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Property Tax and Assessment News from Around the World

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Land tax, council rates, land acquisition powers, value-capture tax & Auckland Council funding

It’s not often you get to talk about land tax, compulsory acquisition powers, water & road user charges, value-capture tax, encouraging land bankers to develop, NIMBYs and Auckland Council debt in one sitting.

Unless, of course, you’re chatting with Productivity Commission chairman Murray Sherwin about how to overhaul New Zealand’s urban development framework.

I sat down with Murray in the Commission’s Wellington offices to ask about a few subjects dear to Interest.co.nz readers’ hearts that were raised in its 516-page report on our urban development framework.

Land tax (or council rates if you want a calmer reaction)

One of the recommendations the Commission made is to change how rates are levied by local authorities. Rates are a land tax in disguise – it’s just that New Zealanders tend to have an aversion to anything with ‘tax’ in it, so we called them rates.

The recommendation is that we start levying rates on the undeveloped portion of land. Sherwin explained that about 20 years ago, legislation was introduced that recommended levying rates capital value – ie land plus improvements (buildings, basically).

"Actually that doesn't do what it was intended to do," Sherwin said. "And in particular what it does is, essentially lets people who are sitting on vacant land off the hook – they get a lower rating base because there's no improvement on their land."

These are the people who may be land banking – just sitting there with undeveloped land waiting for Godot to turn up.

Changing how we levy rates to the unimproved part of the land would remove the incentive for land bankers to just sit there, and encourage them to get on with doing something with that land, Sherwin said.

In broader economic terms a tax on land is one of the most efficient ways to raise revenue. "You can't avoid it, you can't shift [it]…so it's an efficient tax in its own right."

Now, don't get excited that we'll see a change any time soon. Sherwin pointed out that Auckland Council was obliged under the Super City Act to move to capital value rating from its previous land-base.

"So I don't think they're going to turn around quickly. But as a basic principal we think that [unimproved] land is a better basis for rating."

One question on individual land owners' minds is, how would this affect me and the land my house is on? Well, things should work out pretty much the same, Sherwin said. Work done by the Commission suggested the recommended change might be even more equitable than the current capital value rating system.

"People who own the more expensive land, in any event, tend to be the wealthier people. So it all works through," he said.

Targeted rates

One proposition the Commission kept running up against was that "growth doesn't pay for itself," Sherwin said.

In Auckland, for example, a rapidly growing population requires infrastructure, three waters, new roads, you name it. Yet the Council has found it's not getting the uplift in revenue through its rating base sufficient to cover that.

The Commission explored how to get greater responsiveness of city revenue to population growth. How do you make the investment in infrastructure more bankable?

Enter the conversation about user charges on water and sewers. Roads, too. Make people pay for resources and they'll be more efficient in their use of those resources.

"We've seen in places that have introduced, for instance, water charging, that demand has fallen by as much as 30%," Sherwin said.

"That means you're not having to build more expensive infrastructure to cope with growth because the existing stuff will go further."

"You can give the water away free if you like, but charge a delivery fee." Do the same on roading – user charges or congestion charges. Put volumetric charges on something and watch usage become more efficient.

Value capture tax

One potential revenue source for councils is the imposition of value uplift taxes. Take an example of any unserviced block of land. Add three-waters and roads, and the value of that land jumps because it's now usable for dense development.

"So why shouldn't the council that's funding the infrastructure claim a slice of that to fund the cost of that infrastructure?" Sherwin asked.

Another example of where value capture tax could work in Auckland is the inevitable rise in values of properties close to new city rail link stations. Could Council target these properties? "Absolutely."

Melbourne has done this quite nicely with a graduated tax on properties that are near one of their inner city rail loops, Sherwin said.

“Property values went up, the marketability and the rents in those properties went up, so the council gets a part of that to help fund the infrastructure.”

Sell us your land (yes, you do have to)

Government compulsory acquisition powers under the Public Works Act have been in the news in the past few years, with a swathe of centrist economists suggesting we shouldn’t shy away from using them to make sure there’s enough land to develop affordable housing on.

Under the Public Works Act there are provisions where the state can claim, with proper pricing and compensation, private property to enable public good activities to take place.

The Commission has recommended we go a step further – local development authorities should also have that power. Sherwin said he envisages the powers would be used mainly when trying to redevelop existing inner city areas where a given landowner might be holding out and holding back a large-scale redevelopment.

Having said that: “We’re quite cautious about this because when you start messing around with private property rights you need to be cautious,” Sherwin said.

“I’m not sure that it’ll be used a lot,” he added. “I think it’s going to be used mostly, if it is, in inner city redevelopment areas.”

Govt covering Auckland borrowing?

Of surprise to some Productivity Commission spotters, was the recommendation that central government could use its creditworthiness to help take debt off the Auckland Council’s balance sheet.

The Commission spoke “quite a lot” with the Auckland Council about its funding constraints, Sherwin said. They see themselves being quite hard up against their limits. How do you get some of the costs off balance sheet or give the council a greater ability to take on more debt?

“Our sense is, for rapidly growing cities, particularly if they can get a bit of responsiveness in terms of revenue flow to growth, then probably the debt limits the credit rating agencies and others are setting are a bit tight,” Sherwin said.

Beyond that it’s really a question of looking to other balance sheets that you can put some of that debt on (or the risk of that debt on) to spread the load a bit more to facilitate infrastructure development.

The recommendation, therefore, shouldn’t come as much of a shock. Clearly the capacity of cities to invest in infrastructure has been a problem and remains a major problem.

Is it politically feasible? About those NIMBYs…

The big question is, what is politically feasible? We’ve already had the major parties trading blows on who’s pro and against development and whose policies best mirror the Commission’s recommendations.

We don’t need to see the complete 64-part package, Sherwin said.

“What we’re saying is that it really is time to start again with the RMA, and the other pieces of legislation that feed into urban planning.”

The RMA has been back to Parliament 18 times since it was introduced 25 years ago. And for all its revolutionary concepts back then, it’s not an urban planning document.

“It’s lost its way, it’s lost its shape.”

Whatever replaces the RMA requires consideration of both the urban and natural environments.

It needs to contain a series of principals and objectives spelling out the framework against which councils should plan, starting with 30 to 50-year regional spatial plan umbrellas under which development is expected to take place.

For example, this would include securing, at an early stage, the corridors for roads and other infrastructure so you're not trying to buy them late in the piece, Sherwin said.

Borrowing from the experiences of Auckland and Christchurch, the framework could incorporate systems such as having independent hearing panels reviewing plans to take the politics out of things, and checking them against the principals and objectives spelt out in the legislation.

"One of the reasons for doing that is that we've seen quite a lot of regulatory overreach…out of the planners and the councils, where they've started going beyond their mandates," Sherwin said.

Due to pressure from NIMBYs? "Yeah all that stuff, and some stuff which really goes well beyond what you'd expect to be able to achieve under land-use planning, which is effectively what [the current system] is."

The message: We need to push back against some of that overreach; Short-circuit the review processes. It's still important for Councils to engage with their communities, but the specificity in some of the existing legislation just doesn't line up; Councils find themselves consulting on particular propositions two or three times under different Acts, Sherwin said.

Not a very good framework. Time to start again.

How NZ could fix property taxation, face down the NIMBY problem, overhaul the RMA and drive sustainable urban development - OECD

The OECD has run the ruler over New Zealand's urban planning framework, providing a range of suggestions for overcoming problems regarding NIMBYs, property tax settings, spatial planning, the RMA, infrastructure financing and local road pricing.

The comments were made in the organisation's **2017 Environmental Performance Review of New Zealand** in a section on sustainable urban development. An OECD delegation led by former National Party Environment Minister **Simon Upton** was in Wellington this week to launch the review.

In general, New Zealand's urban planning system had responded poorly to the challenges and opportunities arising from urban development, the OECD said. This meant substantial barriers to increasing housing supply and providing network infrastructure in Auckland and other fast-growing cities.

"As such, it has contributed to rising house prices, missed benefits from agglomeration and increased environmental pressures from infrastructure bottlenecks," the OECD said.

The OECD's recommendations on sustainable urban development are below. But first is an overview of some of the comments the organisation made in its report:

On property taxation and rates:

- High reliance on general rates for infrastructure finance may discourage cities to accommodate or promote growth, as it implies that dwellers cross-subsidise infrastructure they do not necessarily benefit from. Councils are therefore reluctant to provide network infrastructure (such as sewerage and public transport) if they think this would push up the rates bill of the local population.
- Local authorities can address this issue by shifting the burden of financing growth to those who benefit from it (applying the user-pays principle).
- Targeted rates can also be used to capture windfall gains accruing to landowners from property price increases resulting from the rezoning of land for urban use (land-value capture taxes) or the improvement of local infrastructure (betterment taxes); an example would be increasing them for a defined period.
- The potential for the tax system to capture such windfall gains is large in New Zealand, particularly in Auckland.

- Revenue raised through this mechanism could then be used to help fund infrastructure upgrades and expansions needed to service new land (OECD, 2015a), especially where development and financial contributions are not applicable.
- Property taxes affect land use and urban sustainability by changing the relative cost of the location and types of development. For example, a tax design that is based on buildings and other land improvements (rather than on land value) can incentivise greenfield development to the detriment of infill development, encouraging urban expansion and, at worst, urban sprawl.
- In New Zealand, most local councils have shifted from setting rates on the basis of land value in favour of capital values, which they perceived would better reflect the ability to pay (NZPC, 2015). However, much of the recent increases in property values reflect rising land values rather than improvements; this suggests that land values may be the more appropriate basis for the tax. There are also indications that land taxes are more progressive in New Zealand.
- The country may therefore review whether property taxation is aligned with objectives of the urban planning system and, if not, consider shifting towards stronger land taxation.

On encouraging NIMBYs to become QIMBYs:

- The process of changing land-use rules and regulations tends to be lengthy, with district or regional plans taking more than eight years on average to become operational (since their first notification).
- These long time periods are in part related to extensive participation and appeal rights under the RMA, which stakeholder groups have used to thwart development of wider public interest (even though these rights have narrowed over time; see Chapter 2).
- While high levels of public participation are an asset of New Zealand's public governance, vested interest groups sometimes have disproportionate influence in local council processes, including consultations on budgeting and land-use plans.
- Resident associations often appeal changes to city land-use plans, fearing that urban development could affect the value of their properties and the character of their neighbourhoods. Indeed, many changes to land-use plans effectively protect the interests of property owners, creating biases towards maintaining the status quo.
- well-defined national urban design principles or outcomes (see Section 4.2) can provide an objective baseline against which urban plans (and the reasonableness of objections) can be assessed, thereby limiting the risks of appeals to publicly beneficial development.
- OECD (2012) identified a number of other strategies that city government can use when public opposition against a more compact urban form is high; these include provision of affordable housing, investment in green open space, greening of built-up areas, information and education, and demonstration projects that showcase attractive medium- and higher density development.
- The city of Vancouver, Canada, for example, turned the acronym NIMBY (not-in-my-backyard) into QIMBY (quality-in-my-backyard) to demonstrate that residential intensification can be based on high-quality urban design and amenities.

On the Resource Management, Local Government and Land Transport Acts:

- The RMA focuses on managing adverse effects of development of the natural environment, but is virtually silent on the urban environment (where natural landscapes are already highly modified). As such, the RMA has limited capacity to recognise and promote the positive economic, social and environmental contributions of high-quality, sustainable urban design and planning (e.g. compared to what is already built or "business-as-usual" development).
- The RMA, LGA and LTMA create a complex web of separated planning and decision making processes. With land use, transport and infrastructure being subject to separate legal frameworks, plans and decision-making procedures required under the acts are all subject to different legal purposes, processes and criteria, and operate over different timeframes.
- This has created parallel planning systems with a proliferation of planning documents, overlaps and duplication of efforts, creating significant resource demands on local authorities.
- Overall, the urban planning system has responded poorly to the challenges and opportunities arising from urban development. The system has been a substantial barrier to increasing housing supply and providing network infrastructure in Auckland and other fast growing cities.

- As such, it has contributed to rising house prices, missed benefits from agglomeration and increased environmental pressures from infrastructure bottlenecks.

A summary of the OECD's recommendations is below:
The policy and planning framework

- Examine how to improve procedures, criteria and timeframes for planning and decision making to allow for more integrated and timely management of natural resources and urban environment while preserving the ability for effective local participation.
- Consider making spatial planning mandatory for all urban areas with population over 100 000, while simplifying infrastructure and transport planning requirements; provide greater recognition and legal weight to spatial planning initiatives in smaller urban areas, and guidance on how spatial planning should be conducted; at the very least, clarify the hierarchical relationships and linkages across planning instruments for land use, infrastructure and transport and, where possible, align planning horizons and review periods.
- Broaden the scope of the National Policy Statement on Urban Development Capacity, or develop other legally binding measures to ensure that local planning processes and instruments i) recognise and encourage good urban design outcomes and principles for sustainable urban development; ii) identify and appropriately manage important or sensitive environmental systems; and iii) incorporate climate change mitigation goals and resilience against climate change and natural hazards.
- Facilitate the decision-making process to change existing land-use plans and reduce the scope for vested interests to thwart development of wider public interests (e.g. by front loading public consultations and ensuring an independent expert review of proposed plans and suggestions from the public).
- Create a common set of urban environmental and economic indicators to increase transparency on cities' environmental performance, facilitate benchmarking and identification of best practices, inform decision making and allow for better policy evaluation.

Institutional framework and multi-level governance

- Establish a national co-operative structure comprising national institutions with responsibilities for urban-related matters (e.g. on the model of the Natural Resources Sector), with a view to improving horizontal and vertical policy co-ordination.
- Consider replicating the Auckland institutional reform in other major urban areas, with the necessary adjustments, and encourage partnerships among smaller municipalities with a view to overcoming institutional and land-use planning fragmentation.

Regulations and economic instruments for sustainable urban development

- Ensure that regulations in land-use plans pass robust cost-benefit analyses that consider environmental outcomes (including effects on transport, green spaces, etc.), as well as economic and social outcomes (including distributional consequences and intergenerational equity).
- Make more systematic use of development contributions and rates to guide efficient and sustainable urban land use by: i) differentiating development contributions along the location and type of development to reflect the true cost of development on infrastructure and service provision; ii) considering adjusting development contributions and rates where development yields positive effects on the environment; and considering maintaining financial contributions or develop other instruments to reflect the environmental costs of developments.
- Remove barriers to road pricing (e.g. road tolls and congestion charging) and encourage councils to introduce volumetric charging for drinking water supply, with a view to foster efficient use of infrastructure and resources, while reducing the burden on local government budgets.
- Consider the use of betterment levies (e.g. through targeted rates) as an additional cost recovery mechanism for infrastructure and services provision, especially where development and financial contributions do not apply; and explore alternative instruments to finance urban infrastructure, including taxing windfall gains occurring to landowners following rezoning of urban land (value capture).
- Review whether the current design of property taxation is aligned with land-use objectives and assess the potential benefits of shifting the property tax structure towards a land tax or to split rates.

- Assess the environmental, social and economic implications of the funding model for roads and public transport; promote innovation encouraging alternative options for public transport (e.g. car-sharing, demand-responsive transport in small or low-density cities), while continuing to expand and improve conventional public transport services.

Sustainable housing

- Improve the environmental performance of the building stock to reduce health impacts from poor insulation and the emission of air pollutants from inefficient heating by: i) modernising and strengthening national building standards; ii) establishing supplementary incentives to promote investment in insulation and modern heating in rental buildings; and iii) encouraging new housing to meet best practice urban design and sustainable housing principles.
- Ensure that areas of fast-track residential development (notably those created under the Special Housing Act) are screened against environmental impacts, especially against cumulative and irreversible impacts.

How your council rates compare to rest of Queensland

TOOWOOMBA residents and business pay the second lowest in rates when compared to seven other councils in Queensland.

The Chronicle analysed the rates bills of eight councils and the results showed Toowoomba residents were faring well.

The Toowoomba council levies the second lowest residential rates at an average of $1,043 for six months.

Among the eight councils, that was second lowest only to Sunshine Coast at $814.15.

Cr Mike Williams chairs the Toowoomba council's finance and business strategy committee and said keeping rates low was a constant challenge.

He said the rates level was related to the council's operational budget.

Cr Williams said the council had capped its operational expenditure.

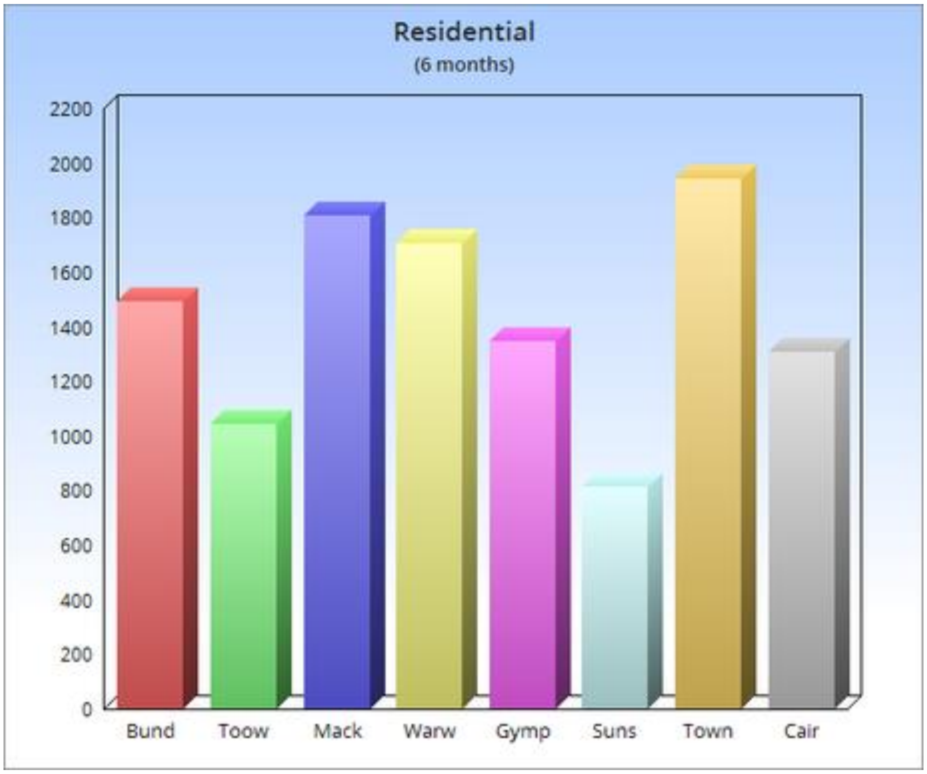
He said a strong business case needed to be made before the council would agree to extra expenses.

The council is also consistently looking to become more efficient.

Cr Williams gave the example of postage, which he said was increasingly becoming more expensive.

He said the council was considering shifting rates notices to an electronic form in order to save money.

While just an idea at the moment, it's policies like that which can save money, Cr Williams said.



At yesterday's ordinary meeting of council finance and business strategy general manager Arun Pratap noted the council was the first in Queensland to introduce rates payment application Sniip.

While the take-up has been slow in Toowoomba, other councils including Brisbane City Council have since embraced the measure and are actively promoting it. For now BPAY remains the most popular way of paying for rates in Toowoomba.

Another measure to increase efficiency being explored is rolling out technology to its field workers so they are able to access data real time and file reports out of office.

Although competitively low, residents in Toowoomba are still feeling pain in their wallets.

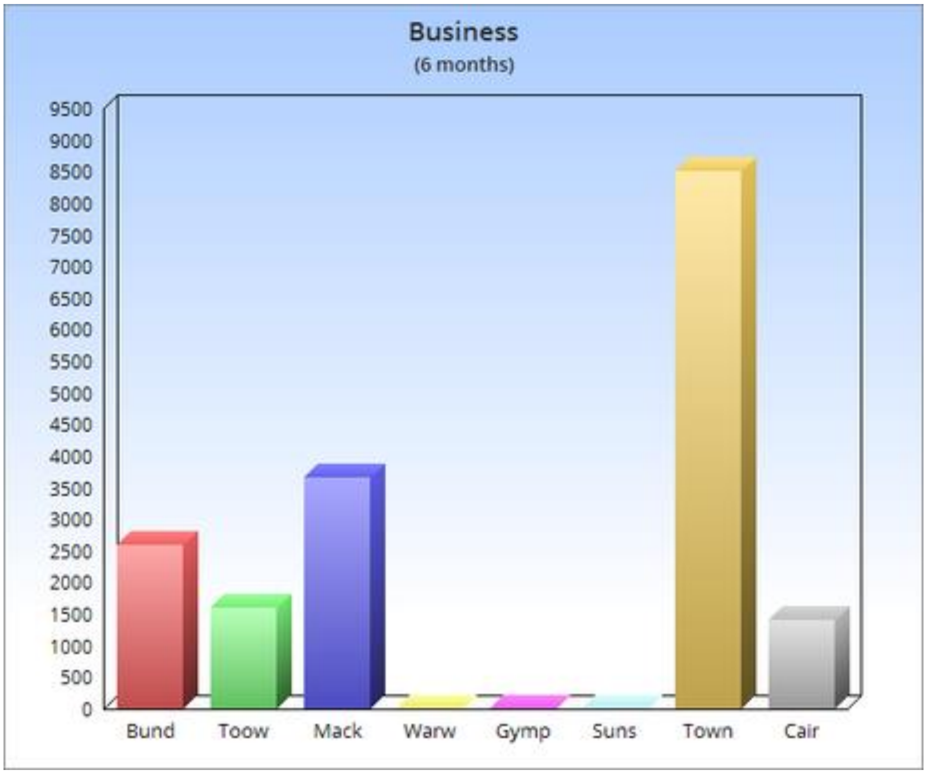
Rebecca Larsen said rates were "exorbitant". "It works out to be $50 a week extra on top of our mortgage.

"We are on septic and tank water. I don't really see how they can justify $50 a week from every home buyer.

"I think they are too high. I don't see the value in them."

Cr Williams said the council was trying to ensure ratepayers got value for money.

"Not everyone uses libraries and pools. But everyone uses council services at some stage."



Business rates levied in Toowoomba are also the second lowest in the region at an average of $1,594.50 for six months (small coffee shop). Cr Williams said the council provided extra services to businesses.

Asked whether the council would increase rates at the next budget, Cr Williams said forward planning showed there would likely be a conservative rise.

Auckland accommodation businesses on the warpath over planned rates hikes

Auckland commercial accommodation businesses are squaring up for a fight over paying for city tourism promotion.

Campbell Smith and his brothers pay about $30,000 a year in rates for their 50-bed Verandahs backpacker lodge in Auckland's Freeman's Bay.

If a new targeted rate to raise up to $30m for tourism promotion and events massively raises the lodge's rates bill, he says it could spell the end of their business.

Auckland mayor Phil Goff says getting the city's commercial accommodation to pay for tourism promotion is only fair because most of their guests are visitors to the city.

"Do we struggle on, or sell up and move on?"

At the very least they might have to reconsider the addition of two more rooms as part of a scheduled renovation.

Smith is far from being a lone voice in opposing a proposal that affects Auckland's 300 or so commercial accommodation providers.

Colliers International spokesman Dean Humphries says Auckland needs an extra 3000 hotel rooms and high property rates will deter developers.

Hospitality New Zealand calculates the capital value-based property tax mooted by mayor Phil Goff could lift some businesses' rates by between 150 and 300 per cent.

It would cover hotels, motels, serviced apartments, camping grounds, holiday parks, backpackers, short stay hostels, bed and breakfasts, homestays and lodges.

Tourism Industry Aotearoa chief executive Chris Roberts says he has never seen the accommodation sector so steamed up or united over an issue.

Councils at other major visitor destinations around the country use targeted rates to fund tourism promotion and events, but Roberts says they are applied to businesses in general, not just commercial accommodation.

The industry objects to being treated like a "cash cow", he says and that will be made clear on Monday when it presents a submission on the council's annual financial plan.

Playing fair

Both sides of the argument talk a lot about fairness.

Goff says ratepayers tell him it's only fair that those who benefit directly from marketing the city should contribute more towards the cost.

In return, he says the tourism industry would get a bigger say in how the promotions budget was spent, and the council could afford to spend more on vital infrastructure such as transport.

When demand is high - such as during the forthcoming Lions rugby tour - Goff claims hotels bump up their prices "massively, sometimes hundreds of dollars", so they can simply add a bit more on to cover their higher rates bill.

"When tourists come to Auckland they're less likely to be worried about another $5 or $10 on their room rate, than being caught in traffic for two hours to get to their hotel".

That riles Smith who says the backpacker market is very price-sensitive and guests complained after he raised prices a couple of dollars to cover the 15 to 20 per cent commissions charged by booking engines like TripAdvisor.

He argues it's unfair to expect the accommodation sector to bear the brunt of promotion costs when accommodation accounted for only about 10 per cent of the $7.5 billion spent by visitors to Auckland last year.

"Our guests go all around the city to restaurants, cafes, supermarkets, it's very unjust".

Price resistance is appearing at the other end of the market too and general manager of the Pullman hotel Rob McIntyre says people are already bypassing Auckland hotels because they're considered too expensive.

A council report on the annual budget does canvas other alternatives

A targeted rate on all businesses would add just over 5 per cent to their rates bills, and levying it solely on CBD businesses would result in a 26 per cent increase.

Hospitality New Zealand accommodation spokesperson Rachael Shadbolt says that's a lot less than the rises facing her members.

"For a hotel this could be in the realms of $900,000 off the bottom line. For motels, which are often husband and wife teams, this is the difference between taking a wage from the business or not".

Shadbolt says rates are often paid by the building owner, not the hotel management company actually running the premises, and many operators are locked into contracts setting room prices well in advance, which also prevents them from passing on the targeted rate.

Scaring off investors

The Ministry of Business Innovation and Employment has encouraged hotel development to make up for a short fall in accommodation and there are fears a targeted rate will put investors them off Auckland.

National director hotels for Colliers International Dean Humphries says anything that eats into profitability can tip over an already marginal project.

"Two or three of our clients have come back and said 'if this [rate increase] happens, we will not be going ahead with our development' … That equates to about 500 rooms. Auckland only has 9000 rooms so that's not an insignificant number.

"In places like Australia they've provided rates rebates to persuade people to build new hotels because they're expensive".

However, Goff is not convinced the targeted rate will jeopardise new hotels, saying occupancy and growth rates make Auckland one of the best places in the world to invest.

But he is willing to listen. "If there are problems that we have not thought about or might not be fair, we can make adjustments".

The Queenstown solution

The Queenstown Lakes District Council began charging businesses a tourism promotion rate - including commercial accommodation - more than 20 years ago.

Since the late 1990s holiday homes rented out more than a certain number of days a year have contributed, and more recently Airbnb operators have had to help pay for tourism marketing too.

Recently council staff sent letters to 800 owners found to be advertising short-term rental accommodation online, but paying residential rates on their properties.

The council's chief financial officer Stewart Burns says 200 agreed to register their holiday homes as required, 300 said they were no longer renting, and staff would chase up the remainder who had not responded.

At this stage the Auckland targeted rate excludes holiday homes and Airbnb operators.

But an Airbnb spokesperson confirmed it has met mayor Goff to discuss its 6000 Auckland listings being covered by the rate, and further talks are scheduled.

Regions' property growth outpaces Auckland as national median house price hits $495k

Median house prices have firmed slightly across New Zealand during February, with the regions outpacing the nation's largest city of Auckland, according to the Real Estate Institute of New Zealand.

Experts say first home buyers not affected by new lending rules are driving demand across the Wellington region.

The national median house price increased to $495,000 in February, up 1 per cent from January and 10 per cent higher on the year.

Outside Auckland, the median price rose 7.3 per cent from a year earlier, while in Auckland - where prices have skyrocketed up until recently - it was up 6.7 per cent.

The number of sales in February was 6253, down 14 per cent from a year earlier.

Short term emergency housing is just one of a range of measures the Government has introduced to try tackle a growing housing crisis.

Record-low interest rates and record high net migration continue to underpin the nation's hot property market but tighter restrictions for highly-leveraged lending and having an impact, Reinz said in a statement.

Concern about New Zealand's bubbling housing market have prompted policymakers at the Reserve Bank to introduce a series of curbs on mortgage lending and "we hear anecdotally that LVRs are having an effect and banks are reducing lending, becoming more selective about who they lend to, what properties they will lend on and the terms," Reinz chief executive Bindi Norwell said.

The new powerful agencies established will control all aspects of major building projects.

Two of 12 regions hit a new median house price record. In Northland the median price across the region rose 20 per cent on the year to $421,250 while in Otago it rose 18 per cent to $317,250.

"The Otago market remains robust with another record median price recorded this month. The demand from investors has reduced, but the slack has very quickly been taken up by local home buyers. First home buyer activity remains steady," Reinz regional commentator Liz Nidd said.

However, in Auckland the median house price increased 6.7 per cent to $800,000 from February a year earlier but slipped 0.6 per cent versus January, while in Wellington the median price increased 16 per cent to $520,750.

"Auckland is a mixed picture: there is something in the market for buyers and sellers. Compared to the same time last year, median prices have increased, inventory has increased and volumes have decreased," Ms Norwell said.

Across New Zealand, the total value of residential sales including sections was $4 billion in February compared to $4.2 billion a year earlier and $2.7 billion in January.

In the 12 months to February, the total value of residential sales was $58 billion.

The number of homes that sold for more than $1 million rose by 5 per cent on the year, accounting for 11 per cent of all dwellings sold.

In comparison, the number of properties sold for under $400,000 fell 26 per cent versus the same month a year earlier.

Rates shock: buck stops with Hamilton CEO Richard Briggs

A massive rates hike for Hamiltonians has been thrown out for now, but could soon loom again.

Confused and surprised councillors last week threw out the idea of 12 per cent rate rise for 2017/18, though the pressures of population growth means the topic won't be off the table for long.

And Hamilton City Council chief executive Richard Briggs put his hand up to say he should have given councillors a better heads-up over the state of the city's books.

At the start of a Tuesday meeting last week that lasted more than 12 hours, councillors were hit with Briggs' "scene setter" on financials.

When the meeting stretched into the evening, Mayor Andrew King proposed a 12-per cent rates hike, but that was voted out when proceedings continued on Thursday.

A yearly 3.8 per cent increase has formed a key part of council's financial strategy for some years.

Twelve per cent would be a big kick, Briggs said, but it's needed.

"If we leave [rates rises] at 3.8 per cent, in time we'll get to a sustainable rating level and that's what was always planned," Briggs said. "What we're saying is it needs to be done faster considering we're growing faster."

Briggs said council uses standard population projection models, but the city's growth had outstripped those projections by a long way.

"We're trying to fund a city that's growing as fast as Tauranga on rates that are potentially $1000 less than Tauranga on average."

If councillors want to bridge that financial gap in one hit, it would take a 17-per cent rates increase, he said, and rates increases could match inflation after that.

The city will keep going if rates rises stay at 3.8 per cent, he said, but Hamilton risks missing out on growth opportunities.

And he accepts the different financial picture painted in Tuesday's meeting shocked councillors, that they felt unprepared for King's motion.

"The conversation on Tuesday morning was very much about a scene setter. It was not intended to ambush councillors at all," Briggs said.

"It's very hard to argue [councillors] were well-researched coming to the decision to put rates up when they'd only just received the presentation a couple of hours earlier.

"So we didn't do [councillors] justice in that respect."

In hindsight, there should have been a couple of conversations beforehand about how finances are calculated, Briggs said, but it was raised in a public forum because council is trying to become more transparent.

That meant councillors found out about the finances and rate rise proposal at the same time as everyone at the meeting, including media.

Individual councillors have since had meetings with Briggs and he will give an oral briefing at Tuesday's Audit and Risk Committee meeting, and PricewaterhouseCoopers will turn Briggs' overview into a full report.

Long term, the city needs to have a serious look at how it's funding itself, he said.

Development contributions have become more and more important as a funding source, but he wants to challenge that.

"[Development contributions] could well mask our overall performance.

"We're balancing the books with development contributions now. That tends to mean that maybe we've got to go back and look at rates."

Staffers will already be searching for $1.8m in savings over the next financial year, though councillors have already approved an extra $750,000 for staff salary increases.

And the mayor has asked council staff to look at future funding options, including targeted rates and changes to development contributions.

Staffers are already working on the consultation document for the annual plan, which they will prepare based on 3.8 per cent rate rises.

When the 2018-28 10-year plan comes up, there will be work to do on how council lives within its means, Briggs said.

For example, the community might have to decide what levels of service it can sacrifice – such as how often rubbish bins are emptied.

QV CEO Jacquie Barker discusses the pending death of the registered valuation industry as banks increasingly rely on electronic valuation systems

Jacquie Barker has warned for a long time about the pending death of the registered property valuation industry without the threat ever coming good.

But the Quotable Value CEO told a Parliamentary select committee on Thursday that changes in valuation technology in recent times, and changing attitudes among lenders, meant she could now “see the day that that will happen.”

To an extent, at least.

About 80% of residential properties being sold now fit into a norm where banks were not requiring a registered valuation, Barker told the Primary Production Select Committee (and please don’t ask why QV was appearing before the Primary Production Committee).

New electronic systems like the Corelogic site used by banks to provide valuation estimates are set to pretty much replace valuers for these sales, Barker said. However, the top 20% or so – expensive sales where there might not be as much complementary sales data – are still likely to require registered appraisals.

Banks had been staffed by “traditional people” who made risk-averse decisions, requiring registered valuations, she said. But rising technology was producing effective results, leading to “quite a big change in terms of what the banks will use.”

National MP Stuart Smith asked Barker whether we should be worried about relying purely on computer-generated valuations based on similar sales rather than those done by trained valuers. An upbeat Parker said the shift should not be feared.

The amount of information becoming available to go into electronic valuation models was giving such good outcomes that she was confident to rely on the numbers. It was also not amiss to trust the market – after all, sales data effectively captures the emotional elements of values, something registered valuers might not be able to capture.

Hefty rate rises likely for some Hastings district residents after increased land valuations

Hefty rate rises could be on the cards for Hastings residents.

A 1.9 per cent overall rate increase for Hastings district has been proposed for the coming year, but this could change dramatically for Hastings, Havelock North and some rural residents in light of increased land valuations.

Residential Hastings and Havelock North land values rose by 25 per cent in August last year, from the last valuation conducted by Quotable Value (QV) three years before that.

A report presented to the Hastings District Council yesterday showed this equated to an average 3.5 per cent increase in rates for these residential properties, bringing their total potential rates rise to about 5.4 per cent, when added to the overall rate increase.

Hastings mayor Lawrence Yule said this was the most dramatic hike in residential rates he had seen in his time in the role.

"In the past coastal properties have gone up a lot, but this is the first time residential values have gone up substantially more than average - it's sobering."

Lifestyle, horticulture and farming properties, especially those of higher economic value, were also not immune, with a potential rates increase in the region of 3 to 6 per cent.

Flaxmere values, however, decreased by 10 per cent, and Hastings commercial property values stayed the same, signalling a 10 per cent rates reduction in both these areas.

At a council meeting yesterday, councillors discussed whether the rate increases could be "smoothed out", become more user-pays or be phased in over time.

All of these options, however, had legal implications, and it was noted that the valuations conducted by QV were independent and people could object to them.

One tool to soften the blow was to suspend the differential rating programme that began in 2012.

This was introduced at a time when commercial rates were deemed to be too high, and it was decided that over the next eight years commercial rates would be reduced and residential rates increased.

The council also decided to review the spending programme for the 2017/18 year to see if any cuts in spending could be made to reduce the overall 1.9 per cent rate increase.

The rating changes will go out for consultation with the annual plan this year.

Rate hikes loom for revaluation winners

Property owners in Whanganui's wealthier suburbs, and farmers, should brace for a possible rate's shock.

Land and property values in those areas rose significantly in the latest QV rating revaluations, meaning owners could face hefty increases in their rates bills.

The Whanganui District Council is working through what impact the revaluation will have on 2017/2018 rates. Once set, the proposed new rate movements will go out for public consultation, before being finalised in June.

A report presented to this week's Strategy and Finance committee showed residential property rating valuations rose an average five per cent across the city as at September last year.

Capital values in St John's/Otamatea rose 7.2 per cent while land values rose 25 per cent. In Springvale capital values rose 10.2 per cent and land values 15.3 per cent.

By comparision capital values in Putiki and Bastia Hill rose 0.3 per cent and in Castlecliff 3.5 per cent. Land values for those suburbs did not change.

Values varied across property types also with farming properties increasing by almost 20 per cent and commercial properties by less than one per cent.

Rating valuations are based on an approximate market value of a property at the time of the revaluation but exclude chattels, do not involve an inspection of each property and are for rating purposes only. Actual market values may be different.

Council officer Simon Manville said the revaluation had a significant impact on the allocation of rates between properties. "Those properties which have had a greater percentage increase in their valuation, compared to other properties, are likely to have a greater percentage rates increase in the 2017/18 rating year," he said.

Councillors set the new rates as part of the Annual Plan process. Meetings so far have excluded the public but an open meeting will be held before proposed new rates go out for public feedback.
Property owners who have objected to their QV valuations could expect to have their cases assessed by the end of April.

Hotels go into battle with Auckland's mayor Phil Goff over new rate to pay for promoting the city

Hotels such as the Pullman face a rates hike under plans by Auckland City to raise funds for tourism promotion.

Auckland hotel and motel owners are on a collision course with the city's mayor Phil Goff over a targeted rate they say will cost hundreds of thousands of dollars a year.

But Goff says the accommodation providers have never had it so go good and they should pay for tourism promotion. His council would use the money it now spends on promotion to pay for infrastructure and spare residents more in rate rises.

The new rate could raise close to $28 million and is part of the city's annual budget which is due to be signed off around the middle of the year.

Visitor sector group Tourism Industry Aotearoa has blasted the rate plans as "appalling."

The organisation's head, Chris Roberts, said some commercial accommodation operators would be "whacked" with rates increases of 250 per cent or more.

He said the total sum involved, $27.8m a year, amounted to 90c a week each for Auckland ratepayers.

"Shifted entirely to a few hundred commercial accommodation properties, it's an average rates increase for them of 150 per cent, with some property owners facing increases of more than 250 per cent."

Auckland's Pullman Hotel has said its annual rates bill could double to almost $1.6m if the council adopts the new targeted rate.

While he accepted the sector was benefiting from a tourism boom, this would not last forever and smaller accommodation operations were most vulnerable.

"It's going to threaten the viability of the accommodation sector and moving to a situation where residents are not paying at all for promoting visitor attractions," he said.

We will be asking councillors to see sense and vote down this crazy and damaging proposal.

TIA, Hospitality New Zealand and other stakeholders would be making "strong" submissions will be made to Auckland Council.

"We will be asking councillors to see sense and vote down this crazy and damaging proposal."

Funding Auckland Tourism, Events and Economic Development's promotion activities would instead move to the accommodation sector which earns a fraction of the city's tourism revenue," said Roberts.

"In fact, of the $7.51 billion total visitor spend in Auckland in 2016, just under 10 per cent or $723m was spent on commercial accommodation. The balance goes to a wide range of sectors."

But Goff said his council was trying to broaden its revenue base. Local authorities can't impose taxes or levies but can rate property owners.

Goff said accommodation providers could pass the rates on and collect the money from guests. A working group with the industry has been set up to figure out how they could apply the charge.

"Tourists are going to worry less about whether they have to pay $6 or $10 a night by way of a targeted rate rather than being gridlocked in Auckland trying to get to their hotel and for an hour or an hour and a half," said Goff.

"What we're saying to the visitor industry is that we've got to broaden our revenue base - there's limited opportunities for a local authority to raise revenue - at the moment we put everything on the ratepayer."

The money the city wouldn't have to spend on Ateed would be diverted to spend on infrastructure, particularly transport which benefited tourists as well as residents.

Goff said the targeted rate would spare householders up to 2 per cent a year in rate rises.

Figures supplied by the council for a sample of unnamed smaller providers supplied show that rates will double and the targeted rate making up between 4 per cent and 7 per cent of estimated revenue.

Roberts said the planned rate would thwart hotel development at a time when both the Government and the council had identified the need for new hotels in Auckland to keep pace with strong visitor growth.

An estimated 4300 more hotel rooms are needed in Auckland by 2025 but with this rate potentially adding millions of dollars in bottom-line costs, developers are understandably reconsidering their planned investments.

"Hotel investors can spend their money anywhere in the world - it is quite possible that Auckland will miss out on hundreds of millions of dollars of new investment if this rate increase goes ahead."

But Goff said there were no signs of interest in investing in Auckland hotels waning, particularly because occupancy and yields were so high.

"I've got people coming in - international investors - wanting to invest in accommodation. If you were looking to invest in the hotel industry it would be hard to find a better than Auckland at the moment."

Auckland house price dip could be short-lived

Property prices in Auckland and Christchurch have dipped in the past three months, but nationwide values continue to climb, according to the latest figures from QV.

QV spokeswoman Andrea Rush said this trend of falling prices was also seen last year at this time after as new loan-to-value-rules (LVR) were implemented by the Reserve Bank, but prices picked up again by April 2016.

"So it's possible the latest quarterly decrease seen in parts of the Auckland will be relatively short-lived as the market drivers of relatively low interest rates, strong net migration and a high number of sales to investors remain," Rush said.

February's QV House Price Index shows that nationally, house values increased 13.5 per cent in the year to the end of January and just over 1 per cent in the past three months, taking the national average value to $631,349.

Auckland

The average value of a house in Auckland remained above the million dollar mark at $1,043,680, although down 0.7 per cent slightly on the previous quarter.

Auckland QV home value manager, James Steele said there continued to be uncertainty around where home values were going.

"There has also been a surge in listings coming onto the market during February which is giving buyers more choice," Steele said.

"Some investors, who have been taking a wait and see approach since the latest round of LVR restrictions, have reportedly started looking again to see areas where they may get a bargain."

Christchurch

Similarly, in Christchurch home values were down slightly by 0.5 per cent over the past three months. The average value in the city is now $498,710.

QV Christchurch, valuer Daryl Taggart said, the Christchurch market is showing normal levels of activity.

"Well-presented properties in desirable locations that are marketed for the right price are selling quickly and continue to be in strong demand," Taggart said.

Wellington

Property values in the Wellington Region continue to rise, up 21.5 per cent year-on-year and more than 4 per cent over the past three months.

QV valuer, David Cornford said, buyer demand remains strong in the Wellington market with values still increasing, but at a more steady rate.

"The market is less frantic than it was prior to the latest round of LVR restrictions, with fewer investors active in the market and buyers are taking a more measured approach," Cornford said.

Hamilton

Hamilton has shown similar trends to Auckland and Christchurch with a 0.8 per cent drop over the past three months.

QV valuer, Stephen Hare said, properties in the $400,000 to $500,000 range had become a rarity and were attracting strong demand from first home buyers who were snapping them up.

"There is still good activity and demand in the Hamilton market and there have been more listings coming onto the market during February," Hare said.

Whangarei District Council reviews rating system

Whangarei's ratepayers are to have a say on what a new rating system could look like as Whangarei District Council reviews its $88 million annual rates structure.

It's been sparked by feedback from residential and commercial ratepayers. Some have said the Uniform Annual General Charge (UAGC) and the fixed rates assessed as Separately Used or Inhabited Part of a Rating Unit (SUIP) are unfair.

There were 40,854 rateable properties in the Whangarei District, with 1939 commercial, 1890 rural and 37,025 residential.

Currently, 62 per cent of general rates revenue comes from the residential sector, 28.5 per cent from commercial and 9.5 per cent from rural.

The review was likely to impact every ratepayer but some would experience significant rates increases and decreases.

General rates made up the lion's share of WDC's annual revenue at $52.5 million, through a UAGC and a value-based rate assessed on land value rather than capital value.

Under the system, the owners of a 1.4ha lifestyle property at Maungatapere worth $400,000 and those who owned a $510,000 property in Maunu paid less ($1367 and $1548 respectively) than the owners of a $160,000, 600sq m property on Raumanga's Smeaton Drive ($1606). Although only the latter paid the targeted $660 sewage rate.

Council had a number of targeted rates to fund sewage disposal, refuse management, water supply, Hikurangi Swamp and various roading schemes.

While a commercial sector review was completed under the 2016/17 Annual Plan, no changes were made to rating systems.

This review would focus on general rates, including the use of land value versus capital value, the use and definition of SUIPs, rating categories, stepped residential rates, sector splits, targeted rates and remission and postponement policies.

Council staff would develop a process and timeframe for the review and bring it back to councillors in the next month or so.

There would be a lengthy pre-consultation phase with ratepayers, before the council progressed to formal consultation in March 2018, which would form part of the 2018-28 Long Term Plan (LTP) adopted in June.

In his report, presented to WDC's Finance and Corporate Committee last Thursday, group manager support services Alan Adcock said it was good practice to undertake regular reviews of council activities.
WDC Finance and Corporate Committee chairwoman Shelley Deeming said council would talk to ratepayers about their concerns about the current system and suggestions for improvement.

"Council's rates revenue is $88m. That is a serious amount of money and we have to be fair about the way we gather it. We must listen to the community it came from, and use its money wisely."