

Did Speculation in Land Pay Off for British Investors?

Buying and Selecting Land in the new Colony of South Australia, 1835-1850

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ABSTRACT

In August 1834, Britain's Parliament passed the South Australia Foundation Act establishing South Australia as a colony. Despite knowing very little about the quality of land or prospects in the unsettled and unexplored colony, 437 British investors spent £81 each to purchase priority rights to select a surveyed one-acre lot in the new capital city of Adelaide and an 80-acre parcel in the surrounding countryside. The first settlers arrived in South Australia in Fall 1836 but surveying of Adelaide was delayed until February 1837. A lottery in March determined the sequence of lot selection by the 437 investors from 1,042 surveyed lots. The remaining 605 lots were sold, one-by-one, at auction one week later. We consider theoretical models of optimal lot selection and then use an econometric model to examine how characteristics of investors and land lots were associated with early selection and price paid at auction. We then assess the performance of British investors in selecting and purchasing lots in 1837 by comparing their 1837 selection choices and prices paid at auction with assessed value of these lots in 1850. We find that investors who purchased their lots at auction were more successful in selecting more valuable land than investors with priority selection rights to the first 437 lots.