

Valuer General

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Valuation of rural land

Guidance Note

February 2024



Acknowledgement of Country

The office of the Valuer General and Valuation NSW acknowledges that we stand on Aboriginal land. We acknowledge the Traditional Custodians of the land, and we show our respect for Elders past and present through thoughtful and collaborative approaches to our work, seeking to demonstrate our ongoing commitment to providing places in which Aboriginal people are included socially, culturally, and economically.

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More information

Enquiries relating to this guidance note should be addressed to the office of the Valuer General via email to valuergeneral@dpie.nsw.gov.au.

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Introduction

1.1 Purpose

This document is intended to provide guidance to valuers on the methods to use, and factors to consider, when valuing rural land for rating and taxing purposes.

This guidance note will ensure that the Valuer General's valuations of rural land are:

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

1.2 Background

In NSW, the Act establishes the Valuer General as the independent statutory officer responsible for ensuring the integrity of land valuations in NSW.

Valuation NSW carry out functions on behalf of the Valuer General under formal delegations. Some valuation services may also be contracted out to private valuation firms. All valuation services are subject to a rigorous quality assurance process prior to issue to landholders.

Recommended Approach

1.3 Scope

1.3.1 Rural land

Use this guidance note to assess the value of rural land. Rural land is defined for the purposes of this guidance note as land:

- zoned rural under a Local Environmental Plan, or
- wholly or mainly used for one or more of the activities of grazing, animal feed lots, dairying, pig farming, poultry farming, viticulture, orcharding, beekeeping, horticulture, the growing of crops of any kind, or forestry. Rural land also includes areas which are wholly or mainly used for aquaculture within the meaning of the Fisheries Management Act 1994.

1.3.2 Rural residential land

This guidance note does not cover rural land which is used as rural residential land or rural land which is zoned village.

The village zone allows for a variety of land uses on small parcels of land. For direction, refer to the guidance note that relates to the way the land is used (for example, residential, commercial, industrial).

1.3.3 Land value

The land value excludes any structures or improvements but includes land improvements. See section 6A of the Act.

1.4 Valuation methods

1.4.1 Mass valuation process

The Valuer General uses a mass valuation process to value most rural land. 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 Act. Section 6A of the Act applies for most rural land valuations. 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.

1.4.2 Component method

The group of properties used for mass valuation is called a component. These properties have similar attributes, such as location, size and amenity, and are expected to experience similar changes in market value. Rural components contain land zoned rural or land permitted for rural activities.

When using the component method, you must select properties from each component as the primary benchmark and reference benchmarks.

All benchmarks are individually valued each year based on analysed market sales evidence to determine how much their land values have changed from the previous year. The rate of change recorded for the primary benchmark is then applied as the component factor.

Reference benchmarks are selected from within the component and used to check the quality of the proposed valuations. Reference benchmarks are important for checking the accuracy of the mass valuation process.

If the individual valuations of reference benchmarks from analysed sales evidence do not show a similar rate of change to the primary benchmark, updates to the type of properties represented by these reference benchmarks will require valuation by other methods. Other methods to value properties represented by reference benchmarks include secondary factors (subfactor) or individual verification (handcrafted).

Benchmarks must represent the range of properties in a component.

Primary benchmark

For your primary benchmark:

- base it on a property that is within five per cent of the component's median land value
- use direct comparison to value it at 1 July each year and calculate the rate of change from the prior year's 1 July land value.

The rate of change is called the component factor.

Reference benchmarks

Choose reference benchmarks with values further away from the median land value (upper and lower quartiles). Then:

- Use direct comparison to value these at 1 July and check your reference benchmarks rate of change against the primary benchmark's rate of change

If the rate of change of reference benchmarks varies by more than 10% decide on the most appropriate method to value the subgroup the reference benchmark represents.

Component factor

Use the component factor derived from your primary benchmark to value other properties in the component. The component factor should be applied to each property in the component, except handcrafted valuations or valuations which have been valued using a component subfactor.

Handcrafted and subfactor values override component factor values.

Land classifications

Properties in a component may have different land classifications within the property. For example, while a property may include open grazing land, it may contain some steep timbered land. However, if the primary use and value basis of the property is open grazing, it will be grouped in a component with other properties which also have open grazing as the predominate use.

Land classification ratios will vary from property to property. This will result in differing land value rates per hectare within the component.

You must record all features of rural land that have an impact on value such as large areas of soil erosion or salinity and be able to demonstrate clearly how you have derived the land value rate per hectare for each land classification.

1.4.3 Direct comparison

Direct comparison involves comparing market sales with the subject land. When using direct comparison to value rural land, you must:

- analyse sales to provide a unit of measure such as rate per hectare for each land classification
- consider whether you have adequate market evidence within the local government area or if you need to include sales evidence from other local government areas
- consider all factors that influence the land's value such as the land's size, soil type, land classification, building entitlement, access, location, carrying capacity and highest permitted use
- consider if the property should be valued as a lifestyle block.

1.5 Assumptions and considerations

1.5.1 Valuation assumptions

In line with section 6A of the Act, you must value the land at its highest and best use, while assuming:

- there is a sale of the land
- the buyer and seller are hypothetical
- the title is unencumbered, and the valuation is of the full fee simple in possession
- the land is vacant and has no improvements other than land improvements
- there is no existing development consent for the land.

1.5.2 Valuation considerations

You must also consider and reflect in the valuation these other requirements:

- the current use of the property if it differs from planning controls and would, if allowed, result in a higher land value (section 6A(2))
- all statutory restrictions on the land
- the valuation reflects a sale of the property at 1 July of the valuing year (section 14B)
- the property's physical condition, surroundings, zoning and allowable uses that applied on the date the valuation was made (section 14K).

1.5.3 Further considerations

The land value of rural land may be affected by other sections of the Act or other legislation. Examples that may be relevant are listed below.

Valuation of Land Act 1916	<ul style="list-style-type: none">• Section 14G• Section 14I• Section 14C• Section 6A(3)• Section 28
Heritage Act 1977	<ul style="list-style-type: none">• Sections 123 - 125

1.6 Sales analysis

1.6.1 Wide analysis of sales evidence

You must analyse all rural land sales to establish or verify rural land values at 1 July in the valuing year. Make sure you cover the breadth of the market, and not just sales of vacant land sales relating to benchmark properties.

1.6.2 Establishing the added value of improvements

To deduce the land value of an improved property, use an evidence-based approach to remove the added value of improvements from the sale price.

To calculate the added value of the improvements you must calculate the value they add to the property, not their replacement cost. For example, a shearing shed which may have cost hundreds of thousands of dollars to construct may add little value to a property that is now used only for cropping.

There are a number of ways you can establish the added value of improvements; one approach is the paired sales approach. Using this approach, you can compare sales of properties where there are extensive improvements against a sale that has no improvements.

Another common approach you can use to obtain the added value of improvements is to estimate the depreciated value of the existing improvements on the subject land.

1.6.3 Improvements and sales conditions – rural land

You may need to take into account the value of a number of improvements that can be found on rural land and the value of a number of goods and chattels.

Goods and chattels are sometimes included as part of the sales price for rural land, particularly in a walk-in walk-out situation. Sales may also include conditions such as the deferment of ownership of livestock or crops. These items must be considered in your analysis.

Examples of improvements and goods and chattels that you may need to take into account are listed below:

- stock, crops, plant and equipment
- buildings and structures such as homes, sheds and storage facilities
- plantations
- fencing and stockyards
- irrigation plant and equipment

- earthworks, contour banks or other works of conservation
- pasture improvements
- dams which are works of irrigation or conservation
- water rights
- plant and equipment for stock and domestic water supply.

The added value of any irrigation works and added value of any water associated with any water access entitlement or right are not regarded as land improvements and are therefore not included in the land value. However, the entitlement or right and the associated approval for works will dictate what is irrigable land and this will be included in the land value (section 6A(3) of the Act).

1.6.4 Land improvements

When valuing rural land, remember land improvements are included in land values under the Act. The definition of land improvements is referred to under section 4 of the Act. The definition is particularly relevant for valuing rural land.

Land improvements means:

- a. the clearing of land by the removal or thinning out of timber, scrub or other vegetable growths,
- b. the picking up and removal of stone,
- c. the improvement of soil fertility or the structure of soil,
- d. the restoration or improvement of land surface by excavation, filling, grading or levelling, not being works of irrigation or conservation,
- d1. without limiting paragraph (d), any excavation, filling, grading or levelling of land (otherwise than for the purpose of irrigation or conservation) that is associated with:
 - i. the erection of any building or structure, or
 - ii. the carrying out of any work, or
 - iii. the operations of any mine or extractive industry,
- e. the reclamation of land by draining or filling together with any retaining walls or other works appurtenant to the reclamation, and
- f. underground drains.

1.6.5 Analysing sales to a rate per unit

You must analyse sales of rural land to provide a rate per unit of measure (normally a rate per hectare) for each different land classification contained within the property. You can apply these rates to the same classifications for the property being valued.

1.6.6 Valuation date adjustment

If the sales you are analysing are earlier or later than 1 July, adjust the sale price to reflect market values at 1 July. Ways to estimate market movement between the two dates include:

1. Sales and resales	Look at sales and resales of properties for the period to work out the market movement. Use this to calculate a monthly movement rate to apply to other sales. Take care to also consider other factors affecting value, such as property improvements made since the original sale.
2. Unit measure price movements	Analyse the rate per unit (\$ per hectare) over time to determine price variations for different land classifications. These trends can then be used to adjust sales to the valuation date.

1.7 Quality control

1.7.1 Ongoing quality reviews

Mass valuation processes aim to provide reliable and consistent valuations that lie within the market range. However, they also have limitations, especially when used over time or for valuing properties that are complex or lack comparable market evidence.

You must implement quality assurance processes and ongoing reviews of rural land values and property attributes to:

- ensure consistency in the values
- correct any valuations that have moved out of market range.

Review sample land values individually and as a group to ensure that they can be tested and supported against the available market evidence.

1.7.2 Quality assurance measures

Tools that you should apply to measure the quality of your valuations include:

- individual land value reviews (verification)

- statistical tests
- valuation process reviews.

1.7.3 Verification

Verification is the name given to the process of systematically reviewing individual land values, based on risk.

Verification must be completed with an understanding of the physical and market factors that influence value. You must have sufficient knowledge of the property to determine that the property is correctly valued.

References

Definitions

Term	Meaning
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.
Carrying capacity	The average number of animals that a grazing area can be expected to support over a set period.
Chattels	Personal property as distinct from real property.
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.
Date the valuation is made	The actual date on which the valuer performs the valuation. The physical condition of the land and the manner in which it may be used on the date the valuation is made must be assumed to be the same as at 1 July. See section 14K of the Act.
Environmental planning instrument	A legal document that regulates land use and development under state environmental planning policies and local environmental plans.
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.
Handcraft	Individually value a property based on market evidence.
Highest and best use	Valuation concept that refers to the possible use of a property that would give the highest market value. The use must be lawful, physically possible and financially feasible.
Improvement	Something that improves the value of the land. This is not defined in the Act and is different from the term 'land improvement' (below).

Term	Meaning
Land classification	Land classifications are common land classes based on general use such as cropping, grazing, irrigation and horticulture. They are further defined by consideration of physical features of the land such as soil, topography or timber.
Land improvement	Land improvement, such as draining, excavating, filling or clearing, as defined in section 4 of the 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 Act for a full explanation
Median	The median land value or median sale price is the half-way value in a series of land values or sale prices from lowest to highest value.
Primary benchmark	An individually valued property that represents the majority of properties in a component. The primary benchmark should be within five per cent of the median value in a component. It is used to calculate the component factor.
Quartile	A statistical term describing a division of observations into four equal intervals based upon the values of the data.
Reference benchmark	An individually valued property used to check the quality of proposed valuations in a component. It is used only as a quality check for the application of mass valuation, and not to calculate the component factor.
Sale	<p>The transfer of property between parties. To use a sale as market evidence, it must have been:</p> <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.
Statutory restrictions	Statutory restrictions on the land may include environmental planning instruments and development control plans, as well as restrictions relating to the clearing of land, water and soil management.
Subfactor	A subfactor is any factor other than the component factor used to value sub-groups of properties that have experienced value movements which are inconsistent with the majority of the component.

Term	Meaning
Unencumbered	<p>Unencumbered land is land without any encumbrances.</p> <p>An encumbrance is any right to or interest in land by someone other than the owner, and that prevents the transfer of that land or lowers its value. It might include an easement, restrictive covenant, mortgage, or other restriction.</p>
Valuing year	The year starting 1 July. Valuation reflects the property market at the start of the valuing year.
Water rights	<p>The Act defines a water right as:</p> <p>A right or authority (however described) under the Water Management Act 2000, the Water Act 1912 or any other Act, being a right or authority to construct, install or use works of irrigation, or to use water supplied by works of irrigation.</p>

Related documents and legislation

- [Valuation of Land Act 1916](#) – Section 6A