

UNIMPROVED SITE VALUE — ITS HISTORY, DEVELOPMENT AND DIFFICULTIES—2

By R. J. Maclachan, Director General of Land for New Zealand

This excellent contribution to the literature of site-value taxation is from the
New Zealand Valuer

The Government Valuation of Land Act (1896)

In the same year the Government Valuation of Land Act was passed. This act established the position of Valuer-General who was charged with preparing "according to the best of his skill and judgement a general valuation roll of all landed property in the colony" Unimproved value was defined as:

"... being the difference between the total capital value of the whole property and the total capital value of all buildings and other improvements as aforesaid."

Neither capital value nor improvements were defined but as the Valuer-General was to supply rolls to local bodies where the system of rating on capital value or unimproved value was in force, the definitions in the Rating Act and the Rating on Unimproved Value Act would apply.

By the end of 1896, the concept of taxing and rating on land value had been implemented but unimproved value was to be determined by deducting the value of improvements from the capital value. One can imagine the efforts that were made by owners and occupiers to establish a low capital value and a high value of improvements so that the unimproved value would be kept as low as possible or even to prove that the land had no value whatsoever. Because the definitions were inadequate the position was soon to prove unsatisfactory. Whilst what was "improvements" was defined fairly precisely, just how the value of improvements was to be determined was left undefined. Capital value was tied to what the property would sell for but it was on the basis of a cash transaction.

The Value of Improvements was defined as:

"The sum by which the improvements upon an owner's land increases its value: Provided that the value of improvements shall in no case be deemed to be more than the cost of such improvements estimated at the

time of valuation, exclusive of the cost of repairs and maintenance."

The present definition which is "The added value which at the date of valuation, the improvements give to the land" replaced this in 1912. All reference to cost was omitted.

The definition of "Improvements" changed from one which listed each individual type of improvements to something similar to the one we know today of "all work done" or materials used at any time on or for the benefit of the land by the expenditure of capital or labour by any owner or occupier thereof...

There were three matters of importance in this change of definition in 1900:

1. The introduction of what we term today "the willing buyer—willing seller" principle, with the sale on reasonable terms and conditions.

2. The concept of an unimproved value assessed independently instead of by deducting the value of improvements from the capital value.

3. The change in definition of improvements and the assessment of their value as the added value they give to the land.

Any assessment of unimproved value from this time on had to have regard to the definition of what were improvements. What were improvements could not be included in the unimproved value and conversely what were not improvements were *prima facie* part of the unimproved value. Legislative changes in definition since 1900 have been confined mainly to the definition of improvements.

In 1912 the definition of "Improvements" was tidied up without any substantial alteration in meaning. It did, however, clarify the position where an owner had made a contribution either directly or by way of special rates for the purpose of constructing within a county any road, bridge, irrigation works, water races, drainage works or river protection works.

Unimproved Value Today

Today's definition of Unimproved Value as set out in the Valuation of Land Act 1951 is as follows:

"Unimproved Value of any land means the sum which the owner's estate or interest therein if unencumbered by any mortgage or other charge thereon might be expected to realise at the time of valuation if offered for sale on such reasonable terms and conditions as a *bona fide* seller might be expected to impose and if no improvements (as hereinbefore defined) had been made on the said land."

(In 1900 similar wording was used in both the definition of Capital Value and of Unimproved Value. In 1912 when another amendment was being made, the word "require" in the definition of Unimproved Value was changed to "impose". The alteration could have been accidental rather than deliberate).

It has been written that in estimating the unimproved value of a particular piece of land the valuer has to regard that piece of land as if it alone had not been improved at the date of valuation and ask himself what would be its probable present condition if no capital or labour had been expended upon it. Having answered this question he has then to determine what price the land in such condition would sell for in the open market at the date of valuation assuming that everything else in the country which effects selling values was actually in its present condition—roads, railways and bridges constructed, schools, facilities available, the proximity of these and other services, improvements on all other lands duly effected and in their present condition, the prosperity or otherwise of the Dominion reflected by current market prices of stock and produce.

What has to be valued therefore is the particular piece of land as if it were in its natural state but with the rest of the Dominion in its present state.

The definition of unimproved value, involving as it does a hypothetical sale of land without improvements on reasonable terms and conditions, originally gave wide scope for differences of opinion in interpretation. But in the years since 1900 many cases have been argued before various courts both in New Zealand and elsewhere and gradually most of the uncertainty has been removed.

We now know through a series of cases of which an Australian one, *Spencer v. The Commonwealth* is the

earliest and probably the best known that the hypothetical sale envisaged must be between a vendor willing to sell but not obliged to do so and an informed purchaser willing to trade but not so anxious to do so that he would overlook any ordinary business consideration. As a result actual sales which do not conform to this willing seller-willing buyer concept cannot be accepted as evidence at their face value. Such sales include those where the vendor is forced to sell or where the purchaser is most anxious to buy. Sales requiring immediate cash or with little or no deposit similarly cannot be accepted as evidence without adjustment.

In the absence of a defined market for a class of property, the actual owner

may be considered as a hypothetical purchaser—Valuer General v. Wellington City Council (1933).

The unimproved value of any land has to be assessed independently and not by any method of subtraction of the value of improvements from the capital value. The first case dealing extensively with this aspect was Thomas v. Valuer-General (1918) and the more recent judgements of the Land Valuation Court have confirmed the opinion given by the Chief Justice in that case.

The decision of the Hawkes Bay Land Valuation Committee in 1954 in respect of land in the Patangata County is of interest in that the proposition was put forward by the Committee that the unimproved value may exceed the

capital value, in other words that improvements may have minus value. In this case it was shown that the land in its more recent history had become infested with large patches of manuka and mingi which were not part of the lands in their natural state and that clearing of such growth was not an improvement but a restoration of the lands to their natural state. It is a matter of conjecture whether the Land Valuation Court would uphold this decision.

What the definition of Unimproved Value means, is now well established in law and any difficulties faced today by the valuer in assessing such a value can be said to be more of a practical nature.

Letters to the Editor

SIR.—There is much to be said for the young economists in their (nowadays) brave support of market pricing as opposed to government or monopoly pricing (LAND & LIBERTY, January & February).

However, I do not see that a fixed charge levied on each consumer for connecting him to the water supply is in any way less arbitrary or more in accord with free pricing than the present absence of charge. Is a consumer situated five miles from the mains supply to be charged the same for connection as another consumer only fifty yards from the mains? Or is the consumer expected to supply his own pipe to the mains and to be charged only for, literally, connection? And why a "free allowance"? Why not a charge for *all* water consumed? The principle of free pricing seems to have been so watered down in this essay as to be scarcely discernible.

The principle of free pricing also eludes me in the proposition to pension off inefficient farmers. If the reward of failure is a government pension, there seems very little incentive for the efficient.

Yours faithfully,

L. L. SEED

Guildford, Surrey.

UTOPIA ENDS IN SORDID SQUABBLES

SIR.—May I reply to your editorial note on my letter on "Site Value Rating and Planning."

Surely it is undeniable that authoritarian town and country planning is by its very nature arbitrary and must

create economic and social anomalies in any valuation.

Given a valuation based on the economic rent of land the possibility of "a man being taxed on a value he was forbidden to use" would not arise.

I attended many conferences of the Town and Country Planning Association before the 1967 Act was introduced and at each one argued that the taxation of the unimproved site value of land was paramount before any consideration of the planning of land use. Since then, the planners have had to amend their plans many times because of the movement of population, huge sums of taxpayers' money has been spent on futile attempts to maintain industries in derelict areas and their promised Utopia has become submerged in a sea of sordid squabbles.

It is most important to realise that the control of land use *cannot* be divorced from economic planning and that whoever exercises this control possesses supreme power over the economic life of the community.

It is true that certain services are inherently communal, but their provision should be entirely dependent on universal acknowledgement and acceptance.

Yours faithfully

STEPHEN MARTIN

Fordingbridge, Hants.

IN 497 farm sales recorded in the *Estates Gazette* in 1967 the average price per acre was £258, compared with £242 in 1966.

LACK OF FAITH IN TOURISM

SIR—The Board of Trade has announced that the present scheme of loans for providing assistance for selected hotel developments will be continued until March, 1968 while the Government looks into the whole question of investment in hotels. The initial sum of £5 million voted for this purpose is not fully committed. The question must surely arise as to why it is necessary for the government to assist the hotel industry at all. It is hard to understand why the industry is not able to borrow money on the open market and finance its own improvements. If it is impossible to make an acceptable rate of return building new hotels and improving older ones without help from the taxpayers, why bother?

If tourists coming to this country require a higher standard of accommodation than they can afford, this is hardly an excuse for subsidising their comforts. Again, if it is claimed that tourists are deterred from visiting Britain by the lack of accommodation at a suitable price, one would expect the action of the market to restore the balance. Before we know what is happening, each foreign visitor will be entitled to one free breakfast on the British taxpayer and a bar of soap in a Union Jack wrapper!

Somewhere the thought that balance of payments problems only arise from fixed exchange rates seems to have been lost in the Board of Trade basement. Perhaps next year's tourists will be given a six-inch replica of a Customs Officer to take home with them.

Your faithfully,

I. BAREFOOT

Woking, Surrey.