

FINANCIAL REVIEW

Regions gaining at the expense of the big smoke

Property prices in regional areas have increased in the past year, as evidence of the work-from-anywhere trend ushered in by the pandemic.

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Apr 13, 2021 – 12.01am

It's well understood that recessions tend to accelerate trends that were under way before their onset.

And that's certainly been true of the worldwide corona-recession that began just over a year ago. It has clearly provided additional impetus to the digitisation of both business and personal lives, extended the reach of mass surveillance of people's movements and spending patterns, and enhanced a desire in many countries for greater national self-sufficiency in the supply of so-called strategic products.



The attractiveness of places like Byron Bay, which are far from metropolitan areas, has been enhanced by the pandemic-induced trend among buyers to consider lifestyle benefits rather than proximity to offices. **Getty**

<https://www.afr.com/property/commercial/regions-gaining-at-the-expense-of-the-big-smoke-20210409-p57hvg>

But the recession brought on by COVID-19, and by the restrictions deemed necessary to contain its spread, has also been different from previous post-war recessions in so many ways.

In particular, it has prompted the reversal of some pre-existing trends – including what, in Australia’s case, has been a more than century-long increase in the proportion of the population living in capital city regions, and a more than three-decade-long increase in the proportion of the total number of jobs located in capital cities.

ABS data on [internal migration](#) released in February show a significant outflow since last March of people from Melbourne (in particular) and Sydney towards smaller capital cities (in particular Adelaide) and regions in almost every state (especially NSW, Victoria and Tasmania). That came as ABS labour force data show a slight decline – for the first time since the peak of the mining employment boom in 2011 – in the proportion of jobs in capital cities (which almost certainly masks a larger decline in the share of employment within capital city CBDs).

These trends are echoed in movements in property prices. Over the 40 years to March 2020, property prices in Australia’s five largest cities (as tracked by CoreLogic) increased at an average annual rate of 5.8 per cent, more than half as much again as the 3.8 per cent average annual rate of increase in prices in regional Australia.

But over the past 12 months, prices in regional Australia have risen by 11.4 per cent, more than two-and-a-half times as fast as the 4.4 per cent increase in the five largest capital cities.

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None of these developments is unique to Australia, they are evident in most advanced economies.

A key contributor, worldwide, has been the effect of the restrictions imposed in response to the pandemic on employees’ ability to work from home – and their employers’ willingness to let them.

Employers, at least those in predominantly white-collar industries, have discovered that, contrary to long-established conventional wisdom, employees don’t need to work in close proximity with one another in order to collaborate or work in teams.

They have found that employees can in many if not most cases be no less productive when working from home, away from the watchful eyes of their supervisors or managers, than in their usual places of employment.

Likewise, employees have discovered that there are more pleasant and/or useful ways to spend up to (or in many cases more than) an hour at the beginning and end of each working day sitting in slow-moving traffic, or sniffing the armpits of fellow passengers on crowded trains, trams or buses.

Some employers will likely require their staff to return to working in their offices as soon as it is considered safe for them to do so. And there will no doubt be at least some employees who will welcome the opportunity to get out of their homes and resume face-to-face [interactions with their work colleagues, managers and customers](#).

Lasting savings

But there will also be many who will want to make permanent the changes that were initially forced by COVID-19 – employers who see the potential for lasting savings in office expenses, and employees who have no desire to return to their pre-pandemic patterns of commuting.

Analysis by Vanguard's global chief economist Joe Davis, published last December, found that roughly 15 per cent of all US jobs could be conducted remotely. It would be surprising if the equivalent figure for Australian jobs was substantially different.

Depending on the number of previously CBD- or suburban-office-bound employees who choose (and whose employers permit them) to continue working from home, people may well choose to live not just in regional cities which are, say, two hours' commuting time from capital city CBDs, but perhaps also places which are as much as four hours' distant by road or rail from the nearest capital city.

If under so-called hybrid models, such as that formally adopted by Microsoft, employees are only required to show up at the head office a couple of times a month, they may well be willing to travel greater distances for longer periods in order to do so, making that journey starting at (say) 10am rather than 6am, and perhaps staying overnight somewhere close to head office before returning home.

Especially if monetary and fiscal policies are going to be deployed with a view to sustaining tighter labour markets than had been thought either desirable or possible before the pandemic, employers who *want* their employees to work in CBD offices may have to do more to make that an attractive option relative to the perceived advantages of working from home.

Owners of CBD office properties may also need to do more to enhance the appeal of their towers as working (and perhaps for some people, temporary living) environments.

There is at least some potential for adverse effects on broader measures of productivity arising from more widespread working from home, given the evidence that labour productivity tends to be higher and grow faster in city centres than in other work locations.

That's at least in part because of the greater concentration of highly skilled workers and the greater potential for productivity-enhancing interactions between them, even if – or especially if – they work for different employers. Although it's notable that the differences in measured productivity between cities and regions appear to be smaller in Australia than in many other countries.

If those effects are thought to be significant, then governments may also need to consider what they can do to enhance the appeal of CBDs to workers who now have more options as to how and where they work.

Alternatively, governments of all levels might need to think about ways in which they can improve the productivity-generating potential of regions.