

Supply and demand in the low rent private market

DESPITE AN INCREASE IN THE OVERALL SUPPLY OF PRIVATE RENTAL HOUSING SINCE 1996, IN 2001 THERE WAS STILL A SIGNIFICANT SHORTAGE OF AFFORDABLE HOUSING FOR LOW-INCOME AUSTRALIANS.

KEY POINTS

- In 2001, there was an overall shortage of affordable and available private rental housing suitable for low-income households in Australia equal to 134,000 dwellings. This was an improvement from 1996, when the shortage was put at 150,000.
- The supply of low to moderate rental dwellings declined between 1996 and 2001, despite growth of 7.6% in the number of private rental properties.
- Growth in supply of private rental dwellings has been focussed on the high end of the market.
- At the same time, people who could afford higher rents increasingly were occupying low rent dwellings. In 2001, only 39% of low rent dwellings were occupied by households with low incomes, compared to 42% in 1996.
- The lack of low rent housing is now especially acute in cities such as Sydney, Darwin, Canberra and Melbourne. For example, in Sydney, only 11% of all low-income private renters were accessing affordable (ie low rent) housing stock in 2001.
- There is a range of options to address the supply, and mismatch in the allocation, of low cost rental housing. Some of these are: expanding 'secondary' rental markets (whereby social landlords are subsidised to lease properties only to low income earners); increasing social housing; or increasing incentives to provide low rent private rental housing.

BACKGROUND

The period from 1996 to 2001 saw significant changes, both temporary and structural, in the housing market. Household incomes improved. The growth in households continued to outpace population growth. Inflation remained low and interest rates declined to the lowest levels since the 1970s. These trends contributed to a housing boom that began in the late 1990s and, with the prices of houses increasing faster than the rate of income growth, to markedly lower housing affordability.

Based on research by Judith Yates, of the AHURI Sydney Research Centre and Maryann Wulff and Margaret Reynolds from the AHURI Swinburne-Monash Research Centre, this project uses 1996 and 2001 Census data to examine changes in the supply of, and need for, low rent dwellings in the private market. It also aims to identify the characteristics of occupants of low rent housing stock and low-income households not able to access affordable housing.



Australian Housing and Urban Research Institute

www.ahuri.edu.au

The boom also gave rise to an unprecedented level of investment in private rental housing. At the same time, housing assistance in Australia has continued to shift away from public housing and towards an increasing reliance on rent-based subsidies for eligible private tenants.

METHODOLOGY

The level of investment in private rental housing, along with a continued reliance on the private market to meet the housing needs of lower income households, raises the question of how well the private market meets these needs, and whether policies might be put in place to improve the degree to which these needs are met. This research set out to answer that question.

The findings of this research are drawn from Census data specially requested from the Australian Bureau of Statistics. Tables matching rent and income data were derived from the 1996 and 2001 Censuses so that comparisons could be made between the two years. The research made use of, and updated, a methodology from an earlier study by Wulff and Yates (2001), which undertook similar analysis using 1986 and 1996 Census data.

Low-income households were defined (in 2001 dollar terms) as those receiving less than \$335 per week (they comprised 16% of all households in private rental in 2001). Low rent was defined (in 2001 dollar terms) as less than \$112 per week and rental housing meeting this description comprised 15% of private rental housing stock in 2001. A higher cut-off for low to moderate rent dwellings (\$166) was also used, as was a low to moderate household income of \$557 in order to capture sensitivity of cut-off rates and include other groups in the analysis, including low income families.

High rent was defined in 2001 dollar terms as properties renting for \$223 per week and above.

Housing was defined to be 'affordable' if no more than one third of household income was required for rent. If a household paid more than this, they were deemed to be without affordable housing.

FINDINGS

Between 1996 and 2001, the number of private rental dwellings in Australia grew by 7.6%. However, this growth was unevenly distributed:

- Growth was focussed at the highest end of the rental market: there were 96,000 (or 42.7%) more properties renting for above \$223 per week in 2001 than rented above the real equivalent of that in 1996.
- There were 2000 (or 0.2%) fewer dwellings available for rent below \$223 per week in 2001 than the

equivalent of this in 1996. In 2001, dwellings with rents below \$223 represented 76% of the private rental stock (down from 82% in 1996).

- However there was an increase of 28,000 dwellings in the low-rent category (renting for less than \$112 per week) and low rent housing increased its share of total stock from 14% to 15% between 1996 and 2001. But both Sydney and Melbourne experienced a continued decline in the low rent segment of the market. In Brisbane, Adelaide, Perth and Canberra, the relative share of stock in the segment remained steady. Hobart was the only capital to record an increase in the share of low rent stock.
- As well, the household incomes of private renters generally improved between 1996 and 2001. In that time, private renter households in the lower income categories declined, while the numbers in the higher income categories increased. In 2001, low-income households (defined as those earning less than \$335 per week) represented 16% of all renter households; they made up 18% in 1996.
- By comparing the number of low-income households with the stock of housing being rented at suitably affordable rents, it was possible to estimate the level of 'shortage' of affordable housing for this group.
- There was an absolute supply shortage of 11,000 dwellings in 2001 for low-income households. By comparison, the equivalent shortage in 1996 reached 50,000.

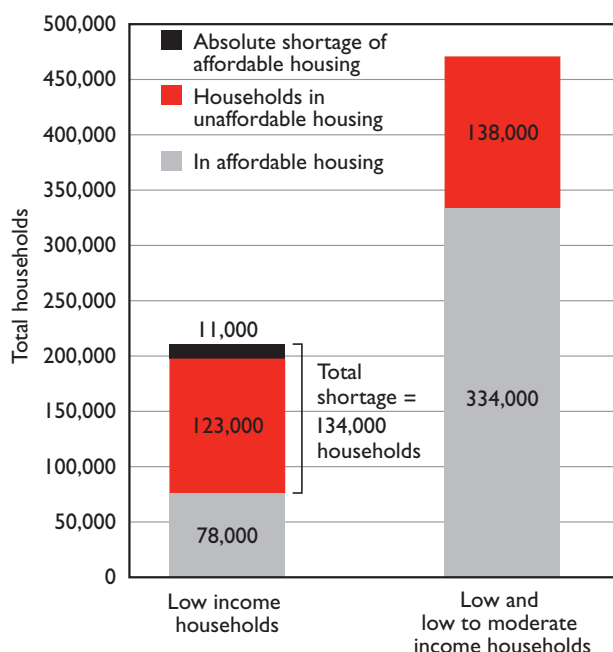
This improvement over the outcome for 1996 is due to an increase in household incomes, as well as an increase in the supply of low rent dwellings. It represents a reversal of the trend of loss of supply of low rent dwellings reported from 1986 to 1996. Notwithstanding this, there remains a shortfall in the supply of affordable dwellings for low-income households.

IMPACT OF HIGHER INCOME HOUSEHOLDS

Another point to note is that many higher income households remained in low rent dwellings, reducing the proportion available for low-income households. There was an increase in the proportion of low rent dwellings occupied by other than low-income households. By 2001, 61% of all low rent dwellings were occupied by households in the top four household income categories, compared to 58% in 1996.

Because many low rent dwellings are occupied by households that could afford higher rents, a different picture emerges when the shortage figures are

CHART 1: LOW AND LOW TO MODERATE INCOME HOUSEHOLDS BY ACCESS TO AFFORDABLE HOUSING



adjusted to take this into account. Chart 1 shows that when this is done there was:

- a shortfall of 134,000 dwellings affordable and available for low-income households. The equivalent 1996 estimate was of a 150,000 shortage.
- a shortfall of 138,000 dwellings affordable and available for low and low-to-moderate income households (with incomes less than \$558 per week). The equivalent shortage for 1996 was 150,000.
- an absolute shortage (where no housing exists to meet demand) of low rent housing of 11,000.

The shortage of low rent stock was unevenly distributed between regions. When the mismatch of supply and demand was taken into account, the net shortage

in metropolitan areas was 86,000, and 48,000 in non-metropolitan areas.

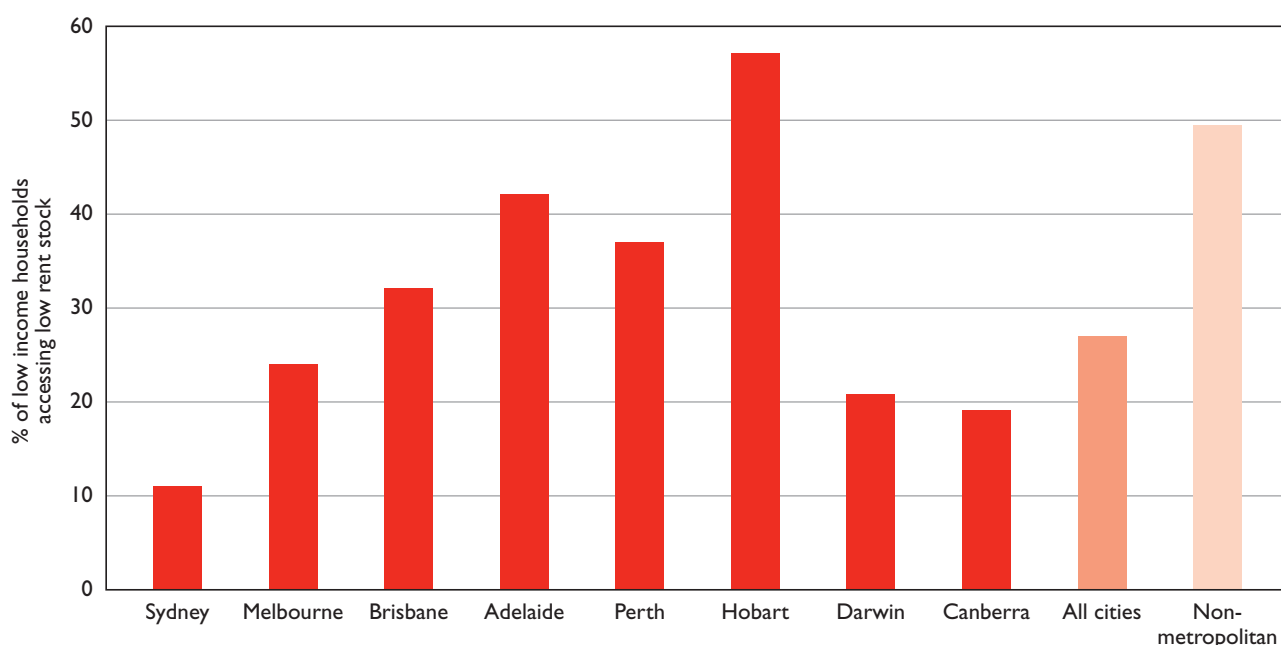
Only 39% of households living in low rent stock had a low income. This proportion varied little across metropolitan and non-metropolitan regions. The project analysed the demographic composition of occupants of low rent housing stock. Three groups were apparent:

- **Single people:** Over 80% of the lowest income renters lived alone – most of these (58%) were mature aged.
- **High income young couples:** 63% of high income households in low rent housing were couple households. Many of these were young: 51% of the two highest income groups were headed by those aged less than 35 years old.
- **Low income, unemployed:** 80% of the low income households in low rent had no-one employed.

The project also analysed the demographic composition of low-income renters that were not in affordable housing. Low income households renting in the top two rent segments were more likely to be young (under 35), in a couple relationship (either with or without children) and had one or more adults employed.

As Chart 2 below shows, there were also strong regional dimensions to the capacity of low-income households to access affordable rental housing. While 27% of low-income households gained access to low rent housing in all capital cities in 2001, in Sydney only 11% were able to do so. By contrast, in Hobart 57% accessed low rent housing, and in non-metropolitan Australia the figure was 49%.

CHART 2: LOW INCOME PRIVATE RENTERS ACCESSING LOW RENT STOCK BY REGION



POLICY IMPLICATIONS

This research shows that the private rental market is not providing the lower rent dwellings that are needed to ensure housing is affordable for significant numbers of households – particularly in Sydney and Melbourne. The results suggest that the policies currently in place are insufficient to adequately and affordably house low-income households through the private rental market.

A range of options that either partially replace or supplement the existing private rental market might be considered:

- **Replacement:** Improved matching of low income households to low rental accommodation might occur through creating a secondary rental market, such as happens with head leasing by a social landlord. The social landlord, established by the state, would take on some of the risks of the lease on behalf of owners in exchange for part of the income stream. This would provide some control over the allocation process for low rent dwellings. Such policies, however, may conflict with an objective of maintaining social mix in areas where low rent dwellings are concentrated. They also do not address the problem of needing to increase the total stock affordable for households on low or low to moderate incomes.
- **Social housing supplementation:** Increased supply of affordable housing might occur through the social housing sector. This could be achieved by an increase in direct grant funding by federal or state governments. However, there may also be a case for supporting institutions prepared to invest in low cost housing. This may require new tax breaks, guarantees or other forms of direct subsidy.

To be successful, market supplementation policies are likely to require guarantees relating to rent assistance to ensure their financial viability, as well as institutional structures that can increase control over the supply of affordable rental accommodation. These institutional structures could include a fund raising arm, a set of appro-

priate financial instruments, a housing provider and a housing manager. These roles do not have to be undertaken by the one institution and not all may be necessary in all circumstances.

- **Supplementation through private market provision:** this would involve re-examining tax incentives that currently underpin provision of rental housing by the private market. Up until recently, tax incentives have tended to favour investment in the upper end of the market, and those investing in the low end have been resource poor. Policy analysts would need to consider how tax reform might be directed towards investment in low cost housing suitable for low income tenants (including in locations where it is most in need), and address how to ensure that low income tenants might get priority access to these properties.

FURTHER INFORMATION

This bulletin is based on AHURI project 60190 entitled *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) by typing the project number into the search function.

The following documents are available:

- Positioning Paper
- Final Report

Or contact the AHURI National Office on +61 3 9660 2300.



Australian Housing and Urban Research Institute

www.ahuri.edu.au

HEAD OFFICE Level 1, 114 Flinders Street Melbourne Victoria 3000 TELEPHONE +61 3 9660 2300
FACSIMILE +61 3 9663 5488 EMAIL information@ahuri.edu.au WEB www.ahuri.edu.au

ACKNOWLEDGMENTS This material was produced with funding from the Australian Government and the Australian States and Territories. AHURI Ltd gratefully acknowledges the financial and other support it has received from the Australian, State and Territory Governments, without which this work would not have been possible.

DISCLAIMER The opinions in this publication reflect the results of a research study and do not necessarily reflect the views of AHURI Ltd, its Board or its funding organisations. No responsibility is accepted by AHURI Ltd or its Board or its funders for the accuracy or omission of any statement, opinion, advice or information in this publication.