HOUSING MARKET DYNAMICS IN RURAL AND REGIONAL AUSTRALIA

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ABSTRACT
Rural and regional housing markets experience many of the same demand and supply drivers as their urban counterparts. However, there are many factors unique to rural and regional centres, both geographical and institutional, which have a significant impact on housing market dynamics. Many of these towns are ill equipped to deal with the rapid pace of change within their housing markets; from population growth stemming from mining activities or sea/tree change movements for example. The result is rapidly declining affordability leading to a range of social issues. But local government is often powerless to respond because it lacks the capacity and knowledge to deliver an appropriate supply response. Staffing and skill issues exist on the planning side but additionally, many towns missed out on government stimulus schemes to boost social housing supply, or deliver NRAS units, because they were unable to devote the time, or lacked the expertise, to complete the many complex application processes. Based on research funded by the Australian Housing and Urban Research Institute (final report no. 165), this paper details some specific examples where housing policy has failed towns and cities in rural and regional Australia. It discusses the decline of affordability, particularly in the private rental market, and recommends how policy could be better focused on delivering housing solutions within regional Australia. The paper concentrates on the case studies of Chinchilla and Townsville to illustrate housing market outcomes in rural and regional Australia.

Keywords: Regional, Rural, Housing Markets, Housing Policy
INTRODUCTION

In the last five years there has been significant policy innovation with respect to the affordability of housing in Australia. This has included the negotiation of the National Affordable Housing Agreement (HAHA) between states, territories and the Federal Government; the roll out of the NRAS; and the prominence awarded to housing issues by the Council of Australian Governments (COAG). It has also included the setting up of the Housing Affordability Fund (HAF) investing up to $512m over five years to reduce the cost of building new homes and facilitating reform of the planning processes with the laudable intention of delivering affordability gains for home purchasers. How such national housing affordability policy initiatives will impact on regional housing markets across Australia, however, remains to be seen. Rural and regional centres tend to miss out in terms of affordability measures and outcomes because of the absence of key institutions or investors; the absence of effective planning and land supply processes and a lack of knowledge by policy makers of the housing needs in these locations. The characteristics of rural and regional housing markets, local economic structures and local governance issues means many housing policies fail to address pressing need in these locations.

Tully et al (2010) reviewed the literature on regional housing markets in Australia and identified a number of key themes differentiating rural and regional housing markets from their metropolitan counterparts. This paper expands on these themes. There is a small but important literature on regional housing markets in Australia that includes the Rural Centres Housing Study (Econsult 1989); Beyond the Capitals (Beer, Bolam and Maude 1994); research into the supply of rental accommodation (Hassell 2002); and more recently work by Haslam McKenzie et al. (2009) into the nature and dynamics of housing markets in resource towns. Recent research (Wulff et al. 2007, Rowley and Haslam McKenzie (2009)) highlighted the diversity within the housing markets of rural and regional centres: some centres have low growth housing markets, while others are expanding. The degree of remoteness of each settlement and nature of their economy adds to this complexity and brings into policy focus the potential impact of nation-wide—as well as community-focussed—policy measures on these local housing markets. These are significant issues as 30 per cent of the Australian population lives outside the capitals and both small and large centres have been challenged by housing affordability for a sustained period (Beer, Bolam and Maude 1994, Rowley 2009, Senate Select Committee (2008)). Moreover, the situation has worsened in many areas because of the resources boom (Haslam McKenzie et al. 2009) or the ‘seachange’ phenomenon (Haslam McKenzie 2009, Gurran 2006).

Previous research has shown that there are significant impediments to housing supply for both the home ownership and private rental markets in regional centres (Beer 2004; Beer, Bolam and Maude 1994; Hassell 2002) with investment often dependent on local sources. In addition, building construction and land supply is often organised on too small a scale to meet the needs of a growing population. Housing markets in rural and regional centres often appear disconnected from the local economy because of the ageing of the population, the resources boom and fly-in/fly-out or drive-in/drive-out mining, and a dislocation from the global economy which partly drives development finance.

The affordability of housing in large and small non-metropolitan centres across Australia is a pressing policy concern because a shortage of affordable housing:

- acts as an impediment to growth in many regions, postponing or cancelling major investment in resources, agricultural and tourism projects;
- results in an expectation of public investment in housing in these regions—however, the level of need is often less than that evident in the capitals and there is insufficient volume of demand to justify the investment of scarce public capital;
- contributes to labour market shortages, especially with respect to key workers in the health, education and related industries;
- may be exacerbated by the shortage or absence of well established, competent, social landlords and investors operating in these centres and willing to engage with NRAS and other initiatives;
- has an adverse impact on Indigenous Australians who are often concentrated in rural and regional centres. The shortage of affordable housing for Indigenous Australians is often a consequence of tight market conditions for all segments of the population; and
- is affected by population ageing which is more pronounced in many non-metropolitan regions than the capitals, generating a greater demand for low cost housing. (Beer at al 2011):

In some centres, the in-migration of welfare recipients (Marshall et al. 2003) adds to the demand for low cost housing, reducing the ability of the market to meet needs while absorbing capacity within the public housing sector.
Housing markets in Australia’s rural and regional centres are affected by a range of processes common with those operating in the capital cities however, some of the major drivers of metropolitan housing markets are not present, or exert a minimal impact, on regional centres. The key drivers of rural and regional markets are discussed later in the paper.

METHODOLOGY

This paper uses data collected as part of the Australian Housing and Urban Research Institute project “The drivers of supply and demand in Australia’s rural and regional centres” authored by Beer et al (2011). This study collected data on 15 case study locations throughout Australia. Readers are urged to download the full report from AHURI for a more in depth analysis of the key issues. This paper uses some of the data collected to illustrate specific examples where rural and regional markets differ markedly from metropolitan locations and how metropolitan centric housing policy has failed to have the desired impact. In particular it concentrates on evidence from the Chinchilla and Townsville case studies, undertaken by the author of this paper to illustrate key points.

The case studies were selected on the basis of the work undertaken by Wulff et al (2007). Wulff categorised regional housing markets based upon their growth characteristics. For example, non-metropolitan population centres with high growth or low growth housing markets, rural/remote regions with expanding or low growth housing markets and small non-metropolitan towns with expanding or low growth housing markets. The 15 case studies were selected to provide a cross section of the different housing market types. The research methodology was designed to examine the drivers of housing markets within these very different locations and also explore how the locations had changed since the classifications were defined in 2006. The 15 case study locations chosen provided a geographical spread across Australia and were:

• Port Lincoln, South Australia
• Roxby Downs, South Australia
• Barossa-Tununda, South Australia
• Boddington, Western Australia
• Denmark, Western Australia
• Chinchilla, Queensland
• Townsville, Queensland
• Snowy River Shire townships, New South Wales
• Lismore, New South Wales
• Colac, Victoria
• Glenelg-Heywood, Victoria
• Alice Springs, Northern Territory
• Meekatharra, Western Australia
• Nhulunbuy, Northern Territory
• West Coast, Tasmania

Data were collected through quantitative sources such as the ABS as well as housing market data through bodies such as REIWA and RP-Data. The data were used to develop a profile of each of the 15 case study locations. Interviews were then conducted in each of the case study locations with the following actors:

• Planners
• Developers
• Real Estate agents
• Chamber of Commerce
• Local councillors
• State planning authorities
• State housing departments
• Affordable housing providers

The interviews were designed to examine the drivers of demand and supply within the local housing market concentrating particularly on affordability issues and how government initiatives as part of the economic stimulus package affected the local housing market. The outcomes of each case study were combined to draw conclusions related to the impact of housing policy on regional and rural housing markets.
THE DRIVERS OF HOUSING MARKETS IN RURAL AND REGIONAL CENTRES

There are fundamental drivers of housing markets common to metropolitan, rural and regional towns and cities. Demand factors include population growth, the cost and availability of finance, general economic conditions including levels of unemployment and the strength of the Australian dollar, and consumer confidence. The balance between the supply of land and housing and the demand factors identified above, determine prices and rents. In rural and regional areas there are significant variations in the characteristics of housing markets; variations much more significant than those between metropolitan areas. Different drivers will have different impacts depending on certain spatial factors such as concentrations of employment, the local environment (coastal locations for example) and the availability of land, which combine with governance, demographics and heritage factors to determine market outcomes.

Many rural and regional centres are more sensitive to these demand and supply fundamentals. For example, in metropolitan areas, population growth can be diffused across a wide area. In an isolated rural community of 1,000 households, demand led by employment growth, for example, might attract an additional 50 households to the area. If there are no surrounding towns to help accommodate this increase, demand is focused on existing housing putting pressure on rents, in particular. New residents, initially in temporary accommodation, may have the capacity to outbid existing private rental sector tenants causing displacement. Eventually development will occur to address this demand but it may be too late to avoid short term rent and price increases and the displacement of those on low incomes.

This paper uses examples to illustrate the problems facing the housing markets of rural and regional centres. There are certain factors peculiar to such centres that affect the operation of markets, and therefore housing market outcomes. Certain drivers are more important in markets with specific characteristics; the example above notes how population growth in isolated communities, mining towns for instance, can cause rapid price and rent movements. This paper identifies three broad areas affecting rural and regional markets; housing and land supply, employment and demographics and government policy and describes how these areas affect rural and regional markets quite differently from metropolitan equivalents.

Housing and Land Supply

The supply of land and housing is obviously critical to the efficient functioning of a housing market. An undersupply of land will eventually lead to a housing shortage. If demand increases above an equilibrium level price rises will result and eventually housing affordability declines, if incomes do not keep pace. Housing affordability is a major issue in many rural and regional locations and almost always a function of strong demand and weak supply. An adequate supply of land is essential within any efficient housing market and there are a number of processes which need to be in place; planning, development and infrastructure provision for example, to ensure a consistent flow of land for housing. Unfortunately, in rural and regional centres there are a number of obstacles preventing sufficient land release in response to market demand. These barriers differ from those in many metropolitan locations.

Capacity issues were highlighted in many of the 15 case study locations surveyed as part of the AHURI study (Beer et al 2011), particularly in the more remote areas, with the ability of the local workforce to respond to increased demand of central concern. Not only does land need to be released quickly in response to a market upturn, but it also needs to be sub-divided and units developed in sufficient time to avoid a shortage and pressure on prices and rents. Smaller rural and regional centres have to compete with metropolitan areas for labour and often need to pay higher wages to secure staff, particularly when there are major construction projects competing for that labour; particularly problematic in Western Australia and Queensland. The difficulty of actually attracting a builder in more remote locations is often a major problem. Increased labour costs inevitably lead to increased prices for the end consumer which, in turn, impacts on housing affordability. Additional construction costs in many regional areas such as cyclone proofing in coastal North Queensland and Northern Western Australia, add to the cost and duration of building. A lack of economies of scale for land developers and builders and the burden of increased transport costs for many materials can also impact on cost.

Before construction becomes an issue, land actually needs to be released. The speed of land release was identified as a major issue in many rural and regional centres. Again a lack of capacity, this time in the planning system, was a key issue. A high turnover of planning staff and difficulties in securing planners with sufficient knowledge and experience hindered quality planning. In addition, there is often uncertainty about the extent of land release necessary to satisfy the market. In Chinchilla, at the heart of the expansion of resource activities in the Surat basin, the extent of housing demand resulting from an increase in local employment cannot be projected with any certainty. The local authority has two main options when faced with such uncertainty. First, stick to existing land release plans formulated on past data that do not incorporate dramatic population growth and risk undersupplying the market and suffer the consequences of rising house prices and rents. Second, embark of a policy of significant land release to supply potential demand and risk that demand failing to materialise, leading to an oversupply in the market and downward pressure on land prices. Either way there are political consequences of an incorrect decision.
In addition to the uncertainty surrounding the quantity of land released, there were also concerns from developers, landowners and the housing industry that the type of land being released was inappropriate. In areas such as Townsville and Chinchilla, the traditional 500m² block is still prevalent within new land releases. This limits the potential supply of affordable housing given the minimum cost of bringing these lots to the market. A much greater variety in the size of lots offers greater opportunity for the development of a more diverse range of housing. This is not just the case for rural and remote regions, with metropolitan Perth still dominated by traditional 450m² lot sizes, although this is slowly changing as developers realise the market opportunities offered by smaller product.

Chinchilla provides another interesting example. The housing market experiences of many other resource towns such as Karratha, Port Hedland, Mackay etc (see McKenzie et al 2009) have alerted many investors to the potential returns available from investing in the next housing market resourced boom town. The rapid price and rent rises in these towns attracted investors from far and wide, but also local families cashing in on their own housing equity increases. In Chinchilla, the announcement of massive investment in the resources industry has stimulated much speculative building activity in the town, with investors seeking to cash in on the demand from workers moving into the area and the existing shortage of rental accommodation. A market previously dominated by local builders providing homesteads on large lots (2000m² +) has now seen an influx of larger construction firms offering a range of products to suit investors; for example four bedroom four bathroom homes. Chinchilla is relatively close to Brisbane (3 hours by car) so sourcing labour has not been the issue it might have been if the town was more remote. The type of housing product developed in the town has changed significantly and has become more ‘suburban’, reflecting the nature of the builders now operating in the town.

Many of those interviews within the 15 case studies commented on the lack of support from state and local government in terms of ensuring a housing market that delivers a range of housing, including a product that is affordable to those on low incomes. Many remote areas can suffer from very rapid price increases because a demand shock is centred on that town’s housing market and cannot be diffused across neighbouring substitute markets, as they often don’t exist. There is a limited supply of housing so prices and rents rise, often displacing those existing residents on low incomes that cannot afford rising rents, or cannot form a new household through home purchase. There is a limit to the ability of local and state government to respond to demand shocks, but ensuring an efficient land supply mechanism is something that needs to be in place. A rolling supply of land that meets the housing requirements of all households types, not just the needs of investors, is essential. The support of state government in providing guidance and capacity to rural local authorities faced with these issues would ease pressure on a planning system facing significant skills shortages.

### Economic and Demographic Change

Rapid population growth is difficult to absorb in any area, let alone rural and regional centres that have few, if any, satellite towns to satisfy some of the demand. Townsville and Chinchilla are two good examples of how population growth has affected the housing market. In Townsville, strong employment growth in a number of sectors including defence, mining, education and public administration, led to an influx of workers. In the middle to late part of the last decade, around 100 people were arriving per week in the town resulting in chronic rental market shortages and a decline in housing affordability. These rises stimulated development activity in the form of high density apartment development, a typical market response, but permitted through a progressive land release policy and acceptance of alternative forms of development. The increase in supply unfortunately coincided with the GFC and demand dropped causing a number of problems but the market has started to recover. The short term response to the population increase was welcomed by many in the industry but there is on-going concern that resources may be stretched if there is another period of rapid demand. Prices and rents have remained stable in Townsville over the last 12 months, despite the Cyclone Yasi event in early 2011.

Employment opportunities can lead to rapid demographic change. It has already been noted than Chinchilla is experiencing rapid change in its housing market, the result of demand for workers within the Surat basin. Chinchilla was a small, low growth housing market in the early part of the last decade (Wulff et al 2007) but now provides opportunities for investors to secure $450 rents on a purchase price of $450,000. Over the 5 years to 2009, median house prices grew in the town by an average of 11% per annum (REIQ 2009). The last couple of years have seen prices stabilise, largely as a result of the fragile economic climate but also the Chinchilla floods of early 2011, although the floods have had little lasting price impact on the vast majority of the housing market. However, rents continue to rise with the majority of stock available newly completed and well above the current median rent of $300 per week, which has increase almost 5% in the last year (REIQ 2011). There is a split in the rental market; very little for those on low incomes seeing affordable rentals but a surplus of executive accommodation for rent in the high $400s. Demand for this type of accommodation has still to materialise in the numbers investors were expecting.

The resources towns of Western Australia also highlight the impact of employment growth on remote housing markets (Rowley and McKenzie 2011, Haslam-McKenzie et al 2009). Typically, the challenges faced by such towns include the attraction and retention of staff by small businesses and the displacement of households on low incomes, often those in
the cheaper end of the private rental market. Displacement is a key issue as many towns do not have nearby locations that offer more affordable housing, and the services often required by those on low incomes. In Chinchilla and Townsville, residents on low incomes have been forced to move to smaller, surrounding towns and price and rent rises have rippled out as a result. In Chinchilla, the local council were resigned to losing long term residents but were, perhaps naively, confident they would return when the boom past and prices returned to more affordable levels. Little comfort for those displaced and forced to travel long distances, and suffer the resulting cost burden, to access basic services.

A boom in the private rental market caused by employment growth has an impact on the ability of certain groups in society to access accommodation. With very low vacancy rates, landlords are able to pick and choose tenants. The case studies gathered evidence that landlords discriminated against indigenous households, with such households overlooked for tenancies. The discrimination extended to households with children as landlords would always go for the low risk tenants. The onus is on the public sector to house those that cannot access the lower end of the private rental market.

The Impact of Government policy on rural and regional centres

Government policy is central to the operation of many remote housing markets. For example, Meekatharra, in Western Australia, is dominated by public housing and there is a limited private market as a result. Public housing is crucial in supplying housing to those in areas that do not have the opportunity to earn the incomes required to access private sector housing. In areas under pressure as a result of resources led demand, public housing is the only chance they have of securing accommodation, but often public housing is limited as there hasn’t been the perceived need in the past. The Nation Building Economic Stimulus package provided an opportunity to address the public housing shortfall but it failed to address critical need in the vast majority of rural and regional towns for a number of reasons. The failure of local authorities and state government to identify housing need meant there was no measure of demand in locations crying out for housing. House prices in many rural and regional areas are low in comparison with metropolitan areas. Policy makers perceive affordable markets and therefore limited need for intervention. What they often fail to understand is the lower incomes available to those in such areas, outside the mining towns. There is also a stigma attached to public and social housing in many rural communities making the housing tenure politically unpopular.

Local authorities often lack the capacity to apply for government affordable housing initiatives. The expertise, staff resources and guidance required to complete the complex application processes are largely unavailable for small local authorities. It is a struggle to cope with core business let alone allocate the time to completing processes without a guaranteed end result (a problem familiar to academics). Boosting the supply of public housing comes with it a requirement for increasing supporting services and infrastructure. The management alone of public housing is an issue, but public housing tenants often require additional support services and funding is always tight. Public housing tenants in remote areas often have to travel long distances to access the services they require, particularly those with physical and mental health disability.

Initiatives such as the housing affordability fund were off the radar of small local authorities that might have benefited from the funding. Those that had heard about the scheme were of the opinion that it was the domain of metropolitan authorities and state government. The National Rental Affordability Scheme (NRAS) was slightly more successful with rural and regional communities receiving some housing through the initiative, although it tended to be the larger authorities with the capacity to support applications that were successful. Chinchilla was an exception securing 17 NRAS properties in the first round. An application was submitted for 70 but funding restricted to 17 because the state government were keen to avoid an oversupply. They did not want a situation where a number of NRAS properties were left vacant leaving the scheme open to criticism. Chinchilla has the sort of housing market supportive of NRAS, with capital growth predicted over the coming years and a low rental vacancy rate at the cheaper end of the rental market. Townsville had limited success in the first round but growing awareness, and partnerships with the private sector, led to an expected outcome of 300 units from the third funding round. There was some concern that NRAS properties would be located on out of town housing developments and suitable only for tenants with the ability to afford costs of commuting to work. The Urban Land Development Authority is active in Townsville offering a potential supply of affordable housing through new development activity.

Local governments within case study areas agreed that greater efforts were needed to secure a supply of affordable housing to meet the needs of the community, particularly those in the gap between social housing and the private rental market. The delivery of affordable housing, widely defined, is not the responsibility of a single agency and this was felt to hinder supply. Local authorities wanted to take more of a lead in supplying affordable housing but were unsure how to go about this. Planning reform was also high on the agenda with land supply and zoning regarded as critical issues in the delivery of diverse housing.

There are a number of lessons to be taken from recent government policy initiatives. The main one is there is no one policy fits all approach. Rural and regional markets differ dramatically; from coastal locations affected by population...
growth stemming from sea change movements, to remote mining communities struggling with the impact of employment led demand. Such isolated markets can change very quickly following demand shocks. The lack of nearby substitutes to absorb demand magnifies the differences in housing market dynamics between such locations and metropolitan suburbs and cities.

Financial institutions are often reluctant to lend in areas considered higher risk locations because of the uncertain nature of housing markets. Securing finance for development in the current climate is very difficult and there is a concern the current hiatus in housing supply will cause major issues if/when demand returns following an increase in consumer confidence in the economy.

Public housing is vital for those on low incomes as private sector investors are loathed to supply the bottom end of the private rental market due to additional risk from maintenance costs, non payment of rent and limited potential for capital growth in such properties. However, there is a lack of evidence of housing need in rural and regional communities. With so little housing available, many who would have placed themselves on the waiting list have given up because of the lack of turnover in the public sector stock. Local authorities lack the resources to undertake housing needs studies. This masks the true extent of the demand for the tenure.

Current initiatives such as the HAF and NRAS have a limited impact because of the complexity of the application process and general staffing issues prevent forward planning in housing strategies. Local authorities know their housing needs better than any state government and need to be supported in developing strategies to meet these needs.

CONCLUSIONS

Rural and regional centres remain an important part of Australia’s housing landscape. Rural and regional housing markets display many features that distinguish them from metropolitan housing markets and, in part, this reflects both the unique geographic location of each centre, but also issues of scale and position within the national economy.

In many rural and regional centres the pace of change within their housing markets has been substantial. Much of rural and regional Australia has been affected by the rapid house price inflation evident across Australia since the year 2000. Many regions have been affected by the ‘resources boom’ which has placed increased strain on many housing markets and resulted in bifurcated housing markets: one segment of the market is focussed 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 housing market. There is evidence of market failure in the rental market. Critically, public and social housing provision is inadequate while the private rental market appears problematic partly because of a shortage of investors, partly because of inappropriate planning regulations and in some measure as a consequence of the low wage, high variability labour markets in these regions.

Measures being used by local, state and Australian governments to boost the supply of affordable housing in these centres are having only a minor impact. Programs such as NRAS, HAF and NAHA have little profile in rural and regional Australia with most of our case study authorities either unaware of these initiatives or dismissing them as focussed on the capital cities. In addition, the application processes for such schemes need to be geared to rural and regional centres which often have smaller budgets, limited capacity to complete lengthy application processes and restricted scope to work with multiple partners. Targeting some programs to rural and regional centres is an obvious step in meeting the needs of non-metropolitan residents. Such programs need to be focussed on developing effectively functioning housing markets in the first instance and then latterly further developing the rental market.

The lack of substitute markets removes price diffusion from the equation when demand shocks occur. In a normal market consumers will switch to a substitute market if prices rise in their target market. This is not possible in remote locations where there are no adequate substitutes. In locations where there are small, satellite towns which lack adequate services, those on low incomes, many of which have specific needs, are forced into these locations. Prices ripple outwards and even poorly services areas become unaffordable. The displacement of those on low incomes is then inevitable. A supply of affordable housing is even more important in rural and regional centres but current government initiatives are failing to deliver this supply.

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