

The New Zealand VALUERS' JOURNAL

MARCH 1988

VOLUME 27

NUMBER 8

n.
11

page	
439	Role of the Expert Witness
446	Arbitration Case Study
465	Farms - Low Returns
469	Dunedin City - Changes Rating Base
473	Land Tax - Lessors Expense?
480	Property Unit Trusts - Market Price v Market Value

NEW ZEALAND INSTITUTE OF VALUERS

Incorporated by Act of Parliament

PRESIDENT

R. E. HALLINAN

VICE-PRESIDENTS

R. L. JEFFERIES, A. P. LAING

MEMBERS OF COUNCIL

Northland.....	W. A. F. Burgess	Wellington.....	G. J. Horsley
Auckland.....	R. L. Jefferies	Nelson-Marlborough.....	A. W. Gowans
Waikato.....	T. J. Bernau	Canterbury-Westland.....	R. E. Hallinan
Rotorua-Bay of Plenty.....	W. A. Cleghorn	South Canterbury.....	E. T. Fitzgerald
Gisborne.....	G. T. Foster	Otago.....	A. P. Laing
Hawke's Bay.....	K. E. Parker	Southland.....	J. W. Briscoe
Taranaki.....	J. P. Larmer	Valuer-General's Nominee.....	R. M. Donaldson
Central Districts.....	R. V. Hargreaves	Immediate Past President.....	G. J. Horsley

BRANCH SECRETARIES

Northland.....	Miss S. G. Gaskell, P.O. Box 229, Whangarei
Auckland.....	S. N. Borich, P.O. Box 3650, Auckland
Waikato.....	R. A. Porter, P.O. Box 4348, Hamilton East.
Rotorua-Bay of Plenty.....	D. J. Owen, P.O. Box 1318, Rotorua.
Tauranga (Sub-Branch).....	A. H. Pratt, P.O. Box 256, Tauranga
Gisborne.....	G. H. Kelso, P.O. Box 2038, C/- Lewis & Wright, Gisborne.
Hawke's Bay.....	J. Reid, P.O. Box 458, Napier.
Taranaki.....	P. E. Thornhill, 9 La Salle Drive, New Plymouth.
Wanganui (Sub-Branch).....	B. J. Ragan, P.O. Box 4075, Wanganui.
Central Districts.....	Ms. J. L. O'Donaghue, P.O. Box 952, Palmerston North.
Wairarapa (Sub-Branch).....	B. G. Martin, P.O. Box 586, Masterton.
Wellington.....	W. J. Tiller, P.O. Box 2871, Wellington.
Nelson-Marlborough.....	J. Hancock, P.O. Box 89, Nelson.
Canterbury-Westland.....	M. Wright, P.O. Box 1397, Christchurch.
South Canterbury.....	P. Bosworth, P.O. Box 324, Timaru.
Otago.....	W. J. M. Reid, P.O. Box 1082, Dunedin.
Southland.....	D. H. Paterson, P.O. Box 399, Invercargill.

PAST PRESIDENTS

1938-1940 - N. H. Mackie, Palmerston North.	1962-1964 - S. Morris Jones, Wellington.
1940-1943 - G. B. Osmond, Auckland.	1964-1966 - M. B. Cooke, Christchurch.
1943-1947 - A. W. A. Sweetman, Auckland.	1966-1968 - D. G. Morrison, Whangarei.
1947-1949 - O. F. Baker, Christchurch.	1968-1970 - A. R. Wilson, Napier.
1949-1950 - J. A. Wilson, Dunedin.	1970-1971 - J. M. Harcourt, Wellington.
1950-1951 - O. Monrad, Palmerston North.	1971-1974 - R. S. Gardner, Auckland.
1951-1952 - L. E. Brooker, Wellington.	1974-1976 - G. M. Niederer, Invercargill.
1952-1953 - L. A. McAlister, Wellington.	1976-1977 - L. M. Sole, Rotorua.
1953-1954 - W. G. Lyons, Palmerston North.	1977-1978 - E. J. Babe, Wellington.
1954-1955 - S. E. Bennett, Auckland.	1978-1979 - P. G. Cooke, Nelson.
1955-1957 - R. J. Maclachlan, Wellington.	1979-1981 - P. E. Tierney, Tauranga.
1957-1958 - V. W. Cox, Napier.	1981-1983 - R. M. McGough, Auckland.
1958-1960 - G. C. R. Green, Dunedin.	1983-1985 - R. M. Donaldson, Timaru.
1960-1962 - J. W. Gellatly, Wellington.	1985-1987 - G. J. Horsley, Wellington

LIFE MEMBERS

S. Morris Jones (1968)	J. Bruce Brown (1970)	E. J. Babe (1982)
M. B. Cooke (1970)	D. G. Morrison (1976)	M. R. Mander (1985)
R. J. Maclachlan (1970)	R. M. McGough (1987)	

HONORARY MEMBERS

N. H. Chapman	J. A. B. O'Keefe	M. Aldred
A. D. Thompson	F. B. Hunt	R. Aldred
Sir William Rodger	J. S. H. Robertson	

JOHN M. HARCOURT MEMORIAL AWARD

E. J. Babe (1975)	R. L. Jefferies (1979)	K. J. Cooper (1981)
R. S. Gardner (1977)	S. W. A. Ralston (1980)	S. L. Speedy (1983)
	A. L. McAlister (1986)	

The New Zealand VALUERS' JOURNAL

MARCH 1988

VOLUME 27

NUMBER 8

Editor

M. Evan Gamby

Assistant Editor

David F. Paton

Editorial Board

S. L. Speedy
R. L. Jefferies

R. Frizzell
A. P. Laing

M. E. Gamby
J. A. B. O'Keefe

General Secretary

J. G. Gibson

Westbrook House, 181-183 Willis Street

P.O. Box 27146 Wellington

Phone 847-094

Statistical Officer

R. P. Newton

Contributions with a biographical note of the author should be typewritten and sent to the Editor, P.O. Box 27146 Wellington, who reserves the right to accept, decline or modify material. Views expressed by the Editors and contributors are not necessarily endorsed by the New Zealand Institute of Valuers. Copies of manuscript should be retained by the author as they cannot be returned. Deadline 2 months prior. Business letters, subscriptions and advice of changed address should be sent to the General Secretary, The New Zealand Valuer 1986 ©. The mode of citation of this volume of The New Zealand Valuers' Journal is - [1988] N.Z. Val. (page).

Official Publication of the New Zealand Institute of Valuers

Contents

- 439 The Role of the Expert Witness - Sir Ronald Davison
The expert witness is able to give evidence of opinion within the area of his own expertise. The expert witness' evidence is given to assist the arbitrator.
- 446 International Arbitration - Rod Jefferies, Peter Mahoney
Lincoln North - Counsel, Arbitrators, Sir David Beattie
An educational exercise for Valuers, Appraisers and Lawyers in the presentation of evidence and giving expert testimony in the form of an arbitration case study.
- 465 A Survey of Farm Capitalisation Rates - R. V. (Bob) Hargreaves and Max Percy
The large variation and low level of capitalisation rates is difficult to explain other than by the established "Life style" element in farming. Grazing farms show the lowest rate of return.
- 469 Major Rating Changes for Dunedin - John Baldwin
Dunedin City has adopted Capital Value as the basis for its rating after 35 years of Land Value based rating.
- 473 The Net Lease Revisited - Ken Christiansen
Ground rent should never be a charge on the lessee or tenant? - Land tax should stay with the lessor?
- 484 Evaluating Development Projects - R. T. M. (Tom) Whipple
Paper presented at the Second World Congress of Valuation, University of British Columbia Vancouver, Canada - Development projects can exhibit long periods of cash absorption with a smaller number of cash surplus periods.
Cash flows need to be managed so that outflows are postponed for as long as possible and inflows brought forward.
- 47^{8Q} Single Property Vehicles - Peter Barrington
Unitisation - A saleable option for immense properties.
- 4^{8O} Property Trusts - Unitisation - The Editor
o How does the valuation of a property relate to the market price of Property Trust Units? Costs of managing property unit trusts are very high, markedly reducing income.

page no.

426	Contents
427	Editorial Comment
428	Pan Pacific Congress Report
430	Letters to the Editor
431	Publications Received & Noted
432	Membership
439	The Role of the Expert Witness
446	International Arbitration - Pan Pacific Congress
465	A Survey of Farm Capitalisation Rates

page no.

469	Major Rating Changes for Dunedin
473	The Net Lease Revisited
477	Unitisation TIAVSC
478	Single Property Vehicles
480	Property Unitisation & Syndication
484	Evaluating Development Projects
499	Legal Decisions
506	Professional Directory

Few registered valuers in New Zealand have yet been instructed to value properties destined for inclusion as assets in property trusts. There are still only a handful of property trusts active in New Zealand, unlike Australia where they are now considered Big Business. By 31st March 1986, in Australia some 152,000 persons had invested \$5.8 billion in property trusts, and no doubt the number of investors and the investment total is now very much in excess of this level.

Property trusts are a method of dividing a property into small units generally marketed in parcels of \$1,000-\$2,000.

The rights of the unit holder are determined by the trust deed, which sets out in a legal form how the business of the trust will be conducted - for example.

yt How units will be issued and redeemed *

What the authorised investments are

◆r The manner in which valuations will be undertaken ◆r

How distributions of income and capital will be made yt

The remuneration of the trustee and manager

* The powers of the trustee and manager

* The winding up provisions of the trust

A prospectus must be prepared before the manager can approach the public for subscriptions. Most prospectuses read like advertising documents with a considerable emphasis placed on the directors and the trust manager, and quite frequently very attractive graphs of properties highlighting the rapid gain in property values over the short term, notably since 1984. The advertising in graph form is designed to indicate that property values have outstripped inflation by a wide margin and will continue to do so.

Valuers are appointed by the trust manager, not by the trustee. There are examples both in New Zealand and overseas where a property development company sells its investments to a property trust. There is a vested interest in such cases, and it would appear highly inappropriate that the developer, through his property trust management connection, should in any way influence the appointment of a valuer.

Valuations are requested on an open market basis. The valuer is instructed to value the total property, not the individual parts or parcels of the property trust.

The valuation is at best reproduced in a highly abbreviated form in the prospectus, and often no more than the valuer's name, the date of the valuation and the total valuation figure is included.

Trust deeds generally indicate that valuations need only be requested at relatively infrequent intervals, generally between 15 months and 3 years.

The possibility exists, particularly with unit titles for commercial/industrial property and unit titles or crossleases for residential property, for the valuer to be instructed to value the units individually, notwithstanding that the property trust may have purchased the development as a total development package. This can produce inflated values in a property trust.

Valuation of Units:

There is currently no established independent market for property trust units. Although not necessarily ignoring the implications of the share market downturn in October 1987, property trusts have continued to quote and sell their units based on purchase prices paid and valuations made prior to October 1987. In doing so, they have cushioned the impact of market conditions on a minority interest under the guise that a unit holder has the same rights as an owner of the total property.

Prospectuses indicate that the selling price and buying price is calculated daily. This is misleading as most quoted prices have remained static over a number of months. In the share market, prices paid for property shares have declined sharply since October 1987. In many cases, the share price of property owning companies has fallen by two-thirds or more. Examples are apparent that indicate shares in some listed property owning companies are now trading below their asset backing, based on values fixed early in 1987.

The property market is beginning to show some signs of a downturn, with better yields achievable on some metropolitan industrial and commercial properties than those achievable prior to October 1987. The prices quoted for property unit trusts do not reflect these market movements.

Property Trust Costs:

The high management cost structure of property trusts will give rise to low income generation and the long-term watering down of a unit holder's investment. The trust manager's fee is generally based on the gross asset value, commonly around 1.2 %-1.3 % of gross asset value. There are additional charges for management of the property, the trustee fee, a selling fee attached to the unit price and normal accounting or recording costs. Commonly, most property managers expect a cost factor of not less than 2% of the gross asset value plus actual disbursements. On a 6% prime yielding property, this indicates that 35% of the income will be required to run the property trust. On a 10% yield in property, the cost will be around 25 %.

The above highlights the anomaly of valuing property trust units based only on property values. All other things being equal, property trust units cannot perform as well as prime property owned outright.

Unitisation

As for Australia the next step for property ownership is likely to be Unitisation. Reference is made on this issue in the comments of Mr Graeme Horsley, recently elected president of T.I.A.V.S.C., and in the articles of Mr Peter Barrington and Mr Bruce Glanville, Australia.

REPORT ON 14TH PAN PACIFIC CONGRESS OF REAL ESTATE APPRAISERS, VALUERS AND COUNSELLORS 20-25TH MARCH 1988

By The Editor

The Pan Pacific Congress in Christchurch was a great success, with some 500 delegates and approximately 150 accompanying delegates attending, what in the writer's experience, has been the most interesting congress of its nature held for many years, with an excellent and well balanced business and social programme.

Delegations were present from Australia, Canada, Japan, Korea, Malaysia, Papua New Guinea, Singapore and USA, the largest group being the Japanese contingent of some 50 delegates.

The Congress Chairman, Lindsay McAlister, welcomed all attendees, and indicated that this is the third occasion since the first Congress in 1959 that New Zealand has had the honour to act as host for the Congress.

Our President, Roger Hallinan acted as chief delegate for the New Zealand Institute of Valuers and extended a welcome on behalf of the Institute of Valuers to New Zealand and Christchurch (his home city). He introduced Sir Hamish Hay, who declared the 14th Pan Pacific Congress open.

The first day of the Congress was given over entirely to the theme 'Arbitration', which included a keynote address on 'Arbitration The Role of the Expert Arbitrator' presented by the Chief Justice for New Zealand - Sir Ronald Davison, CNG, GBE, Privy Counsellor.

This address was followed by a general session 'An International Arbitration' being the practical enactment of an arbitration process involving New Zealand and overseas participants.

The umpire's position was taken by Sir David Beattie (formerly Governor General of New Zealand) with arbitrators and

counsel provided by the legal profession and valuers comprising Peter Mahoney, New Zealand for the lessee, and Lincoln North, Canada for the lessor. The Chairman and organiser of the event was Rod Jefferies.

The topic is considered to be of such interest that the full proceedings together with the address of Sir Ronald Davison have been printed in this issue of the NZVJ. The proceedings will provide a useful background to the video recording of the arbitration available through the New Zealand Institute of Valuers.

The Tuesday theme was 'Investment', with a keynote address by Colin Reynolds, Chase Corporation. The Thursday keynote theme was 'Liability', with the keynote address relating to Professional Indemnity Insurance presented by David Miles, a solicitor from Melbourne, Australia.

On Friday Paul Orchard - Lisle, UK, presented the keynote address, 'The Profession Into the 21st Century' under the theme Professional Practice, with general sessions concluding the educational portion of the programme on Friday afternoon, 25th March.

The Institute owes a considerable debt of gratitude to the many people who assisted in ensuring that this Congress was the success it deserved to be. Particular mention must be made of the Canterbury/Westland branch which assumed the responsibility of a large proportion of the social programme including the evening functions, and a very successful field-day to the Methven/Mt Hutt district of mid Canterbury.

Overall, the Institute can be well pleased with the results of the Congress both educationally and socially.

14TH PAN PACIFIC CONGRESS

Sir Hamish Hay, Mayor of Christchurch and Chief Delegates at opening ceremony, Christchurch Town Hall.

Haka - welcome to Chief Delegates, opening ceremony.

Maori Action and Song Group entertaining Delegates at opening ceremony.

Roger and Avis Hallinan, Chief Delegates New Zealand and President New Zealand Institute of Valuers at Opening Night Dinner Limes and Cambridge Rooms, Town Hall, Christchurch.

Sir Ronald Davidson Chief Justice of New Zealand, addressing the Pan Pacific Congress. Keynote Address: 'Arbitration - The Role of the Expert Arbitrator', with Moderator Bob McGough and Technical Sessions Director, Alex Laing.

Formal Arbitration

(from left) Mr Peter Mahoney (Lessee's Valuer), Mr J. Stevenson (Barrister for Lessee), Mr J. G. Forgarty (Arbitrator), Sir David Beattie (Umpire), Dr W. G. G. A. Young (Arbitrator), Mr M. R. Camp (Barrister for Lessor), Mr Lincoln North (Lessor's Valuer).

Letters to the Editor

Sir,

In your most recent edition under 1987 Market Summary, Canterbury District, page 370 you write quote . . . "the emergence of the New Zealand Rural Property Trust is likely to have some effect on Farm prices. It should be remembered that that organisation has a stated policy of buying at a discount on assessed current market value perhaps as much as 20%".

I should like to point out that the above statement while true in part is nonetheless misleading and should perhaps have been balanced by a fuller explanation of "the stated policy" as you quote it.

The effect of the policy of the Trust Manager is to purchase property (of the highest quality) at Valuation and then to charge a price for leaseback (usually to the Vendor). This charge for the lease (for terms up to 30 years) can take one of three forms, either

- (a) a discount from the purchase price
- or
- (b) a lease premium over and above the normal 5-6% rental
- or
- (c) a combination of (a) and (b)

So that while your statement of "buying at a discount" is technically correct a fuller interpretation of the facts clearly indicates that the first statement, "the Rural Property Trust is likely to have some effect on prices" will not be the case.

My assertion is best illustrated by the purchase of Shene-stone (a Diption fat lamb, cereal, small seeds property) purchased in December 1987 for \$560,000 (current Valuation \$570,000. 1986 Roll Value \$530,000). The Vendor is exiting from farming, the Trust is to settle a young farmer who will pay a lease premium over time (in addition to a rental of 5% of purchase price). In this instance the Vendor received market value (approximately) for his property, the lessee (who will benefit from the lease) effectively buys the lease on time payment.

It is definitely not the policy of the Trust to influence property values in any way, the acquisitions programme is unlikely to have any influence whatsoever on the market.

Valuers should take the precaution when analysing any sales of Rural property to the Trust to check carefully with myself or the local District Valuer (or the farmer lessee) exactly what charge was fixed for the lease when the sale was negotiated. In every case this charge is clearly documented to all parties.

R. C. B. King
Acquisitions Director
Registered Valuer
New Zealand Rural Property Trust Management Ltd

Sir,

Re: Residential Sales Information

Congratulations on your editorial comment in the September Journal.

Apart from specialty work (generally high value commercial and industrial), I must reluctantly agree that you don't gain a whole lot of recent market evidence by talking to valuers.

There are obviously some exceptions but reference at \$300 p.a. to our microfiche sales records often doesn't give the up-to-date information we should have to do our work properly.

I have just completed a valuation of a cross-lease large detached home unit in St Heliers. Requested by the client to support my valuation by evidence, I produced sales particulars available to me from the microfiche magic lantern.

He was connected with real estate and produced the up-to-the-minute sales evidence in residential transactions referred to in your editorial. This was so much more up-to-date and comprehensive than my evidence that I felt embarrassed for myself and my so-called 'profession' as a valuer.

I know, time permitting, we could go cap in hand to local real estate agents for each valuation to beg the latest sales information, but this is often impractical and doesn't add to our reputation as valuers.

I suggest that it is imperative the Institute give urgent attention to endeavouring to come to some arrangement with the Real Estate Institute regarding access to their confidential sales records.

I don't always share Ken Christiansen's views but agree entirely with his letter, also of September, regarding 'fragmentation' and union being strength etc.

Keith Greenwood
Auckland

Publications Received & Noted

By Assistant Editor

HOW TO BE AN EXPERT WITNESS

Chartered Surveyor Weekly 10 December 1987.

Some hints on the correct approach of an expert witness in property disputes by Andrea Burns and Richard Musgrove.

THE SINGLE MOST IMPORTANT ISSUE WHEN INVESTING IN PROPERTY

New Zealand Real Estate December 1987.

An address by Terry Boyd emphasising the importance of net income growth when examining the worth of investment property.

ECONOMIC OBSOLESCENCE: THE FUDGE FACTOR?

Assessment Digest September/October 1987 Vol. 9 No. 5.

A paper by J. Grad and P. Eng explaining the principles of economic obsolescence with examples of how it is calculated.

DIRECT CAPITALISATION VS. YIELD CAPITALISATION APPRAISAL OF PUBLIC UTILITY PROPERTY

Assessment Digest September/October 1987 Vol. 9 No. 5.

A discussion on the use of various cap. rates and methods of using them by Tom Tegarden.

GUARDING THE GUARDIANS

New Zealand Property Vol. 16 No. 6 December 1987. A short article by Colin Jenkins discussing disciplinary procedures in the Institute of Valuers.

LEASE EVALUATION AND RENTAL ASSESSMENT

The Valuer October 1987.

M. G. Sully considers some of the more significant aspects of lease agreements and their effects upon rental assessment.

LEASE ADMINISTRATION AND THE PROPERTY MANAGER

The Valuer October 1987.

A paper by Paul Wheeler discussing open market rental value and how problems can arise in the assessment of value of lessor's fixtures and fittings.

PROFESSIONAL LIABILITY OF PRIVATE AND PUBLIC VALUERS

The Valuer October 1987.

A paper by Lindsay Joyce covering valuers liability and responsibility to clients.

PROFESSIONAL NEGLIGENCE

The Australian October 1987.

John Daenke discusses the need for professional indemnity insurance.

TAKING A SLICE OF COMMERCIAL ACTION

Personal Investor November 1987.

Saskia Van Ryn describes the advantages of strata title property which has become a high profile investment option.

COMMERCIAL PROPERTY AND RESIDENTIAL PROPERTY - THE BUSINESS OUTLOOK

New Zealand Financial Review 25 December 1987.

Experts from the major cities give their opinions on the property market for 1988.

FRANCHISING - UNRAVELLING THE TIED HOUSE KNOT

The Chartered Surveyor Weekly 24 September 1987.

John Smith explains the American method of franchising which is new to Britain and is being received favourably. The system allows the tenant to sell his share of the goodwill.

SPECIAL REPORT - COMPUTERS

The Chartered Surveyor Weekly 13 August 1987. A series of articles about computers and their uses in real estate appraisal.

PROPERTY OUTLOOK: CLOSER TO HOME

Personal Investor February 1988.

Anne Bynes decides that if you are thinking of buying a home for high investment returns it might be advisable to rent for a while instead.

KIWIFRUIT - A CASE STUDY

Personal Investor February 1988.

An analysis of a typical kiwifruit proposition showing what the real returns might be, by Bill Jamieson.

THE YEAR 1988 HOLDS NO FEARS

New Zealand Financial Review 29 January 1988.

Bob Jones gives his views on property acquisition and the opportunities available in the current economic climate.

VALUE OF BEING IN THE PROPERTY INCOME CERTIFICATES MARKET

The Chartered Surveyor Weekly 23 July 1987.

The problems of valuing unit trusts are presented by Roger Cooke.

Membership

STUDENTSHIP

S. J. A. Dickie
B. S. Ferguson
S. N. Looney

Auckland Branch
Canterbury/Westland
Wellington Branch

INTERMEDIATE MEMBERSHIP

S. L. Anderson
J. H. Bennett
M. E. Bibby
S. A. Brown
R. J. Cameron
J. V. Carmody
J. D. Coleman
S. H. Cushnie
J. M. Dakin
S. G. Edwards
S. G. B. Fitzgerald
W. S. Fleck
R. J. Foreman
L. M. Freeman
J. L. Furminger
R. B. P. Gordon
R. J. Grev
P. D. Handcock
C. A. Hanson
M. C. Hare
R. A. Harnett
D. R. Jordan
M. B. Lamont
B. D. Lavender
E. J. Lee
G. D. Lopes
D. A. M. McLean
J. L. O'Donoghue
P. W. Sanson
N. F. Scott
G. S. Simpson
C. J. Stivan
S. E. Taylor
M. R. Tregonning
O. Westerland
P. J. White
S. J. K. Willocks

Otago Branch
Southland Branch
Wellington Branch
Canterbury/Westland Branch
Wellington Branch
Dunedin
Christchurch
Timaru
Rotorua/Bay of Plenty Branch
Tauranga
New Plymouth
Southland Branch
Central Districts (Wanganui) Branch
Canterbury/Westland Branch
Auckland
Taranaki Branch
Waikato Branch
Rotorua/Bay of Plenty Branch
Central Districts Branch
Wellington Branch
Timaru
Canterbury/Westland Branch
Auckland
Central Districts Branch
Napier
Waikato Branch
Dunedin
Central Districts Branch
Central Districts Branch
Central Districts Branch
Alexandra
Canterbury/Westland Branch
Wellington Branch
Central Districts Branch
Auckland
Hastings
Central Districts Branch

ADVANCED TO ASSOCIATE

W. H. Butcher
G. J. Cook
P. H. Funnell
M. A. Hinton
D. A. Leigh
J. Lindsay
B. D. C. Mainwaring
S. J. McCarrall
M. A. Myers
H. T. Robson
S. J. Ryder
M. J. Scott
W. G. Trolove

Canterbury/Westland Branch
Tauranga
Auckland
Tauranga
Auckland
Wellington Branch
Central Districts Branch
Central Districts Branch
Taranaki Branch
Auckland
Canterbury/Westland Branch
Auckland
Canterbury/Westland Branch

RE-ADMISSIONS

W. Akuhata
E. A. Carruthers
J. T. Power
H. J. Puketapu
T. L. Russell

Overseas
Auckland
Dunedin
Canterbury/Westland
Nelson

RETIREMENTS

M. J. Downey
J. P. Harty
J. D. Powdrell
G. W. Rowse

Hamilton
Napier
Overseas
Waikanae

Under Rule 14(1)

P. K. Barnett
P. G. Monrad
R. G. Shepherd
W. D. H. Smith
I. G. Tabor

Auckland Branch
Waikato Branch
Taranaki Branch
Canterbury/Westland Branch
Auckland Branch

Under Rule 14(2)

G. C. Burgess
R. W. Bush
E. C. Cooper
R. R. N. Livingstone
J. D. McNaught
R. G. Woolston

Auckland Branch
Central Districts Branch
Auckland Branch
Canterbury/Westland Branch
Central Districts
Wellington Branch

RESIGNATIONS

D. A. Clark
C. H. H. Clarke
E. J. Davies
S. W. Davis
J. D. Gregan
W. G. Hadley
D. C. Hall
N. J. Hardaker
I. M. Harte
J. P. Harty
M. J. Hegarty
J. W. Hunter
H. Hutchinson
J. R. Lewis
B. G. McGill
I. G. S. Millar
C. A. Morse
A. L. Naylor
E. C. Parker
K. R. Patterson
B. W. Perryman
Sir Clifford Plimmer
H. T. Robson
D. M. Swift
J. A. Turnbull
M. A. Wade
A. O. Warner

Overseas
Rotorua/Bay of Plenty Branch
Canterbury/Westland Branch
Northland
Canterbury/Westland Branch
Nelson/Marlborough Branch
Auckland Branch
Otago Branch
Canterbury/Westland
Hawkes Bay
Central Districts Branch
Hawkes Bay Branch
Canterbury/Westland Branch
Nelson
Otago Branch
Auckland
Northland
Invercargill
Taranaki Branch
Central Districts (Wanganui) Branch
Wellington Branch
Wellington Branch
Auckland Branch
Auckland Branch
Canterbury/ Westland
Waikato
Napier

ADMITTED AS AFFILIATE

R. G. Moonlight

Wellington Branch

DECEASED

A. G. H. Buchanan

Wellington

Property Market Report 1987

NELSON REAL ESTATE MARKET REPORT 1987 URBAN SECTOR

RESIDENTIAL

The residential market can be divided into four main areas, namely Atawhai, Nelson City, Stoke and Richmond. We deal with each separately as follows:

Atawhai

A steady volume of section sales with a new subdivision in Brooklands with sections between \$45,000 and \$70,000. Sections in the Marybank Subdivision and in Bayview Road have been \$45,000 and \$60,000 plus. Building activity has also picked up. The average sale price has increased with the lowest sale prices in Atawhai being in the Dodson Valley area where the average is now between \$90,000 and \$100,000. In the higher price bracket, a sale has been recorded at \$320,000 with numerous properties selling in the \$200,000 to \$250,000 bracket. The average three bedroom home with good garaging and on a fully developed section offering plenty of sun and views would now have an average price of around \$150,000 to \$160,000.

Nelson City

A number of significant sales with two townhouse sections within walking distance of the City and fronting the Maitai River selling for upwards of \$90,000. A 300m 2 to 400m 2 townhouse section in one of the better localities handy to town can now fetch generally between \$40,000 and \$60,000. Glass-house properties continue to be demolished to allow for more intensified crosslease apartment and townhouse development. New townhouses in the \$100,000 to \$150,000 range had been difficult to shift up until the last three or four months with the market now seemingly prepared to pay GST inclusive asking prices.

There remains keen demand for Port Hills properties with three sales in the last year at \$350,000 and a significant number above \$200,000. Sections on The Cliffs have sold up to \$110,000 and are virtually all sold now with it rumoured that the new sections could be as much as \$140,000 to \$150,000.

One would struggle to find a suitable building site anywhere in the City at less than \$20,000

One would struggle to find a suitable site anywhere in the City at less than \$20,000 apart from one of the steeper South Easterly facing hillsides with poor access.

In our 1986 report we mentioned a new townhouse unit which was for sale for \$264,000. This unit sold only two

months ago at, we understand, \$190,000. The demand for superior older homes behind the Cathedral and within walking distance of the Central Business District remains reasonably steady with a host of sale prices in excess of \$200,000 and an upper sale limit of \$290,000.

Stoke

The shortage of vacant residential land in Stoke continues and consequently there have been few sales within the year apart from the new Enner Glynn Heights Subdivision and the nearby Bishopdale Subdivision where prices have generally been between \$30,000 and \$55,000 depending largely on outlook and views. Two 400m² townhouse sections near the Stoke shopping area were auctioned recently and bidding reached \$50,000. Stoke will always be popular because it is well serviced with comprehensive schooling and shopping facilities. One would struggle to find an average three bedroom family home on a 700m² section at less than \$100,000. The less popular parts of Stoke and the Tahunanui area, the average sale price is somewhere around \$80,000.

Richmond

Richmond continues its steady growth recorded in the last three or four years with a recent subdivision of some 18 sections being all sold within a period of a few months for prices between \$45,000 and \$60,000. There are a few smaller sections still available between \$35,000 and \$40,000, although these are few and far between. House prices have also increased steadily with little in the way of a three bedroom family home available at less than \$100,000 with many sales in the \$140,000 to \$190,000 bracket.

GENERAL COMMENTS RELATING TO THE RESIDENTIAL MARKET

With the shortage of land in Stoke the drift to Richmond continues with the only alternative at Bishopdale, Enner Glynn or in Atawhai. Port Hills properties are continuing to be keenly sought after, while the most significant development around the Harbour area is the proposed re-zoning to provide for high density residential and Tourist Accommodation blocks. A public meeting recently held in the Council Chambers was attended by a large number of people resident in the area proposed for re-zoning and generally most were in favour. Concerns were expressed that existing residences would not lose views or sunlight, however the nature of the sea cliffs and height restrictions proposed by the Council eliminates the podium type apartment house building with units required to be stepped back into the sea cliff. Two major proposals along these lines have already been put before Council.

Rental Accommodation

Rental levels have continued to rise with one bedroom reaching anywhere between \$70.00 and \$100.00, two bedroom flats between \$90.00 and \$130.00 per week, while houses vary with the average around \$150.00 per week and a few more than \$200.00 per week.

COMMERCIAL AREA

Nelson City

Not so many significant sales of large commercial properties but a smaller number of land sales for proposed new retail and office buildings. Many proposals have been floated for new developments in recent months but to date only two or three have come to fruition. A Tourist Hotel proposal was approved by the Nelson City Council but rejected by the Planning Tribunal because it was twice the allowable height for the commercial zone. The developers have now secured more land and are to go ahead with the development with the reduced height but still to accommodate 100 beds. The most recent land sale was for 304m² section suitable for ground floor and first floor offices which sold at \$575.00 per metre² including corner influence. Central Trafalgar Street land is worth as much as three or four times this amount.

The highest retail rental is along Trafalgar Street where levels are in excess of \$400.00 per metre² for the front ten metres of retail space, while in peripheral retail locations rentals remain at around \$130.00 per metre² again for a ten metre depth. A wealth of office space is on the drawing board but as always demand will determine how much space is finally completed. First floor office rentals are around \$125.00 per metre² for new space. The older obsolete space is between \$60.00 and \$80.00 per metre².

Tahunanui

No significant activity in the last year although a motel and restaurant complex is nearing completion. Retail rental rates are between \$100.00 and \$120.00 per metre².

Stoke

Still no action on the Ballin Rattrays site and there is talk that the site will be sold off. Shop rentals have increased to around \$160.00 per metre².

Richmond

Again Richmond continues to grow with a number of new commercial developments confined solely to Queen Street. Many professional practices have seen fit to open branch offices in Richmond Borough to service the increasing population in that area. Top rental figures are around \$230.00 per metre² for the first ten metre depth of space, while in the Malls the rentals are around \$150.00 per metre² plus Mall operating costs and outgoings.

INDUSTRIAL

Port Reclamation

Continued interest in the leasehold land with new leases on five rent reviews as opposed to the original 21 year and ten year terms. Interest rates for five year leases are around 8.0% with the 21 year lease approaching 9.5%. Land values are around \$100.00 per metre² for a 1000m² site. Bulk storage rentals are between \$45.00 and \$55.00 per metre².

City Industrial

Smaller workshop space is now fetching between \$55.00 and \$75.00 per metre², while there is only limited demand for larger storage where rentals are around \$40.00 per metre².

Tahunanui

Still some activity in Tahunanui but mostly confined to the Nelson City Council industrial estate where land is selling at around \$55.00 per metre². There is a variety of differing sizes and types of space that are available for lease and there appears to be an over supply situation. Rentals are generally around \$40.00 to \$55.00 per metre² depending on size and type of space.

Richmond

Most of the industrial land in Richmond has now been developed with land values at around \$50.00 per metre² for a 1000m² site. The Borough has proposed to make a large extension to the industrial area to provide for the Borough's future needs.

THE COMMERCIAL AND INDUSTRIAL MARKET IN GENERAL TERMS

There is keen interest from investors to get into some type of commercial investment with a strong emphasis on syndication enabling groups of smaller investors to buy a reasonably large commercial and industrial property. Returns are as low as

*Returns are as low as 8%
for prime commercial
property to between 901o
and 1101o*

8% for prime commercial property to between 9% and 11% for those properties on the periphery. Sound, clean industrial property is showing between 9.5 % and 11 %. As has been the case for some years now, demand outstrips supply and good properties are rarely offered for sale on the open market. A block of approximately 1000m² of central commercial land with dual frontage is presently being offered by tender, the results of which may set new highs.

The Nelson Public Relations office has been extremely active in promoting the District to tourists and also as a conference centre because of its central location within New Zealand. There certainly appears to be tremendous potential in Nelson and a boost for the area was the decision by the New Zealand Motor Corporation to shift its entire operation to Nelson. On the losses side, the long established Griffins sweet making factory will leave the District having been forced out of their obsolete building as it does not comply with earthquake requirements. The fishing industry continues to grow as does the forestry and the region continues to benefit from its diversified nature.

Submission by the N.Z. Institute of Valuers on "Occupational Regulation", Pursuant to the Government Economic Statement 17/12/87.

By General Secretary J. G. Gibson

OVERVIEW

The N.Z. Institute of Valuers makes this submission in respect to the matter of occupational licensing.

Notwithstanding the protection of the terms 'public valuer', and 'registered' given by Sections 35(4) and 42(1) of the Valuers Act 1948 the New Zealand Institute of Valuers does not consider that the present occupational licensing as provided for under the Valuers Act 1948 leads to any form of restraint of trade or monopoly position.

Only in terms of the Unit Titles Act 1972, and the odd piece of minor legislation which is of minimal effect, does a registered valuer presently enjoy a certain measure of protection. In respect of this existing legislation the New Zealand Institute of Valuers would accept the removal of this "protection" in the light of current trends.

Within Sections 35(4) and 42(3) of the Act there is a provision which permits any person to use the word 'valuer' in connection with describing their occupation. The consumer is not precluded from employing a non-qualified person, including in the area of Trustee lending. Any person is legally able to perform valuations for the public including valuations of real estate for sale, purchase, mortgage finance, matrimonial settlement, rental assessment, asset statement and insurance.

Furthermore, there is open competition between members of the New Zealand Institute of Valuers for business and there are no controls or constraints on the fees that may be charged.

It can be seen therefore that the sole purpose of the existing licensing regulations (The Valuers Act 1948) is to protect the consumer, even in the area of the Unit Titles Act, by safeguarding the quality of service provided.

There is open entry to the profession through the University courses available. This ensures a high standard of training and education which is seen as essential for a service occupation such as the profession of valuation. The Rules of the Institute provide that applicants for membership of the profession must be of 'good character and reputation'.

The present review of the Valuers Act 1948 is noted. The N.Z. Institute of Valuers has been party to that review and supports the draft Bill, and the proposals contained therein. The N.Z. Institute of Valuers believes the speedy implementation of the Valuers Bill is in the best interests of the public.

The N.Z. Institute of Valuers believes that the public interest has been well served by the Valuers Act 1948 and that that legislative framework should continue with the enactment into law of the draft Bill.

The Institute of Valuers actively promotes the term 'registered valuer' to members of the public, and undertakes ongoing educational activities for the benefit of its members.

The Institute promotes the establishment of a well disciplined and moderated professional body and for these reasons has evolved the structures outlined in this submission.

FORMATION OF N.Z. INSTITUTE OF VALUERS

The N.Z. Institute of Valuers was formed pursuant to the passing of the Valuers Act 1948. Section 9 of the Valuers Act 1948 established a body to be known as the N.Z. Institute of

Valuers, which "shall be a body corporate with perpetual succession and a Common Seal, and shall be capable of holding real and personal property and of doing and suffering all that bodies corporate may do and suffer." This provision of the Act went on to state "the Institute constituted under this Section is hereby declared to be the same body corporate as the body incorporated under the provision of Incorporated Societies Act 1908 and heretofore known as The N.Z. Institute of Valuers Incorporated".

The membership of the N.Z. Institute of Valuers is organised on a national and a regional basis.

The New Zealand Institute of Valuers is an autonomous body responsible to its members. It has a professional secretariat in Wellington (of 5) comprising the General Secretary and assistant staff. Nationally the N.Z. Institute of Valuers is governed by a Council of Elected Representatives, one Councillor coming from each Branch and by an elected Executive. The Council meets at 1/2 yearly intervals and the Executive monthly. A subdivision of the Executive comprises various committees to deal with special aspects of the Institute's activities.

The Executive report to the Council of the N.Z. Institute of Valuers and the Council to the members.

The various sub-committees of the Executive are:

Professional Practices

- responsible for matters of discipline, not otherwise handled by the Valuers Registration Board.

Education

- responsible for ongoing technical education and liaison with the various universities teaching valuation.

Publicity & Public Relations

- provides independent commentary on topical property matters for the information of the public and members.

Publication

- N.Z. Valuers Journal Editorial Board - publication of the Institute's quarterly Journal "The N.Z. Valuer's Journal", which is primarily designed to be educational and a publication of record (court cases, etc.). The Institute also publishes other specialist valuation texts.

Asset Valuation Standards

- Formulates professional standards and represents the Institute on an international committee setting (recommended international) standards for asset valuations.

Statistical

- responsible for the dissemination to members of statistical data used in valuations, research and some publications.

International Affairs

- These are dealt with by Executive and Council. The Institute has international affiliations with other valuing organisations, specifically through the Pan Pacific Congress of Real Estate Appraisers, Counselors and Valuers which meet on a regular basis. This Pan Pacific Congress includes The Australian Institute of Valuers with whom the New Zealand Institute of Valuers has a close association including an Agreement of Reciprocity for the practice of valuation in each country.

Regionally the Institute operates through (fourteen) 14 branches and three (3) sub-branches, each of which has an elected branch committee comprising branch secretary, chairman and committee members.

The N.Z. Institute of Valuers is active in the education of its members and conducts regular seminars, primarily of an educational nature, for their continuing education. Whenever appropriate, kindred professional organisations are invited to attend these seminars.

The Institute develops, sets and maintains practice standards for the benefit of both the membership and the public and has a CODE OF ETHICS binding on all members, which it polices for the public and member protection.

The Institute establishes education and admission criteria, categories of membership and provides appropriate pathways to admission.

FUNCTION OF THE INSTITUTE

Under the provisions of Section 10 of the Valuers Act the functions of the Institute of Valuers are described in the following terms.

"The general functioning of the Institute shall be to promote and encourage proper conduct among valuers; to suppress illegal, dishonourable, improper and objectionable practices; preserve and maintain the integrity and status of valuers generally; to provide opportunities for the acquisition and infusion of knowledge in relation to the valuing of land and kindred subjects; to consider and suggest amendments in the law relating to the valuing of the land; to provide means for the amicable settlement of professional differences; and generally to protect and promote the interests of the profession of valuing and the interests of the public in relation to valuation of land."

The following sections in the Act, 11 through to 16, prescribe various activities of the Institute. Section 11 describes membership of the Institute, Section 11A exemptions from membership of the Institute, Section 12 membership fees, Section 13 the Council of the Institute and the governance of the Institute, Section 14 the powers of the Council, Section 15 Officers of the Institute, Section 16 Rules of the Institute.

MEMBERSHIP OF THE N.Z. INSTITUTE OF VALUERS

Membership of the N.Z. Institute of Valuers is provided for under Section 11 of the Act. Membership is compulsory under Section 11(2) excepting when an exemption is obtained on the grounds of conscientious objection to membership. This has the effect of constraining the Institute of Valuers in deciding who shall or shall not be a member of the Institute.

At the date of this submission membership of the N.Z. Institute of Valuers comprises those who are in public practice and known as Public Valuers and those who practice in other spheres of activity but do not offer themselves for employment directly by the general public.

Under the Valuers Act 1948 Section 35 public valuers are required to hold an Annual Practising Certificate. The N.Z. Institute of Valuers annually publishes a list of those persons holding Annual Practising Certificates.

Under Section 35(4) of the Act the term Public Valuer has some degree of protection. This Section of the Act states as follows -

"Every person, whether registered under this Act or not, commits an offence against this Act, who, not being a holder of an Annual Practising Certificate issued under this section, uses or causes to be used in connection with his business, initials, or abbreviation of words, titles, or initials, which are intended to cause or may reasonably cause any other person to believe that he is a public valuer registered under this Act".

Similarly, under Section 42 of the Act there is protection of the words Registered Valuer as follows -

42. Improper use of words, initials, etc., implying registration or membership of Institute - (1) Every person commits an offence against this Act who, not being registered under this Act, uses or causes or permits to be used any written words, titles, or initials, or any abbreviation of any words, titles, or initials, which are intended to cause or may reasonably cause any person to believe that he is registered under this Act.

(2) Every person commits an offence against this Act who, not being a member of the Institute, uses or causes or permits to be used any written words, titles, or initials or any abbreviation of any words, titles or initials which are intended to cause or may reasonably cause any person to believe that he is a member of the Institute.

Notwithstanding these sections of the Act the N.Z. Institute of Valuers does not consider any restraint of trade monopoly position exists for there is a proviso in Section 35

(4) and 42(3) which permits any person to use the word 'valuer' in connection with describing their occupation.

Protection of the public is seen as the paramount objective of these provisions of the Act.

Sections 18 and 19 of the Act provide for registration of valuers, Section 18 providing for the maintenance of a Register of Valuers and Section 19 providing for certain qualifications for registration. To gain registration valuers must be qualified by examination and practical experience.

Membership of the Institute of Valuers is by examination. There is open entry to the profession through the University courses, entry only being governed by the University's ability to accommodate the entrants.

The examinations acceptable to the Institute for membership are obtainable from 3 universities in New Zealand being Auckland, Massey and Lincoln College, Canterbury. Once a person has been admitted to the membership of the Institute they are deemed to be Intermediate Members of the Institute.

Association to the Institute may be obtained by students under the studentship provisions of the Institute or as an affiliate under the affiliates provisions of the Institute.

As at 31 December 1987 there were 1,985 members of N.Z. Institute of Valuers in various classifications as follows -

Fellows	81
Associates	1,121
Intermediates	610
Life & Retired Members	166
Honorary Members	7)
Students	128) voluntary
Affiliates	55) association

RULES OF THE N.Z. INSTITUTE OF VALUERS

Under the provision of the Valuers Act 1948, Section 16, the N.Z. Institute of Valuers from time to time has made rules concerning the governance of the Institute.

A copy of these rules reprinted in July 1980 is appended to this submission.

The latter part of the Rules deals with the Institute's Code of Ethics and a separate publication entitled Code of Ethics and Guidance Notes November 1986 is also appended to this submission. The Code of Ethics and Guidance Notes of November 1986 supersede the Code of Ethics contained in the Rules dated July 1980.

MOVES TOWARDS FREEDOM OF ACTIVITY WITHIN THE N.Z. INSTITUTE OF VALUERS

Over recent years a redirection has taken place to allow greater freedom within the N.Z. Institute of Valuers of individual members and practices. This is being achieved by -

(a) Dismantlement of scale of charges

In 1983 the Institute dismantled the provisions in its rules relating to a prescribed scale of charges for valuation fees. This was followed in June 1987 by the withdrawal of the Institute's publication 'A Guide to Professional Charges July 1984'. There are therefore now no restrictions on the level of fees which a member may charge. Members are free to charge whatever is considered to be appropriate in the circumstances for the work undertaken. There is open freedom of competition between members for business, and this is encouraged by the Institute.

(b) Freedom in advertising under a revised Code of Ethics and Guidance Note

In 1986 the Institute of Valuers turned its attention to the removal of strictures on professional and practice advertising in the light of the Commerce Act and other legislation being considered. Following the circulation of draft provisions to amend the Code of Ethics and the consideration of membership views the N.Z. Institute of Valuers implemented changes to the Code of Ethics in relation to advertising. These changes required the consent of the Minister in Charge of the Valuation Department and following this consent came into effect on 1/12/86. At the same time the Institute considered the amendment of its Code of Ethics relating to the provision of valuation reports by issuing a more general statement in conjunction with a guidance note on valuation and reporting.

The movement of the Institute in these areas has been seen to be beneficial to the public and is in line with moving the Institute into a less regulated society and giving its members freedom to act according to their own judgement.

RESTRAINTS IMPOSED BY THE VALUERS ACT

There are several restraints imposed by the Valuers Act which we wish to enumerate below.

1. The need to refer to the Minister in Charge of the Valuation Department changes to the Institute's Code of Ethics or Rules.

Clause 16(3) of the Valuers Act provides "no rules made under this section shall come into force unless and until they are approved by the Minister."

This is seen as limiting the Institute's ability to act in the best interests of its members and of the public.

2. Section 10 of the Valuers Act outlines the functions of the Institute and is seen as restraining the range of membership which the Institute may wish to consider within its ranks. By using the words 'relating to the valuing of land' within Section 10 the Institute is generally regarded as being composed of land valuers whereas current trends would see the Institute wishing to have a much wider membership than only those persons undertaking the valuation of land.

3. Within the provisions of Section 31 and 32 of the Act the Valuer-General shall investigate complaints and refer these in writing to the Valuers Registration Board. There is a provision whereby the Institute of Valuers may investigate and report to the Board. It is considered that the disciplinary powers of the Valuers Registration Board under current legislation are inadequate and require review.

It is for these reasons that the N.Z. Institute of Valuers has supported the review of the Valuers Act 1948 and has been a party to the draft Valuers Bill.

PROTECTION OF THE PUBLIC INTEREST

a) Role of the Valuers Registration Board

The role of the Valuers Registration Board may briefly be summarized as administration of the disciplinary provisions of the Valuers Act 1948, the maintenance of a list of registered valuers, and the registration of valuers who satisfy the require-

ments outlined in the Act. It also has an important role in setting and maintaining educational standards at the respective universities in New Zealand. The Board also has a role in investigating overseas valuation qualifications and determining their admissibility in New Zealand. This educational role should not be under-estimated. It is in the best interests of the public to ensure that valuers qualified in New Zealand are at all times trained to the highest practical standards through initial and ongoing educational programmes. The Valuers Registration Board also has the duty of issuing Annual Practising Certificates.

b) Role of the N.Z. Institute of Valuers.

The N.Z. Institute of Valuers undertakes a vital role in the protection of the public interest by promotion of the term "registered valuer" and "public valuer" which may only be used by a duly registered person with a minimum of 3 years practical experience in valuation, in addition to a recognised tertiary qualification in valuing.

The N.Z. Institute of Valuers also acts in the public interest by promulgating to its members recommended guidelines as to professional practice.

CORPORATE PLANNING IN THE N.Z. INSTITUTE OF VALUERS

In recognition of the changes taking place in society the N.Z. Institute of Valuers has been planning for members to participate in a less regulated economy.

In doing so the Institute is seeking to develop an organisation which will ensure its progress and provide for fast and effective governance, encourage a responsiveness to change and foster a wide range of valuation services within a unified body. The Institute is encouraging maximum member participation in the affairs of the Institute and will continue to develop, set and maintain practice standards for the benefit of both the membership and the public.

The Institute continues to seek to promote active and effective public relations in all matters relating to the valuation of real property.

In the field of education the Institute continues to establish education and admission criteria and categories of membership and appropriate pathways to admission to the Institute. In this area the Institute sees its membership as widening to comprise valuers and consultants who value and appraise, advise and consult, manage, arbitrate and negotiate in respect of urban, rural and maritime land, and property, stock, plant, machinery and chattels, utilities and natural resources including forestry, minerals, business and shares.

This widening of membership is seen to take it well outside the ambit of the present constraints imposed by Section 10 of the Valuers Act 1948.

A further important function which the Institute is planning is to continue to provide all members with opportunities for continuing education, and provide facilities of research and development for the benefit of the profession.

Furthermore the N.Z. Institute of Valuers sees the development and maintenance of close association and co-operation with other professions within the New Zealand and overseas.

The N.Z. Institute of Valuers welcomes the challenges presented by the prospects of a less regulated economy and society.

A REGULATED PROFESSION OR A DEREGULATED PROFESSION

The N.Z. Institute of Valuers has functioned within the framework of the Valuers Act 1948 for some 40 years and believes that the public interest has been well served by this regulation.

The review of the Valuers Act 1948 is long overdue. The Draft Valuers Bill seeks to remedy the shortcomings of the

present Act. The N.Z. Institute of Valuers favours the retention of a reviewed Valuers Act consistent with the provision of public protection.

If there is deregulation then the N.Z. Institute of Valuers identifies the following issues that will need to be addressed.

The protection of the public interest through the promotion of an identifiable professional qualification/association is essential.

There needs to be an identifiable Standard by which professional practices can be measured.

There needs to be a body responsible for control and discipline of professionals, either within the N.Z. Institute of Valuers, or an independent body. The N.Z. Institute of Valuers would welcome the opportunity to comment in greater detail in this area.

The N.Z. Institute of Valuers questions whether the removal of the 'professional controls' which have generally protected the public and set standards for the benefit of consumers is indeed in the greater 'public interest'.

CONCLUDING COMMENTS

The N.Z. Institute of Valuers makes this submission because it believes Valuation is a service occupation that can only be developed through proper education, licensing and discipline. If any of these controls are absent, then the public the end user of the Valuer's services - will be disadvantaged. The New Zealand Institute of Valuers submits that all three elements must be present, even in a deregulated society, in any organisation representing the valuation profession.

The N.Z. Institute of Valuers welcomes the opportunity of making this brief submission to the Working Party on Occupational Regulation. We trust that this submission and supporting documents are helpful to the Committee. The Institute would welcome the opportunity to discuss this submission in person with members of the Working Party, and to answer any questions which may arise.

J.G. Gibson,
GENERAL SECRETARY on behalf of the Council of the
N.Z. Institute of Valuers.

PROMPT, ACCURATE PROPERTY SEARCHES.

Our highly trained Staff are in full time attendance at the Land Transfer Office, Lands & Survey Department, and Companies Office.

Daily attendance at Inland Revenue, High & District Courts and Valuation Department.

Courier Delivery Available.

PHONE (09) 735-138 - FAX (09) 398-957
CREDITCORP SERVICES LIMITED

A Division of Fortress Properties Limited

P.O. BOX 5346, AUCKLAND.

Arbitration - The Role of the Expert Witness

By The Chief Justice of New Zealand, Sir Ronald Davison

character of the expert witness. But, in fact, it highlights the unique characteristic of the expert witness. He may, like any other witness, give evidence of facts but, in addition, the expert is able to give evidence of opinion within the area of his own expertise. The expert witness is not limited to giving evidence of facts but is allowed to express an opinion based upon facts either observed or known to him or proved by other witnesses. Such opinion evidence is not able to be classified as true or false as is the factual evidence of other witnesses, because it speaks not of facts but of the expert's own opinion which does lend itself to a judgment of being true or false - so long as the opinion is honestly held by the expert.

The acceptability of the evidence of the expert witness must depend therefore not upon a judgment of whether it is true or false but upon a judgment of whether the weight to be given to the opinion is such that the opinion is to be accepted.

The weight to be given to an opinion of an expert witness depends upon a number of factors included amongst which are:

1. The formal qualifications of the witness.
2. The practical experience gained in the field of expertise.
3. The extent to which he has researched or tested the topic under consideration.
4. The extent of his preparation for the giving of his evidence.
5. His familiarity with the facts of the particular case.
6. His manner of giving evidence.

Introduction

The first reported arbitration was conducted without the presence of an expert witness. The report of that arbitration is to be found in the Book of Genesis, Chapter three.

I am indebted to Sir Lawrence Street for his version of the report.

The dispute turned essentially upon the commercial issue of inherent quality of foodstuffs - applies - overlaid by issues of false and misleading conduct. It was arbitrated summarily and authoritatively by THE GREAT ARBITRATOR. The true defendants whose names incidentally were Adam and Eve sustained verdicts against them and suffered a judgment of transportation. The third defendant - one Serpent - was reduced in both status and stature. '

The reason why no expert witness was called at that arbitration needs no comment from me. But at least of recent times the complexities of arbitration involving technical issues have brought about the introduction into the arbitration process of experts in various fields for the purpose of informing the arbitrators upon topics which are likely to be outside their own fields of experience or expertise. The expert witness is now a commonplace in modern arbitration.

*the expert is able to give
evidence of opinion within
the area of his own
expertise.*

It has been said by a sceptical writer that persons who give evidence may be classified as witnesses of truth, liars, bloody ilars or experts. At first hearing one might be inclined to think that such a classification casts an unjustifiable slur upon the

Who is an Expert?

The earliest use of expert witnesses by the Courts dates from at least the Fourteenth Century. As long ago as 1553 Saunders J. said:

"If matters arise in our law which concern other sciences or faculties we commonly apply for the aid of that science or faculty which it concerns. This is a commendable thing in our law. For thereby it appears that we do not dismiss all other sciences but our own, but we approve of them and encourage them as things worthy of commendation." 2

In those early times, however, the expert was often a member of the Court (the jury in those days) and was engaged by the Court to assist it in reaching a decision on a matter requiring special knowledge or expertise.

Later the expert was allowed to be called by a party as a witness in that party's case.

The first recorded instance of an expert being so allowed to give evidence as an expert is *Folkes vs. Chadd* 3 where in 1782 a Mr Smeaton, a famous engineer of that day was called by one of the parties and was allowed to give his opinion on the question of whether or not an embankment had caused the silting up of a harbour. The question of who is to be regarded as an expert is for the arbitrator to decide. He makes his decision upon the same principles as applied by the Courts in the determination of the same question. Those principles have been briefly stated by Mr Peter Gillies of Macquarie University in a recent paper: 4

"Assuming that a particular field of knowledge is a relevant field of expertise for the purposes of the rule allowing

expert evidence, an alleged expert witness must qualify himself or herself as an expert witness. The determination of whether this person is indeed an expert is a matter for the trial judge.

A person may be an expert by virtue of formal training in an academic or technical course, but it is unnecessary for him or her to have undergone a formal course leading to a qualification. Rather, a person can acquire sufficient knowledge through practical experience or informal study for the purpose of recognition as an expert in the present context. As to whether a formal credential is required, depends largely upon the field of expertise in question. If the area of expertise is one which has become the province of academic or technical study, such as medicine, psychiatry, engineering or biochemistry, then a person without formal qualifications will rarely be accepted as being an expert. Otherwise, qualifications will be less significant."

In New Zealand, valuers or surveyors as they are sometimes called in other countries, are registered under the Valuers Act 1948 and an applicant for registration is required to furnish evidence of having acquired the necessary educational qualifications and experience as provided by that Act and that he or she has also attained a reasonable standard of professional competence. A registered valuer will normally be accepted by the Courts as qualifying as an expert witness within the field of expertise of a valuer.

New Zealand Courts have indicated that in proceedings involving land valuations, cases presented without expert valuation evidence can have little hope of success. 5

Now in discussing the role of the expert witness in arbitration, I should commence by considering the expert from the point of time when he is first approached by a party to a forthcoming case.

The Instruction of the Expert

The valuer who I adopt as the expert in this paper (but my observations apply equally to other experts modified to meet the particular circumstances of their expertise) will probably first be approached by the legal representatives of a party either by letter or by telephone with a request that he make a valuation. He may, or may not, at that stage be told he is later required to give evidence at a hearing. It may be for the purpose of a land valuation compensation case arising from a compulsory taking of land for a public work; it may be a rental case involving the fixing of rentals for a commercial building; it may be a family case involving division of matrimonial property. But whatever type of case it is, the valuer is sought to be employed on behalf of one party or another. His situation in regard to such employment has been well stated by Mr I. R. Freckelton in his book entitled, 'The Trial of the Expert'. 6

"Experts do not come to the courtroom as disinterested observers. They are generally sought out by one or other side in legal proceedings, requested to make a report to the legal representatives, paid for that and, if the report coincides with the arguments which the lawyers wish to put forward in the case, asked to testify. Experts are no more altruistic than lawyers. They expect remuneration and they receive it. Of necessity, this affects the relationship between the expert and the side for which he or she appears. There are all manner of pressures, albeit often subtle ones, that propel the expert in the direction of making findings which are acceptable to the side for which he or she initially prepares the report and then is asked to appear. Some of the pressures are financial but just as important are those which may be summed up as 'clause-identification-

The expert is subjected, unwillingly no doubt, to pressure to make findings favourable to the party instructing him."

In the light of these observations it becomes of great importance to the acceptability of the expert's evidence that he should in no way be open to challenge or criticism on the grounds of bias or partiality in favour of the party calling him to testify. The expert should remember that, whilst it will be only natural to please those who are instructing him, the day will come when he will have to justify his opinion before a Tribunal and there over-enthusiasm to support a cause may well be exposed to the detriment of the side calling him.

The late Law Lord, Lord MacMillan, once said of the expert witness:

"I am not certain that any scientific man ought even to become partisan of one side. He may be the partisan of an opinion but ought never to accept a retainer to advocate a particular view merely because it is the view which is in the interests of the party who has retained him to maintain.

To do so is to prostitute science and practise a fraud on the administration of justice. The true role of the expert witness is to offer the Court the best assistance he can by getting at the truth. It is in some form of consultative capacity that the abilities of professional men are best utilised in the public service."

The purpose of the expert witness's evidence is to assist the arbitrator

The purpose of the expert witness's evidence is to assist the arbitrator to resolve the issues in dispute and although he has been employed by one of the parties to the dispute, his primary duty is to uphold the integrity of his profession. It is only if he demonstrates integrity and impartiality that his evidence will be acceptable in the eyes of the Tribunal.

Having accepted instruction on behalf of a party, how does the valuer qualify himself and prepare his report on which his evidence later will be based?

Preparation of the Report

The expert may or may not know at the time he is instructed that he will later be called upon to support his report before an Arbitration Tribunal. This, however, should make no difference whatever to his approach. Every report made should be upon the basis that the expert is not only prepared to, but able to, support it if called upon to do so. A report made on any other basis is valueless to the client and would be unprofessional on the part of the expert.

In preparing his report, the expert witness has two main tasks to perform. The first is the task of collecting, collating and examining material as a basis for the opinion he is asked to give. The second is the forming of that opinion based on that study. The material which he collects therefore as the foundation for his opinion must be factual and capable of being proved in the ordinary way.

The following are the steps which a valuer, proposing to give evidence as an expert, will normally follow in the preparation of his report:

1. Ensure that he is fully and adequately briefed by his client as to the nature of the investigation and report required of him and the purpose for which it is required. If the matter has proceeded to a dispute then the issues between the parties should be discussed with the legal advisers.
2. He should become thoroughly familiar with the subject-matter of his report. This will involve in the case of the valuer, research into the title of the property, the planning zoning and requirements, and any other fixtures which may affect value.

3. If value depends upon such matters as future subdivision then all factors relevant to such subdivision must be looked at and expert assistance in the form of surveying evidence or engineering evidence or financial evidence or any other type of expert assistance as necessary should be sought to assist the valuer to his final conclusions.
4. The valuer should bear in mind that the factual material upon which he bases his opinion may later have to be proved as fact before an arbitration or other Tribunal in the usual way by persons having knowledge of it and the valuer should not rely upon factual material which he can not so prove. To do so may result in the opinion being challenged if an important factual element is later not proved and the ground is cut away from under the valuer's feet.
5. Any doubts about the proof of factual matters or about any other legal issues which arise should be discussed with the client's legal advisers before the report is completed. It is no use waiting until the case is being prepared for trial. By that stage, claims or counterclaims will have already been made based on the report and, if it becomes necessary to change the valuer's evidence because of defects or deficiencies discovered, then the case for his client is likely to be weakened if such situation is disclosed as it probably will be at the hearing.
6. The report should be prepared in a clear logical sequence by setting out first the nature of the expert's brief; then the relevant factual material upon which the valuer is to base his opinion; then should follow the valuer's opinion and the reasons for reaching such opinion.
7. The report when completed should then be delivered and, if necessary, discussed with the legal advisers.

If the valuer is later advised by the legal advisers that the dispute with which the report is concerned is to proceed to a hearing, for example, before an arbitrator, then the next step is to prepare his evidence for the hearing.

Preparation of Expert's Evidence

(a) Qualifying himself

Where the valuer has already prepared a report and submitted it to the solicitors, then the foundation for the valuer's evidence has already been substantially prepared. Two very helpful statements about how an expert qualifies himself and prepares his evidence have been given in two comparatively recent decisions of English Courts.

English Exporters (London) Ltd vs. Eldonwall Ltd 7 was a case involving expert valuation evidence. Megarry J. said:

"In building up his opinions about values, he will no doubt have learned much from transactions in which he has himself been engaged, and of which he could give first-hand evidence. But he will also have learned much from many other sources, including much of which he could give no first-hand evidence. Text-books, journals, reports of auctions and other dealings, and information obtained from his professional brethren and others, some related to particular transactions and some more general and indefinite, will all have contributed their share. Doubtless much, or most, of this will be accurate, though some will not; and even what is accurate so far as it goes may be incomplete, in that nothing may have been said of some special element which affects values. Nevertheless, the opinion that the expert expresses is none the worse because it is in part derived from the matters of which he could give no direct evidence. Even if some of the extraneous information which he acquires in this way is inaccurate or incomplete, the errors and omissions will often tend to cancel each other out; and the valuer, after all, is an expert in this field, so that the less reliable the knowledge that he has about the

details of some reported transaction, the more his experience will tell him that he should be ready to make some discount from the weight that he gives it in contributing to his overall sense of values. Some aberrant transactions may stand so far out of line that he will give them little or no weight."

The other case was *R. vs. Abadam'* where Kerr L. J. said:

"In the context of evidence given by experts it is no more than a statement of the obvious that, in reaching their conclusion, they must be entitled to draw on material produced by others in the field in which their expertise lies. Indeed, it is part of their duty to consider any material which may be available in their field, and not to draw conclusions merely on the basis of their own experience, which is inevitably likely to be more limited than the general body of information which may be available to them. Further, when an expert has to consider the likelihood or unlikelihood of some occurrence of factual association in reaching his conclusion, as must often be necessary, the statistical results of the work of others in the same field must inevitably form an important ingredient in the cogency or probative value of his own conclusion in the particular case. Relative probabilities or improbabilities must frequently be an important factor in the evaluation of any expert opinion and, when any reliable statistical material is available which bears on this question, it must be part of the function and duty of the expert to take this into account.

However, it is also inherent in the nature of any statistical information that it will result from the work of others in the same field, whether or not the expert in question will himself have contributed to the bank of information available on the particular topic on which he is called on to express his opinion. Indeed, to exclude reliance on such information on the ground that it is inadmissible under the hearsay rule might inevitably lead to the distortion or unreliability of the opinion which the expert presents for evaluation by a judge or jury."

(b) The evidence the expert may give

There are three basic rules which the expert will encounter relating to the giving of evidence:

First The general rule of evidence at common law is that witnesses may only testify to what they have personally observed or experienced i.e. to factual matters.

Second The expert witness is entitled to not only give evidence about factual matters but is also permitted to express opinions based on proven facts. It is for the Tribunal/Arbitrator to decide whether a witness qualifies as an expert for the purposes of this rule.

Third The cases where expert evidence will be permitted are those where the Tribunal of fact needs assistance in deciding technical or complex matters which are beyond the normal experience of lay members of the public or the Tribunal.

There is one suggested qualification, however, to the extent to which expert opinion evidence may go. It is commonly referred to as 'the ultimate issue rule'. Stated in its simplest form the rule is this:

"Where the opinion tendered by the expert involves what is a mixed question of fact and law and is the very issue the Court has to decide then the opinion is not admissible."

However, in practice the rule is not quite so simple.

The cases are conflicting as to how an expert may be asked the very question which the jury have to decide; but the weight of authority appears to be as follows:

- (a) Where the issue involves other elements besides the purely scientific, the expert must confine himself to the

latter and must not give his opinion upon the legal or general merits of the case.

- (b) Where the issue is substantially one of science or skill merely, the expert if he has himself observed the facts, may be asked the very question which the jury have to decide.

That formulation has, however, recently been questioned and I believe that the rule which is now applied in both New Zealand and Australia is as expressed by Justice Glass in the Australian case of *R. vs. Palmer 10* where he said:

"The true rule, in my opinion, is that no evidence can be received upon any question, the answer to which involves the application of a legal standard..... these are questions, the answers to which can only be given by the jury after the judge has instructed them upon the rule of law they must apply."

A common application of such principle would be in cases involving allegations of negligence where the decision as to whether a person was negligent would depend upon the facts of the case to which the appropriate legal standard would need to be applied and Courts will not allow a witness under the guise of being an expert to express opinions on such matters.

There are, however, some apparent exceptions to that rule, one of which is in cases involving land valuation evidence where the expert valuer is asked to give evidence as to the valuation of a particular property which is also the very matter that the Tribunal/Arbitrator has to determine. In England the ultimate issue debate has been determined by statute where the Civil Evidence Act 1972 provides that an expert may testify on the ultimate issues: Phipson on Evidence observes that this is no more than declaratory of the common law but I have reservations as to whether such evidence was allowed in all cases. New Zealand has no such statute nor do I believe have the Australian States.

Years ago Justice Sly in the Australian case of *Wright vs. Sydney Municipal Council*¹¹ explained his decision to allow such valuation evidence thus:

"An expert in land values can in my opinion give evidence that he has experience of sales in a district, and also that he has kept in touch with sales not made by himself in the district, to show that he is competent to give evidence as to value in the particular case. He can in my opinion give direct evidence of sales of other lands comparable to support his valuation of the land in question, provided he gives proper legal evidence of such sales, or such evidence has already been given. But he has no privilege beyond any other witness to speak in detail of the prices realised for other lands unless he can give legal evidence of such sales, or that evidence has already been given by the witnesses. It would be a most dangerous thing to allow an expert to speak of the details of sales of which he really knows nothing, and see the difficulty the plaintiff in a case like this would be in if he had to answer such evidence not knowing whether the sales were really existent or not."

A similar practice has long been followed in this country and expert evidence of valuers received. The New Zealand practice is also in line with the observations of Megarry J. in *English Exporters (London) Ltd vs. Eldonwall Ltd* at p.423:

"In my judgment a valuer giving expert evidence in chief (or in re-examination): (a) may express the opinions that he has formed as to values even though substantial contributions to the formation of those opinions have been made by matters of which he has no first-hand knowledge; (b) may give evidence as to the details of any transactions within his personal knowledge, in order to establish them as matters of fact; and (c) may express his opinion as to the significance of any transactions which are or will be proved by admissible evidence (whether or not given by him) in

relation to the valuation with which he is concerned; but (d) may not give hearsay evidence stating the details of any transactions not within his personal knowledge in order to establish them as matters of fact. To those propositions I would add that for counsel to put in a list of comparables ought to amount to a warranty by him of his intention to tender admissible evidence of all that is shown on the list."

Canadian Courts have been even more liberal in approach since 1969 when Justice Ritchie in *St John City vs. Irving Oil Co. Ltd 12* said:

"To characterise the opinion evidence of a qualified appraiser as inadmissible because it is based on something that he has been told is, in my opinion, to treat the matter as if the direct facts of each of the comparable transactions which he has investigated were at issue whereas what is in truth at issue is the value of the opinion. The nature of the source on which such an opinion is based cannot, in my opinion, have any effect on the admissibility of the opinion itself."

There is much to be said for that point of view.

- (c) Preparing the brief

Perhaps one of the most neglected areas of pre-trial activity is the preparation of the expert's brief of evidence.

Perhaps one of the most neglected areas of pre-trial activity is the preparation of the expert's brief of evidence. This should be done by the solicitors with the expert valuer. Remember that an opinion is only as good as the impression which the witness gives to the Tribunal. So that if, as in most cases involving experts these days, there is an expert or experts called on each side, it will be the expert who is the more convincing to the Tribunal whose evidence will be accepted. Therefore the brief should set out simply and clearly the various matters required to be proved. It should commonly be prepared in question and answer form so that counsel leading the witness has control of his evidence and one does not find the witness just rambling on. The witness should be able to answer the question precisely and then await the next question from counsel. Too many witnesses get into difficulties by just such rambling on. It is far better for evidence to be firmly controlled. With that in mind the brief will be conveniently prepared in question and answer form.

The brief will usually deal in a valuation case with the following matters:

- (a) The expert's qualifications and experience in the relevant field.
- (b) The purpose of his evidence.
- (c) The ownership, history and physical description of the property.
- (d) The basis upon which the valuation of the property has been carried out.
- (e) Any factual material which the valuer has relied upon when forming his opinion.
- (f) The opinion which the valuer has arrived at as to valuation.
- (g) The reasons for arriving at that opinion.
- (h) Any areas of doubt or which may be suggested as being contrary to his client's case should be frankly faced up to and acknowledged and due regard paid to them in the final result.

At the same time as the brief is prepared - or later if needs be, and certainly if possible before he gives evidence - the expert should discuss with the solicitors the opposition case so far as it is known. But shortly before trial a certain amount of information will probably be available and counsel may have exchanged experts' reports. The witness should consider how he is going to deal with any apparent differences between himself and the experts of the opposing side.

It may be that he is able to show that there are reasons why the opposing case should not be accepted. On the other hand, if the result is simply a difference of opinion then the persuasiveness of the witness's demeanour and evidence will be crucial to the issue.

The Tribunal's Attitude to the Expert Witness

The possible effects of employment of an expert were well stated by Ian Freckelton in 'The Trial of the Expert':

"Experts do not come to the courtroom or to an arbitration as disinterested observers. They are generally sought out by one or other side in legal proceedings, requested to make a report to the legal representatives, paid for that and, if the report coincides with the arguments which the lawyers wish to put forward in the case, asked to testify. Experts are no more altruistic than lawyers. They expect remuneration and they receive it. Of necessity, this affects the relationship between the expert and the side for which he or she appears. There are all manner of pressures, albeit often subtle ones, that propel the expert in the direction of making findings which are acceptable to the side for which he initially prepares a report and then is asked to appear."

Sir George Jessel, M.R. referred to the practice of expert shopping - choosing an expert according to whether he had views supporting the case of the party engaging him or approaching one expert after the other until an expert with views favourable to the party was found.

In *Lord Abinger vs. Ashton 14* he expressed the attitudes of many Judges to expert witnesses in these words:

"In matters of opinion I very much distrust expert evidence, for several reasons. In the first place, although the evidence is given upon oath, in point of fact the person knows that he cannot be indicted for perjury, because it is only evidence as to a matter of opinion. So that you have not the authority of legal sanction. A dishonest man, knowing he could not be punished, might be inclined to indulge in extravagant assertions on an occasion that required it. But that is not all. Expert evidence of this kind is evidence of persons who sometimes live by their business, but in all cases are remunerated for their evidence. An expert is not like an ordinary witness, who hoped to get his expenses, but he is employed and paid in the sense of gain, being employed by the person who calls him. Now it is natural that his mind, however honest he may be, should be biased in favour of the person employing him, and accordingly we do find such bias.....Undoubtedly there is a natural bias to do something serviceable for those who employ you and adequately remunerate you. It is very natural, and it is so effectual that we constantly see persons, instead of considering themselves witnesses, rather consider themselves as the paid agents of the person who employs them."

But who is responsible for such expressions of opinion - the expert witnesses or the lawyers who engage them?

The criticism of expert witnesses in general may have some justification. But in fairness, are experts to blame or is the blame to be placed at the door of the adversary system of trial in which the expert is asked to take part? The expert does not choose to be partisan and to seek to support the case of the side that engages him.

It is interesting to note the observations of Mr J. D. F. Howard who is both a medical practitioner and a lawyer and

was Secretary of the British Medical Association in 1983. In a paper on 'Negligence' he said:

"Where Anglo-Saxon law went wrong was to try to resolve the dilemma by subjecting the outside experts to the rules of adversary procedure. The result has inevitably been a battle of the experts fought within rules which were never designed to deal with conflicts of scientific opinion..... Under the Anglo-Saxon procedures expert witnesses may be selected as much for their ability to assist the party concerned as their expertise."

Well, I wonder whether those criticisms which appear to have been aimed more directly at expert scientific witnesses apply to the same extent to expert valuers giving expert evidence of value.

For myself, I rather doubt that they do. Valuers from the very nature of the expert evidence they give, which must be based on a factual foundation of previous sales, valuation records etc., can be made far more accountable for the opinions of value they express. Their opinions can be related back to a large extent to a factual base but even so there is room for clear expression of opinion which the valuer should take care he can genuinely justify if challenged.

The adversary system of conducting cases - including arbitrations - has given rise to a number of criticisms from experts as well as lawyers. The evils most frequently alluded to were referred to by John Bastin in a paper 'The Court expert in Civil Trials' 16 as follows:

1. The Court hears not the most expert opinions but those favourable to the respective parties.
2. The corrupt expert may be a rare phenomenon, but will not be exposed by an inexperienced cross-examination.
3. The expert is paid for his services, and is instructed by one party only; some bias is inevitable.
4. Questioning, whether educative or hostile, by a lay barrister may lead to the presentation of an inaccurate picture, which will mislead the court and frustrate the expert.
5. Where a substantial disagreement arises, it is irrational to ask a lay judge to solve it; he has no criteria by which to evaluate the opinions.
6. Success may depend on the plausibility or self-confidence of the expert, rather than his professional competence.
7. Those professions on which the judicial system is reliant are antagonised by adversary trial procedure.

I do not, of course, imply that such comments apply to all expert witnesses. The comments are but generalisations. But within them there is an element of truth which should provide a warning to valuers to avoid the pitfalls to which expert evidence can be prone.

The matters referred to by Mr Bastin and by Sir George Jessel should be regarded not as accusations but as warnings of matters to be avoided by the expert witness.

Giving the Evidence

All of the pre-trial inquiry and procedures prior to hearing are but preparation for the most important aspect of the role of the expert witness - the giving of his evidence. The manner in which it is done can win or lose a case for the party for whom the expert is called.

I was impressed by the clear statement of the responsibilities of the expert witness given by Mr H. J. Miller in a paper presented in the Journal of the Chartered Institute of Arbitrators in 1982 entitled 'The Expert Witness' and I think they deserve repeating here. They are referred to under the heading - 'Personal Qualities' (of the witness):

- (i) Integrity - both personal and professional. Whether he is under oath or not, this quality must come

through when giving evidence if this evidence is to be believed: Judges/tribunals are most adept at weighing up the witness and 'integrity' rates very high on their list.

'Personal integrity' is always hard to assess, but 'professional integrity' comes over loud and clear! Many an expert witness loses credence when he hedges round a question, particularly under cross-examination, rather than face up to it squarely - he conveys the impression (rightly or wrongly) that he is putting his party's interests before his own professional integrity. If he has done his homework and believes in his party's cause he should be able to tackle any question reasonably and fairly and, if necessary, give way on a point here or there; it is the sum total that counts (it is the 'war' that has to be won, not every individual 'battle!'). If he loses on credibility he may call into question all the points that he might otherwise have won for his party.

- (ii) Rationality - he must have the ability to rationalise. Under examination he will be posed with many and varied questions, all by lawyers with only a limited knowledge of the professional matters under consideration. Where the question is clear he should deal with it as directly and forthrightly as possible. Where the question is less clear he may, perhaps, exercise a little more latitude, e.g., he may consider the question from various angles (so long as the judge/tribunal are following with interest). His ability to consider carefully, and reason clearly, any question put to him will enhance his standing with the judge/tribunal.
- (iii) Communicability - it is no good the expert witness having the expert knowledge if it cannot be communicated with clarity and understanding to those who have to decide. It may not be so difficult in arbitrations where the arbitrators will understand the usual professional terms. It may well prove difficult, however, in court. It does not help his cause if every other word of an erudite sentence has to be explained - the judge may lose interest before the message has got across!"

Under the heading of 'Commitment' Mr Miller said:

"His is a special function: he will be called upon to give opinions which (hopefully) will be favoured by the court/tribunal, and adopted as their own. His opinions must therefore be both wise and just.

He must not assume he knows all the answers. He must look at the facts (as they are known to his party) and examine them thoroughly from every angle. Where his professional opinions on the facts speak for his party's cause he must be prepared to explain why; where they do not, he must explain that also (indeed, even more so!). No stone must be left unturned where matters of expertise are concerned; he has accepted that degree of responsibility and must honour it fully."

The first few minutes of an expert's evidence often determines the attitude of the Tribunal to his evidence. The witness should speak clearly and in a measured way - not gabbling at a speed which is difficult to follow or record. Remember that the Tribunal, whilst listening to the evidence, is at the same time considering it and weighing it up. This is difficult to do unless the witness gives time for doing so.

The expert should never lecture the Tribunal or talk down to it. Rather, he should regard himself as an instructor or teacher, using simple phrases where possible and ensuring that the Tribunal understands a point before passing on to the next one. If the expert can carry the Tribunal with him then the battle is more than half won.

Cross-examination of the Expert Witness

The expert should be well aware that after having given his evidence-in-chief he will be cross-examined by counsel for the opposing side. He should be prepared for this before the hearing by counsel calling him. Counsel should put the

Counsel should put the witness through a practice cross-examination

witness through a practice cross-examination so the witness will know the type of questions to be asked of him by opposing counsel and can be ready to deal with them.

If opposing counsel feels the witness's evidence is damaging to his case, he will try to discredit him by challenging his qualifications, his previous experience with the type of problems with which the case is concerned, the correctness or accuracy of the basic facts on which the expert's opinions are based so as to show that the witness's evidence is unreliable and that the opinions of counsel's own expert are to be preferred.

If the expert has done his homework and formed honest opinions, he has nothing to fear from cross-examination. He should not become angered or upset. Opposing counsel may endeavour to cause the witness to become upset. The witness should not be rushed in his answers. They should be clear, as simple as possible, and courteous. He should be courteous to the Tribunal, to other parties and counsel. Do not try to score off cross-examining counsel. Counsel will usually come off best. Do not hedge in answering a question. If you do not know an answer, say so. If a point is made in favour of the opposition, acknowledge it; explain it if possible, but do not deny what to the Tribunal may be perfectly obvious. Finally, the expert who has been subject to a vigorous and challenging cross-examination may be comforted by realising that his evidence has probably been effective and damaging to the other side - hence the attempt to demolish him.

The expert witness called for the defence

The expert called by the defence will usually be called upon, first, to present the expert valuation evidence for the defence and, second, to answer the case put by the claimant's expert witness or witnesses. In dealing with the opposing case, the expert should be as objective as possible and not attempt to discredit or criticise the other expert. It is not an edifying sight to see one expert criticising another. If the witness holds a differing opinion from that of the opposing expert, he should be able to explain why he holds such differing opinion, leaving it to the Tribunal to make the decision as to whose opinion is to be accepted.

Practice Innovations

In order to be fully effective, the expert witness should know the practices and procedures of the Tribunal before which he is to appear. If you are not so familiar, ask explanations from counsel but, in addition, there is no better teacher than first hand observation of the Tribunal in session.

Currently there is considerable criticism not only by parties and legal Advisers and expert witnesses but by Tribunals themselves of the manner in which expert evidence is received in the adversary system. Experts are called on each side and the Tribunal, which almost invariably has itself no expertise in the particular field, is required to make the decision as to which expert's evidence should be accepted. Many writers have also criticised the present system: see *Phipson on Evidence* p.565-576.

Various innovative alterations have been and are being considered to solve the problem of expert evidence.

1. Briefs of expert evidence might be exchanged before hearing. In England this requirement is contained in statute and Rules of Court. 19 In other jurisdictions, although no rules have been made, parties are encouraged to exchange such evidence.
2. Going a little further, it is suggested that experts should confer before hearing with a view to bringing down a common report for the Tribunal. If complete consensus can not be reached, the report can set out the areas of agreement and the areas of disagreement, leaving the Tribunal to resolve only the matters of disagreement.
3. Then there is the suggestion of a Court or Tribunal appointed expert to advise the Court or Tribunal on matters requiring expert opinion. The opposition to this course is voiced largely by lawyers who claim that they will not know which opinions the Court expert will give and they will have no opportunity to challenge such opinions.

For myself, at this stage, I would encourage the exchange of reports and consultations by opposing experts with a view to bringing down a joint report as the most acceptable advances that might be made.

In the field of arbitration, it is within the power of the parties to agree to such a course, and, depending upon the terms of the submission to arbitration, if the arbitrator is free to set his own procedure he may direct the parties how he wishes to deal with expert evidence.

If the procedures move more to exchange of reports and consultation then the role of the expert witness may change to a large extent but except for the cases where complete consensus is arrived at, the expert will still have to appear before the Tribunal to justify his opinion on matters still in contention.

Your ordeal in the witness-box is not over but it may be shortened if such procedures become more the general rule.

Book Review

RESIDENTIAL TENANCIES HANDBOOK

A. P. S. Alston

Published Butterworths, Wellington, 1987.
126 pages including comprehensive index (13 pages) plus preface and chapter index (7 pages).

Price \$47.30 incl. GST

This publication succinctly draws together the provisions of the Residential Tenancies Act 1986. The Act became law on 1 February 1987. Mr Alston's publication considers the Act under nine chapter headings. Each chapter (apart from the first, 5th and the last) has an appendix which sets out the relevant provisions of the Act, and is written in an easy informative style.

Chapter 1 Introduction:

Outlines the background to the Act, and the areas where the law is changed, this being in five areas:

- Security of tenure
- Other rights and duties
- Rent Control
- Bonds
- Administration

Chapter 2 - The Scope of the Act:

Includes a listing of the excluded tenancies and a comment on existing tenancies.

Chapter 3 - Starting an Agreement:

As well as giving a comprehensive detailing of who can enter agreements, discrimination, types of tenancies and bonds, also sets out tenancy agreements, rights/obligations of parties.

Chapter 4 - Bonds:

Deals specifically with this item, and includes a comprehensive 'Property Inspection Report' - two examples are given - one obtainable from the HCNZ and the other based upon Victoria, Australia experience. The chapter concludes with alternatives to bonds.

Chapter 5 - Rents:

This chapter deals with the topics of rent in advance, rent increases and MARKET RENT. Market rent is defined in Section 25(3) of the Act.

A concluding paragraph deals with protected tenants under the Tenancy Act 1955.

Chapter 6 Rights and Obligations of Landlords & Tenants: This chapter sets out matters in respect to the relationships and duties between the landlord and the tenant. It includes sample 'Notices' or 'letters' to tenants and landlords detailing such matters as 'intention to enter the premises', 'Notice of damage and need for repair'.

These examples of 'notices' are particularly helpful.

Three important sections in this chapter deal with landlords' obligations on sale of the premises, and enforcement of rights and the responsibilities and rights of landlord and tenant for repairs, provision of facilities and urgent repairs, including obligations under The Housing Improvement Regulations 1947 and the Health Act 1956.

Chapter 7 - Terminating a Tenancy:

This chapter also includes examples of 'Notices' of termination and a discussion of the various ways in which termination can be effected.

Chapter 8 - Administration: The Tribunal & Mediation:

The chapter deals with the Tenancy Tribunal and the tenancy mediators. It is very comprehensive and discusses the appearance before a Tribunal, role of mediators, hearings, evidence and appeals.

Chapter 9 - Some Tax Considerations:

The author comments for property investors on some relevant provisions of the Income Tax Act 1976. The principal matters discussed are 'assessable Income' 'deductions', 'GST'.

This readable little text would be an essential companion to the Act and Regulations. As the preface says, "is primarily a guide to the provisions of the Residential Tenancies Act 1986 ... it also looks at the aspects of residential tenancies which are not to be found in the Act. These include relevant provisions of the Fair Trading Act 1986, the Income Tax Act 1976, the Stamp and Cheque Duties Act 1971 and the Housing Improvement Regulations 1947".

The publication is now held in the Institute's Library in Wellington.

John Gibson

International Arbitration - Pan Pacific Congress

The full submissions relating to the mock arbitration are printed in the following pages. The two principal New Zealand valuer participants were Rod Jefferies and Peter Mahoney. Rod Jefferies, who acted as Chairman, organised the arbitration, and had ongoing dialogue with the participants, both valuers and legal representatives, over a long period.

Lincoln North of Canada and Peter Mahoney of Auckland, prepared their expert evidence independently, neither being aware of the other's evidence until their valuation reports had been completed. The difficulties of organising an arbitration on this scale can be appreciated in the knowledge that the participants were in different cities and even in different countries. The success of this exercise is due in no small measure to Rod's dedication to the task.

New Zealand Valuer Participants Formal Arbitration Presentation

Rod Jefferies, Senior Vice-President New Zealand Institute of Valuers Chairman of session and organiser of the Arbitration. A senior Partner Barratt-Boyes Jefferies, Auckland.

Peter Mahoney, Director P.J. Mahoney and Co Ltd, Auckland. Lessee's Valuer Specialist Valuer in Industrial and Commercial Valuations.

INTERNATIONAL ARBITRATION - PAN PACIFIC CONGRESS

UMPIRE.

*The Hon. Sir David Beattie
G.C.M.G., G.C.V.O., Q.S.O., Q.C., LL.M.
Formerly Governor General of New Zealand
and Judge of the High Court*

ARBITRATORS:

*J. G. Fogarty
Barrister
Christchurch, New Zealand*

*Dr W. G. G. A. Young
Barrister of R. A. Young Hunter & Co
Barristers & Solicitors of Christchurch, New Zealand*

LEGAL COUNSEL-

*M. R. Camp
Barrister of Phillips Shayle-George
Barristers, Solicitors & Notary Public
Wellington, New Zealand*

J Stevenson

*Barrister of Izard Weston & Co
Lawyers of Wellington, New Zealand*

VALUERS/APPAISERS•

*L. N. North
Appraiser and Counsellor Principal of
Lincoln North & Company Limited
Real Estate Appraisers, Analysts & Counsellors
Toronto, Canada*

*P. J. Mahoney
Principal of Peter Mahoney & Co Limited
Property Investment Consultants & Valuers
Auckland, New Zealand*

CHAIRMAN.

*R. L. Jefferies
Partner & Consultant of Barratt-Boyes Jefferies
Registered Valuers & Property Consultants
Auckland, New Zealand*

BIOGRAPHICAL NOTES ON PARTICIPANTS

SIR DAVID BEATTIE

Sir David was the Governor General of New Zealand 1980-1985; and a Judge of High Court of New Zealand 1968-1980. As a Queen's Counsel he was a leading Practitioner involved in several valuation cases. He has been Chairman of a number of Royal Commissions and Inquiries including the Royal Commission on the Courts and on Science and Technology. He is currently a Patron of a number of sports including rugby, squash, golf and boxing and Chairman of the New Zealand International Festival of Arts. He is the First Patron of the Royal Australasian Forensic Society as well as being a Director of a number of leading New Zealand public companies and Chairman of the New Zealand Meat Institute.

JOHN FOGARTY.'

John is a Graduate of the Universities of Canterbury and Toronto having practised law for the past thirteen years in Christchurch. Previously a Partner for seven years with Weston Ward & Lascelles he has practised since 1985 on his own account as a Barrister. His practice has been largely confined to the High Court, commercial litigation, town planning and some arbitrations.

He is a member of various committees of the Canterbury District Law Society and of the Legislation Committee of the New Zealand Law Society. He is also the Moderator of the Law of Contract as examined by the Universities on behalf of the Council of Legal Education.

DR WILLY YOUNG:

Willy is a Graduate of the Canterbury University where he obtained his Doctorate of Philosophy. He was admitted as a Barrister and Solicitor of the High Court of New Zealand in 1975 and after spending three years at Cambridge University returned to practice in 1978. He is a Partner in the firm of R. A. Young & Co and his practice deals exclusively in the field of litigation principally with civil, commercial and administrative disputes but appearing, on occasions, in criminal and matrimonial cases.

MIKE CAMP:

Mike was admitted to the Bar in 1965 and is the Senior Litigation Partner of Phillips Shayle-George in Wellington. While specialising in defamation he is also involved in arbitral litigation and his firm acts for a number of major property investors in New Zealand.

Mike is Vice-President of the Wellington District Law Society, a Council Member of the New Zealand Law Society,

Chairman of its Legal Education Committee and a Member of the Council of Legal Education.

JOHN STEVENSON:

John is a Senior Partner of Izard Weston & Co, Lawyers of Wellington. He was educated in New Zealand and at Cambridge University in the United Kingdom where he gained his M.A. He practises in Court and commercial work in Wellington and has been involved in a number of major arbitrations as Counsel over leasehold valuations and disputes. He has frequently appeared as Counsel for the New Zealand Valuers Registration Board in disciplinary hearings. He has also been involved in making submissions and leaseholds to Government Select Committees. He also has business and farming interests.

LINCOLN NORTH:

Linc has been a Real Estate Appraiser, Analyst and Counsellor since 1959 and been an expert witness in various judicial and quasi-judicial authorities throughout Canada. He is a Senior Partner of his own firm based in Toronto.

Formerly an Assistant Professor at McGill University, he has written widely on valuation and appraisal topics and delivered papers in Australia, Belgium, Bermuda, England, Japan, New Zealand, Singapore and the United States. He is Author of the text, *Real Estate Investment Analysis and Valuation*.

He is an Accredited Member, Fellow and Past-President of the Appraisal Institute of Canada; a Member of the American Institute of Real Estate Appraisers; a Member of the Society of Real Estate Appraisers; a Member of the American Society of Real Estate Counsellors; a Member of the Corporation of Chartered Appraisers of Quebec, and also holds membership in the Association of Professional Engineers of Ontario, the Arbitrators Institute of Canada and the American Arbitration Association. He is an Honorary Member of the Australian Institute of Valuers and a Founding Member of Valuation Network Limited an international consortium of independent real estate appraisal and consulting firms. He has been a Past-Chairman of the Pan Pacific Congress and holds other memberships in related professional groups including the Canadian Property Tax Agents Association, the International Council of Shopping Centres, and a Past-Member of the Accounting Research Advisory Board of the Canadian Institute of Chartered Accountants. He is currently the Canadian delegate to the International Assets Valuation Standards Committee.

PETER MA HONE Y.

Peter was educated at Auckland University and is a Fellow of the New Zealand Institute of Valuers and a Member of the

Proceedings of the 14th Pan Pacific Congress

The proceedings of the 14th Pan Pacific Congress of Real Estate Appraisers, Valuers and Counsellors, 20th-25th March 1988, are available through the office of the General Secretary at a price of \$26.00 per copy.

There are only limited numbers of the proceedings available.

Please make application direct to:

The General Secretary
New Zealand Institute of Valuers
P.O. Box 27146 WELLINGTON

The above price is inclusive of packaging, postage and G.S.T.

Property Management Institute of New Zealand. He is the Principal of P J Mahoney & Company Limited, a property investment consultant and valuation practice in Auckland. He has practiced for the past twenty-four years as a valuer and specialised in commercial and industrial valuations including presenting evidence before the High Court, Land Valuation Tribunal and before major arbitrations.

He is a former Chairman of the Auckland Branch of the New Zealand Institute of Valuers and been involved in seminar and educational programmes prepared on behalf of the Institute. He is also on the Advisory Board for a number of Property Trusts.

RODNEY JEFFERIES.

Rodney was educated at Auckland University and Victoria University of Wellington and is a Fellow of the New Zealand Institute of Valuers and a Member of the Property Management Institute of New Zealand. He is a Principal of the Auckland firm, Barratt-Boyes Jefferies, Registered Valuers and Property Consultants. He has recently taken up a position as Senior Lecturer in Property Administration (half time) at the

Auckland University. Rodney is the author of the textbook, 'Urban Valuation in New Zealand - Vol. I,' is currently editing a second volume and writing a third volume.

OUTLINE.

The property being the subject of this arbitration is a hypothetical Pacific Island resort on Soltaire Island somewhere between the Gilbert and Ellice Islands and Fiji.

The facts relating to this property and the valuations have been prepared especially for this mock arbitration, the details of which are contained in the Valuers' reports.

It is emphasised that both Valuers and Legal Counsel have taken certain stances to illustrate particular principles of valuation or legal argument.

The purpose of this mock arbitration is as an educational exercise for valuers/appraisers and lawyers in the presentation of evidence and giving expert testimony in the form of an arbitration case study. It is intended to be of practical educational assistance to those attending the Congress and also to University students who have been invited to attend.

14th Pan Pacific Congress International Arbitrations National Tourist Hotel

OPENING SUBMISSIONS OF COUNSEL FOR LESSOR

IN THE MATTER of a Deed of Lease

BETWEEN: SOLTAIRE INVESTMENT GROUP ('the Lessor')

AND

DELTA HOTELS (AUCKLAND) ('the Lessee')

1. Formalities

1.1 This is an arbitration to determine the annual rental payable for the five year review term commencing 1st May 1988 for the second five year period of the lease. The provisions of the lease and the details of property have been covered in the introductory comment.

1.2 *The rent review provision* is likely to be of importance and is therefore set out.

The rental for the five year review term is to be at a rental which shall be a fair economic market rental. The lessor shall, not earlier than nine months and not later than three months before each review date, advise the lessee in writing of the amount which the lessor believes to be the rental for the review term. The lessee shall have three months within which to either.

- (i) Accept the rental so advised;
- (ii) Dispute the rental and require it to be determined by arbitration;
- (iii) If no advice is communicated to the lessor within the stated three months following receipt of advice, then the lessee is deemed to have accepted the asking rental.

In the event of the lessee disputing the advised rental, the rental shall be referred to the arbitration of two independently appointed arbitrators, one appointed by the lessor and one appointed by the lessee, who prior to entering upon the arbitration shall appoint an umpire between them.

The arbitration hearing shall be held at a time and place to be fixed by the arbitrators and umpire.

1.3 It is accepted between the parties that notice pursuant to the clause was given at \$10.5 million and notice was given by the tenant contesting that sum.

1.4 The choice of law clause in the lease provides that the law applicable to this arbitration shall be that of the lessee's domicile and it is agreed that is New Zealand and therefore New Zealand law applies.

2. Issues of Law

2.1 Whether the lessor can contend for \$12 million given that the lessor's earlier notice specifies \$10.5 million. In my submission that is not so.

The only suggestion to the contrary I have found is a comment in Rent Reviews and Variable Rents, 2nd Edition, by Clarke & Adams at p.76 which I attach and in particular in paragraph (d).

That comment in itself seems to be based on the passage of Lord Diplock in the decision of *United Scientific Holdings vs. Burnley B. C.* (1977) 2 All ER 62 at p.74 which I also attach.

In my submission the author suggests a wider limitation than Lord Diplock is contemplating. Lord Diplock only makes the point that the notice is an offer that cannot be withdrawn whilst it is open for acceptance. That comment says nothing about withdrawal after it has been rejected and indeed in logic it patently can be. I also submit that it would be an unnecessary clog on the expression 'market rent' to infer that some top limit was put in place by the wording of the clause when it does not expressly say so.

Furthermore many factors might persuade a lessor to specify a lower figure than the maximum assessment of market e.g. a desire to reach a settlement.

I understand the lessee will also contend that the giving of the notice amounts to an estoppel. Estoppel at its highest points requires some common underlying assumption. See Lord Denning *Amalgamated Investments vs. Texas Commerce* (1981) 3 All ER at 584 attached line h. That is simply not so.

2.2 Whether the rent review clause is subjective or objective so as to allow the lessee's improvements to be deducted.

Normally such a clause would be interpreted in the matrix of facts that applied between the parties. In this particular arbitration with total personnel changes for both parties there will be no evidence save for the document itself, and counsel are agreed the task of the Arbitrators is to interpret the clause simply as it stands within the document.

In my submission the clause is of the type referred to in *Ponsford vs. HMS Aerosols* (1978) 2 All ER 837. That provided for the rent to be assessed as a reasonable rent and then went on to provide that it should either be agreed between the parties or by valuation. There is no reference in this clause to agreement between the parties. Reference to agreement between the parties imports subjectivity. The absence of it means that the rent shall be objectively assessed. The *Ponsford* case is one where the lessee was held liable to pay rental in relation to its improvements because of the objective nature of the clause. That should be so on this clause.

3. Evidence

3.1 The evidence will be from one valuer for the lessor, Mr North, and one valuer for the lessee, Mr Mahoney. Each has prepared reports and given the limited time available, it has been agreed between counsel subject to the arbitrator's agreement, that the reports be taken as read and that oral evidence be directed to focus on the central valuation matters which appear to be at issue between the valuers and I will identify each briefly.

3.2 Capital Cost of Development

3.2.1 The capitalisation rate used for land and buildings in the course of Mr North's report is a matter that I understand the lessee will

take issue with. The proper place for me to comment on that matter is in my closing submission.

3.2.2 Mr North has made no allowance for depreciation and in my submission that is a correct approach.

3.2.3 Whether or not there should be an allowance for depreciation.

3.3 Comparable Rentals

3.3.1 What adjustments if any should be made when comparing room numbers and occupancy rates of comparable room rentals.

3.3.2 Budget variations in relation to a hurricane allowance.

March 16, 1988

Mr M. R. Camp, L.L.B.
Phillips Shayle-George
Barristers, Solicitors & Notary Public
P.O. Box 2791
Wellington, New Zealand

Dear Mr Camp,

RE: The International Hotel, Soltaire Island

In accordance with your instructions, I have completed my investigations and analyses of the property referred to herein and have the pleasure of submitting this report of my findings and conclusions.

This study was conducted for the purpose of estimating the fair market rental of the International Hotel, as of May 1, 1988, for the function of setting the annual rent for the five year period commencing May 1, 1988.

This report has been prepared exclusively for the arbitration proceedings initiated by the parties under the provisions of the lease, and is not intended for general circulation or publication. Possession of this report, or a copy thereof, does not carry with it the right to reproduction or publication, in whole or in part, nor may it be used for any other purpose without the prior written consent and approval of the author in each specific instance.

As this report contains reference to sensitive information concerning the subject property and its operations, it has been designated as a confidential document pursuant to either the expressed or implied terms of confidentiality which exist between the Lessor and the Lessee.

The term 'fair market rental' as used in this report is defined as being the most probable rent in terms of money which an estate (or interest) in real property should bring in an open and competitive market under conditions requisite to a fair and typical transaction between a willing lessor and a willing lessee, each acting prudently and knowledgeably and assuming the rent is not affected by undue stimulus.

All comments, opinions and conclusions are discussed and elaborated upon within the body of this report to the extent felt necessary to support the estimated fair market rental as cited herein. Specific factual data upon which the conclusion is based will be retained in my working files for future reference.

Based upon a personal inspection of the property and an examination of such other information which was at my disposal, it is my considered and professional opinion that the annual fair market rental of the subject property, as at May 1, 1988 should be:

TWELVE MILLION DOLLARS

(\$12,000,000 U.S.)

All monetary amounts referred to in this report are in U.S. dollars.

Should further information be required or should any questions arise by reason of this valuation, please contact the undersigned at your convenience.

It is a pleasure to have performed this assignment on your behalf.

Yours truly

Lincoln W. North
A.A.C.I., M.A.I., S.R.E.A., C.R.E., P.Eng
Lincoln North & Company Limited

Certification

I certify that, to the best of my knowledge and belief,

- The statements of fact contained in this valuation are true and correct.

- The analyses, opinions and conclusions reported herein are my personal and unbiased views and are limited only by the Assump-

tions and Limited Conditions contained herein.

- I have no past, present or contemplated future interest in the real estate which is the object of this report and that I have no personal interest or bias with respect to the parties involved.

- My compensation is not contingent upon any action or event resulting from the analyses, opinions or conclusions in, or the use of, this report.

- This valuation and the procedures related thereto, follow the Codes of Ethics and the Standard of Professional Practice of the professional Societies and Institutes of which the author is a member and the use of this report is subject to review by duly authorised representatives of these Societies and Institutes.

- I am currently certified under the continuing education programme of the Societies and Institutes of which I am a member.

- The property was personally inspected during the week of February 1, 1988.

- This report sets forth all of the Assumptions and Limiting Conditions affecting the analyses, opinions and conclusions contained herein.

In my considered and professional opinion, the annual fair market rental of The International Hotel, as of May 1, 1988, is \$12,000,000 U.S.

Lincoln North & Company Limited

Lincoln W. North

A.A.C.I., M.A.I., S.R.E.A., C.R.E., P.Eng

March 16, 1988

An Overview of the Property and its Location

Soltaire Island is located near the Ellice Island group, approximately midway between Honolulu and Sydney, Australia, approximately 1200 kilometres west-northwest of Samoa and 1200 kilometres south-southeast of the Gilberts. Situated at 178° 34' east longitude and 14° 27' south latitude, Soltaire Island enjoys ten months of superb weather conditions and approximately two months of occasional rain (in February and March). The island is north of the cyclone belt and only experiences fringe conditions of these tropical storms on rare occasion.

A self-governing democracy, Soltaire has a long history of stable government, steeped in British tradition since the turn of the 19th century. Regulatory investment controls require a minimum 40% participation by national interests in all land developments. However, there are no currency restrictions nor other controls which infringe upon the development and operation of resorts such as the subject property. In fact, off-shore investment is welcome, as tourism has become a significant part of the island's economic base. Since the island's soils are rich in iron content, Soltaire is a major exporter of pineapples and sugar cane.

Soltaire Island's airport was recently upgraded to full international status following extension of the main runway and construction of a modern terminal. However, due to geographic constraints, this airport can only handle aircraft up to the 737 category, for the runways are too short for wide-bodied aircraft. Landing rights are presently restricted to four principal carriers; two serving both the U.S.A. and Southeast Asia and one each from the national airlines of Australia and New Zealand. Sydney and Honolulu are 5,000 kilometres distant, with the west coast of the U.S. being 8,000 kilometres to the northeast.

The 440-room International Hotel has a fully-licensed restaurant and bar facilities, a convention centre and exterior recreational facilities including an 18-hole golf course, two swimming pools, four tennis courts plus a small jetty and dockage facilities capable of accommodating 20 to 25 pleasure craft.

The majority of the expansive white sand beach is located on the lagoon and is well protected from wind and waves by the point of the island and the reef which extends southeast therefrom. Diving and snorkeling conditions are equal to those on Truk Island in Micronesia and these two amenities give The International Hotel a slight competitive edge over its nearest rival resort on Subalu Island 800 kilometres to the south.

In an international context, the subject property, which was built five years ago, has become one of the choicest destination resort facilities in the South Pacific. In fact, the property has been so successful that the Lessee extended the 9-hole golf course, to 18-holes in 1986.

General Methodology of Valuation

This section of the report outlines the general procedures employed in the valuation of the subject property, pursuant to the purpose and function of this mandate. It is meant to serve as an overview of the methodology associated with this assignment. The reader should refer to other sections of this report for further particulars, as well as to the assumptions and limiting conditions which pertain to this study.

This property was personally inspected during the course of the appraisal. This investigation provided an opportunity to examine the physical and functional state of the premises, to discuss the operation of the property with on-site supervisory and management personnel and to gather and examine critical market data having a bearing on the operating performance of the asset in question.

External investigations conducted during this study included research and analysis of current attitudes and preferences of the investment community, vis-a-vis criteria related to the acquisition, ownership and management of such an asset; interpretive analysis of factors influencing current market rental values, an examination of competitive facilities in the market, research of prevailing capitalisation rates and discount rates, plus other data which impinge upon the estimation of market rental value in general.

Following the completion of the field work, all data was compiled and analysed to the extent deemed necessary to the formulation of a considered opinion of the fair market rental value of The International Hotel.

Capital Cost of the Development

The original total capital cost of the resort at the time the contract for development was awarded five years ago, was \$70,000,000, exclusive only of fixtures, furnishings and equipment installed or provided by the Lessee.

Whereas the annual rate of inflation is now in the order of 5% per year, the average rate of inflation in construction costs on Soltaire during the past five years has been nearly 11%.

Trending forward the total original capital cost of \$70,000,000 at a rate of 11% per annum produces an expression of current replacement cost of \$117,954,000. Including the cost of fees, permits, insurance during construction, and the \$2,000,000 cost of extending the golf course in 1986, the full current replacement cost would be in the order of \$120,000,000. Consultation with the original contractor has confirmed the reasonableness of the foregoing figure.

This latter figure is inclusive of land as well. The original cost of the site was \$8,000,000. No comparable sales of similar sites have taken place recently to determine current values or the extent of inflation in land values during the past five years. However, since the land component of a major resort development is traditionally a relatively constant percentage of the total development costs, I believe that application of the 11% price inflator is equally as valid for the land as it is for the buildings.

Having arrived at the current replacement cost for the entire leased premises, one common test of estimating the corresponding rental value is to apply a rental factor (or rate) to the total replacement cost.

At the present time, the financial money markets which constitute competing investments, are showing dividend rates of 6% to 8% and internal rates of return ranging from 11% to 13%. Investors in real property, such as the subject, would require higher rates of return to compensate for the element of comparative risk in resort investments. Taking all matters into consideration, a full (internal) rate of return of 15% would be required to attract venture capital to a property such as the subject. However, since the net earnings of the property are expected to increase at least 5% per year, the dividend rate (or fixed rate) portion of the full 15% rate of return would be in the order of 10%. In other words, investors would be satisfied with a fixed return of 10% per annum for five years if there is a reasonable probability of realising a deferred gain every fifth year based on an average annual increase of 50% per annum.

This fixed rate of return (10%), frequently called a price-earnings ratio or capitalisation rate, was also discovered to be the going capitalisation rate associated with sales of similar properties in similar locations, having equivalent lease terms.

In conclusion, application of this valuation test indicates that the rental value of the subject property for the ensuing five years, beginning May 1, 1988, should be in the order of \$12,000,000 (10% of \$120,000,000).

It will be noted that no allowance has been taken for accrued depreciation in the process of arriving at the current replacement cost of the resort. The property remains to be in a like-new condition and has been superbly maintained by the Lessee. In fact, the property is now in better condition than the day it was built, as all initial structural faults and mechanical breakdowns have been completely repaired and brought up to a first-class condition. Further, based on our inspection, there are no signs of deferred maintenance or latent defects of any kind or nature whatsoever, nor were any deficiencies reported by the Lessee following repairs caused by the recent cyclone.

Financial Performance

Considering the operating characteristics of the subject property, the Lessee has submitted an operating budget for the fiscal year ending April 30, 1988. According to this budget, the net operating income projected for the current year is \$14,200,000.

Upon an examination of this budget and following discussions with hotel personnel, the following relevant observations came to light.

1. The Lessee's budget contains an extraordinary entry for cyclone damage repairs. While there is no question the Lessee has incurred the booked expense of \$400,000 for the necessary repairs, such an expense is generally deemed to be non-recurring and exceptional to the extent that it should not be included in the process of determining typical annual earnings.
2. Through inquiries held with hotel personnel, it was discovered that the financial performance of the subject property in recent months has improved substantially over budget, even with no increase in the average earned room rate. The net earnings now exceed the Lessee's budget figures by nearly 5%. Although the performance for the last two months of the current fiscal year has yet to be tallied, bookings for the months of March and April indicate the year-end net income will be at least 5% higher than budget. Accordingly, the budgeted net income has been adjusted upward to \$15,330,000. The year-end occupancy ratio will likely be 3% to 4% higher as well. (The budgeted occupancy ratio for the current fiscal year is 75%.)
3. In my view another adjustment is required, to determine the potential earnings capability of this property at full market capacity. An examination of competing facilities, particularly on the next island of Subalu, indicates that the budgeted average room rate of \$140 per day at the subject property is at least \$15 below competitive rates. It is suspected management's budgeted average room rate was set at this figure, to induce the return of visitors following the cyclone. In my view, an average room rate of at least \$155 per day, plus a corresponding increase in food and beverage revenue, would have been easily achievable this year, without any sacrifice in the occupancy rate.

For this reason, I have adjusted the budget for the current year upwards again, to account for the potential earning capability of this property if it had been operating at full market capacity. This adjustment adds a further 10% to the net operating income; resulting in a figure of \$16,863,000; being the amount deemed proper for comparative purposes.

The latter amount of \$16,863,000 equates to a unit rate of \$38,325 per room per year.

Comparing this figure with the average net income per room at the three comparison properties reveals the following:

<i>Property</i>	<i>Net Income Per Room</i>
Comparison 1 - Hawaii	\$38,000
Comparison 2 - Tahiti	\$36,765
Comparison 3 - Subalu	\$38,636
Subject Property	\$38,325

Comparable Rentals

An examination of the destination tourist resort market in the mid-to-south Pacific area has revealed three recent rent renewals for facilities considered quite comparable to the subject property.

All three projects are relatively new, having been developed within the past five to six years. In each instance, the rent review constituted the first review following the initial rental period of the lease and all these comparison resorts were observed to be operating at a similar mature capacity.

Since a considerable degree of confidentiality is attached to each individual transaction, the identity and certain specific details of each facility are being withheld at the request of the owners of these resorts. However, I can attest to the factual data associated with each transaction, as I became privy to the details thereof through interviews held with at least one party to the lease during a personal inspection of these resorts.

Comparison 1 - Hawaii

This 500-room resort is situated on one of the main out-islands which has a full-status international airport within a ten-minute drive of the resort.

The property is located on the west side of a major bay, and has been developed in such a manner as to maximise sun angles and the view of the adjoining mountains. The project fronts on a white sand beach and no obstructions exist within swimming range to cause discomfort. The reef is located one-half kilometre to the south, which breaks the sea and creates a lagoon atmosphere in front of the hotel. Good surfing exists about one kilometre to the north.

On balance, this facility offers superior amenities to visitors in comparison to the subject property. The influence of these attributes, coupled with the greater accessibility by air to points of visitor origination, has resulted in a higher average annual occupancy level (85%). All other support facilities at this resort are quite similar to those at the subject property.

The net income per room for the year ending December 31, 1987 was reported to be about 10% lower than budget, due to the influence of price restructuring required to meet competition of two adjoining new developments. This circumstance has resulted in the renewal rent being 78.95% of actual net operating income. The aforementioned competitive influence is expected to continue into the foreseeable future.

The three-year rent renewal was negotiated in December, 1987 and is equivalent to \$30,000 per room. Expectations of the annual increase in net earnings during the foreseeable future are 5% per year. Therefore, my interviews indicated that if the rent review period was five years rather than three years, the revised rent would have been struck at \$31,500 per year.

In my view, the foregoing figure would then have to be adjusted downward in the comparison process for two reasons. First, Soltaire Island is less accessible to visitors and the Soltaire airport is not capable of handling wide-bodied aircraft. Second, the subject property has less desirable amenities and the island itself possesses a less attractive infrastructure in respect of comparable off-resort places to visit. These circumstances result in a lower occupancy ratio at The International Hotel.

Taking all matters into consideration, the renewal rental negotiated for the Hawaiian resort, when adjusted for the foregoing circumstances, indicates a rental value for the subject property between \$27,000 and \$28,000 per year on the basis of a five-year renewal term.

Comparison 2 - Tahiti

A very comparable destination tourist resort is situated on the main island of Tahiti in French Polynesia. This 340-room resort has a strikingly similar setting on the south side of the island and the facilities which complement the hotel are nearly identical in their functional capacity with those at The International Hotel.

During the inspection of this property and interviews held with the lessee, it was revealed that this resort now competes on an equal footing with Hawaii, due to accessibility afforded by the local international airport. The only comparative disadvantage which exists in Tahiti is the exceptionally high prices of nearly all goods and services. This circumstance has created an element of visitor resistance, which has resulted in the need to lower room rates to maintain the occupancy rate near the 80% level. This circumstance had an impact on the negotiations for the recent rent review.

The outcome of these negotiations resulted in a unit rental of \$26,470 per room for the next three years, commencing in January, 1988; said unit rental being 72% of the actual net operating income for the year ending December 31, 1987. In discussing what the rental might have been on a five-year deal, the lessee indicated that the annual rent would have had to be somewhat higher, perhaps in the order of 5% as their rate of inflation was running at about the same

rate as in Hawaii. (This would produce an adjusted rental of \$27,794 per room, for a five-year term).

In consideration of the other elements which bear on the annual rent, my investigations led to the conclusion that the influence of the lower room rates occasioned by high consumer prices, is virtually offset by the superior accessibility of Tahiti in comparison to Soltaire. Accordingly, I am of the opinion that, by accounting for all circumstances, this comparison property produces an index rental of something between \$27,500 and \$28,000 per room for the subject property.

Comparison 3 - Subalu

The last comparison property discovered in our research was a 220-room resort hotel on the island of Subalu.

This destination facility is regarded as one of the best comparisons in terms of location, general amenities, accessibility and the structure of the local political and economic system. In fact, Subalu is the next island to the south on the flight paths of the same carriers which serve Soltaire and, as reported by management, the two resorts are extremely competitive with one another.

The Subalu resort was found to be operating at a 78% occupancy ratio and the renegotiated rent is 70.6% of the actual net operating income for the year ending December 31, 1987.

In summary, the annual rent of \$27,273 negotiated in February of this year requires no adjustments in the comparison process.

Summary

Three comparison properties were discovered during my investigations, all of which are similar leasehold developments of the same age, character of development and classification as being destination tourist resorts.

In each instance, a renewal rent was negotiated at arm's length very recently, so that no adjustments are required for the passage of time. Investigations revealed that the only circumstances creating a difference in the annual rents were the length of the renewal period, the comparative accessibility of the respective islands, the stabilised occupancy ratios and, to a lesser extent, price structures and overall amenities.

Based on the market evidence described in the preceding pages of this report, this direct comparison test of rental value leads to the conclusion that the current fair market rental value of the subject property is \$12,100,000, based on a unit rate of \$27,500 per room.

Reconciliation and Final Estimate of Rental Value

This report has set out the nature and extent of the investigations and analysis conducted as part of the process involved in estimating the fair market rental of the subject property for the five-year period beginning May 1, 1988.

The primary market evidence has evolved through a study of three comparison properties. The raw data obtained during an inspection of these facilities and through interviews held with one or more of the principals, revealed current rental rates ranging from \$26,470 to \$30,000 per room. This empirical data required adjustments in the comparison process, as more particularly described in this report. In the final analysis, this data led to the conclusion that the current annual rental value of the subject property should be \$12,100,000, based on a unit rate of \$27,500 per room.

Consideration was also given to the capital cost structure of this property and prevailing rates of return in the investment market. While this approach is not normally too relevant in the evaluation of investment properties in an urban market, it is of considerable significance in estimating rental values of unique properties such as the subject, where comparable data may be scarce and when return on investment criteria is considered critical in the valuation process. This approach (or method) yielded an annual rental value of \$12,000,000.

Taking all matters into consideration and upon a review of all the relevant data, it is my considered and professional opinion that the annual fair market rental of the demised premises, for the five-year period beginning May 1, 1988, should be:

TWELVE MILLION DOLLARS
(\$12,000,000)

This is the last page of this report, save and except for the addenda material which follows.

Synopsis of the Lease

Date of Execution	May 1, 1983.	
Lessor	Soltaire Investment Group.	
Lessee	Delta Hotels Limited.	
Demised Premises	The land and buildings which comprise The International Hotel, exclusive of fixtures, furnishings and equipment installed by the Lessee.	
Term of the Lease	: Forty years, commencing May 1, 1983.	
Options to Renew	: Two successive options to renew for a period of ten years each, under the same terms and conditions save and except as to rent and as to the right of further renewal.	Lessee's Covenants :
Rental	: For the initial five-year period, U.S. \$5,000,000 for the first two years; U.S. \$6,000,000 for the next two years; U.S. \$7,000,000 for the fifth year. For each additional five-year period during the 40-year term and for each 10-year option period thereafter, the rental shall be a fair economic market rent. The Lessor shall, not earlier than nine months and not later than three months before each rent review date, advise the Lessee in writing of the amount which the Lessor believes to be a fair market rent for the review term. The Lessee shall have three months within which to either accept the rental so advised or dispute the rental and require it to be determined by arbitration.	The Lessee shall be responsible for: 1. Payment of all rates and property taxes levied by national government, municipal and local authorities, and 2. Full maintenance and repairs to the demised premises, including structural repairs and maintenance, as required to maintain a first class hotel standard, and 3. Maintaining and keeping in force a comprehensive service contract for the servicing and maintenance of the air conditioning plant, lifts, heating system, filter systems, etc., and 4. All service charges consumed on the premises, and 5. Full reinstatement insurance of the buildings and site improvements, and 6. Redecoration of the exterior and all rooms at least once every three years commencing in 1986 and 7. Payment of all levies to promotional and travel authorities.
Lessor's Covenants	: The lessor shall be responsible for: 1. Insuring the demised premises, subject to reimbursement by the Lessee for all premiums and costs, and	Special Terms :
		The Lessee shall have no right to compensation at expiration of the Lease. However, the Lessee shall be entitled to remove all fixtures, furnishings and loose plant equipment not provided by the Lessor. The Lessee shall have limited rights of assignment to third parties of approved hotel management ability, said parties required to have a minimum 400% participation by local interests.

Biography

Lincoln W. North

Mr North has been engaged professionally as a real estate appraiser, analyst and counsellor since 1959 and has served as an expert witness before various judicial and quasi-judicial authorities throughout the country. Mr North's firm has diversified geographically and functionally over the years to provide expertise in special purpose studies, financial analyses and in other areas related to the field of urban land economics, for both Canadian and overseas clients.

An Accredited Member (A.A.C.I.), Fellow and Past President of the Appraisal Institute of Canada, Mr North is also an active Member of the American Institute of Real Estate Appraisers (M.A.I.), the Society of Real Estate Appraisers (S.R.E.A.), the American Society of Real Estate Counsellors (CRE), the Corporation of Chartered Appraisers of Quebec (E.A.), the Association of Professional Engineers of Ontario (P.Eng.), the Arbitrators' Institute of Canada and the American Arbitration Association. He is also an Honorary Member of the Australian Institute of Valuers (H.M.A.I.V.) and a founding member of Valuation Network Limited, an international consortium of independent real estate appraisal and consulting firms.

Mr North has served as Chairman of the Pan Pacific Congress of Real Estate Appraisers, Valuers and Counsellors and is an associate member of the Canadian Property Tax Agents Association, an associate member of the International Council of Shopping Centres, a past member of the Accounting Research Advisory Board of the Canadian Institute of Chartered Accountants, and is the Canadian delegate to the International Asset Valuation Standards Committee. He is also a Director of Imbrook Properties Limited, a subsidiary of The Imperial Life Assurance Company of Canada.

A former assistant professor at McGill University, Mr North has written numerous articles and professional monographs, has addressed real estate organisations and has delivered professional papers in Australia, Belgium, Bermuda, England, Japan, New Zealand, Singapore and in the United States. He continues to lecture across Canada on the valuation of investment real estate. He is also the author of the text 'REAL ESTATE INVESTMENT ANALYSIS AND VALUATION' and research papers on The Concept of Highest and Best Use and on Foreign Investment in Canadian Real Estate. In recent years he has participated in drafting legislation relating to Provincial Government appraisal standards. He is also quite active in matters of arbitration and mediation of real estate related disputes.

Schedule 3

Cross-Examination of Mr L. W. North

1. Is Delta Hotels Limited and a hypothetical prudent lessee presumed to be experienced in resort management and marketing?

A. Yes, as evidenced by the success they have enjoyed in operating this resort to date.

2. Do you have experience in resort management and marketing?

A. My experience in resort management and marketing is restricted to studying and analysing how such developments are operated, pursuant to my professional activities as a valuer.

3. Is the Soltaire Investment Group and a prudent lessor presumed to be an experienced investor in real estate and buildings with some knowledge of resort hotel industry?

A. Yes.

4. From the comments in your report about the property becoming one of the choicest destinations in the Pacific and the high standard of maintenance, do you accept that Delta Hotels Limited has been -managing and developing the property and business with a very high degree of efficiency and professionalism?

A. Yes.

5. You have put the capital cost approach first in your report. I put to you that the capital cost approach has had an important influence on your thinking and on the balance of your report?

A. That is correct. When such projects are initially conceived and developed, the Capital Cost Approach is super-critical in the decision making process, for there must be a reasonable expectation for a fair return on investment to justify the creation of such a project. A fair and competitive return on investment is also a critical con-

sideration in the rent review process as well, for a unique property such as the subject. In fact, my investigations of the comparable resorts revealed that the Capital Cost Approach served as a significant factor in setting the renewal rents of these facilities.

6. You say 10% was discovered to be the going capitalisation rate associated with sales of similar properties in similar locations and is it correct that you do not set out in your report any of the sales of similar properties in similar locations?
 - A. Your observation is correct. However, two of these comparable sales are still in the process of final closing and the parties thereto requested that I maintain silence on these transactions until all the deeds have been executed. The third transaction involves a competing property and a new management agreement. In the final analysis, I believe disclosure of this latter transaction would beg questions of highly sensitive competitive operating data, which I would not be in a position to discuss.
7. Do you agree that the assessment of a capitalisation rate or price earnings ratio is very sensitive in that a small difference in the rate or ratio when applied to your figure of \$120m can make a big difference in the resulting rental?
 - A. No. I disagree. A 5% difference in the rate will only make a 5% difference in the resulting rental. The same direct ratio of difference would result in the application of any approach to solving this problem.
8. Is it correct that if the correct capitalisation rate is as little as one per centage point below the 10% used by you, your rental figure would reduce by \$1.2m?
 - A. That is technically correct. However, if the capitalisation rate was as little as 1% higher than the 10% I have used, my rental figure would increase by \$1.2 million.
9. Can you refer me to any decided case or valuation authority where, in assessing a rental using your capital cost of development, depreciation has not been allowed against the current replacement cost because the lessee has maintained the property to a high standard?
 - A. Depreciation is a condition which has to be determined by the valuer as part of his investigations, observations and analysis. The valuer's only obligation in pursuit of his professional responsibility, is that he must give consideration to all matters which influence value. If, in his opinion, there is no accrued depreciation, then his only responsibility is to say so and to give the reasons which support his conclusion. Depreciation is not an element which is created (or extinguished) by case law or valuation authority, for each case and/or authority relates to a specific issue under deliberation.
10. In the part of your report dealing with financial performance you have made some alterations to the operating budget. On the basis that cyclones are an annual event and damage of some type is likely to occur, why do you delete from the budget any allowance for this factor?
 - A. While there may be a reasonable probability that cyclones will occur on an annual basis in this part of the Pacific, there is not a reasonable probability they will follow the same track each year. Consequently, one cannot conclude that, as your question states, damage of some type is likely to occur (on Soltaire Island). Clearly, the recent cyclone damage in New Zealand was neither predicted nor predictable and I doubt if many, if any, New Zealanders had made a provision in their budgets for such resultant damage.
11. The facts show in respect of the operating budget that the figures through to and including December are actuals, and January and February have exceeded the budget for those months by 5%. How can you justify the 5% increase you have made for the full year?
 - A. In my report I have stated that, "The net earnings now exceed the Lessee's budget figures by nearly 5%". By this statement I mean the aggregate or cumulative net earnings for the year to date.
12. You have made a comparison between Delta Hotels Limited whom you have agreed is experienced in resort management and which is charging \$140 per room with an occupancy rate of 75 % for 440 room hotel and the Subalu situation where the room change is \$150 and the occupancy rate is 78% for 220 rooms, and you say that the Soltaire rate could be raised to \$155. Have you any expertise or have you carried out any research to establish that the increase to \$155 will not drive away trade and in the final result adversely affect the operation of the Soltaire Hotel venture?
 - A. As I have stated in my report, I find both resorts to be very similar in terms of location, general amenities and accessibility. Marketing statistics prove that the larger resorts have a greater drawing power because visitors perceive that the larger the resort, the better the facilities. It is for this reason, primarily, that the larger resorts usually have higher room rates. Also, larger resorts have more flexibility in accommodating visitors. For example, last minute bookings are more easily accommodated and last minute cancellations will not have as much impact on the overall occupancy ratio. Consequently, there is no reason to support the contention that the higher room rate will drive away trade. This higher room rate is still the market room rate; not a room rate above current market rates.
13. I put it to you that the 'per room rental' basis has shortcomings in that it does not necessarily reflect the economics and profitability of each hotel?
 - A. In my view the 'per room rental' unit of comparison, while not appearing to be of any mathematical significance, on the surface, really *does* reflect the economics and profitability of each resort. In fact, it reflects *all* of the criteria that goes with the rent-setting process. This unit of comparison is simply the outcome of all the arguments posed by both parties in the negotiating process, economics and profitability being only two of the factors.
14. In relation to the Subalu comparison I suggest to you that the difference in bed numbers 220 as against 440 and the occupancy rate 78% against 75% tends to show that the Subalu operation is better suited to the market is more economic and more profitable so that when making a comparison the Soltaire room rental rate should be lower?
 - A. The Subalu operation is definitely well suited to the market, but more particularly to *its* market and to the island of Subalu. In my opinion, the Soltaire operation is equally suited to its market, in the same way that the 500-room resort in Hawaii is the optimum size for its location in the Hawaiian market.
15. As you state in your report we have to assess a fair market rental. My final question is can you show that your valuation of rent of \$12m is nearer the fair market value than the \$10.5m advised by Soltaire Investments Limited whom you have agreed is an experienced investor in real estate and buildings with some knowledge of the resort hotel industry?
 - A. When Soltaire Investments Limited made their proposal of \$10.5 million, they did so on the basis of the best information they had available at that point in time. While they are an experienced investor with some knowledge of the resort hotel industry, the market data I have gathered since the date of my retention has revealed information that they were not aware of and, as they stated to me, if they knew of this additional data, they would have reconsidered their offer. Also, basic market conditions, including the state of the international money market which influences rates of return, has changed between the date of their offer and the date of this arbitration.

IN THE MATTER of a Deed of Lease
BETWEEN: SOLTAIRE INVESTMENT GROUP
AND
DELTA HOTELS LIMITED
AND

IN THE MATTER of the valuation to be made in accordance with the said Memorandum of Lease to determine the annual rental payable for the five year review term effective from the 1st day of May 1988.

OPENING OF LESSEE

- By J. Stevenson

The purpose of this arbitration is in terms of the lease to fix the reviewed rent for a period of five years from 1 May 1988. The parties, within the framework of the general law and normal valuation principles, have defined what the reviewed rent is to be and the procedure for fixing it.

The wording of the review clause is unusual. It raises the issue of whether the approach:

- A. is completely objective, i.e. the hypothetical approach of the prudent lessee as shown by the authorities I will cite; or
- B. is a subjective approach in which the arbitration has to decide what reasonable rental Delta Hotels Limited and Soltaire Investment Group would have agreed; or
- C. is something in between.

The significance is that, if a completely objective approach is adopted, my clients will have to pay a rental on the improvements effected by them. Whereas, if a subjective approach is adopted, they will not have to do so.

The lessee will contend that the words of the lease require: first, the fixing of a fair market rental in the usual objective way; and second, some adjustment to the fair market rental as the words 'fair' and 'economic' allow consideration of some subjective factors.

The general law of New Zealand applies. The New Zealand courts have given authoritative guidance in lease cases as to how a fair market rental is to be determined, *D.I.C. vs. Wellington City Council* 1912 N.Z.L.R. Stout C.J. in delivery the judgment of the Court of Appeal in a lease renewal case said in relation to the arbitrators:

"They must ascertain what a prudent lessee would give in for the term, and on the conditions as to renewal and other terms etc. mentioned in the lease.

In *Wellington City Council v Wilson* 1936 N.Z.L.R. supplement page 110. Smith J. said referred to the D.I.C. case and said:

"This test raises several questions for consideration, the first is the kind of person who is a prudent lessee, the second as to the nature of the ... rental between the freeholder and such a prudent lessee and the third as to the obligation of the lessor to take what the prudent lessee will give".

These principles were accepted in *Wellington City vs. National Bank* 1970 N.Z.L.R. 600 and Sir Alfred North the President of the Court of Appeal made the following statement:

"Now it is perfectly plain, that the Courts have consistently declined to be drawn into considering principles of valuation save in so far as they depend on purely legal considerations. Of course if a lease, for example, contains a formula for fixing a rent, the arbitrators or the umpire must comply with the directions given to them in the instrument. But short of anything like that, the method of valuation which finds favour with the arbitrators or the umpire is essentially a matter for them."

and he later said:

"In my opinion it has always been accepted that the formula laid down by this Court in the D.I.C. case was of general application."

and finally adopting an arbitration award of Sir George Findlay

"It is the motive which inspire the tenant, which are material ..

Mr Justice Turner when speaking about economics and not the law said:

"I might have observed that in a situation such as the one before the Court demand, and not supply - the amount which lessees are willing to pay, not the return to lessors on their investment is the factor which, economically speaking, determines rental."

It is submitted that the above principles are applicable to this arbitration and, in summary, in determining the fair market rental the prudent lessee and factors which affect him are the primary concern. Of course, the prudent lessor may be taken into account - normally, through his influence on the prudent lessee.

The review clause in the lease includes the words 'fair' and 'economics'. These words are consistent with a subjective approach so that to a limited extent some subjective matters - such as lessee's improvements - may be taken into account.

The arbitration may think it of significance that the lessor initially put forward a reviewed rental of \$10.5m per annum.

The lessee submits:

- A. The lessor is by law estopped from now claiming a figure in excess of \$US10.5m. The evidence establishes his grounds for promissory estoppel. *Halsbury's Laws of England* states:

"*Promissory estoppel*. When one party has, by his words or conduct, made to the other a clear and unequivocal promise or assurance which was intended to affect the legal relations between them and to be acted on accordingly, then, once the other party has taken him at his word and acted on it, the one who gave the promise or assurance cannot afterwards be allowed to revert to their previous legal relations as if no such promise or assurance had been made by him, but he must accept their legal relations subject to the qualification which he himself has so introduced."

My clients contend the notice was a promise or assurance that the rent would not exceed \$10.5m; they have acted on the notice and the lessor cannot now claim a higher rent.

- B. Alternatively, the fact that Soltaire Investments Group, who are experienced in international finance and leasing and have some knowledge of resort management put forward the figure of \$10.5m casts doubt on the \$12,000,000 advanced at this arbitration.

The evidence for the lessee will be given by a Mr Mahoney. His evidence is addressed to the wording of the lease, proceeds on normal valuation principles as for the fair market valuation (the objective approach) and showing what adjustments that should be made to the rental on account of improvements effected by the lessee. This is in accordance with *Halsbury's Laws of England* which says that the valuer should in the first instance include the improvements (so the property is valued as it is) and then reduce the rental value by the amount attributable to the lessee's improvements.

It is not normal procedure at this stage to comment on the evidence given by the lessor. However, my clients wish to record they will claim that there are serious defects in the evidence given for the lessor.

Mr Camp identified the issues. In this opening I have already disclosed the position of the lessee in relation to the two legal issues. As to the valuation issues the lessee contends:

- (a) Both under the general law and valuation practice the capital cost of development approach is only a check method and should not be elevated to the primary method.

The basic reasons are that the approach is primarily related to the lessor (when it is the lessee who establishes the market) and a small difference in the rate used brings about a very large difference in the rental (thus giving an inherent uncertainty to the approach). To the extent the capital cost of development is relevant, an allowance should be made for depreciation in establishing current value.

- (b) In relation to comparisons, Mr Mahoney's method of approach is to be preferred.

My client is confident that following consideration of all factors the arbitration will decide that the fair market value should be adjusted to exclude lessee's improvements and that the correct reviewed rental is \$9,772,000 per annum as substantiated by the evidence of Mr Mahoney.

IN THE MATTER of a Deed of Lease
BETWEEN: SOLTAIRE INVESTMENT GROUP
AND
DELTA HOTELS LIMITED
AND

IN THE MATTER of the valuation to be made in accordance with the said Memorandum of Lease to determine the annual rental payable for the five year review term effective from the 1st day of May 1988.

NOTES FOR FINAL SUBMISSIONS OF LESSEE

1. Last opportunity to address the arbitration.

2. *The market approach*

Refer without repeating to the submission as to the correct interpretation of the review clause, the prudent lessee approach and the subjective element.

3. *The evidence:*

A. *General legal and valuation approach*

Mr Mahoney is to be preferred because he adopts the prudent lessee and factors relating to him and uses sound valuation methods. Capitalisation is used as a check. His comparisons are on a correct basis.

With respect, Mr North's legal and valuation approach is flawed. Throughout he gives undue emphasis to the lessor as:

- Early in his report he puts the lessor and lessee on an equal footing, • He deals with the market capitalisation approach first in his report, • Has given his capitalisation result too much emphasis; and • Has been forced to boost the figures in his comparisons and in the operations budget to match his capitalisation results.

B. Market comparisons

In making market comparisons Mr North adopts as his primary method of comparison the rental divided by the number of rooms to give a rental per room and then makes adjustments to this figure. In respect of Hawaii he writes up the room figure and then reduced it to \$27,000-28,000. In Tahiti he increases the room rate of \$26,470 to between \$27,500 and \$28,000. Mr North accepts the Sabalu room rental of \$27,273 as being directly comparable. He claims that these comparisons lead to a valuation of \$12.1 million based on a room rental of \$27,500 per room.

Room rental comparisons would have more status or significance in comparing comparable hotels in the same suburb of a city. The room rental is of little assistance by itself in assessing a rental in the current circumstances because of the geographical and other differences of the resorts. The room rentals do not of themselves reflect the differences between the comparisons and do not give any indication of the economic or profitability. The room rental comparison is, it is submitted, but one of the comparisons that should be made. Therefore, Mr North's valuation may be criticised as using subjective adjustments to the room rentals and for failing to use other comparisons.

On the other hand Mr Mahoney in making his comparison looks at rental, room numbers and room rental, occupancy and tariff, gross rental income, operational expenditure and nett operational income, tabulates and discusses these factors; and takes from the pattern revealed the relatively objective standard of rental as a percentage of nett operating income as the key comparative factor.

The adoption of rentals as percentage of net operating income is correct as it reconciles other factors and is a type of objective common factor which runs through the comparisons.

Both valuers place reliance on Sabalu. Mr North says the room rental is directly comparable. Mr Mahoney has in his approach used a percentage of rental to nett operating income which is very close to the Sabalu position. The resulting rentals are different.

From his broadly based comparison, consideration and discussion of relevant factors, and the adoption of a method which reconciles other factors, Mr Mahoney takes the nett operating income from the operations budget \$14.2m (a sound objective figure), applies 70% of net operating income (which is within 1% of that applicable in Sabalu) and arrives at a rental of \$9,940,000. For the reasons given, the arbitration is urged to adopt the valuation and evidence of Mr Mahoney on the market comparisons.

C. Capitalisation

Much of the difference between Mr North (\$12.0m) and Mr Mahoney in \$10.5m) as to the total replacement cost is in the depreciation. Mr North's valuation is seriously flawed in that he makes no allowance for depreciation. His views lead to the absurd result that the better the lessee maintains the property the higher the rental. Furthermore Mr North presupposes that the total replacement is as new. Under the lease we are to value five year old improvements.

The second major defect in Mr North's valuation is the capitalisation rate used. He did not give his comparisons. The capitalisation rate is agreed to be sensitive. So Mr North has used too high a replacement value, too high a capitalisation rate and, most significantly, has placed too great a reliance on this method.

By contrast the capitalisation method as used by Mr Mahoney is on a sound replacement value, the rental derived from his comparisons is applied to the replacement value to show a reasonable rate of return to the lessor.

Before leaving capitalisation there is a passage from the works of the Chairman, Mr Rod Jeffries, which must be binding on this arbitration. Should Sir David Beattie, as umpire, rule the passage out of order, the Chairman will rule him out of order. The passage appears in the New Zealand Valuer March 1983 and reads:

"Where then does the real answer lie to the apparent inconsistency between relatively fixed property capitalisation rates or yields over a period of rising inflation and interest rates?"

Though I accept there is no ready reason, I believe the answer in the New Zealand context, lies more in the nexus between the limited supply of good investment property and the continuing high demand for real estate as a stable investment medium as a hedge against inflation."

Whatever that question and answer may mean and whether it is relevant or not, it had better be observed by this arbitration.

4. The Subjective Element

To what extent does the clause and the words 'fair' and 'economic' allow subjective elements to be taken into account. I have two submissions:

First: It allows the improvements effected by Delta to be taken into account. It should be inconceivable that if Soltaire Investments and Delta were sitting around the table discussing rental, Soltaire would ask for or Delta would agree to a rental on the recreational improvements effected by Delta.

Second: It does not allow any performance by Delta above that of a prudent lessee to be taken into account. If Delta super performs, the benefits belonging to Delta. Similarly any result below that of a prudent lessee is to Delta's account. The budget is evidence in a general way of how Delta

is performing but the real test is how a prudent lessee would perform.

The lessee's improvements or other subjective elements are, according to the authorities, to be brought to account by valuing the property as is at fair market value and then making an adjustment for the subjective element. As has been seen Mr Mahoney has done this correctly by valuing and then reducing the rental on account of the lessee's improvements.

5. Lessor's Notice

I now come to the notification by the lessor of a rental of \$10.5m. It is submitted that all the requirements of an equitable estoppel are established.

The notice given by the lessee:

- A. Constitutes an important and significant document constituting a statement in writing, "of the amount the lessor believes to be the rental for the review term";
- B. Is irrevocable offer (*United Scientific Holdings vs. Burnley B.C.* 1978 A.C. 904 at 933), in this case, for three months;
- C. The irrevocable offer may be accepted expressly or by default in which case the rental in the notice becomes the reviewed rental;
- D. Whilst the passages in Rent Reviews and Variable Rents and in the *United Scientific Holdings* case refer to a position where the notice has not been disputed, it is submitted that the same principles continue to apply after the rent is disputed and the notice continues as an irrevocable statement of belief of the lessor of the reviewed rental; and
- E. Is a statement of sufficient status and importance to constitute a promise for the purposes of an estoppel.

The lessee is entitled to rely and act on the notice in the sense that the notice specifies the maximum rental that the lessor believes he may claim. In deciding whether to accept the rental in the notice or to reject the notice and to go to arbitration, the lessee is entitled to regard the rental in the notice as a maximum figure.

The statute's significance and irrevocable nature of the notice is not lost merely because the lessee disputes the reviewed rental. My client asks, how can the lessee's action change the nature of the lessor's document?

However, perhaps the more important aspect is what the notice tells the arbitration about the true beliefs of Soltaire.

The lessor now asks for a rental of \$12 million when it originally asked for a rental of \$10.5 million. It is submitted that the only conclusion that can be drawn is that Soltaire Investments put forward as a prudent lessee a considered figure of \$10.5 million which is its belief of the true reviewed rent and that the \$12 million is just a misguided attempt to influence this arbitration.

6. Comparison of cases

A study of the cases of the parties shows on the part of the lessee consistency and a reasonable reviewed rental assessed on:

- correct legal principles;
- sound valuation principles; and
- creditable evidence which has not been damaged by submissions or cross-examination of the lessor.

The lessor's case falls far short of these standards.

7. Conclusion

My client, Delta Holdings Limited, concludes its submissions by expressing appreciation of the attention given by the arbitrator to its case. The issue is now in the hands of arbitration. Delta Holdings Limited looks forward with confidence to an award which will declare the reviewed rental to be \$9,772,000.

14th Pan Pacific Congress International Arbitration - International Tourist Hotel

Statement of evidence of PETER JAMES MAHONEY:

IN THE MATTER of a Deed of Lease

BETWEEN: SOLTAIRE INVESTMENT GROUP herein after called the Lessor.

AND

DELTA HOTELS LTD, Auckland, hereinafter called the Lessee.

AND

IN THE MATTER of the valuation to be made in accordance with the said Memorandum of Lease to determine the annual rental payable for the five year review term effective from the 1st day of May 1988.

My name is Peter James Mahoney, property investment consultant and registered valuer of Auckland, a principal of the firm Peter J.

Mahoney & Company Ltd and a fellow of the New Zealand Institute of Valuers. I have been actively involved in valuation work for the past twenty-four years, eighteen of which have been in private practice based in Auckland City.

Acting on instructions received from Mr Carson of Delta Hotels Ltd, I certify that I inspected the leased property in the week commencing 25th January 1988.

The factual information regarding lease details and financial performance of other leased resort properties have been obtained from a reliable source who was directly involved in the negotiation of two of the lease rentals quoted and referred to in this arbitration. I understand that there is no dispute between the parties as to the basic rental data adopted by both valuers.

The financial statement and budget relating to the Soltaire International Hotel has been provided by the lessee and management company, Delta Hotels Ltd.

The analysis of all quoted lease data and conclusions reached, are those based on my own independent opinion and judgment and have not been influenced nor directed by the instructing client, Delta Hotels Ltd.

Lease Details

The property the subject of this Arbitration is currently held under a forty year lease effective from May 1st, 1983 with two subsequent rights of renewal each of ten years. The lease provides for the rental to be reviewed at five yearly intervals, the current review date being May 1st, 1988.

The relevant lease details are summarised on attached Appendix (i).

Leased Property

The property the subject of this rental assessment is the 440 room 'International Hotel' with licensed restaurant, bar facilities, separate convention centre plus recreational facilities including an eighteen hole golf course, two swimming pools, four all-weather tennis courts plus jetty and marina facilities.

The hotel resort property which was completed in early 1983 and commenced trading in mid April 1983 is the principal development on this small Pacific island (Soltaire Island), a self-governing democracy with a total population of some 21,000 people.

Soltaire Island is a relatively small Pacific island situated some 2,400 miles-4,000 kilometres northeast of Brisbane, Australia at latitude 14° 27'S and 178° 34'E. Soltaire Island has an airport which was upgraded to international status in 1983-84 but with aircraft capacity limited to 737s or similar but not suitable for the larger 747/Jumbo aircraft. The island is located on the international flight path with direct links to: U.S.A. (via Honolulu), Singapore, Australia and New Zealand. There is no direct air link with Japan, Central or Southern America. Landing rights are restricted to four principal air carriers - two servicing both the U.S.A. and South East Asia and one each from the national airlines of Australia and New Zealand. A local Pacific airline connects to the following Pacific Island international airports: Papeete, Nadi and Pago Pago.

Historical Background

This relatively new Pacific island resort development was built in 1982/83 by Soltaire Investment Group, a consortium of foreign investment and local national interests in compliance with existing regulatory investment controls, requiring a 40% participation by national interests. The original development was completed in early 1983 at a total capital cost of US\$70.00 million being the aggregate cost of land, buildings, recreational facilities, site development and services. The total capital cost excluded such items as furnishings, chattels, loose plant provided by the lessee.

This is the only major hotel on this relatively small island which was developed by local national interests i.e. the Soltaire Island Development Trust, financed by receipts from pineapple and sugar cane exports. The trust was apparently established for the benefit of the island's indigenous people for education, social welfare and housing purposes.

This is a stand-alone resort hotel, developed with the express intention of attracting tourists to this particular part of the South Pacific. As an integral part of the hotel development the former small local airport was upgraded to international status by the democratic government of Soltaire, but with capacity limited to 737s and 767s, or similar size aircraft. The airport runway would have to be substantially extended if it is to accommodate the larger 747 type aircraft. The topography of the surrounding terrain and significant costs involved make this a very substantial capital project which is not

being contemplated by the administrative government authority. The island has a basic agrarian economy with very little urbanisation by western standards.

As detailed under the Appendix (i) - Lease Summary, a graduated rental was payable for the initial five year term ranging from US\$5.00 million per annum for years 1 and 2, increasing to US\$6.00 million per annum for years 3 and 4 and US\$7.00 million per annum for year 5.

Valuation Assessment

The assessment of the market rental for most commercial properties can be considered by an application of one or more of the following approaches:

Directly Comparable Rentals

Ideally any assessment of an annual rental payable should have a basis of comparison with rents payable for other known and confirmed commercial properties, preferably close to the relevant lease date. This comparative rental approach does in my opinion provide the fairest guide as to what lessees are paying for other resort properties preferably in the South Pacific region.

However the directly comparable approach, when applied to a property of this type and if considered on a 'per room rental basis' must be treated very carefully and considered in the context of the property itself, its physical characteristics, the size of the actual development, market conditions prevailing as well as specific lease requirements.

Accordingly, the directly comparable rental approach for this particular exercise has in my view significant limitations and at best provides an indicator rental only.

Economic Rent or Affordable Rent

In this approach the comparable rental evidence and information is analysed to determine the quantum of rental that can be afforded out of operating income.

The rental so determined must take into account the ability of the leased property to trade profitably and produce an adequate return on the lessee's expertise for management, chattels and plant and equipment employed. Such an economic rent must therefore have regard to trading patterns and overall market conditions.

In this context, the size of the hotel is therefore important in relation to its location and ability to achieve an economic occupancy.

Any comparison with other hotel resorts has therefore to rely not solely on a 'rule of thumb' per room rental comparison, but must be related to the level of gross hotel income and net operating income achievable.

Return on Land and Buildings

The return on assets approach should only be used as a cross check on the comparable rental and economic rental method. This cross check method would normally only apply in new or near new developments where the profitability as an on-going operation may not have been established.

It is axiomatic that cost does not necessarily equal value. As a corollary of this, an arbitrarily determined return on 'cost' or 'updated value', does not determine market rental value.

At best, it provides a test against which the affordable or economic rent, can be measured to determine whether the investment itself is indeed economic and competitive with other investment opportunities.

In my assessment of the value of the lessor's land and buildings, I have adopted current building costs which indicate an increase of approximately 55.0% over the completed cost effective as at 1983. This level of increase is generally consistent with the movement in the consumer price index over the same period and reflects the high cost of most building materials which have a high import component. The inflation rate has however diminished quite noticeably over the past eighteen months.

The estimated current replacement cost has been adjusted to current value by application of a depreciation allowance calculated at 1.5% per annum for the main buildings and 3.0% per annum for the site improvements and recreational facilities. The depreciation rates so adopted are consistent with rates which normally apply to this type of development where the expected economic life of the principal building is at a maximum of 60-65 years and site improvements recreational facilities at approximately 30-35 years. In normal circumstances the depreciation factor will likely increase as the development ages and obsolescence becomes evident.

Comparative Rentals

The known and confirmed rental evidence available for other tourist resort developments in the Pacific region close to the subject review date include:

Hawaiian Island

This is a modern 500 room hotel complex situated in the central Pacific some 3,300 kilometres from the west coast U.S.A. This island enjoys true international airport status with facilities for 747 aircraft and is within a twenty minute flying time of Honolulu.

This particular resort development operated as part of an international chain, was the subject of a three year rental review negotiated and agreed as at December 1987 at a rental of \$15.00 million per annum payable for the three year term to December 1990.

The rental on a pro rata room basis equates \$30,000 per room or 78.5% of the Net Operating Income for the actual year ended December 1987.

A summary of this lease rental and relationship to operating income is as follows:

Lease rental as at 12/87	=	\$15,000,000 p.a.
Rental rate per room	=	\$30,000 p.a.
Gross Resort Income	=	\$38,000,000
Rental as % of G.R.I.	=	39.47%
Operating expenses (or) 50% G.R.I.	=	\$19,000,000
Net operating income	=	\$19,000,000
LEASE RENTAL/N.O.I.	=	<u>78.95%</u>

This hotel property forms part of a group operated by Japanese interests with access to a large potential tourist market from both mainland U.S.A., Canada, Japan and South East Asia. The Hawaiian Islands are generally recognised as the prime tourist centre of the Pacific, as evidenced by Honolulu as a prime destination resort on the direct international flight path from North America, South East Asia, Japan and the South Pacific region.

The Net Operating Income (N.O.I.) represents 50% of gross resort income, sustained by a high occupancy rate of 85% as compared with the subject lease property which has an effective occupancy rate for the year ended March 1988 of 75%.

This lease rental is therefore considered the top of the market range, more indicative of prime resort locations able to capitalise on a larger tourist market and with the decided advantage of forming part of an international operating group.

Accordingly, care must be taken in comparing the economic performance of this particular leased property.

Tahiti

This is a hotel resort totalling 340 rooms, established some six years ago on the island of Tahiti forming part of French Polynesia. This is a recognised tourist hub and centre of French influence in the Pacific with Tahiti the capital of French Polynesia with a local resident population of some 170,000.

Tahiti is centred on the main international air route linking the South Pacific with the United States, Central America and Mexico.

This lease rental was negotiated and reviewed for a three year term in January 1988 at \$9.00 million per annum. A summary of the rental and economics of this lease property with operating revenue and costs effective as at 31 December 1987 is as follows:

Lease rental as at January 1988	=	\$9,000,000 p.a.
Rental Rate per room	=	\$26,470 p.a.
Gross Resort Income	=	\$27,400,000
Rental as % of G.R.I.	=	32.85%
Operating expenses (or) 54.38% of G.R.I.	=	\$14,900,000
Net Operating Income (or) 45.62% of G.R.I.	=	\$12,500,000
RENTAL AS % OF N.O.I.	=	<u>72.0%</u>

This particular resort property enjoys an 80.0% occupancy rate and with the Net Operating Income equivalent to 54.38% of the Gross Resort Income for the year ended December 1987.

This property is considered a more viable and attractive resort development in the Central South Pacific with a first class international airport available at Papeete which is a recognised mid

point for air traffic from North America to the South Pacific. Papeete is served by international air carriers from North America, Central America, Argentina, as well as Australia and New Zealand.

Subalu

This island resort development comprising some 220 rooms, is situated in the South Pacific approximately 200 kilometres north-west of Suva, Fiji.

The lease was the subject of a five year rental review negotiated and agreed as at 1 February 1988 at a rental of \$6.00 million per annum.

A summary of the lease rental and operating revenue for the year ended 31 December 1987 for this island resort property is as follows:

Lease rental as at February 1988	=	\$6,000,000 p.a.
Rental rate per room	=	\$27,273 p.a.
Gross Resort Income	=	\$17,960,000
Rental as % of G.R.I.	=	33.4%
Operating Expenses (or) 52.67% G.R.I.	=	\$9,460,000
Net Operating Income (or) 47.33% G.R.I.	=	\$8,500,000
RENTAL AS % OF N.O.I.	=	<u>70.59%</u>

Soltaire Island Resort

On the attached Appendix No.(ii) I produce a summary of the lessee's operational budget for the year ended 31st March 1988. This budget was prepared in January 1987 based on actual figures up to 31st December 1987 and projections for the remaining three months of the current financial year ending 31st March 1988. The projections for the remaining three months of January-March inclusive, were based on confirmed bookings and represented a 5.0% growth as compared with the previous year.

The statement of operating income and expenses provides details on: room occupancy, Gross Resort Income, total operating expenses and Net Operating Income. The financial information as quoted also includes income of approximately \$300,000 obtained from the golf course extension which work was undertaken by and all costs paid for by the lessee.

From this budget it will be apparent that:

Gross Resort Income	=	\$33.00 million
for year ended March 1988	=	\$33.00 million
Operating Expenses	=	\$18.80 million
Operating Expenses as % G.R.I.	=	57.0%
Projected Net Operating Income	=	\$14.20 million

From an analysis of the above figures there is nothing in my view to indicate that the hotel resort is poorly managed. The figures however and in particular the high level of operating costs reflecting the high import content for most materials, food supplies and service requirements, illustrate some of the difficulties associated with a resort development of this type on a small island with a limited infra-structure.

The hotel complex providing some 440 rooms is considered an over-development for this location, particularly in comparison with two of the quoted lease rentals for competing resorts in Tahiti and Subalu providing 330 and 220 rooms respectively.

Based on the submitted operating budget, the percentage of N.O.I. affordable as lease rental must be considered in the context of:

The relative isolation of this island resort development with limited international air access.

The high cost of servicing the development with virtually all materials, specialist labour and equipment having to be imported.

The limited tourist trade catchment area, based mainly in the South Pacific with Australia and New Zealand being the major countries with a combined population of approximately 20 million.

The high level of competition within the international tourist industry and the difficulty of competing with the larger more popular alternative tourist centres of Hawaii, Tahiti, Malaysia and the Caribbean.

The lack of any direct air link with Japan which is one of the major sources of increasing tourist traffic in the Pacific region.

Having regard to the above factors, the existing lease terms and conditions and my analysis of the quoted rental evidence, I am of the opinion that the maximum rent the lessee can be expected to pay for the forthcoming five year review term is 70.0% of Net Operating Income.

Therefore N.O.I. \$14.20 million x 70.0% = \$9,940,000 p.a.

Less adjustment for lessee's improvements:

Estimated current value	\$2,000,000	
Gross Income	\$300,000	
Estimated N.O.I.	\$240,000	
Therefore N.O.I. \$240,000 x 70.0%		\$168,000
Economic market rental		\$9,772,000

In Appendix (iii) I summarise the confirmed rental evidence for all the three quoted lease rentals and my own assessment of an economic rental payable for the subject leased premises. The summary shows the relative relationship of the three known and confirmed lease rentals to their actual Net Operating Income at the appropriate review dates, together with my assessment of a market rental for the subject leased premises.

The rental assessed at \$9,772,000 if considered on a rule of thumb' pro rata room basis is equivalent to \$22,209 per room for the total number of rooms i.e. 440. Alternatively, adopting the same level of gross income, is equivalent to an occupancy rate of 82.0% on a maximum of 400 rooms and with the rental then equivalent to \$24,430 per room.

Lessor's Land and Buildings

As indicated, this resort development was completed in 1983 at an estimated cost of \$70.00 million whilst my estimate of the current value of lessor's land and buildings as at May 1988 is as follows (refer Appendix (iv) for detailed calculations):

	<i>Value as at May 1988 (\$ million)</i>	<i>Original Cost (\$ million)</i>
Land	15.00 (i)	8.00
Hotel - 440 rooms Plus convention centre and amenities	65.00 (ii)	46.00
Recreational facilities	10.00 (iii)	6.00
Staff accommodation	3.00 (iv)	2.00
Site development, services, roading etc	12.00 (v)	8.00
	\$105.00	\$70.00
Less value of lessee's improvements	2.00	
Capital Value	\$103.00	\$70.00

The assessed value of lessor's land and buildings at \$103.00 million represents an increase of some 47% over the indicated capital cost effective as at the lease commencement in 1983.

The lease rental payable for the initial five year term averaged \$5.80 million per annum and provided the lessor with a return of approximately 8.29% on his initial capital outlay of \$70.00 million. Alternatively after allowing for additional capital expenditure by the lessor of approximately \$1.23 million for subsequent improvements and modifications, the average lease rental of \$5.80 million per annum represented a return of 8.14%, which excludes the value of lessee's improvements.

My assessment of an economic market rental at \$9,772,000 per annum indicates a return of 9.49% on the value of the lessor's land and buildings estimated at \$103.00 million effective as at May 1988. This is a significant improvement on the return on land and buildings to that enjoyed for the initial five year lease term.

Alternatively, the assessed economic market rental of \$9,772,000 per annum represents a return of 13.72% to the lessor on its total capital outlay of \$71.23 million.

This to my mind clearly indicates that the assessed market rental of \$9,772,000 per annum provides the lessor with a fair and realistic return on its asset.

P. J. Mahoney
26th February 1988

Disclaimer:

This statement has been prepared for the specific purpose of a mock arbitration hearing to be conducted within defined parameters, time constraints and content.

The Statement of Evidence produced should therefore be read in this context and is not indicative of a detailed valuation and Statement of Evidence which would be presented at actual formal arbitration proceedings.

Appendix (i)

Lease Details

(Land and buildings only, excludes management contract)

Lessor:	Soltaire Investment Group
Lessee:	Delta Hotels Ltd
Term:	Forty years from 1st May 1983
Rights of renewal:	Two further terms each of ten years
Tenure:	Sixty years, terminating as at 30th April, 2043.
Rental:	US\$5.0 million p.a. for years 1 and 2 US\$6.0 million p.a. for years 3 and 4 US\$7.0 million p.a. for year 5.
Rental reviews:	Five yearly intervals and to be uniform throughout the period of the rental review.
Current review date:	1st May, 1988
Lessee's Responsibilities:	Payment of all rates and property taxes levied by national government and municipal/local authorities, full repairs and maintenance to the premises including structural repairs and maintenance, as required to maintain first class hotel standard. Maintain and keep in force a comprehensive service contract for the servicing and maintenance of all air conditioning plant, lifts, heating, filter plant etc. Payment of all service charges consumed on the property. Payment of insurance premiums to the full reinstatement value of buildings and site improvements* To redecorate the exterior and all rooms at least once every three years (commencing 1986). Payment of all levies to promotional/travel authorities etc.
Rent Review Provisions:	The rental for the five year review term is to be at a fair economic market rental. The lessor shall, not earlier than nine months and not later than three months before each review date, advise the lessee in writing of the amount which the Lessor believes to be the rental for the review term. The lessee shall have three months within which to either: (i) Accept the rental so advised (ii) Dispute the rental and require it to be determined by arbitration (iii) If no advice is communicated to the lessor within the stated three months following receipt to advice, then the lessee is deemed to have accepted the asking rental. In the event of the lessee disputing the advised rental, the rental shall be referred to the arbitration of two independently appointed arbitrators, one appointed by the lessor and one appointed by the lessee, who prior to entering upon the arbitration shall appoint an umpire between them. The arbitration hearing shall be held at a time and place to be fixed by the arbitrators and umpire.
Special terms:	No right of compensation to lessee at expiration of lease. The lessee however shall be entitled to remove all furnishings, chattels and loose plant not provided by the lessor. Limited rights of assignment to third parties of approved hotel management ability, (required to have a minimum 40% participation by local interests).
Lessor's Responsibilities:	To effect the required insurance cover on the building and improvements - but premiums payable by the lessee.*

The replacement of all mechanical services, plant and machinery forming part of the building structure, as such plant equipment etc. becomes defective or inoperative.

Grant the lessee the right of peaceful occupation of the demised premises for the term of the lease providing however that the lessor or its duly appointed agent shall upon giving forty-eight hours advance notice, have the right to inspect the property to ensure that all lease terms and conditions are complied with.

* Insurance cover specifically excludes reinstatement as a result of any claim following cyclone damage.

Appendix (ii)

Lessee's Operational Budget for Year Ended 31.3.88

<i>Gross Income:</i>	<i>US\$ million</i>
Room occupancy 440 rooms @ \$140 per night (Av. Rate) x 75% occupancy	16.863
Convention facilities \$1,000 per day x occupancy 600'o	0.219
Food	9.800
Bar	2.971

Miscellaneous/Other Income	1.297
<i>Hotel Income</i>	\$31.150
Plus space rental and Golf course/recreational receipts	0.500 1.350*
<i>Gross Resort Income</i>	33.000
Less costs of sales	13.200
<i>Gross operating income</i>	\$19.800
Gross Operating Income (c/fwd)	\$19.800
Less administration expenses	
Office administration and staff wages	\$1.485
Advertising and promotions	0.458
Heating, lighting and power	1.056
Standard repairs and maintenance	0.947
Building and content insurances	0.583
Rates and taxes	0.379
Lease of plant and equipment	0.292
Cyclone damage repairs	0.400
Total operating expenses (before financing)	\$5.600
Net operating income (N.O.I.) (before depreciation, debt financing, management and lease rental)	\$14.200

* Includes \$300,000 received from Golf Course extensions undertaken by the lessee.

Appendix (iii)

Rental Evidence : Confirmed Lease Rentals

<i>LOCATION</i>	<i>DATE - TERM</i>	<i>RENTAL</i>	<i>ROOMS - RATE P.A.</i>	<i>OCCUPANCY/TARIFF</i>	<i>G.R.I.</i>	<i>O/E</i>	<i>N.O.I.</i>	<i>RENTAL as %</i>	
		<i>\$m</i>			<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>N.O.I.</i>	
HAWAIIAN ISLAND	12/87 - 3 yrs	\$15.00	500 - \$30,000	85076	\$140	38.00	19.15	19.00	78.98%
TAHITI	1/88 - 3 yrs	\$9.00	340 - \$26,470	80076	\$160	27.40	14.90	12.50	72.00%
SUBALU	2/88 - 5 yrs	\$6.00	220 - \$27,273	78%	\$150	17.960	9.46	8.50	70.59%
SOLTAIRE INTERNATIONAL	5/88 - 5 yrs	\$9.940 (incl. lessee's impts)		75%	\$140	33.00	18.80	14.20	70.00%
		\$9.772 (excl. lessee's impts)		82%					
			(440 - \$22,209)	75%		32.70	18.74	13.96	70.00%

Appendix (iv)

Cross-Examination of Mr P. Mahoney

By M. R. Camp

Note (i): LAND VALUE:

There is no directly comparable sales evidence available with the land originally having been purchased for the development at a price of \$8.00 million. My own assessment of the current land value at \$15.00 million is equal to 14.28% of the total capital value as compared with the land component of approximately 11.43% on the original capital cost in 1983 of \$70.00 million.

The assessed land value at \$15.00 million represents a substantial increase of 87% and is in my opinion a maximum land value.

My assessment of land value is as follows:

Hotel site (440 rooms)	\$8.80 million
Convention facilities	0.80 million
Recreational facilities	4.00 million
Staff accommodation, ancillary grounds, roading etc.	1.40 million
Total Land Value	\$15.00 million

Note (ii): MAIN HOTEL BUILDING:

Original cost 1983:	\$46.00 million
Plus adjustment for building cost increase over 5 years	24.27 million
	70.27 million
Less depreciation 5 years @ 1.5% p.a.=7.5% =	5.27 million
	\$65.00 million

Note (iii): RECREATIONAL FACILITIES:

Original cost 1983:	\$6.00 million
Plus adjustment for building cost increase over 5 years	3.60 million
	\$9.60 million
Plus lessee's improvements Completion of 18 hole golf course (1986) 1986 cost \$1.850 million	\$2.150 million
Plus cost escalation to May 1988	11.75 million
Depreciation 14%	1.65 million
	\$10.10 million
say	\$10.00 million

Note (iv): STAFF ACCOMMODATION:

Original cost 1983:	\$2.00 million
Subsequent modifications (1984)	.13 million
	\$2.13 million
Plus cost escalation to May 1988	1.11 million
	\$3.24 million
Depreciation (5 years @ 1.5%) 7.5%	0.24 million
	\$3.00 million

Note (v): SITE DEVELOPMENT:

Original cost 1983	\$8.00 million
Plus cost escalation to 5/88	4.80 million
	12.80 million
Plus further improvements (1987) incl. cost escalation to 5/88	1.20 million
	14.00 million
Depreciation (5 yrs x 3.0%) 15.0%	2.10 million
	11.90 million
say	\$12.00 million

Q. You have deducted depreciation in establishing capital costs?
A. Yes.

Q. Maintenance under the lease is on the lessee?
A. Yes.

Q. It is at his cost?
A. Yes.

Q. The building will therefore be maintained at no cost to the lessor?
A. Yes.

Q. It's wrong then, isn't it, to deduct depreciation in determining the value of the lessor's interest?
A. It would be wrong if we were merely establishing the current replacement cost of the lessor's interest. However in establishing the lessor's value, depreciation is a real factor not only in physical terms but in economics.

Q. Mr Mahoney you are being paid by the lessee to give this evidence aren't you?
A. I've been instructed to give evidence on behalf of the lessee and I expect to be paid for providing independent objective advice.

Q. I have to put it to you that your approach is subjective.
A. I don't think so. What I've done is taken trading figures of all the lease rentals, not only the subject property, to determine a common factor relative to rental.

Q. You want the lessor to put up with the lessee's trading performance don't you?
A. Not necessarily, but their accounts are illustrative of the economics of this type of operation.

Q. Shouldn't your final rent figures be in proportion with the comparable rentals?
A. Yes.

Q. Let's take Subalu. It has 78% occupancy and a rental on an equivalent room basis of \$27,273.00 doesn't it?
A. Yes.

Q. Soltaire has 75% occupancy.
A. Yes.

Q. In proportion in terms of the diagram Soltaire's comparable rental would be 75/78th of \$27,273.00 or \$26,224.00 wouldn't it?
A. Yes, if looked at in isolation.

Q. And that compares to your suggested rate of \$22,590.00?
A. Yes.

Q. So what reason have you come up with for dropping some \$4,000.00 per room in favour of your client?
A. That simplistic approach ignores the economics of the hotel which has a higher ratio of operating expenses than Subalu. If one applied your proposition to a hotel of 1, 000 rooms they would still pay \$26,000.00 plus a room independent of the economics or otherwise.

Q. So you continue to penalise my lessor for your lessee don't you?
A. My role is not to penalise any party but to provide an independent valuation based on my analysis of market facts.

Q. Why on earth have you included in your report the fiction that my clients hotel has 400 rooms?
A. It is included merely to illustrate that this is an over-development particularly in comparison with Subalu and Tahiti hotels with room numbers of 330 and 220 respectively.

Q. Your operation budget has a net operating income of \$14.2 million?
A. Yes.

Q. *And you've based your valuation on it?*
A. *Yes.*

Q. *If the net operating income increases, the recommended rent has to increase also, doesn't it?*
A. *Yes.*

Q. *In fact it has increased by some 5% over the last three months of the year, hasn't it?*
A. *Yes.*

Q. *Have you allowed for it?*
A. *No.*

Q. *You have to, don't you?*
A. *Yes.*

Q. *How much should you allow?*
A. *5% increases for three months only at year end and as a 1.25 % increase in income per annum. Gross revenue would be \$33.4 million not \$33 million, and a corresponding increase in net operating income of \$120,000.00 approximately.*

Q. *The approach you have just taken only takes three high months and then the previous nine low ones, doesn't it?*
A. *Definitely not. My approach is based on actual income to end of December 1987 and projected income to end of March, all of which represented an increase over the preceding year.*

Q. *You've allowed the actual cost of last year's reinstatement for cyclone damage?*
A. *Yes.*

Q. *You've allowed it as if that were to happen every year.*
A. *Yes.*

Q. *Why?*
A. *Because the property is situated in a recognised cyclone belt where cyclones prevail and can occur yearly or even more regularly.*

Q. *They haven't here, have they?*
A. *No.*

Draft Final Address for Lessor

A. Matters of Fact

Mr North is unshaken on the propriety of his capitalisation rate and its virtue is as a yardstick to show that he is in the right parameters and Mr Mahoney is well below.

Depreciation is correctly left out because this building is in fact fully maintained at the cost of the lessee.

Mr Mahoney's approach is subjective in relation to comparable rentals and his proportioning is inappropriate and markedly favours the lessee. He has not made an allowance for the 5% increase, and even in cross-examination only grudgingly accepted it should apply for three out of 12 months when there is no foundation in fact for that position.

Hurricanes are too rare to be dealt with. Otherwise allowances need to be made for other possible storms and any other form of calamity that might come along.

General Submission - Mr North's evidence is to be preferred. He gives equal weight to all approaches in contrast to the subjectivity of Mr Mahoney's assessment on comparable rents. The short point with Mr Mahoney's approach is that whilst he tries to say the 440 rooms is too many, in fact it is performing as well as the others and should be measured in the manner Mr North has measured it.

B. Issues of Law

1. Undoubtedly the argument from my learned friend Mr Stevenson in relation to a prudent lessor was erudite but in my submission it was not relevant. There is no difference in substance as far as practical valuation is concerned in my submission between an approach by a prudent lessee or a willing but not anxious lessor and lessee. What is relevant is simply the words of the clause.

2. As to estoppel there is no suggestion in the issue of the notice that the lessor should be bound by it for ever and there is no evidence that Delta Hotels relied on it.

See the review of the authorities in the judgment of Tipping J. in *Westland Savings Bank vs. Hancock* 11 May 1987, Christchurch Registry p.21 and subsequently. At p.23 he accepts and applies Lord Denning's propo-

sition from *Amalgamated Investment* that I referred to in opening, he then holds it unnecessary to strictly find the five probanda set out in *Willmott vs. Barber* and by p.29 says the question comes down to whether in the particular circumstances it would be inequitable for a party to be allowed to deny what he knowingly or unknowingly has allowed or encouraged the other party to assume to his detriment.

Applying that to these facts, there is no estoppel. There is no evidence of any assumption to the detriment of the lessee and the mere issuing of the notice is not something a lessee could reasonably purport to rely upon.

AWARD OF ARBITRATORS

IN THE MATTER of A Deed of Lease

BETWEEN: DELTA HOTELS LIMITED (hereinafter called 'the Lessee')
AND

SOLTAIRE INVESTMENT GROUP (hereinafter called 'The lessor')

IN THE MATTER of an arbitration to be made in accordance with the said memorandum of lease to determine the annual rental payable for the five year review term effective from the 1st day of May 1988.

Hearing at Christchurch: Monday 21 March 1988

Counsel for Soltaire : M. R. Camp

Counsel for Delta : J. B. Stevenson

ISSUES AGREED BY THE ARBITRATORS J. G. FOGARTY AND W.G.G.A. YOUNG AND THEIR REASONS

1. There are two legal issues upon which we disagree:
 - (a) Whether an allowance should be made for the improvements effected by the lessee when assessing a fair economic market rental;
 - (b) Whether the lessor is prevented from making a claim above \$10.5 million per year.
2. The first of these issues depend upon the extent to which assessment of fair economic market rental is objective or subjective. The second issue depends on whether the lessor is estopped from pursuing rental above \$10.5 million per annum because it had originally offered that sum.
3. These issues are accordingly referred on to the umpire.
4. We are able to agree upon appropriate rentals, depending on whichever view as to the first of the issues prevails.
5. The issue is a fair economic market rental for the second five year term of the lease. There is a significant degree of similarity in the methods of valuation adopted by Messrs North and Mahoney. But there are differences, both in emphasis and in detail, which at the end of the day produce different results.
6. Mr North, for the lessor, first established a full current replacement cost in the order of \$120 million. He then estimated the corresponding rental value by applying a rental factor or rate to the total replacement cost. We consider that a comparison of rentals is the best method to use in this particular instance. The market is set by available lessees. However we accept that the rental must still be fair and economic. So we cannot completely reject as an indicator a figure produced by applying an appropriate capitalisation rate to the total value of the resort. But this method should be used principally as a check and possibly to adjust a rental established solely by a judgment based on perceived comparable rentals.
7. In this case we are left with the clear impression that Mr North has adjusted figures produced by his other methods of valuation to match the rental value established by the capitalisation method.
8. In the case of financial performance, Mr North rejected the operating budget in a number of respects. We accept that it is appropriate to look at the optimum use of the facility. The assessment of what the optimum use is is not entirely controlled by the lessee's actual performance. But we would not lightly assume that the operators are inefficient. So we reject the proposition that the room rate should be adjusted from \$140.00 per room night to \$155.00. This is because we are reluctant to infer that the managers of the property are not charging at a market rate per room per night. As a result, his calculations per unit rate per room per year are excessive. We accept that Mr North is entitled to go beyond the operating budget for the three months ending 31 March and look at actual performance. On the evidence, however, he has over-adjusted. We also agree with him that an adjustment is required in relation to cyclone damage.
9. We broadly agree with his treatment of comparable rentals except that his figures must be further adjusted to make allowance for differences in rental return per room for the different resorts.
10. We broadly agree with his approach to establishing the capital value of the resort. In particular we agree that he is correct in not allowing for any depreciation, given the obligation of the lessee to maintain the building including its structure in first class condition.

11. Turning to Mr Mahoney, we consider that he properly put comparable rentals at the forefront of his analysis. When assessing what a lessee would regard as prudent to pay, we think that Mr Mahoney has excessively allowed for cyclone damage and has not appropriately allowed, when adjusting in comparison to other comparables, for a premium for a flat rate for a five year term as distinct for a three year term.
12. Taking into account these findings, we have reworked the respective calculations of the valuers, using the comparable rentals in preference to the return on investment at current value. The latter method we have used merely as a cross-check. When adjusting for cyclone damage, we have thought it appropriate to allow for one equivalent cyclone, producing a book cost of \$400,000.00 every five years. This is based on the evidence that there has been one in the first five year term. There was no other evidence of assistance.
13. Before approaching directly the exercise of a comparison of rentals it is necessary to establish an appropriate nett operating income to enable those comparisons to be made. The nett operating income produced by the lessee is \$14,200,000.00. That figure has been calculated after allowing for \$400,000.00 in cyclone damage repairs. It is also, as regards the last three months of the year, based on budgeted figures and the indications are that performance has exceeded budget.
14. We have dealt in general with the adjustments that are required to be made. Approaching the matter on that basis we adjust the nett operating income as follows namely:
- | | |
|---|-----------------|
| (a) Nett operating income as produced by lessee | 14,200,000.00 |
| (b) Write back \$320,000.00 in relation to excess of allowance for cyclone damage | 320,000.00 |
| (c) Add adjustment for over budget performance in last three months of year | 120,000.00 |
| Adjusted nett operating income | \$14,640,000.00 |
15. On this basis the nett revenue per room is \$33,272.00
16. We accept that the best comparative evidence comes by way of analysis of the Hawaii, Tahiti and Subalu Resorts.
- Mr North's analysis is persuasive indicating a rental of \$27,500.00 per room per annum as an appropriate basis for calculating the rent. But we are of the view that the analysis must be adjusted for the different revenues generated per room by each of the four resorts under consideration. In the absence of evidence as to a more refined basis for adjustment we are driven to an adjustment based on a comparison of revenue per room for the three hotels. That analysis is as follows:
- (a) *Hawaii Comparison:*
Soltaire \$33,272
Hawaii \$38,000 x\$30,000 p.a. = \$26,267 p.a. (for 3 year term)
- (b) *Tahiti Comparison:*
Similarly:
\$33,272
\$36,765 x\$26,470 p.a.= \$23,955 (for 3 year term)
- (c) *Subalu Comparison:*
Similarly:
\$33,272
x \$27,273 p.a. = \$23,486 (for 5 year term)
Average \$24,567 p.a.
17. This arithmetic needs to be adjusted further for other factors, in particular:
- (a) For the Hawaii Resort, allowance must be made for the three year term over which the rental applies as opposed to the 5 year term for the subject property. But greater allowance must also be made for the more favourable location. So approaching the matter broadly we see this resort as indicating an appropriate room rental for Soltaire of approximately \$25,000.00 per room per annum.
- (b) The Tahiti figures must be adjusted for the five year term which, using the 5% adjustment factor referred to by Mr North would produce an indicated rent of \$25,152.00 per room per annum. But again allowance must be made for the superior location providing a final indicated rental figure of perhaps slightly less than \$25,000.00 per room per annum.
- (c) The Subalu Resort figures must, we think, be adjusted slightly upwards to allow for the economies of scale which the Soltaire Resort should enjoy in comparison. This should produce a figure in excess of \$24,000.00 per room per annum as an indicated rent.
- Relying therefore solely at this stage on the comparative per room rental figures and making the adjustments which we consider appropriate, we are of the view that this evidence points to a market rental per room of \$24,500.00 which, allowing for 440 rooms, suggests a market rental for the resort as a whole of \$10,780,000.00 per annum.
18. Mr Mahoney makes his comparisons by reference to nett operating revenue. We accept in general his preference for the Subalu Resort as being the most immediately comparable. We consider, however that Mr Mahoney's 70% figure is slightly low in comparison with the resorts other than Subalu and prefer to apply 72.5% as involving an appropriate adjustment for the sort of factors identified in a slightly different context in relation to the room revenue and rental comparisons. Using the 72.5% formula, the indicated rent is \$10,614,000.00.
19. Both valuers have tested their indicated rental calculations by reference to percentage returns on what they perceive to be the capital value of the development. For the reasons already indicated we have reservations as to the utility or significance of these calculations. But they do provide clearly, some check on the indicated rental figures produced by an analysis of comparable rentals.
20. We prefer Mr Mahoney's approach to the establishment of a capital value by reference to a separate analysis of the land and buildings rather than simply applying an inflation factor to the original cost. But we prefer Mr North's view that depreciation in an accounting rather than a physical sense is not a factor to be brought into account, particularly having regard to the terms of the lease. Nor indeed, at this point, should any deduction be made for the lessee's improvements to the golf course as we are dealing with a rental for the development as a whole.
21. We calculate the value therefore on the following basis namely:
- | | |
|--|------------------|
| (a) Mr Mahoney's figure as a starting point | 103,000,000.00 |
| (b) Add back in the depreciation allowed for by Mr Mahoney | 9,260,000.00 |
| (c) Add back in the value of lessee's improvements | 2,000,000.00 |
| | \$114,260,000.00 |
22. Mr Mahoney's figures produce a return on capital of 9.49%a. Mr North of course adopted the 10% capitalisation rate. We are of the view that a fair and economic return here would be 9.5%. Applying this figure to the adjusted capital value would provide an indicated rent of \$10,854,700.00 per annum.
23. Neither the rental per room calculation nor the percentage of nett operating income provides an ideal measure for comparable rentals. Giving the matter the best consideration that we can, and bearing in mind the other matters referred to already, we are of the view that an appropriate rental for the premises is \$10,750,000.00 per annum.
24. As indicated, we do not agree on the issue whether that figure should be discounted to allow for a fair allowance for the significant improvements contributed by the lessee in the form of golf course extensions. If there is to be a discount we agree on its extent.
25. Mr Mahoney's figures on this particular point have not been challenged. He calculates that an appropriate allowance for the \$2,000,000.00 in improvements is some \$168,000.00 a year. His exercise can be double checked by apportioning the total revenue received between the capital contributions of landlord and tenant and also by applying a capitalisation rate of 9.5% to the value of the improvements. Not dissimilar figures are produced. In fact Mr Mahoney's figures are in comparison conservative and we accept them. For that reason, if it be held by the umpire that it is appropriate to discount the open market rental for the premises as a whole to make a fair allowance for the improvements made by the lessee we are of the view that an appropriate discount is \$168,000.00 so that, in the event that such a discount is appropriate we assess in the rent for the premises as being:
- | | |
|------|-----------------|
| | 10,750,000.00 |
| Less | 168,000.00 |
| | \$10,582,000.00 |
26. The factual issues having been thus resolved but the legal issues identified in paragraph 1 unresolved, we hereby refer to the umpire the issues for final determination.

IN THE MATTER of a Deed of Lease
BETWEEN: SOLTAIRE INVESTMENT GROUP
AND
DELTA HOTELS LIMITED
AND

IN THE MATTER of the valuation to be made in accordance with the said Memorandum of Lease to determine the annual rental payable for the five year review term effective from the 1st day of May 1988.

NOTES FOR REASONS OF UMPIRE

1. The procedures that we have been through today illustrate the number of issues and matters which confront lessors, lessees and their advisors in respect of the review of a rental or other associated matters.
2. Identifiable are:
 - A. The need for the lessor and the lessee to be advised upon and understand the exact effect and consequence of the review clause. The lessor and lessee should know of the effect of the clause, lawyers should ensure that the clause gives effect to the intention of the lessor and lessee and valuers should be careful to point out to their clients any difference between the method of fixing the rental under the review clause and that adopted for the original rental.
 - B. The next matter is the care which should be taken in giving the lessors notice of the reviewed rental. Whilst there is no requirement of the figure specified in the landlords notice should be a bona fide and genuine pre-estimate of the open market rental value (see *Amalgamated Estates vs. Joystretch* (1980) 257 *Estates Gazette* 489) the rights of the lessor directly or indirectly can be affected. An additional difficulty in the fluctuating market is where the notice has to be given some time ahead of the date for renewal.
 - C. The desirability of co-operation amongst advisors to the lessor and the lessee to define the issues in an arbitration so far as is practicable without compromising the interests of their clients.
 - D. Many of the audience here today will have given evidence as expert witnesses. The arbitration procedure is designed to test and probe any areas of the evidence that is contentious. It is almost certain that any defect in the evidence will show up. I believe the arbitration has demonstrated the care which needs to be taken by the expert witness in formulating opinions and giving evidence.
 - E. The lawyers have confined themselves to the issue and complied with the time limits - perhaps, this is a record.
 - F. Finally we have observed an arbitration procedure agreed to by the parties through which the differences between them are resolved by a judicial process involving a reasoned and logical approach.
3. The relationship between the courts and valuers are that the courts have an obligation to see that the correct law is applied but, within the constraints of the law, leave the method of valuation to the expert valuer. But, as Mr Farmer QC said in a recent publication, an analysis and reading of the judgements of the courts leaves one with somewhat unsatisfied feelings. Certain principles will have been elucidated by the judges but, at the end of the day, the lawyer will usually pass the ball back to the valuer and say, "Well, I have done my bit. Now it's over to you." When a valuer looks at what he has been given, he will find that at most he has been told "You may regard this,"

or "you must disregard that." All of which may leave him tossing uncomfortably on turbulent and unchartered waters.

4. However, today the tables are reversed and the valuers and arbitrators have done their bit and handed over to me two issues of law for my decision as umpire.
5. I now come to consider the first of the legal issues - namely, the correct interpretation of the rent review clause.
6. The reasons for a rent review clause in inflationary times are obvious.
7. Lord Justice Roscoe in the English Court of Appeal some twelve years ago in *United Scientific Holdings Limited vs. Burnley Borough Council* 1976 1 Ch 128 at 146 said:

"The rent revision clauses which have come up for consideration are immensely varied in their terms. The draughtsmanship has been almost uniformly condemned judicially, not without justification."

Whoever drafted the clause we are now arbitrating, has shown a skill composing a problem for me as umpire.
8. I suspect that no matter how detailed or ingenious the draughtsman might be, the valuer called upon to determine the reviewed rent will often raise a question which has not been dealt with by the clause or there may be circumstances which could not be foreseen. So again there are areas of turbulent and unchartered waters.
9. In approaching the interpretation of this clause I am to apply the normal principles of construction by which I am to endeavour to give all the words their normal and ordinary meaning in the context in which they are used.
10. The courts have had to consider the meaning of a number of different worded rent review clauses. Strange to say it appears that there has been no judicial definition of "open market rent", perhaps, the words most frequently used and there has been judicial interpretation of the words in the current review clause. Certainly, the Counsel and valuers involved in the arbitration have not been able to cite such a case.
11. There are two matters which I bear in mind in approaching the interpretation of the clause:
 - A. The comment has been made that in a review situation the willing lessor, willing lessee and vacant possession are not present - whereas they are present on a normal initial letting, and
 - B. Mr Whipple in his article "Commercial Rent Reviews: Disputations and Definitions" states:

"Nowhere in the literature on either side of the Atlantic can I find endorsement for the practice of assessing review rents on the assumption that the sitting tenant will pay more because he is captive. On the contrary, the value is specifically directed to disregard the captive tenant element."
12. In New Zealand there is a substantial body of law primarily relating to the fixing of ground rentals on perpetually renewable leases where the High Court and the Court of Appeal have laid down an approach to be adopted. Mr Stevenson cited these authorities and Mr Camp did not dispute them. I consider that the main principles to be derived from such authorities are:

D.I.C. vs. Wellington City Council 1912 N.Z.L.R. Stout CJ in delivering the judgment of the Court of Appeal in a lease renewal case said in relation to the arbitrators:

"They must ascertain what a prudent lessee would give in for the term, and on the conditions as to renewal and other terms etc. mentioned in the lease."

In Wellington City Council to Wilson 1936 N.Z.L.R. supplement page 110. Smith J. said referred to the D.I.C. case and said:

"This test raises several questions for consideration, the first is the kind of person who is a prudent lessee, the second as to the nature of the ... rental between the freeholder and such a prudent lessee and the third as to the obligation of the lessor to take what the prudent lessee will give."

These principles were accepted in Wellington City vs. National Bank 1970 N.Z.L.R. 660 and Sir Alfred North the President of the Court of Appeal made the following statement:

"Now it is perfectly plain, that the Courts have consistently declined to be drawn into considering principles of valuation save in so far as they depend on purely legal considerations. Of course if a lease, for example, contains a formula for fixing a rent, the arbitrators or the umpire must comply with the directions given to them in the instrument. But short of anything like that, the method of valuation which finds favour with the arbitrators or the umpire is essentially a matter for them".

and he later said:

"In my opinion it has always been accepted that the formula laid down by this Court in the D.I.C. case was of general application".

and finally adopting a arbitration award of Sir George Findlay

"It is the motive which inspire the tenant, which are material ...".

Mr Justice Turner when speaking about economics and not the law said:

"I might have observed that in a situation such as the one before the Court demand, and not supply - the amount which lessees are willing to pay, not the return to lessors on their investment is the factor which , economically speaking, determines rental".

and that these principles, although derived primarily from the renewal of perpetually renewable leases, are also applicable to the review situation which has some similarities with the renewal situation. By the use of the words "market value" in the review clause and with the application of New Zealand law, the parties have agreed that the principles to which I have referred should apply. It follows that, in determining the market value of the reviewed rental, the law directs that the approach of the hypothetical prudent lessee should be adopted.

13. Perhaps I should just record that my decision is based upon the wording of the clause and the argument before me. A slight difference in wording of a review clause might warrant a willing but not anxious lessor and lessee approach. However, whilst one must decide what the lease requires, I expect that much the same result would be reached by a prudent lessee or a willing but not anxious lessor and lessee approach in determining the market rental.
14. The rent review clause also used the words "fair" and "economic". It is clearer on the authorities that the use of these words allow in some element of subjectivity. Fortunately, I do not have to determine the full scope in effect of these words. On the issues involved in this arbitration, the only subjective element is the lessee's improvements of \$2M reflected in the \$168,000 rental adjustment as allowed by the arbitrators. To my mind the words "fair"

and "economic" certainly admit the subjective element to the extent that in assessing the reviewed rental the lessee's improvements may be taken into account. It is quite clear that on any reasonable subjective approach Solitaire Investments would not seek a rental on the improvements effected by Delta and Delta would not agree to pay a rental on the improvements it carried out.

15. How is the relationship between the objective market value and the subjective elements, to be resolved. Halsbury's Laws of England states:

"Where the effect on rent of tenant's improvements does have to be disregarded, it is not right to disregard the existence of those improvements and to value the premises as if no work had been done, instead the valuer must attribute by whatever valuation method appears to him to be correct a value to the improvements which reflects their likely life, their cost and the effect of inflation on that cost, and reduce what would otherwise have been the rental value of the premises by the amount so attributed to the improvements".

Mr Mahony has adopted in his valuation and a reduction would have to be made to Mr North's valuation. In my view, the correct method of resolving the relationship between the two elements of the review clause is to value the market rental for the whole and then to make an adjustment for the subjective element.

16. In summary my finding on the interpretation of the clause is that the parties have agreed that the approach should be the market value, which is an objective hypothetical prudent lessee approach, but the market value should be modified by such subjective matters as may be covered by the words 'fair' and 'economic' which, in the circumstances of the present case, is a reduction for the improvements effected by Delta. This would give a rental of \$10,582,000 as agreed by the arbitrators and gives rise to a second issue of law.
 17. The second issue is that the lessee claims that the lessor is by operation of law or estoppel unable to recover in this arbitration rental in excess of the \$10.5 million specified in the lessors original notice. The argument advanced by Mr Stevenson for Delta Hotels is that the notice comes within a promissory estoppel and the well known High Trees principle as explained by Denning J. I have no hesitation in finding that the estoppel claim fails because in the circumstances of this case:
 - the notice did not constitute a promise,
 - there was nothing in the nature of a promise not to exceed the rental,
 - the Delta Hotels did not act in reliance on the notice - they merely exercised rights they had under the lease anyway, and
 - other requirements have not been satisfied.
- In short, I accept the arguments advanced by Mr Camp for Solitaire Investments Accordingly, I decide against Delta Hotels Limited on this topic and find that the notice of the lessor does not in the circumstances of this case preclude it from claiming or recovering in this arbitration a rental higher than the \$10.5 million shown in the original notice.
18. The reviewed rental will be fixed at \$10,582,000.
 19. I conclude with some comments about the manner in which the arbitration has been conducted.
 20. Counsel may submit a memorandum in relation to costs.
 21. My formal award will be drawn up and published in the near future.

A Survey Of Farm Capitalisation Rates

By R. V. Hargreaves and M. W. Percy

Bob Hargreaves A.N.Z.L.V. is a Senior Lecturer in Valuation (Acting Head of Department) at Massey University, Palmerston North, and is the Councillor for Central Districts

Max Percy is a valuer with Land Corp. in Gisborne. He has a Bachelor of Agricultural Science degree from Massey University and a post graduate Diploma in Agricultural Science also from Massey University.

Bob has been a regular contributor to the New Zealand

Valuers Journal paving the way in a number of areas on computer applications valuation. He has gained wide acclaim both in New Zealand and overseas with papers on the subject.

In this article Bob and Max Percy survey the capitalisation rates for farm sales and comment on the wide disparity in the results obtained from their research and analysis on the subject.

INTRODUCTION

There is an old adage in the property world which says that knowledgeable buyers of income properties all have the same primary goal: cashflow.

From 1970 to 1981 many farm buyers appeared to ignore this adage. Rapidly escalating farm land prices encouraged them to concentrate on capital gain at the expense of cash flow. A Waikato investor, for example, reputedly purchased a dairy farm in 1979 on the basis of a 1 per cent return on investment and then sold the farm a year later for a \$100,000 profit. During this period the farming annual cash flow did not meet normal business criteria, and was artificially sustained by a variety of agricultural subsidies, taxation concessions, and low interest rate loans.

Since 1984 virtually all concessions to farmers have been removed, and New Zealand farm product prices are now set by the world market prices. This has resulted in decreased farming profitability and major reductions in farm land values. This situation is not unique to New Zealand. Over-supply problems on the world markets for most primary products have resulted in major reductions in farm land values in the U.S.A., Canada, Australia and the U.K. The authors' hypothesis was that the recent structural changes in New Zealand agriculture should force the new generation of farm buyers to return to a concentration of cash flow, rather than capital gain. The hypothesis has important implications for valuers since it is likely to result in an increased emphasis on the productive method of rural valuation. As there is very little up to date published information available about the returns on rural investment, it was decided to conduct a survey of

recent farm sales. The main objective was to establish the relationship between net farm incomes and farm values (the capitalisation rate). To validate the hypothesis the authors would need to show capitalisation rates were moving more in line with long term rates. The survey was carried out during 1986 and analysed in early 1987. The full details of the survey are contained in an unpublished 1987 dissertation by Max Percy.

DATA COLLECTION

The information used in the survey was collected from rural lending institutions, principally the Rural Banking and Finance Corporation. Data collection was restricted by both the paucity of farm sales during the survey period, and the need to have detailed financial information available if the sale was to be included in the survey.

In the event, a total of 22 sales were collected from the locations shown in Table 1. The 22 farms selected were all purchased by first time farm buyers. The reasons for using this group was that detailed financial budgets were available from the lending institutions.

Table 1 Number, Type and Location of Sales Data

Number of Sales	Location	Farm Type
10	Waikato	Dairy
6	Otago	Fattening
6	Manawatu	Grazing and Fattening

DATA ANALYSIS

The financial information was standardised to conform with productive valuation criteria. The cost and prices used in the budget are not necessarily current costs and prices unless these are considered to be indicative of future expectation. The main adjustments were to charge interest on the market value of the stock and plant, reward management according to the going rate, and to ensure that the budget and stock reconciliation maintained the farm in a status quo position in atypical year'. In economic terms the productive budget should reward all the factors of production (except the real estate) to the marginal value product of each factor. In this analysis depreciation (a non cash item) which is normally included in the productive budget was excluded because it was not possible to obtain accurate information without inspecting each farm. This means the capitalisation rates quoted will be slightly higher than if depreciation was included. The information for each farm was analysed using an electronic spread sheet computer programme. An example budget is shown below. This budget is not based on a particular fattening farm but is similar to several of the properties used in the survey.

Example Budget			
Total Area (ha)		625	
Effective Area (ha)		600	
Stock Units		5,000	
Expenses			
Wages: Management		19,000	
Casual		2,500	
Animal Health		5,000	
Electricity		800	
Feed		500	
Freight		2,000	
Maint. Fertiliser		33,000	
Seeds		2,000	
Weeds & Pests		3,000	
Shearing Expenses		7,000	
Repairs and Maint.		5,000	
Vehicle Expenses		6,000	
Accounting and Admin.		1,500	
Standing Charges: Insurance and Rates		4,000	
Value of Stock and Plant	127,000	@ 16%	<u>20,320</u>
TOTAL FARM EXPENSES			111,620
Income			
		\$	\$
Stock Sales	450	@	7 3,150
Cull Ewes			
Lambs	2474	@	13 32,162
			35,312
Less Purchases			
Rams	10	@	120 1,200
			34,112
Wool sales	28,000 kg	@	3 84,000
Grazing Income			7,200
TOTAL FARM INCOME			125,312
Farm Income	125,312		
Farm Expenses	111,620		
Net Income	13,692		
Thus, sale price of the farm	\$330,000		
Capitalisation Rate =	13,692		
	330,000		
Cap. Rate=	4.149%		

It is interesting to compare the derived capitalisation rates between the different districts and farm types. A composite graph showing all the derived capitalisation rates is shown in Figure 1.

The large variation in the capitalisation rates (.05 010-5.623 010) is not easily explained

The large variation in the capitalisation rates (.05 %-5.623 %) is not easily explained. It is apparent that the rates are uniformly lower than many other forms of investment. Discussions with field staff employed in the Rural Bank revealed that many first time buyers are prepared to accept an initial nil return on their equity if they can service the loan. This means that the capitalisation rate will tend to be lower when buyers have a higher ingoing equity. One might also expect a wide variation in capitalisation rates in a market where there is not a great deal of attention given to the income producing potential of farms. For example, consider two farms with identical net incomes but one farm has a better locality and better buildings. Under the market approach the second farm is likely to have a lower capitalisation rate.

DISTRICT AVERAGES

The average capitalisation rates for the three districts are set out in Table 2.

Table 2 - District Averages

District	Average Cap. Rate	Range	First Sale	Last Sale
Waikato	3.813	2.109-5.62	Dec. 1984	May 1986
Manawatu	2.6911	1.414-4.084	April 1986	July 1986
Otago	2.7708	0.536-5.393	Feb. 1985	March 1986

At first the district averages appear to be out of line with what might be expected because expectations of capital gain are likely to be higher in the Waikato than Otago. Thus the Otago capitalisation rates should be higher than those in the Waikato. The explanation for this apparent anomaly could be the different capitalisation rates for different types of farm. This factor is analysed below.

LAND USE CATEGORY AVERAGES

Valuation New Zealand (formerly the Valuation Department) classify all land holdings according to what it considers the best use of the property. These categories usually coincide with the intended use of the property after sale. The classification system is as follows:

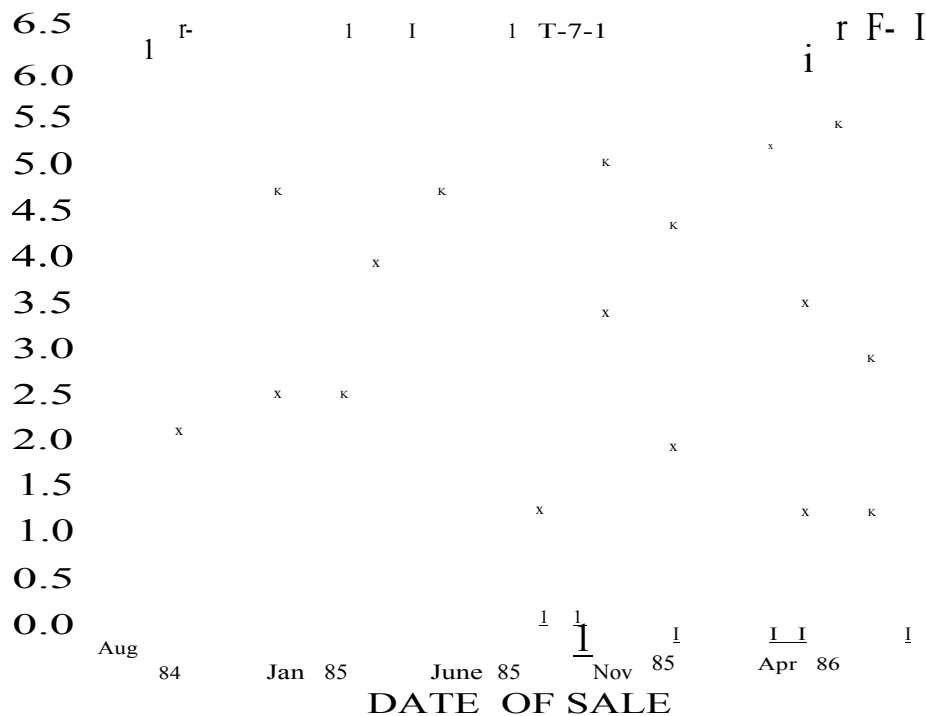
First two characters	DL Dairy Land
	FL Fattening Land
	GL Grazing Land
Third Character	A Excellent Economic Unit
	B Average to good Economic Unit

The results of the analysis are shown in Table 3:

Category	Average
DLB	3.571
FLB	3.44
GLB	2.591

FIGURE 1

FARM CAPITALISATION RATES



The reasons for the difference in capitalisation rates is thought to relate to 'lifestyle' considerations. With dairy farming there is a commitment to twice daily milking for

differences in capitalisation rates is thought to relate to 'lifestyle' considerations

around 10 months of the year. For the one man farmer this often precludes summer holidays and various social activities. Typically dairy farmers are also younger and more heavily indebted than sheep and cattle farmers. The financial pressures on dairy farmers to operate in a businesslike manner are generally greater than on fattening and grazing farms.

Grazing farms showed the lowest rate of return

Grazing farms showed the lowest rate of return. Again it is hypothesised that this relates to lifestyle considerations. Most of the grazing farms were in the Otago region. The production systems are extensive rather than intensive. The farms are relatively large, often employ some labour and the farmer can enjoy a relatively relaxed lifestyle. It is possible to go away from the farm for periods while the stock look after themselves.

EXPECTATIONS ABOUT CAPITAL GAINS

Traditionally rural investors have been prepared to accept low cash return on the premise that land was a good investment and capital gains would be available when they sold. The real estate market generally does not allow people to receive high cash flow and large capital gains. When the capitalisation rate is derived from the market it is possible to work backwards and calculate the capital gains expectations that the investor is working on. Taking the farm used in the example budget we showed that the net income was \$13,692 and the sale price of the farm was \$330,000. This gave a capitalisation rate of 4.149%.

Step 1: Determine the capital structure and interest rates. Assuming the farm was financed as follows:

Capital Structure:

	% Sale Price	Interest Rate	Weighted Rate
1st Mortgage	40	16.5	0.066
Equity	60	14	0.084
Total Weighted Rate			0.15

The interest rate on the equity investment is the opportunity cost of the investors capital.

Step 2: Calculate the effect of changing land values over time. Assume the buyer expects to keep the farm for 15 years which is the typical period of ownership.

With static land values the capitalisation rate should be the same as the total weighted rate shown above, i.e. 15%. If land values are thought to decrease over the holding period then the capitalisation rate should be higher than 15%. Since we

already know that the capitalisation rate is 4.149% then buyers must be assuming they are faced with increasing land values over the holding period.

In this example the buyers would have to assume a 518% increase in the property value over the 15 year period of ownership. This approximates an annual compound rate of increase in land value of 11.5 %.

Although there is plenty of historical evidence to show that rural land values have increased at compound rates of greater than 10% per year, we are currently faced with static values in most sections of the market. There is some evidence to suggest that, with arable land in particular, further declines may be imminent. This is because New Zealand does not have a comparative advantage in the production of cereal crops. In dollar terms the rural real estate market is in a fairly static position, but in real terms (taking account of the effects of inflation on the purchasing power of money) prices are still falling.

Using the capital structuring figures from the example is noticeable that even when the investor is prepared to accept a nil return on equity invested the weighted rate from the first mortgage (6.6%) still exceeds the capitalisation rate of 4.149%.

RETURN ON TOTAL CAPITAL INVESTED

The high interest rates experienced during the survey period, and continued expectations of high interest rates (as reflected in five year government stock tender rates) have a major influence on farming cash flows and farm profitability.

This factor can be easily illustrated by considering the return on investment under several different financing options.

Table 4 shows the results obtained from using figures from the previous example. We have a total capital invested of \$457,000 (Land and Building \$330,000, Stock and Plant \$127,000).

Table 4 - Percentage Return on Equity

	100% Equity	75% Equity	50% Equity
Interest Rate 15 %	7.4	4.9	- .11
Interest Rate 20%	7.4	3.25	-5.11

The above figures help to lay to rest the old rule of thumb that if you had \$1 then you could probably borrow \$2 more. Clearly farm purchasers now need at least two thirds equity.

Borrowing money for farm investment in the current financial climate illustrates how the 'other person's money' principle can work against the investor. Thus when the borrowing rate exceeds the rate of return on the total project it doesn't pay to borrow money.

The average return, at 100% equity, on the survey farms is shown in table 5.

Table 5 - Average Return at 100% Equity

Category	% Return
Dairy Land	6.2
Fattening Land	5.76
Grazing Land	5.47

GROSS INCOME MULTIPLIERS

This measure is often used as a check by farm buyers and valuers. Table 6 shows the gross income multipliers derived from the survey and analysed according to farm type.

Table 6 - Gross Income Multipliers

Category	Average Multiplier
Dairy Land	4.30
Fattening Land	3.67
Grazing Land	3.8

The results show that if the three different types of land had the same income, purchase price would decrease from dairy land to grazing to fattening. This seems to contradict the results from the capitalisation rates, where (on equal net income basis) more would be paid for the grazing land than fattening and finally dairy. However this apparent contradiction is explained by the fact that dairy land produces more income per dollar expense than sheep and beef production.

THE WAY OF LIFE

The differences between the market rate of interest and capitalisation rates found from this study cannot be fully explained by expectations of future capital gain.

Farm buyers appear to be willing to accept a lower return than one might expect in the commercial world. To some extent this may be because some farmers see their investment options being limited to farming. Historically there have been more potential farm buyers than farms available for sale. This demand has tended to reduce the rate of return on capital.

Typically farm buyers purchase not only a business but also a home and a lifestyle. The 'farming way of life' appeals to many deep seated values and beliefs. Farmers get real satisfaction from efficiently producing food products, having flexible hours, and being their own bosses. In addition, many farmers enjoy working outdoors in what are often quite beautiful surroundings.

The restructuring of the rural economy since 1984 has taken some of the gloss away from the farming way of life since many farmers are currently operating under severe financial strain. The resultant level of stress in the rural community is very high. In theory this should result in buyers paying less for way of life considerations. In practice the results of this survey do not show that the first time farm buyers studied are discounting the rural lifestyle.

CONCLUSIONS

The capitalisation rates obtained from this study need to be put into perspective. The survey only dealt with first time farm buyers. The capitalisation rates for existing farmers buying extra land or trading up to bigger farms are likely to be higher due to the economies of scale. As depreciation was excluded from the analysis the capitalisation rates quoted will be slightly higher than normal.

The wide variation in capitalisation rates and the small survey sample means that the average figures quoted need to be treated with caution. However the capitalisation rates

*capitalisation rates derived
were consistently in the
2.5%-3.5% range*

derived were consistently in the 2.5070-3.5% range. The hypothesis that recent farm purchasers were just concentrating on cash flow and were ignoring future gain was not borne out by the results of the survey. Clearly, buyers have an expectation that land values will continue to rise over their period of ownership.

The small number of sales during 1985 and 1986 suggests that farm sellers (and their lending institutions) are withholding land from the market in an attempt to maintain property values. Unless there is a major improvement in farm profitability further downward pressure is likely to be exerted on land values.

REFERENCE CITED:

1. Percy, M. W. (1987) 'A Study of Productive Valuation Methods In The Rural Real Estate Market'. Unpublished dissertation for Diploma in Agricultural Science, Massey University.

Major Rating Changes For Dunedin:

NOT AN ENTIRELY EQUITABLE SOLUTION

By John Baldwin

John Baldwin BSc. Dip.Sci.(Surv), M.N.Z.I.S., is a Senior Lecturer in Land Planning and Development at Otago University Department of Surveying. His teaching responsibilities include land administration and introducing undergraduate surveying students to the principles of valuation particularly as they apply to the surveyor's role in land planning and subdivisional design.

INTRODUCTION

Dunedin City has adopted Capital Value as the basis for its rating for 1988 after 35 years of Land Value based rating. In spite of the possibility of a ratepayers' poll under existing legislation if this change was made, the council was able to frame its new rating package in such a way as to avoid this. Unlike other councils, Dunedin had prior to 1988, opted not to use Uniform Annual Charges to derive any of its rates.

Dunedin City has adopted Capital Value as the basis for its rating for 1988 after 35 years of Land Value based rating

The new formula allows the Council to derive its rates on a series of 'Separate Rates' calculated on the Capital Value of each property. There are also to be two Uniform Annual Charges: an Annual General Charge and a Uniform Water Charge. The general rate, which might have been challenged by a poll is 'nil'. Although the plan adopted has been demonstrated as more equitable for the residential ratepayers, it appears quite unsuitable for the industrial and commercial sectors of the city.

Rating matters have enjoyed much public and media attention and research effort in Dunedin in 1987 after a series of events brought rating prominently into the public arena. The rating formula recommended by the Council's special rating review sub-committee was rejected by the Council and the Mayor, Sir Clifford Skeggs, unsuccessfully challenged the Council's action in the High Court. (*Skeggs vs. Dunedin City 1987*).

This paper reviews the background and the events of a year which has seen public meetings, protest rallies, rates payment 'pauses', protest bill-boards and bumper-stickers together with much valuer and layman effort in submissions to a new council seeking to remain popular while introducing more equitable rating. The information gathered, some of the methods used and the results obtained may be useful to advisers of other local bodies if a ceiling of 30% of the average rate in Uniform Charges is instituted by the proposed Rating Powers Act.

BACKGROUND

A number of factors underlay Dunedin's rating crisis where, following the 1986 Government Valuation, residential rates in the city ranged from under \$12 for land with improvements to over \$5,900 per annum. Rating charge rises in excess of \$1,000 were not uncommon amongst the top 4% of the land values although many of these sites were occupied by older, modest dwellings with low or fixed income owners. In a number of areas where land value increases were modest, the rates actually fell in spite of the need for the City Council to gain 14% more revenue.

The rating problem had been simmering in Dunedin for some years but as only about 1,000 of the city's 26,300 residential ratepayers were harshly affected their complaints had little effect on the Council and no organised action had ever been taken. None had been so impoverished as to meet the strict criteria for a rates rebate.

The Otago Daily Times, both in its bold headlined front page reporting and its editorial comment since 1977 has been sympathetic to the cause of rating reform and the introduction of Uniform Charges. Throughout 1987 this newspaper has given prominence to press releases and articles on the subject e.g. "Local body rating burdens review 'badly overdue'" by J. O. MacPherson, (19 Feb. 1987).

The factors which led to the changes include:

1. The rating system was based solely on the Land Value.
2. Land Value rating enjoys popular support. Over 72% of the rateable residential properties paid less than the average rate (\$611) in 1987.
3. Sharing the rate burden equally between residential and non-residential had become an unfair burden on the latter sector.
4. For the first time the full impact of the Goods and Services Tax occurred on rates. National Party election policy was to disband the Local Government Commission and abolish G.S.T. on rates.
5. The Local Government Commission proposed the amalgamation of Dunedin City with the boroughs of St Kilda, Green Island and Port Chalmers into a greater Dunedin City. Some people considered that changes to the rating system should await this amalgamation.
6. Central government's policy of revenue sharing has not off-set its tax take from G.S.T.
7. The City's Electricity Department profits from sales to the greater Dunedin area (\$4 million) had in the past been used to off-set the city rating burden. In 1987 the Department was taxed by central government, thus the rates had to increase to offset this.

8. In October 1986 several new councillors were elected. For the first time the ward system was used and residential not land ownership (ratepayer) qualifications applied for voting.
9. In November 1986 new Government Valuations were circulated and ratepayers became aware that changes were not uniform across the city.
10. The effect of the 1986 valuation was to reduce the rates payable on the lower valued properties although the Council required over 14% more rating revenue.
11. Some Labour councillors appeared unwilling to make changes that would disenchant the majority of their voters before the parliamentary elections.
12. In Christchurch, which experienced similar wide variations in rating, aggrieved voters in highly rated suburbs had succeeded in persuading their City Council to modify its rating procedures.

THE PROBLEMS

Lot sizes and attributes

Dunedin is an older city with much of its inner residential areas not redeveloped since the original subdivisions. It has a wide range of residential lot sizes from as small as 85m² with limited attributes of aspect or view in the flat areas like North Dunedin. In suburbs such as Ravensbourne, very steep sites with poor aspect and close proximity to the fertiliser works have land values as low as \$300, practically unchanged since 1976.

These sites can be contrasted with the more spacious layout of some parts of the hill suburbs (Maori Hill, Roslyn, Belleknowes and St Clair) where lots with areas in excess of 1000m², well established grounds, popular localities, close proximity to the city, harbour views and good aspect exist. However, these superior sites occur in small localities, not entire wards of the city.

Land Revaluation

The expansion of Dunedin has levelled off in recent years (if

The expansion of Dunedin has levelled off in recent years

the city's population is not in fact shrinking) so there has been little pressure to enlarge the city boundaries which might increase the demand for extension of trunk services. That demand, while already serviced land was vacant had been anticipated with the change to unimproved value rating in 1953, but unlike many northern centres this problem has not existed in Dunedin for many years. Dunedin has the services and amenities appropriate for a considerably larger city and is endeavouring to maintain these from a shrinking rating base. The lack of urban redevelopment has meant that the city council has had to maintain services which new developments would have replaced.

There have been sales of vacant land, or sites where old houses have been demolished for new residences in the desirable suburbs but the demand is not insatiable and the scarcity of available vacant lots has probably been the prime cause for their relatively higher value.

"In the past five years the sales of empty sections [in Dunedin] have never exceeded 10% of the property sales and frequently have been nearer to 5 %.. .." (Ballagh 1987, p.10).

But, as the Valuation of Land Act requires, the effects of these few sales is reflected in all the land values of comparable allotments in the localities.

Part of the injustice felt about the rates resulting from the 1986 Valuations was because many of the residents of the most highly rated suburbs e.g. Maori Hill, were either super-annuitants remaining in family homes, or young families who had chosen to purchase the larger old wooden villas which give the suburb much of its character. The prices paid for available building sites did not reflect the general ability of the suburbs to pay extremely high rates (e.g. Maori Hill, average rates \$1656) - (Ballagh, p.9). Conversely, in localities where sites for new dwellings were in low demand the land values changed very little and already low rates in fact dropped (e.g. Ravensbourne, average rates \$191; some land values have not increased in ten years).

ACTIONS TAKEN

Over 400 people attended a public meeting in February 1987. From this meeting a protest delegation attended the February Council meeting and sought immediate action from the Council. However, the Council responded that it would not make any interim changes but would review the rates in the course of 1987. That Council meeting resolved to seek annual valuations from the Valuer General to reduce the shock of rating increases.

At the March Council meeting, a motion which sought the adoption of a Uniform Annual General Charge of \$150 (as allowed by s157A Local Government Amendment Act 1982) to bring a measure of uniformity to the system was defeated. The Mayor spoke against this proposal, yet in September was an advocate of a proposal to include \$291 in Uniform Annual Charges (Finance and Policy Committee 21 September 1987).

In April the Council established a sub-committee which until July received submissions on proposals to modify the rating system.

A large number of submissions were from urban farmland owners with detailed submissions for this group by Lainco Appraisals, a firm of valuers. At the time of writing, the Council had not finalised the details of the modified rating for farmland properties. The new Farmland Roll will in future contain three categories: Urban Farmland, Small Farm Holdings and a new category, Rural Residential.

Few submissions attempted to grapple with the problems of the commercial and industrial sectors

Few submissions attempted to grapple with the problems of the commercial and industrial sectors. This may have been because Land Value rating, with these sectors paying less than the existing 50% share of the rates, would have remained satisfactory. Motelliers however, had experienced very high rate increases and supported Uniform Charges with the balance of rates on Capital Value. (Otago Motel Association 25/6/87).

Most of the proposals for changes came from the residential sector with a number of Valuers and interested or affected citizens making well researched and detailed submissions. The model eventually accepted by the council was from the Dunedin Rates Reform Group (Ballagh et al). Brief descriptions of their work and other significant submissions are outlined below.

PROPOSALS

1. Professor Cowan

These comprehensive proposals for progressively altering the rating system to Capital Value based, with Uniform Charges,

were put to the Council in late March before the 1987-88 rate was finally struck. These proposals detailed methods, for over a five year period, to:

- (a) Alter the Residential/non-residential differential from 50%/50% to 60%/40% as a means of encouraging job creation and commercial development.
- (b) Introduce Uniform Charges at 20% of average rates and progressively increasing these to 50%.
- (c) Progressively change the basis, over five years, for collecting the remaining 50% of the rates from Land Value to Capital Value base (Cowan 1987).

Professor Cowan also addressed the question of the non-residential rates in some detail. His proposal was to move, over a four year period, from 100% of rates on Land Value to Capital Value 75%: Land Value 25%, with no uniform charges. He argued that these did not bring equity to the commercial and industrial sectors and rating these sectors entirely on Capital Value was also inappropriate. These proposals received wide press coverage.

2. Dunedin Rates Reform Group

This proposal was the model finally adopted by the City Council. The group were able to run the complete but streamlined and modified Dunedin City Valuation roll on Otago University's mainframe computer. The computer was used to test theories and methods across the full range of 26,300 residential assessments rather than rely on sampling from the base.

Since the objective of a new rating system was to find a charging procedure which was 'fair and equitable', the procedure adopted for these investigations was to gauge the 'ability to pay' from publicly available data. By determining the valuation assessments in Statistics Department mesh blocks (as used for the March 1986 census) the group was able to determine - at the scale of the mesh blocks - the 'ability to pay' based on declared individual incomes. This task was labour intensive as the valuation sheet blocks and mesh block boundaries seldom coincided. Had both files been available on computer graphical data bases these investigations would have been facilitated considerably.

The analysis indicated that high Land Values and high individual incomes were not coincident.

"For example Maori Hill has 3.7% of the city income but pays 8.7% of the city rates, while on the other hand Brockville has 4.2% of the city income and pays 2.3% of the city rates." (Ballagh et al 1987, p.7).

There was better correlation between the Capital Values of the localities and their homes: Maori Hill contains 5.6% and Brockville 3.7% of the capital value respectively. (Ballagh p.9). The group concluded that Capital Values gave a fairer indication of ability to pay. The use of Capital Values also compressed the extreme range of rates that existed with Land Values. The group proposed that Uniform Charges of approximately 30% of the average rates should be charged - for water and drainage, in line with proposals in the Rating Reform Bill. This Bill, not any demonstrated loss of equity or fairness caused the group to reject a model which included approximately 50% Uniform Charges.

3. T. J. Croot

These proposals were very similar to those finally submitted by the sub-committee but abandoned by the council. They advocated the use of uniform charges of about 50% of the average rate to each separate household with the balance of the rates land value related. Mr Croot noted that Capital Value did not establish an individual's ability to pay. His submission also pointed out that five-yearly reviews are quite inadequate for capital value appraisals and noted that even then only a small percentage of the homes have an interior inspection.

4. J. O. McPherson & Associates

This also was a comprehensive review which divided Dunedin into 23 localities from which ten properties were identified to produce a bench mark. Their proposals also concluded that a Capital Value system with Uniform Charges of \$300 (1987) being about 50% of the average rates bill was "... the most equitable system when applied on a locality base for Dunedin City." (McPherson p.17, 1987). They noted that under Land Value rating 20% of the ratepayers were paying \$7 million which is about 44% of the rates.

5. Sliding Scales

For this method R. J. Wilkins suggested using the Valuation Department data but to introduce modifying 'factors' to compress the range of the rates. The notion found support with one councillor but was not followed up.

6. Poll Taxes

These were mooted in several proposals and may have found favour if they could be implemented. However, as Mr Croot noted, an advantage of the property based system is the certainty which councils have in rates collection.

7. Special Formulae

A proposal was "... for a formula based on house area, section area, section frontage and a location factor based on the distance from the city centre." The proposition contained far too many flaws particularly for a city with Dunedin's topography. The proposer interestingly argued that rates should be based no more on the ability to pay than should the price of bread, meat or clothing.

OTHER CONSIDERATIONS

Amalgamation

The low rates derived from low Land Values of a large portion of Dunedin has been cited as one of the issues in the proposals for amalgamation of the adjacent boroughs into an enlarged Dunedin City. In 1987, under Land Value rating alone, 20% of Dunedin's rates assessments were below the Uniform Charges component of St Kilda's rates. In his submission N.

R. Thomson demonstrated that St Kilda properties within an enlarged city would be more fairly rated on Capital Values (Thomson 4-6 1987).

Differential

Currently the City derives 50% of its rates from the 4,000 non residential ratepayers. In an endeavour to encourage commercial growth, this differential has now been reduced to 45%. It had been argued that 40% would be more equitable but 45 % has been set as businesses can make a tax claim for the G.S.T. component.

Drainage Rates

One of the unjust ironies of the Land Value rating was the levying of drainage and flood protection levies. Properties in the hill suburbs were paying much higher rates for this service than the lower lying properties which can be susceptible to flood damage.

THE CHANGES

In September 1987 the sub-committee chairman reported the recommendations for Land Value rating with approximately 50% (\$291) Uniform Annual Charges. Two of the sub-committee members however, immediately proposed amendments which lead to the adoption of the Capital Value model with the \$175 Uniform Charges and the possibility for a ratepayer's poll. The avoidance of the poll became the basis of the Mayor's court case.

Any changes that seek to 'spread the burden more evenly' inevitably disadvantage more ratepayers than they benefit.

Dunedin has opted for the major switch to Capital Value

The two proposals (with Uniform Charges) debated by the Council in September would both increase the rates of over 70% of the ratepayers. However, under either system very few residential properties would be paying more than \$2,000 and the minimum rate would be closer to \$200, a considerable compression of the range.

Shifting the Burden

The Uniform Charges brings all rates closer to the average. However, in changing to Capital Value the city has in some instances moved a number of properties well to the other side of the average line and without significant Uniform Charges the spread of rates would also have been unjust.

Units and flats in Dunedin have attracted only a 10% differential above the single dwelling. The owners of these properties will experience significant rates increases with the introduction of the Capital Value base. In the minds of some they have been on a rates holiday at the expense of the older single unit dwelling 'next door'.

Non Residential Sector

The Council appears to have erred by accepting for the commercial and industrial sectors the same Uniform Charge and Capital Value basis justified for residential properties. The Rates Reform Group carried out extensive analyses which tended to verify that people in expensive houses (rather than desirable localities) generally can afford to pay higher rates. They carried out no investigations of the commercial sector. For this sector Land Value or some composite of Land Value and Capital Value as in the Cowan proposals would have more merit (Cowan 1987 P.14-15) although the Minister of Local Government indicated that he did not favour composite rates (Bassett 1987). As a result of the adoption of the new system small businesses and older buildings are on a rates holiday at the expense of the bigger more modern premises unless further differentials are introduced. If low rates attract business ventures, small businesses in Dunedin should flourish.

Avoiding the Poll

By dividing the rates into a series of 'Separate Rates' which are allowed by s.19 Rating Amendment Act 1976 and calculating these individually on the basis of Capital Value, the Council was able to effect a change to Capital Value for all rates except the General Rate which is to be 'nil'. The introduction of Separate Rates, like the introduction of Uniform Charges is achieved simply by a Special Order (s.113 Local Government Act) and Ratepayers may not demand a poll for a change of this nature. The Rating Powers Bill does not include provisions for this poll so there is already sympathy within Government to allow changes to be more readily made.

In the High Court the Mayor challenged the decision of his Council to move away from Land Value in the way that it had, but Mr Justice Tipping found that the Council was within its rights to use the law to create a series of Separate Rates (Skeggs vs. Dunedin City Council 1987).

CONCLUSION

After retaining unmodified Land Value rating longer than any local authority Dunedin has opted for the major switch to Capital Value via a series of Separate Rates and a limit on its Uniform Charges (30%) in line with proposed (at the time

of writing) legislation. The proposals from the careful analysis carried out in Dunedin suggest 50% as fair and equitable.

Other local authorities throughout the country who are using Uniform Charges in excess of the proposed 30% maximum may well have to consider the merits of the Capital Value base with all its warts and disincentives, as being a more equitable system of gathering payments for general council services. Over the past few years the notion that wealth and ability to pay for social services equates with land area or frontage has lacked credibility and it fits uncomfortably with the 'user pays' philosophy.

In an established, static/shrinking city like Dunedin Land Value rating probably never had a place for residential property owners but, when it gave over 70% of the population cheap rates, the political attractions of pleasing most voters have outweighed the needs of good government. Well researched submissions and lobbying have been heeded.

The lack of compatible data bases from the Valuation and Statistics Departments made the production of convincing comprehensive statistics unduly time consuming.

A system that is fairer and more equitable to residential properties cannot be applied without significant modifications to other sectors and it will be unfortunate if the merits of a Capital Value base there are ignored because a different system is not used for the Commercial and Industrial properties.

The nature of services provided by local bodies today would suggest that the Improvements to land should be considered if valuations are to be seen as an equitable rating base. In spite of the work put in to bringing about these changes in Dunedin it is most unlikely that the rating system will ever again go decades without modification and it will not be acceptable until the fairest method is found for each paying sector.

REFERENCES

1. Ballagh R. J., Brooking T., de Graw (1987), "Dunedin rates reform group submission to Dunedin city council on Dunedin rating."
2. Bassett M. E. R., Minister of Local Government, letter to Professor Cowan 15 July 1987.
3. Cowan T. K., 1987, "A proposal for a fairer rating system for the city of Dunedin."
4. Croot T. J., 1987, "Submission to Dunedin city council on rating reform."
5. Local Government Act, 1974, and amendments.
6. McPherson J. O. & Associates, 1987, "Submission on rating for Dunedin city."
7. Rating Act, 1967, and amendments
8. Rating Powers Bill, 1987.
9. Skeggs vs. *Dunedin City Council*, 1987, CP 105/87. High Court of New Zealand, Dunedin registry. Tipping J. X Thomson N. R., 1987. "Submission to Dunedin city council on rating."

The Net Lease Revisited

- WHAT OUTGOINGS SHOULD BE INCLUDED IN THE SERVICE CHARGE?

By W. K. S. Christiansen

Ken Christiansen is the Associate Professor of Property Administration School of Architecture, Auckland University, a Chartered Surveyor and a person with a long history of involvement in Property Development and Property Management in New Zealand. Ken contributes regularly to professional property related publications in New Zealand on a wide range of topics.

INTRODUCTION

Judging from the amount of concern being expressed in the national press about potentially massive increases in ground rents and land tax, now might be an opportune moment to review their relationship to the net lease. The main area of concern is the likely effect on service charges in office leases and consequently on lessees' total occupancy costs.

In other words, if the lessee is committed to paying the lessor's ground rent and land tax what will the resulting gross rent become. And what will be the effect on the general rental market.

It is Wellington which has a lot of ground leasehold tenure in the central business district, with many of the most important commercial buildings standing on such land. But this situation also applies to some parts of the Auckland office area and no doubt other centres also.

The inference from the press reports is that it is the lessees who will pay if they have signed net leases

It has been reported that, for example, in Wellington one ground rent is likely to increase by 1,539 per cent from \$93,000 to \$1,525,000 per annum!

The problem needs to be viewed from two angles. The first is whether the increases are justified. Presumably the new ground rents are determined on sound valuation principles,

so that deals with that. As to the land tax burden, this could well become a political issue.

Regardless of the above, and perhaps more important, is the second angle which is: who pays? The inference from the press reports is that it is the lessees who will pay if *they* have signed net leases.

The real question is whether this is reasonable and sustainable. Should questionable items such as ground rents and land tax and a few other outgoings form part of a legitimate service charge? The answer is that a service paid for by lessees should comply with a basic principle: is the item of any benefit to lessees? Who is the main beneficiary, the lessor or the lessee?.

There may of course be some doubtful items which are not totally clear cut one way or the other. But it is not good enough to merely shove everything onto the lessee. There are some things which properly belong with the lessor and should not become a lessee responsibility.

To dispel any doubts in the minds of readers, the writer is

the writer is in favour of the net lease concept

in favour of the net lease concept and is on record since net leases were first introduced of being in favour of them. At the same time that record will show that the writer has always expressed strong reservations in respect of certain outgoings.

These are ground rent, insurances, sinking fund/depreciation, land tax, structural repairs and management.

All the other operating expenses are generally speaking incurred by the lessor for the direct benefit of lessees and the comfort of employees, clients and other users. Such things as the operation of lifts, climate control, hot water, cleaning and lighting of common areas, the services and amenities provided through the payment of local rates and so on.

We shall now examine the controversial items -

Ground rent - should never be a charge on the lessee or

Ground Rent should never be a charge on the lessee or tenant

tenant. The ground leasehold nature of the lessor's interest is not a burden which should become the tenant's. It should be of no concern to a tenant whether or not the lessor owns the freehold of the land and building in which accommodation is being leased by the tenant.

Office and other commercial and industrial rents should compare with other similar rents - the market comparables. There is simply no justification for a tenant paying more than market rent because the lessor is unfortunate or unwise enough to own a leasehold property. And certainly no justification, as has been suggested, that ALL rents should go up if rents for accommodation in leasehold properties go up.

The owner of freehold property should pay the market value for the freehold interest. Tenants in freehold properties are not required to contribute to the freehold cost. The owner of a leasehold property should pay less than the freehold value plus a ground rent. Mathematically the leasehold price plus the capitalised ground rent should equate to the freehold price.

That being so, the tenant of accommodation in leasehold property should no more contribute to the ground rent than to the freehold price in a freehold property. If the leaseholder pays a freehold price for leasehold property that is the purchaser's lack of prudence and not something to pass on to the unfortunate tenant of office or factory space.

This raises the whole subject of the viability and equity of leasehold interests in a predominantly freehold environment. Leaseholds have the potential to (and probably do) distort the market. Nobody, not even property people, seems to really understand ground leases and that particularly pernicious variety the perpetually renewable ground lease. We should be looking at leasehold enfranchisement: there are precedents.

If it is suggested that new office developments are not financially feasible on leasehold sites unless tenants pay the ground rent, then there is something wrong with the land prices paid and/or the level of ground rents. Developers might be well advised to leave leasehold property alone unless the price properly reflects the reduced leasehold value. The real answer is to abolish ground leases - or freehold! The two do not lie easily together.

Insurances - These are legitimately included in service charges. The issues here are: what should be insured, are the policies compatible with the occupying tenants' interests and are the premiums competitive? These comments are particularly relevant when the property belongs to a life assurance or general insurance company.

Sinking fund/depreciation - It is a valuation principle that the percentage rate of return takes into account the ultimate reimbursement of the initial investment. The tenant should not pay twice. Such an item is usually tax deductible for the benefit of the owner.

Land tax In the normal course of events land tax has been a legitimate item in the service charge, provided the result of land aggregation does not penalise the tenant. In other words each property should be dealt with as though it is the only landholding of the lessor.

The arbitrary increases in the rate of land tax since the 1981 Budget do make this item suspect as something tenants can bear in practical terms as well as being a matter of principle.

Taxes are usually regarded as personal. Some owners pay at this rate, some at that, and some not at all. Land tax applies across the board, ground rents do not.

The effect of massive land tax increases should be perceived by the government and the double effect of increasing the tax rate and the land value assessment (also by government) should be investigated before being blindly applied.

On balance, the writer's feeling is that land tax should stay

*the writer's feeling is that
land tax should stay with
the lessor*

with the lessor and filter through the system at the times of normal rent reviews. Since land tax applies all over it will obviously affect the open market in rents.

Structural repairs - The only problem here is what happens if the building is poorly designed, poorly constructed and built with poor materials. Caveat emptor might be the answer. Tenants should be more careful about the standard of accommodation they are prepared to lease and get professional advice from suitably qualified property consultants.

Management - This should not be a charge on tenants. The standard of management and the cost of management are entirely at the discretion of the lessor. It is a bit like suggesting the tenant should pay the lessor to collect the tenant's rent. The tenant would probably prefer not to pay the rent at all if that were suggested!

Buildings management is essential. Of that there is no doubt. But the cost is not something with which the tenant should be burdened even if the tenants do share with the lessor the benefits of good management.

To conclude. If the service charge in net leases has been used to extract contentious items of operating expense or outgoings from unsuspecting tenants then basic principles have been ignored. Situations of this nature have a habit of rectifying themselves sooner or later. Sometimes the adjustment is painful.

Lessors might reasonably have a fresh look at their leases; tenants might consider obtaining property advice as well as legal advice when perusing theirs - before they sign up.

Reference

1. "Land tax threatens to force firms out." The Dominion Sunday Times, Wellington, 25 October 1987, pp.1 and 3.

PROPERTY MANAGEMENT INSTITUTE NEW PRESIDENTIAL TRIO APPOINTED 1988

The Property Management Institute at its Annual General Meeting elected Mr David Keys of Auckland as PRESIDENT.

Vice Presidents elected were Mr Evan E. Harris of Christchurch, as Senior Vice President and Mr Brian K. Shearer of Wellington, as Junior Vice President.

THE PROFESSION

Valuation is a profession for both men and women with New Zealand specialisation tending to be either rural or urban although a composite rural and urban qualification is available. Qualities required are a good knowledge of the economics of the real estate market, a knowledge of modern commercial practice as it applies to building construction, urban and rural land development, town planning, farm management, modern commerce, investment and home ownership together with business management.

An essential requirement is the ability to undertake a concise, logical analysis relating to a project and, as a university degree is the necessary qualification, those entering the profession need sufficient academic ability to cope with university studies.

THE VALUER

The Valuer's work comprises a balance of outdoor and office work, meeting people, measuring properties and advising clients. A pleasant personality, the ability to converse, to make decisions and to write reports are essential requirements of the Valuer. In their work Valuers act as consultants, financial advisers, economists, statisticians and as expert witnesses in Court. Because no two properties are identical the work is interesting and varies from the valuation of small farms to the country's vast rural holdings in the rural sphere with residences, industrial complexes, shopping centres, units and multi-storey commercial buildings within the urban work content.

THE INSTITUTE

The New Zealand Institute of Valuers is the professional body representing New Zealand's qualified and Registered Valuers.

On a regional basis, the Institute represents some 2,100 members. With a head office and professional secretariat in Wellington, the Institute organises seminars, publishes journals and books and is responsible for professional standards, which it polices through a strict Code of Ethics.

THE VALUERS' REGISTRATION BOARD

As with all professions a basic qualification, currently one of the degrees set out on the next page, is essential for Registration, together with three full years practical valuing experience. There is also a minimum age requirement of 23 years.

The Board oversees educational and practical requirements and requires candidates to produce specimens of their work when applying for Registration.

The Board also considers complaints about Registered Valuers and has the power to suspend or remove Registration.

QUALIFICATION REQUIREMENTS

An essential quality is the imagination to meet the challenge of new valuation techniques with a university degree the required qualification and the necessary prerequisite for registration as a Valuer. There are seven primary qualifications available to those taking up valuation, any of which will enable the holder to apply for registration on fulfilling approved practical and age requirements. The qualifications are:

I Bachelor of Property Administration

An urban qualification available at Auckland University.

Write to the Registrar, Auckland University, Private Bag, AUCKLAND.

Bachelor of Business Studies (Valuation)

An Urban qualification with some units available by extra mural study from Massey University. This degree has been re-named Bachelor of Business Studies (Valuation & Property Management) from 1988.

Bachelor of Agriculture 3 (Rural Valuation Option)

A rural qualification. This degree is available at Massey University.

4 Bachelor of Agricultural Science

(Rural Valuation Option)

The Valuation option of this degree centred on Massey University qualifies the holder in rural valuation.

Write to the Registrar, Massey University, Private Bag, PALMERSTON NORTH.

5 Bachelor of Commerce (Agricultural) in Valuation and Farm Management (Valuation Option)

The valuation option to this degree is a recognised rural qualification for registration and is available from Lincoln College.

Bachelor of Commerce 6 (Horticultural) in Valuation and Horticultural Management (Valuation Option)

The valuation option contains the same valuation papers as 5 and is a recognised rural qualification for registration, available from Lincoln College.

Bachelor of Commerce 7 (Valuation and Property Management)

This degree qualifies the holder with an urban qualification and is centred at Lincoln College.

Write to the Registrar, Lincoln College, CANTERBURY

A post graduate Diploma 8 in Commerce (Valuation)

from Lincoln College *associated* with an *approved* first qualification.

Write to the Registrar, Valuers' Registration Board, P.O. Box 5098, WELLINGTON for details.

Students intending taking any of the above courses or interested in learning the full scope of the degrees are advised to consult the relevant university calendar, or write to the respective University.

EMPLOYMENT

To the Registered Valuer opportunities are available, both in New Zealand and overseas in private practice, lending institutions, development companies, finance corporations and Government Departments, regional authorities, many city councils and ad hoc bodies.

STUDY ASSISTANCE

The State Services Commission has approved a number of Government Departments offering study awards for selected courses at universities. Full details of the terms and conditions of these study awards are available by writing to the State Services Commission, P.O. Box 329, WELLINGTON.

INFORMATION

Further information can be obtained from the General Secretary, New Zealand Institute of Valuers, P.O. Box 27-146, WELLINGTON.

NOTES ON UNITISATION

By The Editor

In his report to The Executive of the New Zealand Institute of Valuers on TIAVSC, Mr G. J. Horsley, the Institute's representative on TIAVSC, said:

"The work programme was discussed at some length with papers currently under preparation including a TIAVSC's Code of Ethics, a paper on Unitisation and Securitisation, a paper on Qualifications and Limitations being included within the Valuer's letter of instruction and a paper on Pollution and Environmental Considerations."

Various supporting papers were tabled and discussed, and of particular interest at the present time is the consideration of unitisation of property - single property vehicles.

A working party was set up by the Society of Land Economists in Australia, and a report prepared under the hand of the Chairman Mr P. E Barrington. Mr Barrington also prepared a brief article which was printed in 'The Valuer' Australia, and is reproduced in this issue.

The working party report brings together the latest information and thinking about unitisation of real estate and puts forward a series of proposals to achieve a viable market for single property vehicles in Australia.

This method of property ownership is now commonplace in the United Kingdom with their 'PINCs' (Property Income Certificates), and is likely to be considered and adopted in America and Australia in the near future. The form of ownership appears to be applicable to properties of immense value compared to the market optimum.

It is well known that unitisation has been around in various guises for many years, and in New Zealand has been known

as syndication. The more recent international development of both unitisation and securitisation has been directed towards the establishment of a strong secondary market for the single property certificates. Mr Horsley reported to Executive that it may only be a matter of time before this type of ownership is developed in New Zealand.

In Australia, unitisation is being promoted by the Society of Land Economists, and in the UK it is promoted by RICS.

The working party report covers wide areas of concern, including trust deeds, the asset manager, employment of specialists (including valuers) and the sale and winding up of trusts.

On the subject of valuers, the working party report states:

"The valuer shall be an independent valuer with the appropriate registration and experience who should be appointed by and report to the trustee.

In addition to the required valuations the valuer will verify the detailed information which should be disclosed as part of the property audit."

With reference to the valuation, the report goes on to say:

"The valuer will provide an open market valuation on the property every three years based on the standards laid down by the International Asset Valuation Standards Committee.

It is important to note that this valuation is as a single property entity and not derived from the price at which the securities are being traded. This valuation is the important factor in determining the nett tangible asset per unit (NTA)."

Are Cancelled Titles Costing you?

Immediate Search Service

Wellington's Leading Legal Agent Est. 1978

Specialist Staff in attendance at:

- Land Transfer Office
- Registrar of Companies
- Inland Revenue Department
- All courts
- Department of Survey and Land Information

RING NOW (04) 727-727, or FAX (04) 727-704
SAME DAY SERVICE

Substantial Indemnity Cover

Robyn's Agency Services Ltd

P.O. Box 454, Wellington. DX Box 90, Wellington

Single Property Vehicles

By Peter Barrington F.R.I.C.S., F.S.I.E., F.A.I.B., F.A.I.M.

The author joined the Hammerson Property and Investment Trust as General Manager for Australia and New Zealand in 1963. From 1968-1985 he was a director of the company. He is president, founding councillor and life member of the Australian Institute of Urban Studies; past NSW and Federal president and a life member of the Building Owners and Managers Association; and a trustee of the Committee for the Economic Development of Australia (CEDA) and a member of the Research and Policy Committee.

In this article the author outlines the need for unitisation of property in Australia, how it will work and what changes are necessary for a successful market. He also looks at some of the valuation concepts which will flow from the introduction of unitisation.

The property market in Australia has been in a state of rapid and dramatic change over the last couple of decades. One obvious manifestation of this is that investment buildings have been getting larger and more expensive, while the capital requirements have become more complex and demanding.

What is needed in a new approach to the funding of large scale commercial projects which at the same time allows investors to directly measure the performance of their investment in the market place.

A working party of which I am chairman has just published a report with proposals which would effectively break down the barriers that have been a characteristic of the property investment market. If successfully adopted this bold innovation will revolutionise the financing of major real estate developments in this country.

At present long-term ownership of commercial property is dominated by the savings industry through a handful of institutions such as life insurance groups, the larger pension funds and property trusts. The working party has found that there is a need for another investment vehicle which would open up property investment to a wider market. Such a mechanism would be of considerable benefit to both developers and investors, local and overseas.

The idea is to have single investment properties held jointly by many different investors who would have a marketable and readily transferable security. In this way property could be 'unitised' and the units traded in a market. Such a mechanism is referred to as a single property vehicle (SPV).

Previous instances of unitisation show that the primary market works well and fulfils a need. What has not been achieved so far is the creation of a successful secondary market for the subsequent transfer of these interests. By promoting trading in these securities, property investment will develop a flexibility and creativity it has not previously enjoyed.

Studies undertaken by the working party show that investors want their risks balanced and only the very largest world investment institutions can absorb today's huge projects and still have a balanced property portfolio. Yet it is clear that the best returns come from the large expensive and landmark buildings.

Hotels, resorts, farms, shopping centres, large marinas, as well as major commercial office buildings could be suitable

for unitisation simply because it is harder for these sorts of developments to attract from a single investor the level of funds required.

The advantage of the SPV is that it opens up the property market by giving both small and large investors access to a single huge project.

The volume of development finance currently structured on the assumption that long-term finance will be available is a cause of major concern. It is not clear where the substantial amounts of long-term equity finance can be found without the implementation of an initiative like SPVs. Some foreign investors showing an interest in major Australian property are cautious about long-term involvement on a 100% basis and would prefer one or more Australian partners. They also find unattractive the lack of ready marketability of the conventional property title and the pre-emption rights which have been customary in syndicated schemes.

Already there are a number of owner/developers who are considering unitising property. In view of this it is essential that a proper and consistent basis for single property vehicles and their marketing be established as soon as possible. In this way the maximum use can be made of available local and international investment capital.

Recommendations made by the working party include:

- There is a need in Australia for SPVs. They will become an important facility for the provision of long-term capital for major property developments.
- There are no basic legal impediments to the structures necessary for SPVs.
- Tax 'transparency' appears achievable. Unit holders would be able to receive their share of net income tax free and then pay tax appropriate to their total income and status, while remaining eligible for appropriate tax allowances.
- Single Property Ownership Trusts (SPOTs) normally would be the most appropriate vehicle for unitisation.
- Single Asset Property Companies (SAPCOs) can fulfil the same role as SPOTs where tax transparency is not a concern.
- Property Income Certificates (PINC)s are being adapted for Australian practice and may fulfil a role.
- The purchase and sale of securities must be achieved without the transfer of land, pre-emption rights, or the alienation of, or interference with, the rights of other equity holders.
- It is essential that unitised property is assessed as a property investment and not viewed in the same light as other equity investments, such as shares. In this way comparisons can then be made with other direct property investments, and investment criteria can be kept uniform.
- The face value of a security in an SPV should be \$10,000 with a minimum of 50 equity holders before public listing. This latter point requires changes in N.C.S.C. guidelines.
- Venue for the trading of SPV securities has not been resolved, but the alternatives are the Australian Stock Exchange (ASX) or a separate screen trading category. The ASX path is seen as the most promising, provided listing conditions are appropriate to the market and the ASX rules are amended to allow direct access of real estate professionals in the market for SPVs.
- As single property vehicles will have only one asset, namely

a single piece of real estate, there must be strict guidelines for full disclosure concerning the property and its management.

- Full disclosure is considered a better system than detailed regulation.
- Asset managers of SPVs must be able to hold part of the securities, subject to disclosure, and be able to vote those securities on all matters. This will require changes to the present N.C.S.C. guidelines.

Unitisation in Australia is a new perception for the property market. The concept is particularly directed to the development of a readily transferable property security, rather than creating completely new financial structures. We are fortunate in Australia that we have the property unit trust framework and experience to build on.

As can be seen from the above recommendations, some new ideas are forthcoming which will require some changes to be made by the regulatory authorities. However, given the SPVs are basically a form of property, these changes are very logical and a vital step towards the achievement of a secondary market for SPVs in Australia.

Unitisation raises some interesting valuation aspects including the relationship (if any) between the market value of the securities in an SPV on issue and the value of the property as a single entity.

Although the SPV will only own a single property it will also own associated assets and will have liabilities - particularly if it is geared by loans. So the first difference is all those elements which go into the calculations of the net tangible asset value of the SPV. It is at that point that market demands and perceptions will create further differences.

During discussions on unitisation, widely divergent opinions have been expressed varying from one extreme - that no property valuation will be required in the future as the market price of the securities will provide the value - to the other extreme - that the price at which the securities are traded will be related directly to the value of the property and no premium above net tangible asset value will occur.

Obviously both extremes are equally erroneous but such opinions illustrate that unitisation requires some clear thinking on the matter and principle of valuations.

The working party has come to the conclusion that professional valuations should be made every three years by an independent valuer with appropriate registration and

experience. This disclosed property value, duly adjusted for the other assets and liabilities of the SPV will provide an accurate estimate of the net tangible asset value so the investors and analysts will know both the value of the property and the net tangible asset value as an aid to making their own judgement.

The ability to follow the growth value of the property will be a very good measure of how the property is performing relative to the property market as a whole and some measure of the performance of the management of the building. It will also be a significant factor in determining when refurbishment, redevelopment or sale should be considered.

However, to the investor it will be the market value of his individual holding which will be the value of his investment, not the property value or the net tangible asset value. It is the value at which he can sell his holding in the market which to the investor is the true value of his investment. The other values are merely underlying values.

To the extent that the market in SPVs follows the sentiment of the market as a whole, property will acquire characteristics closer to those of the normal equity market. It is in order to retain as much of property's inherent stability as an investment that there is the need to differentiate SPVs from other equities and the normal property trusts. Despite the separate values referred to earlier, what is likely to occur over a period of years is that a relationship will develop between the overall property market yields and the yields provided by SPVs. This will arise when the differentiation in yields available widens or narrows, thus encouraging either the unitisation of property because a profit can be made by converting a single property into a unitised structure, or the winding up of SPVs by selling the property in one line if possible when the value as a single entity shows a good profit over the market value of the unitised equities.

The principles which have led to strataing of many blocks of rental apartments in recent years and the current proposals for encouraging rental housing are driven by precisely the same market forces which differing investment returns create.

The critical need, however, is for very clear thinking on points of principle which separate the value of the property as a single entity and the value of his holding to the investor. The differences between these separate values will, among other things, incorporate the market perception of the value to the investor of the flexibility, liquidity and added choice of properties which unitisation will provide.

Property Unitisation and Syndication

By Bruce R. Glanville, FGA.

The author is the partner in charge of the Canberra office of Duesburys, Chartered Accountants and is involved principally in the areas of management, investment and property advisory services. He is a director of several property investment companies in Canberra and has actively formulated property syndicates in the ACT

INTRODUCTION

This paper was prepared and presented by the author at a recent luncheon seminar arranged by the A.C.T. Division.

Syndications covering all aspects of business and investment have existed for centuries, the more familiar of them probably being the underwriting syndicates of Lloyds. The principle for which such syndicates were formed was for the sharing in an equitable way of risk and reward. The general principles of Lloyds, first established in the tea shops, remains largely unchanged.

The 16th century in England, as a recognition of possibilities emerging from foreign trade, saw companies formed under Royal Charter and later by Act of Parliament. At first, the chartered companies secured capital from various persons for each venture. When the voyage was completed, accounts were taken and the cash proceeds distributed to the co-venturers.

In order to facilitate longer term planning, it was recognised that more or less permanent capital was required. Originally the British East India Company had its capital subscribed for four years, but this term was later abandoned in favour of permanent subscription.

The joint venture has had a long and meaningful history and has emerged once again in the late 20th century as a business mechanism to provide for the joint requirements of the venturers. This is somewhat surprising when one recognises the sophisticated business arrangements and entities available to investors in today's climate and the other forms of investment available.

Unitisation and syndication are, by definition, slightly different, but they are often interchanged in meaning. For our

deliberations, and with the licence of a writer, I propose to define them as "the divided equitable ownership of a single property in proportion to subscription of capital".

The major difference between the two is the specific legal relationship between them being a function of rights of the member, rather than of description. Unitisation reflects a connotation of capacity to deal with the interest rather than syndication which connotes a restricted capacity to deal.

Clearly, before considering the reasons why investors choose such forms of investment, we must consider the relative forms of alternative investment available for the investor. When considered against the background of available investment mediums, the increasing popularity of syndications must reflect the market perception of advantages over other forms.

Such alternatives are:

- Wholly owned property;
- Managed trusts -
 - Cash,
 - Property,
 - Equities,
 - Special;
- Equities -
 - Traditional,
 - M.I.C.s.;
- Monetary investments;
- Antiques, collectibles, bullion;
- Life assurance policies and insurance bonds.

This range of possible alternatives is a long way from the former traditional investment alternatives of depositing funds with the banker and taking up a portfolio of listed shares. This relatively narrow range of thinking was, I believe, promoted heavily by the traditional institutions reliant upon such investments as a source of their own funding and success. The times are now very much different. Not only has the investor many more options, and prospectively more 'hard sell', but he also has a tangle of legislative and bureaucratic systems to beat his way around.

The main advantages and disadvantages of syndicated or unitised property ownership as an investment are:

Advantages

- Gives the investor an opportunity to acquire an interest in property (as a function of available investment funds) which otherwise may be outside his scope;
- Invest in property which falls into differing supply/demand criteria than that available on the smaller investment base;
- Provides an opportunity for better gearing, particularly negotiating interest rates and 'add on fees';
- Sharing of risk;
- Sharing of expertise in the aspects of decision making for the property ownership and control;
- Be part of the absolute decision making process and not abrogate this function in favour of a third party;
- Apart from establishment costs, not face a 'management fee' which has a significant impact on the rate of return on the investment.

Disadvantages

- The prospective need to provide joint and several guarantees to borrowing over the property;
- Potential 'lock in' of funds;
- Potential break down in personal relationship with co-investors;
- Prospective investment of large amount in one deal does not allow a spread over multiple properties; and
- A minor interest holder may be outvoted by a large or group of interest holders.

Format/entity

The format and/or entity which reflects the ownership should generally be the best suited arrangement to the syndicate group. The objects of the syndicate, in acquisitions, will ordinarily dictate the format.

While the philosophy of the syndicate can be likened to a partnership, the arrangement may be in any number of formats. They may be:

- a syndicate, reflected by a syndicate deed and akin to a partnership;
- a company, with or without a shareholders' agreement; or
- a unit trust, with or without a unitholders' agreement.

Regardless of the entity, the spirit of the syndicate should be reflected precisely by the documents setting down the original terms and conditions agreed between the parties. Such spirit is intangible and despite the best efforts of lawyers to set such to writing, that continued co-operation of the syndicate members is fundamental to success.

Most certainly the ultimate decision as to entity should be subject to legal and accounting advice.

Taxation implications

It may be proper to review some aspects of reaching a decision as to the entity. These cannot be comprehensive and the tax aspect appears to vary almost daily.

1. Syndicate

Each of the participants will be taxed on his share of the net profit (if any) of the syndicate annually. This entity was possibly best suited in the pre negative gearing days as a mechanism for the sharing of losses emerging as deductible against other income of participants.

While the predominant benefit of negative gearing losses has largely been lost, some significant benefits continue. This is particularly so when some participants wish to borrow the original sum of their investment. Thus the net result of ownership is shared among the syndicate holders and some may have offsetting outgoings and reduce the income (or create a quarantined loss to be offset against other income or to carry forward). Thus the taxable position of the particular property will not determine wholly the tax position of the individual participant. Quarantined losses which otherwise would be required to carry forward in anticipation of future income of that particular property may be offset against other 'new property' income of individual participants.

The other principal benefit of such an arrangement is that it allows for an easy, and less expensive, dismantling following a sale. Liquidation of the entity is inexpensive, not public, and the transmission of cash as a result is easier than any alternative.

Following the introduction of equivalent maximum personal and corporate tax rates and of imputation, the syndicate (partnership) will continue to find favour.

The ownership does have some potentially more expensive stamp duty requirements on the transfer of an interest in the property from a syndicate member to another person (be he a syndicate member or not). If the property is geared then stamp duty will continue to be assessed on the gross value of the assets held, regardless of gearing arrangements.

Borrowing of the syndicate itself may be against the specific security of the property. It may be difficult, however, to use the individual interest of the syndicate member as collateral to personal borrowings of the member.

2. Company

Losses incurred by the company, including quarantined losses are only available to be carried forward against future income of the company. No right of off-set of these losses is available to the individual members.

In the case of all going bad, then the ultimate loss of capital can end up locked into the company. The company to obtain the benefits of those losses must run the test of section 80 of the Income Tax Assessment Act dealing with the continuity of business or continuity of ownership.

Following the introduction of imputation to dividends flowing from companies, the flexibility of such entities for income tax will be significantly enhanced.

The negative gearing rules apply to the deductibility of interest on borrowings of shareholders to provide for equity take-up where 75 % of the gross assets of the company are represented by investment property.

The matters which require consideration before establishing this entity as the vehicle for investment are:

- (i) Will individual shareholders get the full benefit of imputation, given that if their individual tax rates are less than 48% then there may be a net tax cost?;
- (ii) If a property is further geared, by increased borrowing, at a future time and the members wish to take those additional proceeds then such funds taken may be a deemed dividend for income tax purposes without the benefit of franking; and
- (iii) The final distribution of profits on sale, presumably on liquidation of the company, may not be entirely free of income tax. The computation of capital gains tax takes account of a base cost subject to indexation. The whole of the proceeds therefore would not have been subject to the corporate tax rate and receive the benefits of imputation.

Despite the risks, companies may continue to be the medium for such investments. They clearly determine and create the rights and equitable interests of members within the Memorandum and Articles of Association of the company.

Any valuation of shares, for the purpose of stamp duty on the transfer of equity, will reflect the underlying asset value less the borrowing, if any.

If a company is selected then the decision as to debt or equity originally subscribed will have to be determined. If the property is, in the first instance, negatively geared, then original subscription moneys could, apart from a notional capital, be provided by shareholder loans. In these circumstances, the shareholder loan would be dealt with in a shareholder agreement or in the Memorandum and Articles of Association.

3. Unit Trust

The net income of the trust is distributed to the unitholders in proportion to their interest in the trust at the balance date.

As with companies, any losses, including quarantined losses, are available only to be carried forward against future income of the trust.

The imputation rules do not apply, other than those normally applicable to corporate unitholders, to the *prima facie* distributions of the trust.

Stamp Duty is applicable to the transfer of units and, as with a company, the value will reflect the net tangible assets per unit, having regard to borrowings, if any.

The choice of entity to be used for the syndication must, therefore, be a planned and specific one, very largely determined by the proposal under consideration. A vehicle for one set of circumstances may not be the best vehicle for another.

Legal Position

As set out above, the spirit of the syndicate relationship is all important. However, circumstances do change and often do so outside of the immediate control of the syndicate members. One can envisage the following possibilities:

- the marital breakup of a member and the consequent strain on the overall syndicate financial resources;
- the bankruptcy of a member;
- a breakdown in relations between syndicate members.

A wide range of possibilities may eventuate from one or more of these happenings, or others not contemplated. The importance in setting the specific relationship and agreements in writing as a reliance of last resort cannot be overstressed.

The nature of those agreements will be in a form which is best suited to the entity chosen to reflect the interests of syndicate members. The document(s) would, in my view, contemplate the following.

1. The preemptive conditions applicable to the sale by a member of his interest. In considering such, and on the assumption that continuing members may wish to acquire the interest to be disposed of, then -
 - (i) a time restriction in which a member may not sell;
 - (ii) the penalty for selling within a certain time frame (this may be a sliding scale);
 - (iii) the sharing of costs associated with disposal (e.g. valuation of fees);
 - (iv) relevant notice provisions.

Obviously a coinvestor may be desirous of acquiring an interest which becomes available, but he may not have the resources available to do so. This is particularly important in the immediate post acquisition period or on the emergence of profits (or potential) from special circumstance buys.

2. The indemnity between syndicate members as to the sharing of any shortfall on borrowing against end value. While financiers will generally call upon the joint and several guarantees of all members, they may choose to only pursue specific individuals. Therefore, as much as can be guarded against, the oppressed member must have a right of indemnity for the proportionate share of shortfall against other members.
3. The setting of a routine of management. It would be normal for a company to be incorporated to conveniently manage the affairs of the syndicate. Such a management company would expedite the execution of leases, arrange financing and control the syndicate's affairs.
4. Detail of the specific borrowings envisaged and providing for a specific limit to these, unless otherwise agreed unanimously by the syndicate members.
5. The document may spell out the particular intention in regard to the property. Some word of warning about this intention must be sounded, however, by reason of the income tax implication. A property acquired for subsequent resale at a profit ordinarily would not have the benefit of capital gains tax indexation on the base cost, at its subsequent sale.
6. The management arrangements, in a particular dealing with collection of rental income, etc., and the distribution of cash and of the principles thereof.
7. The restrictions, if any, applicable to further investments.

In all of the foregoing, the specific interests of all parties must be protected. The above terms are by no means meant to be comprehensive. Lawyers quite properly will consider other rights and remedies for syndicate members. If a potential syndicate member is not pleased with such terms and conditions, he should not join the investment group.

Gearing

The leverage offered by gearing of investments is potentially that which sets the form of property investment apart from alternatives.

In my view, however, such gearing in syndicated investments should be conservative, the preferred position being that whereby net rental income provides some excess beyond gearing. This will be determined somewhat by the nature of tenants, the rental flow and quick sale value of the property.

The borrowings (and thereby repayments) should be structured to avoid the necessity of continuing calls for contributions from members. While this cannot be avoided in the case of a disaster, the happier syndications are those which do not call for future contributions.

As I have pointed out, individual members or companies will have an income tax responsibility on the operating result for the year. In some cases, depreciation of chattels (likely to be at 20% per annum flat) or the 4% allowance on new buildings, may give rise to the tax effect as being different to the cash effect.

The object of the investment should always be that the tax cost of the income emerging should not be greater than the cash available to meet that cost. Subject to the non-cash effect of depreciation then the capability of principal reductions to borrowing must be limited. Only in special circumstances could I see the opportunity to enter into principal and interest borrowing arrangements. Interest only borrowings must be preferred.

In these days of ever fluctuating interest rates, a fixed interest facility for a term as much corresponding to the intentions to the holding the property as possible, must also be preferred. The prospective fluctuation of interest rates, in a non-fixed case, would mean that planning and gearing must be in accord with the lowest common denominator.

Investment parcels

The corollary to the gearing will be investment to be made up by the syndicate members. In essence the 'deposit gap'.

Experience would tend to dictate that the greater limitation to the number of members will determine an easier approach to the overall running of the syndicate. The investment parcels therefore should be sized according to a reasonable approach to the investment undertaken. The raising of \$1 million is better suited at parcels of \$50,000 or \$100,000 than at \$5,000 or \$10,000.

The smaller investor should, by no means, be discouraged but he may have to give up some of the direct proportional and management rights to participate. Thus in such a syndicate, smaller investors may subscribe to a sub-syndicate creating one or more investment parcels. Such sub-syndicates can have their own rules and dealings for the appointment of management representatives, etc.

Statutory restrictions

The Companies Act (Code) provides for the rule that a partnership or association of more than 20 persons, which has as its 'object the acquisition of gain', must not be formed unless it is incorporated pursuant to the Companies Code, other legislation or letters patent. Some exemptions are granted to professional partnerships.

The question of interpretation of 'object the acquisition of gain' has a variety of interpretations. Certainly an apparent question of law is involved and I am not capable of providing a definitive answer. The passive receipt of rental or ownership of property may not constitute 'the acquisition of gain'. The answer may be different if the syndicate has the object of buying and selling property or of property development.

I do not provide the answer but, please, be on notice that the question needs to be resolved if the syndicate membership is likely to exceed 20 persons.

The Companies Code provides for requirements to issue a prospectus in the case of an invitation or offer to 'the public'. Neither 'offer' nor 'invitation' has been given a strictly contractual meaning by the court, but one should be guarded about this requirement.

Conclusion

I have attempted to deal with some of the issues emerging from the syndication or unitisation of property. This growing form of financing and investment in property must have an effect on the traditional forms of investment, funding and acquisition.

Undoubtedly we will see the creation of specific legislation dealing with syndicate or unit ownership other than that presently enacted and the creation of markets not dissimilar to the second board stock exchange markets whereby a trade

of interests in single property can be effected. This, by no means, diminishes from the existing listed property trust investment, whereby a single entity is required to buy back units at a valued price. The single property investment does, however, allow for investors to take a position in a single property of their choice and reap the benefits of having chosen the right property.

The approach to this has been developed in the principal financial centres of the western world - Australia cannot be too far behind. An opportunity is available to those who seek an involvement on this business sphere as Australian investment reflects upon the opportunities presented. I would hope that we all take those opportunities. Valuers will have a very important task to fulfil in advising clients, very much like stockbrokers, as to opportunities which may present themselves.

VALUERS COMPUTERISED OFFICE SYSTEM (VALUCOM)

Comprising the following Modules

- Sales Data Retrieval
(both Valuation Dept. & In-house Data)
- Billing system Invoicing/Stmts/GST
- Fees Analysis Reports
(by valuer/office/month, etc.)
- Wordprocessing
- Rental System
- Insurance System
- Spreadsheets

The modules can be used separately or can work together to provide an intergrated office system.

FEATURES

- Limited multi-user capability
- Will support multiple screens and printers
- Runs on IBM & compatibles under MSDOS

Full consulting, installation training and support provided

MAKAN COMPUTING

76 Marisa Road, Ellerslie
Auckland 593-754

Evaluating Development Projects

By R. T. M. Whipple

Dr Whipple is the Associate Professor Department of Town and Country Planning, University of Sydney Australia. He launched Sydney University's post-graduate programme in Land Economy in 1982.

Dr Whipple is the highly respected author and Editor of a number of publications including "Commercial Rent Reviews-Law and Valuation Practice" and "Real Estate Valuation Reports and Appraisals."

This paper was presented to the Second World Valuation Congress in Vancouver, Canada May 1987.

We are your guardians, that increase,
or waste, your fortunes as we please;
And as you humour us, can deal
In all your matters, ill or well

Samuel Butler,
The Lady's Answer.

Introduction

The evaluation of real estate development projects has produced a sparse literature. This is in sharp contrast to the voluminous output devoted to the analysis of income earning properties.

Presumably this is due in part to the advances made in the financial studies area generally and the application of that knowledge to the analysis of investment properties. Sometimes the transposition has been relatively successful and at other times not. Be that as it may, the money flows characteristically generated by investment properties are fairly typical of the income streams generated in the equities market. It is not unnatural, therefore, that there has been a fair amount of traffic from the business studies to the investment property area.

*Development projects
generate cash flows which
are rather different.*

Development projects generate cash flows which are rather different. If an analogy were required, one would point to the futures and options markets rather than to the equities market. It is not unusual for development projects to exhibit long periods of cash absorption followed by a relatively smaller number of cash surplus periods.

Because money has a time value, the cash flows need managing so as to ensure that outflows are postponed for as long as possible and inflows brought forward. A major source of risk in real estate development arises from events which push the positive and negative flows apart in time. It is preferable to manage affairs so as to minimize the present value of cash outflows and maximize that of cash inflows. Favourable financing can have the effect of diminishing the magnitude of outflows but the repayment pattern needs to take note of the time-profile of cash surpluses.

Copyright to Land Development Studies, having appeared in Volume 5.2 of that Journal.

The latter point serves also to point out two broad kinds of development project: those having a number of cash surplus periods and those having only one (a third would be those having none!). An example of the first would be a block of home units (condominiums) where sales income is spread over a number of periods following the cash hungry development phase. An example of the second would be the development of an income property where all income is received at the very end when the revenue earning building is sold to an investor (Hines, 1983).

Before applying traditional methods of financial appraisal and risk analysis to development projects, one needs to recognize that their cash flow patterns differ markedly from those generated by investment properties.

Another difference lies in the fact that many of the component cash flows of a development project are not independent of each other. The resulting cross-correlations have to be accommodated within the analytical framework that is developed. As will be shown below, this has a special relevance to the sensitivity and risk analyses applied to development properties.

For illustrative purposes, a small home unit project will be employed. The major risks with this kind of venture, apart from the ones referred to above, concern the proper assessment of development costs and estimation of sales revenue.

It is a trite but true saying that the product must suit its

*the product must suit its
intended market.*

intended market. Building cost estimates need to incorporate allowances for the detailed finishes required by a discriminating market; the estimation of such costs is one of the most difficult problems for a valuer or analyst who has no active experience in the sub-market concerned. This kind of information is scarce because it is possessed by the relatively few people who are so active. This applies with special force at the upper end of the market where buyers are notoriously fussy - a comparatively minor flaw in design or finish can cause a decision not to buy.

Given the nature of the cash flows described above, it is most important not to overestimate sales revenue. This usually reduces itself to making a correct judgment on inflation, how it affects interest rates and, hence, the borrowing ability of buyers and of correctly estimating the comparative advantages that may be enjoyed by competing projects when marketing time arrives.

The recommended analytical process comprises four steps around which our discussion is structured:

- an initial screening-----
- an initial screening using the traditional residual approach
- modelling the flows of money attending the project without financing
- studying the sensitivity of the projected outcome to changes in variables including financing and supplementing this with a risk analysis

- quantifying the effect the project will have on the corporation's revenue accounts and balance sheet.

Ordinarily one would extend the analysis to take account of the incidence of income tax but, as tax regimes differ from country to country, that topic is omitted. This is not to deny its significance, however.

General Valuation Approach

There are five steps recognised in the contemporary approach to valuation. The *first* is to ask "what is the question?" This requires a definition of the problem the valuation is required to solve (or to solve in part). Given the client has a decision to reach, how can the valuation assist that process? Once the question has been answered, it is possible to formulate the appropriate definition of value, to define the rights which are to be valued and to identify the nature of the data required.

Different questions usually lead to different definitions of value, bundles of rights and sets of data. The question "what should I pay for this site if I can gain planning permission for an eight-storey building?" is fundamentally different from "what can I sell the site for if I don't wait for planning permission to come through?" Different as these questions are, they are quite dissimilar from "what should I pay for the site so as to incur a tax loss which will benefit another arm of my business?"

The first two define different sets of property rights and call for different evidence as to the price appropriate to those rights. The last question entails the shaping of a programme of development which will incur tax losses for a certain period. This calls for evidence concerning (inter alia) tax treatments, how a development package can be designed to be consistent with those treatments and it brings a different set of risk parameters into play (e.g., retrospectivity in legislation).

Another question could be "should I sell now?" To answer this, one needs to define the time horizon relevant to the decision, how the bundle of rights may change over that time, the likely course of prices and development costs, the price the rights could fetch now and such like. These questions, and others that could be posed, all entail different motivations; this has consequences we shall underscore below.

The *second* step is to define the uses to which the subject property can be put: uses for which a market demand exists and which are legally, economically and politically feasible.

Third, from the set of uses, the most probable use has to be selected. An eight-storey building, for example, may be the most profitable and may be allowable under the relevant legislation. If, however, it is likely that a local group will stir up opposition to the scheme so that it becomes a political liability, there is little point in regarding it as a potential use: the property rights conferring the more intensive use are virtually valueless. Hence, this stage of the valuation approach is concerned not just with market and economic feasibility, but also with a careful analysis of other factors bearing on use: political (including industrial relations) and legal.

The *fourth* step follows from the third: identification of the most probable buyer (or buyer-type). This is important because different kinds of buyer may have different motivations, price-fixing regimes, bargaining strengths, critical requirements and so forth.

The *fifth* step is the estimation of the most probable price using one of the following three methods as appropriate: influence from past transactions of comparable properties involving similar motivations; simulation of the most probable buyer's price fixing process; failing these, use normative models. The resulting estimate is then adjusted for any special circumstances and the results are tested for sensitivity to the assumptions made.

The contemporary approach is not in conflict with the traditional approach but it has the advantage of freeing the

valuer from the burden of unrealistic assumptions. The assumption of the willing but not anxious hypothetical vendor and purchaser both cognizant of the property's latent advantages and disadvantages and neither party ignoring ordinary business considerations underlies notions of "fair market value" and is unreal. The real estate market doesn't work in that fashion. The contemporary approach, having as its focus the concept of the most probable price, acknowledges that price is a result of a behavioural process reached in a market characterised by imperfections. It recognises the reality that parties to a transaction do not necessarily have equal bargaining positions and one or the other will take advantage of this or of other imperfections - fairness is irrelevant to them. It acknowledges also that one or the other party is able to break off negotiations if it is advantageous to do so.

There is a logic to the contemporary approach which is made explicit and this helps the valuer to guard against error. The danger in the traditional approach is that its logic is implicit and may fail to identify false assumptions.

The best method of assessing most probable price is by way of inference from past transactions of comparable properties between parties having motivations comparable with those identified in the early steps of the process outlined above. Historically, this is the favoured approach and when comparability can be established it provides the most reliable estimate.

Establishing comparability, however, is now not as simple a matter as in days of yore. The advent of town planning and other restrictions, increasing sophistication in financial packaging within complex corporate structures and the requirement for advantageous tax planning have combined to produce transactions which are the result of a unique set of forces out of which a unique price results. What one corporation finds sensible to pay for a property another may find to be ludicrous. If value is thought of as the figure towards which all possible participants would converge in their estimation, then this may often impose an intellectual framework on the valuation process which is now becoming difficult to sustain. In the market for development projects there is a growing tendency for each transaction to be a special purpose one. Unless comparability is established across the spectrum of the decision process, then adoption of the inferential approach must be seriously questioned. Because decisions concerning the acquisition of development sites and income earning properties are coming more and more to reflect financing and taxation considerations relevant to corporations with markedly different structures, types of profit centre and management policies, the goal of comparability is becoming more and more elusive. Quite apart from these considerations, the comparable sales approach is virtually impossible to apply in the valuation of development projects still in progress.

Such considerations dictate inexorably that, in handling a development project brief, the valuer will have to rely on the second approach: simulation of the most probable buyer's decision process. How this may be approached is the subject of this contribution.

Before moving on, however, a few notes are offered on the concept of most probable price. For the reasons set forth above and others akin to them, it is most unlikely that all members comprising the most probable buyer type will be prepared to pay exactly the same price. There is, therefore, a range of possible prices and it is a measure of central tendency of these prices that should be derived. As mentioned above, that estimate may have to be adjusted for any special circumstances and assumptions. The valuer should, therefore, ascertain from the possible buyer types what their price fixing regime is and apply it to the instant case. Sometimes this will be capable of modelling in the form of a probability distribution (an example is given in Whipple, 1986) but, more usually, only

* This is less of a problem where participants and product tend more towards homogeneity - e.g., the market for developed residential lots.

a range will be reported from which the valuer will derive a point estimate. Both, however, should be reported to the client. Note that this is far more useful to the client than the mere reporting of a single value: the wider the range, the less certainty is there and vice versa. The client has a guide as to how confident he may be in the point estimate.

The major steps outlined above become the sections about which a valuation report is structured. In effect, the report reflects the behavioural processes which result in the distribution of probable prices.

For the sake of completeness, it is pointed out that normative models will be applied where inference from past transactions and buyer simulation are both impossible or (possibly) to use as a check against the outcome of another method. Here the valuer decides the approach he believes the market would apply and proceeds with value estimation accordingly. Sometimes this is the only approach possible but it does entail the danger of elitism and it should be understood that the valuer's thought process remains undisciplined by market pressures.

The outline given of the contemporary approach to value estimation is highly compressed and relies heavily on Ratcliff (1972) and Graaskamp (1977); the reader should refer to both of these sources for a full exposition. Applications in the context of rental revaluations may be found in Whipple (1986).

The Traditional Residual Method

This was the valuation profession's first attempt at simulating buyers' decision processes. In simpler days when homogeneity of buyer-types was the rule rather than the exception, when delays due to securing permits were predictable, inflation virtually zero and development was not as capital intensive as now, it worked well. Here is the basic equation:

$$\text{Value} = \text{land} + \text{development cost} + \text{finance cost} + \text{profit}$$

which assumes optimality and which can be rearranged to solve for any unknown when the other four are known (or can be estimated). As the method is well documented in the recent literature (for example: Baum and Mackmin, 1981; Morley, 1982; Ratcliffe, 1983) a full treatment here is not required but it will serve to introduce the example development. Illustrations of other kinds of project, including a large and complex one, are provided by contributors in Whipple (1984).

Assume that a site suitable for the erection of a block of home units can be purchased for \$440,000. Study of the local town planning and building regulations discloses that the allowable building envelope will permit six two-bedroom units and eight three-bedroom units. Recent comparable sales and our estimation of inflation indicate the units will sell for an average of \$275,000 each when they are marketed twenty months hence. Construction cost seven months hence will average \$148,500 per unit including car parking. Borrowing will be limited to 70% of cost and finance is available at 17% per annum.

A traditional residual valuation is as set out in Table 1. The sum of \$656,000 represents land cost, legal fees and stamp duty on purchase, interest costs on the land and profit component. Stamp duty is 3.5% ad valorem and legal fees will be \$15,000. Borrowing is limited to 70% at 17% interest and the land loan will be for a term of, say, 19 months:

$$656 = V + 3.5\%V + (.17 \times .7(103.5\%V) \times 19/12) + 15 + 20\%(103.5V + 15)$$

from which V is, say, \$440,000.

Given the land is available on the market for \$440,000, the project passes this test. Land and associated costs, then, are:

Site acquisition	440,000
Legal fees	15,000
Stamp duty	15,500
Total, say	470,000

and this is the figure we shall use hereafter.

The weakness in the approach is that the time value of money is only guessed at; some heroic assumptions need to be made in assessing finance costs. A percentage allowance on costs reveals nothing about the project's ability to cover the firm's cost of capital.

At best, the method set out in Table 1 is a rapid screening device which may be used to filter out cases which are of no interest when reviewing a number of small projects. Because it is an approximation, however, it may lead to the false rejection of marginal cases and, hence, of profit possibilities. In modern times the fact is that most projects appear at first to be marginal ones; they are transformed into profitable ventures only by subjecting them to a level of scrutiny and innovative thinking not possible with the traditional residual method.

In recent years the emphasis has rightfully shifted to a cash flow approach which we shall now turn to. Before doing so, however, the topics of inflation and the cost of capital need to be covered.

TABLE 1
Residual Valuation

	I	I
Gross realizations		3,850,000
Less costs:		
Construction	2,079,000	
Development	237,000	
Total hard and soft costs	2,316,000	
Finance		
interest .17		
period 1 year		
draw down .7	138,000	
Selling costs	168,000	
Administration	40,000	
Total	2,662,000	
margin for risk 20%;	532,000	3,194,000
Residual		656,000

Real and Nominal Rates of Return

An annuity of \$10 paid on a capital sum of \$100 achieves a rate of return of 10%. If there is no inflation (i.e., change in the purchasing power of money), the return is both nominal and real. But if inflation is running at 4% per annum, the real return is given by:

$$r = \frac{1+r'}{1+d} - 1 \quad (1)$$

where:

- r is the real rate of return
- d is the rate of inflation
- r' is the nominal rate of return

Substituting:

$$r = \frac{1 + .10}{1 + .04} - 1 = 5.8\%$$

Equation (1) may be rearranged to solve for the nominal rate of return:

$$r' = (1 + r)(1 + d) - 1 \quad (2)$$

Substituting:

$$r' = (1 + .058)(1 + .04) - 1 = 10.00\%$$

Thus, an interest rate which includes an inflation component (r') is referred to as a nominal rate. A rate from which the inflation component has been removed is referred to as a real interest rate. In the simple illustration, the \$10 received is still 10076 of \$100 but it is a nominal rate because it cannot buy as much this year as it did last year (only 5.8% as much for the given 4% inflation over the year).

Inflation and Cash Flow Analysis

The net present value (NPV) of a set of cash flows paid at the end of each period is given by:

$$NPV = \sum_{t=1}^N \frac{R}{(1+r)^t} - P \quad (3)$$

where:

R is the payment made at the end of time t
 r is the cost of capital (or rate applicable to the project)

N is the number of time periods P
 P is the cost of the project.

Assume:

annual flows of \$10,000
 $r = 7\%$
 $N = 4$
 $P = \$30,000$

then:

$$NPV = \sum_{t=1}^4 \frac{10,000}{(1+.07)^t} - 30,000 = 10,000 \times 3.3872 - 30,000 = \$3,872$$

As NPV exceeds the cost of the investment, the project would be accepted for it is earning somewhat more than the required 7.0%.

In calculating NPV above, a real rate of interest has been

employed. Now assume an inflation rate of 6%. If the appraisal were carried out in nominal terms, we have:

$$NPV = \sum_{t=1}^4 \frac{10,000}{(1.07)^t (1.06)^t} - 30,000 = \sum_{t=1}^4 \frac{10,000}{(1.1342)^t} - 30,000 = 10,000 \times 2.9487 - 30,000 = -\$513.00$$

which would lead to a decision to reject the proposal because NPV is negative.

The difficulty is that the cash flows have not been inflated as well. If it is assumed that the flows will be subjected to the same rate of inflation (not always a valid assumption), we have:

$$NPV = \sum_{t=1}^4 \frac{10,000 \times (1.06)^t}{(1.07)^t (1.06)^t} - 30,000$$

from which it is immediately obvious that the term (1.06) cancels itself out and the calculation reduces to NPV . The decision to accept the project will then be correct because current dollars are being compared with current dollars.

Where, as in most valuation practice, an interest rate is derived from market data, it is a nominal rate because the market has already included an inflation component within it. Thus, when capitalizing cash flows using a market rate, the flows must be adjusted to reflect the level of inflation the market has already anticipated (Lusht, 1978; Tarantello, 1985), some such allowance was made in Table 1.

When cash flows match inflation, the real rate of profitability is not affected when a market derived rate is used. Difficulties can arise, however, when various components of the overall cash flow are subject to different rates of inflation.

Take, for example, a project costing \$70,000 with a four-year life generating cash flows of \$100,000 annually before incurring costs of \$75,000. Assume further that sales inflate at the rate of 6% and that general inflation is 9%a:

So, the nominal rate of return is about 11% (the internal rate of return is 11.14%). The real rate of return, from equation 1, is 1.02%. Had there been no inflation effects at all, the internal rate of return would be 15.97% (i.e., outlay of \$70,000 followed by four annual receipts of \$25,000).

This simple example shows how disastrous a project can be when sales revenue fails to keep pace with the general level of inflation.

Some general observations may now be made:

1. If all items in the cash flow display will be equally affected by inflation AND at the same time, then the use of current prices will produce the real rate of return.

Year	Cost of Project	Sales	Costs	Net Flows	PV Factor 11%	Present Value
0	-70,000			-70,000	1.0000	-70,000
1		106,000	81,750	24,250	.9009	21,847
2		112,360	89,108	23,252	.8116	18,871
3		119,102	97,128	21,974	.7312	16,067
4		126,248	105,870	20,378	.6587	13,423

+208

2. If items will experience different rates of inflation, adjust each item accordingly and compute the net cash flow for each period. The resulting rate of return will be the nominal rate.
3. If the inflation effect on receipts is the same as on expenditures but if there is a time lag, proceed as in 2.
4. Where a market derived interest rate is employed, proceed as in 2.

When reporting the results of a cash flow analysis, the assumptions concerning inflation should be made explicit.

A number of organizations in Australia adopt procedures which conflict with the rules just set out. It is not uncommon to inflate construction costs under a heading of "provision for rise and fall" whereas all other flows are left in current dollar units. The resulting internal rate of return is then erroneously regarded as a real rate. Another common practice is to increase all costs in line with the anticipated rate of inflation but to leave sales revenue in current dollars. Both practices are excused on the grounds of achieving the benefits of "conservatism" - whatever that means. The only achievement is error.

Of the many other effects that inflation can have on development projects, only two need be noted here.

The first of these concerns impact on working capital. We have noted that development projects are characterized by large outflows for a number of periods followed by inflows for the remaining periods of the project's duration. The periods during which flows are positive are frequently fewer in number than those in which they are negative. As inflation roars on, the firm's need for working capital increases commensurately because during the outflow periods there is (by definition) no sales revenue available to off-set this requirement. Whether the source of working capital is debt or equity can be a matter of some importance. If met entirely by new borrowings, the firm's debt to equity ratio may soon reach a level unacceptable in the market place. If equity raising is impossible, a liquidity crisis soon emerges with all that entails.

The second effect to be considered relates to the cost of capital. This is taken up in the next section.

Cost of Capital

The cost of capital to a firm will vary (inter alia) with the cost of the individual sources of funds available to it and the way in which the sources are combined. Consider an organization which has a mix of equity (ordinary shares and retained earnings), preference capital and debentures.

Investors will determine the interest rate at which they will take up a firm's debentures - 14%₀, say. Debenture interest is a deduction allowed before calculating company tax; in the example, the pre-tax cost of debenture funds is 14%. The rate

required by debenture holders will depend upon the current level of the risk-free rate, perceptions regarding the course of inflation over the term of the debenture, an assessment of the risk inherent in the industrial sector of which the firm is a member, an assessment of the risk associated with the projects typically undertaken by the firm and other firm-specific characteristics such as the quality of its management.

As dividends paid to shareholders (ordinary or preference) are not a tax deduction, the pre-tax cost of equity funds is higher than non-equity funds:

$$K = \frac{D}{P_0} + g \quad (4)$$

where:

- K = cost of equity
- D_t = expected dividend
- P₀ = present share price
- g = expected constant dividend growth

(other patterns require a different formulation')

Assume an entity's shares are selling for \$3 and this is based on the market's expectation that the present dividend of 30¢ per share will grow at a rate of 10% per annum:

$$K = \frac{30}{3} + 0.10$$

$$= 20\%$$

This is met, however, out of "tax paid" dollars. To obtain the pre-tax cost, divide by (1 - T) where T is the rate of tax (49% for Australian companies):

$$K \text{ (pre-tax)} = \frac{20.0}{1 - 0.49}$$

$$= 39.22\%$$

Assume, further, that this mythical company issued some preference shares in times gone by on which it must pay a fixed dividend of 9%. The pre-tax cost of this source of funds is:

$$\frac{9.0}{1 - 0.49}$$

or 17.65%. With, let us say, a debt to equity ratio of 70%, the company's capital structure would be as set out in Table 2. This shows the computation of the weighted average cost of capital which is (say) 22%. This figure will be used in the illustrations which follow.

¹ See, for example, Weston and Brigham, Ch. 16.

TABLE 2
Computation of Weighted Average Cost of Capital

Source of Funds	\$1000,000	Weight	Pre-tax Cost %	Product
Ordinary shares	2			
Reserves	1			
Equity funds	3	.3	39.22	11.77
Preference shares	1	.1	17.65	1.77
Debentures	6	.6	14.00	8.40
Weighted pre-tax cost				21.94

In the case of this company, then, projects returning less than 22% per annum would have to be rejected; to do otherwise would mean the cost of servicing its sources of funds could not be met. In this eventuality, even if there were sufficient profit to service debt, shareholders' expectations would not be met, share prices would fall (by virtue of the operation of equation 4) and the market would down-value the company's assets accordingly.

As noted above, the market builds expectations of inflation into interest rates. If the rate of inflation accelerates, a firm's cost of capital increases also. Its ability to raise further working capital to fund increased operating costs will be diminished if its profitability does not increase commensurately and instantaneously. We have also noted that it is in the nature of real estate products that a property company can rarely raise prices instantaneously. Therefore, in times of inflation, current operating income has to be foregone as one looks more and more to long run capital appreciation. This effect can be particularly severe with individual development projects where there is no operating cash surplus in the early stages.

Cash Flow Analysis

Preparation: The rows of a cash flow table represent items of revenue or cost and the columns represent time periods. Row/column entries depict the magnitude and timing of a particular receipt (payment).

To illustrate the discussion, refer to Table 3A. This relates to the same project considered in Table 1. In constructing Table 3A, an estimate was made as to when costs will be incurred, sales made and the size of each after allowing for the effects of inflation. For ease of presentation, three-monthly time periods have been used whereas in practice monthly periods would be used for a project of this size. The first group of rows represents sales income under the general heading "Source of Cash". In this case it was not thought worthwhile to show sales by type of unit but there will be occasions when sources of revenue should be separately identified. This would be especially so if market absorption rates were to vary markedly for each. The last line in this group shows total sales for each time period.

The next group of rows follows the general heading "Use of Cash". Each row represents an item of cost - or a group of items. In preparing such a table, one usually starts with an exhaustive and detailed check list. But because it will not aid analysis to retain the separate identity of relatively small sums, it is common practice to aggregate a number of similar items. Table 3B is such an example and it is this format we shall use in later sections.

There is no set standard as to how costs are classified or even defined (although this has implications for feasibility analysis within a corporate framework as discussed in the concluding section). The system used here recognizes four general classes and then entities within each of them:

- "Devel. Cost": these are sometimes referred to as "soft costs" and include items such as consultant's fees, soil testing, permits.
- "Unit Const.": this is the "hard cost" paid under the building contract.
- "Selling Cost": this includes advertising, commissions, legal fees on sale, hoardings, brochures, the furnishing of demonstration units, etc.
- "Admin. & OvH": items such as insurance, real estate taxes, accounting fees, salaries, office rent and Body Corporate contributions are included here.

Within each of these four cost categories, individual items are reported in that degree of detail deemed useful for decision making. It will be helpful to explain a few of these before proceeding.

"Surveying" includes fees paid to land surveyors for site and check surveys, preparation of the strata plan and other such activities.

"Archit. Fees" include architects and all other consultants apart from land surveyors. These have been distinguished from survey fees because their payment is often geared to the rate of building construction and they are often a function of construction cost.

"Open Space": Australian development projects are levied in the form of a contribution to the acquisition and development of open space areas by the local authority. This is usually paid when the building permit is issued.

"Body Corp": under the Strata Titles legislation of the Australian States, common property is vested in (and managed by) a Body Corporate, the members of which are the proprietors of the units comprising the Strata Plan. It has statutory power to levy its members and it is not uncommon for the developer to have to make a contribution to the Body Corporate in the period following its formation until all units are sold.

The last line in this section of the table shows total uses (costs) for each time period. Then follows the "Net Cash Flow" for each period: total cash (receipts) minus total uses (costs).

Evaluating Net Cash Flow: The "Net Cash Flow" entries form the basis for evaluating the financial aspects of the project at that level. There are many measures which may be employed, including the following:

- **Pay-back period:** the number of periods before cash inflows exceed cash outflows. In Table 3, this occurs in the last quarter* - it takes this long before the project "pays back" the funds invested in it. The decision rule, other things being equal, is to accept that project which has the shortest pay-back period. Although it has its uses (Robinson, 1984), it suffers from some disadvantages: it ignores the pattern of cash flows, those occurring after the pay-back date and the time value of money.
- **Net present value:** as seen above, if cash flows over the life of the project are discounted to present value at an appropriate interest rate to produce a sum exceeding the initial cash outlay, the project is acceptable in that the target rate is exceeded. The decision rule is to accept that project with the highest *NPV* (other things being equal). The method has the advantage of recognizing the time value of money but requires the analyst to supply the "right" discount rate.
- **Internal rate of return:** this is the interest rate which produces a net present value of zero. It is therefore a special case of *NPV*; the solution is derived iteratively and may not be unique. Whilst the method does not require the analyst to select an interest rate, a decision must nevertheless be made as to whether the derived rate is acceptable.

As each index summarizes a complex phenomenon, their use should be accompanied by a careful study of the cash flows themselves.

The measure reported in Table 3 is the internal rate of return (annualised). Given that land and associated costs amount to \$470,000, the cash flows are equivalent to this sum when discounted at the rate of 31% per annum. The last line shows the present value of the net flows using the rate of 31% per annum and they sum to \$470,000.

* In Table 3 one needs to cumulate the net cash flow and add in (as an outflow) the cost of land. In Table 3, the sign changes from negative to positive only in the last period so this measure is not very helpful in the example case: one would certainly hope that cumulative cash flow was positive in the last period (!).

TABLE 3A
Internal Rate of Return Given Land Value
Net Cash Flows

Source of Cash	3/86	6/86	9/86	12/86	3/87	6/87	9/87	12/87	Totals
Sales Income									
2 AND 3 BED	0	0	0	0	0	0	2,750,000	1,100,000	3,850,000
Total	0	0	0	0	0	0	2,750,000	1,100,000	3,850,000
TOTAL CASH	0	0	0	0	0		2,750,000	1,100,000	3,850,000
Use of Cash									
Devel. Cost									
Surveying	2,000	2,000	4,000	2,000	2,000	2,000	5,000	11,000	30,000
Archit. Fee	0	0	12,623	63,115	63,115	31,869	0	0	176,722
Permits	8,000	0	0	0	0	0	0	0	8,000
Open Space	0	0	22,000	0	0	0	0	0	22,000
Total	10,000	2,000	38,623	65,115	65,115	39,869	5,000	11,000	236,722
Unit Const.									
2 AND 3 BED	0	0	148,500	742,500	142,500	445,500	0	0	2,079,000
Total	0	0	148,500	742,500	742,500	445,500	0	0	2,079,000
Selling Cost									
Advertising	0	0	0	0	3,000	21,000	14,000	7,000	45,000
Commissions	0	0	0	0	0	0	27,140	10,856	37,996
Demo Units	0	0	0	0	0	50,000	35,000	0	85,000
Total	0	0	0	0	3,000	71,000	76,140	17,856	167,996
Admin. & Ovh									
Overhead	1,000	3,000	3,000	3,000	3,000	3,000	2,000	2,000	20,000
Re. Taxes	0	4,000	0	0	0	8,000	0	0	12,000
Body Corp	0	0	0	0	0	0	5,000	3,000	8,000
Total	1,000	7,000	3,000	3,000	3,000	11,000	7,000	5,000	40,000
TOTAL USES	11,000	9,000	190,123	810,615	813,615	567,369	88,140	33,856	2,523,718
Net Cash Flow	-11,000	-9,000	-190,123	-810,615	-813,615	-567,369	2,661,860	1,066,144	1,326,282
PV Cash Flow	-10,207	-7,749	-151,903	-600,976	-559,721	-362,184	1,576,736	586,003	470,000
Annual IRR.....		0.310717							
Land Value		470,000							
Equity Value		470,000							

TABLE 3B
Internal Rate of Return Given Land Value
Net Cash Flows

Source of Cash	3/86	6/86	9/86	12/86	3/87	6/87	9/87	12/87	Totals
Sales Income									
2 AND 3 BED	0	0	0	0	0	0	2,750,000	1,100,000	3,850,000
TOTAL CASH	0	0	0	0	0	0	2,750,000	1,100,000	3,850,000
Use of Cash									
Devel. Cost									
Surveying	10,000	2,000	38,623	65,115	65,115	39,869	5,000	11,000	236,722
Unit Const.	0	0	148,500	742,500	742,500	445,500	0	0	2,079,000
Selling Cost	0	0	0	0	3,000	71,000	76,140	17,856	167,996
Admin. & Ovh	1,000	7,000	3,000	3,000	3,000	11,000	7,000	5,000	40,000
TOTAL USES	11,000	9,000	190,123	810,615	813,615	567,369	88,140	33,856	2,523,718
Net Cash Flow	-11,000	-9,000	-190,123	-810,615	-813,615	-567,369	2,661,860	1,066,144	1,326,282
PV Cash Flow	-10,207	-7,749	-151,903	-600,976	-559,721	-362,184	1,576,736	586,003	470,000
Annual IRR.....		0.310717							
Land Value		470,000							
Equity Value		470,000							

If this rate represents a margin above the entity's cost of capital sufficient to cover special risks as perceived and if this project has the most favourable risk/reward characteristics compared with others, then it would be accepted if the demand it places on working capital can be met.

Other corporations would have different costs of capital and this alone would lead to a different "residual". The estimate is sensitive to the internal rate of return that is specified. If a rate of 30% were required in the example case, the residual is \$489,823; a rate of 32% defines a residual of \$453,249.

Apart from different target rates, other analysts would doubtless have different perceptions as to costs, returns and timings - all of which would lead to a distribution of residual "values". It is the most probable figure from such a distribution that the valuer has to find.

In any such case, the amount to be paid for land would be estimated in the same manner set forth in the discussion following Table 1.

The usual situation is that the cost of land is known. Given this, the problem is to estimate the resulting internal rate of return and assess its adequacy in the particular situation. It is a truism that the purchaser is not so much buying the yield but, rather, the assumptions lying behind its estimation.

Advantages of a Cash Flow Approach: The display set forth in Table I is already largely a static one. Each entry purports to be the present value of a set of payments made at different times and of different magnitudes. The entries, therefore, are not comparable; they are another expression of the row totals of Table 3 and do not recognise the time value of money. When an item such as interest expense has to be estimated, an item which is undeniably time-dependent, rather dubious assumptions have to be made in assessing its amount. Yet, the present value of the other items is no less time-dependent.

Expressing the margin as a percentage of costs gives no information on the project's ability to service the firm's cost of capital - it is hard to say what it does measure.

In contrast, a cash flow analysis attempts to model reality. Its proper construction forces the analyst to identify the assumptions made as to costs and returns, how they are defined, their magnitude and their timing. It permits a more realistic assessment of interest charges and it enables the assumptions to be tested within a potentially wide range of posited outcomes. As an extension of the last point, it enables an assessment to be made of the suitability of alternative financing plans.

Furthermore, and most analysts overlook this, it enables management to incorporate future flows arising from a candidate project into the entity's projected revenue accounts and balance sheet to ascertain its effect on corporate performance and, hence, share price. As we shall discuss in the concluding section, it is quite possible for an individual project to show a high yield but to have a depressing impact on corporate performance.

Testing Assumptions

Sensitivity and Scenario Analyses: A cash flow display, coupled with microcomputer technology, enables the analyst to test fairly easily the effect that stated assumptions have on the target return. It is often referred to as "what if . . ." analysis or sensitivity analysis.

The concept is inherently a simple one. If, for example, sales revenue declines by x% what margin remains? Is that margin still sufficient to service the cost of capital and cover additional risks? If construction costs increase by y%, what effect would that have? And so on.

It is conceptually possible to subject the component flows to various changes (up or down) singly (sensitivity analysis) or in any combination (scenario analysis). As a result, one may identify those elements which have the greatest impact

on feasibility - the so-called "sensitive" variables - and subject them to intensive management scrutiny as the project proceeds to fruition.

While this always should be done, the number of changes coupled with all the combinations and permutations soon becomes so large as to be unmanageable. Therefore, one needs to structure one's approach to the task and there are several ways of doing so. The discussion will use the totals of Table 3B by way of illustration.

Break Even Analysis: This simple technique, a variant of sensitivity analysis, asks: by how much must a variable change so that the margin just disappears? The approach is usually applied to the row totals before discounting them to present value. This, however, is quite wrong because, as pointed out above, they are not comparable. To make them comparable, they should be discounted to present value at the cost of capital rate (5.5 % per quarter here). The present value of the totals is:

Total Cash	\$	2,607,210
Devel. Cost	186,071	
Unit Const.	1,617,032	
Selling Cost	117,764	
Admin & Ovh.	30,557	
Land, etc.	470,000	2,421,424
Margin for project risk		185,786

By how much does each component have to change to eliminate the project specific risk? The answer, for each, is as follows:

	070
Total Cash	- 7.13
Devel. Cost	+ 99.88
Unit Const.	+ 11.50
Selling Cost	+ 157.76
Admin & Ovh.	+ 608.00

The most critical items are sales receipts and construction costs because it is highly unlikely that soft costs, selling expenses and administration will change by such substantial amounts.

What happens if sales receipts and construction costs move half-way to the individual percentages given above - i.e., - 3.56% and + 5.75 % respectively? Obviously, that would constitute another outcome that would erode the margin for project risk.

Scenario Analysis: Just what combinations one introduces will depend upon the view one has of the future. Inevitably this hinges on one's anticipations concerning key macro-economic variables (balance of trade, interest rates, exchange rates, inflation), how they will affect the industry nationally and locally and the ability of buyers to register effective demand when the product arrives on the market. This is part of the continuing information-gathering and education process which executives in the industry and professionals serving it ignore at their peril. If the views formed are wrong, no techniques of financial analysis will correct them - although there are strategies one may adopt when it appears a project's financial performance is departing seriously from expectation.

Conclusions flowing from the results of experiments like those just outlined must be treated with caution because they ignore structural inter-relationships: many of the component time series are cross-correlated to varying degrees. Architects' (and related) fees are usually a percentage of construction costs, for example. If construction costs increase in real terms, so too will a substantial portion of soft costs. If sales revenue declines in real terms, so too will agents' commissions (unless

a fixed real dollar amount is agreed upon). This may impel a strategy to increase advertising costs to achieve the target velocity of sales, and so on.

Fortunately, computer spreadsheet technology enables one to construct a model which incorporates the ability to change values as desired and re-compute the problem in a way which pays proper regard to the cross-correlations referred to.

Thus, to be manageable, scenario analysis reduces itself to the analyst forming a view on the likely course of key financial variables - probably no more than three or four different sets of these would be constructed and processed to ascertain their effect on the internal rate of return (or other measure being employed).

An Example of Scenario Analysis: In forming a view on likely outcomes, an analyst may set in train a thought process somewhat along the following lines.

The nation's balance of payments problems will persist over the forecast period and the currency exchange rate will remain soft. Government policy will be to maintain high interest rates to attract foreign investment and increase taxes to reduce the deficit.

From a market survey it is known that a competitor will be releasing the first stage of a large and complex development project two years from now.

The implications of this kind of input need to be thought through. Because of high interest rates and no prospect of tax relief, a proportion of potential buyers will leave the market as they will be unable to afford higher mortgage payments. A further effective reduction in demand will follow from the increased competition. For these reasons, it is believed gross realizations will decline by 3% per quarter per unit commencing in the September 1987 quarter.

To sell the project out over the last two quarters even at these reduced prices will require a three-fold increase in advertising for the last three quarters.

Two years have elapsed since architects' (and related) fees have been reviewed and these are expected to increase by about 5% commencing in the September quarter of 1986. This cost will therefore rise from 8.5% of construction costs to 9%. Surveyors' fees have recently increased and should remain stable over the forecast period.

The increased development activity brought on by our competitor will not cause a shortage of professionals but it will put a squeeze on the supply of building materials and labour. For these reasons, and because the softening currency adds to import costs, construction costs are expected to rise by 2% per unit per quarter commencing in the December 1986 quarter.

Although the scale of commissions will not change, we shall budget on maintaining the commission payments set forth in Table 3A despite reduced sales revenue. This should make it attractive to estate agents to present our product instead of our competitor's.

Office overheads will increase by 1% per quarter from inception. All other costs are expected to be as set out in Table 3A.

These assumptions are incorporated in the display set forth in Table 4 from which it may be seen that the changes foreshadowed lead to an internal rate of return which is much less than the cost of capital.

Two major lessons emerge from this example. The first is that the undertaking of a development project at the commencement of an inflationary period is usually a hazardous affair. Under the conditions stipulated in the example, the decline in the rate of return is dramatic. This underscores the inherent nature of development projects as compared with income earning properties: a sustained period of cash outflows followed by a relatively short period of net receipts. If the proper "balance" between the two is disturbed, the discounting process can easily transform a rosy picture into one of a vastly different hue. Rarely will product prices increase quickly in response to sudden cost rises.

The second major lesson points out the inadequacy of the kind of sensitivity analysis reported above. In the previous section, changes which were represented as eroding the margin for project risk were substantial. Yet the differences introduced into Table 4 are not as great. Furthermore, sensitivity analysis which ignores the effect of the cross-correlations residing within a development project should not be undertaken. This approach, which is fairly common, is probably an unwarranted hang-over from the false transportation of rule-of-thumb methods from other disciplines.

TABLE 4 - SCENARIO ANALYSIS: CASE 1
Internal Rate of Return Given Land Value
Net Cash Flows

Source of Cash	3/86	6/86	9/86	12/86	3/87	6/87	9/87	12/87	Totals
Sales Income	0	0	0	0	0	0	2,667,500	1,034,992	3,702,492
TOTAL CASH	0	0	0	0	0	0	2,667,500	1,034,992	3,702,492
Use of Cash									
Devel. Cost	10,000	2,000	39,632	71,525	72,915	45,400	5,000	11,000	257,472
Unit Const.	0	0	151,470	772,495	787,945	482,223	0	0	2,194,133
Selling Cost	0	0	0	0	3,000	112,000	114,140	31,856	260,996
Adain. L Ovh	1,010	1,060	3,091	3,122	3,153	11,185	7,144	5,166	40,931
TOTAL USES	11,010	9,060	194,193	847,142	867,013	650,808	126,284	48,022	2,753,532
Net Cash Flow	-11,010	-9,060	-194,193	-847,142	-867,013	-650,808	2,541,216	986,970	948,960
PV Cash Flow	-10,540	-8,303	-170,374	-711,511	-697,120	-500,946	1,872,560	696,233	470,000
Annual IRR.....	0.178339								
Land Value.....	470,000								
Equity Value.....	470,000								

Further Examples of Scenario Analysis: By calling in some political debts and acting "off the record", we have alerted the press to the environmental problems associated with our competitor's project. The ensuing press "beat up" has resulted in questions being raised in Parliament and the responsible Minister has undertaken to launch a full scale planning enquiry into the proposal. This will take at least six months.

Having disposed of the competition in this way, the outlook changes. The view might now be formed that the gross realizations set forth in Table 3 will be attained but all the other prognostications will come to pass. With such a large advertising budget, it may even be possible to sell the units before the building has been completed. This would be desirable because one of the rules for managing development projects is to bring receipts forward in time as a counter weight to the cash outflows.

Table 5 sets out the results for the altered sales circumstance. Now the internal rate of return compares favourably with the cost of capital after building in an allowance for all the factors which, as perceived, could impair the result.

If it was felt the project could well survive were advertising costs to be increased by a factor of a half (instead of a three-fold increase), the return increases to 25.22%.

To simulate a longer sales period (two more, say) it is not necessary to add the corresponding columns to the cash flow display - although this can be done of course. The same effect can be achieved by applying a discount factor - e.g., insert the figures which are the present value of receipts (and related costs) due two periods hence (or whatever the deferment period may be).

The Effect of Financing

Proper financing can transform a lack-lustre project. There are many forms which development project financing can take. The major three (each having almost limitless variations as to draw-down levels, interest and repayment schedules) are:

- Land loan. A proportion of land and associated acquisition costs (although some lenders will exclude the latter component) may be borrowed. Usually this would be up to 70% of value with periodic interest payable immediately and principal repaid out of the proceeds of sale.

- Construction loan. A proportion of the progress payments made to the building contractor with payments as above.
- Development loan. This is a similar facility used to fund the soft costs as they arise.

Devising an appropriate finance package may be viewed as an extension of the spread-sheet analyses illustrated in the previous sections.

For illustrative purposes, the data of Table 3 will be employed to test the use of all three types of loan specifying a 70% limit and an interest rate of 17% per annum. Repayments will be 120% of unit sales income. This means that if, for example, 25% of sales income were received in a particular period, 30% of the loan would be repaid in that same period. Other arrangements are possible, of course.

Table 6 sets out the results of marrying Table 3 with this financing plan from which it may be seen that the internal rate of return on "equity value" is boosted to 47.4%. The initial investment is limited to \$140,000 and a further \$1,016,667 is contributed to the project as it proceeds. With a total project cost of around \$2.5M, this represents about 60% borrowing which is probably not excessive.

If the same financing scheme is incorporated with the conditions reflected in Table 5, the return on "equity value" is increased from 22.8% to 28.0%. The outcome in Table 4 is beyond hope no matter what financing is made available.

Heavy borrowing can bring about what is usually referred to as "financial risk" - risk that revenues will be insufficient to service the burden of debt. Lenders want to ensure that a borrower's equity is substantial enough to encourage staying with the project; if it is a meagre amount, the developer may be inclined just to walk away in the face of adversity. The last thing a lender needs is to have to take over a faltering development project for most lack the necessary skills.

Financing arrangements which allow advances against construction and soft costs as they are incurred up to a specified limit are flexible ones. If a limit below 100% of costs is fixed, then there is a built-in safeguard against risks of over-borrowing provided expenditures are consistent with budget.

In the analyses reported above, no specific cash flow item has been devoted to interest charges against equity as it is sunk in the project. The word "equity" is probably a misnomer be-

TABLE 5 - SCENARIO ANALYSIS: CASE 2
Internal Rate of Return Given Land Value
Net Cash Flows

Source of Cash	3/86	6/86	9/86	12/86	3/81	6/87	9/87	12/87	Totals
Sales Income	0	0	0	0	0	0	2,750,000	1,100,000	3,850,000
TOTAL CASH	0	0	0	0	0	0	2,750,000	1,100,000	3,850,000
Use of Cash									
Devel. Cost	10,000	2,000	39,632	71,525	72,915	45,400	5,000	11,000	257,472
Unit Const.	0	0	151,470	772,495	787,945	482,223	0	0	2,194,133
Selling Cost	0	0	0	0	3,000	112,000	114,140	31,856	260,996
Admin. k Ovh	1,010	7,060	3,091	3,122	3,153	11,195	7,144	5,166	40,931
TOTAL USES	11,010	9,060	194,193	847,142	867,013	650,808	126,284	48,022	2,753,532
Net Cash Flow	-11,010	-9,060	-194,193	-847,142	-867,013	-650,808	2,623,716	1,051,978	1,096,468
PV Cash Flow	-10,417	-8,110	-164,462	-678,787	-657,275	-466,787	1,780,438	675,400	470,000
Annual IRR.....	0.227812								
Land Value.....	470,000								
Equity Value.....	470,000								

TABLE 6 - EFFECT OF FINANCING
Internal Rate of Return Given Land Value
Net Cash Flows

	3/86	6/86	9/86	12/86	3/87	6/87	9/87	12/87	Totals
Source of Cash									
Sales Income	0	0	0	0	0	0	2,750,000	1,100,000	3,850,000
Cnst Ln Proc	0	0	103,950	519,750	519,750	311,850	0	0	1,455,300
Devi Ln Proc	7,000	1,400	27,036	45,581	45,581	27,908	3,500	7,700	165,705
TOTAL CASH	7,000	1,400	130,986	565,331	565,331	339,758	2,753,500	1,107,700	5,471,005
Use of Cash									
Devel. Cost	10,000	2,000	38,623	65,115	65,115	39,869	5,000	11,000	236,722
Unit Const.	0	0	148,500	742,500	742,500	445,500	0	0	2,079,000
Selling Cost	0	0	0	0	3,000	71,000	76,140	17,856	167,996
Admin. 1 Ov	1,000	7,000	3,000	3,000	3,000	11,000	7,000	5,000	40,000
Interest LL	9,988	9,988	9,988	9,988	9,988	9,988	5,707	713	66,346
Principal LL	0	0	0	0	0	0	201,429	33,571	235,000
Interest CL	0	0	4,418	26,507	48,597	61,850	35,343	4,418	181,133
Principal CL	0	0	0	0	0	0	1,247,400	207,900	1,455,300
Interest DL	298	357	1,506	3,443	5,380	6,566	3,697	503	21,751
Principal DL	0	0	0	0	0	0	142,033	23,672	165,705
TOTAL USES	21,285	19,345	206,034	850,553	877,580	645,773	1,723,749	304,634	4,648,953
Net Cash Flow	-14,285	-17,945	-75,048	-285,222	-312,249	-306,015	1,029,751	803,066	822,053
PV Cash Flow	-12,906	-14,646	-55,338	-190,004	-187,921	-166,385	505,822	356,379	235,000
Annual IRR.....	0.427565								
Land Value.....	470,000								
Equity Value.....	235,000								
Land Loan.....	235,000								

cause the funds are contributed by the entity out of the sources of capital available to it - possibly a structure such as that set out in Table 2. The internal rate of return measures the return earned by such funds while they are in the project. As long as this is at least equal to the cost of capital, there is no need to enter interest charges against the "equity" as it is advanced to the project - indeed, to do so is to double count. This is another common error.

Before leaving this section, it is pointed out that financing packages are usually specially tailored to reflect the relationship established in the past between borrower and lender and the kind of collateral offered. For these and related reasons the resulting return on "equity investment" will vary from probable buyer to probable buyer and is another (and important) cause underlying the distribution of prices that could probably be paid for the site. This is one of the factors explicitly recognized in the contemporary valuation approach sketched out in an earlier section.

Risk Analysis

Allowances for some sources of risk are built into the firm's cost of capital as a result of forces operating in the equities and financial markets. It was pointed out above that equity and debenture investors require a return sufficient to compensate them for loss of liquidity and risks due to inflation, the industrial sector in which the firm is classified, the kind of project it generally undertakes and the quality of its management.

These are risks which apply at levels other than that of the project itself. It is project specific risk that the techniques of risk analysis attempt to address.

The discussion and illustration of spreadsheet type scenario analysis is one example of project risk analysis: an attempt to measure the effect that stipulated exigencies might have in causing the return to vary from expectation.

Another approach to risk analysis is by way of Monte Carlo simulation concerning which there is a growing real estate literature. Much of this is cited in Miles and Pyhrr (1976), Jaffe and Sirmans (1982), Pyhrr and Cooper (1982), Sykes (1983), Byrne and Cadman (1984) and Peiser (1984).

*It is dangerous to transpose to
development projects the
techniques of risk analysis that
are being developed to help
screen income earning
properties.*

It is dangerous to transpose to development projects the techniques of risk analysis that are being developed to help screen income earning properties. This is because of the structural cross-correlations referred to, because development project cash flows vary markedly from period to period and because positive flows usually occur over more than one period at the end.

If one derives an estimated value and standard deviation for one entry in a cash flow table using a Monte Carlo

method, it is regarded as being independent. Yet to proceed thus ignores inter-dependencies and can lead to skewed distributions. For example, it is one thing to derive an expected value for sales in a period; but to simulate agents' commission ignoring the results of the associated sales price simulation is to court unreality.

The method adopted for present purposes is a somewhat rough-and-ready one and merely sets out to supplement the analyses contained in Tables 3, 4 and 5. Table 5 may be regarded as comprising the best estimates, Table 3 as containing the best (optimistic) case and Table 4 as containing the worst (pessimistic) case. Note that all three incorporate the cross-correlations embedded in the project. The task is to ascertain the probability that the project will cover the firm's cost of capital. This is equivalent to testing the probability that the cost of capital rate will produce a net present value of zero or less.

Expected values for each entry were derived using the following weighting scheme:

$$\frac{\text{Best case} + \text{Worst case} + 4 \text{ times Best estimate}}{6}$$

which assumes symmetrical outcomes. The standard deviation was approximated as the absolute value of:

$$\frac{(\text{Best case} - \text{Worst case})}{6}$$

which assumes the range is six standard deviations. Ninety random samples were then taken from a normal distribution (there is no basis for assuming an asymmetrical one) having the specified mean and standard deviation. In "theory", if the project were developed ninety times and random variation allowed within the parameters set forth in Tables 3, 4 and 5, the results represent an approximation to the mean of every possible outcome. The distribution of all the simulated outcomes is used to estimate the probability that the investment target will not be met.

The results of the Monte Carlo simulation were as follows:

Period	Net Cash Flow \$	
	Mean	Standard Deviation
1	-1,108.63	1.63
2	-9,048.60	10.07
3	-193,499.60	683.17
4	-840,548.20	5,497.55
5	-856,982.10	8,615.37
6	-638,487.20	13,998.83
7	2,613,958.00	13,811.27
8	1,044,565.00	12,691.68

The expected net present value of the mean expected values is computed in the usual way using the target interest rate (22% per annum in this case) to give a result of \$26,946.19. To compute the expected standard deviation one needs to test for autocorrelation in the mean values. In this (trivial) case, the coefficient of autocorrelation for a lag of one time period is 0.2916. From this, one may conclude that the values exhibit significant serial correlation (t for 3 degrees of freedom is 2.3377 which is significant between the .1 and .2 levels - given the assumptions underlying the valid use of the t-test are met but this is highly dubious).

Where serial correlation is present, the expected standard deviation is the net present value of the individual expectations (inserting zero at the beginning of the series) computed at the target rate which gives a result of \$39,538.87.

The required Z score is:

$$\frac{470,000 - 26,946.19}{39,538.87}$$

or 11.2055. Referring to the tables of the unit normal curve, it is ascertained that the probability of achieving a net present

value less than zero is negligible. On the basis of the simulations one might conclude that, given the scenarios built into the experiment and the symmetry assumption, there is virtually no chance that the return would be less than the cost of capital.

The topic of risk analysis in real estate investment and development is of some academic interest because it raises many problems in econometrics which have yet to be solved. In the world of practical affairs, it is not used in the Australian real estate industry. The main reason is that probability theory is largely unknown to it and there is little inclination to find out more about it. Until the problems adverted to have at least been clarified, the industry may well have made the right decision - but for the wrong reasons.

The Valuation of Development Projects in Progress

Imagine it is now the end of the December quarter of 1986 and that it is necessary to prepare a valuation of the project as at that date. Assume a happy world. The projections and assumptions behind Table 3 have been on course since inception and one has no reason to believe that the anticipations for the remaining year should be revised. Under such halcyon conditions, the valuation will depend upon the definition of value sought.

For accounting purposes this could be one of two:

- realisable value in the ordinary course of business
- realisable value in its existing state.

The first of these "represents the expected selling price less all costs still to be incurred to develop and sell the project." (Phin, 1985, p.28.)

Realisable value in its existing state "represents realisable value in the ordinary course of business discounted to eliminate the profit not yet earned." (op.cit.)

Table 7 has been constructed to help illustrate the possibilities. For the time period covered, a developer would pay \$1,673,707 for the right to the projected cash flows if the target internal rate of return were 31.07%. Under the assumptions stipulated, this estimates the value of the project to the firm in the ordinary course of its business as at the date given. It is not the most probable price because no buyer is postulated.

Compare this figure with the costs incurred by the firm to date. The present value of the past expenditures recorded in Table 3 at the cost of capital rate is \$1,616,376. The difference (1,673,707-1,616,376) is \$57,331 and is attributable to the interest rate spread (target rate of 31.07% and cost of capital rate of 22%). In all likelihood the book value of the project would be the lesser of the two. The accounting treatment of the \$57,331 would probably be unrealised profit - a "reward" due to advancing the project to this stage without suffering (retrospectively or prospectively) any of the effects of project specific risk.

Let us now assume the instructions were to assess the project's value in its existing state. As Phin observes elsewhere (1982, p.18):

"Net realisable value in its existing state represents the property's value to another developer, i.e. the price which another developer would pay for the property, less selling expenses. It can be regarded as the wholesale price as opposed to the retail price, on which realisable value in the ordinary course of business is based. Any fall in a property's existing state value would be regarded as a loss and written off."

Since a buyer is introduced, the circumstances are fundamentally different. It is difficult to imagine a more "messy" object to a buyer than a partly completed project where the current status of all contracts, payments made thereunder and yet to be made, planning and other consents, labour relations,

TABLE 7 VALUATION AS AT END DECEMBER 1986
Solution for Undeveloped Land Value
Net Cash Flows

Source of Cash	3/87	6/87	9/87	12/87	Totals
Sales Income	0	0	2,750,000	1,100,000	3,850,000
TOTAL CASH	0	0	2,750,000	1,100,000	3,850,000
Use of Cash					
Devel. Cost	65,115	39,869	5,000	11,000	120,984
Unit Const.	742,500	445,500	0	0	1,188,000
Selling Cost	3,000	71,000	76,140	17,856	167,996
Admin. 6 Ovh	3,000	11,000	7,000	5,000	26,000
TOTAL USES	813,615	567,369	88,140	33,856	1,502,980
Net Cash Flow	-813,615	-567,369	2,661,860	1,066,144	2,347,020
PV Cash Flow	-754,973	-488,529	2,126,776	790,432	1,673,707
Value.....		1,673,707			
Annual IRR.....		0.310700			
Equity.....		1,673,707			

perceptions by potential buyers of the finished product and the difficulty in identifying contingent liabilities are all problematical.

If the project were offered for sale, who would be the most probable buyer? If one could be located, the required discount rate would be raised in face of the kinds of difficulties just listed. In the example case, raising the discount rate to 40% gives a result of \$1,519,535. With a book value of \$1,616,376 this would represent a loss of \$96,841 (plus selling costs).

The examples given above are trivial but they do point up the necessity of defining the concept of value deemed relevant and of reporting this basis in published accounts.

Between valuation and accounting there is an interface which is a fascinating area of study and one in which much work awaits commencement. The major issues as they affect development projects are discussed by various authors in Whipple (1985).

Feasibility in a Corporate Framework

A contemplated project has passed all the tests considered thus far: residual screening, satisfactory internal rate of return with and without financing, robustness in the face of scenario analyses; a risk analysis discloses an acceptable level of confidence may be placed in the outcome. Yet, for all of these favourable results, decision time has not yet arrived.

Although forces operating beyond the particular site have been evaluated - these range over the political and economic scenes - there is another context within which feasibility has to be determined and this is the corporate context.

Some of the corporate consequences of acquiring a project include: mustering cash to purchase the site and meet cash requirements (the negative values in Table 3); ascertaining the effect that project financing has on the corporation's accounts; studying the effect exerted on corporate profitability in each accounting period (before and after tax) and evaluating the portfolio effects.

As laboured already, a development project is characterised by relatively many periods of negative cash flows. Even if the positive flows are sizeable, the cash injections have to be funded out of the sources of capital available to the corporation and may be so large as to place burdens which the entity cannot easily carry. After project commencement, cash re-

quirements may escalate above budget so that funding has to come by way of deferring other projects - a deferment that may reduce their contribution to group profit. In this (and other) ways corporate performance may be eroded.

While gearing up a project (as in Table 6) may make sense at that level, the new debt when combined with existing debt elsewhere in the corporate structure may lead to a debt to equity ratio unacceptable to the securities and financial markets. Project funding may so alter the mix of sources of capital as to increase financial costs to the corporation.

It is foolish for one department to acquire a project in ignorance of the investment policy of other arms of the organization. This is not only for reasons such as those set out above but also to ensure there is no undue concentration of investment in one area so as to unnecessarily increase exposure to a particular source of market risk. In short, the portfolio effects must always be reviewed - and this has been well expressed in a recent empirical study of development project risk by O'Connor (1986, p.6):

"Developmental investors manage risk by underwriting different positions in selected markets at varying points in time dependent on an analysis of the supply/demand equation, the development risks and the available profit margins."

For all these reasons (and others), project data such as that set out in Table 6 and the results of scenario analyses need to be entered into the corporation's projected accounts for each of the time periods concerned so as to trace out the effects the project would likely exert on the entity's profit.

It follows that the definition of the items (rows) making up the cash flow display and their classification need to suit this purpose as well and would represent a sub-set of the corporation's chart of accounts. The duality of such classification itself presents problems because there is no such thing as a general purpose classification.

The process of translating cash flow data into accounting information is by no means straightforward and requires of the analyst skills not commonly taught in real estate courses. This is a paradox because the ultimate test of project feasibility is the production not so much of a beautiful building (although one would hope for this) but more so of a beautiful balance sheet.

Use of Microcomputers

It is now widely recognised that valuers, property consultants and executives in the property industry cannot responsibly perform their functions without having recourse to computer technology.

There is now available a wide range of useful and inexpensive software packages which are easy to run. There really is no excuse for not using them.

Spreadsheet packages can be adapted to meet virtually all in-house needs and can combine in the one utility the kinds of analyses illustrated herein as well as showing the accounting consequences if the project is taken up.

This power does not free the individual from having to take a decision and living with its consequences but it does confine the extent of the unknown.

The analyses prepared for the foregoing used the Development Valuation Model (DVM) packaged produced by Valusoft, P.O. Box 10519, Winston-Salem, North Carolina, 27108, USA. This organisation produces a range of real property related software which is worth investigating. The DVM routines are flexible and incorporate a wide range of options (see the accompanying screen print), excellent data entry and storage facilities, the ability to change any values and to recompute the problem.

The risk analysis programme was specially written by the author.

Subdivision :

- F1 Solution for Undeveloped Land Value
- F2 Wholesale Value as Developed
- F3 Internal Rate of Return Given Land Value
- F4 Internal Rate of Return Given Developed Value

Condominium Project :

- F5 Solution for Undeveloped Land Value
- F6 Wholesale Value as Developed
- F7 Internal Rate of Return Given Land Value
- F8 Internal Rate of Return Given Developed Value

Condominium Conversion :

- F9 Wholesale Value as Developed
- F10 Internal Rate of Return Given Wholesale Value

Esc - Return to DOS

Alt-L - Load old Data File

References

- Baum, A. and Mackmin, D. (1981): *The Income Approach to Property Valuation*, Second Edition, Routledge and Kegan Paul, London.
- Byrne, P. and Cadman, D. (1984): *Risk, Uncertainty and Decision-making in Property Development*, E. and F. N. Spon, London.
- Graaskamp, J. A. (1977): *The Appraisal of 25 N. Pinckney.- a demonstration case for contemporary appraisal methods*, Landmark Research, Madison.
- Hines, M. A. (1983): *Income-Property Development, Financing, and Investment*, D. C. Heath and Co., Lexington.
- Jaffe, A. J. and Sirmans, C. F. (1982): *Real Estate Investment Decision Making*, Prentice-Hall, Englewood Cliffs.
- Lusht, K. M. (1978): "Inflation and Real Estate Investment Value", *Journal of the American Real Estate and Urban Economics Association*, Vol.6, No.1, pp.37-49.
- Miles, M. and Pyhrr, S. A. (1976): "A Framework and Computer Model for Risk Analysis and Risk Management in Real Property Development", paper presented at the Annual Meetings of the Financial Management Association, Montreal, October 15.
- Morley, S. (1982): "The Residual Method of Valuation", in Darlow, C. (ed) *Valuation and Development Appraisal*, Estates Gazette Ltd., London. pp.1-28.
- O'Connor, J. W. (1986): "Real Estate Development: Investment Risks and Rewards", *Real Estate Issues*, Vol.11, No.1, pp.6-11.
- Peiser, R. B. (1984): "Risk analysis in Land Development", *Journal of the American Real Estate and Urban Economics Association*, Vol.12, No.1, pp.12-29.
- Phin, P. A. (1982): *Accounting for Real Estate Development*, Discussion Paper 6, Australian Accounting Research Foundation, Melbourne.
- Phin, P. A. (1985): "Capitalisation of Costs", in: Whipple, R. T. M. (ed) *Accounting for Property Development*, Law Book Coy., Sydney, pp.25-37.
- Pyhrr, S. A. and Cooper, J. R. (1982): *Real Estate Investment: Strategy, Analysis, Decisions*, John Wiley, New York.
- Ratcliff, R. U. (1972): *Valuation for Real Estate Decisions*, Democrat Press, Santa Cruz. Reprinted in: J. A. Graaskamp (ed) *Ratcliff Readings on Appraisal and its Foundation Economics*, Landmark Research Inc., Madison.
- Ratcliffe, J. (1983): "The Valuation of Development Properties: 3", *Journal of Valuation*, Vol.1, No.3, pp.268-274.
- Robinson, J. (1984): "Economic Feasibility Analysis: Some Comments and a Demonstration Report", in: R. T. M. Whipple (ed) *Real Estate Valuation Reports and Appraisals*, Law Book Coy., Sydney, pp.65-101.
- Sykes, S. (1983): "The Assessment of Property Investment Risk", *Journal of Valuation*, Vol.1, No.3, pp.253-267.
- Tarantello, R. (1985): "The Inflation Dependency of Leveraged Investments", *Real Estate Issues*, Vol.10, No.2, pp.7-12.
- Whipple, R. T. M. (ed) (1984): *Real Estate Valuation Reports and Appraisals*, Law Book Coy., Sydney.
- Whipple, R. T. M. (1985): *Accounting for Property Development*, Law Book Coy., Sydney.
- Whipple, R. T. M. (1986): "Office Building Rental Data Analysis" in R. T. M. Whipple (ed) *Commercial Rent Reviews: Law and Valuation Practice*, Law Book Coy., Sydney.

Legal Decisions

CASES RECEIVED

Notice of cases received are given for members' information. They will be printed in The New Zealand Valuers' Journal as space permits and normally in date sequence.

IN THE HIGH COURT OF NEW ZEALAND
GREYMOOUTH REGISTRY

Received 23 November 1987 No. A.10/85

BETWEEN

RICHARD ALLEN KERR First Plaintiff

AND

DIANE BARBARA KERR Second Plaintiff

AND

THE STATE INSURANCE GENERAL MANAGER Defendant

Date of Hearing: 2, 3, 4, 5 December 1986

Counsel: I. J. D. Hall and D. J. R. Holderness for Plaintiffs
N. Till and M. McDonald for Defendant

Judgement: 3 February 1987.

JUDGEMENT OF HOLLAND, J.

IN THE HIGH COURT OF NEW ZEALAND
CHRISTCHURCH REGISTRY

No. M.133/87

IN THE MATTER of Section 12 of the Arbitration Act 1908

BETWEEN

G.U.S. PROPERTIES LIMITED Plaintiff

AND

GOVERNMENT LIFE INSURANCE CORPORATION Defendant

Date of Hearing: 1 September 1987

Counsel: D. H. Hicks and Carolyn M. Risk for Plaintiff
M. R. Camp for Defendant

Judgement: 4 September 1987.

JUDGEMENT OF HOLLAND, J.

IN THE HIGH COURT OF NEW ZEALAND
ADMINISTRATIVE DIVISION
DUNEDIN REGISTRY

No. M.22/83

BETWEEN

OTAGO FOUNDATION TRUST BOARD Appellant

AND

MINISTRY OF WORKS AND DEVELOPMENT Respondent

Date of Hearing: 27 August 1987

Counsel: N. S. Marquet for Appellant
R. P. Bates and J. J. Hassan for Respondent

Judgement: 27 August 1987.

ORAL JUDGEMENT OF HOLLAND, J.
AND MR I. W. LYALL

IN THE HIGH COURT OF NEW ZEALAND
ADMINISTRATIVE DIVISION

DUNEDIN REGISTRY

No. LVP110/86

BETWEEN

EWAN ROBERT CARR, ROBYN JANE CARR and GLENIS MARGARET CRUTCHLEY Claimants

AND

THE MINISTER OF WORKS AND DEVELOPMENT Respondent

Date of Hearing: 18, 19, 20, 21, 23, 25, 26 August 1987

Counsel: R. J. Somerville and F. B. Barton for Claimants
K. Robinson and Miss A. Swan for Respondent

Judgement: 10 November 1987

JUDGEMENT OF HOLLAND, J. AND MR I. W. LYALL

CASES NOTED

Cases 'noted' will not normally be published in The New Zealand Valuers' Journal.

Copies of cases 'received' and 'noted' may be obtained from the Registrar of the Court under whose jurisdiction the cases were heard. (A charge is normally made for photocopying.)

IN THE MAORI APPELLATE COURT OF NEW ZEALAND
TOKERAU DISTRICT

APPEAL by THE PROPRIETORS OF MURIWHENUA INCORPORATION against the refusal on 6 October 1986 of the Maori Land Court to make an award of costs in favour of the Appellant.

Coram: Judges K. B. Cull (Presiding), R. M. Russell and A. D. Spencer

Counsel: Mr Hemi-Rua Rapata for Appellant

Date of Hearing: 16 June 1987 at Whangarei

Decision: 4 September, 1987 at Wellington

JUDGMENT OF THE MAORI APPELLATE COURT

The lands of the appellant Incorporation are in the far north, but many of the shareholders of the Incorporation live in Auckland. Some of the shareholders have formed an unincorporated society called the Muriwhenua Tika Committee. There is a long history of disputes between successive Committees of Management of the Incorporation (which was until recently named the Proprietors of Te Hapua 42) and shareholders living in Auckland.

The present proceedings started with the filing on 28th June 1985 of an application under S.61 of the Maori Affairs Amendment Act 1967 for the appointment of one or more persons to investigate the affairs of the Incorporation. S.61 provides that the Court's jurisdiction to appoint such examining officers may be exercised:

- (a) On the application of shareholders together owning not less than one tenth of the shares or
- (b) Pursuant to a declaration by special resolution passed by a general meeting of shareholders that the affairs of the Incorporation should be investigated or
- (c) On the Court's own motion where it appears to the Court that there is sufficient cause to exercise that jurisdiction.

THE MAORI APPELLATE COURT OF NEW ZEALAND
AOTEA DISTRICT

APPEAL 1987/4

APPEAL by MANAMOTUHAKE HALLETT against a decision of the Maori Land Court made on the 9th of March 1987 refusing partition of WAIMANU 2B BLOCK.

Present: Judges R. M. Russell (presiding)
H. K. Hingston and H. B. Marumaru

Place: Wanganui

Hearing: Tuesday 20 October 1987

Decision: uTuesday 20 October 1987

Waimanu 2B contains approximately 28,2585 ha of which approximately 14,4555 ha is a severance on the Lake Rotoaira side of State Highway 47.

The appellant Manamotuhake Hallett along with two of his sisters Te Kotahitanga Hallett and Rihaina Hallett each having .1250 shares out of 1.0000 share in Waimanu 2B Block sought to partition the whole of the southern severance into separate areas of approximately 4.8185 ha for each of them.

The lower Court issued a provisional decision refusing partition on the grounds that in the interests of the owners it would be inexpedient to allow the whole of the land on the lakeside of the highway to be divided between three owners.

The lower Court pursuant to S.43 of the Maori Affairs Act 1953 gave the applicants leave to appeal.

At the hearing on 20 October 1987 the Appellate Court dismissed the appeal and said that it would give reasons for its decision at a later date.

THE VALUERS' REGISTRATION BOARD

IN THE MATTER of an Inquiry pursuant to Section 32(2) of the Valuers' Act 1948

AND

IN THE MATTER of charges under Section 31(1)(c) of the Valuers' Act 1948 against William Raymond Wright of Otaki

DECISION OF A BOARD OF INQUIRY
OF THE VALUERS' REGISTRATION BOARD

Members of the Board of Inquiry:

Messrs D. J. Armstrong (Chairman), R. P. Young and P. E. Tierney

Counsel: Mr R. B. Squire for the Valuer General
Mr C. B. Ruthe for Mr Wright

Date of Hearing: 6 August 1987

Date of Decision: 3 November 1987

This Inquiry arose in the first instance from two complaints dated 10 October 1986 received by the Registrar of the Valuers Registration Board from the N.Z. Institute of Valuers (N.Z.I.V.). Those complaints followed from a letter dated 28 August 1986 from the Waikato Branch of the Institute to the General Secretary, in which the Branch set out its complaint concerning valuations made by Mr W. R. Wright that had come to the notice of members and were generally considered by those members to be grossly excessive. The complaints concerned valuations and mortgage recommendations relating to two disused dairy factory properties referred to as the Te Aroha West dairy factory and the Manawaru dairy factory.

The complaints were referred to the Valuer General for investigation in terms of section 32(1) of the Valuers Act. On the basis of the Valuer General's report dated 17 December 1986 the Board, after due consideration, decided that there appeared to be reasonable grounds for the complaints and that an Inquiry should be held. By notice dated 7 January 1987 Mr Wright was advised of the Board's decision and the charges against him.

Before those charges had been heard the Board received three further reports from the Valuer General in relation to his investigation of additional complaints against Mr Wright as follows:

- Valuation of former miners hostel at Glen Massey; N.Z.I.V. Waikato Branch complaint dated 5 December 1986.
- Valuation of former P.Y.E. factory premises at Paeroa; N.Z.I.V. Waikato Branch complaint dated 12 December 1986.
- Valuation of a residential property at Thomas Road, East 7kmaki; N.Z.I.V. Executive Committee complaint dated 17 December 1986.

The Board decided after due consideration of the Valuer General's reports that Inquiries should be conducted into those complaints as well. That decision and the attendant charges were duly notified to Mr Wright on 2 July 1987.

The hearing of the original charges against Mr Wright had been adjourned a number of times to accommodate requests from Mr Wright through his various solicitors as well as the M.P. for Gisborne, Mr Wallbank, who sought and was granted permission to make submissions on Mr Wright's behalf. Mr Wallbank's submissions testified as to Mr Wright's good character and professional competence. The Board in granting adjournments expressed its concern as to the seriousness of the charges and the wide public interest that the alleged activities of Mr Wright had engendered and its consequent reluctance to let the matters run on.

The charges issued to Mr Wright were:

- By Notice dated 7 January 1987 for a hearing 9/2/87 which was adjourned on four occasions as noted above
 - It was charged that you have, in terms of section 31(1) (c) of the Valuers Act 1948, been guilty of such incompetent conduct in the performance of your duties as a valuer as to render you liable to a penalty or other disposition provided by that Act in that you, in compiling a valuation report dated 30 December 1985 in respect of a property at Stanley and Alexandra Roads, Te Aroha and known as the Te Aroha West Dairy Factory grossly over-valued the said property.
 - It is charged that you have, in terms of section 31(1) (c) of the Valuers Act 1948 been guilty of such incompetent conduct in the performance of your duties as a valuer as to render you liable to a penalty or other disposition provided by that Act in that you, in compiling a valuation report dated 30 December 1985 in respect of a property at Stanley and Alexandra Roads, Te Aroha and known as the Te Aroha West Dairy Factory made a mortgage recommendation that was grossly excessive.
 - It is charged that you have, in terms of section 31(1) (c) of the Valuers Act 1948 been guilty of such incompetent conduct in the performance of your duties as a valuer as to render you liable to a penalty or other disposition provided by that Act in that you, in compiling a valuation report dated 30 December 1985 in respect of a property at Stanley and Alexandra Roads, Te Aroha and known as the Te Aroha West Dairy Factory made a 'Mortgage Loan Recommendation' purportedly in accordance with the Trustee Act 1956 which 'Mortgage Loan Recommendation' complied with the said Act neither in form nor in substance.
 - It is charged that you have, in terms of section 31(1) (c) of the Valuers Act 1948 been guilty of such incompetent conduct in the performance of your duties as a valuer as to render you liable to a penalty or other disposition provided by that Act in that you, in compiling a valuation report dated 17 July 1986 in respect of a property at Stanley Road, Te Aroha West and known as the Manawaru Dairy Factory grossly over-valued the said property.
 - It is charged that you have, in terms of section 31(1) (c) of the Valuers Act 1948 been guilty of such incompetent conduct in the performance of your duties as a valuer as to render you liable to a penalty or other disposition provided by that Act in that you, in compiling a valuation report dated 17 July 1986 in respect of a property at Stanley Road, Te Aroha West and known as the Manawaru Dairy Factory made a mortgage recommendation that was grossly excessive.
 - It is charged that you have, in terms of section 31(1) (c) of the Valuers Act 1948 been guilty of such incompetent conduct in the performance of your duties as a valuer as to render you liable to a penalty or other disposition provided by that Act in that you, in compiling a valuation report dated 17 July 1986 in respect of a property at Stanley Road, Te Aroha West and known as the Manawaru Dairy Factory made a 'Mortgage Loan Recommendation' purportedly in accordance with the Trustee Act 1956 which 'Mortgage Loan Recommendation' complied with the said Act neither in form nor in substance.
- By Notice dated 2nd July 1987
 - It is charged that you have, in terms of section 31(1) (c) of the Valuers Act 1948 been guilty of such incompetent conduct in the performance of your duties as a valuer as to render you liable to a penalty or other disposition provided by that Act in that you, in compiling a valuation report dated 19 November 1985 in respect of a property at Wilton Colliery Road, Glen Massey (Lot 9, 10 and 11 on DP 8495) grossly over-valued the said property.
 - It is charged that you have, in terms of section 31(1) (c) of the Valuers Act 1948 been guilty of such incompetent conduct in the performance of your duties as a valuer as to render you liable to a penalty or other disposition provided by that Act in that you, in compiling a valuation report dated 19 November 1985 in respect of a property at Wilton Colliery Road, Glen Massey (Lot 9, 10 and 11 on DP 8495) made a mortgage recommendation that was grossly excessive.
 - It is charged that you have, in terms of section 31(1) (c) of the Valuers Act 1948 been guilty of such incompetent conduct in the performance of your duties as a valuer as to render you liable to a penalty or other disposition provided by that Act in that you, in compiling a valuation report dated 19 November 1985 in respect of a property at Wilton Colliery Road, Glen Massey (Lot 9, 10 and 11 on DP 8495) made a 'Mortgage Loan Recommendation' purportedly in accordance with the Trustee Act 1956 which 'Mortgage Loan Recommendation' complied with the said Act neither in form nor in substance.

- (iv) It is charged that you have, in terms of section 31(1) (c) of the Valuers Act 1948 been guilty of such incompetent conduct in the performance of your duties as a valuer as to render you liable to a penalty or other disposition provided by that Act in that you, in compiling a valuation report dated 2 May 1986 in respect of a property at Paeroa known generally as the Phillips N.Z. Ltd (P.Y.E.) Building, Te Aroha Road (Lots 2 and 3 on DP 7433) grossly over-valued the said property.
- (v) It is charged that you have, in terms of section 31(1) (c) of the Valuers Act 1948 been guilty of such incompetent conduct in the performance of your duties as a valuer as to render you liable to a penalty or other disposition provided by that Act in that you, in compiling a valuation report dated 2 May 1986 in respect of a property at Paeroa known generally as the Phillips N.Z. Ltd (P.Y.E.) Building, Te Aroha Road (Lots 2 and 3 on DP 7433) made a mortgage recommendation that was grossly excessive.
- (vi) It is charged that you have, in terms of section 31(1) (c) of the Valuers Act 1948 been guilty of such incompetent conduct in the performance of your duties as a valuer as to render you liable to a penalty or other disposition provided by that Act in that you, in compiling a valuation report dated 2 May 1986 in respect of a property at Paeroa known generally as the Phillips N.Z. Ltd (P.Y.E.) Building, Te Aroha Road (Lots 2 and 3 on DP 7433) made a 'Mortgage Loan Recommendation' purportedly in accordance with the Trustee Act 1956 which 'Mortgage Loan Recommendation' complied with the said Act neither in form nor in substance.
- (vii) It is charged that you have, in terms of section 31(1) (c) of the Valuers Act 1948 been guilty of such incompetent conduct in the performance of your duties as a valuer as to render you liable to a penalty or other disposition provided by that Act in that you, in compiling a valuation report dated 17 October 1985 in respect of a property at Thomas Road, Manukau and known as the Chapman Property (Lot 1 on DP 47181) grossly over-valued the said property.
- (viii) It is charged that you have, in terms of section 31(1) (c) of the Valuers Act 1948 been guilty of such incompetent conduct in the performance of your duties as a valuer as to render you liable to a penalty or other disposition provided by that Act in that you, in compiling a valuation report dated 17 October 1985 in respect of a property at Thomas Road, Manukau and known as the Chapman Property (Lot 1 on DP 47181) made a mortgage recommendation that was grossly excessive.
- (ix) It is charged that you have, in terms of section 31(1) (c) of the Valuers Act 1948 been guilty of such incompetent conduct in the performance of your duties as a valuer as to render you liable to a penalty or other disposition provided by that Act in that you, in compiling a valuation report dated 17 October 1985 in respect of a property at Thomas Road, Manukau and known as the Chapman Property (Lot 1 on DP 47181) made a 'Mortgage Loan Recommendation' purportedly in accordance with the Trustee Act 1956 which 'Mortgage Loan Recommendation' complied with the said Act neither in form nor in substance.

At the hearing on 6 August Mr Wright through his solicitor pleaded guilty to the charges relating to the Te Aroha West and Manawaru dairy factory valuations and entered no plea in respect of the remaining charges. The latter were adjourned sine die and the hearing continued on the basis of the charges dated 7 January 1987. Mr Squire for the prosecution made submissions to the Board outlining the magnitude of the errors made by Mr Wright in preparing the various valuations which were the subject of the charges before the Board.

Charges i, ii, iii relate to the Te Aroha West Dairy Factory which closed down at the end of the 1979/80 dairy season. In November 1985 it was purchased by Zurich Holdings and P.K.T. and M. H. Rixon for \$90,000. On 30 December 1985 Mr Wright valued the property at \$373,000 with a loan recommendation of \$200,000.

Mr B. D. Cashmore, a highly experienced local Registered Valuer, valued the property at the same date \$88,000, with a loan recommendation of \$36,000.

Mr Wright's valuation figure is just over four times the sale price.

Charges iv, v and vi relate to the Manawaru Dairy Factory. The substance of the complaint was that on 17 July 1986 Mr Wright valued the defunct dairy factory at \$675,000 with a loan recommendation of \$400,000.

The factory was closed down in 1981 and had remained virtually vacant for five years. It had been placed on the national market in mid 1982 with an asking price of \$125,000 and had been finally purchased by a Hamilton firm known as Genesis Wood Ltd for \$95,000 on 15 April 1985.

Mr B. D. Cashmore valued the property at the same date at \$96,000 with a loan recommendation of \$38,000.

Mr Wright's valuation figure is seven times the sale price.

It was pointed out to the Board that Mr Wright had previously pleaded guilty to charges relating to an excessive valuation on a residential property in Auckland. His defence on that charge was that he was inexperienced in the Auckland scene and had been "duped" into an excessively high valuation by unscrupulous people. He assured the Board he had learnt his lesson and would confine his activities to his home district of Otaki. The Board decided, not without misgivings, that it would not de-register Mr Wright for that offence but would impose a monetary fine.

The fine remains unpaid at the date of this hearing.

Mr Squire submitted that with that background, the Board had no alternative but to remove Mr Wright from the Register of Valuers and he

sought on behalf of the Valuer General that penalty and that penalty only.

Mr Ruthe, for Mr Wright, outlined Mr Wright's current position as one where his farming business was in Receivership and family health problems had placed a great stress on his client.

Mr Ruthe conceded that Mr Wright had been astray in his interpretation of valuation principles, that the properties were over-valued and that Mr Wright had displayed incompetence.

Mr Ruthe accepted that the previous fine had not been paid but advised the Board that Mr Wright intended to meet the payment of that fine as soon as he could. He also reminded the Board that Mr Wright had surrendered his practising certificate and had offered prior to the hearing to have his name voluntarily removed from the register. Mr Ruthe went on to say that Mr Wright feels great shame about the circumstance that he now finds himself in before the Board, especially as it was affecting his wife and family. Mr Ruthe requested that Mr Wright's name be suppressed.

Before discussing the penalty to be imposed upon Mr Wright, the Board wishes to comment on the matters which led to the charges before it in this hearing. Mr Wright is a qualified and registered valuer, experienced and trained in rural valuation work. After many years practising, mainly in his home area and carrying on business as a farmer, he suddenly emerged two to three years ago and commenced valuing a range of urban and rural properties all over New Zealand. The valuations before the Board show such incompetence that the members of the public who have been affected by the results of Mr Wright's work must seriously question the benefit of a valuation from a member of the profession. One of the Board's prime functions is to protect the public from valuers such as Mr Wright, but unfortunately it has no powers to put these matters right retrospectively. However the Board will not tolerate any valuer acting outside his or her training and experience and in direct contravention of the Code of Ethics of the New Zealand Institute of Valuers.

Any valuer who faces the Board on charges relating to this type of activity cannot in defence claim he or she has been duped or given false information. The professional practice of valuers has been clearly established over close on 40 years since the Valuers Act was passed into law and requires valuers not to be influenced or deceived by a situation similar to that involving Mr Wright. In the view of the Board the conduct of Mr Wright (short of conduct involving a deliberate fraud or dishonesty in relation to a client) was amongst the most disgraceful, grossly incompetent and grossly negligent conduct to have ever come before the Board. As well as bringing disgrace upon himself, his conduct has, regrettably, reflected adversely on the profession of which he was a member. The Board will continue to do everything in its power to ensure that the expected professional standards of valuers are enforced and that the public is protected.

Now turning to penalty, the Board finds quite clearly that in terms of Section 31(1) (c) Mr Wright has been guilty of such improper, unethical and incompetent conduct in the performance of his duties as a valuer as in the opinion of the Board renders him unfit to be registered under the Act.

Accordingly, the Board makes an order for the removal of Mr Wright's name from the Register of Valuers kept under the Valuer's Act 1948.

The Board in its verbal decision given at the hearing on 6 August declined Mr Wright's application for the suppression of his name in this matter. While the Board recognises that these matters are of concern and embarrassment to Mr Wright's family, the Board has a wider responsibility to inform the public and profession of the matters relating to the charges before it at this hearing. Accordingly, the Board confirms its action declining the application for suppression.

D. J. Armstrong
Inquiry Chairman

THE VALUERS' REGISTRATION BOARD

IN THE MATTER of an Inquiry pursuant to Section 32(2) of the Valuers Act 1948

AND

IN THE MATTER of charges under Section 31(1) (c) of the Valuers Act 1948 against Roger L. Carter of Christchurch.

DECISION OF A BOARD OF INQUIRY OF THE VALUERS' REGISTRATION BOARD

Members of the Board of Inquiry

Messrs. P. E. Tierney (Chairman), D. J. Armstrong and R. P. Young.

Counsel: Mr G. K. Panckhurst for the Valuer-General.

Mr J. G. Matthews for Mr Carter.

Date of Hearing: 5 August 1987

Date of Decision: 9 October 1987.

The Board wishes to record that no exception was taken by either party to Mr R. P. Young sitting on this Board of Inquiry. This disclaimer arises as one of the witnesses, Mr J. A. Ryan, who appeared for the prosecution,

is now an Associate based in Christchurch of Robertson Young Telfer and Mr Young a partner in that firm but based at Auckland. All parties to the hearing were made aware of the connection.

This inquiry arose from a complaint about Mr Carter's valuation of a Christchurch residential property and was the second to be heard on the same day.

Mr Carter is a Registered Valuer in a single Valuer practice who has been self employed since late 1984.

The complaint dated 30 April 1987 was in respect of a valuation of 6 CHAUCER STREET. The complaint was made by a MR K. POLANSKY whose Solicitor had instructed Mr Carter to value the property. Mr Carter completed this valuation on 16 October 1985 when he valued the property at \$60,000 with a loan recommendation of up to \$40,000.

The letter of complaint states that he (Polansky) purchased the property at that time for \$42,000 and borrowed \$38,000 on the first mortgage and \$6,000 on second mortgage.

The complaint was referred to the Valuer-General in terms of Section 32(1) of the Valuers Act and on the basis of the Valuer-General's subsequent report of 19 June 1987 the Valuer's Registration Board decided that there appeared reasonable grounds for the complaint and that an Inquiry should be held. By notice dated 1 July 1987 Mr Carter was notified of the Board's intention to hold an Inquiry and of the charges against him.

THE CHARGES

- Section 31(1) (c) of the Valuers Act 1948: That you have been guilty of such incompetent conduct in the performance of your duties as a Valuer as renders you liable to a penalty provided by the Valuers Act 1948 in that you in compiling a Valuation Report dated 16 October 1985 in respect of the property at 6 Chaucer Street, Waltham, Christchurch, grossly over-valued the property.
- Section 31(1) (c) of the Valuers Act 1948: That you have been guilty of such incompetent conduct in the performance of your duties as a Valuer as renders you liable to a penalty provided by the Valuers Act 1948 in that you in compiling a Valuation Report dated 16 October 1985 in respect of the property at 6 Chaucer Street, Waltham, Christchurch, made a mortgage recommendation that was excessive.

At the Inquiry three Registered Valuers gave evidence as to the value of 6 Chaucer Street and the Valuer-General, Mr S. W. A. Ralston, gave evidence with respect to receiving the complaint and of his subsequent inquiries. He testified that Mr Carter was a Registered Valuer at the relevant date.

The property involved is located at Waltham, an older established residential suburb close to central Christchurch. Some of the properties had been converted to flats, some used for single unit houses and some redeveloped for ownership flats.

Number 6 Chaucer Street was described to the Board as a double gable cottage built around 1905 and converted to two flats around 1960. In more recent times (1986) it has been converted to a single unit house. At the rear, and the subject of a wide difference of value opinion, is a self-contained detached flat of some 43 square metres.

The history of sales/valuations of 6 Chaucer Street as presented to the Board is scheduled overleaf -

Location	Date	Sale (incl. chattels)	Valuation (excl. chattels)	Parties
6 Chaucer Street	7/84		33,500	Govt. Valn.
	10/85		40,000	Nixon
	10/85		60,000	Carter
	10/85	42,500		Franechevic to Polansky
	10/85 3/87	47,950	40,000	Ryan Polansky to Field

It will be observed that Mr Carter's valuation of \$60,000 is substantially in excess of any other recorded sale or valuation on the property and, on the face of it, needing a convincing explanation of the discrepancy.

For the Valuer-General Mr D. R. Nixon who is an experienced Valuer and the District Valuer for the Christchurch South District gave evidence that the Waltham area is an area zoned for re-development where the existing housing stock is being renovated by many first home buyers. Re-development is slight and sales are in a very narrow price band.

Mr Nixon produced statistics to show that houses converted to flats did not sell at higher levels than single residential properties. He rationalised this by an opinion that rental levels were static and higher interest rates had reduced the effective returns for such properties.

Mr Nixon produced an extensive list of sales which he had compared with existing Government Valuations and also with the subject property. He knew the rentals on this property but because of the opinion expressed in the preceding paragraph had made no comparison of rental returns to sale prices.

Mr Nixon was subjected to an intensive cross-examination by Mr Matthews on the added value that the separate flat gave to 6 Chaucer Street. This line of questioning took the point that even allowing that a house converted to two flats may not sell for more than a single residential property of similar characteristics the flat must be of considerable value. While Mr Nixon conceded that the separate flat could well be let for \$70 per week without

adversely affecting the residential use of the house he would not agree that the flat added any more than a nominal figure to the sale price of the property. The Board has some difficulty in accepting this reasoning.

Mr Ryan had considered the property from two viewpoints, one by comparison with other single residential use properties and the second by a capitalisation of rental incomes. He considered the house flats could be let for \$55 per week and the separate flat for \$60 per week. To these income streams he applied a capitalisation rate of 20% to produce a figure of \$44,200. He discounted this slightly because of the condition of the flats to arrive at his market value of \$42,000.

Mr Ryan was apologetic about his inability to make a detailed inspection of the comparable sale because of the very short space of time he had to produce his figures. In this respect the Board does not consider it can give much weight to Mr Ryan's comparable sales evidence. He appeared to place more reliance in arriving at his figure from the two sales of the property itself.

Using Mr Ryan's capitalisation method as a rough guide 6 Chaucer Street has:

(a) House in two flats with land worth	\$26,400
(b) Flat at back with land worth	15,600
	\$42,000

Mr Carter in 1985 valued the property purely on the capitalisation basis. He considered the three flats should return \$75 per week and would produce a gross income of \$11,700. He made certain deductions for property outgoings to arrive at a nett return of \$10,200 which he capitalised at 17% to produce a market value of \$60,000.

Using a similar rough guide as with Mr Ryan's figure quoted in the previous paragraph -

(a) House in two flats with land worth	\$40,000
(b) Flat at back with and worth	20,000
	\$60,000

Mr Carter stated that although the rentals were \$55 per week he did not consider these to be adequate current rentals and had adjusted these to \$75 per week. He pointed out that they had been let for \$70 per week immediately after he had made his valuation.

Mr Carter produced a sales schedule of investment flats that had sold and which he claimed supported his capitalisation rate of 17%.

Address	Sale Price	%Over GV	Nett Return	Owner
67 Southampton St	\$57,000+ \$3,000 chts	167.64%	16.73%	
422 Worchester St	\$47,000+ \$2,000 chts	204.34%	16.50%	
	\$45,000+ \$4,000 chts	195.65%	17.24%	
401 Hereford St	\$88,000+ \$7,000 chts	202.29%	14.06%	
425 Hereford St	\$36,000+ \$3,000 chts	211.76%	18.44%	
152 Fitzgerald Ave	\$57,000+ \$3,000 chts	160.56%	18.91%	
86 Salisbury St	\$75,000+ \$4,500 chts	205.47%	17.95%	
	\$85,000+\$10,000 chts	232.87%	15.84%	

R. L. Carter - Valuation				
6 Chaucer Street	\$60,000	excel chts	179.1%	17.00

Mr Carter agreed that with the exception of 67 Southampton Street all listed properties were closer to Cathedral Square but would not agree that their evidence was any the less valid on that account. He pointed out that their rental per flat was at a similar level to 6 Chaucer Street.

Mr Carter firmly disagreed with Mr Nixon that the property could or should be treated in valuation terms in the same category as a single unit house property and referred back to the sales of investment properties he maintained should have been used for comparison purposes. These are listed above.

Mr Carter was not examined as to the discrepancy between his valuation in 10/85 of \$60,000 and the sale price of \$42,500 or the more recent sale of \$47,950.

The Board has some difficulty in coming to grips with the evidence in this case. The property in 10/85 was being rented with rentals of \$70 per week each for the three flats. Only Mr Carter gave comparable sales evidence of other investment property sales and his evidence that a 17% return was appropriate was unchallenged. Mr Nixon refused to agree that a property with a separate lettable flat had any advantages over a single unit house but his conclusion was not supported by the other two valuers both of whom ascribed a substantial, if undisclosed, sum for the flat by capitalising its rental at figures of 17% and 20% respectively.

Mr Ryan calculated the rentals at \$55 per week each for the house flats and \$60 per week for the separate flat. Mr Nixon, also called by the prosecution, accepted \$70 per week for the three flats. It is not unreasonable for the Board to conclude that Mr Ryan's rentals are conservative and should be increased to \$70 per week.

If the Board makes this calculation i.e.: \$10,920 per annum and applies Mr Ryan's 20% on the gross rentals the figure comes to \$54,600 which is reasonably close to Mr Carter's figure calculated at 17% on the nett rental.

While the two sales of the subject property, \$42,500 in October 1985 and \$47,950 in March 1987 strongly suggest that Mr Carter's valuation of \$60,000 in October 1985 was excessive the balance of the evidence before the Board, particularly the rental capitalisation, does not support this conclusion.

The Board considers the evidence insufficient to establish incompetence and finds Roger L. Carter not guilty on both charges.

P.E. Tierney
Inquiry Chairman

THE VALUERS' REGISTRATION BOARD

IN THE MATTER of an Inquiry pursuant to Section 32(2) of the Valuers Act 1948

AND

IN THE MATTER of charges under Section 31(1) (c) of the Valuers Act 1948 against Roger L. Carter of Christchurch.

DECISION OF A BOARD OF INQUIRY
OF THE VALUERS' REGISTRATION BOARD

Members of the Board of Inquiry

Messrs. P. E. Tierney (Chairman), D. J. Armstrong and R. P. Young.

Counsel: Mr G. K. Panckhurst for the Valuer-General.
Mr J. G. Matthews for Mr Carter.

Date of Hearing:

5 August 1987

Date of Decision: 31 August 1987

The Board wishes to record that no exception was taken by either party to Mr R. P. Young sitting on this Board of Inquiry. This disclaimer arises as one of the witnesses, Mr J. A. Ryan, who appeared for the prosecution, is now an Associate based in Christchurch of Robertson Young Telfer and Mr Young a partner in that firm but based at Auckland. All parties to the hearing were made aware of the connection.

This inquiry arose from a complaint about Mr Carter's valuation of a Christchurch residential property.

Mr Carter is a Registered Valuer in a single Valuer practice who has been self employed since late 1984.

The complaint dated 24 November 1986 was in respect of a valuation of 18 LONGFELLOW STREET. The complaint was made by a MS IVY MAYES who held a collateral second mortgage of \$20,000 secured against that property. She had accepted the property as a suitable collateral security in reliance on a valuation of \$60,000 carried out by Mr Carter. There was a first mortgage of \$40,000.

When the first mortgage defaulted the property was sold for \$45,000 and after expenses were paid all that Ms Mayes received was \$34.43.

This complaint was referred to the Valuer-General in terms of Section 32(1) of the Valuers Act and on the basis of the Valuer-General's subsequent report dated 2 February 1987 the Valuer's Registration Board decided that there appeared reasonable grounds for the complaint and that an Inquiry should be held. By notice dated 12 May 1987 Mr Carter was notified of the Board's intention to hold an Inquiry and of the charges against him.

THE CHARGES

- Section 31(1) (c) of the Valuers Act 1948: That you have been guilty of such incompetent conduct in the performance of your duties as a Valuer as renders you liable to a penalty provided by the Valuers Act 1948 in that you in compiling a Valuation Report dated 24 April 1985 in respect of the property at 18 Longfellow Street, Beckenham, Christchurch, grossly over-valued the property.
- Section 31(1) (c) of the Valuers Act 1948: That you have been guilty of such incompetent conduct in the performance of your duties as a Valuer as renders you liable to a penalty provided by the Valuers Act 1948 in that you in compiling a Valuation Report dated 24 April 1985 in respect of the property at 18 Longfellow Street, Beckenham, Christchurch, made a mortgage recommendation that was excessive.

At the Inquiry three Registered Valuers gave evidence as to the value of 18 Longfellow Street and the Valuer-General, Mr S. W. A. Ralston, gave evidence with respect to receiving the complaint and of his subsequent inquiries. He testified that Mr Carter was a Registered Valuer at the relevant date.

The property involved is located at Beckenham, a suburb described by the two Valuers for the prosecution as a convenient residential locality some three kilometres south of Cathedral Square with house properties tending to the lower end of the desirability range. The same Valuers describe the property as a modest three bedroom older style bungalow built around 1928. Mr Carter described the property as "A single storey character bungalow style dwelling situated in Beckenham, a popular residential suburb of Christchurch".

Much of the evidence of comparable sales, and there were some sales produced by Mr Carter for example that were not used by other Valuers and vice-versa, was analysed in a way that defended the individual Valuer's view-

point. It became apparent to the Board that some of the quoted sales had not been inspected, or if so, then only the exterior. This materially reduces their probative worth.

The Board has on previous occasions expressed its disapproval of quoting sales without inspecting the interior and without stating so in the report and does so again.

Be that as it may a summary of the evidence produced to the Board bearing on the value of 18 Longfellow Street is scheduled below.

Location	Date	Sale (incl. chattels)	Valuation (excl. chattels)	Parties
18 Longfellow	7/79		16,000	Govt. Vain.
	12/83		45,000	Carter
	7/84		34,000	Govt. Vain.
	4/85	35,000		Owen to Woodgrove Properties
	4/85		60,000*	Carter
	4/85		39,000	Nixon
	4/86	45,000		Mortgagees sale to Turner
	4/86		46,750	Ryan

* subject to the interior being redecorated within three months of date of advance.

The salient features of this list are that the property sold in

4/85 \$35,000

On that date Mr Nixon valued the property at \$39,000 and Mr Carter at \$60,000 and resold in

4/86 \$45,000

Mr Ryan valued the property in 4/86 at \$46,750.

It will be observed that Mr Ryan's evidence post-dates the Carter valuation by around one year and that his evidence must be viewed in this light. No exception to this evidence, or indeed sales after 4/85 which were quoted in support of the various valuations, was taken by either party.

To complete the list for 18 Longfellow it is desirable now to examine the adjustments claimed by Mr Carter. These are a necessary follow-on to the rider attached to his 4/85 valuation.

"Subject to the interior of this dwelling being redecorated within three months of (sic) date of advance."

Mr Carter stated that in his view this would cost approximately \$2,000 and would add \$5,000-\$6,000 to its value. Accordingly his relative value would be reduced to \$54,000-\$55,000, all figures based on 4/85 levels.

During the course of the hearing and on reflection he thought he may have been "marginally high" and thought that in the undecorated state it should have been worth "just over \$50,000".

The sales evidence produced by the three Valuers ranged over a wide span of time, and to a lesser extent, distance. Their relevance to this Inquiry appeared to depend on the attitude of the Valuer giving the evidence.

Location	Date	Sale Price (excludes chattels)	G.V.	TO + or(-) price: G.V.
Mr Carter's List				
2 Longfellow	1/85	41,000	38,000	7*
3 Longfellow	2/85	48,000	37,000	30*
47 Longfellow	4/85	54,000	40,500	33*
10 Seddon	4/85	50,000	41,000	22
9 Bradford	3/85	58,000	54,000	7
26 Roxborough	2/85	69,000	58,000	19
17 Southey	2/85	63,000	52,500	20
22 Tennyson	1/85	50,000	44,500	12
52 Tennyson	4/85	50,000	34,000	47
150 Tennyson	1/85	51,000	43,000	19
29 Wembley	6/85	55,500	40,000	39
7 Montrose	1/85	44,000	38,500	14
	3/85	47,900	38,500	26
215 Waimea	1/85	35,400	34,000	4
27 Corson	1/85	41,500	40,500	2
By comparison Mr Carter's valuation				
18 Longfellow	4/85	60,000	34,000	76
adjusted to	4/85	54,000	34,000	59

Mr Nixon's List

7 Montrose	1/85	44,000	38,500	14
54 Longfellow	2/85	42,950	38,500	12
2 Longfellow	1/85	41,000	38,000	8
215 Waimea	1/85	35,400	34,000	4
27 Corson	1/85	41,500	40,500	2
150 Tennyson	1/85	51,000	43,000	19
18 Longfellow	4/85	32,000,	34,000	(6)
47 Longfellow	3/85	54,000	40,500	33
82 Southampton	3/85	46,000	38,000	21

15 Austin	2/85	43,500	38,000	14
33 Corson	4/85	47,300	41,500	14
233 Waimea	4/85	49,500	40,000	24

By comparison Mr Nixon's valuation

18 Longfellow	4/85	39,000	34,000	15
---------------	------	--------	--------	----

Mr Ryan's List for Valuation 4/86

108 Huxley	2/86	40,000	29,000	38
165 Southampton	2/86	69,000	44,500	55
131 Tennyson	2/86	68,000	45,500	49
37 Gibbon	10/85	38,000	30,500	25
23 Gibson	1/86	47,500	34,000	40
137 Southampton	4/86	52,500	36,500	44
8 Montrose	4/86	42,000	31,500	33
57 Gibson	3/86	41,500	27,000	54
3 Longfellow	4/86	47,500	37,000	28
61 Waltham	4/86	42,000	34,000	24

By comparison Mr Ryan's Valuation

18 Longfellow	4/86	46,750	34,000	38
---------------	------	--------	--------	----

Mr Carter stated that only three sales marked * were known to him when he made his 4/85 valuation. Of these he regarded the first two as inferior to the subject property and the third as more comparable.

Of the remainder he regarded three properties as better -

26 Roxborough	2/85	\$69,000
17 Southey	2/85	\$63,000
150 Tennyson	1/85	\$51,000

and the remainder as inferior for one reason or another.

Mr Carter was closely cross-questioned about the two known sales on the subject property, one in 4/85 at \$35,000 and the second in 4/86 at \$45,000.

The first sale in 4/85 at \$35,000 was, he agreed under cross-examination, one from Owen to Woodgrove Properties Limited whose principal was one De Bont both of whom were property speculators. Mr Carter agreed that they, together with one Van Den Bos, had been involved in borrowing major amounts of money on mortgage and that the three, whom he knew only on a business basis, were major clients of his and had accounted for up to 40% of his fee income in 1984/85. He agreed it was common knowledge that they had defaulted but denied that his association with them had in any way compromised his independence as a Valuer.

Mr Carter stated that Mr Owen had a tendency at times to sell at less than market value, sometimes at the level of the mortgage on the property. He presumed that this accounted for a sale price of \$35,000 compared with his valuation of \$60,000.

He considered that the second sale (4/86) for \$45,000 could be the result of a deterioration in the condition of the property allied to the fact that with the collapse of the property dealings of the three speculators mentioned there was a large number of similar type properties on the market.

Mr Carter was examined about the discrepancy between the Government Valuation and his valuation compared to the percentage that sales exceeded Government Valuation. His view was that for older houses such as this the Government Valuer could be unaware of what had been done to the interior and that this could materially affect the sale price. Mr Carter was not entirely convincing with this reply as in a subsequent case he used the level of sales to Government Valuations to support his own conclusions.

The Board was given substantial evidence about the movement in the property market from Mr D. R. Nixon an experienced Valuer who has been a Senior Valuer with the Valuation Department since 1978 and the District Valuer for the Christchurch South district since 1985.

In his view the Beckenham area comprised largely older houses of the 1920-1930 vintage that sold at prices at the lower end of the house market in a compressed price range.

As a preliminary to this exercise he had not considered any sales that would not have been available on 24/4/1985. He considered that the sales of

54 Longfellow	2/85	42,950	38,500	12
2 Longfellow	1/85	41,000	38,000	8

to be the best comparables and on the basis of these and the other sales he investigated had adopted a valuation as at 4/85 of \$39,000.

He had inspected the interior of the subject property just prior to the Inquiry and had found that it had been recently redecorated throughout. Given that situation in 1985 he would have increased his valuation by \$2,000 to \$41,000. He would not accept that the added value in 1985 terms should be \$5,000-\$6,000.

Mr Nixon also gave evidence about the House Price Index shown in the Valuation Department's 'Urban Valuation Market in New Zealand' for the Christchurch South area.

YEAR	INDEX	% PRICE CHANGE
12/83	1917	+5.5 %
6/84	2050	+6.9 %
12/84	2194	+7.0 %
6/85	2362	+7.6 %
12/85	2362	+7.6 %
6/86	2568	+0.99%
12/86	2653	+3.3 %

The cumulative index between the end of 1983 and mid 1985 is +23.2%. Mr Nixon considered that the price movement between his valuation of \$39,000 at 4/85 and the Ryan valuation at 4/86 of \$46,750 was consistent with the price index movement.

Mr Nixon made no concessions during cross-examination that his valuation required altering and impressed the Board with his knowledge of this area and the soundness of his opinions.

The third Valuer witness, Mr Ryan, had made a valuation in 1986 of \$46,750 and considered that the sale priced of \$45,000 reasonably confirmed his estimate. The property had been on the market at a much higher figure for four months. He was unaware of Mr Carter's valuation.

Looking at the evidence in its entirety the Board is in no doubt that Mr Carter's valuation of April 1985 was wildly optimistic.

The Board is unable to accept that a property that sells for \$35,000 in 4/85 and sells again in 4/86 for \$45,000 can have a valuation at the earlier date of \$60,000 without a convincing explanation as to the reason for the differences. No such acceptable explanation was made.

It was the opinion of two other experienced Valuers who had studied the market that its relative value at 4/85 was \$39,000 and at 4/86 \$46,750. The earlier sale in fact was recorded at \$35,000 including \$3,000 chattels. The Board accept that the valuation or sale price of the property at 4/85 is \$39,000 or \$41,000 if redecorated.

Mr Carter endeavoured to reduce the impact of his \$60,000 figure by claiming that the 'redecoration' rider would reduce his figure to \$54,000.\$55,000. Had this been the case then Mr Carter should have said so in his valuation.

The Board was asked by inference to consider whether or not Mr Carter had made this excessive valuation to suit the requirements of two known property speculators who were involved in the property, one as a seller and one as a buyer.

The Board has no evidence before it beyond the statement of Mr Carter that his involvement was of a purely professional nature and that the parties had no influence on the level of his valuation. The Board, not without reservations, accepts this explanation.

Mr Carter is clearly guilty of 'incompetent conduct' in holding that his valuation could have been reduced by up to 10% without advising prospective lenders or purchasers that this was the case; he has not been charged with this offence.

The substantial case in the Board's view is the gross over-valuation of the property and whether this amounts to incompetent conduct. Its opinion is that the gross over-valuation which amounts to nearly +50% cannot be explained away as an error of judgment.

The Board has referred in a previous hearing to

Baxter vs. F. W. Gapp & Co. Ltd. (1939)2 All E.R. 752 at 758, where His Lordship said:

"It is, of course, quite clear that the mere fact that there is an over-valuation does not of itself show negligence. Gross over-valuation, unless explained, may be strong evidence of negligence or of incompetence".

As it has already stated no such acceptable explanation was forthcoming. In its analysis the Board considers that Mr Carter adopted a value level completely unsupported by the evidence available. It cannot accept that Mr Carter acted in a competent manner. It finds him guilty of incompetent conduct in terms of Charge No. 1.

Charge No. 2 relates to a mortgage recommendation of \$40,000 made under the Trustee Act and subject to a rider that it was "subject to the interior being redecorated within three months from date of (sic) advance".

The sum recommended of \$40,000 is in excess of the market value of the property at 4/85 and is in effect a loan recommendation for more than the property sold for - \$35,000 including \$3,000 chattels at that date.

The Board finds that the recommendation was excessive and that Mr Carter has been guilty of incompetent conduct in making that recommendation.

It finds him guilty of incompetent conduct in terms of Charge No. 2.

In accordance with its oral statement given at the conclusion of the hearing the Board invites submissions as to appropriate penalties.

P. E. Tierney
Inquiry Chairman

THE VALUERS' REGISTRATION BOARD

IN THE MATTER of an Inquiry pursuant to Section 32(2) of the Valuers Act 1948

AND

IN THE MATTER of charges under Section 31(1) (c) of the Valuers Act 1948 against Roger L. Carter of Christchurch.

DECISION OF A BOARD OF INQUIRY OF THE VALUERS' REGISTRATION BOARD

Members of the Board of Inquiry

Messrs. P. E. Tierney (Chairman), D. J. Armstrong and R. P. Young.

Counsel: Mr G. K. Panckhurst for the Valuer-General.
Mr J. G. Matthews for Mr Carter.

Date of Hearing: 5 August 1987

Date of Decision
on Penalties: 10 November 1987

The Board of Inquiry has considered the submissions as to penalties from Mr Matthews and Mr Panckhurst.

This is Mr Carter's first appearance before the Board and for that reason

it accepts Mr Matthews' plea that suspension or cancellation of Registration as a Valuer should not be imposed.

As to Charge No. 1, The Board severely reprimands Mr Carter and fines him five hundred dollars (\$500).

As to Charge No. 2, The Board severely reprimands Mr Carter.

P. E. Tierney
Inquiry Chairman

DESIGN FOR THE SUN

The Ministry of Energy's Information Centre is hosting a display to promote quality housing. It is not displaying costly materials and expensive real estate but better building methods to provide more comfortable homes.

The display demonstrates how to design, build or renovate houses to take advantage of the sun's heat. It encourages the use of standard materials to control the extremities of climate and also use the sun's heat as a free source of energy.

"Natural heating and cooling will become a sought after part of house design, as natural daylight and natural ventilation are now," says the Minister of Energy, Mr David Butcher. The demand for this type of home is going to increase as energy prices rise and it costs more to stay comfortable.

Tomorrow's quality homes - more comfortable and energy efficient - are being built in New Zealand today. Over the last five years the Ministry of Energy has been monitoring nineteen houses 'built for the sun'. The programme has shown that people who live in these homes are more comfortable than in other houses they have lived in, and that they pay less for their power bills.

The 'Design for the Sun' display at the Energy Information Centre demonstrates the use of glazing, heat storage and insulation in homes heated mainly by the sun. It includes the

products and services of major building merchants, design manuals, floor plans and the Spectel database for the building industry. The database provides easy access to current information on products, prices and manufacturers.

The basic ideas of building or renovating for the sun are very simple. Suggestions from the Ministry of Energy include:

- insulating to the maximum you can afford
- placing your house on the site and planning the layout of the rooms to take full advantage of the sun
- using building materials such as slate and brick which store the sun's warmth
- increasing the size of North facing windows so more sun can get in.

The 'Design for the Sun' display is on at the Energy Information Centre, 2nd Floor of the Downtown Shopping Complex, Auckland until June 15th. Phone (09) 775-328/9 for details.

If members are unable to attend the exhibition they can obtain information by writing to:

Energy Information Centre
P.O. Box 4218
Auckland I
Phone: 775-328

NORTHLAND

COUTTS MILBURN & ASSOCIATES - REGISTERED VALUERS AND PROPERTY CONSULTANTS

89 Cameron Street, Whangarei.
P.O. Box 223, Whangarei.
Phone (089) 484-367, 484-655,
W. A. F. Burgess, Dip.V.F.M., A.N.Z.I.V.
C. S. Coutts, A.N.Z.I.V., F.R.E.I.N.Z.
G. T. Hanlon, v.P.U., A.N.Z.I.V.
I. D. Baker, V.P.U., A.N.Z.I.V.

ROBISONS -

REGISTERED VALUERS
P.O. Box 1093, Whangarei.
Phone (089) 488-443, 489-599.
J. F. Hudson, v.P.U., A.N.I.Z.
A. C. Nicholls, Dip.V.F.M., A.N.Z.I.V., M.N.Z.S.F.M.
T. S. Baker, V.P.U., A.N.Z.I.V.
G. S. Algie, Dip.Urb.Val., A.N.Z.I.V.

MOIR ASSOCIATES -

REGISTERED VALUERS
Kerikeri Office.
P.O. Box 254, Kerikeri.
Phone (0887) 78-500.
Paihia Office.
2nd Floor, Paihia Mall,
Marsden Road, Paihia.
P.O. Box 264, Paihia.
Phone (0885) 28-149.
G. H. Moir, Dip.Urb.Val., ANZIN.
S. R. McNally, B.Ag.Sci., A.N.Z.I.V.

AUCKLAND

BARKER & MORSE LTD - REGISTERED VALUERS

Westpac Plaza, Moana Avenue.
P.O. Box 15, Orewa.
Phone (0942) 65062, 64194.
L. W. Barker, Dip.Urb.Val., A.N.Z.I.V.
M. P. Moise, B.Ag.Com., A.N.Z.I.V.

BARRATT-BOYES, JEFFERIES - REGISTERED VALUERS AND PROPERTY CONSULTANTS

4th Floor, Quay Tower, 29 Customs Street, Auckland.
P.O. Box 6193, Wellesley Street, Auckland.
Phone (09) 773-045, 797-782.
D. B. C. Barratt-Boyes, B.A.(Hons), F.N.Z.I.V.
R. L. Jeffries, Dip.Urb.Val., B.C.A., EN.Z.I.V., M.P.M.I.
R. W. Laing, A.N.Z.I.V., A.R.E.I.N.Z.
M. A. Norton, Dip.Urb.Val.(Hons), A.N.Z.I.V.

C- F. BENNETT (VALUATIONS) LTD - REGISTERED VALUERS AND PROPERTY CONSULTANTS

9th Floor, Countrywide Centre, 280 Queen Street, Auckland.
P.O. Box 5000, Auckland 1.
Phone (09) 799-591. Facsimile (09) 732-367.
R. M. McGough, Dip.Urb.Val., EN.Z.I.V., M.P.M.I.
A. G. Hilton, M.D.A., A.N.Z.I.V.
L. V. Brake, ANZIN.
M. J. G. Steur, Dip.Val., A.N.Z.I.V.

D. E. BOWER & ASSOCIATES - REGISTERED VALUERS AND PROPERTY CONSULTANTS

Denby House, 156 Parnell Road, Auckland.
P.O. Box 37622, Parnell, Auckland.
Phone (09) 390-130.
David E. Bower, Dip.Urb.Val., A.N.Z.I.V., A.R.E.I.N.Z., A.N.Z.I.M., M.P.M.I.

BROCK & ROPE -

REGISTERED VALUERS, PROPERTY CONSULTANTS AND
MANAGERS
15 Anzac Street, Takapuna.
P.O. Box 33-796, Takapuna.
Phone (09) 499-277, (09) 498-589. Facsimile 497-191, DX 570.
C. E. Brock, A.N.Z.I.V., A.R.E.I.N.Z., A.N.Z.I.M.
R. W. Rope, B.B.S., N.Z.C.L.S., A.N.Z.I.V.
G. J. Clapcott, Dip.Urb.Val., A.N.Z.I.V.

MICHAEL T. CANNIN -
REGISTERED VALUER AND PROPERTY CONSULTANT I
Herbert Street, Takapuna.
Phone (09) 498-517.
M. T. Cannin, A.N.Z.I.V., A.C.I.S.

DARROCH & CO. LTD

REGISTERED VALUERS AND PROPERTY CONSULTANTS I
Shea Terrace, Takapuna, Auckland 9.
P.O. Box 33-227, Takapuna, Auckland 9.
Phone (09) 491-677. Facsimile (09) 493-246. DX 3027.
N. K. Darroch, F.N.Z.I.V., Dip.V.F.M., Val.Prof.Urb., M.P.M.I., A.C.I.Arb.
S. B. Molloy, A.N.Z.I.V., Dip.Urb.Val.
E. B. Smithies, A.N.Z.I.V.
R. I. ForSyth, A.N.Z.I.V., Dip.Urb.Val.
C. C. Barraclough, A.N.Z.I.V., B.Com.
W. D. Godkin, A.N.Z.I.V.
W. W. Kerr, A.N.Z.I.V., Dip.V.F.M.
J. A. Darroch, B.Com.(Ag.)Dip.V.F.M.
A. S. Bruce, B.P.A.
L. M. Parlane, B.B.S.
C. J. Redman, B.P.S.
A. J. Senojak, B.P.A.

EDWARD RUSHTON NEW ZEALAND LIMITED

225 Great South Road, Greenlane, Auckland.
P.O. Box 17-063, Greenlane
Phone (09) 548-061, 541-522. Telex NZ 60825.
W. J. Carlton, Dip.Ag., Dip.V.F.M., A.N.Z.I.V.
I. M. Gunn, A.N.Z.I.V., A.R.E.I.N.Z.
R. D. Lawton, Dip.Urb.Val.(Hons), A.N.Z.I.V.
M. X. Martin, A.N.Z.I.V., F.R.E.I.N.Z.
D. N. Symes, Dip.Urb.Val., A.N.Z.I.V. (Manager)
M. L. Thomas, Dip.Urb.Val., A.N.Z.I.V.
S. H. Abbott, A.N.Z.I.V., F.R.E.I.N.Z. (Consultant)
H. F. G. Beeson, Dip.Urb.Val., A.N.Z.I.V., F.H.K.I.S.
C. M. Brown, B.Com.(V.P.M.)
D. A. Culav, Dip.Urb.Val., A.N.Z.I.V.
P. L. Oatridge, Dip.Urb.Val., A.N.Z.I.V.
R. M. Swan, Dip.Urb.Val., A.N.Z.I.V.

EYLES, PURDY & CO. - REGISTERED VALUERS AND PROPERTY CONSULTANTS

Level 9, Ceramco House,
57 Fort Street, Auckland 1.
P.O. Box 2729, Auckland 1. DX 7.
Phone 34-872, 389-110. Facsimile (09) 379-054.
Russell Eyles, V.P.Urb., A.N.Z.I.V.
Richard A. Purdy, V.P.Urb., A.N.Z.I.V.
John W. CharteS, V.P.(Urb. & Rural), A.N.Z.I.V.
S. Nigel Dean, Dip.Urb.Val., A.N.Z.I.V.
Perry G. Heavey, V.P.Urb., A.N.Z.I.V.
John R. Clephane, Dip.Urb.Val.
MaryJo PatterSon, B.Comm.(V.P.M.)
Bruce H. Waite, B.Comm.(V.P.M.)

GUY, STEVENSON, PETHERBRIDGE - PROPERTY CONSULTANTS AND REGISTERED VALUERS

21 East Street, Papakura. P.O. Box 452, Papakura.
Phone (09) 299-7406, 299-6152.
2nd Floor, 3 Osterley Way, Manukau City.
P.O. Box 76-081, Manukau City.
Phone (09) 277-9529.
A. D. Guy, Val.Prof.Rural, A.N.Z.I.V.
K. G. Stevenson, Dip.V.F.M., Val.Prof.Urb., A.N.Z.I.V.
P. D. Petherbridge, M.N.Z.I.S., Dip.Urb.Val., A.N.Z.I.V.

HARCOURTS VALUATIONS LTD - REGISTERED VALUERS

D.F.C. Building, 350 Queen Street, Auckland.
P.O. Box 5872, Auckland.
Phone (09) 398-414. Facsimile 371-391.
M. T. Sprague, A.N.Z.I.V.
J. M. Dunn, A.N.Z.I.V.
R. T. Oliver, A.N.Z.I.V., A.R.E.I.N.Z.
I. Pike, B.Com.
A. E. Wright, B.Com.

HOLLIS & SCHOLEFIELD -
REGISTERED VALUERS, FARM MANAGEMENT
CONSULTANTS
Queen Street, Warkworth.
P.O. Box 165, Warkworth.

Phone (0846) 8810.
Station Road, Wellsford.
P.O. Box 121, Wellsford.
Phone (08463) 8847.
R. G. Hollis, Dip.V.F.M., F.N.Z.S.F.M., A.N.Z.I.V.
G. W. H. Scholefield, Dip.V.F.M., A.N.Z.I.V.

JENSEN, DAVIES & CO. LTD -
PROPERTY CONSULTANTS, MANAGERS & REGISTERED VALUERS
349 Remuera Road, Remuera, Auckland. P.O. Box 28-344, Remuera, Auckland 5. DX 782. Phone (09) 502-729, 545-992, 546-012.
Facsimile (09) 504-700.
Rex H. Jensen, Dip.Urb.Val., A.N.Z.I.V.
Alan J. Davies, Dip.Urb.Val., A.N.Z.I.V.
Dana A. McAuliffe, V.P.Urb., A.N.Z.I.V.
David R. Jans, Dip.Urb.Val., A.N.Z.I.V.
Bruce W. Somerville, Dip.Urb.Val., A.N.Z.I.V., A.R.E.I.N.Z., M.P.M.I.
Philip E. Brown, Dip.Urb.Val., A.N.Z.I.V. Ian
R. Armitage, V.P.Urb., A.N.Z.I.V.

LYONS HICKEY MITCHELL & ASSOCIATES -
REGISTERED VALUERS AND PROPERTY CONSULTANTS 153
Lake Road, Takapuna, Auckland 9.
P.O. Box 33-676, Takapuna, Auckland 9.
Phone (09) 456-212. DX 586.
L. P. Lyons, Dip.Urb.Val., A.N.Z.I.V.
J. A. Hickey, Dip.Urb.Val., A.N.Z.I.V.
J. B. Mitchell, Val., Prof., A.N.Z.I.V.
C. M. Keeling, B.P.A.

MARSH and IRWIN -
REGISTERED VALUERS AND PROPERTY CONSULTANTS
2 King Street, Pukekohe.
P.O. Box 89, Pukekohe.
Phone (085) 86-276.
W. R. Marsh, A.N.Z.I.V., Dip.V.F.M., M.P.M.I.
M. J. Irwin, A.N.Z.I.V., B.Ag.

JOHN F. McELHINNEY -
REGISTERED VALUER, REGISTERED FARM MANAGEMENT CONSULTANT
P.O. Box 12, Albany, Auckland.
Phone (09) 774-969.
John F. McElhinney, Dip.Ag., Dip.V.F.M., A.N.Z.I.V., M.N.Z.S.F.M.

PLATT AMESBURY & CO. -
REGISTERED VALUERS
238 Broadway, Newmarket, Auckland 1.
P.O. Box 9195, Newmarket, Auckland 1.
Phone (09) 542-390, 502-873.
Phil D. Platt, A.N.Z.I.V. Dip.VEM., A.R.E.I.N.Z.
Phillip R. Amesbury, Dip.Urb.Val., A.N.Z.I.V. Eileen
Fong, Dip.Urb.Val., A.N.Z.I.V.
Christopher G. Cardwell, B.P.A.

ROBERTSON, YOUNG, TELFER LTD
PROPERTY INVESTMENT CONSULTANTS, ANALYSTS & REGISTERED VALUERS
7th Floor, D.F.C. House,
Cnr 350 Queen and Rutland Streets, Auckland.
P.O. Box 5533, Auckland.
Phone (09) 798-956. Facsimile (09) 395-443.
R. Peter Young, B.Com., Dip.Urb.Val., F.N.Z.I.V., M.P.M.I.
M. Evan Gamby, Dip.Urb.Val., F.N.Z.I.V., M.P.M.I.
Bruce A. Cork, Dip.Urb.Val., A.N.Z.I.V., F.H.K.I.S., A.R.E.I.N.Z.
T. Lewis Esplin, Dip.Urb.Val., A.N.Z.I.V.
Ross H. Hendry, Dip.Urb.Val., A.N.Z.I.V.
Trevor M. Walker, Dip.Val., A.N.Z.I.V.
Iain W. Gribble, Dip.Urb.Val., A.N.Z.I.V.
Keith G. McKeown, Dip.Val.
Guy A. Perrett, B.P.A.
David Ching, B.Sc., B.P.A.
Consultant:
David H. Baker, F.N.Z.I.V.

SEAGAR & PARTNERS -
PROPERTY CONSULTANTS AND REGISTERED VALUERS 137
Kolmar Road, Papatoetoe.
P.O. Box 23-724, Hunters Corner.
Phone (09) 278-6909, 277-9369.
Level 3, 71 Symonds Street,

(Georgeson Bravo Tower), Auckland.
Phone (09) 392-116, 392,117, Facsimile (09) 392-471.
22 Picton Street, Howick.
P.O. Box 38-051, Howick.
Phone (09) 535-4540.
C. N. Seagar, Dip.Urb.Val., A.N.Z.I.V., M.P.M.I.
J. M. Kingstone, Dip.Urb.Val., Dip.V.F.M. A.N.Z.I.V.
M. A. Clark, Dip.Val. A.N.Z.I.V.
A. J. Gillard, Dip.Urb.Val., A.N.Z.I.V.
A. A. Appleton, Dip.Urb.Val., A.N.Z.I.V.
J. Fowler (Mrs), Dip.Urb.Val., A.N.Z.I.V.
W. C. Priest, B.Ag.Comm., A.N.Z.I.V.
I. R. McGowan, B.Com.(V.P.M.)
O. Westerlund, B.P.A.

SHELDON & PARTNERS -
REGISTERED VALUERS
GRE Building, Ground Floor, 12-14 Northcroft St., Takapuna.
P.O. Box 33-136, Takapuna.
Phone (09) 491-661 or 491-660.
Partners:
R. M. H. Sheldon, A.N.Z.I.V., N.Z.T.C.
A. S. McEwan, A.N.Z.I.V., Dip.Urb.Val.
B. R. Stafford-Bush, B.Sc., Dip.H.I.A., A.N.Z.I.V.
J. B. Rhodes, A.N.Z.I.V., Dip.Urb.Val.
Associates:
G. W. Brunsdon, N.Z.I.V., Dip.Urb.Val.
J. G. Edwards, B.P.A.

M. L. SVENSEN -
REGISTERED VALUER AND PROPERTY CONSULTANT
5th Floor, Lister Building, 9 Victoria Street East.
P.O. Box 1740, Auckland 1.
Phone (09) 732-336 (bus.), (09) 836-7503 (res.).
M. L. Svensen, F.R.E.I.N.Z., F.N.Z.I.V., M.P.M.I., A.C.I.Arb.

STACE BENNETT LTD -
REGISTERED VALUER AND PROPERTY CONSULTANT
97 Shortland Street, Auckland 1.
P.O. Box 1530, Auckland 1.
Phone (09) 33-484.
R. S. Gardner, F.N.Z.I.V., A.R.E.I.N.Z.
R. A. Fraser, A.N.Z.I.V., A.R.E.I.N.Z.
A. R. Gardner, A.N.Z.I.V.

WAIKATO

ARCHBOLD & CO. -
REGISTERED VALUERS AND PROPERTY MANAGEMENT CONSULTANTS
37 Thackeray Street, Hamilton.
P.O. Box 9381, Hamilton.
Phone (071) 390-155.
D. J. O. Archbold, J.P., A.N.Z.I.V., M.P.M.I., Dip.V.F.M.
K. B. Wilkin, A.N.Z.I.V., Dip.Ag., Dip.V.F.M.

CURNOW TIZARD -
REGISTERED VALUERS AND PROPERTY CONSULTANTS
1st Floor, Arcadia Building, Worley Place.
P.O. Box 795, Hamilton.
Phone (071) 383-232.
G. W. Tigard, A.N.Z.I.V., A.C.I.Arb., B.Agr.Comm.
P. A. Curnow, A.N.Z.I.V., A.C.I.Arb., M.P.M.I.

JORDAN GLENN & ASSOCIATES -
REGISTERED VALUERS AND PROPERTY CONSULTANTS
207 Mary Street, Thames.
P.O. Box 500, Thames.
Phone (0843) 88-963.
M. J. Jordan, A.N.Z.I.V., Val.Prof.Rural, Val.Prof.Urb.
J. L. Glenn, B.Agr.Comm., A.N.Z.I.V.

McKEGG DYMOCK FINDLAY & CO. -
REGISTERED PUBLIC VALUERS
P.O. Box 4013, Hamilton.
Phone (071) 395-063.
Hamish M. McKegg, A.N.Z.I.V., Dip.V.F.M., Val.Prof.Urb.
Wynne F. Dymock, A.N.Z.I.V., Val.Prof.Rur., Dip.Ag.
James T. Findlay, A.N.Z.I.V., Dip.V.F.M., Val.Prof.Urb., M.N.Z.S.F.M.

J. R. SHARP -
REGISTERED VALUER
12 Garthwood Road, Hamilton.

Professional Directory

P.O. Box 11-065, Hillcrest, Hamilton.
Phone (071) 63-656.

J. R. Sharp, Dip.V.F.M., A.N.Z.I.V., M.N.Z.S.F.M.

SPORLE, BERNAU & ASSOCIATES -
REGISTERED VALUERS, PROPERTY CONSULTANTS
Federated Farmers Building, 169 London Street, Hamilton.
P.O. Box 442, Hamilton.
Phone (071) 80-164.
P. D. Sporle, Dip.V.F.M., A.N.Z.I.V., M.N.Z.S.F.M.
T. J. Bernau, Dip.Mac., Dip.V.F.M., F.N.Z.I.V., M.N.Z.S.F.M.
L. W. Hawken, Dip.V.F.M., Val.Prof.Urb., A.N.Z.I.V.

ROTORUABAY OF PLENTY

CLEGHORN, GILLESPIE & ASSOCIATES -
REGISTERED VALUERS AND PROPERTY CONSULTANTS
Quadrant House, 77 Haupapa Street, Rotorua.
P.O. Box 2081, Rotorua.
Phone (073) 476-001, 89-338. Facsimile (073) 476-191.
W. A. Cleghorn, EN.Z.IN.
G. R. Gillespie, A.N.Z.I.V.
D. L. Janett, Dip.V.F.M., A.N.Z.I.V.
M. J. Jensen, A.N.Z.IN.

C. B. MORISON -
(INCORPORATING G. F. COLBECK & ASSOCIATES)
REGISTERED VALUER AND PROPERTY DEVELOPMENT
ADVISER
107 Heu Heu Street, Taupo.
P.O. Box 1277, Taupo.
Phone (074) 85-533.
C. B. Morison, B.E.(Civil), M.I.P.E.N.Z., M.I.C.E., A.N.Z.I.V.

JONES, TIERNEY & GREEN -
PUBLIC VALUERS AND PROPERTY CONSULTANTS
Appraisal House, 36 Cameron Road, Tauranga.
P.O. Box 295, Tauranga.
Phone (075) 81-648, 81-794.
Peter Tierney, Dip.V.F.M., F.N.Z.I.V.
Leonard T. Green, Dip.Urb.Val., A.N.Z.I.V.
J. Douglas VOSS, Dip.V.F.M., A.N.Z.I.V.
T. Jarvie Smith, A.R.I.B.A., A.N.Z.I.V., A.N.Z.I.A.
Murray R. Mander, Dip.V.F.M., F.N.Z.I.V.
David F. Boyd, Dip.V.F.M. A.N.Z.I.V.
Neil R. Parker, Dipval.
Malcolm P. Ashby, B.Agr.Comm., A.N.Z.I.V.

GROOTHUIS, STEWART, MIDDLETON & PRATT -
REGISTERED VALUERS, URBAN AND RURAL PROPERTY
CONSULTANTS
18 Wharf Street, Tauranga.
P.O. Box 455, Tauranga.
Phone (075) 84-675, 81-942.
Maunganui Road, Mt. Maunganui.
Phone (075) 56-386.
Jellicoe Street, Te Puke.
Phone (075) 38-220.
H. J. Groothuis, A.N.Z.I.V., M.P.M.I.
H. K. F. Stewart, A.N.Z.I.V., M.P.M.I., A.C.I.Arb.
A. H. Pratt, A.N.Z.I.V., M.P.M.I.
J. L. Middleton, A.N.Z.I.V., B.Ag.Sc., M.N.Z.I.A.S.

McDOWELL & CO. -
REGISTERED VALUERS
90 Eruera Street, Rotorua.
P.O. Box 1134, Rotorua.
Phone (073) 84-159.
I. G. McDowell, Dip.U.V., A.N.Z.I.V., A.R.E.I.N.Z., M.P.M.I.

REID & REYNOLDS -
REGISTERED VALUERS
13 Amohia Street, Rotorua.
P.O. Box 2121, Rotorua.
Phone (073) 81-059.
Ronald H. Reid, A.N.Z.I.V.
Hugh H. Reynolds, A.N.Z.I.V.

VEITCH & TRUSS -
REGISTERED VALUERS
1st Floor, 26-30 Heu Heu Street, Taupo.
P.O. Box 957, Taupo.

Phone (074) 85-812.

James Sinclair Veitch, Dip.V.F.M., Val.Prof.Urb., A.N.Z.I.V.
Donald William Truss, Dip.Urb.Val., Reg.Valuer, A.N.Z.I.V., M.P.M.I.
Robert John Clifford Mounsey, Dip.V.F.M., M.N.Z.S.F.M., Reg.Valuer

GISBORNE

BALL & CRAWSHAW -
REGISTERED VALUERS, PROPERTY CONSULTANTS
60 Peel Street, Gisborne.
P.O. Box 60, Gisborne.
Phone (079) 79-679.
R. R. Kelly, A.N.Z.I.V.

LEWIS & WRIGHT -
ASOCIATES IN RURAL AND URBAN VALUATION, FARM
SUPERVISION, CONSULTANCY, ECONOMIC SURVEYS
57 Customhouse Street, Gisborne.
P.O. Box 2038, Gisborne.
Phone (079) 79-339.
T. D. Lewis, B.Ag.Sc., Registered Farm Management Consultant.
P. B. Wright, Dip.V.F.M., Registered Valuer and Farm Management Consultant.
G. H. Kelso, Dip.V.F.M., Registered Valuer.

HAWKE'S BAY

ANDREW NURSE -
REGISTERED VALUER, REGISTERED FARM MANAGEMENT
CONSULTANT
Bower Street, Napier, P.O. Box 221, Napier.
Phone (070) 356-696. Facsimile (070) 350-557 Ext. 810.
W. A. Nurse, B.Agr.Com., A.N.Z.I.V., M.N.Z.S.F.M.

EDWARD RUSHTON NEW ZEALAND LIMITED -
REGISTERED VALUERS & PROPERTY CONSULTANTS
Dalton Street, Napier.
P.O. Box 269, Napier.
Phone (070) 356-254. Telex NZ 30706.
G. D. McCardle, A.N.Z.I.V.

GLYN M. JONES -
REGISTERED PUBLIC VALUER
102 Thompson Road, Napier.
P.O. Box 39, Taradale, Napier.
Phone (070) 58-873 Napier.
Glyn M. Jones, Dip.Ag., Dip.V.F.M., A.N.Z.I.V., M.N.Z.S.F.M., M.N.Z.A.S.C.

LOGAN STONE
REGISTERED PUBLIC VALUERS, PROPERTY MANAGEMENT
CONSULTANTS
207 Avenue Road East, Hastings.
P.O. Box 914, Hastings.
Phone (070) 66-401.
Gerard J. Logan, B.Agr.Com., A.N.Z.I.V., M.N.Z.S.F.M.
Roger M. Stone, A.N.Z.I.V., M.P.M.I.

MORICE & ASSOCIATES -
REGISTERED VALUERS, REGISTERED FARM MANAGEMENT
CONSULTANTS
80 Station Street, Napier.
P.O. Box 320, Napier.
Phone (070) 353-682.
S. D. Morice, Dip.V.F.M., A.N.Z.I.V., M.N.Z.S.F.M.
S. J. Mawson, A.N.Z.I.V., Val.Prof.Urb.

RAWCLIFFE & PLESTED -
REGISTERED PUBLIC VALUERS
20 Raffles Street, Napier.
P.O. Box 572, Napier.
Phone (070) 56-179.
T. Rawcliffe, F.N.Z.I.V.
M. C. Plested, A.N.Z.I.V.
M. I. Penrose, A.N.Z.I.V., V.P.U., Dip.V.F.M.

SIMKIN & ASSOCIATES LTD -
REGISTERED VALUERS, PROPERTY CONSULTANTS AND
MANAGERS
18 Dickens Street, Napier.
P.O. Box 23, Napier.
Phone (070) 357-599.
Dale L. Simkin, A.N.Z.I.V., A.R.E.I.N.Z., M.P.M.I.

TARANAKI

HUTCHINS & DICK -

PROPERTY INVESTMENT CONSULTANTS,
REGISTERED VALUERS, PROPERTY MANAGERS

53 Vivian Street, New Plymouth.
P.O. Box 321, New Plymouth.
Phone (067) 75-080.

117-119 Princess Street, Hawera.
Phone (062) 86-124.

Frank L. Hutchins, Dip.Urb.Val., A.N.Z.I.V.

A. Maxwell Dick, Dip.V.F.M., Dip.Agr., A.N.Z.I.V.

Mark A. Muir, V.P.Urb., A.N.Z.I.V.

Mark D. Bamford, Dip.Urb.Val., A.N.Z.I.V.

LARMER & ASSOCIATES -

REGISTERED VALUERS, PROPERTY MANAGERS AND
CONSULTANTS

51 Dawson Street, New Plymouth.
P.O. Box 713, New Plymouth.
Phone (067) 75-753.

J. P. Larmer, Dip.V.F.M., Dip.Agr., F.N.Z.I.V., M.N.Z.S.F.M.

R. M. Malthus, Dip.V.F.M., Dip.Agr., V.P.Urb., A.N.Z.I.V.

P. M. Hinton, VP.Urb., Dip.V.P.M., A.N.Z.I.V., M.P.M.I.

M. A. Myers, B.B.S.(Val. and Prop.Man.)

WANGANUI

ALAN J. FAULKNER -

REGISTERED VALUERS AND PROPERTY CONSULTANTS
Room 1, Bell House, 3 Bell Street, Wanganui.

P.O. Box 456, Wanganui.

Phone (064) 58-121. Facsimile (064) 56877.

A. J. Faulkner, A.N.Z.I.V., M.P.M.I.

HUTCHINS & DICK -

PROPERTY INVESTMENT CONSULTANTS, REGISTERED
VALUERS, PROPERTY MANAGERS
Corner Rutland Street & Market Place, Wanganui.

P.O. Box 242, Wanganui.

Phone (064) 58-079.

Mark A. Bamford, Dip.Urb.Val., A.N.Z.I.V.

CENTRAL DISTRICTS

TREVOR D. FORD -

REGISTERED VALUERS

108 Fergusson Street, Feilding.

P.O. Box 217, Feilding.

Phone (063) 38-601.

Michael T. D. Ford, A.N.Z.I.V., A.R.E.I.N.Z.

COLIN V. WHITTEN -

REGISTERED VALUER & PROPERTY CONSULTANT

1st Floor, Amesbury Court Building,
28 Amesbury Street, Palmerston North

P.O. Box 116, Palmerston North.

Phone (063) 76-754.

Colin V. Whitten, A.N.Z.I.V., F.R.E.I.N.Z.

HARCOURTS VALUATIONS LTD -

REGISTERED VALUERS

109 Fitzherbert Avenue.

P.O. Box 109, Palmerston North.

Phone (063) 62-314. Facsimile 64-038.

T. H. C. Taylor, Dip.Bus.Ad., A.N.Z.I.V., M.P.M.I.

MACKENZIE TAYLOR & CO -

REGISTERED VALUERS & PROPERTY CONSULTANTS

Midway Plaza, Cnr Broadway Ave & Albert Street,
Palmerston North.

P.O. Box 259, Palmerston North.

Phone (063) 64-900.

G. J. Blackmore, A.N.Z.I.V.

H. G. Thompson, A.N.Z.I.V., A.R.E.I.N.Z.

G. M. Dowse, B.B.S. (Val.&Prop.Mgt.)

G. C. Taylor, A.N.Z.I.V., F.R.E.I.N.Z., A.F.N.Z.I.M.

J. P. MORGAN & ASSOCIATES -

REGISTERED VALUERS, PROPERTY CONSULTANTS

222 Broadway and Cnr Victoria Avenue, Palmerston North.

P.O. Box 281, Palmerston North.

Phone (063) 62-880. Facsimile (063) 69-011.

32 Tuwharetoa Street, Taupo.

P.O. Box 318, Taupo.

Phone (074) 82-297.

J. P. Morgan, F.N.Z.I.V., A.R.E.I.N.Z.

P. J. Goldfinch, F.N.Z.I.V.

M. A. Ongley, A.N.Z.I.V.

A. F. Thomson, A.N.Z.I.V.

D. P. Roxburgh, A.N.Z.I.V.

B. G. Kensington, A.N.Z.I.V., B.B.S.(Val. & Prop.Man.)

F. H. Van Velthooven, A.N.Z.I.V., B.A., B.Comm.(Val. & Prop.Man.)

BRIAN WHITE & ASSOCIATES -

REGISTERED PUBLIC VALUERS, PROPERTY CONSULTANTS

170 Broadway Avenue, Palmerston North.

P.O. Box 9052, Palmerston North.

Phone (063) 61-242.

Brian E. White, A.N.Z.I.V., A.R.E.I.N.Z., M.P.M.I.

Mark F. Gunning, A.N.Z.I.V., B.B.S.

WELLINGTON

DARROCH & CO. LTD

REGISTERED VALUERS AND PROPERTY CONSULTANTS

279 Willis Street, Wellington.

P.O. Box 27-133, Wellington.

Phone (04) 845-747. Facsimile (04) 842-446 DX 9029.

Telex NZ30035 Answerback DSCO.

D. M. Simpson, A.N.Z.I.V.

G. J. Horsley, F.N.Z.I.V., A.C.I.Arb., M.P.M.I.

C. W. Nyberg, A.N.Z.I.V., A.R.E.I.N.Z.

A. G. Stewart, R.Com., Dip.Urb.Val., EN.Z.I.V., A.R.E.I.N.Z., A.C.I.Arb., M.P.M.I.

G. Kirkcaldie, A.N.Z.I.V.

M. A. Horsley, A.N.Z.I.V.

J. Irik, B.B.S.

A. P. Washington, B.Com., V.P.M.

A. H. Evans, B.B.S.

EDWARD RUSHTON NEW ZEALAND LIMITED

7-11 Dixon Street, Wellington.

P.O. Box 6268, Wellington.

Phone (04) 852-986. Telex NZ 31401.

Facsimile (04) 852-183.

K. D. C. Gifford, B.B.S., A.N.Z.I.V.

HARCOURTS VALUATIONS LTD -

REGISTERED VALUERS

M.L.C. Building, Cnr Hunter Street and Lambton Quay.

P.O. Box 151, Wellington.

Phone (04) 726-209. Facsimile 733-380.

Cnr High Street and Waterloo Road.

P.O. Box 30-330, Lower Hutt.

Phone (04) 692-096. Facsimile 691-238.

W. M. Smith, A.N.Z.I.V., A.C.I., Arb.M.P.M.I.

R. S. Arlidge, A.N.Z.I.V.

P. W. Senior, A.N.Z.I.V.

D. R. Hutchins, A.N.Z.I.V.

G. H. Smith, A.N.Z.I.V.

C. H. B. Beattie, A.N.Z.I.V.

N. A. Harvey, B.Comm., V.P.M.

T. M. Truebridge, B.Agr.(Val.)

S. G. Bond, B.B.S.

M. Harte, B.B.S.

R. H. Fisher, A.N.Z.I.V., A.C.A., F.R.E.I.N.Z., M.P.M.I.

R. V. Thompson, A.N.Z.I.V., A.R.E.I.N.Z., F.P.M.I.

W. F. W. Leckie, A.N.Z.I.V., A.R.E.I.N.Z., M.P.M.I.

G. R. Coreleison, A.N.Z.I.V.

S. E. Mackay, &B.S., A.N.Z.I.V.

HOLMES DAVIS -

REGISTERED VALUERS AND PROPERTY CONSULTANTS 1

High Street, Lower Hutt.

P.O. Box 30590, Lower Hutt.

Phone (04) 663-529, 698-483.

A. E. Davis, A.N.Z.I.V.

Consultant:

P. R. Holmes, A.R.E.I.N.Z., A.C.I.Arb., F.N.Z.I.V.

Associates:

M. T. Sherlock, B.B.S., N.Z.I.V.

McGREGOR SELLARS LTD -

REGISTERED PUBLIC VALUERS, ARBITRATORS AND

PROPERTY CONSULTANTS

Wellington Office: Westbrook House, 181 Willis Street.

P.O. Box 2653.

Phone (04) 851-508. Facsimile (04) 851-509.

Professional Directory

Porirua Office: The Enterprise Centre, Hartham Place.
Phone (04) 374-033.

Directors:

Gordon Robert McGregor, A.N.Z.I.V.
Michael Andrew John Sellars, A.N.Z.I.V.
William Donald Bunt, A.N.Z.I.V.

Associates:

Bernard Patrick Sherlock, B.B.S.
Warwick Edward Quinn, A.N.Z.I.V.
Robert John Cameron, B.B.S.

S. GEORGE NATHAN & CO. LTD -

VALUERS, ARBITRATORS AND PROPERTY CONSULTANTS
190-198 Lambton Quay, Wellington.

P.O. Box 5117, Wellington.
Phone (04) 729-319 (12 lines).
Telex NZ 3553 (Code Wn 11).

Michael J. Nathan, F.N.Z.I.V., A.R.E.I.N.Z., P.M.C.

Stephen M. Stokes, A.N.Z.I.V.

Allen D. Beagley, B.Ag.Sc.

112-114 High Street, Lower Hutt.

P.O. Box 30520, Lower Hutt.

Phone (04) 661-996.

ROBERTSON YOUNG TELFER LTD

PROPERTY INVESTMENT CONSULTANTS, ANALYSTS &
REGISTERED VALUERS

General Building, Waring Taylor Street, Wellington 1.

P.O. Box 2871, Wellington.

Phone (04) 723-683. Facsimile (04) 781-635.

B. J. Robertson, F.N.Z.I.V.

M. R. Hanna, F.N.Z.I.V., F.C.I.Arb.

A. L. McAlister, F.N.Z.I.V.

J. N. B. Wall, EN.Z.I.V., F.C.I.Arb., Dip.Urb.Val.

R. F. Fowler, A.N.Z.I.V.,

A. J. Brady, A.N.Z.I.V.

W. J. Tiller, A.N.Z.I.V.

T. J. Reeves, A.N.Z.I.V.

D. S. Wall, A.N.Z.I.V.

T. E. Edney, B.B.S.

TSE GROUP LIMITED -

REGISTERED VALUERS AND PROPERTY CONSULTANTS
61 Hopper Street, Wellington.

P.O. Box 6643, Wellington.

Phone (04) 842-029, Fax (04) 845 065.

B. A. Blades, B.E., M.I.P.E.N.Z., A.N.Z.I.V., M.P.M.I.

K. J. Tonks, A.N.Z.I.V., M.P.M.I.

J. D. Stanley, A.N.Z.I.V. (Urban & Rural)

NELSON/MARLBOROUGH

A. GOWANS & ASSOCIATES -

REGISTERED PUBLIC VALUERS, PROPERTY CONSULTANTS
(URBAN & RURAL)

300 Trafalgar Street, Nelson.

P.O. Box 621, Nelson.

Phone (054) 88-048, 89-540.

A. W. Gowans, A.N.Z.I.V., A.N.Z.I.I.

J. N. Hartley, A.N.Z.I.V.

I. D. McKeage, R.Com., A.N.Z.I.V.

HADLEY & LYALL -

REGISTERED VALUERS AND PROPERTY CONSULTANTS
68 Seymour Street, Blenheim.

P.O. Box 65 Blenheim.

Phone (057) 80-474.

Ian W. Lyall, EN.Z.I.V.

Chris S. Orchard, A.N.Z.I.V.

HAYWARD ROBERTS & ASSOCIATES -

REGISTERED VALUERS, PROPERTY INVESTMENT,
DEVELOPMENT AND MANAGEMENT CONSULTANTS
P.O. Box 768 Blenheim.

Phone (057) 89-776.

A. C. (Lex) Hayward, Dip.V.F.M., A.N.Z.I.V.

Brian P. Roberts, Dip.V.F.M., Val.Prof.Urb., A.N.Z.I.V.

Consultant:

Ivan C. Sutherland, Dip.V.F.M., A.N.Z.I.V.

ANGUS S. McDONALD -

REGISTERED VALUER, PROPERTY CONSULTANT,
PROPERTY MANAGER

1st Floor, 134 Bridge Street, Nelson.

P.O. Box 4033, Nelson South.

Phone (054) 84-723.

A. S. McDonald, A.N.Z.I.V., M.P.M.I.

DICK BENNISON -

REGISTERED VALUER AND FARM MANAGEMENT
CONSULTANT

Appraisal House, 306 Hardy Street, Nelson.

Phone (054) 89-104 (work), (054) 84-285 (home).

R. Bennison, B.Ag.Com.Dip.Ag., A.N.Z.I.V., M.N.Z.F.M.

DUKE & COOKE -

REGISTERED PUBLIC VALUERS AND PROPERTY
CONSULTANTS

306 Hardy Street, Nelson.

Phone (054) 89-104.

Peter M. Noonan, A.N.Z.I.V.

Murray W. Lauchlan, A.N.Z.I.V., A.R.E.I.N.Z.

Dick Bennison, B.Ag.Comm., Dip.Ag., A.N.Z.I.V., M.N.Z.S.F.M.

Consultant:

Peter G. Cooke, F.N.Z.I.V.

LINDSAY A. NEWDICK -

REGISTERED PUBLIC VALUER, RURAL AND URBAN
P.O. Box 830, Blenheim.

Phone (057) 88-577.

Lindsay A. Newdick, Dip.Ag., Dip.V.F.M., A.N.Z.I.V., A.R.E.I.N.Z.

CANTERBURY/WESTLAND

BAKER BROS. (ESTATE AGENTS) LTD -

VALUERS

153 Hereford Street, Christchurch.

P.O. Box 43, Christchurch.

Phone (03) 62-083.

Robert K. Baker, LL.B., F.N.Z.I.V., F.R.E.I.N.Z.

Gordon E. Whale, F.N.Z.I.V., A.R.E.I.N.Z.

Errol M. Saunders, A.N.Z.I.V.

BENNETT, G. M. -

REGISTERED PUBLIC VALUER

Specialised Consultant Services (PROPERTY)

URBAN and RURAL

10 Hunters Road, P.O. Box 34 Diamond Harbour,

Canterbury.

Phone DHB 472 (03) 294-472

G. M. Bennett, Dip.V.F.M., A.N.Z.I.V., M.N.Z.I.A.S.

FRIGHT AUBREY -

REGISTERED VALUERS AND PROPERTY CONSULTANTS

307 Durham Street, Christchurch.

P.O. Box 966, Christchurch.

Phone (03) 791-438. Facsimile (03) 791-489.

R. H. Fright, EN.Z.I.V., A.R.E.I.N.Z., M.P.M.I.

R. A. Aubrey, A.N.Z.I.V.

G. B. Jarvis, A.N.Z.I.V.

G. R. Sellars, A.N.Z.I.V.

E. D. Alexander, A.N.Z.I.V.

M. J. Wright, B.Com(V.P.M.)

J. R. Kingston, F.N.Z.I.V. (Rural Associate)

HAYWARD ROBERTS & ASSOCIATES

REGISTERED VALUERS, PROPERTY INVESTMENT,
DEVELOPMENT AND MANAGEMENT CONSULTANTS

P.O. Box 768 Blenheim.

Phone (057) 89-776, (03) 252-679.

Brian P. Roberts, Dip.V.F.M., Val.Prof.Urb., A.N.Z.I.V.

HARCOURTS VALUATIONS LTD -

REGISTERED VALUERS

42 Rotherham Street, Riccarton.

P.O. Box 8054, Christchurch.

Phone (03) 488-784. Facsimile 480-920.

N. J. Johnson, A.N.Z.I.V.

B. N. Williams, A.N.Z.I.V.

ROBERTSON YOUNG TELFER LTD

PROPERTY INVESTMENT CONSULTANTS, ANALYSTS
& REGISTERED VALUERS

93-95 Cambridge Terrace, Christchurch.

P.O. Box 2532, Christchurch.

Phone (03) 797-960. Facsimile (03) 794-325.

Ian R. Telfer, EN.Z.I.V., A.R.E.I.N.Z.

Professional Directory

Roger E. Hallinan, Dip.Urb.Val., F.N.Z.I.V., A.R.E.I.N.Z.
Roger A. Johnston, A.N.Z.I.V.
Alan J. Stewart, Dip.V.F.M., A.N.Z.I.V. (Urban & Rural)
Chris N. Stanley, A.N.Z.I.V.
John A. Ryan, A.N.Z.I.V., A.A.I.V.
Mark A. Beatson, B.Comm., (V.P.M. - Urban & Rural)
Mark G. Dunbar, B.Comm., (V.P.M. - Urban & Rural)

SIMES VALUATION

A DIVISION OF W. E. SIMES & CO. LTD -
URBAN AND RURAL VALUERS, PROPERTY INVESTMENT
CONSULTANTS
239 Manchester Street, Christchurch.
P.O. Box 13-341, Christchurch.
Phone (03) 790-604. Facsimile (03) 793-107.
Peter J. Cook, Val.Prov.(Urb.), A.N.Z.I.V., F.R.E.I.N.Z.
Wilson A. Penman, Val.Prof.(Urb.), A.N.Z.I.V.
Bruce H. Alboin, Val. Prof.(Urb.), A.N.Z.I.V., A.R.E.I.N.Z.
Thomas I. Marks, Dip.V.F.M., B.Agr.Com., A.N.Z.I.V.
David W. Harfils, Val.Prof.(Urb.), A.N.Z.I.V.
Lennie M. Freeman, M.Com.(V.P.M.)Hons.

SOUTH CANTERBURY

FITZGERALD & ASSOCIATES -
REGISTERED PUBLIC VALUERS, PROPERTY MANAGEMENT
CONSULTANTS
49 George Street, Timaru.
P.O. Box 843, Timaru.
Phone (056) 47-066.
E. T. Fitzgerald, Dip.Ag., Dip.V.F.M., V.P.(Urb.), A.N.Z.I.V., M.N.Z.S.E.M.
L. G. Schrader, B.Ag.Com.(V.E.M.), A.N.Z.I.V.

COLIN McLEOD & ASSOCIATES LTD -
REGISTERED VALUERS
324 East Street, Ashburton.
P.O. Box 119.
Phone (053) 88-209.
Colin M. McLeod, A.N.Z.I.V., A.R.E.I.N.Z.
Paul J. Cunnen, B.Ag.Com.(V.E.M.), A.N.Z.I.V.

MORTON & CO. LTD -
REGISTERED PUBLIC VALUERS AND PROPERTY
MANAGEMENT CONSULTANTS
11 Cains Terrace, Timaru.
P.O. Box 36, Timaru.
Phone (056) 86-051.
G. A. Morton, A.N.Z.I.V., A.R.E.I.N.Z., V.P.(Urb.).
H. A. Morton, A.N.Z.I.V., A.R.E.I.N.Z.

REID & WILSON -
REGISTERED VALUERS
167-169 Stafford Street, Timaru.
P.O. Box 38, Timaru.
Phone (056) 84-084.
C. G. Reid, F.N.Z.I.V., F.R.E.I.N.Z.
R. B. Wilson, A.N.Z.I.V., F.R.E.I.N.Z.

OTAGO

W. O. HARRINGTON -
REGISTERED VALUER AND FARM MANAGEMENT
CONSULTANT
P.O. Box 760, Dunedin.
Phone (024) 779-466.
Wm. O. Harrington, Dip.V.F.M., F.N.Z.I.V., A.R.E.I.N.Z., M.N.Z.S.F.M.

LANDCO APPRAISAL LTD -
PUBLIC VALUERS
Central Mission Building, 35 The Octagon, Dunedin.
P.O. Box 587, Dunedin.
Phone (024) 773-183, 740-103. Facsimile (024) 771-868.
Trevor J. Croot, A.N.Z.I.V.
Kevin R. Davey, A.N.Z.I.V., A.R.E.I.N.Z.
Alex P. Laing, B.Com., Dip.Ag., Dip.V.F.M., F.N.Z.I.V., A.C.A.
Frank E. Spencer, B.B.S.(V. & P.M.), A.N.Z.I.V.
Tim A. Crighton, B.Com.(Ag.)

J. O. MACPHERSON & ASSOCIATES -
REGISTERED VALUERS (URBAN AND RURAL), PROPERTY
AND MANAGEMENT CONSULTANTS
Westpac Building, 169 Princes Street, Dunedin.
P.O. Box 497, Dunedin.

Phone (024) 775-796. Facsimile (024) 772-512.
G. E. Burns, Dip.Urb.Val., F.N.Z.I.V., F.P.M.I.
J. A. Fletcher, A.N.Z.I.V., A.R.E.I.N.Z., M.P.M.I.
W. S. Sharp, A.N.Z.I.V.
J. Duncley, B.Ag.Com., A.N.Z.I.V.
B. E. Paul, A.N.Z.I.V.
D. M. Barnsley, Dip.Urb.Val., A.N.Z.I.V.
G. J. Paterson, A.N.Z.I.V.
Consultant:
J. O. Macpherson, Dip.Urb.Val. F.N.Z.I.V.

PATERSON CAIRNS & ASSOCIATES -
REGISTERED VALUERS AND PROPERTY MANAGEMENT
CONSULTANTS
8-10 Broadway, Dunedin.
P.O. Box 221, Dunedin.
Phone (024) 778-693.
M. C. Paterson, B.Com., M.I.S.N.Z., A.N.Z.I.V., F.R.E.I.N.Z.
Stephen G. Cairns, B.Com.(V.P.M.), A.R.E.I.N.Z.

SOUTHLAND

BRISCOE & MUNYARD -
REGISTERED VALUERS AND PROPERTY CONSULTANTS
183 Terrace Street, Invercargill.
P.O. Box 1523, Invercargill.
Phone (021) 44-471.
62 Milford Road, Te Anau.
Phone (0229) 7466.
J. W. Briscoe, Dip.V.F.M., F.N.Z.I.V., M.N.Z.S.F.M.
S. M. Munyard, A.N.Z.I.V.

J. O. MACPHERSON & ASSOCIATES -
REGISTERED VALUERS AND PROPERTY CONSULTANTS
1st Floor, 182 Dee Street, Invercargill.
P.O. Box 535, Invercargill.
Phone (021) 87-378, 87-377.
Wayne John Wootton, A.N.Z.I.V., M.P.M.I.
M. Aslin, Dip.Urb.Val. A.N.Z.I.V.

DAVID MANNING & ASSOCIATES -
REGISTERED VALUERS, REGISTERED FARM MANAGEMENT
CONSULTANTS AND PROPERTY MANAGEMENT
CONSULTANTS
97 Tay Street, Invercargill.
P.O. Box 1747, Invercargill.
Phone (021) 44-042.
D. L. Manning, Dip.V.F.M., A.N.Z.I.V., M.N.Z.S.F.M., Val.Prof.Urb., M.P.M.I.

ROBERTSON CHADDERTON -
REGISTERED PUBLIC VALUERS & PROPERTY
MANAGEMENT CONSULTANTS
231 Dee Street, Invercargill.
P.O. Box 738 Invercargill.
Phone (021) 89958.
Tony J. Chadderton, Dip.Val., A.N.Z.I.V., A.R.E.I.N.Z., M.P.M.I.
Barry J. Robertson, A.N.Z.I.V., A.R.E.I.N.Z., M.P.M.I.

ROBERTSON AND ASSOCIATES -
REGISTERED PUBLIC VALUERS, PROPERTY
DEVELOPMENT AND MANAGEMENT CONSULTANTS
Bay Centre, 62 Shotover Street, Queenstown.
P.O. Box 591 Queenstown.
Phone (0294) 27763. Facsimile (0294) 27113. Bartly J.
P. Robertson, A.N.Z.I.V., A.R.E.I.N.Z., M.P.M.I. Kelvin R.
Collins, B.Com. V.P.M.

QUEENSTOWN-SOUTHERN LAKES APPRAISALS -
REGISTERED VALUERS AND PROPERTY CONSULTANTS
7 Shotover Street, P.O. Box 583 Queenstown.
Phone (0294) 29-758.
Principal:
Dave B. Fea, B.Com.(Ag), A.N.Z.I.V., A.N.S.F.M.

OVERSEAS

SEE SAN APPRAISAL PTE. LTD -
INTERNATIONAL PROPERTY CONSULTANTS
151 Chin Swee Road No.02-20, Manhattan House, Singapore 0316.
Phone 7335688.
Telex RS 39460 NSP.
Associated Offices in New Zealand, United Kingdom, United States
of America, Malaysia and Indonesia.
Lee See San, Dip.Urb.Val.(Auckland), A.N.Z.I.V., F.S.I.S.V., Registered Valuer.

Publications and Services available from the New Zealand Institute of Valuers

(ADDRESS ALL ENQUIRIES TO THE GENERAL SECRETARY, P.O. BOX 27-146, WELLINGTON)
PRICES QUOTED INCLUDE G.S.T. PACKAGING & POSTAGE RATES ARE FOR SINGLE COPIES -
PLEASE ADD TO CHEQUE.

(FOR MULTIPLE COPIES PACKAGING & POSTAGE WILL BE CHARGED SEPARATELY)
CHEQUES TO BE MADE PAYABLE TO NEW ZEALAND INSTITUTE OF VALUERS

PUBLICATION	PRICE (G.S.T. (INCLUSIVE)	PLUS PACKAGING AND POSTAGE
ACCOUNTING FOR PROPERTY DEVELOPMENT (Edited - R. T. M. Whipple)	38.50	.95
A CRITICAL ANALYSIS OF THE INCOME APPROACH TO VALUING REVENUE PRODUCING REAL ESTATE (Lincoln W. North) 1985	16.50	.95
AN INVESTIGATION INTO METHODS OF VALUING HORTICULTURAL PROPERTIES (J. L. Comely & R. V. Hargreaves)	16.50	.70
COMMERCIAL RENT REVIEWS (R. T. M. Whipple)	38.50	.95
FINANCIAL APPRAISAL (Squire L. Speedy) 1982	38.50	1.50
ASSET VALUATION STANDARDS (N.Z.I.V. 1985) (Issued free to Members, otherwise by subscription)	22.00	1.50
GUIDANCE NOTES ON VALUATION OF COMPANY PROPERTY ASSETS FOR CURRENT COST ACCOUNTING (C.C.A.)	5.50	1.50
LAND COMPENSATION (Squire L. Speedy) 1985	55.00	1.50
LAND TITLE LAW (J. A. B. O'Keefe)	3.30	.70
LEASING AND ALTERNATIVE FORMS OF LAND TENURE (Various Authors) Papers from (1985) N.Z.I.V. Seminar	11.00	.70
METRIC CONVERSION TABLES	3.30	.70
MODAL HOUSE SPECIFICATIONS/QUANTITIES 1983	11.00	.70
N.Z. VALUER (Back Copies where available)	1.10	.70
N.Z. VALUER (Index Vols. 20-26; 1967-86)	1.10	.70
REAL ESTATE VALUATION REPORTS AND APPRAISALS (R. T. M. Whipple)	38.50	.95
RESIDENTIAL RENT CONTROLS IN N.Z. (J. G. Gibson & S. R. Marshall)	16.50	.70
THE NEW ZEALAND VALUERS' JOURNAL (Back copies where available)	2.75	.70
THE NEW ZEALAND VALUERS' JOURNAL (1988 Subscription)	39.60	-
THE NEW ZEALAND VALUERS' JOURNAL - per copy current year	9.90	.70
URBAN VALUATION IN N.Z. - Vol.1 (R. L. Jefferies 1978) (Bulk orders of ten (10) copies or more \$27.50 per copy plus postage and packaging)	30.80	2.90
VALUATION OF UNIT TITLES (M. A. Norton) 1975	2.75	.70
VALUATION OF FIXED ASSETS FOR FINANCIAL STATEMENTS Published by The International Assets Valuation Standards Committee	61.65	.90
THE PRINCIPLES AND PRACTICE OF RATING & RATING VALUATIONS IN N.Z. (J. A. B. O'Keefe)	25.30	2.90
VALUERS HANDBOOK (Revised 1984)	22.00	1.50
Services to Statistical Bureau Members		
MEMBERSHIP SUBSCRIPTION (Included in 'service' subscription)	-	-
STATISTICAL BULLETINS - Valuers	33.00	-
- Non-Valuers	66.00	-
- Students	22.00	-
SALES INFORMATION (Tape/Diskette form, Microfiche Lists)	P.O.A.	-
Miscellaneous		
CERTIFICATE OF VALUATION FOR INSURANCE PURPOSES (Pads of 100 Forms)	11.00	1.50
VALUATION CERTIFICATE - PROPERTY ASSETS (Pads of 100 Forms)	11.00	1.50

Printed by Devon Colour Printers Ltd, P.O. Box 40-020, Glenfield, Auckland.
Typesetting by Cotswold Typesetting Ltd, P.O. Box 33-591, Takapuna, Auckland 9. Phone (09) 498-152.

