Review of the impact of COVID-19 on the NSW property market

1 July 2020

Valuer General NSW

NSW GOVERNMENT

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1.0 Executive summary

The Valuer General is required to value all land in New South Wales (NSW) annually to reflect the property market as at 1 July in the valuing year. The 2020 valuation, being land values as at 1 July 2020, will be used by Revenue NSW for land tax. They will not be used by councils for rating purposes (except for those councils who have requested a revaluation to reflect the impact of bushfires on land value).

In order to implement the 2020 valuation, the Valuer General undertook this review to determine:

- if the property market in NSW was sufficiently active at 1 July 2020 to support the 2020 valuation;
- if the residential and non-residential property market sectors of the NSW property market had been similarly affected by COVID-19; and
- if there were any implications for statutory valuation practice arising out of COVID-19.

The Valuer General analysed the level of transactions in the pre-COVID-19 period (July 2019 – February 2020) and in the COVID-19 period (March 2020 - May 2020), when restrictions were imposed, compared to July 2018 - May 2019, held discussions with representative industry bodies and formed a view that the overall property market in NSW was sufficiently active at 1 July 2020 to support the 2020 valuation.

1.1 Active market

While the residential property market in NSW remained active during COVID-19, transaction levels in the non-residential sectors of LGAs were significantly lower in the COVID-19 period than in same period in the previous year. Therefore, all sectors of the NSW property market had not been similarly affected by COVID-19. Accordingly, the residential and non-residential property sectors of the NSW property market were reviewed separately from the viewpoint of the 2020 valuation.

1.2 Residential property market sector

Concerning residential property, the Valuer General has analysed trends in the median sale price of residential property transactions across the State and found 10% of LGAs to have increased, 88% to have remained stable and 2% to have fallen during COVID-19.

In Greater Sydney, 81% of LGAs had sufficient transactions to consider the median sale price to be a reasonable indicative representation of the trend in the market. In regional

NSW, where the level of transactions is historically much lower than in Greater Sydney, 41% of the LGA's had sufficient sales to provide an assessment of median sale price:

This review is not a valuation and did not seek to determine the value of all residential landholdings in the State. Valuations will be undertaken during the second half of 2020, based on sales evidence to 30 June 2020, with the findings provided to landholders in early 2021. The review sought to establish if median sale prices had decreased by greater than 10%, remained effectively the same (being a decrease of up to 10% or an increase of up to 10%) or risen by more than 10% during COVID-19, with the findings for LGAs in NSW shown in Figure 1.1.

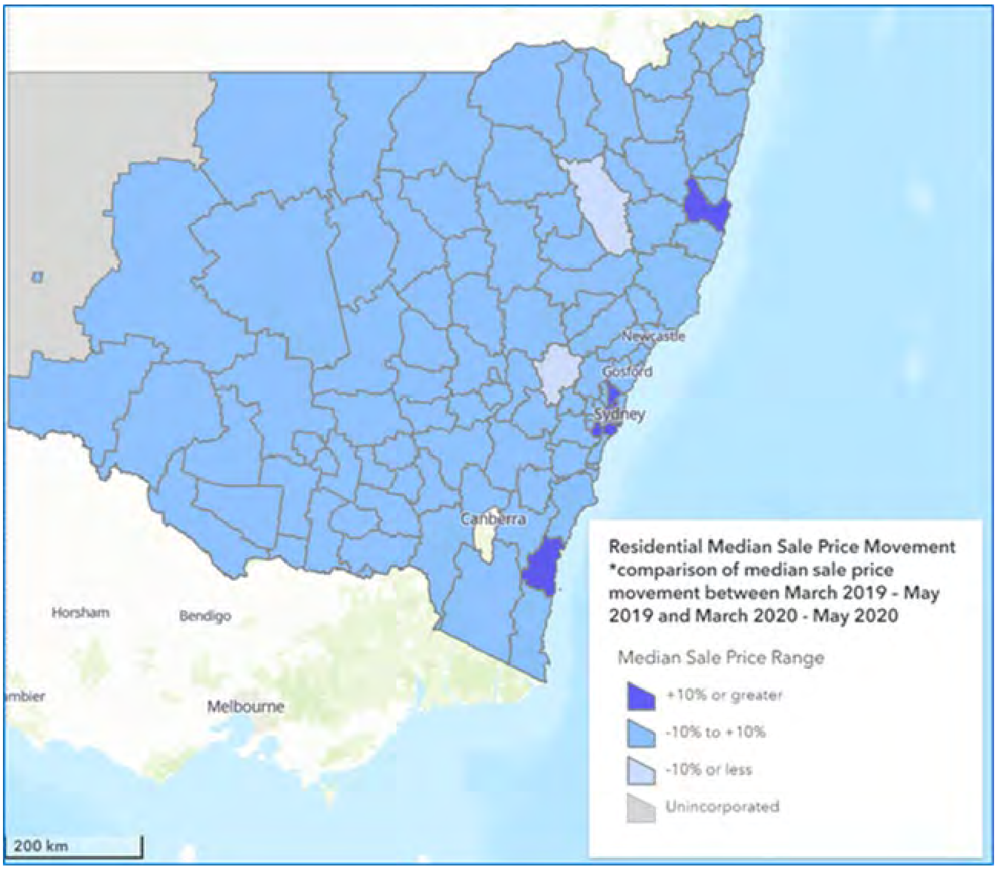


Figure 1.1 NSW residential median sale price movement

Thirteen LGA's (10%) indicated trends greater than 10% in the median sale price, shown in dark blue in the heat map above. These were mainly in Greater Sydney (11), as shown in Figure 1.2.

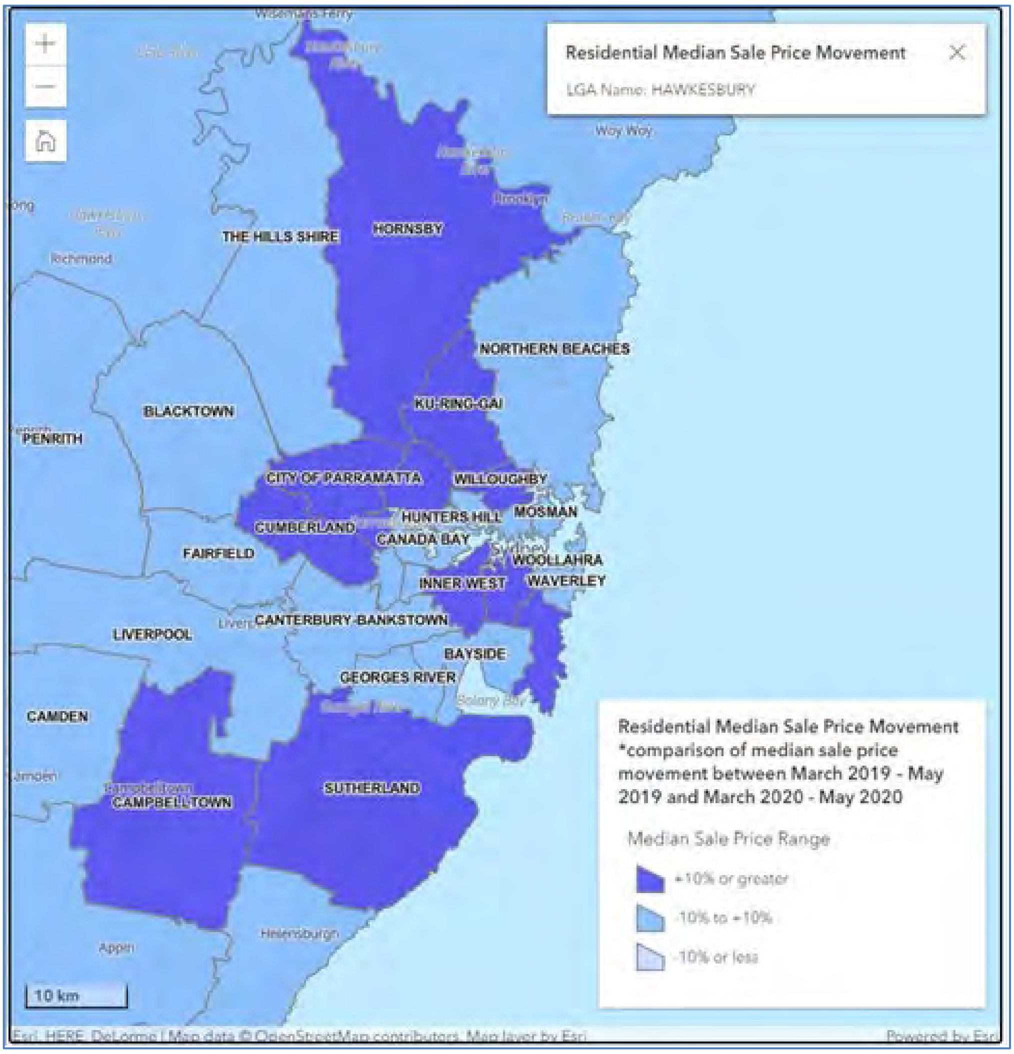


Figure 1.2 Greater Sydney residential median sale price movement

1.3 Non-residential property market sector

Non-residential or business property includes shopping centres, office towers, serviced apartments, hotels, motels, pubs, childcare centres, self-storage, parking stations and so forth which have all been impacted by significant revenue falls during COVID-19 and may be expected to have varying periods of recovery post COVID-19. Further, transaction levels in the non-residential sectors of LGAs were significantly lower in the COVID-19 period than in same period in the previous year.

While there may be a paucity of transactions with which to determine non-residential land values at 1 July 2020, reductions in short and medium term revenue may be expected to reduce capital improved values and to contribute to a reduction in the land value of some vacant non-residential land. In order to gain insight into the non-residential market, the Valuer General has held discussions with representative industry bodies and major owners of non-residential property in NSW including 50 respondents in 20 meetings. The Valuer General sought feedback on improved capital value trends, revenue trend and development land value trends in the various non-residential sectors of the property market with Table 1.1 summarising the Valuer General's view on the generalised overall impact of COVID-19.

Sector	**Impact**
Prime CBD Office and Secondary CBD Office	Medium
Regional Office	Low
Regional Shopping Centre	Medium
Sub-Regional Shopping Centre	Medium
Neighbourhood Shopping Centre	Medium
Industrial	Low
Serviced Apartment	High
CBD and Metro Hotels	Medium
Regional Motel	Low
Metro and Regional Licensed Premises	Low
Caravan Parks	Low
Freestanding Car Park	Medium
Childcare	Low
Self-Storage	Medium
Coal Mines	Medium
Quarries	Medium
Rural	Low

Table 1.1 Generalised overall impact of COVID-19 on the respective non-residential property market sectors as at 1 July 2020

1.4 Implications for statutory valuation practice

Where there is a paucity of transactions due to COVID-19, there are implications for statutory valuation practice as the conventional approach of comparable sales analysis may not be available. Accordingly, the Valuer General has considered the hypothetical development approach on a before and after basis, for those sectors where COVID-19 has had a medium or high impact, to determine the magnitude of potential fall in land value.

In the absence of comparable sales and no alternate higher and better use, the Valuer General proposes to reflect the impact of COVID-19 on the following non-residential sectors in the 2020 valuation by the percentage deductions from the 2019 valuation shown in Figure 1.3 (conditions apply).

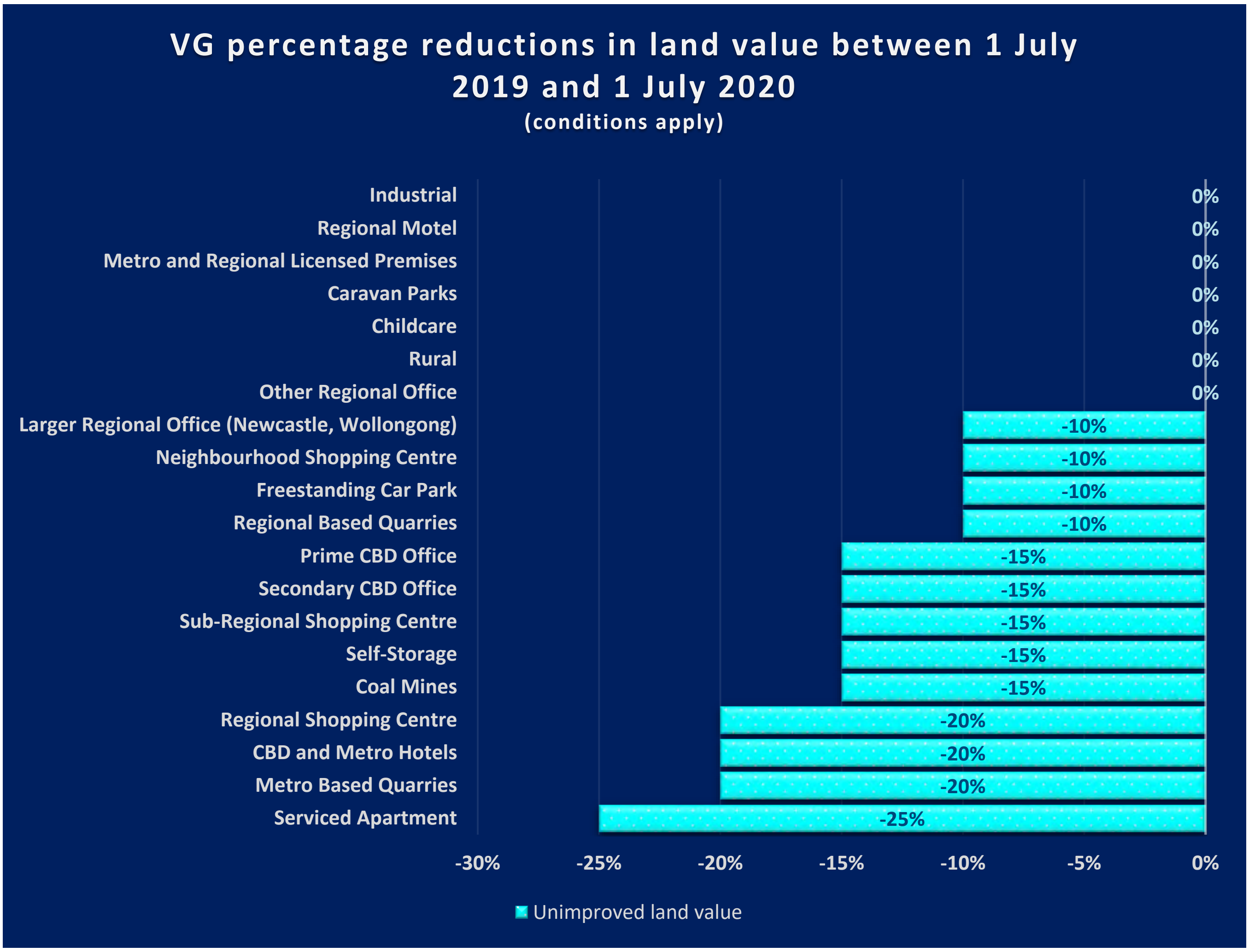


Figure 1.3 VG percentage reductions in land value between 1 July 2019 and 1 July 2020 (conditions apply)

1.5 July 2020 valuation released in early 2021

The Valuer General understands that media speculation has created various community expectations, such as that all property values in NSW will fall by 30% as a result of COVID-19. Such expectations are not supported at 1 July 2020 by sales transactions in the residential property market nor investor opinion and Valuer General modelling in the non-residential property market.

Given the very significant challenges in managing the COVID-19 pandemic, it may be likely that the NSW property market will be further affected by COVID-19 during the balance of 2020 and into early 2021. Accordingly, it is highly likely that the state of the NSW property market in early 2021, when landholders receive their assessments of land value, will be very different to that at 1 July 2020 when the valuation was undertaken.

While landholders continue to have the right to object to the Valuer General's assessment of land value at 1 July 2020, the relevant matter for consideration in determining the objection will be the state of the relevant market at 1 July 2020 rather than the state of the relevant market at the date of objection by the landholder.

2.0 Context of Valuer General's review

The Valuer General is required to value all land in NSW annually to reflect the property market as at 1 July in the valuing year. The 2020 valuation, being land values as at 1 July 2020, will be used by Revenue NSW for land tax. They will not be used by councils for rating purposes (except for those councils who have requested a revaluation to reflect the impact of bushfires on land value).

In order to implement the 2020 valuation, the Valuer General undertook this review to determine:

- if the property market in NSW was sufficiently active at 1 July 2020 to support the 2020 valuation;
- if the residential and non-residential property market sectors of the NSW property market had been impacted to a similar extent by COVID-19; and
- if there were any implications for statutory valuation practice arising out of COVID-19.

2.1 COVID-19 chronology

COVID-19 is the first pandemic to hit Australia since the Spanish flu in 1919. According to the Department of Health, the first case of COVID-19 in Australia was identified on 25 January 2020. In March 2020, the cases of COVID-19 began to increase exponentially with restrictions commencing in NSW from 16 March 2020 and including:

- 18 March — ANZAC day ceremonies cancelled
- 22 March — 6 month business loan and mortgage deferrals
- 24 March — Work from home commences
- 25 March — Australian border closed, real estate auctions and on-site inspections banned
- 31 March — Social distancing introduced
- 6 April — Free childcare introduced
- 10-13 April — Royal Easter Show cancelled
- 9 May — Real estate auction restrictions lifted
- 10 May — Hotels, pubs, clubs, cafes reopen to 10 patrons
- 1 June — Hotels, pubs, clubs, cafes reopen to 50 patrons
- 13 June — Gyms reopen
- 1 July — Cinemas and theatres reopen, 4sqm per person required

For the purposes of this review, the COVID-19 period comprises 1 March 2020 to 31 May 2020, being the date to which transactions were analysed. In this relatively short period, the operation of the residential property market in NSW was impacted by COVID-19 restrictions which also significantly impacted the revenue side of some sectors of the non-residential property market. The impact of COVID-19 continued beyond 31 May 2020 and the impact on June 2020 will be reflected in the 1 July 2020 valuation.

The impact of COVID-19 has caused economic consequences to business operations and finance, including changes to the labour workforce environment, travel restrictions within Australia and international tourism to Australia. These disruptions caused a re-evaluation by participants in the property market as they consider the purpose and value of real estate in business, as a place to live, or as investment holdings.

3.0 1 July 2020 valuation

Each Australian State and Territory raises taxes based on some form of land and/or property and undertakes a valuation of such land and/or property on a prescribed basis and with a prescribed frequency which may differ between States and Territories.

3.1 Overview of NSW annual land value program

On 1 July annually, the Valuer General determines land values for approximately 2.6 million properties across 128 Local Government Areas. Each year, sales transactions are analysed by valuation contractors. This market evidence is used to determine land values for the valuation program.

The 2020 valuation, being land values as at 1 July 2020, will be used by Revenue NSW for land tax. They will not be used by councils for rating purposes (except for those councils who have requested a revaluation to reflect the impact of bushfires on land value).

3.2 Review of other rating and taxing jurisdictions

The NSW Valuer General surveyed other rating and taxing jurisdictions in Australia and the International Property Tax Institute (IPTI) concerning how COVID-19 is impacting property values in their State and in different countries, with a summary of responses included in Appendix 1.

The only jurisdictions in Australia committed to delivering land values at 1 July 2020 are NSW, Western Australia, Northern Territory and Tasmania.

Western Australia has not deferred their 2020 gross rental values for the Perth metropolitan area from issue, though the 2020/21 regional GRV program was deferred. The unimproved value program is less affected by short term changes and so is continuing. The Northern Territory reports little COVID-19 impact and is continuing with the valuation. Tasmania, however, has deferred their 2020 valuation.

The other jurisdictions of Victoria, South Australia and the ACT have determination dates of 1 January which is pre COVID-19 restrictions. Queensland has issued 2020 land valuations effective 30 June 2020 though these were determinate 1 October 2019.

3.3 Methodology

The Valuer General sought to determine if there is sufficient transactional activity during the COVID-19 period with which to determine 1 July 2020 land values.

In order to form a view on the relative level of transactional activity during the COVID-19 period, the Valuer General reviewed the level of transactions in the pre-COVID-19 period (July 2019 – February 2020) and in the COVID-19 period (March 2020 - May 2020), when restrictions were imposed, compared to July 2018 - May 2019. Transactions for June 2020 were unable to be considered as, at the date of analysis, contract details were not available.

The review comprised quantitative and qualitative analysis, focusing on sales volumes, median price movement and media commentary as key indicators to understand the impact of COVID-19 on the residential and non-residential property markets in greater Sydney and regional NSW.

The analysis included internal and external data sources:

- the Valuer General's internal database, Valnet, was analysed to establish sale transactions volumes, median sale price movements, number of sales analysed by contractors and 2020 sale price movement for each residential and non-residential (using the Valuer General classifications of rural, commercial and industrial) property sector in each LGA in NSW and by price ranges within the LGA in the following time periods:
    - July 2018 to June 2019, being the last valuation year;
    - July 2019 to 29 February 2020, being the pre-COVID-19 period;
    - March, April and May 2020, being the COVID-19 impacted period; and
    - June 2020 being prior to the valuation date but outside the analysis period.

- external data sources were analysed, including Revenue NSW data, NSW Fair Trading Rental Bond Board data, property analyst publications such as Core Logic and media commentary, to identify support for and differences to indicative price movements found from internal data analysis.

Given the extent of the Valuer General's internal database, Valnet, some data cleansing was required. Valnet contains all sales transactions, coded to categorise the sale in terms of being a market or non-market sale or whether multiple properties were included in a sales transaction and so on.

For the purpose of the review and to capture reliable market movement, some sales were removed from the data including:

- sales identified as non-market indicators (eg related parties transfer);
- part of multiple property transfer (eg strata title, multiple property transfer);

- sales of ongoing concerns (eg sale of a business with its land); and
- closed roads or boundary adjustments.

Residential, commercial, industrial and rural property sectors formed the basis of the review. To ensure consistency, the same classifications were adopted as are used in the Valuer General's public reporting and media releases in relation to land values and are set out in Table 3.1.

Property Sectors	Zoning
Residential	A, B4, D, E4, M, R1, R2, R3, R4, R5, RU5, Z
Business	B, B1, B2, B3, B5, B6, B6, B7, B8, C, T
Industrial	I, IN1, IN2, IN3, IN4
Rural	R, RU1, RU2, RU4

Table 3.1 VG sector classifications

3.4 Sales transaction volume analysis

To accurately determine market trends, transaction activity levels were analysed on a year on year basis over several time periods, focussing on the pre-COVID-19 and COVID-19 periods.

The 2019 valuation year, which includes sales from July 2018 to June 2019, was considered an active market and this data was extracted to provide a baseline from which comparisons could be drawn in respect of the impacts of COVID-19 on activity in 2020.

Data for the following periods was extracted for this purpose:

- July 2019 to February 2020: to demonstrate market movement pre-COVID-19 in the 2020 valuation year;
- March to May for 2019 and 2020: March to May 2020 was the period most affected by COVID-19 and the same period for 2019 provided a comparison of median sale price movement and transaction volumes over the same timeframe for the prior year; and
- June 2020: all June 2020 sales as available in Valnet at 9 July to confirm movement trends identified in the March – May analysis.

As at 16 June 2020, the number of properties in the sectors reviewed and the market sales available are detailed in Table 3.2.

	Residential	Commercial	Industrial	Rural
Properties in each sector	2,061,661	86,625	38,150	243,627
Sale available Mar- May	14,015	198	170	1,059
This review did not include uses such as public recreational, private recreational, Environmental, Infrastructure, waterways, and open spaces.				

Table 3.2 Summary – sales and properties by sector

3.5 Media analysis

Over 125 media and industry articles were reviewed to identify value movement forecasts and speculation for the identified property sectors. Sources included Australian Financial Review (AFR), CoreLogic, ABC News, The Land (FarmOnline), Property Council of Australia, Beef Central, Channel Nine, Colliers, Daily Examiner, DEXUS, Herron Todd White, JLL, Katherine Times, NAB, Rabobank, The Rural Bank, RICS, Savills, Shopping Centre News and The Hotel Conversation.

Articles were referenced by sentiment (positive, negative and neutral) and theme (evidenced value increase/decrease/value movement speculation increase/decrease, Land Tax impacts, mortgage stress, rent stress, vacancy levels, impact on land value, Government tax policy and objections). Where articles touched multiple themes, the dominant theme was adopted.

The media reports confirm transactions have continued despite COVID-19 and that, overall, industry commentators are speculating 5 -10% decreases against pre-COVID-19 property values. Reporting on transaction activity specifically in greater Sydney confirms properties are still exchanging, albeit with significantly reduced volumes.

Despite speculation of up to 30% decreases in property values, Real Estate Institute of New South Wales (REINSW) President Leanne Pilkington said:

> *“investors would be better off looking at the data instead of the doom-and-gloom headlines”.*
> *Property market update: Sydney, May 2020*, Property Investment Professionals of Australia (2020)

Sentiment is cautiously optimistic although commentators agree the full impacts of COVID-19 are yet to be felt. The ending of Government stimulus packages and Job Keeper, mortgage relief, impact of higher unemployment, rents and vacancy levels (post September) and decreased immigration may impact the property market in October, November and December 2020.

It is, however, evident from media commentary that, while transaction volumes are down, the residential property market remains active.

Commercially, media commentary noted that COVID-19 has reinforced the importance of non-discretionary retail and the role of well-located property including CBD office and easily accessible industrial property.

From a regional perspective, media commentary focused on increased interest in satellite cities such as Newcastle for commercial property and an increasing interest in living away from big cities as people rethink where they live and work

3.6 Impact of COVID-19 on transaction levels

The property market in NSW functioned normally in the period July 2019 to February 2020. Following the introduction of restrictions and public concerns related to COVID-19, the property market in NSW has functioned abnormally in March, April and May 2020, primarily reflected in a 37% fall in transaction levels as property sales activity was impacted by COVID-19 restrictions.

In NSW, transaction levels across all property sectors in 2018-2019 are compared to 2019-2020 in Table 3.3.

Sector	July 2018 – Feb 2019	July 2019 – Feb 2020	% Diff	March – May 2019	March – May 2020*	% Diff
Residential	51,240	63,274	23%	21,165	13,361	-37%
Business	1,263	1,512	20%	556	284	-49%
Industrial	812	850	5%	292	170	-42%
Rural	4,507	4,605	2%	1,730	1,069	-38%
Total	57,822	70,241	21%	23,743	14,884	-37%

*Transactions for May 2020 include those identified up to 16 June 2020.

Table 3.3 Transaction levels: 2018/19 vs 2019/20

Following the restrictions imposed due to COVID-19, transaction levels fell across all sections of the property market with an overall fall of 37% below transaction levels from March-May 2019. Before the restrictions imposed due to COVID-19, transaction levels for all sectors from July 2019 – February 2020 exceeded those in the previous comparable period.

In order to form a view on whether there is sufficient information to proceed with the 2020 revaluation, the level of transactions in each sector in each LGA of NSW has been analysed. There are 128 LGAs in NSW and most contain residential, business, industrial and rural property sectors which require separate analysis giving a total of 469 LGA property sectors in the State for analysis.

It should be noted that, in most years, a significant number of property sectors in LGAs (mostly business, industrial and rural property sectors) have very few transactions which may be further reduced by the impact of COVID-19.

The level of transactions for the 469 LGA property sectors between March – May 2020 is compared with the level for March – May 2019 in Tables 3.4 and 3.5.

Level of Transactions March – May 2020	% LGA Residential Sectors	% LGA Business Sectors	% LGA Industrial Sectors	% LGA Rural Sectors
Over 100% of March-May 2019 level	7%	11%	7%	12%
75% - 100% of March-May 2019 level	17%	8%	6%	23%
50% - 74% of March-May 2019 level	67%	11%	3%	25%
25% - 49% of March-May 2019 level	8%	3%	5%	16%
Less than 24% of March-May 2019 level and including LGA property sectors with zero, one or two transactions	1%	67%	79%	24%

Table 3.4 Level of transactions March-May 2020

Low Level Transaction Comparison	% LGA Residential Sectors	% LGA Business Sector	% LGA Industrial Sectors	% LGA Rural Sectors
Zero, one or two transactions in March-May 2020	1%	65%	79%	23%
Zero, one or two transactions in March-May 2019	2%	32%	48%	15%

Table 3.5 Low level transaction comparison

Despite the impact of COVID-19, the residential property market in NSW remained active.

As anticipated, transaction levels in the business, industrial and rural sectors of LGAs were significantly lower in the COVID-19 period than in same period in the previous year. In the period March-May 2019, 32% of LGA business sector transactions experienced low volumes compared to 65% in the COVID-19 period. A similar trend can be observed in the LGA industrial and rural sectors, with low transaction levels rising from 48% to 79%, and 15% to 23% respectively.

The volume of residential sale transactions for the pre-COVID-19 period (July 2019 – February 2020) and the COVID-19 period (March 2020 – May 2020) are summarised in Table 3.6 and Figure 3.1.

	Residential – Volume of Sale Transactions			
Regions	**Period**	**2018-2019**	**2019-2020**	**% Diff**
Greater Sydney	July to February	21,262	29,198	37.3%
	March to May	9,662	5,651	-41.5%
Regional NSW	July to February	32,520	35,624	9.5%
	March to May	12,419	8,016	-35.5%

Table 3.6 Residential – volume of sale transactions

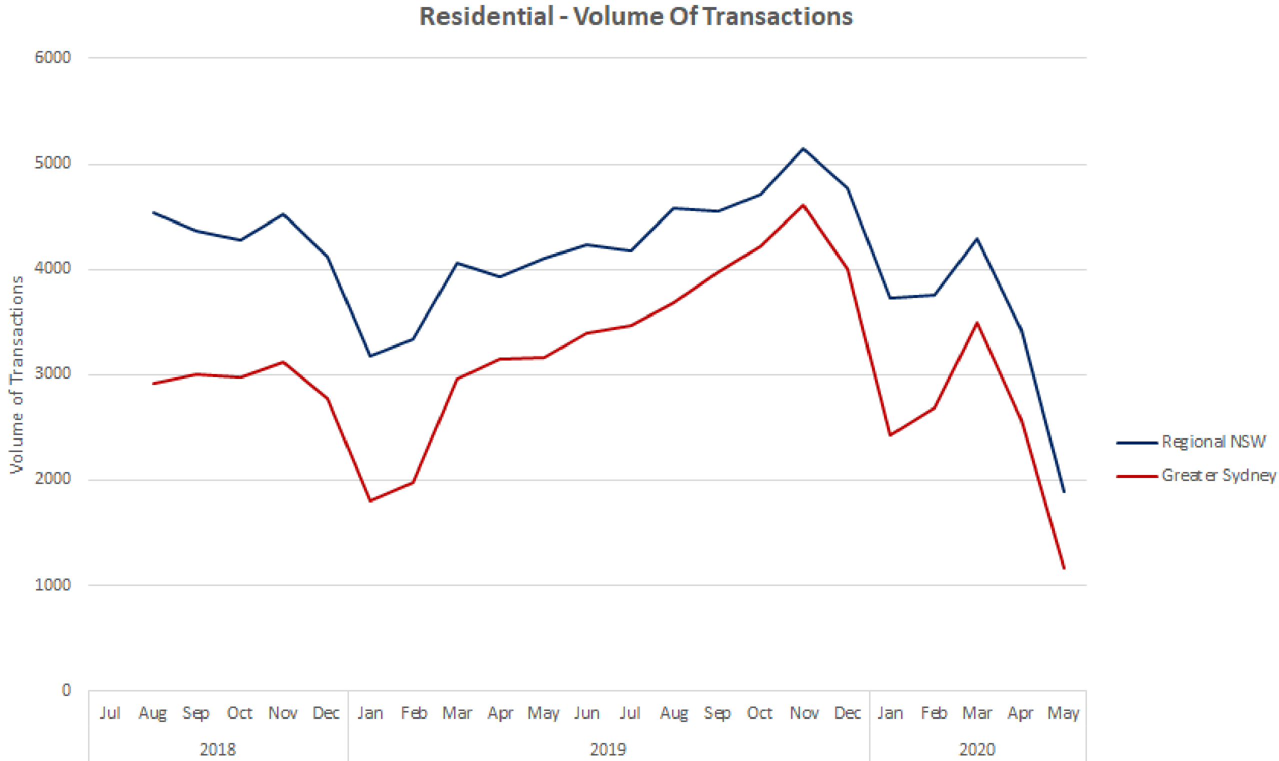


Figure 3. 1 Residential – volume of transactions

Over the COVID-19 period (March to May), year on year comparison, there was a decrease of approximately 41% in the volume of residential sales transactions for greater Sydney and a 35% decrease for regional NSW across all price ranges.

When analysing greater Sydney data by price range, properties priced between $350,000 - $1,250,000 showed 44% to 46% reduction in volume. This aligns with the overall volume change for the greater Sydney region. The lower end of the market ($0 to $350,000) and middle market of ($1,250,000 to $2,000,000) saw lower reductions at approximately 30% to 34% decrease. The upper market of $2,000,000 to $5,000,000 saw the volume of transaction decrease around 40%.

In regional NSW, the $0-1,250,000 range was consistent with an overall reduction of 30% to 36% volume reduction, the higher price range of $1,250,000-$2,000,000 experienced the greatest reduction at 46.5% as shown in Table 3.7.

	Price Range		Volume of Transactions (Mar-May)		
	Low	High	2019	2020	Diff %
					Regional NSW
1.	$0	$350,000	4,238	2,961	-30.1%
2.	$350,000	$750,000	6,475	4,150	-35.9%
3.	$750,000	$1,250,000	1,448	982	-32.2%
4.	$1,250,000	$2,000,000	331	177	-46.5%
5.	$2,000,000	$5,000,000	34	23	-32.4%
					Greater Sydney
1.	$0	$350,000	219	145	-33.8%
2.	$350,000	$750,000	3,262	1,765	-45.9%
3.	$750,000	$1,250,000	3,118	1,740	-44.2%
4.	$1,250,000	$2,000,000	2,338	1,627	-30.4%
5.	$2,000,000	$5,000,000	621	377	-39.3%

Table 3.7 Transaction volume by category

3.7 Conclusions – 1 July 2020 valuation

While the residential property market in NSW remained active during COVID-19, transaction levels in the non-residential sectors were significantly lower in the COVID-19 period than in same period in 2019. Therefore, all sectors of the NSW property market are not similarly affected by COVID-19.

While residential landholdings may be valued at 1 July 2020 by principal reference to comparable sales, the paucity of comparable sales will necessitate a different approach to the valuation of non-residential landholdings for the purposes of the 1 July 2020 valuation.

Having regard to the analysis undertaken, the Valuer General has formed a view that the overall property market in NSW was sufficiently active at 1 July 2020 to support the 2020 valuation.

4.0 Residential landholdings

Having determined that the residential property market in NSW remained active during COVID-19, the Valuer General sought to identify trends in transactional capital prices for improved residential property during the COVID-19 period.

While the Valuer General is focused on land value at 1 July 2020, trends in transactional capital prices for improved residential property during the COVID-19 period may provide an indication of the likely trend in land value, all other things being equal. For example, if the median sale price for improved residential property at May 2020 had trended upward compared to May 2019, it is likely that the underlying land value will also have trended upward. Similarly, if the median sale price for improved residential property at May 2020 had trended downward compared to May 2019, it is likely that the underlying land value will also have trended downward.

It should be noted that this review is not a valuation and did not seek to determine the value of all residential landholdings in the State.

4.1 Direct impact of COVID-19 on the residential property market

During April 2020 property inspections and on-site auctions were banned which had a direct impact on the residential property market. However, since 9th May 2020, when onsite auctions recommenced, clearance rates subsequently remained strong indicating resilience in the residential sector.

4.2 Methodology

The dataset developed for transactional volume analysis and described in Section 3.4, above, was also used for median sale price analysis.

To determine an indicative sale price movement, year on year median analysis was undertaken on the time periods as for transactional volume analysis, comparing the corresponding 2019 and 2020 timeframes to identify change in median sale prices.

It should be noted, median analysis requires a large, balanced data sample in order to provide reliable results. Small sample sizes are prone to distort the results as there are fewer transactions from which to draw the median in each period which may result in unreliable median sale price movements between periods.

To assess if any group was more or less impacted by COVID-19, properties were grouped into 6 sale price ranges, as below:

- $0 to $350,000
- $350,000 to $750,000
- $750,000 to $1,250,000
- $1,2500,000 to $2,000,000
- $2,000,000 to $5,000,000

The price range was established with regard to the residential median sale price in NSW of $618,000 and the greater Sydney area median of $927,500 in order to capture the bulk of the market in middle price range.

4.3 Findings

Year on year comparison for the period March to May 2019 and March to May 2020 showed the median sale price movement for residential properties between $350,000 to $1,250,000 across the State remained stable with minimal median movement, though the upper and lower end of the market exhibited a greater downward movement in median sale price.

In greater Sydney, the $0-$350,000 price range highlighted the biggest decrease of approximately 9.2% in median sale price movement. Price ranges within $350,000 to $2,000,000 remained stable with minimal movement positive or negative. The over $2,000,000 price range properties saw a slight decrease of 3%.

Regional NSW witnessed slight decreases in the lower range $0-$350,000 showing -4.2% in median sale price movement. The predominant middle range $350,000 to $750,000 saw slight increase of up to 2%. The upper market of $1,250,000 to $2,000,000 witnessed decrease of approximately 5% in median sale price movement.

Residential median sale price for greater Sydney and regional NSW for the pre-COVID-19 and COVID-19 periods are shown in Table 4.1 and 4.2 and Figure 4.1.

	Residential – Median Sale Price			
Regions	**Period**	**2018-2019**	**2019-2020**	**% Diff**
Greater Sydney	July to February	$935,000	$925,000	-1.1%
	March to May	$915,000	$960,000	4.9%
Regional NSW	July to February	$445,000	$470,000	5.6%
	March to May	$450,000	$450,000	0.0%

Table 4.1 Residential median sale price

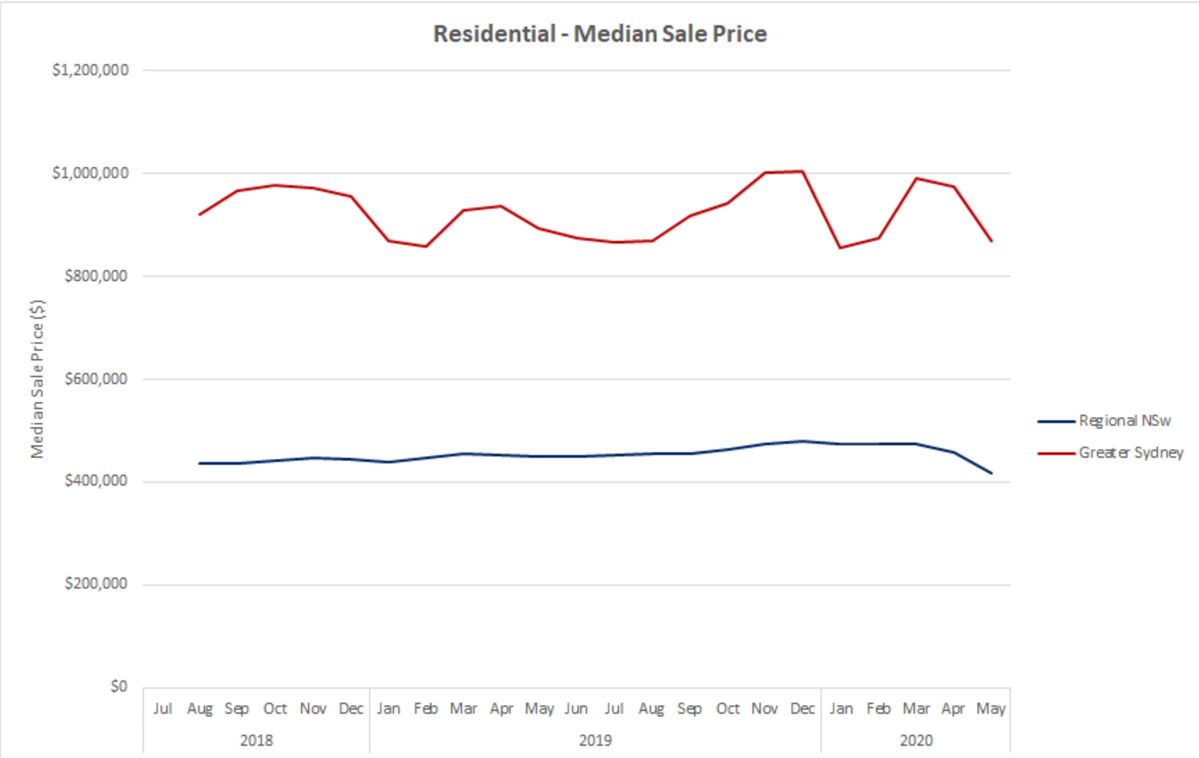


Figure 4.1 Residential median sale price

	Low	Price Range High	Median Sale Price Movement 2019	2020	Diff %
					Regional NSW Residential
1.	**$0**	**$350,000**	$240,000	$230,000	-4.2%
2.	**$350,000**	**$750,000**	$515,000	$525,000	1.9%
3.	**$750,000**	**$1,250,000**	$875,000	$868,000	-0.8%
4.	**$1,250,000**	**$2,000,000**	$1,550,000	$1,475,000	-4.8%
5.	**$2,000,000**	**$5,000,000**	$2,986,074	$3,125,000	4.7%
					Greater Sydney Residential
1.	**$0**	**$350,000**	$311,000	$282,500	-9.2%
2.	**$350,000**	**$750,000**	$607,500	$609,000	0.2%
3.	**$750,000**	**$1,250,000**	$940,000	$949,990	1.1%
4.	**$1,250,000**	**$2,000,000**	$1,642,500	$1,638,750	-0.2%
5.	**$2,000,000**	**$5,000,000**	$3,100,000	$3,009,000	-2.9%

Table 4.2 Residential median sale price movement

The findings of the median sale price analysis for improved residential property provide an indication of the likely trend in land value, all other things being equal. For example, if the median sale price for improved residential property at May 2020 had trended upward compared to May 2019, it is likely that the underlying land value will also have trended upward. Similarly, if the median sale price for improved residential property at May 2020 had trended downward compared to May 2019, it is likely that the underlying land value will also have trended downward.

While media commentators may have speculated that COVID-19 will result in all property values falling by 30%, the median sale price analysis for improved residential property does not support this speculation. To provide landholders with an understanding of the likely trend in residential land value, the Valuer General has developed an interactive map of each LGA in the State which is accessible on the Valuer General's website.

The interactive maps do not provide assessments of land value for each residential landholding in each LGA but provide an indication of those LGAs where the median improved residential sale price has changed compared to March-May 2019 and:

- has increased by 10% or greater;
- has remained stable within a band of -10% to +10%; or
- has fallen by more than 10%,

so providing residential land holders with an indication of the likely direction of movement of their land value at 1 July 2020, with examples of interactive maps provided in Figures 4.2 and 4.3.

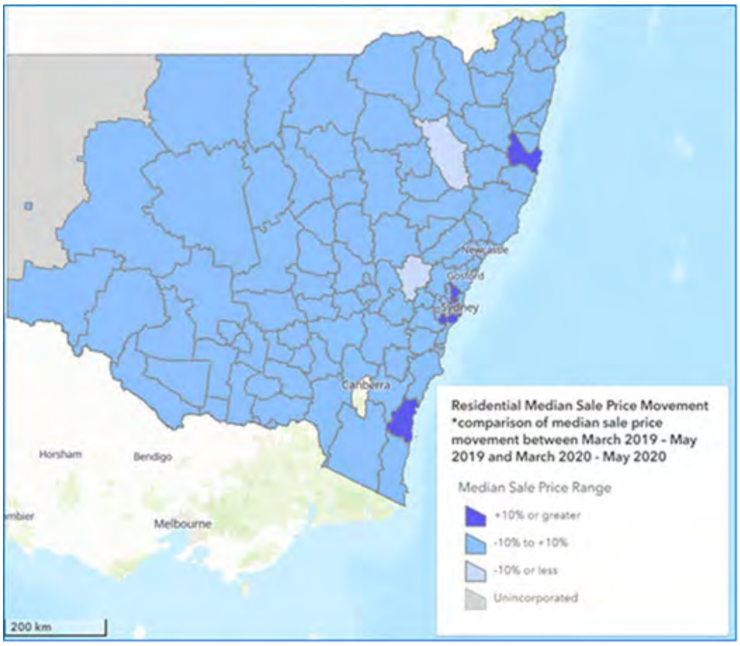


Figure 4.2 Map – residential sale price movement by LGA

Figure 4.3 Map – residential sale price movement by region

It should be noted that those LGAs with less than 50 sales were attributed a stable rating (band of -10% to +10%) as the sample size is too small to provide reliable median sale analysis results. A ratio check of vacant land sales for each LGA was also undertaken to identify outliers with higher ratios of vacant land compared to other LGAs. A high portion of vacant land sales will have the effect of reducing the median sales price and distort data outcomes. For example, Federation LGA showed a high proportion of vacant land sales, lowering the overall LGA median sales price, and therefore the median movement.

4.4 Conclusions – residential landholdings

Analysis undertaken by the Valuer General identified trends in the median sale price of residential property transactions across the State and found 10% LGA's to have risen, 88% to have remained unchanged and 2% to have fallen during COVID-19.

In greater Sydney, 81% of LGAs had sufficient transactions to consider the median sale price to be a reasonable indicative representation of the trend in the market. In regional NSW, where the level of transactions is historically much lower than in greater Sydney, 41% of the LGA's had sufficient sales to provide an assessment of median price

The exact percentage movement in land values will be determined when the 1 July 2020 valuation is completed in later 2020. The review sought to establish if median sale prices had decreased greater than 10%, remained effectively the same (being a fall of 10% or a rise of 10%) or increased by more than 10% during COVID-19.

Media speculation has created community expectations, such as that all property in NSW will fall in value by 30% as a result of COVID-19, which are not supported by sales transactions in the residential property market.

5.0 Non-residential landholdings

Non-residential or business property includes shopping centres, office towers, serviced apartments, hotels, motels, pubs, childcare centres, self-storage, parking stations and so forth which have all been impacted by significant revenue falls during COVID-19 and may be expected to have varying periods of recovery post COVID-19.

As noted in Section 3.6, above, transaction levels in the non-residential sectors of LGAs were found to be significantly lower in the COVID-19 period than in same period in the previous year. While there may be a paucity of transactions with which to determine non-residential land values at 1 July 2020, reductions in short and medium term revenue may be expected to reduce capital improved values and to contribute to a reduction in the value of some vacant non-residential land.

In order to gain insight into the non-residential market, the Valuer General has held discussions with representative industry bodies and major owners of non-residential property in NSW including 50 respondents in 20 meetings including the following non-residential property market sectors:

- offices;
- retail;
- industrial;
- serviced apartments;
- leisure;
- freestanding car park;
- childcare;
- self-storage;
- coal mines;
- quarries; and
- rural.

The Valuer General sought feedback on improved capital value trends, revenue trends and development land value trends in the various non-residential sectors of the property market which was then compared to the outputs of modelling undertaken by the Valuer General in order to form a view on trends in land value for the respective non-residential property market sectors.

5.1 Methodology

A qualitative research methodology was selected comprising a structured survey instrument with questions designed to elicit respondent feedback on improved capital value issues, revenue issues, highest and best use issues, development issues and relative comparison of COVID-19 with the GFC.

20 online meetings were held involving 50 respondents over the period 11 June 2020 to 8 July 2020. Respondents included CEO's of major owner groups, capital transaction executives, valuers, agents, advisers and representatives of the following industry bodies:

- Accommodation Association of Australia
- Australian Childcare Alliance NSW
- Australian Hotels Association
- Cement, Concrete and Aggregates Australia
- NSW Farmers Association
- NSW Minerals Council
- Parking Australia
- Property Council of Australia
- Self-Storage Association of Australia
- Shopping Centre Council of Australia
- Real Estate Institute NSW
- Urban Task Force

Accordingly, while the respondent sample is not exhaustive, it is considered substantial and broadly representative of the respective property sectors.

Further, the timing of the meetings is significant as views were sought on the state of the market at 30 June 2020. Therefore, meetings in early June or in mid-July may be tainted by market activity and media speculation around each date which may differ from that at 30 June 2020.

A copy of the survey instrument was provided to respondents prior to an online meeting being held. Respondents were asked to make opening comments concerning the state of their respective property sectors at the start of the meeting, followed by being asked to respond to the individual questions in the survey instrument. Notes were taken during the meeting of the responses received, which were then collated.

5.2 Findings – improved capital values

To provide an insight into the state of the transaction market for improved commercial property, respondents were asked to discuss relevant issues such as sales, buildings for sale, listings, what is happening with sales that started pre-COVID, protracted sales, time on market before/during COVID, sales that didn't complete and profile of active buyers in the sector.

Feedback from respondents is summarised in Table 5.1:

Sector	Summary of Respondent Feedback
Prime CBD Office, Secondary CBD Office and Regional Office	Capital values rose from July 2019 to January 2020 and may have remained stable or fallen slightly during the COVID-19 period when issues impacting revenue may also impact capital value. However, capitalisation rates were considered to be stable though discount rates were softening in valuations and asset modelling during the COVID-19 period. There is, however, limited sales evidence during COVID-19 to indicate the existence or quantum of same on capital values. Pre-COVID-19 international buyers, institutional buyers and REITs remain interested in the Sydney office market. Identified transactions of office buildings in NSW were prevalent in the period July 2019 to February 2020 (112 transactions Sydney metro, 207 regional NSW) but declined significantly in the COVID-19 period of March 2020 to May 2020 (27 transactions Sydney metro, 69 regional NSW). The only Grade A CBD office sale identified in the COVID-19 period was 45 Clarence Street, Sydney, being a 28-storey office tower being 100% occupied with a WALE of 3.3 years.
Regional, Sub-Regional and Neighbourhood Shopping Centre	COVID-19 exacerbating decline in values due to e-commerce and trend to experiential shopping. Decrease in regional and sub-regional shopping centre values expected to be greater than movement in neighbourhood centre values. Foreign and domestic buyer interest in the retail market is limited due to uncertainty, though some opportunistic bids have been received and private buyer interest is reported for neighbourhood centres. No sales of regional shopping centres in NSW were identified since the sale of a 50% interest in Westfield Burwood in May 2019, though 3 sub-regional and 6 neighbourhood centre sales were identified. Post-COVID-19, 2 sales of neighbourhood centres were identified.
Industrial	The major influence in the industrial market has been the highly beneficial shift to e-commerce, with COVID-19 having little impact on the industrial market. Buyers remain active in the industrial market where pricing suits, particularly REITs. 682 industrial zoned sales transactions including 227 vacant land sales were identified in the period 1 July 2019 to 29 February 2020 and 14 sale transactions but no vacant land sales were identified in the period 1 March 2020 to 31 May 2020.

Serviced Apartment	Australian borders are closed to students, tourist and immigrants which has destroyed demand for serviced apartments, couple with the collapse in domestic business travel. Supply of rezoned land plentiful which has flooded the market. This has depressed capital values. Buyers are few and far between, with the collapse of Chinese interest in the Sydney market. 17 metro and regional serviced apartment sale transactions and one serviced apartment building (Quest Macquarie Park) were identified in the period 1 July 2019 to 29 February 2020. Three serviced apartment sale transactions and no serviced apartment building transactions were identified in the period 1 March 2020 to 31 May 2020.
CBD and Metro Hotels	In July 2019 to February 2020, investor interest was positive, particularly from Asian and Chinese buyers. Lack of available stock limited transactional volumes and led to yield compression. Buyers are cautious and are looking for bargains, whereas sellers are looking to maintain pre-COVID19 values. Time on the market and transaction periods can be expected to be longer than pre-COVID19. Buyers are taking a “wait and see” approach to see how the market plays out in the next 6 months. Sellers will be pressured from their lenders to meet the new market. Eight CBD and Metro Hotel sale transactions were identified in the period 1 July 2019 to 29 February 2020. In March 2020 to May 2020, there have been no known sales due to the level of market uncertainty, though the Radisson Hotel in Sydney is on the market and levels of buyer interest are reasonable given prevailing conditions.
Regional Motel	In July 2019 to February 2020, sales volume was down, although demand was strong, with reduced yields over recent years, especially for the coastal motels contributing to a firm market for the sector. In the COVID-19 period, there have been few if any sales with the market improving in June 2020 as travel restrictions lifted. 19 motel sale transactions were identified in the period 1 July 2019 to 29 February 2020 and one sales transaction was identified in the period 1 March 2020 to 31 May 2020.
Metro and Regional Licensed Premises	In July 2019 to February 2020, the Metro market remained firm though there was a decline in sales activity due to difficult lending conditions by the major banks. In the COVID-19 period, yields have been steady with brokers reporting a slight reduction in value levels, extended sale settlement periods and some purchasers walking away. Country licensed premises generally have a greater risk of personal goodwill as opposed to locational goodwill, with more competition as they have weaker population growth than they Sydney metropolitan area. It is noted that the recent changes on gaming legislation permits the sale of gaming machines without forfeiture for eight or less machines. This assisted values for the sub $3m hotels with low machine numbers and also the gaming values attached to those

	licences. In the COVID-19 period, trends are similar to metro license premises but with greater support for value from gaming machines. Metro buyers include private investors looking for a good rental return and existing operators seeking to consolidate, especially in smaller country towns. 36 Licenced Premises sale transactions were identified in the period 1 July 2019 to 29 February 2020 and two sale transactions were identified in the period 1 March 2020 to 31 May 2020.
Caravan Parks	In July 2019 to February 2020 the sector was strong, being well placed for continued growth with yields stabilising following a period of yield compression. During the COVID-19 period, transactions were delayed in March and April but since May 2020 a number of transactions have occurred with no apparent change in yields. Brokers have indicated that recent interested purchasers have been from other investment areas such as retail property which have suffered reduced returns following COVID-19. The investors are looking to re-invest into caravan parks to maximise their returns, resulting in an overall increase in in demand. Five caravan park sale transactions were identified in the period 1 July 2019 to 29 February 2020 and three sale transactions were identified in the period 1 March 2020 to 31 May 2020 which have shown no change in value levels.
Freestanding Car Park	While capital values were considered to have dropped, no quantification was provided. Little or no buyer interest in freestanding car parks was noted during the COVID-19 period. Sales of strata car spaces were prevalent in the period 1 July 2019 to 29 February 2020, but no sales of freestanding car parks were identified in the period 1 March 2020 to 31 May 2020.
Childcare	Following the introduction of a new funding structure by the Commonwealth Government on 6 April 2020, which provided families with free childcare services, almost all industry body member centres remained open. Buyers are generally private investors seeking income returns with vendors including some larger providers transitioning to asset management. 15 childcare sale transactions were identified in the period 1 July 2019 to 29 February 2020 and one sales transaction was identified in the period 1 March 2020 to 31 May 2020.
Self-Storage	Capital values under downward pressure due to forward occupancy and revenue forecasts which are below pre-COVID-19 levels with uncertainty leading to substantially higher levels of risk

	Traditional purchasers such as National Storage REIT and Abacus remain active but are more cautious and conservative in views on price. Only one identified sale post-COVID of a going concern self-storage facility in Blaxland/Springwood, which was suspended for a period during COVID-19 for the purchaser to observe the impact of COVID-19 on revenue.
Coal Mines	There are no sales of coal mines that are relevant for consideration.
Quarries	As quarry production has been heavily impacted by COVID-19, such as from the approximately 25% reduction in new housing starts, reductions in quarry sale prices of around 30% may be anticipated, leading vendors to prefer to hold and put the operation into care and maintenance until industry conditions recover. There are limited buyers in the market due to uncertainty. Profitability from the sector is dependent on construction and housing which have seen reduced activity, particularly in the metropolitan regions, which has had an impact on decisions around purchasing and investing. Six quarry transactions were identified in the period July 2019 to February 2020, with no sales of quarries in the period March 2020 to May 2020.
Rural	Overall, the market for rural lands has remained active with limited or no impact from COVID-19 driven by a combination of continued good commodity prices, recovery from drought conditions, low supply of property listings and demand for rural aggregation in a low interest rate environment. Many owners who were holding on through the drought are now ready to buy, with demand also from corporate buyers and local buyers wishing to aggregate holdings. 3,325 RU1 zoned rural sale transactions were identified in the period 1 July 2019 to 29 February 2020 and 720 sale transactions were identified in the period 1 March 2020 to 31 May 2020 with prices generally holding or increasing.

Table 5.1 Respondent feedback on the state of the improved commercial property transaction market

Generally, respondents noted that the various non-residential property sector markets had remained buoyant with an upward trajectory in transaction prices for the period July 2019 to January 2020, but with the trajectory in some sectors then changing from the onset of COVID-19 from March 2020.

To provide an insight into respondent's views on changes in the capital value of improved commercial property, respondents were asked to estimate the percentage difference in capital value at 1st July 2020 compared to 1st July 2019 with the findings summarised in Figure 5.1:

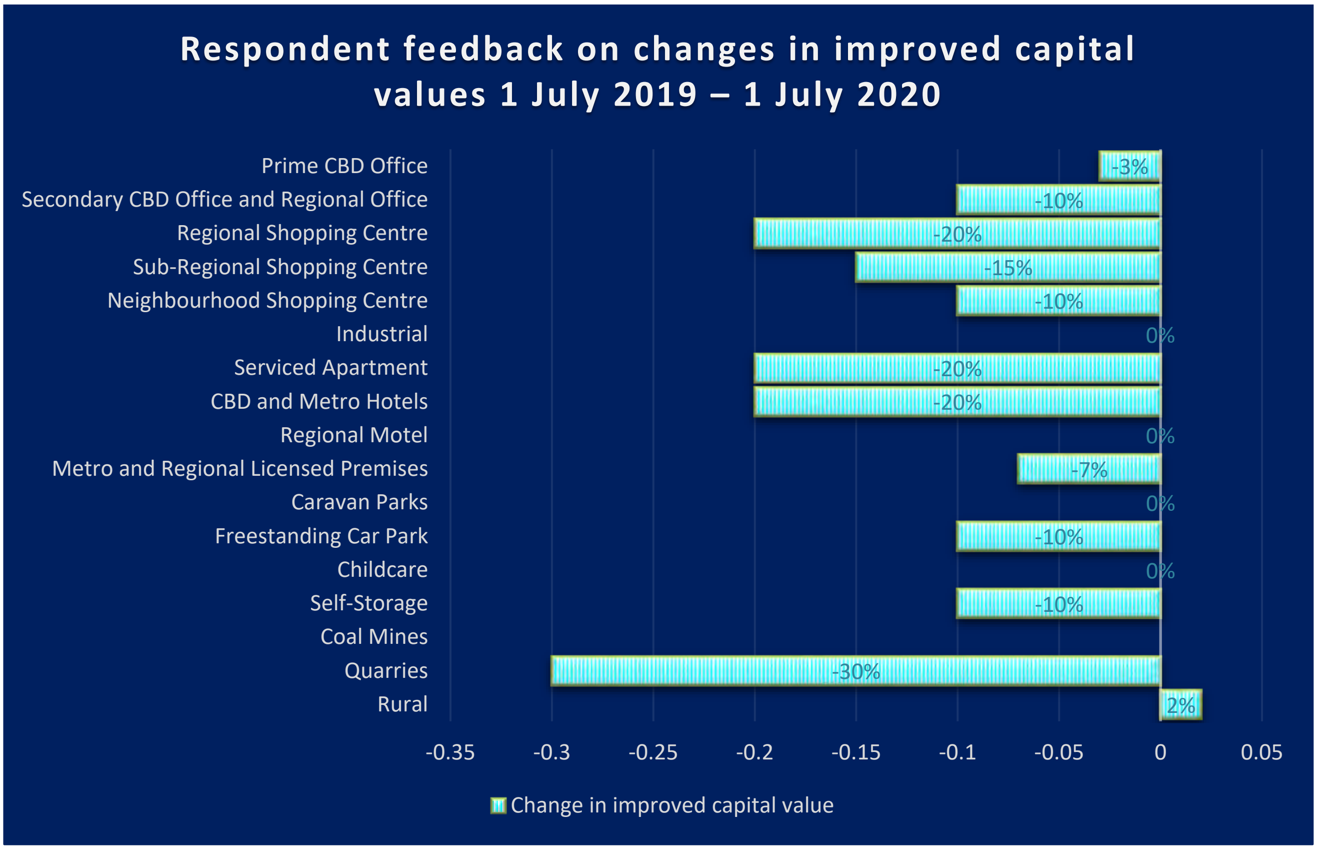


Figure 5.1 Respondent feedback on changes in improved capital values 1 July 2019 – 1 July 2020

It is evident from respondent feedback that:

- COVID-19 has affected each commercial property sector in different ways, with the impact of such effects on improved capital value not likely to be fully evident in some sectors until some point in the future;
- levels of sale transactions since the onset of COVID-19 are generally lower and unlikely to support the valuation of land based on comparable sales in some commercial property sector markets; and
- there is a wide divergence in changes in the capital value of improved commercial property between sectors.

It may be concluded that, all other things being equal, a fall in the capital value of improved commercial property may be likely to contribute to a fall in land value with a sector specific approach being required.

5.3 Findings – revenue issues

To provide an insight into the impact on revenue for commercial property of COVID-19, respondents were asked to discuss relevant issues such as vacancy levels, rental impacts, rent reduction claims, evictions, incentive expectations, protected rental periods and pressures for lease change.

Feedback from respondents are summarised in Table 5.2:

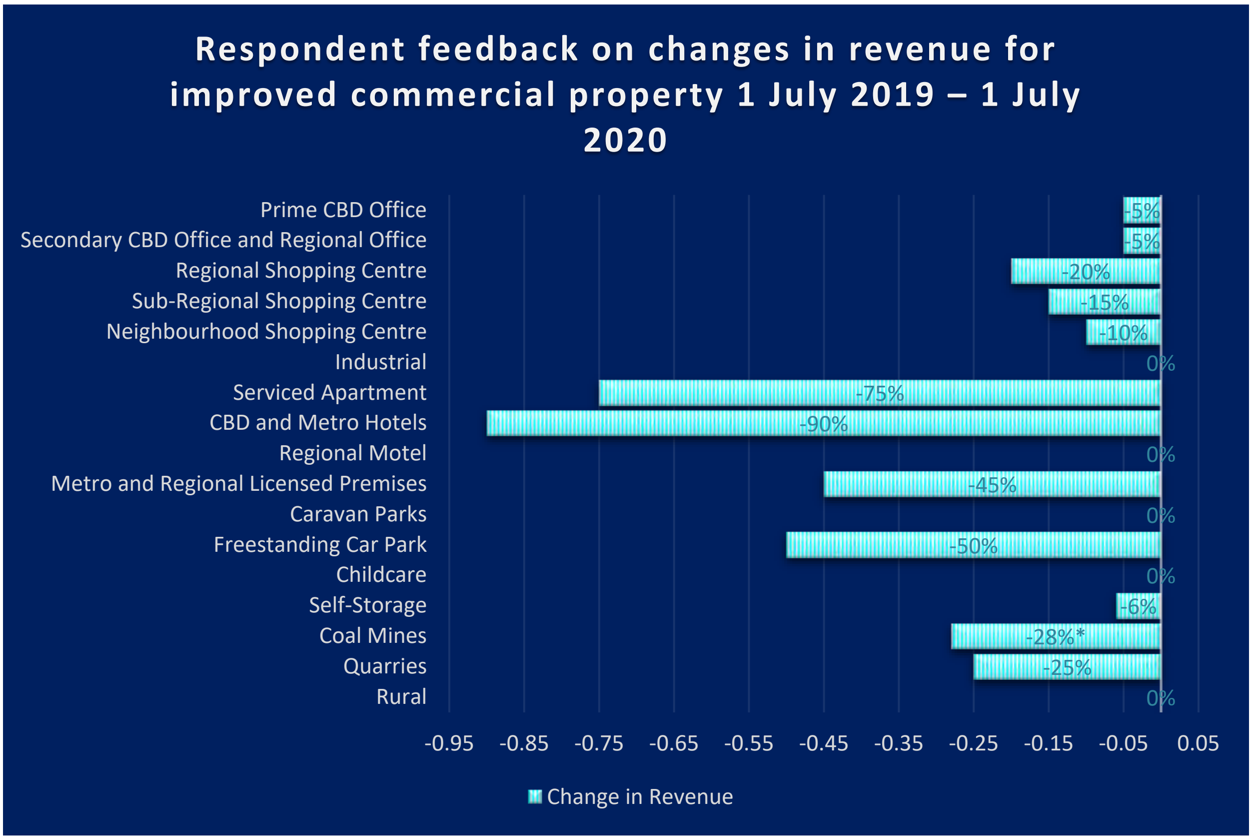
Sector	**Summary of Respondent Feedback**
Prime CBD Office, Secondary CBD Office and Regional Office	The experience of working from home during COVID-19 has created uncertainty about the future level of demand for office space, with the prospect of fewer people working in open plan layouts and the return of partitioned offices and workstations. With vacancy remaining low and the staggered supply of new office space during COVID-19, face rents remained steady though changes were experienced in valuation and asset modelling for: - incentives, rising from 20% pre-COVID-19 to approximately 30%-35%; - rental growth expectations, falling from 3.5%-4% pre-COVID-19 to approximately 0.5%; - vacancy/reletting periods, rising from 6-9 months pre-COVID-19 to approximately 12-18 months.
Regional, Sub-Regional and Neighbourhood Shopping Centre	While there has been government support for some tenants, many discretionary retailers closed during COVID-19 with social distancing restrictions severely constraining food courts, cafes, restaurants, hairdressers and nail bars while supermarkets and pharmacies have continued to trade well. By the end of May 2020, SCCA had processed over 6,400 rent relief agreements. Though few rent deals have been agreed during COVID-19, industry participants anticipate decreases in the order of 5% to 15% in face rent, with increased incentives (fitout contributions and rent fee periods) and greater letting up periods.
Industrial	Face rents are currently holding up, but incentives for pre-leasing have risen from 20% to 30% over the last 3 months.

Serviced Apartment	85% drop in turnover with one major Sydney based serviced apartment operator closing 9 of 19 properties in their portfolio. Some operators have indicated they would reduce/cease paying rent for a certain period (eg: only pay 20% of normal rent for 6 months from May, of the 80% not paid, 40% would be waived (never paid) while 40% would be deferred and paid over the term of the lease), in line with the new code of conduct framework.
CBD and Metro Hotels	In normal conditions, the market comprises approximately 40% international and 60% domestic occupancy. Of the 60% domestic approximately 30% is corporate, 30% leisure and 40% mixed. Closed international borders, no international flights, no tourist travel and no cruise ships, together with the cessation of domestic business travel, reduced typical occupancy rates from around 90% pre-COVID-19 to 10% during COVID-19 with average room rates falling from $200/room to $125/room, propped up by quarantine guests with revenue down approximately 80%-90%. The drying up of the conferencing and event market (and likely longer recovery period for this segment) will also have a significant impact on conference hotels.
Regional Motel	Turnover initially dropped generally due to tourist and traveller restrictions. Revenue has rebounded strongly since travel restrictions were eased, although mid-week motel trade has remained partly impacted due to a reduction in salesperson rep trade.
Metro and Regional Licensed Premises	Patronage is down due to social distancing rules being at 1 person per 4sqm since licensed premises were reopened on 1 June 2020. As result bar sales and restaurants sales have been slower, while poker machines are recovering at a faster rate. Bottle shop sales have remained strong.
Caravan Parks	Revenue was down, however has rebounded strongly since travel restrictions were lifted.
Freestanding Car Park	The sector traded normally until Lunar New Year, with revenue falling up to 90% during COVID-19 as office workers generally worked from home. No evidence of rent relief or incentives was provided with some operators seeking to terminate leases and others switching from leases to management agreements.
Childcare	With the benefit of Commonwealth Government funding support on 6 April 2020, which provided families with free childcare services, the childcare centre industry saw an increase in average occupancy rates to about 74% with no apparent rent reduction claims, evictions or pressure for lease changes.
Self-Storage	Revenue under pressure due to reduced storage fees, lower occupancy levels, increased discounting and incentives, arrears

	write off and hardship claims and lower merchandise and insurance sales.
Coal Mines	COVID-19 has impacted coal mine revenue due to volatile markets, reduction in demand, some international port shut-downs, temporary mine closures, planned reduction in outputs and trade/political decisions all affecting supply and demand and ultimately coal price.
Quarries	Sydney centric companies providing products to metro areas are forecasting 10-40% reduction in total volumes/sales, with 20% of existing contracts for builds that haven't yet started having been cancelled since COVID-19 and reduced immigration post-COVID-19 likely to further dampen demand.
Rural	Commodity prices have remained strong for most rural industries, though with some disruption to supply chain impacting international export dependent sectors and COVID-19 restrictions on restaurants, cafés, licensed premises and hotels impacting local demand though the dairy industry has been largely unaffected by COVID-19.

Table 5.2 Respondent views on impacts on revenue in the improved commercial property transaction market

To provide an insight into respondent's views on changes in the revenue of improved commercial property, respondents were asked to estimate the percentage difference in revenue at 1st July 2020 compared to 1st July 2019 with the findings summarised in Figure 5.2:



* Estimate based on change in thermal coal price (Index Mundi, 2020).

Figure 5.2 Respondent feedback on changes in revenue for improved commercial property 1 July 2019 – 1 July 2020

To provide an insight into respondent's views on the future outlook for their sector of the improved commercial property market, respondents were asked to discuss issues impacting the future date by which revenue will return to that level at 31st December 2019 (assuming no second wave of COVID-19 restrictions in NSW) with the findings summarised in Table 5.3:

Sector	Summary of Respondent Feedback
Prime CBD Office, Secondary CBD Office and Regional Office	While it is too early to tell when the market will return to pre-COVID-19 levels, respondents were confident that the office market would return to previous levels into the future and this is not the end of the office market in Australia.
Regional, Sub-Regional and Neighbourhood Shopping Centre	The general opinion was that it was difficult to supply an informed answer to this question due to the reliance on external factors but

	it is "still years away", with non-discretionary based centres recovering faster than discretionary based centres.
Industrial	Market will dip, then slowly come back up again over next 2 years. Long term leases protect revenue while occupiers suffering as their suppliers not paying so getting cash flow issues as well as inventory issues with a backlog as goods not moved.
Serviced Apartment	Unlikely to return for several years as domestic business travel and international tourism and business travel slowly return to pre-COVID-19 levels.
CBD and Metro Hotels	It is expected that revenue levels will return to pre-COVID-19 levels in approximately three years as international and domestic air travel resumes and tourism returns.
Regional Motel	Revenues were initially reduced, however began to return to pre-COVID19 levels when travel restrictions were lifted, being likely to return to pre-COVID19 levels in late 2020.
Metro and Regional Licensed Premises	Licenced premises revenue is likely to return to pre-COVID-19 levels in mid-2021.
Caravan Parks	Revenues were initially reduced, however began to return to pre-COVID19 levels when travel restrictions were lifted, being likely to be at pre-COVID19 levels in late 2020.
Freestanding Car Park	Car park operators foresee a protracted recovery as the return of workers to office buildings will be long and slow, potentially never returning to the level prevailing before COVID-19 with consequent effects on car park revenue and improved capital values.
Childcare	Revenues are forecast to recover to 80% of revenues reported as at 31 December 2019 in the second half of the 2020 calendar year, returning to 31 December 2019 levels by 1 July 2021.
Self-Storage	Industry consensus indicates at least December 2022.
Coal Mines	While there is volatility in global demand for coal at present from COVID-19 related impacts and non-COVID-19 related impacts (e.g. geopolitical issues, reduced energy use), the price of coal was thought to have stabilised and to be unlikely to reduce further.
Quarries	A full return inside of 2 years is a very optimistic best-case scenario if consumer confidence returns and assuming immigration starts again within 2 years. However, this will still be less than 2019.
Rural	Revenue relatively unaffected by COVID-19.

Table 5.3 Respondent views on period for revenue return to 31 December 2019 levels for improved commercial property

Respondents were also asked to estimate the future date by which revenue will return to that level at 31st December 2019 (assuming no second wave of COVID-19 restrictions in NSW) with the findings summarised in Figure 5.3:

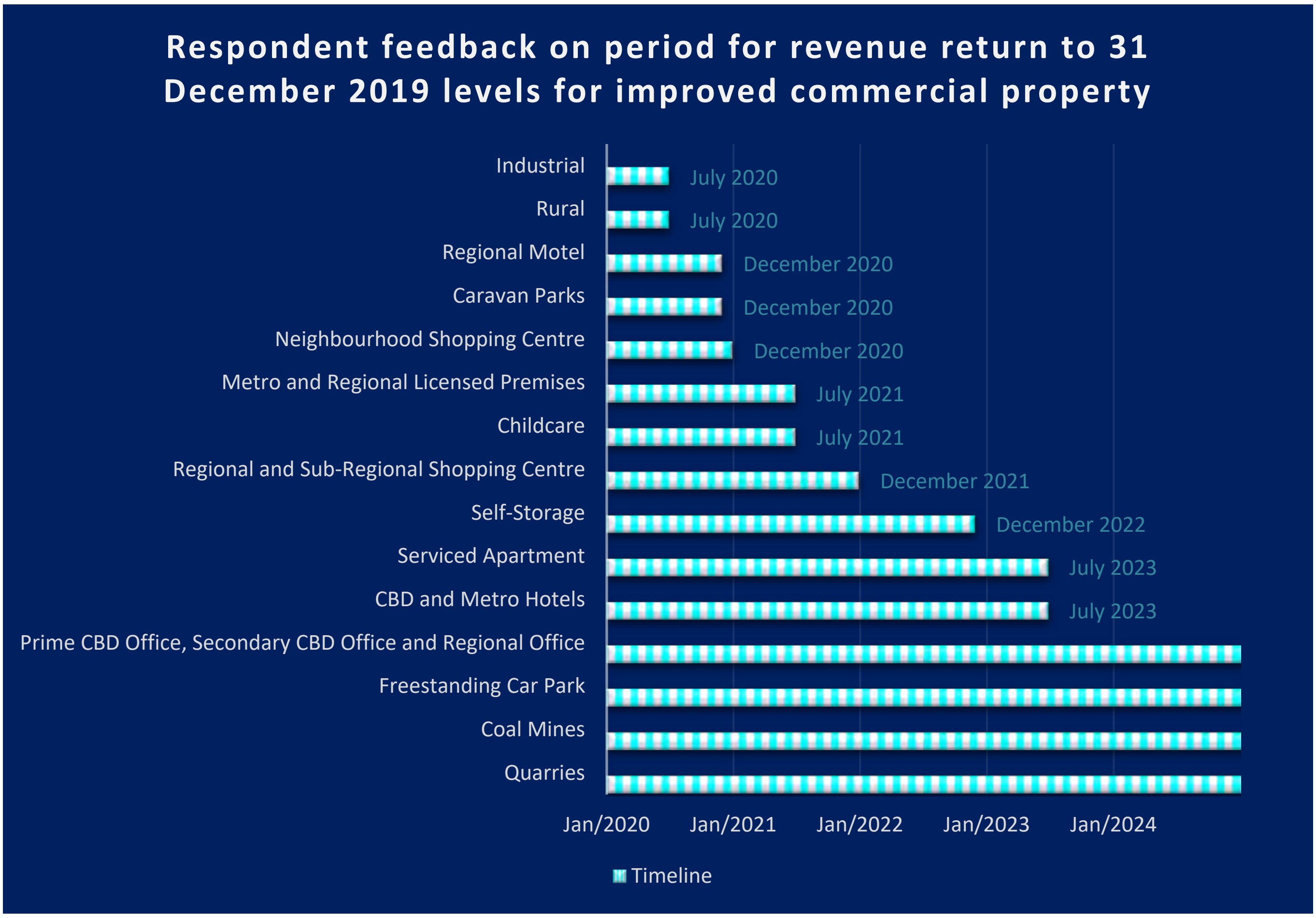


Figure 5.3 Respondent feedback on period for revenue return to 31 December 2019 levels for improved commercial property

It is evident from respondent feedback that:

- COVID-19 has affected each commercial property sector in different ways, with the impact of such effects on revenue ranging from minor (for example, childcare centres, industrial property) to major (for example, car parks, licensed premises) to effectively total loss of revenue (for example, some serviced apartments, CBD hotels);

- the outlook for a return to pre-COVID-19 levels is very mixed between each commercial property sector ranging from already recovered (for example, rural, industrial property), to medium term recovery (for example, licensed premises, shopping centres), to long term recovery (for example, some serviced apartments, CBD hotels) to not recovering completely at any foreseeable point in the future (for example, freestanding car parks);
- COVID-19 has exacerbated structural change in some commercial property sectors, such as:
    - shopping centres – where the trend to online shopping and experiential shopping was impacting shopping centres before the closure of shops within shopping centres brought on by COVID-19 restrictions; and
    - high rise offices – where the trend to agile working and the role of technology in the workplace was impacting high rise office buildings before the greater focus on work from home and social distancing brought on by COVID-19 restrictions;
- from the viewpoint of a purchaser of vacant land for development, if the highest and best use of the land is for commercial property then disruption to the anticipated cash flow (through abatements, reduced rentals, increased incentives, increased letting up periods and so forth) for at least the next few years may be anticipated; and
- there is a clear perception that the riskiness of revenue for the next few years is now much higher than in the pre-COVID-19 period.

It may be concluded that, all other things being equal, greater uncertainty in the revenue outlook may contribute to a fall in the capital value of improved commercial property which, in turn, may be likely to contribute to a fall in land value with a sector specific approach being required.

5.4 Findings – development issues

To provide an insight into the state of the market for development land, respondents were asked to discuss the impact of COVID-19 on large development sites in their sector.

Feedback from respondents is summarised in Table 5.4:

Sector	Summary of Respondent Feedback
Prime CBD Office, Secondary CBD Office and Regional Office	Consensus view that the office development site market had been impacted negatively by COVID-19 as softening revenue assumptions for the initial 2-3 years and increased profit and risk allowance depress the residual land allowance in feasibility studies.
Regional, Sub-Regional and Neighbourhood Shopping Centre	There is consensus expectation that the sale of large development sites will slow. Developers are likely to take a conservative view and increase their profit and risk allowances in feasibility models which will negatively impact the land value. Impact likely to vary between types of shopping centre.
Industrial	There is a consensus view that the value of development sites is currently unaffected.
Serviced Apartment	Very slow Council approvals delaying development process resulting in high holding costs and further depressing land values on top of COVID-19 damage to occupancy and closures. Little short-term development likely to occur due to so many uncertainties.
CBD and Metro Hotels	Hotel development likely to be on hold as a result of COVID-19.
Regional Motel	Not applicable.
Metro and Regional Licensed Premises	Not applicable.
Caravan Parks	Not applicable.
Freestanding Car Park	Not applicable.
Childcare	Not applicable.
Self-Storage	Extensive uncertainty significantly reducing land values for development as self-storage.
Coal Mines	Not applicable.
Quarries	Not applicable.
Rural	Not applicable.

Table 5.4 Respondent feedback on the state of the market for development land for commercial property

To provide an insight into respondent's views on changes in the value of development sites, respondents were asked to estimate the percentage difference in capital value at 1st July 2020 compared to 1st July 2019 with the findings summarised in Figure 5.4:

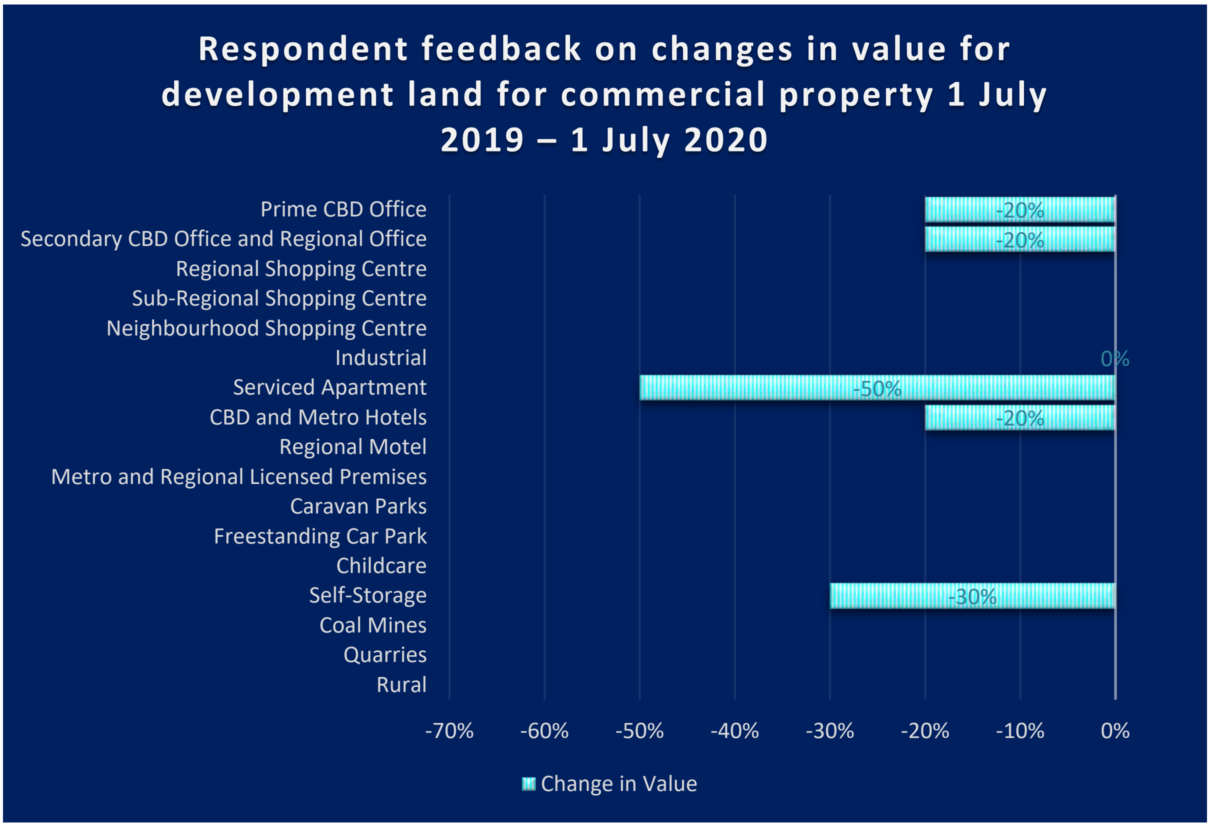


Figure 5.4 Respondent feedback on changes in value for development land for commercial property 1 July 2019 – 1 July 2020

It is evident from respondent feedback that:

- as levels of sale transactions since the onset of COVID-19 are generally low, these are unlikely to support the valuation of development land based on comparable sales in many non-residential property sector markets;
- uncertainty about the short and medium-term future for rents, incentives, letting up periods and capital values may be likely to manifest in higher profit and risk margins in the development process; and
- there is concurrence among respondents that the changes in the value of development sites as a result of COVID-19 are likely to be greater than the changes in the capital value of improved commercial property in that sector.

It may be concluded that, all other things being equal, vacant land may have fallen in value due to COVID-19 by a greater level than improved capital value in the same sector, resulting in a sector specific approach being required.

5.5 Findings – highest and best use

In the determination of the value of a landholding, regard is given to the highest and best use of that landholding which, in some cases, may differ from the existing use. It is possible that, as a result of COVID-19, an existing use is no longer sustainable and the highest and best use for the landholding is for a use different to that existing use.

To provide an insight into respondent's views on the potential for unsustainable uses within their sector as a result of COVID-19, respondents were asked to discuss the incidence of alternative higher and better uses for landholdings within their sector with the findings summarised in Table 5.5:

Sector	Summary of Respondent Feedback
Prime CBD Office, Secondary CBD Office and Regional Office	Generally not directly applicable as a result of COVID-19.
Regional, Sub-Regional and Neighbourhood Shopping Centre	Ongoing evolution of shopping centres more likely to lead to change of use than COVID-19.
Industrial	Generally not directly applicable as a result of COVID-19.
Serviced Apartment	Generally not directly applicable as a result of COVID-19.
CBD and Metro Hotels	Possibility of conversion from hotel to residential post-COVID-19.
Regional Motel	Generally not directly applicable as a result of COVID-19.
Metro and Regional Licensed Premises	For metro, generally not directly applicable as a result of COVID-19. For regional, some towns may see closures, such as towns where 5 licensed premises but only 3 sustainable.
Caravan Parks	Generally not directly applicable as a result of COVID-19.
Freestanding Car Park	With the adverse impact of COVID-19 on freestanding car parks and the likelihood of a very protracted recovery period, alternative higher and better uses may exist.
Childcare	Generally not directly applicable as a result of COVID-19. Purpose built childcare centres have limited alternate use value given the specialised nature of the improvements. Some alternate uses may include medical centres and veterinary clinics. however, these alternate uses are costly given the work required. Majority of centres are located within residential zones.
Self-Storage	Increasing land tax may encourage residential development where zoning permits.

Coal Mines	As some coal mine operations have been temporarily suspended as a result of coal price changes making continued operation in the short term unfeasible, assessment on a case by case basis will be required.
Quarries	As some quarries have been put into care and maintenances as a result of COVID-19 making continued operation unfeasible, assessment on a case by case basis will be required.
Rural	Generally not directly applicable as a result of COVID-19. Many property owners readily adapt to alternative production with market changes.

Table 5.5 Respondent feedback on the potential for unsustainable uses as a result of COVID-19

It is evident from respondent feedback that:

- it may be too early to tell which uses are unsustainable as a result of COVID-19; but
- COVID-19 may accelerate existing issues such as shopping centres, where department stores were in decline pre-COVID-19 and their exit from the shopping centre may now be earlier.

It may be concluded that, while highest and best use should always be considered in the valuation process, widespread changes are unlikely as a result of COVID-19.

5.6 Findings – comparison of COVID-19 with the GFC

In order to identify if anything could be learnt from the response of non-residential property markets to the GFC which may then be applied in the context of COVID, respondents were asked to compare the impacts of COVID-19 on their sector to the impacts of the GFC on their sector.

Significantly, for the CBD hotel sector, the impact of COVID-19 was described as:

"This is GFC, SARS and 9/11, Ansett closure, combined."

with the feedback from respondents summarised in Table 5.6:

Sector	Summary of Respondent Feedback
Prime CBD Office, Secondary CBD Office and Regional Office	GFC was a liquidity crisis (being a banking crisis) where property groups struggled to obtain capital for debt rollover or to fund new deals and tenants/business owners struggled to get working capital to keep businesses alive, leading to a large number of forced sales and downturn in the property market over a 12-18 month period. Conversely, COVID-19 is a world-wide pandemic hitting within 3 months and simultaneously impacting all countries, with Government response causing economic turmoil effectively constraining office occupier businesses from trading.
Regional, Sub-Regional and Neighbourhood Shopping Centre	Consensus view that COVID-19 worse than GFC due to mandatory shutdowns and social distancing which shut down significant parts of the retail industry.
Industrial	Consensus view that GFC was a financial crisis which didn't destroy economic activity and tenant's ability to pay rent. While a few industrial tenants were lost in the GFC, numerous industrial tenants have been lost already during COVID-19.
Serviced Apartment	Closure of domestic and international travel in COVID-19 much worse than impact of GFC on serviced apartments.
CBD and Metro Hotels	The pervasive nature of the COVID-19 impact (economic, health, social, travel behaviour - inclination and propensity to travel) and the uncertainty as to when/how it will be controlled, has a much greater and longer impact on the tourism sector than the GFC, which was essentially a short term economic impact that Australian hotels were largely resilient to.
Regional Motel	GFC had limited effect.
Metro and Regional Licensed Premises	GFC had limited effect.
Caravan Parks	GFC had limited effect.
Freestanding Car Park	COVID-19 stated to be "*five times worse*" than the GFC, as people still went to work during the GFC.
Childcare	Comparison difficult as sector less regulated in GFC period, though in November 2008 Australia's largest childcare provider, ABC Learning Centres, fell into receivership after being unable to come to an agreement with its lenders.
Self-Storage	COVID-19 experience shows a steeper and more immediate decline in demand. It has had a direct impact on the main demand drivers and has shown higher levels of hardship concessions to

	existing customers and higher discounts/concessions to new customers. Also, at the time of the GFC, overall supply level of self-storage was much lower and so demand reductions did not have such a significant impact.
Coal Mines	COVID-19 considered to be worse than the GFC, as the GFC was a structural issue remediable in a foreseeable time period whereas the resolution of COVID-19 is dependent on a vaccine with the risk of second and further waves.
Quarries	COVID-19 is considered to be far worse than the GFC as all sectors have been hit at once, with the quarry industry able to ride out the GFC in some sectors. The GFC was easier to manage and predict as, for the most part, commodity prices were very high and the Australian dollar was doing well, mining was doing well at the time and the economy recovered well comparted to other countries.
Rural	COVID-19 is considered to have a less significant impact than the GFC and offset by the current lower interest rate environment. The comparison to GFC for rural is sector specific with some industries loss of revenue greater in COVID-19 due to closure of restaurants and access to export supply chains. These have been offset with some level of income support from Job Keeper.

Table 5.6 Respondent feedback on the GFC relative to COVID-19

It is evident from respondent feedback that:

- COVID-19 is a health crisis whereas the GFC was a debt crisis; and
- the GFC generally did not affect the ability of most commercial tenants to trade on a daily basis whereas COVID-19 has significantly impacted daily trading.

It may be concluded that the response of non-residential property markets to the GFC may not be, directly, of assistance in the consideration of the impact of COVID-19.

5.7 Conclusions – Non-residential landholdings

Following extensive consultation with representatives of industry bodies, CEO's of major owner groups, capital transaction executives, valuers, agents and advisers, respondent's views of the impact of COVID-19 on improved capital value and revenue are summarised in Figures 5.1 and 5. 2, above.

The Valuer General has considered the respondents comments in conjunction with the review findings and has formed a view on the generalised overall impact of COVID-19 on the non-residential property market sectors which is summarised in Table 5.7:

Sector	**Impact**
Prime CBD Office and Secondary CBD Office	Medium
Regional Office	Low
Regional Shopping Centre	Medium
Sub-Regional Shopping Centre	Medium
Neighbourhood Shopping Centre	Medium
Industrial	Low
Serviced Apartment	High
CBD and Metro Hotels	Medium
Regional Motel	Low
Metro and Regional Licensed Premises	Low
Caravan Parks	Low
Freestanding Car Park	Medium
Childcare	Low
Self-Storage	Medium
Coal Mines	Medium
Quarries	Medium
Rural	Low

Table 5.7 Generalised overall impact of COVID-19 on the respective commercial property market sectors as at 1 July 2020

6.0 Implications for statutory valuation practice

Where there is a paucity of transactions due to COVID-19, there are implications for statutory valuation practice as the conventional statutory valuation approach of comparable sales analysis may not be available requiring the Valuer General to consider the suitability of alternative valuation approaches.

6.1 Statutory framework and Court precedent

While respondent's views on changes in capital improved value and revenue in the respective commercial property sectors is very informative, section 14A of the *Valuation of Land Act* 1916 requires the Valuer General to determine land values annually. Land value is defined as:

> *The land value of land is the capital sum which the fee-simple of the land might be expected to realise if offered for sale on such reasonable terms and conditions as a bona-fide seller would require, assuming that the improvements, if any, thereon or appertaining thereto, other than land improvements, and made or acquired by the owner or the owner's predecessor in title had not been made* (Section 6A(1))

This is generally referred to as the *unimproved value* or *value* of the land, with the next valuation being due on 1 July 2020.

Conventional valuation methodology would give preference to the determination of *value* by regard to sales of vacant parcels of undeveloped land which are comparable to the subject property. This valuation methodology is widely accepted by the Courts (*Graham Trilby Pty Limited v Valuer-General* [2008] NSWLEC 217, [27], *Quach and Ors v Fairfield City Council* [2004] NSWLEC 473, [21], *Constantine v Blacktown City Council (No 2)* [2016] NSWLEC 81, [100], *AMP Henderson Global Investors Ltd and Ors v Valuer-General* [2006] NSWLEC 16, [64]**,** *Richard Capuano v Roads and Maritime Services* [2018] NSWLEC 59**,** [13], *Tenstat Pty Limited v Valuer General Woolworths Limited v Valuer General* [2012] NSWLEC 1361, [35]**).**

In the absence or paucity of sales of vacant parcels of undeveloped land which are comparable to the subject property, conventional valuation methodology would give preference to the determination of *value* by regard to sales of improved parcels of land which are comparable to the subject property, with allowance then made for the effect of the improvements in order to determine value. This valuation methodology is also widely accepted by the Courts *(Commonwealth Custodial Services Ltd v Valuer General* [2007] NSWCA 365, [130], *Maurici v Chief Commissioner of State Revenue* (2003) 212 CLR 111,

[19], *AMP Henderson Global Investors Ltd and Ors v Valuer-General* [2006] NSWLEC 16, [64], *Fivex Pty Ltd v Valuer-General [2014]* NSWLEC 27, [34], [46]).

In the absence or paucity of sales of vacant parcels of undeveloped land and/or improved parcels, conventional valuation methodology would give preference to the determination of *value* by regard to the hypothetical development method which is described by Rost & Collins (1990), in an Australian context, as:

> " . . . the process by which the valuer assumes the land to be unimproved, notionally erects on it an imaginary building for its most beneficial use in order to arrive at an improved value, and then deducts the value of that building so as to determine the hypothetical unimproved value. This process is known as the Hypothetical Development Method." (page 64)

More recently, also in an Australian context, Whipple (2006) describes the "method of hypothetical development" as:

> "Value = land + development cost + finance cost + profit" (page 426)

which may be undertaken on a static or cash flow basis. For large office, retail, industrial and leisure properties in Australia today, Whipple's (2006) approach undertaken on a cash flow basis may be contended to be prevalent in the valuation profession and in the property investment and property development industries. However, the Courts have expressed reservations concerning the number of variables requiring assessment in the hypothetical development method, rendering it a method of last resort *(Gwynvill Properties Pty Ltd v Commissioner for Main Roads* (1983) 50 LGRA 322, 326, *Hewitt v Valuer General* [2004] NSWLEC 728, [32]-[33], *New South Wales Cremation Company Pty Limited v Valuer General* [2016] NSWLEC 135, [95-96], *Quach and Ors v Fairfield City Council* [2004] NSWLEC 473, [21], *Esplanade Wollongong Unit Trust v Chief Commissioner of State Revenue* [2017] NSWCATAD 157, [156]**).**

For those property sectors subject to an absence or paucity of sales of vacant parcels of undeveloped land and/or improved parcels during the COVID-19 period, it is considered that regard should be given to the determination of land value at 1 July 2020 using a cash flow based hypothetical development method. Such an approach is considered consistent with Dixon J's dicta of resolving issues of quantum in favour of the landholder (*Commissioner of Taxes (SA) v Executor Trustee & Agency Co of SA Ltd*, High Court of Australia, 23 December 1938)

6.2 Hypothetical development modelling

In order to form an independent opinion on the change in land value for those sectors subject to a medium or high impact of COVID-19 in the table, above, the Valuer General constructed a series of cash flow based hypothetical development models to test the sensitivity of land value to those variables identified by respondents as having been impacted by COVID-19. By undertaking scenario analysis with differing combinations of revenue loss, revenue growth, incentives, leasing periods, discount rates and so forth, the following changes in land value at 1st July 2020 compared to 1st July 2019 were determined which may be compared to respondent feedback in Table 6.1.

Sector	**Respondent View - Value Fall 1.7.19-1.7.20**	**VG Modelling - Value Fall 1.7.19-1.7.20**	**VG Modelling – Sensitivities Considered Within Scenarios**
Prime CBD Office Secondary CBD Office	-5%-20%	-15%	Range of variables including increased incentives, decreased rental growth and increased vacancy/letting up periods
Larger Regional Office (Newcastle, Wollongong)	N/A	-10%	Range of variables including increased incentives, decreased rental growth and increased vacancy/letting up periods
Other Regional Office		0%	Low COVID-19 impact
Regional Shopping Centre	N/A	-20%	Range of variables including decreased rents, decreased rental growth, increased incentives, and increased vacancy/letting up periods
Sub-Regional Shopping Centre	N/A	-15%	Range of variables including decreased rents, decreased rental growth, increased incentives and increased vacancy/letting up periods
Neighbourhood Shopping Centre	N/A	-10%	Range of variables including decreased rents, decreased rental growth, increased incentives, and increased vacancy/letting up periods
Industrial		0%	Low COVID-19 impact
Serviced Apartment	-50%	-25%	Range of variables including decreased occupancy, decreased

			income and increased timeframe to return to maximum occupancy
CBD and Metro Hotels	-20%	-20%	Range of variables including decreased occupancy, decreased income and increased timeframe to return to maximum occupancy reflecting international corporate programmes and repeat business
Regional Motel	N/A	0%	Low COVID-19 impact
Metro and Regional Licensed Premises	N/A	0%	Low COVID-19 impact
Caravan Parks	N/A	0%	Low COVID-19 impact
Freestanding Car Park	N/A	-10%	Range of variables including decreased occupancy, decreased rent and decreased rental growth
Childcare		0%	Low COVID-19 impact
Self-Storage	-25%-30%	-15%	Range of variables including decreased rent, decreased rental growth, increased incentive and increased vacancy/letting up periods
Coal Mines	N/A	-15%	Range of variables including changes to coal price and discount rate.
Metro Based Quarries	N/A	-20%	Range of variables including periods of decline in revenue and production.
Regional Based Quarries	N/A	-10%	Range of variables including periods of decline in revenue and production.
Rural	N/A	0%	Low COVID-19 impact

Table 6.1 Respondent feedback and VG modelling of change in land value between 1 July 2019 and 1 July 2020

It may be noted that independent analysis by the Valuer General generally accords with respondent feedback where provided but differs for serviced apartments and self-storage where respondent feedback exceeded the findings of the Valuer General's modelling. While the hypothetical development method is considered a method of last resort by the Courts for use only in the absence of comparable sales, the impact of COVID-19 on transactions means that it is likely to be considered by the Valuer General for non-residential property in the 2020 valuation.

7.0 Case studies

Three LGA cases studies were undertaken to establish if there were any localised impacts on specified regional property markets during the COVID-19 period of March - May 2020. The residential, commercial, industrial and rural property sectors were reviewed for:

- Dubbo, a regional town;
- Wollongong, a commuter town to Sydney CBD; and
- Byron Bay, a northern coastal town with a tourism influence.

All three LGA's showed resilience across the four property sectors.

7.1 Case study: Dubbo

Dubbo Regional Council area is situated in the Central West region of New South Wales and is approximately 7,536 km².

Dubbo is a rural economy and after a period of drought is recovering with commodity prices strengthening. This has subsequently kept the residential property market steady during this pandemic and residential sector is not materially adversely impacted by COVID-19.

Figure 7.1 Dubbo Sales Volume y-o-y

There was a decline in sales volume across all four sectors. There was a 40% decrease in sales volume for the residential property market however there were sufficient sales to determine a slight increase in the median sale price of around 4 %.

7.2 Case study: Wollongong

The City of Wollongong is situated in the South Coast region of New South Wales and is approximately 684 km².

Wollongong is a regional coastal lifestyle city within commuting distance to Sydney. The residential sector has remained stable because of ease of access to the Sydney CBD and the regional coastal lifestyle.

Figure 7.2 Wollongong Sales Volume y-o-y

There was a decline in sales volume across all four sectors. There was a 38% decrease in sales volume for the residential property market however there were sufficient sales to determine a slight increase in the median sale price of around 3 %.

7.3 Case study: Byron

Byron LGA is situated in the far northeast Northern Rivers region of NSW and is approximately 722km north of Sydney CBD and 50km south of the Queensland boarder. Byron LGA land area is approximately 566.7 km².

Byron is a regional coastal lifestyle town with a tourist influence, known for its beaches and iconic Cape Byron lighthouse.

Figure 7.3 Byron Sales Volume y-o-y

There was a decline in sales volume across all four sectors. There was a 46% decrease in sales volume for the residential property market and insufficient sales to determine a median sale price.

8.0 Conclusions

Having regard to the analysis undertaken, the Valuer General has formed a view that the overall property market in NSW was sufficiently active at 1 July 2020 to support the 2020 valuation.

While the residential property market in NSW remained active during COVID-19, transaction levels in the non-residential sectors of LGAs were significantly lower in the COVID-19 period than in same period in the previous year. Therefore, all sectors of the NSW property market had not been similarly affected by COVID-19.

Accordingly, while residential landholdings may be valued at 1 July 2020 by principal reference to comparable sales, the paucity of comparable sales will necessitate a different approach to the valuation of non-residential landholdings for the purposes of the 1 July 2020 valuation.

In order to reflect the impact of COVID-19 on the non-residential property market in NSW, for the purposes of the valuation at 1st July 2020:

- in the absence of relevant comparable sales; and
- on the assumption that the landholding can be used for no other purpose;
- on the assumption of there being no other changes relevant to the valuation; and
- consistent with the provisions of the *Valuation of Land Act* 1916,

the Valuer General will consider land valuations at 1st July 2020 with the reductions from the land valuations at 1st July 2019 shown in Table 8.1 and Figure 8.2.

In the event that a VG NSW contractor wishes to adopt a reduction different to those in Table 8.1 and Figure 8.2, this will require prior approval by VG NSW on review of the contractor's supporting submission.

Similarly, for other non-residential property sectors impacted by COVID-19 but not listed in Table 8.1 and Figure 8.2 and subject to the conditions above, the land valuation at 1st July 2019 may be adopted for 1st July 2020 or, in the event that a VG NSW contractor wishes to adopt a reduction, this will require prior approval by VG NSW on review of the contractor's supporting submission.

Sector	Percentage Reduction 1.7.19-1.7.20
Prime CBD Office Secondary CBD Office	-15%
Larger Regional Office (Newcastle, Wollongong)	-10%
Other Regional Office	0%
Regional Shopping Centre	-20%
Sub-Regional Shopping Centre	-15%
Neighbourhood Shopping Centre	-10%
Industrial	0%
Serviced Apartment	-25%
CBD and Metro Hotels	-20%
Regional Motel	0%
Metro and Regional Licensed Premises	0%
Caravan Parks	0%
Freestanding Car Park	-10%
Childcare	0%
Self-Storage	-15%
Coal Mines	-15%
Metro Based Quarries	-20%
Regional Based Quarries	-10%
Rural	0%

Table 8.1 VG percentage reductions in land value between 1 July 2019 and 1 July 2020 (conditions apply)

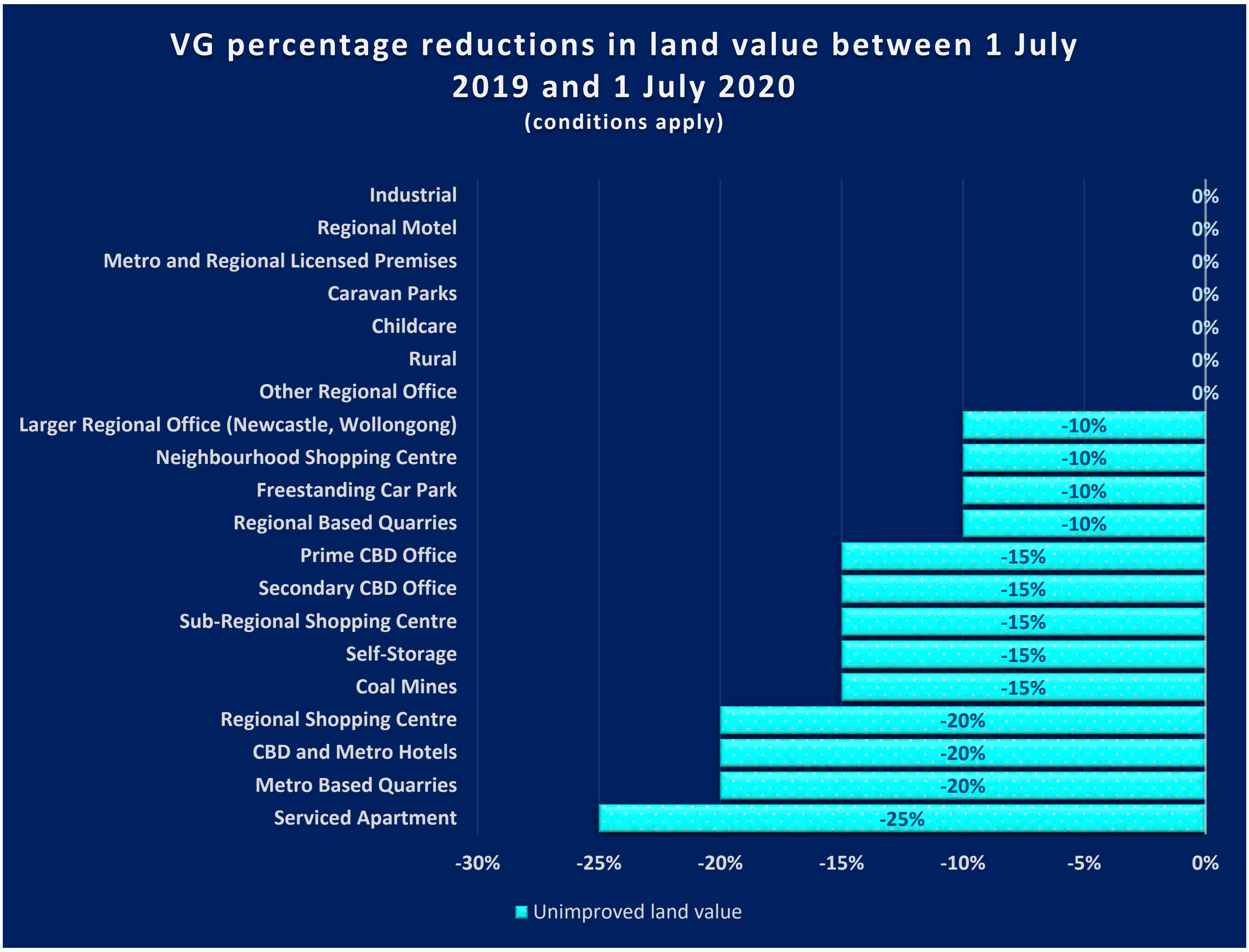


Figure 8.2 VG percentage reductions in land value between 1 July 2019 and 1 July 2020 (conditions apply)

8.1 Limitations of the review

It should be noted that this review is subject to the following limitations:

- the analysed COVID-19 data period comprises 1 March 2020 to 31 May 2020 (as extracted on 16 June 2020) and excludes June 2020;
- the data set for May sales may possibly be incomplete at the extraction date of 16 June 2020; and
- where low sales transaction volumes were evident in the various property sectors within an LGA, analysis of the median data may produce distorted results.

8.2 July 2020 valuation released in early 2021

The Valuer General notes that media speculation has created various community expectations, such as that all property values in NSW will fall by 30% as a result of COVID-19. Such expectations are not supported at 1 July 2020 by sales transactions in the residential property market nor investor opinion and Valuer General modelling in the non-residential property market.

Given the very significant challenges in managing the COVID-19 pandemic, it may be likely that the NSW property market will be further affected by COVID-19 during the balance of 2020 and into early 2021. Accordingly, it is highly likely that the state of the NSW property market in early 2021, when landholders receive their assessment of land value, will be very different to that at 1 July 2020 when the valuation was undertaken.

While landholders continue to have the right to object to the Valuer General's assessment of land value at 1 July 2020, the relevant matter for consideration in determining the objection will be the state of the relevant market at 1 July 2020 rather than the state of the relevant market at the date of objection by the landholder.

* * * * *

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Acknowledgments

Valuer General NSW COVID-19 Project Team: thank you to Mark Glanville, Project Manager, Alex Bannister, Senior Valuer, Sonja Shah, Senior Valuation Quality Officer and Michael Kwan, Valuer for undertaking the review.

Valuer General NSW Sector Specialists: thank you to:

Offices – sector specialist: Mark Rados, Manager, Valuations
Retail – sector specialist: Mark Grezar, Valuation Rating and Taxing
Leisure - sector specialists: Greg Hodgson, Specialist Valuer and Scott Arneil, Principal Valuer
Freestanding Car Parks - sector specialist: Daniel Clancy, Objection Manager
Childcare – sector specialists: Scott Arneil, Principal Valuer and Lee Liao, Valuer
Coal mines – sector specialists: Josh Etherington, Director Operations and Craig Lewis, Valuer
Quarries – sector specialist: Jeanne Hansen, Senior Manager, Valuations
Rural – sector specialist: Paul Chudleigh, Acting Deputy Valuer General

Valuer General NSW's Contract Valuers: thank you to our contract valuers for their analysis and description of the sample sales used in this study.

Industry Representative Bodies and Major Owners: thank you for giving your analysis on the COVID-19 property market.

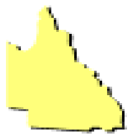
Spatial Services: thank you to the Spatial Services team at the NSW Department of Customer Service for their assistance with interpreting the impact mapping data.

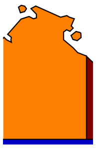
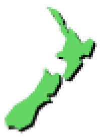
Valuers General: thank you to the Valuers General in the other states and territories of Australia and New Zealand for providing information about their experiences.

International Property Tax Institute: thank you to Paul Sanderson, President of the International Property Tax Institute, for providing information on overseas rating and taxing jurisdictions.

Appendix 1 - Review of other rating and taxing Jurisdictions

As part of this study, other rating and taxing jurisdictions in Australia and the International Property Tax Institute (IPTI) were surveyed concerning how COVID-19 is impacting property values in their state or country. The following is an overview of responses where the jurisdiction had information available from previous events.

Jurisdiction	Valuation Date	COVID-19 response As at end May 2020
VIC 	1 January 2020 Pre COVID-19 & Issuing	2020 valuation date at 1 January is prior to implementation of COVID-19 restrictions or any impact on the market. Still going ahead with adopting the 2020 revaluation as at 1 January 2020 with effect from 1 July 2020. No comment made on 1 January 2021 approach.
QLD 	1 October 2020	While we have observed a definite reduction in the volume of sales there is sufficient market evidence available to undertake the annual valuation. I will not make a decision to exclude any local governments from the 2021 (1/10/2020) annual valuation until I have considered the results of market survey reports and stakeholder consultation per section 74 (2) of the *Land Valuation Act 2010.*
SA 	1 January 2020 Pre COVID-19 & issuing	2020 valuation date at 1 January is prior to implementation of COVID-19 restrictions or any impact on the market. As our date of valuation is 1 Jan (unaffected) but will come into force 1 July – our current actions surround communications and clarification. We have put a fact sheet on our website to help - https://dpti.sa.gov.au/__data/assets/pdf_file/0008/660662/Valuer_General_COVID-19_Response_Fact_sheet.pdf
WA 	1 July 2020	On 1 July 2020 the 900,000 Gross Rental Valuations across the Perth Metropolitan Area come into force and on 30 June 2020 the State-wide Unimproved Values come into force. Regional Program for 2021 – 41 regional Local Government Authorities with DOV of 1 August 2020 have been deferred.

NT 	I July 2020 Understood to be proceeding	Our sales volumes remain stable (albeit very low in comparison to the high in 2014) and sales prices are similar. There does not appear to be any impact at this stage from COVID-19. Similar auction and settlement numbers to that being achieved immediately pre COVID-19.
TAS 	I July 2020 Deferred	After lengthy discussions with the Minister we have agreed to defer the current round of Revaluations by 12 months. As discussed, the effective date for the current round was to be 1 July 2020 and will now be 1 July 2021. This deferral will still allow revaluations to be returned within the legislative timeframe. Councils were in full agreement with the deferral on the basis of cost savings. The Property Council are keen for the Land Value Adjustment figures I gazetted in March 2020 should be scrapped and not applied to this year’s Land Tax despite being based on sales evidence last year prior to any impact of COVID-19.
ACT 	1 January 2020 Issuing	We are rolling out the 2020 valuations as per usual. Canberra residential prices were strong into Feb 2020. Nevertheless, there have been discussions about moderating some of the larger $ and % value increases (plus 15%).
NZ 	Various Option granted to defer	NZ approach has been to modify the Rating Valuations Act 1998 to allow CE’s of the 24 Councils with a 2020 revaluation to apply to VG for a 1-year deferral. First applications due around 10 June – probably take a couple of weeks to decide. Thinking most of the 24 Councils will still complete a 2020 revaluation and we’ll need to push back the effective/as at dates from what we were originally aiming for (1 July/1 August) to 1 September/1 October with new values implemented from October through to February 2021 – this should give the market enough time to show itself and allow new levels to be assessed.
IPTI 	Some jurisdictions deferring 2020 valuations	There is a great deal of speculation about the impact of the pandemic on property markets and property values but, so far as I am aware, there is no "hard" evidence yet available to quantify the effect as there are so few transactions. Many assessing jurisdictions (e.g. Ontario, Canada) are taking action to "avoid" the problem of having to provide updated property tax

		valuations at this uncertain time by postponing revaluations that were due to take place this year. In some cases, particularly in the USA, reassessments are due to come into effect this year with values based on pre-pandemic dates (many have valuation dates of 1 January 2020) which may be in line with the relevant legislation but will not be understood by taxpayers! Interestingly, the assessor for Cook County - which includes Chicago, Illinois - says he is going to revalue the properties within his jurisdiction to reflect the impact of the virus on the following basis: ***Residential (Class 2) property value adjustments*** *Historically, rising unemployment has correlated with decreasing home values. Our logic is that areas with the largest increases in unemployment will experience the largest declines in home values. Based on estimates of local unemployment, we created two COVID-19 Adjustments for each neighborhood: one for single-family homes and condominiums, the other for multi-family homes.* *In neighborhoods throughout the South and West suburbs, for Class-2 residences (e.g. excluding garages), the Office has estimated value reductions of:* • *8.0% to 12.2% (median: 10.3%) for 942,728* ***single-family homes and condos*** • *10.0% to 15.2% (median: 13.1%) for 166,159* ***multi-family*** *(2 - 6 unit) apartment buildings* *These reductions in estimated residential property values will be applied to Class-2 residences (excluding garages) during Tax Year 2020.* ***Commercial and other Non-residential property value adjustments:*** *Our research indicates that non-residential properties have experienced different impacts of COVID-19 that depend on their location, use, and investment class.* *Capitalization rates (cap rates) are one indicator of value used in commercial valuations. To account for market impacts, the Office is making a range of adjustments to cap rates that are often used as a factor in determining property values.* • *Basis point adjustments ranged from 0 (all grocery stores) to 200 (neighbourhood restaurants).*

		• *These adjustments will apply to "baseline" cap rates that are set as of January 2020.* *Baseline cap rates can vary by location, use, and investment class.* Similar problems are faced in the UK where the next revaluation for non-domestic rating was due to come into effect based on values as at 1 April 2019. The UK government has now announced that it is postponing the next revaluation of non-domestic properties to April 2023 with an antecedent valuation date of April 2021. It is hoped that this will allow the new rateable values to reflect the (hopefully by then) post-pandemic situation. Originally, the revaluation was due to come into effect in April 2021 with a (pre-COVID-19) valuation date of April 2019 which would have created considerable concern for ratepayers as the new values would come into effect post-pandemic, but they would not reflect the impact of the virus. Of course, many businesses are concerned that this postponement creates a further delay in obtaining rateable values for their properties that reflect the current hardship many of them are facing. The UK government has also announced (21 July) the next steps in its "fundamental review of business rates" by publishing a "call for evidence". My last two monthly newsletters touch on some of the tax policy and assessment policy issues relating to the restrictions imposed to limit the spread of COVID-19. We are not aware of any assessing jurisdictions which have carried out a revaluation which seeks to reflect the current impact of the pandemic on property market values. Australia may well be at the forefront in this respect.

More Information

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