

I Want to Live Here

- how speculators are strangling affordability

Key Findings:

- Vacant land and housing in Bluestone Ward, City of Maribyrnong could see 1058 people living within 430 properties in the locality.
- This would add 11.7% to the population in the municipality, greatly benefiting local business.
- The extra supply of 430 properties to the market would limit if not reduce rampant property price inflation in the area.
- Local, state and federal governments implicitly encourage such wastage with the tax system supporting speculative profiteering at the expense of productive land use.

Purpose:

To demonstrate that the vacancy rate advertised by the Real Estate Institute of Victoria does not represent the true state of the property market.

Introduction:

The real estate industry is calling for land release as a solution to the housing affordability crisis. This report demonstrates that the private supply of land held by speculators is the primary issue that needs to be addressed.

The proximity of Footscray to the CBD and its price differential sees it as prime territory for speculation. Speculative pressures are the dominant force impeding housing affordability.

New supply of federal land will mean little, as it will be snapped up by speculators rather than first homeowners. Families and young people are handicapped in the property market by a range of tax advantages that assist those who own land to own even more.

Low capital gains and negative gearing are regularly discussed as limiting affordability. However, the 1996 Kennett changes to CIV council rates has seen the family household with its capital improvements pay higher rates than the wealthy vacant landowner.

This has also led to a reduction in rental housing stock, as it is cheaper for the landlord to let property fall into disrepair than fix it. It is even cheaper for them to demolish the property to reduce their share of the rating burden.

State governments have also contributed to the demise of housing affordability by sending constant signals to the property sector that Land Tax will be reduced.

A holding charge on land is essential to curtail the influence of 'speculative vacancies' on housing affordability.

The benefits to the community are considerable. If 1058 people were added to the Bluestone Wards' population of 9000 people, local business would enjoy a considerable fillip with the demand for goods and services required by an additional 11.7% of people.

First homebuyers would benefit too. If the 430 properties were encouraged onto the market with a holding charge on land, this would considerably add to the amount of land up for auction. With a conservative estimate of 35 auctions (www.homepriceguide.com.au) taking place in the ward each month, adding 430 properties over 12 months would virtually double the supply of auctions.

This would help level the playing field, creating a buyers market power for people who want to use land for housing rather than speculation.

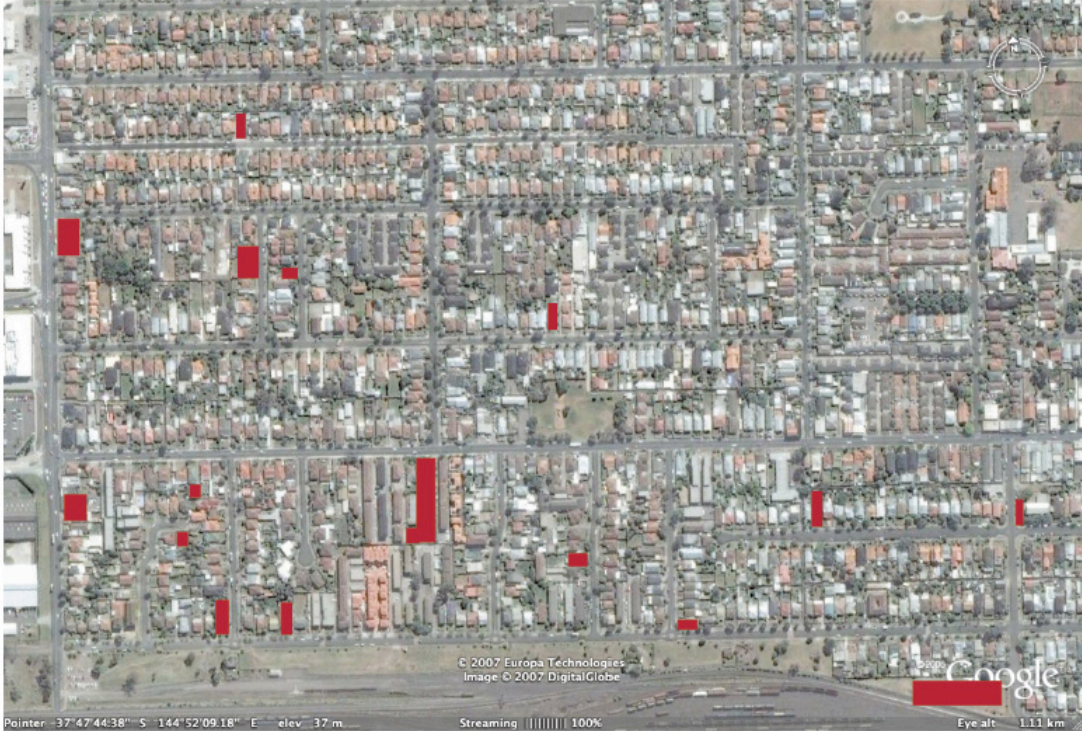
Melbourne 2030 is being threatened by a dysfunctional tax policy that encourages 'doughnut' development.

Photographic Evidence: (vacancies in red)

Bluestone Ward North (pink - vacancies outside the ward)



Bluestone Ward West



Bluestone Ward Central



Bluestone Ward South



Method:

The Bluestone Ward was surveyed from the ground via bicycle. Vacancies were recorded via digital camera and then onto spreadsheets.

Google Earth was used with its bird's eye view to estimate the number of dwellings per vacant site ie a comparison of the number of neighbouring dwellings that would fit on that land.

Conservative estimations were maintained in estimating all dwellings on vacant land. Ie a quarter acre block saw 1 dwelling, not the 2-3 houses as per modern development trends. No multi-story apartments were included in our calculations.

The average number of occupants per dwelling is 2.46 in the City of Maribyrnong.

Findings:

Vacant land sites - 399
Vacant buildings - 31
Total - 430 Vacant Properties
Vacant land accounted for 982 people
Vacant houses accounted for 76 people
Total - 1058 people

Period:

All calculations were made on Fri Sept 21st, 2007.

Genuine Vacancies:

The present 1.4% vacancy rate (REIV) only includes rental properties in the rental market. We propose that there is a much higher rate of vacant land if we include 'speculative vacancies' – those properties withheld from the market to manufacture additional capital gains. Vacant land is the dominant marker of this trend.

We advocate the need for a 'genuine vacancy' rate – one that includes both 'rental vacancies' and 'speculative vacancies'.

Such a calculation would give the general public a better understanding of the inefficiencies within the land market. From this we could evolve to a fairer land policy that encourages reward for effort over reward for speculation.

The I Want to Live Here survey covered the significant land holdings of the former Pacific Dunlop site, Cross St, Footscray West (as seen in the Bluestone Ward Central photo). This nine-acre site has been vacant since 2001, greatly reducing the supply of land in the region, pushing up prices in surrounding areas. Once the 'Banbury Village' development is built the dwellings will no doubt be drip-fed to the market to maximise profits, meaning that land may have remained vacant on the site for over a decade.

It must be noted that if speculative vacancies from apartments were included, the 1058 figure would be substantially higher.

Why does the Reserve Bank allow the Real Estate Industry to be the sole supplier of figures for which they have a vested interest in publishing?

Speculative Prowess:

Any prospective first home owner valiantly searching for a place would be shocked to realise that 1058 people could live in Bluestone Ward if a fairer land policy was adopted. This finding is significant in an environment where we are constantly told that vacancies are at a record low.

Furthermore, the current peak in the property cycle typically finds that much vacant land has already been sold off with the profit maximising motif in mind. Thus if we were to look back at the mid point of this property cycle, the 1058 figure understates the typical inefficiencies in the property market.

The Urban Development Institute of Australia releases a Land Price Index, which monitors the number of sites sold and the prices attained for land. Any rational property developer would utilise such information to ensure the supply of land is limited to maximise prices.

The Issue:

At present an average vacant site in Footscray goes for approximately \$220,000. This sees a Land Tax on only \$20,000 over the \$200,000 threshold. This would cost just \$240 p.a. Add council rates of \$800 onto this and the holding charge is barely \$1000. With property increasing by 30% in Footscray over the last 12 months, such a holding charge is dwarfed by the profits to be made in this paper-shuffling industry.

A site value of \$220,00 is typical of the median \$330,000 house. Thus the constant bickering over Land Tax equates to just \$240 for speculators to pay on the properties first homebuyers are trying to purchase. Such minimal charges encourage land hoarding to maximise prices.

Conclusion:

The hidden supply of land withheld from the market by private speculators can be addressed using market forces. A reformed Land Tax, in the form of a Site Rental, should be implemented along the lines of the Victorian Government's 2001 Harvey Report recommendations.

A higher Site Rental rate, set at a flat percentage rate could easily fund the abolition of stamp duties and payroll tax, and pay for a reduction in the regressive sales tax.

With the political difficulties inherent in a democratic system where vested interests dominate political campaign donations, the administering of such a sensitive policy should be handed to the apolitical Reserve Bank.

The 430 vacant sites found in just one small ward in the City of Maribyrnong contribute greatly to affordability pressures. If a Site Rental was implemented at a responsible level (upwards of 1.5%), these properties would soon find their way onto the market. This added supply would limit if not reverse the drastic land price inflation we are seeing. The benefits would see small business encouraged, local employment improved and wages increase.

Why then are governments so unwilling to address this issue?

"I am prepared to concede that all taxes, with the exception of those on economic rent have some [adverse] effects on employment and economic growth." John Howard, 10/12/1991 - p15 AFR

Is there perhaps another reason that vested interests talk so loudly on this topic? A Site Rental is a levy that can't be evaded. Speculative vacancies are a national trend that must be addressed.

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Appendix 1

Definitions:

Vacant land – any property that was unused, as demonstrated by an empty lot. This does not include parkland.

Vacant dwellings – property that is boarded up and/or unkept.

The survey focused on detached and semi detached buildings. A number of retail premises available for lease for a significant period of time (6 months or longer) were also included in the study.