IPTI Xtracts

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What unimproved value means – and why you should care

You've received your annual rates from the ACT Government but are puzzled by the 'unimproved value' figure. What does it mean exactly? How does the government calculate it? How often is it revised? Should you even care?

"These are all good questions," says real estate agent Ryan Broadhurst, from Belle Property. "One thing is for sure, you should take note of unimproved value because government uses it to calculate your rates and land tax."

To demystify the topic, it's important to understand what unimproved value is.

"Essentially it's the dollar figure a block of land is deemed worth without any improvements on it," says Ryan. "Improvements include buildings, paths, fences, landscaping or other features such as swimming pools. This is different from "full value" or "market value" which does include improvements."

When you buy a property, you're paying for the land and the house on that land. This means the higher the unimproved value, the higher the likely purchase price. In Canberra, the unimproved value per square metre varies between suburbs with higher priced properties paying higher square-metre amounts.

Unimproved values are determined by qualified, independent valuers who calculate the value on various factors, including the location of the land and comparable vacant land sales.

"The amount can more than double between, say Tuggeranong, and prime properties in the Inner South, which can pay more than $1,000 a square metre," says Ryan. "Most purchasers factor the unimproved value in from the beginning, with the figure noted on marketing material. It can help as a bit of a guide on where a property should sit price wise."

Homeowners should keep an eye on their land values because they can rarely remain the same over time according to the ACT Revenue Office, which reports on its website that "values within the same area and between areas may change, and the prices people are willing to pay when they buy property are good indicators of these changes."

But what if you own a unit?

"For valuation purposes, the ACT Government treats unit title developments as single properties," says Ryan. "The difference is that the individual owner doesn't receive the valuation notice, the owner's corporation does."

If an owner believes their unimproved value is incorrect, they can lodge an objection. They must do so within 60 days, however, with the clock ticking from the date they receive their valuation notice. If the deadline is missed, the owner must wait until they receive their next annual valuation notice before taking action.

Objections must be submitted in writing through this contact form on the ACT Revenue Office website or owners can write to the Commissioner for ACT Revenue stating why they object. Owners of a unit in a complex can't object as an individual. Instead, the owner's corporation acts on behalf of all unit owners. The ACT Revenue Office assess all objections and responds on the outcome in writing.

Ryan says most home buyers note the unimproved value when making a decision on purchasing a home but ultimately buy based on the features and location of the home itself.

Call for independent body to set rates in the ACT

An Assembly inquiry has heard a call for an independent body to oversee rates rises in the ACT.
The call comes as commercial property owners face increased pressure from rates and taxes.
Witnesses told the inquiry many owners have little or no recourse to recoup the costs.

The ACT needs an independent body to set rates in Canberra, in line with the system in New South Wales, to prevent the territory government raising rates to exorbitant levels, an inquiry into commercial rates has heard.

In the second day of hearings at the inquiry, the head of the Real Estate Institute ACT's commercial property committee, Guy Randell, said he believed the territory needed an independent body to set rates.

While both NSW and Victoria have independent bodies or legislation which caps the rates councils can charge property owners, with only one level of government the ACT has no such body, leaving the territory government in control of rates rises.

The territory government has abolished stamp duty for commercial properties worth less than $1.5 million and removed insurance duty, but commercial rates continue to rise - which many in the property sector say has outweighed the gains.

Mr Randell said the government had already gone too far in charging "exorbitant" rates on property owners, many of which were family investors with only one industrial or retail property that they planned to use to fund their retirement.

But he said a succession of year-on-year rates rises well above inflation had seen some forced to sell their properties, or for those on more flexible leases, pass on the costs to often low-cost tenants who were also unable to meet the costs.

Mr Randell also reiterated concerns voiced on Wednesday by the ACT representative of the Australian Property Institute, valuer Greg Cummins, who called for the government's valuation office to be removed from Treasury and made an independent statutory authority.

Mr Randell said he was not concerned about the integrity of valuers doing their work for the government, but the function it performed, which directly affected rates and land tax revenue, needed to be seen to be independent of the revenue office.

He said government valuations were always based on the highest and best use of a property, often residential, and owners and tenants had to foot the bill even if they had no immediate intention of using the property for a new purpose.

Mr Randell said a better option would be for rates and land tax bills only to be charged on current use - so even if there was a more valuable use allowed on the Crown lease, it was not activated until the land was actually being used for that purpose.

He cited one air-conditioning business in Fyshwick which as a result of revaluations had faced its rates bill going from $18,000 a year to $60,000 a year, an increase that could spell the end for such a business.

Mr Randell said many of the owners who were affected owned properties with older buildings that did not reflect the true resale value on government valuations, and while commercial rates were nine to 9.5 per cent higher than residential rates, there had not been any commensurate rise in commercial rents.

Car dealer John McGrath also fronted the committee on Thursday, telling it a recent bulk revaluation in Phillip meant he was now paying as much as three times the rates on that block of land, compared to similar blocks in other industrial areas.

Mr McGrath said his firm had calculated rates on each block on a per-square-metre basis, showing the Phillip land cost about $45 per square metre a year, compared to an average of $15 per square metre a year for the company's blocks in Belconnen, Mitchell and Fyshwick.

He said that compared with about $4 per square metre in rates (including land tax in NSW) in Goulburn and Queanbeyan, making it more difficult for Canberra car dealers to compete with those across the border.

ACT commercial market faces 'perfect storm' as rates bite

An inquiry into commercial rates in the ACT has been warned of a 'perfect storm' hitting the market.

A prominent real estate figure said high vacancy rates, rising rates and tight lending were affecting the market.

A leading valuer also questioned the independence of government valuers located in Treasury's revenue arm.

The ACT's commercial property market is facing a 'perfect storm' that has already seen investors shun Canberra; amid rising rates, tighter lending practices and high vacancy rates, an Assembly inquiry has heard.

A Legislative Assembly committee is examining the territory's rates system as it relates to commercial property owners, in the wake of re-valuations that caused commercial rates to soar in some parts of the city.

Property owners in areas including Braddon, Phillip and Fyshwick, like most unit owners affected by recent changes to unit valuation calculations, have faced big increases to their rates bill due to the re-valuations.

It follows an earlier inquiry into changes to rates calculations affecting thousands of Canberra unit owners, the recommendations of which the ACT government has largely ignored, other than to agree to a public review of its tax reform program.

During Wednesday's hearing, Civium chief executive Doug O'Mara told the committee he was concerned recent re-valuations of properties were not only affecting property owners, who often had no choice but to pass on the costs, but also small businesses leasing such premises.

He said the commercial property market was facing a perfect storm of economic headwinds including high vacancy rates, banks tightening their lending criteria and rising rates bills, which he described as "the biggest issue" facing the sector.

Despite new Property Council figures suggesting average office vacancy rates had fallen from about 12 per cent to 11 per cent in the last half of 2018, Mr O'Mara said in the second-tier market, the vacancy rate was likely closer to 16 per cent.

He said the second-tier market was being challenged by newer office buildings offering more attractive tenancies, and some owners were not bothering to rent properties out at lower returns, which could affect property values and, in turn, their finance.

The committee also heard about the effects of recent re-valuations of suburbs being redeveloped from industrial to mixed use precincts, which caught some property owners and tenants off guard with unexpected rate rises.

Some owners saw rates rises in the order of $100,000, with the increases most keenly felt in Phillip, where the total value of the 108 properties affected rising 79 per cent from $100 million to $179 million in 2017, or about $730,000 on average per property.

ACT committee chairman of the Australia Property Institute, Greg Cummins, said the problem was partly due to the value of blocks in such areas not being re-assessed regularly, and when re-valued, they rose 10 to 20 per cent in one year.

Mr Cummins said he was also concerned the territory government valuers were a small team based in Treasury's revenue office, and that they could face conflicts of interest in providing valuations, particularly in appeals.

In most other jurisdictions, official state government valuers sit in an Office of the Valuer-General, an independent statutory authority tasked with valuing properties without government interference, given the key role property values play in determining revenue.

Mr Cummins said the issue could arise when owners tried to appeal valuation increases to the revenue office, suggesting the valuation office did not necessarily have the same level of independence as similar offices in other jurisdictions.

He also said some larger institutional investors were wary of the high costs of investing in commercial property in the ACT, and others had sold their land because of it.

But Mr Cummins said the costs of businesses moving interstate for those already in Canberra meant that often they would 'grin and bear it'.

An ACT Treasury spokeswoman said the five valuers in the valuation office were full or provisional members of the institute and had to meet professional development requirements to stay certified, as well as meet the public service code of conduct.

"Five members of the [seven] valuation staff are fellow, associate or provisional members ... and most have tertiary qualifications to postgraduate level," she said.

"Current arrangements for the valuation branch represent a balance between administrative efficiency, effective cost management and appropriate qualification and skills to deliver best practice outcomes."