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Evan Thornley's new fund aims to combat high house prices

Entrepreneur Evan Thornley believes high house prices are here to stay. His new shared equity fund aims to do something about it.

The bank of mum and dad is about to get an institutional upgrade

Entrepreneur Evan Thornley is set to raise up to $30 million for a new shared equity fund for residential property, which will seek to help owneroccupiers enter the market by providing them with funds towards their purchase in return for a share of any capital gains.

Capital for the fund is expected to come mainly from family offices and individual investors, with the fund to support up to 200 transactions over the next 12 months to prove up the model to support the launch of a bigger fund that would aim to attract institutional and even retail investors.

Evan Thornley says land values mean high house prices are here to stay - Louie Douvis

At the heart of the plan is Thornley's belief that house prices are only going to continue to rise, and would-be buyers – and struggling renters – need help to break into a housing market that is now beyond the means of most young Australians.

"Australia has the second-highest population growth rate in the developed world, that hasn't changed in 80 years, and it's not about to," Thornley says. "So house prices will keep rising on rising land values.

"It's going to get a lot worse. Ownership will be an inherited privilege."

There's a reason that entrepreneur Thornley, who leapt to prominence in the dot com boom with his company LookSmart, and later became a Victorian parliamentarian and then an electric vehicle advocate, decided to put the office of property services group LongView in Melbourne's south-eastern suburb of Mount Waverley.

He feels some in the property sector fail to appreciate that all the data and theories about housing markets can't always help you understand what's happening on the ground.

By putting LongView "in that other country called East of [Melbourne's] Warrigal Road", Thornley has ensured his team of 90 is always connected to what's happening in the suburbs, where most people's property fate is decided.

"You've got to live, touch and feel this stuff," he says.

It's a lesson Thornley learnt the hard way when he started LongView with a plan to use technology to revolutionise the management of residential properties for mum and dad landlords. The business took more time and money to build than Thornley expected, and the key to growth was adding a team of veteran property buyers to the group of data scientists that he'd assembled. LongView now has built a book of 4300 rental properties.

But after buying thousands of homes for clients, and applying data science to millions of sale prices of individual properties over 50 years, Thornley has reached a few crucial conclusions. And none of them are pretty.

The rental market is broken for everyone

First, Australian house prices are not driven by the debt-fuelled bubble that many commentators bemoan, with gearing across the residential property market a paltry 23 per cent.

Rather, Thornley says it's land values that drive house prices, due to the combination of strong population growth and the limited amount of available land that is clustered around the major population centres of Sydney, Melbourne and south-east Queensland.

LongView's data shows that land values have grown 9 per cent compounding growth for 100 years, and Thornley says there is no reason that will change over the medium and long term.

The other key lesson Thornley learnt from examining the returns earned by the landlords LongView manages property for was how broken the rental market is – for all parties.

The challenges posed by soaring lending and plunging vacancy rates across Australia have rightly received a lot of attention; a white paper released last week by LongView and PEXA reveals vacancy rates are now at their lowest levels in 20 years across all Sydney, Melbourne and Brisbane, and immigration increasing and construction falling away, the "rental crisis will likely further deteriorate before improving".

But the white paper also suggests many landlords are also getting a poor deal. While the median return on properties in Melbourne, Brisbane and Sydney purchased and sold between 1990 and 2022 was 6.6 per cent, there is a wide dispersion of returns.

Why? Thornley's view is that poor property selection is a big reason, with too many landlords buying "addresses with a slash in the middle of them, and either two or three digits at the start" – that is, apartments – rather than houses that benefit from that strong and steady growth in land values.

"The majority of landlords are getting surprisingly poor returns," he says. "About 60 per cent would have been better off putting their money into a balanced super fund option."

LongView's shared equity fund is an attempt at solving a few of these problems at once.

First, it helps would-be owner-occupiers climb the mountain of high house prices, which are only likely to keep rising.

As Thornley points out, five generations of Australians have been forced to find ways to stretch themselves to get into new homes; our greatgrandparents, used cash savings; our grandparents used cash savings and a 20-year mortgage; our parents relied on savings, mortgage and second incomes; Generation X added lender's mortgage insurance into this mix, and today's home buyers have to also add third-party equity, from the bank of mum and dad, government home buyer schemes or commercial sources.

Second, the fund should also help ease the squeeze in the rental market by making it easier for more renters to become owner-occupiers.

But finally, Thornley also hopes that a scaled-up version of the fund would be attractive to the mum and dad landlords who have $2.1 trillion worth of capital invested in the residential

'Solid older buildings on well-located land'

LongView would only provide equity on homes that it has approved – Thornley's mantra is to hunt for "solid older buildings on well-located land" – and so landlords should dodge much of the property selection risk that can weigh on returns.

Further, the equity would be provided on a pari passu basis; LongView's fund would be entitled to part of the capital gains on the property, but it does not take on the liability of the loan the owner-occupier takes on. It is expected the fund would provide about a third of the equity a home owner needs to get into the market.

A final benefit is that as home owners don't pay land tax on their principal place of residence, investors can share in this benefit.

"By helping home-buying clients make levered equity returns, the LongView Fund enables investors to get a share of those returns," Thornley says. "But investors only make money if the home buyer makes at least twice as much."

The shared equity fund is only the start of Thornley's long-term vision for institutional-grade residential real estate products.

LongView's long-term plan is to create a more traditional real estate investment trust (REIT) with residential rental properties.

Thornley argues it would work more effectively than similar US residential REITs because LongView's returns would be driven by capital growth rather than rental yield; as such, he believes such a vehicle could provide tenants with long-term, stable leases, rather than the short-term agreements that are common in the Australian market, where 36.5 per cent of private renters moved three or more times in the last five years.

In addition to creating a social impact from providing more dignified lease agreements, Thornley says further ESG benefits could accrue from retrofitting properties with solar panels and other emissions-reducing equipment.

Even further down the track, Thornley says many properties in a REIT like this could become seed properties for the amalgamation of sites, with a view to developing the sort of affordable housing Thornley believes would work best in Australia: larger footprint, medium density homes close to transport and amenity, in the suburbs where people want to live.

Thornley is well aware he has a long road to realise the totality of this vision, but he's determined to push for solutions to Australia's broken housing market.

And while it might be a tough time to raise capital, his glass-half-full view is that the residential property market may be close to the bottom. And besides, Thornley says LongView's research shows location beats timing in this asset class.

"It matters much more what you buy than when you buy."

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