

How great is the shortage of affordable housing in Australia's private rental market?

BETWEEN 2001 AND 2006, AUSTRALIA'S PRIVATE RENTAL MARKET GREW BY 11 PER CENT. DESPITE THIS GROWTH, SHORTAGES OF AFFORDABLE RENTAL HOUSING FOR LOW-INCOME HOUSEHOLDS WORSENERD. THIS WAS EXACERBATED BY THE NUMBER OF LOWER COST RENTAL DWELLINGS OCCUPIED BY HIGHER INCOME EARNERS.

KEY POINTS

- There has been a growth in the private rental supply but it has not benefitted those on low incomes: whereas in 1996 there was a surplus of 26 000 affordable dwellings for the quarter of households on the lowest incomes, and there was a shortage of 71 000 a decade later.
- In 2006, the shortage for low-income private renters (those with the lowest 40% of household incomes) was acute, with almost two-thirds missing out on affordable rental housing. This was even more acute for very low income private renter households (those with the lowest 20% of household incomes) with nearly four-fifths of such households not accessing affordable housing.
- Very low income private renters faced a total shortfall of 211 000 affordable dwellings. This shortage was exacerbated because 73 000 low rent dwellings were occupied by higher income households.
- The greatest shortages, both in absolute and relative terms, in affordable private rental dwellings were observed in Sydney, Melbourne and Brisbane. For example in Sydney, there is one affordable and available dwelling for every 15 very low income households.
- Shortages of affordable private rental housing were particularly acute for low-income households with children, group households and young people.

This bulletin is based on research by Dr Maryann Wulff, Ms Margaret Reynolds, Associate Professor A. Dharmalingam, Associate Professor Kath Hulse and Associate Professor Judith Yates of the AHURI Swinburne-Monash and Sydney Research Centres. The research, based on 2006 Australian Census data, measured the national shortage of affordable rental stock for low income earning households, taking into account the displacement effects of higher income households occupying low rent stock.

- Across large regional centres studied, large numbers of low-income private renter households also missed out on affordable rental housing, particularly on the Gold Coast and the Sunshine Coast.
- Only about 20 per cent of very low income private renter households paid an *affordable* rent but another one-fifth paid a *severely unaffordable* rent of over 50 per cent of their gross household income.

CONTEXT

This study is the third of three comparable Australian census-based studies (from the 1996, 2001 and 2006 censuses) into the supply of, and demand for, private rental dwellings and the estimates of shortage.

Since the data from the 2006 Census was collected (on which the analysis in this research project's Final Report is based) the range of measures to improve supply of housing for low-income private renter households have been introduced. These include increases in expenditure on Commonwealth Rent Assistance, the National Affordable Housing Agreement, the National Rental Affordability Scheme (NRAS), affordable housing provision associated with land release in different states, the Housing Affordability Fund and the Henry Review of Australia's future tax system.

This study provides the information (on relative need and absolute numbers of households) that is required to develop appropriate housing targets, and will be an important means by which policy-makers can assess progress, especially once the results of the 2011 Census becomes available.

RESEARCH METHOD

This study uses a methodology consistent with widely used affordability benchmarks (it uses the 30% of household income as a benchmark), and is the first study to analyse two segments of the lowest 40 per cent of the income distribution. Although *low-income* households are defined generally for policy purposes as falling into the bottom 40 per

cent of the national household income distribution, this analysis disaggregates between those in the first 20 per cent and second 20 per cent of private renter households.

This study measures the *actual supply* of affordable dwellings by calculating the number of private rental dwellings that can be rented to households in the bottom two income quintiles for an amount no greater than 30 per cent of their household income.

The *available supply* is measured by subtracting from the actual supply any dwellings that are occupied by higher income households and are therefore not available to low-income households.

This analysis draws upon special request ABS census data that imputes missing values for dwelling rents and household incomes in order to ensure the reliability and quality of the results.

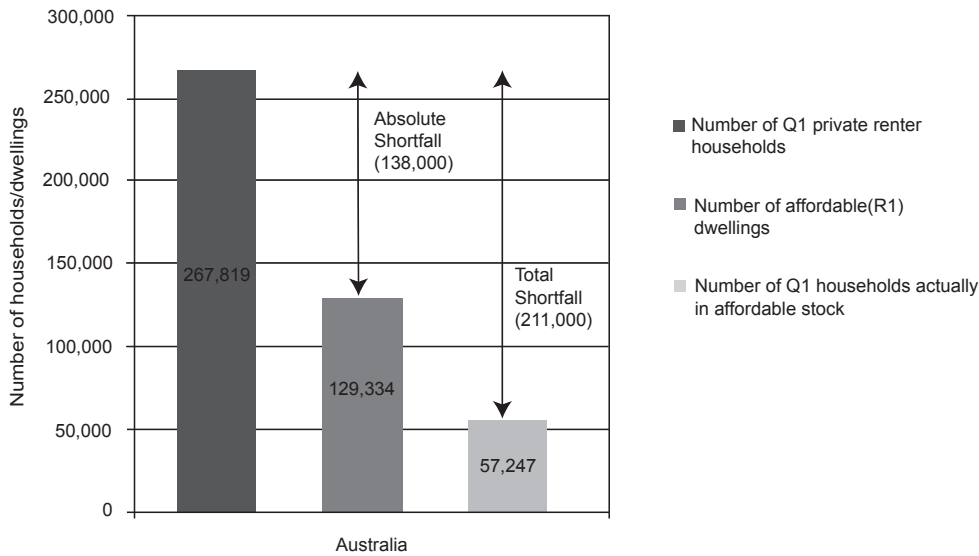
KEY FINDINGS

Demand for private rental housing has increased across the income distribution, including in the lowest income category. While overall supply of private rental dwellings has increased (between 2001 and 2006 by 11%), the expansion in stock has occurred mainly at the upper end of the rent distribution. By contrast, the stock in the four lowest rent categories declined from 50 to 37 per cent of the total stock over the period.

This has meant there has been a progressive worsening of the supply situation for low-income private renters. For renting households in the lowest 25 per cent of incomes, in 2006 there was an absolute shortage of 71 000 affordable dwellings. This figure stands in sharp contrast to 2001 in which a surplus of 4000 dwellings was recorded and a surplus of 26 000 in 1996.

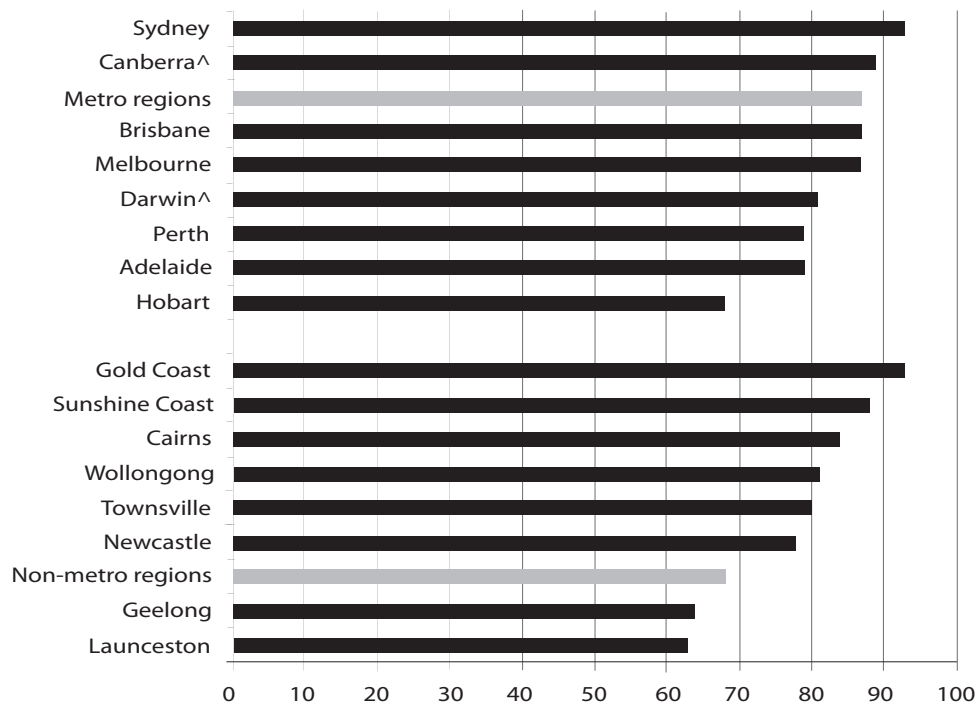
In 2006, among low-income private renter households (those with the lowest 40% of incomes), there was a surplus of 527 533 affordable dwellings. Even so, this surplus turned into a shortage of 87 000 dwellings once utilisation of the stock was taken into account. Only 37 per cent of low-income households are able to access affordable rents.

FIGURE 1: NUMBER OF VERY LOW INCOME PRIVATE RENTER HOUSEHOLDS, AFFORDABLE STOCK, AND HOUSEHOLDS LIVING IN AFFORDABLE STOCK



Source: ABS customised expanded matrices, 2006 Australian Census of Population and Housing

FIGURE 2: PERCENTAGE OF LOW INCOME PRIVATE RENTAL HOUSEHOLDS MISSING OUT ON AFFORDABLE HOUSING



Note: ^ very low frequencies for these areas and caution must be exercised in interpreting these figures

This situation is more acute for very low income private renter households (i.e. those in the lowest quintile of income earning households) who faced an absolute shortfall of 138 000 affordable dwellings. This translates into one affordable dwelling for every two very low income households. However, the true shortage increased to 211 000 dwellings once the use of low rent dwellings by higher income households was taken into account (see Figure 1). Nationally, nearly four-fifths of very low income

households could not access affordable housing. One-fifth paid a severely unaffordable rent of over 50 per cent of their gross household income.

For very low income private renter households, the greatest shortages in affordable and available private rental dwellings were observed in metropolitan areas such as Sydney, Canberra, Melbourne and Brisbane (see Figure 2). For example in Sydney, there is one affordable and available dwelling

for every 15 very low income households. Those private renters not in affordable housing are by definition in unaffordable private rental arrangements.

Across large regional centres studied, large numbers of private renter households in the lowest 20 per cent also missed out on affordable rental housing, particularly on the Gold Coast and the Sunshine Coast. Only about 20 per cent of very low income private renter households paid an *affordable* rent but another one-fifth paid a *severely unaffordable* rent of over 50 per cent of their gross household income. By contrast, Launceston and Geelong had better affordability outcomes compared to other regional centres, though even in these places more than 50 per cent of renters were in unaffordable housing.

Shortages of affordable rental housing were particularly acute for households with children, with around a quarter facing severely unaffordable rents (above 50% of income). Younger households also faced affordability issues with only 14 per cent of 15–24-year old private renters in affordable rental properties.

POLICY IMPLICATIONS

The findings of this study are consistent with previous studies that show that the shortages in the private rental market in Australia are acute, but this evidence shows that shortages have increased over the last decade. The shortage of 211 000 dwellings that are both affordable and available for very low income households highlights the importance of ensuring that the affordable stock that does exist is targeted in national affordability schemes, such as NRAS, to those most in need of it.

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The study highlights particular regional and urban locations, where shortages are most apparent, and also suggests that the need for small dwellings for singles should be balanced against the severe housing needs of large families with children.

Australian Government and state and territory government initiatives, such as the NRAS and the Social Housing Initiative have been introduced after this data was collected and so as the National Housing Supply Council second report (National Housing Supply Council 2010, p.65) stated, 'these actions will take time to be fully effective and are likely to need expansion and adjustment to address the need of people in the lower half of the household income distribution'.

FURTHER INFORMATION

This bulletin is based on AHURI project 50502, *Australia's private rental market: changes (2001–06) in the supply of, and demand for, low rent dwellings*.

See also the previous study that analysed 2001 data—AHURI project 60190, *Changes in the supply of and need for low rent dwellings in the private rental market*.

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



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