

WHY SITE RENTAL REVENUE REDUCES LAND PRICE AND DOES NOT RAISE RENT

Land price is the capitalisation of the yearly rental profit, i.e. locational profit, that can be obtained from a site. The more of the yearly rental that is collected for the community, the more land prices will drop. The price of a piece of land can be estimated if we know the yearly rental that can be obtained for it and if we know the current rate of interest. Then the land price equals the amount of money that would have to be invested at the current rate of interest in order to obtain a yearly sum equal to the yearly rental. Thus if the yearly rental was \$3000 and the current rate of interest 10% then, since 10% equals $\frac{1}{10}$ th, \$3000 would be $\frac{1}{10}$ th of the money that needs to be invested. Hence \$30,000 would be needed. This equals the land price. Now, if \$2000 of the yearly rental were collected yearly for the community, then only \$1000 yearly would be left for the landowner.

If we now estimate the land price equivalent to a yearly rental of \$1000, using the above method of calculation, we find that the land price would only be \$10,000. Hence it is shown that the more rentals are collected for the community, the less will be the price of land.

Also, in most cases for tenant businessmen rents will not rise if the community collects more rental revenue because the landowners are already collecting all the surplus over marginal land. Any rise of rents for the tenant would force him to vacate the premises. On the contrary, if more rental or potential revenue is collected for the community from all land, whether used or not, the more likely it is that rents will fall somewhat. This is because landowners will be competing more for tenants in order to pay their site revenue.

Rents for tenants will only rise because of increased development or population traffic in the area. The greater the amount of this rent increase that the community takes through site rental the more we can remove the burden of taxation from industry and the mass of the community.

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