

THE ISSUE IS LAND PRICE, NOT EASY CREDIT

By Byran Kavanagh

I regularly make the point here that we're having this financial collapse (which will prove to be a depression) because the study of economics isolates itself from the real estate market - and never the twain shall meet.

I argue that many people in real estate, like me, have a better idea of what's happening in the economy because we're happy to integrate real estate with the economy. [Here's another real estate person who can tell you of the future of retailing, depression or no depression.]

Oh sure, looking over their shoulder, some economists now refer to the involvement of real estate in the collapse but, not understanding its deeper role, they will only provide a most superficial analysis. Otherwise, Austrian economists, and others, wouldn't reduce the reason for the downturn to one of "easy credit" as they do.

It's like this. Banks and financial institutions provide credit to customers believed to be 'creditworthy'. Virtually all creditworthy clients offer a mortgage over real estate assets.

The nub of the difference on this issue is that economists and bank managers don't understand that the land price component of a mortgage is more than nebulous; it's a chimera. Where they believe land price to be a thing of substance, like a dwelling, many real estate valuers and agents know that fire-breathing dragons will disappear in the full light of day.

Once land price is seen for what it is, that is, the wanton private capitalisation of the public's uncollected rent, it becomes apparent that the price of land does not reflect conditions of supply and demand as argued mindlessly by some economists. So, no, the problem isn't one of easy credit and low interest rates: it is that credit can be provided against land price, an 'asset' that can disappear overnight.

So, rather than easy or excessive credit, the issue still remaining completely unaddressed is one of risk management, namely, why do banks keep lending against a 'value' - rather a price - that will disappear, like a chimera?

As land price is too volatile, why not capture its rent, in order both to reduce and stabilise land prices and abolish damaging taxes?

This problem's not going to go away until we fix it.

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