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Windbag: Why Wellington is considering a switch to land value rates

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The internet's favourite tax could soon be coming to the capital.

For people who care about the intricacies of building a better Wellington, there is no better place to be than the monthly Urbanerds drinks at Waitoa Social Club. Over a few hazy IPAs, hoardes of urban designers, engineers, analysts, activists, and several city councillors nerd out over the intricacies of transport and housing policies.

As a journalist covering this city, it's invaluable. Whether they are professionals or just passionate citizens, everyone is deeply informed and interested in the implications of city decision-making. In a world where local government issues are mostly debated via angry Facebook comments or ill-informed talkback radio reckons, it's refreshing.

Last Tuesday's meetup featured a presentation from two people on different ends of the political spectrum: Jesse Richardson, co-founder of Common Ground Aotearoa, and Eric Crampton, chief economist at the New Zealand Initiative, who teamed up to pitch for land value tax. The relatively obscure tax switch is quickly growing in popularity, especially in urbanist circles. "Land value tax would solve this" has become a meme for how often the tax is vaunted as the solution to all the world's ills.

Land value tax was popularised by Henry George, a 19th century political economist who proposed replacing all other taxes with a single tax on the unimproved value of land. Land value taxes get a bit messy when they include farmland, but are particularly good at encouraging density and efficient land use in cities. Wellington City Council is currently in the process of a rates review, and several councillors are keen to push for a switch to land value rates. A vote will probably come to the council table at some point next year.

Under the current system, councils charge rates based on the total value of the property, both land and buildings. It means a developed property, like an apartment building with ground floor retail, will pay significantly more rates than an empty section right next door – even though the apartment building is contributing more to the city around it.

There are two particularly glaring problems with Wellington's current rating system, both of which could be addressed with land value rates.

The commercial differential

Commercial properties in Wellington pay rates that are 3.7 times higher than residential properties of the same value. It makes it harder for new shops, restaurants, or offices to stay afloat. It's a far greater split than other New Zealand cities, which means Wellington is more economically hostile to businesses than Auckland or Christchurch (and frankly, it can't afford to be).

There is a good intention behind the commercial differential. Office and retail spaces in the centre of town need bigger pipes, more trash collection and street cleaning. They also cater to about 40,000 commuters a day from Porirua or the Hutt, who use Wellington City Council services, but don't contribute any rates. The commercial differential was supposed to cover some of those costs – but that's of little reassurance to struggling business owners. The scheme is also quite poorly designed – it doesn't just include the city centre, but also suburban businesses, who pay the higher costs but don't benefit from the commuter influx.

It's hard to address the commercial differential under the current system, because any reduction in business rates will have to be reapportioned to residents, which is politically untenable. A larger reform to a land value system could offer the chance to balance things out.

The absentee owner problem

Wellington, like all cities, wants land owners to build things to make the city better. But the current rating system sometimes incentivises the opposite. Owners of damaged buildings or surface level parking lots sometimes find it cheaper and more profitable to do nothing. The owner can just let it sit there, keeping the property value and rate cost as low as possible while enjoying the capital gains on the underlying land.

Land value rates could encourage absentee owners to either do something with their land, or sell it to someone who will. The council already tried to address this with a new targeted rate on vacant land, which is five times higher than standard rates. But this is defined relatively narrowly and only applies to a few dozen properties across the city.

The biggest winners under a land value rates system would be apartment and townhouse owners. People in the outlying suburbs would benefit too, because a higher proportion of their property value comes from their home rather than the land. The losers would be anyone sitting on underdeveloped land. For residential ratepayers, this would mostly mean people who own low-density homes in high-value areas – such as a single-storey wooden villa in Mount Victoria or Thorndon. Basically, anywhere in the former "character areas".

Mayor Tory Whanau isn't thought to have an especially strong view on land value rates, but some of her biggest allies support the change, particularly councillor Rebecca Matthews. Any big adjustment to the rating system will undoubtedly prompt a political backlash from people who'll end up paying more, but the upside is extraordinary. In one term, Whanau could have a legacy that includes radical upzoning through the District Plan, and a major overhaul of the rating system to encourage further density. It would be one of the most significant urbanist achievements of any mayor in New Zealand history.