

DON'T DREAM IT'S OVER

HOUSING STRESS IN AUSTRALIA'S PRIVATE RENTAL MARKET | JULY 2007



Foreword

In the past 12 months St Vincent de Paul and other homeless services had to turn away half those coming to us seeking immediate accommodation. The pressure on our homeless services has never been greater. And one of the chief causes is the parlous state of the private rental market.

Today our homeless services are assisting not just people with drug, alcohol and mental health problems but also increasing numbers of working families who can't pay the rent. In fact, nearly 50 per cent of people coming into homeless services across Australia are private renters in trouble.

Many thousands of other families are on the edge of homelessness, soldiering on in inappropriate accommodation that is sometimes cold, crowded and far from family, friends, work, transport and schools. Sometimes their housing can be dangerous to their health, safety and hopes for a brighter future.

Many of our volunteers are visiting families living in run down boarding houses, caravans or tiny flats that aren't meant for families.

If you read nothing else in this report, I urge you to read the case studies on pages 4 and 5. The families in them have been chosen from among many because they illustrate how the property boom, coupled with the neglect of public housing, is forcing working families to pay sometimes almost 90 per cent of their weekly family income in rent.

Ask yourself: would your children have been able to study hard and succeed at school if they had been forced to live in a cold, crowded caravan? Imagine if each fortnight your parents had to make a decision about paying the rent, buying food or paying bills.

It's time to focus national attention on the needs of renters.

As this report shows, private renters today comprise only a fifth of all households, but well over half of all households in housing stress—with a third of those in housing crisis. That's 345,000 Australian households.

Australia has successfully addressed this problem in the past—at a time when perhaps the need was less and owning a home was open to many more. We did it by building low-income housing. We made mistakes along the way, but many lessons were learnt, and many occupants of public housing programs have gone on to great success in life. Today we know how to create low-density, low-income housing that really works. Sadly, though, its construction has all but stopped.

Government housing policies today—like the First Home Owner's Grant, negative gearing for investors and rent subsidies help many. But they are not addressing directly enough the real problem—the lack of affordable low-income rental housing—and we have to face the fact that they never will. In fact, they sometimes make the problem worse.

The St Vincent de Paul Society helps people every day, but we are growing sick of putting bandaids across gaping wounds.

We believe it's time to address shortage of low-income housing head on—by constructing more of it. That's why this report calls for a serious increase in government direct investment in public and social housing for low-income families.

Reducing housing stress for renters isn't cheap, but it's a smart investment in our future that will allow people to live close to jobs, schools and transport, making our society happier and fairer and our economy more efficient. It will help build the pathway to a fair and equitable future for all.

After a decade and a half of economic growth we don't have to condemn parents to anguish and distress and children to potential failure at school just because their family can't afford to pay the rent.

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Introduction

This report examines new and recent data to expose the extent of housing stress for low-income private renters in Australia today.

Private renting comprises a significant proportion of the housing market in Australia. The 2006 census shows that around a fifth of Australian households (23 per cent) rent their home from a private landlord. The private rental sector is an essential, yet politically neglected, part of the housing system. It accommodates a broad range of social groups, from the highly affluent to some of the most disadvantaged households.

This report concerns the important but overlooked fact that renting privately has now become the only housing option for low-income households.

Today it is almost impossible for all but the most disadvantaged families to get into public housing. Waiting lists can be as long as seven years or more.

So if private rental housing isn't affordable for low-income earners, what's the alternative? The answers are stark: poverty, crisis accommodation and homelessness.

Yet despite the importance of the rental sector to so many Australians, debate and policy making is focussed almost exclusively on home ownership. The plight of renters—especially of low-income renters—is being ignored.

Potential answers to the problem of housing stress for low-income earners lie in greater emphasis on different forms of public and social housing, but investment in new public and social housing stock has all but stopped.

It's time proper attention was paid to the private rental market and decisive action was taken to improve access to affordable housing for low-income private renters living under sometimes crushing financial pressure.

So what is housing stress?

Housing stress refers to a household's position in which housing costs are unsustainable or a large proportion of household income. Most commonly, a family is considered to be in housing stress if it is in the bottom 40 per cent of incomes and pays more than 30 per cent of its income on housing costs.

There is an even worse category to be in: 'housing crisis', which refers to a household that spends more than 50 per cent of its weekly income on housing costs.

Both categories are problematic because high housing costs significantly lower the standard of living and life-chances of parents and children in low-income households. Housing stress can turn a living income into a poverty income.

What effect does housing stress have on our people and our society?

Housing stress does more than just reduce household spending power. It has a significant effect on people's ability to get a job; it adds stress to relationships; makes it difficult for children to be educated; and, in extreme cases, can lead to homelessness. It also divides our cities and regions into separate enclaves of affluent and poor.

For many, housing stress makes spending on essential items like clothes, healthcare and food more difficult. It turns holidays and modest treats into rare luxuries. And as rents increase further, it forces people to move to cheaper accommodation. Evictions by landlords who want to sell or renovate can often force a family into more expensive and less appropriate accommodation.

This uncertainty and continual migration can be devastating for children. Its effects can be measures in lower school results and poorer psychological and physical health. The stability of the family unit may also be threatened.

Housing stress is also starting to re-map Australia's cities and regions. The rising cost of housing has started to remove low income households from many suburbs and towns. As our central cities become high-income ghettos we are losing our social diversity. Having to live ever further from places of work,

education and social interaction is reducing people's quality of life and making our cities less efficient and less sustainable as people are forced to endure long commuting times. Many are simply forced to look for less suitable work, adding to the nation's skill shortages.

The worst impact of all—homelessness

The worst and increasingly common outcome of housing stress is homelessness. The instability and insecurity of homelessness has a devastating impact on families. Homeless families may lose their possessions and jobs and they may sever their relationships with friends, family, GPs, teachers and sporting clubs.

Half of the people using homeless assistance services in Australia are families with children. In fact, families with children are the fastest growing group of people experiencing homelessness in Australia. Last year homelessness services helped more than 45 000 families with accommodation and other support services and another 115 000 single adults and young people.

We know that over the past five years there has been a 30 per cent increase in the number of families with children being assisted by homeless services.

Most of the children in homeless assistance services are under 12 years of age—a crucial period of their development—and homelessness has a serious impact on their health, education and wellbeing, often causing high rates of anxiety, emotional and behavioural problems and mental illness.

Research shows parents in homeless families can suffer from emotional and physical health problems, poor nutrition, isolation, and relationship difficulties. Homelessness affects parents' ability to provide appropriate support to their children. The longer homelessness lasts, the more difficult it is for families to regain their stability.

As the Minister for Community Services Senator Scullion wrote in the homeless magazine Parity last month 'by the time families hit the Supported Accommodation Assistance program they are at rock bottom'.

The big problem is that the current lack of affordable rental accommodation ensures that they stay there.

Case studies of Australians in housing stress

But housing stress isn't about economic data. The injustice, tragedy and pain it causes are real, as the following case studies (selected from numerous similar cases) illustrate.

Case study 1

Case study 1, involves a Queensland family living in South-east Queensland. They have two children aged six and three, with another child on the way.

The family was forced to move after the home in which they were living was put on the market. Expecting a new baby, and looking after two young children, the mother is not working and receives \$500 per fortnight in Centrelink Parenting Payments and the Family Benefits Tax Rebate. The father is unemployed and receives Newstart Allowance of \$340 per fortnight. But the only available unit-style local private rental housing costs \$350 to \$500 per week—between 83 per cent and 120 per cent of their weekly income. Obviously, while the family may also be eligible for a small rental allowance, this will not be enough to allow them to rent a decent home.

The only housing they have been able to afford is a \$150 per week caravan which is so draughty that soon after moving in the father and both children developed chest infections. The family have had to borrow money to buy building materials to insulate the caravan.

We have to ask: when Australian families with children are being forced to live in draughty caravans that are making them ill, have we already given up on the fair go? Why is helping people find decent rental accommodation no longer regarded as a social necessity and duty of governments?

Case study 2

Case study 2 concerns a family with five children, all of school age, living in North Queensland.

When the mother became seriously ill last year, the father was forced to give up full-time work to care for the family. The father at this stage received a \$340 per fortnight carer's pension and the mother a \$380 per fortnight disability pension. Rent for their house was \$320 per week — 88 per cent of their weekly income. Put in this financially unsustainable situation, the family enquired about the possible Housing Commission home, only to be told that a four-bedroom house would not be available for around seven years and it would be near impossible to get a five-bedroom house.

A search of the private rental market revealed that the lowest suitable house cost \$280 in rent per week — a mere 77 per cent of weekly family income. Given the expenses associated with moving and the disruption it would cause to the children's schooling, the family has been forced to stay put and is now surviving with the aid of food parcels and Telstra vouchers.

The mother died mid 2007. Now able to consider returning to full-time employment, the father may be able to lift the family from the extremities of housing crisis to the upper limits of housing stress.

The federal government encourages Australian families to have more children, but it won't act to give large, low-income families something that will prevent them being reduced to the most abject poverty—an affordable home.

Case study 3

Case study 3 involves a mother and father with three young children, living in the ACT, who have recently been forced into St Vincent de Paul crisis housing after being evicted by a landlord who wanted to redevelop the site. The family had lived in the private rental property for three years before eviction, paying a high percentage of income in rent. The parents work but can only find casual work at low wages with hours that vary from week-to-week and only get by with the help of food vouchers. The location of the crisis housing and the fact that the family only has one car is causing problems getting family members to work and school. Their inability to afford a proper home is affecting the parents' relationship and the oldest son is starting to develop serious behavioural problems.

When families with jobs are forced to live in crisis accommodation and survive off food vouchers we have a housing crisis. Hampered from doing well at school, what is the chance of the next generation not ending up in poverty like their parents?

Sadly, these case studies are not isolated examples. How has this situation been allowed to develop?

What is the true extent of private rental housing stress?

Over the past two decades the ability of Australian households to rent at affordable levels from private landlords has declined significantly. The affluence of the long boom of the 1990s has generated significant wealth and boosted the incomes of a growing proportion of the population, but it has happened in a way that has made it far more difficult for the bottom 40 per cent of income earners especially to find suitable accommodation at an appropriate cost.

The anecdotal evidence is strong, but what does the data say?

Over recent years much statistical evidence has been gathered detailing the full extent of this developing private rental housing affordability crisis.

As Table 1 shows, the crisis has been on policy makers' radar screens for a long time, with private rental housing stress increasing considerably between 1986 and 1996 nationwide and in most state and territory capital cities:

Table 1: Housing stress among low and moderate income private tenants 1986–1996

City	1986	1996
Melbourne	60.5	74.0
Sydney	67.3	80.7
Brisbane	63.7	64.3
Perth	59.9	56.1
Hobart	57.7	62.4
Darwin	70.7	63.7
Adelaide	63.4	76.1
All capital cities	64.1	72.7

Source: Mike Berry and Jon Hall, *Policy options for stimulating private sector investment in affordable housing across Australia*, Stage 1 report: Outlining the need for action, AHURI (2001), pp.54–60

Rental assistance

Research for the Australian Housing and Urban Research Institute (AHURI) by Judith Yates and Michelle Gabriel, undertaken in 2006, and using gross incomes and rents unadjusted for rental allowance, is presented in Table 2.

Table 2: The lowest 40% of income households in housing stress and housing crisis

Tenancy type	Households in stress	Households in crisis
Outright owner	82,000	70,000
Home purchaser	265,000	134,000
Public renter	40,000	5,000
Private renter	460,000	192,000
Total	847,000	401,000

Source: Judith Yates and Michelle Gabriel, *Housing affordability for lower income Australians*, AHURI research paper No.3 (2006), p.3

When Yates and Gabriel adjusted their gross figures in Table 2 for rental allowance, the number of households in stress was reduced from 460 000 to 345 000.

While the rental allowance used in this study contained some assumptions, and the figures are indicative only, there is a clear indication that an additional 115 000 private rental households would be in financial stress if it were not for current rental allowances.

Rent gap

The St Vincent de Paul Society commissioned the National Centre for Social and Economic Modelling (NATSEM) to determine how much additional rental allowance would be required so that all private rental households could be free of housing stress. NATSEM calculates that the mean 'rent gap' (the mean difference between what households are paying in weekly rent and 30 per cent of weekly income) is approximately \$74 per household, or an average cost of \$3,850 per annum for the 345 000 households as identified by AHURI.

To eliminate private renter housing stress through the Rental Assistance programme would require an additional \$1.33 billion per year. This provides a benchmark for assessing the adequacy of measures to address the low-income private rental housing problem.

Why is housing stress increasing?

There are a number of important causes of increasing housing stress:

- Low investment in public housing to alleviate housing stress.
- Demographic shifts and increases in the number of households including through household break-up.
- The tendency for affluent young Australians to want to live in the inner-city, which increases rents and forces low-income earners out of even relatively low-standard, un-renovated housing.
- The long economic boom which has raised incomes which have been fed into housing costs.

State and commonwealth governments have done little to address the problem directly.

In fact, government efforts may be making the situation worse:

- Housing allowances, including rental subsidies for tenants have had little effect on increasing the supply of rental housing and, many argue, serve only to push up rents, benefiting landlords, not tenants.
- Shifts in fiscal subsidies to home buyers and owners, including the First Home Owner Grant (FHOG) likewise increase demand and housing prices, forcing more and more low-income earners out of the housing market. This also feeds through to higher rents as landlords seek higher returns on their investments. Policies like joint equity arrangements will have a similar impact.
- Worst of all, the combination of low interest rates, negative gearing for rental properties and the lower taxing of capital gains has created an investment frenzy that has caused housing prices to skyrocket in recent years. According to Macquarie Bank, housing prices have increased 75 per cent relative to wages over the last two decades—in other words, from four times the average wage to seven times.

By concentrating on demand-side measures in this way, most government efforts are causing potential homebuyers and renters to chase their own tails at an ever increasing speed. Rising numbers of people can't even afford to be in the game at all.

Table 3: Commonwealth subsidies for homebuyers

Measure	Cost (2001)
First Home Owners Grant	\$1 billion
Cost of tax concession to owner-occupiers of not taxing capital gains	\$13 billion
Tax concession to owner-occupiers of not taxing imputed rent	\$8 billion
Total	\$22 billion

All up, the commonwealth government spends some \$22 billion per year alleviating the costs of home ownership, but spending on perhaps the best solution—increasing the stock of low-rental private, public and social housing—is static.

So what needs to be done?

The St Vincent de Paul Society believes it's time for political parties and governments at all levels to face up to some tough facts about what needs to be done to reduce housing stress.

- Demand-side solutions like rent subsidies, whilst welcome, ultimately benefit landlords.
- First Home Owner's Grants simply push up the price of housing for everyone, ultimately benefiting no one.
- Giving investment properties even more tax breaks has not met the obvious demand for low-income housing and is unlikely to, no matter how many billions of dollars are poured into this holed bucket.

We believe that the answer lies in switching the thrust of government policy to supply-side measures, namely, direct investment to increase the supply of the very best form of housing for low-income families—public and social housing.

The great news is that since the public housing programs of the 1960s and 1970s our society has learned a great deal about what works and what doesn't when it comes to public and social housing.

Today, successful public and social housing projects, run by state housing departments and not-for-profit social housing groups, are building high-quality social housing that is distributed across our suburbs and towns. Some is the envy of many private apartment owners, and most lead the way in environmentally sustainable construction and features. Gone are the days when low-income people were concentrated together without regard to their other needs like employment, education and transport access. Even in existing high-rise developments greater attention is now being paid to the social mobility and social capital of these low-income neighbourhoods.

Society has nothing to fear from new public housing construction. We simply don't have to do public housing badly. We can do it well.

Intelligently devised and run public housing can not only house people better, it can enable families to plan for the long-term and give their children a settled start in life, becoming a springboard of opportunity for future generations.

Investing in public housing can be the way for us to breathe new life into the Australian dream of the fair go, which the unchecked spread of housing stress is rapidly destroying.

Conclusion

There has been a significant decline in affordability in the private rental sector where we know that the numerical bulk of households in stress and crisis now live. Private tenant households are grossly over-represented in the national picture of housing stress. Low income private rental households in housing stress account for 54 per cent of the total number of low income households in housing stress, yet renters account for only 23 per cent of Australian households. This absolute concentration of social misery in this tenure should be the source of concerted and coordinate action by the states, territories and federal government.

Housing is an absolutely central part of our lives. Its cost affects our quality of life and our ability to access services and opportunities that enable us to reach our full potential. As our homes have come to be seen as an investment, rather than a place to live, the problems of low income households have been neglected. The 'feel-good' factor associated with rising house prices is having serious consequences for many. This is becoming unsustainable as younger generations of Australians are becoming unable to even dream of owning a home as more of their income is diverted into high-cost rental accommodation.

For too long, government solutions have focused on the wrong areas—demand, which has made the situation worse. The answer lies in decisive government action to increase the supply of low-income public and social housing. Federal funding to promote the development of new private rental accommodation should be a priority with the matching of current first homeowner grant spending (currently more than \$1 billion per year) provided to the state or territories to give new incentives for institutional investors to enter the market as new landlords.

Recommendations

- 1 That COAG acknowledges that Australian low-income private rental households are in housing crisis to the order of at least \$1.33 billion per year above accepted rental affordability targets. ***To address this problem COAG should resolve to increase national investment in public and social housing by \$1.33 billion per annum.***
- 2 That the low income rental crisis be a high priority agenda item at the next COAG meeting.
- 3 That this meeting commits to ensure that low income private rental households have access to affordable and secure private rental (acknowledged as no more than of 30 per cent income spent on housing).
- 4 That COAG processes facilitate the development and implementation of low income rental affordability strategies, by state and federal governments.
- 5 That Social and Affordable Housing be included as a key plank of any future Federal Social Inclusion Strategy.

