

Prepare for property valuation knock-on effects

As Johannesburg and Buffalo City residents deal with the aftershocks of their property valuation hikes, Cape Town residents are urged to prepare for their re-appraisals which will hit next year.

Earlier this year, Johannesburg residents voiced their outrage over property valuation increases, some of whom had seen values increase between 60 and 500%.

The increases, which come into effect in July this year, will not only impact monthly rates bills, but will also influence the cost of other services such as water, refuse removal and electricity. And while Buffalo City residents dealt with slightly less shocking increases (many around 50%), this still resulted in many residents being concerned that they're not going to meet their mortgage repayments.

"The logical knock-on effect of municipal rate increases is to raise the rentals on investment properties. If this is not possible, the owner's net profit will decrease. The value of the property is also impacted in the eyes of lenders, who look closely at the net income of the property when determining the value of their security."

"For an owner who is hoping to use their property to raise capital for their business, municipal rates spikes - such as we have seen - can be a very serious obstacle in the path of their capital raising plans," explains Gary Palmer, CEO of Paragon Lending Solutions.

Although property owners have the right to object to the valuation, the process is not as simple as some think.

"If the property owner is dissatisfied with the value, they can lodge an objection within 30 days of the date of notice (although the municipalities normally allow for a longer period). Should the outcome of the objection be unsatisfactory, the owner may appeal against the decision, within 30 days of the date of notice of the ruling," explains Natalie Ginsberg of Margin Property Valuation Services.

"An appeal board hearing is a formal hearing and the owner will be given an opportunity to provide oral evidence, as well as an opportunity to cross examine the municipal valuer. However, the onus is on the owner to prove the municipal valuation is wrong. The owner needs to therefore ensure that the appeal application is well prepared with appropriate motivation."

Ginsberg warns that disputed valuations can delay sales of properties since all outstanding rates, including those under dispute, need to be paid in full before a property can be transferred.

What's more, Ginsberg warns that the outcome of some objections, although successful, are not carried through to the next valuation roll and an objection inevitably follows for the same reason when the process is conducted again in three or four years' time.

Ginsberg says Cape Town owners should receive notices in February 2019 of the new General Valuation (market value) of their properties, from the City of Cape Town. Objections will likely be lodged between the months of March and April 2019 and she says, as in the past, no late objections will be accepted and that it is critical that property owners, who do not receive a notice, take steps to ascertain the new valuation.

"The valuations will be based on market values as of 1 July 2018. Property owners need to be aware of their surroundings and the values of properties from now until the middle of the year. Ideally residential owners should try and view show houses in their area, keep a note of sales, and note any alterations made to their properties during this time. Having an arsenal of data at your disposal will make it easier when it comes time to object. Professional valuation companies can help you with this," she says.

Gary Palmer agrees with the advice, advocating that property owners, especially those who run properties as a business, should be keeping a close eye on valuations in their area. He also believes working with professionals to get an independent valuation from time to time is a healthy business practice.

"Re-assessing market-related rentals and overheads like rates and taxes allows you to optimise your property's value. It also allows you to consider other uses for the property based on real data from your neighbourhood and is good accounting practice when it comes to assigning values to the structures on your balance sheet. All of these will be called for when applying for finance if you will be using the property as an asset."

Both Palmer and Ginsberg believe the lessons learned from their up-country compatriots could save Cape Town residents significant pain next year.

"Cape Town property owners have the opportunity to learn from other regions. Doing your homework now could make a real difference. Unwelcome surprises could have a very negative impact and if you don't arm yourself with information now, you will struggle to defend your position next year. More importantly, you will be living with the consequences for the next four years," concludes Palmer.

Paragon Press Release