

Submission to the
Productivity Commission's
Inquiry on First Home Ownership



REGIONAL  **CITIES** VICTORIA

from

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REGIONAL  **CITIES** VICTORIA

1. EXECUTIVE SUMMARY

The Regional Cities Victoria group comprises of ten of the largest cities outside of the metropolitan area of Melbourne. The member municipalities are:

- City of Ballarat;
- City of Greater Bendigo;
- City of Greater Geelong;
- Horsham Rural City Council;
- Latrobe City Council;
- Mildura Rural City Council;
- Greater Shepparton City Council;
- Wangaratta Rural City Council;
- Warrnambool City Council; and
- City of Wodonga.

Regional Cities Victoria is committed to developing broad-based regional economies that are diverse and offer capacity for long-term growth and sustainability.

In order to achieve sustainability, it is essential that vibrant regional communities be underpinned by thriving local economies and local employment opportunities.

There exists numerous opportunities to support the vision of Regional Cities Victoria through the continued provision of a *First Home Buyers Grant* that further increases the attractiveness and affordability of housing in regional areas.

In order to maximise the take-up of *First Home Buyers Grants* and attract people to regional cities a number of additional initiatives should be undertaken to support the basic needs of people who have a desire to live in regional areas. This includes providing stable employment opportunities and ensuring that community infrastructure is sufficient to meet their needs.

A number of issues addressed within this submission are critical to the continued success of the *First Home Buyers Grant* and complement sustainability within regional areas.

Specifically, these issues centre on the current housing market situation in regional areas, the affordability of housing and the capacity of regional areas to support population growth.

The conclusion of this submission suggests that the Productivity Commission recommend:

1. That support for first home ownership continues;
2. That first home ownership grants be linked to regional settlement; and
3. That a regional infrastructure plan be developed, which supports sustainable regional communities.

It is further suggested that the Productivity Commission recognise that there are greater opportunities for first home owners in regional Australia.



2. THE HOUSING MARKET IN REGIONAL VICTORIA

RENTALS

The rental market in regional areas continues to experience strong demand with vacancy rates for residential properties hovering around the 1% mark. This is encouraging growth in property investment.

Rents on residential properties have generally averaged a 10% rise, in contrast to the 20% increase in metropolitan areas in house prices in the last 12 – 18 months.

Real estate agents predict the demand for rental properties is likely to increase not decrease in the short and medium term.

Rental shortage comes despite marginal growth in a rental market with regional properties being an attractive investment offering a 6- 8% investment return.

RESIDENTIAL SALES

Most regional areas have witnessed continued growth and improvement in real estate prices over the past two years. This has been underpinned in the main by the continued first home buyer grants. The continued stability of low interest rates, the lowest in three decades, have also assisted in giving people confidence in making the decision to purchase.

Residential prices have moved steadily in most price ranges where it is currently not uncommon to have two or three potential buyers at the one time offering to purchase a particular home. Many homes are currently sold within days of listing and are often not advertised.

The Regional Cities Project – 21 Plus undertaken by USE Consultants in 1997 found that the average selling price of a dwelling in regional Victoria was only 60% of the cost in Melbourne. The average cost of a flat was also substantially less being only 67% of the Melbourne equivalent. It is important that the Productivity Commission undertakes research to determine the current costs of equivalent housing in metropolitan and regional areas.

BUILDING ACTIVITY

The USE report states that regional Victoria was responsible for 38% of new house approvals in March 1996 (36% in terms of value). This was attributed to the recognition of the lifestyle opportunities available within regional Victoria.

LAND SALES

Large tracts of residential subdivisions in each of the regional areas have been planned for and developed in recent years. Demand for land in these subdivisions has been high and would appear to be equal (relative to population) to the growth seen in metropolitan Melbourne (2001-2002 population growth in Metropolitan Melbourne was 1.5%, regional Victoria was 1.2%. Source: *DSE population bulletin, 2003*).

Land affordability remains strong in regional Victoria with average land prices being significantly cheaper than comparative land in metropolitan Melbourne.

3. AFFORDABILITY

Nationally, the median first home house price is \$291,300, while in regional Australia the median first home house price is \$238,200. (Source: *Commonwealth Bank/Housing Industry Association – July 2003*).

Regional cities offer substantially cheaper housing than that available in metropolitan areas. This makes regional cities attractive to young families and retirees and is one of the reasons that regional Victoria accounts for almost two-thirds of all new housing approvals in Victoria.

Stamp duty charged on first home buyers is having a dramatic impact, particularly in Victoria. The Victorian Government imposes the highest level of stamp duty, between 2.4% and 6%, and has been a huge beneficiary of the State's increasing house prices.

The issues paper released by the Productivity Commission in September 2003 shows a disturbing trend in relation to the affordability of housing in metropolitan areas when compared to the national average. The same report demonstrates that the average age of first home buyers has significantly increased since 1990, partly due to the lack of affordability for many Australians.

The most important factor associated with attracting people to regional areas is the availability of secure employment and as such forms a component of the affordability issue. A 2001 Australian Bureau of Statistics (ABS) report states that unemployment in Melbourne is 6.6% while in regional Victoria it is 7.4%.

The development of regional plans can determine solutions to this imbalance and ensure that regional area can provide similar employment opportunities to metropolitan areas. Other factors of vital importance include educational facilities, health services and transport.

A further aspect of affordability is income. The 2001 ABS census states that 30.2% of regionally employed persons have a gross weekly income of \$500 or more while the figure for Melbourne is much greater at 38.4%. There are similar disparate trends in household income levels with only 25.9% of regional households drawing \$1,000 or more per week while 39% of households in Melbourne achieve this figure.

Due to the regional environment and lifestyle there are often numerous opportunities which further support the *First Home Buyers Grant* and increase the attractiveness and affordability of settlement in regional areas. Examples include basic living expenses such as travel, parking, basic food supplies, childcare and sporting / club membership fees that are considerably more affordable in regional areas than in metropolitan areas.

Recently, the Victorian government appointed the Ascet Group to examine relocation from metropolitan areas to country Victoria. The survey found that a total of 29% of all respondents are "very likely" (13%) or "likely" (16%) to consider relocating to regional Victoria. A total of 21% of Melbourne respondents indicated that they had thought of relocating within the last year. Ascet also found that a number of issues would need to be satisfied in order to relocate. These included availability of health facilities (4.23 out of 5), employment prospects (3.71) and availability of public transport (3.05). The current perceptions of the surveyed group suggest that availability of public transport (2.33) and employment prospects (2.17) require improvement in regional Victoria.

4. REGIONAL CAPACITY

Most regional communities throughout Victoria have extensive social infrastructure in place that can cater for an expanded population. As a result, there is often little or no cost to the community in attracting reasonable population growth. Examples of existing infrastructure required to provide a basic standard of living in regional communities include hospitals, schools, road networks and recreation facilities.

An opportunity exists to investigate regional communities in order to determine the optimal population size in order to maximise the efficiency of this type of community infrastructure.

Due to land availability within regional centres numerous opportunities exist that allow for sustainable population growth. Such growth can be strategically managed to compliment infrastructure efficiency and ensure that individual communities are sustainable in their own right. Such population growth can also be managed in a manner that reduces or minimises pollution and other environmental degradation where such initiatives are becoming more difficult and costly in metropolitan areas.

In the lead up to the last election the Victorian State Government announced a population growth target of 1.25% for Victoria. In order to achieve this target Regional Cities Victoria must work closely with the State and average at least 2.0% annual growth in its areas. The continued provision of the *First Home Buyers Grants* coupled with the provincial Victoria marketing campaign can reduce the strain on metropolitan services while helping to achieve this target.

Regional Australia has the potential to be a haven to those struggling to buy their first home in the capital cities. However, State and Federal Government support is needed to capitalise on the potential.

A stronger focus on regional development and attracting population to rural and regional centres will improve housing affordability and help address demand and supply imbalances. Taking the differences in median home prices into account it would seem sensible that there be a full investigation of measures that could be taken to encourage population growth in regional centres.

Despite regional cities currently struggling to meet first home buyer demand, there is capacity to address future needs. There is a greater capacity to provide more land for residential development than in most metropolitan areas. However, having the employment to attract people is a key and organisations such as Regional Cities Victoria are focussed on economic growth and have been pushing decentralisation for some time with all levels of government.

The further development of regional infrastructure in order to support economic development initiatives will assist in the restoration of a balance between metropolitan and regional facilities. Economic development initiatives will also stimulate regional employment growth that in turn will decrease unemployment and improve the attractiveness of regional settlement.

The capacity exists for increased economic development initiatives, with regional Victoria's rural sector alone being worth 84% of the value of Melbourne's entire industrial sector (USE 1997). The affordability of industrial land in regional areas is also very attractive when compared with metropolitan Melbourne with average sales prices in regional centres being only 34% of the cost of average metropolitan prices (USE 1997).

5. CONCLUSION

In conclusion, Regional Cities Victoria recommends that:

1. The Productivity Commission recommend that the Federal Government support for first home ownership continues;
2. The Productivity Commission recognise that there are greater opportunities for first home owners in regional Australia;
3. The Productivity Commission recommend that the provision of *First Home Buyers Grants* be aligned with programs to encourage relocation and investment in rural and regional areas;
4. The Productivity Commission recommend that a regional infrastructure plan be developed which identifies economic development opportunities to support long-term regional employment growth as the basis for sustainable population distribution in Australia's regions.

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