Residential auction clearance rates – what do they really mean?

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The residential market in Melbourne is often referred to as the ‘auction capital of the world’ with approximately 30-35% of housing transfers undertaken via the auction process, most of which are conducted on the weekend and then reported in the media the following day.  The most quoted measurement of auction success is via the clearance rate which simply indicates the proportion of signed contracts of sale within the auction process.  At the same time the clearance rate can have a relatively large variance where the residential market can traditionally range from very good (i.e. a high clearance rate) to very poor (i.e. a low clearance rate).  The subsequent effect on the market can directly increase or decrease demand, predominantly based only on this single measure of the perceived level of auction clearance rates only.

This paper examines the concept of the auction clearance rates and the heavy reliance on the only one measure of success (i.e. the clearance rates), regardless of other variables.  The emphasis is placed on the auction clearance rate as one measure of demand in the housing market but within the context of the definition of market value i.e. willing buyer-willing seller.  This is supported by a discussion about other variables including the asking price, the auction process itself, marketing considerations and seasonal adjustments.  The findings provide an insight into how to correctly interpret the auction clearance rate in the context of the overall supply-demand interactions.  Whilst the auction process is clearly an integral part of the residential transfer process it is essential that the auction clearance rate is used with caution and also in conjunction with other variables.
Introduction

Melbourne is the capital city of Victoria and has for many years enjoyed the informal reputation of being the ‘auction capital of Australia’. Records reveal that the earliest of land sales in Melbourne were conducted via open market auction with prices for the second issue of land exceeding those of the first. Interestingly, the auction for the second release of land was conducted in Sydney in the belief that the greater population would lead to enhanced competition and hence higher prices (City of Melbourne 2009). Therefore it can be asked: “could it be that this initial attempt to obtain the highest possible prices on the day have laid the foundation for a system that is so uniformly accepted today?”

A perceived and commonly accepted measure of success of the auction system has been the level of auction clearance rates. Over time the newspaper reports have appeared to increasingly use this metric as a means of measurement for the health of the housing market, and by extension, the strength of the broader Melbourne economy. In spite of the adoption of auction clearance rates in this manner there appears to be little understanding of its derivation or interpretation. At times some market analysts appear to use this measure in a way that suggests the Melbourne housing market is a single market without smaller submarkets, where it has been demonstrated that individual geographical sub-markets must be also examined (API 2007). However it is important that auction clearance rates as a metric are fully understood and correctly interpreted. Potential investors and home owners will often analyse auction clearance rates when attempting to select a suitable time in the year to buy or sell, sometimes with unreliable results. This paper examines auction clearance rates in terms of relevance with real estate supply-demand interaction and limitations with their interpretation. The scope of this paper is limited to residential property and is the initial foundation paper as part of an extended research project into auction clearance rates.

Common Residential Sales Methods

Whilst there are numerous marketing strategies available, residential property utilise one of two primary methods and other strategies are a derivative of these. These two primary methods are (a) private sale and (b) auction where related derivatives include (c) sale by tender and (d) sale by suggested price range. Refer to table 1 for a summary of the key characteristics of each marketing strategy.

<table>
<thead>
<tr>
<th>(a) Private Sale</th>
<th>(b) Auction</th>
<th>(c) Tender</th>
<th>(d) Suggested Price Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Disclosed fixed price</td>
<td>• Undisclosed price</td>
<td>• Undisclosed price</td>
<td>• Partial price disclosure</td>
</tr>
<tr>
<td>• Open ended timeline</td>
<td>• Fixed timeline</td>
<td>• Fixed timeline</td>
<td>• Open ended timeline</td>
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<tr>
<td>• Generally preferred by</td>
<td>• Generally preferred by</td>
<td>• Not well understood or</td>
<td>• Evidence of buyer</td>
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<tr>
<td>buyers</td>
<td>sellers*</td>
<td>accepted in residential</td>
<td>dissatisfaction</td>
</tr>
<tr>
<td>• Negotiations</td>
<td>• Negotiations public</td>
<td>sales</td>
<td>• Negotiations</td>
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<tr>
<td>conducted privately</td>
<td>• Purchaser under</td>
<td>conducted privately</td>
<td>conducted privately</td>
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<td>considerable pressure</td>
<td>• Allows purchasers</td>
<td>• Allows purchasers</td>
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<td>time to contemplate</td>
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<td>options</td>
<td>decisions</td>
<td>options**</td>
<td>options</td>
</tr>
<tr>
<td>• Purchaser makes first</td>
<td>• Vendor “requests”</td>
<td>• Purchaser makes first</td>
<td>• “Subject to” contract</td>
</tr>
<tr>
<td>offer</td>
<td>offers at appointed</td>
<td>offer</td>
<td>conditions may be</td>
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<tr>
<td>• “Subject to” contract</td>
<td>time of auction</td>
<td>• “Subject to” contract</td>
<td>acceptable</td>
</tr>
<tr>
<td>conditions a common</td>
<td>• No contract conditions</td>
<td>conditions may be</td>
<td></td>
</tr>
<tr>
<td>feature</td>
<td>other than those</td>
<td>acceptable</td>
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<td></td>
<td>prescribed by the vendor</td>
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<td></td>
<td>(or by prior agreement)</td>
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(Source: author)

[Note: *This characteristic is area/region specific. **Tender process often subject to restrictions.]

Each marketing strategy (table 1) is generally considered by real estate agents to have both benefits and restrictions. When deciding the choice of which sale method to use within the specific locality, sellers will often look towards the common method utilised in their area. Accordingly greater Melbourne has a broad
cross-section of sub-markets in terms of marketing strategies, pricing and cycles. It is therefore inappropriate to consider Melbourne as a homogenous marketplace; care must be taken by real estate agents when recommending appropriate strategies to prospective vendors. This discussion focuses specifically on the auction process and the scope does not consider the merits of each of the other strategies. However further research is required into the other strategies and to what extent they achieve optimum results for the consumer public.

The Listing Process
In order to examine the significance of auction clearance rates the listing process adopted by real estate agents must be placed in context. The expression ‘listing’ is a real estate industry-wide term which describes the intent of a real estate agent to secure the right to market and sell a vendor’s property, generally on an exclusive basis, in return for a negotiated payment of commission. In addition the vendor is required to sign documentation known as an ‘authority’ which grants these rights to the nominated agent. In the process leading towards securing this agreement the agent will advise the vendor of the various marketing options, ideally together with the supporting rationale behind each option. It can be debated whether or not the various marketing options offered by agents is ‘blindly determined by what is considered the accepted benchmark for a particular area rather than taking into account the characteristics of the property and motivations of the seller. However the aim of this paper is not to analyse recommendations typically forwarded by real estate agents but rather to examine the effectiveness of auction clearance rates once this decision to auction has been made. During the initial listing process it is common for agents to suggest a marketing program (or ‘schedule’ as it is often referred to), followed by the seller/s signing the document as a means of acknowledging agreement to the expenditure for marketing. At this point the agent returns to the agency and commences implementation the agreed marketing plan.

Open for inspections (OFI’s) are often an integral element of a Melbourne residential auction. These are conducted in pre-arranged times where the seller is required to ‘open’ their home for public viewing thus creating the initial sense of competition between prospective purchasers; often they are able to observe other interested parties and sometimes overhear relevant comments. These OFI’s may be linked with individual appointments with prospective purchasers however these appointments are often discouraged by the marketing agency as a means of retaining a competitive atmosphere. Typically there will be four or five OFI’s leading up to the auction day with the property also available for final inspection approximately 30 minutes prior to the auction. The conduct of auctions in Melbourne is tightly regulated by Victorian Sale of Land Act (1962). Since a major amendment to this legislation in February 2004, the auctioneer must declare each vendor bid as a bid by the vendor as it is made during the auction. Vendor bids are bids made by the auctioneer on behalf of the owner and are one of a range of strategies to ensure the auction maintains the momentum necessary to achieve a successful result i.e. a sale. Once the auction commences the auctioneer will receive bids from interested buyers until (a) the previously agreed (or revised) reserve sale price is met, (b) the property sold or (c) it is passed in (i.e. not sold) as result of not attracting a sufficiently high bid. Melbourne is rather unique in terms of its tradition for on-site auctions. Accordingly, successful bidders after the auction has been completed will be asked to sign the property sale contract and other relevant documentation inside the actual home sold and are often introduced to the vendors. Once the sale is concluded, the auctioneer’s role is ended and the sale result is generally reported to the Real Estate Institute of Victoria (REIV) for recording and forwarding to the press.

High media attention
Melbourne’s major media outlets publish the weekend’s auction results on each Sunday and Monday. This practice has occurred for many years and its continuation suggests there is broad public interest in these results. The auction results are often accompanied with front page commentary citing examples of extraordinary achievements and proclaiming the positive or negative ‘directions of the housing market’ based upon these observations. Thus readers could perceive these results reflect trends in the greater housing market within the Melbourne metropolitan region. The auction clearance rate measures (a) the ratio of the number of residential properties sold under auction conditions divided by (b) the total number offered for sale by auction. As straightforward as this statistic is, often it is greatly relied upon to provide a measure of the supply-demand balance of the residential property market as a whole. Accordingly such information
is of considerable interest to property owners and purchasers and therefore it greatly assists readership of print media. Being publicised in the media for so many years and such a relatively easy statistic to interpret, arguably there could be reluctance to other more comprehensive statistics than the auction clearance rate being adopted. Newspaper headlines such as “Auction clearance rates collapse to a four-year low” (Vedelago 2008 p.3) are typical of how the media use such information to inform readers of current market activity. Whilst explanation of this metric is sometimes explained in various news articles it is rarely stated that the data is substantially derived from a limited number of sub-markets.

**The Auction Process**

“An auction is a manner of selling land by bids usually to the highest bidder by public auction” (Hockley 1985).

Auctions provide both the actual property and the real estate agency marketing the property a very high profile in the marketplace. It could be argued, albeit perhaps cynically, this is a motivation for real estate agents to recommend this method of sale to prospective clients. The public demonstration of the auctioneer’s skills and ability to obtain above average prices would clearly be an attraction to future sellers. By actively encouraging auctions in their local area, real estate agencies are able to create a form of “inertia” for future auction clients via the auction process. This appears to be a major inducement for real estate companies to promote the auction process. The success of the auction method of selling is largely reliant on numerous often interdependent variables culminating with the auctioneer’s skill to extract the highest possible bid from a willing buyer on the day of the auction. These variables play a subtle yet powerful role in the outcome of the auction; a skilled real estate professional is able to understand how these nuances interlock and use them in a way that achieves the best possible outcome for their client. Whilst the general public is often unaware of the importance of these nuances, it is however for this purpose they engage a real estate agency and professional auctioneer to represent their property interest in the marketing process.

Ethical practices before, during and after the auction has been subject to considerable scrutiny in recent years. The 2004 amendments to the Victorian Sale of Land Act (1962) addressed the issues in relation to the inappropriate use of vendor bids and their potentially deceptive use. More recently however concerns have been expressed about the extensive disparity between quoted likely selling prices and actual sale price on the day of auction. It has been argued that that information available to the market is often of poor quality, insufficient and/or unclear (Robinson et al. 2003). Combine these factors with the heightened level of market activity and arguably panic by prospective buyers, which has become a feature of the Melbourne residential market, it is possible to understand that the task of identifying probable sale price for even the most experienced estate agent or valuer is very difficult. In spite of these so called flaws in the auction system, a New Zealand based study by Dotzour, Moorhead and Winkler (1998) revealed that in some situations residential auctions did result in a premium price. However within the data sampled there were no auction sales recorded for prices less than private treaty sales in the same location. These findings have been supported by research conducted in other countries (Eves 2005; Stevenson et al. 2002).

Table 2 summarises residential property characteristics that are often considered by the real estate industry as being justifiable reasons to recommend an auction to a potential client. These characteristics are not presented in any particular order of importance. There appears to be very little research available into the validity of these claims and further research into this area is justified in order to determine whether or not the auction method is in fact the most suitable method in the circumstances suggested. It should be noted not all property industry participants and members of the real estate agency profession are advocates of auctions as the best method of sale. The merits or otherwise of the validity of the auction process are not the subject of this paper but rather the discussion will be limited to the interpretation of auction clearance rates. There are numerous auction training programs available both internally within real estate companies and externally via industry organisations such as the Real Estate Institute of Victoria (REIV) to enhance the performance skills of auctioneers. These programs tend to focus on the part of the auction process seen by the public, i.e. the auction process itself. However there appears to be limited specialised auction training available to enable practitioners to make more informed recommendations towards the suitability or otherwise of individual residential properties for marketing via auction.
Table 2. Property Characteristics Considered Suitable for Auction

- Architectural popularity
- High level of market activity
- Locality
- Allotment characteristics
- Generates open competition
- Potential buyers will often bid higher than would have otherwise due to the fear of loss
- Uniqueness of property and/or area
- Norm for the area
- Defined timeline
- Structured marketing program
- Contracts void of provision for “subject to” clauses
- Seller determines terms of contract (occasionally may be open to negotiation)

Figure 1 outlines the phases in the marketing process commencing with (a) the appointment of a real estate agency to (b) the post-auction period until (c) a sale contract is secured. There are numerous minor activities that often occur within each step but figure 1 nonetheless provides a sufficient overview.

Figure 1. Overview of the Auction Process

(Sales presentation
Authority is signed. This document must comply with Victorian legislative requirements.
Marketing schedule prepared and presented to client for approval
Sales staff may contact current buyers on database

marketing phase

• Marketing/advertising campaign begins
• Open for inspections are characteristic of auction campaigns
• Interest is encouraged but prior offers may not be accepted to ensure maximum competition on day of auction
• Regular progress reviews with client vendor. Reserve generally not yet determined
• Final review meeting generally arranged 2 nights prior to day of auction. Reserve discussed and auction day process re-iterated.

Initialisation phase

• Day of auction
• Flags and on site materials erected early morning
• House opened for public inspection 30-45 minutes prior to auction
• Professional rules of conduct, contracts and vendor’s statement on display
• Auctioneer asks for and receives final instructions and reserve price
• Auction commences, contracts & vendors statement read and property attributes reinforced
• Bidding commences, auctioneer controls bidding via various strategies including nominating increase increments
• Auctioneer may halt auction for instructions
• Auction resumes and final bids called for (bidding often more intense)
• Property either sold or passed in

Day of Auction

(Source: author)

The importance of the role of both the listing estate agent and the auctioneer in figure 1 is central to this discussion. Therefore a thorough understanding of auctions as an appropriate method of sale for a given property is imperative to the successful outcome for the seller.
**Auction Clearance Rates**

It is commonly accepted the auction clearance rate is the ratio between (a) the number of properties sold on the day of auction and also after the auction (but before the end of the reporting cycle) and (b) the total number of properties offered for auction on a given weekend. This ratio is reported as a percentage (e.g. 70% equals 7 out of 10 properties offered for sale by auction which actually sold) and receives substantial media exposure in both the electronic and print media. Whilst auction clearance rates in Melbourne have been recorded and publicised since approximately 1981, they only become relevant to broader society since the upswing of the property cycle in late 1990’s. A review of the literature has identified no previous studies into auction clearance rates, especially when seeking to explain what this statistic means in terms of limitations and relevance. Initial investigations suggest a substantial proportion of the auctions recorded are within approximately 20km of Melbourne’s GPO. According to the Real Estate Institute of Victoria (REIV) auctions represent approximately 30% to 35% of all transactions in the Melbourne residential market (Larocca 2009). It is interesting to note this statistic has remained relatively unchanged over the last 20 years since it was observed that approximately one-third of all existing housing was auctioned twenty years ago (Mayer 1989). With such a consistently low proportion of Melbourne’s housing stock being marketed via the auction process, it can be asked: “can auction clearance rates be relied upon as a measure of the performance for the residential property market in Melbourne as a whole?”

In order to address this question it is essential to examine collective factors that combine to create the aggregate market, as well as the various submarkets surrounding Melbourne. These factors or drivers include but are not limited to demographics, population cycles, employment and transport hubs, traditional areas of wealth and physical characteristics of the area (API 2007). In addition, auctions require potential purchasers be able to commit unconditionally to the purchase, therefore not enabling the ability of the purchaser to have the security of clauses such as ‘subject to finance approval’. A successful bidder must pay 10% cash at the fall of the hammer with the balance paid on settlement in 60 days via an unconditional contract with no cooling off period. This clearly would restrict the purchasing capability of a potential purchaser at an auction to only purchasers who were financially able to secure lending approval prior to the auction. This group of purchasers are generally seeking to purchase as close to city as they can afford and thereby further reinforcing the potential of auction clearance rates to be considered as a middle/inner suburban metric of market performance.

It is clear that auction clearance rates are perceived as a reflection of the general level of demand for real estate across Melbourne. However it is unclear if the same statistic can be reliably used as basis of assessing market activity in different submarkets. Anecdotal evidence from discussions with real estate agents working in the outer suburban residential markets suggests auction clearance rates have limited reliability as a market activity indicator. One defining characteristic of sub-markets throughout Melbourne is single and multi family submarkets (API 2007). Certain demographic segments of the population within a particular market will have a greater dependency on acquiring finance and therefore would not typically buy at auction due to the requirement to bid unconditionally. On the other hand most families have limited income and high outgoings, therefore are not generally risk takers and often prefer to buy subject to bank finance approval. However in recent years some emerging banking products have attempted to address this requirement but are still reluctant to approve unconditional loans without the opportunity to acquire an independent valuation with a high loan to value ratio (LVR). This is more likely to be the scenario in outer lying suburban areas. Figure 2 highlights a trend in auction clearance rates in the Melbourne market since July 2008. It can be observed there was a downturn in November 2008 which coincides with the recent global financial crisis that affected the developed world. However almost immediately the clearance rates began to move upwards (see figure 2) although volume of properties being offered continued to decline until April 2009. There is a degree of unreliability when focussing upon one statistic in isolation such as clearance rates. When assessing market activity information it is accepted that aggregate data is often preferred to detailed data, however reliable accurate data is essential. However with substantial media attention placed upon clearance rates it is important that this statistic is interpreted in light of overall market activity by both the seller and the buyer.
Figure 2. Auction Trends 2008-2009

(Source: REIV 2009)

It is argued the auction clearance rate is limited as the sole measure of market activity. The reason is this measure relies upon auction sale results which are only voluntary submitted (i.e. optional and at the discretion of the real estate agent) to the industry peak body in Melbourne, namely the Real Estate Institute of Victoria (REIV). The REIV represents approximately 78% of all real estate agents in Victoria and not all those member agents actually submit sales results, although approximately 95% of all auction results are reported whilst only around 50% of private sales are reported (Larocca 2009). Therefore the integrity of clearance rates as a reliable measure may be further compromised. Nonetheless it is likely the volume of statistics submitted and utilised each week can be relied upon as they are statistically robust and reliable. Figure 3 illustrates Melbourne’s consumer sentiment index over a similar time period to figure 2 and follows a similar trend to auction clearance rates. This index is somewhat analogous to auction clearance rates insofar as both gauge the confidence of consumers towards making spending decisions. This broad correlation suggests a general relationship between these indices and further research is warranted to determine if in fact such a relationship does exist and if so, to what extent.

Figure 3. Consumer Sentiment

(Source: REIV 2009)
Recent Trends in Auction Clearance Rates

Media outlets have reported on the developments of the global financial crisis and Australia’s economy was also affected. As evidence of Australia’s economic robustness, auction clearance rates have received increased attention and a higher public profile. It appears the linkage between recovery and property sales has been somewhat assumed, albeit a logical assumption. The connection between economic conditions and property market activity is clear, however strong external factors such as high migration levels and the recent amendments to foreign investment rules in Australian real estate (Bowen 2008) may create a false measurement in terms of its use as an economic indicator. The usefulness of a unit of measurement relates to the purpose for which it was intended, although no representations have been made to use the auction clearance rates for anything other than as means of monitoring the movements of activity in the residential property market. Broadly speaking, auction clearance rates are perceived as the ‘Dow Jones’ of Melbourne residential property or an index of consumer interest in residential property. Figure 4 indicates this index is closely related to movements in house prices.

Figure 4. Relationship between Auction Clearances and House Prices in Melbourne

![Graph showing the relationship between auction clearances and house prices in Melbourne](source: Macquarie Capital Advisors 2009)

Movements of prices in Melbourne’s residential market are related to the level of purchaser interest in response to accepted economic theory (API 2007). The auction process is particularly adept in capitalising on increased levels of purchaser interest and competition by the nature of the sale process. Increased levels of auction success commonly lead to an increase in the final sale price as bidders attempt to out-bid each other, resulting with the highest bidder winning the sale. Therefore it can be observed as clearance rates increase and are reported in the media, potential buyers seeking to purchase property acquire a heightened awareness of other interested buyers in the marketplace and hence more competition. In turn this leads to potential buyers willing to bid more in an effort to secure a property before prices increase any further. They may be influenced by previous experiences where they were the unsuccessful bidder at previous auctions so the fear of loss may cause the buyer to bid even higher to secure a property. This consumer behaviour often leads to a property bubble and is generally of concern to the Reserve Bank of Australia (RBA) when observed nationally. Waxman (2004) defined a property bubble as where prices climb far higher than can be explained by underlying economic and demographic fundamentals, and as such are unsustainable. It is the unsustainable nature and the resulting high debt levels necessary to acquire property during such a period that understandably concerns government agencies and the RBA.
Whilst there is no specific benchmark of auction clearance rates which can be referenced, it is generally considered that percentage clearance rates in the range of 60% and below are indicative of a market slowdown in activity with cause for concern. Clearance rates in the range of 70% represent normal levels of activity with levels of 80% and above considered to indicate a very active marketplace. Recent clearance rates have been reported in the region of 85% (REIV 2009). Such levels coincide with stated concerns from the RBA about rapidly increasing house prices and inflation leading to an increase in the cash rate of 25 basis points with warnings of further potential raises (Stevens 2009).

**Wider Application of Auction Clearance Rates**

The tendency for auction clearance rates to be derived from a limited number of sub-markets which are historically auction oriented raises some concerns, since this measure may be questionable as the only reliable indicator of the broader residential market. For example this practice may have the potential to create a somewhat distorted view of market activity; arguably the high level of media focus has the potential to create the impression that auction clearance rates are the single most useful metric for this market activity. Rarely in real practice would a single measure be considered a sole creditable measure of performance. There is little doubt this metric is a useful measure of market performance but further consideration of its limitations should be undertaken.

This discussion raises the question: “Is it possible to obtain a single measure of housing market performance when the characteristics of sub-markets vary so greatly?” Furthermore “if the measure of auction rates has limited sources of data, is it in fact reasonable to simply retain auction clearance rates as the single most useful indicator of housing market performance?” Answers to these questions can only be addressed by undertaking further research. However it can hypothesised that the further away from the epicentre of auction activity in Melbourne, the less reliable this indicator is when assessing market current activity. Discussions with practitioners working in the outer suburbs of Melbourne’s east, confirm they are constantly observing clearance rates and in fact use this metric in the form of a leading indicator. Mr M. Usaff, real estate agent and principle Ray White (Tecoma) Pty Ltd commented that “Whatever happens in the city will ripple out to us in 12/18 months………good or bad” and this opinion appears consistent throughout the real estate agent community. Mr Carter of Carter Real Estate Ringwood concurred with Mr Usaff’s comments although the observed time lapse was notably shorter, where Ringwood is approximately 13 km closer to Melbourne’s GPO. Therefore it can be observed that professional agents are utilising this measure as a means for gauging market activity, albeit in the future in the case of agents who are not working in concentrated auction intense sub markets. This observation suggests the real estate industry is adapting indicators such as the auction clearance rates in a manner that is easily understood. In turn this raises the issue of whether or not such a metric is required to be statistically robust and complex in terms of its data input. Questions should be asked about whether the indicator needs to simply be consistent and reliable.

The question can be asked: “Is it possible to obtain a single measure of housing market performance when the characteristics of sub-markets vary so greatly?” In other words it should be determined what other statistical information is relevant. Clearly the characteristics of different property sub-markets would need to be brought to account but careful consideration must be given to the inputs which are often inversely related to each other. For example, outer suburban areas in Melbourne are generally the preferred location for first home buyers who require finance with a high LVR. Whilst banks have moved towards pre-approval lending products they are still selective to whom they grant such approvals, not to those seeking high LVRs. However potential buyers seeking to relocate to traditional auction locations are usually those upgrading or young professionals on above average salaries. Since the objective of auction clearance rates is to provide a statistical insight to current housing market performance, it may be possible to produce a modified index examining performance in a more local sense. For example there may be a relationship between auction clearance rates and the direct distance from Melbourne’s GPO; this would identify a factor that allows for the distance from auction intensive sectors. This type of model would require ongoing maintenance and updating of results, otherwise the relevance and usefulness to the industry will decrease. Another suggestion of market activity measurement could be linked to the number of people attending auctions. It can be argued this is an indication of the health of the market, since real estate is about performance and many
In essence, auction clearance rates can be considered in a similar perspective to the share market’s Dow Jones index. The Dow Jones index is a measure of the top 200 listed companies but is not capable of indicating performance of all listed companies but as the recent global financial crisis highlighted, it is a measure of the sentiment of buyers and sellers in the market place on the day. In that sense it is a highly useful and informative indicator. Alternative repositories of data are government organisations such as the Valuer General of Victoria (VGV), although the usefulness of this data is limited due to the lag between the transmissions of sales records from the auction day to the VGV. The reasoning is because recorded sales are not relayed until settlement is effected, typically 60 or 90 days after the contracts have been signed. Another key problem with using the VGV data base is that the nature type i.e. auction or private sale is not classified. Hence it is the delay in recording the sales data which is the most concerning aspect of this option, especially as economic conditions change swiftly and the property sector is no exception. Experienced real estate agents have often commented about how the levels of buyer and seller enquiry can radically shift in either a positive or negative direction virtually overnight. Therefore any proposed alternative to auction clearance rates as a measure of market activity must be capable of reflecting very short timeframes for the collection and evaluation of data.

**Long-term Auction Trends**

Auction clearance rates as a measure of market activity has been made available to market analysts since 1981 (REIV 2009) and in the absence of further research is unlikely to be replaced by any other metric in the near future. Market analysts and economic commentators generally agree the Melbourne residential market is likely to continue its growth cycle into the foreseeable future (Colliers 2009). This increased pressure upon limited supply unquestionably favours auctions as the preferred marketing strategy. Accordingly it is probable auction clearance rates will continue to be of considerable interest. It can be argued that sub-markets which have traditionally been private sale dominated due to the buying demographic are likely to adopt auctions more openly, mainly due to (a) real estate agents increasingly promoting such a methodology and (b) the increasing housing stock pressures leading to rapid price fluctuations best captured by an undisclosed pricing method. Over the long-term this will create a greater volume of housing stock being offered each weekend across a broader spectrum of sub markets within Melbourne. This increase will provide auction rates as a statistical measure of even greater credibility as the ratio will be extracted from a higher volume of housing stock and sales.

**Conclusion**

Auction clearance rates are firmly established as a measure of Melbourne’s residential market performance and are widely considered by the real estate stakeholders as being a key indicator of market sentiment. In itself this indicator is often considered quite meaningful but has different interpretations and applications in the different Melbourne submarkets. Caution should exercised when interpreting what it actually means and its limitations are rarely discussed in real estate circles; for example there is no consideration given to the number of bidders at the auction, how much (%) the property exceeded the vendor’s reserve, the number of bids or the number of competing auctions in the surrounding area at the same time. At times the auction clearance rate is sourced from a narrow segment of the market with few sales and therefore cannot directly applied in across greater Melbourne. In terms of relevance about the date of publication for submarkets being examined, auction clearance rates appear to be less relevant the further the submarket is located away from the actual auction. Also, since there is a substantial time delay between inner and outer markets in terms of the activity as indicated by the clearance rates there is a need for additional indicators relevant to the respective sub markets. Nevertheless the auction clearance rate remains a statistic which is widely published by print media and relatively easy to understand by the public. Identifying suitable additional indicators would be useful in areas which are low in auction activity and therefore increase the level of reliability.
When considering potential improvements to a performance index such as the auction clearance rate it is important to consider what sort of data is required and what the information would be required for. In practice real estate agents are unlikely to reliably record empirical data such as number of bids or number parties bidding at any given auction but rather, by necessity, actual sales or auctions passed in will be recorded. The desire to be perceived as a highly successful real estate agency in an extremely competitive market environment is the motivator for the high level of reporting of auctions. Private sales on the other hand are more predominant in the outer-middle and outer fringes of Melbourne. As such, the general public are less likely to relate to auction clearance rates as being meaningful in their locality and this is re-enforced by the media often quoting examples from inner to inner-middle suburbs. In the Melbourne real estate market this is further exacerbated as reported case studies are invariably from Melbourne’s inner east.

Clearly the reliance and importance of auction clearance rates as the sole leading indicator of housing market sentiment is unlikely to be replaced in the near future. This statistic has been recorded and published for over 28 years which indicates it is embedded in the marketing culture of property professionals, analysts and the broader market. This paper provided a unique insight into auction clearance rates in an Australian capital city and forms the basis of further research for potential market indicators capable of monitoring the dynamic nature of the residential property market across Melbourne and other Australian cities. Detailed research examining the dynamics and reporting capabilities of the various submarkets has the potential to reveal a more useable and pertinent indicator that reflects market sentiment. Such an indicator would obviously be more usable by property professionals and provide them with a valuable tool for the provision of client advice. This in turn would create greater confidence in the real estate profession and also for other stakeholders including government, lenders and the public.
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