

To rent or buy in Canberra?

Housing and homelessness policy consortium research



A consortium of peak community sector organisations has been formed to research housing and homelessness issues in the ACT. The consortium is comprised of ACT Shelter, ACTCOSS, Women's Centre for Health Matters and the Youth Coalition of the ACT and receives support from the ACT Government.

This report presents new research from the consortium that investigates housing affordability in the rental and mortgage markets in the ACT. With restricted supply of public and community housing, the private rental market is widely viewed among policy makers as the preferred long term housing solution for lower and moderate income households.

The private rental market has historically been one part of the housing life course. Renting is most common among young adults moving out of their family home and before moving into the mortgage market. At the time of the 2011 Census, 46% of people aged in their twenties were renting in the private market (see Chart 1). This progressively declines with age to 18% of people in their forties and 6% in their sixties.

Nevertheless, the private rental market in the ACT is an important housing option for lower and moderate income households. At the time of the 2011 Census, 37% of households (in private dwellings) with gross income less than \$31,200 per year lived in public or community housing (see Chart 2). A large proportion of these households also owned their home outright (39%), driven in particular by older, retired singles and couples.

The private rental market becomes increasingly important for moderate income households. The proportion of households in private rent increases from 14% of households with gross income less than \$31.2k per year to 23% with income between \$31.2k-52.0k, 31% with income between \$52.0k-78.0k and 30% with income between \$78.0-104.0k.

The private rental market houses different household types. Single (23%) and couple (25%) person households made up almost one half of all households in private rental housing in the ACT at the time of the 2011 Census, while group households made up 16%. Single parent (10%) and couple parent (25%) family households made up just over one third of all private rental households. The average size of private rental households is approximately 2.5 people per household, compared with 3.0 people in mortgage households and 2.2 people among households that own outright.

Chart 1: Tenure types, ACT, 2011 Census

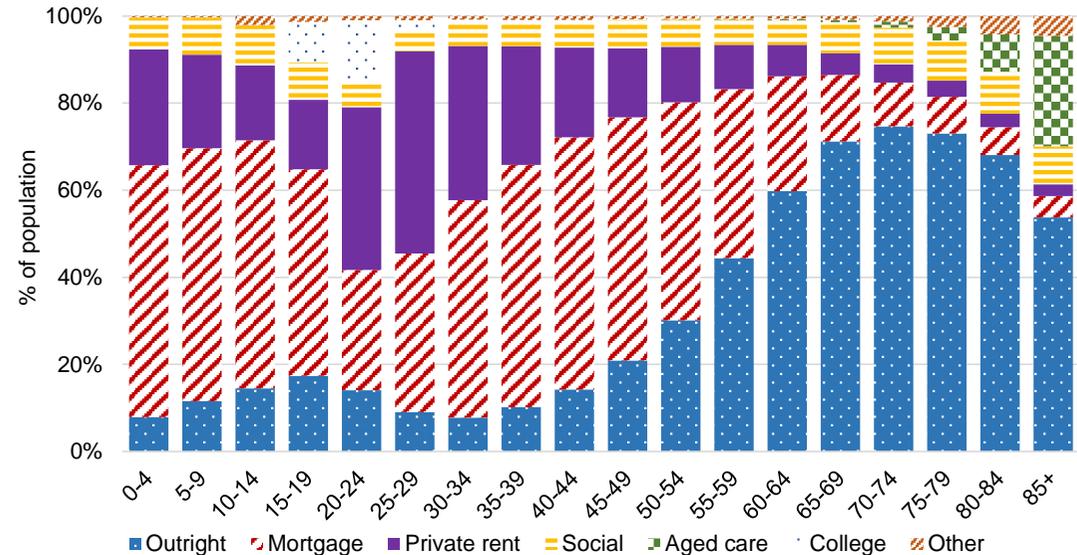
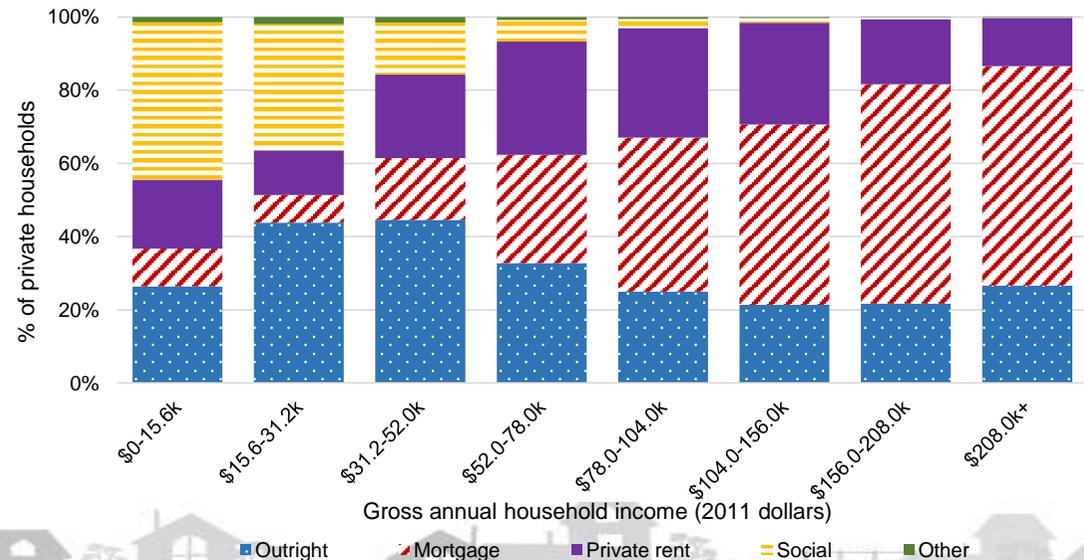


Chart 2: Tenure types, ACT, 2011 Census



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From the early 2000s until 2010, house prices grew rapidly in the ACT (Chart 3). Between September 2003 and March 2010, the ABS Residential Property Price Index for the ACT increased by 51% for established houses and 42% for attached dwellings, 2.4 and 2.0 times the rate of general inflation (as measured by the Consumer Price Index (CPI)) respectively.

Since 2010, average house prices have stabilised and fallen in real terms. Between March 2010 and September 2014, the Residential Property Price Index increased by 2.0% for established houses and 1.2% for attached dwellings, compared with 10% growth in the CPI. Average prices for established houses and attached dwellings have thus fallen in real terms by 7.6% and 8.3% respectively since March 2010. Over the longer term though, average prices have grown in real terms by 15% for established dwellings and 8.3% for attached dwellings since September 2003.

Average rents grew steadier for longer, peaking in mid-2013 before falling slightly. The rent component of the ABS (2014d) Consumer Price Index (CPI) grew by 60% between September 2004 and June 2013, twice as fast as general inflation. Since 2013, average rents have fallen in nominal and real terms, falling by 5.8% in real terms between June 2013 and March 2015. Real average rents have nevertheless grown substantially over the last 11 years, growing by 16% between September 2003 and March 2015.

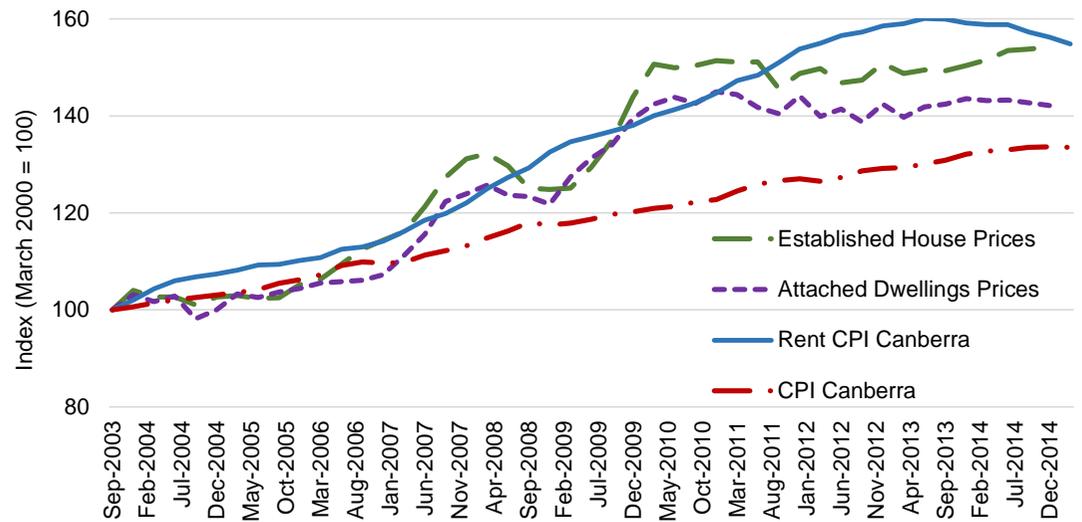
The Housing and homelessness consortium commissioned a survey in November 2014 to investigate the distribution of housing costs across income groups. Lower income households in the ACT, on average, pay more in rent and mortgage payments than their capacity to pay. Chart 4 shows the demand curves for the ACT, according to what households actually pay on average and their capacity to pay, which is assumed to be 30% of gross household income.

Currently, an estimated 79,600 households in the ACT earn over \$78,400 per year in gross household income and pay rent or a mortgage. Rent and mortgage payments for these households are within their capacity, on average. Households with income less than \$78,400 are estimated to pay, on average, more than their capacity to pay, which applies to an estimated 27,600 households.

Public and community (social) housing plays an important role in reducing housing stress levels among very low income households. The restricted supply of social and affordable housing though creates inequities among low income households between those inside and outside social housing.

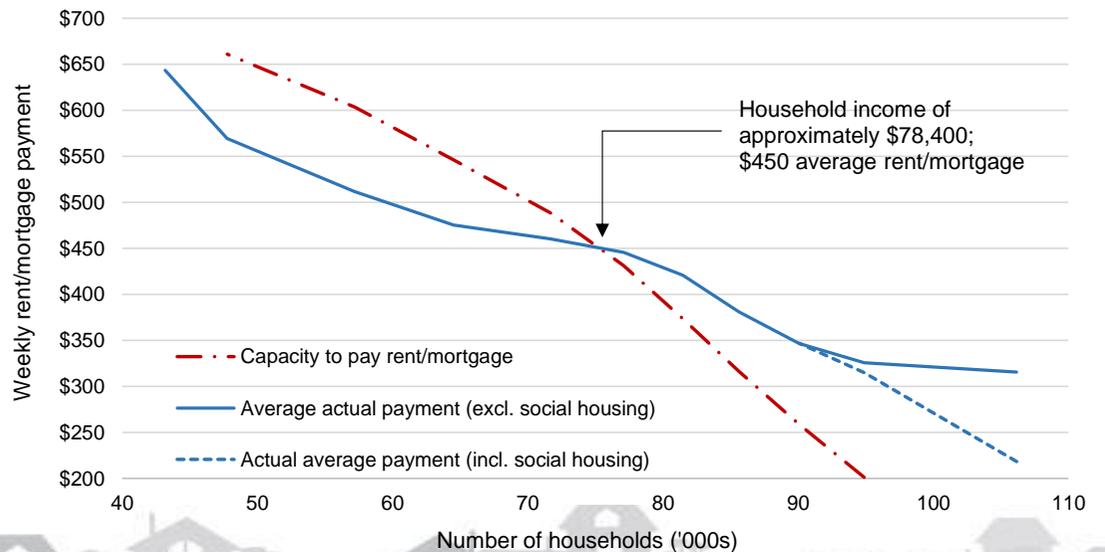


Chart 3: House and rent prices, Canberra, 2003-2015



Source: ABS (2015) Residential Property Price Index; ABS (2015) Consumer Price Index, Canberra

Chart 4: Demand for housing in the ACT, Nov-2014



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Survey results indicate that lower income households in the ACT pay less in rent and mortgage payments than high income households, though a substantially higher proportion of their gross household income. The availability of affordable housing in the ACT, particularly public and community housing, means that very low income households earning less than \$40,000 per year, pay on average \$227 per week in rent. See Chart 5.

Renting households in moderate income brackets pay substantially more, on average, per week. Indeed, average weekly rent payments are not significantly lower than average mortgage payments in the same income groups. The proportion of gross income spent on rent or mortgage payments is reasonably similar within income groups (see Chart 5). For many of these households, though, the difficulty of raising a home loan deposit while paying rent is a considerable barrier to home ownership.

The large gap in average rents between the lowest and second lowest income groups may well identify a gap in the supply of affordable rental housing in the ACT. The difference between rents in social housing and the private rental market, in particular, may impose barriers for people looking to exit social housing and supported accommodation into the private market. It may also disincentivise participation in lower wage occupations where it disqualifies individuals and households from social and affordable housing.

The following page compares renters, owners and mortgagees against various measures of housing and financial stress. Chart 5 compares the proportion of households facing housing stress under the 30/40 rule (paying >30% of gross income in rent/mortgage payments and with household income in the bottom 40% of household income) and experiencing difficulties making rent/mortgage payments in the last 3 months. Chart 6 compares the proportion of households who reported compromising on areas of household expenditure in the last 12 months due to financial pressures. Charts 7 and 8 compare average gross income per household and per household member respectively in different income groups after deducting rent/mortgage payments.

Renters are most likely to experience housing stress and difficulties meeting housing costs (Chart 5) and are more likely to have been forced to compromise in the last 12 months due to financial pressures (Chart 6). Moderate income renters with gross household income of \$40-69k per year have less in gross income per household (Chart 7) and per household member (Chart 8) after paying housing costs than mortgagees in the same income bracket.

Chart 5: Average rent/mortgage payments, ACT, Nov-14

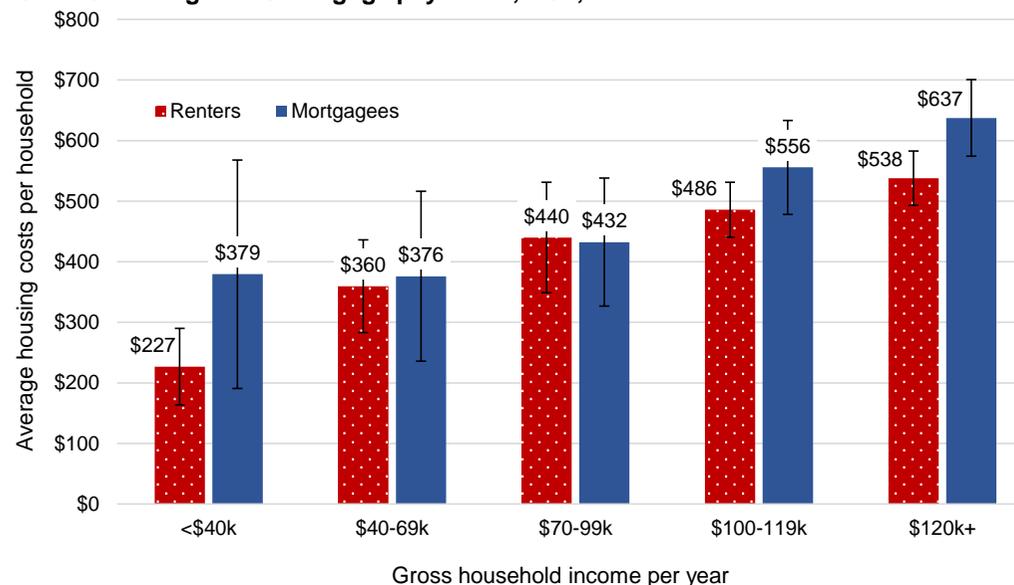
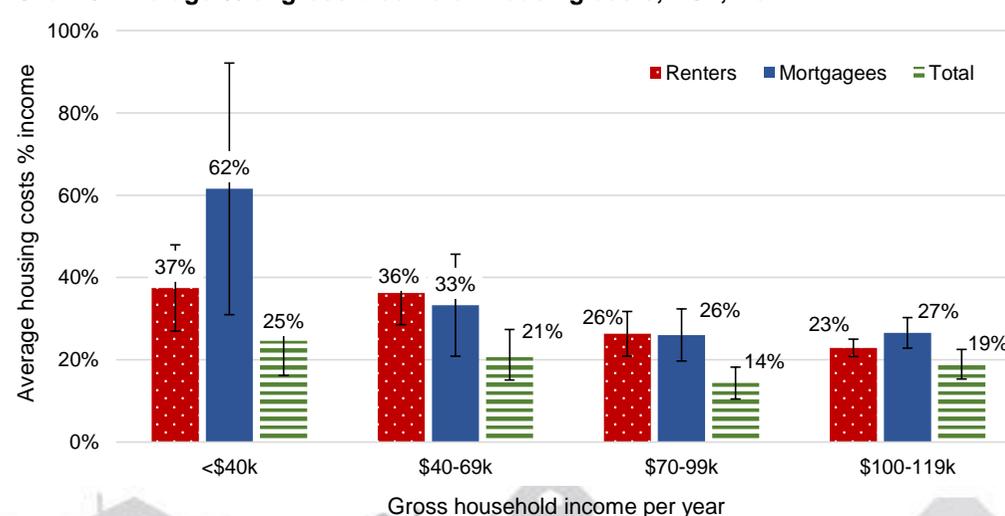


Chart 6: Average % of gross income on housing costs, ACT, Nov-14



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Chart 7: Household stress and difficulties

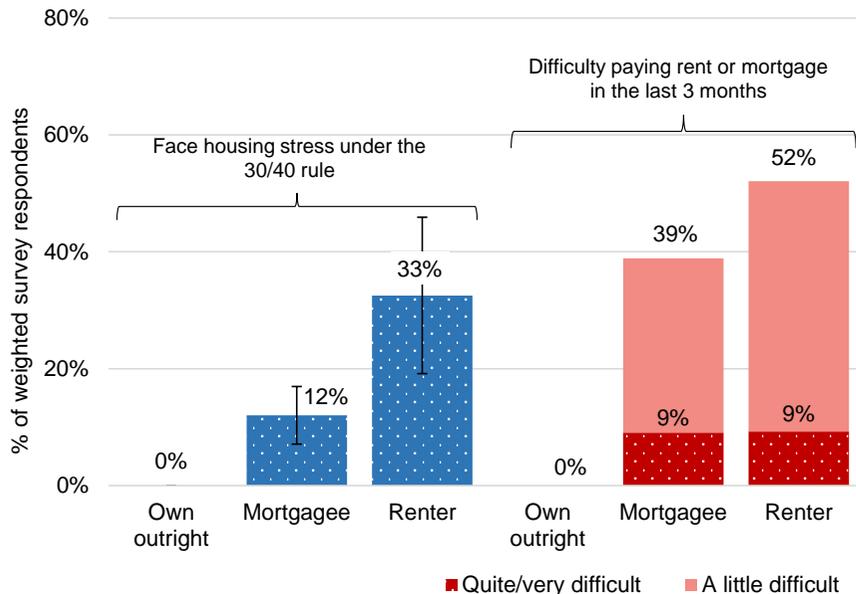


Chart 8: Household compromises in the last 12 months

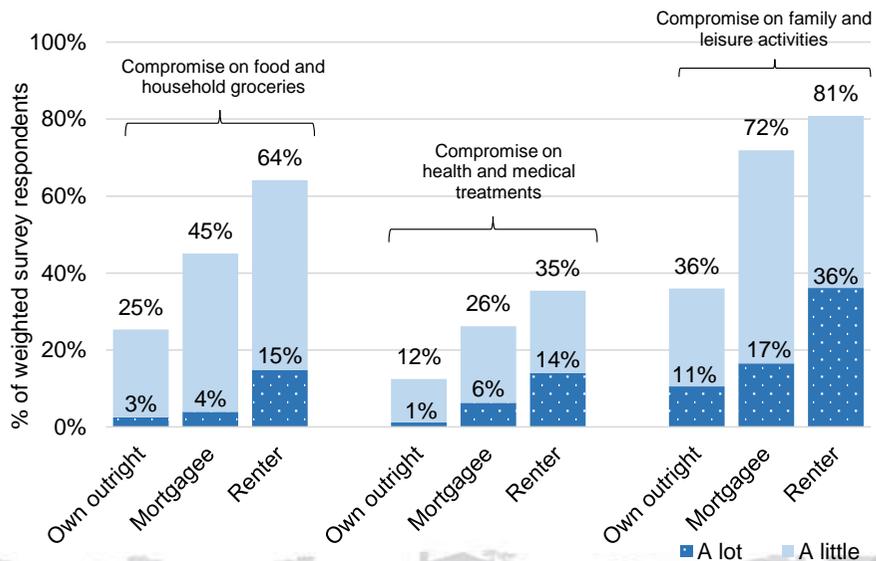


Chart 9: Average gross income per household after housing costs

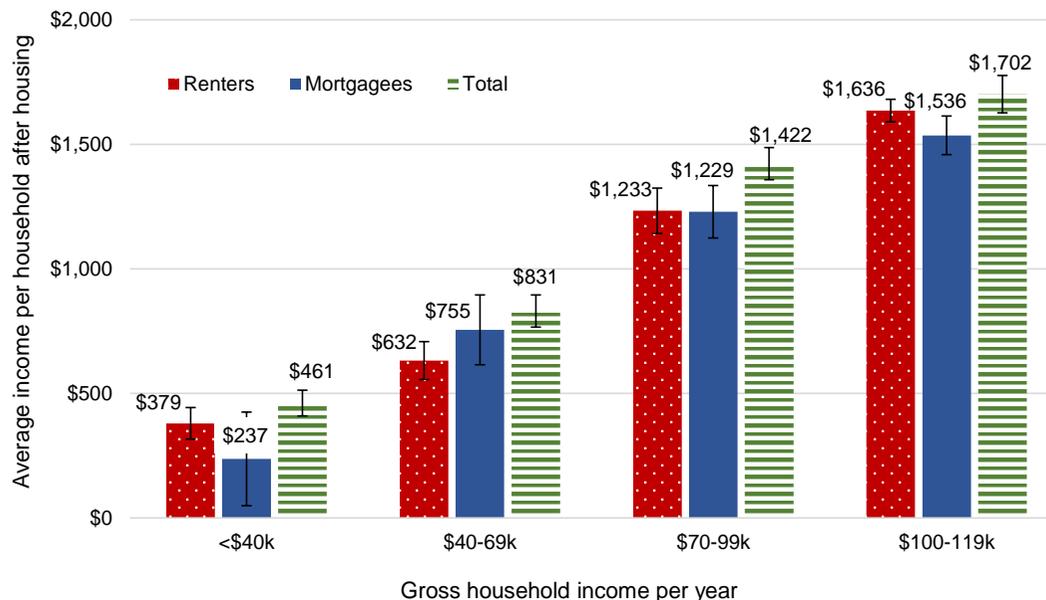
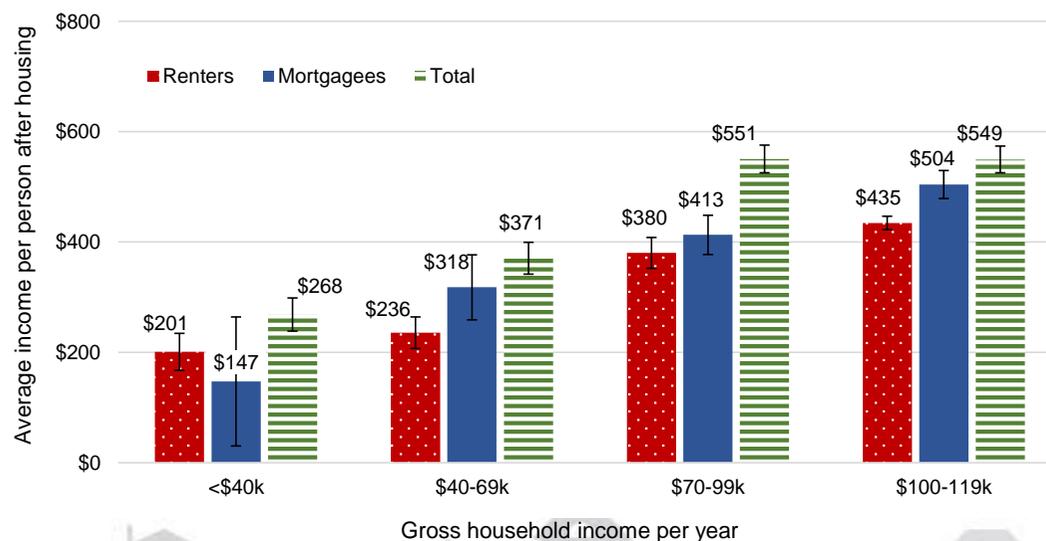


Chart 10: Average gross income per person after housing costs



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The increasingly common view that private rental ought to provide a long term housing solution for lower and moderate income households raises questions as to how well the current rental market is able to affordably house these households over a long period.

A demographic life table model known as the Sullivan's method was used to estimate the average number of years a hypothetical person would face living in housing and financial stress. The person is assumed to face the same risk of stress at each age that was recorded in the survey. The number of years in stress was calculated for the average person moving in and out of different housing types and for the average person that spends their working life between age 20 and 64 years in the private rental market.

The average person in the private rental market spends longer in housing and financial stress. In the ACT, males spend an estimated average of 5 years and females 7 years living in housing stress under the 30/40 rule between the ages of 20 and 64 years. However, males and females who spend those years solely in the private rental market spend an average of 13 years and 16 years respectively in housing stress.

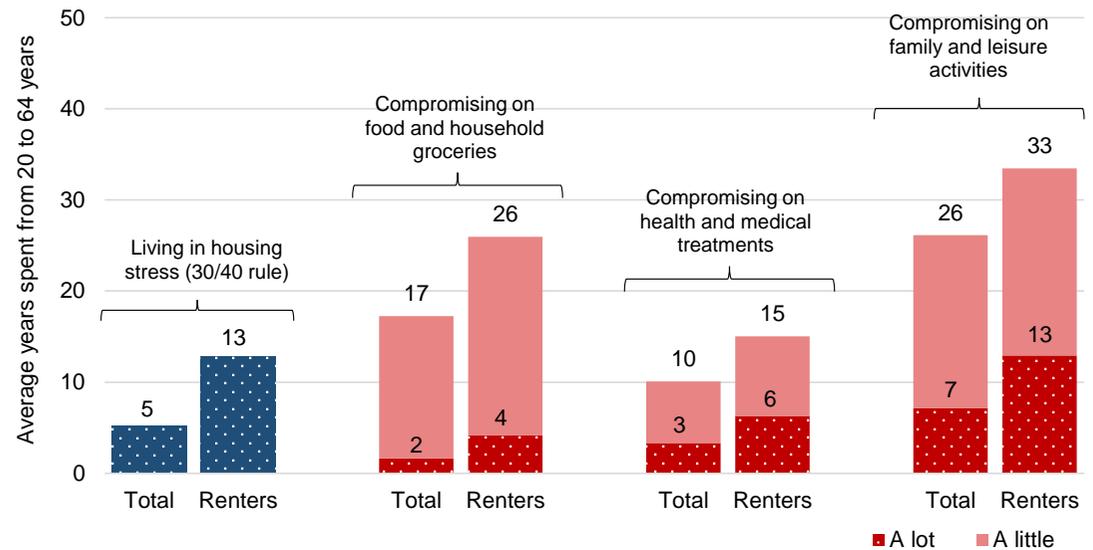
Private renters are also estimated to spend more years in which they are forced to compromise at some point on household expenditure due to financial pressures. Male and female renters spend 4 years and 12 years respectively, on average, in which they compromise a lot on food and household groceries at some point, compared with an average of 2 years and 4 years for all males and females.

These results are not just a reflection of the current rental market in Canberra. To a large extent, they reflect the fact that in each age group, renters are more likely than homeowners to be in lower income households. Housing and financial stress, in that sense, is at least as much a consequence of lower incomes as high housing costs.

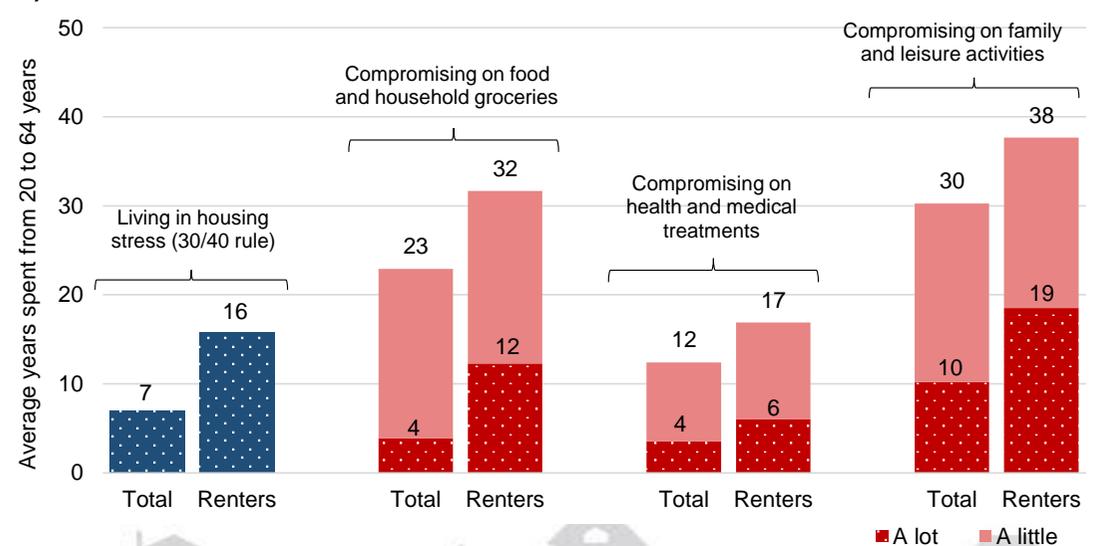
For the private rental market to be a long-term housing solution for lower and moderate income households, therefore, the private rental market needs to adapt to improve the range and quality of affordable rental options. Community housing and CHC Affordable Housing already provide existing vehicles for expanding these options in the ACT, though are constrained by a lack of supply. Greater involvement of institutional investors in the affordable rental market and greater support and protections, including against large rent increases, for tenants through the Residential Tenancies Act can also assist to develop a rental market suitable for lower income households.

Chart 11: Average years spent in stress, ACT

a) Males



b) Females



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On 18 and 21 January 2015, ACT Shelter in partnership with United Voice conducted two focus groups to explore housing and labour market issues in the ACT. Across the two focus groups, there were 12 participants, in addition to Lyndal Ryan, ACT Branch Secretary of United Voice, Travis Gilbert, Executive Officer of ACT Shelter and James O'Donnell, Policy and Research Officer for ACT Shelter and the consortium. Among the 12 participants, there were ten males and two females across a diversity of age groups. All participants are currently engaged in the labour force, either employed or currently looking for work. There were participants working in private security, childcare and early education, hospitality and horticulture.

Across the two focus groups, participants offered a collective perspective on how the Canberra housing market, particularly the rental market, has changed in recent years.

All of those participants who are currently renting or paying board indicated a strong preference for buying their own home. All participants have or are looking to put down long-term roots in Canberra, so value the permanency, security and wealth-generation aspects of owning their home. Renting, by contrast, is largely seen as a transitional state, or one forced upon individuals without the means to buy a home. A number of participants are actively saving for a deposit, though all struggle to save enough while also paying rent or board.

Participants are aware that house and rental prices in Canberra have come down from very high peaks in recent years. However, the costs and practicalities of moving and connections to their local area make it difficult for individuals and families to move in search of cheaper accommodation. For a number of participants, their current housing situation already represents the most affordable and practical option available to them. Affordability and competition for rental properties remain as issues even in the current market. In terms of practicalities, housing quality, transport and proximity to work and school and neighbourhood safety were the most important issues.

A shortage of permanent jobs and the increasing predominance of temporary and contract work in high and lower skilled occupations has important implications for housing in the ACT. Reliance on temporary and short term contracts impedes the ability of people to commit to rental leases, save for rental bonds and mortgage deposits, access mortgage finance and meet repayment commitments over the long term. New labour force entrants, including young people leaving school and tertiary education, are particularly affected. Many of the participants with permanent jobs work more than full-time hours, with a number holding more than one job, in order to save for a home loan deposit while also paying rent.

Participants are aware that public housing in Canberra is much more difficult to access now than in years past. For the great majority of working participants, they would prefer not to be in public housing, but there is a recognised large gap in affordability between public housing and the private rental market. Participants understand the role of community housing in filling that gap, particularly CHC Affordable Housing. Participants not expecting to be able to buy a home struggle though to access community housing due to a perceived shortage of dwelling supply.

"I want to have my own house and I don't want to flush my money into a toilet. Each time I pay my rent, I'm flushing it away."

"And another thing with the quality of the house. It's horrible."

"I've given up on the dream of buying a house because it's not within the realm of plausibility."

"We did go to the bank at one stage to look at buying, but there's no way we could save up for a deposit."

"I'm finding that rents are definitely dropping. I would estimate if somebody said 15 to 20% I wouldn't argue. Landlords who don't renegotiate with their tenants at the end of the leases will simply lose them because they'll go somewhere else."

"To anyone that's currently in a long term rental or with a private landlord or real estate agent or that sort of thing that hasn't seen a reduction in their rents at the end of their lease tell them to talk to their landlord if they're in direct contact with them or the real estate agent and say we want a rental review."

"Recently, my wife has started looking for cheaper places in the neighbourhood. And the cheap ones go quickly. It tends to be the overpriced ones that hang around for a while."

"When I first came to Canberra I was looking around the Watson area... That would have suited me fine. But looking at the prices, not only to buy but to rent a 2 bedroom apartment or townhouse or whatever you call them. It's part of the inner city they tell me, so inner city prices."

"I think of all the casuals in hospitality, there's a lot of people who the first part of their working life looks like a series of casual, temporary jobs around the place. So I think that delays the ability for people to get their first rental property – not that their ambitions are so great, there's just not the permanent jobs out there that there were."

"...the thing that stops them from actually moving to the next step whether that's a group house or paying rent is actually they can't commit to that. They'd lose their bond. If they could raise their bond, they would lose it at the time they lost their job. So that feels like a really big risk for them."

