

Land valuation as a tool for resource management

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Introduction

Many people often use land valuation and each has a different meaning. The Concise Oxford Dictionary defines valuation as: ‘An estimation of a thing’s worth’. However the broad encompassing definition of valuation is: ‘The art, or science of estimating the value for a specific purpose of a particular interest in property at a particular moment in time, taking into account all the features of the property and also considering all the underlying economic factors of the market, including the range of alternative investments’. The legal definition of land can be confusing since it generally defines not only land but also the rights that exist over the land. Defined simply, ‘land includes everything on, above and below the surface of the earth over which ownership rights can be exercised.

Valuers deal with ‘market value’, defined by the International Valuation Standard Committee as: ‘An estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.’ The concept of market value was traditionally based on the principle of transaction between a willing buyer and willing seller. Contemporary valuation practice has also exposed valuers to the concepts of replacement value (insurance value), and value to the owner (special value). In asset valuation, valuers are instructed to report on the deprival value and value in use or existing value.

This paper reflects on the author’s experience as a land valuer in Samoa over the last seven years. The main aim is to describe the current status of the local land valuation sector, identify the national land value trends and land values of properties within the Apia urban areas and explore possible implications for the future of land assets in Samoa.

Mandate

While there is no specific legislation for land valuation practice in Samoa, it is reflected under some provisions of the following legislation:

1. Department of Lands Surveys and Environment (DLSE) Act 1989 - Parts VI and VII relate to the valuation of Government lands for leases, where the Land Board determines the annual land rent based on the open market value or capital value of the land and improvements.
2. Taking of Land Act 1964 – This Act deals with the compensation of private land taken by the Government for public purposes, the level of compensation is based on the market value of the land concerned as determined by the Government Valuer
3. Stamp Duty Ordinance 1932 - Section 23 refers to special valuation of lands and improvements for stamp duty purpose.
4. Public Trust Office Act 1975 - This Act relates the valuation of estate lands: dividing of estate shares and transferring of land titles. The valuer is also a member of the Public Trust Investment Board.

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Overview of land valuation in Samoa

Land is one of the three essential factors of any economic activity - capital, labour and land. It is often used as a store of value in corporate or personal balance sheets, security for lending, probably as the largest single form of security and source of income for long-term investors. Samoa recognised land valuation practices in early 1971 through a mission valuation study by J. Bruce Brown, a former Valuer General of the New Zealand Government. He was hired by the Samoan Government to address the needs of valuation practice. The aims of his study were: i) to establish an effective nation wide valuation system, and ii) to introduce a land taxation system. Before this study, however, some expatriate staff of the then Lands and Surveys Department already practised land valuation.

The land tenure system in Samoa is categorised as: customary land 81% (565,000 acres); freehold land 4% (27,300 acres) and government land 15% (107,200 acres). The land tenure system affects land values because of different land rights that exist and are being exercised onto lands. Two main questions often arise regarding the land tenure system:

Is it fair to adopt the valuation basis used on freehold land for customary land? From the valuer's perspective, yes it can because of the following reasons: a) Sales transactions of freehold land are the core basis of valuation. This is the data that valuers relied on to determine the market value of land. Without this data the valuer might operate under a severe handicap, with the availability of such data, the valuer can easily interpret the facts and utilise his training and local knowledge to value a subject site. The sound judgment of the valuer must exercise to fix the final market value; b) Land is a gift from God, nobody owns a land but we own rights over land and therefore, we do value those rights and c) Adjustments can be made to market value if the land is customary ownership, freehold and public lands.

What is the true value of my land? This question needs thorough thinking and people expecting the point of view from valuers and some explanation about true value. True value in accounting refers to historical cost or historical value while true value in valuation practices refers to market value. Some constructive reasons to justify the true value in valuation as compared to historical cost in accounting practice are as follows:

- Land supply trend is inelastic (as demand moves up then prices increases and land supply still remains static);
- Land is an indestructible asset (land is fixed and immovable);
- Nobody creates a value on the land because land existed before man was created. For example, the inventor of the computer already had in mind the value of his computer because he was the inventor of the machine. In contrast, the true value of land is too complicated since that land had existed before man. Overriding that, market value is based on the interpretation of the property market.

For statutory valuations, customary land can be valued to meet requirements of the law. If the Government acquires customary land for public purposes then compensation will be determined based on the open market value of the land. However, customary land cannot be valued because by law it cannot be sold, mortgaged, taken to pay debts or taken for any other forms of financial security. Interests affecting customary lands are directly associated with Samoan customs and usage. According to the Chief Valuer of Samoa in 1981: 'By guess and by God's arrangement, there being no valuing authority, no rating, no land tax, therefore it is difficult to have any idea of the true value.... Land in rural areas, the bulk of it customary land, cannot be valued'.

The valuation of customary land has certain problems. It can be valued as freehold land plus improvements there on, provided that the accuracy of boundaries can be fixed and there is some proof of ownership. Again the actual basis of valuation can also be a problem but an agreed basis for lease would be of some assistance as well as the availability of freehold sales evidence in the same locality.

Land valuation – the present situation

Today, land valuation practice in Samoa is still impaired as a consequence of the lack of valuation legislation: lack of a national valuation code of practice and the lack of code of ethics for valuers. In addition, land valuation will produce absurd and unscrupulous results because of the absence of a valuation management system. This situation is unacceptable to valuers and their clients.

Land valuation in Samoa is indeed very demanding due to requirements of lending institutions, Government and its agencies and the general public. Demand for valuation services tends to be driven by lending institutions. The main situation in which the Government requires valuation services is for leasing and exchange of lands. Land valuation is required for the following purposes: finance security; stamp duty, death duty, gifts, transfer of real estate, normal sale and purchase agreements, insurance, exchange of lands; and leasing of land. For the Government, valuation is required for the purposes of assessing: compensation for the compulsory taking of land, rents for utilisation of government land; infrastructure assets valuation and plant and machinery valuation.

The role of DLSE in land valuation services

To carry out and provide property valuation services to the Government, private sector and the general public. The DLSE priorities are:

1. Provide technical valuation advice on land and other related land issues to the Government.
2. Compile valuation database and provide valuation reports.
3. Computerise valuation database for information purposes which can be purchased at \$10.00 for A4 sheet.
4. Formulate valuation policy for the licensing of land valuers. This policy reflects the outcomes of the DLSE Corporate Plan 2000–2002 and relates to the reforms that the department is currently undertaking. Its objectives are: i) Control the quality of valuation services; ii) Monitor the management process of valuation systems; iii) Encourage ethical conduct among valuers and maintain the integrity and status of valuers and the valuation profession amongst members of the public; iv) Promote training and technology transfer and v) Develop legislation dealing with land valuation matters. This policy is already approved by Cabinet.
5. Develop valuation legislation. This has already being drafted aiming to regulate land valuation systems and monitor the performance of valuers involving in land valuation tasks.

The importance of land valuation

Land valuation should be recognised in any development project so that people can realise its full potential. In a small country with a small economy it is important to place a fair return on investment to reflect the market value for using land. Land valuation is crucial to development based on the following reasons:

- The valuation of land, that is market value, is used as an agreed basis of sales negotiation between the willing buyer and willing seller. The Land Board is responsible for sales

negotiations between the Government and private landowners. The Land Board needs to obtain the current land valuation of that particular land as a basis of its negotiations. This will assist the Land Board to avoid guesswork in relation to land values. A good current example is the negotiations with Salelologa village on Savaii Island on village land taken for a new town.

- Land valuation is used to determine the rent for leasehold land. DLSE is the administrator of all Government land. Two recent assignments were conducted by a local consultant to look into the utilisation of Government land involving; land management, land leases, stocktaking of all Government land, and reviewing the requirements for the release of Government land to villages. At present, land valuation has been conducted on every Government land used by government agencies. The market values of these lands are used to determine the land rents through adopting a percentage the current market value of the land. For example, the Development Bank pays \$24,000 rent per year, 2% of \$1.2 million, the current market value of the ¼ acre they lease from the Land Board. Land rents are also determined based upon the category of services; cost recovery services, social services and others.
- Market value is considered as a core basis of mortgage entitlement. The valuation for mortgage/loan is very high at the moment and this reflects the increase in investment on land. Lenders require the valuation of land to process finance security. Market value of land is used to determine the amount of the loan entitlement.
- Land valuation is used to build up organisational assurance in relation to the quantity and quality of their assets including land. Land valuation can easily identify the quantity and market values of assets owned by an organisation. For instance, the Land Board's recent land inventory project provided a big picture of the quantity of Government lands and also the market values of those lands. This sort of valuation process would take 1 - 3 years to facilitate.
- For statutory land valuation, the market value indicated by in the land valuation is adopted by the Court to set up a basis for compensation for land. Statutory land valuation must meet the legal requirements of the Taking of Lands Act 1964. There are many cases involving the acquisition of customary land or freehold land by Government for public purpose. The role of the valuer is to determine the market value of the land and consider the directives of the Court as specified in section 37(2).
- Market value will reflect the highest and best use of lands. Based on the author's experience, the majority of land - Government, freehold and customary - is not being properly utilised. For example, some Government land at Avele, just inland from Apia, is leased to the MedCen Hospital. This represents an appropriate use of the land compared to the current use by the Ministry of Agriculture as a cattle farm paying no rent. The market value of the land is on the increase at \$2.6 million because of the effective and efficient use of the land. Medcen Hospital pays an annual rent of \$1,000 per month, which is \$12,000 per annum. Market value is also a core basis for assessing the tax on land. The land valuation determines the amount of tax involved in the transfer of land. Physically, land cannot be transferred but the rights exercised on the land can be transferred. Legally the landowner needs to pay land tax to Government for land transfer. The market value of land is used as a basis of such tax.
- Land value trends can influence future investment planning. Developers need technical advice on the direction of land values so that they can be used to set up the basis of land rent negotiation with landowners.

Changes in land values around the Apia urban area

Land values in the Apia vicinity are certainly inflated because of the following reasons:

1. Demand of the seller in respect to the selling price of land - Today, there is no legislation or any statutory power of the Government to influence the decision of the seller at what price to sell the land. A willing buyer and willing seller will negotiate an agreed price for their sales agreement.
2. De-regulation of financial institutions - Banks and other lenders are competing to promote property investment.
3. Price war on lands - Land values at Apia's Beach Road have significantly increased. Real estate agents are competing to attract potential buyers to buy land with their commission fees ranging from 5% to 8% on top of the land price. However, the main influence on land price is the decision of the landowner. The effects of real estate commission will also affect the behaviour of the buyer and seller in respect to land value.
4. Land can be over-valued or under-valued - In the Fugalei area, close to the Apia urban area, one valuer valued a 1acre block of land at the market value of \$1 million. Another valued the same block of land at \$500,000 for the same period. With a difference of \$½ million, the question is - why are these market values so different? It is true that one principle of valuation practice refers to the 'same locality but different market values' because property features are heterogeneous. However, such significant differences should not be reached. Contemporary rule of market value differences should fall in the range of \$1000-\$5000. The danger of the above assessments is that it can provide misleading public information and affect the property market. In addition it also influences the behaviour of buyers and sellers.

The information used for the analysis below was obtained from the DLSE valuation database. These include land areas, prices, localities and price per unit area. As shown in Chart 1, there has been a sharp increase in land investment, particularly from March 1999 to March 2000. This is mainly due to people paying whatever is asked for the limited available freehold land. It is also due to changes in property features as well as greater infrastructure development in the areas concerned.

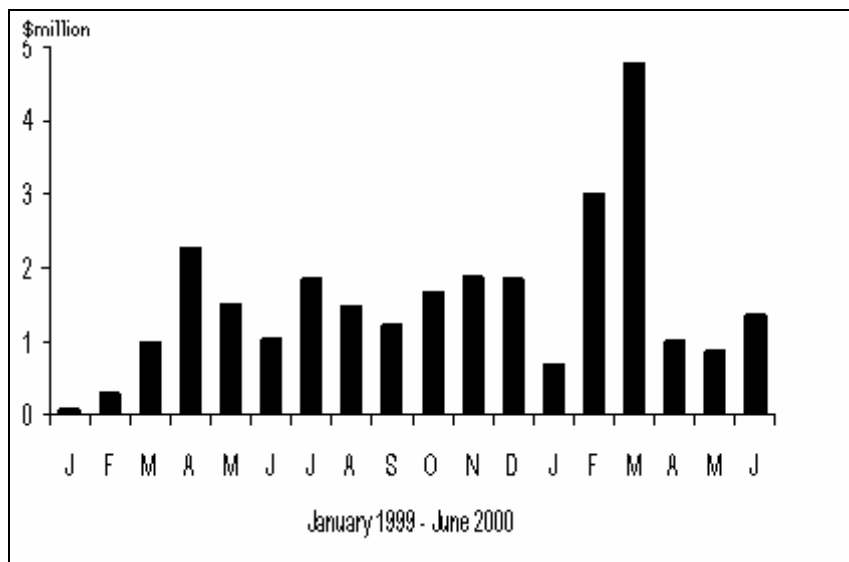


Chart 1: Total land investment. Source: DLSE valuation database

The correlation between land investment return and inflation rates is shown in Chart 2. Investment return is worked out from standard formula of present value, interest on borrowed funds and actual land prices. The general trend, as expected, is that of higher return at lower

inflation. Property investment is a good hedge against inflation and is very popular compared to other types of investment.

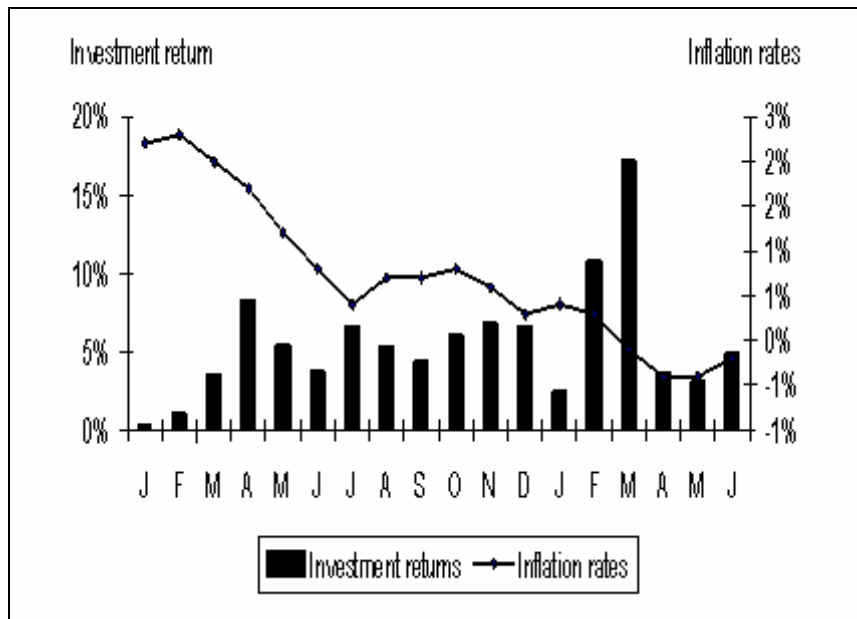


Chart 2: Correlation between investment return and monthly inflation rates, January 1999-June 2000. Source: DLSE valuation database & Statistics Department

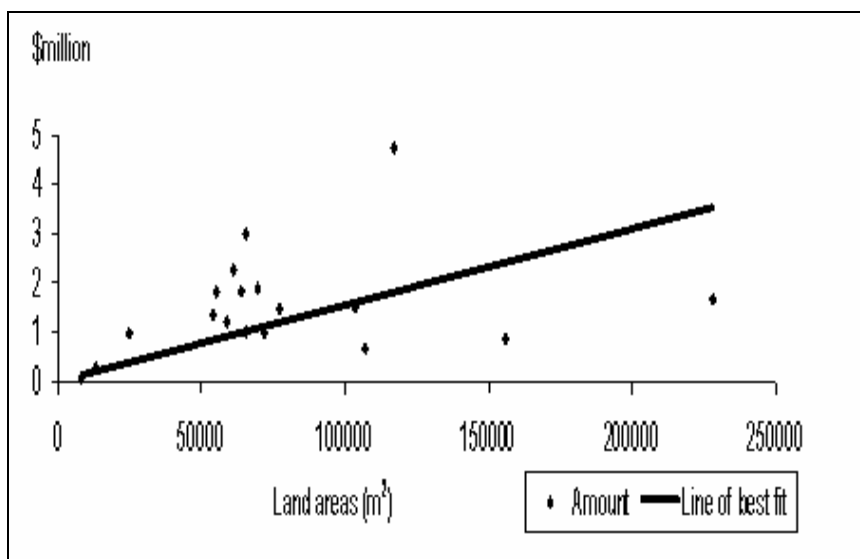


Chart 3: Correlation between land prices and land areas, January 1999-June 2000. Source: DLSE valuation database

The correlation between land prices and areas is shown in Chart 3. The area where the points are close together indicates a negative correlation of prices and areas. This means that the majority of lands are sold at fair and reasonable prices. The line of best fit indicates the equilibrium point, represented by the formula $y = 15.543x$. This is a computerised regression valuation approach used to analyse the property market and the direction of land investment. In Samoa, the property market is described as an 'uneducated market' with inconsistent land prices due to the lack of control over land values. In this case, the R-Square value is negative

(-0.2633), indicating that there is no correlation between land values and land areas. For correlation, the R-Square rule should be greater or equal to positive one (+1).

Chart 4 shows the comparison between actual and forecast f land market rates during January 1999 to June 2000. The forecast rates can be used as a basis for determining the market value of land. The future direction of market rates will move upwards after March 2000 because the actual market rate trend has already increased. Land market rates provide the actual scale for determining the market values of land prior to adjustments to the final market values. Adjustment of market value is based on ten elements of property. The forecasting trend is aligned with the actual trend. In practice, the valuer works out the forecasting rate to determine the future property market value. The actual rate trend is used to determine the present market value of land.

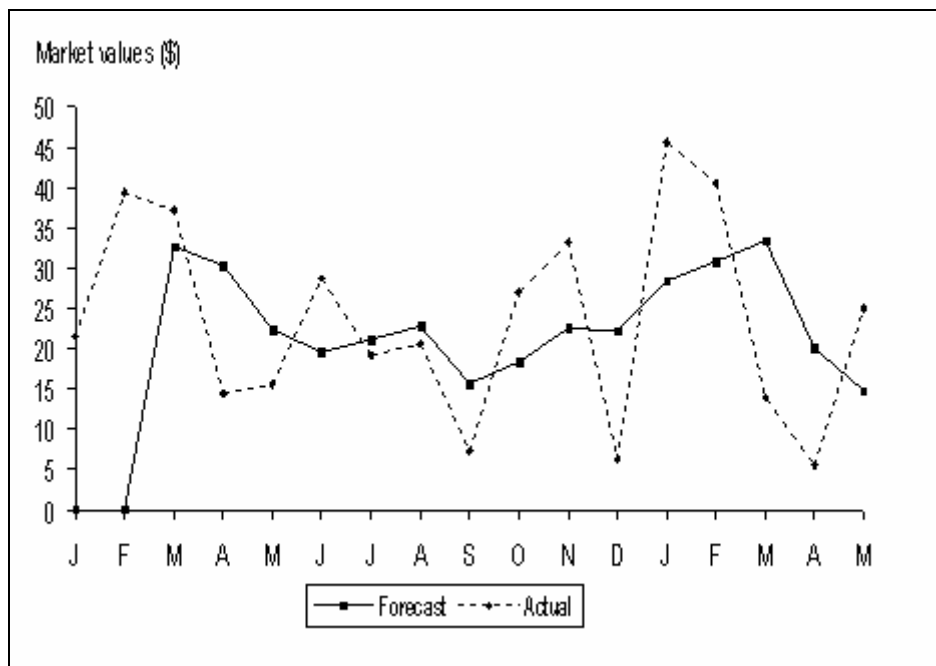


Chart 4: Comparison between actual and forecast land market values, January 1999-May 2000. Source: DLSE valuation database

Is it good or bad to increase and/or decrease land values?

Land value is an indicator of economic development. The effects of over-valuation or under-valuation of a piece of land are truly influenced by the behaviour of the willing seller and willing buyer but of course, it also affects the performance of the property market in all specific locations. Some suggestions are likely to arise in respect to increase and/or decrease of land values:

- Increase of land values will provide adequate securitisation of lands - Land at Aleisa area, situated approximately 5 kilometres south west of the Apia, in the last 3 years was not so developed in terms of residential and agricultural development. Today, people living in Apia have rapidly purchased their lands at Aleisa and initiated development. Land value at Aleisa per acre 3 years ago was in the range of \$18,000 to \$25,000. At present, the land value per acre is in the range of \$47,000 - \$56,000 tala. This fast increase has occurred due to the effects of development such as the new public sports complex at Tuanaimato, an increase of residential development and few commercial activities at Aleisa.
- Increase in the land value of one property will affect the values of all properties within a specific location – At the Fugalei area the market value of ¼ acre land has significantly

increased. The average rate per perch is in the range of \$2,000-\$3,700. The valuer needs to take proper control of his/her valuation with the right application of valuation methods to ensure that the final market value is correct. The valuer should also take into account the purpose of the valuation.

- Business can have the chance to dominate the property market. Blue chip companies can afford to purchase properties within the Apia urban area because their capital and assets are adequate to buy new properties. Take for example the Beach Road and Vaea Street where a number of supermarkets have been established. Today in the residential market, a property with a selling of more than \$100,000 will certainly take time to find a buyer.
- Increased or decreased land values affect the land rents of leases. Since market value is the core basis for assessing land rents then consistent land values are required to determine a fair and reasonable land rent. Resort development involves the use of customary lands. Landowners should agree with the developer on the amount of land rent payable by the developer to the landowner annually. For instance, one resort on Upolu Island has leased 20 acres of customary land for 20 years for an annual rent of \$2000. However many landowners do not understand the real importance of their lands and the land rent they obtain is often not sufficient to reflect the market value of using their lands. Problems often arise when rent is set without a proper land valuation.

Implications for the future

This paper has sought not only to point out the challenges, but also to identify answers to solve problems related to the valuation of Samoa's land resources. The main factors affecting future land valuation include:

Legislation dealing with land valuation should be established. Modern land valuation practices in Samoa need to be seriously addressed because it may possibly create serious problems in the market including negotiations on sale or exchange of lands, financial security and other land issues. The need for land valuation legislation should be prioritised. Land valuation standards and guidelines as well as rules of valuation also need to be established.

Develop town-planning control including zoning to control land values. Zoning can be developed in the categories of residential, commercial and industrial. Sub-categories can also be developed. A good management system needs to be put in place to control and monitor land values. For example, land values within a residential sub-category cannot be sold at the price in another residential sub-category. Zoning is crucial to address the differences in land values.

Private sector companies providing land valuation and real estate services should work closely in partnership so land values within these categories are properly controlled. For example, private valuers can obtain valuation data from the DLSE for their assessment and valuation purposes. This relationship needs to be developed through transferring of technology, promoting training and networking.

The most appropriate utilisation of land use should be seriously addressed. There is a need for good land management practice. Optimum utilisation of lands should be prioritised because it reflects the market value of the land. It is a foolish decision for someone to buy land within the commercial section of Apia but end up using the land for residential or other uses other than commercial. Careful planning in land use needs to be undertaken before releasing funds for land development.

Every development project manager needs to seek advice on land valuation. To achieve sustainable management of land resources, a fair return on capital investment should be considered because of the fact that nobody will invest money without expecting a fair return from such investment. Land valuation can develop certain criteria and requirements for development projects so the developer can guarantee the market value of the development for future investment opportunities. At present, people of Samoa should recognise the market value of their lands so that they can realise its full potential.

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