

COVID-19 impacts on regional housing markets and communities



Based on AHURI Final Report No. 354: Pathways to regional housing recovery from COVID-19

What this research is about

The effects of COVID-19 are unevenly distributed geographically, with regional areas likely to face different issues and therefore have different recovery needs in the wake of the pandemic. This research uses Tasmania as a case study to examine how COVID-19 has affected regional housing markets and communities.

The context of this research

Regional Australia is home to around one-third of Australia's population and represents a diversity of social, economic and cultural life and livelihoods. Post-COVID-19 recovery models designed for large cities such as Sydney or Melbourne may not work in regional areas or less-urbanised states like South Australia or Tasmania.

Regional populations differ from those in major cities, including hosting the most relatively disadvantaged socio-economic populations in Australia. Regions may be more reliant on government pensions, have higher levels of unemployment, higher prevalence of health risk factors, and be disproportionately reliant on local industries such as tourism, arts and culture, and higher education—all industries particularly affected by the COVID-19 pandemic.

Tasmania Case Study

This study focusses on Tasmania as a case study of a regional economy. As with all regions in Australia, there are distinct differences across, and sub-economies within, the state and it cannot be treated as an aggregate 'regional' economy. The capital city area of Hobart has some features common to other capital cities including a more expensive housing market. For this reason, it is useful to consider Tasmania in terms of its capital city area and 'rest of state'.

Tasmania is an island state with a population of 540,600 people (as at June 2020). There are capacity issues including barriers in access to highly skilled labour, supply-chain management and the ability to service other markets, including international markets. These issues mean Tasmania is over-reliant on key sectors such as tourism and hospitality.

The key findings

Early indications are that COVID-19 has produced a similar result to the Global Financial Crisis in Australia, with house prices nationally continuing to rise after a brief period of uncertainty. Rising house prices generally exclude low-income and first home buyers (FHB) from the property market, although there has been a recent jump in the number of loans to FHB relative to other loans, most likely due to housing stimulus measures enacted by the Australian Government. Other COVID-19 housing and income support policies established by the Australian Government have reduced the number of households living in housing affordability stress and have been effective in keeping many people securely housed.

Housing market impacts of COVID-19

Regional housing markets have to-date experienced few serious consequences as a result of the pandemic and have behaved quite differently to those in capital cities, most likely due to regional living being perceived as 'safer' than cities in a pandemic.

House prices

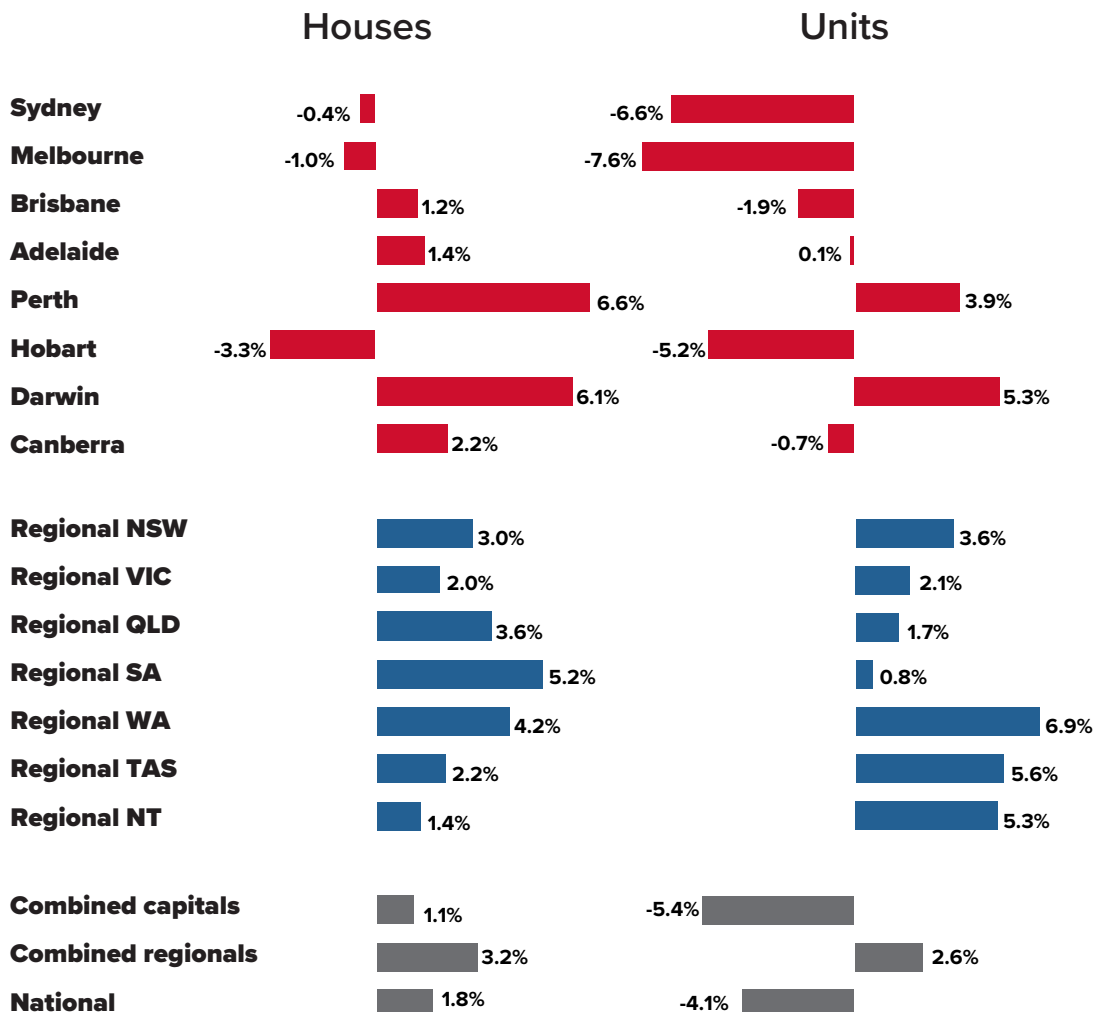
Since national restrictions were announced in March 2020, the hedonic 'five Australian capital cities' (Sydney, Melbourne, Brisbane, Perth and Adelaide) dwelling prices index decreased by a modest 1.45 per cent by November, while the hedonic dwelling prices index in the 'combined rest of state regions' increased by 3.77 per cent. [The Hedonic index accounts for dwelling characteristics such as location, house type, number of bedrooms, etc.] This housing demand in 'rest of state' regions is increasing dwelling prices, lowering vacancy rates and reducing affordability in these regional areas.

The higher housing demand in regional areas may be short-lived, which means the effects of the freeze on international migration will be reflected in lower prices over the medium-to-longer term.

Rental prices

Between March and November 2020, capital city unit rents dropped by 5.4 per cent, while house rents increased by 1.1 per cent. This pattern is relatively consistent across all capitals though the difference is most significant in Melbourne and Sydney where unit rents fell 7.6 per cent and 6.6 per cent respectively while house rents have seen a much smaller reduction of around 1 per cent.

Figure 1: Change in rents, dwellings, 31 March to 30 November 2020



Source: CoreLogic (2020)

The drop in Hobart rents comes after several years of significant increases, and despite the recent drop, house rents are up 27.2 per cent over the past five years and unit rents are 30.7 per cent higher. The previously strong rental conditions across Hobart were reflected in low supply relative to demand, low levels of new rental stock, and a reduction in permanent rental supply as short-term rentals became popular with investors.

While Sydney, Melbourne and Hobart saw the largest drop in rental price growth, since March 2020, rents in the regions (both for houses and units) have been growing, with the strongest trends seen in the regional areas of Western Australia, Tasmania and the Northern Territory.

Impact of the short-stay rental market

The short-stay rental sector in Tasmania has been under scrutiny in recent years due to a strong demand for holiday accommodation in popular visitor destinations. Other recent research analysis of the short-stay rental markets in Sydney and Hobart between February to June 2020 suggests that approximately 70 per cent of Hobart properties removed from Airbnb listings during COVID-19 moved into the private rental market. Those that became 12-month leases may be returned to the short-stay rental market by mid-2021.

Landlords and investors

There has been a slowing of investor activity; most likely reflecting lower investor confidence in the wake of fewer incentives to invest in property, increased numbers of tenants who owe arrears, policy which has protected tenants and lower migrant housing demand. The research noted there is a risk that landlords may shape future risk mitigation strategies in ways that further exclude renting to lower income tenants because they perceive these groups to present a greater risk to rental revenue.

Despite increased unemployment figures, Tasmania has been largely protected by the income and rental protection measures introduced by the national and state governments since March 2020. A housing survey at the end of June found that over three-quarters (77%) of full-time workers had not experienced a change in their employment situation compared to 61 per cent of those employed part-time.

Housing experiences during COVID-19

The research found the requirement to stay at home in Tasmania was a challenge for the following groups in particular:

- renters
- homeless young people
- people with inadequate incomes or other resources
- people living in small houses, usually with families, which were not suited to adaptations required to work or learn from home
- workers or students with inadequate access to technology due to location or cost
- international students
- people with pre-existing health problems, disability or mental health issues.

Importantly, these groups are not mutually exclusive but overlap, meaning some people were dealing with intersecting and compounding disadvantages and vulnerabilities. The importance of housing to public health in a pandemic and its recovery should now be more fully understood.

Housing stability

The majority of research respondents reported no major change to their current living arrangements due to COVID-19. Housing stability was protected for some households through income support payments, or their ability to access savings and/or superannuation funds.

Among survey respondents, the least impact was felt by those in public housing, due to the stability in the housing tenure and incomes for many people living on a government pension. Of those who did have a change in living arrangements, a quarter (25%) had family or friends come to live with them, a fifth (20%) moved to live with family or friends, a fifth (20%) broke their lease or it was broken or not renewed by their landlord, 9 per cent had moved to another rental property and 6 per cent now have no permanent address.

“The research noted there is a risk that landlords may shape future risk mitigation strategies in ways that further exclude renting to lower income tenants because they perceive these groups to present a greater risk to rental revenue.”

Financial security

A third of respondents indicated that they were concerned or very concerned about their financial situation. Renters in particular were concerned, with over half of both private (51%) and social (53%) renters concerned or very concerned, compared to home owners (35% of those paying off a mortgage and 25% of those who owned their home outright). Of the 30 per cent of respondents who reported that their household income had decreased a little or a lot since March 2020, a third (33%) were private renters. A third (32%) of social housing renters, by contrast, reported that their income had increased a little or a lot.

While most (79%) housing survey respondents reported having had no trouble paying mortgage or rent, 14 per cent of survey respondents did need to adjust their spending to meet housing costs and a further 3 per cent were unable to pay all or part of their mortgage or rent.

Of those survey respondents who reported that they had trouble paying their rent or mortgage, the main adaptation strategies were to cut spending on other essentials (63%); use personal savings (42%); reduce or defer mortgage payments (21%); access superannuation (17%); and financial assistance from family or friends (15%). Mortgage-holders were more likely to reduce or defer mortgage payments by negotiation with their lender than renters were to reduce or defer rent by mutual agreement with their landlord. This may reflect a greater negotiation capacity among people with mortgages relative to renters; but also the fact that banks received incentives from regulators to re-negotiate loans with their clients, while landlords did not.

Experiences of homelessness

During the pandemic the Tasmanian Government allocated additional funding to support people experiencing homelessness and housing stress with a good degree of success. However, the Tasmanian Government has acknowledged that this 'may change as income support measures and other response measures are discontinued and subject to economic conditions', in turn 'lead[ing] to increased homelessness and housing stress'.

Research indicates that lockdown experiences were defined by secondary forms of homelessness, including temporary, makeshift and inappropriate accommodation arrangements, often without access to appropriate supports. Communities Tasmania data shows that the number of rapid rehousing for cases of reported family violence has been increasing since 2019, peaking in May and July 2020.

What this research means for policy makers

Recovery policies should be place-based, scaled appropriately, targeted to need, funded appropriately, deliver long-term benefits for local areas and would include:

- strong national leadership including large-scale investment to increase the supply of secure, affordable housing, especially social housing for low-income households
- targeted support for households in housing stress—especially in the private market
- targeted regulation of short-stay rental markets
- diversification of employment opportunities to reduce over-reliance on specific employment industries
- Housing-related support for groups that are particularly vulnerable to housing stress and risk, including for young people, people with health-related illness or disability, and adequate financial and social assistance to international students.

Methodology

This research used survey and secondary data, interviewees living in a range of tenure types and input from a housing services industry advisory group. The data was collected over June to November 2020.

To cite the AHURI research, please refer to:

Verdouw, J., Yanotti, M., De Vries, J., Flanagan, K. and Ben Haman, O. (2021) *Pathways to regional housing recovery from COVID-19*, AHURI Final Report No. 354, Australian Housing and Urban Research Institute Limited, Melbourne.

Available from the AHURI website at ahuri.edu.au/research/final-reports/354