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REGIONAL
HOUSING

INNOVATION &
PRODUCTIVITY

SHARED INQUIRY PROGRAM 2021-22

BUILDING THE GOOD LIFE

FOUNDATIONS OF REGIONAL HOUSING
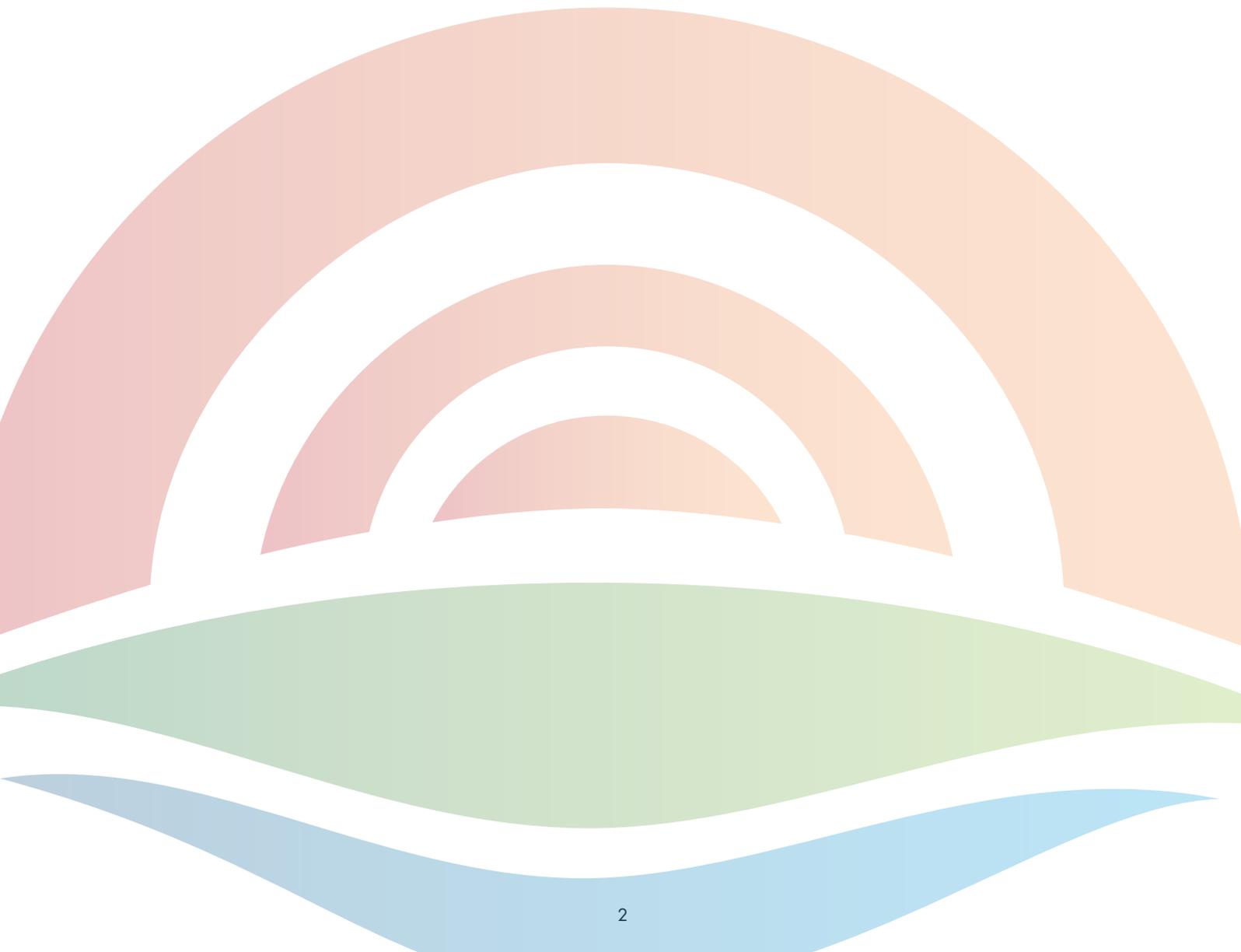
May 2022

Knowledge | Policy | Practice

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ACKNOWLEDGMENT OF COUNTRY

The Regional Australia Institute acknowledges all Traditional Custodians across this vast land. We respect Elders past and present and are grateful for the enrichment such living cultures bring to our lives.

ABOUT THE REGIONAL AUSTRALIA INSTITUTE

Independent and informed by both research and ongoing dialogue with the community, the Regional Australia Institute (RAI) develops policy and advocates for change to build a stronger economy and better quality of life in regional Australia – for the benefit of all Australians. The RAI was established with support from the Australian Government.

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ACKNOWLEDGEMENTS

REFERENCE

This paper can be referenced as:

Building the Good Life: Foundations of Regional Housing (2022). Canberra, The Regional Australia Institute.

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EXECUTIVE SUMMARY

Regional Australia is experiencing a moment in history like no other. In the decade to 2020, its population grew by an average of 76,500 people per annum. A life in the regions is now more attractive than ever before.

However, as millions of Australians either choose to stay in the regions, or make the move, this surge in popularity brings with it growing pains that need to be addressed to accommodate the changing population trajectory in this country.

With more than 84,000 jobs advertised in March 2022 – yet another record broken – regional employers are looking for staff and they need appropriate housing to accommodate them.

This document, *Building the Good Life: Foundations of Regional Housing*, aims to assist policymakers, industry and regional leaders to establish placed-based initiatives rather than take a 'one-size-fits-all' approach to address the current pressures being felt in many regions.

This report summarises a multi-stage project undertaken by a team at the University of South Australia for the RAI's Intergovernmental Shared Inquiry Program in 2021-22 led by Professor Andrew Beer, a leading expert on housing in Australia.

Using key statistical data, the analysis found six clusters of housing markets, five of which are predominantly rural and regional markets. The six groupings are:

1. Stalled: (Small, inland and low-cost)

2. Volatile: (Small, low-cost and volatile)

3. Stable: (Mid-sized, agricultural - Murray-Darling - stable)

4. Coastal: (Larger, average-cost, coastal QLD and WA)

5. Growth Zone: (Peri-urban, urban, major regional cities) and

6. Most Expensive: (Sydney and Melbourne)

In the decade to 2020, Regional Australia's population grew by an average of 76,500 people per annum. **A life in the regions is now more attractive than ever before.**

While geography (location) was not one of the inputs to the analysis, mapping the locations of the Local Government Areas (LGAs) in each cluster in fact shows common spatial characteristics – notably degree of proximity to large cities and distance from the coast.

The characteristics of each group emphasises how important it is in Australia to ensure that responses to regional housing challenges are place-based. With the drivers of markets quite different in respective clusters, responses need to be calibrated accordingly to ensure they improve the situation rather than make it worse.

If blanket policies are introduced to incentivise new builds within stalled markets (Cluster 1) it may also exacerbate land-supply pressures in the more active markets (Cluster 3 to 5). Conversely, policies to bring more land to market should help alleviate undersupply in fast-growing regions but will have no impact on low-growth regions where supply is already plentiful.

Following an extensive literature review of published works on regional housing in Australia as well as drawing on international responses in Scandinavia, the USA, Canada, and the British Isles, *Building the Good Life: Foundations of Regional Housing* confirms that the five regional housing markets are distinctive – not only in relation to capital city markets, but also in relation to each other – with many marked by a significant risk of market failure.

Researchers concluded that regional housing markets are not served well by current policy settings, especially those of the senior two levels of government. Regional housing markets are troubled by limited new housing supply as a result of inadequacies in the planning system, variable and small-scale demand over time, long supply chains and the absence of economies of scale.

The result – as illustrated by the literature – is that regional housing is often unaffordable in particular for low-income earners. The challenges in regional housing are also potentially an impediment to economic growth.

EXECUTIVE SUMMARY (CONT.)

For the past 10 years, the RAI has been dedicated to providing authoritative and trusted research and policy advice on regional issues. Our research firmly points to the conclusion that Australia will be a stronger, more prosperous nation if our regions are stronger. To optimise growth in regions, the recommendations of *Building the Good Life: Foundations of Regional Housing* include:

- Recognising that housing affordability is a major challenge for particular groups in rural and regional Australia. The geography of housing affordability and unaffordability is highly variable and must be taken into account in policy responses for addressing affordability problems across the country;

- Introducing specialist finance for rural and regional areas in need of 'top up' assistance;

- Focusing on the ageing of local populations – this is more pronounced in regions than in capitals, generating growing demand for well-located, smaller-scale, medium-density and often low-cost housing;

- 'Activation' of local housing markets by State and Local governments investing in the local housing stock and providing other forms of assistance;

- Boosting local employment prospects in these regions, and thereby raising the demand for and affordability of housing;

- Collecting timely statistics on housing need (including supply and demand) and housing conditions generally in rural and regional areas;

- Improving the promotion and targeting of housing initiatives to rural and regional centres;

- Designing housing programs in ways that meet the needs of regional centres. This may mean the development of programs that require smaller budgets and have less onerous application processes;

- Targeting some housing programs to regional centres;

- Increasing the supply of housing for Indigenous Australians by maintaining a commitment to the long-term supply of appropriate housing (addressing the prominent issue of overcrowding) and the maintenance of such housing;

- Matching the provision of infrastructure in rural and regional centres to the supply of additional land for housing. Appropriate infrastructure will both result in growth opportunities and ensure higher rates of labour force participation – including among women with care responsibilities – thereby raising household incomes and addressing the issue of housing stress; and

- Making the provision of affordable housing a priority in the development of planning schedules. Often state legislation prioritises other factors – including the preservation of agricultural land for environmental concerns. While these issues should not be ignored, housing affordability needs to be considered.

For the past 10 years, the Regional Australia Institute has been dedicated to providing authoritative and trusted research and policy advice on regional issues. Our research firmly points to the conclusion that Australia will be a stronger, more prosperous nation if our regions are stronger.

Contents

Background

This work was undertaken as part of the RAI's Intergovernmental Shared Inquiry Program. This Program is funded and directed by a group of Commonwealth, State and Territory Governments to undertake public interest research and policy work on topics of contemporary interest.

The Program has two themes in 2021-22:

1. Regional Housing; and

2. Regional Innovation and Productivity.

This report summarises two key pieces of research completed as part of the regional housing theme. This report sits alongside RAI's regional housing discussion paper – *Building the Good Life: Meeting the Demand for Regional Housing*. The full package of regional housing work will be completed in June 2022.

The research summarised in this report was undertaken by a team at the University of South Australia comprising some of Australia's leading experts in housing issues, including regional housing. The team was Professor Andrew Beer, Associate Professor Vij Akshay, Dr Jessica Porter and Ms Sandy Horne.

The project started with a review of existing knowledge – published work – on housing in regional Australia. The team also conducted additional analysis of issues and responses in regions internationally – drawing out important lessons for the Australian context. The project's second stage was a quantitative analysis that sought to identify distinctive clusters in the Australian housing market.

The review of existing knowledge covered:

1. Australian regional housing research – a general literature review of main themes and findings;

2. Australian regional housing policies – a history of regional housing issues and policy responses, including the role housing has played in supporting or constraining regional economic growth;

3. International examples of countries identifying regional housing as a challenge and implementing policies to respond. Examples include initiatives in Scandinavia being developed through the Nordregio organisation and policy approaches in USA, Canada and British Isles;

4. Current Australian regional housing policies – with this aspect of the work examining the role the Commonwealth is taking in this policy domain, and the main policies and programs in each of the states and territories (at the time of research).

Seven key policy-relevant questions underpin this research project:

1. **What are the drivers of Australia's regional housing markets?**

2. **How can regional areas be better positioned to respond to changing housing needs?**

3. **What is the nature and scale of market failure in regional settings?**

4. **What is the nature and scale of the social and economic consequences of this market failure?**

5. **Are there commonalities amongst different regional housing markets?**

6. **Can a regional housing market 'typology' be developed? – to guide and enable place-based responses. That is, are towns with particular attributes susceptible to particular types of market performance or market failure?**

7. **What are the policy (and community) responses – and how do they vary according to the type of town?**

The review of the available literature, alongside the analysis of international publications and the quantitative analysis, is sufficient to present answers to all seven questions in detail. The findings of each of the seven questions are presented on the following pages.

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Research: Drivers and Findings

1. DRIVERS OF REGIONAL HOUSING MARKETS

WHAT ARE THE DRIVERS OF AUSTRALIA'S REGIONAL HOUSING MARKETS?

The review has shown that there are multiple drivers of regional housing markets in Australia. These include:

- The nature, size, growth rate and composition of the local economy. Some industries result in very distinctive housing markets affected by marked volatility and a relatively high turnover of households. Elsewhere, industries with no, or limited growth may see housing markets stagnate both in terms of new household formation and prices;

- The processes of population change are, in and of themselves, a driver of regional housing markets. They may exert an impact independent of local economic conditions. Examples include the impacts of 'seachange' and 'treechange' migration to attractive localities;

- National housing conditions, with the general condition of the economy and housing market shaping the demand for housing in some rural and regional centres; and

- In some places the growth of the largest cities drives regional housing demand as urban-based workers seek more attractive environments and/or affordable housing. This trend has become more evident with the onset of the COVID-19 pandemic.

In many ways regional housing market dynamics reflect the reality of a national economy that continues to grow, but with development concentrated in the major metropolitan centres, and a population that is both aged, and continues to grow older. These processes have resulted in relatively complex patterns of growth and stagnation. Proximity to the major urban centres is a likely determinant of economic and population expansion, alongside the attractions of scenic locations. Many rural industries continue to restructure and shed labour, adding pressure on the future viability of many rural and regional housing markets.

2. RESPONDING TO CHANGING HOUSING NEEDS

HOW CAN REGIONAL AREAS BE BETTER POSITIONED TO RESPOND TO CHANGING HOUSING NEEDS?

Regional areas can be better positioned to respond to changing housing needs through the development of more responsive housing supply and through the implementation of policies that sustain the land development and dwelling construction industry in the long term. In part, this calls for long term planning to ensure there is a consistency in demand across years, thereby ensuring the availability

of skilled labour, appropriate technical expertise, and confidence in the local market.

Direct investment by governments, including in state and community housing provision, could ensure the vibrancy of local dwelling construction during periods of lower demand.

The review of the international literature has drawn attention to a far wider array of potential policy solutions than are currently applied in Australia.

From the literature focused on successful approaches in the Nordic regions of the world we can recommend greater consideration of the following actions:

- Develop policies that boost housing markets by making the places that constitute them more attractive living environments. This can include the provision of infrastructure, services and enhanced employment opportunities;

- Provide government support to 'top up' the financing of housing, in recognising and in response to some declining housing markets being 'stalled'; and

- Develop strategies and actions to both incentivise and enable rural and regional local governments to take positive steps to encourage additional housing provision. Planning instruments are a key focus for reform, as are practices around the servicing and development of land.

From the analysis of relevant literature drawn from the British Isles we can conclude that:

- A reliance on planning instruments alone is not sufficient; and

- Further development of housing associations and other social housing providers in regional Australia may generate significant benefits for these housing markets.

Finally, we can conclude from the US and Canadian literature on this topic that:

- Locally-driven housing planning and development models – those which bring together key stakeholders across the local building industry, business, community and government – have some potential to redress local housing market challenges, but their impact may be limited by the actions and policies of central governments;

- Subsidy programs for investment in rural housing may generate positive outcomes, but they need to be of some considerable scale to provide a complete solution; and

- New housing strategies focused on older people living in rural and regional areas have greater chance of success. The US experience indicates new housing developments targeted to a local community's older generations is generally more acceptable to the wider community than low-income housing.

3. REGIONAL HOUSING MARKET FAILURE

WHAT IS THE NATURE AND SCALE OF MARKET FAILURE IN REGIONAL SETTINGS?

The nature and scale of market failure in regional housing markets is both substantial and profoundly impactful. It has a number of dimensions, including:

- The total absence in many places of available housing for incoming workers to a country town or other regional settings;
- Sustained unaffordable housing, resulting in poor living conditions and – potentially – overcrowding;
- Long commuting times for workers in some regional centres, forced by price to live some distance from their place of work;
- Under-investment in the housing stock, resulting in under maintained dwellings and housing that is a risk to human health; and
- The decline of some housing markets results in property owners 'trapped' and unable to realise the capital they have invested in their home.

In addition, the cluster analysis undertaken as part of this project found two of the six clusters identified could be considered as 'failed' or stagnant housing markets (Clusters 1 and 2). In total this represented some 54 local government areas of the 396 included in the analysis. These LGAs represent a sizeable proportion of the national land area, if a relatively small portion of the national population

Overall the data presents a compelling case for policy intervention as nearly 15 per cent of all LGAs with population greater than 1,000 persons have 'stalled' or failed housing markets.

4. SOCIAL AND ECONOMIC CONSEQUENCES

WHAT IS THE NATURE AND SCALE OF THE SOCIAL AND ECONOMIC CONSEQUENCES OF THIS MARKET FAILURE?

It's clear that there are profound consequences from the failure of regional housing markets. In an ideal world an estimate of this cost would be made at a whole of nation level using an econometric model. This information, however, is not available but we can indicate the types of impact that are experienced:

- Higher labour costs as firms need to pay more to attract staff into localities with limited housing options;
- Elevated staff turnover in enterprises as staff relocate to find more affordable housing;
- Reduced living standards as some households pay unaffordable rents to secure a home;
- Lost business opportunities that enable existing businesses to grow and attract new firms as investors, whilst also being confronted by the absence of an available labour force; and
- The costs of extended commuting (financial and with respect to time).

Importantly the international literature has highlighted the very high costs of rural housing market failure. In the US, failed housing markets have been associated with long term, entrenched disadvantage that has been evident for more than a century. In Sweden, Finland, Denmark and Norway, stalled housing markets have been linked to lost development opportunities, population loss, an ageing of the existing population and the loss of young people, as well as a housing stock that is either declining in value or abandoned.

5. REGIONAL HOUSING MARKET COMMONALITIES

ARE THERE COMMONALITIES AMONGST DIFFERENT REGIONAL HOUSING MARKETS?

It is possible to identify commonalities across different types of housing markets, and these include:

- Small size relative to the metropolitan labour markets;
- The impacts of remoteness and distance from major economic centres with respect to the supply of goods and services, resulting in relatively vulnerable supply chains;
- Volatility in housing demand and prices;
- Reduced policy attention from governments, especially the senior tiers of government; and
- Differentiated population structures that are commonly distinctive relative to Australia as a whole.

The cluster analysis has identified commonalities across Australia's rural housing landscape. Key factors in this grouping of housing outcomes includes income levels and income growth; movement in property prices; the structure of housing markets with respect to tenure and the level of development activity; and population size.

6. REGIONAL HOUSING MARKET 'TYPOLOGY'

CAN A REGIONAL HOUSING MARKET 'TYPOLOGY' BE DEVELOPED TO GUIDE AND ENABLE PLACE-BASED RESPONSES?

It is possible to develop a regional housing market typology, with several previously developed and discussed in the academic literature. The typology developed by Wulff et al. (2007) would appear to have several advantages given that it is focused on the dynamics within the market, rather than the influence of industry structure or other factors.

The cluster analysis completed for this project has provided a robust typology of Australia's regional and rural housing markets which in summary can be characterised as:

1. **Stalled**: (Small, inland and low-cost)

2. **Volatile**: (Small, low-cost and volatile)

3. **Stable**: (Mid-sized, agricultural - Murray-Darling - stable)

4. **Coastal**: (Larger, average-cost, coastal QLD and WA)

5. **Growth Zone**: (Peri-urban, urban, major regional cities)

6. **Most Expensive**: (Sydney and Melbourne)

Analysis completed for this project showed that these cluster groupings can be clearly delineated and are statistically significant in character. While geography (location) was not one of the inputs to the analysis, mapping the locations of the LGAs in each cluster in fact shows common spatial characteristics – notably proximity to large cities and distance from the coast. A snapshot of the characteristics of each of these clusters and suggestions of response options for consideration are presented in the second part of this report.

The delineation of these groups emphasises how important it is in Australia to ensure that responses to regional housing challenges are place-based. With the drivers of markets quite different in different clusters, responses need to be calibrated accordingly to ensure they improve the situation rather than make it worse. For example, policies to increase incentives for new builds should help stalled markets but may exacerbate supply chain pressures if applied to more active markets. Conversely, policies to bring more land to market should help alleviate undersupply in fast growing regions but will have no impact on low growth regions where supply is already plentiful.

7. POLICY AND COMMUNITY RESPONSES

WHAT ARE THE POLICY (AND COMMUNITY) RESPONSES – AND HOW DO THEY VARY ACCORDING TO THE TYPE OF TOWN?

Previously published work reviewed for this project focused on the steps that should be taken by Australian governments to better address the housing needs of Australians living in regional settings, these included:

- Recognising that housing affordability is a major challenge for particular groups in rural and regional Australia. The geography of housing affordability and unaffordability is highly variable and must be taken into account in policy responses for addressing affordability problems across the country;

- Introducing specialist finance for rural and regional areas in need of 'top up' assistance;

- Focusing on the ageing of local populations – this is more pronounced in regions than in capitals, generating growing demand for well-located, smaller-scale, medium-density and often low-cost housing;

- 'Activation' of local housing markets by State and Local governments investing in the local housing stock and providing other forms of assistance;

- Boosting local employment prospects in these regions, and thereby raising the demand for and affordability of housing;

- Collecting timely statistics on housing need (including supply and demand) and housing conditions generally in rural and regional areas;

- Improving the promotion and targeting of housing initiatives to rural and regional centres;

- Designing housing programs in ways that meet the needs of regional centres. This may mean the development of programs that require smaller budgets and have less onerous application processes;

- Targeting some housing programs to regional centres;

- Increasing the supply of housing for Indigenous Australians by maintaining a commitment to the long-term supply of appropriate housing (addressing the prominent issue of overcrowding) and the maintenance of such housing;

- Matching the provision of infrastructure in rural and regional centres to the supply of additional land for housing. Appropriate infrastructure will both result in growth opportunities and ensure higher rates of labour force participation – including among women with care responsibilities – thereby raising household incomes and addressing the issue of housing stress; and

- Making the provision of affordable housing a priority in the development of planning schedules. Often state legislation prioritises other factors – including the preservation of agricultural land for environmental concerns. While these issues should not be ignored, housing affordability needs to be considered.

There is, however, also scope for communities to take a degree of responsibility for their own housing future, with groups of individuals and organisations coming together to help those in greatest need. Some of the Scandinavian, UK and Canadian material reviewed is relevant to this question as it provides alternative approaches to dealing with problems very similar to those facing many parts of regional Australia.

Suggestions for policymakers to consider in addressing the challenges in different housing markets in regional Australia are included in the description of each cluster in the second part of this report.

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Policy neglect surrounding rural and regional Australia, in particular housing, has long been identified as having a significant influence on regional economies.

Domestic Policy Review

Policy neglect surrounding rural and regional Australia, in particular housing, has long been identified as having a significant influence on regional economies. The research has found that 'one size fits all' policy approaches have resulted in the housing issues facing rural and regional Australia worsening over time. In particular, state government programs – embedded uniformly across that jurisdiction – may result in perverse outcomes as interventions that may be beneficial in the metropolitan area are often ineffectual in rural regions. In many instances, policies that are effective in one part of regional Australia, offer no benefit in other regions.

Regarding specific programs and policies, the most influential Federal government interventions in Australian housing have been:

• The Commonwealth State Housing Agreement (CSHA)

• The National Affordable Housing Agreement (NAHA)

• The National Housing and Homelessness Agreement (NHHA)

Another key national incentive is the National Rental Assistance Scheme (NRAS).

The CSHA played a fundamental role in the policy directions for housing in Australia from 1945 until 2009. Federal government interventions such as the CSHA, the NAHA and the current NHHA have been the catalysts for a number of other housing interventions.

Meanwhile, NRAS has had limited impact in many parts of regional Australia because of:

• A lack of local knowledge about the conditions and operations of the program;

• The limited number of social housing providers based in regional Australia;

• The prioritisation afforded to metropolitan areas where needs were considered to be more acute; and

• The limited investment pool in many regions.

In 2011, the Federal government introduced the Building Better Regional Cities (BBRC) Program to address affordable housing across rural and regional Australia. The program aimed to provide 15,000 houses for low to moderate-income earners through directly funding local government. This was to assist in land releases and infrastructure projects that could support affordable housing.

Each of the States and Territories have adopted housing strategies under the NHHA, enabling the States and Territories to receive Federal funding to address housing and homelessness. The focus on housing in rural and regional areas varies across these strategies.

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International Insights

NORDIC EUROPE

Nordic Europe – namely Norway, Sweden, Denmark and Finland but including also smaller territories such as Iceland and the Faroe Islands – has acknowledged the challenge of rural housing and its social, economic and cultural sustainability.

The research found that rural housing markets in many parts of Nordic Europe are 'frozen'. The dynamics are very similar, if not identical to what occurs in Australia's own small, remote, inland markets. These Nordic rural housing markets are often frozen because the price of the extant housing is often below the cost of construction, which in turn serves to discourage new building, effectively freezing investment and financing. This occurs despite the fact that even in declining rural areas there remains a need for new housing construction, if only to modernise the stock.

Where finance is available, lenders take a conservative valuation of new construction, which forces the borrower to save more, effectively slowing down the replenishment of the stock. This outcome has impacts that extend beyond the housing market as this leaves rural regions facing a downward spiral, where the general trends of urbanisation and an ageing population lead to depopulation and decreasing prices on the housing market. In turn, this results in a deteriorating and frozen rural housing sector, which then has negative consequences for rural development and feeds into the general urbanisation trend.

Across the Nordic regions, nations have taken more direct action with some offering a mix of subsidies, direct loans and loan guarantees to support investment in rural housing stock.

Local authorities play an active role in these nations in supporting rural housing markets through:

- Reactive and proactive planning;
- The facilitation of market processes to broker deals and developments;
- Direct investment in housing;
- Indirect financial support through loan guarantees; and
- By increasing the attractiveness of that region.

THE USA AND CANADA

The USA and Canada have much in common with Australia when it comes to considering the issues associated with rural housing: both are large nations, they are federations, they have large mining industries, they are important producers of agricultural products; and, in the case of Canada, they share a Westminster system of government.

In the US, government programs and assistance for rural housing is largely supported by the Federal Government. Over the last 60 years the most important government intervention in rural housing markets in the USA has been the rural housing programs supported by the US Department of Agriculture (USDA). By Australian benchmarks, the USDA provides substantial assistance into US rural housing markets.

The Department initially set out to lend to farmers to construct, improve, repair and replace farm buildings in order to provide decent homes for farm workers during the immediate post-war period. Over time, its remit has widened to lend to rural residents generally. More recently, many of these loans have been for the construction of homes for older people as this type of development is generally more acceptable to communities than low-income housing. Despite this focus, the legislation under which this lending occurs allows for the following broad forms of lending and support:

- Single family housing loans;
- To modernise homes, especially for farmers and other rural residents lacking the income to qualify for USDA single family homes – targeted at those with incomes 50 per cent less than the area median;
- Funding for construction defects and underfunded areas;
- Housing for farm workers, with loans available to farmer owners, associations of farmers, and not-for-profit organisations;
- Rural rental housing – but only for elderly residents;
- Rental assistance and interest subsidies made to borrowers;
- Self-help housing for not-for-profits looking to subdivide land for mutual self-help construction;
- Loans for developing building sites;
- Housing preservation grants; and
- Guaranteed loans for rental housing.

Canada has more in common with Australia than the USA because of its history, political structure and position in the global economy. However, the two nations have significant differences with respect to housing policies and programs and regional development programs. Until the 1980s, Canadian provincial governments had a significant engagement with housing issues but, since then – like Australia – more market-oriented philosophies have been dominant.

THE BRITISH ISLES

In Ireland, Scotland, Wales and England where population densities – relative to Australia – are high, national policies appear to dominate outcomes in rural housing markets.

Research in 2009 found housing policy incoherence in rural Ireland, as planning and development policies emphasised landscape preservation and the environment, and did not pay sufficient attention to social, economic and cultural life.

United Kingdom Government policy commits to the delivery of affordable housing in rural areas through planning, yet little affordable housing was found to be provided because of:

- Negative attitudes to social housing;

- A lack of information on housing needs in local areas;

- Issues of land availability;

- The need to build capacity in local authorities to plan for housing; and

- The need to reduce or avoid opposition to low-cost housing developments.

Research on policy in Scotland found that the Rural Home Ownership Grant provided by the Scottish Parliament for self-provided housing boosted effective demand and overcame a land availability constraint. This grant was intended to encourage those aspiring to enter home ownership to take on the task of overseeing the construction of their home, thereby adding to the sector's capacity to build new homes. While the program was perceived to be a success, more needed to be done to provide additional sites for such development, with land availability a significant constraint throughout rural Scotland.

Six Distinct Housing Markets and Policy Considerations

APPROACH

To develop a regional housing market typology, housing markets across 396 local government areas (LGAs) across Australia (metropolitan and non-metropolitan) were examined. The sample only included LGAs with populations greater than 1,000 residents at the 2016 Census and excluded LGAs where there was insufficient information regarding their local housing markets.

For each LGA in the sample, the analysis used the following list of 15 input variables:
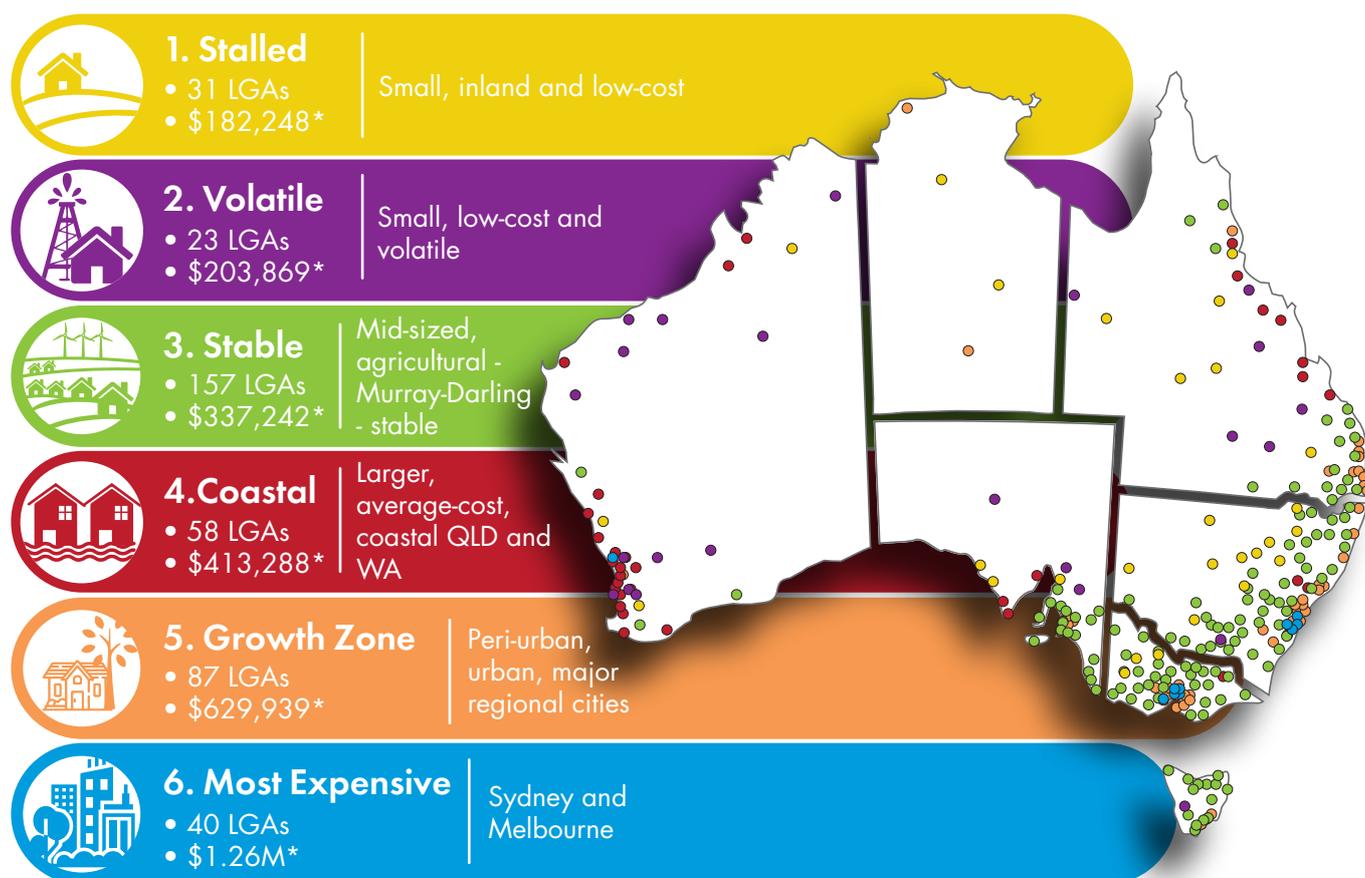
1. 2016 Census population

2. 2020-21 median sales price for all dwellings

3. 2000-2008 average year-on-year growth in median sales price for dwellings

4. 2008-10 average year-on-year growth in median sales price for dwellings

5. 2011-12 average year-on-year growth in median sales price for dwellings

6. 2016-21 average year-on-year growth in median sales price for dwellings

7. 2020-21 average year-on-year growth in median sales price for all dwellings

8. 2017-18 median income

9. 2011-18 median income growth

10. 2017-18 price-to-income ratio

11. 2020-21 median rent for all dwellings

12. 2021 vacancy rate for all dwellings

13. 2020-21 median rental yield for all dwellings

14. 2021 renter ratio for all dwellings

15. 2016-20 average annual value of approved residential building work per capita

Note that there are no geographical variables in the list (such as distance from capital city or distance from coast) and yet, as the maps on the following pages show, each identified cluster has distinct geographical similarities.

The analysis used statistical techniques to identify discrete clusters of LGAs with similar mixes of these 15 variables. Candidate models of 2, 3 and 6 clusters were shortlisted, and then the results for each model examined in greater detail. The analysis found that the 3 and 6 cluster models offered similar interpretation, but the latter offered a more nuanced picture. Therefore, the 6 cluster model was selected as the preferred specification. The table on the following page (Table 1) provides a narrative summary of each of the six clusters.

Glorious profile and position

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1. Stalled
- 31 LGAs
- $182,248*

Small, inland and low-cost

2. Volatile
- 23 LGAs
- $203,869*

Small, low-cost and volatile

3. Stable
- 157 LGAs
- $337,242*

Mid-sized, agricultural - Murray-Darling - stable

4. Coastal
- 58 LGAs
- $413,288*

Larger, average-cost, coastal QLD and WA

5. Growth Zone
- 87 LGAs
- $629,939*

Peri-urban, urban, major regional cities

6. Most Expensive
- 40 LGAs
- $1.26M*

Sydney and Melbourne

* Denotes median prices as at 2020-2021

Table 1: Narrative summary of clusters

	Stalled Cluster 1	Volatile Cluster 2	Stable Cluster 3	Coastal Cluster 4	Growth Zone Cluster 5	Most Expensive Cluster 6
Spatial distribution	31 inland regional LGAs across the nation	23 inland regional LGAs across the nation	157 LGAs located in the Murray Darling basin and Tasmania	58 LGAs located WA in and around Perth, or Central and North Queensland	87 LGAs in and around large metropolitan areas	40 metropolitan LGAs clustered around Sydney and Melbourne
Population size	Small average population of 7,803 residents	Small average population of 9,007 residents	Median average population of 23,240 residents	Median average population of 46,903 residents	High average population of 134,447 residents	High average population of 94,635 residents
Income	Low incomes but high-income growth	High incomes but low-income growth	Low incomes but high-income growth	Median incomes and low-income growth	Median incomes and high-income growth	High incomes and high-income growth
Property values	Stagnant or declining values in recent times	Volatile, rising sharply before the GFC, declining sharply after, and rising again after the COVID-19 outbreak	Relatively cheaper, stable and steadily growing in value	History of stagnant or declining values until very recently	Relatively affordable housing markets that have grown steadily in value	Highly attractive and expensive housing markets with steady growth in value
Other characteristics of the housing market	Low proportion of renters, history of high vacancy rates, low development activity	Low proportion of renters, history of high vacancy rates, low development activity	Low proportion of renters, low vacancy rates, moderate development activity	Low proportion of renters, low vacancy rates, moderate development activity	Moderate proportion of renters, low vacancy rates, moderate development activity	High proportion of renters, low vacancy rates, high development activity

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1. Stalled
Small, inland and low-cost

MARKET CHARACTERISTICS

- The 31 LGAs in this small cluster tend to be small inland regional LGAs and have an average population of 7,803 residents. These LGAs have low average incomes, but high income growth rates.

- Local housing markets in these LGAs appear to be stagnant or in decline. They are characterised by some of the lowest housing costs ($182,248) and rents ($261 per week) in our sample, high historical vacancy rates (4.6 per cent) and relatively low development activity ($729 of approved residential building work per capita per year).

- Home sales price growth has historically been under the national average. Surprisingly, these LGAs did quite well during and immediately after the GFC, with sales prices rising by 9.3 per cent during 2011-12, when nationally sales prices contracted by 0.6 per cent. However, the market has been stagnant or declining in recent times.

POLICY CONSIDERATIONS

- The low (if not 'stalled') level of development activity arises because:

  - local demand is of insufficient scale to warrant a local building and development industry; and,

  - construction costs exceed the low average value of local housing, thereby constraining any local access to housing finance.

- With no local industry to add to and update the existing stock, the impetus of such development rests with local households who face constrained access to finance. A Regional New Home Loan Guarantee (see RAI *Discussion Paper, Building the Good Life*) should be considered for these kinds of markets.

- Relevant stakeholders – councils, community housing providers, build-to-rent operators or state governments – may consider aggregating housing demand over several communities to create sufficient scale to bring about housing development that is commercially feasible.

- Modular, offsite, lower-cost housing construction should be considered to reduce the costs and constrained trade labour availability associated with building in-situ in these more remote locations.

- State and Federal policy makers can consider overseas examples of strategies and actions to both incentivise and enable rural and regional local governments to take positive steps to encourage additional housing provision.

- State and local policy makers can consider developing strategies focused on enabling older people living in rural and regional areas to age in place – current housing mix in this cluster provides few options to 'downsize' to medium-to-higher density (unit or townhouse) dwellings.

2. Volatile
Small, low-cost and volatile

MARKET CHARACTERISTICS

- The 23 LGAs in this the smallest cluster tend to be small inland regional LGAs and have an average population of 9,007 residents. These LGAs have high average incomes, but low-income growth rates.

- Local housing markets in these LGAs are characterised by low housing costs ($203,869) and rents ($304 per week), historically high vacancy rates (3.6 per cent) and relatively low development activity ($625 of approved residential building work per capita per year).

- Home sales values in these LGAs have increased by roughly 27 per cent over 2020-21, coincidental with the outbreak of the COVID-19 pandemic. In general, the housing market in these LGAs seems to be more volatile, fluctuating much more than the national average.

POLICY CONSIDERATIONS

- The policy considerations relevant to Cluster 1 are applicable to this cluster.

- This Cluster has greater volatility than Cluster 1, so an additional policy consideration is the role of state and local regulations and zoning to make temporary and relocatable housing more readily available to quickly respond to sudden increases/shocks to demand.

- Overseas experience suggests that further development of housing associations and other social housing providers in regional Australia may generate significant benefits for these housing markets.

3. Stable
Mid-sized, agricultural - Murray-Darling - stable

MARKET CHARACTERISTICS

- Most of the 157 LGAs in this largest cluster are generally located in the Murray Darling basin or in Tasmania and are mid-sized agricultural centres with average populations of 23,240 residents.

- These LGAs have the lowest average incomes among the LGAs considered in the overall typology analysis, but the highest income growth rates in recent years.

- Local housing markets are characterised by median housing costs ($337,242) and low rents ($308 per week), low vacancy rates (1.5 per cent), low proportion of renter-occupied dwellings (17 per cent) and moderate development activity ($1,646 of approved residential building work per capita per year).

- In general, these appear to be relatively stable housing markets.

POLICY CONSIDERATIONS

- Review population growth forecasts as population growth during COVID has been higher in many of these LGAs than was expected – critical-enabling housing infrastructure and social infrastructure constraints are emerging and need addressing.

- Consider policies that will increase the supply of 'development ready' land. Local governments can consider accessing funding from a range of Federal and State sources: NHFIC's National Housing Infrastructure Facility or NSW's Regional Housing Fund.

- Review policy and regulatory settings to incentivise greater diversity in the housing mix. This is particularly important for two particular demographic groups:

  - Older people seeking to downsize to townhouse or unit dwellings as they 'age in place', and

  - Younger professionals and para-professionals who are still highly mobile in their job and location preferences and choices.

- Overseas experience suggests:

  - That a reliance on planning instruments alone is not sufficient to achieve greater housing supply; and

  - Subsidy programs for investment in rural housing may generate positive outcomes, but they need to be of some considerable scale to provide a complete solution.

4. Coastal
Larger, average-cost, coastal QLD and WA

MARKET CHARACTERISTICS

- The 58 LGAs in this cluster tend to be on the coastline, with a majority in Western Australia in and around Perth (e.g. Bayswater, Harvey). The remainder are drawn primarily in Central and North Queensland (e.g. Livingstone). The average population of these LGAs is 46,903 residents.

- These LGAs have median incomes, and low-income growth rates in recent years.

- They are characterised by median housing costs ($413,288) and rents ($356 per week), low vacancy rates (1.5 per cent), median proportion of renter-occupied dwellings (22 per cent) and moderate development activity ($1,986 of approved residential building work per capita per year).

- Housing markets in these LGAs were growing rapidly before the GFC – annual price growth averaged 16 per cent during this period. The GFC then hit these LGAs hardest – their prices contracting by 4.1 per cent during 2011-12. The market has seemingly not recovered since, with sales prices stagnant or declining in recent years.

POLICY CONSIDERATIONS

- Consider policies that boost these 'boom-bust'-influenced housing markets by making these places more attractive long-term living environments. This can include the provision of infrastructure, services and enhanced employment opportunities.

- As with Cluster 2, the history of low rates of price growth is a sign of the perceptions of longer-term risks in these markets, so an additional policy consideration is the role of state and local regulations and zoning to make temporary and relocatable housing more readily available to quickly respond to sudden increases/shocks to demand.

- State and local policy makers should consider policies that will increase the supply of 'development ready' land. Local governments can consider accessing funding from NHFIC's National Housing Infrastructure Facility. In Queensland in particular, local Community Housing Providers may have additional access to renewing and repurposing state government land through the state's current housing strategy.

5. Growth Zone
Peri-urban, urban, major regional cities

MARKET CHARACTERISTICS

- The majority of the 87 LGAs in this cluster are in and around the major capital cities. They include peri urban LGAs in Greater Sydney (e.g. Campbelltown, Penrith), satellite cities along the New South Wales coastline north and south of Sydney (e.g. Newcastle, Wollongong), and suburban LGAs in South-East Queensland (e.g. Redland), Greater Melbourne (e.g. Kingston, Maroondah) and Greater Adelaide (e.g. Charles Sturt).

- These are the largest LGAs in the analysis, with an average population of 134,447 residents.

- These LGAs have median incomes, and relatively high-income growth rates in recent years, being representative of middle-class neighbourhoods in urban areas.

- Local housing markets in these LGAs are the second most expensive in the nation, after Cluster 6, with an average home sales value of $629,939. They are characterised by moderate rents ($419 per week), high proportion of renters (30 per cent), and moderate development activity ($2,817 of approved residential building work per capita per year).

- Home sales prices have grown steadily over the last two decades, but at a lower rate than Cluster 6.

- In general, these are more affordable housing markets in and around large metropolitan areas that have grown steadily, profiting from their close proximity to major business districts.

POLICY CONSIDERATIONS

- Cluster 5 LGAs are active housing markets, with the challenges and policy priorities centring on planning for growth, and ensuring affordability by low-income, long term residents and key workers. Lower-income key workers (such as those in health and hospitality workers) can often be priced out of these markets.

- Local community housing providers should consider accessing NHFIC's affordable housing bond aggregator and its capacity building program to meet increased need for social and community housing.

- While more local land might be zoned as residential, state and local policy makers should consider policies that activate this land to be development ready.

- Local and state policy makers and local industry participants should also consider infill and brownfield sites that can be redeveloped into medium to higher density housing. Policymakers should also consider how to encourage a greater share of greenfield development that is medium to higher density dwelling construction. Ensuring this diversity in the local housing mix is especially important for affordability for key workers.

- Policies need to ensure amenity and liveability is maintained as these markets grow. This includes the provision of infrastructure, services and enhanced employment opportunities.

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6. Most Expensive
Sydney and Melbourne

MARKET CHARACTERISTICS

- The 40 LGAs in this cluster are metropolitan LGAs clustered around Sydney, Melbourne and to a lesser extent, Perth.

- They are large LGAs, with an average population of 94,635 residents.

- These LGAs have the highest average incomes, and relatively high-income growth rates in recent years.

- Local housing markets in these LGAs are the most expensive in the nation, with an average home sales value of $1.26 million. They are characterised by the highest rents in our sample ($561 per week), the largest proportion of renters (45 per cent), and the greatest development activity ($4,975 of approved residential building work per capita per year).

POLICY CONSIDERATIONS

- Policy in these active and expensive markets can consider addressing disadvantages faced by residents and local workers without the incomes and assets needed to access these markets. Key workers (such as health and hospitality workers) are often priced out of these markets.

- Local policy makers and stakeholders can explore creative approaches to supplying dedicated key-worker housing:

  - Developing housing associations or using other social housing providers may generate significant benefits for these housing markets;

  - Tapping investment from the growing 'social impact' sub-class of investors to finance the construction of such key-worker housing.

- Local governments and community housing providers should consider accessing NHFIC's affordable housing bond aggregator and its capacity building program to meet local need for social and community housing.

- Additional housing stock is only available through redeveloping brownfield and infill sites. Policy, planning and zoning settings – at state and local levels – can be reviewed to enable these sites to be redeveloped into higher density housing. This is especially important for affordable housing for key workers.

Failure to recognise the distinct regional housing markets in Australia and respond accordingly will see the current pressures continue to escalate, resulting in current residents being priced out of the market in some clusters, regional economic growth constrained, a further tightening of the rental market, and the most vulnerable in our community bearing the brunt of the housing challenge.

Conclusion

This research is the second report in RAI's Housing Series, Building the Good Life. The first report *Building the Good Life: Meeting the Demand for Regional Housing* was a discussion paper which set out the current pressures in regional housing markets. It also provided an initial foray into areas for policy consideration in response to the growing pressures.

In this document, *Building the Good Life: The Foundations of Regional Housing*, we have set out in detail the diversity and distinctiveness of regional housing markets – not only in relation to capital city markets, but also in relation to each other. Specifically, this research has uncovered six distinctive types of housing market. These different market types are the foundations for effective, place-based responses to the growing pressures in regional housing markets.

All levels of government – Federal, State and Territory and, Local governments – as well as investors, industry and regional leaders have a role to play in responding to and alleviating regional housing market pressures. This report – its typology of regional housing markets and the associated policy considerations – is designed to assist stakeholders to be effective in addressing the challenges faced by regional housing markets.

Failure to recognise the distinct regional housing markets in Australia and respond accordingly will see the current pressures continue to escalate, resulting in current residents being priced out of the market in some clusters, regional economic growth constrained, a further tightening of the rental market, and the most vulnerable in our community bearing the brunt of the housing challenge.

For the past 10 years, the RAI has been dedicated to providing authoritative and trusted research and policy advice on regional issues. Our research firmly points to the conclusion that Australia will be a stronger, more prosperous nation if our regions are stronger. To optimise growth in regions we invite policymakers to consider and address the recommendations in *Building the Good Life: The Foundations of Regional Housing*.

Attachment: Details on Variables

This research project examined housing markets across 396 local government areas (LGAs) across Australia (metropolitan and non-metropolitan). The sample only included LGAs with populations greater than 1,000 residents at the 2016 Census and excluded LGAs where there was insufficient information regarding their local housing markets.

For each LGA in the sample, the following list of variables were created:

1. **2016 Census population**

2. **2020-21 median sales price for all dwellings**: Measured over the 12-month period from Feb 2020 – Jan 2021

3. **2000-08 average year-on-year growth in median sales price for all dwellings**: Figure 1 plots mean year-on-year growth rates across LGAs in our sample over the last two decades. As can be readily observed, the period 2000-08 saw high growth in sales prices. Median sales prices for the average LGA in our sample grew annually by 13.3 per cent during this period. This period is also coincidental with the Millennium drought, which severely impacted large parts of regional Australia, with potential implications for their housing markets.

4. **2008-10 average year-on-year growth in median sales price for all dwellings**: Captures the potential effect of the Global Financial Crisis (GFC) on local housing markets. While Australia in general was not as severely impacted by the crisis as other parts of the world, economic growth did slow down during this period and this is reflected in slower growth in sales prices. Median sales prices for the average LGA in our sample grew annually by 3.6 per cent during this period.

5. **2011-12 average year-on-year growth in median sales price for all dwellings**: Bad year for the Australian housing market, due to a slowdown in global recovery from the GFC, and growing concerns about the long-term impacts of the crisis. Median sales prices for the average LGA in our sample declined annually by 0.6 per cent during this period, the only 1-year period in recent times when average sales prices declined.

6. **2016-21 average year-on-year growth in median sales price for all dwellings**: Captures recent trends in housing markets. Median sales prices for the average LGA in our sample grew annually by 3.6 per cent during this period, much slower than growth before the GFC.

7. **2020-21 average year-on-year growth in median sales price for all dwellings**: Captures the impact of the COVID-19 pandemic on regional housing markets. Early evidence indicates that the pandemic, in conjunction with other socio-technical changes such as the adoption of remote working arrangements, could encourage population decentralisation, with consequent impacts for suburban and regional housing markets. Median sales prices for the average LGA in our sample grew annually by 8.4 per cent during this period, approaching growth levels last seen before the GFC.

8. **2017-18 median income**: This is the most recent 12-month period for which income data is available at the LGA level. The average LGA in our sample had a median income of $48,312 during this period.

9. **2011-18 median income growth**: Percentage change in median incomes over the 7-year period from 2011 to 2018. The average LGA in our sample saw its median income grow by 15.5 per cent during this period.

10. **2017-18 price-to-income ratio**: Ratio of the median sales prices for all dwellings and median incomes over a 12-month period in 2017-18. The average LGA in our sample had a price-to-income ratio of 8.9. Halleluiah

11. **2020-21 median rent for all dwellings**: Measured over the 12-month period from Feb 2020 - Jan 2021. The average LGA in our sample had a median rent of $361 per week.

12. **2021 vacancy rate for all dwellings**: Measured over a 1-month period preceding in Jan 2021. The average LGA in our sample had a vacancy rate of 1.9 per cent.

13. **2020-21 median rental yield for all dwellings**: Measured over a 12-month period from Feb 2020 - Jan 2021. The average LGA in our sample had a median rental yield of 5.6 per cent.

14. **2021 renter ratio for all dwellings**: Measured during Jan 2021. The average LGA in our sample had a renter ratio of 23.3 per cent.

15. **2016-20 average annual value of approved residential building work per capita**: Annual averages over a 4-year period. The average LGA in our sample had an average annual value of approved residential building work per capita of $2,159 during this period.