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## Darwin's housing market – a crisis for whom?

### KEY FINDINGS

- A number of reports have critically labelled Darwin as an unaffordable city owing to high rents and house prices. Increasing numbers seeking accommodation and financial assistance are thought to have resulted.
- While house prices and rental costs have risen sharply in absolute and relative terms, reports on unaffordability may be questionable and mask the fine grained details about who is actually suffering.
- Assertions about the high cost of living in Darwin also need to be qualified and, while house prices are high, incomes in the Territory are also high. The proportion of households experiencing housing stress may actually be lower than in other capitals.
- The combination of high incomes and high housing costs may be creating a split between those who can and cannot meet housing costs. Those who cannot meet costs may be 'stuck' in Darwin because of the costs of moving elsewhere.
- The perception of there being a Darwin-wide 'housing crisis' is misleading and may be negatively impacting migration patterns to and from the Territory.

### RESEARCH AIM

Examine aspects of the debate on housing affordability in Darwin.

This research brief discusses some issues around housing affordability in Darwin. We examine recent increases in the cost of both buying and renting and temper these against rises in incomes. We advocate that there is not a generic 'housing crisis' and that such language may negatively impact on migration decisions. However, there may be a growing number of residents who are struggling to meet rising housing costs and these should be the focus of policy attention. This research brief draws on data provided by the Australian Bureau of Statistics as well as NT Government reports on housing in the Northern Territory.

Prepared by **Andrew Taylor**

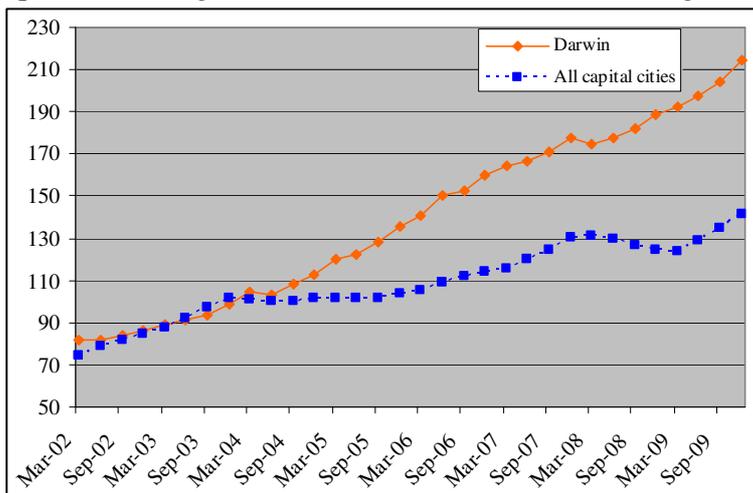
## Darwin's housing market – a crisis for who?

### What's the 'crisis' about?

One of the major political issues for Darwin by the close of the first decade of the 21<sup>st</sup> Century was the apparent lack of affordable housing in and around the city and its effects. Receiving much media and political attention, the relatively high cost of houses for purchase combined with high rents in Darwin compared to elsewhere in Australia was thought to have turned away many families considering a move to the Territory and has been blamed for driving migration by existing residents to more affordable cities. Indeed a report released in early 2010 found Darwin to be the fourth least affordable of 272 cities in Australia, Canada, Ireland, New Zealand, the U.K. and U.S.A. It labelled Darwin as 'severely unaffordable' (Demographia, 2010, pg. 1) based on the median house price and household incomes towards the end of 2009.

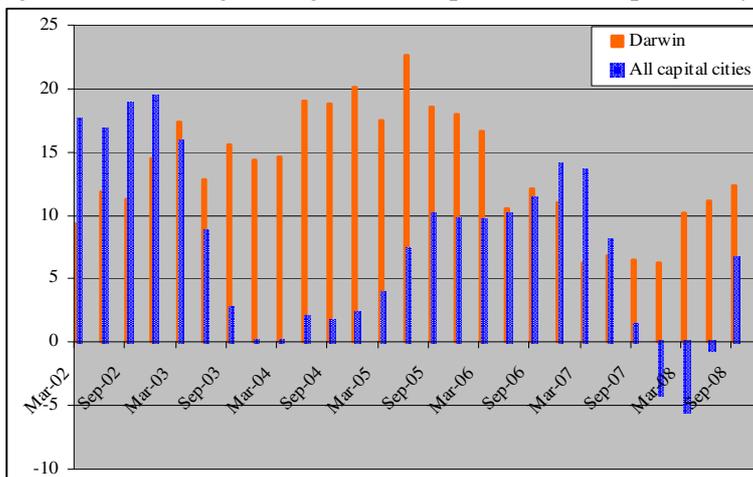
Darwin's house prices grew rapidly in absolute and comparative terms from 2004 to the end of 2009 with the index for established house prices in Darwin more than doubling while the all Australian capital cities index increased by just 35% (Figure 1). And while prices around the country stagnated or fell from September 2007 to March 2009, Darwin prices continued to climb (Figure 2). Hence, while home owners in Darwin were shielded from the effects of the Global Financial Crisis, those attempting to enter the Darwin market have faced increasing price disparities.

Figure 1 - House price index, Darwin and all Australian capitals



Source: ABS, 2009a

Figure 2 - Percentage change in house prices over the previous year



Source: ABS, 2009a, reference year, 2004-04

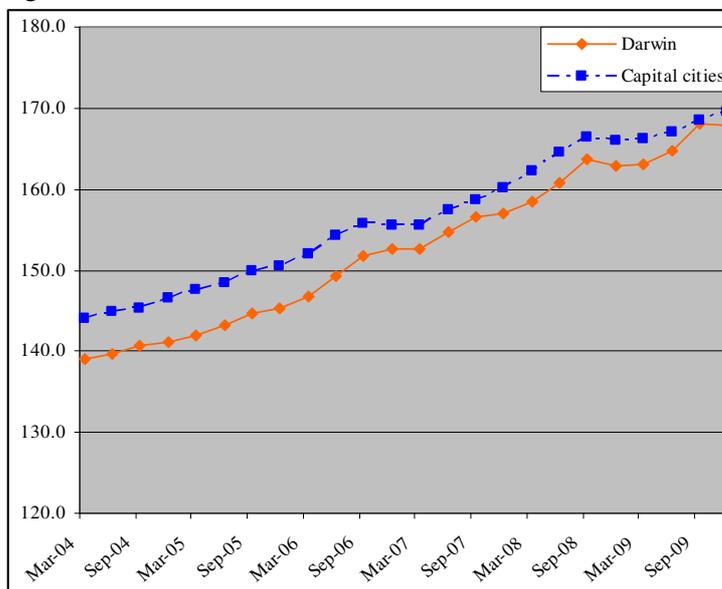
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Meanwhile, the reduced 'heat' in property markets around Australia as a result of the economic downturn during 2008 and 2009 translated to stagnating rents in many capital cities. But in Darwin rents continued to climb on the basis of continued (above 2%) population growth and strong economic performances. By mid-2009 median rents in Darwin were the highest of all capital cities at \$500 for a house and \$430 for a unit (Australian Property Monitors, 2009). Reflective of the tight market, vacancy rates for rental properties in Darwin were at close to zero during 2008 (Northern Territory Government, 2008) and investor yields were maintained at above 6% and growing (ABC, 2009a):

*"The Darwin unit market continues to buck the trend, with rents increasing by 7.5% in the June quarter. This is due to a much more resilient employment market which, in turn, is underpinned by strong infrastructure spending by the private sector and the federal government in the Territory."*  
[Australian Property Monitors, 2009, pg. 4]

Aside from median house prices and rents, a long held perception is that the cost of living in Darwin is high (ABC, 2008). High living expenses combined with high house prices were noted to have driven increases in the number of families and households in need of financial and other assistance from non-government organisations in the 2000s (ABC, 2009b). But while the price of a basket of groceries in mid-2009 was found to be slightly higher in Darwin than in Cairns (by around 6%) and Mount Isa (by around 2%), the CPI for Darwin has been lower than the capital cities of Australia combined for as long as records go back and in the last quarter of 2009 Darwin was the only capital city for which the CPI fell (ABS, 2009b). Consequently, while the cost of living in remote parts of the Territory is undoubtedly high, for Darwin the evidence is at best mixed when compared to other Australian capitals (Figure 3).

Figure 3 – Consumer Price Index



Source: ABS, 2009. 6401.0 - Consumer Price Index, Australia.

### Is Darwin really unaffordable?

House prices and housing affordability are an emotive and politicized issue. As a result the debate on affordability is rarely tempered with up to date data and reports are rarely scrutinised in sufficient detail for contemplative discussion on the issue. Instead, the focus is concentrated on top line figures, particularly median prices and median rents, with little understanding of whether and why these impact on affordability. It is not clear, for example, how the Darwin median house price of \$610,000 for the third quarter in 2009 was established in the Demographia report

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(labelling Darwin as 'severely unaffordable') when the official median price in the previous quarter was at \$405,000 (ABS, 2009a). Similarly, some reports utilise listed (real estate) prices to derive medians instead of the price negotiated at sale and registered in a title transfer. Listed prices are greatly influenced by the composition of housing stock on offer to the market at the time. The listing of properties in Darwin's blue chip suburbs (Fannie Bay, Larrakeyah etc) or one or two multi-million dollar listings can distort the median greatly. A degree of fickleness in the median prices for the Darwin market is also inevitable because the market is small. Indeed in the December 2009 quarter the house price index for Darwin grew less than for all capital cities but this received little attention in the media and in political circles.

What is often not acknowledged in the Darwin house price debate is that incomes in the Territory are high and have risen alongside increases in house prices and rents. Territory workers enjoyed the third highest average weekly earnings in Australia in mid-2009 at \$994 per week, just behind Western Australia (\$1,019) and the ACT (\$1,108) (ABS, 2009c) and the Census tells us that incomes are 1.75 times higher in Darwin than elsewhere in the NT (ABS, 2007a). Meanwhile more than half of Territory households were in the two highest income quintiles in 2007-08 compared to less than 40% for Australia (Northern Territory Treasury, 2009b). And, having been at less than the Australian average during most of the preceding ten years, by mid-2009 Territory incomes were around 4% higher than for Australia as a whole with the gap between the two growing.

With high incomes the proportion of households living in 'housing stress' (paying 30% or more of income in housing costs) in the Northern Territory in 2007-2008 was equivalent to Australia as a whole but was less than for NSW and Victoria (Northern Territory Treasury, 2009b). Meanwhile 2006 census-based estimates of the proportion of Darwin households under housing stress were 13% compared to 24% for Australia (author calculations using ABS, 2007a and ABS, 2007b). It is clear, therefore, that the generic view of Darwin as inherently unaffordable and expensive is misleading. Indeed affordability is affected by external issues including interest rates (which have fallen substantially since 2008, although rises since and anticipated in the medium term may indeed affect affordability throughout Australia) and not simply a function of prices and rents. Clearly, therefore, not all the population is affected by affordability issues or under housing and financial stress. The net picture is that actual proportions may be lower than for many other parts of Australia because incomes are relatively high for many Territory workers.

Incomes growth from continued economic growth has added to pre-existing (relatively) high incomes to support and lead house and rental price rises in and around Darwin. For families and individuals who are engaged with the Territory economy based on the high income sectors such as defence, public administration, and mining (where wages are very high), rising house prices have not, for most, subjected them to unaffordable housing costs. Workers in these industries are compensated for high rents by high incomes and (in some cases) housing subsidies. Rates of interstate migration amongst these occupations is, and has long been, very high in the Northern Territory and this in part reflects a lack of diversity in the Northern Territory economy (see, for example, Carson, 2009).

### Unaffordability and migration

Our discussion raises two important questions in relation to the potential migration impacts from high house prices and rents in Darwin. First, and regardless of the real affordability situation, is whether the **perception** of Darwin as an unaffordable place to live is or will deter in-migration from interstate or overseas? Secondly, should prices and rents continue to rise, at what point if any will these become a driver of migration away from Darwin for those who might otherwise have not left? Most post-war theories on migration drivers have emphasised the role of expectations of a net improvement to individual or family INCOME as the primary driver of intra-jurisdictional and international migration. More contemporary versions have attempted to incorporate living costs into models of destination choice for migrants. The general conclusion is

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that migration behaviour is sufficiently complex to render these models as at best general because localised circumstances are so diverse and human behaviour is so unpredictable.

Very little clues from existing research are available about the relationships between relative house prices and migration in the Australian context. All the same, a study in the Territory has hinted at the importance of career development and financial reward as drivers of in-migration to Darwin (Carson et al., 2009). For those with the aim of residing in Darwin for a fixed period and employed in high income sectors, high rents and house prices are of less a concern than for those who are most financially vulnerable; the unemployed, single parent families, those with low educational achievements and limited skills, and those with English as a second language. Should circumstances change for those employed in high income jobs (for example an unexpected end to employment contracts) they more likely than others to have the inherent financial capacity to move elsewhere. In contrast the financially vulnerable may be 'slipping behind' as a result of rising house prices and rents. Wages in unskilled jobs, welfare payments and other benefits are based in part on the cost of living derived from national data and indicators with remote allowances compensating for higher costs in places like Darwin. While housing costs are likely to be outstripping income rises for these groups, moving away from Darwin in response to housing unaffordability or to pursue employment (or other) opportunities may not be possible because of the high costs of doing so, particularly for families. Consequently, those on the financial fringes must rent at high prices and may be at risk of becoming financially 'stuck'; unable to afford to move elsewhere but placed under financial stress by remaining. For a wealthy city like Darwin, avoiding the creation of groups of 'have's' and 'have not's' must be considered as integral to the debate on housing.

In light of this, discussions about Darwin's 'housing crisis' should be tempered with the recognition that not all residents are experiencing or are at risk of housing stress. Nevertheless, policy must take into account the current and future planning implications of a likely growth in the numbers of Territorians genuinely affected by poor housing affordability. Like elsewhere in Australia and the developed world those most at risk are the socially and economically excluded members of society. Housing for the future must incorporate solutions which recognise the household and family compositions of those likely to be at risk. This will require thoughtful housing market AND social policy responses since market forces cannot be expected to deliver the appropriate housing stock per se. Matching the stock to future needs will necessitate relatively more medium to high density dwellings within Darwin's urban boundaries because of land shortages. Continuing suburban developments on the outskirts of Darwin will also be necessary to house the growing population. To avoid the pitfalls of urban expansion seen in most Australian capitals Darwin must plan for transport, community based activities and appropriate infrastructure to be part of such developments. In both cases direct government intervention will be required to ensure below market price stock is available to those most in need.

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