

Submission to the Senate Select Committee on Cost of Living

MARCH 2024



Introduction

Rents in Australia have now reached a record high with the median rent now exceeding \$600 a week. Rents have increased 38% since August 2020, far in excess of the increase in incomes over the same period. (1) With the national vacancy rate at only 1.0% this pattern of rent growing faster than incomes is almost certain to continue.

Housing costs are the biggest, and a growing, component of household budgets and have an enormous impact on households in housing stress. This means the rising cost of rent is a critical issue to address in the cost of living Inquiry.

The joint peaks of Homelessness Australia, the Community Housing Industry Association (CHIA), and National Shelter welcome this opportunity to make a submission to the Select Committee on Cost of Living. This submission draws on previous submissions made by all three organisations.

About us

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

CHIA is the peak body representing not-for-profit community housing organisations (CHOs) across Australia. Not-for-profit CHOs are regulated, organisations that manage rental homes for the long-term, primarily to assist low-income households disadvantaged in securing suitable homes in the private market. They invest financial surpluses in building homes, enhancing landlord services, and implementing property improvements instead of shareholder profits. Our 150+ members collectively manage more than 120,000 homes, valued at over \$40 billion for the benefit of our residents and their communities.

National Shelter is a non-government peak organisation that aims to improve housing access, affordability, appropriateness, safety, and security for people on low incomes. National Shelter is supported by the work of State Shelters and members in all jurisdictions, as well as national member organisations, associate members, and sponsors.

Impact of high housing costs on households

Poverty

For low income households, high housing costs are increasingly a cause of poverty and precarity. In 2022, well over half of low-income households in the private rental market (58%) were paying 'unaffordable' rents (more than 30% of household income). (2)

The situation is especially dire for people reliant on income support payments. In June 2022, 63% of JobSeeker recipients and 75% of Youth Allowance recipients were in rental stress, even after receiving CRA. (3)

Housing costs have severe implications for low-income households who are already experiencing poverty, and are also a significant contributor to after housing poverty. The high cost of renting impacts people's capacity to afford other essentials, with low and middle income renters commonly having to forgo spending on food, transport, medicine or educational costs after paying rent.

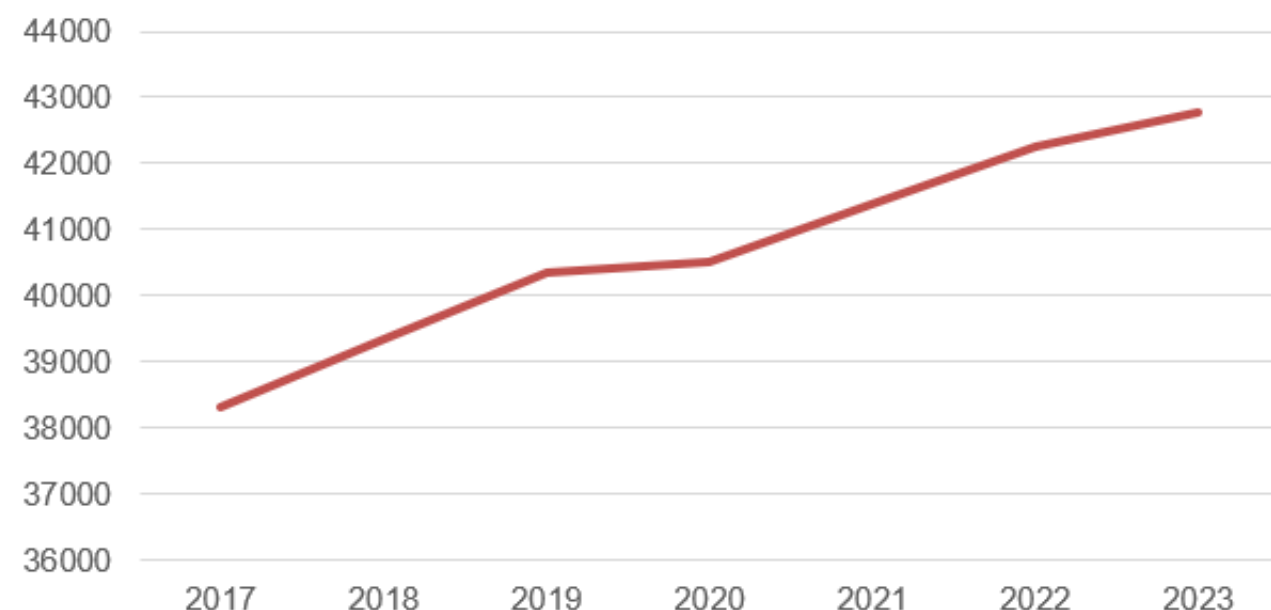
Homelessness

The inability to keep up with the cost of rent is also the biggest and fastest growing cause of homelessness. New analysis of AIHW Specialist Homelessness Services data reveals that the average number of people seeking homelessness support each month due to financial stress has surged by 4,455 to 42,778 people in 2023 compared to 2017. (4)

Overrepresentation

Housing outcomes for First Nations Australians are particularly bad, with First Nations people 3.8% of Australia's population but one-fifth of people experiencing homelessness. Record low vacancy rates have supercharged competition in the rental market, inevitably increasing First Nations housing exclusion. (5)

People seeking homelessness assistance due to financial stress (average annual number)



Impact of high housing costs on households

Demand for social housing

The results from a recent survey of the CHIA membership illustrate the current pressures faced by households approaching the community housing sector for assistance. Of those organisations surveyed, 85% reported that they received noticeably more applications for advertised affordable housing vacancies during the first half of 2023, and the vast majority of these respondents also report that applications are coming from households with higher incomes than previously was the case.

Rising rents are also having an impact on the community housing sector's ability to head lease homes from the private sector. Responses to the survey indicated that around 80% of community housing organisations are finding it difficult to source homes to head lease and a similar number report an increase in private landlords leaving the schemes.

Further pain ahead

The rental crisis is predicted to worsen, further increasing the financial pressure on households being felt as a consequence of the rising cost of other non-discretionary items. The Reserve Bank of Australia (RBA) have indicated that 'further large increases in rents are expected over coming years as population growth picks up'. (6)

There is also evidence that inflation in non-discretionary items (such as energy bills, food, transport) is driving households and families to make difficult decisions. (7) In the June 2023 quarter, annual food inflation was 7.5%, and while it is easing, annual price increases for some individual items are up to 15.2% (dairy).

Economic impact of high housing costs

Research conducted to estimate the benefits from providing social and affordable rental housing shows that homelessness, housing costs and housing affordability stress negatively affect individual and societal wellbeing, and generate additional (but avoidable) costs to governments and society. (8) Appropriately located and affordable housing also generates productivity gains in a more conventional 'infrastructure' understanding.

A summary of the evidence collated by the research project is as follows:

Homelessness

- Public sector cost offsets by transitioning homeless to secure housing options (e.g. Conroy et al. 2014, Johnson et al. 2015, Parsell et al. 2015, Seivwright et al. 2020).

Productivity

- Maclennan et al. (2019) demonstrate significant productivity gains when affordable housing is paired with locational factors (such as transport connectivity and proximity to labour markets)

Health and wellbeing

- Reduced ontological security, disempowerment, lack of control and stress (Phibbs 2005, Lewis 2006, Hulse and Saugeres 2011, Colic-Peisker et al. 2014,
- Bentley et al. 2016, Baker et al. 2017, Brennan and Galvez 2017). Lack of appropriate housing is resulting in additional public sector cost (PC 2019).

Family and social cohesion

- Lack of affordable housing options means that individuals are unable to escape violent and abusive family situations (Ponic cited in Thomas 2017).
- Tenure stability found to correlate positively with social connectedness (Hulse and Stone 2007).

Human capital accumulation and household budgets

- Housing stability found positively to affect educational outcomes (Phibbs 2005). Housing costs compete with other household expenditure. ACTCOSS (2016) found that some 19 per cent had compromised on food and grocery purchases, 30 per cent on health and medical treatments, and 52 per cent on family and leisure activities. Housing costs as a share of households' budgets is increasing for low-income households (Daley et al. 2018)

Why are rents increasing faster than incomes

Rents in Australia have increased much faster since the pandemic, than in the period prior, influenced in part by a decline in household size. Nonetheless, rents have been increasingly unaffordable to low income households over the past decade.

The reduction in social housing as a proportion of all dwellings over decades, has been exacerbated by the decrease in homes becoming available for letting every year . Proportionate to population, lettings were down by 14% (from 1.4 lets per thousand population to 1.2 per thousand between 2018 and 2023) (9). This reduction, together with the decline in home ownership, have placed increasing pressure on the rental market, at the same time that the overall cost of housing has been super-charged by Australia's housing tax policy settings.

This has created a double squeeze on the private rental market. There is more demand pressure for renting - as more of the population are renting privately - and the cost of supplying new rental homes has increased, as speculative investment has driven up the value of land.

The consequence is that far fewer rental homes are affordable to people on low and middle incomes.

This reduction in rental affordability was illustrated by the 2023 Rental Affordability Index (RAI), which demonstrated that affordability has plunged in the past year to reach decade lows in several areas across the country. (10) Affordability has worsened in every city except Hobart and Canberra and has deteriorated rapidly in Sydney (by 13 per cent), Melbourne and Perth (both by 10 per cent).

Renters in every capital city are now in a worse position than they were in 2019, prior to the start of the pandemic.

Affordability in regional areas has also declined everywhere except Tasmania with falls of between seven and nine per cent in regional Queensland, regional South Australia, and regional Western Australia.

Low income households are bearing the brunt of the decreases in affordability, particularly those who are single and on Jobseeker, the Age Pension or even working as a single parent. These households are paying over 60% and upwards of 80% or more of their income on rent. The Anglicare Rental Snapshot found that of the almost 46,000 rental listings on one night in Australia, less than 1% were affordable for a person earning a full-time minimum wage. Less than 0.5% were affordable for a person on the Age Pension. The situation is even more dire for people on JobSeeker and Youth Allowance. Key workers do not fare better with, on average, 1.35% of rentals affordable for a range of key worker occupations. (11)

While the prevailing public debate has focussed on the need to increase overall supply of homes, in fact this will have limited impact on the availability of rental homes that are affordable to people on low and middle incomes who are hardest hit by the housing crisis.

The greatest impact on the affordability crisis for low and middle income households will be achieved by supplying a significant increase in low cost rentals. Supply of low cost rentals addresses the double squeeze on the rental market, by reducing the number of people competing for private rentals, and addressing the failure of the private market to supply quality low cost rental homes.

While the Federal Government has provided some welcome commitments to grow the stock of social housing, the national shortfall of 640,000 social housing properties far exceeds current growth projections. (12)

Benefits of growing social housing

Using the SIGMAH tool that estimates the wider social and economic benefits from social and affordable housing project proposals, an estimation was made of the cost of living relief for tenants allocated homes built as part of the Housing Australia Future Fund and National Housing Accord. SIGMAH produces a 'Cost-of-Living Relief (CLR) measure' – a measure of the distributional benefit experienced by tenants in the form of lower rents and lower energy expenditures, compared to equivalent rental in the private sector. This is on average \$10,100 per year. (13)

2023, the CRA increase has not kept pace with the scale of rental increases as rents have increased by 38% since August 2020. Of low-income households that were CRA recipients at the end June 2023, 42.9% still experienced rental stress. (15)

Figure G.2 Income units receiving CRA Paying more than 30% of income on rent By selected equity group, by jurisdiction, at end June 2023



Make renting fairer and more affordable

As well as supplying more social and affordable homes, Commonwealth Rent Assistance (CRA) needs to be increased and rental regulations amended to make renting more affordable and fairer.

In the current competitive rental market tenant security and tenant's ability to effectively exercise their tenancy rights are undermined. Tenants facing frequent and significant rental increases that they can't afford, or unresolved maintenance issues, are restricted in their ability to move to alternative rentals because these are unavailable. The consequent rental stress and insecurity is stressful for households and harmful to their health and wellbeing. (14)

While some reduction in rental stress was achieved as a result of the Commonwealth increasing the maximum rate of CRA by 15% in

Some positive changes have also been achieved as a result of the National Cabinet 'A Better Deal for Renters' commitment to national tenancy reform, but this does not yet include restrictions on the quantum of rent increases or the inclusion of minor modifications.

Further reforms are needed to immediately alleviate the considerable and immediate housing stress for very low- and low-income households in the private rental market. These include indexing CRA to the rising cost of rent rather than general inflation, expanding eligibility to CRA to low income households who are not in receipt of income support payments, and adjusting CRA to account for regional variation in payment rates.

Modelling by Professor Rachel Viforj and colleagues has revealed that rental stress among low income households could be immediately halved by restructuring CRA to extend its eligibility to low wage earners in private rental who are currently ineligible, and by increasing the payment. (16)

Make renting fairer and more affordable

A comprehensive CRA review is needed to address these issues and increase the impact of CRA on rental affordability. Such a review could be undertaken by the National Housing Supply and Affordability Council or the Economic Inclusion Advisory Committee, and reforms enacted in the National Housing and Homelessness Plan.

While increasing CRA does not address the fundamental problem of the inadequate supply of social and affordable housing, it does provide meaningful cost of living relief to households who may not be eligible for or require a social and affordable housing outcome.

Action is also need to limit the amount of rent increases, not just the frequency of increases. This is a further reform that National Cabinet could drive to deliver rental regulations that restrict rental increases within reasonable bounds.

Increase income support

Any meaningful impact to alleviating housing stress for lower income households must also include a permanent increase in the level of income support beyond the current inadequate routine indexing of pensions and payments.

The time series of the Rental Affordability Index (below) demonstrates the positive impact that temporarily raising the rate of JobSeeker during the pandemic had on rental affordability for a single person in capital city areas and regional areas. Once the supplement ceased, almost all areas reverted to their prior level of unaffordability. It is a clear indicator of how increasing income support can ensure that households are able to meet housing costs and also have available income to be able to meet their needs and costs.

COMPARE RAI HOUSEHOLD PROFILES OVER TIME BY REGION OF AUSTRALIA

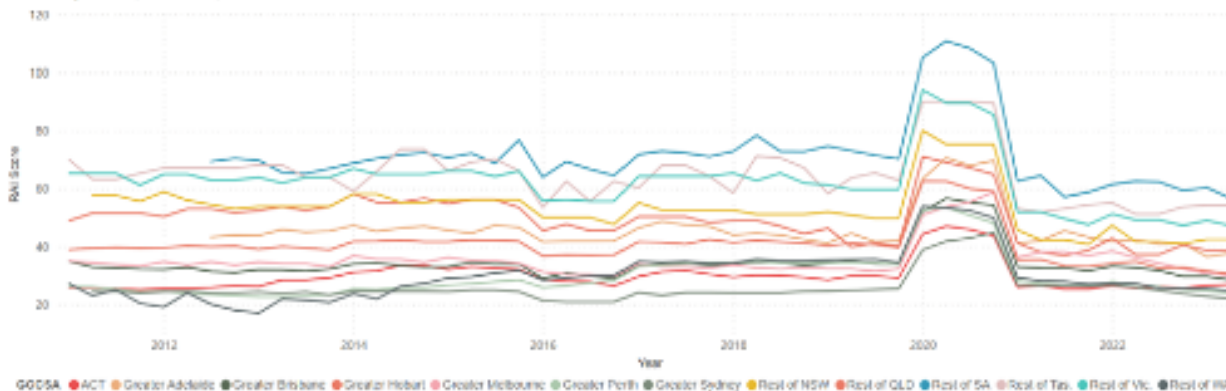
Use the filters below to view the RAI score for each household profile over time for the selected Region of Australia.

No bedroom size data is available for Greater Perth and Rest of WA.

Region of Australia: Household Profile:

Relative unaffordability	Share of income spent on rent	Index Score
Data not available		0
Very affordable rents		>200
Affordable rents	15% or less	151-200
Acceptable rents	20-25%	121-150
Moderately unaffordable rents	25-30%	101-120
Unaffordable rents	30-35%	81-100
Severely unaffordable rents	38-40%	61-80
Extremely unaffordable rents	60% or more	<50

RAI Comparison (2011 - 2023)



Source: <https://www.sgsep.com.au/projects/rental-affordability-index>

Recommendations

Recommendation ONE

Invest in a pipeline of 25,000 social housing properties

Immediately increase investment in social housing to deliver a pipeline of 25,000 social housing properties each year.

Recommendation TWO

Increase income support payments

Reduce the rental stress experienced by the worst impacted households by:

- increasing JobSeeker, Youth Allowance and related income support to parity with pensions (including pension supplement), at least \$78 a day on current rates, and index payments to wages as well as prices.
- increasing the maximum threshold for Commonwealth Rent Assistance (CRA) by 60% (resulting in a 110% increase in the payment) and initiate a review process to better align eligibility with need.
- extending eligibility for CRA to all people who meet income tests requirements, irrespective of their source of income
- initiating an inquiry to examine reform of CRA to optimise value and impact for low-income rental households via the National Housing Supply and Affordability Council or the Economic Inclusion Advisory Committee.
- continuing to lead the development of the rental reform agenda through National Cabinet to provide better, transparent regulations on rental increases.

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