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Guest Editorial

As is the case with the self-employed sector of the profession the Valuation Department also finds itself operating in fast changing times, coping with new technology and a drive to improve efficiency and contain operating costs. A significant step forward in improving the Department's systems is a plan to install on-line terminals in all of the Department's 27 offices. When completed during 1985 this will considerably enhance the Department's established computer network system which has been operational since the early 1970's. A pilot study commenced in the Christchurch office in 1983 has proved most effective with significant cost savings and improved efficiencies of operation and service. The system will provide direct access into both the national database and the national sales system, substantially *reduce manual procedures and with the removal of the need to maintain paper valuation rolls considerably reduce the more mundane and time consuming roll related tasks. Additional benefits will accrue to the public at large and the Department's clients by way of an improved and more economical service.*

The Valuer General's annual report to Parliament for the year ended 31 March, 1984 referred to the fact that during 1984 the Department intended to introduce a series of trials whereby selected local authorities revised during 1983 would be revalued again in 1984. The announcement has caused some comment within the ranks *of* the valuing profession and this opportunity is taken to further explain *the position. It is quite coincidental that an editorial comment in a current issue of the R.I.C.S. Journal carries the heading "Out-of-date rates" and laments the fact that the last revaluation in England and Wales was completed in 1973, commenting that even if work started on a revaluation immediately a new valuation list would not come into effect until possibly 1990 and that delaying a revaluation not only distorts the impact of rates on different types of property but also means that rateable values increase enormously upon revaluation.*

The provision of an improved rating base through more frequent revaluations has been advocated in a number of quarters over a considerable period of years and the technology is now in place to make this possible. The present 5-yearly revaluation cycle often results in dramatic changes to property values bringing sharp shifts in the incidence of rating which appear inequitable to some ratepayers. With annual revaluations movements in values would be more frequent but the changes would be more gradual and give a current reflection of the changes taking place in the property market. This is expected to be more readily understood and accepted by property owners and ratepayers as well as being more equitable to everyone concerned.

The trials, which at present are in the nature of a feasibility study, involve only 7 small to medium sized local authorities nationwide. The study is intended to identify the likely problems and possible costs both within the Department's operations and from local authorities' point of view, and is ongoing. This year it is proposed to extend the trial to include several larger local authorities. A summary of results to date indicates that in the short to medium term resource costs are such that it will not be *economic to proceed to a national scale operation until further cost reductions can be effected.*

Further development of these projects and others of less significance will enable the Department to retain its place at the forefront of its counterpart organisations elsewhere.

S. W. *A. RALSTON.*

EDITOR'S NOTE:

Volume 26 commences with the March 1985 issue. All issues of Volume 26 will be identifiable from Volume 25 by a black stripe along the bottom 6 cm. of the spine. The cover will otherwise remain unchanged.

New Zealand Property Market Report 1984

released under the hand of the President of the New Zealand Institute of Valuers Mr R. M. Donaldson

A variety of factors appear to have influenced the rural property market in New Zealand during 1984, including fluctuations in the supply and interest rate structures of mortgage finance, removal of subsidies, increasing on-farm costs, reduced earnings from traditional rural products, and a lower rate of investment by the business community which in earlier years had tended to promote above average land prices, particularly during 1981, which is now seen as having been a year of almost unrepeatable high points. While some classes of rural property including high country merino runs and dairying units in favoured areas are likely to have held their value levels, traditional grazing properties carrying sheep and cattle, appear at best to have levelled of in value, although in many districts, the Institute's commentators feel a discernible decline in value is now evident. The Institute predicts that in the future a much closer relationship will exist between farm land values and farm productivity and profitability. The days of a farm selling as a "way of life" appear to be over, with farmers having to be commercially orientated to farming as a "business venture."

While a quiet year was generally experienced throughout the country in the residential property market, quality homes in prime areas particularly in the main centres showed good growth trends at least through to mid year, while in almost every urban district, the rate of section sales increased, and prices rose, rapidly on occasions. This is thought to reflect the benefit of the Price Freeze on building costs, but in the medium term the supply of buildable sections has been significantly reduced, and house construction costs are again expected to escalate.

Main centre commercial properties continue to show very good value growth trends, particularly for well located retail, office and industrial properties. There is now some sign of rural investment capital finding its way into the cities as a reflection of the more certain growth prospects and high yields available.

RESIDENTIAL HOUSE AND SECTION MARKET

While house prices and the volume of sales to mid 1984 were reported as showing a fairly steady upward trend in Northland, market activity in Auckland featured in the early part of the year, a continuation of the levelling off in building costs influenced by the Price Freeze, which led to an increasing demand for vacant house sites. Section prices as a result, rose quickly during the year as existing stocks of subdivided land were sold and by the year's end few housing sites under $30,000 were available except in outlying areas, and sections priced at under $20,000 were virtually unobtainable.

One high priced residential subdivisional release of 74 sites at St. John's Park, Meadowbank, Auckland, ranged from $45,000 to $100,000 and averaged $65,000 per site all of which were sold, leased or under option by October. While building costs measured by the Modal House Cost Index moved up approximately 12% during the year in Auckland, most of this movement occurred during the final twelve months. Minimum "low cost" housing which is available only on the peripheral parts of the greater Auckland area, now lies in a price range from $60,000 to $70,000 including the site.

While a major impact on the Auckland market from economic factors was the limited supply of mortgage finance, and since July 1984 rising interest rates, a greater volume of sales was noted to have taken place in the $70,000 to $200,000 range in spite of this sector of the market being sensitive to the availability of finance, and interest rate movements. In respect of better quality homes of $200,000 and above the availability of finance did not seem to be a problem during the year and while values were generally steady, there was an increase in the number of single home transactions lying in the $800,000 to $1,000,000 range, particularly in Remuera, Eastern Suburbs and premium North Shore locations (particularly those near beach frontages or with marine views).

During the same period the volume of residential sales in the Waikato was variable with, in Hamilton, the volume of transactions noticeably up on 1983, with house prices also having moved, and signs of greater buyer confidence towards the end of the year in the upper portion of the residential house market. Likewise, house building sites in the Waikato particularly in the upper price ranges, met with a good demand if well located, while the trend of subdividing larger residential lots has continued.

House and section prices in Rotorua showed an increase in both volume and price level during 1984, compared to 1983 and sales of good quality houses and home units in excess of $100,000 were common, with the occasional superior dwelling sale over $150,000, while houses in the medium price bracket sold in the $60,000 to $85,000 range. Very few dwellings were available for less than $40,000 and home units continued to capture a substantial share of the market. There was also a good demand for vacant sites with prices realised showing big increases in Rotorua, particularly during the second half of the year. The apparent shortage of well located sections was confirmed by the virtual sell out by Public Auction of a prestige 44 section subdivision.

In nearby Tauranga, the housing market was reported as being relatively settled with the prices of lower cost houses having remained static during 1984, whereas houses at the upper end of the market increased by as much as 25% during the year, with the highest priced houses now exceeding $300,000. Average house prices in the Tauranga urban area, at $78,500 approximately for the half year ended June 1984 ranked fourth highest nationally. Select location sections on occasions realised $100,000 or more, and there are very few building sections in the principal urban areas of the Bay of Plenty available for less than $20,000.

Moving across the North Island to Gisborne, the N.Z.I.V. Branch Committee reported that while in early 1984 there were signs of increasing turnover, the effect of rising interest rates appeared to have slowed market activity during the second half of the year. However an examination of price structures shows that there is growth in all sectors of the urban market in the Gisborne region, and more specifically, good quality residential property is described as fetching premiums at levels in advance of 1983. There was a shortage of good quality medium priced housing in the $60,000 to $85,000 range, while houses priced between $40,000 and $60,000 were in keen demand, and formed the largest group of sales.

Although section sales were estimated to be down on 1983 levels, house property sales in Napier, Hastings-Havelock North for 1984 were thought to be amongst the highest since 1981. Values for house properties in the district were reported as having increased only slightly over 1983, with houses at the top end of the market (i.e. in excess of $120,000) still proving difficult to sell. Buyers in this range were considered to be prudent purchasers, shopping around to get the best deal. The highest recorded sale of a residential property in Napier during the year was at 391 Westminster Avenue, Greenmeadows, a superior 1970s dwelling of 320 sm which sold for $202,500, the same property having sold in 1981 for $178,000. The average section price in Napier by mid year was slightly in excess of $19,000, and sections in all areas were reported as selling well at rapidly increasing prices.

The residential property market in Taranaki during 1984 was reported as being in a fickle state after a buoyant 1981 - 1983 period. Market conditions were thought to reflect changing policies and their effect on the supply of mortgage finance and the interest rates charged for this finance. These factors in conjunction with the lack of further new energy projects appeared to suppress the market for the major part of the year. However the dampening effect was partially offset by the increased volume of home finance being made available through the Post Office Home Ownership Account Scheme and towards the end of the year, increased interest in executive quality housing with the prospect of the Maui "B" platform being built. Several executive dwellings on convential sections sold in 1982-1983 for figures approaching $200,000, however towards the end of 1984 the highest price paid in New Plymouth for a similar property was approximately $185,000. There were few reasonable house building sections available in New Plymouth City under $15,000, with some sites in the better localities selling in the vicinity of $40,000, and home unit sites at $20,000 per unit.

The Central Districts Branch of the Institute which monitors trends in Wanganui, Palmerston North and the Wairarapa, reported that housing turnover was well up on the previous year especially within smaller urban centres throughout the district, and noted that most market activity occurred in the first half of 1984 with vacant residential sections showing the way in terms of increased sales volumes. In some instances section prices doubled over a twelve month period, and by the year's end there was considered to be a definite scarcity. Meanwhile not all housing value movements were confined to the larger centres, with most smaller towns indicating increased sales volumes and rising values at fairly uniform rates. The Branch Committee predicted that the demand for vacant residential sections would continue to press prices higher particularly in those areas with little suitable land for development, but that there could be a hardening in price structures of quality residences.

The establishment of multi-unit housing at historically high price levels in sectors such as Oriental Bay was reported as the most significant change in the urban property market in the Wellington region during 1984, with prices ranging from $650,000 to $1,000,000 approximately, fully furnished. Meanwhile the peripheral areas of Wellington including the Hutt Valley and Porirua Basin also experienced substantial lifts in

residential value structures with in Porirua, one good quality home selling in excess of $300,000 toward the year's end. Meanwhile lower priced houses remained substantially more consistent in price structures than had been apparent in 1983 with State houses selling in the Porirua area at mid year in the vicinity of $30,000 to $40,000.

In overall terms the property market in the Wellington region during 1984 was characterised by a "wait and see" attitude reflecting wide variations in mortgage interest structures, and the mid year election and change of government.

The volume of developed residential property sales in Blenheim was constant on 1983 levels, however the number of vacant section sales reduced by approximately 10%, and there were signs of scarcity leading to substantial increases in prices, ranging from $12,500 to $35,000. While the market for developed residential properties improved during the year, there still appeared to be a ceiling of $150,000, and average quality homes appeared to lie in the $60,000 to $70,000 price range in Blenheim during 1984. At the same time vacant residential lots showed a 10% increase on the previous year in Picton, and both Havelock and Renwick Townships evidenced buoyant section demand with increases of 25 to 33.3% in volume. In the general Nelson provincial areas very few residential properties are now available at less than $50,000, with much of the finance being provided by the Nelson Building Society and similar institutions, and the Post Office, although mortgages from solicitors were thought to have reduced a number. Good quality town houses in Nelson City priced at $100,000, were noted to have sold towards the end of 1984 while the prime residential areas behind the Cathedral and cliff top areas overlooking Tahuna Beach and Tasman Bay are showing good increases, with vacant allotments in the two latter areas having sold approximately three years ago in the vicinity of $42,000, now expected to fetch prices of $80,000 or more. A superior house property in Richmond realised $170,000 during the year, while plenty of building activity was reported at Atawhai with a large number of superior residences appearing on the market, many in excess of $150,000.

In Christchurch the residential property market was reported as having a good balance of supply and demand during 1984, with generally moderate increases in values across the full range of property types. Low cost houses in Canterbury now readily realise in excess of $40,000 (whereas they had been selling in 1983 for around $30,000) and this movement is thought to reflect extending Housing Corporation funding, and the re-emergence of vendor financing to bridge deposit gaps.

Superior homes have also increased in value, however at a somewhat slower rate than cheaper homes, while spec built houses generally sold well during 1984, if realistically priced. Superior medium priced homes appeared to suffer some effect of steeply rising interest rates towards the end of the year, although there was no indication of value structures actually falling. There was a noticeable shortage of good building sites in popular localities in the district during 1984, with one section south of Christchurch reported as having shown a 70% increase on resale in less than twelve months.

In radical contrast to the major centres, single residential house sites in Westland can vary in value from as little as $500 for a freehold site in Blackball, to $14,000 for an above average site in Greymouth, the main centre of population. There is a shortage of good quality housing in the area, and there is always a big demand for permanent material homes or those which have been built during the past twenty-five years. Because of this prices obtained for good quality homes are frequently comparable to other parts of the country, however conversely it is still possible to purchase from a variety of older house styles at around $30,000.

The South Canterbury Branch of the Institute which monitors Timaru City, Ashburton Borough and the South Canterbury Boroughs and Counties, reported a strong demand in the low and middle house ranges (up to $65,000) for much of the year, although the trend was thought to be easing over the final weeks. Higher priced housing was in strong demand to the mid year, then fell away, but is predicted to return to normal momentum as building costs for new houses increase, and purchasers adjust to the new higher interest rate structures.

As occurred in many other urban centres throughout New Zealand, values for new sections in Dunedin started to rise during 1984, and by the year's end the Institute expected that section prices would be in the region of $20,000. Single dwelling sites in good localities again rose, with some transactions reported in the $45,000 to $65,000 range and an observation that larger sites had been purchased in a range $90,000 to $100,-000. A strong demand for all developed residential properties was reported by the Institute's Otago Branch Committee with average family homes selling in the $50,000 to $65,000 range, better homes in the $90,000 to $100,000 range, and superior homes up to $200,000. This appeared to reflect an increase of approximately 15% in the price of residential properties in Dunedin. It was however noticeable by late 1984 that buyers were becoming more selective, with as a result less attractive properties hanging on the market. Another trend has been a move towards building both new houses and flats, both on contract, or speculatively during the year.

In January 1984 Invercargill experienced a massive flood, and it was determined during the year that flood damaged homes generally sold at between 40% and 60% of their pre-flood values. Following renovation and repair, the value structures have improved for flood affected properties, but still lie at 10% to 20% below their pre-flood levels. Most demand in Southland has been for modern houses in a price range up to $60,000 from first home buyers with home ownership acocunts. Modern and character homes priced at in excess of $100,000 were slow to sell with limited demand during 1984.

RESIDENTIAL RENTAL MARKET

In spite of the Rent Freeze Regulations, house and flat rentals were reported to have increased by late 1984 in Gisborne to between $80 and $100 per week for a three bedroom house in an average location. However in Hawke's Bay rentals were generally held at 1983 levels with an acute shortage of accommodation being reported.

The residential rental market in the Taranaki region steadied and possibly dropped marginally during 1984, particularly as good quality properties were well supplied. Plain two bedroom flats continued to be let for $110 to $120 per week, although reliable tenants were more difficult to find, and better quality executive house rentals were reported as unlikely to exceed $170 per week. The Rent Limitation Regulations appeared to be effective in terms of controlled properties, particularly residential ones in Central Districts, and there was little change in rental structures reported.

In Marlborough, residential rental accommodation seemed scarce during 1984, and likely to become more so as few private owners were building or converting homes for rental investment. The rental range was very wide due to the Rent Freeze and subsequent Rent Limitation Regulations, with some new accommodation letting at two and a half to three times that of existing (equivalent) flats. While there was a barrier to the upper rental limits affecting three bedroom houses with an occasional letting at $150 or more per week, the rental range for unrestrained three bedroom accommodation lay between $85 and $130 per week in 1984, up to $100 per week for two bedrooms, and a minimum of $65 per week for one bedroom accommodation.

In Christchurch, market rentals did not appear to have increased over the high levels obtained in 1983, but there remained a strong demand for all types of rental accommodation and rental structures on those properties not subject to controls were expected to fetch between $80 to $100 per week for unfurnished two bedroom accommodation or between $110 and $150 per week for three to four bedroom houses.

THE COMMERCIAL PROPERTY MARKET

The Auckland Branch of the Institute reports that in 1984 it became apparent that new office rentals, unfettered by the Rent Freeze and Rent Limitations, showed a steady increase, and new central city business and suburban centre office space was being absorbed. Retail space was in strong demand in the central city, with new developments leasing well at high rental levels, and on occasion key money payments being made. Demand for investment type properties in the region increased, particularly for properties priced up to $250,000 where it was common for purchasers to accept yields of less than 10% on theoretical rentals. Towards the end of the year there was a growing demand for good quality higher priced investment property with major investors, superannuation funds and property companies entering the competition, after relatively quiet periods during the mid year. Commercial development is still taking place in the Auckland central business district and its immediate periphery at quite unprecedented levels, and doubts are being expressed about the market's ability to absorb the accommodation produced. Other trends predicted include a possibility of vacan, cies in older office developments, a trend which would follow the last Auckland building cycle approximately ten years ago. On Auckland's North Shore. The Takapuna area is currently suffering from a shortage of office accommodation, however new buildings under construction and proposed are likely to remedy this situation over the next two years.

Throughout the Waikato the commercial property scene in most centres was relatively quiet in 1984 with a steady demand and supply of commercial space, however the Hamilton central business area showed considerable commercial construction, including a substantial retail shopping centre on a large area of central Railway land which has been vacant for many years. Well located and tenanted commercial buildings are sought after by local investors, corporate groups and public companies. The industrial property market in the Waikato was generally steady during the year.

In the tourist and leisure sector of the property market, Rotorua experienced considerable activity during 1984, with upgrading and development of new motels and hotels and the development of various recreational facilities featuring. These included a gondola lift, herb garden, orchid house, and water slide. The commercial area of Rotorua is presently under development, and remaining vacant sites were keenly sought after for retail and office developments. 1984 also saw strong demand for well situated, modern retail space and good quality office accommodation in the city, however the industrial sector didn't show the same degree of activity or value increase, other than for properties located on the main thoroughfare and city access roads. Across in Tauranga, prices were forced up to record levels through demand exceeding supply in the commercial areas of the city, with five development projects under way and others planned. Of the industrial estates, only Mt. Maunganui showed significant value increase, while in terms of rental structures, new retail units let at up to $194 per square metre in the city, although rentals on review were at significantly lower levels overall.

Industrial values showed steady increases in Gisborne during 1984, as did commercial property values in the central business district. Retail rentals range up to $129 p.s.m., with key money payments and net leasing arrangements (whereby the tenant is responsible for a share of all annual outgoings) are now common. Similar trends in 1985 are predicted. Some forty commercial sales were recorded in the central business district of Napier during 1984, approximately four times more than reported for the preceding twelve

months, however the volume of commercial property sales in Hastings at fifteen is similar to the 1983 levels. Vacant commercial sites have increased substantially in value over the past twelve months, with individual land values also on the move in both Napier and Hastings. Commercial business district rentals are showing an increase of between 10 and 15% per annum, with premiums frequently being paid for first lettings. The Branch Committee of the Institute however predicts the possibility of an over-supply of office accommodation, and notes that some suburban retail rentals have shown only nominal increases. Modem industrial space rentals range between $25 and $35 p.s.m. per annum.

Minimal sales activity was recorded in the central business district of New Plymouth during 1984, a marked contrast to the previous twelve months. Good retail space is however in short supply, and rental growth reported as being firm, if unspectacular. The most dramatic increase in values in 1984 occurred in the light industrial and semi-commercial pocket to the eastern periphery of the business district where a high volume of vacant land transaction has revealed price increases exceeding 1983 levels by as much as 25%. Top prices now exceed $180 p.s.m., for vacant allotments in that sector, and substantial new construction and redevelopment is underway. In the Bell Block industrial estate the volume of vacant land sales has been decidedly less than in 1982 and 1983. The suburban commercial property market in New Plymouth has remained relatively quiet, although some leasehold sites sold at prices almost equating historical freehold levels.

The commercial market elsewhere in the Taranaki Province experienced low capital growth, with commercial property returns in places such as Hawera having increased from 13% to 16% p.a. Rentals for budget priced commercial building are now exceeding $100 p.s.m. p.a. on the periphery of the Hawera business district.

The Central Districts Branch of the Institute reported increased demand for commercial and industrial investments in the regional cities, although purchasers in smaller urban areas tended to be more selective. Value increases were greatest within the major urban areas such as Wanganui, Palmerston North and Masterton. Spectacular rental increases were recorded during 1984 for offices in central Palmerston North. New lettings for properties which were not controlled by the Rent Freeze Regulations and Limitations showed positive rental gains being made throughout the year.

The most significant event in the central business district of Wellington was regarded as being the final completion of the Bank of New Zealand Centre, promoted as the highest building in New Zealand. It is a sophisticated development with substantial areas of shopping constructed beneath the street, linked by escalators to adjoining arcades and footpaths. All available office land on The Terrace is now fully develop. ed, and there is a scarcity of remaining property suitable for redevelopment in the central business district, and as a result some recent sales within Featherston Street have set new levels.

Currently, good air conditioned office space rentals range between $115 to $125 p.s.m. p.a. in addition to which tenants are liable for a share of outgoings adding a further $30 to $35 p.s.m. for new accommodation, while existing non-air conditioned office space has a lower overall rental structure. Other interesting developments have included the construction of office and car parking towers over shopping plazas. Commercial rentals in Porirua City are now at premium levels, while at Kilbirnie asking rentals within a twentyseven shop complex under development lie in the range of $160 to $235 p.s.m. plus all outgoings. The Wellington Branch Committee of the N.Z.I.V. also notes that a dramatic increase in the number of hotel rooms for the city is planned, with schemes proposed by the Sheraton Hotel Group for the old General Post Office site, and further hotel developments proposed for sites in Wakefield Street, and the Cable Street areas. These proposals appear to be a reponse to predictions of increasing tourist trade.

A large scale motel development is proposed for the seaward side of the commercial business district at Petone, while 3 km away to the north in central Lower Hutt, a $40,000,000 shopping centre is proposed for early in the New Year.

New office space is proposed for Blenheim, and some expansion by existing and new companies in this sector is expected within a relatively short period. Rental structures for ground floor commercial accommodation range up to $170 p.s.m. p.a. but average quality second floor accommodation can be secured for as little as $35 p.s.m. p.a. Keen interest is being shown for industrial sites on the main access roads, with car dealers and fast food outlets competing for allotments. Very little interest has been shown in side street light industrial vacant land, however rentals for industrial accommodation in completed properties now range from $25 p.s.m. to $60 p.s.m. p.a. In the future it is expected that commercial rentals will level off, and that 1985 will be a year of market consolidation.

In Nelson the number of commercial property transactions fell away in 1984 following a high Street areas. These proposals appear to be a resdevelopment of older earthquake risk buildings has taken place, and the Nelson City Council was noted to have expanded its holding to the south end of Trafalgar Street for future redevelopment. Peripheral areas of the city have come back into prominence with some large scale redevelopments proposed, and in general terms retail premises for prime locations are in strong demand, with rentals ranging to $230 p.s.m. A shortage of good quality office accommodation is apparent in Nelson with rentals up to $70 p.s.m., while older space is renting at $40 p.s.m. p.a., or more. In nearby Richmond, the mall area appears to be now operating at close to full potential and the commercial sector in general is benefiting from Thursday night and Satur-

day morning shopping. Industrial rentals appear quite strong in the province, with small multi-unit development rentals in Nelson City approaching $50 p.s.m. p.a.

Central city commercial property in Christchurch continued a buoyant trend during 1984, with retail shop rentals in both new and upgraded developments continuing to escalate. Likewise office rentals showed significant rises for all standards of accommodation during the year, and developers were encouraged to undertake redevelopments, on account of the improved earning potential. Retail rentals for premium inner city locations range from $430 to $540 p.s.m. p.a., with new office accommodation of similar quality in excess of $91 p.s.m. Inner city car parking is at a premium, with rentals ranging from $22 to $25 per week. In the suburban areas well located and patronised developments continued to strengthen their position while less favoured areas held their own in terms of rental and value growth trends. Good city and suburban commercial property in Christchurch showed excellent investment growth during the year frequently in the order of 15 to 25%. Concurrently vacant industrial land values in the suburbs of Bromley, Woolston and other eastern areas have remained stable and in fact have shown little movement in the past ten years. The central city industrial land market was however particularly buoyant during 1984, with in general terms land values increasing by approximately 10%, and particularly well located sites by up to 20%. Market prices for improved industrial properties were also buoyant, with average increase of around 10% shown from sales analysis. Rentals for new Christchurch industrial developments of up to 700 sm are now around $40 p.s.m. p.a., and show a 10 to 10.5% return per annum.

Greymouth is currently experiencing a boom in the commercial sector. For many years, particularly since the 1970s there has been a tremendous shortage of good quality rental and owner-occupier accommodation in the town. Recent years have seen demolition, rebuilding and upgrading to premises, with the commercial centre of the town consolidated and expanding. By late 1984 some five million dollars worth of commercial building was under way in Greymouth Borough, including two supermarkets, new retail and office accommodation and major renovation programmes. New motel and hotel complexes are either planned or under way in the Greymouth Borough, Grey County and Hokitika Borough, with investors predicting potential growth from tourism. Good quality new ground floor retail rentals range up to $100 p.s.m. Concurrently property values for well located industries are increasing, with well established companies moving into the district, a factor which is aiding development and business confidence in the area.

Prime commercial property in South Canterbury was in strong demand during 1984, with increases over 1983 being paid for inner city service properties and industrial land. Commercial rentals for new buildings in cities like Timaru are ranging to $50 p.s.m. p.a., while rentals for properties no longer restrained by rent controls, have shown increases of 70 to 100%.

Dunedin industrial property values appear to be likely to move, reflecting more confidence during 1984 in the industrial areas of the city and vacant land in sectors like the Southern Endowment. Rentals for smaller industrial-warehouse occupations in prime positions now range from $28 to $40 p.s.m. p.a. depending upon size. One of the factors that is thought to have influenced the local market is the relocation of established industries to larger more modern premises. Likewise there has been a steady establishment of new small industries. Demand again outstrips supply for properties in the main retail/commercial area of George Street, with increasing values being evident, although somewhat lesser demand exists to the south in Princes Street. Transactions have included the sale of a two storied building on a small corner site for redevelopment, and another transaction involving a larger site and departmental store for conversion to a shopping mall. A major hotel chain has announced that a $17,000,000 170 bed hotel is planned for Moray Place, within easy walking distance of George Street. The Otago Branch of the Institute reports that there is still confusion over the application of the Rent Limitation Regulations and subsequent amendments particularly with regard to the twelve months thaw and those tenancies with a rental review due prior to November, 1984.

The real growth area of commercial property in Invercargill during 1984 was in the Martin Street and Windsor Street regional shopping centres with one new 4-unit retail shopping block completed in Windsor Street in June, and leased at $80 p.s.m. plus rates and insurance with two yearly rent reviews and $6000 key money. Two further similar sized developments have been granted planning approval with rental levels expected to be at $100 to $115 p.s.m. A large 18-unit retail shopping complex is currently under construction in Martin Street, with more than thirty firm tenant enquiries for the space available. Meanwhile there has been little demand for medium to large industrial space from tenants since completion of contracts associated with the Tiwai Smelter expansion. There is however reasonable demand for small areas of 80 m2 to 150 m2. Retail space in the high to medium pedestrian flow areas of Invercargill continues to be popular, with recent rental reviews in the order of $140 to $150 p.s.m. for prime space. Proposed developments include redevelopment of the Majestic Theatre site with 15 shops between Tay and Esk Streets and up to 1500 m2 in a double level retail development promoted by the Invercargill City Council. As a result of relocation into new office premises there is a surplus of old and/or upgraded first floor space. Such tenancies are difficult to let particularly if off-street parking is not available.

RURAL PROPERTY MARKET REPORT

In Northland during 1984 only a small number of economic sheep and beef units changed hands,

with the volume of dairy farm sales likewise low, although prices maintained parity with 1983. Forestry concerns in the region were still active in buying land, but prices were thought to be down slightly, while uneconomic partly reverted blocks continued to meet a ready demand. Bare land horticultural units were reported as having dropped in value in Northland since 1983, although the limited number of productive blocks on the market were selling well. There is still a keen demand for small rural residential blocks.

There were few highlights to the Auckland provincial rural property market during 1984, however the demand for small holdings of 1 hectare and less apparently increased, particularly for economic glasshouse units and buyers seeking rural residential settings with privacy and views. There was thought to be a growing demand for larger holdings of market gardening land particularly for onions, potatoes and carrots following high seasonal prices with up to $25,000 per hectare being paid for properties ranging in size to 32 hectares in the South Auckland/Waiuku/Tuakau areas, where land is of suitable fertility.

There was some limited recovery in the volume of rural sales in the Waikato during last year mostly in respect of dairy farms and small blocks. The number of sheep and cattle farm sales remained at a relatively low level, but there were slight increases in price levels early in the year, for dairy farms and small blocks. Later in the year small block prices became more erratic, and it is thought that changes in the supply of mortgage finance and interest rates influenced the market considerably. Prospective investors were thought to have been discouraged by rural industry leaders' statements which were often of a negative nature during 1984. While the Waikato Branch Committee of the Institute could not determine decreases in rural values as a consequence of the 1984 Budget by year's end, it acknowledged that the saleability of some rural properties, particularly sheep and cattle farms in relatively remote locations, were likely to be affected.

In the Tauranga County few dairy farms or sheep farms were sold during 1984, with the main movement in rural land trading being in the form of orchards and small holdings. In mid year horticulturists experienced significant problems in refinancing, with the lack of suitable finance appearing related to interest rate controls, however this restraint did not appear to result in many mortgagee sales, and the commentators for the region refuted public comment that values had fallen by up to 30%, when reference is made to confirmed sales recorded during the preceding 12 months. Some poor properties were however noted to have shown a modest decline.

In neighbouring Rotorua, dairy farm values were holding on 1983 levels at approximately $5000 to $6000 per hectare although sale volumes were likely to be down in the final analysis. It was a weak market generally for sheep and cattle farms but there seemed a reluctance amongst vendors to meet the market in terms of price structures. For small holdings there has been a strong demand for "life style" blocks, with a potential for deer or goat farming, in the 20 to 50 hectare range.

Across in Gisborne region the forecast for the rural market in 1985 has been difficult to predict, however it was thought that changes to taxation policies may affect investment in the larger outlying holdings. There were a number of properties on the market during 1984 at historically high price levels, but with only limited results being reported.

The 1984 rural land market in Hawke's Bay experienced another depressed year, particularly for pastoral types of properties, thought to reflect lingering results of the 1982 drought, tight monetary conditions of the first part of the year, and latterly the effects of devaluation and the November Budget. While there was a plentiful supply of pastoral type farms on the market, some had been listed for up to eighteen months with little interest being shown. One 300 hectare fattening and grazing hill country property 85 km west of Napier carrying 2600 stock units sold in November 1984 for $262,500, but had sold in November 1982 for $447,450. A similar type of property of 305 hectares 50 km west of Napier carrying 4450 stock units was however signed up by an overseas buyer for a figure of $750,000 and the contrast between these two transactions indicates that more remote hill country properties are likely to suffer to a greater extent in the market place than pastoral properties located close to city centres and services. Numerous small horticultural blocks on the Heretaunga Plains sold during 1984 at buoyant prices, however bare land sales are still below the price peak of 1981 at $30,000 per hectare.

The Taranaki Branch of the Institute reports that the change in the rural market between 1981 and 1984 in rural language has followed a seasonal trend, "1981 being like a spring flush with abundant growth, followed by two successive drought years, and with 1984 offering a hard winter climate". Turnover has been at record low levels for the last 3 years, as other forms of investment have become more attractive in terms of economic viability and future prospects. As a result demand has fallen away for all classes of rural land in the region. Price levels have reduced for sheep and beef units and have barely held for dairy farms, but future downward movement for all pastoral holdings is a logical expectation according to regional commentators. After initial strong interest, horticultural and small holdings also appear to have experienced changes in demand fostered it is believed by changes in rural land policy, farm economics, the availability of finance, higher interest rates and uncertain market prospects.

In Central Districts an over-view of reported sales indicates modest value gains in the rural sector, although the market was not as clear cut as on past occasions. Vendor finance was requir-

ed in some instances to maintain historical selling levels. Economic factors in respect of tax concessions, harvest costs, and product sale prices appear to have had a combined effect on values of kiwi fruit developments and are most apparent in the years immediately after establishment (but prior to full production). To date actual sales of kiwi fruit blocks in the Central Districts have been limited, although vendors of such properties have endeavoured to hold out for establishment cost recovery. The rural market in general is not thought likely to alter radically in the short term although prices for average small rural holdings on the peripheral urban areas could well harden.

A combination of natural and economic factors rationalised the pastoral land market in Marlborough by mid 1984, influences including the 1983 drought, reduced farm incomes, renewal of Crown leases and in some cases severe grass grub attack. Handy fattening property prices were thought to have fallen some 25% by comparison with the market peak of mid 1982. Even greater declines-in values werev eidentfor more remote properties requiring greater outlays on fertiliser and weed control. Horticultural block sales continued, at prices holding on 1981/1982 levels, providing the outlay was under $200,000. There was evidently a buoyant market for rural/residential category properties in the Marlborough Province during the year, particularly for those lots capable of providing a home site and horticultural income. Orchard development in traditional pip and stone fruit continues in the Province, with most interest in intensive planting of fruit trees with recognised product markets. Vineyard sales have been rare, and concurrently there have been no further plantings, with some lower producing blocks likely to have their vines removed. In the future horticultural properties will require a good fruit season to maintain past land prices because of rising costs, and unseasonal hail and wind could affect cherry orchard property prices following the disastrous 1983 season. Although only a relatively small land area is involved in dairying in Marlborough, there is likely to be a hardening of prices, with Kaikoura holding at existing levels. Sheep and beef fattening properties are predicted to firm in price as net returns decline.

In the Nelson Province prices generally lifted with rises during the year noted to include economic dairy farms up 9%, economic fattening farms up 5% as were uneconomic fattening farms, uneconomic grazing land up 5%, economic horticultural land up 10%, with similar gains to uneconomic horticultural land, and forestry land up 15%. Stock and Station firms apparently reported a higher volume of listings than ever before, with enquiry from all parts of the country and particularly from Canterbury and Otago. However, finance difficulties resulted in fewer transactions being finalised. The low profitability of the pastoral industry reflected in a limited number of sales being concluded, although there was slightly more buoyancy in the Murchison and Golden Bay areas, where capital outlay is lower than in many other parts of the country. Pip fruit orchardists (after experiencing two good seasons) saw sale prices for their land at a more buoyant level, with similarly, small forest blocks and uneconomic properties capable of diversifying into such activities as deer or goat farming showing the greatest value increases. In the longer term the decrease in profitability of traditional pastoral farming is thought by the Nelson Branch Committee to possibly accelerate diversification into such activities as deer and goat farming and forestry. Demand for properties for these alternative uses could well result in less price decline than predicted.

In Canterbury during the first half of 1984 the actual volume of reported rural category sales had increased by 50% over the corresponding period in 1983, however much of this increase was in the small holding category while the sales of economic farm units were up by 20% in volume. After the July election it seemed that the volume in sales fell. In instances where the original asking price was excessive, sales took a-long-time t omplete one_ roperty_inparticular, a light land fattening unit, was passed in at auction in July 1982 for $800,000, had two uncompleted agreements in mid 1982 and 1983 at $750,000 and $625,000 respectively, and finally sold early in 1984 for $555,000. While light land fattening and grazing properties or hard hill country values have declined, medium, sweeter hill country in North Canterbury and Banks Peninsula has held its own or increased slightly (up to 10%) in value, with larger increases in the more favoured localities such as inner Akaroa Harbour. Dairying land has remained static at $4000 to $5000 per hectare, but really wet land was reported as being hard to sell. High country land maintained its values, with this particular sector being helped by devaluation and resulting record prices for fine merino wool. Small arable land blocks moved up in value, while arable farms held their value levels as did medium soil farms where good underground water for irrigation is available. The greatest increase in the Canterbury Province in value has however been for small holdings and horticultural units, by up to 25% during the year.

Unlike some previous years the majority of purchasers of economic farm units in Canterbury (cropping, fattening and grazing holdings) during 1984 were genuine farmers, as the businessman rural investor appeared to find the yields on capital employed inadequate, and was often penalised by the 10-year interest claw-back provisions introduced in 1983. Conversely some farmers were tending to look to commercial and industrial properties within the urban fringe for capital growth investment; as an alternative to expanding their farmland holdings.

In Westland, relatively few sales of economic farm units were recorded during 1984. By national scale, Westland is a small farming district and the number of sales in any one year is not normally high, however the settlement of a number of new Lands and Survey Department dairy

units over recent years has helped to create considerable interest from outside the district. Production potential in relation to property values was quickly appreciated and the interest spread to privately owned farms. As a result values have risen since the late 1970s to be more comparable with other districts when measured on a production basis. In overall terms however Westland rural land values are still lower on a per hectare basis than most other districts in the country, and it is thought that only a very marked and sustained decrease in value structures in other districts would be likely to have a significant effect in Westland. In summary, the Westland District rural property market appears to have held over the last year, with indications that dairy farming which is the main influence, is maintaining steady to firm values, while sheep and beef farming units may be slightly depressed. Options for diversification are rather limited apart from deer farming which is well suited to local conditions, however there is a small but thriving development of sphagnum moss harvesting and some limited interest in horticulture on suitable areas.

The market for economic units in South Canterbury during 1984 was very subdued, particularly after the Budget. Meanwhile small holdings remain firm on 1983 prices, with a demand from retired farmers being noted.

The Otago Branch Committee of the Institute noted that during 1984 sales were difficult due to the overall market conditions dictated by costs, profit returns and 'the availability of finance. However the level of values had only fallen slightly for the average sheep and cattle farm. For 1985 the Committee predicted that the hard hill farmer would have to be prepared to face a lower market structure, at prices below those sustaining in 1981. Small holdings, horticulture and dairy units are however continuing to sell.

In Southland during 1984 below average returns for farm produce (particularly lamb and mutton), a shortage of long term finance at favourable interest rates, cost increases in freight charges and fertiliser, fluctuations in the availability of mortgage funds, and intervention in rural bank lending rates, all combined to reduce confidence in the farming sector, and bring about a decline for farm property values, by as much as 33% in the less popular localities. Further declines are predicted if the prevailing market conditions continue for a further 12 months. By the year's end the market appeared inactive in Southland with vendors reluctant to accept substantially reduced prices, cash purchasers only prepared to move with realistic prices, and Rural Bank loan funded purchasers having diminished prospects on account of the high interest charges. In spite of this sales continue to take place on account of retirements, expansions and financial pressures, although at reduced volumes, and lower prices. Share farming and leasing arrangements are predicted to increase in incidence in the province.

Membership

ADVANCED TO ASSOCIATE:

Armitage, I. R.	Auckland.
Bennett, K. K.	Auckland.
Carr, T. E.	Rotorua/B.O.P.
Ford, M. T. D.	Central Districts.
Garland, (Ms) K. J	Wellington.
Gilberd, C. G.	Wellington.
Harris, A. D.	Hawke's Bay.
Haywood, K. A.	Waikato.
Knight, G. D.	Canterbury/Westland.
Lee, S. H.	Overseas.
Lindsay, W.	Central Districts.
Marks, T. I.	Canterbury/Westland.
McFarlane, A. J.	Northland.
Millar, J. R.	Auckland.
Minty, P. W.........	Southland.
Munyard, (Ms) S. M.......	Southland.
Ng, S. Y.	Overseas.
Quinn, W. E.	Wellington.
Reed, (Miss) G. T..........	Southland.
Roberts, A. D.	Auckland.
Sim, (Miss) Y. A..........	Overseas.
Simpson, G. L.	Hawke's Bay.
Swan, R. M.	Auckland.
Tyerman, C. B.	Gisborne.
Ure, M. G.	Southland.
Williams, K. D.	Waikato.

ADMITTED TO INTERMEDIATE:

Borich, S. N.	Auckland.
Braddock, R. A.	Auckland.
Boughen, B. A.	Wellington.
Burborough, G. B .... : ...-	Southland.
Chalmers, W. A.	Canterbury/Westland.
Churton, J. A.	Auckland.
Crosse, P. B.	Waikato.
Cundy, L. C	Nelson.
Glasgow, P. J.	Wellington.
Hardwick, G. M.	Auckland.
Harvey, N. A.	Wellington.
Haszard, (Ms), J. P	Auckland.
Johnston, S. R.	Auckland.
Laing, (Ms) G. C.	Nelson.
Louisson, L. T.	Wellington.
Ryan, D. J...........	Auckland.
Sherlock, B. P.	Wellington.
Somerville, A. W.	Otago.
Tay, S. S.	Auckland.
Utteridge, G. A.	Rotorua/BOP.
Waldron, S. G.	Otago.
Wallace, G. G.	Southland.

RETIRED:

German, J. R.	Hawke's Bay - (Rule
Tyson, T. E.	Hawke's Bay
Yeoman, A. C.	Auckland.

REMOVED FROM ROLL OF MEMBERSHIP:

Hiebendaal, R. O...................................	Auckland.

REVERTED TO NON-PRACTISING:

Fergusson, R. D. M.	Waikato.
Kissick, A. F.	Taranaki.
Marriott, D. W.	Central Districts.
Williamson, R. A...........	Auckland.

RE-ADMISSION:

Stratford P. J.	Wellington.
Bevin, A. F.	Hawke's Bay.
Coxhead, J. D.	Waikato.

RESIGNED:

Cavanagh, S. J.	Canterbury/Westland (Student).
Duncan, A. R.	Canterbury/Westland.
Findlay, H. A.	Waikato.
Williams, D. P.	Central Districts.

ELLWOOD PLUS COMPUTER EQUALS PROPERTY INVESTMENT ANALYSIS.

The computer programme inserted on pages 690 and 691 of Vol. 25, No. 12 contained some seemingly minor yet important typesetting error. As the programme won't run unless it is set up with absolute precision it is reeprinted below, no doubt to the relief of those members who have tried unsuccessfully to make it run. This does illustrate just how careful one must be when setting up programmes for computers.

```
130  IF Y> 1 THEN Y=Y/100
200 SFF=Y/((l+Y) AHP-1)

210  P=((+I)AHP-1)/((1 +I) AN-1)
220 F=I/(1-(1/(1+I) AN))
270  IF QU<O THEN QU=QU* 1
330 RATE... Y/N", CHOICE$
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Valuers' a 'stration Board

Members of the Institute should be aware of their Registration Board. A recent photograph of the Registration Board is reproduced. for ease of identification should the need arise.

The Board's two prime functions are, of course, the registration of valuers and the functions associated with the disciplinary procedures of the Valuer's Act. The Board plays a major role in the professional accountability of valuers. From time to time decisions of the Board are printed in The Valuer.

The Board does have other powers, including the power to compile and publish information which will be of benefit to the profession. It can also make grants for educational purposes which in its opinion will be of benefit to the profession of land valuing.

With regard to this latter power the Board has recently agreed to pay air fares and registration fees for a lecturer from each of the three universities, conducting approved valuation courses, to attend The Lincoln Institute of Land Policy World Congress on Computer Assisted Valuation at Cambridge, Massachusetts, U.S.A. at the Harvard Law School.

Back Row (Left to,Right): A. Chouhan (Assist. Registrar), P. E. Tierney, D. J. Armstrong, R. P. Young.

Front Row (Left to Right): D. Aitken (Registrar), S. W. Ralston (Chairman), M. R. Hanna.

Contributions To Charitable Causes "Goodwill Advertising

During 1983 and 1984 the Executive Committee of the Institute received an application, and a number of enquiries from members as to whether or not individual practitioners, partnerships etc. were permitted, under the Institute's Code of Ethics to advertise as having made charitable trust donations. Queries also concerned the tax deductability of such advertising.

The range of trusts included both local and national appeals for such things as recreation centres, sport and art complexes, and a work trust set up to provide employment opportunities for young people. In these situations the names of donors are often listed on buildings or shown in some printed form as a permanent record. Donations of this type might be broadly described as "goodwill advertising" and there has been an increasing number of such appeals in recent years in which business houses and the professions in general, have been canvassed for donations by fund raising committees at both local and national levels.

The Institute was aware that other professions had sought clearance with the Commissioner of Inland Revenue as to whether such donations could legitimately be considered as deductible items for income tax purposes; at the same time there is no provision in the Institute's Code of Ethics to permit the type of public exposure and advertising likely to flow from some such donations.

The tax deductibility of such a donation is often a major incentive for an individual or a practice to participate in a scheme and for that reason correspondence with the Inland Revenue Department was exchanged. It appears that the Department will accept such donations as a legitimate deduction under specified circumstances and given that minimum requirements as follows are met:

(i) There should be some definite advertising contract in writing specifying that the payment is for advertising.

(ii) Payments made by an individual or a firm must be for a minimum of $100 or more for a year.

(iii) Adequate advertising giving full value for the payment must be made in one or more of the usual advertising media i.e. newspapers, pamphlets etc. and the payer's name, product and address should be shown.

There appeared therefore to be a conflict between the restrictive provisions of the Institute's Code of Ethics which essentially prohibited advertising and the desire of valuers to participate in such charitable causes. Having examined the approach adopted by other professions which have allowed some participation by their members in this area, Council of the Institute has decided that advertising in connection with charitable donations could be permitted in the spirit of good taste, dignity and restraint and that this would acknowledge in some way changing professional attitudes to advertising.

Whilst no blanket approval can be given for members to participate in any scheme in which they are invited to participate, the following procedures have been put in place and are drawn to your attention as the rules within which one should proceed:

1. On every occasion that a member contemplates a charitable trust donation and where his name and professional identity associated with any advertising may arise, application should be made in writing to the General Secretary of the Institute who shall refer the matter to a sub Committee of Executive for consideration of the particular application.
2. The applicant will be alerted to make his own enquiries of the Inland Revenue Department and will be advised that the Institute does not take any responsibility in terms of sanctioning the proposed donation in terms of its tax deductibility but would provide a written reply to the applicant giving its approval or otherwise to the type of donation and the recipient organisation being considered.
3. The Executive sub Committee would report to the full Committee in the normal course of events of any approvals given under this procedure. A formal amendment to the Rules of the Institute to cover this limited form of advertising does not appear to be of immediate priority but a later amendment to the Rules will no doubt cover this particular area.

Members will be aware that there have been moves by other professions in the advertising area and internally there has been some call for valuers to examine the Institute's attitude to advertising. Council of the Institute are not only considering at this moment the question of corporate publicity funded from the general revenues of the Institute but also if and how more relaxed provisions can be adopted whilst retaining the professional dignity of a valuer's services. It would be premature to predict when and in what way changes might be made, but Council and the Committees of the Institute responsible for publicity are conscious of the trends apparent both in New Zealand and internationally and the changing nature and public perception of the professions generally.

R. M. Donaldson, President.

XIIIth Pan Pacific Congress Hawaii 1986

Participation By New Zealand

Members will be interested to learn that the New Zealand organising committee have appointed Mount Cook World Travel as the official travel agent for the above congress. This Christchurch-based firm will be handling bookings and all ticketing for New Zealanders wishing to travel to Honolulu, Hawaii in February next.

The Congress runs during the week February 10 14 and broadly follows the format of previous Congresses; the 1986 conference is expected to attract real estate appraisers, valuers and counsellors from most Pacific rim countries and nations within the area. In a departure from previous practice the New Zealand committee is looking to allocate papers to delegates planning to travel to this Congress and is thus calling for the names of individuals interested in delivering a paper. At this stage the Hawaii organising committee have yet to confirm the specific topics awarded to New Zealand but have indicated that we are likely to be asked to present papers as follows:

One plenary paper from the following topics:-

- Social Responsibility For Housing.
- Market Value versus Investment Value.
- Impact of New Technology on Traditional Appraisal Thought.

And three or four from the following workshop sessions:-

- Managing and Operating the Appraisal Office.
- Affordable Housing.
- Housing the Elderly.
- Valuation of an Agricultural Operation or Business.
- Agricultural Productivity and Land Values.
- Our Real Estate Market - What's Hot and What's Not.

The last subject above is likely to be in the form of a short address where speakers form a panel and discuss current real estate conditions in their respective countries.

The Research and Education Trust Fund of the American Institute of Real Estate Appraisers is offering an honorarium of $US1,000 for the best paper prepared and submitted in accordance with all Congress requirements. All papers and speakers, whether for a plenary, workshop or panel session will be eligible for the honorarium. Any members interested in preparing papers for the above topics should write to the General Secretary indicating the topic and their experience to speak on that theme. Final allocation of papers will be made by mid year and all papers are required to be concluded for despatch by 1 November.

In a further innovation the organisers have programmed a delegates' open forum in which a maximum of 25 delegates will be invited to present a five minute mini paper on any subject relating to real estate. A panel of judges from the Technical Papers Committee (Hawaii) will select the individuals to participate in this presentation at which a non-monetary prize will be awarded for the best presentation. Again, valuers wishing to be considered for participation in this area should forward notice thereof to the General Secretary.

Finally, considerable work and negotiation have proceeded on bookings with the official travel group and details of travel and registration will be circulated to members in the near future. Members who have not yet indicated their interest in attending the Congress should direct their enquiries in the first instance to the General Secretary's office.

Rental. Reviews

by Wilson A. Penman, A.N.Z.LV., M.P.M.I.

Wilson Penman is a lecturer in Urban Valuation and Property Management at Lincoln College. Prior to taking up his appointment in 1981 he was employed by the Valuation Department for five years in Christchurch and Hamilton. Wilson has a special interest in investment analysis of urban property and computers.

There are many factors which influence rental levels for investment property. An important factor is the level of rental warranted to compensate for differences in review periods between leases.

This is best illustrated by the following example. We have two identical industrial buildings on adjacent sites and both are being offered for lease with net leases with a term of six years. The buildings have a floor area of 1200 square metres and similar premises in the locality are presently being tenanted at $45 per square metre with two year rent reviews. A tenant has been found for Building A for a lease term of six years with two yearly rental reviews. Given the comparable market evidence we assess the rental level at:

1200 m2 x $45.00 per m2 = $54000 per annum.

A tenant has been found for Building B but the tenant requires three yearly rental reviews.

What level of rental should be charged?

In analysing this problem most of us would accept that a higher initial rental should be charged for a three year rent review than for a two year rent review as this will compensate for a lost review period during the term of the lease. This additional loading at the start of the lease term compensates the owner for potential lost income. The level of income lost is dependent on the level of increase in market rents during the lease term.

To illustrate this problem consider both buildings under the economic system with zero inlfation and zero change in capital growth. If this occurred then there would be no need for rental reviews as both rental levels should be the same. So under a regime of zero monetary change there should be no rental difference between two and three year review periods.

If the level of rental growth was a steady 5% per annum compounding over the lease term we would expect the income levels to be the following for Building A:

Year 1	=	$54000
Year 2	=	$54000
Year 3	=	$59535
Year 4	=	$59535
Year 5	=	$65637
Year 6	=	$65637

Building B is tenanted with three yearly rental reviews at the same initial rental as Building A:

Year 1	=	$54000
Year 2	=	$54000
Year 3		$54000
Year 4	=	$62511
Year 5	=	$62511
Year 6	=	$62511

The total cash received by way of rent from

Building A	=	$358344
Building B		$349533

In straight dollar terms Building B would have to charge a rental 2.52% higher to equal Building A but if the income streams are compared in present value terms using a discount rate equal to the rental growth rate the situation is more realistically assessed.

The following results are obtained using rental payments monthly in advance.

Present value of the income stream from

Building A	=	$309319
Building B	=	$302013

For the income stream from Building B to equal that from Building A the present value of the projected rental income must be 2.35% higher from Building B. To achieve this the initial, and subsequent rentals are increased by 2.35% over

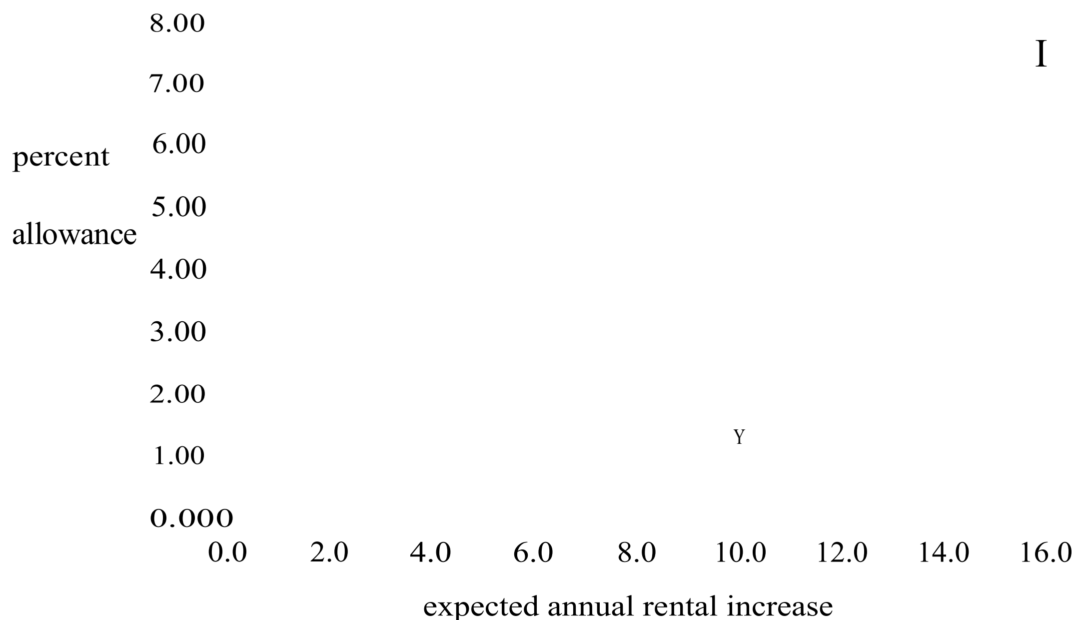
and above the rent being obtained for two year reviews.

From the. above illustration you can appreciate that the additional percentage expected under differing review periods is dependent on the anticipated level of growth in the rental stream over the lease term and the choice of discount rate.

Each individual investor has a discount rate that reflects the real rate of return generated by the property and the additional return generated through inflation growth. The discount rate used in the calculations does not include a measure of financial return from the investment but only reflects the loss, in real monetary terms, from inflation. For this reason, it is realistic to use a discount rate equal to the rental growth rate as this should reflect the investor's time preference.

The following graph plots the results for two versus three year review periods under different rates of rental growth. The discount rate used in each calculation is the same rate as used to calculate rental growth.

PLOT OF 2 v 3 YEAR REVIEW ALLOWANCES



To use the graph first estimate the appropriate level of rental growth as shown on the x-axis. Read the corresponding point on the graph line and value on the y-axis. The value given is the percentage adjustment between the differing reviews.

For practical applications the graph enables the valuer to compensate for ONE area of difference between properties. In utilizing the graph it is important to realistically assess the level of anticipated rental growth over the lease term. This task is not as difficult as it may at first seem as an examination of historic rental evidence for differing types of properties should give some indication of past rental growth levels. Obviously two decimal place accuracy cannot be obtained in estimates of future growth but if past evidence shows that industrial buildings in a locality have achieved annual rental growth levels between 11 and 12 percent compounded then it is realistic to adopt a figure of 5% as being the additional rental justified for a three year review period as against a two year review period.

ie. Market rental for a two year review
= $45 per m2.

Market rental for a three year review
= $45 x 1.05
= $47.25 per m2.

OR

Market rental obtained for three year review
= $47.25 per m2.

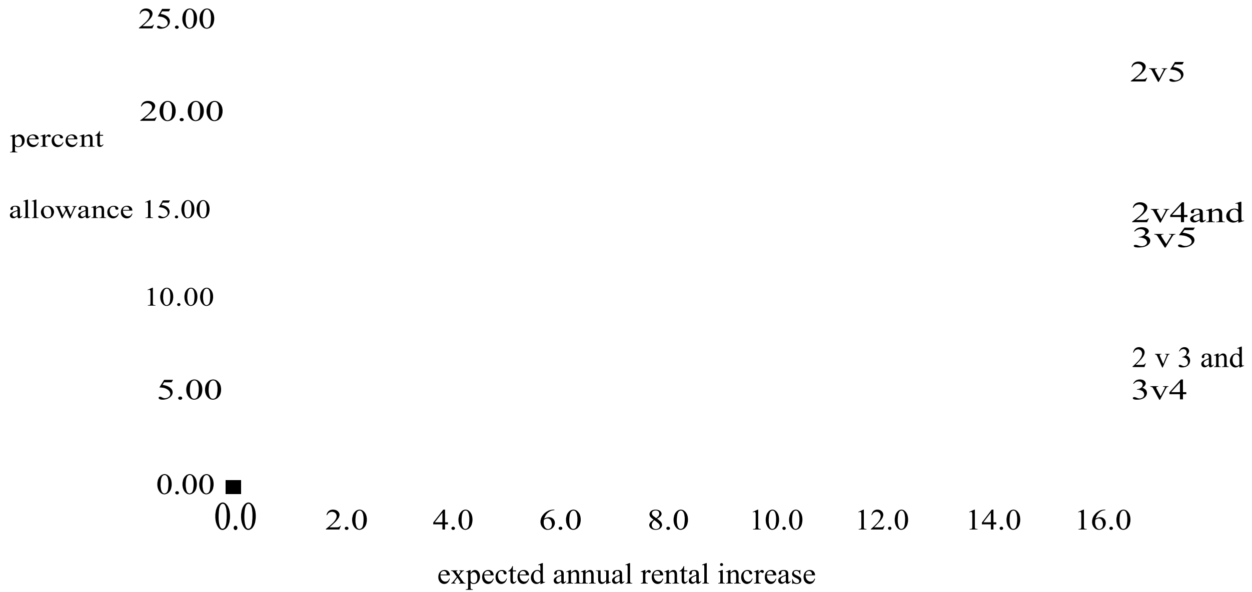
Estimated equivalent rental for two year review

$$= \frac{\$47.25}{105} \times \frac{100}{1} = \$45.$$

The following graph plots the impact of different review periods found in commercial leases, namely:

Two year versus Three year.
Two year versus Four year.
Three year versus Four year.
Three year versus Five year
Two year versus Five year.

PLOT OF RENT REVIEW % ALLOWANCES



You will note that 2V4 and 3V5 are plotted on the same line as are 2V3 and 3V4. The following is a table of the actual figures generated from the calculations.

Level of Rental Growth %

	2	4	6	8	10	12	14	16
2V3	.99	1.95	2.88	3.80	4.68	5.55	6.39	7.21
2V4	1.98	3.92	5.82	7.68	9.5	11.28	13.03	14.74
3V4	.98	1.93	2.85	3.74	4.6	5.44	6.24	7.02
3V5	1.97	3.89	5.76	7.58	9.34	11.05	12.71	14.32
2V5	2.98	5.92	8.81	11.66	14.46	17.21	19.91	22.56

Summary:

This article was prepared with the aim of illustrating the monetary differences between differing review periods within the same lease term. In calculating the monetary impact there are several factors which may contribute to the level of percentage compensation which have not been included in the calculations. These include:

We have assumed that the discount rate is the same as the rental growth rate. This may not always occur as in some properties rental growth may be due to supply and demand influences external to any inflation growth.

We have assumed that rental growth will be at a steady level throughout the lease term. This would rarely happen. Any variation. between the rate used and the market rate will obviously impact the result. The longer the time period between review options then the higher the probability that the projected rental cash flow will not match the actual rental cash flow.

By having longer periods between reviews a landlord avoids the costs associated with a rental review. In some cases these can be high and a delay can result from when a rental is set and payment actually occurs. An example of this could be if a rental was due for review in January 1985. The rental is finally agreed in July 1985 and the tenant pays rent in arrears. The lessor may have lost the opportunity to invest the income for a period of six months and has lost the interest from that income. If this is a common occurrence then the percentages calculated will tend to over compensate the longer review periods.

It would be incorrect to blindly adopt the percentages calculated without first considering if the market supports such levels. If market levels differ widely then the reason for such divergence should be investigated. The calculations and graphs should be of some assistance to valuers in analysing market rental levels and advising their clients as to the impact of accepting rental review levels.

Valuation For Corporate Purposes: Current Cost Accounting Perspectives

Squire L. Speedy, J.P., B.Com., M.Phil.(Hons.)

Squire Speedy has been a long time contributor. to The Valuer and has written a number of publications, the most recent of which "Financial Appraisal", was reviewed in the September 1982 issue, Vol. 25, No. 3 and is pu'bli'shed by the N.Z.I.V. Squire was awarded the John M, Harcourt Memorial Award in 1983 for his outstanding service to the Institute in the field of Education.

1. INTRODUCTORY PERSPECTIVES

If you want to catch a trout, you must think like a trout. If you want to value real estate, you must look at it from various angles. If you want to understand valuations for current cost accounting you must think like an accountant and view it from several perspectives.

In ten years' time accountants will be celebrating the 500th anniversary of the publication in 1494 of the first known work on bookkeeping, by a Franciscan monk from Florence, Lucia Pacioli. It was at the time of the Renaissance, a mere two years after Columbus discovered America, and a quarter of a century after Gutenberg invented the printing press that was to revolutionise man's mind and communication of ideas in a way only paralleled in recent times by the electronic age. Pacioli's historic work was published two hundred years before the discipline of science, and even arithmetic and algebra, were systematised by. modern man.

Since .those days, and even earlier, financial accounts and statements have been recorded in ifgures at their precise, original cost, with only one or two minor exceptions, a system we now refer to as historical cost accounting to distinguish it from current cost accounting, or, as it is now known, CCA.

PAPER GIVEN AT THE WORLD VALUATION CONGRESS, CAMBRIDGE, FIRST PUBLISHED IN `JOURNAL OF VALUATION' (HENRY STEWART PUBLICATIONS, LONDON) VOLUME 2, 1984.

During most of the centuries since then, money has been remarkably convenient as a medium of exchange for business transactions, and it has served well as a store of value over reasonable periods of time. Consequently money has been entirely satisfactory as a unit of account in stable societies until comparatively recently. Although there have been occasional bouts of galloping inflation, usually associated with some military conflict, or discovery of gold, or in recent times the development of the welfare state, the essential characteristics of the double-entry system have emerged intact, modified here and there to meet the ever-changing needs of contemporary business and governmental decrees and taxes.

2 THE WINTER OF OUR DISCONTENT

In the face of rising prices the historical cost system has had the impossible task of trying to hold its traditional role of providing reliable and accurate financial information on profit performance. and the financial position of business. Financial analyses by comparative ratios have become far less useful than they should be. Purchasing power of money has dropped away to such an extent that stocks and inventory often cost more to replace than they have been sold for. As a wide gulf grew between historical costs and replacement costs, businessmen lent their voices to the problems. Not only that, the cost of replacing the fixed assets of the business used to produce income has escalated alarmingly, with insufficient funds withheld by way of depreciation

to provide a fund to replace their worth to the business without introducing new funds by equity contributions, or by borrowings. Such financial statements have become inadequate for business decisions and indeed, misleading.

The accounting profession has a responsibility to provide financially useful and reliable information for both internal management and external users. An accounting system should recognise changes in price levels, rather than ignore the steady decline in the purchasing power of money. In doing so the historical cost system fails to acknowledge or do anything about the money illusion that accepts the myth that money today is as good as it was yesterday. Of course it is not! Financial statements prepared in historical cost monetary units completely ignore changes in the purchasing power of money which give distorted perspectives of the results of business activities. Reliance on such documents in times of inflation seriously affects business viability, and in the long run it will lead to an inadequate level of investment, thereby detrimentally affecting business judgments, capital growth, and ultimately employment. The distribution of dividends may be excessive when profits are overstated, causing an erosion of capital resources. Capital erosion also results in the need for ever increasing funds just to stand still. Under such conditions it is difficult for the accountancy profession to justify the certification of financial statements as `true and fair' (even though they may comply with accounting principles, practices, conventions, and doctrines) and at the same time maintain their professional credibility. Businessmen know they are not true and fair in the moral or philosophical sense of these words.

Of practical necessity, accounting systems are based on conventions and doctrines. The monetary convention which assumes that money holds its value is such a one. I am reminded of the words of a literary giant of Cambridge, Sir Arthur Quiller-Couch, appointed to the Chair of English Literature in 1913, who said: `A convention may be defined as something which a number of men have agreed to accept in lieu of the truth and to pass off for the truth upon others; . . . "

Even if inflation were to be stopped, there is still the need to catch up on assets expressed in currency whose purchasing power was a great deal higher than it is today. The financial world simply has not been able to adjust adequately to the money illusion. What has been going on under our very eyes is the internal devaluation of the currency without it being given official recognition; often denied, particularly by taxation authorities; and conveniently ignored in its application to mortgages and asset costs.

It is a human failing that false beliefs professed often enough are eventually accepted by some people. And sometimes the propounder starts to believe his own lie! Worse still, prices, policies, and taxation based on out-of-date historical costs and values are incompatible with the long-term continuation of the private enterprise system of the free Western world. It is obvious that a new accounting system is needed to suit the economic conditions existing in an era five hundred years after Pacioli!

Yet changes to the traditional system that is the legacy from Pacioli have been tardy. Notwithstanding its criticism, the historical cost system has the advantage of being readily verifiable. It is also simple, understandable, and cheap to prepare. Its relative objectivity has administrative advantages, particularly for taxation purposes. Even so, it is not as objective as it first appears. The annual depreciation deduction involves judgment, both of the useful life of an asset and in matters relating to doubtful debts, stock, inventory, and also in the grey areas between items of capital and revenue.

The unrealistic treatment of assets can be justified by the fact that a balance sheet prepared in the traditional way is not a statement of affairs. People who suggest that it should show assets at current values are asking a balance sheet to do more than it was ever designed to do; namely, to provide a list of balances in the books of the organisation after the revenue statements have been prepared. It merely shows the source of funds of a business and how those funds have been disposed of. In any case, most assets can be re-valued even under the historical cost system. The certification of historical cost accounts as true and fair seems an anachronistic and anomalous idiosyncrasy of the accountancy profession!

Nevertheless, its traditional position, simplicity, and understandability makes any substitution difficult. Is it any wonder that there has been a growing conflict between supporters of the well tried, comfortable old system that is our legacy from Pacioli, and supporters of some other system that aims to cope with the consequences of rising price levels that requires an understanding of complex issues and even more complex solutions?

3. PERSPECTIVES OF INFLATION

The need for a new approach may be said to stem from another legacy, one we have received indirectly from another one of the intellectual giants who stalked the hallowed halls and corridors of Cambridge: John Maynard Keynes, who paved the way for a new approach to the economic doldrums of his times. Lord Keynes's masterpiece, published in 1936, and popularly known as the General Theory,2 gave new insights into the workings of national economies (now called macro-economics) that heralded the dawn of a new economic era. Ironically, Keynesian economics arguably encouraged the high levels of public spending that have been a major cause of the great inflation of recent times.

In the past, some people thought that a little inflation was good for us, but the accumulative effects of inflation are frightening.

The `Rule of 72'3 provides a quick and surprisingly accurate method of calculating the period of time in which prices will double, or conversely purchasing power will halve. Simply

divide the estimate of the constant annual rate of inflation into 72, and the result is the period of time in years. At rates of inflation currently prevailing in the mature economies of the western world, the result is an acceptable approximation: at an inflation rate of 3 per cent p.a., it takes about 24 years for prices to double; at 6 per cent p.a. about 12 years; at 8 per cent p.a. about 9 years and so on.

One perspective of this approach is to realise that, while it once took over a generation for prices to double, nowadays it takes but a few short years, and in some countries only a few months! The inflation rule is useful in policy matters, bearing in mind estimates of future rates of inflation can only be guesses. Nevertheless, such exercises help us to consider where prices are going in the long-term, at current rates of inflation. Most people simply cannot grasp what is happening, nor the omens for the future. It seems we often need to see Jack's beanstalk actually growing in front of our very eyes before we can believe what is happening! The rule of 72 helps forecast the synoptic price level climate. If we are not careful, we will be eating too much of the seedstock of the future, so condemning ourselves to the inevitable fate of backward societies.

4. THE QUEST

As early as 1936, H. W. Sweeney published a book on purchasing power accounting.' Soon after the end of the Second World War other accountants and businessmen were concerned with the need to make adjustments to the historical cost system for changes in price levels. Interest in the subject was growing in other countries. In 1945, the Institute of Chartered Accountants in England and Wales issued recommendations on aspects of changing prices on stock valuations and the provision of extra amounts from profit for the replacement of fixed assets. Other accountancy bodies also took up the issue, but it was not until 1963 that a major study of the subject was published in the USA by the American Institute of CPAs.s

Whenever inflation rose, interest in CCA increased; some of the top brains of the world of accounting and commerce took part in debates mainly through the pages of professional and commercial journals. Many problems were discussed with several solutions suggested. By the early 1970s, as inflation rose to new heights, the pace quickened. Accountancy bodies in Australia, the United Kingdom, Canada, Germany, United States, and New Zealand issued exposure drafts and initiated discussions, documents, and pronounced on inflation accounting. Leading professional bodies in these and other countries had formed the International Accounting Standards Committee, which also issued recommendations concerning problems of inflation accounting.

The major breakthrough came after the problem was passed to politicians in the UK. The Report of the Inflation Accounting Committee,6 under the Chairmanship of F. E. P. Sandilands (as he then was), popularly called the Sandilands Report, recommended the system called current cost accounting. Since then, official committees have been appointed elsewhere. It speaks highly of the Sandilands Report that its general structure for CCA has been recommended or adopted by accounting bodies in other countries including Australia, Canada, New Zealand, and the USA?

Notwithstanding the general adoption of the concept of CCA, the system itself is still under evolution. As Darwin found in his study of the finches in the Galapagos Islands so long ago, variations had evolved to adapt to local conditions, yet with all their variations they were still finches. So it is with CCA.

Most of the variations do not affect the general concept, nor the principles upon which assets are to be valued and depreciation allocated. They mainly centre around the method of adjusting stocks and inventories and the gains or losses from assets financed with borrowed funds, and the particular techniques to be used for adjustments to the separate changes in price levels. The surprising thing is not the variations, but the unanimity amongst the large number of accounting bodies of the essential structure and philosophy of CCA.

Valuers have the daily task of interpreting the vicissitudes of market places created by forces of supply and demand as modified by ever present social and urban economic forces, often accelerated from time to time by micro-economic pressures; specialised market conditions that I have called geopolistic$ to distinguish the land market "mg conditions far removed from the tradional marketing conditions described in standard economics text books. Being preoccupied with normal valuation work, most valuers may not have taken much interest in the detailed debate over CCA and the principles, theory, and practical application of how book figures in ifnancial statements should be shown, and whether and how inputed current costs can and should be taken into consideration in the process of determining annual profit.

If valuers are to produce updated figures to help inform the investing public, they should know something of what accountants are attempting to achieve. Valuers' straightforward concept of market value is not in itself necessarily what accountants want for their new system. If misunderstandings and confusions are to be avoided, valuers should have a working knowledge of the relevant concepts and theory of CCA. They should also appreciate the technical reasons why the term cost is used and not value.

5. ANGUSTIC PERSPECTIVES

In the early 1970s I coined the word, angustic (L angustus, narrow, confined, limited),9 to refer to narrow professional and technical ideas, conventions, and attitudes. Although we like to claim that we are willing to accept progress, in fact far too often we tend to resist the acceptance of new ideas and new insights into old ideas in areas of our professional training. We have a

built-in subconscious professional prejudice in not wanting to disturb our hard won knowledge of facts and concepts which have become part of us. The joke about some people not wanting to have their opinion confused by the facts is sadly all too true! Experience shows that we resist changes in ideas and concepts. It is usually not until a newly trained generation arises to positions of responsibility and influence that such new changes become acceptable. It is often not only the expressed idea that is important, but also who says it that counts!

The very name current cost accounting is jargon; and to valuers and to the lay public, confusing jargon at that! It would have been better, at the very least, to have put a hyphen in the name, current-cost accounting, as some people, including journalists, not unreasonably imagine that accountants are talking about a new system of cost accounting! Valuers have every right to wonder why the system was not just based on the traditional concept of open market value and called current value accounting. At the root of this lack of understanding by valuers is the fact that accountants think angustically in costs, while valuers think angustically in values.

The new system called for new concepts, which in turn had to be named. Any writer knows how difficult it is to convey the right shade of meaning even when words are used strictly in accordance with the dictionary, because their meanings vary with their context and common and individual usage.

This applies to CCA as well as to attitudes to new valuation techniques, depreciation theory and practice, and to profit concepts. Indeed, it is one of the problems that lies in the background that makes the business world still unenthusiastic about CCA. We are lethargic in mental effort. We prefer the familiar to the unfamiliar. For example, in New Zealand it is well over a decade since we adopted the decimal system of measurement, yet we still find the property market prices unofficially expressed in imperial units, simply because most people were brought up on square feet and acres, and not metres or hectares. How much more difficult it is to convert the business community to the whole-hearted acceptance of the complex new accountancy system called CCA, when the very name is misleading. It will take a whole new generation, at the very least, plus further modifications to simplify it, before it can be fully acceptable. It is unfortunate that by making the valuation of assets unnecessarily complicated, uncertain in its basis, and in practice virtually impossible to check, accountants have unreasonably and unnecessarily complicated a system which already has too many complications. I have sometimes wondered whether the way CCA has been developed has had the result of some people regarding it as an intellectual play toy rather than as a practical way of seeking a direct and simple solution to the problem of accounting for rising prices, costs, and values. At times, precision is less important than perspective.

6. A PERSPECTIVE OF THE OBJECTIVES OF CCA

CCA is not a matter of simply replacing balance sheet figures with current market values. Those who harbour that impression have failed to grasp the principles and objectives of CCA. Those who imagine that CCA is a panacea for inflation have also failed to understand the issues. CCA is not a cure for inflation. It merely attempts to recognise changes in price levels that have occurred and affect the particular business, so as to ensure, as far as it is possible to do so, that the ability of the business to continue at the same physical level will be maintained. By thus maintaining business capital and operating capability, it will be possible to reduce or avoid the effects of capital erosion that have resulted in the need for increasing amounts of capital merely to maintain the status quo. A system had to be devised to recognise all costs at their current value to the business to replace out-of-date `cheque book' costs. In this way the overstating of profits attributable to inflation can be avoided.

The architects of CCA introduced two concepts of profit to provide more useful information. The first is the profit derived purely from business operations. It is intended to provide a better standard for outside comparisons similar to the method valuers and investors use to compare the performance and value of different properties. And, like property analysis, profits should be calculated in current values and costs. A second profit calculated is that attributable to the shareholders after taking into account the effects of current costs and revaluations to inventory and assets, the backlog depreciation that must inevitably occur when depreciation is annually calculated on ever-increasing levels of replacement cost; and in some countries it is thought that the benefit gained by financing the business from borrowed funds (less the cost of interest) should be disclosed. Some of these technical concepts and practices need not detain us long, purely from a valuer's angustic perspective. But an understanding of these concepts will give valuers a proper perspective of the special types of valuations required for CCA purposes.

7. PERSPECTIVES OF CCA PROFIT

A new accounting system which is to be based on current price levels needs a new concept of profit to take such changes into consideration. For CCA purposes the various accounting bodies and committees were drawn to the economists' concept of profit; and adopted, with modifications, Sir John Hick's definition of income, from Value and Capital." The income of a business is the maximum value which it can distribute during the year and still expect to be as well off at the end of the year as it was at the beginning. The concept of `well-offness' led to the concept of capital maintenance. In turn this led to a consideration of what capital is to be maintained, and how depreciation should be calculated.

Accountants regard profit as the end result of the process of matching costs with revenue. Fixed assets, which are those assets that are part of the fixed capital of a business, can be viewed as stored up future expenditure whose proper share of their value to the business must be allocated or matched against revenue, to derive the `true and fair' net profit for the accounting year. To do so requires appropriate classification and grouping of all material items and the consistent application of accounting principles. True and fair means true and fair within the accountants' anguistic system, which may not accord with true and fair in the commonsense of the words. It is one of the important conventions of business that assumes it will continue indefinitely; technically called the going concern or continuity convention. To ensure that the business will continue, some means had to be devised to calculate the real cost of using the assets during the accounting year expressed in up-dated costs, or (as accountants say) current costs. An understanding of the process of the annual matching of costs and revenues in current equivalents will go a long way towards helping valuers to understand the term cost accounting. So what accountants are looking for is less a matter of valuing assets at what they can be sold for, but more of assessing their annual current worth to the business, as a means of allocating part of the equivalent current cost in terms of the matching process. Under CCA, it is intended that the business of earning income should pay for a proportionate share of the fixed assets used in the year's operations, such that the same proportion of the assets could be replaced at current replacement costs, hence the business can maintain the same operating capacity.

Profit, as determined, is a far less precise amount than the disclosed figure would lead us to believe. The accountants' doctrine of materiality must be seen to apply to produce a figure that is believed to be true and fair. What has now emerged is an entirely new perspective of asset values which may help explain the accountants' angustic approach to valuations which many valuers find so hard to understand.

Real properties and other assets can be considered from several perspectives. Most people think of tangible assets in the form of land, bricks, and mortar. The legal perspective may consider the bundle of rights attached to land and its use. An economic approach may treat the economic value of an asset as being the net present value of the discounted future annual benefits. What a property is `worth' can be one thing to the owner as part of a going concern, and quite another thing on the open market.

Accountants also have more than one perspective of their assets. The company structure which holds the permanent or fixed assets of a business normally does so, not to sell or trade them, but to use them in pursuit of income. Shareholders are not like tenants-in-common. They do not own a proportionate share of the assets and have no direct say in their fate. They simply own a number of shares in the capital on terms and conditions set out in their charter. Company fixed assets are not traded and are not normally sold, unless for replacement, or a change of policy, or in a takeover bid.

The Hicksonian approach to profit has led to the new concept of `well-offness'. To be as well-off at the end of the year as at the beginning, it is necessary that the capital of the business be kept intact. Maintenance of capital, by means of an annual depreciation allowance sufficient to make this possible, is a corner stone of accounting theory. With CCA, the problem is one of deciding what capital is to be maintained; and how it is to be done. The preferred system, for normal business concerns, is to maintain the physical operating capability. The annual depreciation must be sufficient to ensure the continuity of the business at the same operating capacity as existed at the beginning of the accounting period.

Another corner-stone of accounting theory is the assumption that the business will continue indefinitely. To do so, a sufficient proportion of the annual value to the business of the assets used up during the year's operations must be allocated against earned income. This amount must be based, not on past costs, or future costs, but on current costs. The practical effect of these concepts is that depreciation should be calculated on current equivalent replacement costs.

8. PERSPECTIVES OF DEPRECIATION

Problems of depreciation and capital recovery are perhaps the most enigmatic and difficult of all concepts for valuers and accountants. At times they have been the subject of erudite debates. Yet often there has not been a clear distinction between profit determination and profit reinvestment. It was in the early 1970s while doing research in this area that I was struck by the different specialist ways each profession looks at what is essentially the same problem, and the need arose to describe the narrow (angustic) way each profession looked at capital recovery. Accountants do not use depreciation to find market value. Theirs is an entirely different perspective, virtually the complete opposite. It is one based on recovery of investment capital. The particular method chosen for capital recovery will materially affect the calculated profit.

To illustrate the point, take an example, set in Table 1, of the comparative analysis of the profit arising from an investment of $100,000 which returns a cash inflow of $20,000 a year for ten years. Although the arithmetic profit over the period must equal $100,000, the calculated annual profit can differ significantly between each year and each method, depending on the approach. Yet each professional user believes his approach is right!

By standing back and looking at the annual amount of capital recovery and the resulting profit or interest, we can get an overall perspective. This elementary example reveals several things. First is the importance of cash flow; that is the term used for the --imation of net profit

Table 1

Comparison of different forms of capital recovery

Year	Cash flows		Depreciation (straight line)		Depreciation (dim. value) 20%		Mortgage interest 15.1%		Interest rate of return 15.098 (MR)		Sinking fund 5%	
	Outflow	Inflow	Depn.	Profit	Depn.	Profit	Principal repaid	Interest	Capital recovery	Profit return	`Depn.'	'Profit'
0	100,000											
1		20,000	10,000	10,000	20,000	NIL	4,900	15,100	4,902	15,098	7,950	12,050
2		20,000	10,000	10,000	16,000	4,000	5,640	14,360	5,642	14,358	7,950	12,050
3		20,000	10,000	10,000	12,800	7,200	6,492	13,508	6,494	13,506	7,950	12,050
4		20,000	10,000	10,000	10,240	9,760	7,472	12,528	7,474	12,526	7,950	12,050
5		20,000	10,000	10,000	8,192	11,808	8,600	11,400	8,603	11,397	7,950	12,050
6		20,000	10,000	10,000	6,554	13,446	9,899	10,101	9,901	10,099	7,950	12,050
7		20,000	10,000	10,000	5,243	14,757	11,393	8,607	11,396	8,604	7,950	12,050
8		20,000	10,000	10,000	4,194	15,806	13,114	6,886	13,117	6,883	7,950	12,050
9		20,000	10,000	10,000	3,355	16,645	15,094	4,906	15,097	4,903	7,950	12,050
10		20,000	10,000	10,000	13,422b	6,578	17,396b	2,604b	17,374	2,626	7,950	12,050
	100,000	200,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	79,500	120,050

Profit 100,000.

a The asset is assumed to be written off in last year.
b Figures rounded.

and depreciation. This is generated from gross revenue less operating expenses. Calculated profit is the residual after deducting annual depreciation. Depreciation should be seen as the proper charge for the use of assets used in the generation of that cash flow income. No matter how much the `profit' is fiiddled with vis a vis depreciation, it does not increase cash flow one iota. For depreciation to be a means of capital recovery, the whole of the capital invested in an asset must be allocated over its useful economic life. Anything less is not a true depreciation. A ten-year analysis shows up these points much more clearly than one for long-life assets where the issues tend to get clouded. The analysis highlights the wide range of profit results that can arise from a given series of cash flows. A by-product of this analysis is the importance of not mixing one method of depreciation with a profit found by another method. There is a lesson here for valuers when capitalising net income to find capitalised value. It is essential that capitalisation rates based on the profit found after using one method of depreciation should not be used with the profit found by another method. Which method used is less important than, as always, comparing like with like.

For this reason a sinking fund type of so-called depreciation deduction or allowance is an illegitimate form of depreciation. By its very nature it allocates less than the total cost of the asset. It is as unrealistic as asking a mortgagee to accept less than the full principal to be repaid, on the grounds that he can earn interest on the repayments elsewhere! The internal rate of return technique is the most scientific method, but this is not normally used by accountants except as part of a discounted cash flow investment analysis. The same arithmetic is seen in the table of mortgage interest and principal breakdown.

In this area of depreciation and capital recovery, there is often confusion between return of capital; returns or yields on the original investment or on the reducing balance of capital still locked up in the investment; and profit determination, profit disposal, and profit re-investment.

The concept of profit determination in CCA still keeps to the principle that all capital in an asset must be recouped over the economic life of that asset, which in CCA is referred to as capital maintenance, but, rather than expressing the capital recovery in past costs, or future costs, CCA requires it to be done in terms of annual allocation at current equivalent costs. It may help to think of such allocation as a given proportion of the tangible asset, such as one tenth, but expressed each year in the then current equivalent replacement cost.

Because of the arithmetic involved, with rising costs and depreciation at current equivalent costs for the particular year, a gap will inevitably develop between accumulated annual allocations of depreciation and the amount necessary to reduce current replacement cost to current book value, based on the value of the asset to the business. It is arithmetically inevitable that a backlog of depreciation will arise. See Table 2. The fact that it arises should be understood by valuers, although the precise technical method of coping with the problem can be left for accountants to deal with.

The use of the depreciation technique by valuers to reduce replacement cost to current cost value is merely one step in the CCA process, which must be seen in its full perspective of profit determination. The importance of the `correct' allocation of depreciation lies in the fact that if a sufficient share of the cost of the asset is not retaimed, profit (which is a disposable item) will otherwise include a portion of capital. Those societies that continually eat up their seed stock are doomed to financial disaster. Business is no different!

As accountants move away from historical costs to current costs in CCA, the accountants' and valuers' concepts of depreciation have tended to move closer together. It is a great pity that there has not been a full merging of the final ifgures. But it seems that it is not to be.

Table 2

Historical cost (HC) and current cost accounting (CCA)depreciation compared

Year	HC depn. 10% straight line of $100,000	HC accumulated depreciation	Estimated replacement cost (ERC)	Shortfall between original cost & ERC	CCA annual depreciation 10% of ERC	Accumulated CCA depn. (Ec)	CCA required depn. Provn.	Backlog depn. (g f)
	(a)	(b)	(c)	(d)	(e)	(t)	(g)	(b)
1	10,000	10,000	100,000	-	10,000	10,000	10,000	
2	10,000	20,000	110,000	10,000	11,000	21,000	22,000	1,000
3	10,000	30,000	120,000	20,000	12,000	33,000	36,000	3,000
4	10,000	40,000	125,000	25,000	12,500	45,500	55,000	4,500
5	10,000	50,000	130,000	30,000	13,000	58,500	65,000	6,500
6	10,000	60,000	140,000	40,000	14,000	72,500	84,000	11,500
7	10,000	70,000	150,000	50,000	15,000	87,500	105,000	17,500
8	10,000	80,000	160,000	60,000	16,000	103,500	128,000	24,500
9	10,000	90,000	175,000	75,000	17,500	121,000	157,500	36,500
10	10,000	100,000	^ _200,000	100,000	20,000	141,000	200,000	59,000

Column (d) shows the growing gap between original cost and estimated replacement cost.
Column (e) shows the annual CCA depreciation based on 10 per cent of current estimated replacement cost.
Column (f) shows the cumulated annual CCA allocations of depreciation.
Column (g) shows the required depreciation based on 1/10 of current replacement cost for each year to date.
Column (h) shows the growing backlog depreciation adjustment required each year. This is not charged against the current year's income but is written off against recent revaluations.

9. PERSPECTIVES OF THE CONCEPT OF VALUE TO THE BUSINESS

From the valuers' perspective it is unfortunate that the concept of `value to the business' was adopted as the criterion of value for CCA purposes. It seems strange that accountants failed to appreciate the importance of using a well tried and well tested criterion of open market value with its long history of legal precedents and professional practice. It seems stranger still to have adopted criteria which are difficult to understand and interpret. Valuers know that open market value is the one truly independent and objective standard. Valuers may well wonder why it was rejected and why the imposed standard of value to the business should be preferred. It is easy to think that the valuing profession did not push its point of view hard enough. Perhaps that was so, but it goes a lot deeper than that. It is tied up with the angustic way accountants think, in contrast with the angustic way valuers think. Relying on only open market value would have involved the adoption of an entirely different form of accounting, known as `value accounting,' which was rejected because of its alleged lack of independently verifiable objectivity. The Sandilands Committee stated that it was too subjective, not capable of precise and objective verification in the same way as historical costs, and lacked an agreed basis of interpretation. It was further complicated because the Committee had to determine a satisfactory concept of profit in terms of increasing prices.

The Committee set out to provide a basis of valuation that would be used, not to show the value of the business, but primarily to form the basis for calculating depreciation within the concept of the well-offness of the business, which, as we have seen, necessitates the matching of true current costs with revenue to maintain capital intact.

The production of balance sheet values, strange as it may angustically seem to valuers, is only a secondary matter. Unlike valuers who generally concentrate on a single figure for market value, accountants use two figures: one is the book cost, from which accumulated annual depreciation is deducted to produce a second figure, usually referred to as the book value. CCA requires up-dated equivalents of these two figures expressed in current terms. The first is to up-date the original or historical cost to the `cost' of equivalent assets of the same operating capacity. This is merely expressing in different words what we valuers do when we are using the replacement cost approach to valuation. From this up-dated historical cost, accountants calculate their annual depreciation charge to maintain operating capacity at the same level. It is a fact of business life that at best the figure can only be an estimate, or an educated guess. Let me express this matter another way. Whereas valuers customarily assess current equivalent replacement cost and deduct depreciation to derive a current market value, accountants want the current equivalent cost to do two things. The prime object is to calculate the annual allocation of up-dated `cost', and only secondarily to show an up-dated book value, often more or less equivalent to current market value, but based on the concept of value to the business.

The Committee's definition of value to the business is expressed in a way that is not easy for valuers and the general business community to understand. I suspect that many accountants will be in a similar state of ignorance. Worse still is the difficulty of practical interpretation of the stated standard that is alleged to be objective and verifiable. The Committee's definition is given by the following formula.

> `The value of an asset to a company is its written down current replacement cost (current purchase price), except in situations where the written down current replacement cost is higher than both the `economic value' and the net realisable value in which case the value of the asset to the company is the `economic value' or the net realisable value, whichever is the higher.'"

This seems to me to be very similar to the way investors look at investments. A business-like investor will want to know the top price he can afford to pay for an investment and still get as good a return on it as he can in his next best investment opportunity. If he can build or buy it more cheaply, he will do so. This approach may be recognised as the economists' opportunity cost. In theory, an investor will want to assess the likely future benefits which will be discounted at his acceptable rate of return. This is similar to the basis used for discounted cash flow analysis. It was also central to Keynes's analysis of the marginal efficiency of capital. The Committee referred to it as the economic value, and it is sometimes called the present value. This technique has the practical difficulty of assessing future benefits and selecting suitable discount rates: nevertheless, the general idea is there in the background. The 1983 collapse of values in Hong Kong is a sharp reminder of what happens to net present values when the future is suddenly thought to be shortened and risks are increased. The principle of opportunity cost also underlies the other two valuation alternatives of written down current replacement cost and the net realisable value. In these concepts, an investor has the choice of buying an equivalent second hand asset, or a brand new one after taking into consideration the relative prices, benefits, useful life and so on. Of course, in practice, the finding of the cost of an equivalent chattel asset can be very complicated in this age of advancing technology.

The balance sheet current equivalent book value, in many cases, will be virtually open market value. It becomes apparent that if the type of assets are such that because of their specialised character there is no normal market for their sale, a true and fair depreciation cannot be allocated unless a measure of value is adopted which fairly represents the value of those assets to the business as a going concern. Viewed this way, the concept of value to the business is less nebulous than at first appears. What is wanted for CCA are double figures for the fixed assets of the business up-dating the original cost and the book values written down by accumulated depreciation.12

The standard of accuracy needed is not as material as would first be assumed because the amount of depreciation allocated in a given year will be based, not only on asset value, but also on the estimated useful life of the asset which, as we have seen, is only a guess! This reasoning will help explain why accountants are prepared to accept short cut methods of finding current values. Unless the net profit is going to be materially affected by the lack of precision, results can be considered `true and fair'.

For those specialised assets for which there is no normal market, the concept of value to the business can be thought of as a deprival value. Expressed this way the idea serves to represent the amount an owner would lose or suffer if he was deprived of the asset. Maybe the veil of obscurity can be swept away if we simply assume that the business itself was a possible buyer, and ifgure out what it would be worth for the business to buy the asset. In New Zealand we have a case that supports that approach for specialised assets that have no normal market. (See Valuer-General v Wellington City [1933] NZLR 855.)

Those fixed assets that are surplus to the normal operation of the business are deemed to be `non-essential' and should be valued at open market value. Some of these assets may be expected to be sold off within the next year and some may be held for future use. It is the director's job to decide whether they are non-essential or not, and not the valuer's. It is unfortunate that some confusion has developed over the issue that stems from the angustic use of `essential' to apply to assets that are (if I can use the double negative expression to make the point), not non-essential! The term, essential, if it must be used, should be regarded in a very liberal manner, to refer to the fixed assets normally used in the business. It would have been better to have avoided the use of the term altogether and save compounding confusion!

10. CONCLUDING PERSPECTIVES

The responsibility of selecting practical methods of calculating current costs for CCA rests with company directors who may, if they choose, delegate the task to professional advisers. Land valuers, as such, are not currently an integral part of the system. However, it is important that whenever valuation figures are material, in the accountancy sense of this concept, professional valuation services should be used. Sometimes merely a guiding hand will suffice; at other times nothing less than full professional services will do.

Whatever part valuers play, they must know the rules. Special purpose valuations produced for CCA should be precisely labelled lest they be used for some nefarious purpose. To do the job properly, valuers must have a sound working knowledge of the principles, concepts, and the angustic use of the words of CCA.

Yet there is a paradox, because few of the end users of such financial information will understand their underlying principles, let alone the subtleties of the valuation concepts created especially for this complex new accounting system. The task of `selling' CCA to the business world and getting it fully understood will be harder and take longer than the architects and advocates for the system would have us believe. It is destined to be modified, with professional valuers playing an increasing role. I wonder if it is too much to hope that it will not take a major financial crash to accelerate those changes necessary to make CCA readily understandable and fully acceptable for all purposes by governmental agencies and the business world.

One last perspective: like Darwin's finches, only the fittest ideas of CCA will survivel

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12 See `Guidance Notes on SSAP 16: Current Cost Accounting', Accounting Standards Committee, UK; or equivalent guidance notes in other jurisdictions based on the above `mother' notes.

John M. Harcourt Memorial Award

In the December issue of The Valuer the recipients of the above award were noted and rules governing the award were reprinted for the information of our membership. Such exercises always prove beneficial and on this occasion two serious omissions came to light. R. S. (Bob) Gardner was the recipient in 1977 and was omitted from the list. Two of the recipients, Bob Gardner and Stan Ralston, received their citations and by oversight were never properly brought to the attention of the membership by publication in The Valuer. As this is our Institute's highest award your editor belatedly corrects the situation and offers his congratulations and apologies. The citations are reprinted below.

ROBERT SOUTHWELL GARDNER

"The award is made to Robert Southwell Gardner in recogntion of the high standard of his knowledge, his contributions to the advancement of the profession, particularly in the field of public relations, and his generous participation in the activities of the Institute."

The award was made in 1977 at the April, 1977 Council Meeting.

S. W. A. RALSTON

"In recognition of his outstanding contribution to the profession and especially for the contribution he has made to leading, formulating, directing and supervising changes in education policy from conducting valuer qualification examinations by the Institute to qualification examinations at Universities."

The award was made in 1980, at the 1980 Council Meeting.

Income Streams and Capital Values

by K. Stuart Birks, B.A. Hons., M.Sc.

Stuart Birks is currently senior lecturer in Economics, Massey University. His B.A. degree was obtained in mathematical economics at Essex university and he followed this with a M.Sc. in Econometrics and Mathematical Economics at the London School of Economics. Prior to taking up his current position he was Research Assistant, London School of Economics and an Economist/Planner and Senior Planner with Somerset and West Glamorgan County Councils.

Stuart Birks has contributed to the New Zealand Valuer, New Zealand Journal of Business and the New Zealand Times as well as presenting conference and seminar papers,

Capital assets are often described in terms of the ratio between current return and asking sale price expressed as a percentage. Hence, for example, an investment property may be described "as giving a 10% return, or Government stock a 15% return. Sometimes real estate investments are advertised as giving a return plus capital gain, and sometimes Government stock is offered at a return adjusted for inflation. Clearly, therefore, simple percentage return measures are an insufficient description of the true returns to investments.

Taking the capitalisation of future income stream approach it is possible to compute the capital value of an asset. We cannot immediately say that two assets with the same capital value or present value are equally desirable. Further information is needed on relative riskiness, income must be measured in real (inflation adjusted) terms, and the whole approach relies on the assumption that capital markets are such that funds can be borrowed and/or lent at the rate of discount so as to convert any income stream into any equivalent expenditure stream.

Setting these issues aside, it is possible to compute the relationship between current earnings and capital values for varying income streams I take three situations: (a) constant real income, (b) constant rate of increase of real income, and (c) constant nominal income. Let the real capital value at time t be Kt, real income in the base year, 0 (first received in year 1), be Yo, the real rate of discount be r, the rate of increase of real income be i, the constant rate of inflation be p and superscripts * and t refer to cases (b) and (c) respectively. Relevant real income streams, real capital values and changes in real capital values are contained in table 1:

Note that the only difference in the results in the two tables is that future capital values are adjusted for inflation in table 1, but not in table 2. Otherwise results are identical whether r or R is used. Note also that slight adjustments would be needed if income were to be earned more frequently than annually and within the first twelve months.

Given the information in these tables it is possible to compare ratios of current income to current capital value for various values of r, i and p. For purposes of illustration, a 10% level of real rate of return was selected. Table 3 shows the value of Y*o/Yo, (I*o/Io) for various values of i given the same initial capital values Ko = Co = Co* = Ko*. The formula for this ratio simplifies to Y*/Y = (r - i)/r(1 + D.

TABLE 1

Real Income Streams and Real Capital Values

Case	Real Income Stream	Real Capital Value	Change in real capital value yr 0 to yr 1
a) Constant real income	$K_0 = \sum_{t=1}^{\infty} \frac{Y_0}{(1+r)^t}$	$Y_0 = \frac{1}{r} Y_o$	$K_t = K_0$
b) Increasing real income	$K^*_0 = \sum_{t=1}^{\infty} \frac{(1+i)^t}{(1+r)^t} Y^*_0$	$K^*_0 = \frac{(1+i)}{(r-i)} Y^*_o$	$K^*_1 = (1+i) K^*_0$
c) Constant nominal income	$K_o = \sum_{t=1}^{\infty} \frac{Y_o}{(1+p)^t (1+r)^t}$	$K_o = \frac{1}{(1+p)(1+r)-1} Y_o$	$K_1 = \frac{1}{(1+p)} K_t$

As it may on some occasions be thought more appropriate to talk in terms of nominal (actual price) values, table 2 is included where C = nominal capital value, I = nominal income and R = nominal rate of discount ($R = (1+p)(1+r)-1$, and hence $r = (R-p) / (1+p)$).

TABLE 2

Nominal Income Streams and Nominal Capital Values

Case	Nominal Income Stream	Nominal Capital Value	Change in Nominal capital value yr 0 to yr 1
a) Constant real income	$C_o = \sum_{t=1}^{\infty} \frac{(1+p)^t}{(1+R)^t} I_o$	$C_o = \frac{(1+p)}{(R-p)} I_o$	$C_1 = C_0 (1+p)$
b) Increasing real income	$C^*_o = \sum_{t=1}^{\infty} \frac{(1+i)^t (1+p)^t}{(1+R)^t} I^*_o$	$C^*_0 = \frac{(1+h)}{(R-h)} I^*_0$ where $h = i+p+ip$	$C^*_1 = C^*_0 (1+h)$
c) Constant nominal income	$C_o = \sum_{t=1}^{\infty} \frac{1}{(1+R)^t} I_o$	$C_o = \frac{1}{R} I_o$	$C_1 = C_o$

TABLE 3

Ratio of initial payments for equivalent values, cases (a) and (b)

i	Yo*/Yo
3%	.68
4%	.58
5%	.48
6%	.38
7%	.26

Hence, for example, if a real return of 10% per annum is required and it is known that the real income will increase at 5% per annum, initial income need be only 4.8% of current capital value. Conversely, if an asset is advertised as giving a 10% return and we know that real earnings will increase at, say, 3% per annum, the actual (constant) real return is (10/.7)% = 14.3%.

Table 4 shows the ratio of Yot to Yo for various rates of inflation, p, given equal initial capital

values and a real rate of return, r, of 10%. (This ratio equals R/r where r = .1 in this example).

TABLE 4

Ratio of initial payments for equivalent values, cases (a) and (c)

p	Yofi/Yo
6%	1.66
7%	1.77
8%	1.88
9%	1.99
10%	2.10
11%	2.21
12%	2.32

Hence, for example, if a real return of 10% per annum is required and it is known that an inflation rate of 11% will persist, initial income for a case (c) asset must equal approximately 22% of current capital value.

Taking the analysis one step further, comparing a case (b) asset where i = 5% and a case (c) asset with p = 11%, with r = 10%, equivalence would be achieved with apparent returns of 4.8% and 22% respectively. Clearly high mortgage interest rates need not be a problem save in the cashflow sense.

Taxation would further modify these results. Assuming a fixed tax rate, T, after tax income would fall to a proportion (1-T) of pre-tax returns. In the above tables, for a desired after tax return, r, and given i and p values, all capital values would be scaled down by a factor (1-T). Initial income/capital value ratios would therefore increase by a proportion 1/(1-T). For example, with T = 60% and the above pretax equivalent cases requiring 10%, 4.8% and 22% apparent returns, equivalence after tax with a real after tax return of 10% would require pre-tax income/capital value ratios of 25%, 12% and 55% respectively. The large increase in the case (c) ratio highlights the particular problem faced with such investments. As real capital value erodes, some income is simply capital repayment. Two implications follow, firstly real returns can be negative (unlike cases (a) and (b)), and secondly capital repayments are taxed (depreci. ation cannot be claimed). Clearly tax structures are more complex than allowed for here in that tax rates vary and a range of tax incentives exist. The basic findings still follow, however.

Which investments fall into these different categories? Case (c) assets are easily identified but for changes in interest rates on existing financial contracts. Cases (a) and (b) are distinguished by the value of i, it being zero for case (a).

In an attempt to identify possible values for i, the rate of increase of real returns, for various types of capital asset, the following analysis was undertaken. Using the result from table 1 that Kt* = (I + i) Kt*-1, estimates of i could be calculated year by year from deflated asset values or deflated indices of asset values. Using data from 1963 to 1982 the following variables were considered:

(1) Total value of land in New Zealand.
(2) Total value of land plus improvements in New Zealand.
(3) The urban house property price index.
(4) The urban section price index (1965-82).
(5) The New Zealand share price index (1963-80).

Results are presented in table 5. The first four columns refer to annual estimates of i. The arithmetic mean will tend to overstate the absolute cumulative impact of real earnings increase unless all i values are equal, so the final column contains the constant i equivalent computed from the geometric mean of the (1 + i) estimates. This should be taken as the longrun i estimate while columns 2-4 indicate variability.

TABLE 5

i estimates and associated information (%)

Series	Mean	Standard deviation	Max	Min	cumulative i
(1) Land	4.9	11.6	46.0	-10.5	4.33
(2) Land and Imps.	2.5	8.2	29.4	-9.4	2.24
(3) House prices	2.0	11.2	36.0	-10.9	1.46
(4) Section prices	2.6	15.8	51.9	-18.2	1.62
(5) Share prices	-4.8	14.4	24.8	-27.4	-5.8

Even allowing for depreciation and new investments increasing the value of improvements, real estate appears to be at least holding its own in terms of real return and the increase in the value of land excluding improvements is clearly of importance. Annual results are highly variable and no doubt there is also much variation over the real estate market in any one period. In comparison the share market suggests the need for high dividends although the high standard deviation indicates that careful speculative activity may be rewarding.

Financial markets were investigated to assess real rates of return using two series, firstly government long term security yields and secondily the average rate of interest on new mortgages (1963-1982). It is assumed (incorrectly), that funds always earn the prevailing interest rate for new investments. Results are presented in table 6.

TABLE 6

Real rates of return on financial investments, %

	Mean	Standard deviation	Max	Min	cumulative r
Govt. securities	-1.7	4.1	4.5	-9.2	-1.03
Mortgage finance	-0.9	4.4	5.3	-9.5	-1.76

Clearly financial investments perform poorly in relation to other assets, particularly as the above table disregards the effect of taxation on earnings.

In conclusion, it should be noted from the above that simple presentation of current earnings as a percentage of current asking price can markedly understate the relative attractiveness of real estate as an investment.

Housing Policies Landlord Tenant Relationships and Legislation

by Hon. P. B. Goff, M.P.
Minister of Housing

delivered to the
Auckland branches of the New Zealand Institute of Valuers
and the Property Management Institute
at Auckland

Thank you very much for arranging this meeting of your two organisations to give me the opportunity to address you.

From your correspondence I see that there are two major areas you would like me to concentrate on tonight.

The first of these is, of course, housing policies and the impact of the Budget on them.

The other is the rent limitation regulations and the future plans for any legislation relating to landlord-tenant relationships.

Most New Zealanders expected a tough Budget, and I think it is fair to say the overall reaction shows that most thinking people understood tough measures were necessary.

Ten years of the country living beyond its means had to come to an end.

Every year in the last decade we spent more on imports and services than we earned from our exports.

Internally, the National Government created a record deficit spending $3,000 million in the last year, more than it earned in revenue.

This year, debt servicing costs reached $2,000 million, a level four times our total budget for housing.

In response to our huge and growing debt, international credit agencies dropped our credit rating.

It was time for a new approach, a positive step which would introduce major changes and get away from the tinkering approach of the previous administration.

The Labour Government is committed to a consistent economic policy which looks to the medium and not just the short term.

Given the economic circumstances and the need to cut spending, this Budget could have been a disaster for housing.

After the 1981 Election, when conditions were not as bad as they are today, home lending as measured by the Reserve Bank Bulletin more than halved within six months.

The result was disastrous.

In the year to March 1984, building completions fell to the lowest level for 30 years.

Next year could well have been a repeat, with the Election year boom this year based on borrowing, a high Government deficit and an inflationary surge in private sector credit growth.

However, the Government has taken specific action to sustain the building industry.

The Post Office has for the first time begun lending on first mortgages up to $30,000 and had restored second mortgage lending to $15,000.

This will help middle income home purchasers.

In the Budget, I was able to provide major additional support to lower income families relying on Housing Corporation assistance to get into their first home.

Lending to modest income earners has been increased by $48 million or *27%* over last year's lending.

This will enable the Corporation to offer the lower income earners a realistic lending package.

In Auckland, for an example, a loan for $30,000 for a new home was quite unrealistic, and applications were beginning to fall off because many people simply could not afford to raise the balance of even a modest home.

By increasing the amount available on a first mortgage, the second mortgage requirements will be reduced, meaning lower weekly mortgage servicing costs.

A radical change in direction I have been able to introduce into Corporation lending, has been more flexible limits to take into account regional differences in house costs and where necessary the family circumstances of the applicant.

In Manukau and Auckland, the Corporation will lend up to $40,000 on a new home, an increase of up to $10,000 and will be of real assistance to the borrower.

For example, in the Auckland and Manukau area, the savings resulting from an increase of $10,000 in the first mortgage with the Housing Corporation instead of on a second mortgage at 18% interest, would amount to $34.60 a week.

What I am concerned about is that the higher lending limits should not simply feed directly into house prices increasing.

I repeat my earlier statement that if this happens, the Government and the Corporation will adopt a tough stance.

Corporation branch managers have been instructed to decline applications where there is evidence of unjustified price increases.

The next few months will be a trial period for this flexibility but I believe it a sensible move and well overdue.

One measure I am sure your profession will have welcomed in the Budget is the removal of the arbitrary restriction on lending to those whose outgoings of mortgages and home exceeded 30% of their income.

This restriction was imposed by the previous administration, and resulted in the Corporation having to tell people paying rent at a rate higher than their proposed mortgage outgoings that they could not afford to meet the cost of home ownership.

This restriction has been relaxed, so that applicants who exceed the 30% will have the opportunity to satisfy the Corporation that they can afford their proposed outgoings.

There were also some major changes in the Budget in the rental area as well.

Over the past three years, the average annual addition to the Corporation rental housing was about 500 homes.

This year, we have doubled the figure to 1000.

This measure will go some way towards tackling the crisis in rental accommodation for low income families.

Since July, we have also freed up some 800 tenancies by making an affordable loan package available to State House tenants to buy their own homes in the private sector.

The Budget must be seen as part of an ongoing assessment of existing policies, as far as housing is concerned.

In March next year, I intend to announce a further housing package, which will among other things, introduce a policy of relating rental for State units and interest rates and mortgage repayments on Corporation loans, more closely to the current circumstances of the tenant or borrower.

This Government fully supports the concept of subsidised assistance to people when they are in need. to ensure that every New Zealander has access to adequate and affordable accommodation.

However, it does not accept that the subsidy needs to remain in place for life.

At a time of economic constraint, subsidising higher income earners is a luxury we can no longer afford.

The March package will mean that as or when a family's circumstances and income improve, the level of subsidy being given will abate.

The package in March will also tackle the question of how the Housing Corporation should be funded.

Currently the Corporation is advanced money through the Government's Loan Accounts.

We are now examining the proposal that the Corporation could raise much of its own finance in the private capital market, with assistance from Government coming by way of subsidy.

In the next couple of months we will also be assessing the effectiveness of current housing assistance measures, such as the Building Suspensory Loan and the Home Ownership Saving Scheme, and other alternative ways of delivering housing support such as the Australian First Home Owners Scheme.

However, no decisions have been made on any of these areas yet.

T would like to turn now to tenancy law reform.

Our current tenancy law is scattered, inadequate and outdated and all groups - landlords, tenants, Real Estate Institute, Consumers Institute and Government - agree that change is necessary.

I intend to introduce legislation into the House by early next year which will aim to remedy defects in the law, and will represent the most comprehensive reform of tenancy law seen in this country.

I believe it is a commonsense measure which will concede to neither tenant nor landlord groups everything they might want but which I believe both can live with and regard as fair and balanced.

It has already received qualified support from groups with whom I have discussed it.

It is overwhelmingly motivated by the need to protect the interests of the good landlord and the good tenant against abuses of responsibility by the bad landlord or tenant.

It will set rules and procedures which the majority of New Zealanders will regard as fair, and balances the property rights of landlords against the right of tenants to have some security in what is, after all, their home.

The reform proposals owe something to the quite extensive work of the Property Law and Equity Reform Committee which has met for two years on the issue, and we have considered closely the submissions received.

We have also examined tenancy law in other countries, and perhaps the place which most closely approximates our conditions and where law reform has been most successful, is South Australia.

The current law was introduced there in 1978, and although a few difficulties have been encountered, the overwhelming response of both landlords and tenants has been supportive.

Once introduced to Parliament the Bill will be placed before a select committee and there will be further opportunity for interested parties to make submissions.

Before discussing the proposed residential tenancy bill, I would like to comment briefly on the rent freeze and rent limitation regulations.

As many of you will know, I have never been a keen advocate of the rent freeze, as it froze

in place anomolies which are quite unjust.

It penalised the fair landlord who had his or her rent at a low or even uneconomic level when the freeze was introduced.

Many landlords who abided by the provisions - albeit unwillingly - were infuriated to see others breach the freeze with impunity.

In amendments, I was able to close identifiable loopholes and facilitate prosecution of breaches, as an interim measure.

While I wanted the freeze lifted, it was unfair to do so before the freeze on tenants' wages was lifted.

I fully intend that the rent limitation regulations be lifted by the end of February next year.

And as you are aware, the freeze on commercial premises has already been lifted.

I have already provided greater flexibility so that landlords suffering hardship can get immediate relief.

Under the new tenancy laws, rent control will not exist, except in so far as provisions similar to those currently under the Rent Appeal Act will be retained.

These effectively allow tenants or landlords to have a market rent set by arbitration.

It is necessary to retain access to such arbitration to prevent rents being set at excessive levels above the prevailing market rate for the particular standard of accommodation and for the locality.

Without such a provision, the tenants' protection from eviction might be illusory.

Further, legislative provisions permitting an independent review of an agreed price now operate in respect of money lending contracts (Credit Contracts Act 1981, S.10) and hire purchase arrangements, so that landlords should not feel that they have been singled out specially for this kind of treatment.

The Australian experience is that redress to this form of protection is only seldom necessary.

It is, however, necessary to lift rent control if investment in private sector rental accommodation is to be attractive.

I want more persons to put their money into the rental sector to relieve the current rental accommodation shortage.

There is no doubt that present rent controls are a major disincentive and contributing cause to the rental crisis.

It is not just the private landlord who has been affected.

I have received submissions from city councils, such as Wellington, University Students' Association and Maori Trusts, all pointing out that the rent freeze is causing them real harm.

Turning now to the Residential Tenancies Bill, the first point is that it will replace the weltct of statutes and regulations which have confused and irritated both landlords and tenants in the past.

One piece of legislation will cover the whole package relating to landlords, tenants and rental accommodation, expressed as simply and clearly as possible.

Under the new legislation, the whole process of settling disputes between landlords and tenants will be simplified and speeded up with the establishment of tenancy tribunals.

These will operate on a similar basis as the Small Claims Tribunals.

The actual structure of the tribunals, which will be completely independent, is yet to be finalised but my intention is that there be one attached to each branch of the Housing Corporation, so that there be ease of access to the services provided.

The tenancy tribunals will provide a simple legal process where disputes between landlords and tenants can be resolved cheaply, swiftly and informally according to the principles of natural justice or commonsense, rather than on legal technicalities.

Every effort will be made to ensure that the decisions are reached without delay and the decisions which are reached will be legally binding on both the landlord and the tenant.

These will be enforced by a District or High Court with limited right of appeal.

The tribunals will deal with any tenancy disputes.

The tribunal makes new provision for bond payments.

The amount of money a tenant can be required to pay before moving into a flat has been increased to a maximum of four weeks bond and two weeks rent in advance.

The landlord of course need not charge that amount.

The increase is designed to provide potential protection against those tenants who damage properties.

The tenants who are responsible of course get their bond money back in full at the end of the tenancy.

There is a problem however that many low income tenants can have genuine difficulty in making the initial payment which can run into hundreds of dollars.

This problem can be met under a new system introduced in which bond money is paid to the tenancy tribunal which holds it as security for the landlord, and adjudicates on any dispute over the return of the bond money when the tenancy terminates.

Where payment of lump sum bonds causes hardship the tribunal could indemnify the landlord to the full extend of the bond, while allowing the bond money to be paid off by installment with the rent.

An adaption of Australian schemes at the State level which have been operating some time now to the satisfaction of both landlords and tenants, landlords will have a week from receipt

of the bond to pass it over to the Housing Corporation, which will then provide both landlord and tenant with a receipt to ensure that all money received by the Corporation is the total paid by the tenant.

When a tenant leaves the flat, the Corporation will then arrange for the appropriate amount to be refunded to the tenant and the landlord.

One of the major strengths of this system, as far as the landlords will be concerned, is that no longer will tenants be able to leave, with the final weeks rent to be taken from bond money - which quite often would not have been returned anyway because of work or repairs which had to be carried out on the premises.

As all bond money will be computerised, it means that tenants who do a "flit" could be identified next time they rent another flat or house and pay bond money.

The full implications of doing this are currently being examined.

This is an added security for landlords, as they can make a case to the tenancy tribunal requesting refunding of any repairs or rent owing.

For the first time the responsibilities of both tenant and landlord are spelt out in legislation, and apart from the basic commonsense issues, such things as prohibiting landlords and tenants from changing locks without the consent of the other party are included.

Right of entry to premises by the landlord is specified, with 48 hours notice required for an inspection of the premises, and 24 hours when wanting to show the premises to prospective tenants or prospective purchasers.

Provided the required notice is given, tenants are obliged to allow the landlord into the premises.

There is a lot more detail, which will be announced when the measures are closer to finality.

Considerable attention is given to the whole area of termination of tenancies, a topic which can raise perhaps the greatest controversy.

Both sides have safeguards built in for them, but basically where there is any dispute on an order to quit, the case can be taken to the tenancy tribunal which will hear the case quickly and provide a decision within a very short time.

The tribunal will probably support the landlord when the tenant has or is likely to cause damage to the property or injury to the landlord or neighbours: when the rent is in arrears more than 21 days; when the notice is given because of a breach of tenancy agreement when the breach has not been rectified; and if the premises have been sublet or assigned without the consent of the landlord.

Once a decision is given by the tribunal, that decision is in effect, final and if so ruled by the tribunal the tenant must vacate the premises.

The tribunal has the power to take immediate action to have the eviction enforced by a bailiff.

Landlords may not take the law into their own hands.

The effect of this change will mean that a bad tenant will no longer be able to exploit the legal system to prolong his or her occupation of the tenancy.

The quid pro quo for more swift eviction of the tenant who has not complied with a tenancy agreement is greater security of tenure for the tenant who has met all the requirements of the agreement.

At present, except where there is written agreement to the contrary, notice of one month must be given for termination of tenancy.

Frequently, however, there is written agreement that notice be equivalent to the period of rent payment, which is normally 14 days.

I believe that is quite inadequate notice for a family or group of tenants to uproot themselves and find alternative accommodation.

We are now considering giving to the tenant not in breach of any aspect of the tenancy agreement a standard notice to quit period of 90 days.

Where such a period of notice would cause real problems for the landlord the tribunal would be empowered to reduce the period according to what may be reasonable under the circumstances.

Tenants would be required to give 21 days notice of intention to terminate the tenancy.

What I have outlined tonight is current thinking on the shape the legislation is likely to take.

However, the reaction of the interest groups, such as yourselves, with whom I hope to discuss this over the next few weeks, as well as the input from my own colleagues, may well result in some changes to the shape of the legislation when introduced.

Establishment of Rental Values For Partial Development Rights Over and Under Streets and Lanes

by W. James West

Mr West is manager of the Land Acquisition, Appraisal, and Property Management Branch, City of Winnipeg, Manitoba.

Editorial note - This article is reprinted with permission from Right of Way, published by the International Right of Way Association, Culver City, California.

Prior to dealing with the matter of establishing or valuing the rental rates applicable to the leasing of rights above or below streets and lanes, it would be prudent to discuss the reasoning and the approval process leading up to the need and desire of a public body to make such a decision. Those who are employed by a public body in some area of right of way use or control probably share my opinion that public rights of way are owned by and for the people, and that turning over any portion of the rights of use to a private individual or developer, or restricting the public's right to use the property for anything other than their common purpose, requires careful consideration. If you are involved in acquiring rights of way, you are thoroughly familiar with the high cost of acquisition and the difficulties inherent in the acquisition process.

Reality, however, requires that the ostrich approach of burying our heads in the sand, and refusing to consider alternatives in all cases, be tempered by the needs of the citizens for reasonable and orderly development, a continuing and growing tax and assessment base, and development capable of economically paying its share of the cost of government. Consider, if you will, the following factors and difficulties which most cities are faced with in the older built-up sections, where the potential for replotting of lands is practically non-existent, or public demands for improved services and heritage preservation seriously restrict economic development.

A first example would be located in an older downtown area where the original development occurred on 35-foot to 50-foot lots, and common floor areas of the buildings on the lots ranged from 3,500 square feet to 5,000 square feet. This lfoor area may be economic when used for the purposes of two-storey walk-up development, but it is totally incapable of multi-story development to any degree of rental efficiency. Also, adjoining property owners may be unwilling to sell their holding or join in the redevelopment, or an active minority may have been successful in having a property declared historic and placed on the preservation list. The alternative is to provide additional space for development on small sites by use of the air rights over the frontage street, flankage street, or rear lane.

A second example might be where a developer has acquired two sites separated by a public lane, but where, due to the use presently made of the underground rights, or by the adjoining property owners of the surface rights, relocation of the lane is not feasible, and in order to adequately develop the two sites as one unit, it is possible to join the two base towers into one building by cantilevering over the lane at the second-floor level, or allow the development and connection of the two sites by use of the underground rights.

A third example (and this list is by no means exhaustive) is occurring in the Great White North, where weather conditions require enclosed pedestrian corridors to protect the newly developing group of softies from the inclement weather. Rather than destroy the beauty of the surface of the land and impede the ability of the public to drive their automobiles over the streets, pedestrians are being forced either underground or overhead, and owners of the so-called benefiting properties are being asked to financially assist in the cost to construct and maintain the structures and in turn are using these newly constructed rights of way for additional commercial purposes.

Process of Approval

As the rights to be granted intrude into publicly owned lands, it is necessary that the approval process be exhaustive in nature and scope, and give full recognition to the loss of the public right over the property for, at times, a very extended period of time. I will not attempt to outline the specific process used by the City of Winnipeg, as no two government organisations are parallel in duties and responsibilities. For the purposes of this article, it is suggested that, as a minimum, the following staff members be involved in the review approval process: environmental planners; property management staff; traffic and transit planners; all utility companies, both private and public; fire and police services; legal advisory; and, of the highest importance, it must

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receive full support and approval at the political level, possibly including liaison with the affected private citizens.

Should an application survive this process and receive all of the necessary approvals in a form that a developer and/or architect finds acceptable, then the real estate appraiser/negotiator gets his kicks at the cat. The appraiser's role and purpose in the process is to recommend the terms and conditions of the agreement or license required, negotiate the acceptance by the developer and obtain any necessary approvals at the political level. This sounds simple enough, but in one case, a predecessor of mine spent six years struggling with the subject of valuing air rights used for commercial purposes, and never did come up with an answer. He retired early.

Approximately eight years ago, a colleague and I were given 36 hours to solve the problem and negotiate the solution to acceptance by the developer. As my colleague was a very busy person, and could not afford to spend more than that amount of time on the problem, we actually developed a process that has been found to be highly acceptable and reasonable over the long term. This process of valuation or development of rental rates has been used on encroachments dealing with office towers, multi-storied apartment and senior citizens' accommodations, overhead pedestrian corridors containing commercial sales space, and underground parking structures. Subsequent renewals based on actual rents collected indicate a realistic return to the City for the rights and advantages offered.

Recommended Approach to Terms and Conditions

For the purpose of the discussion, we will use a hypothetical building proposed for development for office accommodation on a corner site having a frontage of 44 feet and a depth or flankage of 130 feet, for a surface area of 5,720 square feet. The building proposed for the site would contain 18 stories with full basement, and thus would provide a gross floor area of 108,680 square feet. The proposal for encroachment over the adjoining streets, being approximately 6; feet over the flankage street, will provide an additional 13,406 square feet of floor area, and allow the construction of a building containing a gross floor area of 122,086 square feet, an increase of 11 percent. As the common services to be provided, such as stairwells, elevator shafts, and washrooms require little, if any, expansion due to the increase in floor area, the additional floor area available becomes, in essence, full rentable area and increases the rental efficiency of the development in direct proportion at minimum cost.

Once these mechanical calculations have been developed, it is then necessary to establish the terms and conditions to be made applicable to the license or agreement, and my comments and recommendations are as follows:

Term of Agreement

It is obvious that the terms required by a developer will vary somewhat according to the probable economic or physical life of the proposed building.

In the case of a modem steel frame, glass, and masonry building, a full term of 99 years may not be unusual. However, should the proposal provide for attachment to a structure, or expansion to a building having a foreseeable economic life of shorter duration, then a shorter term should be required. It is typical at present to grant a 99-year term, as to grant a shorter term might adversely affect the owner's ability to adequately finance the development and future sales. The length of the lease, though, is not a primary concern. The main objective is to promote an owner's ability to gain future sales.

Annual Rental Rate

The most reasonable approach to the development of an annual rental rate appears to be that of participation in the annual rentals received by the property after development. It should be noted that this type of air rights encroachment, being cantilevered, does not interfere with surface or sub-surface rights of ownership, nor require extensive ground support structures.

Obviously, "participation" infers that both sides of the agreement will share equally in the success or failure of the development, and the rental schedule developed should take this into account.

I would suggest, therefore, that the annual rental received or paid should be based on the "effective gross income" received from that portion of the building benefiting from the expansion.

From our own experiences, I would suggest that tax escalation or tax participation by tenants forms an integral part of the rents paid and should be included. However, operating costs, such as heating, lighting, janitorial services, and improvements made by tenants for their own occupancy, are generally based on actual costs for services provided and should be excluded.

In assessing the matter of contribution of land or land value to the total development, it is important that the rents paid for the air rights reflect the land value after development, thus including any increasing land value caused by successful development demand, and economic conditions. The return required is that applicable to a non-depreciating asset (essentially land) and would not include a requirement for depreciation. At the present time, and for an initial period of 20 to 25 years, we are using the figure of 122 percent, reflecting a land/building ratio of 1 to 7.

Thus, the annual rental required for the initial rental period would be the result of the application of a formula based on 122 percent (return to land) of 11 percent (being the percentage of the example encroachment described above to the gross floor area of the building) of the estimated effective gross income of the second to 18th floors of the building.

Additional Requirements

Other criteria to consider are:

1. That the annual rent be reviewed each five-year period and recomputed using the same formula and using the actual rentals received for the year immediately preceding the review.
2. That the lease be renegotiated at each 20 or 25-year interval, at which time the percentage of land value and its contribution to the total development would be reappraised. The agreement should provide for arbitration if mutual consent cannot be achieved.
3. The agreement must provide for assignment for both purposes of sale and financing.

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VALUERS' REGISTRATION BOARD

The following is an edited version of a recent decision of the Valuers' Registration Board concerning an inquiry into a complaint against a public valuer.

Heard before Mr M. R. Hanna (Inquiry Chairman) Messrs D. J. Armstrong and P. J. Tierney. Date of Hearing 15 August, 1984.

This inquiry arose from a complaint received on 14 December, 1983. The complaint alleged in effect that the property had been grossly undervalued and that this constituted evidence of negligence or incompetence.

The complaint was referred to the Valuer-General for investigation and his report was put before the Board at a meeting held on 15 April, 1984. It was determined that there appeared to be reasonable grounds for the complaint and that an inquiry should be held.

The charges framed in terms of Section 31 (1) (c) of the Valuers Act cited gross undervaluation of the property.

The Board stated that on this occasion it did not intend to set out much of the detail of the evidence presented to it, some of which they found contained contradictions, wide differences of opinion, and some distinctly unsatisfactory presentation. However, the events both prior and subsequent to the complaint which seemed established beyond dispute were as follows:

1. On 23 November, 1983 the Complainant entered into a contract to purchase the subject property for the sum of $26,000.
2. The Complainant's solicitors then instructed the Defendant, a registered valuer practising on his own acount, to complete a valuation of the property and to provide a recommendation for a mortgage advance. On 24 November the Defendant made his inspection and on the 25th he completed his report assessing the value of the property at the amount of $20,000 plus $500 chattels.
3. The Solicitors and/or Complainant were dissatisfied with the valuation and another Registered Valuer was instructed to make a second valuation The valuer was aware that there had been a previous valuation but knew no details of it and his report dated 30 November, 1983 assessed the value of the property at $33,000.
4. On 14 December, 1983 the Complainant lodged a complaint with the Board concerning the Defendant's valuation. This was duly investigated by the Valuer-General and on his behalf a valuation was made by a Senior District Valuer with the Valuation Department. The District Valuer's valuation as at 25 November, 1983 was dated 23 January, 1984 and assessed the value of the property at $29,000 plus $500 chattels. In doing so he was aware of all the above facts.
5. Evidence was given that the property was the subject of an unconditional agreement for sale and purchase on 3 August, 1984 for the amount of $32,000 (including $1,000 chattels).

At the Inquiry, evidence was given by the District Valuer and the Public Valuer who provided the second valuation for the prosecution and the Defendant in his own defence. Each of the Valuers relied primarily upon comparable sales and more than a dozen were quoted to the Board. Some being considered by all the witnesses and some not. The Board stated that not all of the evidence was helpful and they were disturbed to find the reliance which was placed upon microfiche data unsupported by more than the most cursory "front fence" inspection although in fairness to the District Valuer they appreciated that he had the benefit of Departmental permanent data. Even for a routine run-of the-mill appraisal the quality of research input was poor but they were very surprised to find that valuers who must surely have known that they would be faced with a searching cross examination at an inquiry such as this made little effort to sufficiently acquaint themselves with their comparable evidence as to be at all persuasive in the conclusions they drew' from it.

In considering the valuation prepared by the Defendant which was the subject of the charges before the Board it was admitted by him that it included a number of errors of fact.

Perhaps the most significant was an under-measurement of almost thirteen (13) square metres in the area of the dwelling but he was also incorrect in stating the age of the house, the depth of the site and details of the Government Valuation. None of this could give great confidence that his conclusion as to value would not also be a matter of some doubt. Nonetheless his recounting in evidence of the procedures he followed in inspection, research, valuation and reporting were on the face of it quite in order. What became clear in cross examination was that these procedures were actually carried out in a most superficial way. Indeed it was put to the Defendant during cross examination by the Crown Council that his whole valuation of the property had been "a pretty sloppy job" and that is a proposition with which the Board could have no dispute.

By the time he gave evidence at the inquiry the Defendant had shifted his ground on the matter of value from $20,000 assessed in his valuation to an amount which he thought with the benefit of hindsight should have been between $24,000 and $25,000. On the basis of the evidence presented to it, confusing as this was, the Board is of the view that the value of the property in November/December, 1983 was in fact somewhat higher but still certainly less than the figure ascribed to it by the second valuation and probably at the most the amount of $29,500 submitted by the District Valuer. In any event it was very apparent that the Defendant's original assessment did substantially undervalue the property.

Both Counsels made persuasive submissions in concluding their respective cases. The Defendant's Counsel drew the attention of the Board to the judgement of the Honourable Mr Justice Roper in a claim for damages in the High Court, Greymouth in 1979.

Keenan vs C. N. and M. R. Coombe and George Anderson & Son Limited

Part of this judgement traverses matters of the duties and responsibilities of valuers and while the circumstances of that case are somewhat different to those now before the Board the comments of the learned judge including his quotations from the well known case Baxter vs Gapp & Company were of assistance to the Board. The Board accept that under or over valuation even by a substantial amount does not of itself show incontravertible proof of incompetence but they feel obliged to view the self admitted undervaluation by the Defendant in the context of the rest of his performance.

In his concluding remarks the Valuer-General's Counsel suggested that a fair minimum test for the competence displayed by a valuer was whether he had achieved the standards which the Board sets for itself in admitting applicants for registration under the Valuers Act. It was apparent to the Board that the Defendant's performance in valuing the property was quite inadequate to meet that standard and that thereby he showed himself at least on this occasion to be incompetent. Individually some of the errors and omissions of the Defendant's valuation and report might not entirely justify that description but taken altogether the Board was in no doubt that they contributed to what can plainly be seen as a gross undervaluation. The Board, therefore, found the valuer guilty as charged.

In determining the penalty on this charge the Board reserved its decision to allow for the presentation of any submission as Counsel for the Defendant wished to offer.

Following receipt of submissions in mitigation the Board accepted that this was not a case calling for the Board to interfere with the Defendant's registration either permanently or on a temporary basis but nonetheless the Board believed that there were aspects of his actions on completing this valuation which must be of serious concern to the Board and which the Board trust have been fully brought home to him.

Accordingly, in terms of the powers vested in it under Section 33 of the Valuers Act, 1948, the Board determined that:

1. the valuer shall be severely reprimanded and that
2. a fine of two hundred dollars ($200) shall be paid by him at the direction of the Registrar.

Legal Decisions

CASES RECEIVED.

Notice of cases received are given for members' information. They will be printed in the "Valuer" as space permits and normally in date sequence.

CASES NOTED.

Cases `noted' will not normally be published in the "Valuer".

Copies of cases `received' and `noted' may be obtained from the Registrar of the Court under whose jurisdiction the cases were heard. (A charge is normally made for photocopying.)

IN THE HIGH COURT OF NEW ZEALAND
(Administrative Division)
TIMARU REGISTRY.

GR. 112/83.

IN THE MATTER of a claim for compensation under Part V of the Public Works Act 1981.

BETWEEN BRAEMAR STATION LIMITED a private company duly incorporated under the Companies Act 1955 and having its registered office at Timaru.

Claimant.

AND THE MINISTER OF WORKS AND DEVELOPMENT.

Respondent.

Hearing: 15-17 October 1984 (at Christchurch).
Counsel: R. J. DeGoldi for Claimant.
C. J. McGuire for respondent.
Judgment: 6 December 1984.

JUDGMENT OF DAVISON, C. J. AND
RALPH FRIZZELL, ADDITIONAL MEMBER.

This is a claim brought under the provisions of the Public Works Act 1981 for sums totalling $298,000 for land taken and land injuriously affected by the taking by the Crown of some 400 hectares of land which formed part of Braemar Station adjoining Lake Pukaki.

An agreement to take the land was entered into on 30 September 1975. Provision was made in the agreement to deal with buildings and improvements then erected upon the land taken which was subsequently to be submerged by the raising of the level of Lake Pukaki.

The homestead building was to be vacated and subsequently demolished. The Crown agreed to contribute towards the construction of a new homestead sited on the remaining land. In respect of all buildings and improvements other than the homestead the following arrangements were provided for in the agreement:

"6. The Crown by arrangement with the owner will undertake the removal and reciting of all other improvements affected by the construction works and may enter on the property for this purpose on or after 31/10/75.

7. It is agreed and acknowledged that the Crown will meet the full costs in arranging for the property to be linked to the national grid for the supply of electric power at which time existing power generating plant will become the absolute property of the Crown and may at any time be dismantled for removal. Provided however the owner shall be entitled to full and fair compensation in respect of the loss of the generating plant and its electrical services."

In a letter dated 16 October 1975 the Crown set out the works to be removed and resited. It provided as follows:

"In broad principles the following is the extent of work as discussed with you that the department would wish to undertake.

a. Roading and Site Development.
b. Shift shearing shed and associated yards, cattle yards, killing and skin shed, and sheep dip.
c. Provide 1000 sq. ft. of covered shelter for stock.
d. Shift 2 haybarns and grain silo.
e. Provide two new buildings equivalent in area to replace existing implement sheds.
f. Re-establish shearing quarters with replacement equivalent buildings as necessary.
g. Re-establish or replace cottage.
h. Re-establish singleman's quarters.
i. Re-locate horse stable and yards.
j. Services to re-located buildings.
k. Shelter belt fencing and planting equivalent to existing.

All other existing buildings not mentioned above, swimming pool, tennis court, gardens and landscaping around house, holding paddock fencing, to be covered by compensation payment and re-establishment left to runholder."

Work on removal and re-establishment of improvements and the construction of a new homestead began late in 1975 and continued through to late 1977. The new homestead was occupied on 10 September 1977. The filling of Lake Pukaki began in 1978 and was completed in 1979.

The specified date has been fixed for the purposes of s 62(2) of the Public Works Act 1981 as 5 October 1979.

On 31 May 1982 Braemar Station Ltd ("the claimant") made a claim against the Crown under the provisions of the Public Works Act 1981 for the sum of $298,000 made up as follows:

Sum claimed as compensation for land taken:

1. 400.5447 ha of land taken at $250 per hectare = $100.136 say	$100,000
2. Loss of shelter	5,000
3. Loss of established layout, surroundings and mature homestead establishment and furnishings	9,000
4. Loss of power plant	34,000
	$148,000

Land injuriously affected as described above as follows:

1. Effect of the loss on the balance of the property. Injurious affection claim	$125,000
2. General disturbance claim	25,000
	$298,000

It was acknowledged by the parties that the Crown paid to the claimant on account of compensation the following sums:

6 July 1970	$1,000
31 March 1971	$5,000
29 October 1975	$75,000
	$81,000

During the course of the hearing the parties agreed upon figures for certain of the items of claim as follows:

Item	Sum claimed	Sum agreed upon
(i) Land taken	$100,000	$100,000
(ii) Loss of shelter	$5,000	$5,000
(iii) Loss of layout	$9,000	$5,000
(iv) Loss of power plant	$34,000	$20,000
(v) General disturbance	$25,000	$25,000
	$173,000	$155,000

Thereafter there remained outstanding the claim for injurious affection amounting to $125,000 and the settling of the appropriate allowances to be made by way of "inflation proofing" so as to give effect to the requirement of s 60(1) of the Public Works Act 1981 that the owner "shall be entitled to full compensation".

DECISION

(a) INJURIOUS AFFECTION CLAIM ($125,000).

Section 61(1)(b) of the Act enables an owner to claim compensation where under the Act any land -

"suffers any injurious affection resulting from the acquisition or taking of any other land of the owner for any essential work."

In order that we may determine whether there has been injurious affection, and if so the extent of it, we look first at the "before" and "after" taking valuations as given in evidence. The "before" valuations at the specified date of 5 October 1979 on a freehold basis were:

Mr Halliburton	cv $671,250	lv $502,250
Mr Donaldson	cv $554,740	lv $353,140
Mr Armstrong	cv $531,790	lv $345,940

There was little evidence in chief of convincing supportive sales evidence and little testing of the valuation evidence under cross-examination. Mr Halliburton's valuation was based on the physical productive development as at the specified date which he estimated to be about 1000 more stock units than in 1974 but the valuations of Messrs Donaldson and Armstrong were made of the land in its 1974 productive state. If Mr Halliburton's valuation is to be directly compared with Messrs Donaldson and Armstrong it is necessary to reduce the capital value by some $42,000 to $43,000 and the land value by a somewhat lesser amount. This would also apply to the comparison of the "after" values which follow, namely:

	Capital Value	Land value
Mr Halliburton	$571,750	$402,750
Mr Donaldson	$480,240	$289,640
Mr Armstrong	$431,840	$259,940

On these "before" and "after" valuations the productivity comparisons are as follows:

(su = stock units) (cv = capital value) (lv = land value).

Mr Halliburton - before total 12000 su = cv $55.9 su = lV $41.9 su; after total 9650 su = cv $59.2 su = lv $41.7 su.

Mr Donaldson - before total 10600 su = cv $52.3 su = lV $33.3 su; after total 8850 su cv $54.3 su = lV $32.7 su.

Mr Armstrong - before total 11000 su = cv $48.3 su = lV $31.4 su; after total 9000 su = cv $48.0 su = lv $28.9 su.

In addition to the difference of $99,500 between his before ($671,250) and after ($571,750) valuations. Mr Halliburton presented evidence in support of an additional injurious affection loss which was not included in his "before" and "after" calculation.

We consider that Mr Halliburton was in error in approaching the injurious affection in the mathematical method he chose and in the extent to which he canvassed the loss of production on the retained area this should have been reflected in the "after" calculation.

We are of the opinion that where land is compulsorily taken and the remaining area suffers injurious affection which is of a permanent nature, this loss can only and must only be reflected in an appropriate reduction in the residual values. Any other method of approach will lead to answers which involve double counting or involve cash investment alternatives which would be inappropriate: see Strongman Electric Supply Co. Ltd. v Thames Valley Electric Power Board [1964] NZLR 592, 601; also Te Marna Ltd v Wellington Regional Water Board! [1983] NZLR 694, 699. Although those cases were decided under s 42 of the 1928 Act they are equally applicable to claims under s 60 of the present Act.

We accept that short term loss will in most circumstances be treated in the manner generally and appropriately termed disturbance as provided for in s 66 of the Act and will not be reflected in the "after" valuation.

Agreement reached by counsel during the hearing led to the establishment of sums for loss of shelter ($5,000), layout ($5,000) and power supply ($20,000) totalling in all $30,000. The figures for these items were included in the valuation of Mr Halliburton at $19,500 and in the valuation of Mr Donaldson at $26,000, but no separate figures were produced for them by Mr Armstrong.

Further agreement was reached that the value of the land taken was $100,000 and the matter for this Court to resolve is the outstanding claim of $125,000 for injurious affection. To determine the sum to be allowed for injurious affection we therefore propose to determine the total permanent loss suffered (excluding the $30,000 agreed upon) and deduct the agreed ifgure of $100,000 (for the land resumed) to arrive at the sum to be awarded.

A comparison of the land values per stock unit on a before and after basis shows only a decrease of $.2 per stock unit by Mr Halliburton; $.5 per stock unit by Mr Donaldson and $2.5 by Mr Armstrong.

The calculations made by Mr Halliburton, however, effectively produced an additional claim for injurious affection of $125,000 which would increase his original ifgure of $.2 per stock unit to $13.2 based on a 2350 stock unit loss in production, or $15.1 per stock unit based on a 3600 stock unit loss in production. A loss of this magnitude represents a loss in productivity value per stock unit from approximately $42 to $28 or a reduction of one-third. This we consider to be excessive but, on the other hand, we consider the loss inferred by Messrs Donaldson and Armstrong as inadequate.

This Court accepts that injurious affection due to severance did occur and that in the "after' situation the profitability of the stock would have been reduced by a number of contributing factors such as the imbalance of summer/winter country and higher mean altitude of the remaining land. The claimant, however, in our opinion did not produce evidence to establish a loss of approximately one-third due to injurious affection and Mr Halliburton's various approaches in our opinion ignored to a significant extent the ability of a farmer to rearrange his stock management (without further development) to overcome the major problems and evolve a new system of management (albeit at probably a lower standard of production per unit). Similarly, we are not prepared to accept the use of gross margins and alternative investment criteria as an alternative to a "before" and "after" valuation based as they were in this instance on what were in our opinion somewhat tenuous criteria.

All valuers in their "before" and "after" valuations assessed the value of the land taken as an arithmetical proportion of the "before" valuations and ignored the principle of marginal loss/benefit associated with the severance. Mr Donaldson under cross-examination agreed that his arithmetical value on the land taken would not represent the full value on the market and Mr Halliburton inferentially agreed with this in that he considered the land severed was more valuable per stock unit than the residual area due to the degree of overhead costs per unit of production which had

increased on the residual area due to severance.

Having examined the three "before" valuations we appreciate the differences in the quantum of development between Mr Halliburton and the two Crown valuers but are forced to place considerable reliance upon the valuation of Mr Donaldson and determine the "before" valuation excluding those items for which compensation has been agreed at c.v. $560,000, l.v. $384,000 on a freehold basis. We are satisfied that Mr Donaldson did not make appropriate allowances for the marginal benefit of the severed land to the residual area and consequently his "after" value is excessive. We consider that the residual value assessed by Mr Armstrong was much closer to the market price at the specified date and fix the "after" value at this date at c.v. $430,000, l.v. $254,000. The difference of $130,000 between the "before" valuation of $560,000 and the "after" valuation of $430,000 represents the total loss in the value of the land including injurious affection. To ascertain the element included in that sum of $130,000 for injurious affection, we deduct from the figure of $130,000 the agreed value of the land taken ($100,000) and arrive at a figure for injurious affection of $30,000.

An analysis of the "before" and "after" land values in this decision shows that based on the "before" value, the value is $35.7 per stock unit for 10750 stock units and the "after" value, the value is $29.9 per stock unit for 8500 stock units. This difference in our' opinion represents an appropriate reduction in the land value per stock unit between the "before" and "after" situation.

The total of the agreed figures of compensation and now awarded therefore is as follows:

Agreed figures:	Disturbance	$25,000
	Shelter	5.000
	Layout	5,000
	Power supply	20,000
	Loss of land	100,000
Award	Injurious affection	30,000
	Total:	$185,000

(b) INFLATION PROOFING

We agree with counsel for the claimant that the principle of payment of full compensation is as decided by the majority of the Court of Appeal in Morrow v Minister of Works [1984] 1 NZLR 26. That decision dealt with inflation proofing of compensation unpaid between the specified date and final payment and we propose to apply those principles in this case.

In Morrow the Court was not concerned with substantial payments made "on account" by the Crown prior to the specified date. However, to be even handed in the matter, if we inflation adjust the award to the claimant from the specified date we must also inflation proof the advance payments on account of compensation made by the Crown up to the specified date. However, to apply the formula of the Court by using for the calculation of interest the payments "on account" adjusted by the Consumer Price Index would in our opinion create an anomaly. Interest at 2 per cent will be assessed on these "on account" payments based on the cash sums originally advanced. We find no problem, however, in inflation proofing the capital sums paid by the Crown prior to the specified date.

We have based the inflation factor for "on account" capital payments on the quarterly Consumer Price Index immediately prior to the transaction so that the relevant indices used are:

March 1971 = 226; September 1975 = 350; September 1979= 600; September 1984 = 1063.

A summary of the compensation (adjusted to the September 1984 Index) and interest calculations is as follows:

In making these calculations we take the payments of compensation made "on account" by the Crown at a total of $80,000, ignoring by agreement with the parties the payment of $1,000 made on 6 July 1970.

COMPENSATION

Total compensation as assessed		$185,000
Plus adjustment for inflation		33,301
		$218,301
Less advances by the Crown	$80,000	
Plus adjustment of advances for inflation	61,845	141,845
Bal. compensation payable		$76,456

INTEREST

Claimant's interest at 2%			
Interest on $76,456 from 5/10/79 to 30/11/84		$7880.18	
Crown interest at 2%			
Interest on $5,000 from 31/3/71 to 5/10/79	$851.92		
Interest on $75,000 from 29/11/75 to 5/10/79	$5,773,97	6625.89	
Bal. interest due claimant		$1254.29	1,254.29
Total compensation and interest			$77,710.29

CROWN CLAIM FOR BETTERMENT

The Crown claimed betterment by reason of the standard of the resited improvements made by the Crown on the remaining property. It was submitted that Braemar has an additional asset in the increased value of those resited improvements and that the betterment which has accrued to Braemar should be taken into account in the award of compensation.

Evidence was given by Mr Donaldson and Mr Armstrong that additional value given to the property was due in part to development carried out by the owners and nart as a result of the relocation of the major farm buildings by the Crown.

The Crown contended that this Court should consider the added value due to the relocation as betterment in an offset against injurious affection. The letter from the Ministry of Works to Braemar Station Ltd dated 16 October 1975 earlier referred to stated the general headings under which the Ministry of Works were prepared to undertake relocation. This letter followed upon the Memorandum of Agreement dated 30 September 1975, paragraph 6 of which created the liability of the Crown to undertake "the removal and resiting of all other improvements affected by the construction works".

As we understand the matter, the Crown in removing and resiting improvements was required to comply with the Local Body by-laws regarding structural design and strength which led in some cases to the general improvement in the quality of the structures and the extension of their economic life.

We agree with the submissions of the claimant that this improvement in quality was incidental only to the obligation of the Crown to relocate and that the increased value was merely coincidental to the practical application of this relocation and the Crown should not be entitled to have a "betterment" offset due to this.

The Crown claim to betterment is rejected.

COSTS

The parties at the hearing indicated that they expected to be able to agree upon costs. In the event that no such agreement is possible, leave is reserved to either party to apply to the Court to have costs fixed.

IN THE HIGH COURT OF NEW ZEALAND
(Administrative Division)
CHRISTCHURCH REGISTRY
M. 603/82.

IN THE MATTER of the Valuation of Land Act 1951 and Section 26 of the Land Valuation Proceedings Act 1948 and subsequent amendments thereof.

BETWEEN THE VALUER-GENERAL
Appellant.

AND NEW ZEALAND LAND DEVELOPMENT COMPANY LIMITED.
Respondent.

Hearing: 18 October 1984.
Counsel: W. R. Flaus for Appellant.
J. G. Rutherford for Respondent.
Judgment: 19 October 1984.

(ORAL) JUDGMENT OF DAVISON, C.J.
AND RALPH FRIZZELL, ADDITIONAL MEMBER.

This is an appeal from the decision of the Land Valuation Tribunal given on 17 November 1982 on an objection by the New Zealand Land Development Company Limited (which we will refer to as "the Company") to an alteration of the valuation roll affecting properties owned by the Company at Christchurch.

In total, the Tribunal ordered that the roll valuations be reduced from $523,800 to $156,530. The valuation in respect of land which was subdivided into separate lots which the Valuer-General fixed at a value of $88,000 was sustained but the valuation of three blocks of land which the Valuer-General had fixed at $435,800 was reduced to $156.530. It is against that latter finding that the Valuer-General appeals in these present proceedings.

THE FACTS

In July 1979 the Company owned 13.4168 ha of land at Bromley in Christchurch. It comprised 30 surveyed lots with the balance contained in a block of 11.4762 ha. As at 1 July 1979, which was the operative date for the five yearly revision of the Christchurch City Roll, the roll value of the land was:

Surveyed lots	$163,500
Blocks	$438,300
Total	$601,800

The Company did not object to that roll valuation. The Company subsequently sold a number of lots in the two years following 1 July 1979 and the Valuer-General altered the roll to allow for the consequent reductions in the area of land remaining in the Company's ownership. Alterations were made on five occasions from the roll as it was at 1 July 1979. The 1979 figures were:

Value of the lots	$163,500
30 Lots (the block)	$438,300
Total	$601,800

The five amendments which have been made since July 1979 were:

9/ 4/80	$140,700 (24 lots)	$438,300	$579,900
8/10/80	$129,800 (22 lots)	$438,300	$567,600
6/ 1/81	$111,600 (19 lots)	$438,300	$549,900
26/ 3/81	$105,900 (18 lots)	$438,300	$544,200
30/ 7/81	$94,900 (16 lots)	$438,300	$533,200

In making those alterations to the roll valuation, the land was valued on the same basis as was adopted for the original roll values in 1979. The values were, however, adjusted for the reduced area of land. The Company lodged no objections to any of those alterations to the roll valuations.

On 20 May 1982, after a further lot had been sold, another alteration was made to the roll valuation giving a figure for 15 lots as follows:

Value of the lots	$88,000
Block	$435,800
Total	$523,800

It will be noted that the figure for the block has changed from $438,300 to $435,800, a reduction of $2,500, but correspondingly the area of the block land has reduced from 11.4762 to 11.4212 ha.

On receiving the 20 May 1982 valuation, the Company lodged notice of objection. The objection was heard by the Tribunal and the whole basis of the original valuation made by the Valuer-General as at 1 July 1979 was re-opened and the reductions earlier referred to were ordered by the Tribunal.

The Valuer-General now appeals against the decision of the Tribunal on two grounds:

1. It failed to observe the provisions of the Valuation of Land Act 1951 relating to valuations of this kind and objection to them; and
2. It failed to recognise and make due allowance for the subdivisional potential of the block land and to make a proper differentiation between the block land and the land it regarded as comparable.

DECISION

The Valuer-General is required by slO of the Valuation of Land Act 1951 to make roll revisions not later than five years after the date of a preceding revision. Between revisions, however, the Valuer-General may -

"make all such alterations and amendments as are necessary in order to readjust and correct the valuations and entries and bring them up to date, whenever they are found to be inaccurate or not up to date in consequence of -"

a number of matters, included amongst which is -

"(e) Any subdivision of the land."
(See s 12 of the Act).

Section 14 of the Act provides:

"The powers conferred by section 12 hereof on the Valuer-General in consequence of any improvements being added to or removed from the land or in consequence of the subdivision of the land shall be deemed to authorise him to make a fresh valuation of the land and the improvements thereon or of the separate parcels of any subdivided land, as the case may be, as at the date when the district roll was last revised under section 10 of this Act. but so that the fresh valuation shall preserve uniformity with existing roll values of comparable parcels of land."

The Valuer-General has therefore two courses open to him when land is subdivided and sold off. He may make what may be described as a mechanical alteration to the roll valuation under s 12 of the Act, or he may if he chooses make a fresh valuation under s 14 of the Act, such valuation being as at the date when the District Roll was last revised under s 10. These two concepts appear to have been confused by the Valuer who adjusted the Roll on the six occasions to which we have just referred. Clearly, from his evidence given before the Tribunal, he simply made on each occasion a mechanical adjustment by calculating the values at the same rates as applied on 1 July 1979 and applying those rates to the reduced areas of land as they were from time to time. But in his evidence the Valuer referred to them as fresh valuations. They were not, in our view, fresh valuations as such. They were alterations made to the Roll of a mechanical nature under s 12. To amount to fresh valuations then they would have required more than just to act mechanically and there would have been some judgment required as to the land values applying all the relevant factors that one would need to apply in determining such values.

The Valuer-General gave to the Company pursuant to s 18 of the Act, notice of the alterations and thereby the Company became entitled to object to such alterations.

Section 18 provides:"(1)

The Valuer-General shall give to each owner whose valuation has at any time been altered a notice of the alteration in the prescribed form: Provided that the omission to give such a notice shall not invalidate any valuation.

(2) The owner and any local authority affected by the alteration in the valuation may object to the altered valuation within such time as is ifxed by the Valuer-General in the notice."

It will be noted that the owner "may object to the altered valuation". Does that in the present case enable the owner to object not only to the alteration made but also to come back and object to the whole basis of the original valuation made on 1 July 1979 when such was not objected to and when that original valuation was subsequently altered on five occasions without objection?

It would appear to us that the Act makes a clear distinction between an objection to an "alteration" (see s 18) and an objection to a revised roll valuation" such as the one on 1 July 1979 (see s 19).

Section 19 provides:

"When a roll has been revised, the Valuer-General, or any local authority, or any owner whose name appears thereon, shall within such time after the revision thereof as the Valuer-General publicly notifes by advertisement, have the right to obiect to any valuation therein, whether or not that valuation has been altered by the revision."

Once an objection under either s 18 or s 19 has been made, the Valuer-General must give notice of his decision to the objector who has 14 days to give notice to the Valuer-General requiring the objection to be heard by the Tribunal. No such notice was ever given in respect of the revised valuation of 1 July 1979 or of any of the five subsequent alterations. It was only after the alteration of 20 May 1982 that such notice was given.

To enable the Company to now reopen the whole basis of the 1 July 1979 valuation because an alteration has been made under s 12 would have the following consequences:

1. It would fail to recognise the differing powers of the Valuer-General under ss 12 and 14. Under s 12 he makes a mechanical alteration; under s 14 he can make a fresh valuation restricted as it is by the terms of s 14.
2. It would fail to recognise the differing powers of objection given by ss 18 and 19 of the Act.
3. It would enable an owner who has taken no steps to object to a Roll Revision Valuation to in effect have an objection to such valuation heard as of right well out of time, even years out of time as would be the case in the circumstances of this present appeal.
4. It would enable the 1 July 1979 valuation to be changed and to destroy the uniformity of that valuation with existing roll values of comparable parcels of land, something which is prohibited by s 14 of the Act. The 1 July 1979 valuation was made taking into account the values of comparable parcels of land.

The exercise permitted to the Valuer-General under s 12 of the Act and s 14 is a more limited exercise than that permitted to him at the time of a roll revision under s 10. It is limited to what have been called mechanical alterations and adjustments under s 12, and a fresh valuation which will preserve uniformity with existing roll values of comparable parcels of land under s 14.

To allow an objector in respect of whose land an alteration or fresh valuation has been made to reopen the whole basis of a revision valuation is in effect to allow out of time an appeal against the revision valuation. Where, as in the present case, such an appeal would be years out of date, such procedure could cause great uncertainty and disruption to those who rely on roll valuations.

We agree with the submission of counsel for the appellant that in the context of ss 12 and 14, recognising that the respondent had not objected to the roll revision value nor to the five successive alterations of it, the Valuer-General's was the correct approach, and we also agree that the Valuer-General's approach was the only one which ensured that the fresh valuation preserved uniformity with existing roll values of comparable parcels of land.

There may well have been a good reason why no objection was made by the Company to the roll revision valuation and the subsequent adjustments. It may have wanted to have a high roll value to support the raising of finance of its properties. We do not know. The subsequent situation where sales of the land proved to be very slow may have changed its mind and caused it now to have the values reduced. We do not know either whether that is the purpose of it. If the Company had wished to have the roll revision valuation as at 1 July 1979 revised then its proper procedure was to have made application under s 41 of the Act which enables a new valuation to be obtained on request. Subsection 4 of s 41 is particularly relevant and it provides:

"Where the applicant is the owner of the land and in his notice requests that a new valuation be made of the capital value, the land value, and the value of improvements, and also that the district valuation roll be amended pursuant to the result of the new valuation, the new valuation shall thereupon be made to preserve uniformity with existing roll values of comparable parcels of land."

The Valuer-General in the second ground of anneal raised arguments relating to the actual values fixed by the Tribunal in reaching its decision to reduce the total valuation to $156,530 but in view of the conclusion we have reached as to the basis of valuation it is not necessary to deal with that matter.

In the circumstances, therefore, the appeal of the Valuer-General will be allowed. The matter will be remitted back to the Land Valuation Tribunal to deal with the matter of the objection on the basis of this judgment. The question of costs will be reserved.

The Valuer's Handbook 1984

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December 1984.

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