Why Big Business must fight for land taxation

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SYDNEY'S central business district is like a busy pin-cushion, with skyscrapers sprouting out as a testimony to the postwar prosperity of the New South Wales capital.

In the capital of Victoria, however, the central business district of Melbourne has a higher proportion of vacant sites and rundown buildings.

The explanation for this contrast was established long ago. Sydney Council uses a property tax that exempts buildings from rate payments, whereas Melbourne lumps the value of land and buildings together for the purposes of levying rates.

As a result, in Melbourne, there has been insufficient fiscal incentive to develop land or under-used sites to their best market potential.

In Sydney, however, the incentive worked in the opposite direction: people who possessed land were stimulated to use the land – or release it to others who were in a position to put it to its best use.

R.W. Archer explained why this was so:

> **"One of the main differences between the system of site value taxation and the system of improved value taxation is that site value taxes are levied at a much higher rate. For example, for a jurisdiction in which a certain amount of revenue is to be raised and where the improved value of all property is three times the site value of all property, then the rate of tax levied on site values would have to be three times as much as the rate of tax levied on improved values. The significant point of this is that under the site value system a vacant site would be taxed three times the amount that it would be taxed under an improved value system."[1]**

Businessmen who act irrationally – from the community's point of view – by keeping valuable assets idle, are not generally disposed to admitting the source of the problem.

Excuses have to be made – and whipping boys have to be found. In Melbourne's case, the city council is being blamed for the low rate of development. The Chamber of Trade, for example, blames the council's ponderous bureaucracy for the visible failure of many landowners to bring sites into use.[2]

VICTORIA'S state government has decided to sack the city council, and replace councillors with three administrators.

The Chamber of Trade claims that this has encouraged developers to come forward with new schemes. There is certainly something of the beginnings of a boom in Melbourne. Jennings Industries Ltd., for example, is planning a $7m. speculative office building, the first since the property boom of the early '70s. The company has applied to the city council for a permit to build a seven-storey office block on its site on the corner of Queen and Latrobe Streets.

But can the resurgence in the development market be attributed to political considerations? This is questionable. Sue Angell reported:

> **"The diminishing surplus office space situation and subsequent firming rentals have encouraged major institutions to reopen the files on their long-held sites and reassess the viability of developing."[3]**

In the past few months, developers have spent about $12m. acquiring prime development sites.

The thesis to be advanced here is that the state government's three administrators, who will now run the city, ought to order a complete re-examination of the effects of Melbourne's rating system. And that self-enlightened businessmen ought to be campaigning vigorously for a switch to site value rating.

THE RE-VALUATION of Melbourne City was completed last September. Values as at June 30, 1978, were put as follows:

- The value of land and buildings (capital improved value – C.I.V.): $3.34bn.
- The value of sites alone: $1.26bn.
- Net annual value of land and buildings: $207m.

The rate in the $ struck for 1980-81 is 13.35c. on net annual value. If the city were to raise an equivalent sum by rating the capital values of sites alone, the rate equivalent would be 2.1929c. per $.

In this study, we deal only with the general rate imposed by the local authority. But it should be noted that property owners are also liable to two other rates:

AUSTRALIAN LAND TAX 1976-77

STATES	CORRECTED LAND VALUE ($ million)	LAND TAX COLLECTED ($ million)	PERCENTAGE LAND TAX %
N.S.W.	33,931.0	111.6	0.329
VIC.	30,398.9	59.8	0.197
QLD.	7,314.5	12.8	0.175
S.A.	6,810.5	18.3	0.269
W.A.	3,676.0	11.7	0.318
TAS.	1,237.6	3.8	0.307
TOTAL	83,368.5	218.0	0.261

SOURCE: A. R. Hutchinson, Land Values Research Group, Melbourne.

KEY:

N.A.V. = net annual value

S.V. = site value

C.I.V. = capital improved value

COLLINS STREET

	Enterprise House	Surrounding vacant land
N.A.V.	1,067,000	98,500
S.V.	1,481,000	1,970,000
C.I.V.	15,000,000	—
Improvements	13,519,000	—
RATING SYSTEM: cents in $		
N.A.V. at 13.35	142,444.50	13,149.75
S.V. at 2.1929	32,476.85	43,200.13

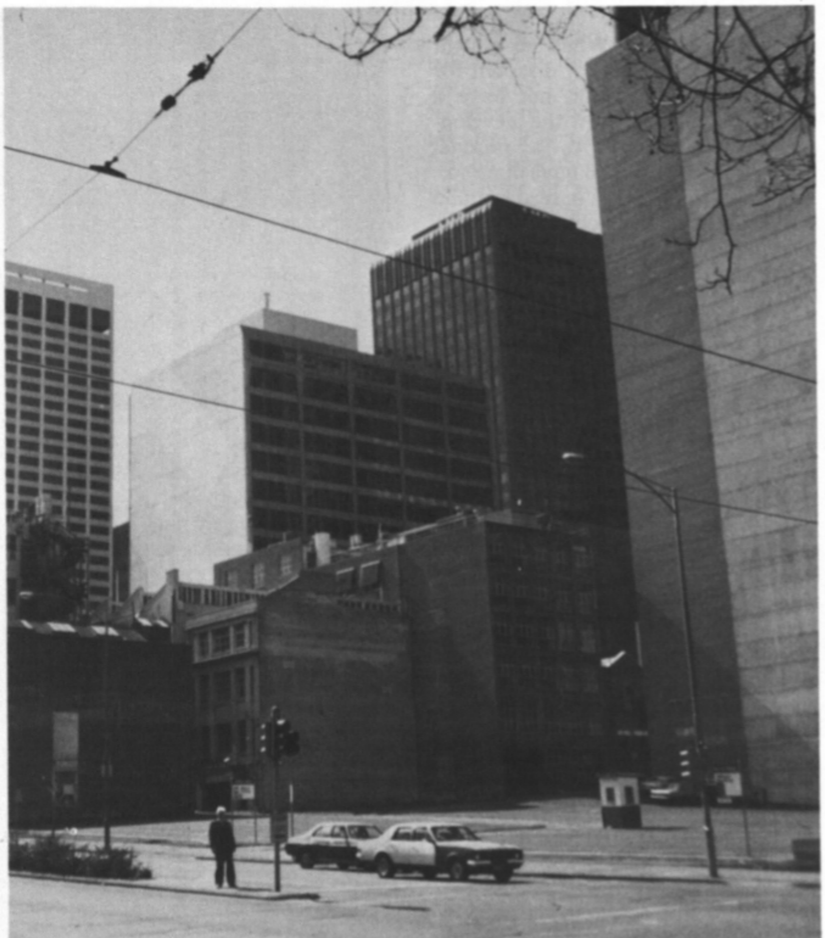
1. A special rate towards the cost of the Metropolitan Loop Railway which is payable on non-residential properties only; and
2. State land taxes payable on a sliding scale according to the value of the site.

CASE STUDY ONE: the corner of Spring and Collins Streets. The corner building is the Old Treasury Building which, together with an adjoining vacant site, has stood unused ever since the state government sold it ten years ago.

The owners of the two neighbouring 12-storey office blocks in Spring Street would save over $68,000 between them as a result of a switch to site value rating. But the tax liability of Nos. 1 and 5, Collins St., would rise from $8,500 to $28,000.

CASE STUDY TWO: the corner of Collins and King Streets. The corner site is vacant. The 2,583 square metres of space is used for car parking – a favourite time-filling underuse of speculatively-held land. Under site value rating, the tax liability on this land would rise by $21,000.

The owners of the adjoining 16-storey building in Collins Street are now liable for $38,448 in rates; but the reform of the rates system would reduce their liability by over $28,000.



	COLLINS STREET		KING STREET	
	520	522–34	106–8	110–12
N.A.V.	288,000	69,975	6,800	8,900
S.V.	469,000	1,394,100	44,000	44,000
C.I.V.	4,800,000	1,399,600	115,000	135,000
Improvements	4,331,000	5,500	71,000	91,000
RATING SYSTEM: cents in $				
N.A.V. at 13.35	38,448.00	9,341.66	907.80	1,188.15
S.V. at 2.1929	10,284.70	30,571.21	964.88	964.88

THE LESSONS to be derived from these facts are starkly obvious.

Melbourne's system of taxing property is perverse. Valuable vacant sites can be kept idle with the minimum of fiscal cost, but developers who invest in capital improvements are penalized through higher tax liabilities!

The expenses of the community are financed disproportionately out of the pockets of active entrepreneurs rather than out of the unearned rental income of landowners. This is a clear *disincentive* to enterprise and wealth-creation, and a direct *encouragement* to the sterile activity by land speculation.

But these points appear not to be fully appreciated even by Sydney Council, whose city has benefited from the dynamic impact of site value rating. The New South Wales capital plans to impose a levy on private developers to raise $7m., which would be used to underwrite the construction of low-cost housing.

The 2% levy on the cost of each new project is also supposed to influence the pattern of development in Sydney. The levy, however, is more likely to *deter* development, a point made forcibly by industrialists who say that development will be driven out of the city.[4]

The rational form of pressure, which would secure Sydney's twin aims of higher revenue and influencing the pattern of development, would be to raise the level of taxes on the economic rent of land.

WILL THE Victorian state government's political influence over Melbourne's municipal affairs now lead to a reform of the rating system? This seems doubtful, as can be seen from the latest example of the fiscal philosophy of the state politicians.

The state government has decided to waive its land tax in an attempt to preserve the city's 60 designated historic buildings.

The Minister of Planning has revealed that land tax, about $50,000 a year on an average city site, would be waived for "a substantial time" after restoration.[5]

Is this tax concession to landowners really necessary?

It could be argued that some concession needs to be made to owners who suddenly find the economic value of their property reduced by the preservation orders. No such concession needs to be made to people who buy property in the full knowledge that such orders already curtail the legal use to which land can be put.

Take the case of Nos. 1 and 5 Collins Street. The former owners, the CML group, sold the property last September for $2m. after failing to agree with the preservation council on a plan for redevelopment.

The new owner is Singapore tycoon Jack Chia. When he bought the property, did he not discount for the fact that he would not have a totally free hand over the development of the site? As a rational businessman, he would have done so.

Now, Mr. Chia has agreed to build a 12-storey office block on the site. The plan includes the "complete restoration" of the existing facades to a depth of ten metres.

The sensible strategy, then, would be to charge Mr. Chia the full land tax on the property, with an appropriate reduction for the ten-metre deep area over which his use is restricted. Valuation experts would have little difficulty in determining the true economic rental value of that portion of the land over which the owner has restricted use!

The state politicians, however, have approached the problem from the completely wrong end. Instead of using land tax as an inducement to develop sites to their best permitted use, they are seeking to bribe landowners to develop their sites with money that must come out of the pockets of others. For the land tax savings of up to $100,000 a year for owners willing to develop historically important properties will have to be made up from other sources.

Preserving a community's architectural heritage is important, but the city and state politicians of Melbourne and Victoria ought to be paying similar attention to the provision of constructions that will best serve the needs of the present-day.

Close attention to the impact of the property tax as it has been administered in different parts of Australia will provide them with the best possible empirical evidence for making key changes that will enhance the social welfare and economic prosperity of their communities.

And as for the entrepreneurs who play a leading role in providing the goods and services demanded by consumers, they ought to be financing a determined campaign to shift the property tax onto site values, on the grounds of both equity *and* enlightened self-interest!

REFERENCES:

1. R. W. Archer, *Site Value Taxation in Central Business District Redevelopment*, Washington: Urban Land Institute, 1972, p. 12.
2. Wayne Gregson, 'Boom in building: chamber', *The Sun*, 4.2.81.
3. Sue Angell, 'Jennings plans spectacular $7m. Melb. office building', *The Australian Financial Review*, 3.2.81.
4. David O'Reilly, 'City levy plan sparks a bitter row', *The Sun-Herald*, 1.2.81.
5. Peter Ellingsen, 'Land tax to be waived on historic buildings', *The Age*, 6.2.81.

	SPRING STREET		COLLINS STREET	
	35–47	49–51	1–3	5–7
N.A.V.	563,000	212,0000	33,250	31,000
S.V.	1,136,000	468,000	665,000	617,500
C.I.V.	8,000,000	3,300,000	665,000	620,000
Improvements	6,864,000	2,832,000	—	2,500
RATING SYSTEM: cents in $				
N.A.V. at 13.35	75,160.50	28,302.00	4,438.88	4,138.50
S.V. at 2.1929	24,911.34	10,262.77	14,582.78	13,541.16

Socialized rent – the price of economic freedom!

CAPITAL is the accumulated product of labour upon resources. Where monopolies or restrictions on trade are not permitted to distort the economy, the returns to labour and capital will tend to a rate which is determined by market competition. Any returns above this level will, in general, not be due to labour and capital only, but must also be ascribed to advantages conferred on the particular *location* on which they operate.

Some (but by no means all) advantages arise "on site", such as the natural fertility of farmland. Many advantages stem from the