

## PART III—THE PRACTICAL APPLICATION

### CHAPTER VIII

#### THE VALUATION

THE essential preliminary to the imposition of a land-value rate is a satisfactory valuation of the land value of each parcel of land within the area of the local authority.

Experience in many parts of the world has shown that such a valuation can be made with accuracy, with rapidity, and at a very moderate cost. The City of New York, for instance, although it does not impose a special rate on land value, makes such a valuation every year, because it has found by experience that under a system of rating on capital values ease and accuracy are obtained by valuing the land separately from improvements. In Denmark and various parts of New Zealand and Australia such valuations are made not only of urban land but also of agricultural land. The general conclusion is that greater precision can be obtained in land-value valuations than in valuations of the combined value of land and improvements, whether the latter are of an annual or of a capital value.

The reason for this is that it is unnecessary to examine the structures, which may differ enormously on adjoining sites. All that the valuer is concerned with is the shape and configuration of the land (and in the case of agricultural land its fertility). If he is well acquainted with site values in the neighbourhood, as a practical valuer will be, he can, if he has an adequate map, sit in

his office and fix the values without even inspecting most of the properties.

His first requirement is an accurate map showing the boundaries of each parcel of land to be separately valued. Existing ordnance survey maps will provide the basis of such a map, supplemented in some cases by maps made for town planning, land registration, and other purposes, and other data in possession of the responsible authority. The preparation of maps will probably be a considerable item in the cost of the first valuation; but, once made, they will only require correction at subsequent valuations because of subdivision or aggregation of properties. Any additional expense on the first occasion will be largely in the nature of a capital expenditure.

The next stage in the case of urban land is to arrive at a standard unit figure (*e.g.*, per square foot or per foot frontage) for plots of normal depth in each street. These standard unit figures of value will bear a certain relationship from street to street according to the varying amenities and advantages of situation, and will show a gradation from one or more peak points in the central district outwards to the suburbs.

On the basis of these unit values will be computed the value of each plot. In doing this due allowance will be made for plots of irregular shape or depth, for enhancement of value by corner situation (frontage to two streets), rear access by alleyways, etc. In some cases the unit figure may vary from end to end of the street and will be scaled off accordingly from the one end to the other. In other cases the unit value will be different on one side of the street from that on the other.

As this is not a book on the technique of valuation, the details cannot be fully elaborated, but it can be said that

land-value valuation has, as a result of experience, been placed upon a completely systematic basis. One of the most notable examples of scientific valuation is afforded by Denmark where the land-value maps and valuation registers for each district are commonly printed and may be purchased. This technique has been used for many years in New York City, Cleveland, Ohio, and other cities in the United States; and the system has been commercialized by the Manufacturers' Appraisal Company of Philadelphia, which has published an elaborate treatise on *The Science and Practice of Urban Land Valuation* (by W. W. Pollock and Karl W. H. Scholz). The valuation of site value is, therefore, far from being a process of unmethodical guesswork, as some people seem to imagine. This is not to say that there are not problems which may call for very high skill and judgment on the part of the valuer. The determination of the unit values is one of these. In some cases it is the practice to facilitate this by calling into conference local valuers in private practice or others who are familiar with the trend of values. When it is a question not of the assessment of a particular property but of fixing a standard of valuation (which incidentally may become a standard not only for rating but for public purchase or compensation) the difficulty of securing agreement on unit values is not so great as it might seem. If this can be done, subsequent appeals are minimized and the settlement of them much facilitated.

The valuation when made should be open to public inspection, so that any interested party may see not only what his own land is valued at but also how his neighbour is assessed. Here again, if the valuation is well made and supported by maps which facilitate rapid comparison

with adjoining sites, public confidence in the valuation will be secured and there will be little inclination to appeal.

If the valuer deals frankly with objectors and explains the basis upon which the valuation is made there is no reason to anticipate that any unreasonable number of objections will turn into formal appeals.

Provision should be made for the hearing of appeals. If the valuation were made by the State, as would no doubt be the case in England where valuations for rating are already made by a Government Department, the State would no doubt set up appeal tribunals for each valuation district. It is desirable that the membership of the tribunal should not be changed too often and if it had no expert member it might be wise if the tribunal were assisted by an expert assessor who was well acquainted with the science and practice of valuation.

It is hardly necessary to add that the valuation should be made on a topographical basis, because only in that way can comparison be readily made between adjacent plots. Relative fairness is the essential of a good valuation, and if that be maintained the public will not suffer if the absolute values are at first somewhat on the low side. The experience gained will enable the subsequent valuations to be still further perfected. Systematic revisions of the valuation should be made at short intervals.

#### THE DEFINITION OF LAND-VALUE

The difficulty of framing a legal definition of land-value arises from the fact that the term land in English law includes not merely the site but also all the labour products which are affixed to it.

In the Australian and New Zealand legislation this difficulty is met by defining the land value as what the land is worth if no improvements existed upon that particular piece of land. This in its turn necessitates a definition of improvements. The Snowden Finance Act of 1931 defined land value as what the land was worth if there were not upon the unit being valued any buildings, erections, or works, or any cultivated growth. (For the sake of simplicity I neglect for the moment the qualifications or refinements of the definition.)

Both of these definitions agree in the important point that the assumption of there being no improvements upon the land is restricted to each plot as it is valued. It is not assumed that the whole of the land in the country had no improvements upon it, for that would be virtually to assume that there was no community, and therefore that the vital fact determining the land-value was absent. All that the valuer is asked to do is to assume that all adjoining sites and all other factors affecting the value of land are in their existing condition, but that on each particular site as he comes to it there are no improvements in existence.

The unit of valuation will, as a rule, be each piece of land in separate occupation. Where, however, adjoining pieces of land are occupied by one person but owned by more than one, the pieces in each ownership should be valued separately. Conversely, where the land is the site of a building divided horizontally (*e.g.*, into flats) and the divisions are separately occupied, the unit of valuation should be the whole site. Provision should also be made to prevent evasion where land in one ownership is broken up into uneconomic units of occupation which would prevent its proper development.

The valuation would, of course, be made as at some determinate date, so that all land would be valued upon a uniform basis.

To return to the definition of land value—one point of difficulty arises in respect of alterations made to the configuration of the land itself such as excavation, filling, and levelling. In many cases such alterations have been made many generations or centuries ago. Although it may be said that they are of the nature of improvements, practical convenience dictates that it is impossible to clog and impede a valuation with antiquarian researches. Moreover, it may be assumed that such things are not done unless the owner expects to recoup himself within a fairly short period. It is therefore advisable that the value of such ancient works should be deemed part of the land value. In the same way roads when they became available for general use and are not reserved for the use of the occupier alone must be deemed part of the common assets of the community which affect the land value irrespective of who originally defrayed the cost of their construction. If it be said that these are departures from strict principle, the answer is that perfection in human affairs is not always attainable.

#### CAPITAL VALUE OR ANNUAL VALUE

A much more important problem is whether the valuation should be of capital value or of annual value of the land.

The economic theory upon which the rating of land values is based, viz., the collection of economic rent for public revenue, would imply that annual value is the proper basis. But there is such a large body of legislation making capital value the basis that it cannot be dismissed without consideration.

The arguments in favour of making capital (*i.e.*, selling) value the basis are that this is the basis upon which transactions are commonly carried out in the market and that this value takes into account the potentialities of the land, as against the actual use made of it at the moment. It is a concept that is familiar and easily grasped.

On the other hand, capital value has a disadvantage which becomes of growing importance after land-value rating has been established. The land-value rate diminishes the capital value of the land by the capitalized amount of the rate.\* As more and more of the rate burden is transferred from the present basis to the site-value basis, the capital value, other things being equal, will fall lower and lower. This necessitates a higher rate in the pound to yield the same revenue and produces an erroneous impression among those who do not understand the economic theory that the rate is higher than it really is. Thus in East London (South Africa), for instance, the land-value rate has ranged round 1s. in the £ of capital value, but this rate does not, as might be imagined at first glance, collect the whole of the economic rent, in fact, it collects about one-half.

The better plan, therefore, is to base the rate upon the economic rent or annual value, that is to say, the annual amount which a tenant would pay at the time of valuation for the right to use the land (apart from improvements) in perpetuity, the lessor paying any land-value rate.

No difficulty need be anticipated in making such a valuation. It is quite usual for bare land to be let on long lease (ninety-nine years or more) which, at the time of its being granted, is worth practically as much as a

\* See p. 22.

perpetuity. Further, the rent which will be paid for such a lease (without premium and without onerous or restrictive covenants) takes into account as fully as selling value does the potentialities of the land for its best use. In making the first valuation, which will be the most difficult on account of the novelty of the matter, the annual value can be checked against capital value by taking the proper percentage of the capital value.

No substantial obstacle will, therefore, be encountered in applying the annual value basis, and the ultimate efficiency and successful development of the system strongly recommend it.

An exaggerated idea of the difficulties of framing land-value legislation and of applying it in practice has gained currency in this country as a result of the misconceived and complex system of taxation embodied in the 1909 Budget (see p. 10). Most of the technical problems of draftsmanship were solved in the Finance Act of 1931. Although this measure departed from the strict principle of land-value taxation in some respects, its defects were due, not to inherent difficulties but to political exigencies.

A further step forward is to be found in the London Rating (Site Values) Bill prepared by the London County Council in 1938 which may well form a precedent for any future legislation. The following definition of annual land value is based upon that Bill:

The "annual land value" of a land unit means the annual rent which the land unit might be expected to realize if demised with vacant possession at the valuation date in the open market by a willing lessor upon a perpetually renewable tenure upon the assumptions that at that date—

## THE VALUATION

- (a) there were not upon or in the unit—
- (i) any buildings, erections or works\* except roads;†
  - (ii) anything growing on the unit except grass, heather, gorse, sedge or other natural growth;
- (b) the annual rent had been computed without taking into account the value of any tillages or manure or of any improvements for which any sum would by law or custom be payable to an outgoing tenant of an agricultural holding;
- (c) the unit was free from any incumbrances with certain exceptions.‡

One other point only need be referred to, and that is that the definition makes no mention of the assumption that the lessor would pay the land-value rate. The reason is that other clauses of the Bill would impose that obligation upon him.

\* Work does not include works of excavation or filling done for the purpose of bringing the configuration of the soil to its actual formation.

† Road does not include any road which the occupier alone is entitled to use.

‡ The incumbrances referred to include easements, rights of common, customary rights, and certain other liabilities and restrictions.