

# Private Rental Affordability Bulletin Capital Cities (March Quarter 2010)



## Background

### State of the rental market

The first TUV National Rental Affordability Bulletin has found average rental properties are no longer affordable for those households on low incomes. The Bulletin reveals:

- The average rental property is unaffordable to low income households, particularly for single job seekers and single pensioners. The average rental property often consumes considerably more than 30 percent of household income – with many households paying more than double the accepted indicator of rental stress.
- Low income households face the choice of either paying unaffordable rents or forgoing basic necessities. Many are forced to rent substandard or insecure forms of rental property such as rooming or boarding houses.

The analysis below provides an analysis of how each capital city rental market performs for low income households.

### The private rental market and low income households

The private rental market is often viewed as a transitional tenure. It is seen as a way stop on the road between the parental home and home purchase. However, nearly a quarter of Australian households rent their home. Only a very small minority make a deliberate choice to do so as home ownership is an economically and socially preferable option. Renting in the private market is a matter of necessity for those unable to purchase a home and not eligible for a home in Australia's highly targeted and constrained public housing system.

The form and objective of housing assistance in Australia has shifted substantially in the past twenty years. While the Commonwealth Government has made significant investment in social housing, housing assistance is no longer focused on assisting low income households through the direct provision of housing. Governments now rely on the private rental market to accommodate low income households. This policy shift has continued despite strong evidence demonstrating the failure of the market to provide a sufficient supply of appropriate and affordable housing to low income households.

The major form of housing assistance provided by the Commonwealth Government is Commonwealth Rent Assistance (CRA). CRA is an income supplement paid to recipients of government income support in recognition of the increased costs of securing housing in the private rental market. The objective of CRA is to contribute to improved affordability rather than providing full affordability as in the direct provision of housing.

More than thirty percent of CRA recipients remain in housing stress.<sup>i</sup> This means many recipients continue to face serious financial hardship as a direct result of the prohibitive cost of private market rents. This TUV National Rental Affordability Bulletin further substantiates this evidence and suggests both the Commonwealth should commit to reviewing CRA.

### Market context

Nationally, the rental market exhibits several signs of failure. Rents have increased considerably in each capital city while supply has remained stagnant. In each of the largest population centres of Melbourne and Sydney rents have increased 6.5 percent and 8.6 percent respectively. Rents have also increased significantly in other capital cities.<sup>ii</sup>

Rental markets also remain profoundly unbalanced with vacancy rates below two percent in Melbourne, Sydney and Canberra.<sup>iii</sup> The gap between aggregate housing demand and supply has recently been estimated to be 178,500.<sup>iv</sup>

## Methodology

### Affordability

Affordable housing can be measured in several ways. The TUV National Rental Affordability Bulletin draws on two well recognised standards:

- **30% of Total Income (30%TI):** For low income households (defined as being in the lowest 40% of income distribution), spending 30% or more of household income on rent is considered an indicator of housing stress.<sup>v</sup>
- **After Housing Poverty Line (AHPL):** Poverty lines are income levels derived for various household types against which poverty can be measured. Simply, if a household's income is less than the poverty line applicable to it, then that household is considered to be in poverty.<sup>vi</sup> The AHPL refers to a poverty line with housing costs removed. The figures below show the money a household has left after paying rent at the median level.

The TUV supports a practical approach to the issue of affordability, believing that it is best demonstrated by households having sufficient income left over after paying their direct housing costs (i.e. their rent) for the other necessities of life.

## Analysis: State of the market

### Adelaide

Household Type	Property Type	Affordable Rent		Median Rent		
		Rent (30%TI)	% of MR	Rent	% of Income	Diff from AHPL
Single - Austudy	Adelaide - 1 BR Flat	\$59.00	24.6%	\$240.00	98.2%	(\$189.86)
Single (>21yrs) Sharing - Newstart	Adelaide - 2 BR Flat	\$74.00	56.9%	\$130.00	49.0%	(\$59.00)
Single - Aged Pension	Adelaide - 1 BR Flat	\$105.00	43.8%	\$240.00	<b>66.0%</b>	<b>(\$70.46)</b>
Single Parent (1 child) - Parenting	Adelaide - 2 BR Flat	\$142.00	54.6%	\$260.00	<b>54.1%</b>	<b>54.1%</b>
Couple (2 children) - Newstart	Adelaide - 3 BR House	\$197.00	63.5%	\$310.00	<b>47.1%</b>	<b>47.1%</b>
Couple (2 children) - AWE	Adelaide - 3 BR House	\$373.00	120.3%	\$310.00	24.9%	\$350.87
Couple (2 children) - Min Wage	Adelaide - 3 BR House	\$259.00	83.5%	\$310.00	<b>35.9%</b>	<b>(\$29.37)</b>

Generally, Adelaide is a more affordable rental market than most capital cities. Nonetheless, the Adelaide market is typified by relatively poor affordability outcomes for all household types with the exception of couples on average weekly earnings and two children. Single people on Austudy, Newstart and the Aged Pension would all pay rents well above affordable rent levels. While this reflects national trends, the relatively high median rents for three bedroom houses in Adelaide means that couples with two children in all income categories face unaffordable rents. Only those couples on average weekly earnings could achieve affordability with the median rent of \$310 representing 24.9 percent of the household's weekly income.

### Brisbane

Household Type	Property Type	Affordable Rent		Median Rent		
		Rent (30%TI)	% of MR	Rent	% of Income	Diff from AHPL
Single - Austudy	Brisbane - 1 BR Flat	\$59.00	22.7%	\$260.00	<b>&gt;100%</b>	<b>(\$194.26)</b>
Single (>21yrs) Sharing - Newstart	Brisbane - 2 BR Flat	\$74.00	42.3%	\$175.00	<b>66.0%</b>	<b>(\$104.00)</b>
Single - Aged Pension	Brisbane - 1 BR Flat	\$105.00	40.4%	\$260.00	<b>71.5%</b>	<b>(\$90.46)</b>
Single Parent (1 child) - Parenting	Brisbane - 2 BR Flat	\$142.00	40.6%	\$350.00	<b>72.8%</b>	<b>(\$164.22)</b>
Couple (2 children) - Newstart	Brisbane - 3 BR House	\$197.00	56.3%	\$350.00	<b>53.2%</b>	<b>(\$200.12)</b>
Couple (2 children) - AWE	Brisbane - 3 BR House	\$373.00	106.6%	\$350.00	28.1%	\$310.87
Couple (2 children) - Min Wage	Brisbane - 3 BR House	\$259.00	74.0%	\$350.00	<b>40.5%</b>	<b>(\$69.37)</b>

Affordability trends for Brisbane follow national trends closely, with all household types facing unaffordable rents at the median level except couples with two children on average weekly earnings. The median rent of \$350 for a three bedroom house in Brisbane would be affordable for couples on average weekly earnings. Couples with two children who are dependent on either Newstart or the minimum wage fare less well with the median rent representing 53.2 percent and 40.5 percent of their respective incomes. Single people on Austudy, Newstart and the Aged Pension would all pay rents more than double affordable rent levels.

### Canberra

Household Type	Property Type	Affordable Rent		Median Rent		
		Rent	% of	Rent	% of	Diff from

		(30%TI)	MR		Income	AHPL
Single – Austudy	Canberra - 1 BR Flat	\$59.00	20.0%	\$295.00	>100%	(\$194.26)
Single (>21yrs) Sharing – Newstart	Canberra - 2 BR Flat	\$74.00	41.1%	\$180.00	67.9%	(\$109.00)
Single - Aged Pension	Canberra - 1 BR Flat	\$105.00	35.6%	\$295.00	81.1%	(\$125.46)
Single Parent (1 child) – Parenting	Canberra - 2 BR Flat	\$142.00	39.4%	\$360.00	74.9%	(\$174.22)
Couple (2 children) - Newstart	Canberra - 3 BR House	\$197.00	44.8%	\$440.00	66.9%	(\$290.12)
Couple (2 children) - AWE	Canberra - 3 BR House	\$373.00	84.8%	\$440.00	35.4%	\$220.87
Couple (2 children) - Min Wage	Canberra - 3 BR House	\$259.00	58.9%	\$440.00	50.9%	(\$159.37)

The national capital provides poor outcomes for low income rental housing, with median rents consuming more than three quarters of the incomes of all household types dependent on Centrelink benefits. Canberra was the worst city for single people on Austudy with the affordable rent equal to just 20 percent of the median rent for a 1 bedroom flat of \$295. Couples on average weekly earnings with two children achieved closest to an affordable rent for 3 bedroom house with the median rent of \$440 per week consuming 35.4 percent of their income. While this was the best affordability outcome for Canberra it still represents an unaffordable rent.

## Darwin

Household Type	Property Type	Affordable Rent		Rent	Median Rent	
		Rent (30%TI)	% of MR		% of Income	Diff from AHPL
Single - Austudy	Darwin - 1 BR Flat	\$59.00	25.1%	\$235.00	96.2%	(\$184.86)
Single (>21yrs) Sharing - Newstart	Darwin - 2 BR Flat	\$74.00	38.1%	\$194.00	73.1%	(\$123.00)
Single - Aged Pension	Darwin - 1 BR Flat	\$105.00	44.7%	\$235.00	64.6%	(\$65.46)
Single Parent (1 child) - Parenting	Darwin - 2 BR Flat	\$142.00	36.6%	\$388.00	80.7%	(\$202.22)
Couple (2 children) - Newstart	Darwin - 3 BR House	\$197.00	39.6%	\$498.00	75.7%	(\$348.12)
Couple (2 children) - AWE	Darwin - 3 BR House	\$373.00	74.9%	\$498.00	40.0%	\$162.87
Couple (2 children) - Min Wage	Darwin - 3 BR House	\$259.00	52.0%	\$498.00	57.6%	(\$217.37)

High median rents for all property types make Darwin among the most unaffordable cities for low income households. The Darwin rental market exhibited similar characteristics to those of Perth and the east coast capitals. Unlike all other capital cities, all household types face unaffordable rents. While couples with two children receiving average weekly earnings generally achieve close to affordable rent levels in all capital cities, in Darwin the median rent is ten percentage points above the rental affordability standard of 30 percent of household income.

## Hobart

Household Type	Property Type	Affordable Rent		Rent	Median Rent	
		Rent (30%TI)	% of MR		% of Income	Diff from AHPL
Single – Austudy	Hobart - 1 BR Flat	\$59.00	29.5%	\$200.00	81.8%	(\$149.86)
Single (>21yrs) Sharing - Newstart	Hobart - 2 BR Flat	\$74.00	37.0%	\$135.00	70.4%	(\$110.36)
Single - Aged Pension	Hobart - 1 BR Flat	\$105.00	52.5%	\$200.00	55.0%	(\$30.46)
Single Parent (1 child) - Parenting	Hobart - 2 BR Flat	\$142.00	52.6%	\$270.00	56.1%	(\$84.22)
Couple (2 children) - Newstart	Hobart - 3 BR House	\$197.00	59.7%	\$330.00	50.2%	(\$180.12)
Couple (2 children) - AWE	Hobart - 3 BR House	\$373.00	113.0%	\$330.00	26.5%	\$330.87
Couple (2 children) - Min Wage	Hobart - 3 BR House	\$259.00	78.50%	\$330.00	38.2%	\$49.37

Hobart is Australia's most affordable capital city, however this is more a reflection of the poor state of capital city rental markets rather than Hobart's rental market performing well for low income households. Lower median rent levels in Hobart generally represent a lower percentage of household income than in other capital cities. Singles face unaffordable rent levels regardless of which Centrelink benefit they receive. Even those on Newstart sharing a rental property face unaffordable rents. Couples with children fare much better with median rents for three bedroom houses providing affordable rents for those in employment.

## Melbourne

Household Type	Property Type	Affordable Rent		Rent	Median Rent	
		Rent (30%TI)	% of MR		% of Income	Diff from AHPL
Single – Austudy	Melbourne - 1 BR Flat	\$59.00	21.1%	\$280.00	>100%	(\$194.26)
Single (>21yrs) Sharing – Newstart	Melbourne - 2 BR Flat	\$74.00	43.5%	\$170.00	64.1%	(\$99.00)

<b>Single - Aged Pension</b>	Melbourne - 1 BR Flat	\$105.00	37.5%	\$280.00	<b>77.0%</b>	(\$110.46)
<b>Single Parent (1 child) - Parenting</b>	Melbourne - 2 BR Flat	\$142.00	41.8%	\$340.00	<b>70.7%</b>	(\$154.22)
<b>Couple (2 children) - Newstart</b>	Melbourne - 3 BR House	\$197.00	59.7%	\$330.00	<b>50.2%</b>	(\$180.12)
<b>Couple (2 children) - AWE</b>	Melbourne - 3 BR House	\$373.00	113.0%	\$330.00	26.5%	\$330.87
<b>Couple (2 children) - Min Wage</b>	Melbourne - 3 BR House	\$259.00	78.5%	\$330.00	<b>38.2%</b>	(\$49.37)

Melbourne's rental market provides poor prospects for singles in particular. A particularly alarming finding is that the entire incomes of a single job seeker in Melbourne will be consumed by rent even if they share a two bedroom flat. An affordable rent on this income, \$59 a week, equates to less than a quarter of the median market rent. This extremely poor outcome for single job seekers has driven the boom in substandard rooming houses as unscrupulous landlords take advantage of this vulnerable segment of the market. While couples with two children on average incomes were able to achieve affordability at the median rent, those on minimum wages face the prospect of nearly forty percent of their income being consumed by rent alone.

## Perth

Household Type	Property Type	Affordable Rent		Median Rent		
		Rent (30%TI)	% of MR	Rent	% of Income	Diff from AHPL
<b>Single - Austudy</b>	Perth - 1 BR Flat	\$59.00	20.3%	\$290.00	<b>&gt;100%</b>	(\$194.26)
<b>Single (&gt;21yrs) Sharing - Newstart</b>	Perth - 2 BR Flat	\$74.00	42.3%	\$175.00	<b>66.0%</b>	(\$104.00)
<b>Single - Aged Pension</b>	Perth - 1 BR Flat	\$105.00	36.2%	\$290.00	<b>79.7%</b>	(\$120.46)
<b>Single Parent (1 child) - Parenting</b>	Perth - 2 BR Flat	\$142.00	40.6%	\$350.00	<b>72.8%</b>	(\$164.22)
<b>Couple (2 children) - Newstart</b>	Perth - 3 BR House	\$197.00	56.3%	56.3%	<b>53.2%</b>	(\$200.12)
<b>Couple (2 children) - AWE</b>	Perth - 3 BR House	\$373.00	106.6%	\$350.00	28.1%	\$310.87
<b>Couple (2 children) - Min Wage</b>	Perth - 3 BR House	\$259.00	74.0%	\$350.00	<b>40.5%</b>	(\$69.37)

The Perth rental market performs as poorly for low income households as the capital city markets on the eastern seaboard with high median rent levels leaving nearly all household types facing unaffordable rents. Median rents would consume virtually all of the household incomes for singles, single parents and couples with children on Newstart. That single jobseekers cannot secure affordable rent even when they share a home is alarming. Working couples with children fared slightly better but the rent for an average three bedroom home still left them in housing related poverty.

## Sydney

Household Type	Property Type	Affordable Rent		Median Rent		
		Rent (30%TI)	% of MR	Rent	% of Income	Diff from AHPL
<b>Single - Austudy</b>	Sydney - 1 BR Flat	\$59.00	15.3%	\$385.00	<b>&gt;100%</b>	(\$194.26)
<b>Single (&gt;21yrs) Sharing - Newstart</b>	Sydney - 2 BR Flat	\$74.00	36.1%	\$205.00	<b>77.3%</b>	(\$134.00)
<b>Single - Aged Pension</b>	Sydney - 1 BR Flat	\$105.00	27.3%	\$385.00	<b>&gt;100%</b>	(\$194.26)
<b>Single Parent (1 child) - Parenting</b>	Sydney - 2 BR Flat	\$142.00	34.6%	\$410.00	<b>85.3%</b>	(\$224.22)
<b>Couple (2 children) - Newstart</b>	Sydney - 3 BR House	\$197.00	51.8%	\$380.00	<b>57.8%</b>	(\$230.12)
<b>Couple (2 children) - AWE</b>	Sydney - 3 BR House	\$373.00	98.2%	\$380.00	30.5%	\$280.87
<b>Couple (2 children) - Min Wage</b>	Sydney - 3 BR House	\$259.00	68.2%	\$380.00	<b>44.0%</b>	(\$99.37)

Historically the most expensive rental market, Sydney continues to perform poorly for low income households. Of particular concern is the fact that the median rent for a one bedroom flat would consume all of the income of a single aged pensioner. Sydney and Canberra are the nation's most unaffordable rental market for aged pensioners. All other single household types including single parents faced median rent levels which would consume all most all of their incomes. While the median rent for three bedroom houses is close to the affordable rent for couples with two children on average weekly earnings, such households would still be left with just \$280 per week after rent to cover all basic living costs.

## Notes

- <sup>i</sup> Australian Institute of Health and Wellbeing, Australia's Welfare 2009.
- <sup>ii</sup> Real Estate Institute of Australia, Real Estate Market Facts March Quarter 2010. Based on rents for 3 bedroom houses.
- <sup>iii</sup> Real Estate Institute of Australia, Real Estate Market Facts March Quarter 2010.
- <sup>iv</sup> National Housing Supply Council, State of Supply Report 2010.

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<sup>v</sup> A 'housing first' measure of affordability originally derived from commercial lending terms. The assumption is that housing costs have first priority out of the household income.

<sup>vi</sup> The Henderson Commission of Inquiry into Poverty (1975) established the poverty line, based on a benchmark income of \$62.70 for a family of two adults and two dependent children in the September quarter of 1973. This amount was the disposable income required to support the basic needs of a family of this size. Poverty lines for other household types are derived from this benchmark figures using equivalence scales. Since then, the Melbourne Institute of Applied Economic and Social Research has updated the HPL using an index of per capita household disposable income, calculated using estimates provided by the Australian Bureau of Statistics (ABS). Thus, because the index is based on estimates, the poverty lines themselves are estimates. Also, updating poverty lines according to changes in household disposable income means that the poverty lines are relative levels of poverty - as real incomes rise, so will poverty lines. The value of the poverty lines will therefore be generally stable relative to general standards of living.