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Chief Minister

Treasurer

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Ms Vicki Dunne MLA

Chair

Public Accounts Committee

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Dear Ms Dunne

Please find attached information about commercial rates and valuations in the ACT. This information is provided for the benefit of the Public Accounts Committee and the broader Assembly in response to a motion agreed to by the Assembly on 31 October 2018. I intend to table a copy of the attached information at the Committee's public hearing on 12 November 2018.

In that motion, the Government undertook to provide through Annual Report hearings:

- details of changes to commercial rates both across the Territory and in individual precincts where significant changes have taken place, including original data and working analysis;
- information on the Revenue Office's methodology and schedules for valuing commercial land; and
- clarification on the number of property owners affected by changes in assessed commercial rates as a result of material changes in unimproved land values.

I am happy to answer further questions in relation to these matters during the Committee's public hearing on 12 November 2018.

Yours sincerely

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Treasurer

12 NOV 2018

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COMMERCIAL RATES AND VALUATIONS IN THE ACT

In 2018 there are 6,146 commercial properties in the ACT (about 4 per cent of the total number of rateable properties) with a total unimproved value of \$3.76 billion.

Changes in commercial rates and values

The tables at Attachment A illustrate changes in Commercial Rates and Average Unimproved Values across the Territory since 2012. These tables are presented by suburb, to demonstrate where the largest volumes and values of significant changes have occurred. A high level summary of the data at Attachment A is below.

From 2012 to 2018:

- The average rates increase for commercial properties has been 81 per cent. This is in line with expected average increases under tax reform.
 - 70 per cent of properties experienced rates increases of lower than the average.
- 307 commercial properties (less than 6 per cent of commercial properties) have experienced rates increases greater than 100 per cent.
 - 243 of these properties are located in Braddon (66), City (25), Fyshwick (30), Gungahlin (36) or Phillip (86).
 - These rates increases are a result of either lease variations or property revaluations.

From 2015 to 2018:

- The average rates increase for commercial properties has been 21 per cent. This is in line with expected average increases under tax reform.
 - 90 per cent of properties experienced rates increases of lower than the average.
- 70 commercial properties (1 per cent of commercial properties) have experienced rates increases greater than 100 per cent.
 - 46 of these properties are located in Braddon (22) or Phillip (24).
 - These rates increases are a result of either lease variations or property revaluations.

As shown in the table below, there has been a net increase of 128 commercial properties from 2015 to 2018. This in combination with increases in Unimproved Values, particularly in the precincts of Braddon, City, Fyshwick and Phillip, plus increases in other Unimproved Values reflecting lease variations, has resulted in the total of unimproved values for commercial property increasing from \$3.39 billion to \$3.76 billion from 2015 to 2018.

| Year | 2012 | 2015 | 2016 | 2017 | 2018 |
|----------------------------------------------|-------|-------|-------|-------|-------|
| No. of properties | 5,731 | 6,018 | 6,033 | 6,053 | 6,146 |
| Total value (\$ billion) for rating purposes | 3.68 | 3.39 | 3.52 | 3.54 | 3.76 |

This increase in commercial property values is taken into account when the government determines commercial rating factors each year as part of Budget deliberations.

Further to the data at Attachment A, the sections below provide data on property valuations and the resulting valuation uplift in the precincts of Braddon, Phillip and City.

Valuation Methodology

The *Rates Act 2004*, requires an annual land valuation for all rateable property in the ACT. Valuations are determined on the basis of unimproved value as at 1 January and take effect following determination by the Commissioner for ACT Revenue on 1 July of the same year.

The valuation approach is 'direct comparison' whereby sales of commercial land are considered and a broad adjustment to all properties is made if there is evidence of a change in general commercial property values across the Territory. There has not been a blanket increase in unimproved values across commercial property for the past five years as there has been an insufficient volume of sales evidence (across the commercial property types) to support a change.

However, the unimproved values for some properties have been adjusted for pockets of commercial land in the precincts of Braddon (2017, 2018), Phillip (2017), Fyshwick (2017) and part of City (2018) through a regrading program. This has been necessary as unimproved values of some properties in these areas were out of alignment with market values, relativities within the precinct, and in comparison with properties outside of the precinct. The revaluation of a property will be determined by location, block size, zoning, rights under the crown lease and an appropriate rate per square metre or per unit as determined by comparable sales evidence.

Individual properties are also revalued where they have had lease variations that increase the development potential of the property. These revaluations seek to reflect the uplift in the unimproved value of the property from the lease variation. There are around 100 lease variations approved each year.

Individual property revaluations do affect how rates charges are distributed among property owners. Where the market value of a property has increased for reasons other than improvements to the property, the unimproved value of the property will increase and the owner of that property will pay more in rates relative to other property owners.

Regrading Program

Over the last two years, 311 out of a total 6,146 commercial properties have been reviewed as part of a regrading program.

| | No. of commercial properties reviewed | Reviewed properties as a proportion of commercial properties |
|----------|---------------------------------------|--------------------------------------------------------------|
| Braddon | 75 | 1.2% |
| Phillip | 108 | 1.8% |
| City | 80 | 1.3% |
| Fyshwick | 48 | 0.8% |
| Total | 311 | 5.0% |

Braddon

In 2016, it was apparent that the values in Braddon had not kept pace with the development of the suburb. There was an unimproved value review undertaken of all properties bounded by

Northbourne Ave, Girraween St, Torrens St and Cooyong St. The Commissioner for ACT Revenue wrote to property owners to advise that the Review was being undertaken.

The precinct had seen significant development activity since the implementation of the Braddon Commercial Area Master Plan 2008 which allowed higher density plot ratios and residential development. This transformed the area from predominantly trade and services into a mixed commercial and residential development precinct resulting in the construction of a number of medium rise apartments with retail ground floors and second level commercial areas.

The sales evidence of development sites within the area reflected improved development opportunities, however, most of these transactions occurred off-market, i.e. privately negotiated between parties. The result was stability in realised sale price levels over the period 2010 to 2016. However the 2017 on-market sale of a development site situated within the precinct, indicated that price levels for these sites were likely to be significantly higher than previous off-market evidence had indicated.

The regrading significantly increased the level of unimproved values of most of the 75 properties situated within the precinct. The increases are a result of a review of the sales evidence, as well as some properties having higher value development rights associated with variations in the Crown Lease purpose clauses. The largest value increases occurred along Northbourne Avenue which includes a number of large hotel/serviced apartment complexes. The smallest value increases generally occurred along Torrens Street which has lesser range of purpose clause development rights and has experienced the least amount of purpose clause variations.

| No. of properties reviewed | 2016 valuations (million) | 2017 valuations (million) | Valuation uplift | Average valuation uplift per property |
|----------------------------|---------------------------|---------------------------|------------------|---------------------------------------|
| 75 | \$220 | \$310 | 41% | \$1.2 million |

The commercial precinct was revisited again following the regrading exercise undertaken for 2017, as a number of key sales occurred following the conclusion of the 2017 rating valuation project. These sales resulted in a readjustment of values across the entire commercial precinct for 2018. There were some significant adjustments to individual properties, however the overall outcome was a 1 per cent uplift in the aggregate unimproved value for the entire area.

| No. of properties reviewed | 2017 valuations (million) | 2018 valuations (million) | Valuation uplift | Average valuation uplift per property |
|----------------------------|---------------------------|---------------------------|------------------|---------------------------------------|
| 75 | \$310 | \$313 | 1% | \$40,000 |

Phillip

During 2016 there was a regrading of the Phillip services precinct that includes all properties bordered by Hindmarsh, Athllon and Melrose Drives. The unimproved values had issues with relativity between properties with similar purpose clauses and were out of line with sales occurring within the precinct.

The precinct has seen an increase in sales and lease variations in the past few years as the uses of the properties changed from light industrial to vehicle sales, retail, office and indoor recreation. There had been seven significant sales (five in Melrose Drive) and a number of other sales that indicated the unimproved value should be around \$700 to \$1200 per square metre, well above previous unimproved values.

The larger blocks used for vehicle sales along Melrose Drive saw significant increases in their unimproved values. The majority of the blocks located in the inner part of the precinct experienced smaller increases.

| No. of properties reviewed | 2016 valuations (million) | 2017 valuations (million) | Valuation uplift | Average valuation uplift per property |
|----------------------------|---------------------------|---------------------------|------------------|---------------------------------------|
| 108 | \$100 | \$179 | 79% | \$730,000 |

Inner city

City and Turner commercial precincts were regraded in 2017 for the 2018 rating year. The increases in unimproved values were the result of an analysis of a number of Inner City mixed use development sites sales. The sales included residential, hotels and office accommodation uses in the Crown Lease.

The review also included a number of mixed use projects that generally included large components of residential use as there were a significant volume of sales of similar property that occurred close by in the surrounding suburbs of Braddon, Reid, Parkes and Turner.

Sales evidence over the previous years did not support a change to the unimproved values of most City-based property with the majority of the value amendments being a result of variations to the purpose clause of the Crown Lease.

| No. of properties reviewed | 2016 valuations (million) | 2017 valuations (million) | Valuation uplift | Average valuation uplift per property |
|----------------------------|---------------------------|---------------------------|------------------|---------------------------------------|
| 80 | \$517 | \$639 | 23% | \$1.5 million |

Fyshwick

A manual regrade of the Fyshwick Industrial Precinct that encompassed 48 properties was undertaken for the 2017 Revaluation Year. Although the relativities appeared to be generally consistent, it became clear during the 2017 revaluation exercise that some of the existing unimproved values of large land holdings, properties with restrictive purpose clauses and/or land of highly irregular shapes were very conservative compared with some recent sales.

Fyshwick includes a variety of light industrial uses and demand appears to be supported from industrial businesses displaced from inner metropolitan commercial areas that have been

repurposed for higher value uses such as vehicle sales in Phillip or mixed commercial uses in Braddon. There are very few vacant industrial blocks remaining in Fyshwick.

| No. of properties reviewed | 2016 valuations (million) | 2017 valuations (million) | Valuation uplift | Average valuation uplift per property |
|----------------------------|---------------------------|---------------------------|------------------|---------------------------------------|
| 48 | \$55 | \$77 | 39% | \$460,000 |

Impact on other commercial properties

As individual property values are used to determine how rates are distributed among property owners, other commercial properties in the Territory would have paid higher rates had these properties not been reviewed. It is estimated that if these properties had not been reviewed, all other commercial properties would have paid over \$500 more on average in rates in 2018-19.

Future program

The following areas have been identified for potential commercial regrading exercises over the next several years:

- Garema Place/City Walk in City;
- Larger industrial/commercial sites in Mitchell; and
- Commercial areas in Barton.

The magnitude of any changes to unimproved values will be determined by sales evidence.

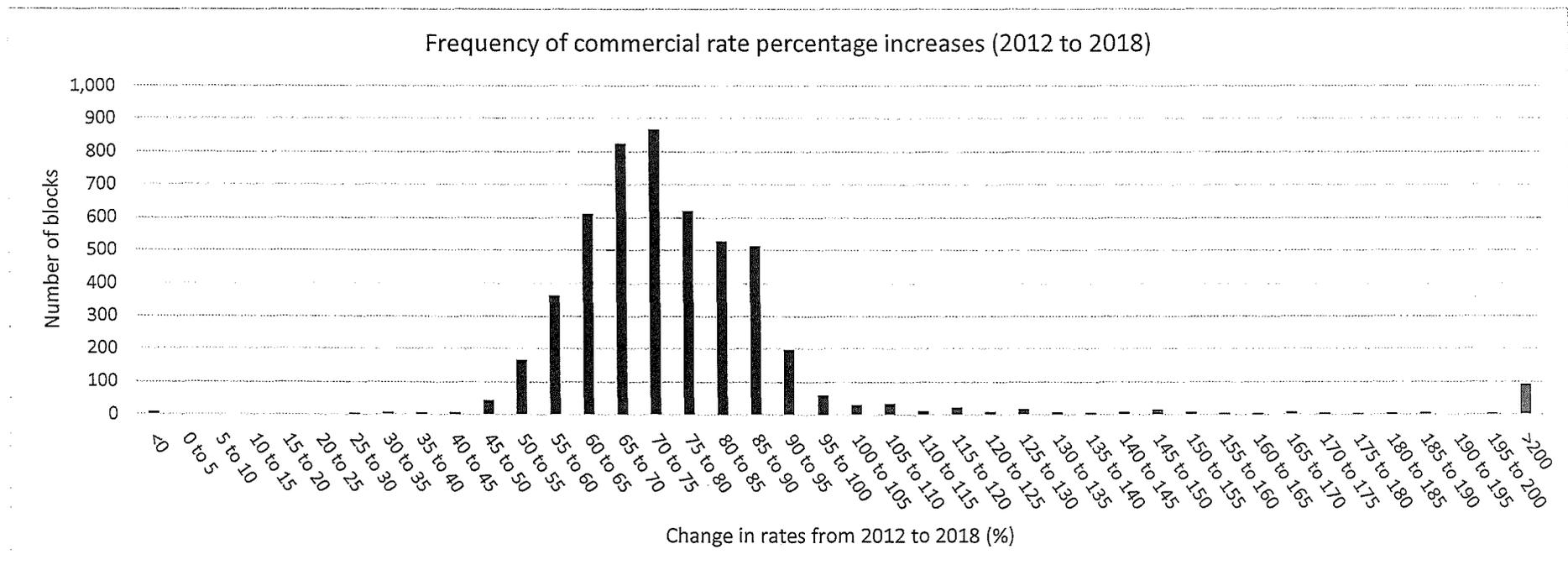
Review Mechanisms

Changes to the unimproved values for individual commercial properties are undertaken on a property-by-property basis. Changes have to be supported by market evidence. Where the property owner does not agree with the new unimproved value they have objection and appeal rights. On Objection (an internal review), a full report is provided explaining the basis for the new unimproved value and the sales evidence supporting the new value for commercial properties. The delegate for the Commissioner can adjust the valuation as part of this process. On Appeal, the ACT Civil and Administrative Tribunal can review the evidence supporting the valuation and any alternative valuation proposed by the property owner and can adjust the valuation.

Above 100% increases in commercial rates over six years from 2012 to 2018

| | Number | % of total suburb |
|-----------|--------|-------------------|
| Braddon | 66 | 50% |
| City | 25 | 7% |
| Fyshwick | 30 | 3% |
| Gungahlin | 36 | 26% |
| Phillip | 86 | 32% |
| Other | 64 | |
| Total | 307 | 6% |

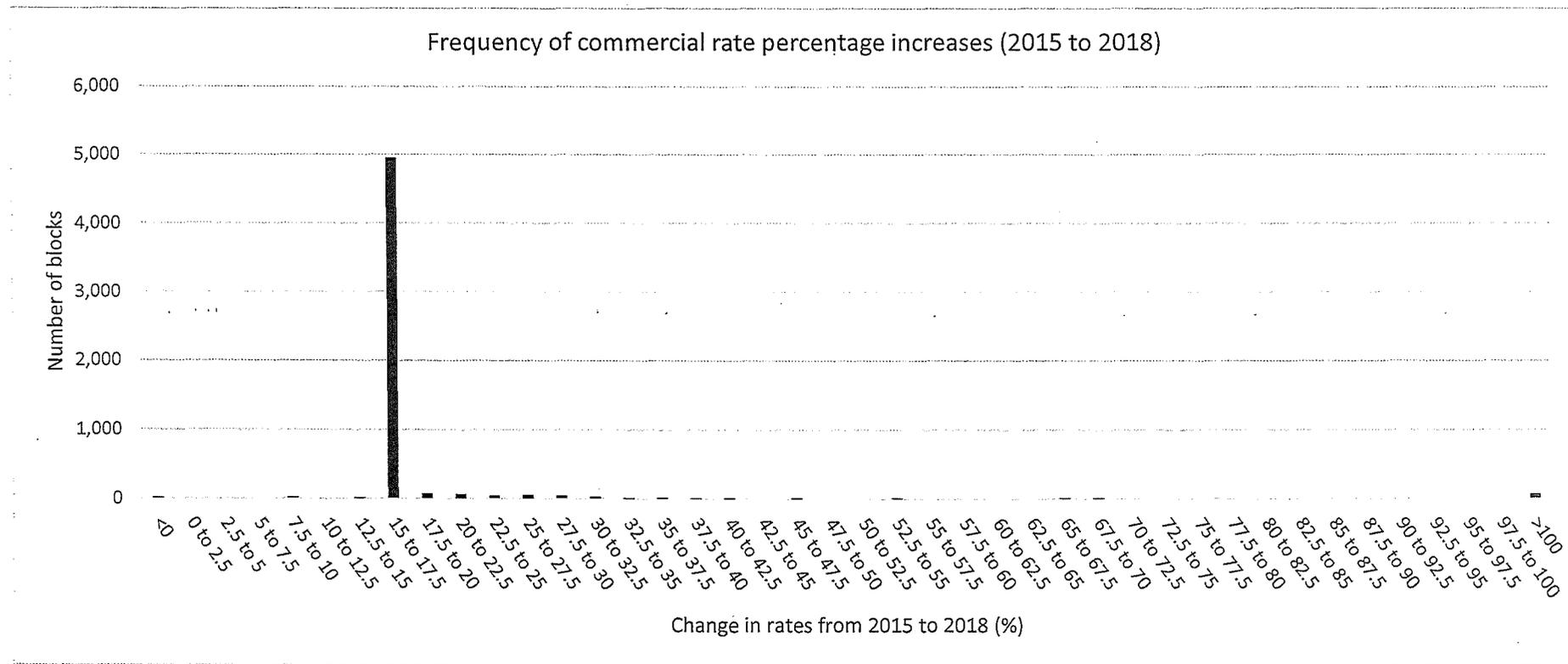
Notes: Suburbs with low numbers have been removed for tax payer confidentiality; consequently, totals do not sum. Average changes are based on properties in the commercial sector in both years.



Above 100% increases in commercial rates over three years from 2015 to 2018

| | Number | % of total suburb |
|---------|--------|-------------------|
| Braddon | 22 | 13% |
| Phillip | 24 | 9% |
| Other | 24 | |
| Total | 70 | 1% |

Notes: Suburbs with low numbers have been removed for tax payer confidentiality; consequently, totals do not sum. Average changes are based on properties in the commercial sector in both years.



Frequency of AUV percentage change

