



Residential Property Advertising in Victoria

June 2008

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Executive Summary

Background

There has been much media attention and public interest in the disparity between advertised and sale prices for real estate in Melbourne. Prior to this research there had not been a comprehensive study of the nature of this disparity.

The key objective of this project was to provide CAV with market-based research into residential real estate advertising practices. In particular, the research aimed to investigate the accuracy of advertised pricing compared to the eventual selling price and determine the relative accuracy of advertised pricing for particular selling methods and advertising phrases.

Scope

This research does not consider underquoting within the legislative meaning (to do so would require access to pricing estimates provided by agents to vendors, so these could be compared with advertised prices), but rather considers advertising accuracy (advertised price compared to sale price) to assess advertising and method of sale practice and outcomes.

The research was based on a quantitative assessment of approximately 3000 sales, and associated advertising, in 16 Melbourne suburbs, over the period 1 April 2005 to 31 March 2007 and involved the collection and analysis of the following data:

- advertised price (or price range) of residential properties;
- method of sale used by estate agents; and
- sale price of the property

Overall conclusions

Considerable disparity between advertised price and sale price was found to be widespread in relation to auction sales. Such disparities were not typically evident in relation to private sales.

Both price plus and price range methods of advertising were widely inaccurate. The inaccuracies observed in the use of price range suggests this method of advertising may be being treated as a buyer enquiry range by agents, rather than a range within which a sale price is expected to fall. The observations from the study that 45% of

properties advertised for auction with a price range, were sold beyond the advertised range may support this view.

The most significant effect on advertising accuracy identified in the study was sale method.

Price advertising for private sales was found to accurately correspond to property sale prices generally. In contrast, agent advertising for auctions was much less accurate, with sale prices exceeding advertised prices by considerable proportions much of the time.

Key findings

Higher than expected incidence of private sales

Despite Melbourne's reputation as somewhat of an 'auction capital', the proportion of advertised private sales in Melbourne is high, probably higher in inner city areas than might be expected. This changes the dynamic of price advertising, with single price advertising used frequently for private sales in addition to price plus and price ranges.

Increasing incidence of auction sales

Auction advertisements as a proportion of all advertisements increased from 47% in the first period to 56% in the second period of the study. Outer Melbourne saw the highest increase in auction advertising, from 25% to 41% of advertisements from the first to the second period. Some seasonal effects were observed, with the incidence of advertising for auctions increasing over the spring months.

The incidence of auction advertisements had a strong correlation with the price of the property – higher priced properties were significantly more likely to be advertised for sale by auction.

Advertising phrases

Three dominant phrases were used to communicate price:

- single price (observed in 19.1% of advertisements)
- price range (observed in 16.4% of advertisements)
- price plus (observed in 64.4% of advertisements).

There is a clear dominance of single price advertising in the suburbs associated with lower average sale prices, and where many property transactions are for vacant land or new house and land packages, notably Wyndham Vale, Point Cook and Narre Warren. Single price advertising was only observed in relation to private sales.

The average size of the advertised price ranges observed in the research was very close to 10% of the low point of the range. This varied little by sale method (auction or private sale), suburb or property value.

Accuracy of advertising

Sale method and advertising phrase were significant influences on the extent to which sale prices exceeded advertised prices, with sale method being the most influential. Auction advertising was significantly less accurate than private sale advertising.

Private sales were observed to have a greater level of accuracy (ie a smaller difference between advertised price and sale price) than auctions, regardless of the way price was advertised.

Correspondingly, the use of a single price in advertising (observed only for private sales) was observed to be the most accurate advertising method, with sale prices, on average, the closest to the advertised price where this phrase was used.

Where price range was used in advertising for private sale, the average sale price was 4% above the bottom of the advertised range.

Over 45% of price range advertisements for auctions led to sales above the top of the advertised range (compared to 13% of private sales with sales above the advertised range).

Price plus advertising was observed to be less accurate in the second period of the study compared to the first.

Price plus was used in over 85% of auction advertisements. There was an increase of approximately 10% in price plus advertisements for auctions from the first to the second period.

Where price plus was the advertised phrase for auction sales, the average sale price was 11.3% above the advertised price, contrasting strongly with private sales, where the average sale price was just 4.8% above the advertised price plus figure.

Market characteristics

The price of a property had a significant effect on the relative percentage difference between advertised price and sale price – the higher a property's value, the greater the average percentage advertising error.

Suburbs with lower median prices generally had lower incidences of auction sales than the suburbs with higher median prices and vice versa. Although there were no statistically significant correlations observed between changes in median price and advertising accuracy between the two periods of the study on a suburb basis.

There was a significant positive correlation between the change in demand in a suburb and the change in the incidence of auctions in the suburb. The incidence of auctions increased in suburbs that had increased demand from the first to the second period.

Across the entire sample, there was a correlation between increasing auction clearance rates and advertising accuracy, the higher the auction clearance rate, the less accurate advertising was.

Recommendations

It is recommended that in order to effectively monitor and regulate potential underquoting, the elements of agent conduct required to establish underquoting should be monitored. This will entail access to pricing estimate data, as provided by agents to vendors. Consideration could be given to the conduct of random audits by CAV of agent's sale authorities for monitoring and comparison with advertising practices and pricing.

A number of recommendations are also made in relation to potential further research into behaviour in the real estate market, these include:

- The effect of the CAV advertising guidelines;
- Advertising conduct in light of changed market characteristics;
- Vendor/buyer attitudes toward sale methods and advertising phrases;
- The effect of auction and private sale on price outcomes;
- Buyer, vendor and agent attitudes to price ranges; and
- Agent conduct toward vendors.

Introduction

Terms of reference

The key objective of this project was to provide CAV with market based research into residential real estate advertising practices. In particular, the research aimed to investigate the accuracy of advertised pricing compared to the eventual selling price and determine the relative accuracy of advertised pricing for particular selling methods.

The research was based on a quantitative assessment over the period 1 April 2005 to 31 March 2007 of the:

- advertised price (or price range) of residential properties in 16 selected suburbs;
- method of sale used by estate agents; and
- sale price of the property.

Collected data was analysed to determine the nature of and extent to which market practices influence the differences between advertised price and sale price.

The analysis of market practices in the residential property market is in the context of macro-economic factors such as:

- average house prices;
- underlying demand for residential dwellings;
- population growth;
- interest rates;
- unemployment rate; and
- home loan affordability.

Recommendations are made about ongoing monitoring by CAV of the Victorian property market and the conduct of estate agents.

Legislative context

This research does not consider underquoting within its legislative meaning (to do so would require access to pricing estimates provided by agents to vendors, so these could be compared with advertised prices), but rather considers advertising accuracy (advertised price compared to sale price) to assess industry advertising and method of sale practice and behaviour.

The nature of this research may be aligned with what consumers and/or the media may colloquially refer to as 'underquoting'. Indeed, there may also

be significant differences between what levels of accuracy are considered acceptable by regulators, consumers and agents. Such issues could be the subject of further research.

In addition to general provisions of the *Fair Trading Act 1999* (Vic) and the *Trade Practices Act 1974* (Cth), the following provisions of the *Fair Trading Act* may be relevant to property advertising:

- prohibiting an agent from publishing or authorising false or misleading advertising (section 42), and;
- prohibiting an agent from advertising property at a price less than their estimated selling price (section 47C).

The *Estate Agents (Professional Conduct) Regulations 1997* (that were in force at the time of the research) require that an agent:

- must at all times...act fairly and honestly and to the best of his or her knowledge and ability (r 6), and;
- must not knowingly mislead or deceive any parties involved in negotiations or a transaction (r7(3)).

Underquoting is defined by reference to either a 'vendors asking price' (which will in practical terms be extremely difficult to ascertain and will likely pose immense evidentiary difficulties in the event of prosecution) or an agent's estimate.

Section 47A of the *Estate Agents Act* requires agents to provide the vendor (and include in the sale authority) a price estimate, on the basis of the agents experience, skills and knowledge, of what a willing but not anxious buyer would pay. There are a number of subjective elements to this provision that make establishing underquoting difficult.

Underquoting occurs where a real estate agent:

- advertises or advises a prospective buyer of a price that is less than the estimated selling price provided to the vendor;
- advertises significantly less than the vendor's asking price; or
- verbally misrepresents the asking price or estimated selling price.

Both the *Estate Agents Act* and the *Fair Trading Act* are concerned with the way estate agents market and advertise the price of properties.

In February 2004 the *Estate Agents Act* was amended to specifically prohibit underquoting below the estate agent's estimated selling price.

The practice of underquoting to prospective purchasers is the subject of section 47C of the *Estate Agents Act*. This section makes it an offence to make a false representation to prospective buyers regarding the estimated selling price. Section 47C of the *Estate Agents Act* also makes it an offence for a real estate agent or agents' representative to market a property at a price below the estimated selling price or price range stated on the authority to sell. Marketing of a property could either be by advertising or other representations to a prospective buyer.

The estimated selling price is:

- the price quoted to the vendor and included in an agency agreement;
- the salesperson's estimate of the market price of the property; and
- a price that can be justified to CAV.

The estimated selling price does not have to be the same as the vendor's asking price (reserve), although an agent cannot market the property below a price authorised by the vendor as required under the regulations.

The intention of these provisions (as stated in second reading speech) is to prohibit estate agents from underquoting the estimated selling price to prospective purchasers in order to encourage interest in the property and mislead prospective purchasers about affordability causing them to spend money on architect or builder's inspections or on legal fees, when in reality the property is beyond their means.

Any advertising of property must also comply with the general provisions in section 9 of the *Fair Trading Act* that prohibit misleading and deceptive conduct.

The *Fair Trading Act* also requires estate agents to:

- not make a false or misleading statement about the price of a property (s.12(g))
- not make a statement about a future matter unless they have reasonable grounds for making the statement (s.4)
- not advertise the property at a price knowing (or reasonably knowing) that it is below what purchasers would need to offer to secure the property. (s.17)

Methodology

The research involved the collection of advertising data over a two year time period from 1 April 2005 to 31 March 2007.

Advertising data were drawn from residential property advertisements in a number of sources:

- Local newspapers advertisements;
- Daily newspaper (predominantly Saturday editions of *The Age*) advertisements;
- online advertisements; and
- agent publications

Data were collected from a total of approximately 4000 advertisements across the sample suburbs for the sample periods. Data collected included:

- Agent name
- Agent suburb
- Property address
- Advertisement date
- Media type and page number
- Price phrase
- Sale Method

The collected advertising data enabled issues surrounding advertising practices to be considered, in particular the advertised method of sale (private sale/auction) and the advertised price phrases used (price plus/single price/price range).

It should be noted that the study used the first advertisement found for a particular property. Tracking accuracy over the period that properties were advertised was not within the scope of the study. Future research to determine the extent to which agent price advertising is adjusted in response to market cues such as rejected offers and comparable sales could be fruitful.

The advertising data were then matched with property sales data to determine differences between advertised prices and sale prices across the sale methods, advertising phrases, suburbs and over time.

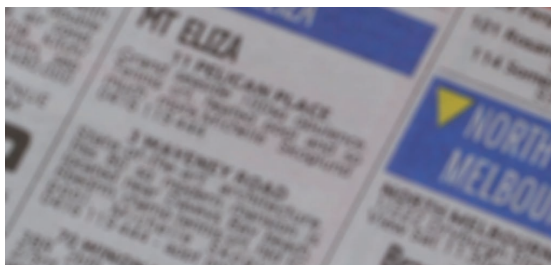
While the primary sales data used for the research were ultimately provided by the State Revenue Office (SRO) in January 2008, there remained a higher than expected occurrence of advertising data that could not be matched to sales data. This necessitated the collection of further advertising data and required the SRO to undertake subsequent attempts to match sales data. Where the automated matching conducted by the SRO was unable to generate a sales result, manual

searching of REIV/Valuer General (VG) data was conducted to determine sales data.

Data were manually checked to identify and remove incomplete or obviously erroneous data. Factors contributing to unsuitability of data included:

- properties not sold/passed-in
- Insufficient detail in advertising data
- errors/lacking data in sales data

Therefore, of the 4000 advertisement details that were collected, a final data set of 3051 data 'pairs' of advertising and sales data was available to be used for analysis.



Sample

Nine 'outer' suburbs, from outside the public transport 'Zone 1' area were randomly selected as were seven 'inner' suburbs, from within the public transport 'Zone 1' area, for a total sample of 16 suburbs.

Suburbs were first screened using sales volume data to exclude those suburbs with insufficient annual sales volume, so as to ensure that suburbs in the sample would have adequate numbers of property advertisements that could be found and matched with sales data.

Despite this approach, it was difficult to match the desired number of records in some suburbs. This may have been due to a reliance in some suburbs on non-accessible advertising methods such as boards and agency windows rather than observable media advertisements. In particular, suburbs with typically lower sale prices had a tendency to have fewer visible advertisements, possibly indicating an inclination of vendors in these areas to spend less on marketing.

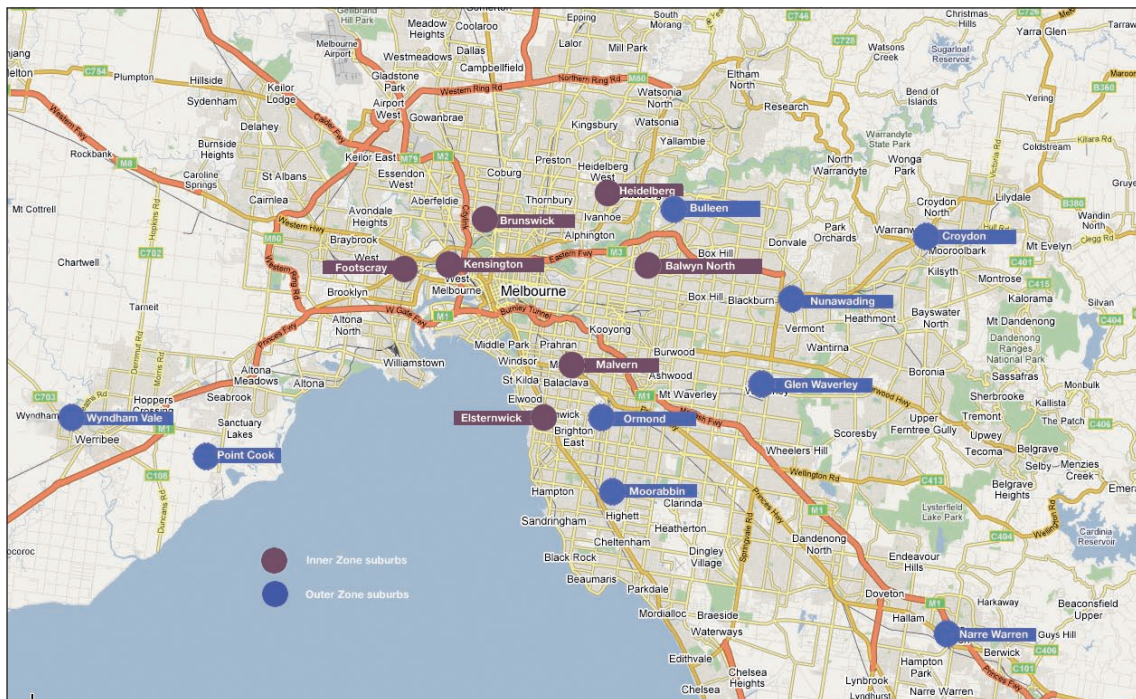


Figure 1

Macro factors relevant to the study

Sample characteristics

	Records in sample	2006 Median price for suburb*	2006 number of sales for suburb^	2006 pass in rate for suburb^	2007 Median price for suburb*	2007 number of sales for suburb^	2007 pass in rate for suburb^
Balwyn North	298	\$600,000	397	40%	\$700,000	340	29%
Brunswick	286	\$420,000	1001	43%	\$463,750	1110	29%
Bulleen	192	\$475,500	175	60%	\$477,000	170	32%
Croydon	241	\$294,000	741	52%	\$300,000	720	39%
Elsternwick	202	\$725,000	284	30%	\$855,000	299	26%
Footscray	170	\$340,000	365	45%	\$345,000	359	28%
Glen Waverley	195	\$451,000	680	36%	\$480,000	670	22%
Heidelberg	194	\$486,000	357	39%	\$443,500	377	40%
Kensington	170	\$435,000	325	32%	\$432,500	293	25%
Malvern	231	\$1,000,000	245	38%	\$1,400,000	240	34%
Moorabbin	157	\$451,000	159	32%	\$425,000	126	31%
Narre Warren	187	\$260,000	573	25%	\$255,000	512	25%
Nunawading	202	\$363,000	232	34%	\$397,000	225	27%
Ormond	116	\$645,000	175	50%	\$570,000	164	60%
Point Cook	112	\$330,050	533	67%	\$323,500	639	55%
Wyndham Vale	98	\$225,000	219	60%	\$220,000	236	32%

Figure 2 (Sources: *Department of Sustainability and Environment, ^ Australian Property Monitors, DSE total sales data is not disaggregated to suburb level)

Sales volume

There were some suburbs where the number of sales declined from the first to the second year, some of these suburbs saw substantial increases in median price from the first to the second year, such as Balwyn North, where there was a 21% decrease in the number of properties sold and a 17% increase in the median price. There was however not a statistically significant correlation observed between these two factors when all suburbs were considered. A number of the outer Melbourne suburbs had fewer sales in the second year than the first, as can be seen in Figure 2.

While influences in the market such as sales volumes and clearance rates are likely to impact on the number of properties being sold by auction as opposed to private sale, the incidence of auction sales, compared to private sales, was not observed to have any statistically significant correlation to changes in the number of sales. Changes in the total number sales in a suburb from the first year of the study to the second year of the study did not have any statistically significant relationship to the advertised pricing phrases observed in the suburb. This was the case across the entire sample of 16 suburbs when both the inner and outer areas were considered individually.

Supply

Specific data on supply is not readily available. To determine total supply for a given suburb, details of all properties listed for sale in that suburb would be required.

In order to consider the effect of supply on the issues central to this study, that is, sale method, advertising phrase use and advertising accuracy, a usable approximation of a measure of supply was constructed. This 'imputed measure of auction supply' was arrived at by taking the total sales for a suburb multiplied by the in-sample proportion of auctions to private sales for a suburb, then dividing this by the auction clearance rate for that suburb. This results in a plausible estimate of the total number of properties offered for sale by auction in a given suburb. Given the low incidence of auction sales in some suburbs; Croydon, Narre Warren, Point Cook and Wyndham Vale, discussion of auction supply factors is not possible for these suburbs.

Changes in supply by suburb (based on the imputed measure of auction supply) from the first to the second period of the study were analysed for any effect on advertising phrase, sale method and advertising accuracy.

Between the two periods of the study, on a suburb basis, there were no statistically significant correlations observed between:

- changes in supply and changes in the incidence of auctions,
- changes in supply and changes in advertising accuracy, and
- changes in supply and changes in the incidence of price plus or price range advertising.

Demand

Total sales data for each suburb is available and this was considered the best available proxy for an indication of demand. However, given that clearance rate data is only available for auction sales, any consideration of supply and demand effects must necessarily be confined to properties offered for sale by auction.

Changes in demand by suburb (based on total sales data) from the first to the second period of the study were analysed for any effect on advertising phrase, sale method and advertising accuracy.

Between the two periods of the study, on a suburb basis, there were no statistically significant correlations observed between:

- changes in supply and changes in the incidence of auctions,
- changes in supply and changes in advertising accuracy, or
- changes in supply and changes in the incidence of price plus or price range advertising.

There were no statistically significant correlations observed between changes in demand and changes in the incidence of price plus or price range advertising between the two periods of the study on a suburb basis.

Median price

Changes in suburb median price from the first to the second period of the study were analysed for any effect on advertising phrase use, sale method and advertising accuracy. Where a range was advertised, advertising accuracy was based on the percentage of properties that sold above the advertised range. Where a price plus was advertised, advertising accuracy was based on the average percentage by which the sale price exceeded the price plus figure.

Suburbs with lower median prices generally had lower incidences of auction sales than the suburbs with higher median prices and vice versa. There was an overall effect observed that saw auctions being more prevalent in the second year of the study, coinciding with rising median values for the sample as whole.

There were no statistically significant correlations observed between changes in median price and changes in advertising accuracy between the two periods of the study on a suburb basis.

There was no correlation observed between changes in median price and changes in the incidence of price plus or price range advertising between the two periods of the study on a suburb basis.

Macro factors generally

In standard economic theory, demand drives price. An increase in the demand for residential dwellings in Victoria is driven by: high wages; government schemes; decreasing unemployment; and finance availability.

Melbourne-wide average property prices

Property prices across the Melbourne area increased considerably over the course of the study. This rising broader market would be expected to have an impact on vendors, agents and purchasers' valuations of individual properties. The differences between sale prices and advertised prices did increase in the second period of the study, notably in periods of particularly high growth, such as the period March 2006 to June 2006.

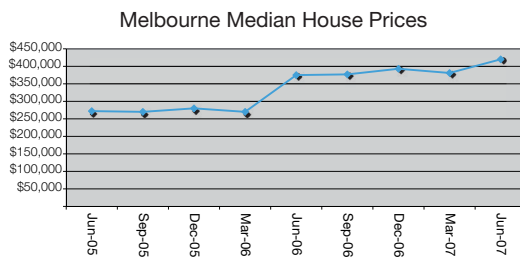


Figure 3 (Source: Real Estate Institute of Victoria, DSE data is not published by quarter)

Population growth

As ABS population growth data is not recorded for every suburb, but is based on Statistical Local Areas, a best fit between the areas in the Australian Bureau of Statistics (ABS) data and the suburbs of the study was used for Figure 4 below.

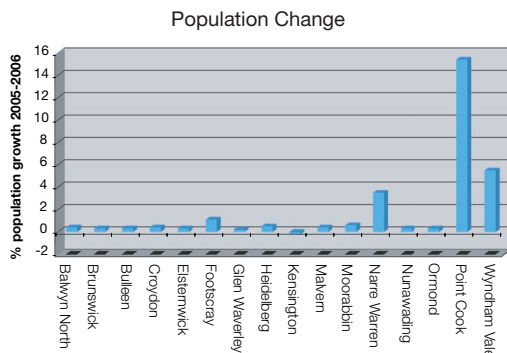


Figure 4 (Source: ABS, Regional Population Growth, 3218.0)

As would be reasonably expected, the highest population growth was observed in the outer areas, notably Point Cook, Wyndham Vale and Narre Warren. The population growth rate in Point Cook coincided with a considerable increase in the number of properties sold. This association was not

observed in Wyndham Vale or Narre Warren. The reporting of ABS population growth data, not exactly coinciding with the areas of the study may have confounded this relationship, along with the fact parts of Narre Warren are more well established.

Income affordability

Household disposable income figures, derived from the ABS Household Income and Income Distribution, Australia, report, were only available for the 2005/06 period, so Home Loan Affordability indicators (Real Estate Institute of Australia and Deposit Power Housing Finance, ABS (5609.0)) were used to provide an income aspect to the consideration of broader market factors.

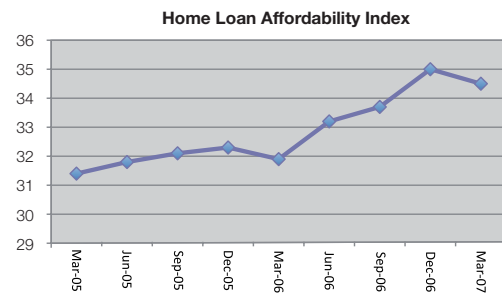


Figure 5 (Source: Real Estate Institute of Australia Home Loan Affordability Indicator)

The REIA Home Loan Affordability Indicator is a ratio of median family income against average repayments for new home loans. Increases in the index indicate improved affordability.

While it is beyond the scope of this report to provide detailed economic commentary, it could be expected that the improved home loan affordability observed in 2006 contributed to the rising average sale prices and has contributed to strong demand in the housing during this period. It is not unreasonable to expect in a rising market, buyers may on occasions be prepared to spend more (whether in auction or private sale situations). This in turn could have some influence on the number of properties selling above advertised ranges or significantly above advertised price plus figures.

Suburbs with lower median prices generally had lower incidences of auction sales

Wages

As Figure 6 below indicates, rates of pay have increased over the period of the study in order to keep pace with inflation (Consumer Price Index). This upward trend in pay rates, combined with relatively low interest rates, resulted in greater affordability (Figure 5).

Increasing demand will raise the number of properties selling above the advertised ranges or well above advertised price plus figures.

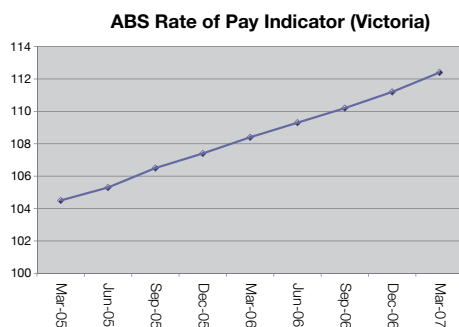


Figure 6 (Source: ABS, Rate of Pay Index, 6345.0)

Government schemes

Government schemes, specifically the First Homebuyers Grant (FHG) have been in effect throughout the period of the study and may have also fuelled growing demand for residential dwellings. The FHG may cause buyers to over estimate affordability, increasing their willingness to pay more. Importantly, it will put direct upward pressure on demand for residential dwellings. This increasing demand will lead to increased sales prices.



Ability to secure finance

An increase in the ability to secure finance also drives demand because often buyers are permitted to borrow 100% or 110% of the property's value. The ability to purchase a property without saving a deposit will encourage more first home buyers to participate in the market compared with the past when financial institutions had more conservative lending policies. In turn, this will raise prices as competition for dwellings intensifies.

Auction clearance rates

When auction clearance rates are reviewed for the sample suburbs over time, another upward trend is observed. This trend, when considered with rising average prices is indicative of a 'hot' market, and suggests that average auction clearance rates tend to generally vary in line with the accuracy of advertising. However, it should be noted, the statistical significance of these apparently correlated trends cannot be established over data from just 2 years.

Insight as to whether advertising accuracy is driven by falling auction rates cannot be provided conclusively by this research. Clearance rate changes may just be reflective of demand pressures and constraint on supply (or supply not keeping up with rising demand). Such market conditions may make accurate estimations of sale prices more difficult or alternatively, a hot market environment may encourage particular agent conduct in regard to setting advertised prices.

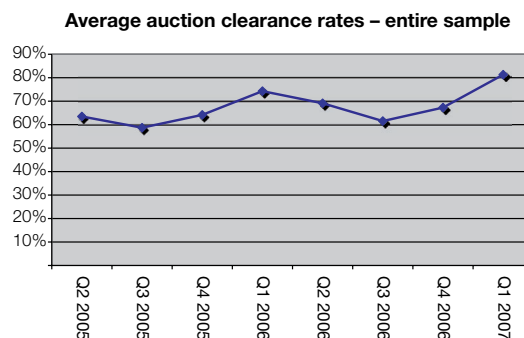


Figure 7 (Source: Australian Property Monitors)

Figure 7 above shows aggregated auction clearance rates are for all 16 suburbs in the sample. While there is an apparent annual cycle observable, peaking in the first quarter, the statistical significance of this cycle cannot be established from data over just 2 years.

Interest rates

Interest rates were largely stable during the first period of the study and despite successive rate rises in May 2006, August 2006 and November 2006 average property prices continued to rise as indicated in Figure 3.

The second period of the study did see the difference between sale prices and advertised pricing increase. The data collected in the course of this study does not provide any insight into how or to what extent, if any, this trend was influenced by rising interest rates.

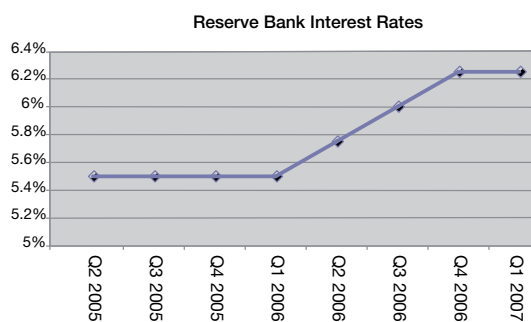


Figure 8 (Source: Reserve Bank of Australia)

Unemployment

There was decreasing unemployment over the period of study, this could be also be expected to support an increase in demand for dwellings, particularly in the 'first homebuyer' market, suburbs in the sample such as Point Cook, Wyndham Wale and to a lesser extent parts of Narre Warren. Given these areas had very high incidences of private sales (with average sales results below the advertised price) unemployment rates seem to have had little discernable effect on advertising accuracy.

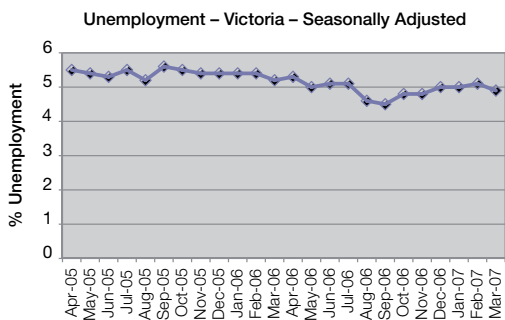


Figure 9 (Source: ABS Labour Force, 6202.0)

Key findings

There were no statistically significant correlations observed between changes in supply and advertising accuracy between the two periods of the study on a suburb basis.

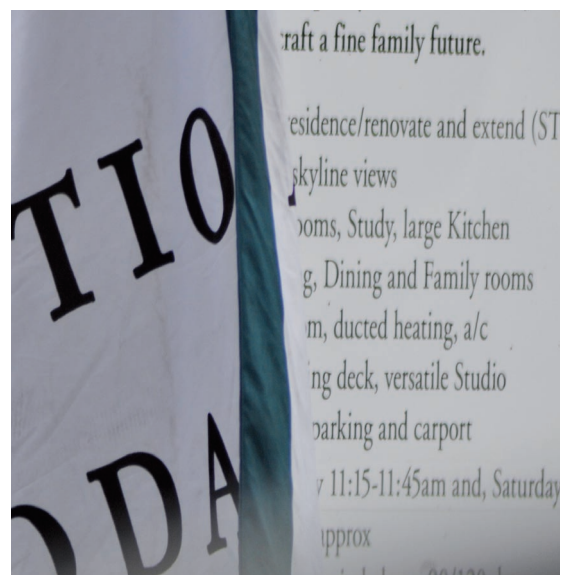
Changes in supply in a suburb did not have any statistically significant relationship with changes in sale method (auction/private sale) or pricing phrase use in that suburb.

There were no statistically significant correlations observed between changes in median price and changes in advertising accuracy between the two periods of the study on a suburb basis.

Across the sample, there was a statistically significant correlation between increasing auction clearance rates and advertising accuracy, the higher the clearance rates, the less accurate advertising was observed to be.

Generally, suburbs with lower median prices generally had lower incidences of auction sales than the suburbs with higher median prices and vice versa. Although there were no statistically significant correlations observed between changes in median price and changes in advertising accuracy between the two periods of the study on a suburb basis.

There was a significant positive correlation between the change in demand in a suburb and the change in the incidence of auctions in the suburb. The incidence of auctions increased in suburbs that had increased demand from the first to second period.



Price advertising overview

Sale method

Despite Melbourne's reputation as somewhat of an 'auction capital', the proportion of advertised private sales observed in the study is high, probably higher in inner city areas than might be expected. This changes the dynamic of price advertising, with single price advertising used frequently for private sales.

The observed incidence of advertised auction sales showed a significant increase from 46.8% of advertisements in the first period to 56.1% of advertisements in the second period. There is a more detailed discussion of sale methods contained in the appendix of this report.

Price advertising phrases

There were three dominant phrases to communicate price observed:

- single price (observed in 19.1% of advertisements)
- price range (observed in 16.4% of advertisements)
- price plus (observed in 64.4% of advertisements)

The structure of this section of the report is around these phrases for advertising price and their respective relationships with sale method and advertising accuracy.

The method of sale was strongly connected to the advertising phrase used, with double the incidence of price plus phrase advertising used for auctions than for private sales.

There was a low incidence of phrases other than price plus, that conveyed a 'price plus' meaning. The phrases 'opening bid' (4 instances), 'over' (27 instances), 'in excess of' (23 instances) and 'from' (12 instances) combined were only observed in a total of 66 advertisements, and these phrases have been treated as 'price plus' phrases.

There was also a low incidence of vague phrases that conveyed some notion of a range, such as 'less than' (9 instances), 'high 000's' (15 instances), 'low – mid 000's' (24 instances), 'low 000's' (7 instances), 'mid – high 000's' (6 instances). Given the low incidence of these phrases and the difficulty in objectively quantifying them with some meaningful numerical value, they have been included in the 'other' phrase category. In total, the

'other' category amounted to 68 records (or about 2% of all the data). This low incidence of 'other' phrases is not sufficient for meaningful analysis, so the analysis in this report has been confined to the three predominant phrases above that account for about 98% of the advertisements observed.

In addition to the 4000 advertisements where data were recorded, there were another 417 advertisements (approximately 9.4% of all advertisements viewed) that made no mention of price. Given these advertisements were of no value in considering the differences between advertised and sale price, detailed data were not collected for advertising where no price indication was given.

Auction vs Private sale

It is evident, and expected, that suburbs with lower median prices generally had far lower incidences of auction sales than the suburbs with higher median prices. The converse was also true, generally suburbs with higher median prices exhibited a lower incidence of private sales.

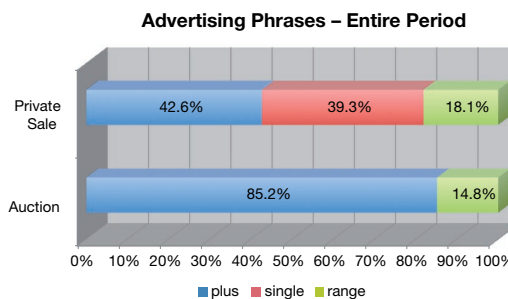


Figure 10

Figure 10 above shows the predominance of price plus advertising is even more pronounced when auction advertisements alone are considered – price plus was used in over 85% of auction advertisements. The data collected does not provide conclusive support for establishing why price plus was six times more frequent than a range. Whilst the terms of reference of the study did not encompass an examination of which party drives the choice of advertising phrase, it is suggested that the party primarily influencing the choice of advertising phrase is likely to be the agent. The relative accuracy of these two advertising phrases is discussed further below.

Over time

Overall, a clear predominance of price plus advertising phrases was observed. This varied little between the two time periods, with price plus being observed in 57.9% of advertisements in the first time period and in 62.1% of advertisements in the second time period.

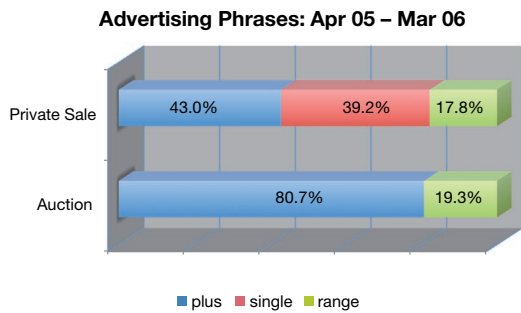


Figure 11

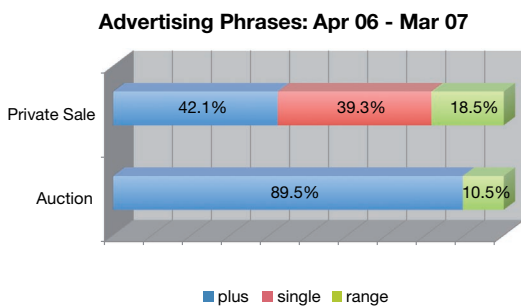


Figure 12

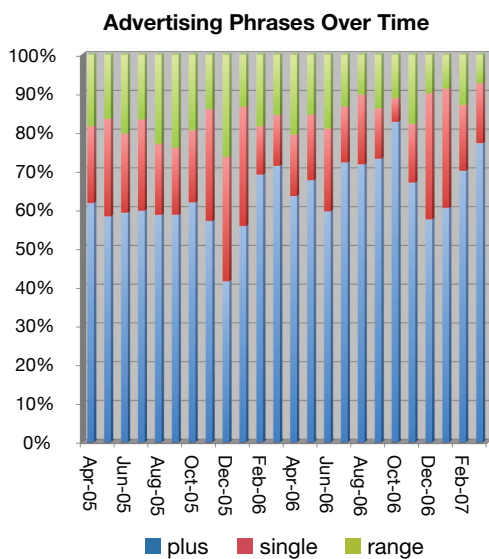


Figure 13

Figures 11 and 12 above clearly show that the advertising phrases used in relation to private sales were observed to be remarkably stable over both periods. In contrast, there has been approximately a 10% increase in the observed use of price plus advertising phrases in relation to auction sales from 80.7% in the period to 89.5% in the second period.

Given that data was only collected for a two year period, there were no statistically reliable observations that could be made in terms of cyclical or seasonal trends.

Inner and outer Melbourne

While there were marked differences in the proportion of auction advertisements between inner and outer Melbourne, inner Melbourne had a slightly lower incidence of price plus auction advertisements.

The higher incidence of private sales in outer Melbourne clearly has an impact on the advertising phrases that were observed, with single price advertising being only associated with private sale advertising in the advertising observed in the study.

Due to fundamental differences in supply and demand market factors, between the inner and outer areas, and the much lower incidence of auction sales (see Figures 28 and 29) in the outer area, it is difficult to draw meaningful comparisons between these two areas in relation to choice of advertising phrase.

Whilst the scope of the study did not extend to the dynamics of the agent/vendor decision making relationship and agent motivation and preferences, it is reasonable to expect that agent preferences may be driven to some extent by market conditions. Increases in market confidence and clearance rates may be likely to see vendors that are more confident about using auction processes and associated advertising methods.

Conversely, in a market characterised by lower vendor confidence, vendors may be likely to feel less confident about selling by auction. While influences in the market such as changes in sales volumes, median house prices and clearance rates may be likely to have some impact on the choice of advertising phrase in practice, a statistically significant connection of these factors to advertising phrase use was not found in this study. There was no meaningful correlation between the use of the three different advertising phrases observed in each suburb and changes in the market factors (sales volumes, median house prices and clearance rates) in the same suburbs.

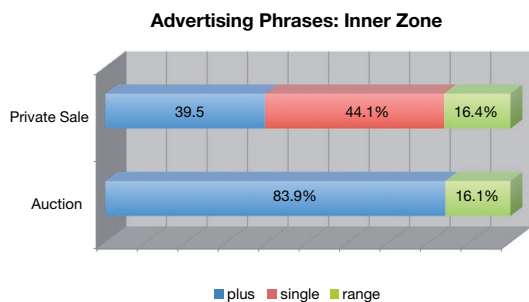


Figure 14

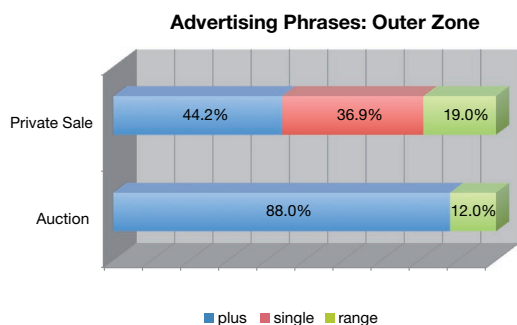


Figure 15

Figures 14 and 15 above show only minor differences in the use of all advertising phrases between the inner and outer areas, despite the higher incidence of auctions and the higher average prices characteristic of the inner zone.

Advertising phrase by suburbs

There is a dominance of single price advertising in most of the outer suburbs, which are associated with lower average sale prices, and where there are many property transactions for vacant land or new house and land packages, notably Wyndham Vale, Point Cook and Narre Warren. To the extent that such properties may be more homogenous, in terms of the style, age and size of properties, they may be more suited to private sale, as vendors, agents and prospective purchasers may be expected to form more accurate views on likely prices from comparable sales.

This is particularly true of vacant land estates and new developments featuring new homes often very similar in style, size and location. These areas were also generally observed to have a higher incidence of private sales. There are also many inner areas with similarly homogenous property styles, such as terrace houses, Edwardian period homes and Californian bungalows that feature heavily in many of the inner areas.

The key difference, however, between the inner and outer areas is that they are characterised by a very different supply and demand dynamic.

Advertising Phrases by Suburb: Apr 05 -Mar 06

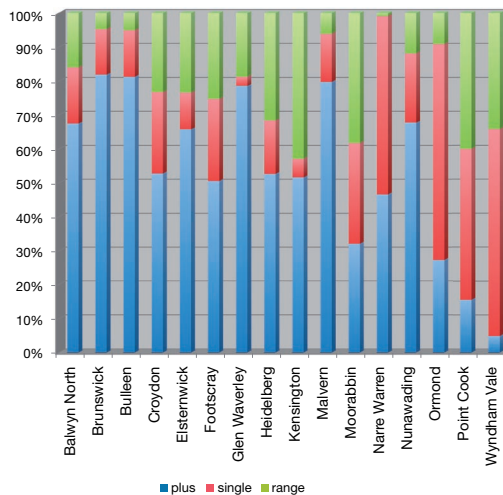


Figure 16

Advertising Phrases by Suburb: Apr 06 - Mar 07

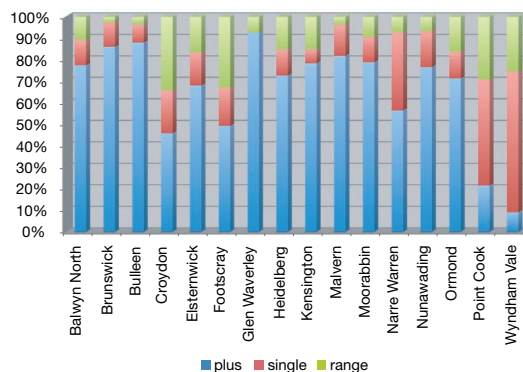


Figure 17

It is evident and expected that suburbs with lower median prices generally had far lower incidences of auction sales than the suburbs with higher median prices.

Key findings

The method of sale was strongly connected to the advertising phrase used, with double the incidence of price plus phrase advertising used for auctions than for private sales:

- single price advertising accounted for 19.1% of advertisements
- price range advertising accounted for 16.4% of advertisements
- price plus advertising accounted for 64.4% of advertisements

There was a low incidence of phrases other than price plus that conveyed a 'price plus' meaning, eg opening bid, in excess of etc and vague phrases that conveyed some notion of a range, such as 'less than', 'high 000's' etc.

Suburbs with lower median prices generally had far lower incidences of auction sales than the suburbs with higher median prices and vice versa.

Price plus was used in over 85% of auction advertisements. There was an increase of approximately 10% in price plus advertisements for auctions from the first to the second period.

Advertising phrases used in relation to private sales were observed to be remarkably stable over both periods

Inner Melbourne had a slightly lower incidence of price plus auction advertisements compared to outer Melbourne.

While there were variations in the use of advertising phrases between suburbs, these did not have any significant correlation with the number of auctions, auction clearance rates or average price in a given suburb.

The incidence of auctions sales was far lower in the outer areas.



Price advertising – Price range

A price range was observed in 16.4% of advertisements across the entire sample over both time periods. There were a number of suburbs where a higher incidence of the use of ranges was observed. These effects can be seen in more detail on the charts in the previous section.

The average size of the advertised price ranges observed in the research was very close to 10% of the low point of the range. This varied little with advertised sale method, with the average for auction advertisements being 10.1% compared to an average of 9.7% for private sale advertisements.

The *Estate Agents Act* mandates that ranged estimates provided to vendors by agents should not exceed 10%. It seems from the data collected that such a range is also practical as a maximum advertising range.

The fact that almost half, 45%, of the advertisements containing a price range resulted in sales above the advertised range may suggest that the advertised range is possibly being considered a buyer enquiry range by agents, rather than a range, within which the sale price is expected to fall. Some advertisements were observed to include phrases to this effect, such as 'Buyer Enquiry Range'. Given that both price range and price plus methods were observed to be inaccurate, it may suggest that some agents were treating the bottom of the price range as they might when setting a price plus figure, that is as a guide to enquiry rather than an estimation of anticipated selling price.

The sale price of a property seemed to have minimal effect on the size of the range used in advertising, the average range of around 10% of the low point of the range was consistently observed regardless of the price of the property. The average range size was very close to 10%, whether the property was \$400,000 – \$440,000 or \$1 million – \$1.1 million.

Price range advertising accuracy

Figures 18 and 19 below provide an overview of the accuracy of price ranges used in advertising. As with the findings for price plus advertising the advertised sale method was observed to be a major determinant of accuracy, with 45% (almost half) of auction advertisements resulting in sale prices

above the advertised range. This is in marked contrast to the low incidence of sales below the advertised range, which only occurred in about 10% of auctions advertised using a price range.

Of the 45% of auction advertisements observed with sales above the advertised range, the average sales result was 7.3% greater than the upper point of the range for auction advertisements and 6.1% greater than the upper point of the range for private sale advertisements. This suggests that the positioning of the range, rather than the size of the range, is leading to inaccuracy between advertised price and sale price. This may also suggest that the bottom of the range was in many instances likely to be well below the vendor's asking price, expectations or reserve.

Sale Price Relative to Advertised Range: Apr 05 - Mar 06

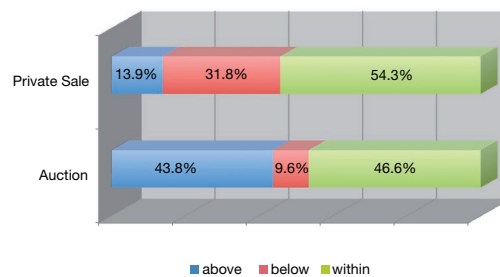


Figure 18

Sale Price Relative to Advertised Range: Apr 06 - Mar 07

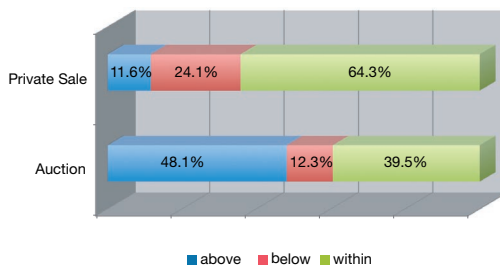


Figure 19

Figures 18 and 19 above show the percentage of price range advertisements where the sale outcome was below, within or above the range for the two sample time periods.

The accuracy of price range advertising for private sales can be clearly seen to be considerably

greater than for price range advertising for auctions, across the entire sample. It is noteworthy that this increased accuracy was observed in both time periods of the study, including the second period with a considerably 'hotter' market environment. Despite the higher prices, sales volumes and clearance rates in the 'hotter' market – advertising for private sales was clearly more accurate, more often.

The average size of the advertised range for sales below, within and above the range was reviewed for any effect this may have had on the outcome. Range sizes were observed to be fairly consistent for all outcome types. Average range sizes for each outcome were:

- Sales above the advertised range, average range size 9.7%
- Sales within the advertised range, average range size 10.8%
- Sales below the advertised range, average range size 8.9%

This suggests that the sales results above the range are not above the range due to smaller ranges being used.

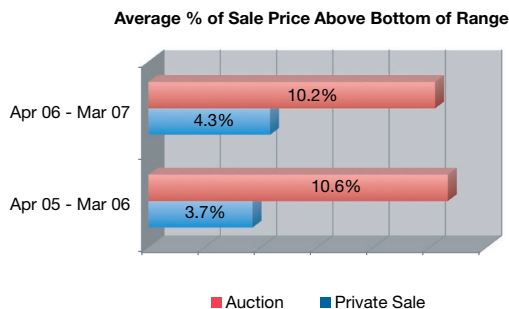


Figure 20

As stated above, the average size of the range used in the advertisements observed was approximately 10%, so these data indicate that, on average, sale prices for auctions were in excess of the advertised range. Where range was used for private sales, there was much greater accuracy observed, with the average sale price being about 4% above the low point of the range, or, in other words just below

Where range was used for private sales, there was much greater accuracy observed

the midpoint of the range, in contrast to auction sales where the average sale price exceeded the range. This observation may support the view that agents have demonstrated an ability to set ranges accurately, as observed in relation to private sales.

Given that an average range of 10% was observed in the study, yet 45% of range advertising led to a sale on average 7% greater than the upper point of the range, it seems that the key factor affecting the accuracy of this pricing method in the sample is the starting point that is used in advertising a range, not the size of the range. It could be inferred from the paragraph above that the starting points of ranges used in private sale advertising are being set more accurately than are the starting points for auction advertising.

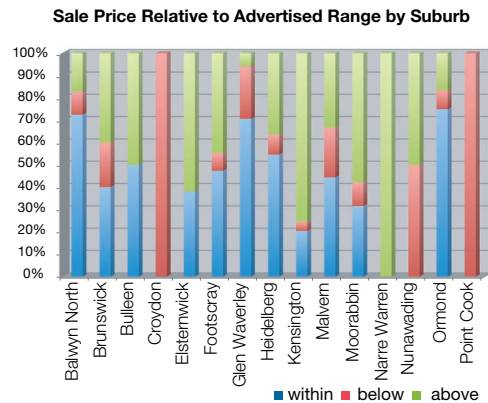


Figure 21

Figure 21 above shows the average disparity between advertised price range and sale price for auctions by suburb over the period of the study. Clearly, some suburb effects are evident. It must be noted that Bulleen, Croydon, Narre Warren, Nunawading and Point Cook had only 3 or less auctions with a range advertised observed in the study.

The variations between suburbs shown in Figure 21 above, did not have any significant statistical correlation with auction clearance rates or average price in a given suburb.

Suburb characteristics such as change in average price, auction clearance rate and number of properties sold were analysed to determine any relationship to advertising error. Whilst there are clearly variations between suburbs, there was no statistically significant correlation identified between suburb characteristics and the advertising error in relation to the incidence or accuracy of price range auction advertising.

Key findings

Sale method was observed to be a major determinant of accuracy, with 45% (almost half) of auction advertisements resulting in sale prices above the advertised range.

The percentage of auction sales above the advertised price range increased from 44% in the first period of the study to 48% in the second period of the study.

The sale price of a property seemed to have minimal effect on the size of the range used in advertising, the average range of around 10% of the low point of the range was consistently observed.

Of the 45% of auction advertisements observed with sales above the advertised range, the average sales result was 7.3% greater than the upper point of the advertised range.

Whilst there are clearly variations between suburbs, there was no statistically significant correlation identified between suburb characteristics and the advertising error in relation to price range auction advertising.



Price advertising – Price plus

Price plus was observed as the predominant pricing phrase, accounting for over 60% of all advertisements observed. There was also an increase in the use of price plus phrases from the first time period to the second. The predominance of this phrase was more pronounced in auction advertising, with over 80% of auction advertising using a price plus phrase.

Price plus advertising accuracy

Considering all suburbs, over the time period of the study, the average (mean) difference observed was a sale price 9.2% greater than the advertised price plus.

Sales that were advertised as auctions were, on average, 11.3% greater than the advertised price plus, across all suburbs, over the time period of the study.

Sales that were advertised as private sales were, on average, 4.8% greater than the advertised price plus, across all suburbs, over the time period of the study.

Despite the average accuracy mentioned above, there was a considerable incidence of sales results that were substantially higher than the advertised price plus, as indicated on Figure 23 below.

The average difference between the sale price and the advertised price plus also increased between the time periods observed. Broader market factors, as discussed in more detail earlier in the report, (notably increasing average prices and auction clearance rates) indicating a 'hotter' market in the second period could be contributing to this effect.

Figure 22 below shows the average percentage that sale prices exceeded advertised price plus figures.

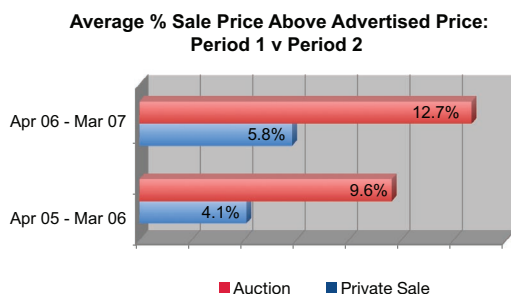


Figure 22

Price plus observations over time

There are some apparent seasonal effects visible on Figure 23 below, suggesting that auction advertising is less accurate (that is a larger percentage difference between the advertised price plus and the sale price) over the summer months in both time periods.

A similar seasonal effect was observed for private sale advertisements, however advertised price plus/sale price differences for private sale advertisements were observed to be greater during February and March. These observations are likely to have been affected to some degree by the general seasonal trend that sees an increase in activity, with more properties typically going on the market in the spring and summer months, and a decrease in activity during the winter months.

However, the statistical significance of these apparent cycles cannot be established conclusively from data over just 2 periods.

The trend for both auction and private sale advertising with a price plus phrase is that advertising is tending to be less accurate over the time of the study. The second period of the study exhibited characteristics of a 'hotter' market with a higher number of properties for sale by auction in the sample suburbs (1862) and a higher clearance rate (72.9%) compared to the first period of the study when there were 1218 properties for sale by auction and a lower clearance rate of 65.8%.

The weighted mean sale price for auctions across the entire sample also increased from \$453,000 in the first period of the study to \$519,000 in the second period of the study, also consistent with a 'hotter' market in the second period. Obviously, the increase in the percentage advertising/sale price error, coupled with the observed increase in average sale price, result in an even greater increase in advertising error in dollar terms from the first period of the study to the second.

Auction sale prices were on average 11.3% greater than the advertised price plus

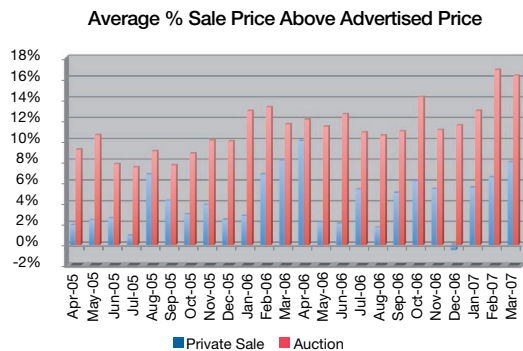


Figure 23

The decreasing accuracy in price plus advertising over time coincides generally with the increasing average sale prices across the sample suburbs, as seen in Figure 23 above.

The dates in Figure 23 are based on the advertisement dates. Consideration of any effect that average price movements may have on advertising practices is difficult due to variations in settlement periods, length of advertising campaigns and the amount of time that lapsing between an ad appearing and the property selling (ie whether the advertisement was observed late or early in the campaign).

While there is an apparent seasonal cycle observable in Figure 23 above, with auction advertising accuracy peaking in the first quarter, and there is a period from February to April 2006 where private sale inaccuracy increased, the statistical significance of this cycle cannot be established from data over just 2 years.

Average % Sale Price Above Advertised Price: by Suburb

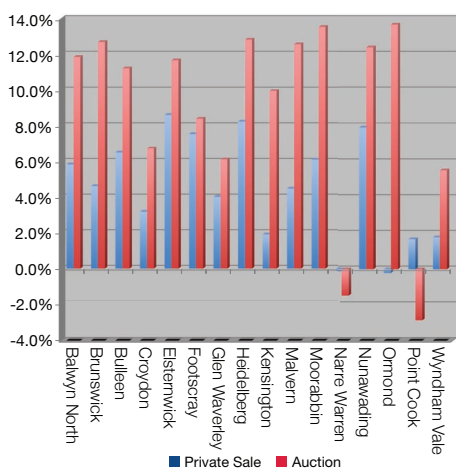


Figure 24



Figure 24 above shows the average disparity between advertised price and sale price for auctions by suburb over the period of the study. Narre Warren, Wyndham Vale, Point Cook and Croydon had very low incidences of sale by auction, so data from these areas is not meaningful in this context.

Regression analysis was carried out to explore relationships between the data in Figure 24 above and suburb characteristics such as change in average price, auction clearance rate and number of properties sold. A statistically significant correlation was identified between auction clearance rates and advertised price variation for price plus advertised properties.

Suburbs with higher auction clearance rates were associated with higher price variations (and the converse) when considering auctions advertised as price plus.

Key findings

Auction sales were on average 11.3% greater than the advertised price plus, across all suburbs, over the time period of the study, while private sales were, on average, 4.8% greater than the advertised price plus.

The average variation between advertised price and sale price for auctions advertised with price plus phrases increased from the first to the second period of the study, from 9.6% to 12.7%.

Suburbs with higher auction clearance rates were associated with higher price variations (and the converse) when considering auctions advertised as price plus.

Price advertising – Single price

Over the time of the study, sale prices from single price advertising were observed to have the smallest difference from the advertised price. As stated above, single price advertising was only associated with private sale advertising. Where a single price was used in private sale advertising, the sale price was on average 4.3% less than the advertised price. It is suggested that this outcome is affected by a number of factors:

- the fundamental differences between auctions and private sales, in that a private sale has historically assumed a vendor setting the price high and purchasers making offers below this starting point, and;
- the higher occurrence of private sales in the outer area, characterised by lower average prices and lower growth in prices. (Further detail on method of sale observations from the study are provided in an appendix to this report)

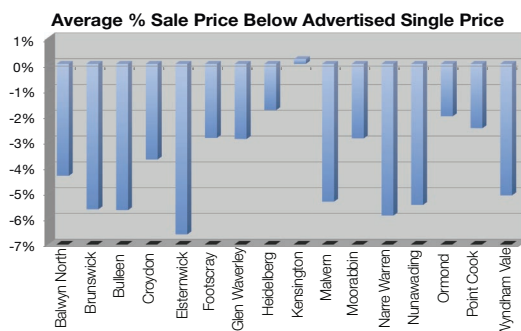


Figure 25

The similar extent of the difference between sale price and advertised price observed for private sale advertising, for both single price (where the average sale price was 4.3% below the advertised price) and price plus (where the average sale price was 4.8% above the advertised price) could be taken to suggest that agents have demonstrated the capability of setting advertised prices with some degree of accuracy for private sales.

The fact that the average error for price plus auctions was approximately twice as large, and almost always above the advertised price, is in stark contrast to the accuracy observed with private sales generally. The scope of the research did not include consideration of the effect, if any, of factors such as buyer and agent behaviour in auction and private sale contexts. These factors could be the subject of further research.

Average % Sale Price Below Advertised Single Price

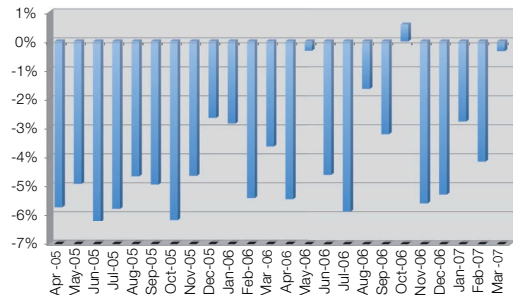


Figure 26

As can be seen from Figure 26 above, private sale advertising accuracy improved slightly over the time of the study, although regression analysis showed that this change in accuracy was not statistically significant. This is in contrast with the observed trend in price plus advertising for auctions, which was less accurate in the second period of the study compared to the first period.

Furthermore, this improvement in accuracy of single price advertising over the entire period of the study occurred against a backdrop of the wider market becoming 'hotter'. Due to the inherent differences between single price (where advertised price invites offers below) and price plus (where advertised price invites offers above) it could reasonably be expected that sale prices for single price advertising would be closer to the asking price in a 'hotter' market, as offers from buyers are likely to be closer to the single asking price. Price plus advertising in a 'hotter' market would be expected to lead to offers from buyer much higher than the advertised price plus, than in a 'slower' market.

Key Findings

Single price advertising was observed only in advertising for private sales.

Where a single price was used in private sale advertising, the sale price was on average 4.3% less than the advertised price.

The accuracy of private sale, single price advertising improved over the entire period of the study, against a backdrop of the wider market becoming 'hotter' over the course of the study.

Other effects on advertising accuracy

In addition to factors discussed above, a number of other factors were considered for their effect, if any, on differences between advertised and sale prices.

Sale price of the property

Based on regression analysis considering, and adjusting for, all variables in the study, the price of a property had a significant effect on the relative percentage difference between advertised price and sale price.

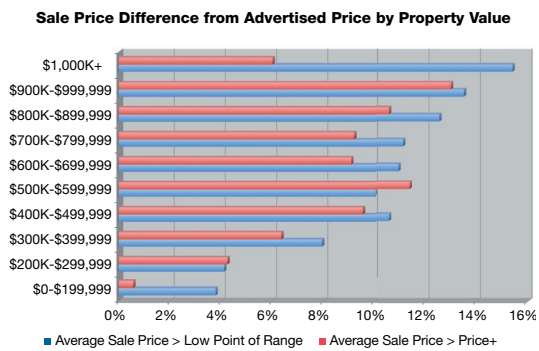


Figure 27

Figure 27 above clearly shows that for both price plus and price range advertising phrases, the variance between sale price and advertised price increased as the price of property increased. The variations shown on the chart are percentage variations, so in dollar terms the variation between advertised price and sale price at the higher end of the property prices is considerable.

Agents association with a large group or franchise

For the purposes of the research, agent offices were deemed to be associated with a 'group' where there were five or more offices. This 'group' classification therefore includes networks of offices under central ownership and also franchise/licensing arrangements. The latter category would be expected to exhibit less control over the conduct of offices associated with the group than would be expected in a centrally owned network.

Regression analysis considering all variables for the entire sample showed that group association was not significant in predicting the relative percentage difference between advertised price and sale price.

Non-group agents were observed to use price plus phrases less than group agents and were twice as likely to use single pricing. Association with a group had little effect on advertised sale method.

The results of the study suggest that agent offices being associated with a group are using ranges of comparable magnitude to the ranges observed across the sample.

Agents proximity to the property being marketed

If the suburb of the property and the suburb of the agent were different, this was regarded as an out of area sale. Agent suburbs were aggregated where the only difference was an east/west/north/south type suffix or prefix, so that, for example agents in Balwyn North and Balwyn were treated as Balwyn North suburb agents.

Any relative difference in local knowledge that may exist between in-area and out of area agents has not led to the use of wider advertised ranges.

Regression analysis considering (and adjusting for) all variables for the entire sample indicated that an agent being in or out of the area of the property had no significant relationship to the relative percentage difference between advertised price and sale price or to advertising phrases or sale methods.

The price of a property had a significant effect on the difference between advertised price and sale price.



The time between the advertisement and the sale

During the course of marketing a property, it is reasonable to expect that an agent should generally be better informed by the market and vendor reactions to any offers the closer a property gets to a sale date.

The time in days between the advertisement date and the sale date were analysed to determine any relationship. Regression analysis considering all variables for the entire sample identified a statistically significant relationship between the relative percentage difference between advertised price and sale price and the number of days between advertisement and sale.

This suggests that the fewer days between advertisement and the sale the smaller the relative percentage difference between advertised price and sale price.

The data collected in this project is unable to inform as to whether advertising pricing is being adjusted over time and hence contributing to lower relative percentage differences between advertised price and sale price.

It is recommended that further study could be conducted to determine if advertised pricing is being adjusted over the period of advertising for a property by agents in response to market conditions and or offers from prospective purchasers.

Key findings

The shorter the time between advertising and the sale the smaller the percentage difference between advertised price and sale price.

An agent being in or out of the area of the property was not significant to the relative percentage difference between advertised price and sale price or to advertising phrases or sale methods.

Agent association with a group was not significant in predicting the relative percentage difference between advertised price and sale price.

The price of a property had a significant effect on the relative percentage difference between advertised price and sale price, the higher a property's value, the greater the average percentage advertising error.

Recommendations – CAV Monitoring

Overall results

The results of this study suggest widespread and considerable disparity between advertised prices and sale prices in relation to auctions. This was not the case with private sales. Such disparity, whilst a source of ongoing frustration to home buyers and of considerable interest to the media, is not necessarily a prima facie indicator of underquoting as defined under the *Estate Agents Act*.

Without access to agents estimates, determining the extent of underquoting in the market will simply not be possible.

The terms of reference for the study included a request for recommendations about ongoing monitoring by CAV of the Victorian property market and the conduct of estate agents.

The study was concerned with the practices of agents in the marketing of properties to prospective purchasers. Such practices by agents could amount to unlawful conduct to the extent they contravene various statutes.

It is recommended that in order to effectively monitor and regulate potential underquoting, the elements of agent conduct required to establish underquoting should be monitored.

This study, in considering agent advertising accuracy has used a comparison between sale price and advertised price. This data, though informative and accessible does not alone establish underquoting. The *Estate Agents Act* defines underquoting as an advertised price below the estimated selling price provided by the agent to the vendor.

The lack of accessible 'baseline' data contained in agents estimates to vendors will diminish the practical value of any monitoring for underquoting conduct, as this price estimate data is typically currently only available to CAV, in cases where there is a dispute between the vendor and their agent.

Ideally, to facilitate CAV access to agent estimates provided to vendors, a system requiring agents to lodge all completed sale authorities with CAV would be considered, though such an approach would likely be regarded as too onerous for serious consideration. However a random audit approach, where individual agents are required to provide CAV with copies of sale authorities for a given period is an approach that could be given serious consideration.

Deterrence theory suggests that there are three elements that determine the effectiveness of sanctions in affecting behaviour; certainty, celerity, and severity. Certainty refers to the perceived likelihood of a wrongdoing being detected and suffering consequences, if a potential offender is aware of the punishment for particular misconduct, but does not consider it likely to be applied, they will be less likely to be deterred from the misconduct. Celerity is the period of time between the conduct and the consequences, the shorter this time between misconduct and punishment, the more the two are connected in the minds of actual and potential offenders and the more powerful a deterrent effect will be. Severity obviously reflects the notion that negative consequences of detected misconduct must exceed the benefits derived from the misconduct for there to be any deterrent value.

So deterrent power is optimised by regular and publicised enforcement, so that perceived likelihood of detection and consequences will increase, the prompt processing of enforcement actions and regulatory consequences of substantial impact.

A well publicised and effective random audit programme, resulting in swift investigation and enforcement activity addresses the first two elements of deterrence theory. The recent history of penalties (the *Peer* and *Redina* cases) would not be expected to be make a positive contribution to deterring misconduct by agents. Enforcement activity seeking, obtaining and publicising heftier penalties could aid in overcoming perceptions as to severity that may exist.

CAV have powers to require agent to produce documents under Sections 70B and 70C of the *Estate Agents Act*. Sale authorities could be obtained under these provisions and used for comparing agent estimates to vendors with advertised pricing.

Given the findings of the study, the following characteristics could form a basis for determining how best to focus monitoring resources such as random audits.

- Properties advertised for sale by auction.
- Properties where a price range or price plus phrase is used in advertising
- Higher priced properties (\$400,000+).

The suburbs and/or agents who are associated with properties with these characteristics should be identified for monitoring.

Recommendations – further research

Given the consistent and considerable disparity between advertised and sale prices in relation to auctions, further research efforts should focus on the auction method of sale. This project has not been concerned with the reasons for the greater advertising/sale price disparity associated with auctions. More research would be required to explore why there are these considerable variations with auction sales and not with private sales.

The effect of the CAV advertising guidelines

These guidelines were released in November 2007, after the period of this study. Additional data could be collected to ascertain the effect these guidelines have had on advertising practices since their implementation. Specifically the effect of these guidelines on advertising phrase use could be investigated, providing for a contrast between the pre-guideline period of this study and the post-guideline environment, including the extent to which price-plus advertising is still used and any changes in the use of price range advertising as a result of the guidelines.

Agent attitudes to regulation generally and specifically investigating their views toward conduct that is seen to be widespread in the industry, even if illegal, would inform the development of monitoring, enforcement and communication activities undertaken by CAV. This could include investigation of agent awareness of and attitudes toward sanctions for misconduct.

Advertising conduct in light of changed market characteristics

The period following this study has seen considerable changes in the wider market, further increases in interest rates, slowing in growth of property values and falling auction clearance rates. A similar study into advertising conduct in such an environment could be conducted to better gauge the effect, if any of these conditions. Empirical research could also be conducted to determine to what extent advertised prices are adjusted during marketing campaigns to reflect enhanced market value knowledge accumulated by agent and vendor during the advertising period.



Consumer attitudes toward sale methods and advertising phrases

Qualitative research into consumer (vendor and purchaser) attitudes toward auctions, private sales and advertising phrases could be conducted. Research could be undertaken into the nature and extent of irrational buyer behaviour, particularly in relation to auction sales, to gain insight in the effect this factor may have on the accuracy of agent advertising. Research could be conducted into the extent that the market (prospective buyers) factor in anticipated discrepancies between advertised pricing and their expectations of sale prices.

Sale methods

Empirical research could be conducted to better understand the effect of auction and private sale on price outcomes. This report has identified significant effects related to method of sale, but could not identify individual properties initially advertised by auction, but eventually sold by private sale as opposed to under the hammer on auction day, or the incidence of this outcome.

Buyer, vendor and agent attitudes to price ranges

Insight could also be sought into the perspectives and expectations that buyers, vendors and agents hold in relation to price range advertising, including

how these groups view advertised ranges, including whether ranges viewed as enquiry ranges or a range in which a property is expected to sell.

Real Estate advertising media effect on accuracy

Detailed research considering the relationship between types of advertising and sale price could be undertaken. The scope of the study could be widened to include the use of advertising boards and conduct surrounding this prevalent form of advertising. An indirect result evident from this study (in the difficulty in locating advertising data in some lower priced suburbs) is the appreciation that some suburbs rely heavily on advertising modes such as agent windows and boards which leave little public record of the details.

Agent conduct toward vendors

This aspect of real estate transactions lacks the transparency that the advertising process has. The conduct of agents toward vendors has arguably more potential for harm than underquoting to prospective buyers. Such research would not be without data collection challenges but should be explored further, to explore the nature and extent of 'overquoting' conduct by agents toward vendors in order to attempt to obtain listings.



Appendix – sale methods

The REIV estimates that approximately 30% of Melbourne metropolitan properties are offered for sale by auction. There are obviously substantial variations in the proportion of auction sales across suburbs.

Inner and outer Melbourne

The proportions of sale method for inner and outer Melbourne (as defined above – inner being areas within public transport ‘zone 1’ and outer areas being areas outside this) are set out in the Figures 28 and 29 below.

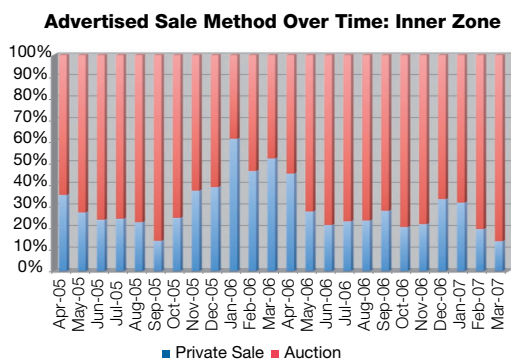


Figure 28

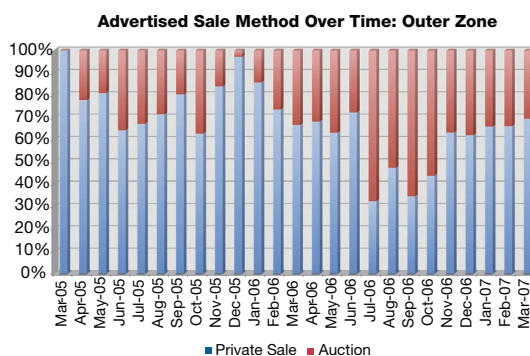


Figure 29

Outer Melbourne, generally characterised by lower average prices and lower growth in prices, was observed to have a much lower incidence of advertisements for auctions. However outer Melbourne saw the highest increase in auction advertising, from 25% to 41% of advertisements from the first to the second period.

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Vacant land or new house and land packages feature strongly in a number of suburbs in outer Melbourne, notably Wyndham Vale, Point Cook and some segments of Narre Warren. Typically such properties tend to be much more homogenous, in terms of the style, age and size of properties and may therefore be less suited to sale by auction. The lower average property values in outer Melbourne may also underpin a reluctance by vendors to undertake the considerable advertising expenditure often associated with auctions.

Effect over time

There was not a statistically significant month on month trend observed in the split between advertisements for private sale and auctions, over the period of the study. The observed incidence of advertised auction sales showed a significant increase from 46.8% of advertisements in the first period to 56.1% of advertisements in the second period.

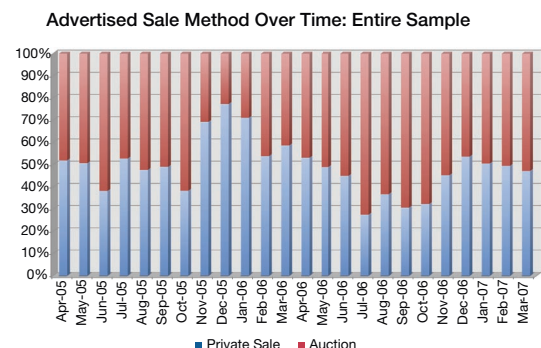


Figure 30

Suburb effects

Analysis of advertised sale method by suburb indicates that, generally, auctions are advertised as a sale method considerably less in suburbs with lower average prices (the prices indicated on Figure 31 below are the in-sample median sale prices over the period of the study). The contrast between inner and outer areas is also evident, with auctions much more prevalent in inner suburbs, even when compared with outer suburbs with similar prices, for example Footscray and Narre Warren.

Some inner suburbs with higher median prices that may be considered to be in the 'auction belt' had a considerable incidence of private sale advertisements. Balwyn North and Elsternwick are particular examples.

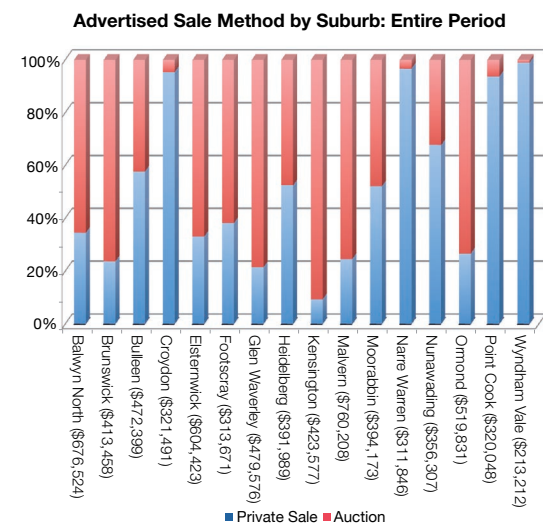


Figure 31



Advertised Sale Method by Suburb: Apr 05 - Mar 06

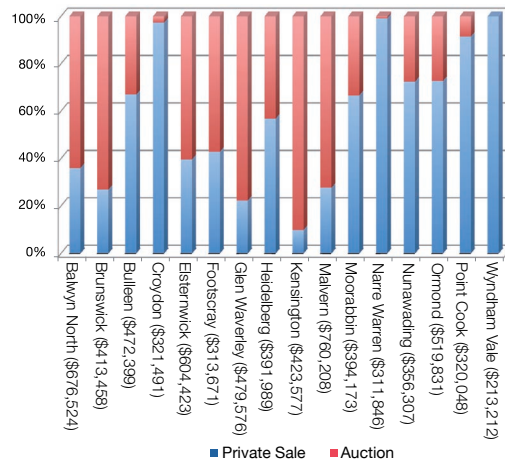


Figure 32

Advertised Sale Method by Suburb: Apr 06 - Mar 07

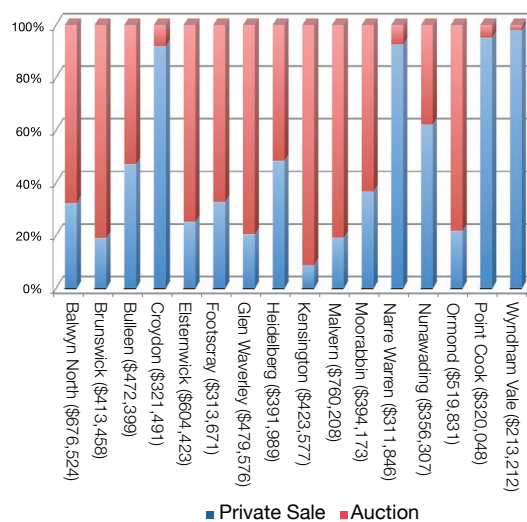


Figure 33

Time effect by suburb

The higher incidence of private sales could also be associated with the nature of development and supply in these outer areas, where there may often be relatively sudden increase in supply of new properties.

The year on year increase in price plus in Moorabbin is explained by considerably more auctions being observed in Moorabbin in the

second period, with the incidence of observed auction advertisements increasing by 89% coupled with the observation that over 80% of observed auctions used price plus

The large change in Ormond depicted on the chart is due to very few auction advertisements recorded in the sample during the first period.

The variations between suburbs shown in Figure 33 above, did not have any significant correlation with the number of auctions, auction clearance rates or average price in a given suburb.

Seasonal effects

Across the sample, the incidence of advertisements for auction sales tended to decrease slightly over the summer months and increase slightly during the spring months, a period typically associated with higher selling activity. These trends are not statistically significant given only two periods of data were collected.

Average sale prices by advertised sale method

The average sale price for properties advertised for sale by auction were higher (in all but one of the suburbs) than the average sale price for properties advertised for private sale. The average sale price (in sample median) for each suburb is noted after each suburb name on the charts.

It should be noted that the advertised sale method is just that, there are many instances where properties are advertised for sale by auction but are ultimately sold by private sale, either prior to auction or following an unsuccessful auction where a property is passed in. As is evident in Figure 33 above, there were very low numbers of auction advertisements in four suburbs in the sample (Croydon, Narre Warren, Point Cook and Wyndham Vale).

The higher incidence of private sales could also be associated with the nature of development and supply in these outer areas, where there may often be relatively sudden increase in supply of new properties

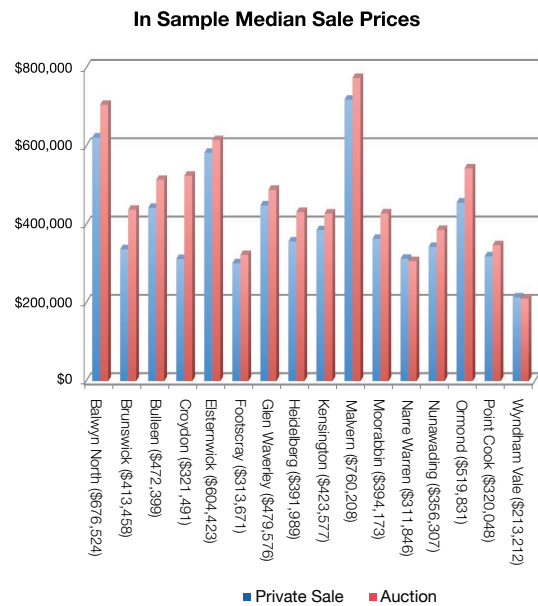


Figure 34

The data depicted in Figure 34 above cannot be taken to necessarily support the view that auctions lead to higher sale prices. Aside from the difficulties in determining closely comparable properties, auctions tended to be advertised as a sale method more commonly with higher priced properties (as evident in Figure 35 below), this trend will skew the median results for auctions.

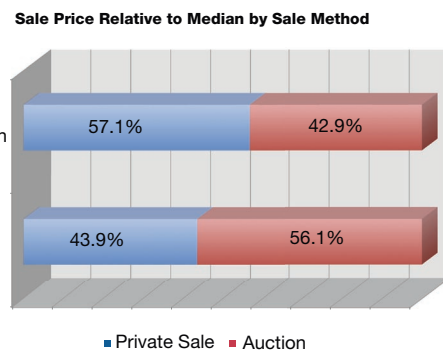


Figure 35



