

Shelter WA Briefing Paper: No Room in the Boom

March 2007

Shelter WA has been working in partnership with the Tenants Advice Service, WACOSS and a range of advocacy agencies on the No Room in the Boom Campaign. The purpose of this work has been to highlight the impact of rising rents on low income households and to promote a range of practical solutions that will assist the most affected households.

Over 1500 signatures from petition postcards were collected for the 'No Room in the Boom' Campaign and these were presented to the Minister for Housing and Works Hon Michelle Roberts (MLA) in mid February.

The following four solutions were promoted:

- 1: Scrap letting and option fees currently paid by tenants
- 2: Increase the amount of bond and rent assistance provided
- 3: Pass new laws to prevent excessive rent increases
- 4: Restore public housing to 6% of housing stock

1: Scrap letting and option fees currently paid by tenants

Currently an agent is allowed to charge the equivalent of one week's rent to the tenant for a **letting fee** that becomes the agent's commission (this commission is also paid by the landlord). We believe the tenant's contribution to the commission should cease as it is a service to the landlord, to be paid for by the landlord.

Tenants face a significant financial commitment when establishing a new tenancy at Perth's current median rent of \$250 per week:

<i>Option fee (refundable)</i>	\$250
Letting fee: 1 weeks rent	\$250
Bond: 4 weeks rent	\$1,000
Rent in advance: 2 weeks	\$500
Total:	\$2,000

An **option fee** is where the agent requires "a deposit" to be lodged with the application (one weeks rent). This fee is normally paid in cash by the applicant. The option fee is refunded if the application is unsuccessful. The problem is the speed of refund, particularly as the refund is normally paid by cheque and the delay caused by waiting for cheques to clear can prevent applicants with limited resources putting in further applications.

The payment of option fees seriously impedes the ability of low income tenants to establish new tenancies and limits their access to appropriate properties when available.

2: Increase the amount of bond and rent assistance provided

During 2005/06 the DHW established 9,445 bond assistance loans at an average value of \$487 (State Housing Commission; Annual Report 2005/06), as pointed out above the average tenancy costs \$2,000 to establish and Bond Assistance only covers half of the bond component.

Providing Bond Assistance Loans to cover 75% of the cost of 1,000 median priced bonds would cost an additional \$250,000.

As at March 2005, 85,122 West Australians received CRA payments. Nearly two thirds (60%) received the maximum amount payable. After receiving CRA, 27.6% of households remained in housing stress, (paid more than 30% of gross income on rent) and 37.6% of recipients were not in housing stress before they received CRA. This means that CRA was successful in eliminating housing stress for just over one third (34.8%) of CRA recipients (Shelter WA).

In 2003, CRA was successful in eliminating housing stress for 37.4 % of recipients. Comparing this to the 2005 figure indicates that CRA is becoming less effective in staving of housing stress.

In 2005 the average annual affordability gap for these households was \$800 but since then rents have been increasing by around 19% per annum in Perth. The situation is much worse for households in regional areas impacted upon by the mining boom and tourism, for example Port Hedland.

In June 2006 the average weekly rent for a 3 bedroom property in Port Hedland was \$602 by September 2006 it had grown to \$650. This equates to a rental increase of \$48 per week which would have absorbed 79% of the \$60.62 CRA the household received, leaving only \$12.60 to go toward improving affordability.

CRA is ineffective in the Western Australian context where different regions have vastly different weekly rents. The estimated cost of introducing a State CRA top up would be \$17.6 mil per annum (based on 2005 gap).

3: Pass new laws to prevent excessive rent increases

Renters are experiencing financial difficulty as a result of rapidly increasing rents, in one period last year, (Sept 05 to Sept 06), the median rent increased by 19%. This rate is 6 times the current CPI of 3.3%. We recommend tying rent increases to an index, for example CPI through provisions in the WA Residential Tenancy Act. This will ensure housing affordability is maintained at a sustainable level for low-medium income private rental tenants.

4: Restore public housing to 6% of housing stock

In 2005/06 the DHW added 879 dwellings to their stock of public housing, at a cost of \$203 million, approximately 80% of these were newly constructed and the remainder were established dwellings purchased at market price (DHW Annual Report 2005/06). This year we estimate the average cost of acquisitions will be approximately \$233,000 per dwelling.

Each year approximately 22,000 new dwellings are added to Western Australia's total of 818,000 dwellings (2006). Public housing currently represents just over 4% of the States total housing stock. Last year 879 dwellings were added to the stock of public housing, at this rate public housing is set to continue its proportional decline. In order to maintain a presence of 4% requires an additional 920 units per annum, to reach our recommended target of 6% by 2015 will require the DHW to acquire a total of 3,308 dwellings per annum.

Table 1: Public housing acquisitions and cost of reaching 6% target by 2015.

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
All Dwellings @ start of year	818,000	840,000	862,000	884,000	906,000	928,000	950,000	972,000	994,000
Ave. New Dwellings Constructed	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000	22,000
Total Housing Stock Projection WA	840,000	862,000	884,000	906,000	928,000	950,000	972,000	994,000	1,016,000
Public Housing Required to equal 6%	50,400	51,720	53,040	54,360	55,680	57,000	58,320	59,640	60,960
PH Stock @ 2006	34,500	34,500	34,500	34,500	34,500	34,500	34,500	34,500	34,500
Additions to reach 6% by 2015		1,988	1,988	1,988	1,988	1,988	1,988	1,988	1,988
PH Additions @ 6% of New Dwellings		1,320	1,320	1,320	1,320	1,320	1,320	1,320	1,320
Additions to Achieve PH @ 6% by 2015		3,308	3,308	3,308	3,308	3,308	3,308	3,308	3,308
Total PH Stock Required for 6% by 2015		37,808	41,115	44,423	47,730	51,038	54,345	57,653	60,960
PH Projected Prop. of All Dwellings		4.4%	4.7%	4.9%	5.1%	5.4%	5.6%	5.8%	6.0%
PH Shortfall 2006	15,900								
Est. Cost Per Dwelling P.Lus (3% CPI)	\$233,000	\$239,890	\$247,190	\$254,605	\$262,244	\$270,111	\$278,214	\$286,561	\$295,157
Est. Cost of PH Achieving 6% by 2015		\$793,766,925	\$817,579,933	\$842,107,331	\$867,370,551	\$893,391,667	\$920,193,417	\$947,799,220	\$976,233,196

Source: ABS and DHW Annual Report

The DHW is required to provide rental housing for low income households most in need. This is provided at a subsidised rate no greater than 25% of the households assessed income. The difference between market rent and the rebated rent on average is \$48 per week per tenancy or an annual cost of \$2,496 per rebated rental. The DHW in 2006/07 provided rebates to 26,951 households at an estimated cost of \$67,269,696 (DHW).

Other government services for which there is no alternate provider such as electricity and water utilities are required to provide a service at a subsidised rate. The difference between the commercial price and the amount paid by the recipient of the concession is recognised as a *Community Service Obligation (CSO)*. This is normally funded through the budget process.

There appears to be no distinguishing reason why the principle applying to CSO's in other essential services should not be applied to the provision of public housing. We recommend that rebated rents are recognised as a CSO and funded through the State budget.

Policy responses so far

Recent announcements by the Minister for Housing and the Premier for alleviating the rental crisis include:

- Calls on the Howard Government by the Premier and the Minister for Housing, requesting they boost rent assistance (press releases: 20.2.07 & 4.3.07) stating there is: "... clear evidence of the lack of understanding and compassion shown by Mr Howard for almost a quarter of WA Households who live in rental accommodation".
- Scrapping of Letting Fees announced by the Premier (press release: 4.3.07): "Letting fees can be an unnecessary burden on those who are already cashstrapped and doing it hard trying to find suitable rental accommodation... The Premier said WA's economic boom had resulted in a pressurised rental market and meant consumers already had to battle each other for properties before finding bond money and rent in advance".
- Investigating the possibility of scrapping option fees (press release 4.3.07): "... the Minister said she was also examining whether to scrap or cap 'application' and 'option' fees – a charge payable when submitting a rental application."

While Shelter WA appreciates the above initiatives, it is looking for a more detailed response after the May budget.