

to ascertain the net annual return to be got out of the land if put to its best use. This is the fundamental basis which would be adopted by an investor requiring a fair and immediate return of interest for his money. Therefore, where valuers proceed to fix rent by way of a percentage on capital value, it would seem that they should ascertain or verify the capital value by reference to the probable returns.

Moreover, when they have arrived at the capital value it does not follow that a fixed percentage such as 4 per cent. or 5 per cent. should be taken. The percentage or rent must vary according to the length of the term. In determining the rental the Corporation valuer, Mr. Ames, states that he proceeds on the value of the fee-simple, but in assessing the value "makes a considerable reduction." In one case he says he took £15 off £90. He then fixes the annual rental at a percentage of about 4 or $4\frac{1}{2}$ per cent. on this reduced value. He does not indicate what rule, if any, guides him in making the reduction. The valuers with whose decisions the Corporation has been dissatisfied have endeavoured to ascertain the fair rental upon the hypothesis of what the land will produce. The land being city land in a business quarter, the best productive use to which it can be put is by erecting upon it some building which will produce a revenue. Hence the best building for the site and locality is assumed. As to this opinions may differ. If what is deemed a suitable building has in fact been erected and sublet the improved rents may be used as a test of the productive capacity. That test, however, is not available, or fully available, where the building is wholly or partially occupied by the tenant himself. In any case wide scope for divergence of view exists upon the question of what deductions should be made from the actual or estimated gross revenue in order to find the net return. Some witnesses considered this method fallacious, stating that by adopting it without other considerations it was possible to prove that the ground-rent should be nil.

The evidence of two experienced valuers in Auckland was taken. One was in effect that the proper method is by way of percentage on the fair market price of the land; that the Government valuations are not to be taken as the test; that sales are not an absolute test, for these must be investigated to see what special circumstances may have affected the price; and he added that those whose business renders them conversant with current land transactions and who have a capacity for weighing one property against another are best qualified for that task. A fourteen-years lease, he thought, could not possibly be worth more than 2 per cent. on the capital value at the very outside. A twenty-one-years lease, he thought, should be worth from 3 to $3\frac{1}{2}$ per cent. at the very outside. The other of those witnesses in effect stated the practice of valuers to be that, guiding themselves to a great extent by sales in the vicinity, they endeavour to find what the land to be valued would sell for *and* what fair and satisfactory return could be obtained from it if put to its best use. A rate of interest lower than the market rate is to be expected, because the investment in ground-rents secured by a building with a right of distress over its contents affords as sound a security as can be got—preferable in many ways to a mortgage.

In Dunedin the valuers appear to be guided by three considerations: (1) The freehold values in the neighbourhood as tested by sales, eliminating cases where special circumstances existed; (2) other ground-rents in the neighbourhood; and (3) the productive value. They do not take the Government valuations, as the Government valuation follows the rentals they fix. One witness put it, "We endeavour to find the freehold value, then take $4\frac{1}{2}$ or 5 per cent. on that, and we have the annual value. If we want to check that we put a building on it and estimate the rents. Then surrounding sales of freehold or leasehold are another guide."

The Otago Harbour Board valuer endeavours to ascertain as nearly as possible the freehold value by reference to the market. "Then," he says, "we generally adopt 5 per cent. on that as a fair percentage for rental." Others say they take a rate of interest 1 per cent. less than the market rate.

It will be seen from the foregoing how not only the method of approaching a valuation of rent, but where it proceeds on the capital value as a basis the notion of what is a fair percentage for rental differs according to locality. There appear to be no general and uniform rules for arriving at what the prudent lessee would give. To a certain extent it appears to be reached by a sort of instinct.

For your Commissioners to lay down any specific rules subversive of the existing practice and habit of thought in any particular locality would be to create more trouble than would be removed, and, as regards existing contracts, would be to interfere with the rights of the parties to be bound only by the interpretation which the Courts may place on their contracts. But, granted the best of rules, the reasonable determination of the values in a measure depends upon the spirit in which the valuers approach the subject. If those who are appointed by the parties, while bringing to bear all the particular knowledge they have gained from the parties appointing them, remember that they are appointed not to make a bargain but a valuation, a substantial difference in opinion ought to be the exception and not the rule.

AS TO THE MODE OF VALUING BUILDINGS.

In the course of our sittings discussion arose as to the basis on which buildings should be valued—viz., whether their value is to be that of a structure costing so-much to erect and subject to so-much for depreciation, or whether their value must be that which they add to the land. It may be that the building is so old or out of date, or unsuitable to the locality, or so ill adapted for making the best use of the land that a prudent owner would pull it down. From this point of view the building would be worth no more than the value of the materials for removal. In Dunedin the practice is to value a building as a structure. This, it is thought, accords with the