

# **I WANT TO LIVE HERE**

## **Vacancies In Melbourne Report**

**January - June 2009**

**Earthsharing, Prosper Australia**



# Introduction

Earthsharing is a subsidiary of Prosper Australia, a self funded non government organisation (NGO), of people from all walks of life inspired by the economic justice that can be achieved by distributing the wealth produced from land among the entire community.

In this report we will present findings of our research into the volume of vacancies in Melbourne. We will then examine the implications of these findings and present real solutions to the issues raised.



# Contents

Introduction .....	2
Contents .....	3
Executive Summary .....	4
Methodology.....	5
Findings:	
Genuine Vacancy Rate .....	6
Speculative Vacancies .....	7
High Genuine Vacancy Rates (by Suburb) .....	8
High Genuine Vacancy Rates (by Municipality) .....	9
Inner City Genuine Vacancy Rates .....	10
South Eastern Suburbs Commercial & Industrial Vacancies ....	11
Conclusion & Implications .....	12
Recommendations .....	13-14
About Earthsharing & Prosper .....	15
Appendices:	
Genuine Vacancy Rates (Suburbs).....	16-21
Genuine Vacancy Rates (Municipalities).....	22

# Executive Summary

Earthsharing research has revealed that between January and June 2009, in the midst of the 'rental and housing crisis', 44 753 properties were lying vacant in Melbourne's Inner, Western and South-Eastern suburbs.

The genuine vacancies we have identified represent **6.9%** of Melbourne's housing supply, a sharp contrast to the **1.4%** rental vacancies cited by Real Estate Institute Victoria (REIV) for the same period.

We found alarmingly high vacancy rates in some of Melbourne's most sought after suburbs, such as the staggering **29.0%** vacancy rate in Carlton South, and revealed correlation between vacancies and council property rating systems.

In addition we uncovered evidence that a troubling proportion of commercial and industrial properties, some **17.3%**, are lying vacant in our South Eastern suburbs.

This report indicates that there is no housing shortage in Melbourne and concludes that instead there is a housing bubble as a result of land speculation. The rental crisis relates to a shortage of landlords willing to lease their properties.

Earthsharing contends that land tax reform based on the acknowledgment of the genuine vacancy rate is vital if we are to successfully combat land speculation and the housing affordability and rental crisis.

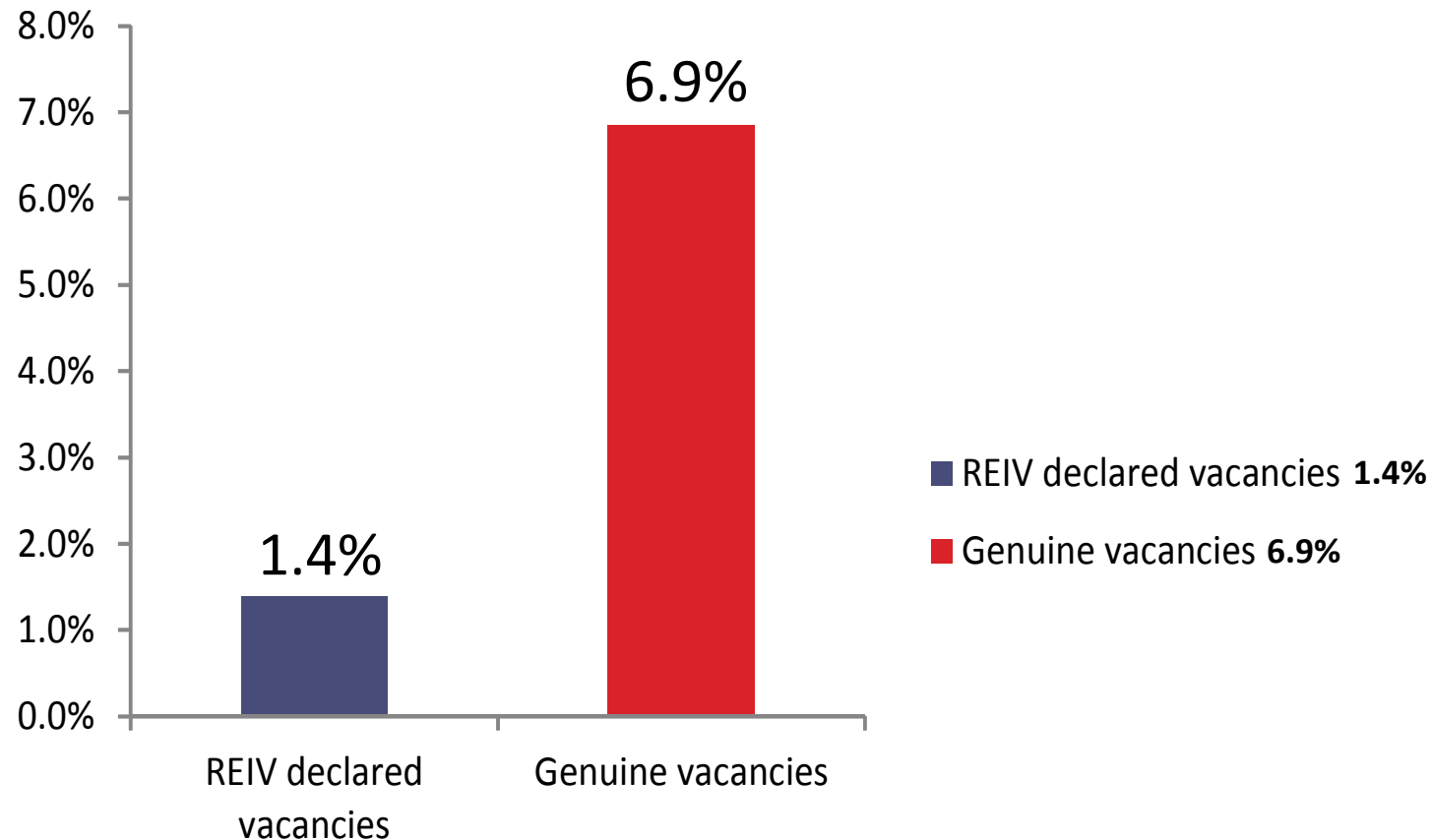
# Methodology

We identified the genuine vacancy rate by collating data regarding properties' water consumption collected from South East Water and City West Water (which encompassed approximately 44% of all properties). We determined a property to be vacant if it consumed an average of less than 50 litres per day over the six month time period (a dripping tap alone uses more than this).

The vacancy figures described in this report will be inherently conservative. The methodology does not count sites which could be created through subdivision (thus achieving a higher population density) if properties were used more efficiently, nor does it include many properties which may have been occupied (and thus consuming water) for part, but not all, of the six month period.



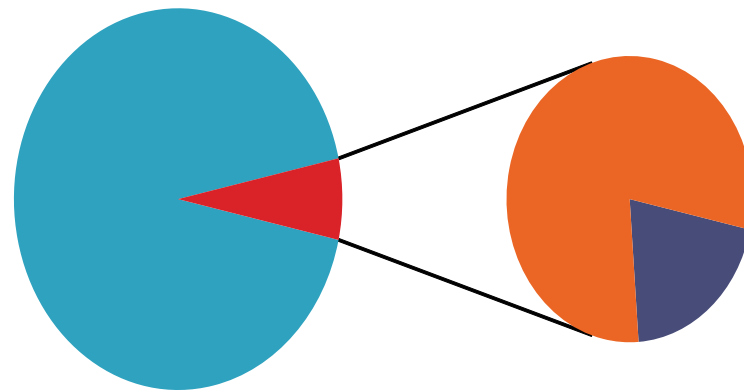
# Findings: Genuine Vacancy Rate



We found Melbourne's Genuine Vacancy Rate currently stands at 6.9%, or one in every 15 properties. This is significantly higher than the rental vacancy rate of 1.4% declared by REIV, which only records advertised vacancies.

# Speculative Vacancies

Effectively, only one in every five vacant properties is on the rental market. There are five times the number of vacant properties than declared by REIV, the additional properties are being withheld from the market in the form of speculative vacancies.



■ Genuine Vacancy Rate 6.9%

■ Occupied properties 93%

■ REIV declared vacancies  
1.4%

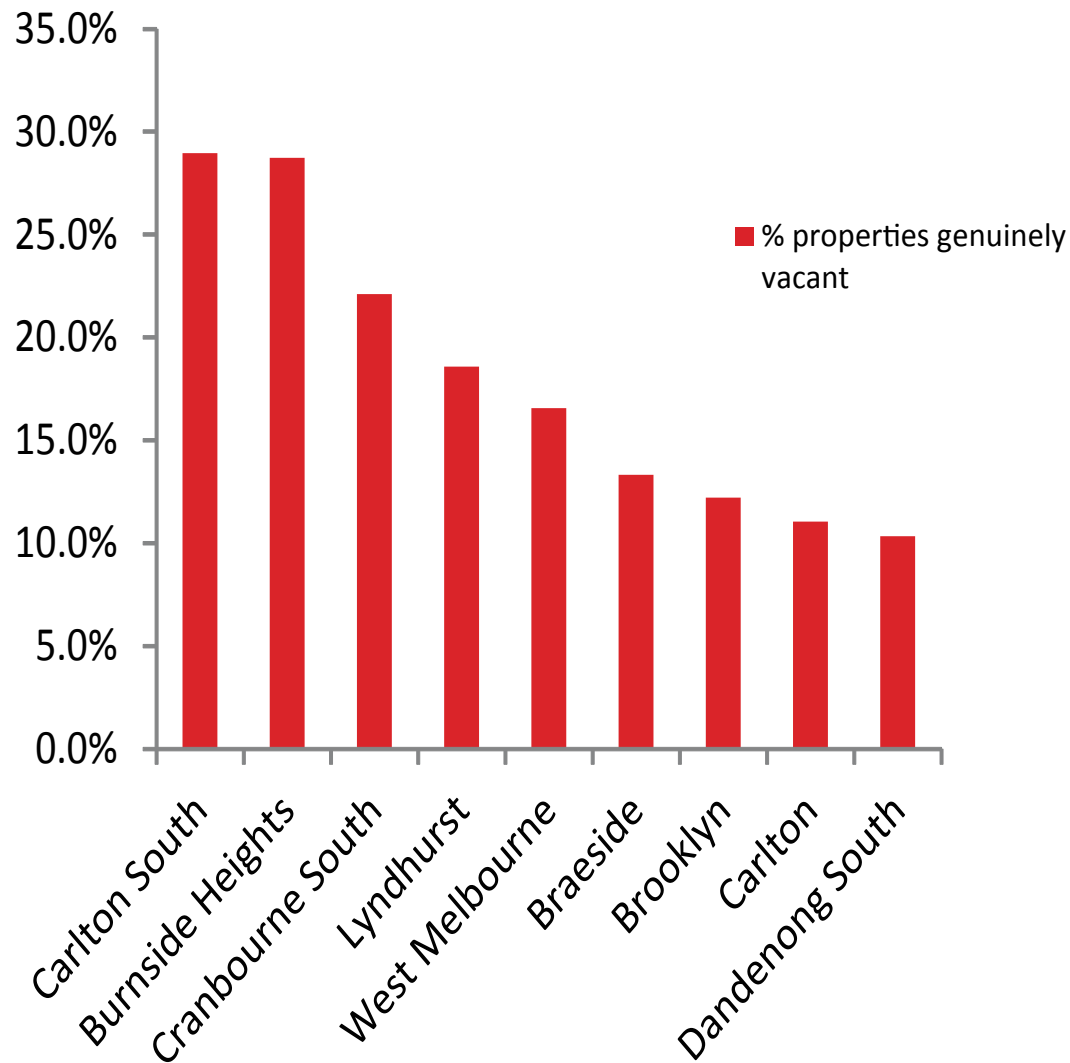
■ Speculative Vacancies  
5.5%

■ Speculative Vacancies

■ REIV Declared Vacancies



# High Genuine Vacancy Rates



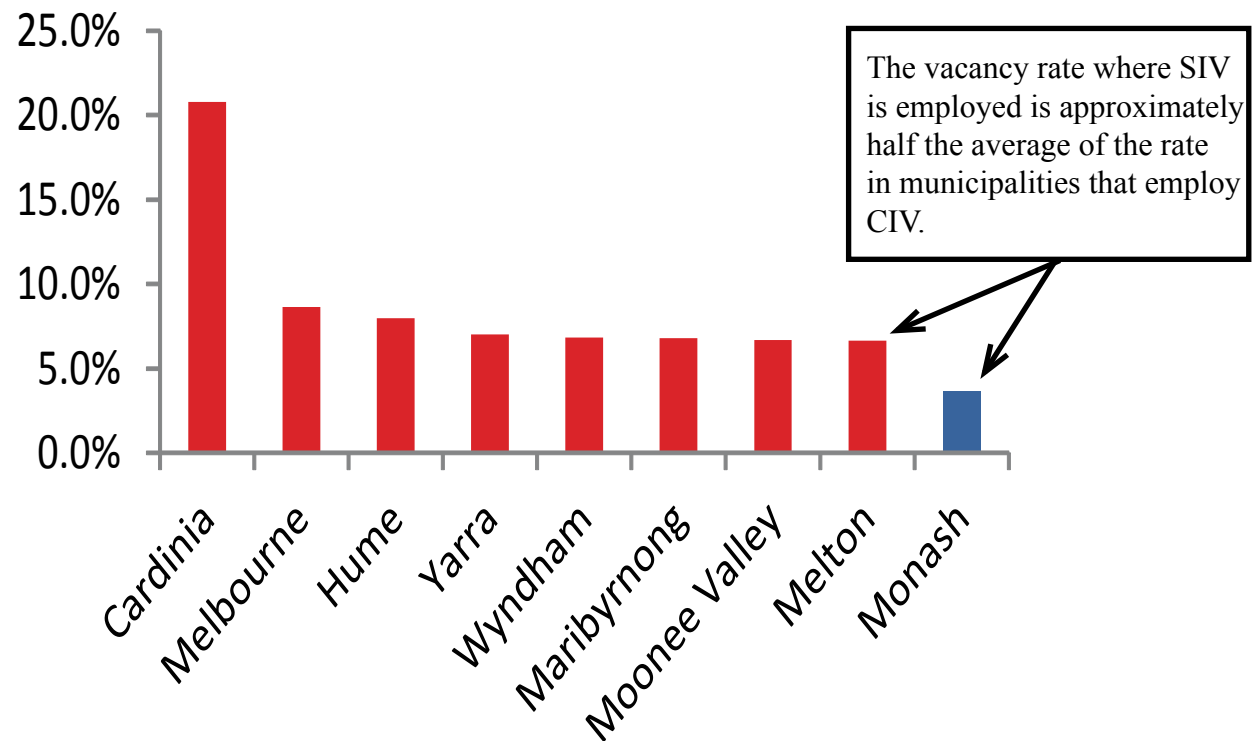
This graph shows a selection of suburbs with higher than average genuine vacancy rates.

Interestingly, high genuine vacancy rates are found in areas where high capital gains are expected due to new infrastructure projects (Dandenong South - Eastlink) and/or the inherent demand is high such as in cultural hot spots (Carlton South).



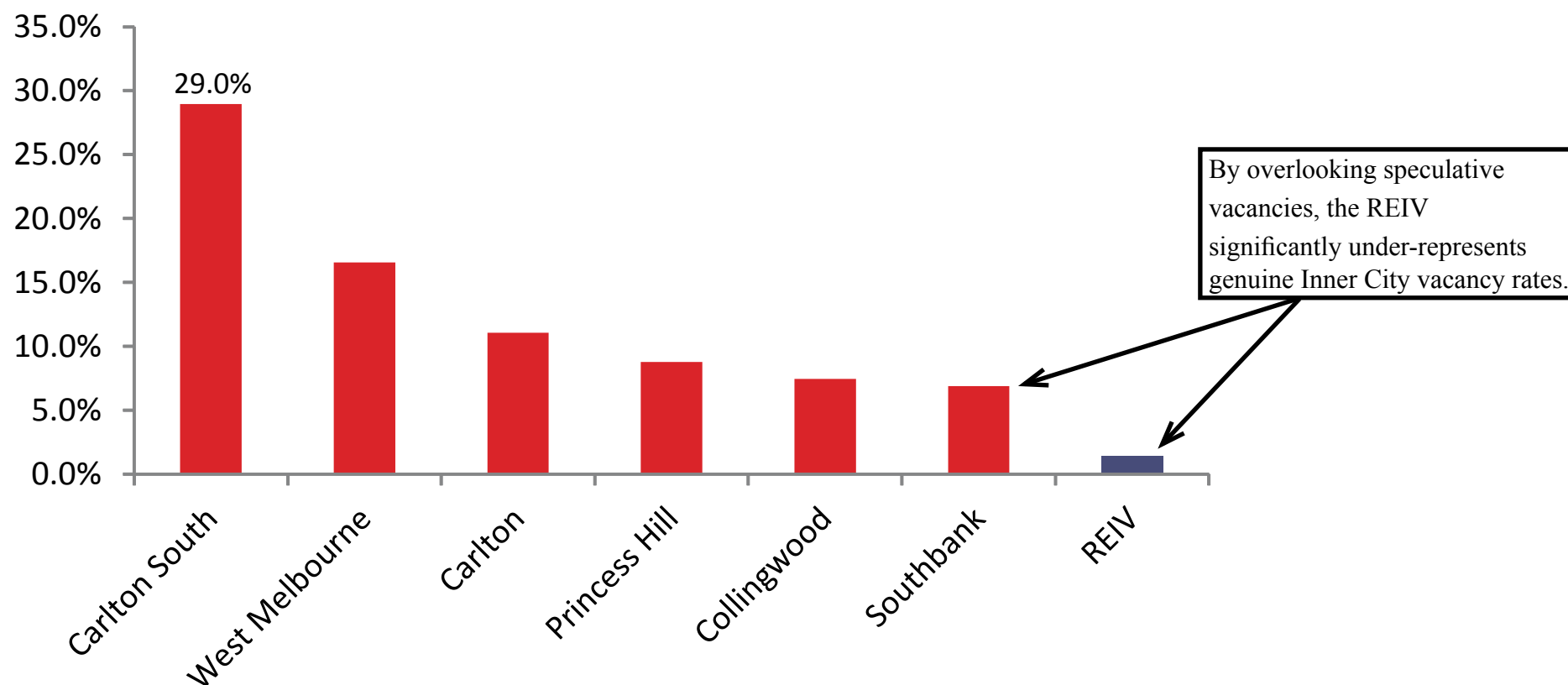
# Genuine Vacancy Rates by Municipality

We were interested to note that the City of Monash, the only municipality left employing Site Value Rating\*, had a vacancy rate of 3.7%, roughly half the overall Genuine Vacancy Rate of 6.9%.



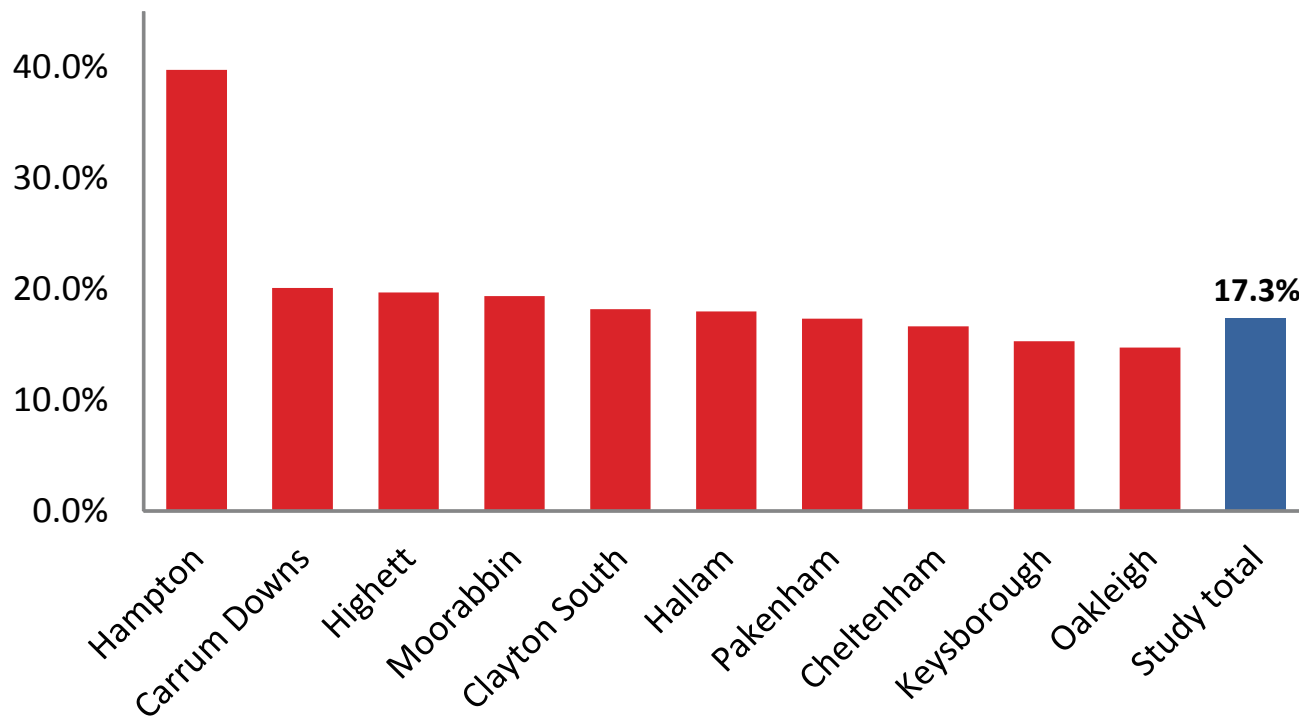
\* A Capital Improved Value (CIV) rating system charges rates for both the underlying value of land holdings as well as any improvements to the land, making it cheaper (in terms of council rates) to hold a completely vacant block of land than it is to have a well maintained and effectively utilised property. In contrast, a Site Value Ratings (SVR) system charges only for the underlying value of the land being held.

# Inner City Genuine Vacancy Rates



Our study found troubling evidence that inner city suburbs, which have infrastructure best equipped to handle high population density, were also the victims of some of the worst property speculation, with genuine vacancy rates as high as 29.0% (Carlton South).

# South Eastern Suburbs: Percentage of Commercial & Industrial Properties Vacant



In addition we uncovered evidence that a troubling proportion of commercial and industrial properties, some 17.3%, are lying vacant in our South Eastern suburbs. In total, there are over 10,000 vacant shops, factories, offices, and warehouses in the area.

# Conclusion & Implications

Our study has shown that Melbourne's vacancy rate is dramatically higher than previously reported, **6.9%** compared to REIV's stated **1.4%**. The discrepancy is due to a large number of unadvertised vacant properties, withheld from the market in the form of speculative vacancies.

Speculative vacancies are motivated by capital gains being disproportionately higher than rental returns. Even with the power to write off costs under negative gearing, the variance between capital gains and rental income is often three to one.

Speculative vacancies also have lower holding costs than a properly maintained rental property, both in the form of lower property upkeep costs, and lower council rates (under a CIV system). In addition to these low holding costs, the withholding of properties over prolonged periods is motivated by high transaction costs on properties (in the form of Stamp Duty on the purchase of properties and Capital Gains Tax on the sale price of properties).

A particularly alarming finding of our study was the high rate of vacancies in some of Melbourne's most sought after areas such as the **29%** vacancy rate in Carlton South. This has the effect of forcing prices in these areas ever higher and people out to areas where the infrastructure and environment is strained.

With small business the largest employer in Australia, our observation of disturbingly high speculative vacancies in the South Eastern suburbs' nonresidential sector is of national significance. This is akin to a **17.3%** unemployment rate for land, unnaturally inflating land and rental costs and forcing businesses to divert a high proportion of their revenue towards these costs and away from wages, jobs, investments in plant and capital and higher dividends for shareholders.

# Recommendations

First and foremost our study has found the pressing need for regular and comprehensive gathering of data on the **Genuine Vacancy Rate** so that government policy can be formulated in response to real and accurate figures.

Our report indicates that there is a clear need for tax reform: local governments must switch from Capital Improved Value (CIV) rating systems to a Site Value (SV) rating system. This would re-balance the playing field between the family home and the speculative investor. Federal and State Governments must switch from 'transaction taxes' on land (e.g. Stamp Duty and Capital Gains Tax on property) to a Land Tax to discourage speculation.

Such tax reform would channel landlords towards focusing on rental income rather than capital gains. This would signal a preference for more building, more density. Home-owners should not be taxed for developing their sites. Families should not pay higher taxes than land banking speculators.

It is worth noting that creative redevelopment and subdivision can yield a number of residential properties from a redeveloped warehouse or commercial site. In Melbourne's former rust-belt inner city suburbs, such conversions (into loft-style apartments) have become quite fashionable. These have demonstrated the multiplier effect of one commercial or industrial property yielding several residential properties.

At a State and Federal level, there is also scope for structural reform to help rectify the problem of properties being withheld from the market.

The most notable structural cause of speculative vacancies at a State and Federal level is the imposition of transaction taxes on the sale of land. This occurs in the form of Stamp Duty at a State Level, and Capital Gains Tax at a Federal level. These transaction taxes insert a perverse incentive into the market in that they tax people who wish to make a vacant property available to the market, while not taxing people who withhold vacant properties from the market. This delays the turnover of property.

These State and Federal transaction taxes should be replaced with an improved State or Federal Land Tax. The Land Tax should be broader and flatter than at present. It is important to note that the introduction of a higher and flatter Land Tax should be coupled with revenue neutral tax cuts on Stamp Duty, Capital Gains Tax, and Payroll Tax. At a minimum this should be implemented to fund a 50% cut in income taxes.

These structural reforms would remove the government imposed market distortions which systematically encourage the withholding of properties (in the form of speculative vacancies), and encourage buyers and sellers to meet in the market place in order to transfer property and satisfy demand for accommodation.

It is time for governments to look at the speculative side of the housing supply issue in order to understand the market in detail.

**If housing is a human right, then our tax policies must genuinely reflect this.**

# About Earthsharing

Earthsharing is a subsidiary of Prosper Australia, a self funded NGO inspired by the economic justice that can be achieved by distributing the wealth produced from land among the entire community. Prosper has sister groups throughout Australia and the rest of the world.

Earthsharing Australia exists to provide free education services on economics from the Georgist school. The bounty of the land is best shared amongst the people rather than hoarded by the privileged. Our teachings demonstrate the urgent need for the capture of resource rents for public benefit. With the capturing of this natural wealth, we can reduce wealth gap pressures and curtail the motivation to exploit our resources. This is the big picture reform we need to create the sustainable, workable communities necessary to survive climate change.

We have the advantage of being able to talk to both those interested in business concerns (less taxes) and environmental issues (resource efficiency).

With a Resource Rentals system in place, genuine economic democracy is possible where freedom involves community interaction and self empowerment.

Many of our supporters are young people concerned about the looming twin disasters – the increasing wealth gap and the speed of climate change.

For more information please visit:

<http://www.prosper.org.au>

<http://www.earthsharing.org.au>

<http://www.en.wikipedia.org/wiki/Georgism>

# Appendix 1. Genuine Vacancy Rates: Suburbs

Abbottsford	7.0%	Beaumaris	1.9%
Aberfeldie	7.2%	Belgrave	2.8%
Airport West	8.5%	Belgrave Heights	6.9%
Albanvale	2.3%	Belgrave South	2.3%
Albert Park	3.2%	Bentleigh	3.1%
Albion	10.9%	Bentleigh East	2.2%
Altona	8.8%	Berwick	2.6%
Altona Meadows	5.1%	Bittern	2.0%
Altona North	6.0%	Black Rock	2.7%
Ardeer	7.7%	Blairgowrie	18.0%
Armadale	2.1%	Blind Bight	1.7%
Arthurs Seat	10.0%	Bonbeach	4.9%
Ascot Vale	7.6%	Boronia	2.8%
Aspendale	1.9%	Braeside	13.3%
Aspendale Gardens	0.5%	Braybrook	9.1%
Avondale Heights	4.5%	Brighton	2.8%
Balaclava	2.8%	Brighton East	2.5%
Balnarring	8.1%	Brooklyn	12.2%
Bangholme	5.2%	Bunyip	6.5%
Baxter	1.7%	Burnley	4.5%
Beaconsfield	2.6%	Burnside	7.7%



Burnside Heights	28.7%	Clayton South	3.8%
Cairnlea	3.6%	Clifton Hill	7.1%
Cannons Creek	5.0%	Collingwood	7.4%
Carlton	11.0%	Cranbourne	2.8%
Carlton North	5.7%	Cranbourne East	9.3%
Carlton South	29.0%	Cranbourne North	6.9%
Carnegie	2.4%	Cranbourne South	22.1%
Caroline Springs	6.5%	Cranbourne West	2.6%
Carrum	3.5%	Cremorne	8.8%
Carrum Downs	4.8%	Crib Point	3.1%
Caulfield	3.4%	Dandenong	4.8%
Caulfield East	2.3%	Dandenong North	1.4%
Caulfield North	2.5%	Dandenong South	10.3%
Caulfield South	2.5%	Deer Park	9.1%
Chelsea	2.9%	Delahey	0.0%
Chelsea Heights	2.5%	Derrimut	13.7%
Cheltenham	3.7%	Dingley	0.9%
Cheltenham	3.7%	Docklands	3.7%
Clarinda	1.9%	Doveton	2.4%
Clayton	2.9%	Dromana	9.4%

East Melbourne	0.074883554	Gardenvale	0.032490975
Edithvale	0.027226319	Garfield	0.066801619
Elsternwick	0.031213649	Glenhuntly	0.028121485
Elwood	0.018703088	Hallam	0.053722903
Endeavour Hills	0.011893435	Hampton	0.038945941
Essendon	0.089018692	Hampton East	0.048543689
Essendon North	0	Hampton Park	0.012013151
Essendon West	0	Hastings	0.030253475
Eumemmerring	0.028077754	Heatherton	0.003030303
Ferntree Gully	0.026142017	Hillside	0.034213099
Fingal	0.105691057	Hoppers Crossing	0.036310037
Fitzroy	0.07490218	Hughesdale	0.029927761
Fitzroy North	0.059349771	Huntingdale	0.064356436
Flemington	0.088316467	Junction Village	0.02955665
Flinders	0.088791849	Kealba	0.032900433
Footscray	0.091146286	Keilor	0.031752936
Frankston	0.023085611	Keilor Downs	0
Frankston North	0.024602026	Keilor East	0.048909953
Frankston South	0.016595289	Keilor Lodge	0

Keilor Park	3.1%	Melbourne - CBD	7.8%
Kensington	4.9%	Melbourne - St. Kilda	5.4%
Keysborough	2.9%	Mentone	3.3%
Kings Park	0.0%	Middle Park	1.8%
Kingsville	0.0%	Moonee Ponds	6.2%
Knoxfield	2.7%	Moorabbin	9.9%
Koo Wee Rup	6.1%	Moorabbin Airport	5.4%
Lang Lang	5.7%	Moorooduc	7.8%
Langwarrin	1.6%	Mordialloc	4.8%
Langwarrin South	3.0%	Mornington	3.7%
Laverton	6.5%	Mount Eliza	1.8%
Little River	7.2%	Mount Martha	3.5%
Lynbrook	1.6%	Murrumbeena	2.7%
Lyndhurst	18.6%	Narre Warren	1.3%
Lysterfield	0.7%	Narre Warren North	2.3%
Lysterfield South	2.5%	Narre Warren South	4.1%
Maidstone	10.5%	Newport	7.4%
Maribyrnong	6.7%	Nidrie	9.7%
McCrae	8.3%	Noble Park	2.4%
McKinnon	2.2%	Noble Park North	1.6%

North Melbourne	7.0%	Rowville	1.2%
Oakleigh	4.7%	Rye	12.0%
Oakleigh East	1.3%	Safety Beach	10.4%
Oakleigh South	3.8%	Sandhurst	6.2%
Officer	20.7%	Sandringham	3.1%
Ormond	2.0%	Scoresby	2.0%
Pakenham	6.4%	Seabrook	0.0%
Parkdale	3.5%	Seaford	4.2%
Parkville	6.7%	Seaholme	6.1%
Patterson Lakes	1.9%	Seddon	2.0%
Pearcedale	1.2%	Shoreham	6.8%
Point Cook	8.4%	Skye	0.9%
Port Melbourne	4.6%	Somers	10.1%
Portsea	9.4%	Somerville	2.6%
Prahran	3.4%	Sorrento	18.8%
Princess Hill	8.8%	South Kingsville	12.4%
Richmond	7.4%	South Melbourne	4.6%
Ripponlea	2.3%	South Yarra	2.3%
Rosebud	8.4%	Southbank	6.9%
Rosebud West	10.3%	Spotswood	0.0%

Springvale	4.5%
Springvale South	1.4%
St Albans	6.2%
St. Kilda	2.8%
St. Kilda East	2.0%
St. Kilda West	1.9%
Strathmore	5.8%
Strathmore Heights	3.3%
Sunshine	7.8%
Sunshine North	4.1%
Sunshine West	4.7%
Sydenham	4.6%
Tarneit	14.4%
Taylors Hill	5.2%
Taylors Lakes	1.1%
Tecoma	1.6%
The Basin	1.7%
Tooradin	7.1%
Toorak	2.4%
Tootgarook	11.4%

Travancore	6.3%
Truganina	15.3%
Tullamarine	8.0%
Tyabb	4.6%
Upper Ferntree Gul	2.4%
Upwey	2.1%
Wantirna	1.3%
Wantirna South	2.1%
Warneet	6.7%
Waterways	9.3%
Werribee	5.7%
Werribee South	5.0%
West Footscray	6.8%
West Melbourne	16.6%
Williamstown	6.5%
Williamstown Nort	0.0%
Windsor	2.0%
Wyndham Vale	8.2%
Yarraville	5.4%
STUDY TOTAL	6.9%

## Appendix 2. Genuine Vacancy Rates: Municipalities

Municipality	Genuine Vacancy Rate
Bayside	3.2%
Brimbank	4.8%
Cardinia	20.8%
Casey	2.7%
Frankston	2.9%
Glen Eira	2.6%
Greater Dandenong	3.9%
Hobsons Bay	6.3%
Hume	8.0%
Kingston	3.6%
Knox	2.0%

Maribyrnong	6.8%
Melbourne	8.6%
Melton	6.6%
Monash	3.6%
Moonee Valley	6.7%
Mornington Peninsula	5.9%
Port Phillip	3.6%
Stonnington	2.6%
Wyndham	6.8%
Yarra	7.0%
Yarra Ranges	2.3%
STUDY TOTAL	6.9%