

**Valuer General**


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# Valuation of englobo 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.

Published by the NSW Valuer General

[valuergeneral.nsw.gov.au](http://valuergeneral.nsw.gov.au)

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Revised: February 2024

ISSN: 2981-9873

Department reference number: VG23/79

## 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](mailto:valuergeneral@dpie.nsw.gov.au).

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# Contents

- Introduction..... 4**
  - 1.1 Purpose..... 4
  - 1.2 Background ..... 4
- Recommended Approach ..... 5**
  - 1.3 Scope..... 5
  - 1.4 Valuation methods ..... 5
  - 1.5 Assumptions and considerations ..... 8
  - 1.6 Sales analysis..... 9
  - 1.7 Quality control..... 10
- References ..... 12**
  - Definitions..... 12
  - Related documents and legislation..... 13

# Introduction

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## 1.1 Purpose

This document is intended to provide guidance to valuers on the methods to use, and factors to consider, when valuing englobo land for rating and taxing purposes.

This guidance note will ensure that the Valuer General's valuations of englobo land are:

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

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## 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

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## 1.3 Scope

### 1.3.1 Englobo land

Use this guidance note to assess the land value of englobo land. Englobo land is land that is:

- undeveloped, or has minimal development
- largely un-serviced
- zoned to allow for subdivision into smaller parcels.

The term usually refers to large parcels of land, consisting of one or more lots, which could be subdivided into at least five or more lots.

### 1.3.2 Land value

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

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## 1.4 Valuation methods

### 1.4.1 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.

Mass valuations must also meet the requirements of the Act. Section 6A of the Act applies for most englobo 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.

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

For 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 benchmarks

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 englobo land, you must:

- analyse sales to provide a unit of measure such as rate per square metre, rate per hectare or rate per dwelling site
- consider whether you have adequate market evidence within the local government area or if you need to include sales evidence from other local government areas
- consider all factors that influence the land's value such as the land's size, aspect, location, zoning, planning controls and permitted use
- consider access to services or the requirement to increase services.

### 1.4.4 Hypothetical development method

The direct comparison method of valuation should be the primary method of valuation for englobo 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 you can use the hypothetical development method.

To derive the land value of an englobo site using this method, you must:

1.	Estimate the total value of the sale of all lots in the subdivision based on a sales projection of the completed hypothetical development.
2.	Deduct the estimated cost of developing the site (including holding costs and developer's margin) from the total sales value.

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 the complete total (100 per cent) funding for the project. Interest payment calculations for development costs should, however, reflect the progressive payment of these costs.

You should compare unit costs and rates from similar development schemes and apply them to the development you are valuing. You should clearly state any assumptions you make when applying the method and include reference to evidence, research and reasoning.

### **Hypothetical development – land improvements**

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

Where land improvements on the existing site would be retained for the hypothetical development (reducing the time and cost of the development) this will need to be factored into the calculation. An example may be filling and associated retaining walls which are retained for the hypothetical development.

### **Hypothetical development – treatment of GST**

The market price of land is the amount paid by the purchaser to obtain possession of the real estate. If, in addition to the sale price there is agreement for the whole or part of the GST to be paid by the purchaser then that amount will also form part of the market price.

However, when you use the hypothetical development model to value englobo land you will need to consider the treatment of GST.

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## **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 single residential land may be affected by other sections of the Valuation of Land Act or other legislation.

Examples that may be relevant are listed below.

<b>Valuation of Land Act 1916</b>	<ul style="list-style-type: none"><li>• Section 14L</li><li>• Section 14T</li><li>• Section 14G</li><li>• Section 28</li></ul>
<b>Local Government Act 1993</b>	<ul style="list-style-type: none"><li>• Section 585</li></ul>
<b>Land Tax Management Act 1956</b>	<ul style="list-style-type: none"><li>• Section 62K</li></ul>
<b>Heritage Act 1977</b>	<ul style="list-style-type: none"><li>• Sections 123 - 125</li></ul>

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## 1.6 Sales analysis

### 1.6.1 Wide analysis of sales evidence

You must analyse all market sales of englobo land to establish or verify englobo land values at 1 July in the valuing year.

Sales of vacant land are largely used to value englobo land. However, you may need to use sales of properties which are improved to some extent. 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.

## 1.6.2 Valuation date adjustment

If the sales you are analysing are earlier or later than 1 July, adjust the sale price to reflect market values at 1 July.

Ways to estimate market movement between the two dates include:

<b>1. Sales and resales</b>	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.
<b>2. Median values</b>	Refer to sources that publish changes in median prices for residential land.  Be careful if there have been few sales in the area as the types of sales that took place may distort the figures.
<b>3. Track price movements</b>	Analyse sales of comparable properties over time to track price movements.

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## 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 of land values and property attributes to:

- ensure consistency in the values
- correct any valuations that have moved out of 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. Lands with a risk rating of englobo require annual verification.

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

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## Definitions

Term	Meaning
<b>Added value of improvements</b>	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.
<b>Date the valuation is made</b>	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.
<b>Environmental planning instrument</b>	A legal document that regulates land use and development under state environmental planning policies and local environmental plans.
<b>Fee simple in possession</b>	Absolute title to land, free of any other claims against the title, which one can sell or pass to another by will or inheritance.
<b>Handcraft</b>	Individually value a property based on market evidence.
<b>Highest and best use</b>	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.
<b>Improvement</b>	Something that improves the value of the land. This is not defined in the Act and is different from the term 'land improvement'.
<b>Land improvement</b>	Land improvement, such as draining, excavating, filling or clearing, as defined in section 4 of the Act and included in the land value.
<b>Land value</b>	Value of the land excluding any structures or improvements but including land improvements. See section 6A of the Act for a full explanation
<b>Median</b>	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.

Term	Meaning
<b>Primary benchmark</b>	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.
<b>Quartile</b>	A statistical term describing a division of observations into four equal intervals based upon the values of the data.
<b>Reference benchmark</b>	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.
<b>Sale</b>	<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"> <li>• an arm's length transaction</li> <li>• between a willing buyer and willing seller who both acted knowledgeably, prudently and without compulsion</li> <li>• properly marketed.</li> </ul>
<b>Statutory restrictions</b>	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.
<b>Unencumbered</b>	<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>
<b>Valuing year</b>	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](#)