

APPENDICES.

APPENDIX A.

THIS appendix summarizes the evidence given before the Commission with regard to methods of valuation, and contains some observations thereon.

AS TO THE MODE OF ARRIVING AT THE RENTAL.

The Court of Appeal has laid down as the interpretation of the provision for valuation that the rental is to be what a prudent lessee would give under a lease for the term and with the conditions offered, including the right of renewal, and without regarding the buildings erected thereon—that is to say, that it is the rental value of the ground as if it were bare ground that has to be ascertained. The Court negatives the suggestion that the rental must be a given percentage of the capital value.

“A prudent lessee” seems to indicate not so much a person desirous of becoming a lessee for the first time, but one who is already a lessee and is desirous of obtaining the land for a renewed term. The proposed tenant’s estimate of what the rental should be must, of course, be governed by the fact that the landlord cannot be expected to let for less than what a prudent lessee would give.

The ordinary test of the value of an article for the purpose of exchange is its value in the market if there is one. The market value may be said to represent the consensus for the time being of those who deal in the article based upon their current knowledge and experience of dealings in that article. To any one proposing to buy or sell the current market value at once gives him the existing result of that knowledge and experience without his having to reason it out for himself. Hence the saleable market value of a piece of land is gauged by the price which land of the like area, situation, and potentialities has brought, apart from any special factors inducing or affecting the sale or purchase. Similarly the market value for leasing of a piece of land is gauged by what land of the like area, situation, and potentialities is let for at the time on the conditions offered, and apart from special factors inducing or affecting the letting or taking on lease.

Where the material for such a comparison exists the prudent landlord may be expected to pay the current market rent. But material for the comparison may not be available, or may be inadequate; there may not have been equivalent transactions of such a character as to afford a safe comparison: hence the letting-value must be ascertained in some other way. It is here the difficulty arises.

It was apparently thought in Wellington that taking a percentage of 4 or 5 per cent. on the value of the fee-simple was a satisfactory mode of determining the rent until the Court of Appeal negatived that as a decisive test. But the Court have not denied that the *capital* value is a factor to be considered if there is a market to test it. Indeed, valuers in Auckland and Dunedin treat that as a cardinal factor. That, however, still leaves open the question of how the capital value is to be ascertained. The Government valuation is not necessarily to be adopted. That valuation may have been agreed, or, although the owner considers it high, it is allowed to stand because it suits him. Nor is the capital value necessarily the price at which the freehold of the like piece of land in proximity to that to be valued has been bought. Such a test may be fallacious unless all the circumstances of the transaction are taken into account, and these may not be fully known. On investigation it may be found that the buyer has reckoned for recompense on a future rise in value and is willing to pay something extra on that account, or he has desired the particular piece of land because it is specially adapted for his own particular business. In the case of a permanent institution such as a bank or an insurance company it may desire a conspicuous position, or is determined to have a freehold at any cost whether it yields a good rate of interest or not. In Wellington the large area of leasehold, the freehold of which cannot be sold, existing in the central business parts of the city also tends to give an additional freehold value to the limited quantity of saleable freehold in those parts.

In regard to the value of the fee-simple a distinction in terms may be suggested between what is the *capital* value—that is, a value capable of producing a regular return of a fair rate of interest to an investor (which in the case of a business-site would depend on the rental it commanded)—and the *freehold* value of land which, while not yielding a regular return of a fair rate of interest on that value, is desirable on account of the prospective or speculative value which is attached, or on account of some circumstances peculiar to the particular buyer or otherwise adventitious in their nature. If a fair rent on a renewal is to be assessed on a principal sum as at the date of renewal, then the opinion of valuers is that it ought to be on the capital value as thus distinguished from the freehold value. But, if there is no market to determine the capital value eliminated from all prospective or adventitious factors, it appears that one way at any rate of arriving at the capital value, or testing any figure put forward as such, is