LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON PUBLIC ACCOUNTS

(Reference: Inquiry into commercial rates)

Members:

MRS V DUNNE (Chair)
MS T CHEYNE (Deputy Chair)
MS B CODY
MS N LAWDER

PROOF TRANSCRIPT OF EVIDENCE

CANBERRA

THURSDAY, 7 FEBRUARY 2019

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Secretary to the committee:
Dr B Lloyd (Ph: 620 50137)

Submissions, answers to questions on notice and other documents, including requests for clarification of the transcript of evidence, relevant to this inquiry that have been authorised for publication by the committee may be obtained from the Legislative Assembly website.

WITNESSES

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Amended 20 May 2013

The committee met at 2.30 pm.

RANDELL, MR GUY, Member, Commercial Committee, Real Estate Institute of the Australian Capital Territory (REIACT)

THE ACTING CHAIR (Ms Cheyne): Good afternoon, and welcome to the second public hearing of the inquiry into commercial rates by the Standing Committee on Public Accounts. I regret that two of our members are absent from the committee today, including the chair. I will be acting chair. We are very grateful to have Ms Lawder here as well. I can confirm that we can receive evidence with just the two of us here.

This afternoon we will be hearing from Mr Guy Randell, from the Commercial Committee of the Real Estate Institute of the Australian Capital Territory (REIACT), and Mr John McGrath, proprietor of John McGrath Holden.

Today's proceedings will be webstreamed, recorded and transcribed, and the transcript will be published. Before we start, I advise witnesses to note the pink privilege statement that is on the table in front of them. If witnesses are asked any questions that they are not yet ready to answer in hearings, witnesses may take them on notice and liaise with our committee secretary, Dr Lloyd, on how the questions are to be answered.

Before we begin, Mr Randell, can I confirm that you have read the privilege statement and acknowledge it?

Mr Randell: Yes, I have read the statement.

THE ACTING CHAIR: Do you have an opening statement?

Mr Randell: Not as such.

THE ACTING CHAIR: Thank you very much for appearing today. What feedback has REIACT received from property owners and lessees in relation to commercial rates and commercial rate increases in the ACT?

Mr Randell: We have received numerous responses from landowners, and from tenants as well, about what their current rates are, where they have been previously, how it is affecting their businesses—owner-occupiers, tenants; that comes along the way as well—their overall status as to what it is doing to their business, and the flow-on effects of whether they have a tenant in that business or not, their land, and the valuations of their land, and subsequently rolling on to the actual valuations of their property as well, from the increased rates and charges.

There are numerous parts to that which have come out. A lot of it has to do with the compounding factor of the different rates and charges and how they are being valued, and how that is then compounding year on year, and to their bottom line, all across. I will give some examples. For instance, especially in the industrial areas—Fyshwick, Hume, Mitchell and Phillip—we are seeing buildings being valued off the highest use of land that has sold previously. All other land in that region is then being revalued. It is for a use that may never have come about. It might be a residential use that it might have been valued off. It is a land residential valuation, but they are land commercial rates, which are nine times higher than residential rates. So they have a compounding factor there.

The next thing that is hitting them is that a lot of them are gross leases, and some of them are long-term leases. A gross lease is where the owner of the property is responsible for all of the outgoings—separately metered services such as electricity and gas. They are seeing the increase, and these have increased since 2012-13. We are seeing increases in their rates of between 3½ and 5½ times; they have gone up.

Through Fyshwick, Hume and Manuka there are a whole range of different ones that we have evidence of. There are outgoings in our city, on average, of around 50 per cent of their gross income. That has been taken into account before they even have the opportunity—when they have mortgages on those, and the interest is then charged to them as well.

Properties in Fyshwick that have gross rents of $45,000 are paying $16 ½ thousand in rates. That is comparable to a unit in Queanbeyan, with a figure of $143,000—over 3½ times the actual gross rent—which has outgoings of $8,600. Along with that, we have a compounding element of those people getting to a stage where they need to sell their property, or even just get it revalued, because the bank has asked for a revaluation. The revaluations on those properties are then coming in lower than what they can actually sustain, or the building values have been lowered. With their leases, their rates are increasing, but the rents have not increased. Rents have not increased in these sectors since 2010. For 2019 or 2010, the rents are staying the same.

When I look at these zones and then look at the government's objective for these zones, if we look at an IZ2 zone, which is predominantly Phillip, the objective is to meet the need for a mix of lower rent, bulky goods retailing and specialised industrial, commercial and services activities, alongside general industry. So rents have not been changing. They are not changing. They are not going to change in those regions. Tenants simply cannot afford it, because they have to provide low cost services—whether it is changing tyres, providing pet supplies, low IT industries, low service industries, car yards, or whatever they may be.

The valuations have been the compounding factor on that. If someone sells a property, with the latest property to be sold in Phillip—wherever it may be—it could be a private sale that has gone on, and the valuation is then obtained off the deemed value. They will give a deemed value for the building. I do not know how the methodology is done by the valuers there, but they will give a deemed value of the building, which is not working out to be the actual cost of that replacement, for them to build that building in reality.

The residual amount ends up being the land value, which ends up being a lot higher than what it should be. The surrounding areas are then being hit with that higher valuation. With some of them, we are talking about 2½ to three times their initial rates over the last three years.
We have examples. Today we met with an air-conditioning firm in Fyshwick, just a

mum and dad operation, who have had their rates go from $16,000 to $80,000. It has now pushed up. They are really struggling with owning a business and employing people.

THE ACTING CHAIR: Is that because there is a nearby property that has been—

Mr Randell: Yes, and that has had a lot of factors. With the ACT government's monopoly over the land release program, they will also sell a block of land somewhere in a certain suburb for the highest price and the highest use. The highest use is always residential, and it is valued at 100 per cent. Unless there is 100 per cent use of residential on that land, it is always valued as a commercial rate, which is then given nine times the rates that residential sat at. And commercial might only be a small component of that. That is another argument around the apportionment of the rates on a block of land as well.

THE ACTING CHAIR: Please keep going with your example.

Mr Randell: What was my example?

THE ACTING CHAIR: An air-conditioning firm in Fyshwick.

Mr Randell: Yes. They run that operation. We have other areas. I will not name the area because I do not want to affect any of the retailers there. We have one area which is a new precinct in Canberra. In the last three years we have had 14 administrations or closures of businesses. We have three that are vacant since occupied, out of 34 tenancies. And it is not on the landlord, because the landlord has net rents. With those net rents, all of those out costs are getting passed on to the tenant.

The tenant is mum and dad. The tenant is the guy who has put all of his life savings into a business, whether it is a franchise, whether it is his own coffee shop, restaurant, or hairdresser, or the lady who wants to open a beautician business. There are numerous ones, from supermarkets to cafes, bottle shops, hairdressers, bars, restaurants, coffee shops and gyms, who have closed and have not been able to pay the rates. It then falls to the landowner, who still has to maintain that, even though they have long-term leases in place.

I was speaking to another one in Braddon today—a shop. I will not name what it is. Basically, they said, "We need to hand back the keys because we can't physically pay the increases in rates and rents," because it has been pushed on to them. They were a business that was there for a long period of time. They cannot physically maintain the additional charges.

It is compounding. We still do not know when that end date is, either. Some of these units have averaged, over the last six years, 18 per cent increases year on year on year. When you start getting up into the bigger value land, there is a high proportion on that. They then compound. If you have someone at $500,000 who has already gone to $2 million in their land rates, it is phenomenal how that compounds year on year.

THE ACTING CHAIR: You touched on vacancy rates in a specific precinct. What has been the effect on vacancy rates generally across the city?

Mr Randell: The commonwealth government are a perfect example. The commonwealth government now are requesting that we have gross leases. When they come into the market in the ACT, they only want gross leases. That is a fair indictment of how a very sophisticated landowner and business operation is understanding the environment in the ACT.

There are less unsophisticated arrangements, especially in the retail environment. The retail environment is a net lease operation. That is where all outgoing associated costs are pushed to the tenant, because they have high volume traffic. Where we do not have that—we are not a major metropolitan city—a lot of businesses are taking the opportunities. But that is really hurting them. And then some of those vacancies that we are seeing next to them are just not getting leased, because they see other businesses that are failing next to them.

What we are now seeing is transition to increases in outgoings in the base year. The base year will be set this year and then the tenant will pay the increases over that. The tenant knows that they have a 10 per cent increase in rates coming this year, next year and the year after. That has a flow-on effect. Most of this environment is now becoming a strata title environment off the bases of the crown leases, with a mandatory requirement for commercial in a lot of places as well.

Then we are adding the initial cost of the body corporate fees as well. Body corporate fees are going. In the last weeks and months, we have had meetings with body corporates who have gotten together to see how they can lower their body corporate fees: how they can remove and reduce their sinking funds, how they can remove other costs and charges, how they can combat the issue of the rates charges.

I know other people from the strata council have represented that, but in the years to come we are going to see some effects: how those have eroded because of the maintenance, the capital works programs. They just cannot afford to spend them. They cannot afford to pay the rates and charges now. You are spending 50 per cent, plus all your outgoings and your income. If you are on a gross lease, that is only going up year on year with increases. Your rents are not going up. That is where it is really hurting.

MS LAWDER: Can I just go back a step and understand the way you collect that kind of information for your membership? Some of it is anecdotal.

Mr Randell: Yes, absolutely.

MS LAWDER: In appearing before this committee, did you go out and seek input? Was that verbal, written or a combination?

Mr Randell: Yes. We sought written input. As a representative of a commercial real estate agency, we obviously already have a lot of data internally from putting our clients' properties up for lease, up for sale. We have mapped those increases over the period of time. We have got evidence from members themselves who have provided it. And then there is anecdotal evidence. I am not a valuer or an expert in that region, but it is just evidence for 2012-19 showing where their rates and charges have gone and where their full costs are.

MS LAWDER: You talked about the compounding factors and all sorts of very useful information. Did any of your submissions touch on the human impact—families and people’s lives?

Mr Randell: Yes, absolutely. The written submissions did not, but in verbal form they have. We have had numerous people represent to us the impact that that has had on their family life. They have had marriage breakdowns; there have been all sorts of things. There are the costs. It is massive financial stress, especially from the business point of view.

Landowners recently—including several in Fyshwick—have expressed it to us again. Sometimes we are in the process of trying to lease their properties when that is their only property. They are mum and dad. They might be grandfather and grandma. That is their superannuation fund. They have a property that they have owned for 20 or 30 years. There is now a massive rates valuation change for them. It costs.

And they are on gross leases, because they are not in a position where they can get a net lease in the type of environment or type of building they have. The building might be a tin shed. It might be an old commercial bulky goods building. The value of that property is not ever going to exceed a certain price. It just will not, unless you have a very strong net lease ASX-listed tenant in there that is going to allow them to get a sale value out of it. They are now fighting. Their pensions are just decreasing because that is their only source of income. They have been property owners and they have several, but they are just decreasing year on year.

MS LAWDER: You may be an owner-occupier of a business, if you like. Some people have suggested to me that your property is now worth a lot more, so that is a good thing. How do your members—

Mr Randell: The land value does not correlate to the property value. The property value simply comes from the lease terms or the value you can derive from the business or the building that is actually on that land. If you are leasing that property, rather than being an owner-operator, it depends on the type of lease you have: whether it is a gross, net or semi-gross lease. That determines that.

What happens if your outgoings are consistently going up and you cannot pass that on to a tenant? I will go further on that. When we have our tenants as well, we are finding that where we have vacancies we go to the government to try to get another use on it. It might be industrial use; it might be whatever. We try to get medical, an office or something in there because we cannot lease that property. That then triggers a lease variation charge, which is doubled as well. And we are not getting any more rent. We are not getting any more value out of the building. We are simply getting the building rented and actually being able to afford to pay the rates and charges and taxes going forward. There is no extra value in that building.

We are actually seeing devaluations of buildings, because rents are not going up but charges are. That is just simply from an economic point of view. If you are not getting as much in your pocket, there is the valuation of the building. Compounding that, we are seeing with bank valuations that the lending criteria have tightened significantly, so we are getting lower LVRs, land valuation ratios, as well.

Child care, for instance, is now sitting at 50 per cent. If you want to buy a childcare centre, the bank will only give you 50 per cent. But then the value is also discounting because of the increased costs and charges. They are discounting on occupancy as well. With a recent one, 48 per cent was the highest they could get. The building sold for $5.7 million. The bank gave a valuation of 4.8. And they will only give 48 per cent of that 4.8.

People have to come up with a lot of cash, capital, to be able to still buy a business. Unless their increases are high enough to combat and offset the rates and net charges, they have a diminishing asset. The valuation of the building is still not going to go up any further.

THE ACTING CHAIR: How has this affected confidence in the market?

Mr Randell: Look, it is interesting. We have the stamp duty reductions under $1½ million. That has been great, and it should be. But we do not have any reduction on stamp duty at all for anything over that product. What happens if you are not buying in that $1½ million product range, if you are buying something as an intended investment and you are very smart about how you do that? If you are going to buy under that $1½ million threshold, yes, you might save up to $70,000 in stamp duty, but if you do not have a long-term net lease in a very good location, it is not necessarily going to be a great asset to buy if you are going to be having increased charges at a phenomenal rate comparative to New South Wales.

Compare that to Queanbeyan, across the border. We have big estates now where we are seeing more investment going into Googong, Queanbeyan, Yass and surrounding regions, where it is a much better and more controlled environment, where rates and charges are done by an independent committee and are rate pegged every year. You can almost guarantee where you are going to be year on year on year. I think this year there was a 2.7 per cent increase. An independent committee does that.

We are seeing more and more investment. We are going to have the release of south Jerrabomberra coming up soon. It is going to be an absolute goldmine to go there—not a goldmine but an absolute preference for an operator, a mum and dad business, to go and set up their industrial, their retail, in that region, still with access to the ACT. We have ones that are 80,000, comparative to 12,000 in land tax just on your first outgoings, before you even build a building. It is a big incentive to cross the border as well.

My company specifically has investment all around Australia. We sell Canberra properties to the Australian market. The only way we get those properties away is if they are fully net, tucked away leases that have long-term quality clients, generally with ASX-listed national companies. That is when they are doing really, really well.

THE ACTING CHAIR: Do you think people will generally have an understanding about how we are applying taxes in the ACT when they look to invest here?

Mr Randell: No, I do not think they do.

THE ACTING CHAIR: Is it more common that they are learning about what our system is after they have made the investment or are they learning about it and then going, “Actually, no, I’m not going to invest”?

Mr Randell: Yes. There is more and more media around it, absolutely. If you look at the national tenants, they are more sophisticated. They are looking constantly for gaps in every region in Australia where they can put their product. They are becoming more and more sophisticated about how they negotiate their leases. They are not stopping them coming into the market but they are devaluing the value of them being in the market for any land owner. Most of those costs are being put back to the land owner, which then diminishes their asset. And sometimes they really struggle to get the finance to build, especially some of the bigger supermarkets or anything like that, actually to get the finance to build because you get a lot of cost impost on that.

THE ACTING CHAIR: What region has been the hardest hit?

Mr Randell: It is all of those regions that are defined as lower rent regions in our Territory Plan on our commercial zones—your IZ2s, your IZ1s, your CZ3s and especially your CZ6s, which is just leisure and accommodation. It is indoor rec; it is gyms; it is really low rent areas that just physically cannot sustain those types of ventures because they cannot draw a rent. Nobody is going to be starting to pay $100 a week for their gym membership or pool.

THE ACTING CHAIR: There is not a lot they can change.

Mr Randell: We cannot be having pool charges at $25 a visit. It can never change. It never will. The rents have not changed on those sorts of premises for the past 20 years almost.

THE ACTING CHAIR: They cannot change their business model to—

Mr Randell: No. Our industrial areas especially are struggling. They are really struggling because the land valuation that is being applied to them and the methodology, the compounding factor that is doing it, are not fair and just for those areas. Yes, they might have a residential use like a CZ3 does—it has a residential use on its own—but those premises have never been residential; nothing around it is residential and never will be residential. But someone up the road changed it to a residential, which has an impact on all of their land valuations. That is where we are starting to see real problems, and there is no end in sight.

My view is that a moratorium on commercial rates right now is still not good enough. That is not going to avert the problem that is happening and that we are going to see. Commercial developers, owners, are always being considered to be the big end of town but that is not whom it is affecting here. It is affecting them big time. It is affecting their employment; it is affecting everything that is coming to market—the closures of businesses. Everything that is going on now is affecting the economy.

There are 500-odd DAs still sitting in the planning authority not being able to get approved, which is billions of dollars of economic outcomes to the ACT government that should be happening right now but we have got a massive backlog. We have got a lot of people who have got land sitting there getting big charges on it that they are still struggling to get either to market or on the market and sold and built on because we have still got—

THE ACTING CHAIR: You are not the first person to tell us this.

Mr Randell: It is phenomenal. We should be putting resources to those types of projects which are not great. If someone is away, we are in big trouble. I have got a client from Sydney who has got two childcare centres he is trying to build here. It was 860 and X amount of months ago and now he is saying, “Good, now I am down to 400 and something”. He was happy but he knows it is still a long, long process. He has had that land sitting there waiting.

THE ACTING CHAIR: Do you think there is also a problem with resourcing in the valuation section of the ACT government as well?

Mr Randell: I am not a valuer. I do not purport to have any expertise in that sector. It is only from our day-to-day job and learnings that we understand it more, and talking to our valuers and getting anecdotal evidence. My personal view is: there is a conflict of interest in that. I think the valuations should done by be a valuer-general. It should be an independent body; it should not sit within treasury. The rates review should be similar to New South Wales, which should be an IPART, which is an independent committee that actually values and looks at those. It has removed itself from government and it is an independent body that can look at all aspects.

We are not saying anything about individuals, qualifications, skill levels and their integrity or anything like that. It is just that those elements should be removed, especially from treasury. You might not own property; you might not be involved in property development; you might not have seen the impact on mum and dad of their own ownership. It just needs to be seen to be an independent authority.

THE ACTING CHAIR: The solution there is not so much about resources but about making it independent?

Mr Randell: Yes. I do not think on the valuation part it has been a resource issue. It is more on the development application point of view.

THE ACTING CHAIR: Whereas that is a resource issue?

Mr Randell: Yes. And then it is looking at the actual methodology around how land is valued.

THE ACTING CHAIR: And what do you think should be the methodology?

Mr Randell: Another factor in that and yes, one of those things should be that we should not be valuing on what the theoretical use of a development should be; it should be on the actual use of the development. If someone has a commercial building in the middle of Braddon, in the middle of Phillip—it does not matter where—and they have looked to change the use to be residential, I think they are all in agreement that there is nothing unjust about that use and that higher valuation and everything should kick in when that use is activated, not when the change of use has happened, because that change of use may never happen.

They have simply given themselves an opportunity to do something different if they have to, because we do not know what the environment is going to be in two, three, five, 10 years time that may preclude you from having that option. But nothing has changed in the valuation of that land. Absolutely nothing has changed. That is one.

Yes, it is looking at the deemed value. We have got the valuers on the private side giving you bank valuations that do not marry up to land values and we are getting deemed values on buildings. They will give you a building valuation and then there will be a residual land value which comes out of that and which you could actually sell that building for, where we have got a building being sold and then a theoretical deemed valuation has been given to it—and John is coming up next and he can talk a bit more to that as well—and the residual is then given to the land value, which does not quantify the actual value of the land. Everything around that is then being revalued to that.

Even though their land has not changed in 20 years, 30 years—nothing is ever going to change—they cannot really do anything more with that land. They cannot go up. Even if they did, it would be too prohibitive because they would have to knock down the whole thing. They have got gross leases, they have got long-term leases in place. There are impediments that that land value is never going to change. I do not think anyone is disagreeing that the value of lands will increase, will go up. But they just need to be in a fair and equitable process.

MS LAWDER: Earlier you touched on the lease variation charge and you said that has also increased, which is a fact. We heard some evidence from other people who have appeared before the committee that in some instances there has been a change of use, a lease variation charge, and sometimes four or five years later people have been hit with retrospective rates increases. Have you heard anything about that?

Mr Randell: Absolutely, yes.

MS LAWDER: And can you give us some examples?

Mr Randell: We have got one today. From four years ago they got $100,000. Another one had two hundred and something thousand dollars. Where they are net leases, you have got to think of this impact. That net lease then gets put back to the tenant. A tenant who is in an industrial area, who is running their tyre shop, for instance, all of a sudden gets a rates bill for $100,000 that they need to pay. That could be two or three years for them in rent that they normally would have been paying. It is like, “Hand over the keys, shut the door.” You have to come up with ways to then pay that.

Generally it is the land owner who is having to default, which means he has lost 2½ years rent and that sort of thing. Obviously figures need to be given that show that but what I am saying is that it is having a massive impost across the board. There should not be backdating of charges and I believe there is interest—I will have to confirm that with you—as well on those charges.

MS LAWDER: If you could take on notice whether there is interest as well.

Mr Randell: Yes.

MS LAWDER: In an example like that—you do not have to name specific businesses, but in that kind of scenario—presumably it would have been the owner that applied for a lease variation for some reason?

Mr Randell: Yes. A lot of the time it is because they have not been able to lease the property. Especially when you are looking in places like Fyshwick, Mitchell and the industrial areas, or even when you have C-grade buildings—really old buildings that you have trouble with—you have to find other uses that are going to help you to get them leased. Having a place not leased does not help the community in any way. It does not offer jobs, it does not—

MS LAWDER: If you have a largish site and you perhaps had three or four tenants in the one site, you change the lease variation for the whole site; is that correct? Would all tenants then be slugged with the back pay or just the one?

Mr Randell: It depends on what their lease terms are. As I said, if it is a gross lease, it rests with the landowner. If it is a semi-gross lease, it would rest with the tenant and if it is a net lease it would rest with the tenant as well.

MS LAWDER: It is difficult no matter who you are, really.

Mr Randell: Absolutely. It is about the devaluation of the building as well and of your income. If that is your only source of income, if you are a property owner and that is your only source, and you have had that property for a long period of time, which is the case for most of the Canberrans who have built this city, who have employed hundreds or thousands of employees across the board, and if that is your only income going forward, it is a massive struggle. It might mean that you do not have income for that year at all.

MS LAWDER: For those people who may have a vacant property, in some cases it may be for two years, five years, or maybe more in some instances. Another person or two who have appeared before the committee said that in some cases it may be better to leave the property vacant and say it is rentable for bank purposes. Have you encountered anything along those lines?

Mr Randell: Yes, absolutely, because the cost to build and the charges outweigh the return. Then there is the capital that you have to come up with to actually build on that land. At the moment it can be better to pay the exorbitant charges and leave it there vacant, waiting for something to happen in the future, or waiting for someone to come along and say, "I have the capital to do something, and I want to pay you for your land." It is generally not going to be at a premium because if it has sat there vacant, it is not at a premium.

MS LAWDER: Have you had examples of that, where a tenant may face an increase and say, “I can’t afford it,” and the owner says, “You’ll have to go”? We have heard one example where—

Mr Randell: Tenants are saying, “I need your help. What can we do?” Even though you have agreed in good faith, you have had those commitments over a long period of time, they want to be there and you want them to be there, you have to work out that somewhere, someone is paying for it. It is either that someone’s income is being diminished or, on the other side, someone’s business is being diminished. Either way, that is the reality of the outcome.

MS LAWDER: In a glib sense, some people have suggested that people just need to sell more or provide more services. Is that a viable option?

Mr Randell: No. How? We are in a struggling retail market. Look at all the evidence in the retail market at the moment. Australia is not in a growth sector in that retail market, so people do not have the disposable income.

It comes down to individual businesses. Are you a great business? Are you a destination? Or are you someone that has been there forever? Why should you be penalised when you are a business that has been in operation for 20 years, 10 years or five years? You are doing well, you are making an income for you and your family, but charges have come along and become so exorbitant that you now have to close your business.

That should not be the case. We should be building those businesses up, because a lot of employees go with that as well. There are a lot of jobs. A lot of economic outcomes come in to the territory because of that. It is heartbreaking, because from my point of view, I am on the leasing side; I am on the sales side. If you lease to someone and that goes bad—I am not just a real estate agent; I am a human being. I have all my own things. I have my own family. It is absolutely heartbreaking. You hear people’s stories and they come to see you and you think, “What’s going on?” It is not a great environment in that respect.

I do not think there is one landowner in Canberra who is not opposed to the current process and how it is going. It is not like people are just accepting it. They are not accepting it. They are really struggling. They really do not see the outcome as to where it is going. It has already gone too far. With the price that we are paying, as I said, 50 per cent of the outgoings on your premises are rates and charges. You have not added on other costs as well, such as insurances; you then have to add on your actual mortgage. If you have a mortgage, and you are up to the hilt, that is a tough bit to swallow.

Across the board there needs to be some real industry participation from industry bodies, from landowners, from tenants, from everybody, to work out solutions to this. I think there have been some great solutions raised by many different bodies about how this could be done on a fairer and more equitable basis.

THE ACTING CHAIR: At least one of the witnesses yesterday described this as the biggest issue affecting the sector. Would you agree?

Mr Randell: Absolutely, without a doubt.

THE ACTING CHAIR: Does anything else come close?

Mr Randell: No, not even close. This is all that our clients, and the industry, are talking about. I represent on several bodies as well, and this is how we are combating it, by saying, “How can we come up with solutions to this?” And we are not opposing increases. We are not opposing fair charges and taxes, but it is actually stifling the industry. It is a real struggle, and it is the number one factor. But from a political or media point of view, commercial is never really seen, because it is always seen as the big end of town. That is not the reality. The reality, that the ACT government said that 70 per cent of properties are all under $1½ million in the ACT, gives you a really good indication of who owns those properties. The majority of those properties are not owned by big guys, and they are paying more than their fair share, absolutely. That is then stifling more economic outcomes for Canberra, because they have an opportunity to say, “Do I develop in Canberra? Do I develop somewhere else?” When they know their rates, charges, taxes and land costs will be cheaper and their outcomes can be better, of course they will do that.

THE ACTING CHAIR: Could I clarify what you said before? I know you said that a moratorium would not go far enough in terms of resolving the problem.

Mr Randell: No.

THE ACTING CHAIR: Also, you have said a few times that the industry is not opposed to increasing rates charges. Are you able to close the circle for me on that?

Mr Randell: What I am saying is that the increases now have already gone too far. If we look at what has occurred over the past five years to three years ago and where we have gone, I have some here—

THE ACTING CHAIR: So it is about not being opposed to increases year on year, but the way it has happened—

Mr Randell: The way it has happened, and right now we have got to a stage where it has affected so many parts of industries, and the property industry. One in seven employees in Canberra and Australia are from the property industry. I think it is the case that 56 per cent of taxes are paid by the property industry. It is quite hard—just the amount of volume that is going in. There is not a problem with us paying taxes—I am saying “us” but representing the industry. It is just about having that fair and equitable environment. It is about having all parties working together to make sure that that occurs; then there is a good outcome going forward about how valuations are done and how the charges are applied.

We do not know what next year’s rates charges are going to be. I think we were already at nine or 9½ per cent, with 54 per cent on some property in 2013. A 54 per cent jump immediately is horrendous. Most of these properties are 4½ or five times now, in the past six years, as to where the rates were. As I said we have already gone too far because rents have gone nowhere. Rents have not gone up at all.

THE ACTING CHAIR: The market is not balanced.

Mr Randell: No, not at all. If you take into account the banking criteria, and people trying to put money in, with valuations, lower LVRs and less money being able to be funded, more and more cash has to come into it, and it has to come from somewhere, and that simply comes from slower development as well.

Another one is where we are trying to lease to someone. If we want to give them a net lease, because the owner wants to have a net lease so that they can be protected about all increases that go on in the future, it is compounded in another way because major, large incentives have to be applied for someone to take a net lease. That means we have to do complete fit-outs, and we are doing that right now on several projects; complete fit-outs are given to the tenant. The owner is not getting a return on their investment for five to six years, before they start making any sort of return. If the tenant goes great, we want them there, because they will help with the valuation because it is a certain tenant—a big medical provider that we know has a capital value attached to them. So it compounds in many different ways.

MS LAWDER: You mentioned that stamp duty reduction was welcome?

Mr Randell: Yes.

MS LAWDER: Stamp duty was described variously as a bad tax, an inefficient tax, et cetera. Changing the ratings, the way rates were applied, was one way to enable the reduction of stamp duty. Which is worse? Can you have your cake and eat it too?

Mr Randell: You are not getting your cake and eating it too, because people buying property under $1½ million buy one property. They might buy a couple, but the people who own the actual premises might never buy another property again. With the stamp duty reduction, it is only a small proportion of the community that is getting that benefit. Someone who owns a property may never buy a property again. Stamp duty reduction means zero to them, but they are paying 5.6 per cent a year in rates and charges. They are paying stamp duty every single year on their property—more than stamp duty. They could not care less about that reduction because they may not buy a property again. It is only a small number of people who are doing that.

People who are buying say, "Yes, thank you. I have to pay those increased charges going forward." Stamp duty now is allowing them to borrow the true amount. They will have to put the stamp duty in and they have to put the GST in; it depends whether they claim it back, whether they are a registered business. They still have to pay those on-costs over and above the value of the building or the value of the asset.

MS LAWDER: Potentially, for your small businesses, your mum and dad businesses and perhaps some super funds, the rates are the pain?

Mr Randell: Yes, and they are the people who are buying properties under $1½ million because it will be their investment. It will be their own business that they are going into; it will be a small super fund. We sell hundreds of them a year. That is the typical buyer who is buying that. They will buy in the ACT in that regard, over New South Wales, as long as they have the net lease or a protected lease in place. Or they may be a business that is sustainable: they know the environment and the rates are going to change and they have a very sustainable business and are an owner-operator.

Over 1½, that has not changed. There has been no reduction in stamp duty at all over 1½. That is where we are talking about the big value of stamp duty costs coming through. There has been zero reduction. It was about phasing it out. So there has been no reduction in stamp duty but massive increases in rates. And that was what it was not meant to do.

THE ACTING CHAIR: Where do you see the market and the Canberra economy heading if there is no change in the next five or 10 years? What do you think the future will be?

Mr Randell: That is just speculative.

THE ACTING CHAIR: I am not asking you to fortune tell.

Mr Randell: Look, I am speculative. The ACT has always had good fundamentals in terms of low unemployment, high wages and high disposable income. But there will be shifts. We are just seeing shifts where people are taking better options. Do I move to New South Wales? Do I move to Googong? Do I move to Queanbeyan? Do I move to south Jerrabomberra? Those places are selling, and they are selling very well. You know you have a foundation. If you are a mum and dad, you just put your kids in school. You might be working in the ACT, in the government, wherever it may be. You prefer to get into an environment where you can buy a house cheaper and all of that.

What is it going to do to the economy? I cannot tell. I know there are some drivers that are not hurting us. There is development. We want development and we need it. I think we can have some smarter development. We can offset costs by rebuilding cities, rebuilding the city centre. We can remove costs and barriers and LVCs if we get civic outcomes. If they build better streetscapes and landscapes, if the architecture is better, there are a whole bunch of different ways we can get the facilities and the outcomes that we want in the ACT without necessarily having to have an exorbitant rates scheme that has no end date to it.

THE ACTING CHAIR: Thank you very much for being with us and for speaking with us so candidly. I think you took one question on notice.

Mr Randell: Yes. It was on interest charges, on back charges on rates. I just need to confirm that. That was anecdotal from one owner, and I just need to confirm it.

THE ACTING CHAIR: Okay. You can liaise with our committee secretary in getting that to us. Thank you for appearing today.

Mr Randell: I appreciate it.

McGRATH, MR JOHN, Proprietor, John McGrath Auto Group
ARMSTRONG, MR ROHAN, Chief Financial Officer, John McGrath Auto Group

THE ACTING CHAIR: Thank you very much for appearing today. Our chair sends her regrets—she is unwell—but we can, as you have seen, accept evidence today with just the two of us. Before we start, could you please confirm that you have read and acknowledge the pink privilege statement.

Mr McGrath: Yes, I acknowledge that.

THE ACTING CHAIR: Could you please introduce yourselves.

Mr McGrath: I am the owner of the John McGrath Auto Group in Canberra. I have been a resident for 19 years, for which time I have owned the business. We run a general automotive retail business. We own about nine franchises and we employ about 300 people. You would call us the second or third player in the Canberra automotive retail market.

THE ACTING CHAIR: Do you have an opening statement?

Mr McGrath: Yes. I have two handouts I want to give you, if I could.

THE ACTING CHAIR: Yes, sure.

Mr McGrath: It will make things a bit easier when I am talking through it.

MS LAWDER: We like easier.

THE ACTING CHAIR: Thank you. Ms Lawder and I are both simple people, so having things in front of us helps.

Mr McGrath: Out of those 300 people, we also employ close to 50 apprentices. We have our own training facility at our Belconnen dealership. It could be said that most car dealerships traditionally require a large footprint. That makes rates a very important issue. And we normally locate on a primary or a busy secondary road; you cannot be in the back blocks to run a retail car dealership. That puts us pretty much in focus with high rates.

On the first page, the landholdings page, you will see the three Phillip dealerships. Rohan put all the rates as a square metre cost. The Phillip dealerships run at about $45 a square metre. Belconnen, Mitchell and Fyshwick are all around $15 a square metre. The rates in Phillip are basically three times higher than anywhere else in Canberra, on that automotive strip.

The other thing I would ask you to notice is that the second last Canberra property was 88 Prospect Court, which is part of the John McGrath Holden site, but it is at the back of the site. The rates there are $16.45 a square metre. Not only are Phillip rates higher but that Phillip Melrose Drive frontage has this extraordinary rate issue. Some other car dealers got into the press prior to Christmas talking about that.

Another thing I would like you to notice is that over our whole group the average rate—I have properties in Phillip, Fyshwick, Mitchell and Belconnen—is about $30 a square metre. On the table here, it says $29.68. I think that is a fairly good representation of properties in Canberra.

I would then like you to look at the bottom of the table, on the right-hand side, and you will see a figure of $4.23. That is for our properties at Queanbeyan and Goulburn, which I could sit here and honestly say are on busier roads than Melrose Drive. They are busy; more people drive past, especially the Queanbeyan one. That also includes land tax, because in the ACT the rates include land tax. But in New South Wales they are a separate item. I think you can see that there is a tremendous disparity in rates going on here.

What causes all that? That has been a pretty good question in itself. Since 2012, when land tax was put with the rates rate, the rating factor went, for us, from 2.61 for 2018 and 2019 to 5.17. The actual rateable rate is double almost. There are issues everywhere.

There is one last point on Melrose Drive which I would probably want to bring up, and that is for 174 Melrose Drive, which is the Ford corner or the old Pollock's corner, the corner of Hindmarsh and Melrose. Rates there have increased since 2012 by 135 per cent. That is about 19 per cent per year. Every now and again I get to read the newspaper, and I swear inflation is only two to three per cent. I might be wrong, but I just cannot see the justification for this fantastic rate increase.

The counterargument is that the valuations of the properties have gone up. Yes, they have gone up. We actually complained to the tax office about our valuation because of the tremendous increase we copped in 2016, I think it was, or 2017. We copped a hell of an increase in valuation, which explains probably a lot of the rate increase. Since 2016 there has been a 66 per cent increase in rates, and that is explainable by a 69 per cent increase in the valuation. That is how they have done it.

Generally, the other thing which I am here today principally about is competitiveness. At the end of the day we have a business to run and we have to remain competitive. I know all small businesses and medium businesses have been hit with some incredible price increases in the last few years. We are talking power; we are talking water. We can talk about a lot of different things. But rates are just one of the many things that have gone up well above any inflation rate.

Basically what I am here today to explain is that we are becoming increasingly uncompetitive. About 30 per cent of our business is done in New South Wales, and the more we do become uncompetitive, it is going to be harder and harder to compete in the New South Wales environment. The Canberra consumer will then use electronic media or all the other ways to get things cheaper.

Sometimes you may sit back and ask: "Is there a secret agenda to get rid of the car businesses out of Phillip?" when you see rate increases like this. It is a normal procedure by councils over the years. I have experienced it. If they want you out of a town centre, they just increase your rates. To me, this just smells of it completely, and

I think someone has to address this fact that, if they do not want car businesses on Melrose, at least give us a bit of courtesy, a couple of years notice or put a cap on the rates just to get us through to that time.

On that second page you will notice that in relation to 174 Melrose, with the increase in rates, our generated growth out of our business over that seven, eight-year period has only gone up 15 per cent. At the end of the day—I keep harking back to it and I apologise for that—we have to stay competitive in this environment; otherwise it is very hard to keep a large number of people employed. It is very, very hard. I just hope that the Assembly reconsiders what is fair value for a land rate.

MS LAWDER: Or the government, rather than the Assembly.

THE ACTING CHAIR: I am sure we can make some recommendations. Do you believe that particularly that 69 per cent increase in the valuation was justified?

Mr McGrath: With the land prices being generated, it probably is, yes. But I think they went too high. That is why we complained. I know on one of our blocks we were 3.5. It got valued at 8.2, and then Rohan spent a month putting a proposal through, and they pulled it back to 6.8. That is how that happened. I think there was a fairly substantial time delay between valuations. That seems to be one of their problems. They do not regularly update the valuations.

THE ACTING CHAIR: Yes, we have heard this.

Mr McGrath: It is always a fairly reasonable time period and then you get this—

THE ACTING CHAIR: And then some things end up being backdated?

Mr McGrath: And then you get this shock come over you.

THE ACTING CHAIR: Is that what happened to you?

Mr McGrath: I believe so, yes.

THE ACTING CHAIR: We have certainly received some evidence to that effect, that the time taken between valuations and then the backdating causes quite a shock to businesses.

Mr McGrath: Yes. But undoubtedly, when you look at the second page I gave you, it all started in 2012, this increase in rates from the 2.61 to 5.17 rating factor. You are doubling it in seven or eight years again. That has been the principal reason for rates going up, as far as we can see. At the end of the day we all have to pay our rates and taxes and whatever is fair is fair.

THE ACTING CHAIR: I think people do accept that. We do not like it, but we accept it.

MS LAWDER: It is a fact of life.

Mr McGrath: Yes. Like the Mastercard bill, you have got to pay it eventually.

THE ACTING CHAIR: I do not expect you to answer any of the questions if it means your answers have a negative effect on your business. Please do not feel compelled. You mentioned that the way that the rates are increasing is having an effect on the competitiveness of your business, which then has an effect on the viability and the number of people that you employ. Has that effect already started or is it more in your projections that you can see that that is where it will head?

Mr McGrath: I think we are at the start of it now. The car industry itself has been going through a lot of change since manufacturing in Australia stopped. I know the chairman of the Australian Automotive Dealer Association sent out a letter about 18 months ago with about 18 major issues affecting the car industry on a national level. Then you throw in a lot of local issues, such as rates and power and all that, and it really magnifies the situation. You can also throw in a banking commission as well. That creates its own set of problems. Yes, it is just one of many, many issues affecting us, and it is great to have the opportunity to explain it, may I add. But it does affect you.

THE ACTING CHAIR: We appreciate your being here as well.

MS LAWDER: Thank you for the table you provided; it is very useful to be able to see it. I like your comparison between the ACT properties and the New South Wales properties. In a general sense of the units that you sell, presumably cars, are they similarly priced in New South Wales to the ACT?

Mr McGrath: That is right.

MS LAWDER: Your revenue per unit is similar but your costs to provide it are more in the ACT; is that the general gist?

Mr McGrath: That is fair, yes. And significantly so.

MS LAWDER: A previous person who appeared talked about instances of more than 50 per cent of gross income being spent on rates and fixed charges like electricity and gas. Do you have a feel that it is at all useful for us to know what percentage of your income is spent on these types of charges? Have we already got that here somewhere? There was 3.4 per cent of gross, I think you said, for 174 Melrose Drive.

Mr McGrath: Yes.

MS LAWDER: Which has grown quite a bit over a few years, I think. On the page I am looking at, in the bottom right corner—

Mr McGrath: Could we do an analysis for you on that?

MS LAWDER: Yes.

Mr McGrath: I have not got a problem with that.

MS LAWDER: That would be great.

Mr McGrath: I will send that into you. We will prepare a table or have a little look at that.

MS LAWDER: Are there other factors that are more expensive in the ACT as well? Is it wages or anything else like that that also contributes to your higher costs?

Mr McGrath: Low unemployment is a fairly difficult thing for us. With our industry, it has always been pretty hard to advertise in the ACT to get a car salesman. If you put an ad in the paper for a car salesman, you do not get a former car salesman applying for the job. You get someone who has sold—

MS LAWDER: Entry-level sort of—

Mr McGrath: Yes, someone who has been at Harvey Norman or Telstra, selling telephones or something like that. You have to train them in the job. A lot could be said about motor mechanics. It is very difficult to get motor mechanics in the ACT, unless you train your own. Some dealers have actually gone on to the 457 visa program and that type of stuff. I tried it once. It was a disaster.

By having a lot of apprentices come through or by training, you fill up all of the positions. The mining industry love motor mechanics, and they just grab them. The ACT government love motor mechanics; they come and nick a few every now and again. The ACT government can be a very difficult opponent when it comes to employing people, because of their—

MS LAWDER: Good terms and conditions.

Mr McGrath: Their wages are phenomenal. I do not know how you can afford it. Obviously, it is through my rates! When you have untrained positions, the government certainly pay very well. Our big expense issue is people. At the end of the day, we employ a lot of people for the gross that we generate. I think you will find that for the average Australian car dealership—a good one—there is about a two per cent net return on sales. At the moment I think it is running at around a 1.2 per cent return on sales. Our industry is all based on turnover.

MS LAWDER: Also, I mentioned to the previous witness that some people have said, “It’s a good thing that your property is worth more.” Is that a good thing for you? Your property is worth more, so can you sell it, make a lot of money and set up shop somewhere else?

Mr McGrath: We do not want to. One day I have to be able to sell it. It makes it a lot more difficult, too. There is no real advantage to me in it being worth more. You then have to go and buy somewhere else and find somewhere less expensive; or move from Phillip to, say, Fyshwick or somewhere.

MS LAWDER: And potentially pay sales tax when you purchase.

Mr McGrath: Yes.

MS LAWDER: With your rates increases, you mentioned one example where Mr Armstrong spent a month or so putting in a submission and you did achieve a bit of a reduction in your rates. What were some of the reasons given for the large percentage increase in your rates?

Mr Armstrong: They did not have to submit back to us. They accepted that they had overshot on one property compared to the other.

MS LAWDER: Have you noticed many sales of properties around your area?

Mr McGrath: No.

Mr Armstrong: We were the last purchaser, of Commonwealth Motors.

Mr McGrath: In November. We had a valuation to back up what we paid.

THE ACTING CHAIR: What do you think is the solution? What should we be doing differently?

Mr Armstrong: Probably a lesser percentage.

THE ACTING CHAIR: What should we be changing with the methodology?

Mr Armstrong: If the land use is a single business that does not have multiple small businesses there that can share the cost—we are probably being charged the same rates as for a shopping centre. The percentage we are paying on the valuation is probably excessive.

THE ACTING CHAIR: I do not have any other questions. I think this is set out very clearly.

MS LAWDER: Yes, it is very helpful.

THE ACTING CHAIR: Do you have any other questions, Ms Lawder?

MS LAWDER: We have heard some other evidence of people having to pay retrospective rates. Has this occurred on any of your ACT properties?

Mr Armstrong: I do not think so.

MS LAWDER: That is probably a good thing.

Mr Armstrong: Yes. It is just that they went for 17 years without changing the valuation and then went straight from $3 million to $6 million.

MS LAWDER: Have you purchased or sold any properties in the past three or four years?

Mr Armstrong: Yes.

MS LAWDER: So you have paid sales tax, presumably, on those, as well as the increased rates?

Mr McGrath: Yes.

THE ACTING CHAIR: Thank you very much for coming.

Mr McGrath: Thank you very much for the opportunity.

THE ACTING CHAIR: You have that one little piece of extra work to do.

Mr McGrath: When do you need that by?

THE ACTING CHAIR: As soon as possible. We will send you the transcript of today's hearing. Once you have received that, and you know exactly what you have committed to do, you will have five days from receipt of the transcript.

The committee adjourned at 3.43 pm.