

Valuer General

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Valuation of parcels that form part of a building

Guidance Note

February 2024



Acknowledgement of Country

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

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More information

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

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Introduction

1.1 Purpose

This document is intended to provide guidance to valuers on the factors to consider when valuing parcels of land that form part of a building as required by section 26A of the *Valuation of Land Act 1916* (the Act).

This guidance note will ensure that the Valuer General's valuations of parcels that form part of a building are:

- consistent and accurate
- transparent
- in line with the Act.

1.2 Background

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

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

Recommended Approach

1.3 Scope

1.3.1 When to apply section 26A

In most cases, building ownership is defined in a single strata plan. The body corporate is the legal owner of the building and land. Individual strata owners pay rates and taxes based on the unit entitlement in the strata plan.

Where a building has multiple registered owners, such as two different body corporates, the liability for rates and taxes must be equitably apportioned to each owner.

Use this guidance note to assess the land value under section 26A of the Act, where the building on the land has multiple registered owners. Section 26A only applies if the building has been subdivided by:

- the creation of two or more lots in a deposited plan
- a deposited plan and one or more strata plans
- two or more strata plans.

1.3.2 Subdivision

Subdivisions can be easily identifiable parcels or comprise parts of the building, either as multiple floors or multiple interconnected parts of the building over several floors.

1.4 Assumptions and considerations

1.4.1 Summary – valuing the site of a building when section 26A applies

Where the Act requires the valuation to be made under section 26A, you must:

1.	Value the whole site with regard to section 6A of the Act.
2.	Determine the total improved rental value (gross rental) of each parcel of land in accordance with the ownership.
3.	Apportion the land value of the whole site to each parcel/ownership, using the gross rental for each part as a percentage of the whole.

1.4.2 Step 1 – valuating the whole site

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

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

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

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

1.4.3 Step 2 – rental value of each parcel

You must establish the total rental value for each parcel. Use the gross rental taking into account all the benefits that the site provides, including access to the parcel of land, car parking and any other services.

Rely on comparable market evidence to establish the rental. The best evidence will be individual lettings within the building.

The rental value must reflect the building in its finished condition including all fixtures and fittings required for the use of that occupation.

1.4.4 Step 3 – apportion the land value

Finally, apportion the land value of the whole site to each parcel of land using the gross rental for each parcel as a percentage of the total rent for the site.

1.4.5 Example valuation

Example

A property is developed as a mixed development. It contains ten residential units in one strata plan and two retail shops in a separate strata plan.

The units are located above the shops, and there is a car park which services both strata plans in the basement.

Section 26A applies.

The land value of the entire site is assessed under section 6A. The land value is \$1 million based on an analysis of comparable sales.

The gross annual rental of each residential unit is estimated to be \$7,500. The gross annual rental of the retail shops is determined to be \$12,500 each.

The total rental value for the whole site is therefore \$100,000.

In summary:

The land value of the strata plan with ten units = $\frac{\$75,000}{\$100,000} \times \$1 \text{ million} = \textbf{\$750,000}$

The land value of the strata plan with two retail shops = $\frac{\$25,000}{\$100,000} \times \$1 \text{ million} = \textbf{\$250,000}$

References

Definitions

Term	Meaning
Date the valuation is made	The actual date on which the valuer performs the valuation. The physical condition of the land and the manner in which it may be used on the date the valuation is made must be assumed to be the same as at 1 July. See section 14K of the Act.
Environmental planning instrument	A legal document that regulates land use and development under state environmental planning policies and local environmental plans.
Fee simple in possession	Absolute title to land, free of any other claims against the title, which one can sell or pass to another by will or inheritance.
Gross rental	An all-inclusive rental in which the costs of maintaining the leased asset, including taxes, insurance, maintenance, and management fees are passed onto the tenant.
Highest and best use	Valuation concept that refers to the possible use of a property that would give the highest market value. The use must be lawful, physically possible, and financially feasible.
Improvement	Something that improves the value of the land. This is not defined in the Act, and is different from the term 'land improvement' (below).
Land improvement	Land improvements may include draining, excavating, filling or clearing as defined in section 4 of the Act and included in the land value.
Land value	Value of the land excluding any structures or improvements but including land improvements. See section 6A of the Act for a full explanation.

Term	Meaning
Sale	<p>The transfer of property between parties. To use a sale as market evidence, it must have been:</p> <ul style="list-style-type: none"> • an arm's length transaction • between a willing buyer and willing seller who both acted knowledgeably, prudently and without compulsion • properly marketed.
Statutory restrictions	<p>Statutory restrictions on the land may include environmental planning instruments and development control plans, as well as restrictions relating to the clearing of land, water, and soil management.</p>
Unencumbered	<p>Unencumbered land is land without any encumbrances.</p> <p>An encumbrance is any right to or interest in land by someone other than the owner, and that prevents the transfer of that land or lowers its value. It might include an easement, restrictive covenant, mortgage, or other restriction.</p>

Related documents and legislation

- [Valuation of Land Act 1916](#)
- [Valuing separate parcels guidance note](#)