

# Site-Value Rating Examined

*From a paper by CHRISTOPHER A. PRICE, Chartered Surveyor, "A New Method of Valuation for Dwelling Houses," presented at the annual conference of the Rating and Valuation Association, Scarborough, September 21*

**T**HE RATING OF SITE VALUES has an obvious claim for consideration as an alternative to the present method of valuing houses. Indeed, it is one of the few clear-cut alternatives available, if we exclude the variations created by differentiating between the rating of owners and the rating of occupiers.

The subject has already been extensively reviewed over a long period of time, but merits the closest possible consideration in the light of every successive radical change in the law of the land.

There is, perhaps, a tendency amongst the more ardent advocates of site-value rating to confuse the direct and indirect benefits which would accrue from the adoption of the system, and indeed at first sight it is not easy to make the distinction. Confining our attention for the moment to residential property, the direct benefits, of which the first alone invests the system with immense administrative attractions, are as follows:

- (a) The amount of "current" work confronting the assessing authority in between revaluations would be negligible. The erection of new dwellings, let alone minor extensions, would be ignored, because presumably the site would already be in the valuation list. Only new or altered planning consents would give rise to valuation work.
- (b) The cost of collection and revaluation would be greatly diminished in buildings such as blocks of flats which are subject to multiple occupation.
- (c) Vacant residential building sites would be rated.
- (d) If site-value rating was used as a supplementary to the present (or another) system which rated occupiers, we should be in a position to rate owners for expenditure such as loan interest and capital improvement, the benefit from which, on any view, would accrue to an owner rather than a tenant.

The indirect benefits are these:

- (a) There would be a shift of burden from residential property as now assessed to under-developed property.
- (b) There would be an incentive to full development of all vacant and under-developed properties.
- (c) There would be a curb on land hoarding.
- (d) The rise in land values would be retarded.
- (e) The general public would be made more planning conscious.

These claims, whilst undoubtedly valid in varying degree, may be of greater interest to the politician and the economist than to the administrators of the system, which should not be judged on its indirect merits unless its success can be proved against the more objective criteria of

fairness and administrative feasibility.

Nevertheless, the indirect benefits (and they would not only result in relation to residential property) justify closer examination. Some have given rise to controversy in the past. That the rise in land values would be retarded, for example, is not universally accepted. On the assumption that the site rate cannot be shifted, it seems obvious that the value of the site will be diminished by the capitalised amount of the tax, but is the assumption valid? In conditions of near monopoly created by our planning structure, the Ricardian theory of rent may not hold good.

Then it is said that the incentive to full development of many under-developed sites already exists, and is only impeded by the capacity of the building industry, and also by supervening restrictions, though these may be relevant more to the construction of commercial and industrial buildings than to dwellings.

Further claims made on behalf of the system include the following:

- (a) The development value of land would be taxed.
- (b) The tax would be borne by the owner and not the occupier.
- (c) The process of valuation is simpler than under alternative systems.

The first claim is true as a statement. The second is only true on the doubtful premise that the tax is not passed on to the occupier. Neither are necessarily merits of the system. The taxing of development value is a fundamental issue raised by any form of capital value rating. In the use of capital values the separation of existing use from potential value normally presents difficulties, and I do not believe that a rating system should be used as a machine for collecting betterment; but if it should be so used care would have to be exercised that it did not tax any element of development value for which payment had already been made to the Land Commission. No more would the adoption of annual site-value rating remove potential or development value because ground rents are usually on long leases.

In the process of valuation, the field work and referencing would be a tithe of what is required under improved value methods. It would also be easier to determine the values of unimproved residential sites than of commercial and agricultural sites, and of amenity land. The evidence of residential land would be confined to new property and some method would no doubt be necessary in order to arrive at a basis for the older residential sites. This would involve a valuation of the whole property, which

would also be required in the treatment of leasehold land if the site value was to be apportioned between lessor and lessee. This apportionment should not, however, be the responsibility of the assessing authority.

Many of these are marginal considerations. Yet another is that the "flash point" of twenty shillings in the pound would soon be reached, owing to the tax base being somewhat narrow and inflexible. Like the indirect benefits these considerations are not fundamental to the success or otherwise of a rating system. It is only when we come to examine questions of hardship and the wisdom of superimposing the system upon our present planning framework that serious doubts about it begin to arise.

It is part of the tradition of this country that certain sites are under-developed, whether from the age of the building, from statute or neglect. Site-value rating would impose heavy burdens on many such sites, the full de-



velopment of which would not necessarily be in the public interest.

If house owners were not conditioned to the idea that buildings were exempt from rates, there would be a widespread sense of injustice, although this would be imaginary rather than real, provided that the basic tenets of the system were accepted; but a method of valuation which was based on planning possibilities rather than planning actualities is inevitably a blunt instrument, fraught with potential errors and capable only of being checked in retrospect. Our present system taxes existing value, but site-value rating would tax a value which is both speculative, "floating," and liable to change overnight by planning decisions, conditions, restrictions or appeals.

Some of the criticisms of site-value rating are less relevant to its application to residential sites than to city sites, amenity and charity land, and farms, for which there is a scarcity of direct evidence. Indeed, in the case of farms, which could hardly be separated as a class from residential property, the fact that improvements include fertilisers as well as hedges and drains would create difficulties in both the identification and valuation of the unimproved site. It has been said that agricultural land owes more to nurture than nature, and a survey of farm improvements carried out in 1960 put the average unimproved capital value per acre of farm land at £27 in Oxfordshire, and £74 in Essex.

Site-value rating has its defects, but there is no evidence that it is not a workable alternative to the present meth-

### "NARROW AND INFLEXIBLE TAX BASE?"

#### Unimproved Value of Land—New Zealand

	Counties	Boroughs
1936	£171,000,000	£102,000,000
1965	£519,000,000	£697,000,000
1966	£547,000,000	£780,196,000

The Boroughs occupy about 600 square miles—about one half of one per cent of the area of New Zealand—but two thirds of New Zealanders live on this small area.

od of valuing residential property. Indeed, the evidence of Australia, New Zealand, East Africa and Canada proves that it is workable in countries which would appear to have a greater desire and more scope for promoting development than Great Britain. The method is on the ascendant in Australia and New Zealand, but few indeed are the authorities who rely on it exclusively, and of these it is the rural areas which predominate. The only European country in my inquiry to make more than a nominal use of the system is Denmark, where it is augmented by a differential rate on improvements, the combined system contributing only about 25 per cent to total local taxation. The Whitstable Report of February, 1964, brought the system a stage nearer to reality, and without further empirical evidence of this nature its detailed working when applied to the varying locations and conditions of land tenure in Great Britain is still a matter for discussion.

It is difficult to imagine the system applied to dwellings in isolation. Such an expedient would offend against basic principles which envisage a shift of much of the present burden on dwellings to the open spaces and the more valuable city sites. My view is that whether confined to dwellings or not, the system, though workable, is not the best available, or even better than the present method, largely because of the difficulty of tailoring site-value rating to the prevailing structure in this country of land tenure and, more particularly, of flexible planning control.

I conclude this section with an extract from the Uthwatt Report (relevant, of course, to the taxing of betterment) (para 310 (ii)): "Before any increase in site value can become a proper subject for levy, it must not only have occurred and have been proved, but must also have been realised or enjoyed or be realisable."

(Mr. Price's views are examined in our editorial.)

**T**HE truth is that after its first thousand days the present Labour administration has undergone the inevitable process of devolution, whereby social concern becomes meddling, humanism merges into authoritarianism, and belief in democracy is swallowed by contempt for its values.

—Chartered Surveyor, August, 1967