



Where is home for marginalised consumers?

**CPRC Policy Connect Series
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Where is home for marginalised consumers?

Most low-income earners rent privately and that share is rising

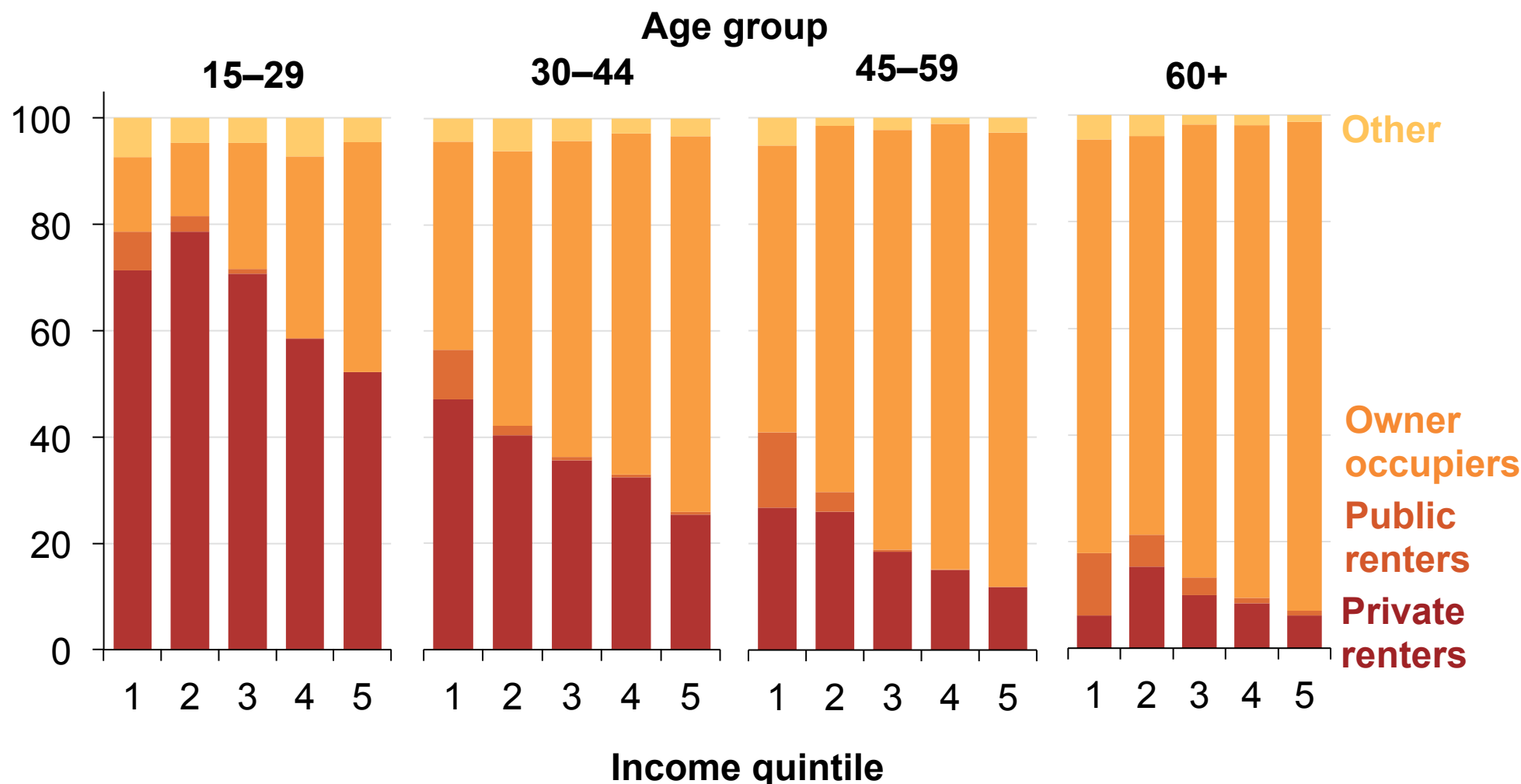
- **Home ownership** is declining, especially among young and the poor
- **Low-income earners** are **spending more** of their incomes on housing
- **Income inequality** is **increasing** because of housing costs
- Many (**younger**) **private renters** are experiencing **financial stress**
- Social housing has **never housed most low-income earners**
- **Homelessness** is on the rise

Policy responses should reflect that reality

- **Private housing** is important for low-income earners
 - **Dwelling construction** is *still* not keeping up with **population growth**
 - **Increasing supply** would **reduce rents and homelessness**
 - **Rent Assistance** needs to **rise substantially**
 - **Private renting** needs to become more **secure**
- More **social housing** is needed but only for those that really need it
- Expanding the **National Rental Affordability Scheme** is not the answer

Younger, poorer Australians live in private rentals

Share of each age and income quintile by housing tenure type, 2015-16

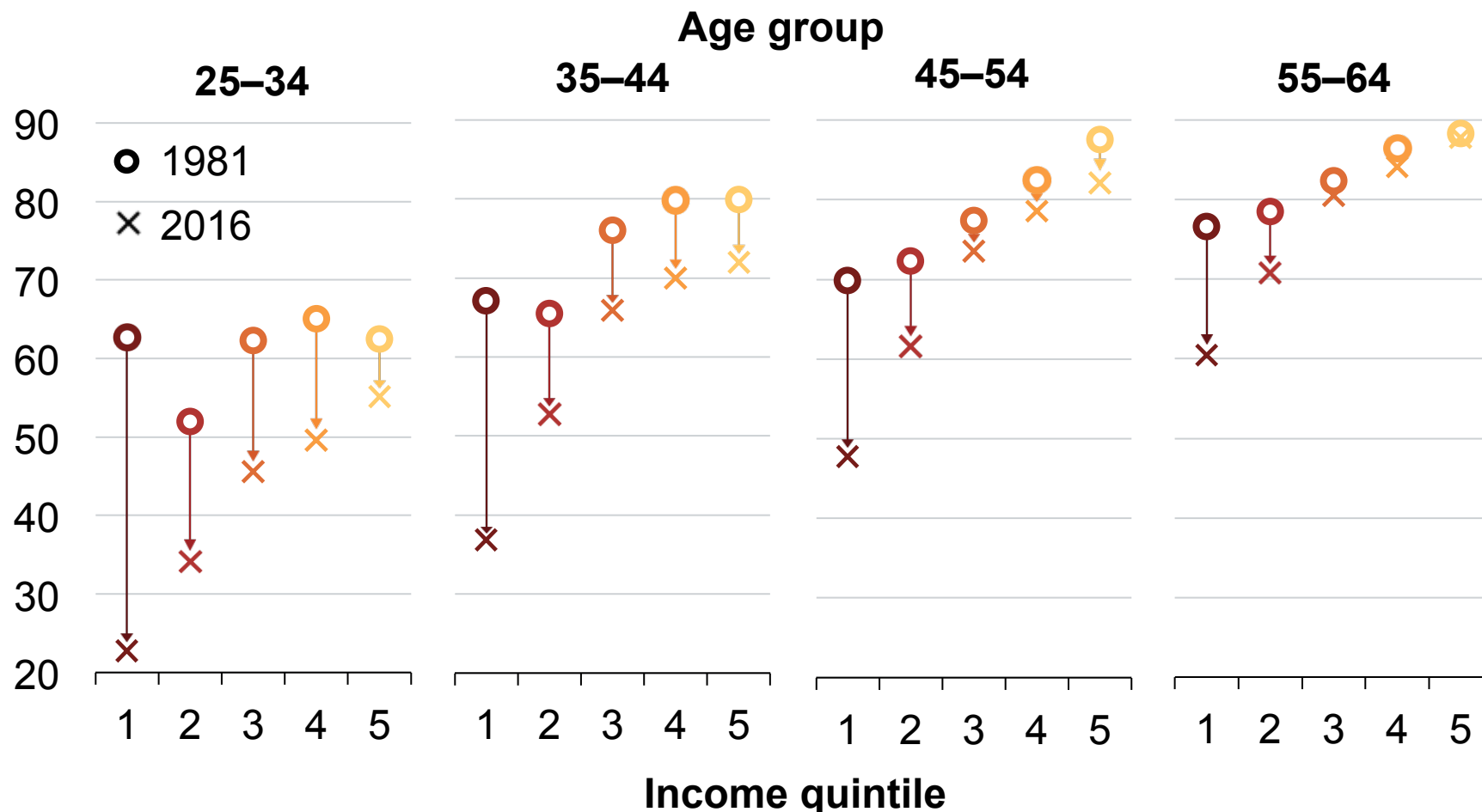


Notes: Age groups are determined by the “Age of Household reference person” category given in the Survey of Income and Housing. Income quintiles are calculated by age group based on equivalised household disposable income

Source: ABS Survey of Income and Housing (2017)

Home ownership is falling particularly fast among younger low-income earners

Home ownership rates by age and income, 1981 and 2016, per cent

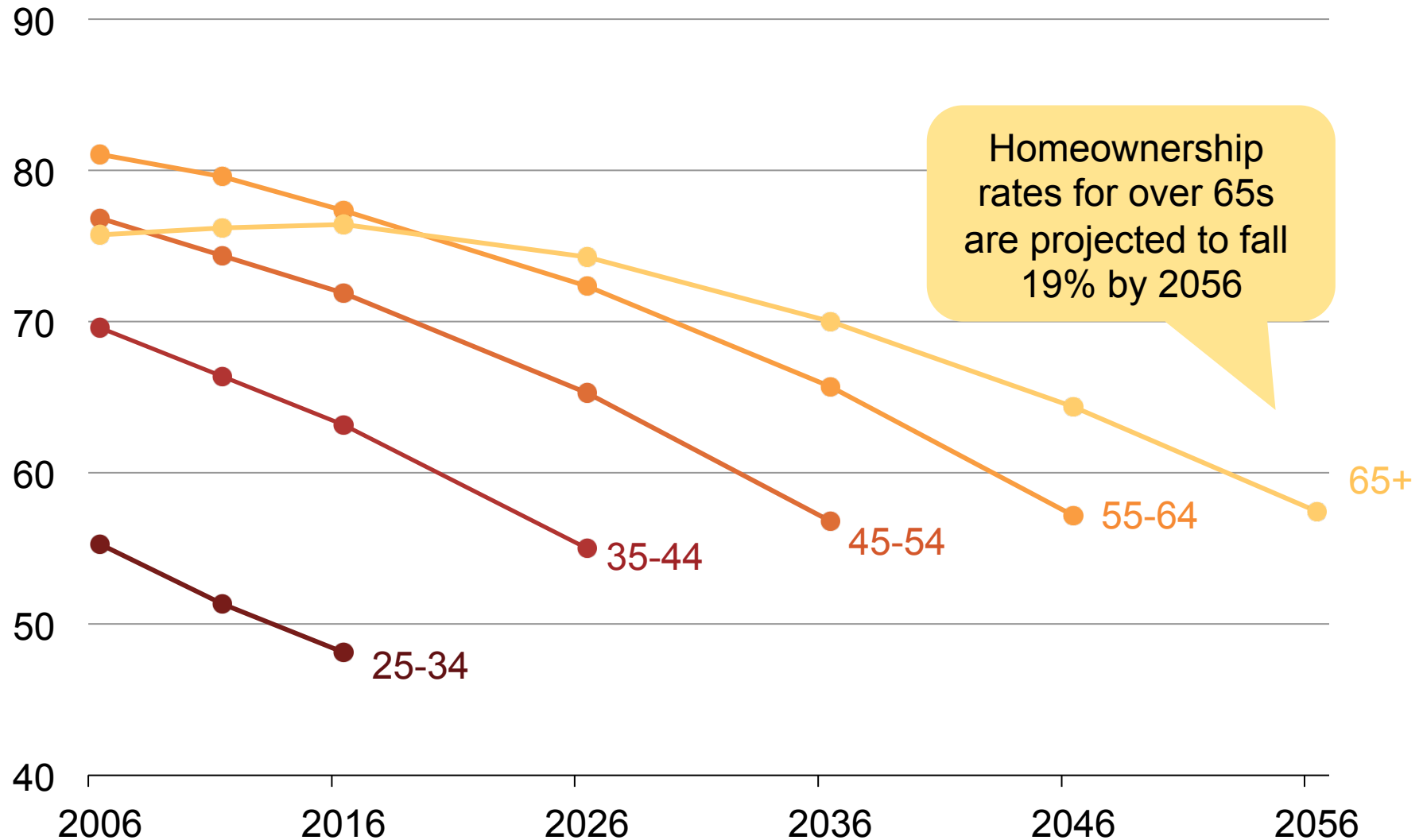


Notes: This graph updates Burke et al 2014 using Census data obtained from the ABS. Difficulties in accurately calculating household incomes across time using Census data means that changes in home ownership rates by age and income are indicative and small changes in ownership rates should be ignored. Excludes households with tenancy not stated (for 2016) and incomes not stated. Household age group according to age of household reference person. Income quintiles are equivalised household income quintiles.

Sources: ABS Census; Burke et al 2014 'Generational change in home purchase opportunity in Australia'; Grattan Institute

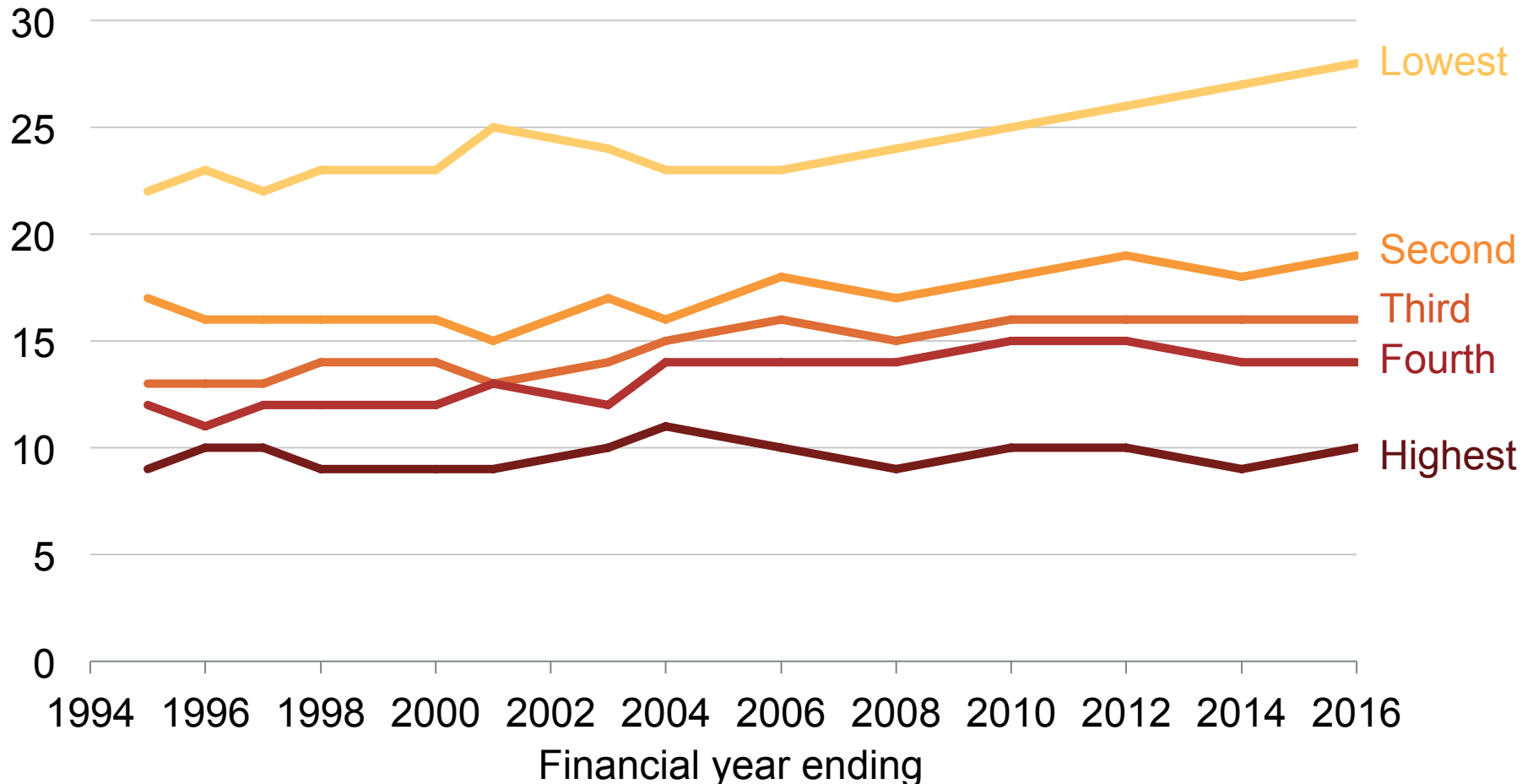
Fewer Australians of all ages will own their homes in future... so more will be renting permanently

Homeownership rate by age, per cent



Low-income households have increased their spending on housing the most

Housing costs as a proportion of gross household income, by equivalised disposable household income quintile

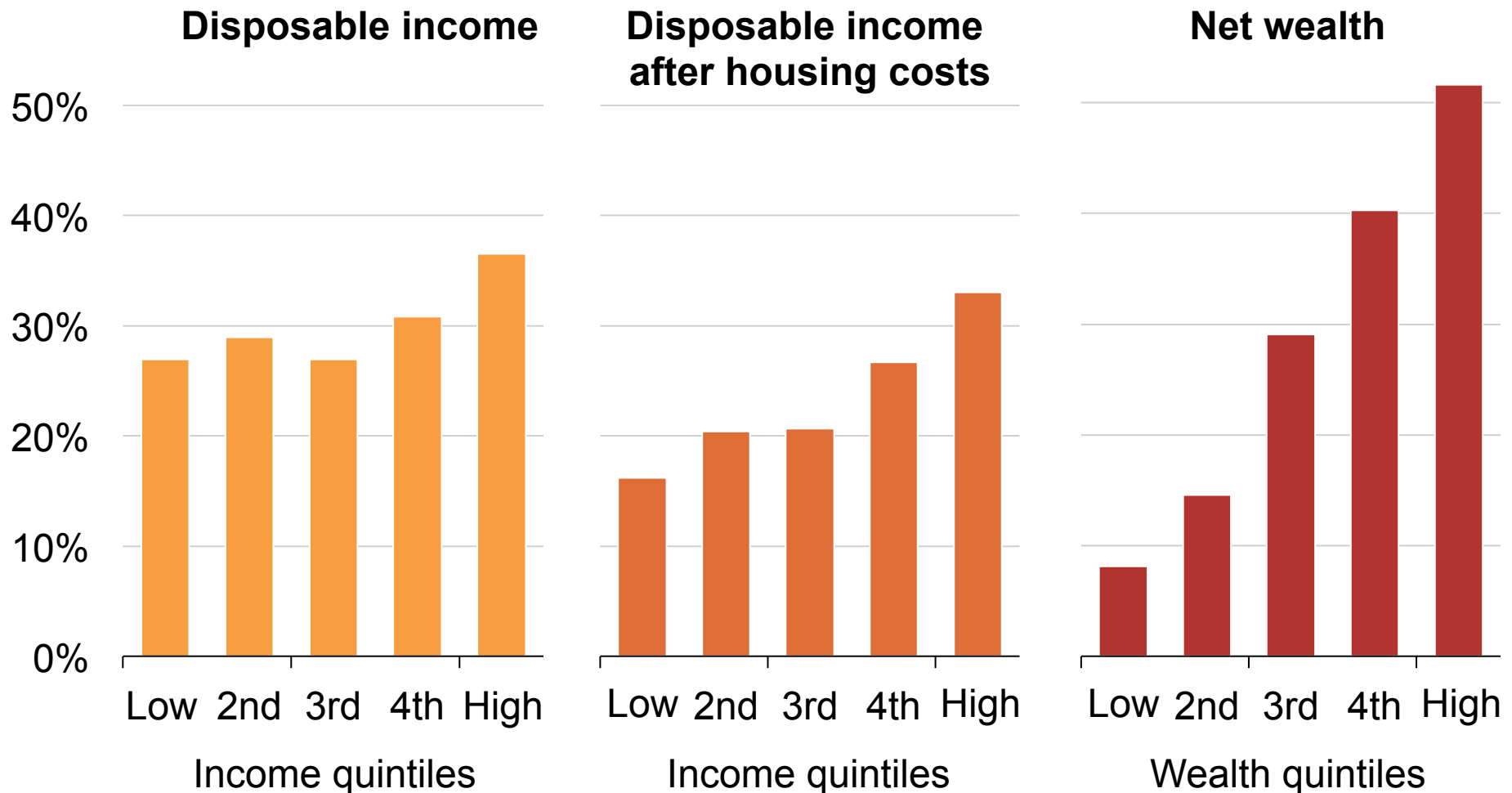


Notes: housing costs include rent, mortgage and rates (general and water) payments as share of gross household income for each quintile. Data interpolated for missing years

Source: ABS 4130.0 Housing Occupancy and Costs

Incomes have risen across the board; but less so after housing costs

Real growth from 2003-04 to 2015-16 per equivalised household

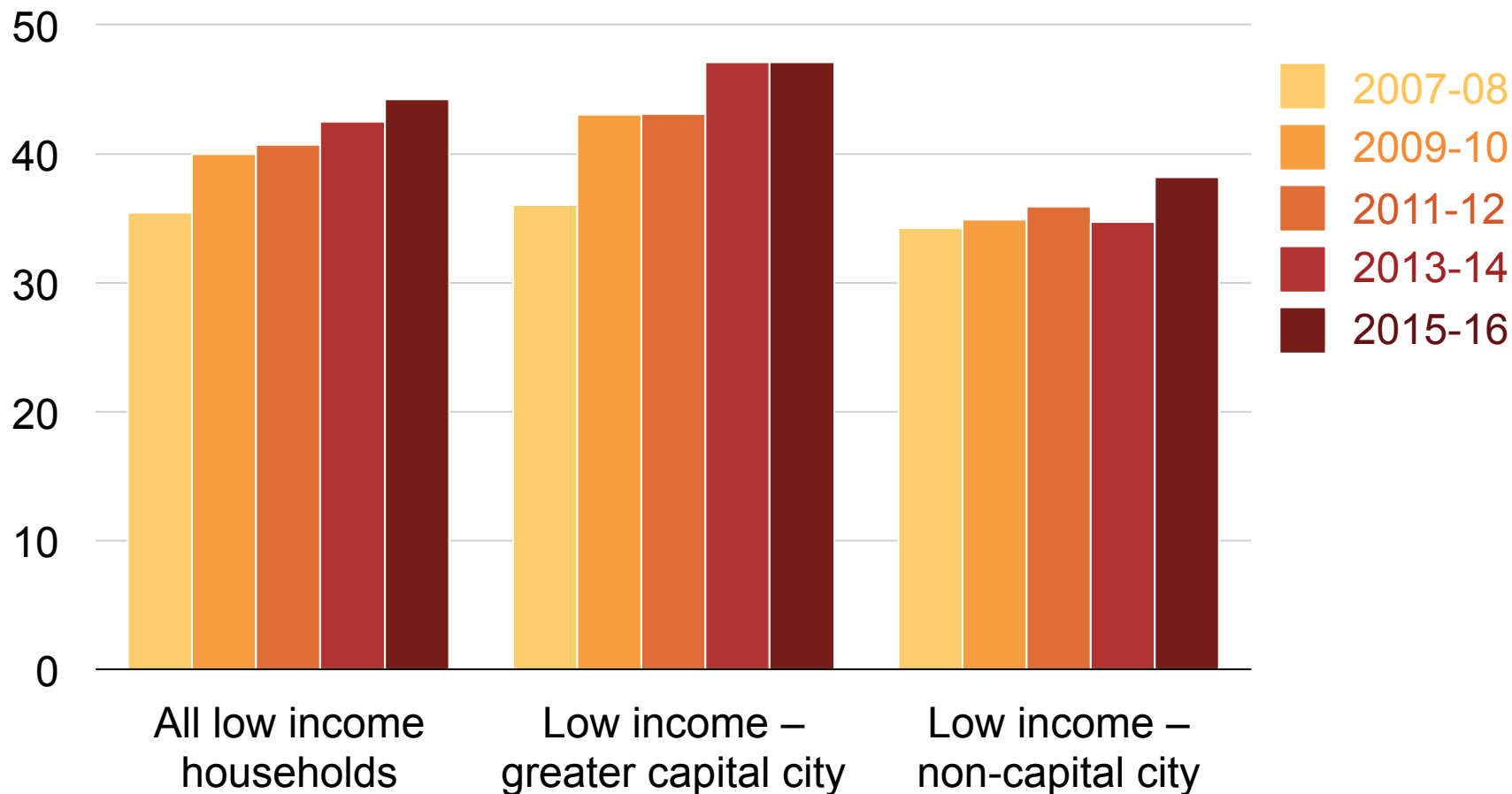


Notes: Income estimates for 2003–04 onwards are not perfectly comparable with estimates for 2015–16 due to improvements in measuring income introduced in the 2007–08 cycle.

Source: Source: for income, ABS SIH 2003-04 and SIH 2015-16; for wealth, ABS 6523.0 Household Income and Wealth

Rental stress among low-income households is increasing in capital cities

Per cent of low-income renters spending more than 30 per cent of gross household income on rent

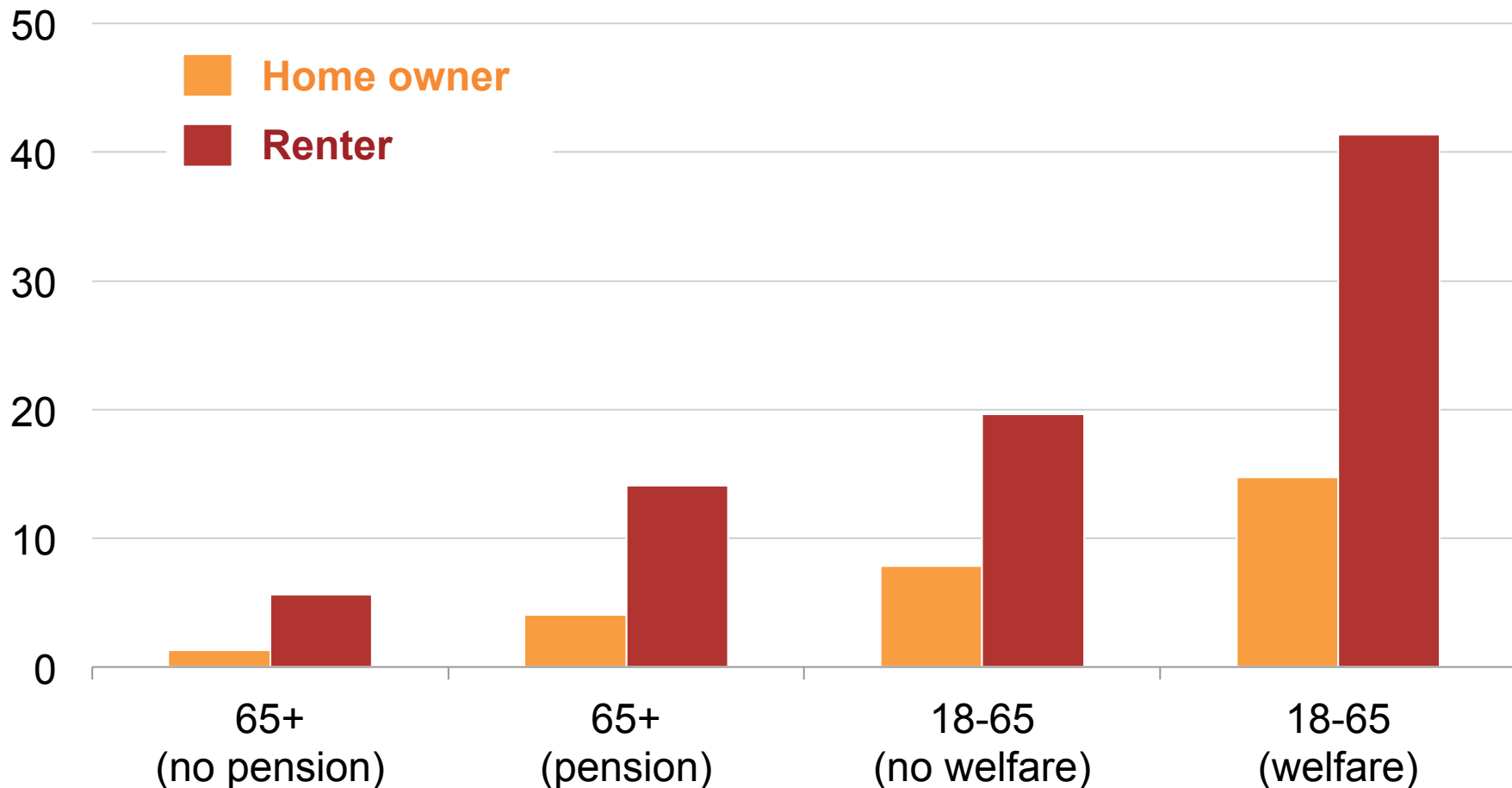


Note: 'Low-income' defined as households with equivalised disposable household income (excluding Commonwealth Rent Assistance) at or below the 40th percentile.

Source: ABS 4130.0 - Housing Occupancy and Costs

Households that are renting are much more vulnerable – particularly young people on welfare

Per cent of households facing at least one financial stress, 2015-2016

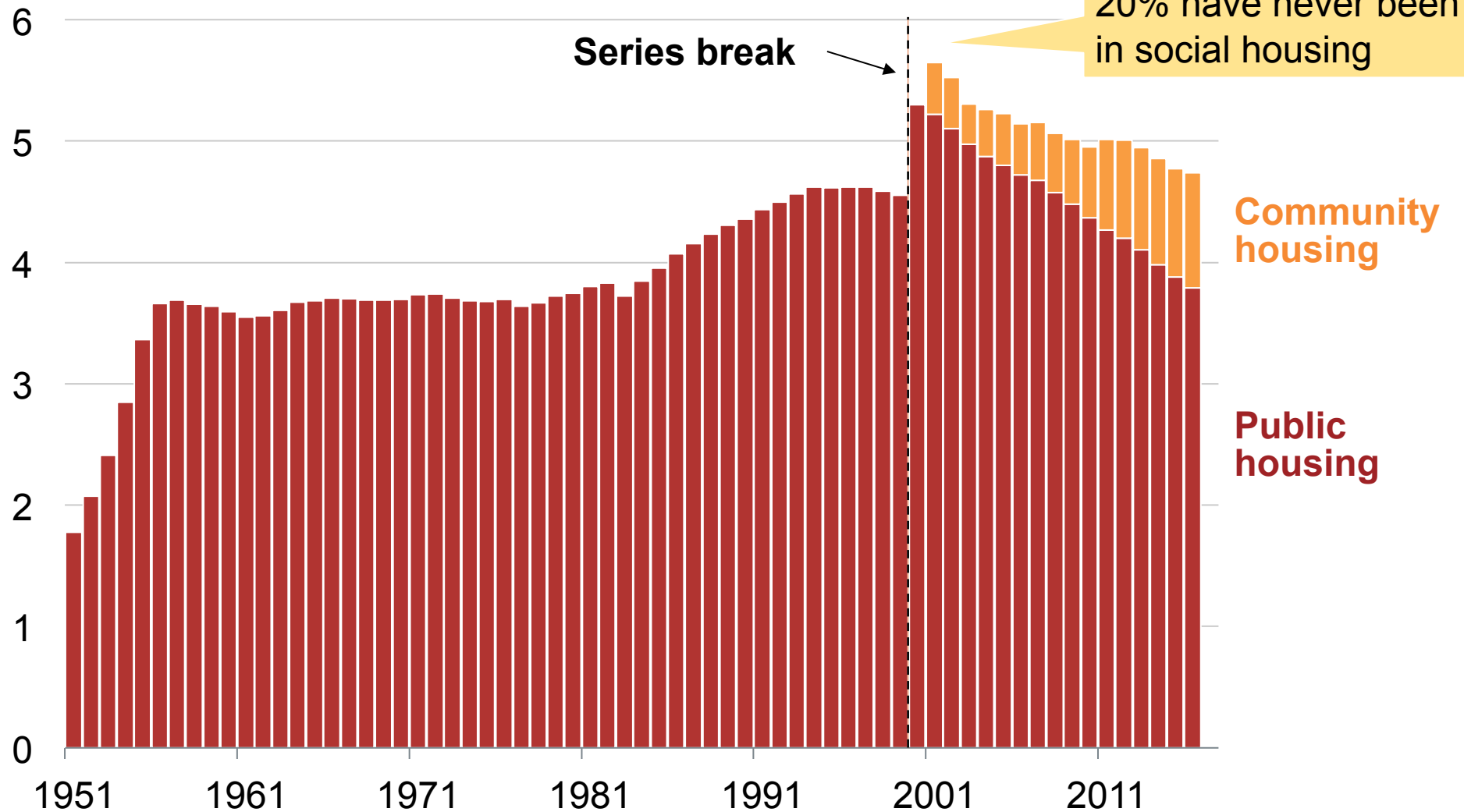


Notes: Financial stress defined as money shortage leading to 1) skipped meals; 2) not heating home; 3) failing to pay gas, electricity or telephone bills on time; or 4) failing to pay registration insurance on time. 'Pension' includes everyone over the age of 65 who receives social assistance benefits in cash of more than \$100 per week. 'Welfare' includes those who receive more than \$100 per week from a disability support pension, carer payment, unemployment or student allowance, or other government pension.

Sources: ABS Household Expenditure Survey 2015-16, Grattan analysis.

Social housing has *never* housed the majority of low-income Australians

Social housing as a proportion of all housing, per cent

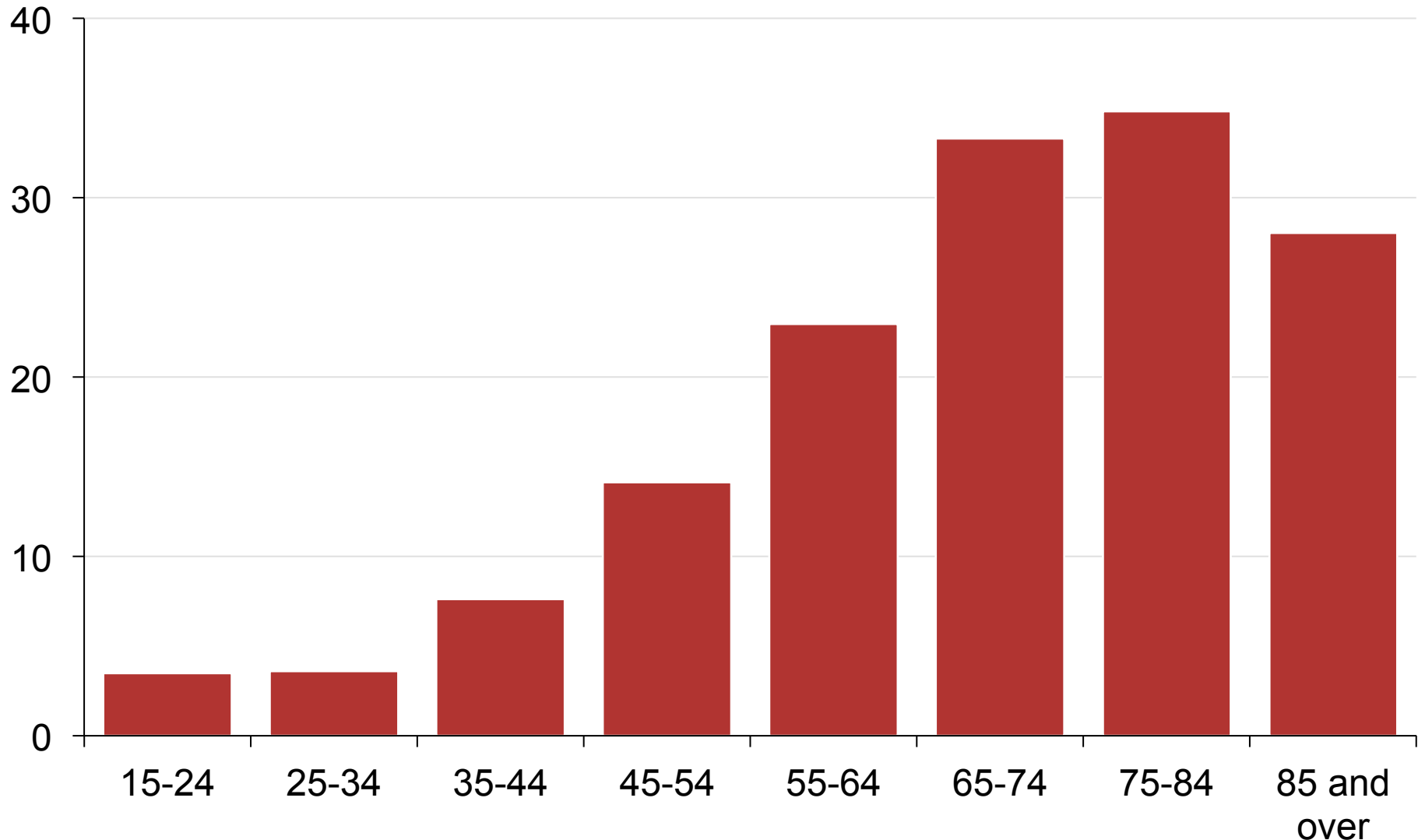


Notes: Series break after 1999.

Sources: Eslake 2017; Productivity Commission 2015

Older households are much more likely to be living in public housing

Share of renter households of each age living in public housing, per cent, 2015-16



Notes: Age groups are determined by the "Age of Household reference person" category given in the Survey of Income and Housing.

Source: ABS (2017)

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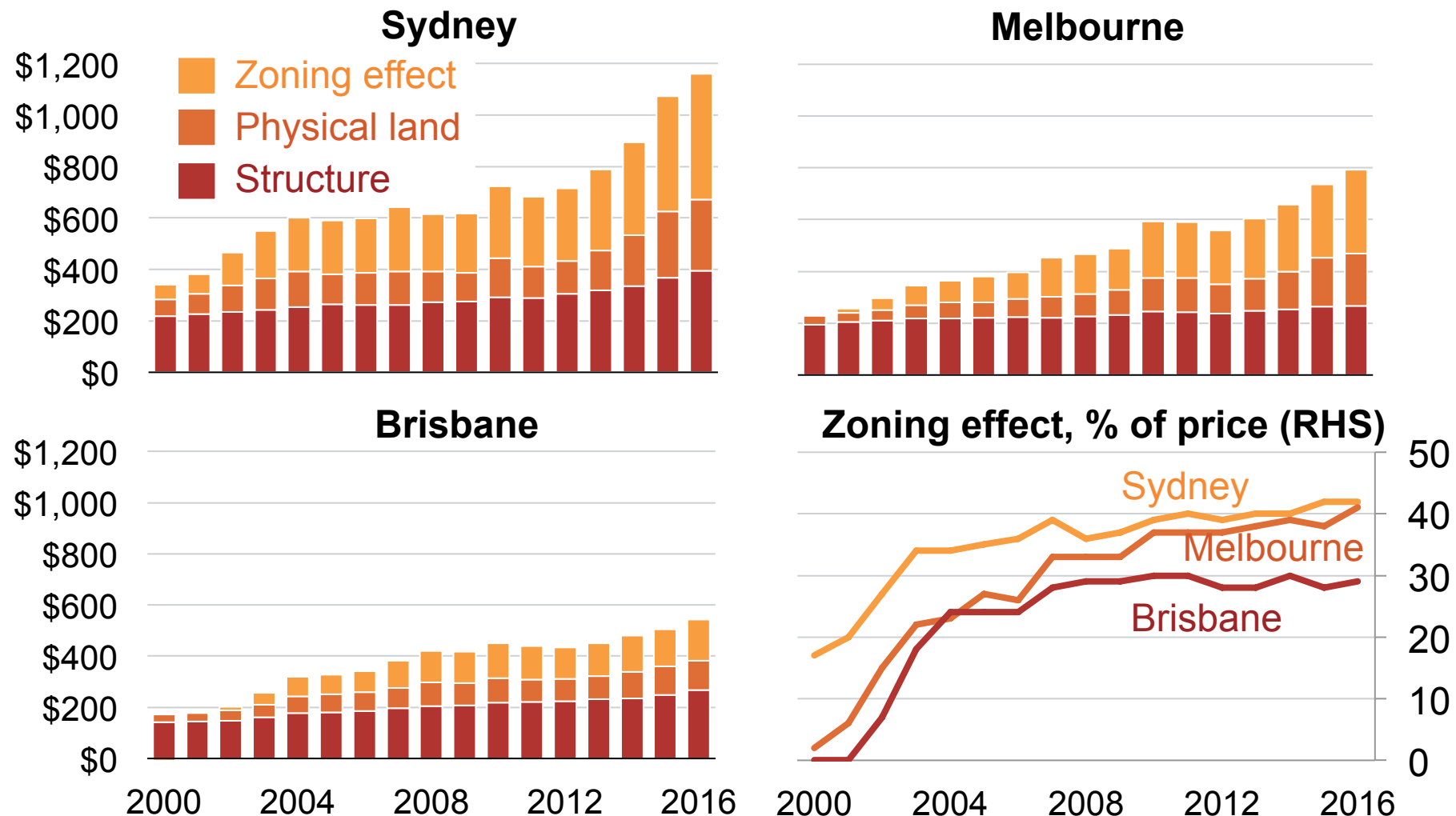
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Planning restrictions have pushed up house prices (and rents) in Australia's major cities

Contribution to the price of an average detached house, \$000s

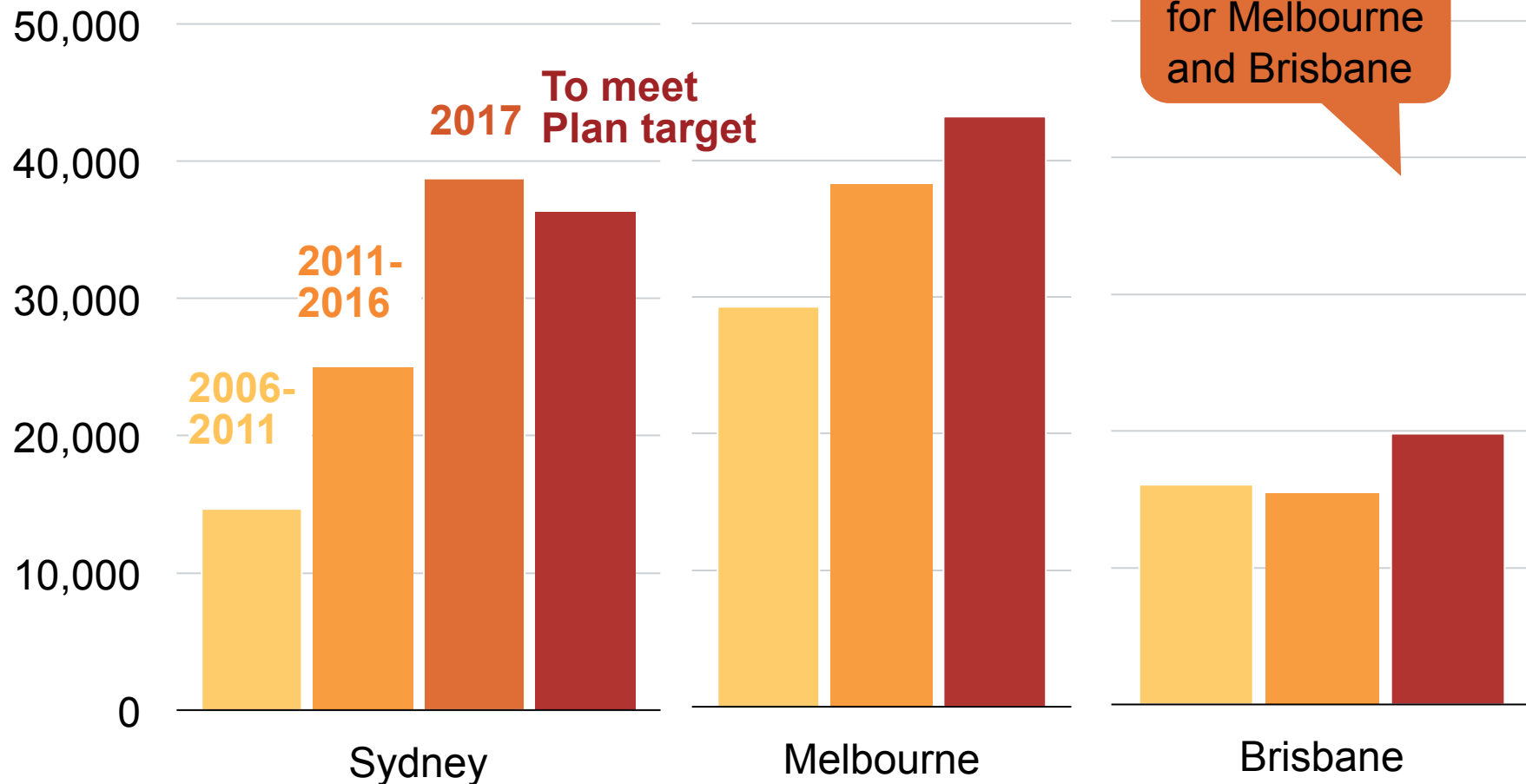


Notes: Zoning effect as % of price is negative for Brisbane from 2000 to 2001, so not shown. Zoning effect is the sale price less structure and land costs.

Source: Kendall and Tulip (2018) 'The Effect of Zoning on Housing Prices', Reserve Bank of Australia.

Recent record construction is barely enough to meet city housing targets

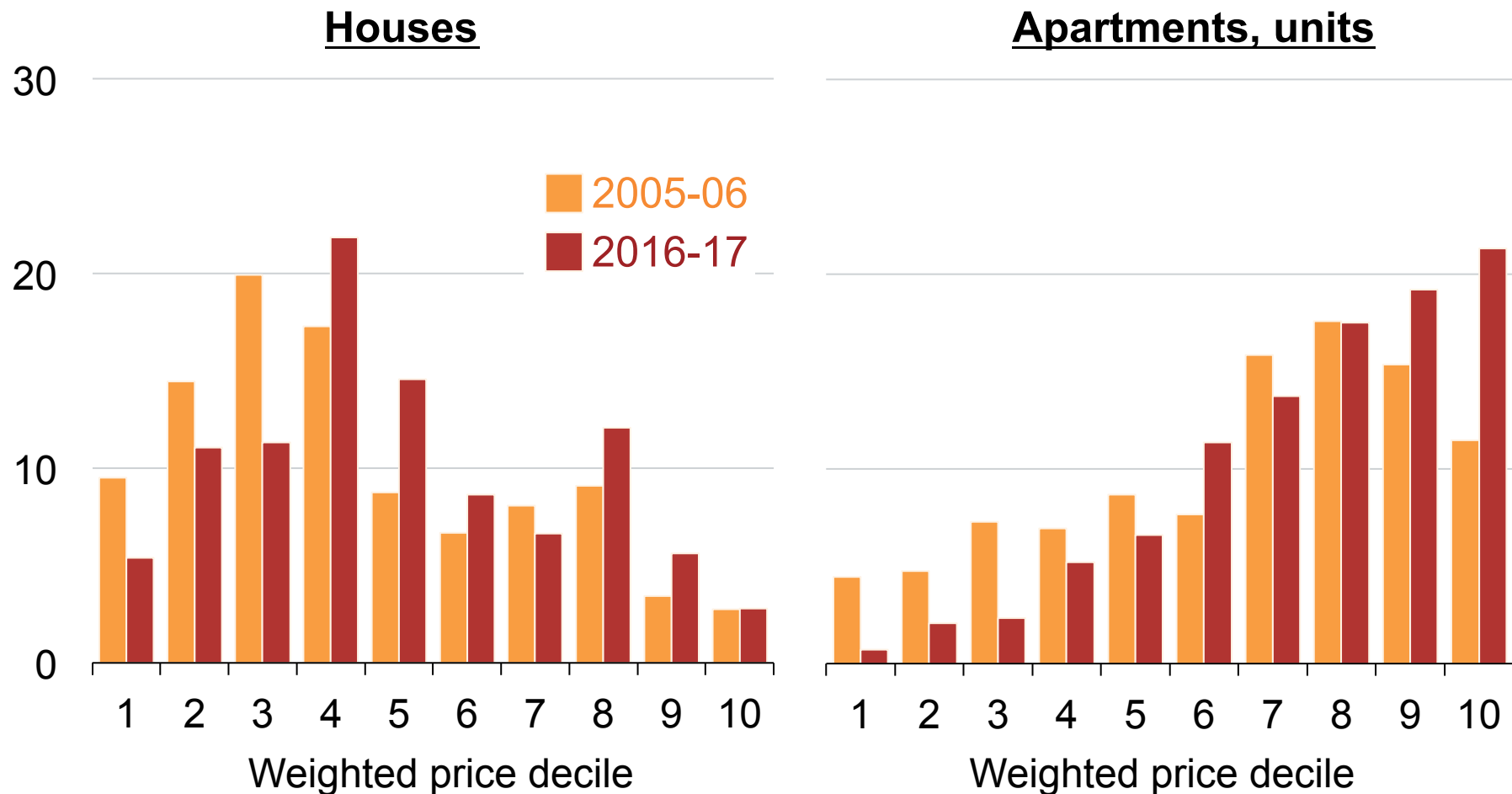
Average annual net housing construction



Notes: Draft Greater Sydney Region Plan: 725,000 additional dwellings over 2016-2036 (excludes the Central Coast). Plan Melbourne 2017: 1,550,000 additional dwellings over 2015-2051 (based on Victoria in Future projections). For 2006 to 2016 data, growth in dwelling stock is calculated using 2016 Greater Capital City Statistical Areas. Data for 2017 dwelling completions in Sydney from NSW Department of Planning and Environment (2018). No 2017 completions data available for Melbourne
Sources: Greater Sydney Commission (2016); Victorian Government (2017); NSW DPE; Queensland Government (2017).

Most new houses have been built in cheaper suburbs, apartments are in cities

Share of new housing and unit approvals (per cent) in each LGA

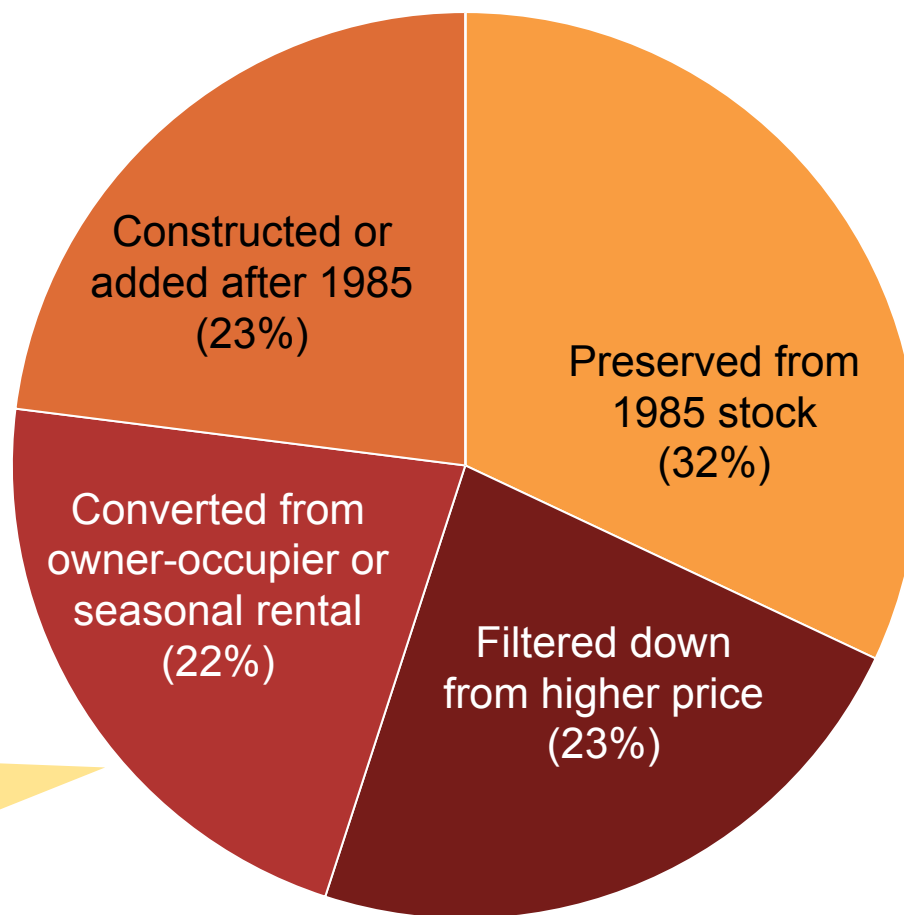


Notes: Grattan weighted price deciles are calculated by ranking LGAs according to their median price values, and sorting into deciles weighted by the total dwelling stock in each LGA so that each decile has a similar number of dwellings. 'Apartments, units' includes units, apartments, flats, semi-detached, row or terrace houses and townhouses in Grattan analysis. In contrast, Ong et al. (2017) appear to include semi-detached and townhouses in the 'Houses' category.

Source: Grattan analysis of Corelogic, ABS data.

Filtering is an important source of affordable housing for low-income earners

Per cent of US affordable rental housing stock in 2013 by source



Filtering accounts for 45% of affordable housing available to low-income earners in the US

Notes: Affordable housing is defined as costing no more than 30 per cent of income for households with very low incomes (earning less than 50 per cent of area median). Units added include rentals that were temporarily out of the stock in that year.

Source: Weicher, Eggers, Moumen (2016), The Long-Term Dynamics of Affordable Rental Housing.

Typical rental conditions vary around the world

Typical lease term

Indefinite



Germany



Netherlands

2-3 years



France



Hong Kong

6-12 months



UK



Australia

Notice period for landlords

3 months or more



Germany



France

2 months



UK



Hong Kong

30 days



Australia
(generally)

Reasons lease can be terminated

Non-payment/misconduct



France



UK

Landlord selling/moving in



Netherlands



Germany

Any reason with notice



Australia
(generally)

Pet ownership

Tenant entitlement



Germany

Subject to restrictions



USA (some states, eg New Jersey)

Only with landlord's consent



Australia

Minor alterations (putting up pictures, laying carpet, painting)

Permitted – considered normal



Germany



Netherlands

Only with landlord's consent



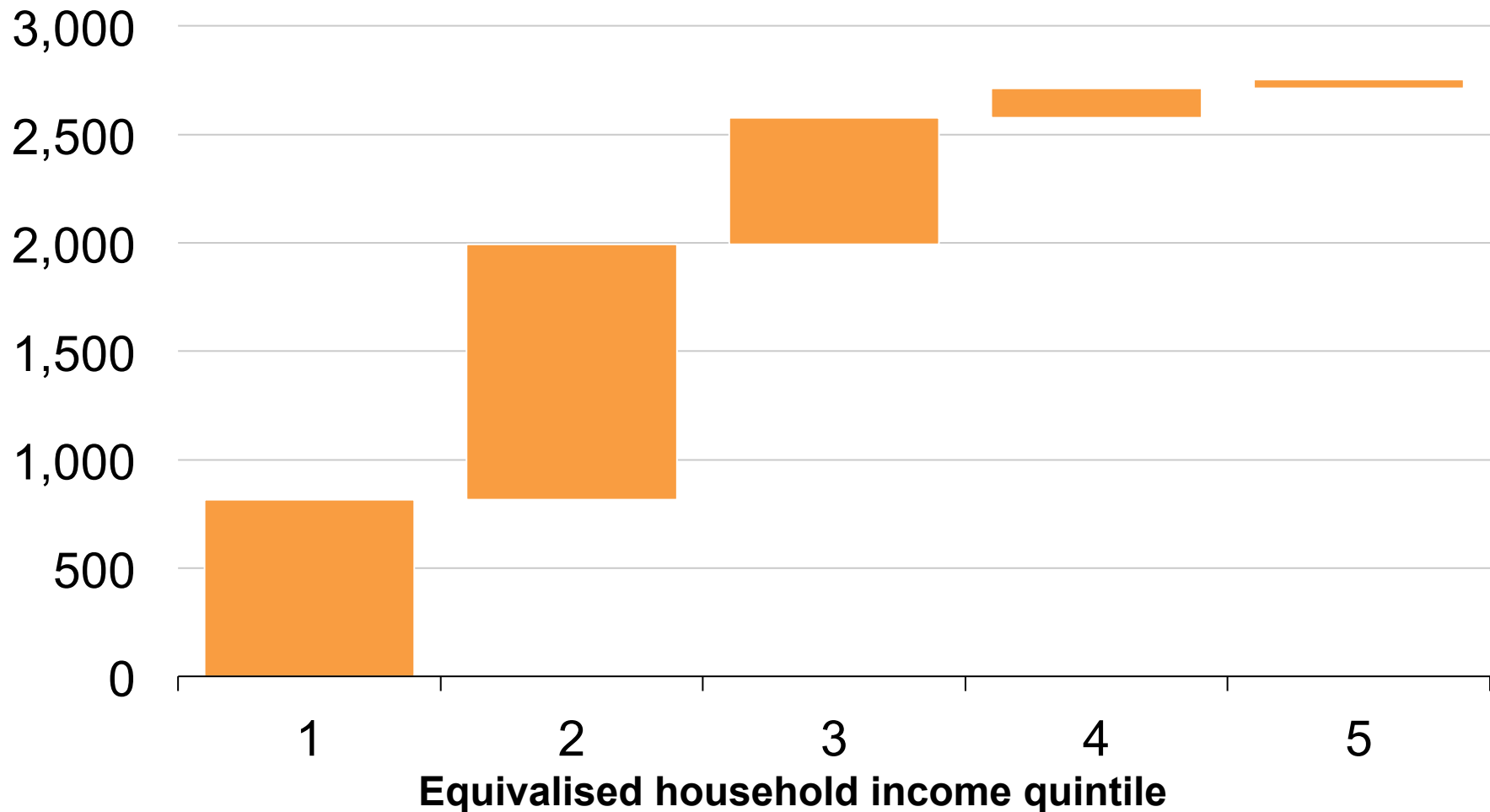
USA (some states, eg New Jersey)



Australia

Most rent assistance goes towards low income earners

Rent assistance spending for private renters by household income quintile, \$ millions



Source: ABS Survey of Income and Housing (2017)

Australian literature suggests increasing Rent Assistance has little impact on rents

Most of any increase in Rent Assistance wouldn't be spent on rents

Foard (1995) – Renters are likely to spend almost all additional net income on non-housing goods and services

Pender (1996) – Even with a segmented private rental market, a \$100 million increase in CRA would only increase rents by 0.59%

Bray (1997) – When people on low incomes gain higher incomes, they spend most of it on food, clothing, or bills

Rents would be unlikely to increase

Vipond (1987) – The price elasticity of supply for the private rental stock is almost perfectly elastic, meaning landlords don't increase rents when demand increases

Bray (1997) – Each \$1 of Rent Assistance raises rents by 1 and 5 cents

Hulse (2002) – concludes Australian housing market is already relatively well-informed, regulated, and competitive – suggesting CRA increases would be unlikely to cause rental price inflation

When rents have risen in other countries, markets have been different

Fack (2006) – Reforming housing assistance in France in the 1990s lead to rents increasing nearly 80 cents in the dollar. But French supply for lower-cost rental housing is almost perfectly inelastic.

Kangasharju (2010) – Increasing housing allowances in Finland in 2002 also increased rents by 60 to 70 cents in the dollar. But in Finland housing allowances are paid directly to the landlords.

Social housing substantially reduces the risk of homelessness

“...a lack of adequate and affordable housing contributes to housing stress and homelessness, and is detrimental to people’s physical and mental health. Homelessness affects life expectancy, with **homeless people estimated to live 15–20 years less than the mainstream population.**”

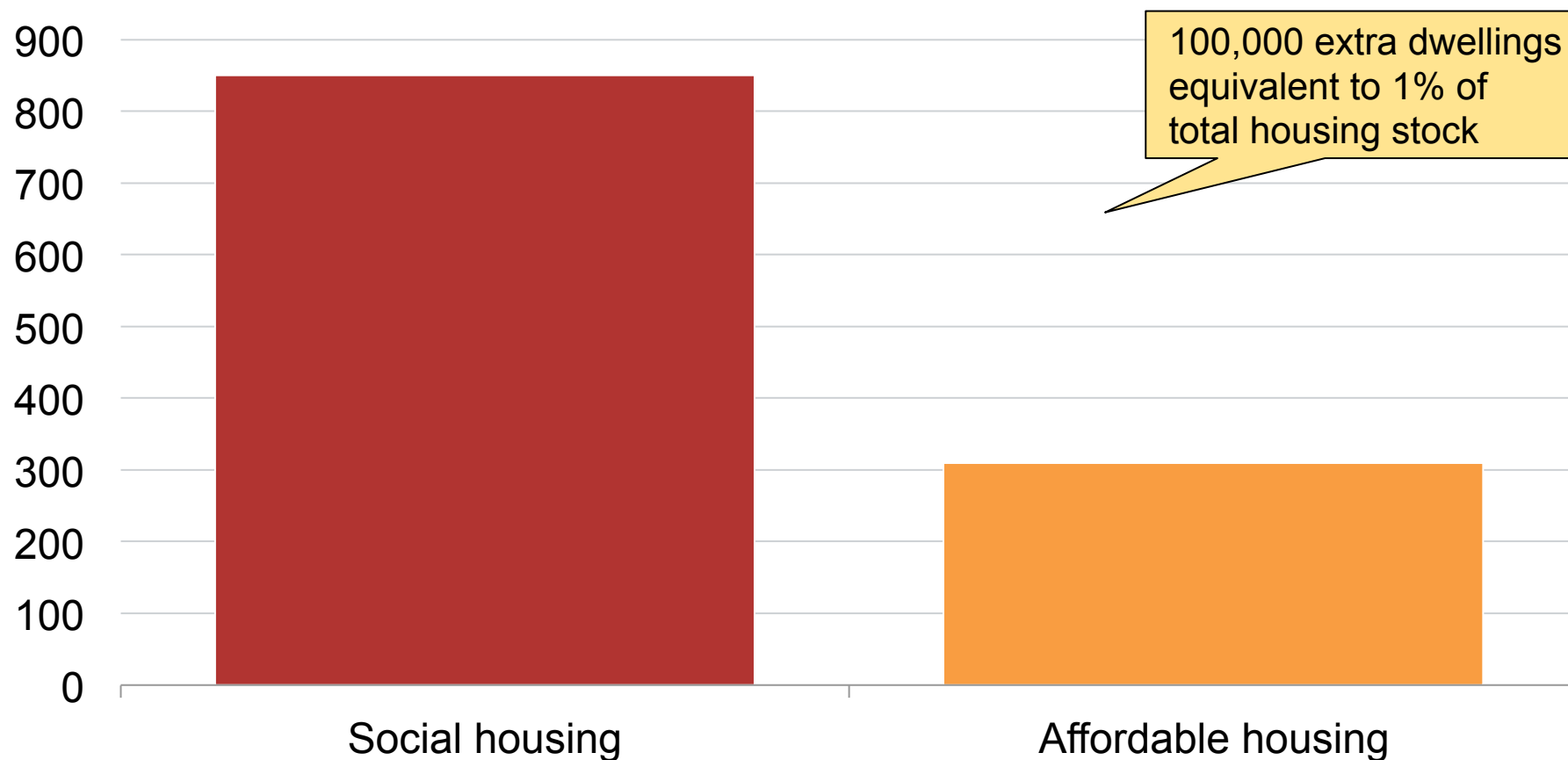
Productivity Commission, *Report on Government Services: Housing and Homelessness*, 2017, G.11

“In the period following placement, **the person’s probability of experiencing homelessness was 13 percentage points** lower than similar individuals not in social housing, who have a homelessness rate of about 20%. This is equivalent to a **65% reduction in the risk of homelessness for social housing residents.**”

Scutella, R., *Social housing protects against homelessness – but other benefits are less clear*, The Conversation, 4 July 2018

Providing more social housing will be expensive

Annual subsidy required to provide an extra 100,000 dwellings (excluding land), \$ millions

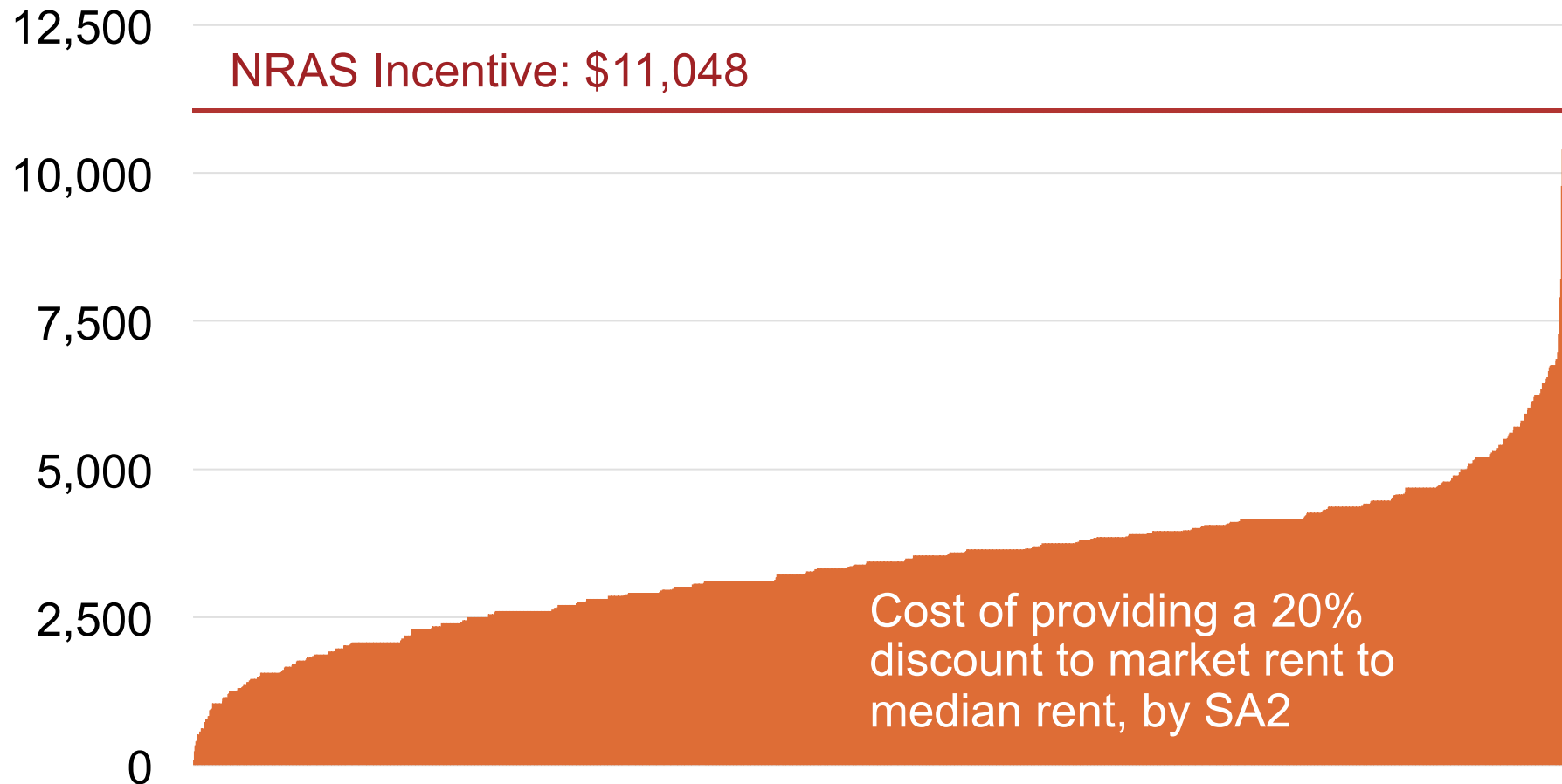


Notes: For a social housing dwelling – where the tenant's rent is set at 25 per cent of income – the funding gap is \$8,850 a year. Assuming an income of \$30,000 a year. Alternatively, boosting the supply of affordable housing (where rent is set at 75 per cent of market rent) by 100,000 dwellings would cost \$310 million a year based on estimates that the annual public subsidy required is around \$3,100 a year assuming household income of \$47,500 paying rent at 30 per cent of income. While less costly to government, affordable housing inherently provides less benefit, or subsidy, than social housing. Based on models for Perth. Costs likely to be higher in Sydney and Melbourne, lower in some other states and especially in regional areas.

Source: COAG Affordable Housing Working Group, *Supporting the implementation of an affordable housing bond aggregator*, September 2017, p.12.

NRAS subsidies are not targeted to the different costs of affordable housing across Australia

Value of a 20 per cent rental discount on the median rental dwelling by SA2, Australia-wide, \$2016

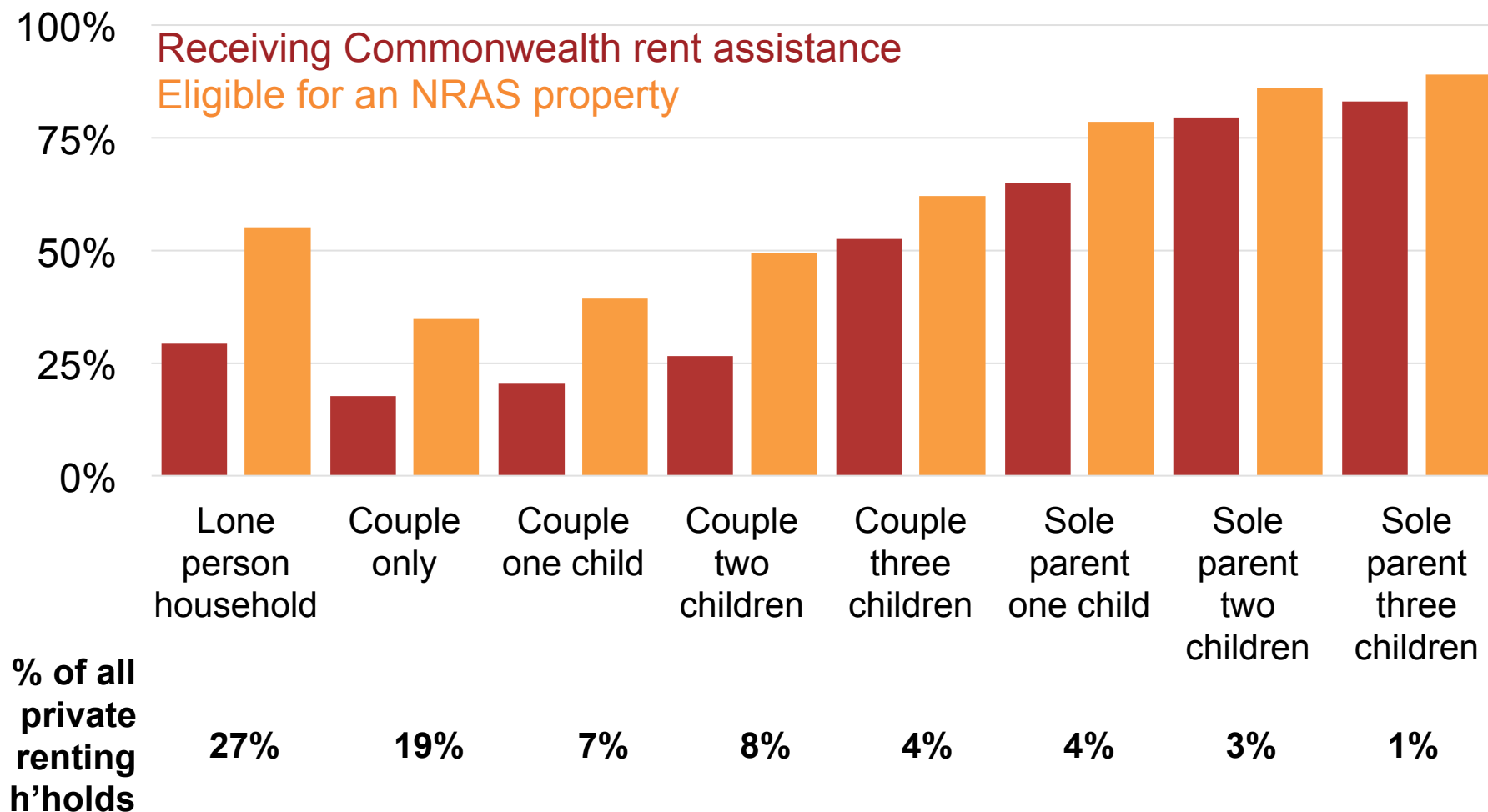


Notes: 122 SA2s excluded due to unavailable rent information. NRAS Incentive shown is for 2016-17, \$11,048. Figures provide 20 % discount to the median rent of suburb. NRAS dwellings are necessarily new, and will likely attract a premium, meaning median market rent will underestimate the median rent of an NRAS dwelling. Estimate does not take into account median dwelling size in SA2 as compared to median NRAS dwelling size, but state data suggests the NRAS subsidy was much higher than discounted rent on dwellings with fewer than 4 bedrooms.

Source: ABS Census 2016 Median rent by SA2.

NRAS-eligible households aren't on low enough incomes to receive rent assistance

Share of private renting households by family composition, 2015-16



Notes: Not all family compositions shown. 'Other' compositions excluded. Eligibility for NRAS is set by household gross income. Income thresholds shown are for initial acceptance into NRAS in 2015-16. Households can earn 25% above the initial income threshold for two years before losing eligibility for NRAS. Households on Commonwealth Rent Assistance received at least \$1 of rent assistance in 2015-16.

Source: ABS Survey of Income and Housing 2015-16; Grattan analysis.