Property Market Review

Prosper Australia has concerns surrounding both the privatisation of real estate data, the inaccuracy of statistics and the practice of staging lot releases in large, master planned estate developments.

At present, data gaps favour the real estate industry and have placed consumers in an inferior position. As buying a home is often the largest financial decision of our lives, access to relevant, timely market information is crucial.

Property Market Data

Over the last decade the development of digitised records has allowed a new level of insight into how the real estate market operates. In what has been called a "property data gold rush", private service providers have moved to either quickly seize market gaps, developing their own data sources into a publicly amenable data stream, or have benefitted from the privatisation of once public data. Insiders with deep pockets have secured a first mover advantage.

For an independently funded civil society organisation like Prosper, the high costs of data deters us from undertaking research that is in the public interest. For example, in order to study the relationship between the rate of residential vacancy and rental prices, Prosper required two core datasets. Water usage data is provided by the major water utilities. Rental price data was purchased from SQM for several thousand dollars.

Routine property data requests regularly cost $4,000 - $6,000 from providers such as Core Logic. If this cost is sufficiently high to deter a university research body or NGO from regularly engaging in such purchases, we can only assume that it is too high for the average consumer wanting to understand regional or macro trends in a particular market segment.

This unequal access to property market data is exacerbated by the overwhelming presence of banking economists, real estate industry commentators and lobbyists portraying their particular view in the media.

Unlike the average homebuyer or renter, sophisticated property investors have a substantial profit motive to invest in market data and plug it into the latest proptech software-as-service platform. When embellished with data on demographic growth, infrastructure plans, and cultural development, these tools can provide a comparative advantage over other investors, let alone the consumer. Thus the property data gold rush.

We have previously written to the Victorian Treasurer requesting that the budget itemise any revenue from the sale of statutory land valuations to private operators via the Victorian Valuer

General. We are concerned that the Victorian public is receiving a poor return on taxpayer funded data collection. The information asymmetry is not in the interest of consumers.

In addition to this, we have concerns regarding data retailers increasing costs significantly in subsequent years, when the data pipeline has already been built and therefore should be cheaper. These are monopoly rents that should be regulated.

The sale of the Victorian Land Titles Office is one example where data privatisation has undermined the long term accessibility of good quality data. The cost of title searches and associated add ons increased prior to sale and will continue to do so outside the capped timeframe. This makes it challenging for independent analysis in the public interest.

Vacancy Oversight

For close to 15 years, Prosper Australia has compiled vacancy statistics via our Speculative Vacancies in Melbourne report.[1] This report demonstrates that vacancy data is very useful and should be objectively collected. We use abnormally low water consumption as a proxy for vacancy.

Since our focus on this aspect of land and housing supply, there has been a minor evolution in how vacancy is quoted in the media. Initially, there was a data gap where the REIV stepped into the breach, gaining much media and brand awareness by providing information that should have been objectively collected and transparently provided by government agencies to consumers.

Our work on Speculative Vacancies helped uncover that the REIV measure was based on a voluntary survey of real estate agents.[2] Aside from the sampling issues of a voluntary survey, the metric entailed a principal-agent problem, as reporting low vacancies makes a market seem tighter than it may actually be. This benefits real estate agents and their clients.

In recent years, mainstream media has been more willing to reference the SQM Research measure. This data scrapes property that has been on the market for longer than three weeks, deeming those properties vacant.

Whilst a more thorough measure of vacancy, both measures avoid those properties not advertised on the rental market. This may be because of an estate issue, a property for sale that hasn't cleared or sites held as a speculative vacancy, where investors buy to hold and wait until the capital gains are sufficient to sell for profit. These properties fall outside the typical vacancy measure.

We contend that with investors making up some 40% of the market, the need for a more accurate vacancy measure is urgently required. Renters may well be paying higher prices

[1] K Fitzgerald, Speculative Vacancies 10, 2020
[2] P Soos, P Egan, Speculative Vacancies in Melbourne: 2013 report

than they should be because of imperfect information, not understanding that there are more rental properties available but not yet on the market.

This information asymmetry strengthens the relative market power of landholders. Greater transparency around vacant properties would also reveal properties that are being land banked, or drip fed to the market at higher prices.

A twenty year housing crisis demands more transparent data streams.

Selling Slowly to Maintain Prices

A third major area of concern relates to land supply and the ability of developers to slowly sell properties to the market at greater prices. Successive Victorian governments have enacted policy to enable land supply in the greenfields. Government measures have included expanding the urban growth boundary, establishing the Precinct Structure Planning process to provide developable greenfield land and coordinating trunk infrastructure.

The response has been to rezone land and then provide very little oversight, as if the market works free of monopoly power.

DEWLP's Urban Development Report - Greenfields is reasonable, with the most recent report outlining an 18 year short term land supply currently available.[3] This increases to 25 years for the long term. According to the metrics provided in Plan Melbourne, this is sufficient for affordable outcomes to occur.

A cumulative analysis of land rezoned over time, but unbuilt, would provide a more complete picture.

The government needs a measure that includes the cumulative zoned capacity - looking at the amount of land rezoned and shovel ready, but which has not yet been built upon. We would like to see analysis similar to the graph below, from the UK, to give consumers a better understanding of the availability of developable land supply.

[3] The Urban Development Report - Greenfields

Source: Centre for Progressive Capitalism, UK

Much is made of the cost to the private sector due to planning lead times and delays. How long were the planning delays compared to the project completion? These are often a comparison of months (planning) compared to decades (developer). Unfortunately, there is little visibility of the prevalence and impact of scarcity traps. Instead, our MP's and bureaucrats are left exposed in negotiations with the state's most lucrative industry because there is insufficient data to defend the public interest. Privately held rezoned land banks escape oversight.

We welcome the ABS preliminary investigation of indicators to measure the relationship between land-use regulation and housing supply. These metrics are promising and we commend that work to the review in the hope it eventuates.

We ask these questions as preliminary data on the behaviour of developers in master planned communities demands further investigation into the development process.

Prosper is currently researching on the timing and size of staged lot releases in a cross-section of greenfield estates. Preliminary findings suggest that the rate of supply is correlated to market conditions. When times are good, and the market is hot, supply opens up. When demand slows, sale rates contract. Rather than continuing to build at lower prices, lot sale rates drop.

We accept that is standard economic behaviour, with developers acting to maximise returns. However, this practice suggests that government action to rezone land is insufficient to put downward pressure on prices in greenfield contexts. This practice is extolling $100s of millions of dollars in these master planned communities. Housing policy makers do not understand this process. Governments have tried for 20+ years to provide sufficient land supply but prices have still increased.

We would like your assistance in bringing these practices to the attention of the Victorian Auditor General.

Our recent Victorian budget submission provides suggestions on a reform pathway that will benefit consumers whilst rewarding innovation and growth.[4]

Off the Plan Purchases

Off the plan contracts require improved oversight so that developers cannot use people's money without providing the home contracted. Anecdotal evidence abounds of developers accepting an off-the -plan purchase and utilising the cash to build the apartment block. Then as prices rise, the sunset clause is enacted to onsell the apartment at a higher price to a different consumer. This is misleading and deceptive behaviour and needs urgent reform.

Sunset clauses usually have unbalanced "best endeavours" provisions favouring the developer/vendor. It may be time to push for a standard-form with a balanced "best endeavours" sunset clause to be set out in the Sale of Land Act, as this provisions that parties to a contract with any form of sunset clause cannot contract out of.

There has also been evidence of contract flipping during periods of high growth in the greenfields. Purchasers have placed money down, then on-sold the site before settlement, making a handy profit. This should be deterred. Indeed, some developers have enacted their own legal clauses to stop this.[5]

Across the board, consumers would be well served if there was further protection from such short term speculative gains in property that add no productive value to the economy.

Monopoly service providers in apartments

When consumers read the fine print to many apartment purchases, they are tied to a singular provider of lift maintenance services, electricity and plumbing. Consumers and their body corporates should not be locked into expensive contracts devoid of competition.

Further, a document of transparency must be provided to consumers, so they know what accompanying service costs are tied to ownership.

Recommendations

1. A public interest concession for housing researchers be enabled for Valuer General data.
2. That a reformed vacancy rate be developed and maintained by a government agency. This should be a hybrid of the SQM Research data scraping model

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[4] Prosper's 2022-23 Victorian Budget submission
[5] Staff reporter, Urban.com.au, Speculators selling off its Melbourne land lots for profit

with Prosper Australia's Speculative Vacancy measure (utilising abnormally low water consumption as a proxy for vacancy).
    a. A government agency such as DHHS should be tasked with the role of producing this data.
3. That the Auditor General investigates drip-feeding practices in master planned communities. The following questions should be asked:
    a. Did the additional supply assist affordability?
    b. How much did prices increase by?
    c. Were supply levels reduced during market corrections to put a floor under prices?
    d. Are supply levels altered to maximise profits?
    e. If so, can government's rely on private land and housing supply to deliver greater affordability?
    f. How could a fairer Developer Contribution model ensure infrastructure costs are spread over those who occupy the home over 20 years, rather than an upfront purchase adding to mortgage interest costs and passed on into the future.
4. Off the plan purchases are protected by fairer sunset clauses. Developers should be deterred with a 25% penalty fee for any deposit returned from such on-sales. Alternatively, they could be regulated away.
5. Greenfield contracts should not be able to be flipped prior to settlement.
6. Apartment consumers should enjoy the benefit of competitive tenders for regular services such as lift maintenance, electricity and plumbing. These contracts should be put to tender every two years.

Thank you for the opportunity to present these reform opportunities.

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