

Valuer General's Policy

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Valuation of land subject to a coal seam gas lease or licence

What

This policy guides valuers on the methods to use and factors to consider when valuing land affected by coal seam gas leases or licences (licenses) for rating and taxing purposes.

How

Under this policy, valuers must consider the impact of a coal seam gas licence on land directly impacted, and on any land surrounding.

Valuers must apply market evidence and do ongoing quality reviews to support valuations.

Valuers assess the value of the land only, without including the value of structures or other improvements on that land.

Why

This policy will ensure that the Valuer General's valuations of land subject to a coal seam gas licence are:

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

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1 Policy

1.1 Scope

Land impacted by a coal seam gas licence Land is impacted by a coal seam gas licence when a licence is granted under the *Petroleum (Onshore) Act 1991* (Petroleum Act) for the right to extract coal seam gas.

Land value Land subject to a coal seam gas licence is valued under section 6A of the *Valuation of Land Act 1916* (Valuation of Land Act). The land value will therefore reflect the fee simple in possession of the land which includes the value of any rental for access rights associated with coal seam gas extraction.

fee simple in possession

improvement

land improvement

land value

The land value excludes any structures or improvements, but includes land improvements.

1.2 Separate valuation not required

Separate parcel Licences granted under the Petroleum Act are classified as personal property and are not considered to be an interest in real estate.

parcel

On that basis coal seam gas licenses are not separate parcels, do not define an interest in land and therefore are not separately valued.

1.3 Valuation methods

Mass valuation process The Valuer General uses a mass valuation process to value most land. It involves the systematic valuation of groups of properties at a given date using standardised procedures.

component method

component

Mass valuations must also meet the requirements of the Valuation of Land Act. All valuations must be supported by market evidence and be quality assured.

The valuation methods described below are used to value a sample of individual properties within the component. The remaining properties are then moved by the resulting change indicated by those valuations.

Direct comparison Direct comparison involves comparing market sales with the subject land.

When using direct comparison to value land subject to a coal seam gas licence, you must:

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

Discounted cash flow analysis

discounted cash flow analysis

net present value

discount rate

net rental

market rent

Where land has a coal seam gas licence the market rental income forms part of the land value.

Where direct sales evidence is not available to value the land, the added value to the land of the coal seam licence, can be assessed by using the discounted cash flow analysis method.

The net present value of the income from the licence is calculated over the term of the potential production period.

The actual rental and any upfront payment paid to the owner by the licensee may be the best evidence of the income to be derived from the resource. The rental amount of the existing licence should be compared with other licences to determine if it is a market rent.

The life of production may be difficult to determine and the licence term may provide the best evidence available for the hypothetical life of the mine. Professional reports such as seismic surveys should be considered where available.

In determining the discount rate to be applied regard should be had to:

- the certainty of receiving the ongoing income
- the risk of production decreasing or stopping
- the process for reviewing the annual rental
- the terms and conditions of the licence
- the returns of similar investments.

1.4 Assumptions and considerations

Physical condition of land When determining the land value of any parcel, regard is made to the physical condition of the land and the manner in which the land and any other land may be used as at the valuation date.

This will include regard to the existence of coal seam gas development located on or near a property.

Regard should also be had to any limitations on use due to the existence of any paths, tracks or access requirements associated with the coal seam gas development.

Valuation assumptions

highest and best use land

improvement

unencumbered

sale

land improvement

land value

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

- there is a sale
- the buyer and seller are hypothetical
- the title is unencumbered, and the valuation is of the full fee simple in possession
- the land is vacant and has no improvements other than land improvements
- there is no existing development consent for the land
- there is a potential return from the coal seam gas to the hypothetical passive investor/owner, following a period to allow for construction of the required plant and equipment.

Valuation considerations

date the valuation was made

statutory restrictions

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

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

1.5 Valuation of surrounding land

Impact on surrounding values

Coal seam gas exploration is a factor in the market and as such must be taken into account when determining the land value of adjoining property. The impact of coal seam gas exploration and extraction on adjoining land values must be assessed through the analysis of market evidence.

1.6 Sales analysis

Analysis of sales evidence

The sale of land subject to a coal seam gas licence is not common, however, you should analyse all available sales.

The added value of a coal seam gas licence included in a sale should be identified by comparing sales of similar properties without licences.

Sales that occur in proximity to land subject to coal seam gas extraction should be analysed to determine the impact, if any, of the proximity to the works. This can be achieved by comparison with market evidence that is not close to coal seam gas works.

2 References

2.1 Definitions

capitalisation Capitalisation is a method used to determine the current market value of a property by converting the net income stream into a capital value using a single conversion factor.

capitalisation rate Expression of risk and return as a percentage that is used to convert the net income in perpetuity from an investment into value at a given time. The capitalisation rate or yield is derived from the analysis of confirmed sales evidence of comparable properties. It is calculated by dividing the net income or net market rental value of the sale property by its sale price. The sales evidence used will usually indicate a range of yields in which points of difference are adjusted for.

component method The component method of valuation is an indexing system of mass valuation based on the principle of identifying groups of comparable properties, then extrapolating an individual valuation decision for a typical property within the group across the range of the component.

date the valuation was made The actual date on which the valuer performs the valuation. The physical condition of the land and the manner in which it may be used on the date the valuation is made must be assumed to be the same as at 1 July. See section 14K of the Valuation of Land Act.

discounted cash flow analysis Discounted cash flow (DCF) analysis is a valuation method used to value an investment by calculating the present value of an income stream discounted for the delay in receiving funds and the risk to the cash flow.

discount rate The discount rate in DCF analysis takes into account the delay in receiving the income and the risk or uncertainty of future cash flows: the greater the uncertainty of future cash flows, the higher the discount rate.

encumbrance Any right to or interest in land by someone other than the owner, and that prevents the transfer of that land or lowers its value. It might include an easement, restrictive covenant, mortgage, or other restriction.

environmental planning instrument A legal document that regulates land use and development under State environmental planning policies and local environmental plans.

fee simple in possession Absolute title to land, free of any other claims against the title, which one can sell or pass to another by will or inheritance.

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|-------------------------------|---|
| highest and best use | Valuation concept that refers to the possible use of a property that would give the highest market value. The use must be lawful, physically possible and financially feasible. |
| improvement | Something that improves the value of the land. This is not defined in the Valuation of Land Act, and is different from the term 'land improvement' (below). |
| land improvement | Land improvements, such as draining, excavating, filling or clearing, are defined in section 4 of the Valuation of Land Act and included in the land value (below). |
| land value | Value of the land excluding any structures or improvements, but including land improvements. See section 6A of the Valuation of Land Act for a full explanation. |
| licence | Licence refers to any legal arrangement providing access and extraction of coal seam gas under the <i>Petroleum (Onshore) Act 1991</i> . |
| market rent | The estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion. |
| net rental | Rent payable excluding all outgoings and GST. |
| outgoings | The total of all statutory charges, operating expenses and other outgoings for which the lessor is liable. |
| present value | Present value is the value of an investment in today's dollars if received at day one of an investment, rather than having to wait for future income over the term of the investment. |
| 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. |

unencumbered Unencumbered land is land without any encumbrances. An encumbrance is any right to or interest in land by someone other than the owner, and that prevents the transfer of that land or lowers its value. It might include an easement, restrictive covenant, mortgage, or other restriction.

2.2 Laws and policies

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

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.

3.2 Background

Coal seam gas exploration

Coal seam gas production first began in NSW in 2001. There are currently a number of coal seam gas licences leases now in place across NSW.

The NSW Government has introduced regulations which bans all new coal seam gas exploration and production activity within two kilometres of existing and future residential areas. Coal seam gas activity is also banned within areas identified as critical industry clusters in the Upper Hunter equine and viticulture industry.

A hold on exploration and extraction of coal seam gas in the 'Special Areas' zone of the Sydney drinking water catchment also now applies pending an investigation by the NSW Chief Scientist and Engineer on the impact of these activities.

For more information concerning coal seam gas visit: <https://www.resourcesandgeoscience.nsw.gov.au/landholders-and-community/coal-seam-gas/the-facts>

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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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