Proposed Victorian Property Tax Changes 2023

The likely effect on property stakeholders.

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SUBJECT: **Long list of affected stakeholders to suffer due to State Budget Measures**

The list of affected property stakeholders likely to be disadvantaged due to the Victorian State Budget continues to grow, according to in-depth analysis by Victoria's leading Independent Valuation firm, Preston Rowe Paterson.

Stakeholders in the investment and development real estate markets in Victoria have been dealt another blow with the Victorian Government's recently announced revised and additional property taxes, some of which will be temporary for 10 years until the Government's COVID debt is brought under control.

The first blow to many property owners came with the onset of Covid lock downs in 2020 with the impost of Commonwealth Government ordained, State Government legislated and landlord funded rental waivers and deferrals that had all the markings of World War Two and Great Depression like rent control. Property owners were in part funding Government stimulus at the time.

But with the recent changes announced in the Victorian Budget, the net has been cast much wider. Not only owners but also potentially tenants are being called upon to delve into their pockets to repay the State Government COVID debt.

The impacted stakeholders will not be limited to property owners this time, Greg Sugars CEO of Preston Rowe Paterson, said. "These tax reforms will not only impact owners but potentially tenants as market rentals could be affected in addition to capital values, depending on how outgoings are recovered in pre-existing leases."

When we think about commercial office, industrial and some retail leases subject to a net lease, the tenant pays a net rental plus outgoings including statutory outgoings. In this case if the new taxes fall within the existing lease definition of outgoings, the tenant will pay forced to pay more, potentially pushing lease rentals above market rents. On the other hand, if a lease is a gross lease where outgoings are paid for by the landlord from the rental tenants' pay, the resultant net rental will be less and when capitalised the properties market value will be less.

For many investors, both commercial and residential, where they had previously been below the $300,000 Land Tax threshold, they are now faced with the impost of Land Tax as the threshold has reduced to $50,000. This will need to be adequately dealt with in future commercial leases. The increase in Land Tax for General Taxpayers with holdings over $300,000 and for trust taxpayers with holdings over $250,000 of $975 plus 1% of land value over $300,000.

Mr Sugars explained "a huge number of residential strata titled properties, which previously were exempt from land tax will now fall under the new threshold and become subject to the tax for the first time".

It's not just investment property that is impacted Mr Sugars said. "Land Tax is a cost to development as a holding cost, not only whist waiting to achieve development approvals after a site has been acquired, but also during construction until the project has been sold. Therefore, development site land values will be impacted. We already know development approvals are at their lowest in 4 years and that, combined with rising interest rates, the supply of development land will continue to be an issue in a market where we need more land supply to meet population growth."

The affected stakeholder net is wider again Mr Sugars said. "Most landowners (investors and developers) borrow to purchase properties from various types of debt providers including bank and non-bank lenders. The loan amount is usually considered as a percentage of the market value Loan to value ratio). So, most lenders will be anxious to test the likely impact on market values", he said.

With a residential rental crisis already testing Victorian residential tenants, Sugars said. "We already have record low vacancies, increasing residential rental prices, in the order of 11.5% year on year in Melbourne and 4% year on year in regional Victoria. Add to this the expected population growth due to increased immigration over the coming years, lower housing starts and lower dwelling approvals, and we cannot see the crisis abating for quite some time. We have no doubt that Landlords will move to pass the increased Land and Property Tax burden onto tenants in the residential space as is already happening in Queensland following that state's announced Land Tax changes.

Mr Sugars said that Preston Rowe Paterson's Victorian valuers are already advancing plans to take into account the impact of the changes in their Market Rental and Capital valuations.

ENDS

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About Preston Rowe Paterson (prp.com.au:

Preston Rowe Paterson operates from 34 locations in Australia & New Zealand (including 12 in Victoria) and specialise in independent property valuations of all commercial and residential property types. Our thought leadership and professional capabilities are recognised and utilised by a wide range of clients including those from the Government sector, ASX listed companies, allied services and the general public.

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