

APPENDIX 3

COMMONWEALTH PROPERTY PRINCIPLES

1. As a general rule, Government should own property where the long-term yield rate exceeds the social opportunity cost of capital or where it is otherwise in the public interest to do so.

Over the medium term, rates of return of 14–15 per cent (nominal) would seem the appropriate figure for decisions about retention or divestment of existing property holdings, taking into account past achievement of those rates of return.

The full social opportunity cost of capital should apply to any new property development. While this will vary over time, the existing rate is much higher than the medium term property hurdle rate previously used.

Given the competitive nature of the property market, it would be unusual for the long-term yield rate for office and other commercial accommodation requirements to exceed the social opportunity cost of capital (ie generally, government could make better use of its scarce capital than property investment).

2. Public interest considerations which may influence the decision as to whether government should own property include circumstances where:

(a) the property has:

- symbolic significance—eg Parliament House, the High Court;
- security requirements;
- strategic significance to future government use—eg land required for future airport use;
- highly specialised uses that would significantly inhibit commercial provision;
- significant heritage and environmental requirements;
- significant public usage;

- characteristics such that the nature of the use or development of the property would give a potential lessor excessive future negotiation power (eg. where government needs to make a large investment in specialised fit out);
- (b) there exists clear evidence of market failure. This could include properties such as:
- small regional offices in isolated locations where there would be no other tenants should the property become vacant or where private investors would demand excessive rates of return to recover their investment over the life of the lease; and
 - those in markets where there is a predominance of government ownership. (An example is unique areas of the ACT property market, in particular the Parliamentary Triangle, where there is no competitive market.
3. The onus should rest with the proposing agency to clearly demonstrate the characteristics of the property that warrant government ownership:
- (a) where market failure is claimed, the market circumstances for the property should be adequately tested, including consideration of offering lease terms or conditions that might allow private investors or developers to convert a 'government guarantee' of rental income into the capital necessary to provide the accommodation and earn a market return; and
- (b) where market failure is established, the relevant Minister should take the proposal to Cabinet in the Budget context.
4. To encourage efficient, effective and transparent decision-making and accountability:
- (a) the costs of property use (whether owned or leased, domestic or overseas) should be fully reported by the using agency or program;
- (b) property costs should be measured (and wherever practical, charged) on the basis of competitive neutrality - ie. costs to government should be measured on the same basis as the private sector; and
- (c) property costs should recognise the costs of holding unused land in reserve for possible future use, except for certain land with environmental, heritage or cultural significance and where disposal is not an option.
5. When seeking the provision of accommodation to meet government needs, a pro-active approach should be taken to inform the market well in

advance of the project so that the market has time to develop solutions to meet those needs.

6. Where ownership is decided upon, the property should be managed so as to retain the maximum long-term economic advantage to the taxpayer. Financial and/or organisational arrangements should be made to ensure the effective maintenance and refurbishment of the facility are to agreed standards. Failure to do so risks exposure to high property vacancy rates, additional costs and failure to meet legal obligations under Occupational Health and Safety legislation.

7. For agencies occupying property owned by another part of the government, occupancy agreements (as a substitute for private sector leases) should be formalised between the property owner and the occupying agency. Conditions and rentals should be market-based. All agreements between arms of government should be binding, and transferable on sale of properties. Where such properties are identified for sale, the occupancy agreements should be placed in a form that facilitates completion of the sale.

8. Property management services provided within government bodies should be fully market tested, including the option of in-house bids consistent with the principles established in the Competitive Neutrality Principle.

9. Where property is being provided on an internal market basis, there should be a clear separation of responsibility between the area responsible for maximising the performance of government owned property and any area responsible for tenant advocacy.

