

## EXECUTIVE SUMMARY

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# Disruption in regional housing: Policy responses for more resilient markets



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# Executive summary

## Key points

- Australia's rural and regional housing markets have suffered significant disruption over the past five years and in large measure this represents a continuation of long standing trends.
- The COVID-19 pandemic and associated lockdowns reshaped some of the drivers affecting housing supply and demand. However, the available evidence suggests there has been a return to long-term trends.
- While it is difficult to generalise across the diversity of regional housing markets in Australia, it is clear that the greatest impediments to new housing supply outside the metropolitan regions are shortages of land for development and, most especially, workforce shortages.
- Many of the factors often considered to be a barrier to new housing supply – such as planning permission – are not considered significant impediments in most regional housing markets.
- Internal migration has a significant impact with respect to shaping the growth or decline of housing markets regionally.
- The growth in working from home has had some impact on regional housing markets, but it has been a limited impact to date.
- The absence of new investment in social housing provision is a widely acknowledged problem with respect to the growth of the overall housing stock across regional Australia.

- **Panel members made a strong case for further support for Community housing providers (CHPs) to invest, and be active in, regional housing markets.**
- **The Australian Government's Housing Australia Future Fund (HAFF) was seen as an important avenue for 'unfreezing' regional housing supply.**
- **Place-based policies were considered significant in dealing with the challenges of rural and regional housing markets in the future.**

This project examined housing trends and the processes of housing supply in rural and regional Australia during a period of some turmoil and change, largely due to the impacts of the COVID-19 pandemic and its flow-on effects.

The research took place within the context of a national housing system under strain, as reflected in escalating material costs, a shortage of labour, a falling pipeline of projects and increasing interest rates. It also occurred within the context of heightened public debate around housing in major metropolitan centres and elsewhere. There is a perception within this national discussion that rural and regional housing markets have had to contend with more adverse conditions than those in the metropolitan areas because of their smaller scale, their difficulties in sourcing a local labour force, the limited number of builders and the additional costs associated with distance from suppliers.

## **Key findings**

Our research found that while housing supply in these places have been disrupted, over the past two years the short-term phenomena associated with COVID-19 have largely passed. That is, the shortages in building materials and supplies are no longer evident in regional housing markets, though increased prices for these goods has remained. At the same time, more fundamental structural disruption in regional housing markets has continued, impacting housing availability, cost and accessibility. The shortage of an appropriate workforce is an especially acute challenge. This shortage, in combination with other factors, has added to rising prices for home purchase and rental dwellings.

## **Case Studies**

Our analysis showed that while it is not possible to capture the full range of housing market processes and supply chain challenges in a finite number of case studies, it is possible to shed light on the complexity and disparate drivers of change within regional housing markets across Australia.

The case studies also illuminated the many ways communities are seeking to implement solutions to their housing challenges, ranging from the creation of specific-purpose vehicles, through to direct action by local governments and increased lobbying of state governments. Local leaders have been important in providing solutions in a number of instances, but there are challenges in delivering large-scale responses given the limited resources available locally.



The case studies revealed significant housing challenges in many regional centres – including homelessness and unaffordable housing – and these are becoming more acute over time. At the same time, some regional housing markets have strong growth prospects for the future, and potentially robust supply chains with respect to both materials and personnel, including the labour force and a diverse portfolio of builders. For some of the case studies, the growth of the local housing market is tied to their close relationship with metropolitan centres within commuting range, with this proximity providing justification for future public sector investment in infrastructure. Unfortunately, this is not a pathway to new supply available in smaller urban settlements where central government investment is limited, and there may be few options for new dwelling supply beyond the efforts of local governments.

### Investigative Panel Insights

The Investigative Panel was a key component of this project, with well-informed policy makers from across Australia providing their invaluable time to share their insights and provide advice on policy development. Key insights from their deliberations included:

- acknowledgement that Airbnb can play an important role in regional communities, especially as a source of short-term housing for workers entering a region
- the desirability of developing a national urban and regional settlement strategy, as an enabler of private investment and public sector infrastructure provision
- recognition of the ability of place-based policy to potentially support stronger housing supply chains across regional Australia. It would do so by bringing together specific measures such as demand aggregation, the mobilisation of local leaders and targeted housing-related infrastructure provision to ‘unlock’ frozen housing markets
- a strong argument for strengthening not-for-profit organisations, including CHPs, in the regions. Many less populated regions have few CHPs operating in their region, and even fewer localities had CHPs based in their vicinity
- recognition that the HAFF may be the best currently-available mechanism to ‘unlock’ regional housing markets. However, there was also recognition that the design of the program, and its pathway to implementation, may work to the disadvantage of non-metropolitan housing markets. One solution canvassed was setting targets for regional housing markets within the HAFF, that is the nomination of a percentage of HAFF funding to be directed to non-metropolitan housing markets.

### Policy development options

Action to address the disruption of regional housing markets across Australia is most likely, and productively, to fall across three domains.

First, regional housing providers could take advantage of the HAFF to build additional dwellings, which would be added to existing demand to create a more secure pipeline of work for builders and their workforce. This would need to be a long-term strategy, otherwise short-term action may well exacerbate existing challenges and may cause additional price pressure. However, as HAFF is an already established program, there is a risk that its architecture (while allowing for regional actors such as local governments to become participants) does not prioritise the regions. This may serve as a significant impediment to the adoption of this measure beyond the capital cities.

Attracting HAFF investment into the regions would require considerable local leadership, with local governments, state and territory government agents or not-for-profit housing providers putting forward proposals to the Australian Government for funding. These proposals would then need to enter a competitive allocation process, with no guarantee of an outcome. Investigative Panel members canvassed the scope for setting targets for regional housing investment by the HAFF, but this is unlikely to be implemented in the short-term.

Second, the key learning from the review of international experience, including the Nordic regions, is that direct government action to address the problems of rural housing supply is both effective and possible. Actions taken by a number of Nordic nations have been effective in addressing ‘stagnant’ or ‘frozen’ rural housing markets. This has included a mix of regulatory measures – for example, the limitations on second home ownership in Denmark where households are required to occupy their dwellings for a minimum of 180 days per year – through to the direct investment in regional supply by the Norwegian Government. In addition, the Swedish government has found ways to ‘de-risk’ private investment in rural and regional housing. Such approaches are potentially transferrable to Australia, but their implementation in this nation presumes a willingness by governments to make substantial investments and interventions in regional housing markets. History suggests that such action is unlikely given our federal system of government and Australia’s policy history.

Third, a portfolio of place-based policies is key to addressing the challenge of regional housing supply. Place-based policies are a form of government intervention in the economy and society with broad-scale application. These applications include the protection of the environment, the promotion of economic growth in places affected by adverse conditions, the building of social capital, addressing the challenges of inter-generational policy and improving the amenity of urban areas. Housing provision has been foundational to many place-based policies. Importantly, place-based policies are commonly implemented when more conventional policy measures have failed to deliver the solutions sought by governments. It could be argued that such a failure has been evident in Australia’s rural and regional housing markets over the past four decades.

Globally, place-based policies commonly include housing-related measures (Beer 2023), with this form of policy intervention benefitting from the increased efficiency that arises from community-relevant, tightly targeted investment, integration with other policy actions, and the support of local leaders in implementation and advocacy. Many individual strategies are potentially available under this scenario, including action to aggregate demand, as well as the repositioning of housing supply within the context of local economic and social needs.

Finally, it is important to acknowledge that regional housing markets remain at risk in many parts of Australia and the failure of governments to support them in the coming years will have negative impacts on these places and the nation as a whole. Without intervention, housing in these communities will not keep pace with demand, placing further pressure on metropolitan housing markets.

## The study

This project set out to address the challenge of providing housing at an affordable price in many parts of non-metropolitan Australia, responding to six research questions:

- How has long-term economic and demographic change affected regional housing markets? Has growth of the visitor economy – and platforms such as Airbnb – reshaped the nature, volume and timing of demand?
- Have regional housing market trajectories changed because of the pandemic? Is there evidence that these markets have reverted to long-standing trends, or can we identify a shift in scale and direction?
- What regionally focused policies, strategies and actions are available to government and other agencies? Which measures are effective and are there transferrable insights to be drawn from international experience?
- What are the likely impacts on regional housing of current and proposed national and state and territory policies?
- How can regional supply chains be strengthened to ensure housing production that is resilient in the face of shocks and able to meet a region’s long-term needs?
- What lessons can be learnt, and policy actions taken, from regions taking innovative action to meet housing needs?

Investigative Panels involve a research team investigating a topic and discussing the findings with a panel of experts from industry, government and the community, including not-for-profit organisations. For this project, Panel members from South Australia, Victoria and New South Wales were involved, and represented a range of sectors, including state and local governments, industry bodies, individual not-for-profit organisations, Regional Development Australia committees and the Australian Government. Four panel meetings were held. The inception meeting considered the goals of the project and how best they could be achieved. In the second and third meetings, the panel was presented with findings of the research and asked to comment on the findings and their implications for the further research conducted for this study. The final panel meeting focused on policy implications and implementation.

In addition to the panel meetings, the research comprised:

- a national survey of local governments, not-for-profit housing providers and other stakeholders active in the provision of housing in regional Australia
- a review of the relevant literature, including international experience
- analysis of ABS data
- case studies drawn from select locations across Australia
- six one-on-one conversations with key informants via Zoom.



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