A Primer on the Australian Land Market

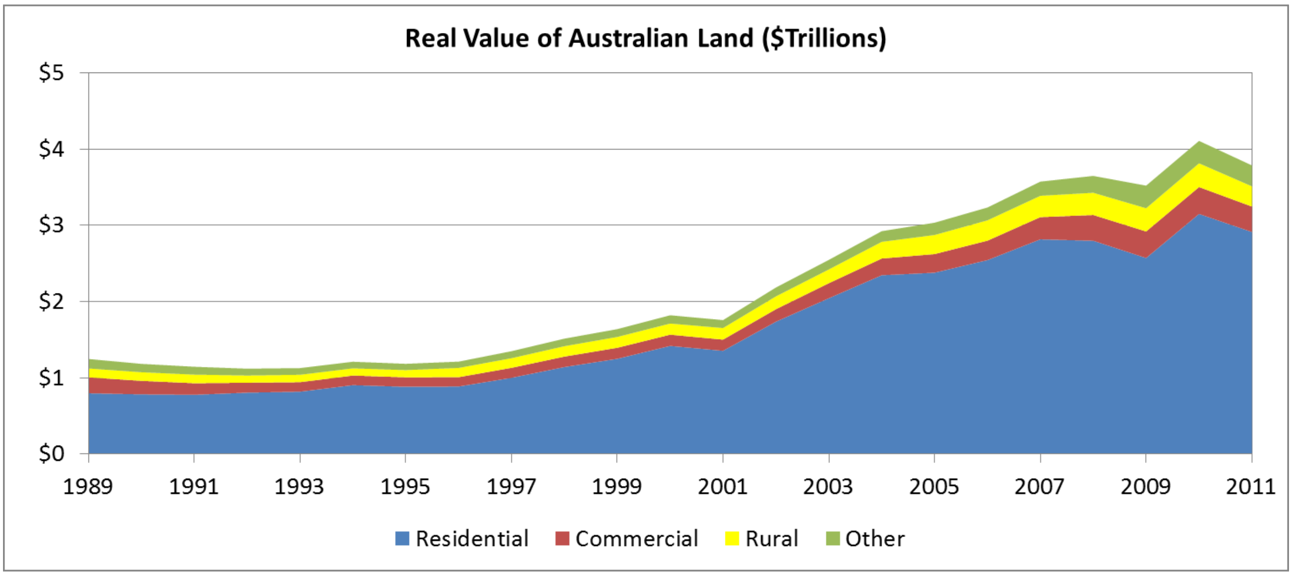
Australia is the least densely populated continent in the world. Most of Australia's 23 million people live in a handful of major cities.

- Land is the largest tangible market in Australia.
- Peaked at a value of $4.1 trillion in 2010.
- The land market is around 300% of GDP (a common measure of the economy's size).

Components of the land market

The Australian Bureau of Statistics has provided data on land values since 1989, dividing the land market into four uses.

When land values peaked in 2010, they had a value of:
- Residential: $3.1 trillion
- Commercial: $353 billion
- Rural: $311 billion
- Other: $294 billion

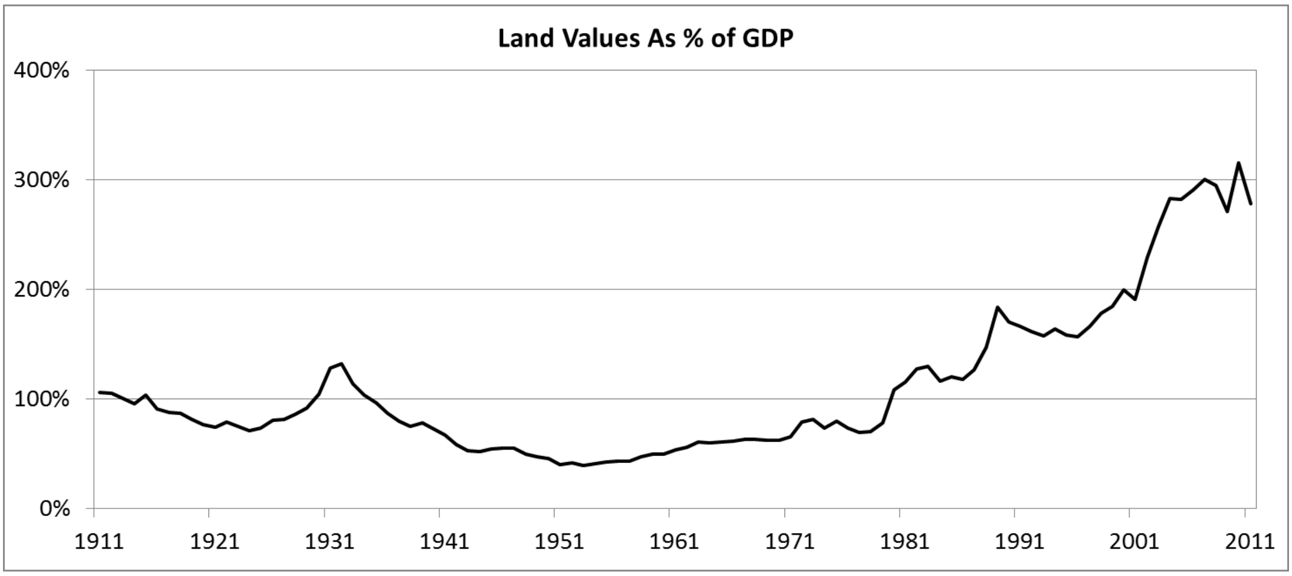


A rollercoaster ride of booms and busts

History shows land prices fluctuate continually in boom bust cycles.

- A depression occurred during the 1890s when a land bubble centred in Melbourne crashed. It was relatively worse than the 1930s Great Depression.
- The next major boom occurred during the late 1920s, peaking in 1931. The resulting bust was the primary driver of the Great Depression.
- Land values did not recover until after World War 2 and remained fairly stable over the next couple of decades.
- The mid-1970s recession was caused, in part, by another land bubble bursting.
- Yet another residential bubble occurred during the early 1980s, resulting in recession.

- The late 1980s saw a huge commercial sector land boom. High interest rates eventually burst the bubble, resulting in the early 1990s recession.
- The largest, sustained increase in land values began in 1996, centred in the residential property market. This boom dwarfs all previous cycles in size and duration.



What causes these bubbles?

The boom bust cycle in the land market has two primary causes.

- The low level and inconsistent treatment of land value taxes (LVT):
  - Encourages speculation based on expected future increases in property capital values by bidding up housing prices using large amounts of debt (leverage).
  - Provides the incentive to seek profits in lightly-taxed capital gains ahead of rental income.
  - Currently, LVT accounts for a tiny proportion of total tax revenue, it needs to be much higher to act as an automatic stabilizer, rising as prices advance and shrinking as they retreat to moderate land price fluctuations.
  - Makes land prices highly volatile, delivering profits to some and losses to many.
- Banks' loose lending practices:
  - Financial lenders will often over-extend credit to homeowners and investors so they can speculate in the property market.
  - Based upon past success, speculators commit to even higher debt/equity ratios, unaware they are participating in a pyramid scheme based upon unrealistic expectations.
  - Currently, household debt is $1.3 trillion or 95% of GDP, a staggering financial burden.
  - In 2008, before the effects of the global financial crisis hit, almost all mortgage loans offered to homeowners and investors were for 80% or more of the property value, and amazingly, 26% of all loans offered were for 100% or more.

What can be done?

- Substantially increase land value taxes while removing 125 other badly designed taxes with large deadweight costs and high administrative burdens.
- The land market comprises a large enough revenue base to replace these inefficient taxes.
- Regulate mortgage lending to 10 times a property's potential annual rent.