Johannesburg— A Model of Maximum Land Utilization through Site-Value Rating

SINCE its first exposure to rating, Johannesburg has employed site-value rating and the beneficial results are obvious. Of all rating systems the standards of site-value rating are as important as the political decisions which decide on the actual rate.

A good valuation roll ensures that the rate load is equitably spread — ratepayers paying on "market value", and this ensures that no one pays too much or too little, the rate payment being decided by the market.

Before venturing into the practical aspects, the legal requirements of the Transvaal Local Authorities Rating Ordinance No. 20 of 1933, as amended, should be explained.

First the "Basis of Valuation" is defined as follows:
"the amount or sum at which the valuer or valuers shall value for the purposes of the valuation roll any rateable property shall be the capital sum at which the same might in his or their judgement be expected to realize if offered at the time of valuation for sale on such reasonable terms and conditions as a *bona fide* seller would require, due regard being had not only to such particular rateable property but to other properties of similar class, character, value, position and other comparable factors;" As can be seen, the above implies "market value".

Secondly the "Site Value of Land" is defined as:
"the capital sum which the land or interest in land might be expected to realize if offered for sale on such reasonable terms and conditions as a *bona fide* seller would require assuming that the improvements, if any, thereon or appertaining thereto had not been made".

This definition implies that land is valued as though vacant irrespective of what improvements exist, if any, such value to be "market value" in terms of actual rights or potential as may be revealed by the market through sales.

The last definition to be discussed is "the value of improvements" which states:
"the value of improvements in relation to any interest in land shall mean the added value which the improvements give to such interest in land at the date of the valuation irrespective of the cost of such improvements; provided that the added value shall in no case exceed the amount that would reasonably be involved in bringing the site value of the land to its improved value as at date of valuation, such improved value being the value of such interest in land together with any improvements therein, thereon or thereunder if valued together as a whole under the provisions of Section Nine of this Ordinance". The Section Nine referred to above is the "Basis of Valuation" which was the first definition quoted.

For a site value rating system the main criterion is that land must be valued as though "vacant" at full market value, in terms of rights actual or potential, the improvements being the added value as defined. It is my opinion that total value is comprised of only two components, namely, land and improvements, and of the two components *only* land has a reasonably constant pattern, the improvements being the fluctuating component, the fluctuations being dependent on the viability of the improvements. For example a block of flats on land zoned for flats may in 1970 have had a municipal valuation of:

Land	R100,000
Improvements	R300,000
Total	R400,000

In 1973 sales patterns have shown this land to be worth say R150,000, the gross income being R60,000 per annum—net income after deducting expenses say R40,000 capitalized at

say 10 per cent =	R400,000
less Land	R150,000
for Improvements	R250,000

This type of reducing improvement value is typical of that of rent-controlled premises with an increasing land value, and in addition escalating building costs and no corresponding rental increases. This trend of diminishing improvement values in terms of return with increasing land values as indicated by the market will continue.

Vacant residential land sales are often encountered in developed areas and high prices are paid because of the scarcity of vacant sites. These scarcity prices obviously cannot be used as evidence of market land values although when developed and subsequently sold, this type of property transaction "infects" the surrounding area because it is obviously higher than adjoining properties.

Cognizance of these high total selling prices results in a new artificial level of selling prices. In a fully developed area with no comparable adjoining vacant land sales, all developed sales are analysed and land residual patterns are indicated by deducting depreciated improvement cost from the total. There are areas in Johannesburg where considerable revamping is taking place on ⅛-acre stands (50ft. x 100ft). Old dwellings are given a facelift and a high wall is built around the property; brick pavings

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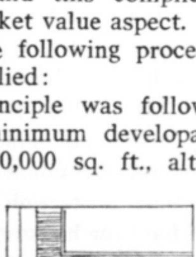
are provided. The general term for this type of revamp is "Chelseafication". Prices of up to R40,000 are paid for these "painted old ladies" and land residuals are coming out at R18,000-R20,000 which equals R5.00 per sq. ft. whereas in $\frac{1}{4}$-acre adjoining areas, land residuals are coming out at approximately R1.00 per sq. ft. Obviously in these areas the high prices achieved generally will result in $\frac{1}{8}$-acre land being valued higher *pro rata* than $\frac{1}{4}$-acre land with obviously higher rate charges but these valuations are substantiated conclusively by the market.

As regards the benefit to a city of site value rating, this is obvious in Johannesburg with its tremendous development in the relatively short period of its existence (seventy-seven years). There are more new developments and more replacement of non-viable buildings than in any other city in the Western World. Pretoria which is thirty-six miles away only started to develop after the change from the rating of improvements to site value rating approximately seven years ago. In central city Johannesburg, once a building becomes incapable of producing rentals comparable with adjoining modern developments the trend is to demolish and redevelop and buildings have been replaced three times in eighty years to retain viability.

Central Johannesburg has unfortunately a large number of properties built over a number of stands, and this complicates the land market value aspect. In these cases the following procedure has been applied:

1. A principle was followed that the minimum developable area was 10,000 sq. ft., although it



   now appears that 15,000 sq. ft. will be the new norm.
2. A pattern of values, called basic values are applied, related to sales, with the grading of the basic values from east to west and north to south with obviously high and low spots with the hard-core Central Business District in the middle.
3. For an inside 10,000 sq. ft. property the basic value is applied; for example R100.00 per sq. ft. will produce a total land value of R1,000,000.
4. If this 10,000 sq. ft. property was situated on a corner the basic value would be applied plus a corner advantage factor.
5. A property over 10,000 sq. ft. would have the basic value applied plus a plottage loading factor and experience has found that up to 50 per cent can be loaded, dependent on size; if situated on a corner, a corner advantage factor would be added.
6. Properties smaller than 10,000 sq. ft. would be assessed at the basic value and reduced in value for size, and if with a corner a corner allowance factor added.

The additive factors such as size and corner allowances and deductions for size were arrived at by research, feasibility studies and market analysis and this approach has been tested in the Valuation Courts and accepted as a valuation principle.

In Johannesburg a site fully developed pays exactly the same rates as a similar site partially developed or vacant. And the stimulus to develop with no increase in rates has produced the modern development which is not evident in other cities in the world. A house owner who develops his property to the maximum is not penalized by having to pay on his improvements which are to the benefit of the neighbourhood.

The site value rating principle requires a valuation department smaller than a department which is constantly involved with continual petty adjustments from an improvement point of view—in my opinion "penny-pinching."

In addition the valuation period can be shortened by using site value rating since objections are virtually confined to land values. In Johannesburg with its three-year roll, improvements are valued on site and any subsequent amendments are picked from building plans submitted and finalised.

The answer to local government rate problems is site-value rating on the principle of "market value as though vacant." Ignoring the obvious advantages, the sight of a city, vibrant, dynamic because of the stimulus to develop, this alone should warrant the change to a rating system that can wake up the decaying cities of the Western World.

R = Rand = 55p = $1 approx.

Welfare for the Landless

GRANTS of land in perpetuity, apart from reflecting a supreme conceit on the part of the grantor who assumes a divine right of disposal of parts of the earth's surface, presents problems political as well as ethical for the generations who follow. The conceit of the grantor is frequently matched by that of the grantee and his decendants, as a recent press report shows. Mr. Clunies-Ross, owner of the Cocos Islands in the Indian Ocean, is a Briton whose family were given the islands in perpetuity by Queen Victoria in 1886. He claims that his property is worth £18m. The Australian Government, who has sovereignty over the twenty-seven islands but cannot exercise it because of the "gift in perpetuity," has offered £2m.

Mr. Clunies-Ross defends himself against charges (made by the United Nations) of "feudalistic attitudes" towards his population of 600 mixed blood Malays by showing how civilised he is with his social welfare programme of pensions, health care, contraceptives and "council housing". The claim that his islands are worth £18m "with the 600 mixed blood Malays" sounds as though he is selling his population too. Presumably if the population were 6,000 the price would be £180m. and since 600 divided into £18m. is £30,000 per head of population to which each inhabitant has no claim either in a capital sum or in an equivalent income, it is no wonder that a welfare state is needed to keep them happy—or from revolt at being landless.