HOUSING AFFORDABILITY (RENTAL)

A study for the Perth metropolitan area

Research and analysis conducted by:
Government of Western Australia Housing Authority

In association with industry experts: And supported by:
## Contents

1. Introduction .................................................................................................................. 3
2. Executive Summary ..................................................................................................... 4
3. Defining Affordability ................................................................................................. 5
   3.1 Household Income Category ................................................................................... 5
   3.2 Affordability ........................................................................................................... 5
   3.3 Sub-regions ............................................................................................................. 6
   3.4 Income groups ......................................................................................................... 7
   3.5 Data sources ............................................................................................................ 7
4. Analysis of results for Perth rental market .............................................................. 8
   4.1 Proportion of private rentals across sub-regions ................................................... 8
   4.2 Private rentals by Household Income Category .................................................... 8
   4.3 Private Rentals by Each Household Income Category (by Region) ...................... 9
   4.4 Private Rentals by Region (by Household Income Category) ............................... 11
   4.5 Private Rentals by Product Type ........................................................................... 12
5. Very Low and Low Income Households Suburb Analysis ................................. 14
6. Concluding Remarks ................................................................................................... 16
   6.1 Comment from Shelter WA ..................................................................................... 16
   6.2 Comment from REIWA .......................................................................................... 18
1. Introduction

Access to affordable housing is essential for the wellbeing of individuals, families and communities. Very low to moderate income earners are most at risk of not being able to access affordable housing. In this study, the Housing Authority shares its own internal research to shed a more detailed light on what is affordable to rent in Perth’s housing market. This includes where stock is located, its characteristics and who can afford it. It seeks to answer key questions about the type of affordable housing within an area – is it affordable, is it appropriate and is it available?

The information in this report is being used by the Housing Authority to inform its delivery of affordable housing. This is consistent with the Housing Authority’s role in providing housing to meet the needs of the community and support the economic development of Western Australia through the sale of land, the building and sale of houses, the provision of mortgage finance, the supply of rental properties and continuing partnerships with the community and private sectors.

Given the importance of affordable housing across all sectors, the Housing Authority invited the Real Estate Institute of WA (REIWA) as an industry expert and Shelter WA as a community advocate to provide commentary for the report. This can be found in Section 6.
2. Executive Summary

This report presents analysis on private rentals which have been let and reported through reiwa.com in the Perth Metropolitan Area from 1 July 2015 to 30 June 2016. Data on rentals was provided by REIWA.

Over a quarter of Perth rental households are considered very low income, however the analysis shows that affordable rental opportunities are very limited for this group. There were 52,277 private rentals reported to reiwa.com during the 2015-16 financial year, and only 3% of these were affordable to those on very low incomes. Overall, the report shows that there is a mismatch between incomes and affordable rentals. While 36% of private rental households are very low or low income, only 19% of private rentals are affordable to this group. This means many are living in housing stress or inappropriate housing.

The report analyses rentals based on sub-regions of Perth as defined by REIWA. Rentals in Perth were unequally distributed throughout the sub-regions. The Central sub-region had the highest number of rental listings (53%) while the Peel region had the lowest, at just 5%.

Because of the large proportion of rental stock located in the Central sub-region, it has the largest proportion of affordable rentals for each income group. This also reflects the diversity of stock within the sub-region.

For households on a very low income, 65% of affordable rentals were located in the Central sub-region. The next largest proportion was 11% located in the Peel sub-region. For low income households, 49% of affordable rentals were located in the Central sub-region, followed by 14% each in the Peel and South West sub-regions.

The lack of affordable rentals is an issue throughout Perth. Out of all the sub-regions, the Peel sub-region had the highest proportion of its rentals affordable to lower income groups with 7% of its rentals affordable to very low income households and 29% affordable to low income households. The Central sub-region had the largest proportion of its rentals only affordable to high income households at 12%.

A lack of diversity is contributing to affordability issues. The Perth rental market is heavily weighted towards larger properties, with over 70% of rentals having three bedrooms or more. Smaller properties (two bedrooms or less) were concentrated in the Central sub-region, where over 80% of total two bedroom or less properties in Perth were located.

Smaller properties are more affordable to very low income households. Only 13% of properties affordable to those on very low incomes had three bedrooms or more (meaning they were suitable for larger families). For low income households, 43% of affordable properties had three bedrooms or more.
3. Defining Affordability

3.1 Household Income Category

In this report, income categories are defined using proportions of the Perth median household income. This is the standard definition used by many affordable housing providers. For the Perth Metropolitan area, the definitions for March quarter 2016 are calculated below.

<table>
<thead>
<tr>
<th>Household Income Category</th>
<th>Gross Household Income</th>
<th>Affordable weekly rental amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very low income (&lt;50% of median)</td>
<td>under $43,050</td>
<td></td>
</tr>
<tr>
<td>Low income (50-80% of median)</td>
<td>$43,051-68,880</td>
<td></td>
</tr>
<tr>
<td>Moderate Income Household (80-120% of median)</td>
<td>$68,881-$103,320</td>
<td></td>
</tr>
<tr>
<td>High income (over 120% of median)</td>
<td>Over $103,321</td>
<td></td>
</tr>
<tr>
<td>Estimated median income for Greater Perth</td>
<td>$86,100</td>
<td></td>
</tr>
</tbody>
</table>

Low income has been further divided into two categories:

<table>
<thead>
<tr>
<th>Household Income Category</th>
<th>Gross Household Income</th>
<th>Affordable weekly rental amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low income (50-65% of median)</td>
<td>$43,051-$55,965</td>
<td></td>
</tr>
<tr>
<td>Low income – upper (65-80% of median)</td>
<td>$55,965-$68,880</td>
<td></td>
</tr>
</tbody>
</table>

3.2 Affordability

For the purposes of this study, calculations have been undertaken to estimate an affordable rental price for the Perth Metropolitan Area. These estimates are based on a number of assumptions which are outlined below. One of the main assumptions is the 30% rule. That is, for households to avoid housing stress, their rental payments should not exceed 30% of their gross household income. Indicative affordability for the March quarter 2016 is shown below.

<table>
<thead>
<tr>
<th>Household Income Category</th>
<th>Gross Household Income</th>
<th>Affordable weekly rental amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very low income</td>
<td>&lt;$43,050</td>
<td>$250</td>
</tr>
<tr>
<td>Low income</td>
<td>$55,965</td>
<td>$320</td>
</tr>
<tr>
<td>Low income (upper)</td>
<td>$68,880</td>
<td>$400</td>
</tr>
<tr>
<td>Moderate income</td>
<td>$103,320</td>
<td>$600</td>
</tr>
<tr>
<td>High income</td>
<td>Over $103,320</td>
<td>$600+</td>
</tr>
</tbody>
</table>

Assumptions

Percentage of income: 30%
3.3 Sub-regions
This report splits the Perth Metropolitan Area up into six sub-regions as defined by REIWA. These regions are shown below.
3.4 Income groups

The 2011 Census is the most up-to-date data available on detailed income household groups within the community. Figure 1 shows the proportion of private rental households in the Perth Metropolitan Area that fell into each of the income groups defined in Section 3.1.

According to Figure 1 around 36% of private rental households were in the very low to low income household categories at the time of the 2011 Census.

![Figure 1](image-url)

3.5 Data sources

Data used in the report has been sourced from REIWA. It includes all private rentals which have been let and reported through reiwa.com by real estate agents between 1 July 2015 and 30 June 2016. For more information on data sources and methodology please see Rental Affordability – Explanatory Notes.
4. Analysis of results for Perth rental market

4.1 Proportion of private rentals across sub-regions

This section gives an overview of the private rental market in the Perth Metropolitan Area. Figure 2 below shows the proportion of private house and unit rentals across the sub-regions.

There were 52,277 private rentals reported to REIWA between 1st July 2015 and 30th June 2016. Over 50% of these rentals were within the Central sub-region. The lowest proportion of rentals was seen in the Peel sub-region (5%).

4.2 Private rentals by Household Income Category

Section 4.2 examines rentals by each category of household income in the Perth Metropolitan Area. Figure 3 below shows the proportion of private rentals affordable to each of the household income categories defined in Section 3.

The analysis shows that there were very few rentals in the Perth rental market affordable to those on very low and low incomes (3% and 16% respectively). However, 38% of private rentals were affordable to low income (upper) households. Less than 8% of rentals were only affordable to households on a high income.
4.3 Private Rentals by Each Household Income Category (by Region)

Section 4.3 examines each household income category, and looks at the proportion of affordable rentals for these income groups by sub-region.

Figure 4

- **Very Low Income**
  - Central Sub-Region: 10%
  - North East Sub-Region: 6%
  - North West Sub-Region: 11%
  - South East Sub-Region: 6%
  - South West Sub-Region: 9%
  - Peel Sub-Region: 4%

- **Low Income**
  - Central Sub-Region: 9%
  - North East Sub-Region: 14%
  - North West Sub-Region: 8%
  - South East Sub-Region: 6%
  - South West Sub-Region: 14%
  - Peel Sub-Region: 1%

- **Low Income (upper)**
  - Central Sub-Region: 6%
  - North East Sub-Region: 44%
  - North West Sub-Region: 18%
  - South East Sub-Region: 9%
  - South West Sub-Region: 15%
  - Peel Sub-Region: 1%

- **Moderate Income**
  - Central Sub-Region: 6%
  - North East Sub-Region: 7%
  - North West Sub-Region: 14%
  - South East Sub-Region: 7%
  - South West Sub-Region: 3%
  - Peel Sub-Region: 1%

- **High Income**
  - Central Sub-Region: 10%
  - North East Sub-Region: 1%
  - North West Sub-Region: 3%
  - South East Sub-Region: 1%
  - South West Sub-Region: 82%
  - Peel Sub-Region: 1%

Source: REIWA, Housing Authority
Rentals across all household income groups are dominated by the Central sub-region (Figure 4). This ranges from 82% of rentals affordable to high income households only, to 44% of rentals affordable to low income (upper) households.

For the 1,792 rentals affordable to households on a very low income, 65% were situated in the Central sub-region. The high levels of affordability in this sub-region come from the much higher percentage of small units and houses in the Central sub-region (see section 4.5), as well as the Central sub-region having the largest proportion of total rental stock (see section 4.2). Around 10% of rentals affordable to very low income households were located in the Peel sub-region. The lowest proportion of rentals affordable to the very low income category was in the North-East sub-region with less than 2% of rentals.

For low income households, there were 8,406 affordable private rentals. The majority of these were in the Central sub-region (49%), followed by the South West and South East sub-regions (both 14%).

Over 19,714 rentals were affordable to households on a low income (upper). 8,730 or 44% of these rentals were situated in the Central sub-region. The next highest proportion was the South West sub-region, with 18% of rentals affordable to households on a low income (upper). Peel had the lowest proportion of rentals affordable to this category (6%).

For households that were on a moderate income, rentals were predominately found in the Central sub-region (58%). The second highest was the North West sub-region (14%). The lowest proportion of rentals for this category came from the Peel sub-region (3%).
4.4 Private Rentals by Region (by Household Income Category)

This section examines private rentals by each sub-region, looking at the proportion of rentals in each region affordable to each household income category. This is shown in Figure 5 below.

**Figure 5**

- **Central Sub-Region**
  - Very low income: 12%
  - Low income: 4%
  - Low income (upper): 15%
  - Moderate income: 37%
  - High income: 46%

- **North East Sub-Region**
  - Very low income: 4%
  - Low income: 1%
  - Low income (upper): 3%
  - Moderate income: 13%
  - High income: 46%

- **North West Sub-Region**
  - Very low income: 6%
  - Low income: 1%
  - Low income (upper): 11%
  - Moderate income: 25%
  - High income: 39%

- **South East Sub-Region**
  - Very low income: 1%
  - Low income: 3%
  - Low income (upper): 25%
  - Moderate income: 43%
  - High income: 41%

- **South West Sub-Region**
  - Very low income: 1%
  - Low income: 3%
  - Low income (upper): 17%
  - Moderate income: 30%
  - High income: 49%

- **Peel Sub-Region**
  - Very low income: 18%
  - Low income: 1%
  - Low income (upper): 7%
  - Moderate income: 29%
  - High income: 45%

*Source: REIWA, Housing Authority*
The Peel sub-region had the highest proportion of rentals affordable to very low or low income households with 939 or 36% of its rentals affordable to these income categories. The Peel sub-region also had the second lowest proportion of rentals affordable only to households on a high income (37 or 1%).

The South East sub-region had the second highest proportion of rentals affordable to households on a very low or low income (with 1282 or 29%). It had the lowest proportion of rentals affordable only to households on a high income (42 or 1%).

The North West sub-region had the lowest proportion of its rentals affordable to very low or low income households, with 768 or 12% of its rentals affordable to households in these income categories.

The Central sub-region had the highest proportion of rentals affordable only to high income categories (3,352 or 12%).

4.5 Private Rentals by Product Type

This section analyses private rentals by product type. This is to take into account the ‘appropriateness’ aspect of housing affordability. For the purposes of this report, rentals are broken into those that are two bedrooms or less – viewed as appropriate for singles, couples and small families; and three bedrooms or more – viewed as appropriate for larger families and households.

The data shows that Perth private rentals were strongly biased towards larger properties, with around 70% having three bedrooms or more.

The proportion of rentals by product type varies considerably by sub-region (Figure 6). Within the Central sub-region there is a much higher proportion of two-bedroom or less dwellings, while the other sub-regions are heavily weighted towards larger properties. This is due to the region’s central location where higher density dwellings are more typical.

**Figure 6**

![Proportion of Sub-region Rentals by Product Type]

Source: REIWA, Housing Authority
Figure 7 shows the distribution of product type across all sub-regions. The Central sub-region had the highest number of rentals for the less than 2 bedrooms category, 12,743 rentals out of the 15,625 rentals (or 82%).

Figure 7

**Proportion of Product Type Rentals by Sub-region**

![Bar chart showing the distribution of product type rentals by sub-region. The Central sub-region has the highest proportion of rentals for the less than 2 bedrooms category.](source: REIWA, Housing Authority)

The analysis also looked at the proportion of product rentals affordable to each household income category (Figure 8). For the lower income categories, there is more available in the smaller product category. Of the 1,789 rentals affordable to households on a very low income, only 227 or 13% had three bedrooms or more (meaning they were suitable for larger families). While of the 8,389 rentals affordable to households on a low income, 3,608 or 43% had three bedrooms or more.

Figure 8

**Proportion of Product Type Rentals by Income**

![Bar chart showing the proportion of product type rentals by income category. The very low income category has the least proportion of three bedrooms or more, while the high income category has the highest.](source: REIWA, Housing Authority)
5. Very Low and Low Income Households
Suburb Analysis

Section 5 analyses rentals affordable to very low and low income households, broken up into product type.

Figures 9 and 10 show which suburb had the highest number of very low income rentals in each sub-region.

For singles, couples and small families (requiring two bedrooms or less) on a very low income, there were 1,562 private rentals suitable and affordable between 1st July 2015 and 30th June 2016 (or 3% of the total Perth rental market). The highest proportion of these were in the Central sub-region (1,087 rentals or 70%) and the suburb with the highest number of affordable rentals was Victoria Park (120 rentals).

For larger families and households on a very low income, there were very few options in the Perth rental market. A total of 227 rentals (3 bedrooms or more) were affordable to this group (0.4% of all private rentals). A high proportion of these rentals were situated in the Central sub-region (36%). The suburbs with the highest number of rentals affordable and suitable for very low income larger families/households were Bentley (18 rentals) and Mandurah (17 rentals).

Figures 11 and 12 show which suburb had the highest number of low income rentals in each sub-region.
For singles, couples and small families (requiring two bedrooms or less) on a low income, 4,781 private rentals were suitable and affordable between 1st July 2015 and 30th June 2016 (or 9% of the total Perth rental market). The highest proportion of these were in the Central sub-region (3,497 rentals or 73%). The suburb with the highest number of rentals was Maylands (247 rentals).

For larger families and households on a low income (requiring three bedrooms or more), there were 3,608 private rentals suitable and affordable (or 7% of the total Perth rental market). The highest proportion of these were in the South East sub-region (941 rentals or 26%). The suburb with the highest number of rentals was Armadale (262 rentals).
6. Concluding Remarks

This report highlights the challenges for very low and low income households in the private rental market. While only 19% of rentals in the Perth Metropolitan Area in the 2015-16 financial year were affordable to very low or low income households, 36% of Perth rental households fall into these income categories, meaning many are living in housing stress or inappropriate housing. This report shows that housing affordability for lower income households is an issue throughout all of the Perth Metropolitan Area. Insufficient affordable rental options in the private market places pressure on the social housing system. The lack of diversity of Perth's housing stock is also highlighted, with over 70% of rentals being for larger properties.

The results of this study are consistent with other research showing that many low-income renters in Australia are in rental stress.

This report complements the reports prepared by the Housing Authority on purchase affordability.

6.1 Comment from Shelter WA

Shelter WA acknowledges the important work undertaken by the Housing Authority in developing this report on rental affordability in the Perth metropolitan area.

Appropriate shelter is a basic human need. An adequate supply of social and affordable housing is essential to the development of strong and diverse communities. Without it, many households may struggle to participate fully in the community, engage in work, maintain healthy relationships and contribute meaningfully to society. The provision of affordable housing is a critical component to ensuring quality of life for current and future generations of residents in Western Australia.

There are many factors that have and are contributing to the housing affordability problems being experienced in the Perth metropolitan area. These include:

- The growth of Perth’s population over recent decades, with a predicted 800,000 homes needed to accommodate an additional 1.5 million people by 2050;
- Increasing unemployment, casualisation of the labour market, and greater economic uncertainty;
- Demand for low cost housing continues to outstrip supply (even in a soft rental market);
- Research suggests lower priced rentals taken up by higher income households, contributing to the shortage of affordable housing, especially in areas of high amenity.

A large number of households are still being excluded from the private rental market in Perth. This is highlighted by the more than 18,000 applicants on the social housing waiting list. Many households are being pushed to the urban fringe to access housing that is affordable. While housing is cheaper in these areas, other costs, such as transport are higher. Moving to poorly serviced outer urban areas can also lead to disconnection with family, friends and community, and also reduces economic productivity.

This research highlights the limited housing options for very low and low income households in Perth, which is consistent with Shelter WA’s research. Many low income households including those in community services, child care, aged care, retail and hospitality, find it difficult to access affordable housing. These key workers provide a valuable contribution to society and the economy.

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1 For example, the AIHW Housing Assistance in Australia 2016 report
2 Perth and Peel@3.5 million (draft), WA Department of Planning (2015)
3 Housing Supply and Affordability – Key Indicators, 2012, National Housing Supply Council (2012)
This report also found that only a small number of three or more bedroom properties were available to low and very low income earners in Perth. This is concerning as lower income families, especially large families, may be forced to reside in inappropriate housing. Overcrowded housing can place significant stress on individuals and families.

Households on very low incomes, including people in receipt of income support payments, notably the Disability Support Pension and Aged Pension, are confronted with even fewer rental options. These households are insecure in the private rental market, due to the reduced security of tenure and the potential of increased housing costs in inflated markets. These households will find it difficult to access housing that has adequate design features to suit their needs. It will also be difficult for these households to move between rentals, due to mobility issues.

Overall, this report will be a valuable tool for the broader community in making decisions on where to find private rentals that suit their household’s needs and budget. It is also useful for those working in public policy to gain a better understanding of housing affordability in the Perth metropolitan area. Shelter WA finds this report valuable as it explores issues which are at the heart of our mission - to ensure accessible, affordable and appropriate housing options for low to moderate income earners, and those vulnerable and disadvantaged in the housing market in WA.
6.2 Comment from REIWA

The Real Estate Institute of Western Australia (REIWA) acknowledges that housing affordability is a critical issue confronting Western Australia (WA) and is pleased to support the research conducted by the Housing Authority presented in this report.

Housing affordability is an issue that impacts both the established residential market and the private rental market. The private rental market is an important part of the housing system in Western Australia, with nearly 200,000 households renting privately according to the ABS 2011 Census of Population and Housing. Local housing policies rely heavily on the private sector to provide access to affordable rental housing for low-income households.

Despite a healthy supply of rental stock in Western Australia with rental listings sitting just above 11,000 according to reiwa.com data, housing diversity challenges coupled with demographic changes in WA have had adverse impacts on the affordability and availability of private rental housing for low to medium income households. The ageing population seeking to downsize and resize to fund their retirement will also add to the growing demand for rental housing. This will have a flow-on effect to the demand for low cost rental housing which translates to an increased demand for social housing. The widening gap in the private rental sector around the supply of lower cost housing is expected to broaden further as WA’s highly cyclical market recovers over the next couple of years.

Nevertheless, in the current market conditions where prices are easing, this presents an opportunity for West Australians to find appropriate and more affordable rental housing to meet their needs in the short term. Softening prices in the private rental market has led to improved rental affordability in WA in recent times. The median house rent in the Perth Metropolitan Region for the three months to August 2016 was $380 per week, a drop of $40 compared to the same time last year. According to the Adelaide Bank/REIA Housing Affordability Report (June quarter 2016), rental affordability improved in WA as the proportion of family income required to meet the median house rent decreased to 19.7 per cent from 22.2 per cent in the June quarter last year. This is the lowest proportion of income required to meet the median house rent since September quarter 2011.

Given the financial constraints of state government and the lack of public housing stock growth, the private rental market will have to play a better role in providing housing solutions to a greater number of households in the future. It is therefore necessary to place a greater emphasis on improving the relationship between social housing and the private rental market, particularly to support the transition of tenants out of social housing into private rental accommodation.

Two of the key policy issues on which REIWA consistently advocates includes housing affordability and the need for housing diversity. In a housing environment dominated by affordability pressures and the scarcity of low cost rental housing, there is a glaring need for a greater emphasis on the provision for housing diversity and a requirement for the planning system to mandate and address housing diversity. REIWA will continue to support government policies to address housing affordability and choice, which enables households to make appropriate housing decisions in accordance with their lifestyle choices, changing needs or economic reasons like employment.