

THE ASSESSMENT OF SITE VALUE ¹

(a) Professional Valuation

It is simple to assess the annual rental-value of sites, as distinct from their improvements, once expert and qualified valuers continuously observe the conditions of site transfer throughout the entire broad economy. Doing so is no more difficult than assessing Net Annual Values as under the English rating system. Such valuers, who have spent a minimum of three years qualifying for their profession, staff a central valuation Department of Government (headed by a Valuer-General) in each State of Australia, and provide an impartial service as the basis (sometimes in association with improved values) for local government rating and land tax. When implementing a Site Revenue economy, it is imperative that a Commonwealth Valuer-General be established, with the State Valuers-General as deputies.

In N.S.W. such valuations are carried out over a two or three year cycle, but with modern computer aids this could easily be done annually, even quarterly: where the valuations are fresh then the discrepancy between the valuation and actual market sales rarely exceeds 5%. The fact that a city is old presents no impediment to initiating a system based upon collecting the annual rental value of sites. When unimproved capital value rating was imposed on Sydney in 1915 the city was 135 years old, with the central business district fully built-up and a population of three quarters of a million people. Based upon sound valuations the system has continued to operate since that time.

(b) Making an Assessment

In a Site Revenue economy, legislation (which already operates) would require details about sale-prices and rentals of sites to be reported and publicly displayed (thereby preventing graft), at local government level, upon cadastral maps which mark the dimensions and boundaries of every site and the position of significant variables. This raw, primary data would evidence the state of the local free market and would in no way be influenced or manipulated by government or the valuers.

Primary evidence for fixing ground or site values consists of market prices for similar property. Direct evidence of land rentals in a society which customarily holds land under freehold title is more restricted than evidence of freehold sales. Evidence of actual rentals for (ideally) bare or (more usually) improved sites is of more direct value. However, evidence as to sales prices is quite adequate. Where the object is to collect the full annual rental-value of each site, then it would be readily apparent should an assessment be too high or too low. In the former instance the site would be unable to fetch, upon the open market within a reasonable time, the full value of its improvements. In the latter event the under-assessed site will be seen to be transferred at a sale price exceeding that of its improvements. Areas of equivalent use (e.g. residential or commercial) can be analyzed with respect to the effect particular variants have upon the values to be ascribed to sites within them.

¹ See generally the Report of the Board of Review, appointed under the *Valuation of Land Act 1952*; Brisbane, Queensland; Government printer 1953 Appendix C. See also "Rating of Site Values -- Report on Pilot Project at Whitstable (U.K.)" by Mark Wilks, F.R.I.C.S. published by the (English) Rating and Valuation Association, 29 Belgrave Sq., London S.W.1 Feb. 1964.

Such information and valuations are presently available from the Valuer-General's Department upon payment of a substantial fee. Obtaining all the valuations in a neighbourhood would be prohibitively expensive for an individual. Giant real estate organizations such as Hooker's do monitor all the information they want by paying a bulk fee of about \$12,000 p.a. This is really a scandal, since the public pays the salary of the Valuer-General's Department! Their findings should be displayed freely and publicly with the current annual site valuation marked upon each block, such that the flow and spectrum of local values can readily be observed and compared. This administrative openness would prevent any chance of graft, communicate the total picture and promote consistency.

Valuers, seconded from the Department, would declare the annual site value applying to each site, but in doing so they would be performing as scrutineers and analysers of free market forces, rather than manipulators and dictators thereof. Their job, with access to data from across the broad economy, is to study sites which are sold or rented and distinguish how much is due to the improvements upon it and how much to the locational value of the site itself. If these payments exceed those normally made for the relevant improvements then they represent locational advantages (which should properly be skimmed off by the community), whilst any shortfall indicates that the site revenue fixed for that location is excessive. In nominating these annual rental-values, each valuer is concerned to be correct and to develop a sound professional reputation by the time promotion to the middle ranks is achieved, thereby avoiding successful appeals.

(c) Appeal

Appeal lies from a valuation to the courts with the onus upon the valuer to establish that the valuation is "fair" (not, however, "precise"). The valuation must not be manifestly excessive or inadequate² Doubts are to be resolved in favour of the taxpayer³. The existence of demand for a site may be presumed.

(d) Fairness of a Valuation

Ultimately, each valuation of a site's annual rental value must be justifiable as compared to similar sites locally and across the broad economy. This data is collected from the compulsory nationwide sale/rental reports, as cross-checked against information from brokers, auctions, the press, advertisements, land developer's brochures and advice from banks and finance agencies. An assessor, studying the flux of prices for sales and leases across an area and amassing, digesting and swapping data concerning them, will be able to establish approximate "benchmark" values for particular types and sizes of sites in particular zonings. This "benchmark" must then, with caution, be "fine tuned" in the light of conditioning variables and each site's relevant improvements.

(e) Caution Needed.

In accepting data for establishing benchmark values upon certain types of site, assessors must be (and are) careful that the data truly reflects a free market. Competitive interplay is absent in certain types of transaction, such as sales between members of a family, forced sales, purchase by adjoining owners or by mortgagees in possession, and exchanges.

² Report (op.cit. fn.1) p.1.

³ *Commissioner of Succession Duties v. Executor, Trustee and Agency Co. of S.A. Ltd.* (re D. Clifford) (1947) 74 CLR 358.

However, despite anomalous instances and the fluctuating incidence of a buyer's or seller's market, the marketplace for real estate is fairly orderly and rational⁴. The advent of environmental planning has interfered with the free play of market forces and has made the valuer's task more difficult. However "So long as one keeps an eye on the most economic development legally possible and does not consider redevelopment other than what is permitted by the environmental plan as it stands, most of the difficulties disappear"⁵. Where an existing use exists contrary to this plan then it is deemed a permitted use and valued at that (higher) level⁶.

In 1% of cases special difficulties arise, perhaps because the site is excessively large, or an industrial site with excellent access to transportation, a golf course or a claypit. In such cases the assessor may lack direct data for fixing a benchmark, however, using any available materials, the assessor must determine the annual rental which a bona fide lessee would be prepared to pay. It may be necessary to consider hypothetical development and possible profits⁷.

(f) Conditioning Variables.

The exact annual value of each particular site is always affected by variables e.g. the population regularly passing it; its size and shape; whether it is a corner location; whether it is serviced by an alley or a parking lot; its distance from the Central Business District or from particular services and amenities (e.g. parks, public transport, police and fire protection, schools and kindergartens); the availability of utilities (e.g. gas, water and electricity); its aspect, slope, elevation and vista; its natural resources and the ease of extracting them; its soil fertility and weed infestation; its subjection to traffic noise and air pollution; and the quality of its neighbourhood (in terms of education, income, standard of buildings, civic pride, percentage of home ownership and the attitude of financial institutions). Further broadscale, conditioning information is available from the National Census, the Bureau of Agricultural Economics, Local and State Environmental plans.

(g) Improvements.

Whenever market sales or rentals are not of bare sites then the "added value" of visible improvements (e.g. buildings, fences, tracks, orchards) must be deducted to fix benchmarks and actual site values. This applies, however, only to the site in question: the effect or presence of improvements upon neighbouring sites and throughout the country are very much taken into account⁸.

Any assessor's manual records specifications and costs for all typical buildings and structures, including their diversity of fixtures, quality of material and workmanship. Such costs (which are constantly reviewed) are themselves gathered from construction contractors, materials estimators, insurers and financiers. Similar tables are available, based upon a variety of proven data, as to the sale price of used buildings, the life of particular types of buildings and costs of repairs or maintenance. It is therefore possible for an assessor to deduce the "added value" that a building, or other forms of improvements, give to a site.

⁴ Copes "Reckoning with the Imperfections in the Land Market", in *The Assessment of Land Value* (Uni. of Wisconsin Press 1970 p.55).

⁵ M. D. Herps "Assessments of Site Values or Ground Rents for Rating and Taxing Purposes" in August 1984 *Good Government* (AGG, Sydney).

⁶ N.S.W. *Valuation of Land Act* s.6(2).

⁷ *DFCT v. Gold Estates Ltd.*; 51 CLR 509.

⁸ *Tetzner v. CSR Co. Ltd.*, (1958) AC 50.

It may be that where a building is badly deteriorated, or has become completely unsuitable for the type of development taking over an area and must be replaced to make the site viable and competitive, then demolition costs must be deducted. However, a negative site value should not result. Certain improvements, such as the draining of swamps, the filling of recesses, the clearing of vegetation and the application of fertilizers, tend in time to merge with the land such that the original natural quality of the site is forgotten. All Australian States now distinguish between improvements on land and improvements to or of land⁹.

(h) Evolution of a System.

After a few years of high-quality valuation, as publicly displayed, annual rental-values in areas will be well known and established such that any alteration of them will be clearly and evidently traceable to the direct influence of fresh, known variables. The weight given to these will be comparable nationally in accord with publicly-available data. The role of the valuer would be increasingly low-key but always vital: to discover, elucidate, apply and (if need be) justify those variables which require the marking up or down of any particular site's annual rental-value.

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⁹ For this distinction see the dissenting judgment of Isaacs J. in *McGeoch v. Commissioner of Land Tax* 43 CLR 277