Submission
No 3

INQUIRY INTO THE PROVISIONS OF THE VALUATION OF LAND ACT 1916

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Joint Committee on the Office of the Valuer General
Parliament House
Macquarie Street
Sydney NSW 2000

Dear Sir

Re: Provisions of the Valuation of Land Act 1916

We are private investors providing residential and industrial accommodation in Sydney.
We are just one of the aggrieved land owners who have been hit with aggressive valuations in recent years and have been successful in our objections against such valuations.
The following is therefore an actual case study of the shambles land tax can be. We follow this up with recommendations and suggestions to correct this.

Successful Objections

Warriewood Industrial Area – 2009 year – 7 large factories

We were successful in achieving a reduction in the values between 16.5% and 14%. We felt this was still inadequate and note the 2010 VG's went down a further 10%. All industrial owners in the subject area whose 2009 were not challenged should have been reduced by 25% in 2010. We do not believe this happened.
The Warriewood valley is not large and our successful objection meant the whole industrial area was overvalued in the 2009 year.

Mona Vale Industrial Area – 2010 year – 2 large factories.

Despite the evidence in nearby and similar Warriewood and its reduction in VG's for 2010, the values at our Mona Vale properties were increased by 35% from 2009. Such increases were surely absurd and especially so in the middle of the GFC.
Our subsequent objections were successful in reducing one property 21.5% and the other 12%. We would have appealed to the Land and Environment Court on the latter VG had we the time resources to do so.
We will be objecting again in 2011 if the value of the latter is not reduced further.

Going Forward

We have professional experience and training in valuing and property. In mind of the actual example detailed we comment as follows.

1. The Process. It is very intimidating and not at all user friendly to proceed with an objection, as specialised valuation concepts are involved. This makes it very difficult to navigate successfully and costs are considerable. The for mentioned objections involved 20-40 hours each.

2. We understand the M.A.V.S. system is cheaper to levy, however due to its use of componentisation/component areas/benchmark properties, mass valuations can be quite inaccurate and inappropriate (only as good as the original groupings – should be reviewed & improved as objections bring inconsistencies to light, or sub-groups). Further, inaccuracies tend to be compounded over time. It does not take account of unique features of sales, such as A-grade tenants etc.

3. Given the inherent inaccuracies in a mass appraisal system such as this, common sense / prudence would demand that valuations are done with a substantial degree of conservatism – tending to err to the lower-side of market value, (i.e. 15-25%), in order to provide a reasonable buffer for the inaccuracies extremely likely to arise within the system over time. This is especially so given the disparity in resources available to each party in this tax. The average homeowner or business, unless significantly skilled in real estate (not many), have nothing compared to VG's department & contract valuers. They have to incur considerable expense to challenge, most likely taking on a valuer, or subscribing to expensive comparable sales software for their research. In heavily built-up urban areas, it is extremely difficult to derive underlying land values, and requires quite specialised valuation/construction estimating skills. There is little guidance provided on this by the VG.

4. Weigh all this up, the disparity in resources and the inaccurate mass appraisal system, the onus should be firmly on the VG to be conservative in its valuations. It is outrageous that the VG is instead intentionally or otherwise putting out quite aggressive valuations, with the onus placed firmly on the homeowners and business operators to prove the VG's valuation is not accurate. All the work must be done by those who have the least supporting resources or expertise to challenge it. Instead, the party with huge resources and expertise at its finger tips simply generates mass valuations, usually at full market values or often above market, causing huge stress and frustration at such an aggressive tax on the population. Given many don't have the expertise or resources to successfully challenge inaccurate valuations, the great majority simply clench their teeth and pay it, even if they strongly suspect it to be inaccurate. This is quite simply unjust and/or legislated fraud. The system should be more supportive of providing public valuers to audit valuations. Either this or the VG must be more conservative with its valuations.

5. If the V.G. insists on capturing full market values, then in the interests of a level and just playing field, it has no choice but to return to carrying out individual valuations on all properties. Of course this would increase the cost of levying the tax, but this is the only fair and transparent way to ensure an accurate and fair tax. Common sense says the valuations could be done every 3 years, which would make it less expensive to levy, while still keeping up with market values (no less than 3 year averaging). Instead, from our recent experience, the VG has been nothing short of extremely aggressive in its valuations, particularly with industrial zoned land. On a cynical level, one might conclude this has something to do with a "business can afford it / won't cost us any vote's attitude".

6. Truth is, it has a direct impact on the ability to provide affordable accommodation (residential & industrial – and therefore ability to setup in area & provide jobs). In reality, the government should broaden the tax base, as this high level of taxation on a narrow base has very real impact. To make matters worse, our State Government while singing job creation/preservation, increased rates to 2% at the height of the GFC, having direct impact on jobs. A narrow tax base means a much higher rate has to be charged. It penalises productive enterprises, the ability to provide jobs, and affordable accommodation. For example, we have a modest rental house which will pay land tax of $15,000 at the 2% rate in 2011 year. The gross income is $26,000 but possible to increase to $28,000 with stress to the tenant. From an investor's point of view, it is insanity to hold such an asset. It further hamstrings business's ability to compete in an ever-more competitive world, thereby further hollowing out our manufacturing sectors and increasing costs of service provision.

7. Even more difficult, given expensive land values now & constrained capital gains outlook for the next decade butting up firmly against affordability thresholds, 2% p.a. suddenly becomes a very significant burden to carry. Government should lower the rate, by either broadening the tax's base to include a greater number of people - either by lowering the threshold it comes in at, and/or removing the exemption on principal place of residences. We don't expect government's of either political persuasion to seriously consider such a politically unpalatable option, and so we stay stuck with the status quo. Worse, the state governments are hopelessly addicted to property tax revenue – again this should be broadened across industries, to lessen the burden on one industry in particular, and the many flow on affects this has in terms of a lack of affordable accommodation for both residents and local businesses.

Yours faithfully

R.A. Macpherson
Director