Submission
No 70

INQUIRY INTO LAND VALUATION SYSTEM

Name: Name Suppressed

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Collaroy Beach NSW 2097

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Joint Committee on the Office of the Valuer-General
Parliament House
Macquarie Street
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Submission to the Inquiry into Land Valuation System

Having regard to the terms of your Inquiry, I offer the following submission.

Introduction
The integrity of the land valuation system in NSW is questionable for a number of reasons, essentially relating to

- the absence of transparency and understanding of the system
- the evident mismatch between market valuation data and the Valuer General's results.

It is submitted that the system or procedures by which valuations are determined must be changed. A proposal regarding the change is offered, following some observations regarding problems with the existing valuation system.

Arbitrary Valuations: Not Compliant with the Act? Not consistent with market data?

Valuations determined by the Valuer General (VG) seem to bear no relationship to market values, and hence no apparent relationship to the obligation intended by Parliament, equitability of taxation or to capacity to pay.

In the case of one property I own, in the past twelve–twenty four months:

- market prices have been stable or falling as regards comparable properties (including an adjacent comparable property which was for sale but unsold for some time and then, on sale, the price dropped by 30%) but
- the VG determined a 4.5% increase to July 2011 then a 4% decrease to July 2012 in the assessed land value and
- the Australian Bureau of Statistics (ABS) House Price Index (HPI) Sydney for the 12 months ended June 2012 is a 0.9% decrease and for the 12 months ended June 2011 is a 0.7% decrease.
- For three other properties which I own which are subject to VG assessments, the average increase in assessed land value over the two years to June 2012 is 2%, where the ABS HPI data is a decrease of 1.6%.

Anecdotal evidence suggests that this observation regarding disconnection of valuations may hold true generally, but cannot be properly tested for want of access to other people's valuation data. In the face of the above:

- How can taxpayers have any confidence in the integrity of the land tax system?
- How can taxpayers have a feel for the predictability of their likely tax liability?

Transparency

The VG references Valuation Sales Reports (VSR), which contain sales data which is claimed as being of relevance. However:

- the majority of properties in the VSR's which I have seen are clearly non-comparable in most respects (size, aspect, view, local area, local amenity features, ...)
- no explanation is provided regarding exactly how the comparability is derived or which differences are ignored or discounted, or how the valuation or change in valuation is assessed from the VSR data.

There is no evident link. VG valuations are opaque assertions which seem to exhibit little if any relationship to the state of the relevant property market.

This makes objections to valuations difficult and expensive to mount, and must reduce the likelihood of success. This is inefficient and inequitable.

Market Values Flaw

The reference to the concept of market values is supposedly a key issue in the VSR's, but by definition it omits a key data item. Where the market and market prices are so weak as to mean that some sales simply become, for all practical purposes, impossible (as was the case for 2 years in the example noted above) there is no price data being generated for inclusion in the VSR's. However, the weakness in the housing market is nevertheless real and bears upon real values, as well as on notional liability and capacity to pay.

There needs also to be some sort of reference to low sales volumes or reduced market turnover. Absent acknowledgement of this issue the investors are effectively caught in a trap between the significant costs burden associated with selling a property versus paying a land tax assessment amount which is clearly unrelated to the real value of the property – where the tax is meant to be related to the value of the property.

Efficiency Issue & Market Distortions

There is a distortion introduced to the market by Land Tax. It is the case that higher value properties typically have lower rental yields, and for these properties the rate of Land Tax represents a greater burden on the cash flows from the property. As such, Land Tax may be expected to discourage investment in properties with above average values.

At the other end of the spectrum, strata unit holders seem to be significantly favoured in relation to land tax because of the way they share the burden of the tax and are able to thereby avoid the tax by remaining below relevant thresholds. This is inefficient and inequitable.

Liquidity

Compounding the efficiency issue noted above is the fact that property is a relatively illiquid class of investment: the processes of buying and selling are expensive and take a relatively long time (compared, for example, to share transactions) and it is difficult (virtually impossible) to sell part of a property or to raise cash representing a small proportion of the value of the property – in order to pay land tax, for example. As such, the higher the level of land tax the greater the burden on efficiency of investment which is imposed by the tax. Hence, the rate of land tax should be kept minimal, to minimise the efficiency cost.

PROPOSAL

- Valuations for Land Tax purposes should be based on both sales data and independent market valuations, which are routinely prepared for lenders and insurance purposes. (These valuations are normally done every three years, to a standard which banks and the insurance sector regard as acceptable. Why should the community/the Government, the VG or the OSR regard them as unacceptable? If they are acceptable, then why should the community bear the cost of the creation of duplicate sets of data, particularly data which is inconsistent with the commercial data?

  Commercial valuations are split as to the valuation of land and improvements. Investors are well accustomed to this form of valuation and it has a high degree of acceptance. It can also be challenged (with regard to comparability of other properties used to establish the valuations for example) prior to the Valuer issuing the final report.

- With independent market valuations:
  - There would need to be a statutory obligation for landowners to submit copies or summaries to the VG.
  - The copies and summaries would need to be kept Strictly Confidential. Referencing these valuations in VSR's would need to be on a disguised basis, so the individual properties could not be identified.
  - A summary, using a statutory format, would need to be incorporated in market valuations, to accommodate the differing styles adopted by valuers in drafting their reports.
  - The various pressures on independent valuers and their valuations are inherently balancing to a significant degree – lenders want a cautious approach, borrowers want to be able to maximise the borrowing amount, insurers want to a good estimate of the cost of replacing improvements, etc.
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- Sales data submitted to OSR for stamp duty purposes might be used to update annual valuations in the years between submission of commercial valuations, using the same ratio of land:improvement values for comparable valuations used in the previous valuation.

- Where sales data is used, the relevant comparability data should be made explicit and evidence regarding justification for the comparability also made explicit.

- The VG valuations should incorporate an explicit weighting for difficult market conditions, when sales become very difficult, even impossible, for some or possibly all parts of the market. (Just because the bottom of the market is ticking over in near normal manner does not mean that the higher priced sector is performing comparably. (OSR stamp duty data can be used to compute and publish a 'turnover' in each band of market sectors. Again this is data that the whole property market is accustomed to, accepts and is already in the public domain, albeit not in a centralised fashion, and is therefore visible and transparent.) The link regarding comparability of market value performance must be demonstrated, else the sectors should be dealt with as being substantially isolated from each other in terms of valuation performance.)

- For properties with no sale/turnover in past XX years, as well as those properties without mortgages and therefore no need for regular valuations (not including strata properties) robust valuations could be derived based on more accurate comparability data in the system outlined above. These landowners would always obtain a commercial valuation if they wanted to validate and/or challenge the VG valuation. This commercial valuation would be the on the same basis as every other Land Tax Payer. It also represents a relatively cheap and very accessible initial 'avenue of appeal'.

- A rolling average value approach should continue to be used, to smooth any volatility and anomalies.

- Overall, the valuation system must be transparent and must utilise all the data available, not just sales data.

- The above proposal has the benefits that it utilises existing systems and therefore a change to a new regime could be implemented relatively quickly.

- It would also be possible to compile historic data based on the same system and thereby have a transparent, robust and consistent basis on which to validate Land Tax charges over previous years.

I trust that you will give the above issues due attention and consideration.

Thank you for the opportunity to make this submission.

Yours faithfully

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