BOTTOM LINE

Deciding fair market value

Farmers are blamed for inflating prices of land under claim. But they accuse valuers of producing low valuations to keep the Land Claims Commission happy. Stephan Hofstätter asked Petrus Viljoen, MD of valuation company Reava, to demystify

Petrus Viljoen
MD of the Reava Group

What are the basic principles applied in all valuations, and how are these arrived at?
The most basic principle is market value. You don't start by comparing a farm to one next door. You start off with macro-economics. What is influencing the land prices in a specific area or region? Maize and diesel prices, rainfall, the proximity of schools – all these factors are taken into account. Then you start moving closer to the specific farm. What farmers understand is your cost comparison comes from the transactions that have occurred in the area. Everybody thinks that's how you get to a market-related value. It's not true. If you want to do that you must compare apples with apples.

So what do comparables tell us?
If you want to use [comparable sales] you must first dissect the sales figure. For example, are there cattle or implements combined in one transaction with the land or not?

And the commission instructs you not to include movable assets.
That's right. That's where most valuers get it wrong. They use the simple calculation that this is the price paid for the property, divided by the number of hectares, to arrive at a price per hectare. We also don't take any sales between government and private individuals as a comparable sale because, according to us, it's not an open-market transaction. The reason is there were some opportunists who bought up land when the restitution process started [with the intention of reselling it to government at a higher price]. There are also many internal transactions. A son sells to his father [at a higher price], artificially inflating values in the area. If you use that as a comparable you're artificially inflating all land values in that area. That's why we don't use internal transactions.

How can valuations differ so much?
The wrong assumptions are made from the comparables being used. It all comes down to experience with farm valuations. A farm is not an urban property. There are so many factors that influence a farm's price. Suddenly the land restitution commission needed valuers, and there weren't many companies concentrating on farm valuations. You must come up with an applicable market value per component of a farm for a specific area. A five-year-old citrus tree has a particular value that's different to a 30-year-old tree because that's its productive lifespan. An inexperienced agricultural valuer doesn't understand this. Another problem is that the farmer deduces the value of the farm from the amount of money he makes from it. This is wrong. It has an influence, but there's no direct correlation between income and market value. I consider anything that might influence the value of a farm. For instance, building costs. Building on a farm is about 30% cheaper than in town. Farmers employ local labour which is much cheaper, and use their own soil, water and even building materials, and don't have the added cost of approving building plans and inspections.

How do you decide on fair market value?
We don't determine those values. We set up valuation forums in different areas with homogenous farming operations, for example Badplaas or Hoedspruit. Limpopo alone has been divided into 78 such areas. We have a total of 587 forums across South Africa. A forum of not more than 15 people consists of property transfer attorneys, estate agents, local valuers, agronomists and farmers. We ask the local co-op who the top farmers in the district are and select two for the panel. We also try to have two who aren't doing so well and two who are moderately successful. The forum comes up with guideline values, minimum and maximum amounts, for different land uses in a specific area, for example irrigated land, permanent crops, dryland or grazing. There will also be variations within the same land use, for example some parts of the same farming district have better soils than others. Then our valuers do field inspections using GPS [global positioning system] technology to verify external boundaries and delineate internal demarcations [like orchards], as well as draw up an inventory of fixed improvements such as boreholes, which are also plotted using GPS. Then we dissect actual transactions in the area. If the guidelines don't tally with these sales we adapt them. Because we are in a period of strong growth in land values, it's necessary to adapt the guidelines monthly.

Yet the commission uses valuations older than a year to negotiate prices ...
I can't comment on that. But I do believe the sooner you can finalise the land restitution process, the fewer emotional influences there are. When they tasked me to take over Badplaas, 196 farms, I finished it in six weeks, from starting out to handing reports to the farmer and farmers accepting the valuations. It can be done when all parties cooperate in an all-inclusive, transparent process.

What's the next step after you've fine-tuned your guidelines?
Before the valuation report is done, I go back to the farmers and present our findings. If I go back to individual farmers I normally encounter vast differences. It's interesting to see the difference once you get all of them together. If they disagree and I point out who the experts were that came up with the guidelines, farmers generally accept them. If they [farmers] inform us of something we missed, we adjust the guideline values accordingly.

Why is there so much unhappiness about valuations in Hartbeespoort?
The [Gauteng and North West] commission appointed more than six different valuers for that area. If I'm a landowner and my farm was valued at R18 000/ha and my neighbour is valued at R58 000/ha, it's going to cause much resentment. If you want to fix Hartbeespoort, you need to implement the Badplaas model as we did successfully in Mpumalanga, Limpopo and East London.

Have you ever received instructions from the commission to lower a valuation?
No, never.

What is the value of the business that comes your way from the commission?
About 5% of my turnover.

Some farmers argue companies such as yours deliberately undervalue farms to keep the Land Claims Commission happy, thereby ensuring a steady supply of well-paid work. How would you respond?
I'm getting much less from the commission than from commercial clients. I can afford to do this because I do it *en masse*. I get furious with farmers who think like this. All these meetings I have – the first information meeting, the market data transfer to these farmers, handing over reports – are at my own cost. They [the commission] don't pay me extra. That is my contribution to get land restitution in South Africa finished. FW