november 2001

new zealand property JOURNAL

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NEW ZEALAND PROPERTY INSTITUTE

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Key Addresses

NZPI Head Office
Conor English (04) 384 7094 national@property.org.nz

Northland Branch
Nigel Kenny
(09) 438 5139
kennyskenny@xtra.co.nz

Auckland Branch
Tony McEwan
(09) 486 1661
tony@sheldons.co.nz

Waikato Branch
Graham Cook
(07) 838 3353
grab cook@waikato.telferyouZoom

Rotorua/Bay of Plenty
Dave Townsend
(07) 348 4086
townsend@clear.net.nz

Tauranga Sub Branch
Brian Doherty
(07) 578 6456
bavval@xtra.xo.nz

Gisborne Branch
Roger Kelly
(06) 868 8596
gdtie@bpc.co.nz

Hawkes Bay Branch
Boyd Gross
(06) 876 6401
boyd@loganstone.co.nz

Taranaki Branch
Frank Hutchins
(06) 757 5080
frank@hutchinsdick.co.nz

Wanganui Sub Branch
Ken Pawson
(06) 347 8448
morganval.wang@clear.net.nz

Central Districts Branch
Ian Shipman
(06) 323 1447
morganval.fldg@clear.net.nz

Wairarapa Sub Branch
Mike Clinton-Baker
(06) 378 6672
wpc@xtra.co.nz

Wellington Branch
Richard Findlay
(04) 470 3926
richard_findlay@ci-group.com

Nelson/Marlborough Branch
Ian McKeage
(03) 546 9600
ianmckeage@nelson.telferyoung.com

Canterbury/Westland Branch
Mark Dow
(03) 374 0115
mark.dow@c fuotable.co.nz

South and Mid Canterbury Branch
Rodney Potts
Reid.Wilson@timaru.co.nz

Otago Branch
Ah-Lek Tay
(03) 477 6603
barlomdustice@clear.net.nz

Southland Branch
Trevor Thayer
(03) 218 4299
ttval@southnet.co.nz

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Submitting articles to the NZPI Property Journal

Notes for Submitted works

Each article considered for publication will be judged upon its worth to the membership and profession. The Editor reserves the right to accept, modify or decline any article. Any manuscript may be assigned anonymously for review by one or more referees. Views expressed by the editor and contributors are not necessarily endorsed by NZPI.

Deadline for contributions is not later than the January 10, May 10 and September 10 of each year.

Format for Contributions

All manuscripts for publishing are to be submitted in hard copy typed double-spaced on one side only of A4 sized paper and also in Microsoft Word document format on IBM compatible 3.5" disk or alternatively emailed to head office.

Any photographs, diagrams and illustrations intended to be published with an article, must be submitted with the hardcopy A table of values used to generate graphs must be included to ensure accurate representation. Illustrations should be identified as Figure 1, 2 etc.

A brief (maximum 60 words) profile of the author; a synopsis of the article and a glossy recent photograph of the author should accompany each article.

Manuscripts are to be no longer than 5000 words, or equivalent, including photographs, diagrams, tables, graphs and similar material.

Articles and correspondence for the NZPI Property journal may be submitted to the editor at the following address: The Editor, NZPI Property Journal, PO Box 2 7-340, Wellington.

NZPI Young Property Professional of the Year

This award was created by New Zealand Property Institute Board for recognition of excellence in the field of property by a young professional.

Eligibility Criteria

Members or affiliates of the institute aged 30 years or less shall be eligible.

The criteria for the award is:

a significant professional participation within NZPI; or

b original research of outstanding significance; or

d original authorship of outstanding significance;

AND

d 1) outstanding technical and or professional excellence; or

significant contribution to the community that brings credit to the profession.

The research or authorship shall be available to the Editor of the NZPI Property Journal for publication at the board's discretion.

There will be only one national award each year, and this shall only be conferred if the candidate is worthy of the award and shall not be automatic.

The award shall comprise the presentation of an appropriate framed Certificate and Citation and will be presented at the NZPI Annual Conference/AGM.

Initial selection shall be at local branch level with final selection made by the national award panel comprising of the NZPI board of directors.

Nominations may come from any sector within the profession or outside (eg branch committees, councillors, employers, community service groups etc) but may not be by application from prospective awardees.

Nominations for the 2001 award are invited in citation format to the CEO, NZPI, PO Box 27-340, Wellington by February 1, 2002.

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EDITORIAL

The events of September 11 in New York, where there was massive human and property destruction, will, no doubt, have a major and lasting impact on humanity, New Zealand and our profession.

Of interest, page 41 of our July Property Journal issue, Professor Geoffrey Blainey's article based on his speech to the national conference, New Zealand and the World, *Where are they* heading? noted, "in the next half century international wars fought between minor or middling countries are more likely than between major countries. International terrorism will probably have periods of influence especially in cities".

And in answering the question, "what are some of the forces that will affect the New Zealand economy?", he states, "the unpredicted. In the past four decades many of the important events, for example, the dramatic inflation of the 1970s and the fall of communism in late 1980s were not predicted. Unpredictable events are likely to remain influential in the next four decades."

2001 has been a momentous year on a range of fronts. While internationally there has been upheaval and unpredicted events, here at home the Property Institute has made enormous progress as we have continued to evolve into a far different organisation.

The three old organisations are now pretty much consolidated into the new entity. We have broadened our membership base to 3000 and it is growing, which gives some critical mass to the institute.

However, with that breadth comes a requirement to customise delivery to meet the specific needs and wants of different disciplines within those 3000 professionals. This is why we recently announced the formation of a number of Special Interest Groups. These will continue to evolve and grow in type and activity.

As well as broadening our membership base and customising delivery, we have developed important international linkages. At our national conference we signed a Memorandum Of Understanding (MOU) with the Australian Property Institute, which is an exciting opportunity We have reciprocal agreements with the Royal Institution of Chartered Surveyors (RICS), the Appraisal Institute of Canada (AIC) and Singapore Institute of Surveyors and Valuers (SISV). In addition we signed a formal "special agreement" with the International Facilities Management Institute (IFMA) based in the United States. These relationships have been secured to assist members.

These three levels of development will continue to be reflected in this journal.

This is our third and final Property Journal for the year 2001. I would like to wish you and your families a very happy and merry Christmas and safe and prosperous New Year.

I look forward to receiving more feedback and ideas from you in 2002.

Conor English
Chief Executive Officer
New Zealand *Property* Institute

Apology to Vivienne Spurge

The New Zealand Property Institute would like to make a formal apology to Vivienne Spurge who was not acknowledged as the co-author of the July edition article An analysis *of the* causal *factors in* negligent valuation cases on page 59. Spurge is the senior lecturer in valuation at the Oxford Centre for Real Estate Management, Oxford Brookes University

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Why become a member of NZPI?

NZPI's primary objective is to represent the interests of the property profession in New Zealand.

The New Zealand Property Institute:

- Promotes a Code of Ethical Conduct
- Provides Registration the formal recognition of experience and certified qualification of excellence
- Provides networking opportunities
- Assists in forming professional partnerships
- Provides a marketing tool in the approach to new and existing clients
- Provides The PROPERTY Business 6 times a year in partnership with AGM Publishing
- Distributes national NZPI newsletters and email updates
- Delivers a National and Branch CPD programme
- Offers membership with the International Facility Management Association (IFMA)
- Offers other international linkages
- Offers networking opportunities between the profession and the universities through the NZPI "Buddy Programme".
- Promotes annual NZPI Industry and Student Awards
- Delivers an annual NZPI Conference
- Offers links and information through the NZPI website www.property.org.nz
- Provides regular branch breakfast and lunch seminars
- Promotes the annual Property Ball in partnership with the Property Council.
- Provides NZPI Confidence index and NZPI JobMail.

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Westbrook House • 181-183 Willis St • PO Box 27-340 • Wellington
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Appraisal or valuation: An art or a sc

Throughout this *article*, the terms appraisal and valuation *are* interchangeable *and are* taken to mean the *work* involved in appraising *or* valuing a physical asset, to establish its value, *regardless of whether* that *be* market value, depreciated *replacement* cost *or any other* definite number.

There seems to be a common view amongst those that I interviewed for this article that roughly correlates with the dictionary definitions. Another way of distinguishing between the two might be that one is subjective whilst the other is *objective*. Which is which ?

Well, I believe that whilst art is a subjective view, a scientific view should be objective. However, as an appraisal, it could be argued that a client is paying the appraiser for a subjective interpretation of the objective scientific analysis and calculation. There will always be an esoteric mix of factors to interpret, such as current market sentiment, the micro-location of the asset, age and precise specification of the building, amongst many others.

New views for old

Is this ratio of subjectivity a new view? Has this view changed in recent years? Folk have been valuing property for centuries. The Roman trader needed to assess an asset's value just as much as today's internet stock trader.

What has changed, particularly in recent years, is the methodology by which the number is calculated. Indeed, the very word calculated implies a more scientific approach than when I first valued property. Gut feel had a lot to do with a value then, based on the comparables method. Yes, there was some mathematics - the application of a year's purchase multiplier to the rent. Even then, the valuer needed to apply a subjective judgment to arrive at the number reported to the client.

Perhaps appraisal was, in the past, a cottage industry as the quality of the output depended on the appraiser's ability to gather market information that used not to be so readily available. Lack of data needs more experience. More data leads to a better opinion.

Nowadays, most appraisers would not dream of undertaking an appraisal without the benefit of a computer package. It is not for me to give credit to a particular supplier - there are many on the market some better than others. However, some packages require so many fields to be completed that the appraiser can end up making judgments on judgments, and the ensuing variables call for considerable (artistic) interpretation.

However, even when the factual data has been input, the appraiser still needs to make assumptions.

Is this the art or the science at play? Assumptions as to market rent, probable yield, discount rate and the like, all call for considerable relevant experience and subjective judgment.

Is this not what scientists do when hypothesising a theory? Appraisals cannot be proved empirically. Even a genius has to make a judgment of whether a theory is proven or not. Does that make it any less scientific? I think not.

So, maybe appraisal is an imprecise science rather than an art.

Data Mining

When an appraiser conducts market research, this can produce raw data. The client could, most likely, get that data from the internet or another source.

There is so much data available today, with increasing transparency in the marketplace. Data mining is part of the science. However, the client is willing to pay for the interpretation of the data to determine an opinion of value, which can be relied upon. The interpretation is the art.

Deals happen. There is not a perfect market. This imperfection makes an appraiser's task very difficult. The appraiser has to interpret where the market is going. A valuation is like a snapshot in time. Imagine a photograph containing a ball in flight. Is it actually going up, or going down? That's what the client wants to know. He would really like to know where that ball will be after an agreed period of time, but that is probably too difficult for all but the crystal-ball gazers.

Appraisers have to reflect, not make, the market. An appraisal could be a surrogate pricing process. Whereas, worth is what the purchaser is prepared to pay. What is value? Does value exist? Can value really be measured, or is it ethereal?

Does an appraiser work in the property market, or measure the market in property?

Under the influence

For some time, probably since the need for independent appraisals began (whenever that might have been), appraisers have come under pressure usually from the person wanting to borrow the money, or to buy or sell the asset to move the number in a particular direction.

Has this pressure increased or decreased lately?

Well, appraisers know the answer. Is it wrong to change a number? The reader will have a view. If the number is purely the product of scientific or mathematical application then probably yes - it is wrong.

If the number is the result of objective analysis and subjective judgment, then possibly no. What is wrong, though, must be the changing of the judgment by influence, other than by new data.

Opinions can change, of course they can. It just depends what has caused them to change. The prospect of a cut-off in supply of future work is one example of undue, and wrong, influence.

A recent survey published by the investment *Property* Forum, in the UK, suggests that valuations can "alter significantly" following the appointment of new valuers. Is this because of previously or currently exerted pressure, or because valuation is not scientific - there is always more than one answer?

If valuation was an exact science there would be no need for independent, third party, arbitrators to settle rent review disputes, for example.

In reference to the same report, the Estates Gazette, one of the leading real estate journals in the UK, in its leader column, suggests that these are moral hazards, with conflicts of interest grinding beneath the surface to distort valuations and undermine trust.

The leader column also makes a link between this pressurised distortion and the year-end bonuses of investment fund managers being based on demonstrable growth, usually measured by valuations measured against, say, upper quartile performance of a recognised industry benchmark.

It could be argued that the market is made by institutions that buy, hold and sell property. These institutions are judged by and against their peer group. The arbiter is the benchmark, such as IPD or NCREIF.

But, what makes the benchmark? Why, the returns from the funds managers, of course. So, are all fund managers chasing comparison with a set of indices which could be inherently flawed? This could be so in a falling market, when fund managers will be looking for a soft landing rather than a hard crash.

Global standards

If valuation standards become more global, then does that make them more like a science than an art?

Possibly so. Art is essentially individual.

Standardisation is essentially scientific. It is certainly more prosaic. However, to be truly effective, international standards need to make the valuation process globally significant yet locally relevant.

Currently, valuation standards - whether local to a territory, region, theatre, continent or global - primarily address the product and the way in which the process is undertaken. They do not usually tackle methodology. Why not? It seems illogical not to determine how a valuation should be undertaken, if the standard for the process is the same.

I believe that we will see the regulatory bodies across the world getting to grips with methodologies.

The lead needs to be taken by the international Valuation Standards Council - a lead that others will follow. TEGoVA has declared, for example, at a European regional level, that methodology is important, by adding some detail on the topic in its latest edition.

The RICS, at a UK level and the Appraisal Institute at a USA level and both at a global level, must also set an example, unhindered by tradition but responsive to market needs.

Clients need to understand that a valuation produced in Massachusetts, Manchester, Melbourne, Moscow or Matabeleland is reliable in its standards and its methodologies. That must increase the value of the product.

So, will clients pay extra for a valuation that is more scientific than arty? Yes, I believe that they will, if they can be assured of common standards and methodologies across the planet. Global clients, whether actual or aspirant, need a global product. So, too, do local clients - one never knows when they might be taken over and the valuation needed in due diligence.

The few

Perhaps it could be argued that most appraisers are keen to keep it an art.

It has been said that good quality institutional work is done by 10% of the appraiser population sometimes at a loss, to encourage the more lucrative (if speculative) brokerage instructions from the same institutional clients. So, 10% do 90% of the work. Maybe the other 90% want to keep it less scientific, and more judgmental, so that there can be less scrutiny.

A rule of thumb guide, thought to be based on a legal precedent in the British courts, used to suggest that valuers were unlikely to be considered negligent if within 15% of the true valuation. Fifteen percent either side indicates an astonishing 30% range. Surely, today, the courts would adjudge that to be too wide a variation.

Some final thoughts

Is it better to have an appraisal by a 25-year-old bright cookie with a computer, than an appraisal by a 45-year-old with 20 years experience in the same

marketplace? Which is [more] accurate?

Is valuation a numbers thing or a gut feel thing? Or a dynamic, but essential combination of the two?

Is it more valuable to "know" the answer before proving it with the calculations, or to use the calculations to arrive at the answer?

So, is it an art or a science?

Does the answer influence how clients feel about the worth of the appraisal?

Can appraisers earn more fees if clients better appreciate the product?

What do you think ? Please email to tell me your views ..... barry.g. gilbertson@uk. pwcglobal. com

Barry Gilbertson CRE, is *a vice-president of the* RICS and a PricewaterhouseCoopers *partner,* based in London, *where* he leads *the real* estate hospitality & *leisure practice*. He also has a pan-EMEA responsibility *for real* estate appraisals and valuations. Gilbertson acknowledges the contribution to the debate made by various international *colleagues,* clients, *appraisers* and valuers *whose views were* canvassed.

Property & investment: issues for an old culture in a new century

My mother's people are Ngai Tahu. We are the tribe which hold manawhenua or traditional authority in Maori terms over the greater part of the South Island of New Zealand. We are formed of three broad streams of descent the last of which began its movement into and through Te Waipounamu in the about the middle of the 17th century. It is reasonably clear from the traditional histories that by the later 18th century the three originating streams of descent had melded into a relatively cohesive identity as a people calling itself Ngai Tahu.

I deliberately choose the expression "relatively cohesive". I do so because I should not like you to think that the process of establishing that "relatively cohesive" identity over the 17th and 18th centuries was one that would meet the prescriptive criteria of today's Human Rights Commission or fulfil the canons of the Resource Management Act on community consultation. On the contrary, the traditions offer us a richly textured story of retributive warfare between the groups that were to become Ngai Tahu - warfare over claims to resources of land and coast; over women; over issues of mana and status - all the myriad causes that people everywhere have gone to war about.

Those of you even moderately schooled in British and European history or, indeed, contemporary world politics, would find, I am sure, an immediate resonance.

Our huge tribal territory was matched with a small population of about 3000 living in far-flung, largely coastal, settlements. This diverse collection of closely related but vigorously autonomous communities spaced out over large distances, travelled and communicated incessantly.

Seasonal availability of resources dominated everything including warfare. Seasonality controlled the east/west trade movements, indeed, all trade movements - trade in titi, in pounamu, in taramea, in tikumu and a large inventory of preserved foods. Seasonality controlled the annual intra-group exploitation of inland areas such as the MacKenzie Basin where weka was hunted and preserved and where so much historical fighting and inter-group marriage took place. Warfare, as with our contemporary rugby, netball and Parliament, had its season.

It's probably fair to say that, on the whole, Canterbury tended to dominate most set play but, as in the Super 12 competition, did not always have things its own way and from time to time engaged in its own internal orgies of self destruction. One such event, the Kai Huika feud (so named because close kin were killed and eaten) in the early 19 century left this region lying exhausted and open to the raiding musket-armed Ngati Toa and their allies - Maori and Pakeha from the North Island. The destruction of the musketless Ngai Tahu from Kaikoura through to Akaroa was massive. Ngai Tahu's Upoko Ariki, or paramount chief was captured and murdered by the invading enemy. Death and destruction abounded.

This violence, though was intrusive. That made it different. This aggression came from without. This was not the ordinary business of inter-kin feuding. In most kin groups, external aggression or threat unites the most discordant households. So too with the 1830's Ngai Tahu.

Tribal Call

The Ngai Tahu of Otakou and Murihiku had been developing extensive trading relationships with Sydney They were well equipped and militarily competent. These musket-armed southern Ngai Tahu, with their modern whaleboats and cannon, their supply lines stocked with the newly adopted potatoes and farmed meat and clear lines of competent and experienced leadership, rapidly overcame their familial resentments and tribal discord. They rallied to the tribal call to defend the realm and by the mid-1830s they had driven the northerners from Ngai Tahu's traditional territories and the tribe was beginning its healing reunification. This means it was returning to a more or less normal climate of inter-regional, inter-group and inter-personal tension.

But things were necessarily different. Muskets, whaleboats potatoes and war had changed everything.

The kinship remained but the institutions and structures and relationships built up over a couple of centuries of shared experience were shattered. Above all the community and tribal leadership structures were in disarray or gone.

The base unity of kinship was there but it had lost its form and structure. At the very time they needed new and visionary leadership to steer them into the new global economy and culture which was imploding upon them, their old internal tensions freed from their traditional restraints of chiefly marriage and relationships prevented them from cohering into a new unity to meet the new challenges.

There was sufficient cohesion, though, to allow for the transaction with the Crown of the South Island land purchases following the Treaty of Waitangi in 1840. Between 1848 and 1863 the whole of the Ngai Tahu territory passed to the Crown subject to provision for reserves and various other requirements. Within short order, however, it became clear that the Crown was failing to honour its own contracts with regard to the reserves and to mahinga kai, or access to traditional food resources, and the long battle for the Ngai Tahu claims had begun. Ngai Tahu had a new external enemy, a new threat and a common foe. A fresh and emergent basis for unity had been found.

When the Ngai Tahu Claims Settlement Act was finally passed in 1998 the struggle with the Crown had absorbed the lives of some six generations of Ngai Tahu and some of the mokopuna present with us in celebration were eight generations from those who first protested what we now call the Crown's "treaty breaches" - but which used to be called "non-performance of contractual obligation".

For my mother's generation and those before her, being Ngai Tahu was synonymous with "the claim". The things that are today seen as culturally iconic; tangi, hui, the arts, the language, were ordinary normal elements of their lives. The thing that made them Ngai Tahu, that made them different from other Maori, that bound them increasingly into their own sense of tribal being, was their shared consciousness of dispossession and grievance against the Crown. And who "owned" the Crown? The Pakeha majority.

In the 150 years of "Te Kereme", our term for "the claim", from 1848 to 1998, Ngai Tahu had endured like many iwi - all the grinding misery imposed by colonisation. Their legal personality as a people had been "vaporised" by the settler Parliament (arguably the single greatest Treaty breach in our history, certainly in a moral and constitutional sense).

They had been decimated by disease and poverty. They had been deprived of their capital base in land and fisheries and had no means to take up the opportunities presented by the new global economy. Here in the south they had absorbed the full initial impact of settler colonisation *per se.* It was much later and slower in its impact on North Island tribes.

What is extraordinary about that 150 years is that this disparate grouping of far-flung communities which was Ngai Tahu was able to maintain, let alone grow, any sense of tribal community at all. All the forces of demography, geography and New Zealand history were in numerous ways, against the survival of that identity. Yet it persisted and it continues to persist - despite the regular pronouncements of an assorted accumulation of line umpires and commentators who think it shouldn't - who suggest that the very concept of the tribe is at once both archaic and anarchic: that it has no place in this new millennium of liberal democracy.

Liberals

I have often pondered just why the liberal democratic majoritarians hate the institution of the tribe so much. Our historians have long ascribed the colonial settler parliamentary antipathy as being rooted in the 19th century role of the tribe as the primary barrier to settler land and asset acquisition.

That judgment is probably fair. But that was a long time ago and the whole process of decapitalising Maori in order to capitalise colonial New Zealand has long been accomplished. Why does the negative attitude persist? Why is the term "tribalism" still a derogatory one?

I don't think it's just the sanctification of individualism and its associated dismissal of community and communality which has become such a characteristic of western culture. After all, there's still a rich vein of value ascribed to community and community commitment.

I suspect the answer to my question is probably more basic. New Zealanders, despite their robust colonial and frontier heritage, have become irrepressible statists. They have evolved an extraordinary faith in the capacity of the state to do good for them. Despite the diminution in esteem of our Parliament and those who inhabit it there exists a faith - I emphasise faith as distinct from reason or rationality that the state is the government and the government is the people.

If we want to fix things then all we have to do is be rigorously egalitarian and vote properly. If King Louis was able to say "the state, it is me!", then we can equally say "the state, it is us!" - these statist values are entrenched nowhere more strongly than in the hearts of those who hold power and those whose vote controls them.

This endemic statism is rooted in the liberal democratic model. One's rights and identity one's very New Zealandness - are sourced in the authority which provides our passport and our driving licence. If this authority does not constitute our reason for being, it at least makes it possible for us to be and to function. Our rights and our assets are secured and guaranteed by the state as is our personal safety and security it must be good.

By its very nature, though, the individuals who comprise the tribe derive their identity from their descent - from whakapapa. Who they are and how they see themselves is primarily sourced to a particular spring of origins that is not shaped by the state. In fact it is beyond the state's control. I suspect that's why the Kiwi statists resent it so.

Of course, as well as being members of tribes, Maori people are also citizens of that same state. That was guaranteed by Article 3 of the 1840 Treaty.

They have the interesting challenge of managing a dual identity One core component of that duality, the tribe, is not accessible to other, non-Maori, citizens. The other core component, citizenship, is controlled by the all their other fellow citizens in the collectivised form of the state.

Suffice to say for the moment, that securing Parliamentary re-recognition of Ngai Tahu's legal personality as a people re-recognition that we actually were a people - was probably the most difficult part of the Ngai Tahu claim's settlement process. It took five years of grinding political struggle from the Waitangi Tribunal's supportive report and recommendation on the point to the passing of the Te Runanga o Ngai Tahu Act in mid-1996.

Ascribing to the tribe *per se* a status approximating that of a $20 shelf company still brings Kiwi liberal democracy close to regurgitation and the Crown Law Office to something akin to apoplexy. Ask the tribes, Ngati Ruanui, Te Ati Awa and the others who currently trying to negotiate their settlements with the Crown in right of New Zealand.

Transparency

Anyhow, in 1996 our legal personality as a people was recovered and in late 1998 a settlement was achieved. The great taniwha "Te Kereeme" - was put to sleep. A series of hui - essentially constitutional conventions - had been taking place for some time and a structure for a new tribal organisation had been overwhelmingly agreed. That in itself was a profoundly difficult thing to do. Since the early 19th century there had not been such a thing. What existed then could no more be replicated at the end of the 20th century than early 19th century British or colonial structures could be. And anyhow, no one wanted to replicate the 19th century.

What had evolved in the interim had been imposed externally by settler Parliaments driven by their own acquisitive agendas. The trusts and trust boards and all the Maori Land Court paraphernalia were not the creation of an autonomous tribal community deciding for itself the form in which it wished to shape its future.

They were, instead, forms designed by Pakeha for Maori to suit the needs of Pakeha. I am not saying that there was malign intent. I am absolutely certain that the Land Court judges, officials and Parliamentarians believed they were doing good.

Whatever their motivation, though, before our new structure could be put into place all the old accumulation of 150 years of state imposition had to be removed. Only Parliament could abolish what it had created. Liberal democracy had to concede. It was only able to do so, however, by wrapping its own perception of the newly recognised Ngai Tahu in the linguistic conventions of contemporary majoritarian culture - "corporate structure"; "accountability"; "transparency;" "mandate" - all the standard language of the "add water instant management" analysis.

The adoption of those codes was necessary, however, for the purposes of settlement and agreement. Their use helped the Crown to avoid gagging on its own history. It was finally done. No one, other than Ngai Tahu really noticed. The public obsession was - as it still is - on the cash and assets.

To be fair, though, those management notions to which I have just - somewhat disparagingly referred were also adopted by Ngai Tahu and incorporated into our design thinking. All I want to emphasise is that they are incorporations from the general global language of management they don't spring from the hearts and minds of the those who are, in the historian Rusden's words, "clothed in a brief authority" within the New Zealand state.

The 18 papatipu Runanga, or traditional marae centred communities, elect a delegate and an alternate to a tribal parliament, Te Runanga o Ngai Tahu which is the representative of the tribe and holds its legal personality.

Te Runanga has its own office responsible for a range of matters affecting the general tribal interest and administration. It is essentially a secretariat. It also owns two corporations the Ngai Tahu Holdings Corporation and the Ngai Tahu Development Corporation. The former is charged with wealth generation and the latter with the challenge of cultural, social and economic development. This latter includes supporting the 18 regional papatipu Runanga in their own local and regional development efforts.

The whole is governed by a formal charter, which is in effect a binding legal constitution. Its really quite a tidy wiring diagram for a model of modern communal capitalism.

Core capital

A major motivation in adopting this kind of structure was the widely held view within the tribe that the putea the core capital of Ngai Tahu should not be lost but rather should be grown.

Another powerful value, one with its own little history, was that any settlement should be for the benefit of all the people. That value was, to some extent, at counterpoint with the insistence that the

base representation should lie in the traditional marae centred communities, the papatipu Runanga, insofar as they cannot functionally or operationally represent the now very numerous Ngai Tahu Census population of some 32,000 (of whom about 28,550 are enrolled).

That choice was very deliberately made in the constitutional convention process I previously referred to. It was made on the basis that the traditional marae centred values should dominate in terms of control as distinct from an individual vote on the western model. The view was that every one of the 32,000 should be able to participate through their papatipu Runanga. The fact is, of course, they can't and the other fact is that the papatipu Runanga do not have the operational capacity to represent more than the involved local and regional residents.

This is an important area for continued debate and further development.

Inadequate though this representational position is, however, it is certainly no worse than our present Parliamentary representation under MMP with total control of the List selection by unrepresentative party secretaries and apparatchiks and the undemocratic control of state decisions by unrepresentative minority parties. It will be interesting indeed to see which structure gets reformed first.

However, whilst it may be said that the element of control has not yet reached democratic "nirvana", the right to benefit from whatever distribution of benefit is being made is absolute. If you are enrolled in Ngai Tahu you have that right by dint of your whakapapa or descent. The media image of an ethnic kleptocracy enriching itself at the expense of a depressed underclass is a wilful political lie. [In passing I can identify no more than a handful of Maori leaders in my decades of experience against whom a charge of improper enrichment might stand. That's more than I can say of the wider society.]

A problem with the model I have described above is the degree to which it lends itself to the standard problem of all corporate structures, both public and private. It is that of bureaucratic accumulation especially in the administrative and distributive areas.

The inevitable effect is that the cost of managing benefit distribution becomes disproportionate to the actual benefit distributed. Ngai Tahu has not escaped that danger and it poses operational challenges that only a vibrant and clearly focused administrative and political leadership will defeat.

Protecting capital

There is a much greater challenge. All the economic power and asset is held at the centre - in order to fulfil the mandate of protecting the core capital - and dividend is consequently accumulated there so that an appropriate proportion can be allocated for distribution. The only way the constituent communities - the papatipu Runanga and the individuals who comprise the tribe can derive benefit from their collectively owned assets is by way of grant. They are passive recipients.

There is a real danger that the most notable achievement of the Ngai Tahu Treaty Settlement, in the broad sweep of history, will be that it enabled the successful privatisation of welfare.

Everyone says "thats not what we want!", but the capacity to really drive the alternative strategies has much less horsepower than the impulse for the centre to extend its duty of active protection of the capital to a power driven compulsion for total control over the business of wealth generation.

The challenge is again one for the quality of Ngai Tahu's internal politics. However unhappy I may be with the pace at which those politics are becoming more enlightened, visionary and marked by generosity of spirit, I am bound to observe, yet again, that they are currently no worse than the politics I see in the wider society. Indeed, the problem with Ngai Tahu's internal politics is that they are too much like New Zealanders. They have to find ways of achieving in areas were New Zealand generally has failed.

There are a variety of ways in which the central protective control of the core capital can be balanced against the economic developmental needs of the regions. Further, it can be be accomplished much more readily and easily than the same challenge can be for the larger society where contemporary democracy makes it so intractable.

A seasonally appropriate example is Bluff oysters. The central Ngai Tahu Holdings Corporation owns a subsidiary called Ngai Tahu Fisheries, which, in turn, owns various subsidiaries and engages in a variety of species-based joint ventures.

The fisheries company is delegated management of the oyster quota leased from the Treaty of Waitangi Fisheries Commission (some 20% of the total harvest). It could simply lease the quota on to a non-Ngai Tahu fisher and processor on an open market basis and collect the rent and pay a dividend to its shareholder for ultimate absorption by the bureaucracy or payment in terms of a scholarship or community grant of some kind. Or it could get in for a slice of the action by retaining the highly profitable, no risk end of the chain and marketing the oysters while contracting out the harvesting and processing to a non-Ngai Tahu company on an open market basis. There's nothing in that, so far, which would be at all offensive to an Institute of Directors seminar.

If that was all it did, however, the Ngai Tahu community in Awarua (Bluff) would have no opportunity to participate in the wealth generation being undertaken as an outcome of the 1992 fisheries settlements. Their only chance to benefit would be to share in the general distributive rights of access to scholarships, marae grants etc from Ngai Tahu's own lottery board in Hereford Street.

The resources of their coast and their region would be mined for the benefit of the whole tribal collective. They would be the recipients of their own privatised welfare.

If, on the other hand, that Awarua community had the opportunity to contract on a full commercial basis with Ngai Tabu Fisheries to harvest and process that 20% of all Bluff oysters, the tribal centre would have the same outcome as in the previous scenario but some 47 jobs would be generated in Bluff rather than Invercargill and the localised profit margins from that enterprise could go directly to the local papatipu Runanga-owned shareholders of the business.

They could then spend it on their own marae, their own social programmes and their own scholarships. And the centre would be no worse off. A whole chain of wealth would be generated through the tribe and the core asset in oyster quota would still be protected. In the process the core capital would have been exposed to only minimal risk.

As you may have guessed I have described, somewhat idealistically, a more or less actual case. The reality is fraught with argument, ego and a numbing distrust which actively limits the wealth being created. It is, however, working although as yet, less than perfectly

In my oyster scenario the local tribal community comprising the Awarua Runanga has to accept risk more than $500,000 of it. Peoples' homes and personal assets as well as the community's assets are needed to secure debt. They have to labour mightily for their localised version of the common good and they need to find further opportunities for utilising their capital investment beyond the oyster season because their interest bill continues to run on an all year round basis. That risk is accepted because of the benefits it brings to their lives.

In my view a vitalised tribal finance company could he capitalising that debt or at least underwriting it. The interest would then be going back to the tribal centre through the holdings corporation dividend. Some multiples in wealth generation would really be beginning to be achieved. There's no reason why a property investment arm of the tribe should not be building and leasing back first class processing facilities to the Awarua enterprise. After all someone else is willing to and he's not going to do it for love.

Some real multiples in Ngai Tahu wealth generation would be beginning to be achieved and as I said above - the central core capital would be no worse off than if it stayed with its present single transaction, one-clip, model.

Shared equity

There is no need to limit this distribution of access to the core tribal capital to the Bluff oyster model. It can be done, as it was in the Whale Watch Kaikoura example, on a basis of shared equity with the local papatipu Runanga carrying the front end risk and the controlling interest.

The wider Ngai Tahu interest holds 43% of the equity and derived income from bankrolling the business during its development phase. The potential to expand that relationship through further investment will, however, probably not be realised. Politics and personalities seem destined to drive Kaikoura from the shared investment into other outside relationships. That's not necessarily a bad thing for Kaikoura but it's a significant potential negative for the wider tribal interest. The short point, though, is that it's people not the model that are the problem.

Or, again, a properly capitalised Ngai Tahu finance company could be lending to Ngai Tahu fishermen and farmers or small business enterprises on a lease-to-own basis on the condition that they should trade back through Ngai Tahu owned companies until their debt is cleared. Alternatively, depending on the suitability of the enterprise recourse could be had to "A" and "B" class share formulations with the individual free to trade "B" class shares subject to a pre-emptive right.

Or yet again, a proportion of the centrally owned Ngai Tahu property investments could be syndicated within the tribe involving offering investment opportunity to both constituent papatipu Runanga and to individuals. The communities would have a secure home for their savings - especially for their building funds - and the tribe's central resources could be off hunting more and even better investment and building even better protection for that core capital.

In the sense of the total tribal interest the asset base could be substantially expanded. I have emphasised thus far a sharing of access to the core capital resource - a sharing between the interest of the tribe overall and the interest of the constituent parts the pursuit of a balance between centre and region between the tribal nation and the small "cities of God" which make it up. I want now to go a little further.

The modern Ngai Tahu reality is that the overwhelming proportion of the individual tribal membership is geographically dispersed and socially diverse. Those individuals retain rights of benefit and interest in the wider "family property" but cannot practically participate in the day-to-day life of our traditional heartlands.

Their rights however, are essentially no different from the property rights of their fellow citizens. They merely have a different route of inheritance. It is reasonable that a modicum of Ngai Tahu tribal creativity should be devoted to seeing how they might be given some practical expression in a modem context.

It is my view that serious attention should be given to finding some modem equivalent to the individual rights held by our ancestors in the tribal estate - rights that were held concurrently with their

access to collectively owned rights in mahinga kai and other forms of resource property. This would permit individuals to gain an actual stake in the tribe and provide another area of distribution of opportunity which would still leave the core capital protected.

If I had my way I would, as soon as the base capital needs of the maraes had been reasonably achieved, be beginning a process by which a block of equity in the form of subsidiary company shares was progressively transferred to a separate holding company.

I would absolutely limit that process constitutionally to a maximum of 40% leaving 60% of the total equity firmly in the hands of the tribe as a whole. Then on an annual basis I would take the dividend accruing to that 40% and divide it by the number of enrolled adult members of the tribe. I would then send each a voucher for the amount involved. Assuming that the voucher represented "$100 of Ngai Tahu equity", I would have a tear off form on it in which the tribal member could redeem it for say, $30 cash, or opt to be issued $100 of shares in the company.

Those shares would receive the same dividend as those locked in the 60% block and they would be tradeable within the tribe but subject to a pre-emptive right before they could be sold outside. The individual would have the choice to participate or not just as in ancient times. He or she however, could not sell the tribe's patrimony.

By this mechanism (or something like it) individuals, families or groups of kin could build their own stake and hold actual assets in their own right. The overall interest of Ngai Tahu would be protected.

Where to now?

The capacity to defend ourselves against future northern invaders to promote and maintain our heritage culture and to care better for our old people, and for our own socially wounded, would remain secured. Some practical resolution between the interests of the individual and the tribal collective could be effected.

I think that Ngai Tahu are not yet clear just what they want to be as a people 50 or even 25 years from now We have a vague belief that we do want to continue as a people - that even if we don't know what we want to be we at least believe that we want to be. That's a useful first step in terms of strategising the future. Having taken it, however uncertainly, we must next decide what we want to be.

Without some articulation of that aspiration and the necessary strategies which flow from it, we will be, as a people, the victims of serial ad hockery managed by an increasingly burdensome distributive bureaucracy. We'll be an example of the old adage "If you don't know where you're going then any road will do!"

Worse, we will be steered by the prescriptions of the surrounding democratic mob and its tour guides - the editorial writers, sound *byte* architects and line umpires. It's not good enough as an outcome of all those generations of ancestral struggle, but at least we'll probably make the national average. After all, the bar, rather like the currency, is being being lowered steadily.

What won't change, though, is the fundamental character that Ngai Tahu shares with most groups. That is the inherent tendency to disaggregate except when under external threat. The settlement with the Crown robbed us of our unifying grievance and we must find a new collective adhesive which is positive and which binds us together in ways that we like and which we feel we own in ways that are uniquely ours. A generalised loathing of the North island is now insufficient given that so many of our people live there.

The primary component in our new adhesive mix will be economic. It will find the resolution which has thus far escaped the national economic model. It will see a productive and purposeful sharing of access to capital assets between the region and the centre - between the marae based heartland and the tribal collective interest. There will be jobs and opportunity in Bluff, Kaikoura, Gore and Akaroa as well as in Christchurch. There will be a well protected core of capital from which will flow distributed benefit. Wealth will be multiplied.

That economic adhesive will be rooted in the primary sector of this island, even if in the most dramatically modern ways - in biotechnology and aquaculture, in high technology farming and in forestry. Participation will be driven from a base of new educational excellence.

It will flower in property investment and tourism. And the links between the high profile jet boat and innovative live fish export and the whanau-sized shuttle bus business and the long distance truck owner and the tribe's own finance company and the granddaughter's scholarship will be plain to all and deeply cherished - celebrated in newly composed waiata in the traditional moteatea chant form.

That happy state will not happen by accident. It will come about only if unity is pursued by something more than the rulings of the line umpires - if the inherent tendency to disaggregate is actively countered by purposeful direction and effective strategy.

Unity

The new Ngai Tahu must rise above its past, abandon its century-long dependency on grievance and find a new route to the future. If it wants to be an identifiable component of the new New Zealand it must first ensure that it continues to exist as a tribe.

The necessary precondition to that is to ensure a cohesive unity based on the interlocking economic self-interest I have postulated. That unity must be based on a common purpose and not the external threat of a common enemy. The big challenge is no longer external - it is within.

That said, I am utterly confident that the Crown and its Parliamentary owner will from time-to-time reinforce the self-interested unity of which I speak by behaving in the way it has always behaved.

The larger issue is whether the historical pattern can be changed for this new century or if it will be simply repeated, albeit in somewhat greater comfort. There are now more Ngai Tahu than there have ever been.

In real terms we are richer than we have ever been. We have a greater cohesion than we have ever had since we came to this island. We have opportunities that our ancestors could not have imagined. We face challenges that they could not have imagined or conceived of.

From the depths of the claim struggle they could not have imagined having a choice between forms of investment. I like to think, though, that they would have readily appreciated an argument which secured their people the kind of investment multiples of which I have spoken.

A high level of sophistication is not necessary to understand the difference between one clip on a ticket and two or more clips on a ticket. I like to think that in their more congenial moments they would have appreciated the potential to reinforce their kinship and take a small margin at the same time. In our generation we are greatly blessed in our options.

If, in this reinvention of ourselves, we can cleave to our belief in our own dream of what we might yet be with a sufficient faith and if we give clear strategic effect - the historical pattern will be changed. If we succumb to our past we will be just another footnote drafted by some self-satisfied even gleeful - liberal democratic historian.

We will be nothing more than yet another assimilated cultural artefact in yet another anthropology text.

Sir Tipene O'Regan is *the former* chairman, Ngai Tahu Maori Trust *Board* and *Ngai* Tahu Holdings *Corporation.* He is *senior Research* Fellow University *of* Canterbury.

This paper was given at the May New Zealand Property Institute conference in Christchurch.

Investment decision-making residential rental real estate: the New Zealand experience

Introduction

By world standards, New Zealand is a nation of homeowners, with a home ownership rate of 71 % at the last 1996 Census of Population and Dwellings.

Given this high home ownership, it is not surprising therefore that equity in owner-occupied housing is the dominant wealth category, accounting for almost 50% of total assets among New Zealanders. Interest-bearing and dividend-yielding assets are the next important, with superannuation the fourth most important asset holding. Equity in rental property however, at around 6%, accounts for a relatively small proportion of the estimated total wealth (Equal Worth Report, 1999).

Despite accounting for a small share in wealth portfolios, the private provision of rental accommodation assumes an important role in the welfare of many New Zealanders with 24.6% of households renting and 72% of occupied rental properties being privately owned in 1996. Little in-depth empirical research on the motivations for investment in rental housing, however, has been carried out.

The need for such research has become all the more relevant in the light of the rationale for the preference for property in the investment portfolios of the household sector being brought into question.

Although during the high inflation 1970s and 1980s, property investment appeared an attractive, capital gain yielding option, in the face New Zealand's current very low inflationary climate, this investment option may be argued to have lost some of its former glow The Governor of the Reserve Bank, for instance, received media attention when he pointed out that real estate investment is non-productive, being insignificant in relation to increasing the nation's economic output (Reserve Bank, 1998:4).

A further issue that has received recent attention has involved the question of the need for New Zealander's to plan and save for their retirement (ISI, 1998, Office of the Retirement Commissioner, 1996). For instance, as the "baby boomer" generation reaches retirement age, it is widely believed that the government's tax funded, New Zealand Superannuation Scheme will be unsustainable in its present form. This debate too, highlights the need for research that examines aspects motivating the investment behaviour of the household sector.

The aim of this paper therefore, is to mitigate a research gap by exploring the key factors, both economic and social, that impact on the decisions of private residential property investors. It discusses the findings of a survey of a nationwide sample of residential rental property investors in New Zealand and 35 in-depth interviews of investors.

Methodology

Since compiling and accessing a comprehensive data base of rental property investors would have been a time-consuming, expensive task and would also have involved privacy issues, it was decided to "short-cut" these difficulties by tapping into a more accessible avenue for reaching these investors.

A questionnaire was inserted into two publications: the October 1999 issue of the New Zealand Real Estate Journal and the November issue of the Residential *Property* Investor. While it may be argued that there is a bias in our sample, since it comprised only those rental property owners who are subscribers to the magazines, nevertheless our final total of 967 respondents to the questionnaire is a sizable sample.

The NZ Real Estate Journal is a publication of the Real Estate Institute of New Zealand. It is compulsory for real estate agents to belong to the institute and real estate salespersons may subscribe to the College of Salespeople. The journal is complimentary with membership to these two organizations. The Residential *Property Investor* is a New Zealand publication providing independent information to residential property investors. It is not affiliated to any property investor association and is a privately owned publishing venture.

A total of 8000 copies of the questionnaire were inserted into both publications, of which 4600 were included in the NZ Real Estate Journal. Of these 4600,

3871 were to individuals, with the balance to organisations such as libraries, real estate companies and valuation companies. It is reasonable to assume that organisations would not respond to the questionnaire. Furthermore of the 3871 to individuals, not all recipients would be residential property investors.

A random telephone poll of real estate salespersons belonging to the College of Salespeople was carried out to gauge the approximate proportion of individual subscribers actively involved in residential real estate investment. This poll indicated that approximately 36% were investors in this category.

We may therefore infer that only 1394 of the questionnaires in this magazine would be accurately targeted and it was this number together with the 3400 questionnaires inserted in the Residential *Property* Investor, that we used in our calculation of the response rate. Thus, our total responses of 967 represent a 20% rate of response.

A core objective of the study was to examine decision making of property investors. When properties were not individually owned, however, it was necessary to pinpoint who was mainly involved in the decision making process. Hence, to overcome the problem of multiple ownership by family, friends or wider groupings, our opening instructions in the questionnaire stated, "... that if the property is a jointly owned one, the `property investor' for purposes of this survey is the chief decision taker. Thus, for example, if the property is jointly owned by `X' and `Y' and it is `Y' who takes most of the important investment decisions of the household, for example with regard to finance and property management, then `Y' is the `property investor'".

Since the research primarily aimed to examine the economic and social factors that impact on the decision to invest in residential rental property, the key question of the survey sought information on the main reason for this investment decision. Eleven specified options were listed in the questionnaire as reasons for this investment preference.

Additionally an "other please specify" category was included so that respondents would not be confined within the parameters of the reasons suggested. Respondents were asked to rank their main reasons, picking five options in order of importance. There were 890 ranked responses, representing 92% of the sample under study. The other 70 respondents merely ticked their preferences and an exception report was therefore prepared to take into account the views of these investors.

Central editing of the questionnaires revealed that slight fine-tuning of the responses was advisable. For example, in the question seeking information on the reasons for the investment decision, we found that some comments in the "other" category could fit into one of the given categories. Subtle differentiation in categories was also ignored, for example, those who considered renovation or the use of their own skills to add value was included in the option of wealth accumulation through long-term capital gain. The "quick flick" - "do up" for quick capital "gain", was nevertheless not transferred to this category and, recorded as "other".

The "other" option also gave us some useful insights on reasons that were not specified. For example, six respondents actually embarked on property investment specifically in order to diversify their investment portfolio.

Another example of the "other" reason included options for future personal use and security. Family reasons, such as providing accommodation for children at school or university or for relatives were included here. Those who wished to retain family owned property due to an emotional attachment also featured. Interestingly, for one respondent property investment "keeps me sane"!

Our interviewee base comprised those who indicated their willingness by filling out a contact detail portion included at the end of the questionnaire. In a sense therefore, they were self-selecting. Twenty face-to-face-interviews with Auckland investors and 15 other telephone interviews were undertaken outside the Auckland region. Thus, further interviewees comprised 4 from Wellington, 3 from Christchurch, 2 from Nelson, 2 from Invercargill and 4 from the Hawkes Bay region, making 35 in total.

The gender split of those interviewed was 22 male and 13 female. This division roughly reflects the overall gender distribution of our survey respondents where 24% of those answering the questionnaire were female. This latter distribution however, at first glance appeared paradoxical to us in the light of the findings of another study that showed ratios of female to male mean holdings of rental property at 1.05 (Equal Worth Report, 1999: Figure 5.3.2). Perhaps the gender imbalance of our respondents may be explained by the fact that with jointly owned properties, more men than women are the chief decision takers.

General survey findings

As anticipated, the bulk of the respondents came from the Auckland region, accounting for 41% of total responses. Respondents residing in Wellington and the Canterbury region (Christchurch) were the 2nd and 3rd largest groups respectively.

It is not unreasonable to expect that 40% of the respondents were in the 41-51 age group, while 29% and 23% belonged to the 52-64 and 30-40 age groups respectively.

The majority, or 42% of property investors in our sample, had between 1-2 properties. This percentage increased to 58% with those owning 3 properties. Those owning 4 or 5 properties comprised 20%.

Those who owned 6 or more properties made up the balance.

It is interesting to note that 95% of respondents to the questionnaire were of European origin; 2.1% Asian; 2% Maori and less than 1% Pacific island. Although Maori and Pacific Island people together make up 20% of the total population, their lower average incomes make them more likely to be both tenants and less likely to be residential property investors. By contrast, although Asians comprised 5% of the total population in 1996, they accounted for a percentage within our sample equal to that of the much larger Polynesian ethnic groups.

Respondents were requested to indicate their annual individual income and if they were not the sole property owner, the annual income bracket of their investment group with "group" defined as the joint owners or tenants-in-common of the property. Twenty percent of valid responses to the individual income question had an income below $38,000.

We draw attention to this later in the paper when we comment on the reasons for investment. The majority of the respondents, however, were in the more middle income ranges with 18% and 22% belonging to the $38,000 - $49,000, and $49,001 - $65,000 brackets respectively. Fifty eight percent of valid responses also belonged to an investment group. As expected the income of groups was high.

The majority of the respondents to our survey were well educated with only 7.5% having no formal educational qualifications. Those who had completed a professional diploma were the dominant group comprising 36% of respondents, while those who had completed high school qualifications made up 29%. We look at the link between education and the impact of inflation on the investment decision, later in the paper.

Economic reasons

Broadly, economic reasons provided in the questionnaire included the expected return on investment: "It provides a good investment return" and "It allows for wealth accumulation through long term capital gain/growth". To gauge risk preference we provided the option: "It is a low risk investment". Other economic considerations listed were: "It provides taxation benefits"; "It gives an income for retirement". Eighty five percent of valid responses ranked one of these economic reasons as their first most important motive for investing in rental property. In this section we chiefly discuss the economic reasons ranked highly in the investment decision of respondents.

Wealth accumulation and long-term capital gain were clearly the most important consideration in the property investment decision. Forty three percent of respondents ranked this as their first most important reason for engaging in rental investment. A further 17% indicated it as their second most important reason.

The fact that capital gains features so prominently as a reason for investment is not unsurprising in the light of a general trend of capital gains and wealth increase that has historically been afforded by urban residential property in New Zealand since the 1970s. Considerable and sustained capital gains and wealth increase particularly from housing in the Auckland

Figure 1 Most important reason for investing

region is a feature (Dupuis and Thorns, 1997; Dupuis, 1992). The majority of our respondents were from this region.

As the concept of "real wealth increase" (Dupuis, 1992) highlights, when measured in real terms, the smaller the outlay of the investor's own equity in the property, i.e. the size of the deposit, the greater is the wealth increase. Hence, "it is even possible to make real wealth gains from nothing but the capacity to pay a mortgage, to the extent that if all of the purchase price of a house can be borrowed, upon resale all the relative increase accrues to the owner" (Dupuis, 1992). It would appear that this idea of real wealth increase receives implicit support in the interviews, with several commenting that it is possible to "get rich because the tenant pays the mortgage".

With financial institutions increasingly willing to lend on smaller sized deposits, the scope for real wealth gain does however increase. Banks in New Zealand will lend up to 95% of the purchase price or the valuation, whichever is lower, if the purchaser's income will sustain repayments. In addition many people who already own property can use their equity to obtain 100% financing on new properties. However, in the interviews, we detected a growing perception that negative gearing, in the current economic climate of uncertainty, in terms of upward movement in the interest rate, is more risky than in the past.

Contributing to the expectation by property investors that they will benefit from capital gain and wealth accumulation is the fact that New Zealand, unlike several other countries, does not have a capital gains tax on housing. Furthermore, in comparison with the other investment option of equities, over the last 10-15 years residential housing has outperformed the New Zealand sharemarket and local investors have not taken to the international sharemarket in large numbers.

The barometer NZSE40 Capital Index increased by only 10.6% in the decade December 1989 to December 1999 in contrast to the 66% gain on residential housing (Gaynor, 2000). Furthermore, the three listings: Brierley Investments, Fletcher Challenge and Robert Jones, which had the largest number of shareholders at the end of the 1980s, produced negative returns (Gaynor, 2000). NZ is unique globally in that house prices have outshone shares in the last 15 years (Gaynor, 1999). While pointing to the influence of timing of buying and selling of assets influencing outcomes, Bourassa and de Bruin (1998) show that in overall terms capital growth of the housing market has outperformed the share market.

The Auckland housing market shows a clearly spectacular performance since 1973-1997, which only in 1986 when the share market was at its peak, marginally under-performed shares.

Though less spectacular, the major urban areas of Christchurch and Wellington have also done well in comparison with the share market. The greater capital growth of housing when examined in five year holding periods provides mixed results for the three main centres and all New Zealand housing. Once again however, in the five-year periods since 1984 to 1997, the Auckland market produced real capital gain (Bourassa and de Bruin, 1998).

While this evidence supports the superior performance of residential property in New Zealand, it should be stressed that capital gains that can be made by individual investors are strongly influenced by both location of property and the initial purchase price. Even if there is little or no overall house price inflation *per se*, capital gain could eventuate on specific properties. For example, a 41-51-year-old male investor, whose chief reason for investment in property was the expectation of capital gain, told us that he was aware of the low inflation climate eroding the possibility of high capital gain. His motivation for property investment resting on making capital gain, however, relied on bargain buying.

Another interviewee expressed his determination to purchase wisely. He would make an offer and be prepared to "walk away" if it was not accepted. Another couple of interviewees, who were professional licensees in real estate, believed that they should "practice what they preach" and felt they were sufficiently knowledgeable and confident to "buy well".

As stated previously, location can make a vital difference in obtaining capital gain. Location also features in the fact that buying in known, very familiar locations characterised the property purchases of those interviewed. One person interviewed had bought the house next-door, motivated by the ability to "keep a close eye on the tenants".

The need to have proper tenant management was highlighted as an important aspect of the success of the investment, by several people we interviewed. In fact, the issue of tenant management was also closely related to the location of the rental property because the vast majority of respondents did not use or intend to use property managers. 72.3% of respondents indicated they would not use professional property managers. Some had stories to tell of tenant troubles but the overwhelming majority of our respondents were clearly not willing to trade this sometimes "necessary evil" for a dubious and costly service that they felt eroded the investment return in an unacceptable way.

Our interviews also showed that the ability to manage tenants well was a factor in the investment decisions of those actively involved in the real estate industry Additionally, location was significant because it meant the investor felt confident with knowledge of the values in a particular area.

Cross tabulations showed that in every age group, capital gain and wealth accumulation was ranked as the most important motivating factor. The highest percentage support for this reason in the 41-51 age

group is consistent with life cycle trends. Often, wealth accumulation is entrenched by the latter part of the period.

The "good investment return" reason for investing in residential rental property, was only ranked first by 8% of respondents and was the second most important reason for 13%. Perhaps this lower percentage ranking is accounted for by the fact that it appeared from our interview data that the vast majority of property investors do not attempt to make detailed calculations of expected return on their investment.

Of the 35 interviewees only one made computer calculations of returns although three others worked closely to 5%-7% projected returns. Others mostly had a "gut feeling" that they were getting a good return. Nevertheless all of the interviewees had their own individual way of assessing returns and were confident that their investment was providing a "reasonable return". As table 1 shows, they were not wrong.

Although it is seen that the effective annualised real return, which takes into consideration different variances of return, was better for shares than for housing, even if the returns on shares are higher, "it is not immediately obvious that investing in housing is sub-optimal. This is because it is quite logical for an investor to accept the lower return on housing if they do not consider the extra return from the stock market to be sufficient to compensate for the additional risk and effort" (Joint Working Group, 1999). Moreover, a change of the time period to 1987-1997 shows the sharemarket outperformed by all of the other 3 asset categories in table 1.

Despite a popular perception that New Zealanders should be more proactive in planning for their

Table 1 Returns for New Zealand Asset Classes 1970 1998

Asset	Effective Annualised Real Return (%)
NZSE40	5.54
Housing	4.38
6 month deposit rate	0.72
10 Year Government Bonds	1.23

Source: Joint Working *Group,* 1999 Table 3

retirement, our data showed that property investors were very mindful of the need for retirement provision. This reason for investment came in second, after capital gain and wealth accumulation, as the first most important reason, with 27% of respondents ranking this as their first reason. At 20%, it was ranked highest as the second most important reason.

There was a gender difference, however, with 47% of males ranking capital gain and wealth accumulation as their chief reason, while females gave equal importance to this reason and to the provision for retirement income. Thus in our female sample which comprised only 25% of respondents, each of these two reasons received around 30% support. Thirty three out of the 35 people interviewed were below the age of 64 and they were all very aware of the need for retirement provision and considered that their property investment was serving them well in working toward a good standard of living in retirement.

Another factor affecting the investment decision is the impact of taxation. Residential property investment has tax advantages over several other forms

Figure 2 Second reason for investing

of investment. Investors can off set the losses they make on this investment against the taxable income from other sources.

They can also claim tax deductions against expenses incurred in the production of rental income. Furthermore, property investors may not always possess the skills to successfully invest in the share market but in New Zealand capital gains of managed funds are at a tax disadvantage in relation to private share holdings of the investor and property. "It provides taxation benefits" was ranked the highest of all reasons as the 3rd and 4th most important reason influencing the rental property investor.

Those who did not rank their preferences (70 valid cases) and for whom an exception report was compiled also conformed to the general pattern in that their main reasons for investment were economic ones. Once again wealth accumulation through long-term capital growth and retirement provision scored first and second highest with 17.9% and 16.6% of responses, respectively.

Low risk and taxation benefits came in as close third and fourth reasons (14% and 13.6% of responses). The fifth important reason was "it is a hands-on investment", with 9% of responses indicating this reason. The fact that the investment provides a good return, however, was almost as important with 8.6% of responses to this option.

Social and phychological reasons

Social reasons we considered could be an "influence on property investors" behaviour were included in the questionnaire. These focused on "altruistic" aspects: "I help other New Zealanders by providing rental accommodation"; "To build a valuable legacy for my children" and "leader following" factors: "My friends/family members invest in property". Socio-psychological factors we felt would enter into the reasons given as: "It is a hands-on investment" and "I can come to grips with the principles of property investment".

As a corollary to the ranking of most important reasons, we also asked respondents to rank their least important reasons. Analysis of this question reveals that by far the least important reason for investment was, "I help other New Zealanders by providing rental accommodation". Altruism does not therefore, feature in the investment decisions of property investors.

The face-to-face interviews revealed some strong underlying social and psychological reasons in almost every case. We found some interesting common themes emerging. For example, two interviewees, women in the 52-64 age group were re-establishing themselves both financially and emotionally after marriage breakups and considered that merely relying on the meagre state safety net was inadequate. What came through strongly in the interviews with females was that property investment gave psychological and financial

independence. The women took pride in their achievements, especially in the sense of taking control in ensuring their current standard of living could be maintained in retirement.

It is not always easy to separate economic from the social factors that influence the investment decision. The issue of "personal confidence" as a determinant of investor behaviour (Wydeveld, 1999) was covered in the questionnaire in the reason stated as: "I can come to grips with the principles of property investment". While this reason did not feature prominently among the first or second important reasons (see figures 1 and 2), it nevertheless is an element of the "comfort factor" of investors and is related to information and skill in the area of investment.

It also links in with the subjective assessment of returns. Two women interviewed began investing in residential property because they were advised to do so by trusted financial advisors. Neither had experience in the field but felt confidence in the advice given.

Those interviewees who worked in real estate were quite "comfortable" with property.

Some interviewees spoke of the scarcity value of land in the areas in which they had purchased, ensuring continuation of financial gain on their investment. For others there had been bad experiences with the New Zealand sharemarket and a continued inherent discomfort with this type of investment (Gaynor, 1999).

The "other" category in the reasons for choosing to invest in property also included reference to the fun value of the investment. Although it may be argued that intrinsic worth could be incorporated into a widened concept of expected investment return (Wydeveld, 1999), and hence fit in with the reason provided that rental property gives a good return, we chose to keep this reason separate. We see this reason for investment as more socio-psychological than economic.

Respondents also appreciated the fact that property was tangible - "I like property I can see it, enjoy it and use it." Several interviewees expressed their delight at the tangibility of real property. They could drive by the properties, check everything was satisfactory and when necessary either use their own skills to make improvements or hire practical help. Tangibility and other intrinsic aspects were common themes in the face-to-face interviews. One interviewee actively enjoyed the interaction with tenants and the challenge of using his skills to maintain and enhance his rental properties - his properties were his hobby!

The concept of "investor pride" was revealed in the interviews. There was evidence in some of our cases that investors believed their decisions were based on superior information and that they intuitively had some sort of sophistication in their assessment and reading of housing market conditions. For example, one male investor had purchased in an area which he considered to have potential growth based on his reading of the market. He had not secured valuations and took advice

from real estate agents with scepticism.

In this example the investor not only had "pride" in his superior abilities but also revealed a sense of complacency. All this appears to be in line with the findings of Bernstein (1996). While taking pride in their abilities, many investors paradoxically kept the existence of their property portfolios secret from most. They did not think being a property investor gave them any social status.

All those interviewed felt that investment in property enabled them to control their own investment. A perception of control was an important psychological factor for the majority of those interviewed. This reflects a feeling that the success, or otherwise, of the investment depends on their own management skills and for some, other related expertise such as doing repairs and maintenance themselves.

This aspect has been accounted for in: "It is a hands-on investment". Many of those interviewed believed that other forms of investment involved an unnecessary "middleman (sic) taking his cut". One interesting case was an interviewee from Southland who was well aware that property in the area was adversely affected by the gradual loss of the region's economic base, but still felt a close location was important for her effective investment control.

Interestingly only 1.7% of the entire respondent group considered leaving a legacy as an important motivation and although it may not be unreasonable to expect this to increase in the older age group, no supporting evidence was found. Similarly a tendency to "copy cat" friends and family in the decision to become a property investor, did not figure as an important motivating factor.

It would be difficult not to accredit some influence to popular trend however, especially when one considers the comments in the interviews of people involved in the real estate business that it is helpful for credibility to be actively involved in the property investment market. Although herd behaviour has been frequently highlighted in financial markets, there was little evidence of this in our results.

New Zealand is a nation of homeowners. This national preoccupation with home ownership can be traced back to 19th century concerns with land and property ownership. Starting from the early days of colonisation, settlers arrived in New Zealand motivated by the desire to own land.

In addition to it being a common shared experience, home ownership has taken on close to mythical significance within our national psyche (de Bruin and Dupuis, 1995). It maybe argued that this embedded positive feeling about property has extended to other forms of property investment. All those interviewed felt a sense of ease with rental property and despite the odd difficulty with tenants found the experience worthwhile and fulfilling. As one interviewee phrased it "I have had a long love affair with property".

Portfolio diversification and attitude to risk

A diversified portfolio, so that risk may be spread, is a standard rule of investment. Our study sought to assess the degree of diversification of the investment portfolio of residential rental property owners. We asked respondents to rank their investment categories in order of importance. Six categories were specified: residential rental property, other investment property, equity investments - shares, managed funds, superannuation, fixed interest and "other please specify".

This latter category yielded forestry and farmland, which were also incorporated into the analysis as shown in figure 4. Residential rental property was the most important investment in the portfolios of 77% of respondents. Together with other investment property, property comprised the most important investment for 85% of respondents. Simply on the basis of the number of investment categories in a portfolio, 22% had a totally non- diversified investment portfolio, holding only property.

Our data appears to confirm that in general, rental property investors tend to concentrate their investment in property. This finding was not unexpected. New Zealanders traditionally have a very strong leaning toward property. Their savings portfolio allocation is also heavily skewed toward housing with a higher proportion of savings in housing than their counterparts in most other OECD countries (Joint Working Group, 1999).

As pointed out in the previous section there is a national predilection toward property. This coupled with the general historically superior capital growth of housing, supports the inference that the investment decisions and portfolios of our respondents may indeed be optimal for them.

Interestingly, 19% of male respondents had only property in their investment portfolios, compared to 30% of women who had a completely non-diversified portfolio. Even if we are to interpret a non-diversified portfolio as more "risky", it must be emphasised however, that "in practice, risky financial decisions are inherently contextual" (Schubert et al., 1999). This was generally supported by our interview data.

For example, as alluded to previously, two interviewees were trying to build up a retirement "nest-egg" after marriage break-ups and considered property a "safe" way to do this. A couple of men interviewed had made losses in the share market. Another woman who only had property in her portfolio had acted purely on the advice of a financial planner whom she trusted and her investment fitted well with a projected long-term plan for retirement.

We sought to capture attitudes to risk in the reasons for investing in residential property "It is a low risk investment". While only 3% of valid responses ranked this as their most important reason, the proportion of respondents influenced by this factor in their decision to invest in property steadily increased down the ranking scale. Thus, for 9% it was

r s s :atc: aJ ,CRJHNGL

Figure 3 Most important investment in portfolio

the 2nd, 12% the 3rd, 14% each the 4th and 5th important reason.

It could be inferred from these results that a preference for low risk investments significantly influences the portfolio-composition decisions of residential property investors. Whether or not residential rental property is in fact of low risk investment, however, is a matter of debate. As a study commissioned by the Reserve Bank of New Zealand warns, "values can be pretty wobbly in the short term" and "shed the lessons that were learnt in the 70s, like property is a bullet-proof asset" (Holm et al., 1998). Yet the respondents in our study with support from interviews believe that they are in a low risk investment.

Certainly the majority of respondents looked on their investment as long-term with 71% intending to hold their current rental property for more than 10 years. This once again supports the idea that the degree of risk of their investment is indeed low, risk reducing with the length of time of intended holding.

Implications of inflation

A strand of the debate on the optimality of investing in property involves the implications of low inflation. By the end of 1991 the Reserve Bank of New Zealand had been successful in bringing underlying inflation within the required 0-2% band and a low, relatively steady inflation climate now appears embedded in the economy.

In such a low inflation climate the potential for capital gains is reduced. Yet as figure 4 shows many of our respondents commenced rental property investment in a low consumer price index inflation period after 1990, peaking in 1997. On the face of this, and at a superficial level of analysis therefore, it would appear that the majority response that capital gain was a most important reason for their investment decision appears rather inconsistent. Yet as already highlighted, this was a period of high house price inflation, particularly in Auckland.

In fact as O'Donovan and Rae point out, in 1996 the house price boom impacted on the inflation itself, adding around I% to the underlying inflation rate (1997: 176). The decision to invest in property at that time cannot be judged non-optimal for these individual investors.

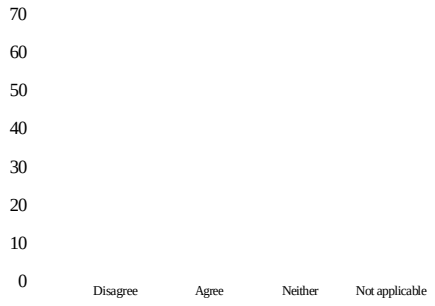
This was a period when banks were actively seeking to increase their residential mortgage lending and when the real interest rate on borrowing began to fall from 6.8% in 1992 to 0.6 in 1993 to 4 and -1.8% in 1994 and 1995 respectively (Dalziel and Lattimore, 1999).

The real rate of interest is the nominal rate, which is the average rate for new first mortgages, minus the rate of inflation over the following 12 months. This real rate has been calculated using the average price of urban freehold houses, hence making it more relevant for the purposes of this study. When the real rate of interest is negative, the value of a residential property purchased with mortgage finance increases faster than the nominal interest rate on the borrowing, acting as an incentive to purchase residential property.

The statement: "I would not have bought a rental property if I knew that very low inflation was here to stay in New Zealand" was used to assess the impact of low inflation on the decision to invest. We asked that respondents agree or disagree on a five-point Likert type scale.

The "not-applicable" option was also included because we thought that some reasons for purchase such as family reasons, would render this statement

Figure 5 Impact of low inflation



inapplicable. Figure 5 groups the strongly agree/disagree and agree/disagree responses into two categories and shows that more than 60% would still have invested in property despite knowing that low inflation was entrenched.

Examining the link between educational levels and agreement or disagreement with this statement, we found that education had probably influenced the result (Chi-Square value 29.753, 12 degrees of freedom and P value 0.003).

It may be argued that more educated respondents, those with degree and postgraduate qualifications, would be more inclined to agree with the statement since they would have a better understanding of the implications of a low inflationary environment for lessening potential returns through capital gains. There was support for this argument when the (0-E)2/E (as used in chi-square testing) values were calculated. These values are presented in table 2.

From table 2 it is seen that the values of 2.15 and 2.16 in the agree cells, for degree and post graduate qualified respondents respectively are much higher than those with lower qualifications.

The interview data confirmed that there was an understanding that low inflation eroded the potential for capital gain but this did not generally alter the belief that the decision to invest in property was a sound one.

Conclusion

Our study revealed that the respondent's decisions to invest in residential rental property were based primarily on the economic rationale of wealth accumulation, capital gain and retirement income. Taxation considerations also had a bearing on the investment decision. The ability to claim ongoing expenses including depreciation, as well as the absence of taxation of capital gains played a role in making rental property an attractive investment proposition.

Additionally other non-economic motivating factors intertwined to give a more holistic view of the decision making process. The questionnaire based information, together with in-depth interviews thus enabled us to gather both quantitative and behavioural data to interpret the entire investment decision process.

The interview data overlaid the more quantitative analysis with personal and anecdotal evidence. An underlying comfort level with property investment, as well as the tangibility factor, perhaps indicative of a broader national predilection toward home ownership, together with the fact that home maintenance and upgrading is the chief leisure time activity of New Zealanders, (NZ Statistics, 1998) came through strongly in the interviews.

It was also interesting that few respondents actually worked out investment return on a

Table 2

Education	Disagree	Agree	Neither	N/A
None	1.55	0.30	1.58	15.28
High-school	0.20	0.13	0.30	0.00
Diploma	0.11	0.00	2.60	1.19
Degree	0.05	2.15	0.14	0.53
Post-grad	1.13	2.16	0.30	0.07

mathematical basis but rather their positive "gut feelings" played an important part when both entering the investment (initial property purchase) and in decisions to retain the investment. In fact, the investment return aspect was not ranked as highly as we expected it might be.

Many of our interviewees believed the returns from residential rental property were commensurate with their perceived low risk of this type of investment and this contrasted with an equally perceived volatility in stocks and shares. Likewise, although the low inflation could have been expected to dampen expectations of wealth accumulation and capital gain, we found that this was not commonly the case. Nevertheless, most interviewees expressed a determined effort to "buy well" and in doing so actually secure inbuilt capital gain as well as a reasonable return.

A perception that tenants assist with wealth accumulation also contributed to the notion that low inflation will not significantly reduce the prospects of continued wealth accumulation and capital gain.

In conclusion, the reasons for investing in residential rental real estate are complex and case specific, but with common threads. This may also be a reflection of the nation's value structure. Our respondents currently perceive their property investment decisions very positively

It may be an interesting exercise to extend this study longitudinally to a point where the heady gains achieved in the mid 1980s and early 1990s are no longer forefront in people's minds. Perhaps then the strength of New Zealander's faith in housing as an investment will have been more tested. The decision making story may be quite different five years hence.

Susan Flint-Hartle is senior *property lecturer* at Massey University's finance, banking *and property* department *Her current research* interest involves the link between organisational learning and success in individual *property* businesses.

Anne de Bruin is Associate *Professor of Economics* at Massey *University's commerce department* and *research* development *director for* the university's *College of* Business.

Acknowledgement: The authors wish to thank Dr Larissa Allen for her assistance with data processing.

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Measuring the obsolescence of office property through user-based appraisal of building quality

Abstract

Buildings are constructed in circumstances of high uncertainty concerning their medium to long-term lives.

However, the act of construction is a commitment to physical permanency and spatial fixity. This, together with the fact that most buildings are durable, means that they have to function in changing political, economic, social and technological conditions.

The result is that every building undergoes a process of obsolescence as it exhibits a diminishing capability to meet evolving user expectations through time.

In recent decades, the process of building obsolescence has been particularly problematic for office property, as building life spans have become increasingly ephemeral (Gann, 2000). Technological advances and changing occupier needs have resulted in many office buildings being demolished after only 20 years life (Khalid, 1993).

Previous studies into office property obsolescence have focused almost entirely upon the financial impact for the property owner (Baum, 1991; Khalid, 1993). However, the limitations of this traditional approach have become increasingly apparent (Pinder and Wilkinson, 2000). The research discussed in this paper suggests that building obsolescence in office property can be examined from the perspective of the building occupant.

In so doing, the research explores the gap that develops between the expected and perceived utility of office property, the results of which will form the basis of a model for highlighting approaching problems of building obsolescence in public sector operational property. Such a model will be of practical worth in assisting facilities managers and designers to minimise the risk of building obsolescence.

Both theoretical and methodological issues pertaining to the research undergo critical discussion in this paper, and the underlying aims and objectives are examined. The paper considers the first round of empirical research currently nearing completion, and before concluding, maps out the continuing programme of research.

Introduction

Until recently it could be said that the lifespan of a building would be determined by the longevity of its fabric and that problems of obsolescence were relatively innocuous (Bowie, 1989). Today, most building types are increasingly prone to obsolescence because of the functional, economic and social requirements being placed on them by economic shifts, revolutionary technologies and emerging cultures (Chilton and Baldry, 1997).

In the UK two reports have highlighted the nature and extent of the problem. Boyle and Harrison (2000) posited that many National Health Service (NHS) buildings currently under construction would become obsolete in several years time as developers fail to take account of user needs.

The report predicted that this situation could leave the NHS with expensive buildings that become outdated within a few years, but for which it would still have to pay (Boyle and Harrison, 2000). The Connaught Report (1997) questioned the suitability of the UK's stock of office buildings, estimating that a significant amount of the stock would fail to meet occupier requirements at the beginning of the new millennium; in other words, many office buildings would be obsolete. As an issue of current interest obsolescence cannot be ignored as tomorrow's problem (Khalid, 1993).

This paper considers research that is looking at the issue of obsolescence from the perspective of the building occupant. Initially the paper explores the

concept of obsolescence, explaining how opinions vary according to the knowledge and viewpoint of the assessor. The paper discusses why building obsolescence in office property has come to the fore in recent years, and the implications that this obsolescence has had for those involved in the design, management and use of office buildings.

The more specific focus of building obsolescence in public sector operational property portfolios is then examined, before discussing the need for a proactive approach to problems of building obsolescence in public sector office property to counteract the impact of organisational workplace dynamics.

A framework for achieving this is posited, the overall aim of which is to enable facilities managers in public sector organisations to minimise the risk of building obsolescence in their operational portfolios; methodological issues and anticipated outcomes pertaining to this work are also discussed. Before concluding the paper reports on the current state of the research, outlining the ongoing programme of study.

The process of obsolescence

From the moment of construction buildings are subject to the process of physical deterioration and capital invested in them undergoes a gradual process of devaluation; as buildings age and decay they suffer from diminished utility and require a constant stream of capital investment (Bryson, 1997).

Nevertheless, physical deterioration of buildings is largely a function of time and use, and can be controlled to some extent by selecting appropriate components and materials at the design stage, and by correct maintenance (Ashworth, 1999). Though effective maintenance policies are not the norm it is clear that building maintenance has begun to be approached in a more informed way; the increased use of planned maintenance programmes being a case in point (Chanter and Swallow, 1996).

Furthermore, life cycle cost analysis has been developed to facilitate choice between alternative design options and to enable designers to take into consideration all costs that emerge during a building's physical life (Kishk and Al-Hajj, 1999).

Physical deterioration should not, however, be confused with a building's decline in utility due to a failure to satisfy new needs created by changes in equipment, materials, style, laws and the many other forces that cause a building to lose desirability in the eyes of its user (Trowbridge, 1964). The impact of such factors is called obsolescence. `Just what is obsolescence at any particular time is difficult to define, since any particular structure or environment can be found lacking in contemporary terms due to a variety of contributory factors" (Lichfield et at., 1968; p.239).

Whilst this may be so, the basic definition of obsolescence is reasonably clear: obsolescence is the process of becoming antiquated, old fashioned, outmoded, or out-of-date (Building Research Board, 1993). More specifically, obsolescence describes a relative decline in the utility of a building that does not result directly from physical usage, the action of the elements or the passage of time (Baum, 1991).

Instead, obsolescence is caused by changes in peoples' needs and expectations regarding the use of a particular building (Lemer, 1996). Utility the sense of usefulness, desirability or satisfaction is central to the concept of obsolescence; if a building does not provide utility, it will be considered obsolete (Smith et al., 1998). However, there is no objective measure of utility for buildings and, if there was, it is unlikely that the changes over time would be represented by a straight line; the pattern of change would be more complex (Khalid, 1993).

The lack of an objective measure of building utility presents two problems. The first problem is that obsolescence is difficult to control. In contrast to the gradual process of physical deterioration obsolescence occurs at irregular and unpredictable intervals and is concerned with uncertain events, such as changes in fashion and technology, as well as innovation in the design and use of buildings (Ashworth, 1999).

The range of variables and the unpredictability of some of these influences imply that a general model of obsolescence is not feasible (Golton, 1989) and the scope for preventative action appears limited (Salway, 1986). The second problem is that obsolescence is a relative matter, which means that rational, consistent measures are very difficult to produce and are subjective (Raftery, 1991).

This subjectivity derives from the fact that perceptions of obsolescence change relative to a particular situation or condition, and vary according to the viewpoint or interest of the observer; obsolescence is a function of human decision rather than a consequence of "natural" forces (Cowan, 1970).

Traditionally, the problem of measurement has been overcome by focusing upon the financial impact of obsolescence, by measuring obsolescence in terms of a real or nominal decrease in building value.

Authors such as Baum (1991) and Khalid (1993) have used the financial impact of obsolescence to measure the affect of obsolescence on the depreciation of office buildings in the investment property market. Whilst the limitations of the financial approach will become apparent later in this paper, it allows us to isolate two forms of obsolescence. Building obsolescence "occurs when a building's stream of rental payments bears little relationship to the rental payments usually obtained from that location" (Bryson, 1997; p.1446).

It is therefore concerned with buildings' physical characteristics, as determined by design and specification. Locational obsolescence occurs when buildings located within a particular area suffer from

devaluation because the area is seen has less attractive by current or prospective occupiers (Bryson, 1997).

Locational obsolescence results from changing expectations of infrastructure, communications and environmental conditions (Cowan, 1970; Lichfield et al., 1968). It is much more difficult for an individual building owner or user to remedy the causes of locational obsolescence, whereas building obsolescence can often be remedied by refurbishment (Debenham Tewson & Chinnocks, 1985). That is why this research is concerned solely with the issue of building obsolescence, with intrinsic rather than external characteristics.

The impact of building obsolescence on office property

In the UK the timescales within which office buildings are designed, constructed and used have become increasingly ephemeral (Gann, 2000). Changing political, economic, social and technological conditions have caused modern organisations to become more dynamic, resulting in changing office facility needs over time.

At the same time office buildings and their infrastructures have remained stereotypical, designed with the assumption that the needs of different organisations or of the same organisation do not differ significantly through time (Tu and Loftness, 1998).

The failure of many office buildings to respond to these changing organisational needs is apparent as the rate of building obsolescence in office property has increased. Office building lifecycles have declined from between 40 and 50 years in the 1950s and 1960s to between 20-25 years in the 1990s; since then lifecycles have fallen, boosting the potential stock of redundant office buildings (Gann, 2000).

The result is that building obsolescence is an important issue for building owners and occupiers, as many office properties have been refurbished or redeveloped long before reaching the end of their physical life because of the impact of building obsolescence (Khalid, 1993).

The impact on office building ownership

Office buildings exist on two distinct but related levels (Bryson, 1997). They are seen as an investment class that competes with cash and securities for the allocation of institutional funds (Baum, 1991).

Property investors regard office buildings as an investment medium that provides returns and benefits through the flow of rental income or capital appreciation (Bottom, 1996). However, these same investors shoulder the ultimate responsibility for problems of building obsolescence, which can serve to undermine a property's ability to show rental and capital growth in the long term (Salway, 1986).

In the UK building obsolescence arose as a significant issue for investors in the 1980s, when it became clear that the life expectancy of office buildings was not as long as had been expected previously or implied within values and market valuations (Dixon et al., 1999).

Since then technological advances and dramatic changes in occupier requirements mean that the financial impact of building obsolescence is more significant for office property than for any other building type (Khalid, 1993). Connaught (1997) suggested that if the trend continued there would be a danger that UK office property would become less desirable against other forms of investment, its value base suspect and its worth to its owner diminished.

The impact on office building occupancy

Given the investment value of UK office property the financial impact of building obsolescence for the property owner has remained the focal point of concern for most property researchers. However, many office buildings are not investment property, but operational property that "is utilised for the carrying out of an organisation's activities, is occupied by the organisation, and is not let in its entirety to a third party" (Avis et al., 1993; p.29).

The emphasis is not so much on the value of the office building as a commodity as with its utility as a facility or resource. The level of utility provided by an office building will vary in time as it becomes subject to shifting political, economic, social and technological conditions, which lead to changing user expectations about the services and amenities an office building should provide (Ohemeng and Mole, 1996).

If office building utility declines operational users may suffer from increased rates of churn, reduced productivity, higher employee turnover, increased staff absenteeism and rising health care costs related to on the job stress (Building Research Board, 1993). As operational user expectations may change over time there is a risk that office building utility will decline and occupancy costs will rise over acceptable levels.

This risk is of concern to UK public sector organisations with operational property portfolios. Public sector office buildings are valuable assets that can provide long and high-quality service if managed effectively. Public sector organisations have a responsibility to delay or minimise building obsolescence to optimise returns on public assets; failure to do so may impose significant costs on operational users of buildings, and ultimately, the public at large (Building Research Board, 1993).

This responsibility often rests with the facilities management function since it is concerned with property matters that immediately affect operational users of buildings (Avis et al., 1993). There is a need for facilities managers in public sector organisations to take a proactive approach to the management of building obsolescence so that irremediable problems are anticipated and the risk of unexpected occupancy costs reduced (Debenham Tewson & Chinnocks, 1985).

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Such an approach has been seen as problematical because of the practical difficulties of measuring and predicting building obsolescence (Bottom, 1996). The aim of this research is to enable facilities managers to overcome these practical difficulties and reduce the risk of building obsolescence in public sector office property.

Predicting building obsolescence

The first objective of this research is to address the difficulties of predicting building obsolescence. To achieve this objective it is necessary draw on work by Bottom (1996), which demonstrated that it is possible to carry out predictive modelling of functional performance data to counteract the depreciation of investment property.

Bottom gauged the opinions of senior managers from homogeneous groups of tenant organisations in the City of London regarding the suitability of their office accommodation; these results were then correlated with building design/quality data to form a decision-support model. The theoretical framework underlying this research is illustrated in Figure 1.

Office buildings may be viewed as packages of resources, each one offering a different combination of resources according to its physical characteristics. The degree of utility afforded by these resources is a measure of the interaction between the building's physical characteristics and its operational users, attained at a cost to the occupier organisation.

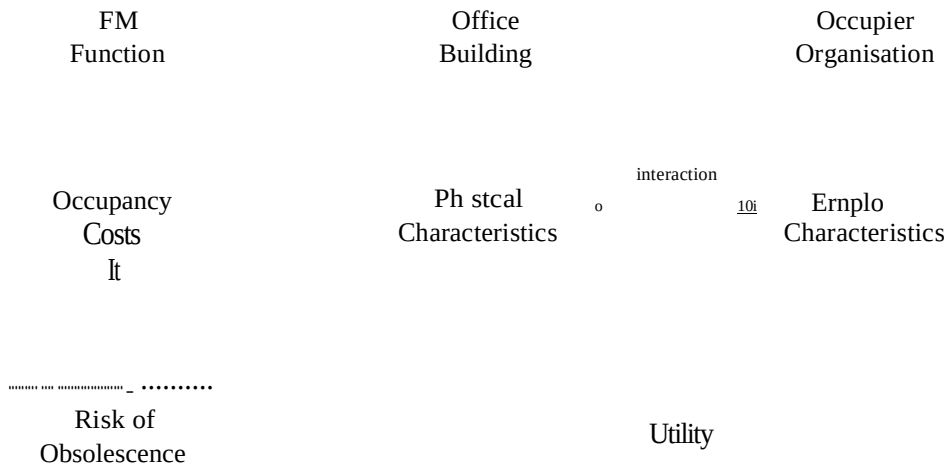
However, over time organisational workplace dynamics - a result of shifting political, economic, social and technological conditions - may change the interaction between the building and its operational users (Tu and Loftness, 1998); resource imbalances may develop and intensify over time, leading, first to stressful conditions, and ultimately to partial failures of a functional and financial kind (Nutt et al., 1976), as building utility declines and occupancy costs rise.

The operational users of public sector office buildings are composed of several groups, including occupants (employees who work in the building), senior managers or executives in the organisation (who may not necessarily work in the building) and visitors, including members of the public, who have business in the building (Gray and Tippett, 1992). This research focuses on the needs and expectations of the employees.

The rationale is that in most public sector office buildings employees comprise the majority of occupants; hence their needs and expectations should take precedence (Douglas, 1996). It is recognised that employees are the most important assets in many organisations, public or private; as an organisation's investment in its employees often represents its greatest expenditure there is clearly an advantage in ensuring that office accommodation supports their activities (Chilton and Baldry, 1997).

There is a substantial, growing body of literature that indicates that it is going to become ever more difficult for organisations to find and retain the right employees. Consequently, it is going to become increasingly important for facilities managers in the public sector to take account of employees' aspirations

Figure 1: Theoretical framework (adapted from Bottom, 1996



and priorities in respect of their office accommodation (Bradley and Osborne, 1999).

The needs and expectations of different employees may vary enormously, placing a wide variety of potential demands upon office property. Consequently, the minimum standard of office accommodation considered tolerable or yielding satisfactory utility will vary with each employee according to their objectives, the method of fulfilling those objectives and the resources available to them (Williams, 1985).

The generic term "office work" tends to conceal the critical differences that occur between different kinds of office work; in reality certain office activities place special demands on the physical environment in which they occur, which means that the functional, technical and social needs of specific groups of employees in combination may lead to a requirement for particular physical characteristics (Gray and Tippett, 1993).

Thus, the composition and interaction of factors inducing building obsolescence will act differently on each employee in accordance with their specific characteristics; so whilst office accommodation may be unsuitable for one employee, it may yield a suitable level of utility to another (Williams, 1985).

This research recognises this fact and aims to develop a model to highlight impending problems of building obsolescence in public sector operational property portfolios, one that will utilise office building characteristics to predict changes in office building utility and occupancy costs for homogeneous groups of employees, the latter being defined by function and work practice characteristics (Boyd and Jankovic, 1992).

Measuring building obsolescence

The second research objective is to address the difficulty of measuring office building utility as a means of determining the degree of building obsolescence affecting public sector operational property. Techniques such as post-occupancy evaluation, ORBIT 2.1, real estate norm, serviceability and building quality assessment have been developed to provide consistent, reliable measures of various facets of office building performance (Baird, 1996).

However, none of these techniques appear suitable for measuring office building utility as defined in this research, and if they were, they are in the main expert-based techniques (Bottom, 1996). It has been suggested that in defining office building utility there is an element of subjectivity on the part of employees. Indeed, the assessment of the utility of an office building with regard to employee needs and expectations is a complex decision-making process that is strongly influenced by individual perceptions (Williams, 1985). At the same time, it is often difficult for individual employees to articulate their expectations and perceptions in language that can aid decision-makers (Gray and Tippett, 1993).

The deviation of existing utility from required utility involves two problems: first to identify, and secondly to measure the difference in utility (Aikivuori, 1996). Market research techniques are espoused as a means of overcoming these problems (Beeston, 1984).

This research aims to use market research techniques to develop a multi-item instrument for measuring the utility of public sector office buildings; the instrument will be used to elicit the opinions of employees regarding the suitability of their office accommodation.

To ensure a valid and reliable instrument, this research will use Churchill's (1979) procedure for developing multi-item measures of marketing constructs, summarised in Table 1. The first step in the procedure entails specifying the domain of the building utility construct; this involves delineating the

No	Description	Coefficient or Technique
1	Specify domain of construct	Literature search
2	Generate sample of items	Literature search, experience survey, insight stimulating survey, critical incidents, focus groups
3	Collect data	
4	Purify measure	Coefficient alpha, factor analysis
5	Collect data	
6	Assess reliability	Coefficient alpha, split-half reliability
7	Assess validity	Multitrait-multi method matrix, criterion validity
8	Develop norms	Average and other statistics summarising distribution of score

Table 1: Procedure for developing multi-item instruments (adapted from Churchill, 1979, p.66)

boundaries of the construct by means of a comprehensive literature review. A literature review suggests that the concept of building quality can serve as an effective proxy for building utility, a premise supported by many authors (Baum, 1991; Bruhns et al., 1991; Gray and Tippett, 1993; Khalid, 1993; Bottom, 1996; Bryson, 1997).

The word "quality is elusive and can be defined in many ways" (Baum, 1994, p.43). The *Concise Oxford Dictionary* (Pearsall, 1999; p.1170) defines quality as being "a distinctive attribute or characteristic", "the degree of excellence of a thing", or "the relative nature of a thing". For the purpose of this research building quality is taken as being the "measure of the extent to which the building meets the requirements of its owners and users" (Gray and Tippett, 1993; p.'). Flanagan (1984) argued likewise, defining building quality as the degree to which the building performs the function for which it is required.

Having defined the domain of the construct, step 2 of the procedure involves undertaking exploratory qualitative research in order to generate items that capture the domain. In this research focus groups are used to elicit the views of a sample of employees from a public sector organisation; items generated from the focus groups form the basis of the quantitative stage of the research procedure. The first part of the quantitative stage (step 3) involves collecting data for statistical analysis; two competing measurement models, both derived from the service quality marketing literature, are being utilised in this research: a perceptions-expectations model and a perceptions only model.

The perceptions-expectations measurement model is based upon the gap analysis approach developed in marketing by Parasuraman et al (1985), whose research explored the concept of service quality. Parasuraman et at (1985) developed the gap analysis approach to identify and measure gaps in service quality

Their work resulted in a marketing instrument called Servqual (Parasuraman et at., 1988). A significant feature of the Servqual instrument is that gap scores are computed for each item and sub-item of the construct; the expectations of the respondent for each statement are recorded first, followed by the respondents perceptions for each statement (Hoxley, 2000).

The approach is based on the notion that customers judge the quality of a service by comparing the service they perceive with the service they expect. Thus, if a customer perceives a poorer service than they expected, they will feel that they have received a low quality service; this difference, between perceived service and expected service, is described as a quality "gap" (Parasuraman et at., 1988).

The application of this measurement model in this research will produce an instrument capable of identifying building quality gaps; a negative score for any particular item or sub-item of the building quality construct will indicate a quality deficiency and hence building obsolescence. It would therefore be analogous to the "supply-demand" approach used by Bruhns et at (1991) and Bottom (1996).

Although gap analysis has received widespread application the use of gap scores has recently become the subject of much debate. Several authors (Boulding et al., 1993; Brown et at., 1993; Cronin and Taylor, 1994) have rejected the gap based model, arguing that an instrument based upon a perceptions only measurement model out-performs an instrument derived from a gap-based measurement model (Hoxley, 2000).

It has been suggested that by wording statements so that expectations and perceptions are measured in the same statement it is possible to achieve increased efficiency over gap-based instruments. The effect is to reduce the number of items that must be measured by half, whilst still retaining validity and reliability (Cronin and Taylor, 1992).

The rationale behind the use of two competing measurement models in this research is that it will enable the researcher to select the most efficient, valid and reliable instrument, using steps 4 through to 8 of the procedure shown in Table 1. Both instruments are being developed as part of an empirical study currently nearing completion. The empirical study is being undertaken with a large UK public sector organisation, involving nearly 1000 of its employees and a number of office buildings from its operational property portfolio.

The instrument developed as part of this initial empirical study will be used in the main round of empirical research, which will involve analysing several hundred office buildings from the organisation's property portfolio and will be used to construct the model discussed earlier in this paper.

Anticipated outcomes

In the UK there has been much discussion in the property investment market about the problems of building obsolescence and its affect on property values (Debenham Tewson & Chinnocks, 1985). However, building obsolescence also impacts upon operational users of office buildings.

Taking account of building obsolescence is vital in all property types and crucial in office property (Downs, 1995). There is a substantial, growing body of literature and empirical research that shows that office accommodation can enhance or deplete the productivity, health and well-being of employees; if building obsolescence is not addressed employee productivity and morale may drop, and the total costs of business increase (Gray and Tippett, 1993).

To maximise operational property utilisation

factors causing building obsolescence should be identified and managed, trends that threaten undesirable outcomes should be understood and controlled (Pugh, 1991; Aikivuori, 1996).

The first step towards maximising office building utility is awareness of the problems of change and the possibilities of accommodating change, which means focusing on individual buildings or portfolios (Building Research Board, 1993). The model being developed in this research will facilitate awareness by identifying impending problems of building obsolescence in public sector operational property.

This research will assist facilities managers in public sector organisations who are expected to respond to dynamic employee needs with inflexible buildings and facilities (Chilton and Baldry, 1997). The model developed in this research will enable facilities managers to minimise the risk of building obsolescence in operational property portfolios. It will allow facilities managers to determine whether their buildings have physical characteristics that are currently, or prospectively, not meeting the needs or expectations of employees, or employee groups, enabling the establishment of proactive strategies for combating sources of building obsolescence (Bottom, 1996).

By applying the model over time facilities managers will be able to determine rates of building obsolescence for particular physical characteristics (Bottom, 1996). Such information will facilitate property portfolio review, acquisition or disposal (Douglas, 1996). This research will assist those involved in the design and refurbishment of operational property. To reduce the risk of future building obsolescence in office buildings systematic feedback on the operation of existing buildings is essential (Preiser, 1995).

Over the years building designers have found that certain physical characteristics are consistently better suited to managing building obsolescence; the model being developed in this research will allow designers to develop broader insights into design configurations that are better suited to avoiding or delaying building obsolescence (Building Research Board, 1993).

Conclusion

Clearly, building obsolescence has become an important issue in the UK property market, as changing political, economic, social and technological conditions have served to reduce the functional life spans of many office buildings.

However, whilst the financial impact of building obsolescence for property owners is relatively clear-cut, for operational users of office property the consequences are often more subtle, as declining utility results in increased occupancy costs and reduced productivity. This declining utility is a problem for the many public sector organisations in the UK with operational property portfolios. Public sector organisations have a responsibility to minimise the risk of office building obsolescence, as failure to do so may mean significant costs for operational users and the public at large.

Nevertheless, a proactive approach has traditionally been considered difficult because of the practical difficulties of measuring and predicting building obsolescence. This research aims to help facilities managers in public sector organisations to overcome these practical difficulties.

The first research objective is to develop a model that will allow facilities managers in public sector organisations to reduce the risk of building obsolescence in their operational property portfolios. This model will utilise office building characteristics to predict changes in building utility and occupancy costs for homogeneous groups of employees, the latter being defined by function and work practices.

The second research objective is to develop a rigorous measure of office building utility, one that is based upon the opinions of employees regarding the suitability of their office accommodation. Market research techniques are espoused as a useful means of eliciting information from employees and this research is currently using one such technique to develop a multi-item instrument for measuring office building utility.

Two competing measurement models are being used to develop this instrument: one based upon employee expectations and perceptions, and the other based solely upon employee perceptions. The use of two competing measurement models will allow the researcher to select the most efficient, valid and reliable instrument for use in the main round of empirical research.

Taken as a whole this research is of significance to those involved in the management of public sector operational property, since it will enable them to adopt a more proactive approach to problems of building obsolescence. It is also of importance to those involved in the design and refurbishment of operational property, since it will provide increased awareness about which physical characteristics or design configurations are most suited to avoiding or delaying problems of building obsolescence.

James *Pinder* is a PhD student at *Sheffield* Hallam *University, UK.* His doctoral *research* is aiming to *measure* obsolescence in *operational* public *sector office property through* a user-based appraisal *of* building quality. *The research* aims *to develop* a model *for* facility managers *to predict* potential areas *where obsolescence* may *occur* within *their* buildings.

Sara J Wilkinson BSc MPhil FRICS is a Building *Surveyor* and *course leader in* Building Surveying, and *Property* Asset Management at *Sheffield* Hallam University. *Her research* interests include *energy*

efficiency in residential and commercial *property, obsolescence* and *over* specification in commercial *property.* She is *currently* undertaking *research for the* RICS Education Trust *comparing obsolescence in office property* in New Zealand, the Netherlands and the UK.

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Lease inducements another view

Introduction

In Auckland it is a market custom to deliver incentives of rent holidays, fitout contributions and relocation expenses, and the rent review clause has apparently evolved as a deeming clause in response. Lessees are deemed to have received all market inducements and valuers are directed to disregard them.

In writing this article, I think as a valuer in a small city with an unsophisticated market that I may be at risk of stepping into the lions' den, and I believe both authors are far more knowledgeable on such matters than I am, but I think the "malaise" turned on an interpretation of the particular review clause and needs to be given a more robust consideration. Marshall suggests that this clause may be commonplace. Daly expresses the hope that debates will be sparked by the articles to gain consensus, and I would like to have my penny's worth.

Contract Interpretation

In terms of interpretation, I think we are fortunate indeed in Nelson that the ADLS lease is now the prevailing document. Valuers are generally able to be confident that there will be comparable rentals in a market dominated by this lease form.

It has long been clear that when interpreting a lease the court looks at the lease as a whole and the inter-relationship between the various clauses within it. Rules of interpretation of contracts have evolved to result in a meaning intended by the parties, as codified in Investors Compensation *Scheme* Ltd v West Bromwich Building *Society* (1998) 1 All ER98 114-115, and adopted in NZ by the CA in Boat *Park* Ltd v Hutchinson (1999) 2 NZLR 74, among others, as summarised below.

1. The meaning conveyed to a reasonable person having all the background knowledge available to the parties at the time of the contract.

2. The "matrix of fact" includes absolutely anything which would have affected the way in which the language of the document would have been understood by a reasonable man.

3. The law excludes from the admissible background the previous negotiations of the parties and their declarations of subjective intent, except in an action for rectification. In this respect only, legal interpretation differs from the way we would interpret utterances in ordinary life.

4. The meaning which a document would convey to a reasonable man is not the same thing as the meaning of its words. The meaning of words is a matter of dictionaries and grammar; the meaning of the document is what the parties using those words against the relevant background would reasonably have been understood to mean. The background may not merely enable the reasonable man to choose between the possible meanings of words that are ambiguous but even to conclude that the parties must, for whatever reason, have used the wrong words or syntax.

5. The rule that words should be given their "natural and ordinary meaning" reflects the commonsense proposition that it is not easily accepted that people have made linguistic mistakes, particularly in formal documents. However, the law does not require judges to attribute to the parties an intention which they plainly could not have had.

Nevertheless, the principles of interpretation apply only if there is ambiguity, uncertainty or inconsistency in the meaning of the contract. If the words are plain and certain in their meaning, there is no room for the matrix of fact surrounding the contract, and the words carry their plain meaning. Where there is doubt the contra *preferentum* principle applies, to resolve the dispute against the grantor (lessor).

It is where there is ambiguity or inconsistency that the stated principles are invoked in order that the matters may be resolved by reference to the background and object and purpose of the bargain, except where the literal meaning does not make sense in the context of the facts of the case. The reasonableness test overlaps with the modern practice of having regard to the apparent commercial purpose of a contract, and to general business common sense. The trend of authority is that the meaning may be illuminated by the subsequent conduct of the parties.

In Boat *Park* Ltd v Hutchinson, both the HC and CA rejected a literal compliance with the contract valuation requirement, which were met by obtaining *a "registered* valuer's valuation *of* the *property",* obtained "by and at *the expense of the* purchaser".

The valuation was well above price, and the courts found that it should have been market value which fell to be determined, being the price the property would sell for on the open market under the normal conditions applicable in the market for the type and location of the property being valued.

Fundamental to this was the willing seller/willing buyer principle. For willing seller/willing buyer, the words can be changed to willing lessor/willing lessee, and market value to market rent, for leasing purposes.

I am not qualified to give any opinion on the particular lease the authors discussed, and as a valuer I rely on directions from my instructing solicitor as to lease interpretation subject to so qualifying my report, unless the instructions are clearly wrong. It does seem to me from the articles given, that the lessor's valuer relied on his instructions, and the consequential case followed.

I have found on rare occasions that solicitors will colour their instructions to suit their client, where there is ambiguity in the lease.

Lease inducements

In the articles, I note the authors have introduced a gamut of incentives which can be analysed in order to equalise rental between competing leases. Marshall suggested that the bargain in the lease he discusses, included an agreement to pay a premium rent as compensation for incentives given, and that therefore a rent review uplift ought to apply without consideration of the premium rent, ie, market rent should be incentive-free rent as at review date, plus the annualised incentive rental as originally agreed.

Daly points out that the lessor has traded off the at-risk review uplift against a certain premium rent and ought not to expect a review increase, and that there was a raft of terms and conditions agreed, which included user restrictions, and restrictions on lease assignment or sublease. In theory, these detriments should have acted to have reduced the premium rent payable. She mentions other incentives such as early lease renewals, lease restructuring and carpark provision, and what I consider the correct proposition, that issues get clouded in an imperfect market.

Fitout contribution v fitout

What is not mentioned is the drivers of some incentives, particularly from the lessee perspective. For example, fitout contribution by the lessor, is a major accounting matter to a lessee:

1. Capital expense is saved, freeing capital for business.
2. Rental is a revenue expense which is tax deductible, and rents can be paid from cash-flow.

Valuers discount the cost of the fitout contribution over the period-certain of the lease ie, excluding renewal terms, to add to market rent as the incentive-rent. This is different than paying rent for lessor-provided fitout, which is the alternative bargain. Initially, there may be no rental difference; either way the tenant may pay the same rent whether the lessor provides the fitout, or cash contribution to an equivalent amount.

However, on rent review market rent must take account of lessor fixtures, but not of tenant fixtures which remain rent-exempt until reversion. A cash contribution towards fitout carrying an inducement rent results in the certainty to a lessee of no review uplift until such time as market rents overtake the contract rent. Where the bargain is for the lessor to provide the fitout, the lessee runs the risk of upwards reviews, presuming a ratchet clause exists to deny reductions.

Fitouts are an interesting matter, and I find that upon review they are rarely worth anything like cost, except to the sitting tenant. Other tenants usually require different configurations, and while the incentive can be calculated from cost on the initial rent, the fitout sometimes becomes virtually redundant in the marketplace at the time of renewal, and heavily depreciated upon interim review(s) because of the definition of "market rent".

Upon review, the value of lessor fitout must be limited where valuers need to consider market value rather than value to the tenant to whom the fitout may be perfect. The Nelson market for fitouts is characterised by sales at very low to zero prices, reflecting the tenant's desire to quit on assignment or sublease, and attempting to value them even at book-value, despite the high relative depreciation rates allowed for taxation purposes, can produce an over-valuation. For example carpets are depreciated at 33% DV, or 24% SL, partitions at 12% DV, 8% SL, etc.

Nevertheless, a review valuation needs to consider not only the market value of the fitout, but also the fact that the sitting tenant is a willing and capable tenant, to whom the fitout is remarkably well suited and who will therefore be willing to pay more than any other hypothetical tenant. This often brings the complaint from the tenant that they are treated as a captive because no other tenant would pay that much.

In *T &* G Mutual *Life Society* V Dominion *Breweries* Ltd (1988) unreported Arbitration, Justice Pritchard defined market rent as *"the rent* at which the premises can be *expected to be* let on *the open* market on the terms and conditions *of the* existing *lease* ..... *the*

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assessment is made *objectively*, disregarding the identities *of the* actual *lessor* and the actual lessee and assuming *the demised premises are let on the terms and conditions* of the actual lease *to a person not* already a tenant *of the pre*mises" (my underlining).

In Evans v The English Electric Company (1977) 24EG657 it was accepted that where a market rental is being assessed the review rent is that which a willing lessee not in occupation would pay. Marshall himself refers to "the established *principle* that the valuer must postulate hypothetical parties negotiating a new lease, as at *the rent review* date". This is a matter enshrined in case law, via the willing seller (lessor)/willing buyer (lessee) concept. The sitting tenant is not a special bidder at all, merely an abstract bidder willing and desirous of taking the demised premises on a vacant possession basis.

In Email Ltd V Robt *Bray* (Langwarrin) Pty Ltd (1981) VR 16 the court said it was legitimate to take into account that the premises were built to the tenant's particular requirements, that they would be difficult to let on the open market for that reason and that they had a special value to the tenant. This case deals with the subjective assessment of a reasonable rental.

While we are attempting to produce a market rent on an objective basis unless the lease requires otherwise, (which is a rare event), in the case of lessor-paid fitout I find we are inclined to value the fitout on a subjective basis in order to recognise its fortuitous suitability. The alternative is to reduce the value of the fitout rent upon first review. Nevertheless, where the lessor has instead given a cash contribution towards tenant fitout, no such reduction to incentive rent is made, although ratchet terms deny reduction in any event.

Daly refers to the benefit-value to a lessor upon reversion of a tenant contribution to extra lighting and ceilings, but these, together with the Building Code requirements for concomitant heat detectors/sprinklers, are often to suit specific partitionings and need altering for any other tenant. It is very rare in Nelson for a tenant to repatriate the demised premises upon expiry, and while a lessor may consider the reversion of a tenant's fitout as a windfall gain, I find it is often a pyrrhic one, where a new lessee will want to redesign the fitout.

In Nelson, the market is not dominated by incentives; a free fitout period and small rent holidays have become common as shop, and particularly second class office space vacancies have become a feature, with rentals reducing due to oversupply/lack of demand. Fitout contributions may exist, but I have yet to find any. It is common practice to bargain for a fitout to be paid for by the lessor, but this is not an inducement because the rent is assessed to account for it as a market rent.

For some leases the fitout rent is assessed at a

recapture (sinking fund) rent over the lease-certain period where the fitout is specialist eg: office fitout in a ground-floor shop.

I have no trouble understanding why incentives are offered in the Nelson market; it is a matter of attracting a tenant. This is quite different to the apparent situation of mere convention Marshall describes in Auckland, but nevertheless the methodology of analysis is common to both centres. It is a matter for valuers to determine what is a market rent exclusive of incentives which may vary in value.

Lease buyouts

To my mind, the lease buy-out incentive Daly discusses in not simple. A buy-out will terminate the lease absolutely, and in a weak market may be the only practicable means of quitting. Alternatively, the new lessor could accept assignment from the lessee, and then effectively quit the lease sooner or later by re-assignment, or by subletting on more or less favourable terms.

In a rising market, one imagines there is good tenant demand. In that case, the takeover of the lease obligations may be seen as being by a third party ie, the tenant could equally have assigned the lease to any other lessee rather than having it bought out by the new lessor. There is therefore no incentive to analyse, except for the market letting period.

If a tenant is prepared to pay a high face-rent in exchange for a lessor buy-out of the former lease under the circumstance of a rising market ic, good demand, then more fool him. In a falling market, the opposite may be the case, and it would be correct to analyse the buyout cost over the period-certain of the new lease.

In a rising market where the lessor should be able to sublease or assign the old lease within a short period, there can be no question that the lessor would not in the alternative have offered two-years worth of rent payments as a rent holiday or towards fitout, contrary to the proposition of Daly. Also the taxation treatment between the forms of incentive are different. A fitout is a capital contribution from the lessor, whereas a lease buy-out is a revenue expense.

There are three ways an established tenant can commence a fresh lease, renewals and forfeiture excepted. (A lease will terminate upon re-entry by a lessor for breach, and be forfeit, in which case debts remaining crystallise, but only up to the time of re-re-entry).

1. Former lease expired.
2. Former lease sublet or assigned.
3. Former lease bought out by tenant or by tenant's new lessor.

To a tenant an expired lease must be the preferred means of quitting.

Subleasing, especially at a lower rent in a falling market, is the least preferred. Assignment brings continuing obligations which may extend through renewal periods.

Buyout is not the same as a cash (fitout contribution) inducement owing to different tax treatment. Buyout is a revenue expense and is therefore tax deductible. A cash inducement is a capital expense, being a product of a depressed market. Cash inducements were popular in the late 80s-early-90s, and the celebrated Coopers-Lybrand case (Wattie & Anor v CIR (1997) 18NZTC 13,297) which went to the Privy Council (1998, 18NZTC 1991) resulted in the 1998 Budget Economic and Fiscal update identifying lease inducements as a fiscal risk.

However, although payments made for restraints of trade are now deemed taxable, the government has not yet made cash inducements taxable, but straight cash inducements (as distinct from fitout contributions) are now uncommon to my knowledge.

The three means of quitting a lease hold different risks for a tenant. They are all commonplace in the market. Should a valuer consider the differences at all? One could subtract some amount from the new lease without tenant ties to the former lease, to try and equate it to the tied leases, in order to reflect the tenant's position. After all, this is the "prudent lessee'" position; but it would not provide a fair market rent to the lessor. The lessee, in breaking a former lease, will be influenced in his decisions by those commitments.

However, in my experience, valuers do not recognise these transactions as influencing market rent for the new lease even if a tenant may think it part of his total package. If a valuer does not recognise a tenant's costs regarding a former lease, why should a valuer recognise the lessor's new costs for the same item? If a lessor voluntarily wishes to break a new lessee's former lease, then presumably it is to attract the lessee, and it should therefore be at the lessor's cost entirely and not be added onto market rent to the lessee.

The crux is to consider whether the lessor has been over anxious in making a buyout, thereby eliminating the transaction from the definition of willing lessor/willing lessee. If, on the other hand, it is the tenant who instigates the shift and negotiates with the new lessor to have the buyout paid by the new lessor, I can acknowledge that an incentive rent could be paid by way of recapture rent.

For example, a buyout where rent is $25,000pa payable monthly in advance at $2083 on a lease with 3 years to run; discount decision 10%.

Formula $\frac{(1-1/1.i^{\%'L)}}{i} \times 1.i$

= 31.249639 x $2083
= $65,093, say $65,000

The incentive (recapture) rent is $65,000 over, say 6 year new term @ 10%

Formula $\frac{i}{(1.i''''2) - I} - 1.i$:

= .010108 x $65,000
= $657.05 per month

Therefore, if a new lessor buys out the lessee's former lease for $65,000, and adds $657.05/month to the new lease as an incentive rent, being a sinking fund payment, Marshall's premise would be absolutely correct: Any review rents must ignore the $657.05, which must be subtracted from the face rent before the uplift review rent is considered, and then added back.

Inducement analysis

I have to say that the "mathematics" Daly employs in the article are cute. The PV of $200/m2, 72 months @ 10% is calculated as the present worth of $1 per period formula:

= 54.429048 x $200
= PV $10,885.81

The 6 month rent holiday is also calculated in the same way, as

5.877307 x $200
= PV $1175.46

Effective rent is PV $10,885.81 - PV $1175.46 = PV $9710.35

The conversion of $9710.35 uses the instalment to repay $1 formula, as

$\frac{i}{} - 1.i$

= 0.18373 x $9710.35
= $178.40

The analysed distilled face rent of $200/m2pa is therefore effectively $178.40/m2pa allowing for the six month rent holiday, to use Daly's example.

Rent free fitout period

With respect to the first few months of a rent-free period being ignored in Wellington for the period during fitout, the practice in Nelson is that the lease does not commence until occupation after fitout. Effective possession is not given until fitout is complete.

How sophisticated should an analysis be? For example, in the residential market most houses have settlement and possession deferred for a period after the Agreement For Sale & Purchase is signed, but no valuer discounts the time period back except for extraordinary deferred settlements. In Nelson, the commercial market is hardly any more sophisticated than the residential market, and if a valuer's duty is to analyse actual market transactions, should we impute a bargain not in the minds of the parties?

It is the role of the valuer to ascertain whether the adjusted rental represents a freely negotiated market transaction, and how much weight is put on each piece of evidence. In the award dated May 2, 1989 in a lease between St Martins Pty Limited and Grollo Australia Pty Limited as lessor, and Servcory (Vic) Pty Limited as lessee, the umpire held that to disregard the period of a lessees fitout is logical because there is a fitout period in any new lease and that it is only excess rent-free periods that should be allowed as incentives.

Adequate rents

Of interest is below-market rents, some of which we may be seeing in Nelson at this point. S.GD10 Income Tax Act deems a rent that is an "adequate rent" for the property, being the amount the CIR determines. A lessee may pay a low contract rent, but may claim a deduction for the deemed adequate rent (Public Ruling BRP PUB 97/13, 12 December 1997). This introduces an incentive, albeit minor, but applicable in an oversupplied market. Should valuers analyses the face rent downwards from the contract to deduct for the tax advantage in order to calculate effective face-rent? What is the "adequate rent", in this circumstance?

Ratchet clause

Ratchet clauses are a form of incentive-rent, especially in a falling market. Where there is no ratchet clause, reviews are generally an obligation and not a discretion of the lessor. In determining market rent, valuers need to be sure that comparison lease terms are either essentially the same, or can be adequately adjusted for.

Although ratchet clauses should have the effect of reducing effective market rental, I find that the reason lessors may like to provide incentives in order to obtain a high face-rent, is in order to gain the cash-flow advantage of ratchet terms which may extend to renewals. The ADLS lease form does just this in clause 35(a).

Market inducements

In all analysis of rents, in trying to find the market rent, the greatest problem is one of discovery, as Daly points out. Some lease terms are confidential; inducement terms usually are and are hidden by a collateral deed not disclosed to a valuer, and of the others, it is rare for a valuer to know all the terms of all the comparables. When it comes to having to try and sort through a raft of collateral terms such as might influence the rent a tenant is prepared to pay, as may ongoing obligations in a sublease or assignment of a previous lease, or a buyout by either the tenant or the new lessor, it seems to me to get muddy to the point of impossibility.

There are enough traps in the lease proper after all - eg, what effect on rent does one guarantee have over another guarantee from shareholders of a less solvent company, or no guarantee at all? Does any guarantee carry forward to the landlord's assigns or not? How do valuers adjust for different user-restrictions especially when most leases include a clause that the lessor's consent will not be unreasonably withheld for a different use?

If a lessee is an assignee, should a review rent account for the enforceability provisions the lessor enjoys against the former tenant ie, a sort of guarantee? (In this context refer to *Picton-Warlow v* Allendale Holdings Pty Ltd (1987) ANZ CONR 247 et al where the original tenant was found liable for rent notwithstanding the fact that the review took place after the assignment and without notice to the original tenant). How does one adjust for the difference in terms between a BOMA lease and an ADLS lease (if at all), etc etc?

Valuers tend to take a pragmatic view of the market. If a face-rent appears high or low, and discovery of terms is difficult, if not impossible where the reason for the under-rent or over-rent is by a confidential collateral deed, then why bother trying to analyse it at all.

I look for comparables, not difficulties, and first look to new lettings on similar lease terms, secondly to review rents, and thirdly in desperation to the oddball rents. If "oddball" rents are the only comparables available, it is often better to pay scant regard to them, rather than come to a conclusion based on poor evidence which can lead to nonsense results.

Just because there is some evidence, it does not mean it is reliable. Perhaps the Auckland market is dominated by incentive rents in which case I can understand the difficulties.

Daly observes that lessors trade off the advantage of high face rents from inducements given, and ought not to benefit further from review increments ie, the certainty of continuing premium-rents are traded against the risks of a rising or falling market.

However, I think that distinctions have to be drawn between inducement rents such as a rental holiday, and inducement rents such as recapture rents for fitouts or for involuntary lessor buyouts of the tenants former lease. In these latter two

instances, I think the inducement rents must be subtracted from face rent on a review, the market rent then assessed, and the inducement rents added back in.

The presumption that lessees have received full market inducements clause which Marshall describes, appears to me to compromise the principle of the willing lessor/willing lessee concept. What if either party has been over anxious to secure the lease, and the inducement rent (above-market rent) ensues? No inducements may be the market instant, and in a bull market such a clause, which, seems to me to be the product of a bear market, will become redundant. Are "full market inducements" zero inducements in such a market?

Why should incentives/inducements be given by lessors at all unless the market is in retreat? My understanding is that incentives had their genesis in times of rising vacancy rates, and it seems straightforward that they should be less popular in less competitive times. Has there been a chronic oversupply since black Friday 1987, or are lessors in Auckland just anticipating the worst?

Securing a valuable anchor tenant by giving incentives is one thing, but is it reasonable to customarily include the type of deeming clause in a lease that Marshall describes, whereby a lessee is deemed to have received full market inducements? In the instance of giving incentives to secure an anchor tenant, I consider that this must be seen as a voluntary payment which ought not to be recaptured. The lessor is gaining the benefit of a prime lessee which will be reflected in market value, and to expect a lessee to provide payback of that benefit is contradictory, but receiving an enhanced face-rent until market rents catch-up is logical from the tenant's perspective.

The lessee has received an inducement and should be willing to pay extra rent, but not necessarily equal to the cost to the lessor. In the instances of high face-rents to other tenants, the discount process ensures no incremental market value, and in times of a buoyant market, the customary deeming clauses and the presumption of incentives will in my view, serve no purpose in the marketplace, but will continue to cause problems of discovery to valuers. I fervently hope such clauses do not make their way to the Nelson scene.

Don Knight has *been* employed by *QVNZ* in Nelson since *1986* and specialises in rating valuations, with some fee-valuing in *between.* He descr*i*bes himself as a GP valuer and was the local branch *newsletter editor from* 1987 to 1999, *producing often-quoted* commentary on various valuations *topics.*

' The "prudent lessee" concept appears to exclude considerations other than those of the lessee.

Complying with the Securities Act

An interest in a contributory mortgage is a "security" for the purpose of the Securities Act and regulations made under that Act. When a contributory mortgage broker offers interests in a contributory mortgage to the public, it must comply with provisions of the Securities Act concerning advertising and with the Securities Act (Contributory Mortgage) Regulations 1988.

The regulations require the broker to provide each contributor with a disclosure document containing certain prescribed information, including a copy of a valuation report by a registered valuer. The valuation report must contain the matters prescribed in the Third Schedule to the regulations.

Valuers are reminded of the necessity to comply with the Securities Act 1978 and the requirements particularly relating to the Third Schedule. Valuers who don't comply must be aware that they are exposing themselves to serious complications.

Information and other matters to be contained in the valuation report

Third Schedule

1. The name and address of the registered valuer and a brief description of that registered valuers qualifications.

2. A statement that the valuation report is made by the registered valuer as an independent registered valuer within the meaning of regulation 5 of these regulations.

3. The situation, description, and area of the land that is, or is to be charged as security for the contributory mortgage.

4. A list of any encumbrances appearing on the Certificate of Title for the land as at the date of the valuation report and, if the registered valuer has been instructed by the broker or the mortgagor that any of the encumbrances are to be discharged before registration of the contributory mortgage, a statement to the effect.

5. The land value and the capital value of the land as shown on the most recent government valuation of the land and the date of that valuation.

6. The present use of the land and, if known to the registered valuer, the proposed use of the land.

7. The opinion of the registered valuer as to the land value of the land free of encumbrances.

8. The nature and value of any improvement situated on the land.

9. The opinion of the registered valuer as to the capital value of the land free of encumbrances.

10. In case of a development mortgage:

a) The opinion of the registered valuer as to the modified land value of the land; and

b) A description of the development and the opinion of the registered valuer as to the capital value of the land free of encumbrances after completion of the development.

11. The basis upon which the valuation is made and any assumptions used in making the valuation.

12. If the land is, or to the knowledge of the registered valuer is proposed to be, used for the purpose of producing income, a statement by the registered valuer as to the amount of income that the land can be reasonably expected to produce on an annual basis under conditions prevailing at the time that the report is made.

13. The registered valuer's recommendation as to the amount for which the land provides adequate security for a loan on first mortgage free of encumbrances.

14. If the registered valuer has been instructed that the land is to remain or become, subject to any encumbrances which will rank in priority to, or pari passu with, the contributory mortgage, a statement to that effect, particulars of those encumbrances, and the registered valuer's recommendation as to the amount for which the land subject to those encumbrances provides, or would provide, adequate security for a loan on mortgage ranking pari passu with, or subject to, them, as the case may be.

15. A statement by the registered valuer that:

a) The valuation has been prepared for use by intending lenders; and

b) The registered valuer has consented to the distribution of the report to intending lenders and that, as at the date of the report, the registered valuer has not withdrawn that consent.

16. The date as at which the report is prepared.

IT developments earn respect from valuation peers

TED FITZGERALD
- born Te Karaka October 29, 1944; died Christchurch March 18, 2001.

Edward Thomas (Ted) Fitzgerald will be remembered as a leading innovator in the valuation profession in New Zealand. He was known New Zealand-wide for his development of data processing and IT systems, which have been used extensively to keep the profession in the forefront of technology over recent years.

Fitzgerald was brought up at Kowhai-nui Station north west of Gisborne near Te Karaka. The Fitzgerald family was well known and established farmers in the Gisborne area. After secondary schooling at Kings College in Auckland, he attended Lincoln University (then a College of Canterbury University) and gained distinction in his Valuation and Farm Management studies.

Fitzgerald left Lincoln in 1966 and was employed by Wood Bros, flourmillers and stock feed millers. He became sales manager and was responsible for feed milling production and sales, and the supervision of the contract growing of meat chickens.

He left Wood Bros following its takeover by General Foods and explored other business opportunities for a short period before joining Valuation NZ in Christchurch.

Fitzgerald moved to Timaru in 1975 and established a successful valuation practice. He was elected as councillor for South/Mid Canterbury. In his capacity on the NZIV Council he was elected to chair NZIV Services and developed the Valpak Sales Data System. His achievements in improving software systems for the profession were recognised through the John Harcourt Award for outstanding service to the profession.

In 1995, in a joint venture with the profession, Fitzgerald set up Headway Systems and moved back to Christchurch with his family.

He had the ability to think "outside the square" and achieve where many people would not venture. He had a great sense of humour and related warmly to friends and peers.

His illness took him out of the wider sphere of his profession in latter years, but he always ensured he was in touch with the developments in Headway and generally in the valuation profession. He never imposed the burden of his illness on other people.

He will be remembered for his contribution to profession and the humour and warmth of his personality.

Fitzgerald is survived by his wife Rosey and three children John, Penelope and Sam.

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Waikato No 2 Land Valuation Tribunal - claim between *Focus Ruapehu Limited v The Minister of Lands*

The land

The land is situated on a prominent site at Turangi, bordered by State Highways 1, 41 and Atirau Road. The land is a triangle shape and contains approximately 2.982 hectares.

The relevant history of the land is as follows:

• the land was located on a Maori ancestral land (the land of the Ngati Tuarangitukua Hapu of Ngai Tuwharetoa (the hapu);

• the land was taken by the Crown under the Public Works Act 1928 (PWA 1928) for the township of Turangi;

• from 1989 a series of claims by the hapu began in respect of the land;

• in 1990 the Waitangi Tribunal directed that all relevant government departments and agencies be given notice of the current claim by the hapu;

• the Waitangi Tribunal decided that an urgent hearing was required with regard to the land, due to the proposed sale of it;

• the land was advertised for sale by way of tender on August 20, 1993;

• the notice of tender contained no reference to the hapu's claim on the land, but did refer to the section 27B SOE Act memorial noted on the title to the land;

• David Griffiths, on behalf of Focus, submitted a tender, apparently unaware of the hapu's claim;

• negotiations took place between Griffiths and representatives of GPS Properties Limited (GPS) resulting in a successful offer of $230,000 plus gst;

• settlement took place on January 28, 1994 between GPS and Focus;

• at a Waitangi Tribunal conference held in December 1993, it was established that the hapu's claim concerned the use of the PWA 1928 to acquire the land, and also leasing arrangements which it was claimed the Crown had not adhered to;

• those negotiating on behalf of GPS did not inform Griffiths about the Waitangi Tribunal conferences - either through lack of knowledge or simply a failure to convey the information;

• Griffiths apparently first heard about the claim in March 1994;

• in 1995 the Turangi Township Report was released by the Waitangi Tribunal - it found, amongst other matters, that the hapu had been prejudicially affected because of the Crown's failure to return the land to Maori ownership at the earliest possible opportunity (which was found to be inconsistent with the Crown's Treaty of Waitangi obligations);

• in 1998 a further report was published entitled the Turangi Township *Remedies Report* which dealt with the former Wahi Tapu site adjacent to the land (Wahi Tapu is defined in the Historic Places Act 1993 as a place sacred to Maori in the traditional, spiritual, religious, ritual, or mythological sense). The report contained a recommendation proposing the return of the land to the hapu;

• following the 1998 report the Crown and Focus entered into negotiations - a notice of desire dated June 30, 1999 was given to Focus under s18(1)(b) PWA 1981 of the Crown's desire to acquire the land under s27C SOE Act;

• an agreement was reached between Focus and the Crown for the transfer of the land to the Crown.

The agreement provided that on settlement the Crown would pay advance compensation of $400,000 plus gst and that any additional sum payable by way of compensation would be determined by the LVT. The agreement also recorded that the Crown's estimate of value (at the relevant date) was $465,000.

The claim

The value of the land was the focus of the LVT's decision. Focus sought compensation of $1,030,000 for the land, based on the potential of the site as a petrol station/truck stop combined with a retail, food and tourist amenities centre. In addition Focus sought legal costs, compensation for the cost of moving, business loss/disturbance, and interest.

The Crown's two valuers contended that the land had a value of $466,000 and $475,000 based on the comparable sales in the area (giving much less recognition to the potential of the land for development). The figures used are exclusive of gst.

The evidence

Focus presented evidence from a number of people including its valuer, the asset manager of BP Oil New Zealand and the Principal of Traffic Design Group. The evidence supported the argument that the site had service centre development potential and that it would be possible to gain the necessary consents from the relevant authorities.

The Crown argued that there were a number of difficulties that would (be likely to) stand in the way of developing the site - for example, non-compliance with the Tourist A zoning, the significance of the site to Maori and the difficulty in obtaining direct access from the surrounding state highways.

Issues

The LVT identified several key issues which needed to be assessed in order to obtain the appropriate value of the land. These were as follows:

- zoning;
- the s27B SOE Act memorial;
- compensation for taking;
- Wahi Tapu;
- the Turangi property market.

Zoning

When Focus purchased the site it was zoned Tourist A. In 1994 there was a draft scheme to change the zoning to Tourist B. The LVT heard evidence of recent attempts to include the land within the Residential Environment zone and (even more recent) attempts to include the land within the Industrial Environment zone.

The LVT concluded as follows:

"...that a comprehensive development for the site proposed by a developer that met the objectives of the district plan and otherwise did not offend Resource Management Act principles nor compromised road safety is likely to receive council support."

The LVT believed that a proposal to establish a large service centre on the site would be likely to attract considerable opposition and that a potential purchaser would have to reconcile the Wahi Tapu issues with the local iwi, even though the evidence put to the LVT was that the site itself was not Wahi Tapu. The LVT stated that "with time and perseverance the objections to an integrated service centre would be overcome" but that a prudent purchaser would factor such time and effort required into the price and that a developer would want to buy the site "wholesale".

The s27B SOE Act memorial

The LVT noted the existence of the s27B memorial on the title. Section 27B provides that where the Waitangi Tribunal recommends the return to Maori ownership of any land transferred to a state owned enterprise under s23 SOE Act, then the Crown shall resume the land in accordance with s27C SOE Act.

Compensation for taking s27C SOE Act

Section 27C provides that where land is to be resumed pursuant to s27B the Crown shall acquire that land under Part II PWA 1981. Also, the existence of a SOE Act memorial shall not be taken into account to assess compensation.

Section 60 PWA 1981 states that the owner of land taken is entitled to full compensation from the Crown. Section 62 states that compensation shall be assessed on an open market, willing seller/willing buyer basis.

The LVT then referred to a number of cases dealing with compensation payable under s60/62 PWA 1981. These cases generally state that as a guideline, the value of the land will be the value as it would be in a voluntary bargaining situation between a purchaser willing to trade, and a vendor who is also willing, but neither being so anxious to trade that he or she would overlook any or new business considerations (ie, the "willing buyer, willing seller - open market concept").

The LVT went on to consider case law emphasising that potentialities of the land must also be considered when valuing the land - ie, uses to which the land is reasonably capable of being put in the future. In summary, it is the usual PWA considerations that will apply to a resumption under the SOE Act.

Wahi Tapu

Focus argued that the Crown could not rely upon the consequences of its role in destroying the Wahi Tapu site adjacent to the land to argue that the compensation payable to Focus should be reduced. Also, Focus argued that the Crown had failed to disclose the existence of the hapu's claim when it sold the land to Focus, and having failed to disclose the claim, that the Crown could not now argue that the existence of the claim was a factor.

Conversely the Crown argued that Focus' argument went against the fundamental basis for compensation under the PWA (full market value), and that it was not accountable for failing to disclose the hapu's claim to Focus because GPS (and not the Crown) sold the land to Focus. However, the LVT

took notice of the fact that GPS is a state owned private company and found that at all relevant times it was a Crown entity.

Although the LVT found force in Focus' argument that Focus should not be disadvantaged by earlier misdeeds of the Crown, it concluded that on the facts of this case the argument would not provide Focus with an increased amount of compensation. The LVT held that the market in which Focus bought the property in 1993 had taken into account the hapu's claims as being value depressing factors. Those same factors continued to apply to the current market. The LVT stated that if the Crown's earlier misdeeds had been unknown to the market in 1993 then Focus' claim would have been stronger.

The Turangi property market

Evidence was given that the overall property market in Turangi was stagnant throughout the period from 1993 to 1999. The LVT considered that one way of assessing the value of the property concerned was to consider the price paid in 1993 and how market conditions and values have altered since then.

The LVT looked at the sales evidence and found that very little of it was truly comparable. After examining the different approaches adopted by the values for both parties, the Tribunal found that the valuers for the respondents were too conservative in their approach and had not given sufficient weight to the potential for development of the site that could result from a change in zoning.

The LVT's decision

After reviewing the sales evidence, taking into account the potential of the site for redevelopment, and considering all of the methodologies used in valuing the property, the LVT concluded that the value of the land as at September 1999 was $640,000 (remember that Focus sought $1,030,000 and the Crown $466,000 - $475,000).

The LVT then went on to consider whether or not compensation should be paid to Focus for disturbance, rental, legal fees (for advice regarding the SOE Act), removal of chattels, legal fees for the purchase of substitute land, and interest. It held that additional compensation was payable to Focus for all items except the legal fees for advice regarding the SOE Act.

Summary

The LVT's decision highlights a number of valuation principles, as follows:

- as.27B resumption memorial has no special significance, other than providing notice, at the time a property changes hands, that resumption by the Crown is always a possibility;
- an owner faced with resumption is no different to an owner faced with compulsory acquisition (under the PWA);
- compensation, where land is resumed by the Crown pursuant to s.27B SOE Act, is to be determined under the PWA, and the existence of a memorial under s.27A SOE Act shall not be taken into account;
- the relevant "test" under s.60 PWA is the "willing buyer, willing seller - open market concept", more particularly detailed in the various authorities cited in the decision;
- future uses, or potentiality, must be taken into consideration;
- if full recognition is to be made of the potential for redevelopment, very little value can be assigned to existing improvements on the land;
- various valuation approaches are relevant (eg, "hypothetical subdivision approach", "residual based approach", "rental approach", "gross realisation approach" etc), but:
- the "rental value approach" should only be used as a form of cross checking;
- consistent and fair rates should be adopted for the various adjustments that are always necessary;
- disturbance payments are provided for in sections 66 and 68 PWA and will depend on the facts.

Summary case law

High Court
- Access
- Landlocked land
- Reasonable access granted
- Property Law Act 1952, s 129B

Wills v Reed 24/5/01, Doogue J, HC Nelson CP23/97

Plaintiffs purchased land, previously abandoned, at auction - Access by old logging road (part right of way) and old logging track - Plaintiffs no legal right to use access - Land landlocked - Plaintiffs reached agreement with all but one defendant - Remaining defendant owned no land over which right of way or logging track passed.

Held, application allowed - Plaintiffs granted easement over existing right of way and over old logging track - Plaintiffs to contribute $2,000 towards right of way - Plaintiffs to pay certain defendants costs and compensation. (5pp)

High Court
- Judicial review
- Disputes Tribunal jurisdiction
- Residential tenancy claim
- Disputes Tribunals Act 1988, ss 18(6), 50; Judicature Amendment Act 1972; Residential Tenancies Act 1986, ss 2, 5(n), 77(1), 82

Sutherland v Disputes Tribunal 3/5/01, Potter J, HC Auckland M.404/1908/00

Application for judicial review - Plaintiffs argued Disputes Tribunal exceeded jurisdiction - Disputes Tribunal held second defendant was "paying guest", not tenant, and ordered plaintiffs pay second defendant $4,182 - Plaintiffs argued dispute was residential tenancy dispute within exclusive jurisdiction of Tenancy Tribunal.

Held, Disputes Tribunal did not exceed jurisdiction and, even if it had, the Court would not intervene on judicial review - Disputes Tribunal to provide speedy, informal, inexpensive means of resolving disputes - Factual findings cannot be challenged - Decisions have no authority as judicial precedent - Issues between the parties in this case were appropriate for determination on their "substantial merits and justice" - Parties must accept the long and bitter dispute has been finally determined - Application dismissed. (6 pp)

High Court
Contract
Breach
Liability

Oxborough v North Harbour Builders Ltd 29/3/01, Nicholson J, HC Auckland CP361-SD99

Contract for replacement home - Alleged defects - Plaintiffs purported to cancel contract - Whether purported cancellation valid - Whether contract repudiated or term giving right to cancel breached.

Held, effects of any breaches did not reduce value of contract to plaintiffs - Even if there had been breach plaintiffs affirmed contract by seeking specific performance - Steps defendants took to confer with plaintiffs, and continued work on site, suggested no repudiation by defendants - Contract not validly cancelled - Judgment for defendants. (15 pp)

High Court
Lease
- Rent
- Forfeiture

Toad Hall Ltd v CB Holdings 28/3/01, Goddard J, HC Wellington CP23, 26/01

Applications for relief against forfeiture - Defendant lessor CB Holdings ordered not to take any steps relating to premises - First plaintiffs entered into lease agreement with CB Holdings to run backpacker accommodation and bar - Agreement for sale and purchase of backpackers to second plaintiff C Holdings Ltd - Debenture given to first plaintiff Director of defendant and C Holdings same person - C Holdings defaulted under agreement and failed to pay rent as agreed - Director of defendant caused CB Holdings to serve notice to quit on C Holdings on day receivers appointed - Plaintiffs offered payment of arrears - Defendant prevented plaintiffs and receiver from gaining access to premises to secure first plaintiff's interest under debenture - Whether there was an assignment of lease from Toad Hall to C Holdings - Whether first plaintiff or C Holdings entitled to occupation and relief against forfeiture.

Held, C Holdings acquired only equitable interest when signing agreement for sale and purchase of business - No legal interest intended to pass until transaction completed - First plaintiff remained entitled to legal benefit of lease - C Holdings entitled to possession and to relief against forfeiture - Plaintiff had viable business before sale to C Holdings - Business still capable of success if managed responsibly - Termination of lease would leave plaintiff with no effective remedy under agreement or debenture - Relief against forfeiture granted so receiver could enter premises and

plaintiff could consider its remedies under agreement. (12pp)

High Court

- Sale of property
- Judicial review
- Public Works Act 1981, ss 40, 42

Nicholls v Victoria University *of* Wellington 15/3/01, Ellis J, HC Wellington CP12/01

Sale of property by university to developer - Property acquired compulsorily by university Whether university complied with requirements of ss 40 and 42 Public Works Act - Whether land "adjacent" to plaintiffs Undertaking by university, for consideration, to discuss matter further with plaintiffs after closure of tenders and before any tender was accepted - University in breach of undertaking Erroneous advice that Public Bodies Leases Act 1969 prevented university from recreating the leases - No suggestion of high handedness or bad faith.

Held, declaration preventing sale from being completed declined - Applications dismissed Open for plaintiffs to sue for damages. (15pp)

High Court

- Encumbrances
- Caveats
- Subsisting

Fowhe v Rhodes 21/3/01, Chisholm J, HC Christchurch M459/00

Application to remove caveat - Whether caveatable interest subsisted Defendant sought to subdivide caveated land Plaintiffs negotiated to purchase land from defendant Variation of contract whereby defendant would separate lots within 2 years of purchase - Defendant registered caveat after purchase - Whether condition at an end Whether time of the essence.

Held, no express stipulation that time requirement to be strictly complied with Effect of variation that lot 7 forfeit to plaintiffs without compensation - Context of contract indicated deliberate intention not to make time of essence - Court should be reluctant to hold that time of essence - Defendant had not lost rights to have lot 7 transferred back Defendant retained caveatable interest - Application adjourned to allow defendant to renegotiate subdivision. (6pp)

High Court

- Sale and purchase agreement
- Obligations of real estate agent

Simes Ltd v Hatchi *Sydney Corp* Pty Ltd 6/3/01, Panckhurst J, HC Christchurch AP39/00

Sale and purchase agreement Conditional on sale of purchasers' property "48- hour clause" required purchasers to confirm their purchase, failing which a sale to another party could eventuate Further agreement, not reduce to writing, where sellers would accept a dollar reduction for every dollar reduced from the selling price of the purchasers' property Seller entered into competing contract with another buyer In previous proceeding High Court ordered specific performance in favour of other buyer Vendor (Hatchi) successfully sued company (Simes) employing real estate agent in District Court for loss in sale price and certain expenses Issue estoppel Whether agent had obligation to ensure binding agreement was effected Whether agent had obligation to advise of consequences of not having written variation Loss of chance.

Held, issue estoppel argument was unsustainable. The District Court's finding that the agent was in breach by not putting in place a binding price reduction arrangement was erroneous. There was not sufficient evidence to consider the alternative loss of chance claim. Appeal allowed; District Court's judgment in favour of Hatchi (for $83,528) set aside. (17pp)

High Court

Access
Interim injunction
Heavy vehicles over accessway
Independent consultant

Warner v Brown 27/4/01, Laurenson J, HC Auckland CP185-SWO1

Plaintiffs owned property at end of long accesswav serving nine other owners - Defendants were four of other owners Plaintiffs sought to develop their property, requiring movement of heavy vehicles over accessway - Defendants concerned over potential damage to accessway Defendants blocked plaintiffs' access with chain - Plaintiffs concerned heavy earthworks completed while weather still holding Plaintiffs sought interim injunction to ensure they had unimpeded access to their property and to prevent defendants from blocking or hindering access - Parties agreed to have independent consulting engineer inspect accessway before and after plaintiffs' development, plaintiffs entitled to use accessway for developing property and would pay for repairing damage they caused to accessway.

Held, interim injunction granted as sought by plaintiffs, subject to above agreement that consultant be appointed and plaintiffs pay for any resulting damage. (6pp)

High Court

- Lease
- Right of renewal
- Lessee/sub-lessee
- Settlement negotiations
- False representation
- High Court Rules, r 299, Property Law Act 1952, s 120

Wholesale Dist*ri*butors Ltd v GLG (NZ) Ltd 20/4/01, Master Venning, HC Auckland M1914-IMOO

Intending plaintiff (lessee, WDL) sought discovery against intended defendant (sub-lessee, GLG) - WDL did not give lessor notice of intention to renew lease - GLG gave WDL notice of intention to renew sub-lease - WDL refused or was unable to renew sub-lease - GLG sought $500,000 in settlement negotiations - Settled for $400,000, relocation costs and inconvenience - Shortly after settlement NZ Herald on-line ran article on GLG's relocation to Malaysia - WDL sought discovery of documents relating to GLG's relocation Whether WDL induced to enter settlement on false representations by GLG How advanced were discussions leading to relocation at time of settlement negotiations Whether at the time of settlement negotiations GLG already determined to shift production to Malaysia If so that information ought to have been disclosed.

Held, intending defendant ordered to file affidavit stating whether any documents relating to relocation to Malaysia are or have been in its custody or power and if the documents are no longer in its power what has become of them. (11 pp)

High Court

Sale of property
De facto relationship
Business partners
Property Law Act 1952, s 140; Partnership Act 1908,s25

Divan v White 7/5/01, Master Venning, HC Timaru CP2/01

Plaintiff sought order directing sale of property at Pleasant Valley Road, Geraldine - Former de facto relationship - Former business partners Property in sole name of defendant, held in trust, one half share to defendant and one half share to plaintiff Property included in assets of milk run partnership as capital - Milk run sold but Pleasant Valley Road property retained and occupied by defendant Section 25 Partnership Act provides where land has become partnership property to be treated, as between partners, as personal and not real estate unless contrary intention appears - Partition not sought.

Held, both plaintiff and defendant regarded the property as real and not personal estate - Plaintiff had sufficient interest (one moiety) in the property for purposes of s 140 Property Law Act - Possibility that adjustment may be required from the proceeds of sale as between parties is not reason not to order sale of property Sale of property ordered. (9 pp)

High Court

- Contract
- Building of luxury manor
- Wrongful cancellation
- Misrepresentation
- Contractual Remedies Act 1979, s 7; Fair Trading Act 1986, s9

T & P Developments v Yu 11/4/01, Glazebrook J, HC Auckland CP18-SD99

Defendants contracted with plaintiff for building luxury manor Plaintiff run by defendants' close friends - House did not meet defendants' expectations Defendants purported to cancel under s 7 Contractual Remedies Act 1979, wanting house demolished and money back Counterclaim alleging misrepresentation in trade under s 9 Fair Trading Act 1986 - Whether representations were made in company or personal capacity

Held, cancellation not justified Plaintiff had affirmed contract and had been prevented by defendants from completing it - Defects could be remedied and breaches were unlikely to make contract substantially different from that contracted for Not established that defendants had been induced to enter contract by misrepresentations - Not total failure of consideration in that what was built was not and never could be a luxury manor Plaintiff awarded $187,050 damages for wrongful cancellation of contract. (43pp)

High Court

- Mortgages
- Mortgagee's rights
- Property Law Act 1952, s 92

Hussey v Nat*i*onal Bank *of NZ* Ltd 18/5/01, Master Venning, HC Dunedin CP57/00

Defendants sought summary judgment against plaintiff mortgagor Plaintiff was customer of first defendant bank - Bank operated overdraft facility Arrangements for repayment - Plaintiff unable to meet these but met with bank manager and promised repayment in 8 days - Bank received advice of another creditor pursuing plaintiff Bank sent demand for full repayment which was not answered Bank made two attempts to sell through mortgagee sale by tender Whether bank breached Credit Contracts Act by failing to disclose banking mandate form completed by plaintiff Whether bank exercised rights unlawfully Whether sale at undervalue - Whether bank acted unreasonably in relying on third party advice about creditor and pursuing its demand for repayment.

Held, demand did not lead directly to sale of property Information about other creditors proved to be correct - Banking mandate arguably not part of credit contract - Valuation reflected condition property was in at time of sale - Claim against second defendant concerning advice about third party claim was based on suspicion - Summary judgment in defendants' favour. (18pp)

High Court

- Mortgages
- Entry into possession
- Life tenants

Reeves Moses Hudig v Fleming 17/5/01, Master Faire, HC Auckland M1708im00

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Application for summary judgment - Plaintiff sought outstanding balance owing to it under loan after mortgagee sale Defendants claimed that no advance made under mortgage relied on Defendants objected to paying costs incurred in obtaining vacant possession First attempt at mortgagee sale cancelled Life tenants in possession of property Proceedings issued against life tenants and concluded with consent order and agreement to vacate and allow purchasers to see property before second sale took place Plaintiff had agreed not to seek costs against life tenants Whether arguable defence existed.

Held, defendants acknowledged that mortgage secured same principal sum as an earlier mortgage - Express term of mortgage allowed recovery of legal fees incurred in protecting mortgagee's security interest - No evidence that plaintiff proceeded inappropriately against life tenants - Plaintiffs could be expected to obtain vacant possession for best price Valuation on basis that property unoccupied Knowledge of tenancy irrelevant to defendants' argument No prejudicial delay Reasonable for plaintiff to accept combined offer for both properties concerned Summary judgment granted. (15pp)

High Court

- Contract
- Construction and interpretation
- Inclusion of GST

Wairau Valley Estate Ltd v *The December Co* Ltd 9/5/01, Young J, HC Christchurch CP194/97

Damages claim by purchasers against vendor of land Negligence claim against real estate firms First plaintiff ("WVEL") sought to purchase land from first defendant ("TDCL") - Several terms unclear including whether purchase price included GST Settlement notice expressed in manner indicating contract GST-exclusive - WVEL claimed that it had intended to deal with TDEL on GST-inclusive basis and contract should proceed accordingly Settlement on basis that WVEL reserved right to recover GST it considered it had wrongly paid on settlement Whether contract varied - Whether contract should be rectified Whether plaintiffs estopped from seeking damages.

Held, original contract that price GST-inclusive Original contract varied to be on plus-GST basis Plaintiffs entitled to seek relief concerning method of variation If contractual agreements not varied they would have to be rectified Understandable for TDCL to think it was dealing with WVEL on plus-GST basis Judgment for defendant Judgment for third and fourth parties against defendant. (30pp)

Environment Court

Consent authority; conditions
Subdivision consent
Limitations on power

Lakes District Rural Landowners Soc Inc v Wakatipu Environmental Soc Inc 21/6/2001, Judge Jackson, EnvC C100/01

Urgent hearing Power of consent authority to impose conditions on subdivision consent Power to impose conditions under s 108 RMA very wide General power in subsection (1) not limited by specific powers in subsection (2) - Court identified two statutory exceptions and some common law restrictions - Express provisions in s 108 included those stated in subsection (2)(d) as to covenants, and limitations on power to impose financial contributions - Powers also "subject to any [relevant] regulations" - Common law restrictions included Newbury tests - Court noted that any finding applying Newbury tests would depend on the circumstances, including class of activity Legality of land use conditions on subdivision consent more a question of reasonableness than sharp definition of powers.

Held, in present case involving land use controls on exterior appearance of buildings, was lawful for revised plan to contain subdivision rules that allowed fourth respondent council to impose similar conditions as conditions of subdivision consent. (27pp)

High Court

Contract
Construction and interpretation
Time clause

Westview Medical *Centre* Ltd v Quadstar Housing Ltd 17/5/01, Master Yenning, HC Auckland CP35-IM/01

Summary judgment application Specific performance sought Agreement to buy part of property Defendant intended to develop property by building units for Housing New Zealand on it - Planned development, which required demolition of existing building, received negative publicity Conditional agreement with plaintiff to redevelop existing building leaving rest of site for defendant's use - Agreement conditional on defendant obtaining consents - Whether contract required vendor to proceed with notified resource consent application if Council would not deal with consent on non-notified basis.

Held, use of "obtaining" in contract ambiguous Housing New Zealand's involvement in resource consent application supported view that relevant clause covered process of obtaining consent as well as outcome - Date of decision on notification meant there was insufficient time to obtain consent on non-notified basis within time limit Defendant had begun demolishing building Summary judgment declined as inappropriate. (15pp)

High Court

- Caveat
- Lapse
- Encroachment
- Adverse possession

- Land Transfer Act 1952, s 200; Land Transfer Amendment Act 1963, s 3

O'Kane v Bell Farms Ltd 12/6/01, Williams J, HC Auckland M1856/00

Application by plaintiff that caveat not lapse - Whether title boundaries should be upheld Defendants wanted to subdivide and sought resurvey Plaintiff objected Plaintiff asserted that it was unable to ascertain whether encroachment had occurred but contended it was possible - Plaintiff contended that no check had been made to see whether title dimensions agreed with boundary Disparity in certificates of title - Defendants unable to obtain finance to complete development if boundaries not established - Adverse possession - How rectification should occur.

Held, Court had power to determine whether plaintiff had established its title to interest claimed Statement of defence did not provide sufficient evidence of adverse possession and did not alert plaintiff to need to produce evidence concerning this Defendant had option of applying to Registrar under s 200 Land Transfer Act 1952 - Defendant could apply for certificate of title using procedure in s 3 Land Transfer Amendment Act 1963 - Caveat not to lapse pending further orders - Conference ordered for full hearing of matter. (21 pp)

High Court

Civil procedure

Application

Strike out

Public Works Act 1981, ss 40, 42

Sisters *of Mercy* (Roman Catholic *Diocese of* Auckland Trust *Board)* v A-G 6/6/01, Randerson J, HC Auckland CP219/99

Application to strike out proceedings - Land acquired from Sisters of Mercy in 1950s and acquired by Crown Health Enterprise - Land now belonged to District Health Board District Health Board had offered land back to Sisters of Mercy but withdrew offer before expiry Whether Sisters of Mercy unlawfully assigned rights to land Whether Limitation Act 1950 barred proceedings - Whether s 40 Public Works Act applied to unsubdivided land Likely issues at trial.

Held, Sisters of Mercy had agreed to bring proceedings to enforce claim and assign their rights to a third party is successful - Sisters of Mercy still clearly in possession of rights - Jurisdiction existed under Judicature Act 1972 to grant declaratory relief as sought whether or not right to damages subsists - Claim under Public Works Act not for "sum recoverable by virtue of any enactment" so was not barred - If part of land in single title no longer required obligation exists to offer land back except where this is impracticable, unreasonable and unfair cl 3 of first schedule to Health (Sectors) Transfers Act does not necessarily exclude prior claims Strike out application dismissed - second, third and fourth defendants struck out as parties. (33 pp)

High Court

- Contract
- Termination
- Grounds
- Mistake

Silcoch v Bell 23/5/01, O'Regan J, HC Auckland M245-SDOO

Plaintiff sought order that defendant pay her $100,000 -Parties' mother bought land in question together with defendant's husband intending to build holiday home -Home would be sold and profits split according to parties' contributions - Mother became ill -Letter concerning proposed altered arrangements sent to plaintiff Whether mistake as to agreement regarding mother's share.

Held, defendant thought she would receive her mother's share for $100,000 and that plaintiff would receive $50,000 from distribution of estate -Plaintiff expected to receive $100,000 before her mother died Plaintiff's response to offer inconsistent -No clear evidence that plaintiff took advantage of mistake - No common continuing intention -Rectification inappropriate. (29pp)

High Court

- Sale and purchase agreement
- Breach of contract
- Deceit
- Strike-out application

Court v McBreen 28/5/01, Master Yenning, HC Christchurch CP73/00

Defendant agreed to sell land to plaintiff Defendant not registered proprietor of land - Land held in name of Eagle Spares Ltd - Agreement subject to vendor entering agreement with Eagle Spares to purchase land - Defendant's solicitor advised plaintiffs Eagle Spares no longer willing to sell land to defendant - Second letter confirmed this stating contract was at an end - Three months later plaintiffs learned Eagle Spares agreed to transfer land to defendant - On discovery plaintiffs considered defendant was able to direct Eagle Spares to transfer land to defendant to settle with plaintiffs - Two causes of action alleged: breach of contract and deceit - Defendant sought to strike out deceit cause of action.

Held, deceit cause of action struck out - Damage claimed not sufficiently connected to representations - Opportunity to develop land not lost due to fraudulent misrepresentation.

Breach of contract cause of action amended - Plaintiffs alleged defendant failed to take reasonable steps to enforce arrangements he had with Eagle Spares to obtain title to land, and it was an implied term of agreement between plaintiffs and defendant

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that defendant was obliged to act in good faith in carrying out contract but failed to do so - Plaintiffs ordered to provide further particulars relating to breach of contract cause of action. (12pp)

High Court
- Sale of property
- Tenants in common
- Constructive trust
- Payment of rent
- Property Law Act 1952, s 140

Doyle v Doyle 1/6/01, Morris J, HC Auckland CP331-IM199

Plaintiff and second defendant (Body Clinic Ltd) registered proprietors and tenants in common - Body Clinic controlled by plaintiff's sister - Plaintiff and first defendant (plaintiff's mother) bought property from plaintiff's grandmother in 1983 - Plaintiff sought partition at public auction and payment of rent - Both defendants opposed sale at public auction.

Held, first defendant's claim that property was bought to be held in trust for use of the family during her lifetime was rejected as there was insufficient evidence - Plaintiff's claim of agreement in nature of partnership between him and first defendant was also rejected - Property unsuitable for partition - No reason, within meaning of s 140 (1), for Court to refuse orders sought by plaintiff Order for property to be sold at public auction - Reserved price set at $560,000 - Claim for rent dismissed as no basis for payment. (8 pp)

High Court
- Licence
- Occupation
- Right to occupy

Findlay v Findlay 8/6/01, Paterson J, HC Auckland CP19/IMO1

Summary judgment - Order sought that defendant vacate property owned by plaintiff trustees - Defendant's former husband one of trustees - Defendant invited to cooperate in sale of property by trustees to repay debt to former husband - Defendant refused - Defendant issued matrimonial property proceedings seeking orders that trust was invalid and its property was matrimonial property - Whether defendant had licence to occupy property.

Held, possibility of trustees holding property on resulting trust for defendant and her former husband according to their respective contributions could not be discounted - Defendant may have beneficial interest which converts property to matrimonial home -Defendant made bulk of contributions after she became aware of trust's ownership - Occupation order could not be made - Summary judgment application dismissed. (10 pp)

High Court
- Lease
- Injunction
- Evidence

McCauley v The NZ Guardian *Trust Co Ltd* 23/5/01, Hammond J, HC Hamilton CP18/01

Application for interlocutory injunction to stop defendant trustee from proceeding with long-term lease of farm land - Plaintiff was residuary beneficiary of estate - Claimed oral agreement that plaintiff should receive one of two blocks subject to other beneficiaries receiving cash sums for their shares in the block - Defendant trustees sought to tender lease publicly - Evidence of agreement.

Held, initial agreement relied on involved plaintiff's siblings - Arguable that they should have been parties - Land subject to agreement unclear - No partition made of parcel of land which plaintiff asserted claim to - No direct arrangement for lease back to estate - Preliminary injunction refused - Trust estate had benefit of use of plaintiff's land for 5 years - Possible quantum meruit issues - Family resolution recommended. (18pp)

High Court
- Sale and purchase agreement
- Entitlement to money
- Real Estate Agents Act 1976, s 56

NZ Realties Ltd v *Geerligs* 29/6/01, Nicholson J, HC Auckland AP37/01

Vendor and prospective purchaser entered conditional agreement for sale and purchase of property for $775,000 - Deposit of $75,000 paid, with $25,000 of that paid to real estate agent's trust account - Real estate agent acted for vendor - Prospective purchaser's solicitor advised he did not approve special condition and instructed real estate agent should refund $25,000 - Considerable correspondence between parties regarding entitlement to $25,000 - Vendor advised real estate agent that vendor could not sustain legal challenge for the money and advised it be released to prospective purchaser's solicitor - Real estate agent did not pay money to vendor or prospective purchaser - Prospective purchaser issued summary judgment proceedings against real estate agent for $25,000 - District Court granted summary judgment against real estate agent - Real estate agent appealed.

Held, real estate agent required to hold money until dispute between vendor and prospective purchase ascertained Once that done real estate agent required to pay the money to prospective purchaser's solicitor If, as real estate agent claimed, it was entitled to $25,000 as commission, then this was vendor's liability and real estate agent should have pursued claim against vendor Real estate agent had no defence to prospective purchaser's claim for payment of *$25,000* - Appeal dismissed. (5pp)

High Court
- Access
- Interim injunction
- Variation to terms
- Property Law Act 1952, s 129B

Wratt v Harnett 12/6/01, Hansen J, HC Auckland M404/1706/SDOO

Interim injunction required first defendant provide vehicular access to plaintiff over his property Differences arose as to precise route in terms of Court order - Plaintiff assumed route was one he used in past - First defendant said he intended route to be through neighbouring property Plaintiff had applied for writ of arrest against first defendant for failure to comply with interim injunction Hammond J was unable to find beyond reasonable doubt that first defendant knew he was in breach and directed plaintiff to apply for variation to terms of injunction Plaintiff took law into his own hands and cut new track through first defendant's land - Allegations that plaintiff had not adhered to terms of injunction.

Held, balance of convenience favoured plaintiff be granted continued access across first defendant's land pending final decision Terms of original interim injunction altered to clarify route - Court warned that plaintiff's failure to adhere to terms of injunction could jeopardise continued interim relief. (1lpp)

High Court
- Subdivision; staging
- Integrity; non-conforming

Wilbow v North *Shore* CC 26/6/01, Fisher J, HC Auckland M292-SW-01

Plaintiff had obtained subdivision consent for 11 ha land - Sought to proceed in stages - Separate survey plan at each stage - Defendant council went along for first two but withheld approval to third Reason: staging must be done in manner that did not affect integrity of consent as a whole - Effects on adjoining landowner not anticipated in initial consultation Did not conform on individual details and way it fragmented subdivision into discrete survey plans - Plaintiff sought judicial review.

Held; Court found changes were not minor and would conflict with District Plan and adversely affect other parties - Non-conforming with original consent - Survey plan "not capable of attracting approval"- Developing in stages was possible but only by incorporating in terms of the resource consent Upheld council's right to refuse staging Plaintiff required to pay costs. (23pp)

High Court
- Trusts
- Trustees
- Conflict of interest

Longworth v Currie 11/6/01, O'Regan J, HC Auckland CP202-SW1

Interlocutory applications for interim injunctions - Property companies established to buy coastal property - Four trusts established - Defendants sought to sell property - Plaintiff and her children had right to appoint trustees - Argument that corporate trustees nominated had right to 75 percent of shares in companies - Proposed transactions to sell property Whether plaintiffs held underlying beneficial ownership.

Held, first defendant had clear conflict of interest as guarantor of mortgages over property Companies now subject to Property Law Act notices - Proposed sale could not be said to be "prudent" when beneficial owners of 75 percent of equity did not consider it so - Damages not adequate remedy Injunction against sale of property issued. (18pp)

High Court
- Contract
- Defences
- Mistake
- Contractual Remedies Act 1979; Credit Contracts Act1981; Fair Trading Act 1986; Securities Act 1978

National Australia Bank Ltd v Mason 28/5/01, Master Yenning, HC Auckland CP469IM-00

Defendants agreed to purchase property units in development on Gold Coast of Australia - Agreements to purchase units signed between April and May 1996 - Total price was A$1,298,000 and final settlement dates for individual units were between December 1996 and 1997 - Plaintiff provided loan facility for defendants of A$500,000 with further A$530,000 through commercial bill facilities - Bill facility matured 31 December 1998 and defendant's loan facility came into default by A$496,047. 10 - Demand for payment made - Defendants did not respond Plaintiff exercised power of sale, realising A$638,000 - Outstanding amount owed to plaintiff by defendants is A$442,095.99 - Defendants claimed loan contract void under Securities Act - Whether agreement unconscionable - Operation of "two-tier" market.

Held, no evidence of unconscionablility Arrangement was commercial contract and there cannot be any injustice for judgement being made at this time in plaintiff's favour for the plaintiff's claim No defence to claim Judgment for plaintiff in sum of $442,095.99 together with interest from 1 August 2000. (25pp)

High Court
-Civil procedure
- Summary judgment
- Sale of property
- Jurisdiction
- Property Law Act 1952, s 140(1),(3)

Thomson v NZ Guardian Trust Co Ltd 22/6/01, Master Faire, HC Hamilton CP76/00

Summary judgment application Plaintiffs sought order for sale of two titles - Plaintiffs and second and third defendants children of late WG Thomson Thirteen children held titles in equal shares - Second and third defendants opposed sale and wished to purchase interest from plaintiffs - Ancestral land Whanau had uninterrupted occupancy for 12 generations - Whether Court had jurisdiction under s 140 (1) Property Law Act Whether s 140(3) applied Residual discretion.

Held, Court had jurisdiction under s 140(1) - Once proceeding seeking order for sale is filed, Court is seized of jurisdiction granted by s 140 which is a jurisdiction to consider either a sale or the division of the land Whether there is good reason not to order sale required consideration of whether partition should be ordered No foundation laid for consideration of partition option Second and third defendants undertook to purchase plaintiffs' interest pursuant to s 140 (3) - Party who requests sale of whole property cannot be compelled to part with his share on a valuation if he does not wish to do so - Here s 140(3) had no application because plaintiffs did not consent - Sale by auction order under s 140(1). (14pp)

High Court

Civil procedure
Injunction
Interim

`Ahau'ola v The *President of the Conference of the* Methodist Church *of NZ* 26/06/01, O'Regan J, HC Auckland CP 183/SW01

Application for an interim injunction giving control over a church property to plaintiffs - Order sought that plaintiffs and congregation which they represent be allowed to use church property at certain defined times - Otahuhu Tongan Methodist congregation bought land and built church in 1993 using money they themselves had raised - Property was transferred to the Methodist Church of NZ ("MCNZ") - Congregation had no idea that the land and building would be owned by the MCNZ In February 2001, the first defendant decided to lock the congregation out of the Otahuhu church Plaintiffs alleged unlawful interference with the plaintiffs' rights to determine use of the church Constructive trust - Fraud/deceptive conduct - Change or alteration of the doctrine of the MCNZ - Irreconcilable disharmony within the MCNZ - Whether there was a serious question to be tried.

Held, interim injunction granted allowing the plaintiffs to use the church at certain defined times Plaintiffs fail on first ground of unlawful interference - Rule 7.1.1 of the MCNZ Rules gives a decision-making power to the MCNZ consistent with its actions in this case - Serious question to be tried on constructive trust - Congregation had paid for the property Reasonable expectation of an interest No serious question of fraud Balance of convenience favours plaintiffs. (23 pp)

Court of Appeal

- Sale of land
- Contract
- Terms
- Contracts Enforcement Act 1956

Nomoi Holdings Ltd v Elders Pastoral Holdings Ltd 17/7/01, CA79/00

Appeal - Whether respondents bound by contract or estoppel to allow appellants to participate in land sale - Respondent first mortgagee of land owned by company in which F (director of first plaintiff) was principal shareholder Second mortgage to second plaintiff Mortgagee sale by tender Tender accepted Whether F and respondents had oral arrangement that no tenders would be accepted before first plaintiff given opportunity to buy Whether second mortgagees had arranged with respondent to be consulted before sale - Status of arrangement - Alleged reliance on arrangement and part performance - Case dismissed in High Court Whether High Court judge's reasoning consistent with facts - Natural justice - Whether High Court Judge developed theory of the case which was not fairly put to plaintiffs and their witnesses.

Held, (per Keith and McGrath JJ) Judge's statements about credibility of witnesses should be read carefully in context - "Credibility" covers reliability as well as truthfulness What documentary evidence there was tended to support respondent's account - Aspects of F's behaviour inconsistent with belief in binding arrangement to give first plaintiff option to buy Unclear whether one contract or two intended - Belief in arrangement indicate that contract existed or alleged representation made Judge's interpretation not untenable on facts - Alleged reasons for respondent not wanting written agreement unclear - "Theories" were findings of fact and appellants' criticisms not material to outcome.

Held, (per Gault J) alleged consideration for agreement contained in implied term First plaintiff refraining from tendering not necessary to give agreement business efficacy No sufficient written material to support oral contentions for Contracts Enforcement Act purposes Appellants' case equally consistent with non-binding arrangement Appeal dismissed. (26pp, 5pp)

High Court

Agreement for sale and purchase
Breach
Reasonable time
High Court Rules, r 186

Lee v Warrander 25/6/01, Master Yenning, HC Christchurch CP15/01

Defendants bought property from plaintiff

Agreement of purchase provided that balance of payment would be made following the sale of defendants' other property Defendants could not sell other property Plaintiff issued settlement notice - Defendant did not respond - Defendant seeks order striking out plaintiff's statement of claim.

Held, strike out occurs when it is proven action is untenable - Where open contract does not provide definite date of settlement parties have obligation to settle within reasonable time - A party seeking to make time of essence may not do so unless there has been unreasonable delay It must be determined that defendants acted reasonably in trying to sell other property Plaintiff has arguable case - Defendants' application dismissed. (14pp)

Court of Appeal

Contract
Sale and purchase agreement
Misrepresentation
Repudiation
Cancellation
Contractual Remedies Act 1979, ss 9, 10

Thompson v Vincent 21/06/01, CA282/00

Appeal by vendors of motel business against dismissal of claims against purchasers for balance of purchase price and ongoing interest liabilities Appeal against judgment for purchasers on counterclaim for return of money paid Vendors owned block of motels nearing completion Planning consent obtained for 12 motel units although in practice operation as 24 units was allowed - Agreement for sale and purchase with 20-year lease - Differences between parties to be resolved by settlement memorandum Purchasers vacated the premises without notice - Purchasers learnt that planning consent to motels did not extend to 24 units Vendors pleaded breach by purchasers of payment obligations under settlement memorandum Repudiation by abandonment Acceptance - Misrepresentation. Held, appeal dismissed HC Judge's finding of misrepresentation is correct Purchasers entitled to justify repudiation on basis of previous misrepresentation HC's decision on relief to purchasers not to be disturbed Direction to set aside contracts between the parties was erroneous but no further orders made. (27pp)

High Court

- Lease
- Assignment
- Breach

Robert Gracie Dean Ltd v *Corunna Bay* Holdings Ltd 19/6/01, Master Thomson, HC Napier CP8/01

Summary judgment application Whether refusal to consent to lease unless assignee signed deed of covenant arbitrary and unreasonable - Whether refusal breached terms of lease - Defendant owned fee simple of land - Perpetually renewable Glasgow lease - Assignment of lease permitted subject to consent - Plaintiff contended that defendant had privity of estate with assignee so was able to enforce lease without need for deed - Whether attempt to obtain collateral advantage by altering lease's terms.

Held, lease did not enable defendant to insist on deed - Defendant trying to go beyond its contractual rights under lease - Deed of covenant would have been term of lease if required - Order given that defendant give written consent to assignment of lease. (8Pp)

High Court

- Contract
- Specific performance
- Settlement notice
- Cancellation
- Oral agreement
- Contracts Enforcement Act 1956

Alan Johnston Sawmilling Ltd v Sheehan 12/6/0 1, Young J, HC Invercargill CP4/00

Contract - Plaintiff sought specific performance against executors of late Mr Caulfield Written agreement between plaintiff (buyer) and Caulfield (vendor) for sale and purchase of farm land - Settlement to occur in 3 months - Plaintiff allowed on land from outset for general farming purposes and to carry out work on property - Plaintiff experienced financial difficulties at time of settlement due to ban on export of wood chips and could not settle - Agreement varied to postpone settlement for a year Plaintiff's financial position no better a year later Caulfield's solicitors sent settlement notice - Caulfield's solicitors gave cancellation notice - Significant work carried out by plaintiff to improve property Plaintiff continued to use property for farming and grazing its stock - Relations deteriorated between parties - Whether oral agreement between Caulfield and Alan Johnston that cancellation notice should be ignored and parties should continue to deal with each other in terms of previous arrangements - Validity of settlement notice.

Held, settlement notice was defective as Caulfield was not "ready, willing, and able to settle" because a forestry right had not been prepared in accordance with contract - There was oral agreement between Caulfield and Alan Johnston that settlement notice and cancellation notice should be ignored and terms of existing contract should stand with settlement in a year's time - Contract at all times continued in full force and can be specifically performed - If settlement notice and cancellation notice were valid then vendor would be estopped from denying valid contract - Specific performance ordered - Plaintiff to pay interest at penalty rates for a period. (38pp)

High Court

Access rights
Easement
Right of way
Injunction

Emmons Developments (NZ) Ltd v Red Investments Ltd 4/7/01, Young J, HC Christchurch CP42/01

Access rights - Easement - Right of way Plaintiff owned property in Christchurch, including 47 Cathedral Square - First defendant owned adjacent property in Chancery Lane - First defendant sought to erect a wall between Chancery Lane and 47 Cathedral Square - Wall would have damaging effect on plaintiff's retail business - Plaintiff claimed entitlement to equitable and legal easement, and easement in gross.

Held, not unreasonable for plaintiff to seek full and unrestricted access to land - Wall would breach first defendant's obligations under transfer 15043 - No easement appurtenant implied in certificate of title - Plaintiff granted injunction to prevent first defendant from obstructing access by erecting wall. (18pp)

High Court

Equity
Charges and liens
Recovery of land
Companies Act 1955, s 102

Ashton *Group* Ltd (in *receivership)* v Ambrosia Holdings Ltd 26/6/01, Morris J, HC Auckland CP198/SWO1

Claims for conversion and recovery of land Plaintiffs sought Piper Navajo aircraft and premises occupied by first defendants Ambrosia Ambrosia alleged equitable lien over aircraft and other assets of plaintiff Charter business agreement between plaintiff and second defendant Whether requirement that person to whom deposit paid by Ambrosia under agreement should hold it until agreement became unconditional - Extension of time to allow Ambrosia to obtain Air Operator's Certificate - Whether Ashton held deposit as constructive trustees for Ambrosia.

Held, requirement for Ashton to hold deposit as stakeholder did not create trustee/beneficiary relationship - Ambrosia had taken no steps to register charge created by agreement Agreement to grant charge could be seen as precluding equitable lien No unconscionable conduct by liquidators of Ashton - Ambrosia had use of aircraft for 1 year Aircraft and premises ordered to be delivered up to plaintiffs. (14pp)

Court of Appeal

- Contract
- Breach
- Contractual Remedies Act 1979, s 7(2),(5)

Oxborough *v North* Harbour Builders Ltd 7/8/01, CA91/01

Appellants contracted with respondent builders for construction of house - Appellants dissatisfied with quality and progress - Sought specific performance for quality of all work, remedial work, and preservation of funds already paid High Court dismissed preservation application Appellants wrote to builders cancelling contract - Amended statement of claim asserting right to cancel because builders were in qualifying breach and had repudiated contract - Sought recovery of all money paid, damages and order that builders remove nearly complete house - Whether appellants affirmed contract through specific performance proceedings and conduct - Whether repudiatory conduct by builders.

Held, appellants by suing for specific performance and associated conduct had affirmed contract and were not entitled to cancel - There was no repudiatory conduct by the builders before or after specific performance proceedings were commenced Trial Judge was correct in deciding appellants had no right to cancel for breach - Appeal dismissed. (13 pp)

High Court

- Ownership of land
- Sale and purchase
- Summary judgment
- Resource Management Act 1991, s 225

Legacy Motors Ltd v Eccleshall 14/6/01, Master Yenning, HC Invercargill CP6/01

Application for order requiring defendant to specifically perform agreement for sale and purchase - Defendant sought to buy section subdivided by plaintiff Off-site sewage disposal arrangements in resource consent important to defendant - - Sale and purchase agreement signed - Plaintiff later sought to vary resource consent allowing onsite sewage disposal - Defendant became aware of proposed change and expressed concern - Council granted variation - Defendant sought to cancel contract - Whether plaintiff breached implied term of contract - Whether unilateral variation Whether defendant misled.

Held, defendant not given notice of application to change condition - Section 225 RMA permitted existing subdivision and resource consent to be imported as contractual terms - Vendor had to take all reasonable steps to comply with existing plan Parties made no explicit allowance for change in waste disposal arrangements as they had for boundary changes - Unilateral variation Value of contract arguably reduced - Summary judgment application dismissed. (16pp)

High Court

- Contract
- Breach
- Summary judgment

Guild v Kimpton 11/7/01, Laurenson J, HC Auckland CP640-SDOO

Plaintiff formed partnership to develop four pieces of land - Defendant provided finance - Defendant asked plaintiff to sign acknowledgment of debt - Defendant registered caveats against lots - Lots purchased in defendant's name - Further funds for completion of lot development refused - Plaintiff claimed defendant's actions breached contract between parties - Plaintiff relied on Deed of Covenant and Release and previous agreement on sharing profit between defendant and plaintiff Defendant claimed plaintiff mismanaged project - Defendant sought summary judgment.

Held, judgment should be entered for defendant - No evidence beyond providing some funds that defendant accepted alleged profit-sharing arrangement- Pleadings relied solely on Deed of Covenant and Release and did not refer to alleged arrangement - Arrangement inconsistent with deed - Unreal to suggest that deed obliged defendant to provide unspecified sums of money at plaintiff's whim. (9pp)

High Court

- Lease
- Interpretation
- Implied term

Nelson Sun Club Inc v Elsey 16/8/01, Wild J, HC Nelson CP19/00

Lease - Interpretation - Implied term Whether defendants' 19-year lease from plaintiff naturist club terminated with club membership - Defendants obtained resource consent to place relocatable baches on club property and negotiated 19- year lease - Club terminated defendants' membership 2 years later - Club served notice and trespass order on defendants - Defendants alleged club used complaints procedure unreasonably to prevent them from exercising rights of occupation and quiet enjoyment under lease - Whether proposed term reasonable and equitable - Whether necessary for business efficacy - Whether term obvious and capable of clear expression - Whether term contradicted mediation clause.

Held, implied term that lessees must be club members existed - Naturism private activity and club grounds restricted to members - Reasonable access only possible over club grounds - Low rental consistent with concurrent club membership - Provisions of lease concerning assignment and rent fixing unworkable unless lessee was club member - Wording of lease implied lessee's membership - Implied term requiring further implied terms not incapable of clear expression - Mediation provisions governing lease could not be avoided by terminating membership - Defendants to be given reasonable time in which to vacate bach. (17pp)

High Court

Interest in land
Beneficial interests
Rights attached

Cardrona Holdings Ltd v *Cardrona* Ski *Resort* Ltd 13/7/01, Panekhurst J, HC Dunedin CP59/00

Interest in land - Beneficial interests - Rights attached - Knuckle Peak Station subdivided between plaintiff and defendant in 1988 - Disagreement over extent of land acquired by plaintiff and defendant in original agreement - Plaintiff seeks title of land areas included in original purchase - Defendant counterclaims that plaintiff possesses unfair share of land - Both seek rectification of original agreement.

Held, Court satisfied with common intentions of both parties at time of agreement due to witnesses - Court also accepted that section of land missed out in original agreement due to oversight - Conduct of both parties suggest that land was considered to belong to plaintiff following intentions of original agreement - Land title awarded to plaintiff Counterclaim dismissed. (13pp)

High Court

- Set-off
- Counterclaim

Cozzolino v Santa *Barbara* Homes Ltd 5/4/01, Hammond J, HC Auckland AP15- SWO1

Set-off Claim for materials and labour - Counterclaim or cross-claim for breach of " duty of care" and inadequate supervision - Appellant entered into contract with respondent over construction of house - Appellant withheld payments until work completed and unsatisfactory workmanship addressed - Respondent sought costs - DC awarded payment to respondent because it was acting as a contractual agent - Appellant appealed decision - Counterclaims for breach of " duty of care" and inadequate supervision.

Held, summary judgment should have been refused and trial on merits ordered - Problem of causation with counterclaim - Set-off claim disallowed - Under general law of agency payment for work is recoverable - Contractual claim for interest set aside until terms of contract established. (15pp)

NEW ZEALAND

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Enquiries to:
Julia Durrant, PO Box 27-340, Wellington Ph
(04) 384 7094, Fax (04) 384 8473
julia@property.org.nz

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SCHEDULE ONE

SHEEP AND BEEF EXAMPLE - OWNER/OPERATOR
(As at 1 July 2001)

Liabilities		Assets				
1st Mortgage	815,000	3,250	MA Breeding Ewes	(*)	208,000	
		815	2-th Ewes	(*)	58,860	
		830	Ewe Hoggets	(*)	52,290	
		65	Rams	(*)	8,710	
			((*) At Herd Scheme Values)			327,860
		4,960				
		160MA	Breeding Cows	(*)	130,720	
		30	Rising 2 Yr Heifers	(*)	20,010	
		35	Rising 1 Yr Heifers	(*)	14,805	
		4	Bulls	(*)	8,060	
			((*) At Herd Scheme Values)			173,595
		229				
			Land and Buildings (600 ha)		2,100,000	
			Vehicles and Plant			120,000
Equity	1,906,455					
	$2,721,455					$2,721,455

Suggested key data arising from the schedule one example

1. Capital stock units carried 6000.
2. Land and buildings value is $350/SU.
3. Gross Farm Income (GFI) is $405,000 ($67.50/SU)
4. 1st mortgage rate is 8%.
5. Net equity represents 70% of gross farm assets.
6. Land and buildings represent 77.16% of the gross farm assets, and livestock and plant represents 22.84% of the gross farm assets.

SCHEDULE TWO

SHEEP AND BEEF EXAMPLE - OWNER/OPERATOR
(For the year to end 30 June 2002)

Gross Income				
6,000 Stock Units at say $67.50/SU				405,000
Expenses				
Farm Working Expenses (FWE) (45% of GFI)		182,250		
Interest	Term Loan	65,200		
	Current Account		3,500	
Depreciation : Buildings				
Vehicles and Plant (at 17.5% of BV)			21,000	
				271,950
Estimated Net Farm Profit				$133,050

Suggested key data arising from the schedule two example

1. If there were significant deer numbers in the 6000 SU, then the gross return per SU could be above $67.50/SU.

2. There would be some significant variations in the GFI per SU.

3. We are assuming that the FWE includes a reasonable maintenance re repairs and maintenance to improvements, and reasonable fertilizer.

4. Building depreciation maximum claimed for income tax purposes but not included as a cost against income in calculating the true economic return.

5. In practice, there will be some enormous variations in the 45% figure it could vary from 40% to 60%.

SCHEDULE THREE

MIXED CROPPING EXAMPLE - OWNER/OPERATOR
(As at 1 July 2001)

Liabilities		Assets	
1st Mortgage	805,000	800 MA Breeding Ewes (Herd Scheme Values)	51,200
		Land and Buildings (275 ha)	2,380,000
		Vehicles and Plant Including Irrigation Plant	250,000
qEEuity	1,876,200		
	$2,681,200		$2,681,200

Suggested key data arising from the schedule three example

1. Crop area harvested estimated to be 245 ha (605 ac).
2. Property is fully and soundly irrigated.
3. Land and buildings value is $8650/ha ($3500/ac).
4. Gross farm income (GFI) is $550,000.
5. Gross profit per hectare cropped is $1,950/ha.
6. Equity represents 70% of gross farm assets.
7. 1st Mortgage rate is 8%.
8. Land and buildings represent 88.76% of gross farm assets, and livestock, vehicles and plant represent 11.24% of gross farm assets.

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SCHEDULE FOUR

MIXED CROPPING EXAMPLE - OWNER/OPERATOR
(For the year to end 30 June 2002)

Gross Income		
Gross Crop Income (245 ha at $1,950)	477,750	
Livestock (800 SU at $75 and some Stock Trading Income)	72,250	
		550,000
Expenses		
Farm Working Expenses (FWE) (57% of GFI)	313,500	
Interest : Term Loan	64,400	
Current Account	7,500	
Depreciation : Buildings		
Vehicles and Plant (at 17.5% of BV)	42,000	
		427,400
Estimated Net Farm Profit		$122,600

Suggested key data arising from the schedule four example

The gross return per hectare cropped will vary significantly depending upon crops grown, risks run, weather, soil type, irrigation capacity and personal ability.

There will also be the same significant variations in the FWE to GFI ratio - in practice it will vary from 50% to 70%.

Again we are assuming that the FWE total is maintaining all improvements including reasonable fertilizer.

Building depreciation - same approach as per sheep and beef example.

The cropping group tends to have a wide range of gross assets and profitability

SCHEDULE FIVE

DAIRYING EXAMPLE - OWNER/OPERATOR
(As at 1 June 2001)

Liabilities		Assets			
1st Mortgage	3,090,000	680	MA Milking Cows	(*)892,840	
		150	Rising 2 yr Heifers	(*) 168,750	
		165	Rising 1 yr Heifers	(*) 102,135	
			((*) At Herd Scheme Values)		1,163,725
		995			
			Land and Buildings (280 ha)		4,200,000
			Dairy Company Shares		1,200,000
			Vehicles and Plant including Irrigation And Milking Plant		300,000
Equity	3,773,725				
	$6,863,725				$6,863,725

Suggested key data arising from the schedule five example

1. Based on average cows milked of 800.
2. Gross milk solids production 300,000 kg (375 kg(MS per ACM 1120 kg/MS per ha).
3. Land, buildings and Dairy Company Shares value $18/kg/MS.
4. Share of total assets

Livestock	16.96%
Plant	4.37%
Land and buildings	61.19%
Dairy Co shares	17.48%
	100.00%

5. Gross farm income $1,590,000 - based on milk solids payout of $5.00 kg/MS and cull cows and bobby calves.
6. 1st mortgage rate is 7.5%.
7. Net equity represents 55% of gross farm assets.

SCHEDULE SIX

DAIRYING EXAMPLE - OWNER/OPERATOR
(For the year to end 30 June 2002)

Gross Income		
Milk solids, Cull Cows and Bobby Calves		1,590,000
Expenses		
Farm Working Expenses (FWE to GFI ratio of 48%)	763,200	
Interest : Term Loan	231,750	
Current Account	15,250	
Depreciation : Buildings		
: Vehicles and Plant (at 17.5% of BV)	52,500	
		1,062,700
Estimated Net Farm Profit		$527,300

Suggested key data arising from the schedule six example

1. The milk solids payout is an absolutely key parameter - an additional 20 cents/kg/MS in our example would amount to a further increase in net farm profit of $60,000.

2. The FWE to GFI ratio is another key parameter - each 1 % change up or down increases or decreases the net farm profit by $15900.

3. Buildings depreciation same approach as to sheep and beef example.

4. The lower term loan interest rate is to allow for being able to negotiate a lower rate because of the much higher borrowings.

5. In practice there will be some enormous variations in the FWE to GFI ratio - it could vary from 45% to 60%.

6. Some of the interest in practice could be land rent.

Pita *Alexander* is *a director of PS Alexander &* Associates, *chartered* accountants *of Christchurch.*

Graham Brown is *a director of Brown Glassford & Company, chartered* accountants *of* Christchurch.

Costings

iesldottliai eo15li0gs

Palmerston North Townhouse, February 2001
Contributed *by John* Rimmer-Arends, TA Valuation Ltd
Construction: Two bedrooms with internal access garage. Concrete floor; split stone cladding; pre-coated steel tile roof; aluminium joinery; Gibraltarboard lined walls and ceilings. 1 bathroom only and the laundry is situated in the garage.
Areas: Living 98m2 Garage 27m2
Contract Price: $110,000 (excl. GST)
Analysis:
Total: *125m2* $880/m- Modal Rate: $850 Multiple: 1.03
Notes: Contract price includes fences but no carpets or drapes. The 2 bedrooms have open plan lounge and dining, bathroom with bath, shower, vanity and separate toilet.

Levin Township Villas in Retirement Village, May 2001
Contributed by John *Rimmer-Arends,* TA Valuation Ltd
Construction: Concrete foundation slab; split stone or brick cladding; steel tile roof (pre-coated); aluminium joinery; Gibraltarboard walls and ceilings; Gibraltarboard lined internal access garage and aluminium conservatory on concrete terrace.
Areas: Total2590m2 Average 143m2
Contract Price: $2,520,000 (excl. GST)
Analysis:
Total: 2590m2 $972/m2 Modal Rate: $850 Multiple: 1.15
Conservatories Only:$9,000 each (included in total)
Porches Only:$6,000 each - brick, + height glass to roof (included in total)
Notes: Town house standard of construction with average quality Melteca kitchens; no ensuite - separate bathroom. Gas heating and hot water by Gas Rinnai 24.

Rangiora - Bungalow, July 2001
Contributed by Denis *J* Milne, *North Canterbury* Valuations
Construction: Average 3 bedroom, bathroom, kitchen/dining, lounge bungalow with the laundry situated in the garage. Doubled garage is attached on a serviced level site.
Areas: Total 113.46m2
Contract Price: $111,300 (excl. GST) + $3,339 (country building factor) = $107,961
Analysis:
Garage: 40.45m2 Modal Rate: $700 Multiple: 0.51
Conservatory: 0.00m2 Modal Rate: $700 Multiple: 0.00
Veranda: 0.00mz Modal Rate: $700 Multiple: 0.27
Deck: -3.96m2 Modal Rate: $700 Multiple: 0.15
Notes: Country building factor is calculated by 10% per 10km from the main centre.

Golden Bay, Nelson Superior Dwelling, July 2001
Contributed by *Lou Kolff,* Lou *M Kolff* Nelson.
Construction: Wairau Stone imitation schist on Hardiflex panels, timber frame, Corona Shake tile roof, concrete floors mainly. Part 2-storey. High stud living room with mezzanine library, conservatory, octagonal dining alcove, kitchen, 3 bedrooms, 2 bathrooms, self-contained bed sit quiet wing, double basement and laundry in garage, large timber sundeck.
Areas: House 274m2 Garage 52m2 Deck 120m2
Contract Price: $412,177 (including $19,769 for lfoor coverings, septic tank and water tank).
Net dwelling cost $392,400
Analysis:
House: 274m2 $1213/m2 Garage: 52m2 $500/m2 Deck: 120m2 $200/m2
Notes: Builder drawn plans to owner's requirements. Country building factor over the "Marble Mountain".

Mahana, Nelson Dwelling, April 2001
Contributed by Lou *Kolff,* Lou M *Kolff* Nelson.
Construction: Stucco on polystyrene backing. Coloursteel roof, concrete floors. Split level with master bedroom and E/S over garage. Family/living/dining, kitchen, 3 bedrooms, 2 bathrooms, laundry and double garage.
Areas: House 216m2 Garage 48mz
Contract Price: $211,783 (including $7,180 for septic tank and water tank etc)
Analysis:
House: 216m2 $875/mz Garage: 48mz $325/m2
Notes: To supply and install septic tank, effluent soakage, grey water tank, *grey* water pump, 25,000 litre water tank, pressure pump and grey water drains:
Grey Water Tank and Pump: $985
Septic Tank and Effluent Soakage: $1565
25,000 LT Water Tank and Fittings: $2685
Grundfos JP6PC Water Pump and Fittings: $960
Grey Water Drains Around House: $985
Prices are all exclusive of GST. Please note no allowance for any electrical work for pumps or for pump shed/cover.

Sefton Dwelling and Garage, August 2001
Contributed by *Denis J Milne,* North *Canterbury* Valuations
Construction: Single storey, 5 bedroom, dual bathroom, Stonewood dwelling with attached double garage on partly serviced level site at Sefton.
Areas: Total 48.63m2
Contract Price: $153,747 (excl. GST) + $5,712 (country building factor) _ $148,034
Analysis:
Garage: 42.42m2 Modal Rate: $700 Multiple: 0.51
Veranda: 6.21m2 Modal Rate: $700 Multiple: 0.27
Total: 48.63m2 Modal Rate: $667.56
Notes: Country building factor is calculated by 10% per 10km from the main centre.

Swannanoa Bungalow, September 2001
Contributed by Denis J Milne, North Canterbury Valuations
Construction: Hip roofed 4 bedroom bungalow with single bathroom facilities, situated in a country location. Group builder, concrete floor, brick veneer walls and Monier tile roof.
Areas: Total155.69m2
Contract Price: $126,829 (excl. GST) + $3,488 (country building factor) = $123,341
Analysis:
Total: 155.69m2 Modal Rate: $612.55
Notes:Country building factor is calculated by 10% per 10km from the main centre.

Commer ial Goslings

Levin Township - Administration Block, June 2001
Contributed *by John* Rimmer-Arends, TA Valuation Ltd.
Construction: Concrete floor slab; brick skirts and Rusticated profile timber; weatherboards above. Part Moniere tile roof and part corrugated iron roof; aluminium joinery. Office block has kitchen and toilet facilities.
Areas: Total 147m'
Contract Price: $158,174 (excl. GST)
Analysis:
Total: 147m2 $1076/m2 Modal Rate: $850 Multiple: 1.26

Levin Township - Medical Centre Consulting Rooms, May 2001
Contributed *by John* Rimmer-Arends, TA Valuation Ltd.
Construction: Concrete foundation slab; brick skirts to 1 metre; Rusticated profile cedar weatherboards above; part Moniere tile and part corrugated iron roof; alumimium joinery
Areas: Total 147m'
Contract Price: $200,928 (excl. GST)
Analysis:
Total: 188m2 $1068/mz Modal Rate: $850 Multiple: 1.25

Whitianga House, June 2001

Contributed by Mar*i*a Stables-Page, Jim Glenn *Valuers*

Construction: Australian House Kit Lifestyle Loft: two level log dwelling. Open decks to front and side, covered deck to side. Tanalised poles to cypress weatherboards and half round logs plus single gable galvanized corrugated iron roof. Internal linings on the walls are Gibraltarboard, slate, Australian tongue and groove pine; floors are polished tongue and groove cypress and particle board; ceilings are Oregon exposed beams plus tongue and groove Australian pine; joinery is cedar casement windows and brass fittings; skirting boards, architraves and dados are Tasmanian oak. The ground floor has two bedrooms, open kitchen/living, bathroom, separate toilet, laundry and hall. The upper floor has a bedroom and ensuite and a mezzanine living area.

Areas:	Ground 101.7m2 Upstairs 52.2m2 Decks 46.2m2 Verandahs 15.8m2
Contract Price:	$184,845 (excl. GST)

Analysis:

Ground Floor: 101.7m2 $1,311/mz Modal Rate: $925 Multiple: 1.45

Upper Floor: 52.2m2 $755/m2 Modal Rate: $925

Open Decks: 46.2m2 $177/m2 Modal Rate: $925 Multiple: 0.19

Verandah: 15.8m2 $222/m2 Modal Rate: $925 Multiple: 0.24

Notes: Breakdown of costs - Kitset in $AUD $87,413 @ 78.63c = $NZ 111,170. Assembling of kit, kitchen taps, plumbing, electrician, earthworks, connection to services, nails, insulation, permits, floor sanding, paint stain, Gib stop and roofing iron was $73,675 added to kitset costs gives full contract price of $184,845. Shipping costs ex Australia to Tauranga in 2 containers was $6,000 and the road cost to Whitianga was $1,000.

Thames - Rural House for Removal, March 2001

Contributed by Mar*i*a Stables-Page, Jim Glenn Valuers

Construction: 1950's weatherboard dwelling; galvanized corrugated iron hip roof; tongue and groove timber floor; Gibraltarboard walls; plaster ceilings (deep architraves); Rimu skirting boards and doors. Accommodation is three bedrooms, kitchen, dining, lounge, sunroom, bathroom, toilet, laundry, hall and single lined garage. The condition was of original kitchen, 1970's bathroom, good roof, exterior cladding required paint, some rotten weatherboards and holes under the eaves.

Areas:	Living 173m2 Garage 27.4m2
Total:	200.4mz
Contract Price:	$12,000 for dwelling (incl. GST) $8,000 to shift 5kms (flat good road) (incl. GST) $8,000 for tanalised pole foundation (incl. GST)

Modal house costs (excl GSA

Branch Statistical Officer/Chair	Modal September 2001
NORTHLAND Nigel Kenny 09 438 6674	977.75
AUCKLAND Tony McEwan 09 486 1661	987.63
WAIKATO Graham Cook 07 838 3353	972.82
GISBORNE Roger Kelly 06 868 8596	938.25
TAURANGA Brian Doherty 07 578 6456	913.56
ROTORUA Dave Townsend 07 348 4086	943.19
HAWKES BAY Boyd Gross 06 876 6401	929.30
TARANAKI Frank Hutchins 06 757 5080	919.62
CENTRAL DISTRICTS Ian Shipman 06 323 1447	929.30
WELLINGTON Bryan Wareham 06 378 6672	968.02
NELSON/MARLBOROUGH Ian McKeage 03 546 9600	967.40
CANTERBURY/WESTLAND Dougal Smith 03 377 7307	953.10
SOUTH & MID CANTERBURY Rodney Potts 03 688 4084	981.69
OTAGO Shari Liebergreen PO Box 12 042 Dunedin	935.40
SOUTHLAND Trevor Thayer 03 218 4299	954.11

DEFINITIONS 1996

The Modal House is James Hardie Frontier Weatherboard 245mm, wood grain finish cellulose cement weatherboard, over timber frame on spaced timber pile foundation with baseboards. Roof is prefinished Colorsteel corrugated profile 15o slope, with gables. Aluminium joinery, 3 double bedrooms, combined open plan living/dining/kitchen, separate laundry, separate WC, bathroom with shower cubicle, free standing solid fuel heater, 19 light points, 19 power points, Melteca finished kitchen joinery, 4 plate automatic range. Floor area 100mz. A full schedule of quantities, plans and specifications is available from NZPI, PO Box 27-340, Wellington, NZ.

Modal House Costs

The Modal House cost is determined by the institute's consultant quantity surveyors, Rawlinson and Co based upon the institutes 1996 Modal described.

Note

Values are based on normal accepted margins, and differing commercial conditions should be reflected by a suitable adjustment to the Modal value

A full table of modals is available on line at www.propertyorg.nz in the members only section.

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NORTHLAND

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N P Kenny, DIP SURV (C E M),VALUER

BAY OF ISLANDS VALUATION
74 Kerikeri Road,
PO Box 825, Kerikeri.
Phone(09)4076
Facsimile (09) 407 6
Email boiprofs@xtra.co.nz
Dale L Simhin, ANZIV, SNZPI, FREINZ

GARTON & ASSOCIATES NORTHLAND
REGISTERED VALUERS
Whangarei Head Office:
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