

INQUIRY INTO LAND VALUATION SYSTEM

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WATERFRONT ACTION GROUP

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The Joint Standing Committee on the Office of the Valuer General
Parliament House
Macquarie Street
SYDNEY
NSW 2000

Dear Sirs,

RE: INQUIRY INTO THE LAND VALUATION SYSTEM

BACKGROUND

After the Valuer General (VG) in January 2006 advised waterfront residents of Seaforth of an approximate 60% increase in his valuations of their properties, I wrote a series of 3 letters to the VG in February 2006, dealing with the effects of his valuations on property owners and suggesting that he needs to take greater care with those valuations. One of those letters dealt with the rents paid to Roads and Maritime Services (RMS) for wetland (mud & water) under jetties, boat-sheds, mooring pens etc and which are calculated by a formula devised by IPART in 2004 and still in use today.

In response to my letter, in March 2006 the VG sent a Land and Property Information (LPI) valuer to visit me and he passed on comments from the VG that the IPART formula (which I had included in my letter to the VG) was "fundamentally flawed" and "produces meaningless figures". Following that revelation, the Waterfront Action Group (WAG) was formed and engaged in a (so far unsuccessful) campaign to have that flawed formula replaced with a new fundamentally sound formula, which WAG has devised with the assistance of a Professor in Property Economics and a property valuer, who used to work for the VG for about 10 years.

On 1 June 2007 two members of the WAG Committee (including myself) had a meeting with the VG and the then Chief Valuer (CV) and showed them a RMS document, displaying wetland rents in Middle Harbour, varying from \$6.38 per square metre (sqm) in Castlecrag to \$55.02 per sqm in Seaforth (a short distance across Middle Harbour) to \$68.95 per sqm at Cammeray. The flawed IPART formula uses the VG's valuations as one of the inputs and we asked the VG and the CV whether it was their valuations which were responsible for such wildly varying rents in a relatively small area, such as Middle Harbour. At that time the VG and the CV confirmed that the IPART formula was "fundamentally flawed" and "produces meaningless figures", because it favours precincts comprised of larger properties with lower wetland rents and discriminates against precincts comprised of smaller properties with higher wetland rents. The flawed IPART formula is still in use today and is responsible for current wetland rents in the Hunters Hill area of \$17.85 per sqm, while across the Paramatta River smaller properties in the Balmain area pay \$42.96 per sqm. Another useful comparison is larger properties in the Hunter precinct paying \$0.56 per sqm, while smaller properties in the neighbouring Lake Macquarie precinct pay \$6.03 per sqm and \$7.75 per sqm in the Brisbane Water precinct. All

these widely varying figures are the rent charged for the use of one square metre of mud and water (and oyster covered rocks) under a jetty, boat-shed or mooring pen for one year.

During our lengthy campaign, WAG has sought the advice of a large number of property valuation academics from various universities and property valuation consultants (in private practice) and several of those have recommended the VG as having a good knowledge of property valuation fundamentals and methodology (and therefore having the technical capability to advise the Government on how to fix the problem). However, also during our campaign, we have had considerable contact with senior executives and valuers from LPI and while we and our property valuation advisors hold the VG (i.e. Philip Western) in high regard, we (and they) have a different opinion of LPI and their processes. Unfortunately, the VG does not appear to have any control over the very poor quality "valuations" that emanate from LPI and it seems that the VG's current function is to merely distribute the very questionable "valuations" produced by private contractors for LPI, which appears to have as its main focus keeping the cost of producing hundreds of thousands of "valuations" to a minimum, with no regard to quality. With those "valuations" currently costing as little as \$2.77 each (including GST), LPI has done a fabulous job in getting costs down, but what can be done with those cheap "valuations" is open to question. They are certainly not suitable as a basis for assessing land tax, council rates and wetland rents.

FLAWED LPI REPORT FOR IPART

Following WAG's lengthy campaign and an investigation by the NSW Auditor-General, the NSW Government requested IPART to review its flawed formula and which review occurred during 2011. IPART tinkered with a few of the inputs into the formula, but the flawed formula survived and it still "produces meaningless figures" (as per the examples provided above). WAG pleaded with the Minister for Roads and Ports to have IPART seek advice from the VG and despite assurances that they would, instead they engaged LPI to produce a consultancy report on one of the inputs in the flawed formula. IPART then used that very flawed LPI report to justify the retention of a 50% discount (which was introduced in 2004, based on roughly "we don't what it is so let's use 50%"), as the basis of valuing government controlled wetland (i.e mud & water, subject to very limited use, uncertain tenure and strict conditions) compared to the value of adjoining freehold land (on which private waterfront dwellings are built). WAG and its valuation consultants (including a Professor in Property Economics) were highly critical of the LPI report and on 9 November 2011, three members of the WAG Committee and one of its valuation consultants held a 6 hour meeting with senior LPI staff (including the CV, for some of that time). At the end of the meeting we received an apology for the poor quality of the report and those present indicated that they would ask the CV (who had then left the room) whether he was prepared to alter the report. The report to IPART was not changed and the incorrect 50% discount factor is still in use across NSW. WAG's analysis of 504 pairs of LPI valuations (wetland and adjoining freeholds), which WAG purchased from LPI and another 145 pairs earlier obtained from LPI and RMS, bringing the combined total to 649 being all such pairs in the state, shows that the discount varies enormously from about 87% in Sydney, to about 74% up to about 100 km from Sydney and to about 25% beyond about 100 km from Sydney. So a 50% discount across the whole state is "garbage" and was supported by a seriously flawed report from LPI. It is important to note that LPI's own data does not support the conclusions which LPI reached in its report to IPART and that WAG's very different conclusions are all

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based on analysis of LPI data. A copy of the WAG document (and which formed part of our submission to IPART) criticising the LPI report is attached (Annexure 1). Also attached is a submission (Annexure 2) and supplementary submission (Annexure 3) to IPART, dealing with this particular matter.

In analysing the data received from LPI and RMS (note that the RMS data was sourced by them from LPI, so that all the data originated from LPI), WAG's experts (who include an ex senior manager from LPI) found huge discrepancies in the wetland valuations, with some obviously too high (some being at a premium to the value of the adjoining freehold) and others obviously too low (with extreme discounts, compared to the average or median). Therefore WAG's experts had to discard the top and bottom quartiles and work only with the middle two quartiles. It was clear to WAG's experts that some of the contract valuers did not have a clue as to what they were doing and WAG was concerned that obvious errors were not being picked up by LPI. WAG wrote to the VG about this and as a result a number of "reascertainments" were performed in about October 2011, resulting in valuation increases of up to 1,995% and valuation reductions of up to 92.5%. These are massive adjustments and demonstrate how unreliable the original valuations were. But even some of those revaluations are questionable. For example, the mud & water under two neighbouring boatsheds at Fairlight were revalued at \$200 per sqm for one and \$500 per sqm for the other. In Mosman 2 wetland occupancies were revalued at \$32 per sqm for one and the other at \$631 per sqm. Two in [REDACTED] Darling Point were revalued at \$1,480 per sqm for one and the other at \$11,000 per sqm. Eight in [REDACTED] Point Piper were revalued at between \$1,794 and \$13,333 per sqm. A sheet listing these reascertainments is attached (Annexure 4), as well as a notice to WAG members (Annexure 5), dealing with this matter.

WAG ANALYSIS OF LPI DATA

WAG's analysis is focused on LPI's valuations of wetland occupancies (mud & water under jetties, boat-sheds, mooring pens etc), compared to their valuations of the adjoining freeholds. (That was performed for the purpose of supplying IPART with actual discounts applied, so that IPART had something real, rather than its 50% guesstimate.) Examples of WAG's analysis of LPI valuations are attached. A perusal of the two spread-sheets supplied will reveal numerous inconsistencies and weird "valuations" by contract "valuers". But for illustrative purposes, we draw the Committee's attention to the following examples:

SYDNEY SPREAD-SHEET (Annexure 6) – We have reduced this from 145 pairs provided by RMS and LPI (of separately valued wetland occupancy and matching separately valued freehold at the same address) to 67 pairs, by eliminating freeholds over 2,000 sqm and occupancies below 10 sqm (the reason is to remove distortions caused by very large freeholds and very small occupancies). We direct the Committee's attention to columns I and J and the huge variation in occupancy valuation per sqm in column I and the greatly varying relativity between the value per sqm of the occupancy to the value per sqm of the freehold in column J. At opposite ends of the scale are lines 30 (a Vaucluse property, where the occupancy is valued at \$120.90 per sqm and at 1.12% of the value per sqm of the freehold) and line 51 (a Hunters Hill property, where the occupancy is valued at \$2,100 per sqm and at 118% of the value per sqm of the freehold).

It is interesting to compare the \$22,000 valuation of the 182 sqm occupancy at line 30, with the one at line 29, which is for the next door property and for an 81 sqm occupancy, valued at \$157,000. In what can only be described as bizarre, the valuation of the smaller of those two neighbouring occupancies was further increased to \$221,000 in the "reascertainment" process in about October 2011, but the valuation of the larger one was left at \$22,000, so that the end result was that the smaller one was valued at ten times the larger one (next door).

REGIONAL SPREAD-SHEET (Annexure 7) - On the same basis as the Sydney spread-sheet, we reduced this one from 504 pairs purchased by WAG from LPI to 400 pairs. We direct the Committee's attention to columns K and L and the huge variation in occupancy valuations per sqm in column K and the greatly varying relativity between the value per sqm of the occupancy to the value per sqm of the freehold in column L. The following examples will serve to demonstrate our concerns:

1. Eurobodalla LGA – occupancy values \$41.96 to \$698.86 per sqm, Relativity occupancy value to freehold value per sqm from 7.3% to 943.5%.
2. Gosford LGA – occupancy values \$6.67 to \$559.26 per sqm. Relativity occupancy value to freehold value per sqm from 1.3% to 212.6%. In Brisbane Water the contractor has valued a large proportion of the total number at either \$2,480 or \$3,800, irrespective of size or location (but for about \$4.00 per valuation, what can one expect?). We direct the Committee's attention to lines 74 to 80, where occupancies ranging from 18.5 sqm to 132 sqm are all valued at \$2,480. (But there are many others also valued at \$2,480 or \$3,800.)
3. Lines 192 & 193 are both valued at \$15,000 and in the same area, but one is 12 sqm and the other is 82.6 sqm. One is valued at \$181.69 per sqm being 23.5% of the freehold value per sqm, while the other is valued at \$1,250 per sqm being 286.9% of the freehold value per sqm.
4. Lines 270 & 271 are properties in the same street. One has the occupancy valued at \$184.03 per sqm and 20.1% of the freehold value per sqm, while the other occupancy is valued at \$529.41 per sqm and 140.5% of the freehold value per sqm.
5. Lines 317 & 318 are both properties at Terara. One occupancy is valued at \$93.07 per sqm and 49.3% of the freehold value per sqm, while the other occupancy is valued at \$528.46 per sqm and 254.5% of the freehold value per sqm.
6. Lines 319 to 336 are properties at Sussex Inlet, where the occupancies are valued from \$59.54 per sqm to \$588.89 per sqm and from 22.8% to 257.8% of the value of the freehold per sqm.

Bear in mind that the wetland occupancy is held on a leasehold or licence basis and the lease or licence can be terminated on short notice. Also there are very severe limitations as to what can be built on the wetland and it may have to be demolished, if the lease or licence is terminated. Therefore for the wetland to be worth more than the adjoining freehold (on which a residence is or can be built) is rather a curious concept.

SPECIAL NOTE: The VG has advised us that with waterfront properties, some of the value is in the fact that the property is on the waterfront, so that a property of 1,000 sqm will not be valued at double the value of a 500 sqm property. We recognise that, but there is no way that 7 occupancies in the same area and ranging from 18.5 to 132 sqm could all have the same value of \$2,480. Similarly two occupancies in the same area of 12 sqm and 82.6 sqm should not both be valued at \$15,000. And it is not reasonable for wetland occupancies held under very strict terms and on uncertain tenure to be valued at more per sqm than the adjoining freehold, on which private residences are or can be built.

UNUSUAL FREEHOLD VALUATIONS - It is outside our area of expertise, but we would suggest that there are some waterfront freehold valuations on the Regional Spread-sheet (Annexure 7) which deserve closer examination. One needs to bear in mind the comments of the VG, that values of waterfront properties are less influenced by size and other factors, than non-waterfront properties. The following examples raise questions as to their reasonableness:

1. Lines 6 & 7 – 2 properties in the same street at Woombah and of similar size, one valued at \$205,000 and the other at \$158,000.
2. Lines 16 to 29 – 14 properties in the same street at Mossy Point, with the smallest valued at \$808,000 and the largest (more than double in size) valued at \$390,000.
3. Lines 32 & 33 – 2 properties in the same street at Spencer, with the smaller valued at \$230,000 and the larger (3 times in size) valued at \$113,000.
4. Line 41 – A property at St Huberts Island of average size amongst 15 at the same location and valued at less than half the average for the area.
5. Lines 79 & 80 – 2 properties in the same street at Woy Woy and of similar size, one valued at \$341,000 and the other at \$610,000.
6. Lines 102 & 103 – 2 nearby properties described as being on the Hawkesbury River at Patonga and of similar size, one valued at \$382,000 and the other at \$554,000.
7. Lines 108 & 109 – 2 properties at Koolewong, with the larger one valued at \$125,000 and the smaller one valued at \$777,000
8. Lines 112 & 113 – 2 properties in the same street at Horsfield Bay, with the larger one valued at \$268,000 and the smaller one valued at \$459,000.
9. Lines 227 & 228 – 2 properties in the same street at Coal Point, with the larger one valued \$292,000 and the smaller one valued at \$545,000.
10. Lines 312 & 313 – 2 properties at Church Point and of similar size, one valued at \$892,000 and the other at \$1,350,000
11. Line 325 – A property of average size at Sussex Inlet and valued at only \$169,000, amongst 17 others valued at about double that figure.

CONCLUSION

The average citizen receives his/her own single "valuation" from the VG and does not have the capacity to analyse that "valuation" against a large volume of LPI's other "valuations". Because of its activities at the time, WAG was able to analyse a large volume of LPI's "valuations" and found that they do not stack up to a thorough analysis. WAG is of the view that the VG needs to be provided with sufficient resources to take control of the land valuation system and not simply act as a distributor for very poor "valuations" performed by contract "valuers" at bargain prices, under the control (or lack of control) of LPI. There needs to be a strict quality control system put in place (such as a 1 in 10 check by LPI valuers, with the contractor suffering a financial penalty for making errors), so that rubbish "valuations" are found and rejected, preferably by skilled staff under the control of the VG. The current system is a disgrace and the current Government should be ashamed of what it inherited and take urgent steps to fix it.

Yours faithfully,

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George R. Citer
Chairman, Waterfront Action Group

ANNEXURES

1. Some Criticisms of the LPI Consultancy Report for IPART 13/11/2011
2. WAG Submission to IPART (relevant pages only) 13/11/2011
3. WAG Supplementary Submission to IPART 17/11/2011
4. List of Reascertainments provided to WAG by VG (November 2011)
5. Memo to WAG members, dealing with the reascertainments 24/11/2011
6. WAG Analysis of 67 Pairs of Sydney LPI Valuations
7. WAG Analysis of 400 Pairs of Regional LPI Valuations

NOTE: Items 6 & 7 are Excel Spread- sheets which can be provided electronically if preferred.

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13 November 2011

SOME CRITICISMS OF THE LPI CONSULTANCY REPORT

[Including comments in square brackets relating to a full day meeting between WAG and LPI on 9 November]

NON-INVOLVEMENT OF NSW VALUER GENERAL

1. During the course of its investigations, WAG consulted numerous property valuation experts and several had stated that they had a high opinion of the valuation capabilities of the Valuer General, Mr Philip Western. At a meeting on 1 June 2007 with the current WAG Chairman and the then BOA President, Mr Western indicated that he was prepared to provide advice to IPART, if requested. WAG was recently assured by IPART that the Valuer General was being consulted and the Roads and Ports Minister recently provided a similar assurance. We note that the LPI consultancy report has not been signed by Mr Western and we therefore do not have the same confidence in its fundamental correctness, as if he had signed it. [LPI have confirmed to WAG that Mr Western was not at all involved in their report for IPART. LPI advised WAG that they agreed with LPI valuer [REDACTED] the Valuer General and the previous Chief Valuer that it is fundamentally incorrect to divide the SLVs of waterfront properties by their area (as per IPART's PSLV formula), because the result is a "meaningless figure".]

COMMENT ON ANALYSIS BY LPI OF WAG SUBMISSION

2. In regards to the analysis by LPI of our work on the discount multipliers, we note the following:
 - a) There is no discussion about the fact that the rate of return relates to land and house packages and needs to be discounted back to an appropriate ROR for unimproved land. The Crown Lands Act at S. 143 (1) (a) states "the rent shall be the market rent for the land", not "land and house packages". [LPI conceded to WAG that the ROR on land might be different to the ROR on land and house packages, but stated that they were not asked by IPART to consider that matter.]
 - b) Annexure 12 of the LPI report only covers Sydney Harbour, whereas our analysis also covered Pittwater and Georges River. [LPI agreed that our sample was for a broad sample of 3 waterways and could not answer why their map only dealt with Sydney Harbour samples.]
 - c) Annexure 8 of the LPI report notes that "22 water reserve properties listed in the WAG analysis were excluded, as they could not be identified from the information supplied". We provided all the source data, which came from LPI and NSW Maritime. We presume that the 22 properties which could not be identified were in the data supplied by NSW Maritime and a simple telephone call to NSW Maritime should have resolved the problem. We have now received from NSW Maritime (within 24 hours of our request) address details of those 22 properties. Why did not LPI make a phone call to NSW Maritime to resolve this problem? [LPI advised WAG that they decided to delete any properties that were not directly adjoining a freehold. That decision by LPI

caused the discount multiplier to be higher than it should be, because the deleted samples had low discount multipliers.]

- d) The complaint that our “valuation data....contains significant inconsistencies, including duplication and inconsistent SLV base data” is curious when the data was sourced from LPI and NSW Maritime (which sources its data from LPI). We did check for duplication between the LPI and NSW Maritime sourced data and removed any where we could find identical or very close area sizes in specified postcodes. But the NSW Maritime data did not include street addresses. We have now received from NSW Maritime (within 24 hours of our request) that additional information (on a confidential basis) and which has enabled a more perfect cross-checking with the LPI data, which did include street addresses. We have now removed from our sample a number of duplications, but added in some others that we have found, with the help of NSW Maritime, so that we now have 145 samples in 3 waterways.
- e) The comment “general over-representation of higher valued properties and use of a number of relatively low value occupancies in the WAG analysis resulted in higher discount factors” is strange when we used all the data supplied to us by LPI and NSW Maritime, and only removed the top and bottom quartiles, so as to ignore unusually high and unusually low observations that might distort the result. Taking the middle two quartiles provided a sound basis to our conclusions. Alternatively, WAG is quite prepared to leave in all the samples and use the median (which effectively ignores the extreme results at both ends), the result of which is now a discount of 86.31% and a discount multiplier of 13.69%, as applied to waterfront PSLVs, or a discount of 68.01% and a discount multiplier of 31.99%, as applied to a postcode median, based on our latest exercise of 145 samples. Had we not removed any of the observations from both ends and used all 144 samples in our earlier exercise, and used a median instead, the result would then have been a discount of 87% and a discount multiplier of 13% related to the waterfront PSLV, or a discount of 66% and a discount multiplier of 34% related to the postcode median.. But it was obvious to us that a number of valuations were either too low or too high, so to be fair we removed an equal number at each end and worked with the remainder. [LPI agreed that WAG had, with its assistance, considered a broad range of samples in 3 waterways. LPI agreed that there were some values that were too high and some too low and agreed with WAG’s approach to remove the top and bottom quartiles and work with the 2 middle quartiles. There was some discussion about an 80/20 rule, which would mean that only the top and bottom 10% are removed and which WAG is prepared to accept, as a compromise]
- f) The complaint that we used a “geographically concentrated sample” seems unfair, when we had to pay for the data provided by LPI and when Sydney Harbour, Pittwater and Georges River, from where our 144 examples were drawn, provides most of the rental revenue base for the Government. We note that for its benchmark properties, LPI used only 3 Port Macquarie properties for the North Coast and only 3 Batemans Bay properties for the South Coast, while for Brisbane Water they used 3 from Brisbane Water East, but none from Brisbane Water West and on the Georges River they included no samples from Precincts 2 and 4. We also note that Annexure 6 (relating to sale of small land parcels to adjoining owners) was restricted to the Woollahra Council area. LPI

with all its resources is using a very small sample of 52 (which is considerably smaller than our sample) to calculate the discount factor or multiplier. [LPI stated that it was limited to using data where there was good commercial marina rental evidence available and which they discounted by 20% to 30%] WAG strongly disagrees with this approach..

- g) We note that LPI is revaluing 37 of the 86 properties that they did not remove from our 144 samples, on the basis that they were wrongly valued. That represents a 43% error rate, which is very concerning. In regards to Sydney Harbour Precinct 1, they reduced our sample of 45 occupancies to 38 and then re-valued 27 of those (71%), which is even more concerning. In June 2007 the Valuer General and Chief Valuer admitted that there was a level of inaccuracies in SLVs, but stated that it was in the region of 5% and that they were working to reduce that rate. WAG wonders whether in changing a high proportion of the valuations, the subject of the WAG analysis, LPI has “moved the goal posts mid-game”. WAG is concerned that our objective data is being replaced by subjective data. [LPI stated that generally the objection rate had substantially improved to now be closer to 1%. They agreed that in this instance the “error” rate was unacceptable.]
- h) In their work on our 144 samples, LPI removed a significant number of occupancies where the discount was high, and then increased the valuations on a large proportion of the remainder. But there was a significant number of valuations in our sample which were obviously valued too high. There were 3 where the wetland was valued on a square metre basis at more than 100% of the adjoining freehold (105.35%, 109.42%, 186.44%). LPI did not have those re-valued down, which one would have expected. And while we took out the “strange” valuations at each end, before taking an average of the middle two quartiles, it appears to us that LPI “adjusted” only the bottom two quartiles and left in all the “strange” figures in the top quartile, when taking an average. We have been asked “Was LPI trying to achieve a particular outcome, or were they simply sloppy?”. [LPI stated that they will revalue the SLVs that were obviously too high, but their contractors had not yet got around to doing those]. Having only got around to revaluing the low ones obviously skews the results.
- i) There is one further problem for LPI. WAG has received advice from the Valuer General and its own property valuation consultants that the recent re-valuations are subject to the usual objection process. Property owners have 60 days to object and if they do, it may take many months until those objections are resolved. Some occupancy owners may even choose to challenge the re-valuations in Court, in which case it could be upwards of 12 months until the re-valuations are final. But LPI has used the re-valuations in their exercise for IPART, as if they were final. WAG is of the view that LPI should have used the only final values currently available – the original values, as used by WAG. [LPI agreed that the new valuations were “fluid” and subject to change and should not be used in any valuation exercise.]
- j) WAG notes that 26 occupancies were deleted by LPI from our sample, because they did not adjoin freehold properties and we compared them to the freehold component of the PSLV (which was the next best thing available to us). We note that LPI has compared its 52 benchmark samples to the PSLV (as we did with only 26 out of 144 samples). On the same basis that LPI deleted 26 of our

samples, they should delete all 52 of theirs (i.e. wetland value comparison with non adjoining dry land value). [LPI and WAG failed to agree on this point.]

- k) WAG and its property valuation experts are amazed at the statement by LPI "The comparison of occupancy land values to directly adjoining land values was considered inappropriate.....LPI chose comparison to the existing PSLVs as more appropriate". There is nothing more appropriate from a valuation perspective than the land that directly adjoins another parcel of land. LPI has rather chosen to compare the value of a parcel of wetland to the average value of (in most cases) hundreds of parcels of waterfront freeholds and adjoining wetland over a wide area. WAG and its property valuation experts do not consider that LPI has adopted sound property valuation theory and methodology in this approach. [One of the issues raised by LPI is varying freehold sizes distorting the figures and WAG has some sympathy with that view.] But using a waterfront PSLV does not solve that problem (e.g. Sydney Harbour precincts 3 and 4 have hugely different average freehold sizes). This issue was raised by LPI valuer, [REDACTED] the Valuer General and the Chief Valuer in 2006 and 2007, when they stated that the PSLV formula is fundamentally flawed and produces "meaningless figures".
- l) The statement on page 14 "*LPI considered that the use of median Land Values from postcodes did not provide the appropriate basis for determining the value of Waterfront leases*" completely overlooks the fact that the aim of the exercise is not to value waterfront leases, but to determine a market rent applicable to those leases. Valuing waterfront leases might be appropriate, if a waterfront rate of return (ROR) was calculated to apply to such valuations. But since the ROR is calculated using median postcode SLVs and median postcode rents, the only correct application of that ROR is to the same median postcode SLV. That is basic valuation theory and WAG is surprised that LPI has not recognised that and advised IPART accordingly. [LPI stated that this was outside the instructions set by IPART, but agreed that the ROR on waterfront properties within a postcode could be different to the ROR of the median property within the same postcode. LPI agreed that there was a mismatch involved in applying a postcode based ROR to a waterfront PSLV, but stated that IPART had not asked LPI to consider that matter.]
- m) We agree with the LPI statement on page 14 "*The properties within a postcode vary considerably and may have little in common with waterfront property*". One of the things that varies considerably within a postcode is the ROR and the median postcode ROR will be very different to the waterfront ROR. Therefore, as property valuers, LPI should have pointed that out to IPART. [LPI agreed that there was a need to "compare like with like" and suggested that WAG raises this matter with IPART, as it was outside their instructions, as set by IPART.]
- n) The statement on page 15 "*If a postcode basis were to be used, LPI considers the average provides a better representation of the market movement, inclusive of waterfront properties, than the median*" overlooks the fact that the ROR has been calculated using postcode medians and having one factor based on medians and the other based on averages is fundamentally incorrect. The median is generally used in the property market, as averages are more affected by a few very high or low observations. The median (being the one in the middle) ignores observations that are out of character with the bulk of

observations in a market. It appears to us that LPI have re-written property valuation theory just for this report. [LPI agreed that there was a difference between averages and medians and expressed a preference for averages. But they acknowledged that one could not apply a median based ROR to an average based SLV. When advised by WAG that IPART had decided to use a median based PSLV, LPI stated that their figures would need to be changed from averages to medians, to make them relevant.]

- o) On page 19 LPI states that we sourced data from them, NSW Maritime and Crown Lands. This is not accurate. Most of the data was supplied by LPI and a smaller number was sourced from NSW Maritime. None was sourced from Crown Lands.
- p) On page 19 LPI states that it compared the valuations of the separately valued wetland to the PSLV (which, in the case of the median, might be many kilometres away), rather than the adjoining freehold (as WAG did). That is not sound from a property valuation perspective
- q) On page 19 LPI states that there was some duplication of properties supplied by us. The data supplied by NSW Maritime was supplied on a postcode basis and did not include street addresses. We cross-checked with the data supplied by LPI and eliminated any within the same postcode that had the same or similar area size. If there remained some duplication, then there is a discrepancy between the area sizes recorded by NSW Maritime and LPI. [LPI recognised that there were problems with the area sizes in their data base, compared to the NSW Maritime data base.]
- r) On page 19 LPI criticises us for using 3 year averages in some cases (as opposed to 2010 values supplied by LPI). These would have been supplied by NSW Maritime in that form, and we had no means of unravelling a 3 year average. But it is the relationship of the SLV of the wetland to the SLV of the adjoining freehold that we are measuring and a 3 year average of both is actually better than a single year of both, because it is based on 3 times as many observations (i.e. enlarges the sample) and smooths any unusual valuations. NSW Maritime has now supplied us with 2010 values for those properties, so in our latest exercise we have been able to use all 2010 values.
- s) On page 19 LPI claims that it compared the wetland land values to the average of the postcode SLVs, rather than the median. That is not sound from a property valuation perspective, as the average can be affected by a few very unusual observations at either end of the scale. [LPI agreed that there was a need for consistency and that it would need to rework its figures based on medians.]
- t) On page 20 LPI complains that where a wetland occupancy did not adjoin a freehold, we compared it to an "average value", that they were unable to verify. In fact we compared it to the freehold component of the PSLV (which is close to what they chose to do with all their 52 samples). We were only a telephone call or email away, for clarification purposes, but LPI rather chose to delete a large portion of our samples, which had lower than average values and which supported a higher a discount. [LPI and WAG disagreed on the need to include samples of occupancies adjoining public reserves, but LPI were quite interested in the concept that WAG had removed the occupancies from the PSLV before doing a comparison. They acknowledged that in not removing the occupancies

from the PSLV before doing the comparison, they had partly compared the occupancy to the occupancy.]

- u) On page 20 LPI seems to be suggesting that we selected a large number of properties in the "Woollahra and Hunters Hill Local Government Areas". We used all the data supplied to us by LPI and NSW Maritime, which covered Sydney Harbour, Pittwater and Georges River. We paid LPI about \$2,500 for their time in searching their records for these samples and we felt that it would not be cost effective to spend much more time and money searching for samples in other waterways, when we were of the view (based on a LPI source) that we had captured about 75% of the total number in the state and that those were from the waterways where the majority of the rent revenue came. After we provided KPMG with some examples of separately valued occupancies in late 2009, they included a reference in their February 2010 report that this matter be further investigated. Nothing was done, until we did it this year and then with limited time and resources. The Government agencies should have looked at 100% of the available examples in 2010 and it is WAG's view that LPI should have done it now, as part of their research for their report for IPART.
- v) On page 20 LPI states "*...the Land value of a significant number of the occupancies used in the WAG analysis was too low, which produced a much higher discount factor than should have been the case*". We used all the samples provided to us and did not selectively use some and not others. We noticed some extreme examples at both ends and for that reason eliminated the top and bottom quartiles and calculated an average from the middle two quartiles. We wrote to the Valuer General and reported that we had noticed some extreme examples at both ends, with some obviously valued too low and others obviously valued too high (i.e. the wetland was valued at more than the adjoining freehold). As stated earlier, we are prepared to work with the median, which leaves in all of the data, whether it is too high, too low, or about right. The result of that is that the Discount Multiplier moves from 16% to 13% if the median waterfront SLV is used. [LPI agreed that some valuations in our sample appeared to be too high, but stated that their contractors had not yet got around to revaluing those.]
- w) [LPI stated that they had received one batch of reascertainments from one contractor prior to 20 September and that they used those figures for their report to IPART. They stated that the reascertainment program is still ongoing.] WAG is critical of the use of a small batch of "fluid" reascertainments including increases of up to 1,995%, as that seriously skews the results.
- x) WAG has received details of 73 reascertainments and has subjected them to careful analysis. We note that there were only 4 reductions against 69 increases of up to 1,995%. The Valuer General has confirmed that these are subject to the normal objection process, which means that the new values are subject to challenge and that they should not have been used by LPI in the manner in which they have been used. Our analysis has thrown up the following interesting results on a dollar per square metre basis:

FAIRLIGHT – 2 neighbouring boatsheds - \$200 & \$500

MOSMAN – 2 - \$32 & 631

CASTLECRAG -3- \$304 TO \$1,292

HUNTERS HILL – [REDACTED] - 2 \$624 & \$1,000

GLADESVILLE TO NORTH SYDNEY – Many - \$148 to \$1,666

DARLING POINT – [REDACTED] - 2 - \$1,480 & \$11,000

DOUBLE BAY – 1 square metre - \$10,000

POINT PIPER – [REDACTED] 8 - \$1,794 to \$13,333

[LPI agreed that they might need to look at some of the reascertainments. WAG agreed not to approach individual property owners about them, until they had been finalised and the property owners notified.]

COMMENT ON LPI'S APPROACH

3. LPI has focused on determining a discount factor for wetland when compared to waterfront properties, which is fine if that can be used in a formula that includes a ROR relevant to waterfront properties. But since there is no such ROR available, one has to work with what is available (ROR for the median postcode property) and match all other factors accordingly. [LPI agreed on the need for a perfect match, but stated that this was outside their instructions from IPART.]
4. WAG has a philosophical problem with accepting LPI's argument that owners of reclaimed land, who paid to improve the wetland (or paid a previous owner for that improvement) should be penalised with a lower discount, which then would lead to a higher rent. Reclaimed wetland is valued higher than otherwise unimproved wetland and that is already reflected in SLVs and PSLVs. Applying a lower discount, as recommended by LPI would seem to be "double dipping". We believe that LPI are not fully taking into account the facts that reclaimed land is subject to uncertain tenure, strict restrictions on its use, in many cases is open to the public and the owner is responsible for the cost of returning it to its original condition, when the lease or licence is terminated. It also appears from LPI's comments that the records are not sufficiently reliable to be able to separate reclaimed wetland from other wetland [LPI stated that they had valued reclaimed land on the basis of 40% less than market for freehold land in Sydney Harbour and 50% elsewhere. They agreed that they had not taken into account the harsh and restrictive terms of the lease or licence. LPI advised WAG that they were unaware that NSW Maritime had stopped issuing 20 year leases and was now only issuing 3 year leases with a month to month hold-over provision, compared to the previous year to year hold-over provision (which represents a significant loss of tenure). They agreed that they had not taken that matter into account. They seemed to understand the argument about "double dipping", but did not express a view.]
5. We note the LPI comment (bottom of page 16) that *"The rental charged for the swing mooring usually includes tender access to the stored vessel as well as access to any marina facilities with the operator responsible for maintenance"*. Similarly (on page 17) it is acknowledged that marinas offer additional facilities and services such as *"...slipways, dry docks, repair and refuelling facilities. Power, water, sewage pump-out, car parking and security...toilet and showers, Wi-Fi internet and are located adjacent to ancillary tourist facilities"*. At the bottom of page 17 it is acknowledged that a private mooring pen was advertised at 33% of the berthing rate at a nearby marina. That would seem to indicate that a very high value is placed on the additional facilities and services and a very low value placed on a mooring space. There are also different demand/supply

dynamics for commercial marina berths, because of the additional facilities and services offered. It is therefore clear that no useful comparison can be drawn from what commercial marinas charge and LPI recognises that in their conclusion on page 18, but not in their Finding No. 3 which states in part *“The value of wetland....is more related to marine rentals in a geographic location”*. [LPI stated that they valued wetland based on what commercial marinas charged for mooring a boat (irrespective of size), and they valued reclaimed land based on adjoining freehold values. They made an interesting comment that they regarded jetty size as being irrelevant and that occupancy-holders should be charged the same rent for a 20 sqm or a 100 sqm jetty. LPI agreed with WAG that owners of long jetties should not be penalised with higher rents, because they needed long jetties to reach navigable water.]

6. On pages 22 & 23 there is discussion of two legal cases relating to small parcels of land and where the courts found that a 50% discount to market value would be appropriate. In Annexure 6 of the LPI report there are examples provided of discounts relating to sales of small parcels of dry land to adjoining property owners in the Woollahra Council area, at an average discount of 56% to the SLV. In these cases the discount relates only to the parcel of land being very small and being of little value to anyone but an adjoining property owner. There is no discount relating to the lesser value attributed to the land being submerged or partly submerged, the inability to build a dwelling or permanent structure on it, the ability of the lease to be terminated at short notice, the restrictive nature and harsh conditions of the occupancy instrument, the lack of exclusivity of access etc. IPART attributed a 50% discount to those factors (without providing any evidence for that figure), so that when one takes account of the 2 discounts suggested, it seems that a small parcel of wetland has a very low value of less than 25% of the adjoining freehold land.. [LPI recognised that they had not taken into account the disadvantages imposed by virtue of the lease or licence. There was disagreement between LPI and WAGs valuation expert on whether in the case of reclaimed land, one should value it on the basis of the adjoining freehold land less an appropriate discount (as they did), or on the basis of the additional value brought about by the addition of the reclaimed land and then less the appropriate discount.]
7. We agree with the comments in paragraph 3 on page 14 beginning with “LPI considered that the use of median Land Values...”, but feel that LPI has “lost the plot”. The aim of the exercise is to determine a market rent and for that purpose one has to match SLVs to RORs on a value, location and time basis. The ROR is median postcode based, so SLVs must be the same, or the result is nonsense. There are similar comments on page 15 that are similarly not soundly based. [LPI agreed with the principle of perfect matching, but stated that IPART had not asked LPI to consider or comment on that matter.]
8. The comment on page 15 about use of an average rather than a median goes against established practice. The average is influenced by unusual observations, whereas the median is not. [LPI and WAG did not agree on this issue.]
9. We note that in Section Three (Review of Rentals and other Market Data) LPI did not consider the following relevant data:
 - a) The rents paid by commercial marinas for undeveloped wetland and the SLVs of that wetland, compared to the SLVs of adjoining dry land.

- b) Valuations by independent valuers employed by CLD and NSW Maritime to assist in determining the rents charged to commercial marinas.
- c) Rents and SLVs applicable to undeveloped wetland beneath oyster farms and how those SLVs compare to SLVs of nearby dry land.

We note that LPI rather considered less relevant matters, such as:

- i) Developed swing moorings in commercial marinas.
- ii) Developed berths with jetty access in commercial marinas.
- iii) Developed dry storage facilities (on dry land) for boats.

[LPI agreed that they could have looked at a, b and c above, but they didn't.] WAG is of the view that LPI took a more difficult and unreliable route to get to the value of the wetland. WAG believes that a very different result would have been achieved by following a more direct route of what is being paid for undeveloped wetland by commercial marinas, based on valuations prepared by independent valuers, than what those commercial marinas charge for developed wetland and other ancillary services.

10. We question the use of a 50% discount applied to small wetland occupancies in paragraph 3 on page 22. We feel that it should have been much higher than 50%, as not only can one not build a dwelling on the land, but the land is either fully or partially submerged, is subject to uncertain tenure and in many cases is open to public access. In any case, the results of this exercise support our contention that the discount should be considerably more than 50%. [LPI agreed that they had not taken all these matters into account.]
11. We note the comment on page 24 that “...it was clear that discount factors varied significantly” between Sydney Harbour, outer Sydney metropolitan region and the rest of state. If after a proper analysis of all the separately valued wetland occupancies in the state and a proper comparison of those to appropriate median postcode SLVs, the result was still that there were significant differences throughout the state, then we would have some sympathy for LPI's view that there should be a number of different discount factors. Just as IPART has decided to move away from a single ROR, there could be a similar argument in relation to the discount factor.
12. On page 24 “Methodology Used to Determine Discount Factors”, WAG is critical of the limited selection of 52 benchmark properties. LPI used only 3 Port Macquarie properties for the North Coast and only 3 Batemans Bay properties for the South Coast, while for Brisbane Water they used 3 from Brisbane Water East, but none from Brisbane Water West, while on the Georges River they included no samples from Precincts 2 and 4. This very limited selection of properties is hardly representative of about 8,300 wetland occupancies throughout NSW. Depending on how the 52 samples were selected, LPI could perhaps be accused of being selective, in order to achieve a particular outcome. [LPI stated that as it based its exercise on what commercial marinas charge, they were limited to using samples close to commercial marinas. They also stated that they had to work within a budget set by IPART.]

LPI'S ANALYSIS OF 52 BENCHMARK PROPERTIES

13. Regarding LPI's spreadsheet exercise on the 52 selected benchmark properties “to determine Discount Factors” WAG is critical of the following:

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- a) No formulae have been included, to enable us to follow what LPI have done. [LPI advised that the figures were not calculated by the spreadsheet, but were fed in. They acknowledged that there were errors, as found by WAG and advised that they were now correcting those errors.]
- b) Except for cases involving reclaimed land, the starting point is “net rental income”. But there is no explanation of from where this figure comes. There is no gross rent figure and no expenses figure provided. We have telephoned many of the property owners involved and there is no rent being paid or received on any of the structures. It is simply a “manufactured figure” and bearing in mind that the whole IPART review is about how one should set wetland rents, to start with an artificial rent figure, involving the wetland, is circuitous and not acceptable. [LPI advised WAG that the “Net Rental Income” figure was an estimate based on discounting by 20% to 35% what is charged by local commercial marinas (which is a gross rent figure) to moor a boat (and provide lots of ancillary services). They admitted that they did not then further adjust the gross rent figure to bring it back to net.] WAG is very critical of this method and regards the “net rental income” figures as highly unreliable. If the net rent figures were reduced by say 35% to 40%, to allow for the normal differential between gross and net rent and very substantial maintenance costs on waterfront facilities, the difference in the end result, being the discount multiplier would be huge.
- c) WAG has further discovered that the “Net Rental Income” figure is based on applying a small discount to the rate charged by a local commercial marina to moor a boat, but then not varied according to the size of the facility or the occupancy. For example, there are 2 Port Macquarie samples with the same “Net Rental Income” figure of \$4,160, even though the area of one facility is 18.72 square metres and the other is 36 square metres. LPI’s result of analysing those two is that the smaller wetland occupancy is worth 2,107% more than the adjoining freehold, while the larger one is worth 73.84% more than the adjoining freehold, on a per square metre basis. WAG’s view is that both are crazy, but one is substantially more crazy than the other. There are numerous similar examples.
- d) Then the artificial net rent figure is capitalised using 4.5%, which is the NSW Government current short term bond rate and which is subject to regular variation. The 10 year NSW Waratah bond rate of 5.1% is likely to be more stable and reflective of long term interest rates. [LPI stated that they felt the 4.5% was a reasonable rate to use and no agreement was reached on this issue.] WAG is of the view that the 10 year bond rate is more stable and therefore more appropriate for the setting of a discount multiplier that is going to be set by IPART now and then not reviewed for many years. WAG is also of the view that because the term of CLD licences is 20 years and many NSW Maritime leases are also for a term of 20 years, that a long term bond rate is more appropriate than a short term bond rate. Using 5.1% as the capitalisation rate makes a big difference to the discount multiplier end

result. However WAG has been advised by its property valuation experts that the use of a bond rate does not comply with valuation theory, which dictates that a capitalisation rate should be set according to an analysis of market evidence.

- e) Then from an artificial "Estimated Market Value" of the improved wetland is deducted the "Current Replacement Cost" of the improvements. But that "Current Replacement Cost" has been generally significantly understated, according to our discussions with jetty builders. WAG found that the description and sizes on LPI's spreadsheet sometimes differed substantially from the description and size on the "Benchmark Valuations Report" and therefore had some difficulty in getting quotes from contractors. In some cases, because we could not rely on LPI's descriptions and sizes, WAG had to either physically inspect the facilities, or when that was not possible rely on Google Earth to verify what facilities were actually involved. Therefore the "Wetland Deduced LV" and everything that flows from it is incorrect, for multiple reasons. [LPI agreed that their method in arriving in these figures was rough. They stated that they had not made site inspections and that the limited budget set by IPART restricted them to a "desk top" study. They agreed that WAG's method of making actual site inspections and getting quotes from local contractors was more reliable.]
- f) WAG has found some strange examples of "Wetland Deduced LV" (value of mud & water). For example the mud & water at [REDACTED] Port Macquarie is stated as being valued at \$3,312 per square metre, while the PSLV (which includes both wetland and dry land) for that sample is shown as being \$150 per square metre, so LPI has concluded that the mud & water is 22 times more valuable. (For comparison, they valued mud & water at Vacluse at \$1,666 per square metre, roughly half the value of the Port Macquarie mud & water.)
- g) The whole exercise has so many "rubbery" variables, that it does not provide any solid basis for LPI's Findings and Recommendations. [LPI agreed that their study was based on some figures that were not reliably based and which were subject to possible considerable variation.]
- h) The "Reclaimed Land Market Value" would appear to be a wild guess, not based on any evidence. [LPI did not agree that their "Reclaimed Land Market Value" figures were "a wild guess", but agreed that they had not taken everything into account.]
- i) WAG has discovered that within the 52 samples there are 6 major and dozens of less serious mathematical errors, which throws further serious doubt on the usefulness of the spreadsheet. [LPI agreed that there were multiple errors and stated that they were now rectifying those.]
- j) There are 3 examples within their 52 samples where the wetland is valued at more than the dry land by up to 2,107%. WAG is surprised that such huge premiums applying to mud & water did not set alarm bells ringing and cause LPI to review what they had done.

- k) WAG has received advice from one of its property valuation experts that this type of valuation exercise is prohibited by the Valuation of Land Act, when sub-letting is prohibited by a lease or licence. [This was not discussed at the meeting with LPI.]

WAG is seriously disappointed at the quality of this whole exercise and WAG therefore believes that this exercise is of no use at all in determining a reasonable discount factor or multiplier.

14. WAG believes that a sounder method "to Determine Discount Factors" is to examine ALL the SLVs of separately valued wetland occupancies in NSW and compare them to the SLV's of adjoining dry land. WAG made that suggestion to LPI and IPART on 19 October and offered to cover 50% of the cost of extracting the additional data. Since IPART was not prepared to commit to that course, WAG has agreed on 11 November to cover the full cost of extracting and providing that additional data (\$5,930, being for 504 matching pairs).
15. We note that IPART basically agrees with WAG, in regards to the close relationship between the wetland and the adjoining dry land in the statement (page 32, paragraph 3) "*We also note that the method of only including the SLVs of waterfront properties with occupancies ensures that only those properties most closely related to occupancies are included in PSLVs...*"

COMMENTS ON FINDINGS & RECOMMENDATIONS

16. We disagree with Finding No. 3 (page 26) that "Wetland does not have a direct relationship with the per square metre value of adjoining land....The value of wetland as used for domestic waterfront occupancies, is more related to marine rentals in a geographic location...." and which LPI has stated elsewhere are irrelevant, because those rental rates include many other factors. Based on LPI's statements that "wetland does not have a direct relationship withadjoining land" and marine rentals are based on "what the market will bear...with variations based on the quality of service and facilities..." (page 18) , WAG has great difficulty understanding how LPI arrived at its Recommendation 2 of a 52% discount for wetland, compared to the average of SLVs of waterfront properties (including that same wetland) within a precinct. [LPI differentiated between reclaimed land, mooring pens and wetland used for jetties, boatsheds etc. They also differentiated between Sydney and regional areas and stated that it was very difficult to arrive at a common discount multiplier, taking all these variables into account. They stated that they had been asked by IPART to do a very difficult job and within the constraints of the instructions and the limited budget set by IPART felt that they had performed satisfactorily.]
17. We disagree with the suggestion in Finding No. 9 that wetland rents could be set by reference to the local swing mooring rate. The swing mooring rates are set arbitrarily and are not scientifically based. [LPI clarified that this finding relates only to mooring pens.]
18. We disagree with the term set by IPART, as stated in the preamble to "LPI Recommendations" (page 27) that LPI consider a "fair return to government for an asset". The Crown Lands Act at Section 143 (1) (a) states "the rent shall be the market rent for the land" and that should be the focus of IPART and LPI.
19. We disagree with the setting of a lower discount for reclaimed land as recommended in Recommendation 1. The Government did not pay for the

reclamation and is therefore not entitled to a higher rent, because the adjoining property owner spent money on improving the wetland. As stated earlier, reclaimed land is subject to uncertain tenure, strict restrictions on its use, in many cases is open to the public and the owner is responsible for the cost of returning it to its original condition, when the lease or licence is terminated. [LPI agreed that they had not taken into consideration the restrictions imposed by the lease or licence or the fact that NSW Maritime had recently switched from 20 year leases to 3 year leases.]

20. We disagree with the discounts recommended in Recommendation 2. They are far too low, considering that we are dealing with small parcels of submerged or partially submerged, generally poor quality land, of uncertain tenure, which is generally open to public access and on which one cannot build a dwelling and is severely limited to what can be built. The occupancy instrument is also very harsh, adding to the unattractive nature of what the Government is offering. If the owner of the adjoining property decided against renting the wetland, its value in the market would be negligible and that very low value is the market value. [LPI agreed that they had not taken all these matters into account.]
21. We disagree with Recommendation 3. We disagree that reclaimed land should enjoy a lower discount for reasons already stated.
22. We also disagree with the recommendation that reclaimed land in Sydney Harbour should enjoy an even lower discount than reclaimed land elsewhere. The higher value of reclaimed land in Sydney Harbour is already reflected in SLVs used in the formula and which causes the rent to be higher. To then reduce the discount (to again reflect the same higher value) is double dipping. [LPI listened carefully to this argument and seemed to understand it, but did not express a view.]
23. While it may be financially attractive to our members, with the highest swing mooring rate being about \$3 per square metre per year, we disagree with Recommendation 4 on page 9 in regards to the suggestion of *"linking of wetland area rentals with the rate for public moorings"*. This is because the rate for public moorings is set arbitrarily and there is no property valuation justification for the setting of a market rent for land by reference to an arbitrarily set mooring rate. [LPI expressed the view that mooring pens should be charged on a different basis to jetties and other facilities. They expressed the view that the charge for mooring pens should be based on the local swing mooring rate.] (In many NSW Maritime leases mooring pens were charged on the basis of the local swing mooring rate prior to 2004, so LPI is in favour of returning to that principle.)

SOME GENERAL COMMENTS

24. We note that IPART has decided to use the precinct median, rather than the average, for purposes of setting the PSLV. But LPI has done its calculations based on averages (quoting as the reason that the PSLV is an average), meaning that there the figures calculated by LPI now do not match with the basis selected by IPART. We would suggest that LPI needs to redo its calculations based on medians (and ideally postcode medians, to match with the ROR). [LPI stated that their figures being based on averages could not be applied to medians. They stated that IPART would need to issue new instructions to LPI to rework the figures, based on medians.]
25. Philip Western (Valuer General) and [REDACTED] (previous Chief Valuer) on 1 June 2007 confirmed the advice of LPI valuer [REDACTED] that with waterfront

properties dividing the value by the area produces “meaningless figures”. On that basis they said that the IPART PSLV formula is fundamentally flawed. What LPI is recommending is a continuance of that fundamental flaw. In contrast, what WAG is recommending by moving to a postcode based media SLV overcomes that major problem. [LPI recognised the problem and since the Chief Valuer was no longer present in the room, they agreed to discuss with the Chief Valuer whether they might change their recommendation to using a postcode based median and postcode based discount multiplier, as recommended by WAG.]

26. [When questioned about the discount multiplier (or factor) that WAG had recommended in regards to the fact that the ROR relates to land and house packages, rather than land and that WAG had established that the ROR on land was lower, LPI stated that IPART had not requested LPI to look at that, so they didn't. However, WAG observes that in their instructions, IPART did request LPI to “*review and provide comment on.....WAG's proposed discount factors...*” (i.e. more than one) and WAG proposed two discount factors, only one of which has been subject to review and comment by LPI.
27. In its instructions to LPI, IPART stated “.....*LPI must also clearly explain the rationale and methodology behind its analysis and conclusions, document key assumptions and provide relevant supporting evidence.*” WAG does not believe that LPI has fully complied with that instruction.
28. WAG has developed a sensitivity analysis that shows that even minor adjustments to the “Net Rental Income”, Capitalisation Rate and “Current Replacement Cost” makes huge differences to the discount factor derived from this exercise. That would partly explain the huge variances in LPI's discount factor, ranging from a 90.36% discount to a 2,107% premium. The truth is somewhere between those two figures, but one cannot determine what it is from LPI's analysis.

CONCLUSION - WAG is of the strong view that the LPI report cannot be relied on by IPART, because of the many serious problems with the LPI analysis, which have led to unreliable Findings and Recommendations. WAG is of the view that a far better alternative is to examine ALL the separately valued wetland occupancies within NSW and observe the discount factor that has been applied to those by professional property valuers, which have been engaged by LPI and therefore have LPI's confidence. That information has already been extracted by LPI and will be provided to WAG on payment of a \$5,930 fee. WAG will combine that new data (504 matching pairs) with the 145 samples already in its possession, analyse the combined data and provide the analysis for the whole state and the supporting data to IPART.