

# RPVARA and its Stakeholders Part 1: The Impact on Taxes and Investments of Real Estate Developers

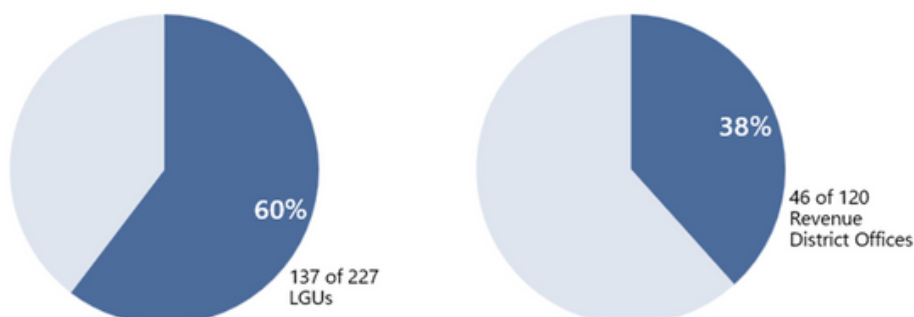
According to the Global Real Estate Transparency Index 2024 of Jones Lang La Salle, the Philippines ranks 45 out of 89 countries and is considered semi-transparent in terms of access to high quality market data and performance benchmarks, and consistency in enforced rules and regulations. To address this real estate transparency gap, the Philippines recently enacted Republic Act No. 12001 or the Real Property Valuation and Assessment Reform Act (RPVARA), which became effective last July 8[1]. Similar to how other countries improved its transparency rankings, RPVARA aims to leverage on data quality and availability by standardizing real property valuation and creating an electronic database. This article dives into the impact of RPVARA to real estate companies or developers.

[1] Effectivity date of the Act based on the draft Implementing Rules and Regulations.

## RPVARA to standardize real property valuation and increase real property taxes

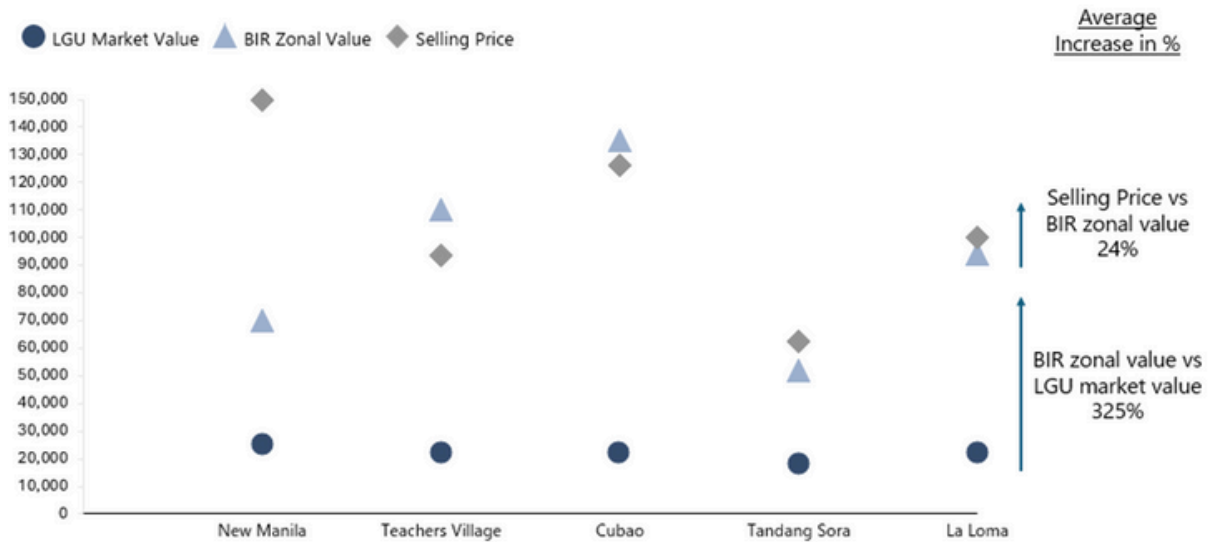
One of the main objectives of RPVARA is to adopt market value as the single real property valuation base for taxes and government transactions. Market value, which shall be based on Philippine Valuation Standards (PVS), is defined under the Act as the estimated amount for which a real property is exchanged between a willing buyer and a willing seller in an arm's length transaction, after proper marketing, and wherein parties acted knowledgeably and without compulsion. Prior to RPVARA, there is more than one real property valuation: market values prepared by the Local Government Units (LGU) and zonal values prepared by the Bureau of Internal Revenue (BIR). However, around 60% and 38% of these valuations are outdated because these have not been revised in the last 3 years.

**Figure 1:** BIR District Offices and LGUs with Outdated Valuations



Below is a rough comparison of the valuation and prices of 5 residential properties in Quezon City.

**Figure 2:** Comparison of Residential Property Valuations in Quezon City (in PHP per square meter)



Reference: Quezon City Ordinance No. SP-2556, S-2016, Zonal Values posted in BIR website, Lamudi property listings  
 Note: Above are estimates based on available information and may not represent all types of cases.

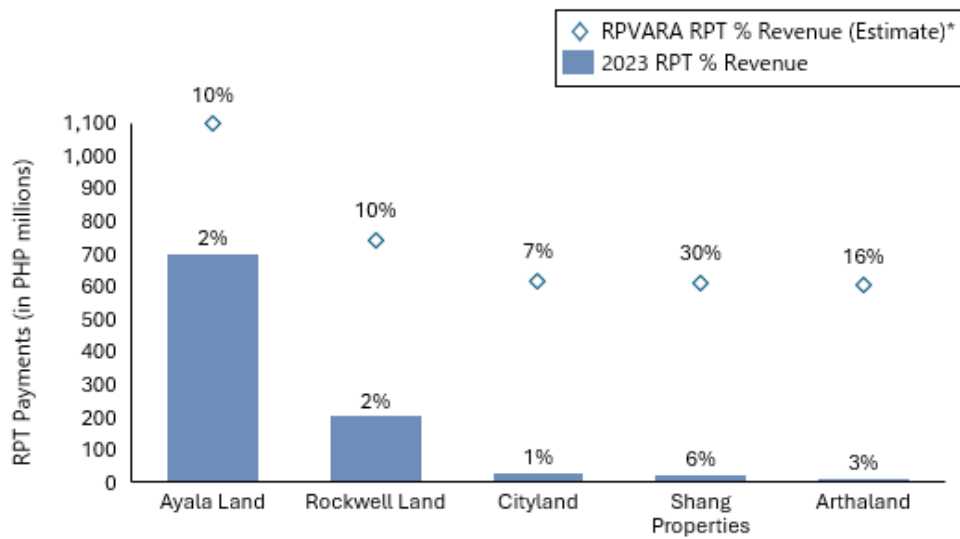
It can be noted that the LGU market values are the lowest. Meanwhile, BIR zonal values and selling prices in the market are relatively close to each other in most cases. This can be attributed to the fact that the Quezon City LGU market valuation is dated 2016 while BIR zonal values have been updated up to 2024, hence the significant difference between the two valuations. Consequently, RPVARA may result in increased LGU valuation base to make it at par with the current market values.

Along with the increase in real property valuation of LGUs, there could also be increase in real property taxes (RPT). Currently, RPT typically range at an average of 3% of revenues for real estate developers. Hence, under the current scenario, RPT payments do not significantly impact the profitability of these companies. Two years down the lane and in the subsequent years thereafter, we can expect changes in these percentages. Assuming that there are no changes in the assessment levels and tax rates, the following graph shows the possible increase in RPT as percentage of revenues using the Quezon City percentage increase in valuation in Figure 2.

**Figure 3:** Computation of RPT



**Figure 4:** RPT Percentage to Revenues of Real Estate Developers



Reference: Annual Reports

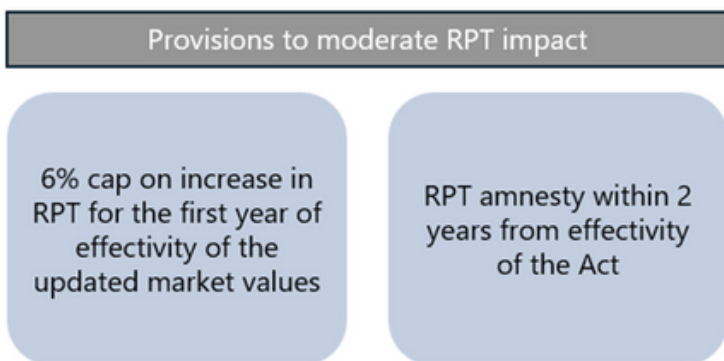
Note: \*Assuming no change in revenues and using Quezon City increase in valuation for illustrative purposes

It can be noted that there will be a considerable jump in the percentages if LGU valuations will follow market values. Fortunately, to control these RPT increases, the Act provides that LGU assessors and treasurers can propose adjustments in the assessment levels and tax rates. Additionally, the Act provides for the following measures to curb this financial impact and added burden to property owners.

**RPVARA to increase transparency and encourage investments**

Another notable provision of RPVARA is the establishment of the Real Property Information System (RPIS). The RPIS is an electronic database of the sale, exchange, lease, mortgage, donation, transfer and all other real property transactions and declarations; cost of construction or renovation of buildings and other structures; and prices of plant, machinery and equipment. Said database shall be made available to all LGUs and national government agencies such as the BIR. This, in turn, will better facilitate the conduct of tax audits and may consequently expose companies to tax risks. Tax authorities, both national and local, can compare prices and costs of similar transactions and assess deficiency tax on variances noted. For instance, a sales or lease transaction between related parties may be contested by the tax authorities as not made within arm’s length after comparison with other transactions.

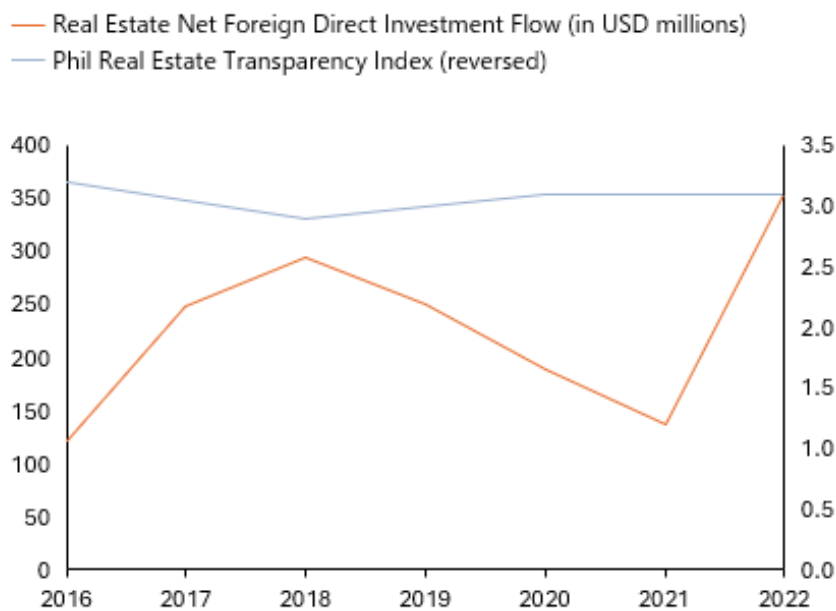
**Figure 5:** Relief Provisions under RPVARA



The Act also provides that the private sector may access the RPIS subject to the guidelines of the Bureau of Local Government Finance (BGLF), the primary implementing agency of the Act. This can potentially increase transparency in the market. According to a study from the Journal of Property Investment and Finance, increased market transparency attracts inward real estate investments.

Following this, we can see in the below graph that when the transparency ranking of the Philippines fell from 2016 to 2018, real estate net foreign direct investment flow in the subsequent years also decreased. Even so, we do recognize that there are various other factors that affect investments flow. The decrease, especially for the years 2020 and 2021, may also be attributed to the COVID-19 pandemic and the shift to hybrid and work from home set-ups.

**Figure 6:** Philippines Real Estate Transparency Index and Investment Flow



Reference: JLL Global Real Estate Transparency Index, BSP Data

Note: The real estate transparency index has been reversed for comparison: higher value means more transparent. Index is being released every 2 years.

Having an accurate and accessible database on real property transactions can help investors plan and make informed decisions. If properly implemented, this can also lead to improved compliance among companies and greater investor confidence.

### Implementation and transitory provisions

After assessing the possible impact of RPVARA, the next critical question would be when these will set in so that affected stakeholders can prepare for the changes. The Implementing Rules and Regulations (IRR) of the Act shall be issued within 3 months after effectivity of the Act. Currently, the Department of Finance uploaded in its website a draft IRR as of August 13 to call for comments and recommendations.

While waiting for full implementation, the Act also provides for transitory provisions. In case that the schedule of market values (SMVs) is not yet updated, current valuations will be used. Zonal values as determined by the BIR and the existing SMVs of LGU assessors shall continue to be in force and effect until repealed, superseded, modified, revised by the new SMVs.

Developing an updated and single valuation of real properties can be a daunting task as it will require a lot of data and collaboration among different stakeholders. But once this is established and properly operationalized, it will provide for standardized valuation and increased transparency in the real estate market which can lead to compliance among real estate developers and foster investments in the industry. Looking at the other side of the coin, how will the increase in RPT brought by the Act affect consumer demand? In the subsequent articles, we will look at how RPVARA will impact consumers as well as the government.

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Ria Ching is a Senior Consultant under Business Strategy Sector of Nomura Research Institute Singapore - Manila Branch. She specializes on taxation across various industries.

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