

# I WANT TO LIVE HERE

Vacancies in Melbourne Report

# EXECUTIVE SUMMARY

Between January and June 2008 in the midst of the “rental crisis” 2,317 vacant properties were identified in the inner suburbs of Melbourne.

The genuine vacancies identified represent 7% of housing in inner Melbourne. Rental vacancies were reported by real estate research bodies as being less than 1%.

At least \$1 billion worth of property is currently accommodating nobody and generating no rental income.

Between the 2001 and 2006 census, Melbourne’s unoccupied dwellings increased by 18.14%. Dwelling construction outpaced population growth by 1.81%. This identification of the surplus was available to the Australian public in 2007.

Despite the increased supply of housing, Melbourne experienced both a housing affordability crisis and a corresponding rental crisis.

The housing bubble is the result of speculation. It is a failure of the market to conform to the expectations of economic theory.

There is no housing shortage in Melbourne; instead there is a housing bubble. The rental crisis relates to a shortage of landlords willing to lease their properties.

Landlords holding these speculative vacancies did not make them available during the rental crisis despite the reported shortage and the inflation of rents. Taxation of property in Australia encourages speculative vacancies and discourages the transfer of property.

To clear the total properties identified in our area of study in a year would require 347 property sales or leasing per week for a year, with no new vacancies entering the market.

Government policy is based on the assumption that housing is being used efficiently and that there is a shortage of housing despite access to information that indicates the high proportion of genuine vacancies.

Government housing affordability policies have served to subsidise speculators and the Real estate industry through the First Home Buyers Grant and the Commonwealth Land Supply Initiative.

A lack of investment in decentralised infrastructure by government allows Melbourne inner city landlords a monopoly over land with access to public infrastructure. This monopoly protects speculative properties from supply based solutions.

Speculation is viable due to the relatively negligible holding costs of owning property that accommodates nobody. Property prices have historically outpaced rental income and wage growth. CIV rating systems on house and land prices also serve to encourage landlords to allow housing to fall into disrepair.

Transfer from speculative vacancies to occupied properties would result in more affordable housing and downward pressure on rents.

The simplest way to make the market efficient is to charge landlords a holding cost based on the best use of the location.

Once holding costs are in place, transaction costs should be minimised through a reduction in Capital Gains Tax and Stamp Duty. This is the only efficient supply side solution.

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# PROBLEM

## A Socio- Economic cost

Shelter is a human need that occupies the same importance as food and security. As such it must be first and foremost the responsibility of all levels of government to ensure housing is affordable and accessible.

In late 2007 we saw a change of government that was the result of a disenfranchised community demanding change in the areas (among others) of climate change, foreign policy and housing affordability. Ordinary Australians were finding themselves priced out of the housing market or under severe mortgage stress.

In the pursuit of affordable housing (and perhaps easy profits) populations have migrated outward into new housing developments, unable to afford to live where they want.

Meanwhile the incidence of unoccupied houses increased in the choice locations, their owners anticipating capital gains arising from the desirability of living close to employment, education and infrastructure.

Urban sprawl creates a wasteful cost as residents denied well serviced accommodation demand infrastructure to ease the congestion of their longer commutes to work and public services.

In 2008 we are in the teeth of a deflating housing bubble. Popular economic thought relies on rational investment self correcting housing affordability through supply and demand. Increasing number unoccupied houses and the subsequent asset bubble cannot be explained by popular economic theory.

## Lack of present information

Vacancy in reference to real estate is reported in relation to rental properties only. Various institutions such as REIV, Australian Property Monitors and HIA publish these figures. They are however a proxy for the wider market. REIV's website defines the vacancy rate as (emphasis added):

“The REIV surveys member agencies to build a register of the percentage of private rental homes that are vacant. The vacancy rate is simply the number of vacant rental properties that than an agency has on its books divided by the number of rental properties they have. For instance, if an agency has 100 rental homes on its books and 5 are vacant at a point in time then the vacancy rate is 5 per cent. The vacancy rate is a general measure and it may be the case that the vacancy rate is higher in one suburb than another. The vacancy rate may also differ depending on the type of property.” (REIV 2008)

This excludes housing that is empty because the landlord refuses to lease it. It also overlooks landlords that do not list their properties through real estate agencies.

The most reliable source of data on true vacancy rates is the government census, occurring every 5 years. The 2001-2006 Census showed as house prices rose so did the proportion of vacant dwellings. Quick analysis showed over building was a problem as early as 2006. Since the 2006 Census though, genuine vacancy rates aren't measured as an important statistic by the various real estate research institutes.

A vacancy count is necessary because unoccupied houses have the potential to satisfy pent up demand. Inaccurate housing policy is created to increase the supply of housing when there is sufficient housing already produced to satisfy demand and reduce prices. In regard to prices, they represent a pent up supply that has the potential to cause a rapid fall in prices as landlords offload housing in more attractive inner city suburbs. This puts the entire construction industry at risk.

The number of unoccupied dwellings in the inner city suburbs (if made available for rent) represents the most immediate source of relief for renters. Vacant housing if sold has the potential to make housing

affordable and satisfy the underlying demand that has been labelled erroneously as a ‘housing shortage’.

### **Timing**

Most concerning to the public now is the collapse of many ‘investment properties’ that soon to be retiring Australians were depending on for a self funded retirement. These properties were bought speculatively, based on positive feedback in median housing prices.

The utility of housing has been largely forgotten. Many have exposed themselves to the Australian housing bubble assuming that housing always appreciates in price, regardless of occupants, a view propagated by the real estate industry in its literature. It is also unlikely that many Australian investors can appreciate the difference between the assumptions ‘house prices always appreciate’ and ‘house prices almost always appreciate’.

The Reserve Bank has lowered interest rates in an attempt to stimulate demand. But it does so at the risk of rising inflation (Stevens 2008). People may attempt to preserve the equity in their houses and thus holding housing that currently accommodates nobody. Vacant housing in turn stimulates urban sprawl, locking workers out of the inner suburbs. Neither outcome helps alleviate housing affordability, the rental crisis or rising costs of living.

Additional to the RBA’s interest rate policy, commuters to and from the outer suburbs have been increasingly criticising the Brumby government for the lack of investment in infrastructure.

Policy regarding housing and infrastructure is currently being based on the assumption that there is a severe housing shortage. This shortage did not exist as recently as the 2006 census which indicated a substantial number of speculative vacancies. This study has been conducted to determine what happened to the 118,604 vacant dwellings identified on census night (ABS 2007). Billions of dollars is currently spent addressing a shortage that does not exist.

### **The Melbourne Scenario**

There are many means the government could use to determine the number of speculative vacancies in Melbourne. The information or the means to determine the number exist through the various departments and utilities the government regulates.

Unfortunately, any request for information that identifies a specific address violates the privacy act. This leaves independent research facing the dual challenge of labour intensive self administered surveys and an inability to validate results.

The government needs to step up and monitor the use of properties citywide to protect Australian citizens’ access to housing, a basic human right.

For the purposes of our report, we believe that a study of the innermost suburbs that are highest in demand will reveal enough vacant properties to draw accurate conclusions about the Greater Melbourne market.

### **Scope of Report**

The “I Want to Live Here report” is intended to highlight the systemic inefficiencies of the housing market and the cost this places on the Melbourne community at large.

The report presents the extent of abandoned housing in order to reject many of the economic arguments propagated by the real estate industry and debunk the solutions proposed by policy makers in general. Policy focused namely on an increased release of land for residential development (SBS 2007). It is our hope that the government will enact policies to promote access to land and property for those who most need to live there.

## **Earthsharing Australia**

This report has been commissioned by Earthsharing Australia, a non government organisation that focuses on economic justice for all.

Earthsharing Australia's mission is to replace all existing taxes with a charge on the value of land and natural resources. We will achieve this by:

- Educating society in economics
- Seeking support for our mission
- Supporting proportional representation in all elections

# METHODOLOGY

## Secondary Data

### Research Institutes

We have taken the Australian Bureau of Statistics' (ABS) Census data to be the most accurate data available to us and as the starting point for many of our findings. Census data suggests that vacancies grew by 18.14% between 2001 and 2006. For points of comparison we have drawn on published material by the Real Estate Institute of Victoria (REIV), who also produce statistics on the housing market.

### Proxy Measures

In order to determine the net volume of vacant houses in the inner suburbs we researched objective measures of occupancy that may be collected by an existing organisation. As an essential human need we chose water consumption as being the most indicative of a speculative vacancy at a given property.

A request was made to City West Water for details on households that consume less than one efficient person's consumption of water on average per day over the first 6 months of 2008. For privacy reasons no addresses were given to us. Without a means to locate properties and validate the results, this vacancy rate is a proxy measure that merely indicates what vacancies may be in the suburbs of our study.

This data was used to draw conclusions about the movements in speculative vacancies as indicated in the 2006 Census.

### Margin of Error

50L per day averaged over the first 6 months of 2008 was chosen as the maximum usage cut-off point. Leaking water systems can consume as much as 200L per day which means vacant housing

can still consumer water. 200L is above the given efficient water use of a single occupant of 118L per day household given by Yarra Valley Water and so a lower threshold was chosen to avoid ambiguity in the results. In consultation with City West Water's data analysts other explanations for the low consumption of 50L/per day could be given as:

- Unoccupied Dwellings with leaking plumbing
- Extended Vacations by usual occupants over the period
- A sole low water using occupant

The figures provided to us did however specify accounts that used zero water that we take to be reliable indicators of vacancy. The number of properties consuming zero water was roughly 50% of the figures presented. The proportion of vacant properties consuming less than 50L was the remainder of the number of properties we found. We believe given the findings being deflated from the 2006 census that the most likely explanation is plumbing leaks within unoccupied dwellings. For these reasons we would apply a margin of error of less than 20% to the findings being either overstated or understated.

## Primary Data

Primary data was used for the function of validating results of our utility findings.

### Survey on the Ground

A ground survey was conducted in West Melbourne on Friday 10th October 2008. The survey covered the streets of the entirety of West Melbourne and took approximately 4 hours for 3 surveyors to

complete. The survey involved identifying potentially vacant properties in the suburb of West Melbourne. The survey involved identifying potentially vacant properties in the suburb of West Melbourne.

### Logistics

The survey involved volunteers systematically travelling the streets of West Melbourne which were divided into three survey areas. From the street, any potentially vacant buildings if identified were photographed and the reasons for identification and address noted. Further details of the methodology can be found at <http://renegadeeconomist.files.wordpress.com/2008/07/edetecta55.pdf> a grass roots movement promoted by Earthsharing Australia.

### Margin of Error

The survey is a highly subjective method of identifying vacant properties. Whilst some properties are easy to identify by Real Estate signs advertising their vacancy, speculative vacancies have only visual clues such as the general state of repair, presence of junk mail, boarded windows, non-moving power meters, unfurnished front rooms visible from the street and garbage bins blocked in to the property indicating disuse. Any combination of these visual clues would be recorded. However in the case of apartment buildings, speculative vacancies were not determinable.

Many single story terrace houses can be quite presentable in terms of the state of repair whilst exhibiting no sign of habitation.

Because of the inner city location, it is also likely that landlords leaving their properties empty would maintain them so as not to affect neighbouring property values, draw complaints about the property or attract squatters.

Properties were only recorded where the visual evidence favoured an uninhabited conclusion. Absence of evidence of habitation was therefore disregarded from the survey. For this reason whilst

our utilities data supports 43 buildings being vacant in the suburb of study, whether the buildings identified correlate with Census data or information provided by City West Water is not known.

For these reasons we would apply a margin of error of 50% to the survey methods findings.



# VACANT PROPERTY IN INNER MELBOURNE

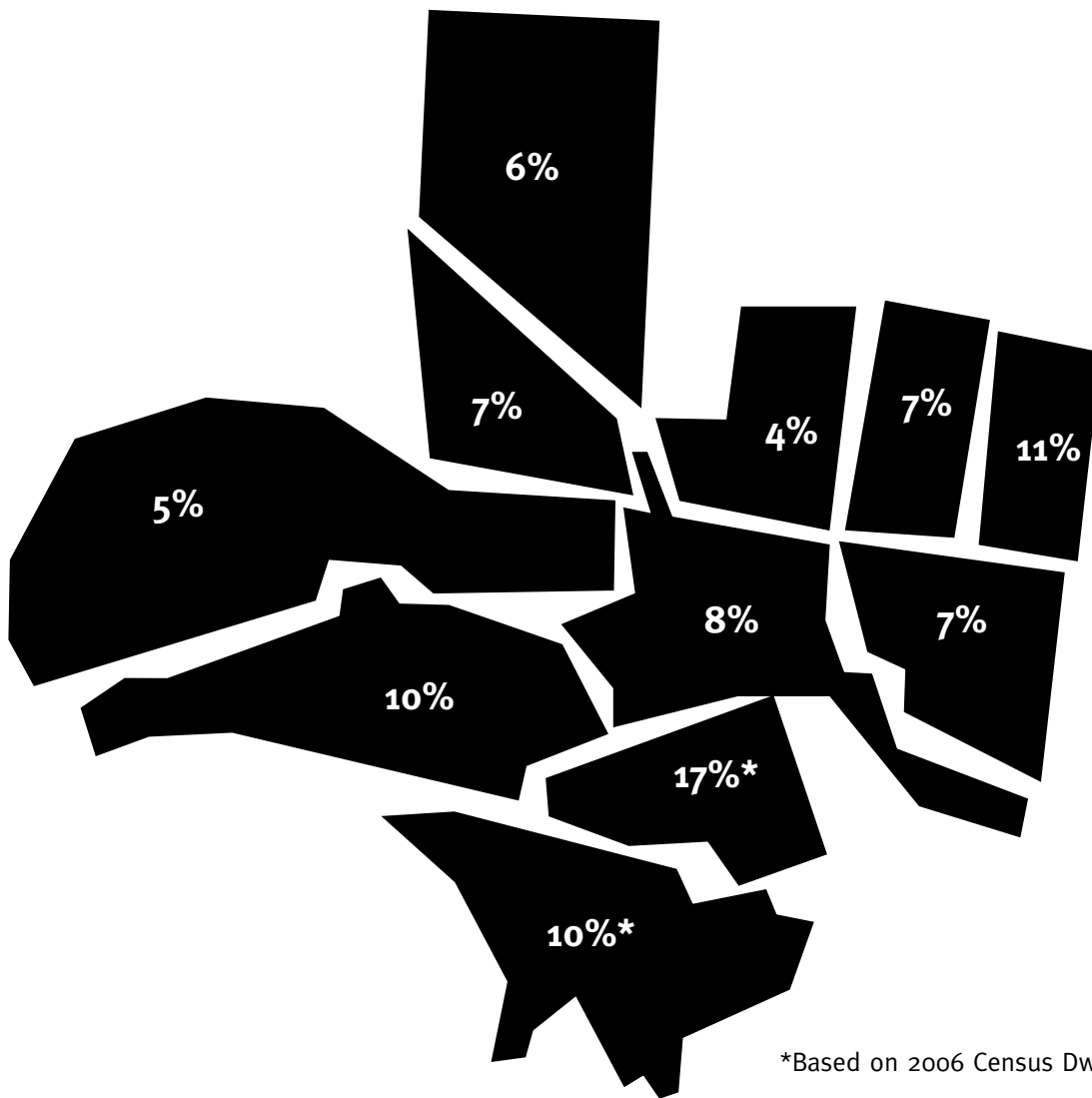
## Jan-Jun 2008 City West Water

Serviced Properties with 50L/day consumption or less

Suburb Name	Vacancies	Total Properties	Vacancy Rate
MELBOURNE	841	10591	8%
CARLTON	242	5653	4%
CARLTON SOUTH	78	1812	4%
NORTH MELBOURNE	299	4348	7%
FITZROY	265	3840	7%
EAST MELBOURNE	160	2270	7%
PARKVILLE	100	1778	6%
COLLINGWOOD	184	1738	11%
WEST MELBOURNE	69	1444	5%
DOCKLANDS	79	753	10%
<b>Total</b>	<b>2317</b>	<b>34227</b>	<b>7%</b>

## 2006 Census Dwellings Data

Suburb Name	Vacancies	Total Properties	Vacancy Rate
MELBOURNE	1034	9276	11%
CARLTON	506	6812	7%
NORTH MELBOURNE	393	5064	8%
FITZROY	197	4120	5%
EAST MELBOURNE	399	2793	14%
PARKVILLE	172	1513	11%
COLLINGWOOD	249	2969	8%
WEST MELBOURNE	63	1283	5%
DOCKLANDS	631	2561	25%
SOUTHBANK	992	5862	17%
SOUTH MELBOURNE	472	4850	10%
<b>Total</b>	<b>5108</b>	<b>47103</b>	<b>11%</b>



\*Based on 2006 Census Dwellings Data.

## Total Number of Unoccupied Housing in Inner Melbourne

### Potential Housing from Speculative Vacancies

2006 5,108 Dwellings at 2.0 persons per household = 10,216 people housed

2008 2,317 Inner City Dwellings (excluding South Melbourne and Southbank) at 2.0 persons per household = 4,634 people housed

2008 A total of 18,070 speculative vacancies in City West Water's Greater Melbourne service area at 2.0 persons per household = 36,140 people housed.

# FINDINGS AND CONTEXT

## **Potential Impact of Vacant Housing**

If the housing market were made to be efficient many more people could be housed where they want to live. The results provided by City West Water suggest an average 7% of inner city properties are vacant. This equates to enough properties in City West Water's service area alone to constitute an entire suburb larger than Collingwood of potential housing.

**It represents approximately \$1,044,967,000 worth of property withheld from use in City West Water's inner city service area alone for the period (REIV 2008).**

**If 44 of the 2,317 properties were leased to tenants or sold to owner occupiers each week the process would take over a year to fill.**

**The broader 18,070 speculative vacancies would require 347 sales or leasing per week to achieve full occupancy in a year.**

If released to the market, these properties would create substantial downward pressure on housing affordability through lower housing prices or lower rents.

Our study was restricted in scope and conservative in our analysis. The problem of speculative vacancies is likely to have increased based on the 2006 Census data of which only the ABS has the resources to determine.

Our findings mean the high prices that constitute the housing affordability crisis are being supported through speculation. This allows housing to be deliberately withheld from the underlying demand in order to accelerate capital appreciation.

Further more, infrastructure is wasted on empty houses, adding congestion to the roads, longer commutes for the workforce and stressing local council budgets.

That they can accommodate people is what preserves the value for property owners. That they don't accommodate people preserves the demand that has made housing unaffordable.

The data collected from City West Water applies to the duration of a period where Melbourne was reported as being in a rental crisis. The fact that these properties were not then made available for leasing further indicates that they are being held speculatively.

**There is no shortage of housing in Australia. Instead the property market is failing. A landlord expects to profit by withholding housing from satisfying demand.**

The economic cost of unoccupied dwellings was recently illustrated by the collapse of the US subprime market. In Australia the growth in unoccupied housing between 2001 and 2006 indicates that vacancies increase in line with pricing, due to the speculative nature of investment.

Vacant housing must be by definition a cash flow negative investment as the landlord is foregoing rents. This business model can only be tolerated when a landlord confidently expects capital appreciation.

In a market downturn these properties have the ability to flood and undermine the market, swinging the supply of housing from supposed shortage into a US like housing glut.

Inaccurate housing data is distorting investment decisions to cause much pain and heartache.

What cannot be determined is the state of repair of the housing. They may be withheld from the market because the landlord has left the property to deteriorate failing to maintain them. This further highlights the problem of vacant housing, as there is little disincentive through taxes or legislation to withhold accommodation from the market.

A landlord is quite capable of allowing their property to deteriorate. They can even claim depreciation of the property as a tax deduction. In addition, CIV council rating is based on land and building prices. Any improvement to the building is penalised with higher rates. Rental housing may have been demolished or allowed to deteriorate because of this tax incentive. The penalty results in land banking speculators receiving a 30-40% rates subsidy compared to the family home.

### **Commercial Vacancies**

While this report has focused on the surplus of traditional residential housing, it is worth noting that many commercial properties in inner city suburbs are vacant and in advanced states of disrepair. Many other commercial properties may have space available (such as upper storeys of a restaurant) that are currently disused.

These disused locations present a much more efficient way to increase the supply of housing in terms of infrastructure. Instead, the market appears to encourage holding them vacant whilst developing new residential housing in outer suburbs or 'growth corridors'.

These vacant properties are well located in terms of public services. Public infrastructure is going to waste on obsolete specialised buildings. Obsolete commercial properties further enhance the monopoly power of speculators in this inefficient market.



# ECONOMIC INCENTIVES TO ABANDONMENT

## Market Failure Supply & Demand

The data from the ABS Census and City West Water indicate that the housing affordability crisis is divorced from supply and demand. The market does not behave in a manner consistent with typical supply and demand behaviour.

The contradiction is that supply has increased faster than demand with an observed result of higher prices, over and above population growth.

Neoclassical economics would instead predict that an increased surplus of housing would lead to increased competition and therefore prices would be lower.

There are two explanations available for the behaviour of house prices in relation to supply and demand.

The first is that buyers are not rational (discussed below). The other explanation is that property as bought and sold in Australia is monopolistic. The industry behaves in an anti competitive way.

In short the 'housing shortage' does not actually refer to the number of houses there are, rather it refers to the number of houses people are permitted to live in. This is the result of systematic failure of the market to encourage competition in housing.

## Irrational Consumers

The behaviour of consumers in creating a housing bubble is analogous to crossing the street. An investor reasons the time to cross the street by watching the traffic closely. The consumer behaving speculatively determines when to cross the street by watching other people crossing the street. This may work safely in the short term; however our knowledge of traffic tells us that it cannot continue indefinitely because the traffic is bound to change.

Real-estate as an investment is far more complicated than crossing the street. It is an investment that requires an understanding of the underlying business model.

In 2004 the Howard government put together the Consumer and Financial Literacy Taskforce to determine how well equipped Australians are to make complex financial decisions. The report concluded that:

“

The number of different information providers, programs and sometimes conflicting information can result in consumers feeling bewildered and mistrustful. In these situations, consumers tend to resort to easier and more trusted sources of information such as the media, friends and relatives.

” (taskforce 2004)

Furthermore Josh Fear of the Australia Institute built on this report with independent research to explore whether superannuation choice deregulation was detrimental to Australian consumers. Amongst his findings:

“

Focus group feedback uncovered a range of approaches to financial decision-making that could be described as 'irrational'. These included lack of planning, excessive reliance on advertising for information, non-systematic ways of making decisions, not endeavouring to understand the necessary information, and not having or seeking out the right information.

” (Fear 2008)

Both reports find substantial evidence of irrational consumer behaviour in Australia. A lack of financial literacy in Australia serves to increase the chance of bubbles occurring. Australian consumers relying on advertising or taking advice from their social circle

makes them vulnerable to targeting by interested parties.

Whilst it is hard to directly explain speculative behaviour, it is clear that Australian consumers are operating in a “bounded rationality” to borrow Alan Greenspan’s term.

Specifically, a significant portion of Australian consumers believe that a house whether useful or not will increase in price and that this increase in price equates to an increase in wealth.

So powerful is this belief that many Australian consumers have bought property at prices that have appreciated faster than wages and rents.

This expectation creates a mentality where an owner occupier can be happy to sacrifice increasing proportions of their income to paying off debt when the same need for accommodation could be rented at a much lower amount. This mentality can be tolerated only in the belief that the sacrifice will result in a future profit, a simple matter of selling the house at the right time. If it is considered rational to buy a house for much more than one can rent one, then the rationale can be extended to owning a house that doesn’t accommodate anybody.

We must abandon the assumption that consumers will act rationally, based on the behaviour of the housing market.

## **Speculation**

Investment in capitalist terms refers to providing capital in return for entitlement to the profits of that business. This is no less true of owning housing, which is a business.

An investor in real estate purchases a property and constructs housing in order to provide accommodation. As accommodation is a needed service the investor should be able to receive revenue

in the form of rent to deliver a reasonable return over the period of ownership. Even if the investor occupies the property themselves they would expect the savings on rent to be beyond the cost of ownership.

Capital appreciation is an additional means an investor can earn money from property. Should the profitability of home ownership improve (expressed in the ratio of rents to purchase price) the value of the capital would drive the price up in the market. Purchase decisions based on these rationales only entitle a consumer to the moniker of investor.

A speculator simply buys the property anticipating the increase in price based on the past history of price increases. This occurs in exactly the same manner as someone deciding to cross the street because people are crossing the street. One could assume various rationalizations as to why the price could increase in the future, such as a population growth or a monopoly on a scarce resource. Such rationalizations, however, only serve to encourage further speculation.

## **Debunking the Rationalizations**

Population growth is often employed as an explanation of housing prices and future growth trends the world over. Author Fred Harrison of the UK points out the same argument being touted prior to the US subprime mortgage collapse.

“

The Baby Boomers of post-World War II had bought their homes in the 1970s, and the number of young first-time buyers declined thereafter. As an explanation for house prices – and the propensity to speculate in land, and the macroeconomic impact of those prices on people’s daily lives – the demographic thesis was flawed. It did not take account of rising incomes. In the final decades of

the 20th century, as incomes rose, people demanded larger homes in more desirable locations. This drove up the price of those locations – land.

” (Harrison 2007)

The monopoly on desirable locations is a far more acceptable rationalization. Preference sees living in a well serviced inner suburb as more desirable than a poorly serviced outer suburb. A house in an inner suburb is permanently scarce in supply and so a seller could reasonably assume that they will find a buyer who wants to live there.

**On this assumption it becomes acceptable that an empty house that could accommodate someone will still be in higher demand than an outer suburb house that does accommodate someone.**

However, It does not excuse buying property at any price.

Fred Harrison also points out the danger when property prices increases faster than wages:

“

[U.S.] Prices were running at more than twice the rate of inflation – well above the rate of increase in people’s wages. This meant that homes were becoming less affordable.

” (Harrison 2007)

This is an identical experience to Australia’s property market. Logically, housing as a service should follow wages rather than outpace them. Whilst many can anticipate future income for some period of time, in a situation where property appreciation outpaces

wages, speculators are forecasting their future income with an increasing level of uncertainty.

### **A Waiting Game**

The monopoly on locations does not provide landlords with a despotic power to extract wages from their tenants. While certainly tipped in a landlords favour, consumers have some recourse in Australia particularly.

When property as an asset class is assumed to appreciate indefinitely, a consumer’s behaviour adopts a bounded rationality. Given the assumption the price will rise indefinitely, it becomes irrational to rent as this is regarded as ‘dead money’, paying off ‘someone else’s dream’. It also becomes rational to take on as much debt as you can afford in terms of cash flow when you anticipate prices to outpace wages.

An Australian consumer instead of being forced to rent accommodation can instead have their own accommodation built in a ‘growth corridor’. This bounded rationality helps to explain the overbuilding in Australia.

A landlord is not without recourse either; so long as they can afford their mortgage, a lack of tenants will not force them to sell. A landlord can hold their property empty until they get the price they want. There are negligible holding costs to owning property and significant transaction costs.

A purchaser of a property must pay stamp duty whilst a selling investor must pay Capital Gains Tax. Both taxes serve to discourage the transfer of property. Land tax and council rates currently serve as holding costs; in proportion to the capital gains realised in inner city property, they are completely ineffective in fighting speculation.

To illustrate how taxation encourages a speculative waiting game and in effect wastes accommodation, we can compare it to public parking. If consumers could purchase a title to a public parking in the CBD

and were only taxed upon leaving the space we could anticipate entrepreneurs reserving empty spaces. This would cause an artificial shortage as they waited for consumers desperate enough to purchase the title at a grossly inflated price.

Like public parking, property derives most of its value from location. Although it is private property, 'location, location, location' is an expression of access to community assets. In practice someone occupying a parking space cannot play a monopolistic waiting game because they must reimburse the community or face steep fines so long as they are tying up community resources.

It is this waiting game that drives consumers outwards in pursuit of their own appreciating asset. In turn this behaviour causes artificial demand for new housing and the new housing causes demand for publicly funded infrastructure to service it.

The ability of landlords to play the waiting game is the most likely explanation of how speculative bubbles and overbuilding can occur in a 'housing affordability' crisis.

### Rent Speculation

Classic economic theory advocates that as rents increase, landlords will be enticed to make their property available to the market. This in turn should result in downward pressure on rents as there is more competition amongst suppliers.

Between 2001 and 2006 the reverse phenomena occurred.

It is entirely possible that landlords not wanting to be burdened with low rent paying tenants withheld their properties from the market, increasing competition and forcing consumers to bid up rents to maximise the capital gains.



# CURRENT SOLUTIONS

## Government Affordable Housing Initiatives

Neoclassical economic theory based on the presence of significant vacant housing has failed to deliver competition in the housing market. As a result it falls to the government to intervene via policies to correct the affordability crisis. Such policy should not be necessary under the very economic doctrine that informs policy making. Nevertheless a number of government schemes have been put in place to try and resurrect housing affordability for first home buyers.

### First Home Buyers Grant

The major problem with grants in dealing with affordability is that they stimulate demand, resulting in higher prices. Targeted grants such as the Rudd governments differentiated First Home Buyers Grant (FHBG) of \$21,000 for buyers of new housing may stimulate further use of vacant lots. However \$14,000 FHBG for existing homes as an inflation of the previous \$7000 is a misappropriation of public funds.

The most likely rationale to spend public funds in this way is in an attempt to reinforce 'the wealth effect' rather than achieve affordable housing.

The initiative falls down on its design as a reward for speculative behaviour. Houses a landlord was confident of selling before the announcement of the grant will simply have \$21,000 or \$14,000 respectively added to the price. It is a subsidy for house sellers not buyers.

If there was a very short term time limit on the grant it may stimulate transactions. However it is far more likely to result in inflated prices and encourage further speculative holdings.

### First Home Savers Account

The first home savers account affects long term demand for house prices and is not targeted at increasing the supply of new houses. It is designed to provide incentives for homebuyers to use a large deposit and be less tied to debt. It also restricts first homebuyers to buying in five years time. It may then defer demand. If the recent escalation in prices can in part be attributed to Superannuation funds becoming available for investment purposes, a similar minor surge in demand may occur when the 5 year term on the accounts matures.

It also shares similar characteristics with the grant (and presumably can be used in conjunction with it) in that it involves the government foregoing tax revenue they would ordinarily be entitled to and makes it available for subsidising housing prices.

The tax incentives serve to increase purchasing power, increasing demand. This will result in higher prices thus rewarding sellers not buyers.

### Public Housing

Public housing develops and reserves housing for low income families. It is property that is removed from the market to satisfy the lower socio-economic needs. It serves to accommodate people who otherwise would not be able to obtain housing in the normal market.

It serves to create market distortions by establishing a price ceiling for housing that is lower to adjacent properties whilst enjoying the same infrastructure. In a narrow definition of affordable housing, it can provide accommodation that is priced within 30% of the household income of the occupants. It does come at public expense and also serves to make private property with access to the same infrastructure scarcer in supply. This means there is less supply to satisfy demand in the area and inflates

neighbouring house prices. In some cases it can devalue neighbouring property due to perceptions of vandalism, violence etc.

### **Commonwealth Land Supply Initiative**

An increase in supply of land for development is risky for the real estate industry when property is not being utilised properly. Without sufficient incentives in place, new properties are underpinned by the same economic model that generates unoccupied houses currently. An increased supply of housing provides rationalization for speculation, in that the housing could be used to accommodate people. Whether it does or not is at the owner's discretion. In 2007 there was evidence that Australia's large development firms were buying up more vacant blocks of land than they were selling in order to corner growth corridors (Ben Schneiders 2007).

Without penalties or incentives for the misuse of existing land and housing, an increase in new houses can be expected to suffer from the same speculative behaviour. An increase in supply may house some Australians in a location they wouldn't have chosen had inner city vacancies been made available to them.

Between 2001 and 2006 the net effect of increased housing was 14% of new houses built in Melbourne were never lived in. (bubblepedia 2008). Without tax reform any increase in the supply of land for development of houses will not be an efficient solution.

Without an efficient property market new housing can be expected to be held as a speculative vacancy for the exact same reasons as the inner city.

## **Community Action**

### **SHAC Melbourne University**

In the first half of 2008 Melbourne University released figures suggesting up to 440 students were homeless. A student activist group labelling itself the Student Housing Action Collective occupied unutilised houses owned by the University in Faraday St.

Many of Melbourne University's student population consist of international or rural students that require accommodation for the duration of their studies. Being a period of only 3-4 years, this means landlords can provide real value by taking on the long term ownership of properties and providing housing for the students.

However, with escalating house prices more speculators are attracted into the neighbouring property markets of Carlton, Parkville and North Melbourne and the number of speculative vacancies increased by 333 during the housing boom of 2001-2006. (ABS 2007)

Squatting is the only recourse currently in existence to force a landlord to accommodate community members. It represents a failure of the market to reach an acceptable price equilibrium. A speculative landholder wishes to profit without providing any utility to consumers and a squatter wishes to profit by utilising a resource without paying rent to its owner.

Squatting is not a market device and is insufficient as a disincentive to abandonment, as evidenced by the long term persistence of the problem of vacant housing.

### **Increased Welfare**

Increased benefits for students such as Youth Allowance and rent assistance will ultimately fail due to the monopoly power of land over infrastructure. Any increase in purchasing power can be absorbed directly by landlords due to the insufficient supply to meet demand. It is another inflationary measure by propping up demand. There are many landlords who do not opt to lease their properties in the current rental market even in high demand areas.

It is unlikely to result in an efficient and affordable housing market.



# RECOMMENDATIONS

In summary, the 'I Want to Live Here' report calls for a solution which results in the efficient use of housing, through an efficient housing market.

RBA Governor Glenn Stevens in response to the world financial crisis posed a question to the Australian Institute of Company Directors on 17th of September 2008 (my emphasis):

“The main [question], put at its broadest and simplest, is whether something can and should be done to dampen the profound cycles in financial behaviour, with associated swings in asset prices and credit, given the damage they can potentially do to an economy.”

In relation to land and housing as an asset class, we believe it can be done and quite simply. Our recommendations progressively build towards an efficient market that will allow people to live where they want to live.

## **Formalise the Count**

At best organisations like Earthsharing can only produce an estimate of vacant properties in Melbourne. Professional research institutes such as HIA, REIV, REIA and Australian Property monitors disregard use of housing and focus on supply and demand factors. Our secondary data cannot be validated due to addresses being protected by the privacy act.

The Government has the information on hand to draw accurate conclusions about the supply of housing in Melbourne. It instead relies on similar flawed methods from real estate and construction industries that have significant interest in finding shortages.

We recommend the government or ABS formalise a count of Vacant properties that includes vacant accommodation, commercial buildings and vacant blocks of land. It needs to be sufficiently frequent to provide information to the market in a timely

manner. The government has a responsibility to inform themselves of market inefficiencies before releasing land for development or creating distortions in the housing market through incentives such as the First Home Buyers' Grant.

## **Educate public on asset class**

Property mortgages are the most significant form of debt held by Australian households. Home ownership and the recent emphasis on 'buy to let' properties designed to sustain a self funded retirement are emotional issues in Australia.

Australian financial literacy is inadequate to ensure responsible investment in real estate assets. With the most accessible form of information on real estate being real estate advertising material, Australians are vulnerable to making bad investments by accepting prices divorced from a property's income (rents).

Australians need to understand that housing investment is a business that requires positive income. It cannot sustainably rely on capital appreciation that has no basis in the fundamental business model or real economy.

## **Apply pressure to negligent landlords**

Petroleum's value is in its use. The Australian government has placed pressure on OPEC nations to increase the supply of oil in order to relieve the financial burden on Australian consumers. Applying the same rationale, we would expect that the government would actively petition owners of private property to make their housing available to Australian consumers so their utility is maximised and the financial burden of housing is minimized.

Without public pressure for land to be utilised, all attempts to increase the supply of housing will not guarantee a relief to the underlying demand.

## **Implement Anti-Speculative Legislation**

Currently in Melbourne, somebody washing their car or hosing down their driveway would be fined for wasting a scarce resource. Wasting a scarce resource like land and its neighbouring infrastructure by leaving it empty is principally the same as using water to hose leaves off a footpath when it could be used for drinking or bathing. For this reason we call on the government to legislate incentives to utilise and maintain housing. Methods are discussed below.

## **Non-compliance Fines**

A non-compliance fine may be effective so long as it is applied to the potential utility of the location (or land) rather than the structure existing on it. This is necessary because the root cause of the problem is the monopoly held by a landlord on location. The location determines the present value of the property regardless of the structures currently located on it. This notion is often expressed as the real estate maxim 'location, location, location'.

To prevent wilful demolitions, a non-compliance fine should be based on best utility of land. A non-compliance fine however can be administered only with sufficient expense and effort to identify speculative vacancies. The best solution is to have an ongoing market mechanism such as a holding cost.

## **Increase Holding Costs**

A holding cost is an ongoing fee to landlords for their access to community assets. This is exactly how we operate public parking spaces.

Applying a holding cost to properties for utilising community funded infrastructure is similarly justified to public parking and can be based on the utility of the space occupied.

This is the simplest mechanism to ensure vacant

housing transfers from unoccupied to occupied.

With a respectable holding charge based on the site's potential any landlord has an ongoing obligation to use the land productively or else lose money. This removes any rationale to speculate on capital appreciation. It would also return property prices to the income a site can generate. Any ongoing holding cost is a source of revenue for the community to maintain and improve services to the area.

Any holding costs should be countered by reducing transaction costs such as stamp duty and Capital Gains Tax (CGT). This would stimulate the efficient transfer of title from wasteful landlords to those who wish to use the property as a basis of productive economic activity.

## **Minimize Transaction Costs**

CGT is payable on sale, it is a disincentive to realise the profits by selling surplus properties held. It ensures that properties will be held until speculators are confident that depreciating house prices will yield a loss greater than the penalty of paying CGT. This makes the consequences of a housing bust more severe across the entire market. From a buyer perspective the holding costs (site rentals or land tax) should also mean a reduction in stamp duty at the point of purchase.

This ensures there is a minimal disincentive for buyers and sellers to meet in the market place in order to transfer property and satisfy demand for accommodation.

## **Increase Supply**

Only in an efficient market does increasing supply stand as an efficient solution. Otherwise large developers can drip feed the market in order to preserve demand and inflate prices. Any new houses may merely be bought up and left empty for

speculative reasons.

Whilst increasing a supply of housing cannot ensure satisfying the underlying demand, the need for Anti-speculative legislation and regulation of the property market is necessary. Only when the government can be assured that existing housing is being used to its maximum potential (for agreed living standards) should it release land that contributes to urban sprawl and demands expensive infrastructure investment.



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TANYA PLIBERSEK: We've got more people who need housing than dwellings being built. So we want to encourage investment in the lower-cost end of the rental market. At the moment all of the support really makes more sense for people at the higher end of the rental market. So we'll have a \$6,000 refundable tax credit and a \$2,000 contribution from the States for each affordable rental dwelling built, as long as it's rented out for 20% below the market value in an area. We're talking about 50,000 of those in the first five years and if it works, and if the market still needs it, another 50,000. So a total of 100,000.

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