The Sydney Morning Herald

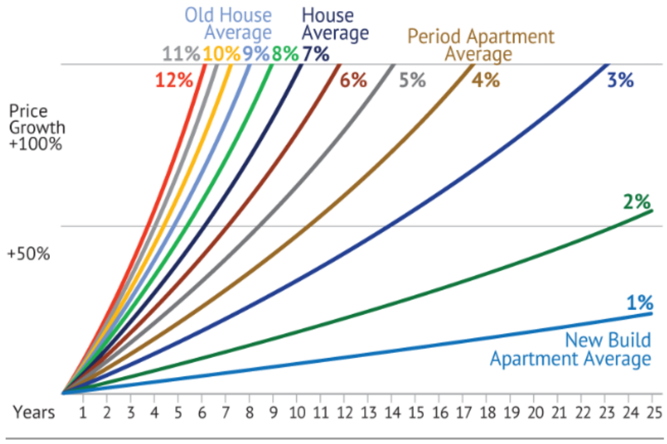
By **Noel Towell**
May 6, 2021

‘Weapons grade bulls---’: Property data challenges sales blather

Former dotcom entrepreneur Evan Thornley is using data to turn long-held myths in Australia’s real estate industry – including where best to buy to get the most capital growth – on their head.

The search engine pioneer is hardly visionary in identifying Australian capital city real estate as a red-hot investment, but the LookSmart founder reckons his latest venture is out on its own trying to turn the property businesses from art into science.

Compound annual growth rate (capital value) for Melbourne residential property.



Source: LongView

Mr Thornley says the data science team he has assembled at his property management and advisory outfit, LongView, has run the numbers on the sales histories of all 2.4 million of Melbourne’s residential properties, and some of their findings are challenging the real estate orthodoxy.

The LongView executive chair says investment performance in the city’s exclusive suburbs can lag behind less ritzy neighbourhoods – with houses in Glen Waverley outperforming those in Brighton – and that a modest villa unit in Ferntree Gully is a better long-term bet than a shiny new inner-city apartment.

The long-term data also suggests that inflation might have as much to do with house prices as interest rates, according to Mr Thornley, in another insight that challenges the perceived wisdom. He scoffs at the notion that the present boom is fuelled by a “debt binge”.

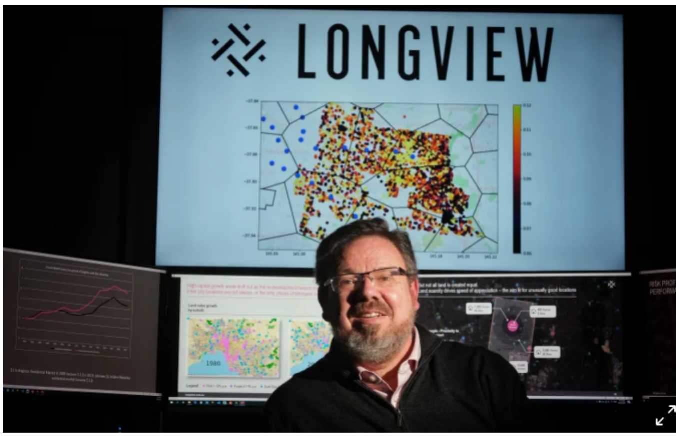
The entrepreneur says he is puzzled that in an industry where so much comprehensive data is available, “weapons grade bullshit” remains widespread.

“The real estate industry is owned by the sales people and it’s all narrative and no numbers and that’s strange to me because there’s so much good data,” he said.

“It’s heartbreaking to see so many mums and dads work hard, play by the rules and put money aside to invest for a prosperous retirement and the next generation, only to be sold properties that will never deliver on that dream.”

When his team made the “shocking” discovery that investment properties in Melbourne were getting worse capital growth, on average, than their owners’ own homes, Mr Thornley wanted to know why. He believes the large volumes of new-build property in the investment mix is a key culprit.

“There’s these big industries of developers who want to sell new-build product, and real estate sales agents who often get double or triple the commission to sell new product than they would selling other products, who both have an incentive to sell bling and tell people this is a great investment,” he said.



Evan Thornley is using data to challenge long-held property theories about property investment. LUIS ASCUI

“The average new-build apartment is getting 1 per cent capital growth a year, which means it’ll take 70 years to double in value.

“The average house here in the suburbs, for the past 15 years, has been getting 7 per cent annual growth compounded ... so it doubles every 10 years.”

The development industry has a different view, with the Urban Development Institute of Australia arguing that capital growth was not the only thing to consider in an investment property and that new-build investments offered an affordable way into the market for those who could not afford an established house in a middle-ring suburb.

“Established homes in the middle ring do not always meet everyone’s housing needs, and nor do they meet everyone’s price point,” the institute’s Victorian chief executive Matthew Kandelaars said. “Apartments provide amenity and choice, as well as offering affordable options for Victorians looking to enter the home ownership market.”

In the end, Mr Thornley argues, it is not complicated. Solidly built houses on good-sized blocks in Melbourne’s unglamorous middle-ring suburbs, preferably on a rail corridor, have been an investor’s best bet for capital growth over the past 15 years, as the city’s rapid population growth pumped land values up.

What is slightly more complex is Mr Thornley’s growing suspicion that we should be paying more attention to the role of inflation, over the long term, in driving house values.

“I’m saying house prices and interest rates is an incomplete conversation without inflation. If you are trying to map house prices to interest rates, you’ll get the answer wrong a lot because it’s not the only equation,” he said.

“Everyone talks about house prices like we’re in this debt-fuelled binge, that everyone’s borrowing money out the wazoo to buy property. But the total gearing on the asset class is 24 per cent. A third of people own their house outright so interest rates have precisely zero impact on them.”

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