RATING LAND VALUES IN PRACTICE

Results in Greater Melbourne

(The Editorial Board believes that a study of the actual results of the operation of the rating and taxation of land values in force in Australia will prove of value to economists, statesmen and Georgeans throughout the world. It will, therefore, print a series of articles summarising these practical effects. The first of these statements is given below and is drawn from an exhaustive analysis made by A. R. Hutchinson, B.Sc., portion of which has already been submitted in evidence to official bodies.)

In Victoria the ratepayers have the option of drawing their local government revenue from either rates upon Land Values or upon the Annual Rental Value system, under which the bulk of the rates fall upon the improvements. Rating upon land values may be adopted by resolution of the municipal council or upon a poll of ratepayers which must be held if 10 per cent. of the ratepayers sign a petition asking for a poll.

Of the 28 cities and one shire comprising Greater Melbourne nine cities have so far adopted rating upon land values by one or other of these methods. The area covered by these nine cities is 38,260 acres of the total 125,926 acres, or 30.5% of the total area.

Comparisons are possible between the development of these two groups of cities, the one rating land values and the other rating upon improvements. In many respects these comparisons may be more reliable than interstate comparisons of development since the comparisons are not complicated by different political policies which may exist in the States. The comparisons have been made of certain key indicators of municipal prosperity.

In making comparisons it is necessary to ensure that the districts considered are really comparable. It would be absurd, for instance, to compare development of the business centre of the city with a perimeter district. The cities are, therefore, divided into six zones according to their rail distances from Flinders Street Station. The distances for the cities included in each zone as given below were determined by averaging the rail distances of all railway stations within their boundaries.

Zone Type of Area	Average Distance	Cities Included in Zone: Rating Land V.	Rating A.V.
1. Business	— miles	None	Melbourne (1).
2. Inner Industrial	2½ miles	None	Fitzroy, Collingwood, Richmond, Sth. Melbourne, Port Melbourne (5).
3. Flat Districts	4½ miles	None	St. Kilda, Prahran (2).
4. Mixed Industrial & Residential	5 miles	Brunswick, Essendon (2)	Footscray, Hawthorn, Kew, Northcote, Williamstown (5).
5. Residential	7 miles	Camberwell, Caulfield, Coburg (3)	Malvern, Brighton, Preston, Heidelberg (4).
6. Residential	9½ miles	Oakleigh, Sandringham (2)	Box Hill, Moorabbin (2).

The zones in which comparisons are possible are numbers 4, 5 and 6, none of the first three zones having adopted land value rating as yet. The remaining three areas included in Greater Melbourne are perimeter cities Mordialloc (15 miles), Chelsea (20 miles), and the shire of Braybrook, portion of which is only six miles from Melbourne. The first two of these rate on land values and the latter on Annual Value. This perimeter group will be the subject of a separate study and will not be dealt with now.

Comparisons have been made of building activity, rates paid by vacant and improved properties, amount of the rates falling upon improvements, speculative holdings, relative rates of increase of land values and the value of improvements and the municipal revenue per acre.

New Dwellings Built, 1928-1942, per Acre Available

The most important single one of these indicators is the item of building activity, for upon this depends the prosperity of the building industry and all those dependent upon it. Merely to state the number of houses built in the zones considered would be to present an incomplete picture. It is necessary to have regard to the areas available for building upon, for clearly less building can be expected in an area already 90% built upon than in one 50% built upon. Therefore building activity in the following comparison has been expressed in dwellings built per acre available for building.

Rating System	Zone 4	Zone 5	Zone 6
U. Land Values	1.70	1.54	0.60
Annual Value	1.12	0.655	0.30
U.L.V. Group as per cent. of A.V. Group	152	235	200

In each zone it is seen that building activity is very considerably greater in the land value rating groups.

Value of All Building Construction, 1928-1942

The value of all building activity expressed in pounds per nett acre available after deducting public reserves, roads and streets and area already built upon is given below for each zone.

Rating System	Zone 4	Zone 5	Zone 6
U.L. Value	£2178	£1900	£646
Annual Value	£1560	£791	£276
U.L.V. Group as per cent. of A.V. Group	140%	240%	234%

In each zone the value of building activity unmistakably supports the claims of supporters of land value rating that it should stimulate building activity.

Municipal Rates Falling Upon Improvements

The amount of the rates which are borne by improvements are shown below for each zone for the year 1939.

Rating System	Zone 4	Zone 5	Zone 6
U.L. Value	Nil	Nil	Nil
Annual Value	£221,800	£206,300	£46,400

These figures are very striking. They show that improvements are called upon to pay a very considerable amount each year as rates under the Annual Value system. In effect this amounts to a considerable fine imposed upon the building industries. The very considerable sums involved are a deduction from maintenance provision and in consequence properties in districts rating on the Annual Value system are allowed to fall into disrepair more frequently owing to depletion of the funds from which repairs and extensions should be met. These payments are a direct burden upon the building con-

struction industries and those dependent upon them for their livelihood. The land value rating groups are free of this burden with the resultant development of the building construction seen in the preceding paragraph.

Rates Paid per Average Dwelling

The average rate paid by the average of all dwellings is given below for each of the three zones, the figures being for year 1939.

Rating System	Zone 4	Zone 5	Zone 6
U.L. Value	£5 13 0	£4 11 0	£4 9 0
Annual Value	£5 17 0	£6 6 6	£5 4 0
Difference	£0 4 0	£1 15 6	£0 15 0
A.V. Group as per cent. of U.L.V. Group	104	139	117

In each case there is a saving to the average house-owner under the land value rating system. The amount of this saving is less in the inner districts where there is less vacant land. This is not the whole saving in rates to the house-owner, however. The actual saving depends upon the ratio of the value of the house compared to the site upon which it stands, and for highly improved properties this saving exceeds the average shown above many times over. In all cases, however, it works to encourage improvement of holdings.

Rates Paid by Vacant Blocks

The average rates paid by vacant blocks in each of the three zones are compared below for the year 1939.

Rating System	Zone 4	Zone 5	Zone 6
U.L. Value	£5 13 0	£4 11 0	£4 9 0
Annual Value	£1 7 0	£1 4 6	£1 0 0

These figures are the averages for all blocks of land in the zones, whether built upon or not. As the vacant blocks are generally less central and, therefore, less valuable these rates will somewhat exceed the actual averages for vacant blocks, but to the same degree under either system. The disparity between the amounts payable under the two systems is great. Clearly, speculative holding is discouraged under the U.L.V. system, whereas it is encouraged by the nominal rates payable under the Annual Value system.

Effect Upon Vacant Blocks

The percentages of the total blocks which were still vacant at 1939 are given below for each of the three zones.

Rating System	Zone 4	Zone 5	Zone 6
U.L. Value	10	27.5	37
Annual Value	15	45	60
A.V. Group as per cent. of U.L.V. Group	150	166	164

It will be seen that the expectation that speculative holding would be discouraged by the higher rates upon vacant land is very strongly supported by the observed results. The extent to which speculative holding has been discouraged is in much the same proportion in each of the zones.

Effect Upon Multiple Holdings, 1921-1939

The change in the proportion of multiple holdings (where a ratepayer holds more than one property) is a very important indicator of the extent of speculative holding. In these cases, at least one of the holdings must be purely speculative. The change over the 20-year period is shown below for each zone as a percentage of the number of multiple holdings at 1921.

Rating System	Zone 4	Zone 5	Zone 6
U.L. Value	—57.5%	—25%	+387%
Annual Value	+1%	+68%	+564%

The figures for Zone 6 relate to Oakleigh and Moorabbin respectively, figures for the other two cities not being available over the full period. The heavy increases in this zone imply speculative subdivision of holdings which were previously agricultural. The difference between the U.L.V. and A.V. Groups in this item is most clear-cut, particularly in Zones 4 and 5, where there is direct reversal of the trend.

Effect Upon Change in Vacant Holdings, 1921-1939

The change in the vacant holdings as a percentage of the number at 1921 is given below for each of the three zones.

Rating System	Zone 4	Zone 5	Zone 6
U.L. Value	—57%	—8%	+74%
Annual Value	—30%	+50%	+243%

These figures provide striking confirmation of the claims made by rating reformers that U.L.V. rating discourages speculative holding.

Effect Upon Speculative Rise in Land Values

The increase in land values over the period from 1922 to the pre-depression peak in 1929 is shown below.

Rating System	Zone 4	Zone 5	Zone 6
U.L. Value	49.5%	69%	90%
Annual Value	79	90	220
U.L.V. Group as per cent. of A.V. Group	62.5%	76.5%	41%

The difference between the two systems is clear-cut. Land values in the groups U.L.V. only increased to approximately half the extent they rose in the districts rating Annual Value.

Relative Increase Land and Improvement Value

The extent to which the increase in value of land is speculative is seen by comparing the increases in value of the land and the improvements of municipalities. The increase in land value in per cent. is compared below per 100% increase in the value of the improvements from 1922 to the pre-depression peak in 1929.

Rating System	Zone 4	Zone 5	Zone 6
U.L. Value	51%	58%	39%
Annual Value	133	88	71

These results show that the groups rating land values have been much freer from speculative rise of land values than those rating upon the annual value system. The reason for the persistence of any speculative value at all under this system would appear to lie in the fact that the rates are not high enough to completely squeeze out these values. Land is, however, considerably cheaper in the districts rating upon the land value system.

The results of all these analyses are to provide striking confirmation of the claims of rating reformers as to the individual and social merits of the principle of rating land values.

IS THIS WORTH WORKING FOR?

Had rating on Land Values operated from 1920 in 10 cities of zones 4, 5 and 6 now rating Annual Value, an additional 46,700 houses would have been built, with an additional £47,000,000 spent with the building industry in those districts.