

# Overcoming the challenges of supplying regional housing



Based on AHURI Final Report No.424: Disruption in regional housing: Policy responses for more resilient markets

## What this research is about

This research examined housing trends and the processes of delivering housing supply in rural and regional Australia during a period of some turmoil and change, largely due to the COVID-19 pandemic and its flow-on effects. It addresses the challenge of providing housing at an affordable price in non-metropolitan Australia.

## The context of this research

Australia's rural and regional housing markets have been confronted by substantial challenges for more than three decades, including poor housing affordability; under-developed supply chains; the shortage of skilled and unskilled labour force; increasing demand for housing in some localities, while other centres decline; together with limited policy attention to the specific needs of rural and regional Australia.

## The key findings

### Rental housing is expensive and limited in regional areas

The greatest housing affordability challenges in rural and remote Australia are in the rental sector, with critical issues including:

- **Limited supply of publicly owned dwellings.** Much of the public housing stock had been sold off across rural and regional Australia and the little that remains is the older and poorer housing stock. The almost complete absence of public rental housing in many centres places further pressure on the private market.
- **A poorly developed social housing sector.** There are few community housing providers (CHPs) based in regional Australia. The take up of the National Rental Affordability Scheme outside the capitals was poor as CHPs prioritised the delivery of housing into localities where demand was greatest.
- The presence of **substantial numbers of persons with low and insecure incomes.** In some instances, this is a product of industry structure and the distribution of vulnerable groups, including the aged and Aboriginal population.
- The **small size of the rental market.** In many regions the entire rental market may total 100 or fewer dwellings and there is therefore little capacity to meet additional demand.
- Many regional centres have experienced **sudden 'demand shocks'** (such as rapid increases in population) that have adversely affected the rental market. Long-term renters may be forced to rely upon insecure accommodation such as garages or caravans on private property.
- **Uncertain supply processes** for the rental market in rural centres have also contributed to the high degree of unaffordability in housing.

## Six different types of regional housing markets identified

Regional housing markets are becoming diverse over time as the various housing market clusters evolve in different directions with respect to growth rates, tenure composition, dwelling types and household composition. Six different types of housing markets (or clusters) were identified by the Regional Australia Institute (RAI):

- stalled (small, inland and low-cost)
- volatile (small, low-cost and volatile)
- stable (mid-sized, agricultural, stable, Murray Darling)
- coastal (larger, average-cost, coastal Queensland and Western Australia)
- growth zone (peri-urban, urban, major regional cities)
- most expensive (Sydney and Melbourne).

The RAI noted that location was a key feature of each of these clusters, with proximity to the largest urban centres in Australia and distance from the coast critical determinants of cluster membership.

Between 2016 and 2021 population growth is most significant in the Growth Zone housing cluster, with an increase of 1,242,785 people. The Most Expensive, Coastal, and Stable housing clusters experienced moderate population increase (200,000~290,000 people). Population in the Stalled housing cluster and Volatile housing cluster declined, but the total number of losses was negligible.

## Employment growth in Growth Zone was not very strong

Measuring **changes in employment rate** (measured by change in percentage of employed population) shows that although the Growth Zone cluster experienced the highest population growth by count, its employment growth was not very strong, compared with employment change in some other housing clusters.

This could be due to the large share of the population moving into this housing cluster since the COVID-19 outbreak who were largely motivated by health and safety reasons, rather than work opportunities. Many moved to this cluster but still kept their employment in the metropolitan city (such as by working remotely). The long-term housing market benefit of the new residents in this cluster may be limited if not sustained by employment growth.

The employment growth rate in the Coastal cluster is slightly higher than other clusters, dominated by employment in population service sectors.

## 'One size fits all' solutions won't work for clusters experiencing different types of housing issues

It is critical that policies developed for rural and regional housing needs are tailored to each place, or cluster of places, rather than as a 'one-size-fits-all' approach. For example, cluster one housing markets would gain from new social housing investment through the simple addition of stock, which is unlikely to come from any other source. At the same time, cluster five markets would be improved by the same action, but the benefit would come from adding greater diversity to an already existing housing stock that has a shortage of affordable options for those on the lowest incomes.

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## Regional local governments and community housing providers survey reveals trends in regional housing

The research survey provides insights into trends affecting housing supply in selected localities. The survey respondents observed that:

- population loss had a small impact on changes in housing supply with 35 per cent rating it as a negligible impact and 70 per cent providing a score of five or lower (on a scale of 1 to 10)
- the ageing of the population was seen to be a substantial driver of change in housing supply, with 60 per cent furnishing a rating of seven or higher out of ten
- STRA was perceived to have a mixed impact on housing supply regionally, with 14 per cent saying it had very little impact and 10 per cent saying it had a lot of impact
- increased activity by private rental investors was seen to have a modest impact on supply processes, with 22 per cent scoring it five out of ten
- difficulties in securing a building workforce were seen to be a major driver of change in regional housing markets
- the escalating cost of building materials was seen as a major cause of disruption in new dwelling construction
- a shortage of residential land had some impact on housing supply, but that impact was both uneven and relatively modest.

## COVID seen as cause of change in housing supply

The COVID-19 pandemic was seen as a large-scale cause of change in housing supply across Australia's regions by 45 per cent of respondents, while a further 30 per cent indicated that it had a degree of impact. This suggests that challenges already present in regional housing supply (such as the size of the labour force, the cost of inputs into the construction process and the availability of materials) were made worse by the pandemic.

## Survey identifies barriers to affordable housing supply in the regions

Survey respondents identified a number of barriers to housing supply, including:

- resource impediments (60%)
- limited support from state governments (57%)
- inadequate assistance from the Australian government (49%)
- the lack of political support or commitment (38%)
- the inability to make changes to statutory limitations (such as land conservation zones) on new housing supply (24%).

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## Suggested solutions to increasing supply in rural and regional Australia

A clear majority of respondents felt government subsidies for new home construction would have a clear and positive impact on housing supply in their region. There was strong support for the provision of low-cost finance to developers, builders and new home buyers across regional and remote Australia.

There was also very strong support for additional funding from state and territory governments or the Australian Government for the provision of additional social housing.

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## Case studies provide examples of housing market disruptions

Three case studies (Karoonda and Murray Bridge, South Australia; Dubbo, New South Wales; and Bendigo, Victoria) provide insight into the ways disruptions to housing supply affect regional housing markets.

### Karoonda and Murray Bridge

**Karoonda** can be described as a 'stalled' regional housing market. In the recent past the township lost population but that trend has been stopped, largely through the efforts of the local government that has become directly involved in new housing supply. Growth has also arisen from in-migrants, often older people who may have retired and move to Karoonda in order to benefit from low housing costs.

Initially the Karoonda East Murray council provided a rebate on the cost of land for new home construction, but found that this strategy often attracted those without the capacity to maintain their mortgage. The local government has now moved to the development of 'turnkey' ready homes for sale at a modest price of approximately \$300,000.

The local government would be more active in the housing market but is limited by its financial circumstances, such that it is only able to develop one dwelling at a time. The council is looking to diversify the housing stock through its construction program, and this could include independent living units for older persons.

The local government would seek additional support for new housing supply if it was available, but is unlikely to benefit from national-level programs such as the Housing Affordability Future Fund (HAFF) as it lacks the scale that program requires.

**Murray Bridge** can be described as a 'stable' housing market. The city is likely to grow as a result of housing market pressures in Adelaide, developing into a significant satellite centre on the basis of its resources endowments, lower housing costs, proactive approach to residential growth and ability to provide services.

Murray Bridge has been able to attract significant private investment into housing provision, obviating the need for direct local government involvement. There are, however, challenges that reflect broader conditions across regional Australia, including the need to source a building workforce and secure construction materials. Murray Bridge could be in a position to benefit from participation in the HAFF.

Murray Bridge serves as an important provider of health and aged care services for its region, and this has resulted in the development of a number of retirement villages and associated developments. These facilities are built and operated at a lower cost than in metropolitan Adelaide where land prices are significantly higher. The aged care sector is potentially a growth area for Murray Bridge, especially as the population of South Australia as a whole continues to age.

### Dubbo

Dubbo is best categorised as a 'Stable' market. The region should have the capacity to respond relatively well to predicted future growth by providing new housing supply, but also faces growing challenges in accommodating more unpredictable periods of high demand due to influxes of temporary workers. Maintaining (or ideally improving) the reasonable availability of social housing in the city will also be important.

Housing is generally affordable in Dubbo with less than three per cent of mortgagees paying more than 30 per cent of household income in housing costs, while six per cent of tenants were considered under high housing pressure. However, demand for temporary worker accommodation is already high, with reports of local employers buying motels and other forms of short-term accommodation to guarantee housing for their workers. To cope, temporary workforce accommodation for up to 1,800 workers is planned.

While Dubbo is not experiencing the same housing pressures as some of the fastest growing regional areas on the NSW coast, it is clear that price increases and low vacancy rates have contributed to a more challenging housing market for lower income households.

### Bendigo

Bendigo has experienced rapid growth over the past decades, with the population rising to 121,470 at the 2021 Census.

Much of Bendigo's growth is as a satellite city of Melbourne and a destination for those seeking to leave a major metropolitan area. Over the past two decades the Victorian Government has invested in highway upgrades and faster rail connections between Bendigo and Melbourne, giving rise to a substantial influx of commuters.

Housing affordability is a concern in Bendigo, and it has the highest percentage of mortgage-holders affected by housing stress amongst the case studies (8.9%). More concerningly, 27.9 per cent of tenants were reported as being under high housing pressure at the 2021 Census, though the population of homeless persons was relatively small.

Dwelling approvals have been falling over the period 2022 to 2024, as has the number of dwelling completions. Builders have reported significant challenges in finding the workforce they need. In the longer term, a number of regulatory issues have been identified as an impediment to further urban development and housing supply. This includes state government imposed requirements to more carefully consider bushfire risk within the planning system. Interviewees from Bendigo felt that solutions to their housing challenges would best be addressed through greater coordination with, and between, state government agencies, as well as through the provision of flexible funding available to 'unblock' site specific challenges such as infrastructure deficits or additional development requirements.

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### Investigative Panel notes greatest problem is due to workforce shortages

The Panel of experts noted that the greatest challenges to housing supply in the regions, and the single greatest gap in the supply chain, was the shortage of a skilled workforce.

Panel members acknowledged the important role governments – including regional governments – may need to play in developing stronger supply chains for rural and regional housing. There was also an appetite amongst Panel members for the development of a national urban and regional strategy, as it was felt this initiative would provide certainty for private investment, while also unlocking potential State and Australian government support.

## What this research means for policy makers

A clear finding is the need for government action to ‘unfreeze’ local housing markets across rural and regional Australia, whereby governments make substantial investments and interventions in regional housing markets.

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To overcome the shortage of labour to work on dwelling construction, research participants indicated that a guaranteed program of work and new-builds was needed to attract and retain labour in the housing sector. 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 exacerbate existing challenges, placing additional price pressure into the market.

A portfolio of place-based policies would potentially include action to aggregate demand, as well as the repositioning of housing supply within the context of local economic and social needs. Place-based policies do not simply focus on identifying the most efficient or impactful strategy for delivering a policy objective, but instead advocates for a development approach that is tailored to the needs of each city, locality or region. Importantly, place-based policy explicitly seeks the development of all parts of the landscape, with no settlement too small or too remote to plan for progress.

Relatively small public sector interventions are likely to deliver substantial benefits to future generations of residents. In many ways, the most pressing need is for the building of an institutional architecture (including local housing providers, construction-related training providers and enhanced supply chains) that would support the growth of both market and non-market housing. There is also a role for direct government investment in these housing markets.

## Methodology

This research reviewed local and international literature; surveyed local governments, not-for-profit housing providers and other stakeholders who provide housing in regional Australia; considered case studies drawn from Australian locations; and conducted investigative panel meetings with experts from industry, government and the community.

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