Land, Money and the Fair Go: Land Beneath the Market

Joffre Balce

Australia's property downturn and the question nobody is asking. Expert forecasts tell us when house prices will recover. Henry George would ask who the recovery is for.

For the first time in fifteen years, house prices have fallen in every Australian capital city at once. (ABC News) National dwelling values have now fallen for six months in a row and are 5.2 per cent below their March peak. (Cotality) Sydney is down 7 per cent from a year ago. Brisbane

Henry George House
122 Lt. Eveleigh St. Redfern NSW 2016

SMS: 04203631898
www.associationforgoodgov.com
goodgov.redfern@gmail.com

and Perth, until recently the boom towns, each lost close to 5 per cent in a single quarter. (Australian Broker)

The cause is easy to see. The Reserve Bank has lifted the cash rate to 4.6 per cent, its highest level in fifteen years. (IBA) Borrowing capacity has shrunk, investors have pulled back, and buyer confidence has gone with them.

The usual commentary follows. When will the market bottom? Are the banks safe? Is this a buying opportunity? These are reasonable questions, but they all rest on an assumption, and the assumption is worth examining.

The expert consensus: orderly correction, then recovery

The mainstream view is calm and, on its own terms, convincing.

The Reserve Bank's latest *Financial Stability Review* notes that prices have fallen over 2026. But after years of gains and with prudent lending standards, it says even a very large fall would leave only a small share of borrowers in negative equity. The Bank modelled a severe scenario with a 20 per cent collapse in housing prices and a 3 percentage point fall in GDP growth, and still judged risks to banks "well contained". (RBA) Mortgage arrears have edged up but remain low, at around 2 per cent. (RBA)

The industry expects more pain, but not disaster. A survey of 384 property professionals by the Australian Property Institute expects prices to fall 8 to 11 per cent from their March peak before recovering from around September 2027. (CommBank) For Sydney and Melbourne, that would mean a return to 2021 price levels.

On this view the risks are real but manageable:

- **Households spend less** as their wealth falls, which drags on growth.
- **Construction stalls**, builders fail, and the national housing target slips further away.
- **State budgets** that rely heavily on stamp duty face shortfalls.
- **Recent buyers** who bought at the peak with thin deposits carry the most personal risk.
- **Non-bank lenders**, growing fast on wholesale funding, are the weak point in the financial system.

Look ten years ahead and the expert map of who wins and loses is familiar. Existing owners trading up do best, because they sell low but buy lower. Investors with equity buy at the bottom. First-home buyers with family money get in. First-home buyers on wages alone find that lower prices are wiped out by lower borrowing capacity, and by the time they have saved a deposit, prices are rising again. Renters keep paying more.

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To its credit, the expert view doesn't hide this inequality. As one public analysis put it, broad housing corrections "do not necessarily translate into materially improved affordability" for those trying to buy their first home. (IBA) The consensus describes the divide accurately. It just treats it as the weather rather than the climate.

The contrarian view: the bust is part of the boom

The consensus is right on the narrow question: the banks will be fine. In the RBA's stress test, the banking system's core capital ratio falls only from 12.4 per cent to around 11.6 per cent, even with a 20 per cent fall in property prices, unemployment rising to 6.3 per cent and the cash rate at 5.6 per cent. (RBA)

The disagreement is with the conclusion drawn from that result. The system isn't resilient despite the inequality the experts describe. It is resilient because of it. The correction isn't a break from the boom. It is the boom's own way of resetting.

Stability is paid for by households

"Only a small share of borrowers in negative equity" means that losses are absorbed by household deposits and equity before they ever reach the banks. The same strict lending standards that protect bank balance sheets also set the entry rule for buyers: bring a large deposit. That sorts first-home buyers by family wealth, not by income.

So the wages-only buyer losing out isn't a side effect of the cycle. It is how the safety regime works. "Well contained" is accurate from the bank's point of view, and that is exactly the problem.

Prices fall, but the cost of land doesn't

A dwelling's price is mostly land price. Land price is, roughly, the expected rent from the site discounted at the interest rate, and capped by what the marginal buyer can borrow.

This fall is driven by rates. When rates push prices down, the annual cost of holding the site barely changes. It simply moves from the seller to the lender, as interest.

That is why the experts find lower prices "wiped out by lower borrowing capacity". It isn't bad luck; it is the same equation balancing itself. It also explains the forecast recovery from September 2027, which is essentially a forecast that rates will fall. Prices will recover because credit eases, not because anything about affordability has improved. A correction that works only through prices cannot make housing affordable. It can only change who collects the rent.

The bust sets up the next boom

The consensus lists stalled construction, failing builders and a missed housing target as separate risks. Put together, they form a mechanism:

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1. The downturn cuts new supply.
2. Rents rise during the slump, which is why "renters keep paying more".
3. Higher rents raise the value of land.
4. When rates ease, that value is turned back into higher prices, and
5. The next boom starts from a smaller housing stock.

This is the climate the expert view treats as weather. It is the familiar land cycle, and 2026–27 looks like its downturn phase, not a one-off shock.

Two blind spots

The first is tax. The 2026–27 Budget reforms, now law, limit negative gearing to new builds from 1 July 2027 and replace the 50 per cent capital gains discount with inflation indexation and a 30 per cent minimum tax on real gains. (Treasury) It is the most significant change to housing tax settings in a generation, yet the standard winners-and-losers forecast is still written as if the old rules applied.

It is also a half-measure. Properties held before Budget night on 12 May 2026 are exempt from the negative gearing change, and gains accrued before July 2027 keep the old discount. (ATO) The reform trims the tax breaks on land-value gains but leaves those gains largely untaxed as they accrue. Investors with existing equity will still "buy at the bottom".

The second blind spot is the state budget problem. The consensus treats the stamp duty shortfall as a cost. It is better seen as an opening. A downturn is when stamp duty revenue is weakest and least reliable, which makes the case for switching to a broad annual land tax strongest now. The Henry Tax Review recommended this in 2010, and the ACT has been phasing it in since 2012.

A land tax collects part of the land's rent each year. That permanently lowers the price buyers bid for land, and what lenders can capture against it. It is the only channel through which a price fall becomes lasting affordability rather than a temporary discount. Doing it while prices are already falling spreads the adjustment over a correction owners are absorbing anyway.

Where the consensus is right

- The banks won't fail.
- Non-bank lenders are a vulnerability, though a modest one relative to the system. (RBA)
- Recent buyers with thin deposits carry real risk.

The better question

The experts ask whether the financial system can survive a fall in house prices. It clearly can. The better question is why a 10 per cent fall leaves the young, renters and wage earners no better

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off. The answer is that land rent is still privately capitalised and fully borrowable. Until that changes, every correction will look like this one: well contained for lenders, and unchanged for everyone else.

The Georgist critique: it's the land, not the house

In 1879 an American printer turned economist, Henry George, published *Progress and Poverty*. It asked why poverty deepens even as nations grow richer. His answer was land.

Land is made by no one. Its supply is fixed. Its value comes almost entirely from the community around it: jobs, roads, railways, schools, hospitals, and the simple fact that people want to live nearby. As a society grows and invests, its land rises in value, and whoever owns the land collects that rise, whether or not they contributed anything. George called this the unearned increment, and argued it was the hidden reason wages lag behind progress.

Seen this way, Australia's downturn looks different.

The "property market" is mostly a land market

Buildings wear out and lose value. Land doesn't. Most of the value of a typical Australian home, and far more in inner Sydney or Melbourne, is the land under it. So when we say "property prices fell 5 per cent", what has mostly fallen is land prices: a partial unwinding of unearned gains made during a decade of cheap credit.

Demand subsidies end up in land prices

Every policy meant to help buyers, whether first-home grants, deposit guarantees or stamp duty concessions, adds buying power without adding land. In a contest for a fixed asset, extra buying power goes into higher prices and ends up with those who already own land. George would not be surprised that decades of "affordability" policy have coincided with steadily worse affordability.

Speculation is rational when the system rewards it

Australia has a large class of investors who knowingly hold property at a loss, deducting the shortfall from their wages and waiting for a lightly taxed capital gain. The expert view calls this investor behaviour. George would call it what it is: a bet on land prices, subsidised by the tax system. He saw this speculation as the main driver of the boom-and-bust cycle. Land prices are bid beyond what rents can justify, credit stretches to fund them, and the system breaks when rates rise. That is close to an exact description of 2021 to 2026.

The family home is becoming the family estate

The "Bank of Mum and Dad" is now one of the largest sources of first-home deposits in the country. George would recognise this as the inheritance of a right to collect land rent. When

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ownership depends more on your parents' wealth than on your own work, land has stopped being a ladder and become a gate.

Banks lend against land

The banking system's exposure to housing is, underneath, exposure to land values. Banks lend against land because it has been the asset that rises most reliably. Credit pushes land prices up, and higher land prices justify more credit. The RBA is right that the banks are well capitalised. A Georgist would add that the whole economy has become a leveraged bet on one unmade asset: the value of land.

Three lenses, one market

The three views don't contradict each other on the facts. The difference is what each treats as given.

Question	Expert consensus	Contrarian view	Georgist critique
What is falling?	Property prices	Prices, not the cost of holding land	Mainly land values; inflation makes building less viable.
Why did prices rise?	Low rates, migration, scarce supply	Cheap credit capitalising rising rents	Land rent captured privately, amplified by credit and fiscal incentives
Is the downturn a problem?	A risk to growth and stability	The reset phase of the cycle	A temporary correction of unearned gains
Who wins the recovery?	Those with equity and family capital	Lenders and equity holders	Landholders at the time, as always
What's the fix?	Build more, lend prudently, wait	Annual land tax in place of stamp duty	Collect land value for the community; don't tax the house

The expert view asks how to get through the cycle. The contrarian view shows how the cycle protects lenders at households' expense. The Georgist view asks why there is a cycle at all, and why it always ends with the same people holding the land.

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An Australian idea, abandoned

It is easy to file Henry George under nineteenth-century curiosities. Australia should know better. His ideas shaped this country.

George toured Australia in 1890 to packed halls. Single Tax leagues spread through the colonies, and the young labour movement took up his central claim that land values created by the community belong to the community.

At Federation, that idea sat within a broader national settlement. The new Commonwealth set out to build what some called a social laboratory: a country where working people could expect a decent life. The Harvester judgement of 1907 established that a wage must support a family in "frugal comfort". In 1910 the Fisher Labor government introduced a federal land tax, explicitly aimed at breaking up large estates and opening land to working families. Canberra itself was designed on public leasehold, so that the rising value of the national capital's land would stay with the public.

For half a century, the ideal of a fair go was tied to the idea that land should not become an engine of private privilege. The federal land tax lasted until 1952.

Over time the settlement eroded, and from the 1980s it was steadily replaced. A new economic orthodoxy, broadly called neoliberalism, recast the relationship between citizen, market and state. Finance was deregulated. Taxes shifted away from wealth and toward wages and consumption. In 1999, halving the tax on capital gains, combined with long-standing negative gearing, turned residential land into the country's favourite tax-advantaged investment. Home ownership, once the reward of a working life, became an asset class.

The temptation was understandable. Rising house prices felt like national prosperity. Every owner grew richer on paper, and governments of both sides came to rely on stamp duty and the wealth effect. But the gains were not created. They were transferred: from renters to owners, from the young to the old, from wages to land.

The result is the market we now have. A downturn that should be good news for aspiring buyers is instead bad news for almost everyone, because the economy has been built on the premise that land values must rise.

The case for reform

Reform doesn't mean another grant, another guarantee or another housing summit. Those treat the symptoms and often feed the illness. It means returning to the principle on which the nation was founded: the wealth a community creates should serve the community, and nobody who works should live in poverty or insecurity.

In practice, that points in a clear direction:

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- **Shift tax from transactions and work onto land values.** Replace stamp duty, a tax on moving house, with a broad, low land value tax, as the Henry Tax Review recommended in 2010. The ACT has been doing this since 2012. It can be phased in so recent buyers aren't punished.
- **Finish the job on speculation.** The 2027 changes to negative gearing and capital gains are a start. A tax shift onto land and away from incomes completes it: there is little point in negative gearing when wages are lightly taxed and land values are not.
- **Capture the value of public investment.** When governments rezone land or build a railway, much of the resulting rise in land values should return to the public that created it, funding the next generation of infrastructure and social housing.
- **Build, and build publicly where needed.** Supply reform is essential, but without value capture it simply hands windfalls to whoever owns the land at the moment of rezoning.
- **Protect people during the transition.** Allow asset-rich, income-poor retirees to defer land tax until sale or death, and protect recent buyers who bought in good faith.

None of this is radical by Australian standards. It is a return to the nation's founding instincts: that the land belongs, in a meaningful sense, to all of us, and that prosperity is measured not by the price of a suburban block but by whether a young worker can afford to live on it.

The current downturn gives us a rare moment. Prices are falling, the cycle is exposed, and the costs of the old settlement are visible to everyone. We can wait, as the forecasts suggest, for recovery from 2027 and another round of the same boom. Or we can recover something older and better: the Federation promise of a fair go, an economy that rewards work over ownership, and a country where progress no longer comes with poverty.

Updates

Free Activities at the Association for Good Government.
122 Little Eveleigh Street Redfern NSW 2016

Coming Up

November

Reading Course III: Condition of Labour

Tutor Joffre Balce

Monday, 7:00pm– 8:30pm 9th November 2026

(Repeat) Saturday, 7:00-8:30pm 21st November 2026

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