LEGISLATIVE ASSEMBLY
FOR THE AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON PUBLIC ACCOUNTS
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Inquiry into commercial rates

Submission cover sheet

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Standing Committee on Public Accounts

ACT Legislative Assembly

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Introduction

The submission contends that the unimproved land value is an inappropriate tool for calculating statutory charges for properties that have heritage listed buildings. The recommendation is for charges to be calculated based on the gross rental value.

Current System

The current method for assessing General Rates, Fire and Emergency Services Levy (FESL) and the City Centre Marketing and Improvement Levy (CCMIL) is the same as for all commercial property. That is the average unimproved value (AUV) is applied to other variables determined by the ACT Revenue Office for a given period.

This approach has merit, particularly for commercial areas that are still within a growth phase and where development and growth of the built environment is in the interest of the public. This is important for Canberra that although first named in 1913, had its initial growth stalled by wars and depression. The current approach encourages development of the land to the maximum allowed under the Crown lease as this is how your rates will be assessed anyway. The approach encourages a more dynamic market as owners seek to optimise use of the land, reposition assets to meet contemporary market expectations and maximise profit.

Cash flow is enhanced by optimising development of the land. As well as improving the gross rent, larger contemporaneous buildings can also reduce the proportion of fixed costs associated with the land, such as statutory charges. Building bigger and better usually means less statutory charges on a rate $/m^2 or % of gross income.

An approach based on land value for assessing rates of most commercial property is in the public interest because it encourages growth and changes that drive economic and social activity. The current system is therefore appropriate because it encourages dynamic land use that produces a benefit to the land owner.

Heritage Buildings

Canberra, has a short but incredibly important history as the nation's capital and the public interest in heritage buildings will only increase over time. The planned development of Canberra has ensured many buildings remain in public ownership and are protected and preserved with government funding. Ratepayer appetite for subsidising heritage buildings is however limited and many ACT Government owned heritage buildings are income producing in whole or in part, to lessen the cost burden. When done well this enhances public access and amenity while still preserving the building and its history.

The financial burden of owning a heritage building is not subsidised by the public if it is privately owned. Restrictions on how the building can be changed by way of size or appearance also diminishes profit and increases uncertainty. The owner is less able to achieve the same cash flow growth, land use flexibility and investment certainty as an owner of a non-heritage building in the same location. The owner's use of the land is therefore far less dynamic.

The underlying land value is still influenced by demand for the location, but the key element for producing and limiting profit is the heritage elements of building. The objective is that the size, configuration and function of heritage buildings do not change and so the owner has less ability to meet current trends and this limits their capacity to produce income. The requirement to preserve, as often outlined in a conservation management plan, can be onerous and is a further burden on profitability.

The calculation of statutory charges based on land value has produced a high proportion of fixed costs for heritage buildings. An investigation of most privately owned commercial heritage buildings in the Canberra CBD (Civic) shows statutory charges to be significantly higher on a rate $\$/m^2$ or % of gross income compared to non-heritage buildings. This demonstrates that heritage buildings have lower net income growth and greater cash flow uncertainty. The approach to calculate rates based on the underlying land value is therefore inappropriate for heritage listed commercial buildings.

Recommendation

It is proposed to adopt the gross rental value (GRV) of rateable commercial heritage listed buildings for calculating statutory charges. This will ensure the property is still being assessed on its maximum potential to generate income and can be easily monitored to ensure the affordability of the owner based on a rate $/m^2 or % of gross income does not differ greatly from other commercial buildings.

Consistency and transparency is imperative for any calculation of rating values and the elements of possible model are outlined below.

- The maximum gross/net lettable value is measured for each heritage building. This is essentially a hypothetical measurement as it may be determined that some buildings have not been built to their maximum size even with the heritage status. After the initial measurement is made and agreed by the rating authority it will become a constant.
- The highest and best use as allowed under the Crown lease should still apply. This may also have an influence on whether a gross or net lettable area is calculated. This will need to be monitored as some buildings may be adaptable to alternative uses.
- The calculated rent should be fully gross and effective to avoid confusion and possible dispute regarding outgoings and incentives.
- The ACT Revenue office will be able to apply a single or multi threshold rate(s) to the assessed GRV.
- The process if managed correctly will encourage owners to submit details of current rents and recent lease deals to the ACT Valuation Office or other professional valuation entity. To facilitate this process a standard web-based form should be developed that allows data population by the owner.

Proviso

The author has been a certified practising valuer since 1992 and worked as a government valuer with the former Australian Valuation Office for 16 ½ years that included a role as the A/g Regional Manager of the ACT/southern NSW. He is currently the Director of Valuations in the Canberra office of a private real estate company, where he has worked for 12 ½ years. This submission represents the professional views of the author only and has not been reviewed or endorsed by any employer or industry body.

The author has also represented owners of heritage listed commercial properties located in the heritage listed Sydney and Melbourne buildings. The knowledge and experience from undertaking this work has helped to provide perspective and understanding of the key issues. This submission has not been requested, reviewed or endorsed by any owner of heritage buildings and no fee or payment of any kind has been received by anyone.

Yours sincerely

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