CONSIDERATION OF THE MERITS OF SITE VALUE RATING

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Consideration of The Merits of Site Value Rating

With Particular Reference to Singapore

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INTRODUCTION.

The misuse and underuse of land and the evils of uncontrolled land speculation are urgent problems all over the world—certainly as much so in Singapore as in any other populous city.

For so great a problem in an established crowded city there is no single quick easy solution.

Part of the answer lies in better planning and this, Singapore is tackling with energy and enterprise although perhaps somewhat hampered by inadequate funds, always a restraining and limiting factor to planners. Part of the answer lies, too, in better zoning and this also Singapore has introduced. As well, it has actively acquired land from private ownership where this has been necessary for housing, for roadworks, aerodrome construction, schools, community centres, industrial estates and so on.

A final part of the answer could come by a review of Singapore's property taxation system to ease the burden on progressive land owners, multiply the tax load on the owners of unimproved or under-developed land, and thus make the community and Government created unearned increment in land values and prices contribute much more of the tax money needed to provide and improve the roads and streets, to drain and reclaim swamps, extend sewerage works, make secure from drought the city's water supply, construct schools, play-centres, sports and recreational areas, improve storm-water drainage as well as encouraging private enterprise development of a poorly improved city centre, and suburban and industrial areas.

It is relevant to what follows to say something of the topography and buildings and urban development of Singapore.

When in 1819 Raffles first went to Singapore, a great deal of the land now occupied by city buildings was tidal harbour bed, foreshores or swamp which over the years has been reclaimed. Indeed, an 1843 survey plan shows the harbour shoreline well inland of the present harbour line.

The reclaimed land, not surprisingly, is unstable and requires deep and expensive piling often to depths of 160 feet. Nor is this confined **only** to reclaimed harbour foreshores for many other areas comprise swamp reclamation land and even for three storey apartment buildings deep piling is frequently necessary.

Visitors to Singapore will readily recall its many two and three storey crumbling brick and Chinese tile roofed shophouses, the upper storeys extending over narrow, uneven sidewalks thronged with pedestrians often impeded by itinerant hawkers, merchandise, money-changers, bicycles and charpoys.

Shophouses on the ground floor frequently display gleaming modern shopfronts but upper floors often remain as they have for perhaps a century past, crowded, insanitary and smoke-grimed.

The commercial heart of Singapore, Raffles Place and its tangle of adjacent streets and alleyways is little different, the monolithic Hong Kong and Shanghai Bank, the Chartered Bank, Robinson's department store, and other buildings no more than denting the monotony of decaying shophouses, not at all the imposing centre one would expect for a city of some one and three-quarter million people serving the fifth largest port in the world and the largest in South-East Asia.

Annual Value Rating Deters Development.

Fundamentally, of course property taxation or rating which is so oppressive as to be beyond the capacity of the community to pay has the effect of reducing values and discouraging private enterprise development thus diminishing the sources from which these tax revenues are obtained.

In Singapore as previously stated* the level of property taxation is high, generally 36% per annum of "annual values," the tax, moreover, being payable half-yearly in advance. In certain defined areas where the degree of development and the availability of services and facilities is less satisfactory this level of rating has been reduced.

Hence the level of property taxation is probably a severe restraint and deterrent to property taxpayers further to develop their land since this only attracts further property taxation.

*"The Valuer," October, 1963, issue. "A Valuer Looks at Singapore."

Sir Winston Churchill Comments—

Fifty years ago Sir Winston Churchill supported the principle of taxation of land, rather than taxation of improvements, as a means of returning a proportion of community-created increments in land values to the community.

"Land monopoly," he said, "is not the only monopoly, but it is by far the greatest of monopolies—it is a perpetual monopoly, and it is the mother of all other forms of monopoly.

"Roads are made, streets are made, services are improved, electric light turns night into day, water is brought from reservoirs a hundred miles off in the mountains—and all the while the land owner sits still. Every one of those improvements is effected by the labour and cost of other people and the ratepayers. To not one of those improvements does the land monopolist, as a land monopolist, contribute, and yet by every one of them the value of his land is enhanced. He renders no service to the community, he contributes nothing to the general welfare, he contributes nothing to the process from which his own enrichment is derived.

"While the land is what is called, **ripening,** for the unearned increment of its owner, the merchant going to his office and the artisan going to his work must detour or pay a fare to avoid it. The people lose their chance of using the land, the city and state lose the taxes which would have accrued if the natural development had taken place, and all the while the land monopolist has only to sit still and watch complacently his property multiplying in value, sometimes many fold, without effort or contribution on his part.

"The population of the city grows and grows, the congestion in the poorer quarters becomes acute, rents rise and thousands of families are crowded into tenements. At last the land becomes ripe for sale—that means that the price is too tempting to be resisted any longer and then, and not until then, it is sold at ten times or 20 times, its value.

"The municipality wishing for broader streets, better houses, more healthy, decent scientifically planned towns, is made to pay more to get them in proportion as it has exerted itself to make past improvements. The more it has improved the town, the more it will have to pay for any land it may now wish to acquire for further improvements.

"A portion, in some cases the whole, of every benefit which is laboriously acquired by the community increases the land value and finds its way automatically into the landlord's pocket.

"It is not the individual I attack, it is the system. It is not the man who is bad; it is the law which is bad. It is not the man who is blameworthy for doing what other men do; it is the State which would be blameworthy were it not to endeavour to reform the law and correct the practice."

About the same time Theodore Roosevelt said: "The burden of municipal taxation should be so shifted as to put the weight of taxation upon the unearned rise in the land value, rather than upon the improvements".

Taxation of Improvements Promotes Slum Development—

The American journal "House & Home" has put it this way: "Most cities are generating new slums faster than they can salvage and rebuild their old slums. This is bound to happen as long as our urban tax system subsidises slums by under-taxation and discourages improvements by over-taxation. Overuse of land is easy to stop by zoning, but in a free enterprise economy like ours the only way to stop underuse is to put the profit motive to work **and make it more profitable to improve a property than to let it decay."**

"Low taxation on run-down old buildings and slums is one of the biggest reasons why slum blight is spreading."*

Bronson Cowan Report on Site Value Rating—

A committee known as the International Research Committee on Real Estate Taxation representative of various organisations in the United States, Canada and Great Britain interested in real estate and taxation sent the Canadian economist H. Bronson Cowan to Australia and New Zealand in 1943 to gather factual information on site-value rating. In his report† Bronson Cowan gathered together the views and experiences of a number of local government administrators and authorities.

Thus Mr. Roy Hendy, a former Town Clerk of the City of Sydney, commented:

"The City of Sydney adopted site-value taxation (taxation of land values only) in 1916 by resolution of the City Council. There had been a continuous agitation directed against the taxation of improvements in the form of annual-value assessments (based on estimated net rental income) on highly developed properties in particular as well as against the system in general. It was argued that no encouragement was given

*"House & Home"—August, 1960.

† Municipal Improvement and Finance as Affected by the Untaxing of Improvements and the Taxation of Land Values.

to the erection of modern buildings when faced with taxation calculated upon its total earning power."

"The effects of the change were soon noticeable. There was a marked increase in the rates (taxes) of the main business area, where the concentration of land values was the greatest and a corresponding reduction in other areas devoted mainly to residential, industrial and manufacturing purposes."

"The removal of rates on buildings encouraged their improvement as well as the erection of many fine new structures. Something in the nature of a transformation took place in the main business section where numerous large, modern office and other buildings were erected. There was an immediate movement towards the scrapping of old and out-of-date buildings and the erection of modern edifices. This movement has continued with but a brief interval during the depression years."

"Land-value (site-value) taxation has had the effect of encouraging some owners, and leading others, to build upon their lands or to sell them and thus enable others to do so. Any land which is left in its unimproved (vacant) state, or which is poorly improved, is taxed on the same basis as highly improved properties on sites of similar value. Consequently, owners of vacant and poorly improved sites are at a disadvantage."

"As the City of Sydney is the oldest part of the Sydney metropolis there were many old, undesirable dwellings and other buildings at the time of the change. In these areas modern factories, large wool stores (warehouses) and other industrial structures have now been erected on sites formerly occupied by these relics of the early days of the city. Sydney has benefited by these improvements. The use of land for industrial purposes has increased the value of the land for this use far in excess of the ordinary household value."

"The system of rating (taxing) on the unimproved (site value) has encouraged the establishment of factory premises of all kinds. The eradication of large sections in slum areas has taken place because of the growth of industrialism in Sydney. The main factor, no doubt, in this industrial growth has been that the City of Sydney has the greatest shipping port in the Commonwealth and has become its most important distributing centre."

"In 1949 the area of the City of Sydney was enlarged to include eight adjacent municipalities. All were under site-value taxation. In 1945 the population of Greater Sydney was approximately 1,500,000. Today it is in excess 1,850,000. This has created a serious housing situation in the metropolis, including the city of Sydney. It would have been much worse but for site-value taxation."

Site Value Rating in Johannesburg—

Johannesburg, a city of some one million people, adopted site-value taxation in part in 1917 and in full in 1919 as one means of encouraging private ownership development of the centre of the city. **All taxes were removed from buildings and imposed on land values.**

In 1945 the Johannesburg City Council appointed a committee to enquire into:—

(a) The advisability of altering the present incidence of Municipal taxation, more particularly with regard to the advantages or disadvantages of rating land and improvements instead of land values only.

(b) The advisability of recommending an amendment to the Local Authorities Rating Ordinance so as to provide that the basis of valuation for the purpose of assessment rates in future be based on:—

(i) The annual or rental value; or

(ii) A system which would have regard to the income from all sources of the land-owner on the lines of the income tax levied by the Union Government; or

(iii) Any other system.

In its report the Committee stated:

"Opposition to this (site-value taxation) was, in some cases, inspired by the belief that it favoured the rich and was to the detriment of the poor. . . There are numerous assessment rates on sites valued at tens of thousands of pounds. "Only a small proportion of this amount is spent annually for the direct benefit of the owner of the property. It is expended by the municipality in the interests of the municipality as a whole, and largely for the benefit of the working-class areas. Amongst the amenities provided out of this fund are the maintenance of parks, the zoo, etc. . . . amenities used mainly by those living in the working-class and, to a lesser degree, intermediate areas."

The Committee considered several alternative rating systems but gave as its majority finding, there being one dissentient out of the four members, that it "did not consider it advisable to alter the present incidence of municipal taxation."

New South Wales Committee Reports—

A committee appointed in 1960 by the Government of New South Wales to enquire into certain matters arising under the N.S.W. Valu-

ation of Land Act, considered submissions made to it that rating should be levied on assessed annual values rather than on unimproved capital value.

In its report* it discussed the history of unimproved (site) value rating in New South Wales. Local government rating in New South Wales, it explained, was originally on assessed annual value. Then, in 1892, the New South Wales Legislative Assembly passed a resolution:—

> "That in the opinion of this House, a system of raising revenue by means of direct taxation upon land values irrespective of improvements, would greatly promote the welfare of the country."

It was clear, said the Committee, that from a consideration of the debate on the Local Government (Shires) Bill, 1905, that the Government accepted the principle that rating on the unimproved capital value would encourage the development of land and that, as the carrying out of public works from moneys raised by rates would increase the value of the land, some part of the increment in value should revert to the community.

The development of a city is never complete, the Committee added, and "whilst not suggesting that assessed annual value rating in itself would prevent rebuilding, it does consider that it would be a penalty on development and a tax on improvements."

Further, that, "it would be impossible to devise a system of land rating or taxing which would make the burden fall with absolutely fair weight upon the shoulders of all persons, subject to the rate or tax, but unimproved capital value rating generally reflects ability to pay and appears to be the fairest system for raising revenue, for local government purposes, from land."

Capital value or annual value rating, it reported, "would be an obvious discouragement to development."

Differential Rating in Durban—

For many years Durban has levied a composite rate comprising a rate levied on the site or land value together with another rate levied on the value of the improvements on the land. The ratio of the rate levied on land values to the rate levied on building values is as two is to one, this form of differential rating being applied uniformly to all rateable properties.

The conviction behind this form of rating is that:—

(a) the proportion recovered from site value rating discourages the holding of land for speculation, caters for any town-planning or zoning restrictions placed on the land, and stimulates the development of vacant or under developed land; and

(b) the proportion recovered from rating based on the value of the improvements recognises without penalising "ability to pay."

Last year Mr. O. D. Gorven, Durban City Council's City Treasurer, widely investigated aspects of rating both in Africa and overseas.

In his comprehensive report* of some 330 pages he examined the principles of taxation and rating and recommended continuance of his Council's differential rating system subject to the following variations, viz:—

(a) that in respect of properties used for residential purposes including flats containing two or less residential units the Council continue to rate in the ratio of two as to one respectively on the site value and the value of buildings;

(b) that in the case of other residential property (excluding liquor licensed hotels) but including flats (except those containing two units or less), boarding and lodging houses and non-licensed hotels the rate ratios be in the proportions of two and two-thirds on the site value to one and one-third of the value of the buildings;

(c) that in respect of all other property including vacant land and liquor licensed hotels the rate ratios to be in the proportions of twice as much on the site value as on the value of the buildings.

Trinidad and Tobago Consider Site-Value Rating—

Site-value rating was the subject of a report last year to the Government of Trinidad and Tobago by Mr. John M. Copes appointed under the United Nations Programme of Technical Assistance as Adviser in Land Valuation and Taxation, Caribbean Area.

His report discussed the inadequacies of the present system of rating in Trinidad and Tobago, which at present is based on annual values, and recommended that site value rating would best serve the interests of that State.

Some of the advantages of site value taxation, as referred to by Mr. Copes in his report are:—

(a) the benefits derived from Local Government expenditure are contributed to in proportion to community value held in the site;

* Report by The Committee of Inquiry on certain matters arising under the Valuation of Land Act, September, 1960.

* **Local Government Taxation in Durban.**—An Analysis of the Development of the City and the Present Rating System and the Sources of Income, Together with an Examination of a Change in the Incidence of Taxation with Particular Reference to the Council's Proposal for the Differential Rating of Properties According to Types of Usage.

(b) the tax operates as an incentive in that improvements to the land do not attract additional land taxation but at the same time increase income tax revenue;

(c) the tax operates as a penalty for holding land idle in that the taxpayer contributes at the same level whether the site is bare of improvements or not. It pays him either to sell or improve;

(d) as taxes for Local Government are "impersonal" the equity of this system lies in the appropriation of a part of the public value in the possession of the owner. The degree of appropriation is one of Government policy."

Reclaimed Swamp and Harbour Land Site Values—

In preparing his report Mr. Copes was aware that if unimproved capital (or site) value is to be defined as land in its natural state but valued in relation to the developments, improvements and amenities that surround it at the time of valuation, the land if originally reclaimed swamp or harbour reclamation land (as so often occurs in Singapore) would have a very low unimproved value. To meet this situation two definitions were drafted under which the benefit of such reclamation work (in reduced unimproved value) would remain effective only for a period of five years after the work has been carried out but less if the land was sold prior to the expiration of five years.

These definitions were:—

'Improvements' in relation to land means those physical additions and alterations there-to and all works for the benefit of the land made or done by the owner or any of his predecessors in title which, as at the date on which the improved value or site value is required to be ascertained, has the effect of increasing its value:

Provided that the destruction or removal of timber or vegetable growth; the reclamation of land by draining or filling together with any retaining walls or other works appurtenant thereto: the excavation, grading or levelling of land; the provision of roads, water drainage or other amenities thereto; shall not be deemed to be improvements after the land has been sold or another person has taken actual occupation of the land; or if the improvements were effected by the occupier for more than five years prior to the date of valuation."

'Site Value' means—

(a) in relation to unimproved land the capital sum which the fee simple of the land might be expected to realise if offered for sale on such reasonable terms and conditions as a bona fide seller would require;

(b) in relation to improved land the capital sum which the fee simple of the land might be expected to realise if offered for sale on such reasonable terms and conditions as a bona fide seller would require, assuming that at the time as at which the value is required to be ascertained for the purposes of this Law the improvements as defined in this Law do not exist:

Provided that the site value shall in no case be less than the sum that will be obtained by deducting the value of the improvements from the improved value at the time as at which the value is required to be ascertained for the purposes of the Law:

'value of improvement' in relation to land means the added value which the improvements give to the land at the time as at which the value is required to be ascertained for the purpose of this Law irrespective of the cost of the improvements.

Provided that the added value shall in no case exceed by more than ten per centum the amount that should reasonably be involved in effecting, at the time as at which the value is required to be ascertained for the purposes of this Law, improvements of a nature and efficiency equivalent to the existing improvements.

Provided further that for rating and taxing purposes the site value shall be not less than twenty-five per centum of the value of the improvements in the following circumstances:

(a) when the value of the improvements erected on the land for commercial, industrial or business purposes exceeds £'x' and;

(b) when the value of the improvements erected on the land for residential purposes exceeds the sum of £'y'.

Rating of 'Squatter' Occupations—

The kampong hutments of Singapore, and other localities in Malaysia, usually those of 'squatter', occupiers, have their rather similar counter-parts in Jamaica and elsewhere in the West Indies. There the 'squatters' are often officially described as 'chattel-tenants', i.e. tenants who are given the right by owners, or take the right by 'squatter' occupation, to erect a building on land without any prospect of obtaining security of tenure by any recognised type of land title. Very often such 'chattel-

tenants' occupy land at a high population density per acre.

Many of these tenants live at subsistence levels or have so little income that they are seldom taxable. In such cases, and if the land each occupies is below a minimum value a minimum charge of, say, $5 per annum is sometimes levied on each 'chattel-tenant' in lieu either of estimating the 'site value' occupied or the 'annual value' of each kampong hutment, according to the system of property taxation or rating applicable.

Advantages of Site Value Rating—

As Mr. Gorven stated in his report to the Durban City Council rates charged, generally speaking, are a small factor in industrial production costs and would only be of real significance in deciding the location of a new industry if an alternative lower-rated industrial site could be found offering equal advantages in the availability of raw materials, labour, markets, railway and port facilities and so on.

Moreover, rating based on annual values of properties in residential areas where the type and standard of house development is very similar can often operate with reasonable fairness and consistency. However the following advantages, it is considered, can be claimed for 'site-value' rating:

(a) the value of land is more stable, whereas annual values must be kept constantly under review to allow for changes and additions to improvements.

(b) property owners gain more incentive to develop their land when improvements are not taxed reflecting both practical and psychological reactions.

(c) site values are created by demand together with community-cost developments in the form of Local Government services, replanning, road, harbour, drainage, amenity and sewerage works and it is right that some part of this unearned increment in land values should return to the community through property taxation or rating.

(d) site value taxation gives owners incentive to put land to its best possible use.

(e) where 'annual values' form the basis of rating the assets (in terms of buildings) of industrial and other income earning properties are double taxed, once on the income produced and secondly from taxation or rating based on their capital or 'annual' value.

(f) employment in the building industry is often stimulated not only in relation to new buildings but also in respect of repairs to old premises.

(g) it often gives the State, i.e. the community, some share in increments in land values attributable for example to replanning while giving rating equity to property owners whose values are adversely affected.

In relation to Singapore site value taxation would additionally:

(a) eliminate the cumbersome zoning of areas now subject to varying rates of property tax since site values would reflect distances, availability of services, road and street development and so on.

(b) encourage the better development of large areas of valuable central city land such as that occupied by Raffles Hotel, the Adelphi Hotel, the Great World, etc.

(c) lead to the 'best-use' development of extensive villa sites now giving a poor revenue yield from 'annual value' property taxation.

(d) stimulate employment in the building industry.

(e) return to the State of Singapore some of the enhancement in land values which public works such as road widening and new road construction is creating but at the cost to the State of expensive land acquistions and heavy engineering construction costs.

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