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LAND TAX ADJUSTMENT FACTOR

The Department of Primary Industries and Water has introduced a new law which provides rating and taxing authorities with market based adjustment factors for property valuations. These adjustment factors are applied to existing Government valuations in order to minimise the big fluctuations in valuations that can occur between revaluation cycles.

The new adjustment factors enable an adjustment to be made to land values on an annual basis and Assessed Annual Values (AAV) on a two yearly basis to assist to provide more predictable rating and taxing values. The adjustment factor is determined by the Valuer-General.

Scenarios have resulted from an analysis of some Launceston CBD commercial properties and the impact this adjustment is having on increases in Land Tax burden of these properties.

With many multi-national tenants operating in the city, many rents are being negotiated on a Gross Basis – i.e., a rental amount is paid by the tenant and the property owner is then responsible for paying of Municipal Rates and Land Tax.

Under this scenario, we are encountering circumstances whereby the rental is increasing annually in line with CPI, yet the Land Tax is increasing at greater than CPI levels, thus causing a reduction in the net income generated by that property and consequently a potential reduction in level of value.

The following table illustrates an example of five properties in the Launceston Central Business District and the effect the adjustment factor has on the increase in the Land Tax payable on that property.

Address	PID	Land Value	Adj Land Value	Prev L.Tax	Curr L.Tax	%
CHARLES STREET	7441343	\$372,000	\$446,400	\$2,277.50	\$3,765.50	65.33%
CHARLES STREET	6672211	\$329,000	\$394,800	\$1,722.00	\$2,733.50	58.74%
ST JOHN STREET	6681150	\$327,000	\$392,400	\$1,711.00	\$2,685.50	56.95%
ST JOHN STREET	6682284	\$400,000	\$480,000	\$2,837.50	\$4,437.50	56.39%
BRISBANE STREET	6668925	\$423,000	\$507,600	\$3,297.50	\$4,989.50	51.31%
YORK STREET	6686533	\$355,000	\$426,000	\$1,937.50	\$3,357.50	73%

Some points to understand include the following:

Launceston revaluation was undertaken as at October, 2004.
The adjustment factor adopted for 2008 is 1.2.

The first example illustrates that, as a result of the 20% increase in adjustment factor, this has caused a 65.3% increase in Land Tax over the period of time. This compares with the increase in line with inflation of 10%.

The scenarios presented indicates a situation whereby, if a tenant is responsible for the Statutory outgoings of Municipal Rates and Land Tax, then they are burdened with this increase in the Land Tax in excess of Inflation. The Net rent of the Property owner is not effected

In scenarios of Gross rents, the property owner is encountering a reduced income if rents are only increasing in line with CPI, resulting in potentially a decrease in the value of their property. In some cases, it appears ironic that the Valuer General is indicating increase in the Land Values by a 20% adjustment, yet the reality is in fact, a potential reduction in the value of the property.

Leases are starting to deal with this issue, in capping the levels of increase in Statutory Outgoings, but the reality is that someone is being burdened by Statutory Outgoing which are increasing at levels in excess of inflation.