

**Issues Paper: Inquiry into the Land Valuation System**

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**Submission by the**

**Shopping Centre Council of Australia**

**8 March 2013**

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## Executive Summary

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The Shopping Centre Council of Australia welcomes the opportunity to comment on the *Issues Paper – Inquiry into the Land Valuation System* released by the NSW Joint Standing Committee on the Office of the Valuer-General on 7 February 2013. Land valuation is an important area of public policy as it is principally used for taxation purposes. It must therefore be underpinned by a fair, credible and transparent system which has the public's confidence.

Our members are Australia's major owners, managers and developers of retail property, with around 140 shopping centres under ownership across the state's metropolitan, regional and rural areas. The geographic spread of retail property owned by major institutions - and therefore the exposure to a large number of contract valuation areas - is unique amongst other commercial property asset classes.

Like going-concern market valuations, which are undertaken on an ongoing basis for asset and portfolio management, statutory land valuation is a critical aspect of our members' businesses and it must be fair, credible and consistent. We raise this point to reiterate that our members' businesses have a strong foundation in valuation, and therefore fully understand the system and the factors that impact on their asset and land values.

Fundamental change to the current land valuation system is not required.

We strongly support the existing land value rating base in NSW. The assessment of land value/site value is universally applied throughout Australia for the purpose of levying land tax. The definition of land value/site value is also universal with long established case law providing clear direction to valuers as to the correct methodology and assumptions.

The concept of land value/site value is the purest form of statutory valuation. Improved rating bases require a series of hypothetical assumptions to ensure the statutory valuation only assesses the value of land and physical improvements to provide equity in ensuring that a ratepayers intangible improvements are not captured.

If NSW was to adopt an improved rating base, it would add substantial complexity and cost over and above the existing land value system.

Under the existing land value system, Local Government Authorities (LGAs) administer differential rating (different ad valorem rates applied to land classifications for the purpose of levying council rates) to achieve their assessment of the fair and equitable apportionment of the rate burden amongst ratepayers. This practice is long established and generally administered in all other states.

The land value rating system in NSW is credible, well understood, simple to administer and supportive of investment. Whilst aspects of the system can be improved, there is no justification for a move to an improved basis of rating and accordingly, any such initiative would be strongly opposed by our members.

In Victoria, LGAs can elect its rating base from either site value, net annual value or capital improved value (CIV). Where Victorian LGAs have elected to move from a site value rating base to an improved base (CIV) it has created a myriad of complexities and inequities. To the extent that land value is used as the basis of land tax, council rates and the proposed Emergency Services Levy (ESL), a shift to an improved rating base could place a significant and unfair burden on properties with both a higher proportion and higher value of improvements, such as shopping centres. This has been the experience where this has occurred in other states. Clearly this is not a desirable outcome in the interest of fairness and equity.

Our members have a \$5.3 billion development pipeline in NSW, which will create around 45,000 construction jobs, 36,000 operational jobs and result in economic benefits to the state. This includes projects like GPT's/GPTWSCF's Wollongong Central (\$200 million), Stockland's Shellharbour (\$300 million) and Green Hills (\$300 million), QIC's Castle Towers (\$400 million) AMP Capital's Macquarie Centre (\$400 million) and the Westfield Group's/Westfield Retail Trust's/DEXUS' Miranda (\$400 million) project. A shift to an improved rating base would potentially jeopardise the viability of these projects given the potential substantial upside in council rates payable under an improved rating system.

The final report of *Australia's Future Tax System* (i.e. the Henry Tax Review) states that if 'improvements' were taxed under land tax, "the tax would discourage investment and be less efficient"; and also be less equitable (Section C2-2). Whilst this quote relates to land tax which is assessed on land value/site value assuming the improvements do not exist, it is equally applicable to the potential impact of a move to an improved rating base in the context of council rates. From our perspective, our members already pay a disproportionate share of rates and taxes through inflated differential LGA ad valorem rates, land tax premiums and possible substantial increases in the ESL under the proposed move to a property based charge. The cost of statutory charges (land tax and rates) can be as high as 30% of a centre's operating costs. Given the extremely high level of these statutory charges, the asset value, viability of tenant businesses and feasibility of development/expansion proposals are extremely sensitive to any significant shifts in the applicable charges.

As a further point, we do not believe land value is an outdated concept simply because it's 'been around a long time' or some members of the community might not understand it. Land value will form the corner-stone of any rating system for as long as Government continues to levy land tax.

It is also instructive that Queensland, which has undergone the most recent comprehensive land valuation review in Australia, was fundamentally brought into line with NSW in terms of moving from an unimproved value rating base to site value (generally applying the NSW definition of land value).

We endorse the Committee's assessment principles for the valuation system around transparency, efficiency, predictability and equity.

We believe further improvements can be made to the valuation system/process in NSW, principally through a more consultative process relevant to the assessment of land value for specialised property (including shopping centres) adopting a similar approach to that successfully administered in Queensland following years of litigation. The reformed system should incorporate a "return phase" process whereby the Valuer-General consults with industry experts under a formal structure which promotes the exchange of relevant data, consistent methodology and discussions as to appropriate levels of value and relativity. Under the current NSW rating system, the valuation of specialised property (shopping centres) is administered by individual contract valuers under service contracts let by the Valuer-General. Without a suitable "return phase" process, inconsistencies in both methodology and value relativity do arise.

We also believe improvements can be made to the objection process.

Our members, like other property owners, may object to their land valuations from time to time, but this is usually because of complex methodology issues such as multiple land parcels, land in stratum and heritage provisions.

In some instances, land values are considered excessive by comparison to relevant sales evidence and applicable land value/site value benchmarking. Benchmarking has been used widely in the "return phase" process in other states given a lack of sales evidence relevant to shopping centre sites in varying geographical locations. The benchmarking and supporting data is an integral part of the "return phase".

Our members commit substantial resources to the statutory valuation process to ensure its owners and tenants alike are being rated on a fair and equitable basis.

We accept there may be a perception that commercial property companies have an advantage in objections. We believe this perception fails to take into account the experience and understanding of the valuation process within commercial property companies. As highlighted previously, valuation is a core component of their businesses unlike householders or even people with residential investment properties, and the consequences of an incorrect valuation are far more significant. We disagree with the reference in the Paper about reports that the objection process "favours" wealthy landowners and corporate entities. The existing system is equally and evenly contestable for all land owners.

We have highlighted critical industry issues and also addressed the Committee's four key areas of investigation:

- Volatility in land valuations,
- Complexity in the valuation system,
- Drivers of inefficiency including market distortions, and administration and compliance costs,
- Any inequality in the valuation system.

We have made a number of recommendations for the Committee's consideration.

## **1. Summary of recommendations**

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- 1. The Committee acknowledges the role of valuation within major commercial property organisations.**
- 2. The Committee recommends maintaining the long established land value rating base as the most equitable approach which also supports investment.**
- 3. The Committee recommends maintaining the existing NSW statutory valuation system (i.e. Valuer-General/private contractor system) subject to the procedural improvements documented herein.**
- 4. The Committee recommends that medium to large shopping centres are treated as a specialist valuation group requiring a formal "return phase" process as documented herein to improve valuation quality and consistency. This could apply initially to the state's largest 100 shopping centres.**
- 5. The Committee acknowledges that the objection process does not favour corporate entities.**
- 6. The Committee recommends expanding the existing objection process to incorporate formal consultation between the parties to enhance the prospects of resolving the dispute without the need for litigation.**
- 7. The Committee acknowledges that the Queensland system was brought into line with the NSW system and this should inform the basis of maintaining the land value rating base.**
- 8. The Committee recommends that the above principles are consistently applied to the land valuation system.**
- 9. The Committee recommends the appointment of the SCCA to the Valuer-General's Advisory Group.**
- 10. The Committee recommends the Valuer-General better explain the valuation of complex assets such as shopping centres in relevant publications and reports, and also consider different communications approaches such as 'Apps'.**

## **2. Outline of key industry issues**

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This section provides an outline of key industry issues in relation to statutory valuations.

### **2.1 The role of valuation**

Valuation plays a central role in our members' businesses.

This includes going-concern market valuations of multi-billion dollar assets and portfolios - which is required for issues such as debt security, financial reporting and property acquisition and disposal - as well as statutory valuations for the purpose of determining land tax and council rates (and the proposed ESL).

For these reasons, our members typically employ internal valuation experts and engage external consultants.

We have highlighted this issue to address the broad claims in the Paper regarding the transparency and equity of the land valuation system. Commercial property and land owners have frequent interaction with the land valuation system in a detailed manner. They are constantly valuing their assets and have a strong understanding of valuation methodologies and considerations, driven largely by disclosure requirements placed upon them by the ASX to publicly report on portfolio and financial results.

Some of our members also own multiple assets across the state which also enhances their exposure and understanding of the land valuation system. As an example, a number of our members have ownership interests in more than 10 NSW shopping centres, including AMP Capital, Charter Hall, Federation Centres, GPT, Mirvac, Stockland, the Westfield Retail Trust and the Westfield Group.

We also raise this point in relation to the statement in the Paper that there are "media reports...of the objection system favouring wealthy individuals and corporate entities". Such claims are simplistic and overlook the fact that land value assessments for our member's properties are complex and specialised which can give rise to valuation errors/relativity issues where objections are necessary. Given the high value of our members' properties, valuation errors can lead to substantial refunds in some instances. Our members commit substantial resources, time and money to ensuring the issued statutory valuations are true and correct on behalf of its owners and tenants alike. Given the specialised nature of shopping centre land assessments, the issue of statutory valuation errors is not isolated to NSW. The "return phase" process referred to herein has been successful in substantially overcoming these issues in other states particularly Queensland where the process is administered by the Valuer-General.

Where land values are considered excessive by comparison to relevant sales evidence and applicable land value/site value benchmarking, our members will pursue objections to ensure the best interests of its owners and tenants are protected. Benchmarking has been used widely in the "return phase" process in other states given a lack of sales evidence relevant to shopping centre sites in varying geographical locations. The benchmarking and supporting data is an integral part of the "return phase" process.

Figures obtained from RP Data indicate, for example, that the number of all commercial property transactions in NSW valued at \$10 million or more totalled 259 (3.8%) out of 6,984 transactions. For properties valued \$50 million or more, there were only 15 (0.2%) transactions. The land values of our members' shopping centres frequently exceed \$50 million with some exceeding \$100 million.

### **2.2 The valuation system**

The table below summarises the key aspects of the statutory valuation systems in NSW, Queensland and Victoria.

VALUATION SYSTEM	NSW	QLD	VIC
Valuation Authority	VG	VG	LGA or VG
Valuation Entity	Private Contractors	VG	Private Contractors
Valuation Certification	VG	VG	VG
Rating Base			
- Land Tax	LV	SV	SV
- Council Rates	LV	SV	CIV / NAV / SV
Revaluation Cycle			
- Land Tax	Annual	Annual	Biennial
- Council Rates	Triennial	Annual	Biennial
Land Value Definition	The land value is the capital sum of the fee-simple of the land if offered for sale, assuming that the improvements, other than land improvements had not been made.	The site value is the expected realisation, under a bona fide sale assuming all non-site improvements for the land had not been made.	The site value of land, means the sum which the land, if it were held for an estate in fee simple unencumbered by any lease, mortgage or other charge, might be expected to realise, assuming that the improvements (if any) had not been made.
Land Value Concessions	Profitable Expenditure - limited to development period	12 year site works claim - assumes continuity of ownership	15 year site works claim - assumes continuity of ownership
Return Phase Process	Historically no - however commencing process with VG	Yes	Yes

As is the case in Queensland, the Valuer-General is the valuation authority in NSW. The valuation authority in Victoria is generally the individual LGAs (i.e. the LGA is responsible for making the statutory valuations either in-house or via the appointment of external contractors), however the LGA can appoint the Valuer-General to act as the valuation authority on its behalf.

In all jurisdictions the Valuer-General is the certifying authority i.e. the Valuer-General is required to certify the statutory valuations as “generally true and correct”.

Private valuation contractors are used in both NSW and Victoria. Under the Queensland system the statutory valuations are assessed by Valuer-General staff, i.e. in-house.

There is no requirement to consider any structural changes to the existing NSW valuation system in the context of the Valuer-General/private contractor’s structure other than the suggested procedural improvements herein.

The rating base in NSW and Queensland is generally identical (i.e. the definition of land value and site value in practice are the same). A single statutory valuation being land value/site value is applied for the purpose of assessing both land tax and LGA rates in both states.

Under the Victorian system, three separate statutory valuations are assessed being site value, net annual value and capital improved value. Site value is adopted for the purpose of levying land tax, with LGAs being entitled to elect any of the three rating bases for the purpose of levying rates. The vast majority of Victorian LGAs adopt CIV as the valuation base for rating purposes.

The Victorian site value definition is generally consistent with that applicable in both NSW and Queensland. Some variations exist between the states however these only relate to specialised assumptions or concessional arrangements (i.e. the fundamental concept of land value/site value is universal).

Queensland recently (2010) completed a very comprehensive review of its land valuation system. Queensland chose to maintain a land based rating system moving from unimproved value (land value less the added value of any site works - i.e. bulk earthworks in the form of cut and fill, revetment works, drainage works, remediation works etc.) to site value (generally mirroring the NSW definition of land value). The new Queensland system included the re-appointment of an independent Valuer-General and the establishment of a Valuation Reform Reference Group (of which we are a member of). The reinstatement of the Valuer-General and the application of a “return phase” process in Queensland has reinstated credibility, transparency and relativity in the land valuation system. At the past two revaluations in Queensland there have been very few objections lodged on behalf of our members.



The "return phase" system is prevalent in both Queensland and Victoria. Historically, this has not formed part of the NSW land valuation system/process. The "return phase" process is particularly valuable in the assessment of specialised property, including shopping centres.

A reformed NSW system would incorporate a "return phase" process whereby the Valuer-General consults with industry experts under a formal structure which promotes the exchange of relevant data, consistent methodology and discussions as to appropriate levels of value and relativity. Under the current NSW rating system the valuation of specialised property (shopping centres) is administered by individual contract valuers under service contracts let by the Valuer-General. Without a suitable "return phase" process inconsistencies in both methodology and value relativity do arise. Whilst we are not suggesting that a single specialist contract valuer should be appointed to assess all shopping centre land values, it is critical that an effective "return phase" process is administered by the Valuer-General. We have been working with the Valuer-General on this approach over the past two years as part of the 2011 and 2012 land value assessments for the state's 30 largest shopping centres. The Valuer-General has been proactive and recognised the merit of this approach and has already taken some welcome initial steps in this area. We recommend the Committee supports further development of this initiative.

We strongly believe that the land value methodology adopted in NSW should be maintained. The assessment of land value/site value is universally applied throughout Australia for the purpose of levying land tax. The definition of land value/site value is also universal with long established case law providing clear direction to valuers as to the correct methodology and assumptions.

We cannot support a shift to an improved rating base simply because it is thought that "people have a better understanding" of their market value (i.e. the value of their house) as opposed to their land value. While there are various factors to consider, land value is not a complex issue.

The concept of land value/site value methodology is the purest form of statutory valuation. Improved rating bases require a series of hypothetical assumptions to ensure the statutory valuation only assesses the value of land and physical improvements to provide equity and ensure that a tax and ratepayers' intangible improvements are not rated. For example, in Victoria the assessment of CIV for a shopping centre does not assume the existing lease agreements are in place and must proceed on the basis of assessing the market rental value of the improvements as at the relevant date. This is a different calculation to the going-concern market value assessed by the owner for company or reporting purposes. If NSW was to adopt an improved rating base, it would add substantial complexity and cost compared to the existing land value system.

Under the existing land value system, Local Government Authorities (LGAs) administer differential rating (different ad valorem rates applied to land classifications for the purpose of levying council rates) to achieve their assessment of a fair and equitable apportionment of the rate burden amongst ratepayers. This practice is long established and generally administered in all other states.

The NSW Government enables councils to apply differential rating – with no limits – which can result in dramatic increases in council rates for selected properties with no justification other than subjective claims relating to the so-called 'capacity to pay' approach. This is where a council believes any large company has the 'capacity to pay'. Local councils generally seek to keep rates low for their residents (i.e. the principal voting base), while increasing rates for commercial properties. This is despite the fact that a number of council services are also often not utilised by shopping centres, such as waste collection and open space utilisation and maintenance.

The long established land value rating system in NSW is credible, well understood, simple to administer and supportive of investment. Whilst aspects of the system can be improved, there is no justification for a move to an improved basis of rating and, accordingly, any such initiative would be strongly opposed by our members.

Where Victorian LGAs have elected to move from a site value rating base to an improved base (Capital Improved Value) it has created a myriad of complexities and inequities. In Victoria as the valuation authority is required to issue all three valuation assessments (i.e. site value, net annual value and capital improved value) irrespective of its adopted rating base, the cost considerations relevant to a change in rating base are fundamentally different to that which would apply in NSW under a move to an improved rating base.

To the extent that land value is used as the basis of land tax, council rates and the proposed Emergency Services Levy (ESL), a shift to an improved rating base could place a significant and unfair burden on properties with both a higher proportion and higher value of improvements such as shopping centres. This has been the experience where this has occurred in other states. Under the existing Land Value system, the differential ad valorem rates applied to high value properties, such as shopping centres, are typically at a substantial premium to the underlying residential rate. The opposite would apply under an improved rating system assuming the LGA's were to maintain their current apportionment of the rate burden amongst land classifications. Invariably, however, this does not occur, with councils apparently reluctant to appear as through high value properties are being charged on a "lower" ad valorem rate. The result is substantial increases in council rate charges for such properties. Clearly this is not a desirable outcome in the interest of fairness and equity.

As an example, when Monash City Council transitioned from a site value to capital improved value rating base in 2010/11, rate revenue from non-residential property increased by 75% from the previous period, whereas the residential rate burden was held the same.

Our members already pay a disproportionate share of rates and taxes through inflated differential LGA ad valorem rates, land tax premiums and possible substantial increases in the ESL under the proposed move to a property based charge with no link to the actual fire or emergency risk or historical fire incidents of shopping centres (which will also remain fully insured). The cost of statutory charges (land tax and rates) can be as high as 30% of a shopping centres total outgoings and operating budget. Given the extremely high level of these statutory charges, the asset value, viability of tenants' businesses and feasibility of development proposals/expansions are extremely sensitive to any significant shifts in the applicable charges.

### **2.3 Specialist / complex valuation**

Our members' assets do not lend themselves to a 'mass valuation' approach since they cannot be grouped into a broad category (which the Valuer-General refers to as 'components'), whereby properties in a particular area are regarded as being similar. Further, we believe the current contract valuation approach, whereby a valuer is awarded an area to undertake valuations which may take in specialist property such as a shopping centre, needs improvement. While individual valuation of a shopping centre takes place, there have been cases where it is clear that some valuers have no experience in valuing shopping centres. This is where problems can occur.

We strongly believe there is scope for shopping centres – or at least medium to large shopping centres – to be treated as a specialist valuation group requiring a formal "return phase" process as documented herein.

In relation to one of the Committee's focus areas, this would also reduce the number of formal objections and also improve the predictability of government revenues.

In terms of the NSW shopping centre industry, there are around 431 shopping centres (Property Council of Australia Research) with an average size of 14,000m<sup>2</sup> including 6 million m<sup>2</sup> of retail floor space. Our members have ownership interests in around 140 of these shopping centres, with an average size of 31,800m<sup>2</sup>, including 3.5 million m<sup>2</sup> of retail floor space. This is a small portion of what we understand to be the 2.46 million properties / valuations within NSW.

The specialist valuation approach could be phased in, with initial coverage of the state's largest 100 shopping centres.

## 2.4 Objections

On the issue of objections to valuations, we understand there are around 8,000 objections processed annually by the Valuer-General, and the number of objections overall have declined in recent years.

We are aware of the “media reports”, referred to in the Paper, that the objection system favours “wealthy individuals and corporate entities”. There are a number of reasons why companies may be more successful in valuation objections although we doubt if this is true when examined on a pro rata basis. As noted earlier, our member’s assets are complex properties and require a specialist valuation approach. Our members are also constantly valuing their properties for other purposes, not just for land tax and council rating purposes. They therefore are more closely familiar with their property valuations and the factors involved.

It would be false to suggest our members are happy to object to land valuations. Generally speaking, it is an expensive and time intensive process they would rather avoid and hence their commitment to generally resolving levels of value prior to the objection phase via “return phase” negotiations.

The following table summarises the objection process in NSW, Queensland and Victoria:

OBJECTION PROCESS	NSW	QLD	VIC
Notice of Valuation	Valuation Notice (LGA Valuation) Land Tax Notice	Valuation Notice	LGA Notice Land Tax Notice
Objection Period	60 Days	60 Days	2 Months
Objection Form	Prescribed	Prescribed	Prescribed
Acceptance of Objection Form	Not Prescribed	If objection not properly made notification is provided giving 28 days to rectify	Legislation requires VA to accept objection irrespective of form
Consultation Process	Not Prescribed	Prescribed	Prescribed
- Valuation Authority (VA) to Provide Details of Valuation	N/A	Yes - as part of conference process (subject to valuation being >\$5M which requires a mandatory conference)	Yes - within 1 month of lodgement (subject to valuation being (SV) >\$750K)
- Objector to Provide Response Submission	N/A	Yes - as part of conference process subject to valuation being >\$5M which requires a mandatory conference)	Yes - within 1 month of receipt of VA prescribed information at the discretion of the objector
- Objection Conference	N/A	Mandatory where valuation >\$5M or can be requested by objector at a lesser valuation	Mandatory in the prescribed circumstances where the objector provides a response report
- Valuation Authority Entity Considering Objection	VG or where delegated to a contractor cannot be the contractor who issued the original valuation	VG	VA via contract valuer
- Objection Negotiations	N/A	Formal process administered by chairperson where valuation >\$5M	Meeting between contract valuer & objector
Timing of Objection Decision	N/A	N/A	4 months
Objection Decision Notice	Issued by VG	Issued by VG	Issued by VA i.e. either LGA or VG
Certification of Objection Decision	N/A as VG makes decision on objection	N/A as VG makes decision on objection	VG required to confirm or disallow objection decision within 2 months of VA recommendation

The key observation is that the existing NSW objection process (unlike Queensland and Victoria) provides no formal consultation mechanisms as part of the objection process. Mandatory consultation is legislated in both Queensland and Victoria to encourage a full exchange of opinion between the parties including disclosure of relevant information relating to the objection for the purpose of seeking a resolution to the dispute without the need for litigation.

In Victoria, the valuation authority is required to provide the objector with prescribed information within one month of objection lodgement. The prescribed information generally sets out the methodology and basis of the authority’s valuation, inclusive of the relevant evidence relied upon. The objector has one month thereafter to provide a response report to

the valuation authority. Thereafter a conference is convened between the two parties to seek a resolution of the matter. In the event the objector does not provide a response report, the valuation authority is not obliged to convene the required conference. Hence, accountability applies to both parties.

The new Queensland land valuation system has taken the next step in terms of the objection consultation process. For properties with a site value in excess of \$5 million, the legislation provides the objector with the right to a mandatory conference chaired by an independent chairperson. The independent chairpersons are appointed by the Valuer-General and all have the requisite valuation experience. Formal disclosure requirements are legislated in terms of the mandatory conference.

Whilst the NSW land information system facilitates individual property searches for the purpose of identifying the sales relied upon by the Valuer-General in the assessment of land value, this is of limited benefit in the absence of a formal consultation process to discuss the relative merit of individual sales, methodology or other factors specific to the property.

We believe the NSW valuation system would benefit from the establishment of formal consultation in the objection process.

Further, given that higher valued properties, such as shopping centres, pay a much larger amount in land tax and council rates than lower valued properties, the stakes of an incorrect valuation are much higher. This includes the impact of such taxes on retail tenants within a shopping centre. A company must therefore make a judgement whether it is worth risking the time, resources and effort to challenge a valuation.

Further, it should be noted that land tax and council rates still need to be paid in relation to disputed land valuations. While a partial refund can be provided in the case of a successful objection, the Government takes no up-front revenue risk. It should be remembered that land tax and council rates are significant operating costs.

As one example, we have members who pay, for only one property, well in excess of \$1 million for land tax and over \$2 million in council rates each year.

From an industry benchmark perspective, for 'regional' shopping centres (i.e. large shopping centres with a department store) land tax is \$9.96/m<sup>2</sup> – or 49% of statutory charges (\$20.17). Council rates are \$4.13/m<sup>2</sup> (20%). Of overall operating expenses (\$153.79), this is 6% and 3% respectively (source: Property Council of Australia, Shopping Centre Operating Benchmarks).

## **2.5 Harmonisation**

An important issue is harmonisation with other jurisdictions.

The most recent significant review of land valuation occurred in Queensland in 2010. This review brought Queensland into line with NSW in terms of the site value valuation methodology. It would therefore be concerning if NSW was to depart from this approach, given the new Queensland system is working well.

As we have highlighted earlier, land tax is levied on land value/site value in all jurisdictions.

## **RECOMMENDATIONS**

- 1. The Committee acknowledges the role of valuation within major commercial property organisations.**
- 2. The Committee recommends maintaining the long established land value rating base as the most equitable approach which also supports investment.**
- 3. The Committee recommends maintaining the existing NSW statutory valuation system (i.e. Valuer-General/private contractor system) subject to the procedural improvements documented herein.**

- 4. The Committee recommends that medium to large shopping centres are treated as a specialist valuation group requiring a formal "return phase" process as documented herein to improve valuation quality and consistency. This could apply initially to the state's largest 100 shopping centres.**
- 5. The Committee acknowledges that the objection process does not favour corporate entities.**
- 6. The Committee recommends expanding the existing objection process to incorporate formal consultation between the parties to enhance the prospects of resolving the dispute without the need for litigation.**
- 7. The Committee acknowledges that the Queensland system was brought into line with the NSW system and this should inform the basis of maintaining the land value rating base.**

### **3. Focus areas of the Inquiry**

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We endorse the Committee's four focus areas of the Inquiry as important public policy principles, and are pleased to respond as follows.

#### **3.1 Transparency**

The Paper's description of transparency is as follows: *the transparency of the system is necessary to maintain the public's confidence. For the land valuation system, the crux is the ease with which a taxpayer can understand the determination of their land value and tax liability. Key indicators include: (1) the extent to which people understand how their land is valued and (2) the objectivity of valuations.*

As mentioned in the previous section, our members have a good understanding of the land valuation system and the determination of their land value and tax liability. We do accept that there is merit in the general community having an opportunity to better understand the land valuation system, including the valuation of high value and complex properties such as shopping centres. The valuation of commercial property, irrespective of the methodology, will always be a reasonably complex process incorporating relatively technical considerations. The statutory assessment of land value/site value is the purest form of rating valuation with universal application in all states. As detailed earlier, the CIV rating base of Victoria is far more subjective from a shopping centre perspective given the requirement to ignore the property's intangible value.

The Valuer-General already publishes a large amount of information on the valuation system and the recent valuation round, which includes adjustments in valuation from the previous period. This is generally included in mail-outs with valuation information. The Valuer-General could, for instance, publish information in relation to shopping centre valuation as part of this process, as well as in the Valuer-General's annual report. The use of internet applications (e.g. 'Apps') could also be considered.

We also believe that consideration could be given to increased representation on the Valuer-General's advisory group, to enable increased transparency and a broader range of issues to be considered in communication material.

Our earlier recommendations herein relevant to the objection process (i.e. formal consultation) would also substantially enhance the transparency of this important component of the land valuation system.

#### **3.2 Efficiency**

The Paper's description of efficiency is as follows: *the efficiency of the land valuation system includes administration and compliance costs associated with maintaining it; as well as any market distortions created through its application. Key indicators include (1) administration and compliance costs and (2) distortions in property investment decisions between dwelling types, state and other capital investments.*

The land value base rating system in NSW is undeniably the most efficient system in terms of administration and compliance costs. A move to an improved rating base would substantially increase the cost of the system given the requirement to assess an additional statutory value over and above land value which must be retained for the purpose of assessing land tax. This would require major structural changes to the existing land valuation system in NSW, creating additional layers of complexity and very significant cost increases.

We also strongly believe that any move to an improved valuation methodology would distort investment decisions to the disadvantage of NSW. While this is not just based on the valuation approach per se, it is obviously linked with the use of land valuation for land tax and council rating purposes. In general, taxes and rates should be designed to raise revenue without introducing distortions, unfairness or complexity. A shift to improved valuation would do all of this.

To this extent, the Henry Tax Review notes that land is "an efficient tax base...since land value tax is paid by the owners of the land regardless of what they do with it, the use of the

land is not affected by the tax. The landowner cannot reduce their tax liability by changing land use – an empty block pays the same tax as an identical developed block since both blocks accrues the same 'economic rent' over time."

It is worth noting that the Government's July 2012 *Funding Our Emergency Services Discussion Paper* (on which we have lodged a submission) acknowledges this general point and states:

*"The Government does not propose to use market values of properties which include the value of buildings. The Government considers this alternative would be both less efficient and administratively expensive to implement. Taxing the market value of properties provides a disincentive to make capital improvements to land, and thereby distorts investment decisions".*

At its simplest, if an investor knows that a capital improvement will be taxed more significantly, they could allocate those funds to another jurisdiction which may not have a similar taxation regime.

### **3.3 Predictability**

The Paper's description of predictability is as follows: *the predictability of the system depends on the capacity of government and landholders to forecast tax revenues and liability. Key indicators include (1) the capacity for government to forecast revenues and (2) the capacity for landholders to forecast tax liabilities.*

The land value approach is clearly more predictable for government revenues given the relative stability of land valuation compared to an improved valuation.

Predictability could also be improved if the Government considered broadening the land tax base and reducing existing exemptions.

The Henry Tax Review points out that "broadening the base of land tax would provide a reliable and stable source of revenue to State governments", which is relevant to the Committee's focus area on volatility and predictability of government revenue.

From our member's perspective, the land value approach improves the predictability of forecast tax and rate liabilities (so long as there's no adjustment in the tax rate or council ad valorem rates). We strongly believe that the specialist valuation approach we have recommended would be central to improving this predictability for shopping centres. The primary concern for our members is the lack of transparency and predictability relevant to the setting of the LGA ad valorem rates. Whilst we acknowledge this process is not related to the current review, it is important that the Committee understands these implications have an indirect impact on the land valuation system through ratepayers associating the two as a single process.

### **3.4 Equity**

The Paper's description of equity is as follows: *the equity of the system depends on the extent to which people of low socioeconomic status have access to appeals mechanism. Key indicators include the cost, inconvenience and expertise required to object.*

While we are not qualified to comment on the extent to which people of low socioeconomic status have access to an appropriate appeals mechanism, we would certainly support this as a matter of principle. Some people are unable to afford expert valuation and legal advice, including potential action through the Land and Environment Court. While we note that the Valuer-General provides a standard appeals form for people with the ability to include evidence as part of that submission, the development of a lower cost dispute resolution mechanism is supported.

Our recommendations as to improving the objection process to include formal consultation would vastly improve the transparency and therefore perceived equity of the process.

## RECOMMENDATIONS

- 8. The Committee recommends that the above principles are consistently applied to the land valuation system.**
- 9. The Committee recommends the appointment of the SCCA to the Valuer-General's Advisory Group.**
- 10. The Committee recommends the Valuer-General better explain the valuation of complex assets such as shopping centres in relevant publications and reports, and also consider different communications approaches such as 'Apps'.**



## Appendix A

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The Shopping Centre Council of Australia represents Australia's major owners, managers and developers and developers of shopping centres.

Our members are AMP Capital Investors, Brookfield Office Properties, Charter Hall Retail REIT, Colonial First State Global Asset Management, DEXUS, Eureka Funds Management, Federation Centres, GPT Group, ISPT, Ipoh Management Services, Jen Retail Properties, Jones Lang LaSalle, Lend Lease, McConaghy Group, McConaghy Properties, Mirvac, Perron Group, Precision Group, QIC, Savills, Stockland, Westfield Group and Westfield Retail Trust.

### Contacts

The Shopping Centre Council would be happy to discuss any aspect of this submission. Please do not hesitate to contact:

**Angus Nardi**

Deputy Director  
Shopping Centre Council of Australia  
Level 1, 11 Barrack Street  
SYDNEY NSW 2000  
Phone: 02 9033 1930  
Mobile: 0408 079 184  
Email: [anardi@scca.org.au](mailto:anardi@scca.org.au)

**Milton Cockburn**

Executive Director  
Shopping Centre Council of Australia  
Level 1, 11 Barrack Street  
SYDNEY NSW 2000  
Phone: 02 9033 1902  
Mobile: 0419 750 299  
Email: [mcockburn@scca.org.au](mailto:mcockburn@scca.org.au)