Competition Policy and Real Estate

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The Culprits?

1. Industry Structure
2. Regulation
3. Low Productivity
4. Convergence of Cost and Demand Pressures
Few Competition Issues in Housing

- Low barriers
- Many buyers
- Many players
- No practical substitutes
- Some supplier market power
Over-regulation?

Zoning → Development Application → Construction → Building Standards

P.C “objectives overload” .... “lack of clarity”

Property Council “reforms mixed” .... “often isolated”
COAG Principles of Best Practice Regulation

1. Establish case
2. Look at options
3. Focus on net benefit
4. Abide by competition principles
5. Clear guidance to regulators
6. Timeliness
7. Consult effectively
8. Proportionality of government action and net benefit
## Recent measurement attempts

<table>
<thead>
<tr>
<th>Publisher</th>
<th>Definition and Methodology</th>
<th>Estimated Burden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark (2006)</td>
<td>Measured administrative burdens using the SCM</td>
<td>2.2% of GDP</td>
</tr>
<tr>
<td>Czech Republic (2006)</td>
<td>Measured administrative burdens using the SCM</td>
<td>3.0% of GDP</td>
</tr>
<tr>
<td>United Kingdom (2007)</td>
<td>Measured administrative burdens (excluding business as usual costs) using the SCM</td>
<td>1.6% of GDP</td>
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<tr>
<td>Australia</td>
<td>Productivity Commissioner (2006): Measured internal and external compliance costs using survey data</td>
<td>1.6% of GDP</td>
</tr>
<tr>
<td>Canada (2013)</td>
<td>Measured administrative burdens using survey data</td>
<td>1.7% of GDP</td>
</tr>
<tr>
<td>United States (2010)</td>
<td>Estimated the cost of economic, environmental, tax compliance, OH&amp;S and homeland security regulation using statistical regressions</td>
<td>11.7% of GDP</td>
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</tbody>
</table>
Low Productivity

Productivity in manufacturing has nearly doubled, whereas in construction it has remained flat.

Overview of productivity improvement over time
Productivity (value added per worker), real, $ 2005

Source: Expert interviews; IHS Global Insight (Belgium, France, Germany, Italy, Spain, United Kingdom, United States); World Input-Output Database

McKinsey & Company

## Drivers of Housing Cost

<table>
<thead>
<tr>
<th>Factor</th>
<th>Impact p.a</th>
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<tbody>
<tr>
<td>Inflation (labour, materials)</td>
<td>3.0 - 4.0%</td>
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<tr>
<td>House size</td>
<td>1.5 - 2.0%</td>
</tr>
<tr>
<td>Over-regulation</td>
<td>1.0 - 2.0%</td>
</tr>
<tr>
<td>Less: productivity offset</td>
<td>(0.5 - 1.0%)</td>
</tr>
<tr>
<td>Net</td>
<td>5.0 – 7.0%</td>
</tr>
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</table>
The Difference Between New Home Prices And Existing Home Prices is Getting Wider

Simplified Supply and Demand Curves

Exhibit 8
So what?

- Better understand supply / demand
- Tackle deregulation (including review of standards) supported by “reform payments”
- Identify what it takes to radically improve productivity