

How low-income individuals and households access the private rental sector



Based on AHURI Final Report No. 302:

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

What this research is about

This research investigates how low-income renters access the private rental sector (PRS) and provides an evidence-base on changing practices and ways forward in shaping equitable PRS institutions.

The context of this research

Declining home ownership has generated increased competition for housing and the PRS is now an ongoing, if not permanent, option for many with low incomes.

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 the private rental sector.

The key findings

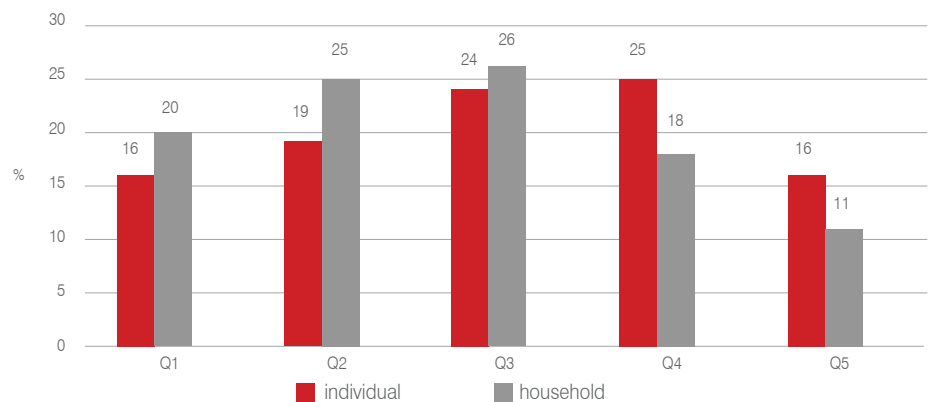
Income levels where renter households and individuals are concentrated

Renter households are more likely to be concentrated in household income quintiles 2 and 3 (Q2 and Q3). Individual renters are most concentrated in individual quintiles Q2-Q4. This suggests potential constraints to access at the low-end.

Income and housing mobility of low-income individuals & households

Renters are dynamic and household income can conceal affordability

Figure 1: Distribution of individual and household income quintiles (Q1–5), private renters



constraints for those with low individual incomes. Housing need is highest among low-income individuals remaining in low-income households but some of these renters, particularly students, are also located in higher income households, including group households, and they are vulnerable when their household dissolves and/or when moving between rental properties. Low-income singles have limited access to the PRS and are increasingly relying on the precarious room rental sector as their way in.

A majority (55%) of low-income renting individuals in a low-income household remained in that income group over a five year period (2010–15). The need for housing assistance will persist for extended periods, particularly amongst midlife and older renters unable to

increase their income.

Low-income renting individuals in a low-income household are less likely to move, but when they do move it is most likely to be 'forced'. They have limited savings to afford the costs of moving.

Low-income renting individuals in low-income households are more common at both ends of the age continuum. More than a third of those aged 15–19 years, and a quarter of those aged between 20–24 years, are low-income individuals in low-income households. The peak of low individual and household incomes in the 65–74 years and 75 plus age groups highlights the increasing housing risk for renters in their later years and, particularly, women.

Couples (38%), lone parents (32%) with independent children and lone persons (31%) are disproportionately represented among low-income renting individuals in low-income households. This likely reflects the older age profile of these family type groups.

Navigating intermediary pathways

The report examines three related intermediary pathways of tenancy access and management within the PRS for individuals and households with a low-income: the formal, informal and supported pathways.

The formal pathway

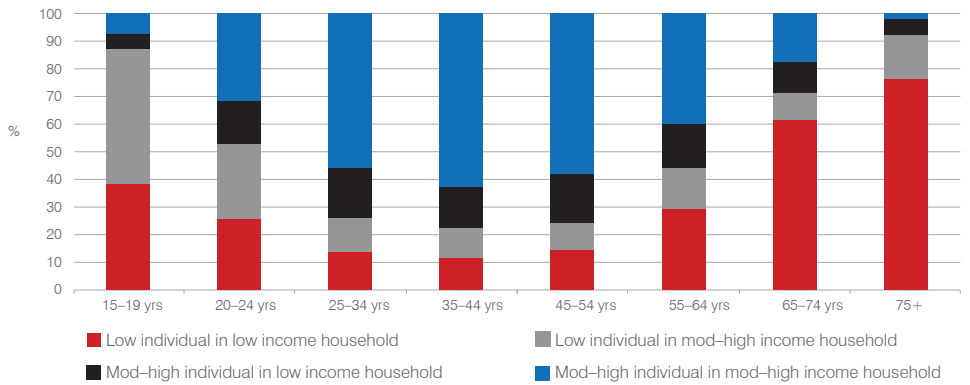
The formal pathway is managed via traditional or mainstream real estate agent intermediaries and is governed by residential tenancy acts within each state and territory in Australia. The formal pathway is the most common across individuals and households but is increasingly more competitive and difficult to access for those on low incomes. Renters typically enter the formal PRS via online platforms such as realestate.com.au and domain.com.au.

Barriers to formal pathway

Low-income renters and agency staff consistently reported barriers to formally accessing rental housing. These include:

- entrenched views of what the 'ideal tenant' looks like 'on paper' and any renters deviating from the ideal being overlooked
- the emergence of bidding or auctioning off of rental dwellings that places further constraints on accessibility
- the increase in online searching of rental properties which made access more difficult for those in regional areas, and for those who lacked internet or computer access or knowledge
- emerging practices that community service staff believed did not comply with expected professional codes of conduct including requesting a deposit in addition to the first month's rent; requesting bond payments within 24 hours,

Figure 2: Individual and household income groups: private renters



invasive questioning and inappropriate communication with tenants

- government bond assistance and brokerage funds through private rental support programs assist low-income renters, but the need to seek bond assistance can be a marker that serves to further marginalise and identify low-income renters.

The informal pathway

The informal pathway bypasses mainstream intermediaries to go direct to rooms and dwellings privately managed by landlords and sub-landlords, and is characterised by limited transparency and tenure protection.

Low-income renters are increasingly contained within the informal pathway, suggesting significant rental market failure at the low end of the sector which is likely to prolong moves into more formal housing pathways.

Some enter this pathway as a deliberate strategy to bypass formal real estate intermediaries, whilst others have no alternative but to rent informally.

Drawing on Journeys Home data (a large sample of renters with previous experience of homelessness), the report finds that individuals and households in Q1 are least likely to rent in the formal sector, with over 70 per cent reporting a lack of affordable housing as an obstacle. Instead, renting from friends and family is the main type of living arrangement for those with Q1 individual incomes (40%) and Q1 household incomes (31%). The main transition for individuals who were

in the formal PRS is to move in to rent privately with friends and family (24%).

Both Q1 and Q2 groups living in informal housing arrangements tend to remain in these for extended periods.

Online peer to peer platforms are changing the way low-income renters access informal pathways into the PRS.

Furthermore, informal pathways are fragmenting around specific niche markets, points of entry, and experiences. Four informal sub-pathways are identified: the time-limited niche apartment pathway, the collaborative consumption pathway, the self-managed dwelling pathway and the rogue pathway of last resort.

The time-limited niche apartment pathway

This pathway is dominated by 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.

There is a significant shortfall in purpose-built affordable student accommodation to match the ever-increasing demand. This shortfall then places significant pressure on other segments of the PRS.

The niche apartment sector is further segmented by low-end rentals in the form of studios, bedsits and 'granny flats' located in backyards or attached to an existing dwelling. These are occupied both by students and others with limited income and financial resources. Individuals in Q1 and Q2 households living in this type of accommodation still reported paying excessive rents relative to their

individual incomes, despite this segment being at the bottom end of the market.

The collaborative consumption pathway

This pathway houses a mix of current and former students and individuals in paid employment or in receipt of income support. The rental arrangement is typically informal because new entrants will enter into the household via an existing sub-landlord, typically via peer to peer online platforms. New entrants may or may not gain access to a lease until others leave. The negotiation of bills and rent varies according to specific 'house rules'.

This pathway contributes to the potential blurring of regulatory practices and definitions of 'boarder', 'lodger' and 'tenant', as the relations between parties can be many and varied and fall between established definitions, while many of these tenancies do not have formal rental agreements.

A further extension of this pathway is the renting out of a room, akin to a boarder and lodger arrangement, in an attempt to generate additional income for the household to either help subsidise mortgage payments or to provide additional company while living alone in an owned home.

Housing is likely more affordable when living in a shared housing arrangement as rent and bills are distributed between all members. Overcrowding through sharing limited spaces and converting living areas into bedrooms can be a less desirable outcome but, unlike in rogue pathways, can be a deliberate strategy to reduce collective costs.

The self-managed dwelling pathway

This pathway refers to whole dwellings that are directly rented out and managed by a private landlord and not a real estate intermediary. The research found 37 per cent of investors/landlords managed their own dwellings.

Private renters with an Indigenous background reported that they had more success in accessing the PRS via self-managed landlords, typically

associated with accessing rentals through their own or known network groups. The housing outcomes from these rental experiences were generally positive and were preferred over comparative experiences of attempting to navigate rental access with private real estate agents, where significant instances of discrimination were reported.

Tenure security for self-managed tenancies was based on the individual relationship built with the landlord, with the continuum of experiences ranging from very positive to extreme violations of rights.

The rogue pathway of last resort

This pathway includes unregistered boarding house living arrangements or room rentals, including overcrowding within small apartments.

Housing experiences within this pathway tend to be more exploitative, with increased risk of renting from landlords and sub-landlords who do not abide by or are not familiar with the relevant Residential Tenancies Act.

People accessing such housing are generally those on the waiting list for public housing, new to an area, older single renters or exiting homelessness, as well as some students and international travellers. Newly arrived migrants can also find themselves renting in unregulated share house or boarding house type accommodation because they do not have a strong rental history and are unaware of their rights or what constitutes standard rental practices.

Dwellings are rented out and self-managed by individuals and families. Generally, the rental arrangements are deliberately concealed or misleading, to avoid declaration of rental income. Hence, rent is paid and agreements made 'under the table', denying the tenant the opportunity to receive protection in terms of tenure security and to claim CRA if eligible.

The supported pathway

The supported pathway is facilitated by community agency intermediaries to assist low-income and vulnerable individuals and households to access

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and sustain private rental accommodation, including individuals experiencing homelessness. This pathway typically consists of one-off financial assistance with brief intervention support, or a package of case management and rental subsidies via a head-leasing model.

Agencies interviewed reported their current programs have evolved in an attempt to provide an intermediary between property managers and tenants, and originated in response to the limited options for more rapid access to social housing and to overcome the selective sorting practices which frequently placed low-income households at the 'bottom of the application pile'.

Community agencies reported that the supported pathway was not just for those traditionally more marginalised in the market but, increasingly, for those who at other times in their lives would have been able to resolve their housing crisis independently. Many clients had additional support needs, were fleeing family violence or had exhausted informal support options.

Within the supported pathway, brief interventions or one-off supported access are typically relationship-based case management models with flexible funds attached. They aim to improve the presentation and competitiveness of prospective tenants to agents and landlords in gaining access to private rental; assist with moves between tenancies; and prevent existing

tenancies from breaking down. Other approaches include payment plans and subsidies for people who are behind in rent.

All agencies that provided PRS programs were of the view that the majority of models were not suited to those whose incomes are in the lowest 20 per cent of the income distribution (Q1), who are single and who will not meet the criteria of an affordability test for the majority of rental properties in the metropolitan area.

What this research means for policy makers

The research identifies directions for PRS reform.

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 rising costs of living.

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.

There is growing capacity to establish a more formal and enduring supported pathway delivered through an expanded community housing and welfare sector. 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 will require appropriate incentives for landlords to 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 opportunities for policy makers to assume a more direct role in better matching 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 end of the market.

A more targeted spatial approach to the calculation of rental assistance—to better match inequitable growth in rents across different states and territories—suggests it is now time for the development of an explicit housing

program like CRA, but with potential for spatial variation and performance compliance, and related to a meaningful affordability measure. Such a program may provide the ability to limit the growth of the substandard private boarding house sector, which has built a business model around taking in multiple CRA recipients.

Methodology

This research draws on qualitative interviews with low-income renters and key agencies involved in advocacy, support and management of tenancies; an online survey of over 300 property investors/landlords; and analysis of HILDA data and Journeys Home surveys.

Further information

TO CITE THE AHURI RESEARCH, PLEASE REFER TO:

Parkinson, S., James, A. and Liu, E. (2018) Navigating a changing private rental sector: opportunities and challenges for low-income renters, AHURI Final Report No. 302

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