

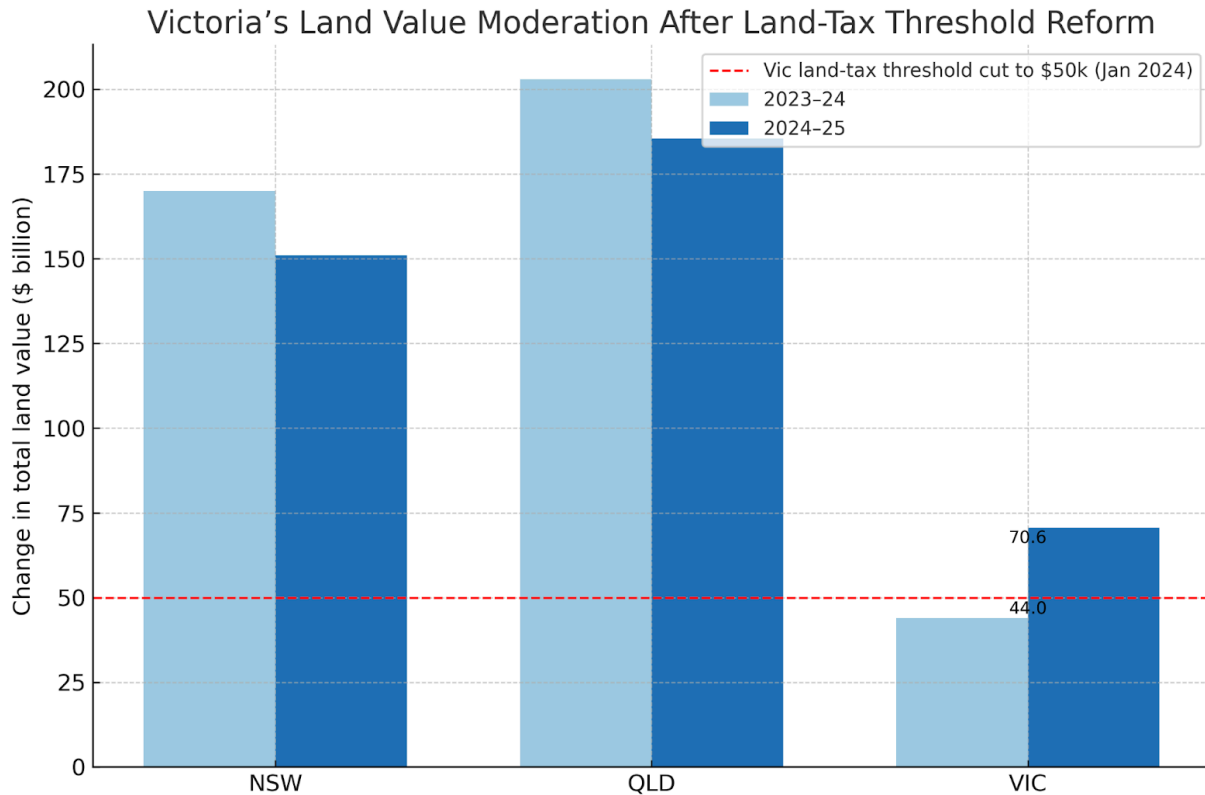
# Grounded Policy Brief – December 2025

## Since the Land Tax Thresholds Were Lowered: Victoria's \$20 Billion Buyer Dividend

*Grounded* is a Victorian not-for-profit organisation building a scalable Community Land Trust system to deliver permanently affordable, owner-occupied housing across the state. Our work focuses on reducing the share of household income absorbed by land costs through structured land stewardship, community governance, and evidence-based policy.

Recent ABS National Accounts data (Table 61, 2024-25) reveal that total Australian land values increased by \$597 billion, with residential land accounting for \$541 billion. National total land values have hit \$10 trillion for the first time. Yet Victoria's contribution was modest: \$70.6 billion, compared with \$151 billion in NSW and \$185.5 billion in Queensland.

This comes after Victoria's already-low increase of \$44 billion in 2023-24, while NSW and Queensland surged by \$170 billion and \$203 billion respectively. Over two years, Victoria's combined land-value growth was just \$114 billion versus \$321 billion (NSW) and \$353 billion (QLD).



The timing is clear: since the land-tax thresholds were lowered in January 2024 — from \$300 000 to \$50 000 for individuals — Victoria's land-price inflation has flat-lined. The reform dramatically broadened the tax base and raised the cost of holding under-utilised land. This has dampened speculative demand while preserving construction momentum.

At the same time, Victoria has achieved 98 % of its National Housing Supply and Affordability Council target, the highest rate nationally. The combination of supply acceleration and stronger land-use taxation has effectively reduced over-capitalisation pressures.

However, the announcement of the land tax threshold reduction reshaped investor yield expectations on impact, driving a divergent pricing pathway long before supply effects emerged, reflecting that pricing responds immediately to fiscal signals while supply adjusts only secondarily under fiduciary constraints.

If Victoria's land values had risen in line with national or Queensland trends, they would have climbed by roughly \$250–270 billion over the past two years. Instead, they rose by only \$114 billion — implying \$130–150 billion in avoided land-price inflation.

Victoria recorded roughly 6 % property turnover (around 620 000 transactions) during the 2024–25 period.

Had land values grown in line with the national average, Victoria's total residential land value would have increased by about \$250–270 billion instead of \$114 billion.

That \$130–150 billion difference represents the *avoided over-capitalisation* in Victoria's land market.

Only a share of the statewide moderation flows into household-level savings, because only transacting properties can express lower capitalisation in a sale price. With approximately 6 percent turnover, the \$60–80 billion suppression of land price inflation translates to \$3.6–4.8 billion in direct buyer-side savings in 2024–25. Applying the same turnover rate to the previous year's suppressed inflation yields a further \$2.5–3.0 billion. Across the two years, the combined direct saving to purchasers is therefore approximately \$6–8 billion.

Additional mechanisms expand the impact. The removal of land tax apportionment at settlement prevented roughly \$400 million per year from being added to contract prices. Higher holding costs reduced investor bidding strength, generating an estimated *dampening effect* of around \$6 billion. Reduced capitalisation of expected gains contributed a further \$6.1 billion in avoided buyer-side price loading. When combined, the realised buyer-side savings amount to approximately \$10 billion per year, or \$20 billion across the two years.

Victoria's broader tax and regulatory settings have contributed to the investment climate, but they do not account for the magnitude or timing of the suppression in land-price inflation. The Vacant Residential Land Tax remains primarily voluntary in its compliance and lightly enforced in practice. The Windfall Gains Tax has been extensively gamed through rezoning sequencing and land-assembly strategies, substantially limiting its intended deterrent effect. The Airbnb levy is passed straight through to customers. These measures increase signalling pressure but do not materially reshape price-formation dynamics. The decisive change has been the lowering of the land tax threshold, which altered the capitalisation calculus for all non-exempt land, rather than imposing narrow, easily avoided obligations on specific asset classes.

Supply-side explanations also fall short. Fiduciary duties constrain developers from undercutting prevailing price expectations; they are obligated to maximise returns for financiers and shareholders, which limits their ability to deliver price-modifying volumes at the point of initial sale. New supply therefore enters the market at a benchmark set by incumbent price levels. Its price-modifying effects materialise only at the second sale, once the asset has passed out of the hands of entities with market-setting power. A repeat-sales index such as a Case–Shiller-style measure would reveal this clearly: the first transaction reflects developer market power; the second reflects true market absorption. The lag between supply delivery and price moderation

means that supply cannot explain the immediate suppression of land-price inflation observed after the threshold change.

This is consistent with the behaviour of investors. Despite tightening tenancy laws and the broader policy environment, investor loan commitments began rising again in late 2023 and continued through 2024. Investor participation returned; land-price inflation did not. If investor retreat or supply acceleration were the primary drivers, Victoria's price path would resemble that of NSW or Queensland, where similar or greater supply efforts have not prevented substantial increases in land prices. The difference is the capitalisation environment: lowering the land tax threshold directly changed the terms under which investors hold, value, and bid for land. It increased the carrying cost of idle and under-utilised land, moderating speculative behaviour in a way that voluntary, gamable, or fiduciary-constrained measures cannot.

Victoria's position as the first-home-buying capital of the nation reinforces this assessment. Over 35–40 percent of all owner-occupier finance commitments in Victoria are to first-home buyers—a rate higher than any other state or territory. The announcement of the land tax threshold reduction in the May 2023 Budget produced an anticipatory effect: first-home buyers increased their share of purchases through the second half of 2023, consistent with an expectation that land-price pressures would ease. Following commencement of the lower thresholds in January 2024, first-home-buyer activity remained elevated. This aligns with the suppressed capitalisation environment: lower expected land-price inflation benefits first-home buyers more than any other group because they are most exposed to debt-service ratios and least able to capitalise future gains into bids.

The combined picture is clear. The broader tax and regulatory measures applied to investors—Vacant Residential Land Tax expansion, Windfall Gains Tax, and tenancy reforms—created additional frictions around speculative landholding and strengthened incentives for more active land use. But they do not explain the discrete and quantifiable suppression of land-price inflation that began once the land tax thresholds were lowered. Investor participation has resumed; prices have not. First-home-buyer participation has increased; debt burdens have eased relative to scenario paths. The threshold reform is the binding influence in the system, operating through capitalisation dynamics rather than through investor retreat.

### **How influential are Land Tax thresholds?**

In contrast to Victoria's broadening of the land tax base, several eastern and southern jurisdictions have moved in the opposite direction, through the indexation of land tax thresholds to median land values.

New South Wales, Queensland, and South Australia have maintained comparatively high tax-free thresholds that shield most investor-held land from any meaningful holding cost. NSW

has now halted indexation, but only after its threshold climbed to \$1.075 million—an artefact of automatic uprating that tracked land-price growth for years.

Queensland and South Australia continue to index their thresholds, which means the tax-free limit rises alongside land values. This mechanism creates a clear perverse incentive. As thresholds ratchet upward, investors target the last affordable suburbs to stay under the limit. Their speculative demand pushes prices higher in those same suburbs, and because thresholds are indexed to median land values, these higher prices trigger even further increases in the tax-free threshold. *The investor receives a double benefit: capital gains and expanded exemption.* The system therefore rewards holding behaviour that inflates prices and erodes affordability.

This dynamic has widened the gap between land-price gains and developer margins. Across outer-ring markets in Queensland and South Australia, land values have increased three to four times faster than typical developer returns after financing, holding costs, and planning delays. Investors therefore face a rational decision: buy and hold, *not buy and build.*

Planning pathways carry risk and cost; passive appreciation carries neither. Interest-only loans reinforce this behaviour by lowering immediate repayment pressures and making accumulation easier than development. Under indexed thresholds, this incentive structure becomes self-reinforcing. Speculative acquisition raises local land values; indexation then lifts the threshold, extending or restoring the exemption; and the cycle continues. The predictable outcome is that economic rent is fully capitalised into price, while the supply system—constrained by fiduciary duties and planning risk—cannot offset this in the first sale.

South Australia illustrates the dynamic particularly clearly because its land tax threshold is indexed to median land values. As Adelaide's land values rose, the tax-free threshold rose in lockstep, drifting up to \$833 000 and effectively insulating most investor-held land from any meaningful holding cost. By maintaining a threshold that tracks price growth, the system neutralises the very friction that constrains speculative retention. The result is that economic rent is allowed to capitalise directly into price with almost no resistance.

During the same period, Adelaide's median dwelling price climbed from \$508 712 in 2020–21 to around \$865 563 by the end of 2024. Rather than moderating the escalation, the indexation mechanism amplified it: the higher the land values climbed, the more generously the threshold adjusted, ensuring that speculative landholding remained costless. This stands in marked contrast to Victoria's approach, where lowering the threshold broke the feedback loop and suppressed land price inflation rather than reinforcing it.

Earlier evidence from South Australia reinforces this dynamic. Between 2011–12 and 2014–15 the state froze its land tax thresholds at \$316 000 following minimal changes in site values. Adelaide's median house price in this period rose only from roughly \$327 300 to \$350 000, a subdued

trajectory compared with national residential property price growth averaging 5.8 percent per year.

The stability in thresholds limited speculative uplift by keeping holding costs fixed in real terms. Once thresholds resumed their upward drift, land price inflation accelerated.

The comparison underscores the structural point: jurisdictions that increase or maintain high thresholds create an environment where land can be accumulated, withheld, and leveraged with minimal cost, allowing economic rent to be capitalised without restraint. Victoria's decision to move in the opposite direction has therefore functioned as an affordability intervention, while the settings in NSW, Queensland, and South Australia have compounded the inflationary pressures they are now struggling to contain.

### **How does this relate to Grounded?**

The Victorian data shows what happens when economic rent is prevented from capitalising into residential land prices. Over the last two years, around \$60–80 billion in land price inflation did not occur. Under historical conditions, land prices in Victoria have risen at around 9.1 percent per year for more than three decades.

Instead, the effective rate during this period has been closer to 2 percent. This implies that nearly four-fifths of the capital gain typically expected in a given year did not materialise. Because land prices are set at the margin, even this reduction at the edge of the market transmits through the entire price structure. The marginal parcel establishes expectations for comparable land, which then flows into valuations, lending benchmarks, and bid ceilings across the wider market. Suppress capital gains at the margin and you suppress the reference point that lifts the whole market.

In a labour market where wages are growing at approximately 3.1 percent, this created a rare situation in which wage earners gained ground relative to land prices. That shift, however, reflects policy settings rather than a permanent change in market dynamics.

Community Land Trusts do not replicate this effect at scale, but they institutionalise it locally, providing a lived demonstration of land price freedom that reinforces and validates the logic of land tax reform.

A Grounded CLT captures approximately 67 percent of the annual land rent attached to the land it stewards. In practice, this corresponds to removing roughly 6 percent of land value each year from speculative capitalisation, because the rent that would normally feed into rising prices is retained within the community ownership structure. This directly counteracts the long-run 9.1

percent land-price inflation engine that households and governments have been unable to outrun.

CLTs therefore demonstrate in the owner-occupied sector what land tax achieves in the investor-owned sector: the suppression of capitalised economic rent and the stabilisation of purchase prices.

The scaling pathway begins modestly. A pilot site demonstrates household-level relief from land-driven inflation. Replication across multiple sites shows that the effect is durable and repeatable. At 0.1–0.5 percent of Victoria’s residential land base, CLTs would already be capturing hundreds of millions of dollars in annual land rent. This is materially more effective than stamp duty discounts, which now cost around \$1 billion per year, operate only through temporary purchasing power, and often wash back into higher bids. CLTs, by contrast, change the price-formation process itself and do so at minimal fiscal cost.

At a 1 percent footprint, CLTs would capture and recycle between \$2–3 billion in annual economic rent. Unlike grants and discounts, which must be repeatedly funded, CLT rent capture compounds: each year’s captured rent finances future CLT sites. This creates a self-expanding affordability system that leverages economic rent rather than public expenditure.

The key policy insight is that CLTs reinforce and extend the effectiveness of land tax reform. Land tax suppresses speculative capitalisation in the investor domain by increasing holding costs. CLTs show the same principle at work in the owner-occupied domain, giving government tangible, localised evidence that suppressing economic rent improves affordability without harming supply. CLT residents become the constituency that sustains and legitimises land tax settings. Their reduced mortgage burdens, increased financial resilience, and improved capacity to invest in health, education, caregiving, and enterprise formation provide the lived outcomes that anchor long-run structural reform.

A strong CLT sector therefore does more than deliver affordable homes. It stabilises expectations across the market, strengthens the policy framework that suppresses economic rent, and provides the political and institutional support needed to keep effective land tax settings in place. It is the mechanism that converts a temporary period of suppressed capital gains into a permanent architecture of affordability.

*For more on why this is important, please read the [Grounded in Affordability report](#) to understand how CLTs can play a significant role in meeting the nation’s housing crisis.*

*Why am I passionate about this? For over a decade I ensured the reduction of land tax thresholds was a primary element of Prosper Australia’s Victorian budget submissions. In a Vacant Residential Land Tax briefing with the State Revenue Office and Treasury in 2021, involving around ten officials, I*

*noted that ‘the easiest thing you could do would be to reduce the land tax threshold’. Nine officials wrote it down. Two years later Land Tax thresholds were reduced from \$300K to \$50K under the COVID debt-repair levy and legislated until 2032. The open question now is what sustained land-use reform, and the estimated \$100 billion in combined savings it can unlock over time, could deliver for Victoria’s long-term growth and resilience.*

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