



# Submission to the Senate Community Affairs References Committee Inquiry into the worsening rental crisis in Australia

23 August 2023

## Introduction

Homelessness Australia is the national peak body for homelessness in Australia providing systemic advocacy for the homelessness sector. We work with a large network of organisations to provide a unified voice when it comes to preventing and responding to homelessness.

Homelessness Australia (HA) welcomes the opportunity to provide a Submission to the Senate Community Affairs References Committee Inquiry into the worsening rental crisis in Australia.

Homelessness Australia's submission is focussed on the following terms of reference:

- rising rents and rental affordability and the experience of renters and people seeking rental housing
- actions that can be taken by governments to reduce rents or limit rent rises
- factors impacting supply and demand of affordable rentals, and
- other related matters including income support and the impact of the rental crisis on homelessness

## Rising rents and rental affordability and the experience of renters and people seeking rental housing

Australian rents have increased relentlessly since a small slowdown in rents at the beginning of the Covid pandemic.

Between April 2020 and March 2023 rents for new tenancies rose by 40 per cent across Australia.<sup>1</sup>

Since March 2023, rents have continued to rise and economists predict further increases over the coming year.

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<sup>1</sup> SQM research, [National weekly rents data](#)

In early 2023, vacancy rates fell to a record low of 1.0% nationally.<sup>2</sup>

For renters, housing costs are the biggest item in cost in household budgets. In 2019-20, rental costs comprised 20 per cent of gross household budgets for all private renters, and 32 per cent of income for low income renters.<sup>3</sup> More than half (58 per cent) of those renting from a private landlord pay more than 30 per cent of their income on rent.<sup>4</sup>

While rising rents force existing tenants out of rentals that they can no longer afford, the toxic combination of low vacancy rates and high rents for new tenancies make it difficult, or even impossible, for many households to secure a new home.

Vacancy rates around 1 per cent means it is common for each vacant property to have more than 20 applicants, with demand from over 50 applicants often recorded.

In such a competitive market, each available rental tends to be rented to the highest earning prospective tenants. Rental market discrimination on other grounds is also common, with the result that prospective tenants from marginalised communities have the most difficulty in securing a new tenancy, with people from Aboriginal and Torres Strait Islander communities, young people, single parents, people with disabilities and other groups subject to discrimination most impacted.

Homelessness Australia's [Overstretched and overwhelmed: the strain on homelessness services](#) report revealed that rising rents and record low vacancy rates are also driving significant increases in homelessness.

This report revealed that the number of people using a homelessness service increased by 7.5 per cent between December 2022 and March 2023,<sup>5</sup> but increased 11 per cent among people who identified financial stress and housing crisis (eviction) as a reason they needed help.

## **Actions that can be taken by governments to reduce rents or limit rent rises**

The major driver of increased rents and record low vacancy rates is the failure of the private rental market to generate new rental housing that is affordable to low income renters, creating a growing supply gap for low cost rentals.

The consequence is increased competition for the available 'cheaper' rentals.

In a context of rising rents and growing costs of home ownership, more higher income households 'trade down' and compete for the available 'cheaper' rentals, crowding out lower income households and putting upward pressure on the cost of these properties.<sup>6</sup>

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<sup>2</sup> SQM research, [National residential vacancy rates data](#)

<sup>3</sup> Australian Bureau of Statistics, *Housing Occupancy and Costs 2019-20*, May 2022

<sup>4</sup> Australian Bureau of Statistics, *Housing Occupancy and Costs 2019-20*, May 2022

<sup>5</sup> Australian Institute of Health and Welfare (AIHW), [Specialist Homelessness Services: monthly data](#), May 2023.

<sup>6</sup> Hulse, K., Reynolds, M., Stone, W., and Yates, J., 2015, Supply shortages and affordability outcomes in the private rental sector: short and longer term trends, AHURI Final Report No. 241, Australian Housing and Urban Research Institute Limited, Melbourne, p.31

The problem created for vulnerable households by rental market competition and the crowding out phenomenon of higher income households ‘trading down’ is why large scale provision of social and affordable housing is the most important policy response to the housing crisis.

By providing rentals that are targeted to households being crowded out of the private market, provision of social and affordable housing solves two problems.

Firstly, it directly provides a home to a household at risk of homelessness. Secondly, it relieves the competitive pressure at the ‘cheaper’ end of the rental market that is driving up prices and creating the conditions that encourage and enable unscrupulous landlord behavior.

Landlords operating in a rental market in which tenants have choice between a private rental and a social or affordable rental will be unable to secure a tenant if they increase rents above the prevailing market or offer a property whose quality is inferior to other available properties. And tenants who are renting in a market in which there are alternative tenancies available can exercise their tenancy rights without fearing they will be unable to secure another home if needed.

In addition to increasing the supply of low cost rental housing, measures are also needed to provide a more predictable, affordable and secure rental market for tenants. Tenancy protections are important in all rental markets, but are particularly important in tight rental markets that create the conditions to encourage unscrupulous behaviour by landlords.

Improved tenancy protections need to include reforms to:

- **stabilise rents** by limiting rent increases to a fair increase, such as the rental component of the Consumer Price Index
- **end no-grounds evictions** (including at the end of a fixed term tenancy), and
- **implement minimum standards** to ensure homes provide a safe living space and meet basic community standards, including energy efficiency standards, standards around natural light, lockable doors and windows, absence of mould and vermin infestations, and provision of working essential appliances and plumbing.

## Factors impacting supply and demand of affordable rentals

The gap between the cost of providing new rental homes for low income households and the rental income generated by low income households paying affordable rents has been well documented<sup>7</sup>.<sup>8</sup> While this ‘returns gap’ can be addressed using a variety of different funding models, a subsidy in some form is critical to ‘at scale’ provision of rentals for low income households.

While the simplest and most cost effective funding model for social housing is direct capital grants<sup>9</sup>, the scale of provision needed to address Australia’s current shortfall of 640,000 social

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<sup>7</sup> Australian Government, Council on Federal Financial Relations, [Affordable Housing Working Group: Issues Paper](#), January 2016

<sup>8</sup> Australian Housing and Urban Research Institute, [Understanding the funding gap for social housing and different ways to fund it](#), February 2019

<sup>9</sup> Australian Housing and Urban Research Institute, [Social housing as infrastructure: an investment pathway](#), November 2018

and affordable rental homes, which is projected to grow to almost one million households by 2041,<sup>10</sup> will require investment from both private and public capital.

It is worth noting that measures that encourage increases in the general supply of homes will not increase the supply of low cost rentals that are affordable to low income households, as they don't address the returns gap.

## **Any other related matters**

### **Increased need for homelessness support**

The [Overstretched and overwhelmed: the strain on homelessness services report](#) highlighted that the housing crisis is driving more people to homelessness services which lack the resources to respond. The consequence is that opportunities to prevent evictions and housing crises are missed, and people don't get the support they need to reduce the impact of homelessness and to find a pathway out of homelessness.

Using the average cost per client of homelessness support<sup>11</sup>, Homelessness Australia estimates that an additional \$450 million is needed to respond to additional people using homelessness services and to people currently being turned away from services.<sup>12</sup>

### **Income support payments and housing poverty**

Commonwealth Rent Assistance (CRA) is one way that the Federal Government relieves cost of living impacts on people with low incomes, but the value of the payment has fallen well behind the cost of rents. In 2022, 44 per cent of all people who received CRA were still in rent stress after receiving the payment, but 63 per cent of those receiving JobSeeker payments and 73 per cent of students receiving Youth Allowance were still rent stressed.<sup>13</sup>

This acute pressure can be immediately alleviated by increasing income support payments. In 2020, when most people receiving CRA were also receiving the Coronavirus supplement or JobKeeper, we saw rent stress among people on the lowest benefits more than halved: to 31 per cent of people on JobSeeker and 27 per cent of those on Youth Allowance.<sup>14</sup>

While the last Federal Budget included modest increases to income support payments, these were not adequate to significantly reduce rental stress.

Many people on low incomes who are at risk of homelessness because of the high cost of rentals are also not eligible for Commonwealth Rent Assistance (CRA), for example, single people on low wages who are not in receipt of an income support payment.

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<sup>10</sup> Ryan van den Nouwelant, Laurence Troy and Balamurugan Soundararaj, [Quantifying Australia's unmet housing need A national snapshot](#), UNSW, City Futures, November 2022

<sup>11</sup> Productivity Commission, [Report on Government Services 2023](#), Homelessness Services data tables, Table 19A.18 Recurrent cost per client accessing homelessness services, 2021-22 dollars (a), (b)

<sup>12</sup> Homelessness Australia, *Overstretched and overwhelmed: the strain on homelessness services report, August 2023*

<sup>13</sup> AIHW, Housing assistance in Australia, [Data tables: Financial assistance 2023](#), June 2023

<sup>14</sup> AIHW, Housing assistance in Australia, [Data tables: Financial assistance 2023](#), June 2023

Expanding the eligibility of CRA and increasing the rates of JobSeeker, Commonwealth Rent Assistance and other associated payments will increase the affordability of renting to those on low incomes.

## **In conclusion**

The major factor driving low vacancy rates and rental inflation in Australia is the structural failure of the private rental market to deliver new rental housing that is affordable to lower income households. This has resulted in a growing supply gap for low cost rentals that creates the conditions for unscrupulous landlord behavior and for a reluctance among tenants to enforce tenancy rights for fear that they will be unable to secure a new home, and face homelessness.

The most impactful policy response to this problem is to address the market failure in the rental market by provision of social and affordable rentals at a significant scale to deliver urgently needed homes, and simultaneously to relieve inflationary pressure in the private rental market.

Investment in social housing needs to be complemented by reforms to increase tenancy protections and to increase income support.