Valuer General

Valuer General's Policy

ISSN 2203-9600

June 2019

Valuation of land used as a wind farm

What

This policy guides valuers on the methods to use, and factors to consider, when valuing land used as a wind farm for rating and taxing purposes.

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 used as a wind farm are:

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

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Contents

1 Policy

1.1 Scope

Land used as a wind farm	A wind farm site is land on which towers have been, or are intended to be built for the purpose of harvesting wind energy. When leased, the site of a wind farm will be identified by the lease.
Land value improvement land improvement	The land value excludes any structures or improvements, but includes land improvements. See section 6A of the *Valuation of Land Act 1916* (Valuation of Land Act).

1.2 Valuation methods

Mass valuation process

component method

The Valuer General uses a mass valuation process to value most 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 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. The methods described below are used to value a sample of individual properties within the component.

Direct comparison

Direct comparison involves comparing market sales with the subject land.

When using direct comparison to value land used as a wind farm, you must:

- analyse sales to provide a unit of measure such as rate per hectare
- consider a broad range of market evidence, including sales of vacant and improved land
- consider the value of existing lease arrangements in the sale price
- consider whether you have adequate market evidence within the local government area or if you need to include sales evidence from other areas
- follow an evidence-based approach when using sales of improved land to deduce the land value
- consider all factors that influence the land's value such as the land's size, aspect, location, zoning, planning controls,

and permitted use.

Capitalisation of the net rental value

capitalisation

capitalisation rate

net rental

market rent

Where a wind farm site is leased, and direct sales evidence is not available, you can value the land by capitalising the net rental return. The actual rental paid to the owner may be the best evidence of the value of the leased area.

Capitalisation of the net rental reflects the value of the owner's right to receive the rental income from the land.

You can determine the capitalisation rate by analysing sales of comparable investment properties. When considering the correct capitalisation rate to apply you must:

- compare the existing rental to other rentals to determine if the rent is market rent
- review the terms of the lease, especially in regard to rent review conditions.

1.3 Assumptions and considerations

Valuation assumptions

fee simple in possession

highest and best use

land improvement

sale

unencumbered

Land used for wind farms can be held as freehold or leasehold. Land used for wind farms is valued under section 6A of the Valuation of Land Act. The valuation will therefore reflect the freehold land value, irrespective of tenure.

In line with section 6A of the Valuation of Land Act, you must value land used as a wind farm at its highest and best use, while assuming:

- there is a sale
- 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.

Valuation considerations

date the valuation was made

statutory restrictions

You must also consider and reflect in the valuation these other requirements of the Valuation of Land Act:

- 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).

Land subject to a

You must value land subject to a wind farm lease separately

wind farm lease

from the adjoining land. A wind farm lease usually includes land and access. In most cases the actual land area is specified in a detailed plan and covers enough land to support the operation and provide access for construction and maintenance.

Where there are multiple tower sites on the one property you must have regard to the Valuer General policy *Valuing separate parcels* to work out whether the leased areas for each lessee can be included in a single valuation.

Where the access to the site is clearly defined in the lease agreement and forms part of the leased land (the lessee has sole use) you must include it with the valuation of the leased area. Where the access is by easement or right of way that does not confer an exclusive use to the lessee then you must not include it in the leased area.

1.4 Sales analysis

Analysis of sales evidence

The sale of land used for wind farms is not common, however, you should analyse any of these sales where they are available.

Although the use of land for wind farms in rural areas is usually a higher value use, sales of similar land not used for wind farms will provide a strong guide to the base of the valuation range. You may also need to consider other activities that generate ongoing returns.

2 References

2.1 Definitions

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.
capitalisation rate	Expression of risk and return as a percentage that is used to convert the net income in perpetuity from an investment into value at a given time. The capitalisation rate or yield is derived from the analysis of confirmed sales evidence of comparable properties. It is calculated by dividing the net income or net market rental value of the sale property by its sale price. The sales evidence used will usually indicate a range of yields in which points of difference are adjusted for.
component method	The component method of valuation is an indexing system of mass valuation based on the principle of identifying groups of comparable properties, then extrapolating an individual valuation decision for a typical property within the group across the range of the component.
date the valuation was 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 Valuation of Land Act.
encumbrance	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.
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.
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 Valuation of Land Act, and is different from the term ‘land improvement’ (below).

land improvement	Land improvements, such as draining, excavating, filling or clearing, are defined in section 4 of the Valuation of Land Act and included in the land value (below).
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.
market rent	The estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.
net rental	Rent payable excluding all outgoings and GST.
outgoings	The total of all statutory charges, operating expenses and other outgoings for which the lessor is liable.
sale	The transfer of property between parties. To use a sale as market evidence, it must have been: • 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.
unencumbered	Unencumbered land is land without any encumbrances. 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.

2.2 Laws and policies

Governing NSW law	*Valuation of Land Act 1916* (Valuation of Land Act) section 6A
Related Valuer General policy	*Valuing Separate Parcels*

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 appointment 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 maintaining an open and transparent valuation process that is easy for landholders to understand.

3.2 Background

Wind farms

Wind farm numbers are increasing across NSW and are usually found in rural locations. Land for wind farms is often leased rather than owned.

Wind farm companies are usually responsible for the rates and taxes payable for the sites they lease. Separate valuations for land subject to a lease must be made in accordance with the Valuation of Land Act.

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Title: Valuation of land used as a wind farm

ISSN: 2203-9600

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Document control

Approval

Name and position	Signature and date
Simon Gilkes, Valuer General	 05/05/2017

Version

Number	Status	Date	Prepared/Reviewed by	Comments
0.3	Final	03/06/2019	Rachael Burn	Administrative update
0.2	Final	05/05/2017	Rachael Burn	Administrative update
0.1	Final	02/08/2016	OVG	Stakeholder consultation and review undertaken. No changes required
0.1	Final	20/11/2014	Michael Parker	First release

Next review

Date	Comments
July 2020	May be reviewed sooner following release or as needed