

Rural Valuation Education: Taking City to the Country

Ian Clarkson FAPI, Lecturer in Property, CQUniversity Australia

Faculty of Arts, Business, Inform's & Educ'n, Building 34, CQUniversity, CQ Mail Centre, Rockhampton QLD 4702

Email: i.clarkson@cqu.edu.au

Abstract

Whilst a large portion of the property, and therefore valuation, industry is based in urban areas, by far the largest portion of most countries is rural and regional areas. Presenting courses in rural and fringe urban valuation techniques will create a more rounded property professional, capable of a wider skill range which will be further developed through industry mentoring and expertise.

This paper looks at the industry and student demand for such a rural valuation and land management course. It describes the course content that may be covered in such training. The paper also looks at changing practices in this field and how rural purchase decisions are changing, forcing a re-think of current valuation techniques. Finally, practical delivery issues such as flexible delivery, web-based interactive media and mentoring will be discussed.

Keywords: Rural Valuation, Education

INTRODUCTION

As economic concerns alter the global financial position and items such as Emission Trading Schemes are thrashed out at higher levels of government, the impact upon the continued economic viability of farming and regional areas is tested time and again. Producers in countries such as Australia and New Zealand which have minimal subsidies for rural areas are under pressure to produce more from a finite resource. Changes in legislation and economic environs, as well as best practice for particular industries, means that professionals working in regional areas can benefit from training specific to the rural background.

As an urban environment encroaches from one side and a profit driven resource sector, from which governments derive vast royalties for budgets, press to develop more prime farming land, the sector's production land shrinks. Advancements in technology and varieties will always assist to increase production, but oversupply and a strong dollar can reduce farm income quickly. More legislation is being passed with impacts upon rural producers including the Vegetation Management (Regrowth Clearing Moratorium) Act 2009 and the Great Barrier Reef Protection Amendment Act 2009 both significantly altered farming practice in Queensland in 2009 alone.

Education has moved away from providing a solid background to rural industries in educating valuers and this paper looks to address why it should be reintegrated into programs and what may be included within this broad area of study.

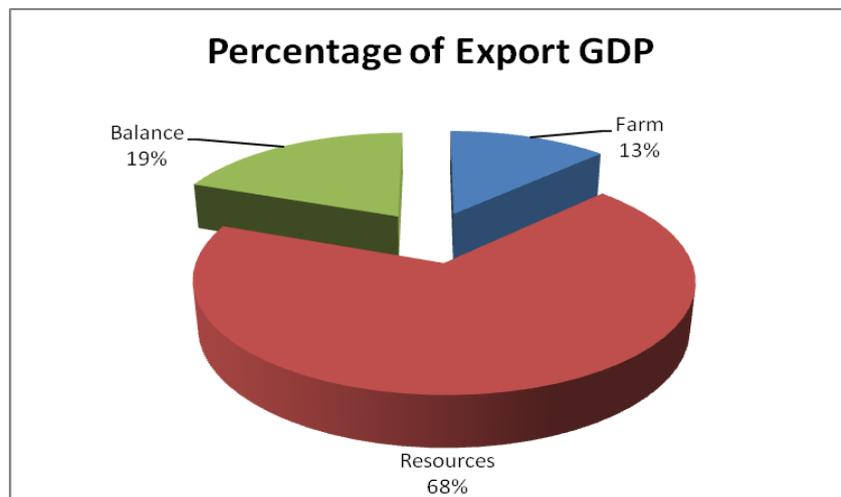
STATISTICAL ANALYSIS

The Statistics of Urban v Rural in Australia

There are currently approximately 22,128,000 (ABS 2009a) people residing in Australia with a growth rate of 1 person every 1 minute and 11 seconds. New South Wales is the most populous state with around 7 million residents followed by Victoria with about 3.9 million and Queensland with just under 3 million people (ABS 2009b).

Of these 22 million people in Australia, approximately 68% live in the capital cities and surrounding intensely developed areas. These cities however, only occupy about 0.6% of Australia's land mass of about 7.7 million square kilometres (ABS 2008). So about 15 million people live in Australia's major capital urban centres and this excludes regional cities.

However, when we look at where the income is derived from in export earnings toward Australia's Gross Domestic Product (GDP), we see that over 80% of export earnings come from the Rural and Resource sectors alone.



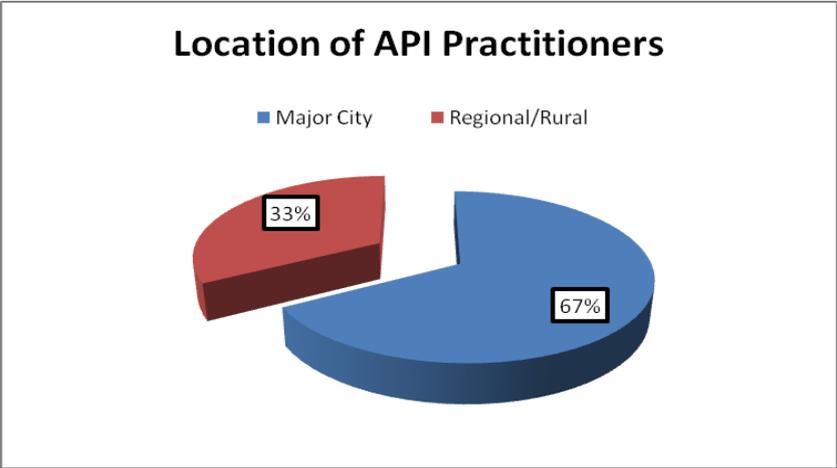
(RBA 2010)

Farm earnings contribute about AUD 29,299 million with the Resource sector grossing AUD 157,103 million of the total export GDP of AUD 231,000 million.

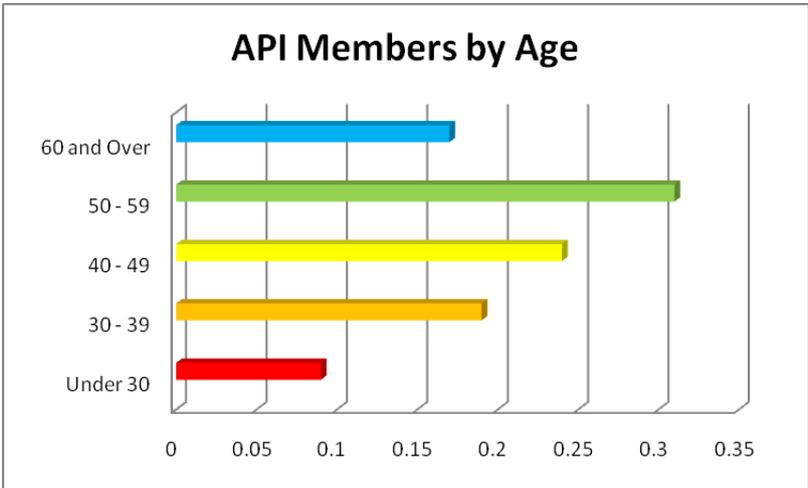
This would indicate that whilst there are about 32% of the population in regional Australia, regional and rural Australia provide about 81% of Australia's export earnings.

Industry Survey of API Members in Australia

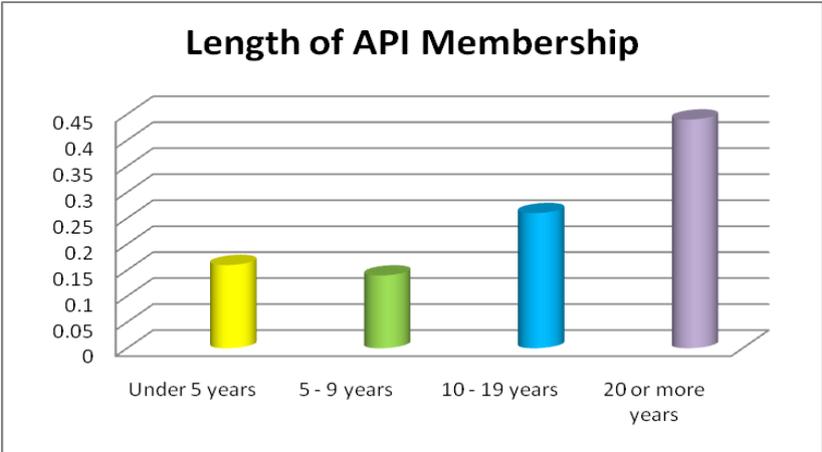
During 2009, the Australian Property Institute conducted a voluntary web-based survey of members. Of the approximately 8,500 members, approximately 600 responded to the survey request. Following very closely to the general population trends with 68% of Australians living in the capital cities and surrounding bulge, approximately 67% of API practitioners are located within these areas.



The age of practitioners also follows the general population trends with about 48% being in the “Baby Boomer” categories of over 50 years of age. This will mean a decline in practitioner numbers as this sector transitions into retirement.



Length of time as a member of the API gives an approximate guide to the experience levels of members. Again, mirroring the age trends, 70% have over 10 years of membership, with about 44% having been a member of the API (and its precursors) for over 20 years.



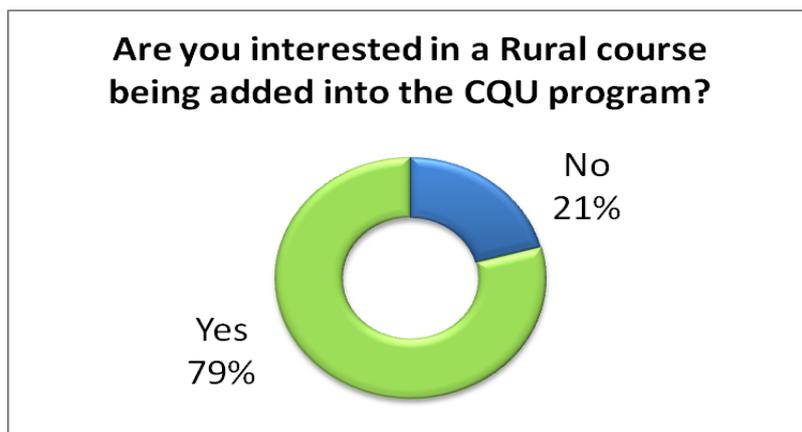
(API 2009)

The issue of these statistics isn’t clear until added to data supplied by professional indemnity insurance brokers who say that on average for their regional clients, somewhere between 20% to 60% of their income is generated from “Rural” and “Rural residential” sectors. An anecdotal survey of some Queensland API Discussion Groups reveals that about 50% of practitioners over 55 are considering reducing their workload significantly or retiring within the

foreseeable future. So in Queensland alone, approximately 150 to 200 regional practitioners are looking to downsize their work commitments in the next 5 or so years and this could be over 1,000 nationally. It is for these types of reasons that the training of replacement staff is pertinent.

CQUniversity Australia, Student Survey

In April, 2009, the CQUniversity Property Liaison Committee (PLC), through Lecturer Ian Clarkson, conducted a survey of the 87 students studying the first year Property Valuation course. This was a voluntary email response from distance students to the question as to whether a rural course should be included into the Property Program. An overwhelming 72 responses were received (or 82.8%) and from these, as is shown in the table below, the result was clearly in the affirmative.



Comments were varied, but the most common reasons given by students requesting the inclusion included a desire to be more rounded with cities developing into fringing areas; and that many of our students are based in regional locations and could see a direct benefit to their work situation (Clarkson 2009). The PLC also contacted a number of major regional valuation companies in Queensland and nationally and all indicated a desire for their Assistant Valuers to have an understanding of rural valuation.

COURSE CONTENT

Historical Development

A number of the early tertiary institutions that progressed valuation studies were based in rural and regional areas. These included facilities such as the Queensland Agricultural College at Lawes outside of Gatton; and Hawkesbury Agricultural College in Richmond, New South Wales. These were of course integrated into larger universities in the late 1980's with Federal government reforms. As such, this type of early degree contained a large number of smaller subjects (typically over 35 subjects/courses) with approximately one third being business areas; one third valuation/law; and one third being rural/planning/land studies. As such, the emphasis was probably weighted quite heavily into the rural sphere which was not seen as desirable by the number of students who made their way to city valuation practices. A large part of this skew toward rural studies was based upon the availability of lecturers in these areas with the courses located within "Ag colleges".

A number of the property degrees were developed in urban locations such as Queensland University of Technology in Brisbane; RMIT in Melbourne; and University of South Australia etc. These institutions placed a greater emphasis upon urban issues of planning and developing professionals to service the rapidly expanding urban development market with comprehensive coverage of mathematical and computer technologies; and less reliance upon rural practice and studies.

Areas of Study Specific to Rural Enterprises

Whilst the general principles of valuation do not change for rural enterprises; i.e. the approaches of Market, Cost and Income; there are areas within the rural landscape which do differ from the urban concern and a theoretical understanding of the background is considered desirable in a rounded professional working in this field. Recent legislation enforced upon the rural and regional landscape includes changes to vegetation clearing and management; water and irrigation availability; soil and run-off control; native title issues; contaminated land registers; and planning and environment concerns.

This concept is summarised in Dr James Baxter's new book as, "Rural property is often seen as being harder to value, and yet the approach, enquiry, and decision-making are essentially the same as that for the valuation of all classes of urban property. What is significantly different is the fact that for rural lands the value lies in the productive capacity of the land itself, and the fact that there is usually not a clear appreciation of the factors that affect rural production. This necessitates an appreciation of the physical features and characteristics of the land and its environment, the nature of the business to which the rural land is put and its vagaries."(Baxter 2009)

It is this ability to understand seasons, soils, management, costs, prices, yields, subsidies, global markets etc that establishes the rural valuer as distinct from an urban practitioner where perhaps vehicle and pedestrian traffic, rents, incentives and yields are thought of in a different manner. The old saying of "Jack of all trades, master of none" does befit the rural practitioner where in a mixed farming area such as the Wide Bay regions of Queensland, you may undertake valuations on grazing, dairying, tree crops (mangoes, avocados, macadamias, lychees, nectarines, citrus, custard apples etc), sugar cane, piggeries, poultry, aquaculture (prawns and red claw), silviculture (trees for logging and pulp) and small crops (beans, tomatoes, pineapples etc). All of this occurring within a 100 kilometre radius of the office.

So we commence our study with a background of where the land tenure and systems have come from, progressing through to current trends such as the Delbessie Agreement in Queensland. This "is a framework of legislation policies and guidelines developed to support the environmentally sustainable productive use of rural leasehold land for agribusiness".(SVS 2009) Delbessie provides conditions for the assessment and land management for all State rural leases issued for a period of 20 years or more, and these assessments will also determine for how long a lease may be issued to a farmer, with superior management practices being rewarded with longer terms. It also provides a framework for indigenous rights and access to land. The agreement has been signed by such organisations as the Queensland Government, Australian Rainforest Conservation Society and Agforce Queensland.

From this we develop the background of examining the limitations and benefits with regard to soils and land including suitability and sustainability for production. To this we develop the nature of vegetation and explain current vegetation legislation as well as Regional Ecosystem mapping. Water is an ever changing and limiting resource and this is developed with reference to new Regional Water Plans, infrastructure and availability. The new regime of climate change and carbon credit systems with their potential impact upon the rural industries is advanced, more for awareness as much of this legislation is not in place and still being negotiated globally, but if enacted it will potentially have a significant impact upon all industries and therefore values.

After a look at how technology is assisting the rural practitioner through Geographic Information Systems (GIS), satellite imaging, bioregion mapping etc, we seek to inform on standard industry procedures in approaching and conducting a valuation. This includes standard practices of an ideal world similar to those outlined by Rost & Collins that "properties should be about the same size; be within the same district and be suitable for the same types of production Their stock-carrying capacity or their crop-producing capacity should be reasonably similar..... Working costs per hectare should be similar..... Comparisons cannot be made directly between properties which are at dissimilar levels of development".(Rost 1984) The latter part of our training then backgrounds a number of the major Australian rural industries and outlines additional areas/needs specific to each sector.

Emerging Valuation Issues

As was previously stated, the three main approaches to valuation apply to all property. However, it was also pointed out in the Baxter extract, that the variations of climate, management and productive capacity generally mean that the Income Approach to valuation is rarely employed in the rural scene. It is now becoming apparent, that as a younger generation of farmers, many with tertiary qualifications, take over the landscape, there has also been a shift in thinking. The large number of holdings that are owned by superannuation companies and publically listed enterprises means that a return on investment is becoming an ever important concern and not just a basic understanding of a rate per beast area or per hectare of land. NAPCO, through Delphine Puxty and others, now calculated the return on investment including their capital outlay and purchase of the properties for their entire beef grazing enterprise from breeding, to backgrounding, and finally to finishing and sale. It is not enough to see a profit, but now they can see which areas of the business contribute most to the bottom line and how this can be further improved. Changes to newer basal area calculations for seasonal feed on properties and altering stocking rates rather than maintaining longer term carrying capacities has led to amended practices and better soil and grass management in grazing.

Anecdotally, I know of a number of investments that have been made within the last two years which were viewed solely on a "return on investment" basis. This included an irrigated Central Queensland grazing property purchased by accounting graduate sons who have control of family trusts to diversify their overall interests. The purchasers do not run the property but lease the entire concern to a grazier that has a contract to supply beef at a certain weight and size and at appropriate timing to Woolworths for their supermarkets. The grazier uses the irrigated fodder to finish his animals and meet the exacting requirements without outlaying for an entire property, and the investors receive a lease rental on a regular basis for their investment.

A second area involves small crop farms in the Bundaberg district being purchased by Victorian fruit and vegetable marketers on a "lease back" basis at 8% return. The farmer releases money tied up in land, the owner receives a guaranteed rent and also establishes a supply chain with the producer providing a set tonnage of fruit (mainly tomatoes) to the market each day.

Chris Eves and Marv Painter compared farmland returns in Australia, Canada, New Zealand and the United States in an article for the Australian and New Zealand Property Journal (Eves 2008). This article showed that gross farm revenue/ha was not closely linked to average values/ha but did show how rates of return and investment risk can be calculated for enterprises. As studies like this progress by professionals, it may be that a greater reliance upon return on investment can be used to reflect farm management techniques similar to "goodwill" in commercial applications. Perhaps the term "Sustainable Net Operating Income" does not lie solely in the commercial and retail domain but should be applied to rural enterprises.

Delivery & Mentoring

The Australian property profession is quite aware of the growth of a valuer with experience, and any training will only take a practitioner so far. The API Members Survey (API 2009) also found that 78% of respondents would like the flexibility of on-line 20 minute CPD programs. This was seen as making it easier to obtain CPD in regional locations and also for timing and convenience for practitioners. The provision of a rural course via distance education has created some interesting delivery issues. How does someone based in an urban area who wishes to expand their knowledge do this without ready access to farming areas? We have sought to address this by providing many on-line instruction videos and video "tours" of the subject and sale properties when assigning assessments based upon properties.

We have also recruited a number of retired or nearing retirement, practitioners who are willing to receive emails from students to provide industry feedback on the standard of reports etc. Students must sign up to a Code of Conduct so that mentors feel comfortable with the advice they are providing and how often requests will occur. The

API National Communications Manager, Phil Turner, is also endeavouring to roll out an on-line chat facility for students etc as the new API web-site is developed.

CONCLUSION

As we see from the survey results, there is a clear demand from regional practitioners and students to include rural industry specific information in their learning process. With a response rate of over 80% to a voluntary survey, CQUniversity established that almost 80% of the students responding would be interested in rural valuation courses.

The changing economic and legislative system within which all industries work must be understood by the practitioner and there are many that are uniquely relevant to rural industries over general urban practice. Rural purchase decisions are now taking a more economic rational look rather than being solely based upon carrying capacity or hectares planted. Farmers are now dealing with sustainable management and continuing sustainable economic returns from their holdings. Institutional investors such as superannuation funds are also leading a greater scrutiny on return to investors of the rural sector.

As we move into a time-poor world, the requirement for training to be flexible and permit the user to access training at a time convenient to them is increasing. The API survey found 78% of respondents favoured at least some on-line training rather than having to attend a conference or course away from practices. The increasing world of distance education then must address web-based technology and delivery of studies relevant to the recipient, whilst also enabling a sound knowledge to be gained. The role of experience being the continued educator will be assisted by mentoring systems utilised by institutions such as CQUniversity Australia and as are proposed to be developed by the Australian Property Institute.

We continue to develop as a profession, but should not forget our "Agricultural" past in pressing for the next "accurate" predictor of values.

ABS 2008, *National Regional Profile*, Australian Bureau of Statistics.

ABS 2009a, *Population Clock*, Australian Bureau of Statistics.

ABS 2009b, *Census Data*, Australian Bureau of Statistics, Canberra.

API 2009, '2009 Practitioners Survey', Australian Property Institute, Canberra.

Baxter, J 2009, *Rural Valuation*, Australian Property Institute, Canberra.

Clarkson, I 2009, *Student Survey re Rural course*, CQUniversity Australia, Rockhampton.

Eves, Co 2008, 'A comparison of farmland returns in Australia, Canada, New Zealand and United States', *Australian and New Zealand Property Journal*, vol. 1, no. 7, pp. 588-598.

RBA 2010, *Index of Statistics by Subject*, Reserve Bank of Australia.

Rost, R & Collins, H 1984, *Land Valuation and Compensation in Australia*, 3rd edn, Australian Institute of Valuers, Canberra.

SVS 2009, *Introduction to Rural Property Appraisal*, State Valuation Service (DERM), Brisbane,