ONIMPACT

By **John Treadgold**
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Evan Thornley Has A Radical New Vision for the Business of Real-Estate in Australia

"We're launching a new vision of where Australian housing should go – a re-architecting of how we structure housing ownership in this country. I hope we, among many others, will help lead that process of change."

Australians are obsessed with property. It fills our newspapers, it sways our politics, and cafes from Maroubra to Margaret River buzz with conversations about mortgages, interest rates and house prices.

In 2022, property price growth continues to push into the double digits in many key areas, and there are no signs of it slowing.

But what's surprising is that despite such wide-spread engagement with the market, and amid a torrent of coverage and analysis, there's still a striking lack of consensus about the reasons behind the market strength, and who is benefiting.

Many landlords are struggling with anemic yields, first-home buyers are largely blocked from getting a foot on the ladder, and renters… well renters are trapped in a grim cycle of instability, disempowerment and policy failures.

For Evan Thornley, using his property management business as a laboratory, solving these market failures has become an obsession all its own.

On the surface LongView may look like any other property management business, but if you scratch the surface you see it's differentiated by its far higher net promoter scores, from both homeowners, renters and staff. And from under the hood, a whole new funds management business is about to emerge, to be launched from the buyers' advisory side of the business.

Evan has developed a data-science team that is dissecting data from 50 years of house sales in this country. And their results are blowing apart some of the most persistent myths that have been used to describe the Australian market.

Armed with a rich dataset, and a determination to help more people benefit from the miracle of Aussie real estate, he's developed a new vision for our property market and the nature of housing ownership itself.

Evan gave OnImpact some of the dramatic background to his work and where he hopes to take his business, but he held back some key details. Evan explained that this will form the core of his presentation at the Impact Summit in late March this year, and he didn't want to spoil the punchline.

So here's the prelude, of how Evan Thornley and LongView are bringing funds management and an impact lens to the puzzle of Aussie residential property.

Big Problems & Big Opportunities

Everyone is a stakeholder in this issue. We all live in some kind of property, and whether you're a renter, a landlord or a homeowner, there are challenges.

"When you get your hands really dirty in day-to-day operations of the private rental market, you actually understand the problems quite differently. But you also then come across opportunities that are mind bogglingly more exciting than you could possibly have imagined." Evan says.

"And without blowing my own horn I want to make clear that LongView is unique as a property manager – it's got client satisfaction rates that are 60 NPS points above the average, and it's got tenant satisfaction rates that would probably be 80 NPS points above the average, except nobody else bothers measuring it! We're the fastest growing property manager in the country by a mile. We've gone from zero to 4,200 properties in five years. But that's just the jumping off point for where we go next."

And while Evan has been working at the coal-face of private market property management as he's developed LongView, he has a far longer heritage in understanding the social housing ecosystem. He has lived-experience from a tough upbringing, as well as practical know-how from working in the space.

"I've been on the side of the angels for 40 years, advocating for more public housing and supporting the Community Housing sector. So I want to make clear, none of what I'm talking about is in any way critical of that. Instead, I'm focused on the power of the private market to offer better housing to more people, and get more people on the ladder as owners."

The Paradox: Both Renters & Landlords are Miserable

Everyone has a rental horror story. If you were lucky you were able to take the first step to home-ownership once you left uni and got yourself a secure job. But for the vast majority, this is all out of reach, and long-term renting is the reality.

"Renting in this country sucks. Our research suggests this is one of the worst countries in the Western world to be a renter." Evan says.

"Most leases only run for 12 months, and then there's this grey cloud of having to move hanging over you. And you can't plan ahead, because properties only become advertised with two weeks out from availability. So you're often forced to accept the wrong deal at the wrong price in the wrong location, or be homeless, like, just a completely unnecessary level of dramatic housing stress that hits huge numbers of people in the private rental market, just because of the way the thing is structured."

The pain of renting is widely understood, but what Evan also highlights is that landlords, who are on the other side of the equation, are often not doing much better.

"The traditional progressive narrative is that tenants get a raw deal in this country and mum and dad property investors get all the chocolates, that we just need to tip that balance back and the problems will be solved. But in fact, the villains in this narrative are the banks, the developers and the real estate sales agents, while the victims are the renters and the owners. A lot of it's because they bought developer stock, and the real estate sales industry have taken them for dummies. The number one rule in residential property is that land appreciates and buildings depreciate. And so many of the mum and dad owners have been stuffed into product that has high building content, low land content. As a consequence, they are under-performing the housing market average by 280 basis points p.a. in capital growth. While our clients pay us about $10m a year to get their property managed really well, they are losing $100m in lost capital growth versus the market average, let along top quartile or top decile. And then they put pressure on the tenant, the property and the property manager to try to make up for their poor yields."

This is a massive market, with millions of stakeholders, and trillions of dollars involved. Simple explanations and anecdotal observations are never going to be analytically satisfying. but we can likely all agree that the market is broken, even if the traditional mythologies aren't telling the whole story.

"Once you understand that the mum and dad property investors are getting a really rotten deal, and the tenants an even worse deal, then you start saying, well hang on a minute, these mum and dad investors have more than $2 trillion invested in this asset class; how about we redirect where that $2 trillion is going. Our vision is to conceive of a complete re-architecture of the housing landscape." Evan says.

"If you can move even a small proportion of the capital that mum and dad investors have got in residential property into a different approach, the scale of that will dwarf anything that you can presently achieve through public funding."

Don't Just Blame Interest Rates

As prices continue to rise you may turn to the front page of a financial news broadsheet to find some reasons why, but what you'll find is a mix of stories, often contradictory, that all settle-back to a focus on interest rates. According to Evan, it's nowhere near that simple..

"I've had a data science team working on this now for two and a half years and we really feel that we now know the facts. Did you know that the long correlation between interest rates and house prices actually goes slightly in the opposite direction than what everybody assumes? Its a complex relationship that intersects with inflation" Evan says.

"I'm just saying, if it's all about interest rates, then how come more than half the asset class has no debt whatsoever. Which means it's got precisely no interest rate sensitivity whatsoever, right? A third of Australians own their hands out right, and they're not the worst third of home so we estimate that means nearly 50% of the entire asset class has zero debt. The entire asset class is only 21% geared. There are some segments that are deeply interest rate sensitive but more which are not. There is some serious weapons grade bullshit out there."

Huge Asset Class – Huge Potential Impact

Housing is a unique obsession, and that's due largely to the market in Australia being unique. We have strong population growth, highly-concentrated urban centres and favorable tax policies.

"Australia's got the highest population growth rate in the world, along with Israel and NZ, and Australia has the highest population concentration in the world. That's a unique combination" Evan says.

"And as a consequence, it's one of the best performing capital growth markets in the world. As a consequence, it's got very poor yields. And so folks who are investing in residential property for yield are not going to be happy."

We often hear comparisons with parts of Europe where a much larger portion of the population rent, and they do it without the constant threat of eviction. They don't have the stress of having to leave one property AND find another one within the same narrow two week window.

Instead, they tend to have leases that push towards ten years, with the stability coming from the fact the building is likely owned by a pension fund, or some other institutional asset owner who appreciates the steady, long-term income.

"With the four big banks and all the other banks and all the mortgage brokers and everybody else, residential property debt is a red ocean with a gazillion competitors in it, that's a little over $2 trillion as an asset class. New property development, at a quarter that size is the same. And yet existing dwelling residential property equity – an $8.2Tn asset class – is a wide blue ocean with no one in it" Evan says.

"Despite being the largest asset class in the country and arguably, risk-adjusted, the best performing asset class, , there's not a single investment grade funds manager, there's not a single investment grade product in existing dwelling residential property in Australia."

The Australian market is vastly different to that in Europe, and even that in the US.

"Most of the reason why institutional investment is not in the space is because most people see residential property like commercial property as a yield driven asset class. But it's not true in Australia, the yields in Australia are rubbish. That's why there's no institutional investors in the space. But the reason the yields are rubbish is because the capital growth is so great." Evan says.

"So, you're left with a whole bunch of mum and dad investors who think they're buying for yield, and they're never going to get good yield. Then, you've got a whole lot of institutional investors who won't invest at all because they look at the yields and realise they're rubbish yields. But the Australian market uniquely, arguably, more so than any other market in the world is driven by capital growth."

"And so you have to reorient your understanding to realise the wealth is going to be created by capital growth as levered equity returns. And that's where you find the money to pay for everything else."

A New Vision For Australian Property

Impact investors understand the power of private markets to make change happen. They know that impact happens when idle capital can be allocated to a business that's solving a unique problem.

Aussie property is an infinitely more complex problem. It's certainly a huge market, and there's no shortage of capital, but it becomes the challenge is finding the areas of friction, understanding misaligned incentives, and then trying to use the system itself, to re-orient towards equality, stability and long-term thinking.

"We're launching a new vision of where Australian housing should go – a re-architecting of how we structure housing ownership in this country. I hope we, among many others, will help lead that process of change." Evan says.

"The first LongView product – a shared equity offering and Fund – will come later in the year. But essentially, it's the first step in trying to shift the centre of gravity towards a new vision for how housing is going to be owned in this country. And if anybody's gonna do it, it's gonna be the impact investment community, not the dinosaur incumbents, all of whom are wedded to transactionally driven business models rather than the long-term perspective of the asset class."

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