

42 CONNELL ROAD OAKLEIGH

A Few Thoughts!

The High Court, in its decision in respect of 'Landene', St Kilda Road, Melbourne, commented:

"To enable a meaningful comparison, the alternative valuations are both to be conducted at the time of the valuation. And both alternative valuations are to be conducted based on the orthodox concept of market value, which carries with it the conventional understanding that the market pays for land at its highest and best use, properly understood not as the theoretical maximum development potential of the land which might be legally permissible and physically possible, but the most valuable objectively ascertained development potential which is legally permissible, physically possible and financially feasible.

This has resulted in the following approach to assessing Capital Improved Value and Site Value:

A Value the property as it stands (Capital Improved Value); and

B Value the property without the improvements, i.e. vacant land (Site Value).

If the value assessed in B exceeds the value assessed in A, the value assessed in B is both the Site Value and the Capital Improved Value. For properties listed on the Heritage Register, if the value assessed in B exceeds the value assessed in A, the Site Value is the value assessed in A.

The valuation methodologies used will be:

Capital Improved Value-

- Capitalisation of nett income; and/or
- Direct comparison.

Site Value

- Direct comparison, i.e. sales of vacant land; and/or
- Hypothetical Development methodology as a secondary method in the absence of sales evidence, although the VG may have vetoed this method in the past. However, if the land is vacant, as required in B above, and there are not any sales as evidence, the hypothetical development methodology is arguably the only basis of assessing the market value of the land (Site Value).

It can be argued that the hypothetical development methodology has relevance.

The High Court commented that the market value is:

“.....not ...the theoretical maximum development potential of the land which might be legally permissible and physically possible, but the most valuable objectively ascertained development potential which is legally permissible, physically possible and financially feasible” (emphasis added).

The financial feasibility is ascertained by applying the hypothetical development methodology or similar, as used by developers. Accordingly, the relevance of this methodology can be argued. However, the VG has banned the use of this methodology for Statutory valuations.

Possible Valuations.

- Capital Improved Value

This would be based on the property as it stands leased at a rent of \$93,000 less land tax, say \$87,240 net p.a. capitalised at say 5.5% which indicates a value of \$1,585,000.

- Site Value

In the absence of sales of vacant land, the attached hypothetical development model indicates a land value of \$320,000, if the land was vacant, but with the surrounding services in place or available. The important question is: is the development shown on the architectural plan *“the most valuable objectively ascertained development potential which is legally permissible, physically possible and financially feasible”*.

The VG will rely only on sales evidence – which will likely indicate a different value.

- Net Annual Value

This is 5% of the Capital Improved Value, i.e. \$79,250.

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