Rate and valuation changes - East Melbourne

Jeremy McCartin <Jeremy.McCartin@melbourne.vic.gov.au>
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To: johngurrieri@hotmail.com <johngurrieri@hotmail.com>

Hi John,

Further to our conversation last week, I understand you would like some more clarification around rate and valuation movements and how these can affect a particular area in a Municipality (in this case, East Melbourne).

As you outlined, the average change in residential NAV for East Melbourne was 4.62% and the average increase in rates was 7.3%. If I have either of those 2 figures incorrect please let me know.

Rating valuations in general are a means of distributing the rate burden. As you would appreciate, in an urban Municipality there are multiple types of property being (broadly) residential, commercial, industrial and specialist. All exist within their own markets and sub-markets.

Even considering just residential property - there are houses, flats, townhouses and apartments. Each have different supply and demand factors and their markets are not particularly interrelated. An buyer for an older style flat in a suburb (any suburb) cannot afford a house. An owner of a new (or near new) apartment in the CBD, Southbank or Docklands has to deal with additional supply of several thousand new apartments each year and a resulting lack of scarcity, which restricts price growth. Houses in most inner areas are tightly held and the demand for them exceeds supply. Land appreciates in value – this influences house price changes from year to year, but is not as big a factor in the value of a unit in a multi-dwelling development.

Changes in value occur from revaluation to revaluation. Revaluations are not statistical exercises and movements in prices are not uniform across suburbs or property types. With the valuations as a distribution mechanism, it is not just the change in value for a property that is important but the RELATIVE change in value compared to other locations and property types.

The answer to the question you have asked is that in the 2019 Revaluation, while the increase in NAV for East Melbourne was under 5%, it is the relative decrease in NAV for other residential property types in other locations which has magnified the rate impact to be an increase of 7.3%. The NAV from 2018 to 2019 for high rise apartments in the CBD, Southbank and Docklands (mostly) either decreased or stayed the same. In terms of approximate numbers, this is more than 50,000 residential assessments. Where a large number of properties experience a lower than average movement in value, the rate burden will in effect "shift" to other locations where an average or higher than average increase in value occurs. In the next revaluation, it will shift again depending on market movements.

As you can appreciate, explaining how revaluations impact rates is hard to distil into a single sentence or short paragraph. The movement in value for one area – as much as people like to focus on their own patch – does not simply correlate to the movement in rates. The final point is that with annual revaluations, the rate burden will shift every year. It appears the Valuer General is prepared to provide statistics and I would encourage ratepayers to examine at them – but also look at the whole Municipality because that tells the actual story of what impact on rates a Revaluation has.

Regards,
Jeremy McCartin | Valuation Program Manager | Property | Finance and Corporate
City of Melbourne | City Village, Level 5, 225 Bourke Street Melbourne 3000 | GPO Box 1603 Melbourne 3001
T: 03 9658 9181 | F: 03 9658 8764 | E: jeremy.mccartin@melbourne.vic.gov.au
www.melbourne.vic.gov.au | whats-on.melbourne.vic.gov.au

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