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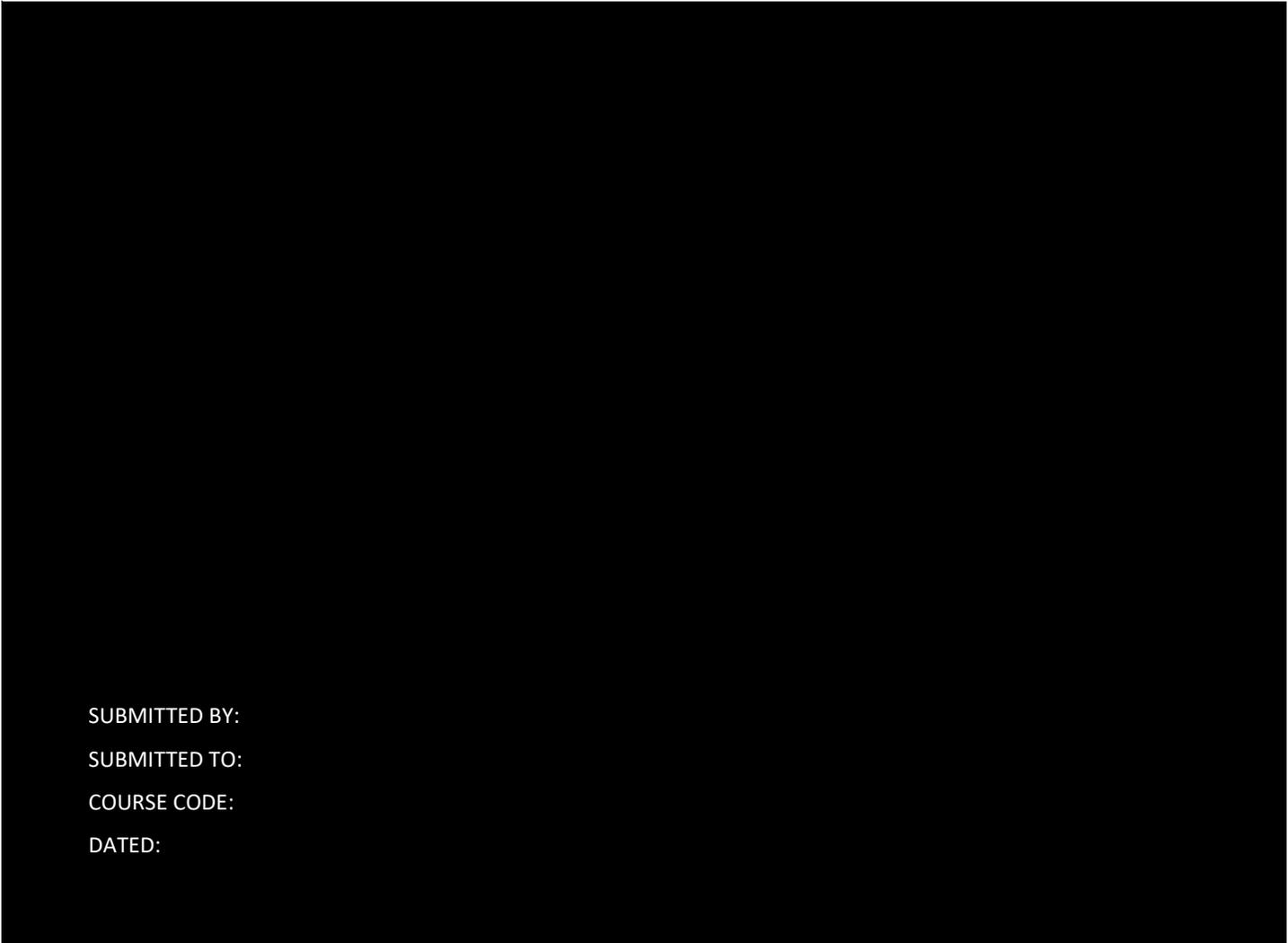
HOUSING MARKET DYNAMICS IN THE REGIONAL CITIES IN VICTORIA - A CASE STUDY OF GEELONG

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HOUSING MARKET DYNAMICS IN THE REGIONAL CITIES IN VICTORIA - A CASE STUDY OF GEELONG

INTRODUCTION

Regional cities are considerably seen as the key element of national settlement system in terms of policy objective for accommodating higher proportion of the future population growth. The regional cities of Victoria (RCV) group is comprised of the ten largest regional cities outside of the Metropolitan city Melbourne (Thornhil, 2015). In the past five years, Australia has seen a significant policy innovation concerned with providing affordable housing. Approximately 10.7% of the total population in Australia lives in rural cities over 6 million people live in what is referred to as regional or remote Australia including Ballarat, Bendigo, Geelong, Horsham, Latrobe, Warrnambool, Wangaratta, Shepparton, Mildura and Wodonga (Trading Economies, 2016). A 25.6% increase in the regional population previous year has contributed immensely in the aggregated population in Australia. According to the Australian Bureau of Statistics Census (2016), the population of Victoria increased by 108,757 over past 12 months ending March this year. The City of Greater Geelong has population of 184,182 as at June 2014 which grew at 1.4% to reach June 2013. The expected population in 2036 is estimated to be 320,791 (Australian Bureau of Statistics Census, 2016).

GEELONG has been the most successful regional property market across the past five years. The favorable property market trend is a reflection of the local economy and improved transport connections. The current trend of housing prices has been rising effectively between 2004 and 2014.

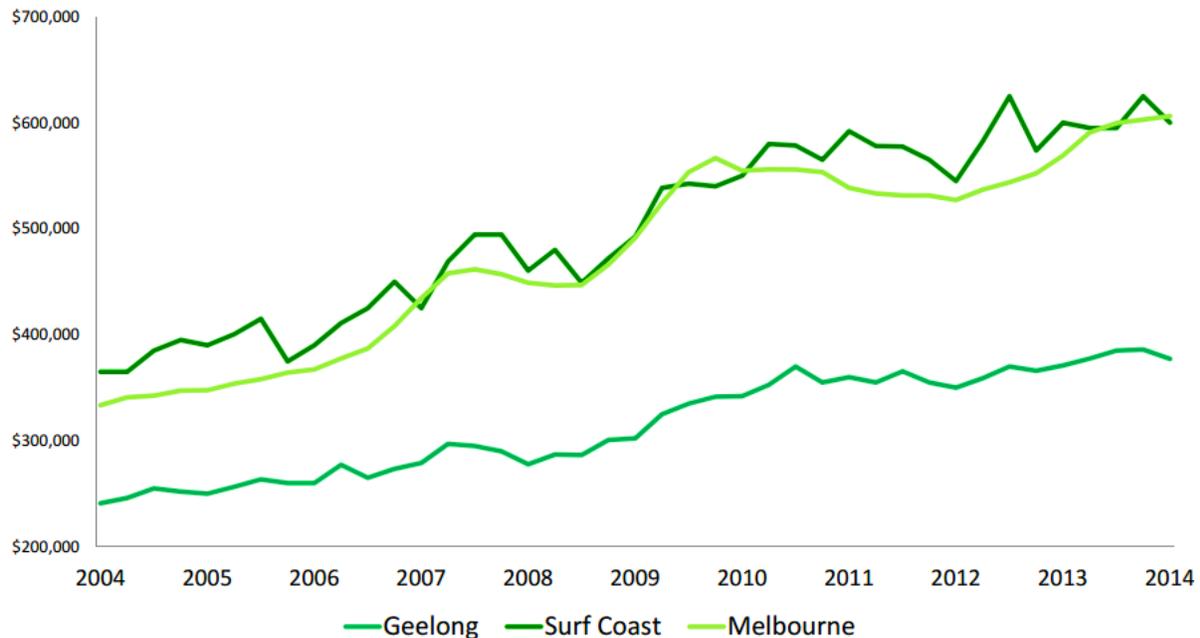## Geelong, Surf Coast and Melbourne house prices (September qtr)

Figure 1: Geelong, Surf Cost and Melbourne Housing Prices

Source: (Wilson, 2014) and (Australian Bureau of Statistics Census, 2016)

The house prices are soaring up and more regional growth is predicted in coming years. The latest Australian Housing Outlook report (2016) shows the Geelong house prices grew at 42.6% based on previous 5 years compounded annual growth rate. The median house price in Geelong increased by 7% in 2013/14 but then experienced a slow down by 0.3% in 2014/15 to $384,000 (Australian Bureau of Statistics Census, 2016). There are many economic demand and supply factors that affect the housing prices in Ballarat, Geelong and Bendigo. Timing of the residential cycle, new infrastructure and the relative house prices have been contributory demand factors which drive the migration between regional and capital centers of Victoria (Australian Housing Outlook, 2014). The Regional Rail Link in 2015 also contributed to the rising housing demand in the three regional cities i.e. Geelong, Bendigo and Ballarat. Other factors include the services and infrastructure in place, affordability to Melbourne's outer housing states that can create the additional demand for dwellings in Geelong. The vacancy rate in Geelong has remained above the market rate of 3% since 2013's start. The fall in demand of housing in Geelong and other regional cities in Victoria has been

due to the closure of Alcoa aluminum smelter as well as the redundancies in the Australian retailer target's head office. With the contraction of Geelong's manufacturing sector, the confidence and median house growth is predicted to fall over the next three years to below 2%. The forecasted median house value in Geelong is estimated to reach $390,000 in June 2016 (Australia Housing Outlook, 2015).

The 2011 Census reported that Australian households had an average of 2.6 persons meaning that more homes were approved as compared to requirement based on the population growth over past few years (Kusher, 2015). Measuring house demand and supply is not simple and different demand and supply factors are needed to be considered.

LITERATURE REVIEW

Housing demand and supply remained an important concern across Australia and while most of the studies have focused on the challenges and housing dynamics in metropolitan markets, some work has paid attention to the affordability and housing dynamics in rural and regional centers. The last two decades have been seeing a plethora of international as well as Australian studies that analyze the changing incidence of housing and its affordability by using cross-section data sets [Yates and Gabriel (2006) and Wood, Watson and Flatau (2006)]. Australian housing market plays a key role in providing the source of shelter and base for people to live in a community and participate in the workforce (McKenzie, Phillips, Rowley, Brereton, & Jones, 2009).

Yates and Gabriel (2006) used the three waves of HILDA to analyze the housing stress in regional cities of Australia and concluded that housing stress was pro-acted rather than transient problem. Beer, Bolam and Maude (1994) identified regional states as the centers that lay outside the Statistical Division of the capitals and that have settlements within the Statistical Districts of the major metropolitan satellites. Geelong is Australia's eleventh largest city of Australia and Victoria's second largest city with being an important provincial center as per Noakes and Collins (2009). Wulff et al. (2007) examined the housing dynamics in regional cities of Australia and agreed that Australia is facing housing shortage due to number of factors. Wulff et al. (2007) classified the regional housing markets into regional cities with a population greater than 100,000 persons, larger regional centers with a population greater than 50,000, regional towns with population of 20,000 to 50,000 and large coastal centers with a population of

30,000 to 50,000 by utilizing the cluster analysis form. Senate Select Committee on Affordable Housing in Australia (2008) noted that the housing supply and affordability have become critical through the nation and the house prices in regional cities is equivalent to over seven years of average earnings. According to National Health Service Corps (2013), the changing pattern of household formation in Australia and the housing tenure along with dwelling types contribute to the balancing process of housing supply and its underlying demand. According to McKenzie et. al (2009), there are several factors, including income, interest rates, unemployment and population growth, that influence the prices of houses in Australia. According to Blyth (2010), the housing prices in Australia rose by 10.7% and unit prices increased by 9.6%. When analyzing the factors that increases the demand, population growth acts as a strong factor that is pushing the demand of houses as recognized by Blyth (2010). The drivers of housing market as per Tually et al. (2010) are housing affordability, investment returns, interest rates, employment, availability of finance, taxes, population growth, in and out migration, land supply issues and labor markets. According to Tually et. al (2010), the problem of affordability has been a function of both strong demand for housing and limited supply. Moreover the rising average incomes, decrease in household size, population growth driven by high rates of immigration and availability of cheap credit affect the demand for housing (Tually, Beer, Rowley, McKenzie, & Jones, 2010). On the other hand, the supply side is affected by shortfalls in land supply, increase in development and planning costs and delays in provision of infrastructure as well as tightening of the construction labor market has caused the capacity constraints in the building industry (Tually, Beer, Rowley, McKenzie, & Jones, 2010). Berry and Dalton (2010) cited the financial deregulation in the 1980s as a major player in driving up the current housing demand in regional cities. Moran (2008) stated that restrictive land release policies have contributed directly to the housing prices and declining affordability.

The demographic and macroeconomic environment in Australia has provided a strong platform for growth in the overall demand in housing whereas over the past decade the supply of housing has not matched commensurately to the growing demand (COAG Council, 2012). The differences in the planning and zoning regimes is evident from the growth in dwelling completions which is more than the growth in population. According to the report by COAG Council (2012), the increase in land and land development prices are the contributory supply side drivers of increasing house prices. Beer (2001) has also suggested that the shortfall in housing supply in regional cities is largely

explained by the inadequate flow of investment capita. This challenge is also exacerbated in the markets due to high rates of household growth. Another important factor identified in the literature on regional housing market is sea-change phenomenon (Gurran, Squires, & Blakely, 2006).

AIMS AND OBJECTIVES

The objective of the study is

- To analyze the supply and demand of housing in Geelong, Victoria.

- To find the mismatch between the supply and demand of housing in Geelong, Victoria.

- To determine the factors affecting the mismatch between demand and supply of housing in Geelong, Victoria.

- To suggest some guidelines to address the mismatch between demand and supply of housing in Geelong, Victoria.

METHODOLOGY

This chapter includes the methods that have been implemented to analyze the housing affordability dynamics in regional cities of Australia using 20 years data from 1995 - 2014. In order to fulfill the main objectives of the study, Quantitative research approach will be adopted. The quantitative approach allows the researcher to measure and analyze the statistical, mathematical or numerical data that is collected through questionnaires, polls or surveys. The secondary data will be used for extracting building activity data and first house sales data of Geelong, Victoria over past 20 year's period i.e. (1995 – 2014). Data used in the analysis has been collected from secondary sources. The main source of data is the Google Scholar, Regional Property Market Dynamics, Building Activities Data, Demand Vs Supply, Housing demand Data, Scope / Forecast of Housing Markets in the Future, Australian Bureau of Statistics, Australian Housing Outlook books and Parliament of Australia.

THE OPERATIONALIZATION OF SUPPLY AND DEMAND OF HOUSING WILL BE DONE AS FOLLOWS:

Supply of housing in Geelong, Victoria is represented by the first house sales data and the demand side of housing in Geelong, Victoria is represented by the building activity data over the same period. The results of both sides will

then be matched to find out the shorter side of the equation so that the contributory factors can be discussed and recommendation can be made.

RESEARCH QUESTIONS

1. Is the housing supply in Geelong shorter than the demand for housing in Geelong, Victoria?

2. What are the contributory factors of rising demand for housing in Geelong?

3. What are the contributory factors of dampening supply of housing in Geelong?

4. How can the gap between demand and supply of housing in Geelong be addressed?

SIGNIFICANCE

The results of this paper will provide a base for further studies that can be focused towards finding factors contributing to lower first house sales or building activity data separately. The paper can be used as a policy recommendation adapted for eliminating the difference between supply and demand of housing in Geelong, Victoria. Furthermore, this study is an attempt towards extending the scope in the area of Housing Dynamics in regional cities of Australia. The findings of this study will rebound to the benefits of the society considering that the shortfalls in supply for housing in Geelong can be addressed by the authorities. The greater demand for housing will justify the need for more houses in Geelong. Thus, if the authorities address the factors affecting both demand and supply of the housing market in Geelong, the property market can then be stabilized. For the researcher(s), the study will help to uncover the critical areas in the housing dynamics that can be further drilled to evaluate other contributory factors. Further studies can be done for analyzing different supply-side and demand-side factors that contribute to rising housing prices in Geelong, Victoria. Due to short time, the current study is based on previous

literature and secondary data which has restricted the results to only one variable i.e. first house sales for explaining

demand and building activity for explaining supply.

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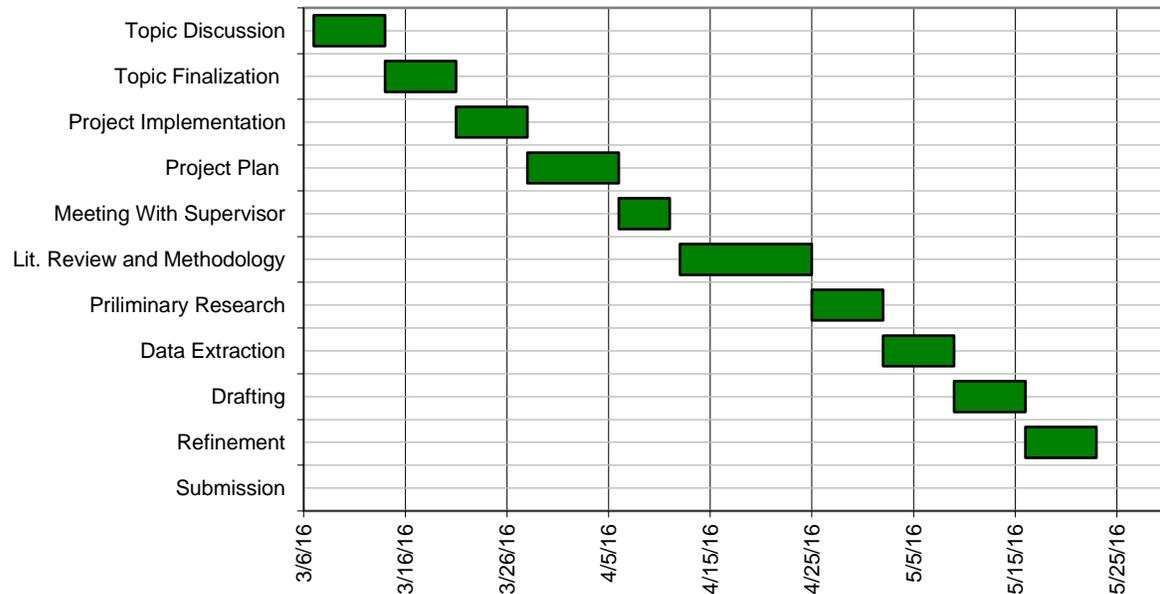
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