

How should government respond to affordability problems in regional and rural housing markets?

HOUSING AFFORDABILITY PROBLEMS HAVE AFFECTED RURAL AND REGIONAL AREAS AS WELL AS METROPOLITAN AREAS. RESPONDING TO THIS PROBLEM REQUIRES PROGRAMS, LAND RELEASE POLICIES AND LOCAL GOVERNANCE ARRANGEMENTS ADAPTED TO EACH LOCAL CONTEXT.

KEY POINTS

- Housing markets in rural and regional areas have experienced housing affordability problems. These problems are especially acute in relation to rental accommodation.
- Poor affordability undermines regional economic development and exacerbates social inequalities, especially for Indigenous people.
- Poor affordability in housing markets is driven by factors common to metropolitan markets, such as rapid population growth. However, it is also influenced by factors peculiar to regional areas, such as lack of scale economies and local geographic factors that limit housing development.
- Government programs have sometimes been well understood where they have a high profile but have had uneven impacts between different locations. Governments have not been effective in releasing land and reforming local governance arrangements to improve affordability outcomes.
- Government policies need to address market forces, address those that may be disadvantaged by change (e.g. Indigenous people), and ensure decisions about housing supply leverage local knowledge, such as through local government.

*This bulletin is based on research conducted by **Professor Andrew Beer** and **Dr Selina Tually** from the AHURI Southern Research Centre; **Dr Steven Rowley**, **Dr Fiona Haslam McKenzie**, **Dr Christina Birdsall-Jones** and **Ms Vanessa Corunna** from the AHURI Western Australia Research Centre; and **Ms Julia Schlapp** from the AHURI RMIT Research Centre. The research explored links between labour and housing markets and the drivers of housing affordability in rural and regional Australia.*

CONTEXT

Most research on Australian housing markets has focused on capital cities. Approximately 40 per cent of the Australian population live in non-metropolitan or regional Australia, and since 2000 rapid house price inflation has affected the regions. There has been substantial change within housing markets in many rural and regional centres, resulting in a lack of affordable rental housing and the inability of low-income earners to access affordable rental housing and transition into home ownership.

This research documented the drivers that influence the characteristics and operation of housing markets and housing affordability in rural and regional areas of Australia.

RESEARCH METHOD

A range of analytical techniques were used to determine relative affordability in housing markets and trends over time, drawing on ABS Census data and house and unit price data.

Fifteen case study locations were chosen across a range of regional areas, spanning non-metropolitan population centres through to rural and remote regions. Care was taken to include regions with dynamic and low growth.

KEY FINDINGS

Poor affordability in regional housing markets

Variable rates of economic growth across the country have impacted on housing markets in rural and regional centres. Locations experiencing burgeoning labour demand and supply have been affected by higher house price rises and worsening housing affordability. This has been especially the case in regional centres, mining towns and some remote locations where there has been rapid employment growth.

While demand for housing has increased for all housing tenures, private rental supply in particular has been under-developed. This is due to a shortage

of investors, inappropriate planning regulations and, in some cases, the low wage and high variability labour markets in these regions which do not offer sufficient comfort for investors.

The data on housing affordability at the 2006 Census illustrates the significant problem for renters. In two-thirds of rental markets in non-metropolitan Australia, more than 20 per cent of tenants paid more than 30 per cent of their income on rent.

Impacts on labour markets and economic development

Housing market dynamics can have impacts back on labour markets and economic growth opportunities. Broader affordability problems mean that people on low incomes need to have a job and pay high rents in order to live in some locations, or they need to commute long distances to get to their place of employment. For example, in the Barossa District (SA), low wage workers live outside of the valley and commute to work from Eudunda or Kapunda, where there is more affordable private rental accommodation available.

A lack of suitable housing means that some towns must import temporary labour. For example, mining boom towns in Roxby Downs (SA) use workers on a 'fly in and fly out' basis due to the undersupply of housing on location and the underlying issue is lack of land release. In Tasmania's West Coast, by contrast, housing is considered affordable and in reasonable supply, but of such poor quality that, together with the poor infrastructure and lack of services, the area cannot attract workers to live on location.

Rural centres often have a limited capacity to take full advantage of the benefits of short-term growth, because they cannot accommodate workers in emerging industries. In towns exhibiting good economic prospects, such as Alice Springs (NT) or Townsville (Qld), issues with housing supply and affordable housing threaten to undermine growth opportunities altogether.

Social and environmental impacts

Social polarisation can result from broader processes that create income disparity, but the way the housing market works can magnify these social effects. 'Bifurcated' or segmented housing markets are often seen in boom towns, where typically one segment of the market is focused on high income, often temporary, mine workers, while the established population working in ancillary industries (or not working at all) are forced to compete for less expensive properties at the bottom end of the market.

In many rural or regional centres, a significant proportion of the population is Indigenous. In some locations, public sector processes and structures are in place to provide targeted Indigenous housing. But issues of racial discrimination and severe disadvantage due to high levels of unemployment make it very difficult for Indigenous people to compete at the lower end of competitive housing markets, and they often experience displacement to other tenure forms or locations.

A good example of a town affected by all these developments is Lismore (NSW). House prices in the regional centre (and along the region's coast) have increased due to 'sea change' migration. At the same time, the rental market has been squeezed by increased student population at Southern Cross University. Long-term renters—including the Indigenous population—have been forced to rely on non-standard forms of accommodation such as garages or caravans on private property. Similar processes of displacement have occurred in mining boom towns of Chinchilla and Townsville in Queensland as well as remote locations such as Alice Springs.

Drivers of affordability outcomes

Responding to housing affordability problems in regional and rural areas means understanding the market processes that drive these outcomes. Housing markets in Australia's rural and regional centres are affected by a range of processes also seen in capital cities, such as population growth, the structural ageing of the population, the balance between supply and demand for housing, and the impact of housing finance availability and government policy initiatives.

However, there were also factors peculiar to regional areas. A lack of economies of scale in rural and remote Australia is considered to be a barrier to housing supply. The ongoing skills and labour force shortages in rural and remote areas were also strongly emphasised as contributing to the cost of building—both in the residential and commercial sectors. For example, the town of Boddington (WA) faced a rapid population increase when it reopened a mine. Supply bottlenecks lasted up to three years, and were attributed to the lack of tradespeople to build new stock; as well as delays in planning approvals, head-works and land certification. Concerns were also raised that the land available for sale was primarily privately owned and developed into a speculative market and so policy-makers were constrained in influencing its release.

Housing supply can also be affected by unique factors in the local context. For example, in the wine producing area of the Barossa Valley (SA), new housing supply has been limited to the existing urban boundaries of Nuriootpa in order to preserve the horticultural land and the economic base of the region. Expansion in Port Lincoln (SA), on the west coast, is limited by Lincoln National Park, while in Alice Springs (NT) the new land supply has been limited by Native Title claims that ring the city.

What has government done in response to affordability problems?

Governments have used a range of approaches to improve affordability in regional locations with mixed success. This study involved consulting stakeholders in regional areas about government programs, land release policies and local governance arrangements.

Government programs

The impact of programs and initiatives in the broader housing policy framework is uneven in rural and regional housing markets. In most case study locations, the impact of the Nation Building and Economic Stimulus package was visible, and well known. Generally, it had funded infrastructure projects to support economic growth and improve services rather than new housing supply. The expanded First Home Owners Grant and the First

Home Owners Boost also had a noted impact in bringing forward demand and raising prices at the lower end of the market.

Land release policies

Slow land release was cited repeatedly as a significant impediment to the supply of land for new housing and as a cost impost. Slow responses from responsible agencies were attributed to a lack of staffing, inadequate skills and experience in responding to new market challenges, or prioritising other factors in planning schedules. The mismatch between consumer demand and the type of land released was also problematic. To promote more affordable housing options, a greater variety in lot sizes and densities is needed.

Local governance

Local governance arrangements are also significant. In Roxby Downs (SA), the housing market is affected by the mine owner who also has ownership of the land for housing development and this potentially creates a conflict of interest in terms of land supply for housing different groups. In Nhulunbuy (NT), there is a special town lease on Aboriginal land and a corporation formed to provide municipal services. All of this has implications for the mechanisms used to house key workers and mining staff.

POLICY IMPLICATIONS

There is a need for policy to address housing affordability using similar mechanisms as are used in major cities, but these policies need to be adapted to local contexts. This research demonstrates that policy initiatives need to:

- Address underlying market forces that affect supply, including understanding the varying governance and land release situations in regional and rural areas.
- Take into account the potential for housing markets to have significant social impacts particularly on disadvantaged groups such as Indigenous people, and provide appropriate accommodation options such as social housing for those that face discrimination in the housing market.
- Involve parties with local knowledge, including local government, in processes of consultation about policy interventions and capacity building through information, support and skill development, so that policy initiatives have a more even impact across different locations.

FURTHER INFORMATION

This bulletin is based on AHURI project 40586, *The drivers of supply and demand in rural and regional centres*.

For further information also see AHURI project 50264, *Trends in Australian non-metropolitan housing markets, 1991–2001*.

Reports from this project can be found on the AHURI website: www.ahuri.edu.au or by contacting AHURI Limited on +61 3 9660 2300.

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