

Reporting of Rates Hikes causes déjà vu fears amongst Johannesburg Property Owners

The property market recently experienced a sense of déjà vu as Johannesburg property owners waited to hear the final outcome of the city's new municipal valuation role – in much the same way that Capetonian property owners awaited the news of their own valuations a year ago.

The announcement came last week that residential property owners in Johannesburg would be paying half a cent in rates for every rand that their property is worth, and that, in line with rates charged for many years in Cape Town, rates would now be charged on both the value of their land as well as improvements. Johannesburg property owners previously paid rates based only on the value of the land at a total of 12,3c in rates for every rand of their land value.

Before the announcement last week, Johannesburg property owners awaited the new rates with trepidation, in the light of both the pre-2004 property boom which took place after the last evaluation, as well as reports in the press warning of 'sharp increases' for Johannesburg when the Property Rates Act comes into effect on 1 July 2008.

Commenting shortly before the announcement on what he saw largely as 'scaremongering', property economist Erwin Rode of Rode & Associates said: "The mere fact that property values have risen sharply since the last general valuation does not mean that inflation-adjusted rates will rise in a similar fashion.

"A municipality starts off with a budget – which presumably only rises with inflation – and thereafter decides on the new tax rate in the rand. Thus, if all the properties in that municipal area are now worth more than at the last general valuation, then the rate in the rand should decline, all other things being equal.

"Municipalities are also not at liberty to introduce excessive increases to annual council budgets and in fact have to comply with legislation that prohibits increases in excess of 10% without special approval from the national Treasury Department."

Commenting further on the switch from stand-only valuation to improved-property valuation, Rode says: “This will in some instances result in some properties attracting less tax while others attract more tax than would otherwise have been the case. In other words, the new valuation system will in some cases result in changes in relative taxes; for example, older properties with fewer valuable improvements would pay relatively less inflation-adjusted tax than newer properties or those with substantial improvements.”

With rates for businesses and sectional title properties yet to be announced in Johannesburg, public comment on the draft policy is currently being evaluated, with final recommendations to be presented to the City of Johannesburg in January. In a report last week in *The Star*, Mayor Amos Masondo was quoted as saying that the final rate tariff could differ ‘marginally’ from the 0,5c, but noted that the public would still have time to comment next year during the city’s budgeting process, which was expected to be finalized by April.