President's Message – November 2016

I would like to start this month's newsletter by thanking the Australasian Council of Valuers-General (ACOVG) for inviting me to attend their annual conference in Perth, Western Australia in October. The theme of this conference was "Change, Transformation and Innovation" and included some very interesting topics.

The ACOVG conference also included participation in a series of pre-conference presentations on the topic of "Digital Disruption". The two keynote presentations at this event involved speakers who were talking about the latest developments in the digital "revolution" and how all aspects of our lives are affected by the changes going on around us. They looked at the "technology timeline" from 1995 to 2016, the needs and impact of upcoming generations, and did a bit of crystal ball gazing into what may happen in the future.

All this was particularly relevant to the topics I had been invited to speak about at the ACOVG conference which included "International Trends and Developments in Computer Assisted Mass Appraisal Techniques" and "What Makes a Good Valuation Office". Although I looked at the latest technology available to support agencies and others involved in the provision of property tax valuations, the main thrust of my contributions was that we are now living in the age of "Big Data" and the "Internet of Things" and all involved in property tax systems need to be aware of where we are going and how to prepare for the changes that will inevitably flow from these developments.

Among the many interesting topics discussed at the ACOVG conference was land value capture. This is a subject which is being widely considered in many parts of the world, but is particularly relevant in Australia where there are a number of large infrastructure projects where some form of land value capture is being spoken about as a possible basis for funding the developments.

By coincidence, whilst we were discussing land value capture in Australia, the United Nations Habitat III summit being held in Quito, Ecuador was also considering the same issue. This four-day gathering included sessions related to innovative and collaborative ways to pay for the proposals put forward in the New Urban Agenda - the UN's principal framework document for sustainable urbanization – that, by some estimates, could cost tens of trillions of dollars to fully implement. One of the most widely discussed policies in municipal finance at the conference was financial instruments related to land value capture. Land value capture refers to financial gains from the appreciation of private land as a result of public investments or administrative actions by a municipality.

Financial instruments to capture land value gains have been common practice for many industrialized cities. But more recently they have become an increasingly attractive option for cities in developing countries. With rising urban populations and limited land available in city areas, appreciating land values are almost inevitable. The gains for local governments and private developers can be in the billions. But developing country governments still need to strengthen enabling environments in ways that support greater borrowing and transparency of expenditures if these instruments are to become more mainstream.

According to the World Bank, municipalities use land value capture products to raise funds in two main ways. In the first - a fee-based scheme - governments plan or propose city development projects with the expectation that they will increase property values in the surrounding areas as well as the taxes collected on them. The government then collateralizes those forthcoming revenues and sells them to investors to raise cash. The practice has caught on in both emerging and industrialized countries. Cities in Colombia, for example, have applied the approach to fund municipal transport projects while municipalities in greater Washington, D.C., have used it to finance extensions to the city's metro line.

The second involves a development-based instrument which includes a direct sale. Local governments sell tracts of land - or the right to develop them - to private investors on the basis of new zoning regulations or building permits. The investors reap the benefit of future land value increases but, in exchange, are often obligated by the terms of the sale to build infrastructure or other public works projects. This type of approach is typically used in areas of a city with little development.

But land value capture instruments can also be highly contentious and tricky to execute. Pushing up the value of new, undeveloped tracts of land can, in turn, push out informal or low-income settlements in those areas. Very often the constraints have less to do with financial engineering capacity than with the public policies and institutional capacities to support them. Land value capture instruments that count on future tax revenues can only succeed in jurisdictions that have robust and transparent tax systems. Even if the lending conditions and reliable enabling environment are in place, land value capture instruments are just one option for municipal finance. As one of the keynote speakers at the conference stated, "They are not appropriate for all forms of urban development, but structured properly and backed by projects that generate sustainable returns, they can be a useful tool for municipal planners."

Prior to the ACOVG conference, I had been invited to speak about property taxes and their future to the valuation staff of Landgate which is the organisation responsible for the provision of property tax valuations (land tax and council rates) in Western Australia. Landgate is also responsible for other property-related functions such as titles and surveys, property reports, market trends, maps and imagery, etc. Landgate also arranged for all those attending the ACOVG conference to go on a technical tour of projects being developed by LandCorp, Western Australia's land development agency, which was very interesting.

One of the other activities I was involved in during October was the delivery of valuation training to the professional staff of a large property development company with headquarters in Abu Dhabi, United Arab Emirates. This training was part of a package of courses being provided by the Middle East and North Africa (MENA) Region of the RICS. The training took place at the company's headquarters building which is an unusual and iconic structure among the many interesting properties in Abu Dhabi.

Other IPTI events in October included a workshop on the "Role of Mediation in Valuation Disputes: is it an Effective Form of Dispute Resolution". This workshop, which was held in Toronto, was well-attended and involved presentations from experts in mediation along with some lively debate between speakers and those in the audience. In addition to an outline of the role and benefits of mediation, the workshop involved practical advice on the various processes involved in mediation and considered a number of case studies where mediation had proved effective in resolving a dispute. As this is clearly a popular topic, we are planning another similar workshop next year.

We also held another in our series of professional webinars that we run in partnership with the Institute of Municipal Assessors (IMA) based in Canada. This webinar was on the subject of "Property Tax Policy" and involved two experienced speakers discussing the key issues.

Also in October I had the pleasure of chairing "Rating Question Time" which is an annual event held in London (UK) and organised by Contact Property Training in conjunction with the Rating Surveyors' Association. This is always a lively event involving a panel of experts drawn from all stakeholders in the UK business rates system (property tax for non-domestic properties) answering questions from members of the audience.

Finally, I should mention that I had the pleasure of meeting the President-Elect and the CEO of the International Association of Assessing Officers (IAAO) when they were visiting London in October. Although IAAO and IPTI have a very cooperative relationship with joint publications and mutual participation in conferences organised by each organisation, we discussed ways in which we could further develop partnership working in other areas.

Now looking forward, we are fast approaching our two-day Caribbean conference in St Lucia. This is being held on 9-10 November in partnership with the RICS and will cover both construction and valuation issues. We have an excellent line up of local, regional and international speakers and this promises to be yet another enjoyable, interesting and informative event; one not to be missed.

In December we have a meeting of IPTI's European Corporate Advisory Committee (ECAC) which is being held in London. This will involve updates for our corporate members from UK government officials and from professionals involved in the UK property tax system. As a revaluation of non-domestic properties in England, Scotland and Wales has just been published, this should be a very timely meeting.

Looking a little further ahead, we have a number of IMA-IPTI webinars coming up both during the remainder of this year and into 2017. We also have an "Oil and Gas" workshop in Houston, Texas in February 2017 and our annual "Mass Appraisal Valuation Symposium" which will be held in Sydney, Australia in May 2017.

Full details of these and other forthcoming events can be found on our website: www.ipti.org.

Now for a quick look at what is making headlines around the world in terms of property tax.

Having mentioned the latest revaluation in the UK, that continues to make headlines. The Mayor of London has joined an alliance of the capital's biggest business groups to criticise the Government's "revamp" of business rates, and push for a reform to the system. The group has called for a full review into the rates system and for more realistic proposals to combat the changes, such as more time to prepare for the increases. The deputy mayor for business, said: "It is unacceptable that thousands of firms in the capital are, in effect, facing 50 per cent increases in their business rate bills with barely six months' notice." Other criticism relates to the requirement that appeals must show that the new valuation is "outside the bounds of reasonable professional judgement". Many experts say this may mean valuation inaccuracies of less than 10% will be ignored; some think the margin may go as high as 20% or even higher in relation to specialised or unusual properties. Further criticism has been levelled at the £300 upfront fee for appeals, returnable if the appeal is allowed. One commentator said "As with many elements of our archaic rates system, it's likely to be fairly arbitrary. With appeals voraciously discouraged and councils increasingly cash-strapped, it's easy to see how valuations could be pitched at just the right side of "reasonable".

In Denmark, the Danish government wants to use aerial photos to assess housing taxes as it says it wants to see properties "from every angle". Those in favour say it will give the assessors a chance to see properties from many angles and also allow a comparison with neighbouring properties. But opponents say that aerial photos give a false picture. "The home's interior could be in bad shape, or there could be a bad smell coming from a nearby factory," said one critic, "You cannot see that from an aerial photograph." However, the tax minister said that it will take many years, and perhaps cost billions of kroner, for assessments to be done by on-site visits. He also stressed that homeowners would have the opportunity to challenge the aerial assessments. "I think that is more fair than waiting several years for an assessment," he said.

This is a very topical issue as another jurisdiction in the USA has just scrapped plans to use aerial imagery due to objections on privacy grounds.

Japan is considering increasing property and inheritance taxes on high-rise condominiums to close a tax loophole exploited by affluent owners who buy such units for tax-saving purposes. In high-rise condominium buildings in metropolitan areas, units on higher levels are pricier than those of the same size on lower levels, because of more attractive views. The price per unit of floor space on the top level of a new high-rise condo is 46% larger on average than that on the lowest level, according to the Research Center for Property Assessment System. But under the current rules, the units are valued equally for taxation purposes, by splitting the value of a building with the number of units. So higher-level apartments are taxed lightly relative to their actual prices. Under a new appraisal system being considered by the internal affairs ministry, the valuation of mid-level apartments would stay about the same, with that of higher-level units gradually increasing and that of lower-level units falling. A property valued at 50 million yen ($479,550) is levied 700,000 yen in annual property tax. If that appraisal value goes up to 55 million yen, the tax bill would go up to 770,000 yen. The change will not affect existing properties in order to avoid backlash from residents who purchased high-rise accommodations based on the current taxation system.

Moving on to Africa, in Kenya "The Nairobi City County government gives notice that the Draft Valuation Roll is under preparation and will cover all rateable properties within the jurisdiction of the county," a public notice by City Hall says. The current draft valuation roll is more than 30 years old making it ineffective in capturing the value of land which has changed over the years in different locations. The new valuation roll will be based on the value of undeveloped land (unimproved site value). Currently, property owners pay rates at 34 per cent of the unimproved site value based on the 1980 valuation roll, which apportions the worth of land depending on its location. The updating of the valuation roll will help City Hall raise more in property rates, with experts saying the county could be losing billions thanks to the outdated records.

In China, a new property tax law draft is expected to be submitted to the National People's Congress (NPC) for deliberation in 2017. The absence of a property registration system in China is an obstacle in introducing property tax said the deputy director of the Chinese Association for Fiscal and Tax Law. This opinion was echoed by a professor of public finance at the Chinese Academy of Governance who said that China needs to have unified property registration in all cities and counties, and that a unified property registration system should be introduced nationwide. Although citizens in China hope property tax can help to curb speculation and the rise of housing prices, a professor at Peking University Law School said that the tax will mainly help to optimize local tax systems and local fiscal revenue; it will also adjust income distribution, he said.

In France, the local property tax, Taxe Foncière, increased by almost 15 percent on average from 2010 to 2015, according to the French association of landlords, UNPI. The local property tax is paid annually by property owners in France regardless of whether the property is owner-occupied, rented out or empty. Communal, inter-communal and departmental elements make up the tax, and revenues are used to fund local services. The average local property tax rate was 19 percent last year, says the report. The one consolation for property owners is that the overall rise was slower than the period from 2007 to 2012, when the local property tax increased by 21 percent on average, according to UNPI.

Staying in France, and combining the old adage about death and taxes, French authorities have apparently sent a demand for property duties to a dead woman - addressed to her grave in a small town in Brittany! Officials sent a tax demand letter to a deceased woman addressed to "Grave 24, Row E, Cemetery Road". The town's treasurer confirmed that it was a demand for property taxes, but had been sent by mistake!

In the USA, it seems there may be trouble in paradise. In Florida, Orlando's big three theme parks are suing the Orange County property appraiser, arguing his assessments of their properties are too high. The Walt Disney Company and Universal Orlando have the county's two highest property values; Disney's 2015 property overall was assessed at $8.2 billion and Universal's at $2.1 billion. These are clearly not "Mickey Mouse" valuations!

And finally, in Mexico an unusual and interesting innovation: lose some weight and pay less property tax. Property owners in a municipality in Nuevo León are being offered tax discounts of up to 50% for losing 10 kilograms. Families in San Nicolás de los Garza are being invited to participate in a weight-loss program whose goal is to shed 10 kilograms or more during a 10-week period. A family whose combined weight loss totals 10 kilos or more will get a 50% credit on their 2017 taxes. To sign up, families will have to submit to an evaluation by health officials who will provide them with nutrition plans to help them lose weight; a kilo a week for adults and half a kilo for children will be the goal, the mayor explained. Each family member will then undergo a weekly review and weigh-in to determine their progress. Tax discounts begin with a cumulative weight loss of half a kilo, for which a credit will be issued for a 4% discount on the family's tax bill. The discounts become progressively higher the greater the weight lost.

Who said property tax is not a "weighty" matter!

Paul Sanderson
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