

**Submission
No 114**

INQUIRY INTO LAND VALUATION SYSTEM

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Date Received: 14/03/2013

13 March 2013

Mr M Kean, MP
Chair
Joint Standing Committee on the Office of the Valuer General
Parliament House
Macquarie Street
SYDNEY NSW 2000

By Email: jscovg@parliament.nsw.gov.au

Matt

Dear Mr Kean,

I have attached a joint submission by AHA (NSW) and TAA (NSW) to the Joint Standing Committee's Inquiry. I apologise for the slight delay in lodging this submission and thank the Inquiry Manager's office for granting us an extension of time.

We would be happy to arrange for our representatives to address the Joint Standing Committee at a mutually convenient time and to further explore the issues about which you have been requested to inquire and report.

Yours faithfully,



PAUL NICOLAOU
Chief Executive Officer



SUBMISSION
to the
JOINT STANDING COMMITTEE ON
THE OFFICE OF THE
VALUER GENERAL

by

Australian Hotels Association (NSW)
&
Tourism Accommodation Australia (NSW)



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Outline of Contents

1.0	Who we are	3
1.1	Australian Hotels Association (NSW).....	3
1.2	Tourism Accommodation Australia (NSW)	3
2.0	Opening remarks.....	4
3.0	Terms of Reference - 1b	4
3.1	Complexities.....	4
4.0	Terms of Reference - 1a	5
4.1	Volatility in Land Valuations & Drivers of Distortion	5
5.0	Terms of Reference – 1c.....	6
5.1	Drivers of Distortion.....	6
6.0	Terms of Reference – 1d	7
6.1	Inequities in the Valuation System	7
6.2	The Valuation System in Public Administration	8
6.2.1	Current Disincentives against Investment in NSW	8
6.2.2	Comparative Land Tax Payable.....	8
7.0	Terms of Reference (2) - Recommendations.....	9
7.1	Recommendation 'A' - Altering the Valuation Methodology.....	9
7.2	Recommendation 'B' - Altering the Objection Process	9
7.2.1	Inequities in the Objection Process.....	9
7.2.2	Altering the current appeal mechanism	10
7.3	Recommendation 'C' - Revision of the Valuation of Land Act 1916 and Land Tax Management Act 1956 – and associated Regulations	11
7.4	Recommendation 'D' - An equitable alternative for hotel properties.....	12
7.4.1	Adjustment of Land Tax Payable	12
7.4.2	Ease of administration of Hotels Land Tax adjustment.....	12
7.4.3	Example Definitions	13
7.4.4	Industry Needs	13
7.4.5	Preferred Reduction Method	13
7.4.6	Hotel Industry's unique 'Cap' rates	13
8.0	Overseas examples	14
8.1	Republic of Ireland	14
8.2	Singapore Inland Revenue Authority	15
9.0	Conclusion.....	16

1.0 Who we are

1.1 Australian Hotels Association (NSW)

The Australian Hotels Association (NSW) (**AHA (NSW)**) is an industrial organisation of employers registered under the *Industrial Relations Act 1996* (NSW). AHA (NSW) is a counterpart association of the NSW Branch of the Australian Hotels Association, a federally registered industrial organisation which is the leading national voice of Australia's hotel and hospitality industry.

AHA (NSW) represents the interests of over 1700 members throughout NSW, including 1000 in regional areas of the State.

Some of the issues affecting NSW hotels currently being addressed by AHA (NSW) include business regulation, liquor licensing, gambling policy, alcohol and health policy, tourism, and workplace relations & employment issues.

The majority of the AHA (NSW)'s members operate licensed premises as hotels, pubs and taverns. A significant number of members operate licensed premises incorporating hotel accommodation ranging from pub-style accommodation through to luxury 5-star international hotels.

Our members employ over 75,000 people, donate more than \$25 million per year to charitable, community and sporting organisations in NSW, serve 2.5 million meals to visitors and locals each week and contribute millions of dollars in taxes and other levies.

1.2 Tourism Accommodation Australia (NSW)

Tourism Accommodation Australia, formerly called the accommodation division of the Australian Hotels Association, was established to represent the combined interests of the major accommodation providers (including accommodation hotels, motels and serviced apartments) across Australia.

TAA (NSW) represents the state's 3, 4 and 5-star hotels, including the major national and international hotel groups of Hilton, Hyatt, Marriott, Four Seasons, Shangri-La, Mirvac and Starwood.

These hotel accommodation properties play a key role in servicing the needs of many of the 10.5 million domestic and international overnight visitors to Sydney each year.

TAA is the foremost representative organisation for the accommodation sector, providing leadership and support through, advocacy and representation, staff development, research and networking and by promoting best practice.

TAA has partnered with the Australian Government and Tourism Australia to implement a new Star Ratings System and standardised T-QUAL (tourism quality) accreditation across the nation's accommodation properties – designed to improve quality in the Australian accommodation market.

The Accommodation Sector in NSW comprises over 200 star-rated hotels, 198 serviced apartments, 1003 motels and guesthouses employs over 33,000 people, which is 4.8 per cent of total employment in NSW.

2.0 Opening remarks

2.1 In this submission we concentrate on some of the inequities of the current land valuation system in NSW and the market distortions which can result.

2.2 Our primary view is that while changes to a fairer and more representative methodology would be welcomed by householders and businesses alike and potentially provide fewer grounds for complaint, no advantage would be gained by either commercial or residential landholders by only altering land valuation methodology if the 'rate in the dollar' formulae for levying land tax and local council rates are both 'tweaked' to achieve revenue which remains equivalent to that which is collected now.

2.3 For ease of reference in this submission we have:

- linked our comments and recommendations to the relevant Terms of Reference;
- used the terminology Association as referring to both AHA (NSW) and TAA (NSW);
- restricted our consideration to issues affecting our members.
- commented on the needs of both licensed hotels ('pubs') and accommodation hotels – which have some common issues and other issues which are restricted to one or the other sector of the industry.

2.4 In section 8.0 we provide comment as to the unsuitability of the two overseas examples mentioned in the Inquiry's Issues Paper.

3.0 Terms of Reference - 1b

3.1 Complexities

Although community displeasure with the current valuation system is usually a result of quantum leaps in land tax and council rate assessments, some of the discontent in our view is possibly due to a misunderstanding by many that land tax and rates assessments are based on the Unimproved Value (UV) rather than the 'Site Valuation' (SV) — the value of cleared land as if it was ready for development.

Should there be no substantial change to the current basis of assessment (SV) as a result of the Joint Standing Committee Inquiry, we believe that better explanation must be disseminated to the public to dispel the lingering and simplistic concept of 'unimproved land value'.

4.0 Terms of Reference - 1a

4.1 Volatility in Land Valuations & Drivers of Distortion

To illustrate the concern of our members, we provide the following comments.

This Association accepts that the land tax levied each year is based on an 'average' of the most recent valuations from the previous three years and that this averaging can sometimes soften the impact of sudden increases in land values, but we note that it remains possible and more usual under the current method, that re-valuations can be of such magnitude that they over-ride the cushioning affect of averaging and lead to inordinately high and unsustainable land tax increases which are well in excess of CPI and often do not reflect commercial reality.

We similarly accept that any system which is based on market forces will produce volatility and, when property values rise, this becomes an issue of contention when it results in increased land taxes and rates.

In regard to hotel properties, the following table provides a snapshot which illustrates how site valuation (SV) increases have impacted hotels, particularly the typical smaller main street hotels in country settings. Notwithstanding that site usage has not changed since these properties were first established as hotels, likely one hundred years ago, the increased land valuations (and therefore land tax and local council rates) have become an unsustainable drain. This is patently evident in coastal and regional towns as per the table below:

Locality	Year 1 Valuation	Year 2 Valuation	Year 3 Valuation	Overall Increase
	\$M	\$M	\$M	%
Pt Stephens	\$1.289	\$1.521	\$1.718	33%
Lake Macquarie	\$0.700	\$0.740	\$0.900	29%
Lismore	\$0.365	\$0.365	\$0.645	76%
Lake Macquarie	\$0.640	\$0.650	\$1.037	62%
Orange	\$0.790	\$0.790	\$1.260	84%
Orange	\$0.825	\$0.825	\$1.600	94%
Berry	\$1.140	\$1.140	\$2.100	84%
Gerringong	\$0.840	\$1.700	\$1.450	72%
Shoalhaven Heads	\$0.710	\$0.710	\$1.210	70%

It is again noted that SV's are often inflated by sales activity of comparable land. That, in turn, becomes reflected in increased land tax and council rates assessments. However, unless a hotel property is sold for redevelopment, the annual land tax actually becomes a tax on unrealised gains.

The major factor which contributes to distortion is that land value is determined not by individual site valuations but 'desk-based' comparable valuations, including factors such as recent market realisations (sales) and potential land use, rather than existing land use.

This is exacerbated by provisions of the *Valuation of Land Act 1916* which dictates that a property valuation (in a similar local area and within similar zoning) is to be based on the principle of 'highest' and 'best use', rather than a more equitable system based on 'current usage'.

We do not under-estimate the scale of the Valuer General's task, due to the sheer number of properties and geographical enormity of NSW, and do not see an alternative to the 'desk-based' valuation system, but we submit that the contributing factors, which determine the SV, need to be removed so that current usage is the sole determinant benchmark. This would more correctly reflect the value of all properties (residential and business) in all localities throughout the state.

It is noted that Queensland is considering a move from 'desk valuations' to 'actual site' valuations, their equivalent of SV determinations are based on an assessment of the land as though it was in '*an untouched state*'. This Association realistically submits that the 'untouched state' criterion does not as adequately reflect either real market worth as would valuations based on current usage.

Any comparison of current land tax differentials between Australian States reveals considerable disparities and a severe disincentive to development in NSW.

5.0 Terms of Reference – 1c

5.1 Drivers of Distortion

Indications from the Association's members are that redevelopment of other sites within an immediate area is the largest contributor to valuation distortion and results in inequities.

A recent case is indicative of the problem. It involved a small heritage-listed hotel in The Haymarket area, whose approximate gross building area is only 200m² – land size is some 300m². Due to the sale of a nearby old car park for development into a mixed use retail/residential complex of 22 storeys, the hotel's SV increased by 98 per cent in the short period from one assessment date to the next.

This resulted in a Land Tax increase from \$22,000 to \$44,000 and in council rates rising from \$16,000 to \$34,000 in the space of one year.

The increased SV was in no way attributable to improvements to the site on which the hotel is located or to any increase in patronage.

A professional independent analysis of the revaluation revealed several anomalies arising from the VG's methodology and we highlight details of this case as it is representative of similar distorted revaluations in other NSW localities:

We are advised that, to arrive at a July 2011 SV, the Valuer General analysed twenty-one 'comparable properties' and the sales evidence of eight properties, with seven of those being

located well away, north of Liverpool Street and closer to the central CBD, where the more centralised position dictates greater demand and higher rentals which are in turn reflected in the sale prices. The one remaining 'comparable' sale was of a property in Glebe in the Leichhardt Municipality, which is in a totally different area to The Haymarket and bound by vastly different planning and zoning constraints.

Further disparity, which discredits the current valuation process, occurred when, of the twenty one properties used as sales evidence, only three were constrained by City of Sydney Council Heritage Listing which of itself, restricts redevelopment of the subject property, its future marketing potential and thus its value.

The above case is also an example of the inequities of the current system. A similarly worse case – and this is known to have occurred with several heritage-classified hotel properties – is that they are valued by comparison with other properties which are not impacted by heritage constraints. Heritage classification limits redevelopment, restricts provision of on-site parking, etc but those restrictions are not properly reflected in the SV.

Another case, which illustrates the commercial impost, concerns a small 'pub' operation in the North Sydney LGA which occupies a rather small land footprint. Apart from the introduction of a modest bistro, the business mix and profitability has not changed in over 10 years. However, re-valuations - based on nearby but totally unrelated properties - have given rise to an annual land tax of \$44,000 being levied on the owner who has operated the pub for over 30 years and is totally unsustainable.

6.0 Terms of Reference – 1d

6.1 Inequities in the Valuation System

As mentioned above, one of the major inequities exposed by the existing valuation system is that it does not give weight to the impact which heritage listing has on a property. This applies particularly to hotels. Heritage constraints are imposed by either (a) any tier of government or autonomous agency or planning instrument on a locality or a streetscape or (b) on specific building improvements, all which limit the ability to develop or improve existing structures or internal finishes or, to demolish the premises or redevelop the property.

In this regard, and although heritage constraints have been imposed widely throughout NSW, it is worth noting that the former South Sydney Council went much further than most councils and imposed a blanket 'heritage classification' on every hotel within the South Sydney Local Government Area and, still to this day, that greatly impacts on all redevelopment and refurbishment opportunities and thus on the actual value of the affected hotel properties. Heritage considerations are also canvassed in section 7.2 below.

In a similar way, the current Liquor Freeze in the Kings Cross and Darlinghurst precincts precludes the granting of Development Consent for licensed premises if it is perceived that the nature of any proposed refurbishment or redevelopment could have the potential to contribute to (a) an increase in the patron capacity of the premises or (b) and increase in the number of people who may be attracted to the locality.

Both have an enormous impact on lessening the marketplace worth of the affected licensed premises but those diminishing factors are not reflected in SV's. Thus rates and taxes continue to increase, but the business is unable to enhance its commercial worth.

6.2 The Valuation System in Public Administration

It is noted that the Inquiry's Issues Paper provides a comparison of the land tax levied from state to state. While this comparison reveals that each state or territory receives a similar revenue stream from land tax (as a proportion to total revenue), the Association believes there is another comparison that should also be taken into account and we canvass that in paras 6.2.1 & 6.2.2 below:

6.2.1 Current Disincentives against Investment in NSW

Association members, from both the accommodation sector and the 'pub' industry have asked that this submission also includes commentary on the disincentive that exists for investment in NSW, due primarily to the high level of land tax. This applies as much as it does to 'drinking establishments as it does to investment in new tourism infrastructure and new accommodation properties and also applies as much to city, suburban and regional areas.

Be it a new pub on a 'greenfields' site in a newly developing area, new accommodation in a coastal or ski-fields tourist region, or a star-rated accommodation property, the land valuations – and thus the land tax levied – are perhaps the primary disincentive to investors.

The comparison graph below, which has been supplied by one of our industry's property investors, illustrates why those with even meagre sums to invest would be more inclined to develop (say) a ski lodge in Queenstown, New Zealand or an accommodation property in Queensland or Victoria than consider pursuing the same developments here in NSW.

6.2.2 Comparative Land Tax Payable

	NSW	QLD	VIC	NZ
Exemption Levels	\$406,000	\$599,999	\$250,000	\$0.00
<u>Land Values</u>	<u>Tax Payable</u>	<u>Tax Payable</u>	<u>Tax Payable</u>	<u>Tax Payable</u>
\$500,000.00	\$1,604	\$0.00	\$775	\$0.00
\$1,000,000	\$9,604	\$4,500	\$2,975	\$0.00
\$2,000,000	\$25,604	\$21,000	\$10,975	\$0.00
\$3,000,000	\$41,604	\$37,500	\$24,975	\$0.00
\$5,000,000	\$73,604	\$62,500	\$69,975	\$0.00

The Association's members believe that these comparisons should be included in the Inquiry's considerations.

7.0 Terms of Reference (2) - Recommendations

We note that the Joint Standing Committee has sought recommendations.

It is the hope of our members that whatever changes are recommended as part of the Committee's inquiry and review, that further consultation occurs with this Association and with other peak bodies representing the hospitality industry and also with specialist hotel valuers and brokers, to ensure that the most equitable valuation methodology is finally developed and adopted.

7.1 Recommendation 'A' - Altering the Valuation Methodology

One suggestion, which has been made by our members and by those with expertise in property transactions in our industry, is based on land value increases in recent years which have been driven by the strong investor demand for property, particularly in higher developed areas.

It is suggested that the methodology for assessing land value be changed to a 'use-based' assessment whereby the valuation takes account of the ongoing use of the property and is thus more sympathetic to the likely level of profits being generated, as opposed to the current system which is based on highest and best use.

The current assessment based on SV particularly disadvantages hotels (and no doubt other businesses) as it is assessed against non-comparable higher alternate and unrelated uses.

Changing to a use based assessment (post approval for new developments) would more accurately reflect property usage. See also sections 7.3 & 7.4 below.

7.2 Recommendation 'B' - Altering the Objection Process

7.2.1 Inequities in the Objection Process

Information received from members, based on their first-hand experience with the procedures involved in objecting to Land Value Assessments is that the current system has several flaws.

A helpful example, and case in point, is the experience of a large star-rated accommodation hotel located in a NSW coastal town.

While the owner's objection was ultimately successfully, after being heard by the Land and Environment Court of NSW, the case and the procedures required highlight the inordinate costs involved — which all objectors are required to face.

The Valuer General's response to any lodged objection to a SV assessment does not require the Valuer General to justify its assessment, only to respond if the assessment is considered correct (or not). The most common response from the Valuer General is that the SV is considered correct.

The next step involves an objector taking the matter to the Land and Environment Court of NSW, which — due to the legal representation required, and with no assurance of success — is an expensive process and one many businesses (large or small) and many individuals simply cannot afford.

Until the Valuer General's assessment is taken by an objector to the Land and Environment Court, there is no requirement on the Valuer General to provide any evidence which supports the SV assessment made.

The present objection process then places the entire weight of proof (and evidence required to substantiate that the SV assessment is incorrect) on the objecting party and that requires significant time, extreme lengths and effort, and substantial up-front funding of the cost of professional advice and legal representation.

This formal process and the significant cost, unreasonably precludes many from achieving even hope of a fair re-assessment. It is often the case — because costs associated with the current appeal system are likely to outweigh any potential land tax or council rates relief — that objections are not taken to the Land and Environment Court, purely because the cost of doing so would outstrip any benefit (land tax or rates relief).

It is the Association's view that this clearly demonstrates a need to replace the current burden of proof on the objector with the onus being on the Valuer General to substantiate, with supporting reasons, the correctness of the assessment. Doing that would immediately remove the present usual response that the Valuer General's review considers the SV is correct. It would also inject elements of fairness and equity and greatly reduce the considerable time and cost now placed on objectors.

7.2.2 Altering the current appeal mechanism

It is recommended that consideration be given to increasing the period during which appeals can be made. Property owners, and especially business, need additional time in which to obtain professional advice and an indication of the appropriateness and likelihood of success of seeking revised valuations and also to determine the practicality of commencing the appeal process.

In addition, and while we recognise that the current procedure to challenge a valuation is not complex in the initial stage, in cases where the initial challenge is unsuccessful (as is usually the case), the ensuing process is slow, complex and expensive, involving appeals to the Land and Environment Court.

Several unique factors of the hotel industry are detailed at paras 7.2 and 7.3.6, and it is for those reasons and to create a simpler system that the Association favours the establishment of a secondary-stage appeal process consisting of an independent three person tribunal (or panel) comprising a valuer nominated by Valuer General, an independent valuer nominated

by the Australia Property Institute and an independent valuer nominated by AHA (NSW). This could be adopted in a similar manner for other industries and for residential objections,

This simple arbitration mechanism would be that the tribunal can be accessed by the appellant with 28 days notice (or a slightly longer period as mentioned above) at a cost of (say) \$400 per hour, with an initial hearing not to exceed 2 or 3 hours (further hearings may be necessary or the initial hearing extended by agreement of the parties).

If the findings of the tribunal are within 10 per cent of the original assessment, the appellant will meet the full costs of the tribunal.

In the event of the tribunal making a determination greater than +/-10 per cent of the assessment under review, then the losing party will meet the full costs of the tribunal hearing.

The cost of utilising the tribunal would be affordable to the majority of objectors but would be sufficient to avoid flippant and unfounded objections being made.

7.3 Recommendation 'C' - Revision of the Valuation of Land Act 1916 and Land Tax Management Act 1956 – and associated Regulations

The current situation pertaining to the method of valuation used by (and legislatively required of) the Valuer General is complex as it involves giving consideration to the *Valuation of Land Act 1916*, the case in *Tooheys vs Valuer General (1919)*, and the *Heritage Act 1977*, with the reality being that the lands on which many hotels are located are not valued as hotels and, in the overwhelming majority of cases, are valued as 'alternate highest and best use'.

This, in itself, creates an imperative to revise the current valuation method and make provisions for specific valuation methodology in relation to hotels. In the intervening period since relevant issues were considered in the *Tooheys vs Valuer General*, significant change has occurred in the liquor industry and in liquor licensing legislation. Liquor licences are no longer 'attached' to a specific property and can now be moved from one location to another within a prescribed radius.

It is also noted that liquor licences previously had a substantial intrinsic commercial value attached to them but, since the commencement of the *Liquor Act 2007*, a hotel licence can now be bought for \$500 (and, if the Liquor Amendment Small Bars Bill 2013 passes the Parliament later in 2013, a small bar licence will be available for \$250).

Other changes have occurred in the ninety-four intervening years. The hotel industry in NSW now only accounts for 12 per cent of the liquor market, where previously, hotels represented almost 100 per cent of the liquor market. That change resulted from the introduction of the *Registered Clubs Act* in 1953 and the proliferation of retail bottle shops (including the Woolworths and Coles duopoly now controlling more than 60 percent of total liquor sales), and packaged (take-away) alcohol now constituting over 70 per cent of total liquor sales.

The current valuation assessment process is inappropriate and this Association is supportive of legislative amendments which reflect the changed landscape in our industry. Continuing

to levy land tax and council rates based on present valuation methodology, will see a further escalation of, what is now for many hotels, their biggest single financial burden.

7.4 Recommendation 'D' - An equitable alternative for hotel properties

If the Joint Standing Committee determines that it will not be feasible to immediately change the methodology presently attached to assessing the SV of a property, the Association submits below an alternate proposition for hotel properties.

Note: We recognise that the Terms of Reference for the Inquiry do not extend to revenue considerations, but we have been requested by our members to put the following proposition, notwithstanding that our proposal could impact state revenue.

7.4.1 Adjustment of Land Tax Payable

The following mechanism is recommended as one which could be overlaid on the base SV (but not alter it) to potentially adjust the land tax and municipal rates payable in regard to hotel properties. This could include:

(a) the land tax payable on land which a licensed hotel is located be reduced by a factor of 15 per cent. If this applies then (b) and (c) are applied where applicable:

(b) if the improvements situated on such land are subject to any form of heritage constraint/s, and/or the hotel business has been continually operating in-situ for more than 20 years, the land tax payable in relation only to that land be reduced by a factor of 20 per cent;

(c) if the improvements situated on the subject land holding are utilised to provide tourist accommodation, the land tax payable in relation only to that land be reduced by a factor of 15 per cent; and

(d) The maximum available relief would be 50 per cent of one year's land tax liability.

7.4.2 Ease of administration of Hotels Land Tax adjustment

As to implementation of the above concessional arrangement, and so as not to create additional administrative red-tape or place considerable burden on business, a simplified procedure is suggested:

A property owner would receive an annual land tax assessment notice as per normal practice from the Office of State Revenue (OSR). If the hotel property (but not any other owner-related non-hotel holdings — so as to exclude other commercial or residential properties in joint, group or common ownership) qualified under the above concessions, the owner would simply submit with the first payment an Annual Adjustment Claim by way of statutory declaration to OSR indicating the relevant percentage reduction and the reduced

land tax liability. This would trigger a removal by OSR of the relevant proportion of the year's assessment. To ensure integrity, the claim process would be repeated each year.

7.4.3 Example Definitions

Heritage constraints would include restrictions imposed (a) by any tier of government or autonomous agency or a planning instrument on a locality or a streetscape or (b) on specific building improvements any of which limit the ability to develop or improve existing structures or internal finishes.

Tourist accommodation, which injects visitor cash into local economies and generates employment opportunities, would be commercial serviced accommodation available to domestic or overseas guests for short-term occupancy.

7.4.4 Industry Needs

The Association considers that the areas of greatest need, in regard to immediate economic relief, are those regional and rural localities colloquially described as being "in the bush".

Hotel businesses in rural areas are generally smaller undertakings that are feeling the pinch. Any financial assistance, such as the reduction of some of their land tax burden, as proposed in this submission, will be of significant assistance not only to the affected business (directly or through flow-on rent adjustments by landlords), but would also benefit rural communities in a number of ways.

Notwithstanding the above comments specific to rural areas, this relief would also be welcome in city and urban settings and, if so adopted, would create a common state-wide scheme and include NSW accommodation hotels which form part of the wider NSW Tourism Industry and which directly supports 30,400 jobs, indirectly supports a further 41,546 jobs through flow-on impacts and directly delivers more than \$2.2 billion in gross product with flow-on contributions of \$4.5 billion and accounting for 1.5% of Gross State Product, ahead of mining and agriculture, according to 2012 data produced by Tourism Research Australia.

7.4.5 Preferred Reduction Method

The simplicity of having only a single claim mechanism, and placing responsibility on claimants, rather than on the bureaucracy, avoids having to alter property valuations and also avoids any market-place perception of a devaluation of the value of the entire business. It also places the onus on only affected property owners and triggers only one administrative adjustment per annum per assessment.

7.4.6 Hotel Industry's unique 'Cap' rates

In support of the methodology outlined above, it must be noted that hotel businesses, unlike other commercial undertakings, are valued not on the basis of recent market-value of their

associated land holding, but on an industry-wide capitalisation rate method which is based on estimated future income. The 'cap rate' is expressed as a percentage of the ratio between an assets' net operating income and its purchase or market value. To determine a cap rate, net operating income is divided by price. For example, an asset that generates \$80,000 per annum in net income and is valued at \$1,000,000 would trade on a cap rate of 8 per cent.

In the period 2006-2008, cap rates for city hotels generally ranged from 8-10 per cent whilst country hotels cap rates ranged from 10-12 per cent. However, those cap rates have markedly increased and are now in the order of 10-14 per cent for city hotels and 14-20 per cent for country hotels. A downturn in recent years has seen a drop of approximately 33 per cent in the average sale value of hotels but without a corresponding decrease in associated assessed site values.

The 'cap rate' formula is a unique valuation technique which has been traditionally employed as a 'rule of thumb' method to determine not only the worth of a hotel but also its commercial sustainability. Its use is somewhat peculiar to the hotel industry and it, in our view, allows an exception to be made for the assessment of the land tax liability on properties which are developed and trading as hotels and the granting of some limited land tax relief as proposed in para 7.4.1 .

8.0 Overseas examples

We note that the Joint Standing Committee's Issues Paper has made specific reference, by way of examples, to alternate land valuation systems in the Republic of Ireland and in Singapore. In the two sub-sections immediately below we provide advice on both and include our reasons as to their unsuitability in NSW.

8.1 Republic of Ireland

When it comes to the Irish system — which is being introduced only for residential properties from 1 July 2013 to replace the Household Tax — it would appear that the system has potential to be 'fiddled' and that inconsistencies could result, when land owners (of residential property) 'self assess' market value as the basis for the Local Property Tax (LPT).

Note: Advice we have received is that the terminology 'self assessment' is a bit of a stretch. The system to be implemented later this year is more a 2-option arrangement whereby taxpayers will either place the market value of their property within €50,000 band-widths, based on guidance provided by the Revenue Commissioners or alternatively, opt to have the property valued by a professional valuer.

It has been predicted that from 1 July 2013, landlords of residential properties will be forced to increase annual rents by an average of 1 month's rent as a result of the LPT.

Another aspect of the Irish scheme is that valuations stand for three (3) years and, although that may give certainty to residential property owners and be suited to a depressed market, in a more volatile market such as in NSW, a valuation currency of 3 years is likely to result in significant valuation increases — and therefore land tax and council rate hikes — at the beginning of each new assessment cycle.

Linked to the Irish scheme, as it applies to residential properties, is an arrangement whereby local authorities (local council equivalents) will be free (from 2015) to vary the residential LPT by 15 per cent above or below the national central rate, depending on the funding needs of the particular local authority. Council rates certainty is hardly a feature of the Irish scheme.

In the Republic of Ireland, rates paid to local councils for commercial properties will continue to be levied on valuations made by the Rates & Valuation Office and, as is the case in NSW, are additional to the charges raised for other services received, such as water and refuse collection.

8.2 Singapore Inland Revenue Authority

While Singapore's system — and its annual re-assessment of land values by the Chief Assessor — appears relatively easy for land owners to comprehend, with tax rates either 4 or 6 per cent of land value and a land tax ceiling of \$^{SGD}2360 per annum, it is noted that the system was made somewhat more complex on 1 January 2011 when it was changed from a flat 4 per cent of land value and now incorporates graduated concessions to afford owner/occupiers some financial relief.

In the NSW setting, we are doubtful that there would be any advantage in basing site value on the Singapore model of *'estimated annual rent of a property if it were to be rented out, excluding the furniture, furnishings, machinery and maintenance fees after analysing the rents of similar or comparable properties'*. We expect that much the same results would be achieved as with our current system.

We also note that Singapore's Annual Value (AV) is not an assessment of land worth. And further, that basing the AV on 'comparable rental returns' could in fact introduce an additional uncertain element into the NSW calculations, because of the more 'hands-on' nature of Australian small business where many Australian businesses are either owner/occupier operated and not leased or, when businesses, often owned by a related entity, are structured so that the rent component is determined on a 'reasonable fair market basis' rather than on an actual basis.

For hotels, Singapore has adopted a more complex methodology to assess AV. As we understand it, it is based on 25 per cent of 20% of gross room receipts^(a), while other lettable areas in hotels^(b) (previously calculated at 5 per cent of gross receipts in the preceding year) are now assessed on estimated market rent.

(a) **'gross room receipts'** excludes telephone, cable & internet services; laundry services; secretarial services and Singapore's Goods and Services Tax.

(b) **'other lettable areas'** include Food & Beverage outlets; retail shops; function rooms / meeting rooms/ ballrooms; car parks; gymnasiums / fitness centres / spas / health centres; business centre / serviced offices; space let-out to tour desks / car rental kiosks / ATM space / advertisement banners and flags / telecommunication base stations / retail pushcarts; leased advertisement panels / billboards and display cases.

The Singapore scheme, based on a percentage of gross room receipts would be considered by many to be a 'bed tax' (accommodation rates in Singapore are generally double-loaded with 10 per cent and then a further 7 per cent surcharge).

From an Australian hotel operators' point of view, the calculations — especially those related to 'other lettable areas' — would make for an administrative nightmare for business and, from a compliance point of view, would create audit difficulties. From a tourism point of view, it should be noted that a bed tax in any form is totally opposed by the industry and that it would greatly hinder and jeopardise the NSW Government's goal to double overnight visitor expenditure in NSW by 2020.

9.0 Conclusion

In addition to this submission — in which we have dealt with the Terms of Reference of relevance to our industry and made recommendations, some specifically in regard to land tax — we would be happy to arrange for our Executive and/or senior AHA (NSW) staff to address the Joint Standing Committee at a mutually convenient time and to further explore the issues about which you have been requested to inquire and report.

[ends]