Site-Value Rating and Modern Trends

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THE assessment of the unimproved value of a property has evolved from an economic concept through a political creed to a legislative requirement with the stimulus of public interest. Over the years changes were required in the original concept to make it more workable as experience demonstrated the need to lessen this undesirable pressure or that anomaly. The experimental legislation of last century has been well weathered in the climate of practicability and part of its inherent strength has been its ability to accept modification in order to keep attuned to current needs.

Society in general has not been slow in making known its desires and preferences. It is a matter of statistical record that of the 285 territorial local authorities in existence in 1964 some 214 or 75 per cent were using the unimproved value method as the basis for their general rating system. Though this is very much an oversimplification of the very complex rating structure present in New Zealand, nevertheless it is indicative of the growth of its acceptance. This was recognised in 1958 when a Royal Commission felt constrained to comment that if there was to be only one rating system in New Zealand the unimproved value system would seem to be "the only system which would become a universal one."

The conceptual nature of the appeal of unimproved rating as a system is as well supported by faithful followers today as it was last century even though society itself has changed dramatically in the interim. From what was a rural based society before the turn of the century the tendency today is towards a major proportion of town-dwellers. Concentrations of population with their attendant expansion of urban areas have created new problems as the "drift to the North" has become a flood and the urban areas, of which Metropolitan Auckland is the most obvious, have absorbed large areas of farmland. Today there are more problems relating to unimproved value

flowing from the spread of cities and the dynamics of their renewal than from the bringing of rural land into production. The urban problems of the present time could hardly have been envisaged by the "Single-taxers" of last century who were more concerned with breaking up the big estates and with taxing the speculator who kept land idle.

Nor could they have envisaged the huge strides taken in the farming sector as technological innovation and research have made less and less land produce more and more. Where once it was the concern of government to encourage as large a proportion of the population as it could onto the land, the reverse is the situation today. Now it is not manpower so much as capital that is required. The small farm using traditional farming methods cannot compete and should be made larger by amalgamation if it is to attain maximum efficiency in terms of greater production and net returns. Certain lands once considered of little use are today high producing. Where once unimproved values were only nominal because the techniques of utilisation were unknown or the capital unavailable, today we see higher levels of value as an increasing demand is brought face to face with a diminishing supply.

We are in a period of rapid change when modern techniques and requirements are altering traditional patterns of land use, and levels of values are being influenced by these changes. Today property owners are more aware of the likely effects of changes in the rating base. The community is very "cost conscious" and the rising level of rates as part of the national scene has not gone unquestioned. Those on fixed incomes and those whose incomes are beyond their own powers to control, such as the farming sector dependent upon overseas prices, scrutinize closely any increase in their costs and want to have explanations when movements in either values or rates appear abnormal. Although it is argued, and correctly that high values do not necessarily mean high rates, changes in the growth rate of values cause changes in the way the total rate collection is distributed and though rates as such may not increase, the burden of the individual ratepayer may be varied thereby.

From its inception the unimproved value method of apportioning rates among the community has been subject to criticism, approbation and examination, and has been judged by its comparison with the other two main systems, capital value and annual value, provided for in our legislation. It is not for me to give you an opinion as to which system is the "best;" my function as Valuer-General is to assist in the impartial administration of all three systems. The decision as to which system a local authority should adopt rests either directly with the ratepayers or indirectly with them through resolutions of their elected councils. However, many years of comparison and debate have clarified the social implications of unimproved value rating as compared with the other two capital value systems and these may be categorised as:

(a) Discourages speculation by collecting maximum rates whether the land is used or not.
(b) Forces land into use and to be developed.
(c) Stimulates building and development.
(d) Prevents the passing on of the rates to occupiers.
(e) Throws burden of rates from homes to business premises.
(f) Contributes to the redevelopment of blighted areas.

There is a degree of similarity in all these implications and they are not as clear-cut as their listing may indicate. Nevertheless if we are to understand and study the social effects of the unimproved value method of rating some dissection is necessary to isolate the more prominent parts for study purposes. Let us examine each of these categories more closely:

Discourages speculation

In a community where the rating is wholly, or mainly, based on the unimproved value of property, increases in value of land to a greater extent than the average increase for the community as a whole, would attract a heavier share of the the rate burden. A speculator would therefore be careful to ensure that the price he paid would have regard to any rate increase that it might attract. So it is probably true that site value rating does tend to give discouragement to speculation but in practice there are many qualifications to be drawn. One is that a valuer would not use speculative prices as a basis for his valuation, and another would be the length of time that may elapse before an increased level of land values was actually reflected in the rating values for a locality. At the present time valuation rolls are revalued at five-yearly intervals and in a situation of rapid development accompanied by rising levels of values, it does not take long for the values to fall well behind market levels.

Speculation in property is not confined to land alone. In periods of housing shortages there may be speculation in house building, or in apartment houses, and in these land may be only a minor element in the overall deal. In recent years valuers have seen high prices obtained for, say, local shopping blocks in mushrooming residential suburbs or premium rentals paid for some of the early office blocks built after the war. There is no doubt that speculation is present wherever there is a limited supply and a brisk demand.

Not all sudden and substantial increase in value is due to speculation, however. Changes of zoning from rural to residential, or residential to industrial may, where there is an effective demand, be accompanied by substantial and sound increase in value. The speculation arises where ownership of land changes prior to the zoning change at prices reflecting the anticipated change in use. Theorists would say, "Rate them on the speculative values," but successive governments have not countenanced this. For example they have gone out of their way to retain the genuine farmer on his land or the home owner in his home rather than increase his rates unduly. Over the years there has been legislation to achieve this: such are the Urban Farm Lands Rating Act, 1932, special empowering Acts to give similar solutions to counties affected by urban spread and more recently by the provision for rates postponement value in the Valuation of Land and Rating Amendment Acts of 1965.

In general terms, I think it is fair to say that observers do not see a reduction in speculation under an unimproved value system campared with a capital value system. The carrying out of the economic concept of increasing the property's carrying charges as its value increases is subject to considerable qualification and in any event profits in land speculation may be so high as to make the levy on the unimproved value largely ineffective.

Forces land into use

The arguments used to justify and qualify the use of unimproved value rating to curb speculation find a corollary in this stated advantage. It is true that if the carrying charges on land not yet improved are high enough the owner of that land has a strong incentive to put that land to use to earn an income to meet the carrying charges. If he cannot put it to use he will cut his losses by selling it to someone who can utilise it.

What are the qualifications to this? They are many as one would suspect. Carrying charges must be related to the future capital increment expected. If charges are high but the expected gain on future sale is higher still then the rates may have only a slight bearing on the situation. In the rural sector there is probably more incentive to develop given by income taxation concessions than by the pressures generated by rating on unimproved values or by a land tax, particularly at their present levels. All levels of land taxation would have to be substantially increased if the penalty of holding land out of use were to be sufficiently onerous as to actively encourage development by this factor alone.

While the economic justifications for developing as much land as possible in the rural sector are sufficiently clear, they are often not so clear in urban areas. Increased urban development may mean further urban sprawl and the loss of more agricultural land in the process, for, in

forcing land into use it may also force land to change its use. In itself unimproved value rating may influence premature sub-division and this is one of the arguments raised against it. Also, the reverse has been claimed but observers have found no evidence in Australia or New Zealand that urban spread is retarded by unimproved value rating.

Urban spread can be controlled by rigid zoning measures, but if the urban population is to be housed then residential densities must rise and it becomes a nice problem to achieve a balance between the economics of high densities and peripheral spread.

Stimulates Building and Development

This again seems to flow naturally from the points made previously. If land is forced into use it can only be utilised by the expenditure of capital on buildings or development. However, this justification goes much deeper. It is accepted as an economic fact that taxes on land are amortised, that is, the imposition of a regular tax acts to lower the long term value of the land by the capital equivalent of the annual levy. This means cheaper acquisition costs of sites leaving more capital to invest in buildings. But it also means that unlike capital value systems no further rates of any moment are attracted to the property because of the capital expenditure on improvements. In our complex rating structure buildings in some districts may incur water charges, or rubbish collection charges, or *ad hoc* authority levies, but the burden of the general rate would remain unaltered by the erection of a building or the bringing of land into production.

Mary Rawson, the Canadian economist, in her treatise on Property Taxation and Urban Development, uses the encouragement of building as her main theme and calls it "the golden key to urban renewal." She considers that here may be the stimulus to the automatic regeneration of the urban communities. This is the theme also of an earlier Australian study on unimproved value versus annual value carried out by the Land Values Research Group in the City of Footscray, one of the municipalities forming part of metropolitan Melbourne. With the three systems in New Zealand operating side by side it may be thought that differences in development would be much in evidence here to support this contention but this is not so. In evidence I recently gave before the Royal Commission on Local Government Finance and Valuation in New South Wales I commented that in New Zealand there "is no evidence to indicate that the progress or type of development at any point in time is affected by the rating system."

This comment must not be considered in isolation however. The property market in New Zealand is influenced by many economic stimuli which make the influence of the rating system only of minor importance. For example, the government's housing policy would have its influence. At one point in time it may be concentrating on the erection of new single unit dwellings, at another on high density flats, at another on reducing shortages in the main centres, and at yet another in housing Maoris in provincial towns. The availability of loan money for the purchase of property is another governing factor. Not all government economic policies act as stimuli, some are designed to act in quite the reverse situation. At the present time the government has imposed building controls to slacken investment in large scale building and if your building is not considered

essential by the Building Programmer no amount of rates on the unimproved value will assist you in obtaining permission to erect it before its deferred date. With all these complex influences it is no wonder then that forign observers have failed to find significant differences in the pattern of land development between communities in New Zealand that the differences in rating systems should have postulated.

Prevents the passing on of rates to occupiers

I stated before that the regular imposition of a land tax tends over time to be amortised into the value of the land. Obviously, occupiers of land under the unimproved value rating system, or any other, pay rates, but in the case of unimproved value the rates being paid have already been capitalised to reduce the value of the land so the payment of rates has already been saved by the lower purchase price of the site. Thus the real burden of rates cannot be passed on and falls where it is placed, on the owner of the land. This may appear to be a theoretical concept but it has a certain validity in practice. However, in New Zealand the preponderance of owner-occupation of property means that this advantage has only a limited benefit.

Throws burden of rates from homes to central business premises

In the New Zealand scene this is generally true. A rating survey conducted by the Valuation Department in Wellington City showed that under the unimproved value rating residential property though comprising 93 per cent of the properties in the City, paid 56.4 per cent of the rates, compared with 62.8 per cent if a capital value system had been operating, and 57.3 per cent if rating had been under the annual value system. Commercial properties, on the other hand, comprised only 4.2 per cent of the total properties on the City valuation rolls yet they paid 30.4 per cent. under unimproved value, 22.9 per cent under capital value and 26.6 per cent under annual value. Similar results were revealed in a study based on Invercargill City carried out by the City Treasurer in 1965.

Again we must temper our conclusions with qualifications. Because of the way urban areas have developed in New Zealand many distinct territorial local authorities may in effect be dormitory suburbs of large municipalities and have no central business district of their own. Thus is may have nobody to pass the rate burden to. In another study done by the Department in Onehunga Borough in 1965, the residential area, comprising 90.9 per cent. of the Borough's properties, paid 69.9 per cent. of the rates under unimpoved value, 70.2 per cent under capital value and only 67.5 per cent under annual value. Its small commercial area, only 3.3 per cent of the rateable properties, paid 9.9 per cent of the rates under unimproved value, 7.1 per cent under capital value and 7.7 per cent under annual value. In this case the Borough had a large industrial core and it was this sector that absorbed the shift in incidence. Milton Borough changed its rating system from annual value to unimproved value in 1963. Here the total burden carried by the residential sector remained unchanged but the shift of incidence moved from a highly capitalised single industry to the commercial heart of the Borough.

These examples show the dangers of generalisation but in a self-contained community with balanced development it would be true to say that the unimproved value system would throw the main burden of rates on the central business district.

Contributes to the re-development of blighted areas

This, too, is a corollary of some of the points already discussed. If land is inadequately used, a heavy imposition of rates will force it into use or force it to change its use to a more remunerative use. The spurt in flat-building on Mt. Victoria in Wellington in the late thirties and again in the last decade may well flow from this cause. The problem is, however, usually too great to be left to the unco-ordinated stimulus of the rating system. What is required is the redevelopment of a whole locality, not just one or a few sporadic properties. Even that most ardent advocate the New Zealand Unimproved Value Rating Association (Inc.) claims no more than that unimproved value rating changes "a bias towards decadence into a bias towards constant renewal."

It must not be thought that I have deliberately gone out of my way to disprove the claims of those who favour the unimproved value system as a basis for rating. I have done no more than endeavour to place these claims in a realistic setting. In the sheer complexity of the New Zealand rating scene there are no strong contrasts of colour, each blends into the next without clear-cut distinctions and it is difficult to see the effects of only one colour in the whole range present in our economic spectrum. The position is further complicated by some local authorities, nominally rating on unimproved value, in fact using other systems to collect portions of their rates, e.g., Christchurch City, where in the rating year 1963/64 the pattern of average distribution of rates and levies was 53.7 per cent on unimproved value, 44.17 per cent on the capital value and 1.85 per cent on the value of improvements. Proof that rating on the basis of the unimproved value tends to do what is claimed for it is demonstrated by the pressures it has caused. Land at the perimeter of urban development has risen in value so that it has ceased to be economic for farming. Housing areas have been overwhelmed by commercial or industrial spread and the home-owner has had to shift further out. Low density housing is giving way to higher densities. True, we label this as progress and so it is, but in the working out of these economic laws, there are those who get hurt, and social problems result. It is for Parliament to decide how these problems are to be answered and as I mentioned earlier, over the years the legislation has been amended to ease the burden of rates and to prevent too early a change-over. Not one of the modifying Acts seeks to prevent ultimate change-over but they lengthen the period of transition and endeavour to lessen the social difficulties that change causes. The fact that they were necessary at all could persuade one to conclude that Henry George and those who support his theories are indeed right.

(To be continued)

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LOOKING BACK (1)

IT WAS ABSURD that within thirty years of colonisation there should be hundreds of men eager to go on the land and make it produce, but prevented from doing so by the fact that the land was held in large uneconomic holdings by sheep farmers whose financial difficulties made it impossible for them to sell. The land was not being worked properly, hundreds of competent farmers were denied the opportunity of working it, while there was not sufficient employment for them in the towns.

Condliffe, *Short History of New Zealand*, 1938 edition.

LOOKING BACK (2)

LET US LOOK at New Zealand. None will deny that the best Crown lands have been purchased in enormous blocks; that these lands are held in fee simple by very great and large proprietors indeed. The means by which they acquired those lands I will not go into. But nevertheless they in great part got possession of these blocks in fee simple by being either the legislators or the administrators of the law.

—Sir George Grey, 1882, Premier and former Governor.

LOOKING AHEAD

THE WAY TAXES RAISE PRICES is by increasing the cost of production and checking supply. But land is not a thing of human production, and taxes upon rent cannot check supply. Therefore though a tax on rent compels the land owners to pay more, it gives them no power to obtain more for the use of their land, as it in no way tends to reduce the supply of land. On the contrary, by compelling those who hold land on speculation to sell or let for what they can get, a tax on land values tends to increase the competition between owners, and thus to reduce the price of land.

—Henry George, ***Progress and Poverty***