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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Submitted by: Evri Group

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Dear Brian,

RE: Commercial Rates in the ACT

<u>The process for determining rating factors; the impact of lease variations; how valuations are conducted;</u>

Evri Group and related companies own and manage properties in the Canberra region. Evri Group has been actively involved in Canberra's building and property industry for over 50 years and spanning 3 generations. A good example of the impact to the changes in rates in the ACT and in my opinion the main flaw with the apportionment factor is for a property located at 220 Northbourne Avenue, in Braddon, ACT. The Unimproved Value on the property increased from $5,880,000 on 1 January 2016 to $24,000,000 on 1 January 2017. Evri Group recently attended mediation with the ACT Revenue office and negotiated a minor reduction on the UV for 1 January 2017 from $24,000,000 to $21,000,000. There is an existing 8 storey commercial building on site, with a 4-storey annex to the north of the building, providing a total approximate Net Lettable Area ("NLA") of approximately 8,000 square metres.

ACT Valuation Office ("ACTVO") have based the massive increase in value due to 220 Northbourne having both commercial use and unlimited residential development opportunity on the Crown Lease purpose clause. Even though there are commercial leases in place (including to the ACT Government) until November 2020 and noting that the residential use cannot be activated until then, ACTVO have valued the site on a residential UV and have also applied the commercial rating factor as there is a commercial building on the site. The commercial rating factor is significantly higher than the residential rating factor, and based on our example above, we are unable to utilise or activate the residential component of the site until November 2020 at the earliest. This is a huge issues and raises the issue of "apportionment" between residential and commercial uses on a parcel of land.

In my opinion, ACTVO also did not give enough consideration to the below factors when determining the UV and conducting their valuations;

- **Demolition costs** (we have a large building on site which would cost circa $1.5M - $2.0M to demolish) which has not been taken into consideration and in their comparable sales the other property had demolition included;

- **Additional Construction Costs** – ACTVO use comparable sales and do not analyse the site in more detail. For instance, when building above 25 metres high to the parapet (we can build up to 32 metre height based on existing limit and 50 metres based on City to Gateway plan to RL617), based on the Building Code of Australia ("BCA") then the building needs to be fully sprinklered for fire protection and the evacuation fire stairs need to be pressurised. A building of 25 metres in height does not require the fire sprinklers to all floors or the stairs pressurised. These costs were estimated at $60 per square metre and equate to an additional $1.5M to $2.00M. These additional costs were also dismissed by ACTVO;

- **Additional Excavation Costs** – Evri Group commissioned a full geotechnical site analysis on the property confirming that almost half of the site had massive hard limestone and if at all possible, to excavate, would cost far more than other comparable sites along Northbourne Avenue. ACTVO indicated that all developers encounter excavation costs and it is a normal development cost. This is not right, and it doesn't make sense to excavate the massive large limestone on the site. A prudent developer would not excavate this area and would look to include podium or above ground parking which would cost far less to construct than the excavation costs. Therefore, the total yield of apartments would also reduce and therefore lower the total yield of apartments and subsequently a lower UV;

- **Floor to Floor Heights** – The ACT does not currently have any design guidelines for building new apartments. If we want to develop a good quality apartment product that has ducted heating / cooling, then a floor to floor building height of 3 metres is recommend. ACTVO kept insisting that we could do this with 2.7 metre floor to floor heights. ACTVO should seek professional building advice to confirm this is achievable and actually provide the evidence to the rate payer and justify their calculations. It doesn't seem fair or logical for the rate payer to engage architects / consultants to provide this information to ACTVO. ACTVO should engage someone to research this and provide the information to the property owner.

- **Market Risk** – ACTVO does not analyse market risk appropriately. There are currently dozens of projects under construction or planning along Northbourne Avenue. There is an oversupply and a market risk to the developer. If Evri Group were to develop 400 apartments as suggested by ACTVO that could be developed on site, what happens if the market collapses in 2- or 4-years' time? The commercial building will be demolished, and we can't build the apartment building with no sales. 220 Northbourne Avenue is a circa $200 million-dollar project and developers need to be cautious with projects of this size. If the market turns, it could result in the entire Evri Group business going bankrupt.

- **Apportionment of Rates** – The ACT Government should adopt the same system of apportionment of rates as NSW. For example, if the developable GFA of 220 Northbourne Avenue was 36,000 square metres, for rating purposes, the existing 8,000 square metre commercial building should be assessed on a commercial basis and the balance of the land

should be assessed as residential as that is what the UV is assessed on. Based on the current system, ACTVO have assessed the entire 36,000 developable GFA on a residential basis and applied the commercial rating factor. Not only has the UV increased by almost 4 times from $5.88M to $21M, the developable GFA has increased significantly and the commercial rating factor applied!

- **The ACTVO is not independent** – The sole purpose of ACTVO is to maximise rates revenue for the ACT Government. If ACTVO cannot value the site independently and take into account the site impediments such as demolition, additional excavation costs, existing commercial leases in place then they are not viewed as independent. They need to take all factors into consideration and when comparing properties. Additionally, if an objection is lodged against the rates or UV, a third-party valuation company should be engaged to conduct a site assessment (e.g. JLL, Savills, Colliers, Opteon, CBRE), Not ACTVO.

- **Planning Advice** – It seems odd that ACTVO are advising Evri Group on what we should develop on the site. ACTVO have indicated numerous times that we should develop 36,000 square metres of apartments and excavate a 3-level basement car park. It has also been suggested that a mixed-use development is built on the site. Given there is not one single successful mixed-use precinct in along Northbourne Avenue, one has to wonder why the ACT Government wants Evri Group to build one on this site? It is a costly gamble to take and Evri Group needs to consider and assess whether this will be successful. Additionally, ACTVO should not be providing advice on floor to floor building heights at 2.7 metres. We understand and know from developing our own projects that in order to provide ducted heating / cooling and provide a good quality apartment, a floor to floor ceiling height of 3 metres is required.

- **Method of Calculating Value –** Further to the above comments on planning advice, the method in which ACT Revenue and ACTVO use to determine value seems awry. ACTVO seem to select developments that maximise the number of dwellings that are developable onto this site rather than take the approach of what a good quality developer would develop on the site. For example, you may be able to fit 400 small apartments on a block with 2.7 metre floor to floor heights, or you could develop 250-300 larger apartments with 3.0 metre floor to floor heights and provide ducted heating and cooling. In addition, when comparing sites as a comparable sale, if a comparable sale includes a deduction in value for demolition, then demolition should also be deducted from the subject site being valued.

  Another example would be when the ACT Government permitted land owners to add child care as a permitted use on their purpose clause for no additional cost. 12 months later the ACT Government / ACTVO has then adopted a stance that all land that had childcare on the purpose clause was valued considerably higher than the existing commercial or residential uses and therefore potentially doubling the unimproved value of the land and subsequently doubling rates. Ideally, rates on the site should calculated and apportioned based on the current use on the land and what is activated. Consideration should be given to site impediments and existing commercial leases in place.

The amount paid by property owners;

220 NB Rates:

Unimproved Land Values		Average Unimproved Land Value	Rates Amount	Land Tax	Total Rates & Land Tax	Rates Assessment
1-Jan-16	$ 5,880,000.00	$ 5,880,000	$ 33,934	$ 72,048	$ 105,982	Residential
1-Jan-17	$ 21,000,000.00	$ 10,920,000	$ 634,672		$ 634,672	Residential Land Value / Commercial Rates
1-Jan-18	$ 21,000,000.00	$ 15,960,000	$ 1,009,988		$ 1,009,988	Commercial
1-Jan-19	$ 24,000,000.00	$ 22,000,000	$ 1,398,567		$ 1,398,567	Commercial
1-Jan-20	$ 24,000,000.00	$ 23,000,000	$1.4M +			

Based upon the above summarised rates for 220NB, if the property generates Gross Income of ~$2.9M and if rates are ~$1.4M, then there isn't much money left for bank interest, capital expenditure, repairs & maintenance and other expenses on the property. Almost 50% of the income is going to rates. Why would people invest in commercial property if half of the income is payable in statutory charges?

The impact on leasing costs, property values and business viability; and

The major factor to address here is property values. A quick desk top analysis below of property values before and after the increase in rates. The property value has dropped from approximately $25 million in 2016, to approximately $12 million based on estimated current cash flows of the property.

220 NB Estimated Property Value				
	FYE 2016	FYE 2017	FYE 2018	
Gross Income	$ 2,588,376	$ 2,610,406	$ 2,900,000	(estimate only)
Expenses	$ 652,904	$ 1,636,478	$ 2,000,000	(estimate only)
Net Income	$ 1,935,472	$ 973,928	$ 900,000	
Capitalisation Rate	7.50%	7.50%	7.50%	
Estimated Value	$ 25,806,293	$ 12,985,707	$ 12,000,000	

The effectiveness of the commercial rating system and its impact on the businesses and the property sector in Canberra.

The commercial rating system in Canberra needs to be amended to be more in line with the NSW system regards to apportionment. It seems like the ACT Government is purely trying to maximise revenue without thinking about the consequences to the ACT Property Sector. If building owners cannot afford to pay the massive increases in rates, many owners will be forced to sell their properties. Additionally, it makes it difficult for property owners to pass on the increased costs in rates as most will refuse and be unable to pay the massive increase in rates.

The effect of this will see investment in the ACT decrease and property owners / investors will be seeking opportunities in other states and cities around Australia. This is already evidence with rates for a property in Canberra being double what they are in Queanbeyan as per the example raised by Alistair Coe in the ACT Legislative Assembly.

A recommendation for ACT Revenue would be to impose a maximum increase of 10% charges year on year (on the basis no planning / zoning changes were made on the property). This way landlords, tenants and potential purchasers are not hit with massive unpredictable rate increases that are hard to afford, budget and cash flow.

Sincerely,

George Cassimatis

George Cassimatis
Finance Manager
Evri Group