

MARKET VALUE OF RURAL AND AGRIBUSINESS PROPERTIES

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Owner

Manager Professional Standards

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Guidance Papers

Objectives

The principal objective of a Guidance Paper (GP) and Resource Pack (if applicable) is to clarify professional and industry processes, best practices, and procedures and to discuss their use and implementation.

A GP is designed to be of assistance to Members and those who use Members' services. They serve as a guide and measure of acceptable professional practice and conduct of a Member.

The intention of a GP is to:

- a) provide information on the characteristics of different types of assets that are relevant to the advice.
- b) provide information on appropriate practices and their application.
- c) provide information that assists Members in exercising the judgements they are required to make in specific situations.
- d) convey elements of what is considered "competent professional practice" for Australian Property Institute (API) Members and "best practice" for Property Institute of New Zealand (PINZ) Members and New Zealand Institute of Valuers (NZIV) Members.

A GP is not intended to provide comprehensive training, instruction or prescriptive practices and procedures, or direct that a process, professional approach, or method should or should not be used in any specific instruction or situation.

Member Obligations

The Member is responsible for choosing the most appropriate approach in a matter based upon the task and instruction. It is a matter for each Member to decide the appropriate practice in any situation, and if they are unclear, seek professional advice from others, or contact the Institute(s). Members have the responsibility of deciding when it is appropriate to depart from the guidance and practices contained in a GP.

The Institute(s) do not warrant that anything contained in this, or any GP is the definitive or final statement on any issue. Members must perform their own work pursuant to their own professional expertise and experience and if required, seek additional advice which might include legal advice.

Court or Tribunal Reliance

A court or tribunal may consider the contents of any relevant GP or other document relating to a recommended professional practice published by Institute(s) in deciding whether the member acted to a standard required by law.

Currency of Publication

Case law and relevant legislation may change over time and whilst the Institutes(s) consider this GP current at the time of publication, Members and those who use Members' services should have regard to legislative changes and new rulings and if necessary, seek further advice prior to having regard to this GP.

Departure or Non-Compliance

Where a Member considers that a circumstance exists that warrants the departure from or non-compliance with any of this GP, the Member's report (or other advice) must include a statement that outlines:

- a) the reasons for the departure or non-compliance with this GP; and
- b) any impact the Members departure or non-compliance may have on the content of the report.

Members are advised to seek legal and/or other advice before departing from practice recommended in a GP.

Enquiries

If any Member considers any information or advice in this GP to not be accurate or up to date, or wish to raise any issue for consideration arising from the contents of this GP, please refer this to

API contact: standards@api.org.au

PINZ/NZIV contact: standards@property.org.nz

1.0 Introduction

1.1 Scope of this Guidance Paper

This TIP is to provide advice to Members undertaking valuations of any rural or agribusiness property for any purpose.

Valuations of rural and agribusiness properties should only be undertaken by suitably qualified and experienced Valuers. The Valuers knowledge should extend to the agriculture production systems, soils, environment, and management employed to undertake such Rural and Agribusiness activities on the subject property.

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

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

1.2 Status

GP's are intended to embody recognised good practice (Australia) and 'best practice' (New Zealand) 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 International Valuation Standards

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

Members are specifically directed to read IVS 400 Real Property Interests and ANZVGP 111 – Valuation Procedures – Real Property. In addition to the above, this GP will specify any departure from IVS Standards or other circumstances which reflect Australian and New Zealand law and practice.

2.0 Definitions

2.1 (Rural) Lifestyle

In undertaking valuations of rural and agribusiness properties it is important to confirm that the property can indeed be classified as rural or agribusiness. One of the main areas of confusion is the delineation between rural and rural lifestyle.

A Rural Lifestyle block is viewed differently in different markets. In forming a view on whether a property is a lifestyle block, a Valuer will have regard to the characteristics of the property and the market in which it sits. Characteristics to which the Valuer will have regard include the following:

- a) Land size.
- b) The existence of any building entitlement or dwelling right.
- c) Town planning considerations.
- d) Running costs.
- e) Productivity.
- f) Risk profile.
- g) Buyer profile.
- h) Market expectations; and
- i) The Highest and Best Use Value.

This is a subjective assessment reflecting the weighting the Valuer places on each characteristic in each circumstance.

In Australia where a valuation is required for mortgage purposes, properties are to be treated as a Rural Lifestyle block where the property:

- a) Has a land area of 75 hectares or less; and
- b) Has a building entitlement or a single approved dwelling; and
- c) Is incapable of sustaining a gross income more than \$30,000 per annum; and
- d) Is not being run as a commercial operation.

For properties which do not meet this definition a full form valuation report is to be adopted, with the expectation that the valuation be completed or verified by a suitably experienced rural / agribusiness Valuer.

In New Zealand Valuer's need to consider the highest and best use of the land, and whether a commercial activity exists or has the potential to exist on the land. The following items should be considered when determining the properties use:

- a) Does the property meet the Agricultural Activity definition as stated under section 2.4 of this document?
- b) Is the property being run as a commercial operation?

If the property meets any of the above definitions it is not considered a lifestyle property. Any valuer without the appropriate knowledge or experience in valuing the determined use, should not undertake the assignment. Reporting should be consistent with requirements under International Valuation Standards.

2.2 Standard Rural Assets

Includes dryland cropping, grazing, mixed farming and broad acre irrigation for annual cropping or fodder purposes.

2.3 Specialised, Intensive or Special Purpose Properties

2.3.1 Specialised properties

Where the land cannot be applied to an alternative use without firstly incurring a significant effort in time and/or cost in removing infrastructure and/or vegetation.

2.3.2 Intensive Properties

Where a significant proportion (e.g. >50%) of the income from operations is generated by activities undertaken in concentrated environments such as enclosed sheds etc.

The common concept across those industries classified as “Intensive”, “Specialised” or “Special Purpose” is where the land use cannot be easily converted to another enterprise, or it is exposed to changing consumer tastes that could not be adjusted to quickly.

The following list, whilst not exclusive, provides examples of properties that may be deemed as specialised / intensive / special purpose:

- a) Feedlots.
- b) Intensive piggeries.
- c) Commercial cool stores and/or packing sheds.
- d) Forestry / Timberland.
- e) Wineries.
- f) Vineyards.
- g) Orchards (includes tree nuts, exotic fruits, etc.).
- h) Irrigation water, as a stand-alone asset.
- i) Intensive horticulture (e.g. glass houses).
- j) Dairy farms (however, less developed farms with basic infrastructure only may be considered as a standard rural asset).
- k) Poultry sheds (including broilers, layers, etc.).
- l) Hot houses or covered farming.
- m) Properties subject to carbon farming or renewable energy agreements (or similar).
- n) Properties subject to a Managed Investment Scheme (MIS) or a lease to third party for more than 50% of the net farm area.
- o) Specialised improvements (i.e. a cheese factory on a dairy property).
- p) Non-permanent improvements (i.e. greenhouses).
- q) High Country.
- r) Apiaries.

When undertaking valuations of such properties it is important that the following be considered and commented upon, depending on the exact nature of the property:

- a) Plant varieties, ages, condition, residual economic life.
- b) Tree spacing and trellising.
- c) Quality of infrastructure, handling capacity, residual economic life.
- d) Plant & equipment quality and adequacy (e.g. irrigation, broiler shed equipment, etc.).
- e) Any ongoing supply contracts / obligations.
- f) Financial performance in recent years (if available).
- g) Average / achievable results for location / industry.

The interest to be valued should be the freehold or leasehold (as the case may be) interest subject to any ongoing supply contracts, leases, license agreements, management agreements, Resource Consents and/or registration. The valuation should consider the highest and best use, and be undertaken on the following bases:

- a) As a “going concern” including any goodwill and necessary plant and equipment; or
- b) On an “in use” basis, similar to the “going concern” basis but specifically excluding any added value associated with goodwill and movable plant and equipment.

An “alternative use” basis should also be considered and is strongly recommended for mortgage security purposes.

2.4 Agribusiness

In the context of this GP, Agribusiness is considered to represent those enterprises / properties with an element of ‘post-farm gate’ production, most likely involved in some level of vertical integration. Examples range from family operated grain farms with their own packing and distribution capabilities through to large scale abattoirs and packing facilities. Valuation of these enterprises can often require a higher level of expertise and experience than other rural properties. Specific instructions regarding valuation approach should be sought from the instructing party, however, will often include analysis of financial performance (refer 3.20 Trading Performance for further description).

2.5 Agricultural Activity

Management by an entity of the biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets. (See International Accounting Standard 41 [IAS 41], Agriculture, para. 5).

2.6 Biological Asset

A living animal or plant. (IAS 41, para. 5).

The table below provides examples of biological assets, agricultural produce, and products that are the result of processing after harvest:

Biological assets	Agricultural produce	Products that are the result of processing after harvest
Sheep	Wool	Yarn, carpet
Trees in a timber plantation	Felled trees	Logs, lumber
Dairy cattle	Milk	Cheese
Pigs	Carcass	Sausages, cured hams
Cotton Plants	Harvested cotton	Thread, clothing
Sugarcane	Harvested cane	Sugar
Tobacco plants	Picked leaves	Cured tobacco
Tea bushes	Picked leaves	Tea
Grape vines	Picked grapes	Wine
Fruit trees	Picked fruit	Processed fruit
Oil palms	Picked fruit	Palm oil
Rubber trees	Harvested latex	Rubber products
Some plants, for example, tea bushes, grape vines, oil palms and rubber trees, usually meet the definition of a bearer plant and are within the scope of ASSB 116. However, the produce growing on bearer plants, for example, tea leaves, grapes, oil palm fruit and latex, is within the scope of AASB 141.		

Source: AASB 141 August 2015

2.7 Bearer Plant

A bearer plant is defined as "a living plant that:

- is used in the production or supply of agricultural produce.
- is expected to bear produce for more than one period: and
- has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales. (IAS 16, para. 6)

2.8 Integrated Unit

An agricultural entity that has common ownership of all or part of the processes involving the production and marketing of its products and/or commodities.

2.9 Terminology

Different terminology is adopted from country to country and region to region. 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:

- a) Broadacre - a term used to describe large land holdings generally used for grazing purposes.
- b) Dry Sheep Equivalent (DSE) - a measure of carrying capacity with reference to the potential number of wethers (dry sheep) that can be sustainably carried on the land.
- c) Adult Equivalent (AE) – defined as a 450-kilogram non-lactating beast. This is a long term, year in, year out sustainable average level of productivity through fluctuating annual seasonal conditions. In some regions this terminology is loosely interchangeable with 'Cattle Unit (CU)', however stocking rates can vary significantly.
- d) Standard Cattle Units (SCU) – a measure of carrying capacity often referred to for feedlots, equivalent to around a 600kg fattening beast at exit.
- e) Standard Pig Unit (SPU) - a unit of measurement for determining the size of a pig production enterprise in terms of its waste output. One SPU produces an amount of volatile solids equivalent to that produced by an average size grower pig (approximately 40kg).
- f) Milk solids (MS) - a measure of milk production.
- g) Stock units (SU's) - a measure of carrying capacity for dry stock properties. One stock unit is equivalent to a 55kg ewe that bears one lamb to weaning at 3 ½ months and has consumed approximately 6000 kJ of metabolisable energy.
- h) Tray Carton equivalents (TCE) - a measure of Pip and stone fruit production.
- i) Trays - a measure of kiwifruit and avocado production.

3.0 Additional Valuation Considerations

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

- a) The report format for this instruction should be described as the 'Rural (or Agribusiness) Valuation Report'.
- b) Valuation reports should contain information under all the following headings, if deemed appropriate.

3.1 In Use

The "In Use value" for rural property reflects the market value of the real estate component inclusive of purpose-built structural improvements, and fixed essential plant and equipment that form part of the existing operational use. It may also include the value of any water rights that enable the property to operate at the value level (see 3.17).

The "in use" value is distinct from a "going concern" value assessment which may include non-fixed plant and equipment, and/or business goodwill plus other tangible and intangible assets.

3.2 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 e.g. 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 (which has not been alienated from the Crown via issue of freehold tenure) 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 and understand any impact an Indigenous Land Use Agreement (ILUA) or the Treaty of Waitangi Act 1975 (NZ) or a State-Owned Enterprises Act 1986, section 27B memorial, may or may not have over a parcel of land, and provide a statement within the valuation report as to how such issues have been treated. This information may be available from the National Native Title Tribunal or a search of the freehold computer register. It is important to note that the ILUA is not an instrument required under common law to be registered on the Title or Crown Lease.

3.3 Planning

Quote the current zoning and other relevant information (e.g. Overlays) based on the Valuer's perusal of town planning maps/resource management plans, and the name of the Responsible Authority and/or Planning Instrument.

Provide details of any known Town Planning Permit(s)/Development Approval(s)/Resource Consents applicable to the property.

State the current use, and comment on whether that use complies with planning requirements or is a non-conforming use. In the latter case indicate whether there are any rights or risks to a continuation of the current use.

3.4 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 values 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. Some Resource Consents relating to use of a resource or land within New Zealand and some water rights within Australia are considered under common law as a personal asset and may not be directly linked to a parcel of land.

3.5 Planning or Legal Constraints

Planning (Resource Management in NZ) or legal constraints may impact on the valuation of agricultural land.

These may include (but not be limited to):

- a) prohibitions on subdivision.
- b) prohibitions on construction of dwellings.
- c) coastal and landscape protection policies.
- d) forest or conservation reserves.
- e) Emissions.
- f) water use and the presence of Site Use approvals.
- g) effluent disposal and leeching.
- h) possible need for planning approval of change in agricultural usage in some jurisdictions.
- i) Restrictions on clearing native vegetation.
- j) Restrictions on earthworks on a floodplain, or environmentally sensitive land, such as waterways.

3.6 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:

- a) grazing land which has a higher value for forestry/manuka honey.
- b) forestry land which has a higher and better use for dairy.
- c) dry grazing land which has access to water rights for irrigation purposes for cropping land.
- d) conversion of grazing land to intensive agriculture (e.g. orchards).
- e) development for lifestyle/residential or commercial uses.

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.

Within New Zealand the changing environmental and water policies being implemented may alter the current or future land use and, in some situations, prevent the existing land use, even if it is the current the highest and best use, from being undertaken. Valuation reports should raise these issues and the likely impact policy changes will have on the use of the land, its productivity and value.

3.7 Accessibility and Locational Attributes

Accessibility to services including community facilities (e.g. schools, shops, medical services etc.) and transport infrastructure (e.g. 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.

3.8 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.

3.9 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 limited to):

- a) Latitude.
- b) Altitude.
- c) Aspect.
- d) access to natural or man-made water resources.
- e) susceptibility to flooding.
- f) Landslip.
- g) coastal or inland location.

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.

3.10 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, because 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 where observed at inspection or

advised otherwise, and make specific comment on any farming management practices which the farmer may have taken to minimise the risks of such issues.

3.11 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 considered when determining the potential highest and best use of the land.

The classification of 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.

3.12 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:

- a) sheep or cattle dips.
- b) sources of effluent disposal (especially intensive livestock operations).
- c) chemicals used in fertilisers or sprays.
- d) fuel storage tanks.
- e) waste dump sites.
- f) crop or livestock diseases (originating from the land).

Australian members should consult the API's Potentially Contaminating Activities, Industries and Land Uses (API Valuation and Property Standards ARPGN1) New Zealand members should consult Hazardous Activities or Industries Lists (HAIL) registers held by councils and 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.

3.13 Weeds and Pests

Pests and weeds may impact on the productivity and hence value of agricultural land. Examples include rabbits, foxes, blackberries, gorse or other introduced flora or fauna, which can have a devastating impact. Native fauna (e.g. 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. The Valuer should assume "fair to average" management and make the reader aware of the possible affects if this is not undertaken. In a mortgage security valuation, it would be prudent to identify excessive weed or pest infestations in the risk assessment of the report and provide recommendations for the financier to action.

In the event of notifiable weeds, the Valuer should confirm that local land management authorities have been advised.

When entering onto a property for inspection purposes members must have due consideration for the spread of weeds or disease and clean or treat footwear, clothing or vehicles that will potentially aid the spread.

3.14 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. The Valuer should also be mindful of any crops (either annual or perennial) which may be grown under license which can often restrict access to markets.

3.15 Water Resources

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

The water resource or right to use the water held by a farming enterprise is now considered personal property and, in many cases, can be sold separately from the land. This should be considered in the valuation. Water 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 viable for dry land production. Terminology differs from jurisdiction to jurisdiction, but water assets can include Water Use Licences, Water Access Rights (or Delivery Shares), Resource Consent to take, use and store water, Shares within Co-operatives or water companies, Entitlement, extraction rights from aquifers and unregulated streams, as well as storage rights. It is important that Valuers understand the difference between the temporary (allocation) market, and the permanent (entitlement) market, along with understanding adequate water volumes and flow rates to support the land use being assessed and whether Resource Consent take and/or volume is adequate to meet peak water requirement of the land use. Consideration should also be given to the ongoing fees or exit fees which may be a liability attached to the property.

Licenses and/or Resource Consents (Site Use Approval) are usually required to extract 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. megalitres per annum)) from either public or privately owned water reserves. Consideration should also be given to the term of the Resource Consent and the likelihood that at time of renewal, will the Resource Consent be renewed at the same volumes or terms and conditions. Comment on the implication of this to the use of the land and the ongoing sustainability from a productive perspective is required.

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, as well as the trading rules for the class of water asset they are considering.

Valuers should consider whether the subject property has legal access to sufficient water to sustain current operations on a year in year out basis. If not (especially if water is

sourced from a neighbouring property with no formal arrangement), then this issue should be clearly addressed within the critical assumptions.

Where appropriate, a water budget could be included to demonstrate that consideration has been made as to the water volume available versus the water requirements for the current/proposed operation.

3.16 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.

3.17 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:

- a) comparison of long-term averages to recent productivity may indicate a decline or improvement in soil quality or farm management practices.
- b) long term averages may be useful as a form of direct comparison with sales evidence on a productivity basis (e.g. DSE/SU).
- c) the life cycle of trees and yields from orchards or other intensive agricultural operations.
- d) the sustainability of the current use of the property and potential to be used for alternative uses.

3.18 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).

The Valuer should have regard to the trading history of the property for a minimum number of years sufficient to determine a stabilised net profit or EBITDA for valuation purposes. This would typically be three to five years.

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.

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.

3.19 Inclusions

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

- a) Biological assets (including crops, timber, stock)
- b) Integral plant and equipment (e.g. irrigation pipes, sprayers or pivot irrigators, dairy plant etc.)
- c) Non integral plant and equipment (e.g. tractors or other farm equipment, portable fencing or stockyards etc.)
- d) 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 an “in use” or “walk in, walk out”/going concern basis, in which case appropriate adjustments for the respective inclusions with comparable sales evidence may be required.

To prevent confusion as to the extent of inclusions, when providing valuations on an “in use” or “walk in walk out”/going concern basis members should separately itemise valuations into the following categories:

- a) Land
- b) Improvements (including integral plant and equipment and other rights)
- c) Biological assets (including crops, timber, stock)
- d) 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.

3.20 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 characteristics.

Examples include:

- a) different climatic conditions (e.g. susceptibility to frosts).
- b) different topographical features (e.g. northerly aspects in higher latitudes, rainfall shadows etc.).
- c) different water or irrigation rights.
- d) different plant and equipment, or stock.
- e) 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.

In discussing relevant sales and rental evidence, the report should:

- a) Provide detailed analysis and commentary of sales (and rental where appropriate) evidence utilised to support the valuation. Analysis of sales transactions should be consistent with the methodology adopted for the valuation and broken down into appropriate units of comparison. All relevant details of the analysis should be disclosed.
- b) If the property has been marketed for sale, comment on that marketing and its impact on value and saleability; where possible including commentary on the length of selling period and if the property was professionally marketed. Any under-bidder activity should also be noted and relativity to value / purchase price should be examined.
- c) If the property is being purchased, sight a copy of the Contract of Sale and comment on the acceptability of the contract price to ascertain if it conforms to market value as laid out in the [Spencer v Commonwealth \[1907\] HCA 82; \(1907\) 5 CLR 418 \(29 October 1907 case\)](#). Where a contract price differs from market value, the reason why the price either exceeds or falls below market value must be explained within the valuation report.

3.21 Market Commentary

- a) Comment on the source (including if overseas) and strength of market demand in the locality, competition, and the general trends, which are apparent at the time. Also comment on the likely ease or difficulty of sale.
- b) Provide a brief overview of market conditions for the property being considered.
- c) For mortgage security valuations, unless specifically requested by the reliant party, a recommendation should not be made as to the suitability of the asset as security as this is a commercial decision of the lender, which may involve other factors (refer to ANZVGP 112.) It is however appropriate to comment on asset-specific and market factors impacting adversely on the asset. This may include those factors which (assessed on information that is common knowledge, readily ascertainable in the market and/or reasonably foreseeable) may have an adverse impact on the property's value and marketability.

3.22 Marketability

- a) The Valuer should provide an estimate of the likely selling period required to achieve the adopted value. If that estimate is longer than 6 months, then the Valuer should provide appropriate commentary within Financier Recommendations or similar and consider contacting the instructing party for revised instructions.
- b) Provide an opinion as to likely purchaser profile.
- c) Comment on the specific market forces that impact the value of the subject property.

3.23 Valuation Rationale

- a) Indicate the basis upon which the Valuation has been assessed. Selection of the method of Valuation is the responsibility of the Valuer and should be determined after consideration of International Valuation Standards. Ideally, a primary and secondary approach will be included in all reports, however, is not always possible.
- b) Fully disclose all valuation calculations resulting in the assessed value. Where this value includes integral P&E, water licence/entitlements, business goodwill, etc., the value of these items are to be separately identified.
- c) The adopted rates for each component of the subject should be clearly justified with reference to the sales evidence. Further, commentary regarding the relevance of each sale in comparison to the subject should be included.
- d) Some rural properties will benefit from income streams generated via non-core business activities which may be listed on title in the form of a lease or encumbrance (e.g. Wind Farm, Carbon Project, Gas Wells, and Telecommunication Towers). Details of such leases should be referenced, and commentary provided as to what likely impact these would have on the marketability of the subject. Clear rationale and evidence should also be provided to demonstrate any positive/negative impact these encumbrances have on the value of the subject property.
- e) In some instances, instructions may require valuation of numerous properties as part of an aggregation. Members should ensure that instructions clearly state the basis on which these properties are to be assessed, and to ensure this is clear within their report. More particularly, the report should state whether values have been assessed for the individual properties on a 'stand-alone' basis, or as a proportion of the aggregation value. Reports should also include an 'in one line' value for the whole aggregation where applicable.
- f) Explain and justify all assumptions.

3.24 Insurance Replacement Cost

- a) In Australia from time to time the Valuer may be requested to provide an insurance assessment as part of other advice. This is particularly common in mortgage valuation instructions.
- b) In providing this advice, Members should clearly highlight that the advice is an estimate only and take care to differentiate their estimate from a full insurance valuation, which is a specialised area of valuation practice requiring in depth experience and knowledge of insurance. The Australia and New Zealand Valuation and Property Standards and Insurance TIP contain more detail on full insurance valuations.
- c) Any insurance estimate provided as part of a mortgage or other valuation should be appropriately qualified to highlight how the estimate differs from a full insurance valuation, the limitations of the Valuer's skills and experience, the source of information relied on, methodology adopted and those factors included or excluded from the estimate along with any recommendations for the reliant party on how the potential for variability in the estimate could be reduced (i.e. get a Quantity Surveyor or cost estimator).

- d) In New Zealand if requested to provide such advice, Members should follow in full ANZVTIP 4 Valuations for Insurance Purposes. A member should not provide conditional or estimated insurance assessments as described above.

4.0 Goods and Services Tax (GST)

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

New Zealand members should refer to NZVGP 501.

5.0 Guidance

The Valuer must understand the unique nature of agricultural productive factors, commodity markets, production practices, and cycles in the market region.

In the valuation of agricultural properties, the physical and environmental aspects of the property assume special importance. These include features such as climate, soil types and their productive capability, the availability or absence of water for irrigation, and the feeding/carrying capacity for livestock. External factors to be considered include the availability and adequacy of support facilities required for storage, processing, and transportation. The relative importance of these factors will vary depending upon the type of agriculture for which the property is suited or used. The Valuer needs to consider both internal and external factors in deciding of which class of agricultural use the property is best suited for.

In keeping with the definition of Market Value, a highest and best use analysis of the property should always be conducted in order 1) to warrant that an agricultural use is to be continued, especially when it appears that another land use (e.g., subdivision development occasioned by encroaching urban/suburban expansion) might be more appropriate; and 2) to determine whether the specific agricultural use is to be continued.

Where the Valuer is specifically instructed to ignore uses other than the current agricultural use, the resulting valuation will not necessarily indicate the Market Value of the property, and this should be addressed as a departure from the standards.

5.1 Occupational Health & Safety

When planning to undertake valuations in accordance with this TIP, the Valuer should identify and consider key personal risks associated with driving, flying and remote or isolated work; along with other 'on-farm' risks such as hazardous substances, injury from farm machinery and infectious diseases (e.g. Q Fever). If any of the above render completion of the assessment impractical or unsafe, do not proceed and seek instruction from the client. New Zealand members should comply with the Health and Safety at Work Act 2015 and where required prepare a site-specific health and safety plan before entering onto a property for inspection purposes.

6.0 Effective Date

This GP is effective from 1 July 2021 Earlier adoption is permitted.

ANZVGP 109, replaces ANZVTIP 9 which operated from 27 April 2017 (Australia) and 31 December 2017 in New Zealand and is withdrawn from 30 June 2021