

## ANZVTIP 5

# MARKET VALUE OF AGRICULTURAL PROPERTIES

(EXPOSURE DRAFT – Feedback required no later than 26 February 2016)

*“Warning. Exposure Drafts do not have any formal standing until such time as they are adopted by the National Councils of the API / PINZ as being suitable for use by Members. They must not be relied upon, reproduced or used by any Member or any other party for any reason whatsoever. Reliance should be given to currently adopted/ approved/ sanctioned Practice Standards, Guidance Notes and Technical Information Papers only. Members and the general public are warned that Draft Practice Standards, Guidance Notes and Technical Information Papers may be at various stages of the rigorous development and review process discussed within this TIP and that they may change or be amended during this development process. Therefore only current PS, GN and TIPs contained within the Australia and New Zealand Valuation and Property Standards manual should be used”.*



## Technical Information Papers

The principal objective of a Technical Information Paper (TIP) is to reduce diversity of practice by identifying commonly accepted processes and procedures and discussing their use. A TIP is designed to be of assistance to property professionals and informed users alike.

A TIP will do one or more of the following:

- provide information on the characteristics of different types of asset that are relevant to the advice,
- provide information on appropriate practices and their application,
- provide information that is helpful to property professionals in exercising the judgements they are required to make in specific situations.

A TIP does not:

- provide training or instruction,
- direct that a particular approach or method should or should not be used in any specific situation.

The contents of a TIP are not intended to be mandatory. Responsibility for choosing the most appropriate approach is the responsibility of the property professional based on the facts of each task.

Whilst TIPs are not mandatory, it is likely they will serve as a comparative measure of the level of performance of a Member. They are an integral part of “Professional Practice”.

The reader should understand that legislation may change and whilst this TIP is accurate and relevant at the time it was completed, relevant referred reading and legislation should be investigated at the time of relying on this TIP.

## Contents

<i>1.0 Introduction</i>	<i>3</i>
<i>2.0 Definitions</i>	<i>4</i>
<i>3.0 Valuation Considerations</i>	<i>6</i>
<i>4.0 Goods and Services Tax (GST)</i>	<i>12</i>
<i>5.0 Guidance</i>	<i>13</i>
<i>6.0 Effective Date</i>	<i>13</i>

## **Market Value of Agricultural Properties**

### **1.0 Introduction**

#### **1.1 Purpose**

The purpose of this TIP 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 TIP 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 TIP 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 TIP is intended to be consistent with Standards and Guidance Notes published by the International Valuation Standards Committee, except where otherwise stated.

Members are also directed to read ANZVGN 1 – Valuation Procedures – Real Property. In addition to the above, this TIP specifies any departures from IVS Standards or other particular circumstances which reflect Australian and New Zealand law and practice.

## 2.0 Definitions

The agricultural uses of properties may be classified in several broad groups, definitions of which follow.

### 2.1 Crop(ping) Farms.

Agricultural properties used for growing commodities that are typically planted and harvested within a twelve-month cycle. Properties used for annual crop production may grow more than one type of annual crop over the same period and may or may not make use of irrigation to produce the crops. Some commodities are annual crops that may be left in the ground beyond a twelve-month cycle, per contract provisions or in circumstances where market conditions are unfavourable. These crops will last for more than one year after harvest but are considered less than permanent. Also see irrigated land, perennial plantings.

### 2.2 Dairy Farms

Agricultural properties used for the production of milk (typically cows, but including sheep, goats & camels). These properties usually have extensive structural improvements (barns, milking parlours, silos) and equipment (feed bins, milking machines). Feed may be produced on the property, imported, or supplied by both sources.

### 2.3 Forestry/Timberland

Agricultural property used for the growing of non-orchard trees that are periodically harvested over extended growing periods (10 to 20 or more years). Considered to be agricultural properties because they produce a *crop*, i.e., wood, even though that crop requires a long-term growing period. Also see perennial plantings.

### 2.4 Irrigated Land

Lands used to produce crops or forage for livestock and which require the application of water other than that from natural rainfall, are called *irrigated crop(ping) farms* or *irrigated grazing land*. Properties that lack a water source other than natural rainfall are referred to as *dry land agricultural properties*.

### 2.5 Livestock/Pastoral Stations

Agricultural properties used to raise and feed animals such as cattle, sheep, pigs, goats, horses, or combinations thereof. The actual use of these properties can take many forms. The animals may be bred, raised, and sold within the operation of the property. Young animals may be acquired from outside the property and then raised within the property. The animals may be raised for consumptive use or for breeding stock. Feed for the animals may be produced on the property, imported, or supplied by both sources. Properties used for the production and feeding of livestock have significant capital investment in the structural improvements (pens, livestock shelters, sheds, division fencing) and the livestock, which may or may not be depreciable depending on the laws and regulations of the local jurisdiction.

## 2.6 Perennial Plantings

Crops grown from plantings that have a life extending beyond one year or one crop cycle. Examples are vineyards and orchards. These types of properties can have significant capital investment in the plantings, which represent a depreciable asset. Also see *forestry/timberland*.

## 2.7 Specialised Livestock Facilities

See dairy farms/livestock.

## 2.8 Specialised, or Special Purpose Properties

Agricultural properties that do not typically produce a crop but are used for the handling, processing, or storage of crops following harvest. These properties frequently have a small land base that is extensively developed with structural improvements (grain elevators) and equipment (lifting machinery). Properties may also be classified as *special purpose* by the nature of the commodity produced. Examples may be poultry egg and/or broiler farms, farms that produce certified crop seeds or fresh cut flowers, and racehorse breeding or training stables.

## Other definitions

### 2.9 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)

### 2.10 Biological Asset.

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

### 2.11 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.

### 2.12 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;
- Standard Cattle Units – a measure of carrying capacity often referred to for feedlots

### 3.0 Valuation Considerations

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

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

#### 3.1 Executive Summary

The intention of an Executive Summary is to provide a brief outline of the reports important information and key points. The Executive Summary should always include the comment “This Executive Summary should always be read in conjunction with the whole report”

#### 3.2 SWOT Analysis

The overall strengths, weaknesses, opportunities and threats related to the subject property should be concisely summarised.

Risk assessment in respect of Investment Profile, Physical Asset, Cashflow Profile and Management is to be provided.

#### 3.3 Introduction

- Addressed to the Instructor
- Instructing party name
- Purpose of report, i.e. for first mortgage security purposes
- Definition of market value
- Date of inspection/valuation
- Type of agricultural enterprise

#### 3.4 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) may or may not have over a parcel of land, or the Treaty of Waitangi (NZ) 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. 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.

### **3.5 Town Planning**

Quote the current zoning based on the valuer's perusal of town planning maps, and the name of the Responsible Authority and/or Planning Instrument.

Provide details of any known Town Planning Permit(s)/Development Approval(s) 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.

### **3.6 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 water rights within Australia are considered under common law as a personal asset and may not be directly linked to a parcel of land.

### **3.7 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 and the presence of Site Use approvals
- effluent disposal and leeching
- possible need for planning approval of change
- in agricultural usage in some jurisdictions.
- Restrictions on clearing native vegetation
- Restrictions on earthworks on a floodplain, or environmentally sensitive land, such as water ways

### 3.8 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.

### 3.9 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.

### 3.10 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.

### 3.11 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.

### 3.12 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.

### 3.13 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.

### 3.14 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 consult the API potentially contaminating Activities 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.

### 3.15 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. The valuer should make the assumption of “fair to average” management and make the reader aware of the possible affects if this is not undertaken.

### **3.16 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 fertilizing 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.

### **3.17 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 e.g. rural industry, communities, and the environment.

The water resource which is held by a farming enterprise is now considered personal property and in many cases is separately sold from the land. A water asset may be disassociated and not attached to any land such as a Holding Licence. 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. Terminology differs from State to State, but water assets can include Water Use Licences, Water Access Rights (or Delivery Shares), 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. Consideration should also be given to the ongoing fees or exit fees which may be a liability attached to the property.

Licenses and/or 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.

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.

### **3.18 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.

### **3.19 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 (e.g. 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.

### **3.20 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.

### **3.21 Inclusions**

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

- Biological assets (including crops, timber, stock)
- Integral plant and equipment e.g. irrigation pipes, sprayers or pivot irrigators, dairy plant etc.
- Non integral plant and equipment e.g. 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.

### **3.22 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 (e.g. susceptibility to frosts);
- different topographical features (e.g. 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.

## **4.0 Goods and Services Tax (GST)**

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

## **5.0 Guidance**

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

5.1.1. 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 making a determination of which class of agricultural use the property is best suited.

5.1.2. 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.

5.1.3. 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 fully disclosed.

## **6.0 Effective Date**

This TIP is effective from \_\_\_\_\_ 2016.