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Opinion piece for ‘The Age’ newspaper

‘Let’s get real about renting’

We have been hearing a lot recently about housing affordability. Much of the discussion in the media and elsewhere has been about the effects of high, and increasing, apartment and house prices. There is no doubt that these make it hard for some people to achieve their dream of home ownership, particularly younger people and first home buyers.

We hear rather less about problems faced by people who rent their housing. This is despite evidence that almost half a million renter households are in ‘housing stress’, or almost a quarter of Australia’s two million renter households. People have to live somewhere and renting isn’t a choice; it’s a necessity. If rents are unaffordable, what can people do? They can pay high rents but not have enough money left for food and clothing; try to keep their rental costs down by sharing (or living at home); or put up with the cheapest, poor quality housing if they can find it. Increasing numbers of renters, including families, are seeking help from homelessness agencies. The St Vincent de Paul Society in its recent report, ‘Don’t Dream It’s All Over’, says that nearly half of people coming into its homelessness services across Australia are private renters in trouble.

Let’s have a look at the rental sector where the affordability crunch really hits. Housing lobby groups and governments are primarily concerned with the small and highly regulated public and community housing sector – yet fewer than one in five renter households are in this sector. More than four in five rent privately in what has been called the ‘forgotten sector’ of Australian housing. Governments are involved in this sector, indirectly via negative gearing provisions for investors and directly through rent assistance payments to some low income households and the regulation of residential tenancies. There has, however, been little debate about making these more effective.

So what could be done to address some of the problems faced by renters? First, increase investment in affordable rental housing. The federal ALP has announced that it will introduce a National Affordability Rental Scheme if elected. This envisages a mixture of federal tax incentives and in-kind financial support from the states to encourage institutional investors to provide rental housing at below market rents. This seems to be based largely on a scheme which has been very successful in the US in creating an additional 1.4 million units of ‘affordable’ rental units since the late 1980s. It is certainly worth a try and the lesson from the US is that bi-partisan support over a long period is critical to making a difference. It is also worth having a rational debate about targeting negative gearing to try and encourage the supply of affordable rental housing, without some of the hysteria which has surrounded this topic in the past.

Second, what about the ‘mum and dad’ investors who currently dominate the rental sector? Whilst these small investors have a range of motivations, many of them are interested in a secure, long term investment. They like to have some of their money in property rather than shares or other less tangible assets. Some of them would be interested in putting their properties in a scheme in which they would get a guaranteed rate of return and no worries about selecting the right tenants, tenants trashing the place, or periods without rental income. It isn’t too hard to imagine a system of ‘affordable housing providers’ who could provide this brokerage service. They would need to be accredited to provide sufficient confidence for both investors
and tenants and potentially could include both a range of organisations skilled in property management.

Third, governments can invest directly in affordable housing provision. This could be traditional style public housing or, more likely, a new breed of affordable housing providers which can be more flexible responding to local needs and conditions. These providers can also partner with other organisations to access the type of investment incentives discussed above. Government investment would recognise that some people will always have trouble in the rental market and have a long term need for decent, affordable, secure and well-managed housing, such as older Australians and people with disabilities.

Four, the federal government currently spends a whopping $2.4 billion on rent assistance payments to low income households on Centrelink payments and/or family payments. Most observers agree that this is not the best housing policy around. There is no check on the quality of housing and some of the payments go to the charlatans who run substandard and often unsafe boarding houses and various forms of substandard accommodation. At worst, these payments are an inflationary pressure on rents. Making changes is hard when almost a million recipients get the payment and the dollars are so significant, but not impossible. There are various proposals on the table so let’s get on and work out how to make the scheme work better.

Five, not all the problems of the rental market are about affordability nor are all renters on low incomes. More households are renting and for longer periods so it’s time to have another look at the laws which govern residential tenancies. At the moment, 12 month leases are the norm often with monthly renewals. This means that, even where households can afford the rents comfortably, people have to move quite frequently which is costly and often disrupts their lives, and those of their children. This is the view of the industry group, the Real Estate Institute of Victoria, which has recently suggested that the state government consider longer term leases as advantaging both tenants and private investors.

So, let’s get real about renting and recognise that problems in the rental sector are affecting the financial position, welfare and security of many Australian households. Yes, it’s complicated and there is no silver bullet. We need a balanced series of measures to increase investment, improve capacity to manage rental accommodation, rethink rental assistance payments, and bring in longer lease terms to improve security. Who knows, people might then be able to decide whether to rent or buy without the scales being tipped so much in one direction.

_Housing Week in Victoria runs from the 8-16 September_

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