

Wednesday, 5 February 2003

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Dear Pat,

REAL ESTATE COMMISSIONS WORKING PARTY

In its letter to Minister Spence dated 15/12/2000, the PSAQ raised the pivotal question "in what way is an over-regulated pricing policy affecting those for whom consumer legislation is primarily designed?".

The answers to this question go some way towards answering the two questions raised in yesterday's meeting:

1. Which options for change (if any), should be put forward to the Minister?
2. What evidence is there to support the need for change and the impact of any change on the consumer?

EVIDENCE TO SUPPORT THE NEED FOR CHANGE

As the PSAQ discussed in its letter dated 15/12/2000, the consequences of the current system for calculating commission are as follows:

- Withdrawal of real estate services from many outer-urban, regional and rural communities;
- Emergence of real estate traders (marketeers in the bush), who privately buy property and immediately resell it themselves for a profit – sometimes at double the price they just paid for it;
- Consequently to the above items, a marked reduction in the value of property so affected; and
- Significant loss of employment opportunity in the real estate industry.

Additionally, the current system underpinned the emergence of (what has become known as) marketeering when, in the early 1990's, unregulated real estate marketers stepped in to fill the vacuum created by the departure of licensed real estate agents, who were unable to charge a realistic fee for the services required to sell new property developments.

In its basic form the current system of regulated commission was sound and generally, until the early 1990's (when inflation started to impact on the lack of indexation), it worked well for both the industry and the consumer.

However successive governments, in their desire to appease a short-sighted public, failed to allow for appropriate indexation, and three "niche" markets (outer- and regional-urban, small-lot rural, and group/strata title townhouses and units) became unprofitable for real estate agents.

The big loser in all this has been the consumer.



The answer to the question raised by Mr Bevan Hughes (Premier's Department) "What evidence is there to support the need for change?" is outlined above.

There is no single, central, non-government reference point through which any sort of meaningful data can be collated because the industry is, by its nature, diverse, decentralised and fragmented.

Only the Office of Fair Trading (through its year-by-year licensing programme) and other Government departments have the ability to collect the raw data which is relevant in making consumer legislation.

The Government already collects better evidence or data than any industry-based organisation will ever be able to provide and therefore, evidence or data from industry will most likely be anecdotal at best.

However to answer Mr Hughes' question regarding evidence of the impact of any change, one needs firstly to ask "if the impediment of unprofitability is removed from real estate agents, is it likely that real estate agents will again service the markets they've abandoned over the past ten years?"

Quite clearly, based on historical evidence:

- Real estate agents would service these markets if they were profitable; and
- Consumers in these markets would again be able to access real estate services.

The readiness of real estate agents to service markets is not based on perceived status, or on socio-economic factors – it is based on profitability. If a particular market is profitable, history has shown that one or more real estate agents will emerge to service that market.

OPTIONS FOR CHANGE

The question now at hand is "Which options for change (if any) to the current, regulated system, should be put forward to the Minister?".

It seems that there are three clear choices:

- Do nothing;
- Maintain a regulated system, with appropriate indexation built-in;
- Deregulate.

Do Nothing

The effects of "doing nothing" (since the last adjustment to the current fee structure) are plain to see.

The real estate boom of the past two years has given some relief to these issues, however once the market starts to slow down, "doing nothing" to the current structure will only reinforce its failure to date.

Maintain the Regulated System, with Indexation

The original regulated system, with reference to the Brisbane Median House Price, worked well. Its primary failure was the lack of indexation.

Superficially, it could be argued that if property values rise, so do commissions, so what's the problem? The problem is that, under the present system, commission increases don't keep pace with inflation.

A regulated system, properly indexed, with adjustment of the current "5%" baseline to its original relativities would ensure the return of the potential for profitability to the markets currently being neglected by the real estate industry.

It would also provide a (necessary) reference point for both industry and consumer alike.

Deregulate

There is strong support from some stakeholders for deregulation of commission. This would "fix" the indexation issue, but may introduce other problems.

Anecdotal evidence from around the country suggests that a deregulated system would create a great deal of (otherwise-unnecessary) concern and confusion for both industry and consumer – especially in the domestic market.

It is only the minority in our society (whether agent or consumer) that are comfortable with or competent to negotiate at all – forcing non-commercially-skilled consumers to "negotiate in a vacuum" is possibly the worst solution imaginable.

Total deregulation would allow agents return to profitability in currently-neglected markets, but at what cost to the community generally?

DETAILED DATA

We also note your request to "Please also provide any detailed data you may have on the impact of de-regulation on employment".

In response to this query, we spoke to our counterparts in both South Australia and Western Australia – the two states with which we have most contact. Their responses varied, however we attribute the variances as much to the nature of the differing industrial relations climates, as to anything else.

It seems from our feedback that, in Western Australia, the effect of deregulation on employment has been minimal, however in general terms, the employment situation in that State has always been, and remains, somewhat tenuous.

Our feedback is that since deregulation in South Australia, the employment climate has taken a turn for the worse, with many salespeople struggling to survive, leading to high turnover of salespeople and, consequently, a significant reduction in the quality of service being offered to the consumer.

It goes without saying that desperate people often take desperate measures to survive and on that basis, full deregulation could potentially have a similar impact on employment here in Queensland.

PSAQ PROPOSALS FOR CHANGE

On the basis of the above, the PSAQ continues to propose that:

- “Doing nothing” is not an option;
- For the sale of residential property, the primary recommendation to be put to the Minister be a revised version of the current system, with indexation built-in;
- For the sale of rural property, the primary recommendation to be put to the Minister be some form of deregulation;
- If the working party determines that deregulation is the preferred option, then the industry (e.g. the REIQ, and the franchise and marketing groups) should be allowed to publish recommended scale/s of fees.

We shall look forward to further discussions and, even better still, a positive resolution to this subject!

Yours faithfully,

ANDREW ROSS.
PSAQ Vice President

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