

# ACT Govt targets lease loophole

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The ACT Government is moving to stop developers from avoiding millions of dollars in fees when converting leases from one use to another.

Critics say under existing change of use charges, developers escape paying huge fees by contesting new land valuations.

But the property sector fears the proposed new codification will create fees so high it will stop redevelopment.

They warn the Government's latest action plan for Civic of \$1.5 billion worth of private-sector investment and doubling the inner-city population to 10,400 by 2016 won't be achieved.

Instead, the ACT would forego additional rates, stamp duty and land taxes because redevelopment would come to a standstill.

Under the ACT's unique leasehold system, a leaseholder who adds value to their lease by changing the land use, for example replacing a house with units, pays a fee on the new valuation.

On bigger projects, developers' estimates of changed land value can be millions of dollars lower than the Government's estimate which are based on Australian Valuation Office calculations.

This leads to lengthy mediation and disputes in the Administrative Appeals Tribunal.

The Government has engaged **Macroeconomics** to develop a new codification model. A draft is due out in a fortnight.

The lead consultant, the ANU's Professor Des Nicholls, will not comment on the issue until then.

Initial codification drafts have horrified the ACT property sector.

However some, including a valuer who declined to be named, said changes are overdue because of the huge differences between valuations.

He said instead of using a simple formula based on recent sales to calculate valuations, developers use feasibility studies and hypothetical scenarios to prove lower valuations and therefore significantly reduced change of use fees.

Developers can add thousands of square metres to a redevelopment and pay little or no fees.

“Why would a developer do a development that is not worth anything to them?” the valuer asked.

“They have been saying the after-development is not worth anything more than what it was before development.

“It is absolutely ridiculous. They've been getting away with it for years.”

The proposed codification is also expected to stop developers from using off-site works associated with redevelopments – such as road improvements, installation of new services, or car parking – as an offset to change of use charges.

An ACT Property Council spokesman said the council was keen for ongoing dialogue with the Government “to ensure the goose which is laying the golden egg for the Government in Canberra is not somehow thwarted by short-term policies.”

“[Redevelopments] are propping up the school, the local centre, local shops, and doing something to achieve the Government’s target of 50 per cent growth within the existing urban boundary, which means greater use of roads and so avoid urban sprawl.”

CB Richard Ellis Canberra managing director Nick McDonald Crowley said without the incentive of making money, developers would not be in the business, nor would the city progress.

They did not have a bottomless pit of money, nor could they or their financiers risk urban renewal projects if up-front charges were too steep.

“The added value to the lease through the lease variation process, particularly when we’re talking about residential properties, is not that great, otherwise every house block in north Canberra would be a dual occupancy.”

Change of use fees of about \$5,000 for a dual occupancy housing development could rise in inner suburbs such as Forrest to \$30,000, because of higher land values.

Mr McDonald Crowley said this was unfair because the leaseholder had paid the higher value up front when they bought or inherited the lease.

Change of use fees have generated \$5 million-\$10 million annually over recent years.

Mr McDonald Crowley said in some inner areas, fees would rise tenfold on draft figures he had seen. ACT Master Builders Association deputy executive director Jerry Howard said codification would work if fees

were sensible, but there was a suspicion they would be raised to the extent of being a disincentive.