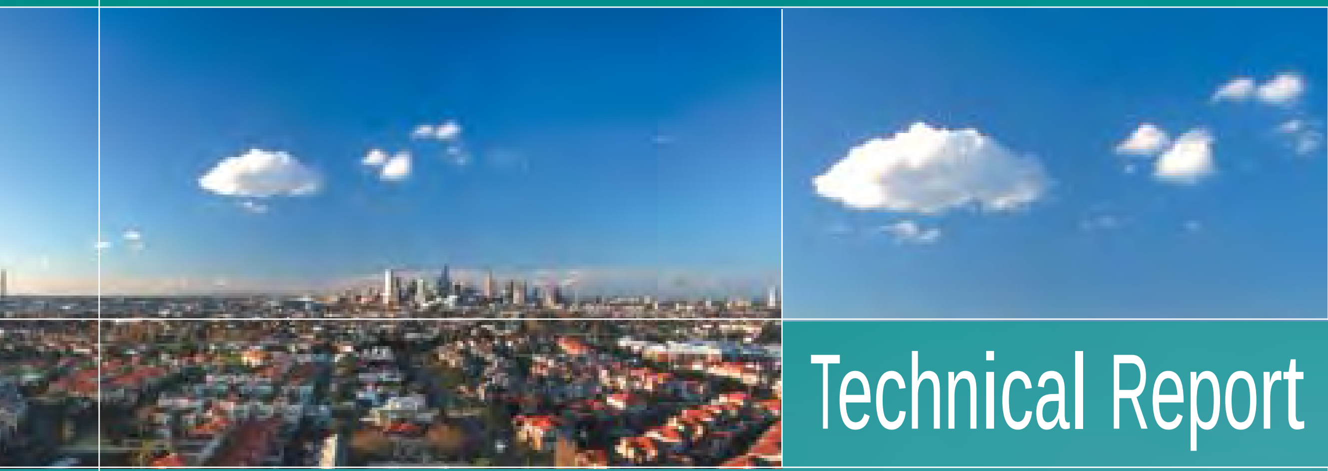
Housing Past. Housing Futures.



Technical Report 4

PLANNING MELBOURNE FOR THE 21ST CENTURY

Department of Infrastructure

Victoria
The Place To Be

Message from the Ministers

By world standards Melbourne is a great city. The Bracks Government is committed to maintaining Melbourne's reputation as a highly liveable city and an attractive investment destination. The Government has embarked on the preparation of a Metropolitan Strategy to set a clear vision for Melbourne's future liveability, prosperity and, importantly, its long-term sustainability.

The preparation of the Metropolitan Strategy is drawing on inputs from a wide range of sources. It is vital that the strategy has a sound research and information basis. It is also especially vital that community aspirations for the city's future be well understood. The key inputs to the strategy therefore include both a wide ranging public consultation program as well as a series of research or technical papers on issues that may have an impact on Melbourne's future.

The Bracks Government has given an undertaking to make as much of this background information as possible widely available to stimulate discussion about the future of Melbourne.

This report is one of the technical reports commissioned by the Department of Infrastructure, which we hope will stimulate feedback. At this stage content and recommendations are only the views of its authors and not necessarily the views of the Government. The Strategy is still in its early stages of development and we remain open to hearing what the broader community would like it to encompass.

We encourage you to read this and other technical reports and, should you wish, to make your views known about the future of Melbourne by contacting us on:

Tel. 1800 191 012
Email: melbourne2030@doi.vic.gov.au

write to:
Melbourne 2030
Department of Infrastructure
GPO Box 2797Y
Melbourne 3001

or visit
www.melbourne2030.vic.gov.au

Mary Delahunty MP
Minister for Planning

Peter Batchelor MP
Minister for Transport

The technical reports entitled, *Melbourne's Housing Past, Housing Futures and Geelong's Housing Past, Housing Futures*, have been written for the Department of Infrastructure by the Swinburne Institute for Social Research. Contributing authors were;
Terry Burke
David Hayward

ISBN 0 7306 8653 1

Swinburne Institute for Social Research

Housing Past

Melbourne's

Housing Futures

Terry Burke
David Hayward
1 November 2000

Table of Contents

Index of Tables

Index of Figures

Executive Summary

Housing Past, Housing Futures is about the housing and urban futures of metropolitan Melbourne. It is written to inform the policy and planning debates that will help make Melbourne a liveable and satisfying place for all residents, not only a few. It offers a framework for understanding the operations of the housing market, examines past housing trends and suggests the relevance of both to future housing change. Our horizon is the next ten years.

The commissioning of this report is timely. The Bracks government has indicated a commitment to housing policy and planning reform through the Better Housing Program, its preparation of a new planning code as an integrated basis for medium and detached housing developments, its planning policy review and consultations around a new metropolitan strategy.

One of the report's main purposes is to locate an understanding of Melbourne's housing market trends in their wider economic and social context. This is important because, while the last decade has brought sustained economic growth equivalent to the 'golden age' of the immediate postwar years, it has not brought with it the relatively equitable distribution of income and wealth, nor the same confidence and sense of wellbeing that characterised the earlier era. Heightened income inequalities and different perceptions of security, opportunity and risk have become important features of contemporary Australia. Moreover, they have significant housing market manifestations which have yet to be fully appreciated.

Our research has unearthed some remarkable and often surprising findings. The major trends over recent decades are:

- A housing market that has become much more complex in its structure and composition;
- 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 mainly 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 metropolitan areas have experienced negative real house price movements over the last decade;
- Restructured building and land development industries 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 resurgence 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 the housing market;
- The emergence of some outer areas characterised by rising levels of social deprivation, falling real house prices, excessive concentration of low cost rental stock, high unemployment and relatively low income.

The report suggests there is little in the way of demographic, lifestyle, economic or public policy directions to suggest any reversal of these trends or that they represent a temporary aberration and that, following some period of adjustment, we will return to the housing market characteristics and outcomes of the past. Medium density and multi-unit housing is here to stay, the spatial division of housing markets is likely to worsen, the inner city will be increasingly non-affordable, the building industry will become more complex with greater product differentiation, and the private rental sector will become more important and more problematic (particularly for low income earners).

Tackling the problems inherent in these trends or maximising the potentials will not be easy because the very uncertainty that characterises the current era also hangs over public policy and planning, in the sense that 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.

The ideas in this report are those of the authors and do not necessarily reflect the view of the government or the Department of Infrastructure and Planning.

Terry Burke
David Hayward

1 Introduction

Housing Past, Housing Futures is about the housing and urban futures of metropolitan Melbourne. It is written to inform the policy and planning debates that will help make Melbourne a liveable and satisfying place for all residents, not only a few. It offers a framework for understanding the operations of the housing market, examines past housing trends and suggests the relevance of both to future housing change. Our horizon is the next ten years.

Our goal is to offer a framework to use in considering what sort of city we want Melbourne to be, and how and in what way housing processes, planning and policy are to play a role in creating this future.

The commissioning of this report is timely. It coincides with the election of a new State government which has signalled its intention to rethink housing and planning policy. The Bracks government has already indicated a commitment to housing policy and planning reform through the Better Housing Program, its planning policy review, and its preparation of a new planning code as an integrated basis for medium and detached housing developments. Commitments have been made to increase the availability of affordable housing and to achieve a better balance between the housing preferences of the next generation of households and those of the present. What preferences are the next generation of households likely to have? How are they likely to vary from the preferences that are evident today? How can we bridge whatever gap might exist? And to what extent are these preferences shaped, moulded and limited by the constraints that arise from low incomes, rather than a genuine preference for higher density accommodation?

The latter question is an important one because, while the last decade has brought sustained economic growth equivalent to the 'golden age' of the immediate postwar years, it has not brought with it the relatively equitable distribution of income and wealth, nor the same confidence and sense of wellbeing that characterised the earlier era. Heightened income inequalities and different perceptions of security, opportunity and risk have become important features of contemporary Australia. Moreover, they have significant housing market manifestations which have yet to be fully appreciated. We attempt to fill this gap by looking at the extent to which housing markets have ameliorated or exacerbated the inequalities and risks that have come to characterise the labour market.

In taking up this theme we draw on the concept of a 'risk society' (Beck 1992; Giddens 1998, 2000). By this is meant the way that rapid advances in technology and communications have led to the erosion of the customs and traditions that made futures so much more certain and secure in earlier years. At the same time, the spectrum of risks to which we are now regularly exposed has widened dramatically. In the case of housing, there is no longer a dominant housing career of the type that characterised the postwar era: children left the family home once a job was secure, rented for a few years until married, and then bought a home in the suburbs to raise a family. We now must make choices between a wide variety of mortgage instruments, dwelling types and tenure options. Should we fix our mortgage rate or leave it floating? Should we build another storey or stay as we are? Should we buy a house or invest in stocks and shares? Should we live in an inner city apartment or go bush? We do not try to answer these questions. We try to show why they will not go away.

In tackling the research questions 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 not been able in all cases to use consistent regional boundaries, nor is much use made of current local government boundaries as a tool for organising data or telling an associated story. This is because the new local government areas are so large that they have little relevance for housing market analysis. Housing markets are defined by suburbs such as Hawthorn and Kew, Brighton and Sunshine, rather than by the large local government areas into which each of these suburbs belong. Thus we have tended to rely on suburban boundaries or aggregations of these to identify trends and patterns. A considerable amount of time and effort has been spent manipulating unpublished ABS data and Valuer General's data[1].

Data problems notwithstanding, our research has unearthed some remarkable and often surprising findings. The housing market appears to have worked to exacerbate rather than ameliorate the rising inequalities in wealth and income that have followed

---

[1] When the report uses the term 'Melbourne' we mean metropolitan Melbourne, that is, the geographical area bounded by the municipalities of Wyndham, Melton, Hume, Whittlesea, Nillumbik, Yarra Ranges, Cardinia, Casey and Mornington Peninsula. However, most data is collected on a Melbourne Statistical Division (MSD) basis, which is metropolitan Melbourne excluding the eastern parts of the Yarra Ranges (this area only accounts for a very small proportion of Melbourne's stock).

developments in labour markets. Parts of metropolitan Melbourne, particularly those clustered around the CBD, have done very well. Others have declined on almost every indicator available. Social affluence is on the rise. But so too is social deprivation. The number of low income households has grown. But the stock of low income housing has declined. We are building a wider range of dwelling types in a wider range of styles. But our housing stock is still dominated by the detached dwelling.

What does all this mean for Melbourne and Melburnians over the next decade? And what, if anything, can our governments do about it? These are the questions that we tackle in the pages that follow.

2 The Study Framework

Peering into the future has always been an important component of urban studies. It has also been one of the most problematic. The futurologists in many cases have simply got it wrong, sometimes because of excessive faith in technology, sometimes because of insufficient faith in the adaptability of humankind and markets, and sometimes because they set time frames too far into the future. More often, though, the problem stems from the way futurologists attempt to make predictions without giving proper regard to the social, political and economic relationships that are driving the process of change. This paper tries to avoid each of these traps. We make no attempt to forecast, but concentrate instead on the implications of possible outcomes that might arise, assuming that certain core trends revealed by the past decade or so extend into the future.

To generate the scenarios we rely heavily on the application of a particular method in housing studies known as the 'system of provision' approach. This begins with the assumption that housing outcomes such as affordability, price levels, types of dwellings and tenure are the product of an interrelationship between a particular institutional structure which societies develop in order to produce, allocate and consume housing (the system of provision) and the wider external environment (the systems context). The system of housing provision is composed of three subsystems:

- Production: the nature and techniques of land ownership, land assembly and housing production;
- Consumption: the forms and methods by which people and households use housing;

- Exchange*:* the practices and institutions which facilitate the buying and selling of housing, or the allocation of dwellings to particular households on a bureaucratically determined needs basis.

The 'system of provision' context refers to the wider economic and political influences affecting the decisions of agents within the housing system and helping to shape the timing and direction of housing policy.

3 The System of Housing Provision: Overview

The system of housing provision in Melbourne is a highly marketised and private one by world standards. All of the stock is privately constructed, only a small proportion is 'not for profit', and the regulatory environment established by governments is designed to facilitate market exchanges between private agents rather than replace them with planned or bureaucratic interventions. The system is organised around three principal tenures: home ownership, private rental and public housing, with owner occupation dominant (see Table 1). The detached house (single family dwelling) still accounts for the overwhelming majority of dwellings, despite two decades of policy encouraging diversity (see Table 2).

Table 1 Housing Tenure Status of Households, Melbourne and Selected OECD Countries (Percentage of Total Households)

	Owner Occupied	Private Rental	Non-Profit or Co-op	Other
Melbourne (1996)	72	21	4	3
Australia (1996)	69	21	6	4
Canada (1996)	68	27	5	
United States (1988)	64	36	2	
Switzerland (1990)	31	54	9	6
England (1990)	68	8	24	
Netherlands (1990)	47	17	36	
France (1990)	47	28	17	
Germany (Fed. Rep.) (1990)	38	42	16	4

Sources: ABS (1996) Census; Statistics Canada (1996) Census; Joint Center for Housing Studies, Harvard University (1989) *The State of the Nation*, pp. 12, 29; Netherlands Ministry of Housing (1991) *Statistics on Housing in the European Community*; Van Vliet, W. (ed.) (1990) *International Handbook of Housing Policies and Practices*, Greenwood, New York.

Table 2 Dwelling Type Composition of Housing Stock, Melbourne and Selected OECD Countries

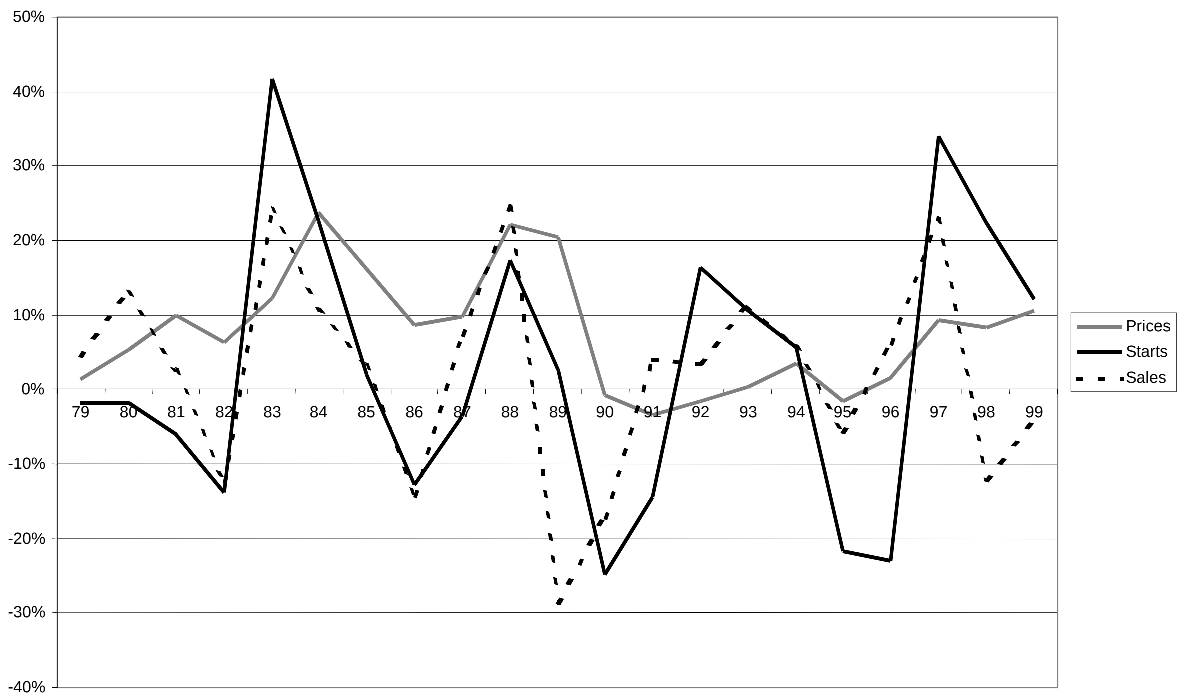
	Single Family Dwellings	Multi-Family Dwellings
Melbourne	77%	23%
Australia (1996)	85%	15%
Canada (1986)	56%	44%
United States (1988)	64%	36%
Switzerland (1990)	28%	72%
England (1990)	79%	21%
Netherlands (1990)	66%	34%
France (1990)	56%	44%
Germany (Fed. Rep.) (1990)	49%	51%

Sources: ABS (1996) Census; Statistics Canada (1996) Census; Joint Center for Housing Studies, Harvard University (1989) *The State of the Nation*, pp. 12, 29; Netherlands Ministry of Housing (1991) *Statistics on Housing in the European Community*; Van Vliet, W. (ed.) (1990) *International Handbook of Housing Policies and Practices*, Greenwood, New York.

In broad terms, Melbourne's housing system – like Australia's generally – is comparable in structure to those which operate in the United States and the United Kingdom (Esping-Andersen 1990). These systems are dominated by private markets and relatively low levels of government intervention. In contrast are the housing systems of continental Europe which reflect the more interventionist policy structures of the conservative welfare regimes that exist there. Large social housing sectors and significant levels of government intervention in land use planning and housing allocations are defining features of these countries' housing systems. Different again are the housing systems of the social democratic countries of northern Europe. Here relatively large social housing systems, combined with high subsidies and large levels of government intervention in land use planning, ensure that the operation of housing markets are severely constrained. The continental and northern European housing systems have much more diverse dwelling stocks than is the case in Australia.

Like other 'market liberal' housing systems, Melbourne's has a history of pronounced economic instability, with construction, sales and prices experiencing a boom-bust pattern of great volatility (see Figure 1).

Figure 1 Annual Percentage Change in Dwelling Commencements, Dwelling Sales and Median House Prices, Victoria, 1979-99



Sources: starts: ABS, *Building Commencements*; sales and prices: Office of the Valuer General (2000) *A Guide to Property Values.*

On a comparative basis, Melbourne's house price volatility is particularly severe, exceeding levels in fourteen OECD countries for which data is available. Between 1988 and 1999 the standard deviation of annual changes in house prices was 11.2 in Melbourne, compared to 6.0 for all the other countries (see Table 3).

Table 3 House Price Volatility Compared: Melbourne and OECD Countries, 1988-99

	Volatility[1]
Market Liberal	
Melbourne	11.2
United Kingdom	10.0
Conservative	
Spain	9.4
Italy	7.7
Ireland	5.1
Portugal	3.5
Greece	3.1
Denmark	2.2
Luxembourg	2.0
Germany	1.8
Austria	1.7
France	1.5
Social Democratic	
Sweden	8.2
Finland	6.6
Netherlands	2.6

[1] Volatility measured by standard deviation around annual changes in real house prices.
Sources: European data from Boelhouwer et al. (2000: 20); Melbourne data from Victorian Valuer General Property Sales Statistics, various years.

The system of housing provision operates in the context of broader economic structures. Crucial here are labour market patterns and the degree to which regional economies are interwoven into wider national and international markets through exports, imports, capital flows and labour market mobility. All of these factors influence the level and composition of the demand for housing. In addition to these are the political structures which affect the provision of housing. Governments have in place sets of regulations affecting builders, consumers and exchange agents – a responsibility that falls primarily on the shoulders of State and local governments. The Federal government exerts influence through nationally determined interest rate settings, fiscal policy, tax levels and subsidies to home owners (through tax exemptions and the first home owners scheme), landlords (through negative gearing), private tenants (through rent assistance) and public housing authorities (through the Commonwealth-State Housing Agreement (CSHA)).

In the next part we highlight aspects of the systems context that have affected the housing system. We then turn our attention to the effects of these changes on the agents operating within the housing system, and how they have adapted to them. We then draw out the implications of these changes in three key areas: house prices, affordability, and the residential development process. Finally we extrapolate from these trends, changes to the system of provision and systems context to offer a picture of the future and the policy and planning implications that flow from this.

4 The Systems Context

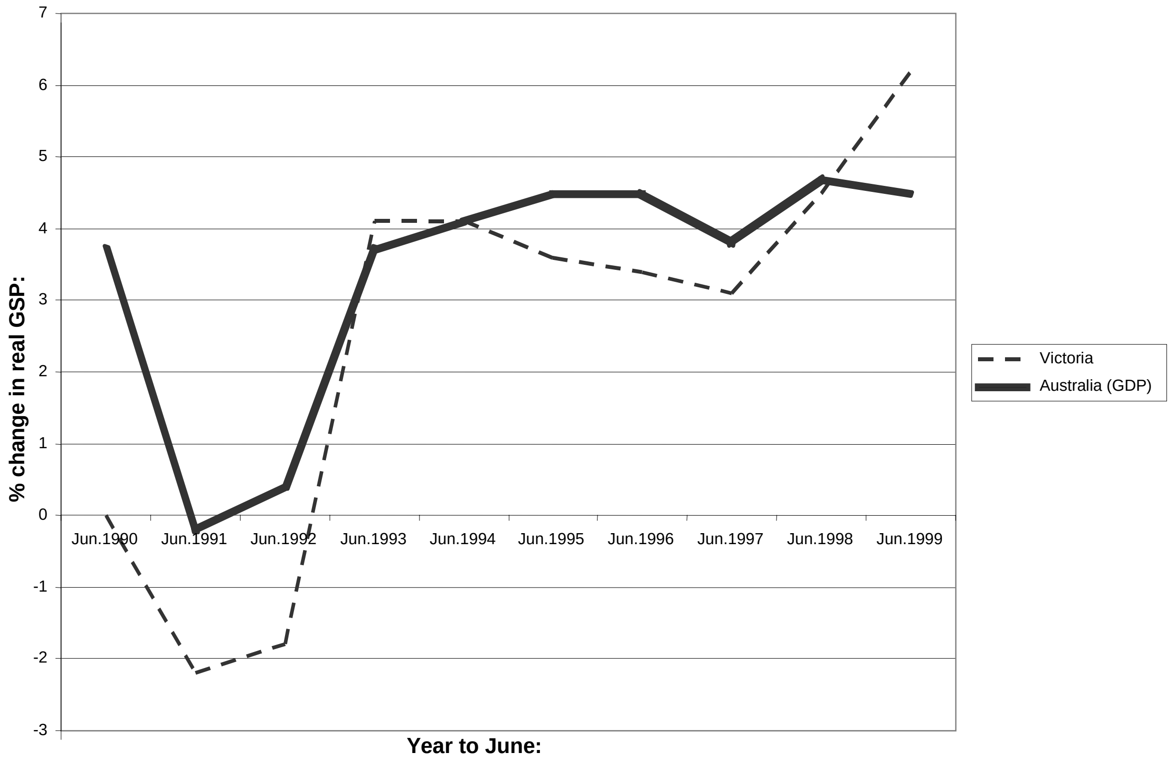
4.1 Economic Context

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 Melbourne was already part of the global economy, but in a different way. Back then it was known for its manufacturing industries which had developed in a context of Federal government industry protection and complementary State government subsidies necessary to induce foreign multinational companies to set up shop (Berry 1984, 1988). While Melbourne 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 industry protection to its current very low level. Manufacturing establishments closed their doors, and local industries which serviced them were similarly affected.

Melbourne 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 when the nation’s financial markets were deregulated, 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 they were financing.

These processes thrust Melbourne 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. This recession had a profound impact on housing and labour market activity for the remainder of the decade (see Figure 2).

Figure 2 Annual Percentage Change in Real Gross State Product, Victoria and Australia, 1990-99



Source: ABS, *Australian National Accounts-State Accounts*, Cat. no. 5242.0.

Much of the 1990s was devoted to recovering from these major economic setbacks. In place of the manufacturing firms that closed their doors there have sprung up service industries in tourism, property, finance and other activities associated with the contracting out of functions previously done by public servants.

These economic changes have unwound in a geographically uneven way. The northern and western suburbs have been particularly harshly hit by manufacturing closures. On the other hand, the growth of service industries has seen gentrification proceed apace, particularly in the inner parts of Melbourne.

Table 4 Employment by Employment Status for Major Melbourne Statistical Regions, 1989-99

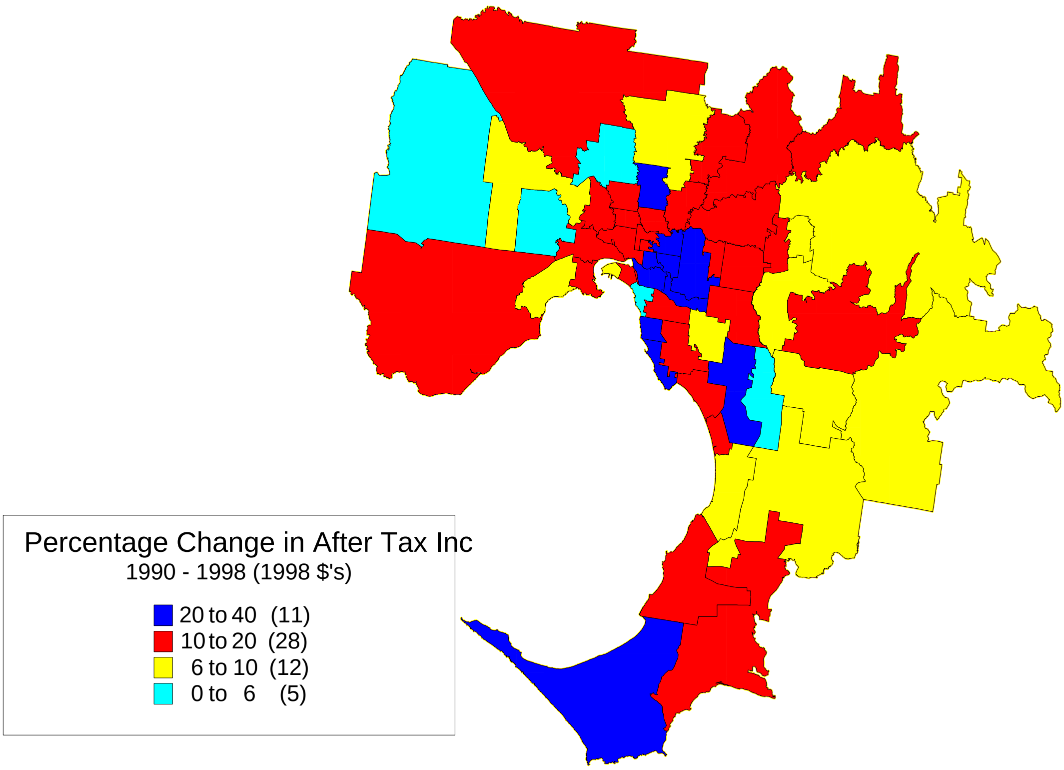
Major Melbourne Statistical Regions: Persons ('000)	Nov. 1989	Nov. 1994	Nov. 1999	Change 1989-99	Percentage Change 1989-99
Melbourne Statistical District					
Employed full-time	1,215.5	1,105.3	1,215.1	-0.4	0.0%
Employed part-time	299.4	341.6	432.0	132.6	44.3%
Total	1,514.9	1,446.9	1,647.1	132.2	8.7%
North-Western Melbourne Region				*0*	
Employed full-time	87.6	73.9	82.5	-5.1	-5.8%
Employed part-time	15.8	22.2	26.5	10.7	67.7%
Total	103.4	96.1	109.0	5.6	5.4%
Outer Western Melbourne Region					
Employed full-time	184.5	154.7	184.3	-0.2	-0.1%
Employed part-time	33.6	42.2	61.8	28.2	83.9%
Total	218.1	196.8	246.1	28.1	12.9%
Inner Melbourne Region					
Employed full-time	91.2	83.0	102.6	11.4	12.5%
Employed part-time	15.7	23.8	26.5	10.8	68.8%
Total	106.9	106.8	129.1	22.2	20.8%
North-Eastern Melbourne Region					
Employed full-time	159.1	146.5	151.7	-7.4	-4.7%
Employed part-time	38.6	45.2	55.8	17.2	44.6%
Total	197.7	191.7	207.5	9.8	5.0%
Inner Eastern Melbourne Region					
Employed full-time	176.8	152.6	212.1	35.3	20.0%
Employed part-time	55.9	57.6	84.3	28.4	50.8%
Total	232.7	210.2	296.4	63.7	27.4%
Southern Melbourne Region					
Employed full-time	144.9	127.2	133.6	-11.3	-7.8%
Employed part-time	38.0	35.1	53.2	15.2	40.0%
Total	182.9	162.3	186.8	3.9	2.1%
Outer Eastern Melbourne Region					
Employed full-time	174.9	167.3	150.4	-24.5	-14.0%
Employed part-time	54.3	54.3	54.9	0.6	1.1%
Total	229.2	221.6	205.3	-23.9	-10.4%

Source: ABS, *Labour Force Victoria*, Cat. no. 6202.2.

The economic recovery has turned into the longest period of expansion since World War II. But sustained growth has not been accompanied by high rates of full-time employment growth, nor low levels of unemployment. By the end of the 1990s there were still fewer full-time jobs in Melbourne than there had been at the end of the previous decade. All of the job growth for Melbourne as a whole was accounted for by part-time employment (see Table 4), leaving Melbourne – like Australia generally – with a very high rate of casualised and part-time employment by world standards. The proportion of the workforce employed in part-time jobs increased from 18 to 26 per cent between 1989 and 2000. Education participation rates amongst the young have skyrocketed. But for those who have chosen to enter the labour market, unemployment has remained stubbornly high, although with important regional variations. Moreover, employment growth is spatially concentrated in the more inner regions: inner Melbourne, the heart of the 'new economy' information technology and services sector, grew by 20.8 per cent, and the Inner East by 27.4 per cent. By contrast, the Outer Eastern and Southern regions barely grew at all, with 1.1 and 2.1 per cent growth respectively.

A related economic effect is greater inequality of incomes and wealth (Gregory and Hunter 1995; Harding 1997; Yates 1998). Figure 3 shows the extent to which rising income inequalities in Melbourne have been reproduced spatially. Using taxable income for all individuals over the period 1990 to 1998, the table shows that the least affluent areas – for example, Dandenong, Frankston and Broadmeadows – experienced a rate of increase of real income of less than 5 per cent, whereas virtually all inner and middle ring areas enjoyed real increases of 20 per cent or higher, some of the order of 30 per cent. Spatially the employment/income gap is widening, and the question arises as to how the housing market is responding to this. Are house prices moving in ways that mirror these labour market changes, with those enjoying the fastest income growth also enjoying the highest capital gains? Or is the housing market working to ameliorate the income inequalities?

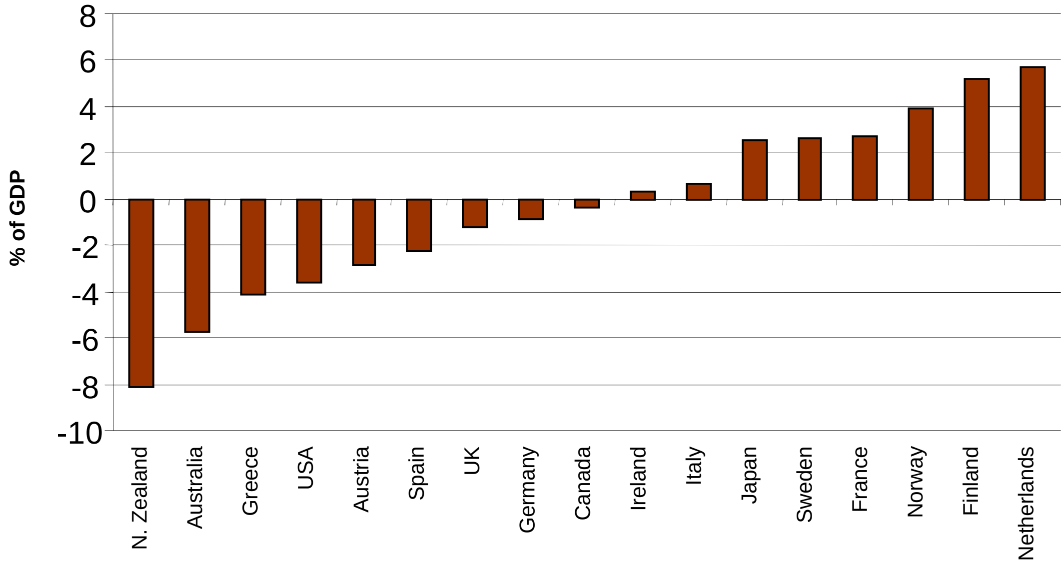
Figure 3 Percentage Change in After Tax Income, Melbourne Statistical Division, 1990-98



Source: Australian Taxation Department.

One final major economic factor of housing significance to Melbourne is the nation's large balance of payments deficit, which remains high by world standards (see Figure 4). Over the last twenty years the current account deficit on Australia's balance of payments has been getting larger compared to the size of our economy. Contrary to popular opinion, this is not the product of our balance of trade, but because of a large income deficit caused by the repatriation of profits overseas by foreign owned companies and, more importantly, the repayment of interest on foreign debt (a small but growing proportion of which consists of funds borrowed to finance home mortgages). Why is this of significance to housing? Because Australian interest rates, including those for home mortgages, must remain high relative to other nations in order to attract the capital inflow necessary to cover the deficit on the current account. Any worsening of the current account deficit could see an increase in Australia's interest rates compared to other countries.

Figure 4 Balance of Payments Current Account as a Percentage of GDP, Selected OECD Countries, 1999



Source: OECD.

4.2 Regulatory Context

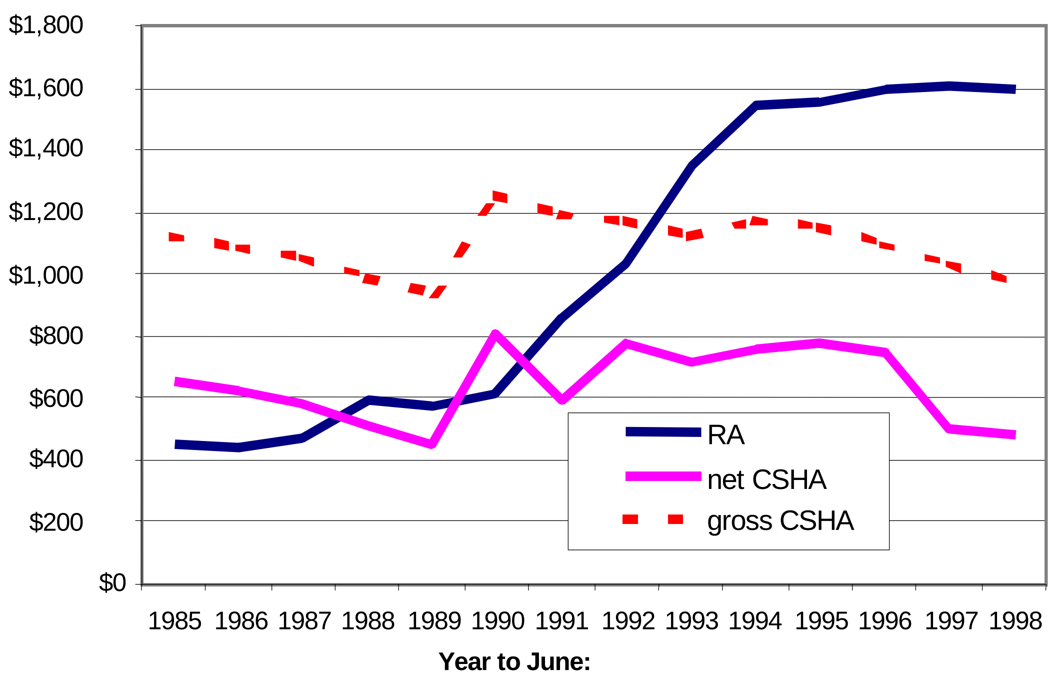
The regulatory framework refers to the broad range of rules, regulations and government organisational structures, as well as the pattern of taxes and subsidies in which producers and consumers must operate. In the last decade and a half there has been a marked reshaping of this regulatory regime with a view to promoting deregulation and competition. By this we do not mean that all rules and regulations have been swept aside. Rather we mean that the regulations that had been built up over the preceding forty years were reviewed and fundamentally revamped, typically with a view to simplifying them in order to widen the range of options available to investors, as well as cutting costs by introducing competition in areas that were previously done solely by the public sector (for example, the issuing of building permits).

Deregulation and competition have been closely associated with attempts to increase urban densities through urban consolidation. The role of residential planning codes has been crucial here, particularly the *Good Design Guide* which streamlined medium density planning regulations so that sites could be built upon more intensively, with the emphasis on performance. These changes were intended to increase the diversity of Melbourne's housing stock in order to accommodate a broader range of housing preferences associated with faster growing, smaller household types, as well as reduce housing costs and improve affordability. There has been intense community and academic debate about both the objectives of urban consolidation and the quality of the end product and this is a debate that will be carried into the future (Troy 1992; Lewis 1999; Standing Advisory Committee on Good Design Guide Review 2000).

4.3 Housing Subsidies

Over the last fifteen years the Federal government has significantly restructured its housing subsidies. Although it has recently reintroduced a first home owners scheme, this is intended to compensate for the introduction of the Goods and Services Tax; it is to be revenue neutral. The most important change has involved the increased targeting of housing assistance, and the shift of funding away from public housing – the traditional form of housing assistance – towards private rent assistance (see Figure 5). In 2000 rent assistance is the major housing assistance program; the funds for social housing (public or community managed) are in sharp decline, with further decline budgeted until the cessation of the current CSHA in 2003.

Figure 5 Commonwealth Housing Assistance, 1985-98 ($ million)



Source: Commonwealth Budget papers, various years. Note that gross outlays refer to the value of housing payments from the Commonwealth to the States, while net outlays exclude repayments from the States to the Commonwealth for past loans, as well as the 'deficit reduction contributions' made by some States in lieu of their CSHA monies between 1996 and 1999.

4.4 Place Marketing

Over the last twenty years State governments have become active ‘place marketers’, establishing policies and capital works programs designed to market their capital cities as venues for investment (Engels 1999). Place marketing is a response to globalisation, reflecting heightened competition between cities for industry, finance and tourism. The previous government had a very active place marketing program focusing on ‘events’ such as the Grand Prix, the Commonwealth Games and other global entertainment spectacles. It also had in place a large infrastructure program involving the Casino, the Docklands and Colonial Stadium, the Exhibition Centre, the new Museum and the Aquarium, developing and refining Melbourne’s ‘tourist bubble’, that part of the city developed and kept clean and safe for international and domestic tourists (Judd and Fanstein 1999).

This infrastructure program was heavily focused in and around the city of Melbourne. The effect was to encourage a centrally-focused city, with important spatial implications for urban form. Table 5 illustrates this by showing the spatial distribution of Community Support Fund expenditures during the 1990s. Derived from a tax on gaming machine revenues, Community Support Fund expenditures were centred on and around the CBD, and funded initiatives such as the Sports and Aquatic Centre in South Melbourne. In contrast, during the 1980s the State government promoted a dispersed city through its district centre policy which sought to develop alternative commercial, retail and leisure nodes to the CBD. This potential was not fully realised and, on a number of measures including perceived attractiveness, the regional strength of these centres has weakened, along with their local housing markets. This has increased the relative attractiveness of access to the CBD and surrounds accentuating spatial polarisation and posing important challenges for future urban form and local housing markets.

Table 5 Community Support Fund Expenditures by Region, 1994-99

Region	$	Percentage of Total
Inner Melbourne	127,941,936	79%
Outer Melbourne	6,048,021	4%
Country Victoria	28,487,903	18%

Source: Community Support Fund annual reports.
Note: Totals may not add due to rounding.

What effect have these economic and policy changes had on the system of housing provision, and how have the agents within the system responded? It is to these questions that we now turn our attention.

5 Housing Production: The Building and Land Development Industries

The estate development and housing production industries are very different in structure and operation, but both have experienced considerable change over the last decade. Land development is a highly concentrated industry in which most new allotments in Melbourne's sub-regions are produced by three or four large developers. Of these, all but one – the State government-owned Urban Land Corporation (ULC) – is a private company. Over the last twenty years, the ULC's share of the new allotment market has fluctuated from almost zero to a high of almost 20 per cent during the depths of the early 1990s recession. Today it is closer to 10 per cent.

Figure 6 Urban Land Corporation's Market Share of New Residential Allotments, 1980-94

Source: USE Consultants Pty Ltd (1996).

Table 6 Construction Establishments and Construction Trade Services (Subcontractors), Victoria and Australia, 1996-97

	Construction Establishments			Construction Trade Services		
	Firms	Employees	Average Employees	Firms	Employees	Average Employees
Victoria	8,000	16,700	2.08	36,700	81,800	2.22
Australia	31,000	71,300	2.30	158,000	356,900	2.25

Source: ABS, Cat. no. 8772.0.

House building, on the other hand, is solely a private industry. It is also far more competitive, with over 8,000 builders constructing dwellings each year. There is an overlap between the land development and house building industries among some of the larger players (for example, A. V. Jennings Homes).

Employment within the residential construction industry is dominated by subcontracting. Most of the building firms have few direct employees, opting instead to hire labour on a contract basis. The average firm employs only two people; over 80 per cent of residential construction employment is accounted for by subcontractors (see Table 6).

Some of the house building companies are large concerns operating in more than one State. These account for approximately one quarter of industry output (HIA, *Housing*, Dec. 1998). A minority are publicly listed companies. Most are small, family owned businesses, but these account for less than half of industry output. Almost all of the work is for private clients, typically households (and generally home owners) building to order rather than on a speculative basis.

The bulk of the output of these builders was historically concentrated on the urban fringe, where they built project homes. The typical block was large, and a one storey dwelling was both easier to build by small builders and could be easily fitted on to the then largish blocks. When a household wanted to build in the existing urban areas in this era, they took a single storey greenfield project home, as seen in a display village, and translated it to their existing block.

In the late 1980s the size of allotments on the urban fringe was reduced. Driven by governments keen to reduce infrastructure costs and supported by developers keen to reduce prices, greenfield blocks were reduced in size, with the then Urban Land Authority (now the ULC) playing a major innovative role. In order to get ever larger houses on to smaller sites, builders began to embrace two storey designs. And although there were no infrastructure or economic pressures on them to utilise such houses on large established blocks in existing urban areas, their value for money for consumers and their visible presence gave them an attraction for construction in existing areas. Thus in the 1990s the modest and unproblematic single storey gave way to the more problematic form of the much larger two storey dwelling. This building form has become ubiquitous in established areas and is part of the ‘planning problem’. Whereas the old single storey dwelling presented no problems of overshadowing and loss of privacy, the new two storey dwelling potentially does, and the challenge for any codes such as the *Good Design Guide* and *VicCode 1* is how to integrate this, in effect, new residential form into the streetscapes and neighbourhoods of Melbourne.

In recent times a new breed of builder/developer has emerged as a key house-building agent constructing higher density dwellings, often on a speculative rather than contract basis, employing direct rather than subcontract labour. Some of these are relatively new enterprises (for example, Mirvac); others have switched or expanded from commercial into residential construction (for example, Becton and Multiplex), following a major slump in commercial and industrial construction during the early 1990s. The significance of these new players cannot be underestimated. A decade ago they were not even present in the residential construction industry. Today they account for five of the top ten residential builders (see Table 7). The significance of this is that Melbourne now has a large and sophisticated set of players in the multi-unit submarket where up until the 1970s the industry was dominated by detached house builders. This means there is now a group that can advocate for, and represent, multi-unit housing in a way which was hitherto not possible.

Table 7 Top Ten Residential Builders, Victoria, 1997-98

Rank	Name	Starts	Market Share	Description
1	Henley Properties	1,580	4.5%	Contract builder, mainly of detached housing
2	A. V. Jennings	1,109	3.2%	Contract builder and land developer, mainly of detached housing
3	Simonds Group	870	2.5%	Detached housing and multi-unit
4	Triline Australia	669	1.9%	Detached housing
5	Avonwood Homes	650	1.9%	Detached housing
6	Mirvac Group	558	1.6%	Multi-unit and commercial
7	L. U. Simon	513	1.5%	Detached housing and land developers
8	Becton	450	1.3%	Multi-unit and commercial
9	Devine Ltd	441	1.3%	Detached housing and land developers
10	Multiplex Constructions	412	1.2%	Multi-unit and commercial

Source: HIA, *Housing*, Dec. 1998.

The booms and slumps in the housing market spoken of earlier are typically accompanied by major structural changes within the residential construction industry. The onset of recession in the early 1990s saw a number of building firms suffer major setbacks, including some of the industry's biggest players such as Jennings (which was purchased by a Singaporean company), Pioneer Homes (which was acquired by Devine) and A and L Housing (which had formerly been part of the Bond Corporation). In their place came newer players, keen to exploit the opportunities to be had from smarter types of residential development in which new forms of site layout would become an effective marketing tool. These are the builder/developers of the integrated estates known as 'planned communities'.

In the past, a developer would acquire property on the urban fringe, subdivide it into 'one size fits all' allotments, and restrict the range of dwelling types and styles that home owners could construct. To maximise the chance of sales, project home builders concentrated on conservative design templates in their display homes, based largely on the modest brick veneer structure.

Over the last decade, land development has become a more diverse activity, with some developers priding themselves on a design philosophy that seeks to create a greater sense of community than that associated with older estates. The new estates often have public facilities such as golf courses, lakes and parks as a central element. These integrated developments are best symbolised in the Delfin estates the Sanctuary Lakes development by Asset Solutions Group in the inner west, and by the ULC's estates. The ULC has a history of leading the market, particularly in the development of infill projects and planned fringe communities. The ULC currently has a straight commercial role but, given its skills and market knowledge, it might be timely for it to play a pivotal role in addressing some of the issues and problems that will be raised later in this report.

The 'planned community builders' were not the only newcomers to the house building industry. Also significant have been the multi-unit builder/developers who have entered the industry in partial response to the new regulatory environment encouraging higher density dwellings. These builders are considerably different to those who build detached houses. First is their geography, in that whereas most detached building occurs on the urban fringe, most multi-unit building is located in the middle and particularly inner urban areas. Second, whereas few detached house builders are engaged in land development, this is not necessarily the case with higher density developments, with many of the builders assuming the role of developer (for example, Delfin, Mirvac and Central Equity). The third difference is the nature of the construction work itself, with much greater use of prefabrication and techniques often associated with commercial construction. The final difference is that the developments often begin on a speculative basis in much the same way that detached housing did back in the 1950s and 1960s. A multi-unit development largely precludes contract building in Australia, as there are few institutional investors who would commence the construction of an entire multi-unit development. The larger builders such as Becton, Central Equity and Mirvac will use their marketing muscle to pre-sell sufficient units to minimise risk and then, with the financial safeguard of these pre-sells behind them, sell the remaining units speculatively. By buying off the plan, purchasers avoid having to pay stamp duty and, more importantly, developers can be assured of success without having to commit large amounts of capital on a speculative basis. Smaller multi-unit developers constructing, say, four to ten units are less likely to have the resources to attract many pre-sells, and therefore have been more likely to build speculatively.

Alongside the large multi-unit developers that build high rise apartment complexes in CBD sites or ex-industrial sites in the inner city are the small to medium sized builder/developers who build on infill sites, sometimes where there was established housing, sometimes on sites formerly occupied by public facilities such as schools. Some of the infill work has involved small-scale estates of up to 50 dwellings. Amongst the latter group are builders who have much in common with the flat developers of the 1960s and the villa unit developers of the 1970s and 1980s. The new planning environment of the 1990s gave greater ability to the latter to develop or redevelop, and it is some of these developments that have occasioned the most protest, often involving the replacement of a single prewar detached dwelling with two or more higher density and often two storey dwellings. Many of these multi-unit developments are of high design standard. But many others are not, and have done little for the image of the industry. Such controversial dwellings prompted the emergence of a major new player in Melbourne's urban politics: the Save Our Suburbs group of aggrieved households, keen to see a tighter regulatory planning regime put in place.

If size is a measure of the quality of the product of the residential building industry, it is getting better. Since the mid-1980s the average house size in Victoria has increased by 32 per cent from 169 to 223 square metres. Whereas the average size of houses contracted in the early 1990s recession, it has been on the increase since then. Much of the impetus for this has been the new building work in established suburbs such as Boroondara, Bayside, Manningham and Stonnington. Here the two storey pseudo-mansions that have often replaced single storey houses have helped increase average house size.

While the average size of houses in Melbourne increased during the 1990s, at the same time average household size fell. The amount of space per person has consequently increased dramatically, up from 60.6 square metres per person in 1986 to 86.3 square metres in 1999. This represents a 44 per cent increase – a remarkable increase in such a relatively short period. While some of the increased space is probably surplus to household needs, and is a statement of contemporary affluence and concerns with status, much of it is likely to be related to the changing lifestyle uses of the house. These include the need for home offices, studies and multi-living areas to avoid competition between incompatible home technologies such as hi-fis, televisions and computer games.

6 Housing Consumers

Consumers are key actors in the system of provision in that their preferences and expenditures determine where and what housing is provided. However, they do not do this in isolation from the economic and institutional contexts in which they operate. Thus while many western countries have similar age, household and lifecycle patterns, there are considerable variations in how this translates into tenure, housing type and locational outcomes. The major demographic processes shaping the broad consumer context have been well documented (Department of Infrastructure 2000a, 2000b, 2000c). These are:

- Sustained household growth which will require accommodation for an additional 200,000 households by 2011. This translates into a need for around 18,000 dwellings per annum over the next eleven years;
- Smaller household size in the form of more single person, sole parent and childless couple households;
- An older age structure with many more persons aged 55 and above.

How these changes actually shape housing consumption patterns is a difficult question to answer because there are so many related variables to take into account. The more obvious variables are income and dwelling price; the less tangible ones are lifestyle factors such as fashion, technology take-up and use, changing gender and family relations, and attitudes to leisure, the use of time, the environment, and the relationship between home and the public sphere.

Table 8 Change in Consumption of Housing Types, by Household Types, Melbourne Statistical Division, 1996

	Separate Housing		Semi-Detached or Terrace		Flat or Apartment		Total Change, Including 'Other'	
Single Person								
Age 25-34	18,055	42%	5,304	12%	17,915	42%	43,143	100%
Age 35-44	17,693	47%	5,070	14%	12,956	35%	37,254	100%
Age 45+	86,120	55%	21,074	14%	43,575	28%	155,485	100%
Total	121,868	52%	31,448	13%	74,446	32%	235,882	100%
Single Head Household, With Dependents								
Age 25-34	30,468	76%	3,092	8%	5,343	13%	39,847	100%
Age 35-44	33,374	79%	3,127	7%	4,915	12%	42,328	100%
Age 45+	55,618	80%	5,378	8%	7,040	10%	69,490	100%
Total	119,460	79%	11,597	8%	17,298	11%	151,665	100%
Head, Spouse, No Dependents								
Age 25-34	80,531	70%	12,737	11%	19,620	17%	115,599	100%
Age 35-44	32,170	74%	4,695	11%	5,596	13%	43,622	100%
Age 45+	275,686	85%	19,654	6%	22,734	7%	324,761	100%
Total	388,387	80%	37,086	8%	47,950	10%	483,982	100%
Head, Spouse, With Dependents								
Age 25-34	209,474	89%	8,904	4%	13,417	6%	236,589	100%
Age 35-44	293,362	91%	9,456	3%	11,605	4%	320,749	100%
Age 45+	334,775	93%	10,948	3%	8,547	2%	361,282	100%
Total	837,611	91%	29,308	3%	33,569	4%	918,620	100%
Other								
Age 25-34	46,575	57%	12,542	15%	19,208	24%	81,688	100%
Age 35-44	21,583	64%	3,809	11%	6,549	19%	33,736	100%
Age 45+	42,418	69%	5,832	9%	10,181	17%	61,685	100%
Total	110,576	62%	22,183	13%	35,938	20%	177,109	100%
Total, All Households	1,577,902	80%	131,622	7%	209,201	11%	1,967,258	100%

Source: ABS (1996) Census.

Table 8 gives a broad-brush understanding of how different demographic groups consumed different housing types in 1996. The best way to interpret this data is to take as a benchmark for consumption the overall 77 per cent separate housing consumption for metropolitan Melbourne. Any age group or household type that is consuming below this figure is exhibiting, for various reasons, a preference for non-separate housing, and vice-versa. The significance of the table is that one of the predicted growth households of the future (single persons) shows a very strong predisposition to non-separate housing, and that the household likely to have minimum growth (coupled families) has the strongest preference for separate housing. Childless couples (head, spouse, no dependent) also have a preference for separate housing, although younger ones have a marginal preference for non-separate housing.

This data is essentially a snapshot in time and does not capture the dynamics of demographic change and housing outcomes. Table 9 shows the absolute and percentage changes in consumption of housing types for different household types and age cohorts between 1991 and 1996. While the number of households overall increased by 146,000 or 8 per cent, there were sharp differences from this percentage for specific household types and age cohorts. The key points are:

- The number of coupled families consuming separate houses and semi-detached and terraces actually fell, while there was an increase in coupled families in flats and apartments;
- The largest absolute growth of household types was childless couples, of which 72 per cent (predominantly those aged 45 plus) chose separate housing. The biggest rate of growth for this group, however, was in flats and apartments, up 47 per cent over the five years;
- The next largest group in terms of growth was single persons, whose housing choices were split between separate houses and flats and apartments. Importantly, this was relatively uniform across all age categories;
- In aggregate, growth was relatively weak for detached housing, down for semi-detached and terraces, and up sharply for flats and apartments.

Table 9 Change in Consumption of Housing Types, by Household Types, Melbourne Statistical Division, 1991-96

	Separate Housing		Semi-Detached or Terrace		Flat or Apartment		Total Change, Including 'Other'	
Single Person								
Age 25-34	3,512	24%	-454	-8%	4,446	33%	8,346	24%
Age 35-44	4,779	37%	-106	-2%	3,709	40%	9,028	32%
Age 45+	15,198	21%	-2135	-9%	11,981	38%	26,733	21%
Total	23,489	24%	-2695	-8%	20,136	37%	44,107	23%
Single Headed Household, With Dependents								
Age 25-34	4,785	19%	-339	-10%	1,241	30%	6,208	18%
Age 35-44	5,789	21%	-399	-11%	1,433	41%	7,255	21%
Age 45+	10,774	24%	66	1%	2,571	58%	14,253	26%
Total	21,348	22%	-672	-5%	5,245	44%	27,716	22%
Head, Spouse, No Dependents								
Age 25-34	5,315	7%	296	2%	5,313	37%	12,080	12%
Age 35-44	4,829	18%	373	9%	1,753	46%	7,474	21%
Age 45+	38,155	16%	-2,161	-10%	8,210	57%	47,508	17%
Total	48,299	14%	-1,492	-4%	15,276	47%	67,062	16%
Head, Spouse, With Dependents								
Age 25-34	-17,894	-8%	-1,677	-16%	1,611	14%	-16,270	-6%
Age 35-44	-8,660	-3%	-2	0%	3,495	43%	-2,357	-1%
Age 45+	18,061	6%	551	5%	2,157	34%	24,332	7%
Total	-8,493	-1%	-1,128	-4%	7,263	28%	5,705	1%
Other								
Age 25-34	-1,609	-3%	-796	-6%	2,828	17%	1,880	2%
Age 34-44	-37	0%	-715	-16%	671	11%	797	2%
Age 45+	-3,134	-7%	-1,247	-18%	1,692	20%	-909	-1%
Total	-4,780	-4%	-2,758	-11%	5,191	17%	1,768	1%
Total, All Households	79,863	5%	-8,745	-6%	53,111	34%	146,358	8%

Source: ABS (1991, 1996) Census.

6.1 Landlord Investors

Landlords are another important, albeit unusual, group of housing consumers. They act as intermediaries between builders of dwellings and the households that ultimately live in them, but their motivation for acquiring dwellings is unrelated to the actual need of tenants to be accommodated. Historically, this has meant periods in which there have been significant imbalances between the supply of private rental housing by landlords and the demand for affordable accommodation by tenants.

Landlords have become much more important to the Melbourne housing market over the last decade. Investment in the private rental sector declined for a short time in the 1950s and early 1960s, expanded from the mid-1960s and accelerated from the mid-1980s. The reasons for this include the expansion of tax subsidies in the 1980s in the form of negative gearing and accelerated depreciation, the promise of capital gains, and the growth in the number of tenants due to the reduced ability of households to enter either home ownership or public rental. Also important have been changes in lifestyle. Unlike the cities of many other countries, almost no dwellings in Melbourne are constructed specifically for private rental. Investors simply acquire a dwelling that has already been constructed at some time in the past, rather than commissioned at the time of construction.

In Australia – and Melbourne is no different from elsewhere – most landlords are very small-scale individual investors: 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. The Federal government's determination to give the private rental sector a greater role in low income housing provision seems not to have taken into account the relatively amateurish nature of both landlords and their exchange agents, and whether they are capable of successfully taking on the bigger role expected of them.

The dominance of the small landlord in the provision of rental housing in Melbourne 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, landlords are fickle players in the housing supply chain. Over a third are estimated to be making operating losses, and another third merely break even on net rental return basis. Capital gain is their major reason for investing. Weak security of tenure provisions and the existence of landlords who want to sell their property at regular intervals mean, from the consumers' perspective, a highly insecure living environment.

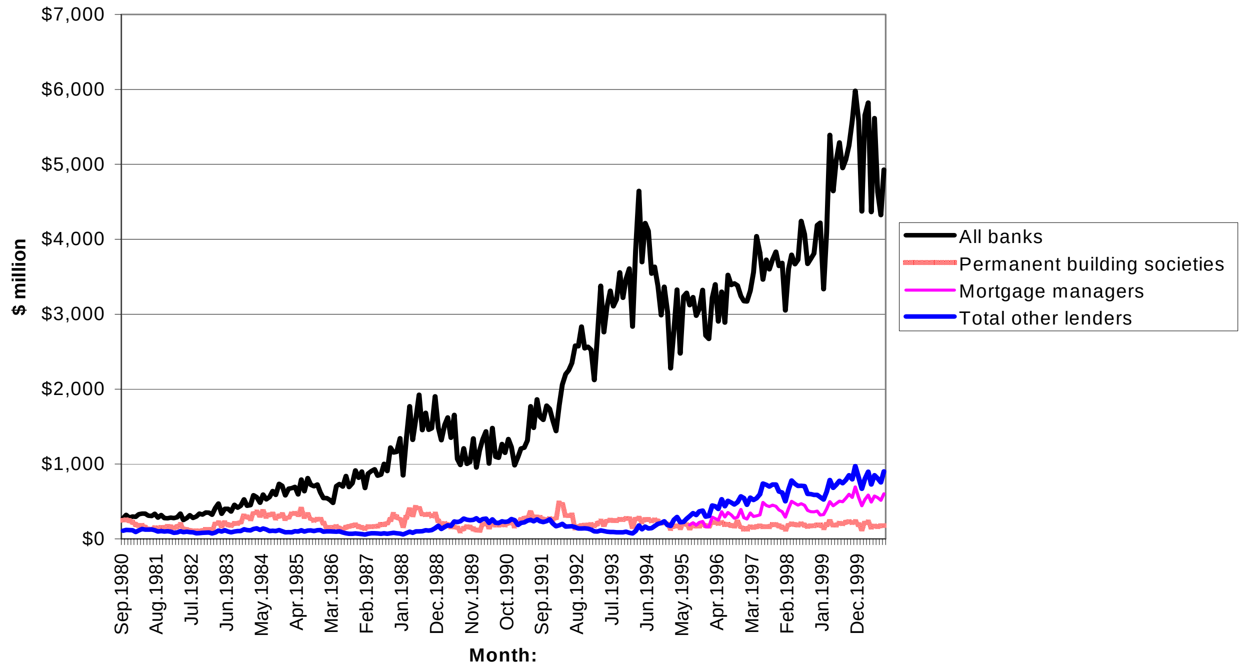
7 Exchange

7.1 Finance Institutions

The exchange subsystem of the housing market facilitates consumers and producers coming together whether through the provision of finance or through rental, sales and purchase services, for example, estate agents.

The last twenty years has seen a significant restructuring of housing finance agencies, with the banks – and particularly the 'big four' (the National Australia Bank, Westpac, the ANZ Banking Group and the Commonwealth Bank) – taking a dominant role (see Figure 7).

Figure 7 Market Share of Owner Occupied Finance Market, Australia, September 1980-August 1999 ($ Million)



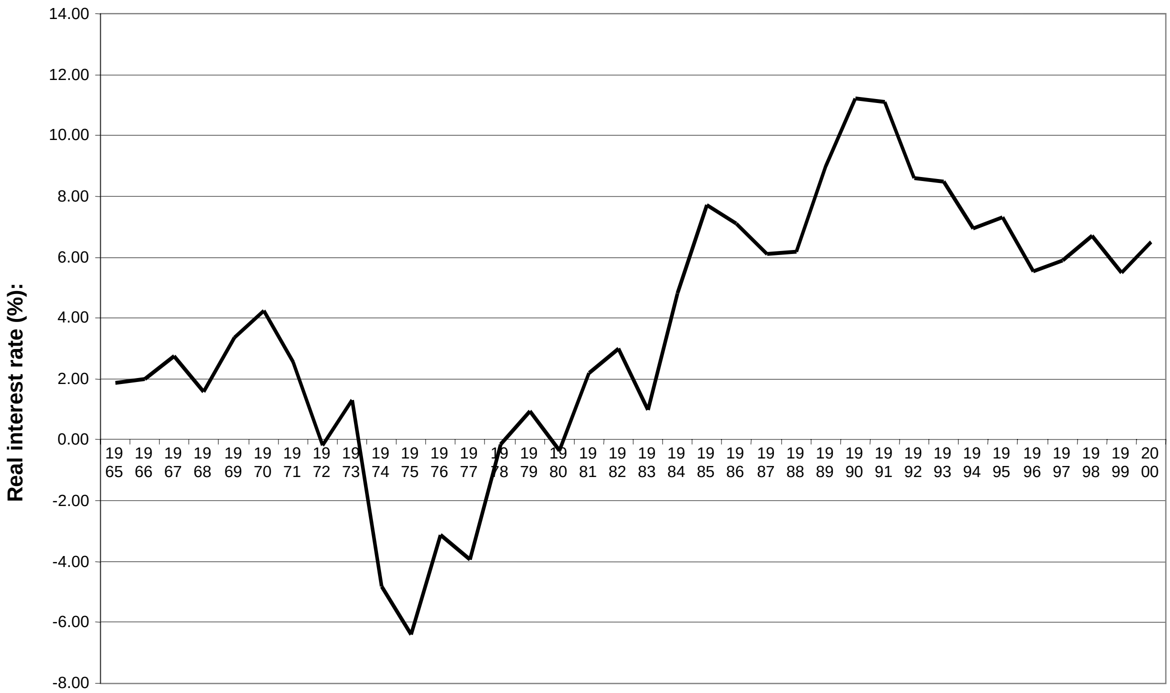
Source: ABS, Cat. no. 5609.02.

While some of this shift in the banks' market share has been a consequence of the established banks growing faster than the building societies, far more important has been the conversion of six major building societies into banks (St George Bank, Bank of Melbourne, Advance Bank, Metway, Challenge Bank and Bank of Bendigo), as well as the collapse of the Pyramid Building Society. The Bank of Melbourne, Advance Bank, Metway and Challenge Bank have all subsequently been taken over by one of the 'big four' savings banks. The 'loss' of the Bank of Melbourne, Pyramid and the State Bank of Victoria during the last decade has severely weakened Victoria's independent regional lending capacity.

Although the 'big four' dominate the owner occupied housing market, financial deregulation has also seen the emergence of new players in the form of mortgage managers such as Aussie Home Loans, Registered Australian Mortgage Securities (RAMS). Through securitisation, they have been able to package up mortgages and sell them to overseas investors, who in return gain access to the cash flows generated by the mortgage repayments. They appear to have had a major beneficial effect on the degree of competition in the housing finance sector.

Greater competition combined with falling inflation are often seen to have been responsible for recent substantial falls in home mortgage interest rates, from 17 per cent in the early 1990s to 6 per cent eight years later. Although these rates have been presented as being similar to those of the 'golden years' of the postwar era, this is not strictly true. Once the mortgage rate is adjusted for inflation rates to give a 'real rate of interest', it is clear that interest rates during the 1990s actually remained higher than the levels of the 1960s and 1970s (see Figure 8), an outcome that reflects Australia's large balance of payments deficit mentioned earlier. The increase in, and large size of, the national current account deficit will keep real interest rates relatively high for at least the next decade.

Figure 8 Real Mortgage Interest Rates, 1965-2000 (Mortgage Rate Less CPI)



Sources: interest rates from Reserve Bank of Australia; CPI from ABS.

7.2 Estate Agents

The other important group of exchange agents are estate agents. The bulk of people buying and selling a property use estate agents, and about 60 per cent of rental properties are managed by private estate agents, with the remaining properties being self-managed, that is, landlord-managed (ABS 1994). Estate agents have two functions: the first and dominant one is to match the sellers and buyers of residential property; the other is to manage the rent roll for individual landlords, who pay a fee of around 7 per cent of the gross rent for this service. To be an estate agent requires basic education and training, largely focused on sales rather than rental. The resultant relative lack of rental management professionalism amongst real estate agents, combined with the large number of lower income tenants, many of whom may have associated social and economic problems, can be a source of conflict. This raises concerns as to the future role and training of estate agents, given that the private rental sector in Melbourne appears destined to become much more important as a source of low income accommodation in the coming decade.

8 The Housing Market Outcomes

8.1 Prices

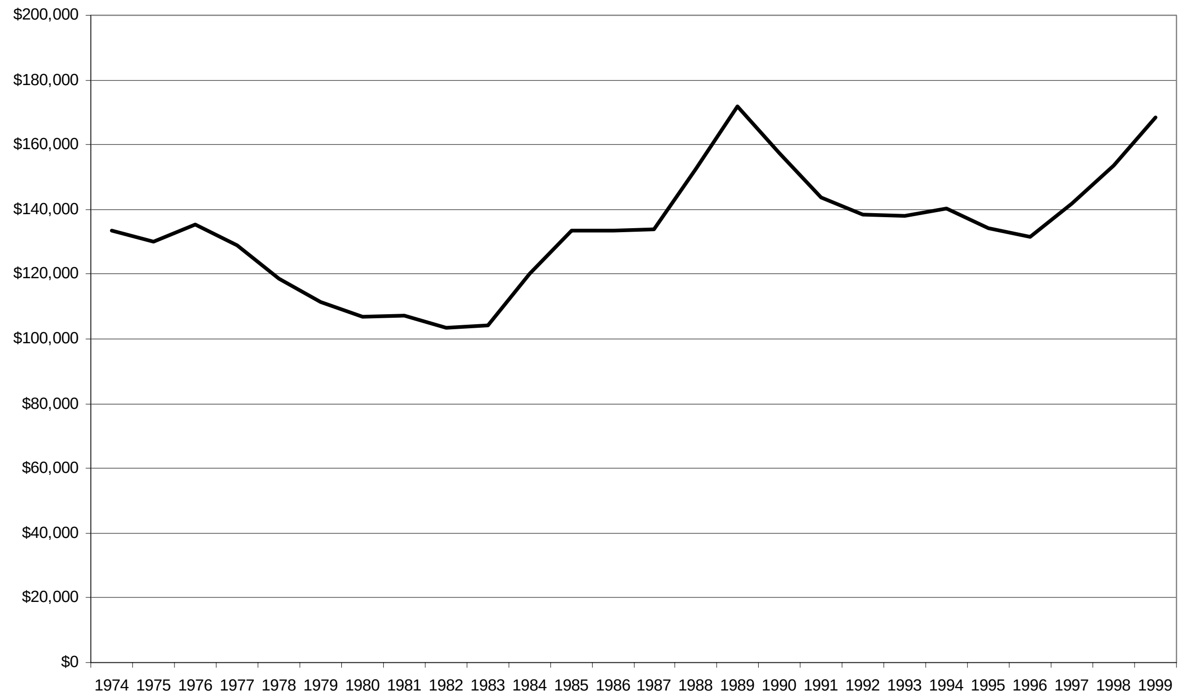
Movements in dwelling prices both reflect and contribute to changes in Melbourne's social and spatial structures. They also happen to be one of the most talked about aspects of the built environment. Most of us, as either actual or aspiring home owners, have a material interest in dwelling price trends and the factors which, either real or imagined, influence price movements.[2]

The 1970s through to the 1980s were years of significant dwelling price inflation in Australia generally and Melbourne in particular, but the price increases did not occur in a uniform way, as Figure 9 shows. Periods of rapid price inflation in the early 1970s were followed by significant real declines in the last half of the decade. In the 1980s the pattern reversed itself, with prices falling in the early period then increasing rapidly in the late 1980s. The rapid increase in dwelling prices during these years sparked widespread fears that declining affordability would lower home ownership rates. It also led to fears that it would add extra fuel to urban sprawl, given that the most rapid rates of price increase were concentrated in the inner and middle suburbs.

---

[2] The analysis of house prices here is based on the Valuer General's property records which provide property sales and values for all property legally transacted in Victoria. The findings differ from those which tend to get media exposure, namely, the *Age* auction results and the REIA *Market Facts.* Neither of these are reliable measures of metropolitan Melbourne price trends because of biases in the way the data is collected, notably, the limited samples on which they are based. Both have a bias towards inflating prices.

Figure 9 Real Median House Prices, Melbourne Statistical Division, 1974-99



Source: Valuer General's Property Sales Statistics.

Reflecting the depth of the early 1990s recession, median prices slumped in Melbourne for most of the decade, recovering only towards the end of the 1990s. The quite rapid real price increases between 1996 and 1999 were still insufficient to compensate for the earlier declines, and real median dwelling prices ended the decade slightly lower than they were at the end of the 1980s. This is the first time since World War II that a decade has gone by when house prices have not increased in real terms.

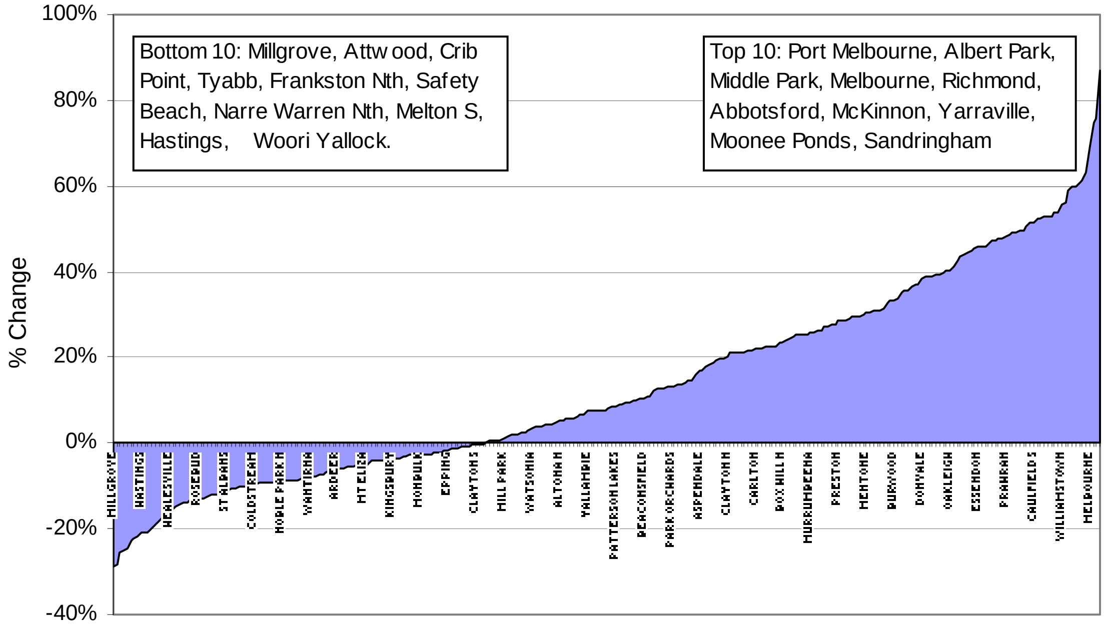
This remarkable development masks important spatial differences that were particularly evident during the 1990s. Between 1990 and 1999, a large number of suburbs experienced a real price fall, while others experienced a real price increase of up to 87 per cent (see Figure 10). The main beneficiaries were the inner and middle distance suburbs, while the outer urban suburbs struggled to break even.

Table 10 Change in Real Median House Prices, Bottom and Top Twenty Suburbs, 1990-99

Bottom Twenty Suburbs		Top Twenty Suburbs	
Millgrove	-29%	Port Melbourne	87%
Attwood	-28%	Albert Park	76%
Crib Point	-26%	Middle Park	75%
Tyabb	-25%	Melbourne	69%
Frankston North	-24%	Richmond	63%
Safety Beach	-23%	Abbotsford	61%
Narre Warren North	-22%	McKinnon	61%
Melton South	-22%	Yarraville	60%
Hastings	-21%	Moonee Ponds	60%
Woori Yallock	-21%	Sandringham	59%
Beaconsfield Upper	-21%	Bentleigh	56%
Cranbourne	-20%	Williamstown	56%
Doveton	-19%	Northcote	54%
Rosebud South	-18%	Glenhuntly	54%
Tootgarook	-18%	Brunswick East	53%
Coolaroo	-16%	Balwyn	53%
Healesville	-16%	Brunswick	53%
Dromana	-15%	Black Rock	53%
Rosebud West	-15%	Elwood	52%
Werribee	-14%	Caulfield South	52%

Source: Valuer General's Property Sales Statistics.

Figure 10 Real Median House Price Changes by Selected Suburbs, 1990-99



Source: Valuer General's Property Sales Statistics.

Putting the price changes in a longer historical context reveals how the Melbourne housing market has undergone a significant restructuring. Table 11 and Table 12 show the twenty lowest priced and twenty highest priced suburbs for 1979, 1989 and 1999. The table highlights the increasing importance and subsequent dominance of more inner urban areas in the top twenty, and the parallel changes in the position of outer urban areas. Whereas in 1979 suburbs more than 10 kilometres from the CBD accounted for ten of the twenty highest priced suburbs, there are now only three in that ranking. At the other extreme, there are now no inner suburbs in the bottom twenty, whereas in 1979 there were five. The housing market is polarising in a way that we haven't seen before. When looked at in conjunction with the income data we considered earlier, it appears that the housing market has acted to accentuate the inequalities arising from the operation of the labour market. Those areas with high income levels have also recorded higher rates of house price inflation and therefore wealth creation for owners. Far from being a vehicle for social levelling, as it perhaps was in the postwar era, housing and home ownership may well have become a mechanism for worsening economic – and, potentially, social – divisions in a way, and to a degree, that should be of major concern.

Table 11 Bottom Twenty Median Priced Suburbs, 1979, 1989 and 1999

1979		1989		1999	
Suburb	**Median**	**Suburb**	**Median**	**Suburb**	**Median**
Footscray	24,500	Melton	92,000	Melton	103,000
Northcote	28,000	Flinders	98,200	Cranbourne	115,000
Williamstown	28,000	Footscray	100,000	Pakenham	117,250
Brunswick	28,125	Sunshine	100,000	Dandenong	117,500
Flinders	29,000	Pakenham	100,100	Flinders	118,000
Richmond	29,000	Werribee	101,250	Werribee	118,000
Healesville	29,800	Hastings	105,000	Frankston	118,000
Collingwood	30,375	Cranbourne	106,000	Sunshine	120,000
Chelsea	31,000	Broadmeadows	108,000	Hastings	121,500
Port Melbourne	31,000	Altona	110,000	Springvale	125,000
Preston	31,500	Dandenong	110,000	Broadmeadows	133,000
Coburg	31,775	Frankston	110,000	Berwick	136,125
Melton	32,000	Healesville	116,000	Lilydale	136,250
Pakenham	32,000	St Kilda	116,000	Healesville	137,000
Hastings	33,000	Sherbrooke	117,000	Bulla	138,000
Sunshine	33,000	Preston	117,250	Sherbrooke	145,000
Essendon	34,000	Bulla	117,500	Altona	145,000
Sherbrooke	34,000	Coburg	120,000	Whittlesea	145,000
Oakleigh	34,225	Lilydale	120,000	Croydon	147,500
Cranbourne	34,500	Berwick	120,000	Knox	150,000

Source: Valuer General's Property Sales Statistics. Note: underlined suburbs are those that have moved from the bottom twenty to the top twenty.

Table 12 Top Twenty Median Priced Suburbs, 1979, 1989 and 1999

1979		1989		1999	
Suburb	**Median**	**Suburb**	**Median**	**Suburb**	**Median**
Prahran	61,769	Brighton	300,000	Brighton	460,000
Brighton	57,000	Hawthorn	280,000	Prahran	424,500
Donc/Temp	53,000	Prahran	265,000	Kew	400,500
Kew	52,000	Kew	261,000	Hawthorn	390,250
Hawthorn	50,850	*Sandringham*	253,000	Sth Melbourne	387,500
Sandringham	50,000	Malvern	235,500	*Sandringham*	381,000
Malvern	48,563	Sth Melbourne	232,000	Port Melbourne	374,000
Camberwell	48,500	Camberwell	231,000	Camberwell	352,500
Waverley	45,000	***Springvale***	220,000	St Kilda	335,000
Mornington	43,000	Caulfield	210,000	Malvern	333,500
Eltham	43,000	*Donc/Temp*	200,000	Caulfield	311,750
Caulfield	42,000	**Port Melbourne**	172,500	Fitzroy	281,000
Nunawading	41,750	**Fitzroy**	171,200	**Richmond**	280,000
Heidelberg	41,500	*Eltham*	164,650	Essendon	261,000
Diamond Valley	41,000	**Essendon**	160,000	Melbourne	260,000
Melbourne	40,992	*Mornington*	160,000	*Donc/Temp*	252,000
St Kilda	40,000	*Heidelberg*	158,000	**Collingwood**	250,000
Whittlesea	39,725	Melbourne	157,750	*Moorabbin*	242,000
Sth Melbourne	39,500	*Moorabbin*	157,000	**Northcote**	239,500
Moorabbin	39,000	*Waverley*	155,000	**Williamstown**	235,000

Source: Valuer General's Property Statistics. Note: *italics* identifies suburbs more than 10 km from the city centre; **bold** identifies suburbs not previously listed in the top twenty.

Another way to view the issue of Melbourne dwelling prices is in terms of price segments. Different budget constraints and locational choices fuse to create different price segments for different consumers, builders and estate agents. Table 13 shows the size of different house price markets in 1999, where the price segments are:

- 'Low cost' housing, that is, affordable by a single income household earning average male earnings (up to $150,000);
- 'Low to median cost' ($150,001 to $250,000);
- 'Medium to high cost' ($250,001 to $500,000);
- 'High cost' ($500,001 to $750,000);
- 'Top end' ($750,000 plus).

The table shows that the low cost end of the market accounted for 41 per cent of sales in 1999, the low to median sector 35 per cent, while the $250,001 to $500,000 segment accounted for 20 per cent. The two categories over $500,000 accounted for only 4 per cent of sales, with the top end limited to around 1 per cent (2,000 dwellings sold)). This indicates that the market for top end housing is not large.

Table 13 Melbourne Housing Market, 1999 (Separate House Sales Frequency by Price Range)

FREQ RANGE	Inner Melb	Inner East	Sthn Melb	TOTAL INNER	Outer West	North-West	North-East	Outer East	South-East	Morn. Penin'a	TOTAL OTHER	MSD
0-$150,000	247	606	695	**1,548**	3,793	1,762	1,761	3,471	4,100	4,019	**18,906**	20,454
$150,001 to $250,000	1,002	3,438	1,759	**6,199**	2,410	1,485	2,713	2,251	1,089	1,422	**11,370**	17,569
$250,001 to $500,000	1,824	2,671	2,130	**6,625**	922	379	948	447	246	622	**3,564**	10,189
$500,001 to $750,000	373	438	475	**1,286**	55	12	72	17	16	69	**241**	1,527
750,001 and over	271	181	193	**645**	19	3	20	13	9	32	**96**	741
TOTAL	3,717	7,334	5,252	**16,303**	7,199	3,641	5,514	6,199	5,460	6,164	**34,177**	50,480
0-$150,000	7%	8%	13%	**9%**	53%	48%	32%	56%	75%	65%	**55%**	41%
$150,001 to $250,000	27%	47%	33%	**38%**	33%	41%	49%	36%	20%	23%	**33%**	35%
$250,001 to $500,000	49%	36%	41%	**41%**	13%	10%	17%	7%	5%	10%	**10%**	20%
$500,001 to $750,000	10%	6%	9%	**8%**	1%	0%	1%	0%	0%	1%	**1%**	3%
750,001 and over	7%	2%	4%	**4%**	0%	0%	0%	0%	0%	1%	**0%**	1%
TOTAL	100%	100%	100%	**100%**	100%	100%	100%	100%	100%	100%	**100%**	100%

Source: Valuer General's Property Sales Statistics.

The spatial distribution is more interesting. The Outer West, North-West, South-East and Mornington Peninsula have large proportions of cheaply priced stock. In total these regions account for almost three-quarters of Melbourne's low cost stock, despite having only 40 per cent of the total housing stock for Melbourne. By contrast, the entire inner region – with one-third of all stock – only had 8 per cent of metropolitan Melbourne's low cost stock (1,548 dwellings). At the other end, 84 per cent of top end stock was in the inner region. The most homogenous region is the North-East, with almost 50 per cent of its stock concentrated in the $150,001 to $250,000 band. The two regions most skewed towards the affordable end (less than $250,001), are the North-West and South-East, with 95 and 94 per cent respectively in this bracket. Highlighting the trend towards spatial polarisation is the remarkable decline in the proportion of low cost stock in the inner urban area since 1995. Back then, cheaply priced dwellings accounted for 20 per cent of inner urban stock, but by 1999 this had fallen to 8 per cent. In fact, the inner region accounted for 56 per cent of the net loss of 6,766 low cost properties in metropolitan Melbourne between 1995 and 1999. By contrast, the South-East, North-West and Mornington Peninsula had large increases in low cost stock in these four years.

Table 14 Melbourne Flats and Units Market, 1999 (Sales Frequency of Flats and Units by Price Range)

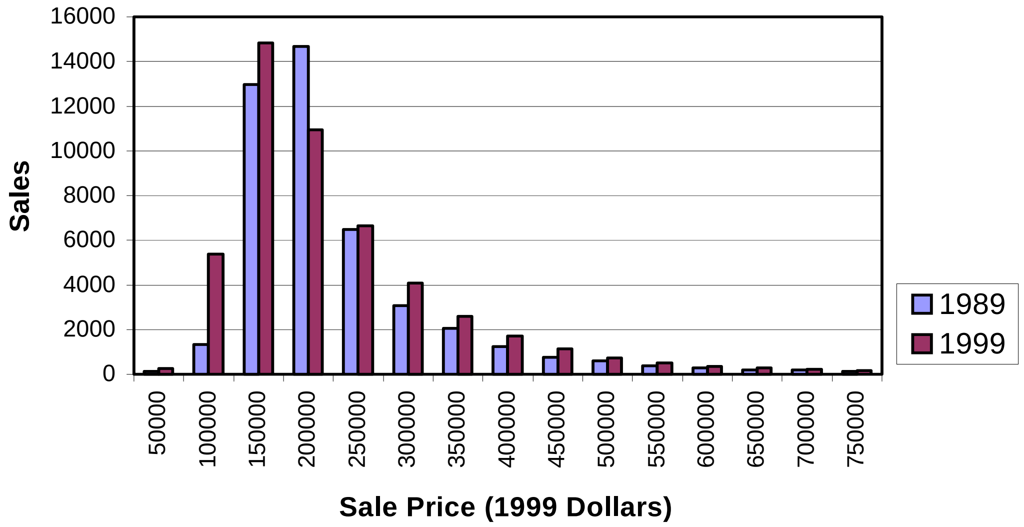
FREQ RANGE	Inner Melb	Inner East	Sthn Melb	TOTAL INNER	Outer West	North-West	North-East	Outer East	South-East	Morn. Penin'a	TOTAL OTHER	MSD
0-$150,000	1,323	719	1,157	**3,199**	912	578	816	873	695	683	**4,557**	7,756
$150,001 to $250,000	1,618	1,225	990	**3,833**	307	209	459	216	51	112	**1,354**	5,187
$250,001 to $500,000	1,260	542	557	**2,359**	105	39	65	6	9	27	**251**	2,610
$500,001 to $750,000	176	32	58	**266**	2	2	6	0	0	0	**10**	276
750,001 and over	88	7	15	**110**	3	1	0	0	0	0	**4**	114
TOTAL	4,465	2,525	2,777	**9,767**	1,329	829	1,346	10,95	755	822	**6,176**	15,943
0-$150,000	30%	28%	42%	**33%**	69%	70%	61%	80%	92%	83%	**74%**	49%
$150,001 to $250,000	36%	49%	36%	**39%**	23%	25%	34%	20%	7%	14%	**22%**	33%
$250,001 to $500,000	28%	21%	20%	**24%**	8%	5%	5%	1%	1%	3%	**4%**	16%
$500,001 to $750,000	4%	1%	2%	**3%**	0%	0%	0%	0%	0%	0%	**0%**	2%
750,001 and over	2%	0%	1%	**1%**	0%	0%	0%	0%	0%	0%	**0%**	1%
TOTAL	100%	100%	100%	**100%**	100%	100%	100%	100%	100%	100%	**100%**	100%

Source: Valuer General's Property Sales Statistics.

To what extent has the market for flats and units replicated these trends for detached dwellings? Table 14 shows the price distribution of flats and units in 1999. The low end (up to $150,000) accounted for 49 per cent of the stock, and the $150,001 to $250,000 segment accounted for 33 per cent. The high end segment (over $750,001) was very small (1 per cent), representing less than 400 dwellings per annum. Projects such as Docklands that are pitching a significant proportion of their sales at the top end confront a limited market. Significantly, the inner urban, medium density housing boom appears to have passed by the lower end of the market. Between 1995 and 1999 there was a net loss of 3,352 low cost units and apartments in the Melbourne Statistical Division, of which inner Melbourne accounted for 2,575 or 77 per cent of the loss. By contrast, the number of inner urban higher end properties (over $500,000) increased by 1,129 units or 142 per cent.

A frequency analysis of sales within certain price ranges provides another important insight into the way that Melbourne's housing submarkets have been affected by these house price trends. Figure 11 shows the frequency distribution of sales in 1989 and 1999 after adjusting for inflation (that is, the sales prices in the 1989 year have been indexed by the rate of consumer price inflation over the decade to 1999 values). The figure reveals a skewed distribution, with some 49 per cent of the market up to $150,000, and a long tail to the top end extending beyond those shown, composed of dwellings valued over $1 million. Over the last decade, the distribution has altered significantly, with more dwellings now at the top and lower ends. The gap between the 1989 and 1999 trends reveals the changing nature of distribution; whilst there were more properties at the very affordable end of the market (up to $150,000), there were less properties in the moderately affordable range (up to $200,000), and many more in the upper ranges. This pattern reflects similar broad trends in income distribution. In the same way that the middle section of the income distribution has been disappearing, so too has the middle segment of the housing market.

Figure 11 Frequency Distribution of Dwelling Sales by Price, Melbourne Statistical Division, 1989 and 1999 (Constant 1999 Dollars)



Source: Valuer General's Property Sales Statistics.

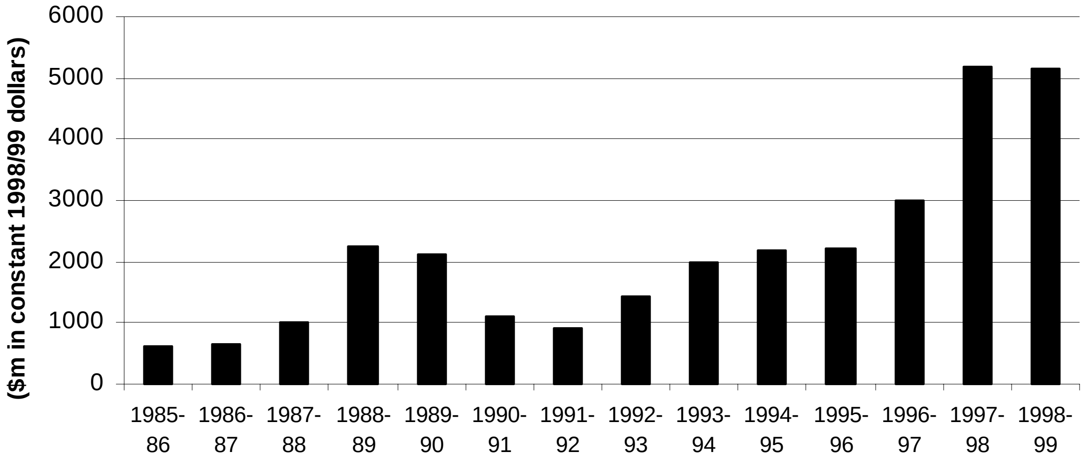
8.2 The Private Rental Market

For much of the postwar era, private rental housing's main role was largely transitional, acting as a temporary respite for those saving for home ownership or those waiting to be offered public housing. Now its role is both more complex and more important.

Private rental continues to perform its transitional role, but over the last two decades it has become more of a long-term option for low income households who cannot obtain anything better. It is also becoming a tenure of choice for people who previously would have opted for ownership but are choosing not to do so. This might be because of the opportunity costs associated with ownership, or it might be because some households are unable to afford to buy in areas where they want to live, for example, the inner and middle ring suburbs. Moreover, for young childless couples and singles linked into the requirements of a flexible labour market, private rental offers flexibility that ownership does not. The tenure now plays multiple and potentially conflicting roles, given that the demands of the various client groups are very different. But how well is private rental housing responding to these increased demands?

On the surface, the private rental sector appears to have responded well. It has attracted increasing levels of investment since the early 1980s (see Figure 12), enabling it to expand by 32.3 per cent in the ten years to 1996. And while rents in real terms have increased over the last decade, they are still less than they were in the early 1970s.

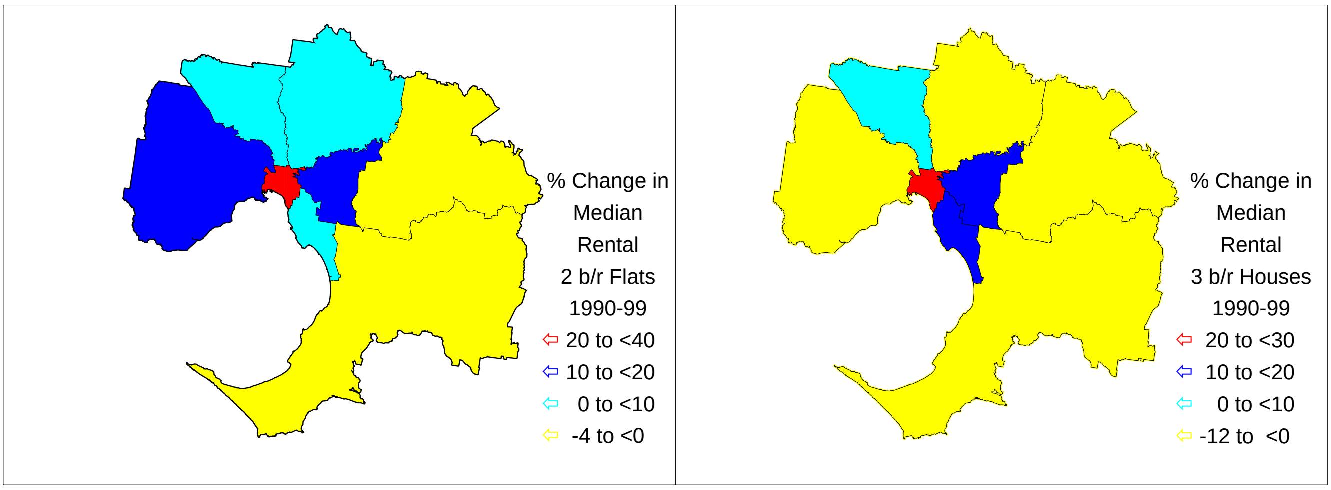
Figure 12 Finance for Investment in Dwellings for Rental/Resale in Constant Dollars, Victoria, 1985-86 – 1995-96 ($ 1998-99)



Source: ABS, Cat. no. 5643.0.

This broad metropolitan-wide data masks important regional differences, as shown by Figure 13. The data in this figure derives from a monthly survey of advertised rents, so it excludes rents of existing tenants, and probably understates low cost rental dwellings, as these properties are not often advertised but are exchanged by word of mouth. The figure reveals a slight long-term increase in real rents for metropolitan Melbourne but, mirroring the widening spatial polarisation of the owner occupied markets, rents in the inner regions are increasing rapidly compared to the outer ones. Some – such as the Western and Outer Eastern regions – have experienced little real increase over the last fifteen years. The conclusion to be drawn is that the rental market and the owner occupied market are both acting to structure Melbourne socially and economically into two broad housing market regions: the affluent inner and the less affluent outer.

Figure 13 Percentage Change in Median Rents, 2 Bedroom Flats and 3 Bedroom Houses, Melbourne Statistical Division, 1990-99



Source: Rental Report, Ministry of Housing and Construction.

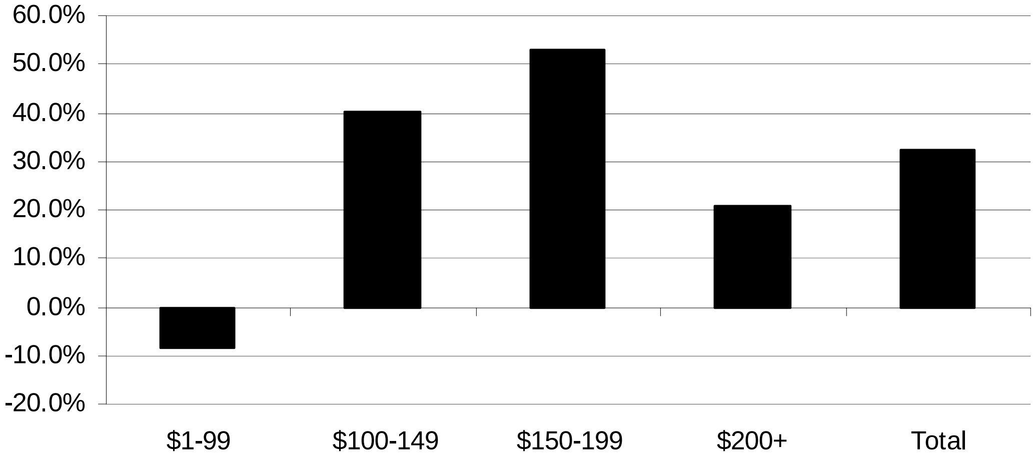
Figure 14 highlights another aspect of this uneven movement in rents. The figure compares the performance of the low cost end of the market with the high cost end.[3] The rent data is divided into four broad categories: low, low to moderate, moderate to high, and high cost. A low cost private dwelling is any property with a rental value of more than $0 and less than $100 per week in 1996 dollars. Any rent-free households (defined as those for whom rent paid was $0) have been deleted from the data.

As Figure 14 shows, while the private rental market increased by 32.5 per cent overall, the low cost stock *declined* by 8.5 per cent. Most of the increase was at the middle to upper end of the market ($150 to $199 a week). This would not be a problem if the number of low income households requiring rental accommodation also fell, but the number of renters on low incomes (defined as any household earning less than $300 a week in 1996 prices) increased by 64 per cent. To make matters worse, low income households do not all live in the low cost stock, for around 40 per cent of it is occupied by higher income earners (Wulff, Yates and Burke 2000).

[3] The methodology for this was evolved by Judy Yates as part of a larger study (see Wulff, Yates and Burke 2000) and is adapted here for the Melbourne market.

Using the methodology developed by Yates, it is possible to estimate the degree to which the supply of low cost dwellings is satisfying demand. We can do this by comparing the number of low income households with the number of low cost units that are occupied. This suggests that in 1996 there was a shortage of 10,630 low cost rental units, equivalent to almost 40 per cent of the current low cost stock. It is unlikely that this situation will have changed substantially since then.

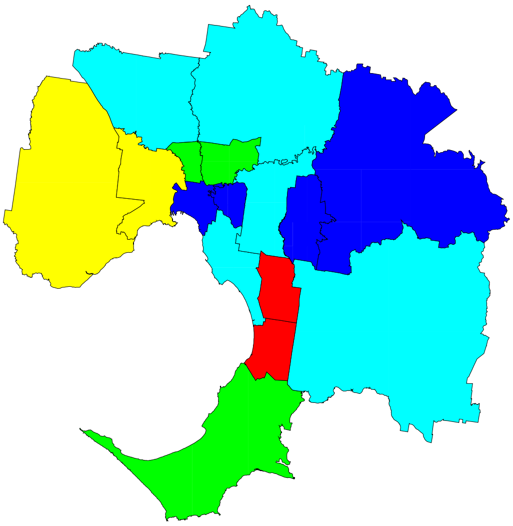
Figure 14 Changes in Melbourne Private Rental Stock Between 1986 and 1996 by Rent Cohorts



Source: Wulff, Yates and Burke (2000).

Figure 15 shows another dimension to the uneven geographic pattern of rent changes in the ten years to 1996. Three distinctive patterns can be identified. Some areas have experienced strong falls (notably, inner Melbourne and Boroondara, both down 42 per cent), others had only marginal falls or small increases (the bulk of municipalities), and two had massive increases (Greater Dandenong 168 per cent and Frankston City 94 per cent). The loss of stock in the inner area and Boroondara can largely be explained by gentrification, but this raises questions about how low cost stock can be retained in these areas in the coming decade, given that the gentrification process is likely to continue unabated.

Figure 15 Low Cost Rental Stock Changes by Region, 1986-96



Sources: ABS (1986, 1996) Census, special matrix tables.

The increasing concentration of low cost stock in Dandenong and Frankston is difficult to explain. Most of this would involve the transfer of formerly owner occupied detached dwellings into private rental. Given the problems of maintaining detached rental properties and the fact that most landlords are small investors with few resources, there is a real danger over time of these suburbs becoming urban problem areas. It is perhaps no coincidence that they experienced some of the biggest real falls in property values over the period 1988-98, have the smallest growth in real incomes, and are showing up poorly on indicators of social wellbeing such as school retention rates and recorded crime. This raises the issue of whether, and in what form, policy interventions should be devised to turn these areas around.

The decline in low cost rental stock in metropolitan Melbourne has occurred against a backdrop of a shift in the structure of rents As Table 15 shows, between 1986 and 1996 median rents fell 2.9 per cent, but rose 2.4 per cent for the bottom quartile. Upper quartile rents on the other hand fell by -8.9 per cent. The high level of supply at the upper end (where the medium density boom is having its effects) is putting downward pressure on rents, while the shortage of supply at the lower end is forcing them up. Bond Board data collected by the Office of Housing for 1999-2000 indicates this dichotomy is being maintained.

Table 15 Quartile Weekly Rents

	Lowest Quartile			Median			Highest Quartile		
	1986	1996	Percent. Change	1986	1996	Percent. Change	1986	1996	Percent. Change
Melbourne	112.0	114.7	2.4	148.3	144.1	-2.9	189.0	172.3	-8.9
Victoria	76.2	90.3	18.5	110.2	114.2	3.7	145.6	137.6	-5.5

Source: ABS (1986, 1996) Census, special matrix tables.

Sydney is an interesting reference point. Table 16 shows the changes in low cost stock in Sydney versus Melbourne over the period 1986-96. Sydney lost 61 per cent of this stock compared to Melbourne's 8.5 per cent, with most of Melbourne's loss being in inner and middle ring suburbs.

Table 16 Changes in Rental Stock, Sydney and Melbourne, 1986-96

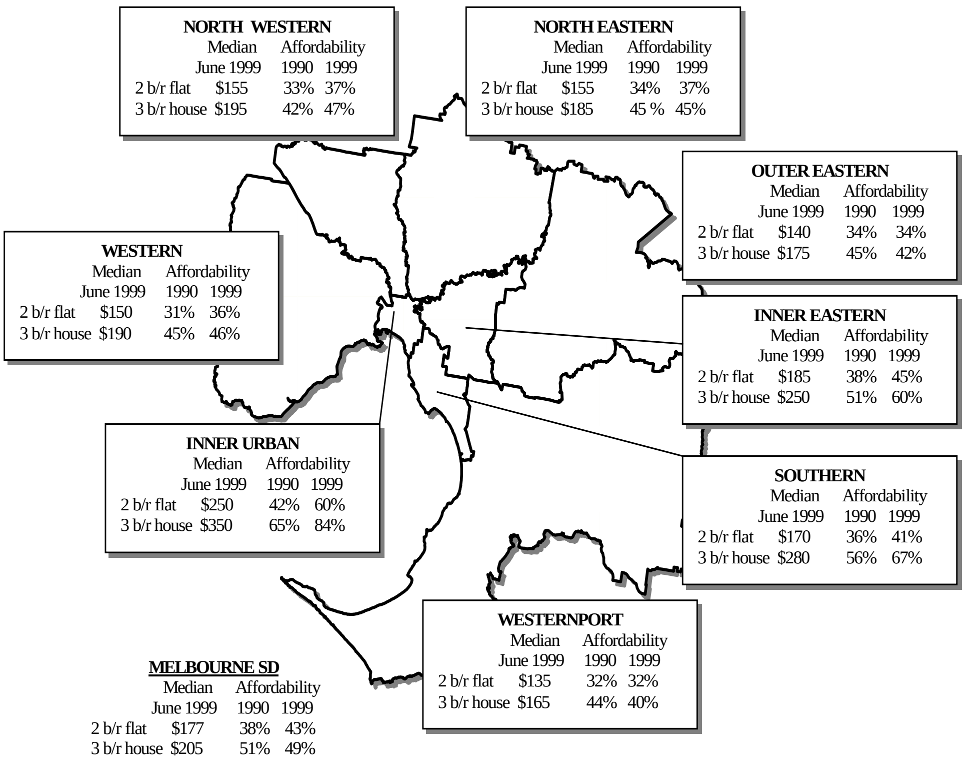
Capital City	Percentage Change in Overall Rental Stock	Percentage Change in Low Cost Stock	Total Low Cost Stock 1996
Sydney	+25.7	-61.1	10,438
Melbourne	+32.3	-8.5	27,461

Source: Wulff, Yates and Burke (2000).

- Despite being a larger city, Sydney's low cost stock is now less than half the size of Melbourne's. Given that Melbourne's rents have increased in real terms quite dramatically since 1996, it is possible that it will replicate the Sydney outcome with a time lag of a decade or so. The flow-on effects are likely to include the displacement of low income households from the inner to the outer suburbs, accentuating spatial inequality; and the concentration of low income households in certain suburbs, with the potential to create areas of high social disadvantage and diminished quality of life as measured by crime, violence, stigma, marital breakdown, low school retention rates and employment exclusion. It is unlikely that market processes by themselves will be able to regenerate these areas and maximise the use of their physical infrastructure and locational advantages (see Section 9.5), and Melburnians will need to choose how much social exclusion they are prepared to tolerate.

In addition to changes in the supply of low cost stock, the rental housing market has become much more diverse over the last twenty years. The inner urban area's significant role in providing rental housing has been in relative decline, with other parts of the metropolitan area becoming more important. Despite the huge growth in inner city multi-unit housing between 1986 and 1996, the total rental stock in inner Melbourne increased by only 11 per cent, compared to 32 per cent for Melbourne as a whole. The growth municipalities are largely all outer urban ones, with the outer South-East being particularly important in all rent ranges. This pattern can be seen in positive terms as it means greater diversity of tenure choice across Melbourne than in the past.

Figure 16 Median Rentals and Affordability Indexes for 2 Bedroom Flats and 3 Bedroom Houses in the Melbourne SD for an Unemployed Couple with Two Children



Source: Rental Report, Ministry of Housing and Construction.

Figure 16 shows the effects of rent changes on affordability for an unemployed couple with two children, where 30 per cent of income committed to rent would be considered the upper level of affordability. The measure used is DSS/DFaCS benefits income, including rent assistance, as a proportion of medium rent. All areas are unaffordable on these criteria but the real story is in the regional differentiation. The Inner Urban and Inner East are extremely non-affordable, with a flat requiring 60 per cent of income and a house 84 per cent for the Inner Urban area. The equivalent figures for the Inner East are 45 and 60 per cent. Unless you are employed and on a relatively good income, renting in the inner areas of Melbourne (historically, the domain of affordable housing) is now an impossibility. To reaffirm the point made elsewhere, the rental market is now working to complement the owner occupied market in polarising Melbourne.

8.3 Affordability

8.3.1 Home Ownership

The level and spatial pattern of affordability influences households' consumption decisions which in turn influence the social structure of Melbourne. Affordability can also be a source of individual and family stress, with housing cost pressures stretching familial relationships and reducing the overall quality of life.

In the discussion that follows we use two measures of affordability. The first is a ratio of income to house prices. This strips out the effect of interest rates and lending conditions on affordability. The second is a more complete measure which takes into account house prices, interest rates, lending criteria and trends in income.

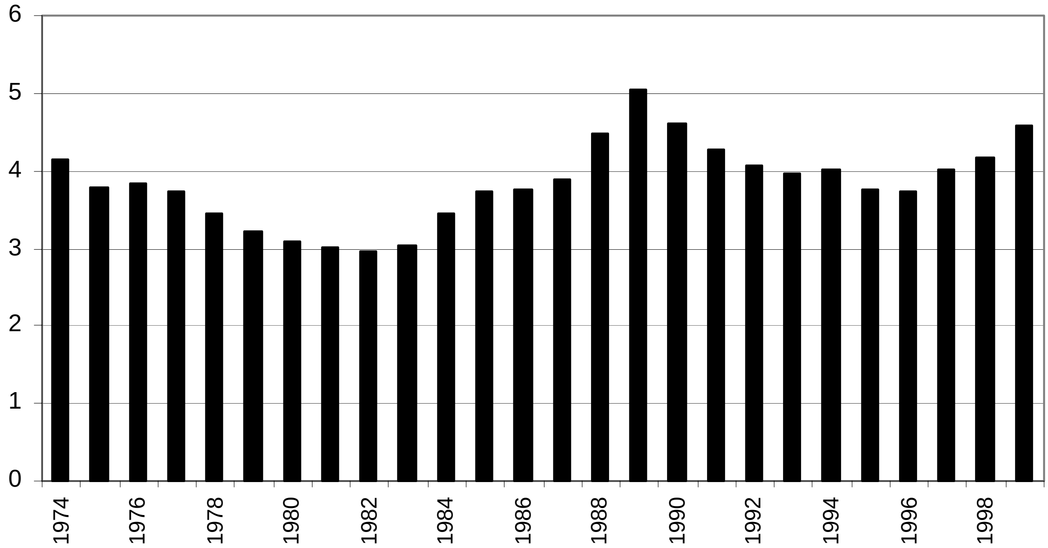
8.3.2 Income to House Prices

This indicator of affordability compares the median dwelling price 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. This measure removes the effects of interest rates and thus concentrates on the underlying price effect on affordability.

Figure 17 measures the ratio of median house price to average earnings over the last twenty-five years, showing that this has averaged around 3.5, peaking at just over 5 in 1989, and then declining substantially over the next seven years. Since

1996 the ratio has been on an upward curve, and at 4.6 in 1999 was moving close to its 1989 historic high.

Figure 17 Ratio of Median House Price to Average Yearly Earnings, 1974-99

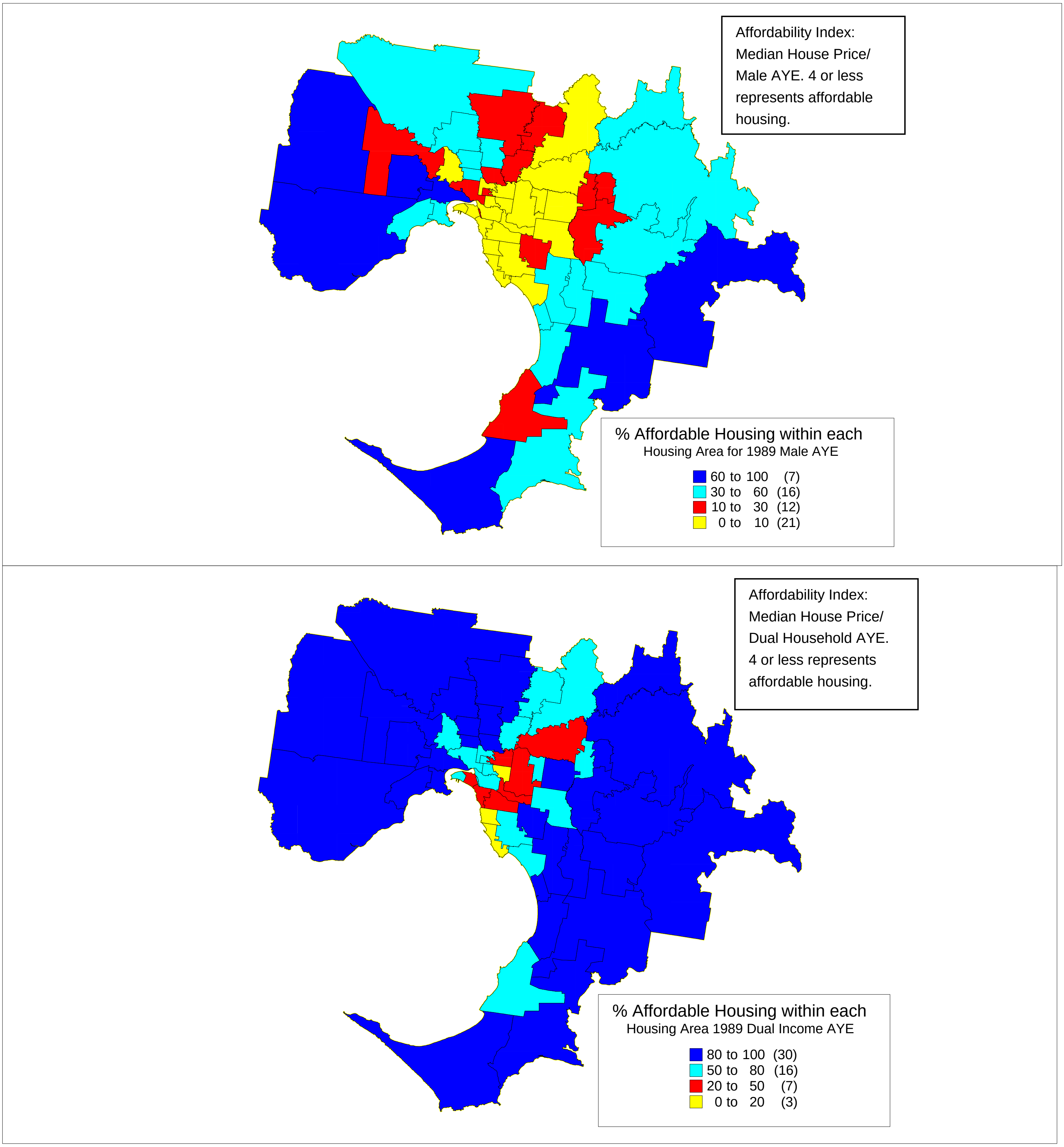


Sources: Valuer General's Property Sales Statistics; ABS (2000) Earning Statistics.

The above data disguises the changing spatial basis of affordability, which is revealed more fully in Figure 18 and Figure 19. Both figures reinforce the picture painted earlier of a housing market which is experiencing a profound restructuring.

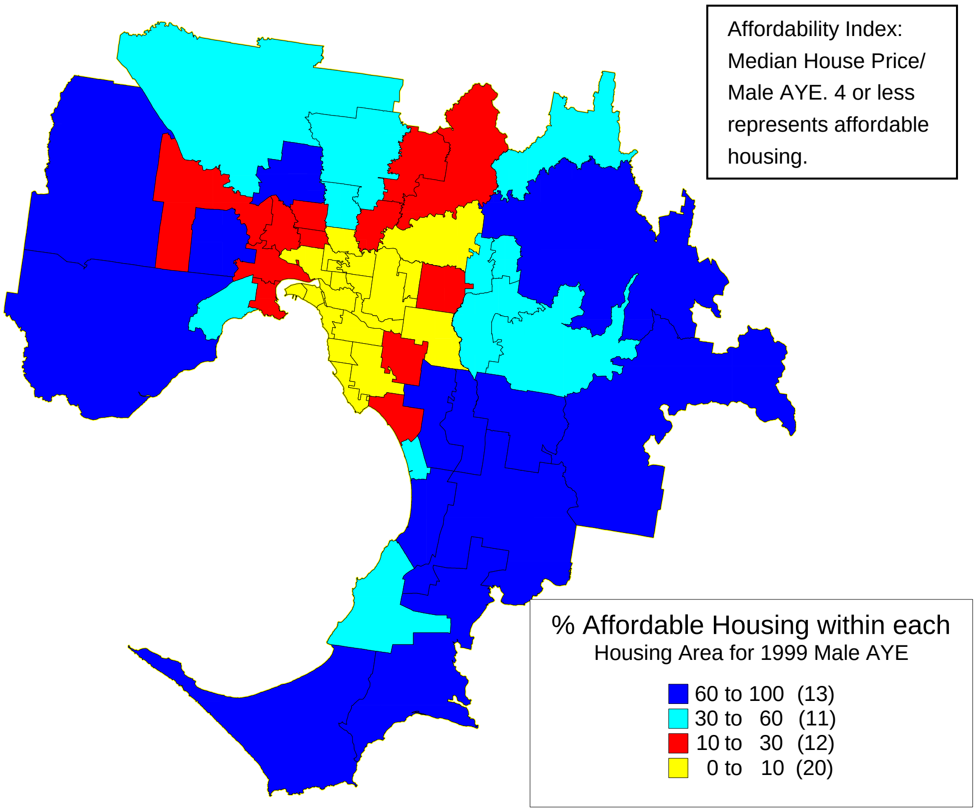
In 1979 many more inner, middle and outer suburbs were affordable than in either 1989 or 1999. By 1989 housing had become much less affordable, particularly in the inner and middle ring suburbs. By 1999 the affordability of these suburbs had declined even further, confirming their status as the least affordable places to live in Melbourne, while many outer suburbs had become more affordable. By 1999 Melbourne's housing market had become much more polarised than at any time in the previous thirty years. As we shall see below, for many suburbs the positive effects of falling interest rates on affordability have been completely negated by underlying house price movements. The paradox is that rising interest rates are always seen as a problem, yet house price inflation is typically treated as something that is intrinsically good!

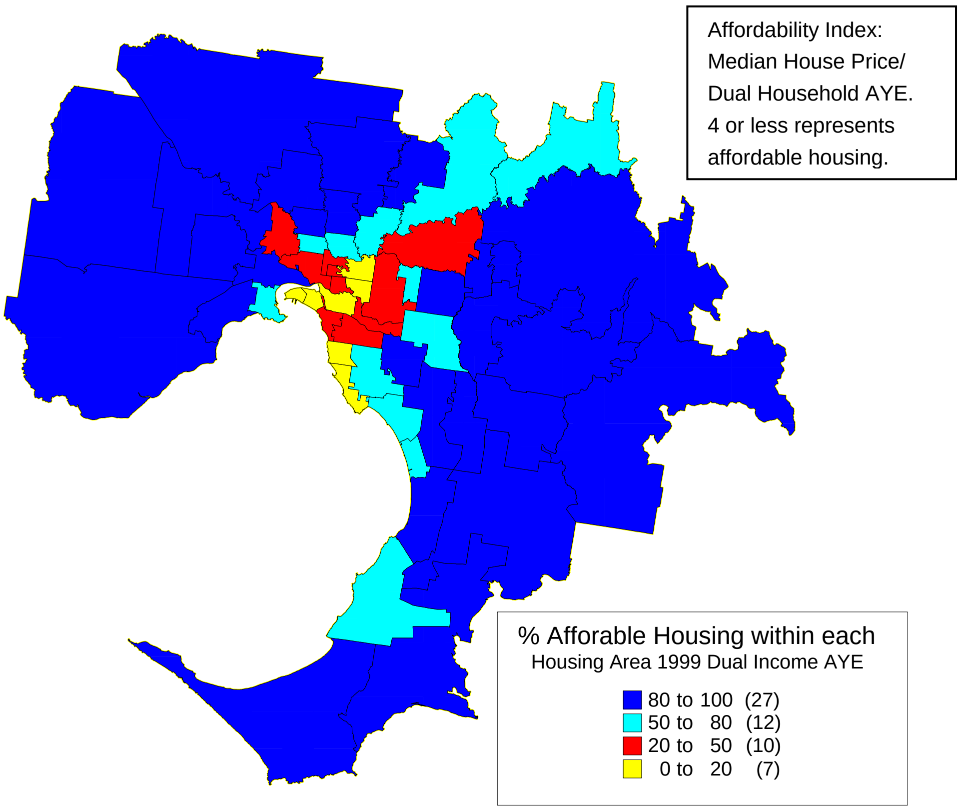
Figure 18 Affordable Housing for Male Average Annual Earnings and Dual Income Average Earnings, 1989



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

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





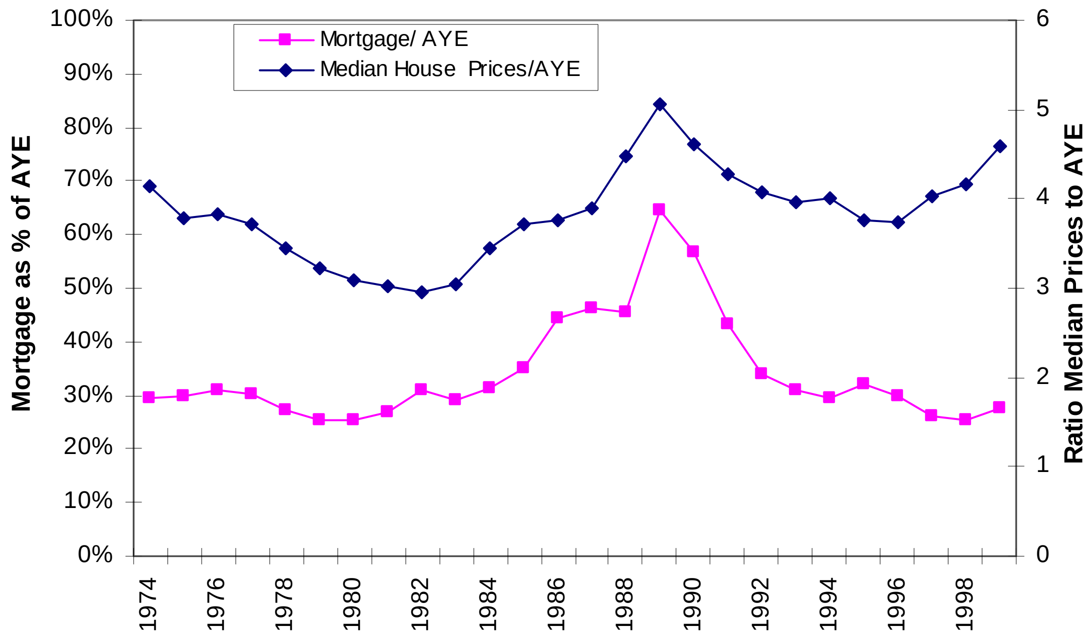
Sources: earnings: ABS Time Series for AWE; prices: Valuer General's Property Sales Statistics.

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%

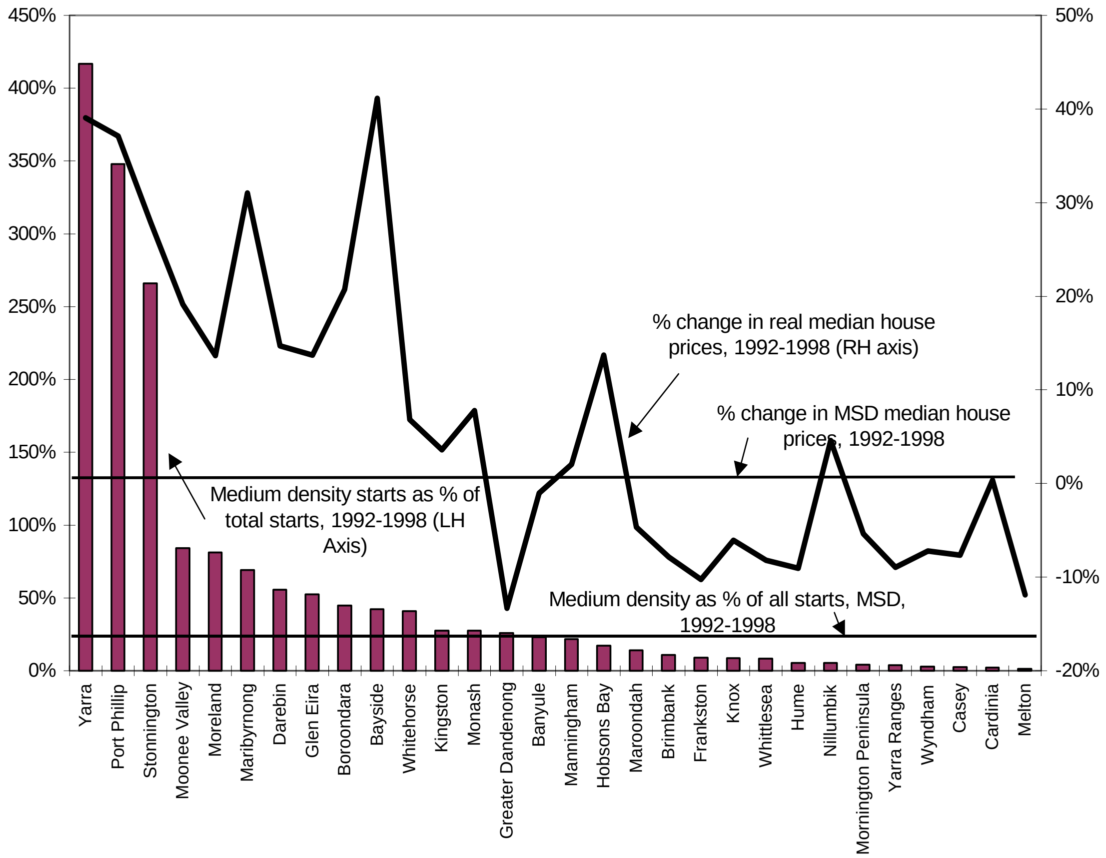
Source: number of properties: Valuer General (2000).

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.

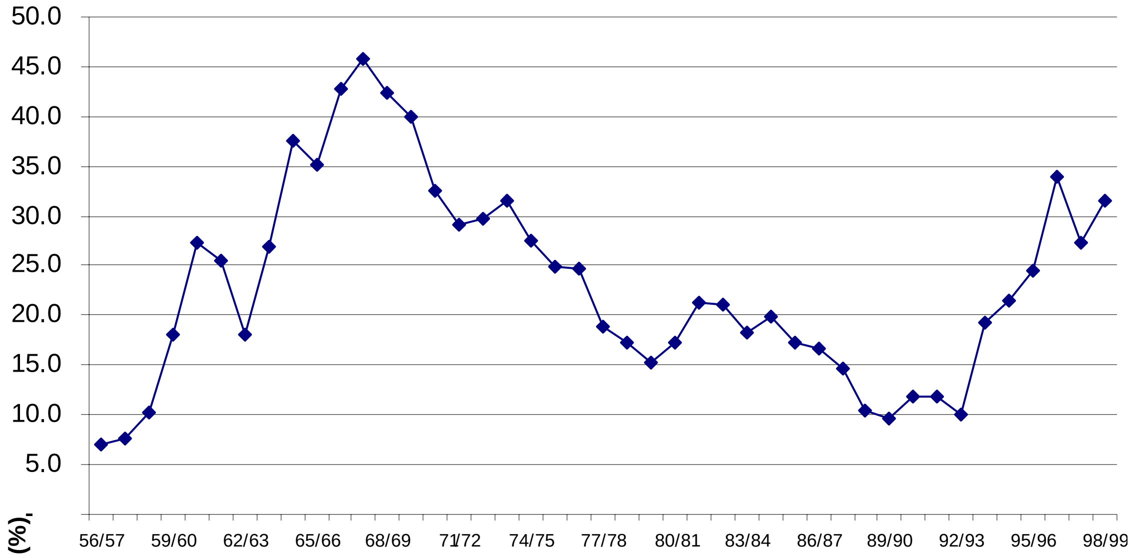
In mature owner occupied markets such as those which exist in Melbourne and in Australia generally, house price inflation can build its own dynamic. For existing owners, the significant capital gains made on their inner and middle ring properties greatly increased their equity vis-à-vis more outer urban 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’.

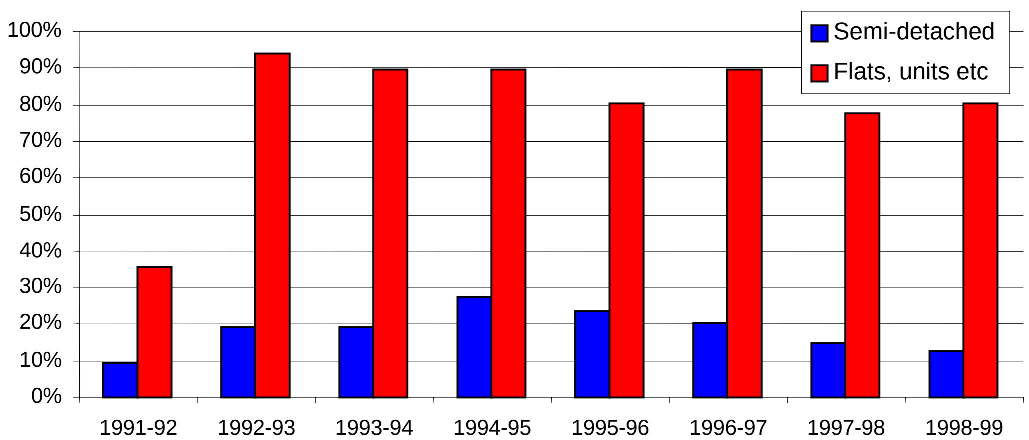
While all regions of Melbourne experienced an increase in the proportions of medium density housing, Table 18 shows some had more significant increases than others. Further, there is an interesting spatial divide in the form of medium density provision. Metropolitan wide, it increased steadily to a peak 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 difficult of balancing affordability with choice of an area that provides adequate housing and good amenities.

9.3 House Prices: Up or Down?

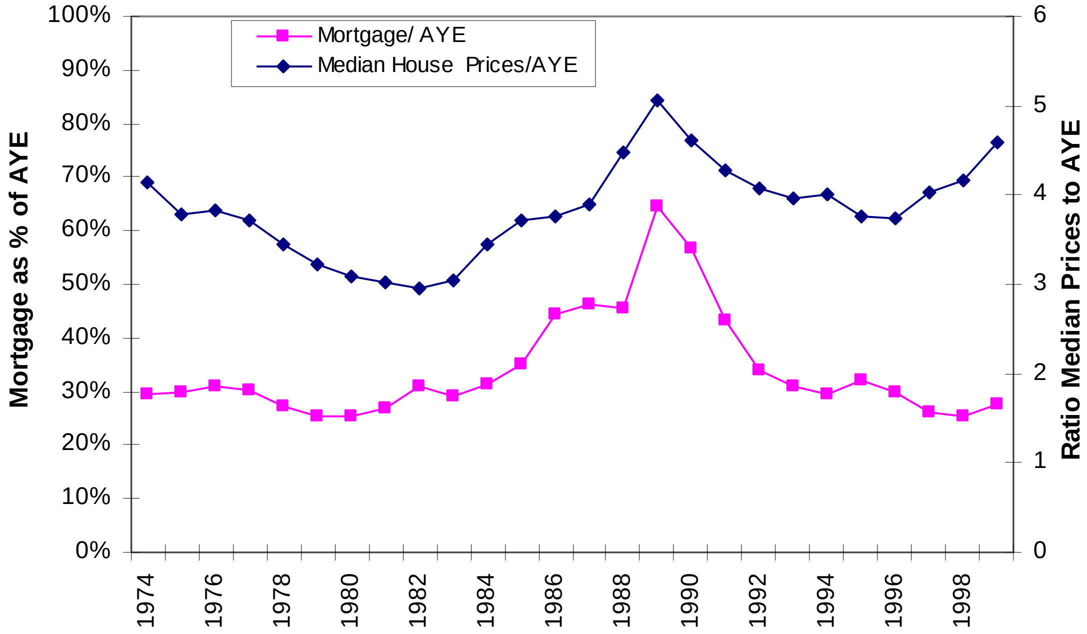
Many of the housing and housing related issues and problems confronting Melbourne derive from the level and structure of its house prices. This raises the question: how far can these prices be pushed before they meet the upper end budget constraint of households? Have they peaked? Are we about to go 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 disproportionably 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

	After Tax Income 1997-98 as Percentage of Melbourne SD	Percentage Change in Median Prices 1990-99	Total Reported Offences 1998-99 per 10,000 Popn.	Unemployment Rate Dec. Quarter 99
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%
Melbourne SD	**$26,027 (100%)**	**69**	**1,122**	**6.9%**

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. The 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 opposition 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.

11 References

ABS (1994) *Investors in Rental Dwellings, Australia, July 1993*, Australian Bureau of Statistics, Canberra.

ABS (1996) *Census of Population and Dwellings: Special Rental Matrix Tables*, Australian Bureau of Statistics, Canberra.

ABS *Average Weekly Earnings, States and Australia*, Cat. no. 6302.0, Australian Bureau of Statistics, Canberra.

ABS *Building Approvals*, *Victoria*, Cat. no. 8731.2, Australian Bureau of Statistics, Canberra.

ABS *Building Approvals: Microfiche Service, Victoria*, Cat. no. 8734.2, Australian Bureau of Statistics, Canberra.

ABS *Commercial Finance*, Cat. no. 5643.0, Australian Bureau of Statistics, Canberra.

ABS *Dwelling Unit Commencements Reported by Approved Authorities*, Cat. no. 8741.2, Australian Bureau of Statistics, Canberra.

ABS *Housing Finance for Owner Occupation*, Cat. no. 5609.0, Australian Bureau of Statistics, Canberra.

ABS *Quarterly Bulletin of Building Statistics*, Australian Bureau of Statistics, Canberra.

Barnes, P., Johnson, R., Kulys, A. and Hook, S. (1999) *Productivity and the Structure of Employment*, Staff Research Paper, Productivity Commission.

Baum, S., Stimpson, S., Mullins, P. and O'Connor, K. (2000) 'Welfare dependency in communities within Australia's metropolitan regions', *People and Place*, vol. 8, no. 3.

Beck, U. (1992) *Risk Society: Towards a New Modernity,* Sage, London.

Berry, M. (1984) 'Urbanisation and social change: Australia in the twentieth century' in Encel, S. and Bryson, L. (eds) *Australian Society*, Longman Cheshire, Melbourne.

Berry, M. (1988) 'To rent or buy?: The demise of dual tenure housing policy in Australia, 1945-1960' in Howe, R. (ed.) *New Houses for Old: Fifty Years of Public Housing in Victoria 1938-1988*, Ministry of Housing and Construction, Melbourne.

Birch, J. (2000) 'Housing market healthcheck', *Roof*, Nov./Dec.

Boelhouwer, P., Haffner, M. and Van der Heijden, H. (2000) 'Putting comparative housing research into practice', *Journal of Housing and the Built Environment*, vol. 15, no. 1.

Burke, T. (1989) *Inner East Housing Study*, Inner Eastern Regional Housing Council, Box Hill.

Burke, T. (1993) *Medium Density Housing: The Future*, Centre for Urban and Social Research, Swinburne University of Technology, Hawthorn.

Burke, T. (1998) 'Housing and poverty' in Fincher, R. and Nieuwenhuysen, J. (eds) *Australian Poverty: Then and Now*, Melbourne University Press, Carlton.

Burke, T. and Pidgeon, J. (1993) *Tertiary Student Housing*, Australian Housing Research Fund, Canberra.

CUSR (1987) *The Melbourne Home Buyers Survey*, Centre for Urban and Social Research/David Syme, Melbourne.

CUSR (1991) *Who's at Home in Melbourne?*, Centre for Urban and Social Research/David Syme, Melbourne.

Department of Human Services (1998) *Rental Report*, no. 43, Office of Housing, Melbourne.

DOI (2000a) *Victoria in Future, Melbourne in Future*, Department of Infrastructure, Melbourne.

DOI (2000b) *Victoria in Future: Overview*, Department of Infrastructure, Melbourne.

DOI (2000c) *Housing Ourselves: The Story Behind Melbourne in Future*, Department of Infrastructure, Melbourne.

Engels, B. (1999) 'State entrepreneurialism and place promotion: Lessons from Victoria', *Journal of Australian Political Economy*, no. 43.

Esping-Andersen, G. (1990) *The Three Worlds of Welfare Capitalism*, Polity, Cambridge.

Giddens, A. (1998) *The Third Way*, Polity, Cambridge.

Giddens, A. (2000) *The Third Way and Its Critics*, Polity, Cambridge.

Gregory, R. and Hunter, B. (1995) *The Macro Economy and the Growth of Ghettos and Urban Poverty in Australia*, address to the National Press Club, 26 April, mimeo.

Harding, A. (1997) *The Suffering Middle: Trends in Income Inequality in Australia, 1982 to 1993-94*, Discussion Paper no. 21, NATSEM, Canberra.

ISR (1999) *Grandview Square Market Feasibility Study*, Institute for Social Research, Swinburne University of Technology, Hawthorn.

Judd, D. R. and Fanstein, S. S. (1999) *The Tourist City*, Yale University Press, New Haven.

Lewis, M. (1999) *Suburban Backlash*, Bloomings, Hawthorn.

Netherlands Ministry of Housing (1991) *Statistics on Housing in the European Community.*

Office of the Valuer General (2000) *A Guide to Property Values*, Melbourne.

REIA *Market Facts*, Real Estate Institute of Australia, Canberra.

Sennett, R. (1998) *The Corrosion of Character*, Norton, New York.

Standing Advisory Committee on Good Design Guide Review (2000) *Review of the Good Design Guide and VicCode 1*, Department of Infrastructure, Melbourne.

Statistics Canada (1996) *Census of Population*, Ottawa.

Troy, P. (1992) 'The new feudalism', *Urban Futures*, vol. 2, no. 2.

USE Consultants Pty Ltd (1996) *Review of the Urban Land Authority's Development Operations*, Urban Land Authority, Melbourne.

Van Vliet, W. (ed.) (1990) *International Handbook of Housing Policies and Practices*, Greenwood, New York.

Wulff, M., Yates, J. and Burke, T. (2000) *Who Does the Private Market Work Well for and Who Does It Fail?*, Australian Housing Research Fund, Canberra.

Yates, J. (1998) *Trends in Home Ownership*, Department of Urban Affairs and Planning, Sydney.

Swinburne Institute for Social Research

Housing Past

Geelong's

Housing Futures

Terry Burke
David Hayward
11 December 2000

Table of Contents

Tables

Figures

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)

	Owner Occupied	Private Rental	Non-Profit or Co-op	Other
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)

	Pre-Tax Income 1989-90	Pre-Tax Income 1997-98	Percentage Change 1989-90 – 97-98
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
Greater Geelong LGA	**28,660**	**30,909**	**7.8**
Melbourne MSD	**30,498**	**34,337**	**12.6**

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

	1986 Percentage of Total	1991 Percentage of Total	1996 Percentage of Total	Percentage Change 1986-96
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

	1986 Percentage of Total	1991 Percentage of Total	1996 Percentage of Total	Percentage Change 1986-96
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

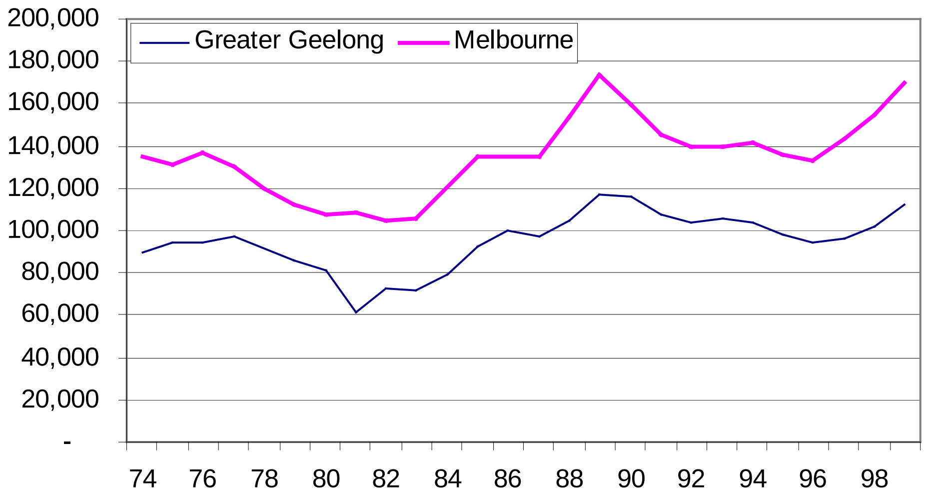
	1986 Percentage of Total	1991 Percentage of Total	1996 Percentage of Total	Percentage Change 1986-96
Fully owned	41	44	46	39
Being purchased	38	32	29	-4
Public rental	6	6	5	3
Private rental	11	13	15	79
Other	4	6	5	32
Total (dwellings)	(40,334) 100	(46,272) 100	(50,291) 100	25

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).

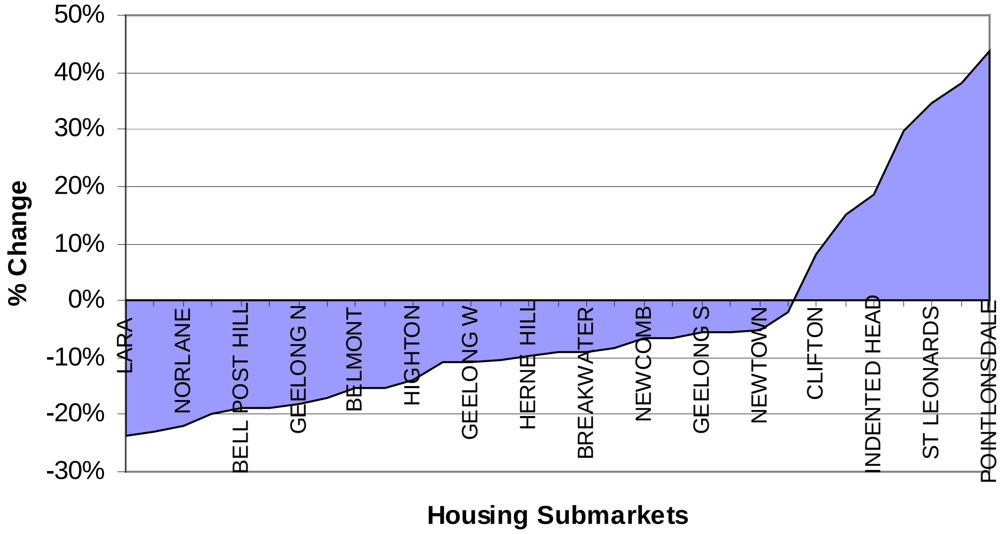
Figure 1 Median House Prices, Greater Geelong and Melbourne, 1974-99 ($ 1999)



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
Waurn 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

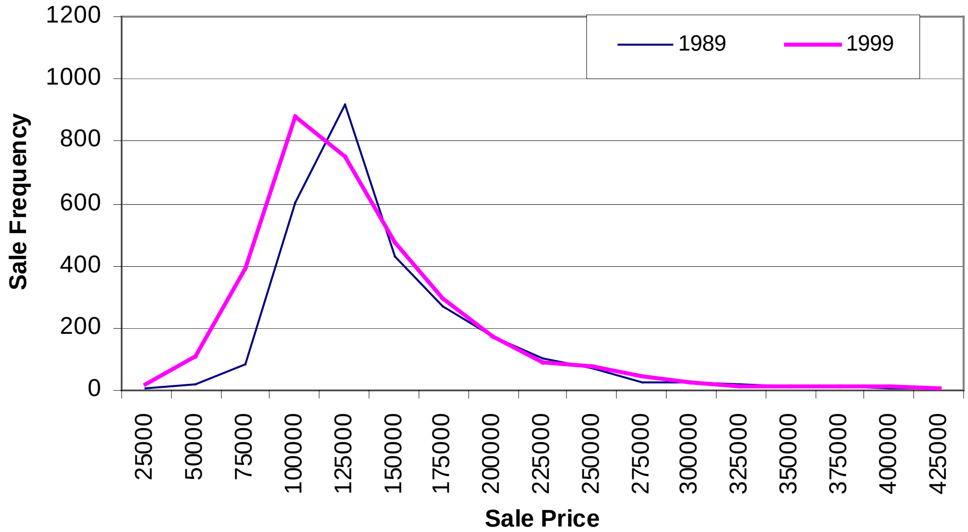
Table 9 Top Ten Median Priced Housing Sub-Markets, 1989 and 1999

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.

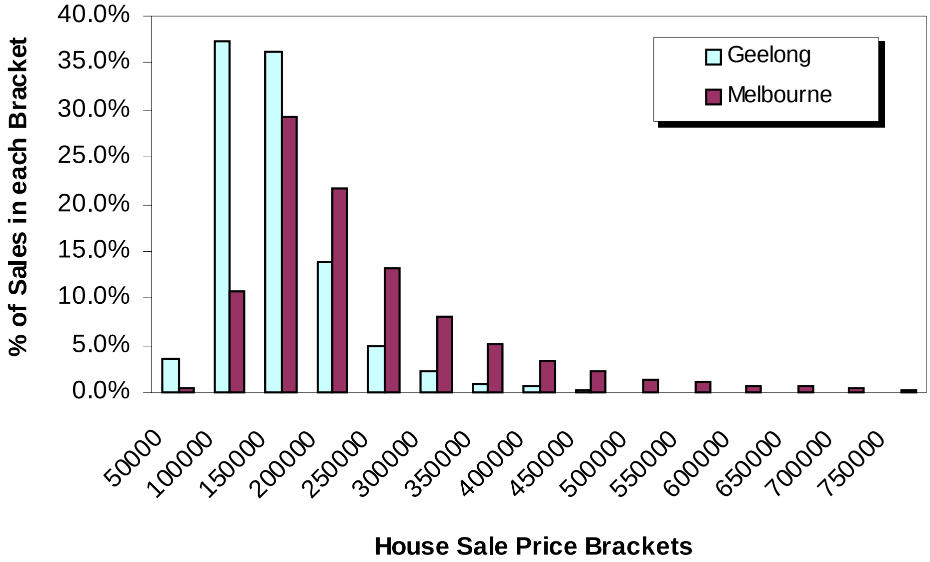
Figure 3 Frequency Distribution of Dwelling Sales by Price, City of Greater Geelong LGA, 1989 and 1999 (Constant $ 1999)



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



S

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

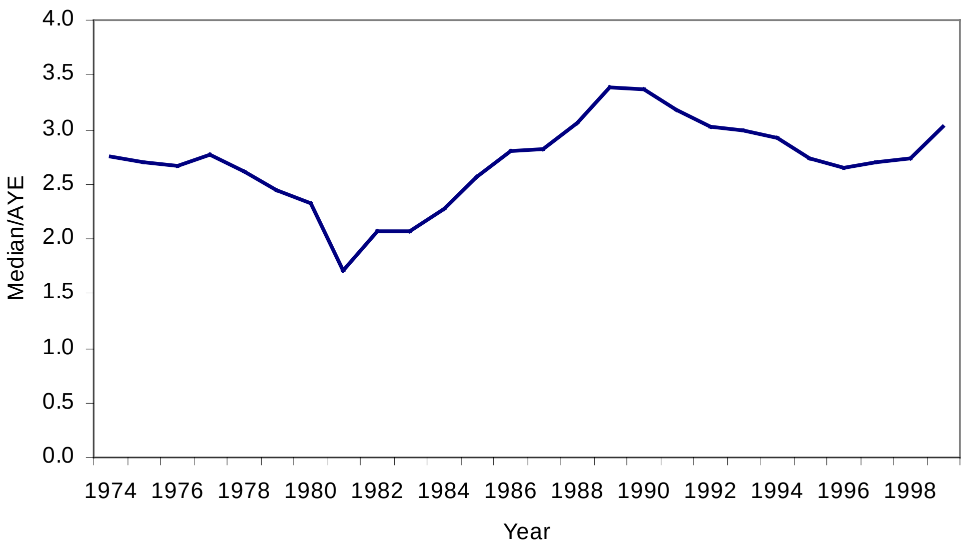
Affordability can be measured in a number of different ways and is affected by a number of variables, making it difficult to work out what is contributing to the evident outcomes. The approach adopted here is to use two broad measures of affordability. The first is a ratio of income to house prices. 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%

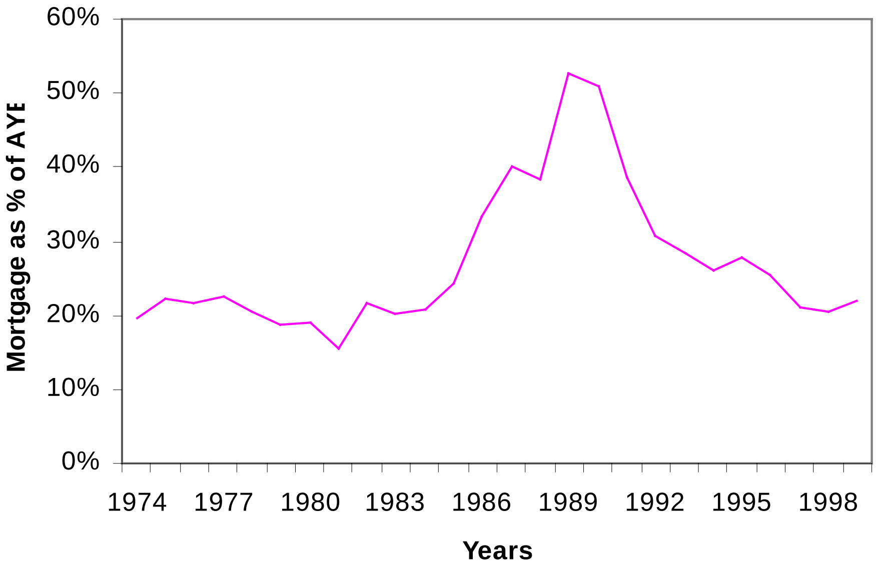
Source: Valuer General's Property Sales Statistics; ABS, *Average Weekly Earnings, States and Australia*, Cat. no. 6302.0
Note (1): Affordability index calculated by house sales price/AYE. 4.0 or less is rated as affordable.
Note (2): Only 13 properties were sold in Greater Geelong Part C and results 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.

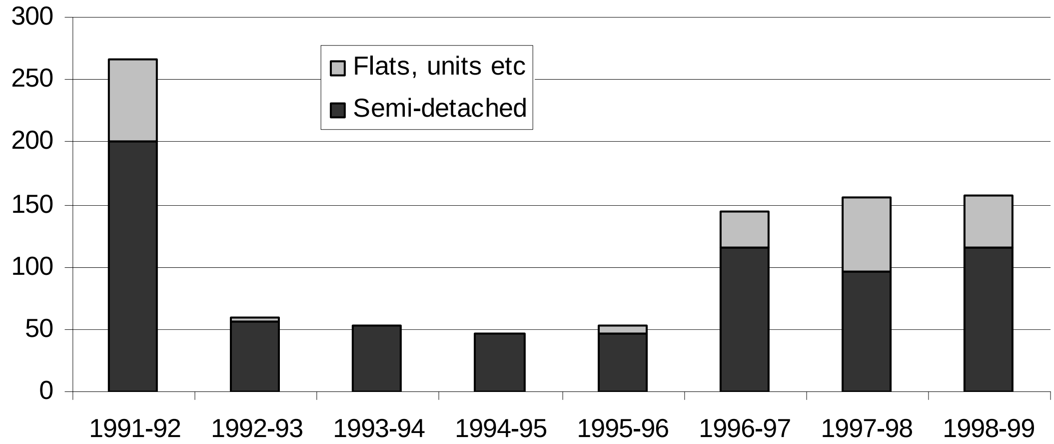
Over the last decade Geelong has not experienced the increase in multi-unit or medium density housing in the way that Melbourne has done. As Table 13 shows, the proportion of new dwellings that were detached actually increased in Geelong during the 1990s to 91 per cent, a proportion that is much higher 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)

	3 Bedroom Houses		2 Bedroom Flats	
Year	**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
Growth 1993-99	**-7.9%**	**8.6%**	**-14.0%**	**22.6%**

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%

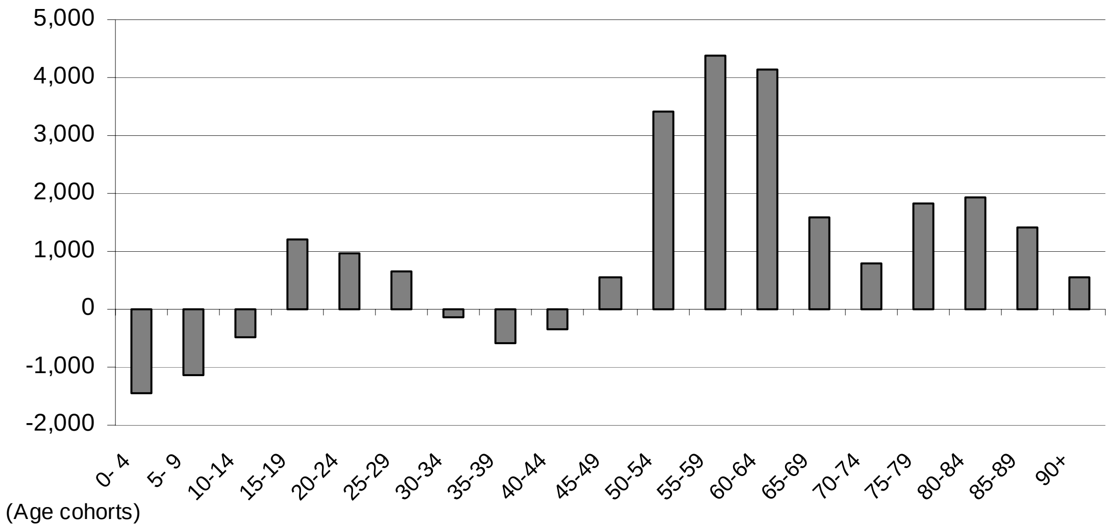
Source: ABS Census Time Series

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.

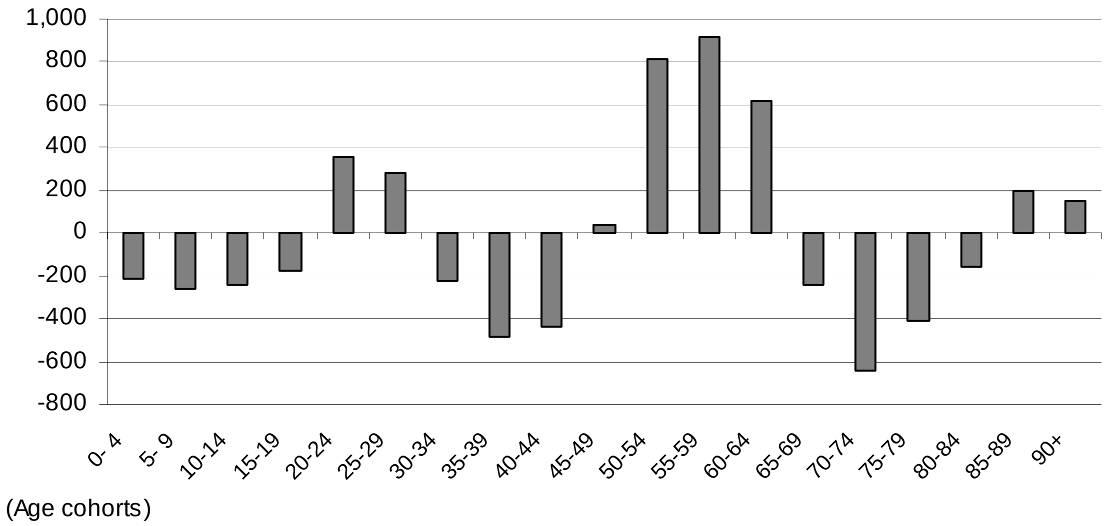
Just as variations in the numbers and importance of age cohorts have important implications for services such as health, aged care and education, they also have implications for housing. Different age groups tend to have different lifestyles, which in turn produce different housing needs and demands. 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.

11 References

ABS (1994) *Investors in Rental Dwellings, Australia, July 1993*, ABS, Canberra

ABS (1996) *Census of Population and Dwellings: Special Rental Matrix Tables*, ABS, Canberra

ABS, *Dwelling Unit Commencements Reported by Approved Authorities*, Cat. no. 8741.2, ABS, Canberra

ABS, *Building Approvals, Victoria*, Cat. no. 8731.2, ABS, Canberra

ABS, *Building Approvals, Microfiche Service Victoria*, Cat. no. 8734.2, ABS, Canberra

ABS, *Quarterly Bulletin of Building Statistics*, ABS, Canberra

ABS, *Housing Finance for Owner Occupation*, Cat. no. 5609.0, Table 9b, Ausstats, Canberra

ABS, *Commercial Finance*, Cat. no. 5643.0, Ausstats, Canberra

ABS, *Average Weekly Earnings, States and Australia*, Cat. no. 6302.0, ABS, Canberra

Department of Human Services (1998) *Rental Report*, no. 43, Office of Housing, Melbourne

Gregory, R. and Hunter, B. (1995) 'The Macro Economy and the Growth of Ghettos and Urban Poverty in Australia', address to the National Press Club, 26 April

Harding, A. (1997) *The Suffering Middle: Trends in Income Inequality in Australia 1982 to 1993-94*, Discussion Paper no. 21, NATSEM, Canberra

