



IT'S TIME TO END
HOMELESSNESS

Vacancy Tax on Residential Properties in Metropolitan Melbourne

Launch Housing Modelling

April 2016

A merger between



Recommendation

Launch Housing recommends the Victorian government introduce a 'vacancy tax' for residential properties left vacant for a period longer than 12 months. The tax could raise up to **\$78 million annually** and will:

- Help the Victorian government fund recommendations made by the Victorian Royal Commission into Family Violence.
- Encourage property owners who leave their property vacant to list it for rent or to put it on the market for sale. This will help to increase the supply of housing.

This paper

The paper models potential revenue to the Victorian government through a 'vacancy tax' on residential properties in metropolitan Melbourne. It does this by:

- Briefly looking at vacancy taxes in the United Kingdom and a proposal from British Columbia. The UK example also examines work by Camden Council to bring vacant properties to market.
- Modelling four scenarios to calculate potential revenue from a vacancy tax levied on vacant residential properties in Melbourne.
- Presenting a preferred model, which Launch Housing estimates could raise **\$78 million in revenue** annually.
- Concluding with a quick overview of the current state of Melbourne's rental market.

Examples from the United Kingdom and British Columbia

In the United Kingdom, the *Local Government Finance Act 2012* gives local councils the authority to charge a premium on council taxes for properties that have been unoccupied and unfurnished for two years or more. Councils can charge a premium of 50% on top of the existing council tax on the property. This means the property owner with a vacant property is liable to pay a 150% tax on the property. There are a number of exemptions for the tax, including homes of someone who is in hospital, prison or if the property has been compulsory purchased and will be demolished.¹

Camden Council (in the United Kingdom) has taken a number of proactive steps to identify and bring vacant properties back to the market. This includes examining council tax records, conducting site inspections, and establishing a hotline for people to report empty houses. Camden Council also provides grants to property owners to undertake repairs to their property, on the condition that it be rented to a homeless household for a period of three years. Where owners resist bringing their property back to market, Camden Council can use its enforcement powers to sell or purchase the property. This approach has been particularly successful: in the three years to 2011, Camden Council brought 176 properties back to market, with one third used to accommodate homeless households.²

In British Columbia, a group of economists have proposed 'British Columbia Housing Affordability Fund', which they estimate could raise \$90 million in the City of Vancouver alone.³ Under the proposal, revenue will be raised from a 1.5% tax on vacant properties, based on the value of the property. This means a property owner with a vacant house valued at \$1 million would pay an annual tax of \$15,000. The proposal includes a number of exemptions, including for veterans, people with a disability, and local taxpayers. The tax is seen as a way to raise revenue and to improve

housing affordability. The second aim will be achieved by reducing the inflow of money (and the upward pressure on house prices) from overseas investors who do not pay local taxes.

Vacancy tax – four scenarios

The tables below present the results of four different scenarios for a vacancy tax on residential properties in Melbourne. Estimates for the number of vacant properties are taken from three reports, which are summarised below:

1. The first, by Prosper Australia,⁴ used data from Melbourne’s three main water retailers to calculate the number of residential properties that lay vacant in metropolitan Melbourne in 2014. Vacant properties were assessed as those that used less than 50 litres of water per day over a 12-month period during 2014. (The average water use in Melbourne was 160 litres per day during this period.) Two estimates from Prosper Australia’s analysis are used in the tables below. The first are properties assessed as being ‘demonstrably unoccupied’ as they used no water during the 12-month period. The second are properties assessed as being underused (and most likely vacant) as their water usage was less than 50 litres per day over the 12-month period.
2. The second report, *The Australian Phantom Housing Shortage: The Myth in Every Bubble*,⁵ by LF Economics, estimates an oversupply of 220,000 homes across Australia. For this analysis, Launch Housing estimates Victoria’s oversupply is one-quarter of this number: 55,000 properties. (One-quarter was chosen because this roughly equates to Victoria’s share of Australia’s population.)
3. The third report, *2016 Building Industry Prospects*, was authored by BIS Shrapnel and estimated Victoria will have an oversupply of 21,881 properties by 2017. For this report, that number has been rounded down to 20,000 properties.⁶

Scenario 1 models tax revenue from a vacancy tax set at 50% and 150% of average council rates in metropolitan Melbourne in 2015.⁷ Based on the assumption of a 50% tax, Victoria would collect between \$18.6 million and \$61.9 million annually. If the tax rate was set at 150% of average council rates, Victoria would collect between \$49.2 million and \$185.9 million annually.

Scenario 1: 50% and 150% of average council rates

Report	Vacant properties	Average council rates	Tax revenue (50% tax rate)	Tax revenue (150% tax rate)
Prosper Australia (unoccupied)	24,872	\$1,498	\$18,629,128	\$55,887,384
Prosper Australia (underused)	82,724	\$1,498	\$61,960,276	\$185,880,828
LF Economics	55,000	\$1,498	\$41,195,000	\$123,585,000
BIS Shrapnel	21,881	\$1,498	\$16,388,869	\$49,166,607

Scenario 2 models tax revenue from a vacancy tax set at 10% and 30% of average median weekly rent (\$380) in metropolitan Melbourne for the December quarter 2015.⁸ Based on the assumption that tax be levied at 10% of median weekly rent, Victoria would collect between \$43.2 million and \$163.5 million annually. If the tax was levied at 30% of median weekly rent, Victoria would collect between \$129.7 million and \$490.3 million annually in vacancy taxes.

Scenario 2: Vacancy tax at 10% and 30% of weekly median rent

Report	Vacant properties	Weekly median rent	Annual median rent	Tax revenue (10% tax)	Tax revenue (30% tax)
Prosper Australia (unoccupied)	24,872	\$380	\$19,760	\$49,147,072	\$147,441,216
Prosper Australia (underused)	82,724	\$380	\$19,760	\$163,462,624	\$490,387,872
LF Economics	55,000	\$380	\$19,760	\$108,680,000	\$326,040,000
BIS Shrapnel	21,881	\$380	\$19,760	\$43,236,856	\$129,710,568

Scenario 3 models tax revenue from a vacancy tax set at 0.5% and 1% of median house prices in metropolitan Melbourne.⁹ Based on this assumption, Victoria would collect between \$78.5 million and \$296.9 million annually if the tax rate was set at 0.05% of median metropolitan Melbourne median house prices. If the tax was set at 1% of median house prices Victoria could collect between \$157.1 million and \$593.9 million annually.

Scenario 3: 1% and .05% of median house price

Report	Vacant properties	Median house price	Tax revenue (0.5% of median house price)	Tax revenue (1% of median house prices)
Prosper Australia (unoccupied)	24,872	\$718,000	\$89,290,480	\$178,580,960
Prosper Australia (underused)	82,724	\$718,000	\$296,979,160	\$593,958,320
LF Economics	55,000	\$718,000	\$197,450,000	\$394,900,000
BIS Shrapnel	21,881	\$718,000	\$78,552,790	\$157,105,580

Finally, **scenario 4** models tax revenue based on a tax rate set at 0.5% and 1% of median unit prices in metropolitan Melbourne.⁹ Based on the assumption of a vacancy tax set at 0.5% of median unit prices, Victoria would collect between \$58.8 million and \$222.3 million annually. If the tax was set at 1% of median unit prices Victoria would collect between \$117.6 million and \$444.6 million annually.

Scenario 4: 1% and .05% of median unit price

Report	Vacant properties	Median unit price	Tax revenue (0.5% of median unit price)	Tax revenue (1% of median unit prices)
Prosper Australia (unoccupied)	24,872	\$537,500	\$66,843,500	\$133,687,000
Prosper Australia (underused)	82,724	\$537,500	\$222,320,750	\$444,641,500
LF Economics	55,000	\$537,500	\$147,812,500	\$295,625,000
BIS Shrapnel	21,881	\$537,500	\$58,805,188	\$117,610,375

Preferred model

The preferred model is to introduce a tax set at 1% of median house and unit prices, based on Prosper Australia’s estimate that there are 24,872 properties that are ‘demonstrably vacant’ in metropolitan Melbourne.¹

For this model, we have assumed:

- Half of Melbourne’s vacant properties are houses and the other half are units.
- Vacant properties have the same value and non-vacant properties.
- 50% of vacancy properties will be eligible for an exemption from the tax.

Based on these assumptions, we estimate that Victorian would collect **\$78 million** in vacancy taxes on an annual basis.

Vacancy tax: Revenue estimate

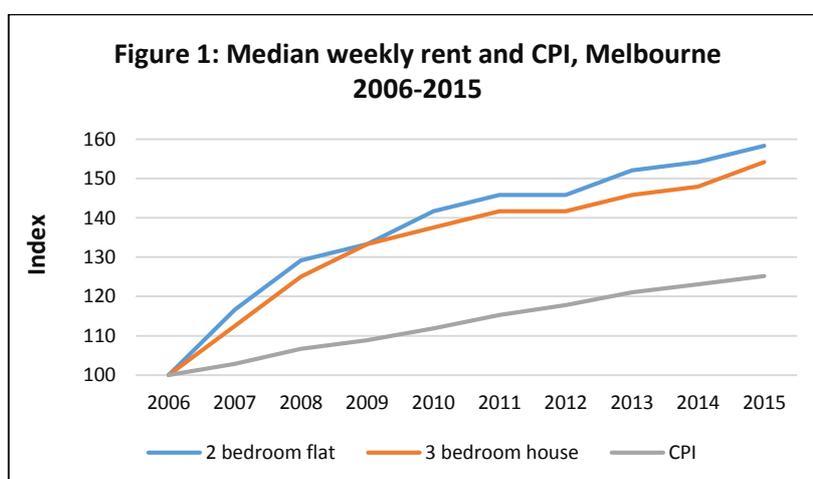
	Prosper Australia (‘Demonstrably vacant’)	Median property price	1% of median price	Tax revenue (1% of median house and unit prices)	Tax revenue with 50% exemption
Vacant houses	12,436	\$718,000	\$7,180	\$89,290,480	\$44,645,240
Vacant units	12,436	\$537,500	\$5,375	\$66,843,500	\$33,421,750
TOTAL REVENUE					\$78,066,990

Melbourne’s rental market

Melbourne’s rental market is characterised by rising prices and declining affordability.

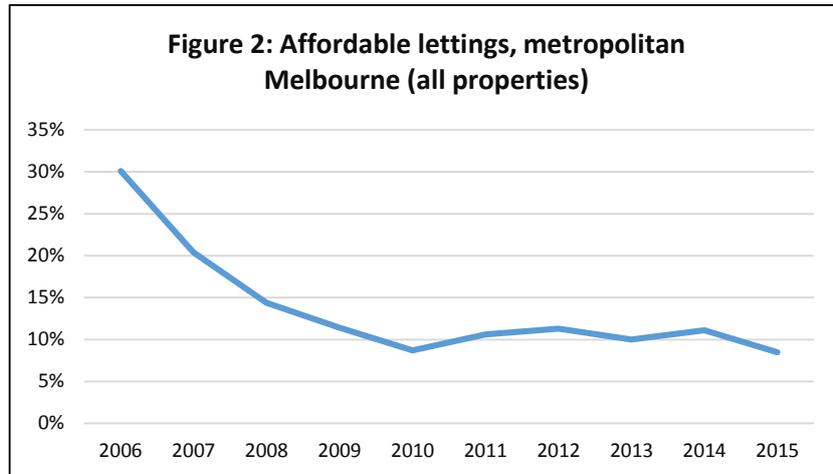
Figure 1 shows an index of median weekly rent for a two bedroom flat and a three bedroom house in metropolitan Melbourne from 2006 to 2015. During this time: ^{10,11}

- Median weekly rent for a two bedroom flat has increased by 58.3%.
- Median weekly rent for a three bedroom house has increased by 54.2%.
- Inflation has increased by just 25.2%.



Source: DHS, *Current Rental Report – Quarterly median rents by LGA December quarter 2015*; ABS, *6410.0 Consumer Price Index, Australia, December quarter*.

During the same period, there has been a considerable decline in the supply of affordable lettings across metropolitan Melbourne, as shown by Figure 2. In 2006, 30.1% of all rental properties were affordable. By 2015, this figure had fallen to just 8.5% of all rental properties.



Source: DHS, *Current Rental Report – Affordable lettings by LGA December quarter 2015*.

References

- ¹ See 'Council tax', Available from <https://www.gov.uk/council-tax/second-homes-and-empty-properties>.
- ² Camden Council, *A future for housing in Camden Camden's housing strategy 2011- 2016*, 2011, Available from <http://camden.gov.uk/ccm/content/housing/housing-policy-and-strategies/camdens-housing-strategy/>.
- ³ See 'BC Housing Affordability Fund', Available from <http://www.housingaffordability.org/>.
- ⁴ Cahsmore C, *Speculative Vacancies 8: The Empty Properties Ignored by Statistics*, Prosper Australia, 2015.
- ⁵ LF Economics 2016, cited by Irvine J, 'Does Australia really have a housing shortage?', *Sydney Morning Herald*, April 5, 2016.
- ⁶ BIS Shrapnel's 2016, cited in Duke J, 'Australia to have too many homes in 2017: BIS Shrapnel report', *domain.com.au*, Available from <http://www.domain.com.au/news/australia-to-have-too-many-homes-in-2017-bis-shrapnel-report-20160308-gnd9jh/>.
- ⁷ Average council rates in metropolitan Melbourne were \$1,498. See Council Rates: MAV 2015 Rates package, Available from <http://www.mav.asn.au/about-local-government/local-government-finance/Pages/more-rates-packages.aspx>
- ⁸ See DHSS Current Rental Report, 'Rental trends – December quarter 2011, Available from <http://www.dhs.vic.gov.au/about-the-department/documents-and-resources/research,-data-and-statistics/current-rental-report>.
- ⁹ Median prices are for the 2015 December quarter. Available from <http://www.reiv.com.au/property-data/median-prices>
- ¹⁰ Source: Department of Human Services, Current Rental Report – Quarterly median rents by LGA September quarter 2015, Available from <http://www.dhs.vic.gov.au/about-the-department/documents-and-resources/research,-data-and-statistics/current-rental-report>.
- ¹¹ Australian Bureau of Statistics, *6410.0 Consumer Price Index, Australia*, December quarter, December 2015.