



University of Technology, Sydney

# Motivations and Impacts of Water Property in NSW

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**Garrick Small**

[garrick.small@uts.edu.au](mailto:garrick.small@uts.edu.au)

# *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

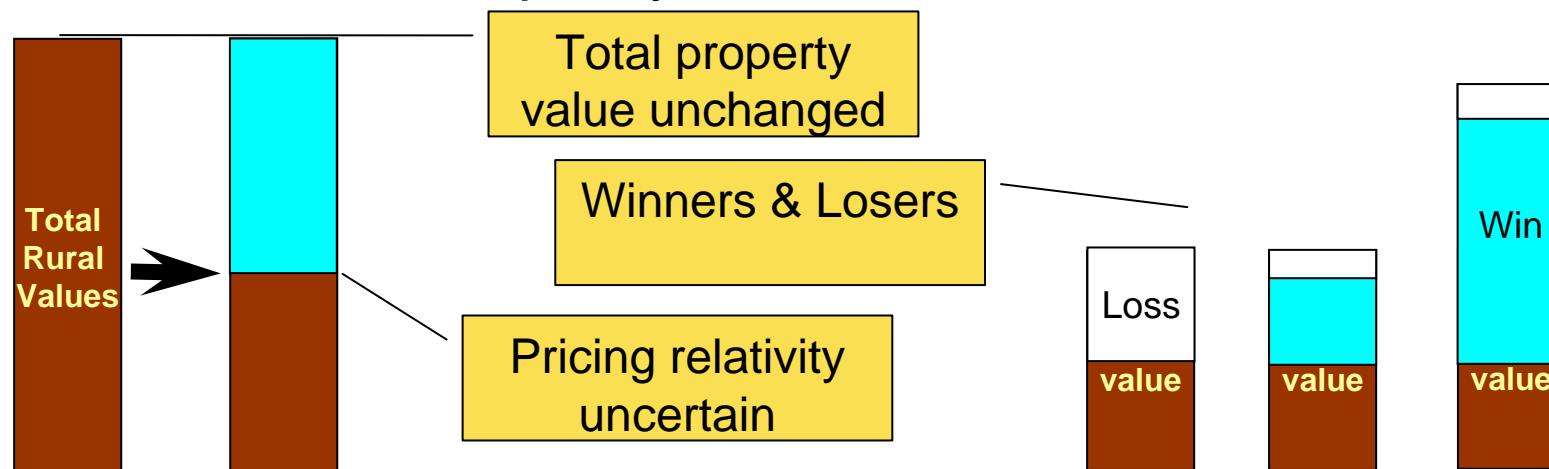
- *Hunter Valley*
  - Viticulture, Lucerne
- Orange
  - Evidence of speculative acquisition
- Wagga Wagga
  - Dominance of irrigation areas

# 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

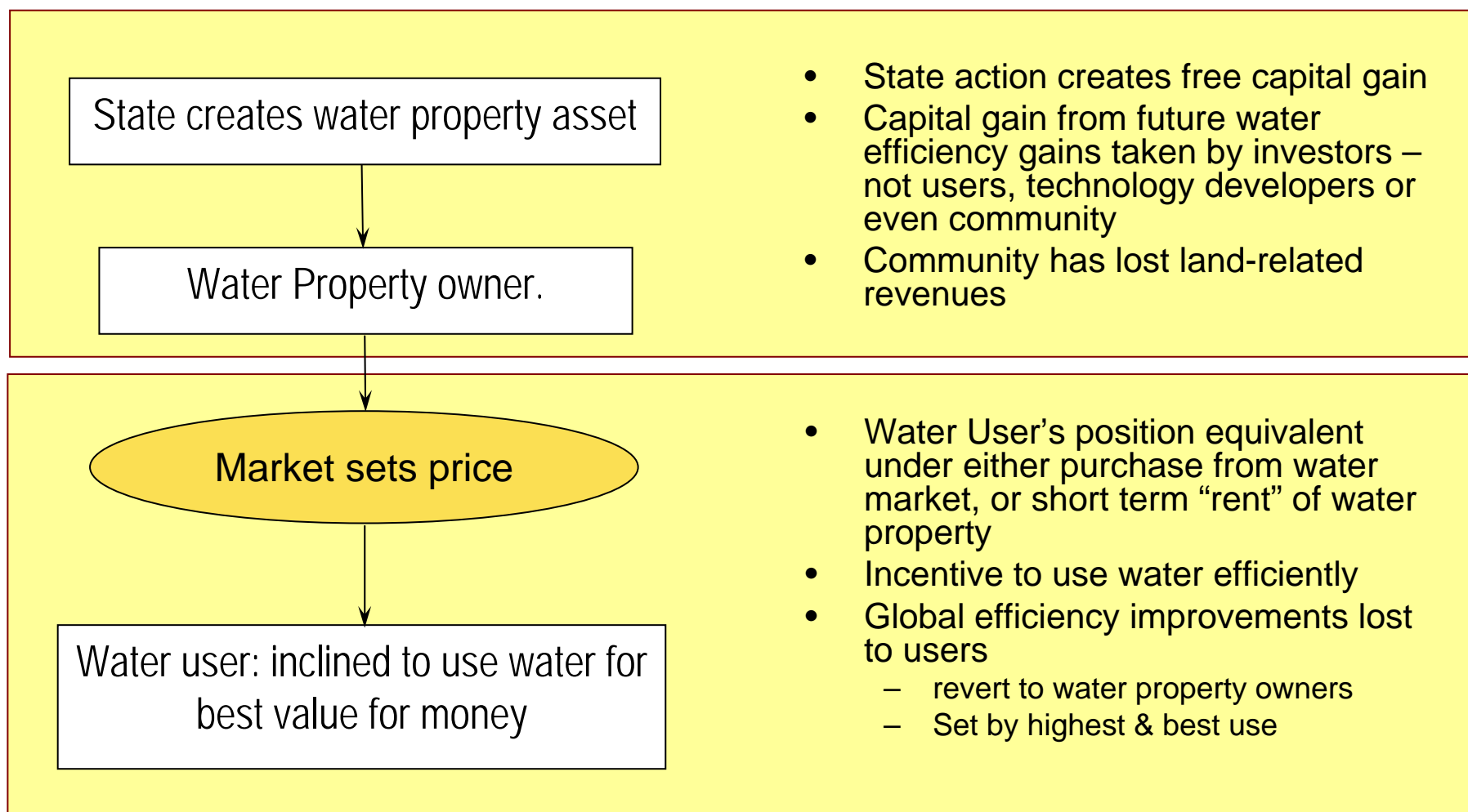
# The economic argument

- 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



# 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

Progressive introduction of water use tax/charge

State creates water property asset

(Water Property owner.)

Market sets price

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

- 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.*