021. ABS data suggest that 50 per cent of weekly rents were in the highest price brackets (i.e. \$400–\$549 and \$550 and over) in 2021, compared to just 23.3 per cent in those brackets 10 years earlier. Rents were generally higher in the capital cities, with Sydney having 40 per cent of its rental stock in the highest price bracket in 2021.

Dwelling costs are also rising for owners. From 2016 to 2021, the number of homes with monthly mortgage repayments of \$5,000 and over increased by 60 per cent, while the proportion of homes in a monthly repayment bracket of \$3,000–\$4,999 increased by 23.2 per cent. In 2019–20, the average weekly housing cost for owners without a mortgage was \$54, with a mortgage was \$493 and for renters was \$379.

There has been a decline in housing affordability (i.e. ratio of housing costs to gross household income). Renters spend a higher proportion of their gross household income on housing costs compared to owners. In 2019–20, the housing affordability ratio stood at 20.2 per cent for the private rental sector and 19.5 per cent for social housing. By contrast, it was 15.5 per cent for owners with mortgages and 3 per cent for outright owners.

‘Renters spend a higher proportion of their gross household income on housing costs compared to owners.’

In Australia, housing remains central to wealth creation and heightens inequality for those locked out of home ownership. With home ownership also central to health, financial security and a ‘decent life’, unaffordable housing puts a secure future in jeopardy for many Australians.

The three top reasons why people rent were related to housing unaffordability

In the 2022 Australian Housing Conditions Dataset (AHCD) survey, the three top responses to the question of why people rent were related to housing unaffordability and the inability to purchase property:

- 42 per cent of public renters and 51.5 per cent of private renters stated that they rented because *they did not have enough money for a down payment or deposit*.
- Similarly, 42.2 per cent of public and 41.7 per cent of private renters said *they could not afford to buy anything appropriate*.
- The next most common reason for *renting* was due to *the perception that renting is generally cheaper than buying property* (19.6% for public renters and 14.3% for private renters).

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Only around half of Australian renters think they will own a home one day

A significant finding in the recent AHCD is that only just over half of private renters (55.4%) think they will be able to buy a property one day. The Discrete choice experiment survey found that three out of five (59%) respondents are **not confident** that they will ever be able to afford a home of their own. In addition, only 26 per cent of public renters think they will purchase a property in Australia.

This shows a significant shift for Australian renters. Whereas previously anyone who desired home ownership believed they would be able to move into that tenure, now more Australians are conscious that this dream may not be a possibility for them.

Rentvestors signal increasing way to invest in and own property

The increase in rentvestors—renter households who are also property owners—demonstrates that the traditional trajectory of renter to eventual owner is no longer relevant for many Australians. The AHCD 2022 suggests at least 10 per cent of renters are rentvestors, with the predominant rentvestor household being a mid-career couple with children. While financial reasons are a factor for rentvestors, this does not appear to be the primary motivation. Many rentvestors appear to choose to continue renting despite owning their own property for lifestyle reasons, such as living in a better area while renting or living closer to work.

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The Australian Housing Aspirations survey shows people still aspire to own their own home

The Australian Housing Aspirations (AHA) data shows the extent to which owners and renters indicate their current tenure meets their aspirations. The vast majority (90%) of owners indicated that home ownership was their aspiration. By contrast, only 19 per cent of participants who rented privately indicated that renting met their housing aspirations; indeed, a large majority (78%) aspired to home ownership.

Social housing tenants also overwhelmingly aspire to become homeowners, with just over half (55.1%) preferring to own their own homes. Less than one-third (28.3%) expressed a preference for remaining in social housing and a minority (7.2%) reported their ideal preference as privately rented housing.

Private rental tenants want a safe and secure home

The AHA survey showed that private rental tenants, regardless of income or age, most frequently selected survey attributes relating to having a safe and secure place to call home and the ability to prioritise security and control as they grew older. Another very popular attribute was housing quality, namely well-maintained and safe housing.

The second most popular location-based attribute (after being safe and secure) was access to local shopping. The third attribute differed based on age groups: younger and mid-life cohorts, regardless of income, valued a walkable neighbourhood, while the later-life cohort prioritised easy access to health services.

The Discrete choice experiment online survey identified five areas of concern for renters

1. The cost of ownership is the single most important deterrent to home ownership. Roughly 40 per cent of survey participants are looking to rent their next place of residence because they cannot afford to buy anything appropriate.
2. While most tenants would prefer shorter lease periods which give them the flexibility to change their place of residence if the need arises, tenants would be willing to pay extra for protections that offer them long-term security if they want it.
3. Forms of rent control are popular. The ‘average’ tenant in the survey sample is willing to pay \$77 more in rent per week if it meant that the landlord could not increase rent by more than 2 per cent every 12 months.
4. Housing condition is important. The ‘average’ tenant in the survey sample is willing to pay \$127 more in rent per week for their place of residence to be maintained above minimum standards.
5. The ability to have pets is important to all tenants regardless of whether they currently have pets or not.

Policy panel discussion finds Australia’s housing system is unsustainable

The policy panel with key housing industry stakeholders found that:

- Australia’s housing system and its tenure structure should be considered unsustainable, and this applies to its social, economic and environmental dimensions.
- The government’s underinvestment in social housing has had long-term negative implications for all Australians
- The emergence of a two-tier social housing supply system has added ambiguity to government housing assistance and measures are needed to reduce the differences between the two
- There is a pressing need to change the treatment of housing within Australian taxation systems
- Legislation controlling private tenancies needs to be aligned with contemporary needs.

Private rental sector tenants are not one homogenous group, but at least 5 different sub-groups

The research analysis identified that the private rental sector is far from homogenous and might be better described as a set of loosely related sub-sectors consisting of:

- Group 1 - low-income households with high levels of dissatisfaction and enforced high mobility. This particularly marginalised group is of current interest to policy makers
- Group 2 - low- to moderate-income households with higher levels of satisfaction and relatively long periods of tenure (five+ years)
- Group 3 - households living in the sector while they build a home for owner occupation
- Group 4 - moderate- to high-income households using the sector to ensure they retain mobility while they pursue professional careers
- Group 5 - rentvestors or households attaining both property ownership and consumption of more/better housing and neighbourhoods than they can afford.

In preparing for a future Australia where up to 60 per cent of renters expect to be lifetime renters, consideration of economic costs and benefits (particularly heading to retirement) will be different for the different sub-groups of renters. In addition, homeowners receive government benefits that are not available to renters, such as no capital gains tax on the sale of the primary residence (which becomes a form of wealth accumulation) and the fact there is no tax on the imputed rental income of owner occupying housing, yet renters are required to pay rent after income tax.

To create a fairer housing and tax system, group 2 and group 5 renters could also be of policy interest in the future; for example, compensated for living long-term in the sector through the provision of utility-bearing, non-property investment opportunities (to reduce need to rentvest) such as financial investment or superannuation.

What this research means for policy makers

The policy challenge is to make renting a good housing outcome for renters, particularly lower-income, older renters with limited superannuation.

Sustained underinvestment in social housing stock has had long-term negative implications for all Australians and additional **public housing construction is needed** as a priority. However, realistically, community and social housing is unlikely to grow significantly over the next three years. This places even more pressure on **reform of the private rental sector**, including understanding the requirements of older renters and the means to enable them to rent. There is a very straightforward (and achievable) goal for policy development: reform legislation controlling private tenancies to have better protections for tenants.

An emerging policy challenge appears to be rentvesting households, which could be assisting higher levels of rental housing consumption. Policy settings could be adjusted to encourage them to **adopt different strategies for financing retirement** despite their continued tenure in the private rental sector.

There is a **lack of data capturing the housing aspirations of Aboriginal and Torres Strait Islander Australians**. Without this, policy responses are at risk of being poorly formed or haphazard. The creation of this knowledge foundation should be guided and conducted by First Nations people.

Methodology

This research analysed data sets from the ABS Census; AHURI Australian Housing; Discrete choice experiment survey (to test the choices people make when deciding their preferred tenure arrangement); as well as interviews with stakeholders and a representative sample of Australian householders.

To cite the AHURI research, please refer to:

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