

**FIRST HOME OWNERSHIP  
SUBMISSION URBAN LAND & HOUSING GROUP**

**SUMMARY**

- The present system of land releases for urban development allows the owner of broad acres to appropriate most of the increases in the market value of land when it is rezoned for urban use.
- In most cases, this increase in value, through no economic contribution or action on the part of the owner, represents an “unearned increment.”
- Governments should establish a body with a land banking role.
- Prior to broad acres being rezoned for urban use the government through a land banking agency such as an Urban Land Trust, and in close liaison with planning, servicing and transport authorities should acquire such broad acres to capture the increment in value when the land is rezoned. Examples of such benefits will be provided at the hearing.
- The level of holdings should be subject to regular review.
- The co-ordination of services and planning of consolidated holdings should become more cost efficient and allow staging of development on a cost/benefit basis.
- The “value capture” would provide for infrastructure, reduce the end cost and provide more land for first home buyers.
- The argument has been proposed that the answer to provision of land for housing for first home buyers is simply a matter of adequate supply.
- If the supply of rezoned broad acres is in the ownership of owners, be they private, individuals or developers, who do not wish to sell or develop the problem of supply is exacerbated. There may be supply but not available for development.
- The authority should pay rates to local councils.
- The authority should use the resources of the private sector as far as and as much as possible.

- The present organization of urban development allows the owner of broad acres to appropriate most of the increase in the market value of land when it is zoned for urban uses. In most cases this represents an “unearned increment”; the increase in the value of the land is due to development occurring around the land and is not due to any action on the part of the owner
- “The State can appropriate value increments of this kind by acquiring the land in advance of urban use. However this would not be a costless operation because government would have to cut back its activities in other fields. How much and how far the government should buy land in advance of need is a matter of balancing the increase in the value of land which would occur if the land were not acquired against the loss to the community of reducing government expenditure elsewhere.
- The authority would inevitably exercise a planning function since it would be required to schedule development in an efficient way. Such planning would reduce the uncertainty attaching to land holding and subdivision, and would ultimately allow allotments to be produced at lower prices.
- The appropriate degree of involvement of the authority in the market is open to debate. A more comprehensive level of involvement would occur if the authority acted as the agency through which all development of broad acres was initiated. In this role it would make land available to all subdividers and builders, both private and public. If the Authority were to play this more comprehensive role there would be a radical change in the structure of the subdivision industry. If subdivisions took place in the context of a comprehensive plan they would be certain of success. This absence of uncertainty would remove the need for profits which are necessary at present to attract entrepreneurs.
- The question of the appropriate degree of involvement is a critical one. Should it be one of three alternatives – price leadership, sole agency in broad acres, and state monopoly of land subdivision. If the authority is dominant in the control of broad acres it should not engage directly in land subdivision or development. The authority would inevitably be the initiator of some projects.

- The successful functioning of a Government monopoly in land acquisition and disposal would depend on how closely it monitored demand and supply in the market and its initiatives in satisfying demand. An enlightened management committed to the public interest would be vital. The temptation to maximize profits for Government revenue should be resisted.
- Such a scheme would initially need large amounts of finance, but the Commonwealth appears to be willing to support an extensive land acquisition programme. Moreover, after disposal of land developed in the initial stages of the scheme, it would become self-financing.”<sup>1</sup>
- In 1971, the First Report of the Australian Institute of Urban Studies released the findings of a Task Force, which dealt with price of land issues.
 

“5.2 The view was frequently put to the Task Force that the price of land would be reduced if adequate quantities of unserviced land were released for urban purposes. It was argued that if the supply of urban land were sufficient to meet the demand of those who wished to invest as well as those who wished to build, land prices would cease to be a problem.

This argument however has several defects:

- (a) the demand for land for immediate building needs is quantifiable and predictable with some degree of accuracy; but the demand for land to be held for future building or for investment is virtually impossible to predict. Consequently it would be extremely difficult to estimate the amount of land that would be required to meet the total demand.
- (b) If more land is rezoned and released for urban purposes, is there any guarantee that it will come onto the market? Will the increase in the physical or potential supply of urban land be translated into an increase in the effective supply? On one hand it was argued that this will happen because it has always happened in the past, and because owners of fringe non-urban land are anxious to sell. But on the other hand the view was expressed that there is nothing to prevent large areas of such land being bought up and withheld, and that although the existing owners are willing to sell there are many possible

intermediaries in the land market who might have different intentions.

- (c) Apart from deliberate withholding, there is also the possibility that rezoned land would not be developed because of the unavailability of water and sewerage mains. The requirement that land shall be fully serviced before being sold constitutes a greater constraint on the supply of land than the limitations imposed by the residential zones of the planning scheme.
- (d) If more land is released for urban use while land within the existing urban-zone remains undeveloped, leapfrogging and scattered development could occur, with the result that service facilities would not be used in the most efficient way.
- (e) Further releases of zoned land could have quite the opposite effect to that intended. By indicating to landowners and developers the direction of future development, and by converting a planned urban-zone into an actual urban-zone, they change probabilities into certainties, and could encourage landowners and developers to demand even-higher prices.

As a general principle there is no doubt that, if the demand for land is given, and if all other things remain constant, an increase in the supply of land will reduce the price. But the amount of zoned urban land in existence has not necessary connection with the amount of serviced urban land being offered for sale. *Adequate quantities of zoned land are obviously necessary if land prices are to be stabilized; but, by themselves, they are not sufficient to achieve this effect.*”

The Task Force dealt with the question of public acquisition of land in section 5.8 as follows

“5.8 Proposals were put forward for the acquisition of land by public authorities, at some stage in the development process, with the aim of either reducing the price of land or of collecting for public purposes some or all of the increase in land-value associated with the rezoning of land for higher uses.

These proposals vary considerably in their details. Some suggest acquisition by negotiation, others by resumption. Some propose resumption at full market-value; others at existing-use values. In some

cases the acquisition is proposed immediately before rezoning; in other cases many years in advance of need. Some suggested that the government should acquire all the land that is to be rezoned; others suggested that only sufficient land be acquired to allow the government to act as price leader. Yet others suggested that land be acquired only in strategic sectors. There were proposals that the government should acquire and develop the land, and other proposals that it should acquire and sell to private developers. There were differences of opinion about the way the government should dispose of the land – by tender or auction, and by freehold or leasehold.

The public-acquisition proposal must therefore be regarded not as one proposal but as a whole series of proposals with widely-different implications.

Proposals for public acquisition are likely to meet with objections.<sup>i</sup> Even people who do not stand to lose personally will often oppose any further intervention of the State in the land market. Even if they do not actively oppose state action they will probably be apathetic towards it, being content with the present order of things. The difficulty of new house-buyers and the prospect of the public collection of betterment, are matters which at the moment are not of deep concern to the average voter (although they could become so).

There are many precedents for public acquisition in Australia: the South Australian Housing Trust, the housing departments in the other States, the Closer Settlement Acts, the N.S.W. State Planning Authority at Campbelltown, the Perth Improvement Plans, and, of course, Canberra. By a gradual process of evolution in public opinion, aided by a growing awareness of the need for resolute steps to control land-prices and promote metropolitan development, the consensus of opinion may come to support measures that were thought unacceptable some years ago.

Requests for public acquisition of land have come from private developers who believed that they would be forced out of business were they to keep buying land in the open market. They would like the government to acquire large stocks of land and to release it in an orderly sequence at reasonable prices to the developers. They would prefer to deal with one government-agency than with a number of private owners.

Even those who object in principle to public acquisition often agree that an exception must be made where it can be shown that urgently-needed land is being deliberately withheld. Evidence was given of zoned land being withheld from development, with the result that councils had been forced to rezone more land.

*A majority of the Task Force are convinced that public acquisition – even if only for a day – of all land that is to be rezoned would not only collect betterment for public purposes but also considerably facilitate planning. The government could impose covenants, performance schedules and conditions before it disposed of the land to private developers. To some this may sound oppressive; but the resulting improvement in living conditions would create more freedoms than are extinguished.*

5.10 It was frequently proposed to the Task Force that public authorities should acquire large areas of rural land well in advance of need (say 20 years) and, as the need arises, either develop the land or release it to private developers, thus ensuring a steady supply of land and removing the incentive to speculate that comes from expectations of future shortages. The price of land would thus be kept low, and any increase in price that did occur would go to public funds.

It was argued that this procedure would not usually require the exercise of resumption powers because such rural land would have little or no urban value at the time of acquisition. Land could be acquired by negotiation at its rural value, and if further inducement were necessary, it could be given without increasing the capital outlay exorbitantly. The practice of the South Australian Housing Trust was quoted as an illustration of this procedure. The Trust buys land many years in advance of need, but does not have and does not seek resumption powers.

The obvious disadvantage of this system is that, even when land is bought at rural values, the authorities will make a large capital outlay with no prospect of a return on capital for many years. The capital costs will be partly offset by leasing back the acquired land for rural use until it is required for development; but the amount recovered in this way cannot usually be expected to be significant. The duration of the capital outlay would be minimized if the land could be acquired at rural values just before development.

A further disadvantage is that, unless the system is already in operation, it will do little to solve the land-price problem at the moment.

Despite these difficulties, the Task Force agree that the system of advance public acquisition could play an essential part in our town-planning policies, as it has in Adelaide. It is less radical than many other measures, and could be extremely effective in preventing the sort of problem that we are now trying to cure.

5.11 If all land to be rezoned were acquired by the authorities at its pre zoning value and marketed to match demand, our urban land-price problem would be solved. The increment in land-value resulting from rezoning would pass entirely into public hands, thus providing a large and continuing source of capital for the provision of public utilities. Speculation in land would cease to exist, and the speculative component of land prices would disappear.

In addition to these economic advantages, the authorities would then be in a position to plan positively instead of only negatively. They would be able to bring land onto the market when and where they thought it desirable to do so, instead of merely granting a rezoning which provides no guarantee that the land rezoned will be developed. They would, in this matter at least, reach the happy position enjoyed by the National Capital Development Commission.

The main objection to this proposal is that it would represent a radical departure from current practice. It appears that no authority in Australia has at the moment the legal power to resume at rural values rural land that has urban potential, although in Perth there is a strong move towards this end.

However, the proposal is not as radical as it might first appear. The U.K. Uthwatt Report of 1942 traced the gradual growth of restrictions on the right of private property – public health, width of streets, building codes and so on. These restrictions have tended to counteract the extreme individualistic concept of private property that was prevalent in the early nineteenth century. They do not give rise to claims for compensation because they represent ‘good neighbour’ restrictions. They prescribe the behaviour that could reasonably be expected from a good neighbour, and prevent the sort of harm that a bad neighbour would do to his fellow citizens.

The problem therefore is to determine the boundary between good-neighbour restrictions and expropriation. If the public collection of betterment is a good-neighbour restriction it is entirely consistent with the private ownership of land; and the proposal to resume land at its existing-use value is merely a further recognition of the way in which unfettered private ownership can impair orderly social development.

Public-acquisition is a simple measure that falls equally on all members of the community, and may be less oppressive than a multitude of restrictions and requirements, administered by separate authorities, on which we would have to rely in its absence.

One of the main difficulties confronting any proposal for public acquisition or resumption is the question of adequate compensation. The Task Force believe that if compensation is to be fair it should include an allowance for disturbance over and above the existing-use value. The existing-use value is the market's estimate of the exchange price that would be agreed between a willing buyer and a willing seller. It is not adequate compensation for an unwilling seller.

This additional compensation could be calculated as a certain percentage (say 50%) of the existing-use value. The total price received by the landowner would then be the existing-use value of the land at the date of acquisition (its value under the lower-use zoning, excluding any potential value arising from an expected higher-use zoning) plus a certain percentage of this existing-use value for disturbance, plus the market value of improvements at the date of acquisition. Since this total price would be considerably above the existing-use value, it would be appropriate to describe it by another title, such as 'conversion value'. By acquiring land at its 'conversion value' the authorities would adequately and fairly compensate existing owners, but would prevent the existing owners from holding the community to ransom when the community needs to convert the land from rural to urban uses.

Provided these transitional problems can be overcome, the majority of the Task Force believe that there is an overwhelming case for the introduction of the system of acquisition at 'conversion values'. This may represent a radical innovation in Australian town-planning practice. But drastic situations necessitate drastic measures. Devices such as holding charges and betterment levies may help to contain prices for a time within

reasonable bounds, but it seems that society will be forced to adopt this fundamental reform if it wishes to achieve a lasting solution to its land-price problem.”<sup>2</sup>

## **CONCLUSION**

Government should “stick to the knitting” and become a planner assembler land banker but definitely not have a role in the development of land except in special circumstances.

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1. Report of the working party on the stabilisation of land prices  
2. First Report of the Task Force on the Price of Land

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