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:

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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;
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Swinburne Institute for Social Research

Housing Past

Melbourne's

Housing Futures

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1 November 2000

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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

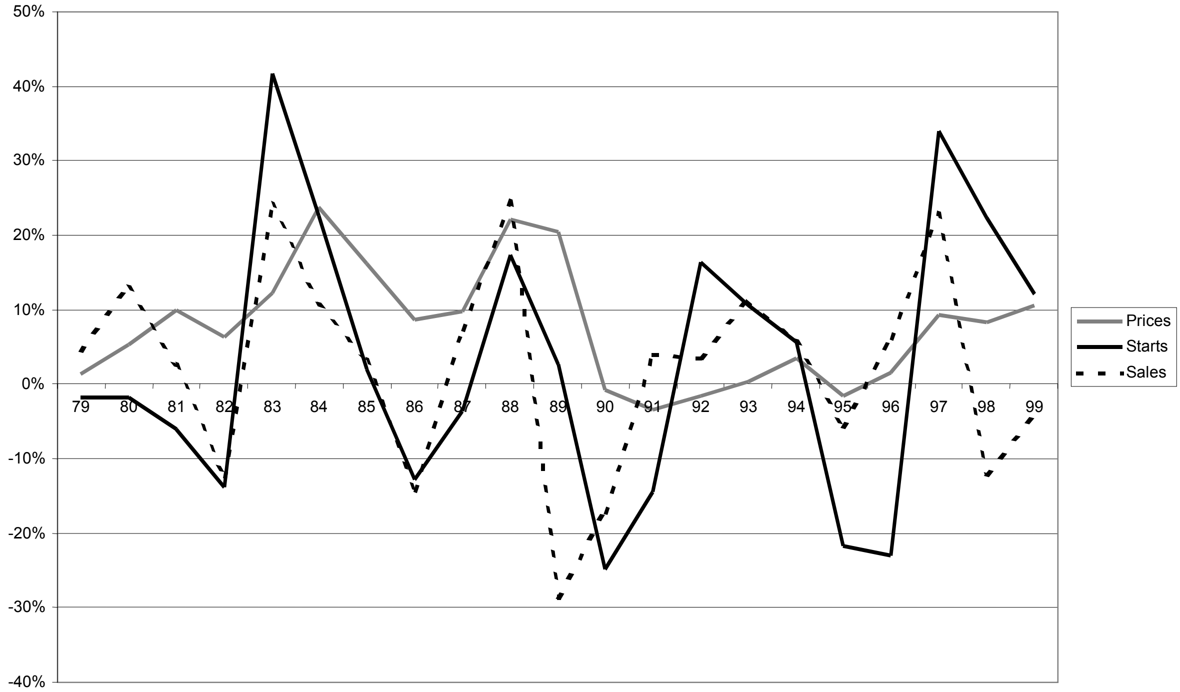
	Single Family Dwellings	Multi-Family Dwellings
Melbourne	77%	23%
Australia (1996)	85%	15%
Canada (1986)	56%	44%
United States (1988)	64%	36%
Switzerland (1990)	28%	72%
England (1990)	79%	21%
Netherlands (1990)	66%	34%
France (1990)	56%	44%
Germany (Fed. Rep.) (1990)	49%	51%

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

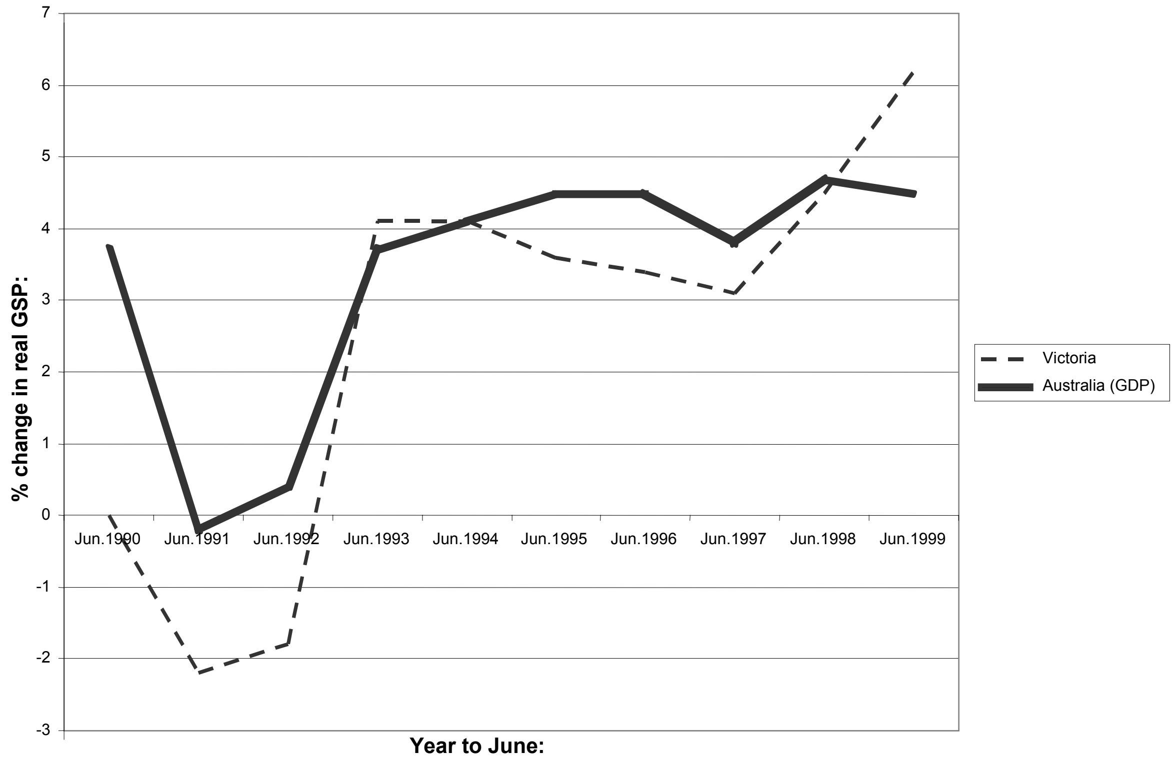
4.1 Economic Context

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

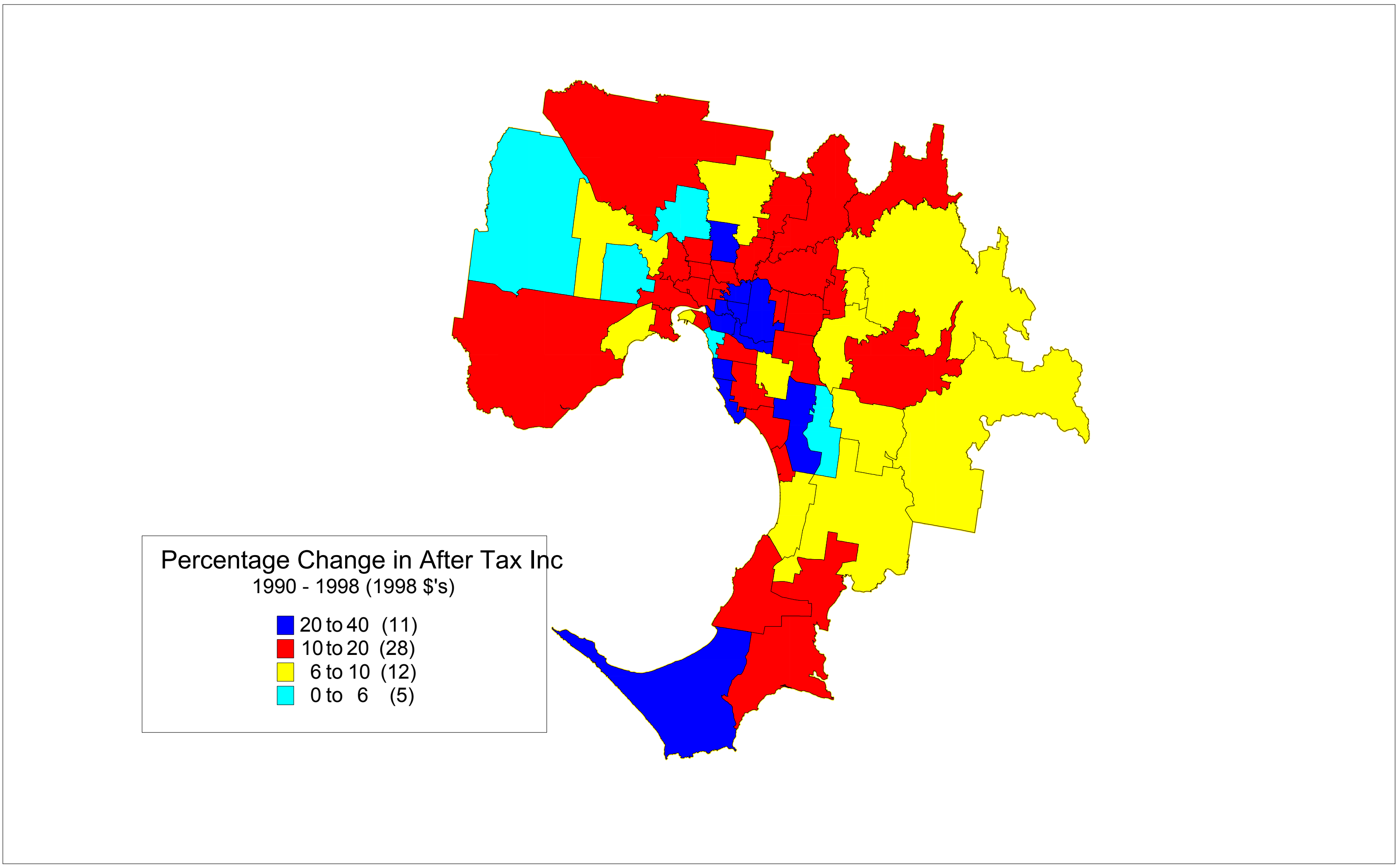
Major Melbourne Statistical Regions: Persons ('000)	Nov. 1989	Nov. 1994	Nov. 1999	Change 1989-99	Percentage Change 1989-99
Melbourne Statistical District					
Employed full-time	1,215.5	1,105.3	1,215.1	-0.4	0.0%
Employed part-time	299.4	341.6	432.0	132.6	44.3%
Total	1,514.9	1,446.9	1,647.1	132.2	8.7%
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?

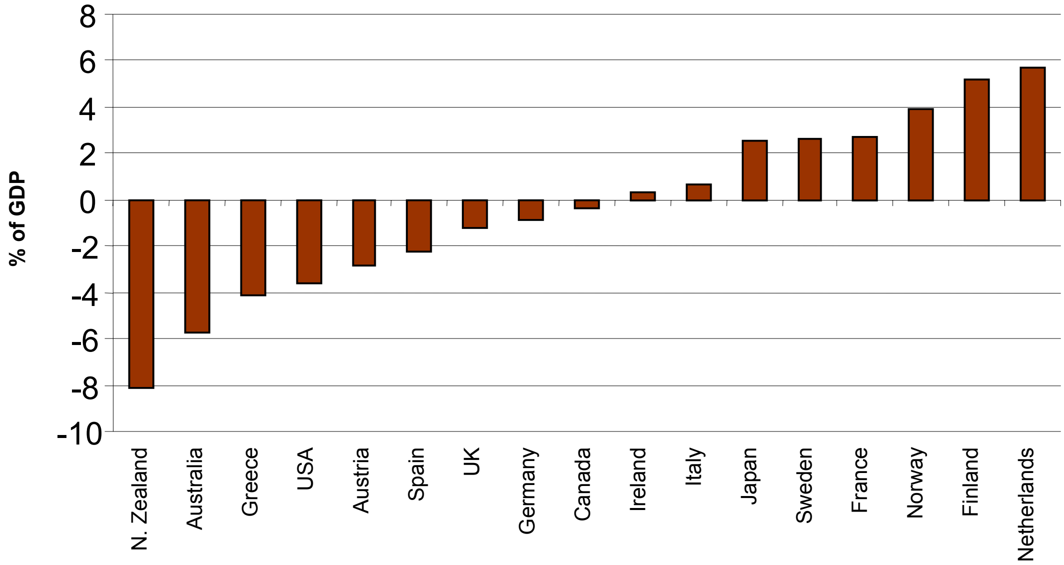
Figure 3 **Percentage Change in After Tax Income, Melbourne Statistical Division, 1990-98**



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

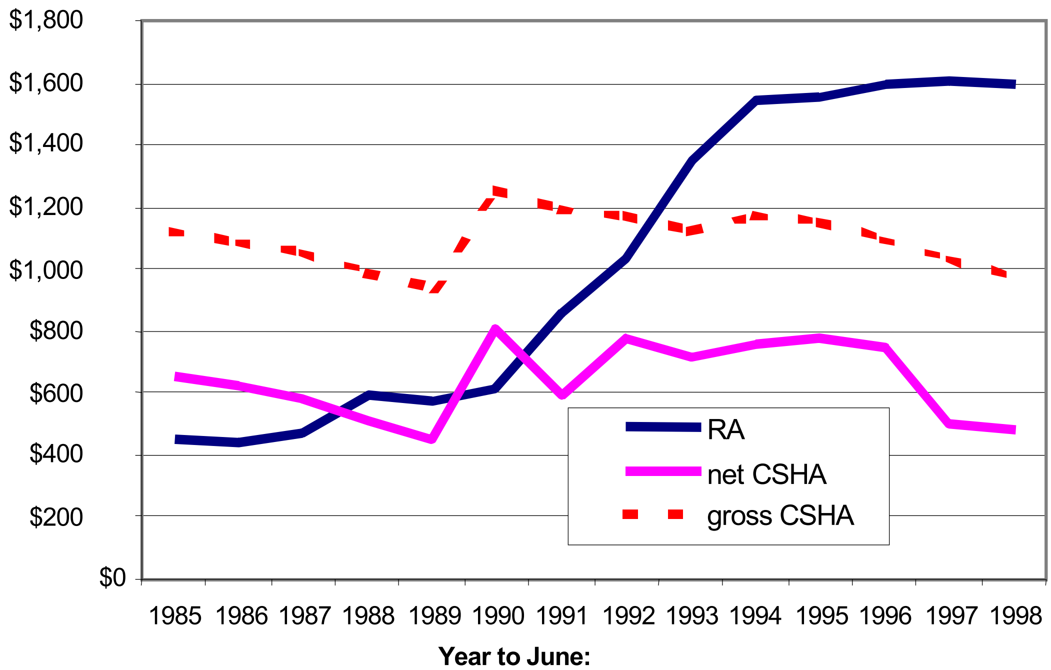
The regulatory framework refers to the broad range of rules, regulations and government organisational structures, as well as the pattern of taxes and subsidies in which producers and consumers must operate. In the last decade and a half there has been a marked reshaping of this regulatory regime with 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.

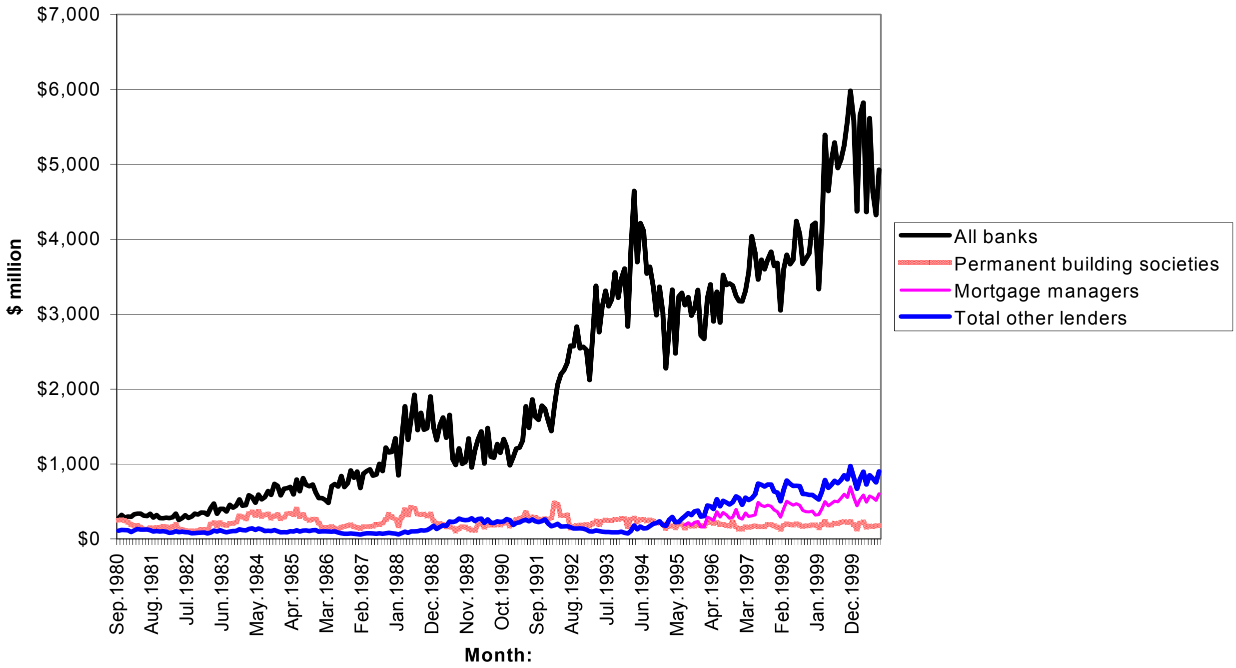
7 Exchange

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)



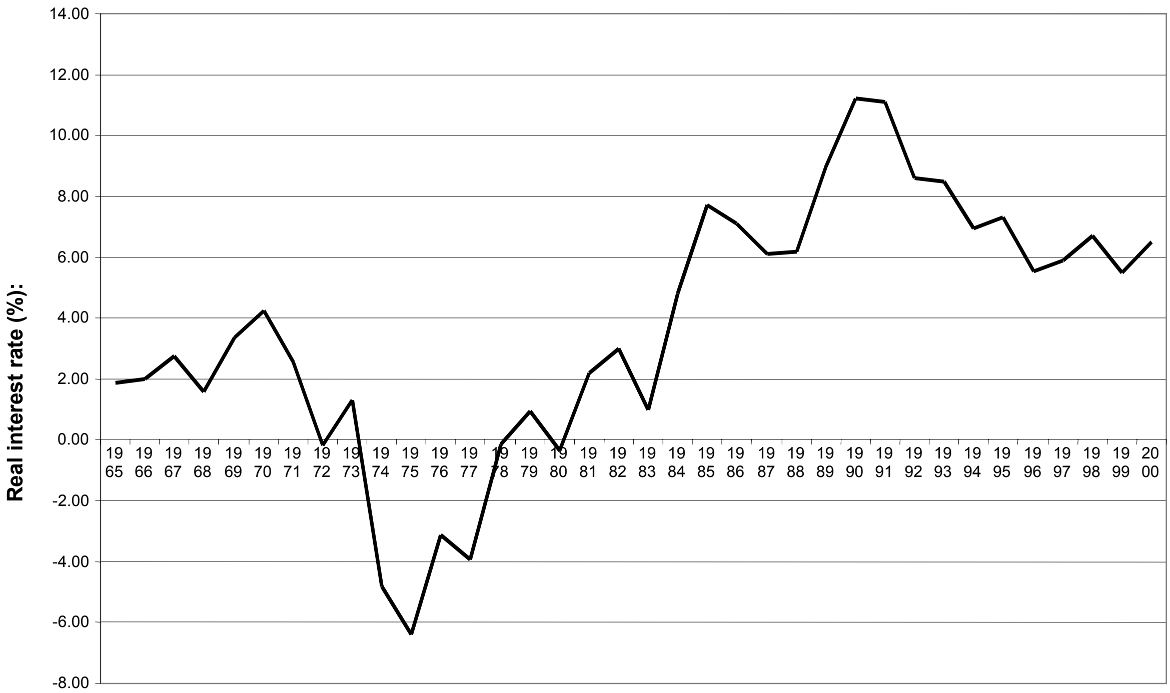
Source: ABS, Cat. no. 5609.02.

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

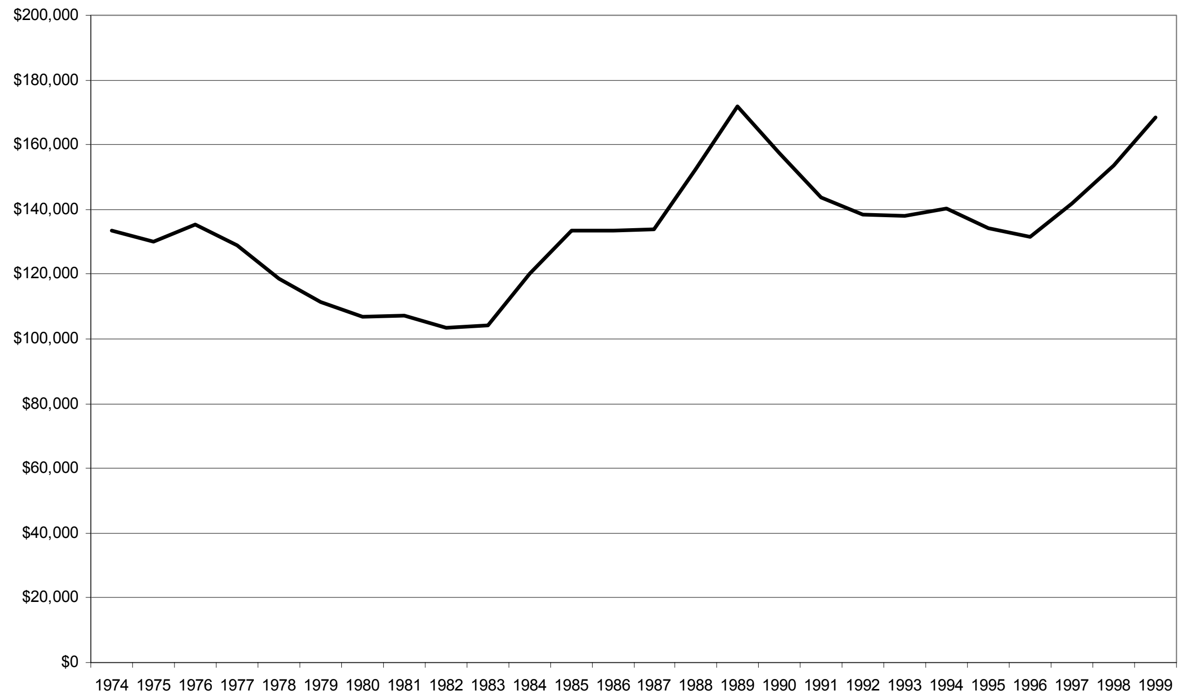
8.1 Prices

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.

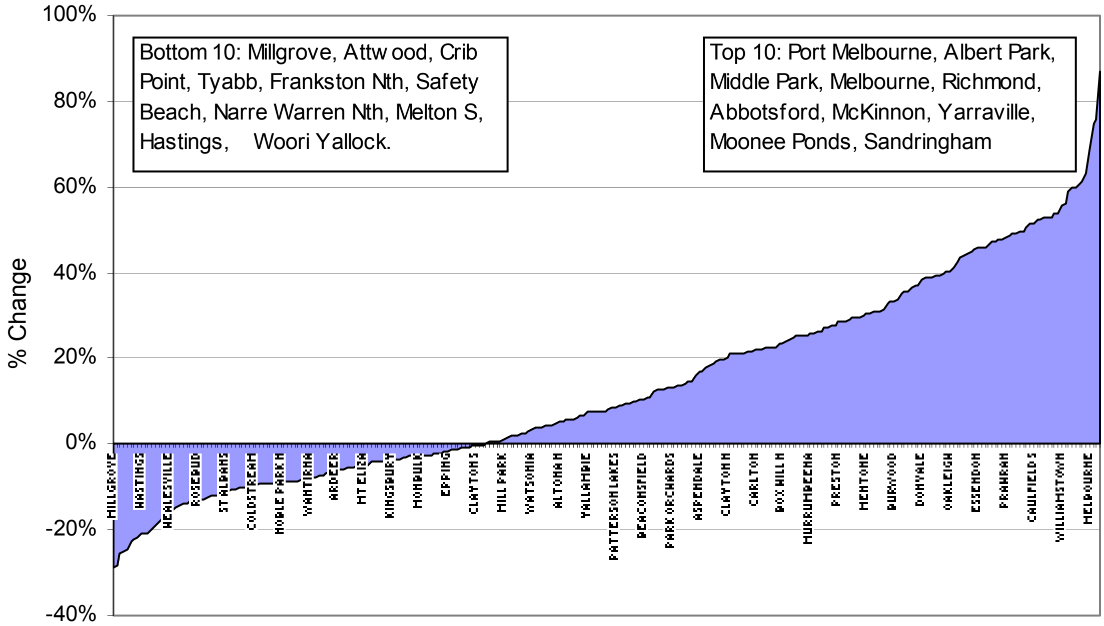
This remarkable development masks important spatial differences that were particularly evident during the 1990s. Between 1990 and 1999, a large number of suburbs experienced a real price fall, while others experienced a real price increase of up to 87 per cent (see Figure 10). The main beneficiaries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

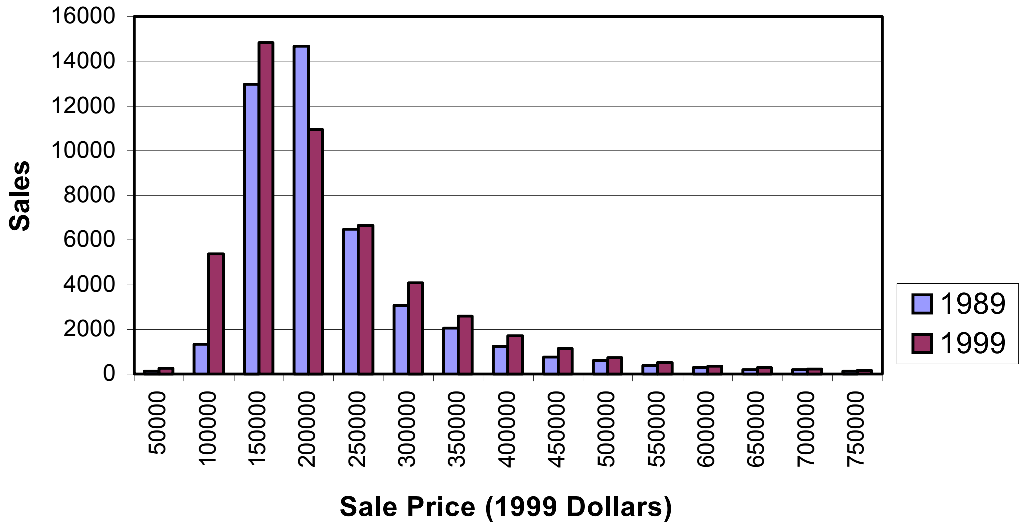
FREQ RANGE	Inner Melb	Inner East	Sthn Melb	TOTAL INNER	Outer West	North-West	North-East	Outer East	South-East	Morn. Penin'a	TOTAL OTHER	MSD
0-$150,000	1,323	719	1,157	**3,199**	912	578	816	873	695	683	**4,557**	7,756
$150,001 to $250,000	1,618	1,225	990	**3,833**	307	209	459	216	51	112	**1,354**	5,187
$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.

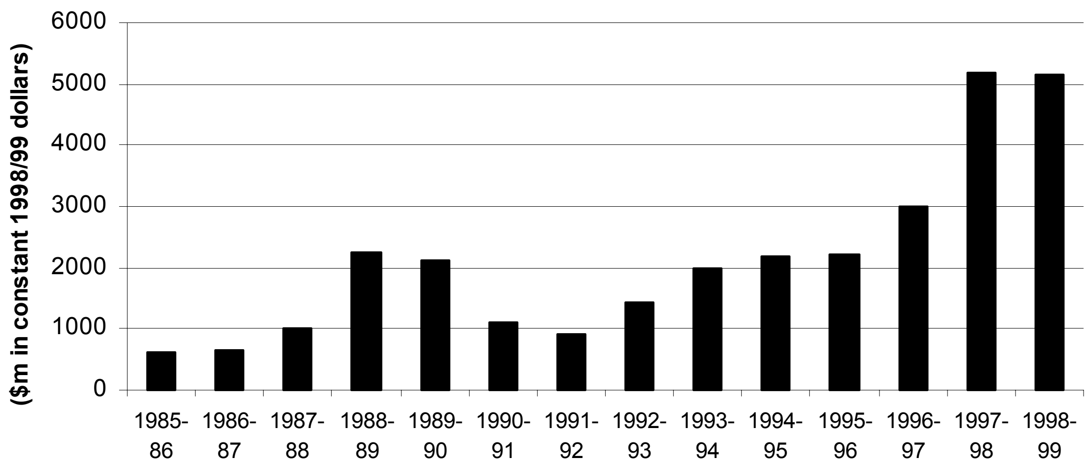
8.2 The Private Rental Market

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.

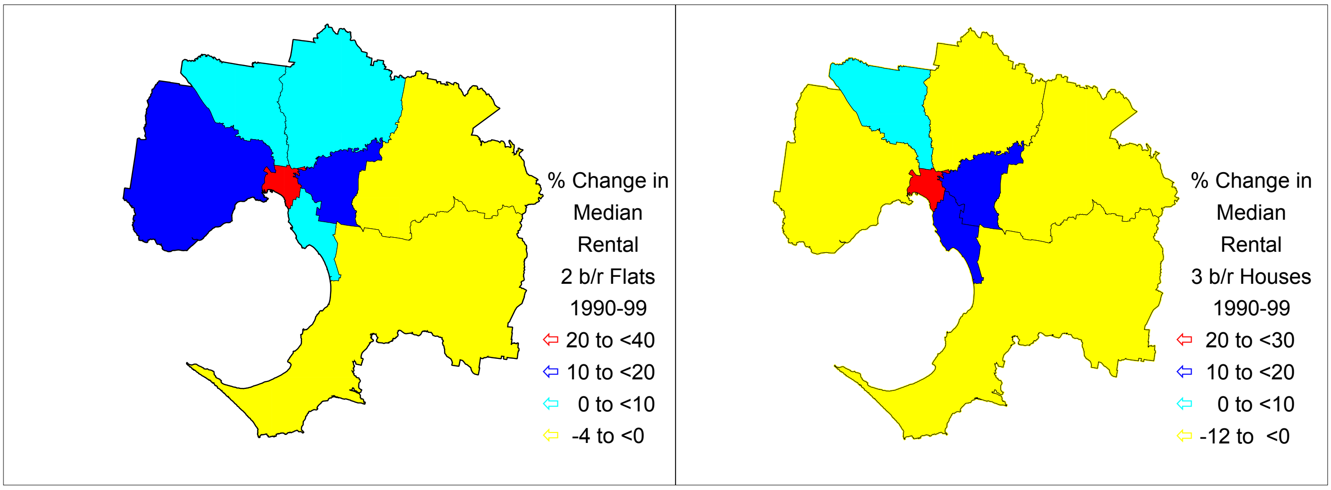
Figure 12 Finance for Investment in Dwellings for Rental/Resale in Constant Dollars, Victoria, 1985-86 – 1995-96 ($ 1998-99)



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).

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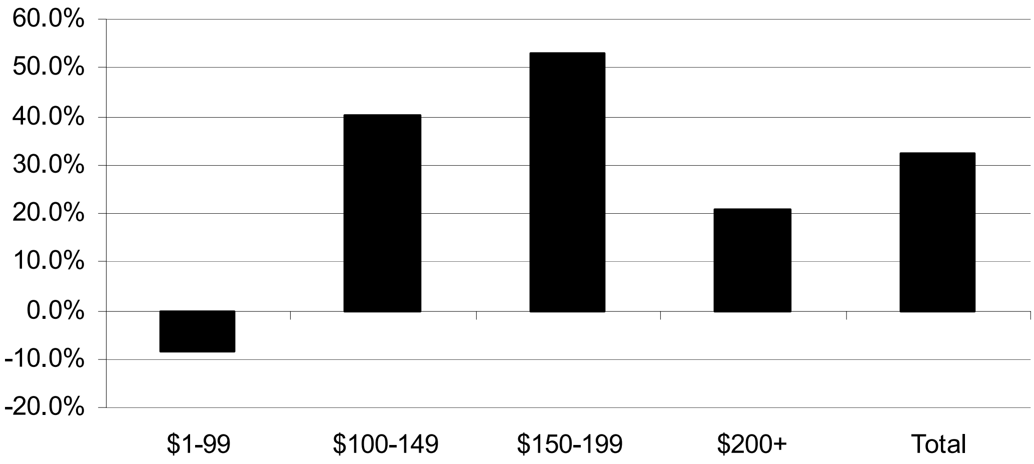
[3] The methodology for this was evolved by Judy Yates as part of a larger study (see Wulff, Yates and Burke 2000) and is adapted here for the Melbourne market.

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.

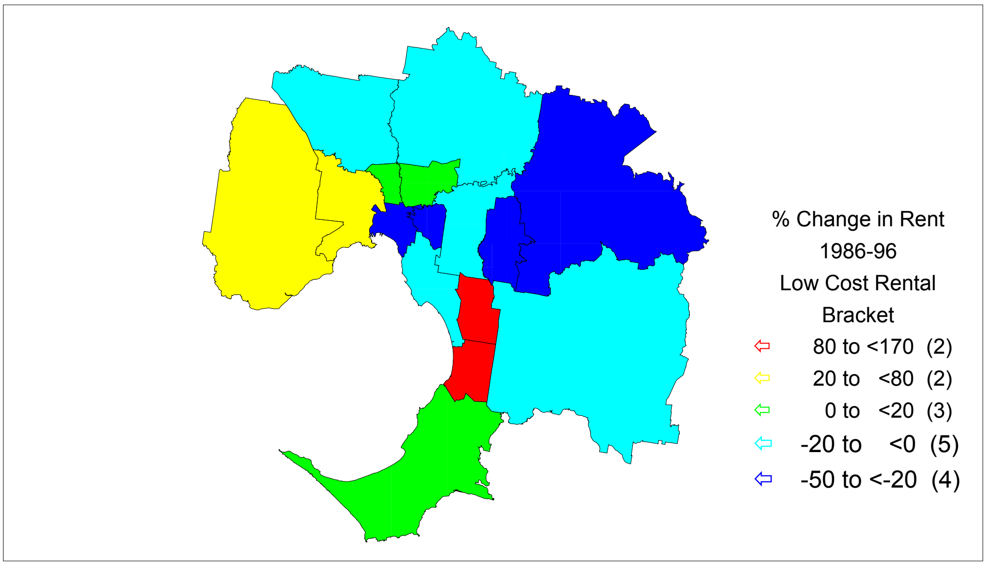
Figure 14 Changes in Melbourne Private Rental Stock Between 1986 and 1996 by Rent Cohorts



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

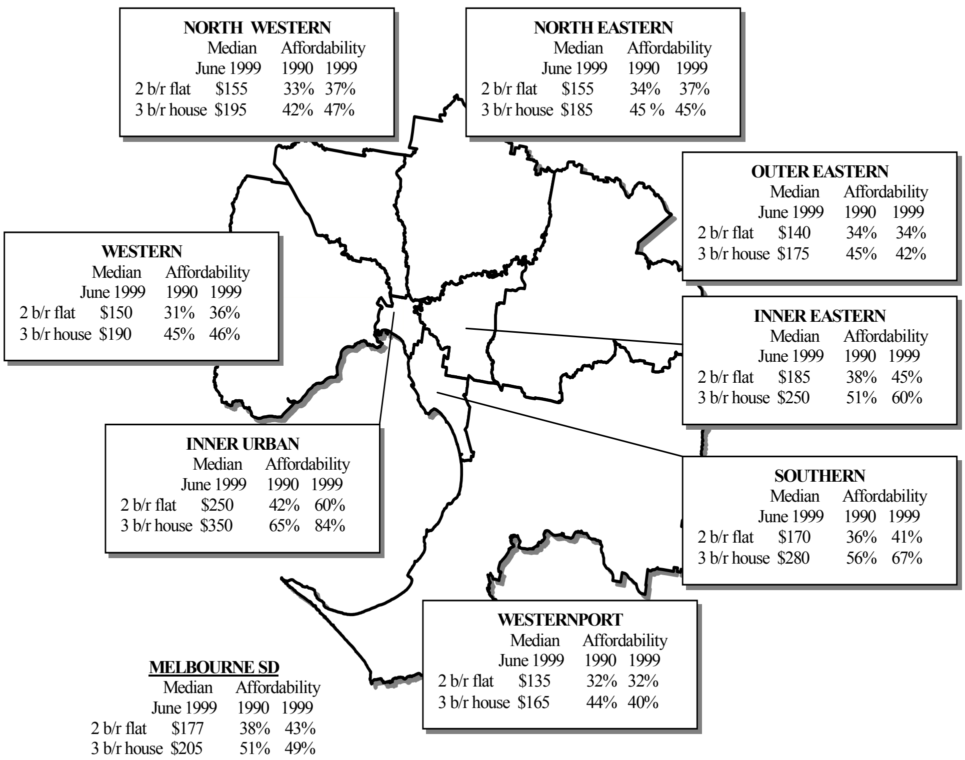
Capital City	Percentage Change in Overall Rental Stock	Percentage Change in Low Cost Stock	Total Low Cost Stock 1996
Sydney	+25.7	-61.1	10,438
Melbourne	+32.3	-8.5	27,461

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.

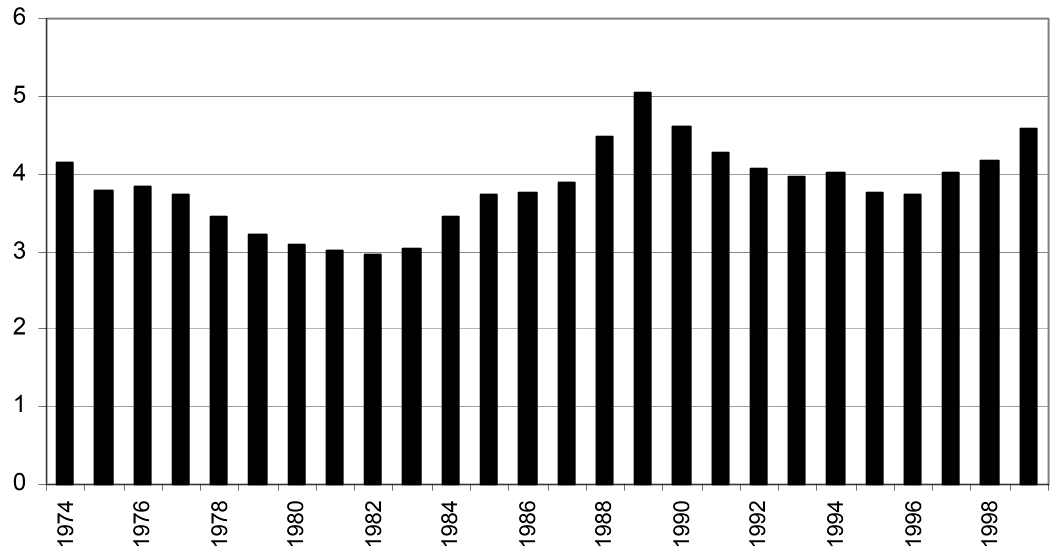
8.3.2 Income to House Prices

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!

