CREATING MORE LIVEABLE NEIGHBOURHOODS

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ABSTRACT

AIM: The aim of this presentation is to bring to focus the large amounts of land being left idle and vacant, which in turn usually end up sites of urban decay, attracting rubbish and other dumped materials, deterring from the overall look and liveability of the urban environment.

CONTENTS: Using Economic Indicator Service’s (EIS) own independent ground surveys and the resources of Google Earth, this presentation will highlight in a PowerPoint presentation the amount of land being left idle and under-utilised in desirable serviced areas of South-East outer suburban Melbourne.

CONCLUSION: The presentation will point to the fact that the answer to this wasteful use of land resources and the pictures of urban decay that result, may “not” lie in the conventional wisdom of development subsidies, but changing the existing municipal rating structure. This would go some way towards encouraging the vacant land so identified to come onto the market, encouraging better use, discouraging urban sprawl and the associated increase of infrastructure and transport costs. Further, the presentation will show how vacant land in cities adds to the phenomenon of (Australia’s) boom and bust real estate economics and contributes to the entirely predictable 18-year real estate cycle successfully observed and monitored by EIS, and accurately forecast by EIS over the past 15 years.

KEYWORDS: Land, Urban, Vacant, Rates, Liveability.

1. INTRODUCTION

In daily travels, driving to work, to shops and so forth it was quite noticeable there was an excessive amount of vacant land in the local area of central Dandenong, a major outer suburb in Melbourne’s South East. What was also noticeable, was that these vacant and under-utilised sites tended to attract rubbish and various dumped materials.

A study was undertaken of the central Dandenong area, by walking the area, taking photographs and pinpointing the areas using the resources of Google Earth. The amount of land that was found to be vacant or under-utilised in a very small sample area was quite alarming.
What follows is an investigation into what can be done to bring vacant lots and under-utilised derelict sites into production, thereby creating a more liveable and attractive neighbourhood.

2. RESULTS: THE LISTING OF VACANT AND UNDER-UTILISED SITES

In a very small sample area of less than three square kilometres, around the city centre of Central Dandenong, are listed below the easily identifiable vacant and under-utilised sites.

Cnr Carson St & Keppel Crt: Vacant lot, unfenced.
Cnr Herbert & Day St: Vacant House, smashed windows.
Cnr Langhorne & Wilson St: Vacant Lot, fence vandalised because of easy public access.
Cnr Market & Edith St: Vacant lot, prime location for proximity to shopping.
Cnr Mason & Walker St: Shopping district, vacant, prime location.
Cnr Potter & Napier St: Vacant lot, attracting dumped supermarket trolley.
Cnr Pulney & Power St: Extremely large vacant lot, well maintained.
Cnr Scott & Robinson St: Vacant lot, business district, wire fence bent and pushed over.
Cnr Sleeth Av & Clow St: Vacant lot, prime location to shopping plaza, market and library.
16 Bulong St: Vacant lot, large wire fence.
20 Burrows Av: Large vacant lot, sheds still erect.
63 Cleeland St: Vacant house, prime location, ugly foreboding fencing.
19 Close Av: Large vacant lot with waist high grass, attracting dumped materials.
Foster St, (East): Large vacant double lot, prime location to shopping plaza.
3 Henty St: Large vacant lot, well kept.
40 Herbert St: Vacant lot, high wire fencing.
84 Herbert St: Vacant lot, high wire fence.
89 Herbert St: Large vacant lot.
103 Herbert St: Vacant derelict house.
Hutton St, (end of): Large vacant lot, former industrial site, prime location to train station.
31 King St: Large derelict, “haunted house” on prime location.
64 Langhorne St: Exceptionally large vacant lot.
75 Langhorne St: Vacant lot, home to some nice big trees.
16 Macpherson St: Exceptionally large vacant lot, used for dumping down back.
19 Macpherson St: Large under-utilised site.
6 Margaret Cr: Large vacant lot, grass well kept, ugly fence.
Mason St, (back of hotel): Vacant lot, business district.
33 New St: Large, long and narrow vacant lot.
21 Pickett St: Industrial Site in disrepair, no for lease sign visible.
70 Princes Hwy: Vacant lot, large wire fencing.
**Pultney St**, (back of police station): Large vacant lot in prime location.

**52 Railway Pde**: Large vacant lot.

**19 Robert St**: Vacant lot, high wire fence and un-kept.

**25 Robinson St**: Large industrial barb-wired vacant lot.

**7 Ronald St**: Front windows boarded up with ugly corrugated iron.

**31 Scott St**: Large vacant lot, high wire fencing.

**56 Scott St**: Vacant lot, high wire fencing.

**Sleeth Av**: Vacant lot, prime location

**12 Stuart St**: Prime location, under-utilised, used to park trucks and grow vegies down back.

**16 Stuart St**: Prime location, large vacant lot.

**20 Stud Rd**: Vacant house, smashed windows, glass left lying around, public danger.

**162 Thomas St**: Large vacant lot, city centre business district.

How we can bring these vacant and un-kept, derelict sites onto the market to create a more attractive neighbourhood? Also, at a time when recent media reports suggest a shortage of rental accommodation, the obvious question is, can we bring these sites onto the market to help alleviate the shortage in rental accommodation.

As the most powerful incentives are usually financial, what follows are the results of my investigations into where the financial incentives lay in the municipal rating structures for the state of Victoria. The above results of the authors ground study suggests, that CIV may be a municipal rating system which not only creates vacant lot eye-sores, but also perversely restricts the supply of accommodation, thereby making it more un-affordable.

### 3. LOCAL GOVERNMENT

#### 3.1 Revenue Sources

Local government revenue …… comes from three main sources -

1. Taxation (rates),
2. User charges and

Rates account for …. about 38.6% of total local government revenue.

Rates comprise just 3% of tax raised by all spheres of government. [ALGA]

#### 3.2 How Rates Are Collected For the State Of Victoria

Each year Victoria's 79 councils establish the maintenance needs of its assets and infrastructure and the community services and facilities that will be provided in the next financial year, and how much this will cost. ………Within a council budget is the estimated revenue that will be collected from other sources such as State and Federal Government funding and from loans. Councils then determine the shortfall required to be collected in rates to meet their financial responsibilities. That shortfall is collected in rates by multiplying the value of the property (using one of three valuation bases) by the rate in the dollar to establish
the amount to be paid by each property owner. The rate in the dollar is multiplied by the CIV, SV or NAV value of the property to determine the general rates due on each property. This amount is known as the general rates.
To determine the rate in the dollar councils divide the balance of the required budget revenue by the total value of all ratable properties in the municipality. The total value of the municipality is used as the base against which a council strikes its rate in the dollar.
General rates are added to any municipal and garbage charges set by a council to determine the total rates payable on a property.

3.3 More On The Three Valuation Bases.

Each Victorian council chooses one of three valuation bases for their municipality - Capital Improved Value (CIV), Site Value (SV), or Net Annual Value (NAV). The common process for calculating each of the three valuation bases is that every two years council valuers conduct a review of property values based on market movements, recent sales trends and also undertake a physical inspection of a sample of properties.

CIV refers to the total market value of the land plus the improved value of the property including the house, other buildings and landscaping, as determined by a valuer.
Currently used by 72 councils.

SV refers to the unimproved market value of the land.
Currently used by one council, Monash City Council.

NAV is the annual rental a property would render, less the landlord's outgoings (such as insurance, land tax and maintenance costs) or 5% of the CIV for residential properties and farms. The value is higher for commercial/industrial and investment properties.
Currently used by six councils (Glen Eira, Maribyrnong, Melbourne, Port Phillip, Yarra and Whittlesea).

The important point to note from the above, is that whichever system the council adopts whether it be CIV, SV or NAV the amount of rates raised remains the same, what alters is where the burden falls more, on those who renovate, beautify and add value to their neighbourhood or those who keep land off-market, often becoming sites of urban decay.

Below is a sample rate notice showing the key features. It is an example of a municipal council rating on capital improved value (CIV). Which is the choice of rating for the study area in Central Dandenong and indeed for the majority of councils in the state of Victoria.
### 3.4 Tables 1a and 1b

<table>
<thead>
<tr>
<th></th>
<th>Site Value</th>
<th>Capital Improved Value</th>
<th>Net Annual Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PRESCRIBED DATE OF VALUATION</strong></td>
<td>1st of January 2008, operative 1st of July 2008</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>SITE VALUE</strong></td>
<td>$240,000</td>
<td>$425,000</td>
<td>$21,250</td>
</tr>
<tr>
<td><strong>General Rate</strong></td>
<td>.313986 cents in $</td>
<td>$1334</td>
<td></td>
</tr>
<tr>
<td><strong>Garbage Charge</strong></td>
<td>$250</td>
<td>$250</td>
<td></td>
</tr>
<tr>
<td><strong>Total Amount Due</strong></td>
<td></td>
<td></td>
<td>$1584</td>
</tr>
</tbody>
</table>

### 3.4 Table 1a  Sample Rate Notice Based On CIV

<table>
<thead>
<tr>
<th></th>
<th>Site Value</th>
<th>Capital Improved Value</th>
<th>Net Annual Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PRESCRIBED DATE OF VALUATION</strong></td>
<td>1st of January 2008, operative 1st of July 2008</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>SITE VALUE</strong></td>
<td>$240,000</td>
<td>$240,000</td>
<td>$12,000</td>
</tr>
<tr>
<td><strong>General Rate</strong></td>
<td>.313986 cents in $</td>
<td>$754</td>
<td></td>
</tr>
<tr>
<td><strong>Garbage Charge</strong></td>
<td>$0</td>
<td>$0</td>
<td></td>
</tr>
<tr>
<td><strong>Total Amount Due</strong></td>
<td></td>
<td></td>
<td>$754</td>
</tr>
</tbody>
</table>

### 3.4 Table 1b  Sample Rate Notice (Vacant Lot Next Door) Based On CIV
3.5 Comments on Sample Rate Notices.

- Excluding the anomaly of municipal garbage charges, under capital improved value the rating on the well kept house pays an annual general rate of $1334 dollars a full $580 extra in contributing to the rates of the municipality than the vacant lot eyesore who pays a general rate of $754 only.

- In this example if we were to rate on land value alone and adjust the rate upwards to obtain the required shortfall, those who own vacant lots will contribute more to local government rate revenue and those who maintain well kept houses will pay less.

- It is important to note that whichever rating system the council uses the actual total of rates collected by the council involved does not change. What changes is where the burden falls.

- Furthermore, if councils changed from rating on capital improved value to site value alone, those holding vacant lots off market might find this extra impost of cost in general rates a stimulus to build and bring these vacant lot eye-sores onto the market. Thereby adding to the supply of accommodation. To get people living on these vacant lots would certainly improve conditions for local business and Economic Indicator Services research shows that business in the local area increases by 15%, when councils have changed from CIV to rating on SV alone. Rating on site value alone can only encourage the owner to use the site more productively in order to generate income to cover the increase in general rate, or force the owner to sell the site to someone who will use the site more productively.

3.6 Historical Example

Quote taken from, “A History of Camberwell” by Geoffrey Blainey:

A few hundred people owned large areas of cow paddock and market garden and vacant land and refused to sell them for housing partly because they believed the speculative value of the land would rise. Such people blocked Camberwell's growth and contributed little to its municipal revenue. At Camberwell junction and other shopping centres, owners of old wooden shops were paying smaller rates than the enterprising landlords who built expensive shops and attracted business to the centre. In residential streets, landlords who allowed houses to go unpainted paid smaller rates, while the landlord who improved his property and therefore the neighbourhood's appearance and land values was penalised for his enterprise with higher taxes. The reformers argued that a new method of municipal taxation would accelerate the pace of Camberwell's growth and improve the quality of the suburb. Calling for a referendum, they carried the poll after a fierce campaign and Camberwell and Caulfield became the first Victorian municipalities to tax the land and not the buildings. From 1922, the new method of taxation undoubtedly forced many large landowners to release vacant land for house building... (end of quote.).

“Early statistics were done for Camberwell Council. For the five years prior to 1923, the total number of dwelling permits issued was 2,051. After a change to site value in 1922, the number of dwelling permits for the following five years totalled 4,373, more than double. The suburb of Camberwell topped suburban local government area building statistics every
year after that until 1946. (Having originally shown very little activity prior to 1922.). This confirmed empirically what most 1920’s Camberwell rate payers had seen for themselves. (As noted by Geoffrey Blainey in this report.). The prodigious increase in building activity would not have occurred without the introduction of Site Value rating to the Camberwell municipality. [Phil Anderson] For more historical comparative case studies on CIV and SV municipal ratings see the link below. http://www.businesscycles.biz/aiusreport.pdf

4. MUNICIPAL RATING, VACANT LAND AND THE REAL ESTATE CYCLE

4.1 A General Rate On Land Has Unique Properties

Because the overall supply of land within acceptable distance to services, infrastructure and jobs is fixed in supply the land component of the cost of housing is bid upward until it absorbs the total dollar benefit a particular site gives the owner. Land is unique in that it is not subject to the laws of competition which the rest of the economy is subject too. This is why a general rate on land cannot add to its cost, but rather, may go in some way to make land cheaper by dampening some of its speculative value.

4.2 A Summary of the Real Estate Cycle

At the bottom of the cycle, cheaper land, and lower interest rates, will allow production to expand once again, particularly after business confidence begins to return. Demand for land will increase as a result of the expansion in economic activity. Land however is in fixed supply. If we consider it a commodity, which it is not, it is the only commodity whose supply cannot be increased to match the increasing demand. Land price will rise. A price rise of any other commodity would eventually attract more supply, ultimately lowering prices; not so with land. There is another difference also with the land market. As land price rises, owners will hold out for yet further price rises; the higher the price, the more it is hoarded. Demand for land increases, being fixed in supply, price rises, land becomes scarcer. A more noticeable shift in investment activity begins, away from industry and commerce, to land speculation. (More visibly in what is built on the land, though in reality it is the land price increasing, not the buildings.).

Interest rates will have bottomed out, then start rising. The percentage rises are more important than the actual figures themselves. Wider forces such as the Kondratieff wave, and lower forces like the decade cycle play a part here, so too banks and the creation of credit. Higher rent charges and the increased cost of borrowing for working capital or investment capital begin to squeeze the productive sectors of the economy. Higher returns in the property sector are seen by all now – the speculation intensifies.

A mid cycle slowdown is likely at this point. The decade cycle in operation. Do not confuse this cycle, with the longer and more deadly real estate cycle. Bank collapses are usually not involved at this point, though the stock market may see reversals.

The one area where business can cut costs, is wages. Pressure builds to exercise wage restraint. Governments agree, supported as they are by vested interest groups and the owners of the government granted licences, especially in real estate. Unions, seeing nothing but living
costs escalate, push for wage increases to cover them. At this point, it can be easy to confuse the symptoms of the economic illness - higher interest rates, increasing unemployment, government intervention etc - as the cause of the illness, which in reality is speculation in a value that is not produced, but is instead created as a government granted licence.

It is very important to note that the land market is not subject to the same economic competition as is the entrepreneur. Therefore, the normal pricing signals won't act to give real estate speculators the ability to see the excesses. Property owners simply continue to press for ever higher rental demands from the tenant. The point will arrive when the productive sectors of the economy can no longer afford the rent. The downturn is imminent, (and inevitable), the severity of which will be determined not only by the height and intensity of the boom, but also the extent to which banks have become involved in lending upon land value.

A bank collapse usually marks the passing of the peak: it may set off a panic. Other events however, like the oil crisis of 1974, almost always take place simultaneously- since economic activity is frenetic at the peak - to disguise the completion of the real estate cycle. It soon becomes obvious to all that a downturn has taken place, for which absolutely everything else will take the blame except the real culprit, the privatisation of the rent. The real estate cycle, trough to trough, has usually measured about 18 to 20 years for each US cycle since 1790. Eighteen years has been the average so far. Economic Indicator Services

4.3 General Rates on Property and the Effects on the Real Estate Cycle

As the above summary on the Real Estate Cycle states, it is speculation in land price, the expectation for capital gains which drives the cycle. This bids up the price ever higher and as mortgages get higher and higher there is less money left over from household budgets to fund other areas of the economy and so a land induced economic downturn will surely follow. It should be noted that there is nothing wrong with rising land price; in fact it is perfectly natural since land is fixed in supply and as living and business conditions improve it must rise in value. The problem is speculation, in that prices get bid up so high, as no one wants to miss out the capital gains to be made in property, that we get as you might see if you refer to (the next page) Figure 1, section 4.4, is that we get this roller coaster ride of land price.

To the extent we collect an annual general rate on land, it will dampen or ameliorate the hardship of the economic downturn and conversely to the extent we collect less on land value the more it will exacerbate the severity of the downturn. To put it another way, to buy land is simply to pay annual rent in advance. Due to Federal and State subsidies of municipal governments only a very small portion of the annual rent is collected. However, for example, if you were to collect the full annual rent, that vacant block would have little selling value. If this was to occur, we simply could not have the land induced downturn, “Global Financial Crisis,” we have just witnessed.

Vacant land in cities adds to the phenomenon of (Australia’s) boom and bust real estate economics because it contributes to a retarding and tightening of supply, causing a greater scarcity value of land. The holding of sites empty, makes the real estate cycle even more violent by restricting the supply of accommodation available, therefore exacerbating the competing of housing prices ever upwards.
4.4 Figure 1

**Economic Indicator Services**

**Subscriber Research**

**State of Victoria Housing Affordability Report**

**The Number of Years of “Gross” Salary Required to Buy the Median House of all Sales in the Melbourne Metro Area**

![Graph showing the number of years of gross salary required to buy the median house of all sales in the Melbourne Metro Area from 1970 to 2007. The graph indicates an increase in the number of years required over time.](image)

**Notes and Sources**

**House Price to Gross Earnings Ratio.**

The vertical axis simply represents the number of years of annual gross wages needed to buy the median house of all residential houses sold in the Melbourne Metropolitan Area.

Victorian yearly gross wage used for this study is, “Male, Total Earnings.” These earnings reflect all earnings of salaried employees, overtime earnings, over-award and bonus payments, also the overall composition of the labour force such as employment levels and the proportions of part-time, casual and junior employees.

**Sources**

Melbourne Metropolitan House Median, 1970-1984: House Prices in Australia 1970 to 2003; by Peter Abelson and Demi Chung,

Economic Society of Australia; 2005

Note: Abelson’s report was sourced from Victorian Valuer-General Reports.

For the years, 1985-2007: Victorian Valuer-General Reports.

5. CONCLUSIONS

Not only may CIV be a municipal rating system which creates vacant lot eye-sores, but also perversely restricts the supply of accommodation, thereby making property more un-affordable.

5.1 Why Site Rating is Preferable

- Transferring rates to land would go someway in sparking renewal of vacant and under-utilised sites. Site rating can deliberately be used as an economic development tool. To rate on site value would provide more incentive for building construction and house renovation encouraging a more beautiful neighbourhood.

- The additional construction would increase the housing supply and help alleviate the housing and rental shortage.

- The increased supply of accommodation would assist housing affordability and make housing more affordable. The increase in the supply of buildings would follow as owners of vacant lots attempt to derive income from their vacant lot, to which they would need to build for the letting to tenants. So accommodation becomes more abundant and therefore more affordable.

- In this process of making vacant lots more productive jobs are created in construction, not to mention secondary jobs upstream such as building materials and downstream such as home furnishings.

- Site rating would encourage best use and infill of vacant sites; to help to ease the ever growing problem of “Urban Sprawl.” As development of vacant sites would no longer incur a rates penalty, it would encourage more infill development and place less pressure for development on the urban fringe.

- Encourages better maintained buildings, aesthetically the neighbourhood looks better in appearance. Property owners who allow their buildings to become sites of urban decay will no longer get lower rates bills, to offset the loss in rent, consequently buildings are better maintained. It would encourage dwellings to be kept in repair and let to tenants which are instead, boarded up to keep out vagrants and the homeless, further reducing the supply of rental housing.

- It is far more accurate to rate on site value, which can be estimated from market transactions. Two sites side by side will invariably have the same site value, however, the value of improvements can vary wildly. Valuation of capital improved value is a hit and miss affair. Under (CIV), valuations of buildings are critical in assessing Rates bills. Council valuers have never been to inspect the house of the author of this study. Therefore CIV assessments may well be inaccurate.

- Housing more people in the local area would certainly improve conditions for local business and Economic Indicator Services research shows that business in the local area increases by 15%, when councils have changed from CIV to rating on SV alone.

- To the extent we collect on Site Value we ameliorate the severity of the real estate cycle and the land induced downturn that follows.

The key point to keep in mind is this, why penalise ratepayers who beautify and add value to the neighbourhood, by building houses which add to the supply of housing? Why penalise those who renovate and maintain their structures?
ACKNOWLEDGEMENTS
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Economic Indicator Services
http://www.businesscycles.biz/index.html

REFERENCES

About ALGA: Australian Local Government Association


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