

Valuer General's Policy

ISSN 2203-9600

June 2019

Valuation of parcels that form part of a building

What

This policy guides 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* (Valuation of Land Act).

How

Under this policy, valuers assess the value of the land only, without including the value of structures or other improvements on that land.

Under section 26A, valuers apportion the land value of the site to each parcel/owner.

Why

This policy 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 Valuation of Land Act.

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1 Policy

1.1 Scope

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 bodies corporate, the liability for rates and taxes must be equitably apportioned to each owner.

Use this policy to assess the land value under section 26A of the Valuation of Land 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.

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.

1.2 Assumptions and considerations

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

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

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| 1. | Value the whole site with regard to section 6A of the Valuation of Land Act. |
| 2. | Determine the total improved rental value 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. |

Step 1 – valuing the whole site

fee simple in possession

In line with section 6A of the Valuation of Land 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

highest and best use
improvement
land improvement
sale

- 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.

unencumbered

date the valuation was made

statutory restrictions

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.

Step 2 – rental value of each parcel
gross rental

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.

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.

Example valuation

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 =

$$\frac{\$75,000}{\$100,000} \times \$1 \text{ million} = \mathbf{\$750,000}$$

The land value of the strata plan with two retail shops =

$$\frac{\$25,000}{\$100,000} \times \$1 \text{ million} = \mathbf{\$250,000}$$

2 References

2.1 Definitions

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 Valuation of Land 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 Valuation of Land 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 Valuation of Land Act and included in the land value.
land value	Value of the land excluding any structures or improvements, but including land improvements. See section 6A of the Valuation of Land Act for a full explanation.
sale	The transfer of property between parties. To use a sale as market evidence, it must have been: <ul style="list-style-type: none"> • an arm's length transaction • between a willing buyer and willing seller who both acted knowledgeably, prudently and without compulsion • properly marketed.

statutory restrictions	Statutory restrictions on the land may include environmental planning instruments and development control plans, as well as restrictions relating to the clearing of land, water and soil management.
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unencumbered	Unencumbered land is land without any encumbrances. An encumbrance is any right to or interest in land by someone other than the owner, and that prevents the transfer of that land or lowers its value. It might include an easement, restrictive covenant, mortgage, or other restriction.
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2.2 Laws and policies

Governing NSW law	<i>Valuation of Land Act 1916</i> (Valuation of Land Act) Section 6A section 26A
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Related Valuer General policy	<i>Valuing separate parcels</i>
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3 Context

3.1 Role of the Valuer General

The Valuer General for NSW

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

Valuation Services, Property NSW manages the valuation system on behalf of the Valuer General, outsourcing the majority of valuation services to private valuation firms.

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

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ISSN: 2203-9600

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Any enquiries relating to the policy may be addressed to the Office of the Valuer General at valuergeneral@ovg.nsw.gov.au

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Document control

Approval

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

Version

Number	Status	Date	Prepared/Reviewed by	Comments
0.3	Final	03/06/2019	Rachael Burn	Clarification of section 1.2 and administrative update
0.2	Final	05/05/2017	Rachael Burn	Administrative update
0.1	Final	02/08/2016	OVG	Stakeholder consultation and review undertaken. No changes required
0.1	Final	20/11/2014	Michael Parker	First release

Next review

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