



VALUER'S EDUCATION & INTEGRITY FOUNDATION

Te Tumu Ngākau Tapatahi Mātauranga mo te hunga Kaiwāriu

CALL FOR EXPRESSIONS OF INTEREST

Research into Ground Lease Rent Determinations

The Valuers Education and Integrity Foundation is looking at funding research on the topic of residential and commercial ground lease rent fixations in perpetually renewable and terminating ground leases.

Ground Lease rent reviews have become expensive problems for both ground Lessors and ground Lessees in parts of New Zealand due to a lack of true open market new lettings of vacant sites and a lack of new ground lease transactions and rent determinations.

These problems are further compounded by arbitration awards being confidential, so no precedents from wise experienced umpires are available to the industry. This means the wheel needs to be continually reinvented and the same points are being argued repetitively, a waste of time and money. This topic has a high degree of public interest, especially for residential properties. Poor representation may also be obscured from critical review.

The scope of the research will involve exploring whether it is possible to develop an alternative methodology to assess market ground rents. It is suggested that the research progresses along a path covering the following steps:

- A review of how ground leases have evolved in New Zealand
- Methods used to assess ground rentals so far including case law analysis and weightings
- Problems with the current methodology
- Practices overseas and insights comparing our markets and principles and practices within New Zealand, with other economies such as UK, Canada, Australia, USA and South Africa
- Ideas of new methodology
- Relevance or non-relevance of linkages with economic factors and reference to Capital Asset Pricing models
- Conclusions and recommendations
- Production of a paper to the profession for debate and analysis, with the objective of eventually culminating in a Guidance Note or new Standard

At present, the ground rent review arena appears to be dominated by a group of individuals who have strong views which appear to have become polarised. There is the Lessees representative group who believe rent percentages should follow other financial rates, which have steadily tracked downward over the last 10 years. The Lessor's representative group appears to disagree and tends to believe the rates should be generally upheld at earlier rent percentages,

and their main criticism of the Lessees approach is that the drivers of ground rent returns are property market driven less than economically driven and these drivers are fundamentally different.

A criticism of the Lessors approach is a perception that it appears to be more “valuer driven” rather than the result of the free operation of the market. Parties usually take advice from valuers before rents are established, which some believe perpetuate the above.

This may introduce complications for the research we wish to commission, in that clearly independent robust unbiased findings are required. For this reason, the research may be most appropriately undertaken either by a panel of experienced practitioners who will be free to run their arguments from both perspectives for collective dissemination, or, by an independent expert group such as academics. Or a combination. It does, however, need to be practical and pragmatic.

As an alternative, the Trustees may look to commission several parties to provide the research (for all except “high country” leases), or for different elements of the research, in a collaborative form.

If the research were to be in parts, supervision or management may need to be considered by the authors, in addition to a Foundation project manager. This will be costed after a program is agreed (excluded from the current budget).

For this reason, we are issuing this Scope as a draft. This is to allow interested parties within the industry to make suggestions and contribute to refining the brief.

The Trust is looking for expressions of interest from parties who wish to contribute and participate and welcomes suggestions as to how the required brief may best be achieved and delivered.

This research topic has a budget of \$10,000 to \$15,000. Please respond with your thoughts and ideas, by 30 November if you wish to be involved, to phillip@curnowitzard.co.nz. All responses shall be handled in confidence.

General Notes:

1. The final scope will be subject to a contract between VEIF and the supplier(s) of the services.
2. The final written report will be not more than 15,000 words, subject to copyright to VEIF/author(s) jointly and equally, and VEIF will allow the author (s) to publish the report or academic paper in professional valuation/property magazines /peer reviewed journals following receipt of the report by VEIF but not before the release of the report on the VEIF website and presentation in person by the authors as required by VEIF.
3. The supplier in its fee shall provide for all required resources to complete the report, including: academic, research assistance - personnel, data/information supply, transcript, equipment and all disbursements including travel.
4. The authors will be required to submit an advanced draft report for review by the Foundation and on receipt of the final report, VEIF at its cost will format and style the report to its requirements.
5. VEIF will pay progress payments as follows: 30% on signing, 25% at first working draft and 45% on receipt of an acceptable final report.
6. The authors will be required to submit a workplan to be included in the final contract.
7. The authors will make their research available to other researchers for extension research.
8. The Foundation shall be acknowledged as to financial assistance in all and any presentations whether personal, at an event or if published and the VEIF logo used as

required by VEIF. VEIF will require the author (s) to present the report in person at a property conference seminar in Auckland within 12 months following the completion date. This may be mid 2020.

9. Estimated completion date of the report is 12 months following signing of the contract agreement.