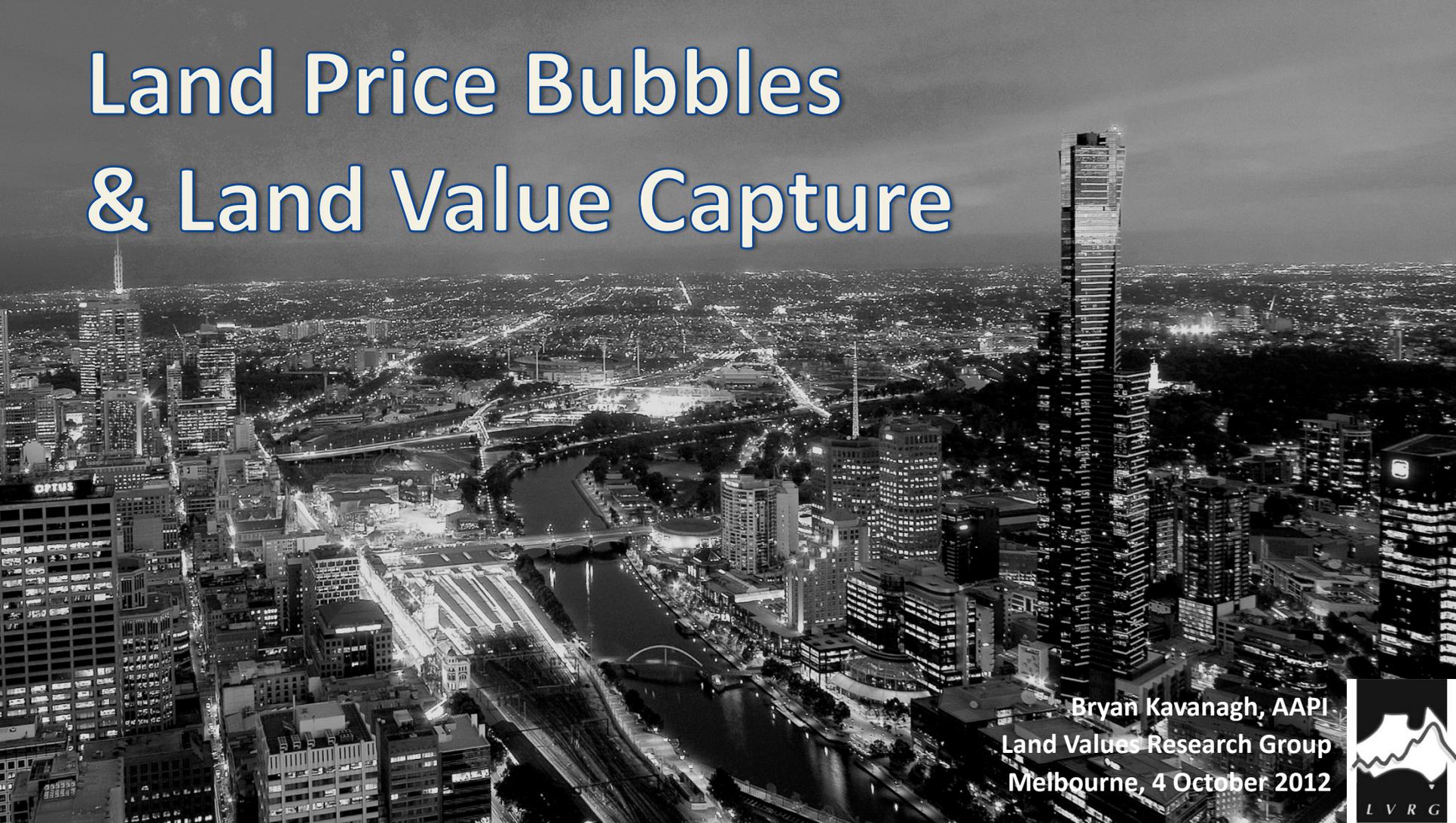


# Land Price Bubbles & Land Value Capture



Bryan Kavanagh, AAPI  
Land Values Research Group  
Melbourne, 4 October 2012



# Introduction

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But first, some history on the Australian Taxation Office



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Broad vision and balanced judgement



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- However, valuers/appraisers may (unwittingly?) have a superior remedy .... by employing the theory of valuation

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**HOWEVER, real estate bodies deny this important point**



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### Higher land tax is not the solution to more affordable housing

Victoria's affordable housing issues will not be solved by increasing residential rates and reducing or removing negative gearing.

REIV Policy and Public Affairs Manager Robert Larocca said that the four-point plan by [Australians for Affordable Housing](#) would not solve the state's affordability issues.

"Replacing stamp duty with an annual land tax on everyone's home will not make housing more affordable. Whilst there is now broad agreement that stamp duty is an inefficient tax and ought to be replaced, there is no agreement on what to replace it with.

"The Henry Tax Review was prevented from considering the GST as a way to replace the revenue gap created by abolishing stamp duty. Until the GST is properly considered as an option, it would be a mistake to make every home owner pay an annual land tax.



#### REIV Auction Map



#### Market wrap





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Que Bono?

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Who benefits from such misstatements?



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Young people who can no longer afford a home?

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A deeply indebted society?

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### Higher land tax is not the solution to more affordable housing

..... or perhaps banks who lent against bubble-inflated land prices?

Victoria's affordable housing issues will not be solved by increasing residential rates and reducing or removing negative gearing.

REIV Policy and Public Affairs Manager Robert Cropper said that the proposed annual tax on Australians for Affordable Housing would not solve the state's affordability issues.

He said that annually increasing the tax on everyone's home will not make housing more affordable. Whilst there is now broad agreement that stamp duty is an inefficient tax and ought to be replaced, there is no agreement on what to replace it with.

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REIV Policy and Public Affairs Manager Robert Lee said that the four core policy recommendations of the Australian for Affordable Housing would not solve the state's affordability issues.

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Maybe we need to correct our brothers in real estate?



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Valuer-economist



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“Political Mathematics”



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- Petty used rates other than 6%, valuing Ireland for Oliver Cromwell by employing a capitalisation rate of 14.3% - i.e. only 7 years’ purchase!

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eg. Pilgrim fathers (Wm Bradford's history "Plimoth Plantation")

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- *“Put to the vote: as many are of the opinion that a public tax upon the land ought to be raised to defray the public charge, say ‘yea’.” “Yea!” “Carried in the affirmative, none dissenting.”*
- It became fashionable tax policy from the outset of the 1970s, however, to wind back the extent of public land value capture via municipal rates and land-based taxes

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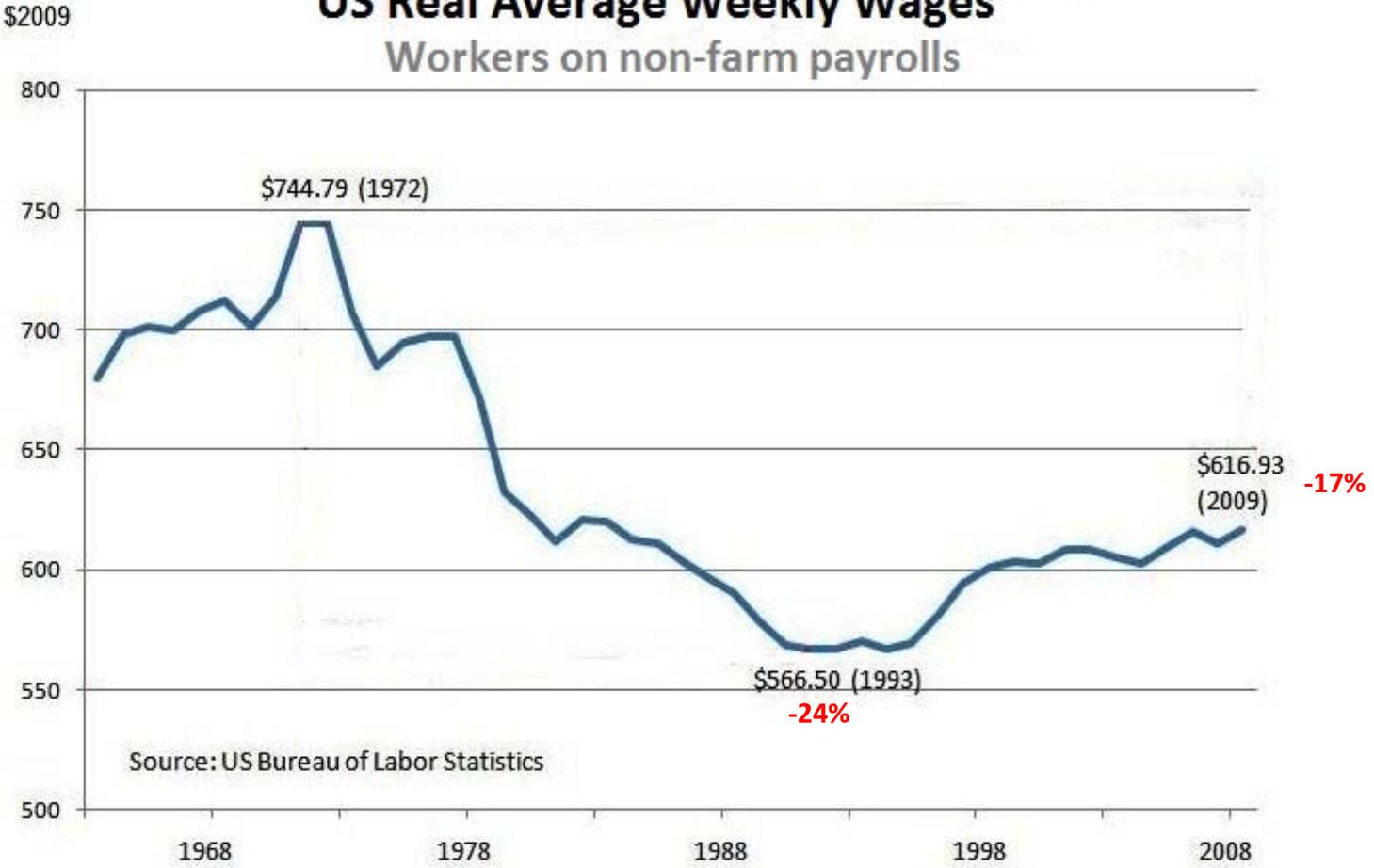
# The retrogression: 40 years of unwinding land value capture

- Early 1970s: Whitlam government undertakes to provide 50% of Australian local government revenue
- Late 1970s: States abolish probate duty on real estate, federal government abolishes estate duty
- This fashion was replicated around the world - as witnessed by: Britain's laxity with rating revaluations; the introduction of California's Proposition 13 (1978) to cap the property tax: many US states followed suit

- These tax signals fostered rent-seeking in land values, and had a negative affect on wages and productivity .....

# US Real Average Weekly Wages

Workers on non-farm payrolls



Source: US Bureau of Labor Statistics

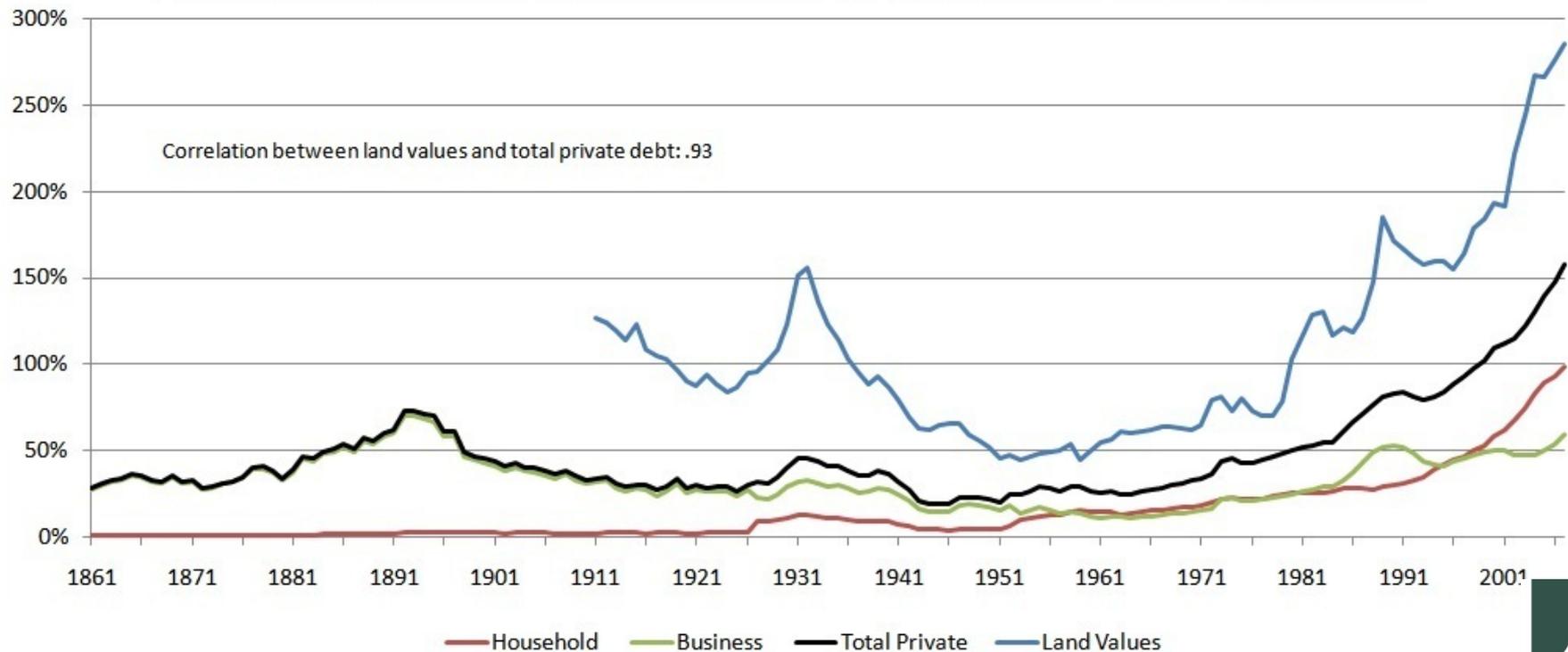


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- .... go deeper into debt

## Land Values and Private Debt as % of Nominal GDP: Australia



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- It provides an overarching picture of boom and bust

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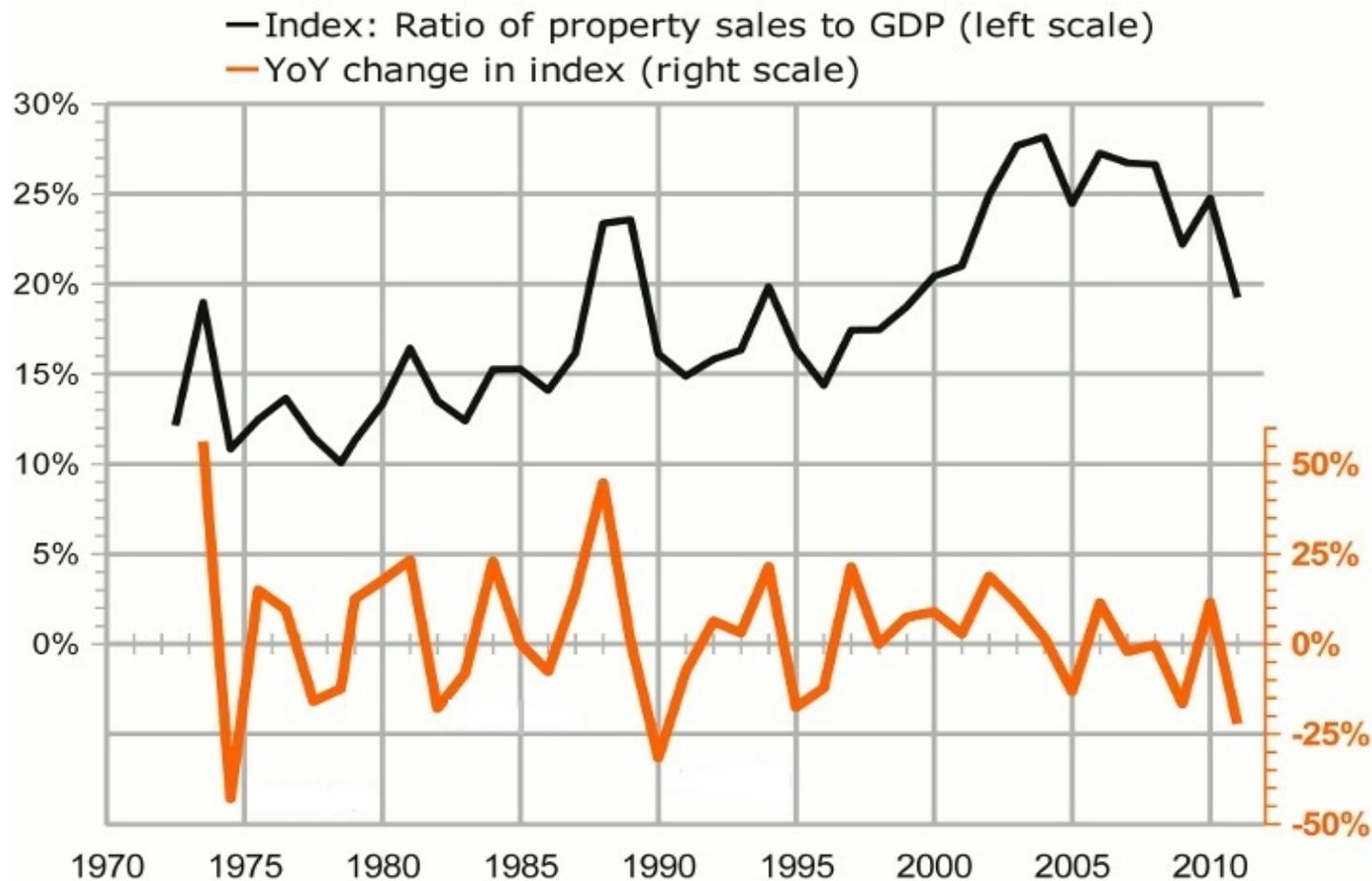
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This increase is not driven by population, supply demand, etc. - these issues affect *rents and cap rates*. Rapidly escalating land *prices* reflect an inadequate response to land value capture

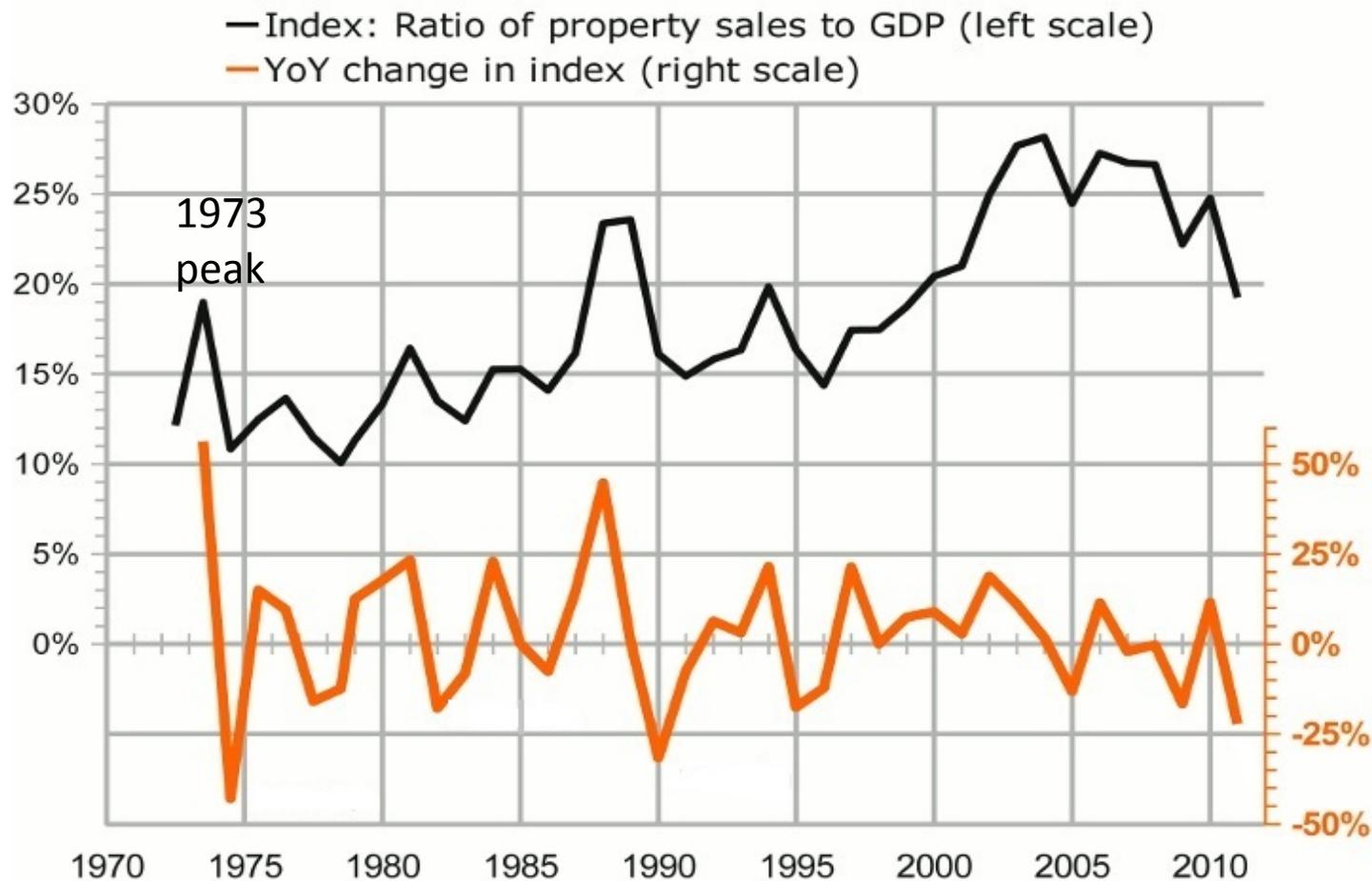
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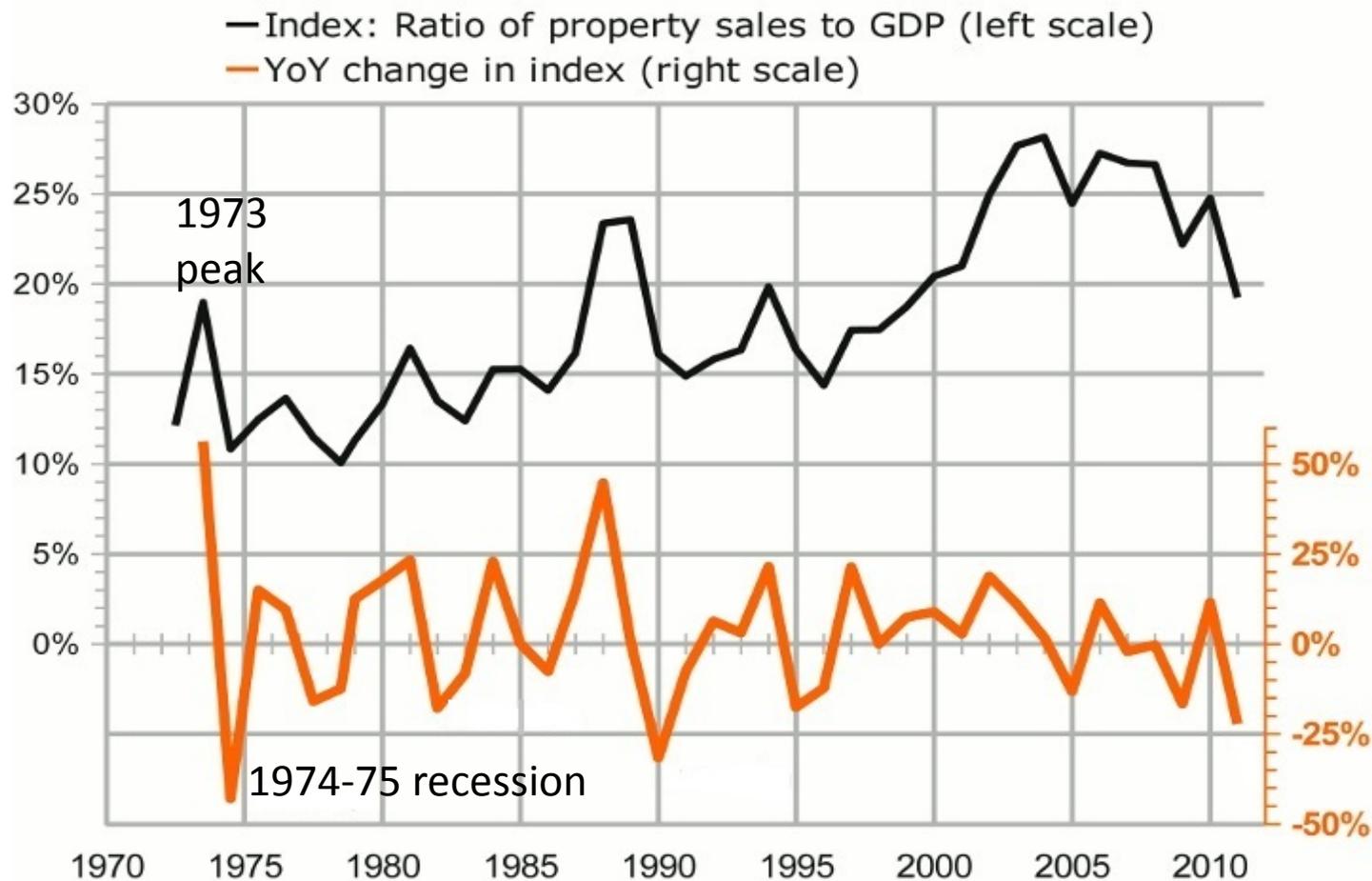
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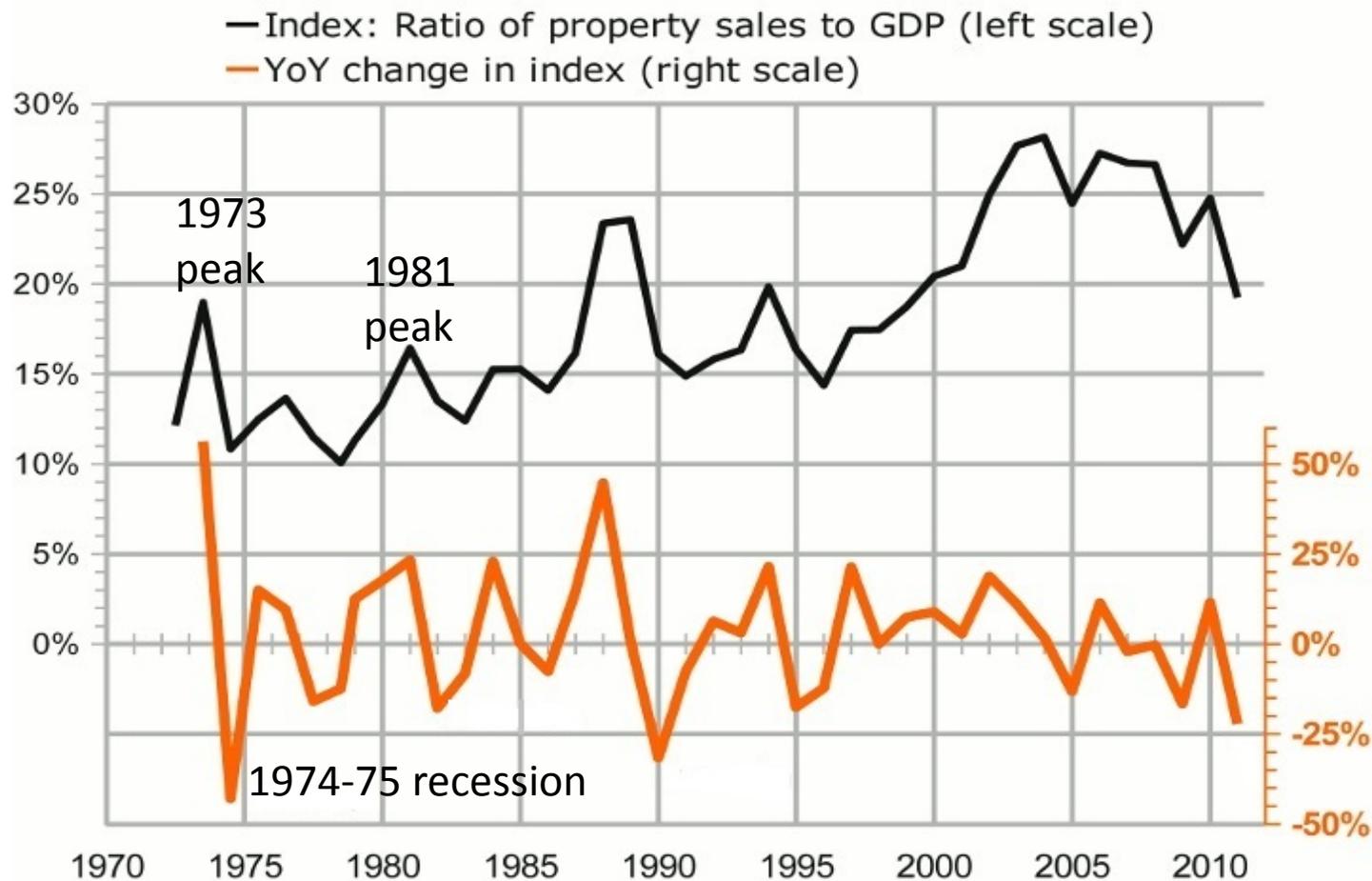
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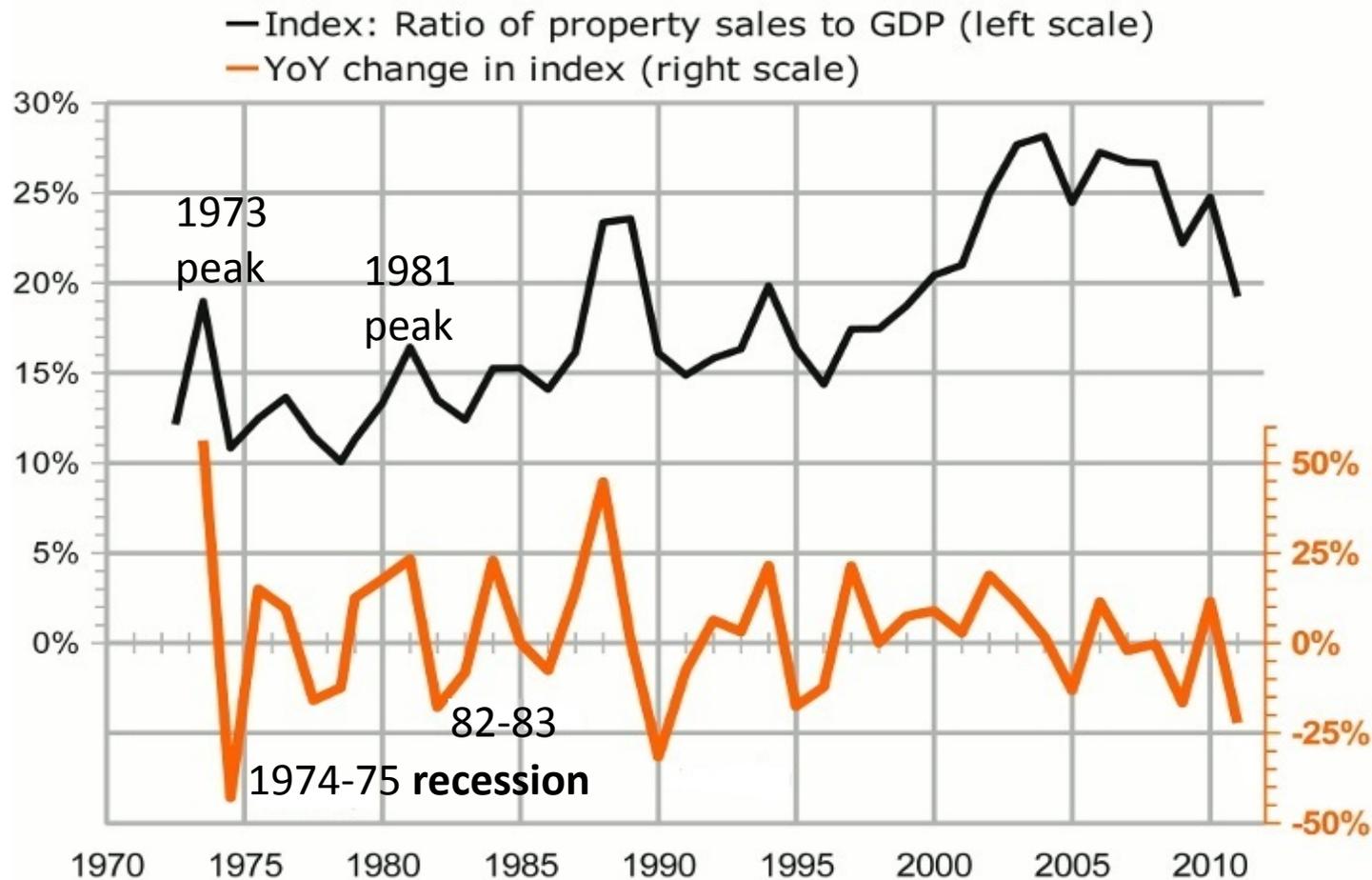
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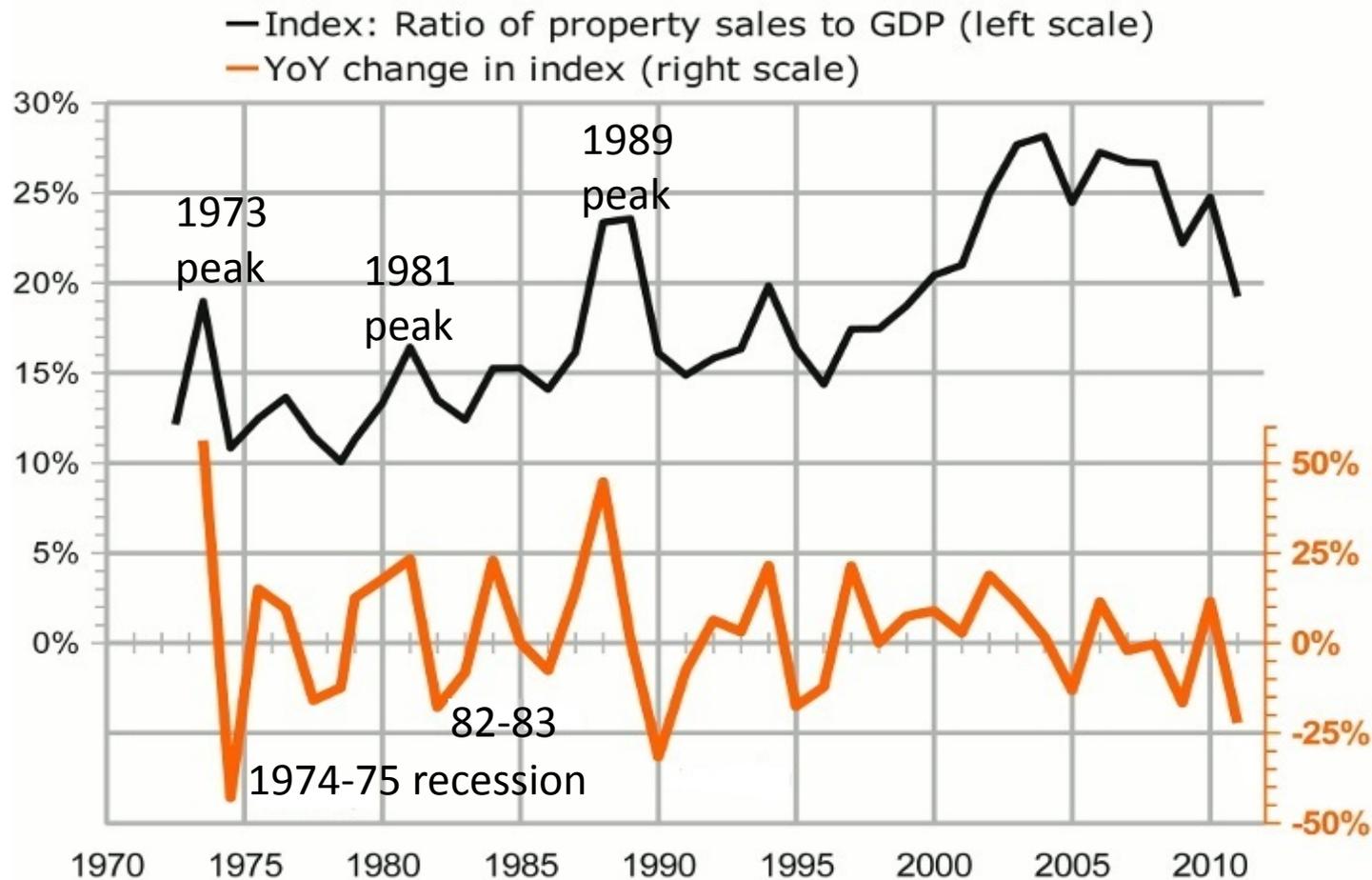
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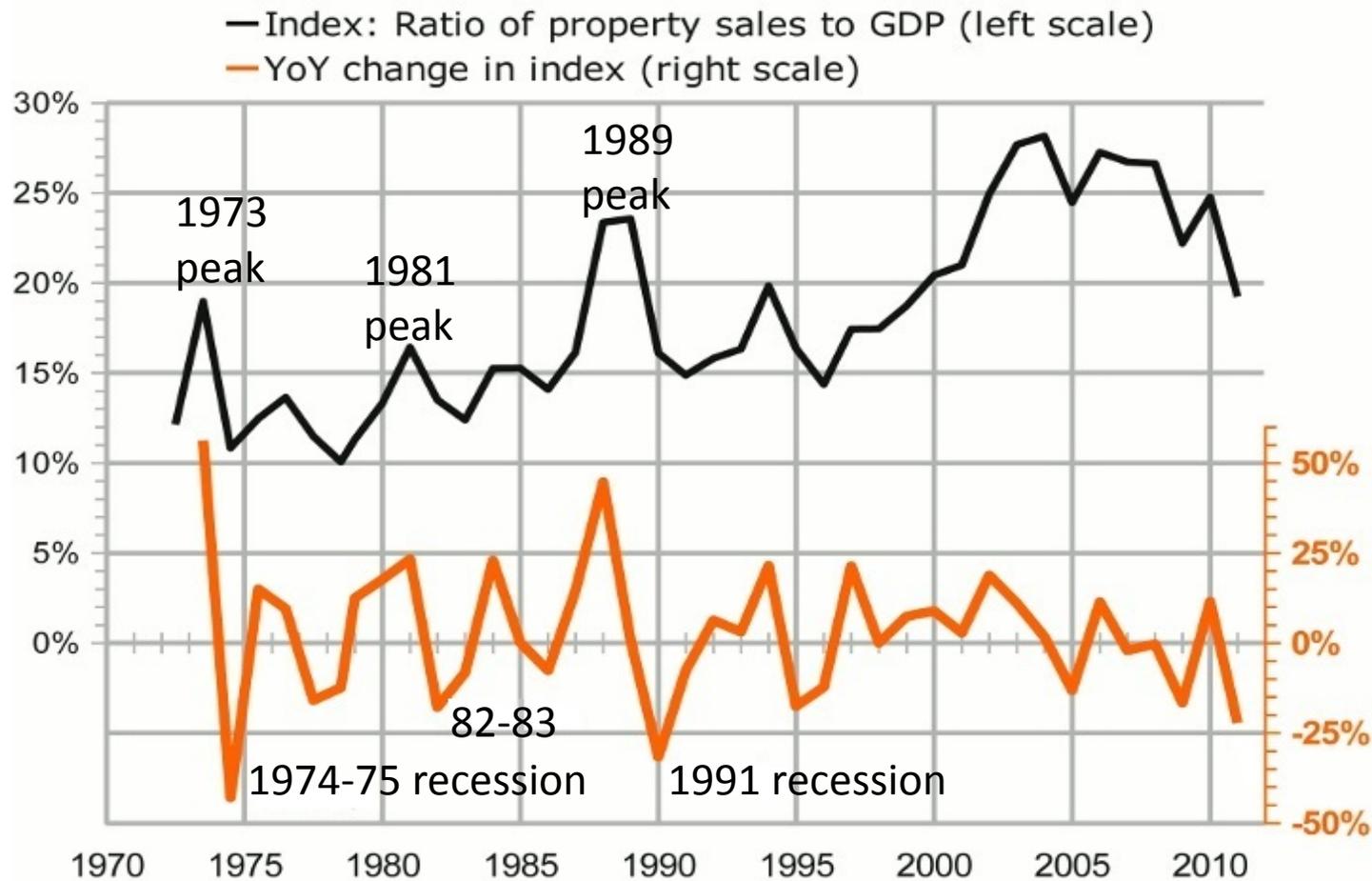
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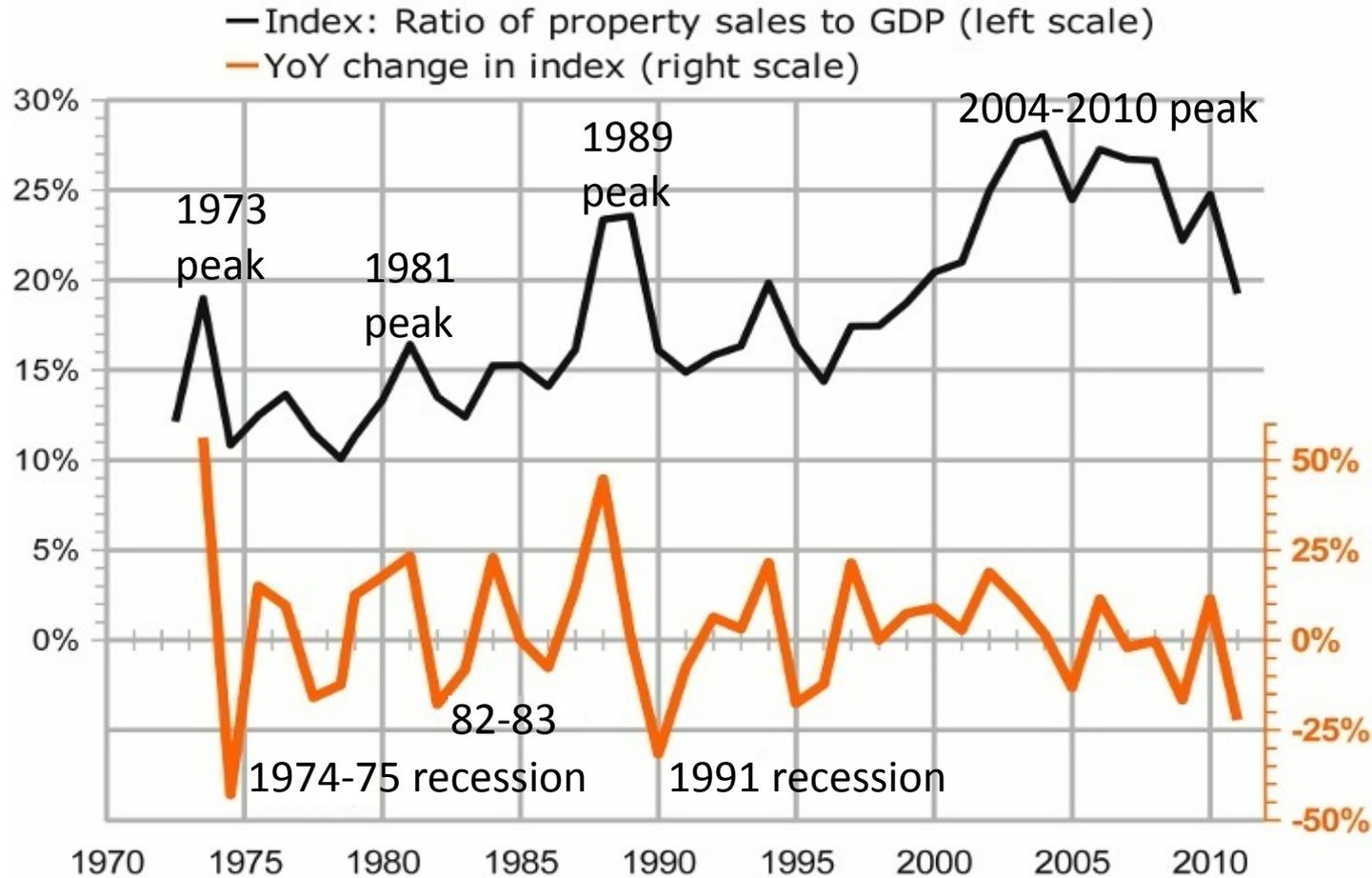
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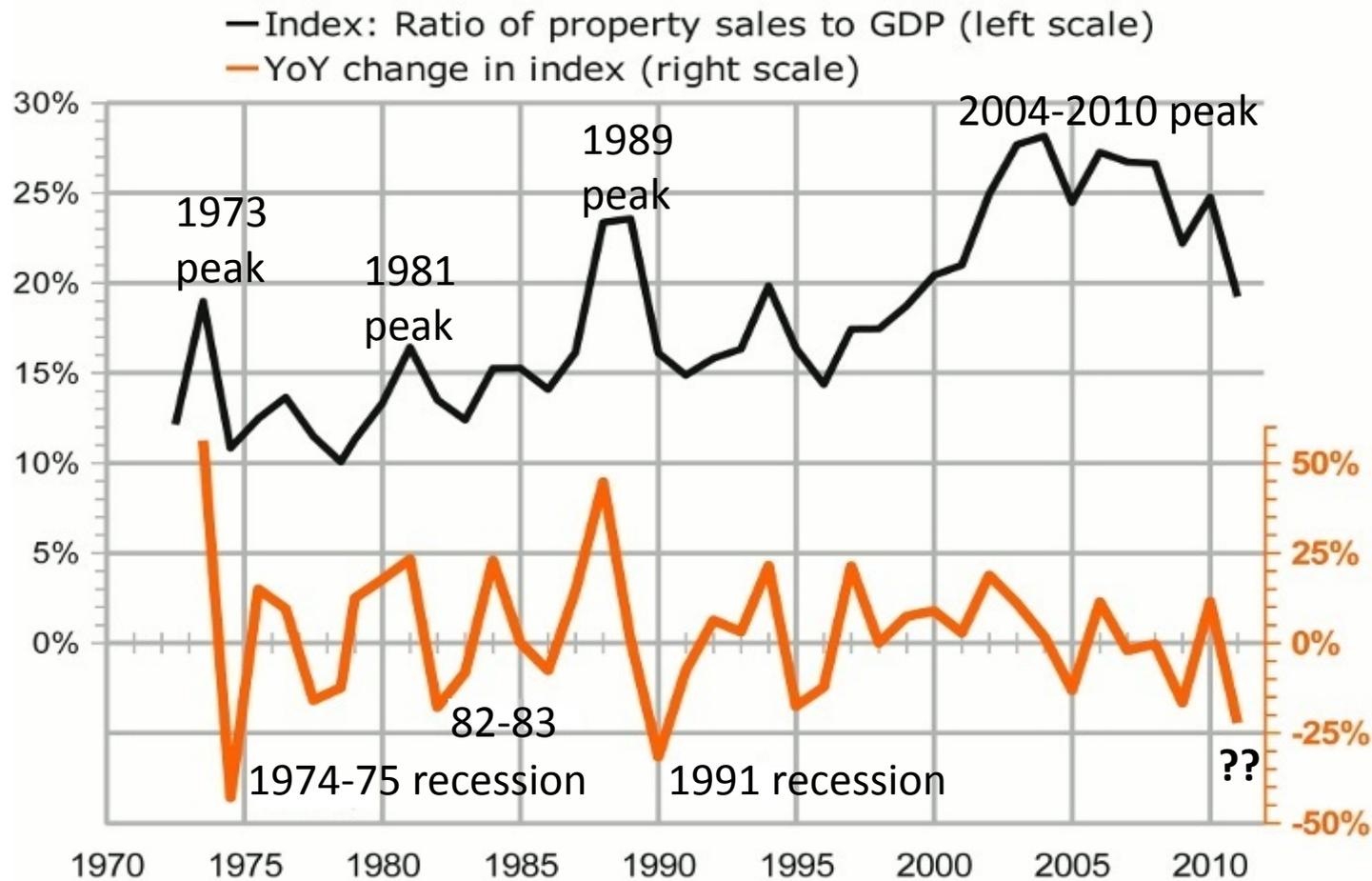
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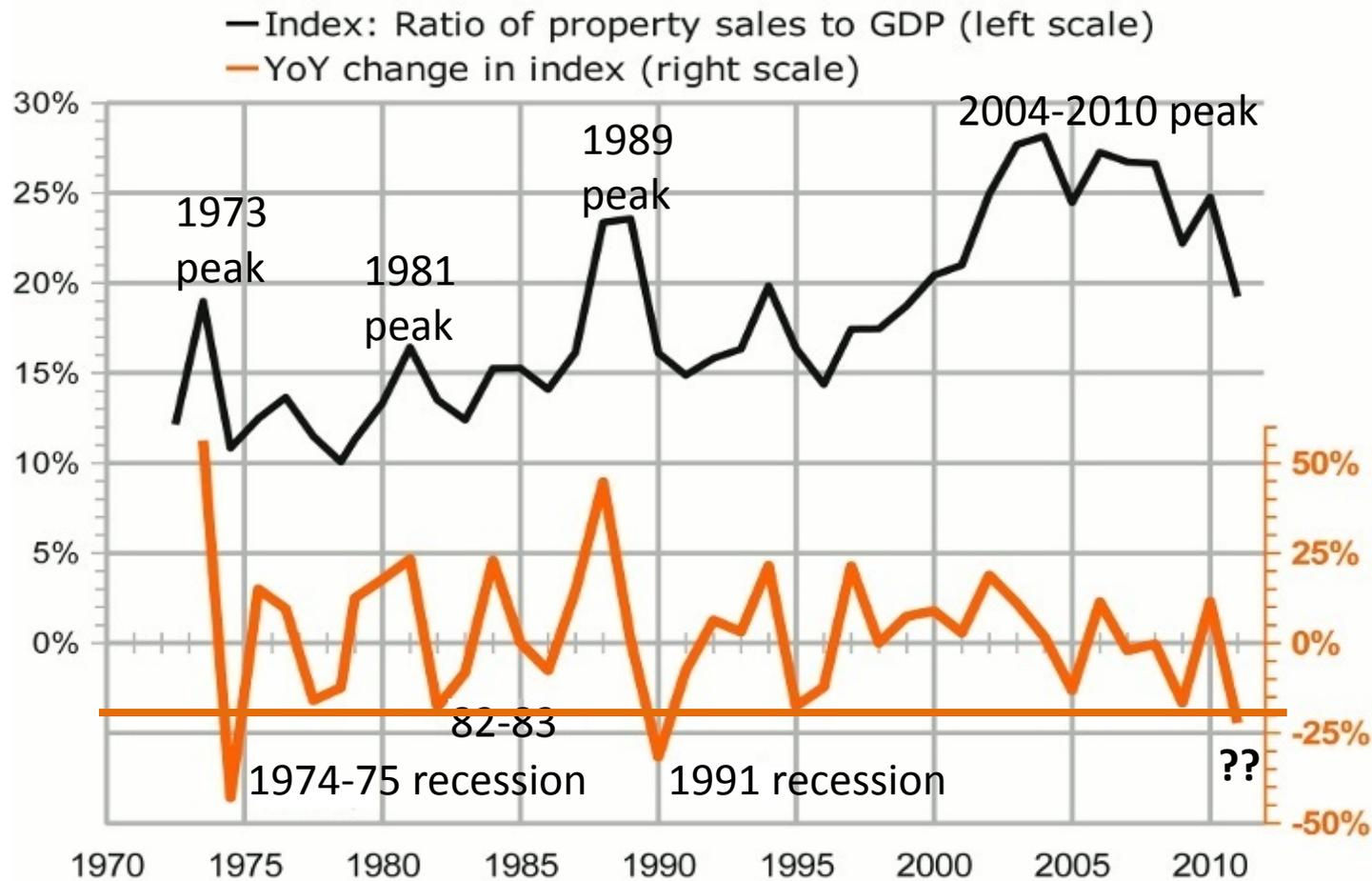
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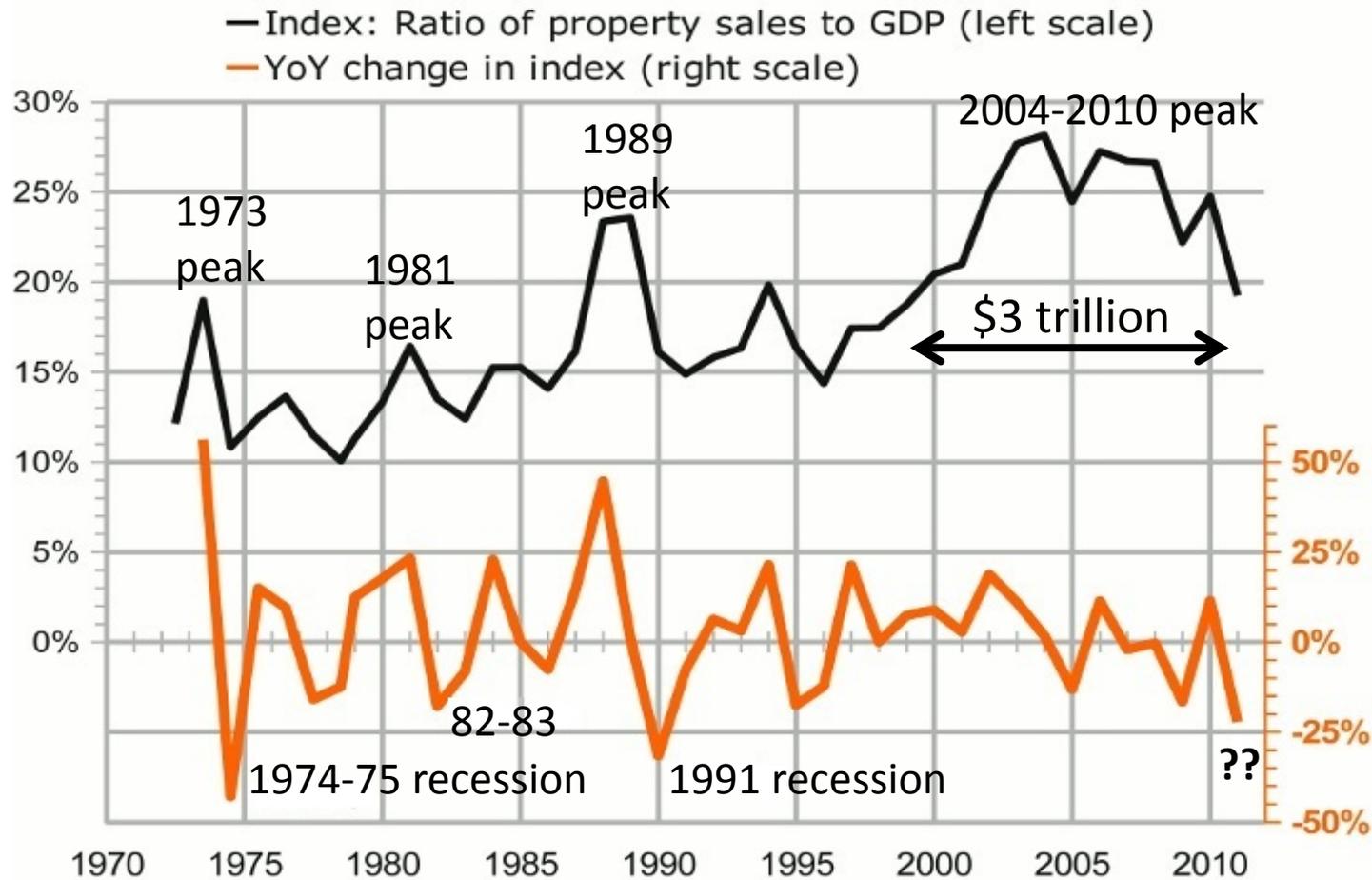
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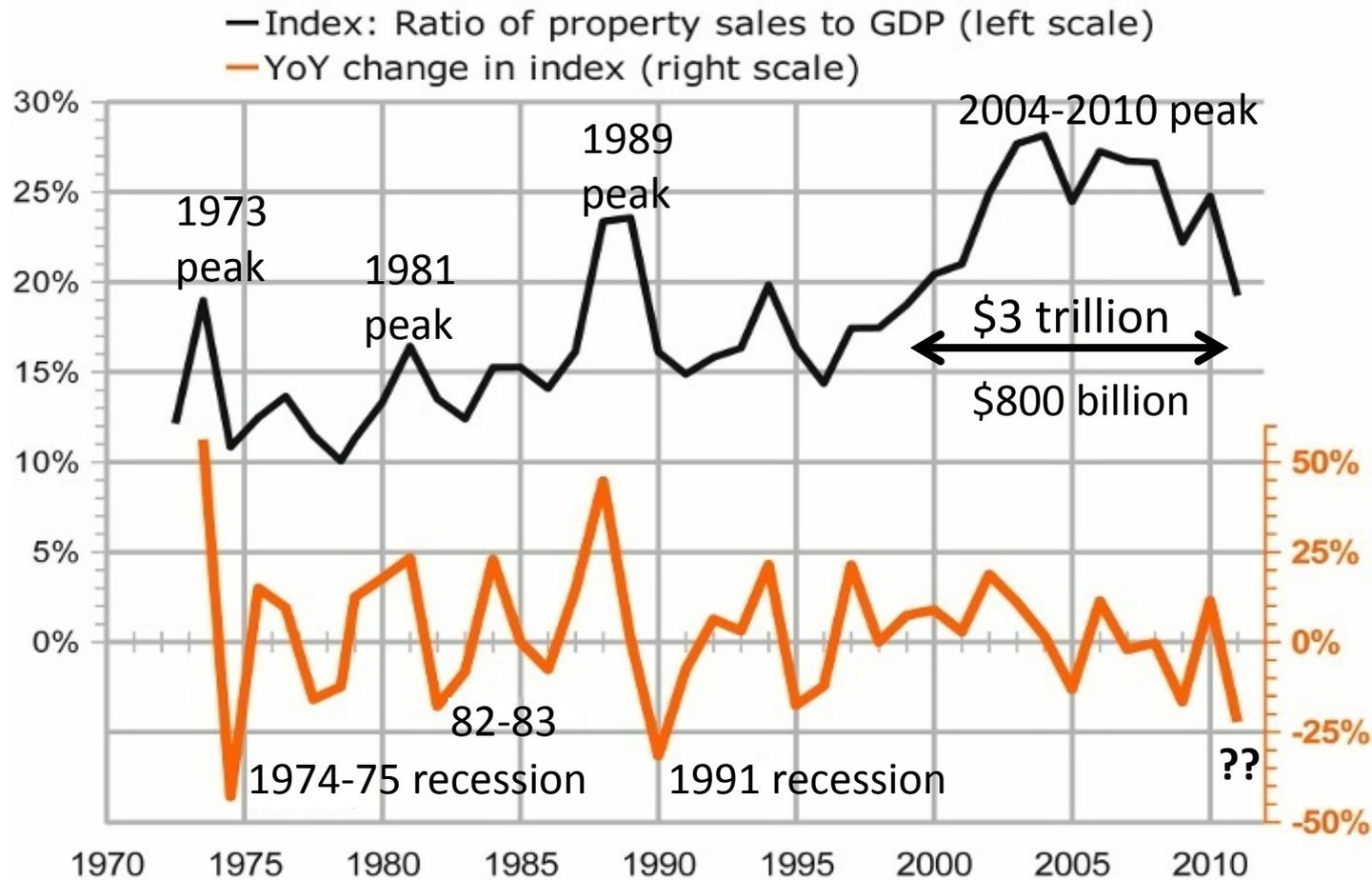
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- $Y(t) - rR(t) = wL(t) + iK(t)$

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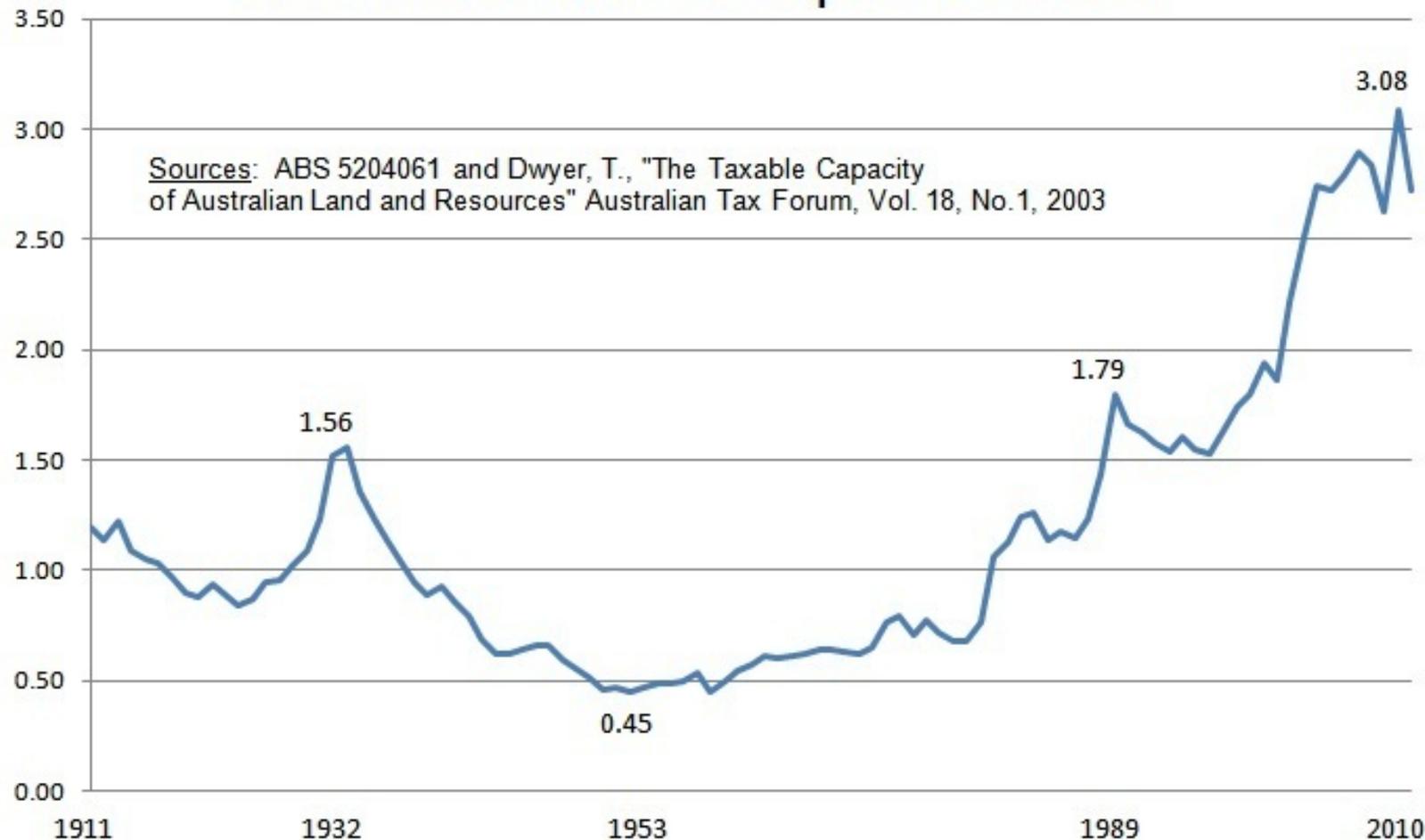
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- An understanding of the equation shows *private* capture of *publicly-generated* land rent comes *at the expense of* both labour and capital
- It is arguable the world is currently reaping the results of taxing labour and capital to a standstill whilst generating land price bubbles

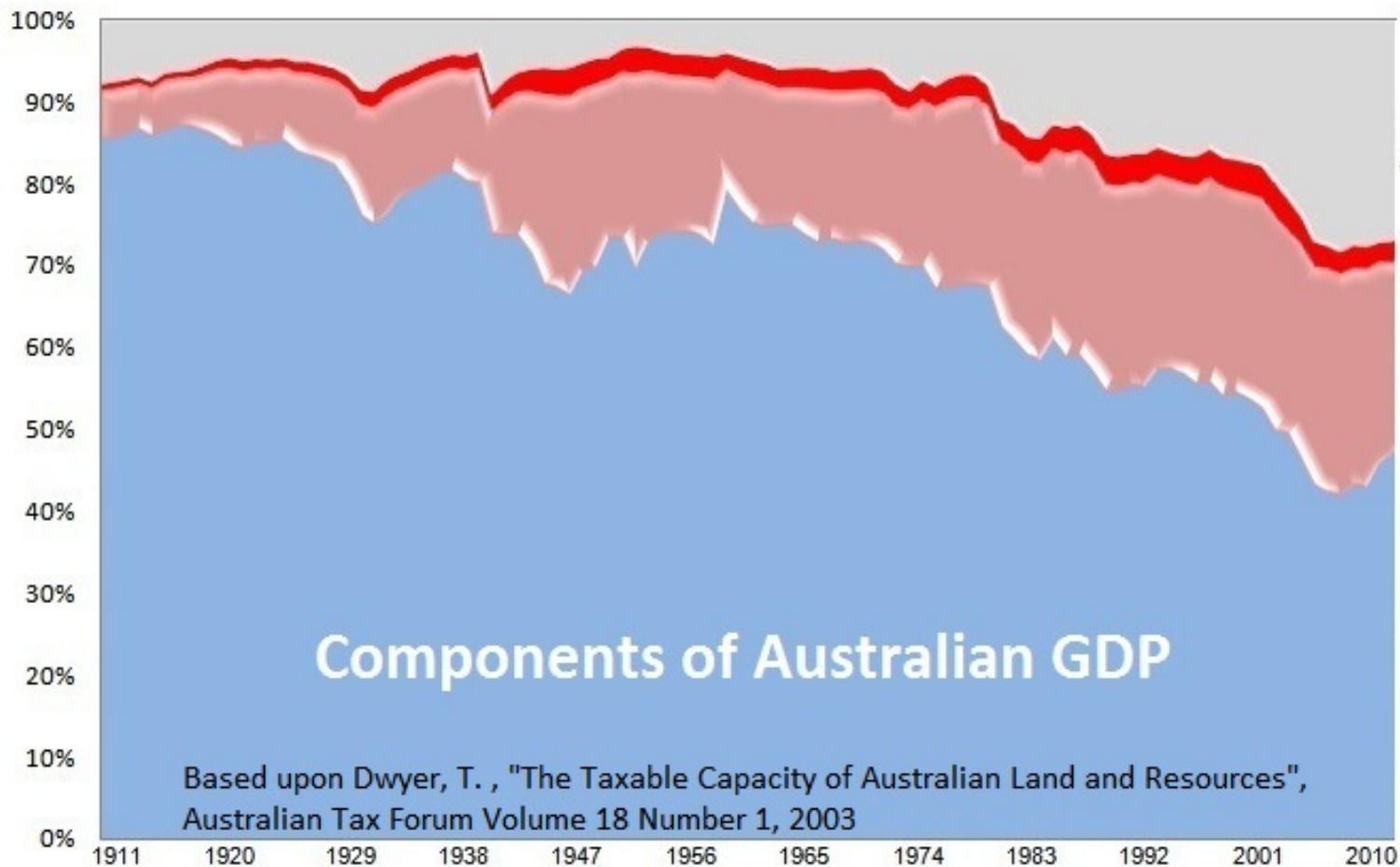
# Australia's total land prices to GDP

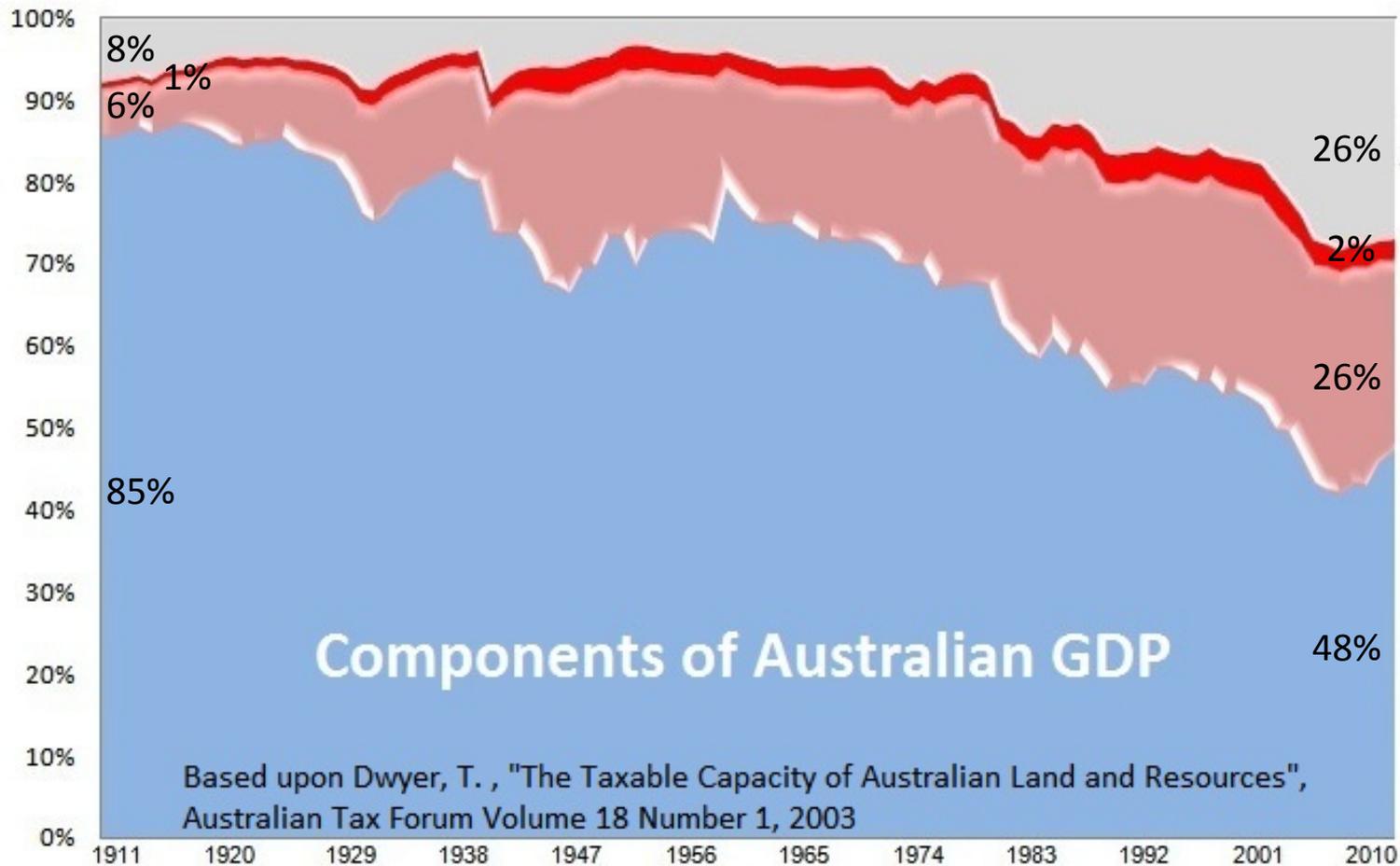


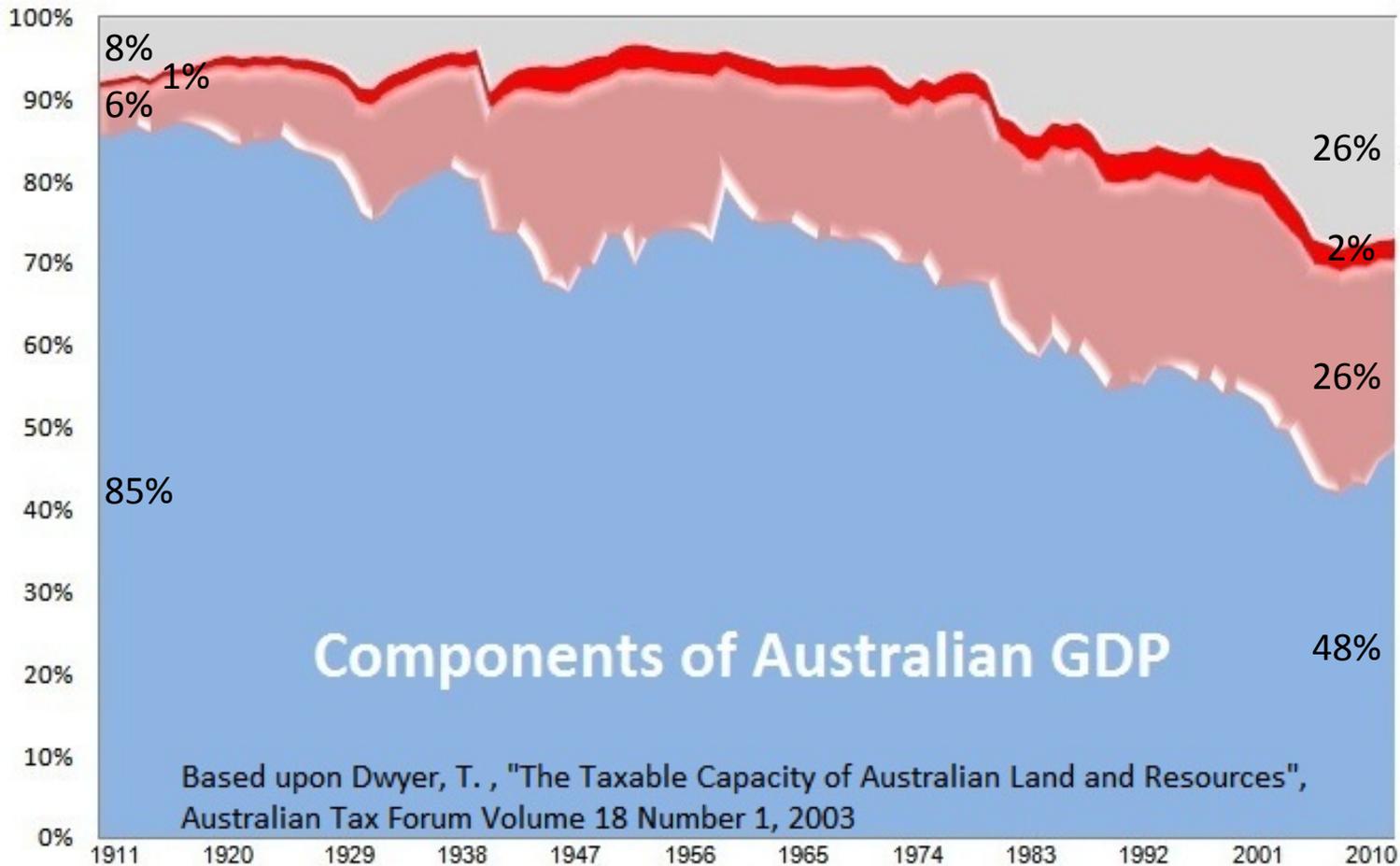
Sources: ABS 5204061 and Dwyer, T., "The Taxable Capacity of Australian Land and Resources" Australian Tax Forum, Vol. 18, No.1, 2003



- This chart breaks Australia's GDP into earned and unearned incomes in classical economics terms

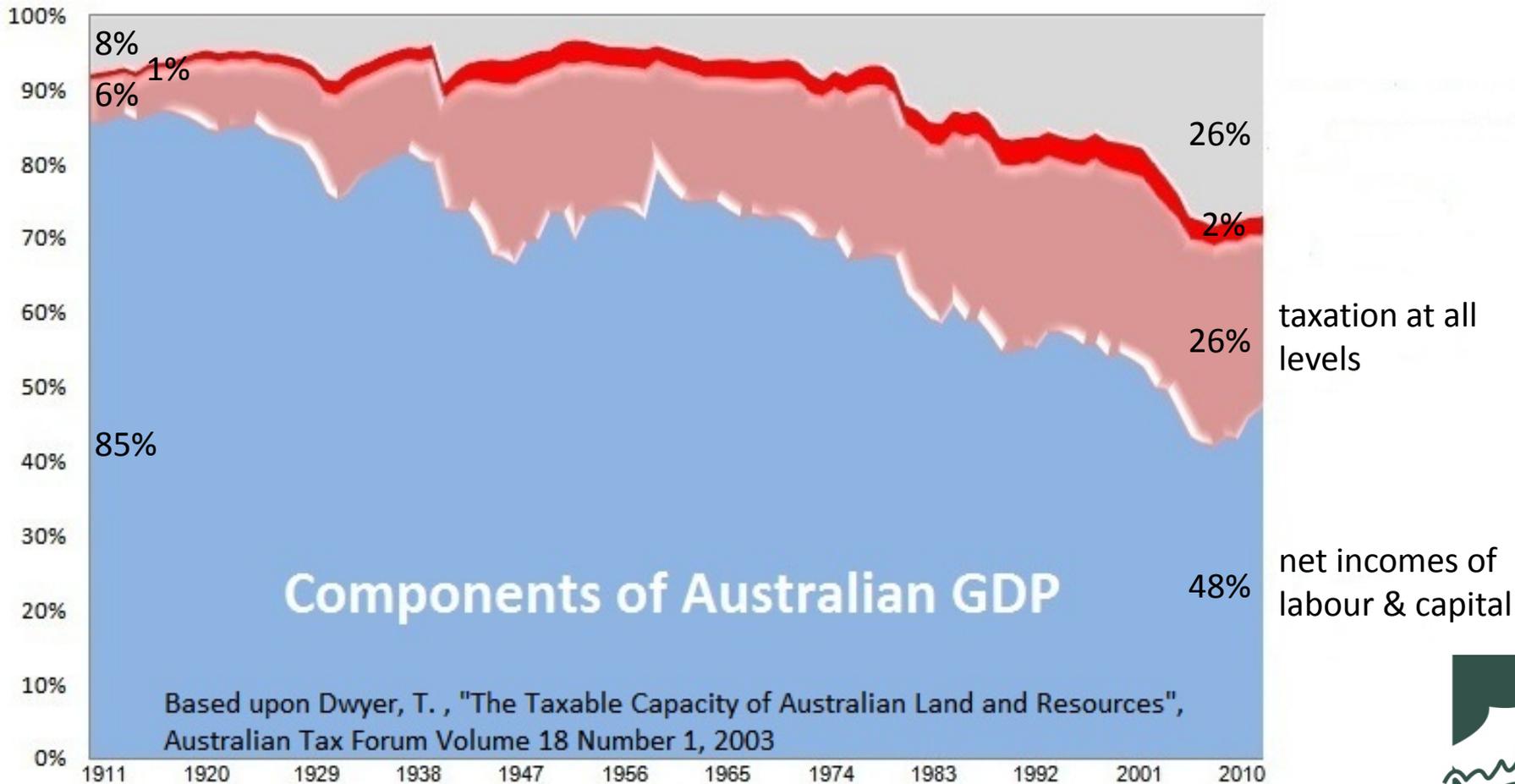


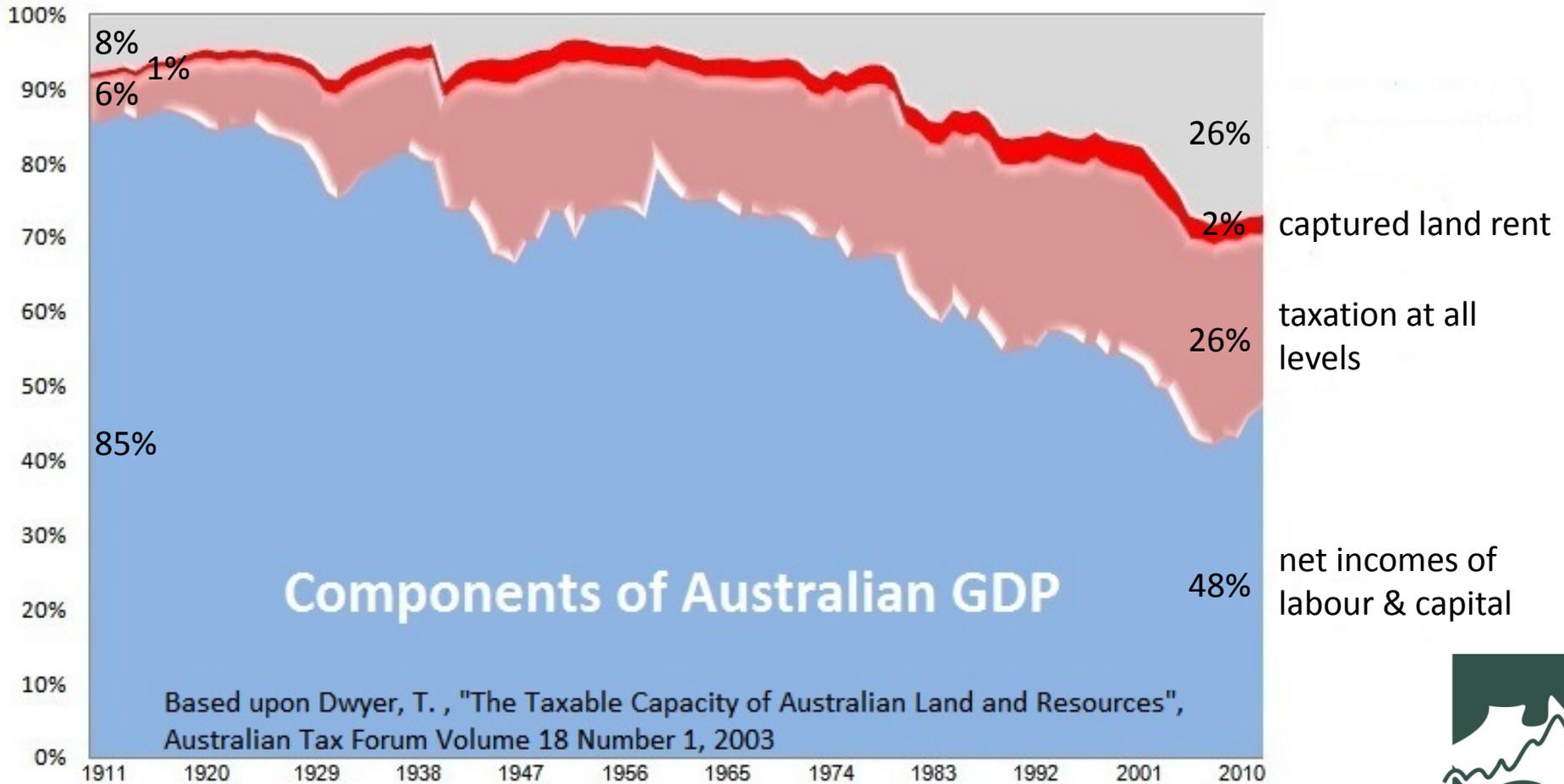


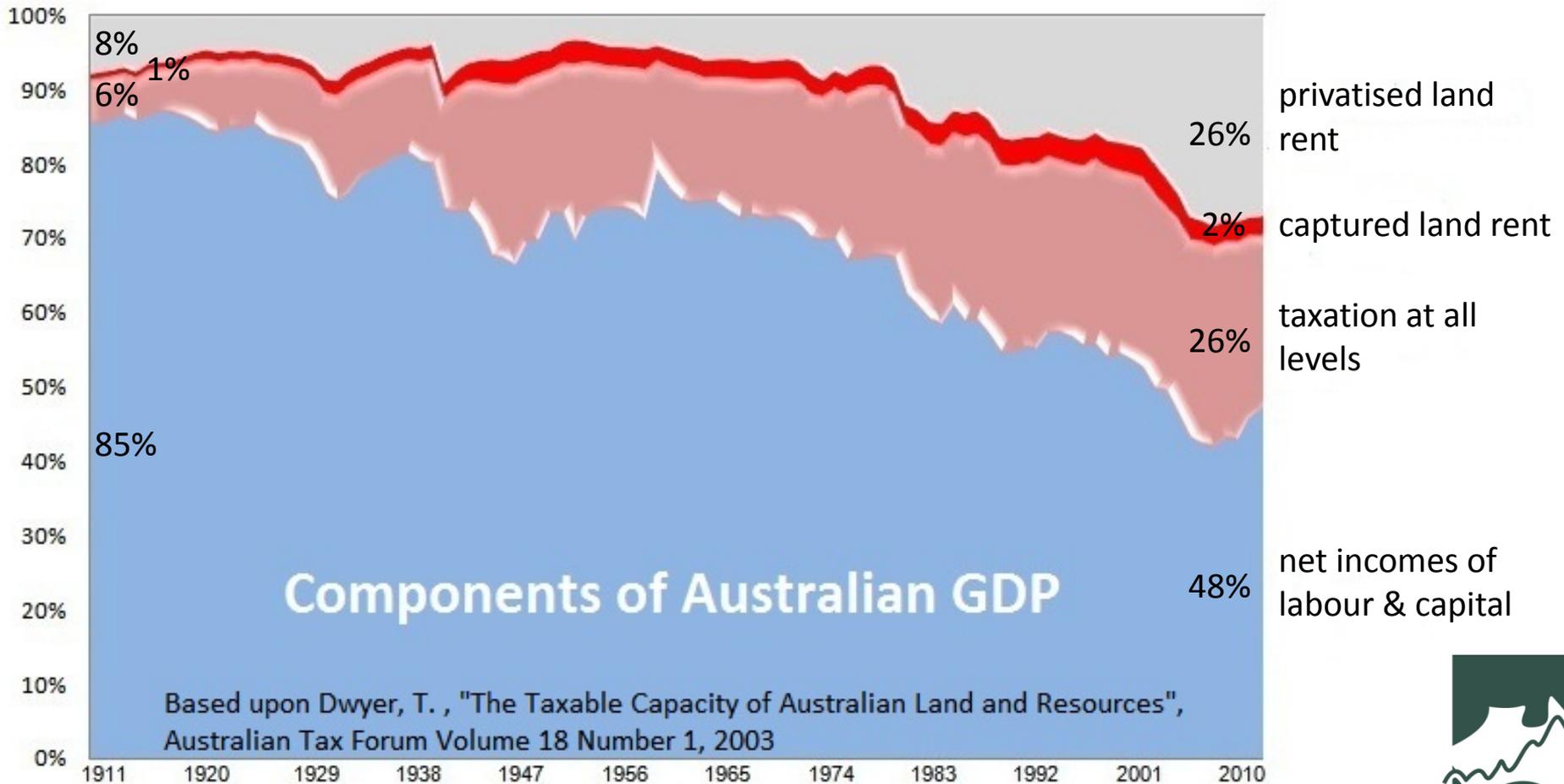


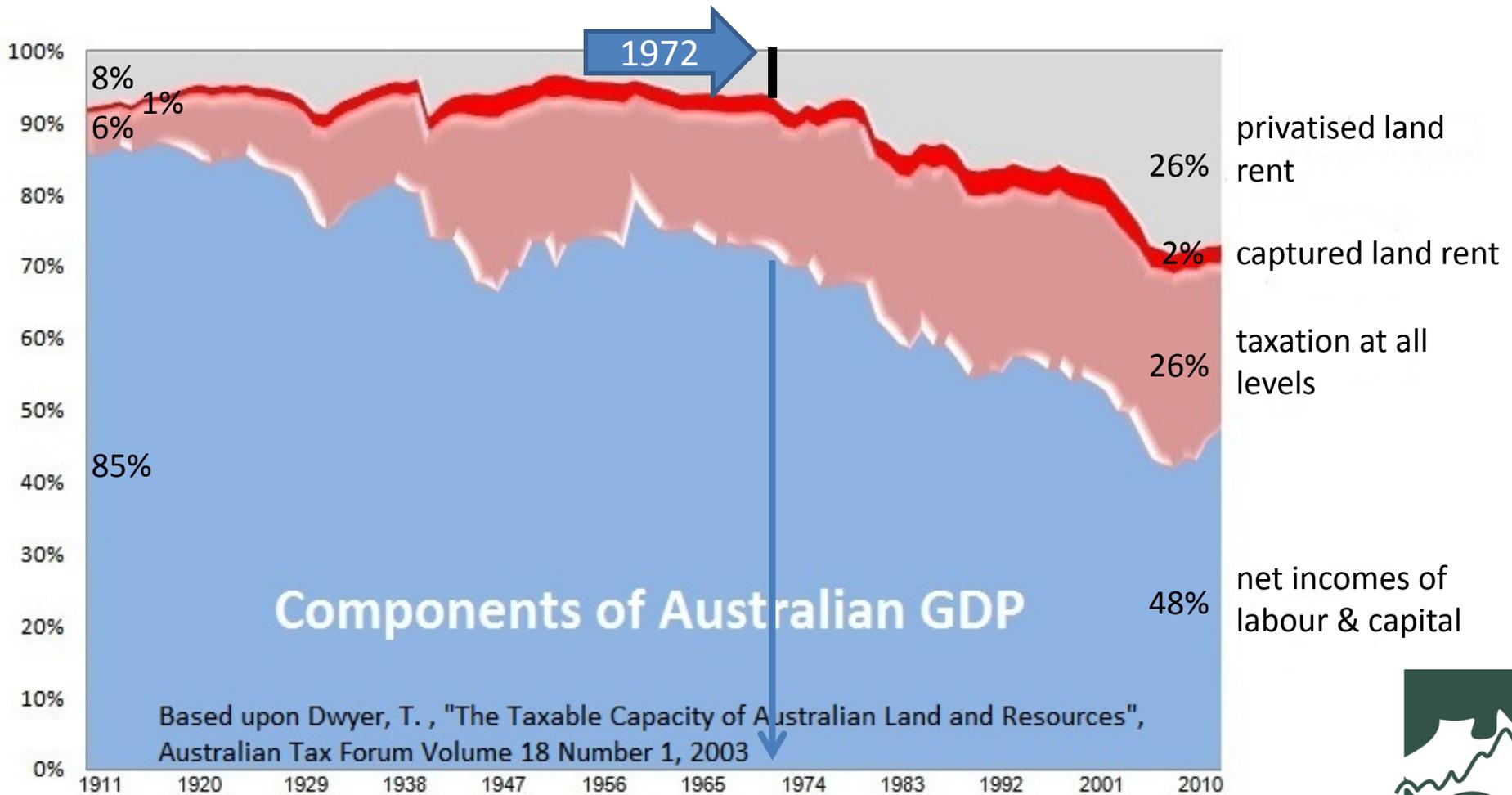
net incomes of  
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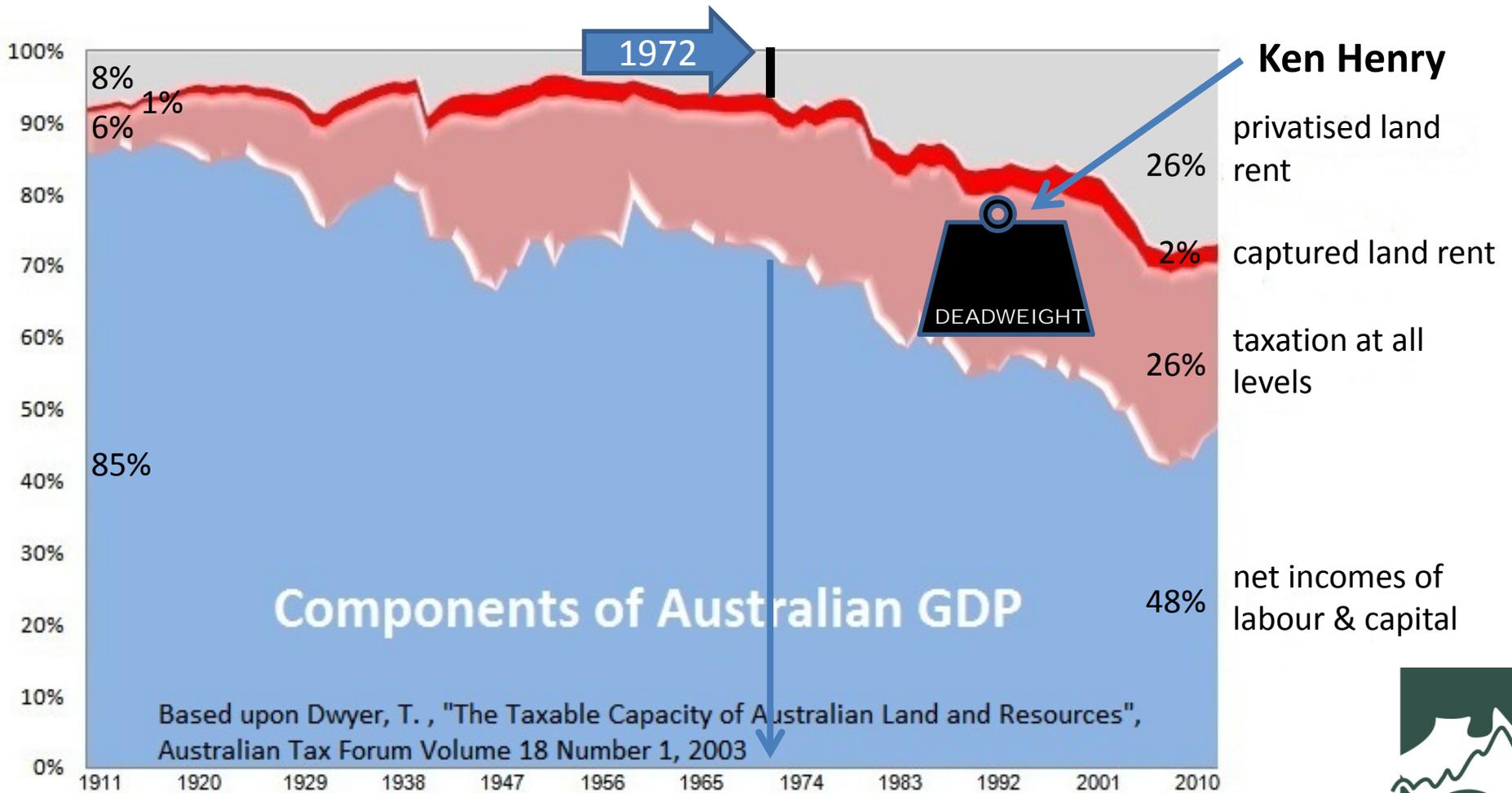












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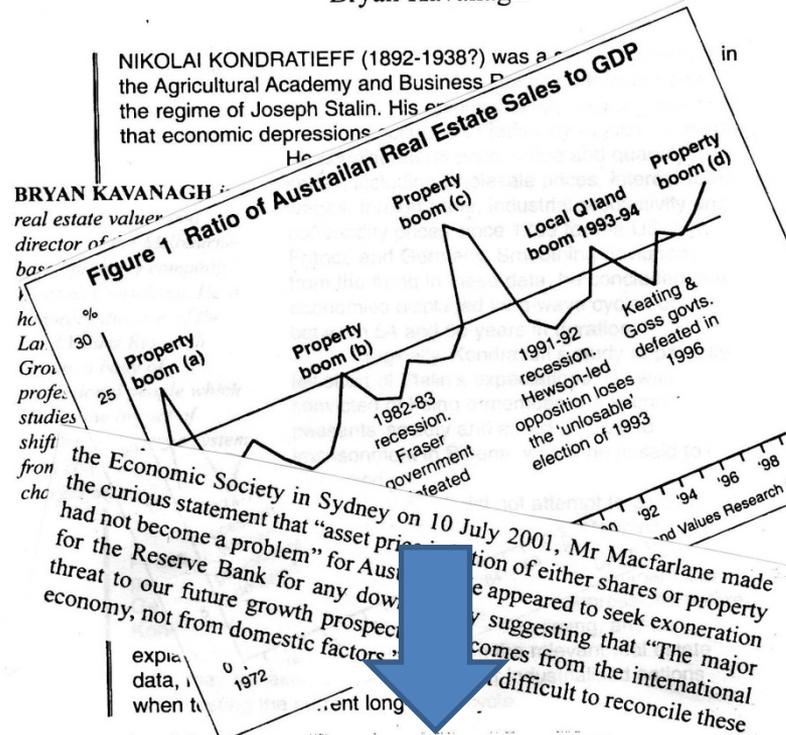
- *“...there is necessarily an inverse relationship between land price (uncollected rent revenue) and the natural return to labour and capital. This simple, and often ignored, law can be used to forecast periods of recession or depression. That is, as land prices rise sharply across the board, it can be accepted that the productive side of the economy will wilt – that unemployment will increase and the return on capital will wane.” (This enables us to) “predict the recession which will follow the peak of the next worldwide land boom in 1991/92.”*

– **The Valuer**, July 1987.

# The Coming Kondratieff Crash

## Rent-seeking, income distribution & the business cycle

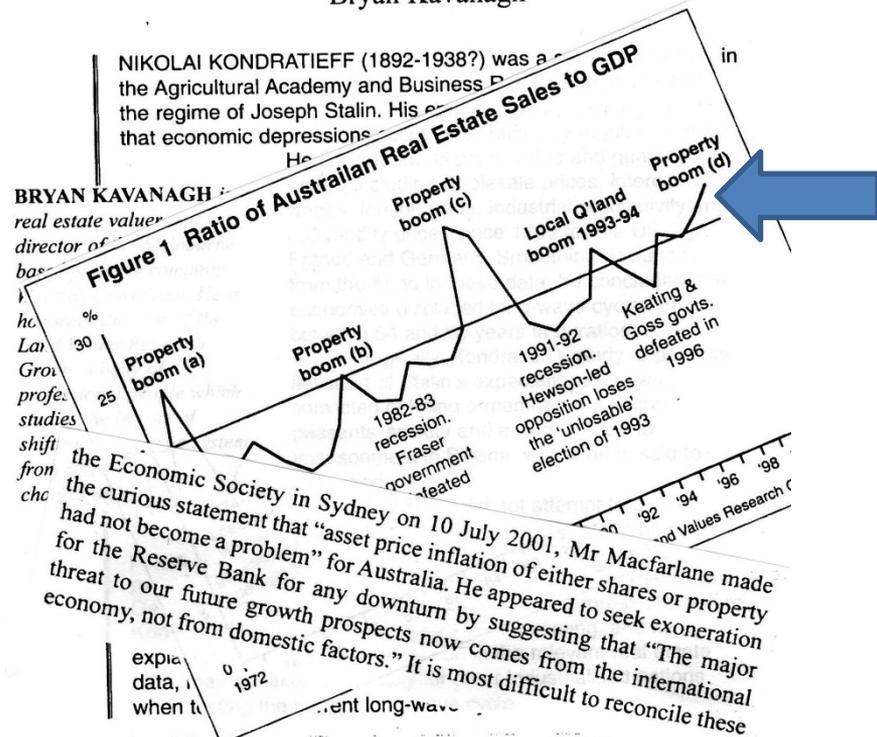
Bryan Kavanagh



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Steve  
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The theme of the evening was the role of real estate and credit bubbles in generating this financial collapse



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- I trust I have put the case for a tax switch - off labour and capital and onto greater land value capture
- I believe the profession has the remedy in its hands

**26<sup>th</sup> Pan Pacific Congress**  
**Real Estate Appraisers, Valuers and Counsellors**  
**Melbourne 1 – 4 October 2012**

“Land Price Bubbles and Land Value Capture”

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