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Article: Renter households

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Renter households

In 2005–06, 59% of lone parent households with dependent children were renting, almost three times the rate of couples with dependent children.

Home ownership is a widely held aspiration in Australia with renting commonly viewed as a transitory phase in one's housing 'career'. Owner-occupier households are seen to enjoy a number of benefits that may not be available to renters such as greater locational stability and the accumulated wealth present in the property.¹ While renting is often associated with low income, living in a rented home can also be seen as a cost-effective alternative to home ownership. The advantages of renting include greater flexibility of lifestyle and the opportunity to invest money elsewhere.¹

This article examines selected characteristics of renter households such as household composition, life course stage, and relative income level. It also looks at changes in rental costs over time.

Trends in renter households

The proportion of Australian households renting increased slightly from 26.9% of all households in 1995–96 to 28.5% in 2005–06. This article focuses on those households renting from private landlords (over 1.7 million households in 2005–06) and those renting from state/territory housing authorities (369,000 households). A further 147,000 households (2% of all households) were renting from other landlords such as employers (e.g. the Defence Housing Authority). In 2006, about 34% of renter income units were in receipt of Commonwealth Rent Assistance.²

Data sources and definitions

Most of the data in this article are drawn from the ABS Survey of Income and Housing (SIH). The Census of Population and Housing and the ABS General Social Survey are also used to provide information on the mobility of renters.

Renter households are those households which pay rent to live in a dwelling. These are classified according to the following landlord types:

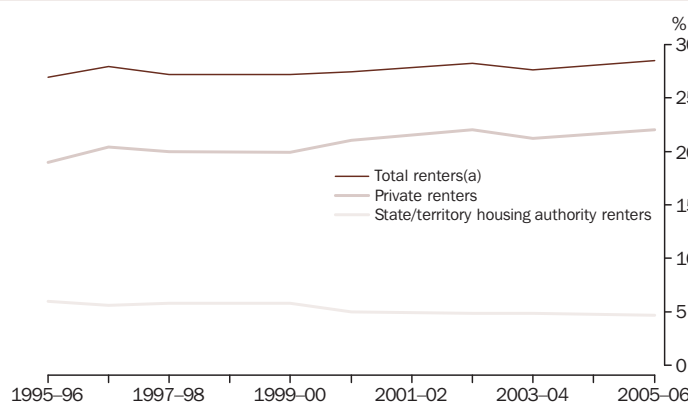
- ◆ *Private landlord*: the household pays rent to a real estate agent or to another person not in the same household.
- ◆ *State or territory housing authority*: the household pays rent to a state or territory housing authority or trust.
- ◆ *Other landlord*: the household pays rent to the owner/manager of a caravan park, an employer, a housing co-op, a community or church group, or any other body not included elsewhere.

An *owner-occupier* household is a household in which at least one member owns the dwelling in which they live, either with or without a mortgage.

The household *reference person* in the Survey of Income and Housing is selected by applying the following criteria, in the order listed, to all individuals aged 15 years and over in a household until a single appropriate reference person is identified: one of the partners in a registered or de facto marriage, with dependent children; one of the partners in a registered or de facto marriage, without dependent children; a lone parent with dependent children; the person with the highest income; and finally the eldest person.

Housing costs comprise: rent payments, rates payments (general and water) and mortgage or unsecured loan payments (where the purpose of the loan was to buy or alter the dwelling).

Proportion of households renting — 1995–96 to 2005–06



(a) Includes households renting from other landlords.

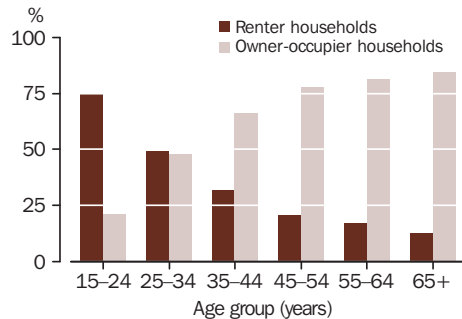
Source: ABS Surveys of Income and Housing.

In the ten years to 2005–06 the proportion of households renting from state/territory housing authorities remained relatively stable, at close to 5% of all households. Over the same period the proportion of households renting privately increased from 19% to 22%.

Age

Renters tend to be a younger group than owner-occupier households. In 2005–06 the median age for renters (based on the age of the household reference person) was 37 years, which was 15 years younger than the median age for owner-occupier households (52 years).

Household tenure(a) and age of reference person — 2005–06



(a) Components do not add to 100% as graph excludes other tenure types.

Source: ABS 2005–06 Survey of Income and Housing.

In 2005–06, three-quarters of households with a reference person aged 15–24 years were renter households, similar to the level in 1995–96. The proportion of households renting decreased with age. There was little change in the proportions of households which were renters for most age groups over the ten years to 2005–06. The exception was the 35–44 years group. The proportion of these households which rented increased by five percentage points, from 27% in 1995–96 to 32% in 2005–06.

Life course

The rental rates of different life course groups broadly reflect the age pattern for renting, but also reflect household composition, with higher rates of renting among unpartnered people.

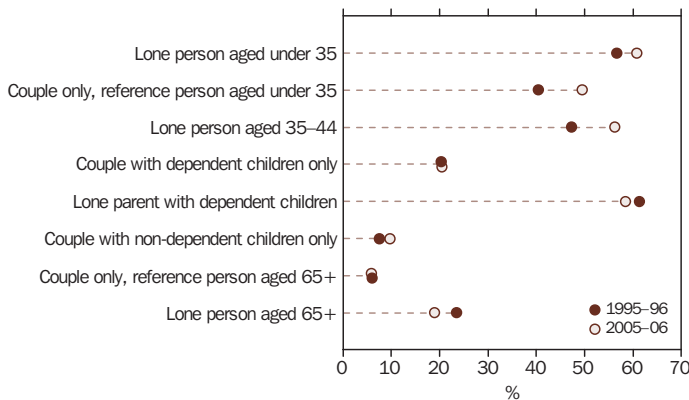
In 2005–06, young lone person households (reference person aged less than 35 years) were the most likely of all the selected life course groups to be renters (61%). Half (50%) of all young couples without children were renters.

Lone person households aged 35–44 years were more likely to be renters (56%) than owner-occupiers (44%), with the rental rate for this group increasing by nine percentage points between 1995–96 and 2005–06. Over this period, the rate of renting among lone male households aged 35–44 years increased from 44% to 59%, while about half of lone female households in this age group were renting in both periods (52% and 49%, respectively).

In 2005–06, 59% of lone parent households with dependent children were renting. This was almost three times the rate (20%) of renting among couples with dependent children and reflects the relatively lower household incomes of one parent families. Lone parents with dependent children were also the most likely of all life course groups to be renting from a state/territory housing authority (15%, compared with 3% for all other households).

Households in the later life course stages are more likely to be living in their own home than renting. Older couple-only households were the least likely of all life course groups to be renters. In 2005–06 less than 6% of all couple-only households aged 65 years and over were renting, compared with 19% of lone person households aged 65 years and over. Older lone person households were also the second most likely of the selected life course groups to be renting from state/territory housing authorities (8% in 2005–06).

Renters as a proportion of all households: selected life course groups

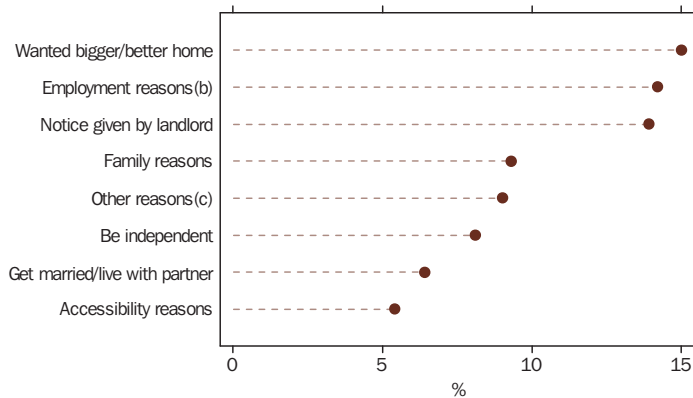


Source: ABS 1995–96 and 2005–06 Surveys of Income and Housing.

Renter mobility

In 2006, renters were three times more likely than owner-occupiers to have changed address within the previous 12 months. At the 2006 Census, 35% of people who were renting had lived at a different address within the last year, compared with only 10% of owner-occupiers. Further, 63% of all renters said that they had lived at a different address five years previously. Census data indicates higher rates of mobility among people in renter households with certain characteristics. Among renters aged 18–24 years, just over half (52%) had lived at a different address within the past year and 69% had lived at a different address in the past five years.

Renters(a): main reason for last move — 2006



(a) Who moved in last five years.

(b) Includes gained or lost a job, transferred job or moved to improve employment prospects.

(c) Includes reasons such as wanted lifestyle change or change of neighbourhood.

Source: ABS 2006 General Social Survey.

Renting is often considered to be a less attractive form of housing tenure than home ownership, as renters are less likely to have security of tenure in their residency. On the other hand, renting is also associated with flexibility, and renters may choose to move for lifestyle or employment reasons.

Data from the 2006 General Social Survey (GSS) show that about three-quarters (76%) of people aged 18 years and over who were renting in 2006 had changed address in the previous five years. These renters moved house for a variety of lifestyle and employment-related reasons. Among people aged 18 and over who were renting in 2006 and had moved in the last five years, 15% said their main reason for moving was because they wanted a bigger/better home and 14% had reasons related to employment such as gaining a job or improving their job prospects. Independence (8%), to get married/live with partner (6%) and accessibility (5%) were some other main reasons given by those renters who had moved. Independence was reported as the main reason for moving by 16% of renters aged 18–24 years.

Moving house as a result of notice given by a landlord was also one of the main reasons for changing address, given by 14% of movers.

Income distribution

Housing tenure type is likely to be influenced by household income as well as life course stage. In general, lower income is associated with higher rates of renting, and as income rises the likelihood of renting falls. The general exception is for households where the reference person is aged 65 years and over. In these older households, tenure type is less

related to household income as the majority of retired Australians live on considerably reduced incomes, yet older households (65 years and over) are the most likely of all age groups to own their own home outright.

Of all households with a reference person aged under 65 years in 2005–06, almost one-third (32%) were renting. This was consistent with households in the middle income quintile, where 30% were renters. By comparison, around one-half (49%) of households in the bottom quintile of household incomes were renting, and less than one-quarter (23%) of high income households (in the top quintile) were renters. The proportions of renters across the income distribution were similar to 1995–96.

...high income renter households

Although it is often the case that renting is associated with lower income, there are a considerable number of high income households which by choice or circumstance are renting. High income households are defined as those households in the highest quintile (20%) of equivalised disposable household income (i.e. income adjusted to take account of differing household size and composition). In 2005–06 there were 349,100 high income renter households (15% of all renters).

High income renters tended to be younger households than other renters. In 2005–06 half of high income renter households were aged less than 34 years (based on the age of the household reference person) compared with 38 years for all other renter households. High income renter households were also less likely to have children present, with just 15% having children aged less than 15 years compared with 36% for all other renter households.

Proportion of renters in income quintiles: households with reference person aged under 65



Source: ABS 1995–96 and 2005–06 Surveys of Income and Housing.

High income renter households, selected characteristics — 2005–06

| | Units | High income renter households(a) | Non-high income renter households(b) | All households |
|---|--------|----------------------------------|--------------------------------------|----------------|
| Median age of household reference person | years | 34.2 | 38.4 | 47.9 |
| Had children aged less than 15 years in household | % | 14.6 | 36.2 | 34.1 |
| Owned other residential property | % | 25.4 | 6.9 | 16.8 |
| Mean net worth | \$'000 | 289.2 | 86.6 | 562.9 |
| Households | '000 | 349.1 | 1 911.9 | 7 926.2 |

(a) Households in top quintile of equivalised disposable household income.

(b) Households from the first to fourth quintile of equivalised disposable household income.

Source: ABS 2005–06 Survey of Income and Housing.

High income renters were also considerably wealthier than other renters. In 2005–06, the mean net worth (value of a household's assets less liabilities) of high income renter households was \$289,000 compared with \$87,000 for all other renter households. Contributing to this wealth, one-quarter (25%) of high income renters owned a residential property, compared with 7% of all other renters. The proportion of high income renter households owning a residential property was higher among older households, with 38% of those aged 45 years and over owning a property compared with 19% for those aged less than 45 years. Some property-owning renters may own property as an investment, while others may own a home but be renting elsewhere to take up employment opportunities in the short to medium term.

A number of high income renter households also had shares. In 2005–06, 19% of high income renter households had over \$10,000 worth of shares compared with only 3% of middle income renter households (i.e. households in the third quintile of equivalised disposable household income).

Housing costs

Housing costs are a major component of total living expenses. The income left over after housing costs are met is an important indicator of how much money households have left for other things.

Despite increases in housing costs over the last decade, the incomes of renters after paying housing costs have increased in real terms. In 2005–06 average housing costs for private renter households before deducting CRA receipts were \$224 per week; this had increased in real terms from \$190 per week in 1995–96, an average annual rate of increase above inflation of 1.7%. However, the average incomes of renters increased over the period at a faster average rate (2.2%) than their housing costs. The net result was a real

increase in the average income after housing costs of renters, from \$570 to \$720 per week (or 2.4% per year).

In comparison, owner occupier households with a mortgage had a real average increase of 2.8% in income after housing costs from \$784

Government assistance for renters

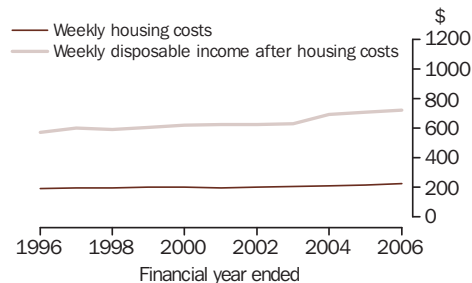
Since the mid 1980s there has been a change in policy on the provision of government assisted housing with a move from low-cost public housing to an increased emphasis on subsidising private rental accommodation. Commonwealth Rent Assistance (CRA) was introduced as a non-taxable income support payment designed to help people on lower incomes who rent in the private market. In the ten years to 2006–07 Commonwealth government expenditure on CRA increased by 12% in real terms, from \$1.9 billion in 1997–98 to \$2.2 billion in 2006–07. In addition there was expenditure of \$1.3 billion on Commonwealth State Housing Agreement (CSHA) programs in 2006–07, just over 70% of which was provided by the Commonwealth government, with the remainder provided by state and territory governments.³

CRA reimbursement amounts to households have not been separately identified in the SIH. As a result care should be taken when analysing and comparing housing costs relative to income for different types of households. This is illustrated by the following example. Two households are renting their dwellings, both receive government pensions of \$400 per week. One household rents from a public housing authority and pays rent of \$100 per week. The other pays \$135 rent per week to a private landlord and receives CRA of \$35. In the SIH the housing costs of the latter household would be recorded as \$135 and their income recorded as \$435. The couple renting from a public housing authority has a housing costs to income ratio of 25%. The housing costs to income ratio for the household renting privately would be derived as 31%. If CRA receipts are deducted from housing costs and income, the ratio for the latter household is also 25%, highlighting that there is no substantive difference between the housing costs or income situations of the two households.

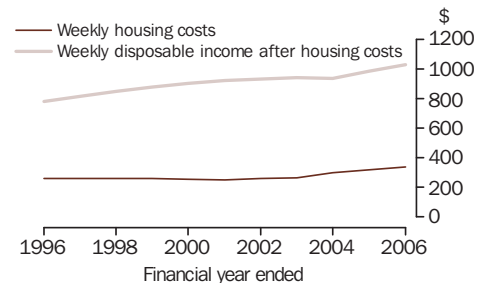
Source: *Housing Occupancy and Costs 2005–06* (ABS cat. no. 4130.55.001).

Mean weekly housing costs and disposable household income after housing costs(a)

PRIVATE RENTER



OWNER WITH A MORTGAGE



(a) In 2005–06 dollars.

Source: ABS Surveys of Income and Housing.

to \$1,031 per week. In other words, owner occupiers experienced a faster increase in their income after paying housing costs than did renters, due in part to the faster growth in average household incomes of owner

occupiers (2.7% per year). It is worth noting that, reflecting lifestyle choices, owner occupiers may exercise a degree of choice about the type of house they want and size of mortgage they are willing to service (see also *Australian Social Trends 2008*, First home buyers pp. 179–183).

Rental vacancy rates

Information on the proportion of rental properties vacant in capital cities is collected by the Real Estate Institute of Australia (REIA). The population weighted average of the eight capital cities shows the level of vacancies has moved cyclically over the 20 years to 2008. Between the March quarter of 1988 and the peak in the November quarter 1993, the vacancy rate more than doubled from 1.8% to 4.6%, before declining to a low of 1.5% in the June quarter 1997. Vacancy rates subsequently rose, averaging 3.8% between the September quarter 2001 and December 2003. From that period, the vacancy rate has undergone another decline to be 1.5% in the March quarter 2008, although the lowest level was 1.3% for the March quarter 2007.

In the 12 months to March 2008, Sydney had the lowest average vacancy rate of 1.2%, while the vacancy rate in Adelaide was 1.4%. Vacancies were also low in Melbourne (1.5%), Brisbane (1.8%), and Perth (1.9%).

Weighted average of capital city rental vacancy rates



Source: REIA quarterly vacancy rates, ABS Estimated Resident Population.

...among lower income renter households

Households with lower incomes are generally more sensitive to rising housing costs than other households. Lower income households are defined as those with equivalised disposable household income in the second, third and fourth income deciles. In 2005–06, 32% of all renter households were classified as lower income households, and around three-quarters (74%) of these lower income renters were renting from a private landlord.

Over the ten years to 2005–06, average weekly housing costs for lower income private renter households increased from \$162 in real terms to \$194 (before deducting CRA receipts), an average annual increase of 1.8%. However, as with all renters, the disposable incomes of lower income renters increased at a faster rate (2.7%). The net result of the faster growth in incomes relative to housing costs meant that lower income renters had a real increase in their after housing costs incomes from \$307 to \$421 per week in the ten years to 2005–06, equivalent to a 3.2% average annual increase.

Looking ahead

The cost of renting has risen over the past year. During the 10 years to March 2007, the rents component of the Consumer Price Index (CPI) rose at an average rate of 2.8% per year comparable with the corresponding rate of increase in overall inflation (2.6%).

In the 12 months to March 2008, however, the rents component rose by 7.1%, outstripping the increase of 4.2% in overall inflation.⁴

Recent government initiatives to increase the supply and affordability of rental accommodation include the National Rental Affordability Scheme, designed to encourage private sector investment in rental housing.⁵

When released next year, data recently collected in the 2007–08 ABS Survey of Income and Housing will enable the characteristics and financial circumstances of renters to be updated and further analysed.

Endnotes

- 1 Baum, S and Wulff, M 2001, *Housing aspirations of Australian households: positioning paper*, Australian Housing and Urban Research Institute, Melbourne.
- 2 See *Australian Social Trends 2008*, 'Housing: national summary', page 168, indicator 33. Note that CRA data are provided for income units.
- 3 Steering Committee for the Review of Government Service Provision 2008, *Report on Government Services*, viewed 22 April 2008, <<http://www.pc.gov.au/gsp/2008/housing>>.
- 4 Australian Bureau of Statistics 2008, *Consumer Price Index, Australia, March quarter 2008*, cat. no. 6401.0, ABS, Canberra.
- 5 Australian Government 2008, 'Budget Measures 2008–09', *Budget paper no. 2, Expense Measures: Families, Housing, Community Services and Indigenous Affairs*, viewed 15 May 2008, <<http://www.budget.gov.au/2008-09/content>>.

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