Valuer General

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Valuation of high-density residential land

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 methods to use, and factors to consider, when valuing land used for high-density residential development for rating and taxing purposes.

This guidance note will ensure that the Valuer General's valuations of high-density residential land are:

- consistent and accurate
- transparent
- in line with the *Valuation of Land Act 1916* (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 High-density residential land

Use this guidance note to assess the land value of high-density residential land.

High-density residential land is:

- land zoned for high-density residential purposes or
- land which is currently used for high-density residential purposes and that use is the highest and best use.

The highest and best use is a valuation concept meaning the possible use of a property that would produce the highest market value. The use must be legal, physically possible and financially viable.

1.3.2 Land value

The land value excludes any structures or improvements but includes land improvements. See section 6A of the Act.

1.4 Valuation methods

1.4.1 Mass valuation process

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

Mass valuations must also meet the requirements of the Act. Section 6A of the Act applies for most high-density residential land valuations. All valuations must be supported by market evidence and quality assured.

The mass valuation method used in NSW is the component method. Valuation methods, such as the direct comparison method and the hypothetical development method are used to value a sample of individual properties within the component.

1.4.2 Component method

The group of properties used for mass valuation is called a component. These properties have similar attributes, such as location, size and amenity, and are expected to experience similar changes in market value. High-density residential land components contain land zoned for high-density residential development.

When using the component method, you must select properties from each component as the primary benchmark and reference benchmarks.

All benchmarks are individually valued each year based on analysed market sales evidence to determine how much their land values have changed from the previous year. The rate of change recorded for the primary benchmark is applied as the component factor.

Reference benchmarks are selected from within the component and used to check the quality of the proposed valuations. Reference benchmarks are important for checking the accuracy of the mass valuation process.

If the individual valuations of reference benchmarks from analysed sales evidence do not show a similar rate of change to the primary benchmark, updates to the type of properties represented by these reference benchmarks will require valuation by other methods. Other methods to value properties represented by reference benchmarks include secondary factors (subfactor) or individual verification (handcrafted).

Benchmarks must represent the range of properties in a component.

Primary benchmark

When creating your primary benchmark:

- base it on a property that is within five per cent of the component's median land value
- use direct comparison to value it at 1 July each year and calculate the rate of change from the prior year's 1 July land value.

The rate of change is called the component factor.

Reference benchmark

Choose reference benchmarks with values further away from the median land value (upper and lower quartiles). Then:

- Use direct comparison to value these at 1 July and check your reference benchmarks rate of change against the primary benchmark's rate of change
- If the rate of change of reference benchmarks varies by more than 10% decide on the most appropriate method to value the subgroup the reference benchmark represents.

Component factor

Use the component factor derived from your primary benchmark to value other properties in the component. Apply it to each property in the component, except for handcrafted valuations or valuations which have been valued using a component subfactor.

Handcrafted and subfactor values override component factor values.

1.4.3 Direct comparison

Direct comparison involves comparing market sales with the subject land.

When using direct comparison to value high-density residential land, you must:

- consider a broad range of market evidence, including sales of vacant and improved land
- follow an evidence-based approach when using sales of improved land to deduce the land value (see section 1.4 of this guidance note for sales analysis)
- analyse sales to provide a unit of measure such as rate per permitted number of units or rate per square metre
- consider all factors that influence the land's value such as the land's size, aspect, location, zoning, planning controls and permitted use.

1.4.4 Hypothetical development method

The direct comparison method of valuation should be the primary method of valuation for high-density residential land. However, situations may arise where there is not any suitable market evidence to apply this method.

Where there are not enough directly comparable sales to value the subject land the hypothetical development method may be used.

To derive the land value of a high-density residential site using this method, you must:

1.	Estimate the total sales price for the individual units in a hypothetical building, which represents the highest and best use of the land.
2.	Deduct the estimated cost of developing the site (including holding costs and developer's margin) from the total sales price.

The cost of developing the site includes ancillary costs such as purchase fees and stamp duty. Costs should include an allowance for interest payments based on 100 per cent funding for the project. However, interest payment calculations for development costs should reflect the progressive payment of these costs.

When applying the hypothetical development method, you must remember that land improvements are included in the land value.

Where land improvements on the site to be valued would be retained for the hypothetical development (reducing the time and cost of the development), these will need to be factored into the calculation. For example, you may establish that the excavation for a building with residential flats and associated support for that excavation should be retained for a hypothetical development on that site.

1.5 Assumptions and considerations

1.5.1 Valuation assumptions

In line with section 6A of the Act, you must value the land 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.

1.5.2 Valuation considerations

You must also consider and reflect in the valuation 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))
- 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).

1.5.3 Further considerations

The land value of high-density residential land may be affected by other sections of the Act or other legislation. Examples that may be relevant are listed below.

Valuation of Land Act 1916	• Section 14L • Section 14T • Section 14G
Local Government Act 1993	• Section 585
Land Tax Management Act 1956	• Sections 9C and 9D • Section 62K
Heritage Act 1977	• Sections 123 - 125

1.6 Sales analysis

1.6.1 Wide analysis of sales evidence

You must analyse enough market sales to establish or verify land values at 1 July in the valuing year. Make sure you cover the breadth of the market, and not just sales of vacant land or sales relating to benchmark properties.

To deduce the land value of an improved property, use an evidence-based approach to remove the added value of improvements from the sale price. The added value is not the replacement or insurance value of the improvements.

Where a sale includes improvements that add no value to the land and are to be removed, the demolition and removal costs of those improvements are to be added to the sale price.

Whilst sales analyses must cover the breadth of the market regard must be had to the reliability of the analysis of improved sales and sales with limited evidence to support the added value of the improvements should be treated with caution.

1.6.2 Paired sales approach for improved land

Use a paired sales approach to work out the value that improvements, such as buildings, add to the land. Do this by comparing the difference between sales of improved land and sales of vacant or lightly improved land.

Example

A property with a three-storey block of nine flats sold for $2.5 million.

The land was valued at $1 million by direct comparison with vacant land sales. Therefore, the added value of improvements is $1.5 million.

Use your analysis of the added value of improvements by applying it to other sales of improved properties to work out the residual land value.

Include in your analysis a wide range of sales that show the added values of different improvements, including those of varying age.

This type of analysis will capture the added value of any:

- developer's margin
- building improvements and internal inclusions, like air conditioning systems, fencing, paths, driveways, pools and landscaping
- professional fees, council approval fees and holding costs.

1.6.3 Valuation date adjustment

For your analysis, you should select sales that took place close to 1 July of the valuing year. If the sales were earlier or later, adjust the sale price to reflect market values at 1 July.

Ways to estimate market movement between the two dates include:

1. Sales and resales	Look at sales and resales of properties for the period to work out the market movement. Use this to calculate a monthly movement rate to apply to other sales. Take care to also consider other factors affecting value, such as property improvements made since the original sale.
2. Median values	Refer to sources that publish changes in median unit prices. Be careful if there have been few sales in the area, as the type of sales that took place may distort the figures.
3. Rental analysis	Look at rental prices to gauge the market movement, especially over the long term. Be aware, though, that returns on property may fluctuate and so the relationship between rental prices and market values may change.
4. Track price movements	Analyse sales of comparable properties over time to track price movements.

1.7 Quality control

1.7.1 Ongoing quality reviews

Mass valuation processes aim to provide reliable and consistent valuations that lie within the market range. However, they also have limitations, especially when used over time or for valuing properties that are complex or lack comparable market evidence.

You must implement quality assurance processes and ongoing reviews of high-density land values and property attributes to:

- ensure consistency in the values
- correct any valuations that have moved out of the market range.

Review sample land values individually and as a group to ensure that they can be tested and supported against the available market evidence.

1.7.2 Quality assurance measures

Tools that you should apply to measure the quality of your valuations include:

- individual land value reviews (verification)
- statistical tests
- valuation process reviews.

1.7.3 Verification

Verification is the name given to the process of systematically reviewing individual land values, based on risk.

Verification must be completed with an understanding of the physical and market factors that influence value. You must have sufficient knowledge of the property to determine that the property is correctly valued.

References

Definitions

Term	Meaning
Added value of improvements	The value that improvements add to the land. It is determined by comparing market evidence for land with improvements to that for vacant or lightly improved land.
Component	A group of properties, used for mass valuation, whose market values move uniformly. It is also known as a 'sub-market group' or 'sales group' in other Australian jurisdictions.
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 is 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.
Handcraft	Individually value a property based on market evidence.
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 improvement, such as 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
Median	The median land value or median sale price is the half-way value in a series of land values or sale prices from lowest to highest value.
Primary benchmark	An individually valued property that represents the majority of properties in a component. The primary benchmark should be within 5 per cent of the median value in a component. It is used to calculate the component factor.
Quartile	A statistical term describing a division of observations into four equal intervals based upon the values of the data.
Reference benchmark	An individually valued property used to check the quality of proposed valuations in a component. It is used only as a quality check for the application of mass valuation, and not to calculate the component factor.
Sale	The transfer of property between parties. To use a sale as market evidence, it must have been: • an arm's length transaction • between a willing buyer and willing seller who both acted knowledgeably, prudently and without compulsion • properly marketed.
Statutory restrictions	Statutory restrictions on the land may include environmental planning instruments and development control plans, as well as restrictions relating to the clearing of land, water and soil management.
Subfactor	A subfactor is any factor other than the component factor used to value sub-groups of properties that have experienced value movements which are inconsistent with the majority of the component.
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
Valuing year	The year starting 1 July. Valuation reflects the property market at the start of the valuing year.

Related documents and legislation

- Valuation of Land Act 1916 – Section 6A