

Speculative Vacancies Report Summary

By Karl Fitzgerald

Analysis of 1,015,599 residential properties shows that 60,103 properties (5.9%) were potentially vacant over the study period, having consumed less than 50L/d. This figure rises to 90,730 when extrapolated across the entire residential property market. A large number of commercial properties (24.2%) were also potentially vacant in the suburbs where data are provided. These potential vacancy rates suggest a considerable underutilization of business-related property, analogous to the unemployment rate for labour. Caroline Springs had a 64.4% commercial vacancy rate.

One hypothesis to account for why these properties remain vacant is the escalation in capital appreciation of property values (specifically land values) as housing prices in Melbourne have risen by 180%, adjusted for inflation and quality, between 1996 and 2010.

It is argued that a substantial land value tax would serve as a withholding cost and helps to blunt capital appreciation, ensuring landlords cover costs through rental income, not capital gain.

It is arguable the \$4 trillion dollar land-owning class is the most powerful lobby in the country, ensuring that the government attends particularly to its wishes, first and foremost. For these reasons, politicians and government bureaucrats have been falling over each other to subsidize and protect land owners, despite the very real economic costs and social problems their behaviour generates.

Phillip went to extensive lengths to meet past criticisms of our report:

- According to Melbourne Water per capita residential water consumption was 140L/d during 2010/11. During one week in April 2011, consumption reached record-low levels at 120L/d per capita.
- The occupancy rate is approximately 2.5. Using the average per capita figure of 140L/d, an estimate of household water consumption equates to 350L/d. This is seven times our deemed cut-off point of 50L/d for a property.
- It is possible for water leaks on a property to 'consume' a level of water daily above this cut-off point- estimates

range between 20 and 300L/d for a leaking tap or toilet. A 1mm hole in a pipe can result in leakage of approximately 3,000L/d.

- Water tanks - as of 2009, 78% of households did not have a water tank installed on the property. Of the 22% with a water tank, 7% had the tank plumbed into the dwelling and the remaining 15% were not connected.
- A downward bias may be present in the data if blocks of apartments and units are serviced by a single water meter.
- Sole person households whose occupants are fly in, fly out (FIFO) workers could account for some low water readings. Evidence suggests that one and two occupant households consume an average of 231 and 382L/d, respectively.

REIV Methodology Flawed

Philip's desire to get to the nub of the story saw him visit the REIV offices in person after a number of week's of fruitless emails and phone calls. He found that widely quoted REIV vacancy rate was a voluntary measure completed via an online survey.

Other key findings on the REIV vacancy method:

- Approximately 70% of all agencies in Melbourne are affiliated with the REIV
- The sample size used to derive the vacancy rate tends to be around 15-20% of total rental stock on agency rental rolls.
- When the current vacancy rate for an area differs substantially from last month's rate, it is excluded on the basis of inconsistency.
- The data and methodology are not audited by an independent third party to verify quality outcomes, and performing the analysis in-house leads to a conflict of interest, as the REIV ultimately represents real estate agents, not vendors or the public.

Findings

Table 3.1 shows the top twenty suburbs by potential vacancy rate, excluding those with less than 1,000 properties to eliminate statistical anomalies. 19 of the 20 suburbs were in the area managed by CWW, suggesting that residents prefer the eastern rather than western suburbs. Essendon North ranked at the top, with 212 out of 1,449 properties (14.6%). Surprisingly, many of these suburbs are in inner and mid-rim locations, while some are out on the fringes. Given the desirability of close proximity to the city, inner suburbs would be expected to have the least potential vacancies.

Suburb	Total	<50L/d	Ratio
Essendon North	1,449	212	14.6%
Docklands	1,951	275	14.1%
Williams Landing	1,476	200	13.6%
Truganina	3,636	468	12.9%
Niddrie	2,484	289	11.6%
Footscray	7,351	842	11.5%
Albion	2,003	206	10.3%
Maidstone	3,483	353	10.3%
Altona	5,327	545	10.2%
Airport West	3,552	359	10.1%
Tullamarine	1,875	186	9.9%
North Melbourne	5,574	529	9.5%

Table 3.1

Why are Properties Held Vacant?

Since 1996, Australia has experienced yet another boom in housing prices (specifically land prices), fuelled by the loose lending standards of financial institutions and generous tax subsidies for property. These two factors have ensured that property speculation is an immensely profitable activity, becoming a national pastime for Australians. Melbourne has become a focal point of frenzied debt-financed speculation, resulting in the greatest escalation of housing prices in its history.

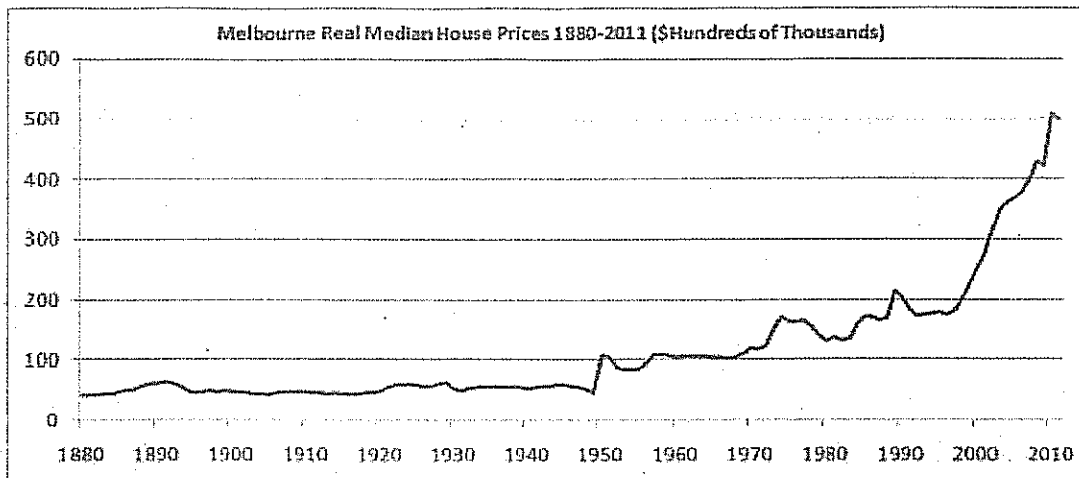


Figure 4.1

From 1996 to the apparent peak in 2010, housing prices increased by an astronomical 180% before falling slightly in 2011. Median property prices have jumped from \$175,000 in 1996 to \$500,000 in 2011, at an average rate of \$22,000 per year; the compound annual growth rate over this period is 7.25% in real terms. Melbourne's property market, however, is not homogenous. Some local markets have appreciated faster than others, especially the wealthy inner suburbs. It is not unusual for properties located in these areas to grow \$50,000 - \$100,000 in annual value over the last decade, yielding enormous returns for investors. This is unsurprising, as expensive locations are the most desirable, and will thus appreciate at a faster rate than other areas.

Figure 4.2 shows the disparity between the trends in Melbourne's housing and rental prices. While housing prices have increased astronomically, rents did not begin to rise above the rate of inflation until 2006. ...The rapid run-up in

housing prices has provided a lucrative torrent of windfall gains via capital appreciation for investors while rents have not kept pace. Faced with this set of circumstances, investors may conclude that renting properties make for dubious investments when factoring in the wide array of costs associated, including time and effort.

Further detail can be found on this well referenced 39 page document at:

<http://www.earthsharing.org.au/?p=3151>

The last 5 years of reports and press releases:

<http://www.earthsharing.org.au/campaigns/>

Karl Fitzgerald on Housing shortage questioned again:

<http://www.earthsharing.org.au/?p=3259>

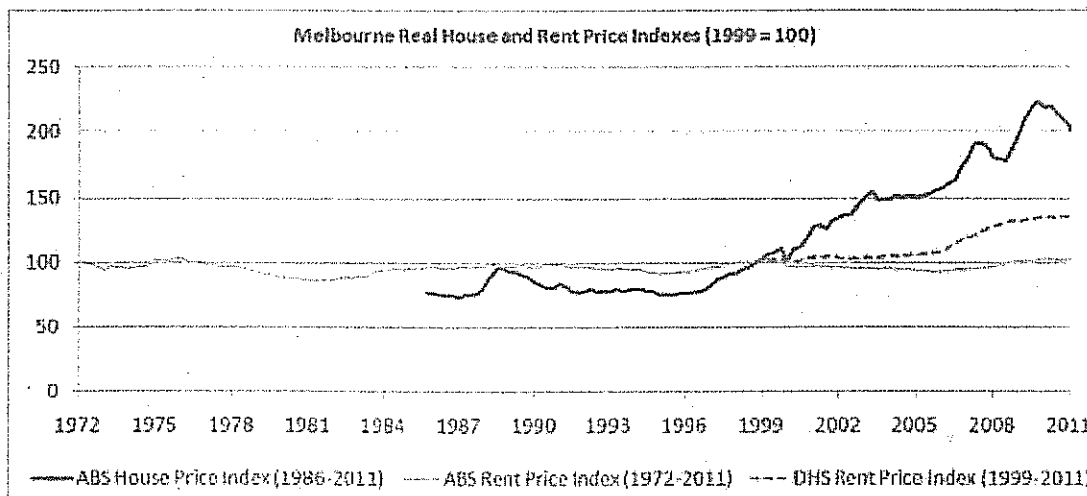


Figure 4.2