



# **Navigating Statutory Valuation to improve investment returns**

Property Funds Association Masterclass 2019



**Preston Rowe Paterson**

International Property Consultants and Valuers

# A few caveats before I get started!

- Preston Rowe Paterson acts for both owners and State Governments in different locations – hence what follows is a balanced unbiased view;
- The details are up to date as of a week or so ago, so please use this as a **guide only and reference** and check the details as State Governments are constantly changing the landscape;
- Where quoting current Rating and Taxing policy we have gone to the top of any ad valorem taxing scales and not included the detail given the number of State based differences;
- This presentation is in two parts:-
  - 1) The State Based Legislative and Policy Framework for statutory rates and taxes; and
  - 2) Then some perspectives on the impact on investment rental and capital values



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# Part A

## The State based Legislative and Policy Framework



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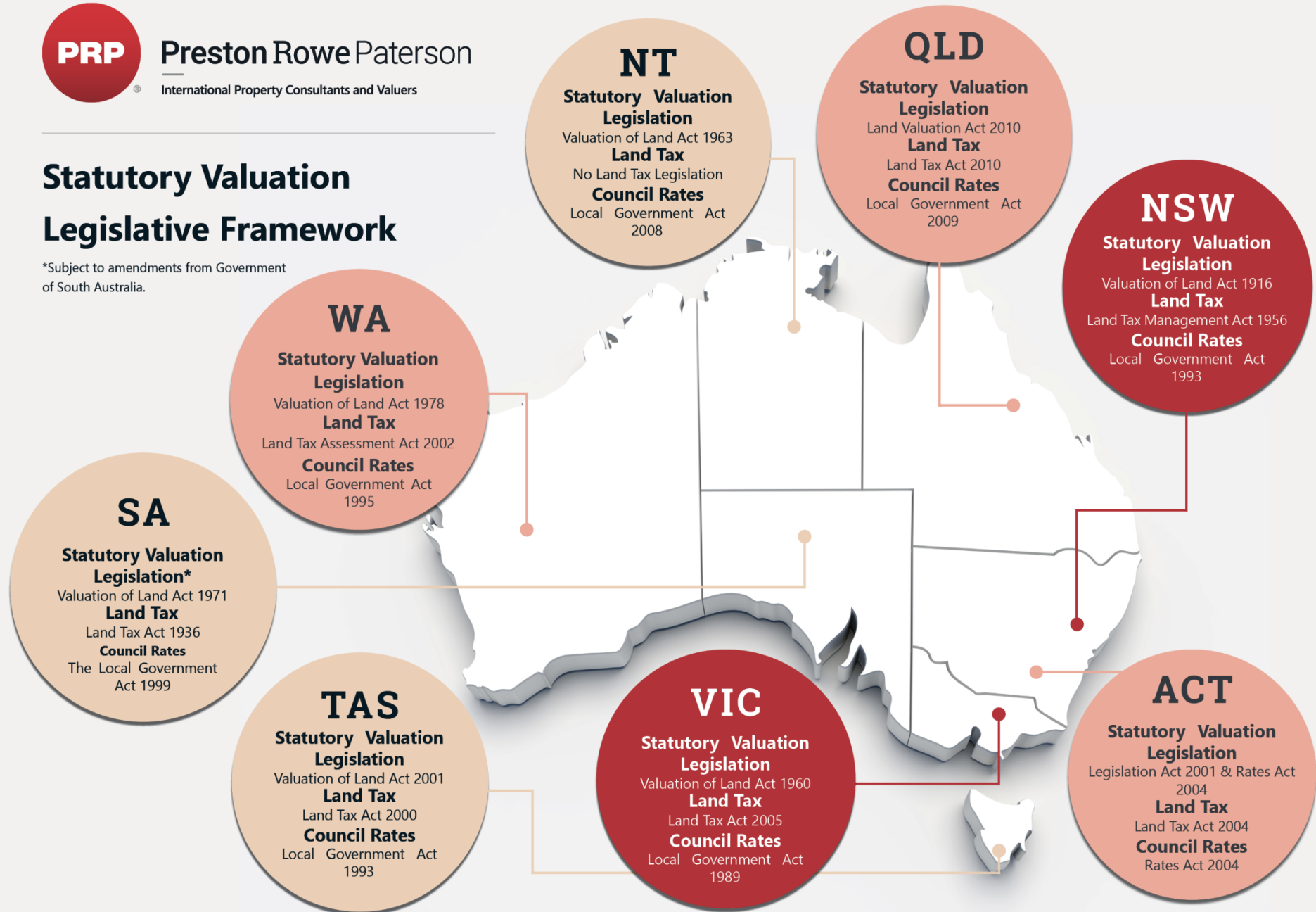


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## Statutory Valuation Legislative Framework

\*Subject to amendments from Government  
of South Australia.







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## Statutory Valuation Issues

### WA

**Value Basis**

Unimproved Value (but includes work to prepare land for development)

**Tax Base Date**

30th June each year

**Notices Issued**

Between October and January

**Dates to Object**

60 Days

### SA

**Value Basis**

Unimproved Value

**Tax Base Date**

30th June each year

**Notices Issued**

Usually between October and November

**Dates to Object**

60 Days

### TAS

**Value Basis**

Unimproved Value (but includes invisible improvements to the land)

**Tax Base Date**

1st July each year

**Dates to Object**

60 Days

### NT

**Value Basis**

Unimproved Capital Value

**Tax Base Date**

1st July each year

**Dates to Object**

30 Days

### QLD

**Value Basis**

Site Value (except rural zoned)

**Tax Base Date**

30th June each year

**Notices Issued**

Before 31 March each year

**Dates to Object**

60 Days

### NSW

**Value Basis**

Unimproved Value

**Tax Base Date**

Midnight 31st December each year

**Notices Issued**

Between January to March each year

**Dates to Object**

60 Days

### VIC

**Value Basis**

Unimproved Value  
(Capital Improved Value for Vacant Residential Land Tax)

**Tax Base Date**

Midnight 31st December each year

**Notices Issued**

Between January to April each year

**Dates to Object**

60 Days

### ACT

**Value Basis**

Unimproved Value

**Tax Base Date**

1 July, 1 October, 1 January and 1 April each year.

**Notices Issued**

Quarterly

**Dates to Object**

60 Days



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## Land Tax Rates

\*Rates provided are the maximum effective rates based on ad valorem tax.

Lower rates will apply to properties within lower thresholds.

\*\*Thresholds provided are the minimum values to which tax rates start to apply.

### WA

#### Max Rate\*

2.67%

#### Starting Threshold\*\*

\$300,001

#### Metropolitan Region Improvement Tax

In addition, 0.14% rate for every dollar of the aggregated taxable value of the land in excess of \$300,000, which is located in the metro area

### SA

#### Max rate\*

3.7%

#### Starting Threshold\*\*

\$391,000

#### Surcharges

No Land Tax surcharge at this moment, however surcharge to certain Trusts to be announced for 1 July 2020

### VIC

#### Max Rates\*

General - 2.25%, Trusts - 2.25%

#### Starting Threshold\*\*

General - \$250,000, Trusts - \$25,000

#### Absentee Owner Surcharge Rate

Additional 1.5% applied to all land owned by absentee owners

#### Vacant Residential Land Tax

An additional 1% surcharge on residential land left vacant more than 6 months in Melbourne's middle and inner suburbs

#### Special Land Tax

5% one-off tax charged to land that was exempt but no longer exempt, with increased amounts for absentee owners

### NT

#### Property Activation Levy

1% tax on unimproved value for unoccupied buildings and 2% tax for vacant land calculated by reference to each day that the lot is not "activated". Applied to property located in Darwin CBD.

### QLD

#### Max rate\*

Individual - 2.25%, Companies and Trusts - 2.75%

#### Starting Threshold\*\*

Individuals - \$600,000,  
Companies, Trustees or Absentees - \$350,000  
**Foreign Corporations and Trustees**

#### Surcharge

Additional 2% Surcharge for Foreign Corporations and Trustees

#### Subdivider Discount

Land Tax Subdivider Discount - Up to 40% if conditions are met

### NSW

#### Max Rate\*

General - 1.6%, Premium - 2%

#### Starting Threshold\*\*

General - \$692,000,  
Premium - \$4,231,000

#### Foreign Land Tax Surcharge

Additional 2% applies to all residential land owned by a foreign person

### ACT

#### Land Tax Rate\*

Fixed Charge of \$1,263 + up to 1.10% Valuation Charge on unimproved value. (Commercial/Rural exempt from land tax)

#### Council Rates\*

Residential - Fixed Charge of \$875 + up to 0.5817% Valuation Charge on unimproved value.  
Commercial - Fixed Charge of \$2,622 + up to 5.3216% Valuation Charge on unimproved value. (Differing rates for rural and residential units)

#### Starting Threshold\*\*

\$0-\$150,000

#### Foreign Ownership Surcharge

Additional Land tax surcharge of 0.75 per cent to residential land owned by foreign persons

### TAS

#### Max Rate\*

1.5%

#### Starting Threshold\*\*

\$25,000

#### Special Exemptions

1 year land tax exemptions for short-stay accommodation that is made available for long-term rental or 3 year exemptions for all newly built housing that is made available for long-term rental

# VIC Land Tax Changes

## Heritage Provisions Removed

**Valuation of Land Act 1960** to be amended to simplify the methodology for determining the site value of buildings listed on the Victorian Heritage Register.

## Absentee Owner Surcharge Rate

Increase from 1.5 % to 2 % from 2020 land tax year. Surcharge will be taxed in addition to land tax at a flat 2% rate, applied to taxable land value starting from \$25,000 for Trusts.

## Notice Date Changes

2019/2020 Valuation & Rate Notices with a new valuation as at 1 January 2019 will start to be issued from July 2019.

### General Rates of Land Tax

Total taxable value of land holdings	Land tax payable
< \$250,000	Nil
\$250,000 to < \$600,000	\$275 plus 0.2% of amount > \$250,000
\$600,000 to < \$1,000,000	\$975 plus 0.5% of amount > \$600,000
\$1,000,000 to < \$1,800,000	\$2975 plus 0.8% of amount > \$1,000,000
\$1,800,000 to < \$3,000,000	\$9375 plus 1.3% of amount > \$1,800,000
\$3,000,000 and over	\$24,975 plus 2.25% of amount > \$3,000,000

### Land Tax Rates for Trusts

Total taxable value of land holdings	Land tax payable
< \$25,000	Nil
\$25,000 to < \$250,000	\$82 plus 0.375% of amount > \$25,000
\$250,000 to < \$600,000	\$926 plus 0.575% of amount > \$250,000
\$600,000 to < \$1,000,000	\$2938 plus 0.875% of amount > \$600,000
\$1,000,000 to < \$1,800,000	\$6438 plus 1.175% of amount > \$1,000,000
\$1,800,000 to < \$3,000,000	\$15,838 plus 0.7614%* of amount > \$1,800,000
\$3,000,000 and over	\$24,975 plus 2.25% of amount > \$3,000,000



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# QLD Land Tax Changes

## Rates for individuals

Total taxable value	Rate of tax
\$0–\$599,999	\$0
\$600,000–\$999,999	\$500 plus 1% for each \$1 more than \$600,000
\$1,000,000–\$2,999,999	\$4,500 plus 1.65% for each \$1 more than \$1,000,000
\$3,000,000–\$4,999,999	\$37,500 plus 1.25% for each \$1 more than \$3,000,000
\$5,000,000–\$9,999,999	\$62,500 plus 1.75% for each \$1 more than \$5,000,000
\$10,000,000 or more	\$150,000 plus 2.25% for each \$1 more than \$10,000,000

## Rates for companies and trustees

Total taxable value	Rate of tax
\$0–\$349,999	\$0
\$350,000–\$2,249,999	\$1,450 plus 1.7% for each \$1 more than \$350,000
\$2,250,000–\$4,999,999	\$33,750 plus 1.5% for each \$1 more than \$2,250,000
\$5,000,000–\$9,999,999	\$75,000 plus 2.25% for each \$1 more than \$5,000,000
\$10,000,000 or more	\$187,500 plus 2.75% for each \$1 more than \$10,000,000

## Companies and trustees with landholdings of more than \$5,000,000 but \$10,000,000 or less

The land tax rates will increase from 2% to 2.25% from 30 June 2019.

## Companies and trustees with landholdings of more than \$10,000,000

The land tax rates will increase from 2.5% to 2.75% from 30 June 2019.

## Foreign Companies/Trustees Surcharge

New Land Tax Foreign Surcharge of 2% to foreign companies and trustees from July 2019.

Surcharge is taxed in addition to land tax at a 2% rate, applied to taxable land value starting from \$350,000.



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# SA Land Tax Changes

## Are you paying too much land tax?

### Property

Richard Wakelin



Paying land tax is an inevitable side effect of successful property investment and arguably a nice problem to have. Rates and tax-free thresholds vary across states but are always structured in a progressive way. And with the tax only applicable to the unimproved portion of a holding (typically less than 70 per cent of the total value even for houses), little if any tax is paid by those owning a single investment property worth less than \$1 million.

It is a different story if the owner has built a portfolio of, say, two or three houses that might be worth \$3 million in total and comprise \$2 million in land value. In some states, the annual land tax bill in those circumstances would be more than \$20,000 a year. And once unimproved values move north of \$4 million, the marginal land tax rate can sit between 2e and 2.25e in the dollar of unimproved value, and annual land tax bills of \$50,000 are not uncommon.

Although land tax is a relatively modest portion of total state

government receipts (for instance, it represents around 4 per cent of total government revenue in NSW), the amount raised has swelled in Victoria and NSW since the start of the decade off the back of strong property price growth. In Victoria alone, land tax receipts in 2019-20 are expected to be \$3.7 billion, over three times higher than the \$1.2 billion raised in 2009-10.

Now it is both unremarkable and unobjectionable that higher land

*There is a likelihood that some investors will be over-taxed.*

values lead to higher land tax. But there is a likelihood that some investors will be over-taxed in this environment due to the manner properties are valued for the purposes of land tax.

In many states, the government relies on councils to manage the valuation process, adopting the same valuation data used by local government to calculate rates. In NSW, the valuation process is run by the state's valuer general (an approach to which Victoria is slowly transitioning).



In Melbourne, prices are down 11 per cent from 2017 peaks, but falls aren't uniform across the city. PHOTO: LOUISE KENNERLEY

Generally, the assessment's land value is an estimate on a prescribed date, typically January 1 or July 1 in the previous year.

Fresh valuation of properties is undertaken intermittently, generally on a two-to-three-year cycle, although some states flag that desktop-based adjustments are made more often to reflect market movements. Overall, this is a reasonable approach that balances a need for accuracy without being onerously expensive to operate.

But the methodology leaves landowners vulnerable when prices are volatile. For instance, in Sydney and Melbourne, prices are now down 15 and 11 per cent respectively from their 2017 peaks, according to CoreLogic. But

falls aren't uniform within cities. CoreLogic reports that the top quartile of properties in Sydney and Melbourne are down 17 per cent and 16 per cent respectively, and there will be properties that are down more than 20 per cent in value from their peak.

An out-of-date council valuation that doesn't capture a 20 per cent price drop on a portfolio comprising \$4 million in land holdings subject to a 2e-in-the-dollar land tax rate could see the investor overcharged \$16,000.

Fortunately, there is always a mechanism to challenge the land tax bill. It varies across states but usually involves filling in a comparatively short form. The key to success is two-fold: one, providing evidence of comparable

sales from around the time of the assessment's valuation date that supports a lower valuation; and two, speed. Objections generally need to be lodged within 60 days of receipt of the land tax assessment notice.

With notices usually issued in the first quarter, it is now generally too late to challenge a 2019 bill. But when your 2020 bill arrives next autumn, be sure to check that the valuation genuinely reflects prices from the state's official 2019 assessment date rather than from the peak of the market in 2017.

Richard Wakelin is a founder of Wakelin Property Advisory, an independent buyer's agent specialising in acquiring residential property for investors.

## Reduction in Top Marginal Tax Rate

Year	Top marginal tax rate
2019-20	3.7%
2020-21	3.6%
2021-22	3.5%
2022-23	3.4%
2023-24	3.3%
2024-25	3.2%
2025-26	3.1%
2026-27	3.0%
2027-28	2.9%

## Notice Date Changes

2019/2020 Valuation & Rate Notices with a new valuation as at 1 January 2019 will start to be issued from July.

## Aggregation and Trust Surcharge Changes

- Aggregation of property based on an owner's interest in land, rather than the same ownership structure
- Introducing provisions to allow two or more related companies to be grouped for land tax purposes
- Surcharge on land owned in certain trusts in cases where the interests in land of trust beneficiaries are not disclosed by taxpayers or cannot be identified.



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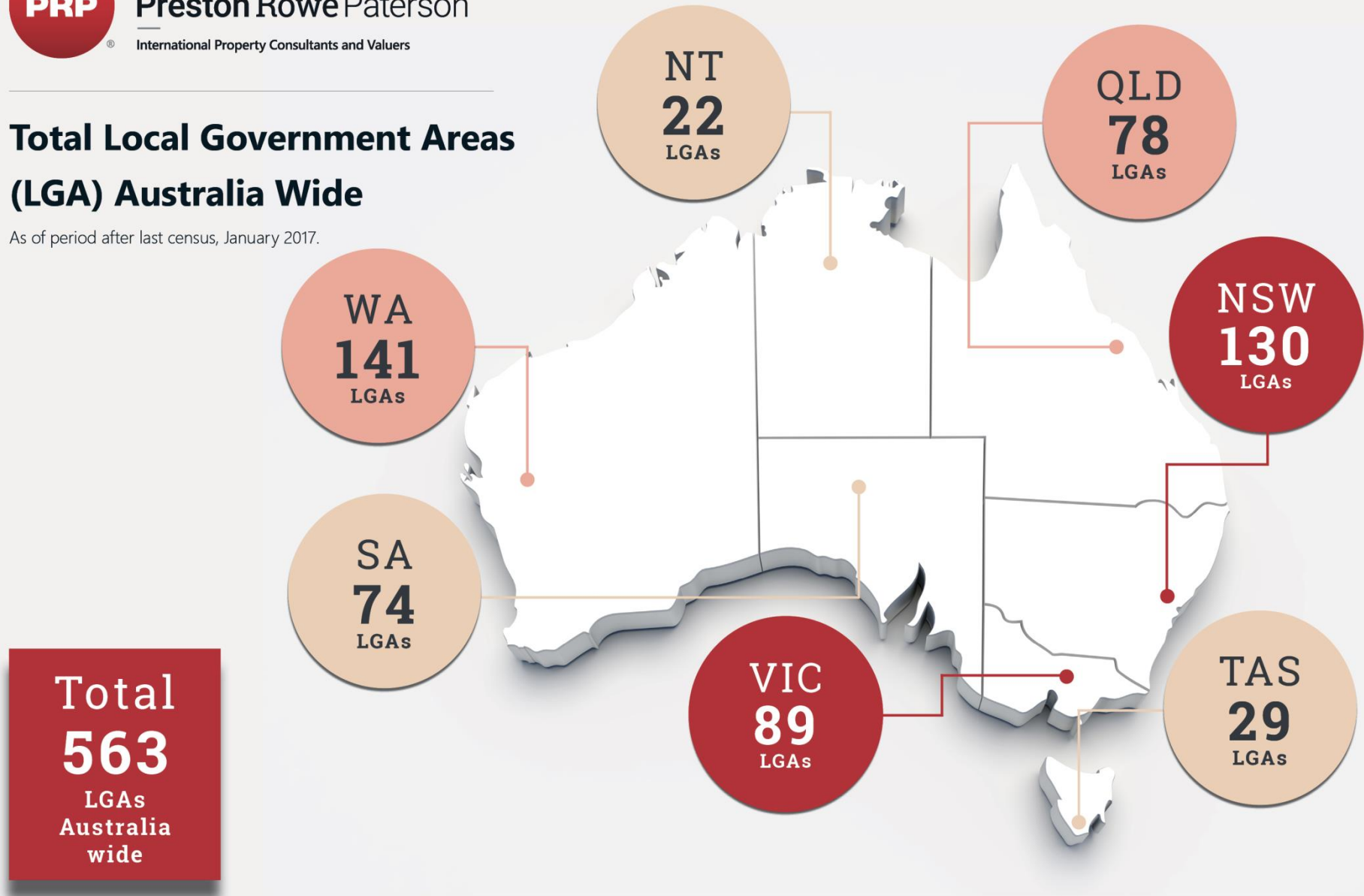


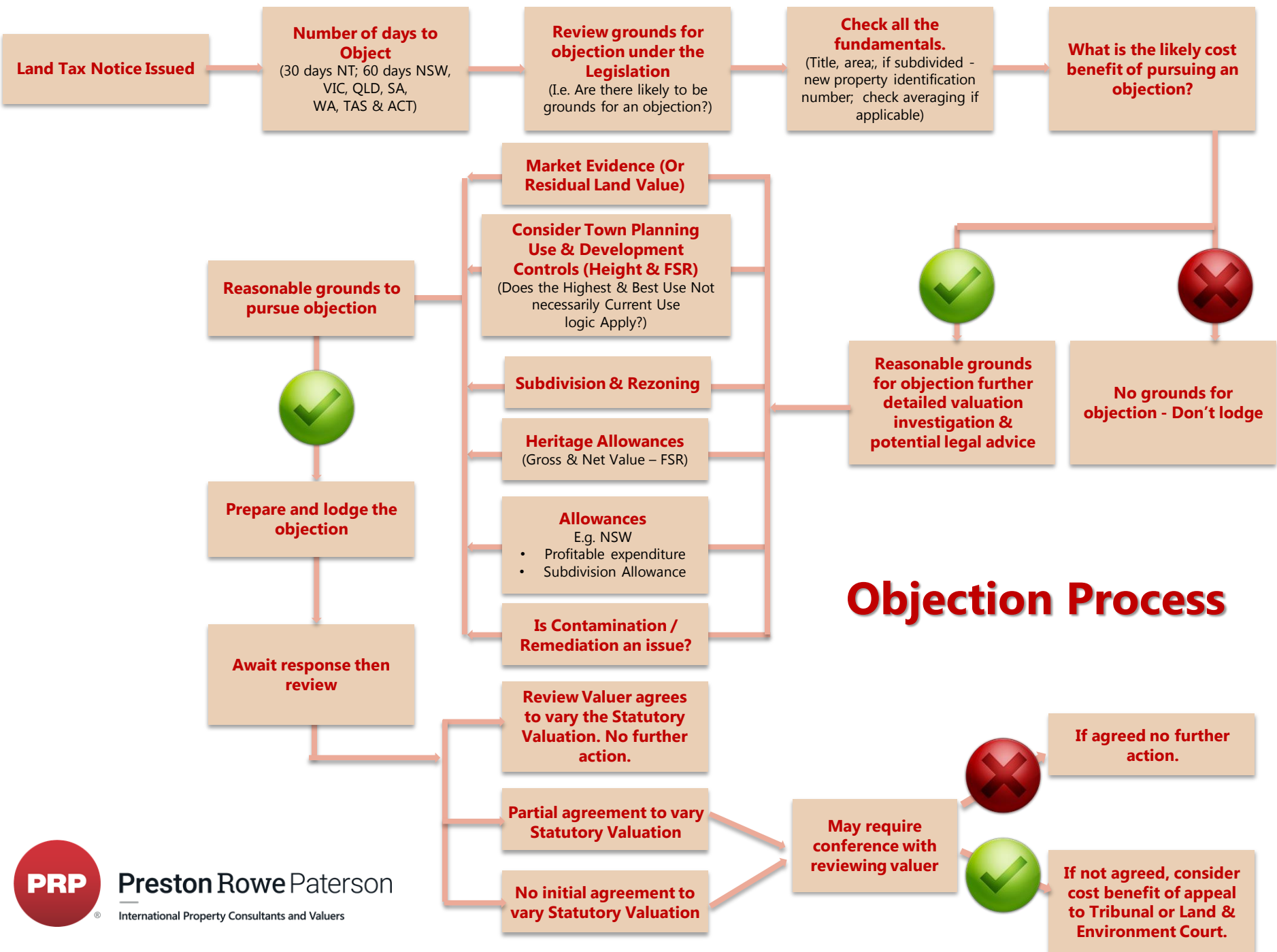
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## Total Local Government Areas (LGA) Australia Wide

As of period after last census, January 2017.





# Part B

## Impact on Rental and Capital Values



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# Asset Class Markets



## Commercial

Sydney	
Melbourne	
Brisbane	
Adelaide	
Perth	



## Residential

Sydney	
Melbourne	
Brisbane	
Adelaide	
Perth	



## Industrial

Sydney	
Melbourne	
Brisbane	
Adelaide	
Perth	



## Retail

Sydney	
Melbourne	
Brisbane	
Adelaide	
Perth	

\*Varies depending on centre type



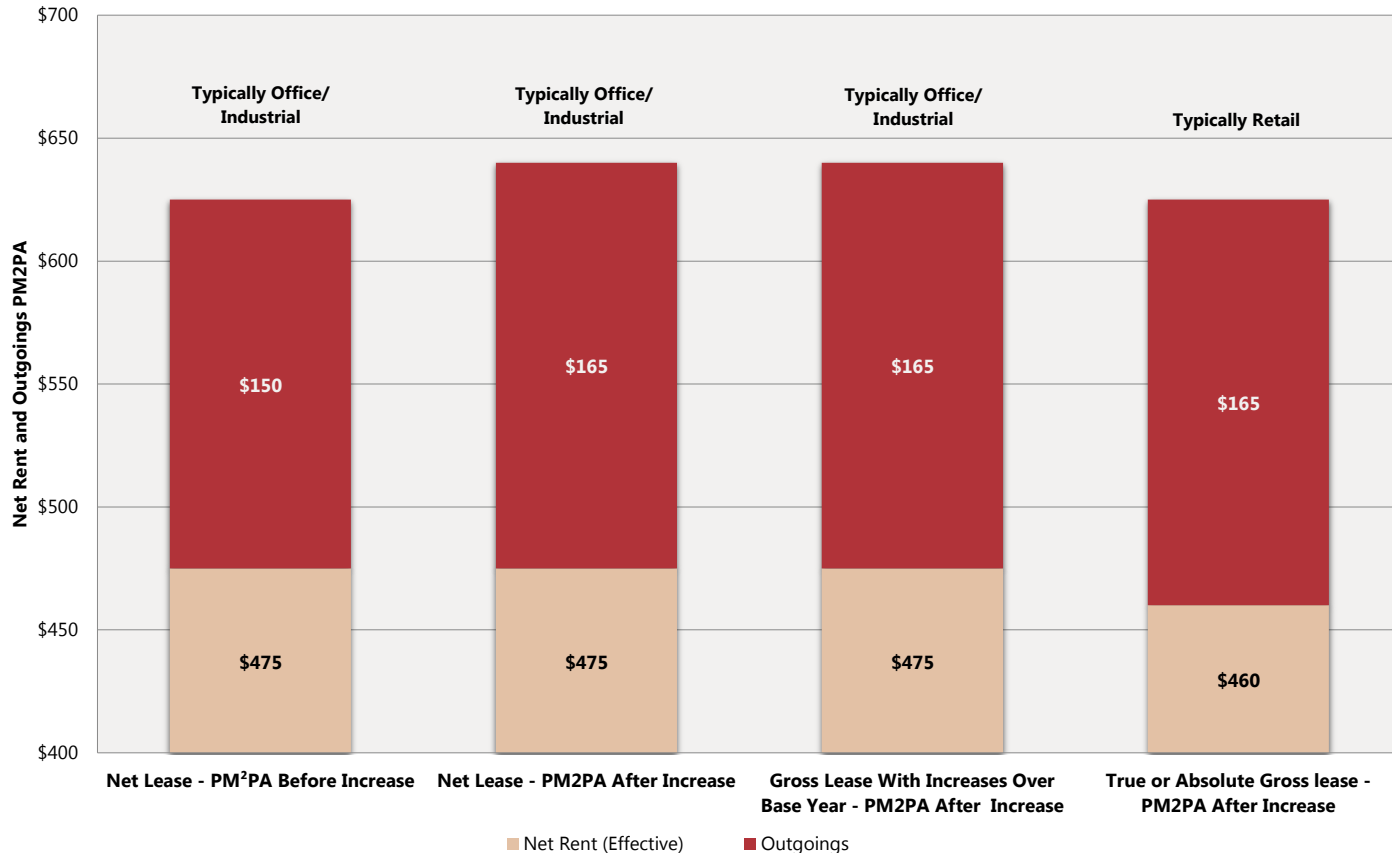
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\*Based on Capital Values Growth and Movement YOY.

# Rental Value Impact (Melbourne)

**Impact of Sudden Land Tax Increase On Market Rental Value  
(Net, Gross and True Gross Lease Comparison)**



## **Net Lease after Increase**

- Increase will be captured by owner in this years O/G recovery budget
- Future mark to market reviews may be impacted in static or low growth market
- Bottom line largely unaffected in the short term
- Consider outgoings year (Lag Effect)

## **Gross Lease with Base Year Recoveries after Increase**

- Increase will be captured by owner in this years O/G recovery budget as an increase over the base year
- But Gross market rent may be impacted if O/G base years B/F on Market review and can't capture the increase
- Bottom Line may be impacted

## **True/ Absolute Gross Lease after Increase**

- Increase in O/G may not be recoverable as tenant pays true gross rental
- Bottom line impacted
- Retail which is predominantly True Gross Leased most impacted.



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# Capital Value Impact

- **Market value based impact?**
- **Urban renewal - uplift in zoning/ use and Floor Space Ratio** or Plot Ratio?
- For an existing investment asset, **can the impact of rising Land Tax be passed through to the tenants?** (net; versus gross with recoveries over base year; versus true gross leases?)
- If increased Land Tax can be passed through (net leases), **what will be the impact at the next market review** given total occupancy cost movement that results?
- If it can't be passed through to tenants **how is the bottom line impacted?** (true gross leases – perhaps retail);
- What is the timing of the objection process in cash terms and what will be the impact on DCF cash flows?
- It is a case by case basis depending on the circumstances – a **\$15pm2pa** increase for a true gross leased asset of **25,000m2** equates to a net income reduction of **\$375,000pa** and at **6%** a capital value adjustment of **\$6.25m**. A case for net leases to pass through and or absorb the changes.



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# Need to Single Out Statutory O/G Growth in DCF Modelling – Capital Values?

Global Rental, CPI and Outgoings Growth Assumptions							
Year	Market Rental Growth - Office	Market Rental Growth - Retail General	Market Rental Growth - Car Parking	Market Rental Growth - Ancillary Income	CPI Growth	Statutory Outgoings Growth	Operating Expenditure Growth
Year 1:	2.50%	3.78%	2.28%	2.28%	2.28%	4.00%	2.28%
Year 2:	2.50%	3.95%	2.45%	2.45%	2.45%	4.00%	2.45%
Year 3:	3.00%	4.06%	2.56%	2.56%	2.56%	3.00%	2.56%
Year 4:	3.50%	3.97%	2.29%	2.29%	2.29%	2.29%	2.29%
Year 5:	4.00%	3.65%	2.15%	2.15%	2.15%	2.15%	2.15%
Year 6	4.00%	3.86%	2.36%	2.36%	2.36%	2.36%	2.36%
Year 7	4.00%	4.05%	2.55%	2.55%	2.55%	2.55%	2.55%
Year 8:	4.00%	3.97%	2.47%	2.47%	2.47%	2.47%	2.47%
Year 9:	4.00%	3.76%	2.26%	2.26%	2.26%	2.26%	2.26%
Year 10 and Beyond:	4.00%	3.76%	2.26%	2.26%	2.26%	2.26%	2.26%
<b>Average</b>	<b>3.55%</b>	<b>3.88%</b>	<b>2.36%</b>	<b>2.36%</b>	<b>2.36%</b>	<b>2.73%</b>	<b>2.36%</b>
<b>Median</b>	<b>4.00%</b>	<b>3.91%</b>	<b>2.33%</b>	<b>2.33%</b>	<b>2.33%</b>	<b>2.42%</b>	<b>2.33%</b>



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# State Govt Land Tax Web Sites

**VIC** – [www.sro.vic.gov.au](http://www.sro.vic.gov.au)

**NSW** – [www.osr.nsw.gov.au](http://www.osr.nsw.gov.au)

**QLD** – [www.treasury.qld.gov.au](http://www.treasury.qld.gov.au)

**WA** – [www.finance.wa.gov.au](http://www.finance.wa.gov.au)

**TAS** – [www.sro.tas.gov.au](http://www.sro.tas.gov.au)

**ACT** – [www.revenue.act.gov.au](http://www.revenue.act.gov.au)

**NT** – [www.nt.gov.au](http://www.nt.gov.au)

**SA** – [www.revenuesa.sa.gov.au](http://www.revenuesa.sa.gov.au)



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China via China Appraisal

Japan via Daiwa Realty Appraisal

Thailand via Capital and Co.

Philippines via Cuervo Appraisal Incorporated



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