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new zealand property JOURNAL

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Property
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CONTENTS

NZPI benefits

The New Zealand Property Institute was launched in 2000 to take the profession into the 21st century. This followed overwhelming support for a new organisation by members of the New Zealand Institute of Valuers (NZIV), the Institute of Plant & Machinery Valuers (IPMV), and the Property & Land Economy Institute of New Zealand (PLEINZ).

The institute has a membership of 3000 key property professionals, who provide services in a number of property related areas involving people, places and spaces. These include: property management, property consultancy, property development, property valuation (rural, residential, commercial and industrial), facilities management, plant and machinery valuation, financial analysis, real estate sales and leasing, project management and others.

The institute has 17 branches across provincial and metropolitan New Zealand, a number of overseas members, and is affiliated to a number of other international property organisations.

The institute's business plan has six key goals:

- To simply and successfully amalgamate the three old institutes.
- To generate, assemble and distribute information relevant and of value to members.
- To enhance business and professional skills of members.
- To provide professional backing of members and to enhance confidence in the profession.
- To build a strong brand and market the institute and its members to relevant target audiences.
- To efficiently administer the activities of the institute.

The institute promotes a code of ethical conduct and provides a range of membership services and benefits.

The institute provides a range of products, services and benefits including:

- NZPI Confidence Index in association with [illegible]. The NZPI confidence index measures confidence and other key indicators in the property sector.
- *The Property Business* – published bi-monthly in partnership with AGM Publishing. This is the institute's flagship publication, which has established itself as the leading property publication in New Zealand.
- NZPI JOBMail – a weekly email service to all members advertising jobs available in the sector.
- NZPI Property Card – each of NZPI's 3000 members are entitled to the NZPI Property Card. This gives entry to member-exclusive discounted prices along with access to discounted products and services available only to members. For example 30% [illegible] discounts in the [illegible] Unlimited magazine, office supplies, accommodation – average savings have been estimated at over $1500 across a range of products.
- NZPI Property Awards – the institute promotes professionalism and recognises excellence by providing awards and scholarships to a range of levels to people involved in property.
- NZPI Property Network. This is the network of 17 branches across the country. It provides a local focal point for seminars, social, networking and educational activities.
- NZPI Property Registration. This is an added status conferred by the NZPI Registration Board in the streams of Plant and Machinery Valuation, Property Consultancy, Property Management and Facilities Management. The Valuers Registration Board registers Valuers.
- NZPI Property Profession. This is the institute's national committees and administration system, which sets standards, undertakes disciplinary proceedings and provides the professional backing for the profession.
- NZPI Property University. This is the Continuing Professional Development programme of the institute for its members. By offering local and national courses and partnering with other providers the institute enhances the professional training of members.
- NZPI Property Careers – a web based service being developed, which will provide an online market for property related jobs.
- NZPI Career Foundations – a key package which provides additional support targeted at university students and graduates needs.
- NZPI Property Law – in partnership with Phillips Fox provides information on property related law issues.
- NZPI Property Publishing – includes discounted textbook for student members, the publication of the Property Journal (formerly the Valuers Journal), NZPI Statutory and other publications.
- NZPI Library Services. The institute has an extensive range of publications on all aspects of the property profession, the library will continue to request information on subjects to be supplied.
- NZPI Property Global. The institute has developed a global strategy to ensure that New Zealand based members can access international research and practice in some overseas countries. In addition NZPI has signed an agreement with the International Facilities Management Association based in the USA which gives NZPI members membership at NZ$190 instead of over $700. Other relationships have been developed with the Australian Property Institute, RICS, Singapore and further developments are in the pipeline.
- www.property.org.nz – the NZPI website provides information on the institute and its members and is being developed further. Other NZPI products and services. The institute is also looking at partnering with other organisations to bring more benefits to members and these will be announced as they are progressively launched.

To become a New Zealand Property Institute member. There are eight levels of membership that recognise professionalism and achievement – Student, Graduate, Affiliate, Associate, Full Member, Senior Member, Fellow and Life Member. Not everyone is able to become a New Zealand Property Institute member. To check out how you can become a member either contact us, see our website for more information, or contact [illegible], chairman of the NZPI membership committee at [illegible]

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 27-340, Wellington.

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EDITORIAL

2002 has started with a bang. A lot is happening in the marketplace, as well as at the Institute.

Sales volumes and prices are picking up across most markets. The winds of change still blow, however, and this continues the pattern of risks and opportunities for property professionals.

In this edition of the NZPI Property Journal, among other things, we take a closer look at terrorism and its impact on property. The initial devastation of New York has taken its toll, but what else has been impacted? New Zealanders like property in their personal portfolio and we look at whether buying or renting is the best option.

From the rural perspective, we examine the impact of the formation of Fonterra. And we provide an international perspective on market trends in several aspects of the timberland market in southern USA, which may be helpful in the New Zealand context.

With the collapse of Enron in the USA we see a closer emphasis on standards and in this issue we look at financial reporting and convergence of international valuations standards. Contributions from Australia and the USA on asset allocation in a balanced portfolio, and strategies for improving productivity in the workplace round out this first Property Journal edition for 2002.

With our 3000 members being involved in the more than $400 billion property asset base in New Zealand we need to ensure that, like the NZPI Property journal, we keep progressing. The Transition Project the Institute is undertaking, continues with the strategic focus on three levels being:

1. Broadening the membership base - progressively bringing in other suitable propertyrelated disciplines as appropriate. The aim here is to raise the bar of professionalism while enhancing the breadth of experience members can enjoy in the property lifecycle. Along with the implementation of the MOU with the Australian Property Institute, we are seeing quite a transition in this area. The membership and education committees are carefully navigating the challenges of this evolution and we will report progress when it is appropriate.

2. Customise delivery to members - with a broader membership base we need to focus and customise our delivery to target the needs and wants of specific streams of membership. Professional development is paramount in enhancing the profession and our members' standards of living. Ten SIGs have been identified and Corporate Real Estate and Plant and Machinery have been launched. Accredited LINZ agents are smouldering. The building of the institute's new website will assist us to provide a distribution system for these groups. This enables individuals' specific professional needs to be targeted while they also enjoy the benefits of a wider network and critical mass.

3. Building global linkages and partnerships whatever your view may be, globalisation continues, so building linkages, which enable access to resources, new markets and opportunities for our members, is vital. To this end we have enhanced our international linkages in the MOU with the Australian Property Institute, and the renewing of our linkage with IFMA in the US. In addition, we have reciprocal agreements with the UK, Hong Kong, Singapore and Canada. The institute now has its own UK branch and has some other international initiatives underway as well.

This edition of the NZPI Property Journal kicks off another busy year for you, the property sector, and for the Institute.

Enjoy!

Conor English
Chief Executive Officer
New Zealand *Property* Institute

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 wwwproperty.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.

For more information on our services *to members contact the NZPI National Office:*

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The impact of the New York terrorism

Abstract

This paper discusses both the broad and specific evidence of changes in urban form and projects, the possible changes in real estate demand for retail centres, office buildings, residential and other types of property. The long-term decision-making and nature of real estate as a fixed investment as places for businesses to function may have changed forever along with future urban form.

Introduction

While the world watched two hijacked aeroplanes crash into the World Trade Center in Manhattan, New York and another crash-site at the Pentagon outside of Washington, DC, the US joined the rest of the world in fully realising terrorists' attacks as a fact of life. Except for the bombing of the Federal Building in Oklahoma City in 1995, Americans had the misconception that terrorism would not and could not occur to the extent of the New York human losses, property losses, disruption of business and national economic shock.

Webster's Dictionary defines terrorism and terrorist as:

Terrorism, n. Act of terrorising, or state of being terrorised; specif., a mode of governing, or of opposing government, by intimidation.

Terrorist, n. One who favours or practices terrorism; specif. [often cap.]: An agent or partisan of the revolutionary tribunal during the Reign of Terror in France.

It is important to note that this research paper makes no distinction between foreign or domestic terror and assumes that the implications on the economics of various types of property and trends are the same. US President Bush pronounced on page one September 12, 2001 that the tragedies were an "act of war" with lead stories in major newspapers entitled "Carnage in New York", "Horror, Disbelief and Thousands of Victims", "Pentagon In Flames", "Tragedy Redefines America's Priorities" (USA Today 2001).

A tendency to blame any and all present and future negative occurrences in business and the world economy on the 9-11 tragedy is unfortunately an oversimplification by the popular press and politicians. Prior to September 11, 2001 there was every indication the US was headed into a significant slowdown or recession. The terrorist attack accelerated that trend and added another dimension to property investment risk in America. Serious future value and net operating income (NOI) implications to institutional, investment-grade, real estate in the form of higher operating costs and lower demand for office world-wide space are deeply embedded in the New York and Washington, DC attacks.

The immediate and short-term effects to New York City and the US were horrendous in regard to loss of life, property, disruption of financial markets, disruption of people's lives and businesses. The objective of this paper is to consider the long-term implications to various classes of real estate investments, and changes in urban form as a result of 9-11 beyond the natural real estate and business cycles that are always in motion. As the US has unfortunately joined the international community as a recent victim of urban terrorism, it is time that investors, business, urban planners, and city governments consider policy changes and a fresh look at the urban landscape and property investments of the future.

Types of terrorism and property threats

It is important that the general population and policy-makers not over-react, become paranoid, or overstate the possibility or likelihood of the various types of terrorist threats that could effect other locations. These threats, however, are real and the next occurrence is more a question of where, when and what type or extent of damage may result.

Types of terrorism and property threats

Unfortunately, however, there is an increasing possibility that isolated incidents of some of these terrorist threats will occur in the future. As real estate and urban infrastructures are long-term investments due to their fixity or investment permanence (Jacobus 1999), the questions become should companies, property investors and cities outside New York City

Table 1: Types of terrorism and property threat

TYPES OF THREATS / TERRORISM	LIKELY TARGET	REAL ESTATE EFFECTS	OCCURRENCES
I. Bombs			
Car Bombs	Crowded Urban Center, Tunnels Bridges	Destruction	Common in Middle East
Truck Bombs	Below Ground Parking / Gov't Buildings	Destruction	World Trade Center 1993; Oklahoma City Federal Building 1995; Various embassies and military targets
Boat / Ship Bombs	Shipping Port and Nearby Urban Center	Destruction	USS Cole 2000
Human Bombs	Bus, Subway, Sporting Events	Destruction	Common in Middle East
Placed Bombs	Large Buildings	Destruction	None Verified
II. Aircraft			
On-board Explosions	Random Urban / Rural Areas	Random	Pan Am Lockerbie, Scotland
Guided Attacks	High-rise Office Buildings	Disruption	World Trade Center, Pentagon 2001; Bank of America/Florida 2002
Aerosol Sprays (Biological / Chemical)	Urban Center / Sporting Events Various	Human Casualties	Tokyo, Japan 2000 / Ebola Outbreak in Africa 2002
Stolen Military Aircraft / Armaments		Destruction	None Verified
III. Missiles			
Hand-held / Stolen Military	Aircraft	Random	None Verified in Urban Areas
IV. Airborne Chemical / Biological			
Mail Contaminates (Anthrax)	Postal Centers / Anywhere	Long-term contamination	U.S. Postal Service 200l(New Zealand Rabbit Virus 2000)
**HVAC Contaminates (Anthrax, Legionnaire's Disease, Black Mold, etc.)	Office Buildings	Long-term contamination	US Senate Office Building (via mail)
"Dirty" Bomb (Anthrax)	Urban Centers / via dust	Long-term/large area contamination	(NY Asbestos Dust 9-11 example)***
Animal Infections	Feedlots / Farms / Ranches	Loss of Land Use	UK 2001 (terrorism not verified)
Crop Infections	Seed Companies / Farms	Loss of Land Use	None Verified (wheat rust suspected)
Infected Human Carrier	Central Business Districts or Sporting Events	Human Casualties	None Verified
Water Supply Contamination	Metropolitan Areas	Human Casualties	None Verified
V. Nuclear			
*Nuclear Bomb Detonation	Central Business Districts	Destruction	None During Peace Time
Nuclear Dust or "Dirty Bombs" (in combination with any I-IV above)	Central Business Districts or Nuclear Power Plants	Long-term/large area contamination 100+ years	None During Peace Time
VI. Electronic			
Financial Markets	Banks, Stock Markets	Business Disruption	None Verified
Communications	General Population	Business Disruption	None Verified
Transportation System Disruptions	Public Transportation / Flight Control Towers/Tunnels/Bridges	Business Disruption	None Verified
Vehicle, Machinery, Aircraft Disabling Energy Pulse	Aircraft/Auto Traffic	Business Disruption	None Verified
Power, Water, Gas Disruptions	Metropolitan Areas	Business Disruption	None Verified
Data and Hardware Destruction	Corporate Offices	Business Disruption	None Verified
VII. Low Tech Urban Terrorism			
Freeway Nails, Oil, Grease	Major Freeway Interchanges	Business & Urban Disruptions	None Verified
VIII. Hoaxes (many of those listed above)	General Business Disruption	Business Disruption	Commonplace
Bomb Threats, etc.			

*Ebola reported in 4 African Countries with current outbreak in Mekambo, Gabon, Africa. (Zavis 2001)

** HVAC = Heating Ventilation and Air Conditioning Systems

* * * 700 New York Firefighters have filed legal claims for asbestos, chemical, PCB lung-related elements including spitting blood, asthma and cancer risks . (Ritterl 2002)(Ritter2 2002)(Ruiz and Gittrich 2002)

* Suitcase Nuclear Devices, or low-tech delivery via briefcase carrying person or on boats, trains, commercial aircraft, etc.

"The United States is more likely to suffer a nuclear, chemical, or biological attack from terrorists using ships, trucks, or airplanes than one by a country using long-range missiles, according to a new U.S. intelligence estimate." Dallas Morning News, January 11, 2002. Stopping Porta-Nukes or briefcase-sized bombs is a national U.S. priority (Helman 2001).

1) continue as usual in pre 9-11-2001 investments, corporate locational and lease renewal decision-making and urban policies? (The risk of terrorism is low and insignificant at any one location and even lower in suburban/rural areas.)

2) consider decentralisation of corporate, business and governmental functions to various locations? Examples: IBM, GE, etc. (Also known conceptionally as diversification to reduce risk in the finance literature.)

3) adopt a long-term strategic plan to move to a single suburban or semi-rural corporate campus with high security fencing, complete controlled gated access, landscaping/buffer zones and zero fear of a tenant mix that may include a higher risk target tenant? Examples: Sprint, Fidelity Investments, Microsoft, Merrill Lynch, etc.

4) globally expand corporate locations to have fully integrated business data duplications and functions in different countries? Example: ExxonMobil, Shell, international banks, etc. (decentralisation on a global scale)

Existing ownership and long-term lease commitments by companies will soften or delay property decisions of corporations and city governments that will not require them to consider these questions simultaneously in the near future. However, over time, urban growth and increased security measures in regard to design, structural requirements, emergency planning, and property management will add a great deal of cost to traditional high density urban development. Will cities, investors, insurance companies and users of space be able to afford the additional costs of future central business district (cbd) development or redevelopment?

Size and scope of New York 9-11

Beyond the sadness of human suffering and loss of life, it has been estimated that direct property losses were $US20-$30 billion and 300 businesses were directly affected by the attack. More than 31 commercial/office tenants formerly occupied more than 100,000 square feet of space according to Insignia/ESG Insurance Company (McMorrow 2001). Buildings that were destroyed, structurally damaged and non-structurally damaged buildings or buildings requiring expensive cleaning for asbestos dust, totalled between 27-29 million square feet, however, comprise less than 4% of the Manhattan, New York office market. (Grubb & Ellis, Cushman & Wakefield and Insignia/ESG)

When viewed only from the loss of office space from a national and international standpoint, in absolute terms, the loss was even less significant. Available vacant and sub-leaseable space in the area roughly equalled the amount of space destroyed or damaged, with many companies choosing to relocate in the same office market.

On September 11, 2001, the local vacancy rate in Manhattan was approximately *25.5* million square feet with additional sub-lease space expected to be available as sub-leaseable/available space due to dotcom under-utilised space.

Original tenant locations, previous square footages and replacement space size and location are presented in Table 2 and indicate an initial drop of emergency replacement office space collectively of approximately 30%.

As replacement space is rarely "ready" and requires space planning and finish-out, business continuance requires innovation and temporary "flex-space". The best example of this is Lehman Brothers leased 660 hotel rooms at the Sheraton Manhattan Hotel and turned them into temporary offices. (Morrow opt. cit: Grid opt. cit)

Additional analysis of data presented by Colliers ABR and Grid (2001) indicates a preferential move from the City of New York to suburbs and/or out of state of 12%. Various supply and demand factors in the office market, as well as immediate availability of alternative space, may have played a part in these relocations. These long-term relocations will have a long-term impact on investor and city revenues for a very long period of time. The further losses to small firms (restaurants, shops, etc.) who service the daytime worker population will be staggering.

The adjoining 92 acres to the immediate west of the World Trade Center, and built on land/harbour fill-dirt from the WTC excavation when originally began in 1968. The residential area, known as Battery Park City, prior to September 2001 housed 9000 residents. As of December 2001, only 5400 residents have returned to reoccupy their homes. (The Economist 2001) Further research is needed to identify resettlement, relocation or the status of the "missing" pre 9-11 residential tenant / owners. *The* Economist project zero appreciation in New York house prices for the next 12 months while the rest of the U.S. market, except San Francisco, appreciates. (Wall *Street* Journal 2002)

Effect of 9-11 on urban centre functionality outside of New York City

The cost of city provided services will increase and the efficiency of cities will decrease requiring increased tax revenues for the same level of services (pre 9-11).

1. Additional cost of security, security planning, personnel and screening equipment for buildings and all mode of travel will be significant on new and continuing drag on the economies, businesses, and federal / local governments for the long-term.

2. City fire and police training, new equipment and employee turnover will increase costs of local government.

3. There will be increased traffic and highway travel due to public transportation security delays (subways, buses and air travel security delays). This

Table 2: Tenant grid relocations and spider map relocations

TENANT`	PREVIOUS ADDRESS(ES)'	PREVIOUS SQUARE F(X)TAGF"	NEW ADDRESS(BS)	DISTANCE IN CITY ALi)ClC4 / MILES,	NEW' SQUARE FOOTAGE'	TOTAL % NCI. CHANGE
Lehman Broths	3 World Financial Center	1,100,000	399 Park Avenue		400,000	+44%
	1World Trade Center	461,000	180 Water Street		464,000°	
			Sheraton Hotel		665 rooms	
			790 Seventh Avenue			
			70 Hudson Street		150,000	
			lemy City, NJ			
			745 Seventh Avenue		1,100,000	
Securiri& R Exch:mge Cumnission	%wortd Trade Cerder	1 (16,000	233 Eroadt4Ic		14000.*30^/=-.	
New York Stock Exch. e	2 World Trade Center	48,000	14 Wall Street		100,00e	+200%
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	7 W orld Trade Centtx	^I -- 118,1510	1185 Avenu "f Ne Funaicaa		120,000	
	_		10) JFKPrrlorxv		195,000	
			Short Hills, 14J			
		-- --	` lssuhollow Road --	-	317040	
			Pats'. a ... NJ			
Empire Blue Cross	1 World Trade Center	461,000	450 West 33 Street		400,000	+64%
			9 Metrotech		250,0001	
			Brooklyn, NY			
			II West 42 Street		105,429e	
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	I Wall Stmt	690 n)	I M) a ,rue ut the Amen as -- - - -		90,000	
		--ttt	63 , Madison Atenue		98,000	
			5 Penn Plaza		52.000.	
		_	111 E' th Avenue	,	6D-009	
Port Authority of New York and New Jersey	I World Trade Center	800,000	225 Park Avenue South		126,000	<-49%>
			233 Park Avenue South		85,519	
			Gateway Center Newark, NJ		200,000	
AONSeniee	2WarfdTradeCcnta	219,0)11	685 Third Avenue		297000	+36%
Zurich America	I Liberty Plaza	70,000	601 West2 Street		95,000	+37%
	1 Chase Plaza	76,000	1 Hudson Square		75,000	
			105 East 17 Street		125,000	
Canadian , BankofCommerce	I World Pu)anctal Coate'	507),(110	622 Third Acn0		150000'Z%t,	
	Battery Park Plaza	35,000	417FilhAvenue		130,000	+1379%
			490 Seventh Avenue		135,000	
			Harborside Plaza		217,526	
Oppenheimer Fund,	2 W to Trade Center	*231,X)0*	I Penn *PLGa*	-'	112,000	<-8%>
Marsh USA *Guy* Carpenter	2 World Trade Center (Guy Carpenter)	320,000	1166 Avenue of the Americas		237,000e	«5%>
	I World Trade Center Marsh USA)	361,000				
CitigFoup	World TrsdvCmta Salomon Smith Barney	1:400,1170	100-300 Statnfotdl'lace Stamford, CI		140600	<.90%>
Hartford Insurance	7 World Trade Curler	122,564	2 Pak Avenue		145,000	+18%
Instiller	I World Trade Cent,	63,006	875 Third Avenue		107000	+65•/
Thatcher Proffitt A Wood	2 World Trade center	29,000	11 West 42" Street		101,000	<_223o>
Fiducian T r o t Courpony	2 WorldTradeCenter	2 (17,146	600 Fifth Avenue		183,00(1	<-121.,
Kem -rlnsureuce	I World Trade Center	92,232	101Park Avenue		78,0001	<-15%>
Morgan Stank-;.Dc◆ Witter	2 and 5 World Trade Center	1 .?00.000	1 (415 roadway		1000001	<-35G/o>
			I Hodson S		1000001	
			825 Third Avenue		140 00V	
			750 SeveaithAvemre		SW OOOF	
Deloitte N. Touche	2 World Financial Center	245,000	825 Fifth Avenue		60,000	
			Stamfor CT		120,0001	<-27%;-
	9-11 Previous Total s. R	11,714,942		Post 9-11 Total sq. ft	8,159,179	<-30%>"*
				Out of State sq. ft	982,559	
				Percent Moved Out of State	-12%	

* = Data: Compiled by Colliers ABR and Grid

** = While data indicates a 30% reduction in total space, this is only 60 days since the 9-11 event and may not reflect these firms' long-term space decisions.

Many firms had other locations owned or leased in which to relocate for short or long-term occupancy It should also be noted that if an estimated 3500 human lives were lost in the WTC complex that formerly occupied 200-sq. ft. per individual, this sadly equates to a reduced immediate necessity of over 700,000 sq. ft. of office space.

***=Goldstein (2002) reported more than 50,000 financial services employees were permanently displaced by the destruction of the WTC and that 19,000 of these were moved outside of NYC. He further reports that the remaining 129,000 financial service jobs in Lower Manhattan, NY are "at risk of leaving" according to a McKinsey & Co. report.

P = Pending 11/2001

1 Spider Map and distances provided on request.

will require more roadway maintenance, traffic police, tunnel and bridge maintenance and security that will cost more and reduce the overall efficiency of the cities and businesses.

4. Corporate relocations and/or decentralisation of businesses and various business functions to suburbs or semi-rural corporate companies will have negative impacts on property tax revenues, local sales tax revenues (retail, restaurants, etc.) and add to vacancies and loss of property values in the cbds.

5. Municipal bond rates will increase and urban bond rating will decrease in many urban cities as a result of real and perceived increased risks by institutional investors due to terrorism. Landlords and/or tenants in "Trophy Property" high-rise buildings will be forced to pay much higher insurance costs (300%) to stay in the cbds. (Grant 2001)

6. Additional city taxes of older cities may drive corporations to other areas or countries in order to reduce business' operating costs.

7. Construction costs of new or replacement buildings in urban centres will cost significantly more due to:

a) Increased land security buffer zones (lower floor area ratios/relative to land area) to reduce "street-side" exposure to car/truck bombs. (Washington *Post* 2001)

b) Increased structural design requirements (a "safe zone" every 10 floors of new high rises, etc.)

8. Major corporate residents of urban centres may demand extra and special security measures provided by cities or will threaten to relocate. (Fong and Grant 2001)

9. High-density urban centres may be required to implement safety and security measures to assist emergency efforts in the event of similar terrorist attacks:

a) GPS and 3-D precise surveying of every building and digitised floor plans

b) Tenant rosters kept by the city of every building occupant and their location on each floor (similar to an airline passenger roster). Early reports of 6000 deaths in the 9-11 event have been reduced to 2893 people with 309 missing. Office worker information was lacking and all information was on-site for many firms and was destroyed.

c) Implementation of ordinances regulating the coming and going of every person, vehicle, delivery truck, etc., in a high-rise public parking garages and particularly below ground skyscraper building parking areas

d) Identification and "protection" of every strategic pipeline, bridge, electrical substation, tunnel, public utility, etc.

e) Conceptual or implemented concrete road barrier planning for restricting traffic near federal buildings and cbds (currently standard policies in parts of London and Washington, DC)

10. The loss of hotel/convention business, room taxes and reduction in business travel is a significant loss in city income and chances to market an area for corporate/business moves. (Buckeley 2002)

11. US border towns and ports may suffer severely due to the effective closing of US boarders to undocumented workers, shoppers, and unofficial US residents. There currently is a proposal to consolidate US Immigration and Naturalisation, Customs and the Coast Guard functions.

Effects on metropolitan institutional-grade cbd office buildings, businesses' operating costs and office workers/productivity

The booming economy and growth of the dot.com businesses of the 1990s were both cooling prior to 9-11, while developers were continuing to create excess vacant new space during a time of increasing vacancies and leased office space having rents being paid but available for sub-lease. Office space was predicted to be in less demand with falling rents for the following business efficiency reasons (Baen 2001):

1. Less space trends per office employee
2. More telecommuting from homes, cars and "road warriors"
3. More "flex"/rotating space (IBM)
4. More efficient technology:
- ATM (example: fewer bank tellers)
  Word processing (fewer secretaries)
  Cell phones (great time savers)
  Fax and e-mail (faster than mail)
  Electronic filings and information
  Digital files and storage (fewer clerks and space)
5. Overbuilding
6. Dotcom meltdown

Further reduced demand due to 9-11 will be accelerated particularly in the high-rise cbd "trophy" office buildings that could be possible targets in any city, USA or the world. The January 2002 Tampa, Florida airplane attack on the Bank of America Tower would not be called a "trophy" office building in New York *City* but was the tallest building in that city's skyline.

The unprecedented US booming economy of the 1990s was based on three primary factors:

1) the growth of technology and its associated increased productivity gains;

2) a liberal policy and growth in immigration; and

3) a period of peace and lack of terrorism.

There were obvious signs of a business cycle recession and general slowdown in the economy prior to 9-11.

However, the 9-11 event and other terrorist attacks (anthrax, etc.) have the potential over an extended period of time to wipe out all positive gains due to technology efficiency gains over the past 10 years. September 11 will cause a reallocation of human, government and financial resources to non-productive or negative growth activities such as increasing

security. The cost of doing business and inefficiencies will increase along with office vacancies substantially due to the following reasons:

1. Many high-rise office employees feel insecure in their working environment and are therefore less productive.

2. The cost of all types of business and employer provided benefits has increased substantially.

- building and hazard insurance
- health insurance
- business continuance insurance

3. Duplicate data storage, back-up systems and security of business documents has become an absolute necessity. (These back-up systems in the financial district were a fabulous success and were fully tested by the terrorist attacks, however many other governments and business areas are exposed in this area.)

4. Increased cost of building security, personnel and systems will reduce business profits and work process efficiencies while increasing the survivability of terrorist attacks.

5. Employee business travel, delivery and receiving of shipped goods and travel time will increase due to additional security, baggage and vehicle searches.

6. Local property and equipment/inventory taxes will increase to support increased cost of government services.

7. Employee emergency planning and building evacuation drills will occur more frequently and with more anxiety and cause a reduction in office worker productivity.

8. The receiving and opening of large volumes of mail will either cause employee anxiety and/or additional investment in radiating/scanning devices. This will accelerate the use of all forms of communications by technology rather than actual mail or business meetings (videoconference, e-mail, etc.). This will also lead to higher postage rates and be a further drag on businesses.

9. Businesses located in "signature," "trophy," or landmark high-rise buildings may have some talented employees who refuse to return to buildings after a minor event or bomb scare. If not offered a telecommuting or officing at home opportunity, these employees could sue the employer if fired. After 9-11, what would a jury say to being afraid of working in a tall building?

10. All types of business and property insurance and employee benefits and property insurance and employee benefits have increased:

- property and casualty
- terrorist damage
- health insurance
- life insurance (volume not cost)
- business continuance insurance

11. Worker anxieties have increased in tall buildings with some office tenants actually having operational military surplus parachutes under their desks on the 49th floor and higher of the Chicago Sears Tower. (Wilgoren, The New *York* Times, 9-23-02)

12. Office workers are taking more frequent breaks at the ground level and staying longer which reduces productivity. (Observed although may not be a long-term trend and may diminish over time.)

13. While no data currently exists, there are many articles which state that many talented office workers and executives are choosing to retire early, or making radical life-style changes away from office environments. This may be a positive for the lives of the individuals, however it is a serious loss of efficiency, training, employee knowledge and experience for the previous employing firm.

14. Firms at various locations within metropolitan areas may be forced to pay more or less salaries based on the perception of safety of the workplace/office environment and/or location relative to the location of an actual or potential terrorist event. Suburban corporate campuses may be able to attract more talented employees for lower salaries and/or benefits than central city locations.

15. Likely post 9-11 revised and fully enforced building codes, safety ordinances and cost to upgrade water utilities for supplying adequate fire-fighting water volumes for multiple buildings along with other safety measures and personnel, are costs that landlords, their tenants or the cities can simply not afford.

Implications of 9-11 on residential housing investments and decisions

To consumers of housing, whether renting or owning, the perception of "a safe place" and a healthy environment is paramount. In times of crisis, war, sudden chaos or evacuation for any reason, whether one owns or rents their home really is a mute point.

The traditional American family generally obtains employment prior to purchasing a home and then seeks housing. The balancing act of weighing housing price cost with the convenience or distance to commute is based on many factors beyond the scope of this paper. However, generally the longer the commute from the major cities, the more affordable (relatively) the housing. The 9-11 event may have interesting side effects in the housing markets of New York and for that matter, the world.

Some interesting trends have been noted recently although they may subside over time if not other terrorist attacks occur anytime soon:

1. Second homes and vacation homes have been selling in far greater numbers than usual for the Northern Hemisphere slow winter months.

2. Rural farmlets and lifestyles blocks or building sites have been selling extremely well throughout the US and are usually the first market to slow at the first signs of a US recession.

Table 3: Land use and property demand, use, and values post 9-11

	Pre 9-11 Trend*	Post 9-11 Projection
Airport / Travel Related		
Commercial Airlines	TT	444.
Private Aircraft / Schools	T	144.
Airport Retail	T	4.14
Private Airport Parking	T	.(- 4
Airport Related Hotels	T	'14.
Interstate Motels	F	TT
CBD Hotels	T	4.4.x.
Office Properties		
CBD High-rise	T	144
Suburban Office	T	TT
Semi-rural Corp. Campus	T	TT
CBD Office Land	T	4.
Suburban Office Land	T	4- >
Government Office / Facilities (Federal, Local)	.l,	TTT
Retail		
CBD Retail	4-->	,4
Suburban Mall		
Wal-Mart Centers	T	TT
Internet Retail	T	TTT
Residential		
CBD High-rise / Condos	T	4,
Suburban Residential	T	TT
Rural / Small Town Residential	T	TT
Vacation / 2" Homes / Rural	T	TTT
Metro Rural Land	T	TTT

*Number and direction of arrows
T = increasing demand, use, value (intensity / trend) =
stable market in equilibrium (intensity / trend) F--> =
falling demand, use, value

3. US farms and ranches have been selling at relatively high prices although farm commuting prices and incomes are expected to drop 20% during 2002.

Land use and property demand

Various types of property are projected in this paper based on real estate market activity since 9-11. Serious statistical analysis and research is needed over a long period of time to quantify the trends of various classes of property and land uses. (See Table 3)

Conclusions

Modern technology in the form of air travel, micro-biology, manufactured nuclear materials, and the creation of chemical warfare agents, have become tools of destruction and fear for modern 21st century cities. The fact that three jet airliners, or letters containing small amounts of anthrax dust, or a low-tech nuclear dust truck bombs could render an entire buildings and large areas of cbds destroyed, unusable and worthless for years, decades, even centuries, is a serious threat to the civilised world, their economies, and even governments. The effected area in New York was approximately 400 acres covered by toxic asbestos dust. This area of land, in the shape of a triangle (1.2 - 1.2 -.9 miles), would more than cover most US cbd high-density downtown areas.

Globalisation of industry, free trade and the free lfow of information, technology and people (immigration) have allowed the standards of living and quality of life to increase worldwide. The sphere of business influence of the US on the world economies is not unlike the powerful Roman Empire and civilisation of the Western World (275 BC 476 AD). The fall of Rome was brought about by relatively "low-tech" Germanic "terrorist" or barbarian attacks, that disrupted free trade and commerce. Perhaps 21st century "low-tech" terrorists are succeeding in utilising "high-tech" with "low-tech" delivery systems to attack modern cities and economies.

The recent 9-11 attacks will result in the acceleration of the following trends in terms of the 21st century urban frontiers:

1. A rapid increase in the rate of suburbanisation

and decentralisation of businesses and urban dwellers.

2. A painful change in forms of city government financing services offered and regulations.

3. Increased businesses and property operating costs in the form of additional security, insurance costs, and employee benefits that will offer no productive return on the expenses.

4. The perception of a "safe work place" and community has changed which is a drag on productivity for the entire world economy.

The concept that real estate is a long-term investment with a sense of permanence and safety has been altered. It should be noted from ancient history that cities build again after being destroyed by disasters and war, although more often than not, not in one generation, and quite often not by the same people or government.

It is imperative that the war on terrorism succeeds, even at the high cost of the free economy and reducing personal freedoms.

John Baen is *a professor of real* estate at the University *of* Texas. *From* 1989-1992 *he was professor of real* estate, valuation and *proper*ty management at Lincoln University, *Canterbury.* Apart *from* his teaching, public speaking and writing, Baen has maintained *expertise in* the areas *of* real estate investments, *real* estate transac*t*ions, contracts, *agency* issues, *brokerae,* valuation, *prope*rty management, *ifnance* and evaluat*i*on *of* environmental impacts on values.

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Asset allocation in balanced portfolios: A note on the place of property

Abstract

Each of the four sub-sectors in balanced investment, for example, equity and debt may include local and foreign paper and property may include directly owned real estate and securitised real estate. The issue of the diversification of the portfolio continues to be of signal importance. The allocation of investment funds into the four asset areas is a specialist function whilst the acquisition of assets in each of the areas is relatively straightforward.

Anecdotal evidence suggests that property, particularly directly owned property, is still considered to have too many disadvantages to attract more than a token allocation, usually around 10% or less. Directly owned property and unitised property are discussed and compared with debt and equity. Specific investment variables such as volatility, management, depreciation and obsolescence are considered. Thus property is reviewed to assess its position in the asset allocation process.

Introduction

Investment is a zero-sum game made up of two activities, namely, acquisition and disposition. Investment is the process of acquiring assets and holding them for a period during which returns are (hopefully) generated and at the end of which divestment or the disposing of assets takes place. One person's divestment is another person's investment hence zero-sum. A third activity is "doing nothing" by either deciding not to invest in a particular asset or, if the asset is already owned, deciding not to divest of it.

The two significant questions associated with investment, divestment and doing nothing are what and how much. These questions become more complicated in an investment portfolio which is simply a grouping of several individual assets. The purpose of a portfolio is to select a balanced group of assets that increases investment returns whilst decreasing risk which, in relative terms, may mean either maintaining returns whilst decreasing risk or increasing returns whilst maintaining risk.

The process of selecting the balanced group of assets comprises two steps. The first is asset allocation in which the proportions of selected asset classes are decided upon in the creation and maintenance of a balanced portfolio. Typical asset classes are equity, debt, property and cash and these may be subdivided further into domestic and foreign equity and debt and direct and indirect (as well as domestic and foreign) property. The second step is asset choice in which specific assets are selected, for example, parcels of stocks and shares or particular parcels of real estate.

Asset allocation and asset selection have become important activities in the finance and investment markets. It is becoming common for investment managers to make these decisions on behalf of investors thus limiting the decisions required from the investor to a choice of funds manager or in some cases managers. The funds that are managed may be portfolios containing a wide spread of assets in an attempt to be balanced, or they may be portfolios of a specific asset class. It is the latter type of fund that requires a choice, a portfolio, of funds managers. The decisions associated with asset allocation and selection are passed to the funds managers, but the risks remain with the investors. It can be argued that investment in a series of funds is a negative-sum game, the difference between zero-sum and negative-sum being the fees charged by the funds managers.

The purpose of this paper is to review some of the issues related to property in investment portfolios. First, the principles of diversification are discussed in the context of a portfolio of properties. Second, the relationship of property and other asset classes in a balanced portfolio is outlined. Investment through direct and indirect ownership of property is discussed in the third section. Fourth, investor behaviour in the context of volatility of asset prices in the investment cycle is discussed. The paper concludes with a number of issues that are raised as topics for further discussion and research.

Diversification in the portfolio

The principles of diversification are outlined using a case study comprising a portfolio of two properties the first being an office building in central Melbourne and the second being a shopping centre in suburban

Brisbane. It is proposed to add a third property to the portfolio and this is an office building in central Sydney. A scenario analysis approach has been used for each of the properties and the results are at Table 1.

The IRR is the return calculated using the conventional approach of a single "most likely" scenario whereas the expected IRR is the average over a number of projected scenarios. The expected IRR is simply the weighted average of the results from each scenario having regard to their respective probabilities. The same situation applies to the investment values and the expected investment values.

The market value of each property is prepared using the conventional wisdom relying on the analysis of past transactions.

The standard deviations of the IRR and of the investment value are arrived at in the usual way and they provide a means by which useful measures of risk can be calculated using the conventional mean-variance approach. The risk is simply the area under the tail of the standard normal curve, using the threshold return (11.75% in the case study) or the market value. This is indicated by the number of standard deviations in the difference between the expected IRR (or expected investment value) and the threshold IRR (or market value) (Greer, 1979; Robinson, 1989).

The risk may be interpreted as follows:

- Melbourne office property. There is a 50% probability that the threshold return will not be achieved (or a 50% probability that it will be achieved). This is a significant level of risk. As the expected investment value (worth) is less than market value (price), a decision to dispose of the property should be considered. Note that the investment value in the single most likely scenario is equivalent to market value which would be likely to result in a hold decision. Thus the scenario approach potentially provides extra insight.
- Brisbane retail property. This analysis results in an 8% probability that the threshold return will not be achieved (or a 92% chance that it will). This is a relatively low risk investment. Given that the investment value is substantially above market value, the obvious decision is to hold.
- Sydney office property This property is relatively high risk given the result that there is an 89% probability of not achieving the threshold return (or an 11% chance of success). This is reinforced by the investment value result being well below market value. It would obviously be imprudent to acquire this asset at the estimated price.

Turning now to the assessment of the portfolio, two series of results are summarised in Table 2, one for the existing portfolio of two properties (the Melbourne office and the Brisbane retail centre) and the other for the proposed expanded portfolio of the three properties including the Sydney office. These are calculated in the usual way where the results are weighted by the relative values of the properties in the portfolio and co-variances are established (see Sharpe, 1985). The portfolio variance is made up of the individual variances of the properties and their co-variances.

The results for the two-property portfolio show that the combination of the two properties provides a reduced and arguably manageable risk without reducing returns. The high risk associated with the Melbourne office property in its oversupplied market is counterbalanced by the low risk of the Brisbane retail property in its market with substantial population growth. Note that the standard deviation of the two property portfolio ($2.61 million) is practically the same as that for each of the individual properties ($2.70 million and $2.54 million respectively) despite the portfolio value of approximately double either of the individual properties. This alone indicates a

Table 1: Market values, investment values, risk and return of the three properties

Property	Melbourne Office	Brisbane Retail	Sydney Office
IRR	12.26%	14.77%	10.59%
Expected IRR	11.75%	14.08%	10.10%
Standard Deviation of IRR	1.55%	1.68%	1.34%
Market Value	$30.00m	$31.40m	$50.00m
Investment Value	$30.02m	$34.52m	$44.58m
Expected Investment Value	$29.06m	$33.49m	$42.54m
Standard Deviation of Value	$2.70m	$2.54m	$5.31m
Risk	50%	8%	89%

Table 2: Market values, investment values, risk and return of the two portfolios

Portfolio	Existing (2 properties)	Proposed (3 properties)
Expected IRR	13.00%	11.83%
Standard Deviation of IRR	1.62%	1.51%
Market Value	$61.40m	$111.40m
Investment Value	$64.54m	$109.1Om
Expected Investment Value	$62.55m	$105.10m
Standard Deviation of Value	$2.61m	$3.71m
Risk	22%	48%

significant reduction in risk. This is a central issue in Modern Portfolio Theory, the smaller the standard deviation, the lower the volatility of returns or values.

However, the results associated with the proposed three-property portfolio are affected by the relatively high risk associated with the Sydney office property. If the acquisition of the Sydney property proceeded, the return on the expanded portfolio would be reduced (from 13.00% to 11.83%) and the risk of not achieving the threshold return of 11.75% would increase (from 22% to 48%). The Sydney property would need to be acquired for a discount of about 20% on market value (estimated price) in order to maintain the portfolio return and value without adding significantly to the risk.

Thus, the purpose of Modern Portfolio Theory is tested: namely that diversification can reduce risk (Markowicz, 1959). It follows that financial market theory can be applied to the direct property market in order to assist investors to achieve a suitable entry and exit strategy in terms of timing of transaction and type of property for investment or divestment.

Property and other asset classes

Property has always been considered to be one of the major asset classes in a balanced portfolio. However, it has always been considered to have a number of disadvantages when compared with other asset classes, the major ones being illiquidity and management. In the context of property investment, illiquidity is a major deterrent to investment and divestment because of the time required to complete a transaction in a market in which there are either few buyers or few sellers. The hands-on management required to operate an investment property and maintain it in a satisfactory market position is another deterrent to investment in property.

Illiquidity

Investment property is relatively illiquid when compared with other asset classes as a result of a number of investment factors.

First, heterogeneity: each property is unique as a result of its location and significant differences also occur in the improvements. Accordingly, it is relatively difficult to set and agree prices between vendors and purchasers when compared with the stock and share market.

Second, immobility: property assets are fixed geographically and bear the risks associated with the political and economic fortunes of the region whereas stocks and shares are portable.

Third, indivisibility: trading in property requires significant capital sums a factor that reduces the numbers of likely investors to a very small group when compared to the ability of individuals to invest in the stock market. This is one of the major factors affecting liquidity of property investments, finding a suitable buyer. It is also a major reason for the securitisation of property assets.

Fourth, lack of a central market: the property market comprises a series of highly localised sub-markets whereas stocks and shares are traded in a central market. Thus information about the property market is piecemeal and often cloaked in confidentiality whereas market information and pricing in the stock market is universally available.

Fifth, marketing, due diligence and settlement: the time taken to properly market an investment property, negotiate a transaction, undertake due diligence and conveyancing and complete settlement can take several months and incur high expenses. Whereas, a transaction on the share market is completed in a very short time at a much lower fee.

Management

Investment property is relatively management intensive when compared with other asset classes. The physical nature of land and improvements requires ongoing management activities including maintenance, cleaning and repairs, redecoration and refurbishment and ongoing costs of operation including utilities,

insurance and municipal and water rates and land taxes. In addition, the leasing activities: associated with investment properties require significant management input. The timing of lease expiries and renewals, the exercising of options to extend the lease term and the negotiation of rent reviews are all very important activities. These property management activities are increasingly outsourced to specialist firms.

The market has attempted to overcome these investment and management disadvantages by redirecting the emphasis away from direct investment in the land and bricks and mortar to indirect investment in property by way of securitisation, (Jaffe, 1997; Parker & Robinson, 2002). This has led to a rapidly expanding component of the investment market.

Direct and indirect property

In an attempt to overcome the two major investment disadvantages of property, namely illiquidity and management, many investment vehicles have been devised to move investment from direct involvement in property to indirect involvement (Property Council of Australia, 2001). The most popular form of indirect property investment has been through the listed property trust vehicles. The investor purchases units in the trust which in turn has the direct investment in property. There are other popular vehicles such as property funds, unlisted trusts, syndicates and shares in property companies.

However, listed property trust performance has imitated the stock and share market rather than the property market, so the diversification or counter-cyclical element does not appear to have eventuated. The unitisation element of the earlier unlisted property trust vehicles does not appear to have assisted investors to move into and out of property, in other words, the illiquidity has not improved, particularly in the case of the major funds managers who invested in large parcels of property trust units.

The trust vehicle usually outsources the specialised management processes thus relieving the investor from the effort required and the specialised knowledge required to maintain the property as a suitable investment.

Thus the real difference between direct and indirect is that a manager/vehicle is inserted between the property and the investor. The investor continues to face all of the risks associated with direct investment in property except that the trust units allow easier access into property investment along with liquidity consistent with stocks and shares in the centralised market

The benefits of investment in income producing property are related to the contractual income arising out of lease agreements as well as the associated financial and taxation cashflows. Once the leases have expired, the property investment then assumes significant risk as income becomes no more certain than that arising out of corporate profits. New tenants must be found or existing tenants must be induced to remain in the premises. These situations require time-consuming negotiations and substantial costs are usually required for lease inducements, in particular the costs required to overcome depreciation and obsolescence.

A key issue in property investment is the wasting asset in the building component that depreciates over time and requires constant upgrading to maintain market position. It has been calculated that one fifth of the income from investment property would need to be set aside for depreciation (Bowie, 1982). This may have resulted in property being overpriced in the market. Most companies make provision for building refurbishment (as well as expansion, new products and so on) by setting aside part of the net income in reserves. The illustration of this is the difference between the yield and the earnings/price ratio (the reciprocal of the price/earnings ratio) which is a measure of the retained earnings (see table 3). However, trusts are unable to keep reserves as all income is required to be distributed. Therefore, it is difficult to retain reserves or sinking funds out of income. Whereas, investments in property companies generate profits out of which dividends are distributed to shareholders and funds are usually retained as reserves. Accordingly, this appears to lead to an overstatement of the yields from property trusts.

Given that the typical property trust returns 7.5%, a depreciation allowance of 1.5% (one fifth) would be

Table 3: Investment yields and reserves

Investment	Yield	P/E	1/P/E	Reserves
Gandel Retail Trust	7.5%	13.3	7.5%	0.0%
Centro Properties	7.42%	13.7	7.3%	0.0%
Lend Lease Corp	1.56%	40.1	2.5%	0.94%
Leighton Holdings	3.72%	17.7	5.6%	1.88%

Source: Australian Financial Review, 4 January, 2002

required. Ten year bonds currently (January 2002) yield 6.0% (Australian Financial *Review*, 4 January, 2002), so the margin covering the risks associated with property investment is NIL (7.5% 1.5% - 6.0%). There is a view expressed that all of the risks can be reflected in the cash flow so that the discount rate can be a risk free rate such as long term government bonds (gilts) (Purvis, 1995, p. 19). But it is not deemed possible to reduce the internal rate of return to a risk free yield due to the traditionally listed real property factors including immobility, fashion, tenant risk, legislation and regulation standards.

Many trusts are obtaining funds by the sale of trust units for development purposes as distinct from investment and trusts are also able to borrow finance for development purposes. In order to obtain funds for refurbishment, trusts need to raise capital through borrowings, through divesting of some of the assets, through distribution of additional units or through retaining some of its assets in cash. In all of these cases, the investor's holdings are diluted. Thus it appears that some of the returns from listed property trusts appear to include an element of capital. Thus it is up to the individual investors to set aside some of their returns in a sinking fund.

In addition to the investor class, entities of all types that once owned and occupied their premises are selling to and leasing back from the investment vehicles discussed above. Many past owners have become managers of the trusts into which their properties were sold, and many entities have effectively sold their properties to their employees by transferring the assets into superannuation funds.

The divestment of real assets by many entities has the effect of major balance sheet changes. Fixed assets have been reduced and replaced by substantial lease liabilities so that asset backing may not have the strength which it had in the past. In order to balance their portfolios, investors would need to consider vehicles that own these fixed assets. As discussed earlier, unitised property has demonstrated a closer relationship with stocks and shares than with direct property, so the diversification benefits may be illusory in asset class terms.

Investor behaviour

Traditional property ownership is undergoing substantial change as property is becoming securitised by being indirectly owned through trust vehicles, companies and the like. These vehicles are being managed not by traditional property operators but by financial market operators. Accordingly, more sophisticated financial analysis is being used and this has given rise to the securities industry's requirement for a standardised discounted cash flow (DCF) methodology for real estate (Parker & Robinson, 2002). At present, most property advisers prepare individual DCF models to reflect a suite of investment/valuation variables which are adopted to suit the particular circumstances. It is common for investment valuations to be prepared in association with market valuations the former by DCF and the latter by capitalisation. It has been common to adjust the investment variables in the DCF so that both methodologies provide the same result. This tends to suggest that price and worth are identical (which would be so in a fully informed market in equilibrium and is certainly so for a buyer in that market). But reference to any of the financial markets dispels this notion; transactions occur as a result of differing opinions about price and worth and this is of significant relevance to property (see for example Peto et al, 1996).

Investors tend to exhibit a herd mentality in the face of the exigencies of the economic cycle. The bulls and bears of the stock market are prime examples. A bull market is one in which competition between investors bids up the prices of stocks and shares often to levels far in excess of their worth. A bear market is the opposite, ie, one in which divestors desperate to sell will take any price and often sell stock at prices well below their investment worth. Examples of bull markets include the resources boom of the 1960s/1970s and the IT boom of the late 1990s. A recent example of a bear market is the flight of capital from the market following the crash of October 1987.

The property market exhibits similar behaviour. A bull property market occurred in the mid to late 1980s leading to very high property asset prices and it was followed by a bear property market in the early 1990s in which asset prices fell substantially. Asset values plunged to less than 20% of replacement costs in a period of a little over four years in Melbourne between May 1989 (the peak of the 1980s property boom) and December 1993 (the trough of the property recession). This was repeated around the world to a greater or lesser degree, the main element of difference being temporal (and some parts of the world are already entering a second recession at the time of writing). The recent property cycle has caused a re-weighting of property in most investment portfolios. The proportion of balanced portfolios given over to property has halved from around 20% to around 10% during the 1990s (Fries, 2001).

This behaviour is also exhibited by funds managers in a climate where performance is measured on a quarterly basis. These managers cannot exercise judgments that could cause their investment, holding and divestment decisions to be asynchronous with their competitors. If the portfolio performance fell behind their competitors in the short term, these managers could well be dumped so that they would not receive the improved returns projected for the long term. There is therefore no incentive for funds managers to act counter-cyclically.

The only way that funds managers, or direct

investors for that matter, can achieve investment returns that exceed average market levels is to exhibit different behaviour. This generally amounts to counter-cyclical behaviour, ie, avoiding the herd mentality. In other words, buy low and sell high. "All good investment decisions, whether broad asset allocation or specific stock selection, require sticking with positions that are made uncomfortable by their variance with popular opinion" (Kohler, 2001).

The theory that investment valuations and market valuations converge and diverge over time to provide identifiable investment and divestment periods has been tested using a single office property which was valued annually (Robinson, 1997). It has been interesting to note that, contrary to what would be expected in a rational market, buyers markets in property exist when price is greater than worth and sellers markets occur when worth is greater than price. These are the "bulls" and "bears" of stock market fame. "All a fund manager has to do to be a hero as an investment manager is to avoid buying equity assets high. Why is it that fund managers seem so adept at doing exactly the opposite, concentrating their cash on last year's story rather than buying those assets that no one seems to want, albeit temporarily?" (Goobey, 1990).

There is no hard and fast rule about property asset allocation in a balanced portfolio. If the allocation is too low, say a few per cent, then it will have little effect on the portfolio returns. There is no theoretical upper limit. One very successful fund manager is "aiming to increase the proportion of the fund invested in illiquid absolute return assets (such as property and infrastructure) to 50%" (Kohler, 2001).

Issues/Conclusions

A number of issues have been raised that are worthy of additional discussion and research well beyond the scope of this paper.

First, ownership of shares in industrial companies has provided a significant allocation to property given the major property holdings of most corporates. But this appears to be diminishing due to corporate rationalisation moves to get assets off balance sheet. The effect on corporate performance of these off balance sheet moves and their replacement through sale and leaseback transaction with lease liabilities needs to be examined.

Second, given that corporations have been moving to reduce their real property asset backing, a balanced portfolio may need greatly increased allocations to property to replace that component of property that has been taken off balance sheet.

Third, the potential dilution of funds through depreciation and obsolescence, through borrowings to undertake refurbishment or through the offering of additional units needs to be investigated to establish whether or not property trust returns contain an element of capital.

Fourth, portfolio investment research needs to confirm, or otherwise, from an asset allocation point of view, that direct property provides substantial diversification to a portfolio whilst an equivalent allocation to indirect property mirrors the behaviour of stocks and shares.

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To rent or buy: That is the question

Abstract

The author of this paper develops a financial model comparing the economics of owning versus renting. This model is first presented in standard spreadsheet format and is then extended to include estimates of probability and risk analysis. The author concludes the key financial variable driving the model is house price appreciation.

Introduction

When faced with decision of whether to rent or buy housing most New Zealanders' select the ownership option. However, over the past 15 years there has been an appreciable reduction in the rate of home ownership. According to Christiansen (1991), in 1986 New Zealand possibly had the highest rate of ownership in the world (73.7%).

Statistics New Zealand (1998) figures from the 1996 census showed home ownership at 70.5%. Results from the 2001 census are not yet available, but an analysis of Ministry of Housing (2000) annual reports 1997-2000 on the growth of private sector tenancies suggests the present rate of ownership is around 66%, a level last seen in 1956. New Zealand now appears to approximately tenth in the world in terms of home ownership.

Clearly renting has become the preferred option for an increasing number of households.

This paper examines the demographic, socio-economic and financial reasons behind the trend to renting. A spreadsheet model is then presented to assist decision makers in considering the rent buy options. This model incorporates risk analysis based on assigning probabilities to various outcomes and uses the power of the computer to simulate the most likely outcome. Emphasis in this paper is on the analysis of tenure choice for households in a position to rent or buy. Chapman (1981) found inadequate household wealth forced a majority of private tenants to rent. Twenty years on the deposit and debt sevicing barriers remain.

Of course, housing decisions are not just made on financial grounds. There are a number of lifestyle considerations which are likely to favour buying over owning even when the financial analysis favours renting. Amongst these are lifestyle considerations, security of tenure, pride of ownership, status and the ability to customise the building to meet personal requirements. From a national perspective having a property owning democracy may help to ensure political stability. From a local perspective owners are more likely than renters to be more integrated with the local community since owners have a vested interest in maintaining community property values.

The nature of housing

Smith (1971) pointed out the multi-faceted nature of housing since it is both an investment and consumption good. On the consumption side housing is important because in addition to providing shelter and privacy housing provides a location along with the social amenities relating to that location. In the case of rental housing the investment side (ownership) is legally separated from the consumption side. Renting is generally much more flexible than owning as tenants can move at short notice (three weeks under residential tenancies legislation) and are not faced with the high transaction costs that owners incur when moving houses.

Against this renting is a less secure form of tenure as the owners can normally reclaim their houses with six weeks notice. It has been suggested by Ruthven (2001) that security of tenure issue can be partly overcome by using the commercial leasing model for residential property. He quotes US, Canadian, European and Australian examples of long term residential leases.

The trend to renting

Knight and Eakin (1997) identify changes in the labour market and societal changes as prime drivers in the increased popularity of renting in the USA. They contend that corporate downsizing and global competition has resulted in much shorter employment contracts and reduced worker job security. Green and Hendershott (1999) also used US data to show a positive correlation between high rates of unemployment and high rates of home ownership, suggesting owners are less willing to move to new jobs than renters.

These same trends are evident in New Zealand, since the restructuring of the economy during the 1980s. New Zealanders used to stay in the same job for long periods but this is no longer the case. Hiring workers on short term contracts is increasingly common and this means people move around much more frequently than in the past. The sector of the population most likely to rent falls within the 20-34 age group. This is also the group that moves most frequently and often change addresses in less than a year. Given this reality then it often makes sense to rent rather than buy housing.

The US societal changes discussed by Knight and Eakin relate to the tendency of families to form later and for more single income households. According to Ratcliff (1949) new household formation typically occurred when families "undoubled" and the children moved out to get married. However, marriage is no longer so important. These days young people are delaying both marriage and having children until they are older and moving out of the family home usually occurs well before marriage. Statistics New Zealand reported in 1996, 51.7% of households were married, down from 55.95% in 1991.

New Zealand also is following overseas trends for more young single person households, solo parent families and older people living longer by themselves after a spouse dies.

The rate of occupancy per dwelling unit continues to fall. In 1991 there were 2.89 people per dwelling unit. By 2001 this figure had fallen to 2.79.

Winter and Stone (1998) suggest that a reduced rate of home ownership in Australia is due to increased income polarisation, whereby there are more high income households at the top end and more low income households clustered at the bottom end. Pahl (1988) describes this change in social structure as shifting from an egg shaped to an hour glass shaped distribution. Statistics New Zealand (2001) household expenditure survey suggests income polarisation in New Zealand to be at least as great as that found in Australia.

The financial variables

The three most important financial variables driving the rent versus buy decision are usually duration, house price appreciation, mortgage interest rates and affordability in terms of monthly cash costs. Duration is the time period used for comparing renting versus buying. When people need to move frequently the high transaction costs associated with owning usually favour renting. According to *Consumer* (1996) the sellers transaction costs on an average home valued at $160,000 were $7700 (4.8%). Increasing the duration decreases the annual cost of amortising transaction costs.

In the past the prime financial driver favouring owning has been appreciation in the value of the property. Quotable Value (2000) shows the New Zealand house price increased by around 60% during the 1990s. As capital gains on property are not generally taxable property can have an advantage over other forms of investment that attract taxation. However, Reserve Bank Governor Dr Brash (2001) is one who believes the New Zealand economy has paid a high price, in terms of lack of growth, for tax distortions that encourage investment in real estate at the expense of investment in plant and equipment.

During inflationary times real estate is seen as a good hedge against inflation (in nominal if not real terms). Now that most western countries have inflation under control and New Zealand has the Reserve Bank Act there is much less likelihood of substantial increases in property values unless there are substantial demand pressure from population growth and immigration. Currently there is a net migration loss and the rate of natural growth in the population is quite low. For these reasons the use of historical information to project future increases in property values is risky

Figure 1- Affordability Renting v Buying

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-rent -a-own

Table 1

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Income						
Rental		9880	10127	10380	10640	10906
Expenses						
Repairs& Maint.		1750	1794	1839	1885	1932
Insurance		350	359	368	377	386
Rates		1250	1281	1313	1346	1380
Total expenses		3350	3434	3520	3608	3698
Net Income		6530	6693	6861	7032	7208
Cash Flow (5 years)	-175800	6530	6693	6861	7032	196192
Internal Rate of Return	5.25%					
NPV(4%)	9647					

Table 2

Increased Value % pa	2	3	41	5
No borrowing				
Internal Rate of Return%	5.03	5.87	6.69	7.48
Table Mortgage 50%				
Internal Rate of Return%	2.64	4.21	5.69	7.09
Table *Mortgage* 66%				
Internal Rate of Retum%	0.87	3.05	5.07	6.95

Table 3

Increased Value % pa	2	3	4	5
No borrowing				
Internal Rate of Return%	4.54	5.45	6.34	7.22
Table Mortgage 50%				
Internal Rate of Return%	1.34	3.1	4.81	6.47
Table *Mortgage* 66%				
Internal Rate of Return%	-1.83	0.72	3.16	5.49

Affordability also generally favours renting over owning. Buying a house normally requires a substantial deposit whereas tenants only need to supply a bond that is limited to four weeks rent. Saving for the deposit can be difficult when young people have other financial commitments such as servicing student loans.

Renting is likely to have monthly cash flow advantages over buying. Figure 1 shows the relative affordability of renting versus buying over the period 1992-2000. The rental affordability index uses median rents and average wages and compares this with Crews and Hopkins (1999) NZ Mortgage Affordability Index that uses mortgage interest rates, median house prices and average wages. The results of this comparison show rental affordability did not increase as fast as mortgage affordability during most of the 1990s. This analysis also shows the rental market and the ownership market do not necessarily move in tandem. In general, the ownership market is likely to be more volatile than the rental market because government intervention acts to dampen rent increases.

Examples of intervention include income related rents for state houses and rent appeal procedures in the private sector administered by the Tenancy Tribunal. House prices and interest rate are also more volatile than median rents.

The Financial model

In purely financial terms the decision to rent or buy housing is similar to the decisions businesses

make when renting or buying equipment items such as cars or computers. Both involve financing and investment and are described by Solis and Shahrokhi (1989) as hybrid capital budgeting decisions. Brealy and Myers (2000) state the decision rule should be clear in concept. Buy the asset if the equivalent annual cost of ownership is less than the lease rate you can get from an outsider. Thus, if you can rent the asset to yourself cheaper than you can rent it from someone else then it pays to buy.

The discounted cashflow approach is the standard methodology used for assessing the rent/buy decision. This can be considered from either the point of view of the owner or from the tenant's viewpoint. Jaffe and Sirmans (1995) developed discounted cashflow models for assisting lease/buy commercial property decisions. Both leasing and buying involve a series of negative cashflows and the best option is the one that has the smallest negative cashflow.

Black and Emary (1993) developed spreadsheets for New Zealand residential tenure choice using the work of Johnson (1981). In this case the models consider the owners viewpoint with the income being rent and the discount rate being the after tax cost of capital. Sandbrook (1999) extended the Black and Emary approach to incorporate both forecast and sensitivity analysis.

Example:

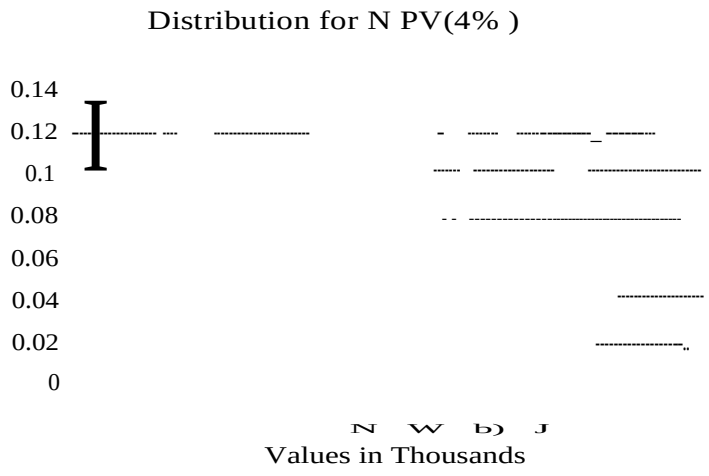
This example is based on a typical three-bedroom house. The rental of $190 per week is taken from Ministry of Housing 2001 data. The purchase price of $175,000 is the Real Estate Institute median house price for January 2001. The discount rate used in the spreadsheet (4%) is the after tax cost of capital based on five year Government stock. The expense items for repairs and maintenance, insurance and rates have been estimated. Allowances for vacancies and bad debts and management are not included because the spreadsheets are constructed from the point of view of an owner using imputed rents to calculate the rate of return on a housing investment. The initial spreadsheet analysis ignores the effect of leverage and assumes 100% equity financing, a five-year hold period, rents, costs and property values increasing at 2.5% per year and a 4% discount rate. Table 1 shows the 5-year cashflows for this typical property.

In this example we have a positive net present value of $9647 and an internal rate of return of 5.25%. This means the capital employed in the housing investment is earning a higher after tax return than if it was invested in five-year government stock. Table 2 shows the actual return to equity when there is a five-year duration, rents and costs are increasing at 2.5% per year and there are a number of capital appreciation scenarios. In this case the table mortgage is assumed to be for 15 years at an interest rate of 7.5%.

In this example ownership is the preferred option where there is no mortgage but the situation is less clear when there is a mortgage. The mortgage interest rate exceeds the internal rate of return for all the no borrowing scenarios. This means return on equity invested reduces as more money is borrowed. However, renting is the best financial option wherever the internal rate of return is less than 4%. Table 3 summarises returns when duration is reduced to three years.

With a three-year duration transaction costs (real estate, legal and valuation fees) are spread over a

Figure 2



shorter period and this reduces returns compared to a five-year duration.

Scenario analysis

Some of the assumptions have relatively little influence on the final result but others are crucial. For example, if the expenses are underestimated by 10% this only reduced the IRR from 5.86% to 5.76%. However, if the sale price is overestimated by 10% then the IRR declines to 4.04%.

Conventional spreadsheet analysis normally considers only a small number of the possible outcomes generated when "what if' questions are asked. This deficiency can be overcome by using the power of the computer to simulate a large number of scenarios. This can be done either by writing a macro for the spreadsheet or by using one of the commercial templates that overlay spreadsheets and contain pre-written macros.

In this example the "@risk" overlay template used was developed by Palisade (1994). The program asks the user to specify the variables to be simulated. The user then specifies a range of possible outcomes and a probability distribution to each variable. To demonstrate the application of "@risk" to the rent/buy decision the variables chosen were changes in property values, rents and rents. A triangular distribution was chosen for each variable. The range of outcomes for annual average changes in property values was 1% minimum, 2.5% mid point and 4% maximum. In the case of weekly rents the three values were $190, $210 and $220. The interest rates tested were 6%, 7% and 9%. Once the risk profile has been specified the program uses Monte Carlo simulation to perform risk analysis by generating a randomly selected set of values based on a probability distribution specified in the cells. Each "what if' combination is called an iteration. Simulation is the process that generates the distribution of possible outcomes from many iterations.

Figure 2 shows the probability distribution for the net present value based on a 4% discount rate and 500 iterations.

The "@risk" program can also generate tornado graphs showing the sensitivity of the analysis to the variables. Figure 3 shows the tornado graph for the three variables; changes in property values, interest rates and rents. Clearly, changes in property values dominate the return on equity invested with interest rates being the next most important variable and rents having slightly less effect.

Regional variations

The decision to rent or buy is likely to vary depending on the geographic locations of a particular property. In general terms it pays to buy in areas with good prospects for capital appreciation in the value of the property. Capital appreciation is strongly linked to demographics. Population pressures drive real estate values. The drift in population is clearly mainly northwards and also eastwards.

Summary and conclusions

Over the past 15 years there has been a significant increase in the percentage of households renting rather than owning housing. Reasons for this trend include reduced job security, delayed formation of new families, more solo parent households and more single person households.

During most of the 1990s affordability favoured renting over owning. Also the cash outlays associated with renting are usually more predictable and less volatile than these associated with owning (interest rates, operating expenses and changes in property values).

Figure 3

The discounted cash flow model presented in this paper shows that when the holding period is longer than three years owning is the preferred option provided that the rate of appreciation in the value of the property exceeds the inflation rate. When the interest rate on borrowed funds exceeds the discount rate used in the analysis the duration of ownership will need to be longer before break-even occurs.

In areas faced with static or declining property values ownership does not usually measure up as the best financial option. In such cases it may make more sense to rent and acquire a property asset in an expanding area.

The analysis presented in this paper uses simulations to go a step beyond the conventional spreadsheet "what if' scenarios. Literally thousands of iterations are considered and probabilities are attached to key outcomes. Property professionals are encouraged to make use of risk analysis as it provides them with another tool to improve service quality to their clients. In the final analysis the rent/buy decision is often dictating by non-financial considerations relating to `lifestyle" and our cultural heritage which favours ownership.

About the author: Bob Hargreaves holds the Chair in *Property* at Massey University. He was the NZIV *councillor for Central* Districts *from* 1983-1997. *Over* the past *four years* he has published a number *of papers on the New* Zealand residential rental market.

This *paper was presented* at *the Pacific* Rim Real Estate Society *Conference* held in Christchurch *early* this year.

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The market for New Zealand dairy farms following the formation of Fonterra Cooperative Group

Introduction

The possibility of deregulation was the driving factor behind the mergers throughout the 1990s as the two major companies in the industry (New Zealand Co-op Dairy Ltd (NZCD) and Kiwi Co-op Dairies Ltd (Kiwi)) worked to gain a majority share of the New Zealand Dairy Board. The battle between these two is now over; Fonterra has been formed with the support of government and dairy farmers and New Zealand has a deregulated dairy industry with a monopsonist company manufacturing and marketing the bulk of exported dairy products.

While dairy companies were fighting for scale they were also restructuring their business to more accurately reflect the value of off-farm assets. The value of dairy farmers' shareholding has increased and now comprises a significant proportion of the assets of a dairy farm. Under the fair value entry and exit established for Fonterra the value of shareholding is likely to continue to increase if Fonterra performs according to its stated projections.

In this paper I present background information on the capital structure of Fonterra. I then give an historical overview of the market for dairy farms and dairy farm assets and provide projections for the future of the market under Fonterra's capital structure.

The structure of Fonterra

Fonterra has a cooperative structure with 100% dairy farmer ownership. There is no payment or shareholding differentiation between the commodity, quota and high value product, and the marketing of value added product is retained within the cooperative structure.

The equity of the company comprises retained earnings, shares and minority shareholders in subsidiaries. Peak notes, capital notes and other debts finance the debt. Dairy farmers who are supplying shareholders to Fonterra are required to hold shares and peak notes in proportion to milksolids production and seasonal milk flow

Shares

The share standard for Fonterra is one share for each kilogram of milksolids supplied to the company in that season. The value of shares is determined annually by independent valuation of the company. Discounted cash flow methodology is most likely to be applied with projected free cash flow discounted at the weighted average cost of capital. This is to be an independent process critical to the efficient operation of the cooperative. Fonterra will announce an estimated fair value range for the following dairy season on December 15 each year and the final value will be set between 15 May and 1 June. The fair value for shares for the 2000/2001 season was set at $3 per share and this value also applied in the 2001/2002 season. The estimated fair value for 2002/2003 is $3.85 per share.

As farmers increase production they will be required to purchase additional shares at the fair value for the season in which increased production occurred. If a farmer holds more shares than are required in any season they have the option of surrendering excess shares or taking a supply redemption right. Payment for the surrender of shares is most likely to be in capital notes. Supply redemption rights may be exchanged for fair value shares as required (at no cost) or surrendered at any time. Supply redemption rights can only be transferred on sale of the property. Subject to certain restrictions shares may be transferred.

Shareholders will need to consider carefully the choice between resuming and retaining surplus shareholding. If they are likely to increase production in subsequent seasons and the value of Fonterra is increasing then retaining shares will be the best option. However if they are scaling down their operation they are best to resume the shares, as the value of supply redemption rights will not change over time.

Peak Notes

The value of peak notes, and the justification for introducing them, relates to the incremental cost of

processing each new litre of milk. Farmers are required to hold peak notes in proportion to litres supplied during the highest consecutive 10 days of supply. The notes will cost $30 (approximately equates to $1/kgms) until the end of the 2003/2004 season. As with shares, excess peak notes can be either held or redeemed. Redemption and surrender price is the same as issue price (currently $30/note) as the notes are considered to be a debt. Payment for the surrender of peak notes is most likely to be in capital notes. Peak notes can be transferred to other shareholders.

Capital Notes

Capital notes will pay interest, quarterly in arrears, at a margin (currently 1.7%) above the Government Stock rate. It is intended that they will be traded on the New Zealand Stock Exchange. When issuing capital notes to shareholders Fonterra will determine value with reference to the volume weighted average sale price of the notes on the stock exchange. In unusual circumstances the Fonterra board can determine fair value.

Capital notes will rank ahead of peak notes, supply redemption rights, redeemable preference shares, cooperative shares and obligations to shareholders (once payments over $3/kgms have been met).

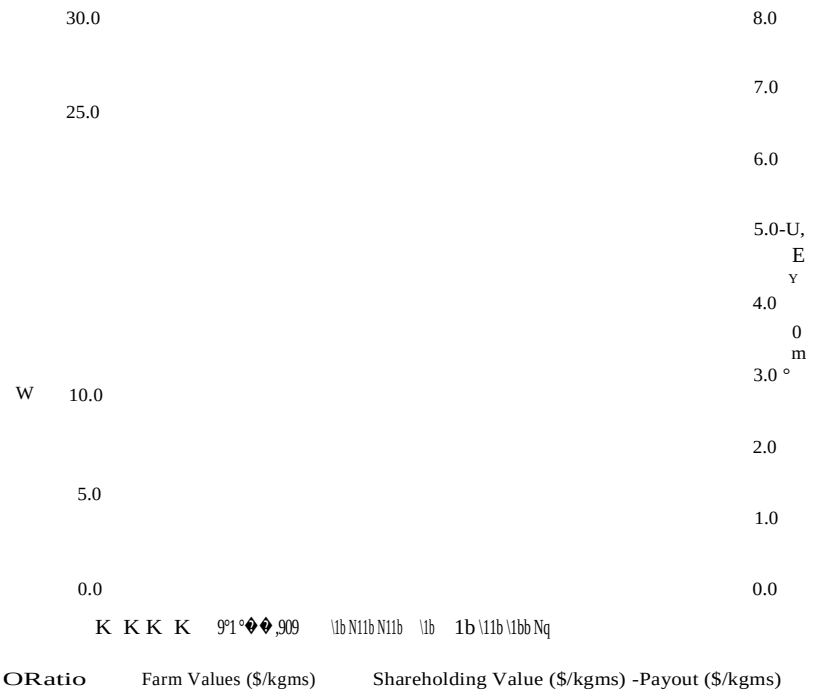
The $200 million capital notes offer of November 2001 was fully allocated. The notes had an initial minimum interest rate of 7% with the 1.7% margin applying after July 10, 2002.

Resumption value versus cost of shares

Under Fonterra's constitution the cost of shares for new entrants and the resumption price for those exiting the industry are the same. Under previous shareholding structures, in years when the share standard changed, there was a difference between resumption value for an exiting supplier and cost for a new supplier. This created some confusion in assessing a fair price for the sale or purchase of shares. The most appropriate method of valuation for these periods was to discount the cost of share purchase for the time period from the start of the new season until the company required payment.

This was not an issue in the transition from the 2000/2001 season to the 2001/2002 season. Farmers who ceased supply at the end of the 2000/2001 season had the option of converting their Kiwi or NZCD

Figure 1. Payout, farm and shareholding values (real terms 2000 dollars)
** Indicates estimated figures in 2002 and 2003*



shareholding to Fonterra shares, supply redemption rights and peak notes and then resuming these according to the Fonterra constitution. Alternatively they could resume their Kiwi or NZCD shareholding at the 2000/2001 share standard (an equivalent of $2 per kgms for Kiwi).

The value of dairy farm assets

The changing structure of the dairy industry will affect the value of dairy farm land and the way valuers approach the valuation of dairy farms. As shareholding alters to reflect the value of off-farm assets those in the market will need to give careful and separate consideration to the land, improvements and shareholding that they are buying or selling.

From an investment perspective farm values should represent the present value of future income streams. The future income from a dairy farm comes from the annual cash flow and from changes in asset value over time. Wide ranges of factors influence this future income stream. Property features that affect productivity (soil type and fertility, cover, local climate, level of structural improvements) will impact on the annual cash flow. External economic factors such as product price and demand for alternative land use will influence changes in property value and the present value of future dairy earnings, as assessed under the fair value proposal, will determine changes in shareholding value. The combination of physical and economic characteristics will determine the highest and best use to which that land can be put and shape the market perception of value.

Figure 1 shows dairy farm prices, dairy payout and shareholding value from 1983 to 2003. This graph illustrates the cyclical nature of the industry and shows that land prices tend to closely follow changes (both actual and anticipated) in payout levels. The ratio of sale price to payout shows the years in which the greatest gains from farm purchase have been made (1989, 1992 and 2001). The value of shareholding has increased markedly since 1998 and is now a significant portion of the value of the farm asset.

The influence of income earning potential and potential for capital gain have varied in impact on farm value over time. In the early 1990s values were influenced by an expectation of capital gain. Farm purchasers expected the national economy to improve and reacted to the age-old belief that "what is dear today is cheap tomorrow". There were also expectations for higher farm incomes as a result of the GATT agreement, lower interest rates, continuing low inflation and stable government. During the period 1991 to 1995 farm values increased strongly.

McDermott (1995) noted that changes in farm values in the early 1990s did not reflect farm incomes. He stated that prices of $25,000 per hectare for dairy farm land in the Taranaki were not sustainable given predicted returns. At that time, given that farmers were returning less than 5% on their invested capital and that they generally required greater than 70% equity to service the debt, his conclusion was that dairy land was overpriced. The relatively sudden rise in farmland values was unsupported by rising incomes.

Dairy farm land values started to fall from 1996 with a decline in payout, an increase in the cost of dairy company shareholding and an increase in interest rates (Rauniyar et al, 1998). This trend was reversed in 1999 and throughout 2001 we saw a lift in confidence amongst dairy farmers. This was due to a number of factors including improved commodity markets, higher payout levels, lower interest rates, a continuing low New Zealand exchange rate and perhaps an anticipation of Fonterra bringing future benefits. As in previous periods of buoyancy, prices paid for dairy farms increased rapidly. In November 2001 Murray Cleland, the rural spokesperson for the Real Estate Institute of New Zealand, noted that the volume and price of dairy farm sales was much higher in 2001 compared with levels in 2000.

Implications of Fonterra for dairy farm assets

The main difference that Fonterra will have on the market for dairy farm property is the effect of fair value shareholding on entry into and exit from the industry. The value of shareholding, determined annually and based on predicted future industry returns, should send a more balanced signal to dairy farmers about asset values and return on investment.

It will be critical for Fonterra to set payout and shareholding price at levels that give the desired balance between entry and exit. In the first year of operation the value of a Fonterra share was $3 per kgms. The merger proposal document stated that this share value was determined at fair value in accordance with the constitution. The business case for Fonterra assumed the initial fair value of Fonterra net assets to be $5.50 per kgms, with net assets being represented by the sum of share and peak note value. If the value of Fonterra increases as predicted, share values should increase and it is possible that shares will soon be worth $4kgms-$6 per kgms, a value more in line with the business case assumption.

As changes occur, the makeup of the bundle of dairy farm assets changes. Figure 2 illustrates how the bundle of assets has changed from 1999 to 2001 and suggests possibilities for future years. Upon the formation of Fonterra, shares and peak notes accounted for approximately 20% of the value of farm assets. Models presented by the dairy industry show the bundle increasing in value in much the same way as illustrated below for 2002 and 2003. However the market is cyclical and downturns are

Figure 2. The changing bundle of dairy farm assets

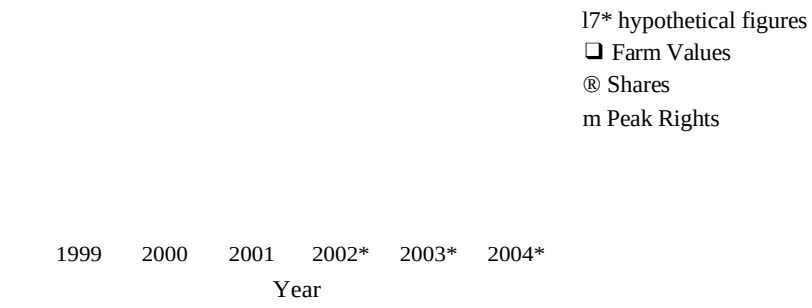
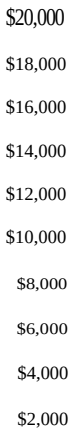


Figure 3. Regional sale prices of dairy land



inevitable. The graph proposes a decrease in value of the total farm bundle in 2004, similar to that which occurred in the late 1980s and again in the late 1990s. The fair value of shares should be responsive to a decrease in payout but if it is not equity in land will quickly be eroded. In this scenario we may see large regional differences in the value of dairy farm land depending on profitability of alternative land uses. In areas where competing uses underpin land value at a high level it could be attractive for dairy farm owners to cash up their interest in Fonterra and move to an alternative land use.

In the current buoyant dairying market we are seeing a reduction in regional differences following the formation of Fonterra. Throughout the 1990s prices paid for dairy farms in the South Island were considerably lower than prices paid in the traditional dairying areas of the North Island. However, the South Island now offers the opportunity for large scale farming with a payout that is currently equivalent. There has been a noticeable increase in prices paid for South Island dairy farms in 2000/2001 as illustrated in Figure 3.

The cost, value and requirements for peak notes

also has farm asset value implications. Peak notes currently account for approximately 25% of the value of a shareholder's holding in Fonterra with requirements varying according to the farm's supply curve. The difference between number of peak notes held by a high peak as opposed to a low peak supplier may equate to as much as 50 cents per kgm. Farmers with a more pronounced peak production period will need to have a higher percentage of peak notes. In the first instance this will benefit those with the higher peak, as they will hold greater value in peak notes issued. A new supplier will be advantaged by low peak supply with a lower capital cost of entry. The bulk of new supply is now coming from the South Island where production curves tend to be flat. The relevance of peak notes is questionable and perhaps the value of non-peak milk should be recognised by a differential payment.

With a deregulated industry it will be possible, although probably difficult, for other milk processors to enter the market for milk supply. It is possible that there will be a differential pricing system in place in the future to combat competition for supply. This may also extend to differential payments to allow for transport costs and variation in supply curve. This could impact on farm values with values decreasing in the more distant localities, or those localities that do not have an optimum supply pattern and increasing in areas of intensive dairy development.

The unbundling of dairy farm assets has had an impact on lending security available to banks; initially banks were not prepared to take security over shares. This has been addressed by the BNZ which is now prepared to take 100% security over shares, peak notes and supply redemption rights. Loan repayments are to be deducted from the monthly milk cheque.

Conclusion

Dairy farmers are hopeful that they will see the benefits projected by the business case for Fonterra. If the new company is successful in achieving cost savings and growth this should be reflected in the value of dairy farm assets. The capital structure of Fonterra should ensure that the value of off-farm assets is not capitalised into land value but is instead reflected in the fair value of shares. Over time we may see land and buildings becoming a lesser proportion of the value of dairy farm assets and shares increasing in importance. However the value of dairying land will continue to be underpinned by alternative land uses.

At present there is no proposal for a differential payment system. This is still a possibility for the future and if such a system is implemented it will impact on regional dairy farm values.

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This *paper* was *presented at the Pacific* Rim Real Estate *Society conference* held in Christchurch *early* this *year.*

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Productivity Killers: Five Planning Pitfalls

As facilities become more strategic, there is a growing need for planners to distinguish between passing fads and real support for knowledge work. Decision-makers must recognise that "the latest thinking" in workplace design is really a jumble of theories and assumptions ranging from superficial statements to in-depth studies of how work gets done.

This paper will examine the principles of knowledge-based productivity. It will focus on key financial issues, such as why leading companies must monitor the intangible factors that impact their bottom line.

Examples of key productivity killers will help managers avoid ending up on the negative side of the shifting performance equation. I will challenge you to think like a CEO in order to play a more valuable role as change leader, rather than victim of change.

It is important to keep in mind that we are still in the early days of a knowledge and technology-based transformation. Waves of economic upheaval and uncertainty are part of a process that will leave behind the industrial-era conformist mindset. In the future, we must survive by our wits in an economy that rewards fresh ideas, as well as superior implementation of those ideas.

Our bumpy journey out of the industrial age is chronicled in the media on a daily basis. Business analysts puzzle over conflicting economic reports and talk of "low visibility" and "earnings surprises". In this dynamic, noisy environment, four key questions can anchor facility planners:

1. How does this organisation make money?
2 How will it make money in the future?
2. How does this space align with the organisation's strategy?
3. How does this space save money?

Making Money: Then

In the past, companies made money through repetition and replication. The workplace was populated by administrators who focused on improving profits by doing the same things better. There was little variation in day-to-day, nose-to-the-grindstone activities.

Since tasks were repetitious, adequate preparation for a job could take place within formal classrooms. Watchwords for this era were: predictabilily, conformity, rigidity and complacency. Competition was based on slowly making minor improvements to existing products and services. Customers bought from remote, unresponsive, suppliercentric sources. In this kind of economic environment, new ideas were discouraged, while creative people were typically considered time-wasters or trouble-makers.

During the early 1980s, Japan's model for economic success shook many industries out of their longstanding complacency. The quality movement and re-engineering efforts of the past 20 years were aimed at improving profits through simple cost-cutting. By subtracting unnecessary errors, or people, or steps, companies were able to become lean machines.

Making Money: New and in the future

Where can managers turn to improve their bottom line, once obvious costs have been removed through quality and re-engineering programmes? The next source of financial gain is "the two is": the Internet and innovation. The Internet lowers internal and external transaction costs. Innovation yields new products and services. Aithough incremental improvement is still important, companies must increasingly look for new ways to engage customers and developing product breakthroughs.

But the task of capturing the financial benefits of the Internet and innovation is not a simple step-by-step exercise. There are no precedents to follow, and the work is unpredictable. A degree of collaboration, original thinking, and ongoing learning is required that has never before been seen in the workplace.

Collaboration, thinking, and learning, therefore, are how companies make money today. For example, the task of figuring out how to best exploit the Internet for cost savings is a complex issue that is much more than a job for IT; it requires cross-functional collaboration. The process of moving HR functions or sales and service online involves the input of many well-informed participants.

Success in this arena depends on what the organisation knows and can learn. In essence, companies sell their current knowledge and their

capacity to create new knowledge. Such knowledge includes: What do we know about customers? What do our customers value? What would customers value that is not currently available? Even the auto industry is beginning to understand that it is selling more than a manufactured product: a car or truck is really the embodiment of their know-how or ignorance.

The workplace, therefore, is becoming a hub for creating, expanding, and selling knowledge. Whereas the traditional role of administration offices was to support manufacturing assembly lines, the entire company is today's driver of economic activity.

What is the role of space In implementing organisational strategy?

Most companies struggle with strategy implementation a fact that has caused businesses to suffer great losses and several CEOs to lose their jobs. Managers typically need help in seeing how their facilities are barriers to or enablers of " walking the talk." To make the link between facilities and strategy clear, we need to begin with what the company says it wants to do. Then we must ask: how will people do this (live the strategy) on a daily basis? What do they need to do differently? If a company says it must be innovative to succeed, then how does the physical environment help or hinder innovation? Does the space inspire people? Does it encourage people to collaborate spontaneously?

Utilising a "say do" or strategic gap analysis is not just something that is "nice to do". The survival of a company depends on its capacity to do what it intends to do. Closing this gap has major financial consequences. Business history contains many stories of companies that failed or languished because they did not monitor these kinds of indicators.

How does this space save money?

Current estimates indicate that as little as 20% of the value of a company is reflected on its balance sheet. The balance sheet is a historical snapshot which tells little about the company's prospects for ongoing profitability. The search for more useful leading indicators (including early warning signs of trouble) has fuelled interest in measuring intangibles. Accountants and astute managers are experimenting with ways to monitor the invisible assets - or hidden costs - that have an impact on the bottom line. Real estate, for example, has both a visible and invisible cost. If the physical environment is a barrier to getting work done profits are likely to suffer. Strategically planned facilities save time and money.

What must companies do to support their most valuable economic activities?

Once a company recognises that, it, is in the business of selling knowledge, it can, take steps to support the creation, exchange,, and. expansion of. insight and ideas. This means providing spaces that encourage cross-fertilisation, places to think without distraction, and areas that support social learning. Since people must be motivated to use their discretionary effort, spaces that do not inspire are wasting human potential.

Avoid the cost of confusion: Understand the difference between fads and trends.

Thirty years ago, open "office landscape" planning was the approach *du jour* aimed at improving workplace communication. Since that time, partitions have risen and fallen, in tune with the latest planning fads as *they* swept through the design and facilities management professions. Today, cost-conscious managers are again trying to convince employees that open office is always the best answer. Doubters of this dogma are regarded as hopelessly "old school".

Decision-makers who truly want to improve productivity need to understand the difference between conventional wisdom (design fads) and real people trying to do real work in a knowledge-based world (workplace trends). Rather than risk being this year's workplace fashion victim, they can avoid five planning pitfalls:

Pitfall 1. The ratio of public to quiet space is out of balance

Some companies confuse quantity of communication ("Let's take down all the partitions.") with quality of oommunication ("Let's offer people a variety of private and interactive spaces to suit a range of activities.") To identify the bottom line consequences of imbalanced public/quiet space, ask employees what percentage of their typical day is unproductive due to noise that prevents them from concentrating on their work. Then ask them how much time they waste looking for places to hold impromptu meetings. Chief financial officers would be shocked to hear the results of this analysis.

Pitfall 2. Strategic business goals are thwarted by the physical environment

Take for example an organisation which seeks to minimise organisational "silos" by promoting cross-functional communication. A survey of this facility indicates that human interaction takes place in only a few, pre-booked meeting rooms and one isolated cafeteria. By contrast, a competing firm with similar goals plans their interactions around a central hub space that features comfortable seating as well as formal and informal meeting rooms. What are the bottom line productivity losses or gains for these different approaches to space planning? What are the capital costs when a company cannot execute its communication strategy due to planning barriers?

Pitfall! 1.IndiWduals must work around a poor planning;solution•

During.the'mass production era of the Industrial Age,, people adjusted! their, activities to fit standard office conditions,.and:the cost of downtime caused by

inappropriate space, noise, or other planning deficiencies seemed insignificant. Today, the value of time and motivation is too great to overlook. As a result, community-based and activity-based planning is replacing uninspired universal solutions. Rather than asking people "Can you live with these conditions?", the cost-sensitive questions should be "`What is the range of tasks you perform in a day?", "With whom should you be interacting?", and "What kind of environment would inspire you to do your best work?" Such user-centred design is a growing trend because it aims to reduce the costs of lost productivity.

Pitfall 4. The design scheme contributes to stress-inducing visual clutter

Industrial era work was predictable and repetitive, with boredom being the greatest risk to productivity By contrast, present-day knowledge-based work tends to involve non-routine issues and complex decision-making. In fact, experts estimate that more than 70% of tasks undertaken today in organisations are being tackled for the first time. This means that knowledge-based projects are inherently stressful, without the added imposition of a chaotic physical environment. Today's fast rate of growth and/or contraction typically ends in a haphazard, bums in seats approach to space planning. The outcome. A cluttered work environment. Coping with this visual confusion is costly in terms of employee motivation, morale, and retention.

Pitfall 5. Superficial "tokens of fun" do not meet user's true needs

Ping pong tables and humorous decorating touches are great if they are generated by the people who use the space, rather than being imposed by designers. Today's cool office design cliches will not be enough to adequately address complex communication and staff retention issues. A truly great place to work builds social capital by creating an entire physical environment that reflects real concern for user needs. Studies have indicated that the number one reason people join a company is the chance to collaborate on challenging projects, not the standard hip amenities. Therefore, a deeper analysis of work activities and communication requirements should be undertaken to support these vital activities.

Conclusion

Today, many companies are trying to do the work of a knowledge-based economy while coping with administration-style offices of the industrial era. Unlike the pre-determined work of assembly line environments, sustainable success comes from collaborating, thinking, and learning. Support for this work is an economic decision. Awareness of planning pitfalls, combined with a strategic gap analysis, is the key to achieving a high return on your workplace investment.

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The paper was *presented* at the International Facility Management Association's World *Workplace Conference, 2001.*

How Knowledge Work Gets Done

• higher productivity	= support a range of tasks? (from high interaction to high concentration) minimize distractions?
• boundaryless collaboration	= provide multi-purpose meeting space for cross-functional interaction?
• attract and develop strategic talent	energize and inspire?
• strategic use of real estate	= emphasise smaller and private offices? (offset by a variety of public spaces)
• social learning through interaction	encourage impromptu communication?
• continuous innovation	= display collaborative thinking? whiteboards etc.
• faster decision making	provide easy access to people and technology?
• working environment is aligned with values, mission, and strategy	allocate workspace according to task and goals? (rather than status)

Financial reporting: The drive for global convergence of valuation & accounting standards

If globalisation is the distinctive feature of our age, then the link between international standards and globalisation determines the level of relevance that standards may have. The need for standards recognises that a number "911" is meaningless without context and structure. The need for international standards recognises that "911" can be misleading if people approach it with different contexts and structures in mind.

International accounting and valuation standards are focused on information and, more importantly, on providing context and structure to that information. Their goal is to provide balance to situations where there is asymmetrical access to information. Where information is imperfect an arms-length market will not function efficiently, since an arms length market runs on actors' rational economic decisions. A non-arms length market may not require professional institutions to regulate information, since there may be social, political and cultural constraints on actors that regulate transactions and prices.

With the increasing emphasis in globalisation, free-markets and deregulation are becoming more widespread, and the need for information, context and structure, to enable arms-length transactions increases, as does the relevance of international standards.

This is the common background for international Accounting Standards (IAS) and International Valuation Standards (IVS). Convergence and divergence have been observed as typifying the globalisation landscape, and fragmentation as typifying the global age. In this regard the IVS and IAS are truly children of globalisation. This paper will examine areas of convergence, particularly the financial reporting standards, and of divergence between the two frameworks that aim to structure and place in context information, with the goal of balancing asymmetry in access to information. It will focus on the importance of consistency in principle and application and examine the implications of the observations and offer suggested mechanisms for consistency.

Integration of valuation and accounting in financial reporting

In financial reporting, valuers' and accountants' roles are integrated. As measurers, valuers are charged with the responsibility of providing consistent valuations for inclusion in financial reporting statements. As reporters, accountants have the responsibility for understanding the regulatory framework, ensuring the valuer's instructions are clear and the values adopted are in fact completed on the correct basis.

Difference in detail can make it difficult to understand what "911" means, however, these differences are not generally fundamental. As the International Accounting Standards Board (IASB) moves to a "fair value" basis the potential for divergence increases (refer IAS 16 below). The USA has an "historic cost" approach which currently is an allowed alternative to fair value. Historic cost does not require valuer assessments, unless impairment is likely. As many other countries allow both modified historic cost and or historic cost so the reader of accounts must be astute.

There are also differences from a valuation perspective. Unlike IAS 16, valuation standards do not allow an "either/or" option, but they do enable the application of an alternative method with the proviso that non-compliance with standards be disclosed.

International Accounting Standard 16

For valuers, international debate has heightened since the removal of the Market Value for the Existing Use (MVEU) concept from International Accounting Standard (IAS) 16. It raised a number of questions, and challenged existing international valuation practice.

The relevant amended section of IAS 16 is:

Benchmark treatment

28 Subsequent to initial *recognition* as an asset, an item *of property,* plant and equipment should be carried at its cost less any accumulated *depreciation* and any accumulated impairment losses.

Allowed alternative treatment

29 Subsequent to initial *recognition* as an asset, an item *of property,* plant and equipment should *be carried* at a *revalued* amount, being its *fair* value at the date *of* revaluation less any subsequent accumulated *depreciation* and subsequent accumulated impairment losses.

Revaluations should be made with sufficient regularity such that the carrying amount *does not differ* materially *from* that which would *be determined* using *fair* value at the balance sheet date.

Revaluations

30 The fair value *of* land and buildings is usually its market value. This value is determined by appraisal normally undertaken *by professionally* qualified valuers.

31 *The fair* value *of* items *of* plant and equipment is usually *their* market value determined by appraisal. When *there* is *no evidence of* market value *because of the* specialised *nature of the* plant *and* equipment and because these items *are rarely* sold, *except* as a part *of a* continuing business, they *are* valued at *their depreciated replacement* cost.

The revisions to IAS 16 have created a divergence in theory and in practice. First, the IAS reference to fair value as usually being market value is a theoretical divergence in definition. Second, "Market Value for the Existing Use" remains a cornerstone in valuation practice.

1) Theoretical divergence: Fair value vs market value

Fair Value is defined by reporters as:

"the amount *for* which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction".

Market value is defined by measurers as:

"The estimated amount *for* which an asset should *exchange on the date of* valuation between a willing *buyer* and a willing *seller* in an arms length transaction *after proper* marketing wherein the parties had *each* acted knowledgeably, prudently and without compulsion.

This definition of market value has international acceptance and forms the single most important foundation of valuation practice.

Market value of a property is based on the premise of highest and best use, as described in IVS 2001, concepts and principles:

6.0 Highest and best use

6.1 Land underlies all existing things and, with *rare* exception, has *a permanence beyond the life of* individuals. *Because of the* immobility *of* land, *each real estate parcel* possesses a unique location. Land's *permanence* also means that it will normally *be expected* to outlast those uses and those improvements imposed on *it by* human *societies.*

6.1.1 The unique *characteristics of* land *determine its* optimal utility. When *improved* land is valued separately *from improvements to or upon* the land, *economic* principles *require* that improvements *to or* on the land be valued as they contribute to *or detract from* the total value *of the property*. Thus, market value of land based *upon the* "highest and best *use" concept reflects* the utility and *permanence of* land in the context *of a* market, with *improvements* constituting *the difference* between land value alone and total market value as *improved.*

6.2 Most *properties are* valued as combination *of* land and improvements. In such cases, the valuer will normally estimate market value by considering the highest and best *use of the property*

Discussion

The market value standard is contained in IVS2001 Standard 1 "Market Value Basis of Valuation". It is fundamental to the practice of valuation internationally and yet the accounting industry constantly tries to bend it to fit fair value. If valuers are to be subject to any form of accountability for the figures reported then there must be a consistent reference point. Market value is that reference point. Market value is at a specified date and therefore it is unnecessary to refer to it as current market value. Market value assumes the property has been properly marketed and therefore it is unnecessary to refer to it as an open market value. Convergence will be achieved when market value is never qualified by such words as "open" and "current", although it may be necessary to use net market value when determining the market value less disposal costs.

Fair value in accounting standards has historically been an amorphous term and it still has various applications in various circumstances. Valuers are not expert in the accounting applications or circumstances and their effects on fair value and hence there is potential for misunderstanding of figures to be supplied. In other words, the "911" reported may not be the "911" requested.

2) Practical divergence: The persistence of market value for the existing use

Market value for the existing use was defined by IVS as:

"The market value *of* an asset based on continuation of its existing use, assuming the asset *could be sold in* the *open* market *for* its existing use, and *otherwise in keeping* with the market value *definition regardless of whether or* not *the* existing use *represents* the *highest* and best *use of the* asset."

The normal valuation practice did not apply to valuations for financial reporting, as the highest and best use principle was put aside in this context. The IVSC standards previously set the existing use valuation policy as follows:

The previous IVSC 3-7 (1995)

4.3 "Generally, the need *for* asset valuations conducted in conjunction with *the preparation of* financial statements and related accounts implicitly *requires* that

owner-occupied assets be valued in accordance with their existing use and in consideration of the enterprise continuing in operation. If they are declared by the directors as surplus to the needs of the enterprise, such assets would be valued at their highest and best use rather than under the existing use concept. Similarly, assets owned by the enterprise ordinarily classified as investments are valued at their highest and best use rather than for their existing use.

"The rationale for distinguishing existing use assets from other assets in the valuation process is that a business cannot, as a practical matter, sell assets which are necessary to its operation and still be productive. The sale of such assets would be inconsistent with continuation of the business. By contrast, estimating the market value of existing use assets correctly represents the market-based contribution of those assets and is consistent with market value methods applied in valuing other assets."

4.5 "Continuation of the business is fundamental to accountancy and to the valuation presumption that the particular enterprise will continue in operation for the foreseeable future ..."

6.1.4 " ... Existing use contemplates continued use of the asset for its same application as of the date of valuation having regard to the asset's capacity to continue contributing to the value of the enterprise, but not considering alternative, more probable uses, if sold."

Discussion

The fair value model adopted in the International Accounting Standards does not allow property, plant and equipment to be valued by any method other than market value. Here there are two levels of potential divergence, firstly if a country does not adopt the principle as in the case of the UK, and secondly, if valuation practice does not embrace, or embraces in part the change, as is the subject of current debate in Australia and New Zealand.

In addition, MVEU does not fit within the IAS application of fair value to both the land and improvements. That is, both components should be assessed at their highest and best use value the land as if vacant, and the improvements at the added value they provide to the land. This is discussed further later in this paper.

I believe that the reason for the reluctance by national bodies and practitioners to adjust to the change to market value is mostly due to uncertainty of application and outcome in the fair value model.

Areas of debate

Other divergences which may cause confusion in the context and structure of financial reporting are:

- The assumption that, all asset types are separable. ie, land can be separated from improvements;
- The conflict between the going concern assumption and fair value;
- That valuation of some classes of assets assume occupancy based on normalised cashflows which can be allocated to asset components, whilst another category, owner occupied property should be treated differently.
- The confusion created by the market value-MVEU debate when calculating DRC.

Value is derived from the use and potential uses a property can be put to. Some properties have clearly defined cashflows and hence value derivatives. Others such as universities and hospitals may rely on public funding requiring valuation to be based on market modeling. Whilst reporters consider land is separable, in the market place it is not.

1) Separation of land and improvements

The Accounting Standards view land and buildings as separable assets. Economically, they are not. Land can be enhanced or blighted by the "improvements".
Valuation law is generally supportive of the notion that the value of improvements is the added value they give to the land. Some improvements, those of a lasting and permanent nature, are classified as land and are not depreciated.

As the world becomes more complex, questions are being asked, for example, how to record land reclaimed from the sea? Should it be at the rate of the surrounding land similarly zoned? It is the logical solution, but what if there is no other land, say for airport expansion and the cost of reclamation is tenfold the closest replacement land. How do you treat a resource consent cost? When it is associated with a permanent change in use potential then it forms part of the land, when it is entity specific, or use specific, then it expires with that use. That is, sometimes the consent is of a lasting and permanent nature, running with the land, and sometimes it is not. Where there is a market for land with consents, there is no issue.

2) Going concern

The financial statements are to be prepared on a going concern basis. The reporters place the measurer's assessments in the balance sheet on the presumption that the asset is correctly classified as property, plant and equipment and that the entity requires that resource in order to continue in operation.

lAS 1 para.23

When preparing financial statements, management should make an assessment of an enterprise's ability to continue as a going concern. Financial statements should be prepared on a going concern basis unless management either intends to liquidate the enterprise or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions which may cast significant doubt upon the enterprise's ability to continue as a going concern, those uncertainties should be dsiclosed. When the ifnancial statements are not prepared on a going concern basis, that fact should be disclosed, together with the basis on which the financial statements are prepared and the reason why the enterprise is considered not to be a going concern.

In the measurers' terms, property value is created by the future usefulness of an asset in its highest and best use. The level of value is influenced by the profitability or future service potential which an asset contributes to an entity. Often the IAS requires the reporters to separately report the components of value, whereas for a valuer it maybe difficult to separate/allocate the income earning potential from/to the land and buildings.

3) Owner Occupation

Valuers worldwide differ in the treatment of an owner occupied property. The two common treatments are:

- Reference to a market for occupied leased property, or:
- Reference to a market for vacant property.

The outcomes can be quite different depending on which is applied.

UK valuers follow the vacant possession model, ie, the price that would be paid in the market for vacant premises. Australia and New Zealand valuers follow a prescribed notional lease model. There is a lot of discussion on merits of each and consistency of application. I support the notional lease stance as having greater consistency and more accurately reflecting the reality of the situation for the following reasons:

Consistency with analogous valuation principles:

- A notional lease approach is consistent with the treatment of owner occupied property such as hotels and motels where the asset is essential to continuing business.
- Other non market methods of valuation (for example, DRC) are on an occupied basis, subject to the adequate potential profitability or service potential of the enterprise.
- A notional lease is consistent with the treatment of investment property where the strength of the tenant is what underpins the value. Investment property is not viewed as vacant, on a least cost replacement basis.

Accuracy in reflecting the economic situation reported is significant in practice and in the IAS standards, which notes relevance as being important:

- The reporters assume that the entity is a going concern. The value measured should be between the net selling price and value in use. To be meaningful, this must be fair value: ie, the amount a similar business would pay for the use of the asset on an ongoing basis. The value is essentially an apportionment of the normalised enterprise value.
- Where an entity occupies leased premises then an annual commitment is transparently included in the accounts. If an entity were valued on the presumption of relocation each balance date then it would require complex and artificial recalculations.
- Vacant possession ignores the time and cost of fitout and other costs of adaptation.
- The entity has the option of transferring the "risks and rewards of ownership" through creating a lease without affecting the business value.

IVSC is working to get the Australian Property Institute (API) and Royal Institute of Chartered Surveyors (RICS) to agree a joint position on this and seeking clarification from the accountants. This falls within the remit of the Revaluation Group of the accounting standard setters from Australia, New Zealand, South Africa and UK. According to the UK ASB, these are the first tentative conclusions from the first meeting of the group:

a) where the current value of an asset exceeds its existing use value, for example because of the possibility of development for an alternative use, that value should be recognised in the balance sheet. This differs from the requirements of FRS 15, under which such an asset, if revalued, would be recorded at existing use value and the higher open market value would be disclosed in the notes to the accounts.

b) depreciated replacement cost has some application for specialised assets, for which there is no active market.

c) where an asset in a class is revalued, the whole class should be revalued and at each balance sheet date the assets should be shown at their current value.

d) where a policy of revaluation had been adopted, in general, there should not be an option of reverting to historical cost at a future time.

e) there is a case for supplementary disclosure where historical cost is used and there is a significant difference between it and current values.

4) Depreciated Replacement Cost

Should DRC be based on the MVEU of land? If not, how is the element of economic obsolescence measured?

There are two fundamental valuation standards: First, market value and, second, non-market value. When a property is sufficiently specialised, valuers make the judgment to adopt a non-market approach. Depreciated replacement cost (DRC) is the primary method for estimating non-market value assessments.

Valuers are currently calculating land either at MVEU or at market value when estimating depreciated replacement cost. The following is the IVSC current version:

"DRC is an acceptable method used in financial *reporting to arrive* at a surrogate *for the market* value *for* specialised *or* limited market *properties, for* which *for* which market *evidence* is unavailable. DRC is *based* on an estimate *of the current* market value *of* land *for* the existing use plus *the current* gross replacement *(or reproduction)* costs *of* improvements less allowances *for* physical deteri*o*ration and all relevant *forms of obsolescence* and optimisation.

The result, which includes a non-market value component, is *referred* to as *the depreciated replacement cost* esti*m*ate. This *result* is *subject to* the adequate *potential profitability or service* potential *of the* enterprise."

The reference to Market Value of Land for the

Existing Use has no basis in the current LAS financial reporting standards. This incompatibility of IAS and IVS creates a risk for measurers and for those seeking to rely on reported values. It does not comply with the highest and best use principle of IVS 2001. Harmonisation is important and is urgently required on this matter.

A direct reference within IAS 16 would solve this problem. It could be worded as follows:

Fair value shall reflect the market value *of the* asset based on its highest and best use assuming continued *occupancy by* an entity requiring a similar *service* potential to that embodied in *the particular* asset. In the case of *property, market* based *evidence* might exist *for either the* land *component* or the *property* in aggregate. *Depreciated replacement cost* is used as an estimate *of the fair* value only *where the fair* value *of the property* in aggregate cannot be reliably determined using market based evidence.

The issue of land being a separable asset is raised again in IAS 16, para 45:

Land and buildings *are separable* assets and are dealt with separately *for* accounting *purposes, even* though *they are* acquired *together.* Land normally has an unlimited *life* and, *therefore,* is *not depreciated.* Buildings have a limited *life* and, *therefore, are depreciable* assets. An *increase* in the value *of* land on which a building stands *does not affect the determination of the* useful *life of the* building.

If the value of the land increases, and the value of the property does not increase at the same rate, then the value of improvements must change. There is a strong likelihood that the improvements will be affected by economic obsolescence. The IAS apportionment of land at market value accurately reflects the position of the land. However, the problem of the effect of land value increase on the useful life of the building (economic) is overlooked and this adds confusion.

Clear guidance within the IAS 16 is needed. For example:

Land is to *be reported* at *fair* value as *determined by reference* to market based evidence. *Where there* is no market, cost based *methods are* to be applied, *provided* that all elements *of cost are of a* permanent and lasting nature. *These* include costs associated with, *reclamation, resource* consents, and demolition.

Costs associated with *the* land *of a non-permanent* basis *are to be classified* as *improvements. These* include *resource* consents *for* specialist *properties,* such as timber mills and nuclear *power* plants, *where* the consent *clearly* has the same *economic life* as *the improvements.*

Conclusions

If you choose to operate a market economy, let alone a global market economy, then the valuation principle chosen must resolve issues of asymmetrical information. This means that when people talk numbers to each other, those numbers must truly reflect the property in the market. The principle must be applied consistently. This means that when people talk numbers they know what is meant. The need for consistency and predictability is a requirement for arms-length transactions, which principles provide it and what part of the world they come from does not matter.

IVSC has endeavoured to select principles that achieve consensus across a range international expertise. This process acknowledges that there are many principles from which to choose, but the global market environment necessitates that one be chosen. We have tried to choose the most generally acceptable one, the one that does the best job, generally. Just as social, political and cultural principles serve to regulate non-market economies, where a principle may work well in one particular country, albeit with a market economy, it does not necessarily mean that the principle is adequate on its own to resolve asymmetrical information. It could mean that there is a culture in the market educating participants to add compensatory meaning to the information promulgated. A culture specific principle to international standards could fail to translate effectively across borders into other cultures.

The goal of standards is to develop accounting and valuation principles that provide consistent and accurate context and structure to reporting. The IASB and IVSC have endeavoured to achieve this together. The goal of consistency and accuracy specifically requires a strong cross-reference to market value definition within IAS publication (rather than fair value) and a direct reference in IAS 16 to assessment of land at market value based on highest and best use (to avoid the MVEU confusion). By working more closely together on these and other issues, convergence on important issues will help us to achieve our mutual goals.

Convergence of standards is not just a theoretical issue these days. Countries are beginning to impose use of IAS, which carries with it implications for national valuation standards. The European Union is possibly the leader in this because of the need for one set of accounting standards and reluctance to develop regional standards. There is growing pressure for valuers in the EU to value under IVS rather than national standards which is evidence by the recent release from the European Public Real Estate Association which is calling for use of IVS from end of 2002. Singapore has also just recently announced that it is to adopt IAS to bolster its position as international financial centre. This is going to put pressure on other countries in the region.

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This *paper* was *presented* at *the Pacific* Rim Real Estate Society *Conference* held in Christchurch *early* this *year.*

The compulsory use of international valuation standards in Europe moves closer

As the Financial Reporting Group of Ernst & Young says: "By adopting IAS, Europe is embracing a vision for financial reporting that is not necessarily that widely known or understood. It is a vision that considers fair value measurement to be paramount, and rejects historical costs, accruals and the realisation principle as irrelevant".

Once finally through the EU political machinery the regulation on the use of IAS by all EU listed companies, including banks and insurance companies, takes direct effect in EU member states. There is no requirement for the regulation to be transposed into national legislation. The regulation calls for the use of IAS by 2005 at the latest. In some cases adoption will be even earlier. For example, IAS must be used as from 2004 by companies listed on Euronext.

A technical expert group of the European Financial Reporting Advisory Group (EFRAG) has been created to provide high-level technical expertise to the European Commission concerning the use within the European legal environment of the IAS. EFRAG represents the main private sector groups closely involved in financial reporting, namely the accounting professions, stock exchanges, financial analysts and companies preparing accounts (including credit institutions and insurers). The commission and FESCO, the Forum of European Securities Regulators, are observers on the group. In January this year the International Valuation Standards Committee (IVSC) gave a presentation to the group.

The IVSC team of John Edge, IVSC chairman elect and UK representative, and Marianne Tissier, IVSC executive director, were joined by David Cairns, director, International Financial Reporting, and a past secretary-general of the international Accounting Standards Committee.

The IVSC message was simple. It supports the adoption of IAS in the EU and to achieve comparability and transparency, IAS financial statements should comply fully with IAS; should be audited in accordance with International Standards on Auditing (ISA); and any allowed or required valuations should be determined in accordance with International Valuation Standards (IVS). To achieve consistency between IAS and IVS, the International Accounting Standards Board (IASB) determines the measurement basis and the IVSC determines the valuation standards for achieving that measurement basis. Similarly, to ensure consistency between ISA and IVS, the International Auditing Practices Committee (IAPC) determines the audit evidence; the IVSC determines standards for expert advice on valuations.

Asset valuations are an option under IAS 16, *Property* Plant and Equipment, (alternative measurement basis), LAS 40, Investment *Property* (fair value model although even if the cost model is chosen, the fair value should be disclosed), and IAS 20, Government *Grants* (grant of non-monetary assets). Asset valuations are required under IAS 22, Business Combinations (initial measurement of acquired identifiable assets), IAS 19, Employee Bene*fi*ts (assets held by a long-term employee benefit fund) and IAS 36, Impairment of Assets (net selling price).

The IVSC team also referred the group to the recommendation of the European Public Real Estate Association. EPRA represents the leading real estate companies, investors and advisors in Europe. It has recently published best practices policy recommendations aimed at making the financial statements of public real estate companies clearer, more transparent and comparable across Europe to improve the industry's reception amongst the investment community and recommends the use of international Valuation Standards by its members for 2002 fiscal year-end financial statements. Compliance with the recommendations will be a basis for EPRAs Best Annual Report sponsored by Dutch pension fund, PGGM.

Copies of the 2001 edition of IVS were distributed to all members of the technical expert group who gave a warm welcome to the IVSC presentation and asked that a regular dialogue be maintained.

For further information on the IVSC, visit www.ivsc.org

A copy of the EPRA recommendation is available on www.epra.com

Marianne Tissier
executive *director* IVSC

Timberland market trends in the southern USA

Timberland values at any given time relate directly to the economic expectations of prospective buyers and sellers. These buyers and sellers are influenced by national, regional and local trends. General economic conditions, as well as those specific to the forest products industry affect the value of any given tract, or parcel of timberland.

In a period including 1992 to 1997, land in farms decreased by 8.3% in the 12 states comprising the southern USA. For the same period, land in farms decreased by 10.2% in the seven southern USA states for which detailed data were available for this analysis. These trends are considered to result from improved agricultural production and the development of off-farm employment.

Forests in southern USA occupied 187.3 million acres as reported in the most current surveys made available by the United States Department of Agriculture. This number is 57.8% of the land area and indicates a 1.6% increase in forestland from the surveys published 10 years prior. The seven southern states detailed show 106.4 million acres, or 61.4% of the land area, which is also a 1.6% increase over the study period.

Of the 187.3 million acres of commercial forestland in the southern USA, the majority is privately owned (89.2%). Only 10.8% is owned by national forests or public agencies. The forest industry owns 20.4% of the timberland acreage. The largest category of ownership is miscellaneous private with holdings amounting to 68.8%. The seven state area statistics showed 92% was privately owned, 8.1% owned by national forests or public agencies, 22.8% by forest industry, and 69.2% by miscellaneous private owners.

Predominant timber types of the southern USA are pine and hardwood. Pine and pine-hardwood types cover approximately 49% of the timbered acreage, while hardwood covers 51%. Fifty-four percent of the seven southern states area is pine and pine-hardwood and 46% is hardwood only types.

The southern USA states (area below dark outline) and the seven southern states used in this analysis are shown on the following map in relationship to the continental USA.

The issues covered in this article are:

- The stratification of the timberland market in the southern USA
- The impact of tract size in relation to value
- The relationship between timberland and agricultural land values
- Southern USA timberland lease agreements
- The significance of location and access in relation to value

The stratification of the timberland market in the southern USA

In the timberland market tracts vary in size and market structure. They may be small tracts, usually 500 acres or less. They may be medium sized timberland assets that are between 500 acres and 2000 acres. They may fit the category of large tracts which are between 2000 and 10,000 acres, or they may be very large tracts which are generally greater than 10,000 acres. The emphasis given to each valuation approach (ie, cost, income or sales) varies from category to category. Keying on observations of Edward Travis RE, MAI, characteristics of the different market strata can be summarized as follows:

A. Small tract 500 acres and less

1. Many sellers and buyers

2. Simple valuation techniques add land to timber value
3. No stumpage or land discounts ie, retail
4. Hunting and recreation very important
5. Forest management is do it yourself
6. Local wood dealers very active
7. Sellers and buyers less sophisticated
8. Adjoining land and emotional interests
9. Local lenders involved
10. Income tax considerations less significant

B. Medium tracts 500 acres to 2000 acres
1. Recreation (ie, hunting) very important factor
2. Buyers may be small group or individuals
3. Wildlife and game management is much more important
4. Location close to urban areas
5. Buyers have some knowledge of forest management-will use consultants
6. Diversity of land and timber types
7. Tax implications can be important
8. Cost and sales comparison used as main valuation approach, some income assessment
9. Timber sales usually handled by consultants
10. Wood dealers tend to be less active. Larger wood-users may bid for just timber on tract
11. Little attention paid to stumpage and land discounts
12. Source of financing less important to buyers
13. Many sales closed with simultaneous timber sales to pay for the tract

C. Large tracts 2000 to 10,000 acres
1. Partnerships and groups compete less for tracts. Pension funds or forest industries are primary market participants
2. Income approach to value becomes more relevant
3. Forest management and timber revenue of paramount concern
4. Recreational use becomes less important except as an offset to taxes and other fixed expenses

D. Very large tracts 10,000 acres +
1. International and national buyers fewer participants
2. Forest industries and investment funds buyers and sellers
3. Large scale economics involved including wood base for mills in long range strategic plan fiber agreements

	Pine Land			Hardwood Land		
	Study Periods			Study Periods		
Acreage Range	1/95 - 6/96	1/98 - 6/99	7/99 - 5-01	1195 - 6/96	1/98 - 6/99	7/99 - 5-01
80 to 1,00	$353	$733	$1,163	$218	$433	$739
1,001 to 2,00	$332	$959	$724	$216	$468	$413
2,001 to 5,00	$200	$565	$673	$69	$400	$460
5,001 to 10,00	$0	$512	$600	$0	$351	$237
10,001 to 20,00	$208	$0	$682	$132	$0	$269
20,001 to 50,00	$359	$551	$485	$174	$278	$160
50,001+	$276	$258	$407	$175	$150	$224
Grand Total	$288	$551	$491	$177	$347	$267

	All Timberland			Agricultural Land		
	Study Periods			Study Periods		
Acreage Range	1/95 6/96	1/98 - 6/99	7/99 5-01	1 /95 6/96	1/98 - 6/99	7/99 5-01
80 to 1,009	$330	$687	$1,092	$540	$1,001	$1,761
1,001 to 2,00	$302	$889	$622	$280	$964	$1,509
2,001 to 5,00	$185	$527	$616	$250	$512	$1,207
5,001 to 10,00	$0	$495	$517	$0	$0	$0
10,001 to 20,00	$205	$0	$586	$0	$0	$0
20,001 to 50,00	$327	$471	$347	$0	$0	$0
50,001+	$213	$391	$383	$0	$750	$599
Grand Total	$271	$523	$453	$473	$878	$1,342

HARDWOOD LAND VALUE AS A PERCENT OF PINE LAND VALUE

	Study Periods		
	1/95 6/96	1/98 6/99	7/99 5-01
Alabama	75%	62%	57%
Georgia	61%	51%	44%
Louisiana	48%	41%	67%
Mississippi	65%	89%	68%
Oklahoma	80%	127%*	35%
South Carolina	49%	50%	52%
Texas	55%	44%	37%
7-State Average	61%	63%*	54%
Agriculture Primary Use	-	-	61%
Agriculture Secondary Use	-	-	54%

*The pine to hardwood relationship in Oklahoma in January 1998 to June 1999 period is skewed by the lack of pine land sales in the 80 to 2000 acre size classes. Therefore, the 7-state average was developed without the Oklahoma data, with Oklahoma it was 73%.

TIMBERLAND LAND VALUE AS A PERCENT OF AGRICULTURAL LAND VALUE

	Study Periods		
	1/95 6/96	1/98 - 6/99	7/99 - 5-01
Alabama	46%	54%	31%
Georgia	31%	38%	43%
Louisiana	43%	55%	83%
Mississippi	67%	71%	45%
Oklahoma	35%	26%*	45%
South Carolina	35%	-	17%
Texas	68%	85%	54%
7-State Average	57%	59%*	34%
Agriculture Primary Use	-	-	57%
Agriculture Secondary Use	-	-	34%

*The timberland to agriculture relationship in Oklahoma in January 1998 to June 1999 period is skewed by the lack of pine land sales in the 80 to 2000 acre size classes. Therefore, the 7-state average was developed without the Oklahoma data, with Oklahoma it was 62%.

4. Timberlands may be part of larger package-mills

5. Sophisticated analysis of current and future income potential

6. Cost approach to value usually less reliable. Sales comparison approach can be difficult to use. Income approach most important.

7. Large consulting forestry firms may advise the buyers or sellers.

The relationship of tract size to value

Regional land sales (those involving 1000 to 2000 acres or more of timberland) tend to trade at discounts from the values found in small, local timberland transactions. Depending on the size of the sales used when valuing a subject property in both the cost and sales comparison approaches, an adjustment for the wholesale/retail relationship may be appropriate. Comparison of the actual purchase prices of regional land sales with the values reflected in retail sales typical of local markets are shown in exhibit 1. This simple analysis relates only size with discount. Other factors, including total purchase price and location are also likely to be significant variables in determining the wholesale/retail relationship. The figures indicate that a discount is appropriate for a large property. A comparison was made of the current per acre, purchase prices and those from two prior similar projects. Results shown in the following table reveal that since the 1995 project, the size of the property sold played an important role in the values per acre.

Exhibit 1 also sheds some light on the relationship between land value and potential productivity. In the southern USA it is generally recognized that higher site, predominantly pine lands are more valuable than low site, predominantly hardwood lands. This relationship however is not easily extracted from the market data. It is most clearly seen in the classification of pine land vs. hardwood land. Hardwood land values range from 35%-68% of pine land values in the seven southern states reviewed and averaged 54% for the seven states as a whole. When one focuses on sales where agriculture is considered the primary or secondary use of the property, hardwood land value as a percent of pine land value ranges from 54%-61%. These values are similar to those exhibited by all sales by state.

The relationship between timberland and agricultural land values

Agricultural lands (pasture and row crops) have potential alternate uses as timberland. Since site preparation costs are minimal on these type lands, buyers are often willing to pay a slight premium over the going bare timberland value in areas where the agricultural economy has declined. In strong agricultural economies, returns to agricultural land are maximally productive, thus precluding timber production as the highest and best use.

In the southern USA, timberland values on average are 34% of agricultural land values. For the seven southern states reviewed in exhibit 1, timberland values as a percent of agricultural land values ranged from 17%-83%. A review of land sales where agriculture is considered the primary or secondary use of the property, timberland value as a percent of agricultural values ranged from 39%-54%. These values are similar to most indications exhibited by all sales by state.

2000 ALABAMA FARMLAND VALUES BARELAND

Agricultural Land Type	Agricultural Average Value Per Acre	Pine PU. Value Per Acre	% of Agric.	Hardwood Value Per Acre	% of Agric.
Crop	$1,433	$763	53.2%	$701	48.9%
Improved Permanent Pasture	$1,413	$763	54.0%	$701	49.6%
Unimproved Permanent Pasture	$1,134	$763	67.3%	$701	61.8%

S&S TIMBERLAND VALUE AS A PERCENT OF USDA FARMLAND REAL ESTATE VALUE

	S&S Timberland $/Acre*			2000 USDA Farm RE	S&S Timberland as % of USDA Farm RE		
	Lo	Hi	AAv	AAv	Lo	Hi	Avc
Alabama	$289	$1,013	$398	$1,680	17.2%	60.3%	23.7%
Alabama**	$490	$1,228	$740	$1,680	29.2%	73.1%	44.0%
Georgia	$471	$1,332	$755	$1,800	26.2%	74.0%	41.9%
Louisiana	$370	$743	$464	$1,250	29.6%	59.4%	37.1%
Mississippi	$423	$674	$519	$1,180	35.8%	57.1%	44.0%
Oklahoma	$272	$272	$272	$634	42.9%	42.9%	42.9%
South Carolina	$433	$1,314	$477	$1,600	27.1%	82.1%	29.8%
Texas	$296	$313	$299	$630	47.0%	49.7%	47.5%
7-State Average	$347	$1,092	$453	$1,307	26.6%	83.6%	34.7%

*S&S Lo is associated with large land sales and S&S Hi is associated with small land sales, Avg includes all sales (see exhibit 1)
**(Prevatt 2000)

A farmland value survey was conducted by J. Walter Prevatt, Professor and extension economist at Auburn University in 2000 (Prevatt 2000). Data shown in the above table were extracted from that survey.

Prevatt's survey found less distinction between reported pine land values and hardwood land values than those reflected in the S&S database. The reported average for pine land was $US763 per acre and for hardwood land $US701 per acre. This survey indicates hardwood land value as a percent of pine land value to be 92%. With respect to value differences between timberland and agricultural land, the results of this survey were similar to those reflected in the S&S database. Timberland values as a percent of agricultural land value ranged from 49%-67%.

Another source of farmland values is the Agricultural Land *Values* and Markets published periodically by the USA Department of Agriculture. The report provides comprehensive state and regional coverage. A comparison of S&S timberland values with the USDA farmland values indicates timberland as a percent of agland ranges widely from 17%-82%. Average indications by state are tighter and range from 23%-48% and average 35% overall. These results are summarised above.

Southern USA timberland lease agreements

Our work allows us to be involved periodically with timberland and lease agreements, either as a reviewer or as one who conducts surveys for price structuring. Over the years, lease terms have shortened and lease payments have increased. For early leases (1950s-1960s) in the south, lease terms generally ran from 66 to 99 years. Often lease payments were fixed for the entire term. For others, the initial lease payment was

escalated annually based on indicators like the Wholesale Price Index, Producer Price Index, or Pulp, Paper & Allied Products Index. This compensated the landowner only for increases brought on by inflation. Real increases in value accrued to the lessee.

Some of the later leases (1970s-1980s) reduced terms to 30 to 40 years and used changes in stumpage price series to adjust lease payments annually. These series include those compiled by Timber Mart-South, US Forest Service, and the various State Forest Commissions. The price series reflect changes in broad market areas and include both real and inflationary increases in stumpage values.

In the 1990s, there have been fewer landowners and timber producers interested in leasing timberland. Improved market conditions for forest products made it more attractive for landowners to manage the land for their own account. Also, by not encumbering the

TIMBER MART SOUTH AVERAGE PINE PULPWOOD STUMPAGE AS A PERCENT OF S&S TIMBERLAND VALUE

	S&S Timberland $/Acre			Estimated Rent TMS PPW 3Q99 1001	PPW $/Cord as % of Timberland		
	to	Hi	v,vg	0.9/Cord/AefYr*	Hi	Lo	AAv
Alabama	$289	$1,013	$398	$19.96	6.9%	2.0%	5.0%
Alabama**	$490	$1,228	$740	$19.96	4.1%	1.6%	2.7%
Georgia	$471	$1,332	$755	$21.13	4.5%	1.6%	2.8%
Louisiana	$370	$743	$464	$20.16	5.4%	2.7%	4.3%
Mississippi	$423	$674	$519	$19.14	4.5%	2.8%	3.7%
Oklahoma	$272	$272	$272	$14.77	5.4%	5.4%	5.4%
South Carolina	$433	$1,314	$477	$20.11	4.6%	1.5%	4.2%
Texas	$296	$313	$299	$18.70	6.3%	6.0%	6.3%
7-State Average	$347	$1,092	$453	$19.14	5.5%	1.8%	4.2%

* 0.9 cord per acre per year rent per current timberland lease
Note: TMS not available for Oklahoma, S&S database substituted **
(Prevatt 2000)

TIMBER MART SOUTH AVERAGE PINE PULPWOOD STUMPAGE AS A PERCENT OF S&S PINE LAND VALUE

	S&S Pine Land $/Acre			Estimated Rent TMS PPW 3Q99-1001	PPW $/Cord as % of Pine Land		
	Lo	Hi	Av	0.9/Cord/Ac/Yr*	Hi	Lo	Avg
Alabama	$380	$1,077	$437	$19.96	5.3%	1.9%	4.6%
Alabama**	$518	$1,210	$763	$19.96	3.9%	1.6%	2.6%
Georgia	$564	$1,434	$859	$21.13	3.7%	1.5%	2.5%
Louisiana	$367	$775	$473	$20.16	5.5%	2.6%	4.3%
Mississippi	$428	$706	$529	$19.14	4.5%	2.7%	3.6%
Oklahoma	$423	$423	$423	$14.77	3.5%	3.5%	3.5%
South Carolina	$458	$1,402	$498	$20.11	4.4%	1.4%	4.0%
Texas	$311	$325	$313	$18.70	6.0%	5.8%	6.0%
7-State Average	$407	$1,163	$491	$19.14	4.7%	1.6%	3.9%

* 0.9 cord per acre per year rent per current timberland lease
Note: TMS not available for Oklahoma, S&S database substituted **
(Prevatt 2000)

	Average Land Value $/Acre			Average Rent 5/Acre			Average Rent % of Land Value		
	Low	High	Average	Low	High	Average	Low	High	Average
Bare Cropland	$1,185	$2,014	$1,433	$47	$93	$66	4.0%	4.6%	4.6%
					(with irrigation)				
Bare Cropland	$1,185	$2,014	$1,433	$29	$46	$34	2.4%	2.3%	2.4%
					(without irrigation)				
Improved Pasture	$1,080	$2,109	$1,413	$20	$24	$22	1.9%	1.1%	1.6%
Unimproved Pasture	$905	$1,714	$1,134	$12	$16	$15	1.3%	0.9%	1.3%

land for a period of years provides more flexibility regarding land use changes. Timber producers, on the other hand, prefer land ownership over leasing since it provides greater management flexibility. They also avoid the threat of lawsuits if the fee owner disagrees with their management practices.

Today leases are still short, generally only one to two rotations in length (20-40 years). Lease payments are based on an estimate of the lands productivity in terms of annual timber growth and current stumpage prices. Lease payments are generally adjusted annually by indexing to one of the stumpage series cited earlier or by annual market surveys. Using the timberland values developed from the S&S database and Auburn University survey, Timber Mart-South average pine pulpwood prices, and payment terms from a current lease, we estimated timberland rents for each of the seven states. These rents were then compared to the range of reported land values by state. This analysis indicates that current timberland rents are likely to range from 1.5%-6.9% of bare timberland values and average 4.2% overall. If only bare pineland values are considered, estimated rents as a percent of pineland value drop to 1.4%-6% and average 3.9% overall. These results are summarised on the previous page.

The agricultural land survey conducted by Auburn University (Prevatt 2000) also reported on agriculture rents paid in Alabama.

Average agricultural land values and average cash rents were reported for six USDA Agricultural Reporting Districts. The average-low, average-high, and overall average for each value component are shown in the above table.

Average rent as a percentage of agricultural land value ranged from a low of 0.9% for unimproved pasture to a high of 4.6% for irrigated cropland. These agriculture rents to agriculture land value ratios are consistent with those developed for timberland.

The importance of location and access in relation to value

All appraisers and valuers acknowledge the importance of location with respect to value. The Appraisal *of* Real Estate 11th edition states, "location may refer to the siting of a property and the effect of siting on accessibility or to the time-distance relationships ... between a property... and all other possible origins and destinations ... Time and distance are measures of relative access".

Like residential and commercial properties, timberland value is dependent on location and access. Where infrastructure is lacking with respect to getting timber products to market, timberland value will be negatively impacted. Development of markets closer to the property or improved transportation facilities that reduce the relative time and distance to existing markets have a positive impact on timberland values.

This direct relation between location and value is not readily observed in the timberland averages previously presented in exhibit 1. It is more readily observed in analyses of stumpage prices and more detailed studies of land sales.

Studies of stumpage price determinants going back as far 1956 consistently identified location as a significant positively correlated determinant of price or value. These parameters took on various forms of the time-distance relationship including competition, distance to mills, and geographic locations (Anderson 1961, 1969, 1976) (Guttenburg 1956).

With respect to the influence of location on land, this firm was recently involved in a project in Georgia where an extensive amount of land sale data was collected for 20 counties for the year 1999. For the 197 sales in the sample, information on location and access were available. Location was defined as a sale being in a county considered rural, semi rural, or suburban. The suburban counties were located between the metropolitan areas of Atlanta and Macon, Georgia. The rural counties were located well outside the influence of these metropolitan areas. In addition to location, data on road frontage were also available. Information on land type, ie, agricultural, pine, or hardwood, was also available.

In analysing these data, one hypothesis was location and access have a positive influence on value.

A MATRIX SUMMARISING THE RESULTS FROM THE REGRESSION MODEL FOLLOWS:

Constant	Suburban Location	Semi-Rural Location	Road Ratio fI/ac	Agricultural Ratio	Pine Ratio	Predicted Value Per Acre	Description
170.13	955.13	254.64	8.13	775.80	260.85		Regression Coefficients
170.13						$170	Rural Hdwd No Access
170.13						$425	Semi-Rural Hdwd No Access
170.13						$1,125	Suburban Hdwd No Access
170.13						$431	Rural Pine No Access
170.13						$686	Semi-Rural Pine No Access
170.13						$1,386	Suburban Pine No Access
170.13						$946	Rural Agric No Access
170.13						$1,201	Semi-Rural Agric No Access
170.13						$1,901	Suburban Agric No Access
170.13			19.5			$329	Rural Hdwd Avg Access
170.13			19.5			$583	Semi-Rural Hdwd Avg Access
170.13	1		19.5			$1,284	Suburban Hdwd Avg Access
170.13			19.5			$590	Rural Pine Avg Access
170.13			19.5		1	$844	Semi-Rural Pine Avg Access
170.13	1		19.5			$1,545	Suburban Pine Avg Access
170.13			19.5			$1,104	Rural Agric Avg Access
170.13		1	19.5			$1,359	Semi-Rural Agric Avg Access
170.13			19.5			$2,060	Suburban Agric Avg Access

A second hypothesis was value increased as the proportion of land type increased from hardwood to pine to agriculture.

The independent variables tested were as follows:

Location: This dummy variable represents whether the sale is located in the suburban Atlanta/Macon metropolitan area, the semi rural area just beyond the suburban area, or in the rural area outside the influence of the Atlanta/Macon area. Since infrastructure is better developed near Atlanta/Macon and population pressure is high as well, the expectation is that timberland value in a suburban area would be higher than the semi rural area, which, in turn, would be higher than the rural area. The location dummy variables take on the following values:

Suburban Atlanta/Macon = 1 Otherwise = 0

Semi Rural Near Atlanta/Macon = 1 Otherwise = 0

Road Ratio Road Frontage ratio is the quotient of total paved and graded frontage in feet divided by total acres in the sale (feet per acre). Sales with a greater proportion of road frontage would be more easily accessed and/or easier to subdivide and convert to other uses. The sign of this coefficient should be positive(+).

Agriculture Ratio Agricultural land ratio is the percentage of agricultural land in the sale. As this ratio increases, it is expected land value would increase resulting in a positive coefficient (+).

Pine Ratio Pine land ratio is the percentage of pine land in the sale. Relative to hardwood land, as the pine ratio increased, overall land value should increase. The expected sign of this coefficient is positive W.

The empirical model using the previously described variables can be written as follows:

Land Value Per Acre = B1 + B2 Suburban + B3 Semi Rural + B4 Road Ratio + B5 Agriculture Ratio + B6 Pine Ratio

The five variables accounted for 54% of the variability in land value per acre. All six coefficients were significant at the 5% level. Regression results are as follows:

Variable		Coefficient	t rtioa	Probability
Constant	B,	170.13	1.982	.0489
Suburban	B2	955.13	13.682	.0000
Senn Rural	B3	254.64	3.973	.0001
Road Ratio	B4	8.13	4.144	.0001
Agriculture Ratio	B5	775.80	5.524	.0000
Pine Ratio	B6	260.85	2.466	.0146

R2=.542 AdjR2=.531 F(5.191)=45.29

As expected, all coefficients were positive indicating that land type (agriculture vs. pine vs. hardwood), location (suburban vs. semi rural vs. rural), and access (road frontage) were positive influences on land value.

The constant or intercept can be interpreted as the land value of the least common denominator ie, limited access hardwood land in a rural location at $170 per acre. As one changes type from hardwood to pine, the base value goes up $261 to $431 per acre, this indicates hardwood land values are approximately 39% of pine values. Similarly, change to agriculture increases value by $776 to $946 per acre, suggesting pine land is 46% of agricultural values. Likewise for location, the base value of $170 in a rural county will increase $254 to $425 per acre in a semi rural county and increase $955 to $1125 per acre in an urban location.

The regression results also show that road frontage (access) positively impacts land value. For every additional front foot per acre, the model indicates value should increase $US8.13 per acre. The average road frontage ratio for the 197 sales analyzed was 19.5 feet per acre. This indicates that compared to a tract without access, average access would add $US159 per acre in value.

A matrix summarising the results from the regression model is on the previous page.

Conclusion

Market stratification can be shown to clearly exist in the timberland markets in the southern USA and is likely to exist in any free market where the pool of purchasers has different aspirations and resources.

Market analysis confirms the collective wisdom that per acre timberland prices decline as the size of the transaction increases.

Market evidence shows that in the southern USA timberland trades at a significant discount to farmland. This reflects flexibility of use, topography, and relative land fertility issues.

Freehold ownership of timberland is preferred over leasehold ownership by timber producers. Lease payments are based on the physical capacity of the land to produce and current product prices.

As in any type of valuation anywhere location and access considerations are of paramount importance.

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EXHIBIT 1:

COMPARISON OF BARE LAND VALUES IN THE SOUTHERN UNITED STATES

		Date Range: July 1999 to May 2001						Hardwood
		Pine Land			Total Hardwood Land			Percent
ft of Sales	Size Class Acres	Total $	Total Acres	$/ACre	Total $	Total Acres	$/Acre	of Pine
285	80 to 1,000	$33,153,564	30,775	$1,077	$5,863,547	7,737	$758	70%
9	1,001102,000	$3,135,513	3,993	$785	$1,971,967	5,041	$391	50%
7	2,001 to 5,000	$7,626,375	8,840	$663	$3,034,338	4,025	$754	87%
0	51001 to 10,000	$0	0	$0	$0	0	$0	0%
2	10,001 to 20,000	$19,791,664	25,077	$789	$1,654,521	5,306	$312	40%
2	20,001 to 50,000	$12,644,476	22,539	$561	$5,853,258	41,393	$141	25%
2	50,001+	$245,594,702	645,885	$380	$27,975,390	124,276	$225	59%
307	Total Alabama	$321,946,294	737,109	$437	$46,353,021	187,778	$247	57%
926	80 to 1,000	$50,719,161	35,364	$1,434	$5,596,145	6,924	$808	56%
18	1,001 to 2,000	$5,661,214	8,163	$694	$490,608	918	$534	77%
12	2,001 to 5,000	$10,575,105	17,702	$597	51,510,556	5,084	$297	50%
7	5,001 to 10,000	$17,606,943	29,461	$598	$1,754,790	8,738	$201	34%
3	10,001 to 20,000	$12,786,819	22,691	$564	$2,249,556	9,228	$244	43%
0	20,001 to 50,000	$0	0	$0	$0	0	$0	$0
0	50,001+	$0	0	$0	$0	0	$0	$0
966	Total Georgia	$97,349,242	113,381	$859	$11,601,655	30,892	$376	44%
18	80 to 1.000	$1,016,792	1,312	$775	$69,710	150	$465	60%
1	1,001 to 2,000	$0	0	$0	$0	0	$0	$0
2	2,001105,000	$968,338	2,637	$367	$1,191,213	3,203	$372	101%
0	5,001 to 10,000	$0	0	$0	$0	0	$0	$0
0	10,001 to 20,900	$0	a	$0	$0	0	$0	$0
0	20,001 to 50,000	$0	0	$0	$0	0	$0	$0
2	50,001+	$74,130,580	157,017	$472	$1,836,830	6,463	$284	60%
23	Total Loulsiane	$76,115,710	160,966	$473	$3,097,753	9,816	$316	67%
106	801o 1,000	$8,679,267	12,294	$706	$562,145	1,411	$398	56%
0	1,001 to 2,000	$0	0	$0	$0	0	$0	$0
0	2,001 to 5,000	$0	0	$0	$0	0	$0	$0
0	5,001 to 10,000	$0	0	$0	$0	0	50	$0
0	10,001 to 20,000	$0	0	$0	$0	0	$0	$0
1	20,001 to 50,000	$9,185,993	21,475	$428	9167,711	629	$267	62%
0	50,001+	$0	0	$0	$0	0	$0	$0
107	Total Mlssissippl	$17,865,260	33,769	$529	$729,856	2,040	$358	68%
7	80 to 1,0130	$42,295	100	$423	$18,575	124	$150	35%
0	1,001 to 2,000	$13	0	$0	$0	0	$0	$0
0	2,001 to 5,000	$0	0	$0	$0	0	$0	$0
0	5,001 to 10,000	$0	0	$0	$0	0	$0	$0
0	10,001 to 20,000	$0	0	$0	$0	0	$0	$0
0	20,001 to 50,000	$0	0	$0	$0	0	$0	$0
0	50,001+	$0	0	$0	$0	a	$0	$0
7	Total Oldahoma	842,285	100	$423	$18,575	124	$150	35%

/SSizemore & Sizemore, Incorporated

EXHIBIT 1 (CONTINUED):

COMPARISON OF BARE LAND VALUES IN THE SOUTHERN UNITED STATES

Date Range: July 1999 to May 21701

		Pine Land			Total Hardwood Land			Hardwood Percent
# of Sales	Size Class Acres	Total $	Total Acres	$/Acre	Total $	Total Acres	$/Acre	of Pine
10	80 to 1,000	$1,828,608	1,699	$1,076	$98,437	130	$757	70%
0	1,001 to 2,000	$0	0	$0	$0	0	$0	$0
1	2,001 to 5,000	$3,575,904	2,550	$1,402	$167,156	298	$561	40%
1	5,001 to 10,000	$3,500,200	5,714	$613	$712,230	1,661	$429	70%
0	10,001 to 20,000	$0	0	$0	$0	0	$0	$0
1	20,001 to 50,000	$8,694,335	18,963	$458	$1,418,365	4,408	$322	70%
1	50,001+	$51,763,730	110,338	$469	$1,039,274	6,705	$155	33%
14	Total South Carolina	$69,362,777	139,264	$498	$3,435,462	13,202	$260	52%
13	SO to 1,000	$235,500	724	$325	$2,775	37	$75	23%
0	1,001 to 2,000	$0	0	$0	$0	O	$0	$0
1	2,001 to 5,000	$1,185,589	3,815	$311	$38,129	319	$120	38%
0	5,001 to 10,000	$0	0	$0	$0	0	$0	$0
0	10,001 to 20,000	$0	0	$0	$0	0	$0	$0
0	20,001 to 50,000	$0	0	$0	$0	0	$0	$0
0	50,001+	$0	0	$0	$0	0	$0	$0
14	Total Texas	$1,421,089	4,539	$313	$40,904	356	$115	37%
1365	80 to 1,000	$95,675,177	82,268	$1,163	$12,211,334	16,513	$739	64%
28	1,001 to 2,000	$8,796,727	12,156	$724	$2,462,575	5,959	$413	57%
23	2,001 to 5,000	$23,931,311	35,544	$673	$5,941,392	12,929	$460	68%
8	5,001 to 10,000	$21,107,143	35,175	$600	$2,467,020	10,399	$237	40%
5	10,001 to 20,000	$32,578,483	47,768	$682	$3,904,077	14,534	$269	39%
4	20,001 to 50,000	$30,524,804	62.977	$485	$7,439,334	46,430	$160	33%
5	50,001+	$371,489,012	913,240	$407	$30,851,494	137,444	$224	55%
1438	7-State Average	$584,102,657	1,189,128	$491	$65,277,226	244,208	$267	54%

AVERAGE SALES ALL STATES

94	Land Uses 2, 3, or 4'	$656,584	1,022	$642	$474,916	1,215	$391	61%
460	Land Uses All, 2, 3, or 4"	$21,426,755	26,946	$795	$4,939,627	11,497	$430	54%

EXHIBIT 1 (CONTINUED):
COMPARISON OF BARE LAND VALUES IN THE SOUTHERN UNITED STATES

Date Range: July 1999 to May 2001

8 of Sales	Size Class Acres	All Timbedand Total $	All Timbedand Total Acura	All Timbedand $/Aore	Aadcu8urel Land Total $	Aadcu8urel Land Total Acres	Aadcu8urel Land $/Aere	Timbadand Peroent of Agri
285	80 to 1,000	$39,017,111	38,512	$1,013	$8,939,163	5,002	$1,787	57%
9	1,001 to 2,000	$5,107,480	9,034	$565	$665,280	954	$697	81%
7	2,001 to5,000	$10,660,713	12,865	$829	$1,437,798	984	$1,461	57%
0	5,001 to 10,000	$0	0	$0	$0	0	$0	0%
2	10,001 to 20,000	$21,446,185	30,383	$706	$0	0	$0	0%
2	20,001 to 50,000	$18,497,734	63,932	$289	$0	0	$0	0%
2	50,001+	$273,570,092	770,161	$355	$2,601,861	3,847	$676	53%
307	Total Alabama	$368,299,315	924,887	$398	513,644,102	10,787	$1,285	31%
926	80 to 1000	$56,315,306	42,288	$1,332	$21,301,625	10,238	$2,081	64%
1$	1,001 to2,000	$6,151,822	9,081	$677	96,359,719	3,700	$1,719	39%
12	2,001 to 5,500	$12,085,661	22,786	$530	$4,014,990	4,143	$969	55%
7	5,001 to 10,000	$19,361,733	38,199	$507	$0	0	$0	0%
3	10,001 to 20,000	$15,036,375	31,919	$471	$0	0	$0	0%
0	20,001 to 50,000	$0	0	$0	$0	0	$0	0%
0	50,001+	$0	0	$0	$0	a	$0	0%
966	Total Georgia	$108,950,897	144,273	$755	$31,676,334	18,081	$1,752	43%
18	80 to 1,000	$1,086,502	1,462	$743	$0	0	$0	0%
1	1,001 to 2,000	$0	0	$0	$0	0	$0	0%
2	2,001 to 5,000	$2,159,551	5,840	$370	$0	a	$0	0%
0	5,001 to 10,000	$0	0	$0	80	0	$0	0%
0	10,001 to 20,000	$0	0	$0	$0	0	$0	0%
0	20,001 to 50,000	$0	0	$0	$0	0	$0	0%
2	50,001+	$75,967,410	163,480	$465	$3,973,272	7,131	5557	83%
23	Total Louisiana	$79,213,463	170,782	$464	$3,973,272	7,131	$557	83%
106	80 to 1,000	$9,241,412	13,705	$674	52,944,943	2,541	$1,159	58%
0	1,001 to 2,000	50	0	$0	$0	0	$0	0%
0	2,001 to 5,000	$0	0	$0	$0	0	$0	0%
0	5,001 to 10,000	$0	0	$0	$0	0	$0	0%
0	10,001 to 20,000	$0	0	$0	$0	0	$0	0%
1	20,001 to 50,000	$9,353,704	22,104	$423	$0	0	$0	0%
0	50,001+	$0	0	$0	$0	0	$0	0%
107	Total Mississippi	$18,595,116	35,809	$519	$2,944,943	2,541	$1,159	45%
7	80 to 1,000	$60,860	224	$272	$330,725	551	9600	45%
0	1,001 to 2,000	$0	0	$0	$0	0	$0	0%
0	2,001 to 5,000	$0	a	$0	$0	0	$0	0%
0	5,001 to 10,000	$0	0	$0	$0	0	$0	0%
0	10,001 to 20,000	$0	0	$0	$0	0	90	0%
0	20,001 to 50,000	$0	0	$0	$0	0	$0	0%
0	50,001+	$0	0	$0	$0	0	$0	0%
7	Total Oldohoma	$60,850	224	$272	$330,725	551	$600	45%

EXHIBIT 1 (CONTINUED):

COMPARISON OF BARE LAND VALUES IN THE SOUTHERN UNITED STATES

Date Range: July 1999 to May 2001

		All Timberland			Anricultural Land			Timberland Percent
# of Sales	Size Class Acres	Total $	Total Acres	$/Acre	Total $	Total Acres	$/Acre	of Agri
10	80 to 1,000	$1,927,045	1,829	$1,054	$89,046	45	$1,979	53%
0	1,001 to 2,000	$0	0	$0	$0	0	$0	0%
1	2,001 to 5,000	$3,743,060	2,848	$1,314	$1,295,740	462	$2,805	47%
1	5,001 to 10,000	$4,212,430	7,375	$571	$0	0	$0	0%
0	10,001 to 20,000	$0	0	$0	$0	0	$0	0%
1	20,001 to 50,000	$10,112,700	23,371	$433	$0	0	$0	0%
1	50,001+	$52,803,004	117,043	$451	$0	0	$0	0%
14	Total South Carolina	$72,798,239	152,466	$477	$1,384,786	507	$2,731	17%
13	80 to 1,000	$238,275	761	$313	$571,375	1,029	$555	56%
0	1,001 to 2,000	$0	0	$0	$0	0	$0	0%
1	2,001 to 5,000	$1,223,718	4,134	$296	$0	0	$0	0%
0	5,001 to 10,000	$0	0	$0	$0	0	$0	0%
0	10,001 to 20,000	$0	0	$0	$0	0	$0	0%
0	20,001 to 50,000	$0	0	$0	$0	0	$0	0%
0	50,001+	$0	0	$0	$0	0	$0	0%
14	Total Texas	$1,461,993	4,895	$299	$571,375	1,029	$555	54%
1365	80 to 1,000	$107,886,511	98,781	$1,092	$34,176,877	19,406	$1,761	62%
28	1,001 to 2,000	$11,259,302	18,115	$622	$7,024,999	4,654	$1,509	41%
23	2,001 to 5,000	$29,872,703	48,473	$616	$6,748,528	5,589	$1,207	51%
8	5,001 to 10,000	$23,574,163	45,574	$517	$0	0	$0	0%
5	10,001 to 20,000	$36,482,560	62,302	$586	$0	0	$0	0%
4	20,001 to 50,000	$37,964,138	109,407	$347	$0	0	$0	0%
5	50,001.	$402,340,506	1,050,684	$383	$6,575,133	10,978	$599	64%
1438	7StateAverage	$649,379,883	1,433,336	$453	$54,525,537	40,627	$1,342	34%
AVERAGE SALES ALL STATES								
94	Land Uses 2, 3, or 4`	$1,131,500	2,237	$506	$36,253,126	28,260	$1,283	39%
460	Land Uses All, 2, 3, or 4°	$26,366,582	38,443	$686	$95,736,430	75,954	$1,260	54%

A man of compassion and integrity

SAM BROWN

Tributes have been flowing from all quarters following the death on October 28 of LINZ chief crown property officer, Sam Brown.

LINZ chief executive Russ Ballard says Sam Brown was a distinguished Maori public servant who had made a major contribution to the administration of Crown land in New Zealand.

Sam Brown worked at the epicentre of relations between Maori and the Crown, working through issues of tremendous significance to both parties. "Operating in land administration, an area of sensitivity between Maori and the Crown, he brought a wonderful mix of objectivity on policy issues, and compassion and understanding to people issues," Ballard says.

"His personal integrity, depth of knowledge and good judgment was highly regarded by ministers, Maori and his public service colleagues alike."

While Sam Brown was very much the "Queen's man", he occupied a unique position at the interface between Maori and the Crown. Through the respect he engendered from all parties, and his determination to succeed, he helped establish constructive dialogue on sensitive and difficult land administration issues.

Ballard says Sam Brown had the confidence of ministers and select committees, where he was seen as a "straight shooter with a sense of humour". With his straight talking, deep knowledge of land issues and political astuteness, ministers placed a high value on Sam Brown's advice.

Stakeholders also held Sam Brown in high regard, says Ballard. "As part of the performance assessment of LINZ managers, stakeholders are given the opportunity to comment on their relationship with the personnel involved. Sam Brown always scored high in these assessments. This was high praise, especially considering the very difficult areas in which he worked, such as tenure reviews for Crown pastoral leases."

He was held in equally high regard by his colleagues. "He was incredibly hard working, but he would always make time to share his advice," says Geoff Howard, general manager contracts. "He taught me a huge amount about Maoridom and our relationship with Maori. It was a privilege to have known and worked with Sam Brown."

Howard's comments are echoed by Sharon Cottrell, LINZ general manager policy. She says Sam Brown played a vital role in the series of hui held around New Zealand earlier this year to discuss the Public Works Act review "The issues that came up during those hui were powerful for the people concerned. Sam Brown could hear and empatFxise with what people wanted to say about the aliervation of Maori land but he always made it clear he was acting for the Crown. It was a difficult line to walk and he did it with skill and integrity."

Cottrell says Sam Brown took his staff responsibilities seriously. "He was conscientious about their personal development and working conditions. He would often stay in the background and give his staff the space to get on with the job."

Sam Brown's career in the public service was a long and distinguished one. Educated at Dilwc rth School in Auckland and Lincoln University in Canterbury, he graduated with Diplomas in Agriculture and Valuation. Henceforth his career was closely linked to the land.

During his studies in the 1960s he was involved in a north Auckland sheep and cattle company. Ira 1971 he went on to join the Department of Maori Affairs as a field supervisor specialising in Maori land settlement and development. Sam Brown's work in this department continued into the 1980s, when he became responsible for extensive farm operatioris.

His movement into the centre of the govern anent arena continued with a secondment to Ministerial Services in 1987 as private secretary to the then Minister of Maori Affairs, Koro Wetere.

In 1990 Sam Brown was appointed director of lands in the newly formed Department of Survey and Land Information. He became Commissioner of Crown Lands in 1994, taking responsibility for the Crown's statutory functions under the Land Act 1948. During this time he was instrumental in developing the legislation that became the Crown Pastoral Land Act 1998.

When LINZ took its present shape and name in 1996, Sam Brown was appointed to the dual role of Chief Crown Property Officer and Commissioner of Crown Lands. The roles were split in 1999 and Sam then focused on the role of Chief Crown Property Officer. In this position he was involved with th. administration of the Public Works Act 1981 ancEl the development of a system of standards and accreditation for the outsourcing of Crown property work.

Ballard says the role of LINZ changed dramatically during the mid-1990s, commercial operations were separated and policy and regula tory functions split. "Sam Brown was initially challer-aged

by such a fundamental change, but he rose to the occasion. He took on LINZ's reshaped role with alacrity and did what was required without complaint. This really shows Sam Brown's true professionalism as a public servant. He took on board the government's policy direction and implemented it with enthusiasm."

Ballard says he would characterise Sam Brown as a true gentleman and a scholar, in the mould of Sir Peter Tapsell. "Sam Brown was a principled and articulate man, respected for his humility, compassion, hard work and objectivity. He will be deeply missed."

On the road with Sam Brown a tribute from a colleague

LINZ senior policy analyst Karin Knedler was in a team taking part in a series of 17 regional hui earlier this year, consulting Maori on the Public Works Act review.

She shares her memories of Sam Brown and his invaluable contribution to this exercise.

"From February to April, Sam Brown led the Maori consultation on the review of the Public Works Act. This involved hui from Kaitaia to Dunedin. It was a particularly difficult consultation exercise because the Public Works Act has had a long history of alienating Maori land one only needs to look at the number of Treaty of Waitangi claims involving public works legislation.

For there to be any measure of credibility or likely success it had to be done by a senior Maori person in the department and one who was trusted and respected throughout Maoridom. Sam Brown took on that challenge knowing the difficulties.

At a number of hui he made no apologies for being the `Queen's man'. He urged Maori to participate in the consultation exercise to ensure better legislation for the future and to address their grievance issues through the established Treaty of Waitangi claims process rather than trying to expand the scope of this review.

In this regard some hui were initially testing, but Sam Brown's integrity and genuine commitment to better legislation left hui participants in no doubt. The extent of Sam Brown's knowledge and networks also became apparent during the hui he seemed to know everybody.

Although Sam did bear the brunt of exchanges at the consultation hui, his approach and willingness to listen, explain or investigate an issue was responsible for dispelling the considerable suspicion that Maori approach the Crown with, based on their experiences of old.

Sam Brown and the review team worked closely to ensure that we operated in good faith and to that end we endeavoured to meet some of the trenchant criticism of previous consultation exercises. Continuing involvement of Maori and keeping hui participants appraised of progress was pan of that strategy. One of the last meetings Sam Brown had was to further develop an idea of facilitating research of public works grievances an idea that started to take form along the hui trail.

Notwithstanding the punishing hui schedule and Sam Brown's key leadership and presentation role, he still had time to catch up with members of the travelling team and ensure all was well.

Those who were privileged to be part of the hui consultation team also got to appreciate Sam Brown's knowledge of the country. Where time allowed there were interesting detours to parts of the country that most of us had never visited and possibly would never have the chance to see again. We all fell in love with the Far North. During one of these detours, he did not need to greatly encourage the spendthrifts among us to buy local art works. Sam Brown provided us with a higher motive for purchase - assisting the economy of the Far North.

The memory that we have of Sam Brown is of a tireless worker, a person with a hugely engaging personality, tremendous energy and integrity to match. He had time for everyone but probably not for himself. He treated everyone respectfully. Many staff turned to Sam Brown in times of crisis, confided in him, sought his advice or were mentored by him. It is hard to find words to adequately describe just how good and decent a human being he was.

His passing is a sad loss, foremost for his family. He was a great tree in Maoridom that was felled so cruelly and prematurely. We are all the richer for having known him and the poorer for losing him. He is sadly missed."

Matt Robson, Minister for Land Information

No reira
E to rangatira, e to hoa
Nga mihi nui ki a koe mo to aroha, haere atu ra kite kainga tuturu o to tangata, ki to Atua

"Sam Brown was my adviser. He was also my friend. His experience, his wisdom, his warmth, his loyalty, were freely given to me. To a minister new to the job Sam Brown was a pillar of strength. The strength he gave me is still there, although he has gone.

Thank you Rangatira. Thank you my friend.

What will I miss about Sam Brown? His gentleness, kindness and laughter will stay with me. The cup of coffee with LINZ management 10 minutes before our Sam Tuesday department meeting will never be the same without Sam Brown. The jokes we shared over coffee lightened the load of the serious issues we had to discuss. Sam Brown's contribution as a senior public servant in the best interests of New Zealand is his legacy. His whanau can be proud of him. To his wife Carol, and family I share your loss."

Summary case law

High Court

- Mortgage
- Short term loan contract
- Non-disclosure
- Undue influence
- Credit Contracts Act 1981, ss 5, 9, 11, 24, 25, 32; Securities Act 1978, ss 3(1),(2), 37(1),(4)

Kaui v CB Mortgages Ltd 27/6/01, Tompkins J, HC Hamilton CP35/00

Plaintiff registered proprietor of house - Signed term loan contract showing plaintiff as borrower defendant as lender and Focus Finance as covenantor Principal of $70,000 to be repaid 3 months later Ordinary interest rate of 28% - Penalty rate of 30% - Plaintiff and covenantor jointly and severally liable as principal debtors - Defendant held first mortgage Plaintiff mortgaged house for amount far greater than existing mortgage Amount paid to Focus without any security or other guarantee save covenant Focus liquidated Plaintiff sought declaration that mortgage and loan agreement are unenforceable or orders reopening the transaction or setting it aside due to breach of Securities Act - Plaintiff alleged undue influence non-disclosure or oppression under Credit Contract Act.

Held, plaintiff unsuccessful on Securities Act cause of action - Court unable to find "offer of securities to public"within s 3 Securities Act - Defendant not shown to be knowing party to illegality - Plaintiff's appreciation of financial matters and risks of transaction limited - Lack of full legal advice - No evidence of unfair or improper conduct or advantage by Focus - Nothing shown amounted to undue influence nor should defendant be liable for consequences - Defendant failed to disclose proper finance rate under loan agreement Rate of 31%pa disclosed when proper rate was 40% - Full disclosure not made for nearly two years - Total cost of credit reduced by $2000 as penalty for failure to make correct initial disclosure - Loan contract between plaintiff and defendant not found to be oppressive - Plaintiff entered contract for own'speculative purposes - Received independent advice - Not shown that defendant acted unreasonably Finance rate of 40% in circumstances not shown to be oppressive, harsh or unconscionable - Defendant entitled to judgment on counterclaim for principal sum of $70,000 plus interest and procuration fees and disbursements.

(29pp)

High Court

Mortgagee sale
Duty of care
Summary judgment
Property Law Act 1952, s 103A

The Hongkong and Shanghai Banking *Corp* Ltd v Palmer 8/8/01, Master Anne Gambrill, HC Auckland CP630-IMOO

Summary judgment - Plaintiff mortgagee sued for losses following mortgagee sale of three properties Defendant guaranteed debenture and securities Borrower entered "rent-to-buy" agreements with occupants with defendant's knowledge and participation Whether plaintiff met duty of care in obtaining best possible sale price - Whether conflict of interest - Whether properties properly marketed.

Held, in deciding whether mortgagee has fulfilled duty of care Court must look at circumstances Mortgagee has no obligation to postpone sale Mortgagee has right to sell to interested party- Right to sell privately No evidence of conflict of interested Property in deteriorating state - Purchase payment agreements constrained bank's ability to sell - Bank sold purely for obtaining payment Facts raised in opposition not credible No criticism of bank's conduct - Summary judgment for plaintiff.

(8pp)

Court of Appeal

Contract
Breach
Settlement division
Substantive resolution

Shea v *Ward* 13/8/01, CA239-240/00

Settlement division Substantive resolution Contract breach Appellant and respondent purchased property with bank loan while married- Appellant and respondent separated Appellant remained on property - Property was sold Settlement reduced because of property's condition Respondent applied for substantive resolution of settlement Appellant asked for adjournment until representation was available Adjournment denied Settlement divided between appellant and respondent Appellant appealed decision - Leave sought to produce further evidence Claim that initial settlement agreement was under duress Claim of credit for outgoings of property and shared deduction because of property condition.

Held, appellant's new evidence does not affect decision Cross-examination pointless because original agreement misconceived Original agreement not voidable by duress because agreement was fair for both parties at time of understanding No proof appellant

paid outgoings Appellant responsible for property condition on date of settlement Appeal dismissed.

(12pp)

High Court

Offer-back provision
Contract
Interpretation
Public Works Act 1981, s 40

Morrison v A-G 31/7/01, Fisher J, HC Auckland CP297-SD/00

Property taken under Public Works Act 1928 for "defence purposes" - Set apart for "housing purposes" in 1947 - In 1988 Housing Corporation took steps to sell land to council - Successors (plaintiffs) to original owners of land were discovered by consultant to Corporation in 1999 - Original offer back provision sets purchase price on "market value of the land as at the date when the land should have been offered back to the offeree and family" - Housing Corporation claim this date to be 1999 when plaintiffs approached by consultant Plaintiffs claim date to be 1988 - Plaintiffs seek proceedings to determine date.

Held, s 40 Public Works Act 1981 states that land no longer required must be offered back to original owner Land no longer required by Housing Corporation by 1988, so that should be date of valuation.

(28pp)

High Court

- Leases
- Title
- Unit Titles Act 1972

Body Corporated v Hammington 13/8/01, Master Faire, HC Hamilton CP10/01

Summary judgment Application First defendants guaranteed payment of rent under lease of properties for set period to plaintiff Second defendant provided indeminity to plaintiff against any loss should lease be lawfully disclaimed or abandoned Tenant in default of rent payment Plaintiff attempted to re-let property and seized chattels - Plaintiff sought summary judgment under Unit Titles Act 1972.

Held, evidence showed that plaintiff had not mitigated loss - Rights held in individual unit rather than body corporate Plaintiff did not have standing as lessor - Application for summary judgment declined.

(9pp)

High Court

Contract
Performance
Contributory negligence

Campbell v *Speers* 1/8/01, Heron J, HC Napier NP612/98

Appellant leased property to respondent to harvest squash crop - Respondents committed to supply exporter with crop Abnormalities detected in crop due to commercial spray previously used on property by appellant - Whether implied term of lease that land would be suitable for growing crops for human consumption Whether appellant breached duty of care by failing to advise respondents of spraying DC awarded damages to respondent claiming that responsibility for knowing of the use and effect of chemical rested on appellant.

Held, appeal allowed Not necessary for business efficacy to imply term that lessor must make presence of chemical residue known to lessee - No requirement for term concerning suitability for purpose - Respondent responsible for making inquiry about property history in the circumstances Contributory negligence.

(llpp)

High Court

- Easement
- Encumbrances
- Caveat

Lentjes v Bremner 3/9/01, Master yenning, HC Christchurch M21 1/01

Respondent agreed to sell farm property to applicants Agreement incorporated additional conditions - Respondent required easement to protect the right of access and use of airstrip on property Discussion over easement broke down Applicant lodged caveat over property Applicant applied for caveat not to lapse.

Held, further condition left to be agreed between applicant and respondent at a later date Several issues remained to be agreed upon Applicant failed to conclude a binding and enforceable agreement Caveat must be allowed to lapse- Respondents entitled to avoid contract.

(13pp)

High Court

Breach
Remedies
Specific performance

Junior Farms Ltd v Hampton Securities Ltd 10/8/01, Master Anne Gambrill, HC Auckland M1594/98

Plaintiff vendor agreed to settlement of sale of property to defendant Property transferred to defendant Plaintiff claims sale limited to set amount of land Plaintiff did not provide arrangements for retention of extra section of property Caveat placed on title of section Caveat found to be insubstantial Plaintiff claims unjust enrichment against defendant.

Held, no mention of arrangement over extra section in contractual document Side letter not an application for specific performance - Contractual document executed before side letter Evidence cannot be challenged Pleading against defendant struck out.

(14pp)

High Court

- Unit titles
- Leases
- Breach
- Property Law Act 1952, s 112(1); Unit Titles Act 1972, ss 12, 13

Body Corporate *S67995* (South Auckland Registry) v Hammington 13/8/01, Master Faire, HC Hamilton CP10/01

Unit titles scheme - 40 individual units sold by Willin Holdings Ltd to members of public New set of leases granted by registered proprietor of each of the 40 units to Grosvenor Motor Inn Ltd - First defendants guaranteed payment of rent and performance by lessee of covenants in lease - Plaintiff body corporate in respect of 40 units comprised in unit title plan Lessee Ausam Corp defaulted Plaintiff re-entered premises Entered into arrangement with successful tenderer Took possession of chattels and sold them to the tenderer Summary judgment application.

Held, proceeding based on alleged breach of lease - Plaintiff has no standing as lessor and therefore cannot sustain such claim under lease - Quantum issues raised - Foundation for defence that plaintiff did not mitigate loss Further defences that re-entry terminated right to further claim for rent Summary judgment declined.

(l Opp)

High Court

Caveat
Trusts
Resulting trust

Parsons v Te Rewa Forests 10/8/01, Master Anne Gambrill, HC Hamilton M26/01, M123/01

Application that caveats not lapse Claim that respondent was trustee of properties under resulting trust GF Ltd purchased land Deposits funded by parent company GF ceased to trade shortly after contracts became unconditional GF Ltd's interests in contract assigned to respondent Respondent paid part of remainder of price Late settlement in respondent's name Whether respondent acting as trustee for GF Ltd.

Held, GF Ltd was unsecured creditor and had only personal rights against respondent Such rights did not support caveat No documentary evidence supporting interest in land - All companies were separate entities - Rights in land clearly terminated by assignment Application refused.

(10pp)

High Court

Sale and purchase of land
Buy back agreement
Caveat
Unjust enrichment
Summary judgment

Junior Farms Ltd v Hampton Securities Ltd 10/8/01, Master Anne Gambrill, HC Auckland M1594/98

Plaintiff sold large unspecified block of land to defendant Defendant sold back to plaintiff 14 hectares for nominal sum to be on-sold to Manukau City Council to use for flood plain Side letter by defendant to plaintiff acknowledging it was acquiring 50ha - Defendant sold 80 ha to fifth defendant (Ormiston Farms Ltd) for $4m Plaintiff claims defendant was entitled to 50ha City entitled to identify the area it wished the plaintiff to retain and sell on to it Anything above and beyond that (approximately 5ha) was to be re-conveyed to plaintiff by defendant Plaintiff caveated interest in both certificates of title under buy back agreement Fifth defendant granted resource consent to adjust boundaries and recognise flood protection zone Plaintiff consented as caveator but reserved rights and maintained caveat still on title Plan deposited and new titles issued Plaintiff claims unjust enrichment and seeks $1.7m for 5.2655 ha Summary judgment application by fifth defendant that pleading against it be struck out Fifth defendant claims there can be no unjust enrichment arising from its contractual documents as the plaintiff was not party to them.

Held, application to sustain caveat dismissed No right to interest in the 5 ha Monetary claim only as title indefeasible and had passed to fifth defendant with knowledge and consent of plaintiff Summary judgment granted Pleading against fifth defendant struck out Plaintiff cannot establish claim against fifth defendant based on side letter If there is a claim it can only exist against defendant.

(14 pp)

High Court

Mortgagee sale
Strike out

Maxwell v ANZ Banking *Group* NZ 27/8/01, Glazebrook J, HC Auckland AP54-SW01

Plaintiff's house sold by ANZ as mortgagee - Plaintiff alleges misconduct by ANZ its solicitors and plaintiff's solicitors Ongoing defaults - Plaintiff evaded service of various Property Law Act notices issued by ANZ ANZ gave plaintiff time to sell house - Plaintiff failed to sell house and to remedy defaults - Further default - ANZ issued further Property Law Act notice - Plaintiff's injunction application failed in High Court and bank sold house.

Held, current action is attempt to relitigate matters already decided by Courts - No grounds for proceedings - No grounds for challenging bank's actions - Judge Joyce's decision striking out claims upheld and appeal dismissed.

(6pp)

High Court

- Caveat
- Lapse
- Credit contract
- Land Transfer Act 1952, s 143

May v EP Maddren and Sons Ltd Building Suppliers 20/9/01, Master Anne Gambrill, HC Auckland M698-IM01

Application to lapse caveat Applicant and/or Brenton Builders Ltd (applicant principal shareholder) owe respondent $300,000 for building materials Credit contract provides for caveat - Contract inconsistent - Unclear who is applicant buyer and who executed contract May owns land but his company buys building supplies - Whether company liable for account or whether May personally liable.

Held, application to lapse caveat refused Terms of contract open and Court entitled to hear evidence to determine obligations of parties Respondent to issue proceedings against applicant.

(6pp)

High Court

- Contract
-Appeal
- Procedure
- District Courts Act 1947, s 73; District Courts Rules 1992, r 533

Peach v Batten 16/8/01, Young J, HC Wellington AP89/01

Application for leave to appeal from District Court decision Leave to appeal out of time - District Court held salesperson created expectation time to cancel contract had been extended Whether agent of sellers Sellers estopped from denying time to cancel extended - District Court awarded respondents/buyers $15,000 plus refund of deposit Respondents failed to notify applicants/sellers District Court order sealed - Procedural irregularities - High Court jurisdiction to disturb sealing of District Court order.

Held, High Court has no jurisdiction to make order relating to sealing of District Court judgment or to amend date - May be open to District Court judge to re-date sealing of judgment to trigger right of appeal again- Appropriate for applicants to apply to District Court to set aside sealing of judgment Application dismissed.

(15pp)

High Court

- Property lease
- Right of renewal
- Guarantor liability

Powell v Tinline *Properties* Ltd 21/9/01, Durie J, HC Nelson M7/01

Property lease - Right of renewal Guarantor liability Respondent entered into lease with tenant for complex floor Rent to be reviewed on renewal date - Tenant exercised right of renewal Respondent accepted - Following renewal there was dispute over rent level Respondent sued tenant and guarantor (applicant) for unpaid rent Appellant questions meaning of renewal of lease provision for the guarantor.

Held, Court must decide if this is extension of existing lease or a new lease - Renewal was a unilateral act - Use of "term" in deed suggests agreement was for the extension of current lease - Guarantor still liable.

(13 pp)

High Court

Sale and purchase
Summary judgment
Specific performance

Muollo v Hunt 12/9/01, Master Thomson, HC Wellington 252/00

Sale and purchase - Summary judgment - Specific performance - Defendant contracted to buy plaintiffs' hotel - Defendant intended to convert property to retirement home Difficulties obtaining finance - Agreement varied - Defendant purported to cancel - Whether misrepresentation of profitability Whether defendant entitled to cancel - Defendant claimed he intended to run hotel as hotel while retirement village being established - Profitability therefore important.

Held, fundamental factual disputes made summary judgment process unsuitable Plaintiffs could not show to required standard of proof that no arguable defence Arguable that profitability representations crucial to defendant - Summary judgment refused.

(9pp)

High Court

Agreement for sale and purchase
Specific performance
Summary judgment

Gillespie *Projects* Ltd *v Prestidge* 2/10/01, O'Regan J, HC Auckland CP283/IM/01

Agreement for sale and purchase - First three defendants agreed to buy properties for $2 m from plaintiff Kauri Tree (fourth defendant) was nominated purchaser Kauri Tree assigned interest to Totara Tree (fifth defendant) - Plaintiff prepared properties for settlement to give vacant possession - Plaintiff sent settlement statement to Totara Totara did not settle - Plaintiff issued settlement notice but settlement did not occur Under agreement first three defendants jointly and severally liable -Plaintiff withdrew application relating to fourth and fifth defendants as it could not obtain specific performance against them Plaintiff seeks order for specific performance by summary judgment Defendants claim impossibility of performance - Whether plaintiff has proved first three defendants have no arguable defence.

Held, plaintiff failed to prove defendants have no arguable defence Marginal case Defendants' evidence incomplete Fairness considerations from last minute withdrawal of application against fourth and fifth defendants - Full hearing more appropriate - Order for specific performance by summary judgment declined.

(llpp)

High Court

- Interests in land
- Competing claims
- Summary judgment
- Declaration

Lakeside Estate Ltd (in *rec)* v Bright 4/10/01, Master Yenning, HC Auckland CP598-IM/00

Lakeside sought declaration that security interest granted by it to CW (second plaintiff) over Rotorua property ranked ahead of claim by Brights - Mr Bright director and shareholder in Lakeside - In 17 October 1997 agreement Lakeside acknowledged Mr Bright advanced moneys and Lakeside agreed to grant mortgage on Rotorua land if called on by Mr Bright to do so - 20 February 1998 Lakeside granted debenture in favour of CW Debenture registered on 14 March 1998 - 26 March 1998 Lakeside granted mortgage in favour of defendants Mortgage never registered Priority of interest.

Held, debenture granted by Lakeside created equitable interest in Rotorua land in favour of CW on 20 February 1998 - Agreement between Lakeside and Mr Bright created a right in Mr Bright to require Lakeside to give a mortgage if called upon Mortgage by Lakeside to Brights was executed on 26 March 1998 - Debenture is first in time and prevails over mortgage - No arguable case for Brights - Summary judgment granted.

(12pp)

High Court

- Summary judgment
- Agreement for sale and purchase
- Specific performance

Discount Liquor Blenheim Ltd v Malstrom Holdings Ltd 10/10/0 1, Master Yenning, HC Christchurch CP66/01

Summary judgment Agreement for sale and purchase Specific performance - Defendant registered proprietor of commercial property Plaintiff major tenant Defendant accepted offer to buy property Agreement conditional on plaintiff waiving rights of first refusal to purchase - Plaintiff wished to exercise right Agreement renegotiated to exclude plaintiffs leased area - Plaintiff sought to purchase property Plaintiff rejected defendant's attempt to reserve position - Plaintiff did not consider defendant entitled to refuse to settle - Defendant claimed inducement to enter into contract by mistake.

Held, defendant well aware of clause allowing plaintiff first refusal - Plaintiff seeking adjustment to purchase price because tenancies not in place not "opportunism" - Non-availability of building warrant of fitness did not defer obligation to settle - One-off transaction which would not require Court supervision for specific performance remedy No arguable defence established Order for specific performance made.

(21pp)

High Court

- Summary judgment
- Lease
- Re-entry

Durran Holdings Ltd v *Cone* Enterprises (NZ) Ltd 17/10/01, Master Yenning, HC Dunedin CP29/01

Summary judgment - Lease - Re-entry Claim for operating/marketing expenses rental and liquidated damages under lease - Defendant leased commercial premises from plaintiff Clause of lease obliged defendant to keep premises open during business hours - Defendant's venture unsuccessful Defendant sought to close business before lease had expired - Plaintiff objected and insisted on its rights under lease - Mall manager threatened to issue trespass notice and call police when defendant attempted to remove fittings - Whether manager's actions amounted to re-entry or eviction.

Held, plaintiff had not expressed intention to re-enter premises - Manager's actions consistent with plaintiff's case that it did not want defendant to stop trading from premises Defendant clearly abandoned premises - Lease still in force - Defendant still liable Insufficient evidence to determine whether opening hours clause pre-estimate of damage Plaintiff entitled to judgment for rental and operating expenses - Claim for liquidated damages declined and substantive hearing ordered.

(21pp)

High Court

- Mortgage
- Bankruptcy
- Mortgagee sale

Freeth v Hebe Finance Ltd 16/8/01, Master Kenndy-Grant, HC Auckland B100-im01

Debtor ("F) applied to set aside bankruptcy notice on basis of counterclaim/set-off F mortgaged property to creditor ("H") as security for sum advanced then defaulted under mortgage Previous mortgage of property to further lender Each mortgagee became entitled to take steps H entered contract for sale of property which was not completed, property sold by further mortgagee - H obtained judgment against F for $73,771 and counterclaimed for difference in sale prices of two mortgagee sale contracts Argued that H failed to take reasonable steps to obtain best price through failure to deliver vacant possession to purchaser.

Held, application to set aside dismissed Failure by F to establish genuine counterclaim Absence of evidence supporting breach by H of mortgagee obligations All reasonable steps taken by H to obtain vacant possession.

(8pp)

Privy Council

- Ownership
- Maori land
- Injunction
- Resource Management Act 1991, ss 168(e), 168A, 171, 251-252, 255, 296, 299, 310, 314; Te Ture Whenua Maori Act 1993 s 19(1)(a)

McGuire v Hastings District Council 1/11/01, PC43/00

Ownership - Maori land Injunction Maori freehold land Rights - Designation of road - Northern arterial route intended to link Hastings and Havelock North Proposed route ran through Karamu GB Karamu GD and Karamu 15B Maori freehold land Owners of land applied for injunctions under Te Ture Whenua Act - Interim injunction granted Council filed judicial review application claiming Maori Land Court acted ultra vires Relationship between Te Ture Whenua Maori Act and RMA Nature of Maori Land Court's jurisdiction.

Held, s 19(1)(a) gives jurisdiction re actual or threatened trespass or injury to Maori freehold land Maori Land Court has no judicial review jurisdiction Strong grounds for regarding RMA as constituting exclusive code of remedies ruling out Maori Land Court's intervention Maori Land Court has precisely limited and defined jurisdiction No collateral challenge to validity of administrative decision - Injunction claim made to establish breach of public law duties in administration of RMA Code of RMA contains requirements to take Maori interests into account - Declaration could be sought under s 310 RMA or enforcement order under s 314 Potential disadvantage to applicants through lack of Maori Land Court Judges and Maori Commissioners on Environment Court - Capable of remedy by appointing people knowledgeable in kaupapa Maori as alternate Environment Judges or Deputy Environment Commissioners - Appeal dismissed.

(15pp)

Environment Court

- Ownership
- Subdivision
- Declarations

Kitewaho Bush Reserve *Company* Ltd v Waitahere *CC* 18/10/01, Judge Treadwell, EnvC A106/2001

Interim decision on declarations and enforcement orders regarding subdivision of land within Rural 3 Zone of transitional district plan and in Foothills section of proposed district plan Minimum standard for subdivision 5 ha under transitional plan and 4 ha under proposed plan Applicants deposed that under "common area argument" a 58.7169ha common area lot held by owners as tenants in common could be used to further subdivide subject land Area of allotment held in common could be added to area of each substandard site created by subdivision for purpose of achieving site area in excess of minimum standard required by plans.

Held, Court rejected common ownership argument - Purpose and intent of plan to retain ample open space and prevent close subdivision of sites in Foothills area - Also referred to overriding transitional power vested in council by s 406 RMA to refuse subdivision consent in public interest - Declarations sought on minor household unit subdivision declined as not permitted by either of plans - "Structure plans" for subdivision presented to Court hypothetical Declarations made in respect of matters that might never come to fruition Declined to make declarations in respect of land owned by other parties not party to proceedings - On matter of s 91 RMA issues relating to additional resource consents from Auckland RC Court found subdivider had satisfied requirements and would be proper for council to process subdivision without further delay Leave granted for parties to identify if any issues remained at large Costs were reserved.

(25pp)

High Court

- Lease
- Arrears
- Loss of bargain
- Distraint of chattels and stock

Toys in the Attic v Global Educational Services 2/11/01, Priestley J, Hamilton HC M73SW-01

Appellant lessee of property owned by respondent Appellant fell into arrears - Respondent locked out appellant from property Respondent sued appellant for arrears, outgoings, legal costs, and damages for loss of bargain - Appellant counterclaimed for loss from distraint of chattels and stock District Court awarded respondent with damages for loss of bargain, arrears, outgoings, and legal costs up to the date of termination of the lease by re-letting Also awarded damages to appellant Appellant appeals decision claiming that damages awarded to respondent should be taken from date of lock out and that chattels had a higher value than damages awarded to appellant.

Held, respondent's actions went beyond the lessor's right of distraint No evidence that lessee was permitted to re-enter premises - Lessor not entitled to recover rent from date of lock out Inadequate evidence on the value of chattels - Damages for appellant remain the same.

(15pp)

NEW ZEALAND

property INSTITUTE

Registration

Introduction

NZPI has a Registration process whereby suitably qualified members can apply to become Registered Property Consultants, Registered Property Managers, Registered Plant and Machinery Valuers or Registered Facility Managers, or in appropriate cases a combination of any or all of the streams. A disciplined and rigorous process is to be followed before registration is granted to any member, and it is intended that such registration will be regarded as an essential qualification to any participant in the industry wishing to offer professional property services. This booklet contains information for those members wishing to apply for registration.

Summary of the rules of NZPI Registration Board

Members of the Registration board are appointed by the board of NZPI for a term of three years.

The Registration Board is to comprise a minimum of five members, being two NZPI board members, two full members, one person who is not a member, and any other person(s) the board thinks is appropriate.

The functions of the Registration Board include a requirement to protect the interests of the public in relation to property consultancy and management services, and to promote and encourage high standards of professional education and conduct amongst registered persons.

The Registration Board is to receive applications for registration, to authorise registration in appropriate cases, and to compile and maintain a register of registered persons.

The Registration Board meets at regular intervals and will carry out personal interviews in respect of all applicants for registration.

A full set of the Rules of Registration are available to any member from the national office of NZPI.

Registration

Qualifying members of NZPI may apply to be registered as either a Registered Property Manager, Registered Property Consultant, Registered Plant and Machinery Valuer or a Registered Facility Manager, or in some cases a combination of any or all of the streams.

Property Consultancy and Property Management are defined for registration purposes as follows:

- Property management shall be that area of profession comprising the specialist function of managing and administering lands and buildings of all descriptions, estates and portfolios thereof, all legal interests therein, acquisitions thereto, leasing thereof, disposals therefrom, in a stewardship capacity on behalf of the owners, lessors and/or lessees thereof, facilities management, and post occupancy evaluation.
- Property consultancy shall be that area of the profession excluding property management and consisting principally of directive, executive, functional and advisory services in property (of all

descriptions) investment, appraisal, financing, development (including site selection, feasibility studies and project development and construction management), marketing policies and general property consultancy.

Registration is intended to be available for all qualifying members who are in the business of providing professional property and facilities management, property and plant and machinery consultancy and valuation services.

Registration is annual and shall continue for a period of 12 calendar months from date of registration. An annual registration fee of $225.00 plus GST will be payable. At time of first registration, a member shall be entitled, subject to compliance with the rules of NZPI, to remain registered for a period of three years. Thereafter, a new application for registration must be made and this, if granted, shall continue for a term of 12 months, requiring annual re-application thereafter. The application fee of $50.00 plus GST shall only be payable at time of first application. Only one application fee and one registration fee shall apply irrespective of the number of categories in which the applicant is registered.

Principal qualifications required for registration

Applicants must:

- Be a full member of NZPI for 12 months prior to admission to registration. In this first year of the new institute this includes previous membership of the NZIV, PLEINZ or IPMV.
- Satisfy the Registration Board that
  - Their qualifications are appropriate to the classification or classifications applied for;
  - That their practical professional experience and competence are sufficient and current;
  - That they are of good character; and
  - That they are both resident and practicing in New Zealand.
- Comply fully with continuing professional development programmes as specified by the NZPI Board for continuing education.

Application procedure

All applications must be on the standard form, (available from the national office of NZPI) and must be full completed and forwarded to the Registrar at PO Box 27 340, Wellington.

Annexed to each application form must be the following:

- Two written references from suitable referees testifying as to the applicant's integrity and good character.
- Two written references testifying as to the applicant's professional experience and competence, with such references to be provided from persons for whom the applicant has provided services, or with whom they have had a professional working relationship.
- A written submission by the applicant stating the reasons why they should be admitted, with such reasons to cover either property management, property consultancy, facility management, plant and machinery valuing or any of these streams. Annexed to this written submission are to be examples of work carried out by the applicant, (a maximum of two examples in any category, and if annexures are more than five pages, then an executive summary is required).

The Registration Board will make no dispensations in respect of application requirements. Upon receipt of a completed application, the Registrar will forward this to the Registration Board, which will, as soon as convenient, arrange to interview the applicant. Such interviews are intended to be carried out in either Auckland, Wellington or Christchurch. Upon completion of the interview process, and any subsequent enquiries the Registration Board feels are necessary, applicants will be advised the outcome for their application as soon as possible. If applicants are declined registration, they will be eligible to reapply no earlier than 12 months from the date of being declined.

SIX REASONS TO BECOME A NEW ZEALAND PROPERTY INSTITUTE REGISTERED MEMBER

NEW ZEALAND

property INSTITUTE

STATSCOM

Content

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

Economic and production statistics summary 1999-2000

Economic

- The farming sector's contribution to economic growth in New Zealand has held at around 5.5% of gdp per annum.
- The total agricultural sector remains as important to the economy as it was 15 years ago. Its contribution to the New Zealand economy has risen from 14.2% of gdp in 1986-87 to 16.6% in 1999-2000. Economic growth in the agricultural sector has outpaced growth in the New Zealand economy as a whole.
- About 80% of New Zealand's total farming outputs are exported.
- Agricultural exports account for more than 50% of New Zealand's total merchandise exports.
- In 1999-00, New Zealand accounted for around 55% of the world's trade in sheep meat and 31% of the world's trade in dairy products.

Beef and veal 1999-00

- 76% of New Zealand beef and veal production exported.
- New Zealand production accounted for 1% of world production.
- New Zealand beef and veal exports accounted for 8% of world exports.
- The North American market including the USA, Canada and Mexico took 76% of New Zealand beef and veal shipped by volume in 1999-00.

Wool 1999-00

- New Zealand exported 89% of its wool production.
- New Zealand produced 14% of the world's production.
- New Zealand accounted for 30% of world exports.

Lamb and mutton 1999-000

- Lamb - 92% of New Zealand Lamb production exported.
- Mutton 81 % of New Zealand mutton production exported.
- New Zealand lamb and mutton account for 7% of world production.
- New Zealand mutton and lamb exports account for 54% of the world market.
- By volume, 50% of New Zealand lamb exports went to the EU.

Dairying in New Zealand

In New Zealand 1999-2000:

- There were 3.2 million cows and 3.8 million people
- 11, 860 million litres of milk was produced
- 13,861 herds averaging 236 cows each
- More than 96% of dairy produce was exported
- New Zealand counted for less than 2% of world milk production but
- 31% of the international dairy trade was from New Zealand

Source: Livestock Improvement *Corp* and *Dairy* Board

Land use

New Zealand has around 80,000 farm holdings covering approximately 16.5 million hectares. Agriculture in New Zealand is largely based upon pastoral farming. Dairy farms account for about 18% of the total number of farms in New Zealand, while sheep and beef farms account for 20%. New Zealand's agricultural sector consists of various other activities including horticulture, forestry, cropping, and rural tourism.

Around 76% of sheep and beef farms are single owner.

Livestock numbers 1999/00

Sheep	45,680,000
Beef	4,644,000
Dairy	4,316,000
Deer	1,677,000
Sheep and beef stock units	64,163,000
Total stock units	94,670,000

Source: Meat and Wool Economic *Service*

New Zealand population

- Total population 3.84 million
- 15% rural
- 85% urban
- Unemployment as at December 2000 5.6%

Source: Statistics NZ

New Zealand's agricultural sector in total remains an important source of employment. The agricultural sector accounts for an estimated 11.4% of New Zealand's total workforce.

Domestic production and consumption

Production

Tonnes (000)	Sept 99	Est. Sept 00
Beef	538.5	566.4
Lamb	401.0	425.9
Veal	23.2	20.5
Total*	1229.0	1267.9

New Zealand Exports Year Ended June 2000
Total Primary Production

	NZ$000 FOB	Percentage of Total Merchandise Exports
Food: including fish		;
Horticulture	1 ��r ;a5	7
Dail	39733,491	16
'Heat and Mat Products	T3.420 24	
Fish and Shellfish	i 1,211,577	5
Other	t 1 627 611	7
Sub Total Food (iticltidlnu fish)	11 91►>> 8	49
Sub Total Food (excluding fish)	10,708,171	44
Non Food		
Wool	924-077	4
} ►xe5tt	3, 11 1,1	45 t3
Live Animals	176,329	07
Other	7tS 627	, T
1 oral Non (Food	4°30.178	70 7
Total agriculture based exports	12,527,203	50.7
Total Merchandise Export s*	24,703,039	100

Source SONZAF 2000

New Zealand compared to main Trading Partners

	NZ	Aust	USA	Japan	UK	China	G/many	SKorea
Population, in millions	3.8	19	270.6	126.4	58.2	1243.7	82	46.4
Area in 1.000 km2	271	7713	9373	378	244	9561	357	92
Inhabitants per km2	14.1	2.5	28.9	334.6	238.4	130.1	229.9	503.6
GDP, in billion NZ$	103.9	774.2	217120	10331	3042	2442	4024	934
Change in real terms (°, u)	3.4	4.2	3.3	0.5	2.4	7.3	1.9	9.2
Nominal GDP per capita in NZ$	27,130	40.700	80,277	81,728	52,265	1,963	49,066	20,121
NZ exports to..., in million NZ$ (FOB)	N/a	5.956	4,243	3,956	1,576	902	690	1,309
Share ofNZ Exports (°.o)	N/a	20.4	14.5	13.5	5.4	3.1	2.4	4.5
NZ imports to ..., in million NZ$ (VFD)	N/a	6.485	5,036	3,186	1,103	11804	1,226	631
Share ofNZ Imports (°o)	N/a	22.5	17.5	11	3.8	6.3	4.2	2.2
Current Account balance as a % of GDP	-5.4	-5.7	-4.5	2.7	-1.3	1.5	-1.7	3.2

Source: National Bank Quarterly Economic Forecast

	Taiwan	Malaysia	H/kong	S/pore	Indonesia
Population, in millions	21.3	21.4	6.5	3.9	204.4
Area in 1.000 km2	36	330	1	1	1905
Inhabitants per km2	591.7	64.8	6500	3870	107.3
GDP. in billion NZS	530	184	369	194	267
Change in real terms (°.o)	4.1	7.7	10.4	10.5	5.2
Nominal GDP per capita in NZ$	24,901	8,567	56,810	50,029	1,307
NZ exports to ..., in million NZ$ (FOB)	685	597	787	487	483
Share ofNZ Exports (io)	2.3	2	2.7	1.7	1.7
NZ imports to ..., in million NZ$ (VFD)	641	756	164	492	273
Share of NZ Imports (°o)	2.2	2.6	0.6	1.7	0.9
Current Account balance as a °.'o of GDP	4.2	12.3	5.8	23.6	5.3

®'

*Includes mutton, pig meats and poultry Wool 1999/00 est. - 188.6 thousand tonnes clean Milksolids 1999/00 - 970 million kg 11,480 million litres processed

Consumption

Tonnes(000)	SEPT 99
Beef	119.0
Lamb	29.4
Veal	0.5

Milk products

Cheese 28000 tonnes est.

Butter 27,000 tonnes est.

Liquid milk 350 million litres p.a. est.

Source: Meat and Wool Economic Service and Dairy Board

Producer subsidy equivalents (PSE)

PSE: an indicator of the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers, measured at farm gate level, arising from policy measures which support agriculture, regardless of their nature, objectives or impacts on farm production or income. The PSE percentage is expressed as gross transfers as a percentage of gross farm receipts values at farm gate prices.

New Zealand can boast the lowest level of agricultural support for industrialised countries in the OECD. The level of assistance to agriculture in New Zealand was just 2% of the value of output in 1999. This compares to the OECD average of 40%. The remaining 2% support in New Zealand mainly refers to the provision of agricultural research funding.

Country basis	%
New Zealand	2
Australia	6
Canada	20
EU	49
Japan	65
US	24
OECD average	40
Commodity basis	
Rice	81
Milk	57
Other grain feeds	56
Sugar (refined)	56
Wheat	48
Sheepmeat	42
Beef and veal	32
Corn	32
Oilseeds	29
Pork	22
Eggs	13
Poultry	14
Wool	6
Other commodities	38
PSE supports per acre	(US $)
Japan	4772
Korea	3903
EU	336
US	52
Mexico	24
Canada	21
New Zealand	3
Australia	1

Source: SONZAF *2000*

Costings

Residential Goslings

Amberley, Canterbury Westland House, October 2001

Contributed by Denis *J* Milne, *North Canterbury* Valuations

Construction: 3 bedroom and study, dual bathroom gable bungalow with attached double garage having internal entry, situated on a flat site at Amberley North, Canterbury. Concrete floor, SSV walls, D.G, Colourstеel roof and Gibraltar linings.

Areas: Garage 39.59m2
Dwelling 155.61m2

Net Contract Price: $149,232 (excl. GST)

Analysis:

Total: 155.61m2 Modal Rate: $641.68

Notes: Contract with a medium sized building company under Masterbuild guarantee. Country build factor 1% of contract price.

Loburn, Canterbury Westland House, November 2001

Contributed by Denis J Milne, North Canterbury Valuations

Construction: Four Bedroom dual bathroom hip roofed bungalow situated in a rural location. Concrete lfoor slab construction, 70 series BV cladding, double glazing and Colorsteel roofing.

Areas: Total 167.93m2

Net Contract Price: $137,000 (excl. GST)

Analysis:

Total: 167.93m2 Net Modal Rate: $6620.40

Notes: Country build factor 1% of contract price per 10km.

Gnntnterciai Gttstings

Richmond, Nelson Specialist Fastfood Outlet, August 2001

Contributed by *Peter* Noonan, Duke and *Cooke* Ltd.

Construction: Concrete foundations and floor, part steel support, timber framing, aluminium joinery, 9mm Titan board cladding, corrugated Colorsteel and Trimline Colorsteel roof. High stud at front tiled customer and service areas. Toilets included.

Areas: Total 142m2

Analysis:

Total: 142m2 $1265/m2 Modal Rate: $910 Multiple: 1.39

Notes: Plus fees of around $12,000 and site development of $30,000. Includes drive through, parking and landscaping at a cost of around $57m2.

Richmond, Nelson Industrial, July 2001

Contributed by *Peter* Noonan, Duke and *Cooke* Ltd.

Construction: Office, workshop and secure yard.

Office has concrete floor, concrete tilt slab walls, Colorsteel roof, aluminium joinery, partitioned and lined and dual conveniences.

Workshop has heavy-duty concrete floor, UB portal frame and part glulam beams, Colorcote zincalume cladding and part translucent panels.

The yard had concrete hard stand, hot mix seal, security fence and gates, plus landscaping.

Analysis:

Offices: 158m2 $875/m2 Modal Rate: $900 Multiple: 0.973

Workshop: 324m2 $575/m2 Modal Rate: $900 Multiple: 0.64

Yard: 3000m2 $45/m2 Modal Rate: $900 Multiple: 0.05

Notes: Fees included.

Waihi, Hauraki District Industrial: Engineering Workshop, June 2001

Contributed by Maria Stables-Page, Jim Glenn *Valuers*

Construction: Concrete floor, steel RSJ frame, corrugated iron walls and roof, Clearlite panels in roof. 7m stud height to front, 4m height to rear. Sidewall fire stop and noise control system. Two roll-a-doors 5m wide by 6m high.

Areas: Total 396m2

Analysis:

Total: 396m2 $383.92/mz Modal Rate: $925 Multiple: 0.415

Notes: Construction included extending a concrete block workshop. Formsteel $104,706; electrical $28,270; Gibraltar firewall $8085; sundry $10,973.

Rural Costings

Whitianga House, June 2001

Contributed by Maria *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	15.8mz
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/mz Modal Rate: $925 Multiple: 0.19

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

Notes: Breakdown of costs Kitset in $A $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 two containers was $6000 and the road cost to Whitianga was $1000.

*new zaata,fld' p,,°*pesrz- JOU.;WA*

Mini ella

Thames Rural House for Removal, March 2001

Contributed by Maria 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	200.4m2
Contract Price:	$12,000 for dwelling (incl. GST)	
	$8000 to shift 5kms (flat good road) (incl. GST)	
	$8000 for tanalised pole foundation (incl. GST)	

Modal house costs (excl GSA

Branch Statistical Officer/Chair	Modal September 2001
NORTHLAND Nigel Kenny 09 438 6674	981.20
AUCKLAND Tony McEwan 09 486 1661	991.11
WAIKATO Graham Cook 07 838 3353	976.24
GISBORNE Roger Kelly 06 868 8596	941.55
TAURANGA Brian Doherty 07 578 6456	941.55
ROTORUA Dave Townsend 07 348 4086	946.51
HAWKES BAY Boyd Gross 06 876 6401	934.02
TARANAKI Frank Hutchins 06 757 5080	924.29
MANAWATU Ian Shipman 06 323 1447	934.02
WELLINGTON Bryan Wareham 06 378 6672	972.94
NELSON/MARLBOROUGH Ian McKeage 03 546 9600	969.12
CANTERBURY/WESTLAND Dougal Smith 03 377 7307	954.80
SOUTH & MID CANTERBURY Rodney Potts 03 688 4084	983.44
OTAGO Shari Liebergreen PO Box 12 042 Dunedin	963.43
SOUTHLAND Trevor Thayer 03 218 4299	973.06

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 15° 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 100ml.

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 Ltd construction cost consultants and quantity surveyors, based upon the Institute's 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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New Zealand Properly Institute Conference

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