

# ANZVGN 10 VALUATION OF AGRICULTURAL PROPERTIES

## 1.0 Introduction

### 1.1 Purpose

The purpose of this Guidance Note is to provide advice to Members undertaking valuations of any agricultural property for any purpose.

### 1.2 Status of Guidance Notes

Guidance notes are intended to embody recognised 'good practice' and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a member. They are an integral part of the Valuation and Property Standards Manual.

### 1.3 Scope of this Guidance Note

This guidance note applies to Members providing valuations in respect of any agricultural property for any purpose. It should be used, as far as applicable, in conjunction with other guidance notes and practice standards that are either overarching or directly applicable to the type of real property, purpose or issues involved.

This guidance note is not intended to outline methods of valuation of any particular type of property but may comment on matters that should be addressed in reports in respect of certain properties types or uses. Methods of valuation are covered in other guidance notes and authoritative texts.

### 1.4 International Valuation Standards

This Guidance Note is intended to be consistent with Standards and Guidance Notes published by the International Valuation Standards Committee, except where otherwise stated.

Members are specifically directed to read IVS Guidance Note 10 – Valuation of Agricultural Properties and ANZVGN 1 – Valuation Procedures – Real Property.

In addition to the above, this guidance note specifies any departures from IVS Standards or other particular circumstances which reflect Australian and New Zealand law and practice.

## 2.0 Valuation Considerations

In addition to the requirements of other relevant standards, members completing valuations of agricultural properties should consider the following factors, as applicable:

### 2.1 Land Tenure and Native Title Rights

Unlike most urban land, other forms of land tenure are common in relation to agricultural land. Valuations should have regard to the nature of tenure and interest held which can usually be established by title or lease search or other enquiries with the land holder.

Valuations of agricultural land which is not held by freehold title should be appropriately qualified eg Valuation of Leasehold Interest, Valuation of Crown Leasehold etc.

It should also be noted that some Crown tenures convey only a right of occupation to the land and infer no ownership or transferable right. An example of this is a license, which may be terminated at will by the relevant minister and is not transferable, and therefore may have no market value (albeit could have a value to the sitting licensee).

Agricultural land in many parts of Australia and New Zealand may be subject to Native Title or Treaty of Waitangi (NZ). Members should consider the possible impact of any known or potential claims for Native Title or the Treaty of Waitangi (NZ) and provide a statement within the valuation report as to how such issues have been treated.

### 2.2 Additional Rights

In addition to typical land rights, other rights can be conveyed to agricultural land which may have a material impact on the value of that land. Examples include water or irrigation rights, excavation or mineral rights etc.

Normally the value of any mineral rights are ignored in valuations, or are at least implicit within sales evidence, unless the existence of minerals is known or probable.

Additional rights may be separately transferable to the sale of land and accordingly valuations should make qualifying statements as to what rights are excluded or included with the valuation of the land.

### 2.3 Planning or Legal Constraints

Particular planning (resource management in NZ) or legal constraints may impact on the valuation of agricultural land. These may include (but not be limited to):

- prohibitions on subdivision
- prohibitions on construction of dwellings
- coastal and landscape protection policies
- forest or conservation reserves
- emissions
- water use
- effluent disposal and leeching
- possible need for planning approval of change in agricultural useage in some jurisdictions.

### 2.4 Land Use

The existing use of land may not necessarily represent the highest and best use of the land and the land could have a higher value for alternative agricultural uses. Examples may include:

- grazing land which has a higher value for forestry;
- dry grazing land which has access to water rights for irrigation purposes for cropping land;
- conversion of grazing land to intensive agriculture eg orchards

The highest and best use of land may change over time. In such cases members should consider changes in market cycles or trends and the potential costs incurred in changing the use of the land.

### 2.5 Accessibility and Locational Attributes

Accessibility to services including community facilities (eg schools, shops, medical services etc) and transport infrastructure (eg major roadways, ports, railway etc) could have an impact on the

value of agricultural land from the perspective of its appeal as a place to live, and farming operations and profitability. The locational attributes of agricultural land should therefore be considered by members and specific comments provided in valuation reports.

### 2.6 Climate

Australia and New Zealand are subject to varying climatic conditions, in particular rainfall, which can have a significant impact on the productivity and hence value of agricultural land.

In relation to extreme weather conditions the regularity of such conditions and the long term impact of such occurrences could be factors which prospective purchasers consider in assessing the value of agricultural land.

### 2.7 Topography

Australia and New Zealand have varying topographies ranging from exposed coastal lands, river flats, plains, arid dry lands, to mountainous highlands. These topographic features can have a significant impact on the productivity and hence value of agricultural land. Factors which have such an impact include (but are not be limited to):

- latitude
- altitude
- aspect
- access to natural or man-made water resources
- susceptibility to flooding
- landslip
- coastal or inland

Flooding can have an impact on productivity from the perspective of the potential for topsoil removal or erosion; or lost production, equipment or livestock. The impact of flooding may vary depending on the nature of the agricultural use of the land. For example a flood could cause significant damage to cropping land however the impact on grazing land may be less severe.

### 2.8 Soils, Salinity & Erosion

Australia and New Zealand have varying soil profiles ranging from rich alluvial soils, basalt soils, to more sandy soils. Soils can have a significant impact on the productivity and hence value of agricultural land. Accordingly members should consider the soil profile in assessing the value of agricultural land.

Soil salinity or the proneness to rising water tables and ground salts, as a consequence of land clearing or prolonged heavy irrigation, and soil erosion (including underground tunnel erosion) can have a dramatic detrimental impact on productivity and hence value of agricultural land. Accordingly members should consider the susceptibility of soil salinity or soil erosion in assessing the value of agricultural land, and make specific comment on any farming management practices which the farmer may have taken to minimise the risks of such issues.

## **2.9 Classification**

The classification of the land is a primary consideration in the valuation of agricultural land.

Common land classes based on use include horticultural land, arable land, intensive grazing land, extensive grazing land, open run grazing, native bushland, conservation areas etc. Factors such as zoning, availability of water and easements are taken into account when determining the potential highest and best use of the land.

The classification land is obtained from various sources including title plans, past cropping areas, irrigated land by reference to available water resource agreements, topographical maps, aerial photos and geographical information systems.

Members should apply the land classification consistently to both the analysis of sales evidence and the valuation.

## **2.10 Site Contamination**

Some agricultural uses may cause site contamination which could require either implementation of appropriate management practices or remediation. Examples of site contamination on agricultural properties include:

- sheep or cattle dips
- sources of effluent disposal (especially intensive livestock operations)
- chemicals used in fertilisers or sprays
- fuel storage tanks
- waste dump sites
- crop or livestock diseases

Members should consider the impact of any possible or known causes of site contamination on the value of the property, and report any assumptions and qualifications where required.

## **2.11 Weeds and Pests**

Pests and weeds may impact on the productivity and hence value of agricultural land. In particular rabbits, foxes, blackberries, gorse bush or other introduced flora or fauna have had a devastating impact. Native fauna (for example possums, locust, or game) can also cause significant damage to pasture or crops, particularly when at plague proportions.

Farming management practices which have been implemented or which are required on an ongoing basis to control weeds or pests should be considered and detailed within valuation reports.

## **2.12 Pasture or Crop Management**

Farming practices in terms of pasture or crop management can have an impact on the productivity of agricultural land. Issues such as pasture improvement, crop rotation or fertilising programs (and the sustainability of such practices) may need to be considered in the valuation of agricultural land.

## **2.13 Water Resources**

Water and drainage (domestic/livestock/irrigation/effluent disposal) is becoming increasingly critical to agricultural or pastoral property. Water is a valued and scarce resource that is shared between potentially competing users eg rural industry, communities, and the environment.

The water resource which is held by a farming enterprise may be personal property. This should be considered in the valuation. It can comprise a significant element of value of an agricultural property. In some areas, if the water component is removed, the property may not be of a viable size for dry land production.

Licenses and/or consents are normally required to pump and/or store water from a river, stream or ground aquifer whilst alternative systems provide for the purchase of water (usually measured on a volumetric basis e.g. mega litres per annum) from either public or privately owned water reserves.

Water is an over allocated resource in many catchments and may be subject to reduced allocations during dry periods which can impact on productivity.

Members should have consideration of any legislation/regulation affecting water.

### 2.14 Improvements

The added value of improvements is an important consideration in the valuation of agricultural land. Generally the value of the main homestead is a critical consideration however the value of other improvements can also be significant. The value of farm improvements is limited by the degree of economic and functional obsolescence.

Members should carefully consider the treatment of integral farming improvements in the comparison of sales evidence and treatment in valuation calculations.

### 2.15 Past Carrying Capacity or Production History

The past carrying capacity or production history of agricultural land may be an important consideration in the valuation of agricultural land.

Whilst carrying capacity or production can vary significantly due to seasonal variations or farming management, such data may assist members in undertaking a valuation. Examples include:

- comparison of long term averages to recent productivity may indicate a decline or improvement in soil quality or farm management practices
- long term averages may be useful as a form of direct comparison with sales evidence on a productivity basis (eg rates per dry sheep equivalent)
- the life cycle of trees and yields from orchards or other intensive agricultural operations
- the sustainability of the current use of the property and potential to be used for alternative uses

### 2.16 Trading Performance

Generally most agricultural property is valued based on comparison with sales evidence however in some cases the past and/or current trading performance may be relevant in determining the market value of specialised agricultural enterprises. Examples include poultry and aquaculture farming operations.

Where the net profit is used to determine the market value, the valuation will represent the value of the enterprise as a going concern. In such cases members should acknowledge and report that the valuation includes the value of land, improvements, and the business including

fixed and non-fixed plant and equipment, business licenses and goodwill (as applicable).

Members are cautioned that some inclusions may be wasting assets and in such cases valuations for mortgage security purposes should advise the intending mortgagee to treat such assets differently from a mortgage lending perspective.

In order to adequately consider risk, valuations for mortgage security purposes which have been assessed on a going concern basis should also report the value of land and improvements on an alternative use basis if significantly different.

### 2.17 Inclusions

Other assets may be valued with agricultural properties. Examples include:

- Biological assets (including crops, timber, stock)
- Integral plant and equipment eg irrigation pipes, sprayers or pivot irrigators, dairy plant etc
- Non integral plant and equipment eg tractors or other farm equipment, portable fencing or stockyards etc
- Resource Consents (NZ). Resource consents are a right (asset) that is generally provided for a fixed term and often go through a renewal regime with the issuing authority having the ability to amend as it sees fit at renewal or during the consent process. These are not necessarily a wasting asset, but a right to the land that can have significant impact on value if discontinued or altered.

Typically such items are excluded from valuations unless a property is valued on a "walk in walk out" basis, in which case appropriate adjustments for the respective inclusions with comparable sales evidence may be required.

In order to prevent confusion as to the extent of inclusions, when providing valuations on a "walk in walk out" basis members should separately itemise valuations into the following categories:

- Land
- Improvements (including integral plant and equipment and other rights)
- Biological assets (including crops, timber, stock)
- Non-integral plant and equipment

Members may need to obtain separate expert advice in relation to the value of biological assets and non-integral plant and equipment.

### 2.18 Consideration of Sales Evidence

The existence of specific factors which may impact on the value of agricultural land as discussed within this guidance note, may or may not be reflected by the prices paid for comparable properties.

Sales of properties in proximity to a subject property may have a significantly different value due to particular characteristics. Examples include:

- different climatic conditions (eg susceptibility to frosts)
- different topographical features (eg northerly aspects in higher latitudes, rainfall shadows etc)
- different water or irrigation rights,
- different plant and equipment or stock,
- soil classification

Typically analysis of sales evidence for agricultural properties includes an analysis of land values per hectare, the added value of improvements, values on a rate per carrying capacity or production basis.

In the absence of sales of directly comparable properties, differences that exist between the sales evidence and the subject property may warrant appropriate adjustments to be made.

## 3.0 Terminology

Different terminology is adopted from country to country. This is particularly evident in the agricultural or rural sector. Members utilising the relevant standards and guidance notes should attempt to adopt relevant and accepted terminology appropriate in the specific location in which they are involved.

Common terms used within the valuation industry for agricultural land include:

- broad acre - a term used to describe large land holdings generally used for grazing purposes
- dry sheep equivalents (dse) - a measure of carrying capacity with reference to the potential number of wethers (dry sheep) that can be sustainably carried on the land;
- stock units - a measure of carrying capacity with reference to the potential number of stock that can be sustainably carried on the land;

## 4.0 Goods and Services Tax (GSTt)

**Members should explicitly state the treatment of GST in their report.**