Submission No 57

INQUIRY INTO LAND VALUATION SYSTEM

Name: Mr George Citer

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[redacted]

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The Joint Standing Committee On the Office of the Valuer General

Parliament House

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NSW 2000

Dear Sirs,

INQUIRY INTO THE LAND VALUATION SYSTEM

BACKGROUND

In my capacity as Chairman of the Waterfront Action Group (which will make its own separate submission), as an owner of industrial property, on which substantial land tax and council rates are levied and as the owner of a private waterfront residence, on which council rates and land rents are levied by the local council and Roads and Maritime Services, all of which are based on a very poor land valuation system, I have had considerable dealings with the Valuer General (VG) and the Land and Property Information Service (LPI), generally with unsatisfactory results. But having sought advice from property valuation experts from various universities and commercial valuation organisations and having met the Valuer General and several Chief Valuers (both past and present) and senior LPI staff, I would like to distinguish between the Valuer General (Philip Western), who is highly regarded by his peers and others within LPI, who are not so highly regarded.

During my history of battling with the poor valuations provided by the VG's office and poor methodology employed by LPI valuers, I had cause to lodge a complaint with the NSW

Ombudsman and I recall being told by one of his officers that the VG has a very small staff (of one) and that the valuations are actually provided by LPI to the VG. Therefore, the poor quality of the valuations is not the fault of the VG, but the fault of LPI. I have also been informed by one of my valuation consultants and who used to work for the VG's office (for 10 years), that the valuations are not done by LPI, but are contracted out to private valuation firms, who tender for them. Attached is a list of the current contract information obtained from the Valuer General's website and that demonstrates that the contract rates are in many cases under $5.00 per valuation (e.g. Burwood $4.75, Cambelltown $3.81, Blacktown $2.77, Parramatta $3.22, St George/Sutherland $3.78, Central Coast $3.92 and all these figures include GST). For that sort of money one cannot expect much in the way of quality, so the Government is probably getting "rubbish" valuations, in return for a "rubbish" fee. However, there are numerous valuers and District Valuers within LPI and who should be ensuring that the valuations performed by external contractors are of a reasonable quality and I would suggest that this is where the system is poorly lacking.

THE SEAFORTH EXPERIENCE

In early 2006 I received a large increase in my Statutory Land Valuation (SLV) and went door knocking along the Seaforth waterfront, speaking to others about their SLVs and also spoke to local real estate agents about price movements in the market. I found that the average SLV increase along the Seaforth waterfront in early 2006 was about 60%, but the local real estate agents reported that sales prices had declined in the 1 and 3 year periods up to the valuation date of 1 July 2005. I downloaded the "General Valuation Sales Report" for the area from LPI's website, to try to understand what had gone wrong. There were 4 Seaforth waterfront properties listed and for two of them the purchase price was also listed as the "adjusted land value". One of those properties, according to a local valuer had improvements of about $100,000 in value and for which no allowance had been made. The other property had an ultra modern brick and concrete luxury residence, valued (by the local valuer) at about two thirds of the purchase price, yet no allowance was made for that residence, so that the $1,805,000 purchase price was fully attributed to the land value at a rate of $4,982 per square metre (sqm). The local valuer also pointed out that there was a sale next door (to the developed property selected) of vacant waterfront land in the relevant period at $861 per square metre (sqm), so that the $4,982 per sqm of land value attributed should have stood out like a "shag on a rock" to anyone who cared to look. I would have thought that the sale of vacant land in the relevant location and relevant period is the best guide as to land value in the area and wonder why that sale was ignored, in favour of sales of developed land. Obviously the LPI contractor had done a terrible job in selecting the 4 benchmark properties and then adjusting the purchase prices back to an "adjusted land value" and there was no-one at LPI checking on the "garbage" that was being supplied by that contractor.

Under threat of public protest meetings, legal action and after the local Mayor, local MP and local newspaper provided their support to local residents, the Valuer General agreed to revalue the whole Seaforth waterfront and SLV reductions as high as 30% were achieved.

My letter of 4 February 2006 (attached) to the VG goes into some detail about the poor selection of properties to use as benchmark properties. The use of certain properties and the exclusion of others can skew the results (either intentionally or unintentionally) in a particular direction. Where such sales are available, sales of vacant land should be used, rather than developed properties. With developed properties, the Seaforth examples shows that there is considerable undervaluing of improvements, which leads to a corresponding overvaluing of the land.

During the course of this Seaforth protest, we found that the LPI records were not consistent, in regards to leaseholds (for road reserve leases from Manly Council and Roads and Maritime Services wetland leases) attached to freeholds. The Valuation of Land Act requires the VG to value such leases together with the adjoining freehold, but in many cases we found that this information was not listed on title.

THE MASCOT EXPERIENCE

One of my companies owns a large industrial property at Mascot and I keep a very careful eye on what is happening to property values in the area. During the Global Financial Crisis (GFC), I lost I my two tenants and was considering selling the property, as I had difficulty paying land tax and council rates, with no income from the property. But local real estate agents advised me that industrial property values in the area had roughly halved, during that period, so that selling at a reasonable price was not possible. An approximate halving in the market value of developed properties flows through to a much greater reduction in the market value of land. For example, in my case I had improvements valued at about $3.5 million and my developed property suffered a reduction in market value during the GFC from about $7.5 million in 2007 to about $4 million in 2010 (it was independently valued as at 1 July 2010 at $4 million). Therefore the theoretical land value (being the developed value less the value of the improvements) fell from about $4 million in mid 2007 to about $500,000 in mid 2010. However, despite industrial property values in the area having fallen substantially during the GFC, the SLV advised by the VG kept increasing from $3.6 million in July 2007 to $4.441 million in July 2010, being a 22.5% increase (substantially against the real market trend) and my land tax and council rates increased accordingly. The July 2007 $3.6 million SLV was perhaps about 10% below the actual market value, but since then the SLVs have increased each year, against the actual market and have been "works of fiction", rather than being market based.

Each year (following the GFC) I downloaded the General Valuation Sales Report for the area and found that the properties listed were irrelevant, because of the date of the sale, the size of the property and/or very importantly, the zoning. Each year (during that period) I wrote to the VG (whom I had met in July 2007) and he responded sympathetically, agreeing with the basis of my complaints and forwarding on my correspondence to LPI. I consistently objected and with my 2011 objection I included an independent valuation at $4 million (which I obtained at considerable cost), against the $4.441 million SLV as at 1 July 2010. But each year the valuer selected by LPI to review my objection merely confirmed the earlier "rubbish" valuation. I am reliably informed that these valuers who review the objections are selected from a panel of valuers and that if they wish to retain that flow of work, they need to be careful not to "upset the apple cart" too much. So even my expensive independent valuation was ignored, in favour of the contract valuer's "valuation", which cost LPI about $7.00 (current contract is $6.84 per valuation, including GST) and based on 5 benchmark properties, 4 of which were of a different zoning and one of which was 10% the size of my property (so all not relevant). I could have appealed to the Land and Environment Court, but the costs of doing so are prohibitive and would have outweighed any potential benefit..

In 2012, as usual, the SLV went up again (to $4.54 million), based (according to the General Valuation Sales Report) on the sale of a single property of a different zoning. My property has a mixed use zoning without a residential component, whereas the property used as a benchmark had a mixed use zoning with a residential component and that made a huge difference to the value. Once again I wrote to the VG and lodged an objection. But this time (according to my source, who used to work for the VG and knew the valuer appointed) LPI appointed a courageous and "he calls it, as he sees it" valuer to review my objection and for the first time I received a reduction (to $4.35 million) and which I regard as reasonable for the 1 July 2011 valuation date. The market had recovered somewhat in the 12 months after the $4 million independent valuation and the new $4.35 million valuation suggested that my earlier independent $4 million valuation was correct and that LPI's earlier $4.441 valuation (as at 1 July 2010) was grossly incorrect.

So eventually, after much hard work, expense and persistence, I was proven right and I got my reduction. But because land tax is paid on a 3 year rolling average, it will take several years until I receive the full benefit of the reduction and in the interim the earlier incorrect valuations continue to unfairly inflate my land tax.

LAND TAX PAYMENTS SHOULD BE QUARTERLY

As mentioned above, I found myself without tenants (and property income) during the Global Financial Crisis and that made it very difficult to pay land tax and council rates. Fortunately I was able to borrow to meet those payments, but some property owners may not have been so fortunate (to be able to borrow). Land tax is assessed in January for the whole calendar year ahead and is payable in February (or one can pay it over February, March and April, but then a penalty applies). As with council rates, land tax should be paid quarterly, so that the outgoing is more in line with rent collections. There is no logical reason for the Government collecting this huge amount (which in my case represents about half of the total annual outgoings for my property) early in the calendar year, when it spends the money gradually throughout the year and it would make more sense for it be collected over four quarterly payments, as with council rates.

THE OBJECTION PROCESS

During a meeting with the Valuer General and the (then) Chief Valuer in 2007 and in response to a question from me, they indicated that the number of objections had reduced to about 5% and they considered that to be satisfactory. However, when one looks at the very limited basis on which one can object, I would suggest that the great majority of ordinary people find it too difficult and do not bother. I believe that the following should be valid reasons for lodging an objection:

1. Comparing the SLVs of other similar and nearby properties,
2. Comparing previous SLVs for the same property and referring to property sales trends in the local market.

While the actual resolution of the objection may look at other more relevant factors (such as relevant sales in the relevant period), those more relevant factors are difficult for the average property owner to find and the two reasons listed above are more readily available and do indicate a possible problem, which should be investigated.

SUMMARY

1. The current system is directed at performing the valuations as cheaply as possible, but with no regard to quality. A major over-haul of the system is required, so that there is a much greater emphasis on quality and a lesser emphasis on cost.
2. The selection of properties for use as benchmarks is poor and open to possible abuse. Perhaps the introduction of a system of using the median property from a group of relevant property sales would resolve this issue.
3. There appears to be a failure to adequately value the improvements on a property, to get from the sale price of the developed property back to the land value.
4. Where possible, sales of vacant land should be used, as that is more reliable than working back from sales of developed properties.
5. LPI are failing in their responsibility to provide reliable land valuations for taxing purposes.
6. The objection system appears to be designed to make it difficult to lodge objections and thereby limit the number of objections.
7. The objection system would appear to be working in such a way that poor quality valuations are confirmed as being accurate, when they are not.
8. As the valuations are issued in the name of the Valuer General, he needs to be provided with the power and resources to take control of the land valuation system, by having a quality control function, which he does not presently appear to possess.

9. The valuation expertise of the current Valuer General would appear to be wasted, as he is merely the distributor of very poor quality valuations, performed by contract valuers, who are engaged by LPI and which are not subject to any reliable quality control checks.
10. The current land valuation system is seriously flawed and is in urgent need of a major over-haul.

ATTACHMENTS: I have attached a few relevant documents, but I have a much larger volume of documents supporting the various statements above and am prepared to make those available, should the Committee find that to be helpful.

Yours faithfully,

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George R. Citer