

LVR in action

HAVING worked for many years in parts of the world where rates are levied on the basis of land value — unimproved value to be precise — I am somewhat amused that English proponents of the system religiously quote the Whittable Pilot Scheme, but never refer to the many systems which have been in use for decades.

In practice, assessment of the value of the bare site is not as easy as most writers suggest. In the first instance the precise meaning of the term must be defined. This is done by a roundabout approach of first defining what is meant by "improvements" and then stating that "unimproved value" is the value of the land on the assumption that the improvements do not exist.

One problem is adopting a rational definition of improvements. Raw land, untouched and uninfluenced by human society, is an extremely rare commodity — there is probably no such thing in England. On the whole a rational definition is adopted which accepts that "hidden" or site improvements — such things as land drainage, levelling or filling of sites — are not classified as improvements. Equally it is accepted that, although the subject property is deemed unimproved, the surroundings are as existing (*Tetzner v Colonial Sugar Refining Co. Ltd* [1956]).

Even so definitions are not uniform. In Fiji there are at least two definitions which differ slightly so that what is an improvement for one purpose may not be for another.

The two vexatious problems facing valuers are the lack of evidence of sales of unimproved



● Problem for the valuer: what's the life expectancy of a block of flats in the East End of London — before it's flattened?

By D.W. GREENWOOD

land and the problems of assessing the somewhat hypothetical value of the improvements. Australian case law is quite clear in that it is not correct to deduct the value of the improvements from the value of the whole in order to arrive at the unimproved value. The Privy Council concluded in *Toohy's Ltd v The Valuer General* in 1925 that "It is therefore, to approach the question from a completely wrong point of view to begin with a valuation which takes in the improvements and then proceed by way of subtraction of a sum arrived at by an independent valuation in order to find the required figure".

In practice sales of improved property are analysed. In some countries such as Papua New Guinea, where there are no sales of unimproved land, there is no alternative. The practical problem is that of deducing the value of the improvements. Standard practice is to calculate the depreciated replacement cost, but this is fraught with problems.

If there are sales of comparable unimproved land it is possible to determine, by comparison, the value of the improvements and by analysis to determine the ratio between value and current replacement cost. Where no com-

parable sales exist the common method is to use a straight line depreciation factor. But how good is the valuer at guessing both the current age and likely life of the building?

In tropical countries where none of the buildings are particularly old, and tend to have a limited life, this is not impossible. But what rate of depreciation would you put on a 400-year-old thatched cottage in England — come to that, what life expectancy would you give a high rise block of flats in the East End of London?

Apart from the matter of distinguishing between improvements and bare site what interest in land has to be assessed? This is an aspect which does not affect annual value rating and seems to have been ignored by English writers on the subject of LVR. Australia and the South Pacific countries assume an unencumbered freehold site — rather peculiar in those countries where freeholds do not exist, but that is another issue. This gives rise to valuation problems. A fallacious assumption made where a particular parcel is subject to a ground lease is that the sum of the values of the interest equal the value freehold in possession. Some legislation does in fact stipulate that this assumption must be made.

Uganda adopted a different

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approach and valued the separate interests. This produced some peculiar, but predictable results. For a start the value of the freehold and leasehold interests change, in theory, annually as the lease gets older. This makes regular re-assessment an absolute necessity. Secondly if, in analysing sales, the value of improvements is deduced from the sale price, it is possible to arrive at a negative figure for the lessees interest — take care where a five-year-old building is situated on a site where the ground lease has a mere 10 years to run!

As to who pays the rates, the normal law is that the "Owner" is responsible, but who the owner is may well have to be defined. Commonly this is the freeholder but this would cause considerable hardship for freeholders whose income from the land happens to be a ground rent fixed 50 years ago. On the other hand, where ground leases exist, to charge the lessee ignores the whole philosophy of land value taxation.

In practice land value taxation works well in countries where almost all the land is freehold, where it is freely transferable, where there are few land use constraints and where there is plenty of vacant land changing hands.

As countries develop and urban areas fill up, values become more and more difficult in practice and assessments become more and more hypothetical. This may be alright if the assessments are equitable and the results are used for no purpose other than rating. After all if property A is worth twice as much as property B it does not really matter whether property A is assessed at \$10,000 or \$20,000, provided that property B is assessed at half that figure. If the total of the assessments is high then the rate percentage will be low and vice versa.

The problem with hypothetical figures is that they can easily become inequitable and are subject to manipulation — they are much more difficult to challenge than valuations based on the actual value of land.

USA housing latest ...

COAST-TO-COAST BLOW FOR YOUNG

NEW YORK pipped San Diego into the top spot as the city with the fastest rising house prices in 1986.

The year began ominously when the Urban Land Institute published a report in January which revealed that the average value of undeveloped residential acreage had risen at twice the pace of inflation over the previous 60 months. The national average residential land price increase during that period was over 51%.

The expectations of land speculators were spectacular. For example, the price of the Manhattan lot known as 23 and 25 West 52nd Street jumped nearly tenfold, from

\$1m to \$9.7m, as it was sold and resold four times.

Given these kind of rises, it is not surprising that homeowner costs in the New York region increased faster than anywhere else in the nation, reaching nearly 9%. The media reported some of the effects:

- Cultural groups warned that they were about to quit the city, because they could not afford the six-figure rent increases and shortages of suitable performance or exhibition space.

- As families moved out into the suburbs, house prices and rents in areas like Long Island leaped beyond the reach of young

people — who were forced to join the exodus to far-flung places in search of affordable space.

Down in the southwest corner of the nation it was the same gloomy picture in San Diego, where Watt Industries president Joe Davis predicted that land prices "are expected to at least double in the next 10 years".

Nationwide, there has been an unprecedented decline in the ownership of homes among young people. While 2m housing units were built in the U.S. in 1985, only 63.5% of all households were homeowners compared with 65.7% in 1980.

CAPITALISTS ALL!

Rent ruses in the East and West

POLITICAL intervention in the housing market normally works in favour of the property-owner. Tenants, however — on both sides of the East-West divide — can sometimes work the legal system to their financial advantage.

MOSCOW: workers can tolerate low wages because their life-styles are heavily subsidised. Among the "perks": their apartments are subject to very low rents. Some tenants, however, have found a way of cashing in on the rent controls. They sub-let apartments for rents which are five to eight times higher than levels set by the State.

LISBON: landlords are getting round Portugal's rent-freeze by demanding exorbitant "key money", an illegal payment which makes up for the loss of rent. Even so, property-owners are holding hundreds of buildings empty because of the rent-freeze. Meanwhile, many tenants in cheap flats have earned fortunes by sub-letting space at thousands of escudos a month — money which, in a free market, would go direct to their landlords.

- An estimated 700,000 Portuguese families are without a home of their own, thanks in part to the distortions in the housing market caused by the rent controls.