Editorial *By David Collyer*

Prices and rents are not on a one-way ratchet.

Property prices can and do go down. We are currently in an era of falling real (after-inflation) rents, and in the case of Perth, Adelaide and Darwin, actual nominal falls. If real wages continue falling, rents will follow.

The Sydney and Melbourne price change charts were until very recently parabolic – near vertical. No longer.

Those caught on the wrong side of this change in sentiment with high debt secured on indifferent properties will come to rue their decision to join the rush to become landowners at the worst time in 100 years. In the US, 20 per cent of all mortgaged property is still in negative equity eight years after the price correction of 2007. Holders will have endured absolute agony – for year after year after year.

Back home, the smart money has already adjusted property holdings – selling weak assets into recent strength and lightening debt loads in expectation of an era of soft rents, high vacancies and very tight credit.

We have been driven to this by unlimited credit, speculative fever, restrictive planning and bad taxes.

The main, enduring policy failure is tax. Treasury takes as much of the cream from labour and capital as it dares, while leaving land largely untaxed through a system holed by exemptions and pseudo-progressivity. The tax-advantaged status of land has been capitalised into prices – which imposes very high costs on those who need somewhere to lay their head at night.

And now the Turnbull government wants to enlarge the GST – a flat-rate wage tax that destroys savings and exempts incomes that accrue to foreigners. This is tax de-form, not re-form.

We desperately need an improved land tax so the states have their own revenues and taxpayers can hold them responsible for their promises. Exchanging conveyancing Stamp Duty for State Land Tax would be an excellent first step.