



## EXECUTIVE SUMMARY

# The supply of affordable private rental housing in Australian cities: short-term and longer-term changes

From the AHURI Inquiry

Urban productivity and affordable rental housing supply

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## Executive summary

### Key points

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- The private rental sector (PRS) is the fastest growing part of the Australian housing system, increasing by 17 per cent 2011–2016, more than twice the rate of household growth (7 per cent), continuing a trend observed since 2001.
- There is longer-term structural change in the private rental market, notably an increased concentration of supply at mid-market levels and more middle and higher income private renter households.
- The research found an acute, and increasing, national shortage of private rental dwellings for Q1 households (lowest quintile household incomes): 212,000 dwellings in 2016. This shortage increased to 305,000 affordable and available dwellings as many affordable dwellings are occupied by households on higher incomes (Q2–Q5).
- There was a large surplus of 491,000 affordable dwellings nationally for Q2 (second lowest income quintile) households in 2016. However, when adjusting for availability due to occupation by middle and higher income households (and some very low-income ones), the surplus became a shortage of 173,000 affordable and available dwellings in 2016.
- Sydney had an absolute shortage of affordable rentals for Q2 households (2016), which is the first time this has occurred anywhere over the project series (1996–2016). Elsewhere, affordable private rental stock for Q2 households was increasingly in the outer suburbs of capital cities, and in satellite cities.
- Gold Coast and Sunshine Coast (Queensland) and Newcastle and Wollongong (NSW) had the greatest shortages of affordable and available supply for Q1 and Q2 households among large regional (satellite) cities in 2016.
- Eighty per cent of Q1 private renter households were paying unaffordable rents (89 per cent in metropolitan areas); 36 per cent of Q2 households (and 46 per cent in metropolitan areas) are living in unaffordable rentals (in 2016).
- Younger households, households with children and group households had a disproportionate share of the 29 per cent of Q1 households in 2016 paying severely unaffordable rents (over 50 per cent of income).
- There is some evidence of Q2 households trading off rental affordability for access to jobs, by renting in higher housing-cost areas where access to a variety of jobs, industries and urban amenities may be better.
- The proportion of jobs-rich Q2 households in unaffordable rental is relatively high in inner (62 per cent) and middle (55 per cent) areas of Sydney compared to

outer (45 per cent) parts of Sydney and satellite cities (approximately 45 per cent). A similar pattern is evident for Melbourne.

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## The study

This research is the latest in a series of projects that have charted changes in the supply of affordable—and affordable *and* available—private rental housing for lower income households every five years since 1996. These were initiated in response to policy debates in the mid-1990s about the adequacy of the supply of affordable private rental housing for lower income households in light of the changing emphasis of policy from supply-side to demand-side subsidies. A key question raised by this policy shift of several decades ago is whether the private market could provide an adequate supply of affordable rental housing to meet the needs of lower income households, including those in receipt of Rent Assistance (demand-side subsidies). The primary aim of these projects has been to determine the extent to which the supply of private rental housing for lower income households has filled, or failed to fill, the gap left by a static social housing sector, and to provide an indication of the shortfall that needs to be addressed by whatever policy means is appropriate.

The research is based on analysis of customised data from the ABS Census of Population and Housing (the Census), using a method employed in all previous projects that enables comparison of results across the Census years—that is, 1996, 2001, 2006, 2011 and 2016. It provides detailed analysis of changes in affordable rental housing supply for lower income households, nationally, in metropolitan and non-metropolitan Australia, and in capital cities, satellite cities and other major regional cities.

Each project in the series has enhanced the scope of analysis, responding to the evolution of policy concerns over time. This project makes two additional contributions to understanding the extent, and implications, of changes to private rental supply:

- 1 It updates the series with analysis of 2016 Census data, enabling a longer-term view of whether changes in affordable private rental supply are short-run and cyclical, or longer term and structural, and;
- 2 It extends the analysis to investigate employment participation by lower income households living in affordable and unaffordable rental housing in selected capital and satellite cities in 2016.

The key concept in the research design is whether lower income households can access housing that is:

- 1 *affordable*, based on a weekly rent of no more than 30 per cent of gross household income, and
- 2 *available*, referring to the extent to which affordable dwellings are occupied by lower income households.

Affordable and affordable/available housing for lower income households is calculated for some 88 spatial units (national, state, metropolitan, non-metropolitan, capital cities and their broad zones, as well as for 22 regional cities, including 10 satellite cities surrounding major capital cities).

An additional and exploratory component of the project is investigation of the employment status of adults in low- and moderate-income households living in affordable and unaffordable private rental housing in selected capital cities and surrounding satellite cities. The project explored this issue conceptually and analysed empirically the distribution of a continuum of



*household employment* focussing specifically on the inner, middle and outer regions of Sydney and Melbourne and their satellite cities: Wollongong, Newcastle and Geelong.

The research project is one of four that contribute to an AHURI Inquiry into 'Urban productivity and affordable rental housing supply in Australian cities and regions', led by Professor Nicole Gurran of the University of Sydney.

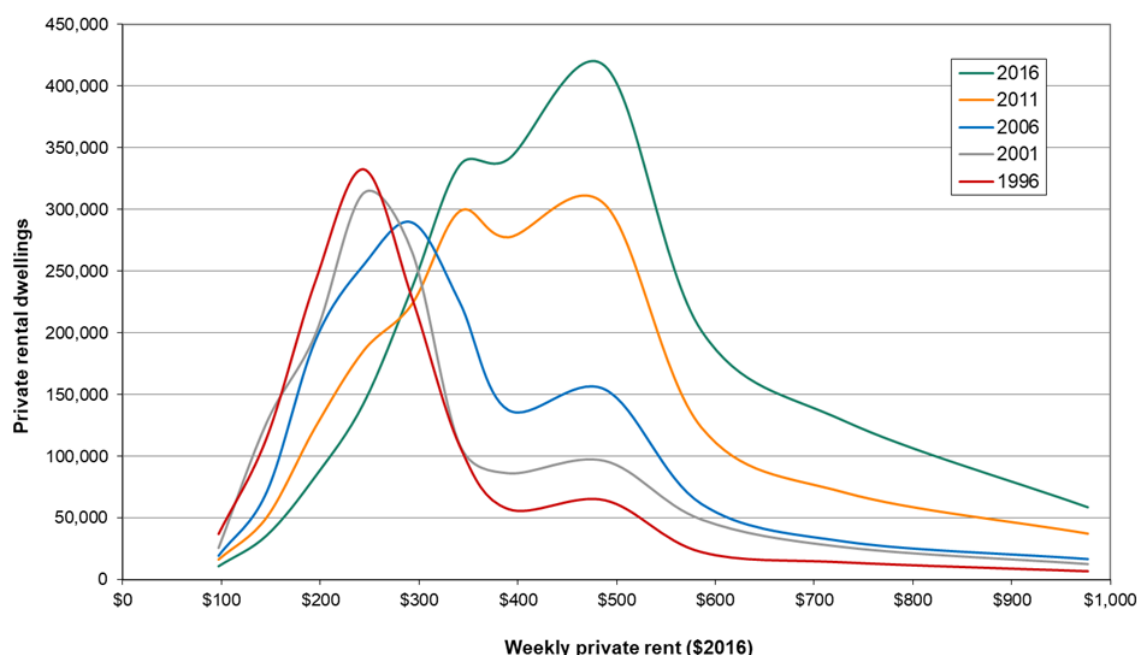
## Key findings

### Change in size and structure of the private rental sector

The Australian PRS grew by 17 per cent in the five years 2011–2016, more than twice the rate of growth of all households (7 per cent), continuing a trend observed since 2001.

The projects in this series have tracked changes in the distribution of real rents (inflation-adjusted) nationally every five years since 1996, enabling an assessment of long-term structural changes in private rental supply, as well as short-term cyclical changes. Updating the Census series to 2016 confirms that the concentration of rental at mid-market levels, observed for 2006–2011 as a major change, continued 2011–2016 (figure below). In 1996 and 2001, rents were concentrated at the lower-rent end of the market but from 2006 onwards, as the sector increased in size, lower-rent properties have declined in both absolute and relative terms.

### Distributions of private rental dwellings by weekly rent paid, Australia: 1996, 2001, 2006, 2011 and 2016



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 Note: Derived from 12 rent categories established for the 1996–2001 analysis and which have been updated to 2016 dollars enabling real changes in the profile of rents paid to be evident.

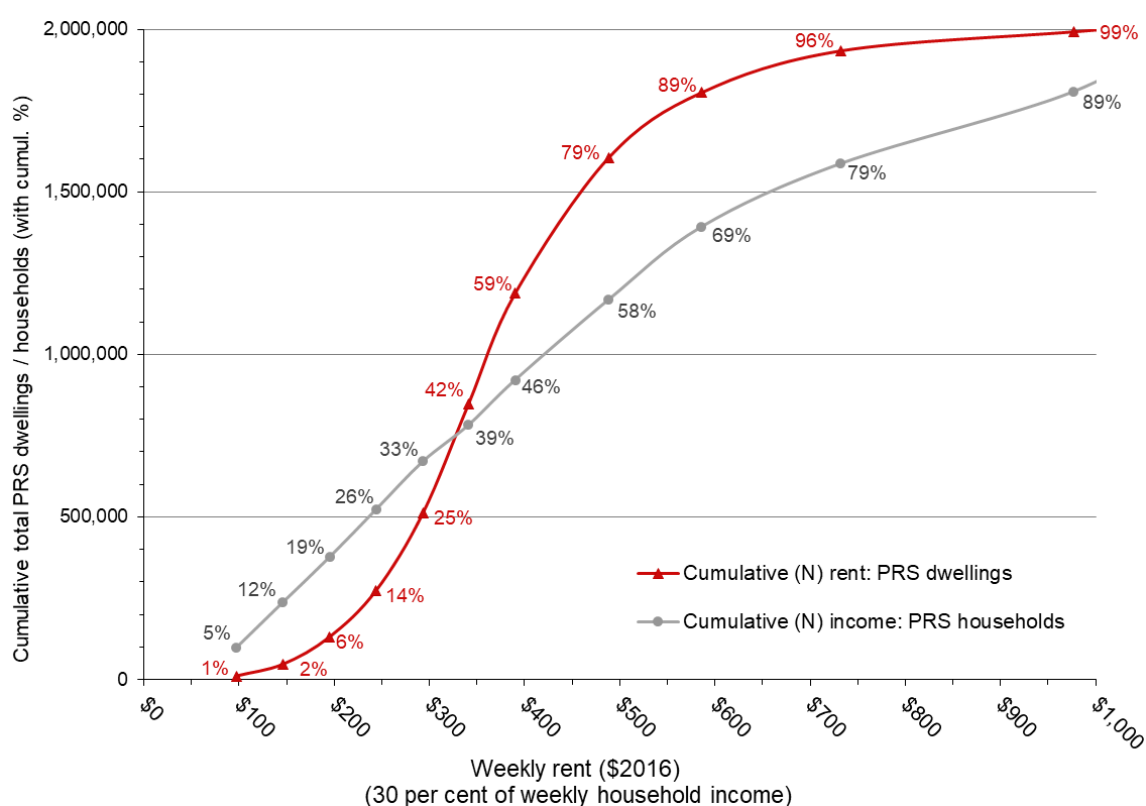
Source: Authors.

Over the decade 2006–2016, there has been a disproportionate increase in private renter households with middle and higher incomes. Households with gross incomes of (2016) \$1,628 per week and above (roughly \$85,000 per annum and above) comprised 42 per cent of all private renter households in 2016, whereas only 33 per cent of private renter households had

incomes in this range in 2006 (in equivalent \$2016). While the share of renter (as with all) households with real incomes below this level fell commensurately, the total number of households in the PRS with incomes too low to afford higher rents remained relatively unchanged between 1996 and 2016. At the same time, as shown in the figure below, there was a fall in the total number of rental dwellings that were affordable for low-income households. See Section 3.3.

By examining the distributions of PRS household incomes and rents together (figure below), a mismatch is evident: an absolute shortage of rental housing at rents below about \$350 per week, or at rent levels affordable for households with incomes of up to \$1,200 per week (in \$2016)—which is more than one-third of all private renter households. Broadly, the differing trends in the numbers of lower income households and low-rent dwellings in the PRS have resulted in a shortage of affordable rental stock.

### Cumulative distributions of weekly rents and private renter household incomes by rent/income segment, Australia 2016



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Source: Authors.

### Shortages of affordable and available private rental supply for lower income households

The research estimates these supply shortages for lower income households using household income quintiles. Whether supply is *affordable* is calculated by rents at or below 30 per cent of gross household income for very low-income households (Q1) and low-income households (Q2). We also estimate *affordable and available* supply for Q1 and Q2 households by deducting dwellings not accessible to lower income households as they are occupied by middle and higher income households.

There was an acute and growing shortage of affordable—and affordable/available—private dwellings for Q1 households nationally in 2016, particularly in metropolitan areas.

- The national shortage of affordable supply for Q1 households in 2016 was 212,000 dwellings, up from 187,000 in 2011.
- The national shortage of affordable and available stock for Q1 households in 2016 increased to 305,000, up from 271,000 in 2011.
- Four in five (80 per cent) of Q1 renters nationally paid unaffordable rents, consistent with the previous decade (2006–2016); this applied more in metropolitan regions (89 per cent) than in non-metropolitan regions (66 per cent).

In theory, there was a substantial national surplus for Q2 households of 491,000 affordable private rental dwellings (slightly down from the 521,000 surplus in 2011). However, the following points need to be considered:

- This surplus becomes a shortage of *affordable and available* supply of 173,000 dwellings in 2016 (up from 122,000 in 2011), due mainly to occupation of affordable stock by middle and higher income households (and also, to a lesser extent, by Q1 households). Shortages have increased in both metropolitan and non-metropolitan regions.
- There was an increasing trend in Q2 renters nationally paying unaffordable rents: this rose from 24 per cent in 2006 to 36 per cent in 2016. The trend was stronger in metropolitan regions (up from 29 per cent in 2006 to 46 per cent in 2016), than in non-metropolitan regions (up from 17 per cent to 20 per cent) over the decade.

### **Urban restructuring and shortages of affordable and available rental housing supply for lower income households**

Restructuring of Australian cities in the period 1996–2016 has seen agglomeration of economic activity, particularly knowledge-sector jobs, particularly in inner urban areas, and substantially steeper house price/rent gradients—that is, higher prices/rents in inner and many middle suburbs compared to outer suburbs and satellite cities.

All six state capitals have experienced increased shortages of affordable—and affordable and available—rental stock for Q1 renters in the period 1996–2016, accelerating in the decade 2006–2016. As a result, in 2016:

- extremely high percentages of Q1 households were paying unaffordable rents in capital cities (notably 92 per cent in Sydney).
- large regional cities also had significant shortages for Q1 households, notably Gold Coast and Sunshine Coast (Queensland) and Newcastle and Wollongong (NSW).

Shortages of supply for Q2 households vary much more between capital cities.

- For the first time anywhere in this series of projects (1996–2016), there was an absolute shortage of private rentals affordable for Q2 households in Sydney in 2016. Melbourne and Brisbane had a better supply of rentals for Q2 households.
- As a result, the percentage of Q2 households living in unaffordable housing in Sydney (71 per cent) was substantially more than in Melbourne (36 per cent) or in Brisbane (41 per cent).
- Shortages of affordable and available housing for Q2 households increased notably in the inner and middle suburbs, indicating a spatial restructuring of rental housing markets, with more affordable rental housing in outer suburbs and satellite cities.

## Employment participation and affordable housing supply

The research examined whether increased shortages of supply—and availability—of affordable rental housing results in a spatial mismatch that disadvantages lower (and even moderate-income households) if lowering their rent burden means living too far away from concentrations of employment. Alternatively, it explores whether lower income households adapt by trading off rental affordability for locations that provide good access to employment. The research findings, for one year only (2016), suggest the following:

- Q2 households tend to concentrate in higher housing-cost areas where there is access to a variety of jobs, industries and urban amenities. The proportion of jobs-rich, low- and moderate-income households in unaffordable rental is therefore high in inner (62 percent) and middle (55 per cent) areas of Sydney, compared to outer (45 per cent) Sydney and satellite cities (approximately 45 per cent). This trend is also found across inner (58 per cent), middle (54 per cent) and outer (50 per cent) Melbourne and Geelong (49 per cent), but the trend is less marked.
- Q2 households who want to find affordable housing must increasingly move to outer suburbs, where public transport is often limited. The concentration of Q2 households in inner and middle parts of capital cities therefore suggests that many households trade off affordability for access to jobs and urban amenities.
- It is also the case that many jobs are dispersed, so that middle—and to some extent outer—suburbs continue to provide access, albeit to a more limited range of jobs. Affordable locations may thus still provide access to dispersed jobs that may provide a good skills match, but many of these have high rates of part-time work and lower wages. Households must make trade-offs that suit their circumstances.
- Q3 households typically access affordable rentals across inner, middle and outer parts of capital and satellite cities. The exception here is inner Sydney, where Q3 households may also trade off affordability for access to jobs and locations rich in urban amenities.

## Policy development options

Policy development is urgently required to address the growing shortage of affordable rental housing for Q1 households across the nation—that is, with rents at or below (2016) \$202 per week—as the private rental market has not supplied dwellings at these rent levels. It is also essential that rents be kept at affordable levels for these households, many of which will be long-term or lifelong renters. This requires substantial capital investment in new social housing supply with appropriate financing and management models to enable maintenance of affordable rents and allocation to very low-income households or significant increases in Rent Assistance payments for very low-income households.

- Our research suggests that at least 200,000 additional dwellings of a mix of types are needed (based on 2016 figures), requiring a minimum capital program of 20,000 new units a year for 10 years, with a priority given to capital cities and large regional cities with demonstrated shortages.

This figure is conservative, as the shortage estimates include only those households that were living in private rental housing in 2016 and excludes discouraged Q1 households that have had to move into a variety of informal arrangements, or postponed household establishment as children stay with parents for longer.

The problem facing Q2 households is primarily one of availability: policy development is required to ensure access to affordable dwellings by Q2 renter households who can afford rents up to \$355 per week.



- This is the market for new types of affordable housing and could include a variety of not-for-profit (housing associations, community housing providers) and for-profit models (such as Build to Rent), but rents must be no more than (2016) \$355 a week.
- Reimagining schemes such as a revamped National Rental Affordability Scheme (NRAS) could add much-needed supply of affordable rental—especially for Q2 households—via the community housing sector and through public private partnerships. This is essential to a strategy of increasing the overall stock of affordable rentals.

To address the equity issue arising from the supply and availability of affordable private rental, policies are needed that balance access to jobs and housing with social justice, while recognising that residential land use in capital cities competes with land for several other uses. Specifically, it is important that affordable dwellings for lower income private renter households are in areas where there is good access to jobs as well as to transport, facilities and services. Location matters if there is to be no undue locational barrier to these households increasing employment participation (such as more hours and higher wage rates) if they wish, and are able, to do so:

- Policy development is required in view of these trends to boost affordable rental supply for Q2 households, particularly in middle regions of major capitals, so that these workers are not disadvantaged by having to move to outer suburbs to access affordable housing.
- Planning for affordable housing should be linked with employment participation initiatives, so that a variety of locations provide access to employment in a range of industries and occupations requiring different skill levels, and are not be restricted to dispersed employment in sectors characterised by part-time work with low pay and casual conditions—unless this suits households' other commitments.
- It has been a longstanding policy ambition to decentralise population growth in capital cities to relieve infrastructure pressure and congestion costs—negative externalities—in capital cities. The aggregate statistics in this report are, on average, suggestive of satellite cities providing no better outcome for inner- and middle-suburb private renters than outer capital city locations. Therefore, policies to facilitate the development of satellite cities (and other Australian cities) need to be approached from a point of developing these cities in their own right, rather than as overspill locations for Sydney and Melbourne.

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