

#### IV: OPTIMUM LAND USE

Land prices in Australia are well above what I consider moderate or reasonable - if the official Melbourne figures are any guide.

This occurs because a great deal of Australia's land is neither used to its full potential nor offered for sale. As a result:

- (a) the supply of sites is not as great as it could be, and:
- (b) would-be purchasers, competing for a limited number of sites, force the price of land to levels much higher than they could be otherwise.

#### Sub-Optimal Land Use

Sub-optimal forms of land use include the following:

- # land that could support one hundred sheep or cows is used to graze a much smaller number of the animals,
- # potential factory sites are covered with lank grass or used as a resting place for worn out vehicles, obsolete machinery and other junk,
- # sites surrounded by multi-storied blocks are used as private parking lots or covered with a single storey edifice,
- # 0.4 hectare (one acre) sites in populated areas support a single dwelling, while four or five such dwellings stand on adjacent sites of similar size,
- # valuable sites are occupied by buildings that are both dilapidated and deserted (such sites

exist within one kilometre of the Warrnambool post office),

# land on the outskirts of cities and towns supports a token number of farm animals, when it would be more productive if used for orchards or market gardens.

### **Reducing the Supply of Sites**

If land in any municipality is used - on average - to eighty percent of its capacity, then the supply of sites in that municipality will be twenty percent less than optimum. This must increase the price of land, and it could add twenty percent to the price of sites.

### **Idle Land**

Sub-optimal land use is not the only factor adversely affecting land prices. In most municipalities, a lot of valuable land is not being used at all. Some of this idle land is not even on the market, or if it is offered for sale, the vendor's price is beyond the reach of any potential purchaser.

### **Speculators and Investors**

Idle land is often held by investors or by speculators. Many of these have no immediate use for land they own, or, indeed, for any money they may obtain through selling it. They are under no pressure to sell, so they have no need to accept any offer made for their idle land.

Some of these people have inherited land, while others have bought it as an investment or for speculative purposes. They withhold land from the market for extended periods, to:

(a) pass it to descendants eventually, or:

(b) sell, use or lease it at some future date - to provide a retirement fund or to act as insurance against "a rainy day".

Alternatively, they may sell their holdings a little at a time - to provide themselves with a steady income without depleting their asset too rapidly.

Speculators and investors decrease the supply of sites and add to the price of land. They are active all over the country to a greater or lesser extent. They become more active (and more troublesome) wherever rapid development seems likely to occur.

### **Portland, Victoria**

Portland, in Western Victoria, presents a good example of this phenomenon. Alcoa is building a smelter there, and the town's population is expected to<sub>4</sub> increase by 75 percent within the next two years .

In Portland, according to<sub>5</sub> the local representative of a real estate agent :

"When it was first announced that Alcoa was moving in here, people just went mad and there was huge land activity for weeks..."

"...speculators bought up big and investors...pulled their properties off the market to wait for higher prices."

"Three hundred blocks of land, about half purely investment land, were immediately withdrawn from the market as the demand increased."

The price of "well serviced blocks in the town boundary...almost doubled in less than two years from about \$8,500 to \$15,000."

"...no fully-serviced blocks sold for less than \$9,000."

"The cheaper homes, say a three bedroom weatherboard for \$25,000 average price, are now up to \$40,000. But they were bought up quickly or...held for even higher prices so there are not a lot around."

### **Valuer-General's Figures**

Figures released by the Valuer-General tell a similar story - although prices in the official statistics are somewhat lower than those suggested in the news item mentioned above.

Thus, according to the Valuer-General<sup>6</sup>:

"The price for a residential building block in Portland shire rose by a massive 75 per cent last year, while prices for established houses in Portland township rose by 26.3 per cent."

"In Portland town an average house with land rose by 26.3 per cent from \$27,000 in 1979 to \$34,100."

"An average size building block (less than 200 metres square) was priced at \$7,150 last year", whereas "In 1979 a building block could be purchased for \$5,875."

"In the neighbouring Shire of Portland the price for an average size building block rose by 75 per cent from \$2,000 to \$3,500."

### **Land Prices and Prosperity**

The Valuer-General's figures show that land in Portland is cheaper than land in Melbourne. In 1980 a Portland home site cost \$7,150 whereas a

similar site in Melbourne cost \$15,625<sup>7</sup>.

That is understandable. Portland is 360 kilometres west of Melbourne. It has a population of about 9,000.

Land prices depend - at least in part - on the size of cities and towns and on the distance between the land in question and metropolitan areas (for reasons given on page 60). They also rise and fall with changes in prosperity.

Hence, land prices in Portland would normally rise as the town grew - as with any other city or town.

Investors and speculators hope to profit from such an increase in the price of sites. Some achieve this end, while others are less fortunate. However, whether they are lucky or not, investors and speculators have a harmful effect on the economy.

Investors and speculators compete against people who would have immediate use for sites. Their action increases the price of sites, the size of mortgages, and the amounts of interest that must be paid. It therefore:

- # places home ownership beyond the reach of many citizens,
- # increases the cost of flats and houses built for tenants - thus causing rents to rise,
- # limits building activity in the vicinity,
- # adds to costs for new businesses and reduces their profitability, and:
- # leads to the abandonment of promising enterprises.

In these ways, investments in land and land speculation retard the development of cities and towns and limit the growth of employment opportunities. In the long run, they can even turn a "boom" into a bust.

### **SPRAWLING DEVELOPMENT**

Sub-optimal land use has other harmful effects on the economy.

The area of cities and towns is unnecessarily increased when urban land is not used to its full capacity.

Development in such cities must leapfrog over vacant or under-used sites. This increases the length of roads and footpaths, of power and telephone lines, and of water or sewerage mains and drains - thereby adding to local government costs. It also adds to the work of paper boys, milkmen, meter readers and others who visit homes in the course of their employment. (Including doctors who do house calls!) Finally, sprawling development increases transport costs for all who must bypass the idle or under-used sites, or move away from economical locations in a search for cheaper land.

### **Optimising Land Use**

Measures to optimise land use would help both private and public sectors of the economy. Such measures would reduce the price of land, the size of mortgages and the amounts of interest paid. This would help home builders and entrepreneurs. It would also allow interest rates to fall. That, in turn, would help all borrowers, including governments - as governments borrow a lot of money nowadays.

Optimal land use would also decrease the spread

of cities and reduce the burdens on local government. It could, therefore, reduce the amount of government revenue needed; and allow taxes to fall.

Finally, optimal land use would bring landownership or tenancy within reach of would-be employers and of unemployed persons who wish to set themselves up in a business or profession. In this way it would bring idle land and idle labourers together - thereby reducing unemployment if it did not eliminate involuntary unemployment entirely.