

The Sowers and the Reapers



"It is manifest that with a rapidly increasing population, real estate values can go in only one direction—up."

On the estate page of the *Sydney Morning Herald*, July 18, 1966, two pertinent articles on land appeared. Below is an extract from the first, entitled "A Dynamic Future in All Its Forms." It is written by S. F. N. Hickson, president, Real Estate Institute of N.S.W.

LAND, unlike manufactured goods, cannot be replaced, although it may, years later, be redeveloped. It is manifest, therefore, that with a rapidly increasing population, real estate values can go in only one direction—upwards.

It is possible that there may be recessions in the future, although it must be said that the authorities, political and statutory, who manipulate our economy, have gained in expertise and consequently in the ability to "even out the hills and hollows of over-all economic activity." However, even in the event of a recession, past experience shows that real estate values do not actually decline, apart from the relatively few forced sales. Rather the effect is for the volume of real estate transactions to diminish until the economy generally supports a return to sales at levels current at the point of interruption.

In the history of Australia basic real estate values have shown a consistent annual increment of something between five and ten per cent. These facts should serve to assure those people who are concerned at the recent fall in the number of approvals of applications to build, that this condition is only of a temporary nature and must soon be reversed.

Those who require their own home standing on its own parcel of land, as indeed they are entitled to do, are now buying land south of Sutherland, in the Blue Mountains, on the plains west of Blacktown and in the Hawkesbury Gorges and beyond to Gosford—and even in these districts, prices of home sites are high judged by prices of land in a then similar environment that was available a decade ago. The simple fact is that Sydney is running out of home sites within twenty miles of the city and under \$2,000 a lot (Australian dollars).

A leading real estate agent who has handled a number of properties in these areas recently said that house prices appear to have reached a peak at which they have stabilised—between \$11,000 and \$14,000, with rejuvenated property bringing up to \$20,000. He expects this rise in values ultimately to spread to Surry Hills, Moore Park, Redfern and Glebe.

Certainly the "Uptown Sydney" committee has worked hard in the past two years to draw attention to the op-

portunities that exist for redevelopment in this area, and it is to be expected that investors will take advantage of these opportunities soon.

The pattern of real estate activity in the metropolitan area is generally repeated throughout the State in the major centres. Discussions with members in other capital cities throughout the Commonwealth indicates that the position in Sydney is broadly similar to that elsewhere.

★ ★ ★ ★ ★

The second article is by Dr. J. F. N. Murray, Life Fellow, Commonwealth Institute of Valuers, entitled "Land Values Reflect Nation's Economy," which we give in full.

EVERY PARCEL OF LAND has characteristics that distinguish it from others, and the supply of land suited to any particular purpose is limited by nature and further restricted by zoning and planning schemes.

It follows that movements in land values reflect the general economy of the nation. As far as rural lands are concerned their values may depend to a great extent upon the maintenance of markets overseas for primary products such as wool, wheat and sugar. Urban and suburban land values depend upon local demand, and marked increases in land prices are indicative not only of an expanding economy but also of changes in use.

During the past decade or so the expansion of cities and towns in Australia has been so great that in the space of a few months open paddocks have been transformed into factory sites or built-up residential areas complete with all amenities.

In the majority of Australian States both the unimproved and improved value of lands are ascertained from time to time for purposes of rating and land taxation. The total improved values at each succeeding appraisal are increased not only by variation in the land value but also by the costs of new buildings erected since the last valuation date.

Thus the variations in improved values indicate not only increases in land prices but record injections of capital, in the shape of new buildings, into the economy. On the other hand unimproved values reflect the increases brought about by community effort, such as the provision of services and amenities, and also include the increases brought about by changed use of land.

Apart from the alteration in land values due to the fall in the purchasing price of the pound, urban land values

in Australia have for more than a decade shown a steady upward trend. In some areas, such as Gladstone in central Queensland, very great increases in values have taken place almost overnight, due to the high expendi-



ture being undertaken in connection with the production of aluminium from bauxite mined at Weipa.

Between 1954 and 1958 the total unimproved value of the city of Greater Wollongong increased by 73 per cent., whilst between 1958 and 1962 there was a further increase of 114 per cent. The respective increases in improved values were 35 per cent. and 84 per cent. The fact that the unimproved values increased at a greater rate than the improved ones is evidence of keen demand for land.

In Blacktown the percentage increases in values were:

	Unimproved	Improved
1955/59	123 per cent.	152 per cent.
1959/63	190 per cent.	63 per cent.

In Dubbo unimproved values increased by 112 per cent. between 1954 and 1962 and improved values by 64 per cent.

In all States there have been steady increases in both unimproved and improved values, particularly in the cases of urban and suburban lands. With the enormous amount of capital invested in land it is essential for rating, land taxes, loans, and other purposes that there should be an accurate determination of land values.



A. R. HUTCHINSON, B.Sc., A.M.I.E. Director of the Land Values Research Group, Victoria, Australia, comments.

SOME READERS of the foregoing articles may be surprised that such high prices are quoted for home sites in the Sydney metropolitan area, bearing in mind that site values there are rated and that one of the advantages claimed for this system is that it reduces the incentive to land speculation.

On reflection it will be seen that the effectiveness of the land-value rate or tax in keeping down land price

“ONE has only to examine the projections of population increases to appreciate the dynamic future for real property in all its forms in this great nation of ours. —*Sydney Morning Herald*

“EVERY citizen who buys or sells a house or farm, raises a mortgage, or is simply in the passive role of a ratepayer has a vital interest in the value of land.” —*Sydney Morning Herald*

depends entirely upon the proportion of the site rent taken. It is the difference between the potential site rent and the part taken in rates that is capitalised into the land price.

To the extent that there is land speculation in Sydney, despite local rates on site value, it is simply because the level of these rates is not heavy enough to make land speculation unprofitable. An important factor is that although municipal rates are upon the site value, water, sewerage and drainage functions are handled by a separate statutory authority which does not rate on site value. There is a strong demand now being made that it should be required to rate on a basis of site values, and if it does the profitability of land speculation and the level of land price would be substantially reduced, though the level of rates would still be insufficient to kill such speculation completely. To do that it would require to be supplemented by a State Development Fund financed by a tax on site values which would absorb a much larger proportion of site rent.

Those resident in Sydney are conscious of the fact that land prices are still too high. But they may not realise that those prices would be far higher without the measure of site-value rates they already have. Its effectiveness in producing lower land prices is seen when the comparison is made with the price levels in greater Melbourne. In Sydney site-value rating is general for the component municipalities, whereas in Melbourne it applies to only a little more than half, and excludes the central business areas. Melbourne is running out of home sites within twenty-miles of the city at a price less than \$3,000 per lot, whereas the figure cited for Sydney is \$2,000.

In our evidence to the Royal Commission on Local Government Finance and Valuation this year, we pointed out that although Sydney had a markedly better level of development and tempo of business, which would normally be reflected in higher land prices, the facts were that for 1963/64 the total unimproved capital value of each of these two cities was approximately the same at \$3,000,000,000. The value for central Sydney was some \$160,000,000 greater than Melbourne, with the implication that the suburban lands of Sydney were worth less than those of Melbourne. More significant, though was the fact that the value of improvements per \$100 of site value was \$222 compared with only \$125 for Melbourne. This difference in favour of Sydney is the result of more than half a century of improvements being stimulated by being tax free. It contrasts with Melbourne where improvements have been taxed for a similar period. The difference is not accidental.