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Editorial

Hello and welcome to the Peter Rogozik Property Consulting six monthly newsletter.

The Melbourne property market has continued its subdued state this year. The good news for investors is that the quality segment, which represents only around 5% of properties on the market at any one time, continues its upward price spiral even though the remainder of the market continues to flounder. The quality segment has always remained buoyant even through the diabolical recession of the early nineties and the dark days of the global financial crisis.

Speaking of market segments the Melbourne property market has evolved into a city of real estate segments. It is no longer accurate to make sweeping generalisations about the Melbourne market. In this edition I give a brief outline of exactly what these segments are and the implications for buyers and sellers.

After completing several low density building developments in inner-Melbourne over the last 15 years, I believe the process for obtaining planning permits is seriously flawed. This is affecting the vital supply of infill housing that is in high demand by a wide variety of home buyers. Our inefficient town planning system is the main reason why Melbourne is currently experiencing a housing shortage. Consequently it is a major contributor to the affordability problem. In this issue I give a frank assessment of the current planning process based on my personal experience, and also suggest a solution.

I have always thought the concept of vendor advocacy bizarre. A real estate agent overseeing another real estate agent in the sale of a property? Many buyer's advocates provide this service. This is clearly unacceptable: you can't be on both

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Market Snapshot

As expected the first six months of 2011 has seen prices decline or remain stagnant in every segment of the Melbourne market except the quality segment. With continuing high demand and limited supply, this segment continues to produce exceptional results. It never has been and never will be a buyer's market with quality property. However, home buyers whose purchase is not solely based on capital growth aspirations have been able to enjoy substantial price reductions provided they had the necessary negotiation skills to take advantage of the current market situation.

The outlook for the Melbourne property market for the remainder of the year will be much the same as the first six months of 2011. The current subdued conditions are more a consequence of sharp price increases that occurred over the previous two years rather than any significant deterioration in the Australian economy. Also, the negative sentiment that is being perpetuated by many commentators at the moment is proving a difficult psychological hurdle for many potential buyers to overcome. Investors who are able to put aside the current negative sentiment will be handsomely rewarded provided the optimum choice is made.

The winter period will as usual make it more difficult for buyers as supply reduces while demand remains constant. The spring market will ease this situation as more properties come on the market in Melbourne's traditional selling period. The first home buyers' stamp duty cuts of 20% where the purchase price is \$600,000 or less, which came into force on the 1st of July, will increase prices at the lower end but only marginally.

As always property investors need to be patient and wait for the right opportunity to emerge. This is a less stressful process in the current market as prices in the quality segment are only increasing at a moderate rate.

Rental markets will also carry on from where they left off in the first half of the year. They will remain tight with vacancy rates hovering around the 2% mark. Vacancy rates for rental properties within 10 kilometres of the CBD will continue below the 2% mark.

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Melbourne: a City of Real Estate Segments

Over the last 20 years Melbourne's population has steadily increased and as a result new major infill developments have

sides of the fence. In this edition I give the buying and selling public the facts. No doubt this will prove a little uncomfortable for vendor's advocates and the buyer's advocates that provide this service.

Making judgements about real estate agents based on the brand they represent is flawed logic. A real estate office is only as good as the people that are running the business. The quality of service can vary greatly despite what brand a real estate office represents. The concept of a superior brand might hold true for a product but definitely not for a people-orientated service such as is the case in the real estate industry. In this edition I elaborate on this myth that is called brand awareness.

The most significant change to the real estate industry over the last 20 years has been the impact of the internet. The real estate web portals have become the prime marketing tool for real estate agents. This has had repercussions for both buyers and sellers. In this edition I explain these effects in more detail.

As usual in this edition we include our regular article, Market Snapshot. Market Snapshot outlines the recent past performance of the property market. We also present our opinion on future trends in the Melbourne market.

Feel free to contact me if you have any questions in relation to real estate or building matters. Also, if there is a specific topic you would like covered in our next newsletter, I would like to hear from you.

Regards,

Peter



been built to cater for the increased demand for housing. Melbourne has now evolved into a city of real estate segments. It is no longer accurate to make sweeping generalisations about the Melbourne market as a whole.

Nevertheless, such generalisations are still regularly made by economists and commentators who don't attend auctions on a regular basis and are therefore not aware of the segmented nature of property markets in this city. Their advice is of dubious value: making predictions about property markets purely by analysing statistics will never result in accurate conclusions. If you are considering investing in real estate it is important that you avoid generalised advice and take the time to understand how the various market segments perform from a capital growth perspective.

The following are some of the major segments that currently make up the Melbourne residential real estate scene: the CBD apartment market, the St Kilda Road market, the quality segment (optimum performing properties in prime locations between 2 km and 10 km from the Melbourne CBD), the prestige property market, Docklands, Southbank, second tier suburbs, and the outer suburbs mortgage belt. Major new developments are being planned at Fisherman's Bend, which is adjacent to the Yarra River on the CBD's western edge, and at E gate on the CBD's north/west edge. These developments will add further complexity to Melbourne's real estate landscape.

Every buyer has different goals and objectives: getting the lifestyle/capital growth balance right is an important challenge. Home buyers need to take into account such factors as proximity to work, family/friends, entertainment and health care facilities before making a buying decision. For investors the correct selection is important as the wrong choice will result in lost capital growth of hundreds of thousands of dollars in the medium to long term.

Ideally, young first home buyers will make a choice that will incorporate both lifestyle aspirations and produce the optimum capital growth. This will enable them to upgrade to a substantially better home in the future. However, no matter what the goal, understanding Melbourne's segmented market can make for better buying decisions.

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The Absurdity of Vendor Advocacy

The idea that one real estate agent would oversee another real estate agent in the sale of a property seems absurd. Yet it happens: it's called vendor advocacy. Vendor advocacy is a service whereby a real estate agent who calls himself a vendor's advocate will appoint another real estate agent to sell a property. The vendor's advocate will then oversee the real estate agent ensuring he performs his duties properly. This relatively new phenomenon preys on uninformed vendors. The vendor's advocate has essentially convinced the vendor that he is the good guy and the real estate agent is the bad guy. This is a dangerous situation for the vendor as unquestioned trust - which is essentially what the vendor's advocate is expecting - in any substantial financial transaction often results in a less than satisfactory outcome.

The service of vendor advocacy is mostly provided by buyer's advocates as a means of increasing their revenue base. This is clearly unacceptable and potentially unethical as it could easily lead to a conflict of interest where one person found themselves advising both parties to a transaction.

The service of vendor advocacy is riddled with anomalies. For instance, if a vendor's advocate purports to be so highly competent that they are qualified to manage another real estate agent, why aren't they performing the role of the real estate agent directly? The answer is that a vendor's advocate

does little of the work yet claims a substantial proportion of the commission: it's easy money. Vendor's advocates don't carry out open for inspections, don't liaise with buyers, and have minimal influence on the marketing campaign. Their main role is to review offers before they are presented to the vendor. Occasionally they will affect the outcome of the negotiation, but in the greater majority of situations a vendor's advocate will have no positive impact on the property's sale price at all. Many real estate agents who are overseen by a vendor's advocate certainly believe this to be the reality.

When a vendor's advocate is used, sales commission is shared between the advocate and the real estate agent. In other words the real estate agent's normal fee is substantially reduced, though they are still doing the same amount of work. This is all bad news for the vendor. First, the overall level of service they are provided with is likely to suffer. It's quite simple: when you are being underpaid for a professional service it is likely that the quality of your service will suffer. Nobody likes working for substantially less than they are worth, and real estate agents are no different. Second, in those situations where the real estate agent receives their normal commission, the vendor ends up paying a substantially higher total commission in order to reimburse the vendor's advocate as well. Either way, real estate agents loath these arrangements, though most reluctantly agree as it is difficult for a real estate agent in these tough times to decline a listing when a vendor's advocate calls. In their eyes, a small fee is better than no fee.

As vendor's advocacy grows, we hear of more and more situations in which vendor's advocates deceive their client (the vendor) into thinking they have achieved a higher sales price through the skills and efforts of the advocate. This is done in two ways.

In one scenario, the vendor is asked by the vendor's advocate to get a sworn valuation from a registered valuer prior to the commencement of the marketing campaign. As valuations by registered valuers are generally conservative, in the greater majority of situations properties will sell above these valuations in any case. However, many vendors are not aware of this fact and are therefore conned into believing that their 'exceptional' sale price is all down to the performance of their advocate.

In the second situation, an offer is communicated to the vendor by the real estate agent at a level substantially below what the actual offer is. The vendor's advocate then advises the vendor that he will directly negotiate with the purchaser in an attempt to increase that offer. This negotiation never occurs, but the vendor's advocate is able to subsequently communicate a higher offer to the vendor regardless. This gives the vendor the false impression that the vendor's advocate was able to extract a much higher price for the property than would otherwise have been obtained. I am not suggesting that these two deceptive methods are used by all vendors' advocates, but it does happen.

The concept of vendor advocacy suggests that the real estate agents they oversee are either not trustworthy enough or lack the skill set to market and sell real estate. This is an insult to real estate agents as their area of expertise is marketing and selling property. How could any self respecting real estate agent agree to such an arrangement? Being a buyer's advocate I would be the first to admit that there are not many real estate agents on my Christmas card list, yet in my view there are many competent real estate agents operating in Melbourne. Further, while vendor's advocates argue that they will choose the best real estate agent in the area to market a client's property, the reality is that not all real estate agents will participate in such an arrangement. It is more likely that the vendor's advocate will merely choose the real estate agent they have a close rapport with.

I believe a vendor should avoid the service of vendor advocacy.

If you are selling your home choose a real estate agent who has an exceptional reputation and a proven track record over a long period of time. A referral from someone that has actually used the real estate agent's service is an important first step.

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The Brand Myth

Making a decision to appoint a real estate agent based on brand is flawed thinking. While marketing gurus argue that building a strong brand is an important part of any marketing strategy, and many real estate agents have followed this advice, it is a myth that one real estate brand is superior to another when it comes to getting results. Property buyers and sellers shouldn't believe the hype.

After experiencing sub-standard service during the sale of their property, many vendors vow that they will never again engage the services of the franchise they used. The reality is that, as a vendor, it is irrelevant what brand or franchise you engage. What is important are the integrity, skill set and work ethic of the individual agent who works for you, not the brand or franchise he or she represents.

Virtually all real estate business's have identical marketing campaigns. Their main and most effective marketing tools are the real estate web portals used by 'big' and 'small' brands alike. The other marketing outlets, such as the glossy brochures and magazines, are 'bells and whistles' that have no effect on the eventual selling price.

A real estate office is only as good as the people that are involved in the business. The person (or pair) assigned to a listing will be directly responsible for all the important functions that are related to the selling of the property, i.e. organising the advertising, conducting open for inspections, providing information and negotiating with buyers. There are some real estate franchises in Victoria that have over 70 offices spread across the state. With hundreds of people employed in these franchises there is no way of guaranteeing a consistently high quality service in each of these offices despite the slogans and marketing spin. The quality of service in each of these offices varies greatly, irrespective of the sign out the front.

The concept of a superior brand might hold true for a product but it definitely does not for a people-orientated service like real estate sales. The important question a vendor must answer is not which brand to choose but which individuals.

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Urban Planning System in Disarray

One of the major causes of the current housing shortage in Melbourne is the fact that our town planning system is in disarray and has been for many years.

Builders and developers are required to obtain a planning permit before constructing multiple residential dwellings. The first step in the process of attaining a planning permit is liaising with the local municipal planning department. Many of these departments lack the experience and expertise to make proper decisions on development applications. These departments do not attract the most talented people in the industry as salary and conditions are mediocre.

Once an application is lodged the municipal town planners have 60 days to make a decision. In many cases a decision will not be made within the designated time period and the matter will be directed to VCAT (Victorian Civil and Administrative Tribunal) for a decision. If there are a substantial number of objections the matter will end up being voted on by the councillors. Having a planning application voted on by municipal councillors is farcical as they do not have any expertise in

planning, building or architectural matters. In most situations they will reject the application based on political motives and not on the merits of the application. It is in the councillor's interest to appease their constituents and vote no to a proposal. Once the proposal is rejected by council the application is directed to VCAT. The time period between submitting an application to council and receiving a decision from VCAT can be substantial. Many developers are unable to absorb these holding costs and are therefore driven out of the industry.

There is a suitably qualified and independent person making decisions at VCAT so parties to the application will receive a fair hearing and correct decisions are generally made. However if the application is rejected the developer has to go back to square one. This means redesigning plans and resubmitting the application to council. The same time consuming, inefficient process is then started. A second application results in extra costs of tens of thousands of dollars in architectural, planning and statutory fees. In addition, some applications can be in the system for up to four years before they are approved. Few developers can afford holding costs for this length of time.

The small to medium size developer should be the backbone of providing affordable infill housing. These developers are important as they will generally build the homes that people want to live in, i.e. low density and low level homes that are close to established amenities. The problem at the moment is not so much a housing shortage but a shortage of homes that people want to live in. Unfortunately small to medium developers are hit hardest by the inefficient planning system.

Developers are now forced to build either high density towers or release large housing subdivisions on the outskirts of the metropolitan area to solve the supply problem. Neither of these types of housing are the homes that people want to live in.

What Melbourne does not need is another Docklands or Southbank: windswept soulless communities, a multitude of concrete boxes in the sky. There needs to be a balance of low density and high density housing in inner Melbourne. The recent approval of many high density towers means that there will be an oversupply of homes that people prefer not to live in. This will further exacerbate the affordability crisis. It is important that the proposed large scale development referred to as E-Gate and the Fisherman's Bend development include a large proportion of low rise and low density dwellings. These two proposed developments are on the CBD's edge.

Another form of housing that people prefer not to live in are homes that are on the outskirts of the metropolitan area. These homes are too far from employment opportunities and sought after amenities such as health care facilities, entertainment precincts and transport hubs. These newly built outlying subdivisions require the associated infrastructure, and this comes at an enormous cost to tax payers. Also, we are ruining our flora and fauna as more and more land is released on the urban edges.

The solution to this urban planning mess is that the decision making process for planning matters that relate to the construction of new dwellings needs to be taken out of the hands of local councils. Planning applications for the construction of new dwellings should not be handled by inexperienced, underqualified, politically motivated and under-resourced municipal councils.

Decisions on important planning matters should only be made by a suitably qualified independent tribunal. There should be at least two members sitting on the VCAT panel, each with a different skill set. This would ensure the best outcomes are reached for all stakeholders. A planning process that is efficient, timely and fair to all parties would make it easier for small to medium sized developers to prosper. This would go a

long way toward increasing the supply of low to medium density infill housing, the housing that is in greatest demand by homebuyers. Consequently, it would result in more affordable housing with less cost to the tax payer and less negative impacts on the environment.

The unsustainable government strategy of throwing money at first home buyers via handouts and stamp duty reductions will not relieve the housing affordability problem, but making the urban planning system more efficient would do so - permanently.

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What the Internet Means for Buyers and Sellers

The advent of the Internet has revolutionized the way buyers and sellers are completing real estate transactions. The real estate web portals have replaced newspapers as the prime marketing tool of selling agents. By accessing the major real estate web portals, buyers can now locate opportunities anywhere in Australia where they used to be restricted to their local area. Also, buyers no longer have to personally visit real estate offices to enquire about suitable properties for sale.

Now with the click of a mouse buyers are able to view a substantial amount of information about properties for sale anywhere around Australia. This information includes location maps, internal and external photos, floor plans and descriptions. There is a downside, however, with many buyers becoming frustrated at the inaccurate photos that are displayed on these web sites. With the use of modern technology most properties advertised on these portals are made to look a lot better in the photos than they are in reality. Professional photographers using wide angle lenses are able to make rooms appear larger. Also, rooms that lack natural light are made to appear substantially lighter. Consequently buyers waste time inspecting properties that do not match what is being portrayed on these real estate portals.

For sellers of property the Internet has also provided some new opportunities. Because buyers can source property through the real estate web portals from any location it is not necessary for sellers to engage a local selling agent to sell their property. This gives vendors a wider selection of selling agents to choose from. The only prerequisite is that the selling agent's office is within relatively easy driving distance of the property. This has resulted in greater competition amongst selling agents with the vendor benefiting from a greater selection of selling agents to choose from.

Many selling agents are now including video technology on web portals as part of their marketing campaign. We have also seen short movies produced to assist in the marketing of prestige properties. Buyers need to be wary of these selling techniques. Actors and celebrities strutting around the property in designer clothes should not influence buying decisions. Buyers need to make decisions based on their individual circumstances and according to their lifestyle and investment priorities. The razzmatazz of these videos and movies rarely matches the reality of the property.

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