



PRESIDENT'S MESSAGE

October 2018

Although I have referred to land value taxation quite frequently over recent months, I have to return to the subject as it is receiving a large amount of attention at present.

A recent IPPR report concerning the UK states that British wealth is concentrated not in property but in the land underneath. It goes on to state that conventional wisdom suggests that the UK has a problem with house prices - which have increased nearly tenfold since 1979 - twice the rate of consumer prices. But land now represents over half of the UK's total net worth. At £5 trillion it is worth more than all the homes, commercial property, machinery and equipment and all other non-financial assets in the UK combined. In 1995, the value of land held by households (largely that beneath people's homes) made up a fifth (£600 billion) of UK households' net wealth. By 2016, this had risen to two-fifths (£3.9 trillion) and if previous trends continue, over the next two decades it will rise to almost three-fifths (£22.8 trillion).

I don't know how accurate these figures are, but they are clearly causing concern to those who say that the increasing accumulation of wealth in land (much of it through housing) amongst a dwindling group of people is bad for the economy and society. The position in the UK is likely to be replicated in many other countries around the world.

The concerns include that the current system helps drive wealth inequality. The report says that the top 10 per cent in the UK own property wealth averaging £420,000 in value, compared with the bottom 30 per cent who have no net property wealth. But new research demonstrates that the vast majority of this wealth - 70 per cent - is held not in the property itself, but in the land that lies underneath.

Another concern expressed is that land is central to the housing market problem. The high cost of land makes it more expensive, difficult and risky to build homes at affordable prices. This higher risk limits the rate at which new homes can be built. There are also concerns that the speculative land market plays a key role in poor productivity and macroeconomic instability. The report says that, to tackle these problems, the government needs to get serious about regulating and taxing the speculative land market.

It recommends that the government should change the law to prevent landowners from benefiting from the "unearned windfall gains" that accrue to them when they are awarded planning permission. Next, it says, land and property taxation should be overhauled. The government should introduce a land value tax to replace business rates (non-residential property tax). This, it says, would be the most economically efficient means of taxing commercial land: it would support, rather than deter, productive investment; it

would capture some of the unearned windfalls from the ownership of land; and it would reduce incentives for further speculation. It goes on to state that the government should also consider replacing council tax (residential property tax) - and eventually stamp duty - with an annual property tax which would be far more progressive than council tax and would effectively capture increases in land values and house prices in a way in the current system does not.

Alongside that report advocating the introduction of a land value tax is a separate report published by a UK House of Commons committee - the Housing, Communities and Local Government Committee - which urges the introduction of a land value capture system. This report states that land values increase for many reasons - not least from economic and demographic growth - but some of the most significant increases arise from public policy decisions, in particular, the granting of planning permission and the provision of new infrastructure. While there is considerable variation in land value uplifts dependent upon location and previous land use, landowners currently retain a very large proportion of the increase in land value arising from the granting of planning permission.

The report goes on to say history has shown that attempts to capture land value increases have had mixed success. Governments have struggled to strike the right balance between capturing fair values for the community, without undermining incentives for private sector participation in the market, and in a way that is politically acceptable to all major parties. There have also been tensions between central and local government as to how revenues are spent.

The committee states that political interest in land value capture has re-emerged in recent years and their inquiry has sought to contribute to this renewed debate and consider how land value might be more fairly and efficiently captured in the future. The key conclusions and recommendations from the report are:

- (a) that there is scope for central and local government to claim a greater proportion of land value increases through reforms to existing taxes and charges, improvements to compulsory purchase powers, or through new mechanisms of land value capture; and
- (b) increases in the value of land arising from the granting of planning permission and the provision of new infrastructure are largely created by the state. It is fair, therefore, that a significant proportion of this uplift be available to national and local government to invest in new infrastructure and public services.

The report goes on to advocate a variety of changes in legislation to achieve these objectives. Many of the recommended changes to land planning, compulsory purchase and compensation provisions are proving controversial and attracting a great deal of media coverage.

However, the main point for mentioning these two reports is to demonstrate that both land value taxation and land value capture - concepts which frequently get mixed up - remain high on the political agenda in the UK and many countries around the world and therefore continue to attract comment and criticism in equal measure depending upon the perspective of those making the comments and criticisms. IPTI will continue to monitor developments in connection with these initiatives and report on progress.

Moving on to other IPTI matters, I am pleased to say that we have started work on a number of new projects and are in the process of completing work on others. These projects include audits of revaluations, reviews of current technology, and various education initiatives.

I am also pleased to report on the conference I recently attended in Bucharest, Romania. This was organised by ANEVAR (the Romanian valuers association) and WAVO (the World Association of Valuation Organisations). The conference was very well organised and attracted a large audience. Speakers from around the world covered a number of interesting topics. I was speaking about “The Importance of Ethics for Valuation Professionals” which is a subject that, in my opinion, is of increasing importance. I am pleased to say that the President of ANEVAR accepted my invitation to speak at IPTI’s 2019 MAVS in Slovenia. Several others who spoke at the conference are also likely to participate in our next MAVS.

I recently delivered an RICS-IPTI web class on the topic of “Preparing Expert Reports for Valuation Disputes” which is an interesting subject in itself, but made more topical and important by a decision of the Upper Tribunal of the Lands Chamber (UTLC) in the UK. The parties in the case of *Gardiner & Theobald v Jackson* were in dispute over a valuation for property tax purposes, but the real importance of the case was whether or not an expert witness might be considered to be influenced by the fact that the consultancy firm which employed him had a contingency fee arrangement in place. The firm had, quite properly, agreed a separate fee for the work of the expert witness in giving evidence to the tribunal. However, they still had the performance-related fee in the background which might have come into play if the dispute was settled. The President of the UTLC took the opportunity to remind expert witnesses of their overriding duty to the court or tribunal which needed to be able to rely on their evidence as being objective and impartial and stated that contingency fees were incompatible with these obligations. Although it was a UK case, it has repercussions for all expert witnesses wherever they may be working.

Looking ahead, we have a series of webinars which we are delivering in partnership with the Institute of Municipal Assessors (IMA). The first of these IMA-IPTI webinars is taking place on 18th October and will be considering the topic of the “Derivation of Capitalization Rates”. Our two experts will cover the challenges assessors and valuers face in deriving capitalization rates in the application of the direct capitalization methodology. Emphasis will be placed upon the derivation of the rates from comparable sales and discussion of the data requirements and practical application of the methodology.

IPTI’s annual Caribbean conference, held in partnership with the Royal Institution of Chartered Surveyors (RICS), will be taking place in Montego Bay, Jamaica on 25th and 26th October 2018. Details of the agenda are available on our website and it promises to be a very interesting and enjoyable event.

On 1st November, we have a one-day IMA-IPTI workshop on the topic of “Conducting Appropriate Sales Investigation”. This workshop will cover challenges with data collection from the buyers’ and sellers’ perspective; sales verification concepts; questionnaires and processes; sales adjustment grids and sale analysis; stratification of sales, use and location. General concepts and applications for investigation in appraisal value modeling and some components of statistical analysis will also be covered, along with practical applications.

On 6th November, we have another RICS-IPTI web class, this time on the topic of “The Valuation of Contaminated Land”. Valuing property that is subject to some form of contamination is particularly difficult. Much depends on the nature of the contamination/impairment and the type, and cost, of necessary remediation works. The web class will be presented by a lawyer and an appraiser, both having considerable experience in dealing with this type of valuation work. They will look at issues concerning the highest and best use of the property as impaired and consider how the three main valuation approaches need to be adapted to reflect the contamination. In addition to looking at the cost of necessary remediation work, they will also consider the liability impacts, use limitations, and possible stigma attached to contaminated properties. They will also cover how to deal with such properties within a mass appraisal environment. Up to date information about the law concerning contaminated properties and practical guidance on the preparation of valuations relating to such properties will be provided.

On 15th November we have another IMA-IPTI webinar, this time on the very topical subject of the “Valuation of Big Box Retail Properties”. The correct method of property assessment valuation of big box stores has proved challenging and controversial. There is a lot of discussion taking place regarding the appropriate valuation methodology. Appeal tribunals and courts have made significant rulings based upon what is often called the “dark stores” approach which has resulted, in some cases, in large reductions in the assessed value with consequent significant property tax refunds. The presenters in this webinar will share their experiences on landmark changes in the assessments without the use of the typical adversarial process. A valuation methodology - including practical examples - will be discussed.

On 28th November, we are holding a one-day workshop in partnership with the RICS. This is concerned with “Property Assessment and Taxation in Canada”. The aim of the workshop is to satisfy the need for a greater depth of understanding of the real strengths and benefits that distinguish property tax from other forms of taxation. It will provide knowledge about *ad valorem* fundamentals in three modules - evolution; tax policy (principles, challenges and issues); and assessment valuation and taxation challenges.

More information about all IPTI’s forthcoming events, including our 2019 MAVS in Slovenia, along with registration and other details, can be found on our website: www.ipti.org.

Now, it’s time for a quick look at what is making headlines concerning property taxes in selected countries around the world.

It is reported that China appears to be getting closer to consensus on how and when to unveil a nationwide property tax. The first draft of the property tax law will “definitely” be ready for national legislative review within this year, according to a report by the Beijing-based “Economic Observer”, citing sources in the tax system. This coincided with a comment by a National Bureau of Statistics official in July that indicated the department would “accelerate the property tax programme”. The Chinese government has long been considering the idea of taxing owners of residential flats, which represent the largest shares of household wealth. The tax is seen as helping tame house prices, while at the same time creating another source of government revenue. It is said that the tax has been framed as part of a “long-term mechanism” to stem speculation and stabilise prices. In China the debate has shifted from whether to impose the tax to when and how it should be levied, according to several analysts. But they diverge on the scope and intensity of

the tax, with some arguing for exemptions based on floor area. According to one source, the exemption area should be smaller than 60 square metres, a benchmark used in a Shanghai pilot programme. If it is set at 40 sq m per capita, and the tax rate is 1 per cent, a three-member family with a 195 sq m home in a third-tier city would have to pay tax equivalent to 8 per cent of its annual household income. However, for a family in Shanghai, where home values are much higher, the ratio could be as high as 20 per cent. An analyst said the tax would likely be modest and undergo pilot trails in a few selected areas before being expanded nationwide. He added that the draft law would need to go through a second and third review before passage, and city governments would then need to formulate specific taxation measures according to the national law.

In the latest measures to try and control runaway housing prices in the capital and major municipalities, the South Korean government proposed to double taxes on owners of two or more homes in hot zones, a move that can collect an additional 410 billion won (\$365 million) from the real-estate rich. The government recently unveiled a set of measures aimed at increasing the financial burden on multiple homeowners in targeted speculative areas including Seoul, Sejong, and parts of Busan and Gyeonggi. Under the toughened guidelines, the government proposed to raise the rate of comprehensive real estate tax imposed on property owners beyond a certain threshold to 0.6 percent-3.2 percent from current 0.5 percent-2.0 percent and create an additional bracket for owners of properties of value between 300 million won (\$267,042) to 600 million won in the existing five-tier taxation category on landlords. The maximum levy for owners of two or more homes in hot districts and combined homes of three or more will be doubled to 300 percent from the current 150 percent. The government designated 43 areas including Guri and Dongan District in Anyang as targeted areas for housing price adjustment. Tax code revisions are subject to legislative approval. The intention is to raise the comprehensive residential real estate tax rate on owners of multiple homes and restrict owners of two or more homes from receiving mortgage loans to block off speculative funds.

In Australia, the inquiry into changes to the ACT's rating system (property tax) has released its final report. The committee made six unanimous recommendations amounting to urging the system be overhauled. The government has four months to table its formal response. The ACT Legislative Assembly Public Accounts committee tabled the 186-page report of its inquiry into the government's controversial changes to the way land values were calculated for units last year. The most important recommendation was a call for government to devise a new method of calculating rates and land tax for unit title properties. It followed an extensive outcry from unit owners after the way unit valuations were calculated changed last year from a share of the unimproved value of land to calculating the value of the entire block, then dividing that by the number of units, pushing most units into the highest tax bracket. Despite widespread criticism of the changes, the government has maintained they were made to address inequities in the previous system, which had some owners of top-tier unit properties paying less tax than owners of cheaper free-standing homes.

In the USA, the so-called "dark stores" issue continues to create issues in Wisconsin. The number of dark store property tax challenges in Wisconsin increased to 79 in 2017, from 63 in 2016, the Wisconsin Policy Forum and the League of Wisconsin Municipalities reported. The data suggests retailers continue to embrace a commercial property valuation theory that asserts big-box retail stores should be assessed as

if vacant, or dark, rather than as operating entities. The retailers argue that the high degree of customization to their facilities diminishes resale value. The survey, however, pointed to a reduction in property valuation challenges by retailers involved in long-term lease agreements under the Wisconsin Supreme Court's 2008 precedent in *Walgreen Co. v. City of Madison*. That ruling held that tax assessments of certain retail stores must be based on fair-market rental rates rather than above-market rental contract values. Legislation addressing these issues failed during the most recent legislative session. Wisconsin S.B. 292/A.B. 386, would have limited retailers' ability to apply the dark-store theory by requiring adherence to generally-accepted appraisal methods. A second bill, S.B. 291/A.B. 387, would have rolled back 2008 Walgreen ruling. In my view, it is undesirable to try to legislate that a particular method of valuation should be applied to any type of property. If a valuer is seeking to arrive at market value, they should use the best available evidence to arrive at their opinion of value and, if challenged, their valuation will either be upheld or not depending upon the quality of the evidence adduced to support it.

Staying in the USA, it is clear that with their wind, rain, and storm surges, the risk that hurricanes pose to homes and businesses have a direct impact on property tax assessments. States along the Gulf and East Coasts have accounted for the extra expense of preparing for such storms and the potential resulting damage with special property tax provisions. Florida has the most thorough law relating to hurricanes. A homestead property damaged or destroyed by a named hurricane can have its assessed value reduced if the owner establishes a new homestead as of Jan. 1 of the second year following the storm. In addition, residential property owners can request an abatement from tax for the time a property was uninhabitable as a result of hurricane damage. Alabama allows a residential property to retain its residential classification for up to 24 months if not used as the owner's single-family dwelling because it is uninhabitable or being repaired as a result of being damaged by a natural disaster. Moving up the East Coast, North Carolina deals with the possibility of hurricane damage by allowing cities or counties to establish special assessment districts to create or maintain beach erosion control and flood and hurricane protection works. In Virginia, counties, cities, and towns may grant abatements for buildings which are damaged or destroyed by events beyond the control of the owners. To qualify for the abatement, the value of the building must decrease by at least \$500 and be rendered unfit for occupancy for at least 30 days. Maryland allows homeowners who qualify for the state homestead credit to receive an exemption if the home was damaged or destroyed due to a natural disaster and was subsequently repaired or reconstructed. In addition to general provisions for requesting valuation changes, state revenue departments have often instituted special relief programs following major hurricanes. These programs often involve increasing grace periods for property tax payments and waiving interest and fees.

And finally, a property taxpayer in a small US county sent a tax payment of \$745 by means of a cheque (check) with the words "for sexual favours" written on it. It seems that he may have had a relationship with a county official and the cheque was endorsed with those words either as a joke, for revenge, or perhaps thinking it would not be processed. After considering the legal position, the cheque was finally processed by the county, so I guess the joke was on him!

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