

Valuer General's Policy

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Valuation of land below high water mark (domestic waterfront occupancies)

What

This policy guides valuers on the methods to use, and factors to consider, when valuing land below the high water mark for rating and taxing purposes.

This policy addresses land used for domestic purposes only.

How

Under this policy, valuers use mass valuation methods based on specific assumptions and considerations.

Valuers must also apply market evidence and do ongoing quality reviews to support valuations.

Valuers assess the value of the land only, without including the value of structures or other improvements on that land.

Why

This policy will ensure that the Valuer General's valuations of land below the high water mark used for domestic waterfront occupancies are:

- consistent and accurate
- transparent
- in line with the *Valuation of Land Act 1916* (Valuation of Land Act).

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1 Policy

1.1 Scope

Land below high watermark

[crown land](#)
[mean high watermark](#)

Land below high watermark refers to crown land bordering the coast of NSW which lies below the mean high water mark and includes coastal estuaries, many large river beds, many wetlands and the state's territorial waters extending 5.5 kilometres out to sea.

Domestic waterfront occupancies

[land value](#)
[sale](#)

Use this policy to assess the land value of domestic waterfront occupancies (DWOs).

DWOs refer to land below high water mark which are leased and used for domestic purposes.

DWOs are not usually sold, other than the occasional sale of reclaimed land to the adjoining owner. Rentals for the land are determined by a formula devised by the Independent Pricing and Regulatory Authority (IPART).

Depending on the circumstances, DWOs are either valued with the adjoining land or standalone.

Non-domestic

The valuation of land below high water mark used for non-domestic purposes is not covered under this policy.

1.2 Assumptions and considerations

Legislative assumptions

Land below high water mark is Crown land. Crown land is valued under different sections of the Valuation of Land Act depending on who administers the land.

Crown land below high watermark is either administered by the Crown Lands Division of NSW Trade and Investment or Roads and Maritime Services (RMS).

Administering body	How land below high water mark is valued
Crown Lands Division	This land is considered to be crown lease restricted land, so it is valued with regard to both section 6A and section 14I of the Valuation of Land Act. For more information on the valuation assumptions for valuing crown lease restricted land refer to the policy

	for valuing that type of land.
RMS	Crown land administered by RMS is not classified as crown lease restricted land and therefore not valued under section 14I.

Valuing DWOs with the adjoining land

occupancy

Where the DWO is leased by the owners of the adjoining freehold land they are to be considered the owners of the DWO. The use of that DWO, in conjunction with the freehold land, requires both the freehold land and the DWO to be included in one valuation.

You can make the valuation by referring to sales of similar properties, using the direct comparison method.

Where DWOs adjoin freehold residential parcels, the value added by the lessee interest in that occupancy, including all improvements, is usually reflected in the sale price of the freehold land. However no actual money transacts between seller and buyer for a transfer of the lease.

Standalone valuations

fee simple in possession

Not all DWOs can be valued with the adjoining land. You must value a DWO separately (or as a “standalone DWO”) under the following circumstances:

1. The DWO is leased by the owners of the adjacent freehold land but it is separated by a road and/or other land such as public reserves.
2. The DWO is leased by adjoining landholders under a different name. This can include DWOs where the lease is shared between two or more owners.
3. The DWOs has no identified or identifiable property which directly benefits from its use.

You will need to ensure that the land value of the property benefiting from the use of the standalone DWO (where it exists) does not include value attributed to the use of the DWO.

As there are no sales of land below high watermark you will usually value the standalone DWO using the hypothetical development method.

The valuation is of the fee simple in possession (FSIP) having regard to the lessor’s (Crown authority) and lessee’s interest.

1.3 Valuation methods

Mass valuation process

component

The Valuer General uses a mass valuation process to value most waterfront properties with DWOs and most standalone DWOs. It involves the systematic valuation of groups of properties at a given date using standardised procedures.

Mass valuations must also meet the requirements of the Valuation of Land Act. All valuations must be supported by market evidence and quality assured.

The mass valuation method used in NSW is the component method. Valuation methods, such as the direct comparison method and the hypothetical development method, are used to value a sample of individual properties within the component.

Direct comparison

Direct comparison is the method most commonly used to value a DWO when valued in conjunction with the adjoining land.

Direct comparison involves comparing market sales with the subject land.

Be aware that the sale of freehold land does not include the adjoining leasehold area. However, the sale will reflect the lessee's interest in the land where the lease can be transferred to the purchaser of the land. To determine the full value of the freehold and leasehold area together, adjustment is required to reflect the lessor's interest in the leasehold land (see [section 1.4](#) market analysis).

When using direct comparison to value a DWO with the adjoining land, you must:

- consider a broad range of market evidence, including sales of vacant and improved land
- follow an evidence-based approach when using sales of improved land to deduce the land value (see [section 1.4](#) for market analysis)
- consider all factors that influence the combined land value such as the land's; size, aspect, location, zoning, planning controls, demographics and the land's permitted use.

Hypothetical development method

added value of improvements

capitalisation

improved value

The hypothetical development method will most commonly be used to value a DWO when valued in isolation (standalone).

To derive the land value of a DWO using this method, you must:

1. Estimate the net rental which could be obtained from the DWO, based on the legally permitted use as set out in the lease and relevant planning approvals.

**land improvement
net rental**

2.	Capitalise the estimated net rental to arrive at the improved value of the site.
3.	Deduct the estimated cost of developing the site (including holding costs and developer's margin) from the improved value of the site.

When you value a DWO you must not deduct the added value of land improvements.

Examples of land improvements for DWOs include retaining walls and seawalls.

You should obtain rental evidence from a variety of sources where similar uses exist. A local marina and boat storage tender or kayak storage facilities are typical sources.

In applying rental evidence you should reflect the actual use, the availability and cost of maintaining that use and the likely interest which would be shown for that use in that location.

1.4 Market analysis

**Wide analysis of
market evidence**

valuing year

You must analyse all applicable sales and rental evidence to establish or verify land values at 1 July in the valuing year.

**Analysis of sales
of waterfront
properties**

Waterfront properties which are sold may or may not benefit from a DWO. You should analyse sales of waterfront properties to determine the land values for those which benefit or do not benefit from an associated DWO.

The total land value of the DWO will need to reflect the FSIP being the combined interest of the lessor and the lessee.

When you analyse a sale of land which includes a DWO, the current rental paid by the lessee to the government authority responsible for the land should be capitalised and added to the sale price to reflect the full FSIP value of the DWO.

Rental analysis

To determine land value by the use of the hypothetical development method you need to establish the improved value of the DWO by capitalising the rental value.

The rental paid for DWO's is for the land only and does not include the value of any improvements. The rental value inclusive of improvements can be determined by reference to similar uses in commercial circumstances. These include rentals of berths and swing moorings in marinas, as well as waterfront storage facilities for boats and marine related uses.

The adjustment of rental evidence to the domestic situation should reflect the additional services available in the commercial facility such as fuel sales, cleaning and maintenance. The domestic situation will have advantages related to access being located adjacent to the freehold land. Other considerations include the distance from alternate facilities and the proximity of available public moorings.

The evidence used, rationale and calculations for adjustments should be recorded.

Sales of berths

Sales of berths of various sizes in private and commercial marinas do occur. There is no public record of these sales and the information is usually only available from the agents who handle the sales.

You must analyse such sales with caution. The sale and all associated conditions of the sale should be documented. Be aware of services which are included, if the sale is limited to a term, what levies are payable, and whether the rental is covered for the term of ownership. The adjustments required for the sale will be dependent on circumstances.

Such sales are always of a leasehold interest, not a freehold interest. The responsibility for the payment of the ground rental of the licensed area should always be determined as part of the analysis. Adjustment should also be made for restricted terms when comparing to the value of freehold land.

2 References

2.1 Definitions

added value of improvements	The value that improvements add to the land. It is determined by comparing market evidence for land with improvements to that for vacant or lightly improved land.
capitalisation	Capitalisation is a method used to determine the current market value of a property by converting the net income stream into a capital value using a single conversion factor.
component	A group of properties, used for mass valuation, whose market values move uniformly. It is also known as a 'sub-market group' or 'sales group' in other Australian jurisdictions.
crown land	Crown land in this policy refers only to land vested in the state of New South Wales. This land may be held under Crown title or Torrens title.
fee simple in possession	Absolute title to land, free of any other claims against the title, which one can sell or pass to another by will or inheritance.
improvement	Something that improves the value of the land. This is not defined in the Valuation of Land Act, and is different from the term 'land improvement' (below).
improved value	The market value of a property's land and improvements inclusive.
land improvement	Land improvement, such as draining, excavating, filling or clearing, as defined in section 4 of the Valuation of Land Act and included in the land value.
land value	Value of the land excluding any structures or improvements, but including land improvements. See section 6A of the Valuation of Land Act for a full explanation.
mean high watermark	The MHW is defined as the "line of the medium high tide between the highest tide each lunar month (the springs) and the lowest tide each lunar month (the neap) averaged over out over the year" (Butt 2001, p.24).
net rental	Rent payable excluding all outgoings and Goods and Services Tax (GST).
outgoings	The total of all statutory charges, operating expenses and other outgoings for which the lessor is liable.

occupancy	Refers to domestic waterfront occupancy.
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sale	The transfer of property between parties. To use a sale as market evidence, it must have been: <ul style="list-style-type: none">• an arm's length transaction• between a willing buyer and willing seller who both acted knowledgeably, prudently and without compulsion• properly marketed.
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valuing year	The year starting 1 July. Valuation reflects the property market at the start of the valuing year.
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2.2 Laws and policies

Governing NSW law	<i>Valuation of Land Act 1916</i> (Valuation of Land Act) Section 6A
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Related Valuer General policy	Valuation of Crown lease restricted land
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3 Context

3.1 Role of the Valuer General

The Valuer General for NSW

In NSW, the *Valuation of Land Act 1916* establishes the Valuer General as the independent statutory authority responsible for ensuring the integrity of land valuations in NSW.

Land and Property Information manages the valuation system on behalf of the Valuer General, outsourcing the majority of valuation services to private valuation firms.

The Valuer General is committed to an open and transparent valuation process that is easy for landholders to understand.

3.2 Background

Rents for DWOs

Rents for DWOs are established by Crown Lands Division, NSW Trade and Investment and RMS, based on a formula set by the IPART. The formula references land values of DWOs (where separately valued) and adjoining freehold lands.

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Approval

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