Trends in the Lower Income Residential Investment Market

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1 Introduction

The private rental market in Australia is a substantial and, at least until recently, a growing sector providing homes for a quarter of the countries households, estimated to total 1,633,568 in 2003 (ABS 2003). Recent research by the NSW Department of Fair Trading, reported in the Sydney Morning Herald, has estimated that a third of the population in New South Wale now rents. The same article also noted research that 40 per cent of renters had been renting for more than 10 years (Needham, 2005)\(^1\).

The private rental market is therefore of considerable significance both in terms of its impact on the social and economic wellbeing of the country, as well as being of

\(^1\) Needham, K. 2005. Tenants in line for long-term leases: Europe-style deals proposed to reflect contemporary life, Sydney Morning Herald 8 July, p. 9
particular significance in terms of offering housing outcomes for a large proportion of the population. It is also a major investment medium for 1.25m taxpayers (Lang and Simmons, 2005). As such, it should also be significant in housing policy terms.

However, in many ways, the private rental sector is the neglected component of national housing policy in Australia. But it’s certainly a major beneficiary of government investment, receiving an annual subsidy of $2.6bn in negative gearing, another $2bn in CRA, as well as other sundry tax reliefs, exemptions and allowances, and of its growing importance as the sector for key sectors of the workforce.

Despite this, there is a feeling that no one really has taken a great deal of notice of the private rental sector over the last few years as a distinctive and major housing tenure, worthy of a distinctive policy in its own right. Rather like Topsy, “it just growed”.

In contrast to policy makers, there is much media speculation about the role and dynamics of investment in private rental. But little of this relates to the outcomes of this investment in terms of who gets housed, at what cost, where, and at what level of quality. As in all contemporary debates about the property market, the focus in on the new and the developing, or on spotting the highest investment returns, not on the what the market as a whole delivers in terms of overall housing outcomes, its articulation with the rest of the housing market, or whether the subsidies the sector receives represent good value for government – i.e. tax payers – money.

The research AHURI has been funding over the past few tears has helped fill in some of the gaps in our knowledge of the private rented sector and its out comes for those who live in it. This paper presents findings from one of the most recent studies.

This paper will do three things:

- Background to why lower income private rental is important
- Review the findings of an AHURI study looking at the changing distribution of low income households in the private rental sector.
- Reflect on the findings and mention some of the very preliminary findings from an ongoing AHURI project on rental investor behaviour
- Make some final comments about the implications for housing policy for lower income working Australians who rely on the private rental sector.

## 2 Background

The private rental market has evolved significantly in the last decade or so. It could be argued that we are moving into the third age for the private rental sector in Australia. The first age, up to the 1940s, was a mass housing market providing mainstream housing. In 1945, private rental was still the largest single housing tenure in Australia.

But by the mid-1960s it had become the ‘tenure of transition’ for newly formed households or recent immigrants who quickly moved on to affordable home
ownership. This could be characterised as the second age of the private rental market. Much of this housing was concentrated in older city cores – the ‘traditional’ inner city while the new subsidised home ownership and public rented suburbs proliferated on the urban periphery.

By the beginning of the 21st century the sector could be argued to be clearly in a maturing third age in which it now appears to be fulfilling a number of newer and more diverse roles.

The first group is a sector of mobile Gen X and Ys, including students, in their delayed transition into home purchase and family raising possibly characterised as ‘tenure of lifestyle’. These two sectors are arguably the main drivers of demand for private rental housing, especially in the main cities, but with very different spatial and social outcomes.

A second group is that of the urban immigrant market, new Australians from South East Asia in particular, for whom rental is an acceptable if temporary housing choice, at least in the medium term. In other words, a ‘tenure of arrival’. Whether this remains a long term option or whether they too will move on to home ownership as rapidly as their predecessors in the 1970s and 1980s remains to be seen.

Perhaps a third group might also be discerned for whom the private rental market represents a ‘tenure of transition’ – households or people moving between homes or between locations (interstate movers, for example), established household breaking up, and others in transitory housing situations, moving from one phase of home ownership to another. Whether this is a significant market or not is impossible to determine at this stage.

The last is a long term “tenure of necessity” for low income households in the context of increasingly unaffordable urban home ownership markets and a dwindling access to a highly socially targeted public rental sector.

Much of the media and industry attention is fixed on the first group – the life-style and student renters and perhaps, by default, the higher income immigrant rental market – one merges with the other of course. These are the renters colonising the new high rise inner city rental markets which have come to dominate urban renewal in CBD and adjacent areas, especially the developments on older reclaimed industrial sites. This market also includes an increasing share of the older inner city higher density stock, for example, in the eastern and northern suburbs of Sydney, where the demand for life style rentals in beach side and inner city suburbs has reflected the overall gentrification of these areas since the 1970s.

This presentation focuses on the last of this speculative typology – the middle to lower end of the rental market. Here there are two sub-markets from a housing policy perspective. The first is a rental market supported by Commonwealth Rent Assistance (CRA) subsidies, which are essentially people on pensions and benefits of some form (including some families) and have generally the lowest incomes.

The second group do not receive rent assistance and essentially constitute a segment of the working poor. Much of the current demand for the low end of the private rental
market caters for a demand which between 1945 and 1960 would have seen affordable public rental housing or even low cost home ownership as its natural choice. This group is the one that now faces the double bind of no access to public housing and limited choice in the home ownership market. Yet urban labour markets have generated large numbers of low paid and casualised employment opportunities. Other than those who live with other family members, or those who form groups of sharers, their limited incomes represent a major barrier to home ownership. Private rental is their only option.

This trend has been predicted. After reviewing trends to the mid 1990s, Beer (1999) predicted that private renting would reach further up the income continuum to embrace households excluded from home ownership due to higher house prices and mounting personal debt (HECS, for example), as well as further down the income continuum to embrace those excluded for a shrinking pool of public housing lettings. In addition, labour market changes had led to increased numbers of relatively low and uncertain incomes, reducing effective demand for home purchase, and increasing the demand for rental.

In addition to labour market restructuring, there are a number of demographic reasons for the growth of this group. In particular, the demographic transition to smaller households has compounded the low wage problem for many, and stimulated demand for lower cost rental housing. Low to moderate single wage households, increasingly excluded from home purchase, have come to rely on the private rented sector.

Wulff et al (2001) note that between 1986 and 1996 half of the increased demand for lower priced private rented dwellings came from single person households. By 1996, single person households (lone person and single parent households) constituted 42 per cent of all private renters, up from 35 per cent in 1986. The increasing trend over the last thirty years for couples to have children later in life is also impacting on the private rental market. For whatever reasons, these households chose to be in the private rental market for longer periods. Wulff and Maher (1998), for example, found that never married persons aged 30-44 constituted the largest group of continual long term renters. They also found that households are experiencing extended periods of time in the private rental market. These longer term renters are more likely to live alone, their economic position tends to be poorer, and they are more likely to be divorced.

Finally, with specific reference to low paid working renters, Hulse and Burke (2000) suggest that as the low cost rental stock contracts and rents increase, the nexus between labour market processes and housing problems will intensify. They further argue that programs which link the receipt of income supplements to work incentives will have limited success for many recipients unless there are parallel policies to address the underlying structural problems of the private rental market.

3 Why is the lower value private rental sector important?

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The low income private rental sector is therefore an important housing market for a number of reasons. Firstly, in the last twenty years the private rental has been the focus of the shift in Federal housing policy away from bricks and mortar and into income related subsides. And its composition has also been impacted by the increasing targeting of public housing assistance on those with highest support needs and the dwindling supply of public housing vacancies.

In other words, this is the housing sector that has been seen by government of both main persuasions as being the long term replacement for general needs public rental. This is important in itself. If this sector is not seen to be delivering good value for money outcomes in respect to the two main subsidies targeted at it – through the CRA and taxation, then there is clearly a case for reform.

But it is also important for wider employment and welfare policy reasons. The last twenty years have seen the emergence of a more polarised workforce - globalisation, economic restructuring and flexible working practices have all played their part. Government policy has driven this forward. Workplace Reforms have clearly and deliberately put pressure on wages and working conditions in the lower half of the labour market. At the same time Welfare Reforms have been working to direct people back into this fragmenting workforce to reduce welfare dependency levels.

Both these trends have important implications for housing policy as far as the working poor are concerned. In effect, the housing opportunities of this group of the population are being provided largely by the vagaries of the investment taxation system. However, this system does not work well for lower income renters.

It is clear that much of the latest investment led housing boom, which fuelled the current affordability crisis of our major cities, has been targeted to higher value rental housing. Gavin Wood has shown how the prevailing taxation incentives work perversely as far as lower cost rental supply is concerned by concentrating investment into higher value property (Wood, 2002). Recent AHURI research by Judy Yates, Marianne Wulff and Margaret Reynolds has shown conclusively that the net growth of the private rental market in the recent past has been almost entirely accounted for by additions at the higher end of the market (Yates, Wulff and Reynolds 2004). They also found that between 1996 and 2001 effective shortages of lower cost rental accommodation had pushed up into the low to moderate income range. So despite a relatively favourable taxation regime, the low cost rental stock continued to contract in Sydney and Melbourne at least up to 2001 – the two cities with the least affordable housing markets, but possibly the largest beneficiaries of Federal private rental subsidies.

What does all this mean for the working poor? Firstly, and most importantly, most working poor households get no CRA. Secondly, they are not able to access public housing. And thirdly they get none of the tax exempt asset based benefits of home purchase or the direct home ownership subsidies like First Home Owners Grant. In many ways, the working poor in the private rental sector are the forgotten housing sector.

Yet it could be argued that it is this group who are bearing the brunt of the welfare and workplace policies and wider labour market restructuring of recent years. The
economy needs the working poor, but we have no affective housing policy that covers their needs.

4 The Research

Research on the changing location of the low income private rental households in Sydney, Melbourne and Adelaide between 1991 and 2001 using ABS Census data. Additional analysis was made of CRA data and waiting list data to assess the degree of association between these two aspects of the housing assistance system. Were the low paid renters in the same or different locations in these three cities?

We also looked at the labour market position of low paid working private renters both in terms of their socio-economic and occupational profile and the places they worked.

The findings from the research will help inform our understanding of the outcomes of the current framework within which private rental housing is supplied and consumed in these three cities, particularly in terms of the locational outcomes and the implications for overall housing supply.

5 The Findings

5.1 The changing distribution of low income private rental households in Sydney, Melbourne and Adelaide

- Focus on income households and the low income working households.

- Income threshold used is the bottom quintile, or 20th percentile, of household income for households with at least one person employed. (Approx = the 40th percentile of all household incomes).

- Income thresholds varied for each city. 2001 Census upper income thresholds:
  - $655 for Australia as a whole;
  - $773 in Sydney;
  - $707 in Melbourne;
  - $625 in Adelaide.

- In 2001 there were 2,701,069 low income households in Australia of whom 35% (931,655) were working.

- In 2001, there were 577,031 low income households in the private rental market in Australia. This represented 21% of all low income households.

- Of the 243,000 low income household renting privately in the three cities, 56% (136,789) had at least one person in work:

- Sydney = 117,545 low income households in the private rental market (PRLIH) of which 69,873 (60%) were employed.
• Melbourne, 92,982 PRLIH, 51,354 (55%) were employed.

• Adelaide, 32,559 PRLIH, 15,562 (48%) were employed.

5.2 The spatial concentration of Private Rental Low Income Households in 2001

• Sydney: Canterbury and Wyong (LGAs), and in the suburbs of Liverpool, Campsie and Cabramatta.

• Melbourne Darebin and Moreland LGAs and suburbs of Frankston, Reservoir and Dandenong.

• Adelaide West Torrens (East and West) SLAs and Holdfast Bay-North. At the suburb level Morphett Vale, Salisbury and Prospect.

5.3 The Location of Low Cost Housing Stock

• There are clear concentrations of low cost private rental housing stock in certain areas in the three case study cities.

• Sydney: in the west, south west and Central Coast to the north.

• Melbourne in the south east, west and inner north,

• Adelaide the low cost stock is concentrated in the north and western suburbs.

• The inner city areas in each of the three cities lack low cost private rental stock, although there appears to be more low cost stock in the inner suburbs of Adelaide and Melbourne than in Sydney.

• In Sydney there are significant concentrations of low cost stock in seven LGAs where over 75% of the private rental stock is classified as ‘low cost’. This compares with only 1 LGA in Melbourne and 2 SLAs in Adelaide – suggesting a more dispersed lower rent market here.
Figs 1 to 3: Location of low income private renters in Sydney, Melbourne, Adelaide by LGA, 2001
Figs 4 to 6: Location of lower cost private rental stock, Sydney, Melbourne, Adelaide by LGA, 2001
5.4 Socio-Economic Characteristics of PRLIHs

- Some 53% of PRLIHs in Sydney, 42% in Melbourne and 36% of PRLIHs in Adelaide live in flats.

- Between 60% and 70% of PRLIHs in Sydney, Melbourne and Adelaide are lone person households and one parent families.

- In all three cities the proportion of persons aged under 34 is significantly higher than that for the population as a whole.

- The proportion aged over 55 is significantly lower than that for the population as a whole.

- Proportions born overseas was higher than in the population as a whole in Sydney and Melbourne, but similar in Adelaide.

- Workers in PRLIHs tend to be employed in lower skilled occupations and are over-represented in Intermediate Clerical, Sales and Service jobs as well as Intermediate Production and Transport Workers and Elementary Clerical, Sales and Service workers.

- They are significantly under-represented at the top end of the occupational hierarchy, particularly in Managerial and Professional occupations.

- The industry profile of individuals in PRLIHs in the three cities does not differ greatly from the population as a whole, indicating that this sector of the housing market supplies a low income workforce to a wide range of industries and businesses in these cities.

5.5 Changes in the Spatial Concentration of PRLIHs 1991 – 2001

- Between 1991 and 2001 there was a 25% increase in the number of PRLIHs in Sydney, 14% in Melbourne and 21% in Adelaide. These are significant increases, and illustrate that the demand for this kind of housing is growing.

- Generally speaking, there was a movement of PRLIHs away from inner city areas towards more suburban locations in the three cities (although Melbourne LGA is a notable exception and may reflect the large number of students renting here).

- Nevertheless, the areas with the highest number of PRLIHs in 1991 tended to also have the largest numbers in 2001. For example, Canterbury in Sydney, Darebin and Moreland in Melbourne, and West Torrens in Adelaide.

- In Adelaide, areas around Playford in northern Adelaide and Onkaparinga in the south recorded a large increase in the number of PRLIHs from very low bases.
Figs 7 to 9: Percentage Point changes in the % of PRLIH Sydney, Melbourne, Adelaide by LGA, 1991 – 2001
5.6 Rent Assistance in 2001

- In 2000 there were 54,000 rent assistance recipients in Adelaide, 155,000 in Melbourne and 189,000 in Sydney.

- In Sydney, 57 postcode areas had over 1,000 recipients, compared to 45 in Melbourne and just 7 in Adelaide.

- Sydney, two postcode areas, 2166 (Cabramatta) and 2170 (Liverpool) had over 5,000 recipients each (5,859 and 5,388 respectively).

- Melbourne the largest number of rent assistance recipients were recorded in postcode 3175 (Dandenong) and 3021 (Albanvale/Kings Park/St Albans) which had 4,520 and 3,324 recipients, respectively.

- Adelaide the largest number of rent assistance recipients were recorded in postcode 5108 (Salisbury) and 5162 (Morphett Vale) which had 2,190 and 1,599 recipients respectively.

Fig 10: Rent assistant recipients by post code, Melbourne, 2000
5.7 The Changing Location of Rent Assistance Recipients 2000-2005

- The areas with the largest number of rent assistance recipients in 2000 were generally the same areas with the highest number in 2005, although the order in which they appear may have changed.

- The postcode areas with the largest increase were in Sydney’s west and south west, while the gentrifying inner city, the urban fringe and Cabramatta recorded the largest decreases.

- In Melbourne, numbers of recipients increased on the western and south eastern fringes of Melbourne, while there were decreases in the gentrifying inner city and inner east.

- In Adelaide there was a decrease in the number of rent assistance recipients in parts of inner Adelaide and the inner north western coast, while there were increases in some of the more disadvantage suburbs in the north and Morphett Vale in the south. Interestingly, between 2000 and 2005 Adelaide was the only city of the three case studies that had an increase in the total number of rent assistance recipients.

- Over this five year period, then, there was a notable shift of rent assistance recipients into middle and outer suburban areas in both relative and absolute terms.

- Location quotient analysis illustrates the shifting relative concentrations of rent assistance recipients by postcode area.
Figs 11 to 13: Change in Location Quotients of Rental Assistance Recipients, Sydney, Melbourne and Adelaide, 2000 to 2005
5.8 The Relationship Between Public Housing Waiting Lists, Rent Assistance, the Low Cost Rental Stock and PRLIHs in 2001

A correlation analysis at the postcode level in Sydney, Melbourne and Adelaide in 2001 reveals a very high correlation between the numbers of applicants on public housing waiting lists, number of rent assistance recipients and the location the low cost private rental stock and PRLIHs.

- In Sydney, Melbourne and Adelaide the correlation coefficient between PRLIHs and rent assistance recipients is greater than 0.9.
- The correlation between the number of PRLIHs and the number of public housing applicants is 0.9 in Adelaide and 0.8 in Sydney and Melbourne.
- The correlation between rent assistance recipients and the number of public housing applicants is 0.9 in Adelaide and Melbourne and 0.8 in Sydney.
- Finally, the correlation between the location of the low cost private rental stock and the number of PRLIHs is greater than 0.9 in the three cities.

The implication of this analysis is that the locations of rent assistance recipients, waiting list applicants and the low income, low value rental housing sub-market are remarkably closely associated in each city. However, while some of these are supported by rent assistance and others may eventually benefit from housing assistance through public housing, there are others, mainly those in work, who will receive little or no assistance in their housing needs, despite effectively being in the same market position.

Table 1: Correlation Coefficients of Rent Assistance Recipients, Public Housing Waiting Lists, PRLIHs and low cost private rental dwellings – Adelaide, Melbourne and Sydney

<table>
<thead>
<tr>
<th></th>
<th>Number of PRLIHs</th>
<th>CRA Recipients</th>
<th>Public Housing Applicants</th>
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<tbody>
<tr>
<td><strong>Sydney</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Number of PRLIHs</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Number of CRA Recipients</td>
<td>0.93*</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Number of Public Housing</td>
<td>0.78*</td>
<td>0.83*</td>
<td>-</td>
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<tr>
<td>Number of Low Cost PR</td>
<td>0.94*</td>
<td>0.94*</td>
<td>0.79*</td>
</tr>
<tr>
<td><strong>Melbourne</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Number of PRLIHs</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Number of CRA Recipients</td>
<td>0.92*</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Number of Public Housing</td>
<td>0.82*</td>
<td>0.91*</td>
<td>-</td>
</tr>
<tr>
<td>Number of Low Cost PR</td>
<td>0.96*</td>
<td>0.93*</td>
<td>0.85*</td>
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<tr>
<td><strong>Adelaide</strong></td>
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<tr>
<td>Number of PRLIHs</td>
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<td>Number of CRA Recipients</td>
<td>0.97*</td>
<td>-</td>
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<td>Number of Low Cost PR</td>
<td>0.98*</td>
<td>0.89*</td>
<td>0.79*</td>
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</tbody>
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* Correlation is significant at 0.01 level
Note: Public housing waiting list data for Adelaide is at June 2003, while Rent Assistance data is for 2001. Public housing waiting list data for both Melbourne and Sydney is for 2001. Number of PRLIHs and low cost private rental dwellings is for 2001.

5.9 The Labour Market Profile of PRLIWHs

The labour market characteristics of low income working households in the private rental market (PRLIWHs) in the two areas in each city with the highest number of this group were analysed.

• Sydney: Canterbury and Wyong
• Melbourne : Darebin and Moreland
• Adelaide: West Torrens (East) and West Torrens (West) SLAs

i) What do they do?

Occupations: Generally speaking the individuals in these case study areas are employed in the lower end of the occupational hierarchy. But they are important across a range of industry groups, particularly in the services and distributional sectors.

• Intermediate and Elementary Clerical, Sales and Service Workers,
• Intermediate Production and Transport Workers and
• Labourers and Related Workers.

Industry:
• Retail Trade industries
• Manufacturing
• Accommodation, Cafes and Restaurants
• Property and Business Services
• In Melbourne and Adelaide: Health and Community Service industries.

ii) Where do they work?

Generally there was a marked pattern of the most important employment locations to be either within the local LGA itself or in the respective CBDs of each city.

e.g. In Canterbury in Sydney and Darebin and Moreland in Melbourne the largest proportion of employed persons in PRLIWHs worked within the LGA, with the next largest proportion working in the respective CBDs.

In the Adelaide case study areas of West Torrens (East and West) the largest proportion of employed PRLIWHs worked in the Adelaide CBD, followed by the SLA itself.
Only in Wyong did a much higher proportion work in the LGA itself as well as nearby Gosford. Few individuals in Wyong worked in the Sydney CBD. This has significant implications for local employment prospects for this group of low income workers in the Central Coast LGAs.

iii) Where are the concentrations of workplaces for PRLIWHs in each city?

Despite the outward movement of the sector, the research shows the strong attraction of the core employment areas for such workers.

The main workplace destinations of PRLIWHs in each city were:

- City of Sydney LGA and Parramatta LGA in Sydney,
- City of Melbourne LGA and Port Phillip LGA in Melbourne, and
- City of Adelaide SLA and West Torrens-East SLA in Adelaide.

So despite an outward shift in the location of their housing, these workers are still significantly tied into the central city job market.

6 Conclusions

Rapidly increased metropolitan residential property prices have effectively excluded many lower income households who are not already home owners from the home ownership market.

At the same time the increased targeting of public housing to those in greatest need has removed this as a viable housing option for all low income working households.

As a result of these and other factors, the numbers of lower income private renters increased significantly in the 1991 – 2001 decade in the three cities analysed here. It appears that Andrew Beer’s predictions about a widening private rental sector seem to have come to pass.

However, as previous research has shown, the provision of low value rental housing has been shrinking. The recent investment boom has been directed at higher value rentals and has clearly not assisted the housing prospects of low income renters. In fact, it has exacerbated the problems lower income households who depend on the private rental market are facing by making home ownership even more impossible.

So ironically this group has been excluded from the new rental stock that has been generated by the recent investment boom, while at the same time as it has been effectively excluded from even the lower rungs of the home purchase market by the escalating prices the investors have helped to cause.

The implication of a declining lower rental value stock but a growing sector of low income private renters suggests that this group may be experiencing significant affordability problems.

Evidence for this comes from recently completed AHURI research carried out by Judy Yates, Darren Holloway and myself. This showed that the principle
occupational groups experiencing significant housing stress in Sydney and Melbourne (renters paying more than 30% of their income in housing costs) are the lower paid workers in lower skill service and support jobs. These are just the kinds of jobs that our group of low income working private renters have.

But this is a moving feast (or famine?). At the same time, the low income rental market has shifted decisively away from the inner cities and has moved out into the suburbs.

**Housing Policy Implications**

The most obvious conclusion from this research and other recent research on the lower end of the private rental market for housing policy is the likelihood, in the not too distant future, of a crisis in the provision of low cost rental accommodation in our cities.

As the low income rental market has moved, it has taken with it the working poor, who are now increasingly reliant on the sector, as well as those on rent assistance and those waiting for the dwindling supply of public housing.

But unlike those both richer and poorer than themselves, the private renting working poor receive relatively little support to assist in their predicament. Largely excluded from CRA or public housing which households poorer than they can access, they neither qualify for FHOG or gain the asset accumulation benefits of owning that those higher up the income hierarchy get.

*In many ways working poor in the private rental market are a forgotten component of the housing policy debate.*

**Labour market implications**

The research shows that the low income rental submarket supplies labour to a wide range of industries and businesses, underlining the general importance of this submarket to the economy of these three cities. And the numbers in this submarket have grown substantially over the 1991 to 2001 decade. The suburbanisation of the sector has important impacts on this workforce.

Previous AHURI research on the work disincentives effects of housing assistance on unemployed tenants, which was conducted in the suburbs of Sydney and Melbourne, highlighted the critical travel and locational problems that unemployed tenants (most of who were private tenants) faced in getting work (Hulse and Randolph, 2004). Locational issues were high on list of barriers they identified as being major disincentives to access in job rich areas. A majority of these were single people. As many as 60% of those interviewed did not have access to a car. So the locational disadvantage of renting in job poor suburban areas was compounded by limited personal mobility in areas where public transport is minimal.

The suburbanisation of the low income rental market is clearly a factor that is increasing the locational barriers these unemployed renters are facing. The same locational problems also face the low income working tenants who share the same
housing market as their unemployed compatriots. Yet as we have seen, this group still remains connected to the job markets of the central city and major town centres. Without these central city employment opportunities they are dependent on the less dynamic job markets in their own suburban areas. But suburbanisation has stretched these links, leading to long and expensive commutes, a major problem for shift and casual workers.

The Future?

As Andrew Beer (1999) has also pointed out, the future of the private rental market depends not on tenants – the occupants of the housing – but on the perceptions and motivations of investors. It is their investment decisions that drive the sector, in terms of numbers, market position and location. This makes predictions for the sector highly speculative – like the nature of the sector itself.

What are investors likely to do? Current AHURI funded research on the motivations of rental investors suggests that in Sydney at least, the Mum and Dad investor is certainly a very sick parrot, if not actually a dead one, especially in the lower end of the market. What will bring him or her back to life? Recognition by the Federal and State Governments that the current framework for supporting investment in lower cost rental housing has failed would be a good start. Acting on it would be even better.

The problem is that providing lower value rental property for people on low and increasingly uncertain incomes is not a very profitable or attractive proposition in itself. Without the incentive of strong and assured capital growth, there is little real reason to be involved in this kind of property for many investors when other more trouble free investments are available.

If it was thought 20 years ago that the private rental sector would replace the need to invest in public housing or that it was still essentially a stepping stone to home ownership, then that certainly is not the case today. The fact of the matter is we need a viable affordable and decent rental sector to provide long term housing for all the low income renters excluded from both home ownership and public housing – and there were nearly 600,000 of them in 2001 in Australia.

At present, their housing relies on the fancies and fears of the small local investors who make up the bulk of the landlords in the sector and for whom investing in someone’s home is now less attractive than investing in stock, shares, or any other less troublesome asset class.

The rag tag array of state and commonwealth tax regimes that form the framework in which the sector operates has led to the clearly perverse bending of investment subsidies to the new and top end of the market, or into other markets entirely. This is not a sensible way to run a long term housing sector for the working poor.

And the trickle down theory is not working well either – the housing that is trickling down to the lower rent sector is in areas of our cities where there are fewer jobs, transport is problematic and that are an increasingly long way from the central city labour markets for low skilled service and support workers. And that’s before we start talking about stock condition or housing quality or amenity. The investment
decisions of mums and dads have critical implications for the stock of housing opportunities in our urban areas. At the moment, they are not doing a good job.

**So what to do?**

Will new forms of investor enter the market to fill the void currently being left by the small scale investor? Will Real Estate Investment Trusts emerge to take a slice of the residential market in the way they have elsewhere? Will the Mum and Dads forget their present worries and pile back in once prices firm? Well all of this might happen. On the other hand, none of it might happen. In the meantime, the future of the rental market, and those who live in it, is unclear.

What is clear, however, is that we need a thorough recasting of the way government supports the rental market for the working poor if it really is to step into the gap left by the residualisation of the public housing sector. Low income workers and uncertain and casual job markets are an essential feature of the new urban labour force. Under current workplace and welfare reforms, this situation is unlikely to change – demand may even grow. The working poor are an essential component of the workforce in our cities.

We need to consider alternative ways of spending our tax relief in a more productive and targeted manner. Why use tax-based subsidies to subsidise upscale and higher income housing? The US model of Low Income Housing Tax Credits offers an idea of how we might better use the mums and dads investments to target subsidies to those who need them most. Much of this is channelled through community based non-profit housing corporations, something like our housing associations. We could do something similar here.

Reform of CRA would also be a key component for any package of national policies to the sector, although simply extending it to more people would probably cause as many problems as it solved. Rather we need a serious overhaul of a policy framework that has ground on for the last twenty years with increasingly perverse results both for those who need housing and for value for money outcomes for the public purse.

This is not a call for another National Housing Strategy. But it is a call for us to start thinking coherently again about what role we want the private rental market to play, why we are subsidising it and who we are subsidising it for.

BR
31.3.2005