# THE NEW ZEALAND VALUER

## MARCH 1989

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# The New Zealand VALUERS' JOURNAL

MARCH 1989 JUBILEE ISSUE



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# Fifty Years On....

## Guest Editorial by R J Maclachlan

This is the Jubilee year of our Institute. It was founded late in 1938 and incorporated in 1939 by amalgamating the N Z Government Valuers' Institute, the North Island Land Valuers' Association and the Auckland Valuers' and Arbitrators' Association as well as taking in municipal and practising valuers who were not attached to any existing organisation.

The first list of members published as at 30 September 1939 shows that the fledgling institute had in its foundation period recruited a total of 329 members. Today's membership is approaching 2000 and it is a pleasure to record that 24 of these are now celebrating 50 years of membership.

It is pertinent at this point in time to look at the reasons for which the Institute was founded and to consider what it has achieved. Quite a comprehensive constitution containing 133 clauses was adopted in 1939. This included the objects for which the Institute was established and the principal ones can be summarised as follows:

- To raise the status and advance the interests of the profession.
- To unite valuers into one body, to improve the technical knowledge of valuers, to provide for the training and education of students, to test by examination.
- To promote a high standard of integrity and efficiency.
- To provide opportunities for interchange of ideas.

The objects further provided for the establishment of branches, framing a scale of professional fees, the publication of books and periodicals and the granting of prizes and rewards. Altogether the objects can be said to have been very comprehensive.

Initially there were seven branches: Auckland (which included Northland, Waikato, Rotorua/Bay of Plenty, and Gisbome), Central Districts (then including Taranaki and Hawkes Bay), Wellington (then including Nelson/Marlborough), Canterbury/Westland, South Canterbury, Otago and Southland. As a 22-year-old in February 1939, just starting training as an urban valuer in the Valuation Department at Auckland, I joined the Auckland Branch and was its Branch Secretary in 1940/4 1. I well remember sending out meeting notices to the far flung membership of that branch.

The Institute was less than a year old when World War 2 broke out. This restricted the Institute's early development. By 1942 although the membership had increased to 439,112 of these were on military service, the most distinguised of these being Captain C H Upham, VC and Bar, a South Canterbury branch member.

With branch activity virtually at a standstill, there came what proved to be the birth of the Institute's Journal with the issue in cyclostyled form in February 1942 of a three-page bulletin. Successive bulletins at three-monthly intervals grew in size until the last cyclostyled one of 13 pages. In December 1943, theNZ *Valuers'B ulletin* No 8 of 24 pages was a printed publication issued "free to members and available at 6d a copy otherwise". From that time on the Institute's quarterly publication has been an outstanding feature. Known for many years as the *New Zealand Valuer* and more recently renamed the New *Zealand Valuers' Journal,* this is the 189th issue. Much of its success has been due to a succession of devoted and competent editors. It is today recognised as a journal of high standard in the professional field.

In 1943 the Servicemens' Settlement and Land Sales Act stabilised property prices at the levels operating at 15 December 1942. Every property transaction had to be approved by local land sales committees with a right of appeal to the Land Sales Court set up under the Act. As a result there was a heavy demand for valuations and this continued until the controls were finally lifted in the early 1950s. What the legislation showed up was the wide differences in the competence of valuers giving evidence before committees.

As a result of this legislation there was a boost in the Institute's membership. Afterremaining static ataround439 for three years, it jumped in the next five years to a total of 839, the figure at which it stood when the Valuers Act was passed in 1948.

*R J Maclachlan is a Life Member of the NZ Institute of Valuers and lives in retirement in Wellington.*

*He joined the Institute as a student in Auckland in* 1939 *and in 1940 was one of the first graduates to receive the Diploma in Urban Valuation from Auckland University. He served asAuckand Branch Secretary in 1940 to 1941* when *he transferred to Canterbury/Westland and then tranferred again in 1942 to Wellington. He attained Associate membership of the Institute in 1944 and wasawarded Fellow membership in 1951. MrMaelachlan was elected to the Wellington Branch Committtee in 1950 and served until1959 being Chairman for* five *of those years.*

*At national level he served on the Education Commitee 1948-59, Executive Committee 1951-57, 1959-85, being Chairman from 1955-57 and 1968-70. He was the Wellington Branch Councillor 1951-58 and* was *Dominion President 1955-57.*

*Mr Maclachlan had a full and varied career in the State Services as a valuer, rising to the position of Valuer General 1957-59,* as *Public Service Commissioner* 1959-62 *and to Director General ofLandsfromwhichposition he retired in 1974. Howeverretirement from the Public Service was not the end of Mr Maclachlan's working life as he was an Associate Member of the Administrative Division of the High Court from 1974-1985.*

The Land Sales legislation had shown how important was the work of land valuers and pinpointed the need for professional ability and competence. The Valuers Act recognised the profession, provided for the registration of valuers and for compulsory membership of the Institute. The Institute became a statutory body and in the new rules required in terms of the Act, an important aspect was the provision of a Code of Ethics. There had been a Code adopted in 1946 but the new code was more comprehensive. Perhaps the most important requirement was that a valuer "should not undertake any valuing work for which he is not qualified and where he is in any doubt as to the adequacy of his professional experience to undertake the work".

When the Institute was formed, a mere handful of members had any academic qualifications in valuation. These were the ones who had completed the Diploma in Valuation and Farm Management from Lincoln Agricultural College first available in 1938. The Diploma in Urban Valuation at Auckland University College (as it was then) which commenced in 1939 did not produce its first graduates until the end of 1940.

The Institute decided to offer its own examinations for those who were unable to attend the university courses at Lincoln and Auckland and brochures forboth urban and rural examinations were issued in 1945. The first examinations were held in April 1947 and the first candidate to complete the urban examination did so in 1951. The initial problem was one of tuition.

There were no text books directly applicable to the various subjects and candidates had to prepare themselves as best they could. Some branches were able to organise tutorial classes in some subjects to give a little assistance to candidates. At this point the Technical Correspondence School of the Education Department came to the rescue and commissioned tuition material for several of the subjects.

To cover the law subject, Mr J P McVeagh, who as a law draftsman was closely associated with the profession, wrote his book on Land Valuation Law in New Zealand. The student notes on urban valuation and economics became available in cyclostyled book form to Institute members in 1952.

The examination syllabus was revised in 1952 and again in 1965 and, with the removal of the rural/urban differential in registration, there was an amalgamation of the rural and urban examinations in 1973. By 1978 arrangements had been made for new university courses which provided for extramural study and the need for the Institute to conduct its own examinations was over. It was decided that the Institute examinations would be withdrawn by 1982.

There does not appear to be a record of the number completing the Institute's qualifying examinations over the period of over 30 years but it must have been considerable. In the busiest years almost 40 students passed the practical and oral examinations to complete their qualification and a significant number of the present membership must have succeeded in this way.

The importance of the Institute's role in the provision of examinations and in the organising of tuition in the universities cannot be over-emphasised.

There has been a continuing education programme in recent years with the holding of seminars both at the time and place of Institute's annual general meeting and at branch level.

The Institute has sponsored quite an important list of books over the years. In 1959 it published *Principles and Practice of Urban Valuation in New Zealand* to replace the 1952 cylostyled publication.

This was to remain the principal text available to members and students for nearly two decades. *Urban Valuation in New Zealand Part 1* was published in 1978 and Part 2 is currently in preparation. In the last 10 years, other books written by members on aspects of valuation and law have been published by the Institute.

The statistical side of the Institute's work was recognised at the outset with the setting up of the Statistical Bureau Commitee. From its early work there developed the modal house concept which played such an important role in the Land Sales era of the forties and which has continued to be an essential tool available to valuers.

The Statistical Bureau has for many years published the Statistical Bulletin on a monthly basis and provided property sales and other information for subscribers to the service. Statistical newsletters which included local building costs have been a feature of branch activity.

On the international scene, too, the Institute has been active. It participated in the first Pan Pacific Congress of Real Estate Appraisers, Valuers and Counsellors held in Sydney in 1959 and has since been host to the Congress on three occasions: 1963 (Wellington), 1975 (Rotorua) and 1988 (Christchurch). It also *h*as active association with the International Asset Valuation Standards Committee.

A milestone was reached in 1976 when the culmination of several years of setting aside of reserves for the purpose saw the Institute purchase premises to house its national office.

When the Institute was founded, valuation was regarded as an occupation exclusively for males. More enlightened thought led in 1972 to the enrolling of the first female student, and today a small but increasing number of women have completed the qualifying examinations and achieved registration.

Throughout the years the Institute has had active member participation at both national and branch level. At national level the Council of the Institute has dictated the policy to be carried out by a small in numbers executive committee based in Wellington.

On the education and statistical sides there have always been active and enthusiastic committees and, more recently, a committee for publicity and public relations. The Institute has been fortunate too in its staff. Some most competent people have held the post of Registrar (1939-1949) and General Secetary (since 1949) and the Institute is indebted to them for their services.

Looking back it will be seen that the Institute has made enormous strides since its inception 50 years ago. Looking again at the objectives set out in 1939, it can certainly be said that these have been given effect to.

The Institute will go into the next 50 years in sound heart, consolidating what has already been achieved and adapting to change as required.

Above all it will be honouring the words on the Institute's Crest: *Integrity and Fidelity.* ■ .

# The New Zealand Valuers' Journal: A Brief Historical Overview

The Institute has consistently followed a policy almost since its inception of publishing a professional journal. The Journal has gone through a series of changes of name and style as follows.

*The Bulletin* (No. 1 through to No. 7 - February 1942 to August 1943) published as a series of cyclostyled pages initially under the editorship of the then General Registrar.

*The NZ Valuers Bulletin* (from Volume 2 no. 8 through to Volume 3 no. 8 December 1943 to December 1945) with a change to typeset format which has been continued in the subsequent issues.

*The NZ Valuers' Journal* (from Volume 4 no. 1 to Volume 4 no. 3 March to September 1946).

*The NZ Valuer* restyled as *The New Zealand Valuer* (from Volume 4 no. 4 to Volume 26 no. 5 December 1946 to March 1986).

*The New Zealand Valuers' Journal* (Volume 27 since June 1986).

The varying styles have been characterised by a change in size and cover as shown on the cover of this commemorative issue.

When first distributed to members, *theBulletin* endeavored to acquaint valuers with news and items of primarily current interest. In 1943 it took the form of a small pocket edition in which a limited number of shortpapers on valuation problems were published together with matters of general interest to the members of the Institute.

The editor of the first issue of the *Bulletin* in February 1942, Alan D Thomson, commented:

*This Bulletin represents the first of what is hoped will be a long line of useful issues from the headquarters of the Institute, and it is also hoped that these will be the means of keeping all members (including those engaged in the armed forces) in regular contact with the trend of institute activities.*

*The times are not propitious for the consolidation of a young Institute such as this but, on the other hand, the professional nature of the organisation and the technical training and years ofexperience necessaryfor elevation to the highest status of membership all point to the desirability of keeping the threads together during the war period.*

*There is no uncertainty about the viewpoint that whatever the stage of things to come, the technicalities of valuing will be more than ever necessary, and it will become more than ever important that the operations of those charged with valuing activity in all spheres, whether Governmental or private, should be on a reliable, and as near as may be, uniform basis.*

There is no doubt that the aspirations of the second Registrar have been fulfilled as *The New Zealand Valuers' Journal* now continues the quarterly publication of an unbroken 47 years' series.

During this period the Journal has been served by 10 honorary editors whose names and service to this work is recorded as follows:

| | |
|---|---|
| A D Thomson | February 1942 August 1943 |
| W G McClintock | December 1943 September 1945 |
| W G Boswell | December 1945 June 1955 |
| E J Babe | September 1955 December 1965 |
| J D Powdrell | March 1966 March 1968 |
| R L Jefferies | June 1968 June 1974 |
| M T Gaffaney | September 1974 December 1977 |
| J G Gibson | March 1978 December 1981 |
| M E Gamby | March 1982 September 1988 |
| T J Croot | December 1988 |

In addition the editors have been ably supported by assistant editors and on at least one occasion the task of editorship was taken over for a period by the assistant editor.

The Institute records its thanks to each of these Members for their contribution to the expansion of knowledge and communication about the valuing profession during its first 50 years.

An editorial comment by most of the editors is featured in this commemorative issue.

In selecting the content for this commemorative issue, three past editors joined forces and applied the following general criteria to the selection of articles:

- Wherever possible contributions were to be original material authored by members of the NZ Institute of Valuers, thus reprints from other journals were excluded.
- As wide a cross section of contributions as possible was selected, thus in general only one article per contributor appears, although this was not applied as an inviolable rule.
- A wide range of topics and topical issues of the day were included covering rural/urban and technical/ non technical topics and opinions.

At the end of the selection process, the editors were faced with a gargantuan task of selecting the final articles to be printed. Initially some 227 articles were selected as well worthy of consideration. Faced with a very real space constraint some very heavy editing had to be done. This involved some compromise and the reluctant omission of many leading articles whose topics were duplicated, together with some works of the more prolific authors.

The articles finally chosen reflect the combined editors' perspective of the past 50 years' issues. We trust that members will find the selection interesting and informative.

*R L Jefferies, J G Gibson, M E Gamby* ■

*Alan D Thomson - first editor of the New Zealand Valuers' Bulletin.*

# The New Zealand Valuer in the 1940s

## By Rodney L Jefferies

Fifteen years ago I acquired from the late J D (Jack) Mahoney his full bound set of NZ Valuers' Journals with the intention of reading the back issues to source material for lectures and to gain an appreciation of the development of valuation thought and principles in New Zealand.

It is evident that these old journals contain a goldmine of interesting articles and information and I would have liked to have reprinted everything of interest, especially as most of these early issues are not readily available. That, of course, is just not possible, and the selection contained herein are just the highlights.

The early issues were dominated by the effects of the Second World War when in 1943 nearly 25% of the roll of members were overseas on active duty, prisoners of war or in hospital recovering from war wounds.

The over-riding controls on the market imposed by wartime conditions under the Servicemen's Settlement and Land Sales Act 1943 affected all real estate transactions with institute members extremely busy doing valuations and having these scrutinised by the Land Sales Committees. Fundamental principles of valuing were becoming more widely appreciated and adhered to.

The journal had a major role to play in that educative process.Some early articles set the basis of both urban and rural valuation principles and practice, of which the third President, Mr A W A Sweetman was one of the most prolific and influential.

The struggle for acceptance as a profession with the dominance of the Land Sales Act 1946 in the post war years and the challenge that brought to the profession coloured the second half of the decade.

This culminated in the "coming of age" brought with the statutory recognition of the Institute and registration of valuers with the passing of the Valuers Act 1948, and the "gift" of a permanent Land Valuation Court, presided over by Judge K G Archer, who greatly affected valuation law and practice with his decisions.

War conditions affected also the quality and volume of the journal with paper restrictions limiting the size of some of the early issues which were sold for sixpence, increasing with the larger version in 1946 to one shilling!

Subjects covered diverse topics such as: rating methods, house and building cost methods, leasehold calculations, farm budgeting, capitalisation, building materials, rental analysis, and the printing of Land Sales Committee and Court decisions. They also contained reports from the branches during a time of rapid growth in membership.

In these early issues we find mention of most of the personalities who moulded the profession and the principles of valuation they espoused which have affected the professional standing and status of valuers throughout a 50-year history.

I hope you enjoy reading the limited selection of the early writings included in this special commemorative issue, and I urge you to get hold of and browse through more of these early journals and be enriched as I have been. ■

*Rodney Jefferies is Senior Vice-President of the NZInstitute of Valuers, Senior Lecturer Valuation, Auckland University and Consultant Partner with Barratt-Boyes Jefferies, Valuers, Auckland. He has contributed on many occasions to the New Zealand Valuers Journal, is the author of Valuation 1 the standard text of theNZInstitute of Valuers and is aformer editor of the New Zealand Valuers' Journal.*

# Contributions To *The New Zealand Valuer* Through The 1950s and 160s

## By John Gibson

In reviewing the articles for inclusion in this commemorative issue of the *NZ Valuers' Journal,* the over-riding impression to this compiler has been the extraordinary depth and range of material published in the pages of *The New Zealand Valuer.*

Truly the scope has been international, with material drawn from the Pan Pacific Congresses, the USA, Australia and the United Kingdom. The contribution of original material by our own New Zealand members has also been extensive and significant. Of necessity the review has spotlighted the contribution of members of the NZ Institute of Valuers in drawing upon the material in this issue.

Regrettably, limited space precludes the inclusion of much that is worthy from overseas sources; and it is this commentator's recommendation that readers of this commemorative issue browse again through early issues of the journal. But, not only has the source of material published been international, the scope has been vast, ranging from basic principles of valuation depth tables, depreciation principles, farm budgeting, house design and building costs-through to the widest fields of land economics and statistics. Featuring widely are reports on the property market from the Valuation Department; the work of the Statistical Bureau; the input made to the education of members by our professional colleagues in other professional callings, the teaching profession (at University), the legal profession (the many landmark court decisions and contributions on the valuers' quasi-legal role as an arbitrator, umpire and consequent duties), and the accountancy profession are among those who have contributed.

Perhaps the overall theme that impressed this reviewer was the dominance of the rural contribution in the 1950s and early 1960s to the pages of *TheNew Zealand Valuer,* with the emergence in the latter years of the 1960s of many of the issues now accepted as commonplace the use of computers, the use of square metre land valuer rates, the questioning of our educational standards and the challenges posed by possible unification of the land-based professions.

The decades being considered were significant for the Institute for other reasons. Perhaps the most outstanding was the publication of the Institute's first textbook, *Principles and Practice of Valuation in New Zealand,* in 1959. Not only was this the first publication of the NZ Institute of Valuers, it was the first home grown text on urban valuation principles written for New Zealand conditions. This textbook followed an earlier publication in 1952 of cyclostyled notes for students entitled *Urban Land Economics and Principles of Urban Valuation.* Since those days, the Institute has followed a steady and consistent policy of publishing valuation and valuation related texts.

Amongst other notable achievements in this period was the founding of the Pan Pacific Congress of Real Estate Appraisers, Valuers and Counsellors;. J Bruce Brown and GCR Green were our delegates to the first conference in March 1959 in Sydney. In 1963, The New Zealand Institute of Valuers hosted the Third Pan Pacific Congress and since then has hosted also the Eighth (1975) and Fourteenth (1988) Congresses. Papers from these congresses were regularly reprinted in the journal. Indeed the proceedings of the Third Pan Pacific Congress formed the entire issue of *The New Zealand Valuer* Volume 18 No 6 June 1963.

A forerunner of the regular Annual Seminars and Conferences was hosted by the Otago Branch in 1966 and the proceedings published as a special issue of *The New Zealand Valuer.* This seminar focused on "Unimproved Value" and other aspects of the "land". Such seminars now form an integral part of the Institute's Continuing Education programme.

The period reviewed by this commentator also included the latter jurisdiction of the Land Valuation Court. This body was established in 1948 and continued in existence for some 20 years being disbanded as a permanent court in 1968.

It had been established as a successor to the Land Sales Committees and Land Sales Court. Judge K G Archer, Judge of the Land Valuation Court was a prominent figure in those years and contributed widely to the profession. One of his addresses to the Institute is reprinted in this issue.

Over this period many of the principles of valuation were forged as valuers presented their evidence before firstly the Land Sales Committees, then the Land Sales Court and later the Land Valuation Court. Regrettably, space in this issue precludes inclusion of these landmark decisions.

I commend the early issues of the journals to all readers and trust that this selection of writings from the early decades is refreshing, instructive and entertaining. E

*John Gibson is the current General Secretary of the NZInstitute of Valuers. He is a fellow of the Institute and has previously been employed as a valuer with the New Zealand ValuationDepartmentand the Housing Corporation.*

# History Old and New 1970 1988

## By Evan Gamby

Shortly after reviewing articles for this publication I was sitting in the John Coull Hut at Puketapu on the Wanganui River reading A P Bates' book, *The Bridge To Nowhere,* which describes the hardships and the history of settlers in the nearby Mangapurua Valley.

The John Coull Hut and the Mangapurua Valley are about as far as you can get by foot away from civilisation in New Zealand, although the Wanganui River is still a scenic masterpiece, and is visited regularly by trampers, canoeists, and armchair enthusiasts by jet boat.

You may well ask what this has to do with the NZ *Valuers' Journal* since the 1970s.

History is lived, it is not something only of the past. Arthur Bates had great difficulty in collecting information on the Mangapurua Valley settlers, a farming settlement doomed from the date of inception after the First World War, but which struggled on until the last settlers were moved from the Valley by Government in 1942. All that now remains is the majestic concrete structure known as the "Bridge to Nowhere" completed in 1936. All the traces of settlement have gone save for the odd brick chimney, the occasional grassy patch dotted with ragwort and gorse, and the odd scar on the hillside where the regrowth has not yet completed its task.

Happily we are blessed with far better documentation. Regrettably it scarcely goes back beyond the 1930s. In my task of reviewing *theNZValuers' Journal* writings from the 1970 period through to the present, I was surprised at the wide range of issues which had affected valuers' lives so dramatically over such a short 18-year period.

Naturally, it has been impossible to include all of the issues dealt with and precedence must be given to those of an earlier era which set the basis for valuation practice to follow. I have tried to bring out those articles and editorials which I believe people might remember best, as they have sparked off considerable debate and will be looked back at in future years if for no other reason than nostalgia.

Over the past 20 years, there have been only four editors, all of whom have left their mark on the journal in one way or another even to the extent of Rodney Jefferies having nearly contributed the full text of one issue from his own hand. Mercifully I never had to do that. Valuers in recent times will remember vividly the removal of our "hallowed scale of charges", the debate on deregulation of valuers and the still very recent opportunities to compete by advertising in a more open manner.

Editorial comment has been a feature of the journal particularly in the period under review. The result has been something like 70 editorials over this period which have provided a very good historical record of change, with many of those editorials being quite far sighted and at times predicting events which did not occur for some years to follow.

The size and scope of the journal, too, has changed from the early 1970s. Most of the changes are obvious, but one which is not so obvious is the quantity of information now contained within the journal. In information terms, it is three to four times the size.

Many of the contributors in the '60s continued to give great support to the publication through the '70s and '80s.

A number of valuers have developed a flair for writing, becoming authors of the institute's publications including Fi*nancialAppraisal andLandCompensationby* Squire Speedy, *Urban Valuation in New Zealand, Volt* by Rodney Jefferies, *Land Title Law and The Principles and Practice of Rating and Rating Valuations in New Zealand* by an honorary member Byron O'Keefe, and the recently published *Investment Property Income Analysis* by Rob Bell.

It was also during this period that valuers had to face the introduction of computer technology and adopt a far more analytical approach to the valuation of commercial and industrial property. These changes are reflected in the journal by articles on the use of computers, particularly by Bob Hargreaves and DCF IRR writings by a number of authors.

The direction of the Institute changed in the 1970s as an increasing number of valuers set up in private practice, relfecting the demand by commerce for registered valuers' services.

This change was reflected in the journal by a more commercial attitude and a greater emphasis on topics relating to the needs of the private practitioner. This change also resulted in the general public demanding a greater accountability from people who described themselves as professionals. It was during the 1970s that the Valuers' Registration Board was required to become more active in response to public awareness and the requirement to maintain a high standard of professional care and duty.

Each day we create history. This Jubilee issue is an historical document which I believe all valuers should treasure and pass on in due course to younger members of the profession, if for no other reason than interest but, I am sure, also for enlightenment.

Oh, and by the way, what of John Coull? All I know about him is his old name plate fixed on a wall of the John Coull hut together with a brief explanation stating that he was a highly respected valuer and auctioneer in the Wanganui District many years ago.

It was Henry Ford who first said *History is Bunk.* Contrary to that view, I believe we cannot fully understand the position we have reached without some study and understanding of the process by which we arrived at this position .1

*Evan Gamby is a former editor of the New Zealand Valuers Journal, Fellow of the NZ Institute of Valuers and currently a directorofRobertson Young Telfer Ltd Valuers.*

V

# BUILDING COSTS

ARTICLE 1 APPROXIMATE ESTIMATING
By J L TENNET.
Reprinted from *The NZ Valuers' Bulletin,* December 1943, Volume 2, No 8, page 17.

*The late John L Tennet, a qualified architect and quantity surveyor, was* an *Associate of the NZ Institute of Valuers. Chief quantity surveyor to the Housing Construction Department, his major contribution to the valuation profession was responsibilityfor the statistics of the 'Modal House' which were taken as a basis for the Land Sales Court in 1942.*

ARTICLE 2 COSTS AND VALUES
By S. H. CLARK
Reprinted from *The New Zealand Valuers' Journal* September 1946, Vol.4,No 3, page 5.

*Mr S H Clark, an associate member of the New Zealand Institute of Valuers, was Assistant City Valuerfor the Auckland City Council at the time of this address to the NZIV.*

from tree growing shelter, timber for farm use and profit from timber sales, why are farmers not interested in establishing forests on their waste land?

It is, I believe, that old old story of British Colonization in which the settler has always waged war on the forest, often with such success that the forest disappeared entirely and with it its destroyer.

The early settler of New Zealand looked upon the forest as his enemy. The forest had to go for his very existence; to say nothing of his. successful progress, depended on his ability to convert the forest into grass covered paddocks and pastures. His whole energy was concentrated on deforestation and before axe and fire the forest melted away. So it was ingrained into his children that the forest was their enemy, to be destroyed before the soil could yield its riches. The forest was looked upon as so much garbage to be swept out of existence, if it was choppable it was chopped, if it was burnable it was burned. That which is bred in people in the struggle for existence takes generations to eradicate, and this is believed tiie reason why New Zealanders are not tree lovers or forest minded to the extent of people of older countries who have had to grow and use with care every foot of timber available to them.

Only by "forest propaganda" and education of the parent through the child will we instil into the farmer the value of Farm Forestry.

## APPROXIMATE ESTIMATING.

### (By J. L. TENNET, A.I.A.A., A.N.Z.I.V.)

(The following is a valuable paper react before the Institute by Mr. Tennet some time ago.)

One of the first things a client will ask is "How much will it cost," and it is essential that he should be given a fair idea, as there is nothing more likely to lead to dissatisfaction on the part of the client than an unreliable or misleading estimate. The methods usually employed in arriving at an approximate estimate are:-

per foot cube;

per foot square;

per unit of accommodation;
proportional values;
rough quantities;

and it should be made clear to the client that the estimates arrived at *by any* of these methods are only approximate ones. The simplest and quickest method of arriving at an estimate is by the square foot basis. To obtain the footage the area of each floor of the building to be estimated is calculated in square feet, usually those areas covered by a roof being taken into consideration.

These areas having been assessed an assumed cost per square foot based on local costs that will cover the completed cost of the building is used, and the total areas of all the floors multiplied by the assumed rate per square foot gives the estimated cost of the building. To this cost must then be added incidental items such as drainage, preparation of grounds, etc. If dealing with buildings of one or more floors in height, however, the rate per square foot may vary according to the pecularities that may appear in each floor. What the various rates per square foot, on which the estimate is based should be, can only be arrived at by a thoroughly comprehensive knowledge of local building costs. This method of estimating, if calculated reasonably correctly, is, for houses, as reliable a method as can be adopted by any average valuer.

The "cube" method is, however, more reliable for larger buildings, but here the estimator must have intimate knowledge of the price per cubic foot as one penny one way or the other may easily mean a considerable error. The estimator should also know if his price per cubic foot covers any special features in the design, such as fittings, etc., or if these should be provided for in addition to the cubic cost. To describe the "cube" method briefly, the system consists of finding the cubic contents of the whole building and multiplying this total by a price per foot cube, which is found by

with a similar building. There comparing the proposed structure are different methods of arriving at the total "cube," but it is common practice to measure from the bottom of the foundations to a distance half-way up a sloping roof for height. I prefer to find the exact cubic contents of the roof, as so much depends upon its shape, and to add the cubic contents of chimney stacks, gables, and any other projection. If the building has a flat roof the "height" should be taken as 1ft. bins. above the parapet.

In the hands of those who are not experienced "cube" prices are most dangerous, and it is strongly advised to use such prices simply as a rough check upon detailed work.

Per Unit of Accommodation.-This method is more applicable to buildings where numbers have to be accommodated such as schools, hospitals, etc., and again considerable discrimination is required and it should be borne in mind that the cost per unit for large numbers is proportionately less than the cost for smaller numbers.

Proportional Values.-In this case the estimated cost is arrived at by taking off quantities for one trade and using the cost of that trade as a basic price.

Rough Quantities.-The method of rough quantities entails more time and labour, the chief quantities being "taken off" and priced accordingly and lump sums provided for fittings and special services This is a reliable method when time and circumstances no not permit of detailed quantities.

It is my purpose to deal firstly with the most familiar type of structure-that is the ordinary house construction and the "square foot" method of esti. mating.

How often has it been said that "Houses can be built for so much a square foot?" This is a very common saying and the general opinion appears to be that practically any type or size of house has a standard rate per square foot of floor area on which an estimate may be gauged.

There are builders who state definitely that they will build houses for a standard rate per square foot and will contract to do so without any further reference to detailed costs. This type of builder does not last long as unless he is erecting houses of a standard design and area only, he cannot assess his costs as once he departs from his standard of design and area his costing data is not worth much. To prove this, we will take, say, an average house of five rooms, consisting of Living Room, Breakfast Room, two Bedrooms and Kitchenette, beside the usual annexes. This house, we will say, has an area taken over the external walls of 1,000 square feet and the cost of the house without drainage and land development is £1,000. The cost, therefore, would be

20/- per square foot of floor area. It is decided, however, to increase the size of the rooms without in any way altering the general lay-out, or adding any additional fittings so that the area is increased from 1,000 square feet to 1,100 square feet. On the basis that all houses can be built for the same rate per square foot, this house should then cost £1,100, i.e., 1,100 square feet at 20/-.

This, however, would not be so, as the cost of the increased area is distributed only over certain items, such as flooring, wall framing, wall board, and weather boards, bricks (if a brick house) roofing, wall papers, painting, spouting, etc. The cost of sanitary fittings, such as bath, basin, lavatory and sink, hot water system with the exception of possible water-piping, electrical fittings, interior joinery fittings, chimneys, etc., have not been

1,8

increased. As these items form a high percentage of the total cost of the house it will readily be seen that, although the area is increased the cost per square foot has not been spread proportionately over the various unit costs that make up the,price on which the footage rate is based.

If detailed estimates were prepared of both houses before and after the areas were increased it would be seen that although the 1,000 square foot area house was costing £1,000, the 1,100 square foot area house did not amount to £1,100.

It will thus be seen that areas affect rates and it is safe to say that "the smaller the area the higher the rate per square foot." Other features that must be taken into consideration in assessing square footage rates are such matters as locality. We have a house, we will assume, on a level site, within easy access of all supplies, and we build the same type of house on a hillside site where transport charges are costly and access to the site involves additional labour in handling materials and excavation to suit the house site may be necessary. These extra costs must be taken into consideration and the rate per square foot increased accordingly. This house which may have cost, say 20/- per square foot to build on the level site will cost considerable more per square foot on the hillside site. Again, we have the same type of house built in any outlying district where travelling time for the different tradesmen has to be met: this also will affect the rate per square foot.

Method of Procedure.-The question now arises as to how one is to arrive at a fairly correct estimate on a square footage basis. A system that I have adopted and found to be of great assistance is to keep a card index of all houses for which I have to estimate, and this system is one that I strongly advise to the valuer who has to deal in this class of work. I would suggest that with any structure he is concerned with a proper index be compiled of the buildings and properly tabulated, showing the area of each house, the type of house and the cost of the house. It would be advisable, however, to attempt to arrive at the cost of the building exclusive of such items as drainage, fencing, paths, ground layout, outbuildings such as garages, etc., and assess a sum to cover these items independent of the house cost. Comparisons will then show how areas affect the rate per square foot and by a tabulated system rates may then be struck to cover definite footage areas. say from 750 square feet to 800 square feet, 800 square feet to 850 square feet, and so on until all sizes and types of houses have been assembled. Having once established this system, it should be quite a simple matter to assess the cost of any house by making due allowance for any special features that may occur.

We will take as an example a house built on a hillside slope in a suburban area. This house, we will assume, is an average type of house of, say, 1,000 square feet area. The section has been excavated at the high end and the house is built on the excavated portion to allow of access and has a basement without rooms, falling from a normal floor height above ground to say 10 feet at the low end. Paths lead with steps from the road entrance to the house and a certain portion of the yard has been concreted. Drainage and fences are normal and a plain garage has been erected on the site. Referring to our tabulated list of areas, we find that this area house under normal conditions costs say 20/- per square foot. We then assess our costs accordingly:-

| | |
|---|---|
| 1,000 square feet at 20/- | £1,000 |
| Extra for basement, 10 feet high with an average height of 5 feet-assume that every extra foot in height is worth £10-5 feet at £10.. | 50 |
| Excavation to site-say | 10 |
| Drainage, say .. | 30 |
| Paths and fences say | 50 |
| Garage, say | 50 |
| Extra cartage and hauling items due to position of house, say | 20 |
| Total Cost of House | £1,210 |

Again we will take a similar size house under similar conditions, except that this house has been more elaborately finished; has, for instance, a tiled roof, expensive electrical fittings and stove, elaborate sanitary fittings and expensive papers. Taking our costs for a normal house which we .have found is costing £1,210, we would add the additional costs for these items-say as follows:-

| | |
|---|---|
| Cost of normal house with all contingencies | £1,210 |
| Extra on tiled roof over iron, say | 20 |
| Extra on electrical fittings and stove, say | 20 |
| Extra on sanitary fittings, say | 10 |
| Extra on wallpaper - 40 pieces at 4/- per piece extra .. | 8 |

It is evident that co arrive at the costs over and above the cost of the house per square foot, the valuer must be more or less conversant with the cost of other items, such as drainage, fencing, etc., and here again a tabulated system setting out these costs should be compiled. These can always be obtained from sub-contractors and, by the common-sense method of adding or subtracting to the costs tabulated to suit the house being valued, P reasonable estimate may be arrived at. Personally, I know of no other method of assessing costs on a square fcot basis other than this method, as there are so many items to take into consideration that to set a firm rate per square foot is not practical. A house may be built of heart timbers in place of ordinary timbers, and this again must be taken into consideration.

Local Variations.-I have found that costs vary considerably in different districts and that construction also varies. The normal house in the North Island is a timber house, either with a corrugated iron or a tiled roof. Here and there, where shingle Is plentiful and of reasonable cost, concrete houses are seen. At the present time the metal lath and plaster is becoming fairly popular, but generally speaking the timber house predominates in the North Island.

In the South Island, however, particularly from Timaru south, the brick veneer type of house is the rule, and these houses are invariably roofed with tiles. This method of construction is due mainly to climatic conditions, as they afford a much warmer home than the timber type. The brick veneer type of house built in the South Island localities where they predominate are, generally speaking, built at a more reasonable cost than timber houses, whereas in the North Island the cost for this type rises. The figures I have quoted in assessing the cost of a normal house must therefore not be taken as being general. The rate used by mle of 20/- per square foot is not a definite cost and is only used by me for convenience, and where this rate may be applicable for one district it certainly will not pertain, say, to Christchurch, where housing costs are in the main considerably less than Wellington.

I have endeavoured to explain and give as simple a system of arriving, at any rate in my opinion, at an approximate estimate on square footage basis. I do not advise this method to any builder or contractor in tendering, as there is only one method in arriving at a safe estimate, and that Is by "taking off" the job in detail. It is surprising, however, how accurate this method can be if applied in a methodical manner, and it will be found by the valuer how most interesting this system can become where the variations in areas, the different constructions met with and the assembling of all data towards this end are tabulated and it will be surprising how the rates per square foot vary from the low areas to the higher areas.

As I have stated before, the "cube" method is most dangerous unless undertaken by the most experienced valuer and, In my opinion, is not needed in ordinary house construction.

Proportional Values.-For the purpose of dissecting the different trades and to arrive at the cost of any one

particular trade, this method of estimating is extremely useful and is arrived at by assessing the percentage cost of each trade to the total cost of the building. This system is convenient in checking a detailed price as having the cost of all trades tabulated, a quick calculation may be made to see that every trade is fully priced.

Rough Quantities. - There are numerous methods adopted in preparing estimates by "Rough Quantities." To be in a position to assess an estimate by any of these methods it is necessary that the estimator has a comprehensive knowledge of building construction and costs. Before making a final decision as to whether he will proceed with the erection of a buUding, an owner naturally requires a fairly accurate estimate for his prospective building. It may be that the scheme put before him is a more elaborate one than he originally intended, and he is concerned as to the ultimate cost, and before committing himself to an expenditure that he may not be prepared to meet, and with only a limited amount available for expenditure, a more accurate cost is requested than can be given by a "square footage." With only preliminary drawings to work from, the estimator proceeds to "take off" rough quantities and assess his estimate on one of many methods.

I intend to briefly describe one of these methods, and it will be readily understood that I cannot at this time give details of costs, as previously mentioned costs vary so considerably in different districts. It is usual in estimating to commence from the beginning of the job and carry each trade through the estimate until the completion. We therefore commence with the ifrst cost, which is "Preliminary Work," *pay*ment of permits, insurances, sheds, plant and tools necessary to carry out the work. Having assessed this amount, the next item is taken; that is the preparation of the site to take the building. It may entail excavation, clearing shrubs or trees, etc Then comes the construction of the building, and all these items are assumed to contain in the estimate the building of the different portions complete, either net costs or including profits. Taking them in their sequence in a house, they would be as follows:--

1. Exterior walls, built complete, including framing, weatherboards, building paper, internal wall board and skirtings. The perimeter of the house is again taken and the cost assessed at per foot lineal.
2. Interior walls, including framing complete, sheeted both sides with wall boards. and skirtings. This again being assessed at per foot lineal. When different finishings are proposed to interior walls such as matchlined walls in place of wallboard, these must be "taken off" separately.
3. Area of floors, built complete, and including piles, stringers, joists and flooring, this being assessed at 100 feet super of lfoor area or as is termed per square.
4. Area of ceilings, including ceiling joists, ceiling and cornices at per square loft. x 10ft.
5. Plan area of roofs, including rafters, struts and hangers at per square of loft. x loft.

The foregoing items will give the cost of the shell of the house, and other items are added, say, as follows:-

Chinineys erected complete with fireplaces and hearths at per unit cost.

Sashes and doors fitted complete with hinges, furniture, glass for sashes and exterior trine such as architraves and sills. These items being costed at per unit.

Other joinery such as kitchen cupboards, sink benches, wardrobes, etc., built in position at per unit cost.

Having completed the joinery, the Plumber may then be assessed. The water piping, spouting, down pipes, flashings, etc., are measured and assessed fixed complete at per foot lineal. Items such as bath, basin, sink, etc., are assessed at per unit fixed complete, including waste pipes led to drain; hot water system and other incidental items being also assessed at complete units fitted complete. The drainage is measured

ifor calculated at per lineal foot, including allttings.

The Electrician is estimated by the number of lighting and heating points assessed at a price per point to cover all wiring and connections. To this is added a price for special fittings, elec. tric stoves and, if required, outside power poles.

And so through all the trades.

To the sub-contractor's estimate the Builder adds a percentage to cover incidental costs. such as waiting on the various trades, and other incidentals.

All these items added tog4ther give the total that will form the basis of his estimate.

It is not always necessary,, however, for the estimator to take off in detail sub-contractors' prices, as prices received or assessed for previous jobs of a similar nature to the one he is estimating are generally "near enough."

With his knowledge of similar buildings that have been completed, an estimator can readily see whether the estimate that he has prepared is an equitable one, and if there is any doubt in his mind as to the accuracy of his estimate when compared with previous jobs a quick check through his sub-totals should be a check on his costing.

The value of this method is that if the owner is desirous of curtailing his costs an idea can he given him as to where savings may be effected.

It was my purpose. that having dealt with the humble cottage. to go on to the commercial or factory type of building, but as I have already overstepped my time, I leave this for a future discussion if so desired.

There has been more advance both in design and materials during the past ten *years* than

during the previous fifty. Natural materials, such as timber and its by-products, are becoming exhausted, and it is an interesting conjecture as to what science and design will use to fill the gap for the dwelling of the future.

One has only to compare the scrim and match-lining of, say, ten years ago, with the hard-board and piaster board of to-day to realise the truth of this.

In conclusion, I must state that I have always found estimating a most fascinating and interesting study, where one Is always learning and where one is never finished. Changing ideas, changing costs, both in materials and labour, are unending.

Numerous reference books have been prepared on estimating and pricing data, and although these should, and do, prove most valuable to the student, my own experience is that personal data, collected and tabulated in proper form, is the most valuable data of all. Local conditions vary so much that to adapt oneself to one's own district, personal experience gained from local conditions combined with rules laid down by recognised exports is the best experience and pays In the long run.

## NEW MEMBERS.

We have pleasure in welcoming the following new members since the last issue:-

Anderson, 11. S. (Auck.), Prac. Int.
Fox, G. F. (Auck.), Govt. Int.
McNabb, R. S: (Auck.), Govt. Assoc.
Parrish, A. (Auck.), Prac. Int.
Primrose, W. M. (Auck.), Govt. Assoc.
Wells, H. N. A. (Auck.), Prac. Int.

Transfers of Status.

Brown, J. B. (Auck.), to Fellowship.
Mason, W. (Auck.), to Associateship.
Ripley, A. (Auck.), to Fellowship.
Girdwood, S. P. (Southland), to Fellowship.

Military Members.-Since the last issue of the Bulletin the following changes have been recorded in the military membership list:-

On Service.

Beachman, F. S. (Auckland Branch), noted 13/11/43.
Heather, D. S. B. (Auckland Branch), noted 1/4/43.

Back in Civilian Lite.

Muir, L. H. (Wellington Branch), noted August, 1943.
Saunders, W. (South Canterbury Branch), noted June, 1943.
Moyes, R. J. (South Canterbury Branch), noted June, 1943.
Harris, A. R. (Otago Branch), noted September, 1943.
Wilkie, R. McK. (Otago Branch). noted September, 1943.
Butler, S. B. (Otago Branch), noted June, 1943.

The President has much pleasure in acknowledging the receipt of a letter card from a Prisoner of War Camp In Germany. The sender, Captain J. Hill, of the Wellington Branch of the Institute, writes as follows:-

"I would like you to convey my thanks to the Institute for the Greetings Card you so kindly sent to me. I hope the Institute is prospering in these difficult times and look forward to the day when we can all meet together in New Zealand. My regards to you all and once more many thanks."

Captain Hill can rest. assured that the Institute too is looking forward to the day when prison camps are a thing of the past and he with his gallant band of comrades once more tread the soil of "God's Own Country."

Christmas cards have also been received from Major R. R. Atkinson and Corporal R. T. Raven (both of Auckland Branch) in the Middle East. Bombdr. M. H. Rogers (Central Districts) has sent a lengthy report on a lecture delivered in the Lowry Hut on the subject. "Egyptian Agriculture." The President much appreciates receiving this mail.

# COSTS AND VALUES

An address delivered to the Auckland Brarch of Institute of Valuers on 29/7/46 by MR. S. H. CLARK, A.N.Z.I.V., Assistant City Valuer, Auckland City Council.

When first requested to address the members of the Institute on the subject of "Costs and Values" it appeared to be a comparatively easy task to select a few simple items that would illustrate the facts and opinions to be placed before you, but when I came to look more closely into the subject and realised what a vast field it covered, I came to the conclusion that in the time at my disposal I would have to confine myself to some of the broader outlines to avoid, as far as possible, those technicalities which are inclined to send listeners to sleep rather than to maintain their interest.

The subject is approached with a clear knowledge that many of the members of the Institute are possessed of higher qualifications and sounder judgment, but are clifl'iclent in addressing such a gathering. I therefore ask you to accept my statements and opinions reservedly, not as those of an expert or an authority but rather those of a student searching for further knowledge in this profession.

It will be accepted as a fact that all valuers have materially benefited by the closer associations brought about by frequently appearing before Land Sales Committees, and it will be agreed that further benefits would accrue by freer discussions of our opinions at Institute meetings.

We have at different times had the pleasure of listening to lectures, or reading articles on valuation, given from the point of view of the Architect, the Builder, the Town Planner, the Quantity Surveyor, or the Barrister, and invaluably these professional men express the necessity for a competent valuer to have a thorough know ledge of his own particular profession in order to be properly qualified.

These lectures have always been instructive, enjoyable, and of inestimable value to those members who have had the opportunities of listening to them, and the opinions expressed are fully appreciated. But let us imagine for a moment that it would be possible for a man to have a thorough knowledge of all these subjects - would he then have the basic qualifications essential to a Valuers profession? He would not - for he would still lack the qualifications that enable a man to fix the value of real estate, or to readily distinguish "Costs and Value."

The valuers' problems involve more than a mere mechanical observance of more or less rigid rules, however skilfully formed. He must rely to a great extent upon his own inferences and form independent judgment, in respect not only to the land itself, but also as to the relevancy or otherwise of the many facts elicited in the course of his investigations.

Human judgment cannot be sound if there are no rules, no principles or no facts to guide such judgment to a uniform expression.

The rules formulated for the guidance of valuers should be clear as to principle, and while full enough to require a high standard, in the very often difficult task of valuation, should permit the exercise and expression of the valuer's considered view on any point concerning which his special training and experience may particularly qualify him to form reliable and expert judgment.

An expert may be defined as a person who has devoted time and study to a particular branch of learning and thus he is specially skilled on those points on which he is asked to state his opinion, but he should never forget to be sure of the facts upon which his opinion is based. He must be willing and ready at all times to support his conclusions with good cogent facts.

An analysis of the factors affecting "Costs and Values" and an estimate of their relative importance would therefore be valuable information to anyone desiring to pass sound judgment based on reasons, supported by facts rather than a personal opinion only.

A property valuation is an estimate or opinion of the exchange worth expressed in terms of money; and in being an opinion is almost bound to differ to a limited degree. but on the other hand the method of approach should be common to all valuers.

I have been requested to deal with the question of "Costs and Values," with particular reference to dwellings, as this form of valuation provides the greater part of the present day valuer's work and is also of equal -interest to our Rural and Urban members.

buildings are affixed to the land and are bought, sold, mortgaged and exchanged with the land. A building cannot have a separate existence, its value merges with the land and therefore must be valued as a unit; not as the value of the land plus the replacement cost of the buildings, less depreciation for expired life.

So long as a building remains, the value of the site is limited by the uses for which the building is suitable. Similarly the value of the building is governed by the degree in which the location and extent of the particular site is comparable with the use for which the building is or may be adapted.

This fact is set out equally clear, but in more legal terms in the Valuation of Land Act of which we are all familiar but for the sake of regularity will again stand repetition to study its reflections in "Costs and Values."

In the preamble to the Act the word "improvements" is defined as follows: "Improvements on land means, all work (lone or materials used at any time on or for the benefit of the land by expenditure of capital or labour by any owner or occupier thereof in so far as the effect of the work done or materials used is to increase the value of the land and the benefit thereof is unexhausted at the time of valuation."

An amendment to the Valuation of Land Act 1912 defines the value of the improvements as the added value which at the date of valuation the improvements give to the land.

The two main points which directly affect Cost and Values are:-

(1) The added value the improvements give to the land.

(2) The date of valuation.

Experience has shown that valuations made by Architects, Builders and Quantity Surveyors bear a startling difference to those prepared by a valuer, mainly because these professional men pay little or no regard to the suitability of the building to the site or the added value the improvements give to the land.

They are experts in the designing, construction, and costing of buildings, and consequently have regard only to the soundness of the structure and the cost involved in replacing it with a similar building, after allowing physical depreciation. They are riot sufficiently familiar with land values to estimate true market value, which is riot the sum of the value of the land plus the replacement cost of the buildings less depredation, but the unimproved values plus the added value the improvements give to the land.

Therefore the practice of Architects or Builders supplying a valuation for the buildings, and a Valuer, the value of the site, and the two added together to represent the market value, should be discouraged. They are both fractional values and do not conform with the definition of the value of improvements as set .out in the Act.

Property is not bought or sold by this method, but as one complete unit of merged value, and must be valued in the same way.

The day the property is inspected is the dafinite date of valuation, and the value, consistent with the market conditions prevailing at that particular date; which is to-day controlled by legislation under the Servicemen's Settlement and Land Sales Act, 1943. In an unrestricted market property values would fluctuate with construction costs. Provided, capital is wisely expended a building should be worth its construction cost plus the value of the land at the date of completion and if the market remained stable over its useful life its value would be reduced only by the exhausted life from year to year, but market conditions change with supply and demand, and during the life of the building there will be good and lean times with rising and falling costs. A property say 10 years old, may, owing to market conditions prevailing, be valued at half its original cost and after a further 10 years at a sum in excess of its original cost even although the best 20 years of its life have expired, not because the buildings have increased in value but because currency has depreciated and property is valued at the market rate at date of sale. Valuers are often requested to express an opinion on future values, but this is not possible. If we were prophets it would not be necessary for us to be valuers.

It is held that the true test of market value is evidence of sales of comparable properties in the same or similar localities at an even date. This, if it were true, appears to be a simple solution to valuation problems. A ready access to racords of established sales would end our difficulties.

There have been many properties exchange ownership at far more or far less than their correct value. Sales of the same property are frequently registered at totally different considerations, within short periods of time.

Therefore a sale price may only be accepted as a criterion of value when that price bears full investigation and is borne out by a proper valuation.

To endeavour to divide a sale price in correct proportion to represent the land and building is a dangerous and unsatisfactory method of assessing an unimproved value. Even if this were correctly determined in the analysed sale, the resultant figure would still have to be adjusted to conform with the valuation of the site at issue in respect to topographical features, aspect, locality, depth, area and frontage.

Likewise no two buildings are exactly similar in design, construction, area, age and materials, or maintained to the same degree. No valuer has the opportunity of having the same full knowledge and information of properties recorded in a sales register as he has of the particular property to be valued, thus rendering it impossible for him to make reliable comparisons. These reasons alone, if there were not others of equal importance, make valuations on comparisons with recorded sales an unsound method.

Cost and Value are not necessarily synonymous. Money can be wasted or spent foolishly, and alternately value can be in excess of actual cost. Therefore scientific observation must be cultivated and the training of a valuer should be such as will enable. him readily tb discriminate between essentials and non-essentials giving full recognition to all facts either for or against previously held ideas as these facts necessitate.

The replacement cost method is the one most favourably accepted by judicial bodies And is arrived at by determining what it would cost to build a similar structure at the date of valuation, and then adjusting the resultant figure by deducting age, depreciation, obsolescence for design, and appointments, deferred maintenance, unsuitability for site or locality or by adding allowances for superior design, attractiveness and convenient labour-saving planning.

Scientifically used this replacement cost method of valuation will give satisfactory results, but if due care is not exercised it has the great disadvantage of becoming a mechanical assessment completely divorced from the science of valuation and failing to reflect the true added value which the improvements give to the land.

The pressure and volume of work required of valuers at the present time may lead inadvertently to this mechanical type of assessment.

It is wise, therefore, that we should regularly take stock of ourselves to ascertain if our work has not fallen into this category as the maintenance of the high standing of the profession in the community is the personal responsibility of every member of the Institute.

Evidence of sale prices of building lots at Dc ember, 1942, should only be accepted as a basis of computing unimproved values when the price paid to the vendor represented true value. Sales at that date may be at less or more than their true value. I recollect several districts where low and high sale prices have influenced subsequent values. One area in particular I recall the sale of at least two lots on a good concrete road in a progressive suburban area, subject to rapid development, while in the same area in a back road, poorly surfaced, overgrown pavements sparsely developed and unsewered, similar sites were subject to sales at the same prices. Obviously the sales on the main road must have been below their value or alternately those on the back road above true value. Valuers should endeavour to assess unimproved values consistent with the locality and not merely in line with sales in the immediate neighbourhood. Town Planning Regulations-also affect land and when comparisons of sales are to be given as evidence of value care must be exercised to assure that all the lots are zoned so that they can be used for similar purposes.

In considering costs and value the stabilisation regulations of December, 1942, haye a general reflection on market value and in dealing with building costs I will confine myself to those ruling at that date and peculiar to the Auckland Metropolitan Area.

I quote from an accurately kept cost register, and I would like to make this point clear to all, that the figures quoted are my personal analysis of those costs and may not agree with those of other valuers, although I am prepared to substantiate them against any others produced.

As a definite basis is required as a starting point to assess value, so it is true with costs, I would therefore ask you to visualise and keep in your minds a typical house similar to those being built in 1942 and early in 1943.

It is built on a level site with a concrete base, weatherboarded walls, box eaves, tile roof, wallboard linings and fibrous plaster ceiilngs. All exterior timbers, sub-floor

scantling and floor are of heart quality and the framing and finishing lines O.B. It has a single chimney and casement windows. It contains two bedrooms, living room and dining room, with modern bathroom, laundry, kitchenette and conveniences. The overall area is 1,000 sq. ft. and was being built for £1,250 to £1,300, equal to a square foot cost of approximately 26/-.

I feel we are all in a habit of leaving no stone unturned in our field work to obtain accurate measurements, descriptions and details of the property to be valued, and later in the office, carefully calculate the total area, but then adopt a per square foot unit cost at a figure, although based on experience, is very slightly removed from a good guess, and then proceed to multiply any error there may be, by the gross area, perhaps 1,000 or 1,500 times. If later requested in evidence to define how this unit cost per square foot was arrived at, we can say no more but that "in my opinion this is a fair assessment." This may be quite a correct opinion and fully satisfactory to our own clients' points of view, but to say the least it is of little assistance to those whose responsibility it is to weigh evidence and give accurate decision.

It is therefgre necessary not only to know the total cost of our typical house, but also to have some knowledge of the costs of its component parts so that any variations in materials, conveniences and equipment can be adjusted against known costs.

I have arranged these costs in two schedules.

(1) The carcase of the building, including base, floor, walls, partitions, ceiling and roof.

(2) Service costs include electric and water services, drainage, sanitary fittings and appointments.

The reason for this subdivision is for adjusting the costs of our typical house to those with similar construction and conveniences, but having varying overall area.

All the items appearing in schedule 1 represent the carcase of the building, the cost per square foot remaining the same irrespective of area. That is, the total cost will vary, but not the cost per square foot, which is the reverse position to that which applies to all the items in the second schedule, in which the total sum will remain substantially the same in any dwelling, but being apportioned to various areas, the cost per square foot changes.

SCHEDULE 1.

| | | Quantity. | Rate. | Cost. | Sq. ft. |
|---|---|---|---|---|---|
| Base: | Average 2ft. excavating footings, walls, concrete boxing, vents and plastering. | 130ft. lin. | 7/6 | 50 | 1/- |
| Floor: | Blocks, jackstuds, plates, joists and lfooring | 1,000 sq. ft | 2/- | 100 | 2/- |
| Walls : | Framing, weatherboards, wallboard, wallpaper, skirting and paint..... | 1,170 sq. ft. | 3/- | 175 | 3/6 |
| Partitions: | Framing, Nogging, Wallboard, Wallpaper, Skirtings, and Paint | 1,400 sq. ft | 2/6 | 175 | 3/6 |
| Ceilings: | Framing, bracing, fibrous plaster and painting | 1,000 sq. ft | 1/- | 50 | 1/- |
| Roof: | Framing, bracing, battery tiles, facia eaves and spouting (assessed on floor area) | 1,000 sq. ft | 4/- | 200 | 4/- |
| Windows: | Frames, sashes, fittings, cast over openings ..... | No. 30 | 70/- | 100 | 2/- |
| Doors: | Frames, doors, fittings | No. 12 | 80/- | 50 | 1/- |
| | = Carcase Cost of Dwelling | | | £900 | 18/- |

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| SCHEDULE 2 | £ |
|---|---|
| Permits, plans, insurance and shed | 25 |
| Bath, waste and fitting | 20 |
| Drains, stormwater, sewer or septic tank | 50 |
| Basin, waste and fitting | 7 |
| Sink, taps, waste and fitting | 7 |
| W.C. pan and cistern complete | 17 |
| Tubs, taps and waste | 8 |
| Copper, hearth, etc., complete | 12 |
| Cold water supply, say 10 points | 14 |
| Hot water supply, say 5 points | 40 |
| Kitchen dresser, safe and cupboards | 25 |
| Sink Bench, terrazzo and cupboards | 20 |
| Single Chimney and open fire | 35 |
| Electric light, 10 lights, 3 power H.W.S. and Stove | 40 |
| Electric Stove | 30 |
| Total Static Costs = 7/- per ft. | £350 |

SUMMARY.

Carcase Cost
1,000 s.q. ft. cost = 18/- per ft. = £900
Static Costs = 7/- per ft. = £350

Total cost 1,000 25/- per ft. £1,250

Assuming that this schedule of costs is a correct one for our typical house of 1,000 square feet built to our specifications at 1942, we have a detailed basis for assessing the cost per square foot for any dwelling of similar construction and conveniences whether of less or greater area than our standard unit of 1,000.

Being of similar construction the cost per square foot of the carcase of the building will remain the same in all cases, i.e., 18/- per square foot. But because the £350 for the similar convenience is spread over different areas the cost per square foot will vary.

Example 1-House, 1250ft.
1250ft. at 18/- £1125
Static Cost, 5/6 350
Cost 23/6 per ft. £1475

Example 2-House, 1,500ft.
1500ft. at 18/- £1350
Static Cost, 4/8 350
Cost, 22/8 per ft. £1700

Example 3-House 800ft.
800ft. at 18/- £720
Static Cost, 8/9 350
Cost, 26/9 per ft. £1070

Example 4-House 600ft.
600ft. at 18/- £540
Static Cost, 11/8 '350
Cost, 29/8 per ft. £890

As we deal with houses erected over the past 70 years, there is naturally a wide variation in design, methods of construction and materials used in the structural parts of the building, and also the type and extent of the conveniences installed.

This factor makes it necessary for any schedule of costs, to be of any assistance to a valuer, to have the costs detailed and divided to each part of the structure so that any variation in materials can be adjusted within a small margin of error, and likewise with costs set against every item of the services installed any deletion or addition can be readily made to ascertain a fair replacement cost on a basis of. 1,000 square feet, and any variation of this per square foot cost adjusted for an area as previously explained.

It is outside the scope of this subject to deal at any length with the question of physical depreciation and obsolescence except to the extent that they are reflected in costs and values.

All building materials cannot stand the ravages of the elements or resist the effects of usage for the same length of time.

To obtain the maximum life of some of the materials used in building construction, heavy maintenance expenditure or costly total replacements are required in others.

We have progressed in our building methods and to-day the materials in common use in the main structural parts of a dwelling have a more even life than in the past, and although maintenance expenditure will still be necessary at more or less regular intervals the costly, difficult, and not altogether satisfactory task of total replacement of some essential part of the building has been largely overcome.

In arriving at the correct rate of percentage of depreciation it is necessary to consider the cost of maintenance over the remaining life of the buildings.

The purchaser acquires only the remaining usefulness of a property, and if heavy expenditure will be involved to obtain the maximum use, this factor should be relfected in the sale value.

A fair replacement cost is assessed at the date of valuation and this sum is divided into two portions: (1) The past life, or in other words, exhausted benefits. (2) The remaining usefulness. In valuation terms the former is assessed in a sum known as "depreciation" and the latter as "sale value."

In other words and in terms of money the vendor is debited with the services the property has rendered him and credited with any remaining benefits that could be gained by its ownership.

The first half of a dwelling's life must be of the greater value. It covers the period when all material and equipment is new and is also modern in design and its earning capacity must be greatest when these circumstances exist.

Normal maintenance will not increase the assessed useful life of a property. Its life is calculated on the assumption that it will be adequately maintained, but on the other hand the lack of adequate expenditure for this purpose will seriously decrease the useful life.

For this reason it is important to be able to determine the remaining life or unexhausted benefits so that full allowance will be credited to the vendor for the care he has given the improvements or debiting him for his neglect to provide correct maintenance.

It is a duty of every property owner to provide proper maintenance. Allowances are made in rental assessments, also local and national taxation for this purpose, and if he has received these benefits and neglected the maintenance at the same time he has only himself to blgme if his security has depreciated in value.

At times lengthy evidence is produced to determine the age of a building, and after a decision has been made, valuers have been asked if they are prepared to adjust their valuations on account of the established age. If full and adequate allowance has been made for any unexhausted improvements, no adjustment on this score should be necessary.

The point I wished to make in respect to remaining life, its Cost and Value, could be more readily explained if I quoted an example.

A dwelling 33 years old is assumed to be correctly assessed at a replacement cost of £1,000, and its remaining life is also considered to be 33 years, giving a flat rate depreciation of 11% per annum, or 50% gross, equal in this case to £500.

This would leave also £500 for the unexhausted life, although during this latter period it is reasonable to expect that the wood foundation blocks and iron roof will require complete. replacement, an expenditure that would not have been required during the first part of the building's life, when its earning power is greatest.

Allowing that some further deduction is warranted for obsolescence, it would appear, from the example quoted, that the straight line depreciation method is faulty, but a closer examination conforms the opinion that depreciation factors are more closely allied to market conditions, that is supply and demand, than to physical depreciation of the dwelling itself.

The conditions prevailing in the building industry is the barometer of property values.

When the supply of homes is in excess of the demand, building costs are low. The market value of a new house would then be approximately its cost plus the value of the site. Any purchaser would have the benefit of a large selection of properties, and the market value of the older dwellings would be seriously depreciated for age and obsolescence.

Rising construction costs, but the supply meeting the demand, would tend to raise the value of reasonably modern homes with little or no benefit to older properties.

While high costs failing to meet the demand the effect would be evidenced in all dwellings old and new. More especially during the present housing shortage when purchasers are compelled to buy accommodation with little or no choice.

These are the factors which influence the sum which can be deducted from replacement costs to arrive at a market value.

The first tangible signs of any easing in the housing situation will be reflected in the sale value of older dwellings, even if building costs remain at the present high level.

A valuation is of course only one thing, that is, a market value at the date of inspection, and in these older properties it represents the cost to the purchaser, but is it value?

Valuers called upon to make valuations or to give advice on questions outside the operating of the Servicemen's Settlement and Land Sales Act such as to investors, purchasers, lending institutions, or for mortgage purposes, should not lose sight of these conditions, for if these sales do represent value it is temporary only, and then again the comparison of construction costs and per square foot costs adopted for this older type of dwelling is greatly in' their favour in contrast to the improvements made in building practice over recent years.

The chief items in building progress being the foundation blocks and base walls in permanent materials, the tile roof and wallboard linings. The adoption of the Standard Building Code, local body by-laws, and regular supervision by building inspectors has curtailed the operation of the "Jerry Builder," but not without some cost to the home builder, but at the same time he has the benefit of a greater degree of protection and in general terms receives Value for Cost.

In support of this statement let us draw comparisons with materials in present use and those of 25 years ago.

(1) Concrete foundation blocks and base walls in place of wood blocks and base boarding.

No one will deny that at 1942 the cost of a wood foundation block would be at least equal to that of a concrete one, or that base boarding would cost only half of a concrete base. But do the costs represent value.

The wood blocks would start to deteriorate with the first years of a building's life and continue to do so until full replacement world be necessary, in say, 30 years, and only after the whole structure has suffered by settlement, or insect attack. Regular maintenance is required for the wood base boarding and when. in contact with the ground is subject to the same deterioration as wood blocks. Concrete is everlasting, immune from insect attack, requires no expenditure for maintenance. Base ventilation has been given to substructive timbers, a feature neglected in past construction methods.

(2) Exterior Walls.

Twenty-five years ago practically every dwelling was weatherboarded and this method still retains some popularity, but all exterior timbers must now be of heart quality to conform with Building By-laws, where in the past the use of lower grade timbers was permitted. There have, over the period, been substantial changes in the materials used for exterior sheathing, some of which are still in more or less experimental stages, and although the initial cost is-known to approximate that of weatherboarding, the period of trial and error has not been sufficiently long to accurately determine the problem of Cost versus Value, but if permitted to be used, the builder has the assurance that all new materials are first subjected to official test by the Standards Institute, a protection not previously afforded to him. Under this class is the stucco on solid base sheathing. Brick veneer is a new form of using a well-tried building material, and because costs have not been increased by its use in the average dwelling, its low maintenance costs increases its value for a long term investment.

Roofing.-Because of the restrictions placed on the use of corrugated iron in 1942, this material cannot be included in a schedule of costs, but if its use were permitted, the cost would no doubt be in excess of tiles, both clay and concrete; which were gaining strong popularity even before the war.

There again the maintenance factor is the distinguishing factor between Cost and Value. The use of tiles requires perhaps some expenditure in replacement of an occasional broken tile, but eliminates the cost of regular painting and deterioration by rust of the roof covering when of iron and the total replacement before the useful life of the building has expired. The present value of a saving of £3 per annum in roof painting over a period of 30 years, calculated at 5%%„ is £4.6.

Interior Linings.-The rough lining and scrim walls for receiving wallpaper, and the matched lining in kitchenettes and bathrooms were in the past all O.B. timbers and s>;bject to insect attack in the early part of a building life, which depreciated future sale values. This method of construction has been almost totally replaced by wallboard or fibrous plaster linings. The defects apparent in their early use have now been overcome and we now have the benefit of an interior lining, which does not deteriorate, is immune from insect attack, is attractive, draught proof, sanitary, insulating and fire resisting. All these features are attained without extra cost over the previous

methods, but values have been enhanced, useful economic life increased nad maintenance costs lowered.

Ceilings.-The old board and moulded batten and cornice ceiling would cost more than the flush ceilings of to-day, but a modern house built with them would not meet up with present day standards of popularity and values would be depreciated. In the 1925-35 period the demand was for beam ceilings; advertisements by land agents would stress this feature, but it was a very cheap method of construction. The 41n. by tin. joists spaced at 201n. centres were usually replaced by 4in. by 3in. at nearer 4ft. centres, giving no lateral strength to the building, and instead of, supporting the roof structure, invariably could not support their own weight and were braced up to the rafters. In those days their value to a sale was in excess of cost, but the same ceilings in place of the lfush type in a modern home would decrease sale value.

Conveniences, fittings, bathroom, laundry and kitchenette.

The advancements made in the conveniences and appointments are too well known to all to require reiterating here. We have only to compare the bright modern kitchenette with its enamel walls, built-in cupboards and fitments, with the old dingy lean-to kitchen and scullery, to realise the advancement that has been made, wardrobes linenpress, modern bathroom and laundry, all under one main roof, and thanks to the art of the architect the same accommodation and all these modern appointments can now be provided in a much smaller area, waste space is eliminated. Rooms correctly proportioned and situated to receive the full benefit of the site, giving a great saving in the cost of furnishing, and greatly reducing the work of the housewife.

This is the house we accept as a basis of costs in 1942 and as during the almost complete building restrictions over the three years prior to stabilisation date, the market had become so grossly inflated as to bring the sale value of these older dwellings into line with that of a modern house (except for age depreciation).

I trust that my remarks have been of some interest to our members, but I feel that I have endeavoured to crowd into the last two hours what would if properly dealt with, form a complete course of lectures.

I would like to end by emphasising what I have endeavoured to impress throughout this lecture, namely, that competent valuers are not mere calculating machines, although we are bound to enter into the realms of calculations and statistics; let us, in spite of the flood of work which has descended upon us, endeavour to keep our feet upon ifrm ground, our heads above water, and in spite of all "Remain Valuers."

# COMPUTERS

ARTICLE 1 THE VALUE OF COMPUTERS IN VALUING
BY M HILDEBRANDT
Reprinted from *The New Zealand Valuer* December 1968, Volume 20, No 8, page 379.

*At the time of writing M Hildebrandt was an intermediate member of the Otago Branch of the NZIV.*

ARTICLE 2 THE VALUE OF COMPUTERS IN VALUING: A COMMENT
By M B HYNDMAN
Reprinted from *The New Zealand Valuer,* March 1969, Volume 20, No 9, page 404.

*At the time of writing Mr Hyndman was Research Officer with the Government Valuation Department in Wellington.*

ARTICLE 3 DOES THE COMPUTER HAVE A PLACE IN YOUR OFFICE?
By R V HARGREAVES
Reprinted from *The New Zealand Valuer* December 1984, Volume.25,No 12, page 683.

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# The Value of Computors in Valuing

By M. Hildebrandt, Dip.Agr., Dip.V.F.M.. B.Comm.

One of the most frequently used techniques in economics and business research, to find a relation between two or more variables that are related casually, is regression analysis.

For instance, generally we observe, that the taller a person is the heavier he is and hence we know that there is a relationship between height and weight; but what kind of relationship is it? Is it proportional or is there some other kind of a relationship?

We may also wish to know the closeness of this relationship. If it is very close, then given the height of a person we may be able to estimate (predict) with accuracy, his weight.

As another example, consider income and consumption expenditures. We know that as one's income increases,, there is a tendency to spend more. What kind of a relationship is there between income and consumption expenditure? Is it proportional or is there some other kind of relationship? Secondly, how close is this relationship between income and consumption expenditures?

Mr Alex Laing, Public Valuer, Dunedin, and myself decided to find whether the computer could be of any assistance to the Valuer by using this technique. We ifrst decided to write to the American Valuers' Association to see if they had done any work in this area, and the Rural Appraisers Association very kindly sent us an article which outlined a method of valuing by computer using the Multiple Linear Regression Technique. However, in America they have the benefit of a large number of sales in one area under similar conditions thereby assuring that the data which is transmitted from the use of th. technique is very accurate due to the sheer weight of sales data which can be fed into the computer.

We consulted with a Statistician at the University of Otago who confirmed that comparable sales could give a mathematically meaningful answer as there would be sufficient comparable sales to make the conclusions convincing. We decided that by using the technique we would try to determine the most important factors contributing to the sales price in an area which we were familiar with, and we shall see that this result was achieved. But first we had to determine the factors which in our opinion contributed in any degree at all to the sales price. The computer would then select the most important of these. At this point Mr Laing, who was at the time engaged as the valuer for the Southland Federated Farmers in their objection to the most recently gazetted Government Valuations in this same area, took over and presented a list from his considerable investigations as to the factors which in his opinion contributed to the sales price in this area.

After debate and some amendments this list was accepted and we set out to find the factors that contributed most to sales price in the area. We first had to decide how to score these factors in a form which the computer could accept, namely to score them in numbers. The method decided upon is outlined as follows and is reiterated in the table at the end of the article. For instance stock numbers were taken at the date of sales, converted to stock units and punched on the punch

In this article the author discusses the application of statistical techniques and computerisation to valuation problems and examines a case study of rural land sales in Southland. Mr. Hildebrandt is an intermediate member of the Otago Branch of the Institute.

cards to be fed into the computer as information upon which it could base its results. From the table as an example; sale I had at date of sale, an area reading of 250 acres, its location was 7 miles from the main road; the soil was class 10 (heavy); insured value of the buildings was $2900; basic improvements (other improvements) class 4 in a scoring rate of 1 to 10; the tenure was freehold; the rainfall 50 inches; it was 60% developed; the total stock units 1200; the date of sale was January 1965; and it sold for $25,000. The other sales can be interpreted in the same way.

The list of factors and the method of scoring them was:-

| *FACTORS* | *METHODS OF SCORING* |
|---|---|
| (1) Area | in acres |
| (2) Location | distance from main road |
| (3) Soil | from 1 to 10 (e.g. light to heavy) |
| (4) Buildings | Buildings. (Insurance value) |
| (5) Basic Improvements | from 1 to 10 (poor to good) |
| (6) Tenure | freehold = 3 - leasehold = 2. |
| (7) Climate | in inches of rainfall |
| (8) Land left to be Developed | from 0 to 100% |
| (9) Stock Numbers | in ewe equivalents |
| (10) Sale price | in monetary units |
| (11) Date | in months from 1/64. |

This data was then run through the University of Otago's I.B.M. 360 Computer programmed with a Multiple Linear Regression programme. The results can be seen on the table. The least significant factors (starting with the figure 1) were:

1. Climate
2. Area
3. Date of Sale
4. Basic Improvements
5. Buildings
6. Tenure

The four most significant factors were: (in order of significance)

9. Stock Numbers
1. Location
2. Soil type
8. Land left to be Developed.

The test of significance (using an F. Test) for these factors were:

| | |
|---|---|
| Stock Number | 224.722 |
| Location | 6.678 |
| Soil Type | 1.746 |
| Land left to be Developed | 1.554 |

*All this simply means that stock numbers were by far the most significant factor contributing to the sale price: with location far behind; soil type and land left to be developed running a close third.*

To be conclusive in this result it was found on analysis that the results obtained regarding stock numbers could only be wrong once in approximately ten thousand times; those with regard to location once in one thousand times, and those in regard to location and soil type once in one hundred times. It is quite possible to statistically test results obtained like this and is the commonly accepted method of so "testing" their validity. *In addition it was found on further analysis that these four factors accounted for 97.26% of the sale price in this area* and we were informed on good opinion that the results were very positive.

Encouraged with our results Mr Laing and myself tried to interpret the results from a practical point of view and we tool: the results to mean that farmers were willing to pay primarily for the lands carrying capacity (Factor 9) provided the farm was in a good position in relation to access (Factor 1) with a small premium for heavier soil (Factor 2) and also recognising the contingent liability required to develop the areas of undeveloped land, (Factor 8). However, other valuers may place a different emphasis on the results and in this respect the valuer cannot be

replaced by a mere machine. It does however give him a more precise picture.

In a conventional sales analysis valuers employ an inexact and crude form of regression analysis when they isolate such items as square feet in a house, size of the section, terms and date of sale etc., and then estimate how each of these terms will affect the final estimate of the house being valued.

Regression analysis permits a more precise and accurate use of the process.

The significance of the computer to the modern valuer can easily be seen; for a large organisation like the Valuation Department whole areas could have a sales analysis completed by computer before the valuers ventured out. Perhaps only the Government has the large volume of sales data available at the present moment in New Zealand to undertake such a scheme. The technique can also be used with urban sales and we can imagine a potential buyer of a house obtaining a valuation by a computer for a small fee to see if the sale price asked is reasonable.

One can with a little imagination vizualise a computer centre that would issue sales analysis to valuers for a fee. Valuations could even be supplied with the analysis (the same technique is used as outlined above with a few modifications).

*APPENDIX - MULTIPLE LINEAR REGRESSION.*

In general, we can study the relationship between two variables called X and Y. Thus for example, we can consider the relationship between sale price (Y) and location (X) but it is obvious that to have a practical value we must extend our model to as many factors which have a bearing on the sale price. The statistical technique of extending simple models to consider two or more indedendent variables is called multiple linear rcgession.

This is of the form Y = a + bl xl + b2 x2 + b3 x3 . . . bn xn

Where b is the coefficient weighting and X is the factor having a bearing on Y, the dependent variable (In this case Y is the sale price of the property). The word linear illustrating that we assume that sale price will rise (or fall) in a straight line as the value of the independent variables (x) alter.

However, in real life we get a "cloud" of data and we have to try to see our way through the "cloud" by only looking at the linear component of it. Essentially we are trying to fit the *best* straight line. We then proceed to measure the deviation of the recorded data from the straight line we have fitted. We can also test to see what percentage of the total deviation has been explained by the regression line.

It is also possible by eliminating other variables and holding some constant, to test the effect of each variable on the dependent variable (y), thus obtaining which of the variables has the most significant effect on sale price.

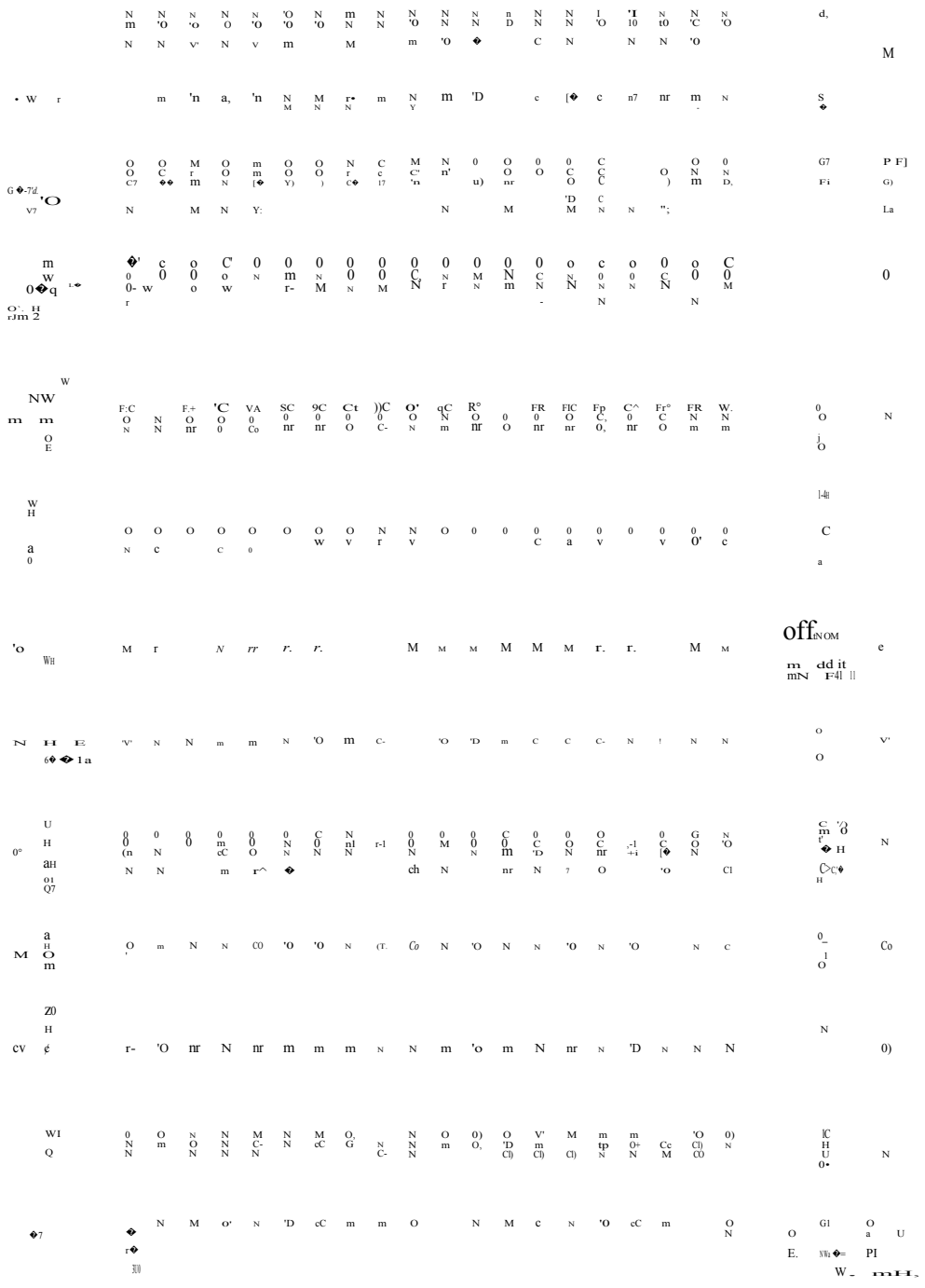
The actual method of using the computer was to select the dependent variable e.g. Sales price in this instance, then running through the sequence using the 10 remaining factors, rejecting the one which was the least significant and then running through the test again with the 9 remaining factors. This was done until the last 4 remained. By the statistical F Test these four were the only ones at all significant. (For the mathematically minded the F Test was used with 9 degrees of freedom at a confidence level of 95% and at this level the four factors mentioned above were the only ones at all significant).

Regression analysis represents a special application of Algebra, and is no more complicated that the Inwood tables which valuers are accustomed to using.

Regression analysis rests on the assumption that one item usually called an independent variable under given conditions can cause a change in another item, usually called a dependent variable. For example if one house (dependent variable) is cffered and several persons want that house and can pay for it (independent variables), the final selling price will be high because these persons will bid among themselves to obtain that house.

*ACKNOWLEDGEMENTS.*

*I offer thanks to Mr. Spiers, Statistician at the University of Otago Medical School and Mr. Robertson also Statistician at the University of Otago Mathematics Department who gave me every assistance in this project.*



# "The Value of Computors in Valuing" A Comment

*by M. B. Hyndman, B.A. (Hons).*

I was particularly interested to read in the last issue of this journal Mr Hildebrandt's article commending the use of statistical techniques in real estate appraisal, which has been made practicable by recent rapid advancements -in computer technology. Multiple regression analysis (linear and curvilinear) certainly offers bright new prospects for the valuing profession in New Zealand in terms of both greater accuracy of assessments and enhanced economic efficiency. In view of the immense benefits promised by the harnessing of computers to the appraisal process, I feel that elaboration and expansion of some of the points raised by Mr Hildebrandt would be of much interest to the valuer.

*I. Factors affecting sale prices*

With regard to the determination of the factors having the greatest influence on farm sale prices in the Southland district studied by the author, the computer results indicated that the four most significant factors were in descending order: stock numbers, distance from the main road, scil type, and the percentage of land remaining to be developed. However, the point which I think the article does not emphasise sufficiently is that the computer does not merely enable the valuer to rank the different factors (independent variables) in order of importance but provides what is in effect an actual monetary assessment of the amounts which each of these factors (when in this combination) contribute to the prices realised in the market.

This feature of the multiple regression technique is illustrated by the following hypothetical example which is largely modelled on Mr Hildebrandt's findings. Equation (i) represents the form of a linear regression equation calculated from a study of the prices paid for a sample of comparable farm properties in a certain locality.

$PRICE = \$800 + \$90 X (No. of stock i n EE's) - \$60 X (Miles from main road) + \$45 X (Soil type ranking) - \$20 X (% of land to be developed) . . . (i).

Without embarking on a statistical explanation' of this equation it is probably easiest understood as being an estimation of the average relationship existing between the prices realised for these generally similar farms and the other factors considered. The equation can be interpreted as stating that for the farm properties examined in the regression analysis the total selling price increases by \$90 per ewe equivalent, decreases by \$60 for every mile the farm is away from the main road. increases by \$45 for each step up the soil type scale and decreases by a further amount of \$20 for each one per cent of the land remaining to be developed. (N.B. All these effects are net of one another). It also indicates that in the absence of these factors the price would be \$800.

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Now suppose a valuer in this certain locality is asked to appraise a farm property (A) similar to those in his sample of recent sales. On the assumption - common to valuing practice - that this estimated average relationship will hold good for other similar farm properties not in the initial sample upon which it was based, the valuer can then use this linear regression equation to estimate its "most probable selling price".' The current selling price or capital value of farm A can be quickly and simply determined, yet with considerable accuracy, by merely substituting the appropriate values of the four main farm characteristics (independent variables) included in the regression equation. Given the following data about farm A:

stock number = 1200 EE's
distance from main road = 5 miles
soil type = 8
land left to be developed = 40 per cent

the valuation analyst would calculate the farm's expected current market value as follows:

$PRICE = $800 + $90 X 1200 - $60 X 5 + $45 X 8 + $20 X 40 = $110,260.

It must be remembered that the above relationship is only an *average* one and, just as in the more primitive mental regression analysis regularly carried out by the valuer, there will be some margin of error in the prices estimated from this equation. However, one of the great advantages of employing the multiple regression analysis via the computer is that it can accurately determine just what is the possible range of error in the market value estimates. For instance, in the case of equation (i) the standard error of estimate may be ±$260. This means that the valuer can expect the actual selling price of farm A to lie within the range $110,000-$110,520. He can then, from his detailed ifrst hand knowledge of the farm and experience of the market in the locality assess the most probable selling price at some level within this range.

II. *The Treatment of the Time Element of Sales.*

The results of Hildebrandt's regression analysis indicated that the date of sale variable was not significant in spite of the fact that the 20 sales comprising his sample took place over a time span of almost two and a half years. I find this result somewhat surprising but realise that it could be explained by the existence of some short-run tendency for prices to remain almost stationary due, say, to falling prices for New Zealand's farm exports. Nevertheless, this result might well give the valuer the false impression that the time factor is generally not important. In order to ensure the avoidance of any such possible misunderstanding some discussion of the issues involved in treating differences in sale dates seems to me to be necessary.

Time is an extremely important element in any sales analysis as the valuer well knows. The validity of this statement is borne out by recognition of the general secular tendency for real estate prices to rise merely to offset the reduced real purchasing power of money caused by inflationary pressures. There are other temporal influences on farm prices besides inflation - factors such as population growth, changing economic conditions, and changes in public attitudes - which, other things equal, will interact to produce

*'A Statistical Approach to Real Estate Value with Applications to Farm Appraisal,* by Professor Irving F. Davis, Jr, published by State of California, Division of Real Estate 1965, provides a full explanation of the application of regression analysis to the appraisal process.

'This is the term used by Professor Richard Ratcliff in his excellent book, *Modern Real Estate Valuation,* published by the Democrat Press in 1965.

changes in the general level of these prices. All these factors together bearing on the market prices of farm real estate make it impossible for the valuation analyst to ignore their effects over time.

There are two main ways in which the time element of sales can be handled in applying multiple regression analysis to the appraisal process:

(1) the date of sale can be included as an independent variable in the regression model; or

(2) the time factor can be avoided by choosing a sample of properties selling within a short period of time such that the influence of the price level trend, which is reflected in the date of sale variable, is insignificant.

The former method, which was employed by Mr Hildebrandt in his study, takes into account long-run movements in the level of prices paid for farm real estate over time thereby enabling the valuer to use a regression equation fitted to a sample of fair prices today to predict selling prices of similar (or the same) farms at some specified date in the future. An example will demonstrate this use of the regression technique. Suppose that from a sample of farm sales which occurred over the past three years the following significant relationship was found:

$$\$PRICE \text{ (per acre)} = \$650 + \$8 X \text{ (No. of stock per acre in EE's)} + \$12 X \text{ (Date of sale in months from some given base)} . \quad \text{(ii)} .$$

In other words, the selling price per acre increases on the average by $8 for each additional ewe equivalent plus an average of $12 per acre every month. If the valuer wishes to estimate the price of a farm comparable to those in the sample at a date three years ahead he would simply insert the relevant data about the farm in question - including the future hypothetical date of sale - in equation (ii).'

The accuracy of this, or any other, predicted future selling price will depend very largely on the stability of social and economic conditions - a point which did not emerge from Mr Hildebrandt's article. In the New Zealand context where the economy is subject to marked unexpected fluctuations, the uncertainty of future market conditions would generally render predictions made too far into the future unreliable. Similarly, if the sales upon which the regression estimate of today's most probable selling prices is based, have taken place over a relatively long period of, say, three to five years sudden and unpredictable changes in the general level of prices may again cause these estimates to be inaccurate, although the results of Mr Hildebrandt's article might suggest otherwise.

The alternative method of treating time is to base the regression analysis on sales taking place as close to the period for which the estimated most probable selling price has to be made. Extrapolation of the average relationship between price and the other factors considered is then far less subject to error due to frequently changing conditions, and thence superior in this respect. This opinion is supported by Professor Irving Davis, Jnr., who, from his extensive research, considers that to obtain the best results from extrapolation the valuer should endeavour to use the most recent sales data. This does mean, however, separate regression equations will have to be calculated as changes occur in the general economic environment and, in particular, those conditions affecting the farm real estate market. Continual advances in computer technology and the possibility of a central computer centre - as suggested by Mr Hildebrandt - having a complete record of all real estate data and linked to a series of smaller information centres strategically placed throughout the country, should make this no great difficulty.

'The same procedure is used if the valuer has to estimate the market price at some date in the past, say for the purpose of a compensation claim.

# Computer Wise

## DOES THE COMPUTER HAVE A PLACE IN YOUR OFFICE?

*by R. V. Hargreaves.*

## PART III: COMPUTER HARDWARE.

Bob Hargreaves is a Senior Lecturer in Valuation at Massey University, Palmerston North. He is also the Councillor for Central Districts and is a member of the New Technology Committee.

This is the third and final article in the current series.

Once the valuer has decided that suitable computer programmes (software) are available the next step is to investigate the type of computer equipment (hardware) needed to run that software. Making computer selection decisions is more complicated than deciding what type of new car to purchase because while the uses for automobiles are already well understood it is often said that the- potential uses for computers are only limited by the imagination of the users.

In order to evaluate the merits of various computer systems the valuer needs to have an elementary understanding of the basic computer equipment likely to be found in the future valuation office. This equipment is illustrated in Figure 1.

Input Device: This is a device that enables the user to communicate with the computer. At present this is typically a typewriter-like key. board. As the information is typed into the computer it is displayed on a visual display unit (VDU) which monitors communications to and from the computer. As discussed in the previous article in this series recent developments in input devices are touch sensitive screens, the joystick or `mouse device, and voice recognition.

Central Processing Unit: The heart of all computer systems is called the central processing unit (CPU). The CPU is based on one or more silicon chips that control the functions of the computer. The main components of the CPU are an arithmetic unit, an input/output unit, and a memory unit. Pre-programmed instructions are permanently held in the read only memory (ROM) and programmable instructions in the random access memory (RAM). The computational speed and thus power of the computer is a function of the type of chip used in the CPU. Most existing microcomputers use the slower and less powerful eight-bit CPU chips. Newer machines usually offer sixteen-bit CPU chips and a few of the latest models use thirty-two bit chips. Sixty-four bit chips are being manufactured for large computers and no doubt will soon be used in microcomputers.

Storage Devices: The internal storage device for a computer is called the random access memory. The capacity of the RAM is governed by the type of chip used in the CPU. Business computers with eight-bit CPU chips typically have a starting capacity of approximately sixty-four kilobytes (65,536 bytes or memory cells). As a number of popular electronic spread sheet programmes require more than 64 (K) RAM valuers should make sure that the machine that they purchase has an expandable RAM.

Since computers only retain information in the RAM while the power supply is turned on it is necessary to have an external storage device connected to the computer. There are a wide variety of external storage devices currently in use and these are typically based on magnetic discs. (Standard audiotapes interfacing with the computer by means of a tape recorder can be used as a cheap storage mechanism but are too slow and unreliable for business use). Magnetic discs come in `hard' or `floppy' format. Floppy discs are made of soft plastic that has been coated with magnetic material for recording informa-

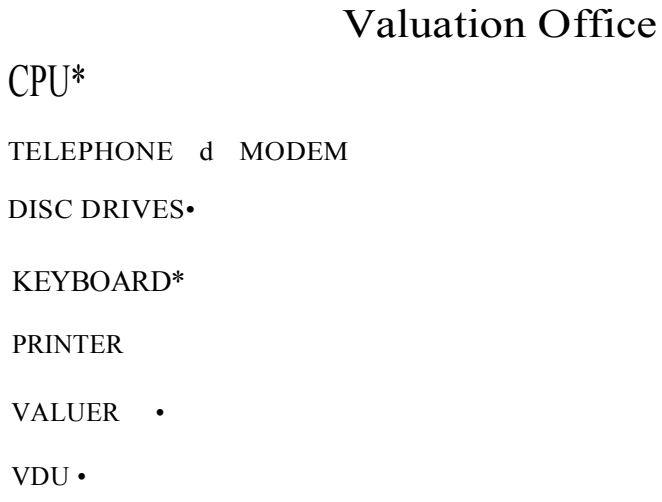


Figure 1: Future Valuation Office.

tion. The floppy discs are read by a device called it disc drive which operates in a similar fashion to a tape recorder. Floppy discs are usually either 5Iin. or 8in. in diameter. There is a movement by some manufacturers towards smaller floppy discs for portable computers but as yet an industry standard has not emerged. It is possible to store approximately 2000 sales or 100 microfiche frames on one 5*in. floppy disc.

There is also not an industry standard between manufacturers in the way that information is written onto a floppy disc. This means that a 5*in. floppy disc in say Altos format will probably not be able to be read by an IBM computer. Problems can also arise when computer manufacturers upgrade their disc operating system so that the old model machine may not be able to read a disc in the new format. Fortunately, most of these problems can be overcome (at a price) by disc to disc conversions.

When it is necessary to store large amounts of information in computer format it may be necessary to contemplate using a hard disc instead of floppy discs. Hard discs are considerably more expensive than floppy discs but can store much more data and allow the user approximately 10 times faster access. Valuers operating in large cities are likely to find that hard discs are the only practical method of storing large volumes of easily retrievable sales data in their office. The recent development of 'removable hard discs for micro-computers enables the information to be duplicated on another hard disc and will overcome the need to use floppy discs as a `back up' mechanism.

There are likely to be technological developments in the future, such as bubble memories, which will result in improvements in the storage of computer information. The current tape and disc drive systems have a relatively large number of mechanical parts and these tend to break down more frequently than other non-mechanical computer components.

Output Devices: The VDU acts both as an input and output device. Some of the less expensive computer systems utilise a standard house-hold television set as the VDU but this approach is not generally suitable for business use. Household television sets do not have the high resolution and anti-glare screens necessary for comfortable working conditions.

When the user requires a `hard copy' of the output it is necessary to connect the computer to a printer. There are a wide variety of printers that can be used and this technology is also undergoing rapid changes. At the present time most users find that the lower cost dot matrix type printers are only suitable for draft quality work and that the more expensive and slower daisy wheel type printers are necessary to produce high quality results. It is possible to interface some brands of standard electric typewriters with computers but so far the results appear to be disappointing due to very slow print speed, cost of the interface equipment, and the level of equipment failures.

Communication Devices: Computers can communicate with other computers by using the telephone system. To connect a computer to the telephone system requires an additional piece of hardware called a modem (modulator/demodulator). The least expensive modem is the acoustic coupler type as shown in Figure I. A standard telephone headset fits into a pair of rubber cups that are connected to the computer. This type of modem has a relatively slow data transmission rate. Modems that are directly wired from the telephone system into the computer can transmit data much more rapidly and the more expensive models have features such as automatic dial-up and answer phone. In the author's opinion there is little doubt telecommunications will become increasingly important as a mechanism of distributing information to valuers. The Dunedin ifrm of J. O. Macpherson and Associates have several years experience in this area. The author understands that several large North Island valuation practices are planning to use the Macpherson system of electronically distributing sales data from a central computer.

Viewdata:

Another exciting communications development is the `Viewdata' system currently being tested by the N.Z. Post Office and a number of computer companies. Viewdata is a generic term used to describe systems that use a standard protocol and make use of a telephone, keyboard, modem and television set to link the user with computers all over the world. Standard microcomputers can be readily adapted to link into the system.

It is likely that many valuers will be attracted to a Viewdata type system as initial studies by the NZIV Technology Committee have shown that equipment costs can be minimised and the system appears easier to learn to use than most existing computer systems. Viewdata makes use of the package switching system currently being introduced by the Post Office. Computer technology is utilised to enable a number of users to share telephone circuits dedicated to very high speed data transmission. The current charge for data calls within New Zealand is 8c per minute. Viewdata will be discussed in more depth in a article in this section of the journal.

Ownership Costs:

The pre-tax annual costs of owning a microcomputer are approximately one third of the capital costs of the hardware and software. Thus if a valuer purchases an $18,000 system the annual costs will be around $6000. Several calculations showing the ownership costs of an average sized microcomputer are shown in Appendix I. It can be seen that about half the cost of owning a computer is the depreciation factor. Costs can sometimes be minimised by purchasing good second hand equipment. For example, it is quite common for certain brands of one year old used equipment to sell for about half the new cost.

Summary:

Valuers contemplating a computer purchase should work through the following list in the order given.

1. Consider the objectives of the valuation practice and the individual members of the practice. Microcomputers have been described by some critics as a product looking for a problem to solve. Computers are definitely NOT for everyone! If the existing manual systems work efficiently then what justification is there to complicate things by introducing a computer?
2. Examine the potential computer applications for your business. Talk to other valuers and perhaps consider using a consultant to help you in this area. The biggest payoff from introducing a computer may be a use that you had not even thought about.
3. Evaluate the existing software for the applications that you are considering. Always opt for proven software in preference, to untried programmes. Pioneering has a high cost since almost all new custom programmes don't work properly when first introduced.
4. Finally, after completing the first three steps settle on a suitable type of computer equipment. Try the computer out in your office before purchasing the equipment. (Sales people can be less than helpful once you have paid for the equipment).

Brannstrom and Klemme'll suggest that if the potential user follows the above four steps then it may be possible to avoid the 10 pitfalls outlined by the U.S. based Association of Computer Users.

Ten Pitfalls to Avoid When Buying a Small Computer:

*Buying Backward - don't buy first and ask questions later!

*Inadequate Contract or No Contract At All! - get it in writing!

-'Failing to Test Drive the Equipment - see it run!

*Buying Blind look at all the alternatives.

*Passing the Buck - don't delegate the decision to someone who doesn't really know what you want!

*Unrealistic Expectations - don't expect too much too soon!

*Ignoring Hidden Costs - include all cables, forms changes, etc.

"Buying from the Wrong Supplier look for a knowledgeable dependable local supplier if possible.

. Buying a "Dead-End" Machine - try for a machine with a future!

*^Buying for the Wrong Reasons - clearly state your goals before buying.

Conclusion:

There may be a temptation for some valuers to avoid making decisions about computer systems on the grounds that the industry has not yet stabilised and costs are likely to continue to fall. While sympathetic to this view the author is of the firm opinion that valuers will be left behind by other professionals unless they come to grips with the new technology. The longer one leaves it the harder it will be to catch up.

It is unfortunate that there is still a mystique surrounding computers that has the effect of making many of us feel fearful and somewhat threatened by computers. No doubt part of the problem is the complex `jargon' that some computer people still insist on using when talking to lesser mortals, and another difficulty is that some computers are not programmed to be user friendly. Fortunately our children quickly see through the jargon and are not inhibited by computers, using them as a tool to assist in learning, playing games etc.

Experience from a 1983 course for practising valuers held at Massey showed that 95 per cent of the 60 participants began to use simple programmes within half an hour. Only a small minority of the participants had previous computer experience. Thus computers can be made to be friendly if they are programmed appropriately.

Reference:

Brannstrom, A. J. and Klemme, R. (1983) "Problems and Opportunities in Buying a Small Computer for the Farm". Journal of the American Society of Farm Managers and Rural Appraisers, pp. 3-9.

Appendix I

Ownership Costs:

The cost information shown in Tables 1 and 2 was calculated as at August 1984 and should be only used as a general guide.

Table 1: Estimated Initial Hardware Costs:

| | Low | High |
|---|---|---|
| Computer (includes keyboard, dual disk drives, CPU, VDU and 64K RAM) | 6000 | 10,000 |
| Extra 64 K RAM | - | 500 |
| Matrix Printer and Interface | 1,500 | 2,000 |
| Correspondence Printer | - | 6,000 |
| Winchester Hard Disc (5 megabyte) | - | 6,000 |
| | $7,500 | $24,500 |

Table 2: Estimated Initial Software Costs:

| | Low | High |
|---|---|---|
| Word Processing | 125 | 800 |
| File Management | 250 | 900 |
| Electronic Spread Sheet | 150 | 700 |
| Accounting | 500 | 1,200 |
| Operating System | - | 500 |
| | $1,025 | $4,100 |

Table 3: Fixed Cost Factors:

| | |
|---|---|
| Depreciation (100%-l0%)/5 years | = .18 |
| Interest on average investment (.16/2) | = .08 |
| Repairs (0-10% of new price) (or Service Contract) | = .05 |
| Insurance (1% of new price) | = .01 |
| | .32 |

| | Low | High |
|---|---|---|
| Total Hardware and Software Costs | $8,525 | $29,600 |
| Fixed Cost Factor | .32 | .32 |
| Estimated annual cost of ownership | $2,728 | $9,472 |

The yearly ownership costs range from $2728 (low end) to $9472 (high end). Variable costs (discs, paper, electricity, ribbons) would range from $200-$400 per annum.

Valuers should be aware that these cost comparisons are made on the basis of an average sized microcomputer and that it is possible to spend far more on both hardware and software, particularly if multi user equipment is being contemplated.

# EDITORIALS

ARTICLE 1 THE LAND SALES LAW by W G MCLINTOCK
Reprinted from *The New Zealand Valuer 's Bulletin* March 1944, Volume 3, Nol, page 3.

*W G McLintock was a Foundation Member of the NZ Institute of Valuers in 1939 and fellow of the Auckland Branch at that time.*

ARTICLE 2 HONESTY ABOVE ALL ELSE by W G BOSWELL
Reprinted from *The New Zealand Valuer's Bulletin,* December 1945, Volume 3, No 8 page 175

*W G Boswell was Foundation Member of the NZ Institute of Valuers in* 1939 *and associate of the Auckland Branch at that time. He has been a well known practising valuer in Auckland*

ARTICLE 3 EDITORIAL (TEN YEARS AS EDITOR) by E J BABE
Reprinted from *The New Zealand Valuer* December 1965, Volume.19,No 8, page 282

*E J Babe is former Director-General, Housing Corporation NZ, Editor NZ Valuer, author and frequent contributor to the New Zealand Valuer's Journal, past President of the NZ Institute of Valuers and now a life member of the Institute.*

ARTICLE 4 TOWARDS A NEW ZEALAND METHODOLOGY by R L JEFFERIES
Reprinted from *The New Zealand Valuer* September 1970, Volume 21, No 5, page 160

*Rodney L Jefferies is Senior Vice-President of the NZ Institute of Valuers, senior lecturer Valuation Auckland University and consultant partner Barratt-Boyes Jefferies, Valuers,Auckland. He is a former editor of The NZ Valuers' Journal.*

ARTICLE 5 THE FARM FIRM by M T GAFFANEY
Reprinted from the *The New Zealand Valuer* September 1975, Volume 22, No 11, page422

*M T Gaffaney is a former editor of The NZ Valuer, former Assistant Chief Appraiser, Rural Banking & Finance Corporation, now Executive Director, NZ Fruitgrowers Federation*

ARTICLE 6 STANDARDS OF PROFESSIONAL CARE by J G GIBSON
Reprinted from *The New Zealand Valuer,* June 1978, Volume 23, No 10, page 493

*John Gibson is a former editor of The NZ Valuers' Journal, ChiefValueroftheHousing Corporation NZ, and present General Secretary, NZInstitute of Valuers.*

ARTICLE 7 COMPETITION-COMPULSORY ASSOCIATION by M E GAMBY
Reprinted from *The New Zealand Valuer,* June 1984, Volume 25, No 10, page 543

*M Evan Gamby is a former editor of The New Zealand Valuers' Journal, a fellow of the NZ Institute of Valuers and is a Director of Robertson Young Telfer Ltd, Valuers, Auckland.*

# EDITORIAL.

## THE LAND SALES LAW.

The humdrum lives of the majority of our Institute members, both Practising and Government, have been rudely disturbed by the introduction and application of the Land Sales Act.

For those who combine Real Estate with valuing the change has been most marked. Comparatively little time is taken in effecting sales, but much time is spent in justifying them. Long hours of preparation and repeated cross examinations tend at times to warp our judgment and fray our tempers, and though some of us are better off financially, such improvement is made at a considerable sacrifice of time and energy.

The Act has been in operation some six months, hardly long enough to permit us to form any mature opinion as to its worth. Nevertheless certain defects are already apparent, defects not only in administration, but also in the standard of valuing, and it is in the latter that we as a Valuer's Institute are more directly concerned.

It is not proposed to indulge in a lengthy destructive criticism of the Act and its administration. It is here to stay and it is up to all of us to give it an honest trial, with the earnest hope that the ideal underlying it all, "the prevention of inflation," will be duly attained with the minimum of friction and maximum of efficiency.

The various phases can be dealt with briefly under the following headings:-

(a) Machinery of administration.

(b) Reliability of evidence.

(c) Attainment of object.

### The Administrative Aspect.

In deciding on the method of administration best suited for the purposes of the Act the Government had as a guide the experience of our Australian brethren, whose scheme of eontrol was inaugurated a year or so previously. The Australian Government scheme centres round a panel of expert valuers whose professional knowledge is brought to bear on all transactions involving doubt as to the genuineness of the selling price. The N.Z. Government, on the other hand, preferred to place its trust in committees similar in constitution to the old Rehabilitation Committees. Without valuing experience to guide them, some members of the committees are inclined to approve standardised figuring without fully appreciating the many and varied factors that must be taken into account when appraising the merits of any one property.

The idea underlying the setting up of separate Urban and Rural Committees was an excellent one. In practice, however, the satisfactory partition of the work as between Urban and Rural Courts appears to be very difficult of attainment. It must be admitted that the Act has succeeded in vastly curtailing sale transactions in farming land. Very few transactions that involve budgets have had to be adjudicated upon. On the other hand, Rural Committees have spent much time on decisions involving residential and seaside properties which rightly belong to the urban sphere. It would seem that there is room for an extension of the number of Urban Committees, with a curtailment of the rural ones.

Despite the fact that a fair proportion of the work is done without charge, the average Vendor finds that the approval of a transaction is a fairly costly matter. Even though the transaction is finally proved to be a decidedly reasonable one, a valuer must still be employed, and attendance at Court with Solicitor and Valuer often required. Minor defects such as these, however, will remedy themselves in the course of time, and it is generally agreed that the Committees as a whole are performing an onerous and at times unpalatable job with commendable wisdom and judgment.

The Crown Representative performs a thankless task. For some obscure reason the appointees to this position seemed for the most part wholly inexperienced in the gentle art of examination and cross examination. Happily a certain proportion have proved themselves apt pupils and can

hold their own with their more experienced legal opponents.

A weak Crown representative throws an undue burden on the committee, who ordinarily relies on the respective counsel to bring out the strong and weak points in each particular case.

Evidence in Court.

Valuing is not a science, but scientific methods can be used to prove the correctness of a Valuer's judgment.

The atmosphere of a Court is not conducive to the propounding of scientific theories, and it is observed that in nearly all cases valuers revert to simple means of confirming their judgment. That there is such a wide variation in values submitted can be attributed to a great extent to the very indefiniteness of any assumed standard in December, 1942. At that period building costs were subject to wide variations, and the desperate needs of clamouring buyers effectively destroyed any pretence of uniformity in prices paid.

In general it can be said that Government valuers were inclined to be conservative and practising valuers over generous in their estimates. That there is now agreement on a not inconsiderable proportion of valuations would suggest that a common basis is gradually being evolved at least amongst the more dependable type of valuer.

Personal observations would also permit one to conclude that the average N.Z. Institute of Valuers member is doing a good job and doing it thoroughly. Undoubtedly we have our black sheep, and while it is very difficult to bring conclusive proof of advocate valuing, it is fairly obvious that certain valuers, including odd Institute Members, can be relied on to support any price that an avaricious seller is capable of demanding. It behoves the Institute, therefore, to keep'a very watchful eye on proceedings so that disciplinary action can be taken in any case where one of its members is suspected of attempting to lower the standard of honesty and integrity which is the very foundation stone on which the Institute is built.

There is no suggestion that all good valuers are Institute members. We would remark, however, that many bad valuers are happily without our walls, and it is a matter for congratulation that our watchful membership subcommittees appear to be functioning in a manner which should preclude the admission of any but valuers who have justified their right to become members of our Institute.

The Objective?

The avowed purpose of the Act is to stabilise values, prevent inflation and protect the interests of those returned servicemen who will be desirous of purchasing a home under reasonable terms and conditions. As previously mentioned, the control has had an obvious effect on the sales of rural land; the reason being that all such would-be transfers are liable to be diverted to the Crown if the property is thought suitable for rehabilitation purposes. Obviously the Crown cannot hope for any great acquisition of land under this section, and will no doubt have to take advantage of Sec. 23 of the Act if an accelerated purchasing policy is considered necessary.

Whilst the volume of Rural sales has been somewhat adversely effected by the restrictive influence of the Court, the urban market in general has not been greatly disturbed, and following a preliminary period of distrust of restriction the volume is again increasing. The majority of purchasers are desperately in need of a home, whilst the greater body of sellers are somewhat lukewarm in the endeavour to sell. The Act has not rendered easier the path of the poor, suffering purchaser. Cases are known where three or four consecutive properties have been tentatively purchased, only to be annulled through the operation of the Act. There are persistent rumours that ways and means are found of circumventing the Committees' decisions. Such methods of defeating the ends of justice are criminal, but alas ofttimes the very Acts which are made for our well-being tend to make criminals of some of us.

Summing up, one can say that the Land Sales Act is not without merit. The degree of merit depends to a great extent on the uniformity and efficiency of the various Committees

(Continued on page 45)

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# *Editorial*

The Valuation of Real Estate is gradually becoming acknowledged as an established profession. The science of Valuation in itself is not newly created, though the extension of it is evidence that the advancing social habits of mankind necessitate a more intensive subdivision of labour, and demonstrates the interdependence of Society as a whole upon the specialist knowledge of groups of individuals within it.

Our Institute has every reason to believe that within its membership of well over five hundred members we have the widest combination of valuing knowledge and experienoe that it is possible to secure within this country. With the searchlight of public opinion focussed directly upon our activities, it behoves members to ensure at all times that the picture revealed is a thoroughly worthy one.

The acceptance of responsibility of assessing the true value of Real Estate assumes the utmost integrity on the part of the Valuer. This is fundamental. Honesty is the foundation stone upon which the future structure of our Society depends, for without it we cannot achieve recognition among the recognised professions. If there is a slight excuse for ineptitude for generally difficult tasks there is none whatever for the execrable fault of making valuations to order. Difficult though the task may be, the Institute is determined to rid itself of the undermining influence of the advocate member.

To assist in a fuller appreciation of the position and to formulate a standard with which members should make themselves thoroughly familiar, the Institute has adopted a Code of Ethics. This Standard Code is to be distributed to all Branches in the near future, and members are strongly urged to procure copies. Only close study and genuine application of the principles embodied in the Code will build the strong and reliable Corporation we stand for. Our Ethical Cone demands HONESTY ABOVE ALL ELSE.

# EDITORIAL

This issue of " The New Zealand Valuer " concludes my association with it as Editor and I am taking this opportunity to make my farewell. It has been some ten years since I took on the task of being responsible for the Institute's journal and though it has never proved a sinecure I have found it most rewarding. In the hundreds of pages that have come from the printer there have been many of considerable merit that have added much to the store of knowledge available to the profession, but in general it is true that members never seem to find the opportunity to record for their contemporaries, and for students of the future, the lessons that their experience has taught them. For an Institute as active as ours, original contributions should be more numerous. Perhaps it is modesty that prevents many from taking up the pen, but, if this is so, it is misplaced for no profession can grow if the experiences of individual members are not shared with their colleagues.

In many ways the profession in New Zealand has had a favourable climate in which to prosper, a significant element of which is undoubtedly the existence of the Land Valuation Court. It has been part of my duties as Editor to read all the judgments of this Court and many of them have been printed in the pages of the " Valuer." The personnel of the Court have handled the difficult, and differing, facts and law of land valuation with undoubted skill and have established and maintained a standard of judicial valuation that has signposted the highway to sound professional practice.

Today, the valuer is becoming increasingly interested in the broader economic influences of valuation and is being called upon more and more to use his special knowledge of the property market for purposes other than ordinary valuation practice. To meet this challenge and to answer the demands made of him, the ability is required to appreciate the relationship of property trends to the broad economic influences at work in the community. The " Valuer" is a valuable source of information in this respect but he should not only take from it but should also give of his knowledge, too.

The next issue will be in the able hands of Mr. J. D. Powdrell, assisted by Mr. A. R. Wilson, both Fellows of our Institute. I wish them well and hope that their satisfactions will be equal to mine over the past decade. I trust, and know, that all members will give them the same co-operation that has been accorded me during my stewardship.

E. J. BABE, Hon. Editor.

# Editorial Comment

## TOWARDS A N.Z. METHODOLOGY

The term methodology is beginning to show up in valuation literature in this country and this journal has had some articles aimed at stimulating interest in, and the development of, our own indigenous advances in valuation theory and practices.

Some valuers are critical of this new emphasis. Others are disturbed by this term "Methodology". It means, in the context of valuation literature, more than mere method, or theory, or practice. It embraces in a single word the development of an orderly arrangement of ideas, concepts, methods of analysis, procedures, and calculations integral with their practical application to the day to day life and work of a valuer. In short, it is the old term "Theory and Practice of Valuation" in new maxi dress!

This new "Methodology" emhasises the application to valuation of market research, economics, statistical techniques, financial analysis, and computers.

Many valuers, schooled on personal experience and intuitive judgement as the only reliable methods, either criticise or fear these modern advances.

Ponder for a moment this quote from the Prologue to "Ellwood Tables for Real Estate Appraising and Financing" compiled by L. W. Ellwood, M.A.I., entitled: EXPERIENCE and JUDGMENT.

> "I believe experience can teach lessons which may lead to sound judgment. I believe sound judgment is vital in selecting the critical factors for appraisal. But, I also believe the bright 17 year old high school student in elementary astronomy can do a better job estimating the distance to the moon than the old man of the mountains who has looked at the moon for 80 years. So I find it difficult to accept the notion that dependable valuation of real estate is nothing more than experience and judgment.
>
> I would not give a red cent for an appraisal by the "expert" who beats his breast and shouts: "I don't have to give reasons. I've had 40 years' experience in this business. And, this property is worth so much because I say so."
>
> After all, value is expressed as a number. And, no man lives who, through experience, has all numbers so field in the convolutions of his brain that he can be relied upon to choose the right one without explicable analysis and calculation."

Inevitably you are going to hear more and more of modern techniques, regression analysis, mortgage-equity capitalisation, band of investment rates, mortgage coefficients, tax shelter, leverage, capital recapture, and expressions of valuation methods in terms of mathematical equations.

Before your head begins to spin, lets sound a note of warning!

Let us develop for New Zealand conditions, and for New Zealanders, a methodology that is both meaningful and applicable to the market and commerce of this country.

There is a great deal of useful "appraisal methodology" recently developed mainly by American appraisers, which needs to be melted down, refined and remoulded before it can be adopted as a N.Z. Methodology.

Ideally, however, we really need our own indigenous academics and researchers to develop our own techniques to meet changing conditions as we find them here. Many valuers are aware of the inadequacy of many aspects of our present techniques, or lack

of them, yet plough on using the blunt chisels we are used to. We need our own tools, developed by our own N.Z. Zangerles, Somers, Ratcliffes and Ellwoods.

But where are we to look for these men? The man in public practice is already pressed satisfying his client's deadline with the job in hand. Government is tackling some of the broader issues involving mass valuation techniques, but facing increased commitments and dwindling qualified staff. The retired man has earned his golf and fishing. The student we now have is almost always a part-time student at night school, varsity, or studying by correspondence, as well as trying to get promotion in a full-time employment.

If the need is real, we need to see the establishment in the urban field, of full-time, post-graduate teaching and research at an academic level worthy of a true profession. From this seat of learning and research will come the origins of the methodology we need. The University is the natural location for this.

It is appalling that there is no full-time urban valuation academic staff in our universities. Should we not be fostering a post-graduate degree status course in urban valuation which has an emphasis on research and methodology? It is not conceived that all valuers should need to aspire to such heights or that the present type of Institute education programme should be supplanted. Valuation is a profession that needs training "in the job" concurrent with learning the theory, and our present system will always be needed. It should be, that from these courses, the brighter student, the innovator, or the qualified valuer who is presently studying another discipline, should be channelled to such a postgraduate course, to the ultimate good of the profession as a whole.

To achieve such an objective, the establishment of a Foundation within the profession to provide the planning, finance, bursaries, and scholarships to achieve this end is already overdue.

Are we going to reach towards our own N.Z. Methodology or just talk about it?

EDITORIAL.

(Continued from page 41)

which administer it, and to an even greater extent on the ability and honesty of the numerous valuers who are called upon to give evidence on oath. The New Zealand Institute of Valuers expects a high standard of efficiency and integrity from its members. Our constant appearances before the judicial tribunals set up under the Act tend to bring us more and more under the searching eye of a critical public. We must, therefore, be careful and accurate in our work, and scrupulously honest and fearless in our opinions. The reputation of the Institute as a whole stands or falls with the individual member. If we hope to retain the confidence of the public it is up to each individual member never to let his Institute down.

# Editor's Comment

## The Farm Firm

*The Valuation Department's price index for rural real estate rose 47.7 percent in the 1974 calendar year. This was the largest annual increase yet recorded and may seem contradictory at a time when the farmer's cash income has fallen. However it is well to remember the seasonal nature of the market and the pronounced lag effects whereby the index tends to reflect the events of the previous year. Nevertheless, a sizeable annual increment in the farmer's chief asset is no doubt welcome at a time when his taxable cash income is down. Real problems would occur if both the farmer's income and his asset value were to decline together.*

*Farmers should now be realizing that they are* in *the real estate investment business rather than in the business of milking cows or shearing sheep. For the majority of farmers real estate is their main asset. While in terms of turnover the farmer is a small businessman comparable to the corner dairy store proprietor the position is quite different when it comes to looking at the total funds involved. Whereas the corner dairy will have a funds involvement of say $15,000 in stock with premises and major plant leased, a dairy farmer could well have total funds of $115,000 involved. Some $90,000 of these funds will be tied up in real estate. Clearly this dairy farmer is in the real estate investment business. It is the 50:50 sharentilker with an investment similar to the corner dairy proprietor who is in the milking of cows business.*

*For some farmers it may be appropriate to consider a sale and leaseback arrangement to the Crown. Sale and leaseback arrangements are common in the world of urban real estate with many of New Zealand's largest firms not owning the high rise office blocks or factories that display their name. Like pictorial cheques such an arrangement may not he for everyone but a sale and leaseback could assist the new entrant to get established and also the farmer wishing to retire and hand over to his son. With the steady erosion of the rights of the real estate 'owner' the time may now he appropriate to consider such a move.*

*It is a matter for concern that advice on real estate investment techniques does not seem to be as readily available to the farmer as the advice he receives on other aspects of farming. With these other aspects there seems to be an inverse relationship between a declining number of farmers and an increasing number of farm advisers.*

# Editor's Comment

## Standards of Professional Care

*The theme of the recent Council meeting and Annual General Meeting and Seminar of the Institute could well have been "Standards of Professional Care".*

*Sparking off the discussion was the recently reported case of* Singer and Freidlander Ltd v. John D. Wood and Co. *(Estates Gazette July 16, 1977 p212). The topic was mentioned at the Council meeting and was picked up in the Annual General meeting in the form of two notices of motion put before the meeting, and the subject of lively debate (itself a healthy sign of professional awareness) and was continued in the Seminar in several of the papers and commentaries presented.*

*What is the standard of professional care required of the professional man? The requirements may be summed up in the quotation of* Watkins *J. (in the "Singer case) citing from* Bolam v. Friern Hospital Management Committee (1957) 1 W.L.R. 582.

> *"The test is the standard of the ordinary skilled man exercising and professing to have that special skill. A man need not possess the highest expert skill; it is well established by law that it is sufficient if he exercises the ordinary skill of an ordinary competent man exercising that particular art."*

*Flowing from the* Singer and Freidlander *case there are a number of responsibilities that may be said to be conferred upon professional men and as a consequence could be said to be the "norm" expected of the Valuer:*

- *an obligation to inspect the property the subject of the valuation.*
- *a thorough and painstaking analysis and sober weighing of the facts relating to the valuation.*
- *a sound investigation of the background information and circumstances relating to the property.*
- *a duty of a full and frank disclosure of all the facts of which the Valuer is aware relating to the property being valued.*

*The Singer and Friedlander Ltd v. John D. Wood and Co. case gives a valuable resume of the processes through which a Valuer must go when undertaking a valuation. It also serves to remind its of the Standards of professional care our clients have the right to expect.*

# Editorial Comment

## COMPETITION COMPULSORY ASSOCIATION.

## TWO IMPORTANT ISSUES.

*The removal of Clause 16(1)K of the Valuers Act came into force on 1st July, 1984. By the time this issue of the Journal is to hand the mandatory minimum N.Z.I.V. scale fee which has been the basis of valuers' charges since 1948 will have been withdrawn.*

*The Institute has an obligation to its members and to the public to provide guidelines on fee setting to ensure that service to the public is given, and that ethical and professional standards are maintained.*

*From 1st July,* 1984 *the legislative change permits competitive charging. Prospective clients may ask for and be given quotations. The rules and Code of Ethics of the Institute have been changed in accordance with notice of motion (2) passed at the Annual Genera! Meeting in Rotorua. Although there is no set fee level branch committees have the power to examine and render an opinion as to the appropriateness of charges in the event of a complaint, and members must charge on a fair and equitable basis.*

*Our profession must adapt to this change in fundamental thinking. Make no mistake, there will be considerable variations in fee levels, both by geographical location and within the metropolitan areas. The country practice can work economically on a far lower fee base than the large centrally-based city practice. Both must charge in a manner which is acceptable to their clientele and which provides the valuer with a fair remuneration. There will also be the young energetic valuer in the new practice prepared, at ifrst, to provide his services for a lesser fee than his competitors.*

*There is a second area of self examination to he considered by practitioners and the Institute. Mr G. W. F. Thompson, M.P., Parliamentary Under-Secretary to the Minister of Internal Affairs, left members attending the Rotorua seminar in no doubt that other winds of change will affect all professional bodies in the near future. The functions, structure, funding base and trade practices of the five major compulsory professional associations are being examined. These associations are the lawyers, accountants, surveyors, pharmacists and valuers.*

*The principal justification for the existence of compulsory professional associations is public protection - to ensure a high standard of service and professional competence by a person possessing expert knowledge. In terms of the compulsory unionism issue, the reasons advanced for retaining compulsory professional associations are based on the fundamental differences between professional associations and unions. Put simply these differences are:*

- *Unions demand the freedom to associate, to provide independence of choice and collective bargaining.*
- *Professional associations only admit members having a special degree of knowledge who serve the public.*

*Professional associations demand of their members high ethical and professional standards.*

*It* is *unlikely that a Government would remove the compulsion for qualified persons to be part of a professional association which maintains as its primary objective - public protection and self-regulation to the extent that:*

*1-It practises self-discipline of members.*

*2-It actively demands that its members undergo a continuing education process and*

*3-It insists on high ethical and professional standards.*

*The danger is that professional organisations have mixed functions and they may be seen as concentrating on activities other than their primary objective. At present, compulsory membership of the Institute follows from compulsory registration by the Valuers Registration Board. This may change when the Act is reviewed in 1985.*

*The question must be posed:*

*Is it in the public interest that valuers have two compulsory bodies?*

*If the answer is yes, then the Institute must demonstrate its* case *to Government in the light of the three points outlined above.*

# HISTORICAL

ARTICLE 1 AN EARLY VALUATION WELLINGTON, 1843
By E J BABE
Reprinted from *The New Zealand Valuer* March 1960, Volume 17, No 5, page 169.

*E J Babe is former Director-General, Housing Corporation NZ., Editor of the NZ Valuer past President of theNZlnstituteofValuersand current life member.*

ARTICLE 2 VALUING IN THE EARLY 1900'S
By N H MACKIE
Reprinted from *The New Zealand Valuer,* June 1961, Volume 17, NolO, page 386.

*N H Mackie was first President of the NZlnstittue of Valuers, a Foundation member of the Institute and fellow of the Palmerston North branch at the time of writing*

ARTICLE 3 RURAL VALUING IN NEW ZEALAND IN THE 1870'S
By J H FORD
Reprinted from *The New Zealand Valuer* March 1966, Volume.19, No 9, page324.

*JHFord was Pastoral Lands Officer of the former Department ofLands & Survey, based inAlexandra, and very much involved with the establishment of pastoral leases following the 1948 Land Act. He was later active as an executive in the Stock and Station industry.*

# An Early Valuation-Wellington, 1843

By THE EDITOR

The practice of valuation in New Zealand is as old as the European settsemen: of this country. This article gives a thumb-nail sketch of one of the roles tha: valuation and men qualified to give evidence as to value were called upon to play in those early days. Needless to say, the techniques used were based on English practice but the principles followed are iho=o still obse. voce. today.

Prior to Captain Hobson's departure from Australia in January, 1840, for his passage to the Bay of Islands to negotiate the Treaty of Waitangi, Governor Gipps of New South Wales, under whose control New Zealand initially fell, issued three proclarriations. Two of them do not concern us here but the third declared that no tite to land in New Zealand would be recognised unless derived from or confirmed by a grant in the Queen's name. All purchases of land from the Maoris after the date of this proclarnat'on were declared null and void and commissioners were to be appointed to enquire into claims to land that had been fairly purchased prior to it. In this regard it was later decided that persons who'ly un.onnected with either New South Wales or New Zealand should be appointed as independent commissioners to hear and determine the claims that had been lodged and one such appointee was William Spain.

Spain, the Queen's Commissioner, arrived in Wellington to hear the local land claims in January, 1843. The biggest claimant was the New Zealand Company who claimed hundreds of thousands of acres on be h sides of Cook Strait but there were also rrany more applicants whose claims were on a somewhat more modest scale.

One of these was David Scott who declared, and had a deed to show if, that as early as 1831 he had purchased an area of 3J acres on the foreshore of Port Nicholson adjoining the Kumutoto Pa. In his hearing in the Court of Land Claims before Commissioner Spain, Scott was able to produce as a witness the Maori chief who had actually sold him the land. But the Court had also to be satisfied that the price paid was adequate having regard to all the circumstances, so Scott was called upon to explain the original consideration and produce evidence as to the current worth of the land in his claim. The valuer who gave evidence as to the current value was Robert Park, Town Surveyor to Wellington's first chortlived Municipal Council.

Before going on to Park's evidence which must be counted as among the earliest over given on land valuation in a public court in the Wellington district, it .nay be ::ell to trace the background to Scott's cia;:n and the vicissitudes he had to undergo.

Scott was a Sydney entref reneur ho sailed into Port Nicholson in 1831 to take over his company's flax depot. At that time there was a boom in flax prices on the English market and the New Zealand coast was dotted with such depots where Eurof eons bartered trade goods for dressed flax. Scott found on arrival that though the buildings of the Port Nicholson depot had been paid for in trade goods no land bud been purchased. With a fores:gh that r:c s mush for his business acumen he lost no time in drawing up a deed describing the boundaries of his depot site and for the consideration of a one hundied pound cask of gunpowder (worth £8/15/0 in Sydney at that time) induced the local chic'i, P07-1,2'7`1, to sign it with his mark.

Pomare was the Chief of the lIgati-Mutunga, a branch of the Ngati-Awa and he and his people had accompanied. To Rauparaha south from their ancestral lards in Taranaki when that famous c.hic'f hawing defeated' a much stronger force of Wail:atos at To Motunui in 1822 deemed it prudent to escape to Kapiti rather than wait for the counter-blow. The Ngati-Mutunga had drifted further on and after driving out the Maoris then occupying Port Nicholson's shores had established themselves there. By the time of Scott's arrival in 1831 the Maori allies had fallen out and Pomare and his tribe were living in dread that any day Te Rauparaha would descend on them.

This uneasy state of affairs finally forced Scott to abandon his depot in 1834 and return to Sydney. At least that was the reason he gave in evidence but there was a -such

stronger economic explanation. An 1833 the price for New Zealand flax had slumped badly on the English market and by 1834 it was no longer a profitable venture and the trade languished. Whatever the cause for abandonment Scott was shrewd enough to leave his land and buildings in Pomare's care paying him in trade-goods for looking after them.

Pomare himself only stayed on for another two years. In 1836 the fears of attack were so strong that he and his tribe prepared to evacuate their pas and kaingas and move to the South Island. However, a better plan presented itself. The Ngati-Mutunga converted, to use a modern term, the brig "Lord Rodney" and sailed *away* to the Chathams. In two trips some 900 were transported and under Pomare's leadership they made short work of the native inhabitants, the peace-loving Moriori. Those Ngati-Mutunga who stayed behind in Port Nicholson were left under the leadership of a lesser chief, Wi Tako, and there they remained to greet the agents of the New Zealand Company when they arrived to buy land in 1839.

In laying out the Company's first settlement, its surveyors ignored Scott's claim and part of the land involved was designated as roads and the balance fitted approximately the boundaries of town sections 488 and 489. Under the lottery system by which the Company distributed its lands section 488 was chosen by Mr. D. Sinclair and Section 489 by Mr. A. W. Shand. Their titles were disputed by Scott who had returned to Port Nicholson when he heard that the New Zealand Company was establishing a settlement there.

By 1843 the rival claimants had reached a stalemate. The land was in the most keenly sought after area of the "Beach" and many tenants had erected buildings on it. The New Zealand Company did not recognise Scott's claim and its grantees, Sinclair and Shand, had their tenants while Scott had others. Moreover, by this time the boom which accompanied the founding of the town had passed. Between 1840 and 1842 much private capital had flowed into the new settlement but by 1843 it had dwindled away. The early housing boom and speculative fever had gone with it as more and more people began to realise that no one, not even the great Company from whom most settlers held land orders, had a valid title to the land they occupied.

It was in this atmosphere that Spain held

his land claim hearings. His arrival coincided with the first visit to Wellington of the Acting-Governor, Lieutenant Shortland, and with the celebrations for the third anniversary of the founding of the town. To these celebrations flocked Maoris from all areas and one of them was Pomare who had returned from the Chathams to take part. Scott, therefore, had no difficulty in getting his witnesses together when the hearing of his case was called on the 8th June, 1843.

His solicitor was Mr. R. D. Hanson, who was also Wellington's Crown Prosecutor, while Mr. George Clarke, Assistant Protector of the Aborigines, watched after the interests of the Maoris. Hanson's witnesses were few: Scott to give the history of his claim; Pomare to agree to the details and to prove his own title in 1831, which he simply did by giving his rights as being derived "by conquest"; Wi Tako, the Christian Maori, to collaborate Pomare's evidence; and then Robert Park the Surveyor and Valuer.

Verbatim notes of evidence were taken down by the Commissioner himself of the whole proceedings but we are here concerned only with the evidence as to value.

Robert Park, Town Surveyor to the Corporation of Wellington, was sworn in and examined by Mr. Hanson. His evidence-in-chief was given as follows:-

"On the day before yesterday, Tuesday the 6th instant, I went at the request of Mr. David Scott to Kumutoto accompanied by Pomare, Tako, and other natives when Pomare pointed out to me the boundaries of a piece of land which he stated he some time ago sold to Mr. Scott. Tako also assented to the correctness of the boundaries pointed out by Pomare.

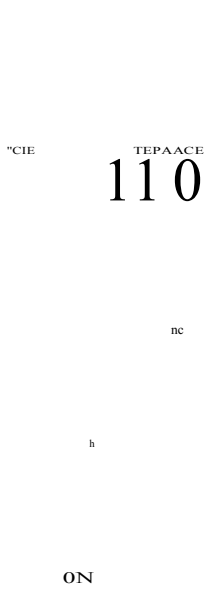


Fig. 2-Scott's Land as it appears to-day.

I made a plan of the land according to such boundaries which I now produce to the Court and which correctly shows the piece of land as Pomare stated he had sold to Mr. Scott."

(This plan is shown in Fig. I.)

"Q. What are the contents of the land as pointed out to you by Pomare, and what is the extent of the frontage to the beach?

"A. Contents 31 acres and frontage to the beach 685 feet.

"0. Have you formed any estimate of the

value of the land and will you state to the Court the amount of such estimate and the grounds upon which you have formed it?

"A. I consider the value of the land to be E5,337/10/0. I take for my data the value of contiguous land-the rental being one pound per foot for 14 years-which I take at 7 years purchase for the water frontage which is 685 feet. At the back I take a section 310 feet to Wellington Terrace at 5/- per foot for the same number of years purchase.

"Q. In the answer you have just given you have made your calculation upon the ground as at present lard out. Could not the land be laid -out to greater advantage and would not the va'ue be increased by coming down to high water mark?

"A. I consider that the land is laid out to the greatest advantage and that it could not be laid out in any way to increase the value of it. Had the land not the advantage of the water frontage I should have estimated the beach frontage at only 10/- per foot.

"Q. Have you known any actual sale of land upon the beach, and can you state the prices which have been obtained for such lands?

"A. I know of a sale of part of this very ground about 4 months ago, the frontage being 40 feet and the sum given £150, a lower sum than that at which I have estimated the value of this land. But the reason of it being sold so cheap was that the seller had had his premises destroyed by fire and was anxious to leave the Colony and therefore sold it for less than it might have realised -which reason he stated to me.

"Q. Then that land had no buildings upon it?

"A. No."

Then it was the Commissioner's turn to ask some questions.

"Q. What would you have considered the value of the land supposing the New Zealand Company had not formed a settlement here?

"A. About £200.

"Q. Are you aware that Major Durie and Mr. Hughlings have lately sold land upon the beach and do you know the prices they obtained?

"A. No. I was in treaty with Mr. Hughlings for a portion of land for a slip and he in consideration of the value the slip would confer upon the rest of his property offered to sell it at £4 per foot, one half cash, the rest at six months.

"Q. Do you not consider the value of such property in Port Nicholson to be on the decrease?

"A. Yes, and I have framed my valuation accordingly.

"Q. If Mr. Scott had been in possession of this land in May, 1840, do you not believe from what you have seen in the Colony that he could have sold the whole of the frontage to Lambton Quay at £7 per foot?

"A. Yes.

"Q. Supposing the land in question was put up to auction do you suppose it would realize the sum you have valued it at?

"A. Not unless it had the advantage of the water frontage and then I think it would.

"Q. Taking into consideration the position of this land in the town do you cons der it likely to increase or decrease?

"A. Supposing the town to increase I consider the position of this land would be likely to increase its value."

There the evidence in the claim ended and Commissioner Spain reserved his decision. It was not until the middle of 1845 that the decision was released and then in place of the 3' acres claimed the award gave only 12 acres. Nevertheless, Colonel Wakefield, the agent for the New Zealand Company, in a letter sent to England shortly after the decision became known estimated that the value of even this small portion was between £4,000 and £5,000 if the buildings were included.

This tale, however, does not end with the Crown grant. In the following year Scott decided to evict those occupiers that had derived their tenancies from the New Zealand Company's grantee and took cases for possession against four of them in the Supreme Court. A test case (Scott v. Grace) was heard and a surprise decision was given. Scott was non-suited and his grant declared void. The old difficulties as to title returned once again.

By the end of the "forties" Wellington's economic position was at a low ebb. Many people had left the Colony, trouble with the Maoris in the Hutt Valley had prevented settlers from taking up their land and land values dropped severely. The New Zealand Company itself could not survive the difficulties and in 1850 asked to be allowed to

*(Continued over page)*

# Valuing in the Early 1900's

BY N. H. MACKIE.

(Mr. Mackie is a Life Member of this Institute and he has had a long and varied experience of valuation matters. He joined the Government Service in 1903 and was appointed an assistant valuer in the Valuation Department in 1910. His reminiscences given below are a valuable record of developing practice.)

When I commenced my training as an assistant valuer in the Valuation Department, buildings were valued, not on the floor space, as is almost universal through the country today, but on the cubic contents.

At the time I am referring to, studs were commonly 11 feet in height. The formula adopted was length of building by breadth by stud height, plus half the pitch of the roof. Thus a building 30 ft. x 40 ft. with an 11 ft. stud plus a 6 ft. roof pitch would be 30 ft. x 40 ft. x 14 ft., which is 16,800 cubic feet. The rate was approximately 6d. per cubic foot. Verandahs, porches, bay windows, etc., were extras.

Two storey dwellings were valued on the same basis except that where the ground floor stud was 11 ft. the upstairs was taken at 10 ft. plus, of course, half the roof pitch.

Stud conceptions have changed through the years and I have seen them gradually creep down to 8 ft. The fashionable trends towards lower stud heights spelt the end of cubic area assessment as the stage was reached where no one would pay extra for high studs, at least studs above 9 ft.

Depreciation was calculated at 21% p.a., the dwellings being given a life of 40 years. In the light of subsequent experiences this depreciation rate has proved somewhat inadequate and is now usually halved or reduced to even 1% p.a. to obtain tangible results.

In those early days the Valuation Department did all the loan work for the State Advances Department. Information as to building and other costs was carefully and systematically compiled and used as a basis for the valuation of buildings, etc., in the revaluations of cities and boroughs.

A valuer was expected to value about 30 houses a day. To do this the external measurements were ascertained by pacing and frontages were checked in the same manner. With practice in pacing measurements it was quite remarkable how accurate one became within a few inches. For loan requirements or special valuations the tape was used and much more detail noted.

A depth table was in use, an adoption of the Somers Unit system, compiled by the late Mr. F. N. Martin, one time District Valuer, Wellington, and later City Valuer, Wellington City Council.

It was based upon the analysis of sales of vacant sections, of which there were plenty in those days, and was accepted by the Courts. This depth table was comparable with what is known today as the Cleveland table.

I do not remember the year in which the changeover was made whereby buildings were valued on square footage of floor space but I must say that the method of valuation on cubical contents stood the test of the Courts for a long time and was surprisingly accurate, more accurate, I would say, than the early floor area assessments. Nowadays, of course, the research and multiplicity of information and data available to members have resulted in accuracy in square foot assessments.

## AN EARLY VALUATION - WELLINGTON, 1843

*(Continued from page 172)*

surrender its charter. The Government took over the administration of the Company's affairs and endeavoured to straighten out the land difficulties and give the Company's grantees valid land titles. David Scott and his claim was one of those difficulties and the Government decided to buy him out, as well as those to whom he had sold portions of his land, paying adequate compensation. Finally, in 1851, Scott and those who had purchased sections of the land from him, sold all their rights to the Crown for £3,543 and there his story ends for us.

But what has happened to this 11 acres over the years? Some of it was taken as roads to form parts of Lambton Quay, Woodward Street and the Terrace and the rest was cut up and now is in the names of 13 individual owners. Figure 2 shows the present day subdivision and the unimproved values as they appear on the November 1959 Government Valuation Roll. These separate values total £223,900 for Scott's awarded block and certainly represent a more than adequate return on £8/15/0 invested 128 years before!

# Rural Valuing in New Zealand in the 1870's

By J. H. FORD, A.N.Z.I.V.

On September 20th, 1865 William Soltau Davidson boarded the sailing ship "Celoeno" at Gravesend bound for New Zealand to take up employment at the "Levels" Estate, situated immediately north of Timaru. This was a 153,000 acre property carrying at that time 85,300 sheep and had just been acquired by the Canterbury and Otago Association, which also owned two other stations - "Pareora" immediately south of Timaru and "Acton" in Mid-Canterbury.

Mr. Davidson was destined to play an important role in the administration and development of the many properties which were later acquired by the Association, and in 1877 when the New Zealand and Australian Land Co. acquired the interests of this Association he became General Manager, holding this position for 39 years.

This Land Company still farms large holdings in New Zealand and continues to make a valuable contribution to New Zealand's primary production, but the history of the Company's achievements both past and present is largely unknown even to the farming community.

In this article I propose to make brief reference to the early costs and the methods of development practised at the "Levels" Estate and also to a valuation report of the same Estate made in 1878. The report in question was recently found in an abandoned safe. This report will be of particular interest to valuers - giving as it does an insight into how, nearly 90 years ago, valuers approached their task.

But first to return to the subject of costs and methods of development employed at the "Levels" Estate. In 1867, 40 acres were cultivated at the "Levels" and planted out in a grain crop. This caused quite a sensation in Timaru and people came out to look at the crop during the weekends. As far as can be ascertained this was the first instance of cultivation practice in South Canterbury, at least on this scale.

In order to promote development per medium of cultivation, small farmers in the locality were engaged as cropping coil tractors. They did the cultivation taking two white crops. The Company also paid them 10/- per acre cash to meet the cost of their labour and the grass seed which was generally under-sown with the second white crop. Later the Company charged £1 per acre to contractors who were allowed one grain crop in two ploughings and then the land reverted back to the Company which ploughed and sowed out the area in grass at its own expense. Presumably the initial system did not produce very good quality pastures, particularly when it is known that no fertilisers were in use at that time. When these systems of cultivation were in full swing, up to 8000 acres were in crops in one season, of which only 2000/3000 acres were the Company's own risk. By 1892 there were 4000 acres of English grass at the "Levels". These areas may not seem large on present day standards, but when you consider that all cultivation would have been done by teams of horses, the activity on this Estate during those years must have been quite a spectacular sight.

While a farmer today practising the above method of development on his property would no doubt be subject to serious criticism, the fact is that it did in those days help set upi a large number of young men with sufficient capital to commence farming on their own, and undoubtedly this (lid much to assist the rapid and successful growth and settlement of South Canterbury.

The old Canterbury Otago Association, and the Land Company which took it over, can claim many firsts in farm development in New Zealand. It grew the first grain crops and sowed the first English pastures. It was responsible for introducing the Corriedale sheep into this country. This stud is still in existence and is today located at Hakataramea Station where, as a matter of interest, this year the 16,000 breeding ewes clipped an average of 114 lbs. of wool. Another first for the Company was the introduction to New Zealand of the Aberdeen Angus cattle. The herd they introduced was directly descended from Mr. McCombries. the original herd which founded the breed. Again in the dairying industry the Company led the way and in

1882 built the first-ever dairy factory in New Zealand. This was at Edendale in Southland. The factory cost £1200, but the Company received £500 bonus from the Government - the reward for exporting the first 50 tons of cheese and 25 tons of butter.

Perhaps the most famous of the Company's "firsts" was the successful exportation of frozen meat. This occurred on the 15th. February 1882, when the sailing ship "Dunedin" left Port Chalmers with approximately 5000 carcasses of mutton and lamb, of which 4/5ths. were supplied by the Company. The price realised at the Smithfield Market in London was 61d per lb. - the nett return being £1/l/- per carcass for the adult sheep and 10/9 for the lambs. This return compared very favourably with prices for stock in New Zealand, which at that time were realising 11s/12s for adult sheep.

It is hardly necessary to say that the advent of exporting frozen meat from New Zealand had a marked affect on land values in New Zealand and particularly in the South Island, where settlement was at that time at a more advanced stage. Mr. Davidson makes mention that between 1870/77, it was possible to buy the freehold of virtually any land in the Canterbury district for £2 per acre.

At the time of the amalgamation in 1877 valuations of the stations owned by the Otago Canterbury Association were requested and in due course three valuers were engaged to submit a joint report. It was a matter of considerable interest to me, with my present associations with the New Zealand and Australian Land Co., to discover that one of the three valuers engaged was John T. Ford-my great uncle. The report embraces 84 pages. It was compiled in Christchurch on the 9th. September 1878 and was addressed to William S. Davidson Esq., Manager, N.Z. & A.L. Co. Ltd., The levels, Timaru.

The preamble of this report leading up to the valuers' assessments of the individual blocks has been printed in full as it is all well worth recording. This is followed by a report and valuation of the homestead block of the "Levels".

The report reads as follows and I quote:

"Herewith we beg to submit to you our valuation of the different Freehold Properties belonging to the above Company and under your management, in the Canterbury Provincial District, known as the Levels, Pareora, Hakataramea and Acton, also the Freehold pertaining to the Kurow Station, North Otago.

"While inspecting each property, we followed your instructions to estimate separately the value of each block as outlined on the maps handed us to guide our survey and in the estimate of each block we have included such extra values as pertain to it from Buildings, Fencing, Piantations, Cultivation and area under English Grass; also proximity to formed Roads, Railways, etc.

"During the past four years the value of land in New Zealand has increased beyond the most sanguine expectations, especially agricultural land in the Canterbury district, owing in the first place to the climate and the fertility of the soil which without the aid of manure, is peculiarly adapted to the growth of cereals, root crops, English grass and clovers and to the breeding and feeding of sheep and cattle.

"Secondly - to the natural features of the country admitting the use of all labour saving implements of husbandry and machinery that can be applied to farming-

"Lastly (and most materially) to the Great Public Works scheme inaugurated throughout New Zealand but felt more immediately in the Canterbury district, which from its natural accessibility needed only the aid of Bridges, Roads and Railways to render it one of the finest agricultural countries in the World.

"Those aids have now been in a great measure obtained and the benefits derived and to be derived from them are rapidly becoming more apparent in the increased settlement of the country and enquiry for farms.

"During the past six months over 80,000 acres of land in South Canterbury have been apportioned into farms of from 100 to 500 acres each and sold on easy terms of payment, extending over 5 and in some instances 7 years. From 20 to 80 per centum is usually paid during the first year after purchase and the balance at intervals during the extension each unpaid portion bearing interest either at £7 or £8 per centum per annum. Most of the land so sold, has been within easy distance of railway and well found with roads.

"For blocks in Native Grass wholly unimproved prices have ranged from £6 to £14 per acre and for farms, fenced, partly cultivated, and with buildings from £9 to £20 has been obtained, the difference in value being occasioned by situation, quality of soil etc.

"These blocks and farms have for the most part been purchased by Bona Fide settlers, practical farmers who with sufficient capital to meet their first year's payments, and some plant and stock, ready to go to work with, expect to meet future payments as they become due out of produce, mainly wheat and wool.

"L urge blocks have also been purchased by speculators and immediately divided into farms and sold, leaving in most instances, a profit of from £25 to £30 per centum on the investment. We mention these particulars more for the information of those at a distance interested in this report and valuation which we append, than your own, and to show that values have been arrived at by comparison with sales that have taken place as well as by quality of the soil, improved condition and position of the blocks, we have been asked to inspect. And in submitting it to you we venture to predict that the enquiry for farms will continue and steadily increase provided the supply is not overdone.

"We have no hesitation in placing the appended values before you, feeling sure that in the event of sale either for cash or on terms, they would be attained, as in all cases we have allowed a margin to meet any slight depression that may occur.

"Our definite instructions were-

1. To estimate the value of each estate, in such blocks as may be pointed out, including all improvements, such as English Grass, Cultivation, Fencing, Buildings, Plantations, Roads, Ditches, etc.
2. To estimate the price which may be realised if such blocks were cut into moderately sized farms and sold on easy terms extending say over 7 years and bearing interest at the rate of £5 per centum per annum on all unpaid portions.

"We were also asked to take into consideration the leasing value for 12 years; this item we have not carried out in the Valuation Sheets, but place it at £7 per centum per annum, as a Rental on the average cost value of each block, lease to contain the usual conditions as to farming, repairs, fences, etc. and in the event of buildings being erected the tenants to pay £10 per cent. on cost of same.

"Our valuation sheets contain Nos. of Blocks, Acreage, Cash Value and value for sale on terms of each. Also summary of value of each estate and at the end General Summary of the whole, each separate estate being prefaced by a few remarks as to the principles which guided our estimates,

"The first property we inspected was the Levels "proper" divided into 20 blocks or farms, a large portion of the land fronting the Timaru-Albury branch line of railway, with easy access to five Railway Stations at different points on that line. The property is also well found with roads and has been judiciously divided into compact blocks, which will again admit of division into smaller farms. The bulk of it is excellent grain growing land and will admit of heavy cropping with cereals if intermediate crops of roots are grown and then laid down with grass and clovers.

"In England it would be farmed on the four course system, in farms of from 300 to 1000 acres each and would command high rentals. As a whole it is sufficiently well watered for agricultural land and divided into farms, a proper supply of water could be obtained on each farm at small cost. A portion of it is of limestone formation and the whole possesses good surface soil with great depth of relative sub-soil. Facing the sun and well sheltered for mixed husbandry, growing corn and roots, with the feeding of sheep and cattle, this property leaves nothing to be desired.

| | a | r | p |
|---|---|---|---|
| English Grass | 3538 | 0 | 0 |
| Wheat | 345 | 0 | 0 |
| Cultivation | 1076 | 0 | 0 |
| Plantation | 130 | 0 | 0 |
| Lucerne | 98 | 0 | 0 |
| Tussock | | | |
| Area on which stands homestead and all offices, gardens and plantation | 77 | 2 | 0 |
| Section of especial value at Washdyke included in this block --- | | | |

"The majority of the English grass on this block requires renewing, but as it is in the best possible condition for grain, the increased cultivation would yield a large profit, and leave the farm in better condition. The block is fenced and divided into 32 paddocks, the buildings representing a value of about 20/- per acre spread over the whole.

"The position is all that can be desired for farming purposes and the land essentially adapted to grain growing with but little waste ground (not more than 5%). A creek runs through the property.

| | | | |
|---|---|---|---|
| Present value for Cash (as a whole) £16 per acre=to | 96,275 | 18 | 0 |
| On proposed terms divided into Farms £20 per acre=to | 120,344 | 17 | 6" |

Although individual values for grassing, fencing and buildings is not detailed, mention is made of the buildings representing a value of approximately £1 per acre. The report also mentions the extra value pertaining to the land from buildings and fences and also proximity to formed roads and railways - the same principle of valuation as applies today.

Summarising it could be said that apart from arriving at two different values for each block - namely one value for sale by "cash" and the other value for sale on "terms", the report differs little from what one would expect from a present day valuer. The valuing profession in N.Z. has progressively grown in stature since the formation of the N.Z. Institute of Valuers and with academic qualifications and practical experience being necessary before registration is permitted, we can indeed claim to have advanced with the requirements of modern business. However, it is also evident that sound valuation principles were being practised 90 years ago – in fact it would seem that the valuers of that time laid the foundations on which the profession in N.Z. has been built.

In this sense it could be suggested that they had much in common with William Soltau Davidson himself. Their reports showed their successors the way, while Davidson in his book of reminiscence, and in the documentary evidence in the files of his Company, left behind a record of achievement which stands him among the most progressive planners this country has known. Although soon after the turn of the century he transferred his main operations to Australia, the Company's work in New Zealand continues at Hakataramea, Braemar Station at the Head of Lake Pukaki, Mt. Possession in the Ashburton Gorge and Macdonald Downs in North Canterbury; and his penchant for experiment has its modern echo in the high country - notably at Hakataramea Station.

# INSURANCE VALUATION

ARTICLE 1 NOT TOO BAD A CAMEL
By M R HANNA
Reprinted from *The New Zealand Valuer* June 1974, Volume 22, No 6, page 256.

*At the time of writing M Hanna was Chairman of the Publicity and Public Relations Committee of the NZ Institute of Valuers. A long standing member of The Valuers'Registration Board, he is currently a director of Robertson Young Teller (Central) Ltd, Valuers.*

ARTICLE 2 REINSTATEMENT INSURANCE VALUATIONS
By R P YOUNG
Reprinted from *The New Zealand Valuer,* September 1982, Volume 25, No 3, page 127.

*Peter Young graduated B.Comm, Dip Urb.Val. in Auckland and is a director of Robertson, Young Telfer Ltd, Valuers, Auckland. He is a fellow of the NZ Institute of Valuers and has presented several papers on the subject of insurance valuations.*

# Not Too Bad A Camel

The New Replacement Insurance Form.

*by M. R. Hanna, A.N.Z.I.V.*

There is an old saying that "a camel is a horse designed by a committee" and if ever there was an example of the truth of old sayings the redrafting of the Replacement Insurance Certificate of Valuation would be it.

Many valuers will by now have used this new Certificate for replacement insurance purposes which was approved by the Insurance Council of New Zealand some few months ago and as with any other modified procedure some questions have been raised about it. Since I was quite closely associated with the work in its preparation some comments may be helpful.

My first contact with the project came when out at dinner one evening Colin Gunter, the Wellington Branch President of the New Zealand Institute of Architects, mentioned to me that his Branch had formed a committee with the Registered Insurance Brokers' Association to review the Replacement Insurance Certificate. Like most other Public Valuers I do a fair amount of this sort of work and objected to him that our profession as well as his should certainly be represented. The upshot was an invitation from the ad hoc committee to the Wellington Branch Committee N.Z.I.V. to nominate a representative and for my sins I was chosen. At the same time the Chairman of the Wellington Branch of the New Zealand Institution of Engineers joined the committee together with a representative from the Institute of Insurance Assessors and Loss Adjusters.

All members of the committee recognised various defects in the Certificate of Valuation as it was then drawn, but it immediately became apparent that there were different areas of dissatisfaction between different groups and indeed that the whole project faced a major problem in semantics with the application of different meanings to different words freely used in the form. For example, words as apparently simple as "property", "replacement", "indemnity" and "value" all meant different things to different people and it actually took several quite difficult meetings and ultimately several pages of definition in our report before we were all agreed in this area alone.

As it turned out there was at first little unanimity in the whole process and the problems were compounded by differences in viewpoint, not only between the "valuing" professions but also in the understanding of the "valuers" and the insurers as to what each was capable of producing.

The whole performance took eighteen months and resulted in a report of 35 pages which was first submitted to the national bodies of the various institutes for their approval and finally sent to the New Zealand Insurance Council. The Council discussed it with the Earthquake and War Damage

Mr Hanna is a principal of the Wellington firm, Gellatly, Hanna, McAlister and Robertson, Public Valuers, and is the Chairman of the Publicity and Public Relations Committee of the Institute.

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CERTIFICATE OF VALUATION FOR INSURANCE PURPOSES

(Buildings)

(lonrponrod by M of Pullrsrl)

1. Name of Insured .....

2. Address of Building to be insured .....
(include street number)

3. Type of Occupancy .....

4. Details of Construction .....

To comply with the requirements of the Earthquake and War Damage Commission the four questions above must be fully answered.

Separate amounts required for each Building

| | Bldg 1. | Bldg 2. | Bldg 3. |
|---|---|---|---|
| A. For Earthquake and War Damage Act purposes what is the maximum "INDEMNITY VALUE" of the Insured building expressed as depreciated cost? (i.e. its present replacement cost after allowing for normal physical depreciation) | S | $ | S |
| (Important • Before applying depreciation the Valuer should allow for all fees as defined on reverse hereof) | | | |
| B. What is the present estimated Cost inclusive of all fees (as defined on reverse hereof) of the REPLACEMENT of the insured building by the rebuilding thereof within current statutory and building regulations to provide no greater utility nor amenity than that lost, but with the use of currently equivalent building materials and construction techniques? | | | |

Note: (i)

If the Replacement Valuation is based upon the use of different materials or additional services from those existing, briefly describe these:

Note: (ii )

Do the considerations referred to in Note (i) SUBSTANTIALLY increase Replacement Costs YES/NO .....

Note: (iii)

Are mere any regulations preventing reinstatement wholly or in part? If so give brief details:

C. What is the estimated amount required to cover the cost of any DEMOLITION, SHORING UP OR PROPPING of the building damaged or destroyed AND the REMOVAL OF DEBRIS INCLUDING CONTENTS whether damaged or not'

TOTAL S

Valuers Signature:..... Qualification: ..... Date : .....197

Name of Valuer and Firm :.....

Name of Insurance Company :.....

Policy No :..... Period of Policy : From ..... to .....

VALUER'S NOTE TO INSURER & CLIENT

The above valuation is that applicable on the date shov.n

Due Allowance should be made, when arriving at the sum insured, for inflationary factors affecting costs both during the period of the policy and up to the projected completion date of a replacement building.
For instance

(a) The average percentage increased cost for the last 12 months was.: .....%and
(b) The estimated percentage increase for the next ..... months (i.e. assessed time for negotiating a rebuilding programme including preparation of plans, calling for and accepting tenders and carrying out the work) is..... w.

lie information is given without prejudice tN assist the interested parties to arrive at a suitable sum insured.

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Commission and other interested parties in the insurance field and finally issued the revised Certificate of Valuation which closely follows the recommendations of the original Wellington committee. The major areas in which differences between the old and new certtificates appear may be summarised as follows:-

Question A:

There has been some re-definition of this question though it remains essentially in line with the earlier form. except that depreciation is intended to be assessed on a straight line physical basis. The report defined indemnity value as follows:-

> "A sum which would be paid by the insurers to the insured if the total loss of the asset occurred and which would leave the insured in relation to that asset neither richer nor poorer than he was before the loss. i.e. the estimated cost of a building similar in size. material and condition."

Indemnity value therefore does not relate to any fringe benefits which may accrue to the land by virtue of the removal of the building but is concerned only with the style and condition of that building as it is at present constructed. In this respect it seems. that the new form does not make sufficiently clear that the depreciated value is to be that of the existing building and not of the replacement building and this should be clarified in any future reprint.

Question B:

The new Question B shows the most radical changes. Firstly. it incorporates the original Questions 2 and 4 but it also includes a number of simplifications and a major change in approach by the exclusion of the old concept of "Extra Cost".

The Committee's reasoning here is perhaps best explained in their report:

> "Valuers find it extremely difficult to separate these two questions (i.e. questions 2(a) and (b) on the old form, Replacement Cost and Extra Cost). They point out that after all, to replace any building today of whatever age or construction, modern building materials and construction techniques would have to be used. It would be very costly indeed to re-construct some of the massive brick or stone buildings erected about the turn of the century with their expensive plaster work. corbelling, cornices. etc.. and also comply with current codes. Indeed it is felt neither Insured. Insurers nor Architects would ever contemplate so doing. What is the point therefore of trying to put a value on constructing such edifices today? In the majority of such cases modern building methods would be cheaper.
>
> "Surely what the Insurers are getting at is some lead as to the basis of the valuation should entirely different building materials be used solely in consequence of statutory or other building regulations, e.g. concrete instead of wood. If this is the case then surely an answer to the suggested notes (i) and (ii) would serve the purpose.
>
> "The new question B therefore asks Valuers to estimate the cost of replacement by the rebuilding within current building regulations, to provide no greater utility nor amenity than that lost, but with the use of currently equivalent building materials and construction techniques.

"The Valuer has considerable data relating to current costs of modern types of structure but it is simply not possible for him to relate obsolete building methods to current costs. He may even have data showing the appropriate multiple at the time of construction, but if the building is obsolete as to style and/or materials, this is virtually meaningless against current cost structures. To ask him to assess "extra cost" is therefore unreasonable and unrealistic and can only result in an inaccurate guess."

It will be noted that sonic questions as to the differences in cost arising from different forms of construction remains but this is at the insistence of the insurers and has been phrased so that only a very general answer is necessary.

Question C:

This remains much the same as Question 3 in the earlier certificate but is extended by the inclusion of an allowance for shoring up. There is no doubt in my mind that this adds to the difficulty of valuation rather than reduces it. but the insurance companies have found from experience that it can be a significant cost factor and again insist upon its inclusion. Just how this item is to be calculated eludes me but it is to be hoped that our Statistical Bureau will be able to undertake some research.

It is at this point after all the calculations and additions that the Valuer appends his signature and here too is a variation and improvement, since his assessment is clearly stated to be that ruling at the time at which it is dated. Many valuers have objected to the earlier procedure in which an assessment for a forward period of twelve months was requested. Though the insurers still maintain that they require some advice on this aspect. in order to advise their clients they have agreed to accept the percentage rise in local building costs during the past l 2 months (to be calculated from modal costs) on the one hand together with an assessed percentage increase during the estimated time for reconstruction. It is accepted by all concerned that this is "crystal ball gazing" but the insurers argue that the "valuers" guess is likely to be more accurate than their own. They accept the intent of the final sentence of the Certificate stating "This information is given without prejudice to assist the interested parties to arrive at a suitable sum assured."

If I were asked the particular improvements included in the new Certificate I would certainly place the removal of "Extra Cost" as most important. In my view this figure was incapable of accurate assessment on most older buildings by anyone except perhaps a Quantity Surveyor and probably not even by him. Second would be the redefinition of "Replacement" to allow for contemporary methods, materials and regulations but without, as far as is possible, increasing the relative utility or amenity of the building. Third would be the elimination of "forecasting" for twelve months ahead except specifically without prejudice.

The preparation of the Committee's draft of the new Certificate involved lengthy discussion, argument and compromise between parties with quite different approaches to the central problem and as such I suppose it was inevitable that what was conceived in hope as a horse should be delivered as a camel.

From the viewpoint of the Public Valuer, however, it is nmv submission that it's not too bad a cannel!

# Reinstatement Insurance Valuations

*By R. P. Young, B.Comm. Dip. U.V. F.N.Z.LV.*

This subject has been covered in several previous seminars and in articles appearing in the New Zealand Valuer over the years. I do not propose to go over material already dealt with in published papers.

In order to make this paper as educational and enlightening as possible I have chosen to treat it as a type of "working paper" and present a report on a hypothetical property, dealing with problems which I have encountered in practice.

My hypothetical property contains three different buildings erected on land part of which is zoned for commercial/retail use and part of which is used for industrial/warehouse use. The property fronts onto "Commerce Street" where the land is zoned for general main street commercial functions including retail shops, offices, banks, licensed premises etc.; and backs onto "Industry Road" where land is zoned for general light industrial and warehouse functions of a non-noxious or non-offensive nature.

When valuing such property for replacement cost insurance purposes T use the standard "Certificate of Valuation for Insurance Purposes" form for reference purposes only, and deal with the various sections of that Certificate in a covering letter. The Certificate therefore contains only brief notes and references as shown in the example.

I usually describe the buildings in a "Schedule of Improvements" which is also attached to the covering letter. In brief, our hypothetical property comprises "Building No. I", a three-storey building fronting Commerce Street, the ground floor of which is used as a large hardware shop with the first and second lfoors used as office accommodation. This is a seventy-year old building constructed with a heavy timber structural frame, unreinforced solid brick exterior sheathing and galvanised iron roof on timber trusses, with a mixture of wallboard and timber internal wall linings. The Industry Road land is occupied by two buildings, the main one being "Building No. 2", a ten-year old warehouse and the other, "Building No. 3", being a forty-year old dwelling currently occupied by the assistant manager of the retail shop.

My report would he in the following general form and terms:

1 7 March, 1982

The Manager,
Peter Out Insurance Brokers Ltd.,
Private Bag,
Townsville. Attention: Mr Out

Dear Sir,

Re: Townsville Building and Hardware Supplies Ltd. 10-12 Commerce Street and 15-21 Industry Road, Townsville.

In accordance with instructions contained in your letter of 10 January, 1982 we have inspected the above property in order to complete a Certificate of Valuation for Insurance Purposes. A copy of the Certificate is attached.

Because of inadequate space on the Certificate, our valuation figures are supplied in this letter and other notes contained in this letter should be read in conjunction with the Certificate.

Buildings are briefly described in the attached "Schedule of Improvements" and the following valuation figures apply to each building:

| | |
|---|---|
| Building No. 1: | |
| Indemnity Value | $100,000 |
| Reinstatement estimate | $1,400,000 |
| Demolition allowance | $55,000 |
| Inflationary provision - indemnity | nil |
| Inflationary provision - reinstatement | $350,000 |
| Building No. 2: | |
| Indemnity Value | $600.000 |
| Reinstatement estimate | $800,000 |
| Demolition allowance | $60,000 |
| Inflationary provision - indemnity | $60,000 |
| Inflationary provision - reinstatement | $200,000 |
| Building No. 3: | |
| Indemnity Value | $20,000 |
| Reinstatement estimate | $45,000 |
| Demolition allowance | $2,000 |
| Inflationary provision - indemnity | $2,000 |
| Inflationary provision- reinstatement | $9,000 |

The following comments should be read in conjunction with this Certificate:

Re Section B Note (1):

We are advised by the Townsville City Council Building Inspector that the property is situated within the Outer A Fire Risk area and is in Fire Risk Group D2. The Council has adopted the provisions of NZSS 1900 Chapter 5 (Fire resisting construction and means of egress). Building No. I (The Commerce Street three-storey retail/office building) does not comply with this model building by-law and in accordance with the requirements noted on the reverse side of the Certificate of Valuation for Insurance Purposes, we have assessed the cost of rebuilding this structure including the use of currently equivalent building materials and techniques. Accordingly. we have assumed a building having reinforced concrete floors, a reinforced concrete structural frame, concrete block perimeter walls having a four-hour fire resistance rating to side and rear walls, modern suspended tile ceilings with wallboard (gibraltar board) interior wall linings. We have assumed steel trusses or roof members with a galvanised iron roof. Since the ground floor retail portion has a floor area in excess of 929m2 (10,000 sq. ft.) in one fire compartment, sprinklers would be required in this

area and we have allowed for their inclusion. (Reference Clause 5.52.1 of NZSS 1900 Chapter 5).

With reference to Building No. 2, this has a lfoor area of 3,160m2 (34,014 sq. ft.) and in the normal course of events would require the installation of sprinklers on reinstatement (reference Table 1 of NZSS 1900 Chapter 5). However, in terms of Clause 5.10.3.1 of NZSS 1900 Chapter 5 the floor area in one fire compartment can be increased by 20% on 30,000 sq. ft. where there are two remote outlets from exit ways from a fire compartment. Following discussions with the City Council Egress Inspector and with your company's architects, we are advised that two remote outlets could be provided and that the building could be reinstated to its existing size without the necessity to install sprinklers. Accordingly, our reinstatement cost estimate does not include an allowance for sprinklers.

Re Section B Note (ii):

In the event of total or substantial damage, it is obvious that Building No. 1 will be reinstated with the use of totally different materials to those contained in the existing structure. Since buildings are now very seldom constructed with heavy timber structural frames, timber floors and timber trusses, it is impossible to estimate the amount by which reinstatement with currently equivalent building materials will exceed the cost of reinstatement with existing material. Indeed, it may be just as expensive to reinstate with the existing construction method (in a manner complying with By-laws) as it is with currently equivalent building materials.

Reference Section B Note (iii):

Building No. 3 (the dwelling fronting Industry Road) is a non-conforming use in this zone and if it were totally destroyed then Town Planning difficulties may be encountered in the event of the owners wishing to reinstate the house. It may be possible to reinstate as of right in terms of Section 91 of the Town and Country Planning Act
1977, provided that reconstruction does not increase the "current market value" of the building by more than 60%. In order to avoid Town Planning difficulties in the event of a need to reinstate this building, we would recommend that the insurance policy allows for reinstatement on a suitable alternative site.

Following our discussions with the City Council Building Inspector, there appear to be no regulations which are likely to totally prevent reinstatement of Buildings 1 and 2. However, there are some matters which may cause delays to any reinstatement programme. These are summarised as follows:

(a) Off-street parking is now required at the rate of one space per X mz of retail accommodation; one space for every Y m2 gross building area used for office purposes; one space for every Z m2 gross building area used for warehousing and one space for each residential unit. This would necessitate the provision of eighty off-street parking spaces for the subject property. We estimate that there is sufficient land to accommodate only forty off-street parking spaces. Again, some relief may be obtained in terms of Section 91 of the Town and Country Planning Act 1977 but this will depend on the extent of increase in current market value of the building resulting from reinstatement. The City Council has power to accept a cash contribution in lieu of off-street parking and if Council exercised its power in this direction, a levy would be made for the forty spaces which cannot be accommodated. At the present time this levy is at the rate of $3000 per space, but the amount is subject to amendment at any time and at Council's discretion. Please note that our reinstatement estimate does not include any allowance for this cash contribution. A further remedy would be to acquire additional land to satisfy off-street parking requirements or to reinstate on an alternative site. We would again recommend that the insurance policy allows for reinstatement on a suitable alternative site.

It should be noted that the inflationary provisions do not include an allowance for undue time delays which may be involved in obtaining Town Planning dispensations and approvals, or in acquiring an alternative site.

As far as we can ascertain the Economic Stabilisation (Building Registration and Construction) Regulations 1974 continue to apply. Reinstatement may be deferred in terms of these regulations but at the present time we consider that such deferment is unlikely. Our inflationary provisions do not include any allowance for deferment in terms of these regulations.

Further points which should be noted in association with the attached Certificate are as follows:

1. The replacement cost figures contained in the attached Certificate do not include any allowance for bridging finance interest during the course of reinstatement or reconstruction. In order to avoid the necessity to arrange for bridging finance we would recommend that the insurance policy allows for the reinstatement monies to be made available in progress payments during the course of reconstruction.
2. The attached Certificate makes no provision for an allowance for car park sealing, site improvements, driveways etc. which may be damaged in the course of a fire or in the course of reinstatement works. If you wish to cover these items then we would recommend an allowance of an additional amount of say $20,000 in order to allow for reinstatement of such damage.
3. The indemnity value figure shown for the dwelling erected on industrial land fronting Industry Road, has been calculated by using the formula stated in the Certificate - i.e. present reinstatement cost after allowing for normal physical depreciation.

The resultant "indemnity value" bears no relationship to the market value of this building or to the true insurable "indemnity value" as that term has been defined in several Court decisions.

4. Building No. 1 comes within the scope of Section 624 of the Local Government Act 1974, dealing with powers of Council with respect to buildings likely to be dangerous in a moderate earthquake. We understand that your company has received a notice from the City Council in terms of Section 624, requiring this building to be strengthened within the next ten years. You should note that in the event of this building being partially damaged, the City Council will probably require you to strengthen the undamaged portion when you apply for a building permit to reinstate the partial damage. It is unlikely that your reinstatement cost insurance policy will cover the cost of structural work required by the Council to that portion of the building which is undamaged by the fire or other peril against which the insurance policy is taken out.

In accordance with your instructions this report has been prepared in order to supply valuation ifgures for replacement cost and indemnity insurance purposes only. No responsibility is accepted in the event of these valuation figures being used for any other purpose.

Yours faithfully,
XYZ

Registered Valuer

Attached to this letter will be a "Schedule of Buildings" which supplies a description of each of the buildings including age, size, construction details and current use.

Additional general and background information useful to valuers undertaking this type of work is available in the following publications:

1. "Insurance for Commercial Buildings" compiled by the Building Owners and Managers Association of New Zealand (Boma) in January 1982. This publication is available from the Building Owners and Managers Association at a cost of $8.00.
2. Standards Association of New Zealand publication "Fire Properties of Building Materials and Elements of Structure" known as MP9: 1980. This is available from the Standards Association of New Zealand, Private Bag, Wellington.
3. All valuers undertaking this type of work should of course have a current copy of NZSS 1900 Chapter 5.

NOTES: 1. FEES

These are to include Architects', Surveyors', Consulting Engineers' and other fees for estimates, plans, specifications, quantities and tenders and supervision necessarily incurred in the reinstatement consequent on destruction of or damage to the property insured (not exceeding the Scale of Fees laid down by the N.Z. Institute of Architects and the N.Z. Institution of Engineers current at the time) but not such fees for preparing any claim under the Policy.

2. EARTHQUAKE AND WAR DAMAGE ACT

Under a Reinstatement, Replacement or an Extra Cost Reinstatement policy the Earthquake and War Damage Amendment Act 1951 provides a means whereby the Earthquake and War Damage premium may be charged on the certified indemnity value only which then becomes the maximum liability of the Commission.

In order to receive this concession the following procedure must be followed:

At the commencement of each period of insurance a certificate stating the indemnity value must be submitted to the Commission. This certificate is to be furnished by a valuer approved by the Commission and who must be a registered Architect or a Valuer registered under the Valuers Act 1948, or an Engineer registered under the Engineers' Registration Act 1924.

3. "REINSTATEMENT" SHALL MEAN BUILDINGS

(a) Where destroyed, the rebuilding of the property including the use of currently equivalent building materials and techniques and such additional costs necessary to comply with any Act of Parliament or any Regulations under or framed in pursuance of any such Act or with By-laws of any Municipal or Local Authority.

(b) Where damaged, the restoration of the damaged portion of the property to a condition substantially the same as but not better or more extensive than its condition when new but including such additional costs necessary to comply with any act of Parliament or any Regulations under or framed in pursuance of any such Act or with By-laws of any Municipal or Local Authority.

PROPERTY OTHER THAN BUILDINGS

The rc.-}oration of the damaged property to a condition substantially the same as but not better or more extensive than its condition when new or if destroyed its replacement by similar property in a condition substantially the same as but not better than the condition of the insured property when new.

NEW ZEALAND INSTITUTE OF VALUERS

CERTIFICATE OF VALUATION FOR INSURANCE PURPOSES
(Buildings)

1. Name of Insured: TOWNSVILLE BUILDING & HARDWARE SUPPLIES LTD.

(include street number)

2. Address of Buildings to be insured: 10-12 COMMERCE STREET and 15-21 INDUSTRY ROAD, TOWNSVILLE.

3. Type of Occupancy: See attached letter.

4. Brief Details of Construction: See attached letter.

5. Approximate Age of Building: See attached letter.

A. CERTIFICATE OF INDEMNITY VALUE: See attached letter.

In compliance with the requirements of the Earthquake and War Damage Act I hereby certify that the "INDEMNITY VALUE" of the Insured Building expressed as depreciated cost (i.e. its present reinstatement cost after allowing for normal physical depreciation) is ..... $
*(Important - before applying depreciation the Valuer should include all fees as defined* on *reverse hereof.)*

Valuer's Signature..... Qualification: Registered Valuer.

Date: 17 March, 1982.

Name of Valuer and Firm: XYZ Registered Valuers .....

Name of Insurance Company .....

B. REINSTATEMENT ESTIMATE: See attached letter.

The estimated cost of rebuilding the property at the level of costs applying at the inception of the current period of insurance ignoring the inflationary factors which may operate subsequent thereto including the use of currently equivalent building materials and techniques and such additional costs as necessary to comply with any Act of Parliament or any Regulation under or framed in pursuance of any such Act or with By-laws of any Municipal or Local Authority (inclusive of all fees as defined on the reverse hereof)

Note (i) If the reinstatement estimate is based upon the use of different materials and/or additional services from those existing, briefly describe them .....
See attached letter.

Note (ii) By what amounts do the considerations referred to in Note (i) increase the Reinstatement Cost?
See attached letter. $

Note (iii) Are there any Regulations preventing reinstatement wholly or in part? If so give brief details

See attached letter.

C. DEMOLITION See attached letter

What is the estimated amount required to cover the cost of any Demolition Shoring up or Propping of the building damaged or destroyed and the Removal of Debris including Contents whether damaged or not.....

D. INFLATIONARY PROVISION See attached letter.

(i) Indemnity (as defined in A above): The estimated amount of inflation in "INDEMNITY VALUE" anticipated

(ii) Reinstatement (as defined in B above): The estimated amount of inflation in costs anticipated during both the period of insurance and the estimated reinstatement period taking into consideration time required for damage inspections, demolition, preparation of new preliminary proposals and their approval, preparation of working drawings and specifications, schedule of quantities, obtaining City Council approval tenders etc. is

Estimates under B, C and D are given without prejudice.

SIGNATURE..... DATE: 17 March, 1982.
Name of Valuer and Firm: XYZ Registered Valuer.

# LAND ECONOMICS

ARTICLE 1 THE BEST SYSTEM OF RATING
By M CARMICHAEL
Reprinted from *The Bulletin* February 1943, Volume 1, No.5, page 3.

*At the time of writing M Carmichael was a member of the Nelson sub-branch of the NZInstitute of Valuers.*

ARTICLE 2 TWO DECADES OF STATISTICAL RESEARCH
By J W GELLATLY
Reprinted from *The New Zealand Valuer,* March 1960, Volume 17, No 5, page 173.

*JW Gellatly , a well known Wellington Public Valuer was Chairman of the Statistical Bureau for 21 years. He was a Foundation member of the NZ Institute of Valuers and at time of writing was an associate of the Wellington branch.*

ARTICLE 3 URBAN SUBDIVISIONS AN ECONOMIC ANALYSIS
By R L JEFFERIES
Reprinted from *The New Zealand Valuer* June 1965, Volume. 19,No 6, page 207.

*A former editor of the NZ Valuers' Journal, Rodney Jefferies is Senior Vice-President of the NZInstitute of Valuers and Senior Lecturer Valuation, Auckland*

ARTICLE 4 SPEEDY'S RISK CURVE
By S L SPEEDY
Reprinted from *The New Zealand Valuer* June 1980, Volume 24, No 6, page 416.

*Squire Speedy is a well known Auckland Public Valuer, prolific author, past lecturer at Auckland University and acknowledged academic, particularly in the area of Land Compensation matters.*

# THE BEST SYSTEM OF RATING
## By M Carmichael

In approaching this subject, the individual or personal effect of rating should be disregarded altogether, and efforts should be directed. to arriving at the best system for the welfare of a community or a Dominion as a whole. Theoretically, it is immaterial whether rates are levied on Capital, Annual Rental or Unimproved Values, since a local authority having to cut its coat according to its cloth must strike a rate to obtain a sum which is required annually to meet necessary reasonable expenditure, and provided the rates are levied over a uniform basis of values, no xone should complain from a rating or taxation liability point of view.

Compared with any other system of rating, rating on unimproved values from a general community or national point of view is, in my opinion, the fairest and most conducive to prosperity, whether local or national.

One of the chief objections raised by some critics to the unimproved value system of rating is that large industrial concerns such as freezing works, woollen mills and similar institutions escape rates which they would be liable for if rating was on Capital or Annual Value, it being realised that such concerns require to invest an enormous amount in improvements in order to produce the finished goods, and consequent profits. I would point out, however, that in my case the owners of these huge concerns ultimately escape payment of rates for, by increasing the prices to consumers, the rating liability is passed on, the rates being paid indirectly by the general public. For this reason, it is difficult to attack the "middleman". On the other hand any locality where these huge concerns operate is influenced by the works being in the vicinity. Within a large radius of such works an increased value is imparted to the land, and this value is reflected in an increased rating value in districts rating on unimproved value.

The incidence of rating etc on land caused considerable anxiety in England some fifteen to twenty years ago. This anxiety was obviously so disturbing that the House of Commons caused a Commission of Enquiry to be set up. As a result, Sir John Simon moved as a resolution in committee in 1924: "That the system of rating be altered." His speech is quoted in part below, but it should be noted that the system of rating in England in force at that time was the "Rental Value" system which is practically equivalent to Annual Value" in New Zealand and not unlike "Capital Value". It would have similar results as far as rating was concerned.

Sir John Simon said:-

"The present rental value system of rating is one which discourages development and handicaps building and, at the same time, it often fails to secure for the community that contribution which ought to be made from land value created by the efforts of the community as a whole and particularly by the expenditure of money out of rates.

"The object of the Bill, therefore, is to encourage building and improvements by relieving those who undertake them from the burden of the additional rates caused thereby and further to introduce a system of valuation which would enable a further contribution to be secured from land values.

"At the present time, as the House is aware, the value on which a property is assessed for rating is the "Rent" which a tenant might reasonably be expected to pay for it, taking one year with another, if the tenant paid the rates, taxes and similar outgoings, and if the landlord paid the actual repairs and similar expenses, with certain arbitrary deductions which are supposed to cover the expense of repairs. In the majority of cases no doubt the rent so arrived at does include the full annual value of the land, as well as the value of the buildings upon the land but (here the speaker emphasises this) there are a number of cases in which, under the present law, properties either escape valuation or rating altogether, on the grounds that they are vacant or derelict or are rated on an assessment which is substantially less than the full annual value of the land because the use to which they are put is altogether inadequate and the rent which is obtained for them bears no relation to the true value which would be realisable if the property were sold.

"We, who support this Bill believe that it is unjust; that these values, which are not due to the efforts or expenditure of any individual but are due to the activities and the expenditure of the community, should escape in whole or in part the burden of the rates which falls on other property, and the first effect of this Bill would be to set up a valuation which would secure that in future rating should be based on a sounder principle.

"We believe that this would not only be fair, but that it would In itself have a considerable effect in bringing land into use; in encouraging building; in promoting the production of houses and thereby in reducing the level of the rates.

"The present system we believe to be wrong for a second reason a reason perhaps more important. It is wrong because it operates as an extremely heavy tax upon production.

"The present system of rating is equivalent to a direct tax on the output of those industries which are concerned with building and with the improvement of land, and indirectly, therefore, to a tax upon the industries which are carried on upon the premises which the buildings

V

or improvements are intended to complete.
"It is sometimes supposed that though this is true in towns it is not true in relation to agricultural land."

Sir John Simon produced as evidence before the House a brief extract from a great authority, an agricultural witness and extensive land owner, the Duke of Bedford, who stated in a book written by him as follows:-

"I have established near Woburn an experimental fruit farm. An ordinary arable field was converted during the autumn and winter of 1894 into a fruit garden, by the employment of capital and labour. The land was duly planted with a valuable stock of fruit trees and bushes, and after a few months there came up - I confess to my amazement, for I did not foresee result of my experiment - the Overseer. The Parish Overseer said: The employment of capital has wrought a great change in this spot and it is my duty to return the same and treble your rates.' The Duke of Bedford went on: `"Well, I was in search of experience in the matter of fruit farming, and I am now in a position to record an important result. It is this: If you invest capital in a fruit farm your rates will be trebled before you have any chance of a return from your outlay."

Sir John Simon then concluded his speech as follows:- "Therefore I submit that, alike in agricultural and urban areas, this Bill is purposing what is useful in removing this tax upon output."

I have no records to guide me as to what happened in England as to results of Sir John Simon's efforts, but a similar Act came into force in 1891 in Greater New York, and records show that as the result of this, the total number of dwellings then was 34,323 and in less than three years after the change was made the number went up to 92,295 or nearly three times as many. No doubt these countries, America and Great Britain, are large in population and values, and cannot be compared with our Dominion nevertheless the same principles are involved.

Let us consider a few cases to show how the Capital value system acts as a deterrent to progress in our small country. In a small borough or town which consists of small commercial concerns, residential or semi-residential properties and small farms, the effect of capital value is not so much felt, since a ratepayer, having erected a dwelling, obtains enjoyment of his efforts and outlay almost immediately and some liability in the way of rates is not unexpected. Any landlord expending capital and labour in erection of dwellings or shops for rental purposes will pass on all rates indirectly by way of rental, while the shopkeeper will further pass on rates to the consumer. In case of small farms, the lands are generally as fully developed as is reasonable, and full amenities are already supplied so that rates would be much the same as if levied on unimproved value, although the rate per £ would be higher. Nevertheless, a deterrent to improve exists but, as everyone is on the same footing, it is not felt very materially. Consider, further, the case of blocks of heavy bush and swamp land which require considerable time and outlay for clearing, stumping, draining and grassing. After this is completed it may be, say, five years before it is fully developed and full earning capacity reached, but under the capital value system it is liable for rates almost immediately development commences. Yet earning power is still a considerable period away. Hence a pronounced deterrent exists which tends to stifle improvements and progress. This would not exist materially if rating was based on unimproved value.

In my opinion, Capital Value rating can be excessively detrimental in the case of land affected by tides, but which might be suitable for reclamation for agricultural purposes. This reclamation requires, in the first place, protective banks and open channels and drains with the necessary flood gates, all of which are costly. It must be remembered that after these have been constructed and are effective it takes approximately 15-20 years to expunge saltiness and ripen the land. After this, fencing and pasture costs have to be met. All these are required before earning capacity is at its height. In fact, for a few years, the land is a serious liability. Taking the value of land itself on 100 acres at £1 an acre, and adding cost of protective works and drains, say £200, there is a total of £300 Capital Value; interest rates alone would have the effect of doubling the cost in about ten-and-a-half years. In the meantime, the earning power would be practically nil: at the best it could be used for running a few dry cattle. The next few years would probably be devoted to effecting a few more improvements, but the earning power is still small.

Would not rating on the value of these improvements provide a serious deterrent which would arrest progress and development. The case would be similar to that of the Duke of Bedford, mentioned earlier. Briefly, rating on Capital Value, in the light of the Duke of Bedford's evidence, arrests any incentive to farming education and general progress, with the results that land will lie dormant and unproductive with loss to the country. Of course, if rating was on unimproved value, rates would exist, but not to the extent that development would be arrested, or perhaps not commenced at all.

The annual value system in a town has something to recommend it, inasmuch as when land is not improved the rate cannot be based on less than 5% of the capital value.

Briefly, I cannot see any better system than rating on unimproved value, from both the individual and community point of view.

# Two Decades of Statistical Research

By J. W. GELLATLY, F.N.Z.I.V., Chairman, Statistical Bureau Committee

Very soon after the formation of the Institute, the value of, and the necessity for, the compilation and distribution of statistical information was realised largely through the vision of the Institute's first President, Mr. Norman H. Mackie.

The problem, however, was to place in the hands of members information of local value that would not be out-of-date before it could be distributed. I believe this has been achieved by the successive steps 1'.sted below:

1. The Branch Newsletter provides an opportunity for members to contribute useful items, and for the publication locally while still applicable.
2. The exchange of newsletters between Branch Statistical Committees under the auspices of the Statistical Bureau Committee makes available to each Branch information and methods from other Branches.
3. The classification and analysis of the Newsletter data by the Statistical Bureau Committee and its redistribution to Branches by the "Statistical Bureau Bulletin."
4. The adoption by most Branches of a Modal House, and the costing of this by a quantity surveyor.
5. The costing by quantities of a superior Modal House and a Modal Shop by Wellington Branch.
6. The evolution and testing of the Multiple system of recording costs and variations of costs in a form that will be up-to-date whenever and wherever there is available the local cost of the Modal House at the relative date.

In 1952, Wellington Branch, realising the inconvenience and waste of time caused by having all this valuable information scattered through numerous Newsletters and brochures, published the first edition of the Wellington Urban Valuers' Handbook. This summarised the data published up to then in the Newsletters and other publications of the Branch, and also included all the valuation tables likely to be required for the majority of valuations.

In 1958, the Handbook was revised, enlarged and republished as a second edition. For this revision all the Moda's were recos'ed, and the relative tables improved.

And now, in 1960, the "Natioriel Urban Handbook" will be published in a number of Branch editions to include the local data and Modal House tables compiled from information supplied by the Branch Statistical Committees.

There will thus be available to every Urban Valuer in the Institute at a moderate cost the summarised results of 20 years research usable in his own district as an aid to every valuation he makes.

The contents include an index list of sundry information; a glossary of terms, rental and subdivisional statements and data; house construction costs in Wellington since 1900; local monthly or quarterly house building costs; plans, summaries, and varia'ion tables for standard and superior Modal Houses, and also a Modal Shop; tables of Multiples for the assessment of replacement values of a wide range of residential and commercial buildings; Pedestrian counts where these have been carried out; depth tables; corner and triangle tables, area and reciprocal tables, tables for the assessment of leasehold interests, ground rents and capitalization rates; specimen arbitration appointment and award forms; etc., etc.

The real value of the Handbook is, of course, the time it saves. To the practising valuer, this gives a direct increase in income equivalent to higher fees. The non-practising valuer is enabled to give greater service to his employer-the surest way to advancement.

It is appreciated that large departments, organisations, and some valuers have developed their own special tables and data covering certain aspects of valuation in which they specialise. Blank, punched sheets will be available on which these may be typed and inserted in the book.

The loose-leaf type of binding has been adopted both for the above reason, and so that the Handbook may become an integral part of the statistical work of the Institute. As new tables, methods and data are devel-

oped and tested through the organisation described in the early part of this article, eventually new pages will be printed and made available at a small charge to those who have purchased the Handbook. And so the raw material of the item contributed by a member to his Branch Newsletter may serve the members of the Institute by its inclusion in some form in the Urban Valuers' Handbook.

# I Jrban Subdivisions an Economic Analysis

By R. L. JEFFERIES, Dip. Urb. Val.

The author of this article holds an urban field cadetship in the Valuation Department and is currently an Intermediate Member of the Institute. His contribution reflects considerable credit to him and should be of interest to members. Though the elements of land subdivisional costs and standards vary from one area to another yet the article has its value in presenting a form of analysis that can readily be applied to local data.

With considerable subdivision of residential land in the Auckland Metropolitan area, spread over numerous localities and local authorities, the valuation of blocks suitable for subdivision involves many variable factors. There is a relationship between the level of section values and block value acreage rates, and it may be a useful exercise for valuers to examine the relationship in some detail, especially from the aspect of subdivisional economics. A survey by the Valuation Department of recent subdivisions in the Auckland area revealed useful and informative data, that was suitable for analysis.

## Economics of Urban Subdivisions

It is helpful to look at how subdivisional block value arises and the factors in its determination in a subdivision. Unsurveyed block land has value because of its potential sale as individual building sites. However, to realise this, capital must be expended on development. The gross realisation of a block of land can therefore be considered as comprising three elements-Profit, Costs, and Net land value.

(a) Profit:

Profit is the reward the subdivider receives for his enterprise, the use of his capital, and the risks he takes. It varies according to the degree of risk and the conditions of the market. Group Building firms are held to buy with little hope of profit, just to obtain land for their houses where demand is high and supply limited. In average conditions the Land Valuation Court has allowed 25% (on capital outlay in compensation proceedings under the Public Works Act). The profit really amounts to an added cost as far as purchasers are concerned.

The concept of profit can be more clearly understood if we consider the land developer as being in the business of manufacturing building sites. The original cost of the land corresponds to the cost of raw materials of a manufacturer. This raw material must be processed by expenditure on roading, surveying, rates, interest, reserves, etc., which correspond to the costs of production. A manufacturer would then add a mark-up on cost to give a gross profit, and our profit on subdivision corresponds to this gross profit mark-up.

(b) Costs:

Costs involved in a subdivision assume a high proportion of the gross amount realised, being about two-thirds on low-valued sections (£700-£800), and decreasing to a third on high-valued sections (£2,000 - £2,500). Large "Group" subdividers can often economise on these costs, such as roading, surveying, legal and selling and this enables them to achieve a higher profit from a given price than smaller subdividers, or alternatively pay a bigger price for the land.

Costs come under two headings. Those that are fixed and those that are variable:

(i) Fixed Costs:

These are costs which do not vary with an increase in section value, but are the same for all levels. The costs themselves may vary from one area or contractor to another, but they will not vary with section value change, i.e., roading may cost £800 per chain, and this will be true whether the sections are valued at £700 or £1,500. The same holds true for surveying.

(ii) Variable Costs:

These are costs which vary with changes in section price or value, such as cash reserve contribution, rates, legal and sell-

ing. Also included in this group are those that vary with the outlay such as interest and profit, although the latter is not always regarded as a cost.

(c) Net Land Value:

This is the amount which a developer would pay for "raw" land on which he would outlay further capital on development costs to give a certain required profit upon realisation. Alternatively it is what is left of the Gross Realisation after costs and profit have been deducted. The Net Land Value less the cost of purchase is the Block Value of the unsubdivided land.

It is because some costs are fixed that we find that the proportion of costs to gross realisation is higher on low-valued sections than on high-valued sections. For holdings of constant size the greater the raross realisation, complemented by lower proportionate costs, explains the rapid increase in block values as compared with 'he increase in section values. The gross realisation less profit and risk, and the costs, leaves a variable margin or surplus which is the raw land value. At low-section values this variable margin is much le;s than at high-section values, owing to the fixed costs being constant, thus assuming a decreasing percentage of the gross realisation.

| | | | |
|---|---|---|---|
| Gross Realisation | £12,000 | £18,000 | £24,000 |
| Variable Costs Plus Profit (;) | 8,000 | 12,000 | 16,000 |
| Variable Margin | 4,000 | 6,000 | 8,000 |
| Fixed Costs | 2,000 | 2,000 | 2,000 |
| Net Value | £2,000 | £4,000 | £6,000 |

Take a case where the variable costs and profit are two-thirds of the gross realisation and fixed costs £2,000.

It can be seen that the surplus (net value) in this case increases more rapidly than the Gross Realisation. Over a range of £12,000-£24,000 the gross realisation increased by 100%, but the net value increased £2,000-£6,000, i.e., 300%.

Thee will be a point where the surplus will just cover the costs plus required profit, this being the point where it just becomes economic to subdivide the land. This is a point of supercession where the value for subdivision becomes higher than the existing use value of the land.

Summarised all this means that beyond the supercession point a small percentage change in gross realisation or section value results in a greater percentage change in the block value or net value. If all the costs varied proportionately with the increase in section values, the net value of land could be easily expressed as a percentage of the gross realisation, but this is not the case, unfortunately, for, if it did, it would greatly simplify the valuation of subdivisional land.

## Survey of Recent Subdivisions

The survey that follows was taken over 20 subdivisions of blocks of back land ranging in area from 10 to 100 acres that have been subdivided approximately within the last three or four years, selected from all the major areas of the Auckland metropolitan area where there is considerable subdivision at present. These blocks were analysed to reveal the overall yields of sections per acre, the amount of reading per site, the standard frontage, the percentage of rear sites, and the average area of the sites.

Because of the differing requirements of the constituent local bodies that make up the Auckland metropolitan area, subdivisional standards vary from area to area, and also from subdivision to subdivision within the same local area. This poses a problem when coming to adopt a standard method of approach to valuations of subdivisional blocks, but the differences frequently offset each other. The overall results of the survey do, however, give interesting and useful data that has been the basis of the analysis to follow.

Data Resulting from the Survey

(a) No. of Sections Per Acre Yielded:

The yields have been analysed in two categories-firstly, excluding the reserves from the calculation and secondly-including the reserves in the area.

(i) Excluding Reserves:

The yields varied between the range from 3.5 to 4.5 sections per acre, with an average of 4.1 sections per •acre.

(ii) Including Reserves:

In this category the yields varied from 3.5 to 4.1 sections per acre, with an average of 3.3 sections per acre. The range was smaller because only 13 of the subdivisions had reserves.

The effect of reserves on the yield is to reduce it by an average of 0.3 sections per acre. The variations between subdivisions is attributable to the varying shapes and widths of the blocks, variations in the minimum areas allowed by the local authority, the percentage of rear sites, and contour. The steeper the contour the more land is lost in odd pockets and gullies.

(b) Roading:

The roading in the subdivisions (including access roads and roading to reserves where applicable), divided by the number of sites varied between .35 and .54 chains per site, with an average of .45 approximately. This is equivalent to 2.2 sites per chain or 59 ft. of road frontage per site overall. This is more frontage than the most common frontage of 55 ft. but is due to the roading needed for access from existing roads and corners, offset somewhat by rear sites and cul-de-sacs which economise on roading. The lowest roading (.35 chains per site) was found in a subdivision of a very regular block, with a righ percentage (30.4%) of rear sites with narrow access strips. The highest (.54 chains per site) was found in a subdivision with a relatively low number of rear sites and a large reserve that had two long road frontages.

(c) Rear Sites:

All the subdivisions analysed had at least one rear site. The presence of rear sites was most frequent where the block was of an odd shape, or of a width that made it uneconomic to put in more than one road, from which front and rear lots were subdivided. The percentage of rear lots varied greatly, from 1.0% to 30.4% with an average of 14.8%.

(d) Average Lot Areas:

This figure, which includes the rear sites, is an indicator of the yield and helps explain high or low yields. It varies between 29.5 perches and 39.5 perches, the former being in the subdivision with the highest yield of 4.5 sections per acre, and the latter being in the subdivision with the lowest yield of 3.5 sections per acre (excluding reserves). The average section area was 32.5 perches.

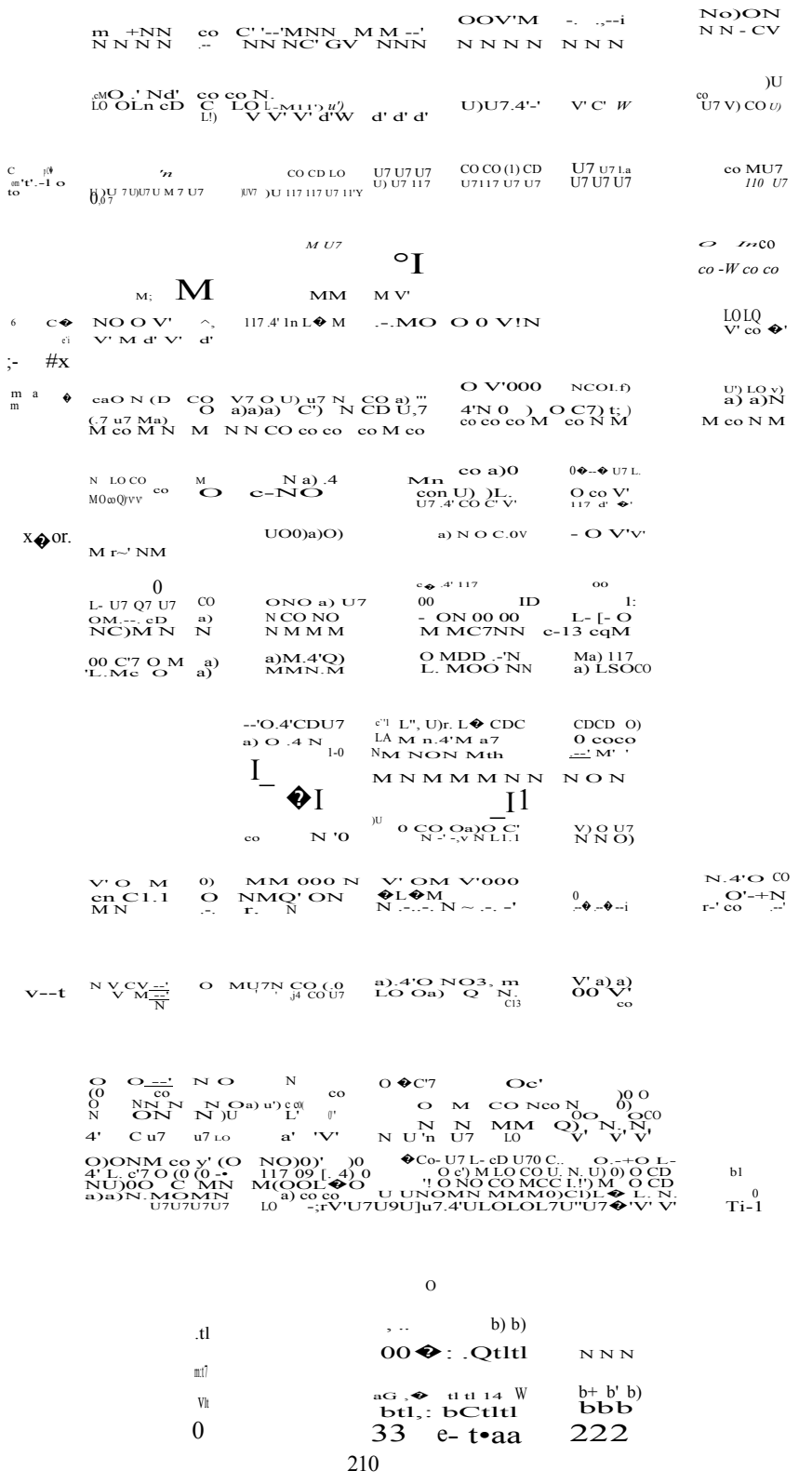
(e) Profit and Risk:

The Courts have accepted a typical allowance for profit and risk at 25% on outlay and this appears widely used. However, as already mentioned, Group Housing firms are paying high prices for subdivisional land where they have not the same interest in the profit in the land, but gain their main profit from building operations. In some of these cases a 15% allowance on outlay has been indicated, but this is a field of inquiry of its own. On the other hand where prices are much higher and the realisation period longer with greater risks, 33s% and more on outlay may be indicated. In general, however, the higher the price the higher the profit, the lower the price the lower the profit, because the higher prices pertain to better localities where the future of values is more assured.

(f) Effect of Reserves:

In cases where blocks adjoin seashores, rivers or lakes, foreshore or esplanade reserves of one chain width are required to be set aside, which will considerably reduce the yield of a block. Because of their special nature, these areas have been excluded from the survey where they have been encountered and only the recreational reserves taken into account.

The various practices in regard to reserves pose a problem whdn approaching an unsubdivided block for valuaton. The two main ways in which reserves are allowed for are by contributing to the local authority either in cash or land and often which method will be used is unknown until a scheme plan is approved. Contribution in cash is commoner in the Cities and Boroughs



where it is their option to decide how reserves are allowed for. Counties however, are governed by Statute. The Land Subdivision in Counties Act 1954 makes provision for reserve contributions in Counties. Sec. 12 provides for "..... . an area . . of not less than four perches per allotment (or three perches for each allo`ment fronting a new road constructed by the subdivider)." Alternatively S.S. 4 provides that "an area of land may be set aside as Crown land to be available for disposal by way of cash."

The Counties Amendment Act 1961, Sec. 28, provides "That where in the opinion of the Council it is undesirable or unnecessary to require the owner to make provision . (as above) . . . for the making of reserves for public purposes, the Council shall in lieu thereof make it a condition of approval that the owner at his option shall:-

(a) Set aside a sum of money; or
(b) Set aside . . an area of land . . equal to that area that would otherwise be required.

The amount to be paid under para. (a) above shall be ascertained by deducting from the area that would otherwise be required to be set aside as a reserve . . . the area of land (if any) set aside as reserves, ascertaining the proportion which the resultant area bears to the total area of the allotments for residential purposes . and taking that proportion of such amount as the Council determines the value of the allotments."

The giving of land under this Act, where the subdivider has the choice, can in some cases be more economical than giving cash. Often it may be back land of, say, poorer contour, which would not make good building sites. However, in some Counties a cash contribution is charged, or it is calculated what the cash contribution would be and the equivalent value taken in land.

The effect of giving land under the Act is to reduce the yield compared with a subdivision without a reserve set aside. Let us take an example based on the results of the survey.

The average site area is 32.5 perches, allow 3 perches per site for reserves, and 6 perches for road (based on .455 chains road, 54 ft. wide). In this case the yield excluding the reserves would be 160 - (32.5 plus 6) = 4.15 sites per acre; and where 3 perches per lot is allowed for reserves: 160 - (32.5 plus 6 plus 3) = 3.86 sites per acre. This lines up well with the actual results which gave 4.1 and 3.8 sites per acre respectively.

## Analysis

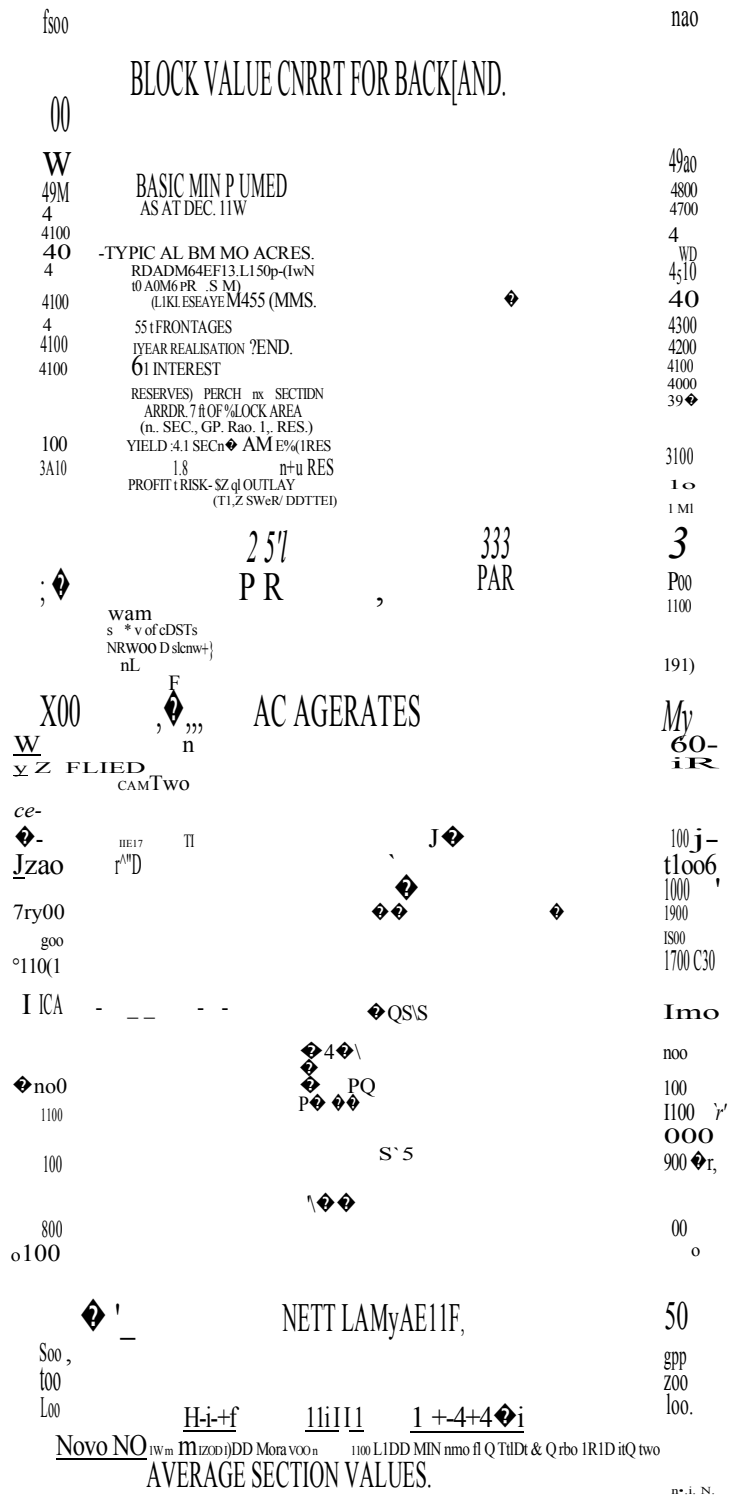
The aim of this analysis was to establish a pro forma relationship between the average selling value of sections in a subdivisional block and the block value. To do this it was necessary to take a standard basis of costs which were ascertained from those currently charged in the Auckland area, and the data resulting from the survery. The basis taken was as follows:-

Typical blocks:-20-40 acres, coming under the jurisdiction of The Land Subdivision in Counties Act 1954 and its amendments.
Typical frontage: 55 ft.
Realisation period: 3 years.
Roading and Engineering Costs: £750 per chain.
Average roading per site: .455 chains (or 2.2 sites per chain).
Interest on Outlay: 6% per annum.
Legal Costs: £5 per site.
Selling Expenses: 5% on first £500; 2½% on balance, for each lot.
Rates: 9d. in £ on net value per annum.

The cost of purchase has been omitted.

A series of hypothetical subdivisions were taken on the basis (for analysis purposes) of one section as the gross realisation. The costs pertaining to each section at a range of values were deducted, leaving the net land value per section. This multiplied by the yield per acre gave the block value per acre for each level of section values. The yield used was 3.8 sections per acre which was based on that including reserves resulting from the survey. Reserves were not allowed for in cash, but were allowed at 3 perches per lot (as explained previously) which reduced the block area available for subdivision by approximately 74"/,, thus reducing the yield from 4.1 to 3.8 sections per acre.

If we plot the results of this analysis as a graph, we see clearly the relationship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AVERAGE SECTION VALUES.

and are able to read off the block value per acre for any level of section values, at a particular profit and risk allowance. (25% or 333% on outlay). The analysis has been taken out for two rates of profit and risk, and the costs have been classified as Fixed and Variable. At any level, the section value can be seen to be split up into its elements of Profit, Variable Costs, and Net Land Value at 25% on outlay. (33s% on outlay shown dotted).

## How to Use the Block Value Graph

The graph is designed to illustrate in visual terms the interaction of the various components of subdivisional block value. It is thought that it may assist in a better understanding of this sphere of valuation practice, especially in the minds of students. However, with some experiments it is suggested that it could be of assistance in providing a quick snap-check of values for block land, including such acreage properties as parks, reserves, golf courses, and other areas which have to be valued on underlying subdivisional value. The graph has in fact already proved very useful in this respect.

Existing road frontages should be valued separately, esplanade reserves, and poor contoured land such as gullies, etc., should be deducted from the block to give the subdivisible area. This area should be valued at the acreage rate for the particular level of average section values, as read off the graph.

Example 1:

30 acres back land, fairly level, with sections valued at an average of £1,000 each.

(i) Read off average section value along horizontal axis-£1,000.
(ii) Read off vertically the intersection with the acreage rate line for 25%. P. & R., i.e., £1,250 per acre.
(iii) Multiply number of acres by the value per acre.

30 X £1,250 = £37,500 Block Value.

Example 2:

Analyse a sale of a block of 25 acres of back land for £40,000:

(i) Divide sale price by acres to get price per acre, i.e., £1,600.
(ii) Read off along vertical axis block value rate of £1,600.
(iii) Move along horizontal line at that point to interest with the acreage rate line for 25% P. & R.
(iv) Read off the average section value on horizontal axis for that level of acreage rate-£1,150 per site.

This gives us what we would expect the purchaser to sell the sites for once he had subdivided.

# Speedy's Risk Curve

*Squire L. Speedy, BCom, MPhil (Hons)*

A standard analytical tool for financial analysis is gearing. This is the term used to express the extent that outside capital has been used to finance an investment or property. It may " be expressed as the ratio of debt to equity funds or proprietorship.

$$\text{Gearing} = \frac{\text{Total Outside Liabilities}}{\text{Total Proprietorship}}$$

Where the creditor's interest is high the financial structure is said to be highly geared and risky because a small percentage reduction in turnover or rental income will reduce profits, but by a magnified proportion. Where there are high fixed overheads, such as interest and also high capital commitments for debt repayment; a very highly geared financial structure can lead to financial difficulties under adverse trade cycle conditions. This can occur even where the property itself is still basically sound. In other words, the risks relating to the investment are one thing and the risks relating to the financial structure of that investment is another. The risks are cumulative.

Risk may also be considered to be two sided. There is always the positive risk of loss in any investment, but the risk may be negative and prove to be an opportunity to increased profits and increased values. Such process is sometimes referred to as leverage.

The normal use of the gearing ratio has limitations in its use, as the measure of the ratio of outside liabilities to proprietorship lacks a satisfactory independant scale to assist in the interpretation of any calculated gearing ratio. The chief purpose of a gearing ratio is to enable the analysist to compare one year with another and to compare one investment with another, with the end purpose of assessing the degree of risk and possible leverage.

The risk curve shown in Fig. I is designed to present a graphical picture of the rise in risk with the increases in the proportion of debt to proprietorship. The OY scale is the standard gearing ratio, to which is now added the nomenclature of Risk Scale. The 0 X scale represents the proportion of outside debt to asset value.

The general characteristics of the risk curve are as follows:-

1. The curve is purely a mathematical relationship, but which approximates the real-life risk position, up to about a scale of ten.
2. The greater the proportion of debt to asset value, the greater risk.
3. Although risk increases with debt, it does so at an accelerating rate.
4. Taking fifty percent of debt to asset value as unity risk, the risk doubles at a geometric rate of progression, as illustrated in the following table.

| Risk Scale | Percentage of Debt to Asset Value |
|---|---|
| 1 | 50% |
| 2 | 20/0 |
| 4 | 80% |
| 8 | 89% |
| 16 | 94% |

SPEEDJ'S RISE CURVE


FIG, 1

Up to the traditional trustee mortgage limit of 66 3% the risk scale is low at two. Above this limit the risk quickly increases, doubling at 80 percent of value, and doubling again at 89%.

Expressed another way, increasing the debt ten percent from 80 percent to 90 percent doubles the risk from 4 to over 8, while dowering the debt proportion from 80 percent to 70 percent, almost halves the risk.

On a rising market, the risk progressively reduces, as asset value increases. On a falling market, the risk very quickly increases. Once the scale reaches double figures at about 90 percent of debt, the risk is so great as to be virtually unassessable, as the gearing and risk ratios follow an exponential curve.

The effect of colateral security, is to increase the asset value of the security and so reduce the risk scale. Where the debt advance is not of first order priority, the risk is substantially increased.

The debtors have a ratchet effect on their risk scale: they stand to lose on a drop in the value of the security, and do not gain from an appreciation in value. The equity owners with their equity, representing high risk, have the opportunity of gaining from leverage in equity resulting from an increase in asset value.

# LEASEHOLDS

ARTICLE 1 A RAMBLE IN LEASEHOLD INTEREST RATES by R H ROLLE
Reprinted from *The New ZealandValuer* June 1953, Volume 11, No 2, page 4.

*A well known Wellington Public Valuer who had a special interest in leasehold matters, J H Rolle was for many years national publicity spokesperson for the NZ Institute of Valuers.*

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ARTICLE 2 AN OPINION ON LEASEHOLD ARBITRATIONS by R H ROLLE
Reprinted from *The New Zealand Valuer,* September 1966, Volume 19, No 11, page 407.

ARTICLE 3 PERPETUAL LEASEHOLDS by J W GELLATLY
Reprinted from *The New Zealand Valuer* December 1966, Volumel9,No 12, page 457.

*A well known Wellington Public Valuer, J W Gellatly was a foundation member of the NZlnsti tute of Valuers and Chairman of the Statistical Bureau for 21 years*

ARTICLE 4 MARKET VALUE OF LEASEHOLDS AND INTEREST RATES by J 0 MACPHERSON
Reprinted from *The New Zealand Valuer,* December 1967, Volume 20, No 4, page 171.

*J 0 MacPherson has been a leading figure in Valuation in New Zealand since the 1940's. A fellow of the NZ Instituteandformercouncillorfor the Otago branch, he has contributed widely to the NZ Valuers' Journal and the profession as a whole.*

ARTICLE 5 GROUND LEASES by M J NATHAN
Reprinted from *The New Zealand Valuer,* January 1968, Volume 20, No 6, page 274.

*Michael JNathan is a fellow of the NZ Institute of Valuers and principal of S George Nathan & Co,Wellington.*

ARTICLE 6 ANALYSIS OF LEASEHOLD SALES by D B C BARRATT-BOYES
Reprinted from *The New Zealand Valuer* March 1972, Volume 21, No 11 page 425.

*A fellow of the NZ Institute of Valuers D B C Barratt-Boyes is a principal of Barratt-Boyes, Jefferies, Valuers, Auckland and at the time of writing held the position of Assistant Chief Valuer in the Valuation Department in Wellington.*

ARTICLE 7 COMMENT ON LEASEHOLD SALES by R L JEFFERIES
Reprinted from *The New Zealand Valuer,* March 1972, Volume 21, No 11, page 432.

*Aformereditor ofTheNZValuers'Journal,Rodney Jefferies is Senior Vice-President of the NZInstitute of Valuers.*

# A RAMBLE IN LEASEHOLD INTEREST RATES
## An Indifferent Opinion

I fear that age is creeping down on me. No longer do I possess the same carefree conifdence. Everything seems to develop a very large question mark.

In front of me lie two leases, renewable for 14 years with further renewals in perpetuity. A new ground rent has to be fixed for each. I am an arbitrator.

Now to arbitrate can be as difficult or as simple as you may desire. The easiest way of all is to guess what your fellow arbitrator will think and then create a figure sufficiently well away to have a pleasant argument over. It is a safe bet that a midway figure will be agreed to. Another favoured way is to ascertain the result of other arbitrations and settle around the average.

The calculation of the unimproved value is usually not so difficult. This is in line with every day work. No, my problem at this moment is the rate of interest to use.

I am writing down my thoughts on the subject to clear my own mind. Because others have accepted a certain rate or method does not say that the past is correct. Nor is what Mr. Justice so and so said in 18- or 19- necessarily right today. After all, the world is not standing still.

Most of my colleagues appear to have more definite ideas on the matter than I have at the moment but I obtain some pleasure from the fact that their opinions range from 21% p.a. to 5% p.a. I suppose that this is a help. At least it provides boundaries.

A says 5% definitely. That is what they use in Auckland, somewhere in the far south and in certain native leases. He does not say it is right but simply that it is done.

B tells me this is nonsense. In Auckland they always get mixed up. Why, they only allow 4#% for rents there so how can they adopt 5% as a serious figure for ground rentals?

C says Government stock rate, old chap, that's what I use.

D helpfully reminded me that Mr. Justice S said that the rate of interest for ground rents should be about 1% less than mortgage rates. (As mortgage rates can range from 4% to 5#%, at the moment this is most helpful.)

I pointed this out when thanking him, but he said that the interpretation was not his problem.

E informed me that 41% was the rate.

F says that 3% is ample. Leased freehold is absolutely gilt-edged. No worry for the lessor, my friend, only for the tenant.

G believes high interest is a tool for the anti-capitalist and anti-christian. P.O. rates, my dear fellow, P.O. rates are enough. Don't forget the lessor gains regularly from unearned increments. And so on!!

The lots I am concerned with are worth £1,200 apiece. Thus I am at the stage of ground rents ranging from £30 p.a. to £60 p.a., a nice average of £45 p.a., i.e., 31%. I feel tempted to stop.

I am looking at my leases. Clause 8 says that the rental is to be determined by two indifferent persons. Shades of departed valuers! I like that word indifferent. Or do I? I guess that the author meant unbiased, but the modern word has another interpretation. So, back to the problem.

I feel that I can discard 21%. Money placed at this amount is usually invested for the convenience of withdrawal at short notice. I feel like discounting 3% also, but am not so sure.

5% is the usual mortgage rate. 5% is also the percentage used (in this district) for rental assessment. But should a lessee have no margin? Should he not have some profit in return for the responsibility of paying rent and rates? Is he in the same position as a man who has a mortgage on his land? The answer seems definitely no. A mortgage can be repaid. It remains static while on the property. The mortgagee does not enjoy participation in any increase in the worth of the land.

Let me see: given two identical properties, one freehold and the other leasehold, which would I prefer, presuming that the ground rent represented 5% of the worth of the land? I jot down a few comparisons and decide that I, anyhow, would have no hesitation-the freehold for me every time, unless the margin was much more attractive. No. definitely not a full mortgage rate.

4

Suppose I was a lessee, what would I want? margin both for profit and would require seem an interesting line of safety. This thought.

My building will be aging; its income potentialities may decrease whilst my ground rent is more likely than not to rise. I should also have a margin from which I can build 1 % up a fund to meet the next increase. Say for profit and 1% for the reserve fund. The latter on £1,200 will create for me a fund of about £250 (compounded) in 14 years to invest to meet a heavier ground rent. The £12 p.a. profit. former will give me

Salesmen selling leaseholds often say: If you invest so much you automatically meet the ground rent. But in reality this is only true while the ground rent remains constant. Of course, interest rates can drop, but this is likely to hit the lender before the lessor.

So I have decided to drop 5% and also 4z%.

My mind is running off at a tangent. Would it not be more correct to reduce the value of the freehold? After all, a piece of land leased in perpetuity, and occupied by someone else's buildings is not as good as a piece of free land. This seems to be getting into deeper waters. Value should not disappear; part may go somewhere, but exactly where, and in what proportion, I cannot fathom. We will stick to our, interest rates.

Now to consider 4% p.a. At the moment this is about the official interest rate. It is also approximately what I can get from some gilt-edged (good words) stock. Is therefore the ownership of the freehold of leased land equal to ownership of gilt-edged stock?

Suppose I am the lessor. I think this over. I could sell my stock more readily than I could my leased land (I believe) but if I did not want to ever do this, then my stock is worth exactly the same sum in 14 years' time for re-investment. My leased freehold, however, will have probably risen in value and unless I am unlucky enough to strike a depressed period for re-assessment, I will gain an unearned increment which will increase my returns.

In a young and growing community like N.Z. this is more than a probability. Therefore, apart from the question of saleability (which is not important in leased freehold), I am sure that I am better off by far with my money in the freehold than in stock.

The thought of this unearned increment makes me rather sorry for the lessee who, after all, is the one who pays the rates for development, builds the building and aids in creating the unearned increment which he will have to pay again for.

It now seems certain that the rate must be below 4%.

Should it be 3%? I was almost tempted to discard this at the beginning, I remember. I am looking back at my notes regarding my feelings if I were the lessee. 3% will give me 1% profit and 1% sinking fund against the future. This seems reasonable but, following the thought of increasing worth, part way through the lease period the lessee will be gaining something extra right up to the time of the next renewal by paying rent on less than on what the land may be worth. He could be collecting on a higher basis than he is paying out. 1% for reserve seems to be too generous: half that should be enough. This guarantees a modest reserve with the prospects of more if values rise. Yes, '% seems right.

My rate is now 31% p.a. which is £42 p.a. on £1,200.

I am feeling pleased. It seems a neat figure and fair to all. Until lately 3-z'% was favoured as a reasonable rate of interest on many securities and may be so again. And is not land the best investment of all long-term securities?

So 3 1% p.a. it shall be.

The leases are still in front of me. I note again clause 8-"two indifferent persons." Well, I have tried to be indifferent (and have succeeded, you may sneer).

My next worry will be to worry how indifferent my fellow arbitrator is going to be.

It seems also that I must make a mental apology to the memory of the late Mr. Justice S. 3-z'% is, after all, 1% below the rate used for first-class mortgages.

R. Howard Rolle

# An Opinion on Leasehold Arbitrations

- by R. H. Rolle, F.N.Z.I.V.

Sooner or later most valuers become involved in the assessment of ground rentals. These are most interesting problems and necessitate great care and consideration. Your decision can control the future of a property, and even people, through good times and bad. In prosperous times it is very easy to forget that there can be troughs as well as crests. The future is not ours to see, but in such valuations provision has to be made for the unforseeable. I think that this has been the view of the Courts and of Umpires. The Courts have always referred to the "prudent lessee" as the person to be considered. The inference is that one must presume that the lessor is reasonable and understanding.

In almost all ground rental arbitrations the question arises as to the rate of interest that is to be applied to the unimproved value.

Mr Justice Smith (W.C.C. v Wilson, N.Z.L.R., 1936) did not entirely approve of the direct application of a rate of interest to the unimproved value of the land, contending that many other factors could be involved. The prudent lessee would naturally pay heed to what other lessees were paying for similar land under similar circumstances. He indicated that large new buildings in a locality could affect value and ground rent to the detriment of smaller buildings on similar lots, erected before, with the approval of the lessor and which were still too good to destroy.

Smith J. also restated the basic principle that land in itself could have little value: it was the improvements that created value, by cultivation and by building, thus encouraging demand. The owner of the ground (the lessor) gained through the enterprise and capital of the renter of the land (the lessee). The learned Judge quoted at some length from an economist (Pierson) who said, "The landlord may let his land for less than its full competitive worth but in so doing he forgoes a portion of that rent in favour of the user of the land. In the same way a portion of the ground rent may be diverted from the pocket of the owner of building land: that is what happens when instead of having a house built on the land at his own cost, and then letting such a house, the ground owner sells his land to builders. These entrepreneurs will not be satisfied with a very moderate rate of interest on the capital they intend to lay out; they will want a somewhat higher percentage on their money. This additional percentage will be part of the ground rent which the owner of the ground has had to abandon in order to relieve himself of all risk."

Commenting on this, the learned Judge said, . the statement implies that a ground rental can only be represented by a moderate rate of interest on the capital invested by the lessor which, where the lessor lets unimproved land to a building lessee, is only the capital value of the unimproved land. All profits and premiums are the reward of the entrepreneur. His losses are his liability, not the lessor's".

In awarding a ground rental representing 3.25 per cent to 3.30 per cent the judge referred to the then current mortgage rates of 4.25 per cent to 4.50 per cent (1936) but also commented that in 1914, at the beginning of the previous term of the lease of the subject land, the rent represented only 2.62 per cent, whereas mortgage rates then averaged 6 per cent per annum. His remarks that a prudent lessee in 1935 might reasonably give one per cent below first mortgage rates has since caused some confusion.

For want of a better method, the application of a rate of interest to unimproved value has been the practice among valuers in New Zealand, although other considerations have not been ignored.

Since the decision of Smith J. in 1936 ground rents have risen and reached 5 per cent in many cases. Interest naturally varied according to the terms and conditions of the lease. A long lease was worth more to the renter of the land than short terms. Rights of renewal are most important. The right of compensation for improvements, or otherwise, has a bearing. Leases must be studied carefully for clauses that may affect ground rental and the freedom of the parties. Many leases contain clauses relating to the maintenance of the improvements constructed by the lessee, thus clearly indicating the lessor's own interest in those improvements.

The most common leases met with are for 10, 14, 21 and 33 year terms, each with perpetual or lengthy rights of renewal, and all normally without rights of compensation for improvements. Of these leases those most frequently handled are the 14 and 21 year tenures, each with permanent rights of renewal and without rights of compensation for improvements. Smith J. was dealing with a 21 year lease under these conditions.

Between 1958 and 1960 there were two lengthy and expensive arbitrations in Wellington, involving a wide field of legal and valuation talent. The Umpires were Goulding, S.M. and Sim, Q.C. Mr Goulding came out openly with a decision of 3.75 per cent per annum on the unimproved value of the land. Sir Wilfred Sim was more circumspect and simply awarded a sum which was variously interpreted as between 3.75 per cent and 4.25 per cent. These were also for 21 year leases with permanent rights of renewal.

In the Wellington area, the common basis at present appears to be 4.25 per cent for 21 year leases down to 4.125 per cent on 14 year leases, applied to the unimproved value of the land. A mild variation in these rates is apparent on analysis due to differences of opinion of the unimproved value, but these differences are generally small and do not appear to be vital. In other areas, the rate of interest ranges from 4 per cent to 5 per cent.

While the use of 5 p.c. p.a. on the unimproved value does not appear uncommon, investigations by the writer have indicated that little thought appears to have been given to the realities of this figure. Enquiries from valuers and arbitrators brought these results:

(a) 5% and better has been obtained with new leases.

(b) 5% is often written into some leases.

(c) 5% (or thereabouts) is the rate for long term Government stock.

(d) Goodwill premiums are often paid for leased sites.

(e) 5% is the rate of interest stated in the Valuation of Land Act for division of interests.

(f) 5% has been obtained in other cases.

Now, as regards (a) : Land for lease is offered by application, tender or public auction. Lessees in such cases are in the same position as buyers, buying in actual or fancied anticipated competition. Under such conditions, on a seller's market, a buyer (or lessee) will often pay more than he prudently should in order to obtain a piece of land for his own particular purposes. Such extra rent is in the nature of a premium.

Regarding (b): Valuers and arbitrators have often had to create an apparently low unimproved value to obtain a sensible result. Lessors of land are usually permanent organisations and the last thing that is wanted by such an organisation is lack of confidence in its leases which could be created by dissatisfied lessees and by having its leases abandoned. Incidentally, it is noteworthy to observe that one usually finds the best lessees with the most valuable improvements where the lessor is prepared to appear reasonable and understanding. Where the reverse is the case improvements are frequently inferior, with the consequent effect on locality unimproved values.

Regarding (c): The recent statement by the Census and Statistics Department that from 1955 to 1965 the £1 (2 dollars) had

tallen to As (1.60 dollars) in purchasing power enables the true rate of Government Stock in relation to growth stocks and land to be evaluated. The fall is 2% per annum. Therefore the net interest rate for long term Government Stock is around 3%. Similarly the net interest rate for a 6.5% mortgage is 4.5% or 5% on a 7% mortgage. This 2% deduction is a sinking fund to equate the annual loss in purchasing power of the capital. When Smith J. made his award in 1936 of 3.25% or 3.30% there was economic stability. His reference to 1% below mortgage rates could be viewed in the light of changed conditions.

Regarding (d): It is true that in many locations substantial prices have been paid to lessees for leased land, often land with an old building thereon, the building being then demolished to make way for a new structure. The question reasonably follows: should such prices be taken as evidence of a general increase in land value or evidence for a high rate of interest on the land? To do this would be to assume that all lots in the area should carry perhaps multi-storey buildings and that there was sufficient population, demand and capital to carry such a programme out, which would be impossible under the most buoyant of conditions. Therefore it would seem that to assess ground rentals for existing sites on the basis of the land carrying hypothetical buildings would be unjust to the majority of lessees with valuable but ageing buildings.

Regarding (e): The rate of interest stated in the Valuation of Land Act was not created for ground rental calculations. However, the Land Act (1948) with its subsequent amendments does offer a very good indication of the views of economists.

This Act refers to 33 year leases, with perpetual rights of renewal and the right to freehold, and fixes the ground rents at 5% p.a. of the unimproved value. This lease is immeasurably superior to the ordinary 21, 14 and 10 year leases.

Regarding (f): That is not to say 5% is correct. Subsequent comments will amplify this.

There is not a better growth investment for long term investors than the ownership of leased land. In 21 years the value (and return) has doubled, trebled and in some cases quadrupled. Here are ten recent ground rent arbitration results for which I was an Arbitrator. In no case did I use more than 4.25% on the unimproved value of the land.

14-year Leases

| | | |
|---|---|---|
| £48 p.a. | to £106 p.a. | 121% |
| £55 p.a. | to £120 p.a. | 120% |
| £63 p.a. | to £137 p.a. | 118% |
| £39 p.a. | to £87.15 p.a. | 125% |
| £835 p.a. | to £1610 p.a. | 93% |

21-year Leases

| | | |
|---|---|---|
| £235 p.a. | to £946 p.a. | 300% |
| £700 p.a. | to £2636 p.a. | 277% |
| £926 p.a. | to £2134 p.a. | 110% |
| £306 p.a. | to £708 p.a. | 130% |

These were not selected for any purpose other than to indicate that such leased land is indeed a growth investment. I have not the figures to show what the current return to the lessor would be on the original land value as the leases go back many years. I do know that the return would be substantial indeed.

It is of more than passing interest to look at the return from Growth Stocks. Here are six well-known and esteemed securities.

| Name | Return on Market Price |
|---|---|
| Dominion Breweries | 2.88% |
| N.Z. Breweries | 3.33% |
| South British Insurance | 3.82% |
| National Mortgage | 3.74% |
| Farmers Trading | 3.05% |
| J. Wattie Canneries | 2.70% |

At the time these figures were compiled the average of 40 leading N.Z. Stocks was 3.41%. The lowest point was 3.30 and the highest 3.78"9(' . The Investment Editoz said: "The low yield reflects the confidence of investors - as a hedge against inflation." These figu: es will be found to fluctuate month by month. A bonus issue of shares is usually followed by a reduced return.

It is true to say that shares are normally readily saleable. However, the lessor of land is seldom concerned with selling and even the best of shares are not without some danger, as many investors have found to their cost.

The argument has been advanced from time to time that the average of rent to

value, during each period of a lcase, in terms of interest, represents only a proportion of the rate fixed at the b3ginning of each term. Thus, if a lot has doubled in unimproved value in 21 years, an initial 4% is only approximately 2% at the end of the term and the average therefore about 3%. Goulding, S.M. (Diocesan Trustees v Avery Motors) did not think much of this contention stating that in his opinion the average return on capital over a long period should receive consideration.

Mr Goulding's opinion seems logical. Overseas, 99-year leases at a flat rate of 6-8% on the land value at the time of granting, are common. The renewable leases of 10, 14, 21 and 33-year periods are much better in return for the lessor. Assuming a 20 - year lease (for convenience) doubling every 20 years and using 4% p.a., the average return over 100 years is 24.8%. Even if, owing to market lfuctuations, the average was half this the return would still be very handsome.

So the question may well be asked: What return should reasonably be expected on one of the finest and safest forms of growth investment, he. the ownership of the freehold of leased (and improved) urban land?

All Court decisions and most Umpires' decisions have this in common, sympathy and consideration for the lessee. It is the lessee who can suffer hardship. The lessor is safe. I refer back to the comments of Smith J. in the opening paragraphs.

It would be beneficial to see articles published in the "Valuer" from those who still advocate 5% for leases under 33 years and from those who support a rate in the vicinity of 3%.

In conclusion I must make it again clear that almost every case is a separate problem needing individual consideration and that my notes and comments relate to city leases, which may also include centrally placed sites in the larger and progressive towns. Other factors apply in suburban and non-urban locations.

# Perpetual Leaseholds

*by J. W. Gellatly, F.N.Z.I.V.*

Two aspects of leasehold land valuations are a concern to Members of the Institute. Firstly - Renewal Rental Arbitrations, the subject of an article by Mr R. H. Rolle in the September "N.Z. Valuer", and secondly - Market Values of Leasehold Land, which appear to have little relation to the statutory formula set out in the Valuation of Land Act 1951.

## RENEWAL RENTAL ARBITRATIONS.

I have read with interest Mr Rolle's article and believe more can usefully be said on this important matter.

It appears that Wellington lags behind other cities of the Dominion in the interest rate which is a complementary part of the ground rent. This is surprising, as general interest rates tend to be higher in Wellington than in other districts. I am of the opinion that the most satisfactory index of interest rates available is the return on market values of long term Government securities. This is a definite figure reported monthly in the "Abstract of Statistics", as compared with the somewhat indefinite mortgage interest rate which varies for different types of security, and the nett return on growth stocks, which is subject to many factors unrelated to interest rates. As an example of this, the securities named excepting one not now quoted) have moved from an average of 3.1% to 4.1% in four months.

The Supreme Court case *W.C.C. v. A. L. Wilson* is accepted as authoritative in the fixing of ground rents. Mr Justice Smith awarc'ed a grcund rent of 3.3% of the valu:_ of the lung for a renewal period of 21 years commencing in 1935. In this year the returr from Government securities was 3.83% of which the award was 86%. Today the return on long term Government securities is 5.280„0 of which 86% is 4.55%. The comparable rate is therefore at least 4.5% tending to increase with the upward trend of interest rates. Much has been said at Arbitration Hearings and elsewhere of the advantage to the lessor of the increase in the value of the land during the term of the lease. He, of course, does not receive this capital increment, except by way of increase in the ground rent on a conservative basis with each successive renewal.

The lessee has advantages equally beneficial. During the 14, 21 or 33 year term of each renewal, his rental is pegged to the value at the commencement of the term. But he is able to receive steadily rising rentals for the premises erected on the land right up to the expiry date of the lease. It is axiomatic that unless general rentals increased, the value of the land would remain static, and there would be no increment for the lessor.

In the case of high value sites, the lessee would also benefit from partial or complete exemption from land tax. The high prices paid for perpetually renewable leases is proof of the value of advantages accruing to the lessee.

## MARKET VALUE.

The assessment of the market value of these leaseholds is not easy. A rough and ready estimate that a leasehold will sell at the freehold value is often right, but could be wrong. When there are comparable or similar leaseholds, direct comparison by means of a leasehold unit value of the land is possible.

The position is created by the difference between mortgage rates of interest at which the land could be financed were it freehold, and the much lower rate of interest used in assessing the renewals from which arises a value for the renewal rights. Is this not, in the words of the Act "Other valuable consideration to which he is entitled under the lease"?

EXAMPLE - A perpetually renewable leasehold of freehold value £10,000. Present term at ground rent £200 expires in 5 years. *Mortgage rate of interest 61%* - current renewal rate 41%.

| | |
|---|---|
| *Land.* Freehold Value | 10,000 |
| *Annual Value* | |
| 61% of £10,000 | 675 |
| Ground Rent | 200 |
| *Lessee's Annual Interest* | *£475* |
| Present Value of £475 p.a. for 5 years on 5% table (4.329) | 2,055 |
| *Renewal Value* | |
| 2*% (61%-41%) of freehold value capitalised @ 5% | |
| £225 x 20 = £4,500 | |
| Deferred 5 years (x .7835) | 3,525 |
| *Lessee's Interest* | £5,580 |

The use of the current mortgage rate of interest in assessing the annual value and also the difference between the current mortgage rate and the renewal rate for the renewal value, shows the advantage of the established basis of renewal to the lessee.

If the current renewal rate were 5%, the calculation of the renewal value would be:

| | |
|---|---|
| Present value of lessee's annual interest | £2,055 |
| 11% (61%-5%) of freehold value capitalised at 5% | |
| £175 x 20 = £3,500 | |
| Deferred 5 years (x .7835) | £2,745 |
| *Lessee's Interest* | £4,800 |

The indication is that too low a renewal rate therefore has an inflationary effect and conversely, too high a rate would be deflationary.

It could well be that the case *W.C.C. v. A. L. Wilson* quoted above has over the years, carried more weight with Wellington Valuers than with those in other centres, for the natural reason that it concerned a Wellington site, on the corner of Lambton Quay and Waring Taylor Street.

An arbitration award by Sir George Finlay, Auckland Harbour Board v. Briscoe and Company Limited in 1959, surveys market conditions in Auckland showing remarkable similarity with these in Wellington today, and awards a ground rental based on 5% of the agreed freehold value.

It would be a step in the right direction if renewal interest rates were considered and brought into line nationally as far as is possible.

It has been said that the high prices paid for leaseholds are by uninformed purchasers. While no doubt that is sometimes the case, yet there are so many such transactions, including purchases by Insurance Companies which have actual advice, that we must accept the market level created. A possible contributing factor in some uninformed cases is the fact that Government Roll Values are expressed in terms of the freehold value.

There is a field for research in this matter. In 1963, a number of leasehold sales were analysed in the Hawke's Bay Newsletter and consistency found by the use of 9% in calculating the annual value. In the current revision of the Urban Valuers' Handbook, it would be helpful to devote a page to this matter, and I would suggest that other members might send their ideas to the Editor with benefit to the Institute and to themselves.

## THE VALUE OF AIR RIGHTS.

On Chicago's lake front, the Illinois Central Railroad Company has contracted to sell to private developers the air rights of the land on which its trackage is located.

The tremendous value of the air rights is evidenced by the fact that builders of a 41-story office paid some $2,270,000 for the right. Developers of a 35-story apartment building paid some $2,750,000 for air rights.

-Reported in Assessors' Newsletter, November, 1966 I.A.A.O. (U.S.A.).

# Market Value of Leaseholds and Interest Rates

*By I. O. Macpherson.*

The discussion started by Mr Roy Rolle and carried on by Mr J. W. Gellatly in these columns is so interesting that I am stirred to add my contribution. In the field of renewal of leases there is so much room for honest differing of opinion that I sometimes feel that I should like to see an occasional lease put up to auction to give a guide as to the true letting value. In fact, of course, in fixing ground rents, we do not need to start from unimproved value at a reasonable rate of interest unless so dictated in the lease. In variations to Dunedin City Corporation leases, the valuers are directed "a valuation shall be made of the fair annual rent of the said land . . . " No direction is given as to method except that value of improvements is to be ignored. Accordingly, if some better method is discovered than interest on bare land value, then there is nothing to stop such a method being advocated.

The celebrated Wilson case is, I can assure Mr Gellatly, widely known in the "deep South" but on Mr Gellatly's interpretation, it is not honoured in its birthplace. To relate the percentage of 3.3 per cent to interest on long term Government securities is deviating the principle so often quoted of the fair return being 1 per cent less than the fair ruling first mortgage rate. In doing this, of course, we must always wonder whether Government Statistics are a fair yardstick. As an example, in the late 1950's and early 1960's, the disclosed rate as shown in abstract of statistics was unduly weighted by the artificially low return on a large volume of group housing loans. It does seem that, because every few years Governments introduce some new cheap housing scheme, the published figure may give little indication of the factual position.

Have we, as an Institute, a part to play here? Might it not be a job worth tackling by our statistical bureau to keep an index which would be devoid of such influence? Thus, we could not ignore the lending of major building societies and Savings Banks, both of which tend to have a co-operative influence, any more than we could the straight commercial activities of lending by Trustee Companies and Life Insurance Offices. Such a compiled figure might be of more significance than a polyglot percentage now dished up in the form of statistics.

I also tend to disagree with the figure favoured by Mr Gellatly as the return on long term Government securities, since this again is an average of yields incorporating the sins of the market over say a ten year period, since this might be the average term of Government loans. Thus 1935, the date of the Wilson case, would have four years of high interest and six years of low rates in depression years. How can this possibly be compared with the ten years of rising rates from 1956 to 1966. To me, this does not seem to add up, and the 86 per cent in 1935 may or may not be factual in 1966/67. The relationship does not seem to me to be nearly so valid as a relationship to first mortgage rates.

But whatever values we do decide, let us not lose sight of the fact that the lessee has use of an asset for usually 21 years and that asset has historically always had a tendency to rise in value. The lessee is asked to pay something less than first mortgage rates on a fixed value, he enjoys it subject to covenants and renewals in perpetuity and in the great majority

of cases can sell the lease at a profit or goodwill while the ink is drying on the document.

Do lessees really consider that they are being penalised, to pay 5 per cent of a reasonable value - and that rent to be a fixed one for a period of 21 years? I suggest that we have inherited a depression complex on the matter, and in fact they are regarding valuers at large (and probably registered valuers in particular) as a bunch of "softies". When I say this, I am well aware of the disadvantages of leases which are so often quoted to me in my capacity as valuer to the Dunedin City, and I pass on, if acting (say) for a lessee against the Otago Harbour Board.

Turning again to the question of the return on long term Government Securities, I suggest that leaseholds in fact deserve a higher percentage return It is generally recognised that Government Stock is the No. 1 Investment in this and most other countries. It is gilt edged, and readily negotiable. Thus, leaseholds have just that slightly greater element of risk, and rather than 86 per cent of such a figure, I think the return on leaseholds might be 120 per cent. That is, the leasehold return might be nearer 120 per cent of 5.28 per cent or well over 6 per cent. At present, I would settle for 51 per cent cheap finance for any business for a. twenty-one year term; note also that it is in the nature of a one-hundred per cent loan and, if the lessee behaves, can never be called up.

In connection with the second part of Mr Gellatly's article dealing with market value, the writer developed a technique suitable to local conditions based on a variation of a theme by the late J. Gordon Harcourt. This was derived from an empiric analysis prepared in 1957 in conjunction with Mr D. Barratt Boyes now Supervising Valuer, Wellington.

An analysis of a number of sales of largely unimproved leasehold Otago Harbour Board land was made where the lease had been renewed between 1950 and 1956, and in that short period, even allowing that there was some uncertainty immediately after the lifting of Land Sales in 1950, it was found that the average return on assessed unimproved value was about 2 per cent rather than the 4 per cent then being obtained. This was due to the spectacular growth in land values which showed an average doubling trend.

From this it was assumed that the purchaser-lessee paid for two things as follows:

1. Profit in rent. That is, if his rent was less than 4 per cent (now 5 per cent) he was making the usual assured profit which he could use as working capital at not less than first mortgage rates.

2. This right of renewal was worth 2 per cent of the unimproved value capitalised at current first mortgage rates in perpetuity. The 2 per cent was derived of course as shown in the analysis outlined in brief above. Using Mr Gellatly's example, the computation, assuming 5 per cent ground rent and 6i per cent first mortgage rates is:-

Land Value £10,000°

(1) Assessed Rent, 5% = £500
Actual (expires in 5 years time) = £200

Profit £300 p.a.

£300 p.a. for 5 years, capitalised at 62'% = £300 x 4.156 = £1247

(2) 2%, of the U.V.
2% of £ 10,000 = £200

Value of £1 in perpetuity @ 6 % = 15.385

less for first 5 years 4.156

11.229.

£200 x 1 1 .229 = £2246

£3493

(Continued on Page 96)

# Ground Leases

*By Michael 1. Nathan, A.N.Z.I.V., A.R.E.I.N.Z.*

This article takes a different viewpoint on the basis of ground rental assessments, in the current dialogue on leases, and arises out of the author's considerable experience in valuing and arbitrating of leasehold properties in Wellington.

Mr. Nathan is the principal of the Real Estate and Valuing firm of S. George Nathan and Co. Ltd., Wellington.

The average lessee normally approaches this type of venture in a very unsophisticated and often ill-informed manner and it would appear that some valuers are endeavouring to be too technical in their approach when reviewing ground rentals.

Let us try to express ourselves in simple language, and in a way which the layman lessee is likely to approach the problem, for it is he, in the ultimate, who makes the market for ground leases irrespective of what the lessor considers he should get by way of ground rent. In the final analysis there must be a willing lessee prepared to take such leases upon economic terms.

A lot has been said about the necessity of using an interest rate and applying it to the unimproved value of the land, comparing such interest rate with the current return from long term Government Stock, Local Body Loans or Mortgages.

The decision of Smith, J. (W.C.C. v. Wilson) clearly stated a method but further stated "in this case at this time". Unfortunately the method used at that time has been clung to desperately by many valuers devoid of a more sound basis on which to work.

Is not this approach quite faulty at the outset?

How can you compare a fair return from an *equity* investment (and this in fact is what a ground lease is) with *a fixed* security?

An equity investment is one in which a holder participates in the rise and fall of its market worth, whereas a holder of a fixed security receives back at the date of maturity the exact face value of the original investment.

With the continued rise in market value of land which is especially apparent within the City of Wellington, accelerated by inflation at an average rate over latter years of 3% p.a., a lessor is participating to the full in the increased equity after every rental review and such capital accretion has been substantial in many cases.

It may be said that a lessor cannot realize his investment but this is fully contradicted by actual practice. The average Crown lease contains a right to freehold in favour of the lessee and many have been freeholded by lessees at a figure fixed by special Government Valuation when it is realized that holding a ground lease is not in reality an easy way of obtaining a cheap loan.

When the opportunity of freeholding was given to lessees of both commercial and residential properties owned by the Wellington College Board of Governors, in practically every case the freehold was purchased by the lessee concerned. This would also apply if the Wellington City Council, Harbour Board, Hospital Board or various Church bodies were to give this opportunity to freehold their many leases.

It not the factor of whether it is cheaper for the potential occupier of the land to own it against leasing it of considerable relevance when he formulates an opinion on what a fair and reasonable ground rental should be?

It is often mentioned that a perpetually renewable lease is the equivalent of 100% loan against the land but this statement must be put in its right perspective and considered with the economies, advantages, and disadvantages of an overall development on the site.

(a) *Financing*

Let us take a development with a land value of $40,000 and a building cost of $200,000 - a total of $240,000.

Under normal circumstances the owner of the freehold will be able to borrow against the overall security, the amount of *661%* or *$160,000.*

Under the same circumstances, if the land be held under lease the lessee will be fortunate if he can borrow more than 50% of the value of the improvements only or. *$100,000.*

The cash investment required is $80,000 in the case of freehold ownership and $100,000 in the case of a leasehold interest.

A difference of $20,000 in favour of a freeholder.

Moreover, a prudent mortgagee in the case of a leasehold will require substantial capital repayments to offset depreciation in buildings whereas his outlook towards a freehold is more flexible as his security includes participation in the increase of land value and thereby allows amortisation of a mortgage on a considerably easier basis.

*(b) Basis of Fixation*

Without question, considerable note must be taken of the unimproved freehold value when reviewing a ground rent leaving the question of what it should cost a lessee still to be determined. In this regard, we must remember we are dealing with an equity investment and to be on a correct basis, any comparison of returns must be made with the soundest type of *equity* investment available in the market.

It would be fundamentally wrong to endeavour to compare an *equity* security with *a fixed* security as the latter gives no scope for capital accretion and this being the case, will naturally expect a higher return.

Mr R. H. Rolle in his article (N.Z. Valuer Vol. 19 No. 11 - Sept. 1966) refers to the average yield obtained from leading Public Companies in New Zealand which ranged from 3.82% down to 2.7% and averaged 3.41 %. A comparison with this type of equity may be the closest we can obtain even though leading equity investments can be subject to quite violent market fluctuations due to the ups and downs caused by economic conditions. It has been proved that such is not the general case with land values.

A ground lease as a growth type of investment, offers one of the soundest securities obtainable as the lessor not only owns the land but has prior lien over any buildings erected thereon which are often of a very substantial nature.

Bearing in mind the fact that land values have shown only a consistent rise in and around Wellington City since the start of the century (with the exception of a short period around 1931) and the gilt-edged nature of the security, one would expect the investment yield to a lessor to be somewhat lower than that obtained from leading Public Companies.

The lessee may be fairly regarded as being merely the caretaker of the freehold on behalf of the lessor, having to pay all outgoings (except land tax) and an ever increasing ground rent for this dubious privilege.

*(c) Cost to Lessee*

Let us look at a long term true cost of the so-called 100% "cheap money" loan which a leasehold is often quoted as being, and investigate a current example of a typical block of land within the Wellington City central commercial area.

The block used as an example is one on the corner of Willeston Street and Victoria Street owned by the Wellington City Council and leased to Bing Harris & Co. Ltd. on a 21 year perpetually renewable lease. This property was chosen as this area has always been in the commercial heart of the city and has not been subject to violent fluctuations in value one way or the other.

The Government Value since 1901 at revision dates is as follows:

| | |
|---|---|
| 1901 | 17,260 |
| 1903 | 22,400 |
| 1906 | 35,130 |
| 1913 | 40,300 |
| 1921 | 47,650 |
| 1929 | 55,000 |
| 1935 | 47,650 |
| 1949 | 66,400 |
| 1955 | 96,000 |
| 1959 | 110,500 |
| 1964 | 150,000 |

Allowing an interest rate of 31% on the Government Value at approximately 21 year periods i.e. 1901, 1921, 1949, and 1964 the total income to the lessor is $199,290 or $2,372 p.a. over the term 1901 to 1985, an average return on the initial value of $17,260 of 13.75%.

This return would increase at a compounding rate if the example were projected into the future on the basis of past increases in land value. The present return on the initial value has already increased from 31% to 28.4%.

During the same period rates of interest on long term Colonial and Government Stock were as follows:

| | |
|---|---|
| 1901 | 4% |
| 1921 | 5% |
| 1941 | 3% |
| 1961 | 5% |

An average of *4.25%*

An investor investing and reinvesting an initial amount of $17,260 in Government Stock over the same term commencing in 1901 would have received a total income of $61,256 or $734 p.a.

This comparison may be shown more clearly as follows:

| | *Initial Investment* | *Value* 1964 | *Over 84 years Average Interest* | *Total Income* |
|---|---|---|---|---|
| Leasehold Land | $17,260 | $150,000 | 13.75% | $199,290 |
| Government Stock | 17,260 | 17,260 | 4.25% | 61,256 |

To achieve a similar total return as obtained from the Government Stock, it would be necessary to reduce the interest rate on the Government Values of the land to *1.85%* at each renewal period.

Taking into account the nature of security, a return to a lessor and a cost to a lessee of 2% on Unimproved Value appears equitable.

(Continued from Page 93)

The method satisfied a large proportion of the sales analysed and is still in use with satisfactory results. Today, I tend to vary the right of renewal percentage according to the area in which I am valuing, but generally, for less progressive areas, will use 1½ per cent and for land in demand will perhaps increase this to 2½ per cent. It may be that in Northern cities, with their more dynamic growth and consequent rising land values, an analysis might show the 2 per cent used in Otago to be on the low side. Perhaps in (say) Wellington, 3 per cent should be adopted in which case, the answer would be in the same range as that developed by Mr Gellatly.

This article was written prior to 'Decimal Currency Day' - the delay in publication being in no way caused by the author.-Editor.

EDITOR'S FOREWORD

An apology is made for the duplication of part of the subject matter of this article, which appeared under the Student's Section in the December, 1971 issue of the "New Zealand Valuer", but in an unauthenticated and unauthored form. This accompanying article sets the subject in the light of research carried out for the 1968 Porirua Town Centre revaluation, and the subsequent Court hearing in 1971 when the validity of analysis of leasehold sales was sustained.

# Analysis of Leasehold Sales

*D. B. C. Barratt-Boyes, B.A.*

*Val. Prof., A.N.Z.I.V.*

There have been an increasing number of interesting articles in the Valuer over the past years and recent months dealing with problems associated with leasehold properties and the analysis of leasehold sales, but by and large this topic is one which has been sadly neglected. I know of no textbooks which shed much light on the matter, certainly not in the local context, and in my experience many valuers - both Government and those in private practice - have little real understanding of the principles involved.

Extensive research in depth is long overdue and it is to be hoped that some of the new generation of well qualified young valuers will take up the challenge which is presented. This would be a fertile field for instance for an Institute prize for research. There is leasehold land in the commercial and industrial sectors of practically every major city in New Zealand so there should be no lack of source material - and the very existence of this leasehold land and the resultant leasehold transactions create the problem for valuers: how to deduce reliable sales evidence from these sales.

My introduction to leasehold property and its problems was in Dunedin under the guidance of my friend and tutor, J. 0. Macpherson, who has made reference to some research carried out at that time in his article in the Valuer (Vol. 20 No. 4 at p.172). This article makes reference to an article by Mr J. W. Gellatly on the same topic; The Valuer, Vol. 19, No. 12, p.458. During 1965 while in Dunedin, Rodney Jefferies, now in private practice in Auckland, developed the algebraic formula set out later which greatly simplifies the calculation of the deduced freehold value from leasehold sales and which was subsequently developed and tested in Wellington and Porirua during 1966 through to 1969.

This article is prompted by research carried out in connection with the normal five yearly government revaluation of the Porirua Town Centre in 1968 where all properties are leasehold. These values were objected to and subsequently negotiations carried through to a protracted four day Court hearing during 1971 - which resulted in the level of valuations being sustained. These happenings are of interest because involved legal argument revolved around methods, and the validity thereof, of analysing leasehold sales. The level of values assessed by the Department relied substantially on such analyses. To my knowledge this was the first occasion where evidence for a Court hearing of this nature relied entirely on leasehold

Mr Barratt-Boyes holds the position of Assistant Chief Valuer in the Valuation Department, Head Office, Wellington.

sales and certainly the first time where any attempt had been made to reduce this evidence to a consistent basis of principle and method. Reference should be made here to comments of judge Archer in the earlier hearing dealing with these valuations in 1963 - Valuer-General v. L. Evans & Co. Ltd. (N.Z. Valuer, March 1966, P.355). This report gives a background to the circumstances peculiar to the Porirua Town Centre, and Judge Archer also makes reference to the validity generally of leases as evidence of value.

While leases granted in the Porirua Town Centre are not the normal perpetually renewable "glasgow" type leases - being 10 year special leases expiring in December, 1972 - they are for all practical purposes as at that date the lessee has the option of freeholding, or taking out a perpetually renewable lease.

Having established this background to the particular circumstances I will now come on to some of the evidence which was presented to the Court, and where an endeavour was made to set out basic principles. An important point to consider in any discussion on analysis of leasehold sales and methods is that local conditions are paramount. What can be deduced from Wellington sales need not necessarily apply to say Porirua sales - and vice versa. Similarly conditions in Wellington are vastly different from Dunedin or Auckland, and what applies to the larger cities probably won't apply at all to the smaller provincial centres. To deduce reliable evidence valuers must be completely au fait with conditions pertaining in their own area - this is axiomatic.

Any analysis of leasehold sales is admittedly difficult and somewhat arbitrary. Analysis of freehold improved sales involves the basic assumption that the improvements are worth a certain sum and therefore the value of the unimproved is deduced as a residue. This method is well recognised as having limited usefulness and should be treated with caution. Not the least of the difficulties is the estimation of value of improvements which can be a fruitful source of argument and litigation in itself. Nevertheless it is a legitimate approach where there is no other sales evidence, or limited other evidence.

In the case of leasehold improved sales the analysis is further complicated because this residue of unimproved value, or the "lessee's interest", has to be converted from a leasehold to a freehold basis. And because the market value of the lessee's interest includes both a benefit in the rent for the years to run, plus the benefit of the right of renewal, the analysis of sales have in the past been complicated by the existence of these two factors.

It is assumed that the right of renewal confers a benefit to the Lessee (sometimes referred to as a goodwill), arising out of the fact that the Rack rent as a % of the Unimproved Value is usually less than the current market rate of interest, i.e.:-

| | |
|---|---|
| Rack Rent, Say ..... | 5% of U.V. |
| Market Rate of Interest | 6% |
| Difference ROR ..... | 1% |

The benefit of the right of renewal exists over and above any "normal" lessee's interest in the rent for the years to run and in this case would be 1% p.a. of the U.V. in perpetuity for a perpetually renewable lease. i.e. one can capitalise this benefit and express it as a lump sum % of the U.V. : 1% Capitalised at 6% = 16.7% U.V.

It will be noted that this is a slightly different approach and explanation for the existence of the right of renewal factor than that set out in the article mentioned above, where the 2% then used was based on an analysis of actual average returns as compared with renewal rent returns which were themselves at a very low level. However, I feel that both approaches are dealing essentially with the same elements.

Analysis has been by way of a trial and error elimination process whereby an assumed unimproved value is taken and the lessee's interest calculated and compared to the sale price, then reworked at a lower or higher assumed unimproved value until the lessee's interest calculation equals the sale price.

The approach to this problem, and similar considerations are involved whether one is analysing completed sales or building up a projected sale price, varies in practice among valuers themselves as to how they deal with the valuation of the lessee's interest of industrial and commercial properties.

Various methods are outlined below.

Method I.

The simplest is first to estimate the freehold unimproved value and then take a percentage of this figure, adding it to the value of improvements. From my observation and experience this percentage can vary within a wide range of 20%0 to 3501o or more depending on circumstances and local conditions. This method is extremely primitive and in my opinion highly unreliable yet I think it is used fairly extensively.

Example:

(i) Estimate U.V. - S10,000.

take *3000* as representing Lessee's interest $3,000
Add improvements..... 10,000

Sale Price ..... S13,000

(ii) Analysis - Sale 513,000
Deduct improvements 10.000

Residue equals L.I. 53.000

Assume L.I. based on 3000 -
3,000 = 30%
*100%* = 3000 100

$10,000 = U.V.

1 30

Method 2.

The second method is a refinement of this and splits the lessee's interest up into (i) the benefit in the rent plus (ii) the value of the ri ght of renewal. An estimated unimproved value is similarly arrived at as in Method 1, the lessee's interest in the rent calculated using Inwoods tables applied to the lessee's profit in the rent and then the value of the right of renewal is added as a percentage of this freehold unimproved value.

Example:

(i) Estimate U.V. - S10,000. Lease 5 years to run at $260. R/R.
Rack Rent 50,0 x 510,000 = $500 p.a.
Less rent 260

Profit $240 for 5 years at 6?0,o
$240 X 4.15568 = 997. . . say . . . $1,000
Right of Renewal, say 20% X U.V. $2,000

$3,000 = L.I.
Add improvements 10,000

Sale Price = $13,000

(Cont'd.)

(Example cont'd.)

(ii) Analysis - Sale - $13,000

Deduct Improvements 10,000

Residue equals L.I. $3,000

Assume L.I. consists of profit in rent plus value of right of renewal.

Method - Reconstruct sale by trial and error using $10,000 as assumed or estimated U.V. and the sale price is built up as shown in (i) above. On this basis the residue L.I. of $3,000 will only be equated when using a U.V. of $10,000. So the process can be lengthy and time consuming as almost certainly a number of estimates would need to be made and full calculations extended for each.

Method 3.

A further method is to calculate the lessee's interest in two parts as in Method 2 but arriving at the value of the right of renewal on the assumption that this is governed by the difference between the rack rent and the current rate of first mortgage interest - in the following examples taken at 6-21%.

Example:

(i) Estimate U.V. - $10,000. Lease 5 years to run at $260 p.a. R/Renewal.

Rack Rent 5% X $10,000 $500 p.a.

Less actual rent 260

Profit in rent = $240 for 5 years at 6-1%

$240 X 4.15568 = $997 say . . . $1,000

Right of Renewal -

11% U.V. in perpetuity at 6;%

(i.e. 6-z%-5% = 1 %) _ $150 X 15.3846 = $2,307

$3,307 = L.I.

Add improvements 10,000

$13,307

In this case round off - Sale Price $13,000

(ii) Analysis - Similar approach as in Method 2 above by first making estimate estimate of U.V. and then by trial and error reconstructing the sale price by the addition of the component parts.

Conclusion.

In the three previous methods of analysis, the unknown factor is the amount of the unimproved value; but in order to ascertain this sum the analysis must commence with an assumed and/or estimated U.V. and by a process of trial and error the elements contained in the sale price are re-constructed. The difficulty in analysis is to know on what basis the lessee's interest was calculated in the ifrst place (if at all) in order to know how to work back from the sale price to an unimproved value. In order to get beyond an arbitrary estimate, as many as possible actual leasehold sales have to be analysed - although this requirement would apply to any method. However, the results suffer from the serious defect that in Method 1 no regard at all is paid to the amount of the rental, the term of the lease or the separate value of the right of renewal and in Method 2 the estimation of the right of renewal is similarly arrived at on a very rough and ready basis.

I consider that Method 3 is without question the most reliable and accurate provided it is used with care and the factors used conform with local conditions. It must always be backed up by sales. One of the most important advantages is that the component parts of the lessee's interest can be separately demonstrated mathematically. The following method, Method 4, shortcuts the process by using a formula to solve the unknown quantity of Method 3.

Method 4.

The fourth method is a formula approach which takes the hard work out of the necessarily involved arithmetic of Method 3. This reduces the process to one relatively simple mathematical calculation by equating to the sale price the rack rent %, term, and market rate of interest, thus solving the unknown item, unimproved value. This should then be looked at critically to see whether it is reasonable in the light of prevailing circumstances.

FORMULA:

Price paid for Lessee's interest
Actual Ground Rent
Rack Rent % on Unimproved Value
Market interest rate
Present Value Factor t years to run at i°,'o

Price = Benefit in Rent + Right of Renewal

$$\text{Price} \quad \left( (\text{UV}.\ r\% - R) \times PV \right)_t + \text{UV}.\ \left( (i\% - r\%) \right.$$

$$PV_t . \text{UV}.\ r\% - PV_t . R + \text{UV}.\ \left( (i-r)\% \right.$$

$$\left( i\% \right.$$

$$\text{UV}.\ (PV_t . r^{\circ},,o + (i-r)\%) - PV_t . R$$

$$i\%$$

$$\text{By Transposition UV} = P + (PV_c . R)$$

$$PV_c . r\% + \left( (i-r)\% \right)$$

$$\left( i\% \right)$$

$$\text{U.V.} = \frac{100 \times (P + PV_t . R)}{(PV_t . r) + 100 \left( (i-r) \right.}$$

$$\left( 1 \right)$$

Example 1.

Lessee's interest sale at $13,000 including improvements. Lease 5 years to run at $260 p.a. R/Renewal.

| | | |
|---|---|---|
| Sale ..... | | $13,000 |
| Deduct improvements | | 10,000 |
| Lessee's interest | = | $3,000 |

| | | |
|---|---|---|
| Rack Rent | = 5% | = r% |
| Price Paid | = $3000 | = P |
| Ground Rent | = $260 | = R |
| Market interest rate | = 61% | = i% |
| Present value factor | = 4.15568 | = PVt |

$$LJV = 100 \times \frac{(\$3000 + (4.15568 \times 260) \quad (4.15568 \times 5) + 100 \quad (62-5)}{61}$$

$$= 100 \times \frac{(3000 + 1080.456)}{20.778 + 23.076}$$

$$100 \times \frac{4080.456}{43.854}$$

$9304.6 Say $9300

CHECK. U.V. $9300

Lessee's Interest =

(a) Benefit in rent -

| | | |
|---|---|---|
| Rack Rent 5 % X 9300 | = | $465 |
| Less Actual rent | | 260 |
| Benefit | = | $205 p.a. |
| for 5 years at 62% (4.15568) | _ | $851.914 |

(b) Right of Renewal

| | | |
|---|---|---|
| 62%-5% = 1-z'% X U.V. = 139.5 at 62 % in perpetuity = X 15.3846 | = | 2146.152 |
| Say $3000 = Sale | | $2998.066 |

Note: Difference between $9300 deduced above and $10,000 estimated in Methods 1, 2 and 3 is caused by rounding off employed in Method 3 illustration for example purposes.

Example 2. Lessee's interest sale at $30,000 for vacant land.

Lease: 5 years to run at $1,200 p.a. ground rent plus perpetual renewal.
Rack Rent = 5% UV
Market Rate of Interest - 61%
PVt = $1 p.a. 5 years at 6;% = 4.15568
UV = 100 X ($30,000 + (4.15568 X $1,200) )

(4.15568 X 5) + 100 ( (6.5-5)

( 6.5 )
100 X ($30,000 + 4986.816) = 79,779

20.7784 + 23.076
U.V. = Round off to $80,000

CHECK

U.V. = $80,000
Lessee's interest =

(a) Benefit in Rent
Rack Rent = 5°o X $80,000 = $4,000 p.a.
Less Actual Rent 1,200

Benefit $2,800 p.a.
For 5 years at 612% (4.1 5568) = $11,635

(b) Right of Renewal
61%-5% of U.V.

6z%
= 23.076% U.V. 18,460

$30,095
= Sale Price _ $30,000

In this case the right of renewal equals 23.076% of U.V. as a lump sum, but if the interest rate was 7% and rack rent 5%, then R.O.R. would = 7%-5%

7%

=28.57% of U.V. or in the case of city central, i.e. Wellington City Central ground where Rack Rent set by arbitration at 4.75%.

R.O.R. would = 7%-4.75%

7%

= 32.142% of U.V.

This accords to current `rule of thumb' practice of estimating the right of renewal at a figure between 25% to 35% of assumed unimproved value irrespective of the years to run in the lease, and the other even more simple "rule of thumb" practice of taking a percentage addition of the estimated unimproved value as representing both the lessee's interest in his rent profit plus the value of the right of renewal. It will be observed that methods 3 and 4 treat the value of the right of renewal slightly differently from that of both Messrs Macpherson and Gellatly in their respective articles, in that the present value is not deferred

until the expiration of the current lease. My reasoning here is that I consider there to be a saleable interest in the right of renewal irrespective of the time at which it is assessed. In other words it is virtually a constant related directly to the value of the land rather than to data affecting the current lease. Whether this reasoning is valid in all circumstances would depend on the results of empiric analysis.

It is important to realise that using the formula only eliminates some of the time consuming arithmetic. The deduced freehold value should always be checked by using the more conventional approach as has been shown and the deduced value should also be capable of being supported by whatever other evidence is available.

In the case of the Porirua Town Centre a surprisingly high number of leasehold sales had taken place of improved properties in both the city commercial centre and also the service industrial area. Apart from some which would be suspect anyway even on a freehold basis because of special circumstances, notably adjoining owner considerations, the analysis of these sales using Methods 3 and 4 revealed a remarkably consistent result which I feel justified the methods used and the principles involved.

Reference to aspects of the problem of leasehold analysis is made in the following publications:-

(1) Principles and Practice of Valuation in N.Z. N.Z.I.V. Ch. XVI and especially pps. 237, 238.

(2) In re a proposed sale: Manoy to Newman Bros Ltd. (N.Z.L.R. 1947/691).

(3) N.Z. Valuer, Vol. 19, No. 11, p. 407 et. seq.; Vol. 19, No. 12, p. 457 et. seq.; Vol. 20, No. 4, p. 171/172, 181; Vol. 20, No. 6, p. 274; Vol. 20, No. 7, p. 302; Vol. 21, No. 7, p. 255; Vol. 21, No. 9, p. 337; Vol. 21, No. 9, p. 347.

# Comment on: Analysis of Leasehold Sales

by R. L. *Jefferies, Dip U.V., I3.C.A., A.N.Z.I.V.*

Analysis by Formula

The accompanying article by Mr. Barratt-Boyes includes a full explanation of the derivation and use of a formula to take the drudgery out of analysing leasehold sales to arrive at the equivalent freehold value. Since having derived this formula in 1965 while working tinder Mr. Barratt-Boyes in Dunedin, I have used this formula quite extensively, but have found two drawbacks in its use. First, it is impossible to remember and needs to be looked up every time I use it; and secondly, its algebraic form is difficult for those valuers without a working knowledge of algebra to follow, accept, and therefore be confident in using. It also presupposes the acceptability of the Mac-Pherson and Gellatly premise that the Goodwill in a R.O.R., is the capitalised difference between the market rate of interest and the rack-rent as a percentage of land value.

To overcome these drawbacks, and to seek a wider acceptability of the formula, I have re-expressed it in a non-algebraic form, which is very simple to remember and use.

## SIMPLIFIED (NON-ALGEBRAIC) FORMULA FOR ANALYSIS OF LEASEHOLD SALES

PROBLEM:

From a leasehold sale price of a ground lease (after deduction of any improvements) - to find the equivalent land value.

BASIC ASSUMPTION:

Benefit to run + Right of Renewal = PRICE

WHERE:

(i) Benefit = Present value of the rack-rent on the Land Value less actual rent, for the period to run at current market interest rate.

(ii) Right of Renewal = The difference between the market rate of interest, and the rack expressed as a percentage of Land Value, capitalised at the market rate of interest; or simply a % of the Land Value.

METHOD:

Step 1: Express the Benefit as a proportion of the Land Value.

Step 2: Express Right of Renewal as a percentage of the Land Value.

Step 3: Solve for the Land Value in the basic assumption.

EXAMPLE (using example No. 1 in Mr. Barratt-Boyes article) :

Step 1: Benefit to Run = [ (Land Value X 5%) -$260] X 4.15568
= .20778 Land Value - $1080.456.

Step 2: Right of Renewal = $\frac{6s\%-5\%}{62/0}$ X Land Value

.23076 Land Value.

Step 3: Benefit to Run + Right of Renewal = Price

.20778 Land Value--$1080.456 + .23076 Land Value = 3,000
.43854 Land Value- $1080.456 = $3,000
.43854 Land Value = $4,080.456
Land Value = $4,080.456

Land Value $\frac{\$4,080.456}{.43854}$ = $9,304.6

Say $9,300

Theory and Practice

The change in the Public Bodies Leases Act has highlighted for me a paradox or illogicality of the MacPherson or the Gellatley premise that the Right of Renewal or goodwill in a lease is the capitalised difference between the rack-rent and the market rate of interest. (Whether we defer this to the end of the term of the lease or not.)

Basically, the hypothesis means that the greater the difference between the market rate of interest and the rack-rent as a percentage, the greater the goodwill. If we take that, at a set time and a given locality, the market rate of interest is given as being externally set and tradition ally the long term first mortgage interest rate being used, then any change in the rack-rent percent automatically alters the level of goodwill for the Right of Renewal.

Further, it is generally accepted that a lease having a five year rent review will not command the same rack-rent as for a 10 year rent review or a 21 year rent review term.

In Auckland at present we are finding that ground rents on industrial and commercial leases are 50/6 per annum for 7 to 10 or 11 year rental terms and 5 12 % or higher for 21 year term.

Now, one would expect that if two ground leases were up for sale at the same time, one with a 21 year rent review and the other with 7 year rent reviews, then the goodwill in the Right of Renewal would be more for the 21 year rent review lease than for the seven year rent review lease. But, the formula gives an opposite answer if we take the same interest rate in each example. Taking a 76/0 interest rate:-

7 year rent review lease:

$$\frac{7\%-5\tfrac{96}{100}\%}{7\%} = 28.57\%$$

21 year rent review lease:

$$\frac{7\tfrac{6}{10}\%-5\tfrac{11}{100}\%}{7\%} = 21.42\%$$

As far as I can ascertain from analysis of sales of leasehold interests in Auckland, if anything, there was a slight reduction in the goodwills paid for leases affected by the Public Bodies Leases Act, 1969 due to the prospect of reduction in the rent review terms. The goodwills tend to run between 20 to 300/6 for central city leases. With the 1971 Amendment to the Public Bodies Leases Act, existing leases now do not have this prospect hanging over them.

It may help to reconcile the differences outlined above if the interest rate used could be more closely tied to the market interest rate for the various terms compared with the rental term. For example for a lease with a seven year term the interest rate compared to the seven year mortgage term. Alternatively a 21 year term lease compared with a 21 year mortgage term. The difficulty is in being able to obtain evidence of fixed term interest rates much over 10 years to get a guide as to the relative difference in the interest rates. Most first mortgages have their interest rates reviewable at five yearly or less intervals. This line of research fails on this account.

I tend to feel that in granting a lease, the lessor parts forever with some of the `bundle of rights' attached to his land. This is borne out by the fact that the lessor is prepared to lease land at an income rate lower than the market interest (even in the initial term) with new leases up here being granted at 7-8% for the initial terms of 10-21 years with the first mortgage rate generally 8% or slightly higher. This is because the prospect of capital increase in the value of the land and thus the lessors rent return will compensate in the long term for initially accepting an interest rate less than he could get from fixed securities.

The lessee is prepared to pay in the initial term a premium above the normal rack-rent for these `rights' to a perpetual lease. Perhaps the value of the Right of Renewal could more easily be determined by taking the present value of the difference between the rack-rent percent and the market initial term ground rent per-

cent, over a typical rental term of a lease using the current interest rate percent as a discount factor.

Lack of sufficient evidence as to the initial ground rent percentages could in some areas prove this a difficult line of research. However, using current rates as I see them in Auckland:

(a) An 11 year lease term with the. rack-rent - 3%, initial market rent 7%, first mortgage interest rate 8°o.

Right of Renewal =

7°°-5% X 7.139

= 14.2% of land value.

(b) 21 year lease term: rack-rent percent - 51%, initial rent 8%, first mortgage interest rate 8%.

Right of Renewal =

(8%-5:'?%,0) >: 10.017

25.04%.

(c) A typical Crown lease with 1 1 year terms but with the rack-rent fixed at 410/,%:

Right of Renewal =

(8%--4;%) X 7.1 39

= 24.98%

I feel the value of a Right of Renewal is effected by

(a) The rack-rent policy of the lessor.

(b) The rental review policy and/or rights of the lessor.

(c) The alternative cost of holding the land by the lessee, i.e. the market rate of interest.

These factors are also inter-related, as the relationship of the rack-rent to the market rate of interest is fairly constant in the long term. If interest rates go up and stay up the market forces (slowly acting) up the rack-rent as a percentage of land value. There may be a time lag between the movement in market interest rates and in the rack-rent percentage, but over a term of a lease I suggest it is fairly constant.

The relationship of the rack-rent to the rental term policy is generally' that the shorter the lease term the lower the rack-rent percentage and vice-versa.

I feel that these factors and their inter-relationships are a more rational basis of theoretically arriving at a Right of Renewal when considered with what the market will pay for a Right of Renewal over the initial term of a lease. The only other way to analyse the value of the leases is in an area (such as we have in Auckland) where there is a good mixture of both leasehold and freehold sales in the same area and by imputing a freehold value to the leasehold property which has sold then analysing the Right of Renewal as a simple percentage on such a land value. Unfortunately such a method was not applicable in Porirua.

Local market conditions, the general level of acceptability of leaseholds as mortgage securities, and availability of similar zoned alternative freehold sites. have strong influences on the market value of a right of renewal in a ground lease. Each leasehold should be approached with a heavy reliance on local conditions, and any theoretical approach must be viewed in the light of commonsense and reasonableness.

# LEGAL

ARTICLE 1 THE ESTABLISHMENT OF A PERMANENT LAND VALUATION COURT IN NEW ZEALAND by A W A SWEETMAN
Reprinted from *The NZ Valuers'Bulletin* June 1945, Volume 3, No 6, page 139.

*A WA Sweetman* was *a foundation member of the NZ Institute of Valuers, a former President of the Institute and a regular contributor to the Journal.*

ARTICLE 2 NEW LAND COURT PROPOSED
Reprinted from *The New Zealand Valuer,* September 1948, Volume 6, No 3, page 59.

ARTICLE 3 THE PRESENTATION OF VALUATION CASES IN NEW ZEALAND
By K G ARCHER
Reprinted from *The New Zealand Valuer* June 1963, Volumel8,No 6, page 295.

*JudgeKGArcher was Judge of theLand Sales Court, later the Land Valuation Court,from* 1946 *to his retirement in 1968 when he was made an Honorary member of the NZ Valuers Institute.*

ARTICLE 4 VALUER'S LEGAL LIABILITY: PARTS 1 AND 11
By J A B O'KEEFE
Reprinted from *The New Zealand Valuer,* December 1966, Volume 19, No12, page 453 and December 67, Volume 20, No 4, page 173..

*J A B O'Keefe is an Honorary member of the NZ Institute of Valuers . He has contributed widely to the literature of the Institute and is presently on the Editorial Board of theNew Zealand Valuers'Journal.*

ARTICLE 5 ARBITRATION AND THE VALUER
By J N B WALL
Reprinted from *The New Zealand Valuer,* September 1979, Volume 24, No 3, page 151.

*John Wall is a fellow of the NZ Valuers 'nstitute and the Institute ofArbitrators and was appointed to sit as an Assessor and Member of the High Court in 1985. An active member of theInstitutefor28years, he has contributed a number of articles to the NZ Valuers' Journal. John Wall is currently a director of Robertson Young Telfer Ltd, Valuers, Wellington.*

# THE ESTABLISHMENT OF A PERMANENT LAND VALUATION COURT IN NEW ZEALAND

The following is the precis of an Address given to the Auckland Branch of the Institute on 30/4/45 by Mr A. W. A. SWEETMAN, F.N.Z.I.V.

May I in opening give a very brief outline of the reasons that actually lie behind the thought that I bring you to-night. It is not necessary for me to remind you gentlemen that the practice of valuation is a very difficult and technical one. Valuing is, if anything, getting more difficult as time goes on. And I do suggest that the establishment of the Land Sales Court has made us all more careful Valuers, and the actual judgments on our valuations are having an important bearing on the work itself. The valuations themselves are, of course, of first importance. They are the factual points which make up the evidence to be adjudicated upon, but I think you will agree that the careful analysis of evidence by an experienced tribunal does help valuers, and what is perhaps even more important, it does help the public.

If we look further afield to our more populous neighbour, Australia, we find that they have had permanent valuation Courts there for many years. I cannot speak for the whole, but I do know that they have long had the Valuation Court of N.S.W.

Most of you will be familiar with many important findings of Mr. Justice Pike and others. I am not certain, but I believe that rulings of an Australian Land Court Judge may be used in evidence in N.Z., provided there is no. N.Z. ruling on the same subject. Now, in N.Z. we have many and various courts and tribunals which consider valuations. May I mention a few of them in the order that I have placed them in my notes here.

First we have the Assessment Court, which deals with all objections to valuations made by the Valuation Department on every property in the Dominion for rating and taxation purposes. This Government Assessment Court comprises a President who is usually a Magistrate appointed as permanent President, and sitting with him are various assessors, a different Government assessor in each district and a local body assessor (now elected by popular vote) for each local body in New Zealand.

Next we have Local Body Assessment Courts to hear objections to valuations made for rating purposes where the system of rating is on annual values. Here the Court comprises a resident Magistrate, who sits without assessors.

Next on the list we have Compensation Courts. I believe a Supreme Court Judge almost invariably presides, and associated with him are assessors, one for each interested party. The great bulk of compensation cases are set up to decide the question of value of property purchased or compulsorily taken for public purposes.

Next are valuations made for Death and Stamp Duty purposes. These often cover very large estates and involve the payment of huge sums by way of duty. A court is required to bear objections, and it comprises any particular Magistrate who happens to be on circuit, and who gives his decision on his analysis of the evidence brought before him.

Then there are the important tribunals which are appointed from time to time in the endeavour to prevent or modify booms and slumps.

The personnel varies, but the President or Chairman is usually either a Magistrate or a jurist.

Again we have disputes concerning values under the Fair Rents Act. Here the cases are heard by a Magistrate, and I think a Judge, if the valuation is above a certain figure.

The next Court. I will mention is Urban Farmlands Rating Court. This is the only tribunal which has not the common aim with those previously mentioned, that of arriving at a fair and reasonable market value for land. The Urban Farmlands Act is designed to relieve the burden of local body rates on the larger areas in boroughs, and towns which are not required immediately for closer subdivision. Any owner of an area over three acres may apply for relief, and the Local Body in question is then required to compile a farmland list and assign fresh values.

The owners have a right of objection, and their objections are heard before a Magistrate. The final figure does not affect the Government valuation, which remains at the original figure; the farmland value being used for rating purposes only on those particular properties which have been dealt with.

Now, omitting the last-mentioned case, all tribunals and courts mentioned by me to-night are independent bodies, and any values fixed by one may not be used as evidence before any of the others. This fact is certainly very bewildering to the public. In fact, we may have three, or four, different courts fixing different values on the same piece of land.

For example, the Valuation Department, which I represent, is now valuing Franklin County, and I have three of my field staff out there. On completion of revision, notices will be sent out, and objections to values will be lodged by some owners. Now, in Franklin County many valuations have been argued, and finally fixed recently for Land Sales and Rehabilitation purposes. Should I be faced with objections to values on any of these properties I cannot use figures fixed by another Court, and therefore the whole case has to be argued afresh, which is a complete duplication of work. To me it seems quite wrong. To summarise.

My main points are:-

(1) Valuation practice is becoming more and more specialised, and definitely assumes the rank of a profession.

(2) Valuers are anxious to give the best possible service to the public, which is now increasingly concerned when all sale and purchase transactions are subject to test.

(3) The public and the valuers would be assisted immeasurably by the establishment of a permanent tribunal of specialists in each centre to adjudicate on valuations of every kind, and for whatever purpose.

And now, Mr. Chairman and Gentlemen, I think I have had my share of time. I would like to thank you all for your courtesy in listening, and I formally move: "That a single valuation court or tribunal to deal with all valuation questions is in the best interests of valuers and the public." If someone would formally second the motion perhaps, Mr. Chairman, you will have a full discussion, and then allow me a minute or two to reply at the end of the discussion.

[Editor's Note.-The above resolution was duly carried, and the matter was referred to the General Executive with the suggestion that the subject be brought to the notice of other Branches and their opinions secured. If accorded sufficient support, the Institute might then place its views before the Authorities.]

# NEW LAND COURT PROPOSED

## Wide Powers Given - Replacing of Present Committees

The abolition of the Land Sales Court and Land Sales Committees and their replacement by a Land Valuation Court and Land Valuation Committees is provided in the Land Valuation Court Bill which was introduced and read a first time in the House of Representatives on 8th September.

The bill abolishes Assessment Courts under the Valuation of Land Act and transfers their powers to the new Court. The Judge and other members of the Land Sales Court are automatically reappointed. Claims for compensation under the Public Works Act and appeals against valuation of land for death duty, gift duty and stamp duty will also be dealt with by the Land Valuation Court.

### Uniformity of Values

The Minister of Lands, Mr. Skinner, said the bill had been sought by a number of organisations for some time. Its main object was to obtain uniformity of values throughout the country.

The measure consists of 41 clauses and it will come into force on 1st January, 1949. The proposed Court is to consist of three members to be appointed by the Governor-General in Council. One of the three members will be appointed the Judge of the Court. No person will be eligible for appointment as the Judge unless he is eligible for appointment as a Judge of the Supreme Court.

The Judge will have the same rights and is subject to the same provisions as a Judge of the Supreme Court as to tenure of office, salary, emoluments and allowances. A Judge of the Supreme Court can hold both offices concurrently.

### Present Court Reappointed

The other two members of the Court are to be appointed for such term as the Governor-General in Council thinks fit. The Judge and other members who immediately before the commencement of this Act held office in the present Land Sales Court will without further appointment be deemed to have been appointed members of the Land Valuation Court.

The decision of a majority of the members; including the Judge, will be the decision of the Court. Power is given to the Governor-General in Council to appoint not more than two additional Judges and four other additional members to hold office during his pleasure. Any person may hold office as a Judge notwithstanding that he. may have attained the prescribed age of retirement. It will not only be the duty of the Court to sit as a judicial body to determine appeals and other matters formally submitted to it, but it may also of its own motion issue general directions to be observed by the Land Valuation Committees.

There is power to establish as many Land Valuation Committees, of not more than three members, as the Governor-General in Council thinks fit. A chairman is to be appointed with a deliberative and casting vote. Any person may be appointed to hold office concurrently as a member of two or more committees. No proceedings or order of these committees can be challenged, reviewed, quashed or called in question in any Court except the. Land Valuation Court.

The Governor-General in Council may confer additional jurisdiction on the Court to determine the value of any land or any claim for compensation for damage to land.

### Local Body Appointees

Local authorities are authorised to appoint a person as a member of a Land Valuation Committee which exercises its functions in the district of the local authority. This person is to hold office during the pleasure of the local authority for the purpose of acting when objections to valuations of property situated in the district are being determined, but not otherwise. No member or paid officer of a local authority is eligible for appointment. Proceedings of the Court and committees are to be in public unless determined otherwise.

# The Presentation Of Valuation Cases In New Zealand

By Judge K. G. ARCHER

My subject may appear to relate primarily to the practice and procedure of New Zealand Courts in valuation cases, but as practising valuers you will be reasonably well acquainted no doubt with Court procedure, and I think it will be more interesting, and I hope of more value, if I deal rather with the functions, duties and responsibilities of valuers when they appear in Court.

For the benefit of those who are visitors to this country, however, I should perhaps say a little about our Courts. Until comparatively recently valuation cases were dealt with by Assessment Courts, which were constituted when required under the chairmanship of a Magistrate, or for some purposes of a judge of the Supreme Court. During the Second World *War* the Government set up a new Court called the Land Sales Court, which had among its functions the control of sales of land and the stabilising of land values. In 1948 the Land Sales Court was replaced by the Land Valuation Court, which was given an extensive jurisdiction in valuation cases. This jurisdiction has been extended from time to time, and although some cases involving valuation still go to other Courts, it is with the Land Valuation Court that practising valuers are chiefly concerned.

The Land Valuation Court consists *of a* Judge and two lay members. It operates throughout New Zealand and sits wherever its services are required. Cases within the jurisdiction of the Court a-e dealt with in the first instance by Land Valuation Committees, each of which consists of a Magistrate and one or more lay members. The decision of a committee is subject to appeal to the Court, which accordingly sits, as a general rule, as an appellate tribunal. There is no further appeal to any hinher Cou°t. although a decision of the Land Valuation Court may be set aside by the Supreme Court if it exceeds its jurisdiction. Cases involving valuation may still reach the Court of Appeal or be taken to the Privy Council, but seldom except upon a question of law, so that it is unlikely that valuers will be called on to give evidence before these exalted tribunals.

The majority of valuation cases fall within three categories: objections to valuations made by the Valuation Department; disputes as to the value of land which is to be leased or sold by the State; and claims for compensation arising out of the taking of land for public purposes.

The Valuation Department is the principal agency of the Government for valuing land and its principal function is to prepare the valuation rolls which a-e used by local authorities for rating purposes, and to revise these rolls at five-yearly intervals. The Department also makes special valuations for Death Duty, Stamp Duty and other purposes. Land owners have the right to object to valuations made by the Depa-tment, and to bring their objections before the Land Valuation Court.

The Government in this country has always taken an active part in land development, and it owns, acquires, develops and from time to time leases or sells land. The rental or price to be paid in such cases is based on the value of the land which is determined, in default of agreement, by the Land Valuation Court.

Claims for compensation may arise from the compulsory acquisition of land by the State or by a local authority, or from damage resulting from a compulsory taking of land. Rights to compensation are conferred by several different statutes but the procedure to be followed is usually that prescribed by the Public Works Ac+ 1928, which provides for all claims to be dealt with by the Land Valuation Court.

The presentation of a case before a Land Valuation Committee follows a course similar to that in a civil case before a Magistrate, while the procedure of the Land Valuation Court is modelled upon that of the Supreme

Court. Before the Committee, the objector or claimant is heard first, but on an appeal to the Court the practice is for the appellant to go first, and it is usual for the evidence to be reheard. It follows that the evidence given before the Court is not necessarily the same as that given before the Committee.

The Land Valuation Court is not fettered by over-strict rules of procedure but as a Court of Law it adopts fairly strict rules of practice in relation to the weight of evidence and the requirements of proof. One of these rules is that a person who seeks the aid of the Court must prove his case. This means that the objector or claimant must prove the facts and establish the case on which he relies. S. 23 of the Valuation of Land Act 1951 specifically provides that the onus of proof shall rest with the objector.

Many objectors fail to appreciate the effect of this rule, or to understand that they must have clear and convincing evidence if they are to succeed in an objection to an assessment by the Valuation Department. Laymen will frequently invite the Court to accept their unsupported opinions in preference to the findings of experienced departmental officers, whose views have been based upon the Department's records of recent sales. It is regrettable, moreover, that some objectors cherish a grievance against the Department and its officers. They seem to believe that Crown valuers are incompetent, unfair, and involved in some kind of conspiracy to defraud the public. The Court bears with such people in sorrow rather than in ange-, though well recognizing that if unsuccessful they are likely to attribute their failure to collusion between the Court and the Department. It is even more regrettable when private valuers adopt an attitude of hostility towards their departmental brethren. In point of fact the Court seldom finds cause for complaint concerning the work of Crown valuers, who appear usually to be competent and fair. In common with valuers generally, however, Crown valuers should be on their guard against intolerance of the views of others.

An owner who conducts his own valuation case is singularly ill advised. Not only does he need a solicitor to guide him through the pitfalls of procedure, but he needs a qualified valuer to support his views on value. The layman should no more expect his opinion to prevail as to the value of land than he would expect it to prevail on a problem of medicine or of law. I hope the time will come when it will be fully recognised that in a valuation case the owner can do no more than state the relevant facts and that the assessment of value can be undertaken only by qualified valuers.

The Court recognizes and commends the efforts of the New Zealand Institute of Valuers to raise the status of practising valuers. The Institute is properly concerned with raising the educational qualifications of valuers, but of equal if not greater importance is the adoption by practising valuers of a professional attitude towards their work. This presupposes first an attitude of uncompromising integrity.

In addition to integrity, however, a good valuer must have professional skill, sound judgment and competence as a witness. The day is long past when valuers could expect the Court to accept such superficial opinions as those of a valuer of the old school who told my Court that he had valued a farm as he drove past it in his car. Experience and sound judgment are needed but are no' enough. The valuer should acquaint himself with the relevant facts and should apply to the facts the principles and methods of valuation as set out by text writers and elaborated in decisions of the Courts. Nothing is more irritating to a Court or more damaging to its opinion of a valuer than when he appears, whether through ignorance or by design, to be ready to disregard well recognized principles of valuation.

To achieve a full measure of success in Court a valuer must also be what is known as "a good witness". When instructed tc value a property the New Zealand valuer will usually prepare for his client what he calls a "Report and Valuation". When called as a witness in Court he will usually produce this document and supplement it by lengthy oral evidence. The Court would much prefer the valuer to reduce the whole of his evidence to writing so as to eliminate the need for supplementary evidence. In preparing his evidence the valuer should avoid an excess of descriptive detail, but should be meticulous in setting out the rele-

vent facts, including fcctc unfavourable as well as facts favourable to his client's case. The frank disclosure of unfavourable facts will go far to win for a valuer the confidence of the Court. His method of reaching his final assessment should be set out in appropriate detail. To be a good witness a valuer must have a working knowledge of the rules of evidence, and be able to stand up to cross-examination.

It is not my intention to discuss the principles of valuation in any detail, but I think it desirable to make some reference to one or two aspects of valuing which would tend to be overlooked.

The value of a property is a matter of fact. For most practical purposes the valuer is required to assess the amount which the property, if offered for sale by a willing vendor in the open market, on a specified date, might be expected to realise. This too is a matter of fact. It follows that to make a sound assessment the valuer must keep his feet on the ground and must keep in close touch with reality.

It is well recognized that the analysis of comparable sales, where they are available, provides the most reliable guide to market value. The Valuation Department has comprehensive records of past sales, though its records may not disclose sales in respect of which transfers have not been registered. Private valuers may find it difficult to secure information as to comparable sales, and often plead ignorance of sales on which they are questioned in Court. Though a lack of knowledge may in some cases be excused, that cannot justify the disregard of relevant sales when they are brought to the valuer's notice. It is surprising how often a valuer, when faced in Court with evidence of a sale which appears to be inconsistent with his valuation, tries to shrug it off as if still entitled to disregard it. A valuer must take into account new facts whenever they come to his notice, and even on the floor of the Court he should be prepared to reconsider his valuation if that should appear necessary.

The recording of sales for the information of valuers is I believe undertaken by some branches of the Institute. This is a valuable service, and one in which the Land Transfer Office and the Valuation Department should be ready to co-operate, so that information as to sales may be made readily available to private valuers; but for their part private valuers should be prepared to give full weight to relevant sales. It might surprise you to know how frequently valuers seek to justify their disregard of sales which should clearly be considered by blandly declaring them to be "not comparable". This is an ostrich-like attitude which does the valuer no good, for if the Court thinks he is prepared to disregard comparable sales when brought to his notice, it will inevitably have doubts as to his good faith. A similar doubt will arise if the valuer seems unwilling to face up to unfavourable facts or ready to mislead by the non-disclosure of facts known to him. Few valuers are prepared to mislead the Court by deliberately false evidence, but I'm afraid a good many are prepared to stray a teeny weeny bit from the straight and narrow -oath in the hope of securing decisions favourable to their clients.

Less culpable perhaps than non-disclosure is the vice of exaggeration, which like the common cold afflicts most valuers from time to time. Some exaggerate from habit and without shame, as a result of long practice in the arts and skills of salesmanship. Exaggeration is, of course, relative, which may explain the description once given of a residential section which had an elevation of 18 inches above spring-tide level as a "high residential section". In like manner it may explain why a rise so slight as not to be discernable to the naked eye in a flat stoney *area* should be described as a "valuable hill of shingle".

Where conflicting descriptions of the same land are given in Court this is frequently attributable to exaggeration by the respective valuers. A comparatively minor degree of exaggeration by valuers of the advantages or disadvantages of a property may lead to a surprising difference in their assessments of its value. When this happens the Court may feel that both valuers have been guilty of exaggeration, and may be left with little confidence in either valuation.

It does not redound to the credit of the valuing profession that widely different valuations of the same land should so often be presented to the Court. In compensation

cases differences amounting to several hundred per cent are distressingly common. The same land has been valued by experienced valuers at as little as £300 per acre and as much as £3,000 per acre. Bearing in mind that the value to be assessed is a matter of fact, it is difficult to see how valuers of skill and integrity can reach such radically different conclusions as to the value of a piece of land at a particular date. It is self-evident that in such a case one or both of the valuations must be completely fallacious and must be misleading rather than helpful to the Court.

In the early days of the Land Sales Court considerable differences were common in the valuations of typical house properties, but in the course of time this was largely corrected and unreasonable margins between valuations were largely eliminated. This was undoubtedly due to a more realistic attitude on the part of the valuers, and to their more consistent adoption of well recognized methods of valuing house properties. A more general adherence to the fundamental principles of valuation would do much to raise the standard of valuation and to eliminate excessive differences in the conclusions reached by valuers.

When an assessment appears to be out of touch with reality the valuer has probably relied too greatly on theoretical considerations or mathematical calculations. This may lead to a result which is greatly in excess o! market value. Where a market gardener farms land comprising in part deep loamy soil and in part old stoney riverbed, but shows that he has grown good early crops on the stoney land, his valuer may be tempted to contend that the two types of land are of similar value., though this is contrary to commonsense and inconsis'ent w'th experience. In suburban areas, valuers a-e prone to claim that sales of ma'-ket gardening land at high prices have set a value for all market gardening land, while disregarding that the high prices paid in particular cases have probably been influenced by the suitability of the land for subdivision. Where land producing vegetables or small f-uits is valued by capitalising its earning capacity, astronomical values may be reached if the valuer capitalises the skill of the grower or makes insufficient allowance for the risks of drought, floods, and pests, and the failure of crops.

To what extent excessive differences in valuations of the same land are due to lack of sound judgment, and to what extent to a desire by each valuer to reach a conclusion favourable to his client may be difficult to determine, but I'm afraid that the tendency to be influenced by the wishes of clients is still widespread.

At the first Pan-Pacific Valuation and Appraisal Convention held in Sydney in March, 1959, an address was given by Mr. W. B. Caldwell, Senior Treasury Valuer of the State of Tasmania, on the Role and Status of the Land Valuer. I am impressed with the candour of his remarks and would like to quote him on several of the matters to which I have already referred. Speaking of the attitude adopted by valuers to each other in Court, Mr. Caldwell said:-

> "The past attitudes-narrow minded and antagonistic-have not been conducive towards the public standing of the valuers concerned and most certainly could not improve the status of the warring parties. How could two individuals convince anyone that the valuing profession was a true profession when such widely differing results-based allegedly on the same set of facts and applying the same principles-are urged by each of them to be accepted as the value of a property?"

Stressing the need for an honest and carefully considered opinion arrived at without bias, he continued:-

> "What valuer here today has not had suggested to him-by a client-or a counsel-that he should adopt a certain attitude towards a material fact? The natural inclination of both client and counsel is to battle for the highest award in compensation or the lowest assessment in rating.
>
> "What has been and what should be the attitude of the valuer towards the pressure which either consciously or unwittingly is undoubtedly brought to bear on him? Surely if our status is to be what we would wish it to be this pressure must be resisted so that the valuer

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professional opinion, logically deduced from all of the relevant circumstances."

Mr. Caldwell then quoted from legal decisions, in one of which Mr. Justice Crisp of the Supreme Court of Tasmania said:-

"Valuers, no less than advocates have some duties to the Court as well as to those who instruct them. Such duties involve at least the obligation to disclose frankly and fully to the Court all the material facts of any sale which he is urging the Court to adopt as a standard of value. In his interpretation and explanation of those facts, the Courts have come to expect, though not necessarily approve, that he will, be it unwittingly or not, favour the interests of the party that instructs him and Courts can and do guard against such a tendency".

Finally Mr. Caldwell forcefully summed up the position as follows:-

"These expressions by members of the judiciary clearly indicate that the status of the valuer is not what it should be. Again, the finger is firmly placed on one thing: Integrity. The status of the valuer should and must be raised to such a plane that the needs for Courts to guard against the quoted tendencies is entirely removed.

"The remedy lies with ourselves as individuals-we alone can cure this professional ill which still persists in a big majority of valuers. So long as a valuer allows advocacy to influence his expression of opinion, then for so long will he retard the recognition of professional status".

I hope you will believe me when I say that I had sketched out the basis of this talk before I knew of Mr. Caldwell's address to the Convention in 1959. My present purpose is to put fairly before you conclusions I have reached as a result of fifteen years' association with the Land Valuation Court, but I am glad to be fortified by the knowledge that similar conclusions have been reached by o practising valuer who has approached the problem from a different viewpoint.

In the course of my remarks you may have detected a suggestion of criticism concerning New Zealand valuers, but nothing, I feel, more forthright than the strictures of Mr. Caldwell upon the conduct of his fellow valuers across the Tasman. I come into contact with many practising valuers, and regard them as my friends, but I consider this to be an occasion when frankness should be considered to be a virtue-and to be critical to be kind.

The purport of what I have been trying to say may be compressed into one simple proposition, to the elaboration of which the remainder of my talk will be directed. It is this:-

"The vocation of the valuer is worthy of the status of a profession, but valuers will be accorded professional status by the community only when they achieve a reputation for complete independence and absolute integrity".

A profession has been defined as a vocation involving dedication to the highest standards of conduct, and by adherence to such standards the professions of Divinity, Medicine and Law have earned for their members the respect and confidence of the community. The standing of a professional man is reflected by a somewhat privileged position, even in Court. As an "expert witness" he has rights denied to the ordinary man. He is permitted to refer to notes, and to express opinions, where lesser men may give evidence only as to facts. It is true that valuers already give evidence as experts in Court, but not all appreciate that by doing so they incur an obligation to maintain a professional standard of conduct, and a duty to assist the Court to arrive at the truth.

The besetting sin of the expert is to confuse his position as a witness with that of an advocate. While it is true that expert witnesses are usually called to support a client's case, they should remember that their function extends no further than to state the facts and to give such opinions as they are entitled, as experts, to offer. It is no part of a valuer's function to "argue" a case or to exercise those arts of advocacy which are the prerogative of Counsel. The distinction between evidence and advocacy is a fine one, but the valuer should remember that his evidence will carry most weight if it conveys an assurance of disinterested sincerity The witness who identifies himself too closely with his client's case may be thought to have

an interest in the case which may have affected his judgment or may raise doubts as to his good faith.

I have several times referred to the need for a valuer to be independent. By that I mean that he must steadfastly refuse to go further., in the interests of his client, than he can honestly and sincerely go. This may involve him in refusing to give evidence in support of a case in which he does not believe, and may bring him into disfavour with clients who expect him to give unqualified support to their views whatever that may involve. Both client and valuer should remember that the Court is not likely to be receptive to opinions of doubtful validity, and that if the valuer's evidence is no' acceptable to the Court the client's case is lost. The valuer should never forget that his standing with the Court is of greater importance, taking a long view, than success in a particular case.

A valuer with a truly professional attitude towards his work will recognise that it is his duty to take full responsibility for any valuation he may make. By that I mean that he must satisfy himself personally as to the truth of the facts and the validity of the assumptions on which his valuation is based. When a solicitor invites a valuer to make a valuation, he is entitled to give the valuer an outline of the facts, but he is not entitled to instruct him to make assumptions which are not in accordance with the facts. If land to be valued is zoned, for example, as "Residential" the valuer may properly have regard to the fact that its zoning may in the future be changed, but he should not accept an instruction to value the land on the assumption that its zoning has already been changed. If the land has a potential value by reason of the possibility that its zoning may be changed it is for the valuer to assess the effect of that potentiality upon the value of the land at the relevant date. Similarly when considering the effect of any other possible change of circumstances, it is for the valuer to decide what assumptions (if any) can properly be made. Where a valuer has acted under instructions to value upon a basis which is not shown by the evidence to be warranted, his valuation is not likely to be acceptable to the Court.

There are other practices which the Court looks on with disfavour. One of these is for two or more valuers to be instructed to value different aspects of one property, the value of which is then claimed to be the aggregate of their respective valuations. By way of example, one valuer may be called to value the land and another the buildings thereon; in the case of an orchard one may value the land and another the fruit trees; or in the case of bush country one may value the land and another the timber growing upon it. A fully qualified valuer ought to be able in any of these cases to value the property as a whole, and the Court has little confidence in attempts to value land by making separate valuations of its component parts. The method is basically unsound because no one has attempted to assess the market value of the land as a whole, which is what the Court is required to decide.

The making of joint valuations, particularly in respect of rural properties, is by no means unusual, and is not unreasonable provided the valuers can satisfy the Court that each of them has participated fully in their joint assessment. It is always possible, however, that the Court will be less impressed by a joint valuation than if entirely independent assessments had been made by the valuers concerned.

A thoroughly undesirable practice is for a valuer who is well qualified to value a property himself to be called, without having made a valuation, to support or criticise valuations made by others, or to support the use of an unusual method of valuation by another valuer. The Court does not consider it proper for a valuer to be called to support or criticise the valuations or methods of other valuers unless he has confirmed his opinion by making an independent valuation on his own account.

The ideal valuer, of course, is one who is solely engaged in valuation work, and who has no other interest which might affect his impartiality. The association so common in New Zealand of valuation and real estate agency does not tend to raise the status of valuers as such. While both callings are closely concerned with the value of land, the functions of estate agent and valuer are not entirely compatible. The estate agent

is primarily a salesman, and his duty as agent is to secure the highest possible price for land if acting for a vendor, and the most satisfactory terms if acting for a purchaser. The valuer's duty is to make an honest and unbiased valuation uninfluenced by the wishes of his client. A proper spirit of independence while valuing for a client may prejudice a valuer in work subsequently undertaken in the capacity of an estate agent. The tendency to be influenced in favour of his client is accordingly greater, I think, in the case of a valuer who carries on business both as a valuer and as an estate agent. The complete separation of the two vocations may at present appear impracticable, but is ultimately to be desired.

It is always undesirable for the relationship of the valuer to his client to be such as to raise a doubt as to his impartiality. An ambiguous relationship exists whenever a valuer appears in Court to give evidence on behalf of his own employer. Valuers are, of course, employed by Government departments, by local bodies, and in a few cases by commercial concerns. When involved in proceedings before the Court it is natural for such employers to wish to call their own officers to give evidence, and I am happy to say that the Court has had no cause to complain of partiality on the part of any particular employed valuer. In principle, however, it is undesirable for a party to Court proceedings to have to rely entirely upon the evidence of employees. The Court has had experience of a Government department calling on its its own employees to give evidence which was clearly inconsisten! with valuations made by the Valuation Department, but calling no officer of the Valuation Department, and no independent evidence as to value. The Court is of opinion that where a party intends to call its own employees as valuers it should also seek corroborative evidence from independent valuers.

The valuer of integrity will not only eschew the more obvious forms of questionable conduct but will avoid the more subtle devices by which some valuers attempt to secure decisions favourable to their clients. He will recognize that his position as an expert witness is one of responsibility, and that he owes it to himself and to the Court to advance no proposition which is not inherently sound and consistent with the facts. He will remember that what he says in one case must not be inconsistent with what he may have said in another, for Courts have records to which they can refer and Judges have notoriously long memories. The principles of valuation are not immutable but they should not be disregarded without good reason. Well recognized methods of valuation represent the accumulated wisdom and experience of valuers and of the Courts and should not be varied unless variation in a particular case can be shown to be justified A proposition is not necessarily bad because it is novel, but more is required of the valuer than an air of sublime confidence, before his presentation of a novel proposition will be acceptable to the Court. Let me tell you of some of these novel propositions:

A piece of land zoned under an undisclosed town planning scheme for use for recreational purposes, had to be valued for purposes of compensation. An industrial value was claimed for the land and it was submitted that it could readily be sold, but for the adverse zoning, for industrial purposes. The Claimant's valuers blandly contended that the existing zoning should be disregarded on the ground that a purchaser could in due course object to the zoning, and then, if the zoning was not changed, recover compensation. Without prejudice to the question whether this proposition was sound in law, as to which -it had grave doubts, the Court considered it to be inconceivable that any purchaser would pay an industrial value for the land in these circumstances.

Where two pieces of land had been taken by the Catchment Board for purposes of river control, one area which had been used for cropping was claimed by valuers to be equal in value to the most highly priced land in the district, and compensation was assessed on that basis. The same valuers then gave evidence as to the value of a somewhat similar area which had been in pasture for some years, and claimed it to be of even greater value by reason of what they called its "stored up fertility". This novel proposition was advanced notwithstanding that no evidence could be deduced from sales of

any special value attaching to pasture lands.

Where compensation had to be assessed for the compulsory taking of a block of land in 1958 and the land was claimed to be suitable for subdivision, it was agreed that the sections in the subdivision could not be put on the market before 1963. The matter came before the Court" in 1961 at a. time when the value of building sections had been steadily rising since 1958, and when there was still a rising market. The Claimant's valuers based their assessment of the gross return from the sale of sections upon estimates of the selling value of sections in 1963, but reduced the gross sum arrived at by a percentage in order, as they put it, to arrive at the value of the amount at the relevant date, namely in 1958. The result was to give this property which was incapable of subdivision for six years, a much higher value than if it could have been subdivided forthwith at the relevant date, a patently absurd result. This is typical of what may follow from an unwarranted variation of the accepted formula for valuing land which is suitable for subdivision.

Equally unsound results will follow if in applying the formula an inappropriate allow ance is made for "profit and risk". The Court has seldom had evidence as tothe profits which speculators in fact make or expect to make when they undertake the subdivision of land, but it firmly believes that the profits sought and received are substantial, and that ample allowance to cover risks and to ensure profits is made by speculators when they buy land for this purpose. We believe that this is well known to land agents, but when appearing as valuers the same gentlemen are often reluctant to allow even as much as 25% on outgoings for profit and risk, and frequently appear to consider the risk to be negligible and to treat the whole amount allowed as if it were an assured profit. A more realistic appraisal of the risks attendant upon each particular subdivision and of the appropriate allowance to cover risks and profit in each particular case would be appreciated by the Court.

Novel propositions are not infrequent in relation to the provision of access to land which lacks satisfactory access. In an extreme case it was contended that a block of land which had no effective access at all was of the same value as an adjoining area which had ample access, on the ground that it would be reasonable to suppose that access to the land which had none would in due course become available, without cost to the owner, through the adjoining land. This was a case of valuing on a theoretical basis and with no regard to actual value in the open market.

I am afraid you may feel that my attitude towards valuers has been critical, if not indeed hypercritical. You may indeed charge me with that smug superiority which some, may claim to be typical of those who make 'ex cathedra' pronouncements from the Bench. If you feel that way, may I say in self-defence that in common with Mr. Caldwell I feel that all is not well with the valuing profession, and that the remedy is in the hands of the valuers themselves.

If there is an over-riding weakness in the work of valuers today, I think it is a failure to keep constantly in mind that mythical character, the hypothetical purchaser. Too often the valuer's evidence appears to be directed to showing what a hypothetical purchaser ought to be prepared to pay (in order to satisfy a somewhat rapacious vendor) rather than to show what & reasonable purchaser would in fact be prepared to pay. Too seldom does he remember that the hypothetical purchaser must be assumed to be prudent and informed and though willing to buy, not willing to pay in excess of fair market value. Too often does he forget that when he has obtained differing results from different methods of valuation, his proper course is not to accept the result most favourable to his client, but to weigh each result against the others in order to be assured that his final assessment is thoroughly sound

In conclusion I would like to point out that valuation is not a closed book. Its p-inciples are still in course of development and must be constantly reviewed in the light of our changing times. No branch of the law is less settled than that applicable to valuation cases. The Courts, far from claiming infallibility in matters of valuation, are apprecia-



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# Valuers' Legal Liability

*by J. A. B. O'Keefe, B.A., LI.M.*

(This is the first of two articles on this subject by Mr O'Keefe who is a qualified valuer).

Valuers have legal responsibilities to one another, to their clients, and to the public at large. My purpose is to examine these responsibilities in some depth to facilitate recognising and obviating the pitfalls.

Because of the implications of the *Hedley Byrne Case* in the field of valuation, an analysis of the effect of this case has been selected as a point of departure.

The second article will discuss the statutory disciplinary powers of the Valuers Registration Board, the Rules and Code of Ethics of the Institute, and the general principles as to the care and skill required of a valuer enunciated in *Baxter v. Gapp &* Co. (1938) 159 L.T. 586. The law as to trustee valuations, fiduciary relationships, and fraud will also be examined.

## The Hedley Byrne Case.

The recent decision of the New Zealand Court of Appeal in *Smith v. Auckland Hospital Board* (1965) N.Z.L.R. 191, reversing a previous decision of the Supreme Court, necessitates a restatement of a valuer's legal liability. The Court of Appeal applied the important House of Lords decision in *Hedley Byrne & Co. Ltd v. Heller and Partners Ltd* (1964) A.C. 465; (1963) 2 All E.R. 575, thus upsetting some of the ideas previously held about the duties of professional men towards those who rely on the advice they tender or the information they impart. One learned writer, A. M. Honor ts, in *The Journal of the Society of Public "Teachers of Law* (1965) Vol. VIII, p. 281, states, "The problem with which the House of Lords was concerned in (the *Hedley Byrne Case)* may be described as the prcl)Iems of business reliance . . . Are business and professional men liable for negligently misadvising or misinforming clients, inquirers and others who rely on them?"

The wider question which affects valuers is: To what extent is a valuer liable for carelessly inflicting economic loss on others?

Until the *Hedley Byrne Case* in 1963, a valuer's liability for making careless misstatements could arise in contract, as a consequence of fraud, or in the event of a breach of fiduciary duty. The *Hedley Byrne* decision extended the valuer's liability to a misrepresentation affecting a third party to whom a duty of care is owed. Classically, a duty to take care in imparting advice or information existed within the categories of deceit, fiduciary relation, contract and physical harm.

*Hedley Byrne* accepts the dictum that . if a man gratuitously (and a fortiori if he receives a fee) undertakes to do a thing to the best of his skill, where his situation is such as to imply skill, an omission of that skill is imputable to him as gross negligence." *Shiells v. Blackburn?* (1789) 1 Hy. BI. 158, 162. The expert is not, of course, fixed with a duty on a merely social occasion, e.g. at a church bazaar or cocktail party, although Lord Devlin expects an expert to speak with care on such occasions.

It is clear from *Hedley Byrne* that a duty of care is owed to the representee, i.e. the person seeking the advice or information, and it is equally manifest that this extends to a third party whose identity need not necessarily be known to the representor. But it woula seam that a representor would bL liable only if he knew, or should have known, that his representation would be or is likely to be relied upon. The writer respectiully s'-ares Mr Benore's view. that "reliance need not be intended, provided it is foreseeable". There is thus a distinction between ordinary deceit, which is always intended, and this new species of economic negligence, where "reasonable foresight is enough."

In *Le Lievre and Dennes v. Gould* (1893) 1 Q.B. 491 it was held that a surveyor owed no duty to the mortgagees to exercise care in giving his progress certificates, and they could not maintain an action against

him by reason of negligence. The facts of that case were that mortgagees of the interest of a builder under a building agreement advanced money to him from time to time on the faith of certificates given by a surveyor that certain specified stages in the progress of the buildings had been reached. The surveyor was not appointed by the mortgagees. and there was no contractual relation between him and them. In consequence of the negligence of the surveyor the certificates contained untrue statements as to the progress of the buildings, but there was no fraud on his part.

The majority of the Lords in *Hedlev Byrne* thought that *Le Liet're* was rightly decided on its facts. The surveyor did not know the precise transaction for which his certificates were needed. It thus appears that *Hedley Byrne* implies that the duty of care arises only in regard to a transaction known or disclosed to the represcntor.

Now, much of a valuer's work comprises opinion based on established facts and reasonable inferences. It involves, also, something in the nature of a forecast. The first important case, to my knowledge, in which *Hedlev Byrne* was applied was *Dodds & Dodds it. AMillnraut* ( 1964) 45 D.L.R. 2d. 472, a Canadian case, discussed further on, when; an estate agent was held liable in tort to a buyer for negligently furnishing him with unreliable figures about the prospective returns from a block of flats. And. in *Smith v. Auckland Hospital Board.* referred to above, a doctor was fixed with liability for failing to give a patient proper information when asked for it. The patient obtained damages in tort, even though the doctor had, in the interest of the patient, parried the question asked so as to allay his fears, the risk of the medical procedure being slight. The facts of this case were that the plaintiff was suffering from a gravely dangerous ht;art condition. His doctor sent him to the cardio-thoracic surgical unit at Green Lane Hospital in Auckland. During the examination procedure an unexpected complication interrupted the flow of blood to his leg which in consequence had to he amputated. Previous to the examination, Mr Smith had asked the surgeon "Is there any risk attached to this?", to which he receive the reassuring reply. "Old chap, you will b_ better again in a few days."

The Court of Appeal held that the particular relationship of doctor and patient is sufficient to impose upon the doctor a duty to use care in answering a question put to him by a patient where the patient, to the knowledge of the doctor intends to place reliance on that answer in making a decision as to a kind of treatment or procedure to which he is asked to consent. If, in answering such a question, the doctor fails to use due care, and, as a result of submitting to the treatment or procedure the patient suffers injuries, the doctor will he liable to the patient in tort if the evidence shows that it is probable that, if a proper answer had been given, the patient would have refused to undergo the treatment or procedure either there and then or after further questions and answers.

When thoroughness is expected, a duty of care will exist; but, a duty of honesty always exists, where it would be unreasonable to expect the advice or information to be founded on a thorough investigation. It all depends upon the given situation. There may be a duty of care at one time, and a duty of honesty at another. In *Woods v. Afartirrs Bank* ( 1 958) 3 All E.R. 166. a bank manager assured a customer that he would look after his affairs. He gave some well intended but bad advice about certain investments, and the customer succeeded in an action against the hank for loss on the investments. Here the bank clearly had a duty beyond honesty, a duty of care as to the soundness of the recommended investnts.

A duty of honesty cannot be disclaimed, but the responsibility of care is a voluntarily assumed one. Liability was excluded in *Hedlev Byrne,* because of a hank's disclaimer of responsibility for their replies to th plaintiff's enquiries. This excluded the assumption by the bank of it legal duty of care with the consequence that they were not liable in negligence. There was misjudgment by the bank, but not dishonesty. As a matter of interest, I reproduce the essence of the *Hedley Byruc* correspondence: "Dear Sir. We shall be obliged by your opinion in confidence as to the respectability and standing of Easipower Ltd . . by stating whether you consider them trustworthy . . . to the extent of 51100,000 per annum advertising contract ." The reply was headed "Confidential - For your private use and without responsibility on the part of the hank or its officials," and read: Dear Sirs, In reply to your enquiry . we beg to advise . . Easipowcr, Ltd . . respectably

constituted company, considered good for its ordinary business engagements. Your figures are larger than we are accustomed to see .

In reliance on those statements £17,000 was lost; but, because of the disclaimer, the bank escaped liability.

Commenting on the *Hedley Byrne* decision in "The Valuer" (Australian, 1965) Vol. 34, p. 78, Alan Snow observes, "Of course, no valuer reporting pursuant to a contract is likely to end his valuation by disclaiming responsibility for what he has said. But it circumstances made it proper to make such a disclaimer, it should not be assumed that in all cases this would, if the writer hact taken no sort of care so that the report was misleading as to its weight, allowing for the disclaimer of responsibility, the writer might be liable for his mis-statements. it could depend on whether the mis-statement related to creditworthiness or to actual fact."

What must be guarded against is that ' report prepared for one purpose, e.g. the information of a mortgagee, is not allowed to come into the hands of someone else, e.g. a prospective purchaser, for whom it was not intended. Moreover, a unilateral disclaimer is insufficient. The recipients must acknowledge receipt of the information on the basis of a clear understanding of the disclaimer.

## Hedley Byrne Affects Valuers.

A learned commentator on Hedley Byrne, Douglas Payne (1964) 6 U. West Aust. L.R. 467, thinks that this case will have little effect on the practical operation of the law of negligence, despite its appearance of dissent from earlier cases. However, another learned writer, P. M. North, whose views the present writer respectfully shares, writing on "Valuers - A Study in Professional Liability" (1965) The Conveyancer and Property Lawyer, 29, 186, 275, expresses the view that a valuer will be held liable in tort to someone other than his employer if his negligent valuation causes economic loss to that person, so long as a "special relationship exists between them". He cites *Dodds & Dodds v. Millman,* mentioned above, which applied Hedley Byrne. Here, the plaintiff, an inexperienced purchaser, relied on statements made by the vendor's real estate agent in purchasing an apartment building. These statements gave an altogether false impression of the profit-producing capabilities of the yenture, and although perhaps not fraudulent, were undoubtedly grossly negligent. It was held by the Supreme Court of British Columbia that, even though there was no contractual relationship between the plaintiff and the agent, the agent was fixed with liability for negligent mis-statement, and an "escape clause" in the contract between the plaintiff and the vendor, which protected the latter, did not extend to the agent as he was not a party to it. "Special relationship" is exemplified by Mr North in the building society cases as between the purchaser, mortgagor, and the surveyor or valuer employed by the mortgagee rendering the valuer liable to the purchaser as in *Eagle Star Insurance Co. Ltd v. Gale & Power* (1955) J.P.L. 679, 105 L.J. 458.

## Can Liability Be Excluded?

In *Olley v. Marlborough Court Ltd* (1949) 1 K.B. 533 the facts were that a notice in the bedroom of a private residential hotel stated that the proprietors did not hold themselves responsible for articles lost or stolen unless handed to the manageress for safe custody. The house was not an inn at common law. Goods, were stolen from the bedroom. It was held, *inter alia,* that the hotel was liable, as the notice fornica no part of the contract which had been made before the guests could see the notice. From what Lord Denning said it emerges that a valuer can exclude contractual or tortious liability to his client if he includes in the contract an exemption clause. But a word of warning must be sounded here, because, although the "without responsibility" clause may well exclude contractual duty, nevertheless, "if the disclaimer appeared in the valuation report, it would not exclude contractual liability, because the exempting clause would not be contemporaneous with the formation of the contract."

As to disclaimer in tort, Lord Pearce said in Hedley Byrne (p. 540) "(the words of disclaimer) clearly prevent a special relationship from arising". And Lord Reid observed that a, "reasonable man, knowing that he was being trusted or that his skill and judgment were being relied on, would, I think, have three courses open to him. He could keep silent or decline to give the information or advice sought: or he could give an answer with a clear qualification that

he accepted no responsibility for it or that it was given without reflection or inquiry which a careful answer would require: or he could simply answer without such qualification."

The disclaimer should also. be incorporated in the valuer's report when it is handed over.

Liability Insurance.

The honest and competent valuer need have little to fear. Doubtless a sequel to *Hedley Byrne* will be that some business and professional advisers will take out some sort of liability insurance with a corresponding increase in fees to meet the premiums. But the real necessity for this is doubted.

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tive always of the help and advice of Counsel and of valuers. New and difficult problems are constantly arising and their solution presents a recurring challenge to valuers of wisdom and experience. I need mention but a few of the sources from which new problems may be expected to arise. They include Unimproved Value; Productive Value; Potential Value; The Capitalization of Income; Town and Country Planning; the Effect of Power Lines; Aerodromes and Air Traffic; Vacant Possession, and the Valuation of Undivided Shares in Land.

It is not uncommon for the Court to be faced with problems on which textbooks and legal authorities are silent. In such cases valuers of truly professional standing should be able to give the Court a measure of assistance which, I am sorry to say, is seldom available today. It is in particular to those who devote the whole of their time to the private practice of valuation that the Court looks for that mature judgment and uncompromising integrity which will merit its respect and confidence. The work is available for more full-time private valuers. The solu• tion of modern problems in the sphere of valuation calls for men of the highest calibre, men who would have been capable of achieving success in any profession, and mer whose standing in the community will lead to a general recognition that valuation is itself a profession in its own right. It is my hope and bel'ef that this will be capable of achievement in the near future, and that its achievement will be materially assisted by the efforts of the members of this Conference I congratulate you upon the work done by the Conference, and thank you for giving me the opportunity to take some small part in it.

# Valuers' Legal Liability

*By J. A. B. O'Keefe,*

*This* is the Sccollcl of tw) articles on this subject.)

This article will discuss the statutory disciplinary powers of the Valuers Registration Board, The Rules and Code of Ethics of the Institute, and the general principles as to the care and skill required of a valuer enunciated *in Baxter v. Gapp* & Co., the leading case. The law as to trustee valuations, fiduciary relationships, and fraud will also be examined.

*The Valuers Act 1948.*

This Act legislates registration of land valuers, incorporates the New Zealand Institute of Valuers, and sets out the disciplinary powers of the Valuers Registration Board and the appeal provisions. Regulations have also been made as to registration and appeals: Valuers Regulations 1949 (S.R. 1949/25).

The Valuers Institute has a statutory right of objection to the registration of any applicant (s. 23). It is an offence to procure registration wrongfully (s. 26). A valuer's name may be removed from the register for non-payment of his membership fee (s. 30).

The Board, after due inquiry, may cause the name of any valuer to be struck off the register if he has been guilty of an indictable offence or grave misconduct. This applies whether the conviction was before or after his registration (s. 31 (a) ). The Board has a broad discretion to act over a wide range of conduct tending to dishonour the valuer in the public estimation, or in the nature of improper, unethical, or incompetent conduct. Complaints in the first instance are investigated by the Valuer-General who reports to the Board (s. 32) which is empowered to fine, suspend, or strike off the register.

Appeals lie to a Board of Appeal chaired by a Magistrate (s. 34). The decision of the Board of Appeal is final and conclusive.

Public valuers must have an annual practising certificate (s. 35). It is an offence to practise without one; and it is an offence for unqualified practitioners to lead persons to believe that they are registered valuers or hold a practising certificate. However, there is nothing to prevent any person from being employed as a valuer or from using in connection with his occupation the word "valuer". (ss. 35, 42).

Offenders are liable on summary conviction to a fine not exceeding £50 and to a further fine of £5 per day for a continuing offence (s. 43). The Valuers Registration Board may itself impose a maximum penalty of £10 (s. 33 (1) ).

*The Rules of the Institute.*

The Rules were made by the Institute under the authority of section 16 of the Valuers Act 1948. They are cited as the New Zealand Institute of Valuers Rules 1950. Suspension or forfeiture of membership is covered in Rules 26-32. Under the Rules the Council of the Institute enjoys wide discretionary disciplinary powers. Bankruptcy, insolvency, composition with creditors, and similar acts for the liquidation of his affairs exposes a member to expulsion, unless he can show that his difficulties are attributable to misfortune, and that no discreditable conduct can be imputed to him. Breaches of the Code of Ethics similarly place a member in peril of removal from the roll. Under section 31 (2) of the Act unethical conduct means conduct in breach of the Code of Ethics prescribed by the rules of the Institute. Communications between the Institute and a member in respect of any complaint are absolutely privileged (Rule 132).

*The Code of Ethics.*

The code (as provided in Rule 120 and approved by the Minister pursuant to section 117 of the Act) is binding on every member of the Institute, and breaches render members liable to disciplinary action under section 31 or 33 of the Act. As is to be expected of a professional body, the Rules set a very high standard, and it redounds greatly to the credit of the Institute that I cannot find a New Zealand case in this area of law. I sometimes wonder whether members realise the great prestige they enjoy as members of the Institute. This is the hall-mark of integrity. I know that valuers are looked up to by their brethren in other professions as men of competence, responsibility and wisdom. It is enough to say that a theme of service and fidelity, devotion to high ideals, courtesy, loyalty, and a spirit of fairness and goodwill runs right through the Code which should be memorised by every member. Traitors to the code deserve the utmost contempt. Members have a duty to weed them out of the profession at the first signs of their appearance.

*Principles of care and skill.*

There is, of course, a statutory duty of care and skill which can be spelled out of the Act, the Rules and the Code. The principles are perhaps best enunciated in *Baxter v. F. W. Gapp & Co., Ltd* [1938] 4 All E.R. 457 (LB.); [1939] 2 All E.R. 752 (C.A.) which would be applied in New Zealand. The defendant was sued for negligence in valuing a property for mortgage purposes. He had inspected the property, but failed to make any local enquiries as to the value of that property or similar properties in that locality. The defendant, who had not practised in the locality, also failed to enquire what price the property had realised upon recent dealings. His valuation was £1,800 for trustee purposes. The mortgagor had purchased the property for £600, and the highest price at which it had recently changed hands was under £850. Certain alterations and additions were being made at the time of the valuation, and the defendant advised an advance of £ 1,200 on first mortgage, subject to retention of £200 pending completion of the additions. He subsequently recommended an advance of £150 on second mortgage. This valuation was given to the plaintiff's solicitors who subsequently discovered the price the property had fetched at recent sales, and also received a suggestion from a local agent that the value was too high.

Lord Justice Goddard held: (1) That the defendant must be taken to have held himself out as possessing the necessary experience and skill to value this particular property. His knowledge of property in the locality was insufficient, and he ought to have taken steps to inform himself of the value of similar properties there, which he failed to do. (2) That the measure of damages was the whole loss sustained by the plaintiff, including the expenses of abortive sales, insurance premiums, builder's account fees, upkeep of the property, mortgagee's expenses and disbursements, and the agent's commisison upon the ultimate sale of the property, in addition to the principal advanced and the interest unpaid.

The valuer, a Mr Gapp, who was a professional valuer and who had acted in perfectly good faith, was nevertheless found guilty of negligence. His duty was "to use reasonable care" in reaching his opinion. The Lord justice observed, "We are all liable to make mistakes, and a valuer is certainly not to be found guilty of negligence merely because his valuation turns out to be wrong. He may have taken too optimistic or too pessimistic a view of a particular property." If reasonable care had been taken such an "entirely unwarranted" figure of £1,800 would not have been put on the property, because proper enquiry would have elicited the facts essential to a proper valuation.

This case was taken to the Court of Appeal which affirmed the decision of

Goddard L.J. it being held: That Mr Gapp's valuation was excessive, having been made "without the exercise of that degree of due care which an expert ought to bring to his task." Lord Justice Du Parcq observed, ". . . the mere fact that there is an over-valuation does not of itself show negligence. Gross over-valuation, unless explained, may be strong evidence either of negligence or incompetence." And as to the requirement of special knowledge, ". . . if a valuer has no local knowledge, he must inform himself . . . he made his valuation . . . merely by a guess."

The criteria are knowledge and experience.

Although *Old Gate Estates Ltd v. Topliss & Harding & Russell* [ 1939] 3 All E.R. 209 decided that the doctrine of *Donoghue v. Stevenson* [ 1932] A.C. 562 is confined to negligence which results in danger to life, limb, or health, and does not extend to such facts as would be material to valuers' liability; we must not forget the effect which the *Hedley Byrne Case,* discussed in a previous article, might now have.

Where valuers act as quasi-arbitrators, that is, as if they were arbitrators, no action lies to fix them with liability in the absence of mala fides (bad faith) or fraud. The only duty is to act fairly and honestly. This was decided by the English Court of Appeal in *Finnegan v. Allen* [1943] 1 All E.R. 493 which drew the well-known distinction for certain purposes between a valuer and an arbitrator. If an expert is employed to conduct a valuation, his award is not an arbitration within the meaning of the Arbitration Act.

As to what amounts to misconduct of an arbitrator *Steele v. Evans* (No. 2) [ 1942] N.Z.L.R. 548 is enlightening. It was held in that case by the New Zealand Court of Appeal that an award should be set aside on the ground of A's misconduct, as the valuation made in December 1946 represented the real value and the honest opinion of A, who could not adequately explain how he was able, with honesty, to justify a rise of nearly 90% in his second valuation made in April 1947.

A valuer must act in person unless there is an agreement between the parties that B's valuation should be taken as A's: Ess v. *Truscott* (1837) 2 M & W. 385. His "name or signature must appear on any valuation or report made by him." (Code: cl. 22).

*Trustee valuations.*

Section 4 (1) (b), 4 (3), 10 and 28 of the Trustee Act 1956 are relevant. Under s. 4 (1) (a) a trustee may invest in real securities. The term "real security" means first mortgage of freehold and a first submortgage of such a first mortgage, and includes a first mortgage over Crown leasehold or Maori land, subject to certain statutory conditions (s. 4 (3) ). Section 10 is vital to trustee and valuer alike. In making the loan the trustee must act on a report made by a person "whom he reasonably believes to be competent to value the property, being a person instructed and employed independently of the owner." The loan must not "exceed two thirds of the value of the property", and the advance must be made "under the advice of the valuer expressed in the report". This applies to transfers of existing securities as well as new securities.

As is pointed out by the learned author of *McVeagh's Land Valuation Law in* N.Z., "It does not necessarily follow that valuers should as a matter of course advise the advancement of two-thirds of the valuation in every case." The principles to be applied may be distilled from In re *Solomon, Nove v. Meyer* [1912] 1 Ch. 261 and *Shaw v. Cates* [ 1909] 1 Ch. 389. The statutory two-thirds is the minimum protection required by the prudent man, not "the standard of the normal risk which, whatever the nature of the property, a prudent man will be prepared to run". The valuer must direct his advice to the "proportion which, in his opinion, as an expert and a practical man, the trustees would, in each particular case, be justified in advancing."

*Crown Valuations.*

Valuers employed to make valuations for the purposes of the Land Act 1948 may be required by the Land Settlement Board to make a statutory declaration that they are not interested in the matter referred to them, and that the appraisal will be faithfully and honestly made: s. 174 Land Act 1948. Survey plans deposited in the Land Registry Office must be supported by a statutory declaration stating the value of the land excluding buildings: Reg. 49 (2) Land Transfer Regulations 1948 (S.R. 1948/137). There is liability to imprisonment, up to three years for false declaration: s. 111 Crimes Act 1961.

*Fiduciary relationship.*

Best known in the relationship between trustee and beneficiary and solicitor and client, the fiduciary relation does not depend upon any particular circumstances, but subsists in almost every shape. Valuers come within its ambit, and a special duty of care in words and deeds is demanded of them. Misrepresentation, that is the creation of a misleading impression, is actionable in deceit, a cause of action in tort which may spring up aside altogether from contractual relationship. Fraudulent intent must be proved and the misrepresentation must be one of fact. Statements of opinion are regarded in the context of deceit as matters of fact because "the existence of the opinion in the person stating it is a question of fact".: *Bisset v. Wilkinson* [1927] A.C. 177, 182. silence is not actionable; but a half-truth "may just as much be a false misrepresentation as a complete lie" (Fleming, *The Law of Torts,* 3rd ed., p. 600). Where favourable passages are included in a report which, however, omits unfavourable references, then the whole report is vitiated: *Arkwright v. Newhold* (1881) 17 Ch. D. 301, 317-8. If a valuer discovers that a statement which he genuinely believed to be true turns out to be false, he must immediately correct it, if he is to escape the taint of fraud.

Fiduciary relationship exacts a duty of disclosure. There is no legal excuse for misrepresentations "as to intrinsic facts peculiarly within" a valuer's knowledge: *Haygarth v. Wearing* (1871) L.R. 1 2 Eq. 320, 327-8.

The Code of Ethics (Cl. 3) sets out the valuer's fiduciary duty to clients. Emphasis is placed on the confidential nature of the report, the adequacy of professional experience, disclosure of interest, and the prohibition of secret commissions. Abuse of fiduciary position. e.g. the concealment of material facts. or the acceptance of a secret profit disentitles a valuer to his fee and exposes him to legal liability of the gravest kind: *Price & Ors v. The Metropolitan House Investment & Agency Co. Ltd.* (1907) 23 L.T.R. 630.

*The valuer as a witness.*

The law of evidence regards a valuer as an expert whose credit may be impeached by showing that he "was not in a fit state to form an opinion, or is interested, or corrupt, or has expressed a contrary opinion at other times": *Alcock v.* Royal *Exchange Co.* (1849) 13 Q.B. 292.

*The valuer's contractual liability.*

A valuer is not simply an agent. The relationship is that of employer and employee, i.e. between professional man and client, and that is why the papers supporting his valuation are his and not those of his principal: *Leicestershire County Council v. Michael Faraday & Partners Ltd* [1941] 2 All E.R. 483; and also why a party is not liable for the act or default of a valuer whom he employs: *Cooper v. Shuttleivorth* (1856) 25 L.J. Ex 114. Failure to exercise proper care and skill exposes a valuer to liability in damages for breach of contractual duty: *Turner v. Goulden* (1873) L.R. 9 C.P. 57.

Even where a valuer acts gratuitously, he is under a duty to use such skill as many be reasonably expected in the circumstances: *Halsbury* (3rd ed.) Vol. 39, p. 11, f.n. (b).

# Arbitration and the Valuer

*John N. B. Wall, Dip. Urb. Val., F.N.Z.I.V., F.I.Arb., M.I.P.M.*

## THE NATURE OF ARBITRATION:

Differences or disputes are inevitable and probably healthy in our profession, depending upon the degree.

Obviously if there are inexplicably wide variations in valuations one is wrong, but these are not the type of differences to which I refer. Methods of resolving such differences are many and varied involving settlement by discussion, court action or arbitration, with the latter method having increased in popularity over recent years because it is generally less costly than court action, more informal, can be kept private to the required extent, the parties have some say in the selection of the person or umpire in whom they have confidence and the decision is final and binding, with no appeal against it. Also in recent years because of the pressure of work volume on the courts obtaining of the judgement or Award under Arbitration is a quicker process.

In considering Arbitration procedures perhaps firstly the term Arbitration should be defined.

It is the settlement of a dispute by an Arbiter, who is the person appointed by two parties to resolve a difference. This Arbiter can be named as the Third Valuer, Sole Arbitrator, Third Arbitrator or Umpire. These designations, together with their roles can vary widely depending upon the agreement with such differences or similarities requiring to be clearly recognised and established at the initial stages of Arbitration.

An Arbitration therefore arises when there is a dispute between two parties which they are unable to resolve themselves and this dispute is referred by mutual agreement for settlement to a third person for a decision which will bind both of them.

Arbitrations can arise in many ways but most of the Arbitrations that valuers are involved in are as the result of a difference between the parties which was forseen to be a distinct possibility when an original agreement or lease was documented.

There are many forms of Arbitration varying from an informal type hearing involving two valuers and their appointed umpire, to a full scale Arbitration hearing where each party is represented by counsel and expert witnesses are called to the extent that this differs little from court procedure.

In New Zealand Arbitration law is under the provisions of the Arbitration Act 1908 and the Arbitration Amendment Act 1938.

## AGREEMENTS AND SUBMISSIONS TO ARBITRATION:

Under the Arbitration Act 1908 a SUBMISSION is defined as a written agreement to submit present or future differences to Arbitration, whether an Arbitrator is named therein or not, or under which any question or matter is to be decided by one or more persons to be appointed by the contracting parties or by some person named in the agreement.

This term covers both the arbitration clause by which the parties agree that if disputes arise they shall be referred to Arbitration and also the actual submission of a particular dispute to the authority of a particular Arbitrator.

These are two very different things and I find it convenient to distinguish between them, as is normal practice, calling the first an "agreement" and the second a "submission'.

The meaning of this term submission should not be confused with the submissions or evidence an Arbitrator or Valuer or Witness presents to the UMPIRE at Arbitration.

1. Agreements for Arbitration:

In its simplest form, the arbitration clause wording of an agreement (or lease) may consist of merely:

"Any dispute arising out of or under this agreement shall be referred to Arbitration:

However the more normal reference to Arbitration is:

" . shall be as agreed upon between the parties or failing such agreement to be determined by two competent valuers, one appointed by the lessor and one appointed by the lessee and if the said valuers are unable to agree then to be determined by an umpire appointed by the valuers before entering into the difference or dispute."

Whatever the form of Arbitration it is the document between the two parties that should clearly define the form that the Arbitration will take.

Many documents refer only to the Arbitration Act 1908 in which case the procedures under this Act to take precedence.

There are many variations to the form of Arbitration and it is the responsibility of the valuer to strictly comply with these legal agreements to Arbitration references and I * would caution you to read carefully each agreement as it may not necessarily be identical to the previous one that you have encountered.

Such variations include:

(a) The valuation by two valuers where in the event of disagreement two arbitrators are appointed who in turn appoint an umpire.

(b) The appointment of three independent persons to carry out a valuation, one by the tenant and one by the landlord and the third valuer to be appointed by the two valuers before proceeding to the valuation.

(c) The valuation by two competent valuers or if in the event of disagreement, by a valuer appointed by the President of the New Zealand Institute of Valuers whose decision shall be final and conclusive and binding on the parties.

(d) The agreement by landlord and tenant or in default of such agreement to be settled by Arbitration by one Arbitrator or failing agreement upon the appointment of one person, then by Arbitration of two disinterested persons, one to be appointed by each party or by an umpire to be chosen by the Arbitrators before entering into the dispute.

(e) A valuation to be made by three independent persons with these three said valuers or any two of them making their valuation.

. . . and many more variations.

This is not intended to be comprehensive as to the variations that can be established when providing for Arbitration and if there is no specific reference in the written agreement then the reference shall be to a single Arbitrator.

This arbitration clause in the agreement is an ordinary contract and as

such is subject to the law for enforcement of contractual obligations and shall be treated with respect.

2. The Submission:

In valuation Arbitrations it is not normal to receive written instructions or the submission in writing stating the matters under dispute as it is the differences between the valuers that have caused the dispute and these can quite clearly be established at Arbitration, but there are occasions when the parties or their solicitors draw up a formal submission, as distinct from the original agreement, which defines the arbitration procedure, setting out specifically the precise points which are under dispute and require determination.

Frequently it will also cover other matters such as the fixation of the time before which the AWARD is to be published and areas of agreement between the parties or it may contain the clause "all matters in difference between the parties" giving the Arbitrator the power to decide on questions raised during the Arbitration necessary to complete the determination.

Reluctance by the parties to commence Arbitration is fully covered under the Act and although this does not occur often there have been occasions when such provisions are necessary.

There may be difficulty contacting the other party or, following preliminary discussions, a reluctance by one party to set up the arbitration or an attempt to disqualify the opposition as not being impartial. Legal remedies are available for such eventualities so that arbitration is not frustrated.

PARTIES TO ARBITRATION:

In the majority of valuation disputes, the valuers having carried out their respective valuations and there being disagreement between them, are then appointed by their principals not necessarily in writing although this is preferable, as Arbitrators or the wording under the agreement to arbitrate, with these Arbitrators then appointing an umpire between them.

Initially there may be some discussion between the Arbitrators who during these discussions will reach agreement and publish their award or having had discussions cannot agree and then refer the whole or part of the dispute to the umpire, or refer the matter directly to the umpire without any discussion.

Appointment of the umpire by the Arbitrators must be in writing and is usually of a general nature rather than specifying the points of disagreement, signed by each Arbitrator, forwarded to the umpire who will then return one copy to each Arbitrator, at which time it is usual for him to nominate a mutually suitable time and venue for the hearing to take place.

With low key Arbitrations the valuers would preferably present written submissions substantiating the level of their valuations, each being permitted to Question the other and in turn be questioned by the umpire in a reasonably formal manner so that one Arbitrator does not gain undue advantage over the other through lack of formality.

In my experience both as Arbitrator and Umpire I have found (and I would recommend it to you, that reasonable formality must be maintained during this form of Arbitration otherwise the hearing could degenerate into an argument between the parties.

ARBITRATORS derive their authority from the agreement between the parties and consequently their powers and duties are those, and only those that the parties have agreed to place upon them. Where Arbitrators are appointed who have also valued the property, have disagreed and then have appointed

an umpire, they tend to become advocates for their respective appointors rather than the situation where an Arbitrator is appointed by each party who up until the time of appointment has had no association with the disagreement, in which case these Arbitrators are in a situation of impartiality.

AN UMPIRE is the person appointed to take over the reference from the Arbitrators who are unable to agree between themselves and in general, is in the same position as a sole Arbitrator. Before the hearing it is prudent when acting as Umpire to establish from the valuers or Arbitrators the type of Arbitration that is going to take place as to whether it is to be of an informal nature involving only three persons or whether there will be witnesses called or whether it is to be of a full scale nature. Usually the Arbitrators will be in agreement as to the form of Arbitration, but there are occasions when one party will expect the hearing to be different from the thoughts of the other party. In these circumstances as Umpire, I have found it prudent to obtain the requirements of each party and notify both parties well prior to the hearing of each others expectations.

Thus if one is to be represented by counsel then the other should not be disadvantaged by not having the opportunity to also be represented by counsel.

In formal Arbitration it is usual in order to save the delay and expense of two investigations of evidence that the Umpire sits at the hearing with the Arbitrators and if after the hearing the Arbitrators cannot agree there is no need for a rehearing.

Unless the arbitration agreement provides for an umpire to take an active part in the reference from the outset, his duties do not arise until the Arbitrators disagree. Further, unless the agreement expresses a contrary intention, the Umpire's authority does not commence until the Arbitrators give notice in writing, either to him or to a party to the agreement that they cannot agree. The Umpire may then enter upon the reference in lieu of the Arbitrators and if he does not within reasonable time he may be removed by the court.

The impire must be strictly impartial and, like an Arbitrator, must not hear one party in the absence of the other and should not receive any statement as to the case from one of the Arbitrators except in the presence of the other.

Either during or following the hearing if the umpire requires the assistance of expert advice particularly on legal or technical points that have arisen he has the right to seek independent advice. However, in such an event it has been my experience that it is preferable to first seek submissions from the parties or their legal counsel on these points even though additional advice may be required.

In my opinion there is a considerable distinction between an UMPIRE and a THIRD VALUER. An umpire is in a judicial situation to arrive at his AWARD on the basis of the evidence that is placed before him, exercising his particular skills and judgement, while the third valuer depending upon the terms of the agreement may be required to value the property or rental or whatever, either with or without reference to the two differing valuations that have previously been completed.

THE HEARING:

Time and place of the hearing must be clearly notified to the respective parties in writing to avoid any misunderstanding, at which time I recommend notification of the requirement for written submissions to be presented in addition to the oral submissions and evidence. As arbitrators and umpire these written submissions are of considerable benefit in addition to any notes

that may be taken at the hearing for reference when the award is being formulated, generally several days after the hearing.

Also as Umpire it is advisable to determine with reasonable certainty what "level of arbitration" is intended from both parties and the number of witnesses, if any, that each intends calling although this may have been fully discussed by the parties between themselves.

At the hearing ascertain from the parties which is to present its case first and if there is no clear decision between them ask the party who appears to have the burden of establishing the matter in dispute to commence first.

Conduct the Arbitration in a formal manner with opening submissions from both parties, then the evidence from each and allowing each arbitrator in the three man arbitration situation to be questioned by the other and full cross examination of all witnesses in the formal Arbitration. Questioning and presentation by the two arbitrators are subject to formal procedure, but the sole arbitrator or umpire is not restricted to the same extent. He may interrupt at any time to clarify a point or ask questions as in the case of magistrates and judges during court proceedings. Conclusion of the hearing will be with summing up from the parties with the normal court rules applying.

In essence the basic requirements of any hearing is that it be conducted in a balanced manner with each party obtaining the identical opportunities to present their case.

A rather unsettling and quite ethically improper situation has arisen in several arbitrations that I have been associated with.

This is when two valuers or arbitrators have had preliminary discussions in order to test the other's strength of case, discuss the differences and possibly attempt to settle the dispute without resorting to arbitration.

At such a meeting one valuer, or both, may suggest a without prejudice settlement which is unacceptable to the other and the difference proceeds to arbitration.

In my opinion it is quite incorrect for firstly, that compromise figure to be disclosed by the parties at arbitration and equally incorrect for the umpire to allow himself to hear that figure.

Any judicial decision I suggest must be influenced by such a disclosure and this has been the situation both in the courts, particularly in compensationn cases and at arbitrations.

Following the arbitration hearing it is unwise for an umpire to accept additional submissions except under unusual circumstances, and he must be careful if he decides to do this to give each party the same opportunity with possibly the right of reply by each party to the other's additional submission.

It cannot be over emphasised that the sole arbitrator's or umpire's function is that his decision or award must be based upon the evidence and submissions placed before him and he is not entitled to substitute his own opinion or evidence to the contrary.

THE AWARD:

Because no person or persons who makes an award wishes it to be upset by either party, the award must comply with certain principles, the basic ones being:

The Award must comply with the submission to Arbitration. It must cover all directions contained within the submissions and no more.

The Award must be certain. There should be no doubt as to the arbitrator's or umpire's meaning or as to the nature and extent of the duties imposed by it on the parties.

Also the directions within the award must be capable of being carried out.

The Award must be final. Although in some instances interim awards can be made this is not usual in valuation matters.

Once the award has been made the powers of the arbitrator or umpire immediately cease. Even if an umpire realises he has made a mistake he has limited powers to correct it and I would caution you against issuing anything additional to the award as it is then left open to be challenged and possibly set aside by Court proceedings.

In practice the award should always be in writing and it is common to divide the award into three basic portions:

(i) the recitals.
(ii) the award.
(iii) the costs.

Because arbitrators and umpires have in many instances overguarded against the setting aside of their award, many awards merely state the figure that has to be decided with little else. My present view however, is to the contrary.

The parties are entitled to know how the conclusions have been arrived at, what evidence has been accepted or rejected and to this extent some reasonable explanation is of benefit and satisfaction to the parties and in my opinion an essential ingredient of an award.

To sum up, an award in order to be valid must be final, certain, consistent and possible and must decide the matters submitted, and no more.

In the absence of specific agreement to the contrary it is also usual for the arbitrators or umpire making the award to fix their fee following the decision of their award, but it is not usual in valuation awards for the umpire to fix the arbitrators fees. Uplifting of the written award is generally simplified by the umpire posting a copy to each of the arbitrators and keeping one for himself, although every person who has distributed an award in this matter and has then not been paid by an aggrieved party gives serious consideration to the more formal procedure of notifying each party that upon payment of the required fee for the arbitration the award can be uplifted by that party. In the more formal arbitrations this is the normal procedure.

Awards are final and binding upon the parties, but awards have been challenged in the courts and this can be done if the award contains "an error of law on the fact of the record". This occurs when the award contains a matter which the court is able to say is wrong in law and is quite different from a review by the court of the decision. There is no right of review or appeal against an AWARD and the reasons for setting aside an AWARD are few and limited which is the intention of ARBITRATION.

GENERAL COMMENTS:

Arbitration should not be treated lightly as it is a judicial function which if the necessary steps are correctly completed is an impartial method of settling a dispute and to this extent the basic procedures should be strictly complied with by the valuer with all notifications to the parties preferably in writing.

There has been considerable discussion in the past as to whether Courts or Arbitration are preferable and the recent establishment of Small Claims Courts have added to the choice available, but it is my opinion that while there may be some minor areas of overlap each method of settling a dispute has its place and the valuation matters that come before the courts quite rightly do so and seem to me to be of a different nature or degree to those that are settled by Arbitration.

If Arbitration as a means of concluding disputes is to continue to be accepted it must however have integrity and justice, and it is the responsibility of the valuer to fully familiarise himself with this legal procedure whether he is the umpire, one of the arbitrators or the expert witness.

I sincerely trust that this general paper will be of assistance to Registered Valuers involved in arbitration work in promoting the valuation profession in this specialised field.

Question:

I would like to ask about the point of privacy, as far as the actual umpires award is concerned. Because these are only published every now and then and because they are the type of thing we all would like to get a hold of and be aware of, would you elaborate more on the question of privacy.

Reply:

Certainly, it's over to the two parties particularly their principals as to whether they require it in private or not. I think this is why we don't get publication of arbitration awards to the same extent as Court decisions as the parties may wish to keep it absolutely private between the valuers and it is a decision of the principals involved in the arbitration, rather than the arbitrators themselves. I think also I am referring to the privacy of holding arbitration. There are many open arbitrations where the public and other valuers who are not involved in that particular arbitration may attend. There are many other ones which are held behind closed doors. This is in many cases the desire of the parties. Does that answer your question?

Stop Press - AGE FOR REGISTRATION NOW 23

*The age for registration under the Valuer's Act has been changed from 25 to 23 years of age by The Statutes Amendment Act passed 27 November, 1970.*

# REPORTS

ARTICLE 1 VALUATION REPORTS
Reprinted from *The New Zealand Valuer* September 1955, Volume 13, No 3, page 28.

ARTICLE 2 THE FORM AND CONTENT OF A COMPLETE RURAL VALUATION REPORT
By J V MCFARLANE
Reprinted from *The New Zealand Valuer,* June 1958, Volume 16, No 2, page 5.

*At the time of writing J V McFarlane was an associate member of the NZ Valuers Institute and practised as a valuer in Wanganui.*

ARTICLE 3 RURAL REPORTS AND VALUATIONS
By J D POWDRELL
Reprinted from *The New Zealand Valuer* September 1966, Volume 19, No 11, page 437.

*JD Powdrell* was *a former assistant editor and editor of the New Zealand Valuer.*

ARTICLE 4 VALUATION REPORTS SHOULD COMMUNICATE (STUDENTS SECTION)
By R L JEFFERIES
Reprinted from *The New Zealand Valuer,* December 1969, Volume 21, No 2, page 45.

*Rodney Jefferies is senior vice-President of the NZ Institute of Valuers, senior lecturer in valuation at Auckland University, and consultant partnerofBarrattBoyes Jefferies in Auckland. He is the author of Valuation 1 and a former editor of The New Zealand Valuers' Journal.*

# VALUATION REPORTS

This is the first of a series of articles covering most types of urban valuations, commencing with the valuation of a vacant section. The valuations themselves are copies of actual reports, although names and addresses have been changed. Whilst these articles are published mainly for the benefit and guidance of students and younger valuers, it may well be that others will obtain benefit from seeing how another valuer does his work and makes his reports. Readers need have no hesitation in writing to the Editor offering constructive criticism of this article and any others of this series, in fact criticism will be welcomed as educational.

## Valuation of a Vacant Section

The Instructions:

Dear Sir,

He ESTATE FANNY WINSLOW

The above estate owns Lot 102, D.P. 8367, Hoad Street, Wainui. Title is 321/155. Area 32.3 perches.

We shall be obliged if you will value same for sale purposes and let us have your report as soon as convenient.

Yours faithfully,
SMITH & SMITH,
Barristers and Solicitors.

First Step:

I reached for a field sheet and entered the client firm's name, the late owner's name and the address and legal description of the property.

At the same time I scribbled a note for my secretary to obtain for me a sketch showing the location in the street and the measurements of the lot. Letter, field sheet and note were placed to one side for her attention.

The Inspection:

A few days later I was at Wainui. The sketch showed a section 55 ft. x 160 it. situated three lots north of the section opposite the end of Mackay Street. There was a house on the site opposite the end of the street and, turning north, there was another house which seemed to be four sites from that house. Lot 102 therefore, seemed to be the section next to this house.

The land was level and fenced at sides and rear, but so was the next door section. The grass was long and wet. There were a few small patches of gorse. Unfortunately, this has concentrated at the corner posts. The simplest way was to call in at the house. Fortunately someone was at home and I was told that this house was on Lot 103 and the next section was the late Miss Winslow's. This gave me my identification.

My notes simply were to the effect that it was a level lot facing west, open to sunshine, 150 yards bus, 1 mile school and shops, water connection but no sewerage, somewhat dampish, but similar to other sites in the neighbourhood. Apart from Lots 100, 101, and 102, most of the other sections were built on with small bungalow homes.

I noticed a new subdivision at the end of Hoad Street. I drove up. It was similar sort of land, but a little further away from transport. I noted that a hoarding said the sections were for sale on easy terms spread over three years, apply John Doe & Co., Land Agents.

Checking:

On my return to my office, I rang John Doe. The sections were £325 each: £50 deposit. Several had been sold. Sales were a bit slow.

My own opinion of the value of the lots was £300.

My own records showed about six recent sales in the neighbourhood at prices ranging from £225 to £350. Three of these I knew well and had fetched £275, £300, £300. These three were similar to the section I was valuing. Sales however, were slow.

The Report

Messrs. Smith & Smith,
Barristers and Solicitors.
P.O. Box 8,

Wlaitokau.

Dear Sirs,

Re ESTATE FANNY WINSLOW

Lot 102, D.P. 8367, Area 32.3 Perches.

As instructed by you, I have inspected the above vacant section for the purpose of determining a fair market worth. I report as under:-

Locality:

Wainui is a developing area, approximately six miles distant from Lower Hutt. The district is affected by difficulties of transport and a poor access road. In consequence, prices are low and sale difficult. Water is available, but no sewerage.

Land:

The section measures 55 feet by 160 feet It is a level lot fenced on both sides and rear with concrete posts and wire fences. Apart from a few small patches of gorse, the section is relatively clean. The section lies well to the sun. Distance from bus transport is about 150 yards, whilst school and shops are about 20 minutes level walk away. Most of the sections in the immediate vicinity are built upon with neat, moderately priced bungalows.

Valuation:

| | |
|---|---|
| Land 55 ft. x 160 ft. fronting Hoad St. | £300 |
| Fencing..... | 25 |
| | £325 |

Disposal:

Sales in the district show some fluctuation. Demand is not heavy and sales are slow. Many sections have been for sale and are being offered on easy terms. In consequence, prices show variations dictated by terms or cash, anxiety to sell or otherwise.

This section will sell at £325, but we cannot say when. If an urgent cash sale is required, then offers may have to be considered.

Yours faithfully,

Valued by
F.N.Z.I.V., F.R.E.I.(N.Z.),
Regd. Public Valuer.

## Valuation from Plans and Specifications

The Assessment

In front of me were the plans and specifications of a house to be built in Wata Street, Upper Hutt, on Lot 7, Block 3, D.P. 11817.

I had already seen the section. It was a level lot. Purchase price was £425, which seemed a trifle high in comparison with other sales.

As I read through the specifications, I noted on my field sheet the following essentials: foundations, construction, roof, interior linings and fittings.

From the plan I made a copy of the outline of the plan on the field sheet and marked in the exterior measurements. I noted stud height and foundation height. I marked the situation of the various rooms.

It was a simple rectangular bungalow. The area worked out at 951 square feet. Against one side of the house, and fitting in with the general design, was a garage of 200 square feet.

No provision was made for fencing and paths.

This was a mortgage application and the lending society was prepared to advance 75 per cent. of value.

My records showed that the district building costs for the model was 56/4d. These I adjusted to suit this property.

The result, with the land, totalled £3,300 Compared with neighbourhood sales, this was a trifle low, but these houses had the grounds laid out with paths and fences. I noted that the contract price was somewhat above my valuation.

The Valuation Report

The Secretary,
Southern Building Society,

Wellington.

Dear Sir,

Re APPLICATION J. ROBERTS

Wata Street, Upper Hutt
Lot 7, Blk. 3, D.P. 11817

As requested, I have inspected the above site and have examined the plans and specifications of the proposed house. I report as under:-

Locality:

Wata Street is a new subdivision close to the township. In consequence, transport, shops and school are handy. Several houses have already been built in the street. These are all of a good type.

Land:

The section measures 50 ft. by 150 ft. It is level and lies well to the sun.

Building:

The plans and specifications call for the construction of a one-floor bungalow of somewhat severe design, which is improved in appearance by the incorporation of a struction is weatherboard on continuous concrete foundations and iron roof. Interior linings are Gibraltar board with pinex ceilings except in the kitchen, bathroom and washhouse where hardboard will be used. Accommodation consists of hall, lounge, kitchen, dining alcove, two double bedrooms, bathroom, washhouse and garage. Fittings include numerous cupboards, two wardrobes, electric hot water service, electric cooker, bath, basin, w.c., electric copper, concrete tubs. Stud height is 8 ft. There will be a fireplace with tiled surround in the lounge. The garage is to have a concrete floor. Timbers are standard. Sewerage is to be septic tank. Borough water to be connected.

Valuation:

| | | |
|---|---|---|
| Land..... | | £400 |
| Dwelling-951 sq. ft. @55/- | £2,615 | |
| Garage-200 sq. ft. @27/6 | 275 | |
| Sundry (steps) | 10 | |
| | | - 2,900 |
| | | £3,300 |

Recommendation:

Subject to the conditions given below, the property, when completed, is a suitable security for the normal maximum advance.

Conditions:

(a) Roof: Iron to be 24 gauge.

(b) Foundation height: Not less than 12 ins. at minimum point.

(c) Any substitution of materials or departure from plan to receive prior consent of the Society.

(d) Any soak holes to be not less than 30 ft. from house.

Yours faithfully,

Valued by
F.N.Z.I.V., F.R.E.I. (N,Z,)
Regd. Public Valuer.

Before publication these reports were submitted to another Fellow of the Institute for criticism and the following are his remarks:-

Comment on Valuation of Vacant Section:

(1) The locating of a vacant section is always difficult unless the valuer can obtain an accurate locality map showing all surrounding lots and landmarks. In this instance the valuer was probably on the right section but to rely on a nearby owner's knowledge of lot number is extremely risky. Being absolutely certain that the land is correctly identified is essential.

(2) The section to be valued was 32.3 perches, having a frontage of 55 ft. and a depth of 160 ft. In the approach

outlined, every avenue of sales evidence was explored but you will notice that in no instance was the area or measurements quoted. The sales may have been of }-acre or even }-acre sections. In any comparison with known sales, area, measurements, access, contour, aspect, proximity to shops and transport must be considered. It must also be kept in mind that as with this section, other sections may have been fenced at time of sale and price for vacant land may have to be discounted accordingly.

Comment on Valuation from Plans and Specifications:

(1) "Design" is a word with many meanings. I have never heard the term " severe design" previously. It would be better to say " unimpressive appearance." Design suggests layout or plan and this aspect is not commented on in the report. To me the layout of rooms is most important, especially in a mortgage valuation. Do the kitchen, bathroom and washhouse get all the sun, leaving the important rooms on the shady side? Is there too much passage space? Is the shape of rooms the most satisfactory? Two houses each of 951 s-4uare feet can have the same number of rooms, the same fittings, cost the same to erect yet one can be a cosy, bright, attractive home and the other just the opposite. Cost is the same in each case but there can be a big difference in value. The interior design must always be considered even if dismissed in the report in a few well-chosen words such as "well planned, attractive home."'

(2) The materials are not commented on. What timber is to be used for the weatherboards? Is the frame to be pinus? Is it treated? Floor is what? As an investor I want to know more about the timber than just the word 1 standard."

(3) A contract price is mentioned so there must be a contract. What of the builder? The valuer should state either that the builder is not known to him or that he is known and his work is reliable (or otherwise). Suppose you know the builder and he has previously proved unreliable-this should be stated in the report. It is good practice to make a comment on contractor and price in all mortgage valuations.

(4) The report does not say that the property is readily saleable nor is a present-day sale figure given.

(5) In this particular valuation, the amount to be advanced will be determined by the lending society. Normally in such valuations, the valuer is expected to give a recommendation as to amount that can safely be advanced and term of any table mortgage. If there is any variation from the recognized two-thirds loan for 30-year term, the reasons influencing the valuer in making the variation should be given.

(6) The main aim of the valuer should be to give his client a clear and reliable pen picture of the property. One that will enable the client to weigh all the factors and decide on the property's suitability for an advance on mortgage Should the valuer learn anything of the creditworthiness of the prospective mortgagor, he should tell the mortgagee about it. In one case I recall, the valuer learned that the applicant was about to file in bankruptcy. In another. the applicant had been arrested for some offence a day or so after making the application.

(7) Remember always in valuations that you are in a position of responsibility and that you have to use your expert knowledge to give your client an honest, well-reasoned valuation and sound advice.

# The Form and Content of a Complete Rural Valuation Report

By J. V. Macfarlane, A.N.Z.I.V.

The valuation report serves a threefold purpose.

Firstly, by the reason of its arrangement and the information required, it helps the valuer in the logical development of facts and analysis of the property so that he can arrive at sound conclusions.

Secondly, the report, in presenting facts and conclusions, forms a basis for action to be taken by the user.

Thirdly, the report serves as a permanent record of the state of the property as it exists at the time inspection is made.

Today, the printed valuation form is in fairly general use. It may vary from a single page printed on both sides, to one of several pages. Unfortunately, some forms are so badly designed, and some so old, that instead of making the task of the valuer easier, they make it much more difficult than it should be.

It is therefore important, that those who employ the services of valuers should know the requirements of a complete valuation report because they, in their report • forms, are telling the valuer what they want to know. The users of valuation reports must be certain that the information contained in such a report will enable them to exercise a proper judgment in making their decisions.

There is still a body of die-hard valuers who in reporting on a property, feel that it is not necessary to furnish a clear and complete picture of the property. They feel that their opinions and conclusions alone are sufficient for the user of the report to take action on. Unless the employers of valuers insist on fuller information these short one-page opinions will continue to be "served up" and good money paid for them. It is realised that many of these opinions are correct ones but there is a great danger, and it does happen, that some are totally unsupported by complete inspections of the property and made without any knowledge of current sales and trends in land values.

The complete valuation report is a detailed, step by step presentation of the valuation problem, all the pertinent facts and limiting conditions, assumptions, analyses, and conclusions, together with supporting details. This is obviously no small task.

A report must be so constructed that it flows logically from start to finish and enables a third party who has not seen the property, the circumstances and character of the farmer to reach a proper decision on the matters reported.

There are certain fundamentals that should be included in any valuation report:

(1) A reasonably complete description of the property valued.
(2) The date at which the value applies.
(3) The amount of the value.
(4) As some valuers could be an interested party in the sale, or lease, etc., of a property, a fourth fundamental perhaps should be included and that is, a statement that the valuer has no present or contemplated future interest in the property valued, or a statement disclosing all such interests which the valuer may have in the property valued.

The following is a suggested outline for the report:

## Section I: The MainReport

A. The Preliminary Details:
1. The purpose of the report, and value: to be found.
2. Date of inspection.

B. Legal Description of the Property:
1. Area.
2. Survey, description and title references.

C. Situation of the Property:
1. Description and name of road::.
2. Distance from nearest town, railway, saleyards, school, school bus, freozin,i works, dairy factory.

D. Climate:
1. Altitude.
2. Rainfalland its distribution.
3. Aspect and slope.
4. Prevailing winds.
5. Flooding-frosts, etc., and hazards.

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E. Description of District:
1. Type of farming.
2. Average size of farms.
3. Condition of improvements.
4. General desirability and saleability, and whether values are likely to increase or decrease.

F. Class of Farm:
1. Type of farming.
2. Short management summary.
3. Winter carrying capacity.
4. Returns of production for three years, butterfat, wool, fat lambs, crops, etc.

G. Description of Topography and Soils:
1. Area of the various classes of land, i.e., flats, undulating (whether ploughable by wheel or crawler tractor), medium and steep hills, etc., and waste land.
2. Description of soils and subsoils as to fertility, depth and structure.

H. Description of Cover:
1. Description of the pastures giving area, condition, species, and age.
2. Areas of other types of cover such as fern, scrub, tussock, fallow land, plantations, buildings, roading, waste, etc.

I. Description of Subdivision, Etc.:
1. Shape of farm, number of paddocks.
2. Length, type and condition of fencing, hedges, etc. (Road fencing, internal and boundary fencing to be described separately).
3. Adequacy of fencing and subdivision.
4. Description of roading and tracks-length and condition.
5. Description of bridges, culverts, etc.

J. Description of Water Supply:
1. Source.
2. Permanency.
3. Type of reticulation and number of troughs, etc., and adequacy.

K. Description of Drainage:
1. Type of drainage and areas drained.
2. Condition.
3. Areas still capable of being drained.

L. Description of Noxious Weeds, etc.:
1. Kind of noxious weeds.
2. Areas infested and method of control if any.
3. Pests.
4. Erosion.
5. State of neighbouring properties.

M. Description of Shelter:
1. Kind of shelter.
2. Length of hedges, or area of plantations, etc.
3. Adequacy.

N. Top Dressing and Liming:
1. Kind of fertilizer applied.
2. Area topdressed and quantities and tonnage.
3. Soil deficiencies.
4. Future annual requirements.
5. Availability of airstrip.
6. Amount of oversowing of grasses and clovers done.
7. Amount of regrassing necessary.

0. Cropping:
1. Types of crops grown.
2. Average areas and yields.
3. Amount of feed crops necessary to maintain the stock numbers stated above.

P. Description of Buildings and Value:
1.Type of building.
2.Construction.
3.Accommodation.
4.Areas.
5.Future utility life.
6. Insurable value.
7.Value to the property.
8.Description of sheep yards, dip, etc., and lvaues.
9. Comments on adequacy of buildings and position on the property.

Q. Government Value and Rates, etc.:
1. Government Valuation and date of valuation.
2. County, etc., rates payable and special rates.

R. Valuation of the Land, etc.:
Value of the land in its present condition without buildings, fenced and in grass, each different class of land



V

being valued separately, and the value of the buildings added to the total land value to give the total value of land and buildings.

S. General Comments:

A concise summary giving a picture of the property and any unusual or outstanding features of the property or circumstances in ' connection with its ownership and management.

T. Signature and Valuer 's Qualifications:

Section II: The Addenda

A. A Plan of the Property:

This plan is an essential part of a valuer's report and should be included, particularly in all valuation reports made for mortgage purposes. The plan should show all the important features of the property, paddocks, buildings, roads, etc.

B. List of Comparable Sales:

This list should be included so the employer of the valuer can see that the valuer has taken actual comparative sales into consideration when arriving at the final value.

C. Photographs of the Property and Buildings:

Photographs of the property and buildings can easily be taken with any reliable camera and forwarded with the report. The cost is very small and gives the user of the report a true picture of the property.

Section III: The Summary

For lenders who may be handling many reports for mortgage purposes, the summary sheet is most essential. This should be completed by the valuer.

The summary sheet should contain:

1. Applicant's name and address.
2. Area and location of the property.
3. Amount applied for.
4. Classification of farm.
5. Classification of district in which the farm is located.
6. Valuation for mortgage purposes.
7. Recommendations re loan.
8. Report on the personal factor.
9. Covenants which should appear in the mortgage.

If a summary sheet is not used, then those items appearing above which do not appear in the main valuation report, should be included in that report.

Notes on the Classification of the Farm and District

There is no universally accepted method of stating whether land is first, second or third class land. Some insurance companies state that they will lend only on first class securities. One lender has stated:

We are seeking the first class type of security which is held under freehold or L.I.P. tenure, is a well developed and fully economic unit, situated in an area recognised as being good for investment purposes and reasonably close to a main town."

Unfortunately the above directive is liable to many interpretations by valuers in different parts of the country. What is first class and well developed to one man, may be only second class to another. To give direction to many valuers who may be from one end of the country to the other a modification of a system of farm and district classification as used by one of the largest lenders on rural security in the United States may be of considerable use in bringing about some degree of uniformity.

"Farms are classified according to the following definitions:-

1. A Class 'A' farm is an excellent farm, usually well located in a desirable community, has productive and durable soils, appropriate improvements in good condition and is subject to a minimum of hazards. It is a highly productive and desirable unit in size for the type of farming to which it is adapted, the normal net earnings are stable and provides a high standard of living as well as supporting a very substantial mortgage. It is always very readily saleable.

2. A Class 'B' farm is a good farm. It is usually well located in a desirable community, has reasonably good land

in good condition and usually has well maintained appropriate improvements. It is either somewhat less productive or desirable in size or topography, has higher working costs, or is subject to more hazards, or has fewer alternative uses than Class 'A' farms. The normal net earnings are reasonably stable, and provide a good standard of living in addition to supporting a fairly substantial indebtedness. It is readily saleable under most conditions:

3. A Class 'C' farm is a fair farm. Usually, it is located in a fair community, it is a fair unit with mediocre soil, or with good soil showing the effects of erosion, lack of drainage, or noxious weed infestation. Improvements are usually adequate and reasonably well maintained. It is satisfactory in many respects but is deficient in others, or subject to material hazards. The normal net earnings are moderate or irregular but provide a fair standard of living and may support a reasonable indebtedness. It is readily saleable under normal conditions.

4. A Class 'D' farm is a poor farm. Usually, it is a poorly located, unattractive unit with inferior soils-or fair soils showing the effect of serious erosion, improper drainage, or extensive noxiou, weed infestation. The improvements are usually inadequate and poorly maintained. It is deficient in a number of important particulars or is subject to serious hazards. The normal net earnings are limited or erratic and provide only a low standard of living. Only the best of 'D' farms can support a modest debt. Likewise only the best of 'D' farms are readily saleable under normal conditions, which characteristics they lack during subnormal periods.

It will be seen that a number of features are to be considered in the classification of a farm. While an individual property may be deficient in one important element, this may not necessitate its relegation to a lower class if this feature is offset by one or more outstanding features. No one element is controlling and of necessity the weight of the individual factors varies, depending on the type of farming and community involved.

The classification of a farm does not give a complete picture without classifying the district in which it is located. The principle difference between and among areas is in the income-producing ability of the farms and the evidence of prosperity or lack of it remitting therefrom. Areas of high net incomes show it in the generally good homes, well bred and thrifty livestock, and good well maintained improvements and farms.

The classes of districts are defined as follows:

1. Area 1 is an excellent district in which to live and farm. It offers very desirable community advantages and has a long-established reputation for stability. The average net income is substantial and dependable. Class 'A' farms predominate in the area and attract the best type of farmer.

2. Area 2 is a good district in which to live and farm. It offers desirable community advantages and has an established reputation for stability. The average net income is fairly substantial and dependable. Class 'B' farms predominate in this area and usually attract a substantial type of farmer.

3. Area 3 is a fair district in which to live and farm. It offers fairly desirable community advantages but maybe somewhat lacking in stability. The average net income is generally moderate in amount and may be irregular. Class 'C' farms predominate in the area and usually attract a fair to good type of farmer.

4. Area 4 is a poor district in which to farm, is usually a poor place to live and has limited community advantages. It lacks stability and the net income is generally low or erratic. Class 'D' farms predominate in the area and usually attract a poor type of farmer.

In the above classification, no exact size or minimum area can be established. Any area or group of farms that is large enough to have a reputation is large enough to be classed separately."

The classifications for farms and districts as defined above could provide a measure of uniformity if used by a lending institution with instructions to all valuers to classify all property accordingly.

# Rural Reports and Valuations

-By J. D. Powdrell F.N.Z.I.V.

In essence, reports should enable the reader to learn all he needs to know, and to learn it in the simplest quickest way.

That we often fail to achieve this result is due to a number of causes, most of them obvious but falling, I suggest, into two main groups:-

1. Faults of training and of systematic application to the requirements of the assignment and
2. Personal idiosyncrasies-such as too much or too little regard for brevity.

The special requirements of the particular task and a freshness of outlook and approach must never be sacrificed to a humdrum uniformity of treatment, but a consistent and logical treatment of similar problems will result in the preparation of sound reports which are easy to assimilate.

Up to this point, most valuers will (I hope) be in agreement. But as to the desirable order and scope for normal reports - there may be many divergent views, some of which may be held with sufficient strength to spur the holders on to express these views in the New Zealand Valuer.

The following report was drafted as an outline for a trainee valuer with long experience in land management and a good knowledge of local lands and local sales.

It was intended as a guide to existing practice, not as an example of the ideal report. There are two deficiencies requiring initial explanation. The first is the absence of a courtesy introduction: I prefer that this take the form of a covering letter which will include advice of the fee payable.

The second is the exclusion of the financial and managerial aspects of the enterprise - which may be of critical importance: these will, in most cases, require consideration, and omission here is intended to assist concentration upon land factors.

This financial and personal section should not be mixed up in the body of the report - in the event of sale the whole of these aspects may change - but should immediately precede the mortgage recommendation.

## EXAMPLE

REPORT AND VALUATION FOR PROPOSED MORTGAGE, 31st JULY, 1966

VAL'N. No. 5/14

DESCRIPTION AND AREA:
Lot 2 on Deposited Plan 11087.
Block X, Tahoraite Survey District;
78 acres 2 roods 04 perches.

TITLE:
Freehold* C/T (if known but this not essential).

OWNER:
HENRY AMOS WILSON.

GOVT. VALUATION; No. 1108/814

| | |
|---|---|
| Capital Value | £ _..... |
| Unimproved Value | £..... |
| Value of Improvements at 1/11/63. | £..... |

RATES:

County 4d in £UV. Rabbit Board 6d per acre.

SITUATION:

On ..... road 9 miles from Dannevirke by good sealed roads. All normal services available including mail and newspaper deliveries, and school bus. Tamaki Co-operative Dairy factory (3 miles) collects milk daily by tanker. Altitude: 820-900 feet. Rainfall: approx. 60 inches.

THE PROPERTY:

A fully equipped dairy farm with present and reasonable production of 19000 lbs butterfat from 62 cows, all replacements reared on the farm. 6 acres (average) winter crop, 500 bales hay, 12 tons superphosphate.

A narrow deep farm (shape common in this locality), fenced on all boundaries and subdivided into 14 paddocks. Most improvements are old but fairly sound; house small, modern kitchen, comfortable.

Fourteen chains subdivisional fencing and Implement shed are poor.

Land is all flat (9 acres hummocky) sloping gently to East. Soil is a deep fertile silty clay loam over shingly clay sub-soil.

Water-Stream supplies 8 paddocks. Bore and pressure pump reticulation to 7 troughs and house area. Supply ample and of good quality.

*Such rights as `Together with Right-of-Way' (or Water Pipe-line Easement) over Part Lot 1 D.P. 11087 would also be shown here.

VALUATION

BUILDINGS:

| | |
|---|---|
| Dwelling house:<br>1040 sq. ft. W.I.R. Villa, 2 bedrooms, sitting room, kitchen, etc. Built about 50 years, well maintained, all normal modern amenities (but no wardrobes).<br>Wooden blocks, paint and interior decoration will require attention within three years | £ 1160 |
| Garage No. 1:<br>Old, large. Fibrolite sheathing, C.I. roof. Earth floor. Rather poor | £ 40 |
| Garage No. 2:<br>210 sq. ft. B-b Weatherboards,, painted. Gable C.I. roof. Concrete floor. Built 1950. Good. .. | £ 160 |
| Cowshed:<br>686 sq. ft. internal race, 3-bail (wooden) shed. Old, renovated from time to time. Modern milk-cooler room (S.S. vat is owned by factory). Good concreted yard and race .. | £ 520 |
| Pump-house: Small, C.I. walls and roof. Light structure | £ 10 |
| Implement Shed:<br>40 x 15 W.I.R. Old and poor | £ 20 |
| Hay Barn:<br>450 sq. ft. Gable C.I. roof on steel frame. Enclosed (C.I.) 2 sides. Very good | £ 250 |
| | £ 2160 |

Fencing:

| | | | |
|---|---|---|---|
| | Brought forward | | £ 2160 |
| Road | 12 chains | | |
| J share of boundary | 72 chains | Ceil £34 | |
| Subdivisional | 156 chains | | |
| Subdivisional | 14 chains | £1,1 | |
| | | | £ 860 |

Clearing:

Removal of original cover (medium to heavy bush), logs and stumps; also cultivation benefit
691 acres at £35
9 acres at £31
781 acres £ 2700

Grassing:

52 acres at £6J
20 acres at £4
6 acres in Choumoellier
78 acres £ 420

Draining:

Small open drains and short tile feeder drains-sum of- £ 50

OTHER IMPROVEMENTS:

Water supply:

Bore 221in. 60 feet deep (good) 45 chains in. piping, 7 cone. troughs £ 240

Concrete race 15 chains, metalled tracks and yard, 3 culverts £140. Power (2 poles) £40. Garden layout and paths £50. £ 230

TOTAL IMPROVEMENTS £ 6660

UNIMPROVED VALUE:

| | | |
|---|---|---|
| 781 acres at £62 | £ 4855 | |
| lyd. 04 pchs. broken and waste land at creek-sum of | £ 5 | |
| | | £ 4860 |

CAPITAL VALUE £11520

£146; per acre.
12/1,d. per lb. B/Fat.

RECOMMENDATION:

Suitable for loan not to exceed £5750 (FIVE THOUSAND SEVEN HUNDRED AND FIFTY POUNDS) upon 25 year table mortgage subject to:-

(i) Re-insurance of buildings at full replacement cost.
(ii) Right to obtain repayment upon request in the event of sale of the land.
(iii) Covenant to apply not less than 10 tons superphosphate (or equivalent phosphate content) annually.

A.B.C.
Registered Valuer,
(Rural).
27/7/1966.

1 SMITH STREET,
DtANNEVIRKE.
Telephone 8124.

(Continued over page)

# Students' Section

## VALUATION REPORTS SHOULD COMMUNICATE.

*(Not Just For Students!)*

*By The Editor.*

The primary purpose of a valuation report is to convey meaningfully and efficiently the information expected of you as a valuer.

It is because of the emphasis on this communication to the client that those valuers wanting to provide a beneficial service are designing their reports to furnish a convenient sequence of information to meet the client's priorities.

The bulk of employers are financial institutions or legal firms requiring valuations for security purposes, or for advice on selling or buying. It is for this type of service that these comments are directed.

A valuer should ask himself - what does the client require to know or should know and how best can I present it?

A large number of clients will never see the property themselves and therefore the valuer must convey an accurate, unbiased picture of the property together with his findings, valuation and recommendation.

In what order would the average client require the information? - Well he would want to know:

(1) Identify the property being valued.
(2) Check the purpose of the valuation.
(3) Note the valuation placed on the property.
(4) Consider the recommendation as to loan, sale, or purchase; and
(5) If elaborations on the property are required, find these logically itemised.

It is with such a client-orientated report that a number of progressive valuers have found it advantageous to depart from the textbook order of report layout such as that found in the Principles and Practice of Urban Valuation in New Zealand and other texts, which present rather a "detective novel" sort of sequence that leaves the reader on the edge of his chair for the vital facts in the last paragraph or sentence. Alternatively, the client, if impatient (quiet often - if you've just made his deadline) turns to the last page first. To provide a client-orientated report it is suggested that you provide on the first page all the vital facts and essential information to answer steps 1 to 4 above. Then the information for step 5 be set out in the remainder of the report. This should more efficiently satisfy the client's desires.

An outline of such a report is given as follows as a guide for its preparation.

Address of client and if the report has been requested by a particular person then add . . . Attention for M .....

Heading: Re: ..... (Address or name of owner or other identification). Quote a client's reference number if supplied.

Acknowledge the instructions and purpose of the valuation and give the date of inspection.

Identify the property by a brief address, legal description, short description of the property and improvements. Note the nature of tenure and any salient features.

Valuation - summary showing land, improvements separately with preferably some indication of how the main items were assessed, i.e. size and rates used.

Recommendation as to loan, sale or purchase as requested by the client to satisfy the purpose of the valuation. In the remainder of the report the valuer should cover fully in a logical - but not necessarily this order or format:

Location and Locality giving the type of development, class of street, trends of growth, name of suburb, closeness to amenities, and especially any favourable or prejudicial features.

Zoning is becoming increasingly important and should be included together with the status of the planning scheme (undisclosed, draft, operative and date). An indication of the predominant uses especially if different from the existing use, the local body, and possibilities of subdivision or redevelopment.

Land description by size, shape, contour, aspect, view, a comparison with adjacent lots, unusual features and layout. Note any encroachments that appear on the title or rights attached to the land. If more than one lot then state on which the improvements stand. In cases of farms, commercial, or industrial property a sketch where applicable is very useful especially where a partial release of mortgage may be required in the future.

The Dwelling should be concisely described for age, appearance, type of construction, subdivision, accommodation and fittings. The condition and state of repair as well as its suitability for the site and locality.

Other Buildings should be itemised and adequately described.

Other Improvements such as paths, fencing, cultivation, and layout. For farm properties description of fencing, clearing, drainage, consolidation, etc. should be given.

History where available of recent sales, additions, costs, damage, and the latest Government Valuation.

Rural Securities should cover climate, heights, contours, soils, water sources, pastures, etc. Also comments on the management, farming programme, potential of development, suitability for diversification, stock numbers, carrying capacity. Conversions to a basis of per ewe-equivalents or per lbs butterfat is helpful. Comments on the economics of the venture and the personal factor of the owner or applicant.

General and Conclusion should cover any matters not so far covered such as conditions of loan, tenancies, leases. Also the basis of valuation, freehold, vacant possession, tenanted, lessee's interest and any other premise upon which the valuation has been based.

The aim of the report should be to present a full but concise account of the property. The client should not be left in any doubt and should have sensed the confidence of the valuers opinions. To conclude a report with "if you should require any further information " or "I would be pleased to give any further details" is non-professional. It is better to conclude with a positive statement such as "Having regard to all the evidence I believe my assessment at $..... as set out above to fairly reflect the market worth of the property." Signature.

(Continued from previous page)

NOTES ON THE VALUATION REPORT

1. A valuation reference is considered essential for an orderly filing system. The method adopted here is the allocation of a regional reference (area 5 of the territory in which the valuer operates) and a continuing numerical sequence.

2. Situation and The Property together are intended to give a brief clear picture of property. Obviously, some variation between reporting to a local principal or to a city-based lending institution would be necessary.

The emphasis given to water would indicate some local problems in this respect.

3. Valuation:

The amount of detail supplied in this section may vary greatly according to the purpose of the report. Details of relevant features of the property and their relationship to value can seldom be undesirable (while their absence may be). Such details are in accordance with orderly professional procedure and soundly complement "long experience and wise judgment."

Comparable sales and the saleability of the subject property have not been commented upon. The attitude here taken is that the valuer will be familiar with all sales (as would have been expected by the receiver of the report) and would comment only if some abnormality in volume or in price levels so required.

4. The showing of value of all buildings as a sub-total is recommended. It certainly assist the valuer in checking his own uniformity via "land without buildings" value - usually on a per-acre basis.

5. The recommendation frequently will require no qualifying clauses: where they are necessary, the valuer should check the practical ability to implement, and acceptance of the owner. Unless the mortgagee is in a position to check from time to time that conditions are complied with, little reliance is justified in the safeguarding effects of farming-procedure covenants.

The writer trusts that the subject of rural reports will be regarded as being now "open for discussion."

# RURAL VALUATION

ARTICLE 1 PRODUCTIVE AND SELLING VALUE
By A W A SWEETMAN
Reprinted from *The NZ Valuers'Bulletin* August 1943, Volume 1, No 7, page7.

*A WA Sweetman was a Foundation member of the NZInstitute of Valuers and at that time afellow of the Auckland Branch. He was a regular contributor to the Journal and the thirdPresidentof theNZInstitute of Valuers.*

ARTICLE 2 NEW ZEALAND RURAL VALUATION PROCEDURE
By J BRUCE-BROWN
Reprinted from *The New Zealand Valuer,* June 1959, Volume 17, No 2, page 59.

*J Bruce-Brown was a former Valuer-General and a Foundation member of the NZInstitute of Valuers. At that time an associate of the South Canterbury Branch he has been a regular contributor to the NZ Valuer and in Institute affairs.*

ARTICLE 3 HAVE RISING FARM LAND PRICES BEEN JUSTIFIED?
By G A HALSTEAD
Reprinted from *The New Zealand Valuer* December 1968, Volume 20, No 8, page 356.

*A qualified rural and urban valuer, Graham Halstead is a fellow of the NZ Institute of Valuers and has contributed to the Institute in many ways including a long period as a memberof the Education Committee and Board of Examiners*

## PRODUCTIVE VALUE AND SELLING VALUE

A.W.A. SWEETMAN. F.N.Z.I.V.

Sound productive value is definitely sound sale value: This statement must of course be qualified by the assumption that the property under consideration is an economic unit. So much has been said and written of late about "productive value" or economic value, as it is sometimes called, that a brief analysis of the term and also the term "sale value" may not be out of place.

As I began by saying that both terms conveyed the same logical meaning, I must now endeavour to describe and then compare these common terms which are among the first that come to mind when the buying and selling of land (and particularly farming land) is under consideration.

Productive value honestly described, is an approximate estimate of the difference between income and expenditure on a given property farmed by a hypothetical average farmer of good average ability under average seasonal and market conditions. The process of doing this can be interesting and generally helpful in checking up on fair value or selling value.

To arrive at a reasonably accurate productive value we have to estimate very many factors, for example to give a few on the income side:-soil type and fertility, procuring and retaining satisfactory stock of the particular varieties required on the respective properties, the price which can be obtained for the various items of primary production such as butterfat, mutton, beef, wool, pig meat and so on. Admittedly guaranteed price index figures are a considerable help here, although we have to remember that the guaranteed price paid by the State to the farmer should be at least realised on resale of the product either to the local consumer or on overseas markets, otherwise the premises of guarantee are unsound and land values based on such premises equally unreliable and misleading.

On the expenditure or cost of production side we have a more lengthy and complex list of items, the great bulk of which are open to argument. Certainly a very few items are more or less fixed; these include local body rates which, apart from Special rates do not as a rule show any great variation from year to year. Most of the items however are very definitely open to debate.

We recall our own experience on the land as farmers and we remember too that costs were constantly on the move and almost invariably the movement was upward. In order to keep up-to-date with costs we must keep close contact with sound reliable farmers who are generally very helpful. That is fair, because the sound farmer knows just as much about costs as we do ourselves; indeed, if we are candid we at once admit that in many cases he knows a very great deal more than many of us. Thus we come to our compromise or understanding and proceed to the job of working on a basis of averages, both in regard to income and expenditure. These averages give us some idea of the approximate balance between earnings and cost of earnings and by capitalising the balance at a given rate of interest we claim to have arrived at a "productive value".

Before leaving "productive value" it may be not inappropriate to mention that although the principle of it has been brought much more into prominence by the Mortgage Corporation and later by the SA.C. the idea is very far from being new. For example the forms used by the Lands and Survey Department and the Valuation Department for the valuation of Crown Lands and Lands for Soldier Settlement have been based on a budget for well over 20 years, and the sound farmer, too, has always purchased on the basis of earning capacity.

Now to attempt to define fair selling value. I would say fair selling value is the price at which a sound farmer buys rural land, having a good knowledge of such land and the methods and manner of farming it, with the intention of farming it for a living.

The opinion of the reliable, thoroughly experienced farmer is perhaps the best test of value because he is dealing in a commodity with which he is thoroughly familiar and while he has to take future produce prices on trust just as has the buyer under the pro-

ducing value, he works mainly on past figures. His judgement as a sound experienced farmer would be difficult to equal, and perhaps impossible to surpass. Thus we have the two cases placed side by side. In the first instance we as valuers attempt to estimate the farmer's average earnings and average expenditure, and in the second place we rely on the sound judgement of the practical farmer himself in deciding an issue in which he is at least as well versed as anyone.

Surely there can be little actual difference between the two. It has often been said that budgetary value or productive value is a useful check against sales and reversing the position, sales check our productive value. In this I think most will be in agreement.

Someone has said that an ounce of practice is worth a ton of theory. For many years thoroughly able and practical farmers have measured in round figures the price they could profitably pay for farmlands by estimated the stock capacity of the land and fixing a unit value of so much per ewe, dairy cow, grazing bullock and so on. The unit value of course moves up or down according to the quality of land and the influence of other factors; for instance a stock area that would carry a ewe would be worth say £6 on strong country, while this figure would fall to £4 or lower on certain type poorer highlands.

This may appear to be just a rough practical calculation, but in reality it is a very useful and effective one, if used by sound experienced men whether farmers or valuers. The farmer's bank balance soon proves his judgement.

The whole question may be summed up in the necessity for accurate prediction of surplus income over expenditure. As mentioned higher up, this presupposes reasonably stable markets for the future. If for some reason or reasons you have a sudden slump in the world value of primary produce, no amount of budgeting, however carefully and meticulously the budget is drawn, can help you to pay your way. Nor can it help even the extremely careful and practical farmer who buys on figures based on present prices or any price average of past years. It is quite evident therefore that to bridge any gap of considerable difference between estimated and actual surplus an adjustment of some kind in the value of land has to be made. Let us remember then to accept the basis of productive value or economic value in its proper perspective, and recognise that it is at best an approximation made up of many items and factors very few of which have an exact basis; and at worst it may yield a balance or result which on paper appears sound enough but in practice comes out very badly indeed.

To emphasise my warning against relying on the term productive value as a panacea for all valuers' problems, may I quote from an excellent paper given by Dr O.C. Mazengarb, M.A., L.L.D., K.C., to the N.Z. Institute of Valuers, 25th November, 1942, "The Budgetary Method of Ascertaining Value." "Now the second method of arriving at the real value of a property is the budgetary method of capitalising the income to be obtained from the use of the property. This may be a fairly good test in the case of a building subdivided into shops or offices or factories, but it is not the test one should apply in any case where the cost of production depends partly upon the skill or ability of the person who is using the land or buildings. In such cases the budgetary method necessarily involves the capitalisation of the person's ability, capacity and ingenuity as well as the rental of the property. Where the personal factor comes in, the budgetary test is a very poor test to apply. It has been roundly condemned by various Courts in Australia. I was very surprised to note that, notwithstanding the strong condemnation of that as a test of value, it was the method adopted in the depression legislation of a few years ago. You might almost as well endeavour to arrive at the price of cold steel by capitalising the profits that you can receive from the price of razor blades as attempt to find out the value of land by using the budgetary method."

I conclude then by reiterating that "Productive Value" is not and never can be a complete and exact method of arriving at a valuation. It is based on so many averages that it can be a very dangerous method in the hands of any but the most experienced and commonsense valuers. "Selling Value" properly scrutinised over lengthy periods of rise and fall in the value of primary products is still a very valuable, perhaps the most valuable guide to valuers, and in giving true weight to the former method we must keep very closely in mind the concrete value of the last mentioned basis as a factor In arriving at fair and equitable value.

# New Zealand Rural Valuation Procedure

By J. BRUCE BROWN, Dip. Ag. (Lin.), F.N.Z.I.V.

This paper was one of three given at the Pan-Pacific Conference held recently in Sydney under the general classification of " Rural Appraisal." The other two papers were " Valuation of Ranch or Station Lands" by Henry T. Murray, M.A.I., and "Valuation of Grazing and Agricultural Lands in Australia" by M. J. Cronin, F.C.I.V.

## Historical

On 6th February, 1840, the Treaty of Waitangi was signed by representatives of the Maori race and Her Majesty the Queen.

In brief terms this Treaty provided that the Maoris ceded rights of sovereignty and they retained all their lands but could not sell these lands other than to the Crown. They were given the rights of British subjects and received the protection of the British Crown.

From this beginning, over 119 years ago, there has developed a country with up to the present time a predominantly rural background. In terms of money 98% of its exports have as their origin, the land, and by far the largest proportion are in their " raw" state, i.e., wool still in its grease, and beef, lamb and mutton carcases.

Thus we have the situation of New Zealand, some 66 million acres in extent, progressing from an undeveloped state over 100 years ago to a population of approximately 2,000,000 people, and for the year ending 30th June, 1958, exporting produce to the value of £269,425,000.

For the record the main items were:-

| | |
|---|---|
| Butter | 3,449,321 cwt. |
| Cheese | 1,825,525 cwt. |
| Frozen Beef | 1,988,046 cwt. |
| Frozen Lamb | 4,178,176 cwt. |
| Wool | 458,782,000 lbs. |

Apart from the early whalers and traders who acquired land from the Maoris in exchange for beads, red blankets, hatchets, muskets, and so on, the first Authority to purchase land was the New Zealand Company. When this Company went out of existence its unsold land reverted to and became vested in the Crown.

State leaseholds, as we know them today, did not come into operation until the passing of the Land Act, *1877.*

It was not until the 1890s, however, that the farming industry developed to a marked degree. At this time the frozen meat export trade was commencing and dairy produce was required in greater quantities. Arising from this a big demand developed for smaller holdings. The Land for Settlement Act, 1892, was passed and this enabled the Crown to buy back large estates, subdivide them, and re-offer in smaller areas.

As time moved on many Acts dealing with land were passed and later repealed until today we operate largely under the Land Act, 1948. Among its more important features is the right to freehold given to all Crown leases, with the exception of the Pastoral leases. The terms of these latter leases were improved too by granting the right of renewal not previously given and will be mentioned again in this paper.

I think it is fair to say that throughout the years, large amounts of cash have not been held by purchasers of farm land and consequently, there has always been a pressing demand for the smaller units on a leasehold basis. This, to some extent, accounts for the comparatively large number of Crown leasehold farm properties. However, areas held on a freehold basis are very considerable, and the following table sets out the tenures of farm lands in 1957:

| | |
|---|---|
| Crown land (including leases and licences) | 17,979,878 |
| Freehold (including land being purchased on deferred payments) | 21,613,570 |
| Leasehold (private) | 2,957,917 |

Looking at statistics from another angle, it is interesting to note that while the total

area of New Zealand is 66 million acres, in 1957 only 32* million acres were in production and 421 million acres " occupied." This difference between the total area and the area in krodoction, is mainly made up of land unsuitable for production as we know " suitability " today. Nevertheless, a recent utilisation survey of unimproved or totally reverted country has disclosed that there are 1,157,000 acres definitely suitable for development for farming purposes and a further 1,750,000 acres in a lower priority but capable of development in later years.

Approximately 150,000 acres of unimproved country is sown in " permanent " pasture each year; some 50,000 acres of this amount by the Crown.

The amount of unimproved land throughout the country has been introduced to give point to references to be made later.

## The Problem

As rural valuers what are the basic problems we are set?

Valuations require to be made under various Acts, the main ones being:-

The Valuation of Land Act, 1951-for taxation, local rating and other Government purposes.

The Land Act, 1948-for the administration of Crown land.

The State Advances Corporation Act, 1934-35, for State lending purposes.

These will be dealt with in more detail later. Meantime, I will refer briefly to certain other types of assessments required:

For compensation arising from the "taking" of land for various purposes.

For insurance purposes.

For private lending.

For private leasing.

For " classification " purposes (special rating areas).

For determining undue aggregation of land (Land Settlement Promotion Act, 1952).

For settling ex-servicemen of World War II at 1942 values. (The Servicemen's Settlement and Land Sales Act, 1943).

For vendors and purchasers.

## Valuations

Apart from compensation claims which are a specialist type of assessment, our valuations fall into two broad categories:

(i) Sale value, fair market or sight valuation,

(ii) Productive value followed by a Basic value.

(a) Sale Value:

The sale value or fair market value is generally accepted as the main method throughout the country and took specific form, for Government purposes anyway, with the passing of the Government Valuation of Land Act, 1896. This Act provided for the setting up of a separate Department of State altogether independent of the Land and Income Tax Department, charged with the duty of estimating the values on real estate in the Dominion for taxation and other Government purposes, and also local rating.

The Act provides, amongst other things, for definitions of the terms Capital Value, Unimproved Value, and Value of Improvements. The definitions existing today, for practical purposes have remained the same since 1902.

" Capital Value" of land for the purpose of this Act means the sum which the owner's estate or interest therein, if unencumbered by any mortgage or other charge thereon, might be expected to realise at the time of valuation, if offered for sale on such reasonable terms and conditions a bona fide seller might be expected to require. Or, in other words, "capital value" is the fair selling value at the date the valuation is made.

The general exclusion of improvements is required in certain cases, mainly for the purposes of local body taxation, and land tax. This necessitated a definition of the legal term "Unimproved Value" which is defined as the "sum which the owner's estate or interest in the land if unencumbered by any mortgage or other charge, might be expected to realise at the time of valuation, if offered for sale on such reasonable terms and conditions co a bona fide seller might be expected to

impose, and if no improvements (as defined in the Valuation of Land Act) had been made on the said land."

Under New Zealand law this means that any increased value attached to any piece of land which is due to the successful working of other lands in the district, to State expenditure on public works, to general expenditure on development of the country or to improvements in farm methods, form a portion of the unimproved value. Any increased value, however, which is represented by any work or money spent by an owner or occupier of that particular piece of land, does not form part of the unimproved value. It is necessary for the valuer in assessing unimproved value as defined in this legislation, to consider that area of land as if it alone had not been improved at the date of valuation, and to decide what would be its probable present condition supposing that no capital or labour had been expended on it by any previous owner or occupier, and then to ask himself what price the land in such condition would sell for in the open market, at the date of valuation.

So that relative uniformity is maintained in unimproved values the definition of improvements defines the "Value of Improvements" as the amount that " they add to the value of the land " and, of course, for them to add value to the land, the benefits from the particular improvements must not be exhausted at the date of valuation. The main effect of this is, that the particular type of improvement on land cannot effect the unimproved value of the land; that is, very costly improvements cannot depress unimproved values because unimproved values are related to other similar lands in a particular locality.

The Valuation of Land Act does not differentiate between urban, commercial, or rural land, its provisions apply to all land, the basis of the valuation and the parts of the valuation being identical in all cases. Overall the fair "market value" basis of value has worked satisfactorily over a long period of years.

The basis of this valuation work carried out by the Valuation Department is a constant flow of information supplied and recorded within the department. The department keeps up-to-date records of every property in New Zealand and every transfer of land and the price paid is recorded for each property. Consequently, the evidence of sale value which the Act requires is as complete as it can be. Details of leases are also kept up to date.

In each district cadastral plans are kept showing the properties which have changed hands, together with the prices at which they are sold. This is done for both urban and rural properties, the plans being specially drawn so that this information can be recorded on thRm. Records of cost of particular classes of improvements and work are kept up to date and form guides for valuers.

Practically all valuations made under the Valuation of Land Act are subject to appeal. In 1948 legislation set up the Land Valuation Court which has the status of a Supreme Court. This legislation provided for District Land Valuation Committees presided over by a local Magistrate to hear all objections to valuations and there is a right of appeal against the committee's decision to the Land Valuation Court consisting of a Judge and two assessor-associates. The decision of the Land Valuation Court is final on all matters other than points of law. Prior to this, a travelling assessment court heard most of the objections. The present procedure has proved satisfactory, more especially in having one Court to hear all differences on matters of valuation.

These "sight valuations" as they are often called in New Zealand, are usually broken up into "Unimproved Value" and "Improvements" and the improvements are itemised in detail. The sum of all these items represents the fair sale value. If it does not, then it must be assumed that some item or items have not been given a fair value to that particular piece of land, and the items should be revised to arrive at the correct value.

The "sight valuation" based on comparable sales, must always be the basis

of assessment for unimproved areas and those "uneconomic" areas where a productive value will not give a sensible answer. Because the value (as well as the standard) of non-productive improvements is important in arriving at a Basic Value by the productive method it is necessary to value and assess these improvements separately. It follows, therefore, that a sight valuation, is usually made even if the productive method is to be used.

(b) The Productive Method:

Being a country predominantly rural in background, it is perhaps not surprising that much thought has been given to a method of valuation based on what the land will produce. There are some 80,000 farmers and most of them are dependent on their farms for a livelihood. In other words, their farm is their business.

We are all familiar with statements giving us nett returns from businesses and rental propositions in the City and the use of these to assess goodwills and other considerations. Why not employ a similar approach to a farming business?

This thought took definite shape in a portion of s. 24 of the Mortgage Corporation (State Advances) of New Zealand Act, 1934/35, which stated, " Where the security consists of a mortgage of land used exclusively or principally for Agriculture, Horticulture or Pastoral purposes, the Board shall determine the value thereof for the purposes of this section by reference primarily to the earning capacity of such land" and following this, the system of productive valuing and consequent budgeting came into operation.

More recent Acts have enunciated the same principle-in particular The Servicemen's Settlement and Land Sales Act, 1943

The operation of this Act has exerted a wide influence on the method of productive valuation in this country. Over the first ten years of its operation many principles were argued before the Land Sales Court and the genuine interest in the system shown by the Court and its judgments have resolved many debatable points.

Briefly the principles we work to are:

(i) That the budget is compiled, having regard to a given standard of management, e.g., average efficient management.

(ii) That the assessed production is related to the condition of the land, rotation and pasture at the time of valuation, provided it has been farmed with average efficiency.

(iii) That the budget must assume perpetuity, i.e.-

(a) That the land and productive improvements are maintained in the condition envisaged in the budget and provision made for the maintenance and ultimate replacement of the non-productive or depreciating improvements, at the end of their utility life.

Note: That provision made for maintenance of the non-productive improvements should be directly related to their normal estimated utility life.

(b) That the capital stock remain constant in both numbers and quality.

(c) That capital amounts are not included in either expenditure or revenue items.

(iv) That it is assumed that all essential improvements and facilities are in existence, in operation, and commensurate with the estimated production and assumed management standard related to the particular class of property.

(v) That costs and prices used, all relate to the same date or period. (Assuming a date or period is stipulated).

(vi) That provision is made for reasonable remuneration for the work performed and services rendered by the farmer or any other person in connection with the production of the income.

(vii) That the full costs of any materials necessary for the adequate working of the property and not provided for in (iii) (a) above are included.

(viii) That the amount of rates, taxes and any special charges levied against the property are provided for and, if necessary, re-assessed on the basis of their continuing in perpetuity.

(ix) That a fair rate of interest is allowed on the value of any assets, other than land and improvements, employed in the production of the income.

(x) That the capitalisation rate of the surplus is fixed.

(xi) That for the purpose of the productive budget all properties including leaseholds, will be treated as estate in fee simple.

Having completed a productive valuation, certain adjustments require to be made to arrive at a fair value for the particular property.

If these adjustments are not carefully assessed the system fails and it is at this stage that judgment and practical experience is essential. I am satisfied that more discredit of the system has arisen in the past because of lack of understanding over these adjustments than any other part of the work.

The main reasons for an adjustment are:-

(i) The condition of non-productive improvements. In this case variations can arise on account of quality, quantity, or a combination of both, and apply usually to buildings and fences.

(ii) Trees and plantations-shelter, and timber values have to be considered.

(iii) Deficiencies of productive improvements, mainly of a temporary nature, i.e., they can be corrected within two to three years. Examples are drought and flood damage, grass grub damage to pasture, lack of fertiliser for maintenance.

(iv) Quantity and quality of crops.

(v) Factors inherent in a property, such as location or shape, " desirability," latent production, any special purpose other than that visualised in the budget.

(vi) Minerals and rights related to the property.

Today many of the main rural lending institutions insist on a valuation based on the productive system as well as a "sight" valuation. We all realise that there are many pitfalls in the method and that in the hands of the inexperienced it can be a dangerous weapon. However, handled with a sound knowledge of farming and understanding of the essential principles a much better "picture" for the propositon being valued can be obtained by those interpreting the report than if a sight value only is provided. There is no doubt too, that the valuer himself has a more detailed knowledge of the property after preparing such a valuation and, therefore, is in a better position to make a sound assessment of it.

A number of "quick check" systems are in operation, such as a unit value per ewe equivalent, or per lb. of butterfat, and while these methods have their uses they fall far short of a full budget of income and expenditure, and subsequent adjustments for factors related to the particular property but not truly represented in the capitalisation of the nett surplus.

## The High (Run) Country

In the South Island there is a considerable area of country known as the "High Country" which is essentially pastoral in utilisation. On many of these areas there is snow risk and because of this grazing is restricted to the summer or "safe" months of the year. Until their almost complete extermination over recent years, rabbits were a serious menace to the stabilisation of the land and in many localities production had dropped to an alarming extent.

These areas are, in the main, Crown land and on 31st March, 1958, the total area of 785 holdings was 9,260,000 acres. As the old leases expire these properties are being adjusted in area and new leases for 33 years with perpetual right of renewal granted, on the basis of rent directly related to carrying capacity. The new lease includes a stock limitation which can be reviewed on application from the lessee. By this method of assessing a "ground rent " it is confidently expected that the country will gradually improve, more particularly as improvements are owned by the lessee.

This particular method of tenanting and valuing the country is a modified form of productive valuation covering a considerable farming area and handled by four Pastoral Lands Officers under a Chief Pastoral Lands Officer. In this case the main factors taken into account when as-

sessing a fair rental are, management problems, altitude and aspect of country, snow risk, easy or difficult mustering, type of access and isolation, death rate, lambing, wool weights per sheep, distance from main centres, and noxious animals.

Having summed up these and any other relevant considerations the valuer then selects from a range of amounts varying from £40 to £200 per thousand sheep the appropriate rent.

### Valuation of Leaseholds

Because there are large numbers of Crown, Maori, and private leases, the valuer must become conversant with the valuing of land held under these tenures. The Maori and private leases in particular, vary in their special terms, e.g., no compensation for improvements, 75% compensation for improvements and so on. Consequently, special care is required in such cases.

### Land Capable of Development

I have already referred to the large areas of unimproved land capable of development into farm land. This can be in large areas or small parts of developed holdings. There are also the large areas of partially or newly developed land which have considerable latent production.

It can be argued that the sale value is fair value for such land but at the present time the total cost of development can be greater than the value of the area after development. Thus the valuer who is conscientious must be prepared to advise his client of the pitfalls that can arise from purchasing unimproved or backward country. It will be appreciated, therefore, that a valuer to be fully efficient, must be capable of compiling a full development programme with associated costs. To complete the " picture " he must be able to draw up annual statements of income and working and living expenses so that the client is made aware of the extent of "seasonal " losses incurred before revenue will balance expenses.

In the larger Crown development projects seasonal losses are usually made for the first five years and it takes a further five years to recover the accumulated deficiencies. A further period of farming is then required to wipe out any losses on capital expenditure, i.e., the difference between cost and value.

To complete the summary, it is necessary to make an assessment of the type and cost of stock and plant.

### Valuations for Loan Purposes

Valuing and reporting for loan purposes is a full-time occupation for many 'farm valuers, mainly within the Government service. The special requirements of their employers is a constant study for them and with productive valuations a "must" in many cases and the cost and revenue basis varying according to the requirements of the particular employers a close study of cost and price structure is essential. Over the past 20 years this specialist work has developed considerably so that today there is a wealth of statistical data available to those engaged in this work.

Latest statistics show us that for the three years 1956-58 mortgages totalling £108,000,000 were registered on rural lands; many of these would, of course, be renewals but a considerable proportion would require fresh valuations and reports.

Security margin requirements of those lending the money vary from 50% in some cases to practically none in others. In the latter case examples are:

(a) Loans to Maori farmers from the Maori Trustee.

(b) Loans to eligible ex-servicemen of World War II.

(c) Loans under the Marginal Lands Act, 1951.

In these three instances, productive values and assessments of potential production are important considerations.

### Tuition for Valuers

The importance of proper training of young men preparatory to entering the valuing profession was recognised by the Canterbury Agricultural University College in 1938, when a Special Course was started termed the Valuation and Farm Management Course. Prior to entry, it was necessary to have a good theoretical training in the subjects related to Agriculture as well as good all-round practical experience on farms.

This course has been an outstanding success and many valuers today have this background training. From earlier statements made in this paper it will be readily appreciated why this College training includes in the one course the subjects of Valuation and Farm Management closely knitted together.

Similar subjects to those taught at the College now form the basis for our Valuers' Institute examinations which are a prerequisite to entry into the Institute.

## Summary

The main tasks of the New Zealand Rural Valuer can be summarised thus:

He must be capable of-

(i) Completing a valuation based on comparable sales to arrive at a fair sale value on the date of valuation; this valuation must be broken up into its component parts.

(ii) Completing a productive valuation and converting it by adjustments to a basic value to represent a fair value.

(iii) Completing a sound practical development programme, together with costs and a seasonal budget.

(iv) Valuing many types of lessee's interests.

(v) Valuing for loan purposes where the assessment of the security offering becomes all important rather than just the sale value.

I have no desire to take sides on the question of Sale Value versus Productive Value methods. I have lived with both methods for some 25 years now and I am firmly of the opinion that each has its its advantages and disadvantages. Certainly for certain purposes each has its particular value and relative importance.

To correctly assess farm property is difficult enough at any time and any aids which can be evolved, be they quick checks or long checks on which to base one's opinion and to convey the thoughts to paper, are well worthwhile.

In Court work particularly, facts are important but considered opinion, supported by as much sound evidence as possible, can make a convincing case.

There is a Persian proverb which runs like this-" One pound of learning needs ten pounds of commonsense to apply it."

I feel that we could well apply these sentiments to our profession. Much has been written and spoken about systems and tuition in valuing and while one can agree that this up to a point is all necessary, we must all keep our feet on the ground and see that theory and systems do not give us an answer that does not make commonsense.

To broaden our knowledge must always be our objective and I welcome this opportunity to exchange views with so many from other countries-it is our first. Pan-Pacific Convention-I sincerely hope that it will not be the last.

# Have Rising Farm Land Prices Been Justified ?

*By Graham A. Halstead, Dip.Agr., Dip.V.F.M.*

A recent newsletter by the Rotorua-Bay of Plenty branch of the N.Z.I.V. asked for comments on the trends of dairy and sheepfarm prices in Rotorua County since 1962. Two main questions were asked:

(a) Why the prices of sheep farms have continued to accelerate?

(b) Why the dairy farms have not increased in price to the same extent as sheep properties?

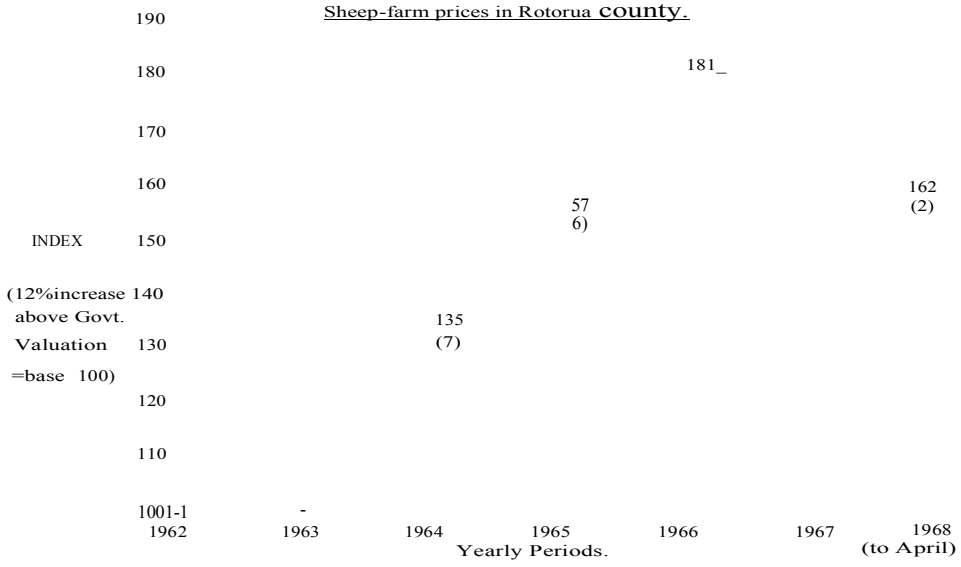
I have endeavoured to show in this article the reasons why farmers are prepared to pay higher prices for farms, and particular emphasis has been given to the effects of fluctuating produce prices and rising costs.

*A. Why the prices of sheep farms have continued to accelerate.*

*1. Trend of sheep farm prices in Rotorua County.*

The accompanying graph (Fig. 1) shows the relationship of sale prices to the Government Valuation in November 1962. The actual sales in 1962 averaged 12 per cent above the Government Valuation, and this ifgure has been used as a base to relate the sale prices up to 1968. The bracketed figures indicate the number of sales.

Fig,1.




The author of this article is a Rural valuer with the Valuation Department in Auckland. His contribution has involved considerable research and is a praiseworthy effort from an Intermediate member of the Institute. Though the basic data was collected nearly a year ago, it has still considerable relevance to today's conditions.

Only strictly bonafide sales of economic units have been selected, and the Registration dates have been used for the yearly classification. Properties that had been under extensive development between 1962 and the date of sale have been omitted. The graph indicates that the sheep farm prices have been increasing at a slightly increasing rate.

There were actually two sheepfarm sales registered in 1967, but it is considered that they do not represent the true market level and have therefore been excluded. One was a special-purpose sale at a fantastic price, and the other was actually negotiated in late 1966.

There have been two bonafide sales so far for 1968, and the index shows a falling off in the price level, but is still higher than the 1965 level.

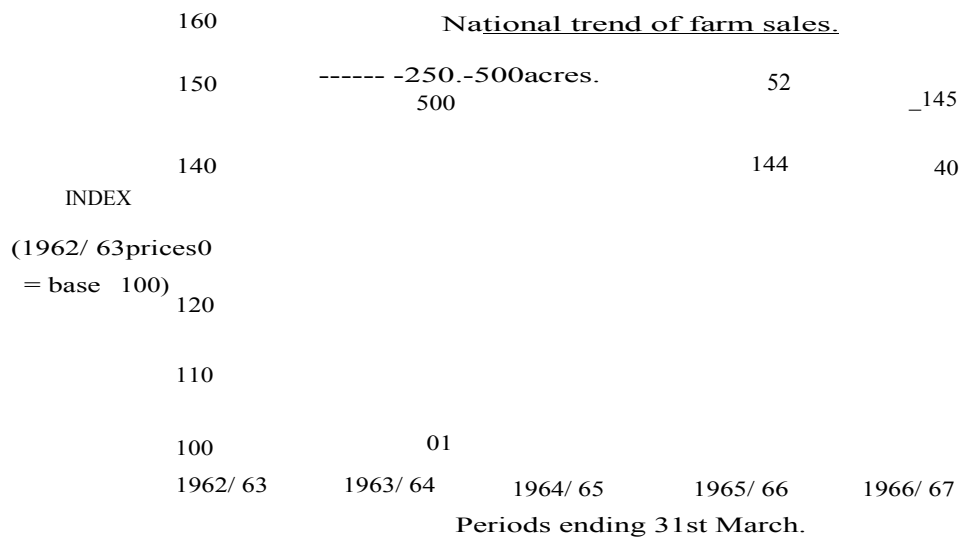
An examination of the individual sales would tend to indicate that there is a distinct preference for farming in the attractive Ngongotaha-Kaharoa area, and for the years 1964-5-6, the larger farms with development potential realised relatively high prices.

*2. National Trend of Farm Sales.*

In 1962-63, farms in the 250-500 acre range sold for an average price of $71.50 per acre, and for farms 500 acres and over, the price was $26.30 per acre. These prices have been used as a base in the accompanying graph (Fig. 2.).

Fig. 2.

National trend of farm sales.




It is interesting to note that between 1964/65 and 1965/66, the percentage increase of the smaller units was 8.5% compared with 21% for the larger units.

The trend for the larger farms shows greater fluctuation over the period under survey, and this would tend to indicate that these farms are more susceptible to changing economic conditions than the smaller family units.

The smaller units have steadied up in 1966/67 in the price per acre, and there is a distinct drop in the larger units.

The general trend throughout the country also shows a marked increase in sale prices for farms since 1962, with a signi-

ifcant jump between the periods ending 1964 and 1965. Although the trend has not increased to the same extent as the Rotorua sales, there could be several reasons for this added buoyancy in Rotorua:

(1) The majority of the farms have been developed for a comparatively shorter period than other parts of the country, and the progressive increase in fertility has been more significant.

(2) Improving technology has enabled the better utilisation of the free-draining pumice soils, especially in regard to stock health and topdressing requirements.

(3) Popularity of the Rotorua district as is indicated by the increase in population of Rotorua City.

(4) A favourable climate with a reliable summer rainfall for adequate pasture production.

*3. Effects of changes in stock and wool prices:*

The following table (Fig. 3) is a preliminary to a study of the changes in income for a hypothetical sheep farm in the Rotorua district. The prices have been estimated as closely as possible under local conditions.

Fig. 3.

Stock and wool prices for the Rotorua district.

| | 1962/63 | 1963/6h | 196t/65 | 1965/66 | 1966/67 | 1 6 68 |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| 5 year ewes | 3.70 | 4.60 | 6.oo | 6.50 | 3.50 | 3.50 |
| Cull ewes to 1,11orks | 2.50 | 2.20 | 3.50 | 2. 80 | 2.50 | 2. 50 |
| Fat lambs | 3.80 | 4.50 | 6.00 | 5.50 | 4.00 | 4.80 |
| Store lambs | 3.30 | 4.10 | 4.60 | 4.80 | 2.80 | 3.00 |
| Cull cows | 50.00 | 40.00 | 56.00 | 60.00 | 54.00 | 50.00 |
| Weaner steers | 32.00 | 42.00 | 56.00 | 60.00 | 40.00 | 40.00 |
| Weaner heifers | 28.00 | 34.00 | 44.00 | 44.00 | 32.00 | 32.00 |
| Wool (gross) | 33.3c. | 45.Oc. | 34.2c. | *33.3c.* | 28.3c. | 25.Oc |

The high price in 1963/64 for wool is a generally accepted reason for the immediate buoyancy of store price for stock.

The fat lamb price reached a peak in 1964/65 and dropped markedly over the next two years.

There has been a steady increase in the Beef Schedule up to 1965-66, and this must have had a pronounced effect over and above the high wool price year on store prices for weaners.

The year 1966/67 has been one of speculative gloom for the farming industry. Typical price decreases from the previous year were:

| | | |
|---|---|---|
| (a) | Wool | 16-20% |
| (b) | Fat lambs | 25-30% |
| (c) | Store lambs | 30-50% |
| (d) | Beef | 15% |
| (e) | Weaners | 30% |

The situation in 1967/68 has been similar to the previous year and it is obvious that the currency devaluation has helped to steady many farmers' incomes.

From the foregoing it is obvious what the effect is on the store sheep farmer on the larger hill-country farms when there is a drop in price for wool, beef, and fat-lamb. The more intensive farms on easier country that can fatten lambs and cattle,

and require comparatively less topdressing are therefore in a more stable economic position.

When wool and fat-stock prices are high, confidence in sheepfarming is increased, there is more money in the farmers' pocket, development is carried out and topdressing increased, with the result that the demand for store stock is very intense and the prices paid are not much less than for fat stock.

It is interesting to note how stable the dairy industry has been; the final payout price of cream by the N.Z.D.C. in 1966/67 was only 2% less than the previous year.

*4. Effect of Net Income fluctuations for a hypothetical sheep farm.*

Please see Schedule (a) and (b) for details of the hypothetical farm and the Budget of Expenses.

In the first instance I will show the correlation of income and expenses under a static situation of stock and production and then I will discuss the effect of increases in production.

Fig. 4.

Gross Income for hypothetical sheep farm in Rotorua district.

(less sellingcharges for stockand wool)

| | 1962/6 | 1963/6LL | 1968./65 | 1966 | 196647 | i-9-67Z6.8. |
|---|---|---|---|---|---|---|
| 211 Cull 5yr ewes | 750 | 932 | 1,214 | 1,314 | (0b | 706 |
| 20 Cull ewes | 50 | 44 | 70 | 56 | 50 | 50 |
| 865 fat lambs | 3,280 | 3,890 | 5,190 | 4,750 | 3,460 | 4,150 |
| 13 Cull cows | 650 | 520 | 728 | 780 | 702 | 650 |
| 36 weaner steers | 1,104 | 1,450 | 1,934 | 2,070 | 1,384 | 1,384 |
| 17 weaner heifers | 456 | 554 | 718 | 718 | 522 | 522 |
| 16,0001b Wool | 4,834 | 6,520 | 4,960 | 4,840 | 4,100 | 3,620 |
| | $11,124 | $13,910 | $14,814 | $14,528 | $10,924 | $11,082 |

The totals for Gross Income would indicate that the static farm was worse off in 1967/68 than 5 years ago. This becomes more significant when the Total Expenses are deducted to produce the Net Income.

*Net Income:*

The level in expenses for each year has been correlated from data analysed by the Economic Service and the hypothetical sheep farm budget of expenses for 1966/67.

Fig.5.

Net Incomes for hypothetical sheep fans.

| | 1962/63 | 1966 | 1966 | 1965/66 | 1966/67 | 1967/68 |
|---|---|---|---|---|---|---|
| Gross Income | 11,124 | 13,910 | 14,814 | 14,528 | 10,924 | 11,062 |
| Total Expenses | 10,060 | 10,060 | 10,310 | 10,620 | 10,980 | 11,500est |
| Net Income to farm. | $1,064 | $3,850 | $4,504 | $3,908 | $ -56 | $ -418 |

*SCHEDULE*

*(a) Hypothetical Sheep farm in Rotorua district.*

This is an undulating easy hill unit with a carrying capacity of approximately 5 E.E. per acre on an effective grazing area of 420 acres.

*Stock composition: (a static flock)*

1,300 Breeding ewe M.A. (Romney)
305 ewe hoggets
40 rams
80 Breeding cows (A.A.)
15 weaners - heifers
14 11 yr. heifers
3 Bulls

*Performances:*

90% lambing S. to S.F.
85% calving S. to S.F.
5% deaths in ewes
3% deaths in hoggets
All lambs fattened
10 lb wool per sheep wintered.
Culling ewes after 5 lambs plus 2% general culling.

*Sales:*

211 cull 5-yr. ewes
20 cull ewes
865 fat lambs - med. wt.
13 cull cows
36 weaner steers
17 weaner heifers
16,000 lb. wool.

*(b) Estimate of Expenses for Hypothetical sheep farm* 1966/67

*Fixed Annual Expenses:*

| | | |
|---|---|---|
| Rates | 400 | |
| Insurance | 80 | |
| Bookkeeping | 60 | |
| Phone and mail | 50 | |
| interest: | | |
| $20,000 T.M. at 6% = 1,200 ) | | |
| Current Account say 90 ) | 1,290 | 1,880 |

*Working Expenses:*

| | | |
|---|---|---|
| Casual labour | 100 | |
| Shearing and Crutching | 700 | |
| Farm stores and Vet services | 500 | |
| Feed - Lick and dognuts | 40 | |
| Power - farm share | 40 | |
| Topdressing: 3 cwt. per acre at $30 per ton) | | |
| Crop Manure: 20 acres at 4 cwt. per acre) | 1,920 | |
| Seeds - Crop and N. grass | 120 | |
| Fuel and Oil: Tractor 250 hours at 35c. | 90 | |
| Cartage - Stock, wool, general | 680 | |
| Haybaling - 2000 bales @ 18c. | 350 | |
| | | 4,540 |
| Repairs and Maintenance | | 560 |
| Noxious Weed Control | | 40 |
| Depreciation | | 460 |
| Stock Purchases: 10 rams at $40, 1 Bull at $3 00 | | 700 |
| Private Car allowance | | 200 |
| Wages of Management | | 2,600 |
| | | $10,980 |

*Capitalised Net Income.*

The Net Income has been adjusted by adding the interest charges.

The Capitalisation Rate is a very critical factor in determining the Productive Valuation of a farm, but it is considered that 6% would be reasonable for the Rotorua district.

Fig. 6.

Capitalised Net Incomes for hypothetical sheep farm

| | 1962/63 | 1963/6li | 1961/65 | 1 69/66 | 1 66/67 | 1 6 68 |
|---|---|---|---|---|---|---|
| Adjusted Net Income | 2,354 | 5,140 | 5,794 | 5,19 | 1,234 | 872 |
| Productive Valn. as a Going Concern: | $39,200 | $85,700 | $96,500 | $86,500 | $20,600 | $14,500 |
| Index (base=100) | 100 | 218 | 246 | 221 | 52 | 37 |

One cannot attach too much importance to the actual Productive Values because even a slight change to the Adjusted Net Income or Capitalisation Rate will produce a proportionately different set of Values.

However, the relationship established on the hypothetical sheep farm indicates that the Productive Valuation as a Going Concern in 1966/67 is half of that in 1962/63 and the estimate for 1967/68 is less again. The Productive Valuation reached a peak in 1964/65 of nearly two and a half times that of 1962/63.

No attempt is being made to correlate the Productive Valuation and actual Sale Prices, but it becomes obvious how dififcult it is to finance a farm with 60% borrowed capital under 1966/67 conditions. For example, if the hypothetical sheep farm could be purchased for $72,000 Going Concern, and the purchaser had to borrow $43,000 at 61% Interest on a Table basis for 35 years, the Net Income to the farm would show a deficit of approximately $2,000.

Established sheep farmers with a debt-free account will probably be able to survive the recession without reducing their standard of living or fertiliser applications. New improvements and development will no doubt be curtailed.

Recently established sheep farmers with considerable debt charges are taking the recession with surprising ease. This is because topdressing has been cut out in total on many farms, and with maintenance and development at a standstill. It is unfortunate for the pumice-land farmers with the more recently developed pastures because heavy fertiliser applications are necessary to retain the better species. It is considered that this type of farmer *cannot afford not to maintain fertiliser applications and increase stock numbers.*

*Variations in Production.*

The majority of sheep farms have increased production from higher stock numbers over the last 5 years and physical output increase of up to 20% are not uncommon.

An examination of the hypothetical sheep farm budget shows that the Total Fixed Costs amount to $4,450 (excluding Interest charges) and the Total Variable Production Costs amount to $5,240 (includes topdressing).

If the hypothetical sheep farm had increased its physical output and Gross Income by an extra 20% in 1966/67 the Adjusted Net Income would change from $1,234 to $2,370 which is equivalent to the Adjusted Net Income in 1962/63. Conversely, for a 20% reduction, the Adjusted Net Income would change from $1,234 to $100.

The above calculations show how important it is to increase production in the light of rising costs and depressed produce prices.

Several sheep farms in the Rotorua district are wintering 8-9 E.E. per acre, and this ceiling is likely to go up with ever-improving technology and better pasture utilisation.

*5. Effect of Development Concessions.*

With the impact of financial incentives since 1 April 1963, such as capital development being tax deductible without limit, special depreciation on farm buildings and machinery, special fertiliser concessions, and several others, it is understandable that land in the unimproved state or improved farms with considerable potential have increased in value at a greater rate than highly developed farms.

Many of the buyers of unimproved land are established farmers that have been in the high tax bracket, and businessmen who are recognising the prospects of tax-free gains.

Before farmers can use the development concessions to advantage incomes must be above their requirements so that surplus cash is released together with the considerable savings in taxation. The large increases in Net Incomes for the three years ending 1964-5-6, and the association of the phenomonal demand for bush and scrub lands would support this contention. The saving in taxation by spending money on farm development is therefore a community conferred benefit which has tended to increase the unimproved value.

*6. Farm Finance.*

The effect of generous development loans from the State to good farmers at relatively low interest rates must have been responsible in part for the buoyancy of land values, probably indirectly, although this is difficult to verify statistically. It has certainly encouraged development.

The previous upsurge in general farm ifnance lending is considered to be an expression of the confidence in sheep farming brought about by higher produce prices but not the cause. It is only a complementary factor to increased land prices in New Zealand.

*7. Conclusion:*

The reason why sheepfarm prices have accelerated during the years 1962-66 (inclusive), is the dramatic interaction of two main factors:

1. Increased prices for wool, beep, and fat lambs.
2. Higher production:

(a) From increased stocking made possible by the surplus funds from higher incomes and channelled into development.

(b) From better production technology such as thibendazole for worm control in lambs, correction of trace element deficiencies, and improved pasture utilisation techniques.

From a productive point of view, the justifiable high prices paid for sheep farms in recent years are not justified under the 1967-68 cost-price situation where the highest and best use is sheepfarming. However, past experience has tended to show that vendors are very reluctant to accept less than established price levels.

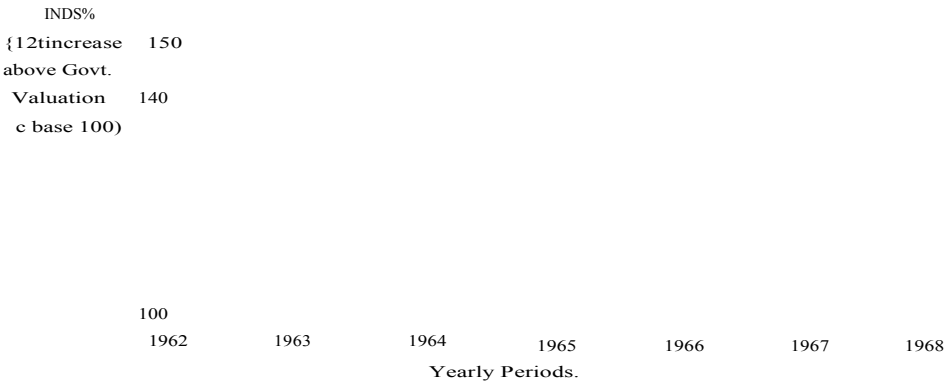
Other land districts have also experienced increased sheep farm prices but gen. erally not to the same extent. The popularity of the Rotorua district is borne out by the large number of purchasers from areas such as the Waikato and Hawke's Bay where land prices have been much more expensive on a Ewe Equivalent basis.

B. Why *the dairy farms have not increased in price to the same extent as sheep properties.*

*1. Trend of dairy farm prices in Rotorua County.*

The accompanying graph (Fig. 7) shows the relationship of sale prices to the Government Valuation in 1962. The actual sales in 1962 averaged 12 per cent above the Government Valuation, and this figure has been used as a base to relate the sale prices up to 1967. The bracketed figures indicate the number of sales.

The trend of sheep farm sales is also shown for comparison.




The trend of dairy farm sales shows that prices have been increasing at varying rates of increase. During 1964, the increase was at a lesser rate than the previous year but there does not seem to b any apparent reason for this. For the years 1965-66-67 the increase in prices advanced at a higher rate. This could have been due to the increase in butterfat price, and perhaps the announcement of a Casein factory to be built at Reporoa had an effect.

An examination of the individual sales again indicates a preference for farming in the Ngongotaha-Kaharoa area, but the desirability of the recently developed Rerewhakaaitu district is being expressed.

*2. Effect of Dairy Prices.*

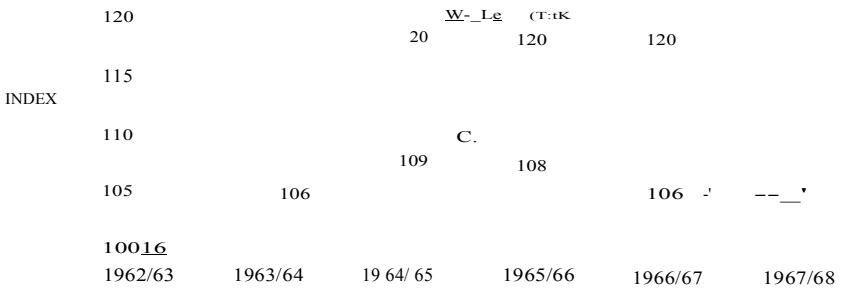
The accompanying graph (Fig. 8) shows the final Payout price levels paid by the N.Z.D.C. for Cream and Whole Milk.

In 1962/63 the price of cream was 27.7c per lb of butterfat - this equals the base 100 for the Index. The price for whole milk was 30.2c and this has also been taken as the base of 100.'

'Since this article was written the N.Z.D.C. announced the final payout prices for 1967/68. Cream totalled 27.5c which is slightly below the 1962/63 level. Whole Milk totalled 32.5c, dropping to the 1963/64 level.

Fig.6.

Whole Milk and Cream payout prices.




The graph indicates the superiority of Whole Milk production with its 20% increase in payout price since 1962/63.

The seasonal-supply dairying farms in Rotorua County are still on cream production and the change-over to Whole-Milk Supply does not commence till Spring 1968.

It would be reasonable to expect lesser rate of increase in dairy farm prices in thJ. Rotorua district than in areas supplying whole-milk, providing that all other factors retain their relativity.

*3. Comparison of the trends in dairy farm sales between Rotorua and Matamata Counties.*

Rotorua was revalued in November 1962, and Matamata in December 1963.

Because of different revision dates the sales in 1963 in relation to the Revision Values have been used as a base.

The sales of dairy farms in Matamata County have increased at a greater rate than those in Rotorua County, and it is apparent that the higher price being paid for Whole-Milk is a dominant factor.

Fig.9.

Relationship of dairy farm sales in Rotorua and Matamata Counties.

----- L. atamata County.
Rotorua County.

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There is a slight decrease in the level of dairy farm prices in Matamata County for 1967, but evidence in the adjoining Waikato Counties suggests that price levels have remained firm on the 1966 ifgures, however, the upward trend has been curtailed. The prospect of having the basic price for butterfat lowered, increased costs, and consequent lower returns, could have been an influencing factor here.

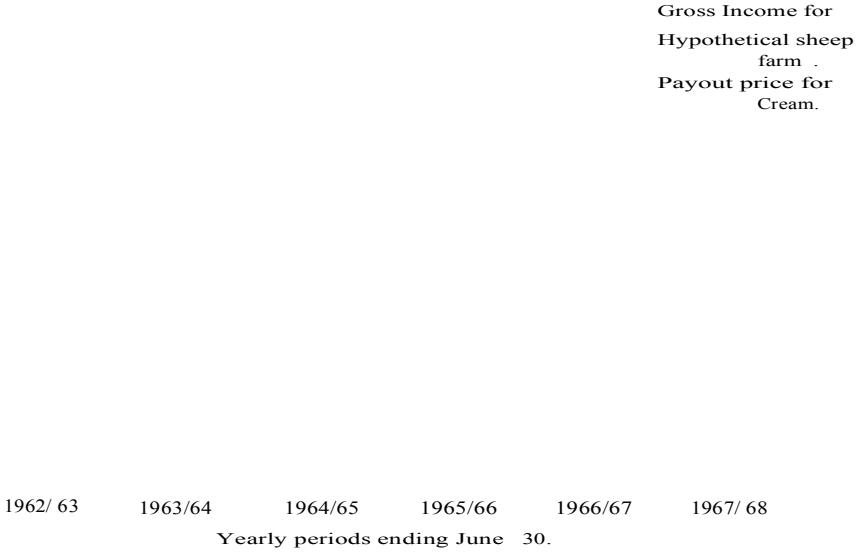
The trend of Rotorua dairy farm sales does not follow the downward trend of cream prices in Fig. 5 for the years 1965-67. The level for 1967 is actually equal to the Matamata sales. The previously high pig-meat prices up to April 1967, and the prospects of better returns for whole-milk after 1968 have probably been responsible for maintaining the upward trend of dairy farm prices in Rotorua County.

*4. Comparison of Sheep and Dairy farm produce prices.*

A comparison is shown in the accompanying Graph (Fig. 10) between the Pay-out price for cream and the Gross Income earned by the Hypothetical Sheep Farm which was calculated in Section (A).

Fig.10.

Comparison of Gross Income for sheep farm and pay-out price for Cream




A comparison of net income would be more significant, but the trend would be11 much the same, with the sheep farm showing a much higher peak, and the dairy farm showing only a slightly higher peak.

It is interesting to note that both trends show some degree of symmetry with the peak in produce prices in 1964/65.

It must be remembered that many sheep farms have increased production by up to 20%, and dairy farms up to 25% over the last 5 years.

The overall effect of changing produce prices, rising costs, and increases in production, is that the dairy farms have not reached the same high proportions of sheep farm net incomes.

*Conclusion:*

The effect of produce prices has again indicated some correlation with dairy farm prices. However, the effect of higher production, brought about by increased cow numbers and better farming technology, is evident in overcoming rising costs and increasing further the profitability of dairy farming, which has enabled dairy farm prices to rise.

The advent of tanker collection for whole-milk supply in 1968 has tended to show a marginal lift in dairy farm prices, but the full effect will not be expressed until the chore of keeping pigs is dispensed with and the higher payout price is realised.

The difference in value trends between sheep and dairy farms in Rotorua County would tend to strengthen the view that each parcel of land be valued for its highest and best use for both the Unimproved Value and the Capital Value.

Generally, dairy farms have not increased in price to the same extent as sheep farms because of the lesser rate of increase in produce prices, and that most of the increase has been made possible by higher production and improved technology, such as the Herring-bone cowshed.

*Outlook:*

The reasons for changes in land prices have been evaluated for the past, but what about the future?

Prices for land usually re-act more slowly to price drops than price increases for farm products, especially with the variations of "product mix" on sheep farms. The significant increase in price for fat-lamb and beef at the time of writing could do much to improve sheep farmers' incomes despite the continuing low wool prices.

Although dairy farm sales have dropped in volume in 1967, there is ample evidence to show that the prices are fully firm on previous levels. The recent announcement, that there are huge stocks of dairy produce being stored in Europe, would tend to indicate a gloomy future for the dairy farmer, but it is likely that continued production efficiency will at least maintain incomes and land prices.

In McMichael's Appraising Manual (4th Edition) Stanley B. McMichael says, "The value trend visualised by appraisers should not be a straight line but one regularly and conservatively yielding to the swing of prices of farm products and farm land, more or less feeling the pulse of general land value trends and tending to anticipate rather than follow land price changes". Many Rural Valuers will agree that this statement is often applicable when the land prices are buoyant through rising produce prices, but in the current economic recession it would be difficult if not unethical, to anticipate a lowering of land values merely because of lower produce prices, unless there was direct sales evidence, either locally or on a national scale.

Vendors are reluctant to drop sheep farm prices below established levels, and of the sales that are being transacted at present, it would appear that the purchasers are taking over with higher than usual equities, with vendor mortgages to complete the sales.

Some interesting points on the principles of valuation were discussed in the Oral Judgment delivered by Archer J. in The Trustees Executors, and Agency Company of New Zealand Ltd. v. Valuer-General which was reported in the N.Z. Valuer, March, 1968. In reference to the economic recession it is quoted, that "The substantial issue in this appeal is as to the effect on value of the current fall in the price of farm produce. There is no doubt that today this is a very serious factor, . . . This issue is undoubtingly affecting every Rural Valuer today. Further, reference is made to the difficulty in selling land, "..... the demand for land was falling off in October 1966 and that this might have affected the sum which the subject land would have realised if it had been put on the market at the time. This in our opinion justified the Committee in making a small reduction....." The report on the Judgment suggests that no sales were used

in evidence to support, either, the maintenance of value, or the reduction in value, of the subject property at the relevant date.

The difficulty in selling farms today through a lack of demand, can be likened to a situation in the normal years of land transfers, where a vendor is asking a higher price than average for a similar property, but he eventually sells his property (probably to a purchaser with a larg;, cash deposit) after having had it on the market for some considerable time. In the absence of direct sales evidence this situation could probably substantiate a reduction in values, but the difficulty remains as to what reduction should be allowed.

It may be possible to anticipate value trends in the future, if more extensive research is undertaken on historical land price trends, and some correlation with overseas trends may prove interesting.

If the current economic recession continues, it is possible there will be a drop in land prices for sheep units, but these might be forced sales such as mortgagee sales or estates with no provision for Death-duty taxation. However if through forced circumstances, properties are put on the market during this unfavourable economic climate, the prices realized would presumably constitute value if sold within a reasonable period of time and normal terms for the particular type of property.

In the long run it is likely that the sheep farms will undergo a major economic change. The smaller highly improved farm may change to dairying with a supplementary enterprise such as the rearing of "dairy-beef" animals. The average sheep farm is likely to get caught up in a technological revolution:

1. There may be an increase in the size cf units to spread overheads, and allow the greater economic use of mechanisation. This is taking place on a dramatic scale in U.S.A. - apparently, over 50% of land sales are going to expanding operators.

2. Instead of the 1000 ewes per man with a 100% + lambing, 2-3,000 ewes per man may be commonplace with farmers being content with 85-90% lambing.

3. The number of rams per 100 ewes may drop from the customary 3 % to the sufficient 1-11%.

4. We may see the diminishing use of the `brick wall' 7 wire battened fence with 8 inch posts, and a change to the `Pearse' fence costing only 45-50% of the former.

5. There may be better utilisation of the grass grown, just like the dairy farmer is doing by putting more cows on and delaying calving.

6. Planning of development programmes may be more carefully prepared such as having the stock available to utilise the extra grass grown.

All these factors, along with many others, will tend to stabilise the price of land in a period of low produce prices.

It may be asked why people buy farms, especially when produce prices are low, or when the price paid appears grossly inlfated from a productive point of view. There is no doubt that farming provides independence and personal satisfaction. Many will say it is a `way of life' for a man and his family. This is probably correct, but most farmers know only one skill, that is, growing pasture and crops, and shepherding stock.

It is surprising how many purchasers of land do not consider its interest-earning capacity. As long as the farm produces enough revenue for a satisfactory standard of living, this would appear to be the main consideration; this also being an incentive for increasing production. This is borne out in numerous examples throughout the country - two farms side by side with one of them much larger than the other, but only achieving the same total production. Further, we find semi-retired

(Continued on page 378).

(Continued from page 367).

sheepfarmers with large sums of spare cash willing to purchase sub-economic sheep farms handy to a main centre just to maintain their farming interests. Many of these sub-economic sheep farms would be more economically suitable as dairy farms or in intensive cropping.

Farming today is a most skilled occupation, and is getting more complex. In the future the farm will have to be treated more as a business enterprise, with a satisfactory net income being the main goal, otherwise the inefficient farmers will be forced out.

*ACKNOWLEDGEMENTS:*

*1. I wish to express my appreciation to Mr P. E. Tierney, Rural District Valuer, Valuation Department, Rotorua, for his constructive remarks on the presentation of* this *paper.*
*2. I wish to thank Mr R. R. Atkinson, Supervising Valuer, Valuation Department Hamilton, for supplying statistical data relating to property sales, and also Mr* I. *Holmwood, District Appraiser, State Advances Corporation, Rotorua, for his assistance on stock and wool prices.*

*REFERENCE:*

*Annual Reports by the Economic Service of the New Zealand Meat and Wool Boards.*

# URBAN VALUATION

ARTICLE 1 VALUATION OF CITY PROPERTIES by J W JENKINS
Reprinted from *The New Zealand Valuers'Bulletin* March 1944, Volume 3, No 1, page 6.

*At the time of writing John W Jenkins was City Valuer for Wellington City Council. Apast chairman of theWellington branch, he* was *an active member of the NZ Valuers' Institute.*

ARTICLE 2 SOME NOTES ON URBAN VALUATION by L E BROOKER
Reprinted from *The New Zealand Valuer,* June 1950, Volume 8, No 2, page 45.

*A regular contributor to the NZ Valuer, L Brooker was active in NZ Instituteof Valuers affairs being an original councillor, Foundation member and an associate of the Wellington branch.*

ARTICLE 3 DEPRECIATION by H A WITTY
Reprinted from *The New Zealand Valuer* September 1951, Volume 9, No 3, page 115.

*A formerDeputy Valuer GeneralH Witty was co-author of the initial series of notes predating and forming the basis of the Institute's first textbook, Principles and Practice of Urban Valuation in New Zealand.*

ARTICLE 4 THE VALUATION OF INDUSTRIAL LAND by J D MAHONEY
Reprinted from *The New Zealand Valuer,* March 1954, Volume 12, Nol, page 34

*J D Mahoney was a former supervising valuer with the Valuation Department, University Lecturer in Urban Land Economics and author of the Institute's textbook, Urban Land Economics. He was a Foundation member of the NZ Institute of Valuers.*

ARTICLE 5 THE DETERMINATION OF UNIT FOOT VALUES by R J MACLACHLAN
Reprinted from *The New Zealand Valuer,* June 1955, Volume 13, No 2, page 17

*AlifemeMber oftheNZInstituteofValuers,R JMaclachlan was a former chairman of the Wellington Branch, served on the national Education and Executive Committees and as Dominion President. A former Valuer General, he was Director General of Lands when he retired in 1974.*

ARTICLE 6 THE VALIDITY OF SQUARE FOOT METHOD by A G STEWART
Reprinted from *The New Zealand Valuer* December 1967, Volume 20, No 4, page 177{

*AWellington practitioner ofmany years standing, a regular contributor to the NZ Valuers' Journal and participant in seminars, Arthur Stewart was recently appointed to the Valuers' Registration Board.*

ARTICLE 7 SPECIAL ASPECTS OF COMPENSATION by S L SPEEDY
Reprinted from *The New Zealand Valuer,* September 1979, Volume 24, No 3, page 194.

*Squire Speedy is a well known Auckland Public Valuer, a prolific author, and former lecturer atAuckland University.*

ARTICLE 8 CURRENT COST ACCOUNTING AND THE VALUER by R M MCGOUGH
Reprinted from *The New Zealand Valuer,* March 1982, Volume 25, No 1, page 11.

*Bob McGough is a life member and former President of the NZInstitute of Valuers and a sitting member of the Land Valuation Tribunal. He is currently a director of C F Bennett, Valuers, Auckland.*

# VALUATIONS OF CITY PROPERTIES.

By J. W. Jenkins, A.N.Z.I.V.

(Address delivered to the Wellington Branch of the N.Z. Institute of Valuers.)

One of our previous speakers reminded us that Julius Caesar found it convenient to divide all Gaul Into three parts, and in dealing with this subject of valuations of city properties I intend to follow the good example set by Julius Caesar and Dr. Mazengarb.

The three parts I intend to speak on are:-

(1) The valuation of land.

(2) The valuation of improvements.

(3) The capitalisation of net profits.

The word "land" in law includes improvements.

This rather confuses the issue from a valuation point of view, so I will turn to the definition of unimproved value in the Valuation of Land Act of 1925, which by the way is very similar to the New South Wales Act. The definition there is "the sum which the owner's estate or interest therein if unencumbered by any mortgage or other charge thereon might be expected to realise at the time of valuation if offered for sale on such reasonable terms and conditions as a bona ifde seller might be expected to impose and if no improvements had been made on the said land." That is of course sale value. A good valuer will therefore start from the title and ascertain first of all whether it is freehold or leasehold, and then he will find out the actual encumbrances on the title. They may consist of any of these things-mortgages,. leases, life interests, taxation and other charges, liens, rights-of-way, building lines, trusts, light areas, easements and statutory restrictions. The next step is the recognition of boundaries. House number (if it is a suburban valuation) is not sufficient or at least it should be taken with reservation. Actually the survey pegs should be located if possible and sometimes it is a very difficult search indeed, but if it is possible to locate survey pegs it should be done. In reading about valuation practice in Great Britain, we come across the profession of "Surveyor-Valuer" seemingly performed by one person. In New Zealand the surveyor is a separate profession governed by quite strict and involved set of survey regulations, and the valuer has been inclined to lean rather too heavily on the surveyor, in my opinion. Actually, a valuer should be proficient in reading a survey plan, distinguishing between linkages, bearings, traverses and offsets, and should the occasion arise he should be able to calculate areas.

Just a word or two about field notes. Having located the correct property, and having identified the boundaries, the next thing to do is to take notes in the field. It is better to be redundant in these notes than to leave something out. The notes written on the spot will of course always be of far greater value than those which are jotted down afterwards from memory. The next thing that is necessary is a note of any irregularities in levels, the aspect of the property and particulars of all improvements.

A valuer is entitled to know before he starts a valuation the actual purposes for which the valuation is required. It may be for mortgage purposes, in which case he will probably have to report on the personal factor in the mortgage. For sale purposes he may have something to say about the progress in the locality or the expected progress. Then there are valuations under the Fair Rents Act, and we all know the difficulties with which we are confronted in Fair Rents Act valuations. Or if the valuation is required under the Public Works Act he will probably have to be wary of severance, injurious affection and quite a lot of other things. Armed with this information, the valuer should then apply the unit system of valuation.

The Unit System of Valuation.

Most of us are used to the unit system, but for those who are not I would like to explain that if we examine the plan of any city we find that there are many irregularities In the survey of it, such as irregular depths, sections cut on the bias, and boundaries not at right angles. There are so-called axe-handle sections with large back areas and small frontage, triangular sections and various shaped areas. The unit system squares them all up. As an example, take a section of 200 ft. depth at right-angles to the street alongside a section of 80 ft. depth. A unit of 1 ft. x 100 ft. is taken as a standard and tables are compiled from every available source of information to show what variation in value per foot above and below the 100 ft. of depth should be allowed. The question is what is the difference in value per foot of frontage between the 200 ft. of depth and the 80 ft. of depth. Using the Cleveland Standard Table and taking £100 unit, the 200 ft. depth section will be valued at £122 per ft. frontage and the 80 ft. £90/9/- per ft. frontage. From this method back land can be given a value. That is to say, in this particular instance the back portion of the deep section in excess of the shallow one is worth £31/1/- per foot of width.

The application of this method involves three things-firstly, analysis of comparable sales; secondly, fixing the unit; thirdly, applying the unit. Each of these three headings is a subject in itself, but with the limited time that we have I propose only to refer to them briefly.

First of all, analysis of comparable sales: It is as well to remember in sales that interest rates have a big bearing. One could picture a pair of scales-one side for interest and the other prices. As one side goes up the other goes down, and vice versa. Firstly, one must be careful of the authenticity of sales. We do not accept approximate prices or newspaper reports. Last Saturday there was a report of a sale in Manners Street. It gave the approximate price, the approximate frontage and left one to imagine that Manners Street was worth £800 per foot. They had omitted the fact that it had a side frontage of 160 ft. and a substantial building on it. One must be very careful of the data, and records should be kept which are easily referred to. A valuer should not hesitate to go outside the actual locality in which he is working to search for further comparable information.

Improvements should, of course, be allowed for and the resultant value taken as the value of the land. That resultant value is then reduced to the unit simply by using the tables on the depth shown.

In irregular sections a little bit more has to be done. My advice in regard to irregular sections is to work the problem backwards. In other words, to apply a £10 unit to the actual section sold and having obtained the result the actual unit can be obtained by making a pro rata sum, example (£]0 unit=£500
l. x =sale price.

Individual buyers go to a lot of trouble over purchases. We hear of catch-trade streets. There definitely are catch-trade streets in any large city, and buyers-I do not know so much about in this country, although it has been done, but certainly overseas buyers take a traffic count of the number of people who pass a certain locality in a given time. Of course it does not always follow that the value is influenced by the volume of traffic. It is actually the number of buyers passing a given point that make the catch-trade values.

All these factors are reflected in sales. In fact, they are the stuff of which sales are made. Attempts have been made to control sales to a certain extent. Local authorities have town planning schemes in which zoning is supposed to assist eventually in stabilising values in various localities, one locality being manufacturing, another residential, and so on. Sales are also effected during booms and during war conditions. However, a valuer is not expected to be a prophet. He can only take the sales that have actually occurred. He cannot allow for any intangible future boom prices. We all remember the prices after the last war-the sky was the limit-with quite a gallop in sales which were eventually reflected in land values. and we are also rather apprehensive about what is going to happen after this war. Insofar as the control of sales is concerned, continental countries have endeavoured in the past to exercise control by putting a levy on any sales over a certain amount. That was prior to this war. In New Zealand all the Government asks in connection with a sale is that the man who buys-not the seller-pays 22/- per £100 stamp duty. I do not think it is fantastic to suggest that a method of control of boom prices would be to make every property sale of a certain percentage above the Government valuation subject to a new valuation when registration is being done and that the vendor be taxed on that extra boom price which he did not create himself. This sounds like control of the yard stick of values, but it

is actually in everybody's interest that booms and slumps should be flattened out as much as possible and that prices even if they are rising should be controlled.

In fixing the unit there are several things to note. Primarily good plans are essential. It is wise to enter sales on the sections and the units on the streets of the plan, to discount units derived from forced sales, and then to weigh up the data when entered on the plan and finally to merge the units so that they will not be harsh or out of proportion. In applying the unit accuracy is essential. Odd inches and decimals in high values amount to quite a lot. In irregular areas the triangular method based on zoning or the Somers unit system should be used. It is well to remember there are only two factors which count in valuations-frontage and depth. Area or per sq. ft. method of valuation is a pitfall and a snare.

I would accept corner influence with reservations. It stands to reason that the more corners the less corner Influence. In Wellington part of the city has a large surplus of corners, i.e., reclaimed land having cross streets every 2] chains along Lambton Quay, while on the other side there are long blocks without any cross streets; and In making calculations in any area, where there Is a redundancy of corners, one should accept corner Influence with reservations.

One must also remember that the unit is on grade with the street. That Is to say, allow for filling In or excavation. In reclaimed or built-up land extra foundations must be allowed for except in large reclaimed areas where the sale price, probably taken from adjoining reclaimed land, has already reflected the extra cost of foundations. In other words, a man haying a section of reclaimed land In Wellington knows full well that he has got to go down 30 feet or more for the foundations of a building, and he allows for it in his price.

It has been said that the unit system is an exact science, but I do not think that is so. The valuer would in that case be reduced to the position of a mere accountant, which is not nearly so interesting a profession.

To recapitulate: Start from the title, locate the property accurately, keep good field notes, fix the unit carefully and apply it intelligently.

Second Division-Valuation of Improvements: The thing to remember is that cost is not value. Examples are numerous such as a Church having a special purpose value to the congregation. Private schools are in the same position and a building of fantastic design has its full value to its original owner only. Situation has a lot to do with it. A £5,000 dwelling in a poor locality would not be worth what it cost in the open market. Another thing is statuary and "marble halls" in big city buildings. To quote a building well known to you all, the A.M.P. building. As a new building it cost £218,940. Out of that sum there was £10,000 for marble and a sum of £1,350 for statuary, up on the top of the parapet. That is cost, but definitely not value. The general rule is "replacement value of building less depreciation for age." A problem here is the replacement cost of the old type of brick structure which is not now built, but with a little introspection the difference in value compared with modern construction can be allowed for. The methods used are: (1) the price per sq. foot on external area; (2) price for cubic foot; (3) price per sq. (10 ft. x 10ft.) of the various types of work in the building, and finally (4) by quantity survey. Quantity Surveying, however, is not a valuer's job. In a dwelling perhaps quantities should sometimes be taken out, but definitely a valuer should not be expected to take out quantities in large modern reinforced concrete buildings.

The rate per square foot is determined by analysis of ruling prices. The data should be tabulated and checked from time to time. The rate varies with the total area, particularly in regard to dwellings. I have some figures here taken out in January, 1942. These are dwellings (Auckland prices) :-

| | |
|---|---|
| 1,400 square feet | 21/- |
| 1,300 " | 21/3 |
| 1,200 " | 21/9 |
| 1,100 " | 22/3 |
| 1,000 " | 23/- |
| 900 " | 23/9 |
| 800 | 24/9 |
| 700 " | 26/- |
| 600 " | 27/7 |

These figures show there is a range in price per square foot depending on the total area and value. However, it does not apply to the same degree in large city buildings. The reason is that there are certain essentials which

are found in any size dwelling. Hot water, drainage, chimney, copper and so on, are required no matter what size the dwelling. In large city buildings the variation is not so apparent, so that a list tabulated and added to from time to time is a very good guide to actual cost and value per square foot of city buildings. A working knowledge of plans and specifications and materials is very useful, almost essential, if one is to analyse cost of buildings. Also one must be accurate in taking of quantities, and areas, and in measuring up on the building itself.

The relationship between unimproved value and improvements is quite an important point. In central city land the building should be at least 1J times the value of the site to be an economical proposition. Maybe there will be some other opinions about that. One should also watch the Municipals Corporations Act restrictions in valuing a building in regard to open spaces. In Wellington we must also discount the old masonry structures without reinforcement. Plenty of them are in splints at the present moment owing to earthquake damage. Those structures which have been poorly designed or have no reinforcing are definitely to be discounted on top of the ordinary depreciation. Depreciation and obsolescence must be allowed for. This varies from 1% in modern well designed reinforced buildings in good locations to 5% or even more in wooden "temporary-permanent" structures. In this way we give one a physical life of 100 years and the other a life of only 20 years. Depreciation however should leave as value at least one-quarter of the replacement value if the building is occupied and giving a rental return. Another thing to watch in design is waste or unlettable space. Some city buildings have a lot of waste space, up to one-third of the total area. Others of similar area have a far greater degree of lighting and utilisation of space and therefore have a higher value.

Capitalisation of Net Profits: In general this means "allow for the outgoings, and then find the sum which will produce the balance annually at so much per cent." I want to quote here Zangerle-"Nett income is a matter of book-keeping and generally is subject to challenge." In other words, a man has three balance sheets, one for himself showing the true position, one (for the Income Tax Department) showing a loss, and one (for his creditors) showing a profit. I would like also to quote Rich J. In Jowett v. Federal Commissioner of Taxation, an Australian case. Rich J. said: "If one capitalises the profits of the operations carried on upon the land, and then makes certain deductions, the residual value is the capital value of the operations and not the unimproved value of the land. In the operations are involved personal exertion, experience, and skill, and no allowance is made for the value of these matters. If these were separated out, the capitalisation process might more nearly approximate to the unimproved value. In setting to work to capitalise what can be made out of the land, you overlook the fact that the problem set is to ascertain the realisation value or how much capital is locked up in the land."

Capitalisation of net profits is of course an excellent method of checking a valuation, but except in the case of monopolies I would not use it as a primary method. The margin for error is greater than in the valuation of land plus the valuation of improvements. For example, the allowance for outgoings-rates, depreciation, repairs, maintenance, insurances, lifts and lift attendants and lighting. These factors vary with different buildings. Office buildings would have a different set to factories and residential flats would have a different set to office buildings. Another thing is the question as to the percentage to be used in capitalisation. Ground rents are negotiated as low as 3J%. A modern concrete building on a good site I would capitalise at 5% to-day. For condemned wooden buildings in poor positions one would have to use up to 10%. The method is controversial at the present time and there are people who say that it is the prime method, and that a property is worth only what it will produce. If this were true vacant city land would be worth a minus quantity. Probably it should be said that a property is worth what

it would produce if fully developed. There are too many "ifs" here. It reminds me of the saying, "If we had some ham we'd have some ham and eggs if we had some eggs."

I am not a rural valuer, but so far as rural land is concerned I have several types of property in mind which if valued on returns would not appear to me to be the correct method. One is a bee farm with 500 hives and a couple of acres, earning, say net £1,000 a year. Another is a poultry farm in a somewhat similar position, or a flat area used for mustering on a hilly sheep station.

With monopolies such as hotels, gas or electricity supplies and tramways, I would employ the method of capitalisation of super profits, which is not exactly net profit. Partial monopolies such as petrol stations, dairy licenses. etc., also should have some additional value added for their partial monopoly. We should also be careful to divorce goodwill from the actual property. It is a personal thing and leaves the property with the vendor.

Finally, when an artist Is painting a small detail in a large picture he steps back and sees that it is all in focus. In the same way a valuer, having completed a valuation, should make sure that it is in harmony with the surrounding properties and that it fills the correct niche in the general scheme of things.

# SOME NOTES ON URBAN VALUATIONS

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(Paper read at the Annual Conference of the New Zealand Institute of Architects-March, 1950.)

1. Among the incidental work frequently expected of Architects is the valuation of urban properties. They are asked to assume the role of valuers, and immediately move into a field which spreads far beyond their everyday work. It is hoped that this summary of the more important phases of urban valuation work will be of some assistance to members called upon to carry out such work.

IMPORTANCE OF VALUATIONS:

2. The importance and extent of valuing work is not generally realised. Dependable valuations form the base of a large proportion of our economic structure. Without them the whole of our mortgage set-up, on which building is so dependent, would be impracticable. Rating and taxation systems have always been entirely dependent on fair valuations, and in recent years we have had the spectacle in this, and other countries, of vast numbers of valuations arising from inflation checking legislation such as our Land Sa1c3 Act.

3. The number of land valuers in New Zealand is round about 1,000-considerably more than the number of architects. About half of them are in government employ, mostly in the Valuation Department and the State Advances Corporation. Each of these organisations employs about 100 urban and 100 rural valuers, together with their assistants, the Valuation Department mainly on Rating, Land Tax, Death Duties and similar work; the State Advances Corporation mainly on lending valuations. The other half of the valuers are in private practice, and generally closely associated with land agency work. Valuers are about equally divided between urban and rural work and in New Zealand there is a far sharper division betwen these two branches of the work than in other countries. It will be realised that there is a very considerable volume of valuation work, proceeding for the main part quietly and continuously throughout the country, and only coming forcibly to notice when rate demands are received or when Important compensation cases are heard before the courts.

LEGISLATION:

4. Most valuations are prepared for Court actions, or are subject to appeal to Courts, or are controlled in some way by legislation. It is desirable therefore to note some of the provisions of the various Acts affecting valuation work.

5. The most important is the Valuation of Land Act administered by the Valuation Department. It places on the Department's District Valuers the onus of producing and maintaining a Valuation Roll for each City, Borough, Town Board and County in New Zealand. Each valuation roll has to be completely revised at intervals of not more than five years, and between revisions it is kept up to date as notices of transfers, added improvements (mainly from information in Local Body building permits), subdivisions and other transactions affecting values are notified. The Government Valuation Roll is the basis on which rates are levied by most local bodies, and on which land tax, death duties, and similar payments are determined. The District Valuer's valuations are subject to appeal to the Land Valuation Committees by the local body concerned, or by the owner of the property, or by any other property holder in the local body who may be interested enough. The Land Valuation Committees replaced the older Assessment Courts in the Land Valuation Court Act of 1948, mainly with the idea of securing uniformity in decisions. It is interesting to note that, prior to the introduction of the Land Sales legislation, all appellants claimed that the Government Roll values were too high-they sought a reduction in rates; now the appeals are equally divided between those who consider them too high and those who fear that too low a valuation will adversely affect a future sale. (1. This was written before the Regulations of 23.2.50 were gazetted exempting all urban (not rural) land from the control exercised under Part III. of the Land Sales Act.)

6. The Valuation of Land Act introduces the definitions of Capital Value, Unimproved Value and Value of Improvements under which the District Valuer works. It is these definitions and the case law arising from them which binds the District Valuer to consider mainly "comparable sales" in making his valuations.

An important point in the definitions is that the value of improvements (architects will normally be mainly interested in the improvements) are the "added value which *they* give to the land," i.e. they are the difference between the capital value and the unimproved value. In effect, a valuer is instructed to determine the capital value of the property as a whole, deduct the unimproved value, and the balance is the value of the improvements. This is very different from determining the value of the land, determining the value of the improvements by some independent method and adding them together to reach the capital value. In furtherance of this idea, it is unethical to take a valuation of the land from one valuer and the value of the improvements (as distinct from their replacement cost) from another valuer, and put up their summation as the capital value.

7. Closely associated with the Valuation of Land Act is the Rating Act. Under it a considerable volume of valuing work is done for local rating on "Annual Values," sometimes known as "Rental Values." The thirty-two Local Bodies (see below) using the system include notably Auckland and Dunedin City. These local bodies 'prepare their own Annual Value Valuation Roll (though a Government Valuation Roll exists in addition) and generally employ their own valuers. There is a right of objection in the case of Annual Value assessments to Assessment Courts set up under the Rating Act. In some overseas countries, including Great Britain, annual value rating is almost universal.

The numbers of local bodies rating under the various systems (1946) are:-

| | Capital | Annual | Unimproved |
|---|---|---|---|
| Cities | - | 3 | 10 |
| Town Districts | 13 | 3 | 13 |
| Boroughs | 19 | 18 | 4 |
| Counties | 65 | - | 50 |
| Others (River Boards etc.) | 88 | 8 | 145 |
| Totals | 185 | 32 | 222 |

8. The other two systems of rating, Capital Value and Unimproved Value are both based on Government Roll values. Unimproved Value rating is almost peculiar to New Zealand and a source of considerable interest in overseas countries, particularly among the "single taxers." There are some 222 bodies in New Zealand rating on unimproved values, including Wellington and Christchurch cities.

9. Of widespread interest in recent years is the Land Sales Act. This has brought many architects before the Courts as witnesses on matters of value. Under this Act, rural valuations have to be on the "budgetary" system, but there is no stated method of valuation for urban valuations. As a result the definitions and methods of valuation arising from the Valuation of Land and Rating Acts generally apply to urban valuations. However, Land Valuation Committees have wide powers in determining their "basic" values. Theoreti. cally they consider the property as it was a- 15.12.42 and "increase or reduce by such amount as the Committee deems necessary to make it a fair value for the purposes of the Act." In general they add the fair replacement cost of any improvements added since 15.12.42 and there is a tendency for these Committees to emphasise replacement cost less depreciation as their basis of valuation.

10. Other Acts make passing reference to valuations. For instance, the Public Works Act requires certificates of value from certain officers when land is being taken for public purposes-some of the most important litiga. tion relating to valuation has resulted from Public Works compensation cases. In the Trustee Act there is a requirement forcing the employment of "competent" valuers when money is being invested in particular circumstances. These investments will frequently include buildings.

11. In addition there is also a considerable amount of case law built up over the years in New Zealand, Great Britain and Australia. On account of the similarity of their legislation and systems of land tenure the Australian cases are particularly interesting. For instance, it has been found necessary to seek court decisions as to the value of cemeteries, large sewerage installations belonging to a local body, harbour works, electric light poles and many other points in valuation.

12. There is also of course a certain amoun of case law covering the responsibilities of valuers. In England recently damages were awarded against a valuer who over-estimated the value of a residential property resulting in a considerable loss when the investor who employed him attempted to sell. Because the valuer failed to make adequate enquiries as to sale prices of comparable properties he was considered negligent.

13. All this preoccupation with various Acts, appeals, and objections, and the necessity for working within their requirements tends to throw valuers more in touch with Courts and the legal world than is normal with most professions. The test of most valua-

tions is, in fact, their production in Court, the resulting cross-examination, and the Court's judgment. Mortgage valuations are the one considerable exception to this general statement-the test in this work is the later necessity for realisation or letting, and it generally does not arise until after many years have passed.

14. Before proceeding to consider the steps in valuing a property, some definitions and concepts peculiarly applicable to valuing should be considered and the following paragraphs relate to a few of the more important of these.

VALUE, MARKET PRICE, REPLACEMENT COST:

15. Some consideration should be given to the meaning of "value." We are discussing solely the value of "land." Land, however, includes buildings, fencing, paths, and other "improvements" that may be permanently attached to the land. We are not concerned with movable property, generally classified as "chattels." Value is "the capacity of useful things to produce benefits which people need or desire." (F.H.A. Underwriting Manual: Section 1.003 et seq.) Its measure is the present worth of the future usefulness of the property, i.e. the price which typical buyers would be warranted in paying for the property for long term use if they are well informed, acted voluntary, and without necessity. Value can be secured only if there are sufficient buyers interested to engender competition-if only one buyer is interested he can secure the property more or less at his own figure.

16. Value as defined above is different from "market price." Market price refers to the amounts buyers actually pay-value refers to the price they are warranted in paying. In a sellers' market "market price" is forced up by the buyers most eager to obtain properties -in a "buyers' market" the reverse occurs. These are short-term phenomena and do not affect the long term usefulness of a property. It is only when the market is well balanced that there is a tendency for market price and value to coincide.

co17. There is also a distinction between st" and "value." While value depends on the extent of future benefits, cost depends on market conditions in the building trade and Other expenditure that does not necessarily create value. A purchaser is not warranted 'n Paying more for a property than the cost of reproducing it elsewhere, and to this extent cost sets an upper limit to value. But value and cost can be equal only if the building is new and only if it represents the highest and best use for its particular site, and only when there is a balanced relationship between supply and demand. Under any other conditions the value will be less than the cost of replacement.

DEPRECIATION:

18. Loss of value from any cause is known as "depreciation." It is the difference between value at the time of valuation and the current replacement cost of the building in new condition. Depreciation includes deterioration, obsolescence, inadequacy, lack of utility and exhaustion.

19. Deterioration is the gradual decay and disintegration caused by the elements and the wear and tear imposed by use. It works towards reducing the physical life of the building; it is a more or less regular process, though there is a tendency for it to accumulate and necessitate heavy expenditure at intervals.

20. Obsolescence arises from happenings beyond the boundaries of the subject property which tend to make it less desirable to the average purchaser. Changes in preferences as to styles of architecture and fittings, improved types of fittings and services, changes in methods of construction, general neglect of adjacent properties, and changes in public favour of localities are some causes of obsolescence. Obsolescence works towards terminating the economic life of the improvements and occurs spasmodically. It is difficult to predict its nature, but inevitable that it will occur.

21. Inadequacy arises when buildings do not enable the highest and best use to be made of a site. This may occur with a new building when poor judgment is exercised in deciding what to erect. It is also caused by the normal changes in a neighbourhood which may make the improvements unsuited to the site. These changes tend to reduce the nett return from a property or to keep the nett return below the maximum procurable. It works towards shortening the economic life of the property-towards demolishing the improvements while still physically sound because a better return can be secured with other more suitable improvements.

22. Lack of utility arises from changes in the mode of living of people. For instance, changes in manufacturing processes may make a specialised building useless and valueless (e.g. C.A.C. shot tower) though still in excellent physical condition.

23. Exhaustion occurs in mining and similar enterprises where the improvements have value only so long as the venture shows a reasonable nett return. The improvements will be valueless (except for their demolition value) as soon as the mine is exhausted, even though this may be long before the end of the physical life of the improvements.

24. It is reasonable to consider inadequacy, lack of utility, and exhaustion as part of obsolescence. All act similarly towards reducing the economic life of the improvements, though not the physical life except in so far as they will discourage adequate maintenance.

25. As value derives from future benefits the emphasis in valuation should be on the probable remaining security life, and endeavours to assess depreciation should have this in mind. All depreciation allowances are arbitrary, but when bated on long experience they can be regarded as reasonably correct. Study of what has happened in the past will give an indication of likely trends in the future.

26. It will be realised that depreciation can never be a uniform, smooth process-the deterioration part occurs smoothly enough, though not necessarily uniformly, but obsolescence and its related factors occur spasmodically. The real measure of the quantity of depreciation is secured by-

(a) the comparison of sale prices of similar properties of differing ages, or

(b) the consideration of the fall in earning power of the property.

These results are expressed in the form of "depreciation tables." Theoretically a different table should be used for each type of building in each locality-in practice only a few tables related to the estimated economic life of each property are used. (See Table 1.) They give the estimated depreciation at any age of the building; *they* are not uniformly graded-generally there is acceleration towards the mid-life of the building, and it will be necessary to choose a suitable table for the economic life of the improvements from the several available. Confusion is sometimes caused by thinking of sinking fund tables, equal annual deductions, and other financial policies useful for accountancy purposes as measures of property values; as these fail to take into account the varying rates at which property values really depreciate they are useless for assessing values.

SUBSTITUTION THEORY:

27. There is a basic principle in valuation known as the Substitution theory-a buyer is not warranted in paying more for a property than a similar property would cost to acquire. The substitute property may be a similar existing property or it may be a duplicate secured by acquiring a site and constructing new improvements. Thus an upper limit to value of any property is established either by the market prices at which comparable properties are available, or by the replacement cost of a new similar property. The value may, however, be any figure below these two upper limits.

SALES DATA:

28. This envisages a comprehensive and properly analysed record of all sales in the locality being dealt with. The analysis should take into account all relative factors affecting market prices. In this buyer appeal is probably the major consideration, but floor areas, methods of construction, effectiveness of planning, and other features particularly within the province of the architect are essential considerations, together with development of the grounds, and the unimproved value. The sales analysis is generally summarised as square foot values for each typical type of building, and as unit-foot values of land.

29. The unit-foot is "a unit of area extending one foot along the frontage to an agreed depth (generally 100 feet) affected by single-street accessibility." (See Pollock & Scholz, p. 38 et seq.) In urban properties. land values generally *vary* uniformly in relation to the frontage of the property and the unit-foot is thus a convenient unit of measurement for urban land values, particularly those in the more expensive retail areas. In factory and residential sites, it is still convenient, but there is a tendency for area of the land to become more important than frontage alone.

DEPTH TABLES:

30. Although the unit-foot gives a standard unit of measurement for urban lands, value does not vary uniformly within the unit. It increases with, but not in direct ratio, to the depth- a property 100 feet deep would not have twice the value of one only 50 feet deep. There is a downward grading of value from the frontage. The nature of this grading is well understood, but there is much speculation as to its quantity. Various rules have been developed over the years, all of which are expressed as Depth Tables or in graphical form. The best known is the Somers Cleveland Depth Table. Broadly speaking, to ascertain the value of any piece of land

the unit-foot is multiplied by the frontage and then by the relevant factor from the tables.

IRREGULAR LOTS:

31. The establishment of a depth table and foot-unit values enables a mathematical approach to the valuation of irregular lots-in fact, this part of the theory of valuation work has reached a higher stage of development than any other. This approach is also extended to cover corner lots, lots with more than one frontage, alley access, and other features affecting value.

32. There are of course many limitations in the use of foot-units, depth tables, and in the theory of irregular lots. For instance, *they* lose most of their value if the land is hilly, and they give no consideration to poor subsoil, necessitating expensive foundations and similar architectural considerations. Nevertheless the theory enables rapid basic estimates of unimproved values and it secures the uniformity so essential in rating valuations. There are many large cities, which are wholly level (e.g., Christchurch) or of which considerable portions are reasonably level (e.g., Wellington) and the principles are readily applicable in such cases.

REPLACEMENT COST:

33. The substitution theory requires the valuer to have accurate information about, (a) market prices of land, and (b) of current building costs. Both form part of the cost of assembling a substitute property.

34. Information regarding market value of land is based on the prices buyers pay. Generally buyers are not well educated in the costs of building, and proper allowance for additional building costs caused by such features as piling, expensive foundations, extra cost of services in leg-in and similar building lots are seldom properly considered. Market prices set an upper limit to value-real value is established by consideration of the relative costs of bringing the building lot up to "modal" conditions, the "modal building lot" being a level one with good foundations and with the building a standard distance from all services. Proper architectural advice is essential in most cases to determine the real value to the owner.

35. The establishment of current building costs and their interpretation is particularly the field of the architect. Proper running records of building costs of buildings should be recorded in a form suitable for production as evidence. The accepted tenders for new buildings are taken as the basis for replacement cost. Tenders are adjusted by contpari son with a suitable stanch rd-the "modal"- and expressed as cost per square foot. The "modal" for residences is well established in the larger centres and well accepted by Land Valuation Committees. It is a 1,000 sq. ft. residence with continuous concrete foundations, weatherboard walls, tiled roof, fibrous plaster linings, and heart flooring and weatherboards. The areas of main circulation, secondary circulation, porches, cupboards, nett effectivelf oor space and other figures have been determined as the average of numerous houses examined and form a basis for comparing the effectiveness of other buildings. Basic building costs so determined are generally expressed in graph form.

36. The preparation of estimates of the replacement costs of any particular building is a matter for expert judgment. It can, of course, be done by a full quantity survey and this is frequent in important court cases. As an alternative valuers sometimes use the "unit-in-place" method; but with very large numbers of properties to be handled as in rating revisions, valuers are forced to use approximate methods, and in New Zealand a fairly well developed system based on the recorded basis per square foot costs and floor areas has been developed. To avoid conflict of evidence, valuers have had to get down to standard methods of measuring area-e.g., exclusion of projecting chimneys, measurement of outside of wall sheathing, and so on. Allowances are made for all factors in which the subject property varies from the modal. This includes variations for floor area for which established tables and graphs are available. Most types of variations are dealt with by lump sum additions or deductions; others are more conveniently handled by square footage variations. A good deal of notice is taken of basic costs (costs not necessarily related to the cost of the building) and variable costs (costs which vary in direct prcportion to the lfoor area).

RIGHTS IN PROPERTIES (LEASEHOLDS) :

37. If a property is subject to encumbrances such as easements (e.g., power line easement crossing the property and rights-of-way) the rights of the owner are restricted in his use of the property and it may therefore be less valuable, and they must be considered in a valuation.

38. "Property" frequently refers only to rights established by a lease. The terms and conditions of the lease affect its value and

generally give rise to the interests in the land being divided between lessee and lessor. The determination of these interests is an essential part of a valuation. The value of the land as a freehold, the length the lease has to run, the rental being paid, any rights of renewal or compensation for improvements affect the interests, and there may be sub-lessees to consider. Ordinarily such leases are straightforward and can be reduced to fixed rules, though they may be *very* complicated.

VALUATION PROCESS:

39. With the foregoing comments in mind, the steps in valuing a property can be summarised as follows:-

(i.) identification of the property;
(ii.) analysis and rating of location;
(iii.) analysis and rating of subject property, including site and improvements;
(iv.) estimate of replacement cost of property;
(v.) estimate of market price of property;
(vi.) estimate of capitalised income;
(vii.) estimate of value.

It is proposed to deal briefly with each of these steps in sequence.

IDENTIFICATION:

40. It is a responsibility of the Valuer to ensure that he is valuing the correct property. This will generally be defined by the legal description. The valuer has further to ensure that the dimensions and area of the property agree with the information given him. It is not expected that he locate the land with more than reasonable accuracy nor the dimensions with the accuracy of a surveyor; nor should he be expected to ensure that all details of the legal description are correct. But he must be reasonably sure of them; if in doubt he must seek further advice; and he has a duty to his principal to draw attention to any details which may appear incorrect.

LOCATION:

41. Location is the actual site of a property, viewed in terms of relationship with its immediate neighbourhood and economic background. It is by far the greatest single inlfuence in value, rental returns and depreciation, and involves consideration of the following features.

(a) Relative Economic Stability of the location and its neighbourhood. Practically all neighbourhoods tend to decline with an adverse effect on values and income. It is affected by the stability and sufficiency of family incomes in the neig;. bourhood, the social characteristics of neighbourhood, and the trend of neighbourhood development.

(b) Protection of the neighbourhood front adverse influences-zoning, town planning with its restrictive covenants, th; natural physical features, nuisances o, the possibility of their establishment and the general standing of the sur rounding economic background area io the extent that they protect the loci. tion from adverse influences.

(c) Freedom from special hazards. Location is obviously undesirable and lest valuable if it is subject to special ris,- of subsidence (old abandoned mines), earthquakes, tornado, flood traffic, fire or explosion, or health hazards.

(d) Adequacy of Social and Commercial Centres. The quality and accessibility of schools, shopping facilities, amuse. ments and churches, clubs and recre i tion centres affect locality value.

(e) Adequacy of Transport. Value is affected very materially by adequacy. quality, frequency, diversity, time required to destinations, and cost of trans portation to places of work, schools. shopping and other facilities. The individual property is also affected by it, distance *from* the transport service, anti the condition of roads and streets.

(f) Sufficiency of utilities and services. The presence, quality and cost of ele.:- tricity, gas, water sewerage and other services affect desirability and value. So also does the cost of installation and maintenance of any such service that has to be provided by the owner.

(g) Level of rates and land tax. If rates, land tax or other charges are abnormal. values suffer.

(h) Appeal. The natural physical char:]. of a location, layout of the neighbour. hood, architectural attractiveness of the neighbouring buildings, affect desir:-- bility and value.

42. It is desirable to record Establishc Ratings of the more typical locations. These ratings lead to speed in valuing work and economy and consistency. Subject properties are then readily compared with the establishe.l rating, point by point. Total absence of an!' one feature, or overall inadequacy may be sui+i- cient to render a property practically valuel-s'

43. The results of the location analysis i'

usually expressed by "locality factors." If any feature in the analysis is particularly bad the result may be 100% depreciation and nil value; at the other extreme there may be a small appreciation; but most locations will have some intermediate factor. The locality factor applies particularly in a replacement cost analysis of value, and its degree is reflected in market prices. In the capitalised income analysis it shows up as low rental returns through lack of demand and high vacancies.

ANALYSIS OF PROPERTY:

44. The second step is the analysis of the subject property to determine the desirability and utility of the site and the improvements; for making an adjustment if necessary for non-conformity; and for making an estimate of value.

45. An assessment is made of the highest and best use of the particular site. This gives an indication of extent to which the existing or proposed buildings are appropriate to the site. The site must contain no "excess land" -i.e., the area by which the land exceeds the area of a ready market site in the neighbourhood, for excess land is affected adversely by additional rates, maintenance, and similar charges. Any unusual subsoil conditions or irregular topography requiring excessive cut and fill, retaining walls or extra foundations are adverse features, and their cost is estimated and considered in the replacement cost of the building. Such charges would be greater than the market price of comparable lots requiring no such work.

46. The improvements to the property are analysed, either by examination of the plans and specifications, or the buildings on the site. Properties should comply with certain minimum property standards, minimum planning requirements, and minimum construction requirements. The first two are to ensure reasonable letting and resale values, the third to ensure a reasonable minimum physical life. The gross area, nett effective area and fair replacement cost are calculated. Chattels that may be included in the buildings (e.g., a washing machine, usually movable instead of the normal fixed copper and tubs) are recorded.

47. Consideration is given to the following features in the improvements:-

(a) Visual appeal of the property: This is governed by the exterior design, setting, and the interior design of the building.

(b) Livability of the property: Value is made by effective utilisation of the site; effective use of floor space; room orientation and relation to garden; plan arrangement; effectiveness of and floor area occupied by circulation; privacy and comfort conditions; cupboard and storage space; kitchen efficiency: and service facilities.

(c) Structural quality: Consideration should be given to the quality of the structural design, suitability of the materials, quality of the workmanship and their market acceptance. The cost of the methods of construction, and materials used has no bearing on the matter.

(d) Resistance of elements cnd use- Market appeal and value are affected by the resistance of the buildings to the damaging effects of the weather, decay, corrosion, ifre, insects, and similar agencies; and also by the wear due to occupancy.

(e) Suitability of fittings: The standard and suitability of plumbing, hardware, and other fittings affect value through desirability, continuing appeal, comfort, convenience and operating economy.

48. Any matters having a marked effect on the analysis of the property, or any possibility of subterfuge in the use of the property indicated by the examination should he noted in the covering report to the valuation.

49. Value may be affected if the improvements are not in conformity with the usual demand in a particular locality. The improvements may be too costly for a particular purchaser in the area, or their type displeasing in relation to surrounding properties. This may happen even though the property is in a good location and has good physical characteristics. The outlook of typical occupants varies in different neighbourhoods-single-unit dwellings will be expected in one neighbourhood, multi-unit in another; differing living facilities will be expected; and even with considerable variety in design the exterior should conform with adjacent structures. If the-e features are poor or inadequate the resulting non-conformity adversely affects value.

50. The results of the physical analysis of the property and of any non-conformity can be expressed as a percentage reduction-the non-conformity factor. In extreme cases this percentage may be *very* high. A capitalised income analysis will indicate non-conformity by reduced rents and higher vacancies.

ESTIMATE OF REPLACEMENT COST:

51. The replacement cost of a property includes the replacement cost of the buildings

in new condition, plus the available market price of an equivalent site, plus grading, landscaping and gardening and certain overhead expenses incurred in producing and financing a building. The replacement cost of the buildings has been referred to earlier (see para. 33 above). The overhead expenses may include survey charges; architect's fees; valuation fees; legal and stamp duty charges; and interest, insurance and rates incurred during erection of the building and up to the time of occupancy.

ESTIMATE OF AVAILABLE MARKET PRICE:

52. The estimate of market price is made by comparison of sales of comparable properties. The assumption is made that the purchase is for cash with the assistance of normal mortgage finance. It includes all normal charges that accrue in securing title to the property, such as legal expenses-it is the "purchase price," and differs from the vendor's asking price. Properly analysed sales records are essential data (see para. 28 above) and care must be taken to analyse the motives of buyers and sellers and the skill of the parties in bargaining.

53. The market price of the subject property is generally estimated by comparisons in terms of lump sum allowances for variations in size, accommodation, locations. Variations in size and shapes of the unimproved land are mentioned in para. 31 above.

ESTIMATE OF CAPITALISED INCOME:

54. This is basically the determination of the present worth of the estimated future return from the property. A distinction should be made between properties (usually above-average residences) which have an appeal to owner-occupier purchasers with resulting "amenity income" value, and properties which appeal only to purchasers interested in rental income.

55. Capitalization of rental income is the measurement of the quantity, quality and duration of future returns from a property and is calculated as the present worth of the estimated future nett income returns. It embraces-

(a) estimates of the annual gross income from renting the property, with ordinary competent management;

(b) estimates of expenses necessary to produce the estimates income;

(c) estimate of the annual nett income, both as to quantity and quality. The quantity is the difference between (a) and (b) above. The quality is determined by analysing the certainty, stability, possible and probable fluctuations and duration of the annual nett income.

(d) the conversion of nett income by capitalisation into an estimated capitalised rental income.

56. Rental value is estimated on a weekly basis by comparisons with competitive accommodation, similar to those made in estimating, available market prices of properties (see para. 51 above). Rental comparisons are easier than market price comparisons, as there is usually an active rental market, and the complications surrounding the differences in asking, sale and purchase prices and forced sales do not arise to anything like the same extent. Estimates assume the building is unfurnished; that all equipment is provided; and that all services are paid for by the tenant. The rental value is the rent which typical, well informed, year-round tenants would be justified in paying. Rentals of inferior or better accommodation can be used for comparisons by making appropriate adjustments of the rental income and allowances for any variations in services, amenities, equipment, etc., that may occur in the comparable properties. Rentals from seasonal occupants do not provide reasonable comparisons.

OCCUPANCY-RENTAL: VACANCIES: EFFECTIVE INCOME:

57. Tenant turnover, difficulties in letting under normal conditions, and bad debts lead to the actual rental income being generally less than the estimated rental value of the property. An estimate of the degree which actual collections will differ from estimated rental value is expressed as a percentage, known as the "occupancy ratio." No standard ratios can be laid down, but figures generally recognised it would not be less than 90% for multi-occupied buildings and 95% for single occupancies. These figures would apply only if the property is so located and designed that it is in strong demand; in any lesser circumstances the occupancy ratio would be lower as well as the rents procurable. Occupancy ratio does not make provision for the gradual decline in earning capacity of a property as a result of inevitable deterioration and obsolescence (see (para. 18 above). The "effective income" in derived by multiplying the estimated rental value by the occupancy ratio-percentage.

ESTIMATE OF EXPENSES:

58. For valuation purposes all actual cash payments are treated as expenses, except mortgage payments and similar financial expenditure. The major items of expense are-

(i.) Renting and administrative expenses: These include management, advertising and commissions to land agents. Regular operating expenses: These include gas, electricity, heating, power, water, rubbish removal, vermin control, maintenance of grounds, and caretaker.

(iii.) Repairs, maintenance and replacements: These include all work necessary to keep the building in continuous operating position and maintain the estimated rentals and occupancy ratios. It should be the average annual expense, even though many items do not appear annually. Estimated costs of repairs to the structure include exterior painting, repairs to equipment and redecorating. Such estimates of costs can be made only on the basis of data secured from similar buildings. Replacements relate to portions of the building and equipment with fairly long useful life, but shorter than the remaining economic life of the building, e.g., roof covering, heating plant and hot-water service. Replacement allowances are based on the estimated cost of replacing the part and its estimated total gseful life.

(iv.) Taxes and insurances: All property is subject to rating charges and insurance premiums. These can be fairly readily determined by enquiry. Income tax charges are not included, being a personal charge against the owner. Estimates of expenses are checked by comparison with estimates for similar buildings and an explanation sought for any large discrepancies.

NETT INCOME:

59. The estimate of nett income for the following year is obtained directly by deducting the total estimate of annual expenses from the effective gross income. Beyond the first few years, however, the nett earnings will tend to decline. Eventually a low earning capacity will result which will not justify purchase of the property at demolition value plus cost of site-i.e., when the property has reached the end of its economic life. Future building returns are in the nature of a declining annuity and on this assumption they are mathematically predictable.

CAPITALISED NETT INCOME:

60. In estimating the capitalised nett income a distinction is made between the land, a non-declining asset, and the building, which has a finite economic life. The process is as follows:-

(a) The capitalisation rate is determined.

(b) Returns to the land are capitalised by multiplying its available market price by the selected capitalisation rate,

(c) The returns to the building are determined by deducting the yearly nett returns of the land from the estimates of yearly nett income. This return is capitalised at the selected capitalisation rate by using the factor for the estimated economic life from a table of "Present Value of Declining Annuities."

(d) The total capitalisation of the property is found by adding (c) above to the total market price of the land. This process allows provision for the depreciation of the building asset over the remaining economic life of the building.

CAPITALISATION RATES:

61. The choice of the correct capitalisation rate is made by comparison of the safety, liquidity, burden of management and similar factors involved in building management with the rates procurable in other forms of investment. These vary from time to time, and are indicated to a certain extent by the market prices of properties. They will always be considerably higher than the interest secured by investors in Government stock and the current mortgage interest rate, but not necessarily very much higher.

ESTIMATE OF VALUE:

62. The estimate of value is the estimate of the- price which typical prospective owners are warranted in paying for the property. Estimates involve the application of the Substitution Theory. Each one of the three estimates-estimates of replacement cost, estimate of available market price, an destimate of capitalised income-serves as a possible upper limit to the estimate of value. If they closely approximate, say, within 3%, the estimate of value may be any one amount within the range of the estimates. Otherwise the valuer

must exercise judgment in determining the value from the various estimates before him.

63. The above assumes that the property is freehold, in good order, and not subject to any easements or similar encumbrances. If the property is leasehold the lessors and lessees interests have to be determined (see para 37 above), if the improvements are not in good order the cost of remedial work is deduction from value; if encumbrances exist, allowance is to be made for any detrimental effect they may have.

CONCLUSION:

64. The foregoing will indicate some of the problems which face the urban valuer. It has been said that one important test of an archi. tect's work is the value he creates. Of course this is not by any means the only test, but it may be the only one which vitally concerns many clients. If other objectives can be secured, it is in everybody's interests that the building which the architect is responsible for can be valued at the maximum possible ifgure.

TABLE No. 1.

TYPICAL DEPRECIATION TABLES

(i.) 40 Year Life:

| | | Totals. |
|---|---|---|
| 1-10 years @ 11% - | 15% | 15% |
| 10-20 years @ 2% - | 20% | 35% |
| 20-30 years @ 21% - 271% | | 621% |
| 30-40 years @ 31% - 371% | | 100% |

(ii.) 45 Year Life:

| | | |
|---|---|---|
| 1-15 years @ 11% | 22% | 221% |
| 15-30 years @ 2% | 30% | 521% |
| 30-40 years @ 3% | 30% | 82% |
| 40-45 years @ 31% | 171% | 100% |

(iii.) 50 Year Life:

| | | |
|---|---|---|
| 1-20 years @ 11% | 30% | 30% |
| 20-40 years @ 2% | 40% | 70% |
| 40-50 years @ 3% | 30% | 100% |

(iv.) 55 Year Life:

| | | |
|---|---|---|
| 1.10 years @ 1% | 10% | 10% |
| 10-30 years @ 11% | 30% | 40% |
| *30-45* years @ 2% | 30% | 70% |
| 45-55 years @ 21% | 30% | 100% |

(v.) 60 Year Life:

| | | |
|---|---|---|
| 1-10 years @ 1% | 10% | 10% |
| 10-30 years @ 11% | 30% | 40% |
| 30-50 years @ 11% | 35% | 75% |
| 50-60 years at 21% | 25% | 100% |

(vi.) 60 Year Life:

| | | |
|---|---|---|
| 1-10 years @21% | 25% | 25% |
| 11-20 years @ 2% | 20% | 45% |
| 21-30 years @ 11% | 171% | 621% |
| 31-40 years @ 11% | 15% | 77}% |
| 41-50 years @ 1J% | 121% | 90% |
| 51-60 years @ 1% | 10% | 100% |

(vii.) 60 Year Life:

| | | |
|---|---|---|
| 1-10 years @ 1% - | 10% | 10% |
| 11-20 years @ 11% - | 15% | 25% |
| 21-30 years @ 11% - | 15% | 40% |
| 31-40 years @ 2% - | 20% | 609 |
| 41-50 years @ 2% | 20% | 80% |
| 51-60 years @ 2% - | 20% | 100% |

(viii.) 60 Year Life:

| | | |
|---|---|---|
| 1-10 years @ 1% - | 10% | 10% |
| 11-30 years @ 11% - | 30% | 40% |
| 31-50 years @ 11% - | 35% | 75°, |
| 51-60 years @ 24% - | 25% | 100% |

(ix.) 60 Year Life:

| | Period. | Rate P.A. | Amount. | Total. |
|---|---|---|---|---|
| 1st | 6 | 11% | 8 | 8 |
| 2nd | 6 | 11% | 9 | 17 |
| 3rd | 6 | 11% | 9 | 26 |
| 4th | 6 | 2% | 12 | 38 |
| 5th | 6 | 2% | 12 | 50 |
| 6th | 6 | 1% | 6 | 56 |
| 7th | 6 | 1% | 6 | 62 |
| 8th | 6 | 11% | 9 | 71 |
| 9th | 6 | 11% | 101 | 812, |
| 10th | 6 | 2% | 12 | 93_• |

Leaves 61% as salvage value.

The above tables show the depreciation 100 per cent., but the security life of a dwelling would end when the depreciation reached 80`%

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# DEPRECIATION

(a) Should Depreciation be Based on X% Per Annum Table or Loaded Towards the Beginning or End of Life?

(b) How Should Allowance be Made for Good or Poor Condition?

Mr. H. A. WITTY.

"Depreciation" is a fairly wide term and has been described as the amount by which, through normal use and natural decay, a building becomes less valuable than were it new. This generally means a loss in value due to any cause whatsoever. Two main factors contribute to this lessening in value, viz: depreciation and obsolescence. As the question of obsolescence is being covered in another paper, depreciation only will be touched on, while always remembering that it is their combined effect which determines the market value.

Depreciation is a gradual process that takes place during the whole life of a building and can be caused by natural forces or use. As soon as a building has been erected it presents itself to the elements, physical depreciation commences, and of course this is relfected in value.

Physical depreciation is considered in three ways:

(a) Repairs: These are constantly recurring expenditure necessary to keep the building in reasonable condition. Depreciation tables could not hope to compass this item, but constant and diligent application of repairs will arrest the rapid and abnormal depreciation. Maintenance therefore has an actual bearing on the physical life of a building and consequently the rate struck for depreciation. Suggestions for the way to allow for repairs is covered later.

(b) Replacement of major components of the building. Depreciation tables cover the building as a whole, but there are usually items in larger buildings which require replacement during the economic life of the structure, such as lifts, heating plants, etc. Depreciation rates for such items at a different rate to the main building are necessary and are determined by the strain the user places on such parts of the building. In the case of a dwelling, replacements are generally considered under repairs and not separately depreciated.

(c) Major Depreciation: This is the writing off of the buildings during the number of years that the building will endure the ravages of time and the elements, with the qualifications, subject to their ability to be put to reasonable use.

A single table able to cover all types of buildings is, of course, not feasible, as many factors contribute towards depreciation; e.g., quality of materials used, quality of workmanship, climatic conditions, neglect and poor maintenance, sea, air, insect attack, etc.

Depreciation Tables: Many tables have been prepared, but generally follow three well-defined methods:-

(a) Heavy depreciation towards the beginning of the life of the building. This seems to be the practice in America, where a building is considered to become secondhand immediately it is used, and therefore of less value, However, sales of property in New Zealand hardly seem to bear this out.

(b) Fixed Annual percentage throughout the life of the building. This table would suppose that

depreciation commences immediately abuilding is completed and depreciates steadily throughout its life irrespective of locations or use.This method had some following before Land Sales Committees but is not substantiated by free market sales.

(c) Heavy depreciation towards the end of life has many adherents in New Zealand, as its advocates hold that with the increasing age there is greater susceptibility to disease and decay with the consequent lessening in desirability.

However, to be realistic in our work in present-day conditions, whatever our personal opinion and leanings may be, it seems that it is the general buying public who decides what depreciation has taken place, and this is expressed by the price they are prepared to pay for a certain type of property.

It would appear, therefore, that it is our job to analyse what the general public are doing in relation to this question of depreciation. As we have a reasonable amount of information regarding sales of dwellings, these could be studied. From returns being compiled, sales are divided into age groups. We can assume that the replacement cost of a house is known from other records, and that the Land and other Improvements are known, then the difference between the replacement cost and the sale price of the house only would be the general public opinion of the amount of depreciation that has taken place.This sum is easily reduced to a percentage of the replacement cost and if this is extended to houses of known age groups a table can be compiled which should approximate the averagepublic opinion.

Tables are in existence which have been computed on this basis, and such a table corrected for Christchurch free-market conditions is as follows:

| | | |
|---|---|---|
| 1 to 4 years | @ 1% | z4% |
| 5 to 12 years | @1'c% | 10% |
| 13 to 20 years | @1 I % | 12% |
| 21 to 32 years | @i % | 21 `/c |
| 33 to 40 years | @11% | 12% |
| 40 and over | @ 1% | 40% |
| | | 99% |

From a perusal of this it is submitted that the rate of depreciation is loaded towards the centre of the life of a house and the latter end a very gradual decline.

Allowance for good or poor condition: This brings up a very interesting problem and there are at least two approaches:

(a) A house is considered to be in average good condition as a standard, and any variations for repairs necessary to bring it up to this standard would be deducted as a corollary to this it would be necessary for valuing a house in new conditions to allow for "advance maintenance."

(b) In view of the fact that our replacement rate is generally taken from an analysis of new houses, it is obvious that when the replacement cost is calculated, this figure represents a house in new condition. Consequently, full cost of repairs, painting etc., should be deducted from this figure to give the present value.

This method is simpler to operate when dealing with a house which has been renovated or when dealing with problems of an advanced maintenance.

In general, the second method is favoured, but whichever is adopted, due allowance should be made in the analysis for depreciation rate.

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# THE VALUATION OF INDUSTRIAL LAND

J•D.MAHONEY, F.N.Z.I.V.

For this paper on the valuation of industrial sites, we are indebted to Mr. Mahoney for bringing into a narrow compass most of the problems that confront Valuers in the assessment of these areas. We are pleased to reproduce the paper because it contains some original suggestions by Mr. Mahoney that will warrant the close examination of all members engaged in this class of work. The diagram is intended for illustration only. The ifgures do not necessarily purport to represent the author's ultimate opinion as to the gradation in value of the various shaped areas, for general application in all districts. The diagram is interesting and informative and should be closely studied.

The extensive development of industry in New Zealand, particularly over the last two decades has resulted in the valuation of industrial land being a major pre-occupation in many urban districts, and a job which increasingly calls for specialised experience and valuation techniques. It is found that new approaches are necessary in the valuation of industrial land, and that tables and formulae require considerable adaption to meet the new problems. The scope of industrial land valuation is shown in a 1940 survey which disclosed that nearly five times as much land (1192 acres) was used for industry in Metropolitan Auckland as for commerce.

A distinguishing factor in industrial land as compared with other urban land is the extremely wide range of utilisation. At one end of the scale we have the small workshop types of concerns of 3000-4000 sq. ft. (e.g., joinery, motor-car parts, panel beaters, etc.), while at the other end are huge manufacturing concerns whose buildings require acres of land (e.g., Bycrofts' biscuit factory, Otahuhu, 109, 000 sq. ft.). Apart from variation in size, there is a very wide variation of shapes of industrial sites, which add to the difficulties of valuation. Situation, too, can be varied. While a high proportion of sites are found in industrial localities, there are a large number found in various assorted locations.

Specific reference to the valuation of industrial land in text besoks seems limited, and can be quoted here:-
Zangerle says:

"In valuing industrial properties, sales may be considered within a wider area than a few hundred feet from the property in point. The nature of manufacturing land is different from commercial frontage. Display frontage is comparatively unimportant. Size and location with reference to railroads, labour supply, and the like, is of more moment. The only limitation upon the area within which sales should be considered, is marked by the inquiry as to whether the land is similar in nature and has been transferred within a space of time not so remote as to fall within a period when conditions governing the market were essentially diff. erent."

The Australian authority, Murray, states in his book (p. 51) :-

In case of factories, frontage is not necessarily a primary consideration. Determining factors may be adequate space, accessibility and utilisation of topography to the further ante of the industrial process. Frontage and depth lose the significance they hold in retail areas when considered in relation to factory lands, and comparisons between factory lands may, subject to various limitations, be made on an area basis by adopting a value per sq. ft. or per sq. yard."

The N.Z. Valuers' Institute's publication on Principles and Practice of Valuation denotes a small section (p. 115) as follows:-

"To a great extent much depends on the type of industry one is considering. Industry ranges from huge factories employing hundreds of hands to small one-man concerns in back streets and suburbs. In every case, however, the factor of frontage has some bearing on the value of the site.

"The advertising and access aspects are of considerable importance to the average small skilled tradesman and small parcels of land suitable for the purpose are nearly always considered on a per foot frontage basis. Possibly the front portion does not bear the same large percentage of the total value as in first-class business sites but this can be adjusted by using a depth table reflecting a less steeply decreasing percentage between front and back.

"The larger industrial areas are more generally considered on a `per acre' basis but here again the influence of frontage and access cannot be overlooked.

"When the sites are small with access by means of rights-of-way, values are often computed on a `per perch' or `per square foot' basis."

It will be noted that the main theme in the foregoing extracts is that area is more significant than frontage with industrial land but at the same time frontage cannot be ignored altogether. This is, indeed, the main problem that the valuation of industrial land presents, and which will be considered in this paper.

## CONSIDERATIONS AFFECTING VALUE OF INDUSTRIAL LAND

The general level of industrial values in a city must, in the main, depend on the extent of industrial activity that exists. Buoyant and expanding industry means high and rising land values. It is probably correct to say that few land values have risen as rapidly in the past few years as those in the industrial areas of large centres where there has been great industrial development. For example, Mt. Wellington Borough, one of the most popular industrial districts in Auckland, showed a 231 per cent. between 1948 and 1953.

### Availability of Land:

Availability of suitable land has an import. ant bearing on the value of industrial land. Where land is in relatively short supply the values may be expected to be correspondingly higher (e.g., Hutt Valley, Wellington, Newmarket, Auckland). Where it is more plentiful it is of course cheaper (e.g., Mt. Wellington as compared with Penrose).

### Town Planning:

The effects of zoning under town planning schemes on industrial land values can be considerable and thus deserve some special attention. At a given time the supply of industrial land in an overall sense is limited by the amount zoned under town planning schemes. Within this overall restriction it is further restricted by the general friction arising from changing uses and the amount actually available is usually considerably less. For example in decadent housing areas zoned for industry it is not always easy to obtain possession of house properties to provide factory sites, especially where tenancies are involved.

However, zoning plans are designed to cover progress for considerable periods of time, and also local bodies are periodically extending the scope of their industrial zones. In this connection, their decisions can considerably affect land values, and it may be said the value of an owner's holding can be doubled by the stroke of the Council's pen.

An important point to *bear* in mind with zoning is that while restrictions can enhance industrial (and other) land values the mere fact of zoning does not have any effect unless accompanied by an effective demand.

A problem often arises with non-conforming usage. How should sites occupied by factories but zoned as, say, residential, be valued? In such cases the right to use as a factory appears continuing unless the building is demolished by fire or otherwise to less than ift. above ground. Permission is usually granted to make additions subject to certain limitations. The factory usage cannot be ignored in the valuation.

It may be of benefit for reference to list Classifications of Industrial land under the town planning code as follows:-

### (A) LIGHT INDUSTRIAL DISTRICTS:

(1) Permitted Uses:

The use of land or buildings for ariy purposes except the following:

(a) Slaughtering houses and abbatoirs.
(b) The manufacture of coal gas, acetylene gas, or any other gas, and coke ovens.
(c) Iron and steel foundries or boiler works.
(d) Smelting works and blast furnaces.
(e) Cement bag cleaning works.
(f) Breweries and malt houses.
(g) The manufacture or storage of any explosive within the meaning of the Explosive and Dangerous Goods Act, 1908.
(h) The refining of petroleum as defined by the Explosive and Dangerous. Goods Act, 1908, or the storage thereof in quantities exceeding 10,000 gallons.
(i) The manufacture of creosote or the wholesale application of creosote to any material.
(j) The manufacture of paints, oils, shellac, turpentine, or varnish.
(k) The manufacture of india-rubber goods.
(l) Timber mills, including sawmills, planing mills and factories using wood-working machinery of a kind not usually employed in a cabinet making or joinery business.
(m) Cattle saleyards as defined in the Healtk Act, 1920.
(n) Every trade, business manufacture or undertaking which is

for the time being an offensive trade within the meaning of the Health Act, 1920.

(2) Height, Rear Yards, Side Yards, Site Areas and Coverage:
The provisions of Clause 27 of this Scheme relating to height, rear yards, side yards. site areas and coverage in commercial districts shall apply to Light Industrial Districts.

(B) HEAVY INDUSTRIAL DISTRICTS:

(1) Permitted Uses:
The permitted purpose of a Heavy Industrial District shall be any purpose not otherwise contrary to law, save the purpose of a dwellinghouse or other building for human habitation, except-

(a) Such as are necessary for the exclusive accommodation of caretakers or watchmen or persons similarly employed and their families, and are erected on the premises in connection with which they are so employed; or

(b) Where such purpose is expressly approved by the Council and subject to such conditions or restrictions as to user or otherwise as the Council thinks fit to impose.

(2) Height, Rear Yards, Side Yards, Site Areas and Coverage:
The provisions of Clause 28 of this Scheme relating to height, rear yards, side yards, site areas and coverage in commercial districts shall apply also to a Heavy Industrial District.

OTHER FACTORS AFFECTING INDUSTRIAL LAND VALUES

(1) Area of Site in relation to proposed utilisation:
The site must, of course, provide adequate space for the type of factory to be erected. Also with today's expanding industry this can also mean, in addition, adequate space for future extensions.

As mentioned at the outset, the variations in space requirements vary enormously. A question which arises here is whether the demand has a greater intensity relative to supply with one class or area of factory than others. While an analysis may reveal otherwise in particular cases, it is true in a general way that while there are fewer buyers for larger sites, there are also fewer larger sites and thus demand and supply can be considered as equating each other for all areas. Therefore, there is not, as a rule, justification for valuing the larger sites on a reduced basis simply because they are large. In the Bycroft Biscuit Factory, for example, the land was purchased in 1949, and during a Land Sales Court case to determine the value of the land, both the vendors and Bycrofts claimed the land had special added value simply because it was a very large area. They claimed, with some force, that areas of similar size in suitable localities were almost unprocurable. At the same time, in the same street, there were small quarter-acre industrial sites for which there was comparatively little demand.

It seems a sound rule that unless there are specific reasons to the contrary, industrial land should be valued on a proportionment basis, i.e., the whole being equal to the sum of the parts (except for considerations of depth).

(2) Frontage:
While, as previously indicated, frontage has relatively less value industrially than commercially, it nevertheless is definitely important from the point of view of giving better accessibility (especially in the case of small sites) and improving the aspect of the works. The latter would be of more or less importance depending on the desire for advertising (e.g., a food factory usually desires advertising more than one making steel pipes).

(3) Convenience and Accessibility:
With city industrial sites convenience to the commercial heart of the city, wharves, railway, etc., can be of importance. Ease of access through wide surrounding streets and traffic freedom for lorries serving the factory are also desirable points.

In suburban industrial sites convenience to transport for workers is an important consideration always.

(4) Railway Facilities:
The availability of railway siding facilities can be of over-riding importance. Two large recent projects in Auckland have been sited at Henderson, which has hitherto seen little industrial development, mainly for this reason. These projects are Caxton Press Tissue Paper Mill (£500,000 factory), Hooper & Son Implement Makers (£30,000 factory).

(5) Labour Supply:

With a continuing labour shortage in some industries an adequate labour source can be a determining factor in siting a factory. Several factories have established themselves in the heart of residential suburbs to tap the local labour supply, although considerations of finding an adequate area have also entered into it. (e.g., United Dry Cleaning Laundry, Sandringham Road, Mt. Albert; Korma Mills, Mt. Albert Road, Royal Oak.)

(6) Contour:

While the level site is usually the most valuable, the fact that industrial undertakings can sometimes use varied contours to their advantage must not be lost sight of. A common and valuable utilisation of a site below the road can be made to accommodate a factory with direct road access to two floors.

In the case of sites that require filling and levelling, comparisons of sales of these sites with those of level sites seem to indicate that purchasers rarely seem to make adequate reductions on that account. At Penrose, for example, there are rocky, broken sites for which a deduction of £1000 per acre would appear warranted, but an allowance of £500 is all that can be made to be in line with sales.

Possibly buyers think *they are* getting a cheap site with a broken one, or they may have regard to levelling and filling over the years as the whole area is gradually required for building purposes.

## THE VALUATION OF INDUSTRIAL LAND

For the purpose of discussing the valuation of industrial land, it seems convenient to make an arbitrary division into two classes:-

(A) Small Industrial Sites, up to say 1 acre.
(B) Large Industrial Sites over 1 acre.

(A) Small Industrial Sites:

These are the sites usually found on the outskirts of the central, commercial areas of cities, but there is a sprinkling of them in many suburban districts. Frequently they are in decadent housing areas which are changing over to industrial usage, and the sites are derived from the demolition of old houses, etc.

They comprise such usages as joinery shops panel beaters, small engineering firms, plumbers' shops, upholsterers, garages, etc.

(1)Method of Valuation of Regular Sites:

For normal, rectangular sites, the unit foot method is considered most suitable, provided a depth table is used which allocates more value to the rear land, or in other words, values nearer to an area basis than the normal commercial tables.

The Jerrett table has proved itself to be a step in the right direction in the interim, but it is thought that in many cases a further step can be made in the same direction by wider use of the MacLachlan table, an adaption of the Jerrett giving them more value to the rear land.

It will be recollected that the Jerrett table was based on the formula-

$$\frac{2D}{D + S}$$

while the MacLachlan table is

$$\frac{3D}{D + 2S}$$

The following summarised comparison illustrates the different effects of the two industrial tables mentioned as compared with the Somers commercial table:-

(a) Somers:

| ft. | |
|---|---|
| 50 | =75.2% |
| 100 | =100% |
| 150 | =115% |
| 200 | =122% |
| 300 | =129% |

(b) Jerrett:

| ft. | = |
|---|---|
| 50 | 66.7% |
| 100 | =100% |
| 150 | =120% |
| 200 | =133% |
| 300 | =150% |

(c) MacLachlan:

| ft. | |
|---|---|
| 50 | = 60% |
| 100 | = 100% |
| 150 | = 128% |
| 200 | = 150% |
| 300 | = 180% |

In the 1952/3 Auckland revision, the Jerrett table. was used for all industrial land values and experience showed that while at was suitable for industrial streets which adjoined the commercial area and had a scattering of shop and commercial usage mixed, it did not allot enough value in depth for the wholly

industrial areas of Freeman's Bay and the Reclamation.

One difficulty encountered in making more progressive moves is the widespread and accepted use outside the Department of the Somers table, even for areas like the Auckland Reclamation.

In this latter locality where Somers was being used in connection with Auckland Harbour Board lease renewals, evidence thus being created to support the use of Somers, so that it is necessary in adopting any new tables to see that there is sufficient sales evidence to support them in Court. In other cases some caution must be exercised.

A point that is not always readily perceived in regard to the industrial tables is that just as more value is placed on depth, so it is when analysing an industrial sale, a correspondingly lower unit is deduced.

e.g., Section 100ft x 300ft-sold £10,000
Analysis:

| | per unit foot |
|---|---|
| Somers | = £77.5 |
| Jerrett | = £66.7 |
| MacLachlan | = £55.6 |

(2) Corners:

It has been suggested that the Zangerle corner influence table, suitably modified, be adopted for assessing corner influences on industrial sites as well as for commercial sites. After some experience in the matter, while its value for commercial sites is unquestioned, there does appear to be some room for doubt as to whether the added complication is warranted for industrial sites. Sometimes it can result in a lack of uniformity which it is intended to prevent.

e.g. (a) Site 50' x 100' A St. = £50/ft.
B. St. = £50/ft.
50' x 100' @ £50 = £2,500
Corner (at 25% of Zangerle)
200' x 50' @ 25% of 63% x £50 = £800. TOTAL: £3,300.
Corner influence = approx. 331/3% added.

(b) Site 50' x 100' A. St. = £50/ft.
C. St. = £25/ft.

In this case corner influence would be 16 2/3% or half of (a). As the chief industrial advantages of light, air and access may be largely unaffected by the lower side street unit, the above result could be incorrect.

It is therefore, suggested that we should consider whether it is not more satisfactory to value industrial corner influence by a simple percentage addition, limited to, say, 50ft. frontage, and adjusted for lesser frontages.

Example:

(i) Add 15% to 50' when both streets same width.

(ii) Reduce say 21% when side street lesser width.

(iii) Increase % when frontage less, than 50'-say to 20% for 30ft. (Increase % by 1% for every decrease of 4' in frontage.)

(3) Rear Sites:

The method recommended is:-

(a) Establish per perch unit on basis of unit foot price.

e.g., £25 per foot = £25 for 100 sq. ft.
= £25 x 272 per perch
100
= 68 per perch

(b) After a study of the relationships between front and rear lots determine a comparable perch rate for the rear site, and value accordinglly.

(4) Aanalysis of Sales:

The analysis of the sales of small industrial sites is generally complicated by the fact that these sites are commonly bought with old houses standing thereon.

If the house is vacant, the figure paid for the land is ascertained:-

| | |
|---|---|
| Sale Price | £5,000 |
| Less demolition (or removal) value of dwelling | 150 |
| Price paid for U.V- | £4,850 |

If the house is tenanted, the position is more complicated and it is often doubtful whether any satisfactory analysis can be made. In these circumstances the price is, of course, reduced by a figure which compensates for the time and difficulty involved in gaining possession. There are, however, some firms content to buy tenanted house properties at the cheaper price as a provision for the future, and who regard the house rents as a means of paying rates and expenses in the interim.

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In theory, an analysis of the sale price of a tenanted house property for industry would be as follows:-

Sale price ---------- £3,750
Add reduction in price on a/c tenancy-25% off, 331/3% on ----£1,250

V.P. price ---------- £5,000
Less demolition ---------- 150

Where there are sufficient sales of varying depth sites, the opportunity therein provided of checking and adjusting the industrial depth tables should not be overlooked.

(B) Large Industrial Sites:

Conversely to the small industrial sites, the large ones are more frequently found in localities some distance from the City centres. In Auckland, for example, the following localities are popular for large scale industry:-Penrose (5 miles), Mt. Wellington (6 miles) and Te Papa (6 miles). It has generally been necessary to go out some distance from the City to find the larger areas of land required and also obtain them at reasonable cost. Lower rates and taxes in the outer areas has also been an attraction.

Sometimes the large industrial sites are grouped in an industrial community as at Penrose. In other cases they may be single sites (usually back areas) isolated from other industrial sites in the middle of a residential suburb (e.g. Korma Mills, Royal Oak; Porters' Dye Works, One Tree Hill). In the latter case, the residential sales will be of little value other than to establish a minimum ifgure, and the valuer may be required (as suggested in Zangerle) to go further afield, possibly to other districts, to obtain evidence of value.

Large industrial sites are generally valued on an acreage basis, and there is little doubt that the acre is the most convenient unit of assessment and comparison. Further, this class of land is always bought and sold on an acreage basis.

A great diffculty in valuing on an acreage basis, has been to make adequate and consistent adjustments to the acre. age rate to allow for variations in front. age and depth.

Take, for example, two sites each of 2 acres.

SITE A. 4 chains frontage x 5 chains depth, and SITE B, 2 chains frontage x 10 chains depth. Even though the emphasis is on area, I think it will be generally conceded that Site A is considerably more valuable as an industrial site because (a) it has a greater frontage, and (b) it has less back land. This being so, how is the acreage rate for A to be adjusted for B to give effect to these differences?

There is also the diffculty with acreage valuing of arranging a satisfactory transition to unit foot values where large and small sites are intermingled, as is often the case.

The foregoing problems, as found in practice, are well illustrated in the following schedule of areas and frontages which are taken from a short sketch of the Great South Road, Auckland, south of Penrose:-

| | | | |
|---|---|---|---|
| 0-1-06 | 75ft. | 2-2-17 | 171ft. |
| 0-1-05 | 60ft. | 1--2--15 | 132ft. |
| 0-1-18 | 54ft. | 5-0-00 | 396ft. |
| 3-0-32 | 66ft. | 2-3-33 | 264ft. |
| 0-2-16 | 132ft. | 4-3-38 | 430ft. |
| 3-1-14 | 202ft 9 | 12-0-19 | 929ft. |
| 2-2-30 | 98ft. | 9-3-24 | 852ft. |
| | | | Irr. |
| | 100ft. | 51-0-24 | 30ft. |
| | | | chains |
| | | 0-2-15 | 132ft. |

# THE DETERMINATION OF UNIT FOOT VALUES

*(This Paper, which was read at the Institute Conference at Napier, was written by R. J. MACLACHLAN B.A., B.Corn., Dip. U.V. (Akdd.) F.I.N.Z.I.V.)*

All commodities encountered in every-day life have a unit of measurement. If we buy sugar, we specify the number of pounds weight we want. If we want eggs, we *buy by* the dozen, but those eggs are graded so that we know something about what we are buying, even if there is no unit of measurement for freshness. I remember in my younger days when bananas and oranges were sold at so many per shilling and I remember my puzzlement as to whether large bananas at 8 for a 1 /- were better buying than smaller ones at 12 for a 1/-. Then someone thought of selling bananas by weight. Even motor cars have a comparison of measurement-horse power or c.c. rating.

A very important commodity in our lives is land and it, too, must have a suitable unit of measurement. For land generally, the obvious measuring rod is that of area, and where land is used as the basis of some type of production, area is most suitable. Forty acres will carry as many sheep or cows, grow as much wheat or potatoes whether the area is 20 chains square or 16 chains by 25 or 10 chains by 40. Shape just isn't a factor, and when we say land in a certain rural district has sold for £50 per acre, one may ask "For how many acres" but never "what shape is it".

Urban land is, however, different. A 20 perch section of land may be 33' x 165' or 40' 1" or 50' x 108' 11" or 60' x 90' 9". x 136' Shape becomes important. If the section is to be used for residential purposes, the design of the dwelling will be influenced by the shape of the section. For commercial purposes, frontage is the main consideration. Depth is a consideration too, especially to ensure that it is adequate, but this is of lesser importance than frontage. For urban land it is, therefore necessary to have a unit of measurement for land valuation which will allow comparison of various parcels of land of different area, shape, frontage, and depth.

The unit of measurement adopted is the UNIT FOOT. This is a parcel of land having one foot of frontage to a street and a defined depth, the sides being parallel and at right angles to the street.

The defined depth can vary from district to district or from locality to locality. It should be the depth most commonly encountered in the locality-that is the modal depth. It may be 132' in one residential district, 120 or 50' or 65' in another. In commercial land 100' is commonly accepted as the standard. But whatever the standard depth adopted, it should be typical of the locality and it should be possible to compare values by reference to the unit foot.

A statement that a certain piece of land sold for £50 a foot is meaningless unless we know the depth of the land. Sales in a locality at £40, £50, and £60 a foot without reference to the depth would appear to be far from uniform, yet when expressed in terms of a common depth, they might be identical. This brings us to the need for a table to convert foot values at known depths to foot values at some common standard depth, and this table is known as a depth table.

## The Importance of the Depth Table

There are many depth tables in existence. How does the valuer know which one to use? S hould the same table be used for all purposes or should different tables be used for different purposes? I am going to be so bold as to say that for residential purposes, a depth table suitable in Wellington will almost certainly be unsuitable in Napier or Auckland. In fact, I will go further and say that a depth table found suitable in Ponsonby won't work in Remuera or Otahuhu. The different depth tables have different features. Some give greater added value than others for excess rear land and, inversely, usually give a lesser value on land shallower than the standard. Others may have defects in the opposite direction.

The depth table adopted must:

1. Be suitable for the type of locality-commercial, local commercial, superior residenitial, average residential, decadent residential. A locality where, under town planning, blocks of flats can be erected will need a different depth table from a locality where only single unit dwellings

can be erected, as depth becomes a more important factor in the former case.

2. Fairly reflect the difference in value for variations ir. depth and this can only be determined by reference to sales history in the locality. What differences have purchasers made in their offers for variations in depth? Supposing the standard depth is 132', it may be found that the difference in price warrants a table giving 5% reduction for a depth of 120', 10% for 110', 15% for 100', and for depths over 132' there may be a 5%o increase for 150', 10% increase for 175', 121% for 200', and *very* little extra for greater depths until the land becomes deep enough for subdivision into a front and back section. The table selected should reflect these trends and if no table is suitable, the valuer should make up his own to correspond with the known facts.

I am very interested in the investigation into depth tables being carried out by the Auckland branch. Here, by pooling of information, the selection of suitable depth tables for different classes of land has been accomplished for the benefit of all members. But I suggest that this investigation could go still further to determine whether depth tables should be varied for similar classes of land-residential for example-in different localities. I said earlier that a depth table found suitable in Ponsonby won't work in Remuera or Otahuhu. The Branch could prove me wrong and I would be happy to apologise for my rash statement.

The part that the selection of a suitable depth table plays in the determination of unit foot values cannot be over-emphasised.

## Other Factors To Be Considered

There are other factors that must be mentioned briefly before I turn to the main purpose of this paper. I have defined a unit foot as a parcel of land having one foot of frontage, rectangular in shape, and of a stand. ard depth. I must add also that it is assumed to be flat, level with the street, possessing no view, not being influenced by its proximity to a corner or by an alternative means of access from a rear street or adjacent right-of. way. Therefore, in a comparison of value by the unit foot, all of these factors must be eliminated. For corner influence, rear access, and rights-of-way, generally accepted methods have been evolved but for contour and view the matter is far from simple. Comparisons can still be made on a unit foot basis without eliminating contour and view provided that contour and view are common to all properties, but the units so determined cannot then be applied to an adjoining area which differs in contour or view. Always compare like with like.

Another factor to be considered is that of over size or under size in frontage. Consider 3 lots with the same depth but having frontages of 80', 50' and 20' respectively. If the 50' section has sold for £10 a foot it is most unlikely that the 80' section would sell for the same per foot figure unless it is subdivisible. Similarly with *the* 20' section which would almost certainly be too small for building purposes under the by-laws. The allowance to be made for over and under size frontages would vary too, according to the rating system in force, unimproved value rating having a more noticeable effect than annual or capital value rating. When the land is commercial and the unit say £500 per foot, the theory of plottage enters into the picture and could conceivably give a higher per foot value on the 80' section than on the 50'.

I have endeavoured so far to list all the factors that should be taken into account in the determination of unit foot values and what a list! Almost enough to be frightening but fortunately one seldom, if ever, encounters all of these at one and the same time. Yet their existence must be known to the valuer for failure to appreciate any one of them could lead to false assumptions which would be fatal in the making of an urban valuation.

## The Analysis Of Sales

I want to turn now to the determination of unit foot values in the light of these considerations. The most acceptable method of determining such values is by the analysis of genuine sales of real estate. Here again, a word of caution that the sales should be from a knowledgeable seller, desirous of quitting his property to a willing, keen, but not over-anxious buyer. Forced sales, sales from unwilling vendors to over-anxious buyers, family sales and the like should be treated with some suspicion as an indication of fair market value. Another factor is the date of the transaction; a sale in 1951 may be no indication of value in 1955. The more recent the sale the greater its importance.

## Analysis Of Unimproved Value Sales

Naturally I would like first of all to deal with the simplest of cases, the analysis of sales of vacant sections. Here all the price relates to the commodity whose worth we are to

analyse. In addition to being the simplest, sales of vacant land are also the most reliable indicator of unit foot values. Hence in a Court, more weight will be given to evidence of sales of vacant land in deducing an unimproved value than to any other approach. Unfortunately, these days, such sales are becoming fewer in number in the localities where the valuer really requires them-that is in the commercial and other built-up areas.

I do not think that I need to describe in detail how a sale of vacant land is analysed to arrive at a unit foot value. The process is exactly the same as the calculation of value of that same section when the unit foot value is known but the whole procedure is reversed. For example, in valuing a corner section, we say:-

(a) Multiply feet frontage by Unit and multiply the result by depth table percentage.
(b) Assess corner influence.
(c) The answer is the addition of (a) and (b).

In analysing a sale of the same section, we ifrst of all assess the added value of the corner influence, deduct this from the price, adjust the balance by means of the depth table to bring it to the standard depth, then divide by the frontage to get the UNIT FOOT value.

No matter how complicated the section might appear through irregular shape, acute an obtuse angled corners, rear street access, corner influence and so on, the procedure for analysing a sale is always exactly the opposite of the procedure on a valuation of the same section, so that we can always check our analysis to see whether it will work backwards as a valuation. This is a more than useful check as it tests the method as well as, the arithmetic.

### Analysis of Capital Value Sales

The second method of determining unit foot values is from sales of improved sections, or capital value sales as they are more commonly known. The aim here is to assess what proportion of the purchase price represents the land only, and it will be immediately obvious why sales of unimproved land are preferred by the Courts as differences of opinion as to how much of the price is for the land can lead to a variety of unit foot values in the analysis of one sale. It would be fair to say that there would be as many different answers as there were valuers analysing the sale and the reason for this is not difficult to see.

The Valuation of Land Act 1951 defines Capital Value, Unimproved Value, and Value of Improvements, the sum of the two latter being commonly recognised as equalling the former, or expressed as a formula: -

C.V. = U.V. + V.I.

An elementary knowledge of algebra tells us that this can then be expressed as:

C.V. - V.I. = U.V.

"Improvements" are defined in that Act at great length but "Value of Improvements" is defined very briefly as meaning:

> "the added value which at the date of valuation, the improvements give to the land".

The underlining of "added" is mine and this is the key to the use of capital value sales in determining unit foot values. Ever since the definitions of capital value, unimproved value and value of improvements were first written into the Act, there has been controversy as to how a valuation should be arrived at. Is the capital value assessed first, then the unimproved value and finally the value of improvements arrived at by subtraction? Or is the capital value arrived at by adding the unimproved value and value of improvements, both assessed separately? Or is the unimproved value arrived at by subtraction? The case Thomas V. Valuer-General decided by the Court of Appeal in 1918 touched on this point without having to decide it definitely and this judgment is still referred to today when an argument arises. The Chief Justice, Stout C. J. said that the unimproved value must be ascertained separately without a method of mere subtraction. Hosking J. said he could not see that a valuer's method was wrong unless it ended in a wrong conclusion. I respectfully submit that Hosking J. was taking a liberal view which is becoming more and more justified as time passes. Does the method really matter unless it ends in a wrong conclusion?

Let us look at a simple case. A person buys a section for £500 and erects a residence at a cost of £3,500. On this evidence it appears that the capital value should be £4,000. But the property will sell for only £3,500. Sections in the locality are still selling for £500 so that if the capital value is £3,500 the value of improvements can be only £3,000 as this is "the added value which at the date of valuation the improvements give to the land". If the improvements are valued at cost, the unimproved value is zero. Which approach ends in a "wrong conclusion"? I think the answer is obvious.

This example emphasises that the value of improvements is added value and not their cost or their cost less depreciation. The cost approach can give a most misleading result esP4cially when applied to a sale of an old building. Take as an example a two-storey wooden building in a commercial area. Being built of wood it is probably at least 50 years old and if replaced would have to be built in permanent materials. *Even* if a replacement cost could be ascertained, who can say with any certainty what should be allowed for depreciation and, even more difficult, what should be allowed for obsolescence?

Suppose a sale of £20,000 has *been* effected of an old building on a section 40' x 100'. Every £1000 put on the value of the building reduces the Nnit foot value of the land by £25 so that £4000 on the building gives a unit foot value of £400 while £7000 on the building reduces the unit foot value to £325.

There is no simple formula for assessing the value of improvements in the analysis of such a sale. Here the valuer's experience plays a *very* big part, he will know of other sales, he will know what shops rentals can be obtained, he will know the demand for upper lfoor space. If he is observant, as he should be, he will be a student of urban land economics even though he has never thought of it this *way* and he will be studying the etfect of transport, pedestrian crossings, the trend of pedestrian traffic, changing land uses, changing public policies, population growth, the dependence of the city or town on industry or the surrounding farming areas. All of this knowledge, coupled with experience in the analysis of sales, will enable him to arrive at the added value of improvements and thus to ascertain what part of the purchase price represents unimproved value.

In arriving at the value of improvements he will generally use an approach based on square foot area and, by judicious use of net rates for comparable buildings previously deduced, he will check his findings.

### Capitalisation Of Nett Return

A third method of valuation is by capitalisa. tion of net return in place of use of sales information. The theory here is that a capital value can be deduced which can then be treated in a similar manner to the analysis of a capital value sale to arrive at a unit foot value. It is with commercial zones that this method has greatest application.

This method should be used with caution. There will be instances where, with a complete lack of unimproved value sales and a paucity of capital value sales, an alternative approach is necessary. I can think of one or two instances where leasehold land is encountered and sales evidence, scanty as it is, is of leasehold interests. In such a case, another approach is of advantage but I would not recommend it where the volume of freehold sales is adequate. Just as unimproved value sales are superior to capital value sales, so are the latter superior to deduced capital values from rental information. It is better to work from a known capital value to get to an unimproved value than to have first to arrive at a capital value as part of the process. The valuer's opinion as to allowable items of expenditure, not to mention his assessment of gross rental, makes the arriving at a net income a matter open to differences. Then the determination of the rate of interest at which this net income shall be capitalised is an added complication. £900 capitalised i'a 4₁% is £20,000, but capitalise it at 51'/c and the answer, is £18,000.

I wonder if there is not a more direct approach than this which would be simpler and allow for less margin of error, and I submit this with some misgivings as I have no proof of my contentions. I have for some years put forward the theory that in the main shopping streets of cities, the return on the unimproved value is obtained in the shop rents-that is, there is no unimproved value to the upper floors apart from that attributable to the entrance vestibule. If this is correct, the shop rental is based on the U.V. + Value of Improvements of the portion actually within the tenancy.

Let me put forward an example:-

Itental is £ 15 p.w. ( £ 780 p.a.) for a shop 15' x 50' external measurements.

1780 p.a. capitalised (1 9%= £ 8667

Floor space of shop 750 sq. ft.

(' £4 = £ 3000

Deduced U.V. (15' x 50') £5667

1' x 50' = £378

1' x 100' = £ 378 $\times \frac{100}{72.5}$

= £ 520, say £ 500

The method outlined is to capitalise the up-to-date annual rental at the rate of gross return known (by substantial evidence) to exist in the locality (in the example this is taken at 9%). This gives a capital value for the shop from which is taken the value of improvements. In these days of attractive shop fronts and streamlining, a shop in an old building, even if built of corrugated iron, appears to bring as much as a shop in a

modern ferro-concrete building, hence I have taken the building off at approximate cost of a one-storey shop building. Deducting this from the capital value gives an unimproved value for 50' in depth which I have then converted to a standard of 100' and thus arrived at a unit foot value of £500. So that a rental of £1 per foot frontage per week has converted to a unit of £500. There must be a direct relationship between the shop rental and the unimproved value because both are influenced by the same economic factors and each is, to a large extent, dependant on the other.

### The Hypothetical Building Approach

A fourth method which I think is altogether too theoretical is the hypothetical building approach. By this method the valuer considers the site as vacant, proceeds to erect an imaginary new building which presumably is of the most economic height for conditions ruling at that time, assesses the rentals that should be obtainable, and finally arrives at a net return which is capitalised to arrive at a capital value. The whole approach is based on a series of hypotheses and a mistake in judgment in one item can make a huge difference in the final result.

I feel that this method has little to commend it. In fact I find it extremely hard to think of an occasion when its use might be even mildly justified. The best example I can think of is that of a valuable site with and old and completely inadequate building erected on it. In this instance, the third method would be unreliable but I would have to be in a position where there was a complete lack of sales evidence before I would be forced to turn to the hypothetical building approach.

### Comparison Of The Four Approaches

I. have outlined the four recognised methods of urban valuation by which unit foot values can be determined. They are:

1. Analysis of unimproved value sales.
2. Analysis of capital value sales.
3. Capitalisation of net return.
4. The hypothetical building approach.

These same four methods were recently discussed by the Land Valuation Court in the matter of appeals by the owners of seven shop properties in Wanganui against the valuations made by the Valuer-General on a revision of the Valuation Roll for the City of Wanganui dated 3st March, 1952. The judgment of the Court, as delivered by Archer J., is reported in the December 1954 issue of the N.Z. Valuer. All four methods were advanced in evidence and the Court came down heavily in favour of the order of importance in the same order that I have listed above. There is no necessity to spend time quoting extracts from this judgment as it is of such great importance to urban valuers that I am sure you have all read it and even memorised portions of it.

### Determining Unit Foot Values For All Properties

So far I have been detailing the method of arriving at unit foot values for certain properties and, in particular, those that have been recently sold. If we plot these on a plan of the locality, we will see that they appear as an irregular pattern, some more or less grouped, other isolated and leaving considerable areas with no information at all. In city areas it is possible to have complete streets blank.

Another featurL will be that there is no marked degree of uniformity. Let us take a residential street. We may find unit foot values of £17, £19, £15, £22, and £17, with on apparent reason for the differences. The range is £15 and to £22 and the average is £18. At this stage the units should be put into time spread over a 2 year period. The valuer's experience and judgment in interpreting this evidence now becomes the vital factor. Is the market steady, is the locality likely to progress or retrogress? His determination of the order-earliest sales first-and the order may now be £15, £17, £19, £17, £22. This simplifes our task as the trend is upwards. But supposing the order was £19, £17, £22, £15, £17, and that the sales are more or less evenly appropriate unit foot value will depend on his answer to these questions.

In the city area also, the valuer will have to determine units for streets based on an irregular pattern of units which lack uniformity. Here the skill of the experienced valuer is paramount. He will have to observe the trend of pedestrian traffic, to notice differences in traffic between two sides of the streets, to know transport routes and the position of tram and bus stops, to know which side of the street is sheltered from the prevailing wind and so on. The human being is a peculiar animal. He tends to follow the crowd and will habitually walk down the crowded side of a street even if he is not interested in shopping. He tends to cross the street at

popular points. In Wellington, for example, pedestrian counts have shown that the west side of Willis Street carries a greater pedestrian traffic that the east side. But as one proceeds southwards, a point is reached round about Mercer Street where the east side begins to predominate. The valuer's own observations, reinforced by actual pedestrian tallies where these are available, are a valuable aid in the ifxing of units for key points and for the grading between those points.

In 1953 the Wellington Branch of this Institute set up a Unit Values Committee comprised of nine or ten valuers, some practising, others non-practising. All centre city sales were analysed and with the aid of pedestrian tallies taken annually since 1951, unit foot values were determined for the points at which the pedestrian tallies had been taken. All information was pooled, all knowledge was shared, a wealth of experience was brought to bear on the problem and a very satisfactory result was achieved. In 1954, the units were reviewed in the light of 12 months experience, together with the benefit of more sales, and few alterations to units were necessary. In the 1954 investigation, the original scope of the project was enlarged to bring in other streets and areas so that there is now a pattern of units stretching from Thorndon to Te Aro flat.

### Conclusion

In the field of urban valuation, there are many opportunities for investigation and research. Most of the relevant literature is American or Australian and we have in the past tended to accept conclusions from other countries as having application here. Is this being realistic? Because someone in America comes to a conclusion based on his research under American conditions, should we accept ii unreservedly as being applicable in New Zealand? Of course not. We can try their theories in the light of our own conditions and adopt them, discard them, or modify them according to the result of the investigation. In the determination of unit foot values we should use methods proved by our experiences rather than approaches recommended by overseas literature.

# FAIR RENT ASSESSMENT

The following is a brief precis of a judgment delivered by the Court in Auckland, concerning the fair rent fixation of a modern five-storey building occupied by Chas. Begg and Co., located in the centre of the highest valued retail neighbourhood of the city. Chas. Begg and Co. are the only tenants and occupy the entire building. The basic rent was £3206 per annum, plus rates. This was increased in 1951 to £4490 p.a. plus rates. The valuations presented by the several Valuers at this Court hearing ranged from £107,000 to £124,850.

The landlords had received an offer to purchase at £115,000, and this figure was ultimately adopted by the Court as the capital value of the property, which was also subject to a mortgage securing £52,000 at 5% interest. In most of the local cases a return of only 41% interest had been allowed owners. The Court stated in its judgment that it seemed proper to allow the landlords the full interest paid by them namely 5% on £52,000. It was considered to be in the nature of a fined charge, and in principle, a proper increase in interest payments where these do not exceed normal rates may be treated in the same manner as an increase in rates or insurance premiums.

The tentative rental without rates was computed as follows:-

| | | | | |
|---|---|---|---|---|
| 5% on 52,000 | = | 2600 | 0 | 0 |
| 41% on 62,525 | = | 2813 | 0 | 0 |
| 2%1 on 53,275 | = | 1065 | 10 | 0 |
| Allowance on floor coverings | = | 71 | 5 | 0 |
| Land Tax | = | 650 | 18 | 6 |
| Insce. Premiums | = | 134 | 19 | 9 |
| General expenses | = | 52 | 0 | 0 |
| | | 7387 | 13 | 5 |

The increases in the market value of the building over the years belonged to the owners. This value could be realised on a sale and the proceeds when reinvested would produce an income similar to that to be derived from a rental to the increased value. After taking all relevant matters into consideration, the fair rent of the premises was fixed at £7350 p.a. plus rates, which is approximately 2 1-3 times the basic rental of £3206.

# The Validity of the Square Foot Method as a Basis for Land Valuation

*Br A. G. STEWART*

Since the early beginnings of valuation practice in New Zealand, attempts have been made to standardise methods for the assessment of land value for residential, industrial and commercial land by the use of foot frontage formulas purporting to reflect the utilization factors governing land value.

Approval for such methods have been reinforced from time to time in various court hearings involving land value. Valuation practice by Government and Local Authorities for rating purposes have found foot frontage a convenient and expedient vehicle for carrying out large numbers of valuations in a short period of time and making explanation to taxpayers as to the variation of values between dissimilar allotments.

With the tendency of Local Authorities to govern the development of central city industrial and commercial property on the basis of plot ratio with minimum frontage and maximum height restrictions, it has become apparent to the author that it may be time for local valuers to look more closely at the validity of such methods of valuation which emphasise frontage as the yardstick of utility and so value. An alternative to the frontage basis of valuation used in several overseas countries is the area basis. While this method is accepted and used here for larger industrial properties and properties which are incapable of comparison by established methods, there is strong resistance among some local valuers to the recognition of the square foot method of comparison of value for smaller industrial and commercial allotments in central areas.

In support of this argument it is interesting to note extracts from several articles and letters received by the author on enquiry as to current practice overseas.

*1. Question*

In cases where the area of the site is pre-requisite to maximum development can it be said, that the value of one square foot of land at the full depth of an adequate site is equal to the value of one square foot at the frontage or anywhere else within the total area?

*Answer*

In 1866 Judge Murray Hoffman in New York propounded the theory that the first 50 feet of the depth of a 100 feet allotment carried two-thirds of the total value, From that beginning tables were evolved which purported to assign percentage values to varying depths; the unit foot value being based upon a notional depth of 100 feet. The original tables were subsequently modified by various authorities on real estate valuation and purported to rest upon analyses of sales of parcels of land with varying depths.

Those systems were particularly useful in making appraisals for taxation purposes of blocks with varying depths and having irregular shapes.

When the depth tables were evolved they reflected the utilisation of real estate at that time, such as:

(a) Dependence upon natural light, as far as possible, during trading hours;

(b) Dependence upon natural ventilation;

(c) The importance of show window space as compared with counter space and trading areas within retail shops;

(d) The poor utilisation of upper floors because of the types of elevators in use at that time;

(e) The lack of controls over site development.

It was apparent even before the 1939-45 war that depth tables were becoming antiquated and that their use was becoming restricted to the determination of values for purposes of assessing rates and land taxes.

In 1936 an appeal was made to the High Court of Australia by Dymock's Book Arcade Limited against the unimproved value determined by the Commissioner of Taxation of an arcade situated in Sydney. In his judgement of 18th June, 1937, McTiernan J., in reference to the use of the Somers' Depth Tables, said:-

> "The system provides for the computation of the value of back or internal land on the basis of a unit foot. I do not consider it necessary to discuss the system in detail. A perusal of the book ("The Science and Practice of Urban Land Valuation" by Pollock & Scholz) shows that this system is designed primarily for the purpose of obtaining uniformity in carrying out a valuation. The cross examination of Mr Waldron and the diagrams Exhibit "S" and Exhibit "16" show that the system may produce startling results at least where it is not being applied as a general standard of value. The witness applied the Somers' system rigidly in computing the value of each of the six sections but it would be quite unsafe to assume that the result which the legislature intended to be reached by applying its own criterion could be produced by the inflexible application of a mathematical formula constructed after the consideration and adjustment of particular data based on the experience of sales in another country.

In "Principles and Practice of Valuation" 1st Edition, January 1949, the following observations appear:

*"LIMITATIONS TO THE USE OF DEPTH TABLES.*

> Depth Tables have been designed in order to enable rapid comparisons to be made in estimating unimproved values for rating or taxation purposes.
>
> If in Australia a depth table were constructed for each type of property in each district and such table rested upon the secure bases of sales and rental analyses, it would be possible to employ those tables with confidence in making such types of valuations as would rest upon the summation of land and building values. In the absence of precise data obtained from research the best the practising valuer can do is to observe if sales are made at figures which reasonably conform to any of the published tables.
>
> If there is conformity the tables may be used with discretion."

A further observation is made in the same work:

> *"Caution.* Depth Tables are of use provided they conform to observed facts. Their applicability to any particular case must be capable of proof."

Because of changes in economic considerations affecting the utilisation of land, and as the result of limitations imposed by Authorities upon site development, the use of depth tables has been superseded by the use of the square foot as the unit of comparison between city properties.

The reasons for the change in the unit of comparison are:-

(a) The restrictions imposed by Authorities which fix the maximum area of lfoor space in relation to the area of the site. This means that every foot of land must possess an equal value

because it is brought to account in the design of the building and so ranks equally with every other square foot.

(b) The design of buildings affords better lighting and ventilation to the upper floors, and, further, improve. ments in the interior lighting and the extended use of air-conditioning mean that one foot of space is of equal rental value as compared with any other.

(c) On the ground floor the show windows once considered essential to the conduct of a business have been superseded by advertising by various media and by the display of goods within the shop itself and thus, even at ground floor level, proximity to the frontage, which initially meant show window space, has greatly decreased in importance.

(d) In modern buildings the greater part of the revenue is derived from the upper floors which are rented uniformly on a square foot basis.

In Sydney, city land is valued upon the basis of a square foot with the value being spread uniformly over the site.

(Question addressed to and answered by Dr. J. F. N. Murray B.A. D.Litt. Chartered Surveyor. Life Fellow Commonwealth Institute of Valuers: 1967).

2. "Frontage and Depth lose the significance which they hold in retail areas, when considered in relation to factory lands, and comparisons between factory lands may, subject to various limitations, be made on an area basis, by adopting a value per square foot or per square yard.

Some depth tables for industrial and residential districts have been published but are of small importance."

(Dr. J. F. N. Murray, *Principles & Practice of Valuation*

Sydney: Published by Commonwealth Institute of Valuers, 1963) p. 144)

3. (a) *Business Land*

At the present time, almost all land used for business is sold or purchased on a square foot basis. However, assessors usually price this type of land on a foot front basis, applying depth factor and corner influence tables in order to maintain equalization and uniformity of assessments. This method is also much easier to explain to the taxpayer when making comparison of similar values of prices of land that differ in size. The one notable exception to this procedure is shopping centre land which is assessed on a square foot or acreage basis.

*(b) Industrial Land*

Industrial land is usually sold and assessed on a square foot or acreage basis depending on the size of the tract.

(C. R. Bartlett *Assessing & the Appraisal Process* (Chicago: International Association of Assessing Offices) ).

In an endeavour to establish the validity of the square foot method in Wellington City the following investigation was undertaken on sales of land in the Te Aro Flat area. This area largely comprises sites of under 1 rood in area and has dedeveloped predominantly as a service or small-manufacturing locality, being within I mile radius of the city centre. The land is generally level and has been zoned for light industrial and warehousing purposes under the Wellington City Council's undisclosed District Scheme. Sales used were all within the area bounded to the north by Manners Street and Courtenay Place, to the east by Cambridge Terrace and to the west by Cuba Street.

The investigation was confined to sales of vacant or near vacant land which took place from early 1963 to approx. August, 1965. For the purpose of the analysis, the date of transaction was ignored as was the exact locality of the site for the reason that these factors should affect all methods of analysis equally.

All sales within the author's knowledge during this period were used and one third of Zangerle's Corner Lot Percentage Table was applied for uniformity to foot frontage rates where applicable, no allowance being made for this factor in the first instance to the square foot rate.

A total of 11 sales were used, listed in order of depth as follows:-

| | *Dimensions* | *SaleUnit* Rate *Priceper sq. ft.* £ | Somers *Cleveland* £ | Unit foot frontage *ferrett 100'* | *Local Ind. Table* | *linrovements* |
|---|---|---|---|---|---|---|
| | 60' 0" x 74' 0" | 11,000 | 2/10/- | 208 | 215 | 226 | Vacant Land. |
| | 25' 1" x 74' 6" | 5,000 | 2/12/- | 227 | 232 | 245 | Old Dwelling. |
| | 53' 1" x 75' 0" | 10,000 | 2/12/6 | 220 | 228 | 230 | Old Dwellings demolished and new factory erected. |
| Cnr. | 29' 11" x 75' 0" | 7,450 | 3/ 6/- | 221 | 228 | 218 | Old Buildings demolished. |
| | 86' 0" x 95' 0" | 32,000 | 2/19/- | 380 | 382 | 385 | Old dwellings demolished and new factory erected. |
| Cnr. | 65' 9" x 99' 6" | 24,000 | 3/14/- | 250 | 250 | 250 | Old building demolished and new warehouse erected. |
| | 26' 0" x 100' 0" | 5,500 | 2/ 2/6 | 212 | 212 | 212 | Old dwelling demolished and new factory erected. |
| Cnr. | 40' 0" x 110' 6" | 16,000 | 3/13/- | 210 | 232 | 236 | Vacant Land. |
| | 50' 0" x 132' 3" | 20,000 | 3/ / | 360 | 352 | 336 | Vacant Land. |
| | 48' 0" x 132' 11" | 16,300 | 2/12/- | 292 | 284 | 269 | Old buildings demolished new factory erected. |
| | 70' 0" x 153' 7" | 22,500 | 2/ 2/- | 259 | 266 | 247 | Vacant Land. |

*Variance High to Low*

| | |
|---|---|
| Square foot rate | = 76% |
| Somers-Cleveland | = 83% |
| ferrett 100' | = 80% |
| Local Industrial Table | = 82% |

After allowing 20 per cent for corner influence on the square foot rate (shown in brackets above) variances between highest and lowest rates over the 11 sales were:-

| | |
|---|---|
| Square foot rate | 43% |
| Somers - Cleveland | 83% |
| ferrett 100' | 80% |
| Local Industrial Table | 82% |

The highest and lowest sales under each method of analysis were then eliminated completely from all methods, the remaining 6 sales showing variances as follows:-

| | |
|---|---|
| Square foot rate | 13.5% |
| Somers - Cleveland | 39% |
| ferrett 100' | 24.5% |
| Local Industrial Table | = *23.501o* |

*Conclusions*

Although no one method is shown to be completely infallible, it is considered that of the three unit foot frontage methods the Somers-Cleveland table, as could be expected from its author's intent, is considered unsuitable for the valuation of industrial land. While the other two tables come nearer to giving a basis of comparison, they follow each other closely and do not appear to warrant separate consideration in this analysis, the Local Industrial Table being an adaption of the original Jerrett Table and not widely used.

In applying the square foot rate the valuer has established rates varying between £2/2/- and £3/-/- or a difference of 18s. Normal valuation practice subdivides such rates into 2/6 intervals, thus the valuer has a choice of 7 variations under this heading. Conversely in applying a unit foot frontage rate the valuer has established rates varying between £212 and £382 or a difference of £170, which with a normal £5 interval gives a choice of 34 variations.

This indicates that a valuer without relying on his knowledge of market demands in the locality, by adding the average variation to the basic square foot rate will be within 21 per cent of market value of the property whereas applying the same principle to the Jerrett Table, he will only be within 40 per cent of market value.

It would appear then, that in this locality with a minimum frontage requirement of 50' 0" set by the local authority and a maximum depth of approx. 132' 0" set by the street pattern, the optimum sized site must lie somewhere between these two limits.

It is apparent from a more general study of the locality that after taking account of the general upward trend of sales, the main factor affecting the square foot rate is the eventual earning capacity of the resulting building which can be erected on the site. It is normal practice in this locality to let lfoors to single tenants at an overall rate per square foot up to a net area of approx. 5,000-6,000 square feet. Thus on a site with a minimum frontage of 50' 0" and a depth of between 100' and 120', to the owner of the property each square foot has an identical earning capacity and it seems a logical conclusion to value on this basis. As the site increases in area from these proportions, it may be necessary to accept a lower rental for rear areas and so the rate per square foot of land value will decrease at a flat rate over the additional area until the next optimum is reached. The principle of relating earning capacity to value is supported by the Somers-Cleveland Table which was developed primarily for the valuation of retail shopping areas and takes as its base the fact that the rental value of retail shops was dependent on the display frontage. This concept is in turn altering with the growing predominance of shopping centres and large departmental stores.

As is the case in applying all methods of comparison, the valuer must call upon his judgment as to the potential advantages and disadvantages of the particular site, as against the established sales in the locality. The method which limits such judgment to the greatest degree, if valuation is to approach a scientific endeavour, should be the method primarily used. The value of land in the Te Aro Flat locality as indicated by the above investigation, is governed primarily by the earning capacity of the resulting building which can be erected on the site with little regard to the frontage after local authority requirements have been satisfied.

## Market Value of Leaseholds

(Continued from Page 172)

The method satisfied a large proportion of the sales analysed and is still in use with satisfactory results. Today, I tend to vary the right of renewal percentage according to the area in which I am valuing, but generally, for less progressive areas, will use 1- per cent and for land in demand will perhaps increase this to 2 per cent. It may be that in Northern cities, with their more dynamic growth and consequent rising land values, an analysis might show the 2 per cent used in Otago to be on the low side. Perhaps in (say) Wellington, 3 per cent should be adopted in which case, the answer would be in the same range as that developed by Mr Gellatly.

* This article was written prior to 'Decimal Currency Day' - the delay in publication being in no way caused by the author.-Editor.

# Special Aspects of Compensation

*Squire L. Speedy, B.Com., M.Phil (Hons.), F.N.Z.I.V.*

Introduction:

At first blush, valuations made for compensation purposes would seem to be little, or no different from valuations made for other purposes. Indeed, there can be many instances when such valuations can and should be identical. After all, as it is the task of a valuer to find the open market value, how can a property have more than one market value? The answer was sought recently by a claimant's counsel when he asked the acquiring authority's valuer: "Would you please explain your understanding of the effect of section 29 of the Finance Act (No. 3) 1944 on your valuation?"

As Section 29 of the Finance Act (No. 3) 1944 is the statutory basis of compensation valuations I propose to discuss some valuation aspects of that section and other related aspects of the Public Works Act 1928 which are of special importance to valuers. This paper augments my earlier research paper presented to the 9th Pan-Pacific Conference, Vancouver, Canada (published 1978 by the Legal Research Foundation, School of Law, Auckland University, under the title Compensation for Land Taken and Severed).

Any valuer undertaking a valuation for compensation purposes, should not only have a good working knowledge of that Act and other relevant sections of the Public Works Act 1928 and its amendments, but also, he should be aware of the relevant common law principles most of which, but not all, have been published in the New Zealand Valuer, Land Valuation Case Book (Ed. J. P. McVeagh and E. J. Babe, (1967), Wellington, Butterworths), or in The Valuer (Australian). Other important cases are published in the New Zealand Law Reports or other law reports. In my complementary research paper I cited over 150 relevant cases! It is important that valuers should have ready access to all relevant law reports as soon as possible after they are available; and what is equally important is that valuers undertaking compensation valuations (and any valuation for that matter) should keep up to date. However, a serious problem now exists in that there is no regular method of reporting all relevant current valuation cases.

... full compensation ... (Section 42 (1))

The use of the term `full' compensation in Section 42 (1) of the Public Works Act 1928 has come generally to mean the value of the land taken, together with the net loss in value of any severed residue land, disturbance losses (subject to special rules), allowable costs, and an extra payment for the loss of a home in limited circumstances.

Taking land is the ultimate interference with an owner's property and common law rights which even in New Zealand reach back to Magna Carta of 1215. It is only right that a dispossessed owner should be given a just amount of compensation based on his economic loss. `Compensation' is a metaphorical expression, the idea being derived from a pair of scales. It is proportioned to the loss sustained, an equivalent to what is taken from the owner. The `principle of equivalence' is that statutory compensation cannot and must not exceed the owner's total loss. It is unfair to the owner to pay him less, and it is unfair to the public for the acquiring authority to pay him more. The enunciation of this fundamental of all principles of compensation is easy, but its application to the particular facts is not easy, neither is it easy to state the general criterion

which will afford a practical test in all cases. (Refer Horn v Sunderland Corporation [1941] 2 KB 26 at 49). It is necessary to find the money equivalent for the loss, that is the pecuniary value to the owner contained in the asset. It is this principle of equivalence which limits the concept of `full' compensation to losses within the established judicial rules and precedents. The principle of equivalence is not only a valuation problem but judicial, social, economic, and administrative ones. Society must be prepared to allocate sufficient of its scarce economic resources to place the owner, as far as is practicable in the same financial position as he was in immediately prior to the compulsory acquisition.

Coupled with the principle of equivalence and the right to `full' compensation is the `principle of liberality'. Simply stated it is that genuine doubts are to be resolved in favour of a liberal estimate. (See for example Tawharanui Farm Ltd. v Auckland Regional Authority [1976] 2 NZLR 230; 23 NZV 3 (September 1976) 161 at 163). This does not alter the normal valuation criterion, nor does it enable a valuer to be swayed by sentiment or bonhomie. What it means is that the Court should lean towards the owner, but only as justified by the evidence.

For compensation purposes the owner's land is `just' capital for whatever purpose he chooses to use it. Compensation must stem from a statutory right, and as `full compensation' has not been defined its meaning depends on the judicial interpretations. It is a cardinal principle of compensation law that the owner is entitled to be put back into the same position in respect of his capital as he was in before the taking. He is also entitled to be compensated for expenses and loss arising directly and naturally from the taking. But an owner is not entitleed to more than a fair assessment of the amount of his actual loss.

Where the value of land taken . . . has been increased or reduced by the public work, or prospect of work the amount of that increase or reduction shall not be taken into account. (Section 29 (1) (d))

The practical effect of subsection (d) is for the valuer to value the land in accordance with the Cedar Rapids principle (Cedar Rapids Manufacturing and Power Co. v Lacoste [1914] AC 569; Marshall v M.O.W. [1950] NZLR 339; LVCB 127). For compensation purposes the value of land is to be tested by the imaginary market which would have ruled had the land been exposed for sale before the prospect of the public work. So now we have it! We have to make an `imaginary' valuation. When you stop to think about it, this must be so. But perhaps, as practical and professional people we would prefer the term `hypothetical situation' or the more straightforward phrase `based on assumptions . . . '. Nevertheless, it adds up to the fact that valuers must use their professional imaginations to eliminate from their figures any influence which the public work would have had in increasing or decreasing the value of the property.

First, it is necessary to disregard any designation placed on the land as part of the public work. Whatever might be the position with valuations made for other purposes where designation or zoning must be taken into account, for compensation purposes any such designation must be disregarded where it alters the value of the property. For many years this point was a great worry, as the position was not at all clear. There were several cases which gave authority for designations to be taken into account, but these were not necessarily compensation claims to which section 29 applied. There was a tendency for the valuers of acquiring authorities to take the view that designation or zoning should be taken into account, while valuers for the claimants would assume the

opposite. The way was pointed to by Cameron v M.O.W. [1963] NZLR 690; LVCB 377; and confirmed by Lewis v Christchurch Drainage Board [1972] NZLR 229; which viewed a designation as the first step in the taking of the land. In Neil Construction Ltd. v Manukau City Council (1977) Supreme Court, Auckland; NZV Vol 23 No. 8 (December 1977) 426, it was held that the existence of a designation of a proposed reserve should not effect the value of the land. It is necessary to ignore any change in value to land caused by the designation to the extent that its value is increased or reduced. Accordingly, the land must be valued having regard to its underlying zoning.

Valuers who have been trained with the idea that there can only be one value for the property should recognise that the provisions of compensation law produce a two value concept. The principles which determine questions of compensation for land compulsorily acquired are not of assistance on questions of rating assessment or estate duty. (Gollan v Randwick Municipal Council [1961] 1 AC 82, The Valuer (Australian) Vol 17 p 620; The Commonwea,, '?h v Arklay [1952] 87 CLR 159).

. public work . . (Section 29 (1) (d))

The term `public work' has a fairly wide meaning being defined by section 2 of the Public Works Act 1928 as:

> "Every work which . . . Government or any Minister of the Crown or any local authority is authorised to undertake under this or any other Act . . . ".

It is quite common for an acquiring authority to plan for a large area to become a public work such as a housing scheme, hospital or school site, recreation reserve, drainage site, airport or hydro-power scheme. Such designation can fairly be said to be part of the same public work. Where the scheme has gone on, or has been in the offering over a period of years the valuer must take special care to see that the effect of the public work has not influenced his comparable sales and consequently his valuation.

. Open market value . . . (Section 29 (1) (b))

Valuers who are used to the definition of value under the Valuation of Land Act 1951 are reminded that for compensation purposes section 29 lays down a special definition of land which is as follows:

> "In determining the amount of compensation . . . the value of land shall, subject to as hereinafter provided, be taken to be the amount which the land, if sold on the open market by a willing seller on the specified date might be expected to realise . . . "

This wording is in contrast with the definition of capital value of land contained in the Valuation of Land Act 1951, which is as follows:

> " . . the sum which an owner's estate . . . might be expected to realise . . . if offered for sale on such reasonable terms and conditions as a bona fide seller might be expected to require."

While it is generally considered that the section 29 definition did not establish any new valuation criterion, the effect of section 29 raises important valuation assumptions. In recent years a distinction has developed in respect of designations. The `normal' valuation must take designations into account. In re an Arbitration Between Auckland Hospital Board and the Auckland Rugby League [1966] NZLR 413 it was held that town planning restrictions which limit the purpose for which the land may be used must be taken into account for fixing ground rent of land designated `private open space' and not

industrial. In Canterbury Club v Christchurch City Council (1961) 1 NZTCPA 150 the distinction between zoning and designation was drawn and it was observed that the distinction was neither technical nor academic because of its importance for compensation purposes.

The introduction of the word `open' to describe the market was considered in Inland Revenue Commissioner v Clay [1914] 3 KB 466 at 475. It was held to mean such amount as the land might be expected to realise if offered under conditions enabling every person desirous of purchasing to come in and make an offer, and if proper steps were taken to advertise the property and let all likely purchasers know that the land is in the market for sale. In Priestman Collieries Ltd. v Northern District Valuation Board [1950] 2 KB 398 at 406, 407; the phrase `open market' was not regarded as a purely hypothetical market exempt from restrictions, but one that might have taken place in the actual market. This comment must, of course, be read subject to the need to disregard the affect of the public work under section 29 (1) (d).

While it becomes quite clear that the effect of the public work on the value of the subject land is to be disregarded, it should be noted that this rule also applies when considering comparable sales evidence. The Clay and Priestman rules mean that sales which do not fall within the `open' market concept do not form a sound basis as evidence, even when not part of the public work, but some other public work.

Once it is known that a property will be acquired `one day', there is no truly `open' market. Any sales or settlements made under the shadow of compulsory acquisition will take this prospect into account, with the associated uncertainties of continued ownership, the amount of compensation and general upheaval. It is most unlikely that any transactions involved in a designated area will be open market sales within the valuation criterion of willing-buyer-willing-seller unaffected by the prospect of the public work. I have known owners whose properties are in line for taking to `panic'. They have either sold out or negotiated in unfavourable circumstances with the acquiring authority. Some owners reluctantly accept this position and make a fresh start at a time of their own choosing rather than cope with the delays, frustrations, anxiety, emotional stress and expense which a well prepared compensation claim and hearing can involve. Where sales have taken place of so-called comparable properties within the same designated area, it is at best dangerous to use them as evidence, without very careful investigation as to the full circumstances, and at worst such evidence may be wrong in law. In re Gorman (1912) W.N. (NSW) Vol 29 p 195 Rich J. expressed his opinion that settlements made by the acquiring authority are no criterion of market values.

Where a wide area has been subject to the influence of the prospect of the public work, sales evidence may have to be sought from a much wider area than the immediate locality, with due allowance for the property and locational differences. It has been my concern that even before the boundaries of the proposed public work have been defined, the whole of the locality may be `blighted'.

In Tauhara Properties Limited v Minister of Works (1978) Supreme Court, Hamilton, the Chief Justice held that where the Crown decided to acquire land throughout the area for Government housing, then all such acquisitions were part of `the work'. Although separately acquired they were still part of `the work'. Thus, section 29 (1) (d) applies to all sales to or acquisitions by the taking authority. Accordingly, they are part of the same `work'; and if the value of the subject land is likely to be reduced or increased by prices paid

for other lands forming part of the same work, then such reductions or increases shall not be taken into account.

Even the effect of the zoning assumption for the valuation may have to be modified in respect to an existing zoning, if that zoning was affected by the public work. In which event `open' market value would be based on what the zoning would have been had the prospect of the public work not affected it. In Coomber v Birkenhead Borough Council, Supreme Court, Auckland (1977), the local authority re-zoned the land from commercial to residential as a result of a road deviation scheme. In due time the down-graded zone was confirmed by the Town and Country Planning Appeal Board. Subsequently the Council acquired the land. Notwithstanding the residential zoning the land had to be valued on its `before' zoning of commercial.

It follows that where a valuer has to consider what the zoning would have been had the public work not been proposed, he should give the matter special consideration and may have to seek other expert opinion to help him on this point.

"Specified date" . . . (Section 29 (3))

In a rapidly changing market situation, it is important to ensure that the land is valued at the precise relevant date. In some circumstances, where more than `one bite has been made to the cherry' there may be the added complications of more than one specified date in respect to different parts of the owner's original property.

It is necessary to take great care to adequately relate sales of comparable properties to the actual specified date. Of course this is merely a technical problem with which valuers are very conscious. More subtle, but no less important are the rules relating to post-acquisition date events. The well known case of Spencer v Commonwealth (1907) 5 CLR 418, established the principle that in valuing property at a particular date, the facts existing on that date are the only relevant facts. Even unexpected prosperity or depression which no man would ever have anticipated must likewise be disregarded. The all important point at the date of valuation is the opinion regarding the price of land which a hypothetical prudent purchaser would entertain if he desired to purchase the land for the most advantageous purpose to which it would have been adapted.

The principle established in Poverty Bay Catchment Board v Forge [1956] NZLR 811; LVCB 225, is that a valuer is entitled to have regard to all relevant facts within his knowledge, including information as to sales subsequent to the specified date, but only for the purpose of determining the market value of the land at that date. Consequently, though a valuer is entitled to make use of the facts disclosed by subsequent sales, he is not entitled to assume that such information was available to buyers or sellers at the specified date. A similar situation could arise in respect of costings, economic statistics, or similar data which can be used to help establish the market value at the date of valuation.

... or injuriously affected ... (Section 42 and Section 29 (1) (e))

Because valuers are trained to value properties of defined boundaries it is necessary sometimes for us to discipline ourselves to the fact that compensation valuations are statutory valuations to ascertain the owner's full compensation. This applies particularly where an owner's residue land is injuriously affected. An owner of an economic holding is entitled to compensation for his net loss in value to his land as a result of the prospect of the public work and the taking of all or part of his holding. In practice the before-and-after method is the best approach to finding an owner's net loss in value, as this enables the

full effect referred to in section 29 (1) (e) to be fully taken into account. (Montgomery Investments Ltd. v M.O.W. [1962] NZLR 453; L.V. Ct. LVCB 453). While the before-and-after method is well recognised and approved by the Courts, there can be circumstances when another method may be used. This would apply particularly where the amount of detrimental affection is relatively small. (See for example Pomona Orchard Limited v M.O.W. [1958] NZLR 88; LVCB 259 at p 263).

Without in any way deviating from the valuation criterion, in valuing land taken and injuriously affected, a valuer should not lose sight of the fact that the land taken may be worth more to the residue owner than anyone else in his capacity as adjoining owner. The principle established in Valuer-General v Wellington City Council [1933] NZLR 855, is that the owner himself may be viewed as a potential buyer. Likewise as adjoining owner, it is possible that in view of the potentialities of the land, it could be worth more to him than to anyone else. (Valuer-General v Guardian Trust [1956] L.V. Ct. Wanganui; LVCB 427; Inland Revenue Commissioners v Clay [1914] 3 KB 466; Berger Paint & Myers v Wellington City Council [1975] 1 NZLR 184; NZV Vol 22 No. 9 (March 1974) 370 at p 376).

Section 32 (1) Finance Act (No. 2) 1945

When making separate valuations of the land taken and land injuriously affected as required by section 32 (1) of the Finance Act (No. 2) 1945, the provisions of section 29 still apply. The practical effect is that, while the boundary line between the land taken and land injuriously affected must be recognised for section 32 separate valuations, the effect of the prospect of the public work and the work itself, must still be disregarded for valuation purposes of these separate valuations.

.. shall not affect the assessment of compensation of any matters which is not directly based on the value of land . . . (Section 29 (1) (b))

The law in New Zealand as to the measure of compensation for disturbance is to be no less favourable to claimants than was stated to be the law in England in Horn v Sunderland Corp [1941] 2 KB 26; 1 All ER 480; in the view of Archer J. in Pomona Orchard Ltd. v M.O.W. [1958] NZLR 88; LVCB 259 at 265. In summary, a claimant is entitled to recover any expense or loss to which he has been put by reason of being disturbed, in addition to the value of his land; and that included in a claim for compensation may be incidental loss incurred in connection with a business carried on upon the land (See also Berger Paints & Myers v Wellington City Council [1975] 1 NZLR 184; NZV Vol 22 No. 9 (March 1975) 370 at p 375).

A study of cases shows that a number of general principles have emerged which underlie the principle of equivalence, but the meaning of `full' compensation in respect of disturbance is imprecise. In some cases the line between compensation for land taken and for disturbance is thin. Several broad rules or principles have emerged.

1. The Raja rule is that potentialities possessed by land are part of its value. (Raja Vyricherla Narayana Gajapatiraju v Revenue Divisional Officer [1939] AC 302; [1939] 2 All ER 317). The loss of potential profit, such as royalties from water, minerals, soil, clay trees or from profit from a potential subdivisional development has been consistently limited to such potential which adds to the market value of the land. (For example see also McCallum v Mount Maunganui Borough [1960] NZLR 1101; LVCB 318; Whareroa 2 E Block v

M.O.W. [1959] NZLR 7; LVCB 272; M.O.W. v Green and McCahill (Contractors) Ltd. [1965] NZLR 580; LVCB 384).

2. The Irvine Oil rule is that while profits of a business might be taken into account in assessing the market of the property, the owner is not entitled to claim an additional sum for loss of profit (R. v Irvine Oil Coy [1945] Ex ER 228; [1946] 4 DLR 625, cited in Marshall v M.O.W. [1950] NZLR 339; LVCB 127; Barber v Manawatu-Oroua River Board (1953) L.V. Ct; LVCB 414).

3. The Barber rule which follows the Irvine Oil rule is that while profits may be taken into account in assessing the market value of a property, where the loss of the land has been determined by agreement, nothing more may be claimed in respect of the land. However, an owner is entitled to be compensated for loss of income or revenue from the lapse of time between the `taking' and the payment for the value of the land. The most convenient method of assessing compensation for this loss of income which an owner must have received had he been paid the value of the land at the moment of taking, is as interest or by analogy interest up to the date of payment. (Barber v Manawatu-Oroua River Board L.V. Ct (1953); LVCB 414). This is now the normal custom at the rate of 7½ percent as from October, 1974. (Tawharanui Farms Ltd. v Auckland Regional Authority [1976] 2 NZLR 230; 23 NZV 3 (September 1976) 161 at 163). Not to pay interest would be contrary to the principle of equivalence and not in accordance with the concept of full compensation.

In Coomber v Birkenhead Borough Council, Supreme Court, Auckland (1979); compensation for the loss in real value arising from the delay in payment was considered. A sum of 10 percent compound was added to the value of the land, less payment on account, as the past practice of awarding interest was considered unreal where an owner was not using the land for income purposes. Besides recognising inflation, this decision appears to have had the side effect of making such payment non-taxable in the hands of those owners who would not be liable for taxation on the gain made on the transaction.

4. Where the value of the land may be valued on a higher use than the existing use, compensation for disturbance may not be justified when the land is valued on that higher use. There are two particular rules on this point as follows:

> The Horn rule is that farm improvements have no value to land ripe for subdivision. (Horn v Sunderland [1941] 2 K B 26; 1 All ER 480).
> The Milledge rule is that the existing improvements may have no value when a site is ripe for development. (Milledge v Commonwealth [1953] 90 CLR 151 at 157; [1953] ALR 199).

Thus, the valuation basis can be on the existing use plus allowable disturbance or on the permitted higher use without disturbance, whichever is higher.

5. The Pomona principles in respect of the loss of fruit trees include elements of market value of land and trees as well as disturbance and loss of production not directly based on the value of land, even though arising directly from the taking of the land (Refer Pomona Orchard Ltd. v M.O.W. [1958] NZLR 88; LVCB 259). The first principle is that although it is convenient for certain purposes to regard a fruit tree as an asset capable of separate valuation, trees are in law part of land and it is from the loss of land that a right to compensation arises. Accordingly, section 29 (1) applies to the market value of the land and the trees themselves even if separately valued. The second principle is that a claim might properly be founded upon general disturbance and

temporary loss of business, and upon the loss of production from trees which were physically removed and lost to make way for the public work. A claimant is entitled to some compensation for that loss of production and profit which is a direct and unavoidable result of the public work, after allowing for costs and taxation.

6. The Dyke rule is that section 29 (i.e. market value rule), does not debar a claim for compensation for disturbance and reinstatement in appropriate circumstances. However, a dispossessed person is duty bound to minimise his loss by nature of disturbance and his costs of reinstatement as far as may be reasonable and possible in the circumstances. (Lower Hutt City Corporation v Dyke [1954] NZLR 166; LVCB 165 at 169).

7. It is possible that in appropriate circumstances, a claim could be made for loss of business goodwill as a particular form of disturbance. Such claim would have to accord with principles of valuation of goodwill and the general rules relating to disturbance, particularly as to not counting profits twice, and the property not being valued at a higher use. `Local' goodwill may well form part of the land value, and personal goodwill has been held not to be compensated. (See Commonwealth v Reeve [1948] 78 CLR 410; London County Council v Tobin [1969] 1 All ER 649). An early New Zealand case Russell v Minister of Lands [1898] CA 241; (1898) 17 NZLR 241; established the principle that an owner is entitled to compensation for injury to his business in consequence of the taking of the land resulting from the necessary delay in finding another suitable property. This general principle is now subject to the effect (if any) of section 29. That is to say, it would be necessary to show that any consequential business loss was in addition to the market value of the land taken.

8. The Candy rule is that a landowner should not be compensated for interference which might be regarded trivial having regard for the purpose for which the land is taken; nor for disturbance resulting in inconvenience rather than monetary loss. An owner should not be compensated where he has received compensating benefits from the public work to offset the loss suffered. (Candy v Thames Valley Drainage Board [1956] NZLR 416; LVCB 205 at 207).

... valuation .. .

A valuer is entirely responsible for views expressed in his report. While he can seek expert assistance to help him on difficult valuation questions, such as aspects of the potentiality arising from timber, soil, clay, metal, timber trees, subdivisional potential, or for the basis of zoning; a valuer should not avoid his responsibility by accepting instructions as to matters which should decide himself. A skilled and experienced valuer should be able to assess the added value which any potential gives to land, and he must determine those matters and facts and assumptions on which his valuation should be based. (Hutt River Board v Lower Hutt City Council [1960] NZLR 1107; LVCB 324 at 328; De Menech v Lower Hutt City (1961) L.V. Ct. Wellington; LVCB 444). Neither should a valuer who has not valued the land analyse and criticise the valuations made by those other valuers. (Montgomery Investments Ltd. v M.O.W. [1962] NZLR 453 (L.V. Ct.); LVCB 453).

The well established principle that it is the added value which improvements give the land, also applies to those `improvements' which have a potential. It is the present value which that potential gives to the land which is to be valued. It is not sufficient merely to add an appraiser's estimate of the potential to the value of the land. (See M.O.W. v Green and McCahill (Contractors) Limited

[1965] NZLR 580; LVCB 384 at 388; McCallum v Mount Manganui Borough [1960] NZLR 1101; LVCB 318 at 321).

Conclusion

The assessment of loss in respect of a property compulsorily acquired is more than a matter of valuation law and technique, but of justice between society and the individual. While it is property losses which are to be valued, it is individual people who suffer the loss. It also has social, economic and administrative overtones. Social, because it often concerns the genuine unwilling seller, while sentimental and disturbance loss cannot adequately be expressed in money, even if permitted. Economic, because the present value of all existing and future potentialities of the land must be rendered to a current equivalent open market value with only limited exceptions. Administrative, because most claims are settled out of court. Litigation is usually delayed, worrying in its uncertainty, expensive in terms of time, money and emotional energy. While there has been criticism of wide variations in valuations, and it is rare for two valuers to agree precisely; nevertheless, cases involving major variations are never without good reason. After all, it is because of these good reasons such cases come to court and to public notice. The better informed on facts and valuation and legal principles, the fairer will be the result. Valuers must continue to strive to maintain the highest standards of professional performance despite the complex legal and valuation rules and technicalities. They may well be guided by the Aristotlelian concept of the just price, being one which is neither too much nor too little.

## QUESTIONS AND ANSWERS

Question:

The question was to do with payment of compound interest on compensation awards and being non taxable.

Reply:

There has been a big break through in this sense with the Coomber case and it's come in just recently, how one has to deal with what has been previously an interest for delay in payment. We have had several cases in Auckland where 5 years have rolled around and normally an allowance of 7-% has been allowed after a certain date until the actual date of payment. Now in this case it was agreed that this was not fair compensation for the delay, it happened to be a non-earning property and to cut a long story short it was held that a lump sum, a payment, compounded at 10% to the value of the land should be allowed.

Now my reasoning why this is important in two ways, it does emphasise now that local bodies who in the past have deliberately delayed so as to get the benefit of the 7J% mortgage money, and I believe that some local bodies have been stalling as much as they could, now are running the risk of having to pay the higher rates. But to the owner it is important, whereas it was being held that interest payments are rentless and therefore subject to income tax, I now claim that this is not an interest payment but compensation for loss of values and as such, although it is compounded it is not interest, and although it runs in time it is not interest, and therefore it should be of the same taxable nature as the property itself. Say it is a farm and not subject to taxes for sake of argument, then that sum I would say should not be taxable. On the other hand a property a person would normally pay tax on, then it would be taxable in the same way as the prime property. It is a fundamental break in terms of principle, and as it happens it will virtually double the amount of compensation on that particular item that an individual would get if it was found to be non taxable.

# Current Cost Accounting and the Valuer

Bob McGough is our current Dominion President and has been actively involved with Institute Affairs for many years. Bob has been Auckland's Branch Councillor since 1977. His special interest in past years has been that of Students in Auckland including Lecturing and Tutorial Posts at Auckland University and Auckland Technical Institute respectively.

*Paper presented to the Eleventh Pan Pacific Congress, Melbourne, October, 1981, by R. M. McGough, Dip. Urb. Val. FNZIV, MPM!.*

INTRODUCTION:

Firstly, might I make it very clear that as the writer of this Paper I do not hold myself out to be other than a valuer with but a very small knowledge and certainly no competency, in the accounting field. I feel equally sure that the majority of the accounting profession would admit to the reverse.

Current Cost Accounting as opposed to Historical Cost Accounting requires an input of up-to-date values for assets rather than factual costs made at some time in the past. Perhaps one could put it more cynically and say that it involves the replacement of one set of fictitious ifgures for another. Not necessarily so.

Economic conditions over the last 20 years have led to the growing inadequacy of the Historical Cost Accounting approach and have sent both the producers and users of accounts searching for more appropriate alternatives. The outcome is a move towards current cost accounting which, for assets, clearly poses a more difficult valuation problem than historical cost. The relevance of my opening remarks becomes apparent in this respect and leads in summarised form to the following consequences:

1. The need for valuers to fully understand the requirements of the accounting profession. Under this heading one might highlight the term consistency.
2. The need for the accounting profession to recognise that assets, particularly real estate assets. can vary in value quite significantly over relatively short periods and more importantly, that this impact is different for different properties, even adjoining ones. Hence. our total opposition to any form of indexation in the valuation of real estate.
3. The need for users of accounts to ackowledge that the enterprise cannot perform without the utilisation of assets and when prices are rising, historical cost methods fail to identify that portion of revenue which must be retained if financial stability is to be maintained.

Inflation in itself is not the real reason for the move towards C.C.A. but increased inflationary trends during the 1970's have no doubt accelerated the push. In the case of Companies in New Zealand, the Companies Act *1955* imposes both a general standard and specific requirements. In addition to the requirement that a Company keep "proper books of account in which shall be kept full true and complete accounts of the affairs and transactions of the Company", the Act goes on to state:

> "Every balance sheet of a Company shall give a true and fair view of the state of affairs of the Company as at the end of its financial year and every profit and loss account of the Company shall give a true and fair view of the profit and loss of the Company for the financial year".

The bold print is mine.

In New Zealand, the issue has been somewhat clouded by a reluctance from Government to recognise C.C.A. for two very valid reasons:

1. The poor performance that many Companies would record. A report in the New Zealand Herald of 11 June, 1981 outlined a survey by the Reserve Bank, in conjunction with the University of Otago, analysing the accounts of 21 Companies. I quote:

   "The total nett income attributable to owners, for all 21 surveyed, amounted to $M39.5 on a C.C.A. basis, compared with $M171.4 on an historic cost basis. The amount distributed as dividends was $M55.8 -$M16.3 in excess of nett C.C.A. earnings".

   One might well conclude that while for many years we have lived on the milk of the cow, we are now eating the carcass.

2. In a report in the Auckland Star. 10 February, 1981, the Minister of Statistics, Mr Templeton, was quoted as saying:

   "Considerable experience will be necessary before inflation accounting could be adopted for all businesses or used as a basis for taxation".

   The report then went on to outline moves to create appropriate indices for C.C.A. The New Zealand Institute of Valuers do not hold themselves out as being competent to comment on indices for other than property but are strongly opposed to their use for real estate assets.

Turning back to the point that accounts should show a *true and fair view* of the enterprise and that increased inflation has accelerated the push, let me cover briefly some appalling figures:

1. New Zealand's Oil Bill:
   1972 $93.7 million.
   1978 $492.3 million.
   1980 $1504 million.

2. A report in 1980 by the Chairman of The Securities Commission, Mr C. I. Patterson, that the 1980 purchasing power of $1 was the equivalent to:
   6 cents in 1910.
   14 cents in 1950.
   21 cents in 1960.
   31 cents in 1970.
   50 cents in 1975.
   $1 in 1980

3. The New Zealand Institute of Valuers Modal House Building Cost Index which is reflected in all building costs:
   1930 - $17.01 per square metre.
   1940 - $22.71 per square metre.
   1950 - $44.57 per square metre.
   1960 - $63.93 per square metre.
   1970 - $87.71 per square metre.
   1980 - $290.27 per square metre.
   April 1981 - $349.60 per square metre

4. In my own firm:
   September 1974 purchase of a 2 litre Ford Cortina $4,250.
   June 1979 purchase of a 2 litre Ford Cortina $9,700.
   June 1981 purchase of a 2 litre Ford Cortina $12,600.

The above figures are frankly horrendous but in my view illustrate that no matter how subjective any valuation of a particular asset may be, it must surely be more realistic than historic cost.

Situations in which a Valuation may be used or acquired:

I can well remember in my student days the old saying that a property could have only one value. That principle possibly still applies but with one major variation - to whom and under what circumstances.

For example, a valuation for mortgage purposes is designed to protect and inform a lender. One of the very basic assumptions in such a valuation is that the property will have to be sold in the event of default. Emphasis is therefore placed on an open market value to an alternative user, the exact opposite of C.C.A. requirements which will inevitably be value to the business.

New Zealand has an extremely efficient and highly regarded Valuation Department charged with the revaluation of all property in New Zealand at not more than 5 yearly intervals. However, those valuations must be made in accordance with statutory provisions, the prime objective of which could fairly be stated as being uniformity for rating and taxing purposes. Hence. value to the business is not a consideration, leases or other charges must be ignored and the valuations are not made subject to adequate profitability of the business. The basis is thus different to C.C.A. requirements but in my view would nevertheless certainly be preferable, to the use of indices

One could continue with further examples but the above are sufficient to illustrate that a valuation obtained for one purpose need not be suitable for another. In a not insignificant number of cases a valuation made for one purpose can be suitable for another but the opposite is equally true in too many cases for the profession to refrain from emphasising same or stating quite clearly in their reporting the basis or purpose for which an assessment is made and that responsibility will not be taken if used for some other reason.

Users of Public Accounts:

The accounts or financial statements of any business should seek to satisfy the needs of the users. External or published statements are thus of interest to:

1. Equity investors.
2. Creditors.
3. Management.
4. Employees.
5. Government.
6. The Public.

The number of users will of course vary with size. In the case of large public companies the accounts may be used by all of the above but for a sole trader, the use is probably limited to himself. his banker and the Inland Revenue Department.

If the valuer is to have a role in the preparation of accounts on a current cost basis then he or she must recognise the needs of both the accounting profession and the users of financial statements. In very broad terms those requirements will include:

*OBJECTIVITY:*

Asset valuations of property in particular are of necessity subjective. They are therefore personal, affected by peculiar emotions and subject to bias. Our profession thus has a vital role to play in ensuring that the approach is as objective as possible through proper education, the sharing of information, consistency and rigorous policing of any unethical conduct or bias. Perhaps the hardest decision for any individual valuer will be the recognition of the point at which he or she may be beyond their scope of competence.

*REALISM:*

We should recognise that valuations can never he completely precise and realism should avoid giving that impression.

*COMPARABILITY OR CONSISTENCY*

The users of a particular financial statement will often want to compare the return on assets with those of other enterprises. Historical cost accounting fails in this respect. While the valuation of assets for C.C.A. may be subjective and open to some variation of opinion between individuals, that does not preclude consistency of approach. Hence, the inevitable need for the production of appropriate guidance notes for valuers that recognise both national and international needs.

*UNDERSTANDABILITY:*

This calls for the provision in the clearest and simplest form of all of the information that a reasonably well informed reader can use. It will not include superfluous or unnecessary information.

*ECONOMY OF EFFORT AND EXPENSE*

Our profession must ensure that the effort and expense incurred by the enterprise in obtaining valuations, is not disproportionate to the use for which it is required. For example, a small enterprise may require nothing other than advice as to whether a valuation made for another purpose requires adjustment.

The Accountants' and Auditors' Requirements:

It is not my intention to impinge on the domain of the various panelists associated with this Paper. It is sufficient under this heading to say that in New Zealand, there are considerable conflicts of interest and ideas.

From the accountant's point of view, the main criteria would undoubtedly be relevance, the availability of valuation data, whether that data can be verified, its reliability or objectivity and the cost of obtaining same. All of these will vary from enterprise to enterprise. Are the necessary skills available, are they sufficiently objective and what would he the cost?

The auditor must be in a real dilemma. How can two totally different results, one based on historic cost and the other on current cost, be said to represent a true and fair view of the financial affairs of the enterprise.

Couple these interests with the needs of the users of financial statements and the problem increases. On the one hand we have the Government, fearful of the poor results that might eventuate in a switch from historical to current cost accounting, but at the same time recognising the problems and lack of experience in the field.

No doubt the employees, represented as they are by their unions, are equally fearful and indeed, many public companies themselves are reluctant to publish supplementary accounts based on C.C.A. for the very salne reasons.

Both the Securities Commission and the New Zealand Society of Accountants take the opposite stance. Their opinion is quite simply that a true and fair view is the real purpose of financial reporting and that the public interest is paramount.

With such a divergence of interests the introduction of current cost accounting is likely to be both stormy and rocky. Let not the valuer founder.

In essence, both the accountants' and auditors' approach will bear in mind the going concern concept. Certain businesses will no doubt fail and some are even designed to exist for only a limited period. However, the vast majority of business activity is conducted on the basis of a continuing enterprise.

With regard to property assets, the principle of *value to the business or deprival value* is likely to remain the prime consideration in the accountant's and auditor's approach.

These terms really sum up the approach required of a valuer by the accountant for C.C.A. purposes. Essentially, they mean a value to the business and in relation to an asset means the measure of the direct loss to the business if deprived of those assets.

As can be seen from the following definitions though, *deprival value* has many variations on a theme and it is in this respect that valuers will need explicit and full instructions.

The Valuer's Approach:

Having recognised that a valuation made for one purpose is not necessarily suitable for another it becomes apparent that the valuer can only meet the accountant's requirements with proper, clear and explicit instructions as to the basis. Unfortunately in New Zealand, specific instructions are seldom given and this is a serious deficiency when one considers that by changing the assumptions one can materially alter the valuation.

OPEN MARKET VALUE:

Most people will be quite satisfied that a reasonable definition of *Open Market Value* would be:

The best price at which an interest in a property may reasonably be expected to be sold by Private Treaty as at the date of valuation assuming:

(a) A willing seller.
(h) A reasonable period within which to negotiate a sale, taking into account the nature of the property and the state of the market.
(c) That values will remain static through the period-
(d) The property will be freely exposed to the market.
(e) No account is to be taken of an additional bid by a special purchaser.

It would be relatively simple if in terms of value to the business, we could stop there. However, this is not possible because land and buildings (as opposed to movable assets) are generally held by a Company for a variety of reasons. The main reasons include:

(a) For occupation by the business and this category can be further subdivided into two sub categories:
  (i) Non specialised properties.
  (ii) Specialised properties
(b) As investment properties.
(c) Surplus to the requirements of the business.

In each category the *value to the business* needs to be considered separately and further definitions must also be rationalised in order

for the accountant's requirements to be met.

For example *open market value* to an ongoing business would include the costs of acquisition but if surplus to the requirements of the building or held for disposal, the Company will want to make a deduction for estimated selling expenses in order to show *nett realisable value.*

EXISTING USE VALUE:

Again we must remember that for current cost accounting purposes, the basic assumption is *value to the business.* The definition of *open market value* must therefore be extended to include the existing use by the Company concerned and this should not be confused with the same meaning as in planning law. Nor should the term be interpreted so narrowly as to confine the value of a standard non specialised building to the particular trade of the Company concerned.

Essentially, existing use excludes the cases where a property might have a substantially different value for an alternative use. It is what is commonly known in New Zealand as the "apples for apples" principle.

For example, a substantial office building placed in an unusual location (say industrial) may have a very limited alternative use value even as offices. However, if utilised as a head office building for a concern whose interests spread well beyond that locality, it is the value to the enterprise that must be considered.

As an opposite, a single storey shop on a high rise commercial site, may have an alternative use well in excess of the *value to the business.* While the existing use may not warrant its retention, the value to the business is as a shop. Whether it is to be retained as such is for the Company to decide.

ALTERNATIVE USE VALUE:

Land and buildings may possess a value differing from their existing use value when the prospective use of the property for some other purpose is reflected.

Normal accounting concepts assume an ongoing business and where properties are occupied for the purpose of that business an *alternative use value,* which could only be realised on a closure or removal of the business to other premises, is not suitable for inclusion in the accounts.

*Alternative use values* however, may have relevance to an overall appraisal of the Company's situation. Accordingly, despite the existing use principle for C.C.A. purposes, where alternative use differs materially (either above or below) it should be reported by the valuer.

Where the Directors declare land and buildings to be surplus to requirements, the definition of *open market value* will of necessity take into account any possible alternative use.

DEPRECIATED REPLACEMENT COST:

Specialised properties rarely change ownership by a sale or letting on the open market. Because of their specialised nature, they are normally sold by way of a sale of the business in occupation. Specialisation comes about in the form of construction type, arrangement, size or even geographical location.

If one accepts that this type of property is normally sold in conjunction with the business, the business itself can only have a value if sufifcient income is generated to show an adequate return on the value of the assets employed. As this involves factors well beyond the scope of the valuer, any assessment of a specialised property based on *depreciated replacement cost* must be made *subject to adequate profit ability.* It is for the Directors and not the valuer to decide if the business is sufficiently profitable to carry the property in its balance sheet at its full *depreciated replacement cost* or whether, some lower figure should be adopted.

*A depreciated replacement cost* valuation requires an estimate of an open market value of the land in its existing use plus an estimate of the new replacement cost of the building and site works from which, deductions are made to allow for age, condition, obsolescence and any other factor that would make the existing property worth less than a new replacement.

In arriving at a new replacement cost though, account should be taken of the following:

1. If current building techniques and materials make a modern substitute building less costly than the existing, then the lower figure is the one to be used.
2. It is assumed that the building is ready for occupation at the valuation date and not the cost to erect in the future.
3. The cost should include all necessary professional fees and finance or holding charges.
4. Special Government grants or investment allowances should not be included.

GOING CONCERN VALUE:

As opposed to the specialised property discussed under the *depreciated replacement cost* heading, there is a further specialised type property where business income is generated from within the real estate itself. Typical enterprises include hotels, motels, cinemas, service stations and so on.

These properties are usually sold as a single entity inclusive of goodwill, fixtures and fittings. More significantly, properties of this nature may well have an identical *depreciated replacement cost* but a substantially varying going concern value stemming primarily from location or the extent of competition.

In New Zealand, this problem has yet to he grappled with but it would seem to me that the assessment of goodwill. or lack of it, combines both the valuer's and the accountant's skills. Either is quite capable of assessing goodwill but probably neither can do so without the assistance of the other.

The difficulty in accounting for an intangible asset like goodwill, arises from the uncertainty of its nature, value and estimated life. Current cost accounting will not resolve these difficulties but it is fair to say that in relation to the specific type of business being discussed under this heading, eoodwill is a marketable factor and the amounts paid are known to both valuers and accountants alike. As reference can be made to market transactions, either the valuer or accountant can make an objective assessment. The treatment of that assessment in the accounts, seems to have always been a problem and is probably not one for the valuer to solve. While the problem is not one for the valuer to solve. its assessment, if required. is.

PROBLEMS ARISING:

Definitions assist in recognising problems but do not in themselves overcome basic difficulties.

For the accountant, current cost accounting poses a problem in the proper, objective and consistent valuation of assets.

For the valuer, the accountant's requirements necessitate a variation from many ingrained principles, not the least of which is the principle that a property can only have one market value. That market value in turn relates to a sale to the world at large.

The need for communication and a sharing of these problems between the professions becomes obvious and must be extended further to include a sharing of problems between the various international organisations represented at this Congress.

As an example, it would be appropriate for me to point at this stage to the tremendous assistance given by the R.I.C.S. to the N.Z.I.V. in the preparation of guidance notes to our members. Without that assistance I would venture to suggest that we would be still working on it.

On the other hand I am reluctant to report that when the New Zealand Government instituted a Committee of Inquiry into Inflation Accounting in 1975, the N.Z.I.V. did not appear as a contributor to that Committee's deliberations. I would not recommend a similar approach by valuers in other countries as it could well explain the following:

1. The almost negligible reference to the role of the valuer in the Committee's recommendations.
2. An expression of concern as to the cost of independent valuations and whether the necessary skills were available.
3. An emphasis on the use of indices in the valuation of assets, the use of which most of you would totally oppose on the grounds of unreliability when related to property.

We missed the bus. However, we endeavoured to repair our omissions by:

(a) The establishment of an Assets Valuation Standards Committee.

(b) The issue in May 1980 of Guidance Notes on the Valuation of Company Property Assets.

(c) A move away from our long enshrined fee structure based on the value of the property rather than the time factor involved.

If valuers are to be entrusted with the valuation of property assets for current cost .accounting we must be prepared to meet in a professional manner the following requirements:

Communication:

The accounting and valuation professions must in the interests of the users of financial statements, communicate openly and freely in order to share and appreciate the others' problems. More importantly, the valuer must communicate to the accountant the possibility of alternative value approaches. Where they apply, discuss openly these alternatives and expect in return equally open advice from the accountant on his requirements.

Directions:

The ultimate responsibility for the financial statements of an enterprise lies with the Directors. They are called Directors to direct. This does not mean that either the accountant or the valuer should accept directions blindly. Where necessary, alternatives to a direction should be pointed out in a professional manner. So too, should directions or instructions be made in a professional manner. Too often, the Company's requirements are not made with sufficient clarity.

Clear Statement of Valuation Basis:

It is essential that the valuer state in clear and concise terms the basis of valuation adopted. In the majority of cases this will be *open market value.* Where a property is valued on *depreciated replacement cost* or *open market value for the existing use,* but has a materially different value for alternative use, the *alternative use value* should be stated in order to assist the Company in their decision making.

The Auditor:

The Companies Act in New Zealand gives the auditor the right of access at all times to the books and papers of the Company. Indeed, how can his job be done without such access?

There does not however appear to be any legal position between the auditor and a valuer who is not an officer of the Company concerned. An external valuer can thus refuse to produce his file and even refuse to answer an auditor's questions.

The adoption of such an approach by the valuing profession would be totally against its own interests, certainly against the interests of the users of financial statements and would undoubtedly give rise to serious doubts as to our credibility. With equal certainty, it would be an invitation to the auditor to qualify the accounts.

In the case of fixed assets, where valuation is of necessity a matter of subjective opinion, the auditor is not himself valuing but checking the. basis on which the valuation has been made and the facts relied upon.

Our profession should therefore regard the auditor as its greatest ally and an independent

check that the instructions and information provided by the client are sufficient for a true and fair view to be presented. In my experience to date, insufficient emphasis has been placed on cx jlicit instructions and the provision of information by the Company to the valuer. As a valuer, I would strongly recommend to auditors that they make this avenue one of the first priorities on their check list.

Information and Assumptions:

It is accepted that a valuer will be supplied by the client with information, the accuracy of which he must rely upon in order to complete his certiifcate. He will also obtain information from other sources which may require verification as to its accuracy.

If we are to regard the auditor as our ally, we must in turn state clearly the information on which reliance is based, its source, and make it clear that the information so used needs to be verified by the client's auditor or legal adviser. Any discrepancies revealed by the auditor or legal adviser can then be referred back to the valuer before damage is done. This will particularly apply to legal documents such as property titles, easements, leases and so on, especially where those documents are not available for public inspection.

Assumptions on the other hand, need to be stated in order to allow others to make appropriate decisions. For example, the valuation of a specialised property based on *depreciation replacement cost* should be expressed as being *subject to adequate profitability.* Should this not be the case, the Directors may wish to adjust that value. Similarly the Company will be vitally interested in those instances where the *alternative use value* differs significantly from the existing use.

A clear statement of the information and assumptions on which a valuation is based should he designed to assist the users of that valuation rather than being regarded as a protection for the valuer.

Disclosure:

I will openly admit that I am not one who believes that a professional person should hide behind disclaimers or non publication clauses. We should stand up, be counted and accept the responsibility of our decisions.

Nevertheless, any reader of this Paper should by now realise that valuations are made for different purposes and on the basis of different assumptions. It is the use of that valuation for a purpose for which it was not intended, that must be guarded against. For the public protection therefore, and for that reason only, there should he a non publication clause in the valuer's certificate unless the valuer--has given written approval as to the form and content in which his or her statements may appear.

For the same reasons, the valuer may wish to include a clause excluding liability to third parties, particularly in the case of C.C.A. assessments as the valuation may be quite inappropriate for other uses.

Separation of Plant from Property:

Frankly I can see no problem under this heading other than the problem of communication between the valuer, the client and any other advisers the client may wish to employ. For any given country, tax laws are likely to dictate those parts of a building which the accountant may wish to segregate for accounting purposes.

Valuers when assessing the value of premises, normally include all items of plant and machinery which provide services to the land and buildings and which the open market regards as an integral part of the premises for letting or sale or as a security for a loan. They normally exclude items which are installed wholly or primarily in connection with the occupier's industrial or commercial process.

Certainly, there are border lines. For example, special electrical installations beyond the distribution board, freezer linings incorporated as part of the building and so on. These can be included or excluded very easily provided the communication lines are open with either clear instructions or a clear statement by the valuer of the inclusion or exclusion of items that might be in doubt.

The Problem of Fees:

Historically, the N.Z.I.V. and their clients have always been accustomed to a fee structure based on the value of the property concerned. I have no hesitation in suggesting that in too many cases, such a fee structure would be a major barrier for the accountant in the use of a valuer's advice.

The basic tight ropes that must be walked are simply these:

I Regardless of what type of fee structure is developed, in no way should it permit any reduction in the standards of professional conduct expected of an independent and professional valuer.

2. It is in both the public and the profession's interest that we as valuers can provide a service that is commensurate with the costs involved.

In these days, time means money and it seems to me realistic that fees for current cost accounting in particular should be based on time. How can that time be reduced in the interests of both the public and the profession.

1. The most outstanding contribution, and one which I am sure would be the envy of you all, is the provision in New Zealand of a sales notification scheme to all Registered Valuers. Since 1964, all valuers in our country have had access to a sales notification scheme of sorts. In 1980, the Government Valuation Department converted those notices of sale to a computerised system and our Valuer General, Mr M. R. Mander, decided that in view of rapid changes in value it was in the public interest that all valuers should be notified as quickly as possible of the latest information.

As a consequence, and with the assistance of computer processes, all practitioners, are now notified of sales through the whole of New Zealand, at fortnightly intervals.

I would venture to suggest that New Zealand valuers are as well informed as anywhere in the world. a situation that could never have occurred without both communication and co-operation which will ultimately benefit both the profession and the public alike. The investigative time factor has thus been considerably reduced and the profession is now endeavouring to embark upon policies that will extend those information services even further.

2. Clients themselves can assist considerably in reducing the time element either by:

   (a) Explicit instructions which leave the valuer in little doubt as to what is required.

   (b) Quick and easy access to Company records on items such as initial costs, lease documents, building plans etc.

   (c) A well documented asset register stating land entitlements, building ages, previous valuations and their purpose, leasing arrangements, plant and machinery separation and so on.

Essentially then, the time factor is dependent upon co-operation between the parties. The profession must co-operate within itself and the clients must co-operate with the profession. In this way, it could well be probable that many short cuts in time could be achieved without a reduction in standards.

Summary:

As best I can, this Paper endeavours to cover the broad principles required of a valuer in making assessments for Current Cost Accounting purposes. Last, and certainly by no means least, if current cost accounting assessments are to be a widening horizon for the valuer, integrity will be the key. High standards by the individual will be necessary as well as a free flow of information and ideas between all of the parties associated with the accounting process.

Given that co-operation, together with the information sources that are available to the valuer, I see no reason why fully objective valuations cannot be provided at a reasonable cost. The benefits of independence will be obvious. In New Zealand, valuers are already providing many Companies with valuation services for a variety of purposes and an extension into the Current Cost Accounting field would pose little difficulty, given adequate instructions.

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| Waikato | K Williams, PO Box 4348, Hamilton East |
| Rotorua-Bay of Plenty | R White, PO Box 1318, Rotorua |
| Tauranga (Sub-Branch) | J Almao, PO Box 460, Tauranga |
| Gisbome | G H Kelso, PO Box 2038, c/- Lewis & Wright,Gisbome J |
| Hawke's Bay | Reid, PO Box 458, Napier |
| Taranaki | P E Thornhill, 9 La Salle Drive, New Plymouth |
| Wanganui (Sub-Branch) | B J Ragan, PO Box 4123, Wanganui |
| Central Districts | Ms D Avery, PO Box 952, Palmerston North |
| Wairarapa (Sub-Branch) | B G Martin, PO Box 586, Masterton |
| Wellington | M Bevin PO Box 5124, Wellington J |
| Nelson-Marlborough | Hancock, PO Box 89, Nelson |
| Canterbury-Westland | M Wright, PO Box 1397, Christchurch |
| South Canterbury | P Bosworth, PO Box 324, Timaru |
| Otago | W J M Reid, PO Box 1082, Dunedin |
| Southland | D H Paterson, PO Box 399, Invercargill |

PAST PRESIDENTS

1938-1940- N H Mackie, Palmerston North
1940-1943- G B Osmond, Auckland
1943-1947- A W A Sweetman, Auckland
1947-1949- 0 F Baker, Christchurch
1949-1950- J A Wilson, Dunedin
1950-1951- O Monrad, Palmerston North
1951-1952- L E Brooker, Wellington
1952-1953- L A McAlister, Wellington
1953-1954- W G Lyons, Palmerston North
1954-1955- S E Bennett, Auckland
1955-1957- R J Maclachlan, Wellington
1957-1958- V W Cox, Napier
1958-1960- G C R Green, Dunedin
1960-1962- J W Gellatly, Wellington
1962-1964- S Morris Jones, Wellington
1964-1966- M B Cooke, Christchurch
1966-1968- D G Morrison, Whangarei
1968-1970- A R Wilson, Napier
1970-1971 -J M Harcourt, Wellington
1971-1974- R S Gardner, Auckland
1974-1976- G M Niederer, Invercargill
1976-1977- L M Sole, Rotorua
1977-1978- E J Babe, Wellington
1978-1979- P G Cooke, Nelson
1979-1981- P E Tierney, Tauranga
1981-1983- R M McGough, Auckland
1983-1985- R M Donaldson, Timaru
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) | A L McAlister (1988) |

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 | L W North |

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) | |

NEW ZEALAND INSTITUTE OF VALUERS