

27 January 2015

The Hon Paul Fletcher MP  
Minister for Territories, Local Government and Major Projects  
PO Box 6022  
House of Representatives  
Parliament House  
CANBERRA ACT 2600

Via email: [Paul.Fletcher.MP@aph.gov.au](mailto:Paul.Fletcher.MP@aph.gov.au)

Dear Minister

**Value-Capture Funding – SCCA Policy Position**

We wrote to you in early December 2015 to express our thoughts about the Federal Government's ongoing investigation of value-capture as a means of infrastructure funding.

In the intervening period we have had the opportunity to meet with a member of your staff, Hugh Funder, to discuss our thoughts. We are sincerely appreciative of his time and advice on the Government's current approach.

The Shopping Centre Council of Australia (SCCA) is a long-term advocate for productive and sustainable cities including integrated land-use and infrastructure planning. We also advocate across Australia on issues that relate to 'value-capture fundamentals', such as land valuation, planning, infrastructure and taxation.

**Attached** is a *Policy Position* paper we have since prepared to summarise our position on value-capture funding, which includes 'Ten Critical Issues' that we strongly believe are fundamental to the design and progress of any proposed value-capture scheme.

Having discussed these critical issues with our valuation advisors, the SCCA is of the view that there is no credible method to properly isolate and quantify the contribution made by an infrastructure project to an asset's land value. A shopping centre's value – which is already taxed many times over – also already includes the value of any infrastructure projects. Shopping centres are also a specialised asset class which are treated differently for statutory valuation purposes. No model or mass valuation process could be applied to shopping centres.

The *Policy Position* provides more detail on these and other important points.

The SCCA will be submitting material along the lines of the *Policy Position* to the Standing Committee on Infrastructure, Transport and Cities' inquiry into the role of transport connectivity on stimulating development and economic activity. We look forward to engaging positively with that forum as it progresses to public hearings and the like.

I would welcome an opportunity to discuss our concerns and thoughts with you or your staff if that would be helpful. Alternatively, our Board would also be pleased to discuss these and other issues with you. I will follow up with your staff in the coming days to discuss this letter.

In the meantime, please do not hesitate to have your staff contact me on 0408 079 184 or [anardi@scca.org.au](mailto:anardi@scca.org.au).

Yours sincerely,

 27.1.2016

Angus Nardi  
**Executive Director**

**CC:** The Hon Greg Hunt MP  
A/Minister for Cities and the Built Environment  
[Greg.Hunt.MP@aph.gov.au](mailto:Greg.Hunt.MP@aph.gov.au)

## POLICY POSITION: VALUE-CAPTURE FUNDING

The Shopping Centre Council of Australia (SCCA) represents Australia's major owners, managers and developers of shopping centres across metropolitan, regional and rural areas (refer to [www.scca.org.au](http://www.scca.org.au)). Our largest five members own and manage in excess of \$75 billion in assets, covering 28,600 retailers and \$53 billion in retail sales. Our members have a \$10 billion investment and development pipeline over the next three years.

We are long-term advocates for productive and sustainable cities including integrated land-use and infrastructure planning.

'Value-capture' funding has been proposed as a so-called 'new' and 'innovative' method to fund infrastructure. While various models exist, we are concerned that 'value-capture' could simply result in yet another property tax and yet another tax where shopping centre owners carry a disproportionate tax burden.

This *SCCA Policy Position* summarises the critical issues, including 'fundamental' issues, we believe need to be properly considered and consulted on in relation to 'value-capture' funding.

The SCCA advocates on issues that relate to 'value-capture fundamentals' such as land valuation, planning, infrastructure and taxation. In our view, the public debate to date has largely been silent on these fundamentals and this *Policy Position* aims to provide useful policy insights on these issues.

The SCCA is well placed to be an informed and key contributor to this discussion and has a track record of providing unique, evidence-based and considered analysis and policy solutions.

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### INTRODUCTION

'Value-capture' has become the phrase *du jour* in recent public policy discussion about cities and infrastructure funding, followed by catchy concepts like 'value-sharing' and references to overseas models.

This approach has been mooted as a possible condition of Federal funding of infrastructure projects.

The basic logic is that an increase in land (or property) values that flow from infrastructure projects (e.g. roads and rail) should be captured, shared and tapped into as a funding (or revenue) stream.

While value-capture funding can take various forms, there is a real prospect it could become yet another property tax on: (1) existing assets (e.g. similar to land tax) and/or (2) new development (e.g. similar to infrastructure contributions). There have already been public references to "...charges on local properties..." making us concerned with the impact on commercial properties, including shopping centres and their retailers.

We find this prospect extraordinary, particularly considering the status of the national tax debate.

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### TEN CRITICAL ISSUES

We have observed different commentary and proposals on value-capture funding, some of which is extremely simplistic and concerning.

The following critical issues need to be considered in consulting, progressing and designing any proposed new scheme (discussed further below).

- #1: **Value is already 'captured' and taxed multiple times**
- #2: Value and valuation need to be properly understood
- #3: **Shopping centres already pay disproportionately high taxes**
- #4: Land-based taxes can distort investment and reduce asset value
- #5: **Developers already make infrastructure contributions + infrastructure should be linked to demand: not value**
- #6: 'Value-capture' catchment lacks alignment with actual users/beneficiaries
- #7: **Fair's fair – governments should pay fair value**
- #8: Governments should remove regulatory barriers to value
- #9: **Overseas examples are just that: overseas examples**
- #10: Other funding options

**#1 – VALUE IS ALREADY ‘CAPTURED’ AND TAXED MULTIPLE TIMES**

A shopping centre’s value – whether it’s statutory value (which includes land value for land tax in all states and council rates for NSW and Queensland, and improved value for council rates in Victoria, SA and WA) or market value - is already captured, taxed and ‘shared’ multiple times by Australia’s Governments. This includes capturing the value of any infrastructure projects. Taxes include land tax, local council rates and fire and emergency services levies (and even water pricing).

The statutory valuation basis of such taxes is also controlled by Government policies generally administered by the relevant Valuers-General. This is a further regulatory risk for shopping centre companies.

Shopping centres are also extremely productive assets and significant generators of GST through retail sales. Australia’s Top 10 shopping centres account for \$9.5 billion in retail turnover. It is the investment of shopping centre companies and their retailers that allows the creation of these GST collection hubs.

**TYPICAL LARGE SHOPPING CENTRE**



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**SNAPSHOT: VALUE ALREADY TAXED**

**Land value: \$44 MILLION**  
Land tax: \$970,000  
Council rates: \$2.7 million  
Fire Services Levy: \$190,000

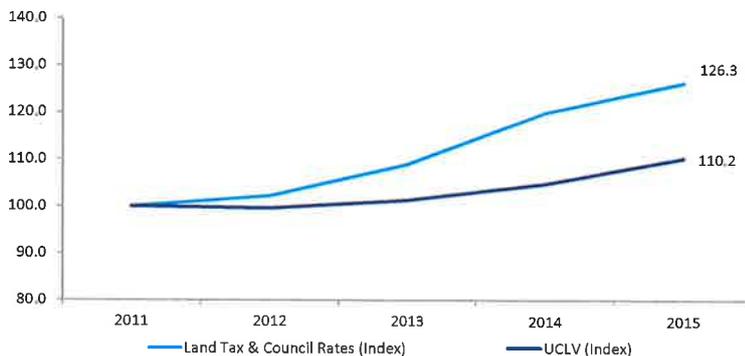


**Moving Annual Turnover (Retail Sales): \$465 million**  
GST estimation: \$18 million

(Source: Flaticon.com)

In recent years, the tax take from land value based taxes for shopping centres has also outstripped the growth in land valuation, meaning that shopping centres are being taxed more than their ‘fair share’.

**SCCA Sample Pool Land Tax & Council Rates vs. Land Value**  
Index of Total Value 2011 to 2015



Source: SCCA Member Data

**#2 – VALUE AND VALUATION NEED TO BE PROPERLY UNDERSTOOD**

Shopping centre value is driven by shopping centre companies, and every day is spent managing risk and driving value in their assets. This can also be the catalyst to help drive value in surrounding properties. Value and valuation also isn’t a simplistic concept for shopping centres and for this reason, shopping centres are generally treated as specialised asset classes for statutory valuation purposes. The general or mass valuation approach of residential property certainly can’t be applied to shopping centres, nor could a generic value-capture model.

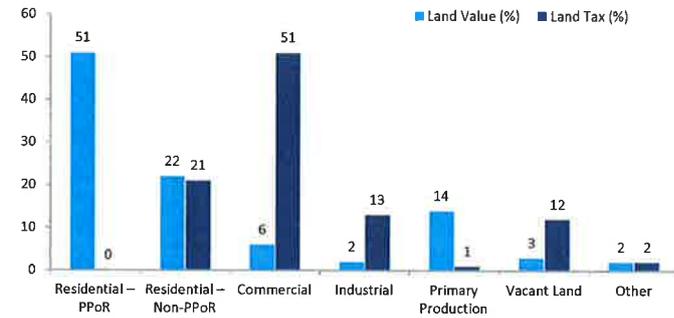
Valuation also occurs at a point in time and value is principally driven by issues such income and occupancy rates.

We believe there is no credible method to properly isolate and quantify the contribution made by an infrastructure project, let alone a proposed *future* infrastructure project, to an asset’s land value. In this regard, it would also be very challenging to credibly determine the value baseline or benchmark against which any supposed increase in value would be assessed. Conversely, in progressing with value-capture funding, would governments be willing to compensate land-owners where infrastructure (or lack thereof) decrease its value? It is also critical that ‘income’ isn’t conflated with ‘value’ which can often be the case and lead to flawed perceptions that some companies have a ‘capacity to pay’ additional taxes and charges on their land.

**#3 – SHOPPING CENTRES ALREADY PAY DISPROPORTIONATELY HIGH TAXES**

Shopping centres already pay disproportionately higher taxes than other types of land and property as a result of progressive tax rates. The *Victorian Fire Services Levy* commercial property rate, for example, is up to 7 times higher than the residential rate. Similarly, using South Australia as an example, commercial land also accounts for 6% of overall land value but 51% of land tax contributions in South Australia (as illustrated below).

**South Australia FY14 Private Land Tax Composition**  
Contribution to total by Land Usage



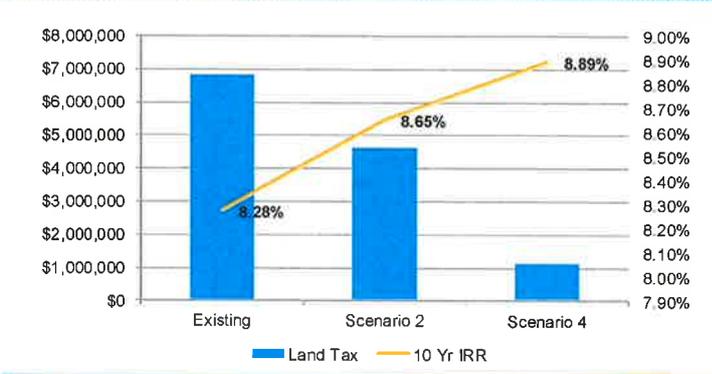
Source: RevenueSA / SCCA Research

Meanwhile, Principal Places of Residence (PPOr) land value accounts for 51% of total land value, but makes no contribution as it is exempt from land tax, and Primary Production land, which accounts for 14% of land value, makes a 1% contribution. It would be unfair to further tap into commercial land value without capturing the value from land and property that currently makes no contribution (ie. broadening the land tax base).

**#4 –LAND-BASED TAXES CAN DISTORT INVESTMENT AND REDUCE ASSET VALUE**

Commentary about land-based taxes theorise that they are efficient insofar as land is immobile. The reality is very different. In addition to numerous existing exemptions for certain land (noted above), land-based taxes are not-benign from an investment perspective (particularly when the same land is being taxed many times over). As illustrated below, three different modelled scenarios we undertook for a recent tax review identified that different land tax scenarios have a different impact on investment (Internal Rate of Return or IRR).

**Hypothetical investment analysis**



Further, additional or increased taxes can impact Net Operating Income (NOI) and subsequently a shopping centre’s asset value. Based on a capitalisation rate of 6.25%, every \$1 million increase in a new tax could result in a \$16 million decrease in asset value. We doubt this would be an intended consequence of any possible value capture model.

Some jurisdictions are also already higher taxing than others (e.g. South Australia, Victoria, NSW from a land tax perspective) which means the ‘starting point’ needs to be properly considered. Further, shopping centres are unique as land tax cannot be recovered as an outgoing from tenants in Victoria, South Australia and Queensland. How ‘value-capture’ would impact retail tenants also needs to be considered.

**#5 – DEVELOPERS ALREADY MAKE INFRASTRUCTURE CONTRIBUTIONS + INFRASTRUCTURE SHOULD BE LINKED TO DEMAND: NOT VALUE**

Our members already make contributions to infrastructure at the development and redevelopment stage, and there is generally and rightly a nexus with infrastructure demand generation. As an example, the Queensland system imposes an infrastructure levy on shopping centres of \$180/square metre of additional retail space. For a typical average Queensland development of 20,000 square metres of space - this is a contribution of \$3.6 million. As shopping centres are the only asset class that generally expand over time (e.g. Chadstone shopping centre in Melbourne has had over 30 stages of expansion), they can be required to contribute to infrastructure many times over.

Infrastructure funding should be linked to infrastructure demand created by an asset and its users (e.g. vehicle movements on a road); not value. That this link could be severed under a value-capture arrangement is a cause for concern, and could also give rise to an unlevel playing field between competitors. Why should two similarly sized shopping centres – with a similar demand on infrastructure – but with different land-values be levied differently to contribute to infrastructure? This would not be a fair or equitable outcome.

**#6 – ‘VALUE-CAPTURE’ CATCHMENT LACKS ALIGNMENT WITH ACTUAL USERS /BENEFICIARIES**

Value-capture proposals can also suggest that properties surrounding (e.g. within a 400m ‘walking’ catchment) a piece of infrastructure are the ones that principally benefit and hence, whose value may be captured. However this approach would fail to recognise the real catchment of users of that infrastructure, such as a train station (entries and exits). For example, we have analysed properties around a Sydney suburban train station (the busiest in the AM peak in terms of entries and exits) and estimate around 2,000 land-holdings within a 400m radius. However, official statistics paint a much broader ‘user and beneficiary’ picture of that infrastructure, including 9,000 entries and 5,000 exits in the AM peak (6:00am-9:30am), 2.44 million tickets issued per annum, and a modal split of around 30% that use rail to get to work at that location. This location is also subject to a parking space levy, which is used to fund public transport infrastructure. How could it be fair that only 2,000 land-holdings surrounding the station could be levied to fund infrastructure, including where some of those properties already pay a parking space levy and further, while other properties (and actual users) would not be captured and levied?

**#7 – FAIR’S FAIR – GOVERNMENTS SHOULD PAY FAIR VALUE**

Our members can host government infrastructure on their land such as bus interchanges (and even libraries) which is generally imposed on them by governments and then based on a license with negligible or nominal rental income. At the expiration of a license, a recent attempt by a shopping centre to place such an arrangement on more commercial ‘value’ terms (e.g. the same land could be used as a drive-in restaurant or car-wash) was resisted and rejected by a government. It can be the case that governments like to not only tax value, but then deprive an asset owner the chance to increase their value by imposing ‘take it or leave it’ terms.

**#8 – GOVERNMENTS SHOULD REMOVE REGULATORY BARRIERS TO VALUE**

Various governments impose regulatory barriers and duplication which limits the value potential of shopping centres. Some of these have been cited ad nauseam in various reviews, such as Productivity Commission reviews and the recent Harper Competition Report, but with no real commitment or pathway to resolve the issues. These include trading hour restrictions, retail floor space caps, real estate licensing, retail lease legislation and restrictions on truck delivery times. These issues should be addressed in company with any value-capture scheme design.

**#9 – OVERSEAS EXAMPLES ARE JUST THAT: OVERSEAS EXAMPLES**

We are well aware of overseas examples that are often referenced in value-capture discussions such as the London Crossrail Levy (LCL).

While possibly instructive in concept, there can be vast differences in the valuation and taxation process – or scheme design - that need to be properly considered. Similarly, industry regulation and barriers can be different between jurisdictions.

#### #10 – OTHER FUNDING OPTIONS

We hope that other funding options are being considered in the context of value-capture funding. While a broader, simpler and fairer approach could include capturing 'value' currently exempt from land tax (e.g. Principal Place of Residence) it could also include road-user pricing which was recently recommended by the Harper Report into Competition Policy and accepted in-principle by the Federal Government. In addition, public transport fares should be part of the funding considerations to ensure that actual users and beneficiaries are making a direct contribution.

### 3 NEXT STEPS: ANALYSIS + CONSULTATION

There is an obvious need for detailed analysis and consultation on value-capture funding, particularly with potentially affected stakeholders.

The SCCA respectfully urges the Government to ensure a considered approach to the issue, which specifically notes the current taxation basis for shopping centres and their retailers whereby value is already captured and taxed multiple times.

We believe that the current tax burden on shopping centres should not increase under the value-capture model or be disproportionate to the contribution made by other properties or users and beneficiaries of infrastructure.

The SCCA has more detailed information on the 10 critical issues raised above and would be pleased to discuss them further.

### 4 ABOUT US

The Shopping Centre Council of Australia (SCCA) represents Australia's major shopping centre owners, managers and developers. Our members own and manage shopping centres from the very largest ('super-regional') centres to the smallest ('neighbourhood') centres in cities and towns in every state and territory.

Our members are AMP Capital Investors, Blackstone Group, Brookfield, Charter Hall Retail REIT, DEXUS Property Group, Eureka Funds Management, GPT Group, ISPT, Ipoh Management Services, Jen Retail Properties, JLL, Lancini Group, Lendlease Retail, McConaghy Group, McConaghy Properties, Mirvac, Perron Group, Precision Group, QIC, Savills, SCA Property Group, Scentre Group, Stockland and Vicinity Centres.

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