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The Returns from Investing in Water Markets in Australia

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Description / Abstract

The resource can be found as Chapter 18 in Handbook of Environmental and Sustainable Finance, 371-384.

Australia leads the world in establishing water markets to help reallocate a resource in scarce supply. Official water markets have now been in place in Australia for over three decades, which allows detailed financial analysis and comparison to be made on the returns available from investing in water. This chapter employs some simple financial analysis to examine the returns from the water market data in the Goulburn-Murray Irrigation District of Australia, including ratio-to-moving averages; price cycle analysis; discounted cash flow analysis; and comparisons of water market returns and capital growth in Australia as to other common areas of investment. Key insights include the fact that returns from water markets have been relatively high, though have fallen in the past 5 years. Moreover, there is evidence of countercyclical returns between water and share markets that highlights the potential utility of water investments in a diversified portfolio.

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