



**Australian Government**  
**Productivity Commission**

# Vulnerable Private Renters: Evidence and Options

Productivity Commission  
Research Paper

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The Commission's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.

Further information on the Productivity Commission can be obtained from the Commission's website ([www.pc.gov.au](http://www.pc.gov.au)).

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# Abbreviations

ABS	Australian Bureau of Statistics
CNOS	Canadian National Occupancy Standard
CPI	Consumer price index
CRA	Commonwealth Rent Assistance
HES	Household Expenditure Survey
HILDA	Household, Income and Labour Dynamics in Australia
NRAS	National Rental Affordability Scheme
PC	Productivity Commission
RAI	Rental affordability index
SIH	Survey of Income and Housing

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# Glossary

Community housing	Rental housing provided for low to moderate income and/or special needs households, managed by community-based organisations that have received a capital or recurrent subsidy from government.
Commonwealth Rent Assistance (CRA)	An Australian Government payment to income support recipients or people who receive more than the base rate of the Family Tax Benefit Part A, and who rent in the private market.
Household	One or more persons, at least one of whom is at least 15 years of age, usually resident in the same private dwelling. Some households contain more than one family.
Equivalised household income	An adjusted measure of a household's total income that accounts for the household's size and composition.
Income unit	Income units are formed either by couples or singles, with or without dependent children, living within a household. Income units differ from families in that related, non-dependent individuals form separate income units rather than being attached to the family nucleus.
Indigenous Community Housing (ICH)	Dwellings owned or leased and managed by ICH organisations and community councils in major cities, regional areas and remote areas.
Institutional investor / landlord	An organisation whose primary purpose is to invest its own assets (or those it holds in trust for others) to purchase or build a large portfolio of residential dwellings for lease.
National Rental Affordability Scheme (NRAS)	A subsidy paid to landlords for the development of new affordable housing for low to middle income renters. Now closed to new entrants.
Private rent assistance	<p>Private rent assistance is provided to low-income households experiencing difficulty in securing or maintaining private rental accommodation either:</p> <ul style="list-style-type: none"><li>• directly by states and territory governments, or</li><li>• by not-for-profit organisations funded by state or territory governments.</li></ul> <p>It assists households to meet rent payments, relocation costs and the costs of bonds; advice or information services may also be offered.</p>

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Public housing	Dwellings owned (or leased from private landlords) and managed by state and territory housing authorities to provide affordable rental accommodation.
Social housing	Public and community housing, including State owned and managed Indigenous housing.
State owned and managed Indigenous housing (SOMIH)	Dwellings owned and managed by State housing authorities that are allocated only to Indigenous households.



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# OVERVIEW

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## Key points

- Australia's private rental market works well for most people, most of the time. The market has adapted to a fast-growing population as well as to several structural shifts — stemming from the coincident rise in house prices as well as to the declining availability of social housing.
- These forces have culminated in an increase in the share of the population renting privately since the mid-1980s — a reversal of the long run decline in this share since World War II.
- Once considered a short-term form of tenure for young people, more families with children are renting nowadays, and they are renting for longer periods.
- However, there are concerns with vulnerable private renters, most of whom have low incomes.
  - More than 1 million low-income households (2.65 million people) rented in the private market in 2018, a figure that has more than doubled over the past two decades.
- Many vulnerable private renter households struggle with rental affordability. Two-thirds spend more than 30 per cent of their income on rent — the commonly used benchmark for identifying 'rental stress' — and many spend much more. 170,000 households have less than \$250 available each week after paying rent.
- Many households experiencing rental stress successfully escape within 12 months, generally through securing higher paid work. However, others are becoming 'stuck', with about half of these households still experiencing rental stress four years later.
- While renting privately offers flexibility — desirable for many — moving involuntarily can be disruptive for low-income households, families with children, older people and people with a disability. It can heighten the risks of financial hardship and homelessness, especially if little notice is given.
- The overall success of the private rental market in responding to the different forces at play highlights the need not to stymie the responsiveness of rental housing supply with unnecessary taxes or overly stringent regulations.
- Commonwealth Rent Assistance has proven to be effective in supporting low-income and low-wealth households (including retirees) that do not own their own homes. However, maximum payment rates have fallen behind average rents over the past two decades.
- Some state-based residential tenancy laws could do more to improve certainty of tenure for vulnerable tenants. For example, there are wide disparities across the country between the minimum notice periods required for eviction on sale of a property, from as little as four weeks to more than eight weeks.

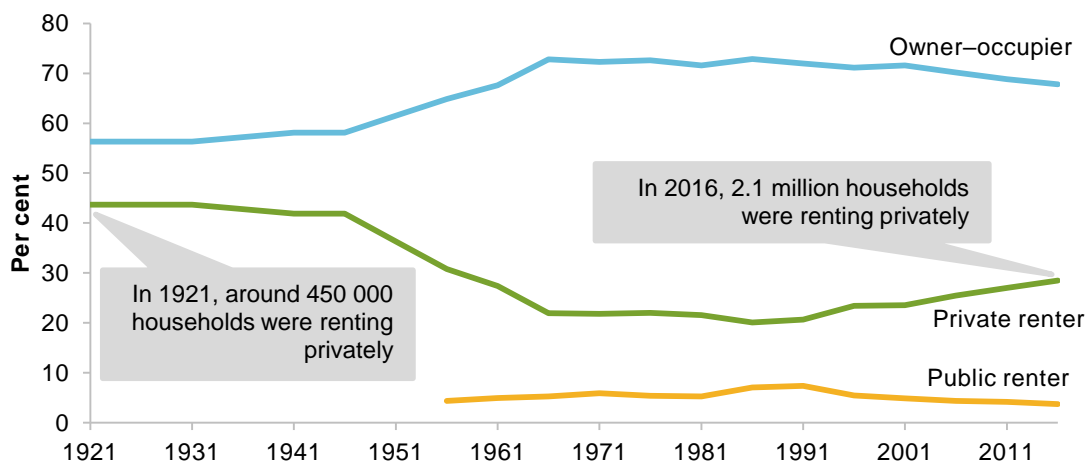
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# Overview

## Australia's housing arrangements have been changing

Over the past 30 years, the face of Australia's housing arrangements has been changing. The private rental market, once considered a short-term housing choice for young people, now houses 2.1 million households and is home to 6.3 million people. These trends reflect an ongoing reversal in the decline in private renting between World War II and the mid-1980s (figure 1).

**Figure 1      The number of private renters has grown**



Both push and pull factors have contributed to the growth in private renting.

- Some are 'pulled' to private renting because they move regularly for work or value an affordable and convenient option close to the centre of major cities.
- Others are 'pushed' to private renting because there are no viable alternatives. Rising house prices over recent decades have extended the period needed to save for a deposit on a home. There has been little growth in supply of social housing (that is, public, community, and state-owned or managed Indigenous housing) over the same period, and waiting lists are long. For these reasons, while rates of private renting have risen among households across the income distribution, the strongest growth has been among low-income households, especially those with families.

---

## **Overall, the private rental market has performed well**

Australia's private rental market has worked well for most people, most of the time.

- The market has adapted remarkably smoothly to meet the needs of Australia's fast-growing population and in response to structural shifts stemming from the rise in house prices and the declining availability of social housing. Almost one million dwellings have been added to the private rental stock over the past two decades.
- More than three quarters of tenants report being satisfied or very satisfied with their experiences in the rental market, and these rates are only slightly lower among low-income tenants.
- Unlike house prices, which have grown much more rapidly than incomes, affordability within the private rental market (as measured by rents as a share of disposable income) has been stable (figure 2, panel a).

## **However, these trends within the private market mask a deterioration in overall housing affordability for vulnerable renters**

With vulnerable renters — those who are experiencing, or at greater risk of experiencing, social and economic disadvantage — the story is more nuanced. There are a little over one million vulnerable households (2.65 million people) in the private rental market, identified on the basis of being in the bottom 40 per cent of the (equivalised household) income distribution.

Vulnerable renters include households with many characteristics associated with disadvantage. The fastest growth in private renting has been among households that include at least one Indigenous person, a person aged over 65 years, or a person with a disability or long-term health condition. The ageing of the population and changing patterns of home ownership will see growth in the latter two groups continue over coming decades. A majority of private renter households with these characteristics also have low incomes.

Vulnerable renters are more likely to incur severe consequences from adverse private rental market events, such as from involuntary moves, or broader struggles with affordability. These can include falling into marginal housing, homelessness or overcrowding (with rates of overcrowding particularly high among Indigenous households).

The affordability of private rental accommodation is one of the most important issues facing this group.

- Housing affordability in the private rental market, measured as the share of disposable income spent on rent, is poor for many vulnerable households. On average, they spend almost 40 per cent of their disposable income on rent. This is nearly double the level of other households, and it has been steady at this level for the past two decades (figure 2, panel b).

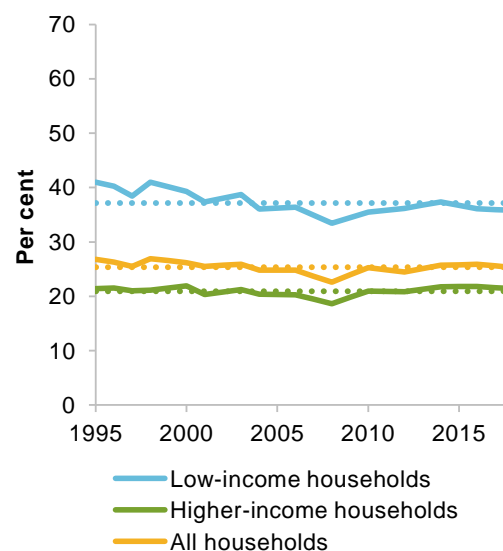
- Rental stress, defined as spending more than 30 per cent of disposable income on rent, is widespread in the private rental market. Two-thirds of vulnerable households in the private market experience rental stress, although this proportion has declined slightly over the past two decades.

**Figure 2**      **Rental affordability has been steady in the private market over the past two decades ...**

a. Mean housing costs to income ratio, per cent change since 1994-95



b. Median rent-to-income ratio for low-income and higher-income private renter households (dashed lines indicate averages)

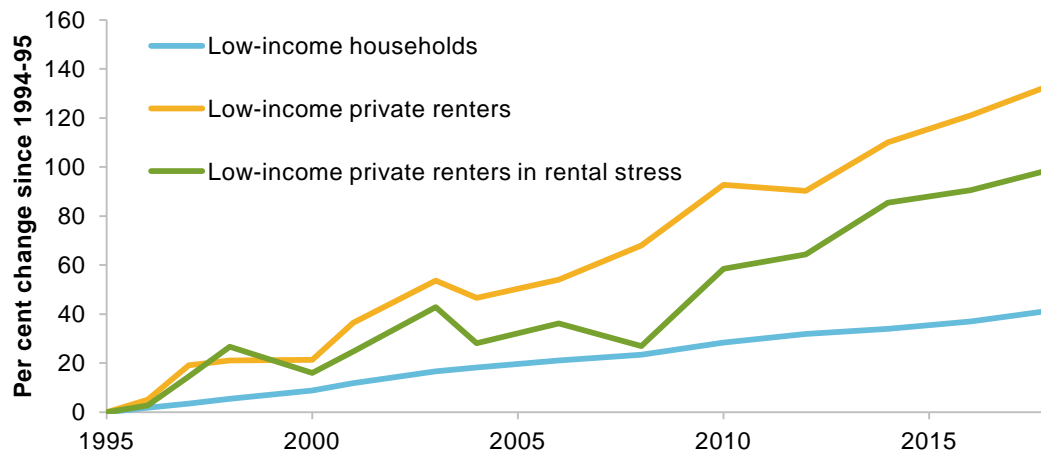


Looking at these measures of affordability only among *private* renters does not tell the whole story. There have been large changes in the structure of the rental market, with private renting becoming far more significant for housing low-income people compared with social housing. While the population of low-income households grew 42 per cent between 1994-95 and 2017-18, the number of low-income households renting privately increased by 134 per cent (figure 3) and the number in public housing has fallen by 6 per cent.

From a broader perspective, these structural changes have had important effects on the prevalence of rental stress. In public housing, rental stress is rare, because most tenants pay rents on a scale that adjusts with their incomes, whereas among low-income private renters about two-thirds experience rental stress (figure 4, panel b). This pattern implies an increase in rental stress in the *combined* public and private rental markets, as those people who once may have been public tenants move to the more costly private market (figure 4, panel a). Indeed, the *number* of low-income households experiencing rental stress has roughly doubled since 1994-95.

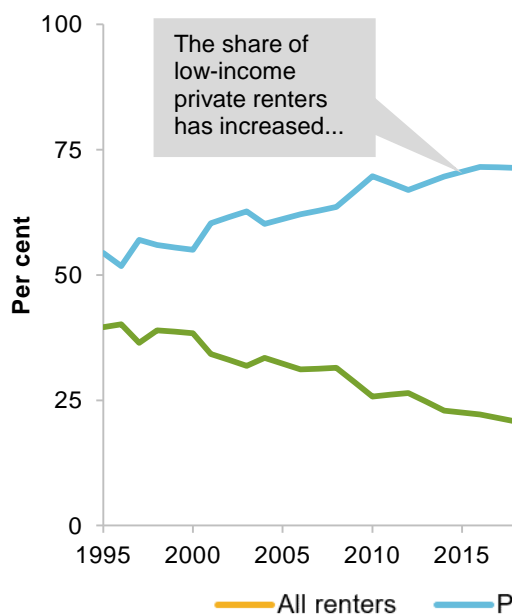
**Figure 3** ... but the number of low-income private renter households in rental stress has doubled since 1994-95

Per cent change since 1994-95

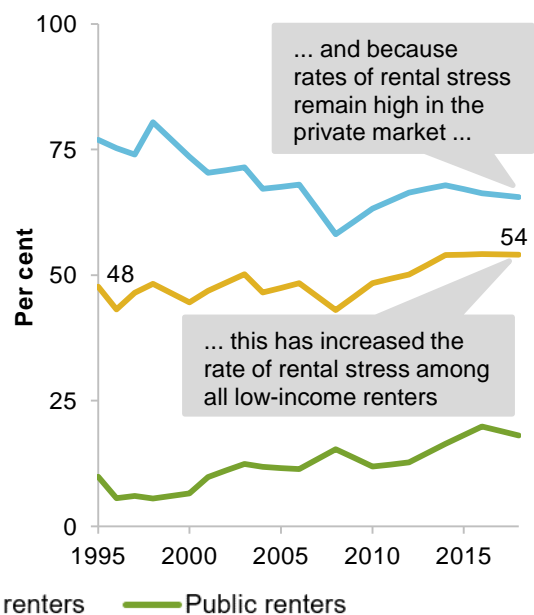


**Figure 4** The combination of a growing *share* of private renters and their high rate of rental stress has lifted the rate of rental stress among *all* low-income renters

a. Share of low-income renters by landlord type



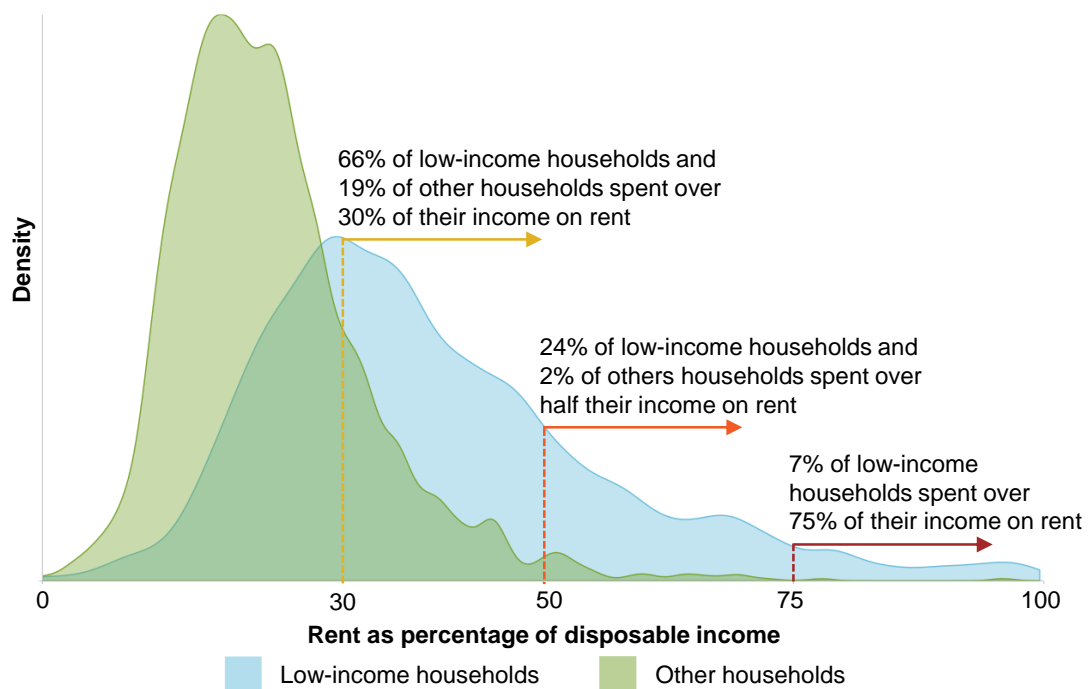
b. Rates of rental stress by landlord type



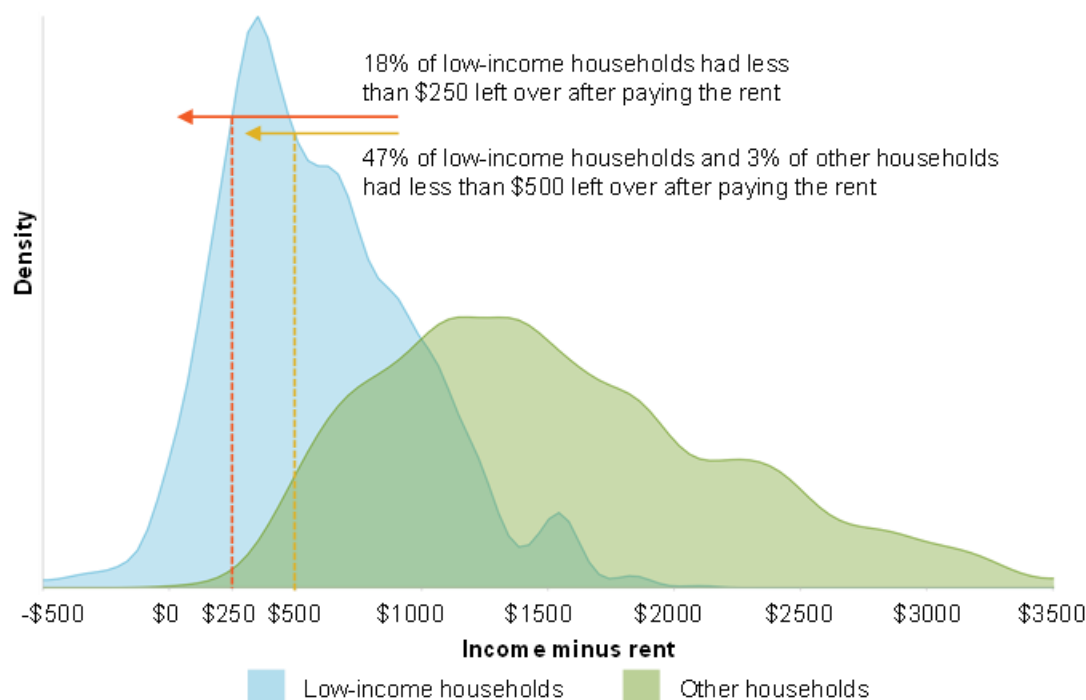
## Poor rental affordability is a driver of disadvantage

These facts about the average vulnerable renter conceal the starker experience of those toward the lower end of the income distribution. A quarter of low-income households spend over half their income on rent, and 7 per cent spend over 75 per cent (figure 5). The flipside of this means many vulnerable households struggle to make ends meet. Almost half have less than \$500, and nearly a fifth less than \$250, left over each week after paying their rent. Only a few per cent of other households are in a similar situation (figure 6).

**Figure 5** In the private rental market, many vulnerable renters struggle with affordability, spending far more than 30 per cent of their income on rent ...



**Figure 6 ... and having little money left over to meet other expenses**



The good news is that many households experience only short spells of rental stress, and those that exit usually do so by securing higher paid work. This suggests that robust economic growth that supports stronger employment growth plays a role in improving outcomes for many households.

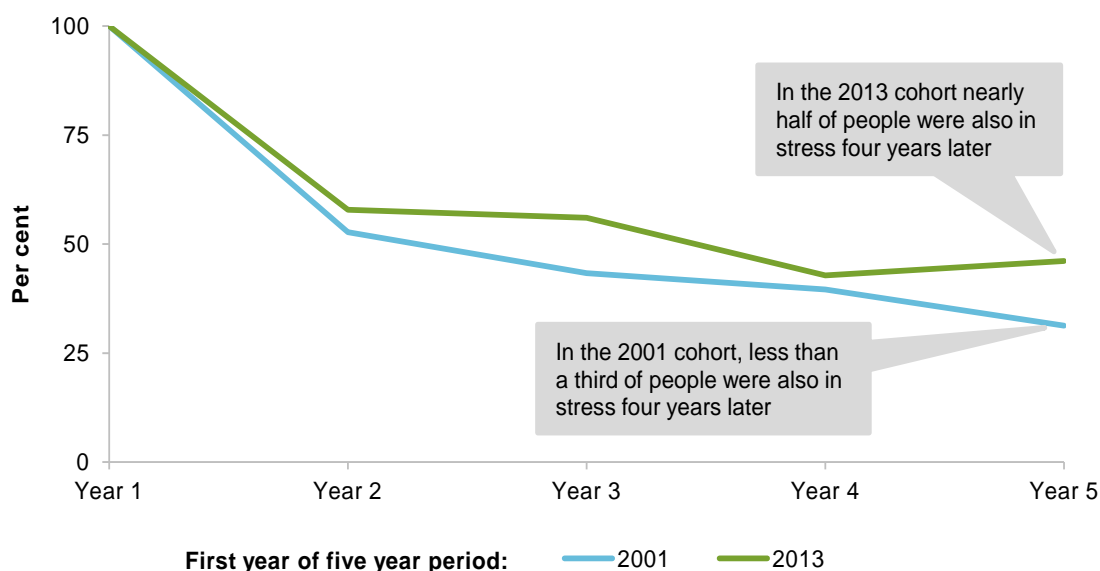
Nevertheless, a growing number of households find themselves stuck in rental stress (figure 7). This can culminate in observed hardships elsewhere in their lives, as they endeavour to keep a roof over their head. This smaller group are susceptible to ‘entrenched disadvantage’ and may require tailored and coherent social policy interventions that extend beyond the domain of housing policy.

It is essential for state and territory governments to provide adequate public housing, particularly as a safety net for those with complex needs. How much public housing should be provided is an important policy question that is beyond the scope of the current research paper. It is clear, however, that the stock of public housing has not kept up with population growth, and the Commission has also previously made recommendations about how to better transition tenants between public and private rentals with a view to optimising the benefit for the most needy (PC 2017a). A consequence of state governments not expanding the public housing stock is that more of the fiscal cost of housing support is shifted to the Commonwealth, through growth in the number of Commonwealth Rent Assistance recipients.



**Figure 7 The 'stickiness' of rental stress has increased over time**

While many people exit rental stress quickly, the proportion of private low-income renters in persistent rental stress has increased



Nevertheless, more public housing could play only a limited role in improving overall affordability. It is an expensive option and cannot realistically meet the needs of the much larger and growing population of households with some degree of vulnerability. Doing so for this broad group would require a threefold increase in the supply of social housing. This means it is important to have policies that ensure the private rental market is functioning well.

## Renting privately offers flexibility, but less certainty of tenure

Beyond affordability, certainty of tenure and the quality of housing are valued by vulnerable and other renters alike. So is the flexibility that renting offers (figure 8). Indeed, the vast majority of moves are voluntary (figure 9) and usually in response to a new job in a different location, life events, such as forming and dissolving relationships and starting a family, or simply a desire to be closer to family and friends. Such mobility is also a valued source of flexibility in the economy, enabling faster adjustment to economic shocks.

Unlike other housing arrangements, certainty of tenure also depends upon the decisions of the landlord, sometimes resulting in a move against the wish of the tenant. They occur because tenants may have breached their lease or for reasons of landlord choice, such as wishing to sell, renovate or occupy the property. About one in five moves are involuntary for the tenant (figure 10).

Figure 8

**Private renters tend to move often ...**

Distribution of the number of times moved in the past five years, by tenure, 2013-14

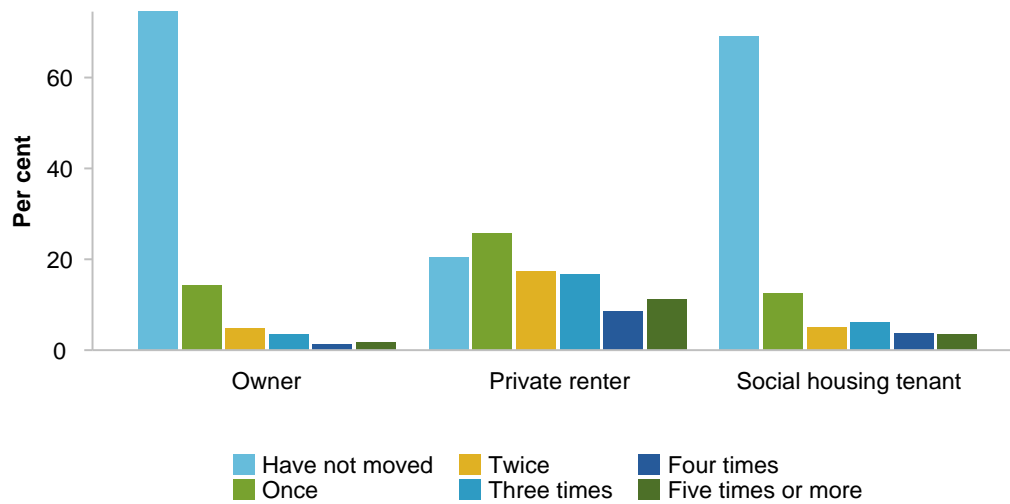


Figure 9

**... and mostly by choice ...**

Main reasons for most recent residential move by private renters, 2013-14

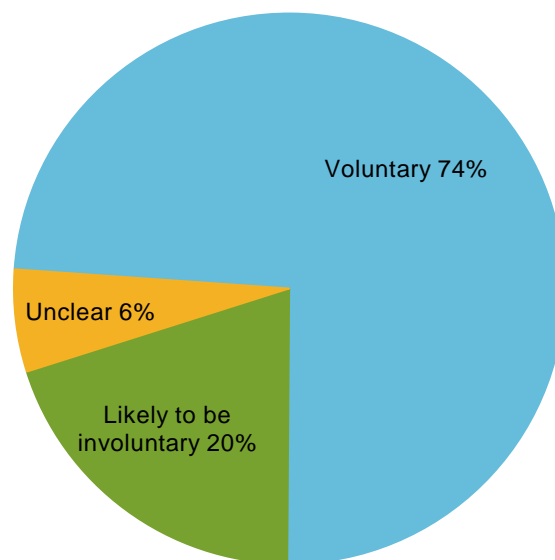
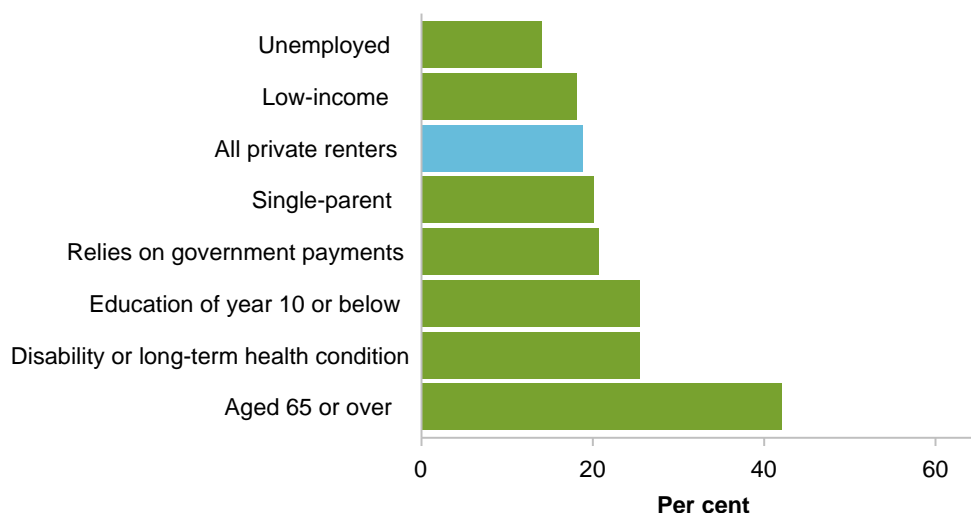


Figure 10

**... but a material proportion move involuntarily ...**

Share of private renters who most recently moved due to a notice from a landlord, by various household characteristics, 2013-14



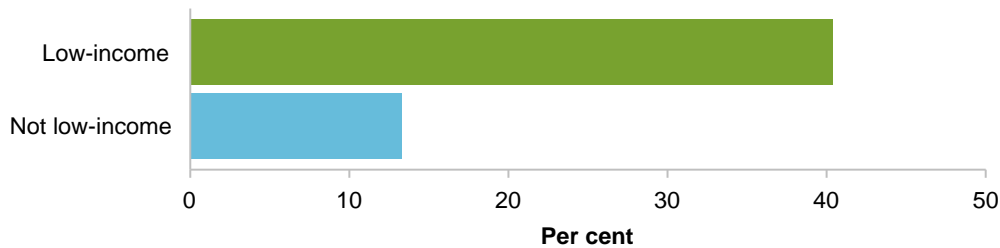
While moving involuntarily is inconvenient for any renter, for vulnerable renters the consequences can be severe. It can heighten the risks of financial hardship (especially if little notice is given) and homelessness (figure 11). And for families with school-aged children, the disruption may set back their educational development. These risks can be higher when renters have no formal lease.

Low-quality housing is also linked to both poor health and childhood development outcomes. For the majority of low-income households, renting a low-quality property primarily reflects the need to balance the cost of rent against other competing needs. It is not surprising, therefore, that vulnerable renters are more likely than others to live in poorer-quality housing. At one end of the spectrum, this can mean a house is in need of repair, and at the other it could mean a major structural issue (such as rising damp). On other quality dimensions, overcrowding is rare and accessibility to services is similar to that for other renters. Adverse consequences from poor-quality housing is thus likely to manifest itself in extreme circumstances only.

Figure 11

**... which can impose great financial stress on low-income households**

Share of renters unable to raise \$2000 within a week for an emergency, 2015-16



### **Stringent regulatory measures are an ineffective lever to improve affordability**

In responding to these social issues, it is easy to be seduced by the prospect of ‘quick fix’ solutions. Strict rent control policies, for example, are still touted as a direct way to improve affordability. While they can benefit those fortunate enough to occupy a rent-controlled property, they ultimately reduce the supply and quality of rental housing and, perversely, may even make it more difficult for a low-income household to secure a lease. More generally, stringent regulatory measures can produce adverse consequences for low-income renters and should be eschewed.

### **Residential tenancy laws could do more to support vulnerable renters**

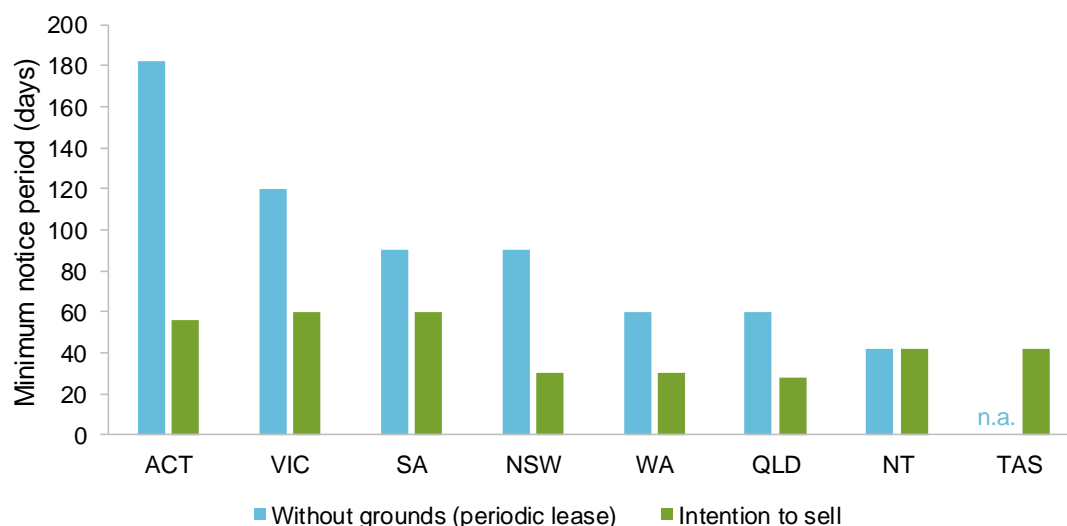
Tenancy law reforms, if well designed, offer avenues for improving the welfare of vulnerable renters without substantially increasing the cost of renting. The rapid growth in the number of vulnerable renters — including those raising children, those with a disability, elderly people and low-income households — means that the typical costs caused by disruption of a tenancy are also growing. These costs include:

- difficulty for low-income renters raising funds to meet the cost of moving
- difficulty for those with a disability or other special needs finding suitable accommodation
- the potential to disrupt schooling and childhood development if alternative accommodation cannot be found within the local neighbourhood
- a risk of falling into homelessness, which can accompany family separations, relationship breakdown and other adverse outcomes.

Longer notice periods — as provided in Victoria, South Australia and the ACT upon sale of a property — would lessen these costs by providing vulnerable families more time to find new accommodation and prepare for the move (figure 12). This need not be seen as a tussle between the rights of the tenants and those of the landlords. Residential tenancy laws work best when they write into contracts terms that most tenants and landlords would want to negotiate anyway. Higher quality leases that better meet tenants’ needs may even command somewhat higher rents. These arguments favouring an extension of notice periods, in step with the evolving needs of renters, do not apply where tenants have failed to pay rent, damaged the property or otherwise breached the lease agreement.

**Figure 12 Notice periods for ‘no-fault’ terminations are short in some jurisdictions**

Minimum notice periods for evictions without grounds and where the owner is intending to sell the property



n.a 'Without-grounds' evictions are not permitted in Tasmania.

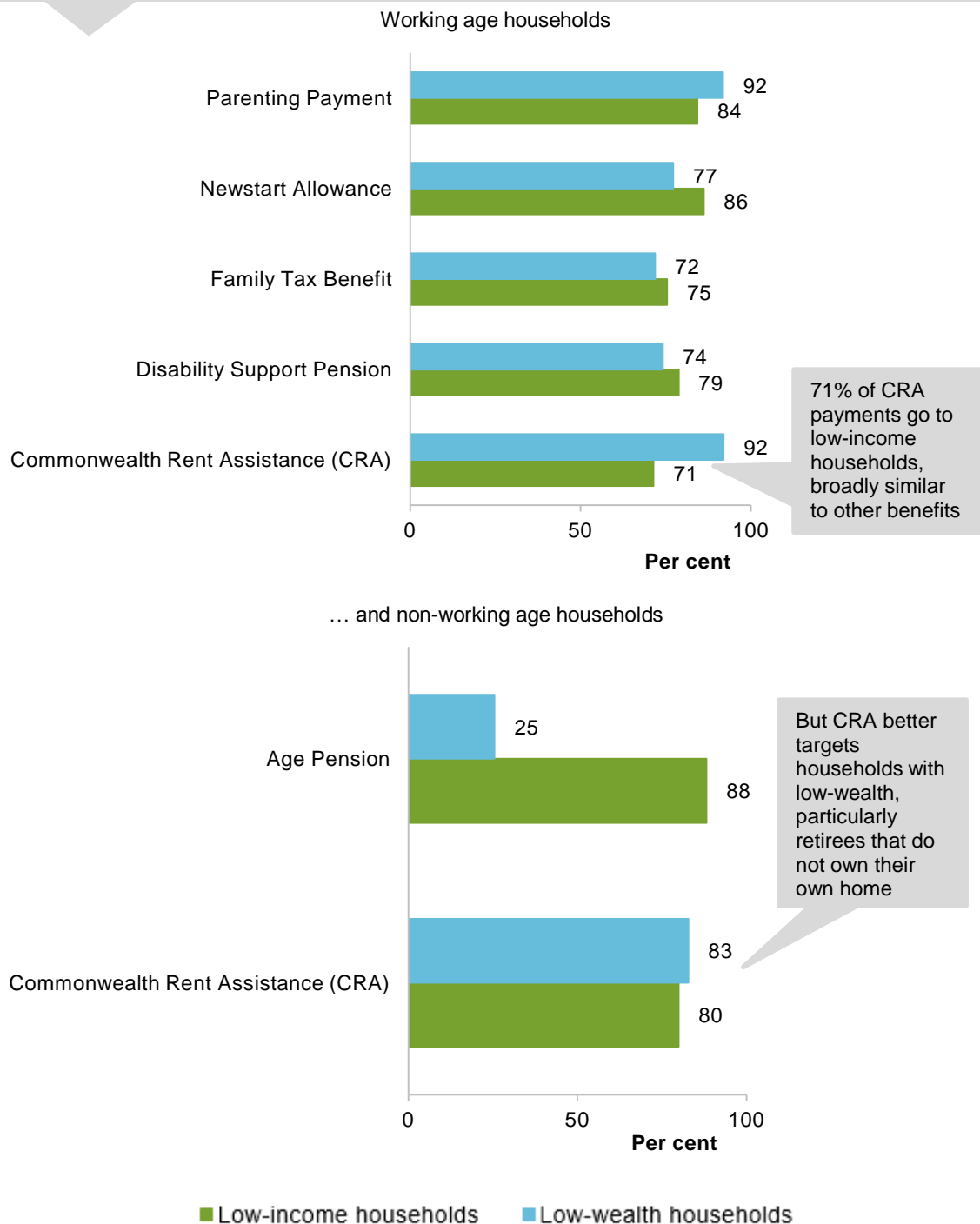
## Commonwealth Rent Assistance is one path to lower rental stress

Commonwealth Rent Assistance (CRA) is the clearest path to improving affordability. The income testing of payments means that CRA is as well targeted as a range of other working-age and non-working-age payments to families on low incomes. Moreover, because it provides support to those who do not own their own home, it is also well targeted to households with lower levels of wealth. Among working-age households, over 92 per cent and 71 per cent of CRA payments were made to low-wealth and low-income households, respectively in 2018 (figure 13). As well as supplementing government allowances and pensions, it provides support to low- and middle-income working families with dependent children, many of whom also experience rental stress.

Figure 13

# **Commonwealth Rent Assistance (CRA) is well-targeted to low-wealth and low-income households ...**

Share of payments made to low-wealth and low-income households in 2017-18 among ...

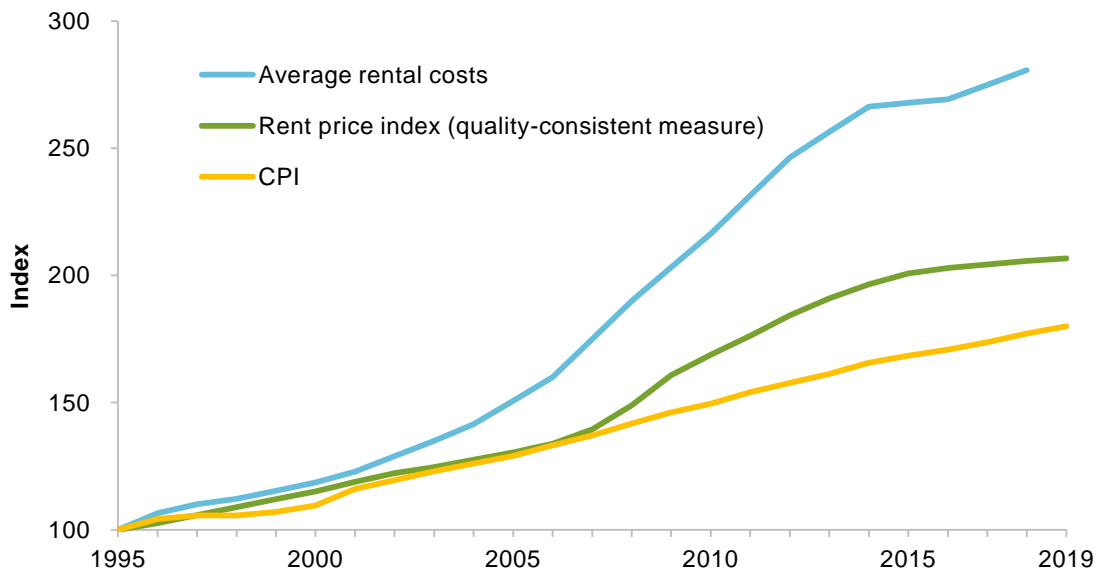


CRA materially improves rental affordability for the over 1.3 million people who receive it. Government reporting has shown that, in 2018, 68 per cent of households receiving CRA would have been in rental stress without it, but that number drops to 40 per cent when CRA is provided. The drop in rental stress is greater still among eligible households who included an Age Pension or Disability Support Pension recipient. Once the dynamics of the rental market are considered, the benefit accruing to the renter may be somewhat less than the full value of the payment.

Over time, however, the CRA maximum payment amount has not kept pace with the rise in rents, which has outpaced inflation (figure 14). As a result, the average share of rents covered by CRA has fallen. Further, the share of CRA recipients who received the maximum payment has steadily increased from around 57 per cent (representing about 566 000 recipients) in 2001 to 80 per cent (representing just over one million recipients) in 2018.

In the wider discussion on the adequacy of income support payments, it is important to be cognisant of the importance of CRA in mitigating rental stress, and as a well-targeted policy lever to assist low-income, low-wealth households who face the specific challenges associated with the private rental market.

**Figure 14** ... but CRA payments, which are indexed to consumer price inflation, have not kept up with rents







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# Findings

## FINDING 2.1

While social housing (including public and community housing) accommodates many vulnerable tenants, the private rental market has been housing a growing share of low-income households. The proportion of low-income households renting privately increased from 16 per cent in 1994-95 to 27 per cent by 2017-18.

In 2018, around a million low-income households, made up of about 2 650 000 people, were renting in the private market. Many of these households have other characteristics associated with disadvantage. For example, the majority of single parent households (57 per cent) have low incomes, along with households where the head is unemployed (85 per cent) or has a disability or long-term health condition (56 per cent).

## FINDING 3.1

Most low-income private renters spend much more than 30 per cent of their income on rent and around half have less than \$500 a week left over after paying their rent to meet other expenses. For many low-income households, affordability is extremely poor and the consequent financial pressures are likely to compound pre-existing stresses. Despite strong economic growth over the past two decades, on average, affordability has remained steady for low-income renters.

## FINDING 3.2

*Rates* of rental stress (based on ratios of rent to income) in the private rental market have declined slightly since 1994-95, but did increase materially between 2007-08 and 2011-12.

Nevertheless, the *number* of households in rental stress (including public, private and other renters) has grown rapidly, reaching around 710,000 in 2017-18. This increase occurred for three reasons:

- an increase in the share of low-income households that rent, rather than own
- among low-income renters, an increase in the share that rent in the private market, where rates of rental stress are much higher than for public housing tenants
- ongoing population growth.

Households reliant on government pensions and allowances, particularly those including older people or unemployed people, and sole person households are more likely to experience rental stress in the private rental market.

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#### FINDING 3.3

About half of private renter households in rental stress exit within one year. But since 2001 a rising share of private renters have been experiencing prolonged periods of rental stress.

Exiting rental stress is often associated with experiencing higher income growth, such as becoming employed and moving off income support payments.

#### FINDING 4.1

Most private renters move by choice — often to obtain a more suitable dwelling or for personal or work-related reasons. But a significant minority move involuntarily.

When private renters with a disability, older renters and long-term renters move, they are more likely than the average renter to be involuntary.

For vulnerable private renters, the financial costs of an involuntary move can be considerable. Involuntary moves can also:

- disrupt access to place-based services
- lead to homelessness and the need for temporary accommodation services
- compromise a range of child development outcomes, including among Indigenous children.

#### FINDING 4.2

A commonly used metric (the Canadian National Occupancy Standard) suggests that overcrowding in the private rental market is rare. However, according to this metric, some vulnerable groups — including low-income households, single-parent households, households reliant on government payments — and Indigenous private renters are more likely to live in overcrowded dwellings.

#### FINDING 4.3

Most private renters, vulnerable or otherwise, are satisfied with their dwelling and its location. However, low-income renters and those living with an unemployed household head are slightly less satisfied with their dwelling, while long-term renters are less satisfied with their overall experience of the private rental market. Older renters (aged 65 and older) are more satisfied with their dwelling than younger renters.

Vulnerable private renters are also more likely to live in dwellings that need repairs or have major structural issues, but are not less likely to live in regions with high accessibility to services.

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#### FINDING 5.1

Large institutional investors in Australia's residential property market are minor players; small ('mum and dad') investors dominate this market.

Recent changes by the Australian Government to reduce the differential tax treatment between individual and institutional investors in residential property may encourage greater entry of institutional investors. However, fully rectifying the overall tax differential would require substantial changes to most state and territory governments' land tax arrangements.

Institutional investors have provided tenure and quality benefits overseas. However, it is less clear that greater institutional investment in the residential property market would improve overall rental housing supply in general or affordable rental housing supply in particular.

#### FINDING 5.2

Commonwealth Rent Assistance (CRA) has made a significant contribution to improving the affordability of rental accommodation for vulnerable private renter households. However, CRA's ability to cushion vulnerable private renter households from rental price increases has diminished over time as the consumer price index — against which the CRA is indexed — has grown slower than rents.

#### FINDING 5.3

Reforms to prohibit 'no-grounds' eviction and extend notice periods for 'no-fault' evictions (including on sale of a property), if well designed, offer avenues for improving the welfare of vulnerable private renters. Some jurisdictions have already started down this road. The arguments that favour extending notice periods do not apply where tenants have failed to pay rent, damaged the property or otherwise breached the lease agreement.



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# 1 Setting the scene

## Key points

- Australia's private rental market is growing and changing. Once considered a short-term housing choice for young people, many households are renting for longer periods. About 2.1 million (25 per cent) households including 6.3 million people now rent privately.
- Both push and pull factors have contributed to the growth in private renting. Some have been 'pulled' to private renting by the convenience and mobility it affords, while others have been 'pushed' by the decreasing availability of social housing and feasibility of owner-occupation for low-income households.
- The needs of private renters are also changing. Most of the increase in private renting has come from families with children and single parents, who value certainty of access to schools and other services.
- For vulnerable private renters, the costs of eviction can be even higher. The risk is a fall into homelessness, or marginal or overcrowded housing, the rates of which have been increasing over the past decade.
- These changes suggest that affordable and stable private rental housing is important to a growing number of low-income Australian households.

The private rental market houses a quarter of Australian households (figure 1.1). Once considered a short-term form of tenure for young people, today longer-term renting is increasingly common. The rate of renting in the private market has increased across all age groups, for couples (with and without children) and among those with low and middle incomes.

Vulnerable renters (defined in chapter 2) are also becoming more prevalent in the private rental market as the availability of social housing (that is, public, community and state-owned or managed Indigenous housing) has waned and rising house prices have made owner-occupation less readily attainable for some.

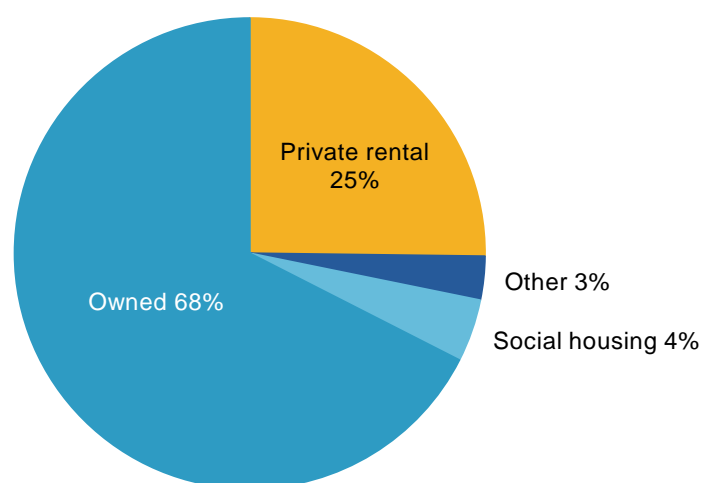
These trends reflect a reversal of the decline in private renting between World War II and the mid-1980s (figure 1.2). Strong economic growth and the Baby Boom during these earlier decades meant growth of cities was driven by the development of new blocks on the urban fringe. More recently, in line with smaller households sizes, there has been more urban 'infill' through construction of medium-density town houses and high-rise apartment buildings (Daley, Coates and Wiltshire 2018).

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Access to appropriate, affordable and stable housing is fundamental to Australians' wellbeing and their engagement with society and the economy. A sense of safety and security rests on having a place to call home, while poor quality of housing is linked to poor health outcomes (WHO 2019). Certainty over one's living location also promotes community and economic involvement, such as participating in local social and sporting activities and holding a job, and helps in maintaining continuity with services such as healthcare and schooling. While the challenges facing private renters in terms of affordability and certainty of tenure are not new, these trends in combination with rapid population growth mean that the *number* of vulnerable households affected is growing rapidly.

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**Figure 1.1 A quarter of Australian households are private renters**  
Share of households by tenure type, 2016<sup>a,b</sup>

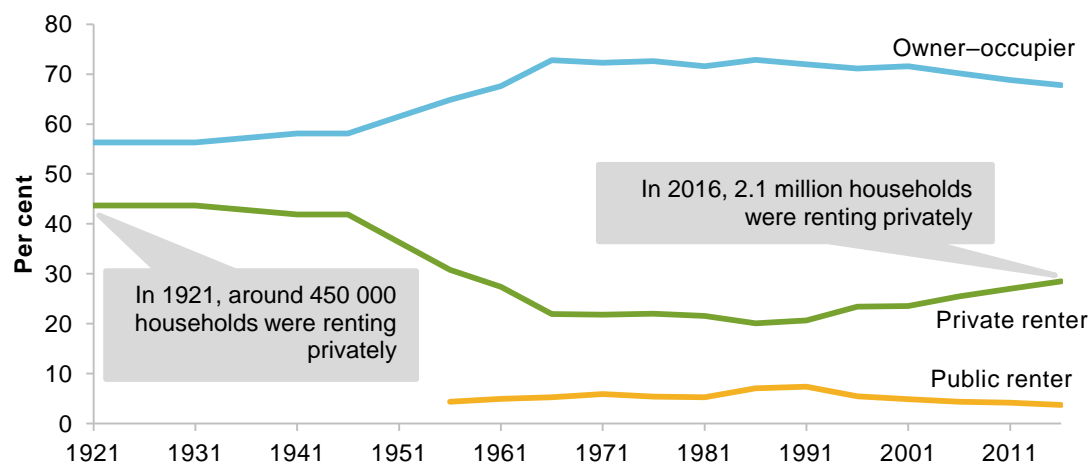


<sup>a</sup> The shares by tenure type were calculated from the Census count of occupied private dwellings by excluding households who did not state their tenure type (7.7 per cent of all households) and renters who did not state their landlord type (0.5 per cent of all households). 'Owned' represents households who owned their home with or without a mortgage. 'Private rental' represents renters with landlord types: 'real estate agent', or 'person not in same household'. Social housing represents renters with landlord types: 'state and territory housing authority' and 'housing co-operative, community or church group'. 'Other' is a residual category including dwellings rented from employers, or occupied rent free or under a life tenure scheme. <sup>b</sup> Analysis of household data elsewhere in this report excludes households in the bottom two percentiles of the disposable income distribution, in line with the Australian Bureau of Statistics (ABS) definition of low-income households (chapter 2, box 2.2). As the Census provides less detail on income, statistics drawn from it do not make this same exclusion.

Source: Productivity Commission estimates using ABS (*Microdata: Census of Population and Housing, 2016*, Cat. no. 2037.0.30.001).

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**Figure 1.2 Renting privately has been on the increase since the mid-1980s**  
Share of dwellings by tenure type, 1921 to 2016<sup>a,b</sup>



<sup>a</sup> As there is less detail on tenancies in historical Census data, the 'private renter' category includes all renters except government housing tenants. It also excludes 'other' and 'not stated' tenancies. The figure of 2.1 million households in 2016 has been calculated separately based on the categorisation of private renters used throughout the rest of the paper. <sup>b</sup> Data for the years 1926, 1936, 1941 have been estimated. The figure for 1931 is based on the 1933 Census, 1946 is based on the 1947 Census and 1956 is based on the 1954 Census.

Sources: Productivity Commission estimates using ABS (Microdata: Census of Population and Housing, 2006, 2011, and 2016, Cat no. 2037.0.30.001; Census of Population and Housing summary publications, 1921, 1933, 1947, 1954, 1961, 1966, 1971, 1976, 1981, 1986, 1991, 1996, and 2001, various Catalogue numbers).

Given the importance of a home to our wellbeing and the large number of Australian households who rent a home, this paper examines how well the private rental market and its surrounding policy infrastructure are serving the needs and demands of today's renters. Of particular interest are those households who have fewer resources or capabilities to absorb 'shocks', such as a rent increase or an involuntary move. Along with commonly expressed concerns over a lack of affordable rental housing (Anglicare Australia 2019; Daley, Coates and Wiltshire 2018; Wood and Ong 2017), recent research into vulnerable private renters in Australia has highlighted negative aspects of their experiences. These include uncertainty over the prospect of needing to relocate (Morris, Hulse and Pawson 2017), power imbalances between landlords and tenants which can deter tenants from exercising their legal rights (Gebert and Posso 2014; Parkinson, James and Liu 2018), and discrimination against applicants (Macdonald et al. 2016; Parkinson, James and Liu 2018; Wiesel et al. 2015).

Since vulnerable households are also at greater risk of falling out of formal housing and becoming homeless, the experiences of this group and their social and economic outcomes, are the focus of this research paper. While the issues facing vulnerable renters are often complex, the quality of housing outcomes can add to, or help to reduce, these challenges. This paper considers several levers on the demand and supply side of the private rental market where governments could act to improve housing outcomes for vulnerable renters in this market.

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This chapter continues by profiling the private rental market and how it is changing in the context of the wider housing system (section 1.1); noting the link between the market conditions and policy programs facing vulnerable renters, and homelessness (section 1.2); and providing a guide to the Commission’s approach and the paper as a whole (section 1.3).

## **1.1 The private rental market is growing and changing**

### **The make-up of Australian housing is shifting**

The different housing arrangements (tenure types) taken up by Australians reflect the diversity of wants, needs and, not least, levels of financial resources across the population. Households move between renting and owning over the course of their lives, so changes that affect one form of tenure influence the makeup of people living in another.

Owner-occupied housing has traditionally offered stability and a way to grow personal wealth and, for most Australians, attaining home ownership continues to be a major lifetime goal (Sheppard, Gray and Phillips 2017). Both the ‘push’ of higher house prices relative to household incomes (figure 1.3), and the ‘pull’ of demographic and cultural changes that have seen a trend towards later family formation, have contributed to a decline in home ownership rates (figure 1.2), particularly among those aged in their mid-twenties to early forties and those earning lower incomes.

Private renting, by contrast, offers tenants greater flexibility in terms of living location and other housing attributes. As such, it supports labour market mobility and allows people to more quickly change their living arrangements. The face of Australia’s renter population is changing, with the flipside of the drop-off in home ownership being a greater number of people renting, and renting for longer.

Social housing acts as a safety net for those who face barriers to sustaining a tenancy in the private rental market. State and territory government-managed public housing makes up the vast majority of the sector, but recent years have seen a shift by governments towards a community housing model, in which not-for-profit organisations manage and sometimes own properties (Pawson et al. 2013). The stock of social housing has declined relative to the population over the past decade (figure 1.4), and the number of applicants on public housing waiting lists, while having decreased slightly in recent years, stood at just over 140 000 in 2018 (SCRGSP 2019).<sup>1</sup> High house prices, arguably, have heightened the opportunity costs faced by state and territory governments in their considerations around creating additional public housing.

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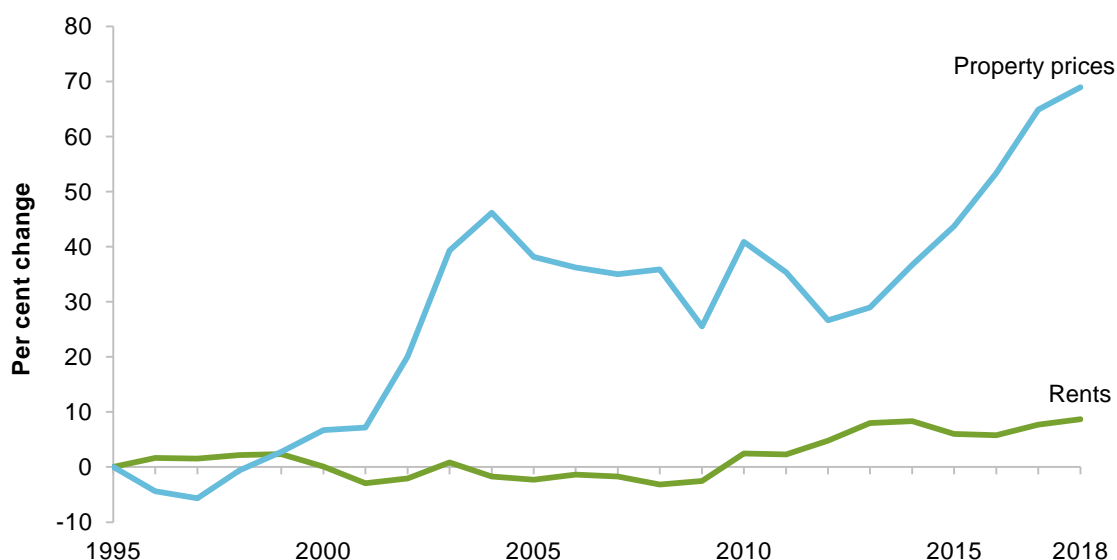
<sup>1</sup> This number includes those on New South Wales’ integrated waiting list for both public and community housing. The total number of waitlisted applicants for community housing in 2018 was 44 000, but in Victoria and Queensland, this may include applicants who are also waitlisted for public housing.



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**Figure 1.3 Property prices have soared above incomes and rents in the past two decades**

Ratios of mean property sales prices and mean rents to mean household disposable income, per cent change since 1994-95<sup>a</sup>



<sup>a</sup> Year labels on the horizontal axis refer to the second calendar year of the financial year.

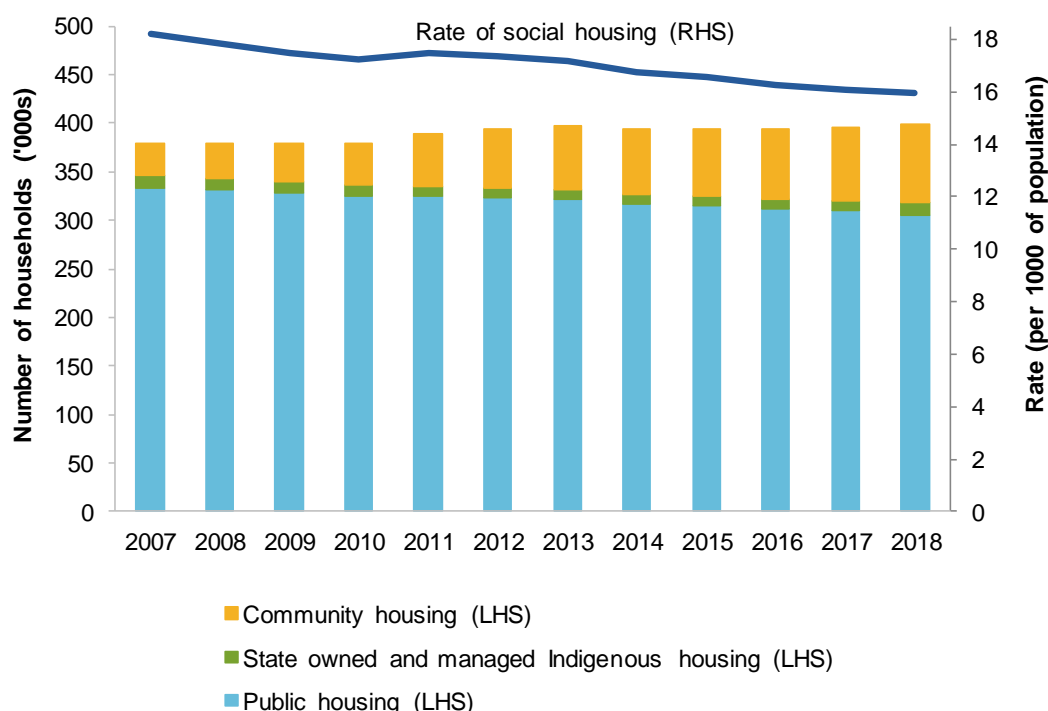
Sources: Productivity Commission estimates using ABS (*Microdata: Household Expenditure, Income and Housing*, 2003-04, 2009-10, 2015-16, Cat. no. 6540.0); ABS (*Microdata: Income and Housing, Australia*, 1995-96, 1996-97, 1997-98, 1999-00, 2000-01, 2002-03, 2005-06, 2007-08, 2011-12, 2013-14, Cat. no. 6541.0.30.001); and ABS (*Residential Property Price Indexes*, March 2019, Cat. no. 6416.0), and ABS (*Australian System of National Accounts*, 2017-18, Cat. no. 5204.0).

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While eligibility for social housing waiting lists is based on income and assets, in practice the majority of people actually allocated housing have been prioritised on the basis of having urgent needs. Around three-quarters of new public and community housing allocations in each of the past five years went to those who were homeless, in housing that was adversely affecting their health or placing their life or safety at risk, or had very high rental housing costs (SCRGSP 2019). Wait times for others are long — up to 10 years in some cases — and many eligible people choose not to apply at all. For most low-income households, social housing is not a realistic option.

Figure 1.4 **The supply of social housing has not kept up with population growth**

Households in social housing: number and rate per 1000 of the population, 2007 to 2018<sup>a</sup>



<sup>a</sup> Excludes Indigenous community housing, for which commensurate data are not available.

Sources: Productivity Commission estimates using SCRGSP (2019), *Report on Government Services* 2019, tables 18A4 to 18A7, and ABS (*Australian Demographic Statistics*, Cat. no. 3101).

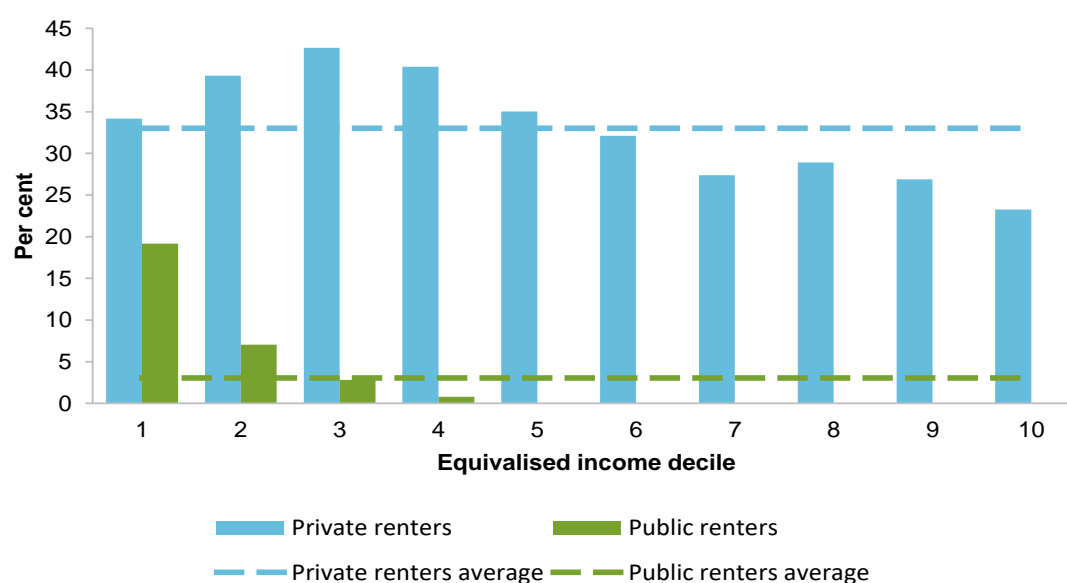
## Demand for rental housing is on the increase

The concept of a ‘housing career’, developed in some of the earlier academic literature on housing, describes a story in which a person *progresses* from renting early in life towards a goal of home ownership in parallel with advances in their working life and changes to their family status (Beer and Faulkner 2009). While still relevant in thinking about housing today, this kind of model does not capture many of the economic and social reasons for renting. Renting is a natural fit for many groups, such as those moving regularly for work, or who value an affordable option for living in an inner city location more highly than the guarantee of being able to stay in one place. For others, their status as renters is less a matter of choice than one of constraints. Financial pressures might mean renting is the only option available to them, or a move into renting could be an outcome of a personal crisis such as a relationship breakdown, suffering a serious illness or the death of a partner.

Aggregate statistics comparing private renters with the rest of the population reflect this mixture of reasons for renting, though many are tied to the renter cohort's relative youth. There are some differences between the populations that are apparent before making any adjustment for age. Private renters are more likely to be: single parents or living in non-family groups; unemployed; Indigenous, or born overseas (appendix B).

**Figure 1.5 Higher-income households rent less commonly, though a meaningful number do so**

Rates of private and public renting among working-age households by equivalised income decile, 2017-18<sup>a,b</sup>



<sup>a</sup> Income deciles constructed from the population of households whose reference person was aged under 65. The ABS identifies household reference persons by applying the following criteria, in the order listed, to all members of a household aged 15 years and over until a single person is identified: the person with the highest tenure when ranked as follows: owner without a mortgage, owner with a mortgage, renter, other tenure; one of the partners in a registered or de facto marriage, with dependent children; one of the partners in a registered or de facto marriage, without dependent children; a lone parent with dependent children; the person with the highest income, the eldest person. <sup>b</sup> The rate of public renting for deciles 5 to 10 is omitted due to small cell counts. It was less than 1 per cent for each decile.

Source: Productivity Commission estimates using ABS (*Microdata: Income and Housing, Australia, 2017-18*, Cat. no. 6541.0.30.001).

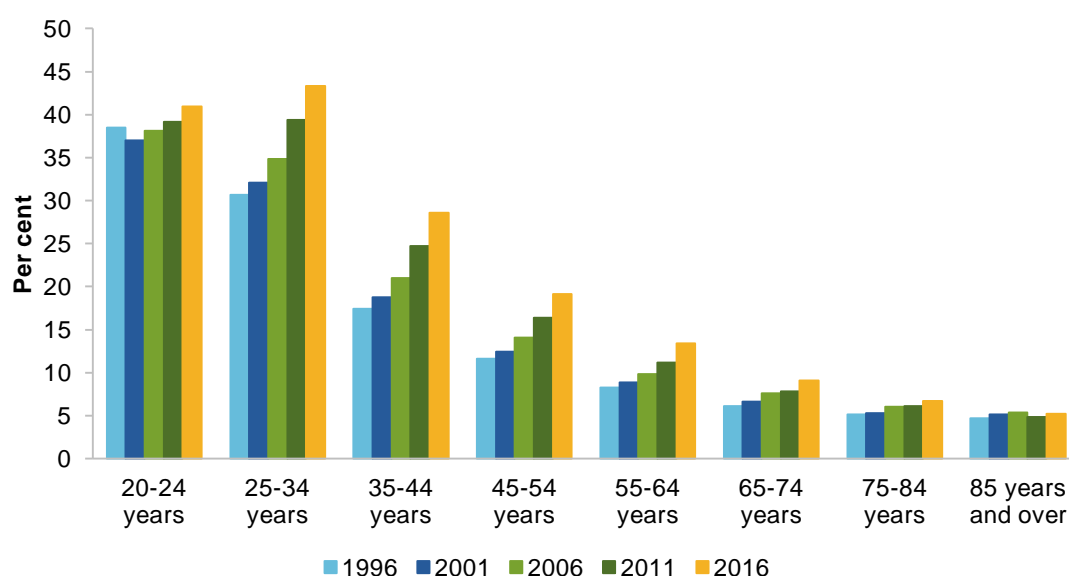
While households with lower incomes are disproportionately likely to be renting, they are by no means the only ones doing so (figure 1.5). Among working-age households<sup>2</sup> in 2017-18, more than 20 per cent of those in the top quintile of the equivalised disposable household income<sup>3</sup> distribution were private renters.

<sup>2</sup> Households whose reference person (figure 1.5) is aged under 65 years.

<sup>3</sup> Equivalised measures of economic resources account for larger households needing more resources to achieve the same standard of living as smaller ones, with some 'economies of scale' for shared living costs.

But the picture has been changing. Private renting has become more common among all age groups (figure 1.6). Families with children are among those renting at higher rates (figure 1.7, panel a), and have contributed the majority of the overall increase in the rate of renting (figure 1.7, panel b). The trend has been particularly pronounced among low-income households (chapter 2).

**Figure 1.6 Private renting is on the rise among all age groups**  
Rate of private renting by age group, 1996, 2001, 2006, 2011 and 2016<sup>a,b</sup>



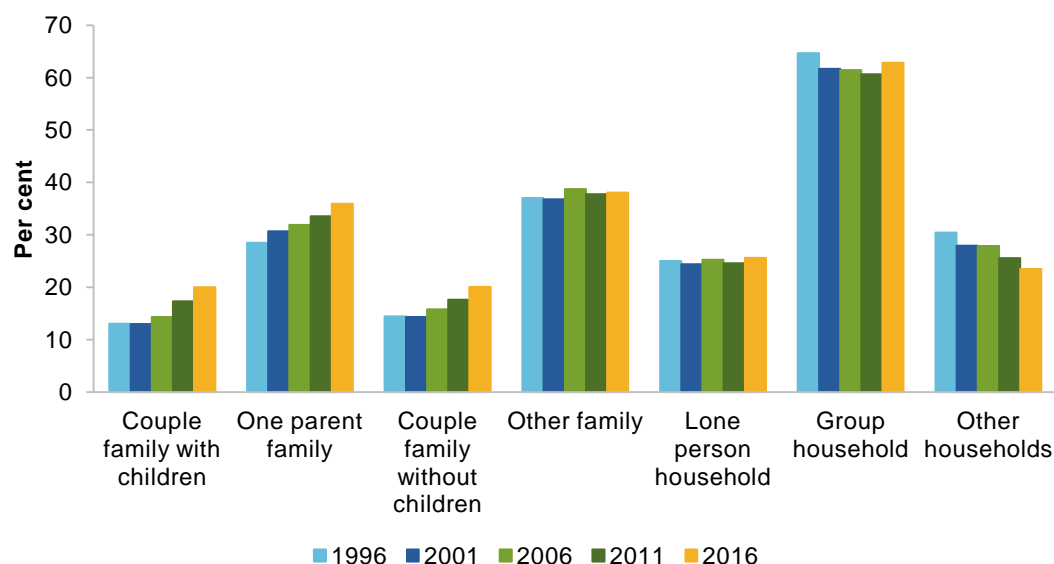
<sup>a</sup> Analysis of household data elsewhere in this report excludes households in the bottom two percentiles of the disposable income distribution, in line with the ABS' definition of low-income households (chapter 2, box 2.2). As the Census provides less detail on income, statistics drawn from it do not make this same exclusion. <sup>b</sup> It is likely that a substantial number of people in younger age groups classified as owner-occupiers are living in family homes with their parents.

Sources: Productivity Commission estimates using ABS (Customised data from *Census of Population and Housing*, 1996, 2001 and 2006); (Microdata: *Census of Population and Housing*, 1996, 2001, 2006, 2011 and 2016, Cat. no. 2037.0.30.001).

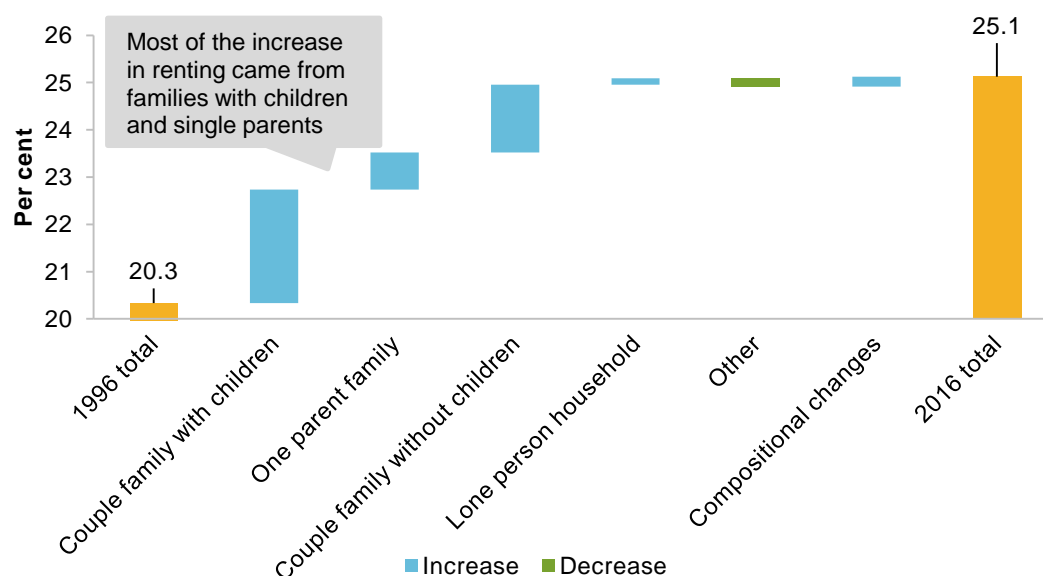
The formula used for equivalisation in this research paper is the Australian Bureau of Statistics (ABS) 'OECD modified equivalence scale'. This involves constructing an *equivalence factor* by allocating points to each person in a household (1 point to the first adult, 0.5 points to each additional person who is 15 years and over, and 0.3 to each child under the age of 15). Total household income is then divided by the equivalence factor to give equivalised household income (ABS 2016c). For further information, see the Commission's *Rising inequality? A stocktake of the evidence* research paper (PC 2018).

**Figure 1.7 Families with children have led the increase in private renting**

a. Rate of private renting by household family type, 1996, 2001, 2006, 2011 and 2016<sup>a</sup>



b. Contribution to the overall increase in private renting by household type, 1996 to 2016<sup>a,b</sup>



<sup>a</sup> Analysis of household data elsewhere in this report excludes households in the bottom two percentiles of the disposable income distribution, in line with the ABS' definition of low-income households (chapter 2, box 2.2). As the Census provides less detail on income, statistics drawn from it do not make this same exclusion. <sup>b</sup> Household type columns represent the effect of changes in the rate of renting within each household type. Compositional changes column represents the effect of changes in the proportions of the various household types in the population.

Source: Productivity Commission estimates using ABS (Customised data from *Census of Population and Housing, 1996, 2001 and 2006*, and *Microdata: Census of Population and Housing, 1996, 2001, 2006, 2011 and 2016*, Cat. no. 2037.0.30.001).

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## And people are renting for longer

Not only are more people entering the private rental market — they are also staying there for longer. Long-term renters (those who have already been renting for 10 years or more) made up almost 7 per cent of the population in 2013-14 (the most recent year in which the Australian Bureau of Statistics (ABS) collected data on the subject), an increase of 1 percentage point from six years earlier (ABS 2015a).

This follows evidence suggestive of a longer-term trend. Wulff and Maher (cited in Stone et al. 2013) found a 27 per cent rate of long-term renting among private renters in the ABS' *Rental Tenants Survey* of 1994, 3 percentage points less than the equivalent rate in 2007-08. Matching these within-renter rates to the overall rates of private renting in the 1996 and 2006 Census years gives a conservative estimate of a 1 percentage point increase in the overall rate of long-term renting in the population for that period.

These statistics do not capture those younger renters who are likely to spend more than 10 years renting, but have not yet had time to do so. Private renters of all age groups have become progressively less likely to transition out of renting into home ownership since 2001 to 2004 (table 1.1), suggesting that recent increases in private renting among younger age groups will flow through to greater numbers of long-term renters in coming years.<sup>4</sup> The proportion of private renters transitioning into social housing has also declined, though the absolute numbers are small (appendix B).

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**Table 1.1 Fewer renters from all age groups are moving to owner-occupation**  
Average annual proportion of private renters transitioning from private renting to owner-occupation, by age group

Age group	2001–04 (%)	2005–08 (%)	2009–12 (%)	2013–16 (%)	Change 2001–04 to 2013–16 (percentage point)
18–24	13.5	12.6	9.4	7.6	-5.9
25–34	14.6	14.3	12.9	11.4	-3.2
35–44	15.0	12.8	11.3	9.8	-5.2
45–54	12.1	10.6	10.3	9.4	-2.7
55–64	12.2	7.7	12.5	11.6	-0.6
65 and over	10.8	7.7	9.5	8.6	-2.2
All aged 18 and over	13.6	12.0	11.2	10.0	-3.7

Source: Wilkins and Lass (2018), p. 132.

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<sup>4</sup> Nonetheless, interpretation of these trends is complicated by changes in cohorts over time. Alongside the likelihood of incomplete spells among younger cohorts noted above, observations of more recent cohorts may be affected by the increasing rate of younger people living with their parents for longer before moving out of home (AIFS 2019b), so that any given age they are likely to have shorter incomplete spells.

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Research suggests that these changes have more to do with a supply-side landscape that has become less favourable to today's prospective home owners, than with demographic or social shifts that might make home ownership less desirable. Higher house prices mean that aspiring home owners across the board are taking longer to save for a deposit (Simon and Stone 2017), generally renting as they do so. That the increase in renting has been just as strong for families with children as it has for other groups (figure 1.7) also suggests that making the transition to home ownership is becoming more difficult. The prospect of having children is likely to still be an important motivator for obtaining more secure housing (Beer and Faulkner 2009), so the decline in home ownership among this group is particularly telling.

Rates of renting vary only moderately across Australia. The proportion of households in the private rental market was similar across capital cities,<sup>5</sup> and only slightly higher than the proportion outside of them in 2016 (ABS 2016a).<sup>6</sup> Within cities, renting tends to be more prevalent closer to the central business district.

### **'Mums and dads' lead the supply of private rental housing**

Australia's stock of privately owned and rented properties is largely held by 'mum and dad' landlords, rather than institutional investors (such as superannuation funds or real estate investment trusts). As of the 2017 financial year, there were over 2.1 million individuals reporting rental income to the Australian Taxation Office (ATO 2019),<sup>7</sup> a number slightly in excess of the estimated total number of private rental dwellings for 2016 (ABS 2016a). The rarity of institutional investors and real estate investment trusts (chapter 5) means that most landlords hold only a small number of properties. Among individual landlords, 71 per cent held only one investment property and only 4 per cent held more than three in 2016-17 (ATO 2019).

There are a number of factors explaining the appeal of residential property to smaller investors. Many small investors see 'bricks and mortar' as safer, more accessible, and easier to maintain control over than the share market and invest for what are seen as reliable long-term capital gains (Seelig et al. 2009). The availability of credit for housing investment also provides access to benefits due to the lower rates and later assessment of taxation on capital gains compared with other income (Henry et al. 2010), including as a vehicle for retirement planning.

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<sup>5</sup> The proportion of households in the private rental market varied across capital cities between 23 and 32 per cent in 2016, except in Darwin where the proportion was 39 per cent. The proportion renting in capital cities was 2 percentage points higher than the proportion outside them.

<sup>6</sup> These statistics are based on the ABS' Greater Capital City Statistical Area (GCCSA) definitions. These are designed to reflect labour markets and do not define the 'built up edge of each city' (ABS 2016b). For instance, the Melbourne GCCSA extends as far as Bacchus Marsh.

<sup>7</sup> As properties may be jointly owned, or have changed ownership over the course of the year, this number will include multiple individuals reporting income from the same properties. However, it excludes landlords earning rental income through a trust, partnership or incorporated entity.

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Conversely, institutional investors face certain tax disincentives to investing in ‘build-to-rent’ residential property (chapter 5). Further, over the past three decades, public housing investment has declined and the increase in upfront development cost (for infrastructure and to meet planning requirements) have made it more difficult for first home buyers to enter the market (Eslake 2013). These forces have seen an increase in the proportion of the housing stock owned by small investors.

The vast majority of these residential property landlords are Australian, partly due to regulatory barriers around international investments. Currently, temporary residents may only purchase property for owner–occupation, and non-resident foreign investors are restricted to new developments. The Reserve Bank of Australia recently estimated that foreign buyers (the majority of whom were from China) made up 10 to 15 per cent of new construction or 5 per cent of all housing sales (Kearns 2017), while ANZ has given a rough estimate of up to 4 per cent for the proportion of the existing housing stock that is foreign owned (Gradwell 2017). However, the value of new foreign investment has fallen substantially since the 2016 financial year, possibly due to increased stamp duties on foreign purchases, tighter access to credit and recent Chinese controls on outgoing capital (FIRB 2019).

## 1.2 The stakes are high when designing policies that affect vulnerable renters

The results can be dire when the private rental market (functioning within its current policy settings) is unable to meet households’ needs for adequate accommodation at an affordable price, or when people are evicted from their accommodation and are unable to find suitable alternative private or social housing.

A substantial number of Australians are either homeless or living in *marginal* housing circumstances (figure 1.8).<sup>8</sup> In 2016, more than 116 000<sup>9</sup> people were homeless and a further 97 000 people were living in marginal housing circumstances. Increases in the number living in crowded and severely crowded dwellings in the capital cities contributed to upticks in the number of people in these categories since 2006 (Parkinson et al. 2019; figure 1.8).

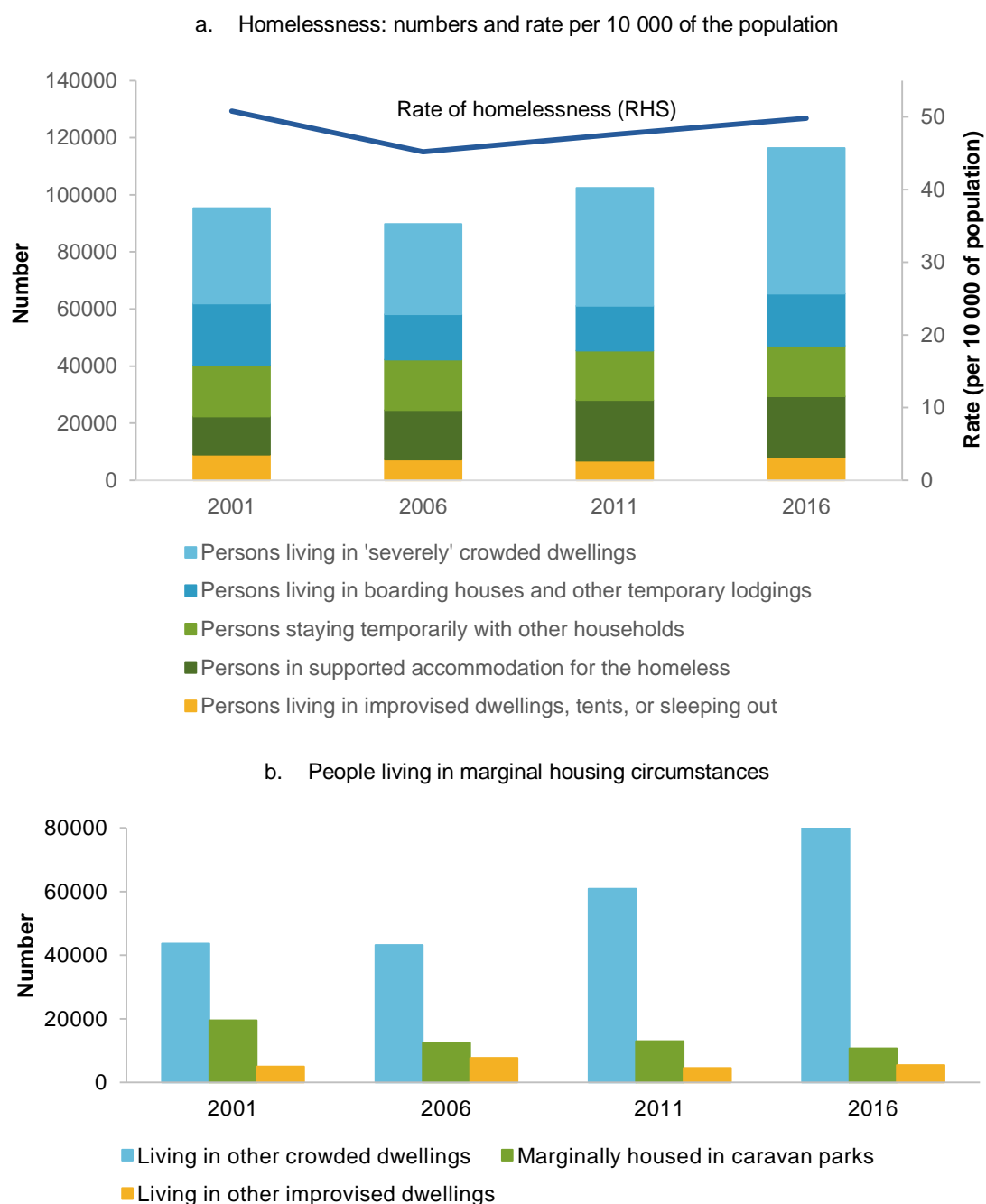
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<sup>8</sup> The ABS’ definition of homelessness captures a number of specific types of living circumstances. It includes persons who are: living in severely crowded dwellings; in supported accommodation for the homeless; living in boarding houses and other temporary lodgings; staying temporarily with other households; and living in improvised dwellings, tents, or sleeping out. Similarly, ‘marginal housing’ is defined to include people: living in other crowded dwellings, marginally housed in caravan parks, and living in other improvised dwellings (ABS 2018).

<sup>9</sup> Difficulties in observing homelessness in the Census (both in reaching homeless people to begin with, and in identifying which respondents are homeless from their Census responses) mean that this number is likely to be an underestimate (ABS 2018). Additionally, the number of people who experience a spell of homelessness in any one *year* will be greater again than the number who were homeless on a single night.



**Figure 1.8 Living in crowded dwellings has contributed to increases in homelessness and marginal housing since 2006**  
2001 to 2016



Source: Productivity Commission estimates using ABS (*Census of Population and Housing: Estimating Homelessness 2016*, Cat. no. 2049.0, tables 1.1 and 1.2).

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While the rate of homelessness among Indigenous Australians fell by 37 per cent over the same period, they are still significantly over-represented: accounting for an estimated 22 per cent of all homeless people, and 32 per cent of people in severely crowded dwellings.<sup>10</sup>

The harms associated with homelessness go well beyond an immediate lack of shelter. The absence of a secure living environment can leave people exposed to violence (Murray 2011; Sharam and Hulse 2014), while poor quality dwellings (or the total absence of one) and overcrowding can heighten the risk of disease or other health conditions (Mason, Bentley and Mallett 2014). To be homeless is to live under relentless day-to-day stress, and this, in combination with the discrimination, stigmatisation and general social exclusion often also experienced, can take a serious and long-lasting toll on people's psychological wellbeing (Hopper, Bassuk and Olivet 2009; Phelan et al. 1997). Many people who are homeless are also dealing with pre-existing mental health issues (Batterham 2017), which are likely to be exacerbated both by the immediate stresses of homelessness and the added difficulty in accessing health services. Moreover, homelessness is rarely a transitory experience: a recent longitudinal analysis found that the median duration for a spell of homelessness in Australia was almost five months (Cobb-Clark et al. 2016).

There are many factors which can play a part in someone becoming homeless, not all of which directly relate to housing. That said, whether someone ultimately ends up homeless or living in marginal housing will often hinge on aspects of the housing system, such as the affordability of suitable private rental accommodation (Parkinson et al. 2019) and the legal framework governing private rentals (chapter 5). Given this and the nature of an experience of homelessness, its prevalence is a marker for whether the policy framework around the private rental market is delivering the right balance of outcomes.

## 1.3 What this paper is about

Traditionally, the most vulnerable members of our community have lived in social housing. However, associated with the declining availability of social housing, vulnerable households are becoming an increasingly common feature of Australia's private rental market. Accordingly, questions have been raised about whether this market — including the laws shaping its operation and the government policy interventions that bear on it — is producing acceptable outcomes for vulnerable households.

Indeed:

- private rental housing is a distinctly different form of housing to social housing, particularly in terms of rental costs and certainty of tenure

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<sup>10</sup> Undercounting of Indigenous people in the Census, as well as different understandings of the concept of homelessness from Indigenous cultural perspectives, mean these figures should be interpreted with some caution (ABS 2018). The proportion is calculated excluding individuals who did not state their Indigenous status.

- 
- many vulnerable people are least able to cope with some of the inherent features and experiences of renting in the private market (particularly involuntary moves and rent increases)
  - the stakes are high for vulnerable renters — the ‘plan B’ for those forced out of the private rental market can often be (unregulated) rooming houses, caravan parks, couch surfing and, ultimately, homelessness.

Hence, this study examines the *experiences* of vulnerable people in the private rental market and the *consequences* of those experiences, where possible. It also discusses the policy environment affecting outcomes for vulnerable renters, and private renters more generally.

## Approach to the analysis

The Commission has conducted this research project with an overarching concern for the wellbeing of the Australian community as a whole, in keeping with the *Productivity Commission Act 1998* (Cwlth). This has meant focusing on the outcomes of renters, particularly vulnerable renters, while remaining cognisant of the incentives facing landlords. This approach is also in keeping with a concern for the equity-minded objective in the *National Housing and Homelessness Agreement*,<sup>11</sup> as well as broader economic concerns for efficiency and productivity.

Of course, the private rental market on its own cannot be expected to cater for the needs of *all* private renters — especially among those who are vulnerable. For example, some renters have complex physical, psychological and social needs that can make it difficult for them to obtain and/or sustain private rental tenancies. Governments often need to provide targeted assistance to meet these special needs through other policies and programs, such as the provision of social housing, which operate alongside the private rental market.

Research for this paper has drawn on data from the *Census of Population and Housing, Survey of Income and Housing* (SIH) and *Household Expenditure Survey* (HES), the *Household, Income and Labour Dynamics in Australia* (HILDA) Survey, and Bankwest Curtin Economics Centre’s *Survey of Private Renters*.<sup>12</sup> It has also involved reviews of published academic and other research.

At various points in this paper, the analysis compares private rental tenants with social housing tenants (which includes public, community and state-owned or managed Indigenous housing tenants). However, where data limitations preclude the identification of social housing tenants, data on public housing tenants are used.

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<sup>11</sup> The objective is to ‘improve access to affordable, safe and sustainable housing across the housing spectrum...’ (COAG 2018, p. 3).

<sup>12</sup> Where possible, the paper uses the latest available data. As the SIH collects information on some broader housing topics (such as moves between dwellings, and types of leases) every six years, in certain cases this has meant using data from 2013-14.

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Quantitative estimates are accompanied by confidence intervals where it is useful to aid interpretation — 95 per cent of confidence intervals contain the relevant population parameter. When comparing two groups, tests of statistical significance are sometimes performed — a result is deemed ‘significant’ if there is less than a 5 per cent chance that any difference between groups is due to chance.

The paper has benefited from consultations with a wide range of stakeholders (appendix A). Several themes emerged from these consultations, including that:

- vulnerable tenants have a diversity of needs and preferences
- affordability is a primary concern for many low-income and vulnerable renters
- those with fewer resources face limited alternative accommodation options, and possibly homelessness, if they are evicted. The risk of being required to vacate their tenancy affects many vulnerable renters’ sense of security and their willingness to report problems with their dwelling.

Many of those consulted felt the Commission could add value by:

- examining whether rental affordability had become more problematic over time
- investigating how different clauses in residential tenancy legislation and long-term leases affect different types of tenants’ sense of certainty in their tenure arrangements
- investigating the role of different policy levers — in particular, Commonwealth Rent Assistance (CRA) and the National Rental Affordability Scheme (NRAS) — in addressing the problems faced by vulnerable renters in the private rental market
- examining why institutional investment is rare in Australia’s private rental market and whether it could play a role in meeting the needs of vulnerable renters in this market.

## **What is in and out of scope?**

While governments determine the broad policy framework by which the overall housing (and rental housing) market operates, the focus of this project is on the private rental market and policies *specific* to that market, including residential tenancy laws, Commonwealth Rent Assistance, and incentives for institutional investment.

A brief overview of the key policies, how they work and their effects on the private rental market, including possible secondary and unintended ones, is presented in table 1.2. Further detail on each policy and their role in improving either rental affordability or the quality of rental experiences among vulnerable renters is in chapter 5.

The project has not considered in detail the effect of other broader housing market-related policies and interventions including tax (stamp duty, negative gearing and the like), land use planning and zoning (LUPAZ) (including inclusionary zoning), building and construction regulations and social housing. These frequently debated policies have been considered in

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more detail in previous Commission reports and by other research bodies. Their mechanisms and the effects they would have on the private rental market are summarised in table 1.2.

That said, two sets of policies are discussed briefly below, for differing reasons.

- LUPAZ policies are among those that relate to the broader housing market, but would potentially have a particularly large impact on the private rental market.
- Rent control policies have often been advocated for in Australia and also have the potential to greatly affect the workings of the private rental market. However, rent control is not a focus of the project because the Commission considers it to be an ineffective, and possibly harmful, form of intervention.

### Land use planning and zoning

LUPAZ policies are widely considered to be one of the most important instruments for improving housing affordability for all people (PC 2017b). LUPAZ regulations are justified to the extent they ensure due regard is given to the effect that new developments have on the ‘liveability’ of cities and their efficiency as places to conduct business.

The Commission (PC 2017, p. 37) has flagged a range of clear and practical initiatives in the LUPAZ space that could be progressed immediately and deliver around \$1.5 billion per year in net benefits. These net benefits arise from reducing costs associated with development delays, including the holding costs of land, documentation and development risks.

However, LUPAZ itself can generate costs — those policies constrain the responsiveness of residential construction, which means that increased demand for housing tends to push up prices rather than result in additional supply (Duranton and Puga 2013; Hilber and Vermeulen 2016; PC 2017b). Recent estimates from the Reserve Bank of Australia (Kendall and Tulip 2018) suggested that planning and zoning restrictions could contribute two-fifths of the cost of a house in Sydney or Melbourne and nearly a third of the cost in Brisbane.

Inclusionary zoning refers to requirements or inducements for property developers to make some proportion of dwellings in new developments available at below market rates. This provides the direct benefit of increasing the availability of affordable housing for given developments, and reducing its geographical segregation (Spiller and Anderson-Oliver 2015). However, costs are likely to be borne by purchasers or renters of market rate housing in the form of higher prices, as well as by developers and land sellers (Brooks, Galle and Maher 2018; Daley, Coates and Wiltshire 2018). The relative merit of this kind of cross-subsidy as a method of paying for affordable housing, compared with tax-financed programs, is the subject of debate (Brooks, Galle and Maher 2018).

To date, inclusionary zoning measures have only been implemented on a limited scale in most Australian jurisdictions, with South Australia having the strongest requirements (Gurran et al. 2018).

**Table 1.2 Policy instrument taxonomy**

<i>What is the desired outcome?</i>	<i>What are the main policy levers that target the desired outcome?</i>	<i>What are the main mechanisms through which the policy lever operates, and its main effects?</i>	<i>What might be the other effects of the policy lever?</i>	<i>Is the lever considered in this study?</i>
Improve the affordability of private rental properties for vulnerable renters	<b><i>Policies specific to the private rental market</i></b>			
	Commonwealth Rent Assistance (CRA)	Directly subsidises private rentals for people with low incomes (demand-side effect). Cushions low-income households from rapid movements in market rents.	Short-run concerns that landlords may increase rents. Longer-run signals for suppliers to build more affordable housing.	Yes
	National Rental Affordability Scheme (NRAS)	Subsidises the cost of supplying affordable private rental properties (supply-side effect), directly benefiting NRAS tenants.	By increasing supply it may lower market rents in the short run, but by displacing other development the long-run effects would be small.	Yes
	<b><i>Policies that affect the broader housing market</i></b>			
	Social housing	Provides affordable housing for low-income households and stable housing for people with complex needs. Affects the demand for private rental properties.	May affect labour market mobility.	No
	Land use planning and zoning (LUPAZ), including inclusionary zoning	Affects the supply of housing, for example by limiting the density of new developments. Inclusionary zoning directly mandates or incentivises the inclusion of below market rate housing in new developments.	May affect rental prices. Inclusionary zoning may raise construction costs for dwellings sold at market rates.	No
	Tax policy (for example, capital gains tax treatment of housing, negative gearing, land tax, stamp duty) and investment incentives	Affects incentives to invest in housing, including private rental, and other asset classes.	May affect rental prices.	No

(continued next page)

Table 1.2 (continued)

<i>What is the desired outcome?</i>	<i>What are the main policy levers that target the desired outcome?</i>	<i>What are the main mechanisms through which the policy lever operates, and its main effects?</i>	<i>What might be the other effects of the policy lever?</i>	<i>Is the lever considered in this study?</i>
Improve the quality of rental experiences among vulnerable renters	<b>Residential tenancy legislation</b> , in particular:			
	• setting minimum notice periods	Allows adequate time for tenant to plan and save for an expensive and unexpected house move.	Minimises other costs of moving, for example, schooling disruptions for families with children, the loss of health and social networks.  Could affect owners' ability to dispose of their investment property in a timely manner.	Yes
	• abolishing 'no cause' evictions	Decreases the negotiating power of landlords relative to tenants.	May reduce the supply of rental properties and result in more legal disputes.	Yes
	• setting minimum quality of rental property standards <sup>a</sup>	Compliance and enforcement of regulation to ensure rental properties are safe and adequate to live in.	If set too high, can reduce the supply of rental properties and increase the price of remaining rental properties.	No
	Removing barriers to institutional investment, including build-to-rent developments	Incentivises higher quality builds and greater certainty of tenure with timely (onsite) access to repair and maintenance for tenants.	Displaces supply of other rental properties and so unlikely to improve affordability	Yes

<sup>a</sup> Rental property standards contained in residential tenancy legislation should not be confused with building quality and construction standards contained in other types of legislation.

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## Rent control

Rent control policies seek to improve affordability by directly controlling the level of rents or the extent to which they can increase over time. Such controls over private dwellings are common in some countries (Kollmorgen 2014; Whitehead and Williams 2018). They were widespread prior to the 1950s in Australia but have been largely dismantled (IPA 1954; Schneller 2013). Nowadays, Australian jurisdictions limit rent control in their residential tenancy laws to allowing tenants to dispute ‘excessive’ increases within the period of a tenancy agreement (Martin, Hulse and Pawson 2018). Tighter rent controls are still occasionally advocated as a tool for reducing rental stress in Australia (Du 2017).

Rent controls are an ineffective lever to improve affordability of private rentals. While controls may benefit tenants lucky enough to occupy rent-controlled dwellings, this comes at the cost of ultimately reducing the supply of rental housing (Diamond 2018; Diamond, McQuade and Qian 2018). They can also have other negative effects, including reducing the quality of the rental stock (Halket 2016; Rajasekaran, Treskon and Greene 2019), increasing the cost of matching tenants and landlords, and reducing tenant mobility (for example, Diamond 2018; Diamond, McQuade and Qian 2018; Oust 2018; Rajasekaran, Treskon and Greene 2019). Somewhat perversely, rent controls may also limit the availability of affordable accommodation to low-income tenants as landlords may use a range of selection criteria (such as a higher income) to lower the risk of rent arrears.

## Structure of this paper

The remainder of this paper is structured as follows:

- chapter 2 discusses how the Commission has identified vulnerable renters, and looks at their prevalence and how it has changed over time
- chapter 3 examines price-related measures of housing experiences (especially among low-income private renters)
- chapter 4 turns attention to the quality-related dimensions of housing experiences and the consequences of those experiences for vulnerable private renters
- chapter 5 concludes with a discussion of selected policies that seek to assist vulnerable tenants in the private rental market.



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## 2 Vulnerable renters: patterns and trends

### Key points

- Vulnerable renters are those most susceptible to economic and social disruption as a result of negative events, such as rent increases or eviction. In this study, vulnerable renters are identified using characteristics that are associated with disadvantage, such as having a low income, being a single parent and having a disability.
- Low income is prevalent among the other dimensions of vulnerability.
  - Among private renters, low-income households (those falling into the bottom two quintiles of the equalised household income distribution) made up 57 per cent of single-parent households, 85 per cent of households where the household head or main income earner is unemployed, and 88 per cent of households where the household head's main source of income is government payments.
- There were around a million low-income households, made up of about 2 650 000 people, in the private rental market in 2018. Private renters were more likely to have characteristics associated with disadvantage than owner-occupiers, but less likely than renters of public housing.
  - Households comprising single-parent households, someone with a disability or a long-term health condition were also over-represented in private renting compared with owner-occupation.
- Over time, low-income households and other disadvantaged groups have become more likely to rent in the private market. The proportion of low-income households renting in the private rental market increased from 16 per cent in 1994-95 to 27 per cent by 2017-18.

The focus of this research paper is on vulnerable renters. This is because they are more likely than other types of renters to have ‘negative’ private rental market experiences — such as needing to make frequent, involuntary moves, or spending a significant portion of income on rent — and to suffer more severe consequences — such as falling into marginal housing or homelessness — as a result. This chapter discusses how the Commission has identified vulnerable renters (section 2.1). It also examines their prevalence in the private rental market (section 2.2) and how that prevalence has changed over time (section 2.3).

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## 2.1 Identifying vulnerable private renters

The Commission has adopted the term ‘vulnerable’ renters to describe people who are experiencing, or are at greater risk of experiencing, social and economic disadvantage. For people who are already facing greater struggles than others in life more broadly, an additional negative experience as a renter is more likely to cause them meaningful harm.

Disadvantage is a multifaceted concept (box 2.1). Traditionally, disadvantage was understood as poverty, or a lack of material resources. More recently, however, researchers’ understanding of the concept has extended to encompass less tangible life experiences, such as the opportunities that people have and their engagement within the community (McLachlan, Gilfillan and Gordon 2013).

The complex nature of disadvantage means there is no single nor exhaustive list of characteristics that can be used to identify vulnerable renters. One approach is to use characteristics that are known to be *associated* with disadvantage, such as:

- having a low income
- being a sole parent or a child in a sole-parent household
- being unemployed
- having a disability
- being reliant on government payments
- having a low level of education (Davidson et al. 2018; McLachlan, Gilfillan and Gordon 2013; Phillips et al. 2013).

The Commission has used low income as the primary indicator of vulnerability, with the remaining attributes used to corroborate the results of the income-based analysis. Low-income renters have been defined as those in the 3rd to 40th percentiles of the equivalised disposable household income distribution (box 2.2), but, on occasion, the focus has been narrowed to those in the bottom quintile or decile, to illuminate the experiences of those with heightened vulnerability.

Using income to identify vulnerable renters is an imperfect approach — individuals with low incomes are not necessarily disadvantaged, or at risk of becoming so. For example, many tertiary students, including those from financially comfortable backgrounds, will have low incomes in the short term before experiencing a large increase in their earning capacity upon graduating. Low-income individuals may also have large stores of wealth to draw on.

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## Box 2.1      **Conceptualising disadvantage**

Disadvantage is complex and can be caused by a confluence of factors. While disadvantage has traditionally been associated with monetary measures of poverty, there has been a push towards a broader view in an effort to capture the multitude of factors that affect wellbeing.

There are four lenses through which to view disadvantage: poverty, deprivation, capability and social exclusion.

### **Poverty**

An individual is considered to be living in poverty if their income is too low to maintain an acceptable standard of living. There are two broad measures of income poverty.

- *Absolute income poverty* describes income insufficient to afford basic needs such as food, clothing and shelter.
- *Relative income poverty* is defined with respect to the 'typical' income of the rest of society, where one is considered impoverished if their income falls sufficiently below this level. The threshold used by the OECD is 50 per cent of median household income, adjusting for the composition of the household.

### **Deprivation**

Deprivation describes the inability of individuals to afford items, activities and services deemed essential by society. A person is more disadvantaged the greater the number of necessary items they are unable to access, such as dental care or a comfortable home. This approach aims to measure living standards directly, rather than attempting to infer them through measures of income.

### **Capability**

The capability approach looks beyond the realised outcomes of individuals and focuses on the *opportunity* to achieve desired outcomes. Under this framework, an individual's disadvantage stems from a lack of key capabilities, preventing them from living a life they would value. Amartya Sen, the architect of the capability approach, explained that this perspective '...relates the evaluation of the quality of life to the assessment of the capability to function' (Sen 1989, p. 43).

### **Social exclusion**

Social exclusion concerns the multi-dimensional needs of people to participate fully in society. As the Brotherhood of St Laurence (2018, p. 1) stated:

The concept of social exclusion captures the many overlapping factors that may exclude a person from society, rather than income alone.

Social exclusion tends to emphasise the ability of people to participate in community life and have meaningful connections with others. However, other factors such as access to education, health services and transport, and non-material aspects such as stigma and denial of rights, are also relevant.

The complex nature of disadvantage means that, in some cases, possessing a particular combination of characteristics can suggest disadvantage, although possessing each on its own may not. For example, being only of retirement age or only a private renter does not necessarily mean a person is disadvantaged, but being both makes it more likely that they are so.

*Sources:* ACOSS (2012); Brotherhood of St Laurence (2018); McLachlan, Gilfillan and Gordon (2013); OECD (2019); Sen (1989).

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### Box 2.2      **Defining low-income private renters**

The Commission's definition of low-income households as those in the 3<sup>rd</sup> to 40<sup>th</sup> percentiles of the equivalised disposable household income distribution draws inspiration from two sources.

- Academic research on private renters commonly considers low-income renters to be those in the bottom two quintiles of the income distribution (ABS 2013b; Hulse et al. 2015; Parkinson, James and Liu 2018).
- The Australian Bureau of Statistics (ABS 2015b), in its 2013-14 *Survey of Income and Housing* (SIH), defines low-income households as those in the bottom quintile of the equivalised disposable household income distribution. However, those in the bottom two percentiles are excluded because, in analysing data from the 2011-12 SIH, the ABS found that these households tended to have relatively high household expenditures and net worth. They are therefore unlikely to reflect households experiencing true economic hardship.

Nevertheless, the Commission has chosen to use low income as its main indicator of vulnerability because:

- income is a reasonable proxy for other characteristics of vulnerability. For example, in 2017-18, among private renters, 85 per cent of households headed by an unemployed person and 57 per cent of single-parent households were also low-income households (table 2.1)
- income is a straightforward criteria to apply, and data on income are widely available, including from the Australian Bureau of Statistics' (ABS) *Survey of Income and Housing* (SIH) and the *Census of Population and Housing*, and the Melbourne Institute's *Household, Income and Labour Dynamics in Australia* (HILDA) Survey.

The Commission has also supplemented its quantitative analysis with qualitative descriptions of the 'lived experience' of selected groups of renters, to help provide a richer understanding of these renters' experiences (chapter 4).

## 2.2      **How vulnerable are private renters?**

Disadvantaged people can be found in all forms of housing tenure. However, they are more prevalent among private renters compared with owner-occupiers, but less prevalent when compared with public housing tenants (public renters). These results are not surprising, as being an owner-occupier requires the ability to purchase a home — something made more difficult by having a low income or possessing other characteristics of disadvantage. Similarly, selection into public housing is primarily on the basis of disadvantage.

**Table 2.1      Income is a reasonable indicator of vulnerability**  
Proportion of private renter households, by various characteristics, that are low-income, 2017-18

<i>Household characteristic</i>	<i>Low-income (%)</i>
Includes at least one person aged 65 or over	69
Includes at least one unemployed person	67
Household reference person <sup>a</sup> is unemployed	85
Household reference person's main source of income is government pensions and allowances	88
Includes at least one person with a disability or long-term health condition	51
Household reference person has a disability or long-term health condition	56
Includes at least one person with a disability that results in a limitation or restriction	58
Household reference person has a disability or long-term health condition that results in a limitation or restriction	65
Household reference person's highest level of education is Year 10	64
Single-parent household	57
Includes at least one person of Aboriginal or Torres Strait Islander origin <sup>b</sup>	59

<sup>a</sup> The ABS identifies household reference persons by applying the following criteria, in the order listed, to all members of a household aged 15 years and over until a single person is identified: the person with the highest tenure when ranked as follows: owner without a mortgage, owner with a mortgage, renter, other tenure; one of the partners in a registered or de facto marriage, with dependent children; one of the partners in a registered or de facto marriage, without dependent children; a lone parent with dependent children; the person with the highest income, the eldest person. <sup>b</sup> This estimate is derived from the 2017 *Household, Income and Labour Dynamics (HILDA) Survey*.

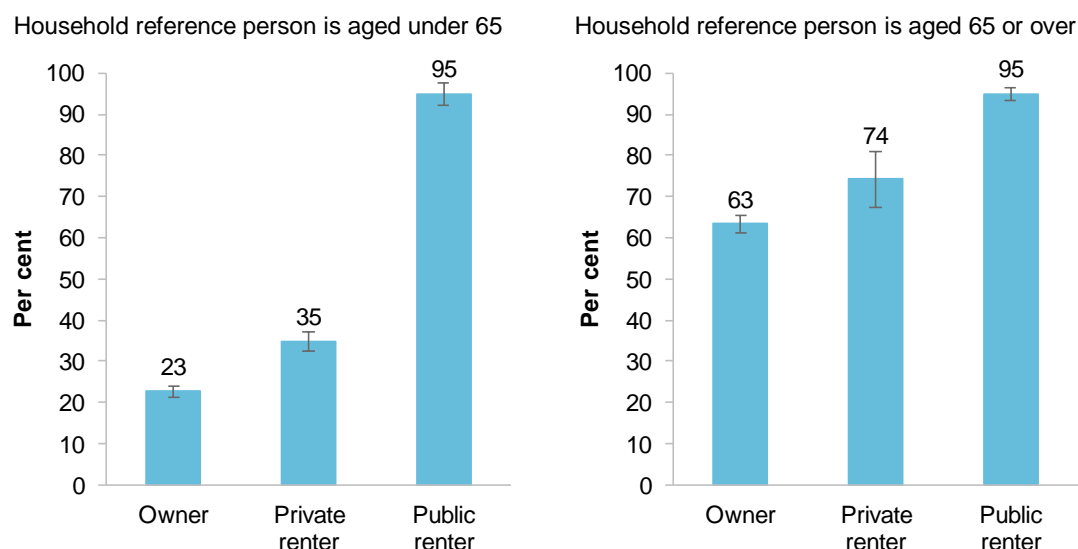
Source: Productivity Commission estimates using ABS (*Microdata: Household Expenditure, Income and Housing, 2017-18*, Cat. no. 6540.0), and Melbourne Institute (*Household, Income and Labour Dynamics in Australia (HILDA) Survey*, release 17).

## Private renters are more disadvantaged than owner–occupiers but less disadvantaged than public housing tenants

Private renters are much younger on average than those occupying other forms of tenure (appendix B). To account for this, comparisons of other characteristics of households by tenure are presented separately for cohorts where the household's reference person (figure 2.1) is aged under 65 (working age), and those where they are 65 or over (retirement age).

**Figure 2.1 A greater proportion of private renter than owner–occupier households have low incomes**

Proportion of low-income households by tenure type and age of household reference person, 2017-18<sup>a,b,c</sup>



<sup>a</sup> The income variable used is equivalised household disposable income. Households with incomes in the first and second percentiles have been excluded from the analysis. <sup>b</sup> The ABS identifies household reference persons by applying the following criteria, in the order listed, to all members of a household aged 15 years and over until a single person is identified: the person with the highest tenure when ranked as follows: owner without a mortgage, owner with a mortgage, renter, other tenure; one of the partners in a registered or de facto marriage, with dependent children; one of the partners in a registered or de facto marriage, without dependent children; a lone parent with dependent children; the person with the highest income, the eldest person. <sup>c</sup> Vertical error bars show 95% confidence intervals based on the 60 replicate weights provided in the data.

Source: Productivity Commission estimates using ABS (*Microdata: Household Expenditure, Income and Housing, 2017-18*, Cat. no. 6540.0).

Private renter households tend to have materially lower weekly equivalised incomes (defined in chapter 1) than owner–occupiers — with a median of \$902 versus \$1097 for working-age households, and \$567 compared with \$614 among those of retirement age in 2017-18 (ABS 2019c). Similarly, a greater proportion of private renters had low incomes than did owner–occupiers among both age groups (figure 2.1).

By contrast, tenants in public housing tend to have much lower incomes than those in both owner–occupied and private rental housing. This is unsurprising, given that public and other forms of social housing are designed to accommodate the most disadvantaged in society. As the Victorian Department of Health and Human Services (2018, p. 1) stated, social housing is ‘... for people on low incomes who need housing, especially those who have recently experienced homelessness, family violence or have other special needs’.

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Private renter households of working and retirement age are also more likely than their owner–occupier counterparts, and less likely than public renters, to be:

- headed by someone who was unemployed, or had government benefits as their main source of income (figure 2.2)
- single parent households (figure 2.3, panel a)
- headed by someone whose highest level of education was year 10 (figure 2.3, panel b).

However, private renter households were slightly less likely than owner–occupiers (and again less likely than public renters) to include someone with a disability or long-term health condition (figure 2.3, panel c).

### Low-income private renters are more likely than owner–occupiers to be going without

The deprivation approach to conceptualising disadvantage involves looking at a person’s inability to afford things regarded as essentials (box 2.1). In accordance with this approach, households in the 2014 HILDA Survey were asked whether they did not have access to 22 items<sup>13</sup>, and if so, whether this was because they could not afford them. Those who answered yes to both questions were classified as being deprived of that item (Wilkins 2016).

By this measure, private renter households are more likely to be materially deprived than owner–occupiers, though less likely than social renters (table 2.2). In particular, there was a large difference in deprivation rates across tenures for items associated with managing risk, such as having at least \$500 in savings for an emergency, purchasing home contents and comprehensive vehicle insurance, and funding dental treatment when needed. Thus, as well as indicating that private renters more commonly find themselves in poor living situations than do owner–occupiers, the deprivation statistics suggest that they are more vulnerable to harm when met with negative events.

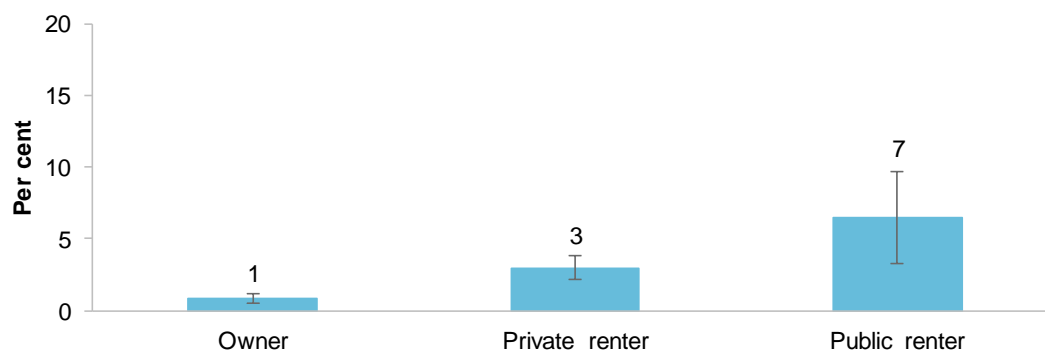
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<sup>13</sup> A further four items were included in the survey, but were not regarded as essential by a majority of surveyed households.

**Figure 2.2 Working-age private renter households are more likely than owner-occupiers to rely on government payments, and slightly more likely to be unemployed**

Proportion of households with various characteristics, by tenure and age of household reference person, 2017-18<sup>a,b</sup>

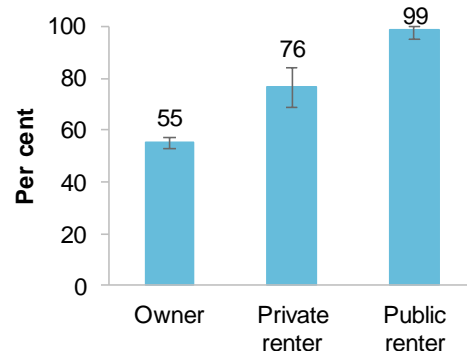
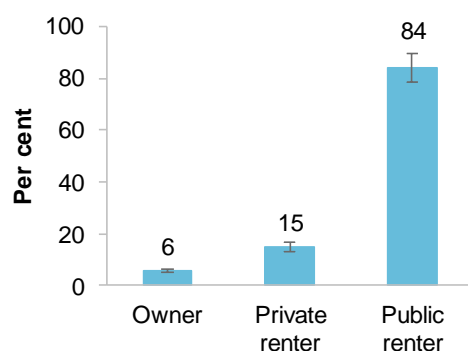
*a. Household's reference person is unemployed (reference person is aged under 65)<sup>c</sup>*



*b. Household's reference person's main source of income is government payments*

Household reference person is aged under 65

Household reference person is aged 65 or over



<sup>a</sup> The ABS identifies household reference persons by applying the following criteria, in the order listed, to all members of a household aged 15 years and over until a single person is identified: the person with the highest tenure when ranked as follows: owner without a mortgage, owner with a mortgage, renter, other tenure; one of the partners in a registered or de facto marriage, with dependent children; one of the partners in a registered or de facto marriage, without dependent children; a lone parent with dependent children; the person with the highest income, the eldest person. <sup>b</sup> Vertical error bars show 95% confidence intervals based on the 60 replicate weights provided in the data. <sup>c</sup> Retirement age households are not shown for this characteristic as the proportion whose reference person was unemployed was less than one per cent for each tenure.

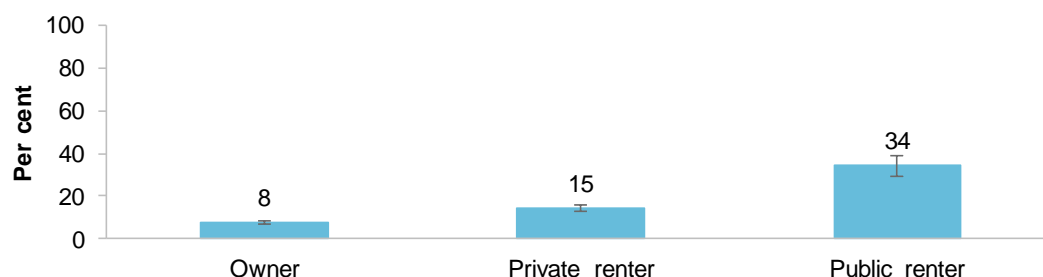
Source: Productivity Commission estimates using ABS (*Microdata: Household Expenditure, Income and Housing, 2017-18*, Cat. no. 6540.0).



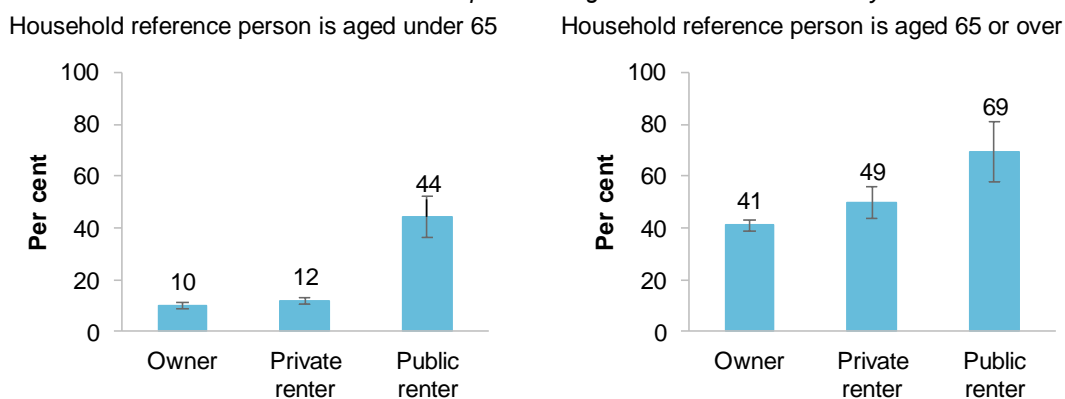
**Figure 2.3 Private renter households are more likely than owner-occupiers to be single parents or have low education levels, but not to have a disabilities or long-term health conditions**

Proportion of households with various characteristics, by tenure and age of household reference person, 2017-18<sup>a,b</sup>

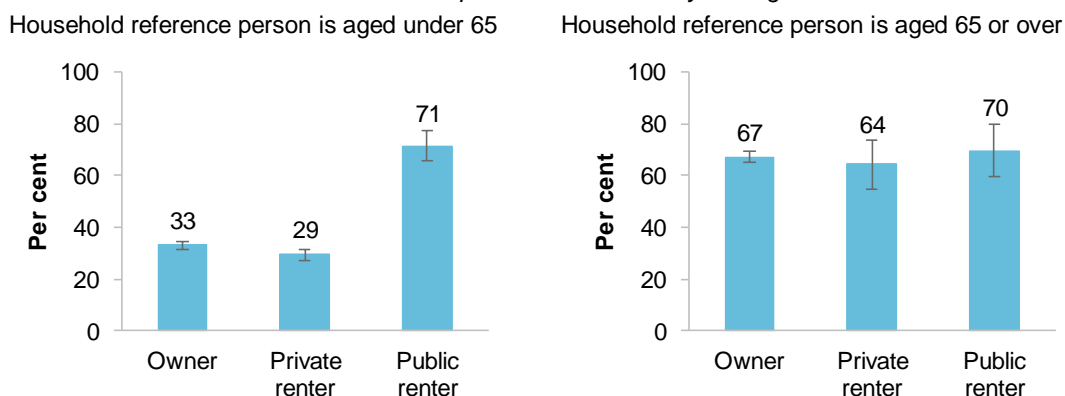
*a. Single parent household (reference person is aged under 65)*



*b. Household's reference person's highest level of education is year 10*



*c. Household has at least one person with a disability or long-term health condition*



<sup>a</sup> The ABS identifies household reference persons by applying the following criteria, in the order listed, to all members of a household aged 15 years and over until a single person is identified: the person with the highest tenure when ranked as follows: owner without a mortgage, owner with a mortgage, renter, other tenure; one of the partners in a registered or de facto marriage, with dependent children; one of the partners in a registered or de facto marriage, without dependent children; a lone parent with dependent children; the person with the highest income, the eldest person. <sup>b</sup> Vertical error bars show 95 per cent confidence intervals based on the 60 replicate weights provided in the data.

Source: Productivity Commission estimates using ABS (*Microdata: Household Expenditure, Income and Housing, 2017-18*, Cat. no. 6540.0).

**Table 2.2 Material deprivation is more common among low-income private renters than their owner–occupier counterparts**

Rates of item-specific material deprivation among low-income owner–occupier, private renter and social renter households, 2014<sup>a</sup>

<i>Essential items</i>	<i>Owner–occupier</i>	<i>Private renter</i>	<i>Social renter</i>
	(%)	(%)	(%)
At least \$500 in savings for an emergency	10.6	30.2	45.7
Home contents insurance	5.4	25.0	45.9
Comprehensive motor vehicle insurance	4.7	12.4	14.6
Dental treatment when needed	5.7	11.5	14.0
Motor vehicle	1.5	7.1	18.4
Get together with friends or family for a drink or meal at least once a month	3.9	4.7	6.5
A hobby or regular leisure activity for children	1.1	4.1	1.6
Medical treatment when needed	1.0	2.9	1.3
New school clothes for school-aged children every year	2.9	2.7	1.5
Yearly dental check-up for each child	1.0	2.3	1.8
Roof and gutters that do not leak	3.9	2.1	2.8
A separate bed for each child	0.1	1.2	0.1
Ability to keep at least one room of the house adequately warm when it is cold	0.9	1.2	3.4
A home with doors and windows that are secure	1.1	1.1	0.8
Medicines prescribed by a doctor	0.6	1.0	1.0
A decent and secure home	0.3	1.0	0.8
A washing machine	0.1	0.9	2.5
Furniture in reasonable condition	0.5	0.8	2.5
Children able to participate in school trips and events that cost money	1.0	0.6	0.2
A substantial meal at least once a day	0.3	0.4	0.2
Warm clothes and bedding if it is cold	0.0	0.3	0.7
Telephone (landline or mobile)	0.1	0.2	0.4
<i>Other items included in survey but not classified as essential <sup>a</sup></i>			
A week's holiday away from home each year	19.0	32.5	43.2
Internet at home	2.3	5.6	11.7
Presents for immediate family or close friends once a year	3.6	4.4	8.5
A television	0.0	0.2	1.1

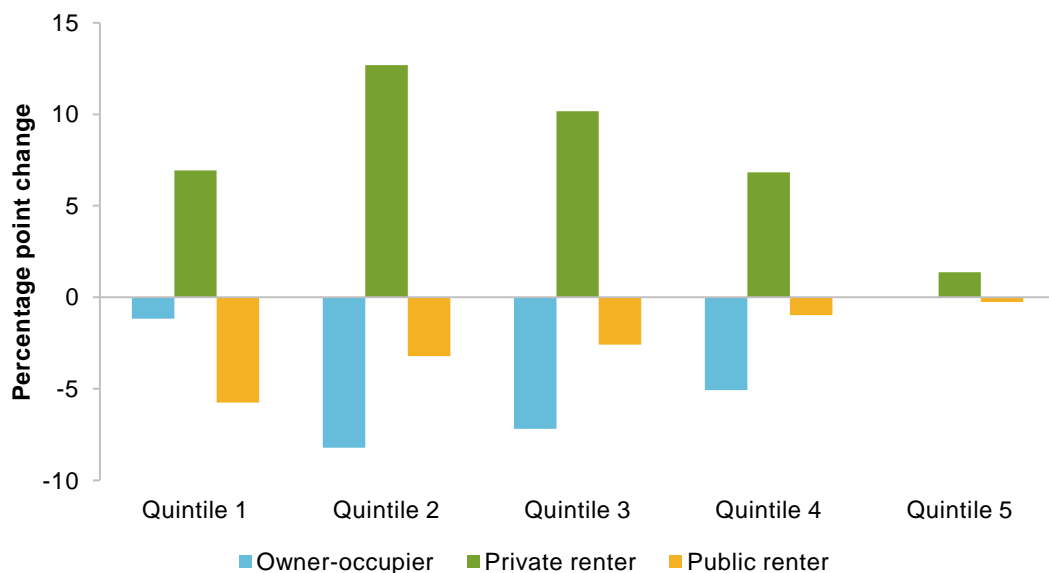
<sup>a</sup> These items were not regarded as essential by a majority of households.

Source: Productivity Commission estimates using Melbourne Institute (*Household, Income and Labour Dynamics in Australia* (HILDA) Survey, release 17).

## 2.3 Disadvantaged people are increasingly renting in the private market

The trend towards private renting in the past two decades (1994-95 to 2017-18) has been led by households in the low and middle income quintiles (figure 2.4). An accompanying decrease in owner-occupation explained most of the change, but the decline of public housing relative to population growth was the more significant contributor for households in the bottom quintile.

**Figure 2.4 Households in the low- and middle-income quintiles have moved into the private rental market in greater numbers**  
Percentage point change in the proportion of households in different tenures between 1994–96 (averaged), and 2015–18 (averaged), by equivalised household income quintile<sup>a,b,c</sup>



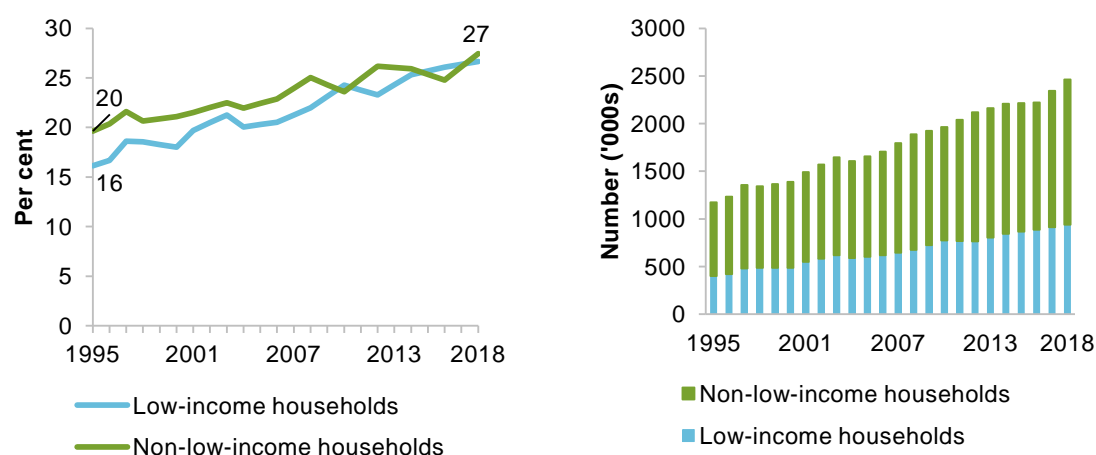
<sup>a</sup> Changes are calculated as the difference between the averaged proportions from the 1994-95 and 1995-96 survey years, and those from the 2015-16 and 2017-18 survey years. Averages are used to account for volatility. <sup>b</sup> The change in public renting for quintiles 4 and 5 is to the 2015-16 survey year. The proportion for 2017-18 could not be used for confidentiality reasons, and differs negligibly. <sup>c</sup> The 'other' tenure category is not shown here, meaning the changes within each quintile do not sum to zero. The category accounted for between 3 and 5 per cent of households over the period.

Sources: Productivity Commission estimates using ABS (*Microdata: Household Expenditure, Income and Housing, 2015-16*, Cat. no. 6540.0, and *Microdata: Household Expenditure, Income and Housing, 1994-95, 1995-96, 2017-18*, Cat. no. 6541.0.30.001).

At the start of that period, low-income households began renting in the private market at a *lower* rate than all other households, with the gap having closed by its end (figure 2.5). As of 2018, around a million households, made up of about 2 650 000 people, were renting in the private market.<sup>14</sup>

Households including a person with a long-term health condition, disability or impairment; single parent households; households with at least one person aged 65 years or over; households including at least one unemployed person, and those including someone of Aboriginal or Torres Strait Islander origin were all also renting at higher rates by the end of the period compared with its start (table 2.3).

**Figure 2.5 Increases in private renting have been more pronounced among low-income households**  
Rate of private renting (left panel), and number of private renter households (right panel) among low-income and non-low-income households, 1994-1995 to 2017-2018<sup>a,b</sup>



<sup>a</sup> The variable used is equivalised household disposable income. <sup>b</sup> Year labels on the horizontal axis refer to the second calendar year of the financial year. Values for years in which data is not available (1999, 2002, 2005 and all odd-numbered years thereafter) have been set equal to the average of their preceding and following years.

Sources: Productivity Commission estimates using ABS (*Microdata: Household Expenditure, Income and Housing, 2003-04, 2009-10 and 2015-16*, Cat. no. 6540.0, and *Microdata: Income and Housing, Australia, 1994-95, 1995-96, 1996-97, 1997-98, 1999-00, 2000-01, 2002-03, 2005-06, 2007-08, 2011-12, 2013-14 and 2017-18*, Cat. no. 6541.0.30.001).

<sup>14</sup> Data from the ABS' *Survey of Income and Housing* (SIH), and Melbourne Institute's *Household, Income and Labour Dynamics in Australia* (HILDA) Survey produce different estimates for the number of low-income households in the private rental market. Based on the SIH, there were 940 000 of such households, and 2 550 000 people, in 2017-18. The equivalent numbers based on HILDA in 2017 were 1 090 000 and 2 750 000.

**Table 2.3 Households with other characteristics relating to vulnerability are also renting at higher rates**

Number of private renter households and private renting rates, 2001 to 2017<sup>a</sup>

Household characteristic	2001		2017		Growth in number of households	Change in private renting rate
	(Number of households)	(%)	(Number of households)	(%)	(%)	(Percentage point)
Includes at least one person with a long-term health condition, disability or impairment	440 000	16	710 000	21	+ 62	+ 5
Single parent household <sup>c</sup>	290 000	33	410 000	36	+ 42	+ 4
Includes at least one person aged 65+	80 000	5	220 000	9	+ 174	+ 4
Includes at least one unemployed person	190 000	33	190 000	35	+ 1	+ 2
Includes at least one person of Aboriginal or Torres Strait Islander origin	50 000	28	120 000	41	+ 121	+ 13
<b>All households<sup>b</sup></b>	<b>1 590 000</b>	<b>22</b>	<b>2 540 000</b>	<b>28</b>	<b>+ 59</b>	<b>+ 6</b>

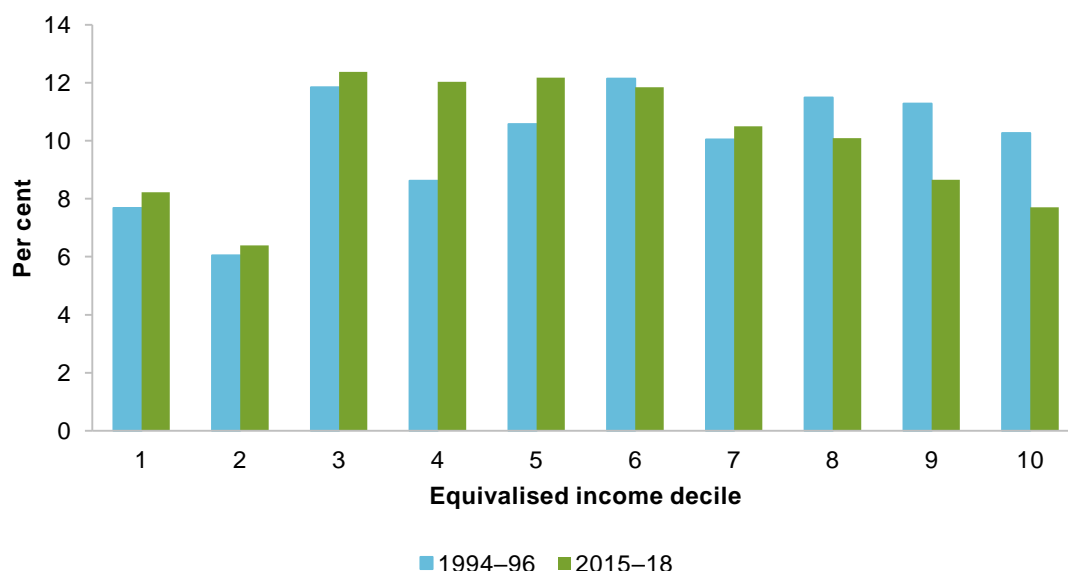
<sup>a</sup> Estimates in this table are based on the *Household, Income and Labour Dynamics in Australia* (HILDA) Survey due to greater data availability in earlier years. Percent rates of private renting are averages from 2001 to 2003, and 2015 to 2017, to account for volatility. Excludes households made up of multiple family groups, which may include single parents. <sup>b</sup> Refers to the total population of private renter households, including those without any of the characteristics in the rows above. Note the estimated number of private renter households from the *Census of Population and Housing*, used elsewhere in this report, is lower due to non-reporting of tenure type.

Source: Productivity Commission estimates using Melbourne Institute (*Household, Income and Labour Dynamics in Australia* (HILDA) Survey, release 17).

## The share of low-income households in the private rental market has increased slightly since 1994-95

Given the moderately larger aggregate increase in the rate of private renting among low-income households relative to all others since 1994-95, their share of the private rental market has also risen slightly (figure 2.6). This, however, was driven mostly by households in decile four, and it is households in the third to sixth income deciles who make up the most disproportionate share of private renters.

**Figure 2.6 The private rental market is now made up of more low- to middle-income households, and fewer high-income ones**  
 Equivalised income decile distribution of private renter households, 1994–96 (averaged) and 2015–18 (averaged)<sup>a,b</sup>



<sup>a</sup> Distributions are the averages of those from the 1994-95 and 1995-96, and the 2015-16 and 2017-18 survey years, respectively. Averages are used to account for volatility. <sup>b</sup> The private renter distribution is constructed after the removal of households in the bottom two per cent of the equivalised income distribution. Households in the bottom decile hence make up slightly more than 8 per cent of the adjusted total population.

Source: Productivity Commission estimates using ABS (*Microdata: Household Expenditure, Income and Housing, 2015-16*, Cat. no. 6540.0, and *Microdata: Household Expenditure, Income and Housing, 1994-95, 1995-96, 2017-18*, Cat. no. 6541.0.30.001).

#### FINDING 2.1

While social housing (including public and community housing) accommodates many vulnerable tenants, the private rental market has been housing a growing share of low-income households. The proportion of low-income households renting privately increased from 16 per cent in 1994-95 to 27 per cent by 2017-18.

In 2018, around a million low-income households, made up of about 2 650 000 people, were renting in the private market. Many of these households have other characteristics associated with disadvantage. For example, the majority of single parent households (57 per cent) have low incomes, along with households where the head is unemployed (85 per cent) or has a disability or long-term health condition (56 per cent).

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## 3 Rental affordability

### Key points

- Obtaining affordable housing is a challenge for many low-income private renters.
  - Two-thirds of low-income private renter households spend more than 30 per cent of their income on rent and nearly half have less than \$500 a week to meet other expenses.
  - For some, affordability is extremely poor and the consequent financial pressures are likely to compound existing stresses. About 225 000 low-income private renter households (or about a quarter of low-income private renter households) spend more than half of their income on rent and about 170 000 (18 per cent) have less than \$250 a week to meet other expenses.
- At times, these vulnerable private renter households are buffeted by rapid movements in rents. For example, rents grew faster than incomes nationally between 2007-08 and 2011-12. Affordability in some private rental markets has deteriorated particularly sharply, such as in Perth during the mining boom and in Hobart in recent years.
- Steady economic growth over the past two decades has seen *rates* of ‘rental stress’ in the private rental market improve slightly.
- Nevertheless, the *number* of households in rental stress has grown rapidly because an increasing share of low-income households are renting in the private market, rather than renting in public housing or buying a home.
  - Between 1994-95 and 2017-18 the number of low-income households in rental stress in the rental market as a whole doubled (to reach about 710 000 households), while the total number of households in Australia increased by around 40 per cent. 615 000 of the low-income renter households in stress in 2017-18 were renting in the private market.
- In the private rental market, a range of vulnerable renters appear particularly likely to experience rental stress, including households reliant on government pensions and allowances (especially unemployment benefits), sole parents, people living alone and households headed by older people.
- Being employed is not a guarantee against rental stress, with underemployment a common contributing factor.
- Many people who experience rental stress only do so for a short period, but the persistence of rental stress has risen. Nearly half (47 per cent) of those who were in rental stress in 2013 were also in rental stress in 2017. The comparable figure over the period 2001 to 2005 was less than a third (31 per cent).

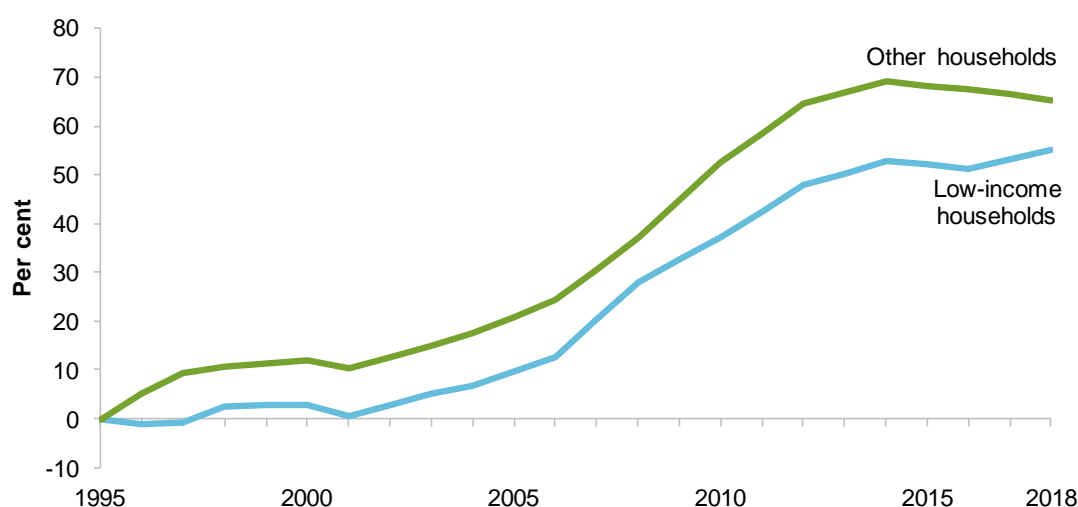
The affordability of renting has long been a concern for governments and researchers. This chapter analyses a range of affordability metrics — based on rent and disposable income<sup>15</sup> — to understand broad trends and patterns in affordability in the private rental market, and what it means for the welfare of low-income renters. It begins by briefly examining trends in rents over time (section 3.1). Later sections examine affordability (section 3.2) and measures of ‘rental stress’ (section 3.3). Finally, evidence is presented on the persistence of rental stress (section 3.4).

### 3.1 Rents in the private rental market have moderated following a period of strong growth

Nationwide, growth in average rents has slowed in recent years following a period of strong growth (figure 3.1). In real terms, the average rent paid by low-income households has generally moved in line with the rest of the market, and between 1994-95 and 2017-18 it increased by 55 per cent, compared to an increase of 65 per cent for other households.

**Figure 3.1 Rents have grown rapidly during some periods**

Change in real<sup>a</sup> average household rent paid in the private rental market, 1994-95 to 2017-18<sup>b</sup>



<sup>a</sup> Original data have been converted to 2018 dollars using the all groups consumer price index (CPI). <sup>b</sup> Year labels on the horizontal axis refer to the latter calendar year of the financial year. Values for years in which data is not available (1999, 2002, 2005 and all odd-numbered years thereafter) have been set equal to the average of their preceding and following years. This approach is also taken in other figures based on the same source data.

Sources: Productivity Commission estimates using ABS (*Microdata: Household Expenditure, Income and Housing, 2003-04, 2009-10 and 2015-16*, Cat. no. 6540.0), ABS (*Microdata: Income and Housing, Australia, 1994-95, 1995-96, 1996-97, 1997-98, 1999-00, 2000-01, 2002-03, 2005-06, 2007-08, 2011-12, 2013-14, 2017-18*, Cat. no. 6541.0.30.001), and ABS (*Consumer Price Index, Australia, June 2019*, Cat. no. 6401.0).

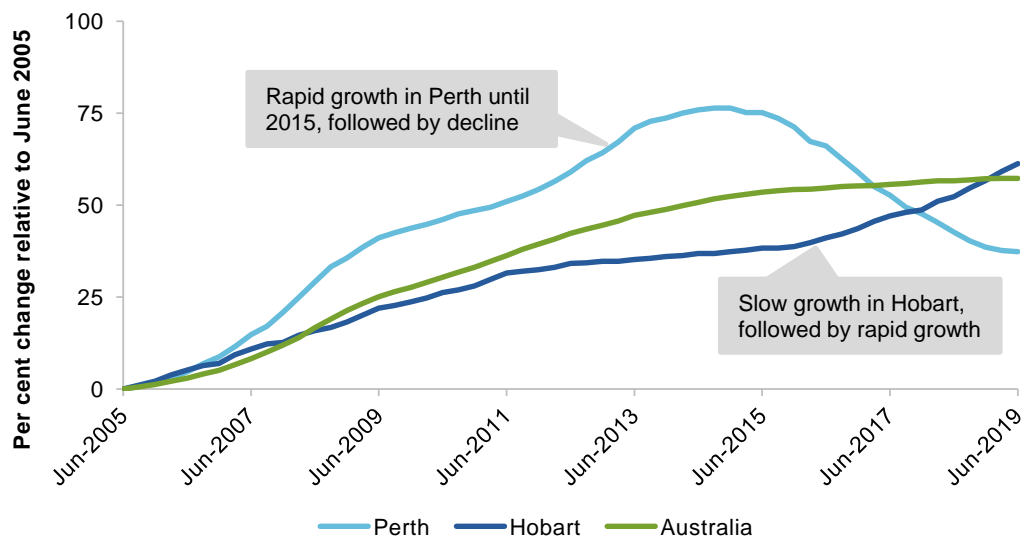
<sup>15</sup> Unless stated otherwise, ‘income’ refers to disposable income (that is, income left over after taxes).



Growth in rents varies by location (figure 3.2). For example, reflecting the resources boom, the Perth consumer price index (CPI) rent price index<sup>16</sup> increased by 75 per cent between June 2005 and June 2015, compared with 54 per cent Australia-wide. Since then, the Perth rent price index has declined, and in June 2019 was below where it was in June 2009.

Recently, rents in Hobart have increased rapidly, with the CPI rent price index increasing 14 per cent between June 2016 and June 2019. In the same period, the Australian rent price index increased by 2 per cent. Other data tell a similar story, with the median rent of new bonds lodged in Hobart increasing by 16 per cent between March 2016 and March 2019 (Tenants' Union of Tasmania 2016, 2019).

**Figure 3.2 Some markets have experienced substantially faster or slower growth in rents than the Australia-wide average**  
Rent price index, June 2005 to June 2019



Source: Rents Expenditure Class in ABS (*Consumer Price Index, Australia, June 2019*, Cat. no. 6401.0).

<sup>16</sup> The rent price index shown in figure 3.2 is prepared by the ABS for use in the calculation of its broader consumer price index (CPI). This rent price index is not directly comparable with the average cost of rent series calculated using ABS *Survey of Income and Housing* (SIH) data (figure 3.1) because the former tracks the rental price paid in the same set of around 4500 properties over time. This is done to ensure the rent price index does not capture changes in the quality of dwellings over time, which have been considerable (Gordon and vanGoethem 2007). In contrast, the SIH surveys different properties each year, so the rental cost data capture changes in quality.

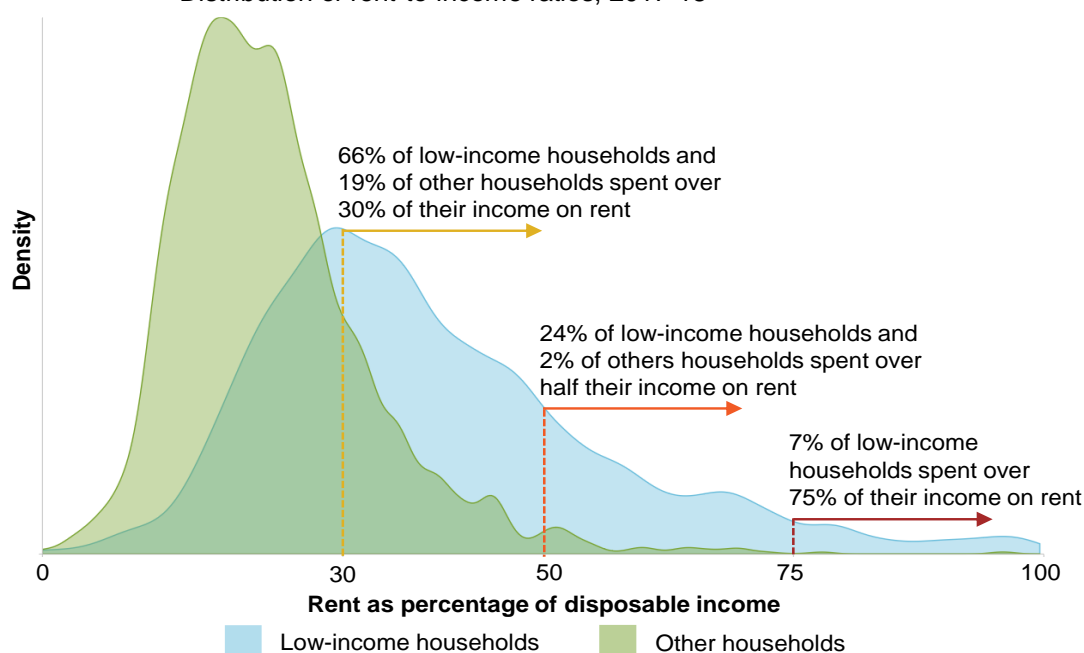
## 3.2 Rental affordability is poor for many in the private rental market

Rental affordability is about the capacity of a household to meet rental costs out of their income.

Many low-income households spend a considerable share of their income on rent. In 2017-18, 66 per cent of low-income private rental households (or some 615 000 households) spent over 30 per cent of their income on rent (figure 3.3).<sup>17</sup> However, many low-income households spend much more of their income on rent. Twenty-four per cent of low-income households (or about 225 000 households) spent more than half their income on rent. In contrast, most other private rental households spent a much smaller share.

Figure 3.3 **Many low-income private renters spend far more than 30 per cent of their income on rent ...**

Distribution of rent-to-income ratios, 2017-18<sup>a</sup>



<sup>a</sup> The figure shows how the distribution of rent-to-income ratios varies across low-income and other households (using kernel density estimation). The area under the line for each group shown sums to one.

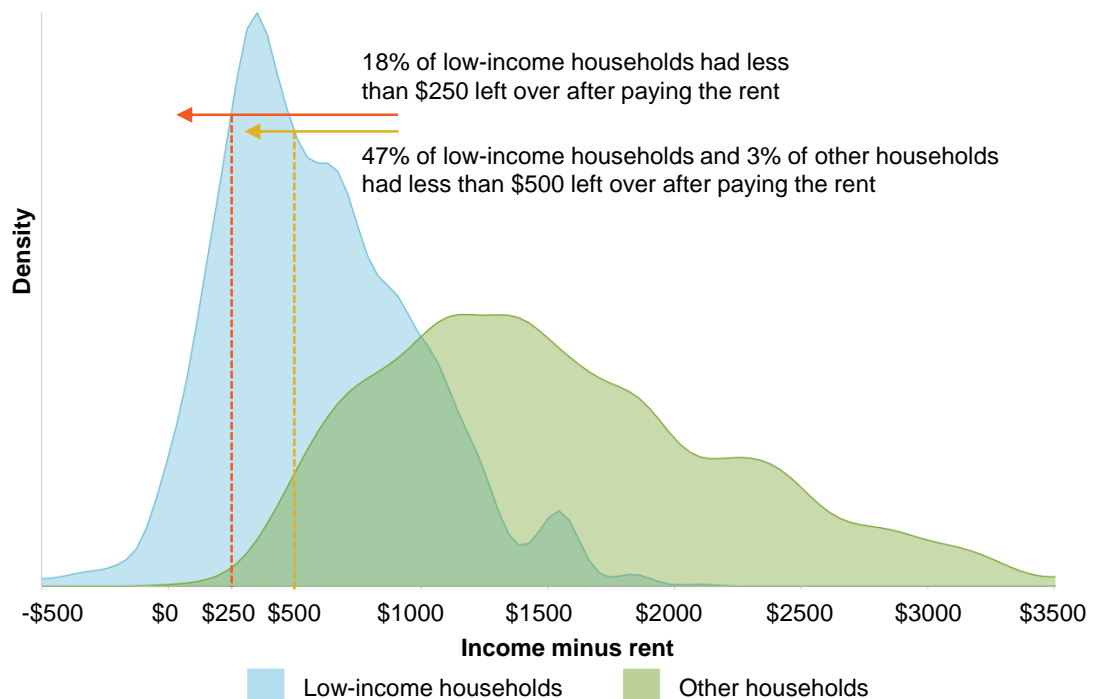
Source: Productivity Commission estimates using ABS (*Microdata: Income and Housing, Australia, 2017-18*, Cat. no. 6541.0.30.001).

<sup>17</sup> Figure 3.3 has been truncated for simplicity, but some households record rental costs higher than their income (rent-to-income ratios over 100). This may be explained in part by short-term variations in incomes, but may also indicate households drawing on savings or other sources of funds. The ABS SIH questionnaire appears structured to help avoid the collection of income data that represent short-term fluctuations. For example, there are questions about people's most recent pay, as well as whether it is the amount they usually receive.

As a result, most low-income households have little money left over after paying rent. Nearly half of all low-income private renter households had less than \$500 left over per week after paying the rent (figure 3.4). Only 3 per cent of other private renter households had this little money left after paying the rent. And while 18 per cent of low-income households had less than \$250 left over, this was virtually unheard of among other households.

**Figure 3.4 ... and have little money left to meet other expenses**

Distribution of the amount of money left over after subtracting household rent from household income per week, 2017-18<sup>a</sup>



<sup>a</sup> The figure shows a kernel density estimate, which is similar to a histogram. The area under the line for each group shown sums to one, but the value on the vertical axis can be greater than one.

Source: Productivity Commission estimates using ABS (*Microdata: Income and Housing, Australia, 2017-18*, Cat. no. 6541.0.30.001).

These two measures of affordability show similar trends over the past two decades. By both measures, rent was becoming more affordable for the average household over the decade or so to 2007-08. However, there was a sharp deterioration in affordability between 2007-08 and 2011-12 as a result of both more rapid rent increases and the slowdown in income growth (table 3.1). This is the case for both low-income and other households during that period. In the subsequent period (2011-12 to 2017-18), low-income households enjoyed income growth slightly higher than rental growth, giving rise to a slight improvement in rental affordability by this measure. In contrast, other households during this period experienced increases in rents while incomes stagnated, giving rise to reduced rental affordability.

**Table 3.1 Among low-income households, rents grew faster than income between 2007-08 and 2011-12, but not in other periods**

Annual average per cent change, private renter households, 1994-95 to 2017-18<sup>a</sup>

	1995 to 2008	2008 to 2012	2012 to 2018
<i>Low-income private renter households</i>			
Rent	1.9	3.7	0.8
Income	3.9	1.3	0.8
Income minus rent	5.0	0.0	0.8
<i>Other private renter households</i>			
Rent	2.5	4.6	0.1
Income	3.5	1.5	-0.1
Income minus rent	3.7	0.8	-0.2

<sup>a</sup> All series are measured in real terms after adjustment for inflation using the all groups CPI (ABS *Consumer Price Index, Australia, Jun 2019*, Cat. no. 6401.0). <sup>b</sup> Years in table column headings refer to the latter calendar year of the financial year.

Sources: Productivity Commission estimates using ABS (*Microdata: Income and Housing, Australia, 1994-95, 2007-08, 2011-12 and 2017-18*, Cat. no. 6541.0.30.001).

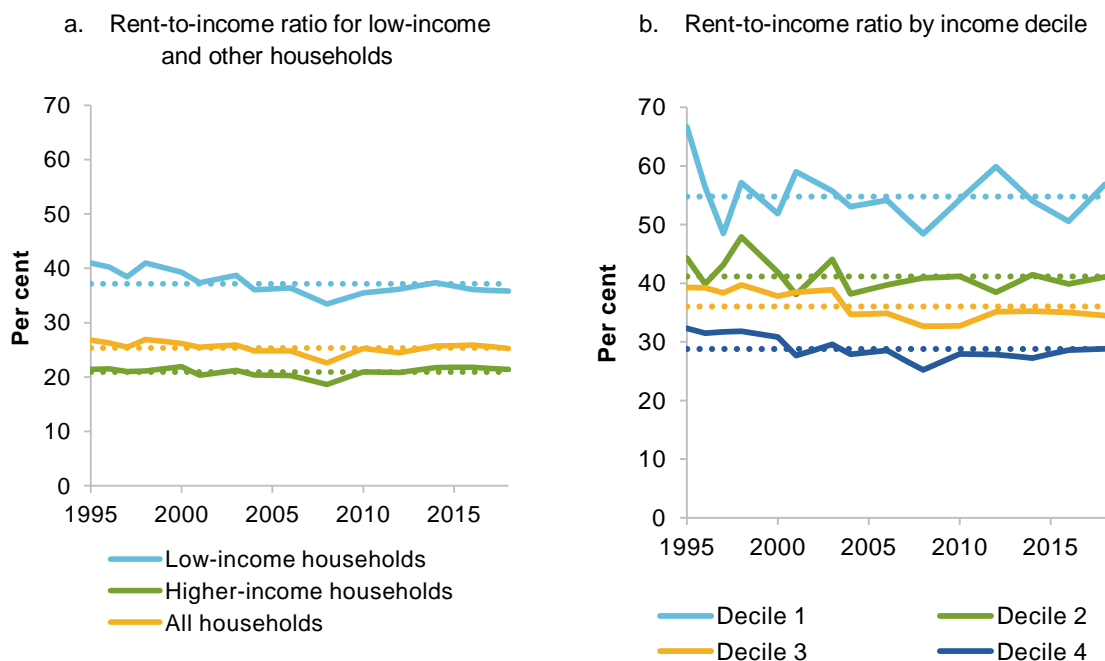
One way to summarise trends in affordability over time is to look at what is happening to rent-to-income ratios for the median household. By definition, half of all the households in each group analysed have rent-to-income ratios below the median.

Rent-to-income ratios have been consistently high for low-income private renter households, at around 35 to 40 per cent of disposable income (figure 3.5, panel a). While these ratios have not changed much over the long term, they are higher than for low-income public renter households, who typically spent 20 to 25 per cent of their disposable income on rent. While median rent-to-income ratios within each of the bottom four deciles exhibits greater volatility than that of all low-income households taken together, they too have been broadly stable over the long term (figure 3.5, panel b).

The median rent-to-income ratio across the private rental market as a whole has also been relatively stable since 1994-95, peaking at 27 per cent in 1994-95 and 1997-98, and going as low as 23 per cent in 2007-08 (figure 3.5, panel a), before increasing again. That is, on this measure affordability has not changed materially in the private rental market as a whole over the long term.

**Figure 3.5 Private rental affordability has remained steady over the past two decades**

Median rent-to-income ratios (dashed lines indicate averages), 1994-95 to 2017-18<sup>a</sup>



<sup>a</sup> Year labels on the horizontal axis refer to the second calendar year of the financial year.

Sources: Productivity Commission estimates using ABS (*Microdata: Household Expenditure, Income and Housing, 2003-04, 2009-10 and 2015-16*, Cat. no. 6540.0), and ABS (*Microdata: Income and Housing, Australia, 1994-95, 1995-96, 1996-97, 1997-98, 1999-00, 2000-01, 2002-03, 2005-06, 2007-08, 2011-12, 2013-14 and 2017-18*, Cat. no. 6541.0.30.001).

#### FINDING 3.1

Most low-income private renters spend much more than 30 per cent of their income on rent and around half have less than \$500 a week left over after paying their rent to meet other expenses. For many low-income households, affordability is extremely poor and the consequent financial pressures are likely to compound pre-existing stresses. Despite strong economic growth over the past two decades, on average, affordability has remained steady for low-income renters.

### 3.3 Increasing numbers of households experience rental stress

Measures of 'rental stress' are often used as a way of summarising the number of households most affected by poor rental affordability. Rental stress is generally measured using either the ratio approach or the residual approach. The ratio approach focuses on the rent to income

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ratio, and the residual approach focuses on how much money households have left over after paying the rent.<sup>18</sup> The ratio and residual approach were both implicitly recognised in the 1991 National Housing Strategy:

Households can be said to afford their housing costs if those costs do not extract an unreasonable share of the household budget, leaving the household with sufficient income to meet other needs. (p. 3)

The Commission has used these two approaches (while noting the literature has spawned a number of variants — box 3.1) and presents estimates of the trends and patterns of rental stress in Australia.

## What do ratio-based estimates of rental stress tell us?

In this paper, a household is defined to be in rental stress as measured using the ratio approach if it is in the bottom two quintiles of the equivalised disposable household income distribution *and* spends more than 30 per cent of their disposable income on rent.

The prime shortcoming of the ratio approach is that the 30 per cent threshold is more or less arbitrary. An underlying premise is that the relevant income-constrained households have little capacity to spend a smaller share of their budget on rent — in effect they are ‘forced’ into this situation, and may therefore have to forgo other important goods and services. However, the evidence for this is equivocal. For example, several studies have found that low-income households who spent over 30 per cent of their income on housing often rated their housing as affordable or said that they were financially comfortable (Rowley and Ong 2012; Seelig and Phibbs 2006), and entry into housing stress is often associated with moving into better neighbourhoods, suggestive of choice (Rowley and Ong 2012).<sup>19</sup> Other research has shown an imperfect overlap between rental stress and other indicators that may be of more direct interest, such as financial hardship or material deprivation (Daniel, Baker and Lester 2018; Rowley, Ong and McMurray 2010). There is, however, some evidence that prolonged rental stress elevates the probability of being in financial stress (Rowley, Ong and Haffner 2015).

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<sup>18</sup> While both approaches depend on income and housing costs, neither addresses whether affordability problems are due to insufficient income or housing costs that are too high (Glaeser and Gyourko 2003, 2018). One way of understanding whether housing costs are too high is to compare house prices with the cost of supply (comprising construction costs and people’s valuation of the land on which dwellings sit). Kendall and Tulip (2018) adopted this approach, and argued that house prices in Australia’s major cities have been pushed up by zoning regulations that restrict the supply of housing.

<sup>19</sup> Recent US-based research has shown that people often move to higher-income areas, though this research did not explicitly track entry into rental stress (Mast 2019). That research also found evidence of the ‘migration chain’ mechanism, where the construction of new expensive properties reduces demand and prices for less expensive properties.

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### Box 3.1      **Alternative approaches to measuring rental affordability**

All of the alternative approaches to measuring rental affordability discussed below are variants of the ratio approach. They each provide a different lens to the topic of rental affordability.

The **rental affordability index** compares median incomes and median rents, and takes the value of 100 when the median income is at a level that would allow a household earning that income to spend 30 per cent of its income on rent (SGS Economics and Planning 2018). Median rents are calculated in different areas based on the bonds lodged in the period being analysed. Median income is based on the most recent ABS Census of Population and Housing for which data is available, and updated over time using changes in average weekly earnings.

The most recent rental affordability index report (SGS Economics and Planning 2018) indicates that affordability has improved or remained unchanged between the June quarters of 2016 and 2018 in the greater metropolitan areas of Sydney, Brisbane, Melbourne and Perth. Adelaide and the Australian Capital Territory show moderate declines in the index, with the greatest decline occurring in Hobart, which the report identified as the least affordable capital city in Australia.

The **rental affordability snapshot** identifies how many properties advertised for rent within a certain period are affordable and appropriate for different types of households (Anglicare Australia 2018). Affordability is defined as spending up to 30 per cent of household income on rent. Appropriateness is based on the number of bedrooms needed by different household types.

The most recent rental affordability snapshot — based on analysis of the private rental market on 24 March 2018 — found that 28 per cent of properties were affordable to households on the minimum wage, while only 6 per cent were affordable to households receiving income support payments.

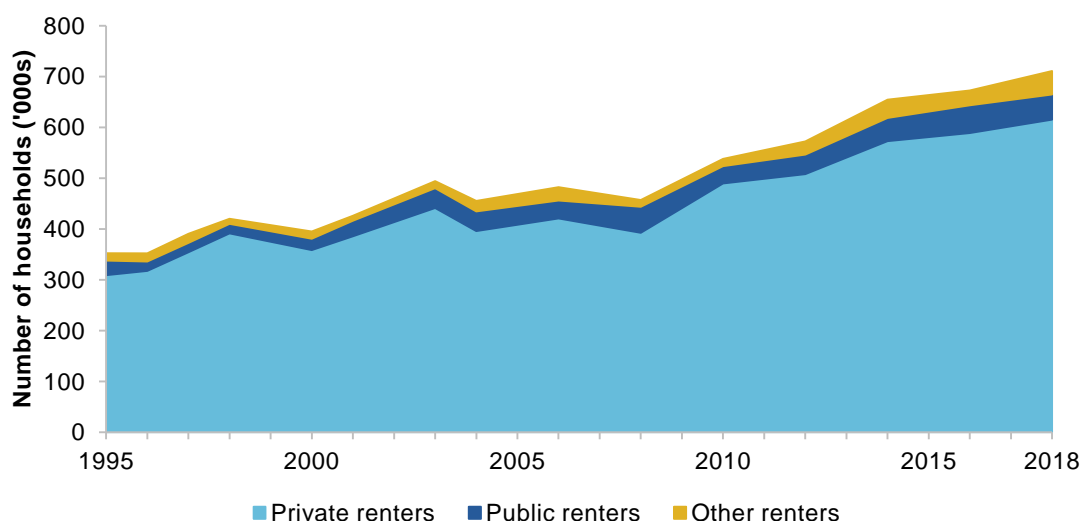
The **affordable housing income gap** is calculated as the difference between median incomes in a given area and the income that would be needed for a household to spend no more than 30 per cent of its income to pay the area's median rent (Kennedy 2018). This figure is then expressed relative to the area's median household income to enable comparisons across locations. Data on median incomes are sourced from the 2016 Census and updated based on the wage price index. Data on median rents are sourced from state and territory housing authorities. Analysis is conducted for New South Wales, Victoria, and Queensland. Kennedy (2018) found affordability problems across all jurisdictions, in both capital cities and regional areas.

## A growing number of households face rental stress

Looking across the rental market as a whole – that is, including public, private and other tenancies – the number of low-income households experiencing rental stress has grown rapidly (figure 3.6). Between 1994-95 and 2017-18 the number of households in rental stress doubled (to reach about 710 000 households), while the total number of households in Australia increased by about 40 per cent. The share of *all* low-income renters (that is, those with private, public or other landlords) experiencing rental stress has also increased, from 48 to 54 per cent during this period (figure 3.7, panel b). Most of these households in rental stress are in the private rental market.

**Figure 3.6 Rapid growth in the number of households in rental stress**

Low-income renter households spending over 30 per cent of their disposable income on rent by landlord type, 1994-95 to 2017-18<sup>a,b</sup>



<sup>a</sup> Low-income households are defined in box 2.2, chapter 2. Private renters are households renting from real estate agents or persons not in the household. Public renters are households renting from a state or territory housing authority. Other rental households include the community housing sector, people renting from their employer, owner/managers of caravan parks and others. <sup>b</sup> Year labels on the horizontal axis refer to the second calendar year of the financial year.

Sources: Productivity Commission estimates using ABS (*Microdata: Household Expenditure, Income and Housing, 2003-04, 2009-10 and 2015-16*, Cat. no. 6540.0), and ABS (*Microdata: Income and Housing, Australia, 1994-95, 1995-96, 1996-97, 1997-98, 1999-00, 2000-01, 2002-03, 2005-06, 2007-08, 2011-12, 2013-14 and 2017-18*, Cat. no. 6541.0.30.001).

The driving force behind these trends has *not* been a deterioration in affordability within the private rental market (figure 3.7, panel b). While rates of rental stress among low-income households in the private market have always been higher than for public housing tenants, they have been declining slightly over the past two decades. Steady economic growth has supported rising incomes, a benefit that has been shared broadly in the economy (PC 2018).

That is, overall, the private rental market has grown and adapted well to meet the needs of an expanding population. The flow of ‘mum and dad’ investors into the market has seen one million dwellings added to the private rental stock over the past two decades.

Rather, the share of households experiencing rental stress across the rental market *as a whole* has grown (figure 3.7, panel b) because low-income households are becoming more prevalent in the *private* rental market as the availability of public housing has waned and rising house prices have made owner-occupation less readily attainable. Between 1994-95 and 2017-18:

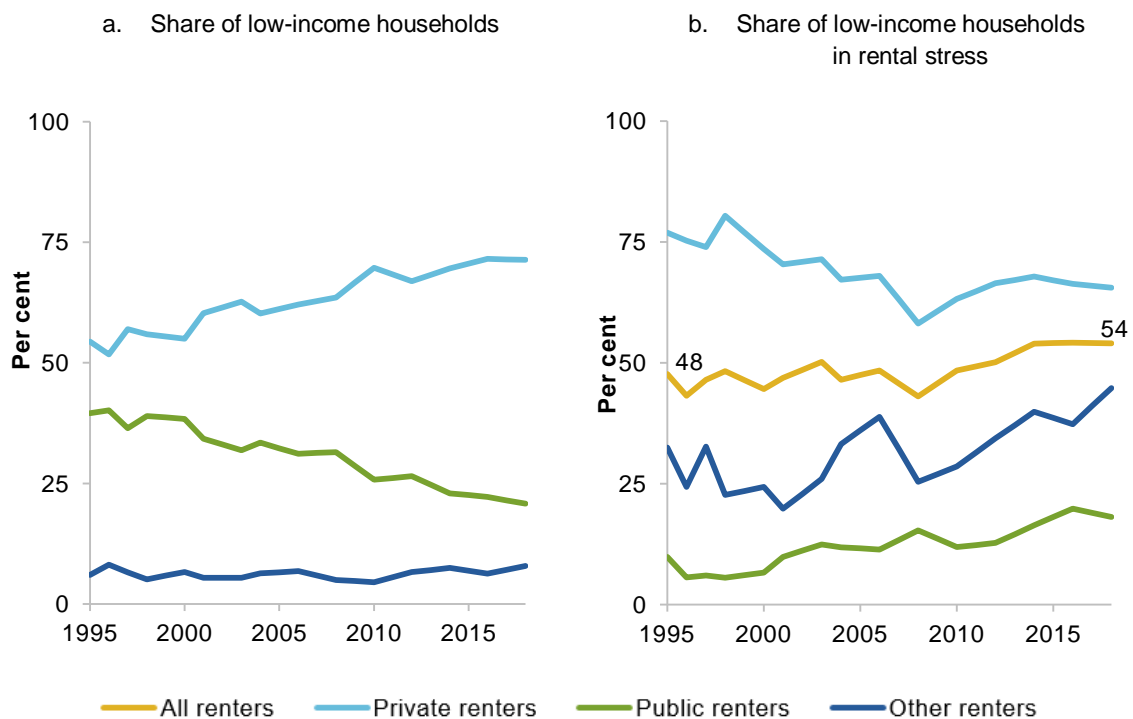
- the share of low-income households owning their own home has declined from 66 to 60 per cent



- among low-income renter households, the share in public housing has declined from 40 to 21 per cent and the share in the private rental market has increased from 54 to 71 per cent (figure 3.7, panel a).

**Figure 3.7 The rate of rental stress has declined in the private market, but not overall**

Low-income renter households, 1994-95 to 2017-18<sup>a,b</sup>



<sup>a</sup> Low-income households are defined in box 2.2, chapter 2. Private renters are households renting from real estate agents or persons not in the household. Public renters are households renting from a state or territory housing authority. Other rental households include the community housing sector, people renting from their employer, owner/managers of caravan parks and others. <sup>b</sup> Year labels on the horizontal axis refer to the second calendar year of the financial year.

Sources: Productivity Commission estimates using ABS (*Microdata: Household Expenditure, Income and Housing, 2003-04, 2009-10 and 2015-16*, Cat. no. 6540.0), and ABS (*Microdata: Income and Housing, Australia, 1994-95, 1995-96, 1996-97, 1997-98, 1999-00, 2000-01, 2002-03, 2005-06, 2007-08, 2011-12, 2013-14 and 2017-18* Cat. no. 6541.0.30.001).

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These compositional changes together with broader population growth, rather than a deterioration in affordability within the private market, explain the increase in the number of households experiencing rental stress in the rental market *as a whole* over the past two decades (appendix B).<sup>20</sup>

### Vulnerable private renter households experience rental stress to varying degrees

Vulnerable households are over-represented among the group of low-income private renter households who experience rental stress (relative to their presence in the population of private renter households). However, the prevalence of rental stress varies across vulnerable private renter households (table 3.2).

- Households where the reference person<sup>21</sup> was aged 65 or older, was unemployed, or had a government pension or allowance as their main source of income were most likely to experience rental stress. For example, half (51 per cent) of all private renter households with a reference person aged 65 or older were in rental stress in 2017-18. A slightly higher proportion (60 per cent) of private renter households with government pensions and allowances as their main source of income (which includes many of the other vulnerable groups identified)<sup>22</sup> were in rental stress.
- Results from the *National Aboriginal and Torres Strait Islander Social Survey* indicate that rates of rental stress among low-income Aboriginal and Torres Strait Islander households appear to be 75 per cent of that of non-Indigenous households (ABS 2016e)<sup>23</sup>, although rates of rental stress among Aboriginal and Torres Strait Islander households have risen rapidly since 2001 (AIHW 2019).

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<sup>20</sup> The increase in the share of public renters in rental stress shown in panel b of figure 3.7 — evident in others' work and using other datasets (ABS 2019b; Wilkins and Lass 2018) — is outside the scope of this paper. It is surprising, given that public housing tenants generally have their rent capped at 25 or 30 per cent of their income. An alternative source of information on this — the *Report on Government Services* (SCRCSSP 2019), which reports statistics produced by the Australian Institute of Health and Welfare based on state and territory housing authority data — indicates that the share of public housing tenants spending over 30 per cent of their income rent is generally less than 1 per cent, but these estimates generally exclude household who pay market rents (public housing tenants may be charged market rent if they exceed income thresholds). Countering that, the share of public housing tenants paying market rents has declined. The observed increase in rental stress among public housing tenants is unexplained at this stage.

<sup>21</sup> Note a to table 2.1 in chapter 2 describes the 'household reference person'.

<sup>22</sup> For example, nearly all low-income private renter households with the reference person aged 65 and older and those in which they were unemployed also fell into the category of having government pensions and allowances as their main source of income.

<sup>23</sup> These results are drawn directly from ABS (2016) and the methodology varies slightly from that used by the Commission to calculate the prevalence of rental stress.

**Table 3.2 The prevalence of rental stress varies across vulnerable private renter household types**

Vulnerable household types as a share of all private rental households and households in rental stress, and the rate of rental stress for different vulnerable households, 2017-18

<i>Household where the reference person ...</i>	<i>Each type of household as a share of ...</i>		<i>Share of each household type in rental stress</i>
	<i>private rental households<sup>a</sup></i>	<i>households in rental stress<sup>a</sup></i>	
was aged 65 or older	8	17	51
was a long-term renter <sup>b</sup>	36	44	31
was a single parent	14	18	33
was unemployed	3	8	71
had a disability or long-term health condition	22	32	36
had only completed up to Year 10 at school	9	12	34
had government pensions and allowances as their main source of income	20	48	60

<sup>a</sup> Because household reference persons can have more than one of the characteristics listed, the columns do not sum to 100 per cent. <sup>b</sup> Estimates relating to long-term renters are based on 2013-14 data because that is the last year appropriate data are available.

Source: Productivity Commission estimates using ABS (*Microdata: Income and Housing, Australia, 2013-14 and 2017-18*, Cat. no. 6 541.0.30.001).

Most of the people heading low-income households whose main source of income is government pensions and allowances are not in the labour force, but those who are unemployed experience the most extreme rental stress (figure 3.8). In 2015-16, nearly a quarter of the low-income households spending over 75 per cent of their income on rent had an unemployed household reference person, compared with a figure of 3 per cent for all private rental households.

**Figure 3.8 Many government benefit recipients are in rental stress**  
 Box-and-whisker plots of rent-to-income ratios for low-income private renter households in which the reference person's main source of income was government pensions and allowances, 2015-16<sup>a</sup>



<sup>a</sup> The horizontal line in each box indicates the group's median rent-to-income ratio. The length and vertical location of each box indicates the range in which 50 per cent of each group's data are found. The 'whiskers' extending from each box are as long as 1.5 times the interquartile range (corresponding to the length of each box). Other data points (outliers) are plotted individually. The width of each box indicates the relative size of each group.

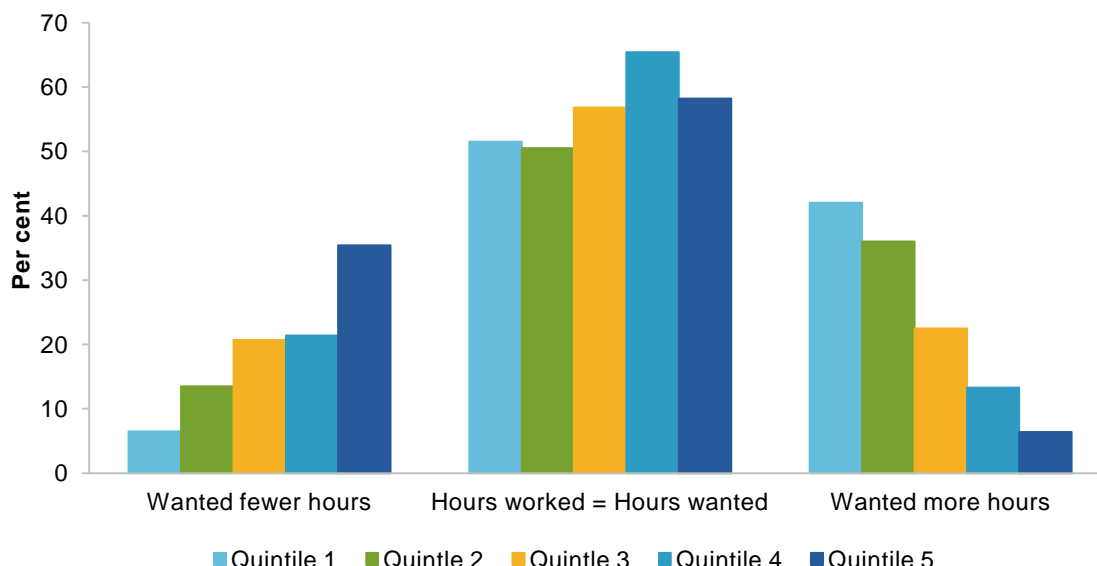
Source: Productivity Commission estimates using ABS (*Microdata: Household Expenditure, Income and Housing, 2015-16*, Cat. no. 6540.0).

But employment does not fully protect a household from rental stress — in 2017-18, nearly 60 per cent of low-income working households were in rental stress. A contributing factor is underemployment. Forty-two per cent and 32 per cent of employed private renters in the first and second income quintiles, respectively, would like to work more hours (figure 3.9). Being able to work more would improve those households' ability to pay rent and meet other expenses.

### Rental stress can be found throughout Australia

While Australia is geographically diverse — with a mixture of large cities, mid-sized regional centres and expansive rural areas, each associated with different populations, industries and lifestyles — rental stress is common across the country.

**Figure 3.9 Many low-income private renters would like to work more**  
Satisfaction with hours worked, employed persons who rent privately, 2017<sup>a</sup>



<sup>a</sup> People from households in the bottom 2 per cent of the equivalised disposable household income distribution have been excluded. Data relate to people who were private renters and were working.

Source: Productivity Commission estimates using Melbourne Institute (*Household, Income and Labour Dynamics in Australia (HILDA) Survey*, Release 17).

In 2017-18, a majority of low-income private renter households were in rental stress under the ratio approach in all areas except for the ‘rest of state’ areas of South Australia and Tasmania (figure 3.10).<sup>24</sup> Historically, rental stress in the private rental market is generally lower outside of capital cities, reflecting a substantial disparity in rents. The median rent outside capital cities in Australia is typically around three quarters of median rent within them.

Variation *within* cities and across the regions is also substantial. For example, comparing two bedroom flats/units, the median weekly rent for new bonds in Sydney’s inner ring was \$700 in the March quarter of 2019, \$180 greater than in the middle ring and \$260 greater than in the outer ring (NSW FACS 2019). In the rest of New South Wales, the median rent for new bonds (again for two bedroom flat/units) ranged from \$150 in the Edward River Local Government Area to \$450 in Byron.

<sup>24</sup> The finding that the median rent-to-income ratio outside Queensland’s capital city is higher than in the capital city (Brisbane) is not found in all time periods, but may be related to the relatively large share of Queensland’s population that lives in cities outside the capital.

**Figure 3.10 Rental stress is an Australia-wide issue**

Median rent-to-income ratio, low-income private renter households, 2017-18<sup>a</sup>



<sup>a</sup> Only the estimate for the greater capital city area of the Northern Territory is included because of too few observations outside the greater capital city area. The entire ACT is classed as the greater capital city area for the ACT. The source data do not include people living in very remote areas.

Source: Productivity Commission estimates using ABS (*Microdata: Income and Housing, Australia, 2017-18*, Cat. no. 6541.0.30.001).

## Residual-based estimates of rental stress highlight the experience of different household types

The residual approach provides a quantitative framework that is explicitly based around the fact that ‘rent commitments ... frequently [result] in severe financial constraints across a range of areas of household expenditure’ (Seelig and Phibbs 2006, p. 58).

Under this approach, rental stress occurs if the amount of money left over after a household meets its housing costs is less than some amount of money deemed necessary for that household to meet its other needs, often referred to as a budget standard. (Budget standards can include an estimate of housing costs, but application of the residual approach to housing affordability only requires estimates of non-housing costs.) This avoids the introduction of ‘rule of thumb’ cut-offs in income and the rent-to-income ratio by introducing explicit normative choices about the amount of money deemed necessary to maintain an acceptable standard of living.

Defining budget standards can be difficult though, because they depend on the particular consumption needs of different types of households and on community expectations — both of which change over time. Budget standards are typically developed for a range of

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household configurations (for example, a single parent with one child, and whether or not adults in the household are employed).

Few budget standards are available for Australia, which limits the use of the residual approach. They are the Henderson Poverty Line (Melbourne Institute 2019), the Low Cost and Modest But Adequate budget standards (Saunders et al. 1998), and the Minimum Income for Healthy Living (MIHL) (Saunders and Bedford 2017a). Each differs in its conception of the standard of living that it is supposed to support. For example, the Low Cost budget standard, developed in 1997, ‘is one which affords full opportunity to participate in contemporary Australian society and the basic options it offers’ (Saunders et al. 1998, p. iv), whereas the MIHL budget standards developed in 2016 are underpinned by the idea that they ‘should allow each individual to lead a fully healthy life in all of its dimensions, in their roles as family members, workers and consumers’.

Application of the residual-based approach indicates that many private rental households recorded lower levels of consumption expenditure than their relevant MIHL budget standard — that is, they were in residual-based rental stress (table 3.3).<sup>25</sup>

The prevalence of residual-based rental stress varies across the household types for which MIHL budget standards are available, but is clearly lowest for couple households with no children (table 3.3).

The household type that makes up the largest share of those in residual-based rental stress are single adult households, which reflects the fact that they are a large share of the households analysed, but also the fact that a large share of these single adults are not employed (this includes people not working and looking for work, and people not in the labour force). While households in which the reference person is not employed make up less than one-fifth of the households considered in table 3.3, they make up almost half of the households in residual-based rental stress.<sup>26</sup> This echoes the finding shown earlier in figure 3.8.

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<sup>25</sup> The figures presented in table 3.3 are exploratory in nature. As such they come with a number of caveats — relating to the matching of budget standards to households in the data and small sample sizes — which are discussed in appendix B.

<sup>26</sup> It has not been possible to provide data on the prevalence of rental stress by household type by labour force status because of the small number of survey responses in certain cross-sections.

**Table 3.3 Residual-based rental stress affects a range of private renter household types**

Number of private renter households of each type and share of households whose residual was less than their relevant budget standard, 2017-18<sup>a,b,c</sup>

	<i>Number of households</i>	<i>Share in rental stress (%)</i>	<i>Number of households in rental stress</i>
Single adult	634 000	15	98 000
Sole parent, one child	66 000	14	9000
Couple, no children	690 000	8	59 000
Couple, one child	207 000	13	27 000
Couple, two children	162 000	17	28 000
<b>Total</b>	<b>1 759 000</b>	<b>13</b>	<b>221 000</b>
Reference person employed	1 419 000	8	115 000
Reference person not employed	340 000	31	106 000
<b>Total</b>	<b>1 759 000</b>	<b>13</b>	<b>221 000</b>

<sup>a</sup> The mapping between MIHL household types and households in the data used is based on the equivalisation factor they attract. <sup>b</sup> Saunders and Bedford (2017a) produced separate budget standards for whether the 'main adult' in the household is employed or not. Households in the ABS source have been disaggregated based on whether the reference person for the survey was employed or not. Budget standards drawn from Saunders and Bedford have been inflated to 2018 dollars based on the spending within each budget standard on different Groups and those Groups' inflation. <sup>c</sup> Total household numbers may not equal the sum of the numbers in the above rows due to rounding. In addition, the households included in this analysis only represent around 71 per cent of all private rental households — these are the only household types for which MIHL budget standards have been developed.

Sources: Productivity Commission estimates using ABS (*Microdata: Household Expenditure, Income and Housing, 2017-18*, Cat. no. 6540.0); Saunders and Bedford (2017a).

#### FINDING 3.2

Rates of rental stress (based on ratios of rent to income) in the private rental market have declined slightly since 1994-95, but did increase materially between 2007-08 and 2011-12.

Nevertheless, the *number* of households in rental stress (including public, private and other renters) has grown rapidly, reaching around 710,000 in 2017-18. This increase occurred for three reasons:

- an increase in the share of low-income households that rent, rather than own
- among low-income renters, an increase in the share that rent in the private market, where rates of rental stress are much higher than for public housing tenants
- ongoing population growth.

Households reliant on government pensions and allowances, particularly those including older people or unemployed people, and sole person households are more likely to experience rental stress in the private rental market.



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### 3.4 Rental stress in the private rental market has become more persistent

Trends in the prevalence of rental stress do not provide insights into the persistence of that stress. Many people will experience only transient stress, others will cycle in and out of stress and some will face persistent stress.

There is a burgeoning literature on how households enter, experience and exit rental stress (or housing stress more generally).

- A range of ‘favourable’, ‘unfavourable’ and ‘ambiguous’ life events (for example, changing jobs) may precede the experience of housing stress (Rowley, Ong and Haffner 2015). Separation from spouse has been found to be a significant predictor of entering stress (Borrowman, Kazakevitch and Frost 2017).
- For most people, rental stress is a temporary experience (Wood, Ong and Cigdem 2014). Of a sample of households experiencing housing stress in 2001, about 60 per cent were out of stress in the next year (Borrowman, Kazakevitch and Frost 2015, p. 31). The majority (85 per cent) of people were in stress for less than four years and 97 per cent for less than 10 years.
- People tend to find it harder to escape housing stress the longer they are in it. Unemployed people have particular difficulty escaping housing stress (Borrowman, Kazakevitch and Frost 2017).
- There is some indication that persistent stress has particularly adverse effects on people’s health and their capacity to purchase other essentials such as heating (Archer et al. 2012; Rowley and Ong 2012).

Rental stress in the private rental market has become more persistent over the past decade or so (figure 3.11).<sup>27</sup> Among people who rented privately from 2013 to 2017 and were in rental stress in 2013, 47 per cent were in rental stress in 2017. For the group of people who rented privately from 2001 to 2005 and were in rental stress in 2001, only 31 per cent were also in rental stress in 2005.<sup>28</sup>

That said, it is still the case that a significant number of people exit rental stress every year. Even in the aftermath of the global financial crisis, 39 per cent of people exited rental stress in the private rental market between 2009 and 2010. They did not necessarily *stay* out of rental stress of course — only 17 per cent of those in rental stress in 2009 were not in rental stress during any of the following four years.

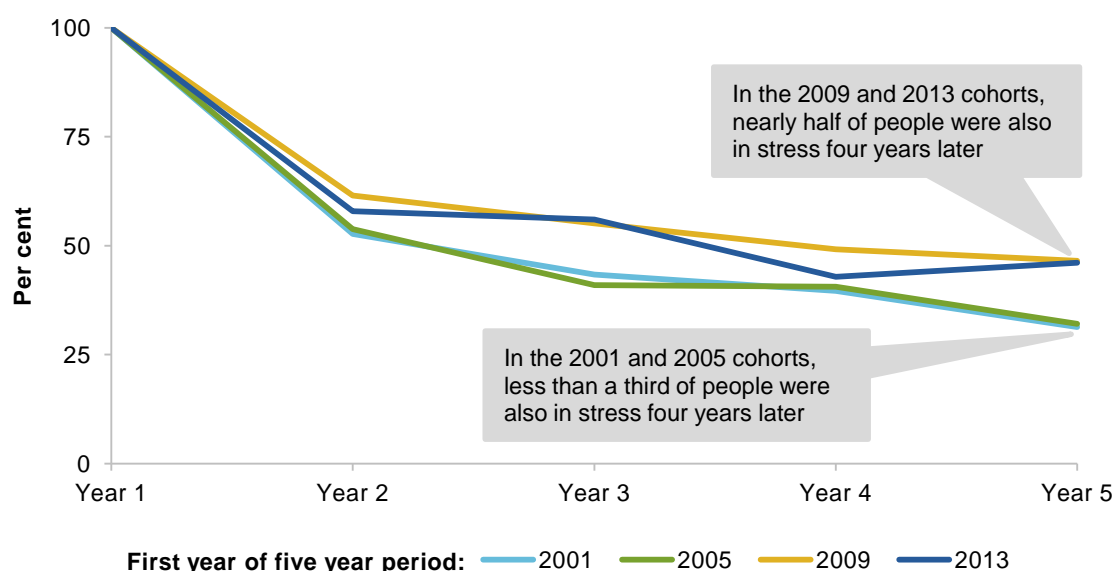
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<sup>27</sup> The analysis uses the ratio approach to measuring rental stress to avoid the complications associated with applying budget standards across long periods of time, during which relative prices and community expectations can change significantly.

<sup>28</sup> The Commission’s analysis differs from the work of Borrowman et al. (2015, 2017) in a number of ways, notably in that the Commission has excluded people who left the private rental market within the periods analysed.

**Figure 3.11 While many people exit rental stress quickly, the proportion in persistent stress has increased**

Share of people who were in rental stress in the private rental market over a five year period, given they were in rental stress in the first year and rented over the whole period<sup>a</sup>



<sup>a</sup> The analysis is based on persons rather than households because the data do not permit longitudinal analysis of households. Rental stress is defined based on household income and household housing costs.

Source: Productivity Commission estimates using Melbourne Institute (*Household, Income and Labour Dynamics in Australia (HILDA) Survey*, Release 17).

People can exit rental stress through increased income or lower housing costs. Commission analysis suggests income growth among people staying in rental stress is often very low, but those who exit rental stress experience far higher income growth, suggestive of major life changes such as becoming employed and moving off income support payments. Other analysis found that those receiving the Age Pension, Disability Support Pension and the Parenting Payment were most likely to remain in receipt of government payments and experience enduring rental stress (Waite 2009). In contrast, most of those who were unemployed or students exited the support system altogether within a few years.

#### FINDING 3.3

About half of private renter households in rental stress exit within one year. But since 2001 a rising share of private renters have been experiencing prolonged periods of rental stress.

Exiting rental stress is often associated with experiencing higher income growth, such as becoming employed and moving off income support payments.

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## 4 Housing tenure and quality

### Key points

- Many private renters are highly mobile and most moves within the private rental market occur by choice. People usually move to get a more suitable home, or for personal or work reasons.
- However, a material proportion of renters move involuntarily. In 2013-14 (the latest year for which data are available), 19 per cent of renters had most recently moved involuntarily.
- Vulnerable renters, such as renters with a disability, older renters and long-term renters, prefer stability in their housing arrangements. Yet these groups' moves are more likely than the average renter to be involuntary.
- While involuntary moves are inconvenient for any renter, for vulnerable renters, the consequences can be severe.
  - Many vulnerable renters do not have the money required to move house.
  - Children may need to change schools, which risks disrupting their educational development.
  - Some vulnerable renters risk becoming homeless. These renters are often also facing challenges in other areas of life.
- Overcrowding in the private rental market is rare, but some vulnerable groups, and Indigenous private renters, are more likely to live in overcrowded dwellings.
- Vulnerable renters are more likely to live in housing that is in need of repair, or that has major structural issues (such as rising damp). However, low-income households are not less likely than other private renters to live in areas with high accessibility to services.
- Most renters are satisfied with their housing. However, low-income renters and renters living with an unemployed household head are slightly less satisfied with their dwelling than renters without these characteristics.
- Poor quality housing can have adverse consequences, such as respiratory conditions associated with damp and mould. Children and the elderly are especially at risk.

Affordability is not the only important issue for vulnerable renters. Vulnerable renters — like all renters — also want stable and secure homes that meet their needs. This chapter examines the experiences of vulnerable renters in the private rental market with respect to certainty of tenure (section 4.1) and dwelling quality (section 4.2). It considers the prevalence and nature of involuntary moves and how they can affect renters, and the patterns and trends in the size, quality and location of renters' dwellings.

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## 4.1 Certainty of tenure

Certainty of tenure refers to the ability of a renter to stay in their home for the length of time that they desire. Home is an important place — it not only provides physical shelter, but is closely linked with identity, security and a sense of belonging (Anglicare Australia 2017). As the Council to Homeless Persons (2015, p. 3) said:

Housing and security of tenure form the foundation for social and economic participation, creating a base that enables people to be actively engaged in their community. ... Stability within a tenancy is particularly important for people who rely on health and community services, and for people with young children. It allows people to develop connections to their community, and stabilise supports around themselves. This is particularly important for vulnerable individuals.

Notwithstanding its general desirability, however, complete certainty of tenure is not feasible in the private rental market because landlords must have some capacity to sell their dwelling, evict tenants in certain circumstances or use their property for other purposes. Absent that capacity, landlords' incentives to invest in rental property would be adversely affected, as would their willingness to let to groups of renters who pose a perceived risk to property returns (for example, such as through higher probability of rental arrears). This would result in shortages of rental accommodation and higher rental prices, which would have a disproportionate impact on vulnerable renters. In developing policy, there is therefore a trade-off between achieving greater certainty of tenure and the supply of affordable and widely accessible rental properties. Chapter 5 discusses in more detail policies that could offer renters greater certainty of tenure.

### Vulnerable renters tend to prefer stability

Renters have varying preferences with respect to certainty of tenure. Residential mobility is strongly correlated with the life cycle, with younger people tending to move more often. This reflects their (often rapid) progression through various life stages, such as entering and completing tertiary education, moving out of the family home, beginning a career, partnering and starting a family. The timing of these events can also be uncertain, leading to a preference for flexibility (Rowley and James 2018). Two groups of younger renters in particular value flexibility in the private rental market:

- university students looking to accommodate long holiday periods or changes to work and study situations
- young professionals wanting to be able to respond to changes in family and work circumstances (Consumer Affairs Victoria 2016).

On the other hand, certain groups prefer stability in their housing arrangements.

- Families with children usually want to remain close to their children's schools. Fifty-six per cent of families surveyed by CHOICE, National Shelter and the National Association of Tenants Organisations (2018) expressed concern about having to move further from their children's school or a local school catchment the last time they moved.

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Families also value a stable community (Consumer Affairs Victoria 2016) — a goal facilitated by living in the same dwelling over a long period of time.

- Older renters, like their owner-occupier counterparts (COTA 2019), want stability in their housing arrangements. Community consultations by Consumer Affairs Victoria (2016) revealed that older renters often wished to ‘age in place’.
- Longer-term renters, Health Care Card holders and tenants with a disability or health condition often prefer longer tenures. A Victorian survey found that these groups were more likely than other renters to prefer to continue living in their current property for at least another two years (EY Sweeney 2016).
- Similarly, Consumer Affairs Victoria (2016) found that people with a disability (who can find it difficult to move and find properties they can modify) and people with low incomes (who are at risk of homelessness if they are not able to remain in affordable accommodation) prefer rental stability.

Importantly, however, renters who prefer stability do not necessarily prefer longer fixed-term leases. Although these renters may ultimately hold long tenures, the flexibility associated with periodic leases is often valuable. Many renters prefer shorter fixed terms in case they want or need to move, or have a change in circumstances (Tenants Union of Victoria 2015a). Further, low-income renters are more likely than others to choose to move in order to access more affordable housing (Rowley and James 2018, pers. comm., 18 February 2019). Longer fixed-terms would preclude such moves unless renters were willing and able to break their leases and pay the associated penalties.

## **Private renters tend to move often, and mostly by choice**

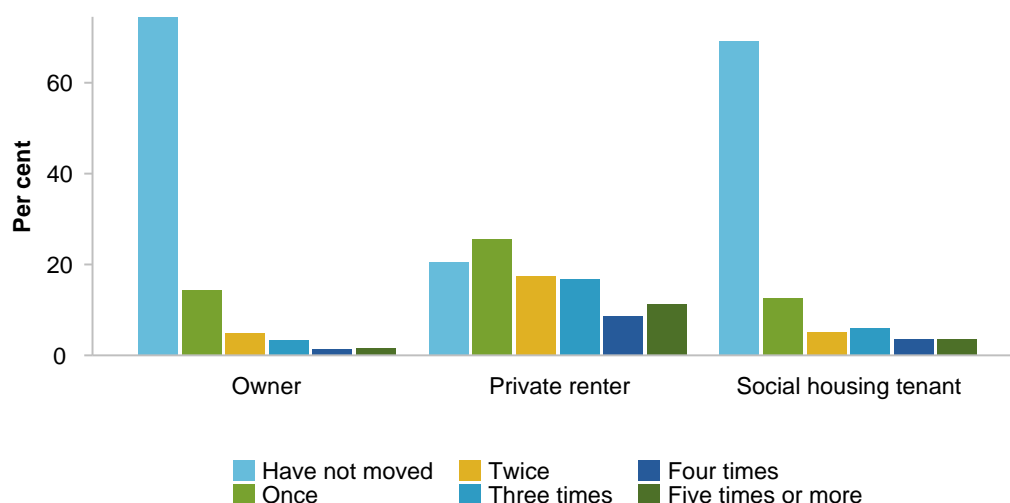
Tenures in any one property within the private rental market tend to be short. This is partly due to the nature of private rental housing. The costs of entering and exiting the private rental market are *relatively* low (compared with, for example, owning a home), and thus the market is able to provide housing for those who seek short tenures or want flexibility.

Established norms in the private rental market also reinforce relatively short tenures. In Australia, it is standard practice for tenants to be offered initial 12-month leases, which in most jurisdictions convert into month-to-month leases after the fixed term has expired. Fixed terms longer than 12 months are relatively rare (ABS 2015a; EY Sweeney 2016). While short leases do not necessarily result in short tenures (as leases can be renewed), the expiration of a lease acts as a touchpoint for landlords (and renters) to assess their circumstances, which can result in a lease being terminated.

In keeping with the pattern of short tenures, private renters as a whole are highly mobile. When surveyed in 2013-14, the average private renter had moved twice in the past five years (figure 4.1). By contrast, the vast majority of owner-occupiers and social housing tenants had not moved at all in the past five years.

**Figure 4.1 Private renters are more mobile than owner-occupiers or social housing tenants**

Distribution of the number of times moved in the past five years, by tenure, 2013-14<sup>a</sup>



<sup>a</sup> Individuals did not necessarily hold the same tenure over the five years.

Source: Productivity Commission estimates using ABS (*Microdata: Income and Housing, Australia, 2013-14*, Cat. no. 6541.0.30.001).

In addition, most renters move by choice. Based on ABS 2013-14 *Survey of Income and Housing* (SIH) data and the Commission's definition of voluntary and involuntary moves (see below), approximately 74 per cent of all private renters' most recent moves were voluntary (table 4.1). However, as discussed below, the Commission's estimate may be higher than the true prevalence of voluntary moves, due to the difficulty of definitively categorising moves in the data as 'voluntary' or 'involuntary'.

Nevertheless, other surveys replicate the Commission's finding.

- EY Sweeney (2016) found that, in 2016, 79 per cent of Victorian tenants chose to move from their most recent rental property, while 21 per cent were asked to move by their landlord.
- A survey by CHOICE, National Shelter and the National Association of Tenant Organisations (2017) found that 68 per cent of renters left their most recent property on their own terms, due to, among other reasons, personal or work circumstances or because they were upsizing or downsizing.
- Rowley and James (2018), based on a survey of 3182 private renters across Australia, estimated that 56 per cent of renters' most recent moves were voluntary, while

31 per cent were forced.<sup>29</sup> The remainder (13 per cent) were not classified as either voluntary or forced.

**Table 4.1 Most moves within the private rental market are voluntary**  
Selected reasons for most recent residential move, private renters, 2013-14<sup>a</sup>

<i>Main reason for most recent move</i>	<i>Share of all moves in the private rental market (%)</i>
<b>Voluntary<sup>b</sup></b>	
Wanted bigger/better home	21.6
Lifestyle change	6.2
Closer to work	5.9
Be closer to family and friends	5.6
Get married/live with partner	5.0
To be near education facilities	3.8
Improve employment prospects	1.9
Got job	2.1
Be independent	1.9
Job transfer	1.6
Wanted smaller home/downsize	1.5
Other reasons <sup>c</sup>	4.8
<b>Total</b>	<b>73.8</b>
<b>Likely to be involuntary<sup>b</sup></b>	
Notice given by landlord	18.9
Renovations/rebuilding	1.0
<b>Total</b>	<b>19.9</b>
<b>Unclear<sup>b</sup></b>	
Reduce rent or mortgage	6.3
<b>Total</b>	<b>100.0</b>

<sup>a</sup> The sample for this analysis includes only private renters who had been private renters before their most recent move. Hence, the results show the prevalence of various reasons for moving among moves *within* the private rental market, rather than across the private rental market and other tenures. <sup>b</sup> Categorisations of reasons into 'voluntary', 'likely to be involuntary', and 'unclear' are the Commission's own. <sup>c</sup> 'Other reasons' include those such as a marital or relationship breakdown, wanting to be closer to medical services and losing a job.

Source: Productivity Commission estimates using ABS (*Microdata: Income and Housing, Australia, 2013-14*, Cat. no. 6541.0.30.001).

<sup>29</sup> Voluntary moves were defined as those made to access more affordable or appropriate housing, or better services. Involuntary moves were considered to be those where: owners were selling or wanting to move back in; owners were not willing to renew leases (with no reason given); rent increases were unaffordable; or the move was due to violent or other incidents.

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In addition, most renters interviewed by Morris, Hulse and Pawson (2017) felt that they would be able to stay in their present accommodation for as long as they desired — 75 per cent among all private renters and 73 per cent among long-term renters. This suggests that, for the most part, the low legal certainty of tenure offered by current lease arrangements does not translate into everyday feelings of insecurity. However, the interviews also found that vulnerable renters, such as single parents reliant on government benefits, were more likely to experience stress and anxiety in response to low certainty of tenure.

## **Some groups' moves are more likely to be involuntary**

Involuntary moves have been considered by the Commission to be those that are:

- initiated by a landlord
- initiated by the tenant because of a change in the conditions of occupancy (such as a deterioration in the quality of the dwelling), which makes a lease untenable.

As noted above, it was difficult to identify involuntary moves, especially where they were initiated by a tenant. However, one clear indicator of an involuntary move was a move due to a notice from a landlord. ABS' SIH data showed that, in 2013-14, approximately 19 per cent of renters' most recent moves were due to notices from landlords (table 4.1). This was the second most common reason for moving. An additional 1 per cent of renters most recently moved because of renovations or rebuilding, a circumstance also likely to be initiated by a landlord.

Identifying *tenant-initiated* involuntary moves in the data was impossible. Tenants may initiate an involuntary move because, for example, the quality of a dwelling deteriorates sharply, the rent increases by an unreasonable amount, or a landlord behaves poorly. Such moves could be included in the data under reasons such as 'wanted bigger/better home', 'to reduce rent' and 'other housing reasons', but it was not possible to identify these cases individually. The Commission has thus relied on moves due to a landlord notice as the only proxy for involuntary moves.

The likelihood of facing a landlord-initiated move varies with age. Among those aged 40 to 69 years, a landlord notice was the most common reason for a tenant's last move (table 4.2) (ABS 2015a).

Some of the groups considered vulnerable in this paper also appear more likely to have made their most recent move due to a landlord notice. These included those in households where the reference person:

- had low education
- had a disability or long-term condition
- was 65 years or over (figure 4.2).



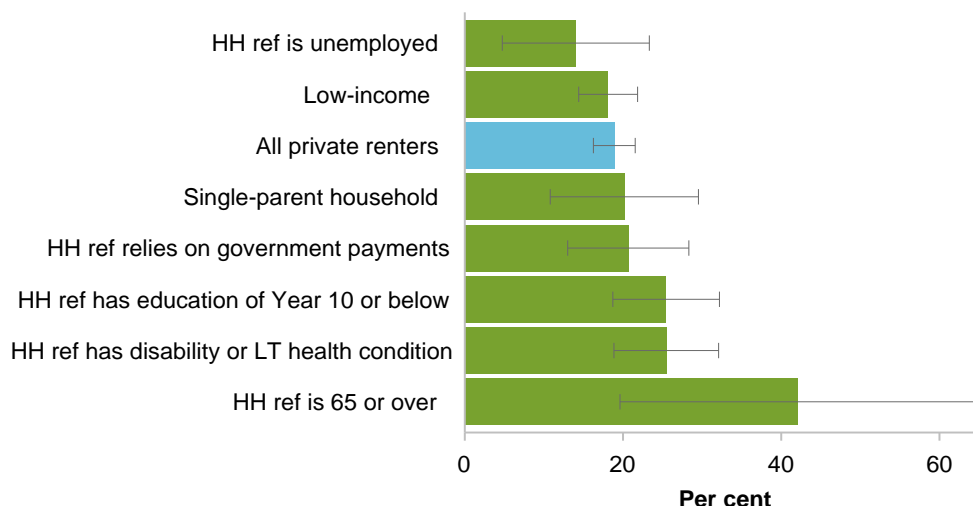
**Table 4.2 A larger share of middle-aged renters' moves are involuntary**  
Top five reasons for most recent move, private renters, by age group, 2013-14<sup>a</sup>

15-39 years		40-69 years		70 years and over	
	%		%		%
Wanted bigger/better home	22	Notice given by landlord	27	Be close to family/friends	23
Notice given by landlord	16	Wanted bigger/better home	20	Notice given by landlord	14
Lifestyle change	7	Reduce rent	7	Wanted bigger/better home	12
Closer to work	7	Be close to family/friends	5	Reduce rent	12
Get married/live with partner	6	Lifestyle change <sup>b</sup>	4	Lifestyle change	7

<sup>a</sup> The sample for this analysis includes only private renters who had been private renters before their most recent move. Hence, the results show the prevalence of various reasons for moving among moves *within* the private rental market, rather than across the private rental market and other tenures. <sup>b</sup> 'Moved with family' was a more commonly listed, but difficult to interpret, reason for this age group in the original data.

Source: Productivity Commission estimates using ABS (*Microdata: Income and Housing, Australia, 2013-14*, Cat. no. 6541.0.30.001).

**Figure 4.2 A larger share of some vulnerable groups' moves are involuntary<sup>a</sup>**  
Share of private renters who most recently moved due to a notice from a landlord, by various household characteristics, 2013-14



<sup>a</sup> 'HH ref' refers to the household reference person (effectively the head of the household). For instance, an individual would be counted as 'HH ref is unemployed' if their household reference person were unemployed, irrespective of whether they were unemployed themselves. 'Low-income' refers to being in a household with an income between the 3<sup>rd</sup> and 40<sup>th</sup> percentiles of the equivalised disposable household income distribution. Sample sizes in this analysis were small, so caution is recommended in interpreting these results. Horizontal error bars show 95 per cent confidence intervals based on the 60 replicate weights provided in the data.

Source: Productivity Commission estimates using ABS (*Microdata: Income and Housing, Australia, 2013-14*, Cat. no. 6541.0.30.001).

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Two findings stand out:

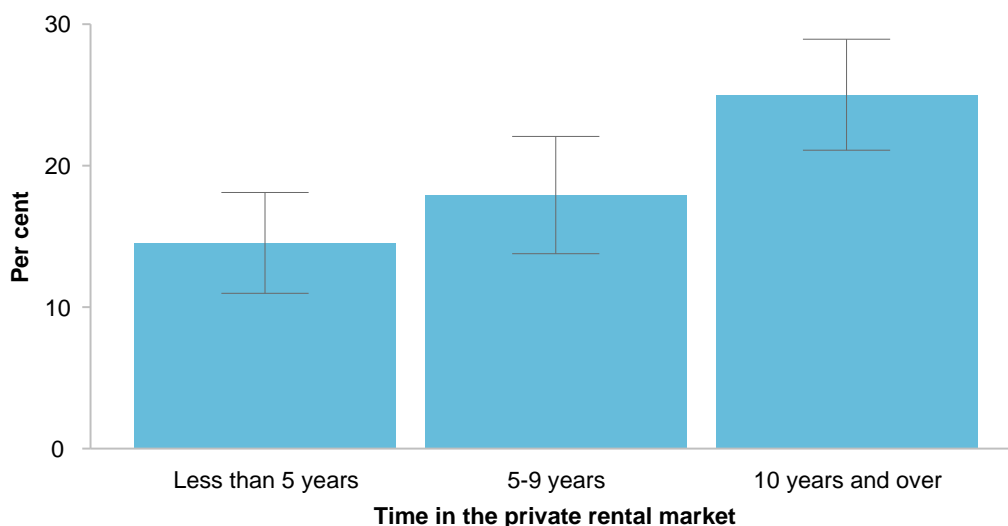
- low-income renters were *not* more likely to be subject to a landlord-initiated move (figure 4.2), which confirms a similar result from a survey by Rowley and James (2018, pers. comm., 18 February 2019)
- those renters living in households headed by older Australians were more likely to move because of a landlord notice compared with private renters in general.

One explanation for the latter could be that older renters are less likely to move voluntarily, and thus more likely to face landlord-initiated moves. Older renters tend to hold longer tenures, which is consistent with a preference for not moving. However, it is not clear whether the likelihood of receiving a landlord notice increases with the length of a renter's tenure. The limited data available to the Commission suggest that this is not the case. Given the growth of older Australians in the private rental market, however, establishing the relationship between tenure length and likelihood of receiving a landlord notice is an area that merits further research.

Finally, data show that the longer a person has been renting, the more likely they are to have most recently moved because of a notice from a landlord (figure 4.3).

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**Figure 4.3 Long-term renters are more likely to have most recently moved because of a notice from a landlord**  
Share of private renters who most recently moved because of a notice from a landlord, by total continuous time renting, 2013-14<sup>a</sup>



<sup>a</sup> Error bars show 95 per cent confidence intervals derived using the 60 replicate weights provided in the data.

Source: Productivity Commission estimates using ABS (*Microdata: Income and Housing, Australia, 2013-14*, Cat. no. 6541.0.30.001).

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## Why do landlords end leases?

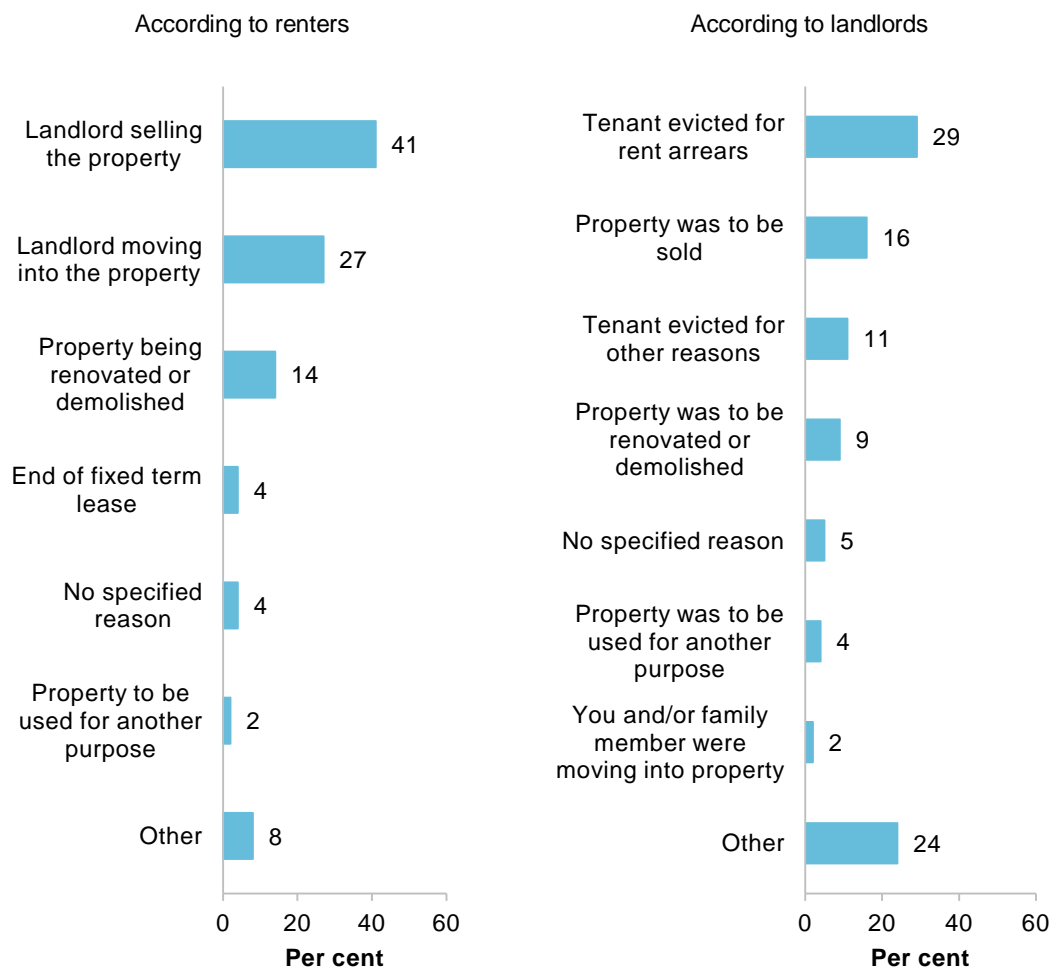
No clear picture emerges for the reasons for landlord-initiated moves, a sign that the surveys probing this issue have different designs and questions, and that different parties to the lease contract have contrary perspectives.

Some evidence suggests that the sale of a property is the single most important trigger for a landlord's cessation or non-continuation of a lease. For example, 41 per cent of renters in Victoria said that their last tenancy was terminated for this reason (figure 4.4). Yet when landlords were asked, the most common reason for ending their last tenancy was because of rental arrears. (The landlords who were surveyed were not necessarily those of the tenants surveyed.)

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**Figure 4.4 Landlords and tenants give different reasons for involuntary moves**

Reasons for landlord termination of most recent tenancy



Source: EY Sweeney (2016).

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In one report about tenants seeking legal advice about impending evictions (Homeless Law 2015), the most common trigger for the eviction was also alleged rental arrears, which accounted for 68 per cent of cases (out of a total of 221). Other breaches of the conditions of the lease ('at-fault' evictions) included dangerous or illegal use of the dwelling (7 per cent), breach of a compliance order (3 per cent) and abandonment (2 per cent).<sup>30</sup> While people seeking legal advice are unlikely to be representative of all tenants experiencing a landlord-initiated termination, the evidence reveals that a sub-group of evicted tenants face challenges in other, and potentially multiple, aspects of life, which affects their ability to sustain private rental tenancies. A holistic approach to social policy is likely to be required to support these renters' wellbeing.

In addition, 'without-grounds' evictions (where tenants have not broken a condition of a lease — also known as 'without-cause' evictions or evictions for 'no specified reason') form a small but significant portion of landlord terminations. Nine per cent of Victorian landlords reported ever having ended a tenancy in this way, while 4 per cent of renters reported having received such a notice (EY Sweeney 2016). Although, by definition, landlords do not give reasons for these types of evictions, in many cases there are underlying reasons for landlords' actions. Landlords who had evicted tenants on 'no-grounds' in the past said that this was because:

- tenant behaviour or the relationship with the tenant was problematic
- tenants caused damage to the property or were late in paying rent
- a dispute with tenants arose (EY Sweeney 2016).

Tenants who had received notices to vacate on 'no grounds' could also often point to reasons that they suspected were the cause of, or a contributor to, the eviction notice. According to the EY Sweeney (2016) survey, these included:

- frequent turnover of tenants in share houses that caused 'too much trouble' for landlords
- landlords wishing to sell or demolish the property
- tenants making 'too many' maintenance requests
- rental arrears
- tenants issuing complaints about property manager or landlord conduct.

These findings were corroborated by tenant interviews by Tennant and Carr (2012). According to these interviews, tenants often had a dispute with a landlord and/or experienced a deterioration in the relationship with the landlord or property manager immediately prior to receiving a 'no-grounds' eviction notice. In many cases, the disputes related to maintenance issues. Other suspected reasons for no-grounds evictions in these interviews included rent arrears and dwellings no longer being available (because, for example, they were being converted to short-stay accommodation).

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<sup>30</sup> Others were also facing eviction for illegal sub-letting (1 per cent), 'property being sold or the landlord or their family moving in 5 per cent), and 'end of fixed term tenancy' (2 per cent) and 'no reason' (5 per cent).

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## Involuntary moves can have financial and social costs

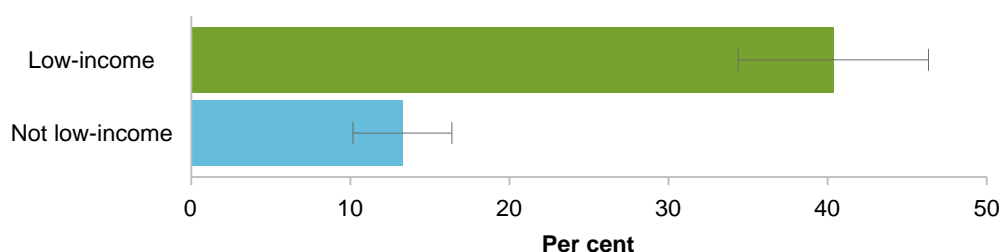
Regardless of the reasons for involuntary moves, such experiences can have substantial financial and social costs.

Moving can be expensive. A survey by Galaxy Research on behalf of ING in 2017 found that the average cost of moving house was approximately \$1600 (RateCity 2017). This included the cost of packaging, removalists, cleaning and reconnecting utilities. Tenants will also generally be required to pay a bond for a new property prior to the return of previous bond monies (Curry 2019). Based on an average weekly rent of \$393, a four-week bond would be \$1572 (ABS 2019c). While these costs would be incurred regardless of whether or not a move was involuntary, the sometimes unexpected nature of involuntary moves (particularly when initiated by a landlord) means that tenants may be less financially prepared for them. This is especially so for vulnerable renters, who tend to have smaller financial buffers. In 2015-16, 40 per cent of low-income households said they would be unable to raise \$2000 in a week for something important, compared with 13 per cent of other households (figure 4.5).

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**Figure 4.5 Low-income households have smaller financial buffers**

Share of households unable to raise \$2000 within a week for an emergency, by low-income status, 2015-16<sup>a</sup>



<sup>a</sup> Low-income households are those with incomes between the 3<sup>rd</sup> and 40<sup>th</sup> percentiles of the equivalised disposable income distribution. Error bars show 95 per cent confidence intervals derived using the 60 replicate weights provided in the data.

Source: Productivity Commission estimates using ABS (*Microdata: Household Expenditure, Income and Housing, 2015-16*, Cat. no. 6540.0).

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Moving can also disrupt a household's access to services and their participation in the community.

- Moving can result in a change in schools. Frequent moves (of both houses and schools) can negatively affect children's educational achievement and overall development (box 4.1).

- 
- Moves can also disrupt the delivery of place-based health, education and housing initiatives that address complex social problems and are targeted at vulnerable populations in given locations (AIFS 2019a).

#### **Box 4.1      Frequent moves may affect children's development**

Australian and international research suggests an inverse relationship between school mobility and educational achievement (Centre for Education Statistics and Evaluation 2016; Hutchings et al. 2013; Schwartz, Stiefel and Chalico 2009).

Moreover, research suggests that, even without an associated change in schools, frequent residential moves can have a negative effect on educational outcomes (Hutchings et al. 2013). There appears to be a compounding effect when children move both houses *and* schools. The effect of residential moves on educational attainment appears to be stronger for children who move schools more frequently, as well as for those who change schools during the school year (rather than between school years) (Centre for Education Statistics and Evaluation 2016).

In addition, frequent residential moves may negatively affect children's physical health and social and emotional wellbeing (Dockery et al. 2013). These authors concluded that the overall housing situations of Indigenous children (for example, more forced moves, lower quality of housing) made them worse off overall.

These findings are important given the terms under which families rent in the private rental market. In 2013-14, the majority of renter households with dependent children held 12-month leases (49 per cent), 6-month leases (15 per cent) or periodic leases (18 per cent) (ABS 2015a). The ability of landlords to require families to vacate at the end of relatively short fixed terms, or on 'no grounds' under periodic leases, limits families' ability to control timing of, and prepare for, those moves.

More generally, moving house can disrupt the process of home-making. The likelihood of a renter feeling at home in their current property appears to decrease with the number of dwellings they have ever rented (Rowley and James 2018). Renters can also spend significant time worrying about the possibility of being evicted and having to 'start again', even if they do not actually experience it (Pawson, Hulse and Morris 2017). Naturally, such stress is more acute for those who have the fewest alternatives or who are least able to move.

The Commission sought out the stories of renters (available in the public domain) to understand how involuntary moves affect renters in practice. Many reported that, in addition to the stress of packing, moving and unpacking, they had difficulty securing alternative accommodation (Carr and Tennant 2012). The process of finding new housing, including attending inspections and making applications, also often consumed considerable resources. In addition, obtaining positive references from previous landlords and property managers could be difficult, because in many cases these relationships were strained.

Discrimination could also limit renters' options (box 4.2). Where renters are unable to secure another tenancy, research has found that people are often forced to rely on family and friends or emergency government-provided accommodation to avoid living on the streets (Beer et al. 2006).

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#### Box 4.2      **Discrimination in the private rental market**

In Australia, discrimination on the basis of age, disability, race, sex and a number of other 'protected attributes' is unlawful (Attorney-General's Department ND). However, landlords can readily circumvent the law because — bar *overt* discrimination — it is hard to distinguish between discrimination based on protected attributes and one made on other grounds (such as ability to pay rent). Various studies have sought to understand the presence of discrimination in Australia's private rental markets.

- A study of the Sydney rental market in 2013 (Macdonald et al. 2016) found that those of Indian and Muslim Middle Eastern origin tended to experience discrimination when looking for a home. These groups were less likely, relative to their population size, than those of Anglo background to be offered an individual appointment to view a property, told of other available housing at the inspection, provided with additional information about the application process and contacted by the agent after inspection.
- The ABS' 2013-14 *Survey of Income and Housing* also showed that individuals living in households with children, and particularly single parents, were more likely to have been refused rental accommodation in the past five years. Those with a disability or long-term health condition were also more likely to have been refused accommodation compared with those without (6.3 per cent compared with 3.7 per cent). While these results are not definitive evidence of discrimination (as no information was collected on *why* respondents were refused accommodation), it suggests that discrimination against these groups may be more prevalent.

While self-reported assessments are unlikely to provide a clear idea of discrimination because of landlords' likely concealment of the basis for their choices, such assessments nevertheless may point to groups most likely to be subject to discrimination.

- A survey conducted by the Victorian Equal Opportunity and Human Rights Commission (2012) found that single parents with children, those of particular ethnic groups (particularly Indigenous Australians and recent migrant groups), young people aged 18 to 25 and those with a disability reported that these characteristics had led to them being refused a rental property in the past.
- A survey by academics from the Bankwest Curtin Economics Centre (Rowley and James 2018) found that households with children, and in particular single-parent households, were most likely to report experiencing discrimination. Race, being on government benefits, and being in a multi-generational household were also associated with a higher likelihood of experiencing discrimination.

In some cases, the inability to secure alternative accommodation led to homelessness (box 4.3). In 2017-18, 39 per cent of individuals who sought help from specialist homelessness services in Australia cited an eviction as a reason for doing so (AIHW 2019). While rental arrears appear to be a common cause of such evictions, the case studies highlight how personal hardships — which may be beyond renters' control — can affect their ability to pay rent. This underscores the importance of access to adequate rental assistance, social housing and broader social services that aim to support people through various challenges in life.

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## **Some vulnerable renters have no formal leases**

The discussion so far has assumed that renters hold formal leases. However, this is not always the case, especially for vulnerable renters. In 2013-14, 14 per cent of low-income renter households had no formal lease or tenure, compared with 8 per cent of higher-income households. This represents a decrease from 2007-08, when 17 per cent of low-income renter households and 14 per cent of non-low-income renter households did not have a formal lease or tenure (ABS 2011, 2015a). However, the gap between low-income and other renters has widened.

The relatively high proportion of vulnerable renters without formal arrangements reflects differences in how various groups access the private rental market. Vulnerable renters can face difficulties in obtaining housing through formal pathways (such as real estate agents) because, for example, they may be blacklisted on a tenant database, have ‘lumpy’ incomes or be simply less attractive as tenants compared with other applicants. Many vulnerable renters thus turn to searching out landlords directly or making use of social networks to find a place to live (Parkinson, James and Liu 2018).

Vulnerable renters are more likely than others to rent directly from a landlord, including from friends and family. In 2013-14, 35 per cent of low-income renters had a private arrangement, compared with 23 per cent of non-low-income renters (ABS 2015a). Formal leases are less common among direct arrangements. Despite being almost universal when dealing with real estate agents, they occurred in only about 70 per cent of private arrangements.

The lack of formal arrangements among vulnerable renters is of concern because of its implications for certainty of tenure — renters may be evicted on grounds that would not normally be allowable under a lease agreement, or they may not be given the required notice. In its submission to the Victorian review of residential tenancy legislation, the Dandenong Rooming House Network (2015, p. 3) said that:

Paperless entry [where there is no agreement of tenancy] ... paves the way for illegal evictions, with stand-over tactics used to evict people who may raise questions or push for maintenance.



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#### **Box 4.3      How rental stress and eviction can lead to homelessness — renters' stories**

##### **Colleen**

Colleen, aged 62, was an art teacher at a primary school. She was happy and healthy and went on bush walks in her spare time. Colleen became homeless in 2017 after being diagnosed with Non-Hodgkin's Lymphoma (a type of cancer) and undergoing intensive chemotherapy. She had not been able to work and had fallen behind in her rent. She was subsequently evicted from the property. In June 2018, she was on a priority list for public housing, but had not been told how long it would take to get this accommodation. In the meantime, she sleeps in her car in Coffs Harbour (Keen 2018).

##### **Henry**

Henry lived alone in a rental property. He developed depression after suffering a work-related injury that severely diminished his quality of life. This restricted the number of hours Henry was able to work, but his claim for adequate financial compensation was denied by WorkCover, which did not accept the link between Henry's injury and his subsequent mental health issues. The resulting financial strain caused Henry to fall into rental arrears.

Henry's landlord ultimately proceeded to the Victorian Civil and Administrative Tribunal, where Henry was granted a payment plan. However, he was unable to meet the plan and was subsequently evicted. His bond, paid for using a loan from the Office of Housing, was withheld by his landlord to pay for the arrears, and until this debt is repaid he will be unable to obtain another rental bond.

With nowhere to go after his eviction, Henry resorted to share housing and moved from place to place over the following months. He has found share housing troublesome; he has had his privacy violated on occasions and has no protection from being asked to leave at any time. At the time this story was reported (2015), Henry was still not securely housed. Given his low income, it has been difficult to find more secure housing (Homeless Law 2015).

##### **Angie**

Angie lived in a country town in New South Wales and was on the Disability Support Pension. She had been living in her private rental accommodation for almost two years, but received a 'no-grounds' eviction notice that asked her to leave at the end of her fixed term. She received 30 days' notice — the minimum notice period applying to her circumstances.

After receiving the eviction notice, Angie began applying for rental properties in her area. She estimates having applied for over 40 properties, to no success. She was told her applications were being declined because she didn't earn enough money. However, there were no cheaper alternatives in her area. She also suspects her real estate agent was giving poor references as she had been late with her rent on a few previous occasions.

When this story was reported, Angie was facing the imminent prospect of eviction without another place to move to. A family member was helping to apply for rental properties with her as a 'co-tenant' in the hopes that their combined income would be sufficient to secure another property. She had also applied to a community housing provider for assistance. However, she was not certain that these avenues would prove fruitful before she would be required to move. This was causing her great anxiety and affecting her sleep. It was causing her to withdraw socially as she feared others would discover her situation (Make Renting Fair 2019a).

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Although protections within state and territory governments' residential tenancy legislation apply to the much of the informal private rental sector, tenants with these arrangements may not be aware of their rights. Lack of a written contract can also lead to ambiguity about the terms of the rental agreement, making residential tenancy legislation more difficult to apply.

#### FINDING 4.1

Most private renters move by choice — often to obtain a more suitable dwelling or for personal or work-related reasons. But a significant minority move involuntarily.

When private renters with a disability, older renters and long-term renters move, they are more likely than the average renter to be involuntary.

For vulnerable private renters, the financial costs of an involuntary move can be considerable. Involuntary moves can also:

- disrupt access to place-based services
- lead to homelessness and the need for temporary accommodation services
- compromise a range of child development outcomes, including among Indigenous children.

## 4.2 Dwelling quality — size, condition and location

The degree to which the rental market meets vulnerable people's preferences for the overall quality of their housing is another important dimension of rental access. Quality encompasses the size of a home (and therefore the risk of overcrowding), its condition, location and energy efficiency. As quality is sometimes hard to objectively determine, renters' subjective views about their satisfaction with their housing provide another important indicator.

### **Overcrowding is rare, but more common among some groups of vulnerable renters**

An indicator of whether a renter is suitably housed is whether the dwelling they live in is of an appropriate size for the number of its inhabitants. While any attempt to quantify overcrowding relies on normative and somewhat arbitrary assumptions, the Canadian National Occupancy Standard (CNOS) is a commonly used benchmark (ABS 2016d). The CNOS indicates that:

- there should be no more than two persons per bedroom
- children less than five years of age of different sexes may reasonably share a bedroom
- children five years of age or older of opposite sex should have separate bedrooms
- children less than 18 years of age and of the same sex may reasonably share a bedroom

- 
- single household members 18 years or older should have a separate bedroom, as should parents or couples.

Failure to meet these minimum standards defines overcrowding.

Based on this measure, overcrowding among Australian private renter households (and households of other tenures) is relatively rare. In 2017-18, only about 7 per cent of all private renter households required one or more additional bedrooms to meet the standard (ABS 2019c). However, low-income households were marginally more likely to live in overcrowded dwellings. Previous surveys of income and housing (ABS 2015a, 2017c) also suggest that single-parent households and households where the reference person is reliant on government payments were more likely to experience overcrowding than those without these characteristics.

Indigenous private renters were also disproportionately likely to experience overcrowding. Using unpublished ABS data from 2011, the Australian Institute of Health and Welfare (2014) found that 11 per cent of Indigenous renters required more bedrooms to meet the CNOS, compared with 7 per cent of other renters.

A critical caveat to these results is that absence of overcrowding as defined by the CNOS should not be equated with the adequacy of the size of a dwelling. Many people value space in a dwelling beyond accommodating the number of people in the household (PC 2015). For example, the absence of any spare room for an elderly couple may significantly affect their quality of life, especially if they benefit from visiting relatives or have few options for outside pursuits because of disability. Unfortunately, however, few measures of the adequacy of the size of rental dwellings take into account these more nuanced aspects, and developing them was beyond the scope of this paper.

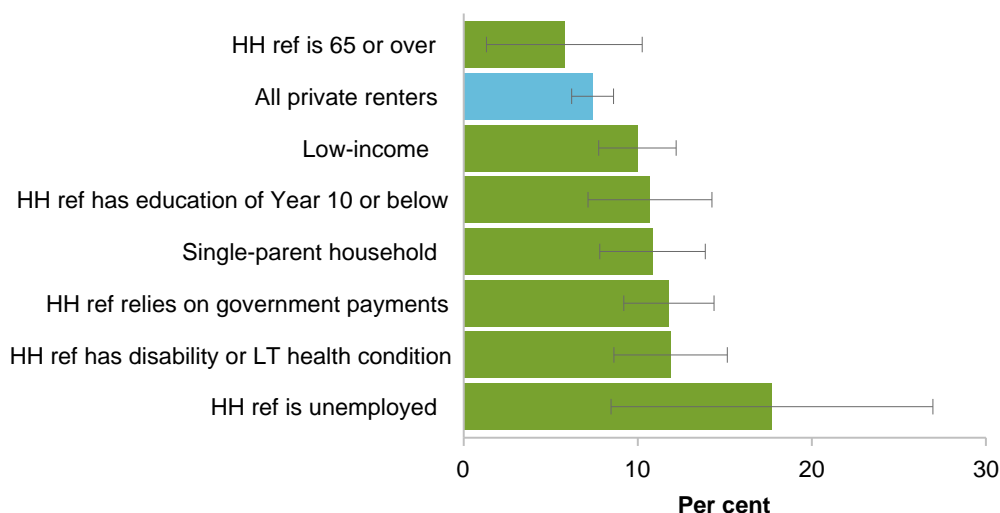
#### FINDING 4.2

A commonly used metric (the Canadian National Occupancy Standard) suggests that overcrowding in the private rental market is rare. However, according to this metric, some vulnerable groups — including low-income households, single-parent households, households reliant on government payments — and Indigenous private renters are more likely to live in overcrowded dwellings.

## Vulnerable renters have poorer quality housing

Vulnerable renters' dwellings are more likely to be in greater need of repair (figure 4.6) or have major structural problems (figure 4.7). Households where the reference person relies on government payments, has a disability or long-term health condition, or is a single parent, in particular, are more likely to live in housing that needs essential repair.

**Figure 4.6 Vulnerable renters' dwellings are in greater need of repair**  
Share of private renter households with dwellings in 'essential' or 'essential and urgent' need of repair, 2013-14<sup>a</sup>



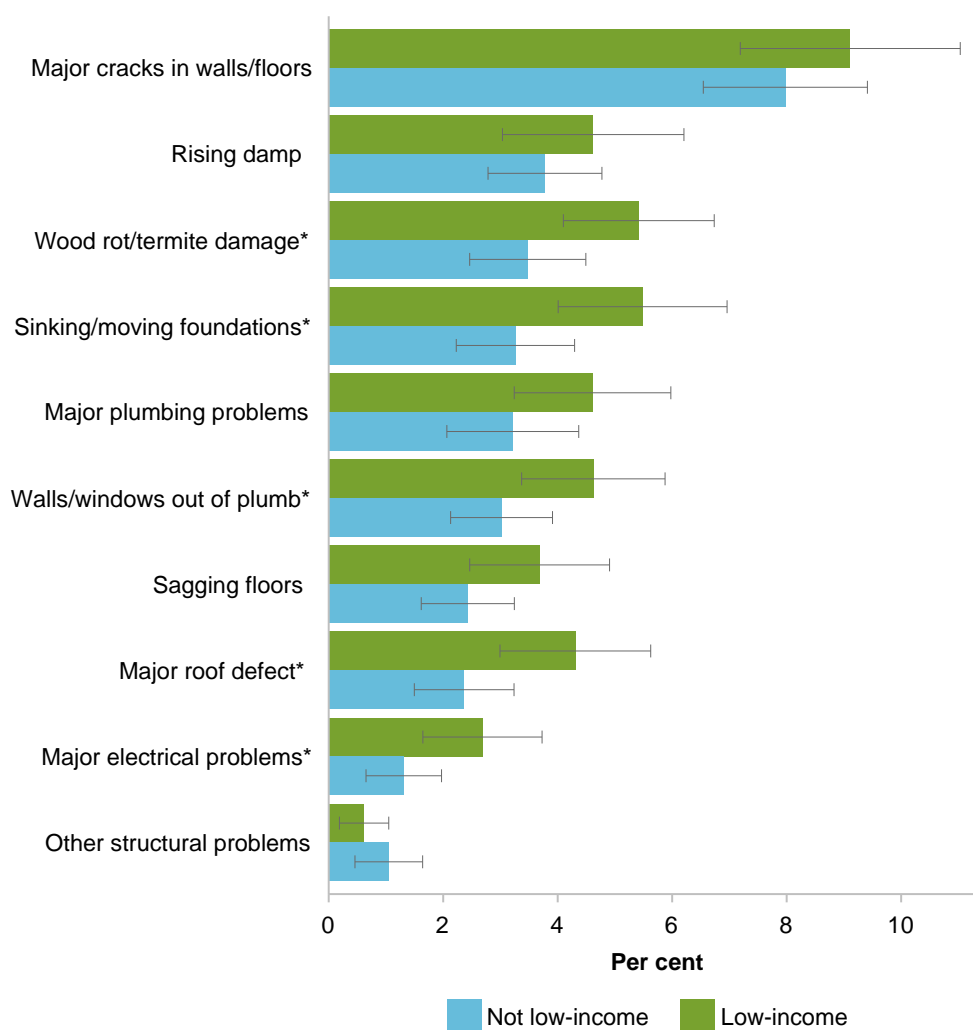
<sup>a</sup> 'HH ref' refer to the household reference person (effectively the head of the household). For instance, an individual would be counted as 'Household ref is unemployed' if their household reference person were unemployed, irrespective of whether they were unemployed themselves. 'Low-income' households are those with incomes between the 3<sup>rd</sup> and 40<sup>th</sup> percentiles of the equivalised income distribution. Error bars show 95 per cent confidence intervals, obtained using the 60 replicate weights provided in the data. Significance testing was not conducted to test for differences between the various groups, as renters could have more than one characteristic and thus be included in more than one group.

Source: Productivity Commission estimates using ABS (*Microdata: Income and Housing, Australia, 2013-14*, Cat. no. 6541.0.30.001).

One explanation for this may be that vulnerable renters are unable to afford higher-quality housing. However, vulnerable renters may also be less willing than others to request repairs and maintenance for fear of negative consequences. Such consequences can include increases in rent, landlords becoming hostile or angry, being blacklisted on a tenancy database (for being 'a nuisance'), and retaliatory 'no-grounds' evictions (CHOICE, National Shelter and NATO 2017). (Retaliatory evictions are unlawful, but, in practice, landlords' motives are difficult to prove.) These outcomes can disproportionately affect vulnerable renters because they face tighter budget constraints or have greater difficulty finding alternative housing. They may therefore choose not to notify landlords of the need for repairs, which can lead to further deterioration of the poorer-quality housing that they are likely to find themselves in in the first place.

**Figure 4.7 Low-income renters' dwellings are more likely to have major structural problems**

Share of private renter households with major structural problems, by low-income status, 2013-14<sup>a</sup>



<sup>a</sup> 'Low-income' households are those with incomes between the 3<sup>rd</sup> and 40<sup>th</sup> percentiles of the equivalised income distribution. Error bars show 95 per cent confidence intervals, obtained using the 60 replicate weights provided in the data. Groups marked with an asterisk (\*) indicate that differences in the share of renters with and without the particular characteristic who were 'very satisfied or satisfied' are statistically significant at the 5 per cent level, using a two-tailed test of statistical significance.

Source: Productivity Commission estimates using ABS (*Microdata: Income and Housing, Australia, 2013-14*, Cat. no. 6541.0.30.001).

Even when tenants do request repairs, however, landlords may not be willing to undertake them. Landlords of older or poorer-quality dwellings may be especially reluctant where they expect their property to be demolished for redevelopment in the near future.

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## Some states have legislated quality standards

One way that governments have sought to address poor-quality housing is by imposing minimum standards through residential tenancy law. All state and territory residential tenancy legislation includes general requirements for landlords to maintain dwellings in a reasonable state of repair. Some states, such as New South Wales and South Australia, also have more specific standards, such as requirements for rental dwellings to have a continuous supply of cold and hot water. Specific minimum standards were also introduced as part of the recent reforms in Victoria, but will only come into effect on 1 July 2020. Queensland amended its residential tenancy legislation in 2017 to allow subordinate regulations to specify minimum standards, but no such standards have yet been created. The Queensland Government undertook consultation on this issue as part of a broader consultation program on private rental housing in 2018 (Queensland Government 2019).

Quality standards are intended to ensure properties are safe and allow a reasonable standard of living. To the extent that landlords must make improvements to a property in order to meet minimum standards, however, landlords would seek to recoup those costs through higher rents. In addition, by prohibiting low-quality housing, minimum standards reduce affordability for vulnerable renters who had been renting low-cost housing. That is, they reduce the ability of renters to trade away non-essential (to them) features in order to save on rent, resulting in higher housing costs than they would have otherwise had. Caution is warranted to limit quality standards to truly essential aspects of housing.

## Is energy efficiency poorer in vulnerable renters' dwellings?

Many private renters are concerned about the cost of energy bills and their ability to maintain a comfortable temperature in their home (with the latter also associated with various adverse health outcomes — explored further below). In one survey of private renters, 78 per cent of respondents expressed concern about the cost of their electricity bills, and 28 per cent reported problems keeping their home cool or warm (CHOICE, National Shelter and NATO 2018). In another survey of renters in New South Wales, Victoria and South Australia, 20 per cent of households had trouble keeping their home warm in winter or cool in summer (Baker et al. 2019).

Vulnerable renters are particularly affected. Single parents, those with a disability or long-term health condition, the unemployed, those without a university degree and those with low incomes were more likely to experience persistent difficulty in paying energy bills on time and adequately heating their home than other households (VCOSS 2018).<sup>31</sup>

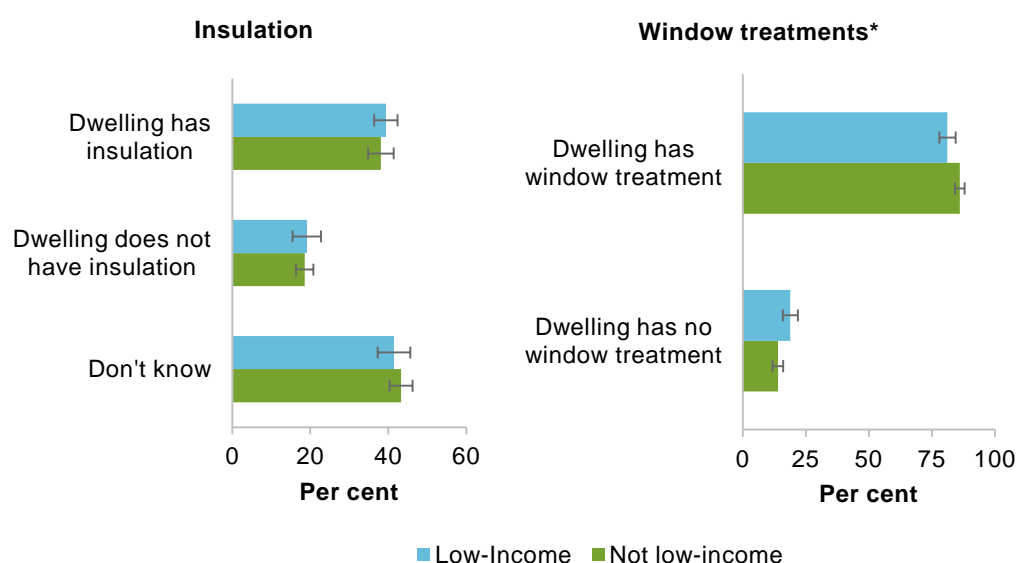
Private rental dwellings are less energy-efficient on average than dwellings of other housing tenures (ABS 2014), though evidence is mixed about whether *vulnerable* renters have less

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<sup>31</sup> While the analysis focused on all households — and not private renters exclusively — it is likely that the overall findings apply to private renters, as private renters were significantly overrepresented among households experiencing energy-related housing stress.

energy-efficient dwellings than other types of renters. Low-income renters are (statistically) significantly less likely to live in dwellings with window features that promote energy efficiency (such as blinds), though evidence about whether they are more or less likely to have insulation installed in their dwelling is inconclusive (ABS 2014) (figure 4.8).

**Figure 4.8 Vulnerable renters do not necessarily live in less energy-efficient dwellings**  
Share of private renter households living in properties with features that improve energy efficiency<sup>a</sup>



<sup>a</sup> The proportion of those with insulation is even greater for all other vulnerable private renter groups (such as those reliant on government benefits). Window treatments are accessories such as blinds, shutters or tinted glass. Error bars show 95 per cent confidence intervals, obtained using the 60 replicate weights provided in the data. As denoted by an asterisk (\*), the finding that low-income households are less likely to live in dwellings with window treatments than non-low-income households is statistically significant at the 5 per cent level using a two-tailed test of statistical significance.

Source: Productivity Commission estimates using ABS (*Microdata: Household Energy Consumption, 2012*, Cat. no. 4670.0.30.001).

In addition, a large share of renters appear to be unaware of aspects of their home that would affect its energy efficiency. For example, 41 per cent of private renters did not know if their home had insulation, compared with 3 per cent of home owners. This stands in contrast to the reported widespread concern among renters about energy costs, which would suggest that renters would be more proactive in seeking out energy-efficient homes. One explanation for this could be that, in searching for a home, renters tend to give less weight to energy efficiency relative to other factors such as the amount of rent and the size and location of the dwelling (pitt&sherry 2014).

Another reason that renters may not know about the energy efficiency of their dwelling is that this information is costly to obtain. With the exception of the ACT Government (which

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requires a property's energy efficiency rating to be disclosed if one exists, or a statement that it does not have a rating if not), no state or territory government requires the energy efficiency of a dwelling to be disclosed when a property is advertised for lease. However, even in the ACT, noncompliance is common and enforcement appears to be infrequent (Morgan 2019). In addition, many rental properties do not have an energy rating (box 4.4).

#### **Box 4.4      Many rental dwellings do not have energy ratings**

In Australia, dwellings built or significantly altered from a certain date (2003, for the majority of states and territories) are required to satisfy minimum standards and receive a corresponding energy rating. Potential star ratings range from a minimum of zero (where the dwelling provides almost no protection from hot or cold weather) to a maximum of 10 (where the dwelling is unlikely to need any artificial heating or cooling) (NatHERS 2019a). The minimum standard in most states is a six-star rating (Department of Housing and Public Works 2018; NatHERS 2019b).

However, many rental dwellings were built before these standards were mandatory. ABS data show that 62 per cent of dwellings occupied by private renters were built 20 or more years ago (ABS 2013a). Accordingly, many of these dwellings do not possess energy ratings, and in most cases do not meet the current minimum standards. Evidence from older dwellings that have received ratings suggests that less than 1 per cent meet the current minimum six-star rating (NatHERS 2019a).

Where a dwelling lacks an energy rating, obtaining one can be costly. A dwelling's energy efficiency is a complex combination of many factors, such as the construction materials used and quality of insulation installed (pitt&sherry 2014). An accurate appraisal therefore requires a professional assessment and is beyond the capabilities of the average person. The cost of an assessment is typically several hundreds of dollars.

Finally, renters may have difficulty translating higher energy-efficiency ratings into specific cost savings on energy bills. In light of this, tenant groups in the ACT have called for greater information to supplement ratings in order to help renters better evaluate any cost trade-offs, as more energy-efficient properties with lower running costs may have higher rents (pitt&sherry 2014). Whether the benefits of such requirements would exceed the costs is hard to judge, however. In most markets, it is unnecessary to regulate disclosure because those offering higher quality goods or services inform consumers without being compelled. The policy rationale for treating housing differently is unclear.

### **Poor quality housing affects health and children's outcomes**

Poor quality housing, which vulnerable renters are more likely to inhabit, can lead to a range of adverse health consequences.

- Certain hazards in the home — such as sagging floors, moving foundations and rotten or termite-infested wood — can cause injury (Healthhabitat nd). One survey of renters in Victoria, New South Wales and South Australia suggested that 3 per cent of private rental households contain a member who has sustained an injury from an unsafe aspect of their dwelling (Baker et al. 2019).



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- Rising damp and mould are associated with issues such as asthma and respiratory infections (WHO 2018).
  - Homes that are difficult to adequately heat may contribute to poor health outcomes — living in a dwelling that is too cold is associated with respiratory and cardiovascular problems (WHO 2018).

Children, the elderly and people with a disability or chronic illness are particularly vulnerable as they are more likely to spend a greater amount of their time at home, and are therefore more exposed to the health risks associated with poor quality housing (WHO 2018).

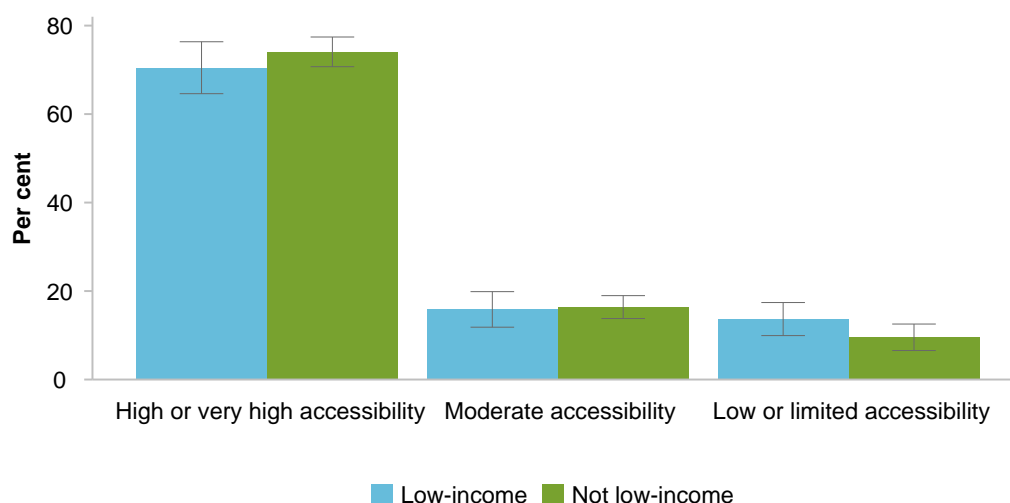
Poorer quality housing has also been shown to negatively affect the physical health, social and emotional wellbeing, and learning and cognitive development of children (Dockery et al. 2013).

### **Vulnerable renters are not less likely to live in areas of high accessibility**

Location matters for access to amenities and jobs. The Metro Accessibility/Remoteness Index of Australia is a measure that brings together information on road distance between dwellings and education, health, shopping, public transport, financial and postal services to classify dwellings as being of low, moderate or high accessibility. This measure is included in the ABS' 2017-18 SIH, and these data show that private renters in metro regions are almost twice as likely as home owners to inhabit dwellings in regions with 'very high accessibility'. Moreover, *low-income* private renters tend to live in areas of greater accessibility than owner-occupiers; 70 per cent of low-income renters compared with 59 per cent of owner-occupiers live in areas of high or very high accessibility (ABS 2017c).

While low-income renters may be expected to be less likely than the rest of the private renter population to live in areas of high accessibility (because housing in these areas tends to be more expensive and low-income renters have more limited budgets), data show that there is no (statistically) significant difference in the share of low-income and other renters living in such regions (figure 4.9).

**Figure 4.9 Low-income renters are not less likely than other renters to live in regions of high accessibility**  
Share of private renter households in regions of different levels of accessibility, 2017-18<sup>a</sup>



<sup>a</sup> 'Low-income' households are those with incomes between the 3<sup>rd</sup> and 40<sup>th</sup> percentiles of the equivalised income distribution. Error bars show 95 per cent confidence intervals derived using the 60 replicate weights provided in the data. Differences between the share of low-income and non-low-income renters living in each type of region are not statistically significant at the 5 per cent level.

Source: Productivity Commission estimates using ABS (*Microdata: Income and Housing, Australia, 2017-18*, Cat. no. 6541.0.30.001).

## Most private renters are satisfied with their housing

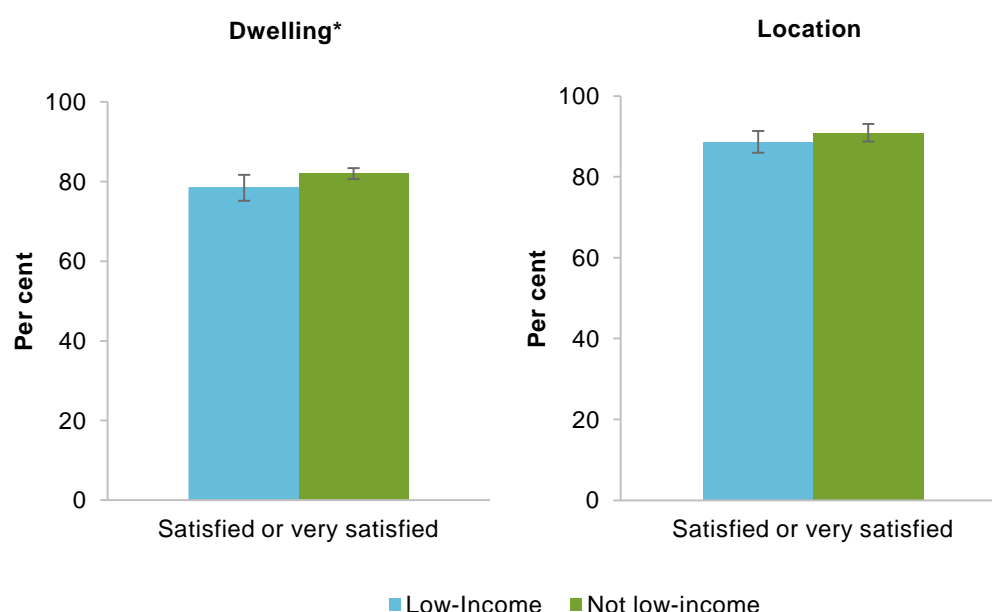
Overall satisfaction with housing has the advantage over other quality indicators that it encompasses all of the dimensions of quality important to people, and takes into account that their preferences will vary.<sup>32</sup> The most reliable source of data on satisfaction levels — the SIH — suggests that most renters are satisfied with their accommodation and its location. Many vulnerable groups express levels of satisfaction close to that of their non-vulnerable peers. However, low-income renters (figure 4.10) and those living with an unemployed household head are (statistically) significantly less satisfied with their dwelling than other renters. Conversely, renters aged 65 and older are *more* satisfied with their dwelling than the

<sup>32</sup> While satisfaction measures have these significant advantages, they also have several major flaws that should be considered when interpreting them. One is that some of the adverse effects of poor quality (for example, the health effects of mould or the energy use consequences of no insulation) may not be readily observed by a tenant. Another is that measures of satisfaction can be influenced by the view from the respondents about the dimensions of the service they are assessing, and by framing of the question. Any recent adverse event is likely to be given more weight than other events. Consequently, satisfaction metrics should be interpreted in light of other metrics of quality.

young.<sup>33</sup> The higher level of satisfaction of older renters has been replicated in several studies (Rowley and James 2018; Tenants Union of Victoria 2015a). This may be a function of greater life satisfaction more generally — there is evidence to suggest that older individuals tend to be more satisfied with their lives than those closer to middle age (Blanchflower and Oswald 2017).

**Figure 4.10 Low-income renters are less satisfied with their housing**

Private renters' satisfaction with their dwelling and its location, 2013-14<sup>a</sup>



<sup>a</sup> There were five possible responses in the survey: very satisfied, satisfied, neither satisfied nor dissatisfied, dissatisfied, and very dissatisfied. Individuals in the 'low-income' group are those living in households with incomes between the 3<sup>rd</sup> and 40<sup>th</sup> percentiles of the equivalised income distribution. Error bars show 95 per cent confidence intervals derived using the 60 replicate weights provided in the data. As denoted by an asterisk (\*), this difference is statistically significant at the 5 per cent level using a two-tailed test of significance.

Source: Productivity Commission estimates using ABS (*Microdata: Income and Housing, Australia, 2013-14*, Cat. no. 6541.0.30.001).

Other surveys also show high levels of satisfaction by all private renters, but a larger gap than the SIH between vulnerable and other private renters. For example, a survey by EY Sweeney (2016) found that 64 per cent of those with a Health Care or Pensioner Card (available only to those receiving government assistance) were satisfied with their overall experiences in the private rental market, compared with 75 per cent of those without. In addition, just 58 per cent of those with a disability or health condition that limits their everyday activity were satisfied, relative to 75 per cent of those without. However, this and another survey of the Victorian private rental market revealed no large differences in renters'

<sup>33</sup> The differences in satisfaction between these vulnerable groups and their non-vulnerable counterparts are statistically significant at the 5 per cent level, using a two-tailed test of statistical significance.

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overall satisfaction across the income spectrum (EY Sweeney 2016; Tenants Union of Victoria 2015a).

Longer-term renters also appear to be less satisfied than other renters, with overall levels of satisfaction decreasing with the amount of time in the rental market (figure 4.11).

Satisfaction appears to have changed little over recent years — the satisfaction of private renters in 2013-14 (the most recent period for which this data were available) was not markedly different than in 2007-08 (ABS 2011, 2015a).

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**Figure 4.11 Longer-term renters are less satisfied**

Share of renters satisfied with their overall experiences in the private rental market, by time living in the private rental market



Source: EY Sweeney (2016).

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#### FINDING 4.3

Most private renters, vulnerable or otherwise, are satisfied with their dwelling and its location. However, low-income renters and those living with an unemployed household head are slightly less satisfied with their dwelling, while long-term renters are less satisfied with their overall experience of the private rental market. Older renters (aged 65 and older) are more satisfied with their dwelling than younger renters.

Vulnerable private renters are also more likely to live in dwellings that need repairs or have major structural issues, but are not less likely to live in regions with high accessibility to services.

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## 5 Selected policies to assist vulnerable private tenants

### Key points

- Australia's private rental market works well for most people most of the time.
- However, vulnerable private renters continue to face difficulties. Key among these is affordability. Some also prefer greater certainty of tenure than other types of renters, as they are less able to cope with the cost and disruption of unwanted moves.
- Overseas experience suggests institutional investment in residential property may lead to greater certainty of tenure and better maintained properties for private tenants, but such investment is virtually absent in Australia. The primary barrier to such investment is low yield: Australian house prices remain high, for a range of reasons, and institutional investors have faced, and in some instances still face, higher taxes at both the Commonwealth and state and territory levels compared with individual investors.
- Policies that diminish the different tax treatments facing individual and institutional investors may promote greater institutional investment in private rental housing. It is less clear that such investment will materially increase the supply of rental housing supply in aggregate, or the supply of affordable private rental housing in particular.
- Commonwealth Rent Assistance (CRA) is a well-targeted payment and improves rental affordability in the private rental market for many low-income tenants.
- However, as CRA is indexed to the consumer price index, it has not kept pace with growth in rental prices or costs. As a result, between 2001 and 2018 the average share of rents covered by CRA fell from 28 to 24 per cent.
- Further, the share of CRA recipients who receive the maximum payment has steadily increased from around 57 per cent (representing about 556 000 recipients) in 2001 to 80 per cent (representing just over one million recipients) in 2018. Removing no-grounds evictions and increasing minimum notice periods for landlord-initiated moves can increase stability and certainty of tenure for renters. However, it also imposes costs on some landlords, which will be partly transferred to renters.

The evidence contained in the previous chapters suggests that Australia's private rental market functions well for most tenants.

- Across all private renters, rental affordability has not deteriorated markedly since 1994-95, most are satisfied with their housing, the quality of rental properties tends to be good, most move by choice, and favour flexible terms and conditions in tenancy agreements. Most live in areas with high accessibility to services, overcrowding is rare, and the rates of most forms of homelessness and marginal housing have fallen or remained flat since 2001.

- 
- Vulnerable tenants in the private rental market experienced worse outcomes than other private renters across a range of indicators.
    - Key among these indicators is rental affordability (chapter 3). Most low-income private renters spend more than 30 per cent of their income on rent and the increase in the proportion of vulnerable people renting privately means that the number of households in rental stress in the private rental market has increased much faster than population growth.
    - Some vulnerable private renter households — those that are reliant on government pensions and allowances and made up of older or unemployed people — are particularly likely to experience rental stress. However, being employed is not a guarantee against rental stress, with many low-income private renters working fewer hours than they would like. The persistence of rental stress in this market also appears to have been higher over the past decade or so.
    - Vulnerable private renters are also more likely to live in overcrowded dwellings and poorer quality housing, and to be less satisfied with their dwelling (chapter 4). At the most extreme end, the proportion of private renters living in dwellings that would require three or more additional rooms to avoid overcrowding has risen since 2006 (chapter 1).
    - Finally, while most private renters choose to move to obtain more suitable accommodation or for work or personal reasons, a material proportion (about 19 per cent) move involuntarily. Some vulnerable private renters — such as renters with a disability, older renters and renters with low educational attainment — may be less able to cope with the cost and disruption of unwanted moves, they tend to prefer greater certainty of tenure than other types of renters. The risk is that unwanted moves exacerbate their disadvantage.

As private landlords cannot be expected to provide subsidised accommodation or deliver social policy outcomes for the growing number of vulnerable renters in this market, this chapter examines the role of selected policies that seek to address the poorer outcomes observed for this group. These include:

- policies that seek to encourage institutional investment in privately-provided rental properties for vulnerable tenants through tax changes or government subsidies (section 5.1)
- Commonwealth Rental Assistance, the primary policy alleviating affordability pressures on the demand side (section 5.2)
- residential tenancy legislation — the legal framework underpinning the private rental market — and its role in addressing certainty of tenure and quality of dwelling concerns (section 5.3).

As noted in chapter 1, this paper focuses on policies that directly affect the private rental market and its participants, rather than policies with broader housing market effects.

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## 5.1 Institutional investment may improve certainty of tenure, but would require large tax changes

Australia's stock of private rental properties is dominated by small-scale 'mum and dad' investors (chapter 1). While a predominance of small-scale investors is not unusual internationally, many markets also have a substantial role for institutional investors. Institutional investment in residential build-to-rent property is widespread in the Netherlands and Switzerland, and also material in France, Germany and the United States (JLL 2017).

In Australia there has been little institutional investment in residential property other than in student housing (Martin, Hulse and Pawson 2018; Newell, Lee and Kupke 2015). A number of state and territory governments have recently announced initiatives to provide assistance to institutional build-to-rent developments (NSW FACS 2018; Queensland Treasury 2019; VIC SRO 2018).<sup>34</sup> While only available to community-housing providers, the newly formed Affordable Housing Bond Aggregator (NHFIC 2019) — which gives these providers access to cheaper and longer-term loan finance by aggregating their funding requirements and issuing bonds in capital markets — is a further example. With these programs only just commencing or still to commence, it is too soon to assess whether they are individually effective.

What are the barriers to greater institutional investment in residential property?

The primary barrier to institutional investment is yield: Australian house prices remain high, for a range of reasons, and institutional investors are taxed at higher rates compared with individual investors.<sup>35</sup> Australian residential property yield is low compared with Australian commercial property, Australian shares and overseas residential property (Allens 2018; Newell, Lee and Kupke 2015). For example, Charter Hall's Charter Hall's Real Estate Investment Trust (which invests in retail property) reported a net yield over 6 per cent in 2018 (Charter Hall 2019) as compared with residential property's Australia wide gross yield of 4 per cent (CoreLogic 2019). Australian residential property investment yield is also low compared with yields in overseas markets where institutional investment is more active: for example, in early 2019, gross yield for Sydney rental housing was 3.3 per cent (CoreLogic 2019) whereas the estimated *net* yield after operating costs in New York for 2019 was about 5 per cent (REITNOTES 2019).<sup>36</sup>

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<sup>34</sup> The 'build-to-rent' model typically involves multi-unit dwellings that are built for a single owner to be rented out, with shared amenities and building management staff on-site.

<sup>35</sup> Milligan et al. (2015, p. 3) identified another three barriers to affordable rental housing investment from large institutional players. They included 'a lack of industry knowledge of rental housing products and performance; the small scale and fragmented nature of deals on offer, coupled with insufficient liquidity; and the changeable and uncertain, or in some instances, unsuitable government policy settings'.

<sup>36</sup> Cross-country comparisons are difficult as Australian residential investment yields are typically reported in gross terms while similar international investments are typically reported in net terms. Estimated net yield in New York is based on B class multifamily investments in REITNOTES (2019).

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The low yield reflects high house prices, which in turn are affected by a range of Australian, state and territory government policy choices, including taxation. Australian property taxation, both at the Commonwealth and state and territory levels, treats owners of a residential property unevenly.

- Individual investors receive a 50 per cent discount on capital gains if the asset is held for more than one year. One consequence is that while depreciation is tax deductible in the current period at the owners' full marginal tax rate, it contributes to a taxable gain upon sale at this concessional rate.
- By contrast, most institutional investors face a heavier Australian Government tax burden if they invest in residential property. They are generally not afforded the same (50 per cent) capital gains tax discount when they dispose of a residential property asset as individual investors.<sup>37</sup> However, recently passed legislation will allow 'managed investment trusts' for build-to-rent investors in *new* developments access to individual's capital gains tax discounts (and any other favourable tax treatment they receive) (Frydenberg 2019). For foreign investors, a managed investment trust for an affordable residential property development has a lower withholding tax liability of 15 per cent (relative to the usual 30 per cent), giving this type of managed investment trusts access to cheaper foreign capital (Frydenberg 2019). While there are no ASX-listed Australian residential property investment trusts, some developers have canvassed investor interest (Mirvac 2018). Although the recent changes may improve the yield for *new* institutional investments in residential property (via managed investment trusts), state and territory government tax arrangements (discussed below) also affect this yield.

At a state and territory level, most governments levy land taxes on rental properties at a rate that is 'progressive' on the overall value of a property portfolio. This means that, generally, the more land an individual or business holds, the higher the rate of tax (figure 5.1), resulting in lower net yields for large landholders (figure 5.2). While many investors do not have a portfolio large enough to be eligible for land tax (CoreLogic 2016), institutional investors contemplating larger land holdings would face higher rates. These arrangements are peculiar to Australia; countries with active institutional investors such as the United Kingdom and the United States do not have progressive land tax. That said, the ACT Government's land tax is not progressive on the overall portfolio value and the Northern Territory Government does not have land tax, yet neither jurisdiction has active institutional investors in general residential property.

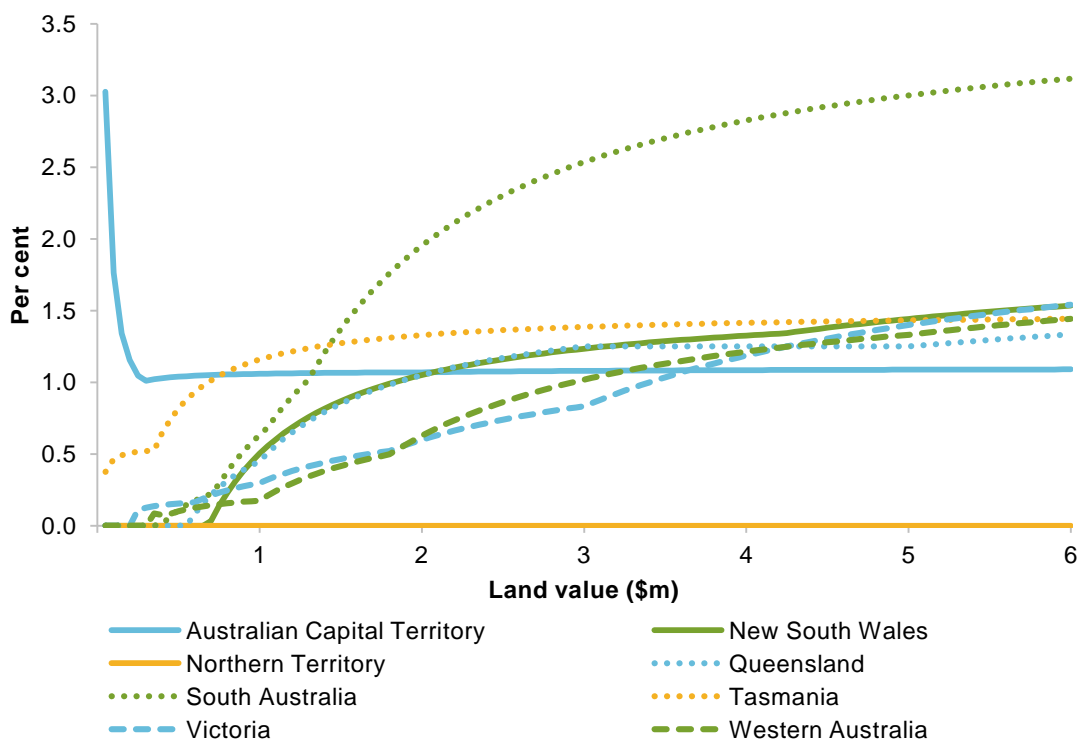
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<sup>37</sup> Exceptions include superannuation funds or specific trust arrangements.



Figure 5.1 **Land taxes are progressive and vary greatly across states and territories<sup>a,b</sup>**

Effective average tax rate by land portfolio size, 2019



<sup>a</sup> The Northern Territory (NT) Government does not have a land tax regime. Although the NT Government does not levy land taxes, the lack of build-to-rent development in this jurisdiction is likely to reflect the absence of other conditions typically needed for build-to-rent development. <sup>b</sup> This figure assumes all land in the ACT is held in one property. Higher effective tax rates for lower land holdings in the ACT reflect fixed charges and the ACT Government's gradual replacement of stamp duties with land taxes.

Source: State and territory governments' revenue offices (various).

## What benefits may greater institutional investment bring?

Some identify a potential role for institutional investors in improving the experience of renters through enhanced tenure length and flexibility and better quality property management (PCA 2018). In particular, institutional investors may offer greater certainty of tenure compared with individual investors (Alekeson 2013; Future of London 2017; Grainger PLC 2019; London Councils 2017; Morrison 2018; Newell, Lee and Kupke 2015; PwC 2017). On the other hand, instances of poor corporate landlord behaviour overseas suggest that good outcomes are not automatic (AHURI 2019; Martin, Hulse and Pawson 2018).

**Figure 5.2 Low yields in Australian residential property are decreased further by land taxes**

June 2019 gross rental yields net of top marginal tax rate<sup>a,b,c</sup>



<sup>a</sup> The land tax rates shown are the highest theoretical level of land tax. That is, a limit as land value approaches infinity. <sup>b</sup> Assumes half land value and half dwelling structure value. <sup>c</sup> Land tax is deductible from income tax and as a result the effect on after-tax profit is smaller than what is pictured in this figure.

Sources: State and territory governments' revenue offices (various); and Corelogic (2019).

These potential benefits aside, claims that institutional investors could substantially increase rental housing supply in general (Pallas 2018) or of affordable housing in particular (Allens 2018) are less convincing.

- *Prima facie*, institutional investors are likely to displace traditional mum and dad investors, producing limited effects on overall supply.<sup>38</sup> The Property Council of Australia (PCA 2018) has argued that institutional investors could develop sites unavailable to other builders, such as incorporating housing into retail complexes (PCA 2018), but the effect on housing supply would still be small.
- Nor is it clear that institutional investment provides an avenue for more affordable housing in particular. So far, most of Australia's pioneering build-to-rent projects have targeted the premium segment of the rental market (for example, see Mirvac 2018). Private investors will not provide accommodation below market rents without ongoing government subsidies, and the experience with the National Rental Affordability Scheme is that the subsidies required are large and difficult to target well (box 5.1).

<sup>38</sup> Supply of urban housing is constrained by the availability of land and the size of buildings that can be developed. Given that most urban centres do not typically have large quantities of unused land, developing one form of housing (such as build-to-rent) is expected to largely displace another form of housing (such as the more traditional form of housing development seen in Australia, which combines owner-occupiers and investment properties owned by mum and dad investors).

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### Box 5.1      **The National Rental Affordability Scheme**

Established in 2008, the National Rental Affordability Scheme (NRAS) was an Australian Government initiative aimed at:

- increasing the supply of affordable rental housing
- reducing the rental costs for low- to moderate-income households
- encouraging large-scale investment and innovative delivery of affordable rental housing .

Under the Scheme, investors received an annual subsidy for 10 years to build and rent new dwellings to low- and moderate-income households at 20 per cent or more below market rates (DSS 2018a). Interest from institutional investors was negligible and eligibility for NRAS was expanded. Ultimately, most investors were not-for-profit organisations such as community housing providers (DSS 2018c) and many NRAS properties were on-sold to smaller investors (ANAO 2015, p. 27). The scheme closed in 2014 and produced a total of 35 989 dwellings<sup>a</sup> (DSS 2017, 2019b), compared with an initial target of 50 000 dwellings.

The costs and benefits of NRAS have not yet been thoroughly assessed. NRAS provided a benefit to NRAS tenants and conceivably may have increased the supply of housing in some areas, at least in the short term. However, as the value of the subsidy well exceeded the cost savings enjoyed by the typical NRAS tenant, landlords captured more of the subsidy's direct benefits than tenants did (Daley et al. 2019). The effect on housing supply and average rents for other tenants has not, to date, been modelled, but over longer periods it may have been expected to crowd out some unsubsidised investment and have had limited effect.

There were other shortcomings in the design of the NRAS. Some were avoidable. Fixed per-dwelling subsidies encouraged building of small dwellings in suburbs with better prospects for capital gains, rather than in the outer suburban areas that are home to many vulnerable renters (Rowley et al. 2016). More than one-third of NRAS dwellings were studios or one bedroom apartments (DSS 2019b). Other shortcomings were unavoidable. Supply-side subsidies inequitably help tenants fortunate enough to rent subsidised dwellings but not other equally-needy households. By doing so, they may also create disincentives for fortunate tenants to relocate to pursue job or personal opportunities.

Any similar scheme in future should be informed by critical consideration of the net effects on housing supply and be designed carefully to provide the housing most needed by vulnerable households.

<sup>a</sup> Of these, 34 501 are tenanted or available to rent, while the remainder are yet to be delivered.

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#### FINDING 5.1

Large institutional investors in Australia's residential property market are minor players; small ('mum and dad') investors dominate this market.

Recent changes by the Australian Government to reduce the differential tax treatment between individual and institutional investors in residential property may encourage greater entry of institutional investors. However, fully rectifying the overall tax differential would require substantial changes to most state and territory governments' land tax arrangements.

Institutional investors have provided tenure and quality benefits overseas. However, it is less clear that greater institutional investment in the residential property market would improve overall rental housing supply in general or affordable rental housing supply in particular.

## 5.2 Commonwealth Rent Assistance is the clearest path to improving affordability

On the demand side of the private rental market, governments provide different financial supports to eligible private renters.

- By far the largest of these supports is the Australian Government's Commonwealth Rent Assistance (CRA) (box 5.2), a targeted payment reaching over 1.3 million recipients in 2016-17 at a cost of over \$4 billion per year (AIHW 2018).
- State and territory governments also provide (mostly one-off) forms of assistance to households experiencing difficulty in securing or maintaining private rental accommodation. The reach of these supports has been declining over time, down from almost 160 000 households in 2010-11 to around 128 000 in 2016-17 (AIHW 2018, table 6 in the online data tables on financial assistance).

Income support programs generally aim to support people with low income and low wealth. Income testing of payments means that CRA is as well targeted as a range of other working age and non-working age payments to families on low incomes. However, because it provides support to those who do not own their own home, CRA is comparatively well targeted to households with lower levels of wealth (figure 5.3, panel a). For example, in 2017-18 among working-age households, 92 per cent and 71 per cent of CRA payments were made to low-wealth and low-income households, respectively. The comparable figures for non-working age households were 83 and 80 per cent. Looking across all households receiving CRA, 15 per cent of all payments went to households in the bottom 10 per cent of households by income (figure 5.3, panel b), but 40 per cent went to households in the bottom

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10 per cent of all households by wealth (figure 5.3, panel c).<sup>39</sup> Looking to the future, the ageing of the population and declining rates of home ownership mean that the number of retirees renting privately and eligible for CRA will grow rapidly over the coming decade (Wood, Cigdem-Bayram and Ong 2017).

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## **Box 5.2 Commonwealth Rent Assistance**

### **How does the payment work?**

The amount of Commonwealth Rent Assistance (CRA) an individual (or couple) receives depends on the rent they pay, their income, the composition of their household and other family circumstances. CRA pays 75 cents for every dollar of rent above a rent threshold up to a maximum amount that varies based on a renter's family situation. All thresholds increase in line with the consumer price index (CPI) twice a year. A person's CRA payment is reduced if their income is above a threshold amount, which varies depending on the income support payment they receive.

### **Who is eligible?**

An individual is eligible for CRA if they:

1. receive an eligible Centrelink payment
2. pay over a minimum threshold in rent
3. do not meet any exclusion criteria.

Many Centrelink payments meet CRA eligibility requirements, including Newstart, Youth Allowance, pensions and Family Tax Benefit Part A (when paid more than the base rate).

Individuals and families are excluded from CRA if they receive some form of comprehensive government rental support. For example, if an individual or family live in government-funded public housing or a nursing home, they are ineligible for CRA. Individuals are also ineligible if they:

- have a partner who receives CRA with their Family Tax Benefit
- own a home, or
- live in their parents' home (when single, aged under 25 years and without children).

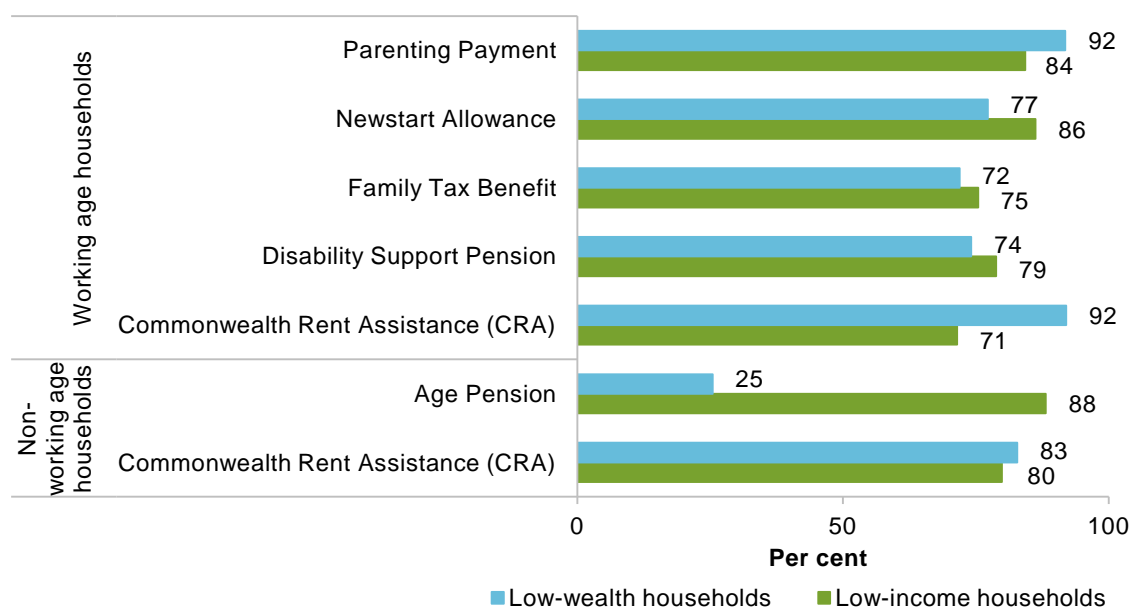
*Source:* DSS (2019a).

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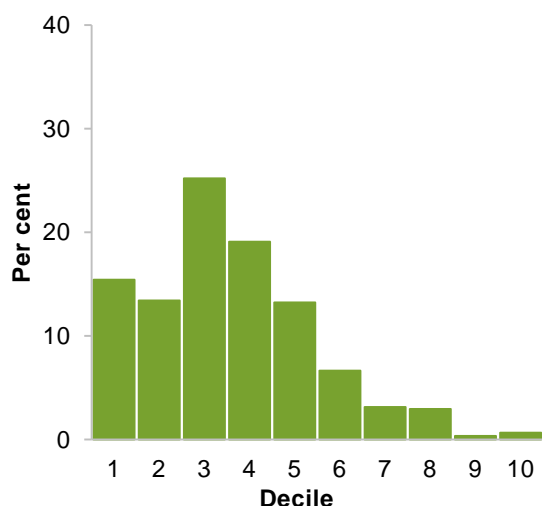
<sup>39</sup> The distribution of CRA payments by income decile is affected by different rental arrangements for public housing tenants, who do not receive CRA and who also tend to be located in the bottom two income deciles (chapter 1, figure 1.5).

**Figure 5.3 CRA is well-targeted to low-wealth and low-income households**  
2017-18

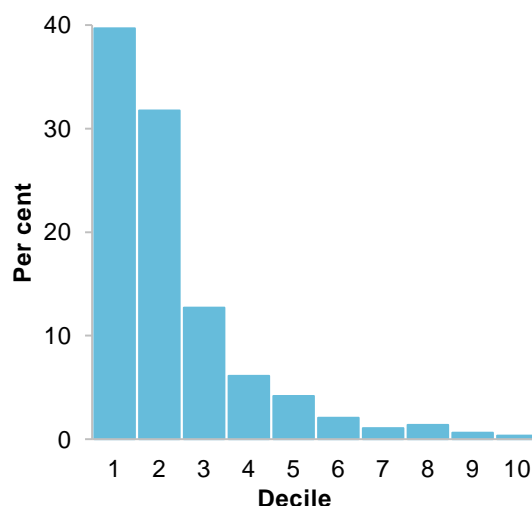
a. Share of payments to low-income and low-wealth households by working age and non-working age households<sup>a</sup>



b. Share of CRA payments to households in each equivalised income decile



c. Share of CRA payments to households in each equivalised net wealth decile



<sup>a</sup> Working-age household are those whose reference person is aged 15–64 years and non-working age households have reference persons aged 65 years and over. Low-wealth households are defined as households in the lowest two quintiles when households are ranked by equivalised net wealth. Information is not given in relation to every payment for both working age and non-working age households because different payments are relevant for each group.

Source: Productivity Commission estimates using ABS (*Microdata: Household Expenditure, Income and Housing, 2017-18*, Cat. no. 6540.0).

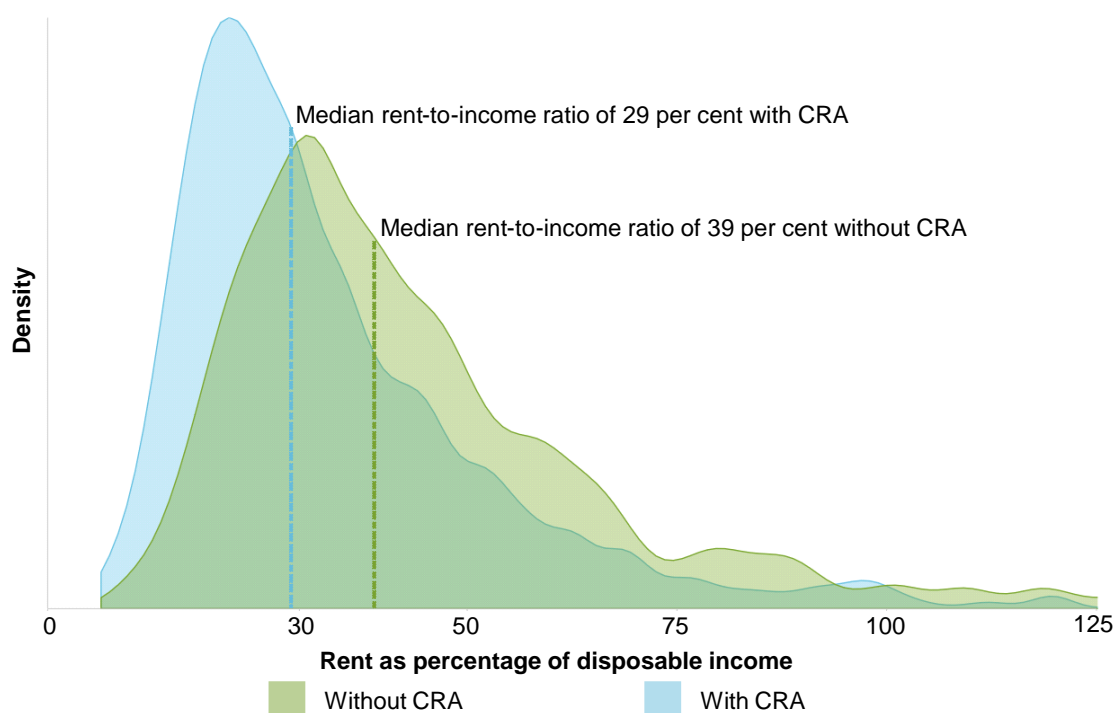
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## CRA improves rental affordability for vulnerable private tenants

CRA makes a substantial contribution to many people's incomes and therefore materially improves rental affordability in the private rental market. For example, In 2017-18, 47 per cent of all low-income private renter households had less than \$500 left over a week after paying their rent, and 18 per cent had less than \$250 left over (chapter 3). These figures would be substantially higher in the absence of CRA. The injection of CRA into the incomes of eligible households shifts the distribution of rent to income ratios for low-income households, with the median rent-to-income ratio falling by 10 percentage points (figure 5.4).

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**Figure 5.4 Commonwealth Rent Assistance improves affordability**  
Distribution of rent-to-income ratios for low-income households with and without CRA, 2017-18<sup>a,b</sup>



<sup>a</sup> The analysis underlying this figure is based on households, to be consistent with other analysis in this report. This type of analysis can also be based on income units (see, for example, SCGRSP 2018). The two methods will produce different results. <sup>b</sup> Rent-to-income ratios with CRA are calculated as rent minus CRA payments divided by disposable household income minus CRA payments. Rent to income ratios without CRA are calculated as rent divided by disposable household income minus CRA payments. All data relate only to low-income households where some CRA payment is received in 2016.

Source: Productivity Commission estimates using ABS (*Microdata: Household Expenditure, Income and Housing, 2017-18*, Cat. no. 6540.0).

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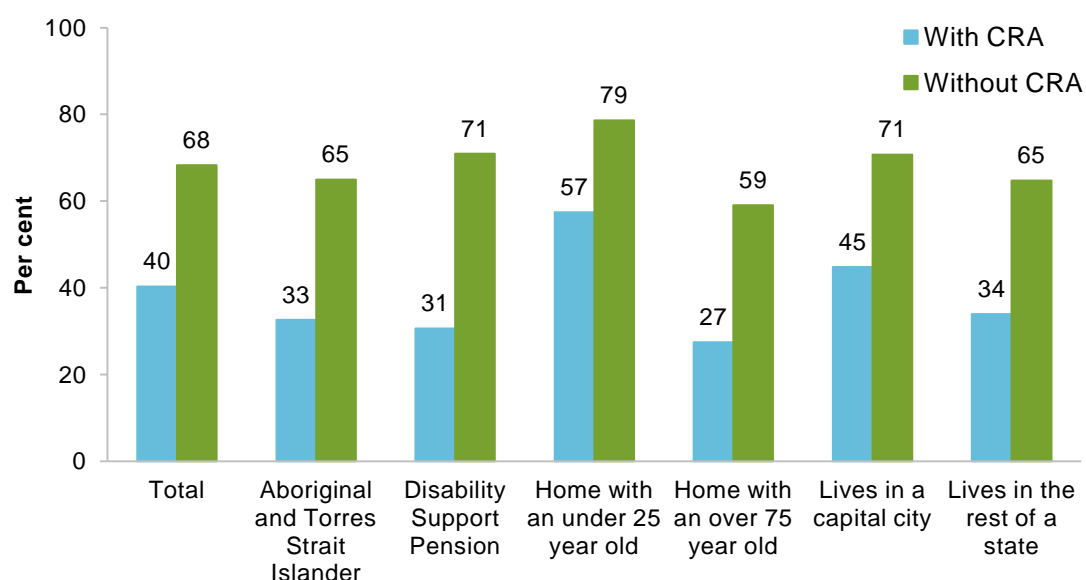
The reach of CRA is also broader than some other government payments. The design of CRA extends eligibility to low- and middle-income wage and salary earning families with dependent children (if they are eligible for more than the minimum level of Family Tax Benefit Part A), and not only those receiving government pensions and allowances. This provides assistance to many employed households that also experience rental stress (chapter 3).

In addition, government performance reporting has shown that in 2018:

- 68 per cent of households receiving CRA would have been in rental stress if CRA had not been provided — this proportion dropped to 40 per cent when CRA was provided
- without CRA, around 59 per cent of eligible households who included a member aged 75 years or over would have been classified as experiencing rental stress, as would 71 per cent of households receiving a Disability Support Pension. With CRA, rental stress reduced to 27 and 31 per cent, respectively, for those households (figure 5.5; SCRGSP 2019)

**Figure 5.5 Rental stress with and without Commonwealth Rent Assistance**

Per cent of households where CRA is received by characteristics associated with vulnerability,<sup>a</sup> 2018



<sup>a</sup> Households are equivalent to income units, as defined by the ABS and the SCRGSP.

Source: SCRGSP (2019), table GA.13.

These simple ‘before and after’ CRA comparisons give a rough indication of the contribution that CRA makes to improving rental affordability. But it is important to note that these calculations ignore many of the real-world effects of providing CRA and likely overstate the contribution that these payments make to reducing rental stress. Most importantly, these



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comparisons do not account for changes in market rental prices resulting from CRA. By providing a subsidy to vulnerable private renters, CRA increases demand (or ability to pay) for low-cost rental properties and therefore pushes up rents somewhat, at least in the short term (box 5.3). Over a longer term, the increased purchasing power that CRA enables provides developers with an incentive to construct additional housing, which can largely offset any short-term effect of CRA on rents (providing supply is not unduly constrained).

Further, CRA generally provides a lower level of assistance than is implicit in social housing, where rents are generally indexed to tenants' incomes. The Commission previously estimated that on average the subsidy to tenants in social housing in Victoria was around \$50 per week larger than would be available to the same tenants through CRA were they renting privately (PC 2017a). The decline in availability of social housing (which has not kept pace with population growth) means that the overall share of housing costs of low-income tenants met by the Commonwealth and state and territory governments collectively is diminishing and that more of the cost is being shifted to the Commonwealth.

### **Box 5.3      CRA's effects on rents in the short and long term**

While Commonwealth Rent Assistance (CRA) helps many low-income tenants meet the cost of rent, the dynamics of the private rental market may mean renters' benefit may be less than the full value of the payment.

Many inquiries into demand-side assistance have identified the possibility that CRA payments increase rental prices (Senate Economics References Committee 2015, chapter 22). However, there has been no quantitative analysis of the effect of renter support payments, such as CRA, on rents undertaken in Australia. In theory, as assistance provides more money to spend on housing, tenants can outbid other tenants, leading to higher rents. This effect can be exacerbated by geographical concentration — if many low-income assistance recipients are concentrated in one area, this bidding-up effect will be more concentrated.

Some international studies have shown that demand-side subsidies lead to rent increases in the short term, particularly in regions where housing supply is more constrained due to factors such as geography and regulation (Eriksen and Ross 2015). For example, one study of demand-side payments in France, which is a market with a relatively inelastic supply, found that 78 per cent of the payments made flowed through to landlords as higher rents (Fack 2006). Moreover, there is some evidence to suggest these effects can endure over after long periods (Susin 2002).

Nonetheless, caution is warranted when generalising international results to the Australian context. The overall responsiveness of Australia's new housing stock to price increases is estimated to be roughly in the middle by international standards (Caldera and Johansson 2013), and more flexible than France's, for example. All considered, housing may to some extent be unable to keep pace with increased demand initially, leading to rent increases and landlord capture of targeted demand-side assistance in the short term. Over longer periods of time, however, the higher capacity to pay that CRA enables incentivises developers to construct additional housing, ameliorating any short-term effect on rents.

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## But CRA payments have grown slower than rents

CRA minimum thresholds and maximum payment amounts are updated twice a year to adjust for inflation measured by the consumer price index (CPI).

Indexation of CRA to CPI ensures payments keep up with changes in the cost of consumer goods generally, but not necessarily the cost of renting privately (figure 5.6). In practice, rents in the private rental market have tended to grow faster than CPI over the past two decades for two reasons. First, the price of renting the same property from one year to the next has grown, reflected in the ABS' 'quality-consistent'<sup>40</sup> measure of rents within its CPI series. Second, the quality of dwellings has improved over time, resulting in higher household expenditure on rents, as measured in the ABS' *Survey of Income and Housing* (SIH) data.<sup>41</sup> That is, households are purchasing better housing services at a higher price than they were previously. Overall rents paid by low-income and other households in the private rental market have grown at about the same rate over the long run (chapter 3, figure 3.1).

Reflecting the divergence between CPI growth and private rental prices, in 2001 average fortnightly CRA payments as a share of average fortnightly rents was 28 per cent but had fallen to 24 per cent by 2018.<sup>42</sup> And there has been a steady increase in the proportion and the number of recipients who receive the maximum payment cap, from around 556 000 in 2001 to just above 1 million by 2018 (figure 5.7).

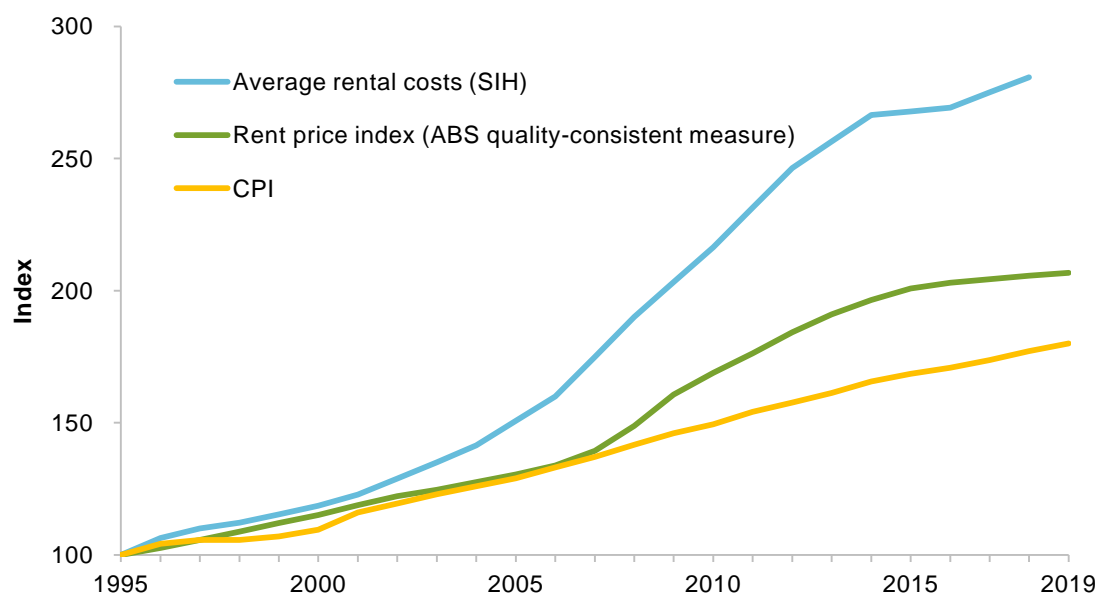
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<sup>40</sup> This measure is based on repeated sampling of the same set of around 4500 properties. As such, it does not capture changes in the quality of properties.

<sup>41</sup> There are a range of other measures of rental costs available from state and territory governments, commercial sources and surveys.

<sup>42</sup> The estimates were calculated by dividing average CRA by average reported rental payments in each time period. The 2001 estimate is based on data in Attachment tables to chapter 16 in the Steering Committee for the Review of Commonwealth/State Service Provision (SCRCSSP 2002). The 2018 estimate is based on Department of Social Services (Australian Government) (DSS 2018b) data published online.

**Figure 5.6 Rents have grown faster than the consumer price index<sup>a</sup>**  
1995 to 2019

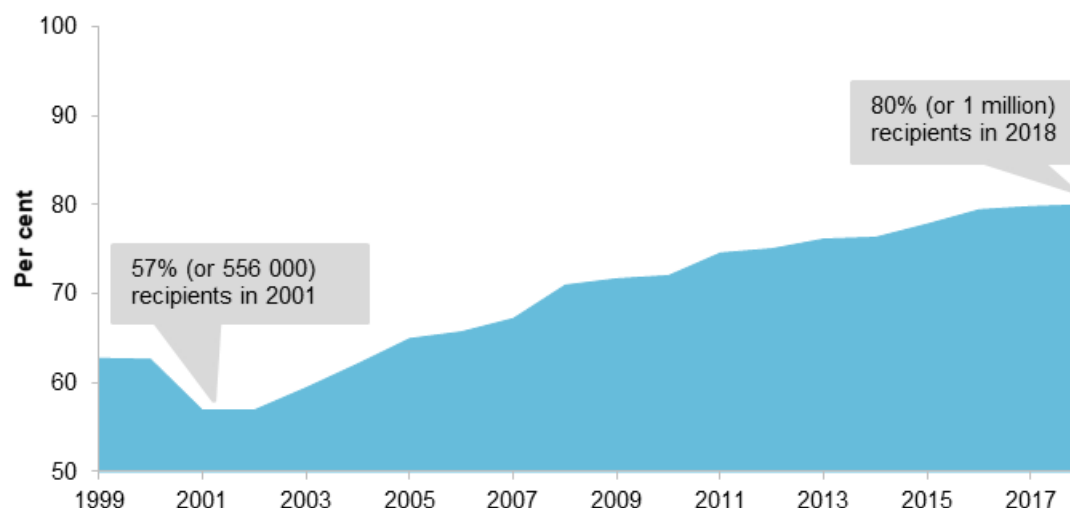


<sup>a</sup> The average rental cost (SIH) series is based on the weighted average household rent reported by households responding to the SIH. The rent price index (ABS quality-consistent measure) series is based on repeated sampling of the same set of around 4500 properties. As such, this latter series does not capture changes in the quality of properties. This series is also charted (for Australia, Perth and Hobart from 2005 to 2019) in chapter 3 (figure 3.2).

Sources: ABS (2019a), and Productivity Commission estimates using ABS (*Microdata: Household Expenditure, Income and Housing, 2003-04, 2009-10 and 2015-16*, Cat. no. 6540.0); ABS (*Microdata: Income and Housing, Australia, 1994-95, 1995-96, 1996-97, 1997-98, 1999-00, 2000-01, 2002-03, 2005-06, 2007-08, 2011-12, 2013-14 and 2017-18*, Cat. no. 6541.0.30.001); and ABS (*Consumer Price Index, Australia, Mar 2019*, Cat. no. 6401.0).

**Figure 5.7 The number of CRA recipients receiving the maximum payment has risen steadily over the past two decades**

Per cent of households eligible for maximum payment, 1999 to 2018<sup>a</sup>



<sup>a</sup> In this figure 'households' are income units, as defined by the ABS and the SCRGSP.

Sources: Data tables for Part G (Housing) in SCRGSP (2004, 2009) and SCRGSP (2014, 2019).

The growing gap between CRA's maximum payment cap and rents raises questions about the adequacy of CRA. Moreover, the larger number of recipients receiving the maximum (capped) rate of CRA also means that more vulnerable households face the full risk of any changes in the level of market rents, such as the rental price increases that occurred in Perth during the mining boom and in Hobart in the past few years (chapter 3). Indeed, the Commission previously concluded that the maximum CRA payment no longer provides an adequate contribution toward rental costs for many households (PC 2017a, p. 203).

These consideration have led some to contemplate the design of CRA to further aid vulnerable renters.

- Previously, the Grattan Institute (Daley et al. 2019) and the Henry Tax Review (Henry et al. 2010) recommended that CRA should be indexed to a measure of rents (rather than general consumer prices) or the overall level of support should increase.
- The Parliamentary Inquiry into Housing Affordability (Senate Economics References Committee 2015) recommended a further review of the level and indexation of CRA.
- In 2017, the Commission's inquiry into human services found that CRA would need to increase by approximately 15 per cent to restore CRA purchasing power to 2007 levels, given growth in the average rental prices (based on the 'quality-consistent' measure within the ABS' CPI series) (PC 2017a).
- A number of peak bodies representing tenants have drawn attention to the growing gap between CRA's maximum payment caps and rents, and called for changes to CRA (ACOSS and National Shelter 2017; Tenants Union of Victoria nd).

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Maximum rates of CRA have fallen well behind increases in rents over the past 15 years and increasing them would improve the wellbeing of many private renters who struggle to make ends meet, including low-wage workers with dependent children, those on government benefits and retirees who do not own their own home. Forty-nine per cent of income units eligible for the maximum rate of CRA are in rental stress, compared with 4 per cent of income units not eligible for the maximum rate (Department of Social Services (Australian Government) analysis, pers. comm. 20 August 2019).

Any decision to increase CRA is a matter of competing fiscal priorities. Increasing the maximum payment cap by 10 per cent, for example, would benefit over 1 million recipients at a fiscal cost of just under \$360 million a year, while a 30 per cent increase would cost around \$1.1 billion a year (Parliamentary Budget Office 2016).

**FINDING 5.2**

Commonwealth Rent Assistance (CRA) has made a significant contribution to improving the affordability of rental accommodation for vulnerable private renter households. However, CRA's ability to cushion vulnerable private renter households from rental price increases has diminished over time as the consumer price index — against which the CRA is indexed — has grown slower than rents.

### **5.3 Residential tenancy laws should give vulnerable renters greater certainty**

Residential tenancy laws govern the relationship between tenants and landlords. They simplify transactions in the market by standardising into contracts the terms parties would generally want in a negotiated lease agreement. They also establish minimum standards of behaviour, which protect tenants from unreasonable landlord conduct.

In Australia, each state and territory has its own residential tenancy legislation that applies to the operation of the private rental market in that jurisdiction. In light of changing community expectations, the Victorian and New South Wales governments have recently reformed their respective residential tenancy laws (box 5.4).

#### **Certainty of tenure**

An important way in which residential tenancy laws balance the interests of landlords and tenants is with respect to certainty of tenure. A material proportion of private renters face involuntary moves, and some groups of vulnerable private renters are more likely than others to have such experiences. In addition, involuntary moves can have large negative financial, social and economic repercussions for vulnerable private renters (chapter 4). With more households renting privately for longer, including families with children (chapter 1), the potential costs of social disruption from involuntary moves may be increasing.

## Box 5.4 Recent reforms to residential tenancy legislation

Recent reforms in Victoria and New South Wales have sought to rebalance how tenants' and landlords' interests are represented within residential tenancy legislation. The reforms have generally increased the rights afforded to tenants. Both sets of reforms are very recent and have not yet fully commenced. Even where they have commenced, it is still too early to observe the results of those changes.

- In Victoria, reforms are currently coming into force with full implementation from 1 July 2020.
- In New South Wales, reforms offering greater protection to domestic violence victims (allowing them to terminate leases without penalties, absolving them of responsibility for damage that occurred during a domestic violence incident and prohibiting landlords and agents from listing them on a database if they terminated their tenancy in circumstances of domestic violence) commenced on 28 February 2019 with the remainder yet to receive a firm commencement date.

Both sets of reforms have made changes to dispute resolution, the use and modification of dwellings, the quality of dwellings and lease terminations (the table below highlights some of the main changes). Without the aid of publicly available impact assessments, however, it has been difficult to determine the likely effects of these changes on the private rental market.

Area of reform	Victoria	New South Wales
<b>Dispute resolution</b>	<ul style="list-style-type: none"><li>• Increased role for the Victorian Civil and Administrative Tribunal in resolving disputes</li></ul>	<ul style="list-style-type: none"><li>• NSW Fair Trading will have new powers to resolve disputes</li></ul>
<b>Use and modification of dwellings</b>	<ul style="list-style-type: none"><li>• Tenants can make minor alterations without landlord consent</li><li>• Pets allowed unless a landlord applies to the Victorian Civil and Administrative Tribunal to refuse consent</li></ul>	<ul style="list-style-type: none"><li>• Tenants can make minor alterations without landlord consent</li></ul>
<b>Rent increases</b>	<ul style="list-style-type: none"><li>• Rent can only be increased every 12 months</li></ul>	<ul style="list-style-type: none"><li>• Rent can only be increased every 12 months for periodic leases</li></ul>
<b>Quality of dwellings</b>	<ul style="list-style-type: none"><li>• New minimum standards including utilities, heating, a stove and toilet</li></ul>	<ul style="list-style-type: none"><li>• Minimum standards covering structure, utilities &amp; other areas.</li></ul>
<b>Lease length &amp; termination</b>	<ul style="list-style-type: none"><li>• New &gt;5 year lease contracts</li><li>• Removed 'no-grounds' evictions, except for at the end of an initial fixed-term lease</li></ul>	<ul style="list-style-type: none"><li>• Set fees for breaking a lease early</li></ul>

Sources: Consumer Affairs Victoria (2019); Fair Trading NSW (2018); NSW Government (2018); Victorian Government (2018).

Against this backdrop, there have been calls for governments to strengthen residential tenancy laws to provide for greater certainty of tenure for tenants (for example, Make Renting Fair 2019b; Tenants Union of Victoria 2015b; White 2018). Australian residential tenancy laws provide fewer guarantees for tenants when it comes to certainty of tenure compared with the laws of many other developed economies (Martin, Hulse and Pawson 2018; table 5.1).

**Table 5.1 Residential tenancy arrangements in selected countries**

		<i>Australia</i>	<i>United States of America</i>	<i>United Kingdom</i>	<i>Ireland</i>	<i>Germany</i>
	Notice periods	14–182 days	30 days	60 days	28–112 days	90-270 days
Certainty of tenure	Grounds for termination	No-grounds termination allowed <sup>a</sup>	Most states/municipalities allow termination without grounds, a few large cities require prescribed grounds	No-grounds termination allowed (England and Wales); prescribed grounds only (Scotland)	Prescribed grounds only with lesser restrictions on termination in initial 6 months	Prescribed grounds only
	Length of lease	Short (6–12 months) fixed-term and periodic tenancies	Short fixed-term and periodic tenancies	Short (6–12 months) fixed-term and periodic tenancies	Short fixed-term and periodic tenancies	Little use of fixed-term tenancies
Quality of rentals	Minimum standards	Varies across states	Varies across states	Yes	Yes	Some requirements
Cost of renting	Rent increases	Varies by state; mostly provision for disputing ‘excessive to market’ increases	Mostly no regulation; a few major cities have rent regulation and rent control	Provision for disputing excessive rent increases; in Scotland, high pressure zones	Rents must not exceed market rent; high pressure zones	Restriction by ‘reference rents’ and caps
	Setting of new tenancy rents	No regulation	Mostly no regulation apart from few major cities	No regulation	Rents must not exceed market rent	Restriction by ‘reference rents’ in specified areas

<sup>a</sup> Tasmania does not allow ‘no-grounds’ terminations and Victoria has passed legislation to remove ‘no-grounds’ terminations in most circumstances.

Sources: AHURI (2018); Government of Ireland (2017); Nidirect government services (2015); Nolo (2019); OECD (2016); and Samy (2017).

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This section explores two specific proposals to strengthen certainty of tenure: removing ‘without-grounds’ evictions and increasing minimum notice periods. These policy options would require landlords to be more transparent regarding their investment intentions, and make the process of landlord-initiated terminations more predictable and less disruptive. This would benefit renters — and particularly vulnerable private renters — who face more acute costs from involuntary and unpredictable moves.

## Without-grounds evictions

Laws that allow without-grounds evictions (also called ‘no-grounds’ evictions) allow landlords to evict tenants without having to identify a particular reason, either at the end of a fixed term lease, or at any time during a periodic lease. Without-grounds evictions are currently allowed in all jurisdictions in Australia except Tasmania, and, from 1 July 2020, in Victoria (except for at the end of the first fixed term). Rules regarding no-grounds evictions in Victoria were changed as part of recent reforms (box 5.3), but those in New South Wales were not (box 5.5).

### Box 5.5      **Why didn’t New South Wales remove no-grounds evictions?**

In conducting its review of the *Residential Tenancies Act 2010* (NSW) (the recommendations of which formed the basis of the recent reforms), Fair Trading NSW recommended that the Act’s provisions allowing no-grounds terminations in New South Wales remain unchanged.

In its report, it cited the need for landlords to have certainty that they would be able to regain possession of their property. It also noted that landlords might wish to maintain their privacy and not disclose their personal affairs to tenants, and that no-grounds evictions allowed them to do so as long as they were willing to observe the longer notice periods associated with this type of termination (compared with terminations on other grounds).

*Source:* Fair Trading NSW (2016).

Laws that allow without-grounds evictions may make it easier for landlords to terminate leases, as they avoid the need to state reasons that may be open to challenge in tribunals. This can have two effects.

- It may increase the likelihood that landlords terminate leases. For a renter, this means they are more likely to face an involuntary move, which decreases their certainty of tenure.
- It increases the bargaining power of landlords (after a lease has been entered into) and decreases that of tenants. Landlords’ incentives to carry out obligations, such as repairs and maintenance, decrease when no-grounds evictions are available, since this provides an avenue for them to terminate leases in the event of a dispute. (Retaliatory evictions are unlawful — however, in practice, the motivations of landlords are difficult to prove.) Simultaneously, the possibility of a no-grounds eviction decreases the willingness of tenants to assert their rights under residential tenancy law, including those relating to maintenance and repairs.



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Removing no-grounds evictions can therefore increase certainty of tenure by:

- making renters less likely to be asked to move
- allowing renters to be more confident in asserting their rights, which could in turn increase the overall quality of dwellings in the private rental market.

However, the reduction in landlord-initiated moves from the removal of no-grounds evictions may be partly offset by greater use of ‘with cause’ evictions. Evidence from Victoria suggests that if terminating leases on ‘no-grounds’ was not possible, some landlords would specify other reasons permitted in the legislation (13 per cent), request an eviction, go to the Victorian Civil and Administrative Tribunal, or increase the rent (EY Sweeney 2016).<sup>43</sup>

### Minimum notice periods

Notice periods apply to all terminations of residential tenancy agreements, and are intended to give the party receiving the notice time to plan their future activities. For a tenant, this includes finding alternative accommodation, arranging to move, and budgeting for the costs of these endeavours. For a landlord, this could mean finding new tenants or preparing the property for an alternative use.

Minimum notice periods in Australia vary across jurisdictions, as well as according to the reasons for the termination (table 5.2). However, they tend to be shorter than those internationally. In most OECD countries, a minimum of three to six months’ notice is required for landlord-initiated terminations, with only the United States, Mexico, Ireland and Latvia allowing notice periods of less than 60 days (OECD 2016). By contrast, Australian notice periods range from 14 days (for no-grounds terminations at the end of a fixed period in the Northern Territory) to 182 days (for no-grounds terminations for both periodic and fixed-term leases in the ACT).

Although notice periods have not been a focus of recent reforms, increasing notice periods for ‘no-fault’ evictions (where the tenant has not breached lease conditions) has the potential to improve the welfare of renters. Residential tenancy laws provide for a range of ‘no-fault’ evictions, including because an owner wishes to sell, renovate or move into the property. As renters have no control over ‘no-fault’ evictions, they may be taken by surprise, especially if they have a periodic lease, leaving little time to arrange suitable alternative accommodation.

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<sup>43</sup> The percentage of landlords who would request an eviction, go to the Victorian Civil and Administrative Tribunal or increase the rent were not available. These were categorised as part of ‘other’ reasons, which made up 57 per cent of responses.

**Table 5.2 Minimum notice periods for landlord-initiated, ‘no-fault’ terminations**  
2019

State or territory	Reason for termination			
	Without grounds <sup>a</sup>	Owner or relative/friend needs to move in	Intention to sell the property	Reconstruct, renovate or make major repairs
ACT <sup>b</sup>	182 days for fixed-term leases 182 days for periodic leases	28 days	56 days	84 days
New South Wales	30 days for fixed-term leases 90 days for periodic leases	90 days <sup>c</sup>	30 days <sup>d</sup>	90 days <sup>c</sup>
Northern Territory	14 days for fixed-term leases 42 days for periodic lease	42 days <sup>c</sup>	42 days <sup>c</sup>	42 days <sup>c</sup>
Queensland <sup>b</sup>	60 days for fixed-term leases 60 days for periodic leases	60 days <sup>c</sup>	28 days	60 days <sup>c</sup>
South Australia	28 days for fixed-term leases 90 days for periodic leases	60 days	60 days	60 days
Tasmania	42 days for fixed-term leases Not allowed for periodic leases	42 days	42 days	42 days
Victoria	60 days for fixed-term leases < 6 months <sup>e</sup> 90 days for fixed-term leases between 6 months and 5 years <sup>e</sup> 120 days for fixed-term leases > 5 years <sup>e</sup> 120 days for periodic leases <sup>f</sup>	60 days	60 days	60 days
Western Australia	30 days for fixed-term leases 60 days for periodic leases	60 days <sup>c</sup>	30 days	60 days <sup>c</sup>

<sup>a</sup> For fixed-term agreements, if a notice is given prior to the end of the agreement, the earliest date a tenant can be required to vacate is the date the tenancy agreement expires. <sup>b</sup> These durations have been converted from weeks to days for ease of comparison. <sup>c</sup> This is based on minimum notice period for terminations of periodic leases without grounds. The relevant legislation does not expressly provide for termination for the specific reason above. <sup>d</sup> Only if the premises have been sold after the fixed term has ended and vacant possession is required by the buyer under the terms of the sale contract. <sup>e</sup> Reforms coming into effect on 1 July 2020 mean that landlords will only be able to terminate a fixed-term lease without a specified reason at the end of a tenant’s first fixed term. <sup>f</sup> Reforms coming into effect on 1 July 2020 will remove the ability of landlords to terminate periodic leases without a specified reason.

Sources: ACT Government (2018); Fair Trading NSW (2019); Consumer Affairs Northern Territory (2011); Queensland Residential Tenants Authority (2019); Legal Services Commission of South Australia (2018); Tasmanian Department of Justice (2015); Victorian Government (2018); Consumer Affairs Victoria (2018); and Western Australian Department of Mines, Industry and Regulation (2014).

Longer notice periods would mitigate the impacts of a landlord-initiated, ‘no-fault’ termination by decreasing the pressure on renters to find alternative accommodation, which in turn increases their chances of securing alternative housing that meets their needs and preferences (such as proximity to work and schools). It also affords them more time to save for the costs of moving. Vulnerable renters would benefit the most as they tend to have smaller financial buffers and greater difficulty finding alternative accommodation, and are more susceptible to discrimination (chapter 4). Similar to removing without-grounds

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evictions, longer notice periods would also increase the bargaining power of renters (after a lease is entered into) by decreasing the costs associated with an involuntary move.

The arguments that favour extending notice periods do not apply where tenants have failed to pay rent, damaged the property or otherwise breached the lease agreement. In these circumstances, evictions may be reasonably anticipated by the tenant to flow from their own actions. Relatively swift evictions may also be necessary to protect the landlord's asset and maintain incentives to invest in rental housing.

### But reforming residential tenancy laws comes at a cost

The objective of market regulation should be to improve the long-term wellbeing of consumers. From this perspective, strengthening residential tenancy laws can benefit renters. However, doing so comes at a cost. Leases that limit landlords' options will make investment in residential property less attractive compared with investment in other asset types, and this could be expected to be reflected in higher rents over time. In addition, limiting landlords' agency could mean that landlords:

- must plan their activities further in advance
- are more constrained in terms of the timing of the settlement on the sale of a property, which could affect the sale price
- have to pay for temporary accommodation in the event that the landlord or relative wished to move into the property, but the minimum notice period was not yet realised.

These increase the financial costs of owning residential rental properties, which can ultimately flow through as higher rents. However, such reforms are worthwhile if the benefits to tenants materially exceed the costs to landlords.

#### FINDING 5.3

Reforms to prohibit 'no-grounds' eviction and extend notice periods for 'no-fault' evictions (including on sale of a property), if well designed, offer avenues for improving the welfare of vulnerable private renters. Some jurisdictions have already started down this road. The arguments that favour extending notice periods do not apply where tenants have failed to pay rent, damaged the property or otherwise breached the lease agreement.



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# A Consultations

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**Table A.1      The following people and organisations were consulted during this study**

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Anglicare  
Australian Council of Social Service (ACOSS)  
Australian Housing and Urban Research Institute (AHURI)  
Bankwest Curtin Economics Centre  
Brotherhood of St Laurence  
CHOICE  
City Futures Research Centre  
Consumer Affairs Victoria  
Consumer Policy Research Centre (CPRC)  
Commissioner for Residential Tenancies (Victoria)  
Community Housing Industry Association  
Department of Health and Human Services (Victoria)  
Department of Social Services (Australian Government)  
Department of the Treasury (Australian Government)  
Family & Community Services (NSW)  
Grattan Institute  
James, Amity  
Morris, Alan  
National Shelter  
Ong, Rachel  
Power, Emma  
Property Council of Australia  
Real Estate Institute of Australia (REIA)  
Reserve Bank of Australia (RBA)  
Rowley, Steven  
Saunders, Peter  
Tenants NSW  
Tenants Victoria  
Victorian Council of Social Service (VCOSS)  
Wood, Gavin

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## B Supplementary information

This appendix provides information supporting the analysis contained in chapters throughout this report. It covers the following topics supporting the Commission's analyses on: how private renters differ from the general population (section B.1); the housing tenure transitions of private renters (B.2); identifying low-income private renters (section B.3); vulnerable renters (section B.4); rental affordability (section B.5); and changes in tenure and aggregate estimates of rental stress (section B.6).

### **B.1 The private renter population**

Summary statistics for the population of private renters and the rest of the population (referenced in chapter 1), based on 2016 Census data, are presented in table B.1. Table B.2 provides information on low-income private renters and other private renters.

**Table B.1 Private renters and the rest of the population**

Various person and household characteristics, of private renters and those in other housing tenures, 2016<sup>a</sup>

	<i>Private renters</i>	<i>Other</i>
Median age (years)	38	54
Share of household reference persons <sup>b</sup> with characteristic ...	(%)	(%)
Unemployed	5.6	2.6
Not in the labour force	23.1	37.6
Has Bachelor degree or higher	30.8	27.7
Highest educational attainment is Diploma or Certificate III or IV	31.5	32.8
Highest educational attainment is Year 12	17.4	12.7
Did not complete year 12	20.2	26.8
Born overseas	38.5	31.5
Indigenous	2.5	1.9
Share of households with characteristic ...	(%)	(%)
Located in a capital city	69.1	64.2
Couple family without children	21.1	28.1
Couple family with children	25.9	34.7
Single parent household	15.7	9.4
Lone person household	23.8	23.2
Group household	10.3	2.1

<sup>a</sup> Statistics are calculated exclusive of persons or households who did not provide a response, or one that was adequate, to the relevant survey question. <sup>b</sup> Sample is restricted to household reference persons to avoid capturing children in family households. This is usually the person who has identified themselves as person 1 on the Census form (ABS 2017a).

Source: Productivity Commission estimates using ABS (*Microdata: Census of Population and Housing, 2016*, Cat no. 2037.0.30.001).



**Table B.2 Low-income private renters and other private renters**

Various person and household characteristics, private renter households, 2017-2018

	<i>Units</i>	<i>Low-income household</i>	<i>Other households</i>
Median age (of household reference person)	years	41	35
Median equivalised total household weekly income	\$2 018	549	1 115
Share of household reference persons with characteristic ...		(%)	(%)
Unemployed		6	1
Not in the labour force		38	6
Has Bachelor Degree or higher		22	42
Highest educational attainment is Diploma or Certificate III or IV		31	32
Highest educational attainment is Year 12		17	14
Did not complete year 12		30	12
Born overseas		40	39
Has a disability or long-term health condition		33	16
Share of households with characteristic ...		(%)	(%)
Located in a capital city		61	74
Couple family without children		12	25
Couple family with children		27	23
Single parent household		15	5
Lone person household		29	24
Group household		5	9

Source: Productivity Commission estimates using ABS (*Microdata: Income and Housing, Australia, 2017-18*, Cat. no. 6541.0.30.001).

## B.2 The housing tenure transitions of private renters

Private renters grew progressively less likely to transition into either owner–occupation or social housing, between 2001 and 2017.

**Table B.3 Private renters have become less likely to transition to other tenure types**

Proportion of private renters who were in different tenure types in the following survey year

<i>Tenure</i>	<i>2001–04</i> (%)	<i>2005–08</i> (%)	<i>2009–12</i> (%)	<i>2013–16</i> (%)	<i>Change 2001–04 to 2013–16</i> (percentage point)
Private renter	79.4	82.0	84.7	86.4	7.0
Owner–occupier	14.0	12.5	11.0	9.6	-4.3
Social renter	2.3	2.2	1.5	1.4	-0.9
Other	4.3	3.3	2.9	2.5	-1.8

*Source:* Productivity Commission estimates using Melbourne Institute (*Household, Income and Labour Dynamics in Australia (HILDA) Survey*, release 17).

## B.3 Identifying low-income private renters

This section details the particular variables and parameters used to identify low-income private renters in the various datasets used to inform this research paper.

### Identifying low-income households

Whether households are categorised as low-income households depends on their position in the equivalised disposable household income (EDHI) distribution. Calculating a household's position in the EDHI distribution has two main steps:

1. calculating each household's equivalised disposable income
2. ordering the households and breaking them into percentiles.

Step 1 involves dividing the household's disposable income by its equivalisation factor. Disposable includes all income available to the household (after tax) including employee income, own unincorporated business income, government pensions and allowances, and other income.

The Australian Bureau of Statistics (ABS) 'OECD-modified equivalence scale' (used previously by the Commission (PC 2018)) has been used to calculate the equivalisation factor. This involves allocating points to each household member, the sum of which gives the equivalisation factor:

- 1 point for the first adult
- 0.5 points for each additional person aged 15 years or older
- 0.3 points for each child aged under 15 years.

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Step 2 involves arranging all observations (that is, all households) within each year (regardless of tenure or landlord type) from lowest equivalised disposable income to highest equivalised disposable income. Then the sample is split into 100 percentile groups of equal size, taking into account population weights (ABS 2017d).

Once each household's percentile position in the EDHI (in each year) is calculated, all observations in the bottom two percentiles are removed. This is in line with the latest ABS' approach to analysis of low-income households, and is motivated by the fact that for some households in the bottom two percentiles, income may not be a good indicator of disadvantage. They may, for example, have temporarily low income at the time of the survey but have stores of wealth that allow them to meet their living costs (ABS 2017b).

Low-income households are taken to be those in the 3<sup>rd</sup> to 40<sup>th</sup> percentiles of the EDHI distribution.

## Identifying private rental households

Private rental households are taken to be those whose tenure type is 'renter' and whose landlord type is 'real estate agent', 'person not in same household — parent/other relative' or 'person not in same household — other person'. Households with the following landlord types were excluded from the analysis of the private rental market:

- 'state or territory housing authority'
- 'owner/manager of caravan park'
- 'employer — Defence Housing Authority'
- 'employer — government'
- 'employer — other employer'
- 'housing co-operative/community/church group'
- 'persons in same household — parent/other relative'
- 'persons in same household — other person'
- 'other'.

Most of these landlord types (including housing co-operative/community/church group') were not available as landlord type options until the ABS' 2015-16 *Survey of Income and Housing* (SIH), and, other than those with landlord type 'state or territory housing authority', these groups make up only a small share of all rental households. 'Persons in same household — parent/other relative' and 'persons in same household — other person' are unavailable after 2002-03.

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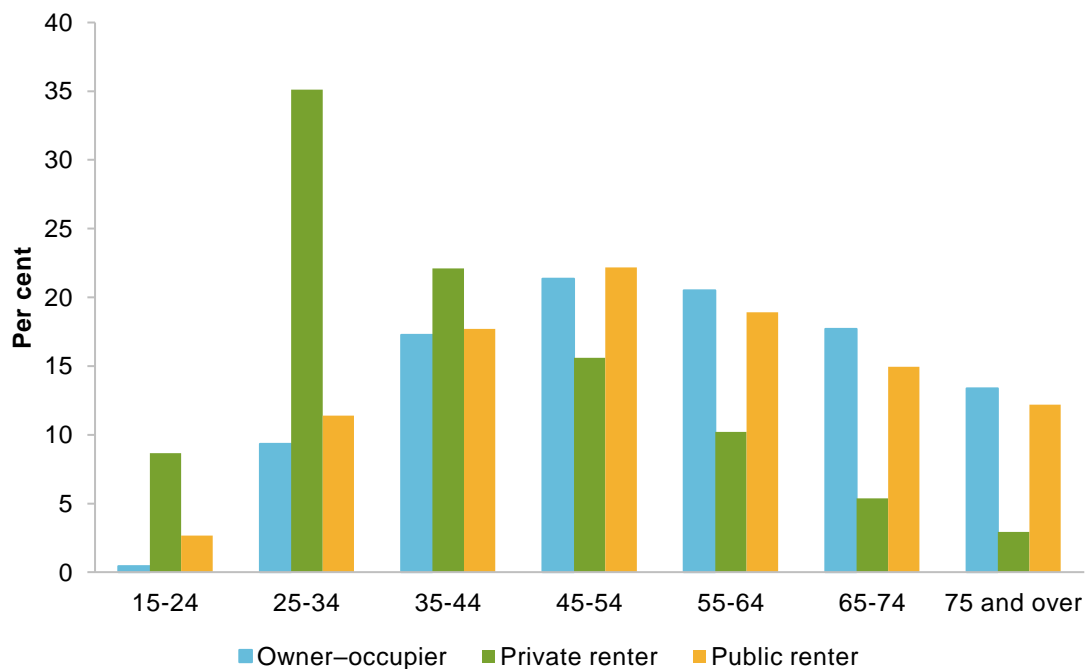
## B.4 Identifying the extent of vulnerability among private renters

The following figures show that the private renters are younger than owner-occupiers and public renters, and that age is correlated with indicators of vulnerability. (Hence, when examining the extent of vulnerability among private renters in chapter 2, comparisons of other characteristics of households by tenure are presented separately for cohorts where the household's reference person is aged under 65 years, and those where they are 65 years or over.)

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**Figure B.1 Private renters, owner-occupiers and public renters have very different age distributions**

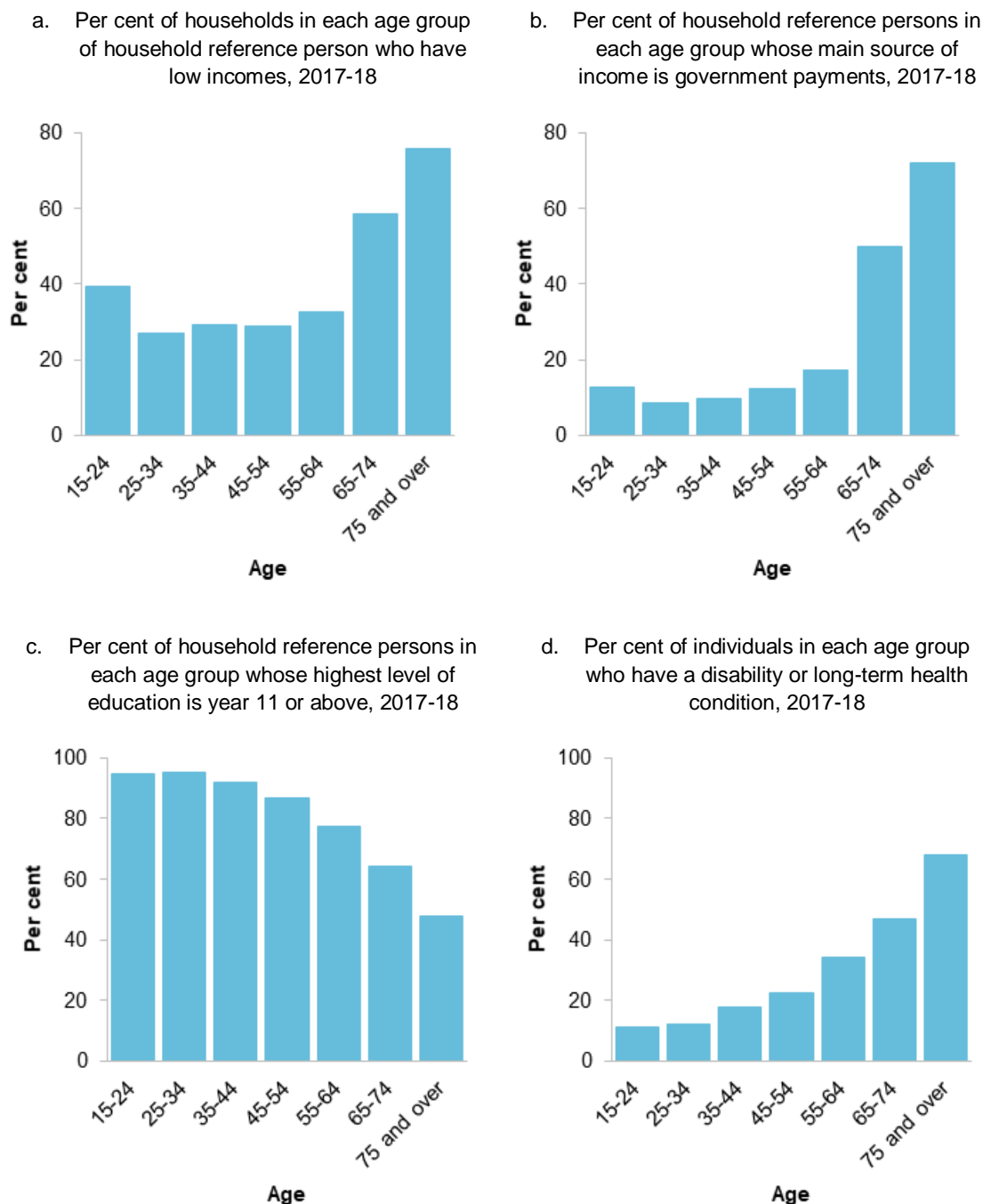
Age distribution of owner-occupier, private renter and public renter household reference persons, 2017-18



Source: Productivity Commission estimates using ABS (*Microdata: Income and Housing, Australia, 2017-18*, Cat. no. 6541.0.30.001).

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**Figure B.2 Older households are disproportionately low-income, and age is strongly associated with reliance on government payments, disability and lower educational attainment**



Source: Productivity Commission estimates using ABS (*Microdata: Income and Housing, Australia, 2017-18*, Cat. no. 6541.0.30.001).

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## B.5 Rental affordability

This section provides additional information relating to the Commission's affordability analysis in chapter 3, in relation to the ratio-based and residual-based estimates of rental stress.

### Ratio-based rental stress estimates

Estimates of the prevalence of rental stress using the ratio approach are affected by methodological and variable choices.<sup>44</sup> Chief among these are:

- whether household-weighting (each household is given an equal weight) or person-weighting (each household is given a weight based on the number of people within it) is used to identify low-income households
- whether gross or disposable (after tax) income is used
- whether the measure of housing costs used only include rent or also include other the housing costs (for example, water charges).

The approach taken in this paper is to calculate rental stress based on rents as a share of disposable income using household weighting. In particular, the use of disposable income allows an assessment of the capacity of a household to spend on other essentials after paying the rent. Household-weighting is used as the focus is on the market for dwellings.

The choices made in relation to each of these can combine to result in estimates of the prevalence of rental stress among private renter households varying by over 10 percentage points. The ABS (2019, table 5.2) estimates the figure to be 57 per cent in 2018 based on total housing costs as a share of gross income, calculated using person-weighting, whereas the Commission has calculated that 66 per cent of low-income private renters spent over 30 per cent of their disposable income on rent.

Whatever choices are made, however, the trends over time are very similar. The prevalence of rental stress in the private rental market has declined by around 10 percentage points or more between 1994-95 and 2017-18.

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<sup>44</sup> The discussion in this section relates specifically to ratio-based estimates of rental stress.

**Table B.4 Rental stress estimates vary depending on the analytical approach, but all approaches indicate a decline between 1995 and 2018**

Share of low-income private renter households spending over 30 per cent of income on housing costs, 1994-95 and 2017-18<sup>a</sup>

<i>Weighting method</i>	<i>Income variable</i>	<i>Housing cost variable</i>	<i>1995 (%)</i>	<i>2018 (%)</i>	<i>Percentage point change</i>
Household	Gross	Total housing costs <sup>b</sup>	74	61	-13
		Rent	74	60	-14
	Disposable	Total housing costs	77	68	-9
		Rent	77	66	-11
Person	Gross	Total housing costs	68	57	-11
		Rent	68	56	-12
	Disposable	Total housing costs	73	64	-9
		Rent	73	62	-11

<sup>a</sup> The data for 1995 is based on 1994-95 financial year and 2018 data is based on the financial year 2017-18.

<sup>b</sup> The 1995 data defines total housing costs as rent for private renter households, so the 1995 estimates of rental stress do not vary depending on the housing cost variable used.

Sources: Productivity Commission estimates using ABS (*Microdata: Income and Housing, Australia, 1994-95 and 2017-18*, Cat. no. 6541.0.30.001).

## Residual-based rental stress estimates

The residual-based estimates of rental stress included in chapter 3 (table 3.3) were produced to expand the discussion of rental affordability, and to demonstrate one potential use of the recently developed minimum income for healthy living (MIHL) budget standards.

The use of the MIHL budget standards in this paper was not based on an evaluation by the Commission that these budget standards are the most appropriate for rental affordability analysis. They were chosen because the MIHL budget standards represent the most recent and concerted effort at producing budget standards for Australia. The MIHL budget standards are generally lower than the inflation-adjusted Henderson Poverty Line or Low Cost or Modest But Adequate budget standards. As a result, the use of the MIHL budget standards will result in comparatively conservative estimates of residual-based rental stress.

The residual-based estimates of rental stress have three caveats worth noting.

First, there is an imperfect alignment between the household types for which the budget standards were developed and the households they have been applied to in this paper. Households have been matched to different budget standards based on the equivalisation factor that each would attract (and whether the reference person is employed or not), but MIHL budget standards were prepared with specific ages and genders of household members in mind. Only the difference between being an adult and a child has been taken into

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consideration in the Commission's analysis in this paper. This has been done to preserve the number of data points able to be used.<sup>45</sup>

That said, some of the estimates contained in this paper are underpinned by relatively few data points. As indicated in chapter 3, it has not been possible to present estimates of the prevalence of residual-based rental stress by household type by labour force status because of the small number of data points available.

Finally, the household types for which the prevalence of residual-based rental stress has been estimated do not represent the entire private rental market. The household types represented in table 3.3 made up around 71 per cent of the population of private rental households, but are the only household types for which MIHL budget standards have been developed. Extending the analysis would require modifying the budget standards to represent additional household types, which is beyond the scope of this paper.

## **B.6 Changes in tenure types and their effect on aggregate estimates of rental stress**

Looking across the rental market as a whole (that is, including public, private and other landlords) the number of low-income households experiencing rental stress has grown rapidly (chapter 3). This has occurred because of growth in the Australian population and because of an increase in the share of low-income households (including both owner-occupiers and renters) in rental stress, from 14.2 per cent in 1994-95 to 20.2 per cent in 2017-18.

A technique called 'shift-share analysis' allows a decomposition of the overall change in the rate of rental stress among low income households ( $\Delta S_t$ ) into three different contributions.

- An increase in the share of low-income households that are renting will tend to increase the share of low-income households in rental stress simply because the rate of rental stress among owner-occupiers is zero. This contribution is the first term in the equation below.
- An increase in the share of renters with private landlords (compared with public and other landlord types) will tend to increase rates of rental stress in the market as a whole because the rates of rental stress in the private market are much higher than in the public and other rental housing markets. This contribution is the second term in the equation.
- An increase in rates of rental stress within private, public or other rental housing markets will also tend to increase the share of low-income households in rental stress. This is the third term in the equation.

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<sup>45</sup> Saunders and Bedford (2017b, p. 7) compare the relative costs associated with different MIHLs and the total points associated with different household types under the OECD-modified equivalence scale, and note that 'the differences are not great and this suggests that the new budget standards do not differ markedly from other available estimates of relative family needs.'



$$\Delta S_t = \Delta R_t \sum_i \overline{W_t S_{i,t}} + \sum_i \Delta W_t \overline{S_{i,t}} + \sum_i \overline{W_t} \Delta S_{i,t}$$

Here:

- $R$  is the share of low-income households that rent
- $W_i$  is the share of low-income renters in each market  $i$  (private, public and other)
- $S_i$  is the share of low-income renters that are in rental stress in each market  $i$  (private, public and other)
- $\Delta x_t$  indicates the change in a variable between years  $t$  and  $t-1$
- $\bar{x}_t$  indicates the average of a variable between years  $t$  and  $t-1$ .

These contributions can then be added across years to calculate the contribution to the change in rental stress between 1995 and 2018 (table B.5).

**Table B.5 Decomposition of changes in rental stress, 1994-95 to 2017-18**

	<i>Share of low income households</i>
	%
Rental stress in 1994-95	14.2
Add: Contribution from change in renting share (compared with owning and other tenure types)	+3.7
Add: Contribution from change in private renting share (compared with public and other landlord types)	+3.3
Add: Contribution from shifts in rental stress rates within landlord types <sup>a</sup>	
Private renters	-2.1
Public renters	+0.8
Other renters	+0.3
<i>Equals: Rental stress in 2017-18</i>	20.2

<sup>a</sup> Private renters are households renting from real estate agents or persons not in the household. Public renters are households renting from a state or territory housing authority. Other rental households include the community housing sector, people renting from their employer, owner/managers of caravan parks and others.

Sources: Productivity Commission estimates using ABS (*Microdata: Household Expenditure, Income and Housing, 2003-04, 2009-10, 2015-16*, Cat. no. 6540.0); and ABS (*Microdata: Income and Housing, Australia, 1995-96, 1996-97, 1997-98, 1999-00, 2000-01, 2002-03, 2005-06, 2007-08, 2011-12, and 2013-14*, Cat. no. 6541.0.30.001).

This decomposition illustrates the contribution of different factors to the overall increase in the rate of rental stress among low-income households.

- First, the share of low-income households renting has increased (from 30 per cent in 1994-95 to 37 per cent in 2017-18) and the share of low-income households owning their

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own home has fallen (from 66 per cent to 60 per cent). This change in composition has added 3.7 percentage points to the overall rate of rental stress.

- Second, the share of low-income renters in the private market has increased (from 54 per cent to 71 per cent) and the share in public housing has fallen (from 40 per cent to 21 per cent). This change in composition has added 3.3 percentage points to the overall rate of rental stress.
- Third, rates of rental stress have changed within the private, public and other rental markets. The decline in rental stress in the private market (from 77 per cent to 66 per cent) has tended to lower the overall rate of rental stress while the increase in rental stress in the public market (from 10 per cent to 18 per cent) has tended to increase it. These effects largely offset.

That is, almost all of the increase in the overall rate of rental stress among low-income households is a result of an increase in the share that are renting, and an increase in the share of renters in the private market, where rates of rental stress are much higher than in the public market.

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