

# Renters, Rent Inflation and Renter Stress

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Photo: Catherine Falls Commercial – Getty Images

## Abstract

Around one-third of all Australian households rent. Renter households tend to be younger, have lower incomes and less wealth than owner-occupiers. Renter households are also more likely than mortgagors to experience financial stress, although the incidence of financial stress among renter households has declined over the past decade. The rental market is tight and rents have increased more strongly of late, compared with the modest increases in average rents over the 2010s. For some renters, strong growth in incomes will have helped limit the deterioration in housing affordability, although there will be others who will struggle to afford the rent increases. This suggests that affordability will have worsened for some renters, and, in combination with other rising cost-of-living pressures, this is likely to be contributing to financial stress.

## Introduction

Around one-third of all households rent their home, either in the private market or in public housing (Graph 1). Access to appropriate and affordable rental accommodation is an important issue for these households and the economy more broadly, as it has implications for patterns of consumption and savings and, most importantly, renters' overall wellbeing (Productivity Commission 2014). This article examines the demographic and financial characteristics of renter households and recent trends in the rental market, focusing on the

implications of the tight rental market for rental affordability and what this means for renter households.

## Australia's growing rental market

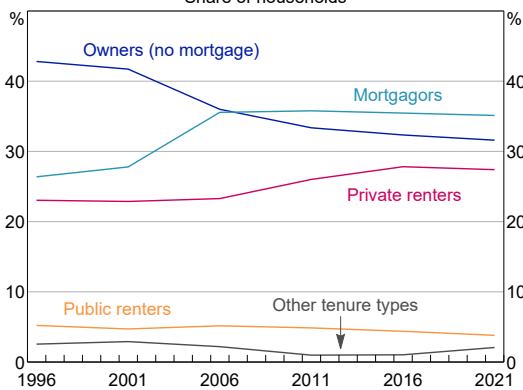
The share of households that rent has risen over the past few decades, mainly in the eastern states. This reflects a rise in the proportion of private renters as home ownership rates have declined. The share of households in public housing has also declined, as growth in public housing stock has not kept pace with growth in the total number of households.

Rent assistance to private tenants has also become a more common way of providing housing assistance to lower income households.

Renting has always been more common among younger households; around half of all heads of renter households are between 25 and 44 years of age (Graph 2). However, the share of older households renting has risen over time, and single older women are the fastest growing group in public housing. Renters also tend to move home more often than owner-occupiers, regardless of their age or income level (Ellis 2017). This insecurity of tenure partly reflects that the majority of private renters are on short-term leases.

**Graph 1**

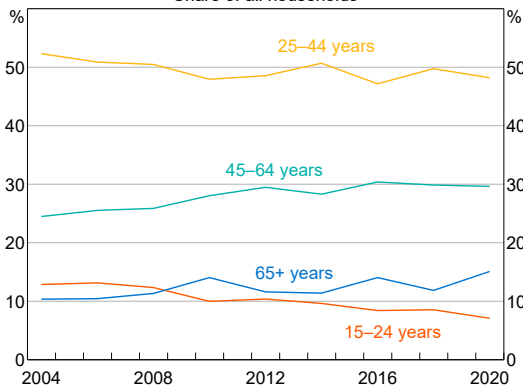
**Housing Tenure Type\***  
Share of households



\* Mortgagors include dwellings being purchased under a shared equity scheme; other tenure types include dwellings being occupied rent-free, under a life tenure scheme and other.  
Sources: ABS; RBA

**Graph 2**

**Renter Households by Age\***  
Share of all households



\* Age is in reference to the household head.  
Sources: ABS; RBA

## The income and wealth of the average renter

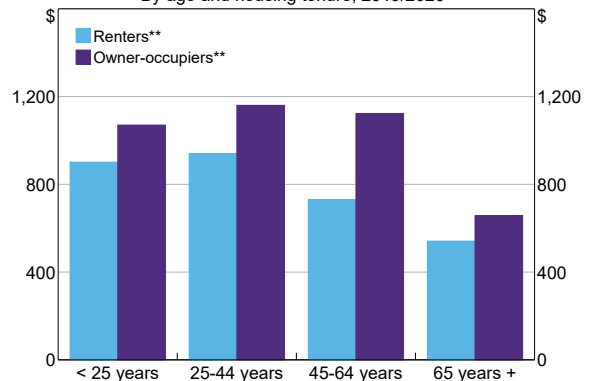
The average and median incomes of renter households are generally lower than owner-occupiers across age groups (Graph 3). However, the share of private renters who are in the top half of the income distribution has risen over time as the share of private renters in higher paid jobs, such as professional services, has increased. This shift has coincided with an increase in the average age of first home buyers and a decline in the home ownership rate among younger households.

There are also large differences in incomes between renters in public housing and private renters. Those in public housing are overwhelmingly concentrated in the lower end of the income distribution; nearly two-thirds of these households' gross income (including rent assistance) is sourced from government pensions and allowances, on average.

Renters, especially those on lower incomes, tend to spend a larger proportion of their incomes on basic living expenses and have less spare cash flow (i.e. income available to spend on discretionary consumption or save), relative to those who have a mortgage. Renters also tend to have lower savings buffers. In combination, these factors can make renters more vulnerable to increases in the cost of living and make it more difficult for these households to accumulate wealth over time, compared with owner-occupiers.

**Graph 3**

**Median Weekly Disposable Income**  
By age and housing tenure, 2019/2020\*



\* Equivalised household disposable income. Age is in reference to the household head.  
\*\* Renters include renters in the private market, social or public housing. Owner-occupiers with or without mortgages.  
Sources: ABS; RBA

Renter households are concentrated in the lower end of the net wealth distribution (i.e. wealth after subtracting debt and not including wealth held in superannuation accounts) (Graph 4). Nearly 90 per cent of all households in the lowest wealth quintile were renters in 2019/20. This in part reflects that renters tend to be younger than other types of households and so have had less opportunity to accumulate savings over time. However, renters also tend to have lower wealth compared with owner-occupier households even after controlling for age and income.

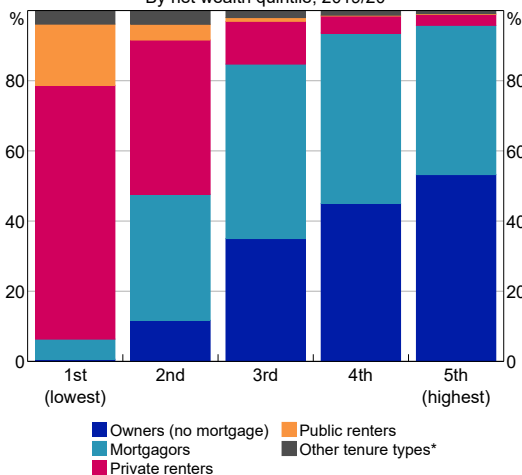
The dollar gap between renters' wealth and that of owner-occupiers has increased over the past two decades (Graph 5). Rising housing prices have increased the net wealth of owner-occupier households, which is concentrated in housing. The wealth of renter households is concentrated in other types of assets – such as savings deposits, where returns have been lower. Nevertheless, the rate of growth in net wealth has been broadly the same across households with different housing tenures, in part reflecting the shift in the population of renters to include older and higher income households over time.

### The current tight rental market

Rental vacancy rates have declined across Australia over the past few years, after increasing early in the pandemic, especially in Sydney and Melbourne

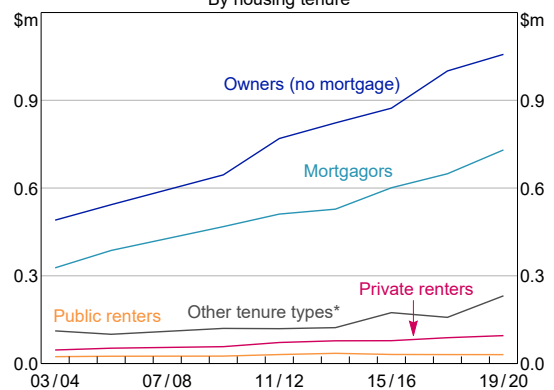
(Graph 6). At the same time, rent inflation (as measured in the Consumer Price Index (CPI), the most comprehensive measure of price changes for the stock of all rentals) has picked up over the past year (a more detailed discussion of rents is below). Advertised rents, which provide a signal of rent increases when a property is rented out to new tenants, have grown more strongly than the entire stock of rents and finding a suitable rental property has become more difficult. A number of demand- and supply-side factors have contributed to the current tightness in the domestic rental market, with strong growth in rents expected over coming years.

**Graph 4**  
Distribution of Housing Tenure  
By net wealth quintile, 2019/20



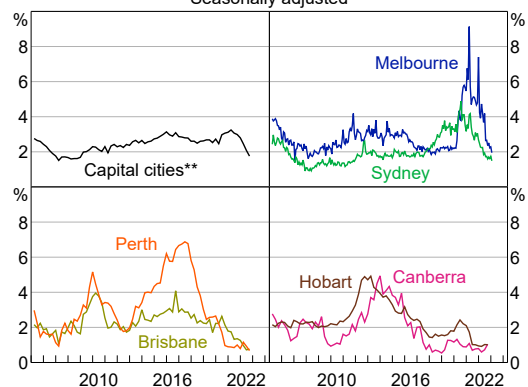
\* Includes shared equity schemes, life tenure schemes and other.  
Sources: ABS; RBA

**Graph 5**  
Median Net Wealth  
By housing tenure



\* Includes shared equity schemes, life tenure schemes and other.  
Sources: ABS; RBA

**Graph 6**  
Rental Vacancy Rates\*  
Seasonally adjusted



\* Data is monthly for Sydney and Melbourne, and quarterly for all other series.  
\*\* Excluding Adelaide from March 2015.  
Sources: RBA; REIA; REINSW; REIV

### Strong demand

During the COVID-19 pandemic, lockdowns and health concerns meant that people desired more space and to live with fewer people (Ellis 2022). This shift in living preferences contributed to average household size declining to its lowest level in at least a quarter of a century (Graph 7) (Agarwal, Bishop and Day 2023). The decline in average household size since the start of 2020 – around 1 per cent – is estimated to have contributed to around 120,000 additional households being formed and, as a result, additional demand in the rental market. Average household size has remained low in the face of the recent tightness in the rental market and rising rents. Solid growth in incomes (and, for some, increased working from home) has underpinned demand for space.

The pandemic also shifted relative demand towards smaller capital cities and regional areas. People from these areas did not move to the larger, locked-down cities at the usual rate, and greater opportunities to work remotely made living in smaller population centres feasible for more households (Ellis 2022). While advertised rents (for new rental leases) have risen across Australia, the increases were stronger in regional areas than in most capital cities through 2020 and 2021 (Graph 8). Regional vacancy rates have risen a little and capital city vacancy rates have declined since the start of 2022, which suggests that relative demand may have shifted back

towards capital cities, particularly Sydney and Melbourne.

The reopening of the international border in early 2022 also contributed to declines in vacancy rates, particularly in Sydney and Melbourne. Net overseas migration is expected to increase significantly over the coming year or so, supporting a pick-up in population growth. Around 240,000 people are expected on net to migrate to Australia over this time, equivalent to demand for an additional 96,000 properties.

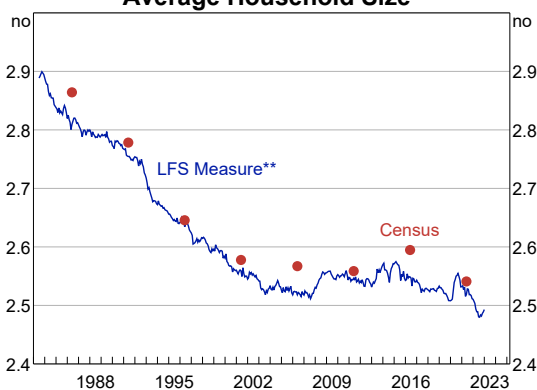
### Slowing supply

Growth in the stock of total dwellings has slowed in recent years, reflecting a slowdown in apartment construction after strong growth in the mid-2010s (Graph 9). This is important for rental supply, as about half of the total stock of apartments are rented out. Further, the number of newly listed rental properties available for rent declined sharply following the onset of the pandemic and has generally remained at low levels, both in regional and metropolitan areas. Participants in the Bank’s liaison program have observed that poor availability of housing in a number of regional areas has contributed to challenges in attracting and retaining labour.

Shortfalls of public housing for those most in need have also become more acute, with the number of ‘greatest need’ households on public housing waitlists almost doubling since 2016. While the stock of public housing has grown by 3 per cent

**Graph 7**

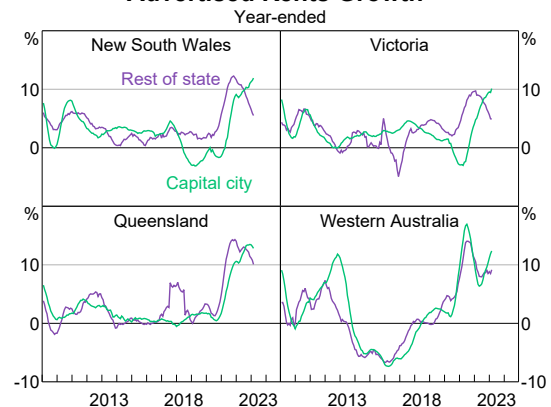
**Average Household Size\***



\* Average number of persons usually resident in an occupied private dwelling; excludes visitors and persons in non-private dwellings (e.g. hotels and hospitals).  
 \*\* Estimated using Labour Force Survey microdata; seasonally adjusted.  
 Sources: ABS; RBA

**Graph 8**

**Advertised Rents Growth\***



\* Hedonic; seasonally adjusted.  
 Sources: CoreLogic; RBA

over the past decade, the total number of households in Australia and the total dwelling stock have increased by around 20 per cent over that same period. While many of the households on waitlists will be receiving rental assistance for a private rental, shorter leases mean that this alternative offers less security of tenure than public housing.

Looking ahead, growth in the supply of new rentals available to the market is expected to be subdued over the next few years. Although the return of international immigration and rising rental yields provides an incentive to supply new dwellings, information from liaison with property developers suggests that higher interest rates and construction costs, combined with declining housing prices and apartment presales, are headwinds to growth in the supply of new dwellings. The decline in the demand for new dwellings is expected to weigh on overall dwelling investment over the next few years. As a result, vacancy rates are likely to remain at low levels.

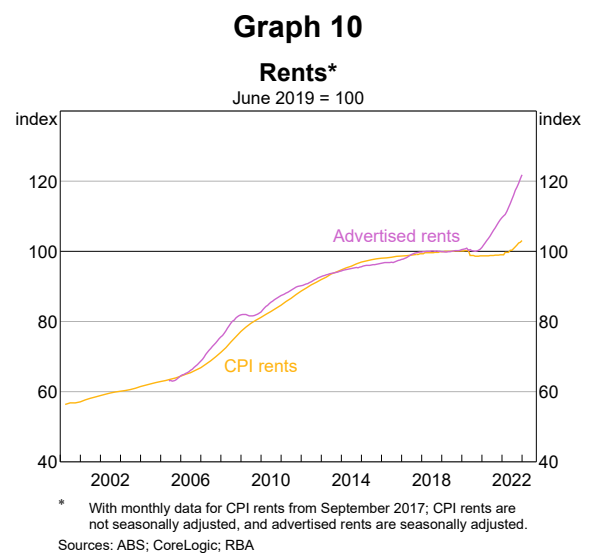
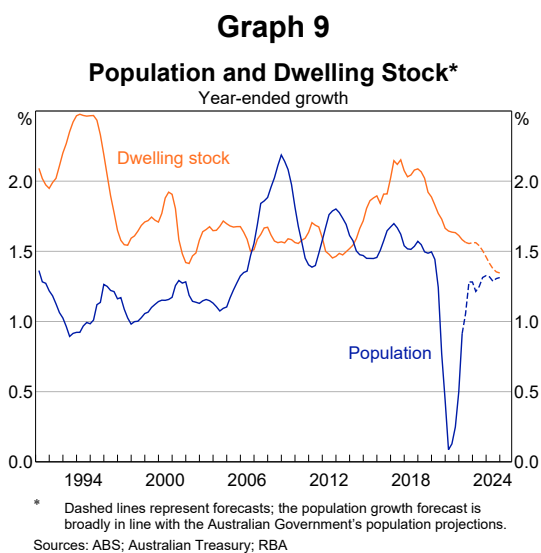
### Rising rents

The average rate of increase in rents over the past decade has been relatively weak (Table 1; Graph 10). Rent inflation across the capital cities has increased at an average rate of 1 per cent per year since 2012, as measured by the ABS CPI. This is the most comprehensive measure of rent price growth available, as it tracks the prices of the stock of all rentals (in capital cities). Growth in CPI rents across

most Australian capital cities has been subdued over the past decade as a whole, with the exception of Hobart, and rents have declined in Perth and Darwin over the same period. CPI rents have generally grown at a slower pace than overall CPI, wages and household disposable income.

More recently, CPI rent inflation has picked up and leading indicators point to further increases. Advertised rents measure the prices of dwellings that are available for new tenants to rent, and so provide some indication of the future path of CPI rents, as well as capturing the experience of households seeking a new rental home. But advertised rents are a partial measure of overall rent prices, as only a small share of all rental accommodation is advertised for rent at any given point in time. In addition, changes in advertised rents do not capture changes in rent prices due to other factors, such as new leases that are agreed to at a rate that is different from the advertised rate, or the renegotiation of existing leases. For example, during the initial stages of the pandemic, a sizeable proportion of renters with existing leases were able to negotiate discounts on their rents, which resulted in a large gap between growth in advertised rents and CPI rent inflation (Evans, Rosewall and Wong 2020).

Over the past decade, rent-to-income ratios – a commonly used measure of rental affordability – have been broadly unchanged for private renters in the upper quintiles of the income distribution (Graph 11). Rent-to-income ratios for those in lower



**Table 1: Rents Growth**

Average annualised percentage growth to December 2022

	2-year growth	5-year growth	10-year growth
<b>CPI rents</b>			
Capital cities	2.1	0.7	1.1
Sydney	0.7	-0.2	1.3
Melbourne	0.5	0.7	1.3
Brisbane	4.5	1.8	1.4
Adelaide	3.7	2.1	1.7
Perth	7.9	1.4	-0.4
Darwin	7.9	0.1	-0.6
Canberra	4.5	3.2	1.5
Hobart	5.1	4.8	3.4
<b>Advertised rents</b>			
Capital cities	9.6	4.0	2.7
Regional	10.3	6.0	3.6
<b>Wages and income</b>			
Wages	2.7	2.2	2.3
Disposable income	3.2	4.9	4.3
<b>CPI</b>	<b>4.7</b>	<b>2.8</b>	<b>2.4</b>

Sources: ABS; CoreLogic; RBA

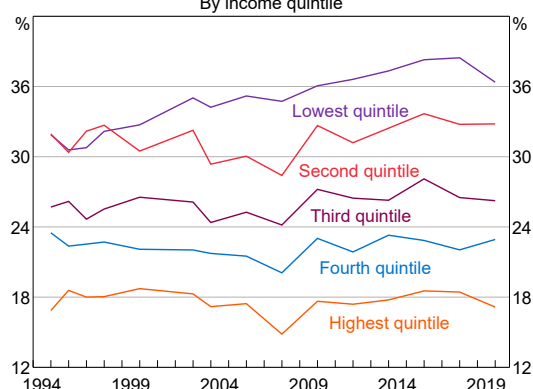
income quintiles have trended up over this period, though they have been broadly unchanged after adjusting for rent assistance. Lower income households spent 28 per cent of their disposable income on rent in the 2019/20 financial year, after accounting for rent assistance, compared with 22 per cent for higher income households (Graph 12).

Since the start of 2022, the strong growth in advertised rents has started to be reflected in higher rents for all leases, as measured by the CPI. The increase in CPI rents of 4 per cent over 2022 was the strongest in 10 years. CPI rent growth is expected to pick up further in the year ahead, though the timing and extent of this remains uncertain.

For some renters, housing affordability is likely to have worsened since the start of 2022, but it is difficult to measure to what extent. Relatively timely information suggests that growth in employment income and income support was strong for renters over the year to mid-2022 (Graph 13).<sup>[1]</sup> These sources of renters' income, in aggregate, increased

at around the same pace as advertised rents over that period, and outpaced the growth in CPI rents. This provides some evidence that the increase in housing costs has been broadly offset by strong income growth, thereby limiting the deterioration in housing affordability for at least some renters. This is consistent with the very strong labour market

**Graph 11**  
Rent-to-income Ratios\*  
By income quintile

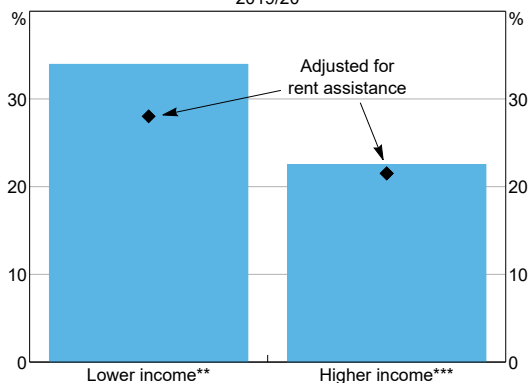


\* Average rent as a proportion of household disposable income; equivalised disposable income quintiles for renters only; households with nil or negative disposable income, in the first and second income percentiles, or with a rent-to-income ratio above 100 per cent are excluded from the sample.

Sources: ABS; RBA

over the past year as well as the strong growth in social assistance benefits during the pandemic. Part of this income growth may also reflect lifecycle factors, especially if young renters experience strong income growth as they move up the job ladder, or compositional changes, such as renters moving to higher paying jobs. On the other hand, this obscures differences in outcomes across individuals, worsening rental affordability for some renters (in particular, people on new leases) and that advertised and CPI rents continued to increase for the remainder of 2022.

**Graph 12**  
**Rent-to-income Ratios\***  
2019/20



\* Average rent as a proportion of household disposable income; equivalised disposable income quintiles for renters only; households with nil or negative disposable income, in the first and second income percentiles, or with a rent-to-income ratio above 100 per cent are excluded from the sample.

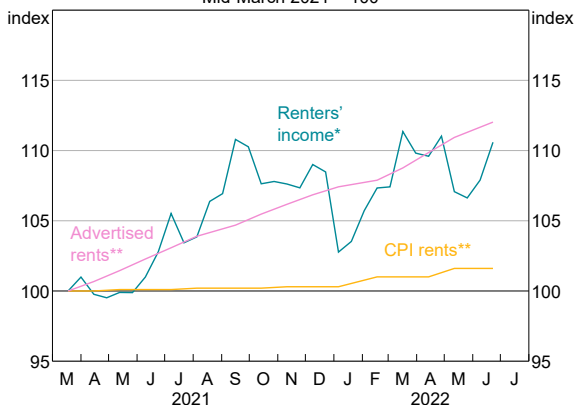
\*\* Lower income households defined as those between the 3rd and 40th percentiles.

\*\*\* Higher income households defined as those between the 41st and 100th percentiles.

Sources: ABS; RBA

**Graph 13**

**Rent and Income**  
Mid-March 2021 = 100



\* Fortnightly data; Single Touch Payroll employment income and Department of Social Services support income data for renters at the time of the 2021 Census.

\*\* Monthly data; advertised rents is seasonally adjusted.

Sources: ABS; ATO; DSS; MADIP; RBA

**Recent trends in renter financial stress**

The share of renter households experiencing one or more financial difficulties has declined over the past couple of decades (Graph 14). While some of this decline reflects the increased share of higher income households in the renter population, even controlling for renter households' place in the income distribution, financial stress has become less common over time.

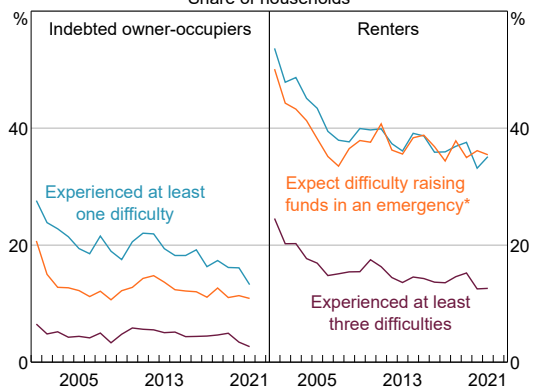
Despite this, renter households are still more likely to experience financial stress than mortgagors. Indeed, timely information suggests that financial stress for some renters has picked up over the past year. National Debt Helpline website traffic where rent is cited as a concern has increased since mid-2021, with rent consistently being one of the two most reported concerns. Further, community service providers participating in the Bank's liaison program report that demand for financial assistance and counselling has also increased, primarily for renters.

**The recent challenge of higher living costs**

Consumer price inflation has risen considerably over the past year, with broad-based increases in the prices of most goods and services. To the extent that renters are more likely to be lower income households compared with owner-occupiers, they are also less likely to be able to substitute towards less expensive goods and services. Furthermore, while the effect of price rises on lower income

**Graph 14**

**Incidence of Financial Stress**  
Share of households



\* \$2,000 from 2001–2008; \$3,000 from 2009–2019; \$4,000 from 2020 onwards.

Sources: HILDA Survey Release 21.0; RBA

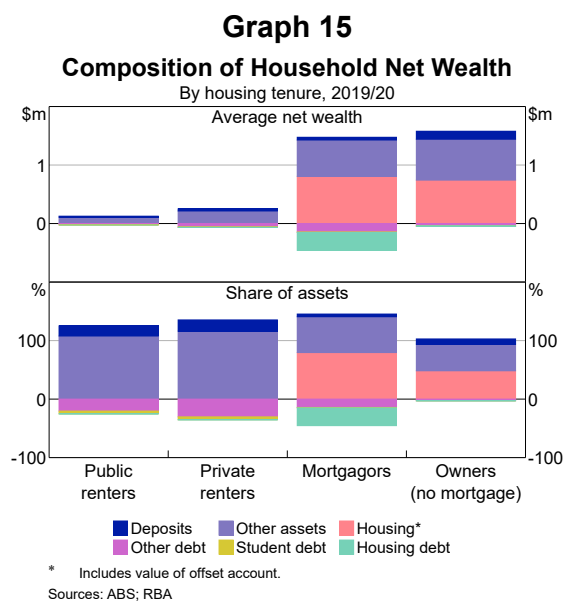
renters is mitigated by the indexation of social assistance payments to inflation twice per year, this indexation operates with a lag.

The direct effect of rising interest rates on household net wealth is less important for renter households, as renters hold less interest-sensitive debt in absolute terms and as a share of total assets when compared with mortgagors (Graph 15). However, the indirect effects of rising interest rates on household cash flows are likely to be greater for renters than for owner-occupier households. This is because renters tend to have lower incomes compared with owner-occupiers. Lower-income workers tend to be more exposed to the economic cycle, in the sense that they are more likely to be affected by changes in unemployment and adjustments in hours worked and/or wages than higher-income workers (Stone 2016).

### Conclusion

Renter households account for a meaningful share of all Australian households. The demographic and financial characteristics of these households tend to be different to owner-occupier households – renters are younger, move more often, and have lower incomes and lower wealth. These characteristics can make renter households more

vulnerable to rising rents and broader cost-of-living pressures. Over the past decade, rents have grown modestly and this growth has been outpaced by growth in wages and household disposable income in the economy. Even so, the tightness in the rental market and the strong growth in rents that has occurred since the onset of the COVID-19 pandemic will have contributed to a deterioration in rental affordability and an increase in financial stress for some renter households. ↗



### Endnotes

[\*] The authors are from Economic Analysis Department. The authors are grateful for the assistance provided by others in Economic Group and Financial Stability Department, in particular Maia Alfonzetti, James Bishop, Tomas Cokis, Jonathan Hambur and Declan Twohig. This research uses microdata from the Household, Income and Labour Dynamics in Australia (HILDA) Survey, ABS, and microdata accessed via the Multi-Agency Data Integration Project (MADIP).

[1] This analysis uses anonymised Census, Single Touch Payroll income data and Department of Social Services Support income data to track the incomes of those who were renting at the time of the 2021 Census. Other sources of income, such as investment income, are not included in this analysis. New renters do not contribute to this measure of nominal income growth. By contrast, individuals who stop renting after the Census date continue contributing to this measure. The data was accessed via MADIP.

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