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Renting in retirement

Why Rent Assistance needs to rise

Brendan Coates, Matthew Bowes, and Joey Moloney

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Overview

Most Australians are lucky enough to enjoy a comfortable retirement. Three in four retirees own their own homes. Most retirees report feeling comfortable financially, and few experience financial stress.

But too many retirees who rent are being left behind. Today, two in three retirees who rent in the private market live in poverty, including more than three in four single women. Half of retirees who rent have less than $25,000 in savings. And a growing number of older Australians are at risk of becoming homeless.

This problem is set to get worse. Home ownership is falling fast among poorer Australians who are approaching retirement. Between 1981 and 2021, home ownership rates among the poorest 40 per cent of 45-54 year-olds fell from 68 per cent to just 54 per cent. Today's low-income renters are tomorrow's renting retirees. And whereas a third of retirees who rent today live in social housing, where rents are capped at 30 per cent of income, far fewer can expect to do so in future because there simply isn't enough social housing to meet demand.

Many older working Australians who rent do not have sufficient savings to keep paying rent in retirement. The poorest 40 per cent of renting households aged 55-64 have less than $40,000 in net financial wealth.

Commonwealth Rent Assistance, which supplements the Age Pension for poorer retirees who rent, is inadequate. The federal government has lifted the maximum rate of Rent Assistance by 27 per cent – over and above inflation – in the past two budgets. But even after these increases, a single retiree who relies solely on income support can afford to rent just 4 per cent of one-bedroom homes in Sydney, 13 per cent in Brisbane, and 14 per cent in Melbourne, after covering basic living expenses. And with Rent Assistance indexed to inflation, rather than recipients' housing costs, the rents paid by Rent Assistance recipients have increased nearly 1.5 times faster than the maximum rate of the payment since 2001.

The maximum rate of Rent Assistance should be increased by a further 50 per cent for singles, and 40 per cent for couples. It should also be indexed to changes in rents for the cheapest 25 per cent of homes in capital cities. International experience, and Australian evidence, suggests that more than five in six dollars of any extra Rent Assistance paid would benefit renters, rather than landlords.

These increases would boost the maximum rate of Rent Assistance by $53 a week ($2,750 a year) for singles, and $40 a week ($2,080 a year) for couples. This would ensure single retirees could afford to spend $350 a week on rent, enough to rent the cheapest 25 per cent of one-bedroom homes across Australian capital cities, while still affording other essentials. And retired couples could afford to spend $390 a week on rent, enough to rent the cheapest 25 per cent of all one- and two-bedroom homes.

Given the even higher rates of financial stress among younger renters, any increase to Rent Assistance should apply to working-age households as well. Boosting Rent Assistance for all recipients would cost about $2 billion a year, with about $500 million of this going to retirees. These increases could be paid for by further tightening superannuation tax breaks, curbing negative gearing and halving the capital gains tax discount, or counting more of the value of the family home in the Age Pension assets test.

Australia is failing too many retirees who rent. Only a further substantial boost to Rent Assistance can ensure that all Australians get the dignified retirement they deserve.

Recommendations

1. The maximum rate of Commonwealth Rent Assistance should be increased by 50 per cent for singles and sharers, and 40 per cent for couples.

2. Commonwealth Rent Assistance should be indexed to changes in rents for the cheapest 25 per cent of rental homes in capital cities.

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1 Too many retirees who rent are struggling

Most Australians are lucky enough to enjoy a comfortable retirement. Retirees report feeling more comfortable financially, and suffer less financial stress, than younger Australians who are working.

By most measures, the Age Pension provides an adequate, albeit modest, income in retirement for those who own their own home. In Australia today, 78 per cent of over-65s are homeowners.

Many retirees who rent, however, are struggling to get by. Housing is typically Australians' biggest expense, and most retirees who rent have little super or other financial savings. Retirees who rent – including more than three quarters of single women who rent in the private market – suffer high rates of poverty, and many experience financial stress.

Commonwealth Rent Assistance (Rent Assistance), which supplements the Age Pension for poorer retirees who rent, is inadequate. After covering essential non-housing costs, a single age pensioner receiving the full rate of Rent Assistance has only $300 per week to pay rent, while a cheap one-bedroom home in an Australian capital costs around $350 per week.

As a result, few retirees who rent can cover the rent and still afford other essentials. An increasing number of older Australians are becoming homeless and, unless action is taken, more will face homelessness in the future.

1.1 Most retirees are comfortable in retirement

Most retirees today feel more comfortable financially than younger Australians who are still working.[1] Retirees are less likely than working-age Australians to find themselves unable to pay a bill on time or heat or cool their home (Figure 1.1 on the following page). Rates of financial stress decline as households approach and enter retirement.[2] In fact, retirees typically experience as little financial stress as 'double-income, no-kids' households.[3]

Just as retirees are less stressed about essentials, their discretionary expenditure is also less constrained than that of working-age people. Retirees are less likely to miss out, due to cost, on things like taking a holiday.[4] Retirement is a particular relief for low-income earners, whose incomes typically increase once they can get the Age Pension.[5]

Australians who are forced to retire early are an exception. Those forced to retire early report higher levels of financial stress than any other group of retirees.[6] This may be because unemployment in the lead-up to retirement forces households to draw on savings and assets that would have otherwise been saved for retirement.

1.1.1 The Age Pension is adequate – if you own your own home

There are various approaches to measuring poverty among Australians, including retirees (Box 1 on page 8). On most measures, the Age Pension provides an adequate, albeit modest, level of income in retirement for people who own their own home.

The maximum rate of the Age Pension is above the Henderson poverty line, for example, as well as low-cost budget standards for retiree

1. Coates and Nolan (2020, Figure 4.3); Callaghan et al (2020, Chart 2A-6).
2. Callaghan et al (ibid, Chart 2A-7).
3. Grattan analysis of ABS (2022a).
4. Coates and Nolan (2020, Figure 4.2).
5. Coates and Nolan (ibid, Figure 4.4).
6. Callaghan et al (2020, Chart 2A-10).

homeowners.[7] The pension also broadly stacks up against measures of income poverty such as those produced by the OECD.[8]

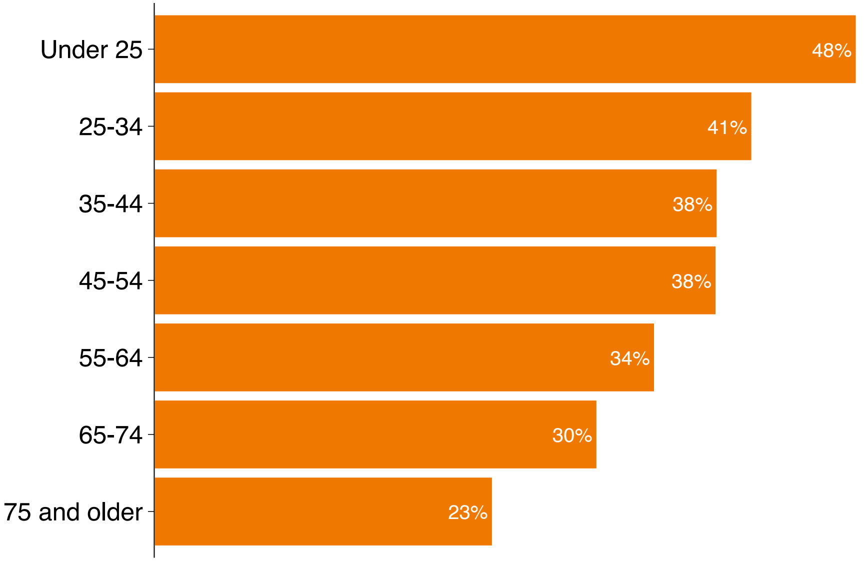
The 2020 Retirement Income Review concluded:[9]

> The Age Pension has grown faster than both wages and prices since 2009. The maximum rate compares favourably internationally and is above available absolute poverty benchmarks. Rates of financial stress for people with few other means drop substantially when entering retirement.

About 78 per cent of over-65s today own their own home, while 12 per cent rent and 10 per cent live rent-free or in residential care.[10]

While more Australians are retiring with mortgage debt – about 13 per cent of over-65s had a mortgage in 2019-20 – the Retirement Income Review showed that retirees who used $100,000 of their super to pay off the mortgage would still have an adequate retirement income, in part because many would qualify for more Age Pension.[11] And rates of financial stress among mortgage holders are similar to the retiree and working-age averages, and much lower than those of renters.[12]

Figure 1.1: Older households tend to experience less financial stress
Percentage of households with at least one indicator of financial stress in 2019-20, by household age



Notes: ABS Survey of Income and Housing respondents are asked whether they face any of 14 indicators of financial stress, such as needing to pawn something, being unable to heat or cool the home, or going without meals – all due to a shortage of money. Age is based on the age of the head of household.

Source: Grattan analysis of ABS (2022a).

7. P. Saunders et al (1998) estimates a low-cost budget standard for a single retired homeowner of $280 per week. Inflated with total adult earnings to 2024 (ABS 2024a), this corresponds to a budget of $471 per week, well below the Age Pension rate of $572 per week (including supplements).
8. Coates and Nolan (2020, Figure 2.3) found that the single Age Pension rate in 2017-18 was almost exactly equivalent to the OECD benchmark of 50 per cent of median disposable household income, using the ABS's preferred equivalisation ratios. Repeating this analysis for the 2019-20 Survey of Income and Housing (ABS (2022a)) suggests that the single Age Pension was then worth 97 per cent of this benchmark.
9. Callaghan et al (2020, p. 127).
10. ABS (2022b). Excludes households where tenure type was not stated.
11. Callaghan et al (2020).
12. Callaghan et al (ibid, Chart 2A-10).

1.2 Retirees who rent struggle to make ends meet

While few pensioners overall appear to be suffering financial stress, many pensioners in private rental housing are struggling.

Retirees who rent typically have lower incomes but higher housing costs than retired homeowners. And most retirees who rent have little super and other financial savings.

Rates of financial stress and poverty among pensioners are much higher among renters than homeowners (Figure 1.2 on the following page). More than three in four single women retirees who rent are living in poverty.

1.2.1 Renters face much higher housing costs in retirement

Housing costs are typically households' largest single expense, and they can have a big impact on living standards in retirement. Home-owning retirees – who have usually paid off their mortgage – spend on average only 5 per cent of their disposable income on housing, much less than working homeowners (Figure 1.3 on page 10).

By contrast, retirees who rent spend more of their income than working-age renters on housing costs. Renters aged 75 and older spend on average 32 per cent of their income on rent, and many spend much more. Consequently, a retiree who rents needs a higher retirement income to achieve the same living standard as a retiree who owns their own home.

1.2.2 Most retirees who rent have few financial assets

More than half of households aged 65 and older who rent report total net financial worth of less than $25,000, whereas just 18 per cent of homeowner households of that age report net wealth below that level.[13]

13. Grattan analysis of ABS (2022a).

Box 1: There are several ways to measure poverty

Minimum budget standards measure whether Australians are living in poverty, by calculating the cost of a list of goods and services that every Australian ought to be able to buy.[a]

The **Henderson Poverty Line**, established by the Henderson poverty inquiry in 1973, set a minimum standard of disposable income for a family of two adults and two dependent children. That standard also set benchmarks for other family types. In June 2024 the benchmark for an unemployed couple was $703 per week (or $36,560 per year).[b]

Relative measures of income poverty, such as those produced by the OECD, evaluate poverty relative to the living standards enjoyed by Australians as a whole. Relative poverty measures typically set a poverty line at half of the median disposable income of all Australians. But the OECD measure does not take into account drawdowns on savings outside super as income, and, as with other poverty benchmarks, small changes in income can produce radically different rates of poverty.[c]

Poverty after housing costs, another relative measure of income poverty, incorporates housing costs on the basis that they are an essential expenditure. The after-housing poverty rate is typically measured as the proportion of households that have less than half the median disposable income, less housing costs.

a. Bedford et al (2023) and P. Saunders et al (1998).
b. Melbourne Institute for Applied Economic and Social Research (2024, Table 1).
c. Coates and Nolan (2020, p. 24).

1.2.3 Most retirees who rent in the private market are living in poverty

Many pensioners in private rental housing are struggling. Rates of financial stress among renting pensioners are much higher than among homeowners. This is not surprising, since renters typically have lower incomes.

Only 11 per cent of retired homeowners live in income poverty, after taking account of their housing costs. But among the more than 200,000 retired Australian households who rent on the private market, 67 per cent are living in poverty (Figure 1.4 on the following page).[14] Poverty rates among single men and single women are even higher, at 74 and 78 per cent respectively.[15]

Retirees who rent privately also experience much deeper levels of poverty, after accounting for their housing costs, than retirees who live in public housing. Among private renters in retirement who are in poverty, a typical single household falls below the relative poverty benchmark by $125 a week. In contrast, single public renters of the same age reported incomes that fell below the poverty line benchmark by an average of about $29 a week.[16]

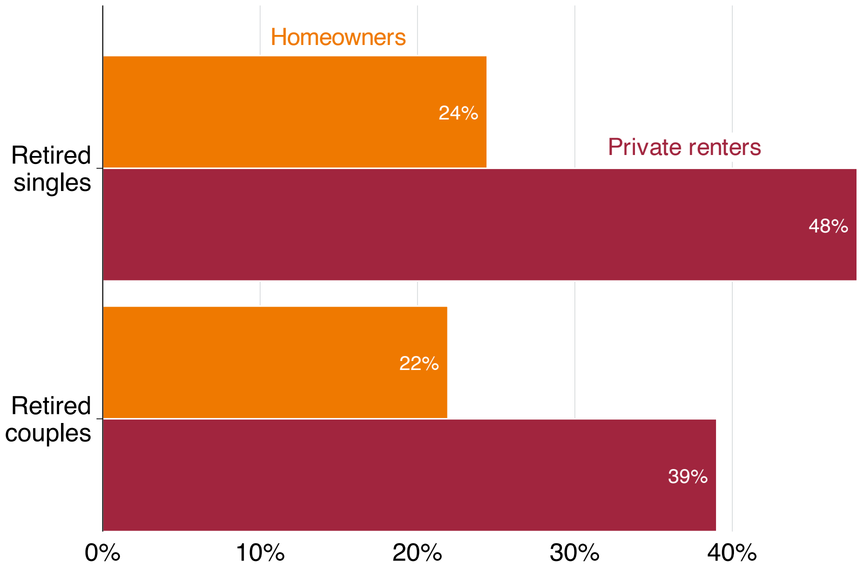
These stark gaps can mean retirees struggling to feed themselves. Researchers who interviewed 125 age pensioners in NSW about their housing experiences found that:[17]

> many of the older private renters interviewed were battling to purchase everyday necessities, and the high cost of their accommodation meant that some were running out of money for food before the next pension payout.

14. As at 2023, 205,000 age pensioner households received Rent Assistance and rented privately. See AIHW (2024, Table CRA.8)
15. Grattan analysis of ABS (2022a). See footnote to Figure 1.4 on the following page.
16. Grattan analysis of ABS (ibid). See footnote to Figure 1.4 on the following page.
17. Morris (2016, p. vii).

Figure 1.2: Retirees typically have very little financial stress – unless they rent

Percentage with at least one financial stress in the past 12 months, 2019-20

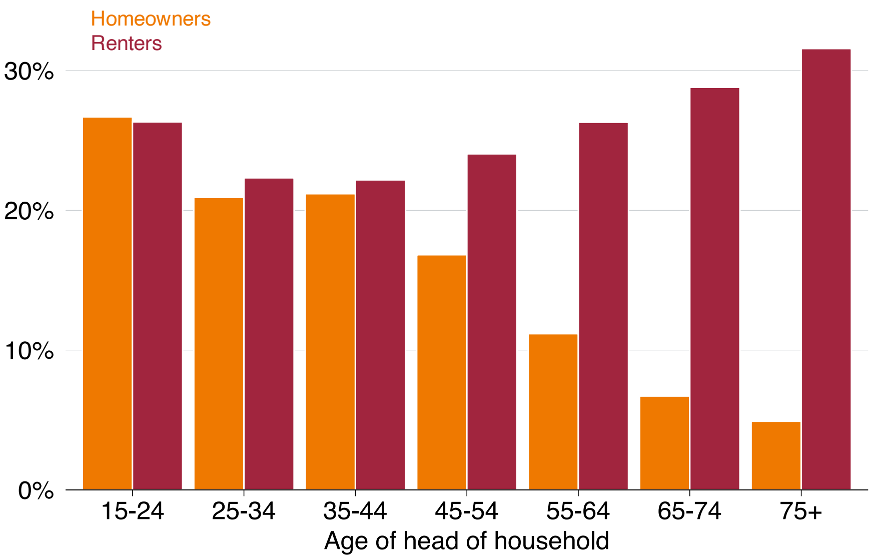


Notes: There were 14 possible indicators of financial stress. They include needing to pawn something, being unable to heat/cool the home, or going without meals – all due to a shortage of money. Retired is designated by the reference person being out of the labour force and older than 65.

Source: Grattan analysis of ABS (2022a).

Figure 1.3: Housing costs for retirees who rent are much higher than for homeowners

Housing costs as a percentage of household disposable income by age and tenure type, 2019-20

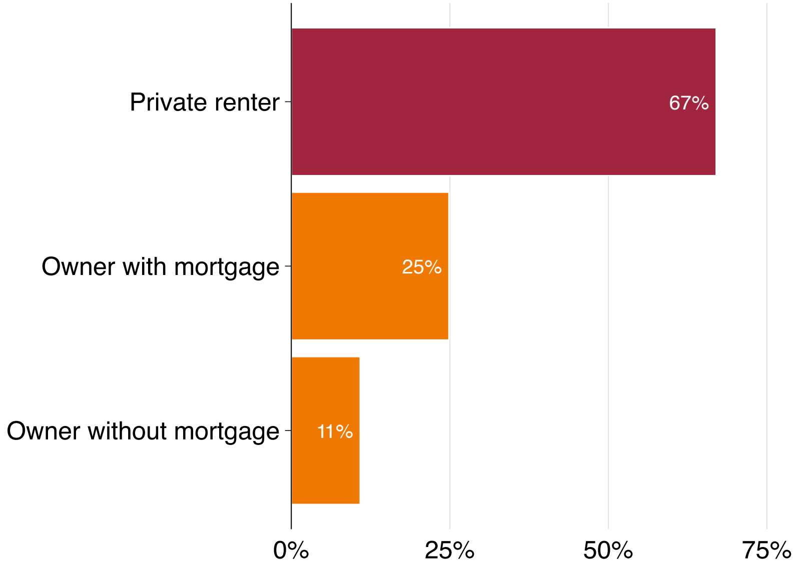


Note: Housing costs include mortgage interest and principal repayments and general rates for homeowners, and rental payments for renters.

Source: Grattan analysis of ABS (2022a).

Figure 1.4: Retirees who rent are much more likely to live in poverty

Income poverty rate for retiree households, by tenure, 2019-20



Notes: Income poverty is measured as equivalised household disposable income (after housing costs) being less than half of the median for the population, excluding households with unincorporated business income, or households who report zero or negative incomes. See Coates and Nolan (2020, p. 22) for further discussion of income poverty measurement. Retiree households are defined as those where the reference person is aged over 65 and is not in the labour force. Poverty rates are higher than previous estimates which include individuals aged over 65 who are still working, such as those reported in Callaghan et al (2020, Chart 2A-10).

Source: Grattan analysis of ABS (2022a).

1.2.4 Retiree poverty tends to persist

Thanks to the Age Pension, retirees who rent still face lower rates of poverty and financial stress than working-age renters (Section 3.6 on page 34). But while incomes and housing costs for working-age households may fluctuate over time as circumstances change, incomes for retirees are typically steadier. Retired renters who face income poverty are almost 3.5 times as likely as working-age renters to still be in poverty over the following five years.[18]

In addition, retirees who rent tend to do so for longer than working-age Australians. Among retirees who rent, about half are likely to remain renting over the next decade, compared to less than a third of working-age renters.[19] Pensioners also tend to rely on Rent Assistance for longer than households who receive other types of income support payments.[20]

1.3 Rent Assistance is not enough to support age pensioners who rent

Rent Assistance is a tax-free income supplement paid to renters who receive social security benefits, including the Age Pension.[21] In 2022–23, the federal government spent $4.7 billion on Rent Assistance. At June 2024, about 1.3 million families were receiving Rent Assistance, and one-in-four recipients were age pensioners.[22]

Rent Assistance covers 75 per cent of fortnightly rental expenses between $149 and $430.60 for single renters, and between $241.40 and $506.74 for couple renters (Table 1.1 on page 13). The maximum fortnightly payment is $211.20 for singles and $199 combined for couples if their rental expenses are at or above the upper threshold.[23]

Rent Assistance materially reduces housing stress among low-income Australians. But the maximum payment rate is inadequate. Rent Assistance covers only 30 per cent of the cost of renting a cheap one-bedroom home in an Australian capital city, or 35 per cent of the cost of sharing a cheap two-bedroom home.[24]

Rent Assistance covers up to 49 per cent of rental costs for someone paying rent at precisely the maximum rent threshold.[25] Across all recipients, it covers about 27-to-34 per cent of rent in capital cities, and about 31-to-36 per cent of rent in regional Australia.[26] In practice, this means Rent Assistance recipients must use a substantial portion of the income from their primary welfare payment – such as the Age Pension – to pay their rent.

18. Grattan analysis of Melbourne Institute for Applied Economic and Social Research (2023), Waves 11 to 22. Poverty defined as a household having an equivalised disposable income (after housing costs) less than 50 per cent of the median. Retirees defined as individuals aged 65 and older who are not in the labour force. Proportions are modelled Kaplan-Meier estimates.
19. Grattan analysis of Melbourne Institute for Applied Economic and Social Research (ibid), Waves 11 to 22. Renters includes social housing tenants and individuals living in caravan parks, but excludes individuals who live in their home rent free. See previous footnote for other notes.
20. Yanotti et al (2021, p. 30).
21. Income support recipients who are public housing tenants or who live in residential aged care do not receive Rent Assistance. Renters with informal tenancy agreements are also ineligible.
22. AIHW (2024) and DSS (2024a).
23. Rent Assistance is not paid if rent is below the lower threshold. Rent thresholds and maximum payments are indexed in March and September each year to reflect changes in the Consumer Price Index (Services Australia 2024).
24. As at June 2024, the 25th percentile of one-bedroom homes across capital cities cost $350 a week, and $400 a week for the 25th percentile of two-bedroom homes. Grattan analysis of ABS (2021) and ABS (2024b).
25. Grattan analysis of Services Australia (2024).
26. AIHW (2024, Financial assistance).

Box 2: Budget standards are the best way to measure minimum non-housing costs for age pensioners

This report uses budget standards to estimate the amount that age pensioners need for non-housing expenses such as food, transport, and energy bills. Budget standards are created by adding together the cost of a basket of goods and services purchased at prevailing prices.

A number of budget standards have been produced in Australia, covering a range of households.[a] While no one standard can capture the needs of all households, they are nonetheless an intuitive way to measure how much a typical household needs to achieve a minimum standard of living.[b] These budgets are deliberately tight, forgoing any luxuries or large one-off expenses.

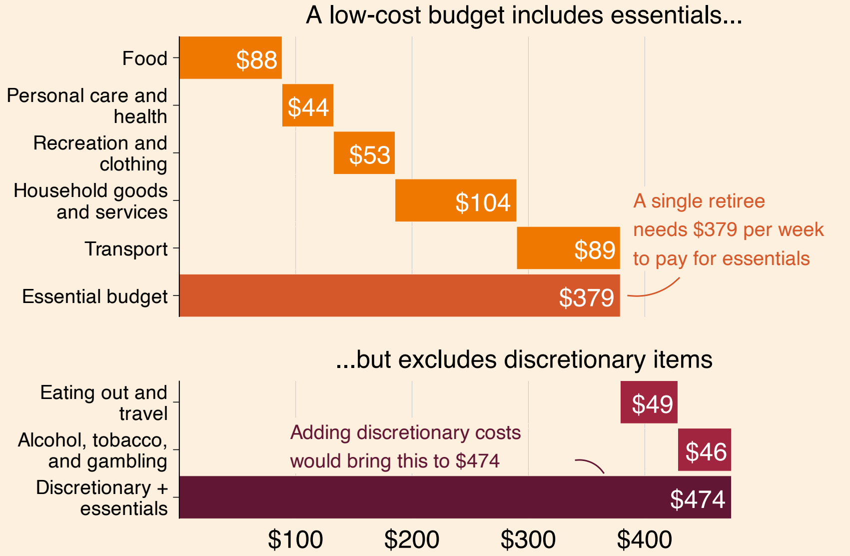
The most recent Australian budget standards available at the time of writing were produced by Bedford et al (2023). These standards were produced for a subset of low-income, working-age households. While the standards also include a supplementary discretionary budget, covering expenses such as travel and alcohol, these items were not included in the 'essential' non-housing budget used here.

These standards do not account for concessions available to age pensioners, or for changes to expenditure on health or work-related expenses that occur as households retire. Therefore, we adjusted the health, energy, and transport costs shown in Figure 1.5 to better reflect the needs of retiree households.[c] Inflated to 2024 prices, this modified standard for non-housing essentials sits at $379 per week for single retirees, and $606 for couples.

a. E.g. P. Saunders et al (1998), P. Saunders and Bedford (2018).
b. P. Saunders (2018).
c. See Appendix A for more information on the adjustments we made.

Figure 1.5: For a typical single retiree, non-housing essentials cost about $380 per week

Expense by budget category, per week, 2024 dollars



Notes: We have adjusted budget standards to better reflect retiree expenditure: see Appendix A for more details. The cost of each component of the budget has been inflated to June 2024 prices, using the relevant CPI group.

Source: Grattan analysis of Bedford et al (2023) and ABS (2024b).

1.3.1 Rent Assistance has not kept pace with the rents paid by low-income Australians

The value of Rent Assistance has not kept pace with rent increases. The maximum payment rate is indexed in line with with the Consumer Price Index (CPI), but the rents paid by the recipients of Rent Assistance have been growing faster than this for a long time (Figure 1.6 on the following page). And since the COVID pandemic in early 2020, rents have risen by a further 15 per cent.[27]

1.3.2 Recent increases to Rent Assistance have helped, but are not enough

The federal government has raised the maximum rate of Rent Assistance by a total of 27 per cent – over and above inflation – in the past two budgets.[28] These increases have boosted the maximum rate of the payment for singles by $44 a fortnight, or $1,158 a year.

But Rent Assistance remains inadequate. After accounting for a $379 per week budget of non-housing essentials, a single age pensioner has less than $300 per week to pay for rent (Figure 1.7 on the next page).[29]

Table 1.1: Eligible rent thresholds and maximum payment rates for Rent Assistance

	Minimum rent	Maximum rent	Maximum payment
		Fortnightly rates	
Single	$149.00	$430.60	$211.20
Single, sharer	$149.00	$336.74	$140.80
Couple, combined	$241.40	$506.74	$199.00
		Annual rates	
Single	$3,885	$11,226	$5,506
Single, sharer	$3,885	$8,779	$3,671
Couple, combined	$6,294	$13,211	$5,188

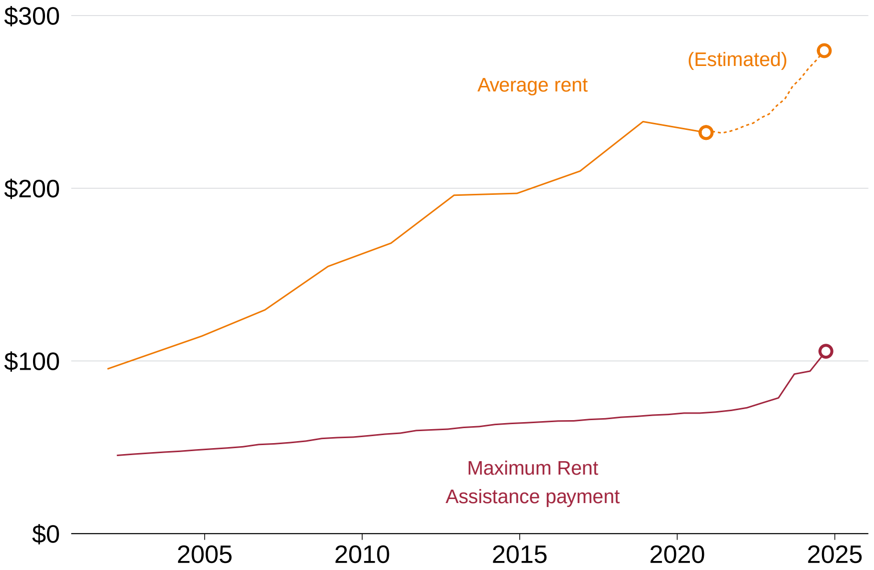
Notes: Rent Assistance payments are calculated as 75 per cent of rent paid above the minimum threshold, up to the maximum payment rate, with the maximum rent threshold then calculated as the rent above which individuals receive the maximum payment. For individuals who are income- or asset-tested, Rent Assistance is added to the base rate of payment before payments are reduced in accordance with the relevant test.

Source: Services Australia (2024).

27. ABS (2024b).
28. The maximum rate of Rent Assistance was increased by 15 per cent in September 2023, and by a further 10 per cent in September 2024. See: Treasury (2023) and Treasury (2024).
29. This analysis assumes that renters are able to spare about a third of their Age Pension ($190 a week) to spend on housing. This compares with previous low-cost budget standards for retirees, such as P. Saunders et al (1998), which find that housing costs for homeowners make up only about 21 per cent of a minimum household budget.

Figure 1.6: The maximum rate of Rent Assistance has not kept up with rents paid by recipients

Single Rent Assistance recipients' average rent and maximum payment, per week

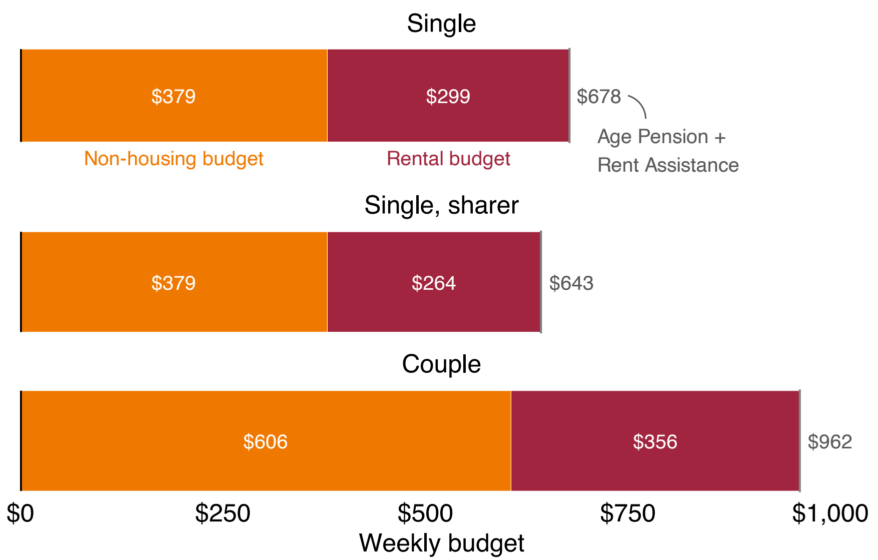


Notes: The estimated values use data on average rents for Rent Assistance recipients to September 2024. Single maximum Rent Assistance is to September 2024. Before 2008, Rent Assistance recipient status is approximated by isolating private-renter households that declare government transfers as their main source of income.

Source: Grattan analysis of ABS (2006), ABS (2008), ABS (2012a), ABS (2014), ABS (2016), ABS (2018), ABS (2020), ABS (2022a) and DSS (2024b).

Figure 1.7: After covering essentials, a single age pensioner has less than $300 a week left to spend on rent

Household budget for a renter receiving the full Age Pension and Rent Assistance, per week, 2024 dollars

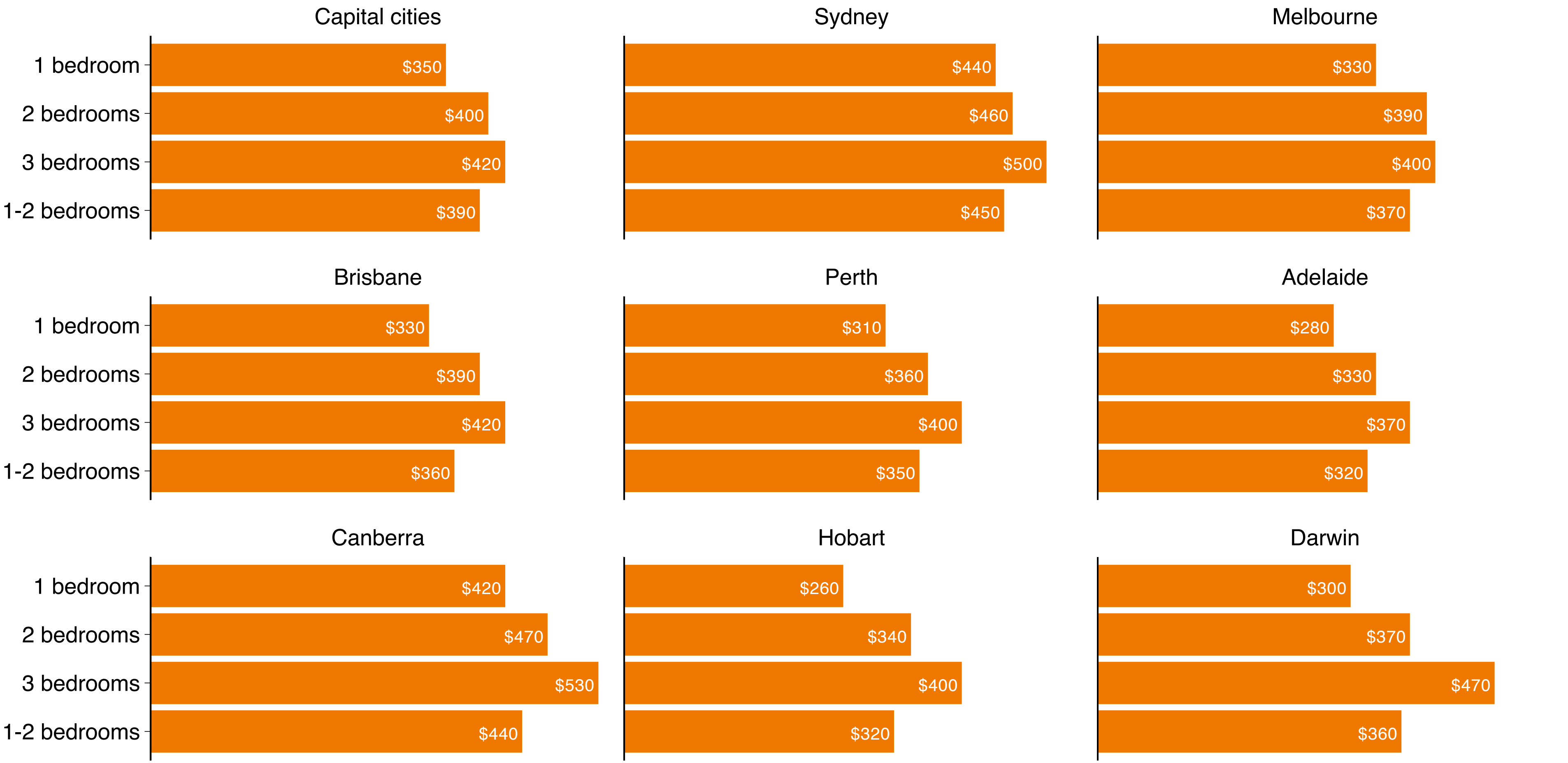


Notes: Non-housing budgets have been adjusted to better reflect retiree expenditure: see Appendix A for more details. Full Age Pension and Rent Assistance rates are as at 20 September 2024.

Source: Grattan analysis of Bedford et al (2023) and ABS (2024b).

Figure 1.8: A cheap one-bedroom home in an Australian capital city costs about $350 a week, but rents are higher in Sydney and Canberra

Estimated 25th percentile weekly rents by number of bedrooms as at June 2024



Notes: Rents are estimated by growing forward 2021 Census data to June 2024 with the rental component of CPI. Rent growth is not necessarily even across the rental distribution: historically, below-median rents have grown quicker than overall rents. Rents are based only on private tenancies managed through real estate agents, and are rounded to the nearest $10.

Source: Grattan analysis of ABS (2021) and ABS (2024b).

1.4 Too many older Australians are homeless

High housing costs for retirees, without the means to pay those high costs, ultimately means more homelessness.[30]

A recent survey in California showed that housing affordability was both the primary cause of people becoming homeless, and the primary barrier to returning to housing.[31] And Australian research shows that high rents have a greater impact on risk of homelessness than illicit drug use or a history of being in state care.[32]

In Australia, an individual's risk of homelessness tends to fall as they age. But rates of homelessness among older people are still persistently high. About 9,000 Australians aged 65 or older were homeless on Census night in 2021. This is a rate of 21 in every 10,000 people, a level that is practically unchanged since 2006.[33] And while men make up the majority of the homeless population, the share who are women increased between 2016 and 2021, including among those over 65.[34]

Data from specialist homelessness services suggest that homelessness rates – particularly rates of rough sleeping – have risen since the pandemic, with marked increases among older men.[35]

Without action to tackle housing affordability for poorer Australians, this problem is likely to get worse. Declining rates of homeownership among low-income Australians, together with the lower retirement savings of many women, increase the risk that more older women, in particular, will face homelessness as they approach retirement.[36]

30. Glynn et al (2021); and Colburn and Aldern (2022).
31. Kushel and Moore (2023).
32. Johnson et al (2018).
33. ABS (2022b) and ABS (2007).
34. ABS (2022b).
35. Pawson et al (2024).
36. See Section 2.2.2 on page 20 and Coates and Nolan (2020, p. 22).

1.5 A guide to this report

The rest of this report sets out why more retirees are likely to face poverty in future, and what the government can do to prevent it.

Chapter 2 shows why more retirees will rent in future, as rates of homeownership continue to fall.

Chapter 3 recommends a substantial boost in Rent Assistance as the best way to make renting affordable in retirement.

1.6 What this report is not about

This report is not about the adequacy of retirement incomes beyond renters. Previous Grattan Institute work has shown that most retirees in Australia are on track for a comfortable retirement – especially if, as intended, they draw on their retirement savings.[37]

This report is not about the broader issue of gender inequality in retirement incomes. We have written previously about how women with broken work histories, or who have borne unpaid work or worked part-time, are left worse off, not just in retirement but when they are working age.[38]

And this report is not about housing policies more broadly, such as reforms to make housing more affordable, including by boosting housing supply, and to make renting more secure. We wrote extensively about such policies in our 2018 report, *Housing affordability: Re-imagining the Australian dream*.[39]

37. Daley et al (2018b); and Coates and Nolan (2020).
38. Coates and Joiner (2021).
39. Daley et al (2018a).

2 More retirees will rent in future and many will struggle

Since World War 2, Australia has been a nation of homeowners. Nearly four in five Australian households over the age of 65 own their own homes. Even among the poorest 20 per cent of seniors, homeownership rates are above 70 per cent.

But housing has become more expensive, both to rent and buy, especially since the pandemic. In the early 1990s it took the average Australian about six years to save a 20 per cent deposit for a typical dwelling. Now it takes almost 12 years. First home buyers are now also having to spend a larger share of their income to pay the mortgage than they have at any time in the past decade.

In the past four decades, homeownership rates among the poorest Australians have fallen markedly, and this trend is set to worsen. The share of over-65s who own their home is tracking to fall from 76 per cent today to 70 per cent by 2036, and 57 per cent by 2056. Women who separate from their partner are especially vulnerable to losing ownership of their home before retirement. Less than half of women who lose the house in a separation manage to purchase another home within 10 years.

Few Australians who rent are saving enough to cover the cost of renting in retirement. As a result, today's low-income renters are likely to become tomorrow's struggling renters in retirement.

2.1 Housing is becoming even more expensive to buy

Australia's housing crisis has been building for a long time. Housing has become more expensive – to buy or rent – over recent decades. And these trends have worsened since the pandemic.

2.1.1 House prices have been rising sharply for a long time, but have surged since the pandemic

Australian dwelling prices have grown much faster than incomes over the past few decades.

Prices have risen rapidly in all cities, and most regions. Median prices have increased from about four times median incomes in the early 2000s, to more than eight times today (and around 10 times in Sydney, see Figure 2.1).[40]

House prices have increased even more since the pandemic. For instance, house prices in Brisbane, Perth, and Adelaide have risen by more than 80 per cent since 2020, and the prices of units have risen by more than 50 per cent.[41] While house prices have grown more slowly in Sydney and Melbourne, they are still up 49 per cent in Sydney and 19 per cent in Melbourne over the same period.

Even if federal and state governments adopt much-needed reforms to lift supply and reduce demand, house prices are likely to remain high, relative to incomes, due to the long-term decline in interest rates. While interest rates have risen from their lows of recent years, few experts expect them to return to the levels of 10-to-20 years ago.[42]

2.1.2 Buying a home is harder than ever

There are typically three hurdles to home ownership in Australia: saving for the deposit, affording mortgage repayments, and managing the

40. PropTrack (2024).
41. Ibid.
42. For example, the Reserve Bank of Australia estimates the neutral cash rate – the level that would neither stimulate nor restrain demand – to be in the range of 3-to-4 per cent: Kent (2024).

long-run mortgage costs borne by home-buyers. On each dimension, buying a home has become more difficult in recent years.

It is now harder to save a deposit for a home

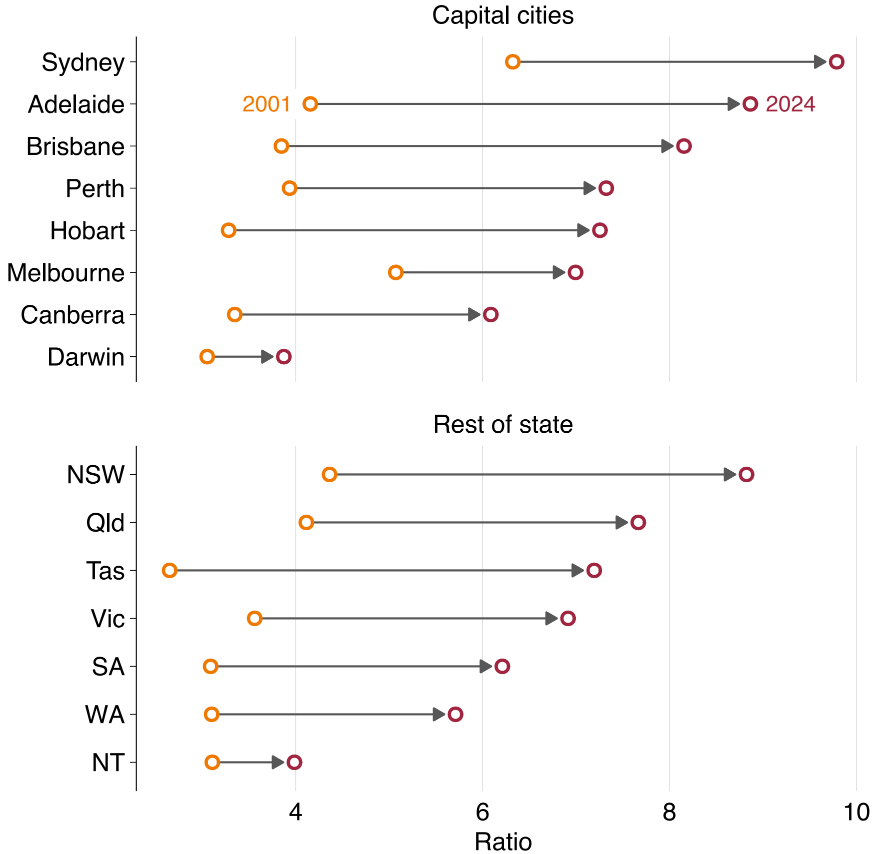
The challenge of saving an initial deposit is now typically a bigger barrier to homeownership than the initial burden of mortgage repayments, and so many younger households with wealthier parents look to rely on contributions from the 'bank of mum and dad'.[43]

In the early 1990s it took about six years to save a 20 per cent deposit for a typical dwelling for an average household. It now takes more than 12 years.[44] Although banks no longer insist on a 20 per cent deposit, most people still try to save this much before purchasing a dwelling.[45] In addition, many young households are finding it harder to save for a deposit because they face larger higher education debts and now save more of their income in compulsory superannuation than their parents did 25 years ago.

Even if house prices were to fall by 20 per cent from current levels, it would still take the average Australian about nine years to save a 20 per cent deposit on the average home.[46] Therefore, the deposit hurdle is likely to remain a problem for younger, poorer Australians.

43. Daley et al (2018a, Figure 4.11); and Dean (2024).
44. Based on households saving 15 per cent of their gross annual income. Coates (2022).
45. The typical leverage of a first home buyer remained remarkably constant, at about 83 per cent, between 2001 and 2014, even though banks loosened lending requirements (Simon and Stone (2017)). While the introduction of the First Home Guarantee scheme in 2020 has enabled more younger households to buy a home with less than a 20 per cent deposit, places are capped at 35,000 per year, equivalent to around one third of first home buyers in 2024 (Housing Australia (2024).
46. Coates (2022).

Figure 2.1: Price-to-income ratios have increased nationwide
Ratio of median dwelling price to median household income, by region



Note: Based on modelled median household income from the ANU Centre for Social Policy Research.

Source: PropTrack (2024).

The mortgage burden has risen sharply with rising interest rates

Because most people borrow for their first home, the cost of mortgage repayments relative to income often determines whether a dwelling is affordable. This 'mortgage burden' is often defined as the proportion of household income spent on repaying a mortgage.

The mortgage burden on a newly purchased first home, assuming a person borrows 80 per cent of the price, had been historically low in the decade leading up to the pandemic. But repayments have jumped sharply as interest rates have risen by more than 4 percentage points in the past three years.[47] Today, a typical first-home buyer household needs to spend a larger share of their income to purchase an average-priced home than at any time in the past decade (Figure 2.2).

Home-buyers are paying more of their incomes for longer

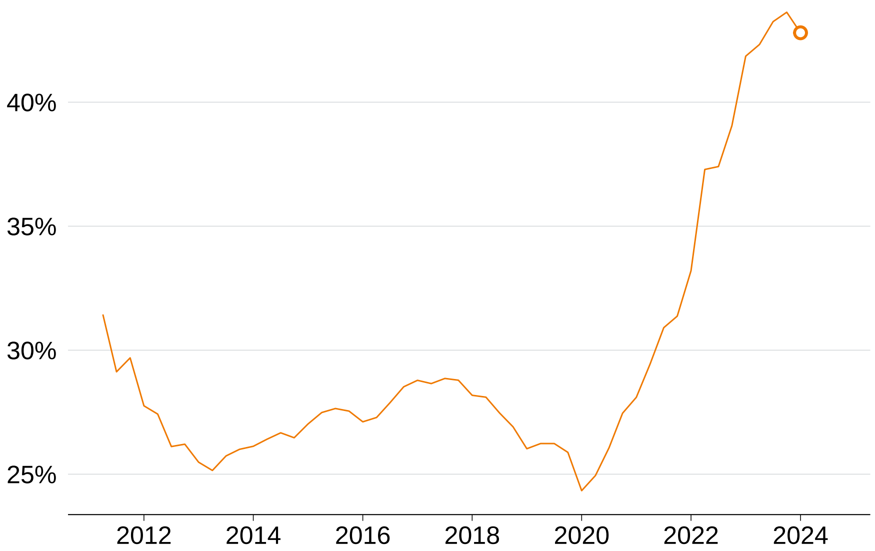
A first home loan also now entails more risk, since purchasers are borrowing a larger share of their lifetime incomes to purchase a home, and borrowers live with much of that risk for longer.

Home-buyers repay their mortgages over periods as long as 30 years. The mortgage burden over the life of the loan depends on how fast incomes grow, and what happens to interest rates.

Most people who bought 20 to 30 years ago now use only a relatively small share of their income to pay the mortgage. For most of the 1990s, interest rates fell while wages rose rapidly. In contrast, a new home-buyer today is likely to continue to spend a large proportion of their income on the mortgage for many years.[48]

Figure 2.2: Purchasing an average-priced home is more difficult now than at any time over the past decade

Mortgage payment as share of income for household purchasing an average-priced home



Note: Assumes a household with income of 1.5 times average full-time earnings, financing a 25-year mortgage worth 80 per cent of the average house price.

Source: Grattan analysis of ABS (2024a), ABS (2024c) and RBA (2024a).

47. The official cash rate rose from 0.1 per cent to 4.35 per cent between March 2022 and December 2023.
48. Moloney and Coates (2022).

2.2 Homeownership rates are falling fast

Australia has traditionally been a nation of homeowners. More than four in five Australian households over the age of 65 own their own homes. Even among the poorest 20 per cent of seniors, homeownership rates are still above 70 per cent.[49]

But now homeownership rates are falling fast among low-income earners of all ages, including those approaching retirement. This suggests that most of the fall in home-ownership is due to higher dwelling prices rather than changing preferences for home-ownership among the young.

2.2.1 Homeownership rates are falling fast among the poorest 40 per cent of Australians

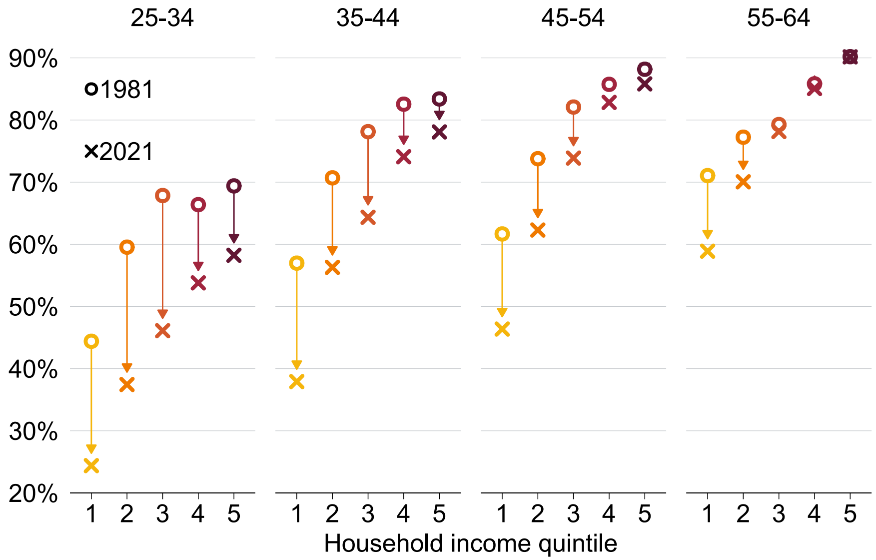
Between 1981 and 2021, homeownership rates among the poorest 40 per cent of 45-54 year-olds fell from 68 per cent to just 54 per cent. And among the poorest 40 per cent of 25-34 year-olds, just 31 per cent own their home, down from 52 per cent four decades ago. The overall homeownership rate among 25-34 year-olds fell from more than 62 per cent to 44 per cent (Figure 2.3).

2.2.2 Many older renters will struggle to buy or keep homes later in life

Some Australians who do manage to purchase a home are unable to hold onto it until retirement. For instance, among income support recipients older than 45 who owned their own home in 2006, about a quarter were eligible for Rent Assistance four years later.[50]

Figure 2.3: Homeownership is falling particularly fast for low-income earners

Homeownership rates by age and income, 1981 and 2021



Notes: Private dwellings only. Excludes tenure or income not stated. 'Other' tenure is counted as a non-owner. Household incomes are reported in ranges, so sorting into quintiles is an approximate exercise. This means small changes in ownership rates may not be significant. Income not equivalised due to data limitations.

Source: Grattan analysis of ABS (1983) and ABS (2023a).

49. Grattan analysis of ABS (2023a).
50. Ong et al (2015, Table 4).

Women who separate from their partner are particularly vulnerable to losing their home

Women who separate from their partner are particularly vulnerable to losing their home during their working life. The home is typically a family's largest asset, and splitting the equity in the home upon separation often requires it to be sold. Separating couples then often lack the assets to each purchase a new home, especially since they must pay stamp duty again.

Just 34 per cent of women who separate from their partner and lose the house manage to purchase another home within five years, and only 44 per cent do so within 10 years. By contrast, 42 per cent of separating men buy a home within five years, and 55 per cent within 10 years.[51]

Many older renters with a deposit won't be able to pay off a home before they retire

In many cases, even if older renters managed to save a deposit, they won't be in the workforce long enough to pay off a home by the time they retire.[52] The government's Help to Buy shared-equity scheme may assist some older renters into home ownership, but it is limited to just 10,000 places a year.

The federal Coalition's plan to allow Australians to use some of their superannuation savings to help purchase a home could also help some younger Australians become homeowners, although few working-age renters have much in the way of superannuation savings (Box 3).

Box 3: Using super for housing would do little to reverse the decline in homeownership

The federal Coalition's proposal to allow Australians to access their super savings to help purchase a home could help some younger Australians become homeowners.[a]

But the problem with this policy is that younger, poorer Australians – who are increasingly being priced out of homeownership – don't have much in the way of superannuation. The average superannuation balance among the poorest 20 per cent of renting households that are headed by a 25-34 year-old is just $5,000. By contrast, the wealthiest 20 per cent of renting households in the same age bracket have more than $70,000 in super.[b]

Introducing policies that allow Australians to use their super for housing would therefore disproportionately help wealthier people buy more expensive homes, while doing little to reverse the decline in homeownership among poorer people.

Allowing a major cohort of Australians to access their superannuation all at the same time would also add to demand for housing, which would modestly push up prices.[c]

a. Liberal Party of Australia (2024).
b. Coates and Moloney (2024).
c. Coates and Moloney (ibid).

51. Coates (2022).
52. Ibid.

2.2.3 Homeownership rates among seniors are likely to fall in future

Grattan Institute has previously projected that the share of over-65s who own their home is tracking to fall from 76 per cent today to 70 per cent by 2036, 64 per cent by 2046, and 57 per cent by 2056.[53]

Projections from other researchers similarly suggest homeownership will continue to decline. The Australian Housing and Urban Research Institute projects homeownership for 25-54 year-olds will fall from 60 per cent today to 53 per cent by 2041.[54] And KPMG projects that homeownership among households aged 60-64 will decline from 78 per cent today to 65 per cent by 2060.[55]

Regardless of the precise size of the decline in homeownership among older Australians, it's clear that fewer retirees will own their homes in the future.

2.3 Many older working renters won't have the savings to pay the rent in retirement

For the first time, many Australians are retiring with material retirement savings, as Australia's superannuation system matures. Yet Australians who are renting as they approach retirement tend to have little in the way of retirement savings.

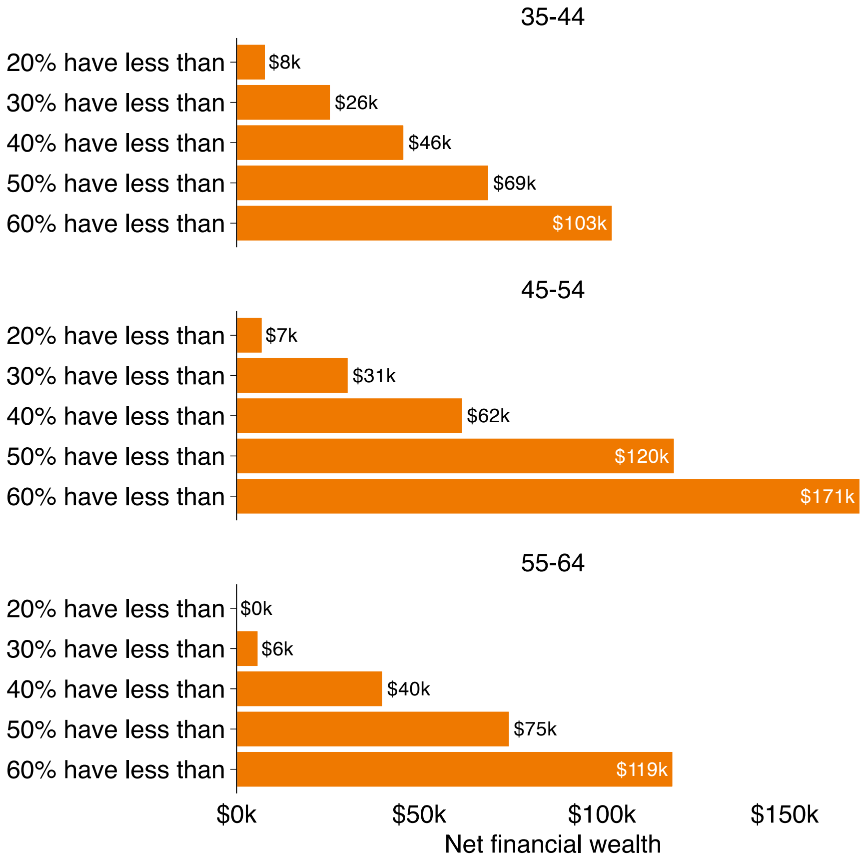
For instance, 40 per cent of renting households aged 55-64 years have less than $40,000 in net financial wealth (Figure 2.4).

But age pensioners who rent need *at least* $40,000 in savings to afford a cheap rental. Under reasonable assumptions, this would bridge the gap between the $300 a week available to spend on housing after

53. Coates and Chen (2019).
54. Burke et al (2020, p. 48).
55. Dean (2024).

Figure 2.4: Many renting households who are set to retire in the next decade have few savings

Percentiles of net financial wealth by age for renting households



Notes: Age is age of head of household. Net financial wealth excludes the value of vehicles, the family home, home contents, and mortgage liabilities.

Source: ABS (2022a).

paying for non-housing essentials (Figure 1.7 on page 14), and the $350 a week needed to rent a cheap one-bedroom home in a capital city (Figure 1.8 on page 15).[56] While many renters will clear this hurdle at retirement, inevitably a sizable minority will not.

Additionally, retirees do not know how long they are going to live, so typically preserve their savings to self-insure against living longer than expected.[57] And retirees generally are not inclined to spend down their retirement savings to the last dollar. This means they will want to have more than is needed to reach average life expectancy while also retaining a 'rainy-day' fund.

A cautious retiree budgeting for the one-in-five chance they live to 95 will need $42,000. And ensuring they always retain a rainy-day fund of $10,000 increases the amount of starting savings needed, to $45,000.[58]

2.4 More inheritances won't solve the problem

An increasing share of Australian wealth today is in the hands of the Baby Boomers and older generations. On one estimate, Australians aged 60 and older will transfer $3.5 trillion in the next two decades.[59]

Some working Australians who are unable to purchase a home are likely to inherit one from their parents. But inheritances are distributed highly unequally.[60] Many homes will be inherited by those who have already purchased their own. Poorer households that rent will be the least likely to inherit a home.

Further, inheritances are increasingly coming later in life. Today, Australians are most commonly in their late 50s or early 60s when they receive an inheritance.[61] This means that renters approaching retirement who do inherit some wealth, rather than a home outright, may have little time to use it towards purchasing a home before they also retire.

2.5 A smaller share of retirees will live in social housing in future

While more retirees are likely to be renting in future, a smaller share will live in social housing.

In the past, more than half of retirees who rented did so from housing authorities. In recent years that proportion has fallen to less than 40 per cent.[62] For these retirees, public housing typically provides a larger housing subsidy than Rent Assistance.[63] As a result, retirees who live in public housing today are much less likely than those renting on the private market to experience deep poverty.[64]

56. Assumes annual net returns of 4.5 per cent per annum. This is lower than assumed in previous Grattan cameo modelling (see Coates and Nolan (2020)), because retirees with low financial wealth are likely to have a stronger preference for capital protection. Also assumes rents rise with wages, and non-housing spending with inflation. Otherwise follows assumptions outlined in Coates et al (2025, Appendix A), including expected growth in the base rate of the Age Pension, which grows quicker than spending, and therefore reduces the private income needed to pay rent over time.
57. See Coates et al (ibid).
58. If they want to fund a modest $95 a week in discretionary spending (Figure 1.5 on page 12), they would need between $130,000 and $153,000, depending on whether they budget to live past life expectancy and keep a rainy-day fund.
59. Brimble et al (2017, p. 5).
60. Wood et al (2019).
61. Ibid (Figure 6.2).
62. Coates and Nolan (2020, p. 19).
63. Troy and Nouwelant (2023, p. 15) estimate a subsidy gap for social housing of about $24,000 per year. This compares with a maximum rate of Rent Assistance of just $5,500 for a single household.
64. Average poverty depth – the distance between a household's weekly income after housing costs and the poverty line – is less than $30 per week for single retirees living in public housing, but more than $120 per week for single retirees who rent in the private market: Grattan analysis of ABS (2022a). See Appendix A for details on data and methods.

But as the population ages and home ownership declines, it will become increasingly difficult to provide social housing for Australia's future retirees. Australia's stock of social housing – currently about 446,000 dwellings – has barely grown in 20 years, while the population has increased by 33 per cent.[65] About 6 per cent of housing in Australia was social in 1991. It's now less than 4 per cent.[66] And this figure is expected to remain broadly unchanged over the next five years, despite significant recent investments in social housing by state and federal governments.[67]

While further investment in social housing is needed (see Section 3.8 on page 36), it is unlikely to be at the scale required to fully address poverty among retirees who rent. Among households 65 and older today, there is one social housing dwelling for every four retirees who rent. Just to maintain this ratio in future would require the construction of more than 7,000 new social housing dwellings per year for retirees alone, whereas Australian governments are currently projected to add only 8,000 dwellings per year for tenants of all ages.[68]

As a result, many renting retirees who once would have ended up in highly-subsidised social housing will probably have to bear more of the cost of renting in the private rental market.

65. Coates and Moloney (2023a, p. 12).
66. Coates (2021).
67. Pawson et al (2024).
68. Grattan analysis of Australian Government (2023), Pawson et al (2024), and AIHW (2024, Social housing dwellings).

3 Boosting Rent Assistance is the best way to make renting affordable for retirees

Rent Assistance is the best way to help low-income retirees who rent with their housing costs. As a demand-driven payment, Rent Assistance has expanded to meet the growing need for support as homeownership falls among lower-income Australians of all ages.

But Rent Assistance is currently too low. The maximum rate should be increased by 50 per cent for singles, and 40 per cent for couples. And the payment should be indexed to changes in rents for the cheapest 25 per cent of homes in capital cities.

These increases would boost the incomes of single retirees who rent by up to $53 a week ($2,750 a year), and couples by up to $40 a week ($2,080 a year). They would ensure that single retirees could afford to spend $350 a week on rent, enough to rent the cheapest 25 per cent of one-bedroom homes across Australian capital cities, while still affording other essentials. And retired couples could afford to spend $390 a week, enough to rent the cheapest 25 per cent of all one- and two-bedroom homes.

Our recommended lift in Rent Assistance should be extended to all recipients, including working-age Australians who are more likely to experience financial stress than older Australians. Boosting Rent Assistance for all recipients would cost about $2 billion a year, with around a quarter of this flowing to retirees. This could be paid for by further tightening superannuation tax breaks, curbing negative gearing and the capital gains tax discount, or counting more of the value of the family home in the Age Pension assets test.

Other policies to boost housing supply will still be needed to bring down housing costs for renters of all ages, and better support Australians at risk of homelessness.

3.1 Rent Assistance is an effective way to help low-income renters

Rent Assistance goes to all eligible income support recipients who pay rent in the private market. Currently, nearly one-third of private renting households receive Rent Assistance.[69]

The payment materially reduces housing costs for low-income Australians. In 2023, seven in every 10 Rent Assistance recipients would have paid more than 30 per cent of their income on rent if Rent Assistance were not provided. With Rent Assistance provided, this proportion was reduced to four in 10.[70]

As a direct payment to renters, Rent Assistance is also targeted toward those retirees with the least wealth: 75 per cent of Rent Assistance payments go to the bottom 20 per cent of households by equivalised net wealth.[71] By contrast, a significant proportion of Age Pension payments go to wealthy households, in part because the family home is exempt from the pension assets test.[72]

69. Grattan analysis of ABS (2022a). While tenants who live in affordable or community housing may be eligible for Rent Assistance, payments are made directly to housing providers.
70. AIHW (2024, Financial assistance). These figures are calculated by subtracting Rent Assistance from rent paid and then dividing by income excluding Rent Assistance. If Rent Assistance is instead added to income, the equivalent figure is six in 10: Productivity Commission (2022, Box 9.2).
71. Grattan analysis of ABS (2022a).
72. Coates (2018, p. 30).

As the Productivity Commission stated in its 2022 report on the National Housing and Homelessness Agreement:

> [Rent Assistance] is designed on sound principles... It is a flexible payment that responds to recipients' needs in a timely way, supports housing choice, and adjusts as needs change over time.[73]

3.1.1 Rent Assistance responds to demand

A key benefit of Rent Assistance is that it can respond flexibly and quickly as homeownership among retirees declines, and rents in the private market increase.

It does this in two ways. First, for those recipients who pay less than the maximum rent threshold, Rent Assistance automatically increases by 75c for every $1 increase in rents.[74] Second, Rent Assistance is paid to all eligible social security recipients who rent, and can adjust as the needs of recipients change.[75] The proportion of income support recipients who receive Rent Assistance has increased from 12 per cent in 2008 to 21 per cent in 2020.[76]

As a result, spending on Rent Assistance payments has grown by 3.1 per cent a year in real terms since 1992 – faster than the overall economy, which grew at 3 per cent.[77] In contrast, social housing has declined as a share of Australia's housing stock, from 6 per cent in 1991 to just 4 per cent today.

73. Productivity Commission (2022, p. 18).
74. Of all Rent Assistance recipients, 33 per cent currently receive less than the maximum payment: DSS (2024b).
75. Although Rent Assistance excludes private renters who do not get income support, almost all low-income retirees receive the Age Pension and are therefore eligible for Rent Assistance.
76. Grattan analysis of ABS (2010) and ABS (2022a).
77. Grattan analysis of DSS (2024b), FaCS (2001), ABS (2024b) and ABS (2024d). Note that some of this growth is due to recent policy changes, rather than demand.

This partly reflects that governments find it difficult to cut welfare payments like Rent Assistance – even during periods of austerity – as opposed to capital-intensive investments such as social housing construction.[78]

3.1.2 Little of Rent Assistance goes to landlords

A common concern is that boosting Rent Assistance would lead landlords to increase rents paid by recipients, eroding much of the gains in living standards for low-income earners. But these 'pass-through' effects are likely to be limited.

Households receiving Rent Assistance make up less than one third of all renting households, so higher payments are unlikely to significantly increase housing demand. And Rent Assistance is paid to tenants, not landlords, which means tenants are likely to spend only a small portion of any extra income on housing.[79]

In cases where higher payments do encourage renters to move to better-quality or better-located housing that attracts higher rents, this still improves the living standards of low-income renters.

International studies suggest rent pass-through rates are low

International studies generally find that the pass-through of housing assistance to landlords is low. While estimates vary, high-quality studies estimate pass-through rates at an average of about 15 per cent (Figure 3.1).

And more recent studies – which draw on better data and quasi-experimental research designs – tend to produce lower estimates of pass-through than previous research.[80] Where researchers are able to

78. Pierson (1994); and Jacques (2021).
79. Foard (1995); and Vipond (1987).
80. Brackertz et al (2015); and Hyslop and Maré (2022).

track recipient families within their study data, they generally find that higher rates of housing assistance allow renters to afford to move into housing that better meets their needs.[81] Importantly, this means that while it may appear as if higher benefits are 'disappearing' into higher rent, recipients are often just enjoying better housing.

Pass-through rates may be higher in rental markets where supply is more constrained.[82] But pass-through rates are likely to be lower in housing assistance programs where tenants face at least some of the cost of any rent increase (as in Australia, New Zealand, and Finland), as opposed to programs where government subsidises 100 per cent of rents up to a cap (as in the US).[83]

There is little evidence of rent pass-through in Australia

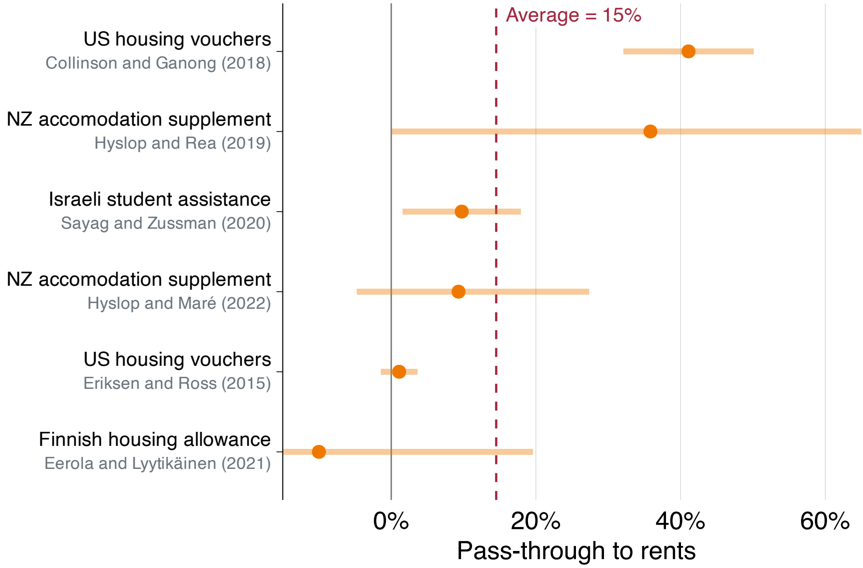
In Australia, analysis following increases to Rent Assistance in the late 1980s and early 1990s found little evidence of any impact on rents in the private market.[84]

A more recent study found no relationship between Rent Assistance payments and rents among a sample of recipient households.[85] However, the study was not able to account for the fact that Rent Assistance recipients may be able to spend more on rent than other low-income renters.[86]

81. E.g. Eriksen and Ross (2015), Hyslop and Maré (2022), Collinson and Ganong (2018) and Grislain-Letremy and Trevien (2022).
82. Hyslop and Maré (2022); Eriksen and Ross (2015); and Grislain-Letremy and Trevien (2022).
83. For example, Hyslop and Maré (2022) find no significant pass-through of housing assistance to rents in New Zealand, compared to pass-through rates of 41 per cent in the US (Collinson and Ganong (2018)).
84. DSS (1993); Prosser and Leeper (1994); and Bray (1997).
85. Ong et al (2020) estimated a 32 per cent pass-through rate for renters in severely disadvantaged areas. But only 18 per cent of households receiving Rent Assistance are in such areas: Grattan analysis of ABS (2023b) and DSS (2024b).
86. Bradbury (2023).

Figure 3.1: International research suggests that more than five-in-six dollars of a Rent Assistance rise will benefit renters

Percentage pass-through from housing assistance to rents (0 = no pass-through), by study



Notes: Shaded areas are 95 per cent confidence intervals. Some intervals extend beyond the range shown.

Source: Grattan analysis of Collinson and Ganong (2018), Hyslop and Maré (2022), Viren (2013), Sayag and Zussman (2020), Hyslop and Rea (2019), Eriksen and Ross (2015) and Eerola and Lyytikäinen (2021).

The recent increase to Rent Assistance in September 2023 also appears to have had limited impact on local rents, at least for new tenancies. Analysis of NSW rental bond lodgement data suggests areas with higher concentrations of Rent Assistance recipients did not see larger rent increases in the year after the payment was boosted (Figure 3.2).

3.2 A substantial boost to Rent Assistance is needed

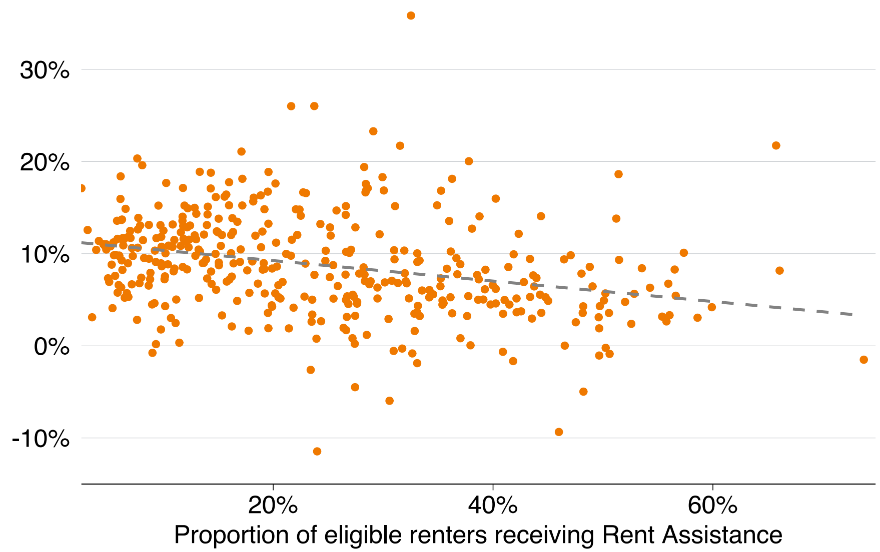
The current rate of Rent Assistance is too low to support an adequate standard of living for retirees who rent.

In 2022, Grattan Institute recommended the rate be increased by at least 40 per cent, which would restore the real value of the payment to the levels of the early 2000s.[87] Since then, the government has increased the payment by 27 per cent over and above inflation. But a broader assessment of the needs of retirees who rent suggests a larger increase is needed to provide an adequate safety net in retirement.

Even after the recent increases in the payment, a single retiree receiving the full rate of the Age Pension and Rent Assistance would have less than $300 per week left to pay for rent, after covering essential non-housing costs. But only 11 per cent of one-bedroom homes across capital cities are available to rent for less than $300 per week.[88]

Increasing the maximum rate of Rent Assistance by 50 per cent for singles and 40 per cent for couples, as we recommend, would ensure that retirees who rent could afford a minimum standard of housing, set at the 25th percentile of rents for homes in capital cities.

Figure 3.2: Areas in NSW with more Rent Assistance recipients did not see higher rent rises after the September 2023 increase in the payment
Change in annual average rents from September 2023 to September 2024, by NSW postcode



Notes: Each dot represents the change in average rents for a postcode area in the year after the increase to Rent Assistance on 20 September 2023. The proportion of eligible renters receiving Rent Assistance is calculated by dividing the number of recipients within each postcode in September 2023 by the estimated total number of private and community housing renters as at the 2021 Census.

Source: Grattan analysis of ABS (2021), DSS (2024b) and NSW Fair Trading (2024a).

87. Wood et al (2022, p. 6).
88. Grattan analysis of ABS (2021) and ABS (2024b). Only includes private homes rented through a real estate agent.

3.2.1 Rent Assistance should be high enough to ensure recipients can afford a minimum standard of housing

For the maximum rate of Rent Assistance to be adequate, it needs to ensure that recipients can afford a minimum standard of housing, without compromising their ability to pay for non-housing essentials.[89]

Low-cost budget standards suggest that, at a minimum, a single retiree needs to budget $379 per week to pay for essential non-housing costs (Box 2 on page 12). This leaves individuals receiving the full Age Pension ($572 per week including supplements) with up to $193 per week of their pension to cover housing costs, with Rent Assistance to cover rental costs above this amount.

For couples, non-housing essentials cost at least $606 per week, leaving them with up to $257 per week of their pension to pay rent.

Support should be benchmarked to rents for cheap homes in capital cities

The Henry Tax Review proposed a housing benchmark for households without children set at the 25th percentile of rents for one- and two-bedroom dwellings in Australian capital cities.[90]

This approach to benchmarking Rent Assistance payments would ensure that recipient households were able to rent a minimum share of available homes by themselves, without having to resort to sharing or other informal housing arrangements. Setting the benchmark with respect to rents across capital cities would mean all recipients were provided with the means to live in the urban areas where most Australians live, connected to essential services, community, and family.

Building on the Henry Review's approach, we propose a benchmark for singles set at the 25th percentile of one-bedroom homes in capital cities, which we estimate to be about $350 per week (Figure 1.8 on page 15). To account for the higher housing needs of couples, we propose a benchmark for them of the 25th percentile of one- and two-bedroom homes in capital cities – about $390 per week. And for single sharers, we propose a benchmark set at half of the 25th percentile of rents for two-bedroom homes in capital cities – about $200 per week.

3.3 Rent Assistance should be increased by 50 per cent for singles, and 40 per cent for couples

As it stands, Rent Assistance is insufficient to ensure recipients could afford our proposed rental benchmarks. Currently, the maximum single rate of Rent Assistance is just $106 per week. This leaves a single age pensioner who spends $379 per week on non-housing essentials with less than $300 per week to pay for rent (Figure 1.7 on page 14).

To cover the gap between current payment rates and our housing benchmark, Rent Assistance for singles needs to rise by 50 per cent. Single pensioners living alone, who make up the large majority of older Rent Assistance recipients, would see their maximum payment increase from $106 to $158 per week (Figure 3.3 on page 31).[91] For single recipients paying rents of $350 per week, Rent Assistance would cover 45 per cent of their rent payments, up from just 30 per cent currently.

89. Henry (2010, p. 610).
90. Henry (ibid, p. 610). The Review proposed that the maximum rent threshold be set 'with reference to' this benchmark, but without specifying a particular share of that benchmark rent that Rent Assistance should cover. It further noted the need to take into account the marginally greater housing needs of couples, and the need to set a maximum rate for sharers that does not unduly discourage them to economise on housing costs.
91. 65 per cent of Rent Assistance recipient households over the age of 65 are single and living alone, 26 per cent are couples, and 6 per cent are single and in shared housing: ABS (2022a).

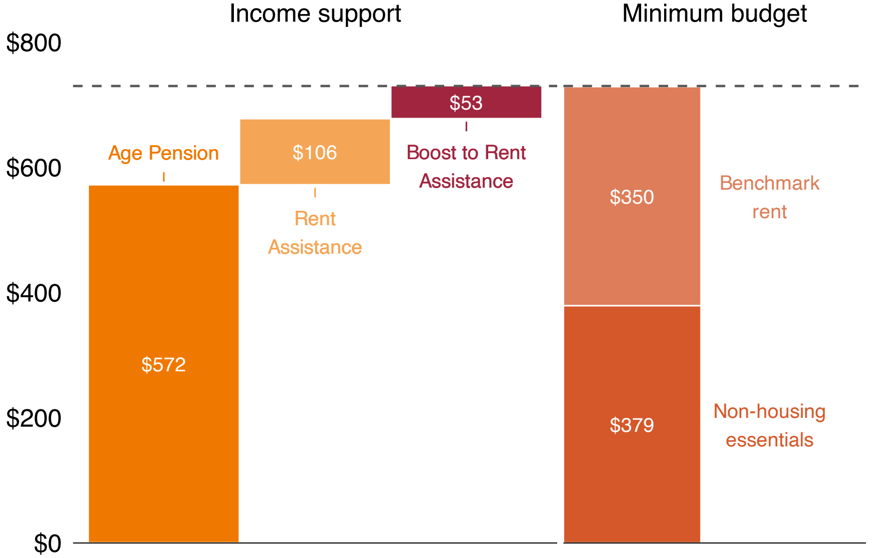
This higher maximum rate would be payable at rents of $285 per week and above. Minimum payment thresholds would remain unchanged, meaning payments would not change for single recipients who currently pay less than $215 per week in rent.

For couples on the full Age Pension, who have about $350 per week to pay for rent after accounting for non-housing essentials, Rent Assistance needs to rise by 40 per cent, or about $40 per week, to cover our $390 per week housing benchmark (Figure 3.4 on the following page).

For a single sharer who budgets just $379 per week for non-housing essentials, our proposed $200 per week rental benchmark is already affordable at current rates of Rent Assistance. However, acknowledging that the small number of retirees who share a home probably do so to save on housing costs, we recommend maintaining the current relativities between the single and sharer payment rates by boosting the sharer rate by 50 per cent. This would ensure that a single age pensioner paying our rent benchmark of $200 per week could expand their non-housing budget to include the full set of discretionary expenses included in our minimum budget standard (see Figure 1.5 on page 12).

These increases would significantly expand housing choice and affordability for retirees who rent. For example, the number of one-bedroom rental homes affordable for a single Age Pension recipient in Melbourne or Brisbane would more than double (Figure 3.5 on page 32).

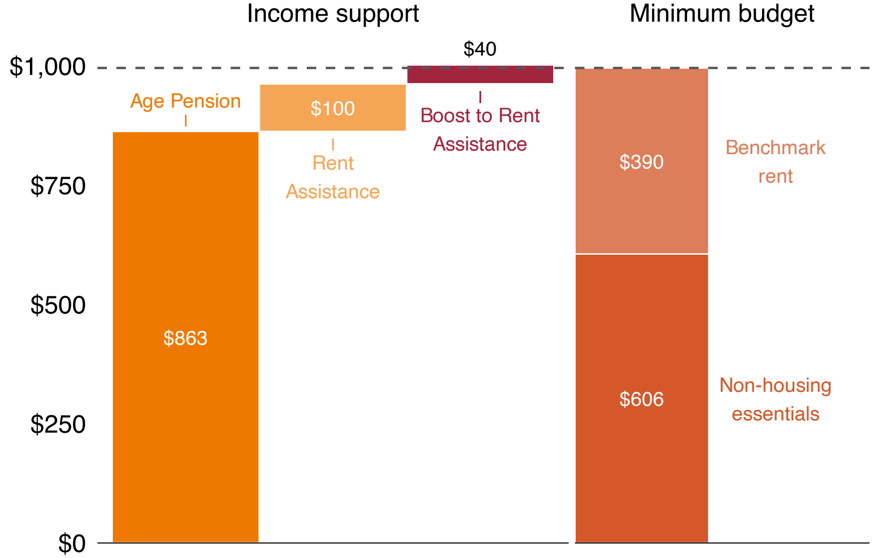
Figure 3.3: Boosting Rent Assistance by 50 per cent for *singles* on the Age Pension would ensure they could afford $350 per week in rent
Income supports and minimum budget for a single on the Age Pension, $ per week



Notes: Assumes a minimum budget for non-housing costs of $379 per week (see Appendix A) and rent at the 25th percentile of one-bedroom homes in Australian capital cities. Age Pension and Rent Assistance amounts reflect maximum rates for single recipients with no children.

Source: Grattan analysis of ABS (2021), ABS (2024b) and Bedford et al (2023).

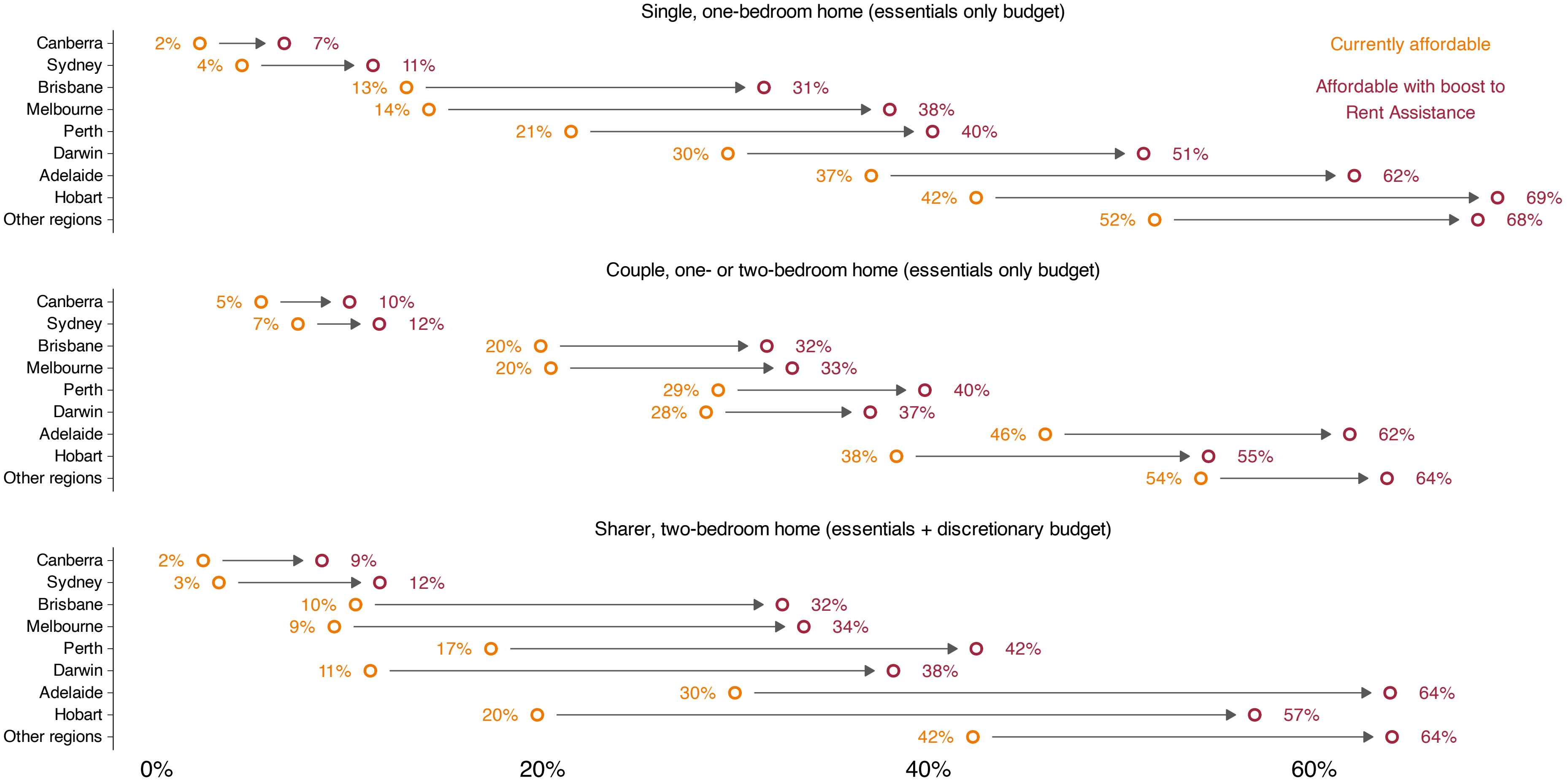
Figure 3.4: Boosting Rent Assistance by 40 per cent for *couples* on the Age Pension would ensure they could afford $390 per week in rent
Income supports and minimum budget for a couple on the Age Pension, $ per week



Notes: Assumes a minimum budget for non-housing costs of $606 per week (see Appendix A) and rent at the 25th percentile of one- and two-bedroom homes in Australian capital cities. Age Pension and Rent Assistance amounts reflect maximum combined rates for couple households with no children.

Source: Grattan analysis of ABS (2021), ABS (2024b) and Bedford et al (2023).

Figure 3.5: Boosting Rent Assistance would give pensioners more and better housing choices
Share of rental homes affordable for age pensioner household, under current payments and under our proposed increases



Notes: Based on a household receiving the full rate of the Age Pension and Rent Assistance. Non-housing costs are assumed to be $379 per week for singles and $606 per week for couples, based on the 'essentials' budget outlined in Figure 1.7 on page 14. Non-housing costs for single sharers are assumed to be $475 per week, and include the additional 'discretionary' budget outlined in Figure 1.5 on page 12. Rental homes exclude non-market tenancies and dwellings rented other than from real-estate agents. Rents are inflated to June 2024 using CPI rents. Assumes no pass-through from Rent Assistance increases to rents paid in the broader rental market.

Source: Grattan analysis of ABS (2022b) and ABS (2024b).

3.4 Rent Assistance should be indexed to the 25th percentile of capital city rents, not CPI

Currently, the maximum payment rates and minimum thresholds for Rent Assistance are indexed twice a year to CPI, similar to working-age welfare payments such as JobSeeker or the Family Tax Benefit. But CPI growth is based on a basket of housing and non-housing goods and services, making it a poor measure of the growth in housing costs for low-income renters.

As a result, Rent Assistance has not kept pace with the rents paid by recipients. Since 2001, the maximum rate of Rent Assistance has increased by 136 per cent, while rents paid by recipients have increased by 193 per cent.[92]

Indexing Rent Assistance to rents in the private market would better ensure that the payment continues to support an adequate standard of rental housing over time. But picking the right rental series to index payments to is not straightforward.[93]

Although rents are measured by the Australian Bureau of Statistics (ABS) through the rental component of CPI, this index includes rents paid by individuals in social housing, and excludes improvements in housing quality across the rental market. As a result, its growth has not kept pace with housing costs for Rent Assistance recipients.

Linking Rent Assistance to rents paid by recipients, as the Grattan Institute has previously recommended, is a more promising alternative.[94] But this approach still has some drawbacks, because it will simply reflect the constrained housing choices that recipients are making, rather than an external assessment of adequacy. About one in four age pensioners who receive Rent Assistance do not rent a standard dwelling in the private market, whether because they rent from a community housing provider, live in a caravan or mobile home, or pay board.[95]

The best approach would be to index Rent Assistance directly to the 25th percentile of rents for one- and two-bedroom homes in capital cities: this corresponds to our housing benchmark for households without children, which make up two thirds of all Rent Assistance recipients.[96]

Currently, public information on below-median private rents is only available periodically, through the Census or the ABS Survey of Income and Housing. But recent advances suggest more timely data are being collected.[97]

Using this data to index Rent Assistance would be ideal. But if this proved unworkable, an alternative approach would be to combine indexation based on recipient rents with a benchmark linked to wages – similar to Age Pension indexation arrangements.[98]

Better indexation would ensure Rent Assistance recipients were not left behind as rents and living standards rise. We estimate that our preferred indexation benchmark grew at an annual rate of 2.4 per cent in the decade to 2021, compared with annual CPI growth of just 1.8 per cent (Figure 3.6 on the following page).

92. See the notes under Figure 1.6 on page 14 for details of calculations.
93. Productivity Commission (2022, p. 328).
94. E.g. Coates and Moloney (2023a, p. 21).
95. Grattan analysis of AIHW (2024).
96. DSS (2024b). Consideration could be given to expanding the indexation benchmark to include larger dwellings for working-age families.
97. Hanmer and Marquardt (2023).
98. DSS (2024c). For example, if the the maximum single rate of Rent Assistance was set at 10.5 per cent of average weekly earnings ($155 as of May 2024: ABS (2024a)), it would guarantee that the standard of housing supported by the payment improved in line with broader community living standards.

Under better indexation, any reduction in rent growth brought about by increases to housing supply would help improve the federal budget, by slowing growth in Rent Assistance payments.

3.5 Boosting Rent Assistance would reduce poverty and financial stress among retirees

Our proposed boost to Rent Assistance would significantly reduce financial stress and poverty depth among the 190,000 age pensioner households who receive the maximum rate of Rent Assistance.

At current payment rates, about 67 per cent of retired Australians who rent have incomes that fall below a relative poverty benchmark after housing costs.[99] Our proposed increase to Rent Assistance would only marginally decrease this rate, in part because this benchmark is higher than the minimum budget for non-housing expenses used in this report, and because almost half of retired renters who fall below this benchmark report incomes that are lower than the full rate of Age Pension and Rent Assistance.[100]

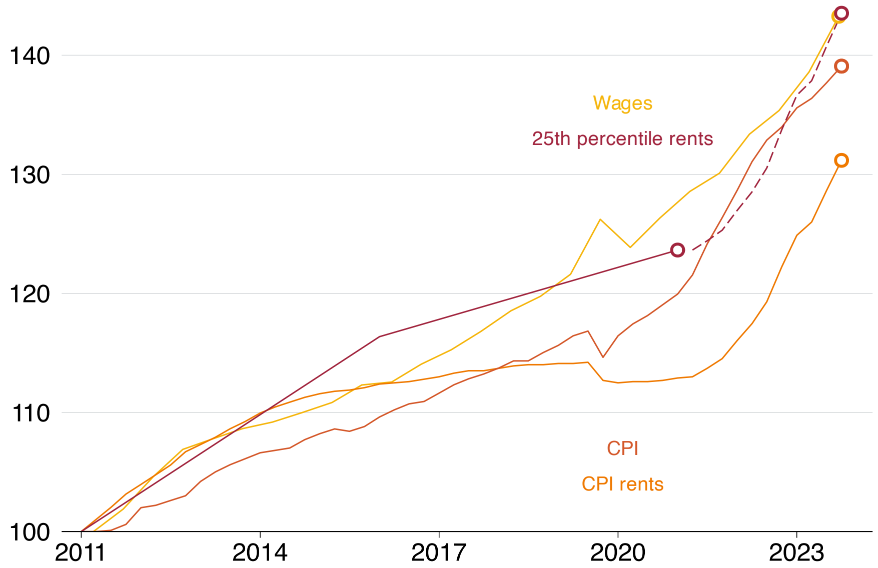
But boosting Rent Assistance as we recommend would significantly reduce the depth of poverty – a measure of the gap between the poverty line and household income. Among the approximately 100,000 retired households who rent and are in poverty, median poverty depth would decrease by almost half, from $96 per week to $45 per week.[101]

3.6 Rent Assistance should also be increased for working-age recipients

Our recommended increases in the maximum rate of Rent Assistance – for singles and couples – should be applied to working-age recipients,

Figure 3.6: To maintain its value, Rent Assistance should be benchmarked to the 25th percentile of rents

Various options for indexing Rent Assistance, 2011 = 100



Notes: Rent benchmark is the 25th percentile of one- and two-bedroom homes in capital cities, estimated based on five-yearly Census data. Benchmark is estimated from 2020 to 2024 using CPI rents. Wages are average weekly earnings.

Source: Grattan analysis of ABS (2022b), ABS (2017), ABS (2012b), ABS (2024b) and ABS (2024a).

99. See Figure 1.4 on page 10.
100. Grattan analysis of ABS (2022a).
101. Figures are estimates for the 2025-26 year. See footnotes to Figure 1.4 on page 10 and Appendix A on page 43 for more details on methods.

as well as retirees. Age pensioners make up about a quarter of income support recipients who draw on Rent Assistance. Disability Support Pension recipients make up about 21 per cent, and JobSeeker recipients about 20 per cent.[102]

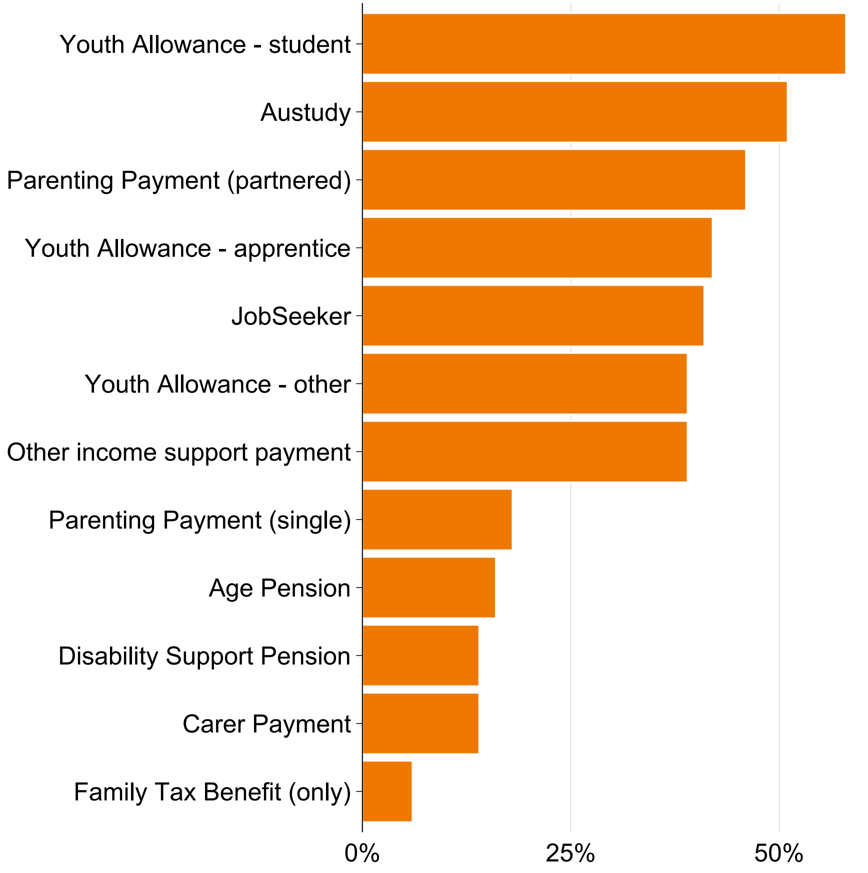
Younger Australians are more likely to experience financial stress than older Australians (Figure 1.1 on page 7). And pensioners who rent are under less financial stress than working-age Australians who rent while relying on income support.[103] Working-age income support recipients who rent tend to spend more of their income on housing than age pensioners who rent (Figure 3.7).

Rent Assistance is an income supplement paid to all renters who receive social security benefits. There is no justification for treating poverty among retirees who rent differently from poverty among working-age Australians who rent. Past reviews of Rent Assistance have recommended that the rate should be raised by the same amount for all recipients.[104] And boosting Rent Assistance would also provide greater support to low-income renters who are forced, such as by poor health, to retire before they are eligible for the Age Pension.[105]

Extending an increase in Rent Assistance to all income-support recipients would benefit about 700,000 income-support recipients, on top of more than 190,000 age pensioners.[106]

Low-income women would particularly benefit – almost 60 per cent of the total $2 billion cost of raising Rent Assistance would go to households headed by women.[107]

Figure 3.7: Working-age recipients of Rent Assistance tend to spend more of their income on rent than age pensioners
Share of Rent Assistance recipient households' spending more than half their income on rent, by primary payment type, June 2022



Source: Productivity Commission (2022, Figure 9.13).

102. DSS (2024b).
103. Coates and Nolan (2020, Figure 2.5).
104. Henry (2010, p. 595) and EIAC (2024).
105. More than 160,000 households aged 55-64 receive Rent Assistance: AIHW (2024, Table CRA.1).
106. DSS (2024b).
107. See Appendix A for details on data and methods.

The base rate of allowance payments for working-age Australians also needs to increase

But boosting Rent Assistance by itself will not be enough to provide adequate income support to renters on payments such as JobSeeker and Youth Allowance, because the low base rate of these payments means recipients are left with little in the way of a housing budget once essential non-housing costs are accounted for.

For example, $200 per week is about half the rent on a cheap two-bedroom home in a capital city. But even after our recommended increases to Rent Assistance, someone on the single rate of JobSeeker would have only $100 per week left to pay rent after covering the essentials-only budget outlined in this report. This means the rate of JobSeeker would need to rise by $100 per week for them to be able to pay the rent.[108]

Youth Allowance would need to rise by even more, because the the base rate of the payment is $58 per week less than for JobSeeker.

3.7 A substantial increase in Rent Assistance is affordable, if we look to budget savings elsewhere

Increasing Rent Assistance as we recommend would cost the federal budget about $2 billion per year, with $500 million of that going to Age Pension recipients.[109] While this is a substantial cost, it is nonetheless the most efficient and immediate way to reduce poverty among retirees who rent, and renters more broadly.

108. Based on the current JobSeeker payment rate (inclusive of the Energy Supplement) of $393 per week, benchmark rent of $200 per week, and non-housing expenses of $400 per week (consistent with the working-age budget standard outlined in Box 2 on page 12).
109. See Appendix A for more detail on data and methods. This does not include the cost of indexing Rent Assistance to the 25th percentile of capital city rents, which could vary depending on future growth in rents and CPI.

Previous Grattan Institute work has identified a range of potential budget savings related to housing and superannuation tax concessions that could be used to pay for a boost to Rent Assistance.[110] These include:

- Lowering the Division 293 tax threshold to $220,000 and increasing the rate to 35 per cent ($1.1 billion per year in savings)
- Reducing the pre-tax superannuation contributions cap to $20,000 ($1.6 billion)
- Taxing retirement earnings in superannuation at 15 per cent ($5 billion)
- Lowering the capital gains tax discount to 25 per cent ($5 billion)
- Limiting tax deductions from net rental losses (negative gearing) to future investment income ($2 billion)
- Including the value of the family home exceeding $750,000 in the Age Pension assets test ($4 billion)
- Returning social security deeming rates to their pre-pandemic levels.[111]

3.8 More social housing is needed but is not for everyone

Social housing substantially reduces tenants' risk of homelessness, and can make a big difference to the lives of vulnerable people.[112]

110. See Coates and Moloney (2023b), Wood et al (2023) and Daley et al (2018b) for further details on savings options.
111. As changes to deeming rates are treated as parameter variations, rather than budget measures, estimates of the budget impact of these changes are not readily available.
112. Prentice and Scutella (2018) studied the benefits of social housing, comparing people who entered social housing to similar individuals in the private rental market. They found that only 7 per cent of residents placed in social housing

While lots of landlords rent to low-income households, many are prepared to leave their property vacant if the only person seeking tenancy faces the many issues typical for those who are at severe risk of, or already suffering, homelessness.[113]

But boosting social housing is expensive. Social housing provides a big rental discount, or subsidy, to vulnerable tenants. If governments and community housing providers were going to try to recoup these costs over time, as private landlords do, the rents would be higher than vulnerable residents can afford to pay. This 'subsidy gap' is now estimated to be about $24,000 a year.[114] Once this subsidy gap is filled, developers of social housing – either community housing providers or state governments – will be able to finance the upfront construction of social housing dwellings.

Boosting Australia's stock of social housing by 200,000 dwellings – almost sufficient to return social housing to its historical share of the total housing stock – would require an ongoing government subsidy of $4.8 billion a year.[115] And even then, the number of vulnerable renters would vastly exceed the number of social housing units available.

Given its costs, social housing should be reserved for those most in need, and at significant risk of becoming homeless for the long term.

subsequently become homeless, compared to 20 per cent of similar renters in the private market.

113. Daley et al (2018a).
114. Troy and Nouwelant (2023, p. 15). Assumes availability payments are made over 25 years.
115. Alternatively, 200,000 social dwellings would require an up-front capital contribution of about $80 billion, assuming an up-front capital contribution of $400,000 per home: Troy and Nouwelant (ibid, p. 14).

Box 4: 'Rental stress' is a poor basis on which to target Rent Assistance payments

One common measure of rental stress is whether a household spends more than 30 per cent of household income on rental costs.[a] Under this metric, a single age pensioner renting a home at our rental benchmark would be considered to be in rental stress even under our proposed higher rate of Rent Assistance. This is because they would be paying about 48 per cent of their total income on rent (down from 52 per cent today).

But this measure of rental stress is not particularly informative. It fails to account for the differing experiences of individuals with moderate as compared to high housing costs, and for the range of trade-offs between housing, transport, and care costs that older households may face when considering where they live. It also does not correlate well with other measures of well-being for low-income earners.[b]

Rental stress is also a poor basis on which to target Rent Assistance payments. To lift out of rent stress a single Age Pension recipient paying our benchmark of $350 per week in rent, the rate of Rent Assistance would need to increase almost five-fold. Conversely, it would take only a small increase in Rent Assistance to push a retiree paying $220 per week in rent out of rental stress, even though they are unlikely to need additional income support to begin with.

In effect, this measure of rental stress mirrors the arrangements that apply within social housing, where the rents paid by tenants are generally fixed as a share of their income. But not all low-income renters require such a significant subsidy.

a. E.g. ABS (2022a).
b. Productivity Commission (2022, pp. 302–305).

3.9 Policies to increase housing supply would reduce rents for everyone

Housing in Australia has become increasingly expensive – to rent or buy – for many reasons. But housing costs – especially rents – would have risen less if there had been more housing.

3.9.1 Australia hasn't built enough housing

Australian cities have historically not built enough housing to meet the needs of our growing population.

Australia has just over 400 dwellings per 1,000 people, which is among the least housing stock per adult in the developed world. And, unlike in other countries, in Australia this number has stalled over the past two decades.[116]

Restrictive land-use planning rules have constrained housing supply in Australia, especially in our major cities. Experience from abroad shows that relaxing planning constraints leads to materially more housing being built.[117]

Australia's high housing costs are largely a failure of housing policy, rather than of housing markets. Land-use planning rules strictly limit apartments and townhouses. Combined with community opposition, this makes it very difficult to build more homes in the inner and middle-ring suburbs of our capital cities.[118] And so new housing construction in Australian cities is relatively unresponsive to demand,[119] and the average density of Australian cities has barely changed in the past 35 years.[120]

In 2018, Reserve Bank researchers estimated that restrictive land-use planning rules added up to 40 per cent to the price of houses in Sydney and Melbourne, with this cost having increased sharply over the previous 15 years.[121] More recent research suggests that planning rules have also added substantially to the cost of apartments in and around the urban cores of our major cities, where building height limits prevent more construction.[122]

These findings are consistent with a growing international literature highlighting how land-use planning rules – including zoning, other regulations, and discretionary approval processes – have reduced the ability of many housing markets to respond to growing demand, adding to rent and house price growth in a number of countries.[123]

The most impactful way to improve affordability for both buyers and renters would be for governments to permit more homes to be built.

National Cabinet's 2023 plan to build an extra 200,000 homes a year over five years could reduce rents from where they otherwise would have been by 4 per cent, saving renters $8 billion.[124] If that higher rate

116. Coates and Moloney (2023a, p. 9).
117. Greenaway-McGrevy (2023).
118. See Daley et al (2018a, pp. 56-58) on how regulations affect housing supply.
119. The best available estimates of the 'price elasticity of supply' in Australia is that a 10 per cent increase in dwelling prices leads to an increase in the stock of new housing of between 3 per cent and 5 per cent. See Daley et al (ibid, p. 46).
120. Ibid.
121. As demand for housing has increased, the zoning effect as a share of the price of housing has increased. See Kendall and Tulip (2018). There are reasons to think of these as upper-bound estimates of the size of the impact of land-use planning rules. See Murray (2020). A good discussion of the debate can be found at Bryan Caplan (2022).
122. Jenner and Tulip (2020) estimate that home-buyers pay an average of $873,000 for a new apartment in Sydney though it only costs $519,000 to supply, a gap of $354,000 (68 per cent of costs). There are smaller gaps of $97,000 (20 per cent of costs) in Melbourne and $10,000 (2 per cent of costs) in Brisbane.
123. Daley et al (2018a, Box 4), Greenaway-McGrevy (2023).
124. Baseline assumes dwelling stock and number of renter households grow with population (1.5 per cent per year), and rents grow with inflation (2.75 per cent per

of construction were sustained for a decade, rents would fall by 8 per cent, saving renters $32 billion total.

But these gains will only be realised if state and territory governments make necessary reforms to land-use planning rules to allow more housing to be built.

3.9.2 Boosting housing supply would especially help low-income earners

Boosting housing supply would especially help low-income earners. Irrespective of its cost, each additional dwelling adds to total supply, which ultimately improves affordability for all home buyers.

People who move into newly-built dwellings free up their existing homes, so triggering 'moving chains' that quickly free up extra housing supply in cheaper suburbs and for cheaper homes.[125] Expensive homes also gradually become cheaper as they age, and are sold or rented to people with more modest incomes.

year). Counterfactual adds 40,000 dwellings each year to the baseline dwelling stock which feeds through to rents being 2.5 per cent lower than otherwise for each 1 per cent increase in the quantity of housing. This effect is based on the midpoint of existing estimates for the price elasticity of the demand for housing Australia. See Daley et al (2018a), Tulip and T. Saunders (2019), and Albanese (2023).

125. For example, Mast (2023) finds that constructing a new market-rate building that houses 100 people ultimately leads 45-to-70 people to move out of below-median income neighbourhoods, with most of the effect occurring within three years. International evidence suggests this 'filtering' does occur in practice. For example, research from the US suggests that 45 per cent of homes that were affordable to very low-income earners in 2013 had filtered down from owner-occupier or higher-rent categories in 1985: Weicher et al (2016). High-quality evidence from Australia shows filtering can be made even more efficient by removing supply constraints: Hansen and Rambaldi (2022).

Grattan Institute research suggests that a 10 per cent fall in private market rents would reduce by 8 per cent the number of low-income households nationwide that are suffering housing stress.[126]

This isn't merely theory. In 2016, Auckland – a city of 1.5 million – rezoned about three quarters of its suburban area to promote more dense housing, nearly doubling the city's dwelling capacity. Researchers later found that the policy had boosted the housing stock by up to 4 per cent, and reduced rents for two- and three-bedroom dwellings by at least 14 per cent, compared to if the rezoning hadn't happened.[127]

Making housing cheaper would also reduce the cost of Rent Assistance paid by the federal government.

3.10 Policies to avoid

There are a number of policies that governments should avoid if they want to reduce poverty among low-income retirees.

Topping-up superannuation

Some commentators – particularly those associated with the super-annuation sector – advocate for super to be used to help low-income Australians, especially women, avoid poverty in retirement.[128] But super is poorly placed to boost retirement incomes for low-income Australians at risk of poverty.

For example, the Low Income Superannuation Tax Offset (LISTO) puts extra money in the accounts of low-income earners who make pre-tax super contributions. Under the LISTO, people earning less than

126. Coates et al (2020, p. 15).
127. Greenaway-McGrevy (2024) and Greenaway-McGrevy (2023).
128. ASFA (2023).

$37,000 receive a government co-contribution of 15 per cent of their pre-tax super contributions, up to a maximum of $500 a year.

And the super co-contribution scheme, introduced by the Howard government in 2003, puts extra money in the accounts of low-income earners who make post-tax super contributions. It boosts voluntary super contributions made by low-income earners out of their post-tax income by up to $500 a year.

Targeting people who *might* have low retirement incomes on the basis of their incomes in a given year while working will never be as well targeted as using the transfer system to support people during retirement. Grattan Institute's 2018 paper *What's the best way to close the gender gap in retirement incomes?* showed that about a quarter of the government's support to low-income earners via the LISTO, and a third of spending via the super co-contribution scheme, leaks out to support the wealthiest half of households by income.[129]

Instead the income support system, through the combination of Age Pension and Rent Assistance, is the best tool for preventing poverty in retirement.

Giving additional subsidies for 'affordable housing'

Additional federal government subsidies should prioritise raising Rent Assistance, and boosting social housing, over the provision of 'affordable housing' – where rents are set at a discount to the market rate.

Affordable housing, such as that constructed under the now-defunct National Rental Affordability Scheme (NRAS), is typically not targeted at people most in need. Eligibility thresholds for the NRAS were set far too high: $50,000 for a single adult and nearly $70,000 for a couple – much higher than the equivalent eligibility thresholds for Rent Assistance. Several state affordable housing schemes have adopted even more generous eligibility criteria.[130] As a result, a substantial proportion of people who can access affordable housing schemes are on moderate-to-higher incomes.[131]

In addition, because affordable housing schemes generally do not accept tenants who would pay more than 30 per cent of their income on rent, some low-income households are not eligible to apply.[132]

Far more people are eligible for affordable housing than there are places available. Consequently, affordable housing schemes are effectively lotteries that provide much more assistance to some people rather than others. By contrast, social housing is better targeted at those most in need, and Rent Assistance is available to all Australians who are eligible.

Finally, affordable housing scheme are often a more expensive way of offering housing subsidies to vulnerable tenants. These schemes often have high administrative costs due to complex financing and governance arrangements, increasing the effective cost per rental subsidy relative to Rent Assistance. And affordable housing schemes

129. Coates (2018, Figure 9). See also Chan et al (2021) who found that co-contributions are mostly made by high-income earners who happened to qualify in a particular year due to a temporary drop in income.

130. For example, residents of Melbourne are eligible for affordable housing if they have incomes between $30,641 and $73,530 for singles or between $45,951 and $110,300 for couples (Homes Victoria (2025)). Affordable housing in Sydney is available to singles earning less than $77,600 and couples earning less than $116,400 (NSW Department of Communities and Justice (2023)).

131. Coates and Horder-Geraghty (2020).

132. This is a particular constraint in areas with high market rents. For instance, the minimum income threshold for affordable housing in the ACT can be high as $53,800 for single households (Community Housing Canberra (2025)).

have often offered subsidies that have overcompensated investors for the costs of providing discounted rents to their tenants.[133]

Rent caps and freezes

Federal and state governments should steer clear of rent caps and freezes.[134]

In the short term, freezing rents would benefit renters already in a home that suits their needs. But it would increase the scarcity of Australian housing at a time when rental vacancy rates are already at historic lows, because it would reduce incentives for renters to economise on housing costs by sharing a home.[135]

In the long term, strict forms of rent control also reduce the quantity and quality of housing available. A San Francisco study found that while rent control prevents displacement of some incumbent renters, the lost rental housing supply probably drives up market rents in the long run.[136] New York studies found that rent-controlled units were more likely to be dilapidated.[137]

Strict rent controls can also cause a large 'mis-allocation' of housing across demographic groups, leading, for example, to many (often older) renters living in homes with spare bedrooms while many (often younger) families struggle to find the housing they need. This occurs because once a tenant has secured a rent-controlled apartment, they may choose not to move in the future, even if their housing needs change.[138] In other words, rent-controlled cities need more homes to meet the housing needs of all their citizens.

3.11 But there is a case for improving tenant protections

As more Australian households rent for longer, including renting throughout retirement, the premium that renting households will place on tenure security and quality will only grow.

There is a good case for improving tenants' protections against large, sudden rent increases, in particular, provided the policy does not distort the allocation of the rental housing stock in the long term.

3.11.1 National Cabinet should coordinate reforms to tenure security for renters

Grattan Institute has previously recommended that state governments amend tenancy laws to make renting more secure, such as by abolishing 'no-grounds' evictions and extending minimum notice periods that apply when landlords terminate a lease, as well as enabling tenants to make their rental property feel more like their home.[139]

Rental tenancy regulations sit with the states, but the federal government can, and has, played a role in encouraging reform.

In 2023, at National Cabinet, all states and territories committed to ending 'no-grounds' evictions and banning landlords from soliciting rent

133. For example, Grattan Institute analysis estimated that NRAS provided windfall gains to private developers and investors of at least $1 billion, or roughly one-third of the total cost of the scheme. See Coates and Horder-Geraghty (2020).
134. For instance, The Australian Greens (2024) have proposed that the federal government offer incentive payments to the states to enact a two-year rent freeze, followed by a permanent cap on rent growth.
135. After falling sharply during the pandemic, average household size in Australia has begun to rise again as housing costs have risen. See RBA (2024b, Graph 2.15).
136. Diamond et al (2019). The authors concluded that 'rent control appears to help affordability in the short run for current tenants, but in the long-run decreases affordability, fuels gentrification, and creates negative externalities on the surrounding neighbourhood'.
137. See Gyourko and Linneman (1989) and Gyourko and Linneman (1990).
138. See Glaeser and Luttmer (2003) and Kholodilin (2024).
139. Daley et al (2018c, Chapter 5).

bidding. They also agreed to implement a national standard of no more than one rent increase per year.[140]

This is a promising step. But more will be needed to provide renters with the tenure security they need and deserve.

National Cabinet should next focus on narrowing the 'grounds' on which a landlord can end a tenancy.[141] States should also better enforce tenancy laws.[142]

Tenure security for renters would particularly improve if institutional investors, who are better placed to manage the risks of rental housing and offer longer-term tenure to renters, were to hold a larger share of the rental housing stock. But these investors are currently heavily disadvantaged by state land taxes, which tax them at higher rates compared to 'mum and dad' landlords who own only one or two properties.[143]

More broadly, it bears repeating that policies to improve supply (Section 3.9 on page 38) can also improve tenants' security. The more homes there are relative to renters, the less inclined a landlord will be to move a tenant on.

140. Albanese (2023).
141. Beyond no-grounds evictions, landlords still retain extensive rights to evict tenants for a range of reasons, such as to move into or sell the property, typically with 60 days notice.
142. Tenancy laws across Australia generally rely on tenants to identify and escalate breaches to a consumer protection agency or tribunal for enforcement. See for example NSW Fair Trading (2024b).
143. State land taxes are levied on a progressive scale, so that people with larger land holdings pay a higher rate per dollar value of land owned. In paying progressive land taxes across their entire holdings, institutional investors can lose roughly one quarter of their rental returns to land tax. These progressive land taxes levied on total landholdings and generous tax-free thresholds discourage larger landholdings and largely explain the absence of institutional investors from Australia's rental housing market. See Daley et al (2018c, pp. 88–89).

3.11.2 Tenants need protections against large, sudden rent increases

Most jurisdictions allow tenants to contest rent increases via an independent tribunal.[144]

The ACT, however, has a policy whereby rent increases above a benchmark are automatically subject to additional scrutiny. If a landlord wants to increase rents by more than 110 per cent of the rents component of the Canberra CPI, they must first notify the tenant of this intention. If the tenant does not agree to the increase, it must be approved by the ACT Civil and Administrative Tribunal to take effect.[145]

Given the power imbalance in the relationship between landlords and tenants, there is a case for other states to adopt similar protections against large rent increases. Tenants are often hesitant to contest rent increases, preferring to avoid a potential confrontation with their landlord or real estate agent. A formal benchmark could help reduce this power imbalance.

Such a benchmark should be set much higher than that currently in the ACT – such as at least 1.5 times the growth in the rental price index – to avoid distorting rental prices in the long term.

Further, the ACT is a small and relatively homogeneous rental market, making the rental component of CPI a more suitable benchmark there than in other states. For example, it could be distorting to use the Brisbane CPI to benchmark rent increases in Townsville which is 1,350km away. The regular publication of more detailed rental data by the ABS could help to overcome these issues.

144. Renters in Western Australia have to go to the magistrates court: Magistrates Court of Western Australia (2024). Tenants in Victoria can appeal to Consumer Affairs Victoria, which will make an independent rent assessment: Consumer Affairs Victoria (2024).
145. ACAT (2024); and Legal Aid ACT (2022).

Appendix A: Data and methods

A.1 Budget standards for non-housing expenses

The non-housing budget standards used in this report are adapted from a set of standards produced by Bedford et al (2023) for the Fair Work Commission's 2023 Minimum Wage Review. These were the most up-to-date Australian low-cost budget standards available to us at the time of writing. But they were based on the needs of employed working-age households, meaning we had to adjust them to make them an appropriate measure of minimum expenses for retirees.[146]

Several features of retiree budgets are not accounted for in the original standards:

- Age Pension recipients are eligible for a range of concessions for vehicle registration, public transport, energy bills, and health co-payments that are not available to working-age people.
- Retirees do not have to commute to work on a regular basis, and so have fewer essential transport needs.[147]
- Retirees are likely to face higher routine health expenses than working-age households.[148]

146. The most recent low-cost standards which provide comparable budgets for both working-age and retiree households are P. Saunders et al (1998). Alternative standards for retirees, such as those produced by the Association of Superannuation Funds of Australia (ASFA (2024)), are often designed for retirees with significant private income.
147. This is consistent with previous research that finds retirees generally reduce expenditure on work-related items such as commuting. See Hurst (2008).
148. Low-cost standards nonetheless budget for only minimal out-of-pocket healthcare costs (such as for glasses and routine dental care), because they do not include private health cover, and broadly assume that a household is in good health. See P. Saunders et al 1998, Chapter 8.

The budget standards we use in this report are modified from those produced by Bedford et al (ibid) in three ways:

- **Household goods and services**: Energy costs for retirees have been reduced by $6.70 per week, based on the household receiving a $350 annual electricity bill rebate for pensioners provided by the NSW government.[149]
- **Travel**: Travel costs for retirees have been reduced by 25 per cent from the original standard, based on the ratio between retiree and working-age expenses in P. Saunders et al (1998, p. 441). This reflects concessions retirees receive on car registration, and their lower overall travel requirements.
- **Health**: Health costs for single and couple households are increased by a factor of two from the original standards, based on the ratio between retiree and working-age expenses in P. Saunders et al (ibid, p. 441). This reflects higher routine health needs for retirees.

Finally, because the original standards were based on prices in June 2022, we inflated each component of the non-housing budget to June 2024 prices using the relevant CPI group. The resulting essentials budget for a single household is $379, up from $377 in the original standards, and for couples it's $606, up from $596 for a single-earner couple household in the original standards.

149. Energy Australia (2024). As per the original standards, households are assumed to live in NSW, and to rely solely on electricity for their energy needs.

A.2 Modelling of changes to Rent Assistance

We estimated the fiscal and distributional impacts of our proposed changes to Rent Assistance by using a model of Rent Assistance payments based on the 2019-20 Survey of Income and Housing.[150]

Our model estimates were derived as follows:

- Values for incomes and rent payments were estimated for the 2025-26 financial year based on ABS and DSS data for the period to September 2024, and forecasts from the Reserve Bank's November 2024 Statement on Monetary Policy. Maximum payment rates and minimum rent thresholds were similarly estimated for 2025-26.[151]
- Rent Assistance eligibility and payment rates for each income unit were determined based on family type and income support receipt status. Payment rates for families who only received the Family Tax Benefit were adjusted consistent with income test taper rates.[152]
- Survey weights were adjusted to ensure the totals for each category of income support recipient were consistent with DSS data for 2024.[153]
- Rent Assistance payments for the 2025-26 financial year were estimated for each income unit based on rent payments and income unit type, under both current policy and our proposed increases to the maximum payment rate.
- Fiscal impacts were scaled up to match budget estimates for total expenditure under current policy from the DSS Portfolio Budget Statements, and to account for non-modelled increases in other welfare payments that occur due to the interaction of Rent Assistance payments with payment income tests.[154]
- Impacts on poverty rates and poverty depth were estimated for 2025-26 by comparing total income for recipients under current and proposed payment settings with a poverty line set at 50 per cent of median equivalised disposable household income after housing costs.

150. ABS (2022a).
151. ABS (2024e), DSS (2024b), and Reserve Bank of Australia (2022).
152. Where income units received multiple payments, the income support payment type was estimated in accordance with the hierarchy of payment types in DSS (2024b).
153. DSS (ibid).
154. Budget estimates from DSS (2024d). Rent Assistance payments are added to an income support recipient's total payment amount before income tests are applied, meaning that increases to Rent Assistance will allow some recipients who would previously have been ineligible for payments due to their income to keep getting a part payment.

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