INQUIRY INTO LAND VALUATION SYSTEM

Organisation: Property Council of Australia
Name: Mr Glenn Byrnes
Position: NSW Executive Director
Date Received: 8/03/2013
The Chair
Joint Standing Committee on the Office of the Valuer General
Parliament House
Macquarie Street
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8 March 2013

Dear Mr. Xean,

Inquiry into the NSW Land Valuation System

We enclose the Property Council’s submission to the Joint Standing Committee’s inquiry into the NSW Land Valuation System.

If you would like to discuss our submission further, please contact me on [redacted] or Rochelle Coggan, NSW Policy Advisor, on [redacted]

Yours sincerely,

[redacted]
Glenn Byres
NSW Executive Director
Property Council of Australia
Inquiry into the NSW Land Valuation System

Submission to the Joint Standing Committee on the Office of the Valuer General

March 2013
Introduction

The Property Council of Australia welcomes the opportunity to make a submission to the Joint Standing Committee’s inquiry into the NSW land valuation system.

About us

The Property Council is the nation’s peak representative of the property industry. Our 2,200 members are Australia’s major investors, developers and owners of commercial, residential, retail, industrial, retirement living and hotel assets worth over $320 billion.

The health and vitality of the property sector is crucial to the State’s economy.

Independent research commissioned by the Property Council shows the sector:

- is the largest single contributor to NSW tax revenues of any industry – paying $7.7 billion in state taxes in 2010-2011, including $2.3 billion in land tax
- provided $16.6 billion in wages to NSW families and workers
- generated almost 360,000 jobs across the state
- added $44.5 billion to economic growth, and
- triggered $63 billion in flow on economic benefits.¹

What we think

The property industry has high exposure to the State’s land valuation system – and depends on its integrity and quality.

Put simply, land valuations underpin:

- the unimproved capital values of 2.4 million properties in NSW
- an estimated $2.3 billion in land taxes paid annually
- an estimated $4.4 billion in local government rates paid annually.

The industry depends on a sound and transparent method of calculating land valuations, particularly for institutional-grade investors with a large portfolio of assets.

The Property Council of Australia believes that the current system of land valuation has served our industry well.

We strongly support the existing use of site value as the best method for determining values. We also believe the component methodology of mass valuation is sound.

On this basis, we do not see a need to alter the substantive foundations of the NSW valuation system.

¹ AEC Group, Economic Significance of the Property Industry to the NSW Economy, May 2012, based on data from the 2010-11 financial year.
We do acknowledge, however, that there may be need for reform in some areas of the existing system to ensure it continues to deliver transparent, efficient, equitable and consistent outcomes for our members and other stakeholders.

We note that any proposed amendment to the *Valuation of Land Act 1916 (NSW)* or the valuation system requires proper review and consideration, which include the input of industry.

The Property Council would welcome the opportunity to join an Industry Advisory Group to assist the Government.
The NSW land valuation system is sound

An effective land valuation system is of central importance to the property industry. Based on land values issued by the Valuer General, the property sector contributed $2.3 billion to state revenue through land tax in 2010-2011 and paid $4.4 billion in council rates.

1) Our members support the NSW land valuation system

On balance our members strongly support and have a high level of confidence in the NSW land valuation system.

They consider the site value basis of the system and the component methodology of mass valuation to be sound and to reflect best valuation practice.

In our members’ experience, the NSW land valuation system:

- produces consistent and predictable valuations – which was enhanced by the introduction of three-year averaging in 2007
- predicts valuations within a reasonable margin of error
- is transparent – our members understand and accept the basis on which their land values are determined
- is efficient – site value creates fewer market distortions and supports economic growth.

In the case that concerns do arise in relation to individual valuations, our members usually find the objections process to be fair, efficient and effective.

In most cases objections can be resolved directly with the Office of the Valuer General. When they cannot, the NSW Land and Environment Court provides an appropriate appeal mechanism.

2) The foundations of the system are sound

The Property Council’s confidence in the NSW land valuation system does not exist in isolation.

NSW Ombudsman’s Report

In 2005, the NSW Ombudsman conducted an investigation into the land valuation system and found that the ‘basic methodology underlying the component method of mass valuation is generally sound.’

In his report, the Ombudsman noted that the NSW system of mass valuation produces estimated values within a reasonable margin of error for the majority of properties and is theoretically self-correcting, so should converge to true values over time.

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2 Ibid.
3 NSW Ombudsman, *Improving the Quality of Land Valuations Issued by the Valuer General*, October 2005, pg. 86.
4 Ibid.
The problems that the Ombudsman found in the NSW valuation system did not relate to its foundations, but to the implementation of the system’s ‘reasonable quality assurance framework.

It was revealed that problems with the implementation of quality assurance measures were producing some values with an unacceptable margin of error, the primary cause of which was resourcing and scheduling issues.\(^5\)

Since the Ombudsman’s report, the land valuation system in NSW has been a system of continuous improvement. Many of the recommendations made to the Government and the Office of the Valuer General have been accepted and implemented.

**Objection rates**

Declining objection rates over the last five years also reflect a high level of confidence in land valuations and the system that produces them.

In 2007/2008 a low objection rate of 0.45% of total valuations was recorded. By 2010/2011 the objection rate had dropped further to 0.31% of total valuations.\(^7\)

**NSW system adopted in Queensland**

Confidence in the NSW land valuation system is also shared by other states and territories.

When Queensland moved from a system based on unimproved value to site value two years ago, many aspects of the NSW system – including the definition of site value – were adopted as they are considered best valuation practice.

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\(^5\) Ibid.

\(^6\) Ibid.

\(^7\) Department of Financial Services Annual Report, 2011-2012, pg 154.
Site Value

The Property Council strongly supports the use of site value as the basis for calculating land tax and local council rates.

Land values calculated using the site value methodology are based on the unimproved value of the land at its highest and best use. The site value methodology values land only, taking into account any improvements made to the land – such as clearing, levelling, drainage, filling and retaining walls – and excluding all capital improvements on the land such as buildings and other structures.

We consider the site value basis of the NSW land valuation system to be robust and to reflect best valuation practice.

**Benefits of site value**

There are several benefits associated with using a site value definition of land value over a definition based on capital improved value. Site value:

- supports economic development
- is simpler and cheaper to administer, and
- is considered best practice across most other Australian jurisdictions.

1) Supports economic development

It is accepted that all land value definitions will distort the market to some extent. However, site value is most consistent with the desire to achieve economic development.\(^8\)

By levying land tax and council rates on the site value rather than the capital improved value of land, NSW is supporting economic growth.

This is because capital improvements are not taxed for their quality and innovation – meaning there is no disincentive for investment in property.

The flow on effect is more efficient and intensive uses of urban land,\(^9\) as there are no government imposed barriers to realising the highest and best use of the land.

Through encouraging development, site value not only attracts investment into the property sector, but also supports the creation of jobs, contributing to the overall health of the NSW economy.

On this basis, retaining a site value definition of land value is critical to the NSW Government realising its number one NSW2021 priority of restoring economic growth and establishing NSW as the first place to do business in Australia.\(^10\)

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\(^8\) Land Tax: An Update, NSW Parliamentary Library Briefing Paper No5/05, pg 11.


\(^10\) NSW 2021 – A Plan to make NSW Number One, pg 5.
This critical link between site value and economic prosperity has already been recognised by the current Government in the context of reforming Fire and Emergency Services Funding.

“The Government does not propose to use market values of properties, which include the value of buildings. The Government considers this alternative would be both less efficient and administratively expensive to implement. Taxing the market value of properties provides a disincentive to make capital improvements to land, and thereby distorts investment decisions.”


2) Cheaper and easier to administer

Valuation systems based on a site value definition of land value are cheaper and easier to administer than systems based on capital improved value.

Because improvements on land are not consistent between properties, systems based on capital improved value are required to rely on regular inspections of individual properties to determine land values. This not only results in high set-up costs to establish the system, but high ongoing costs to maintain the extensive resources needed for the system to function.

By way of comparison, site values are much easier and cheaper to administer. Determining site values requires less resources – as fewer physical inspections of land are required to determine values – and can be easily updated using the mass appraisal system.

3) Consistent with other Australian jurisdictions

The site value basis of the NSW land valuation system is consistent with most Australian states and territories.

Compared to the land valuation systems in other states and territories, the NSW system is considered to be both well-established and proven.

The NSW system provides a benchmark for other Australian valuation systems based on site value methodology. For example, when the Queensland system moved from unimproved to site value in 2010, the NSW system was found to “provide the best platform for the introduction of site value in the Queensland environment.”

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Objections and appeals

As noted above, our members are largely satisfied with the objection and appeal processes currently available in the NSW system.

In most cases our members find their objections can be adequately resolved by the Office of the Valuer General in a transparent and efficient manner.

If they are dissatisfied with the determination of an objection, the right of appeal to the Land and Environment Court provides an effective and indispensible dispute resolution mechanism.

In short, a clear, rational and fair path is available for dispute resolution.

Need for informal and accessible dispute resolution mechanism

We do recognise the Joint Standing Committee’s concern that the Land and Environment Court may not necessarily provide an affordable or accessible appeal mechanism for all objectors – particularly for mum and dad investors.

We therefore see merit in exploring the potential for a more informal and accessible dispute resolution mechanism before commencing proceedings in the Land and Environment Court.

This dispute resolution mechanism could be provided through the new NSW Civil and Administrative Tribunal – as is the case in the ACT, Victoria, Queensland and Western Australia – or through a more informal process such as a Panel of Valuers.

Regardless of the form an additional dispute resolution mechanism takes, the absolute right for objectors to appeal to the Land and Environment Court must remain.

Payment of land tax on disputed land valuations

One concern with the current objection and appeal process raised by our members relates to the payment of land tax on disputed land valuations.

If an objection is made under the current system land tax is still required to be paid on the assessed amount before going through the objection and appeal process. If objections to valuations end up in the Land and Environment Court, it can take more than 12 months from the lodgement of the initial objection for the matter to be determined. As a result, landowners with potentially successful objections can be out of pocket on large sums of money for a considerable period of time. If an objection is ultimately successful, cost orders are not made against the Office of the Valuer General.

We propose an amendment to the objection and appeal process in cases where valuations increase by a significant percentage – for example 30%. In these cases, the owner of the land should be entitled to have the disputed component of their land tax payment suspended while they possess a right of appeal. If this right of appeal is exercised, the payment should be suspended until the matter is determined.

\[13\] Ibid, ii.
We note that the NSW Government has made a commitment to undertake a formal review of the *Valuation of Land Act 1916* (NSW) in 2013.

The Property Council would welcome a review of the Act. However it should be conducted through a formal and fully transparent Government review process with stakeholder and industry involvement.

Given the importance of the valuation system to the property sector, the Property Council must be included in any stakeholder reference or advisory group.
Please contact the following on any aspect of this submission:

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or

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