



EXECUTIVE SUMMARY

Navigating a changing private rental sector: opportunities and challenges for low-income renters

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Related reports and documents

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Martin, C., Hulse, K. and Pawson, H. with Hayden, A., Kofner, S., Schwartz, A. and Stephens, M. (2018) *The changing institutions of private rental housing: an international review*, AHURI Final Report No. 292, Australian Housing and Urban Research Institute Limited, Melbourne, <https://www.ahuri.edu.au/research/final-reports/292>, doi:10.18408/ahuri-7112201.

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Hanna Ebeling	Social Enterprise Finance Australia Ltd
Nick Foa	Department of Health and Human Services, Victorian Government
Louise Gilding	Community Services Directorate, ACT Government
Heather Holst	Launch Housing
Jill Mills	Department of Social Services, Australian Government
Jacqueline Phillips	Australian Council of Social Service
Lydia Ross	Department of Social Services, Australian Government
Erin Turner	CHOICE

Glossary

Collaborative consumption	Also referred to as the 'sharing economy', this term captures the move towards the organising of online, often peer-to-peer, exchange and networks. It means to temporarily access and consume goods and services that are shared with others for a monetary payment, such as rent or other non-monetary exchangeable benefits. It is argued to alter or 'disrupt' former models of market exchange by removing third-party intermediaries (see, for example, Belk 2014).
Commonwealth Rent Assistance (CRA)	Payment made by the Australian Government to eligible income support and family tax benefit recipients who rent their accommodation (other than public housing).
Fragmentation	In markets, refers to a process whereby new segments emerge that cater for distinct subgroups or niches.
Intermediaries	In the PRS, intermediaries are the third party agents that bring together and mediate on behalf of landlords and tenants. This role has traditionally been played by real estate agents but increasingly other actors and online platforms are entering into the PRS to perform this function.
Q1 income earners	Individuals and households earning in the bottom (0–20 per cent) quintile of the before-tax income distribution.
Q2 income earners	Individuals and households earning in the second (21–40 per cent) quintile of the before-tax income distribution.
Social rental agencies	Not-for-profit private rental agencies that act as intermediaries between landlords and tenants of low-income and vulnerable households. In Belgium, they have been referred to as a 'housing led' approach that seeks to make the private rental market more accessible by subletting dwellings to tenants at affordable rates (see, for example, De Decker 2012).

A list of definitions for terms commonly used by AHURI is available on the AHURI website www.ahuri.edu.au/research/glossary.

Executive summary

- The rapid expansion and reach of online rental platforms, combined with growing diversity among renters and investors/landlords, is changing how low-income individuals and households gain entry into and experience tenancy management within the private rental sector (PRS).
 - Low-income renters, particularly those in the lowest (Q1) income quintile, face increased barriers to navigating the formal pathways of the PRS via mainstream real estate agent intermediaries. This is leading to reliance on informal pathways, including the less secure room-rental sector, which is managed and regulated by individuals and families.
 - Analysis of Journeys Home data reveals that the main type of living arrangement for those with Q1 individual (40%) and Q1 household (31%) incomes was renting informally from friends and family due to constraints accessing formal pathways into the PRS.
 - Low-income individual renters live in both low-income and moderate-to-high income households and move frequently. Existing household measures of housing affordability stress conceal more widespread affordability problems of individual access to the PRS and the necessity of forming household groups to manage high rents.
 - The need for direct and ongoing private rental support above that of Commonwealth Rent Assistance (CRA) will persist for a large proportion of private renters. Analysis of the Household Income and Labour Dynamics in Australia (HILDA) data reveals that more than half (55%) of *low-income individuals in a low-income household* who are renting privately remain in this household group over a five-year period.
 - Informal pathways into the room-rental sector can provide timely access for low-income renters compared with renting out whole dwellings. Regulatory responses across the informal PRS must balance potential impacts on supply while also ensuring greater protection and recourse for those increasingly reliant on this pathway to access and live in private rental accommodation.
 - The policy challenge ahead is to ensure that informal living arrangements are not long term, and that more sustained assistance to move into affordable, secure and adequate rental arrangements is available.
 - There is growing opportunity to expand and institutionalise a supported pathway into the PRS via community agency intermediaries. A viable supported pathway into the PRS will require increased and sustained government investment in and regulation of the community sector. It also requires appropriate incentives for landlords to provide a mix of rental options and set their rents to be comparable with social housing rentals.
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Research focus

The PRS has been expanding and transforming in a number of ways over the past decade as renters and investors/landlords adapt to rising house prices and rents, particularly in Sydney and Melbourne markets. At the low end of the sector, key developments have been the entry and expansion of the role of online platforms and community agency intermediaries in facilitating access to and tenancy management of private rental rooms and dwellings. The profile of renters is becoming more diverse as long-term renting continues to increase across all income groups, generating high competition for the limited dwellings that are affordable on a low income. The profile of investors/landlords and the lease lengths they choose to set for rooms and dwellings is also more varied.

This report integrates an institutional analysis¹ of formal and informal private rental markets and the role of intermediaries, using Clapham's (2005) 'housing pathways' approach, to better understand both the challenges and opportunities for low-income renters as they attempt to navigate a changing PRS. Within this framework, we examine three related intermediary pathways of tenancy access and management within the PRS for individuals and households with a low-income.

- *The formal pathway*, accessed and managed via traditional or mainstream real estate agent intermediaries.
- *The informal pathway*, which bypasses mainstream intermediaries via rooms and dwellings that are privately managed by landlords and sub-landlords.
- *The supported pathway*, facilitated by community agency intermediaries to assist low-income and vulnerable individuals and households to access and sustain private rental accommodation.

The core question for policy makers regarding the nature of changes taking place in the PRS and implications for how low-income tenants experience tenancy access and management is as follows.

- How do low-income tenants navigate the PRS in the context of the sector's changing intermediary practices and accommodation forms, and what opportunities and challenges exist for improving their future housing outcomes?

We seek to address this question via the following research questions.

- 1 What are the mobility patterns, housing outcomes and non-housing outcomes of low-income private renters?
- 2 What is the experience of low-income tenants in a changing institutional environment and what issues do they rank as priorities for intervention or reform?
- 3 How can innovation involving government, 'third-sector' or non-government organisations (NGOs), the private sector and tenants be encouraged in a way that enhances longer-term rental market sustainability and ensures better housing outcomes for low-income private renters?

In answering the above questions, this study combines a contextual background, analysis of HILDA and Journeys Home data with qualitative interviews of renters and intermediary agencies in the PRS. The study also draws on an online survey of property investors/landlords in order to

¹ 'Institutional practices' in this report refers to the embedded and emerging policies, regulations, norms and broader social practices that shape the financing, provision, access and management of the PRS (Hulse et al. 2016).

understand their changing motivations and responsiveness to policy interventions to deliver more accessible private rental.

Key findings

Stability and change in living conditions and incomes

The accessibility and affordability of dwellings at the low end of the PRS undoubtedly remains the central issue for vulnerable groups of renters. In seeking to understand how low-income renters navigate changing PRS institutions, we first examine their individual and household income profile, drawing on existing HILDA and Journeys Home data. This background analysis reveals the importance of understanding the connection between individual and household income for low-income renters, beyond existing measures of affordability stress at the household level, which can conceal the difficulties faced by individuals as they navigate access to the PRS. Factors to be considered include the interim solutions individuals may seek when locked out of formal rental pathways (such as more informal or supported pathways into the PRS), and the consequences of persistently low individual and household incomes over time.

Applying an individual–household income typology within the HILDA data we find that:

- more than half (55%) of low-income (Q1–Q2) individuals in a low-income (Q1–Q2) household who are renting privately remain in this household group over a five-year period
- this group of private renters is most likely to make a transition into social housing and is less likely to move, but when they do move it is typically ‘forced’ (i.e. their property is no longer available to rent)
- low-income renters are least able, in terms of personal savings, to afford the upfront and relocation costs of a move.

In examining formal, informal and supported rental arrangements of individuals who have experience of or are at risk of homelessness, drawing on the Journeys Home longitudinal survey, we find the following.

- Individuals and households in the lowest 20 per cent of the income distribution (Q1) are least likely to rent in the formal PRS, with over 70 per cent reporting a lack of affordable housing as an obstacle to finding more secure housing. The main type of living arrangements for those with Q1 individual (40%) and Q1 household (31%) incomes was renting from friends and family.
- Among Q1 individuals renting in the formal PRS, the main transition between consecutive waves of the HILDA data was to move into an informal arrangement where they rent privately from friends and family (24%).
- Transitions in individual income groups showed that 70 per cent of Q1 individuals and 74 per cent of Q2 individuals remained in the same income group over the data collection period (2011–14).

Experiences of tenancy access and management within formal, informal and supported pathways

Although the majority of renters engaging with the PRS follow a formal intermediary pathway, low-income renters rely on multiple entry points, including informal and supported pathways. From interviews and the survey of low-income renters, we find that navigating the PRS is becoming more fragmented across formal, informal and supported intermediary pathways. This fragmentation is shaped by the emergence of online platforms, including not-for-profit social media rental networks such as Facebook and an expanding room-rental sector, as well as the increasingly varied ways that landlords and sub-landlords are leasing dwellings in response to prohibitively high rental costs.

The formal pathway

- The formal pathway into the PRS was viewed by interviewees as increasingly competitive and more difficult to access for those on a low income, with stringent conditions attached to entry bound in notions of the 'ideal tenant'. Renters typically entered the formal PRS via online platforms such as realestate.com.au and Domain (domain.com.au), with their main concerns relating to the misrepresentation of dwellings. The move to 1form™ online applications raises new privacy concerns for low-income individuals navigating this pathway.
- The entry of more diverse investor groups into the PRS exacerbates the difficulties faced by low-income renters by creating new expectations for how dwellings are managed in the short through to long term. This has led to greater pressures for tenants to be responsive to the varying requests or preferences of landlords.
- An imbalance in property management practices in favour of landlords was found to be particularly disadvantageous for low-income renters. The main difficulties experienced by tenants related to the breakdown in the relationship with the property manager (over maintenance and repairs, poor-quality living environments, or judgemental and disrespectful treatment), and the lack of availability of desired term of lease (from short through to long term).

The informal pathway

- Interviewees found the informal pathway to be a direct and timely way to access rental accommodation. It is the pathway where changing practices are most notable, particularly within room rentals, including short- through to long-term stays and granny flat type accommodation. Tenants, particularly those with lowest (Q1) individual incomes, often found themselves confined within this pathway on a long-term basis.
- Not all informal renting was reported as being a 'marginal' experience and some tenants reported deliberately seeking informal arrangements to bypass more formal rental intermediaries, with the informal option made increasingly accessible through online platforms.
- We identified four sub-pathways emerging and consolidating in the informal rental pathway, each associated with different rental experiences and security outcomes.
 - *The time-limited niche apartment pathway* is predominately accessed via purpose-built and privately managed accommodation that targets specific subgroups of 'niche' markets, such as domestic and international students, and which is managed independently outside the mainstream sector.
 - *The collaborative consumption pathway* builds upon ideals of the 'sharing economy', which attempts to disrupt or bypass real estate intermediaries in order to bring together like-minded groups (connected via online and social media channels and networks) in

‘shared’ living arrangements. Tenants enter via subletting arrangements, without access to a lease, on a short- through to long-term basis.

- *The self-managed dwelling pathway* accesses whole dwellings that are directly rented out and managed by a private landlord and not a real estate intermediary.
- *Rogue pathway of last resort*—often associated with unregistered boarding house living arrangements or room rentals, including overcrowding within small apartments. Tenancy arrangements are highly exploitative and typically violate tenants’ rights, particularly safety. Landlords often convert living areas into sleeping space in order to increase rental returns.

The supported pathway

- The supported pathway facilitated by community agency intermediaries is an increasingly significant point of access to the PRS for those who would otherwise be eligible for social housing and support. Renters accessing this pathway highlighted the difficulty of moving seamlessly between properties and the lack of assistance available to do this unless they had lost their housing.
- Community agency intermediaries are continuing to innovate to overcome existing market failure within formal pathways via head-leasing models and other small scale and organisationally based programs. However, eligibility assessment for this pathway is selective and based on the capacity of an individual to afford market rents once the additional subsidy is withdrawn.
- As emphasis shifts towards the PRS as a source of supported housing for those on the lowest incomes, examining the interrelationships between low individual and household income and its persistence over time will be necessary for strengthening the supported intermediary pathway to ensure more sustainable rental outcomes overtime.

Policy development options

The institutions² within the PRS—including policies of rental income support, and regulation designed to overcome barriers to accessing and managing tenancies for low-income renters—have not kept up with the pace of change occurring in the PRS and the implications this has for the sector as a whole. Reform to existing PRS institutions for low-income renters must grapple with a more complex and fragmented PRS. There is a clear need for centralised reforms of assistance delivered via the statutory income system of support, but also a need for more devolved initiatives that can target informal and supported pathways with state and local government tenancy regulation and policy intervention.

The main areas for policy development are as follows.

- Centralised reforms of rental housing assistance and regulation must seek to redress the growing imbalance in horizontal equity (treating those with similar incomes and wealth the same) and vertical equity (reducing the divide between those at the top and bottom of the income and wealth distribution). This includes reviewing the adequacy of wages, statutory incomes and rental assistance in view of the rising costs of living.
- There is evidence that the informal pathway into the PRS will continue to expand through the reach of online platforms that exploit and disrupt formal paths to tenancy access and

² Institutions in this report refers to the policies, legislation, organisations, structures, social practices and norms that shape and govern the four core components of the PRS: financing, provision, access and management (Hulse et al. 2016).

management. The experience of tenancy management within the informal pathway is contingent upon the quality of the relationship between sub-landlords, landlords and tenants. Exploitative practices can be difficult to substantiate, with the tenant often being unaware of their rights. Online consumer information exchanges currently provide a forum to make tenants aware of the potential signs or signals of 'rogue traders'—further harnessing this capacity for self-regulation remains an important focus. Regulation of informal rental practices, particularly in the context of online intermediaries and the growth of room rentals, must ensure that supply and access to urgent housing is not impeded, whilst also ensuring that tenants have adequate recourse to live in safe and secure rental housing. Solving these challenges will involve more collaborative and nuanced approaches to regulation, monitoring and enforcing standards with key organisations and intermediaries across the sector.

- The capacity of low-income renters (particularly those with Q1 incomes) to transition between rental properties is an essential point of community sector and policy intervention. As the community sector expands its focus to the PRS, there is growing capacity to establish more formal and enduring institutions for a supported pathway at the low-income end of the sector, in a similar manner to the social rental agencies developed in Belgium (see, for example, Parkinson and Parsell 2018). However, existing policy assumptions surrounding time-limited supported housing in the PRS, including financial subsidies through head-leasing initiatives, are highly problematic for those whose individual and household incomes remain low over time. A viable supported pathway into the PRS will require appropriate incentives for landlords to supply and set their rents to be comparable with social housing rentals.
- The emergence of different types of landlords (offering properties and rooms on a short-through to long-term basis), combined with the expanded reach of online platforms, provides an opportunity for policy makers, via community agency intermediaries, to assume a more direct role in the matching of landlords with tenants. This includes targeting of landlord financial and taxation incentives to encourage supply of a mix of leasing options, dwelling types and locations at the low-income end of the sector.

The study

The research draws on a mixed methods approach that combines:

- qualitative interviews with low-income renters (N=71) and key agencies involved in advocacy, support and management of tenancies (N=41)
- an online survey of property investors/landlords (N=304)
- secondary analysis of data from the HILDA and Journeys Home surveys.

The qualitative and primary survey analysis seeks to uncover emergent practices among tenants, community providers and landlords which are not adequately captured in existing data. The secondary analysis is descriptive and provides contextual evidence of the current housing status and mobility patterns of different individual and household income groups. This approach provides a comprehensive yet original contribution in documenting and understanding how the PRS is transforming and the implications for shaping future institutions to ensure that low-income renters are able to access affordable, adequate and secure private rental.

In undertaking the secondary analysis, we derive income quintile measures for individual and household gross incomes to examine dynamics over time. The low-income thresholds are based on the first two income quintiles—at the 20 per cent (Q1) and 40 per cent (Q2) cut-offs of the total income distribution—derived from weighted HILDA data population estimates for both individual and household incomes. Extending this framework, we develop an income group

typology to examine housing transitions and income among four individual and household types:

- low-income (Q1–Q2) individual in a low-income (Q1–Q2) household
- moderate-to-high income (Q3–Q4) individual in a low-income (Q1–Q2) household
- low-income (Q1–Q2) individual in a moderate-to-high income (Q3–Q5) household
- moderate-to-high income (Q3–Q5) individual in a moderate-to-high income (Q3–Q5) household.

The Journeys Home dataset provides a longitudinal sample of individuals who have experience of or are risk of homelessness. To derive comparable population income groups, we apply the HILDA income thresholds and assign respondents to individual and household income quintile groups (Q1–Q5) based on similar periods of data collection.

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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.

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HILDA disclaimer

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Journeys Home disclaimer

This report describes and presents data collected from the Journeys Home project, a longitudinal survey-based study managed by the Melbourne Institute on behalf of the DSS. The findings and views reported in this paper, however, are those of the authors and should not be attributed either to the DSS or the Melbourne Institute.

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