IPTI Xtracts

Property Tax and Assessment News from Around the World

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Contents

Rail works lift property prices, pointing to value capture's potential to fund city infrastructure

Value capture has been advocated as an innovative way to fund infrastructure, including by the Australian government. However, its effectiveness in Australia has been questioned. Our research, based on railway level crossing removals in Victoria, suggests infrastructure projects do lead to higher property values, which could be captured to contribute towards project funding.

At sites close to where level crossings were removed, property values increased by as much as a quarter. This highlights the opportunity to use a value capture model.

What's the idea of value capture?

Infrastructure investment improves connectivity, leading to higher land or property values in areas that benefit from this. Value capture taps into this increased value – usually using some form of taxation – to help finance the infrastructure responsible for the increase.

Value capture has been widely used overseas. In the United Kingdom and Hong Kong, it has proved to be an effective way to fund major infrastructure.

This approach is not common in Australia, where most infrastructure projects are government-funded. Gold Coast Light Rail was developed with the aid of a levy on ratepayers.

However, a lack of funding means many large-scale infrastructure projects are not being funded at the same time. This highlights the need to find innovative ways to fund infrastructure, which includes exploring the potential benefits of value capture.

Financing infrastructure by value capture has been widely discussed and was considered by a parliamentary inquiry. The concept features prominently in the federal government's Smart Cities Plan and would complement the Smart Cities vision for 30-minute cities.

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Would it work in our low-density cities?

But there is a debate over how well this model would work in Australia. It's argued the low-density nature of Australian cities would result in a lower level of value creation to be captured. Nevertheless, little empirical evidence is available on value creation in Australia.

Despite clear policy interest in how much land values increase following a new rail investment, and to what extent this can be attributed to the investment, much remains to be explained.

Our research based on the level-crossing removal project in Victoria found property values near each site could be enhanced significantly. The state government began the project in 2015. It aims to eliminate 75 dangerous and congested level crossings to improve traffic flows across metropolitan Melbourne. Our yet-to-be-published research is to be presented at the Pacific Rim Real Estate Society annual conference.

Importantly, this is one of the largest rail infrastructure projects in the state's history. As of December 2017, the estimated budget for removing 50 level crossing sites was A$8.3 billion. The ultimate cost is likely to be greater as another 25 sites were added to the project in 2018 and 2019.

The work has caused inconvenience to local residents during construction and has limited capacity to ease traffic congestion. The pace of progress and budget blowouts "present risks to achieving value for money", the state auditor-general reported.

Despite the temporary inconvenience during the construction phase, transport connectivity will be enhanced once the project is complete.

The level crossing removals are intended to eliminate the delays motorists experience while waiting for trains to cross the road. Ellen Smith/AAP

House values have risen, but variably

To offer some empirical evidence on the benefits created by level crossing removal projects enhancing housing value, we considered four sites in Bayswater, Mitcham, Glen Iris and St Albans.

We found the completion of a level crossing removal leads to an increase of 9% in house value, on average, within the area surrounding the site. This positive impact diminishes as the distance from the site increases. It vanishes beyond 1,400 metres.

We also found the impact of level crossing removals varies from site to site. House values in surrounding affected areas increased by 8.81% in Bayswater, 28.6% in Glen Iris, and 10.5% in St Albans, but by only 2.1% in Mitcham.

Comparable evidence is found for units in these areas: prices increased by 2.35% in Bayswater, 7.3% in Glen Iris and 6.53% in St Albans, but there was no significant increase for Mitcham.

Key takeouts

There are three takeouts from our research.

1) The level crossing removal project in Victoria did lead, in general, to higher property values. This highlights the need for a comprehensive plan aimed at maximising value capture opportunities.

2) Value capture is potentially a feasible model despite the low-density nature of Australian cities. However, its likely effectiveness varies considerably with location. This reinforces the importance of a comprehensive plan.

3) Given infrastructure is critical for urban development, governments should consider using value capture to fund infrastructure in a way that helps meet urban development needs and reduces the shortfall of dwellings in Australia.

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Government’s Land Tax Bill introduced into State Parliament

Marshall Liberal Government has introduced into State Parliament its Land Tax (Miscellaneous) Amendment Bill 2019, to deliver a fairer, more equitable tax system in SA, drive increased business investment and save South Australians $70 million in land tax over three years.

Treasurer Rob Lucas said the Bill confirmed the Government’s major policy intentions of reducing the overall amount of land tax collected and lowering the top tax rate from a national high 3.7% to 2.4% – the average of all mainland states – to drive positive economic and jobs growth, improve the state’s competitiveness and investment attraction.

The Bill also confirms that self-managed super funds (SMSFs) will be unaffected by the changes to aggregation rules; that companies will not be subject to both grouping as related corporations as well as the trust surcharge; and that some companies – when undertaking significant property developments – will be able to apply for de-grouping in defined circumstances.

The Bill also enables trustees to nominate a new designated beneficiary for land tax purposes in the event of a marriage breakdown, in addition to the existing ability to renominate in the event of death or incapacity.

The Bill also incorporates a number of other amendments which confirm and clarify the original policy intent of the land tax reform package.

“Ultimately, the Government’s positive reform will deliver a significant $70 million in land tax savings over three years for South Australians, while sending a clear message that SA is well and truly open for business,” Mr Lucas said.

“The overwhelming majority (92%) of individual, or mum and dad, investors will be better off under our reforms, while 75% of company groups will benefit from paying less land tax.

“And the changes to aggregation rules will end the opportunity for people with multiple properties establishing complex legal structures to avoid paying a single dollar in land tax.

“So far, the Property Council and its supporters have been unable to defend the inequity of the current law which allows that to happen.”

A copy of the Bill is available via: https://www.treasury.sa.gov.au/about/acts-and-legislation

Debate on the legislation will be concluded by the end of the year so that, if passed, Revenue SA has the appropriate time to make changes in preparation for introduction on July 1, 2020.

Avebury's Geoff Summers wants all Tasmanian councils axed

Tasmanian councils and their rates charges should be abolished, a disgruntled businessman has told a state government review.

"Councils are a complete rort," mining hopeful Geoff Summers said in a submission to the review of local government legislation.

"Wind up all councils."

Mr Summers, who is in dispute with the West Coast Council over rates charges for the Avebury Nickel Mine, said the state government should take over council activities, immediately cancel all outstanding rates charges and refund current rates already paid.

"They are calculating and charging unjustifiable, punitive taxes upon the good citizens and businesses of Tasmania and then wasting our money," Mr Summers said.

"It's most likely illegal."

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Mr Summers said the West Coast Council had overcharged the company which owned Avebury by millions of dollars in rates.

He said he had legal advice that made him confident he was in the right, and hoped the council would change its mind.

Mr Summers said the matter would end up in the courts otherwise and, if the council lost and costs were awarded against it, ratepayers would be hit.

He disagrees with the valuation of the mine - which is on care and maintenance, not producing - and the level of rates the council charges for Avebury.

"They're running business out of the West Coast ...," he said.

Mr Summers said the mine would create about 200 direct jobs if it entered production.

"We want to get on with developing the project, employing people and creating jobs in the community," Mr Summers said.

West Coast Mayor Phil Vickers said Mr Summers was entitled to his view about abolishing councils.

"The concept of just having the state government look after all Tasmania, it's a governance option for sure," Cr Vickers said.

"Tasmania is an interesting place when you look at governance.

"We've got two houses of parliament, 29 local government authorities, all for a population less than Geelong ..."

On the rates dispute with Mr Summers, Cr Vickers said he was adamant the council had acted within the local government rating rules and in accordance with its rating policy.

Northern Midlands Council to appeal against airport rates decision

A Northern council is appealing against the Federal Court's dismissal of its case to recoup more than $1.7 million in supposedly unpaid rates from the owners of Launceston Airport.

The Northern Midlands Council held a special meeting on Monday in which it considered legal advice on the court's recent decision regarding the council's case against Australian Pacific Airports and the Commonwealth.

Acting mayor Richard Goss said it was formally resolved that the council appeal against Justice David O'Callaghan's decision.

"Council is deeply concerned that such a decision will have significant impact on the council into the future," Cr Goss said in a statement on Tuesday.

The long-running issue dates back to 1998, when airports were privatised in Australia and the federal government began entering into long-term leases with private airport operators.

The Northern Midlands Council alleges it's owed $1.79 million in unpaid rates due to a non-legally binding Commonwealth requirement that airport lessees pay councils a rates equivalent which would otherwise be paid if the airport wasn't situated on Commonwealth land.

A Launceston Airport spokesman said an appeal would be "yet another speed-bump to getting on with the meaningful job of jointly investing in developing travel to and from this region".

"We remain ready as ever to have that conversation [with the council]," the spokesman said.

"Legal/court costs were awarded against the council for its last court action and we are really disappointed that the council intends to double down on its claims, putting even more of its ratepayers' money at risk."

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Australian Pacific Airports and the Commonwealth argued in the Federal Court that the council didn't have a say in the matter due to it not being party to the lease agreement.

The case was heard together with that of Clarence City Council, which was contested on similar grounds regarding Hobart Airport.

Both the Northern Midlands Council and Clarence City Council argued in court hearings that they'd been shortchanged rate payments after the value of airport sites increased in 2013 following a review by the state's Valuer-General.

However, the Commonwealth engaged a private independent valuer, Herron Todd White, which arrived at different valuations by using alternative methodologies.

Victorian land values cross-checked with Azure AI

Increasing accuracy in 75 percent of cases.

Victoria's LG Valuations has combined its Valorise property valuation tool with a separate Azure-based AI to increase the accuracy of assessments.

The property valuer, which operates in Victoria and Tasmania as part of the HMC Property Group, built the new platform with Microsoft partner Advance Computing using Azure cognitive services to speed up the valuation process while also considering a larger array of factors.

Advance Computing, which also built the first Valorise platform, leveraged Azure Machine Learning Service, Logic Apps and Application Insights for the AI capability.

It was deployed in the space of a week and has been continually trained and improved over the last six months.

By using the two platforms simultaneously, the valuer has been able to better understand the weight different data inputs have on the accuracy of the valuations, which are used to determine land tax and council rates.

While variables like building area and land area have always had a great influence on the end-valuation, the new AI model illustrated the importance of considering other locality factors such as access the distance to public transport hubs.

CEO Marcus Hann said Azure-based AI was the more accurate platform in 75 percent of cases, which he put down to its ability to account for a large number of factors affecting property price.

"I think we're quite staggered as to how quick and easy and accurate it could be," Hann said.

"It is significantly increasing the confidence in the outputs we're able to put forward for councils.

"We are making sure people aren't being over charged and certainly the efficiency level it's helping us achieve is dramatic."

Advance Computing director Chris Motton added that the integration with Valorise will continue to be refined.

"Because the AI infused solution is now part of Valorise itself there are plans to further improve, adopt and rely on these models and functionality going forward," he said.

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