Finding.

General.

The finding of your Commission upon the first question is that, subject to the qualifications to be mentioned, the system of valuation prescribed by section 137 of the Municipal Corporations Act, 1908—*i.e.*, by three independent persons as stated—is satisfactory in its application to leases that have been or may hereafter be granted by Borough Councils. The qualifications referred to are: (1) That the system be maintained as a system of appraisement as distinct from arbitration; (2) that an appeal be provided for as hereafter recommended; (3) the City of Wellington is specially dealt with.

This finding, it will be noted, has, like the question itself, nothing to do with the point whether a lease perpetually renewable at a valued rent at stated periods is preferable to a non-renewable lease for a long term such as sixty-six years. It is simply to the system of valuation, where valuation is provided for, that the finding relates.

No evidence has been adduced to show that dissatisfaction with the mode of valuation exists anywhere except in the City of Wellington, where the system provided for by their leases corresponds, as we have pointed out, with that prescribed by section 137.

Operation of the System in Dunedin.

In Dunedin, where the system of letting on a renewable lease subject to a revaluation of rent appears to have originated in Provincial Council days, and where it has been adopted by the City Council, the Otago Harbour Board, the Presbyterian Church Board of Property, and other public bodies, as well as by private owners, the mode of revaluation by two persons appointed by the respective parties and a third person selected by these appointees is actively approved, and the evidence given before us by the representatives of the local bodies there indicates that, so far from desiring any alteration in it, they wish it retained. Further, the system of arriving at the values by skilled valuers has not there been abandoned in favour of arbitration. As an act of precaution in deference to the legislation referred to the parties are now asked if they wish to be heard on the subject, but it is found in practice that they are content to leave the decision to the valuers, acting on their knowledge and experience, and so the expense and other disadvantages of arbitration continue to be avoided.

Operation in Wellington.

In Wellington the dissatisfaction which originated with the lessees was, as already pointed out, with the basis of valuation at one time adopted by the valuers, and which the Council supported—viz., that of assessing the rental at so-much per centum of the capital value, and of basing the capital value mainly on the sale prices of adjacent lands. But after the Court of Appeal decision that the annual rent to be ascertained was what a prudent lessee would give the valuers approached the subject from that point of view, and since then the rents assessed have for the most part not borne that ratio to the assumed capital value which the Corporation thought they should. Hence the Corporation has in turn become dissatisfied.

Nature of Dissent with regard to Basis of Valuation.

The tenants, in effect, say that the main test of what ground-rent a prudent lessee would give is what could be made out of the land with an up-to-date building suitable to the site erected thereon. In order to ascertain this they say that the income from an actual or hypothetical subletting must be found, and from this reasonable allowances for interest on the outlay in buildings, for rates, insurance, repairs, sinking fund, and other matters must be deducted. Broadly speaking, the later valuations have involved this test. The pamphlets issued on both sides and the contentions submitted to us by counsel show that the Corporation do not accept this as a proper test, and that, adopting it, there is much difference of opinion as to the matters in respect of which allowances ought to be made, and what the amounts of these allowances should be for the purpose of arriving at the net return. The opposing views have led to strenuous and costly proceedings before the arbi-