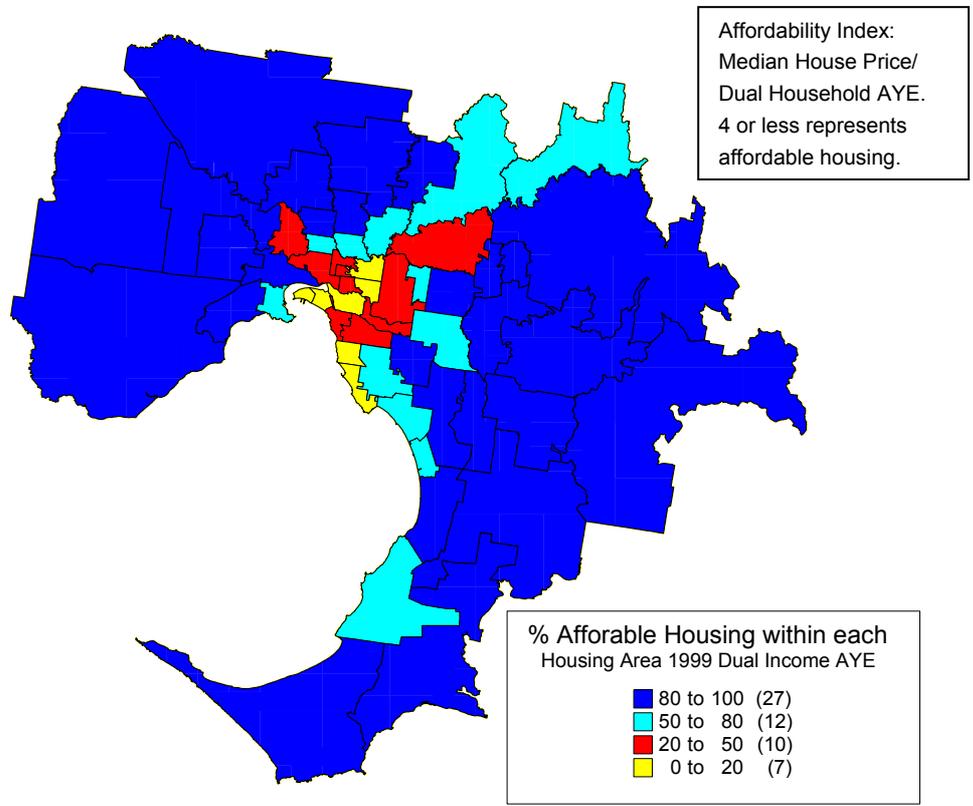
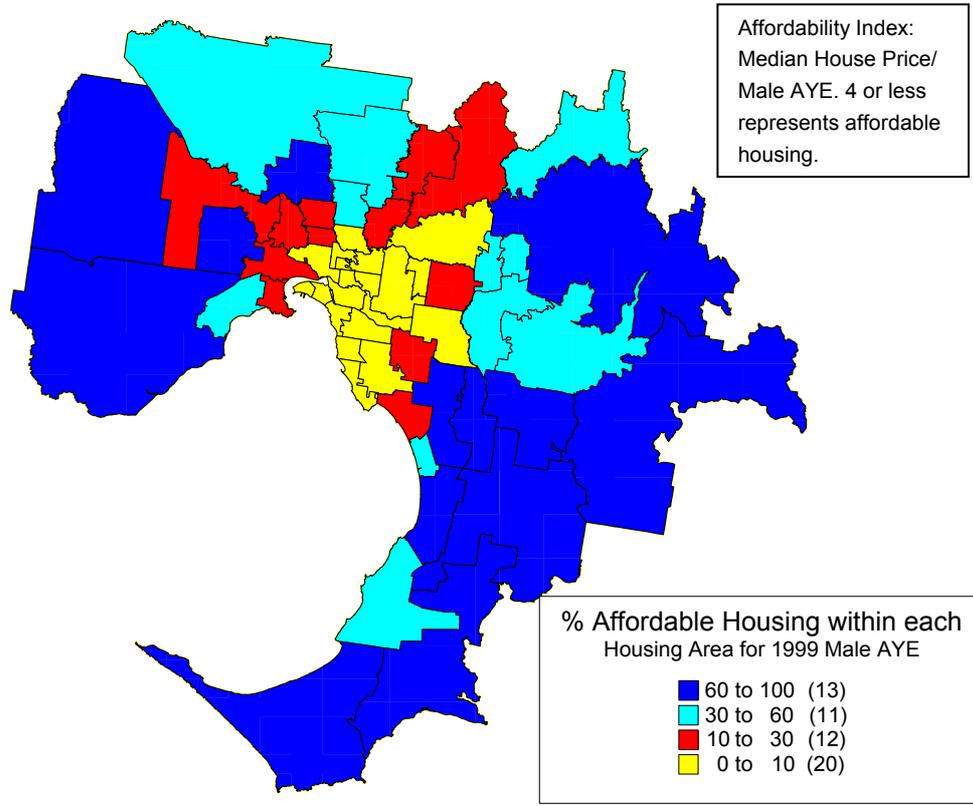


**Figure 19 Affordable Housing for Male Average Annual Earnings and Dual Income Average Earnings, 1999**



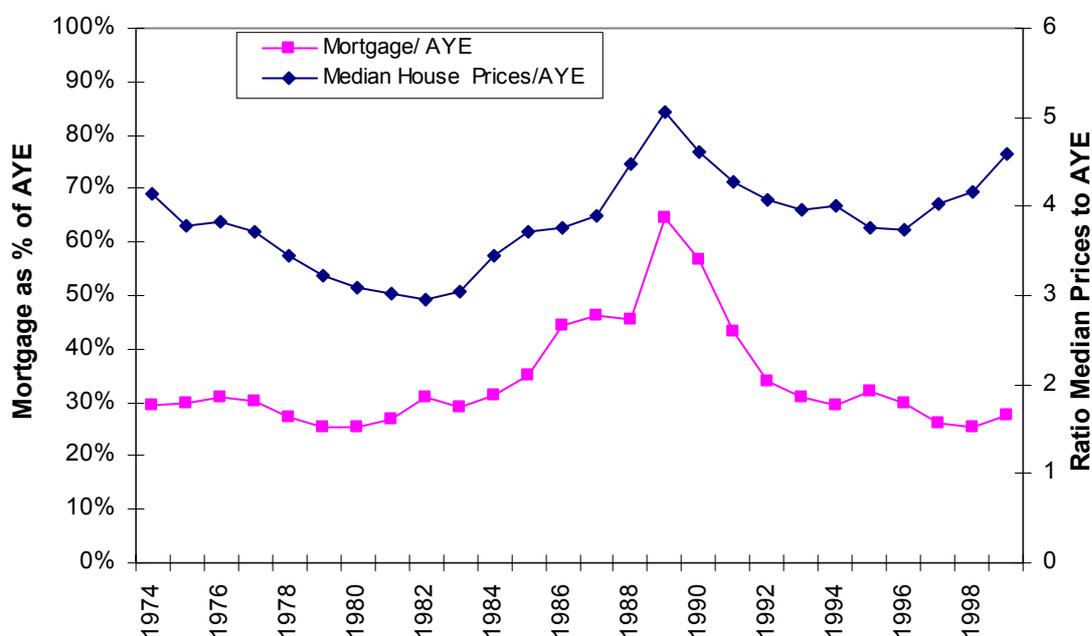
Sources: earnings: ABS Time Series for AWE; prices: Valuer General's Property Sales Statistics.

### 8.3.3 Housing Costs to Income

A second measure of affordability uses median house prices, prevailing interest rates, average weekly earnings and various assumptions about the maximum size of mortgages allowed by lending institutions (in this case, that repayments do not exceed 25 per cent of income and that the mortgage will cover no more than 90 per cent of the purchase price). This measure compares total mortgage repayment costs to average earnings, while taking into account the role that interest rates play.

Figure 20 shows the long-term affordability ratio and reveals that metropolitan Melbourne in 1999 was highly affordable in an historical context, largely because interest rates in recent years have been relatively low. It suggests that the period 1984 to 1992 may have been an historical aberration brought about by simultaneous high house prices and high interest rates. In 1999, while house prices were moving back to historically high levels, interest rates had moved to their lowest level in decades. These low rates compensated for the price increases and produced what is overall a high level of affordability by historical standards.

**Figure 20 Mortgage Repayments Required to Purchase the Median Dwelling, and Median Dwelling Price as a Proportion of Average Yearly Earnings, 1974-98**



Sources: Valuer General's Property Sales Statistics; ABS (2000) Earning Statistics.

These aggregate figures disguise a more complex pattern. One is about the spatial pattern of housing affordability, the other is about the degree to which average

earnings is a good measure of affordability, given that most people earn considerably less than this.

As we would expect, given the uneven nature of house price change, affordability has also changed in a spatially uneven way; 32 per cent of suburbs in 1999 were affordable for single income households, and 70 per cent were affordable for dual income households, with most of the affordable suburbs being outer ones.

The underlying pattern of house price changes has helped alter, in what will probably be an irreversible way, the structure of the Melbourne housing market. In what was overall a good decade for housing affordability, 123 of the best located and resourced inner and middle suburbs remained well out of reach of average income households, and of these 100 actually became less affordable than they had been a decade earlier, despite an overall marked improvement in affordability.

Thus while there were more affordable properties at the end of the 1990s than at the beginning, their locations were spatially concentrated in the outer and fringe suburbs. The risk here is that the housing market will cleave around distinctive socioeconomic lines at the expense of the social mix which has characterised Melbourne in the past.

Another way of looking at affordability is by comparing mortgage costs to a range of earnings that are more typical of the distribution of Melbourne incomes. Table 17 shows five different annual incomes, and the house price that households on these incomes could afford at current interest rates, with a 25 year loan and a 25 per cent deposit. It then compares how many houses were available for households or individuals within these income ranges. The last column shows the proportion of families earning these different incomes (using 1996 census data, but inflated to 1999 values). This is a rough indicator of the distribution of family incomes in Melbourne.

The table reveals the marked affordability constraints in 1999. Certainly, for lower income families who are not already home owners, the choice of stock is severely limited, which shows why they will gravitate to the areas (a few outer suburbs) where such stock is available. Households with an income of 75 per cent of average earnings only have available to them 10 per cent of the available stock, while those on less than half average earnings have almost no choice. Most will remain in or be forced into low cost private rental, which Section 8.2 showed was also offering decreasing choice.

**Table 17 House Price Affordability and Availability for Selected Income Levels, Melbourne, 1999**

Income Level	Income Level	Affordable House Price	Number of Houses	Percentage of Houses Available	Percentage of Families On/Below this Income
\$18,600	50% of average male earnings	70,625	1,047	2%	22%
\$26,500	75% of average male earnings	100,000	5,187	10%	43%
\$37,300	100% of average male earnings	142,500	17,838	35%	47%
\$65,625	150% of average male earnings	222,500	34,333	68%	75%
\$74,600	200% of average male earnings	282,000	40,766	84%	80%

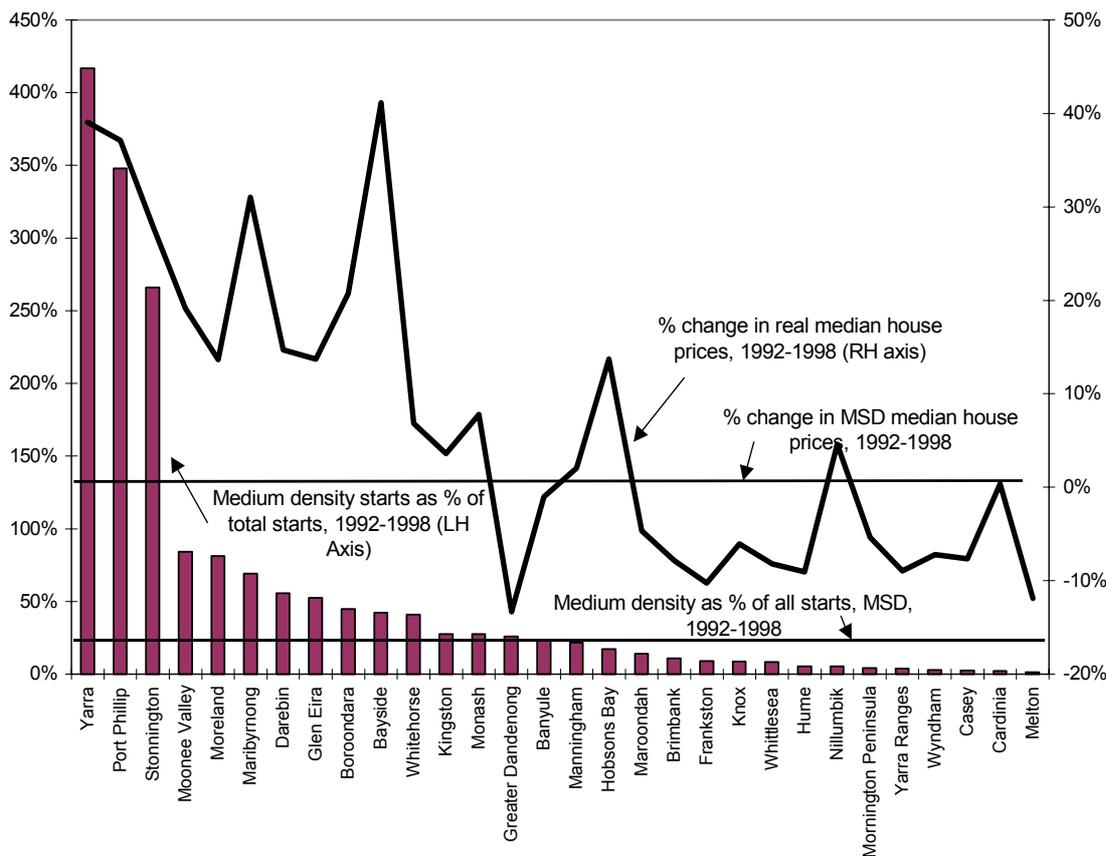
Source: number of properties: Valuer General (2000).

#### 8.4 An Explanation

What happened in the latter part of the 1990s to encourage a rapid bout of house price inflation, concentrated in the inner and middle suburbs? Economic recovery undoubtedly laid the foundation, but this does not explain why the surge was so spatially concentrated. One important reason appears to be lifestyle changes associated with the emergence of the new urban middle class and the perceived fit of the inner city with this lifestyle. Many are employed in the 'new economy' jobs of financial and information services, which are concentrated in such locations. They want a lifestyle that is more flexible and more diverse than that provided by suburban home ownership. The inner city is seen to offer the location and housing types consistent with this lifestyle. This has placed a premium on inner city living and increased housing demand. By contrast, income and labour market effects were of such a nature as to dampen suburban demand. The economic restructuring of the 1980s and particularly 1990s hit many suburban labour markets hard and some have not recovered at all.

The unintended consequences of the planning and urban infrastructure changes introduced during the early 1990s have also accentuated inner city demand. The planning changes fundamentally altered the economics of medium density construction, making it easier for developers to construct this type of accommodation. The result was to encourage builders to bid up the price of land and existing dwellings in existing inner suburbs, with a view to using the land more intensively. The strong relationship between medium density construction work and house price inflation is shown in Figure 21, which compares real house price increases with rates of medium density dwelling construction for selected suburbs during the 1990s. There is a strong and positive relationship between the two variables.

**Figure 21 Real House Price Changes and Medium Density Starts as a Percentage of Total Starts by Selected Suburbs, 1992-98**



Source: ABS *Building Approvals Victoria*, Cat. no. 8731.2.

As was pointed out earlier, under an extensive place marketing campaign the State government also undertook a large capital works program (Agenda 21) during the mid-1990s that was focused heavily on the inner city, with the intention of revitalising the City of Melbourne and surrounds. This was complemented by the extensive promotion of events signalling inner Melbourne as 'the place to be'. All of this helped create the demand for inner city living, which in turn made the inner city apartment boom possible. The problem with this is that it sent few positive signals about suburban Melbourne.

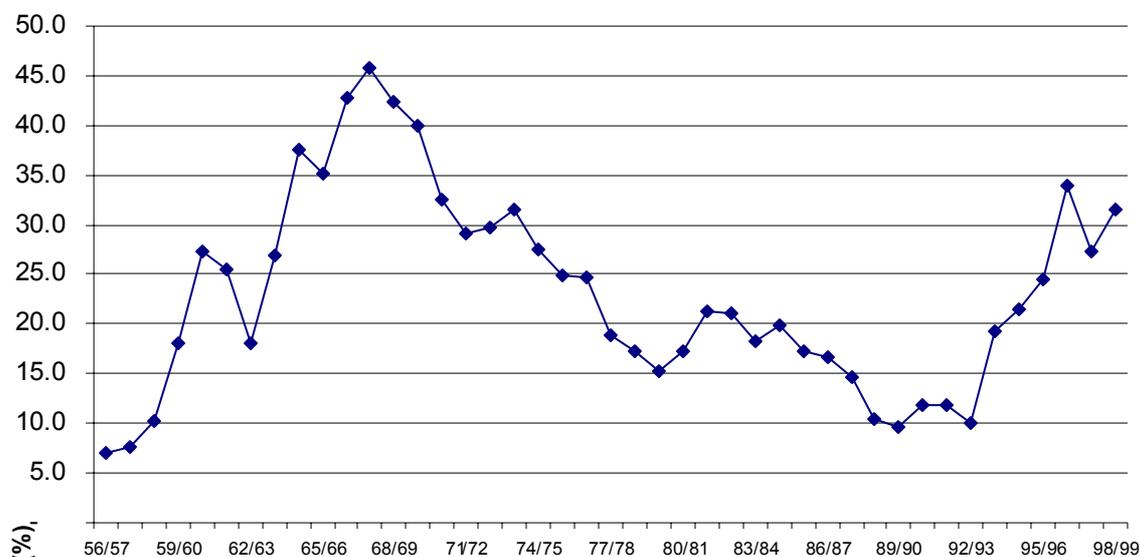
In mature owner occupied markets such as those which exist in Melbourne and in Australia generally, house price inflation can build its own dynamic. For existing owners, the significant capital gains made on their inner and middle ring properties greatly increased their equity vis-à-vis more outer urban owners and they were able to use this equity to trade up to a bigger dwelling within the same inner suburbs. This may have unleashed a self-reinforcing spiral in which prices in the inner and middle suburbs exploded, which then enabled existing owners to sell up and pump some of their capital gains into even more expensive inner urban property.

The net effect of demographic changes, economic developments and policy decisions was to unleash a wave of house price inflation, heavily concentrated in the more inner suburbs with ready access to the revitalised inner city.

## **8.5 The Form of Residential Development**

Historically, the bulk of development in Melbourne has been in the form of single dwellings, predominantly detached. As a result, the detached single dwelling still accounts for 77 per cent of stock. The proportion of non-single dwellings (flats, apartments and townhouses) in the development process in recent decades has waxed and waned, with the 1960s and early 1970s representing the periods of most intense development. As Figure 22 shows, in this period they accounted for over 40 per cent of dwelling starts, and 46 per cent in the peak year of 1967-68. Medium density developments collapsed in the late 1970s, recovered mildly in the early 1980s and contracted again until the early 1990s. The number of medium density dwelling starts increased in the mid-1990s, and by the end of the decade was at the highest level for twenty or so years.

**Figure 22 Medium Density Commencements as a Proportion of Total Commencements, Melbourne Statistical Division, 1956-57 – 1998-99**



Sources: ABS (1956-57, 1983-84) *Quarterly Bulletin of Building Statistics*; ABS (1984-85, 1987-88) *Building Approvals Victoria*, Cat. no. 8731.2; ABS (1999-2000) *Dwelling Units Commenced by Approving Local Authorities*, Cat. no. 8741.3.

Note: commencements up to 1986-87 and then approvals.

Much of the growth of multi-unit dwellings was in the inner city, although this too has waxed and waned historically. At its peak in 1972-73 the inner urban area accounted for 57 per cent of all approvals, but by 1982-83 this had fallen to 21 per cent. The multi-unit market for the rest of Melbourne, which was more in the form of villa units than 'six pack' flats, tended to be more stable over time, with the outer urban market from the late 1970s to the end of the 1980s typically accounting for around 75 per cent of all medium density commencements, and inner urban areas 25 per cent (Burke 1993). In the 1990s the pattern reverted more to that of the 1960s and 1970s, with growth being concentrated in the inner urban areas. In 1991-92 the inner urban area accounted for 41 per cent of commencements.

The cause of the shifts in different forms of development relates to both the changing nature of demand and the institutional context, including the planning context. The boom of the early 1970s reflected deregulated planning controls, the entry of baby-boomers into independent living creating a huge demand for rented accommodation, the low value at that time of inner and middle ring properties which enabled them to be purchased cheaply for redevelopment, and cheap housing finance. For example, a detached dwelling in Hawthorn suitable for redevelopment typically sold for around

\$160,000 (in 1999 prices), compared to the present \$450,000 for the same type of property.

A more restrictive planning environment post-1977, occasioned by a public backlash against poor quality multi-unit development, led to restrictions on 'six pack' types of development, but some of the fall also came from weakening demand from baby-boomers, increasing interest rates, the emergence of alternative investment sectors for investors, and the first inner urban property boom reducing the attractiveness of sites for redevelopment. The environment remained much the same until the early 1990s. This boom had some similar origins to that of the 1960s and early 1970s including, once again, a deregulated planning environment, a more complex housing demand fuelled by children of the baby-boomers wanting to rent, and empty-nesters wanting an alternative lifestyle to the suburban detached house. It was also enabled by a collapse of inner urban and specifically CBD commercial prices to the degree that the sites or the buildings were viable as multi-unit apartments. The advantage of the latter was captured by new entrants to the residential building industry (for example, Multiplex, Central Equity, Becton) who were not trapped into thinking that the orthodoxies of demand required only a detached house or, at best, a villa unit. The response was the multi-storey units of the CBD and surrounding inner areas

Higher density housing has exercised the minds and hearts of many Melburnians many times in Melbourne's postwar history, but the 1990s remain as one of the most hotly contested decades (Lewis 1999). Care should be taken in using the term 'medium density housing' for it sweeps up many different types of development. Moreover, these differences are becoming more marked as the building industry restructures and becomes more mature and diverse. Medium density includes virtually any form of dwelling which is not detached, for example, semi-detached, terraces, townhouses, villa units, low rise flats (up to three storeys) and medium to high rise flats (four storeys and above).

For the latter two, the term 'medium density' is inappropriate as they are typically built at a high level of density and include a relatively large number of dwellings. They are more appropriately called multi-unit housing. As already indicated, the mix of medium density and detached dwellings in new construction has waxed and waned over the years. The 1990s saw new growth but not to the levels that characterised the 1960s and 1970s. What was different, at least compared to the 1980s, were the form and the location of the new building work.

Reflecting the more deregulated principles of the *Good Design Guide* and the entry into the industry of the new multi-unit players such as Becton and Central Equity, the sector saw both more multi-unit development in the form of four storey and above flats and apartments, and more two and three storey townhouses and semi-detached developments. The typical medium density housing development of the 1980s was a single storey (more rarely two storey) villa unit down the block, or the single or two storey dual occupancy. In 1991-92, for example, single storey non-detached dwellings accounted for 80 per cent of all medium density other than flats, but by 1998-99 this was down to 48 per cent. In inner Melbourne areas it was only 13 per cent, down from 31 per cent. These new forms of development found a ready consumer market but aroused the antagonism of others, and generated grist to the mill of a local media willing to run with stories of 'multi-unit backlash'.

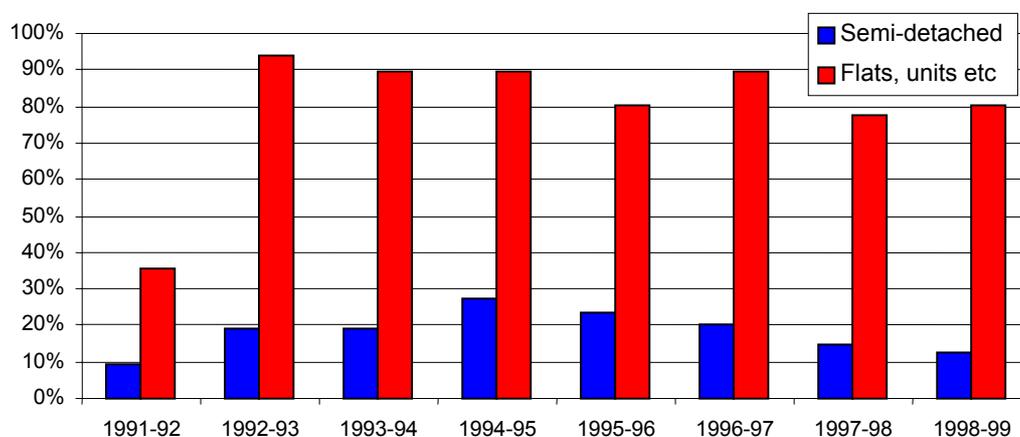
While all regions of Melbourne experienced an increase in the proportions of medium density housing, Table 18 shows some had more significant increases than others. Further, there is an interesting spatial divide in the form of medium density provision. Metropolitan wide, it increased steadily to a peak of 34 per cent in 1996-97, and since then has fluctuated between 27 and 32 per cent. The most important regions are the Inner Eastern, Inner and Southern, and specifically the more inner suburbs of the Southern region. Of these by far the most important is inner Melbourne, which over the decade accounts for around a third of all medium density/multi-unit housing. The 'unusual' regions are the South-East and Mornington Peninsula where there have only been marginal increases in medium density stock over the decade. There is clear potential for greater medium density housing in these regions.

**Table 18 Medium Density Approvals as a Percentage of Total Residential Approvals, 1987-88 – 1998-99**

	87-88	88-89	89-90	90-91	91-92	92-93	93-94	94-95	95-96	96-97	97-98	98-99
Inner Eastern Melbourne	29.7%	15.5%	11.9%	25.2%	18.2%	21.8%	31.4%	15.5%	22.4%	32.3%	30.7%	30.2%
Inner Melbourne	38.9%	28.6%	30.3%	33.1%	77.6%	76.5%	92.0%	92.7%	82.8%	87.3%	83.4%	91.4%
Mornington Peninsula	5.5%	5.8%	8.6%	5.3%	4.6%	3.4%	1.3%	0.1%	1.4%	5.7%	6.5%	10.6%
North-Eastern Melbourne	10.5%	11.0%	5.0%	10.0%	6.9%	6.9%	12.9%	8.6%	21.6%	18.3%	24.9%	20.1%
North-Western Melbourne	18.9%	5.6%	4.2%	11.3%	12.4%	10.7%	6.9%	13.9%	8.4%	26.4%	24.1%	22.0%
Outer Eastern Melbourne	10.5%	9.5%	8.8%	8.1%	8.1%	2.6%	4.0%	1.6%	9.4%	11.7%	12.2%	11.9%
Outer Western Melbourne	12.9%	9.0%	10.2%	12.0%	9.1%	4.3%	8.0%	9.6%	16.3%	24.5%	16.4%	16.5%
South-Eastern Melbourne	5.9%	6.6%	7.4%	4.3%	6.1%	2.7%	3.4%	3.2%	5.5%	7.4%	7.1%	9.3%
Southern Melbourne	29.1%	12.6%	14.2%	21.4%	32.7%	17.7%	24.7%	24.3%	23.7%	37.8%	32.1%	42.8%
Total Melbourne	14.6%	10.5%	9.6%	11.9%	11.8%	10.1%	19.3%	21.5%	24.6%	33.9%	27.2%	31.5%
Total Without Inner Melbourne	13.2%	9.3%	8.3%	10.7%	9.8%	6.7%	10.1%	8.9%	14.8%	21.4%	19.0%	19.7%

Source: ABS, *Building Approvals Victoria*, Cat. no. 8731.2.

**Figure 23 Inner Melbourne Medium Density Residential Approvals as a Proportion of Total Melbourne Approvals, 1991-92 – 1998-99**



Source: ABS (1984-85, 1987-88) *Building Approvals Victoria*, Cat. no. 8731.2.

Over the period there has been a marked restructuring of the medium density market in favour of more flats and units, rather than semi-detached/townhouse type developments. Where flats were only 12 per cent of total approvals in 1991-92, by 1998-99 they accounted for 52 per cent. It is hard to argue that this form of development is a threat to Melbourne's suburbs, as the growth was disproportionately confined to inner Melbourne. In 1998-99, for example, inner Melbourne accounted for 80 per cent of all flats, while the rest of Melbourne accounted for 88 per cent of all townhouses and attached housing (see Figure 23).

Melbourne is being spatially divided, not only by price, but also by building form. One explanation is that the two dwelling forms cater for quite different markets. The flats are geared towards 'Generation X' renters wanting the cafe lifestyle of the inner city, while the townhouse developments are more geared towards empty-nester baby-boomers who are trading across from detached houses in areas with which they are already familiar. If this is the case, then the high concentration of baby-boomers entering the empty-nester and retirement lifecycle stages in the more outer regions of Melbourne may generate a demand for more multi-unit housing in these regions in the coming decade.

## **9 The Future: Planning and Policy Implications**

The previous sections have identified the major trends in the Melbourne housing market over recent decades, particularly the 1990s. In summary these are:

- A housing market that has become much more complex in its structure and composition, a complexity that is particularly evident geographically;
- Growing spatial polarisation, with the more inner suburbs monopolising the high dwelling price segments, and the outer suburbs the lower priced segments;
- Considerable improvement in housing affordability, but with most of the improvement concentrated in the outer urban areas. Inner urban affordability is worse than at any time in Melbourne's postwar history;
- The improvement in affordability at an aggregate level is largely dependent on low interest rates. The underlying level of house prices is close to record highs, although this needs to be qualified by pointing out that many outer areas of metropolitan Melbourne have experienced negative real house price movements over the last decade;

- Restructured building and land development industries that offer a much more diverse product range than a decade ago. Two trends in particular stand out: the emergence of a substantial and relatively sophisticated multi-unit building sector, and the growth of fringe planned estates or communities with a higher standard of design and amenity compared to earlier eras;
- A resurgent growth in medium density and multi-unit housing with some distinctive trends emerging, namely, the high concentration of this type of development in inner urban areas, and the spatial division of Melbourne by type, with flats and apartments dominating development in the inner urban area, and townhouses in outer areas;
- A decline in low cost private rental stock to the degree that there is an absolute shortage relative to need. This decline has been sharpest in inner Melbourne, with the trends in the rental market thus reinforcing the ownership sector in polarising Melbourne's housing market;
- The emergence of some outer areas characterised by relatively high levels of indicators suggesting rising levels of social deprivation and decline, including falling real house prices, excessive concentration of low cost rental stock, high unemployment and relatively low income.

These changes have occurred as a result of the interaction between major demographic, economic and social changes, and the distinctive characteristics of the Melbourne system of housing provision. The question is: what is likely to happen in the coming decade, and will the market outcomes necessarily create adequate levels of wellbeing for Melbourne's current and future residents? In turn, this raises another question: to what degree and in what form are any public sector interventions to impinge on market processes and outcomes? Governments at all levels are increasingly operating in an environment of economic and political uncertainty, and there are substantial risks involved in wrong or misplaced policy and plans when we are talking about something as enduring and important to individual and community wellbeing as housing. However, given the trends of the last decade, there is also a substantial risk in doing nothing and assuming that the market will produce the right outcomes.

The discussion that follows is necessarily brief and broad in its scope. It is intended to provide a focus for policy debate and to highlight areas where policy interventions might be needed.

## **9.1 The Building Industry**

The residential building industry will continue to restructure along the lines that emerged in the 1990s. The estimated additional 200,000 households that will require accommodation by 2011 translates to around 18,000 dwellings per annum. This is considerably less than the industry's average of around 30,000 starts over the past two decades and the 40,000 starts of the last two years. As the end product required by the consumer is becoming more sophisticated, it is possible that many smaller builders will exit the industry, while the larger firms might even get larger. This might be a beneficial outcome, and one which the State government could be wise to facilitate. Australia's building industry is a fragmented one by world standards, and this no doubt affects the capacity of firms to reap economies of scale and engage in bolder integrated developments, particularly those involving smallish parcels of land.

In established suburbs, particularly the more affluent Inner Eastern and Southern ones, the two storey pseudo-mansion is likely to become even more omnipresent, creating the inevitable neighbourhood tensions. There are two reasons for the popularity of this building type. First, the construction costs of undertaking an extension to an existing house (to the same space standards as a two storey display home) are beginning to exceed the purchase price of a new house. Second, the fear that neighbouring properties could be acquired for a two storey home, with loss of one's amenity and privacy, encourages a tactic of pre-emptive development. The two storey dwelling is creating its own development imperative.

The medium density/multi-unit industry may experience even bigger changes. Market dynamics and land supply constraints will in all likelihood see more development in more outer suburbs, but hopefully with a more acceptable product than that which characterised the 1990s and antagonised large numbers of Melburnians. New design guidelines will assist in this process. Multi-unit builders will largely remain in the inner urban area but, as land prices become even more expensive, developments may become even more high rise. They might also become increasingly innovative in design as a means of lowering some of the environmental costs associated with constructing and maintaining multi-unit buildings.

## **9.2 The Economy: Implications for the Next Decade**

The rollercoaster economic conditions that have characterised market economies for hundreds of years are unlikely to have ended with the current seven year period of sustained growth. Some time during the next decade we will see another economic

downturn. What we cannot be sure of is its depth and intensity and how it will unwind spatially, although the 'old economy' industries of manufacturing (largely outer suburban based) are, yet again, more likely to be affected than the 'new economy' industries of the inner urban areas. Casualisation of employment seems set to continue, but its growth is likely to have peaked. However, given the scale of part-time and casualised employment, uncertainty of employment status is likely to be an enduring feature of the labour market, as is periodic unemployment for many individuals whose skills are more linked to the old rather than new economy (for discussion of part-time and casual employment in the Australian context, see Barnes et al. 1999; for a more general consideration, see Sennett 1998).

These processes will inevitably have their unintended housing implications by affecting the income capacity of various groups to consume different tenures and types, by modifying expectations and values as to their employment and housing futures, and by affecting the economic base of particular regional and local submarkets. In the absence of countervailing policies, further income inequality can be anticipated for the next decade, both between households and between regions. We can expect increased numbers of lower income households in absolute terms and perhaps also as a proportion of all households and, as in the 1990s, this will have a spatial dimension: higher rates in income growth will occur in inner Melbourne than in outer areas. However, there is doubt whether the private rental sector has the sophistication and the appropriate institutional settings – for example, adequate residential tenancy legislation, appropriate investment incentives, adequate management training – to take on the role as a sector providing permanent housing for a large and increasingly diverse client group.

A likely outcome will be pressure on the lower end of the private rental market and an associated inability, notably for younger households, to become home purchasers. There will also be an increased need for housing assistance and social housing. Low income private renters in Melbourne increased from 13.8 to 17.2 per cent of households between 1986 and 1996, and we anticipate that this is unlikely to be reversed during the coming decade (Wulff, Yates and Burke 2000: table D7). Conversely, larger numbers of higher income earners in the housing market may place pressure on certain local submarkets and accentuate affordability problems for households that lack the same earning capacity. Casualisation, uncertainty of employment status, and the flexibility of employment increasingly required by the new economy may be creating a reassessment of housing careers and causing more young people to consider private rental, particularly inner urban based, rather than home ownership as the long-term tenure consistent with income and lifestyle.

Given the income distribution outcomes over the 1990s, one can reasonably assume that, of any net increase in households over the next decade, a proportion of them will be in poverty after meeting housing costs. Various methods can be used to estimate this number, some more sophisticated than others. A 'best case scenario' is to assume that the proportions of households in poverty that held in 1996 (when census data could be used to estimate the numbers in poverty) will not be any worse in 2011. In 1996 around 11 per cent of households were in after housing poverty (Burke 1998). If these proportions remain unchanged then, we can forecast that at least an additional 20,000 households will be in after housing poverty in metropolitan Melbourne by 2011. These are households for whom the private market cannot provide appropriate or affordable housing; they are on top of existing unmet housing needs. This problem raises a number of questions. In what form, if any, is the housing for these groups to come and, if not forthcoming, what are the costs of this unmet housing need? If housed in the private market, what are the social costs of living in non-affordable and inappropriate housing? Will these households be widely dispersed or will they increasingly concentrate in specific locations, and what are the implications of this?

In short, there would appear to be little evidence to suggest the economic future should see anything other than a reaffirmation of the housing market trends of the last decade. The continued inequalities of the economy will simply manifest themselves in greater inequality in the housing market. Those whose employment skills and lifestyles mesh well with the requirements of the new economy, which hopefully will be a sizeable number, will still have access to affordable housing. Those who do not will have increasing difficulty of balancing affordability with choice of an area that provides adequate housing and good amenities.

### **9.3 House Prices: Up or Down?**

Many of the housing and housing related issues and problems confronting Melbourne derive from the level and structure of its house prices. This raises the question: how far can these prices be pushed before they meet the upper end budget constraint of households? Have they peaked? Are we about to go through a period of price stability or is there further capacity for inflation? Our past history of house price booms and busts tell us that each boom will come to an end with a period of stable or falling real prices. This occurs when prices are pushed to the limit of incomes and borrowing capacity and/or when there is some external shock, for example, recession or interest rate increases, which reduces purchasing power and

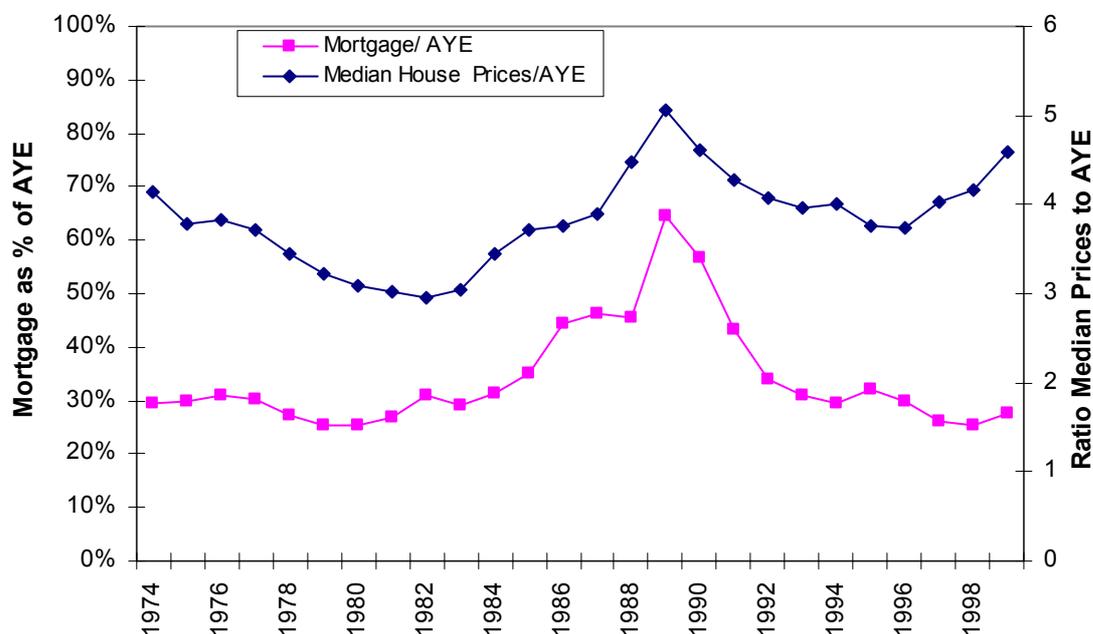
buyer confidence. There are of course no scientific methods to test when the limit has been reached, but three surrogate methods that could provide a yardstick are the Sydney benchmark, house price to income ratios, and mortgage repayments to income ratios.

In the first quarter of 2000, the median house price in Sydney was approximately \$320,000, which is some 88 per cent higher than the median price in Melbourne of \$170,000. Sydney can in part sustain these prices because its economy is stronger, and the average level of income for home purchasers is 12 per cent higher than in Melbourne (ABS 2000). This income difference translates into another \$150 a week of purchasing capacity. It is unlikely, however, that all of this additional income would be committed to housing. If we assume that half (\$75 a week) is spent in this way, and if we amortised this into a loan repayment, it would represent another \$45,000 for the purpose of buying a house. This suggests that the higher incomes of home purchasers in Sydney only explains about a quarter of its higher house price level. Even if we assumed all of it was committed to housing, this would still only explain half of the difference.

Using this measure, there is scope for increased house prices in Melbourne. This conclusion is supported by long-term trends in the ratio of Melbourne to Sydney house prices. Over the last two decades, Sydney's prices have consistently averaged 50 per cent higher than ours. Restoration of this ratio from the current historical peak of 1 to 1.88 would suggest Melbourne median house prices could go to around \$215,000 in the near future, assuming Sydney prices remain constant. The question this raises is: where would the increase occur? Would it be across all of Melbourne or, as in the last ten years, be concentrated more in the inner and middle ring suburbs?

The other measure of the limit of house price movements are historical trends in the ratio of house prices and mortgages to household incomes. At some point, house prices cannot exceed more than some ratio to earnings without a budget constraint cutting in. Figure 24 shows the two measures.

**Figure 24 Mortgage Repayments Required to Purchase the Median Dwelling, and Median Dwelling Price as a Proportion of Average Yearly Earnings, 1974-98**



Sources: Valuer General's Property Sales Statistics; ABS (2000) Earning Statistics.

The former measure does suggest Melbourne house prices are getting close to their historical high (5.2 times average earnings in 1989), but the measure which factors in lending conditions and interest rates shows capacity to pay at less than 30 per cent of average earnings (often defined as the affordable level). It is a proportion which is also below the 25 year long-term average affordability measure of 37 per cent and is far superior to the peak ratio of 63 per cent of average earnings achieved in 1989.

All this data would suggest some potential for further upward movements in dwelling prices in the next decade, taking Melbourne median house prices from \$177,000 to \$210,000 in 2000 prices, assuming interest rates do not exceed current levels of around 8 per cent. A one percentage point rate increase is equivalent to removing around \$15,000 of housing expenditure. This means that if interest rates reached around 10 per cent there is likely to be a period of price stability. Above this, prices could fall in real terms. Any further price increases would be of concern, given that there are many households who cannot afford owner occupation at current 'affordable' levels and, if the increases were disproportionately focused in more inner areas, the market polarisation of Melbourne would be made even worse.

The remarkable feature of house price inflation is that, unlike any other commodity where price increases are deemed to be a negative, house price increases are treated as a positive. This is despite the effect on wealth inequalities, housing affordability and the cost structures of property generally. One way of bringing some stability to the market would be to restructure stamp duty for residential property in such a way that the rate increases more progressively than at present and effectively penalises inflation. A recent restructuring of rates in the United Kingdom has been credited with containing an emergent property boom there (Birch 2000). Thus properties under \$250,000 (over 80 per cent of the Melbourne market) could remain at the same rate, but rates could increase thereafter to a maximum of, say, 8 per cent on properties over \$1 million. Any additional revenue could be used to fund an affordable housing program.

#### **9.4 Affordability: An Enduring Problem**

Affordability is a problem in both the private rental and owner occupied sectors. In the private rental sector, affordable low cost stock is in decline, and what exists is tending to concentrate in a few outer areas. Home ownership is broadly affordable to households with an above average income (around \$38,000 in 2000), particularly if they are willing to live in an outer area of metropolitan Melbourne. The level of non-affordability of inner areas has, however, reached new peaks and implies a market increasingly for households with incomes in excess of \$90,000, a situation that might well deteriorate in the years ahead.

Currently there are few policy mechanisms or programs to deal with Melbourne's affordability problem. Public and community housing stock is static, largely because of substantial cutbacks in Federal government funding in conjunction with a focus by State housing agencies over the last decade on upgrading stock rather than adding substantially to it. Housing agencies have responded to the big gap that has emerged between households in need and available housing by increasingly targeting new allocations to households with multiple needs, rather than to those who simply cannot afford private market housing. There is now a growing 'sandwich class' of households who are unable to access public housing as they do not meet the more stringent eligibility criteria, yet are also unable to afford appropriate private market housing. This problem is not unique to Melbourne, but appears to be part and parcel of the localised effects of globalisation, the associated dependence on market processes, and a determination by government human service agencies to target scarce resources to those in high need. Other Australian cities, however, including Brisbane and Sydney, are further down the road towards evolving affordable housing strategies.

Policy levers that could play an important role in such strategies include:

- Remaking the charter of the ULC to give it an affordable housing role as part of a 'whole of government' assault on social exclusion;
- Creating some new regional (particularly inner urban) affordable housing agencies designed to provide affordable housing to the 'sandwich class' households and to complement the more targeted role of the State housing authority;
- Revisiting the 'best use equals highest price' notion of surplus government land and buildings, in order to enable such property to be used for affordability outcomes;
- Revisiting the notion of developer levies and the planning act to facilitate more affordable housing outcomes;
- Lobbying the Federal government to restructure negative gearing for rental properties as a targeted rather than untargeted tax instrument;
- Retention and upgrading of inner city public housing, including high rise, as this will be virtually the only low cost inner urban housing. Consideration, however, should be given to redefining the role of a proportion of this to be affordable stock rather than special needs stock. Some might be transferred to a new inner urban affordable housing agency.
- Restructuring of stamp duty to create an additional amount which could be hypothecated to fund affordable housing.

One important conceptual question is whether we see the affordability problem as a housing cost issue or as a regional housing market redevelopment issue. In other words: do we rely on programs such as public housing or similar low cost housing initiatives to create greater affordability, or do we encourage and facilitate more people to buy and rent in more affordable areas by improving their amenity and attractiveness through programs of community renewal? It is no resolution to affordability if it means placing people in areas of social decline with poor amenities and employment prospects. This is social exclusion mediated by a need for affordable housing. But if areas of good affordability were upgraded to allow for good housing outcomes with broader social inclusion outcomes, then this would be an excellent policy result.

## 9.5 Spatial Polarisation and New Life for Old Suburbs

The current market polarisation risks turning Melbourne into a mono-nucleated city, with the CBD and the inner area as the core of economic and social activity. In the 1980s Melbourne was showing signs of becoming a multi-nucleated city with competing economic and social nodes emerging in areas such as Dandenong, Frankston and Ringwood. The housing market patterns of the 1990s signalled that this process had ground to a halt, and the environmental, social and economic advantages of a strong multi-nucleated city are not being fully realised. There is little reason to think that this process will be spontaneously reversed in the coming decade. And, as previously indicated, some of these former growth nodes are showing 'at risk' signs of stagnation or decline.

A number of housing indicators used in this report – for example, declining real house prices and excessive concentration of low cost private rental stock – are what might be called indicators of 'at risk' localities. As prices fall, people fear they must get out before they fall even further; the same falling prices suggest high relative yields for landlords, who move into the area and draw lower income renters with them. The retail viability of shops declines, and a process of simultaneous housing and commercial disinvestment then occurs. This is the sort of process that has brought many inner urban areas of United States, and some United Kingdom, cities to their current levels of decline. In most cases, 'market' behaviour is accompanied by negative social indicators, for example, high relative unemployment, high welfare dependence, rising crime and anti-social behaviour, and poor educational outcomes.

Table 19 shows a selection of suburbs which we consider to show signs of being 'at risk' localities'. Included here are Dandenong, Springvale, Frankston and Broadmeadows, all of which have experienced real median house price falls, and have higher than average recorded crime rates and unemployment rates.

**Table 19 Bottom Seven Melbourne Suburbs, Based on After Tax Income**

	<b>After Tax Income 1997-98 as Percentage of Melbourne SD</b>	<b>Percentage Change in Median Prices 1990-99</b>	<b>Total Reported Offences 1998-99 per 10,000 Popn.</b>	<b>Unemployment Rate Dec. Quarter 99</b>
Dandenong	\$21,905 (84%)	-11	2,186	8.2%
Sunshine	\$21,993 (85%)	9	1,329	13.6%
Preston	\$22,172 (85%)	29	2,135	11.8%
Broadmeadows	\$22,471 (86%)	-13	1,672	12.5%
Springvale	\$22,475 (86%)	-10	1,525	7.7%
Frankston	\$23,062 (89%)	-10	1,326	7.5%
Coburg	\$23,205 (89%)	13	1,090	10.0%
<b>Melbourne SD</b>	<b>\$26,027 (100%)</b>	<b>69</b>	<b>1,122</b>	<b>6.9%</b>

Sources: income: Australian Taxation Office; median house prices: Valuer General Victoria; reported offences: Victorian Police crime statistics; unemployment: Department of Employment, Workplace Relations and Small Business.

Significantly, another just released study on social and spatial exclusion in Australia, but using different variables, has also identified these outer areas as vulnerable (Baum et al. 2000). The reliance on a 'market led' resurgence in such suburbs is handicapped by the quality of the stock. The dwellings are not solid brick Victorian terraces awaiting gentrification, but more likely 1950s weatherboards or brick veneers which, because of cheap construction and minimal maintenance, have reached the end of their economic life. Potential resurgence is also handicapped by location in slow labour markets ('old economy' areas) and by a lack of the social amenities (cafes and entertainment and tourist facilities) that the inner area offers. There is not likely to be a spontaneous market led regeneration of these areas.

Alternatively, we could recognise that these areas are well-suited to smart forms of public-private partnership interventions. This could involve:

- A social exclusion audit which identifies 'at risk' areas in more detail, estimates the degree to which the housing stock is in need of renovation and repair, and estimates gaps in social infrastructure, using various indicators of social wellbeing;
- The creation of an agency to work with existing residents, local government and private and community partners in a process of renewal, perhaps built around property amalgamation and the provision of new multi-unit housing. The ULC would be an ideal leader for this purpose, providing its charter is reworked accordingly. The public sector neighbourhood renewal projects around Australia – particularly Queensland where the Housing Department has the lead role in coordinating a number of government departments in the renewal of outer urban Inala – could provide a framework for such a task, The growing role of State housing agencies in community renewal, both nationally and internationally, also prompts consideration of whether the Office of Housing is most appropriately located in a Human Services Department (with a fairly narrow core shelter and linkages role) or as part of a department that has a 'whole of government' strategic planning approach to community renewal;
- The development of a 'whole of government' approach to locational renewal by linking housing, education, employment and policing in an integrated program, central to which could be the newly announced educational network program designed to improve educational outcomes;
- The development of a metropolitan strategy with an objective of building economically and socially sustainable nodal centres as alternatives to the CBD and the inner city;
- Containing the rate of growth on the urban fringe through proactive interventions to force more new development into existing outer urban areas. It does not seem particularly logical to allow more sprawl when existing outer areas with good basic infrastructure are in a potential spiral of decline.

## **9.6 The Future of Medium Density and Multi-Unit Dwellings**

The lessons of the past suggest the current level of multi-unit development is not sustainable. After all, the boom of the 1960s and 1970s collapsed, and for two decades we went back to a dependence on the detached dwelling. There is, however, sufficient evidence in recent market trends and related processes to

suggest that this is not likely to be the case, with the current multi-unit development phase heralding a permanent structural change in Melbourne's housing market.

First, the demand is more multifaceted than in earlier decades, when it was highly dependent on young people moving into independent living. Census data shows that the age structure of people who moved into multi-unit housing between 1991 and 1996, although still dominated by younger households, had sizeable numbers of older age groups. And, the further away from the inner area, the more the demand came from older households (ABS 1996, special cross-tabulations).

Second, partly related to demographics, but also reflecting lifestyle changes, Australia –including Melbourne – is seeing the growth of smaller household types. Many of them appear to prefer, or are constrained to choose, multi-unit accommodation. As these are the growth households of the future, sustained demand for multi-unit accommodation can be anticipated. Conversely, the household type that drives detached housing consumption is only growing slowly.

Third, the information revolution and economic restructuring are changing the labour market to one which requires greater flexibility and mobility, at least for those who are integrated into the new economy. A rented multi-unit apartment is more flexible in use and exchange than a suburban detached house.

Fourth, the growth of multi-unit living is not restricted to Melbourne. Under different names it is a major trend in Canada, the United States and the United Kingdom, and of course has always been a key practice in Europe. Vancouver, Toronto and Los Angeles, which were once detached cities like Melbourne, have seen an earlier and more pronounced trend to multi-unit housing than in Melbourne (Burke 1993). In part this was policy driven, but to a greater extent it is market driven. A comparison of cities with comparable income levels and undergoing similar economic and demographic changes, including Sydney, would suggest that there is potential for significant increase in multi-unit living in Melbourne. Moreover, the experience of some of these other cities would indicate that this is not just an inner urban process, but can be made attractive and viable in outer areas.

Fifth, preference studies indicate a growing demand for multi-unit dwellings. In a 1999 Swinburne Institute for Social Research preference study of home purchasers, a quarter of all respondents expressed a preference for such housing, a much higher preference level than a decade ago (ISR 1999). Older households had the biggest change in preference (CUSR 1987, 1991; ISR 1999).

Sixth, whether more or less regulated, the planning environment will still emphasise urban consolidation, even if its form may be different, for example, greater emphasis on appropriate areas of the suburbs rather than the inner city. This too is an international trend, as governments come to grips with issues of environmental sustainability and rising infrastructure costs. A planning regime with an emphasis on consolidation is inevitably going to encourage more multi-unit development. The new *ResCode* may make development of some sites more difficult, particularly small inner urban sites, but overall there would appear to be enough large sites across the urban area to enable sustained multi-unit housing development, albeit at slightly lower density levels per site.

Seventh, within the middle and inner ring, rising property values will dictate a more intensive use of existing land, just as they have historically dictated development in other cities around the world. As other sections of this study have shown, all indications are of sustained increase of values in inner urban areas. This will lead to the inevitable market response of more multi-unit housing.

Eighth, unlike earlier decades, there is now a relatively large and sophisticated industry submarket specialising in this form of development. It has good research, advocacy and lobbying capacities, and will act to keep the industry subsector viable.

Finally, multi-unit housing can be a vehicle for revitalisation of run-down residential areas. The United States has used new multi-unit housing to restore confidence in local housing markets of some inner cities, and South Australia and Western Australia have used high density redevelopment of run-down suburbs (with high concentrations of public housing) in joint public-private ventures to create more sustainable communities and housing markets. This process is also likely to have application in Melbourne.

Pulling all these threads together, we would anticipate that multi-unit development will consume around 25 to 30 per cent of all housing on average over the next decade, although with the inevitable ups and downs that are built into the Victorian residential development industry. There may, however, be some changes in its form and location. In the CBD itself, construction may be slowed by increasing competition from the commercial sector for sites and buildings. The surplus of office space that freed up so much property for residential use in the CBD in the 1990s is, after a decade, showing signs of ending, requiring a new wave of commercial development. This will raise the cost structure of properties and push apartments into the very upper price brackets for which, as Section 8.1 showed, there is only

a limited market. On the other hand, it might make the Docklands and Southbank more attractive for such sites as there will be less commercial competition and as they have, by virtue of their location, many of the attributes of city living.

The high cost of properties in the inner suburbs, fuelled in part by the demand for potential multi-unit sites, may deter medium density development such as townhouses; the economics may not stack up, except at the upper end. This will accelerate the provision of higher density multi-unit development that makes a more intensive use of land, for example, flats. Finding appropriate sites will be the problem.

The combination of rising costs and contracting supply of sites should force more multi-unit development beyond the inner areas and increase the proportion of such housing in the outer regions, some of which have had limited development over the past decade. High numbers of older and smaller households in these regions suggest strong potential demand if they can be pitched at an affordable price. One of the constraints on greater multi-unit development, particularly for the aged, is the change-over price. With borrowing constraints placed upon them by virtue of their age and earning capacity, any switch from a large detached house to a more manageable townhouse is contingent upon what can be realised from the sale of the house. In the Inner Eastern and Inner Southern suburbs such as Hawthorn, Camberwell, Brighton and Malvern, a detached house may typically realise \$450,000 to \$500,000, which is more than enough to afford a new townhouse. But, as Section 8.1 showed, around three-quarters of the stock in outer regions sells for less than \$250,000, and much of it for less than \$150,000. Any multi-unit development has to sell for less than these levels to attract an older market.

Achieving quality of design and affordability is a challenge for the sector. This is a particularly challenging issue in cases where, in the interests of a longer period of independent living, the elderly might wish to move to retirement villages or units closer to their children who happen to live in higher priced areas. This raises the policy issue of whether there is a brokering and/or development role for some agent, for example, local government or the ULC, in facilitating older households moving to multi-unit housing, along the lines of Box Hill council's defunct Milparra scheme (Burke 1989).

## 9.7 Back to the Future: The New Fringe Development

As Section 3 pointed out, the 1990s saw a progressive remaking of fringe development. Most new estates on the fringe at the start of the decade were very much in the vein of those developed over the previous thirty years: large and unimaginatively laid out, with little reference to issues of environmental sustainability, landscaping, community facilities or good design. Beginning with the ULC's Timbarra estate at Berwick, new fringe estates increasingly began to be landscaped and designed to create more of a community or 'urban village' feel, and to pay attention to local environmental features such as wetlands. Some almost took on the characteristics of United States gated communities, with walls and stone entrance ways, but these were more to define the estate and establish its identity, rather than for security reasons, and none actually have gates. Rolling Meadows, Craigieburn Garden Village, Laurimar, Panorama and Lynbrook all reflect the new design principles, with ultimate capacities of 500 to 3,000 households.

Such estates are particularly important in the western suburbs where their good design has alleviated some of the bleakness of 1960s and 1970s developments. They also capitalise on very good accessibility to the CBD and other parts of Melbourne. These estates, for example, Cairnlea, Wyndham Green and Sanctuary Lakes, will over the next decade help restore more spatial balance to metropolitan Melbourne's hitherto eastern and southern imbalance.

These estates are remarkably good value compared to the inner city and, more importantly, to many established outer suburbs. With lots typically ranging from around \$40,000 to \$85,000, a house and land package can be put together for \$130,000 to \$235,000, the latter likely to be a large 30 square two storey house. Why buy a run-down 1950s house in an area of potentially declining amenity and values in the outer suburbs, when a few more kilometres and dollars will buy a much better lifestyle and a less risky investment?

In some respects, the remaking of the fringe estate may actually undermine principles of urban consolidation and contribute to the previously discussed running-down of a number of older outer areas. With inner housing increasingly becoming non-affordable, fringe consumption – particularly when it is both affordable and of good quality – will maintain and perhaps accelerate this form of development, bringing a new vitality and interest, particularly for those whose employment does not require a more central city location. If this is the case, it is consumption that otherwise might have gone into the purchase and upgrade of a property in an established area. The risk here is that accelerated fringe development will accelerate outer urban decline! This raises the issue

of how much future development should be channelled into new fringe areas rather than into existing outer urban areas, many of which did not experience the redevelopment processes that characterised inner Melbourne in the 1990s.

Many of these estates are geared to families, as fringe estates always have been. It is likely that they will also increasingly attract growing numbers of older households who want affordable quality dwellings with a certain lifestyle image, and households trading up or across from detached, but perhaps maintenance-expensive, older housing. Moreover, planned village estates resonate with attempts to recreate a sense of community and a nostalgia for the urban forms of the past, which have been demonstrated to be important selling points in the United States and to some extent in Queensland. Census data indicates that, while many young households move to inner city multi-unit housing, older households prefer – whether for reasons of choice or constraint – multi-unit housing in the outer areas. As such, they are likely to be a growing and important market for planned fringe communities, if such communities are willing to diversify their product range to a mix of detached and medium density housing.

## **9.8 Demographics and Housing Futures**

The most important demographic changes affecting housing include the general aging of the population (with a net reduction in the 25-34 age cohort and a substantial growth in 50 plus age cohorts), the continued diversity of households, and the decreasing importance of the stereotypical nuclear family. Single persons, childless couples and sole parents will be the growth households, just as they have been since the early 1980s. The final demographic point is that household growth is ongoing, with an estimated additional 175,000 households to be housed over the next decade (DOI 2000a).

How the changes in the numbers and the structure of households will shape actual housing decisions depends on how their preferences and choices translate into demand. This in turn depends on changes in income, lifestyle and tastes as shaped by wider economic and social forces, and on how each of these factors affects specific household types. The following sections briefly review the key household types in housing consumption.

### **9.8.1 Young Households**

Young newly forming households have historically gone into rental accommodation and then, with some time-lag, made the transition to ownership. This may no longer

hold as a rule for substantial numbers. Two factors suggest rental as a more permanent housing career. One, already outlined, is the rise of casualised employment and falling income for many young people, delaying and perhaps preventing the transition to ownership. The other is the lifestyle choice which might accompany the growth of high income households working in global labour markets, whose preference for a networking cafe society lifestyle will help create a preference for inner urban rental accommodation. Of course, others will make the transition to ownership but, as census data shows, dramatically falling purchase rates among young people indicate that this will be in much lower numbers than in the past. The outcome will be more rental demand across all rent spectrums, and a particular demand for inner urban lifestyle accommodation (unless certain suburban areas can be nurtured to create the allure of the inner city). The concern here is whether the private rental sector can make the appropriate market response, particularly at the low rent end.

Student housing is an important submarket of young persons' housing. In the 1990s tertiary student numbers expanded rapidly, fuelled by both local and overseas demand. With the exception of Monash at Clayton, LaTrobe at Bundoora and Deakin at Burwood, most of Melbourne's university and TAFE campuses are inner urban areas. While some 75 per cent of local students live at home, the rest – and all overseas students – seek some form of rental accommodation (Burke and Pidgeon 1993). Universities have provided some additional student housing since the mid-1990s, but this has not been sufficient to satisfy demand. The coming decade will see continued pressures on the rental market by student households, who will increasingly find that they are searching for an ever diminishing stock of affordable inner urban accommodation.

### **9.8.2 Couples and Dependent Children**

The stereotypical nuclear family of the couple and dependent children is becoming relatively less important each decade. This has enormous implications for Melbourne, whose residential stock has historically been premised on the assumption of families occupying a detached three bedroom house. Simply put, will there be sufficient demand for this type of stock across Melbourne? Will families confronted with substantial choice become much more selective and opt for locations that offer the resources and amenity – including schooling and the demands of reconciling the journey to work for two income earners – which are most consistent with family life?

Proximity to schools ranks high in housing preference studies for families. Australia has relatively high levels of private schooling, and the number of students attending these schools is increasing rapidly. A number of factors explain this, but one appears to be a perceived decline in the quality of State schools and differential performance between the two systems – a process that becomes self-fulfilling if more resources are diverted to private schools and more parents send their children to them. Many State schools have been rationalised into large regional colleges which, like private schools, often require their students to make a substantial journey from home. The links between the education system and housing market analysis include a premium being placed on proximity to leading State and private schools, which tend to be located in the inner and middle ring suburbs. With the drift towards private schooling set to be maintained, there is little doubt that the attraction of the inner and middle ring housing markets will only be enhanced. This in turn raises the issue of locationally specific investment in State schools as a vehicle for economic regeneration of deprived localities, perhaps in conjunction with the formation of education networks.

Perceived security is another factor of importance for families, and may expand the demand for planned residential communities on the urban fringe, and occasionally within the existing metropolitan area if brownfield sites can be assembled. These will be built to create a sense of neighbourhood security, and will have the hard infrastructure (such as community houses and intranet services) and soft infrastructure (such as a management agency) which encourages clubs and associational activity. As such developments evolve, the attractiveness of price and amenity will weaken demand for certain established suburban areas which are not much cheaper and offer little of the perceived security and amenity. Many families who prefer the detached dwelling will also opt for suburbs where there is a perception of safety and security, whether in terms of light traffic flows (a safety factor) or of low crime and drug rates.

### **9.8.3 Empty-Nesters and Retirees**

This is a complex group of housing consumers, compared to the past. Their numbers will grow, but they will reflect the income inequalities of the wider Australian society. Many will be relatively poor while others will be quite affluent. It is difficult to forecast how the substantial growth of these groups will play itself out across the various submarkets. Past consumption patterns and preference studies suggest that they will be keen to live in multi-unit housing. For example, a preference study of 400 purchasers conducted in the northern suburbs in 1999 found that 30 per cent of

those aged 55 would consider multi-unit housing for their next dwelling (SISR 1999). For some, this will be in areas of local friendship and family support; for others, their interest will be in a particular lifestyle. This will place a premium on inner suburbs that can create the lifestyle of the inner city and on fringe planned communities specifically designed for lifestyle. The demand for multi-unit dwellings will also be fuelled by the growing numbers opting to split their lifestyle between a country residence and a city residence, with the latter more likely to be an apartment or townhouse.

Retirees who are income poor but asset rich will, depending on where in Melbourne they live, be able to capitalise on the high value of their dwelling by selling it, buying more cheaply elsewhere and converting the rest into an income flow. This might see increased demand in regional centres – including Geelong, the Mornington Peninsula and the Bellarine Peninsula – and in lifestyle estates and communities. Retirement villages will be a growth industry, but very likely in a different format to the past. Increasingly they will be planned lifestyle communities, such as the Buxton Group's Californian type development in East Brighton. Probably the greater proportion of households in this age group will 'age in place', with many becoming unable to deal with the maintenance costs of their large and perhaps deteriorating detached dwellings. This raises the policy issue of whether programs will be required to assist older people to remain in their home by offering grants and loans for upgrade and maintenance.

## 10 Conclusion

There is now an acute awareness that our lives are much riskier than they have ever been. The rate of societal change has sped up and the choices that we face have widened, leading to new benefits and higher standards of living. But the costs of making a poor choice have also increased, and standards of living for many have declined rather than risen. Housing is no exception to these trends, as this report has demonstrated. Demographic and social changes have increased the demand for higher density dwellings, and a restructured building industry has responded – usually well, but sometimes badly. These dwellings have added to the diversity of our stock, but they have also led to a loss of amenity, and sometimes dwelling value, for those households who have had some poorly designed higher density dwellings built next to their homes. Choices have widened, but so too have the risks, and this pattern will continue in the decade to come.

Housing affordability has improved, but the pattern has been uneven, reflecting the remarkably different geographies of house price change during the last decade. The inner suburbs have experienced a large price boom, while the outer suburbs have experienced decline. There is now much more choice in dwelling types in the inner city, but there is a smaller band of households who can afford to live there.

As with change generally, the pattern of housing change we have identified in this report has unfolded in a very unequal fashion. For the majority, this won't matter very much for, while they have not done as well as others, they have nevertheless seen their housing standards and wealth improve, even if only slightly. This can be expected to continue in the next decade. The key issue is with the minority of households whom the housing market has decidedly worked against. We include here those living in declining suburbs – the 'at risk' localities. Also included are low income private tenants who are trapped in a tenure many wish to escape from, but who are not poor enough to get into their next best choice – public housing – because the latter has become more targeted in the face of declining funds.

The changes and their associated risks are not just an issue for individual households or specific areas. They also have implications for Melbourne as a whole. The market trends suggest an increasingly polarised urban form, with the benefits focused on the CBD and the inner urban area. An urban form like this could have significant environmental, efficiency and equity implications that will affect us all, for we all have a collective interest in Melbourne as a place to live.

Tackling the problems we have identified in this report will not be an easy task. We are all becoming aware of the increased risks we face in life, and government is no exception. Uncertainty hangs heavily over public policy and planning to a degree we have not seen since the 1940s. This is because during the 1950s, 1960s and 1970s we tried high levels of planning control, but this was only a partial success. During the 1990s we went in the opposite direction and experimented with large-scale deregulation and privatisation. This, too, did not live up to the high expectations many had of it. It is clearly time for a change, but we are unsure in what way and how. We cannot be certain as to what interventions are appropriate. Resolving these issues will be the challenge for government, but it is also a more general challenge, as government's ability to innovate and lead is dependent on the ideas and support from Melburnians whose housing and urban futures are at stake.

We can say with some confidence that over the next decade Melburnians' housing standards will continue to improve, and that most people will end the decade with more housing wealth and better housing than at its beginning. The challenge for urban policy is to make sure that this group of winners includes those who currently are the significant minority who did least well during the 1990s and who could benefit immensely from a public and private 'leg-up' at this point in their lives. The trick is to maximise the benefit, while minimising the risk.

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# **Housing Past**

## **Geelong's**

# **Housing Futures**

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11 December 2000

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## **1 Introduction**

Geelong is Victoria's second city and is the location of the State's largest non-metropolitan housing market. In 1999 the City of Greater Geelong (the study area) contained some 73,000 dwellings and housed 190,000 persons. This paper seeks to understand what has happened in the Geelong housing market over the past decade, explain what might happen in the future, and tease out some planning and policy implications. It is a complement to *Melbourne's Housing Past, Housing Futures* which sets out in more detail the theoretical and methodological foundations on which this report is based.

In tackling the exercise we found ourselves handicapped by major methodological problems of relatively recent origin, including changes to local government and ABS boundaries which render historical data non-comparable. Also certain key data is simply unavailable. The report has therefore not been able in all cases to use consistent regional boundaries. Melbourne (or more correctly the Melbourne Statistical Division or MSD) has been used as a benchmark where possible, not because its outcomes are any better or worse, but simply to provide a reference which allows us to say where and why Geelong is different.

The study area for this report is that covered by the City of Greater Geelong which we refer to as Geelong or Greater Geelong. For analytical purposes we have broken this region into Inner Geelong and Outer Geelong. Inner Geelong is that area covered by the former local government areas of Geelong, Geelong West and Newtown. Outer Geelong is the remainder of the City of Greater Geelong.

We begin by providing an overview of housing in Geelong, then we discuss some important economic changes which affected the housing market over the last decade and will continue to have an effect over the next decade. Our attention then turns to housing market changes and their policy implications.

## **2 Housing in Geelong: An Overview**

Geelong is an unusual housing market in that it is clearly a distinct regional centre, comparable in the Victorian context to Ballarat, Bendigo and the La Trobe Valley, yet its proximity to Melbourne means that it is much more strongly influenced by the Melbourne housing market and economy than these other centres, being within the commuter belt of the MSD. As metropolitan Melbourne has developed towards Geelong, its attractiveness as a relatively inexpensive housing location for Melbourne residents has increased, as recognised by the City of Greater Geelong through its 'Smartmove' program.

Geelong's housing market is also influenced by its proximity to the coastal resort towns to its west and their significant development in recent years. These townships form a commuter/lifestyle base for people working in Geelong, as well as a retirement and holiday home centre for the broader Victorian population.

As a result of these two influences, Geelong like other regional centres has a historic base of residents who identify strongly with the city and a more recent population of what may be termed lifestylers, attracted to Geelong and the wider district by its relatively cheaper prices and relaxed coastal lifestyle.

Geelong's housing system is organised around three principal tenures: home ownership, private rental and public housing (see Table 1), with the former accounting for 73 per cent of dwellings. A small proportion (4 per cent) is allocated administratively through the public housing system, the same proportion as in Melbourne. By contrast, the private rental sector is smaller, at 18 per cent of stock. However, the historical trend is for more private rental (up from 14 per cent in 1986) and lower home ownership (down from 76 per cent in 1986).

**Table 1 Housing Tenure, 1996 (Percentage of Private Dwellings)**

	<b>Owner Occupied</b>	<b>Private Rental</b>	<b>Non-Profit or Co-op</b>	<b>Other</b>
Geelong	73	18	4	4
Melbourne	70	19	4	4
Australia	69	21	6	4

Source: ABS (1996) Census

The dominant dwelling type is the detached house (see Table 2) which accounts for the overwhelming majority of dwellings, and this is the case even in the inner areas, which in most cities tend to be where most of the medium density stock is to be found.

**Table 2 Dwelling Types in the City of Greater Geelong LGA, 1996**

Dwelling Type	Dwellings	Percentage of Total
Separate house	63,218	84.6
Semi-detached 1 + storey	2,208	3.0
Semi-detached 2 + storey	363	0.5
Flat 1-2 storey	6,513	8.7
Flat 3 storey	131	0.2
Flat 4 + storey	55	0.1
Flat attached to house	255	0.3
Other	2,011	2.7
Total	74,754	100

Source: ABS (1996) Census

### 3 The Geelong Economy

Geelong has a long history as one of Australia's leading industrial centres, with a heavy emphasis on the manufacturing of automobiles, transport equipment, metals, footwear, clothing and textiles, including wool processing. In recent decades, the area has increasingly diversified its industrial base to tourism, particularly along the coast, and the human services sector of health, education and community services.

Over the last two decades, the Australian and Victorian economies have experienced rapid change as they have become more tightly enmeshed into the global economy. Twenty years ago Geelong was already part of the global economy, but in a different way. Back then it was known for its manufacturing industries which had sprouted on the back of Federal government protection and complementary State government subsidies necessary to induce foreign multinational companies to set up shop. While Geelong prospered during the 1950s and 1960s under these policy settings, the reverse held true when successive Federal governments during the 1980s and 1990s wound back protection to its current very low level. Many manufacturing establishments closed their doors or reduced their workforce, and other local industries which serviced them were affected in turn.

Geelong was also profoundly affected by another significant policy u-turn in the early 1980s: financial market deregulation. A number of speculative financial institutions grew rich at this time, and some of these were domiciled in Victoria. Pyramid Building Society became a national lender for property market transactions, and Tricontinental became known as the nation's leading entrepreneurial merchant bank. Both collapsed during the early 1990s when increased interest rates put an end to the

speculative share and property market dealings that they were financing. Tricontinental took its owner – the State Bank of Victoria – with it, and Pyramid undermined the prosperity and confidence of the Geelong region where it had been the leading deposit taking institution.

These processes thrust Geelong and the rest of Victoria into a recession which was deeper than anything seen since the Great Depression of the 1930s. Whereas the rest of the nation's economy grew by 1 per cent between 1990 and 1992, Victoria's shrank by 5 per cent (ABS, Cat. no. 5220) The recession had a profound impact on labour market activity and housing for the remainder of the decade.

Much of the 1990s was devoted to recovering from these major economic setbacks. In place of the manufacturing firms that closed their doors have sprung up service industries in tourism, property and human services.

While Melbourne recovered from the recession and enjoyed its longest period of economic expansion since World War II, the Barwon-Western District Statistical Region (taking in Geelong and all Victoria west of it to the South Australian border) has not recovered at the same rate. In November 1999 unemployment was 7.7 per cent, some 3.2 percentage points higher than in November 1989. By mid-2000 the unemployment rate had increased to 8.4 per cent. Moreover, the economic growth of the second half of the 1990s was not accompanied by high rates of full-time employment growth. By the end of the 1990s there were still fewer full-time jobs than at the end of the previous decade. All the job growth has been accounted for by part-time employment (see Table 3), leaving Barwon-Western District – like Australia generally – with a very high rate of casualised and part-time employment. The proportion of the local workforce employed in part-time jobs increased from 20.6 to 26.8 per cent between November 1989 and June 2000.

**Table 3 Employment Status, Barwon-Western District Statistical Region, 1989-99**

	Nov. 1989	Nov. 1994	Nov. 1999	Change 1989-99	Percentage Change 1989-99
Employed full-time	112,900	113,700	94,400	-18,500	-16.4
Employed part-time	32,600	38,600	44,200	11,600	35.6
Total	145,500	152,300	138,600	-6,900	-4.7
Unemployment rate	4.5%	10.6%	7.7%		

Source: ABS, Cat. no. 6202.0

A related effect has been a widening of income and wealth inequality (Gregory and Hunter, 1995; Harding, 1997). Using taxable income for all individuals over the period 1989 to 1998, Table 4 shows the rate of growth of pre-tax income for all income earners in the Geelong region and in Melbourne as a whole. Average incomes in Geelong grew at a slower rate than in Melbourne, but there were important locational differences within the Geelong region. While average incomes grew by 3 per cent in Leopold, in Portarlington they grew by 14 per cent. By the end of the 1990s the gap between the Geelong region's average income and that of Melbourne had widened from 6 to 11 per cent.

**Table 4 Taxable Income for Selected Housing Sub-Markets, Greater Geelong and Melbourne, 1989-98 (\$ 1998)**

	<b>Pre-Tax Income 1989-90</b>	<b>Pre-Tax Income 1997-98</b>	<b>Percentage Change 1989-90 – 97-98</b>
Portarlington	23,924	27,412	14.6
Geelong	31,980	35,852	12.1
Geelong West	27,072	29,802	10.1
Lara	30,847	33,469	8.5
Geelong Outer	29,496	31,759	7.7
Ocean Grove	28,939	31,112	7.5
Geelong North	27,444	29,498	7.5
Barwon Heads	30,099	32,125	6.7
Belmont	29,474	31,441	6.7
Geelong East	26,819	28,569	6.5
Drysdale	29,602	31,154	5.2
Corio	26,933	28,148	4.5
Leopold	30,503	31,413	3.0
<b>Greater Geelong LGA</b>	<b>28,660</b>	<b>30,909</b>	<b>7.8</b>
<b>Melbourne MSD</b>	<b>30,498</b>	<b>34,337</b>	<b>12.6</b>

Source: Australian Taxation Department

## 4 Geelong Housing Sub-Markets

Greater Geelong consists of a collection of sub-markets distinguished by price, location, dwelling type, tenure and role, where the latter refers to different forms of usage such as permanent versus holiday home. They are in a constant process of change as inner urban stock is gentrified, holiday homes become permanent houses, permanent houses become holiday homes, and dwellings are transferred between tenures. Despite being smaller than Melbourne, Greater Geelong is in some respects more complex as it embraces a large urban area, small rural townships, and coastal villages and towns, each with their own distinctive attributes. For example, the surf coast towns are gentrifying and attracting a larger residential base versus holiday home base, whereas the bayside towns remain essentially working-class holiday resorts. These differences create complex planning and policy challenges.

Tables 5, 6 and 7 show the changing pattern of tenure distribution over the period 1986 to 1996 for Greater Geelong, Inner Geelong and Outer Geelong. They reveal the increasing importance of private rental housing and the relative decline of ownership, the latter due to a marked fall in the number and proportion of home purchasers: down from 34 to 28 per cent for Greater Geelong, and from 38 to 29 per cent for Outer Geelong. Given the high affordability of residential property in the region, this is surprising. It suggests that factors other than affordability are affecting consumption decisions. This might include lifestyle choices and, more importantly, labour market uncertainties which may deter people from making the long-term financial commitment associated with home ownership. The public housing stock grew slightly, but not enough to change its share of the total stock.

**Table 5 Changes in Tenure of Occupied Private Dwellings for the City of Greater Geelong LGA, 1986, 1991 and 1996**

	<b>1986 Percentage of Total</b>	<b>1991 Percentage of Total</b>	<b>1996 Percentage of Total</b>	<b>Percentage Change 1986-96</b>
Fully owned	42	44	45	26
Being purchased	34	30	28	-4
Public rental	5	5	4	3
Private rental	14	16	18	50
Other	5	6	5	24
Total	100	100	100	18
Total number	55,095	61,016	65,082	

Note: 'Other' includes rent free, life tenure, not stated, and other government agencies

**Table 6 Changes in Tenure of Occupied Private Dwellings for Inner Geelong, 1986, 1991 and 1996**

	<b>1986 Percentage of Total</b>	<b>1991 Percentage of Total</b>	<b>1996 Percentage of Total</b>	<b>Percentage Change 1986-96</b>
Fully owned	44	43	42	-5
Being purchased	24	23	23	-5
Public rental	3	3	3	3
Private rental	23	25	26	14
Other	6	6%	6%	5
Total (dwellings)	(14,761) 100	(14,744) 100	(14,791) 100	0

\*Includes Geelong West, Newtown and Geelong

**Table 7 Changes in Tenure of Occupied Private Dwellings for Outer Geelong, 1986, 1991 and 1996**

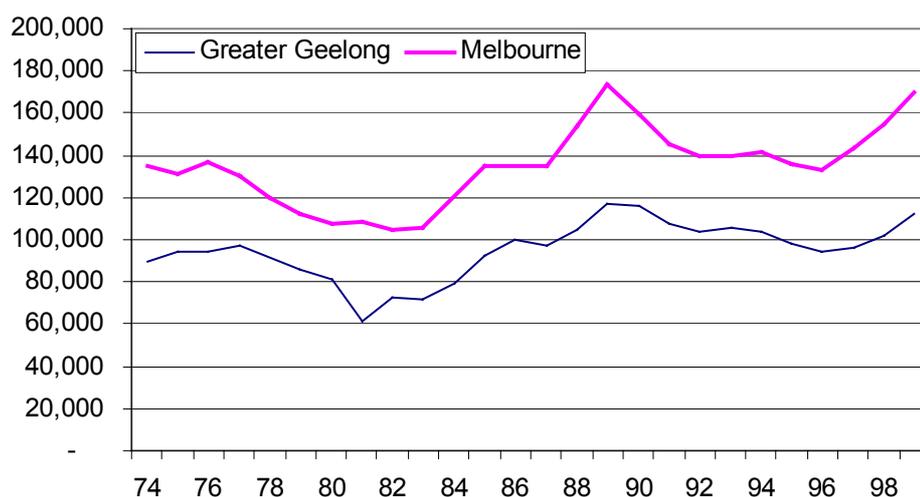
	<b>1986 Percentage of Total</b>	<b>1991 Percentage of Total</b>	<b>1996 Percentage of Total</b>	<b>Percentage Change 1986-96</b>
Fully owned	41	44	46	39
Being purchased	38	32	29	-4
Public rental	6	6	5	3
Private rental	11	13	15	79
Other	4	6	5	32
Total (dwellings)	(40,334) 100	(46,272) 100	(50,291) 100	25

Source: ABS Census Time Series

## 5 Prices

The 1970s through to the 1980s saw significant house price inflation in Australia generally, and Geelong was no exception. The price increases did not occur in a uniform way, but varied significantly across time and space (see Figure 2). Periods of rapid price inflation in the early 1970s were followed by significant real declines in the last half of the decade and in the 1980s. Geelong prices were at their lowest real level in 1981, then progressively increased to their high in 1989. The early 1990s recession punctured the housing market boom and, although prices subsequently increased, by the end of the decade they were still less in real terms than they had been at the peak of the boom ten years earlier. During most of the 1990s the price gap between Melbourne and Geelong narrowed slightly, but then widened again once prices began to rise in the latter part of the decade (see Figure 1).

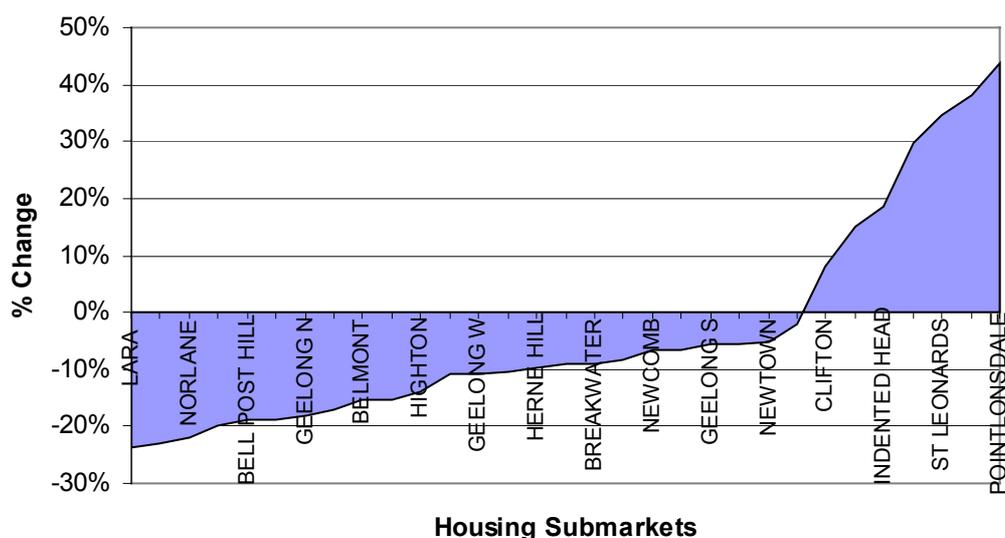
**Figure 1 Median House Prices, Greater Geelong and Melbourne, 1974-99 (\$ 1999)**



Source: Valuer General's Property Sales Statistics

The overall trend in house prices for the Geelong region disguises some major spatial variations (see Figure 2). While the median price fell in real terms by 3.5 per cent, it increased by 40 per cent in Point Lonsdale but fell by almost 25 per cent in Lara, Corio and Norlane. Overall, many more areas experienced real falls than rises.

**Figure 2 Real House Price Changes (\$ 1999) by Housing Sub-Market, 1990-99**



Source: Valuer General's Property Sales Statistics

Table 8 and Table 9 compare the bottom ten and top ten housing sub-markets in the Geelong region in 1989 and 1999. The presence of the inner areas of Geelong South, Geelong North and Geelong East in the lowest ten sub-markets in 1989, but their complete absence ten years later, shows a strengthening of the inner city market. This is also illustrated by the higher positions in the top ten of Drumcondra, Newtown and Geelong. It would appear that Greater Geelong is developing an increasingly strong inner urban market at the expense of more outer and coastal areas, a trend that is also evident in Melbourne.

**Table 8 Bottom Ten Median Priced Housing Sub-Markets, 1989 and 1999**

1989		1999	
Norlane	58,950	Norlane	58,000
Waurm Ponds	69,500	North Shore	60,750
Geelong South	75,250	Corio	75,000
Corio	75,500	Newcomb	85,000
Newcomb	75,500	Indented Head	85,000
Geelong North	75,750	St Leonards	85,000
Breakwater	75,750	Breakwater	87,000
Geelong East	77,000	Herne Hill	89,000
Indented Head	77,000	Bell Park	89,300
St Leonards	77,700	Whittington	90,000

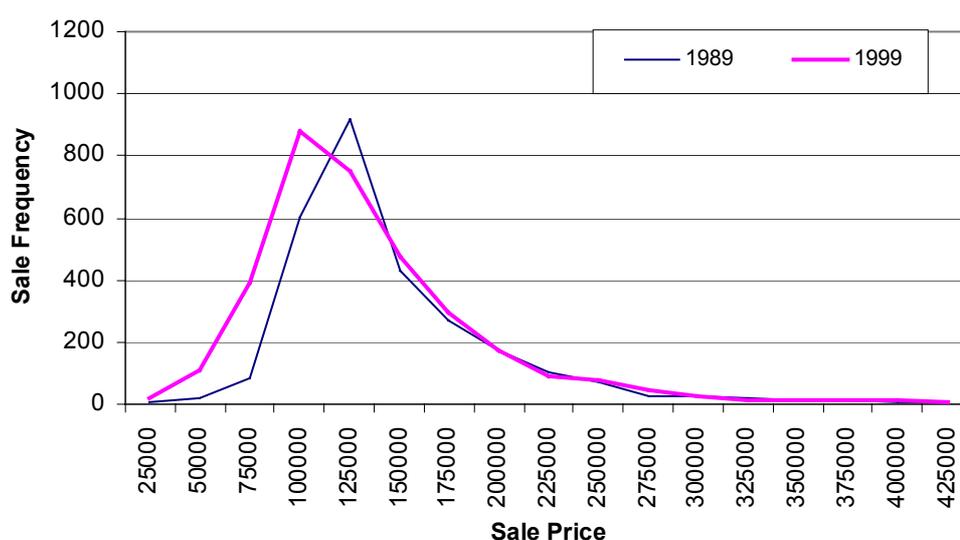
**Table 9 Top Ten Median Priced Housing Sub-Markets, 1989 and 1999**

1989		1999	
Wandana Heights	192,750	Mt Duneed	271,250
Lovely Banks	173,000	Drumcondra	224,000
Mt Duneed	170,000	Wallington	194,000
Wallington	170,000	Wandana Heights	182,000
Moolap	162,000	Little River	167,500
Little River	152,000	Newtown	165,000
Drumcondra	148,500	Highton	165,000
Point Lonsdale	144,250	Point Lonsdale	165,000
Highton	126,000	Geelong	162,500
Newtown	115,000	Lovely Banks	158,500

Source: Valuer General's Property Sales Statistics

Figure 3 shows the number and proportion of sales for different price segments in Geelong in 1989 and 1999, adjusted for inflation. While the number of sales in the top price brackets remained broadly unchanged, the distribution of sales overall shifted towards the cheaper property segments. The middle of the housing market effectively became more affordable.

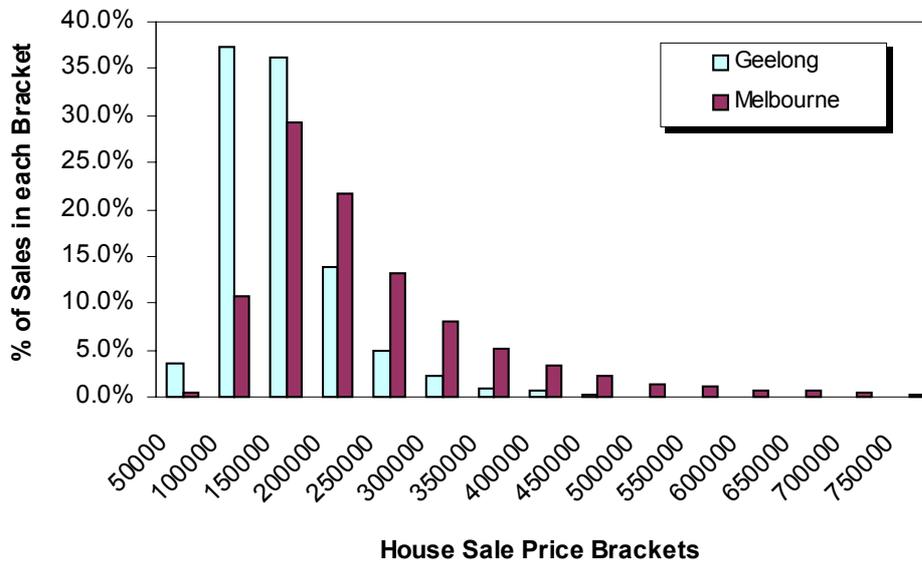
**Figure 3 Frequency Distribution of Dwelling Sales by Price, City of Greater Geelong LGA, 1989 and 1999 (Constant \$ 1999)**



Source: Valuer General's Property Sales Statistics

Figure 4 compares the relative size of the different price brackets of Greater Geelong and Melbourne. It reinforces the picture of housing in Geelong being more affordable, with a higher proportion of sales in the cheaper price segments.

**Figure 4 Proportion of Sales within Price Segments for Melbourne and Geelong, 1999**



Si

Source: Valuer General's Property Sales Statistics

The sub-market distribution of the price segments is shown in Table 10 and Table 11, with Geelong Part C (Anakie, Staughton Vale and Little River) and the Newtown area (Geelong, Geelong South and Newtown) having the greatest proportion of higher priced stock (over \$250,000). Geelong C has 71 per cent of its stock in the higher priced segments, while the Newtown area has 55 per cent. Corio Inner (Corio, Lara, Norlane, North Shore, Bell Park, Bell Post Hill, Geelong North, Hamlyn Heights and Lovely Banks) has the largest proportion of low cost stock, with 89 per cent under \$150,000.

**Table 10 House Sales Frequencies in Inner Geelong, 1999**

Frequency Range	Geelong West	Newtown	Geelong	Total Inner	Greater Melbourne
\$0 - \$150,000	239	128	280	647	20,454
\$150,001 - \$250,000	49	101	41	191	17,569
\$250,001 - \$500,000	13	49	6	68	10,189
\$500,001 - \$750,000	0	4	1	5	1,527
\$750,001 +	1	2	0	3	741
Total	302	284	328	914	50,480
\$0 - \$150,000	79%	45%	85%	71%	41%
\$150,001 - \$250,000	16%	36%	13%	21%	35%
\$250,001 - \$500,000	4%	17%	2%	7%	20%
\$500,001 - \$750,000	0%	1%	0%	1%	3%
\$750,001 +	0%	1%	0%	0%	1%
Total	100%	100%	100%	100%	100%

**Table 11 House Sales Frequencies in Outer Geelong, 1999**

Frequency Range	Geelong Part B	Geelong Part C	Corio Inner	South Barwon Inner	Bellarine Inner	Total Outer
\$0 - \$150,000	685	4	731	504	116	2,040
\$150,001 - \$250,000	186	9	77	167	44	483
\$250,001 - \$500,000	29	0	10	43	7	89
\$500,001 - \$750,000	3	0	2	0	0	5
\$750,001 +	1	0	0	0	0	1
Total	904	13	820	714	167	2,618
\$0 - \$150,000	76%	31%	89%	71%	69%	78%
\$150,001 - \$250,000	21%	69%	9%	23%	26%	18%
\$250,001 - \$500,000	3%	0%	1%	6%	4%	3%
\$500,001 - \$750,000	0%	0%	0%	0%	0%	0%
\$750,001 +	0%	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%

Source: Valuer General's Property Sales Statistics

## 6 Affordability

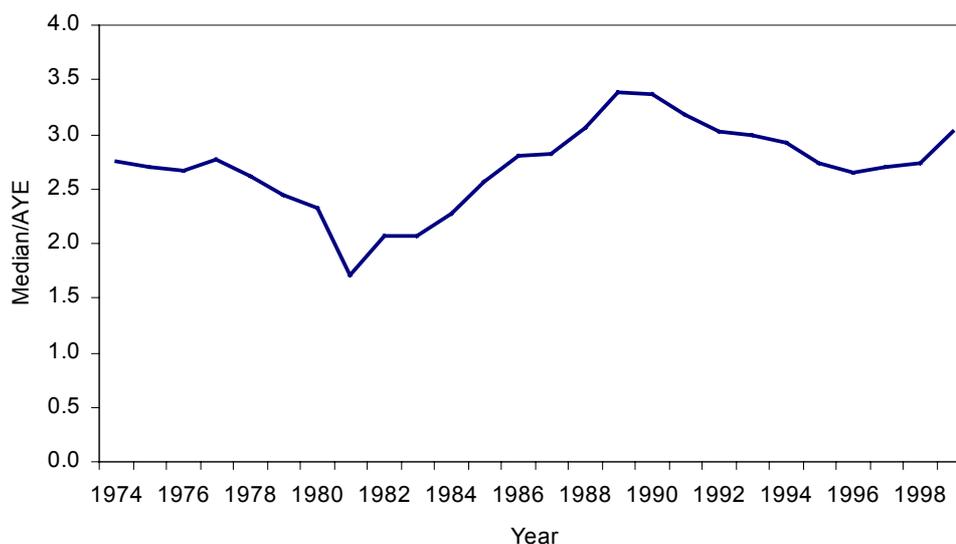
Affordability can be measured in a number of different ways and is affected by a number of variables, making it difficult to work out what is contributing to the evident outcomes. The approach adopted here is to use two broad measures of affordability. The first is a ratio of income to house prices. This strips out the effect of interest rates and lending conditions. The second is a measure of affordability taking into account house prices, interest rates, lending criteria and trends in income. In the following analysis, the data is only for houses (the bulk of stock in Geelong). Inclusion of flats would improve affordability even more, given their lower price.

### 6.1 Income to House Prices

This indicator of affordability compares dwelling prices to different measures of income. We use Victorian average weekly earnings and household incomes measured by aggregating Victorian male and female average earnings into a single household income measure. Like all aggregates, both measures ignore the distribution of incomes. The 'income to house price' measure removes the effects of interest rates and thus reveals the underlying price effect on affordability.

Figure 5 shows that over the last twenty-five years the Geelong median house price has typically required the equivalent of 2.8 years average earnings to purchase it. This compares with 3.8 for Melbourne, highlighting the greater affordability of housing in Geelong. Affordability, measured in this way, declined in the 1980s as house prices rose, then improved in the 1990s, but not to the extent of earlier decades.

**Figure 5 Median House Prices to Male AYE, Geelong, 1974-98**



Source: Valuer General's Property Sales Statistics; ABS, *Average Weekly Earnings, States and Australia*, Cat. no. 6302.0

Using the ratio of income to house prices, Table 12 compares the affordability of the Greater Geelong housing sub-markets. Affordability is defined as average house prices being no more than four times earnings. Thus, for average annual male earnings of \$42,000 (1999), any dwelling that is less than \$168,000 is affordable. The table shows that 95 per cent of the Geelong housing market is affordable for a dual income household (\$68,000) and 74 per cent is affordable for any household earning more than average male earnings. These very high levels suggest that there are minimal affordability problems for those willing and able to purchase.

**Table 12 Housing Affordability in Housing Sub-Markets (SLAs), 1999**

Housing Area (SLAs)	Affordability Male AYE	Affordability Dual AYE
Bellarine	65%	95%
Corio Inner	88%	98%
Geelong	84%	98%
Geelong West	77%	95%
Greater Geelong Part B	74%	96%
Greater Geelong Part C	23%	92%
Newtown	43%	80%
South Barwon Inner	67%	93%
Greater Geelong LGA	74%	95%

Source: Valuer General's Property Sales Statistics; ABS, *Average Weekly Earnings, States and Australia*, Cat. no. 6302.0

Note (1): Affordability index calculated by house sales price/AYE. 4.0 or less is rated as affordable.

Note (2): Only 13 properties were sold in Greater Geelong Part C and results are not statistically significant.

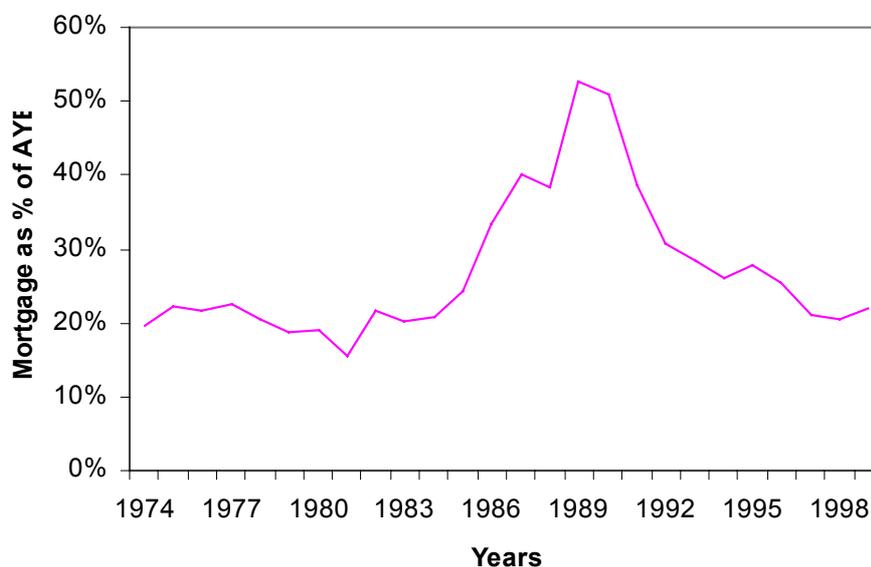
## 6.2 Housing Costs to Income

A second measure of affordability uses median house prices, prevailing interest rates, average weekly earnings and various assumptions about the maximum size of mortgages allowed by lending institutions (in this case, that repayments do not exceed 25 per cent of income and that the mortgage will cover no more than 90 per cent of the purchase price). This measure compares total mortgage repayment costs to average earnings. It factors in the interest rate and reveals the sensitivity of affordability to interest rates.

Figure 6 shows that in 1999 housing in metropolitan Geelong was highly affordable by historical standards, largely because of low interest rates. The long-term picture suggests that the period 1986 to 1992 may have been a historical aberration brought

about by simultaneous high house prices and high interest rates which are unlikely to occur again in the foreseeable future.

**Figure 6 Mortgage Repayments Required to Purchase the Median Dwelling as a Proportion of Average Yearly Earnings, 1974-98**



Source: ABS Average Weekly Earnings Time Series, Cat. no. 6302.0

## **7 The Rate and Form of Residential Development**

Historically, the bulk of development in Geelong has been in the form of single, predominantly detached, dwellings. As a result, the single detached dwelling accounts for 77 per cent of stock and dominates the residential built environment.

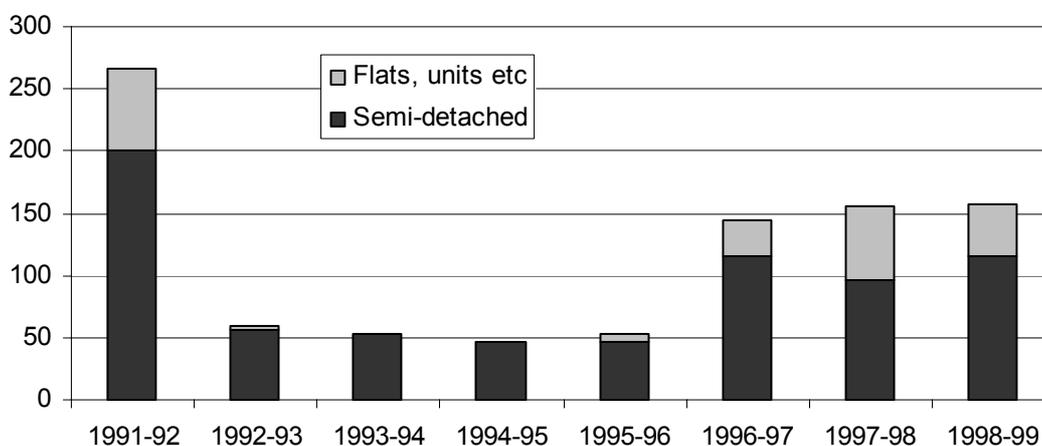
Over the last decade Geelong has not experienced the increase in multi-unit or medium density housing in the way that Melbourne has done. As Table 13 shows, the proportion of new dwellings that were detached actually increased in Geelong during the 1990s to 91 per cent, a proportion that is much higher even than in Melbourne, which is still dominated by detached home building. The bulk of non-detached building work in Geelong is in the form of semi-detached houses, rather than the flats and townhouses which account for a sizeable proportion of this dwelling type in Melbourne (see Figure 7).

**Table 13 Separate House Approvals as Proportion of All Approvals, 1991-92 – 1998-99**

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
Melbourne	66	82	75	76	76	62	68	57
Melbourne Outer	90	93	90	91	85	78	81	80
Geelong	80	96	96	96	94	85	89	91

Source: ABS, *Building Approvals, Victoria*, Cat. no. 8731.2

**Figure 7 Medium Density Approvals for City of Greater Geelong LGA, 1991-92 – 1998-99**



Source: ABS, unpublished data

These figures suggest that urban consolidation has not been a priority in Geelong, and it might be appropriate to reflect on whether this should continue to be the case over the next decade.

From 1991 to 1999 the number of total approvals for all dwelling types for the City of Greater Geelong LGA averaged around 1,100 per annum, but with a trough in 1995-96 and 1996-97. By 1999 the rate was at the highest for the decade. However, reflecting the slower rate of household growth and a hangover from the recession, the rate of overall dwelling starts fell behind Melbourne, although showing signs of improvement in the last few years.

## **8 Private Rental**

As noted above, private rental is the fastest growing segment of the Geelong housing market. This mirrors the situation in Melbourne. However, as we have just seen, this has not been paralleled by a large growth in multi-unit housing of the type that now surrounds Melbourne's CBD. This means that the bulk of private rental growth in Geelong comes from the transfer of previously owner occupied detached housing. In 1996 the single detached house accounted for over 70 per cent of private rental accommodation in the region.

In Australia – and Geelong is no different from elsewhere – most landlords are individual investors, and are very small-scale: 78 per cent own only one property, and another 12.8 per cent own only two. Less than 10 per cent own three or more properties (ABS, 1994). The ability to buy a rental property is due, in part, to the sheer numbers of individual detached houses, and to strata title legislation which enables a person or family to buy an individual property in multi-unit accommodation. The ease of entry to the industry, and the attraction of bricks and mortar in Australia, have meant that many investors are on relatively low incomes, often retirees. The ABS survey (ABS, 1994) found, for example, that almost two-thirds had an annual income of less than \$38,000. With the Federal government's determination to give the private rental sector a greater role in low income housing provision, the relatively amateurish nature of both landlords and their exchange agents is an important housing management issue for the future.

The dominance of the small landlord in the provision of rental housing in Geelong is significant in a number of ways. First, without them there would be little investment in the sector. Institutional investors are not attracted to it, being deterred by high management costs, high taxation relative to other investments (for multiple owners) and lack of liquidity. Second, they are a fickle player in the housing supply chain. Over a third of landlords are estimated to be making operating losses, and another third merely break even on net rental return basis. This in turn ensures an unsympathetic climate for secure living conditions for tenants, who must endure some of the least well-developed tenancy legislation in the western world. On the other hand, the small-scale and not particularly affluent characteristics of landlords can be an impediment to good maintenance and repairs, notably with respect to detached housing where there is no body corporate to ensure performance outcomes.

This risk situation may become more of a reality, given the trends towards wider disparities of income distribution in Australia and increasing poverty among many households. With the stock of public rental housing growing very slowly and being targeted very heavily to people with multiple disadvantages, the private rental sector

has effectively become the tenure for the poor. High concentrations of the poor in housing owned by small-scale landlords with limited resources is a potentially dangerous combination.

Table 14 shows private rent trends in Geelong and Melbourne as measured by the Office of Housing's *Rental Report*. This is based on advertised rents in local newspapers and is therefore a measure of the cost of new tenancies, not all tenancies.

**Table 14 Mean Advertised Private Rent by Property Type, Geelong and Melbourne, 1993-99 (constant 1999 prices)**

Year	3 Bedroom Houses		2 Bedroom Flats	
	Geelong	Melbourne	Geelong	Melbourne
1993	\$150	\$189	\$122	\$144
1994	\$147	\$209	\$120	\$165
1995	\$143	\$203	\$101	\$161
1996	\$138	\$175	\$97	\$150
1997	\$131	\$188	\$96	\$161
1998	\$136	\$197	\$106	\$168
1999	\$138	\$205	\$105	\$177
<b>Growth 1993-99</b>	<b>-7.9%</b>	<b>8.6%</b>	<b>-14.0%</b>	<b>22.6%</b>

Source: Office of Housing, *Rental Report*

The table shows that rents in Geelong real declined substantially in real terms in the six years to 1999, while Melbourne rents increased substantially over the same time period. A couple on average weekly earnings (\$834) in 1999 would have easily found a three bedroom house at a rent which would keep housing costs below the affordability benchmark of 25 per cent of income. Even an unemployed couple with two children (\$415 per week) would have found themselves close to this benchmark if they were in receipt of Commonwealth rent assistance.

Given the level of house prices and rents in the Geelong region, the consumption decision between renting or ownership must be a difficult one for many households. For a household earning more than average weekly earnings (\$42,000 per annum), there are a sizeable number of dwellings that can be purchased for less than \$100,000. Assuming a 20 per cent deposit and a mortgage of \$80,000, this would cost about \$145 per week, only marginally more than renting. It would appear that the decline in the home ownership rate is primarily a consequence of relatively slow income growth, relatively high unemployment, and declining opportunities for full-time employment. There is no reason at this point to believe that the economic and

demographic forces driving the growth of the private rental sector will change in the coming years.

## 9 The Demography of Housing

Many of the housing market changes in the Geelong region reflect general demographic changes. Households are becoming more diverse, people as a whole are ageing, fewer children are being born, and smaller households are more common. However, there are spatial variations which affect local housing markets.

Table 15 shows the pattern of demographic change in the City of Greater Geelong for the period 1986-96. The big growth has been in smaller household types: singles (up 55 per cent) and single parents (up 100 per cent). Couples with dependents – the stereotypical nuclear family – rose only 10 per cent but still had the largest growth in absolute numbers. While growing over the decade, their numbers contracted in the period 1991-96 while all other groups continued to grow. Surprisingly, couples with no dependents fell overall, but largely because of a sharp fall in 1986-91. The data would imply that much future housing demand will come from smaller household types, a trend that sits uncomfortably with the region's strong dependence on the detached house.

**Table 15 Household Types (Persons), City of Greater Geelong LGA, 1986-96**

	1986	1991	1996	1986-91 Change	1991-96 Change	1986-96 Change
Single person	10,549	13,357	16,304	27%	22%	55%
Single parent with dependents	8,688	15,109	17,396	74%	15%	100%
Couple, no dependents	42,666	29,064	32,179	-32%	11%	-25%
Couple with dependents	82,123	97,824	90,222	19%	-8%	10%
Other	10,559	5,704	6,716	-46%	18%	-36%
Total	156,571	163,049	164,813	4%	1%	5%

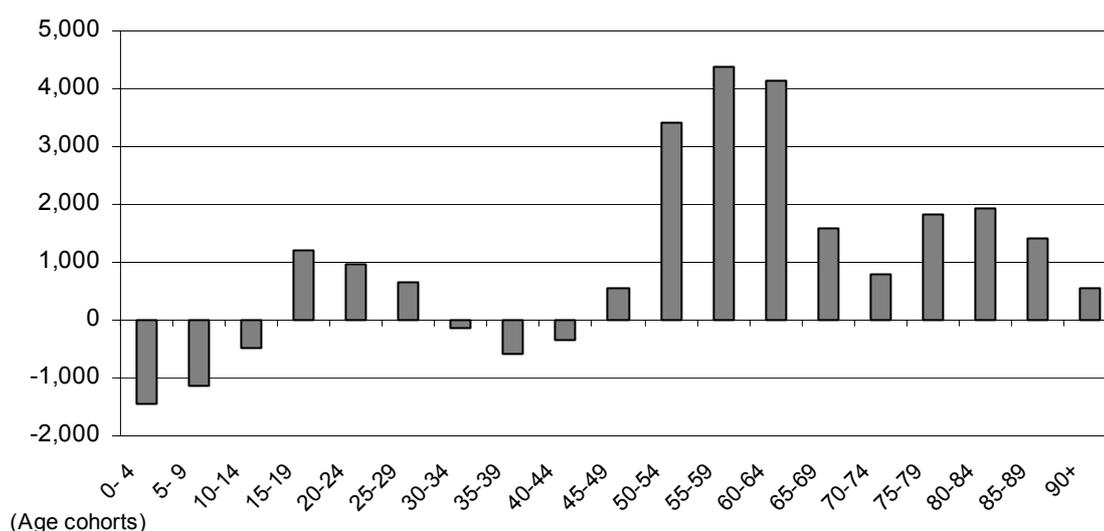
Source: ABS Census Time Series

## 9.1 Population Change in the City of Greater Geelong, 1996-2011

A key factor affecting household form is the ageing of the population structure (see Figures 8 and 9). The baby boom of the 1950s and 1960s was the era of large numbers in the young age cohorts. Forty to fifty years on, the baby-boomers are reaching retirement and entering the older age cohorts. Moreover, contracting birth rates in the 1970s and 1980s have reduced the numbers in younger cohorts, so that in aggregate Victoria and Geelong have an ageing population.

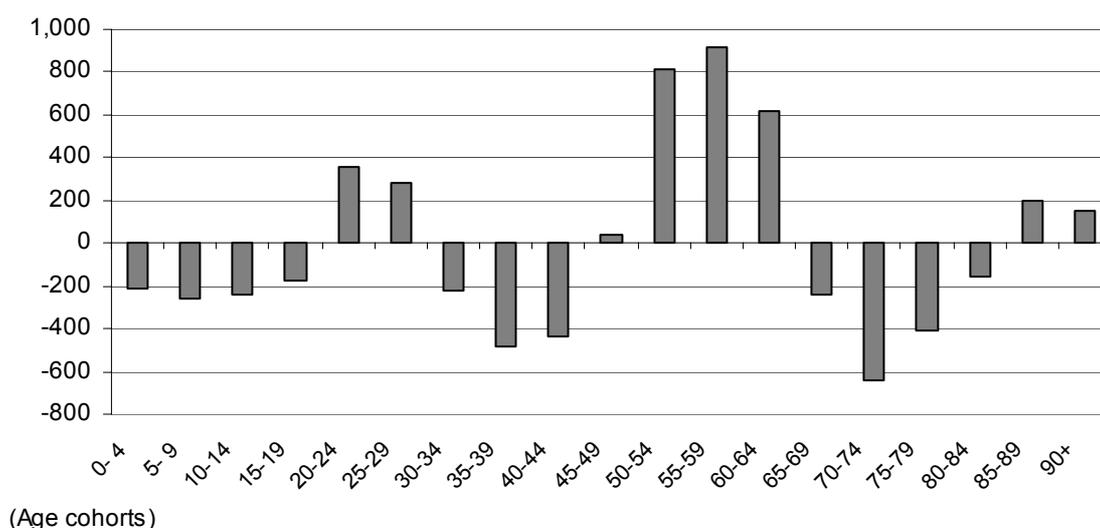
Just as variations in the numbers and importance of age cohorts have important implications for services such as health, aged care and education, they also have implications for housing. Different age groups tend to have different lifestyles, which in turn produce different housing needs and demands. Young people leaving home tend to produce a demand for rental accommodation, families for detached housing in more suburban environments, and so on. These patterns are becoming more complex as changing values, expectations, health and income conditions modify lifestyles. For example, some retirees and the aged are ageing in place (that is, remaining in their house of many years), while others are moving into low maintenance compact dwellings in urban areas or to retirement locations such as coastal areas with good proximity to large urban centres. Compared to the past, many have high relative incomes, giving them considerable choice of location and housing type.

**Figure 8 Population Change in Outer Geelong, 1996-2011**



Source: Department of Infrastructure

**Figure 9 Population Change in Inner Geelong, 1996-2011**



Source: Department of Infrastructure

As Figure 8 and Figure 9 show, both Outer and Inner Geelong will be affected by the ageing process, but in different ways. The outer areas (often associated with young families) will have considerable growth in all age cohorts over 50 and falls in the 30-50 cohorts. Inner Geelong will experience growth in the 50-65 cohort but a fall in those over 65.

Inner Geelong will have an overall net loss of households, mainly because of the large loss of households over 65. In principle this means a slight net reduction in housing demand which in turn, under normal circumstances, would mean a reduction or slowing in dwelling price movements. Given the increase in retirees – many of whom will probably have good resources – it is likely that older and more rundown stock owned by the aged will be renovated and upgraded. This may help to trigger a process of gentrification which would attract young households into the area. The upgrade of the North Beach foreshore and greater provision of amenities in Inner Geelong will also assist in this process.

Outer Geelong takes in a diversity of sub-markets ranging from central suburbs to coastal towns. Given many retirees' attraction to the latter, the projected substantial growth of the retiree age cohorts suggests very strong demand for the coastal areas, running into thousands of new dwellings as well as renovation and upgrade of existing stock. Most of these areas have very little medium density/multi-unit housing (typically less than 15 per cent of stock) and therefore offer relatively few alternative housing choices. Areas such as Ocean Grove, Barwon Heads, Portarlington and Indented Head will have to manage a development process which maintains their

amenity and character but still allows considerable new housing. The past history of such coastal development in Victoria and Australia generally is not a good one.

Many of the growing number of aged, whether in Inner or Outer Geelong, will want to remain in their existing areas of support networks and familiarity but in a more compact and maintenance-free dwelling form. All this might suggest that there is a need for an urban consolidation strategy in the region. Given the growth of the aged population, there is also likely to be a need and a market for more retirement villages, nursing homes and other arrangements which can offer a mix of independent living and support.

## **10 The Future: Planning and Policy Implications**

The previous sections have identified the major trends in the Greater Geelong housing market over recent decades, particularly the 1990s. In summary, these are:

- In real terms, most sub-markets have experienced price falls, illustrating the hangover effects of the early 1990s recession. The price gap between Melbourne and Geelong has widened in recent years.
- Housing in Geelong is affordable, especially when compared to Melbourne, for both home purchase and private rental. The region's affordability is one of its competitive advantages.
- The fastest growing tenure is private rental housing, even though home ownership is very affordable by historical standards and by comparison with Melbourne. With increasing income inequality and little new public housing stock coming on stream, more poor and low income households will be housed in this sector, which could pose some long-term social and management problems.
- Much of the Inner Geelong housing stock has been gentrified over the last decade, although not on the same scale as in Inner Melbourne. The waterfront development is creating something of the lifestyle facilities of Inner Melbourne – for example, cafes and tourist attractions – and will inevitably accelerate gentrification. Nevertheless, housing in Inner Geelong remains affordable by comparison with Melbourne, and this should continue for some years.
- The supply of medium density/multi-unit housing has not increased to the same degree as in Melbourne, although there are signs of a multi-unit housing sector emerging in Inner Geelong around the waterfront and in spot developments in some coastal towns. Given changing demographics, it might be time to develop a regional consolidation strategy.
- There are some outer urban areas where a number of indicators – for example, declining real house prices and excessive concentration of low cost rental stock

(public and private), unemployment and low income levels - suggest potential areas of urban decline.

- Household growth is varied, with some areas likely to experience contraction and therefore very subdued demand for new dwellings while others, for example, some of the coastal towns, will experience strong demand with all the planning and management problems associated with accommodating new developments.

These trends have emerged from the interaction between major demographic, economic and social changes, and the distinctive characteristics of the Geelong system of housing provision. To what degree and in what form are any public sector interventions to impinge on market processes and outcomes? Governments at all levels are increasingly operating in an environment of economic and political uncertainty, and there are substantial risks involved in wrong or misplaced policy and plans when we are talking about something as enduring and important to individual and community wellbeing as housing. However, given trends over the last decade, there is a greater risk in doing nothing and assuming that the market will produce the right outcomes.

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