

# The New Zealand Valuer

Vol. 26, No. 3

Registered at Est Office Headquarters, Wellington, as a Magazine.

SEPTEMBER, 1985

# NEW ZEALAND INSTITUTE OF VALUERS

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# The New Zealand Valuer

VOLUME 26

NUMBER 3

SEPTEMBER, 1985

(Printed by Act of Public)

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Published Quarterly as the Official journal of  
THE NEW ZEALAND INSTITUTE OF  
VALUERS.

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P.O. Box 27146, Ph. 847-094,  
Wellington.

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"The New Zealand Valuer" is published quarterly by the N.Z. Institute of Valuers. "The Valuer" is issued to all members and institute students, and is available otherwise by subscription.

Articles, Research Papers and letters are welcomed. They should be typewritten and addressed to the Editor. Biographical notes of the author(s) should be sent with the manuscript. Opinions expressed by the Editor and contributors are not necessarily endorsed by the New Zealand Institute of Valuers. The Editor reserves the right to accept, reject or abbreviate material at his discretion. Copies of manuscripts should be retained by the author as they cannot be returned.

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# Editorial

## THE HUMAN ELEMENT

*In this technical age, it is not surprising that a professional group associated with facts, figures, formulae and analysis should at times tend to overlook the human aspect of their work.*

*A journal such as yours looks for technical articles, most certainly those slanted towards an analytical or investment orientated base, and if it involves computers, then so much the better. This is no, doubt inevitable, progressive and desirable.*

*When you read, as I hope you will, the papers emanating from the Palmerston North Seminar, spare a little time on those written by Dr Anton Meister, and Dr Campbell Ross. Both these papers contain strong elements of the human aspects of valuation, the ability to look at a certain situation, and appreciate change from a human view-point. In this case, they are talking about the rural/urban fringe but this aspect applies to other situations as well.*

*Social issues; peoples' aspirations? How can these be reconciled with, or substituted for good sales research and time-tested valuation techniques. Certainly they should not be substituted for the tools of trade, but they are none-the-less real factors on which a valuer's judgement is called for. Consider the developer who decides that a particular site will be an ideal location for a high class restaurant, even though it may be in an old downtown warehouse. Alternatively, the entrepreneur, who sees a demand for a retirement village where previously there has been no market.*

*The above and similar situations require yet another of what should be the valuer's tools of trade.. This I would describe as foresight, judgement and the old phrase "gut reaction". No matter in what way the valuer may ultimately decide to apply this factor, it is not something he can ignore. A valuer who is technically superb, highly qualified, academically without equal, will never make a good valuer unless he has this extra quality that some describe as a "feel for the market".*

So while Dr Campbell Ross quotes:

*"I'm going out to clean the pasture spring."*

The valuer might say:

*"The valuing is done. I'll ponder it awhile."*

## Letter to the Editor

Sir,-

While I applaud the advertising campaign by the Institute, I consider that the restrictions on individuals advertising themselves is overly restrictive and protective of the established practices.

It is 1985 and we now see lawyers and solicitors regularly advertising in a range of media. A valuer, who generally receives most of his instructions from these people, is frustrated in being unable to advertise to his prospective clientele his availability and professional services.

Yours sincerely,  
M. F. TIETJEN.

### EDITOR'S NOTE:

The following names were inadvertently included under the heading "Membership Resigned" in the June issue of The Valuer. They are in fact new Registrations.-

### REGISTRATIONS

ASTON, P. D.	Rotorua/BOP.
BIRD, R. J.	Rotorua/BOP.
BLUCHER, K. J.....	Waikato.
BUTCHER, W. H.	Waikato.
GUNNING, M. F.....	Central Districts.
HALSTEAD, L. R. W.	Wellington.
HOOD, T. B.	Canterbury/Westland.
KERR, A. J.	Wellington.
LANDER, R. B. ....	Taranaki.
LOVERIDGE, P. J.	Central Districts.
McKEAGE, I. D.....	Wellington.
SHALDERS, G. R.	Central Districts.
WHITE, S. A.	Auckland.

# New Appointees to High Court

The Institute is pleased to note that two of its members have been recently appointed by Government to sit as Assessors and Members of the High Court. The appointments were made recently and announced through the Justice Department; the new appointees, whose photographs and details appear below, replace former members of the Court - Messrs Ralph Frizzell and Bob MacLachlan who have served on the bench for a number of years.

## Mr J. N. B. WALL:

John Neville Beaufort Wall is a principal in the Wellington valuing practice of Gellatly Robertson & Co. - Public Valuers. Upon leaving college Mr Wall undertook a Diploma in Urban Valuation at Auckland University and a cadetship with the Valuation Department with whom he commenced in 1952. John Wall served in departmental offices at Auckland, Palmerston North, Masterton and Wellington and rose to the position of Supervising valuer for the Wellington region by 1972. After 20 years with the Valuation Department Mr Wall entered private practice and has operated in the Wellington region since that time.

A Fellow of the New Zealand Institute of Valuers and a Fellow also of the Chartered Institute of Arbitrators, Mr Wall, 52 years of age, has been active in the affairs of the Institute for over 25 years serving as a member and chairman at Branch level. Over the past decade he has been a member of the Executive Committee of the Institute and Chairman of the Statistical Committee. He has contributed with written articles to the "New Zealand Valuer" and retained a close involvement in the education of valuers as lecturer and examiner.

Mr Wall is married with a grown family and lives in the Lower Hutt suburb of Stokes Valley. John Wall is widely regarded as a valuer of considerable ability and experience and has given evidence before various courts and been involved in major arbitration and hearings in a number of areas. He has also undertaken a wide range of work as an Umpire or acted as sole arbitrator in disputes.

## Mr I. W. LYALL:

Ian Wyllie Lyall practises in the two member Blenheim valuation practice known as Hadley and Lyall and has been a leading member of the valuing community in the Marlborough district for a number of years.

Mr Lyall, aged 52, was selected as a rural field cadet in 1952 and graduated from Lincoln College in 1956 with the Diploma in Valuation and Farm Management. He was to later obtain, circa 1973, the Urban NZIV professional examinations and is thus equipped to undertake a wide range of valuations as demanded of a valuer in a smaller centre. He joined the Valuation Department at Christchurch in 1957 and later served in offices at Hamilton, Rotorua, Gisborne and Dunedin before his appointment as District Valuer for the Marlborough District in 1968. He resigned from the Department in 1973 at which time he commenced his present practice.

A member of the Nelson/Marlborough Branch Committee since 1970, Mr Lyall has been Chairman of the Branch and held other offices within the Institute and been active in the affairs of the profession for a number of years. He is the current Councillor for the Branch and was advanced to the status of Fellow of the Institute in 1984. Throughout his career Mr Lyall has been called upon to give evidence before the Land Valuation Court, Land Valuation Tribunal, Town and Country Planning Tribunal and has acted as Arbitrator and Umpire in matters of valuation.

Ian is married with a grown-up family and has been involved in the administration of the Marlborough Presbyterian Church and served on the local High School Association.

# New Zealand Institute of Valuers' Annual Seminar

April 1985

## Seminar Speakers

Mr. EARLE STEWART:

Mr Stewart is a former Executive Director of the New Zealand Stock Exchange and is a business correspondent for the New Zealand Times. He describes himself as a communicator with people, and has for many years provided reviews and criticisms on business matters.

Mr Stewart is a long-time contributor and commentator in national newspapers. He prepared an entertaining address, with his primary concern being the "whys" and "hows" of corporate reporting.

Most people are aware of the purposes of valuations for:

1. Insurance.
2. Rental.
3. Asset valuation for depreciation purposes.

However, none of the normal conditions apply when companies look at asset valuations for reporting purposes. He said that press reports do not give an accurate report compared with what companies release to the press. He was also critical of the manner in which companies use valuers' information, with statements such as:

"based on registered valuers' valuations".

"based on some properties having been assessed by registered valuers".

"based on some properties assessed by registered valuers and some by the directors".

Mr C. R. SPACKMAN - A.C.A., A.C.I.S.,  
M.P.M.I.

Mr Spackman is a Chartered Accountant, a senior partner in Spackman Mansell & Co. and a Chairman of Alpha Securities Limited.

He has had a 30 years' involvement in property land subdivision, building development and building management. He is a director of a number of private companies many of which are property related.

Mr Spackman drew attention to the manner in which property companies report on the valuation of assets. Not only is this reporting difficult to understand, but in his opinion it is also misleading.

Prudent directors should see that truly independent valuations are used to support valuations in reported accounts.

There is an urgent need to standardise asset reporting. Methods should be adopted for the valuation of investment properties satisfying the following:

- (a) How often?
- (b) There should be a uniform approach.
- (c) The valuation should be prepared as at the Balance Sheet date.
- (d) Specialist properties and multi-tenancy properties may require special comments.

Mr GARY McKAY - A.N.Z.I.V.

Mr Gary McKay currently holds the position of South Island Manager for the A.M.P. Society and included in his role is the position of Chairman of the Management Committee controlling the A.M.P. Society Mitchell Group dairy farm at Culverden in North Canterbury.

Born at Rangiora in Canterbury and educated in Christchurch he was a Government Rural Field Cadet in the 1950's and spent five years with the Valuation Department in Canterbury after gaining his V.F.M. from Lincoln College in 1960. In 1965 he joined the rural investment division of the A.M.P. Society and worked in that area in various North Island locations until 1972 when he was transferred to Wellington. Over the next 12 years he held a number of positions in the Society's Investment Division and was appointed to his present role in Christchurch from the position of Manager Mortgage Investments for New Zealand.

Gary McKay is an Associate member of this Institute, is a Member of the New Zealand Society of Farm Management and is an Associate member of the New Zealand Institute of Management. He is married with two children and his out of work interests include golf and duckshooting.

Mr McKay indicated that the A.M.P. Society's overall concern is long-term growth with the intention of maximising returns in a manner which will out-perform the rate of inflation.

He indicated that the A.M.P. requires a balanced portfolio to satisfy the requirements of investors, with this portfolio including:

- Shares.
- Government securities.
- Loans.
- Property equity investments.

There are two Funds managed by A.M.P. one of which is known as the Capital Guarantee Fund and the other the Investment Link Fund.

Mr K. J. TREMAINE:

Mr Ken Tremaine, M.A., Dip.T.P., R.T.P.I. (London) is the City Planner of Palmerston North City. He was first appointed Town Planner of Mt Albert Borough Council and later became City Planner of Palmerston North City. He also acts as a Consultant for six local authorities and lectures at Massey University on Planning as a Political process.

Ken Tremaine shared with valuers some of his opinions on his work. He considers it important that as paid professionals planners are engaged to give advice. They must not filter it out to suit what others may like to hear.

Planning techniques are required to reduce conflict on the peri-urban fringe to satisfy:

- i. What is required on the peri-urban fringe.
- ii. The preparation of regional planning schemes in a manner which provides clear statements.
- iii. Adoption of a clear policy in terms of district schemes.
- iv. A satisfactory data base should be adopted which not only includes population numbers but also the age structure, household formation, divorce rate, and death rate composition.
- v. The supply of money.

Mr R. G. STROUD:

Mr Ron Stroud is a Town Planner and partner in the planning consultancy firm of Gabites Porter and Partners, based in Christchurch. He spoke on the effect of small holdings on rural planning, illustrating his points by reference to the unfortunate subdivisions which resulted under the Land Subdivision in Counties Act 1946. That Act specified a minimum 10 acre size for subdivisions where no Ministerial approval was required.



Mr G. J. HORSLEY - F.N.Z.I.V., A.C.I.Arb.,  
M.P.M.I.:

Mr Graeme Horsley is the President of the New Zealand Institute of Valuers and a partner in the firm Darroch Simpson & Co., Public Valuers, Wellington. He has been deeply involved in the affairs of the Institute over many years and has a broad experience in property asset valuations. In this field he has represented the Institute overseas on T.I.A.V.S.C. Graeme Horsley provided a brief resume on "Guidance Notes For The Valuation Of Fixed Assets (Property)" for inclusion in the financial statement of property companies.

This is an area which has become of increasing importance to valuers in recent years and may become more important in the future. Standards must be maintained within the Institute and a consistent method of valuation adopted.

Dr A. D. MEISTER:

Dr Anton Meister is the Reader in Natural Resources Economics at Massey University. He delivered a Paper at the Rotorua Conference in 1984 and was invited back to speak further on the subject of Small Holdings.

Dr Meister selected as his topic "The times they are a-changing - an historical look at small holdings and society's attitudes".

He provided an entertaining address referring specifically to the entrenched attitudes against more intensive subdivision of larger properties. These attitudes have an historical basis and are still prevalent with some local authorities today. This is despite his reference to a number of studies which indicate, that no lesser production is achieved from small than larger properties.

Planners and Councils have a plethora of difficult ordinances which do not assist in cutting through the problems of those wishing to establish or create small holdings in rural areas.

Dr H. C. ROSS:

Dr Campbell Ross is a Lecturer at Palmerston North Teachers' Training College and a small holder. He provided an insight on "An Owner's Outlook On Small Holdings".

He said "Small holders are not necessarily hippies; they move into the rural area because they do not enjoy living in a dense urban environment". In many cases they are people whose jobs involve interaction with others but do not provide them with the opportunity of undertaking "constructive work" where a material visible goal can be achieved.

Dr Ross suggested that the social issues of small holders are under-rated and even though the relative production achieved from small holdings is now more widely acknowledged, other beneficial factors are ignored.

# Membership

## ADMITTED TO INTERMEDIATE:

Bamford, S. J. K.	Otago.
Beggs, N. W.	Otago.
Bosworth, P. J.	South Canterbury.
Brown, C. M.	Wellington.
Brown, T.	Gisborne.
Clark, T. J.	Waikato.
Cochrane, P. E.	Northland.
Compton, P. A.	Southland.
Foo, Say Chiang	Overseas.
Flannery, P. ....	Otago.
Ganley, R. M.	Wellington.
Gillanders, M. S.	Waikato.
Gordon, R. B. P.	Taranaki.
Havill, M. J. ....	Waikato.
Hogg, R. J. ....	Waikato.
Homer, T. M.	Nelson/Marlborough.
Howard, P. J.	Wellington.
Johnson, G. H.	Central Districts.
Preston (Ms) A. B.	Wellington.
Pyne, R. M. ....	South Canterbury.
Riepen, V. A.	Otago.
Smith, S. A. ....	Central Districts.
Somerfield, D. A.	Wellington.
Sullivan, N. A.	Wellington.
Tee, H. L.	Auckland.

## REGISTRATIONS:

Allen, A. L. ....	Waikato.
Ansley, N. D.	Rotorua/Bay of Plenty.
Archer (Ms) K. E.	Wellington.
Ashby, M. J.	Canterbury/Westland.
Beacham (Ms) S. J.	Rotorua/Bay of Plenty.
Boyes, J. R. ....	Hawke's Bay.
Braddock, R. A.	Auckland.
Buchanan, M. D. G.	Central Districts.
Chapman, R. O.	Canterbury/Westland.
Collins, K. R.	Nelson/Marlborough.
Corbett, S. F. B.	Auckland.
Crosse, P. B.	Waikato.
Cundy, L. C.	Nelson/Marlborough.
Cunneen, P. J.	South Canterbury.
Fechney, B. R. H.	South Canterbury.
Fincher, R. W.	Auckland.
Grandiek, J. N.	Hawke's Bay.
Harwood, L. S.	Auckland.
Hegarty, M. J.	Central Districts.
Johnson, M. ....	South Canterbury.
Johnston, P. R.	Auckland.
Johnston, S. R.	Auckland.
Kitchin, T. W.	Hawke's Bay.
Loh, C. H.	Overseas.
Mattin, A. B.	Canterbury/Westland.
Massie, S. J. ....	Central Districts.
Owen, D. J. ....	Rotorua/Bay of Plenty.
Peterson, W. H.	Hawke's Bay.
Pryde (Miss) L. M.	Overseas.
Ryan, D. J. ....	Auckland.
Saunders, D. J.	Waikato.
Saxton, O. C.	Auckland.
Smith, G. M.	Gisborne.
Smith, S. A. ....	Central Districts.
Spicer, R. B. ....	Wellington.
Stigter, F.	Wellington.
Sullivan, N. A.	Wellington.

Thayer, T. G.  
Thomson, C. D.  
Utteridge, G. A.  
Walker, T. M.

Southland.  
Auckland.  
Rotorua/Bay of Plenty.  
Rotorua/Bay of Plenty.

ADVANCED TO ASSOCIATE:

Bridges, C. J.  
Burgess, I. J.  
Crookes, G. M.  
Fong (Ms) E.  
Hendry, R. H.  
Hitchins, D. R.  
Hope, C. W.  
Laing, G. D.  
Lander, R. B.  
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Tasker, C. R.  
Twaddle, A. G.  
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Petherick, L. B.

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Central Districts.  
Waikato.  
Auckland.  
Auckland.  
Wellington.  
Waikato.  
Wellington.  
Taranaki.  
Overseas.  
Central Districts.  
Waikato.  
Waikato.  
Auckland.  
Hawke's Bay.  
Auckland.  
Wellington.  
Central Districts.  
Wellington.  
Otago.  
Central Districts.

REVERTED TO NON-PRACTISING:

Borthwick, C. W.  
Kemp, P. A.  
Rosie, K. A.

Hamilton.  
Nelson/Marlborough.  
Canterbury/Westland.

DECEASED:

Brown, J. A.  
Carter, I. F. E.  
O'Keefe, L. T.  
Sutton, H. E. T.

Wanganui.  
Auckland.  
Northland.  
Southland.

RESIGNED:

Coulam, A. G.  
Gavin, K. R.  
Keith, P. W.  
Parsons, B. F.  
Scown, P. G.

Auckland.  
Gisborne.  
Waikato (Reg.)  
Taranaki.  
Central Districts.

RE-ADMISSION:

Lander, R. B.

Taranaki.

LIFE MEMBER:

Mander, M. R.

Rotorua/Bay of Plenty.

RETIRED:

Brown, H. L.  
Simmons, H. A. (14.(1))  
Thomas, R. J.  
Weyburne, B. (14.(2))

Otago (14(1)).  
Northland.  
Wellington (14(1)).  
Wellington.

PRELIMINARY NOTICE

1986 Annual General Meeting and Seminar

- Venue: Forum North, Whangarei.
- Dates: Monday 14th Tuesday 15th April, 1986.
- Programme: To be advertised in the December 1985 issue of 'The Valuer'.
- Accommodation: Various city motels/hotels.
- 
- Enquiries to: Secretary, Northland Branch N.Z.I.V.  
PO Box 1093  
Whangarei

# Corporate Reporting

by E. Stewart

The subject of my paper is stated to be "Annual Revaluation - The Hypothetical Profit Factor." After listening to me for a few minutes you may think you are at the wrong conference.

As for "Annual Revaluation" I'm not competent to dispute valuations with valuers. As for the "Hypothetical Profit Factor", although I'm a member of the New Zealand Society of Accountants the girls in the office have been known to refuse to let me balance the petty cash.

My primary concern is not the subject assigned to this paper but the communication of that subject. For this reason I begin with a consideration of the how and why of the reporting of Company information.

The Society of Accountants has publicly acknowledged that its accounting standards are related to the preparation of the formal annual accounts of a company, but that company accounts are no longer the primary, and are certainly not the first, source of information on company performance.

Therefore, there is little point in debating the intricacies of accounting standards and the form of public company accounts if they are not being used to inform the public.

If however, you are concerned with the subject, you should be concerned with the mechanisms used to inform the public of the nominated subject. This raises five points:

1. Who is reporting.
2. To whom are they reporting.
3. How are they reporting.
4. Why are they reporting.
5. Are there ambiguities or misdirections in those reports.

Being of simple mind I would prefer to deal with these point by point even though the issues covered by each cannot be separated.

## Who is reporting

The Companies Act places the management and control of a company in the hands of its Directors and it requires those Directors to be appointed or elected by the shareholders and to be accountable to them. However, implicit in the Act is the assumption that each director is responsible to all the share-holders and is obliged to act solely in their best interests.

That assumption is no longer valid. Today companies take up major shareholdings in other companies and by so doing gain the right to sit on the Boards of the companies in which they invest.

However, a company cannot sit on a chair so it nominates an individual to represent it. In that fact however, lies the seeds of conflict.

Ron Brierley, Bruce Judge, Graham Valentine and many other leading Company Directors have publicly stated that such directors owe their allegiance, not to the shareholders of the company they direct, but to the company which appointed them a director. That line of reasoning is neither hidden nor sinister. It is an openly held honest conviction which has been argued in front of the Securities Commission.

The Commission has expressed its concern at this philosophy and the Institute of Directors is neither for nor against a position which in my view is regrettable.

However, it is not an opinion that this approach breaches the assumption of the lawmakers that the interests of all the shareholders in a company are the primary concern of all the directors of a company.

I am not saying that such directors act to the detriment of shareholders in the company they serve. I'm saying benefits which accrue to shareholders in the company they direct accrue as a consequence of, and to the extent determined by, the director's obligations to another set of shareholders altogether. This is not the time and place to go into all (or any) of the potential conflicts that can arise but this point is relevant to company announcements. Given the reality of a company director being put in the position of having to serve two masters, there is all the more need for objective clarity in company reporting.

However, company directors are responsible for the operations of a company and it is company directors who issue reports on those operations. It is an inevitable consequence of human nature that those directors will report, as my father-in-law would have said "with the best side to London".

## To Whom are they reporting

The Companies Act concerns itself with the obligation of directors to report to the company's shareholders and like the standards of the Society of Accountants it envisages that the reporting will be done through the mechanism of the company's annual report and accounts.

The idea of reporting in this manner was not an innovation when the present Act was passed. Today's Act in essence, simply extended the requirements set out in the Companies Act of 1908.

The needs and procedures of 77 years ago are not the needs and procedures of today and, in my view, this is the nub of the debate over corporate reporting and, again in my view, this is critical to the question of asset valuations incorporated in such reports.

Despite what you may be thinking now I will come to the question of valuations but for the moment back to the recipients of those reports.

The shareholders of 1908 were a small elite (in the sense of wealth) group and despite the existence and operation of the Stock Exchange they tended to hold their shares, not trade in them. Back then too was another factor, communications.

The barrier to prompt and easy communication between our cities led to companies being "local". That is, the shareholders lived where the company operated and, for example, for a Dunedin resident to hold shares in an Auckland company was a rare phenomenon. Traces of this attitude are still seen within the Stock Exchange and this is evidenced by the fact that the list of companies recorded on the number one board in Auckland is not the same list as appears on the number one board in Dunedin.

This history lesson is not irrelevant. When our present reporting laws were originally drafted company directors reported to a stable set of shareholders and the majority of each was known to the other either personally or through acquaintances. Would anyone suggest this is still the case? All has changed except the law. Therefore, back to the immediate question, to whom do they report?

The law says they must report to the shareholders but in today's world that raises the question of which shareholders? Are they:

1. Those who held shares in the company during the period covered by the report.
2. Those who held shares at the time of the report.
3. Those who will become shareholders in the future.

This dilemma concerns directors, not only when reporting, but also when directing. For example if the Board decides to invest in new machinery for future production and, as a result, the company's cash resources are strained with a consequential effect on dividend payments, today's shareholders suffer a short term disadvantage for the benefit of future shareholders. Such a management decision however, would be neither illegal nor unfair. But it does point up the fact that directorial responsibilities are due to a wider group than those who hold shares at any given moment in time. Applied to reporting, this must mean that directors should report to the investing public as a whole. This leads inevitably to the next question.

How do they report?

Many years ago the Stock Exchange recognised the inadequacy of the legal reporting system and it developed a system which it calls preliminary reporting.

Many people are unaware of, or unappreciative of, the Stock Exchange's concern for a fairly informed market and of the extent to which most listed companies share that concern.

For its securities to be listed on the Exchange, a company must enter into a contract with the Exchange and some of the clauses in that contract relate solely to the method of reporting and the contents of the reports.

Let us first consider the method of reporting. The Exchange requires companies to report first, not to the nearest trading floor of the exchange, but to the Executive Office of the New Zealand Stock Exchange. Immediately a company report is received there a brief professional precis of that report is simultaneously telexed to each trading floor of the Exchange to ensure that the first people who receive the meat of the report are those who, at the time of the report, are charged with the responsibility of buying or selling securities issued by the company making the report. The report is then passed, in its entirety and without editing to the New Zealand Press Association. You may ask "why the Press Association".. Again the answer is a concern for a uniformly informed market. The New Zealand Press Association passes the report to all major newspapers at the same time and so, hopefully, avoiding a report appearing (say) in the Dominion today and in the Auckland Herald tomorrow.

It all sounds reasonable and it all sounds thorough but now the fun starts. Remember the directors' responsibility is to report to all investors so what happens when the Press Association message is received at a newspaper, the only mechanism by which the directors can reach all investors?

To illustrate remember the furore when the Prime Minister accused the directors of the ANZ Bank of voting themselves a 40% increase in directors' fees. One Wellington newspaper ran the story on its front page under a very bold headline and in a report, attributed to its political correspondent, said what I have just said.

At the time that report appeared in the paper,, the shareholders of the bank had increased the total amount they were willing to pay their directors but the directors had not met to decide how much, with the authorisation, they would be paid.

Being a lawyer, the Prime Minister could be expected to be aware of the Companies Act and, therefore, he should have known that his condemnation of those directors was premature, it was not based on fact and he was accusing them of doing something the law prohibits them from doing. However, a political correspondent could not fairly be expected to know the constraints of the Companies Act.

In that particular case, that paper's business & section is staffed by people trained not only in journalism but also in business and accounting. Had they been assigned that story a factual report, rather than a repetition of political rhetoric,, would have appeared on page 21 not page 1.

So the first point is that who writes the media version of the report can be as important as the report itself.

Now let us revert to a company report correctly referred to the business section of the newspaper.

The first thing to remember is that, whilst establishing a reporting procedure, and requiring specific information to be reported, the Exchange emphatically rejects saying how that information is to be determined. The Exchange is an exchange and not an accounting authority. It relies on the-

Society of Accountants to determine the accounting principles by which company performance is measured. The Society is now on public record as saying that some companies, whilst calculating their results according to the standards of the Society, announce those results in a manner not covered by, or even compatible with, the principles of the standards. The second thing to remember is that the company's report has been passed to the media exactly as written by the directors.

Those directors have spent a fair deal of time and money in writing it and in most cases, will have called on public relations experts to ensure the report presents the view the directors want presented, and to obtain the maximum advantage from the public relation specialists' understanding of just how newspapers operate. Company reports are not brief, for example Fletcher Challenge's preliminary announcement of its results can, and has, filled round 12 pages and I have seen telex reports over two feet long.

Clearly then the journalist must precis the report he receives but, because of his accounting and business training, he has an additional problem. As a journalist he uses the English language as it is heard and read in common usage but he knows the writers of some company announcements cannot be relied on to do the same. Again for example, when Fletcher Challenge was using an esoteric accounting theory to calculate what it determined was a profit on its acquisition of Crown Forests it added that number (I cannot personally call it a value) to trading Profits the surplus on the sale of assets and equity profits accruing to it and called the total of all these "earnings". I suggest you look at the dictionary definition of that word.

So the journalist, aware he must communicate to people who use standard English, is very aware of the dangers of misquoting a report written by people who use a mixture of English and double speak. After all if a company announces that its profit is dollars X, can the journalist say "No, the profit should be dollars X minus \$1,0M"? He can tomorrow or the next day in an article reviewing the company's performance but not when he is writing a summary of the original report. That is news, his copy must be ready by a deadline and he has a professional obligation not to mix news reporting with comment on the news.

The next step in journey is, to my mind, strange. Having written his news report, the journalist hands it, not to the printer but to a senior newspaperman known as a sub-editor. The sub-editor checks the copy and then trims it to fit the amount of space he has decided it shall have on the page of his newspaper.

Now this man is an expert within the newspaper business. He knows his job but his job is not business reporting. Therefore, when he trims the article to fit he may or may not cut out what is vital to an investor's reading and understanding of it.

Articles on business pages reporting company announcements are edited and abbreviated by

newspaper men without reference to the journalist who, trained in business journalism, wrote the article in the hope that it would be printed as he wrote it.

At this stage comes, to me, the strangest step of all. Not only does the sub-editor decide how much space the article will be given. He is also responsible for deciding how much of that space will be used for a headline and how much for copy. The easiest way to explain is to give an example.

Assume a company makes an annual profit announcement containing 1000 words. A journalist, trained in business reporting, transforms that announcement into a press report containing 600 words and he passes that report to a sub-editor who allocates the report sufficient space to print 600 words but he decides that one third of the space shall be used to print a headline, so he then edits and abbreviates the journalist's report down from 600 words to 400 words. Then the sub-editor decides what the headline shall be. That's right. The man who writes the press report is not involved in deciding the size and the wording of the headline under which his report appears.

This last point is well understood by the public relations firms and this understanding is probably the reason they are employed by major firms to format, and word, profit announcements. As a rule of thumb, if a profit announcement is prepared by a Public Relations Firm a favourable headline will appear over the press report and the lead sentence of the report and the wording of the headline will be based on one of the first two paragraphs of the company's announcement.

The final barrier to factual reporting is of course typographical errors and whilst we all cheerfully criticise and blame newspapers for them, that is not always justified. For example in an announcement to the Stock Exchange on February 22 1984 Robert Jones Ltd advised it had purchased two adjacent retail buildings in Rotorua. The announcement stated the anticipated post-freeze net income from the properties would be \$85,000. The announcement, also stated the combined purchase price was \$53,000. I'll bet Bob Jones wishes that was right.

Why are they reporting.

The directors report through preliminary announcement so that the Stock Market, the investors and the public are informed as to company performance. The Stock Exchange has established a procedure for such reporting the media acknowledges its dependence on such announcements and the Accountants' Society acknowledges that a company's legal annual accounts are no longer the primary source of company information. But why are they making these announcements given that they will eventually publish their formal report and accounts? With regard to listed companies, there is one reason which is common to all - to support and, if possible, to lift the share market price of the company's securities, which will not remain listed unless the company honours its listing agreement by reporting.

Are there ambiguities in these reports

Yes there are and a great deal of time and effort is put into ensuring that those ambiguities exist. If the objective of the report is as I have suggested then it is essential to accentuate the positive and eliminate the negative and one way of achieving this in the words appearing in a recent announcement made by City Realities Ltd, is to fudge the figures.

Please understand I am not saying City Realities fudged its figures but that company did publicly state that there were listed property companies which did do so. My contention of ambiguities has at least one supporter.

By now, apart from being bored, you are probably wondering what all this has to do with valuers and property valuations. In my view it has everything to do with both.

In my experience, companies employ valuers for very specific and limited reasons. Where the reason is, for example, to establish values for insurance purposes or to determine the basis for a rental charge all parties affected by the value know precisely what is being valued and why. Further they have the option to accept or reject the valuation. If a valuer is employed to establish the value of a productive asset so that the company may re-assess the amount of depreciation it includes in the cost of the production from that asset there is no question that the valuer is in control of the presentation of his value or that he and his client company both know exactly what has been valued and why.

Neither the option nor the knowledge is available to the public when it reads of a company result in a newspaper, and if the reported performance is even partially based on asset revaluation it is simply impossible for the public to reach an informed judgement on the worth of the report. This is particularly true when the investor wishes to choose between investing in one company or another.

Let us take a specific example:

On December 12 1984, Robert Jones Investments Ltd announced its results to the Stock Exchange and the first two paragraphs of that announcement read, and I quote:

"The Directors of Robert Jones Investments Ltd, announce that the half yearly earnings to the 30th September, 1984 are \$4,255,484 (1983 \$2,334,969).

The total earnings comprise a tax paid cash profit of \$406,462 which is an increase of 227% on the corresponding 1983 figure of \$178,847 and a revaluation component of \$3,849,022 (1983 \$2,156,122). The tax for the period was \$215,833 compared with \$82,903 for the same period last year" end of quote.

There is no question about the announcement and the fact that it clearly distinguishes between the cash profit and the revaluation credit but there is also no question that, in defiance of dictionaries and common usage, it uses the word "earnings" to describe a number which is the sum of both profit and credit. So what happened next? Wellington's Evening Post reported the

announcement under a headline which said "Robt Jones Profit up 82pc". Under that headline in letters one third the size of the letters in the headline the opening paragraph read and again I quote:

"Robert Jones Investments Ltd. directors yesterday announced half yearly earnings to September 30 of \$4,255,484 (1983 \$2,334,969) allowing a profit increase of 82 percent" end of quote.

Then on February 15, 1985 (just two months later), the City Realities Group announced its results to the Stock Exchange and the first two paragraphs of that announcement read, and I quote:-

"The directors of City Realities Limited announce that the unaudited tax-paid profit for the six months ended 31 December, 1984 was \$1,681,286 (1983 \$1,194,841) after providing for taxation \$578,274 (\$463,441) and depreciation \$15,521 (\$16,154).

In accordance with the company's established policy there is no property revaluation content in this result." end of quote.

Again what happened next? So again we will refer to the Evening Post which reported this announcement under a headline which said "Profit Boosted for City Realities". Under that headline, again in letters one third the size of the letters in the headline the opening paragraph read and again I quote:-

"Wellington based property investment group, City Realities Ltd., has boosted its tax paid profit for the half year by about \$500,000 to \$1,681,286." end of quote.

Admittedly, in the City Realities report the Evening Post mentioned at the end of the second paragraph, and after detailing the tax and depreciation figures, that the result did not include any property revaluation. That however does not alter my argument. Neither of those press reports gives the investor an accurate image of what the companies reported and neither permits a comparison of one with the other. It is this inability to compare like with like that must be considered unacceptable although it should be noted that the companies' announcements do not allow for comparisons either.

Bob Jones has argued in print that anyone with money can buy property but only an astute and especially skilled investor can buy properties that will consistently increase in value and he further argues that the increase in value strengthens the value of the property owning company and thereby the value of its shares. I agree with him but only to the extent that I think property company investors should know the present value of the company's property portfolio.

However, I also agree with City Realities which says property revaluations credits are not profits and should not be accounted for as such.

Trading profits are obtained from the use of an asset. The credit from the revaluation of an asset is nothing more than numbers on a piece of paper until the asset is sold, and that applies whether the asset sold is a property or the shares in a property owning company. To my mind the



difference is vital. Gains arising from the use of an asset are not the same as gains based on an estimate of the sale value of an asset should it be sold tomorrow and, contrary to Bob Jones, I believe it is totally misleading to add the two together. You simply cannot add water to whisky and get vodka.

It must be acknowledged however, that in the example I'm using, the shareholders of City Realties do not know the present worth of its property portfolio, something I think they should know, but that is not the same as saying an increase in valuation is a profit. It is not.

Accountants used to think about a thing called "unrealised gains". It is a long step from there to defining credit arising from the revaluation of an asset as a profit at the time of the valuation when, at that time, the company may have decided to hold and not sell the asset or (more charitably if you like) the company may not yet have decided to sell the asset.

One last word before speaking of valuers. I won't name names but I'm sure you have all seen press reports of company announcements which include property revaluation credits and these are presented to the public as being "based on valuations obtained from independent registered valuers". Just what does that mean? Your valuation as you gave it to the company or your valuation plus or minus 50%, 100%? It is a statement which totally destroys the integrity of the valuation.

You will also have seen company announcements which stress that property valuations were obtained from independent valuers but which do not say whether or not all the company's properties were so valued.

You will also have seen announcements in which the company says some properties were valued by independent valuers and some by the directors but the announcement does not say who valued which properties and also it does not give a reason why valuers were not used to value properties valued by the directors nor does it give the relative values of the properties concerned. For example a company owns six suburban shops with a combined value of \$600,000 and one downtown shopping mall valued at \$6.0M. Six independent valuers each valued one shop for a revaluation credit of \$10,000 in total and the directors valued the mall for a revaluation credit of \$1.0M. Don't you think that is information which should be reported?

Now at last we come to the valuer. In the last examples I have given the valuers were simply being used. I'm sure you know it.

When preparing this paper I had a recurring thought, or rather, a question.

Why are valuers considered to be professionals and not tradesmen? Which naturally demands definitions before the question can be answered.

My definitions are:-

A tradesmen is a person who contributes to his society through the exercise of a skill and the worth of his contribution can be assessed by the quality of the article or service provided by him, at the time he provides it.

A professional is a person who contributes to his society through the application of specialised knowledge which is not shared by the majority within his society and the worth of his contribution can be assessed, not at the time he makes it but by subsequent events.

On the basis of those definitions, valuers must be defined as professionals but there is a hook in my definition of a professional.

The professional stands in a position of trust. His contribution to the lives and decision-making process of others must be accepted on faith. For that reason the professional has an unqualified obligation to honour ethical standards. Professional competence alone is not enough, it must be backed by integrity.

I therefore suggest that much of confusion over the subject of this paper could be removed if a code of ethics governed valuers when accepting commissions to value corporate assets where the valuation is to be used to determine, even partly, a measurement of company performance and the measurement is to be publicly reported.

I have tried to show the number of slips twixt cup and lip and I do not suggest valuers can be held responsible for media reports of company performance announcements but I do believe it is within the competence of valuers to say to corporate clients - "I will not value your assets for reporting purposes unless your announcement states:-

- (a) The date of any independent valuation used in a company's reporting.
- (b) The reason given to a valuer when requesting a valuation.
- (c) Whether or not all assets of the type to be valued have been independently valued.
- (d) If not, why not, and the relative total values of the assets independently valued and those valued "in house".
- (e) Whether or not the independent valuation has been used by the client as provided and if not the reason for, and the extent of, the variation from that valuation.
- (f) A clear distinction between profits earned from the use of assets and credits arising from the value expected to be received when, and if, the assets are sold."

I personally consider the present standard of company performance reporting is not acceptable but I also consider part of the answer lies in the hands of the members of the Institute of Valuers.

# The Accounting Influence on Property Ownership

## A Practical Perspective

by C. R. Spackman, A.C.A., A.C.I.S., M.P.M.I.

### 1. Introduction

1.1 Property valuations have assumed a greater importance in recent years, partly because of the effects of inflation and partly because of public awareness of the benefits accruing from property investment.

1.2 The growth in the number of listed public property companies has enabled large numbers of the public to collectively invest in large commercial properties which were previously available only to institutions or other large investors. An obvious feature of the public property company is the ability to share in the capital growth as well as receiving a reasonable income from the shares purchased, and investors were quick to realise that fixed investments, while usually showing an improved annual return in the short term, had the disadvantage of a loss of capital over the longer term due to inflation.

1.3 This was the position which set the scene for growth in property investment during the last decade or so. Property trusts were in favour because of the tax advantage as each investor was taxed on his share of the syndicate profit compared to the double taxation of company dividends. In those early days, the rise and fall of some property companies and syndicates e.g. Cornish Group, JBL etc, were quite spectacular and as a result of bitter experience, property syndication as a means of sharing in jointly owned property investments lost favour. The amendment to the tax laws providing for the taxation of syndicates also was a contributing factor, as was the fall of the property market during the late 1970's.

1.4 It was only when the rate of inflation climbed to 16-18% per annum that the investors began looking again for a means of preserving their capital in an inflationary environment, and in the last few years, there has been a spectacular growth in public property companies, and they have come back in favour. Most property companies today have so structured their operations that dividends are largely tax free and so the element of taxing company profits and taxing the dividend as well has been overcome but just whether the Government will allow this position to continue is something that time alone will tell.

There are currently 15 property investment/development companies listed on the Stock Exchange. Of these, seven acquired listed status during 1983. That so many property companies should have been floated in 1983 was no coincidence. Following the extremely buoyant property market conditions which prevailed in 1982, a number of investors seized the opportunity to consolidate their property investments and make

them available for public participation.

Those that responded to the issues were well rewarded, the shares came on to the market at a premium and held their ground well throughout 1983, and for that year, the property investment/development industry outperformed all other sectors of the market.

1.5 Traditionally, most manufacturing or trading companies have also been large investors in real estate and under the historic cost accounting convention, many companies retained land and buildings in their financial accounts at original cost less depreciation, deeming those assets to be merely the means whereby the company produced goods and earned its main income from manufacturing or trading. In themselves, those assets were not seen as creating wealth in the same sense that the manufacture of goods, but there were some in the business world who realised that based on current values, there was a large amount of capital that could be freed up if these buildings were sold and leased back.

1.6 It was Mr Brierley who first realised that the share market value placed on some companies did not take into account the current value of many strategically placed buildings, and that with some restructuring, profits of businesses could be quickly improved. Many businesses have found to their cost that retaining land and buildings, in particular, at their original cost was an open invitation for the corporate raider to lend a hand.

1.7 This then is the scene in which members of your profession are now being expected to provide valuations to support financial accounts which more truly reflect the real value of the company and enable shareholders to make intelligent decisions in regard to their investment.

1.8 My part of the proceedings is to take a practical perspective in regard to the accounting influence on property ownership. In my view, there are a number of influences other than the valuation of property which have a bearing on property ownership, but it is true that great reliance will be placed on valuations in the future. Your profession is wise to devote much time to the study of property valuations and their effect, because in expressing an expert opinion on the value of property, the valuer is putting his professional reputation at risk with all the consequential ramifications that this imposes.

The increasing attractiveness of recovering damages from professional people should not lightly be passed over and many accounting firms engaged in audit have found to their cost that signing their name to a balance sheet which claims to present a fair and true position has involved them in substantial litigation and

claims for damages. I do not believe that your profession can escape the realities of the present climate and greater care than ever is needed.

## 2. Accounting for Annual or Periodic Valuation:

### 2.1 Revenue Statement V Reserves:

There are two distinct schools of thought regarding the treatment of any increase in the revaluation of investment properties.

2.2 There is strong support from a large number of property companies to the inclusion of the annual or periodic revaluation increase in the profit and loss statement. This is now officially supported by the N.Z. Society of Accountants with the reservation that, as explained in SSAP 17, the item must be separately shown and clearly identified as unrealised gains.

2.3 The second school of thought strongly holds the conservative view that only realised gains or losses should be included in the profit and loss statement and that unrealised gains by way of property revaluations should be taken directly to the asset revaluation reserve and be included in shareholders' funds.

2.4 This apparent conflict in the treatment of revaluation increases must be seen in the light of current conditions in the market place where there is intense competition for the investor's dollar and high interest returns on fixed investments look much more attractive in the short term than lower returns on property shares, but when an increasing capital value is disclosed in the accounts and presently this is tax free, one can readily see why so much investment has been committed to the new property companies. However, the realities of the situation must be recognised in the preparation of the valuers report, just as it should in the preparation of financial accounts.

2.5 It is interesting to note the legal position in regard to the inclusion of the change in asset values in the profit and loss account for the year, and to regard it as available for distribution. The present law in New Zealand was defined by the Supreme Court in the case of "Re N.Z. Flock & Textiles Ltd (1976) 1 NZLR 192". In that case the company revalued its land and buildings and established a revaluation reserve account in its books. It proposed to pay a dividend out of the company's revaluation reserve account using money from other sources for that purpose. It was held that this was lawful - "a reserve fund constituted as a result of revaluation of unrealised fixed assets can be legally distributed by way of dividend." However, the Court relied on English and Scottish cases decided on legislation very similar to our own, but as a consequence of entry into the European Common Market, the United Kingdom has now adopted different rules and the English and Scottish cases have been superseded. The new law in England is established by the Companies Act 1980 which prescribes statutory rules for the calculation of the company's profit and loss for the purpose of determining whether anything is available for distribution and if so, how much. Only realised profits and losses may be taken into

account for that purpose, although no statutory definition is given of the concepts of realised and unrealised profits.

2.6 Mr Patterson of the Securities Commission has clearly stated that in his view there is no objection to including changes in the value of assets during the accounting period in the profit and loss account for that period provided that:

- (a) The amounts derived from the valuations are separately shown and described as such.
- (b) The basis of valuation is disclosed in a note to the accounts.

However, he does draw attention to the unquestionable dangers in including amounts arising from revaluation amongst the profits available for distribution although there is high legal authority to support that treatment.

As an example, he quotes that one of the first customers at the Securities Commission was the manager of a property trust who had been paying out unit holders in the trust on the basis of valuations in a constantly rising market. His problem was that the market had fallen and he now considered that the trust had paid too much to retiring unit holders. Mr Patterson could only say to him that it was very unfortunate.

2.7 Among those companies supporting the inclusion of revaluations in the profit and loss account is Aurora Group which believes the increases derived from its annual revaluation can best be shown by a separate item in the profit and loss account clearly showing it as a property revaluation. Although the profit is not a realised profit, given the peculiar nature of a property company it is in fact essential to show the increasing value of the investment. Aurora Group argue strongly for full accounting for yield asserting that property returns come not only in the form of rents, but also and essentially, by increase in the value of property. If rent were the only income, investors would be better off putting their money into debentures and Government Stock. At the end of the day, however, it is the company's directors that must be responsible to reflect a true and fair view of their company's affairs-not the valuers. The Society of Accountants should not take away from directors their role of responsibility and hand it to a third party.

2.8 Supporting the more conservative accounting, City Realities' view is that accountants must tread warily on a shifting battle ground of conflicting business opinion on the issue of accounting for investment properties. Part of the field is firmly held by conservatives clinging determinedly to a hard cash in the hand concept of profit and down to earth estimates of the value of concrete and glass. In the opposing vanguard are those happily issuing bonuses, if not paying dividends, backed only by the paper profits of revaluation.

The effect of including unrealised revaluations is made worse when a company includes a revaluation benefit as part of the company's dividend cover. It is bad enough to take a revaluation benefit into the profit and loss account but worse to suggest it really provides dividend cover since no actual sale of property has taken place nor has there been a real increase in rents, in fact nothing

which could be realised to cover the dividend. In one company's case, removal of the revaluation increase from the accounts would have reduced dividend cover to just once, instead of the claimed 7 times cover.

City Realities criticises accountants for changing their tune. In the past they have always reported realised profits, now they are proposing to report unrealised profits.

2.9 The real test comes when the company sells a property because circumstances require it, then it might well sell at a loss in terms of its valuation. In that case, what is the effect on the financial statements?

(a) If previous revaluations have been included in the Profit and Loss account, then any loss on sale (reflecting previous over-valuation) would of necessity also be required to be shown in the Profit and Loss account with a resulting reduction in reported profit, or even a loss.

(b) If, however, previous revaluations have been taken directly to a Property Revaluation Reserve, then any loss (reflecting previous over-valuation) would merely reduce the Reserve Account and would not appear in the Profit and Loss account.

From the two alternatives, it can be readily seen that method (b) would tend to separate fluctuations in re-valuations from trading profits, while method (a) would show both upward and downward fluctuations because of revaluations, which may bear no relationship to trading profits and this could be misunderstood by shareholders.

2.10 It can clearly be seen that there are strong arguments in favour of each of the methods for treatment of revaluations, but the principal responsibility must fall on directors, who must exercise due care and attention in presenting financial statements that are true and fair. This means, in my view, that prudent Directors would ensure that fully independent valuations by competent valuers are used to support Balance Sheet assets.

Later in the paper, I have presented some evidence to how the market reacts but it will be in the long term that one particular method Will be shown to be superior to the other.

### 3. New Zealand Society of Accountants - Official Position.

3.1 Exposure draft No. 29 was issued by the Accounting Research and Standards Board of the Society in July 1983 for the purpose of preparing an acceptable accounting standard for the treatment of investment properties.

3.2 The proposed standard was expressed in four short paragraphs:

- (a) An investment property should be included in the Balance sheet at its market value.
- (b) An investment property should not be subject to periodic charges for depreciation.
- (c) An investment property should be valued annually, valuation should be car-

ried out by persons holding recognised professional qualifications and having experience in the location and category of the properties concerned. The valuation should be made by an independent valuer at least once in every three years.

- (d) Disclosure should be made in the profit and loss account or other operating statement of (i) the net gain or loss on revaluation; (ii) the net gain or loss on sale; (iii) the gross rental income. There should also be disclosure of - (iv) the total value determined by independent valuers in the year (and the total value determined by internal valuers in the year) and (v) the net amount of unrealised gains or losses included in shareholders' funds.

3.3 As a result of submissions made and further research, the society has now issued a Statement of Standard Accounting Practice No. 17 "Accounting for Investment Properties by Property Investment Companies."

3.4 The statement deals with accounting for investment properties in the external financial statements of property investment companies. The statement also seeks to define accounting principles applicable to certain limited circumstances.

3.5 Definitions: It is important to understand that the proposed standard will apply only in certain specified situations:

(a) A property investment company is defined for these purposes as any entity which reports externally, whether or not a limited liability company, in which a substantial portion of the current value of its total tangible assets is represented by investment properties. For the purpose of this statement, the holding of 80% or more of such assets would, -prima facie be deemed a substantial portion. When preparing consolidated financial statements, this criterion of 80% applies to the individual components of the group, but not the group as a whole.

(b) Investment property for these purposes is an interest in land and/or buildings which is let or intended to be let and to be held for the long term. It should be noted that a property is not an investment property if the reporting entity or any of its subsidiaries occupies more than 20% of the area of that property. The 20% occupancy test should be applied to the group as a reporting entity.

(c) Net current value is the *open* market value less the costs of disposal that could reasonably be anticipated. Open market value is the price for which a property might reasonably be expected to be sold at the operative date.

3.6 Under the accounting for depreciation convention, it is normally expected that the depreciable amount of a building is charged against income to reflect on a systematic basis the wearing out, consumption, or other loss of value, whether arising from use, effluxion of time, or obsolescence through technological and market changes.

However, in some circumstances, properties

are held not with the primary purpose of being used and consumed in the production of goods and services but with a view to achieving growth in the value of the property. In such circumstances, assessment of management performance includes changes in the value of the properties held. By contrast, while many commercial enterprises view their properties and in particular the buildings housing their administrative units as "investments", it is not considered appropriate that this statement should apply to such properties.

While recognising that it may be arbitrary to make a distinction between investment properties held by property investment companies and other properties held by trading or manufacturing entities, which may be held also for their investment potential, it is believed that such a distinction is necessary to restrict application.

3.7 The net current values of investment properties would reflect their age (and hence the depreciation to date), and therefore the provisions for accounting for depreciation do not apply to investment properties held by property investment companies. Rather, the value of investment properties should be carried in the balance sheet at their net current value and changes in value recognised in the profit and loss account.

3.8 It is recognised that changes in value have not been realised and therefore it is considered prudent to require such changes in value to be distinguished from realised gains and losses. Accordingly, the standards in this statement requires that the change in value should be disclosed in the profit and loss account following profit after extraordinary items, and clearly identified as being unrealised.

3.9 In order to provide objective evidence of value, valuation should be conducted annually by an independent valuer holding a recognised professional qualification and having experience in the location and category of the investment property concerned. This requirement is in recognition of the fact that unrealised gains and losses have not been tested in the market place and that prudence should be exercised in establishing amounts to be included in the profit and loss account.

3.10 To provide investors with full information as to the extent of net undistributed unrealised gains on the revaluation of investment properties, the amount of such gain (or loss) should be separately disclosed in shareholders' funds.

3.11 In accounting for changes in values of investment properties, regard should be had to disclosing potential effect of taxation in accordance with SSAP 12 "Accounting for interperiod allocation of Income Tax."

3.12

Where an investment property is sold, the difference between net sale proceeds and the carrying amount of that property should be recognised in the profit and loss account along with other realised amounts. There should also be a transfer from revaluation reserves to retained earnings of the previously recognised net unrealised gains, not already distributed.

3.13 Proposed standards will become operative

for financial statements covering periods ending on or after 31 March 1986, which in effect means from the 1st April 1985 for those companies which balance at the 31st March.

3.14 Position in Other Countries:

U.K.

3.15 The current position in the United Kingdom is that "changes in the value of investment properties should not be taken to the profit and loss account but should be disclosed as a movement in an investment revaluation reserve". - SSAP 19 para 13. The new law in England was established by the Companies Act 1980 (UK) which prescribes statutory rules for the calculation of the company's profit or loss for the purpose of determining whether anything is available for distribution and if so, how much. The new rules include a provision to the effect that only realised profits and losses may be taken into account for that purpose.

It was as a consequence of joining the EEC that resulted in these regulations being included in order to comply with the European standard.

3.16 Canada/USA

The Securities Exchange Commission is so strongly against any revaluations of land and buildings, or indeed other fixed assets, that the standard approach for presentation of financial reports is based on the Historical Cost Convention, and all assets in the accounts are required to be shown only at their cost with provision for depreciation to account for obsolescence and wear and tear.

The annual or periodic re-valuation of assets has no part in the financial reporting of companies in those countries, and the discussion as to whether this should form part of profit or not does not arise.

I rather suspect though, that the market analysts would do their own sums in evaluating each company's share price.

3.17 Australia

Currently, there are no standard accounting practice statements by the accounting bodies which accountants are required to follow in the preparation of financial reports.

3.18 The N.Z. Society of Accountants then, appears to be breaking new ground compared to other countries and as proposed in SSAP 17, the surplus (or reduction) from annual revaluations will from 1 April 1985, be included in the profit and loss account of each company. This at least will make the comparison of the results from any one property company at least readily compared with others in the same industry.

4. Valuation of Properties - Responsibility of Valuers:

4.1 The accounting standard requires an annual valuation of an investment property by an independent valuer holding a recognised professional qualification and having experience in the location and category of the property concerned. The definition of "a recognised professional qualification" is critical. Does this relate solely to a member of the Valuers' Institute, or will it re-

cognise other Professional bodies whose members may also possess expertise? It should be remembered that valuers' fees are not insignificant and caution must be exercised that the final conclusion by the Accountants' Society is not going to line their pockets at the expense of realism.

4.2 The investment property should be included in the balance sheet at its "net current value". That is defined as the open market value less the costs of disposal that could be anticipated.

4.3 Considerable responsibility will now rest on valuers in determining what is an appropriate basis to arrive at the net current value. The objective, of course, is to derive the value on a "willing seller/willing buyer" basis should there be sufficient comparable sales from which to derive such value. Under the usual convention, properties are often valued on their yield or return on investment using the current rentals, less outgoings and capitalising this at an acceptable rate of return.

4.4 The extent to which rental reviews are to be taken into account is a matter for judgement but in projecting income and capital growth into the future, valuers need to use techniques such as discounted cash flows at present levels. It is recognised that there is in fact a future benefit which does enhance a property's value on the market. However, caution is obviously needed to allow for future movements in the rental market caused by the popularity or otherwise of the particular location, town planning re-zoning, influence of inflation, and the likely exercise of renewals of leases as distinct from rental reviews.

4.5 In general, the marketplace values property by the income currently being realised rather than by that income which may be realised in the future.

The value of an investment property is traditionally covered by its net income. A capitalisation rate is applied to the net income figure to arrive at a capital value. This capitalisation rate will vary both with the type of property and the economic circumstances ruling at the time.

4.6 Should the regularity of independent valuations be related to the lease review periods, be they three yearly or five yearly basis, particularly for single tenant buildings, whereas the Society is now endeavouring to require annual independent valuations?

4.7 Australian property valuation techniques which often take no account of a property's performance compared with other commodities, are out of step with the U.S. and U.K. The old school method of considering only the initial yield of a property for valuation purposes has become less useful with the advent of a cash investment society, as investors are unlikely to choose investments which return say 6-70/o if they can achieve a 16% return on their money elsewhere. According to David Collier, there is a growing trend overseas towards considering the worth of a property in terms of the internal rate of return. To this end, more importance is placed on the time

weighted and money weighted rate of return than on the initial yield. "Property is a term investment and as a consequence has to provide a workable blend between income return and growth by way of capital appreciation." If a property does not produce over a nominated period an internal rate of return designated by the owners of an investment property, then it is questionable whether the property is worth retaining or purchasing. In this instance, a length of term to be applied to a property investment would be determined and both the income to be derived and the capital appreciation over that term would be discounted back to current values and would provide a useful measure of the property's worth.

For the purpose of controlling investment properties, it is a simple matter to adjust any rise in interest rates by making an immediate adjustment to the discount rate.

4.8 Where valuations include anticipation of forthcoming rent reviews, valuers usually tag their reports with a warning for example "that they have assumed the company's operations will continue to support the capital value of the premises involved". That of course, is fairly easy in the case of city centre office blocks but more difficult in the case of specialist premises such as a dairy factory or meat works. Such tags are believed necessary by valuers in the highly competitive property investment world where there is strong motivation for all companies to seek to maximise the amount of increase in value they can place upon their properties.

4.9

It should be clear by now that a heavy responsibility rests upon valuers as a body to establish their own standards of valuation of investment properties. I am sure that the other speakers at this conference, especially those in the valuation field, will have covered these points more fully, but the accountant in preparing financial results must know that he can rely upon valuations from qualified valuers in the knowledge that each valuer will have adopted a similar approach, whether the property is in one of the major centres or in a small provincial town. Your profession must resist any temptation to "colour" the valuation or to justify previous valuations in a changing market. If the figures are to be included in financial statements prepared by others then your profession should refrain from drawing any conclusions about what the final effect will be when the valuations are included. It is important that you remain entirely independent and retain your credibility by faithfully recording values ascertained in accordance with a common standard approach, whether the result is an increase or decrease, and without fear or favour.

4.10

If other people wish to draw different conclusions from the figures or present them in such a light as to enhance their own company's standing, then this will be entirely their responsibility for which they will have to answer.

4.11 While realising that valuation is not an exact science but rather an informed opinion, it is important nevertheless that there should be some rules that valuers should adopt to provide some consistency. Otherwise, the tendency may be to shop around among valuers and only to,

utilise the most favourable valuation.

4.12 There is strong support for the proposition that valuers used should be experienced in the particular locality and class of property. This perhaps is where a national group of valuers have an advantage with the benefit of a wide basis of comparison to "temper" valuations to take into account trends overall that may not yet be apparent in smaller centres.

A suitable data base of information accessible to all valuers may well provide an alternative and enable the "local" valuer to be aware of trends outside his particular field.

4.13 A very important aspect concerns the appointment of a valuer and the instructions given to that valuer. A rather novel approach to the appointment of valuers was recently proposed by the property firm Cromwell Corporation Ltd. which has indicated that it will revalue permanent assets annually but will leave the appointment of independent valuers to the shareholders, to be elected in the same way as auditors, at the annual meeting.

Whatever method is adopted, the Directors should ensure that the valuer is independent and be seen to be so.

4.14 The independence of a valuation report should never be in question nor should any pressure be brought to bear upon valuers to deviate from standards set by the profession. Your esteemed member, Graeme Horsley at last year's Property Management Institute conference, gave examples of the different forms instructions to valuers often took, and pointed out that in some instances the methods to be adopted in preparing the valuation were also included almost to the point of directing the valuer.

In the long run, any deviation from accepted methods will result in a lack of credibility and render other financial statements relying on this report less meaningful.

## 5. External Influences on Property Values:

5.1 Property and property companies can be affected by a number of external influences over which neither the company nor the valuers have any control. These include a range of influences ranging from local Government or central Government interference as well as changes in the financial climate.

5.2 Examples of government action which could influence the market are:

5.2.1 Controls on rent - the recent rent freeze regulations restricted rent reviews and distorted the property market considerably.

5.2.2 The Town Planning Act has wide influence on zoning and the application of the act can cause undue delays in obtaining planning approvals and particular zonings can have an influence on the value of property.

5.2.3 Inflation, often aided by Government action, can influence the value of a property where the market value may increase substantially due to increasing replacement costs but where rental reviews do not allow for corresponding increases in income.

5.2.4 Taxation - where recent changes have seen the introduction of "claw back" provisions for sales under 10 years, and could therefore affect the value of a property that has been held for longer than 10 years compared with a property that has been held less than 10 years.

The surplus arising from the sale of land and building or property above its cost is taxable unless the property is an investment property and not purchased for resale. This is very much a grey area and the facts in each case have to be clearly ascertained in order to determine whether or not tax is payable on the resulting profit.

5.2.5 Fiscal policy - which causes fluctuations in the finance markets and where high interest rates could have an adverse effect on the value of property, especially where borrowings are concerned.

5.3 Examples of other influences are:

5.3.1 The fact that institutions have tended to reduce their investment in mortgages, preferring rather to enter the property investment field directly, increases demand for desirable properties.

5.3.2 The effect of a greater number of companies and other investment vehicles all tending to be concentrating on the property market influences the overall value by an element of competition.

5.3.3 Public awareness - As more people become involved in property investments, they create an awareness of values which may indirectly affect property values. In other words, the more successful companies could attract more capital and thereby become a more powerful influence.

5.4 Other factors affecting values would be location, being either mid city or provincial, the quality of the tenants and their financial strength, the standing of the property company and its borrowing strength.

5.5 The general performance of land investments over other investments for medium to long term results.

## 6. Market Viewpoint:

6.1 The way in which the company's shares are valued by the stock market is largely governed by a number of factors.

- (a) Earning capacity of the company.
- (b) Dividend policy.
- (c) Capital growth prospects.
- (d) Comparison with other alternate investment possibilities.

6.2 The performance of property companies in particular is judged on the basis of the above, but because the property companies do not all adopt a consistent approach, it is difficult for the investor to compare one property company with another.

6.3 For this reason, there is an urgent need for a uniform approach to the accounting treatment of property companies. The standard adopted by the Society is designed to try and bring uniformity in the presentation of financial accounts but as it is dependent upon property values established by independent valuers, it is equally important

that the independent valuers also maintain a consistent approach to the valuation of properties.

6.4 In the final analysis, it is the investor who determines the daily price of the shares in each company. The share market in New Zealand is a relatively small one and institutions and large investors can influence the price. As a general rule, however, those institutions which traditionally invest large amounts in their own property portfolio are not generally active in the purchase of other property company shares, and it appears in most cases it is very much the small investor who is the holder of shares in property companies. This is the reason, I believe, for the wide fluctuation in share prices of the listed property companies and often announcements by the chairmen of these companies can result in an immediate effect on share prices.

6.5 Someone once said that a company chairman has a duty to get the best possible return for his shareholders and if talking the shares up a bit helps, so much the better, provided that the rise can be sustained by real returns. But what happens when the shareholders are unsophisticated and believe their chairman implicitly?

It has been said that the share price of Robt. Jones Investments Ltd. next year will be exactly what Bob Jones says it will be because his shareholders believe he has the Midas touch, and they want it to rub off on them. At his annual meeting in August 1983, he departed from prepared notes and predicted "that the share price next year will be \$2.50". He had every reason to believe, he said, that the price performance of this year would be maintained.

At the Landmark Properties Ltd. meeting in Auckland, it was not the chairman, Sir George Chapman, who was reported in the headlines, but the general manager, Ollie Newland. Like Jones, he is seen as "the man with the golden touch". "A building boom, the like of which Auckland has not seen before" was predicted by Newland, property rentals would rise after the freeze lifted, heralding the boom. Yields would fall from 9% to 11% currently, to 5% to 6%. If inflation and interest rates stayed down, he said such yields would represent a doubling in commercial property values.

However, a foretaste of what can happen to property shares can be seen in the way in which the market responded after Prime Minister Rob Muldoon wagged his finger once again at the naughty landlords. RJI shares that day were sold at prices ranging from a high of 190 to a low of 155.

6.6

In order to see whether the share market differentiated between companies adopting the two different approaches to the inclusion or not in the profit figures of the annual revaluation increases, a comparison was made of two property companies, Aurora Group and City Realities, and the individual results are shown in appendices 1 and 2.

6.7 I am also indebted to Francis, Allison, Symes for making available relative strength graphs for the two companies reviewed. The

relative strength indicator measures a company's share price performance against the overall performance of the market, based on the Reserve Bank share price index. The implications of movements on such a graph are as follows:

(a) When a company's relative strength ratio is rising (i.e. the graph line is moving upward), its share price is outperforming the market index.

(b) When the relative strength ratio remains constant (i.e. the graph line is flat), a company's share price is moving in line with the market index.

(c) When a company's relative strength ratio is declining, (i.e. the graph line is moving downward) its share price is underperforming the market index.

6.8 Also shown on the graph is a vertical line indicating the approximate date when the company announcements for their half yearly profit and annual profit were made to the Stock Exchange.

In the case of City Realities Ltd., it can be seen that the share price increased substantially at the time of each announcement and was generally in an upward movement as the market responded to the disclosed profit results.

In the case of Aurora Group Ltd., there was generally little market reaction to the disclosed figures and the share price was generally falling or fairly constant.

It is perhaps possible to draw the conclusion that, although large property revaluations were included in the profit statement of the Aurora Group, the market nevertheless was able to interpret the real cash earnings as distinct from paper profits.

In the case of City Realities Ltd., where only the operating earnings were reported in the profit statement and revaluation was taken directly to the reserves, the market responded to the perceived substantiated profit increases, rather than any paper increases in revaluations.

6.9 It is not possible to generalise as no two companies are identical in their operations but I have included the charts for Landmark Properties, Robert Jones Investments and Grosvenor Properties Ltd., all of whom include revaluations in their profit statement, and one also for Williams Property Holdings Ltd. who, like City Realities Ltd., does not include property revaluations. It is interesting to note that, with the exception of a sharp rise in share prices in mid 1983, those companies which included revaluations in their profit have all shown a declining relative strength which perhaps proves the point that investors have not been able to see the income growth or dividend growth from cash profits and have discounted the shares accordingly.

7. Conclusions:

7.1 There is an urgent need to standardise treatment of revaluations of property in the financial accounts. The New Zealand Society of Accountants by adopting SSAP 17 has made it mandatory for accountants to ensure that financial statements are prepared on the basis set out therein.

7.2 There is a legal requirement on directors:



and auditors to ensure that any published accounts are presented in such a way to reflect a true and fair view of the property company. The obligations on directors were strengthened in the recent amendment to the Companies Act and by the advent of the Securities Commission, and it is necessary that a very responsible attitude is taken in this matter.

7.3 There should be a standard method for valuing investment properties. Among the matters that should be considered by valuers in arriving at this standard, would include:

(a) The question of how often revaluation should take place. The Society of Accountants have indicated an annual revaluation but there is a strong case for revaluing only on rental reviews say every three, four or five years. An annual valuation is more likely to be a guesstimate.

(b) There should be a uniform approach to valuation - either a standard based on income yield or if possible, "willing seller-willing buyer" basis. Where several properties are held by the one company, it may be wrong to value some on an income earning basis and some on a different basis.

(c) The annual or periodic valuation should be carried out on the balance date of the company.

(d) There would need to be some agreement on the basis of valuation of multi-tenancy properties versus specialist properties.

7.4 What appears to be a very satisfactory formula for determining current market value is that used by the Westpac Property Pool who are required, in accordance with Group Investments Funds legislation to value all properties on a six monthly basis. The method of valuation instructed by Westpac Investment Management is to calculate the assessed current market rental for each property. make appropriate adjustments for the period until the next rental review, deduct full allowances for owner's outgoings, and capitalise the resultant net revenue at a rate which represents a valuer's view of the level required for the property to sell under prevailing market conditions.

With this method of approach the Property Pool independent consultants assess the annual investment performance on an internal rate of return basis.

The independent consultant's performance is then subject to independent tests through the six monthly valuation carried out by non-associated, well recognised, independent valuers. This seems to me to be the ultimate in valuation techniques and should result in a consistent and realistic approach to property valuations.

7.5 There needs to be consensus on whether directors of property companies, who may be widely experienced, should be able to place their own values on properties on an annual basis with, say, a three or five yearly external valuation to support those values.

7.6 The annual financial statements of each company should be supported by clear details as

to the basis used in revaluation and the name of the valuer should also be disclosed.

7.7 There is a strong need for a comprehensive suitable data base to assist in standardising valuations. I understand that in the U.S.A. there is such a data base available and perhaps valuers here should consider whether a similar data base would assist in providing consistency and reliability.

7.8 It should be recognised that small investors are now entering the property market in increasing numbers and there is a need for consumer protection. The best method of protection is an open market with full disclosure and it is the responsibility of directors, the financial advisers, and valuers to ensure that the public is fully informed on a consistent basis to enable them to exercise their own judgement.

7.9 Assuming that all listed property companies follow the same guidelines and present accounts in a uniform manner, then direct comparison between property companies on an equitable basis would be available, and those companies which then showed an increasing return would receive more investor support and thereby grow at a faster rate. This would tend to eliminate speculation based on headlines or chairmen's comments and encourage investment based on sound reporting and company performance.

## N.Z. SOCIETY OF ACCOUNTANTS STANDARD

Exposure Draft No. 29

### "5. Standard Accounting Practice: ACCOUNTING FOR INVESTMENT PROPERTIES BY PROPERTY INVESTMENT COMPANIES.

The Standard set out in the following paragraphs should be read in the context of the foregoing paragraphs of this Statement and the Explanatory Foreword issued by the Council of the New Zealand Society of Accountants.

- 5.1 An investment property should be included in the balance sheet of a property investment company at its net current value.
- 5.2 An investment property held by a property investment company should not be subject to periodic charges for depreciation.
- 5.3 An investment property held by a property investment company should be valued annually by an independent valuer holding a recognised professional qualification and having experience in the location and category of the property concerned.
- 5.4 The amount of the unrealised gain or loss in the value of investment properties should be disclosed in the profit and loss account of property investment companies following profit after extraordinary items, and clearly identified as being unrealised.

- 5.5 The net amount of undistributed unrealised gains should be separately disclosed in the shareholders' funds of property investment companies.
- 5.6 Where an investment property is sold the difference between the net sale proceeds and the carrying amount of that property should

be recognised in the profit and loss account along with other realised amounts. There should also be a transfer from revaluation reserves to retained earnings of the previously recognised net unrealised gains not already distributed .

## Book Review

### LAND COMPENSATION

*by Squire L. Speedy*

New Zealand Institute of Valuers, 1985

The Law and Practice relating to land compensation involves a number of professional disciplines. Apart from Solicitors and Valuers, the assistance of Planners, Engineers, Actuaries and Surveyors will from time to time be required. Although Squire L. Speedy's book is primarily directed towards Valuers, I believe that it will be of considerable assistance to the other professional groups who become involved in compensation claims under the Public Works Act 1981.

In some compensation cases, the Land Valuation Tribunal or the High Court will be faced with complex matters of legal interpretation of the Public Works Act 1981. In most instances

however, it is the application of established legal principles to the factual background of a case which creates difficulties for Solicitors and Valuers alike. This book bridges the significant gap between the standard legal texts on Land Compensation and existing valuation casebooks and texts on the same subject.

The book provides helpful and practical guidance in all major areas of compensation practice. In particular however, the chapters in the Book dealing with specialist property valuations bring together wide-ranging material relating to such topics as road compensation and betterment, easements and air space rights.

In my experience, there is a need for greater understanding between Valuers and Solicitors in relation to the issues which arise in compensation cases, and I commend this Book to both professions.

D. Laing

Brandons - Solicitors, Wellington.

COMPARISON OF PUBLISHED ACCOUNTS  
ILLUSTRATING THE TWO METHODS OF DISCLOSING REVALUATIONS

	AURORA		CITY REALTIES	
	<u>1983</u>	<u>1984</u>	<u>1983</u>	<u>1984</u>
	\$000	\$000	\$00	\$000
1. <u>EARNINGS</u>	2303	1913	2527	3791
Less Depreciation	62	54	29	33
Interest	875	648	569	554
Taxation	272	111	625	951
2. <u>NET OPERATING PROFIT</u>	1094	1100	1304	2253
<u>Less Dividend</u>	812	849	665	11.12
C/N Interest	81	81	-	-
3. <u>RETAINED PROFITS</u>	201	170	639	1141
4. <u>REVALUATIONS</u> - L & B Included in Profit Statement	6567	4404	-	-
5. <u>EQUITY PROFITS</u> as reported	6768	4574	639	1141
6. REVALUATIONS - L & B To Reserve A/c			1190	1028
7. <u>ADDED TO S/H FUNDS</u>	6768	4574	<u>1829</u>	<u>2169</u>

## COMPARATIVE PERFORMANCE

	AURORA		CITY REALTIES	
	<u>Par Value</u>	<u>50c Shares</u>	<u>Par Value</u>	<u>10c Shares</u>
	<u>1983</u>	<u>1984</u>	<u>1983</u>	<u>1984</u>
	\$000	\$000	\$000	\$000
1. NET OPERATING PROFIT	1094	1100	1304	2253
2. REVALUATIONS L & B	6567	4404	-	-
3. EQUITY NET PROFIT	<u>7661</u>	<u>5504</u>	<u>1304</u>	<u>2253</u>
4. PAID CAPITAL	4928	5337	3023	6889
5. S/H FUNDS	36372	44347	8252	18663

## KEY RATIOS:

NET OPERATING PROFIT to Ave. S/H Funds (I.R.R.)	3.1%	2.8%	17.8%	16.7%
ADJ. CASH EARNINGS Per \$1 CAPITAL	22.8 cents	19.2 cents	39 cents	36 cents.

ADJ. CASH DIVIDENDS Per \$1 CAPITAL	16.5c	15.9 c	22c	30.5c
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SHARE PRICES (Adjusted)

HIGH	50c share	350c	465c	10c share	39c	87c
LOW	- "	248c	335c	if it	23c	35c

PRICE/EARNINGS RATIOS

HIGH	5.4	10.0	15.5	23.5
LOW	3.8	7.2	9.1	9.5

## ASSET BACKING

Per-Share (March 1985)	157c	20c
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# CITY REALTIES LTD

RELATIVE STRENGTH GRAPH      DAILY RESTS      1680 - 1885

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S1DEC12

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S10EC04

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FRANCIS, ALLISON, SYMES I CO.

# AURORA GROUP LTD

RELATIVE STRENGTH GRAPH      DAILY RESTS      1580 - 1685

2.00-1

0.50-1

310EC70

310EC80

31DEC01

310EC82

310EC63

31DEC64

310EC05

FRANCIS, ALLISON, SYMES L CO.

# LANDMARK PROPERTIES LTD

RELATIVE STRENGTH GRAPH      DAILY RESTS      1980 - 1985

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31DEC81

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31DEC63

31DEC64

31DEC85

FRANCIS. ALLISON. SYNES I Co.

# ROBT. JONES INVESTEMENTS LTD

RELATIVE STRENGTH GRAPH      DAILY RESTS      1980 - 1985

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31DEC80

31DEC01

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31DEC85

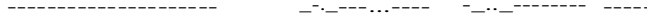
FRANCIS. ALLISON. SYNES L CO.

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# WILLIAMS PROPERTY HOLDINGS LTD

RELATIVE STRENGTH GRAPH      DAILY RESTS      1900 - 1985

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FRANCIS. ALLISON. SYNES t CO.

# GROSVENOR PROPERTIES LTD-

RELATIVE STRENGTH GRAPH 1980-1985

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# Valuers' Registration Board

## Statement on Practical Experience Requirements for Registration

All potential applicants for registration as valuers should be aware of the requirement sought of them as defined in Section 19 of the Valuers Act 1948 which section is set out below:

"19. Qualifications for registration

(1) Every person who is not less than 23 years of age shall be entitled to be registered under this Act if he satisfies the Board that he is of good character and reputation and has attained a reasonable standard of professional competence and that -

"(a) He holds a recognised certificate (as defined in subsection (2) of this section), and has had not less than 3 years' practical experience in New Zealand in the valuing of land within the 10 years immediately preceding the making of his application; or

"(b) He has passed an examination or examinations approved by the Board and has had not less than 3 years' practical experience in New Zealand in the valuing of land within the 10 years immediately preceding the making of his application; or

"(c) He holds a recognised certificate (as so defined) granted out of New Zealand, and has had not less than 3 years' practical experience in the valuing of land within the 10 years immediately preceding the making of his application of which at least 1 year shall be experience acquired in New Zealand within the previous three years, and has passed an examination approved by the Board in the valuation law of New Zealand and is at the date of his application, or was within the previous 12 months, a member in good standing of an overseas institute or association of valuers with whom a reciprocity agreement has been entered into by the Board and that agreement is in full force and effect.

(2) For the purposes of this section the term 'recognised certificate' means a certificate, diploma, degree, or licence granted by a university, college, board, or other authority (whether in New Zealand or elsewhere) and recognised by the Board as furnishing sufficient evidence of the possession by the holder thereof of the requisite knowledge and skill for the efficient practice of the profession of land valuing."

The Board requires evidence of practical experience in order to satisfy itself, firstly, that the valuer has attained a reasonable standard of professional competence and, secondly, to satisfy

itself that the valuer has had an acceptable degree of practical experience as defined in the Act. In order to satisfy itself on the above two points the Board has stipulated that all applicants must produce the material specified on the application form, i.e. a schedule of all valuations undertaken together with a sample of twenty reports completed over the period for which practical experience is claimed. All valuation reports should either include or be accompanied by information relating to sales evidence and its analysis, rental evidence and its analysis together with other market research undertaken for the purpose of the valuation.

The requirements of the Act are for "not less than three years practical experience in New Zealand in the valuing of land within the ten years immediately preceding the making of his application". It is for the Board to decide in each particular case what constitutes experience in the valuing of land and also what constitutes the equivalent of three years such experience. This task is becoming increasingly more difficult for the Board since an increasing proportion of applicants are employed in what may be described as fringe valuation occupations in which only a proportion of their time is taken up by work which is clearly and unquestionably directly related to the valuation of land. Such occupations include land purchase officers employed by Central and Local Government; property managers and administrators employed by a number of organisations having a large involvement in property ownership; persons involved in a mixture of real estate consultancy, marketing and appraisal work, etc.

All applicants, and particularly those whose work is partly or substantially involved in the "fringe valuation" fields have an obligation to satisfy the Board that the work they have been involved in over the period for which practical experience is claimed (and this can extend to a maximum of ten years) can be regarded as the equivalent of three years practical experience in the valuation of land. The Act does not require the practical experience to be continuous or full time. Indeed, the requirement that the experience must be gained within the immediately preceding ten years, implies that a part-time involvement in the valuation of land over some period up to 10 years can be accepted by the Board.

Applications involved in the fringe valuation work must provide to the Board a comprehensive account of all work undertaken so that the Board can make a realistic judgment as to the valuation content.



The Board receives applications from valuers whose valuation work and reports thereon are required for "in house" purposes. This work and reporting is required by superiors or other staff members within the same organisation and the reports are not prepared or designed for the information of persons outside that organisation. Such reports may be prepared for internal asset performance and assessment; for decision making as to whether to sell, purchase, lease or otherwise deal in property owned by the organisation or company; or for other internal purposes. Such valuation work may be accepted by the Board as being practical experience in the valuation of land and the reports, even though not for public consumption, are required by the Board in order to assess the valuer's standard of professional competence and extent of practical experience.

It has come to the notice of the Board that when applying for registration, some valuers have prepared reports at the time of application, from material and records compiled some years earlier at the time the assessment was undertaken. This practice is not acceptable to the Board. Valuers involved in these circumstances must present reports which were compiled at the time the valuation was undertaken, and these reports must represent the work of the applicant. They must not be compiled from research, calculations and conclusions prepared by other members of the firm, on projects in which the applicant has had only a minor involvement. In essence, the reports must be prepared at the time the valuation assessment was undertaken, and they must represent substantially the work of the applicant.

Applicants are warned that those who are not involved full time in valuation work should not apply to the Board until they themselves believe that they have achieved the equivalent of three years' full time practical experience in the valuation of land. In normal circumstances the Board will consider and take into account fringe valuation work in assessing the three-year requirement.

In the case of applicants for registration with

rural experience the Board expects applicants to have produced a substantial number of reports. For example, assuming a full time commitment to valuation work, one major report per week where large and complex farm properties are involved, and a greater number where less involved work is undertaken. Some flexibility would be allowed according to the type of work, viz. a valuer could spend a considerable time preparing work for litigation or compensation. This could reduce the applicant's output in terms of numbers in a given period of time. The range of rural experience is usually governed by the practical limitations of the applicant's location. Applicants are expected to have a range of experience covering all classes of property within at least their provincial boundaries. The Board seeks to ensure that applicants have contact with as wide a range of work as possible. This desirably should include valuations for compensation and replacement insurance purposes together with economic feasibility analysis. Applicants should also be able to demonstrate clear understanding of legal principles not only as they affect valuation but also in respect of town planning and trustee law.

In making its decision as to whether or not to register an applicant the Board has to acknowledge that the applicant could immediately commence practice on his or her own account. Therefore the Board has to be fully satisfied that the applicant can offer to the public a service which is backed by a good academic training, practical experience and a responsible and professional attitude.

The Board is proposing introducing a further requirement that applicants maintain a detailed work diary, countersigned at regular intervals by an employer or supervisory officer. In addition a summary of such diary presented in the form of a work log, setting out experience in the various work areas available is to be presented. When the proposal is adopted applicants will of course be given adequate opportunity to conform with changed procedures.

## AUSTRALIAN INSTITUTE OF VALUERS' CONFERENCE

### SOUTH AUSTRALIAN DIVISION

In 1986 South Australia will be celebrating the 150th anniversary of its settlement and many activities are planned to make this a memorable occasion.

The Australian Institute of Valuers is planning a Valuers' Conference to be hosted by the South Australian Division in Adelaide from the 7th-11th April, 1986. The State Government 150th Jubilee Committee has endorsed this Conference as an official event.

Adelaide being the capital of the State and the site of the first pioneer landing will be the focal point of the many special cultural, recreational, Commercial and educational activities programmed.

This will undoubtedly provide a unique opportunity for the New Zealand Valuers to advance their knowledge and education amid a State-wide atmosphere of fellowship and entertainment.

Copies of a brochure outlining the week's activities and key events are held by the General Secretary, N.Z.I.V., Wellington. The South Australian Division would be delighted to receive a New Zealand contingent.

# A.M.P. valuation of Property Assets

by G. McKay

Rural investment in a company's portfolio - with special emphasis to the A.M.P. Society's recent purchase of land at Culverden for inclusion in its property investment portfolio; and within the framework of the theme for the day focus on recent discussion concerning property assets and the valuation thereof in company accounts and treatment of urban and rural property as company assets.

**Perspective:** It's a natural and desirable outworking of human nature that while we share common ground in our involvement with valuation work, just how we view elements of valuations which can be interpreted in different ways, depends largely on what our interest is. High earning yields and optimistic projections of value growth may attract support from the public to purchase shares or units offered by say a Property Fund manager and with effective marketing the manager may gain a rapid accumulation of investment funds and achieve an increase in market share at the expense of competitors. The acid test comes later when the investing public either cash in their units or their investment matures. Have their expectations been realised? Have the estimates in the projections been proven as the fact? Is today's value verification of the past treatment of property values in the company or organisation's accounts?

**Objective:** My objective is to give you an updated understanding of where A.M.P. stands in relation to valuation of property assets and to explain why the Society has taken an interest in a rural real estate development project.

**Nature of Interest:** It seems to me relevant to identify what the interest of the A.M.P. is in the valuation of investment property. To do this it's helpful to go back a step and consider what business A.M.P. is in. This can simply be stated as the security business. I use the term 'security' in the sense of security as in protection, covering risks, providing peace of mind. Security is the product we're marketing and to this end our range of services and products are all managed to fulfill this strategic vision. No matter if the service be Fire and General insurance, a life insurance contract, management of a client's superannuation fund or a service provided by a subsidiary company say in the money market or the trustee management field, our strategic planning and objectives are clear - our commitment is to provide quality levels of service and maximum returns commensurate with business prudence.

The A.M.F. Society is not a company - it is a mutual society. As such all investment activity is completed on behalf of its policyholders who are the owners of the assets employed in the business. These assets currently amount to a little over \$2b of which \$550m is now invested in the property portfolios. While A.M.P. has been in the investment business in New Zealand for

over 140 years, the Society's involvement with the purchase of investment property did not commence until the late 1950's. In relation to property investment activity our overall goal is real long term growth. In total investments are managed to maintain well balanced portfolios of shares, Government securities, loans to individuals and companies, property and money market securities. All to give maximum returns within an acceptable risk profile and to outperform the rate of inflation.

**Valuation of Property Investments:** A feature of the property investment field today is the high level of competition which exists in the market place. Superannuation funds, mutual funds, property investment funds all share the common objective of obtaining and/or of preserving or increasing market share and presenting to the public the best quarterly and annual yield returns. As an outworking of a period of high inflation there has been in my view an undesirable emphasis toward displaying the best short term results at the expense of managing for long term benefit and performance.

A.M.P. manages two investment portfolios and the treatment of value of the property assets in the accounts reflects the nature and purpose of the funds concerned.

**Capital Guaranteed Fund:** This fund supports all individual policies and benefits are provided in the form of sum insured plus bonuses. Property investments in this fund are revalued within a three yearly cycle, with all significant properties being valued annually. A feature of the fund is the strength of the reserves representing the difference between book and market value. At 31/12/84 the market value of properties in this capital guaranteed fund exceeded the book value by \$240m. The level of these reserves can represent a bone of contention to policyholders who seek "now time" release of full value in bonus distributions, particularly in times of high inflation when equity investment values are increasing rapidly. A contra aspect of course relates to the ability of this fund to give a steady progression of improving returns over a period of time. The reserves give the capacity to smooth out the ups and downs of the changes in market value of the assets in the portfolio. We are all aware of the volatility of the sharemarket, that flat periods in the property market can occur and similarly of the effect of high interest rates in depressing yields on fixed interest investments.

**Investment Linked Fund:** This fund is the investment vehicle for most of the Society's larger superannuation clients and additionally access to the fund and its performance is available to individuals through a range of investment contracts. The fund is operated on the basis of market values with policy values varying from week to week according to the value of the assets backing the investment units purchased. All real

estate property held in this fund is valued at least once a year. The valuations are completed by qualified valuers on the Society's staff and are subject to a check by independent public valuers.

Any property investment the Society undertakes is within the framework of the nature and purpose of these two separate investment portfolios.

**Property Investment Returns:** In the combined portfolios previously referred to the Society currently holds in excess of 170 properties the majority of which are in the Auckland and Wellington area. All properties in the portfolio are held under constant review resulting in the sale of poorer performing units and the acquisition of new properties and development projects as opportunities become available. In 1985 we have the objective of placing approximately \$70m in property investments.

In this investment area there is the general expectation that over a period of years commercial property income and values will increase in line with inflation. After lags in the mid 1970's this has proven to be the case in both Australia and the U.S.A. In New Zealand house and land prices have retained parity with the C.P.I's since 1960. In this context it is germane to our discussion to note that the farm land price index maintained by the Valuation Department recorded growth in farm land values of an annual average rate of increase (compound) of 18.05% for the years 1973-1983. For the same class of property the 20 year figure from 1963-1983 was 12.87%. This relationship has not been evident in the commercial property sector. Over the last decade values of most good commercial property have increased at an average of about 7-9% p.a. compared with the average C.P.I. increase of 13.6% p.a. Some of A.M.P.'s best office buildings, have exceeded this C.P.I. growth rate.

Among the reason for this rather lack luster level of result will be the generally poor performance of the economy, a virtually static population, poor property management and in recent times the inhibiting effect of the rent freeze.

For the Society its investments in the commercial office development area have achieved the greatest value growth over the past decade - both in terms of increase in value and growth in market rentals expressed as running yield per annum achieved on current market values. In the retail and industrial areas performance has been poorer particularly outside of the Wellington and Auckland regions.

At the end of 1984 A.M.P. held property investments in its main capital guaranteed fund with a market value of \$397m. As mentioned the margin of market value over book value was 40% or \$240m. These are the reserves available for release to policyholders from capital write ups in future years. If the annual performance of property investment held in this fund is expressed on the same measurement basis as for the investment linked market value fund then a notional equivalent unit performance shows an increase of over 20% per annum for each of the last 5 years. A very pleasing result.

In the investment linked market value fund property investments held had a market value of \$153m at 31 December 1984 and the growth in the property or "P" unit was 18.4% for the year. The second best result in the unit's 13 year life.

Within A.M.P. we see no arguments favouring other than a continuation of present practices in relation to valuation of investment properties. In the capital guaranteed fund the reserves provide the strength to maintain future results which will allow us to retain the confidence of our policyholders. In our investment linked market value fund the process of at least yearly valuations subject to independent external certification will ensure that stated values are always in evidence and truly represented by the investment properties in the portfolio.

In his article in the December 1984 Valuer Graeme Horsley argues the case for common standards to be accepted by Managers of Property Funds with particular reference to:

- frequency of valuations
- basis of valuations
- treatment of revaluation 'profits' in accounts

The Society supports his call for factual disclosure and firmly agrees with the need for protection of investors interests. Shareholders should be accorded sufficient information to enable them to make informed investment decisions.

#### Rural Investment in a Company's Portfolio:

For prudential reasons and because farmers in New Zealand have given A.M.P. strong support over a long period, the Society's Board has, since the late 1800's placed importance on ensuring a regular availability to policyholders of rural loan finance. Currently this amounts to about \$30m p.a. and involves an existing ledger balance in excess of \$200m.

Growth in total funds managed by A.M.P. for its members has provided a scale of operation sufficient to support a prudent level of involvement in project ventures. This margin is an addition to the scale of operation necessary to carry the holding costs associated with the time involved to complete urban commercial building projects. Currently projects other than city based include equity participation in an oil re-refining business, a joint venture sawmilling plant at Gisborne, participation in a feasibility study to determine whether the production of methane gas from the Ohai coalfields in Southland will be economic and the purchase of an interest in farm land at Culverden in North Canterbury.

**The Culverden Project:** This project has resulted in the establishment of an entity known as the Pahau Reserve Partnership. The property of 387 ha (957 acres) is located just south of Culverden on the south bank of the Pahau River. The property is about 86km north of Christchurch and is located within the area served by the Waiau Irrigation Scheme - the Waiau River being the source for the irrigation water. The land comprises a mixture of various silt loams - Pahau, Eyre, Tai Tapu, Kaiapoi and Wai-

makariri. The majority of the soils can be described as moderately deep silt loams. The natural rainfall is about 500 mm.

Land, stock and plant are owned by the partnership which is 50% owned by the Society and 50% by the Mitchell Group. This group is headed by Mr Robin F. Mitchell an established Manawatu dairying and cattle farmer. On farm management is in the hands of Mr Norman Williamson, supervision is the responsibility of Mr Robin Mitchell and overall control is vested in a Management Committee comprising two A.M.P. representatives (one of whom is the chairman of the committee) and two representatives from the Mitchell Group - these being Messrs Mitchell and Williamson.

Evaluation of the Project: The purchase of the property was concluded in July 1983 at a price of approximately \$1m and on the Society's part was preceded by the following evaluation. Firstly an assessment was completed involving Basic Parameter Guidelines of the project.

1. Extent of Involvement or Interest: In projects the Society wishes to have a sufficient investment to exert influence but not become a majority owner unless it is confident of supplying its own management expertise. While in smaller projects (under \$5m) a larger percentage interest would be required, in large projects (say \$20m) a 10% interest could be acceptable. An interest below 10% would not be considered. Generally an interest of between 15% and 50% is sought.

A 50% interest was considered satisfactory and within our guideline requirements.

2. Scale of Project in \$'s: Preferably the Society's investment would be in the \$5m plus range although investments down to \$2m and perhaps \$1m can be considered. No investment under \$1m would be considered except during a feasibility study and the maximum size of a single investment would be about \$20m. As a general rule therefore investments between \$2m and \$20m will be considered.

With a purchase cost of \$1m plus an estimated development outlay of about the same amount, the project was at the minimum acceptable end of the scale sufficient to justify A.M.P. involvement.

3. Structure Proposed: Because of tax considerations a joint venture structure would be preferred. However, a joint venture would depend upon reliable corporate partners. Alternatively a limited liability company could be used for partners. In all cases the partners should have the necessary financial strength to ensure they are able to meet their commitment. Additionally the partners should bring their own skills (e.g. marketing, technical, production) and the providers of the technology should preferably be financially involved. In the case of a joint venture other partners should be corporate bodies, i.e. not individuals. With limited liability companies some individuals or the general public could be involved, although the majority of the shares should be held by corporations or persons with adequate financial backing.

4. Partners: We were satisfied Messrs Mitchell and Williamson had the financial strength to meet their commitments and the skills required to make the project succeed. Robin Mitchell has proven abilities in dairy farming management, he is the past recipient of a Nuffield Farming Scholarship and of the A. C. Cameron Farming Award. We considered one of his most valuable attributes to be that critical and precious ability to select and motivate staff. Norman Williamson with his practical and M.A.F. advisory experience was considered the right man for the on-farm management role. He and his wife Sandra participate in equity with the Mitchell Group interest.

5. Representation: The Society seeks to have representation and or voting rights proportionate to its interests so as to be able to exert influence over policy having regard to any restrictions of the Overseas Investment Commission.

The terms and rules of the partnership agreement resulted in the Society being satisfied with the extent to which it could exercise influence over policy.

6. Management: The Society does not wish to become involved in daily management but does wish to be assured of competent and professional management with regard to technical matters, marketing, financial control and labour relations.

We were satisfied with the arrangements proposed under this heading.

7. Technology: Any technology of extraction or production should be adequately proven both in test conditions and commercial terms.

The scale of operation proposed was large (e.g. the first cowshed to be built was a 60 cow rotary structure which was breaking new ground in Canterbury, the water supply had to be set up to service 1000-1200 cows). While these were challenges we were satisfied that the technology existed for the successful completion of the development proposals.

8. Resource: The resource should be proven to exist and in commercial quantities but this concept may be modified in certain cases. The resource/product should be of a good quality having regard to competitive pricing. The partners must have a clear legal right to utilisation of the resource.

At Pahau the primary resources are the land and the water. The particular property has excellent versatile soils, it had good shape and contours for border dyke irrigation. Our requirements were satisfied.

9. Markets: Proven markets should exist whether domestic or export.

There should be a reasonable domestic base for marketing and it should not be dependent upon special export incentives or protection that make it vulnerable. Similarly the market should be commercially sustainable and not likely to be significantly technically outdated or vulnerable from political pressures.

We were influenced by the very good track

record of the dairy industry over a long period of time. The industry has not received major subsidies over the years, it is well integrated from production to retail, is market orientated and has been a leader in embracing new technology. We have confidence in its future.

10. Competitiveness: The economics of the project must show that it is cost and quality competitive with existing and known future products.

Looking to the future, we were satisfied that a 1000-1200 cow property would retain viability through its scale of operation even should a general downturn in dairy farming profitability occur. We were also satisfied with the operations and capabilities of the Tai Tapu Dairy Company who take the milk from the herds in the district - some 1300-1500 cows expected to be in milk in the 1985/86 season. We are encouraged by the Dairy Board's change to emphasise the protein rather than the fat value in milk products.

- It. Stage of Entry: In most cases the Society would seek entry at the stage where the main feasibility study has been completed. However in certain cases where all the following factors are met the Society could consider participation in the feasibility study stage.

- strong reliable partners known to the Society.
- strong indications that the resource exists.
- strong indications that the market exists.
- proven technology.
- it is likely there would be limited opportunity to enter at a later stage in the project.
- the project itself would be of significant size.

Financial considerations favoured involvement at the stage when the land was purchased as a dry land sheep fattening and limited cash cropping unit before irrigation development commenced.

12. Other Factors: Due regard is given to environmental, social and political factors both as to the positive (or at least not negative) impact of the project itself; and the possible consequences upon the Society if there is some adverse public reaction.

We were concerned as to how our policyholders would react to A.M.P. becoming involved in equity ownership of farm land. Also we were interested in the reaction from Government, Federated Farmers, the Young Farmers Clubs and the Sharemilkers Association. On balance we believed the structure proposed left little scope for criticism and that we stood to gain more good than bad public relations through putting our toe in the water. Also we wished to test our own management abilities in this area. Happily at this stage all the vital signs are good.

The next stage of the project evaluation process involved the assessment of Financial Parameters and these include:

1. Time Horizon: In general terms the Society wishes to limit its time horizon for financial analysis in establishing the required returns to

12-18 years.

We agreed with our partners to assess the project over a 10 year time horizon.

2. Time to Positive Cash Flow: We seek to achieve this within a 4-6 year time frame.

Our projections indicated positive cash flow would be achieved by 1987, that is in four years and falling within our 4-6 year guideline requirement.

3. Project Pay Back Time: Our objective is to gain this within 8-10 years.

Our estimates satisfied us this would be achieved within this requirement.

4. Rate of Return: We seek a real internal rate of return of 11-13%.

Lengthy themes have been developed on this subject and I am aware of the recent article in the New Zealand Valuer on internal rates of return by John Wall of Wellington. The approach adopted by the Society is I believe both pragmatic and practical.

We assessed the project in constant current year dollars that is 1983 dollars. We predicted the cash ingoing cost, the net cash expenditure to develop and to be received in income to the selected time horizon. We then predicted a terminal or end of project sale value. This approach gave us a constant dollar net cash flow and therefore provided a base for calculation of a real internal rate of return. The factors we used included:

- \$3.50 per kg for milk fat.
- 1000 cows by 1993.
- A.M.P. to fund costs with cash - not borrowing.
- No provision for tax benefits.
- Terminal (or sale) value at year ten based on land and buildings at \$15 per kg of milk fat produced. We estimated production of 145 kg milk fat per cow. The stock value used was \$500 per cow.

These factors gave us an internal rate of return of 12.1 % and at the time we required projects to meet a minimum target guideline I.R.R. of 11-13%. Using the Government Stock rate of 17% as a base and subtracting an inflation rate of 8% this indicated 9% as a breakeven level of return. The Society seeks a real return margin of 2-4%. Therefore in the Pahau Reserve Partnership assessment a 12.1% I.R.R. indicated a margin above the 9 % breakeven of 3.1 % which was considered sufficiently attractive to proceed.

Current Assessment of the Investment: A.M.P.'s involvement in the Pahau Reserve Partnership is held in its main capital guaranteed fund which will carry the project until the cash flows turn positive, payback is obtained and profits achieved. The assets are in our books at purchase price and any capital appreciation will be released in the future.

We have been encouraged by the progress of the project to date. The land quality is better than initially assessed and our original projections providing for 300 cows in year one and 550 cows in year two have been exceeded. The actual level achieved has been 350 cows in year one produc-

ing 42,000 kg of milk fat. We are presently stocked to handle a minimum of 650 cows in year two. The property will be developed and income producing earlier than initially projected and this will act as some offset to the adverse effects yet to impact from devaluation and the proposed increase in on farm water charges.

The principle remains that as with a valuation, investment in a project can only be assessed at a point in time on the basis of the factual information then available.

The property which was purchased at \$1m in July 1983 sustained a September 1984 valuation of \$1.42m but the partners do not expect a significant lift in value over and above the cost of development to accrue until some track record of production performance is available. In total all aspects relative to the property itself, its management and the financial considerations are proceeding very satisfactorily.

Attitude Toward Further Land Based Farming Projects: Providing such propositions compared favourably with other investment opportunities available in the property equity field, the Society would consider further projects. However the attitude of Government would be critical. Because the A.M.P. Society is incorporated in New South Wales, we are regarded as being an overseas person and as you will appreciate successive Governments have not encouraged overseas persons to own and operate farm land in New Zealand. Any additional project undertaken would require that the Society obtain a number of statutory consents and approvals under various items of legislation. Such legislation includes the Land Settlement Promotion and Land Acquisition Act 1952 and the

Overseas Investment Regulations 1974. The Reserve Bank of New Zealand would have to give its approval under the Exchange Control Regulations of 1978, but this would normally follow if the Overseas Investment Commission had granted its approval. Also if the project involved the purchase of land, stock and plant involving \$2.5m or more, the consent of the Examiner of Commercial Practices would have to be obtained in terms of the Commerce Act 1975.

In their book "In Search of Excellence" Peters and Waterman emphasise the dangers inherent in companies diversifying into new areas. They expound the theme "stick to the knitting". Their investigations showed that most acquisitions go awry, and that even little acquisitions absorbed an inordinate amount of management time - time which was lost to the main line business. They found that those companies that branched out but stuck very close to their knitting, outperformed others. The most successful of all were those companies that diversified around a single skill - the coating and bonding technology at 3M was quoted as a successful example. Within A.M.P. we are enjoying our involvement with the Pahau Reserve Partnership project - it's interesting and exciting to be involved and it's not consuming too much executive management time or proving to be a management distraction. We think we're sticking fairly close to our knitting.

As to the future, well we will be influenced by the results which flow from this project. If the Institute wishes, we will be happy to review the project for you ten years out from year one in 1993.

# Fringe Urban Lands As They Affect City Planners

*by K. J. Tremaine, City Planner, Palmerston North City Council*

## 1. Introduction

I am not here to debate with you whether small lots are appropriate or inappropriate in the scheme of things. I accept that they make an important contribution to either the national or regional economy and that they provide an opportunity for many people to enjoy a different lifestyle.

Also I hope by now that the arguments which claim that small holdings are "not proper farms" or are "not as productive or economic as larger units" have finally been laid to rest.

Hopefully we have passed through the stage of believing that by permitting small holdings we would be ruining our national land use heritage.

Regrettably we are still too preoccupied with trying to guarantee an agricultural performance from the land through ordinances bonds and caveats rather than leaving these matters to the productive potential of the land to expected returns on investment and to the commodity markets to determine.

Since difficulties with concepts such as independent and economic farming units are largely self imposed and could be removed by a change in attitude of those controlling subdivision I do not intend to dwell on these perceived problems further in this paper.

I will therefore concentrate on where small holdings fit into the scheme of things the edge of a developed urban area often known as the peri-urban fringe. The paper will focus on:

- (a) The dichotomy between pressure to subdivide rural land into small holdings and the demand on much of this land for urban expansion.
- (b) Some of the current planning techniques which help avoid land use conflict;
- (c) The need for a good data base which focuses strongly on the likely rates of household formation and forecasts the subsequent demand for land.
- (d) The cost and availability of money as a means of indicating the demand for house sites on the urban fringe.
- (e) An awareness of the costs of holding land during the "stage of transition" from rural to urban use.
- (f) The difficulties of trying to develop new suburbs from areas of fragmented land ownership patterns and from an inadequate finance base.

## 2. The Competing Demand for Land

The peri-urban fringe of any city is an area which experiences considerable pressure from a range of competing land uses. Often land either inside or just outside an urban boundary is earmarked for urban expansion. This land is sometimes attractive to larger scale industry. It is also

sought after by those wanting land for recreation. A range of uses from sports fields through to horse paddocks are seen as necessary. The urban fringe is a good location for the range of small holders who want to work their holdings either full time or part time, supplementing their income from other employment.

Those supplying services to the city such as market gardens also expect to be in the peri-urban fringe.

Then there are the "traditional" land owners who are still trying to concentrate on various forms of agriculture often depending on some form of rate relief to maintain their increasingly uneconomic units. Also the urban fringe is usually a good location for large scale institutions such as airports and universities. Finally there are the speculators who are having a punt on where the next boundary adjustment or rezoning of land from rural to urban will be. These people are fewer in number than they used to be given the timescale and politics of such processes. Their activities are tempered by the holding costs which they incur. Often they lease out their holding for grazing.

The nature of the competition between these various land uses will differ between urban areas. The demand for small holdings is present near most urban areas.

In many places, namely the fringes of metropolitan Auckland, Hamilton and Christchurch, extensive areas required for urban expansion in the future are already subdivided into four hectare blocks. Subdivision has often occurred before urban growth management strategies were in place.

On the edge of Palmerston North in an area known as Aokautere and within the City boundary the local authority was recently allowed an area of 725 hectares to be subdivided into small holdings averaging two hectares. One large landowner has taken advantage of this policy. Several others continued to seriously farm the land and the balance live in hope of urban zoning, since they own easily serviced, relatively flat land close to a range of city services. The change to the city's planning scheme was done in response to market pressure, particularly from those who wanted small holdings close to their places of employment in the several research institutions to the south of the city.

The Scheme Change was supported for a variety of different reasons. There were those who wanted the small holding development opportunities. There were those who saw the approach as a foot in the door toward closer urban subdivision. The Ministry of Works and Development lent its support as a means of preventing urban expansion. It was the Ministry's view that once large numbers of small holdings were present, orderly urban expansion was impossible. Some existing small holders opposed the change. They wanted to protect the status quo.

The debate over the issue of this land will continue this year. The area has had an interesting history since it was first brought within the city in 1968, as land considered suitable for urban expansion. The Council however, zoned the land rural and allowed a range of agricultural uses but subjected subdivision to independent farming unit criteria as well as a 20 hectare minimum.

Subsequently in 1978 the City Council in conjunction with the Ministry of Works published an Urban Growth Strategy for the Manawatu which recommended expansion for the north and east of the city. For a variety of reasons, this strategy has not been implemented. Decisions on future urban growth have to be taken during 1985 given the state of the city's land bank and the known rates of household formation.

The City Council has taken a relatively clear position in the urban-rural land use competition argument. It has permitted small lots. It has said that they must be self sufficient in services and not make any demand on city waste disposal and water supply. It has said that small lot subdivision is not a precursor to urban development and that the whole question of urban expansion in Palmerston North is being left for a decision at some later date.

If any part of the Aokautere land is required for urban development this decision will need to be very soon since subdivision of land which is suitable for both small holdings and urban development could remove the possibility of this latter option being taken up, should it be required.

### 3. Current Planning Techniques Which Help Avoid Land Use Conflict on the Urban Fringe

One of the means of avoiding the types of conflict between land uses referred to in the previous section and to give certainty to the various parties is to develop firm guidelines on peri-urban land use.

The appropriate level to begin with is the regional planning scheme. This is the document which should prescribe the direction of urban expansion and the basis on which this expansion will be permitted. Unfortunately in New Zealand only a few regional schemes contain such a prescription. These tend to be in areas where, out of necessity, local authorities have come together to reach an operation agreement. Through much of the country because regional government is in a fairly indifferent state, this sort of policy making will take many years to achieve.

The proposed Auckland Regional Planning Scheme published in 1982 sets out a series of guidelines in Section II on the limits of urban development.

This is the type of policy required in the peri-urban fringe. The limits to metropolitan development are based on:

- (a) Ensuring that there is sufficient land within the limits to cope with the projected demand for urban growth while providing flexibility to respond to changing circum-

stances e.g. a sudden turn about in migration.

- (b) Ensuring the economic provision of utility services and the better use of existing services and infrastructure.
- (c) Ensuring the planning provision of community facilities and services in step with the changing needs of growing communities.
- (d) Protecting land having a high actual or potential value for primary production.
- (e) Protecting sensitive areas, i.e. areas subject to soil instability, flooding, etc, areas with unique features e.g. native forest, volcanic cones, wildlife habitats, areas of cultural, historical and landscape significance, etc.
- (f) Minimising the need to travel long distances, particularly between home and work.
- (g) Placing greater emphasis on the potential for building in established areas, those already serviced or those which can be easily serviced.

While these criteria are very clear they still have to be translated into individual district schemes. Also the scheme notes that additional land should be released immediately in the Albany Basin for North Shore development (page 102). Regrettably arguments on this matter between the Authority and Takapuna City Council remain unresolved.

While the Regional Scheme is an ideal document for giving a broad indication of land use demands, its formulation and review processes are very slow. Also its strategies are usually contested by individual local authorities who have their own views on what should happen.

Ultimately regional schemes are binding on the district scheme though the processes necessary to achieve this state are very cumbersome.

Given that the regional scheme has its difficulties in prescribing with certainty peri-urban land uses we are also dependent on individual district schemes to help resolve these conflicts. Ideally a district scheme should prescribe an urban development strategy for its area. This strategy should spell out the location, the rate of demand and the interim uses which will be permitted in this area.

The land can either be zoned in a series of sequences or deferments to be lifted by certain dates. Alternatively it can be given an outright zoning in conjunction with a comprehensive development plan or zoned and controlled through the location of services and the subdivision powers of the Local Government Act. It is not the purpose of this paper to argue the validity of each of these techniques. They are simply a means of helping ease the various conflicts which exist between land uses in the peri-urban area.

A further ingredient necessary for good peri-urban land use management is a good rural land use strategy. Such a strategy will help provide the small holder with some certainty. It must however provide for all rural uses and not



single out one or two for special mention. Otherwise further problems will be created.

The following is an example taken from Scheme Change No. 75 publicly notified by the Rodney County Council in December 1984.

It states:

"The principal aim of this part of the District Scheme is to guide the long-term development and management of the land and other resources occurring in the rural parts of the County for the benefit of the local and regional population and the nation as a whole. This aim will be pursued by the following overall objectives:

1. To foster the conservation and wise husbandry of all of the physical resources of the county; soil, water, minerals, vegetation, air.
2. To protect and conserve the natural character and significant environmental features of rural and coastal areas.
3. To protect the productive capacity of the land and not restrict productive land uses which do not compromise this capacity.
4. To provide for a diversity of living environments for people wishing or needing to live in rural areas.
5. To recognise and promote the relationship of the Maori people with their ancestral land.
6. To provide for various industrial and commercial uses which have a particular functional need for a rural location.
7. To enable a rational and efficient pattern of land use which assists in providing for the needs of people using the rural areas and recognises the characteristics of the physical resource.
8. To support the retention and provision of an adequate range of services and facilities necessary to the wellbeing and quality of life of rural residents.
9. To direct urban-type uses of land to areas zoned for urban purposes except where there are specified reasons set out in the scheme statement why a rural location is necessary or desirable.

The scheme change also makes a very clear distinction between small productive holdings and those which are to be used purely for rural residential purposes.

There is considerable confusion between these two concepts. By drawing a distinction between the two of them it is possible to allow more subdivisional freedom for a small holding and legitimately confine the rural residential lot to the fringes of an urban area often on lesser value soils.

Many of the problems around the edge of a city can be reduced if the rate of residential growth can be accurately predicted.

#### 4. The Data Base

In the past there has been too much reliance on the simple extrapolation of overall population figures as a means of estimating the demand for land. While general population numbers are im-

portant for such things as shopping needs and investor confidence the nature of the population is much more important. For housing, the age structure, the number of new households likely to be formed, the current household rates, divorce and death rates are all much more important variables. An analysis of these gives us the confidence to estimate how many households we are likely to have for a given area during a certain period and how many dwellings they are likely to need. Market preference can then be predicted followed by an estimate of the likely number of lots needed. This land requirement can then be assessed against the number of sites available and a demand graph constructed.

Two local authorities in New Zealand have recently spent time analysing patterns of household formation. They are the Auckland Regional Authority and ourselves. The local work is by Dr P. B. Wheeler, the Deputy City Planner who has developed several models for forecasting household formation and subsequent section demand.

Good quality data is essential. If mistakes are made in forecasting the requirements for urban land, that land may be prematurely used in such a way that urban expansion is either compromised or well nigh impossible. For example if factory farming or horticulture processing have been allowed by a surrounding county.

#### 5. The Supply of Money

It is relatively easy to forecast and monitor the likely rate at which land will be needed for urban expansion on the peri-urban fringe. It is much more difficult to guarantee that the demand which has been predicted will actually be taken up. While there are reasonably sophisticated methods available to forecast the rate of physical change, the crystal ball becomes quite murky when trying to see into the economic and financial future.

Just because a certain level of demand for land or housing exists it does not follow that this will be met.

A complex set of factors govern the closing of the gap between the demand and supply of housing. Such things as:

- the cost and availability of finance
- investor confidence in the development of land
- the state of the building industry
- the cost of new housing relative to the existing housing stock

are all factors which control what happens on the ground. If there is a sharp down turn in the market serviced or unserved, urban land simply sits fallow. The demand is either suppressed or partly transferred into infill housing or renovation, though these are usually quite different markets and offer only limited relief.

#### 6. A Stage of Transition

If there is any significant downturn in the demand for urban land for whatever reason, the

holding costs associated with that land become important. The history of urban land investment on the fringe of New Zealand cities is studded with investors who have misinterpreted demand or been subjected to some unanticipated financial constraint as the Government of the day maintains a tighter control over the economy. Often land for urban development remains fallow for some years. During the halcyon days of the 1970s large areas of land were set aside for urban development. When growth expectations were not met the issue of an interim use became important. This problem has arisen in both larger and smaller urban areas. Sometimes developers will be seeking an interim use for a period of about ten years before the demand for residential land will be taken up.

An obvious "solution" to the problem is to sell the fallow land as small holdings provided the zoning permits. While this is a very sensible solution from the land investor's viewpoint, there can be a range of community consequences which follow.

Usually the land is unserved. This means that lots have to collect their own water and dispose of their own sewage. There is also the problem of what level of subdivision can be permitted before densities are such that schools, parks and shops will be required. Also, what standard of roading is appropriate?

#### 7. Two Stage Development Difficulties

For many years some New Zealand cities have developed by taking over larger farms which had been subdivided into smaller holdings. These were finally resubdivided into sites for urban purposes. While this process offered strong social advantages I believe it is no longer possible for two reasons. Firstly the increasingly fragmented nature of the peri-urban area, due to the competition between the large number of land uses and secondly to the way in which the infrastructure costs of development are met.

It must be remembered that while planners can develop strategies and policies or put zonings in place, these actions of themselves cannot guarantee that development will occur. It is wise to remember that the planning process is just another interventionist mechanism in the merry-go-round of "the market". Ultimately local authority rating or a five yearly revaluation probably have much more impact on the decision to develop than the effects of any planning scheme. The planning process cannot guarantee that its policies will be implemented. It must avoid a range of ownership patterns and investment levels which hinder the orderly growth of urban areas.

Multiple ownerships and high levels of investment relative to the size of a holding are not conducive to urbanisation. Land will only be subdivided if there is an adequate profit at the end of the exercise. The base cost of the land is an important factor.

The range of interim uses form a crucial part

of any urban development strategy. Frequently I become concerned at the intensification of both uses and investment patterns in the proposed northern extension of Palmerston North City. But until there is an agreed strategy, neither the owners, nor the rural local authorities who currently control the land can be expected to heed the wishes of the Manawatu Urban Growth Strategy Study. Also since the Manawatu United Council is still in its infancy, no protection can be offered through a regional planning scheme.

One way of reducing interim development costs is to accept "county standards" in roading and other services. Streets with one coat seal, unformed drainage channels and perhaps an unsealed footpath often seem an attractive proposition. Because of the manner in which we fund our subdivisions, this is not possible. Regrettably the Local Government Act and subsequent interpretation through case law means that the local authority only gets one opportunity to set urban development standards and offset these against a subdivider. The cost of any subsequent alterations to the standards must be met by the local authority. This means that attempts by landowners to develop interim standards are unlikely to be accepted by local government.

#### 8. Conclusions

I have outlined in the paper a number of planning concerns in the peri-urban fringe particularly at the interface between small holdings and urban expansion. There are no easy solutions to problems of managing urban growth in a private enterprise society. I have avoided the arguments over town v. country and on which of these two land uses is the best.

Given the level of competition for peri-urban lands clearly agreed strategies at both the regional and district level are very important. These may still fall down if there are sudden economic changes like oil shocks or other factors beyond our control.

Without implementing a new town development corporation approach to urban expansion, we have to live with current constraints and inadequacies.

The approach of allowing small holdings as an interim stage between rural and urban development is unwise. We need to distinguish between permanently located small holdings to be used for productive purposes and rural residential lots which can be located on poorer land without urban standard facilities.

The peri-urban area is very important to the wellbeing of both the urban area and the rural area, though both the character of the area and current pressures differ markedly between New Zealand cities.

There is an ever present need to balance high value land for agricultural production against land for the expansion of New Zealand urban areas.

# The Effect Of (The Demand For) Small Holdings on Rural Planning

by R. G. Stroud *Planning Consultant*

A primary objective of Rural Planning which has been expressed in planning legislation since 1953 is the protection of land having a high actual or potential value for the production of food. Other inter-related objectives are the wise use and management of New Zealand's resources and the prevention of sporadic subdivision and urban development in rural areas.

Planning authorities have been charged with this responsibility. The techniques adopted in meeting these objectives have been through the expression of permitted land uses, and control of subdivision.

The Town and Country Planning Act 1953 gave all local authorities, including counties, the authority to control land use and land subdivision within their territories.

At this stage, the Land Subdivision in Counties Act 1946 was operative and, although the local authority had some influence in approving scheme plans of subdivision when the Crown was involved, the Chief Surveyor of the Department of Lands and Survey and the Minister of Lands gave the final approval. Under this Act approval was not required for areas exceeding 4.05 ha (10 acres).

In 1960 the Town and Country Planning Regulations were introduced and these suggested that the minimum areas in rural zones should be 4.05 ha with a minimum frontage of 80.5 m, both of which would be reducible in certain cases.

These were expressed as:

In a rural zone the Council may permit the subdivision of land so as to produce an allotment of less than the minimum standard of area and frontage herein prescribed, if the applicant satisfies the Council either that the substandard allotment can be an independent economic farming unit, or that the substandard frontage or area, as the case may be, is appropriate to the proposed use and approval thereof is necessary to avoid undue hardship: Provided that no substandard allotment shall be permitted -

- (a) If it is likely to cause demand to be made for an extension which is not in the economic interest of the region or locality of any public service, or to cause existing or proposed public services to be uneconomically used; or
- (b) If it is likely to lead to any obstruction to or other interference with the free movement of traffic on State highways or important traffic routes.

In 1961 the Crown relinquished the approval of scheme plans of subdivision when the Coun-

ties Amendment Act was passed and the full control of areas up to 4.05 ha became the prerogative of the counties.

During the latter part of 1962 an abortive attempt was made to give counties control of all subdivisions, but this Amendment had a life span of only eight days following strong protests from interested parties including Federated Farmers and the New Zealand Institute of Surveyors.

The Planning Act and Regulations from 1953 encouraged Councils to specify minimum areas of rural lots and seemingly gave them flexibility to permit areas less than the expressed minimum in certain circumstances.

However, this ability to consent to subdivisions for lots of an area less than the expressed minimum was rarely exercised. I do not blame the councils or their officers or advisers for this, but the subdividers and their surveyors.

Most Counties grasping for guidelines adopted the 10 acre minimum. Subdivisions in excess of the minimum could proceed without a hassle and needed no justification. A scheme plan for simple rectilinear patterns of 10 acre lots (no matter that the boundaries ignored topographic features), preferably all with frontage to an existing road via a proliferation of access legs if you could get away with it, and the whole farm could be cut up. That these 10 acre lots were neither fish nor fowl didn't matter. There were plenty of urbanites willing to buy them, even though they were rather large for Penelope's pony. Productive land users such as market gardeners had to compete on the market, and take what 10 acre lot they could get at whatever the going rate was for large residential lots.

Thus, the ability and willingness of councils to countenance lots of different size (maybe smaller than 10 acres) for specific purposes was not really tested.

In order to stem the flood of the speculative 10 acre lot subdivisions, many planning authorities simply increased the size to 20 acres, 50 acres, or even more, but still reducible in certain cases. This had the effect of stopping the subdivisions, but at the expense of those genuinely seeking to establish themselves on the land and to use the land resource.

I would like to illustrate this problem with a number of examples I am personally familiar with.

Firstly, around the Invercargill area, Farmer Turnbull was successfully sheep farming on what, in local farmers' terms, was a small holding of 100 ha. He retired and his son immediately subdivided the farm into 4 ha (10 acre) lots. These

were all utilised for rural/residential purposes. The same thing happened to a substantial proportion of the farms within a 10k radius of Invercargill. A number of these were town milk supply farms.

Pony clubs boomed and Margaret, a dressage expert, became inundated with work.

Sandy, a builder, thought it would be nice to live in the country but soon found that looking after a 10 acre section took too much time from his business and moved back to town.

The soils are good but the weather is lousy. But Rex, a market gardener, persevered. He managed initially to acquire 1 ha within the city boundary. This was suitable for glasshouses and his retail outlet but too small to make a living off. He had no choice but to purchase a 4 ha block, but this was also too small and a further 4 ha block had to be purchased. He now farms three widely separate blocks of land, has difficulty managing staff, has had to duplicate much equipment and wastes much time to-ing and fro-ing.

The 4 ha lots were, to put it in the Southland vernacular, an awkward size. Like the 42 gallon beer keg, too much for one and not quite enough for two. If the farms had been subdivided to meet the needs rather than to just exceed a minimum, the Sandies of the area would have been able to enjoy their bucolic environment on a smaller lot, and the Rex's been able to purchase a property to suit their needs, and without having to pay a value totally unrelated to the productive capacity of the land.

The Southland County has rather belatedly realised this and in its pre-review statement to its recently published review stated that:

For quite some time the Council has been concerned about the spread of and demand for small areas of rural land, generally on the periphery of Invercargill and Gore, for what are really residential uses. In almost every case the residential use predominates over the rural use of the land and this type of development has been responsible for the fragmentation of farms, rising land values and in some cases a drop in production. Unfortunately this type of development has taken place on first class soils. While appreciating that there is a genuine and definite demand from a certain section of the public for a house and a few acres of land in the country as an alternative life style, the Council consider that this type of development has gone far enough . . .

A contrasting example of the problem is Mace, a Kiwifruit farmer. He initially purchased a lot of around 10 acres which was not particularly satisfactory but there was little choice. A substantial part of the property was useless gully. Some years later he found a 40 ha dairy farm for sale. This was too large for his needs but the county would not permit subdivision as it apparently did not want Kiwifruit farming in that part of the county. He therefore joined with two others and they each developed a third of the property. In this instance, and many others like it, the refusal of subdivision did not

prevent the change from dairying to orcharding. Subdivision in Mace's case was eventually permitted as the local authority has responded to the needs of the orchardists.

The proliferation of small holdings and their occupation by those simply seeking a bucolic environment has also caused problems to farmers and other rural land users.

Although local authorities now generally make provision for so-called small holdings, there is still in most areas a substantial bank of unoccupied 4 ha lots. These are often located in areas of established rural/residential dwellings. I am familiar with a number of instances where legitimate rural activity has been restricted by rural residences and other instances where the enjoyment of the 'rural' environment by those living there has or will be spoiled, by the establishment of legitimate rural activity.

The proliferation of residential users has, for example, placed a restraint on the establishment of intensive farming operations which are obliged to use toxic insecticides or fungicides. I know also of examples where the opposition of established rural/residential users has effectively prevented the establishment of such rural activities as pig farms and rabbit farms. In most of the examples the properties were quite suitable for the activity but pressure of neighbours persuaded the Council to refuse to consent to the proposal.

There are numbers of examples where rural users have been able to properly establish and which because of their activity have spoil the amenity of those rural/residential dwellers perhaps inappropriately located or perhaps mistakenly believing that a rural environment must needs be tranquil. The development of a quarry nearby is a classic and not a unique example of what can happen to shatter that tranquil environment.

These then are the problems faced by local authorities in planning for small holdings. They have responded to these in a variety of different ways depending to a large extent on what sort of demand has been experienced.

There has been demand from some sectors of the community for total flexibility in control of land use and subdivision in the rural areas. That is, anything goes. I don't think any planning authority has acceded to this, and the demand has been tempered by the legal fraternity's demand for certainty and clarity of application which no doubt Valuers will appreciate.

Initially, in moving away from a minimum area requirement to some sort of performance standard or criterion many planning authorities took the lead from the 1960 regulations and adopted an economic unit criterion. This produced many problems, primarily of definition, but also implied that land was not being properly farmed if it did not fully support a family. That is, the economic criterion was too narrow and did not provide for such farming forms as the so-called stepping stone unit, or the part-time farmer.

One difficulty that became evident was that some local authorities apparently believed that they had the responsibility to, ensure that land

was put to its highest productive use, whereas in fact they are simply charged with the responsibility to ensure that lands of high value for food production are protected (for productive use).

More recently planning techniques have been adopted specifying criteria for consideration in subdivision applications, and sometimes specifying specific areas as being suitable for different activities. The technique varies but the approach is generally similar. The following are a few examples:

Rangitikei County's policy is that "no minimum area or frontage will be prescribed for subdivision but each case will be treated on its merits, having regard to the proposed use of the land." And the ordinance states "Land may be subdivided to give effect to, or assist in the establishment of or effective operation of any use permitted . . ." No criterion is stated. Whether this could be said to be satisfactory from the point of view of certainty and clarity of application, I leave to you to judge.

McKenzie County, covering an equally remote rural area in which the need for small holdings would be equally limited, requires that every allotment created shall be capable of being used as an independent farm unit. Provision is also made for subdivision for other purposes provided that it is suitable for the proposed use, will not cause a demand for any public service and will not generate a traffic hazard. As an alternative and one which does not require an accompanying report, a minimum standard area is specified: 50 ha for irrigated land, 100 ha otherwise.

Pahiatua has expressed as one of its objectives:

To permit flexibility in the subdivision of land in the rural area but not to permit subdivision for speculative purposes or where there is not an obvious future use.

And as its ordinance:

Council will use the subdivisional powers available under Section 274 of the Local Government Act, 1974, and will take the above-mentioned objectives into account, when considering subdivision in the rural area.

In none of these areas is there a great demand for subdivision into "small holdings".

Oroua County, another local example but where there is more pressure to subdivide and a greater demand for a variety of rural holdings, does not specify minimum areas but guidelines are expressed and justification is required to be given for lot areas which depart substantially from the guidelines. It also provides specifically for subdivision for rural workers (the so-called stepping stone unit) and for dwellings unrelated to rural activity.

The following two examples are of planning provisions made by counties which experience much greater demand for subdivision into small holdings.

The Waimairi County District Scheme includes the following statement:

Without planning control the urban area represents a major threat to the stability of

the rural area of Waimairi for the ongoing production of food and other primary production. The proximity of the urban area has led to pressures for residential development, the establishment of institutions of one kind or another and the siting of industrial and other urban uses in the rural area. Fortunately the area has been protected from full scale urban encroachment by constraints imposed by the Regional Planning Authority and by the Council's own District Schemes.

Nevertheless urban pressures are felt today because of historical events. In particular, subdivisional legislation in the past has permitted subdivision of large farms into small holdings. Some three quarters of the total 1,573 lots in the rural area are less than 4 hectares. This has given rise to a large number of units that have not been economically farmed and a large number of part-time farming units. While it is acknowledged that part-time farming units can make productive use of otherwise uneconomic land a major concern is that holdings too easily become over-capitalised with non-productive assets. Holdings eventually become uneconomic to the extent that they are no longer economic for rural use and become purely residential.

Furthermore, over-capitalisation also needlessly contributes to increased land valuations in the locality making it prohibitively expensive to establish new farming operations. Because of the quality of the soils in the rural area of the District and the proximity to the urban area the Council has not provided for rural residential areas. It is considered that adequate provision has been made elsewhere in the region (e.g. Paparua) on more appropriate land. And the relevant ordinance is:

21.1 The Council will consent to a subdivision of land where it is satisfied in respect of the following matters:

(a) Objectives

That the subdivision of land as proposed will not be in conflict with the overall rural objectives and the relevant objectives for this zone and that subdivision is necessary for the better utilisation of the land for farming or factory farming purposes.

(b) Size and Shape

That every lot to be created shall be of a suitable size and shape for both the proposed use and potential use of the land for other forms of primary production of food.

(c) Employment Capability

That the farming use (either existing or to be established) necessitating the subdivision of the lot will either:

(i) provide full time employment for at least one person, or

(ii) in the case of part-time employment will be such as to ensure a significant amount of production generated from the land having regard to the size and quality of the land or significant capital commitment

included in the generation of productive output and the potential use of the land for sustained production of food in an economic manner would not be inhibited by the creation of the lot.

Rodney County does have areas more appropriate for rural residential lots as well as for horticulture. Its district scheme reflects this, stating:

In rural-residential zones no farming use is expected or required to justify a house on the land, and indeed in some areas farming is discouraged or prohibited to ensure retention of the native bush cover and further regeneration. The argument that a site is too small to be farmed "economically" does not justify rural-residential subdivision. Numerous studies have shown that these small holdings can be farmed at similar levels of productivity per hectare as the original larger holding. However, in relation to further subdivision of rural land the Council generally supports the concept of independent farm units as being the basis of a sound rural economy while recognising the contribution of existing part-time farms to the economic structure and social diversity of rural areas.

The ordinances include a wide range of criteria for subdivision, including minimum usable areas, average areas, adequacy of water, drainage and contour. A 6 ha average usable area is required for orchards, 40 ha for intensive cropping and grazing, and 120 ha for forestry.

#### Conclusion

It can be seen therefore that the effect of the demand for small holdings on rural planning has been significant. Different counties have responded in different ways, depending upon the circumstances. The response was slow, due in part

to the conservatism of the planning authority and in part to the lengthy process planning change must follow. In some instances it has been quite evident that a change in the traditional farming practice was feared and that this might have some detrimental effect on the general farming system and established infra structure. In other instances I believe there was an inherent Farmer vs Towny attitude still existing. Quite the reverse in fact. Most Counties now are actively promoting diversification and rural occupation by all sectors of the community.

As well as changing policies and planning scheme provisions some Councils have also taken positive action in the planning and development process.

Waipa County has soils and climate suitable for intensive agriculture but there are constraints on development and it has taken positive action to remove these. Dust from gravel roads causes a problem particularly for berry fruit. The County established what areas were most suitable for intensive production and is proceeding with the necessary planning and finance to seal the roads within that area. A reliable water supply is desirable and so steps have been taken to establish a rural water supply. When these works are completed it is intended to make special District Scheme provisions for small holdings for intensive agricultural production.

I'm not sure where this gets us as far as you are concerned. Does it make your task easier or more difficult as valuers? That is for you to assess. Mostly rural subdivision can no longer be regarded in a speculative way. It must be undertaken for a purpose and should, I imagine, produce properties which can be more realistically valued than the 10 acre small holding which is of such an awkward size, and for which the end use is so indeterminate.

# The Valuation of Fixed Assets (Property) For Inclusion in the Financial Statements of Property Companies - the Valuers Viewpoint

*by G. J. Horsley, President N.Z.I.V.*

The objectives of this paper are to explore problems associated with incorporating a valuation of property assets in the annual report of a property company. My comments are addressed to businessmen, accountants, auditors, valuers and all those who make use of published accounts.

I have endeavoured to increase the understanding of members of each of these groups with the needs and problems of members of the other groups with a view to contributing to the process of improving the value of published accounts to their users.

As valuers we are very much in the middle of this current debate on the vexed and topical question of accounting for investment properties.

It is not without an element of truth that valuers are often criticised and their opinions treated with some scepticism in the area of valuation for company accounts.

Old habits die hard. The aloofness and stand-off stance of total independence (or is it arrogance?) of valuers is out of context in the valuation of fixed assets for financial accounts where valuers form part of the team that reports upon the results of the company. The team includes management, directors, accountants, auditors and valuers.

All are charged with reporting accurately and truthfully upon the affairs of the company. To do so there must be communication and continuous dialogue between all members of the team. I refer you all to the change in stance of our own guidance notes in respect of responsibilities to the auditor with valuers now being charged with full disclosure of their valuation process to the company's auditor.

I should at this point traverse some of our country's more recent financial history as it affects this subject. High inflation, checked albeit briefly by the previous Government's superficial controls brought about the renaissance of the property company as a vehicle in which the average citizen could invest in a real asset that offered protection against the erosion of his/her investment dollar. Rising property prices and taxation legislation aimed at preventing trading or speculation in property had meant that the availability of property for an individual to invest in had diminished and had become the prerogative of superannuation funds, life offices and certain trusts. Even syndicates had been adversely affected in the new legislation.

Over the past two or three years there was a sudden spurt of property company floats. Gener-

ally speaking the issues were popular particularly with small investors and were successful. In the market euphoria of 1983 and 1984 prices of property shares reached high levels, but more recently prices receded as equity investors came down to earth and priced the shares more circumspectly. The New Zealand Financial Review lists 15 shares in this category. As recently as a month ago some analysts suggested that the property sector of the share market should be a hot performer right now, when it is in fact only lukewarm. Indeed there are some instances of share prices currently running at less than the asset value of the company.

In a press statement early last year the President of the Property Management Institute said that "the value of properties and expected returns are critical for investors to decide on the merits of investing in the company or not and of course at which price . . ." He went on to make a strong plea for "truly independent assessments" to be made by valuers acting as experts entirely independent of the property owner. This call was taken up by the Chairman of the Securities Commission, Mr C. I. Patterson in an address to the Property Management Institute later in the year.

The Commission which he chairs has the responsibility for advising the government of the state of the law relating to public offers of securities and upon proposals for the reform of that law. Existing legislation requires that the opinion of an expert may not be quoted in the prospectus unless he consents to the quotation in the context in which it is put. The Regulations say that a balance sheet in the prospectus shall state the aggregate amount of fixed assets and classify them into categories of freehold land and buildings; leasehold land and buildings; machinery and equipment and other fixed assets; and that where a valuation is included in the prospectus the method of valuation, the date of the valuation and the identity of the valuer must be stated. Where the valuation consists only of the expression of an opinion by the directors then the prospectus must state that.

The Regulations do not prescribe any particular method of valuation or other assessment of the amount stated in the accounts or prospectus. Mr Patterson went on to say that "over the last few years I have become increasingly concerned about the principles which valuers attempt to apply. I want to suggest to you that it is in relation to the principles of valuation that there is most need for study and reform". When the principles and basis of our valuations

come under criticism from such a quarter then we are obliged to look closely into the practises of valuation.

The basis of valuation to be adopted in the valuation of fixed assets for financial statements is clearly set down in Guidance Note No. 3 of our own Standards which have largely been adopted from the International Asset Valuation Standards that are in use in various countries around the world and are recognised by the International Accounting Standards Committee. These standards say that valuers should approach the valuation of any property on the basis of:

- (a) Value in the open market, or where a market value cannot be assessed,
- (b) Depreciated replacement cost.

A definition of "market value" is provided and stated as being "the best price at which an interest in a property might reasonably be expected to be sold at the date of valuation, assuming:

- (a) A willing seller,
- (b) A reasonable period within which to negotiate the sale taking into account the nature of the property and the state of the market,
- (c) That values will remain static during that period.
- (d) That the property will be freely exposed to the open market and
- (e) That no account will be taken of any higher price that might be paid by a purchaser with a special interest."

This whole question as to the basis of valuation as distinct from the methodology of valuation can best be resolved by adequate detail being given and particular assumptions being noted and disclosed within the contents of the overall valuation report by the valuer.

For example the report could include a statement similar to the following:

#### "Basis of Valuation

We have assumed that properties in the present portfolio will be maintained in their present ownership into the foreseeable future and that there is no immediate intention to dispose of any property. We assume also that there is no intention or necessity to liquidate or significantly curtail the present scale of investment.

Our market valuations rely upon the particulars as to tenure, terms of lease, income and outgoings and details of lettings and underlettings, if any, which have been supplied to us. Our valuations assume except where otherwise stated, properties are subject to normal outgoings only and there are no onerous restrictions or unusual outgoings of which we have no knowledge."

What may then follow is a statement of general valuation policies or what Lincoln North at his recent seminar on "A Critical Analysis of the Income Approach to Valuation" called "contingent limiting liabilities" but clearly the basis of valuation must be stated. Likewise, it must also be confirmed as being acceptable to the auditor.

In an address to the Property Management

Institute last year I cited an instruction from a property company which spelt out their basis of valuation "report to be brief, adopt a market rent of so much, assume all outgoings to be met by the tenants, then capitalise the resulting figure at such and such a rate".

The auditors have a responsibility to check the instructions and authenticity of information given to the valuer by reference to title deeds, tenancy agreements, etc. They should review the values attributed to the various properties to ensure the values are reasonable. In particular, a comparison should be made between the individual values and the rentals of each of the properties concerned. In instances of doubt the auditors should discuss the circumstances in which the valuer has arrived at the stated value. These later comments were the conclusions of Katherine Jones in a paper "Current Issues in Property Company Accounting". They are conclusions with which I concur.

While we as valuers may come in for some criticism as to our valuations, there are auditors who must also take responsibility for having allowed valuations of which they are suspect being included in a prospectus or set of accounts.

The guidance notes and background papers are lengthy and it is not my intention to repeat what is stated in that document here today. It should be sufficient to say that providing we as valuers have done our homework there should be no criticism of us as to the principles (methodology) and basis adopted in our valuations.

I do suggest that some of our critics are not sufficiently aware of what Lincoln North termed "the methodology of valuation" when at his recent seminars he traversed a full range of methods including the cost approach, market comparisons, pay-back analysis, multiples of gross earnings, capitalisation of net operating income and a discounted cash flow concept. What he did say, and this is where I believe some of the confusion arises is that in the end there is only one market value and that while it is correct to traverse the various methods, the valuer has a responsibility to give his conclusion as to market value at the end of his analysis.

The Society of Accountants issuing of Exposure Draft 29 "Accounting for Investment Properties" was a response to the growing need for some common standard in the treatment of revaluations for property companies' accounts. It has been said that the exposure draft was endeavouring to close the door after the horse has bolted. However, three important issues arose from the draft:

1. The treatment of depreciation,
2. The passing of revaluation gains through the profit and loss account, and
3. Valuation.

It is not my intention today to cover the pros and cons of ED29's proposal regarding depreciation which for the purpose of record reads:

"5.2 An investment property should not be subject to periodic charges for depreciation".

In my opinion, as far as investment properties are concerned, depreciation is likely to be in



reverse i.e. appreciation, and I favour the advice given to New Zealand companies in ED29 that a valuation should take place every year in order to arrive at the current value of the investments and to derive therefrom the depreciable amount, if any. It is probably true to say that most first class investment properties appreciate in value and I believe the other important rationale to consider is that the life of the investment property within the property company portfolios will, if it follows overseas trends, be a short one. In the U.K. and Canada the average portfolio life of the true investment property is between five and ten years.

One New Zealand property company with which I am familiar has seen a 30% turnover in the portfolio in the first year and in the current year this trend shows every likelihood of being repeated. Should it continue, the entire portfolio will have seen a life of no more than four years.

I wish to now consider the various other questions raised in Exposure Draft 29. The Exposure Draft states:

"5.1 An investment property should be included in the balance sheet at its market value, and

5.3 An investment property should be valued annually. Valuation should be carried out by persons holding recognised professional qualifications and having experience in the location and categories of properties concerned."

"Valuations should be made by an independent valuer at least every three years. There should also be disclosure of the total value determined by independent valuers in the year and the total value determined by internal valuers in the year, i.e. the net amount of unrealised gains or losses included in reserves."

There appear to be three points of debate in this area. One, whether all property should be revalued annually. Two, whether the directors' valuations are acceptable. Three, the level of disclosure necessary.

I turn now to the first question, the passing of revaluation gains through the profit and loss account. I am one who is of the opinion that the use of the heading "profit and loss account" is somewhat of a misnomer and I would prefer to see the adoption of the term "operating account". I am not an accountant. I have, however, debated the matter with the Accountants' Society and I believe that one of the better summaries I have seen in this matter was in the concluding remarks in Katherine Jones' paper and I quote:

"There are valid arguments for inclusion of revaluation gains on property investments in the income statements of property companies. The most persuasive reason is that such companies are value based rather than income based and accordingly, generally accepted basic accounting principles which have proved to work satisfactorily for the vast majority of non-property companies may not nevertheless fairly reflect the activities of property companies."

However, the fact that unrealised revaluation gains are in nature substantially different from operating profit cannot be overlooked and if the statement of income is to include the former this must be clearly disclosed. She went on to conclude that the property revaluation gain should be shown below the line and after extraordinary items noting that the inclusion of these unrealised gains together with trading profits would be misleading to the average "investor".

I am sure you will concur with her conclusions. The latter point is exemplified in the following example of a property company's press release taken from The Dominion earlier this month:

"He (the Chairman) was announcing a profit of \$ ..... for the year to December 31, 1984.

The result includes property revaluations and the company supplied no breakdown of trading profit."

The statement is confusing to say the least. There is no breakdown between trading profit and revaluations. Indeed, there is no mention whether any of the profit resulted from the sale of assets. This particular point surely lies within the domain of the Accountants' Society and the Stock Exchange to ensure that shareholders and investors at large receive full information as to the source of profits in the property companies.

Turning to the question of annual valuations. I believe one has to consider the concept of a property company. A property company is a body whose shares are quoted on the Stock Exchange and the value of the shares will bear some relation to the value of the properties the company owns and the income they derive from property operations. While the link may not necessarily be a direct one, a property company's shares can of course, fluctuate in the market without any movement necessarily taking place in the values of properties it owns. Their shares will in the long run reflect broadly the movements in property values but will be affected by many other factors as well, not least the general volatility of the stock market or the occasional thrills and spills of a takeover bid. The shares will be valued in the market-place on a mixture of income and market considerations with a fundamental characteristic of property companies being that their shares will normally stand at a discount which fluctuates from time to time to the value of the assets that back them. I believe there is general consensus from all quarters that property companies need to revalue their assets on an annual basis.

City Realities and Aurora Group are two companies, however, who have publicly stated that they will revalue only on a three yearly cycle bearing in mind the date of rent review. The majority of the other listed property companies are revaluing on an annual basis and are using independent Registered Valuers. There is one unlisted company who recently amended their Articles of Association so as to require independent revaluations on an annual basis with the valuations to be undertaken by Registered

Valuers appointed by the shareholders at an Annual General Meeting. This is a move which the Institute has applauded ensuring that the independence of the valuer is real and is seen as such by the public at large. This then answers the question, that the valuation should be undertaken by an independent and Registered Valuer. Directors' valuations are unacceptable. They are unacceptable because the profits are being taken to the profit and loss or operating account of the business and with almost all the property companies the profit derived from revaluations forms the major portion or contribution to the company's overall profit result. I know many of the opponents to independent annual revaluations quote cost as the factor and while I am not in agreement with the Chairman of Robt. Jones Investments' statement, the point he raises has some validity .

"In respect of cost we will basically incur a one only valuation expenditure with each property. Thereafter, we will negotiate a nominal fee for the property's annual revaluation. The substance of the work would have been done the first time and all that will be required is a quick inspection plus an examination of any changes, notably with tenancy factors. Accordingly, the cost is within the bounds of acceptability ... "

Finally, in dealing with Exposure Draft 29 is the question of disclosure which was the second point raised by Mr Patterson of the Securities Commission when he commented upon disclosure of the valuer's name in prospecti alongside his opinions. Again this is an area where we as valuers have come under some criticism. When two property companies were floated I recall that the valuations included in the prospecti were not valuations as such but were market appraisals. They were not undertaken by Registered Valuers holding public Practising Certificates, but rather by property managers, who in one instance held the management contract for the new company. In another example a Registered and practising Valuer provided a statement to the effect that the purchase price of the properties within the prospectus had been negotiated at a satisfactory level by the directors, that the directors' ideas and opinions as to future growth rates was satisfactory, and that the directors' projections were soundly based. A dubious piece of writing to say the least and one which on the face of it should have been queried by the Stock Exchange or the Securities Commission.

In the United Kingdom and in submissions made by TIAVSC to the International Accounting Standards Committee it has been adopted that the basis of valuation, the name and professional qualifications of the valuer and a statement as to whether the valuer was an internal or an external valuer must be included within the accounts of the company. The New Zealand Exposure Draft does not go so far as to require disclosure of the name of the valuer. Indeed, many of the property companies do not include the names of their valuer or valuers in the annual report. However, I believe that times are changing and with the call for more independence in the valuations valuers will be named in the annual

report and the move of the private property company I quoted earlier may well extend through into the publicly listed property companies.

One property company for which I have acted goes further and publishes a summary of our report giving it the same prominence as the auditors' report. The value of the property is undoubtedly the most important figure in the accounts of a property company and one would have to admit that it seems logical and desirable that at least a summary of the valuer's report be included in the annual accounts.

I am firmly of the opinion that we as valuers have a responsibility to ensure that our opinions when included within a prospectus or set of accounts are statements worthy of our profession and that they are free of any bias.

I was interested to note in the January issue of the Australian Valuer that AIV had submitted guidelines to the National Companies Securities Commission which the AIV considered would assist in the proper regulation of the valuation context in the property trust industry.

These guidelines were:

- "1 In relation to valuations -
  - (a) A suitably qualified valuer to be appointed and instructed by the trustee.
  - (b) Valuations to be on the basis of "fair and reasonable market value" with disclosure of sales evidence and assumptions used by the valuer.
  - (c) The basis of valuation to be shown at all times in conjunction with the valuation.
  - (d) The valuer and/or his company must be independent of the trust manager and have no involvement with the property trust by way of selling or purchasing agency management or consultancy.
  - (e) Valuations should be carried out on an annual basis.
  - (f) The valuers to be appointed on a rotation basis.
2. In relation to projections in property trust prospectus - the Institute of Valuers is of the view that projections cannot possibly be accurate in estimating capital or rental growth or in estimating movements in the CPI.

The valuer and the valuation profession should not be a party to or lend support to a dubious prospectus that is basically a marketing tool to influence an inexperienced investor."

I do not agree with the adding of the words "fair and reasonable" before market value nor do I agree that valuers should be appointed on a rotation basis. I do concur with their views as to hypothetical projections which could lead to dubious or misleading statements.

#### Conclusions and Recommendations

1. There is a problem of communication between valuers, accountants, auditors, directors and users of accounts on the subject of the valuation and depreciation of property. It is hoped that the publication of guidelines

and background papers in the valuation of fixed assets for financial accounts by the New Zealand Institute of Valuers will help to improve the degree of understanding between the various parties concerned.

2. Financial statements can be prepared under either the historic cost convention or a convention which gives effect to changing prices and whilst all conventions are artificial, accountants and valuers need to be aware of the degree of artificiality of the conventions necessarily adopted by each other.
3. Because accounts are produced for a variety of users they may well fail to provide all the information needed by any one group of users.
4. Because of the combination of the relatively long life of property, general inflation and the movement in the specific price of a company's property, the relevance and usefulness to the various users of published accounts of internal or unqualified valuations of the property declines over time. There is a need, therefore, to provide up-to-date independent valuations.
5. It is debateable whether such up-to-date values are better incorporated in the profit and loss account or in a note to the accounts. The quantum of profit derived from revaluations however, suggests that revaluation profits are better found below the line in the profit and loss statement.
6. Although there are many values which can be ascribed to a property, there is only one which is applicable to investment property and that is market value.
7. Directors should give the basis of valuation of property more precisely and more frequently than at present. Directors and valuers should be encouraged to use a more standardised description of the basis of valuation than is current practice.
8. Where it has been necessary to apportion market value between a building and a land element then the method of apportionment used should be disclosed in the report to the directors.
9. It would be considerable simplification and save time and money if no apportionment between land and buildings were to be required.
10. An auditor should attend the meeting at which the directors agree the valuer's instructions. Auditors should study carefully the valuer's report to see whether any parts of it need to be included in the notes to the accounts in order that any accounts including a valuation show a true and fair view. Valuers should withhold their consent to publish their valuation figures unless the figures have been appropriately amplified or qualified in words which are clear to the users of the accounts.
11. The desirability of (a) the valuer producing a short report including all material caveats for publication or (b) the full valuer's report being made available to users of accounts by being filed at the company's registry needs to be considered by the relevant parties.
12. In conclusion may I quote from a paper given to the first World Valuation Congress in England last year where the Chairman of the European group of valuers of fixed assets gave a paper on Valuation for Corporate Purposes. He concluded by saying "I suggest that before the valuation begins there must be a greater degree of liaison between the valuer, the auditor, the directors of the company and any other adviser who will be involved in assisting company directors in arriving at their decision as to what they tell their shareholders, debenture holders or the public at large. In this way I am convinced that the quality of valuations will be better, that the likelihood of undue influences being put upon the valuer by the client who wants a figure which is higher or lower than he would otherwise wish to have come to, will be diminished and that the quality of information to the public at large will be greatly enhanced."
13. I could do no better with my concluding remarks than to endorse those comments.

# "The Times They Are A-Changing"

## An Historical Look at Small Holdings and Society's Attitude

*by Dr A. D. Meister*

It is now 11 years ago that at an NZIV seminar here in Palmerston North the issue of "Valuation of fringe lands" was discussed. Today you have asked me to talk on the desirability of small-holdings, and even though the title is very different, the topic is very similar. We are talking about rural subdivisions on the fringes of cities as well as in the more distant rural areas. Thus 11 years have passed between the '74 seminar and this Conference, and a logical question seems to be, how much has changed? To deal with that question I would like to give you a little historical perspective of what I see has happened during those 11 years and then discuss where we are today.

Let us first start with your seminar of 1974. You had four speakers on the topic:

Mr Trevor de Cleene: and I quote: "Cutting up farmland is an anachronism. The value of a 10 acre block? Its value to society as a whole is primarily a negative one. Its value, however, to the owner of it in economic terms will continue to increase."

I would say that this paper was positively negative about smallholdings.

Mr Collis: Loss of primary production is to be deplored. Riding horses for kids create traffic hazards. Carbide guns frighten sheep dogs and valuations in the area are all upset. But we can't stop the trend, so let town and country negotiate.

I put this paper in the slightly negative category.

Mr W. E. Bartosh: He concluded that present legislation is powerless to stop subdivisions. We need more study and research on all aspects of rural lots. The trend will go on unabated and the moral and social issues surrounding the control and ownership of these lots is tremendous.

This paper went into the neutral category.

Mr P. W. T. Bagnall: With regard to the changes occurring in the fringe area he said that conventional zoning practices are behind the times and nothing is more predictable than the certainty of change.

I found this paper difficult to classify so it also got a neutral rating.

What really was missing was what I would have called a positive paper. The sequence of papers sort of logically pointed to a climax which never came. However, I found little bits of it in the discussion following, where it was stated by Mr Bartosh:

"I venture to suggest that there are plenty of instances where a 10 acre lot will produce much more to the national economy than it ever has before. I am suggesting to you that if this is analysed in detail you may be surprised that the loss isn't as much as you suspect".

And Mr Tierney supported this in pointing to some research done on subdivisions around Hamilton, and even Mr de Cleene then said something about the positive aspects of the 10 acre block development.

So finally the seminar's smallholdings pendulum had swung (if only just) from the negative to the positive. And what happened at that seminar reflects what has happened in society during the succeeding 11 years.

Now today, we are here again, swinging the same old pendulum and Mr de Cleene has started off again, even though this time he may not mention the topic. As the second speaker on this topic, I don't know where I will find the pendulum, but I do know in which direction I am going to push it. And that is the topic of the rest of this paper.

1974 1984 Smallholdings

- the County Councillor's Headache.

As predicted, the demand for smallholdings on rural subdivisions never abated during the period 1974 - 1984. County councillors felt threatened. They were unable to cope with this development; it was new and it was different. They were caught between the demand to cut up more land on the one hand and the requirements of the Local Government and Town and Country Planning Acts on the other. They were told that they should scrutinize all proposals for subdivisions and take into consideration the matters of national importance as outlined in the T'CPA. It was an unenviable task: one should never underestimate that! Some councils despaired. Some retracted behind solid walls called "status quo", which were built on the philosophy "stick to what we've always done before and keep out anything new and unknown. Who knows, it may go away!" Still others wanted to allow some subdivisions and came up with minimum acreage requirements and the "contentious 10 acre block" became official. However, 10 acres didn't work. It soon became 20, then 50 acres, and when New Zealand changed over to metric measures these regulations were conveniently changed to hectares.

The demand for small rural subdivisions did not go away and despair grew. A new tune could be heard to rise up from County offices "Help ... we need somebody ... help!"

Once councillors had taken this line of thinking it didn't take long before another line of a Beatles' song came up in their memories, something like, "With some help from my friends ... " and off they went in search of consultant planners.

They returned with rewritten District Schemes (some twice or three times as thick as the old one), sporting that new "trendy" phrase, 'the independent economic unit' or containing the 'fail-safe performance bond' to guarantee that, "the subdivided land will be used in accordance with its full capability and optimum use on a sustained basis".

The new schemes were carefully written to protect the Councils from any unforeseen developments, real or imaginary. They were impressive to see, but a nightmare for prospective subdividers. Reading the schemes, one found that although subdivision was allowed, it was only on condition that certain stipulations were met, and subject to Clause such and such, which in turn was subject to another Clause, which finally left the ultimate decision with the Council.

Not all schemes were like this, of course, but it was sad to see that the rural subdivision problem was being fought with a plethora of regulations.

Did it solve the problem (conflict)? No, it did not. In fact it created more problems. The new ordinances and regulations proved not only to be very impractical but also indefinable. It turned out to be difficult to define an economic unit, and to state what made it independent caused further head scratching. And what about those performance bonds? In theory they seemed fine, but again, who was to state categorically what the full capability and optimum use on a sustained basis of a piece of land is? And, if it can't be defined, then you cannot enforce the bond. But even if it could be defined, what was the Council going to do with the bond? Farm the piece of land themselves "to its full capability and optimum use ... etc?" No, the new ordinances didn't help Councils much in coping with the problems. Or perhaps I am saying this wrong. Perhaps it did help them in stopping much of the subdivision that would otherwise have taken place. And perhaps Councils felt justified in doing so because wasn't that the message they received from some of the Planning Tribunals? Some of the decisions by those tribunals read as if there was only one matter of national importance, i.e. "the protection of land having a high actual or potential value for the production of food". Many County Councils followed this lead and in many schemes one can read that the over-riding objective for land use planning is "to encourage the wise use of the land for primary production". But as those of you familiar with the TCPA know, this is not what the Act says. It talks about "wise use and management of New Zealand's resources and, among other things, to provide for the conservation, protection, and enhancement of the physical, cultural and social environment." Thus the Act talks about the "general welfare of people" not only primary producers.

All the above could just be termed a "learning experience" if it had not involved a significant cost to New Zealand society. In times that New

Zealand was and still is looking for alternative land based income generating activities, for ways and means to restore vitality in rural areas and for new employment opportunities, learning exercises of the type described above are costly. In my opinion the attitudes of many Councils, the fumbling by planners and the bureaucracy in Wellington have led to a stifling of innovative activity, a slow down in diversification, a wasting of resources to circumvent legislation and above all, an inefficient (or unwise) use of some of our land resources.

1974 1984 The Other Happenings.

In these 10 years, however, other things happened too in the rural subdivision or smallholding arena. Much research went on simultaneously to document the impact of rural smallholdings on the nation and on local areas. In a discussion paper published last year I documented 25 of those studies.<sup>1</sup> They represented the majority of research done between 1970 - 1983 and covered a wide area of New Zealand.

In the discussion paper itself, I did not draw any conclusions about the desirability of smallholdings. That was left to the readers who I reminded that:

"A rural smallholding is, of course, not a single, easily definable entity. It has in reality many facets. Smallholdings can be full time farming units, part-time farms, stepping stone units, homes for rural contractors, places to pursue arts and crafts or a rural residential dwelling. Therefore, depending on the use made of the smallholding it may or may not increase agricultural productivity".

<sup>1</sup> Meister, A. D., A Survey of Studies on Rural Smallholdings (1970-1983). Discussion Paper in Natural Resource Economics No. 8, Dept. of Agricultural Economics and Farm Management, Massey University, 1984.

And remembering that, agricultural productivity or economic efficiency is not the one and only criterion by which smallholdings should be judged, it is my opinion that there is now sufficient evidence to prove that smallholdings have made a positive contribution to the welfare of New Zealand's society. Although one can always point to exceptions in some local circumstances to the above conclusion, overall, smallholdings have not led to a loss of agricultural production, they have increased the level of innovation and diversification, and they have helped in some areas to stop rural depopulation and contributed to a revitalisation of rural communities.

The other thing that has happened is that during these years many councillors and planners have reconciled themselves with the fact that smallholdings are here to stay. Some have accepted the research findings and discovered that similar things had happened in their own backyards. Slowly, therefore, attitudes changed. No longer was the smallholding seen as "the undesirable unknown" or subdivision seen as the takeover of the solid rural bastion by people who were different and who would misuse the land. Some recent District Schemes clearly show this change in attitude - and the "independent economic unit" has gone out of the window. Other Councils

found that step too difficult and only threw out the independent bit. Also quickly disappearing is the "minimum size" criterion (which led to so much inefficient land use) and "maximum capability etc . . ." isn't mentioned any more.

Yes, things have matured, but not everywhere. However, where it has we now find a balance between small and large land-based enterprises and thanks to those Councils the Beatles also in some areas of New Zealand can sing about "Norwegian Woods" and "Strawberry fields forever".

1984/85 The Lingering Resistance.

Recently I completed a study with a student of mine, looking at smallholdings in the Wairarapa region.<sup>2</sup> The first objective of the study was:

"to assess the contribution smallholdings are making to the economic and social environment of the Wairarapa".

The survey results indicated that smallholdings played an important and beneficial part in the overall welfare of the region. Smallholders were found to take an active part in the community, made use of local services, used local facilities and achieved average levels of production higher than those achieved on similar land types on larger holdings. Further, they brought a great variety of enterprises and activities into the rural area and their presence created employment opportunities and helped maintain the viability of rural services.

<sup>2</sup> Meister, A. D. and G. D. Knighton, Rural Smallholdings in the Wairarapa: Desirability and Land Use Issues. Discussion Paper in Natural Resource Economics, Dept. of Agricultural Economics and Farm Management, Massey University, 1984.

So overall, a conclusive very similar to that of other studies.

The second objective of the study was:

"to assess the current district scheme ordinances with regard to subdivisions for smallholdings and to study the impacts these controls had".

This objective logically followed on from the first. If smallholdings were desirable, one would hope that District Schemes would be flexible and encouraging towards their establishment. This is not to say that we wanted to see the whole of the Wairarapa in smallholdings, but that we would have liked to see a balance between large farms and smallholdings, and to see that this was encouraged.

From our analysis of the schemes it became apparent that this flexibility and encouragement did not exist. There still appeared to be a heavy reliance on the "economic unit" criterion and other aspects such as permissions for dwelling houses and arts and crafts made the scheme less than encouraging. Further, the schemes were, in our opinion, far too complicated and therefore hard to read. They were basically "unfriendly".

The reception in the Wairarapa of this study and its conclusions was mixed. This may partly have been the result of the newspaper headline which read "Researchers slam counties' attitude on smallholdings". This we felt was not an accurate summary of our study. Another headline read,

"Small farmlet report upsets councillors". This was more in line with what we wanted to achieve. A further headline set the stage for the next stage of this saga. "Queries sought to report on smallholdings". Soon afterwards I received a letter inviting me to a meeting of the land-use working party of the United Council to discuss and answer a series of questions submitted to me.

The meeting took place - and to give you the conclusion quickly we all parted as friends. But the meeting revealed to me why today we still have a lingering resistance to smallholdings - it all has to do with some deep seated attitudes and some planning problems.

The attitudes I would like to summarize as:

1. They (the small holders) are different from us;
2. All good land should be in large farms under full time occupations in primary production. This is efficient and this is what the country needs and most County Councillors want;
3. If we don't write our schemes carefully, and with much detail, big brother in Wellington won't be happy with us;

The planning problems are:

1. A desire to cover too many aspects of rural planning with single ordinances;
2. A real difficulty of how to deal with the peri-urban area.

It came as a surprise to me that the deep seated attitudes mentioned still did exist. Some rural people still see the rural area as the domain of full time farmers on large properties with the right surname and of course without beards. Driving through the countryside and seeing smallholdings growing crops, or supporting horticulture or goats or deer enterprises, and knowing that they are economically viable (even if farmed only part-time) and then seeing large scale beef and sheep farms, some of which are surviving by the grace of subsidies only, makes me wonder if we haven't got it all wrong. Why should each smallholder have to go through endless struggles to prove that they can make a go of it, while large holders never have to? Are they economically efficient and socially desirable by default?

But besides the attitudes there are planning problems and they come back to Councils' inability to deal with the fringe areas around cities. To cope with it, Councils write complicated and strict ordinances to safeguard themselves. However they acknowledge that "Today, our provisions may seem strict, but they are not interpreted in a restrictive way". To which my response would be, why then write them and scare people off? Isn't an inoperative ordinance an exercise in futility?

The problem however, is real, for too much subdivision in the peri-urban area can lead to a loss of land to urban sprawl and the further danger of Councils having to provide services well beyond their financial means. The fact that today this is still a major problem (exacerbated by attitudes) is in a way sad. The reasons for this are:

- (a) It appears that councils are not willing to learn from past mistakes. They still seem to

be looking for the ideal set of ordinances that will solve all problems. We all know that such a set does not exist (at least not in the form of simple hard and fast rules). Circumstances everywhere are different and councils should learn that they can't get away with simple ordinances to deal with complex situations just to make life easy for themselves. Planning is a serious business and it requires thought and deliberations, often on individual proposal bases. It will take time and effort, but isn't that what councils are elected to do? They are asked to carefully weigh the pros and cons of proposals and determine if they contribute to the welfare of their regions. The sooner councils are willing to do this, the sooner the peri-urban problem will disappear.

- (b) The second reason why this situation is sad is that it is an indictment of the planning profession. The planning profession also seems to have learned little from the past. When will planners learn that the rural area is different from the urban area? That urban planning, steeped as it is in regulations and zoning concepts does not fit the rural area. Many district schemes seem to be translations of urban concepts to the rural area. We've seen that it doesn't work. County councils do need the advice of planners (but often it has been very poor advice). How different things could have been if planners had been more forward looking and more innovative?

Just to conclude my story, it was, as I said, a pleasant meeting. I learned something and I hope they learned something. The end result is not quite what I had hoped for - a newspaper headline that appeared after the meetings said it all.

"Council will wait for suggested changes to local district schemes".

I am not a planner, and I have the feeling that the Council is still looking for the ideal set of ordinances that does not exist. I have sent my

advice. To discuss it would get into the territory of the next speaker. Much of what Ken Tremaine will say hopefully will cover the advice I gave.

But I did ask Councils to learn from the past, to do most of the planning themselves and to treat the peri-urban as a separate entity with specific guidelines, and finally to make their schemes flexible, readable and encouraging.

Conclusion.

I have presented you with a brief history about smallholdings and attitudes. As the title of my paper says, "The times they are a-changing" and personally I am glad about that. It is encouraging to receive a request from a County Council to study for them the impact smallholdings have had in their region because they are convinced that it has stopped rural depopulation. It is encouraging to read district schemes that clearly acknowledge the contributions made by smallholdings and therefore encourage further development of them. And finally, it is great to see the changes in attitudes that are occurring. Farmers see smallholders in a new light and smallholders realize that Councils do need to control orderly land use. Nowhere is the suggestion made that there should be a free for all in terms of rural subdivision. As with everything, there should be a balance taking into consideration social, economic environmental and cultural considerations. That is what I understand the TCPA to say when it talks about wise use and management of New Zealand's resources.

You, as valuers, are right in the middle of this. There is money in it for you. But also, you will be called on to give advice, be it as public hearings or at Planning Tribunals. I hope that you, with your experience in dealing with smallholders, will also be able to contribute to this change in attitude that has been, and is still taking place.

I am personally encouraged by the changes that are occurring (sometimes too slowly). Therefore to conclude this paper I think we can call on another song and get councillors, smallholders, valuers, really all of us, to sing:

"We shall overcome!"

# Cleaning The Spring

## An Owner's View of Small Holdings

by Dr H. C. Ross

Perhaps we all need to clear our heads a little at this stage, after two days of headlong facts and viewpoints.

I would like to attempt that through Robert Frost, the American poet. Just four lines from his poem "The Pasture":

I'm going out to clean the pasture spring;  
I'll only stop to rake the leaves away  
(And wait to watch the water clear, I may): I  
shan't be gone long. - You come too.

You see, in the end, many people like me go onto the land for essentially emotional, spiritual, reasons; Robert Frost's reasons. That's not to say we are inefficient or "hippie". I mean we sometimes make the move out of an emotional attachment to land and the enterprises that go with it. At its simplest level, a small holding can offer a great release from the day's professional grind. "I'm going out to clean the pasture spring" can easily find its variations:

"I'm off to check the sheep,"  
"I'm off to see if there are any mushrooms;"  
"I'm off to check the trees;"  
"I'm going for a walk."

I'm sure many a wage or salary earner can be found humming "Where sheep may safely graze" or warbling "I'm just a country boy" after five o'clock on their paddocks.

In this respect, this finding of some peace or solitude, I am perfectly serious in suggesting that Erin Street, Palmerston North, is far better without me. Before we left there I found the neighbourhood noise, especially loud stereos, quite intolerable - and said so. Tensions, predictably, set in. When the quality of our lives boils down to the sum of our daily satisfactions, it is far better that people like me, with a marked need for quiet, a marked need for time away from people, be given scope to find those things. My ex-neighbours probably prefer it, I prefer it.

Such social issues affect our daily lives as much or more than the efficient production of (sometimes unsaleable) produce. I think we do not give enough weight to the social issues.

Maybe not quite so well understood as the daily release is a related phenomenon: to those of us who work mostly with people and ideas there is often a strong pull to do something material - not necessarily assemble wealth, but shape objects, create some satisfactory mark on the landscape, husband animals or crops. Listen to Herbert Guthrie-Smith, the Scot, old boy of Rugby School in England (and we all know how Rugby builds character!), the man who for many years owned the huge Tutira Station north of Napier and from

his life there wrote the book, *Tutira*, a classic in our literature. Listen, then, to his satisfactions:

During the whole of one winter we were thus occupied - one day preparing the forty or fifty loads, strapping them into evenly balanced lots; the next, running in the teams at daybreak, saddling up, and, after the hastiest of meals, trotting our string into the heart of the run, loading up, and driving them with jangle of strappings on hooks, and groaning and creaking and straining of leather. Each day saw something accomplished, something done, until at length, flat on the grounds for miles, lay the material of the future fence. How delightful then to note its erection, strain after strain, mile after mile, over gorge and slope, straight as a Roman road to its appointed end; to test the deep-sunk, hard-rammed strainers; to feel the adamant fixity of the footed and rise-posts; to observe the neat pattern of the stapling, the trim-cut knots, the final result, six wires evenly paralled and taut as fiddle-strings. A fence-line can be erected to the glory of the Lord as truly as a cathedral pile.

".. As truly as a cathedral pile!" We would do well not to play down the social and cultural importance of these satisfactions. A healthy country is one in which its people find fulfilment without impinging upon their fellows. Large scale farmers should know this: small holdings can also allow it to happen. How gratifying it was to hear, having already arrived at these thoughts, Anton Meister point out that the TCPA includes in its compass the "enhancement of the physical, cultural and social environment"; the "general welfare of people".

Still with the peace of the spring: there is a particular kind of experience, spiritual and mechanical (would you believe?), that farming life has led me into but which it has required literature to clarify. One of the few books that has, on its own, profoundly affected the way I think and behave is by Robert M. Pirsig entitled *Zen and the Art of Motorcycle Maintenance*, a quite unlikely title. Zen refers to a state of bliss, enlightenment, a state of mind. And you think of oily, gritty, failing, motorcycle components.

Briefly, Pirsig has us travel across the U.S., he and his son on one bike, friend (husband and wife) on another. His bike he knows better than the back of his hand. Successive bad experiences with mechanics have caused him to study the machine, learn its ways inside out, maintain it to perfection, keep it "clean!"

They have bought a top-of-the-line B.M.W. They expect it never to break down. Out of technological ignorance, they abuse it. If it does break down they are immediately dependent on



whatever mechanics they can find.

He has found enormous satisfaction, he is at peace. They are nervous, fearful of mechanical failure.

What Pirsig discovered for himself is that the act of maintenance, oily and greasy though it may be, can itself be deeply satisfying - not just the satisfaction of the job finally done, the machine working again - but the mental satisfaction of working on the motorcycle's system, understanding it, thinking it through, solving it, above all not rushing to finish it but patiently accepting the task for itself. It is a celebration of the human intellect at work.

Listen to Pirsig and how incredibly close he comes to Guthrie-Smith:

The Buddha, the Godhead, resides quite as comfortably in the circuits of a digital computer or the gears of a cycle transmission as he does at the top of a mountain or in the petals of a flower.

The water pump on our property worried me to death. I had it fixed and was fearful of further trouble. With Pirsig in mind I bought tools, dismantled the pump, mastered it to the point that it does not now worry me. (That's the Cēs Blazey philosophy, Cos never worries, he claims.) When it needs attention I make a ritual of the event, like going out to clean the pasture spring. Similarly the chain saw, similarly an electric fence break down, and so on, though I'm far from perfect in approach.

I believe many farmers have discovered this principle for themselves. I well remember my uncle, farmer that he was - hugely patient (he was an All Black hooker and a big man), I say hugely patient with tasks of maintenance and repair. It is no small thing that farmers of my size can work towards this kind of stability. It is one of the ways we might help to maintain the very character of our nation as big farmers speak of it.

Now to some, of course, Fred Dagg is our national character and, oddly enough, the principle outlined by Pirsig underpins, I believe, that most treasured saying, Dagg's and the nation's, "She'll be right!"

"She'll be right" is sometimes thought to depict a casualness of attitude, an irresponsibility. But my experience suggests that it comes from a "casualness" under pressure, a refusal to panic. The pioneer must have become used to spending time on repairs (straightening mechanical springs, perhaps) and used to "finding a way". Time, persistence, thought (necessity mothers invention) would bring a solution. And the pioneer became confident of this. I have found something of it in myself. And I have seen my colleagues with small blocks (that's small blocks of land, you'll allow) discover this too. No bad thing to help keep such a tradition alive.

In case you think I'm preaching perfection in the small holder's behaviour I would like to put a salutary spanner in the cogs. Knowing Pirsig to be my bible, and knowing of the book's application to my pump, a colleague made the richest of discoveries one day: New Zealander Owen

Marshall's short story "Cabernet Sauvignon With My Brother," set in Canterbury. I'll read the critical passage. Raf, a small holder himself, is showing McLay his pump:

"I only need to run it for an hour or so each day," said Raf. He lifted the rusted kerosene tin which protected the motor.

"Mine will have to be electric, with remote switches. I won't be able to spend all day mucking about with electric engines," countered McLay. [He reads the wrong books, you see.] Raf wound up the starting cord, and pulled with no result. "Gives a bit of trouble does it," said McLay. Raf tried again and again, the only result was one cough, which flicked the starting cord up to give Raf a stinging blow across the face. McLay gave an understanding laugh. "Pity it's not Briggs and Stratton. They're the only small motor, I always say. I think you've flooded it." Raf seized the choke, fully extended it, and bent it across the motor. McLay was quiet. Two veins began to swell beneath the skin of my brother's forehead. They made an inverted Y the colour of a bruise. He tried twice more with the cord, attempts of elaborate calmness [the right books so far], then he went to the trailer and brought back the crow-bar. He systematically beat the four-stroke motor until the cooling fins had coalesced with the cylinder head; until the various attached parts had broken away. The crow-bar made a solid crump, crump sound of impact, and the pipe from the bore rattled in its housing. Some of Raf's sheep stopped grazing to regard him for a while, then resumed feeding. McLay had an uneasy smile, and his eyes switched furtively back and forth from Raf to me.

By the time Raf had finished, the veins in his forehead had subsided, and he wiped the sweat away with a sense of achievement. "Never underestimate the perversity of objects," he said. "Never let them get away with it. A switch won't function, a fitting or tool won't work, then before you know - open revolt. Don't give an inch. Did you hear what I said McLay? Never underestimate the perversity of objects."

Well, it clears the head, doesn't it.

I'm going out to check the pasture spring.

I'll give the pump a single chance to start. So how does my family fit, with such nostrums, into the rural scene? I say rural, not farming, because surely the economic question has been answered: small farms can be very efficient. In our own case we have doubled the recent stocking rate and lifted the lambing percentage to around 160% in 1984; we have planted a high-return exotic hardwood forest in a steep and gorse-prone gully; we have established windbreaks; we are experimenting with Agroforestry. Given little land (26 acres) we have been able to focus our energies to the point that the returns are probably the highest since the place was an economic dairy and pig unit after the second war - a one-armed returned serviceman raised his family on 26 acres!

Because small farmers can focus, because they

are moved by enthusiasm, because they are often good at finding things out, and because they are likely to risk innovation, many are a good bet for returning some efficiency to small acreages.

But how do we fit in socially? In our own case we have had a great deal of help from two or three established farmers. Yet we are really not part of the closer rural community. The country social scene demands that newcomers do most of the adjusting. And when you have another career, if your attitudes have been moulded before you arrive, if you don't have the time available to full-time farming families (even if they don't realise they have it themselves), if for any reason your children haven't gone through the local school (a major problem that), if you might be suspected of voting Labour (even once), if you earn a heinous government salary, etc. etc., then you are bound not to fully fit in. Attach these difficulties to the unconventional tricks new chums sometimes perform in their first rush of ignorance and eagerness (I, for instance, have been mistaken for a dog, and whistled at, while crawling along checking a freshly planted windbreak), then you begin to see why County Councils might have a slightly jaundiced view when it comes to judging the worth of small blocks socially or economically. Nevertheless, time should do its work, as Anton Meister has observed; the interaction should be fruitful for all.

I think I refer, in the points just made, more to Northern farming communities I know than to our own particular area. And I hasten to point out that in the city we also find more than a little intolerance towards the small farmer's ways. I have colleagues who have been, variously, very fully occupied with hobbies like horse racing, coin trading, rugby coaching, hockey administration, writing, theatre, historic places, and so on (we are all the richer for this diversity of interests), but none appears to be eyed so suspiciously as the small farmers amongst those colleagues. Partly it is our (small farmers') fault. We constantly talk about our places and experiences. And, of course, we are suspected of "dodging" taxes. But at root I think there is a city jealousy of those who have a stake in the land, a particular form of the "grass is greener" phenomenon.

There is also a strong suspicion that farmers are pampered. Indeed I have, myself, since becoming part farmer, used more, not less, the phrases "moaning farmers", "bleating cockies", and the rest. I am astonished at the services farmers can call upon. The MAF provides a wonderful fund of accessible information. I praise it but wonder, at the same time, at the debilitated, cost-crunched services supporting teachers and pupils (your children).

I'm astonished at the extent to which some farmers are prepared to pay highly for land with large sums of borrowed money and expect to be able to sustain their interest payments, as well as turn a profit, as well (often) as leave a farm to each son.

I'm astonished at the ways in which farmers are permitted to calculate taxable income (should I say non-taxable income?) yet still express their own envy of city (gross) wage and salary figures.

But they are likeable old sods, my neighbours, and I don't mean to exaggerate beyond recognition. My point is this. The "moaning farmer" cliché illustrates a blindness (mine and theirs): a "grass is greener on the other side of the fence" kind of blindness. The difficulties we have been discussing today, I believe with Anton Meister, arise not so much from economic facts as from a set of attitudes towards difference, towards different people, towards different units of operation. I still recall vividly the farmer's wife who objected on radio's "Landline" to forestry on East Cape. Her statement was that pines "blackened" the landscape; her every other comment seemed to object to new people with new ways unsettling the established way of life.

Let me rejoin my rural peers for a moment. I think it is true to say that at Aokautere the older land owners, about 700 hectares of them, have resented being taken into the city nearly twenty years ago, being rated and treated as if their future was in city subdivision, but being prevented, for those twenty odd years, from developing any of their land for subdivision. City politics (do notice that I do not say city planning), city politics have stamped the recent history of all those hectares of farmland. The area is still, at this date, overwhelmingly farmland.

Personally I have not been caught deeply in that argument - we are recent arrivals, have not wanted subdivision and have discovered a highly competent and helpful group of city planners - but rating has certainly affected us. I have found it offensive to hear a non-elected member of a city interest group, co-opted onto a rating sub-committee, assert that people in Aokautere live there only to use the city's resources. That assertion could not stand up to detailed scrutiny. Worse, it was made under the umbrella of democratic process by an unelected participant. It was not challenged.

I felt personally, too, the plight of one farmer on the outer edge of our district, who paid \$1,000 a year in rates while his county neighbour paid \$100 - each for ten acres, each for similar country, each about seven kilometres from the Fitzherbert bridge.

So the city has had its own answers to give. While the grass may always be greener on the other side of the fence, you do find sods on both sides.

Finally, let nobody escape my tirade, what about the sods on your side of the fence? How careful are you to make sure that I, lily-white non-developer that I, salt-of-the-earth, am not rated off my property by the values you generalise from other people's sales?

I have a particular problem. Small block subdivision (to an average of two hectares) became legal last year. Legal, that is, over an area of about 700 hectares, and that's a lot of little blocks.

It seems to me that your methods are most likely to be equitable when you assess in relatively stable conditions. So for example, normal fringe-of-city situations usually see suburban development involving a clear intention to sell and a fairly predictable rate of sale. In this case all properties share a similar incidence of valuation.

But in our case the area is so large that if all farms went onto the small block market, small block values would fall dramatically. The fact is that genuine farmers shore up the values for others by not selling (they preserve the scarcity value in a large area) and yet do not benefit from the generally higher valuation. Indeed they suffer from it in the form of higher rates (much higher, incidentally, than in the surrounding counties, and a real financial burden - Geoff Blackmore pointed this out earlier).

There may well be a simple answer to this problem. One you already apply. One as crystal clear as Robert Frost's spring. If there is let us have it. Rake some of your leaves away and let us, the public (or small holders, as watchdogs of the public good!) know something more of your methods, especially where they are applied to

unusual situations.

"I'll only stop to rake the leaves away  
... You come too."

What I have tried to say today is that small holdings do not just provide a therapy for their owners, important though that is. They continue the tradition of energy, initiative and patience we think of as being New Zealand. Far from sapping the nation's economy, they provide an important base for new farming blood and diversification. Where questions are raised about the worth of small holdings (their "value!") there is a need for the question raisers to check their own premises - to clean their own pasture springs. But if Anton Meister is correct, something of this is happening.

We'll see the water clear, we may.

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ISSN 0027-7282

NEW ISSN 0112 - 2045