

PRODUCTIVITY COMMISSION

**Conservation of Australia's
Historic Heritage Places**

Submission from

Adelaide Arcade Pty Ltd

PRODUCTIVITY COMMISSION SUBMISSION

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ADELAIDE ARCADE PTY LTD

PRODUCTIVITY COMMISSION SUBMISSION

BACKGROUND

This submission is made by Adelaide Arcade, a privately owned property which is on the National Estate and the South Australian Heritage List. It is a significant commercial property occupying the entire site of approximately 4,500 square metres in the Adelaide Central Business District. It has a frontage to Rundle Mall - prime retail, and Grenfell Street - prime office space.

Adelaide and Gay's Arcades are entered in the Register of National Estate (1980), the State (1985) and City of Adelaide (1985). **It is the only remaining 19th Century arcade in Adelaide. The other one in the exhibition building on North Terrace has gone. It still remains the earliest arcade of its size in Australia.**

Adelaide Arcade has been a heritage listed building for 20 years so the owners (who have owned the property for over 50 years) can speak with some authority on the funding approaches that have been taken by all levels of government.

At the time of its listing, the City of Adelaide Heritage Survey sums up the significance of Adelaide Arcade as under:-

"Adelaide and Gay's Arcades evoke something of the character of late nineteenth century Rundle Street. Their architecture represents the epitome of the boom period in built form and they remain (although altered) testimony to the period during which Rundle Street was transformed into a retail area of great renown. Although intrinsically meritorious, the Arcades gain additional significance to the loss or alteration of other significant 19th century shopping establishments, eg John Martins (rebuilt), Charles Birks (replaced by present David Jones) and Myers (much altered). The arcades rank with the Strand Arcade in Sydney and the Block Arcade in Melbourne as examples of the most urbane approach to retailing yet devised."

Adelaide Arcade was constructed in 1885 before the Block Arcade (1892-1894) and Strand Arcade (1892).

In the application for Commonwealth funding, which was unsuccessful, it was acknowledged that Adelaide Arcade as a 19th century shopping arcade, has some national significance.

THE PRESENT SYSTEM

This submission emphasises the extent to which Governments at all levels have not participated to the extent that is required in the preservation of heritage properties that have a commercial use.

Adelaide Arcade is a significant tourist attraction in Adelaide and is listed on all the historical walks in the city, The building is a vibrant, active and visible example of the urban approach to retail that existed when the building was constructed in 1885. Each year it has 3 million shoppers, visitors and tourists. **It is a heritage building that generates considerable economic activity in the city and, in turn, the community,** yet the limited grants and minimal financial assistance over the last 20 years has not been commensurate with the economic contribution made by the building or the funds expended by the owners.

In the many submissions that Adelaide Arcade has placed before heritage authorities for funding, the fact that it generates economic activity is being argued as a case for receiving funding. However in many instances it is felt that this has worked against the Arcade's applications because authorities have seen the Arcade as being able to stand on its own and therefore capable of financing the significant restoration and renovation that has taken place over the last 20 years. **If the owners of Adelaide Arcade had waited for heritage funding, rate or tax rebates, to carry out the significant works that have been undertaken, then the Arcade would be derelict and not be in the magnificent state that it is now.**

Once a building is classified as heritage, it takes on a different economic stance. Expenditure to preserve the building for the benefit of the community and not for any commercial reason to profit the owners is of a non-discretionary nature and cannot be justified on a rational economic basis. No recognition is even given in any valuations used for rating purposes to take into account the high ongoing operational costs, eg:-

- General Maintenance Painting and continual cleaning of the facades and the unique domes Extensive skylights Painting exterior and interior (with regard given to heritage colours) Old plumbing system
- Insurance Heritage buildings attract premiums that are up to 50% higher than a new modern building
- Energy Having been built in 1885 it is not at all energy efficient

As far as Adelaide Arcade, is concerned, the levels of the financial incentives have been erratic and minimal and therefore of no consequence in the decision making process of owners as to whether to commit funds to a project.

Since heritage listing, significant projects approaching \$3 million directly associated with restoring and preserving the integrity of Adelaide and Gay's Arcades have been undertaken, **for which only 5% in heritage funding has been received.**

When the Arcade was heritage listed in 1985, the owners undertook a preservation and restoration programme to emphasize its original architectural style and ambience with no financial assistance. This was a high priority project which would have attracted funding under current programmes. But this *very* important work was carried out in the 1980s when there were little or no heritage incentive schemes in place at that time. Work now carried out is classified as "low priority" and accordingly does not warrant funding assistance.

In addition to the substantial preservation and restoration work carried out by the owners, **no recognition or compensation is given in any way for the substantial reduction in capital value as a result of its listing in 1985.**

Prior to its listing in 1985, the capital value for rating purposes was \$8.5 million. The current value for rating purposes is \$12.5 million. These values certainly demonstrate the loss of capital value over the last 20 years even if only compared with CPI increases.

There seems to be an attitude with Councils, State and Federal Governments **that heritage properties of a commercial nature capable of earning income are classified as a low priority when decisions on grants and funding are made.**

Grants from Governments and Councils for commercial properties of significant value that do generate economic activity are totally inadequate and unrepresentative of the economic value to the community. For example:

1. Commonwealth Government Grants are only made available every two or three years and the funds are inadequate relative to the number of heritage properties and little or no regard is given to the contribution made by the owners over a long term period.

The last round of heritage incentives for the 2002/2003 Cultural Heritage Projects Scheme approved only 72 applications to the value of \$3.5 million out of 300 submissions. The Department of Environment & Heritage commented that many more applications were received than could be funded - surely a demonstration that Commonwealth funding is inadequate.

To our knowledge, since the 2002/2003 allocation, no further funds have been available - a lapse of 2 1/2 years.

2. The South Australian State Government under its Heritage Programme only gives up to a maximum of \$5,000.
3. The Adelaide City Council, under its Heritage Incentive Scheme, gives commercial properties up to a maximum of \$15,000 over a five year period.

The latter two local schemes provide grants barely sufficient to meet the consulting costs on a restoration programme associated with Adelaide Arcade. On this basis many **significant commercial properties are excluded from the grants programme because the financial assistance is so small that it is not even worth the time to make application.**

All grants programmes are on a competitive basis and on many occasions it produces an adversarial environment. **Building owners willing to make a commitment to the preservation of built heritage have little confidence in the system and that their applications receive a fair "hearing".** Built heritage is the loser under the current funding programmes.

THE WAY FORWARD

The system of financial incentives has to change. The owners of heritage properties are bearing too much of the financial burden.

If it were not for the commitment of owners to the restoration, preservation and maintenance of the many commercial heritage buildings, the built heritage in Australia would have been the loser.

There are a variety of financial incentive schemes in Australia - at local levels, at State and Federal levels. They are not co-ordinated and each has its different criteria for funding. There is a high level of ambiguity on whether certain heritage projects qualify for funding under each scheme. If a building is worthy of being listed on the National Estate or State Heritage List, the owner/s of the building should have some assurance and certainty that a given amount of financial incentive will be automatically available. **The current system provides absolutely no certainty on heritage funding.**

A new environment must be developed so that the method of providing financial incentives can be turned right around. Instead of owners objecting to the listing of a property because of the financial disadvantages, the automatic financial incentives that a heritage building would be entitled to receive should be such that an owner objects because the property does not qualify for listing. If this environment existed, only those buildings that are outstanding examples of building heritage would be listed.

The application of certainty for financial incentives for commercial buildings could be achieved if the following approaches, supported by appropriate legislation, were undertaken in the following fields.

Land Tax

Although the Legislation (in South Australia) covering the site value for Land Tax assessments requires a valuing authority to take the heritage listing of a building into account, this does not always happen. In Adelaide Arcade's case, to have the heritage provisions of the Act apply, it had to appeal the valuing authority's valuation. The appeal was upheld. There was no automatic recognition that the heritage provision was applicable.

When the owners of a building having it heritage listed, and then having to appeal the Land Tax assessments, leaves the owners with little confidence that the system provides any financial benefits. Adelaide Arcade has a further appeal on its Land Tax assessments because it has argued that the valuing authority still has not taken into account the full heritage nature of the building. A decision on this appeal is pending.

Valuations for Land Tax must give owners of commercially listed heritage buildings a far more satisfactory outcome than exists under current Legislation.

Council Rates

The valuations of commercial properties by the valuing authority again rely on the valuers taking into account the full effect of the heritage listing of a building. The method of determining Council and local Government rates for heritage listed buildings requires far more certainty and the assurance to the owner that pre-determined benefits will be available on local Government rates. Again, in Adelaide Arcade's position, the City of Adelaide assesses rates for this building on a system that was set in 1971 before built heritage became a valuation factor. The system currently in place blatantly discriminates against a commercially listed heritage building in Adelaide to the extent that the rates on such a building are subsidising those payable on more modern high rise buildings.

This is a situation that should be rectified, however the City of Adelaide and the State Government appear unwilling to amend outdated Legislation to cater for heritage properties. One wonders whether the local and State Governments are protecting their revenue base at the expense of built heritage.

Income Tax Assessment Act

Under the current provisions of the Income Tax Assessment Act, no special provisions are applicable to the expenditure of either a capital or operational nature that owners incur on a heritage building. In many instances it is difficult to differentiate between expenditure that is deductible or of a capital nature. If all expenditure on the fabric of a heritage listed building was fully deductible, then owners would be much more inclined to commit their funds.

The other area of the Income Tax Assessment Act that needs attention is the depreciation rates that are applicable to such items as fire sprinklers and fire protection systems which are necessary ensure the longevity of such important buildings. No special depreciation rates are available and the standard rates are so low that owners, on many occasions, are reluctant to carry out such important capital expenditure to ensure the safety of a building, particularly when it is unlikely to add any value to the building. Accelerated depreciation rates would certainly change the attitude of owners to install such protection.

CONCLUSION AND SUMMARY

The long standing owners of Adelaide Arcade have been disappointed and disillusioned with the level of financial incentives and grants that have been and should be made available to such a significant commercial property. The current policies at all levels of Government do not accept or acknowledge, through their financial incentive schemes for commercial buildings, the following:

- The level of financial commitment made by the owners which in many instances adds little or no value to the capital value of the property.
- The fact that such buildings cost substantially more to maintain and operate than a new modern energy efficient building which in many instances have little or no architectural merit.
- The need to continually appeal Land Tax Assessments because the valuing authorities give inadequate recognition to the fact that heritage listing prohibits future development of the site.
- No acknowledgement or compensation is given or has been received in recognition of the substantial loss in capital value because redevelopment of the site is prohibited. This loss could easily approach \$10 million because of the listing of this commercial property in the heart of the Central Business District of Adelaide.
- Local Government rating systems give insufficient weighting to the heritage listing of properties. This problem is only going to be exacerbated because more and more local heritage items are being listed. In the case of Adelaide Arcade, the City of Adelaide operates under outdated legislation to the extent that the rating assessments discriminate against its heritage listing to the benefit of modern high rise office blocks.

The built heritage in Australia has relied on the commitment from owners, both in a financial aspect and in time, together with their passion to see significant heritage buildings retained for future generations. However, this approach from owners cannot continue indefinitely as buildings become older and more are added to the list.

Built heritage will be the loser until the financial incentives and grants by all levels of Governments are such that rate rebates, meaningful grants, or Federal tax breaks would make being a heritage listed building a welcome advantage.

N I CONRAD
Secretary

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