



## NEW ZEALAND – August 2020

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### Survey predicts drop in commercial property values

Commercial property values are expected to drop in the next 12 months due to the impacts of the COVID-19 crisis, according to a global survey from the Royal Institution of Chartered Surveyors (RICS).

The Q2 2020 RICS Global Commercial Property Monitor predicts that global commercial property values will plummet over the next 12 months and that businesses would reduce the size of their premises.

In New Zealand, survey respondents say that the property market is already showing signs of a downturn, forecasting a 4.5% decline in capital values across office, retail, and industrial commercial property classes in the next 12 months.

“You are looking at what I would call a sharp contraction in rents and capital values over the next year compared to historical standards,” said RICS senior economist for Asia-Pacific Sean Ellison, as reported by Stuff.co.nz.

Despite the negative forecast, prime industrial property is still expected to perform well, with a 2.2% increase in capital value nationally. In contrast, secondary retail property is expected to drop by 12.3%.

Respondents also predicted that hotel values would drop by 17% in the next 12 months in New Zealand and around 18.5% in Auckland specifically. Meanwhile, headline commercial property rents in the country are expected to drop by 6% next year, with retail rents expected to suffer the most.

Prime retail rents are expected to drop by around 10%, while secondary retail rents – such as suburban and smaller malls and shopping centres – are estimated to drop by around 15%. The latter forecast was conservative, and the drop might be closer to 20%, said Ellison.

### Rates reductions confirmed for 37 per cent of Tauranga properties

Tauranga City Council has confirmed its annual plan for the 2020/21 year which will see 37 per cent of ratepayers pay less for the rates on their properties.

### International Property Tax Institute

IPTI Xtracts- The items included in IPTI Xtracts have been extracted from published information. IPTI accepts no responsibility for the accuracy of the information or any opinions expressed in the articles.

The mayor and councillors formally adopted the plan today after two rounds of consultation with the community – an unusual step, but one the council felt was necessary after the disruption caused by Covid-19, the council said in a media statement.

The decision came after the council made savings from some parts of its budget while adding support for businesses and community groups identified through consultation.

The annual plan sets the council's budget and work programme for the year. It includes an investment of \$258m in capital projects and an operating spend of \$277m.

The mayor and councillors confirmed changes to the way rates are calculated, with an updated estimate showing that 38 per cent of residential and 23 per cent of commercial ratepayers will have a reduction.

Overall, 37 per cent of ratepayers will pay less rates on their properties.

Rates payments will increase by 1.1 per cent, equalling 47 cents a week, for the median residential property.

A total of \$9.04 a week - a 10.8 per cent rates increase for the median commercial property, for an overall rates budget increase of 4.7 per cent.

These changes apply to the year starting July 1, 2020.

Mayor Tenby Powell acknowledged the owners of higher-valued properties and businesses would pay relatively more for their rates.

However, the council wanted to protect the owners of lower-valued properties from rates rises during a challenging time for jobs and household incomes.

The mayor said the annual plan would allow the council to continue providing critical services while investing in the city's future in a way that supported businesses, jobs and the local economy.

"This plan has been prepared at a very difficult time and not just because of Covid," he said.

"We have a crucial role to play in the wellbeing of our community while addressing a wide range of complicated issues that come with growth."

Powell said it was important to continue investing in key infrastructure through the capital programme.

"This will provide for our city's future while supporting the local economy – providing jobs and flow-on benefits to our wider community."

Further annual plan initiatives:

Among other initiatives confirmed during the annual plan process, the council is offering free on-street parking in the city centre until November, with a newly introduced two-hour time limit, to support retailers facing a post-Covid economy.

Funding has been added to the budget for economic development, community services, sustainability, the free parking initiative and other areas identified by the public during consultation.

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Responding to community feedback on the draft annual plan, the council will increase funding to community groups and services including Awhina House, the Kāinga tupu homelessness strategy, the Tauranga Community Housing Trust, Envirohub, Tauranga Community Foodbank, and the Incubator Creative Hub.

The mayor said community groups provided crucial support to the wider community, and he supported future discussions about funding such groups in a more strategic way.

How are rates calculated?

The changes to rates calculations are related to the Uniform Annual General Charge (UAGC) and the commercial differential.

The UAGC is a fixed charge for every property, and a reduction from \$475 to \$296 per year will make rates more affordable for people with lower-valued properties, while people with higher-valued properties will pay relatively more.

The commercial differential has been set at 1:1.2.

This means businesses will pay \$1.20 in general rates for every \$1 paid by homeowners for properties of the same value.

This is lower than in New Zealand's other major cities and recognises that commercial properties can benefit more from council infrastructure than residential properties.

Because of delays created by Covid-19, the annual plan was adopted later than usual.

Information about rates rebates and remissions can be found on the council's website.

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