Victoria - June 2024

SPOTLIGHT
Savills Research

Navigating Victoria's Tax

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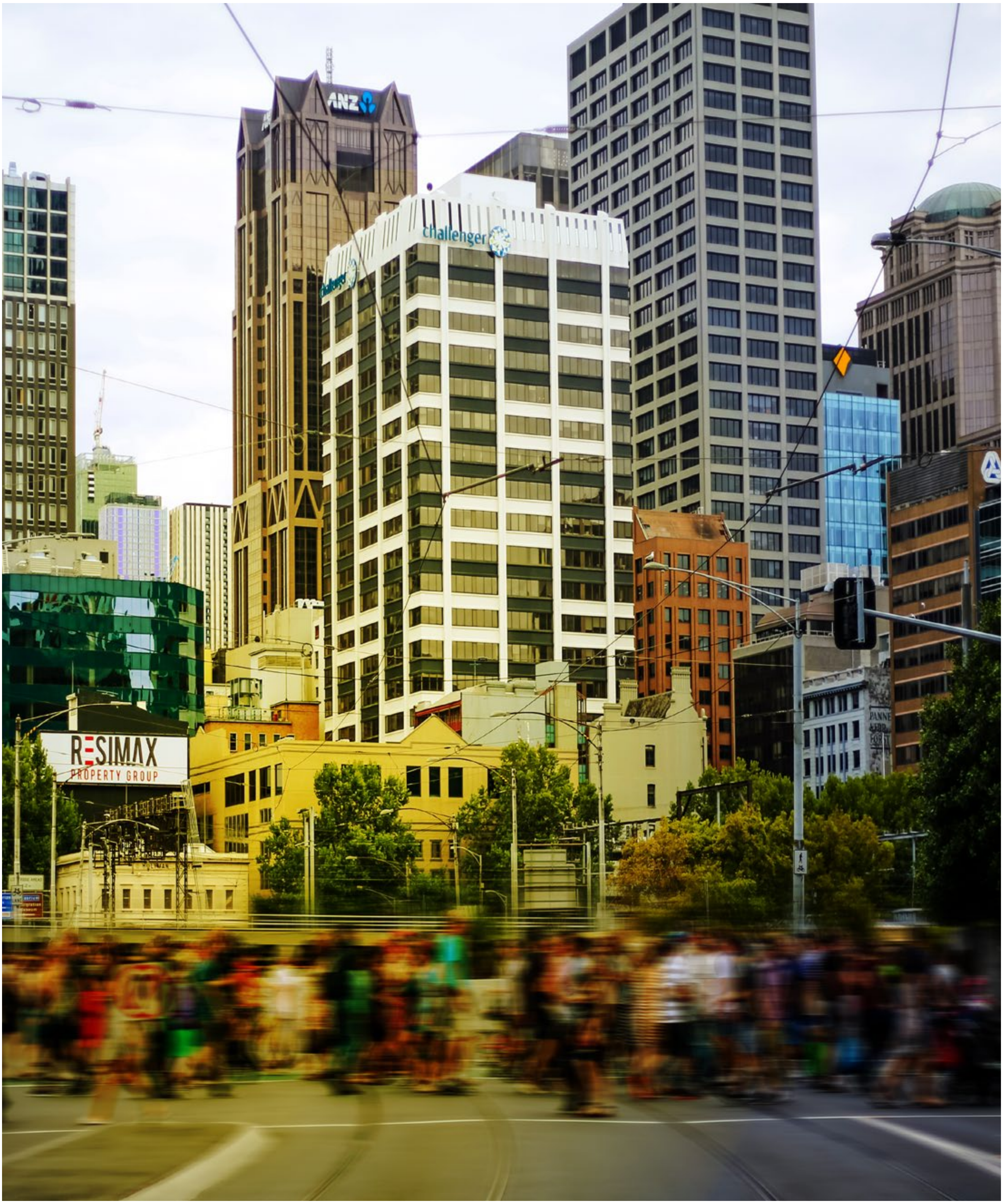

●Taking a closer look at the changes and opportunities for property investors●

Tax landscape is changing

New tax schemes in Victoria to significantly impact the property sector, with major changes to land tax rates and additional surcharges

2023 saw significant announcements for tax changes across many Australian states and territories
These changes ranged from abolishing stamp duty on industrial (and commercial) properties, increasing land tax and increasing absentee owner surcharges. While these schemes have been introduced partly to address government debt incurred during the Covid-19 pandemic, particularly in Victoria, they also present obstacles to businesses and impose increased costs on investors, namely foreign investors.

Absentee owner surcharge increases
In Victoria, it was announced that from the 2024 land tax year, an absentee owner surcharge (AOS) of an additional 4% of the site value applies to Victorian land owned by an absentee owner, double its previous rate of 2% between 2020 and 2023. An absentee owner can be defined as a corporation, individual, or trust but provisions are complex and the tax itself, contentious.

The AOS was originally introduced in 2016 to tax foreign owners. At the time, the tax was 0.5%, before trebling in 2017 to 1.5%. It was then raised to 2.0% in 2020. The latest surcharge increase, which is in addition to land tax, is an 350 basis point increase on 2016.

The surcharge does not apply if land is exempt from land tax or if the total taxable value of your land(s) is below the threshold of $50,000 or $25,000 (if the land is held on trust and is subject to the trust surcharge rate).

Covid-19 Debt Levy introduced
Victoria has an additional Covid-19 Debt levy applicable for 10 years from 1 January 2024, tiered depending on statutory site value.

Stamp duty abolished for new annual tax
Victoria is also in the process of abolishing stamp duty on industrial and commercial properties, replacing it from 1 July 2024, with an annual property tax.

The changes will see industrial and commercial properties in Victoria transition to the new system as they are sold, with the annual property tax to be payable commencing 10 years after the transaction.

Current Land Tax General Rates (from 2024 land tax year)
Victoria land tax for a calendar year

Total taxable value of land holdings	Land tax payable for domestic owner
<$50,000	Nil
$50,000 - < $100,000	$500
$100,000 to < $300,000	$1,350 plus 0.3% of amount >$300,000
$300,000 to < $600,000	$1,350 plus 0.3% of amount >$300,000
$600,000 to < $1,000,000	$2,250 plus 0.6% of amount >$600,000
$1,000,000 to < $1,800,000	$4,650 plus 0.9% of amount >$1,000,000
$1,800,000 to < $3,000,000	$11,850 plus 1.65% of amount >$1,800,000
$3,000,000 and over	$31,650 plus 2.65% of amount >$3,000,000

Source Savills Research using State Revenue Office Victoria data

Australian (General) Land Tax Rates, and other surcharges

State and Territory comparison land tax rates for the 2024 tax year

Location	General Land Tax Rate	Surcharge (s) & Other relevant charges	Taxation Date
NT [1]	Land tax is not levied in the Northern Territory	N/A	N/A
QLD [2]	**2.75% max. rate** AU$500 plus 1 cent for each AU$1 above AU$600,000 then varied banded increases for land value >AU$1,000,000 to AU$9,999,999, then increases for >AU$10,000,000.	**Surcharge Land Tax Rate:** Additional 2% applicable to absentee owners, foreign corporations and trustees of foreign trusts if the value of of freehold land is $350,000 or more.	Midnight 30 June, annually.
NSW [3]	**1.6% to 2.0% max. rate** General threshold: $100 plus 1.6% of land value above the threshold, up to the premium threshold. Premium threshold: $88,036 plus 2% of land value above the threshold.	N/A	Midnight 31 December, annually.
ACT [4]	AU$1,535 fixed charge plus valuation charge up to 1.14% on 5-year average unimproved value (AUV).	**Foreign Ownership Surcharge:** An additional 0.75% applies to all residential land owned by foreign persons (other than principal place of residence).	Midnight on 1 July, 1 October, 1 January and 1 April, annually.
WA	**2.67% max. rate** Starts at flat rate of AU$300 for unimproved land value AU$300,000 to AU$420,000, then varied banded increases for land value >AU$420,000 to AU$11,000,000.	**Metropolitan Region Improvement Tax Rate:** Imposed on metropolitan property with a land tax liability at a rate of 0.14 cent for every dollar of the aggregated taxable value in excess of $300,000.	Midnight 30 June, annually.
SA [5]	**2.4% max. rate** AU$0.50 for every AU$100 or part of AU$100 above AU$668,000 then varied banded increases for land value <AU$2,000,000.	**Trust Surcharge Land Tax Rate:** Where the land held in trust is valued over the trust threshold (currently $25,000) and a notice of beneficial interest(s)/ unitholders or a designated beneficiary is not in place, the trust land tax rates apply on the full value of the land.	Midnight 30 June, annually.
TAS	**1.5% max. rate** AU$50 + 0.45% of value between AU$100,000 and $499,999.99, then >$500,000, then $1 850 plus 1.5% of value.	**Foreign Investor Land tax Surcharge:** An additional 2% applies to all residential land owned by foreign persons (other than principal place of residence).	Midnight 1 July, annually.
VIC [6]	**2.65% max. rate** AU$500 up to a maximum fixed charge of AU$975 for landholdings valued between AU$50,000 and AU$300,000. For landholdings valued above AU$300,000, then AU$1350 up to a maximum charge of AU$31,650 plus 0.3% up to a maximum rate of 2.65%.	**Absentee Owner Surcharge:** An additional 4% applies to all land owned by absentee owners (from 1 January 2024). **Vacant Residential Land Tax:** may apply to residential land that is vacant for more than 6 months in the preceding calendar year. [7]	Midnight 1 July, annually.

Source Savills Research using the State and Territory Revenue Office data

Table Notes:

The rates provided above are the highest effective rates. Thresholds and lower rates of tax apply for lower value properties. Other levies and payments can apply to the holding of property and development of land. Different marginal rates may apply, depending on property type and value. Please refer to the applicable State or Territory revenue office website for up-to-date information as land tax rates generally change each year.

1 Stamp duty is a general purpose tax imposed on certain transactions, see NT.GOV.AU

2 The rate of land tax used depends on the type of owner (e.g. individual, company, trustee). The rate will apply to the share of the land that is own. $350,000 or more – for companies, trustees or absentees; and $600,000 or more – for individuals. Please see https://qro.qld. gov.au/land-tax/calculate/individual/ for definitions and other thresholds. Note: an additional Surcharge Land Tax rate applies to all taxable land owned by absentee individuals, foreign corporations and trustees of foreign trusts.

3 The threshold is published in the government gazette on or before the first Friday of December each year. Prior to 2023 the thressold was published in October each year. Land tax is applied for the full year following the taxing date of 31 December, and no pro-rata calculation applies. See https://www.revenue.nsw.gov.au/

4 If you are a property owner in the ACT, you pay rates. This includes a fixed charge of $3,117 plus valuation charge of up to 5.7316% on 5 year average unimproved value (commercial properties)

5 The trust land tax rates include a surcharge of up to 0.5% on the general land tax rates below the top marginal threshold. See https://www.revenuesa.sa.gov.au/ for thresholds.

6 General land tax rates shown from 2024 land tax year. From 2024, when the total taxable value of the non-exempt land you own is equal to or above the AU$50,000 threshold (AU$25,000 for trusts), you are liable to pay land tax. From the 2024 land tax year, an absentee owner surcharge of 4% applies to Victorian land owned by an absentee owner (please see https://www.sro.vic.gov.au/land-tax/absentee-owner-surcharge for definitions). The absentee owner surcharge is an additional amount that applies over the land tax you pay at general and trust surcharge rates. An additional 1.0% applies to all residential land in Melbourne's middle and inner suburbs that were vacant for more than six months in the preceding calendar year. This is different to land tax, the absentee owner surcharge and the federal annual vacancy fee.

7 From 1 January 2025, Vacant Residential Land Tax (VRLT) will apply to residential land across all of Victoria if the land is vacant for more than 6 months in the preceding calendar year and a new progressive rate of VRLT will apply to non-exempt vacant residential land across all of Victoria based on the number of consecutive tax years the land has been liable for VRLT (1% for the first year, 2% for the second consecutive year, 3% for the third consecutive year). In addition, from 1 January 2026, VRLT will apply to all unimproved residential land in metropolitan Melbourne that has remained undeveloped for at least 5 years and is capable of residential development.

Commercial and Industrial Property Tax

The Victorian Government is replacing stamp duty on commercial and industrial properties with the Commercial and Industrial Property Tax (CIPT).

A guide to the CIPT scheme

CIPT

The scheme begins on 1 July 2024. Residential or primary production property owners are unaffected. Existing commercial and industrial property owners before this date are not directly impacted unless they sell more than 50% of their property.

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If a commercial or industrial property is sold or contracted on/after 1 July 2024, the property enters a new scheme and a 10-year transition period starts.
At settlement, buyers can opt for a government-facilitated transition loan to spread payments over 10 years.

↓

Stamp duty won't apply to future transactions within the 10-year period if the property remains commercial or industrial. If a property is sold during this period with a transition loan, the remaining repayments must be made before settlement.

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The CIPT starts 10 years after the initial contract of sale. The tax is a flat 1.0% of the property's unimproved site value with no tax-free threshold, separate from existing land tax.
The CIPT will be able to be paid via a single annual payment or by instalments.

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After the transition period, the property is subject to the CIPT as long as it is used for commercial or industrial purposes, with no stamp duty on transactions.

Source Savills Research using State Revenue Office Victoria data

A guide to CIPT exemptions

A property is exempt from the scheme if it is primarily used for:

a. Residential purposes
b. Primary production
c. Community services or sport, heritage and culture purposes

Commercial and industrial property transactions that are currently exempt from stamp duty will not be affected by the scheme*. This includes:

a. Deceased estates
b. Property transfers between spouses or partners
c. Property purchases by charities

Other exemptions:

If a commercial and industrial property was purchased prior to 1 July 2024 it will be exempt (unless 50% or more of the property is transacted after 1 July 2024)

Source Savills Research using State Revenue Office Victoria data
* Future transactions liable for stamp duty could be included in the scheme and be liable for the final stamp duty payment.

Transition to the CIPT scheme starts 1 July 2024 and will apply where the following occurs:

Property qualifies as commercial or industrial use at settlement.

A contract of sale is entered on or after July 1, 2024.

50% or more of the property transacts.

Properties are considered to have a qualifying commercial or industrial use if they have either been allocated an Australian Property Classification Code (AVPCC) that represents commercial, industrial, extractive industries or infrastructure and utilities land. Or if the property is qualified as student accommodation.

Stamp duty concessions continue to apply, and properties eligible for concessions will enter the scheme, retaining their benefits.

CIPT cannot be passed through by landowners to specific retail tenants identified in the Retail Leases Act 2003.

Source Savills Research using State Revenue Office Victoria data

TRANSITION LOAN

The Victorian Government offers a transition loan to first purchasers of qualifying commercial or industrial properties from 1 July 2024, to finance upfront stamp duty.

Eligibility criteria for the loan include being Australian citizens, permanent residents, or Australian businesses, purchasing properties up to $30 million, and obtaining finance approval.

The loan, issued by the Treasury Corporation of Victoria, has a fixed interest rate based on the Treasury bond rate and a margin determined by market conditions and calculated at loan initiation.

Repayments, covering stamp duty and interest, are spread over ten years, with the first repayment due twelve months after settlement. Early repayment is permitted with a break fee.

If the property is sold or its use changes, the borrower must repay the outstanding loan balance, which cannot be transferred to subsequent purchasers.

The Treasury Corporation of Victoria holds a first-ranking statutory charge over the property, registered on title to inform potential buyers.

Absentee Owner Surcharge

An absentee owner surcharge (AOS) is an additional tax imposed on property owners who do not reside in the jurisdiction where their property is located. It is an extra 4% charge on top of the standard land tax for property owners who are classified as absentee owners.

An absentee owner is a person or entity that owns property in Victoria but does not reside there.
This includes:

- **People who do not ordinarily reside in Australia.**
- **Companies incorporated outside Australia or controlled by absentee individuals.**
- **Trusts with beneficiaries who are absentee individuals or corporations.**

The surcharge applies if you are classified as an absentee owner as of December 31st of any year.

The surcharge is then included in your land tax assessment for the following year.

The calculation considers the total taxable value of all Victorian land owned by the absentee owner.

The absentee owner surcharge rates have increased over the years:

Year	Rate
2024	4%
2020-2023	2%
2017-2019	1.5%
2016	0.5%

Source Savills Research using State Revenue Office Victoria data

Possible exemptions to AOS

Exemptions to AOS
The surcharge does not apply if: The land is exempt from land tax or; The total taxable value of the land is below $50,000 or $25,000 (if held on trust and subject to the trust surcharge rate).

↓

Possible exemptions to AOS (Corporations & Trusts)
Certain absentee corporations and trusts may qualify for an exemption from the surcharge through application. **An exemption may apply if:**
The absentee person holding a controlling interest in a absentee corporation is considered to not hold that controlling interest.
For trusts, where the absentee beneficiary is considered to not be an absentee beneficiary.
The corporation through its commercial business in Australia significantly contributes to the local economy (including jobs, materials and services) via an Australian-based entity.

Source Savills Research using State Revenue Office Victoria data

If you hold absentee owner status as of December 31st, you are required to inform the State Revenue Office (SRO) by January 15th of the subsequent year.

Not notifying the SRO about your absentee owner status may lead to penalty taxes of:

- 5% of the total assessed amount if you voluntarily disclose AOS status before an investigation; or
- 20% of the total assessed amount if disclosed after an investigation begins; or
- Up to 90% of the total assessed amount if the SRO determines intentional non-compliance and obstruction of the investigation.

Source Savills Research using State Revenue Office Victoria data

AOS in Practice

The industrial market generally utilises net lease agreements whereby all property outgoings - statutory and operational costs - are recoverable from the tenant.

After the review of multiple outgoings budgets, we have given a generic example of the total operating costs payable by an occupier/ tenant of a large distribution facility within the western industrial corridor. In the two examples, the occupier / tenants pay the same rental rate, however the outgoings differ as to whether the Landlord is a Domestic Owner, or if the Landlord is an Absentee Owner.

In this example, an occupier/tenant of a facility where the Landlord is an Absentee Owner would pay 14.7% more in total gross occupancy costs (Rent plus Outgoings) in comparison to a occupier/tenant of an facility where the Landlord is a Domestic Owner. This is likely to direct occupier requirements to domestic owners.

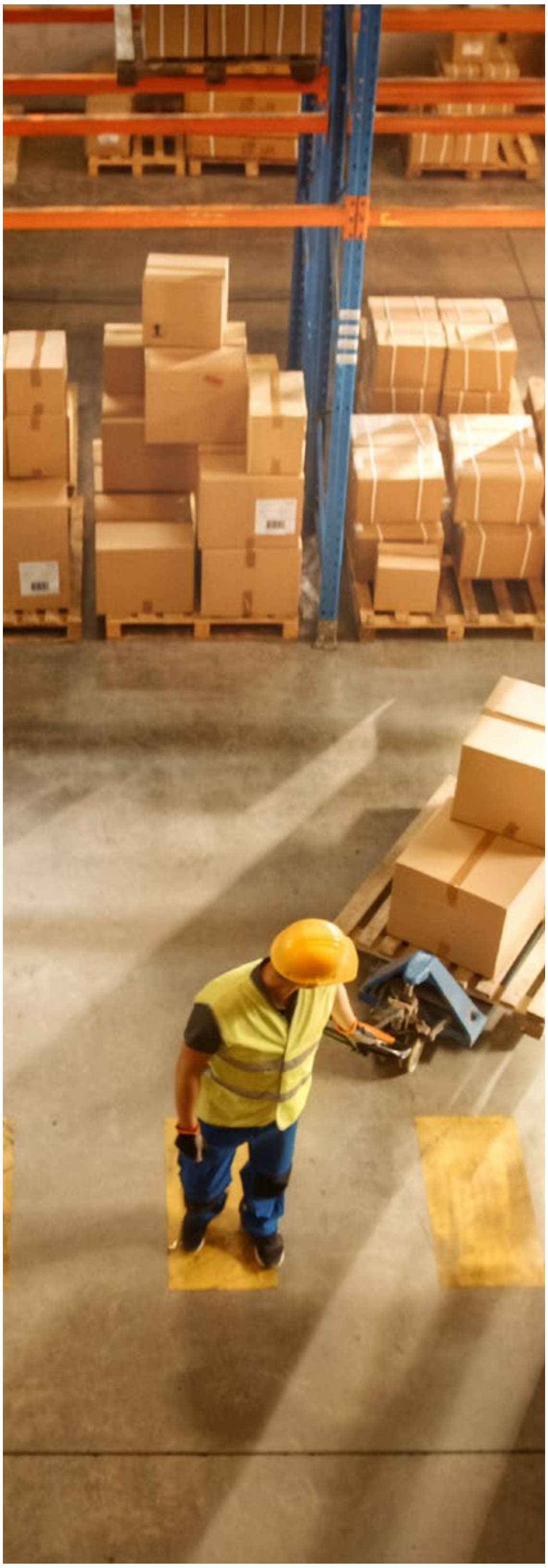
We note there is contention throughout the market as to whether an AOS amount is recoverable from the tenant, it usually being contingent on the specific wording of the lease agreement.

Occupier Market Case Study: Impact of AOS on GOC
Gross Occupancy Costs

	Absentee Landlord	Domestic Landlord
Occupier	TENANT A	TENANT B
Net Rent $/sqm	$120.00	$120.00
Statutory Costs $/sqm	$40.25	$17.50
Operating Costs $/sqm	$17.50	$17.50
Gross Operating Costs $/sqm	**$177.75**	**$155.00**
Tenant A pays 14.7% more		

Source Savills Valuation & Advisory

“Savills considers that occupiers are likely to direct occupier requirements to domestic owners under the above taxation regime.”



AOS in Practice

The following is an example of the differences between domestic owners and AOS owners in terms of land tax for a typical CBD office building in the Melbourne CBD.

Investment Market Case Study: AOS Return Impacts

Melbourne CBD Office Buiding

Metrics	Assumptions
Site Area	1,000 sqm
Levels	15
Net Lettable Area	12,000 sqm
Average Net Face Rent ($/sqm)	$600
Net Market Income	$7,200,000
Site Value Rate ($/sqm)	$30,000
Site Value	$30,000,000
Domestic Owner Land Tax	$747,150
Absentee Owner Land Tax	$1,947,150

Using the above assumptions, and assuming that the AOS is not recoverable, the AOS will have a significant impact on the value of the property.

In the table below, we provide the valuation difference - using the same example for a Domestic Owner and an Absentee Owner.

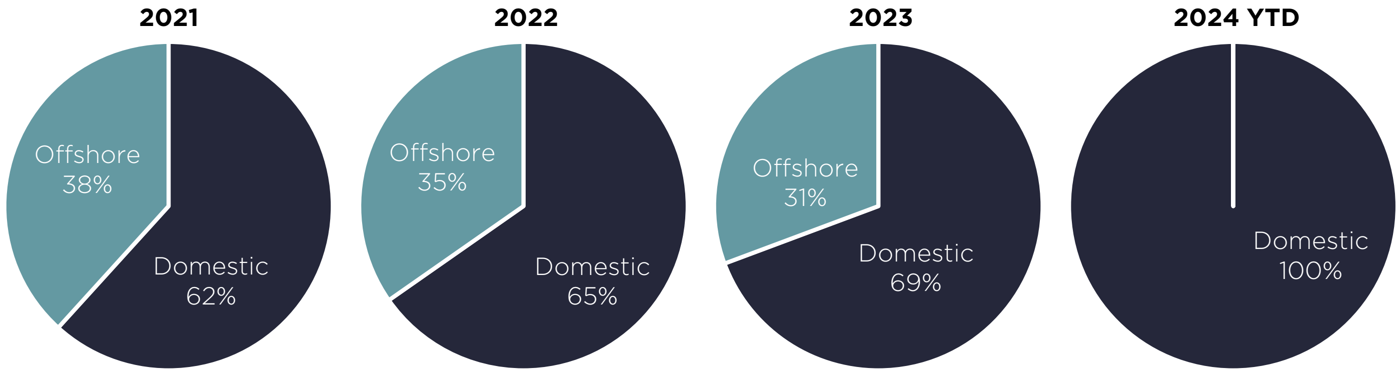
Using a 6% capitalisation rate, the Absentee Owner can afford to pay $149 million, whereas the Domestic owner can afford to pay $169 million. The difference is equivalent to approximately 75bps shift in value, with the Absentee Owner needing to accept approximately 5.25% return compared to the domestic owner who will receive a 6% return for the same price.

Domestic buyer opportunity Absentee owner vs Domestic owner using 6.0% hurdle rate		
% 6% Return	$149m Absentee Owner	$169m Domestic Owner

Source Savills Valuation & Advisory

“Savills considers the current disparity in pricing based on the same investment hurdle rate an opportunity for domestic investors based on recent purchaser profile activity.”

Share of commercial investment* in Victoria by buyer type
2021 to 2024 YTD, Domestic buyer vs Foreign buyer



Source Savills Research using MSCI Real Capital Analytics
*Data as a 2 May 2024 , includes office, industrial, retail, hotel

COVID Debt Repayment Plan

The Victorian Government introduced the COVID Debt Repayment Plan as part of the 2023-24 State Budget. This plan includes temporary changes to land tax, which will be in effect until June 30, 2033.

Land Tax Changes

From the 2024 land tax year, the following changes apply to the total taxable value of landholdings:

$50,000 - <$100,000	A flat surcharge of $500
$100,000 - <$300,000 (or <$250,000 for trusts)	A flat surcharge of $975
>$300,000 (or >$250,000 for trusts)	A flat surcharge $975, plus an increase in the land tax rate by 0.10%

Source Savills Research using State Revenue Office Victoria data

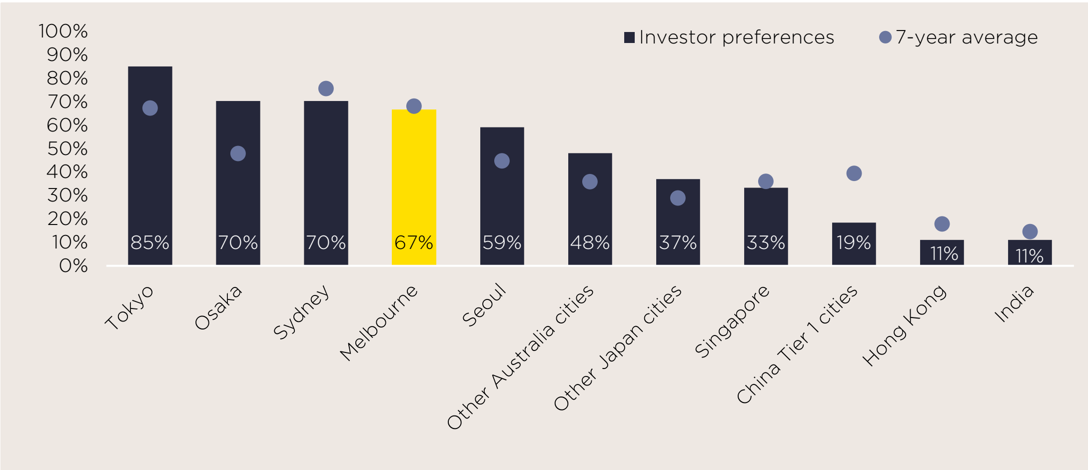
These changes are reflected in the applicable land tax rates for the years 2024 to 2033.

Destination Victoria

Melbourne is still in the top 4 for investors

Preferred investment locations for 2024

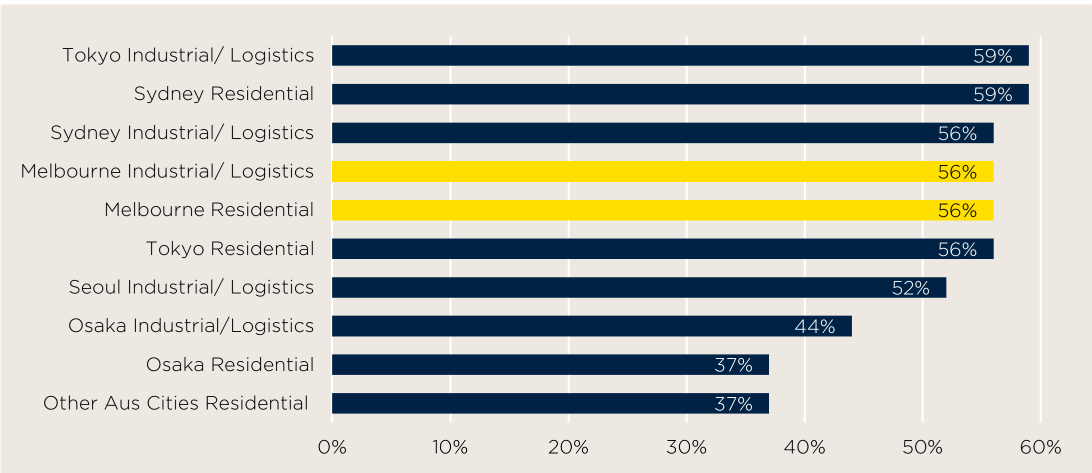
% of respondents



Source Savills Research using ANREV Investment Intentions Survey 2024 data

Preferred city/ sector combination in Asia Pacific

% of respondents



Source Savills Research using ANREV Investment Intentions Survey 2024 data

The Investment Intention Survey is carried out by three regional real estate associations, including the Asian Association for Investors in Non-Listed Real Estate Vehicles (ANREV), European Association for Investors in Non-listed Real Estate Vehicles (INREV) and the Pension Real Estate Association (PREA). The 2024 survey attracted responses from 90 participants globally, of which 85 are institutional investors, and 5 are funds of funds managers from 19 countries. The survey coverage reached more than 89.7 billion USD of AUM in real estate.

Despite the Victorian government's tax policy changes, Victoria will remain an attractive investment destination for many commercial property investors looking to deploy capital at scale in Australia. Melbourne is consistently the second largest market in Australia after Sydney in terms of commercial property investment volume, and largest investment market for emerging sectors like multi-family residential.

In a recent poll taken by ANREV, which surveyed 90 global institutional investors managing 89.7 billion USD in real estate assets, Melbourne remains a highly attractive investment destination within the Asia-Pacific region. Among major global institutional investors surveyed by ANREV, 67% indicated they intend to invest in Melbourne in 2024, making it the fourth most attractive city in the region behind Tokyo, Osaka, and Sydney. Additionally, investor preference for Melbourne remains closely aligned with its long-term average of 68%.

Melbourne's growing industrial & logistics and multi-family residential investment markets are key areas that continue to attract global investors, sharing the top third spot for investors preferred city/sector combination, alongside Sydney industrial/logistics and Tokyo residential, according to ANREV.

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