Motivations and Impacts of Water Property in NSW

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Water Management Act 2000 (NSW)

- Part of the national move towards water property rights
- Object to raise efficiency of economic water use
- Transformed pre-existing water usage rights into transferable water property
Water Property

• Personal property
  – Avoids
    • Stamp duty
    • Local government rates
    • (potentially) land tax

• Permits concentration of water
  – More economical utilisation

• Notionally a financial security
Water versus Land

- Major contributor to property value
- Relative value uncertain
- Not secure
- Personal, not real, property
  - Statutory compensation uncertain
  - Avoids taxes, rates & stamp duty
- More portable
- More easily concentrated
Case Studies

• **Hunter Valley**
  – Viticulture, Lucerne

• **Orange**
  – Evidence of speculative acquisition

• **Wagga Wagga**
  – Dominance of irrigation areas
Valuation Issues

- Hunter Valley
  - Property valuation assumes adequate water; excess water a separate asset
- Orange
  - No clear relativity between land, water and whole property
- Wagga Wagga
  - Stylised pricing within irrigation areas
- Pricing far from efficient
Transition effects

- Pre-2000: licenses handed out freely
  - Indiscriminate over allocated (hydrological ignorance)
- Post-2000: instant value
  - Remorse, inequality, clawback
- Disequilibrium:
  - impossible to make positive conclusions regarding policy
The economic argument

- Market mechanisms will encourage economic efficiency of water utilisation
- Old regime:
  - Free water: no incentive for efficient use
- New regime:
  - Water costs! Use carefully
  - But...

Is a freehold, market tradable private water property the best strategy for water?
Income & Distribution effects

State creates water property asset

Water Property owner.

- State action creates free capital gain
- Capital gain from future water efficiency gains taken by investors – not users, technology developers or even community
- Community has lost land-related revenues

Market sets price

Water user: inclined to use water for best value for money

- Water User’s position equivalent under either purchase from water market, or short term “rent” of water property
- Incentive to use water efficiently
- Global efficiency improvements lost to users
  - revert to water property owners
  - Set by highest & best use
Potentialities

• Likely development of water investment sector
  – Significant water ownership will be independent of land and/or users

• Future capital gains will likely concentrate in water, not land
  – Despite originating with users or community
  – Despite origin with water users or community
  – i.e. further inequalities.
Alternatively

State creates water property asset

(Water Property owner.)

Market sets price

Water user: inclined to use water for best value for money

Progressive introduction of water use tax/charge

• State benefits from state action
• Capital gain from future water efficiency gains taken by community – could fund R&D
• Community retains land-related revenues

• Users induced to use water efficiently
• Water may be moved to more beneficial uses
• Pure water speculation discouraged
• State water income could be
  – Flexible
  – Responsive to circumstances
  – Used to form rural support fund
Political Realities

• Economic ignorance
• Vested interests
• Historical political failures when applied to land
  – Democracies vote in soft landlords for statutory estates
Conclusions

- Water property in NSW has created anomalies
- Market highly imperfect
- Market strategy flawed
- Politically unlikely to change quickly
- Optimum treatment deserves scholarly attention.