

III: LAND PRICES AND THE JOB MARKET

We can now work out how land prices affect the job market.

No one can build a home or establish any farm, shop, office, factory, market garden or other commercial enterprise until he has obtained the use of a suitable site.

Therefore, the price of land is an inescapable element in everybody's costs - whether land is bought outright or rented on a periodic basis.

Moderate Land Costs

If land costs are moderate - in relation to earnings - then those who wish to build a house or establish any farm, factory or other commercial enterprise can usually afford the necessary land.

Under these circumstances, commerce and industry can flourish and jobs should be plentiful.

By contrast, if land prices are excessive - again in relation to earnings - then many would-be home builders, farmers and entrepreneurs are unable to afford the land they need.

In this way, high land prices:

- # reduce activity in the building industry,
- # restrict the establishment of new industries and the expansion of existing ones,
- # cause the growth of commerce and industry to lag behind increases in population (whether locally or in the nation as a whole), and:
- # create unemployment - as the growth of job

opportunities also lags behind increases in population.

What is Moderate or Reasonable?

Opinions may differ as to what is "moderate" or "reasonable" in relation to land prices. However, in my opinion:

- (a) a reasonable rent, at least for a home site, is about five percent of the tenant's income, and:
- (b) land bought outright should not cost more than the purchaser earns in an average year.

I base that opinion on the following:

Accommodation Costs

If site rents averaged five percent of incomes, then a man earning \$10,000 per annum could rent a home site for \$500 per year - with the landlord paying any land taxes or rates.

The same person could probably rent or purchase a dwelling for \$2,000 per year - in which case accommodation would cost him \$2,500 per annum: twenty-five percent of his earnings.

In times past, it was considered reasonable to spend one-quarter of one's income on accommodation, and it seems to me that such a proportion is still reasonable today.

Land Purchase

A similar situation exists when home sites cost about one year's earnings.

Thus, if a man spent one year's wages on a home site, and expended a further one year's wages

over a forty year period, as land taxes and rates, then he, too, would spend five percent of his total income on the land.

This condition would be satisfied if a man earning \$10,000 per annum spent \$10,000 on a home site and paid \$250 per annum in rates and land taxes for forty years.

If the same person spent a further \$2,000 per annum on the purchase and maintenance of a home, then he, too, would spend \$2,500 per year - twenty-five percent of his income - on accommodation.

Variations on a Theme

These are merely examples. Land costs can be made up in other ways.

For instance, a tenant may be responsible for rates and land taxes - in which case he would pay a smaller proportion of his income to the landlord. Similarly, when anyone buys a site, his overall costs are not affected if an increase in rates and taxes is balanced by a fall in the price of the site.

Interest and Land Costs

However, land costs are affected by interest, whenever land is bought on terms or with borrowed money.

That, in turn, must happen more frequently as the price of sites - as a proportion of incomes - increases.

A community may contain one hundred persons who can save six months' income in a given period. It would probably contain only fifty persons who could save a year's income in the same period,

and perhaps ten or twenty who could save double the latter amount. Thus, if one hundred persons can pay cash for sites which cost six months' earnings, then only fifty can pay cash when land costs a year's earnings, and only ten or twenty can pay cash when two years' earnings must be offered in exchange for a site.

Hence, as the price of sites rises, in relation to incomes:

- (a) more and more people must borrow in order to purchase their land requirements, and:
- (b) the amounts borrowed must also increase.

This clearly increases both the demand for loan funds and the number of borrowers who compete for the available funds. It allows interest rates to rise, and places a double burden on all who purchase land with borrowed money or on terms.

These people are already struggling to pay for whatever land they need. Interest adds to their difficulties and - at times - may even double the final cost of sites.

Home Building

Any increase in land costs must affect home building.

Most people could buy or rent a home if home sites cost about five percent of average earnings. Under these circumstances, an average wage-earner may spend one-quarter of his income on accommodation, and many with lower-than-average incomes could still afford a home of their own.

The situation deteriorates as land costs (including interest) creep upwards. When home sites

cost seven or eight percent of average earnings, then persons on lower-than-average incomes may manage with four rooms instead of five. Then, as the price of sites rises further, such people may share accommodation, or subsist in a two or three-roomed flat, while even better-than-average wage earners have to prune their building plans.

Business Sites

It is the same with people who wish to build shops, factories, professional suites or other business premises. These, too, must use less space or build fewer rooms if land costs absorb an undue proportion of their income, or consume too much of their funds.

Employment in the Building Industry

Therefore, each increase in land costs decreases both the number of buildings and the number of rooms built. This limits employment in the building industry, and has an adverse effect on industries that manufacture or distribute building materials. In short, any upturn in land costs produces a downturn in the building industry.

Machinery Costs; Under-Mechanization

Building is not the only industry affected by the price of land.

When entrepreneurs or factory builders spend thirty to forty percent of their funds for factory space, they have less to spend on machinery.

This reduces the amount of machinery bought and the number of jobs available for tool-makers. It also leads to under-mechanization in newly established or expanding industries.

In this way, high land costs can increase produc-

tion costs and decrease the profitability of an enterprise. That, in turn, could lead to early failure of the enterprise, or to its abandonment if it seems unlikely to succeed. Jobs are then lost eventually, or not created in the first place if the project is abandoned before it gets off the ground.

RENT AN ALTERNATIVE?

People may rent accommodation if they cannot afford to buy or build. Sites can also be leased instead of being bought outright.

However, many persons are unwilling to build on a rented site. Anyone who does this can be placed at a disadvantage by future rent increases.

A rise in rent may be quite unjustified. It will cut into the tenant's pocket, but moving house, shop or factory has the same effect. The tenant must therefore bear with rent increases until moving becomes cheaper. As a result, tenants sometimes pay more than fair market rents.

Anyone who rents buildings can be placed in the same predicament - especially when the buildings have been modified to the tenant's requirements. Consequently, most people prefer ownership to tenancy - especially when they intend to remain in the one spot for any length of time.

Rents, Land Prices and Interest Rates

We must note, also, that tenancy is rarely a cheap alternative to ownership.

When land is costly, then more and more people choose tenancy as an alternative to ownership. This increases the demand for rented accommodation, and allows rents to rise. Entrepreneurs respond to rising rents by building more flats

and homes for rent. The resulting increase in the supply of accommodation causes rents to fall again.

However, rents cannot fall below a level determined by the cost of building. Building costs, in turn, are influenced by ruling land prices and interest rates.

Persons who build flats, homes, shops or factories for rent must buy land at market prices and borrow money at ruling interest rates. If rents do not allow them to recoup their outgoings and receive a return on their investment, then they are unlikely to build. Hence, when homes and land are costly, and home buyers spend a lot on accommodation, then tenants usually do the same. At such times, tenants often spend more than twenty-five percent of their incomes as, rent - or compromise by occupying less space than usual.

LAND PRICES, INTEREST AND ACCOMMODATION COSTS

A fall in land prices would reduce the cost of accommodation for all who purchase homes, farms, factories or shops on terms. It would reduce the size of mortgages and the duration of loans, and provide huge savings for many purchasers.

This is shown in Table 1 - which gives the history of a \$30,000 loan, bearing interest at 10% per annum, with repayments of \$3,120 per year or \$60 per week. Table 1 shows:

- (a) a loan of \$30,000 with interest at 10% per annum can span a period of almost thirty five years, and:
- (b) the interest on such a loan may total more than twice the original principal.

If one cares to make a few calculations, then

TABLE 1: LOAN OF \$30,000 WITH INTEREST AT
10% P.A., REPAID AT \$60 PER WEEK

Year	Principal \$	Interest \$	Repayment \$
1	30,000.00	3,000.00	120.00
2	29,880.00	2,988.00	132.00
3	29,748.00	2,974.80	145.20
4	29,602.80	2,960.28	159.72
5	29,443.08	2,944.31	175.69
6	29,267.39	2,926.74	193.26
7	29,074.13	2,907.41	212.59
8	28,861.54	2,886.15	233.85
9	28,627.69	2,862.77	257.23
10	28,370.46	2,837.05	282.95
11	28,087.51	2,808.75	311.25
12	27,776.26	2,777.63	342.37
13	27,433.89	2,743.39	376.61
14	27,057.28	2,705.73	414.27
15	26,643.01	2,664.30	455.70
16	26,187.31	2,618.73	501.27
17	25,686.04	2,568.60	551.40
18	25,134.64	2,513.46	606.54
19	24,528.10	2,452.81	667.19
20	23,860.91	2,386.09	733.91
21	23,127.00	2,312.70	807.30
22	22,319.70	2,231.97	888.03
23	21,431.67	2,143.17	976.83
24	20,454.84	2,045.48	1,074.52
25	19,380.32	1,938.03	1,181.97
26	18,198.35	1,819.84	1,300.16
27	16,898.19	1,689.82	1,430.18
28	15,468.01	1,546.80	1,573.20
29	13,894.81	1,389.48	1,730.52
30	12,164.29	1,216.43	1,903.57
31	10,260.72	1,026.07	2,093.93
32	8,166.79	816.68	2,303.32
33	5,863.47	586.35	2,533.65
34	3,329.82	332.98	2,787.02
35	542.80	54.28	542.80
Totals:		76,677.08	30,000.00

the table also shows:

- 1: after six years, \$18,720 has been paid, but the outstanding principal has decreased by a mere \$926, and:
- 2: after seventeen years, \$53,040 has been paid - to reduce the principal by \$4,865!

Cheaper Land Could Save Thousands of Dollars

Consequently, if building blocks were \$5,000 cheaper than they are today, then some home buyers could save not merely \$5,000, but over \$50,000! They could also repay their loans in eighteen years instead of thirty five!

Even a \$1,000 reduction in land price could save almost \$19,000 for people with similar loans - and shorten their repayment period by six years.

EXPENSIVE LAND

Figures released by the Valuer-General's Office show that, during 1980, the average price paid for a vacant house site in the Melbourne area was \$15,625².

In May, 1980, mean earnings for ³Victorian male employees were \$268.70 per week - just under \$14,000 per year. Consequently, metropolitan home sites cost more than the average worker's annual wage in 1980 - even without allowing for income tax or interest.

After-Tax Income

A single person earning \$268.70 per week pays \$64 weekly in income tax. His after-tax income is \$204.70 per week or \$10,664 per year.

Therefore, on 1980 figures, an average worker

must save his entire take-home pay for almost eighteen months, if he wants to buy a home site in the Melbourne area. Alternatively, if he buys a site on terms, he may end up paying two or even three years' wages in exchange for it.