

INQUIRY INTO LAND VALUATION SYSTEM

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**Submission to the Parliament of NSW
Joint Standing Committee of the Office of Valuer General**

Inquiry into the Land Valuation System

Professor Michael Hefferan of 5 Mackenzie Green, Buderim, Queensland and Pro Vice-Chancellor and Professor Property and Development, University of the Sunshine Coast states as follows:

I note that the above Committee currently has an inquiry into the land valuation system in NSW and the exercise of the Valuer General's functions with particular reference to:

- volatility in land valuations
- complexity in the valuation system
- drivers of efficiency in the system including market distortions and administration and compliance and costs, and
- any inequity in the valuation system

I have wide academic and practical experience in these areas nationally and internationally and have previously had considerable exposure to and knowledge of statutory valuation applications in New South Wales.

A recent review on behalf of the NSW Valuer General into certain valuations in the Mid- Western local authority has been completed. There no ongoing relationships with any individual or organisation in New South Wales in the public in the private sectors.

On the basis of the above, the following observations are presented:

(1) Ad Valorem Taxation

Ad Valorem taxation systems (i.e. those based on the assessment of asset value) are some of the oldest and most robust forms of government revenue raising and represent part of the taxation mix for practically all governments throughout the developing and developed world.

In economic terms, their soundness and longevity arises from their relative simplicity, level of understanding and, on the face of it at least, equity. The tax base is easy to

identify as is its ownership; it is (again on the face of it) a progressive tax and has relatively few exceptions.

As land values and complexity of land uses have increased over time, computer base valuation models and quality assessment systems have been enhanced to address these changes and the scale of the task. Consistency in definitions and certainty in process and operations also assist in maintaining credibility in the approval taken.

(2) The New South Wales System

The NSW statutory valuation system is the most sophisticated in Australia – as would be expected given the number of assessments to be carried out and the complexity and value of that asset base.

The system is based on the outsourcing of practically all valuation assessments to private contractors. There is a competitive market to provide those services. In practise, little importance should be placed on who actually undertakes the valuation – given all practitioners, public or private, are registered and are therefore accepted as having a certain level of professional competency. Most are members of a professional organisation, the Australian Property Institute, which has established guidelines for professional behaviour. International valuation standards also apply. Consequently, whether valuations are undertaken within the government body, are outsourced or some mixture of both (eg where the bulk of valuations are undertaken by government valuers, but more complex cases by external specialists) is not really the key issue. All of these are simply methods of delivery – the quality, cost effectiveness and timeliness are critical criteria.

In New South Wales, the role of LPI (Land Property Information) has evolved considerably over time. The actual role/function and responsibilities of that organisation perhaps need to be clarified in the interest of all stakeholders. At the moment LPI appears to act largely as contract managers and rely on computer based modelling as a basis for quality assurance. These roles are absolutely vital but equally important for the systems are their 'on the ground' market knowledge and unbiased advice to the Valuer General. The role and level of market knowledge of the District Valuers is very important in this, as is their level of local networks and stakeholder/client management. That involvement may have been somewhat limited in recent cases known to the author. Whether that is being successfully achieved in the wider context perhaps needs some consideration.

In all of this, it must be understood that these systems relate to statutory/mass valuation, and whilst high professional quality can be expected, the task is not the same as, say undertaking a one-off valuation in a commercial/financial environment. This implies that there is invariably some inexactitude in the systems and, given the dynamic and idiosyncratic nature of property assets, and given that professional opinion is involved, no one can ever guarantee such a system will ever be '100% correct'.

Systems however should be of high quality, building on previous data bases and being continually refining and improving methodologies. On this basis there should be relatively small proportion of objections – though levels of objections themselves should not be seen as the only performance indicator. Rather the hallmarks of quality system more relates to overall accuracy and timeliness and to its ability to quickly identify and remedy aberrations and, subsequently, improve that system to avoid recurrence.

(3) Valuation Levels

In the assessment of statutory value a 'conservative market assessment' 'should be made'. This means statutory valuation assessments should be at market, but based on proven evidence and certainly not leading or projecting market trends. It is dangerous however to purposely 'value low' – this distorts relativity and introduces a range of other complications and subjectivity regarding the 'conservative margin' applied. Quality systems need to ensure such an approach.

(4) Valuation Methodology

A range of assessment methodologies are available for statutory valuation.

Unimproved value is no longer used in urban Australia. (Queensland was the last State to abandon that for urban land at least in 2010). Site value is used across most states and, despite diverse anecdotal opinion, is fairly well understood and accepted by land owners.

In 2009 -2010, Queensland had the opportunity to move to any systems it wished but chose site value for urban lands. Full capital value is simply too difficult to establish and accurately maintain for the quite limited value-add that it provides. It can be said to be a disincentive to development/investment (though those claims seem problematic). In any case site value would still be required for land tax assessment and a move to capital value is not recommended, even though it is understood that the option exists in the NSW legislation.

(5) The Role of the Valuer General

The role of the Valuer General as an independent statutory officer is critical across all systems. For some 15 years Queensland alone had no Valuer General and the lack of that experienced, independent officer represented a primary cause for some of the largest and, for Government, most embarrassing and expensive property litigation in Australia's history.

In NSW the resources to the Office of the Valuer General need to be enhanced to undertake a role of specific investigations, audits and quality investigations that officer requires, so allows LPI to better focus on their core business.

(6) Objections

Objection applications for land holders in NSW appear unnecessarily onerous and require a level of expertise beyond normal citizens. It has been reported to the author that the current system 'openly discourages reasonable objections'. Current arrangements need to be reviewed fully.

NSW alone across Australia manages objections using a system that sees valuations reassessed by third party valuers not previously involved in the assessment. This was established under the Walton review and subsequent follow-up reports. Whilst obviously well intentioned to provide a transparent system, it is the author's opinion that its impact is limited except in adding considerably to the cost and to the time for assessment.

The original assessing valuer needs to be accepted as an expert and therefore to defend his/her professional opinion through to litigation as an expert, friend of the court, if necessary. The current NSW objection process relieves that person from that responsibility and introduces a third party who bears little responsibility for wider relativities and may have little previous knowledge of the region. Unfortunately also, it provides an opportunity for the emergence of real conflicts of interest between valuers.

Further, it will often result in the presentation to LPI of two differing values from two professionals. There appears to be no analytical process to accurately resolve such differences, given particularly that neither value has been tested or cross-examined.

The currently adversarial nature of the entire objection process needs to be reconsidered in terms of contemporary Alternative Dispute Resolution (ADR) practices. An innovation in that exists in the new Queensland legislation where objections on high value properties are addressed at conferences chaired by an independent expert. This has provided remarkable outcome /settlement results in its first two years of operation and the NSW Government may well wish to consider the saving of money on its current objection appeal systems and to consider more innovative ADR options.

(7) Communications

The NSW Valuer General has made conscious efforts to enhance understanding of and information to the wider community. These incentives are critically important in adding to transparency and confidence into the process and funds allocated to those activities are very well rewarded. The strategies for this need to use contemporary communication and ensure that they are in forms easily comprehended by land owners.

Dealing with Contractors

The author is aware that relationships between the API and contractors are relatively poor in a number of cases. Such relationships will always need to be at 'arms-length' and disagreements will almost invariably occur from time to time in such dealings. Care must be taken however to ensure that all parties always work to the same end – that being the timely presentation of accurate assessments.

Over the last three to four years, LPI appears to have moved back from direct valuation 'value-add', concentrating more on a fairly pedantic approach to contract management involving staff who may have very limited knowledge of the technicalities of property assessment. This approach may need to be reappraised and a more professionally collegiate one, based on improved communication and information sharing, considered.

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