The New Zealand VALUERS' JOURNAL

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DECEMBER 1986 VOLUME 27 NUMBER 3

Official Publication of the New Zealand Institute of Valuers

NEW ZEALAND INSTITUTE OF VALUERS

Incorporated by Act of Parliament

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Official Publication of the New Zealand 1nsticulc of Valuers

Contents

Corporate Planning Sessions and Advertising

Corporate Planning Sessions are the "in" thing. Your Institute, a little belatedly, entered the arena with an initial planning meeting attended by members of Executive in August, as a preliminary to a full scale Council Planning Session prior to the mid year Council meeting.

Corporate Planning Sessions could be described as just another way of getting all people thinking on the same wave length, but they do have the distinct advantage of working through a set of guidelines or rules to arrive at conclusions and recommendations for action.

For those members who have not been involved with a Planning Session, it's like riding a bike - A thing you can't learn by watching somebody else do it, and once you've done it, it all seems easy.

A survey of membership chosen at random formed the basis of the initial input into the planning session. Ultimately when the plan is formulated it will be put before members for adoption probably by mid-1987.

In addition all members of the Institute are involved in the decision-making by the contribution of your Councillor at the mid-year and annual Council Meeting.

The Planning Session conducted by Council was intended to answer the following questions:

What must a Corporate Plan contain?
What are the membership groupings within the N.Z. Institute of Valuers?
What are the present outside relationships with the N.Z. Institute of Valuers?
What are the external influences on the N.Z. Institute of Valuers?
What is the purpose of the N.Z. Institute of Valuers? (why do we exist?).
What are the stated objectives of the N.Z. Institute of Valuers?

In due course, the Institute will publish its plan, which will act as a guide to members of the Institute and members of the public alike. It is not intended as an inflexible document, and it will undoubtedly evolve with time.

A refreshing and not insignificant factor in Corporate Planning is that it enables the members of an organisation to direct their attention to the issues at hand whatever the organisation, and reach a consensus conclusion which must result in a series of actions.

Perhaps the most interesting aspect which tends to emerge from Corporate Planning is the breadth of thinking, and it is certainly noticeable that Corporate Planning Sessions tend to expand horizons rather than contract efforts along a narrow dedicated path. The N.Z. Institute of Valuers has tended to move within very narrow confines over the past 48 years. There is every chance that before the 50th Jubilee is reached, there will be an expansion into areas which may not find acceptance with the "purist valuers" but should enable the Institute to move forward to meet the broadening horizons.

There should be scope within the Institute membership for related disciplines and membership groupings for specialists in valuation related fields such as chattels, plant, forestry, marine valuing, shares, business options and possibly even livestock and fine arts.

It is unlikely now that valuers will entertain broadening the membership into what could be recognised as complementary yet competitive fields such as property management and Real Estate as these disciplines have their own well established bodies; but the day may come when the land related professions look more closely at a Chartered Surveyor type of organistion. The boundaries are becoming blurred and less distinct as each day passes. There are many members of your Institute who are multi-disciplinarily qualified and actively involved in real estate, property management, arbitration, portfolio management and property accounting. Our university courses are multi-disciplinary orientated and it is significant that we are now seeing in N.Z. the establishment of strong "professional property" organisations which make use of a wider base than pure property valuation.

Undeniably coupled with this is the opportunity now to advertise as registered valuers, albeit within the confines of professionalism and good taste. It is perhaps a little too early to judge the effect of this right to advertise. At the time of writing, permission has only just been forthcoming to action new Clause 23a of the Code of Ethics. However, it would be surprising if there is a sudden rush to place large advertisements throughout the major metropolitan dailies, if for no other reason than the substantial cost involved.

In the main, valuation firms are relatively small in size, and their fee is service orientated. There is no significant "profit" element in most valuation practices, as public valuers are mainly self employed as partners or associates within practices and are paid on the basis of what they gross in fees, with the greater proportion of the balance merely servicing overheads. No doubt the opportunity will be taken to advertise in more subtle ways by increased client contact, client information and a better appreciation amongst valuers of "client service":

The major significance of the change to the Code of Ethics permitting advertising is likely to be reflected in the following:

(a) A greater awareness generally by the public of the activities of registered valuers, as registered valuers make the effort to keep their clients and the public informed of their activities.
(b) A more concentrated and active effort by public valuers to make contact with their clients, particularly their regular clients, and keep them advised on property matters, and in particular movements in the property market.

Perhaps of greatest interest is the acceptance by all professional bodies of the rate of change which in your Institute has resulted in action commencing with the demolition of the hallowed scale of charges and now competition by advertisement of professional services.

Letters to the Editor

Mr Valuer "Quo Vadis"?

Sir,

Mr Ms Valuer - come down from your pedestal
- the property industry needs general practitioners
- you have the ideal background

Introduction

Having read the editorial by Rodney L. Jefferies in the September edition of the Valuers' Journal I would like to add my `pennys worth. Let me state at the outset that I am new to the New Zealand valuation scene so it is a case of "fools rush in where angels fear to tread" However, I have been a practising valuer in South Africa for 18 years and on the national council of both their Institutes of Valuers and Estate Agents. I have also had numerous links with several international valuation bodies. My first impression is that the situation here is not very different from others I've experienced.

The Pedestal

The valuer performs an essential service to the property industry but he has his limitations. The nature of the subject is such that it basically relies on comparative data and the expertise of the individual to arrive at a predictive assessment.

No valuer can be dogmatic about his assessments. He is giving an opinion and, like the doctor or judge, he will err at times. He must therefore be willing to listen to the opinion of other property professionals, both registered valuers and others in the property field.

I believe there is a responsibility on the valuer to qualify his valuations with a comment on the accuracy of the final figure. He needs to inform his client and the public at large on the background data available to him and the degree of accuracy of the assessment. All valuations rely to some degree on comparative data and the quality of that data has a bearing on the resultant value. The valuer should make reference to the adequacy of the sample data he is using and state whether, in his opinion, the sample is sufficiently large and representative. If a prediction is being made from an analytical, mathematical model then measures of accuracy of that model, such as the coefficient of variation or the standard error of the estimate, must be included in the report. This is part of the professional responsibility of the valuer.

The task of the valuer is to interpret the market not to create it. He uses his knowledge and expertise to advise on the value of a most difficult subject. Properties are not identical and there is no public exchange listing like the stock exchange. The valuer must, therefore, have direct contact with the market place and the property people involved in the marketing and development of property.

So Mr Valuer. if you believe you are on a high pedestal above the operators in the marketplace, I invite you to come down.

The Property Industry

The property industry in New Zealand is currently in a tremendous growth phase. Quoted property companies are blossoming and the public have been awakened to the value of a property investment. Property unit trusts-will, with the introduction of imputation, follow to accommodate other sectors of the market.

Many valuers have probably been taken aback by this tremendous surge and, I would venture, are a bit sceptical about certain prices being paid for property. A number of historical benchmarks are being ignored in anticipation of future demand. My own valuation experience tells me that certain entrepreneurs will go too far and forget that property follows a cyclical trend and that downturns should be anticipated.

However, the property industry has become extremely sophisticated and the practitioners are, in the main, most competent professionals. They come from a variety of backgrounds and are involved in the acquisition, development, enhancement, valuation, partition, disposal and management of property portfolios. On many occasions they require the advice of valuation experts but often find it too costly to continually consult an independent valuer on a fee basis. The trend is therefore to undertake `in house' valuations - hopefully using a qualified valuer.

With the growth of the property industry there is currently a strong demand for property practitioners to manage, in the broad sense, individual properties or portfolios. This demand will grow with the expansion of the property companies and it will be extremely difficult to find professional property practitioners to fill these vital positions.

The Valuer/Practitioner

The valuer has the ideal background to become a professional property practitioner. He has an indepth knowledge of the techniques available to assess value and experience of the market factors influencing value. But even more important, his total immersion in property has probably given him a a natural feel for property. Most experienced valuers "live" property and their "vibes" on whether a property is good or poor should not be ignored even though they may be difficult to quantify.

It is this complete involvement in property that is necessary to become a property practitioner and the valuer has the essential elements. I would go so far as to state that the expertise of many valuers is being wasted by purely forwarding valuation reports to clients. The knowledge of an experienced valuer is much broader than the pure assessment of value. In the same way that I have seen some accountants leave the profession and become most competent managing directors because of their good background, so the valuer has the opportunity of becoming an outstanding property practitioner.

Education

It is my aim that the academic education of Lincoln College will produce a broadly based urban property practitioner. However, in order to achieve this it will be necessary to supplement the learning process with practical case studies. We will need the assistance of valuers, property managers and marketing experts in this endeavour and I will look to the three property institutes for their continued support.

Furthermore, an ongoing educational programme is essential if the property practitioner is to keep pace with the continually changing market. New techniques, market information and indicators, research reports and contact with overseas professionals should be available to him. I hope, in the not too distant future, to see the creation of a real estate research centre - possibly in Christchurch. The centre would collect and analyse data, co-ordinate research and through courses, workshops and publications develop a continuing education programme. Hopefully, the centre would be a joint project of Lincoln College, the New Zealand Institute of Valuers, the Real Estate Institute of New Zealand, the Property Management Institute and any other property related organisations.

How's that for a challenge!

Terry P. Boyd
Senior Lecturer in Property Management, Lincoln College

*Note: Wherever the male gender is used it is intended to refer to *both male and female persons.*

Report on Mid-Year N.Z.I.V. Council Meeting

By The Editor

The 1986 mid-year Council Meeting took place on 27 and 28 September 1986, under the Chairmanship of the President, Mr G. J. Horsley. It was combined with a Corporate Planning Session, the first time that such a planning session has been held by the Institute other than a brief session between an independent facilitator and Executive earlier in August 1986.

Mr Stuart Morice replaced Mr Ken Palmer as the Councillor for Hawkes Bay at this meeting, and it was noted that Mr Ray Chappell has resigned from the Executive, the President asking that his service to the Institute be recorded and a letter on behalf of the Institute be forwarded thanking him for his service.

Corporate Plan

The first day of the mid-year Council meeting was given over to the Corporate Planning session. Council discussed in some detail the need for a plan, what it should contain, potential membership groupings within the N.Z.I.V., relationships of other bodies with N.Z.I.V. and the external influences on the New Zealand Institute of Valuers.

Council considered a statement of purpose and the objectives of the Institute.

In due course, the thoughts of Council will be put into a collective statement, and put to members for adoption probably during 1987.

Council Meeting

1. The minutes of the Whangarei meeting were confirmed by Council and signed by the President as a true and correct record.

Matters Arising

The guidance notes required ratification and were passed proposing changes to clauses 17a in the Notice of Motion for the Special General Meeting. Clause 17a which was later approved at the Special General Meeting of the N. Z.I.V. must then proceed to the Minister for approval. In due course, guidance notes will be prepared, and the Code of Ethics altered.

A white paper was presented on the issue of life membership. After considerable discussion it was agreed that a procedural paper for life membership be prepared.

Ratification was required on the second Notice of Motion presented later to the Special General Meeting. The guidance notes on advertising were adopted by Council and are to be distributed to members. In brief, the new rule change will allow solicitation but this must still comply with the balance of the Code of Ethics and be both professional and ethical. Council anticipated that the rule change would not become effective till between four and six weeks after the Special General Meeting.

Councillor Cleghorne presented to the meeting a suggestion for an off-shore conference during the week Saturday 9 May to Sunday 17 May. Details of the suggested programme are included in this issue. Council agreed that the Institute of Valuers should endorse and support the seminar.

Publicity and Public Relations

Three brochures have been prepared and made available to valuers, the brochures indicating the services available in areas of commercial/industrial, farm and residential valuations by the profession. Feedback from Council indicated some dissatisfaction with the wording within the brochures although it was noted that positive comments had also been received by both members and the public.

The existing publicity campaign includes not only the issue of brochures, but advertisements in a number of magazines including The N.Z. Farmer, N.Z. Listener and The N.Z. Women's Weekly. The total estimated budget excluding rate increases for the campaign is approximately $40,521, plus rate increases, unlikely to exceed an additional 10%. Accordingly, the advertising for the current year has basically been committed.

Council approved a sum of $75,000 for advertising and public relations for the forthcoming period and this was confirmed later in the meeting.

Financial

The following subscriptions for the 1986 year were submitted and approved by Council, all plus G.S.T.

Membership	1986 Increase Total	Subscription (plus G.S.T.)
Practising Members	$20.00	$200.00
Non-practising Members	$20.00	$120.00
Retired members	$20.00	$ 20.00
Students	-	$ 20.00
Affiliates	plus $10	$ 70.00
A.P.C.		$ 50.00

Council confirmed that the capitation for 1986 would remain unaltered from the 1985 period.

Formation of Companies

Council discussed the use of the term "registered valuer" and the incorporation of valuing practices as limited liability companies.

Council endorsed Executive's action that a registered company that applies cannot use the term "registered valuers" strictly in accordance with the rules.

In accordance with the paper presented by the General Secretary, Council approved an approach being made to seek an amendment to the Valuers' Act to give the Institute ultimate authority to approve the formation of valuing companies.

Executive

John Wall presented a verbal report on the Executive's activities including references to the following:

(a) There is an urgent need to restructure the offices in Wellington to accommodate the needs of the Institute.

(b) Complaints are taking up more and more of time of Executive, and the Chairman questions the involvement of the Institute in complaints.

Council passed a resolution that as a matter of principle, the Institute may direct all complaints for action to the Registration Board, and further delegate authority to the Chairman to act for the Institute under Section 32(1) of the Valuers' Act.

Education

A subcommittee was set up for the purpose of discussing N.Z.I.V. education. The recommendations of this subcommittee were received and the following resolutions passed:

(a) That the existing Education Committee of the Institute be disbanded and replaced by an Education Board appointed by

Council to comprise two members from the public sector, two members from the practising sector and a Chairman who may or may not be a member of Council or the Executive Committee, and in addition a member of the Valuers' Registration Board to be invited to the Board, to report back to the April 1987 meeting with recommendations on the remaining matters raised by the Education Subcommittee.

(b) Three members of the Executive Committee were appointed under the Chairmanship of Alex Laing.

Statistical Bureau Report

The Valuer General will charge a fixed price for the supply of sales data tapes from 1 January 1987 at the following rates:

1987 Year - $40,000
1988 Year - $50,000 1 5 "
1989 Year - $60,000 V

The 1987 charge to the Institute will in gross be something like 150% higher than that payable for 1986 and this has required a redetermination of the subscriber rates for microfiche and other services.

Council approved the adoption of the following rates:

(a) Sales data in microfiche form supplied to Valuer subscribers in the Auckland or Wellington N.Z.I.V. branch district	$350.00 p.a.
(b) Microfiche service to valuers or practices in Gisborne, Taranaki, Southland, South Canterbury, Northland and Nelson/Marlborough branches	$250.00 p.a.
(c) Valuer subscribers in all other branches	$300.00 p.a.
(d) Real Estate or non Valuer subscribers (single microfiche service) in any centre	$350.00 p.a.

(e) Continued concession rates to apply where subscribers also purchase data in electronic form

(1) Additional copies of microfiche to same address - discounted by $50 per set for two/four sets, $100 on five/eight sets, $150 on ninth or subsequent sets

(g) Nationwide customers with single invoicing but distributor addresses: $350 per set with discount of 10% on up to five sets, 20% up to ten sets etc.

(h) Data in electronic form. Given that the bench mark for microfiche has moved approximately 20% (from $250 to $300), charges for an electronic sales service should also move to the following levels:

Single valuer	$560.00
Two valuers	$700.00
Three valuers	$840.00
Four valuers	$960.00
Five valuers	$1,080.00
Six valuers	$1,200.00
Seven valuers	$1,300.00
Eight valuers	$1,400.00

Additional processing and special courier or other charges are in addition to the above figures.

Council noted and passed a resolution that the Chairman negotiate and pay a charge to the Housing Corporation for the modal house costs.

New Zealand Valuers' Journal

Council was advised of the current position and the action taken by the Editorial Board in setting up a new format for the N.Z. Valuers' Journal. Councillors generally expressed satisfaction with the new format, style and content of the journal in its first issue of June 1986. The format is to be retained for the future.

The June issue was also "drop mailed" with some 300 mailings resulting in approximately 100 new subscribers.

Council of Land Related Professions

The Junior Vice-President Mr Rod Jefferies has been appointed to LINZ. The Council of Land Related Professions is currently considering, the possible issue of a year book which would contain all valuers' names and addresses.

TIAVSC

The President of the Institute confirmed his involvement in a speaking enagement on behalf of the Royal Bank. He indicated that the mana of the Valuation Department was well recognised world wide and the methodology was often referred to as a model which could be emulated by other nations.

A new set of international standards is currently being collated and printed together with an index and glossary of terms plus some new standards and a number of amendments.

TIAVSC has been considering the adoption of an international Code of Ethics or an abbreviated form of Code of Ethics.

Pan Pacific Conference

Planning for the 14th Pan Pacific Conference of Real Estate Appraisers, Valuers and Counsellors is now well under way. The Pan Pacific Conference is to be conducted during the week of 20 March to 25 March 1988.

The organising committee comprising Messrs A. L. McAlister and G. J. Horsley of Wellington, Messrs R. E. Hallinan, B. H. Hadcroft, G. E. Whale, R. J. Glassey, R. M. Donaldson and Avis Hallinan (Ladies' Programme), are meeting regularly monthly in Christchurch. These meetings are also attended by Convention Management Services, and Mr Neil Darroch of Auckland, responsible for sponsorship. A firm monetary commitment has already been obtained from a leading sponsor, and other proposed sponsorships are in the pipeline.

Overseas invitations have been accepted by the American Institute of Real Estate Appraisers, the Australian Institute of Valuers, the Singapore Institute of Surveyors and Valuers, and the Malaysia Institute of Surveyors.

Council approved the underwriting of a paper "The collapse of the Rural Real Estate market in New Zealand; its causes, lessons, restructuring, national and international repercussions".

A working programme is being prepared and should be incorporated in the March 1987 issue of the N.Z. Valuers' Journal.

N.Z.I.V. Services Limited

The current representatives on N.Z.I.V. Services Limited are -

Mr John Wall - Chairman
Mr Kevin Allan - Secretary
Mr Graeme Kirkcaldie
Mr Bob Hargreaves
Mr Ted Fitzgerald

The Chairman reported that the I.B.M. software of Valpak is now up and running.

Nelson/Marlborough Council Meeting and Seminar

A Council meeting and seminar is to be held in Nelson on 12-15 April 1987. The programme for the seminar is included in this issue of the journal.

Council passed a resolution that the 1988 Council meeting and Annual General Meeting be held in Wellington as a working session only. The Council meeting and 50th Jubilee of the Institute to be held in Wellington in 1989. Taranaki will be hosts to the 1990 Annual General Meeting and Seminar.

Branch Boundaries

Under Rule 51/1, Council approved that a member of the Nelson/Marlborough branch be admitted as a member of the Canterbury/Westland branch.

Special General Meeting

The Special General Meeting of the Institute, of which all members were informed, was conducted on 29 September 1986 in the "Dominion Monarch" room of the Lodge, Kemp Street, Kilbirnie, Wellington at 10.00 a.m.

There were two notices of motion before the meeting. Both notices of motion were passed without amendment as follows:

NOTICES OF MOTION

A

Delete Clause 17A of present Code and replace with new Clause 17A as follows:

"17A In submitting any report on real property, a member should observe the highest standards of professional competency expected of a valuer having regard to the nature of the assignment being undertaken."

B

Part 1. Delete Clause 11 of Code of Ethics.

Part 2. Delete Clause 23 of Code of Ethics and replace with the following:

"23A A member may advertise his professional services, either individually or collectively, provided that such advertising complies with the following:

(a) It must not contravene, or be inconsistent with, the other provisions of the Code of Ethics.

(b) It must be presented and carried out in a manner which is professionally dignified and in good taste.

(c) It must contain only statements of fact presented in a manner which is not false, exaggerated or misleading.

(d) It must not contain any reference to a client without that client's consent having first been obtained or any statement which denigrates any other member or members.

(e) It must not advertise any service in a field of practice in which the member is not competent in terms of Clause 3 (3) of the Code of Ethics.

(0 Except where it is not practicable to do so, it must describe the member as a member of the New Zealand Institute of Valuers.

23B. No members shall carry out, or be involved in, any advertising, publicity, promotion, marketing or solicitation in relation to his professional services which is not expressly permitted by Clause 23A.

23C. A member will be deemed to have carried out, or to have been involved in, any advertising, publicity, promotion, marketing or solicitation which the member has expressly or impliedly authorised or which is for the member's benefit.

23D. Where there has been a complaint that a member has acted in breach of Clause 23B and the Council of the Institute is of the opinion that the member has so acted and has given notice to the member advising him that disciplinary proceedings will be taken against him in relation to the complaint and requiring him to cease the activity which is alleged to amount to a breach of Clause 23B, the member shall forthwith cease and will not resume that activity unless and until:

(a) the Council expressly permits the member to resume the activity; or

(b) the complaint is not within twelve months after the date of the notice made the subject of an inquiry under section 32(2) of the Valuers Act 1948; or

(c) the Board at an inquiry under section 32(2) of the Valuers Act 1948; or the Board of Appeal at any subsequent appeal under section 34(3) of the Act, finds that the activity concerned did not amount to a breach of Clause 23B."

Pan Pacific Congress (1988) - New Zealand

Sunday 20 March 1988 - Friday 25 March 1988

The Pan Pacific Conference programme has been finalised with the main theme relating to arbitration, investment, land use, liability and Professional Practice.

The full programme should be published and forwarded to members before the March 1987 issue of The New Zealand Valuers' Journal.

Membership

Recent Registrations

Mr S. V. Ayre	Auckland
Mr B. R. Stafford-Bush	Auckland
Mr S. G. Cairns	Otago
Mr T. J. Clark	Waikato
Mr G. J. Cook	Waikato
Mr R. D. M. Fergusson	Waikato
Mr M. S. Gillanders	Waikato
Mr D. J. Glew	Auckland
Mr H. B. Gray	Blenheim
Mr N. R. Hargreaves	Canterbury/Westland
Mr D. N. Harrop	Taranaki
Mr M. J. Havill	Waikato
Mr M. A. Hinton	Rotorua/Bay of Plenty
Mr C. R. Jarman	Auckland
Mr P. J. Kean	Auckland
Miss D. A. Leijh	Auckland
Mr B. W. Linn	Waikato
Mr F. M. MacNiven	Waikato
Mr M. I. Marinovich	Auckland
Mr H. B. Pedlow	Southland
Mr R. A. Porter	Waikato
Mr M. J. Robertson	Wellington
Mr H. T. Robson	Auckland
Mr J. B. Stevenson	Hawke's Bay
Mr R. E. S. White	Waikato

Admitted as Intermediate

Mr A. M. Beverley	Wellington
Mr T. G. A. Buma	Rotorua/Bay of Plenty
Mr J. R. Coers	Auckland
Mr S. R. Copp	Auckland
Mr G. J. Dodge	Wellington
Mr D. C. Everiss	Auckland
Mr I. J. Farrelly	Waikato
Ms B. L. Kai Fong	Wellington
Mr J. K. Hodgson	Southland
Mr B. D. Holdaway	Rotorua/Bay of Plenty
Mrs C. M. Keeling	Auckland
Mr C. King	Overseas
Mr N. B. Lewis	Waikato
Mr H. W. McCaw	Otago
Mr S. L. Middleton	Rotorua/Bay of Plenty
Mr G. Mullins	Wellington
Mr J. R. Nanson	Wellington
Mr A. T. Norris	Otago
Mr T. J. Pettengell	Wellington
Mr A. C. Remmerswall	Wellington
Mr A. J. Smith	Auckland
Mr R. B. Spicer	Wellington
Mr J. V. Wichman	Rotorua/Bay of Plenty
Mr P. W. Wilkinson	Canterbury/Westland

Advanced to Associate

Mr D. A. M. Finnis	Wellington
Mr B. C. Gladwell	Auckland
Mr G. M. Hardwick	Auckland
Mr L. S. Harwood	Auckland
Mr W. M. Murray	Auckland
Mr R. B. Spicer	Wellington
Mr G. A. Utteridge	Rotorua/Bay of Plenty

Retired

Mr A. F. Pyne	Wellington
Mr K. B. Smith	Canterbury/Westland

Deceased

Mr L. W. Anstey	Wellington
Mr S. R. T. Clarke	Central Districts
Mr R. R. Duncan	Central Districts
Mr F. T. Fullwood	Canterbury/Westland
Mr A. L. Jones	Auckland
Mr D. W. Spring	Central Districts

Resignations

Mr A. F. Harding	Rotorua/Bay of Plenty
Mr A. D. Simmers	Southland
Mr H. F. Wooffindin	New Plymouth

Removed from Roll

Mr D. R. Batten	Canterbury/Westland
Mr P. B. Clayton	Hawke's Bay
Mr P. S. Little	Wellington
Mr G. W. Mahony	Auckland
Mr N. M. Simpson	Overseas

NZIV
New Zealand Institute of Valuers

48th Annual General Meeting and Seminar

To be held at
THE QUALITY INN NELSON
On 13 & 14 April 1987
preceded by the Council Meeting
11 & 12 April 1987

An Invitation to All Members and Partners

To attend and enjoy the character and beauty of Nelson in April 1987 and some South Island hospitality.

The Programme to be over 2 days will include:

1. The Annual General Meeting on Monday at 5.00 pm sharp followed by Cocktails and a Dine and Dance at the Victory Room, Trafalgar Centre.
2. Interesting and provocative guest speakers include: Peter Malone, Mayor of Nelson to open the conference, Jim Hopkins as our breakfast speaker.
3. The Monday theme will encompass the investment sector property versus share and equity investments including farm trusts. Speakers are to be confirmed and will be advised later.
4. A more relaxed look at ourselves with Bill Graham speaking and demonstrating on the topic of "Physical Fitness as a benefit towards motivation, health and confidence".
5. The Tuesday programme following our learned speaker will be the initial presidential address and then a look at "Moving Hill-sides" delivered by Dr M. Johnston - DSIR. Following this a look at the thorny aspects of leasehold tenure in relation to ground rentals in Nelson.
6. The seminar will close after a light lunch with optional golf or bus tour arranged for the afternoon.
7. The alternative Monday programme will provide a bus tour afternoon, morning tea to Broadgreen Historic House, Korepo Winery for lunch, Kaiteriteri, finally the Craft Habitat and afternoon tea before returning home.

Basic Programme Enclosed for Details and Registration
for any further information contact:

The Nelson Convention Bureau
PO Box 194
NELSON

WE LOOK FORWARD TO SEEING YOU

Tony Gowans
Branch Chairman.

SPEECH NOTES:
Hon. Koro Wetere

Speaking to the Auckland Branch of the New Zealand Institute of Valuers at The South Pacific Hotel, Auckland, at Noon on Friday 5 September 1986

I have been invited here today, as the Minister in Charge of the Valuation Department.

It is a small, but important distinction, that I am not the Minister `of the Department, but rather the Minister 'In Charge'.

As Minister I cannot, and therefore, do not, give any direction to the Valuer-General, as head of the department.

He is a Statutory Officer, appointed under the Valuation of Land Act 1951, which defines his duties and responsibilities.

But the Valuation Department must have regard to the General Policy directions of the Government.

Recently, for instance, the Department was directed to increase its level of cost recovery to those who use its services, who are mainly the territorial local authorities.

Following a Cabinet direction, a new level of cost recovery was made in preparing and maintaining the Valuation Rolls.

So that from 1 April of this year, 50 percent of the Department's gross expenditure is being recouped, from the authorities.

The Department has also reviewed cost recovery in other fields, so as to recoup its costs and also allow an adequate maragin for profit.

In its special valuation services, particularly to other Government and Semi-Government organisations, its charges conform generally to your own institute's guide to professional charges.

The Department is therefore sharpening its own performance, to improve its already good level of efficiency.

The Department is well up to date with the latest advances in computer technology.

Last December, for instance, I opened the new computerised on-line system, which gives direct access to the Department's 28 district offices, and to its very extensive property database.

In October last year the Valuer-General was invited to present a paper, at Harvard University, to a world congress on computer applied valuation technology.

A recent Masters Graduate employed by the Valuer-General has been invited to present a paper at the end of this month, in San Francisco, to the International Association of Appraisal Officers, on computer-assisted mass appraisals of commercial property.

I am more than confident that the Valuation Department is well equipped to meet the challenges which arise from the new direction, that this Government is presenting, to the public service as a whole.

In October of this year the Valuation Department will be ninety years old.

My predecessor in office, had established a committee to review the Valuers Act 1948.

This was completed in 1984, and provision made for a Bill to be placed on the Legislative timetable

I regret that it has not been possible to introduce a Valuers' Bill so far, but one will definitely be introduced next year.

Valuation is one of five departments on the Board of Management of the LINZ, or the Land Information New Zealand, Project. The others are the offices of the Surveyor-General, the Registrar General, the Department of Maori Affairs and the State Services Commission.

A main objective of the LINZ Project is to make available to the public a computerised land information base, which will contain initially the records of the above agencies.

These are land held by Lands and Survey, titles and ownership from lands and deeds; title and ownership records of the Maori Land Courts, and of course the valuation data from the Valuation Department.

The Valuation Department's data is already computerised. The Department of Maori Affairs is entering its information on their new computer, while the others have yet to convert their mainly manual systems to a form suitable for computer input.

A significant stage will be reached when the Lands and Survey Cadastral Map Base is computerised.

The final introduction of a full national system is obviously several years away - depending upon the ability of the agencies to complete their own computerising projects.

The LINZ Project, however is exciting and of potential benefit to the nation, and to all involved in land-related activities.

I think it highly desirable that I also speak to you as the Minister of Maori Affairs.

In valuation there is the principle of `the highest or best use, which is, as you are aware, a prime basis in valuation.

But this can be at variance with the expectations of many Maori land owners, perhaps because of the land's location, or because its potential for development is high.

Let me give you an example.

A block of land in coastal North Auckland, which is close to resort development, may in your professional valuation terms, be worth a high valuation.

But Maori owners often see their role in land ownership, as one of protecting the land, and holding it in trust for future generations.

Therefore the `development/best use potential' is a valuation principle that Maori owners might not want for their land.

When the valuers take these factors into account, plus the difficulty developers often have, when dealing with Maori land and Maori land owners, surely these are good reasons to arrive at a lower level of valuation, than if it were valued simply as a block of general freehold land.

The Valuer will also need to consider further possible complications, if the land is subject to a 'reservation' status.

Now - following on from what I have just said, there are significant areas of Maori land in North Auckland which are 'environmentally sensitive'.

Examples of these are in the Bay of Islands, where a block of land on the foreshore, might have a cover of native forest, and perhaps form a continuous landscape with some neighbouring crown land. Modern economic pressure suggests that the Maori land-owners should clear their land of the native timber, and replant the area in commercial exotic forestry.

This of course would spoil the environment, and might create conlfict between the Maori land owners and the environmentalists.

Some Maori land owners would claim they were being disadvantaged as land owners, because of the non-development of their land in the past.

The proposal of'Nga Whenua Rahui' has now been put forward. This says that owners, who are now being pressured into *not* developing their land, so that the country as a whole can benefit, should be adequately compensated.

There is still much work to be done, but the idea is that land owners should be compensated for leaving the land alone and not developing it.

In other words, the `best' use of that land might well be to leave it in its natural state, because of its environmental features.

If this is so - and its environmental status is itself an economic" use of the land, where the owners would be paid to leave it alone: - *then what is its value?*

In its unimproved natural state, would the unimproved value be the correct one?

And what notice will you, the valuer, give to the economic use of leaving the land in its unimproved state?

So the question is asked - *"What value does the valuer put on the environment"?*

And now a few words on another matter.

In June I convened an officials committee, to consider the question of Papakainga Housing, which is the building of dwellings on multiply-owned Maori land.

The Valuation Department is on that committee, which was set the following tasks:

(1) To provide an incentive, and an acceptable form of security for lenders, to provide housing for Maori families on multiply-owned land.

(2) To overcome existing restraints, whereby the Maori people cannot fulfil their housing aspirations by building on their own ancestral Papakainga land.

The Committee is proposing that the Maori Land Court be able to grant rights to occupy, which would be in the form of a Court order, registerable in the Land Transfer Office. The detail and impact could be considerable, and is dependent on many aspects. This includes being able to value the occupation right, which will have a limited real market for lending purposes, for mortgage guarantees, for matrimonial property act purposes, and for rating purposes.

A recent status report from the Committee indicates that all the valuation needs, can be accommodated within existing legislation, and progress here has been most pleasing.

This is an example of where your professionalism as valuers can be brought to bear on a problem which is of significant cultural worth, and which has been an area of considerable contention for many, many years.

I am glad to have this chance to talk to you on these points. They need understanding and need to be settled, and I invite you to contribute to settling these matters.

Tasmanian Registration Board Statement

The New Zealand Institute of Valuers has received a copy of a letter issued by the Secretary/Registrar of the Valuers Registration Board of Tasmania. The Executive Committee of the Institute ask that the contents of this letter be published for member information and that the question involved be taken up further via the New Zealand Valuers Registration Board.

The Tasmanian letter reads as follows:

"Dear Sir

"VALUERS REGISTRATION ACT 1974

I have been instructed by the Board to inform you that it is a contravention of our Act for any person to carry out a valuation of land in this State, irrespective of whether that person is a Registered Valuer in another State or not.

I would be pleased if you could inform the Registered Valuers in your State of this situation.

Yours faithfully,

Stephen J. Crane.
Secretary/Registrar."

Review of Current Farming Scene in New Zealand

By Wm. 0. Harrington

A recent issue of "Time" magazine reports that "12,000 of Australia's 172,000 farmers face bankruptcy this year:' 2 "Bulletin" predicts that as many as "70,000 Australian families will be forced from the land by the turn of the century.' Australian farmers are expected to net only $4,700 each this year which is far below the national average income of $14,000. This rural debt is $7 billion" Australian farmers have suffered from a high exchange rate, the removal of subsidies, and interest rates of around 20%.2

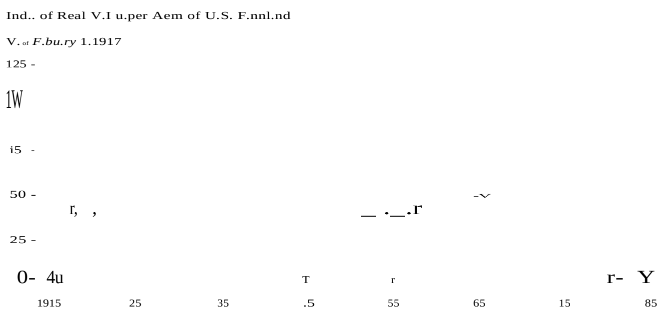
Since the early 1980's the United States farming industry has been steadily declining. The United States farmers have faced subsidy removal, high interest rates and a strong dollar, all leading to reduced farm income.

Some 20,000 farms were auctioned off at mortgagee sales between 1981 and 1984. In January 1985 Time Magazine reported "There will be a bloodbath of farm forclosures this year" One of the most worrying aspects of the farm slump was its impact on American banking. Farmers owed public and private banks some $200 billion in 1984. (By way of comparison N.Z. farmers owned the Rural Bank $2.5 billion in 1985.) Of the 79 U.S. banks that failed in 1984, 25 were agricultural lenders.[4.]

The following graphs illustrate the effect that falling farm incomes have had on the United States rural land market.5.

William O. Harrington Dip.V.F.M., FN.Z.I.V., A.R.E.I.N.Z., M.N.Z.S.F.M., is the Loans Manager and Farm Consultant in Dunedin with The Trustees Executors and Agency Company of New Zealand Limited.

Mr Harrington is a Fellow of the New Zealand Institute of Valuers and a member of the New Zealand Society of Farm Management.



REVIEW OF THE CURRENT FARMING SCENE

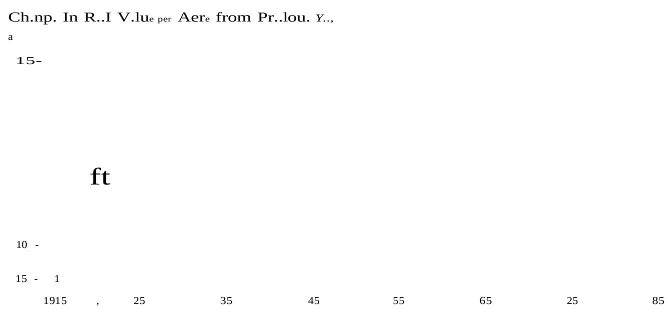
I believe that it is important that every New Zealander makes some effort to understand the extent of the current farming problem.

It is grossly unfair to just pass it off by saying "the farmers got themselves into this, it serves them right"

This present phenomenon is not peculiar to New Zealand.

Farming worldwide is in a very depressed state

Farming worldwide is in a very depressed state and most farmers worldwide are taking a beating. The problem generally is one of over production. Even the most impoverished nations are growing more food than ever before. With the increasingly widespread use of high yield seeds, pesticides and better and cheaper fertilisers worldwide production has doubled since 1964. In only 10 years the world's grain surplus has grown from 35 million tonnes to 300 million tonnes. The hungry who need the food the most still cannot afford to buy it.I



'72,000 of Australia's 172,000 farmers face bankruptcy this year.2

There are two features worth noting about the United States situation. Firstly, New Zealand's land values have followed a very similar pattern to that of the U.S. New Zealand has lagged about 1 to 2 years behind the U.S. both on the way up and on the way down. As previously mentioned, the U.S. farm market has still not bottomed out.

This suggests that we in N.Z. have a lot more pain to suffer yet.

we in N. Z. have a lot more pain to suffer yet.

The graph of values 1972 through 1985 is illuminating. It took only five years to unwind almost ten years of inflation.

The other interesting feature is that the 1985 percentage drop in the U.S. farming price was greater than at any period during the 1930's depression.

In the United Kingdom the price of farm land fell by over 50% in the two years from 1982 to 1984. The only thing preventing the value of land from collapsing further has been the realisation of financial institutions that they must stay in for a while to have a chance of recovering something of their investment. They are very fortunate in being able to do this.'

I have given this background to the world farming scene to show that perhaps New Zealand's current problems are not entirely the doings of a "spiteful socialistic government". My conclusion is that much of our current problem stems from a worldwide over production of food and a shift away from heavily subsidised farming. It is this latter issue which is producting the most serious and far reaching effects. Whether our present Government could have done more to minimise the effects is another matter.

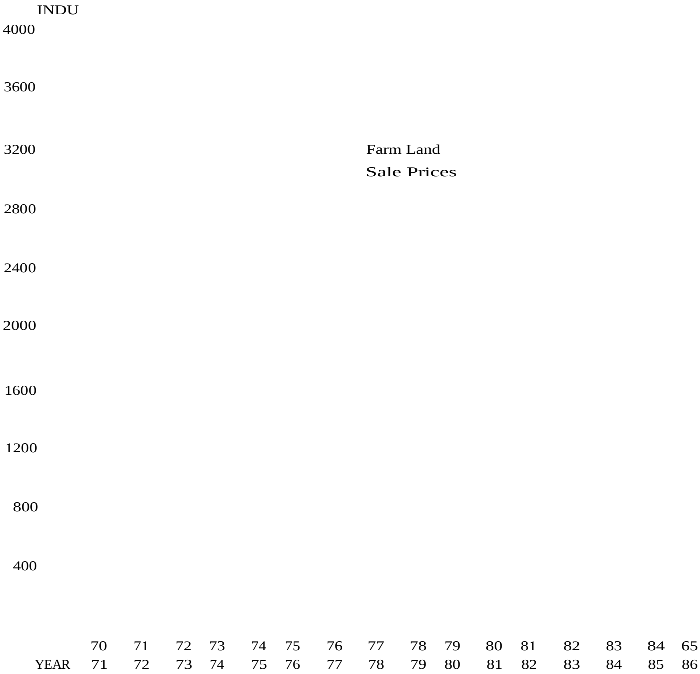
There is no doubt that much of the rampant inflation in land values both in New Zealand and overseas was largely brought about by the capitalisation of subsidies into the prices which were paid for land. This was particularly evident over the past decade. The E.E.C. which heavily subsidises its own farmers forced other agricultural producers to do the same in order to maintain competitive price levels.

New Zealand subsidised its farmers in the 1970s mainly by means of the Livestock Incentive Scheme, introduced in 1976, Land Development Encouragement Loans in 1978 and S.M.P.s which were first introduced in 1979.

Note the divergence between land prices and real farm incomes from that point on.7

FIGURE 2

SHEEP AND BEEF FARM INCOMES AND FARM LAND SALES PRICES
(Money Terms, 1975-76 - 1000)



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FARM MANAGEMENT NEWS 59

The 1970s was a golden age for agrilculture worldwide.

The 1970s was a golden age for agriculture worldwide. Farmers could do almost anything and make a profit. Down stream industries and the community at large all benefited from the spinoff. Suddenly the goose has been killed and everything has changed. For a small country like New Zealand which is still dependent on agriculture for more than 70% of its income the change will be widespread and traumatic.

It effectively means the removal of the security blanket from those who have invested in agricultural land in the belief that good farmland is a limited commodity and pressure on it, price wise, must always increase.

The very significant changes in government economic policy which have been introduced over the past two years have had, and will continue to have, sharp impacts on our agricultural sector.

The full extent of these impacts is yet to be felt by many, for while the impacts fall initially on particular groups, e.g. farmers, the flow on effects of falling income and consequently reduced farm expenditure has serious ramifications for many outside the farm gate. These include the transport, processing, servicing and financing industries most of whom have a large commitment in the agricultural sector. Virtually every company and business in Dunedin has some involvement with the farming community whether it be directly, such as stock firms, fertiliser and freezing works, or indirectly such as retailers, finance houses, professional services and the like.

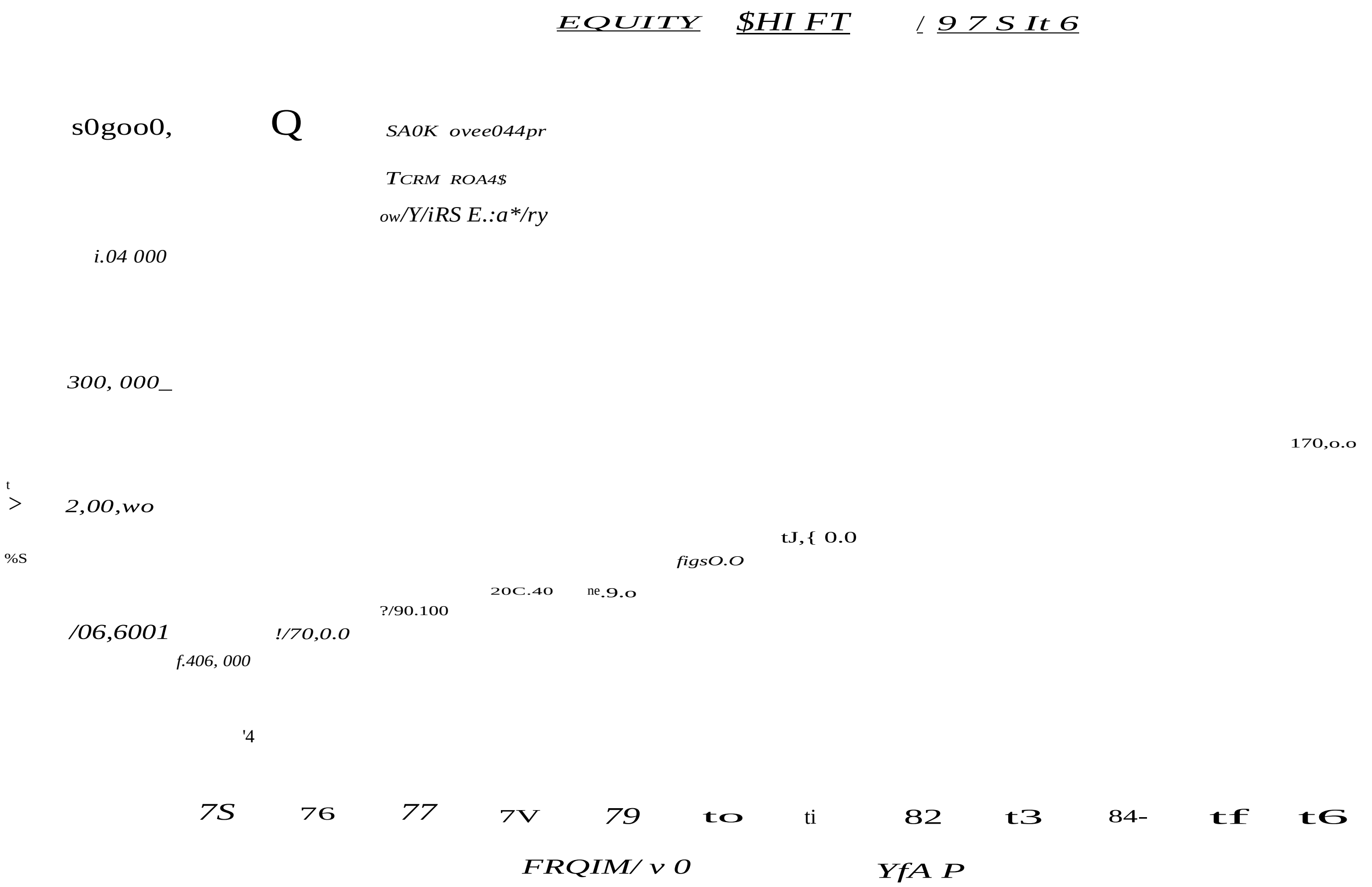
The withdrawal of subsidies, uncontrollably high interest rates and a strong exchange rate means that average gross income per farm will fall by some $28,000 this year.'

Of even greater importance to both farmers and the lending institutions is the drop in equity levels. The market demand for practically all classes of farm land has come to a virtual halt. Sales turnover is the lowest for 20 years. Land values have already fallen by more than 50% below the levels they were at only two years ago. A continuation of this downward trend seems inevitable.

Many farmers who borrowed against land value assets as far back as the mid 1970s, especially for expansion of their holdings, now find that they have insufficient collateral or current income to sustain payments.

In turn rural lenders who advanced funds on the basis, of say 50% of land value in 1980/82, now are finding themselves saddled with bad debts, bad cash flow, and some will not be able to recoup advances even if they foreclose.

The following graph illustrates the dramatic change in equity of one farm which recently sold. This would be fairly typical of the situation now facing 30% to 40% of New Zealand farms.



This farm comprises 170 ha. It was purchased in 1975 for $135,000 as a going concern. Both land and livestock were in a rundown condition. The carrying capacity of the property was about 1,300 stock units. The purchaser's equity at that stage was $100,000.

In keeping with the taxation incentives offering at the time the asset was gradually improved to the stage whereby in 1986 it was carrying the equivalent of 2,500 stock units.

The development and the financing of it was conventional. That was border dyke and supplementary spray irrigation, new woolshed and covered yards, renovated homestead, all financed by profit ploughback with some Rural Bank assistance for the land development.

Right through to 1984 the borrowings had been kept to a fairly safe level. The asset debt ratio had been improving all the time.

By 1984 the equity in the property had increased to $360,000. The market signs indicated that a further capital gain was unlikely. A decision to sell the property was made in early 1985.

For a variety of reasons the property did not reach the market until late 1985. It eventually sold in early 1986 for $280,000 as a going concern. Liabilities, which had increased by $30,000 over the last 12 months because of drought and increased costs (mainly interest), quickly built up to $250,000. The vendor eventually came out with $30,000 which was less than one third of his equity in 1975 and 90% less than he would have realised if he had sold in 1985. Bearing in mind that at 56 years of age he has little chance of obtaining a job at much more than the average wage his $30,000 will secure him a very modest home in the city only. The owner was particularly lucky to find a buyer. If he had to wait another six months my expectation is that he would realise less than $200,000 for the land stock and plant. Holding costs would add another $15,000 to the liabilities. The trading bank would loose $40,000 and the Rural Bank $35,000. The owner himself would be bankrupt, with no savings to contribute to even a house for himself and his family. The chances are that even his car would have been repossessed.

The example highlights the speed at which equity losses are occurring.

What I have been trying to convey is the extent and the complexity of the problem. Many townspeople, particularly in the larger centres obviously do not understand just what the average farmer and his family are having to face. Some are tarring the farmers with a brush which is grossly undeserved.

Farming is a risky enterprise, more so than practically any other business. It has to cope with climatic risks. As the recent droughts and floods have quite dramatically shown, these by themselves, can break many farmers. These risks are entirely outside the type of risks encountered by most other producers.

Farmers also have to cope with uncontrollable variations both on the costs of their inputs and the prices they can expect from their outputs. They are vulnerable to blackmailing, strikes from processors and transporters of their products, right down the line.

Due to their specific systems of debt to equity gearing, which has been both traditional and highly encouraged by past governments, and because of their inability to pass on higher interest costs to the community at large, as other businesses can, they are caught more viciously than anybody else by the fallout from our own and other governments' policies.

This has nothing whatsoever to do with the farmers' own individual farming capabilities.

W. 0. Harrington
Registered Valuer & Farm Consultant
Dunedin
May 1986

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5. Minnesota Agricultural Economist No. 650 1/86.
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8. Otago Rural Finance Committee.

Development -The Future?" The Client

By Paul Tuck

Paul Tuck ES.L.E., EA.LL, M.P.M.L, is the Manager, Property Investments for New Zealand of the AMP Society which is one of New Zealand's largest owners and developers of commercial real estate. He is responsible for the control of about 150 properties with a value of over $750 million. AMP currently has several development projects costing $150 million in various stages of completion.

Paul is a Fellow of the Society of Land Economists of Australia; a Fellow of the Australian Insurance Institute and a member of the Property Management Institute of New Zealand. He has worked in the Property Industry for 24 years largely located in Sydney where he held various posts which provided him with experience in activities in all capital cities. He has spent seven years in New Zealand from 1974-1977 and from 1982 until the present. He was a foundation executive of the Building Owners and Managers' Association - BOMA - and is currently the National President of that organisation.

Seven papers were presented at the New Zealand Quantity Surveyors Conference 1986. The following paper is believed to be of General Property relevance and of interest to valuers.

My associate, Geoff Weekes, has presented a paper which has dealt with the Australian scene and the manner in which AMP's property development and investment philosophy has developed to what it is today. I'm going to come closer to home and talk in broader terms about New Zealand. I'll concentrate my paper on an owner's view of the impact developers have had in the industry; their good and bad points; and make some attempt to look at the future, the developer's role in it and where I believe the whole commercial property development industry is headed in New Zealand.

Most of you people here today are quantity surveyors and it seems to me that you have a vested interest in seeing projects being developed in the traditional way, that is an architect controlled consultant team and a building contract tendered on full documentation. My employer, AMP, is one of the largest owners of commercial real estate in New Zealand. We also have been a major developer in our own right during the last 20 years and several of New Zealand's best buildings, which we developed, remain in our ownership. We are currently regarded as an informed owner with a commitment to life cycle costing built into our property development and investment philosophy. We now only operate in the top quality end of the market. Consequently, all other things being equal, we too, like you quantity surveyors, would prefer to build in a traditional way where costs and standards can be set and controlled in an efficient, reliable and predictable manner. But all things are not equal these days in the helter skelter of the property development business. The difference between the quick and the dead when it comes to putting successful property investments together is speed of action and control of good well-located sites. I would digress to say that we must all realise that an office building or a shopping centre in the hands of an owner like AMP, say life offices or superannuation funds, is not really bricks and mortar, it's a long term money making machine and I think Geoff touched on the fact that we don't have any great emotional love for any of our properties. The initial cost and its relative cheapness, or otherwise, needs to be balanced against the income and income growth to be returned in its future life.

Now getting back to developers, speed of action and control of good, well located sites is where developers have made their positive mark in the industry. They have developed great speed and ability in the acquisition and amalgamation of these sites. This is an area where they have clearly outstripped the institutions, particularly in the last five years or so, to the extent that the institutions have virtually given up in the entrepreneurial area and, consequently, the number of developers in the top end of the commercial area has doubled as they have become the movers and shakers in the industry. AMP amassed a large bank during the early seventies and some of these sites are still to be developed. But these days our land banking activity is relatively less aggressive and it seems it will continue to be so. There's a few things been happening in Auckland that appear to make a lie of that, but fundamentally what I've said is still true. Therefore, we will be depending on developers to supplement our activity by bringing us potential investments as far into the future as I can see.

Developers have also developed speed and efficiency in the building construction process and major improvements have been made in completion times in recent years. New Zealand no longer compares quite badly with world standards and remember, time is money and that's all we're really interested in.

AMP'S experience with its major developments over the last five years or so raises some interesting questions which are not easy to answer when one is comparing costs in Auckland and Wellington where seismic building codes and standards are different and where changes in inflation, price freezes and demand have caused costs to fluctuate unpredictably. However, I have some overhead transparencies and an interesting comparative schedule to show you here from which one can draw some broad conclusions. I might say that people up the back of the auditorium aren't really going to be able to appreciate the schedule when I put it up because the numbers are too small, but what I did set out to do was to have a look at six of our properties that we've developed in the last five years or so. Three of them we did ourselves and three we've done with developers. Three were in Auckland and three in Wellington and two of them are still under construction. I've tried to bring all the costs up to an April 1987 date which is when the last two of them will be completed and draw some conclusions from it. We're not going to have time today to get into detail at all; all we can do really is just broadly deal with the schedule. You'll all get a copy of it in due course with the notes of today's function, and anybody who's really interested may be able to draw a few conclusions there from.

It's interesting but the biggest problem I had is when I'd actually ifnished this schedule, it didn't really give me the answer I thought it was going to give because it was almost a non-answer. I'll show you what I mean. Firstly, I'll just quickly go through and show you the photos of the properties I'm talking about, most of you will know them. This is Quay Tower in Auckland which has been completed for about a year; Southpac House in Wellington which has been completed for about a year and which is on the quay front in Wellington; Shortland Centre Stage I, you'll see the model outside of this particular property, and alongside it in an early stage of development, Shortland Centre Stage II, which will be completed in about March next year; and lastly the second stage of the Gresham development in Wellington. Stage I is the retail section. It will be known as UDC Tower and it will be completed in about March next year.

Now here is the schedule. It is far too complicated to take in at a meeting like this. You see the developers' names up there, the various construction periods and times, costs, that is pure construction costs, excluding fees, but including an imputed interest component. 15 % was used in every calculation there, even though it wasn't necessarily the appropriate rate during the time periods the developments were done. So you've got time adjusted costs here and then I went back and related those to gross lettable area and net lettable area. Also this bottom figure is the amount of gross lettable area of building construction carried out per month. The interesting thing, and the thing that in a sense disappointed me because it didn't prove very much, was that the really key figures, which are the cost for gross lettable area, with one or two exceptions, all more or less came out fairly close together.

Generally I guess they show that AMP can do developments at about the same sort of costs that we can do by doing them through a developer. I had thought we would be dearer. Probably the two extremes are this one here. Southpac House, Wellington, which is very high for a developer-produced project and Quay Tower three, which we did ourselves and which came in at a very low figure. That tends to be backed up a litle bit if you go down to the bottom and look at the level of construction done per month where generally most of them are very good but, without giving them a plug, Mainzeal have done exceptionally well on those Shortland Street properties. But we did equally as well here on Quay Tower. Southpac House, which at the time we thought was a very successful development, somehow or other, when you look at the statistics, wasn't so good at all.

So my general conclusion from studying this information is that developers build faster, but not necessarily at lower cost than the more traditional methods, although that lower cost doesn't necessarily mean lower cost by the time it gets into the investor's hands. Perhaps, AMP's performance as a developer is as good as Mainzeal. You'll have to draw your own conclusions about that, but I don't think we come out too badly. But overall, looking at the overall quality of the various buildings, it seems to be that any apparent savings in costs a developer produces is really only a reduction in standards. Developers have prospered because they have developed greater speed and efficiency in the whole development process from site acquisition, planning and design, building construction and leasing. This is probably particularly so for those developers who have a construction company as part of their group, or at least in a special friendly relationship.

Well, so far it seems as if developers are close to the `hero' class, but are they? You don't know this, but at one stage the theme of this conference was being proposed as "The developer, saint or sinner?" This theme was dropped in favour of "the future" and partly, I suspect, to enable the speakers to skirmish with the original theme rather than to confront it. The facts are that developers are certainly not in the saint class and at times some get terribly close to sinning. The trouble with developers is that sometimes their standards are not what they ought to be, particularly if life cycle costing and efficient day-to-day operations are taken into account. There have been some terrible legacies left for future owners and tenants during the last few years where the short term expediency of cheap quality, low cost and high developer's profit has been given priority over the end owner's long term cost of ownership and the tenants' costs of occupation. There have also been some good developments and, to give credit where it is due, the timing has been good and they have hit the market when they needed to, and you've got to give developers that credit, if you left it to the likes of us wed be coming along with something great but we might be too late. We might not, too.

But sadly, the facts of life in this business are that a major part of the developer's profit comes from his ability to make the building as lean and mean as he can and get away with it. However, I don't condemn him for this as all of the players in the game should know how to look after themselves. New Zealand's whole economy and national ethos is the real sinner. Everybody from developers, builders, council planners, investors, tenants, tenants' staff, to the citizen in the street who buys over-priced shares in property companies, maybe even some of you guys, want to obtain the so-called best at the least cost and they continue to delude themselves that they can achieve permanent margins of advantage in this respect. It just is not so. You only get what you pay for and this is as true in the property industry as it is in life. There are no free meals and even if there were, developers, builders and tenants would not be providing them. At times, uniformed property investors do, by default, but there will be no tears shed for them either.

But the facts are pretty evident. There are very few top quality office buildings in New Zealand and the reason for this is that, sadly, tenants will not pay high enough rentals to achieve them. The marginal increase in rental between a basic quality building and a top quality one is just not enough. The reason for this is a study in itself, but largely it gets down to historically poor property management and the inability to market a quality product and too much influence and lack of imagination and understanding of the product by the valuing fraternity in rental reviews in New Zealand and not enough negotiation. This is a subject that really makes my temperature rise, but I don't have time to dwell on it any further today.

Well, what of the future for developers and property development? There have been record breaking booms in Auckland, Wellington and Christchurch in the 1980s and developers have played a major role in this. Their profits have been high and their share prices have risen to unbelievable and, I must say, unsustained heights. But they are here to stay whether the traditional consultants, including you quantity surveyors, like it or not. So, as I see it, gradually all consultant roles will change to fit a new environment and pressure will remain on fee levels where developers seem to be able to negotiate much lower rates than do the likes of the AMP. But it is inevitably that, like a locust plague, the current boom will subside and then suddenly disappear. While some of the leading developers around now will remain, their activities will be considerably reduced. Others will disappear, either having badly misread the future and over-committed themselves into oblivion, or by being quietly absorbed by the real winners as life returns to normal.

This transparency of an office space uptake schedule shows some staggering facts about office development activity in Auckland and Wellington over the last few years. One must draw his own conclusions on where we go from here. I'll point out that these figures are through the courtesy of Keys Preston and Maskell. I'm not going to dwell too deeply on the numbers, but there are a couple of points worth making. The interesting thing is if you look at the take up of space, the average take up in both Auckland and Wellington over the last six years has been over

50,000 square metres and, until two years ago these were down around the 20,000 mark. So we have a situation where, if you revert back to square feet, which a lot of peope like to think in, in the last two years in both Wellington and Auckland there's been a take up of over a million square feet in each of those last two years. So really there's been a staggering amount of increase in the volume of take up of office space in the last two years. And the other very interesting thing is that of properties in the pipeline, and most of those would be already under development, there's a tremendous amount of pre-leasing already been done. There's a lot of construction still coming through the system and, depending just how much more is taken up over the next few years, it'll show up whether we actually are going to have an over supply in a few years' time or not. But you would have to take a view, looking at these figures, that unless the take up of space suddenly just absolutely collapses, there doesn't appear as if there is going to be a terrible oversupply situation emerging. Certainly, from these figures, not in Auckland; but Wellington looks a bit more tricky.

These figures appear to disclose a situation which runs directly opposite to the generally held view that activity in Auckland is about to see a marked downturn, but that there is plenty of life left in Wellington. However, what these figures do not show is the amount of space available in each city for subleasing in new buildings and for direct leasing in used buildings. And this is the critical factor in solving the dilemma as to what the future holds. I'm pretty sure that these types of leasing are going to be a real problem in Auckland and that the competition they create will act as a strong brake on rental growth in that city. And once rental growth stops, development stops. There is no evidence yet of this submarket causing a problem in Wellington, but it too is going to be facing up to an oversupplied market by 1990 at the very latest and I think you'd be deluding yourself if you thought otherwise.

My opinion is that property development in Auckland and Wellington over the next 15 years has a good future, and I stress 15. But it will be one of fluctuating fortunes. Much of the activity over the last 10 years has been fuelled by the decrepit state into which our major cities had fallen. There is still much to be done, particularly in Auckland. Net rentals for new buildings in that period have moved from about $60 a square metre per annum to $220 a square metre per annum. Today I estimate that a starting rent of about $290 per annum net would now be needed to create a viable, good quality, centrally located, air-conditioned development in either Auckland or Wellington for completion in say late 1988. In other words if you were going to kick one off today. It's a pretty high rental, but people are talking those sorts of rentals.

Against a background of rapid increases in available space to lease, a difficult economic environment, including the advent of GST, low population growth in Auckland and a decline in Wellington, the crippling depression being experienced by the rural sector which believe it or not is still New Zealand's lifeblood, and most tenants now having been accommodated in new space, who can see rentals defying the current supply/demand curve imbalance, as showing up on that schedule, and going through the $350 per metre per annum net mark by 1990 and thereby fuelling the current boom? It just bears a bit of thinking about. The snowball's rolling and getting bigger and bigger, but can it keep doing so?

It's not impossible that it could happen in Wellington, but I have very serious doubts about Auckland where there simply may not be enough tenants. So activity will soon slow down. This has always been the cyclical nature of the industry. The current boom has already made the development industry far more efficient, although building costs are now out of hand and carrying the seeds of their own demise. They're just going through the roof and you guys probably know that better than me. The boom's gradual decline will continue to sharpen that level of efficiency gain. The good developers will survive, the poor ones will disappear painfully. The decline will also educate many owners, particularly the Johnnie-come-latelies in the facts of life when they see that their silk purse is turning into a sow's ear. This educative process will ultimately lead to an industry where a few developers will play the major role. These will be the ones that have the capabilities to buy good sites, build architecturally pleasing, quality buildings, plan, control and expedite the building works with speed and form a firm understanding with informed and knowledgeable investors. But more importantly, these will be the developers who pick the time to tighten their game and slow down to give the supply/demand curve a chance to level out. The winners are always those who are the first to get into and out of booms.

I will close now by saying that for our industry to prosper long term we need population growth and buoyant business activity over a wide range of activities so as to provide consistent economic growth. New Zealand's population is not growing fast enough. Also the economy is looking decidedly tricky, with the rural economy at disaster point, overseas markets being whittled away and inflation is high and out of line with the rest of the world. Only tourism seems to have strong growth potential, so like it or not, there are some alarm bells ringing out there for us all to hear. My closing thought is that we are all engaged in the finale of a game of musical chairs and it is time to make sure you are close to a chair when the music stops.

Questions from the Floor

You've touched on Auckland and Wellington. The South Island, how do you see that? A special case, or just a trend behind the two main centres?

Paul - I'm not sure whether you have a vested South Island interest or not. I got quoted in the South Island press a week or two ago because I said a few well-chosen words. Actually, things in Christchurch have been fairly good. The rental growth and rental activity in the last three or four years has been excellent, as good as Auckland or Wellington, but it's a much thinner market down there and outside of Christchurch everything would be a "no no". But I'm a bit worried about that South Island economy, as I would be about the whole of New Zealand. We're considering doing a development down in Christchurch at the moment, something around $20 million. Whether it will actually happen or not is still a moot point but we'll certainly make up our mind between now and the end of the year. So I see Christchurch, in a sense, as a smaller version of what's going on in the other cities. I think it'll have to level out soon.

You mention that the developer who has an association with his own construction company, or a friendly relationship has a bit of an edge or advantage over other developers who don't operate in the same way. Can you tell us about your experience, or your reasons, for why you feel that way?

Paul - I think it all gets back to doing business with the devil you know rather than the one you don't know and it seems to me from our experience that developers who we can get on to a good wavelength will usually seem to wheel up the same builder if there's been successful developments before with them. I guess if you look around at the various leading developers, and I'll try not to mention any names, they seem to get a pattern going, a successful way of going about putting these things together and you find that almost invariably the same builder is there each time and then, if something goes wrong, suddenly there's a change and somebody else bobs up and he'll get a run of them. But all successful developments will involve a team, and I see the investor as being a part of that team. It all gets back to just how comfortable people feel in doing business with each other and I think the older I get and the longer Eve been in the business, the more I realise that it's a very important factor to put the right team together on a job, whether you're doing it with a developer, or you're doing one where you are the developer. We at AMP are highly skilled as developers and we've made some mistakes. I was involved in putting a development team together a few years ago that just didn't work. I suppose we have now pulled it out of the dive, but for some reason or other the team just didn't jell. I think developers, because they are the sort of people they are, and if they haven't got their own development company, then the difference between them making a big profit or a small one is making sure that the team they put together does jell, and that's right across the board, and I just see that as being the way it's going to continue.

You're advocating that we need a larger population. In Australia in some cities immigrants have increased the population yet in markets that I observe there's still been the over and under supply situation that we see.

Why would you advocate more people, does that merely create a demand for more space or does it in fact increase rental levels?

Paul - Whilst the two are connected, New Zealand needs more people in my view not so much to start filling up the buildings (they may one day be looking for tenants) but just to make the whole economy more dynamic. I'm taking a very long view with this but as I see it the whole property development industry in New Zealand has been through a very prosperous stage because it's catching up a backlog of things that didn't happen probably from 1920 through to 1970. But that backlog will be caught up with over the next few years. Looking longer term for the future of our industry, and for the whole of New Zealand, I really do believe there is a greater need here for population growth. I haven't got the figures here but I think in New Zealand the population growth over the last 10 years has been slightly under one percent per annum and Australia is somewhere just under two, I think. Now the difference between a growth rate of two percent per annum and under one percent per annum is one helluva lot. Yet we're expecting our economy here to continue to run along just like America does on a growth rate of the population growth that's roughly only a half. It just won't continue to happen. I think they did a great thing in Australia after the war when they took a totally different view to New Zealand and got stuck into bringing in immigrants and really building up their population base. It makes a very exciting country because you've got so many points of view. But it's really just the way I see things. I tell you what, New Zealand's got to get a higher population growth, but it's not going to affect anything that happens here in the property business in the next three or four years.

AMP Property Development

PROJECT	QUAY TOWER (AUCK)	GREAT NORTHERN (AUCK)	UDC TOWER (WGTN)	SOUTHPAC HOUSE (WGTN)	SHORTLAND CENTRE 1 (AUCK)	SHORTLAND CENTRE 2 (AUCK)
Developer	AMP	AMP	AMP	Riddiford	Mainzeal	Mainzeal
Construction Period	8/77-9/80	1/82-2/85	7/84-5/87	7/83-4/85	3/84-12/85	4/85-4/87
Construction time (months)	36	37	34	21	21	24
Construction cost (ex fees incl. imputed interest) ($M)	23.4	26.6(iii)	24.5	12.3(i)	23.2(ii)	28.5(ii)
Time adjusted cost to April 1987 ($m) (iv)	47.8	37.1	24.5	16.1	28.3	28.5
G.L.A. (M2)	34,412	21,394	17,806	8,067	18,114	19,323
Adjusted cost/G.L.A. ($/M2)	1,390	1,735	1,374	1,996	1,561	1,475
N.L.A. (M2)	24,734	15,617	10,047	6,753	11,144	11,538
Adjusted cost/N.L.A. ($/M2)	1,932	2,376	2,435	2,385	2,536	2,471
G.L.A./Month const. (M2/Mth)	956	578	524	384	863	805

Notes: (i) Negotiated tender; no carparking.
(ii) Fixed-price contract.
(iii) Price freeze in effect.
(iv) BIAC index used to adjust price to April 1987 equivalent.

New Office Space Supply KM 2

	Auckland	Wellington
Av. take up 1979-85	53	50
Completed uncommitted	1 (4/86)	6 (12/85)
Already pre-leased	143	117
Planned complete construction by		
1986	32	67
1987	108	67
1988	108	51
1989	Nil*	72
Jan. '90 oversupply if additional take up of P.A. of		
Nil	70	152
10km2	30	112
20km2	(10)	72
30km2	(50)	32

57 in 1990

Details supplied by courtesy of Keys Preston Maskell & Co. Ltd - Property Consultants.

A Computer Simulation Model for Urban Property Investment Analysis

By Anthony Beverley & Barry Dent

Anthony Beverley is a valuer with the Wellington office of the Valuation Department. Anthony completed a Master of Commerce degree in Valuation and Property Management at Lincoln College, Canterbury, in *1984, and has a special interest in the field of property investment analysis. In his thesis, Anthony examined the status and potential of information in investment decision-making, and developed a computer assisted information system for urban property investment analysis.*

Barry Dent, formerly Professor of Farm Management at Lincoln College, has recently taken up an appointment as Professor of Agriculture and Resource Management at the University of Edinburgh. Barry has an active research record in information systems, project appraisal, economics of energy, and computer modelling. Barry is a Fellow of the British Institute of Management and a regular contributor to professional and academic journals.

Introduction

Over the past quarter century, the potential for investment in urban real estate has greatly increased. Considerable investment activity has been stimulated by the often dramatic returns that are achievable within the property market. Contrary to this, the development of an investment analysis discipline has been haphazard. Traditionally, the property investment world has been characterised by individuals whose primary expertise lies in other directions. These individuals have largely relied on intuition and on experience to succeed professionally.

the development of an investment analysis discipline has been haphazard.

The intuitive approach to property investment analysis is becoming increasingly difficult. Fundamental changes to the structure, the organisation and the economics of the property world are taking place. The property environment is becoming increasingly complex. The changes taking place are narrowing the gap between investment success and failure. They are introducing a far greater degree of complexity surrounding events and conditions influencing the success of the investment. Effective decision making is becoming increasingly reliant on the availability of information able to reduce uncertainty and manage the complexity of the factors influencing the performance of the investment. Effective management of information as an active resource offers a great deal of potential to those who have the capability to put the resource to productive use.

The changes taking place are narrowing the gap between investment success and failure.

A computer assisted information system (model) developed specifically for the analysis of urban property investment in New Zealand, is presented in this paper. The objective in developing the computer model was to provide a means of improving the information resources available to property analysts and investors.

Evolving Analysis Methodologies

The traditional approach applied in deciding upon the feasibility of any particular property investment, or in discriminating between alternative investment/development options, would involve investigating the net operating income (before tax) of the property, expressed as a rate of return on capital (or equity) invested in the project. Typically, no account would be taken of factors such as the opportunity cost of money, the optimal financial/capital structure, taxation advantages offered by the investment, potential changes in rental income, operating expenses or the cost of finance over time, or capital gains potential.

Methods such as weighted yield (capitalisation) rates evolved in an attempt to overcome the limitations inherent in using a straightforward income capitalisation to value, or as a measure of return on capital. The Ellwood mortgage equity approach (Barrett and Blair 1981) for example, basically adjusts a market determined equity rate to arrive at an overall rate of capitalisation. It attempts to take into account the facts that most real estate is externally financed, that most investors sell long before the end of the economic life of the property, and projected appreciation or depreciation.

Although an improvement on traditional methods, weighted capitalisation approaches are fairly inflexible and are incapable of taking account of a number of the factors which may affect the performance and feasibility of the investment. Examples of these factors are:

(i) variations to income, expenses and residual cash flows over the operating period to the investment.
(ii) the timing of cash flows over the operating year and term of the investment.
(iii) the effects of taxation on income.
(iv) potential refinance of capital.
(v) additions and alterations to the property.
(vi) changing relativity between income and the potential sale price over the life of the investment.

Computer Simulation Modelling

A growing recognition of the need for a more thorough investigation of potential investment projects, coupled with an increasing acceptance and utilization of improved analysis techniques, and of computer technology, has resulted in the increased use of computer simulation modelling within the property analysis world. Computer modelling grew in favour as an analysis tool from its ability to handle large computational burdens thereby enabling the inclusion in the analysis of all the factors which contribute to the overall performance of the investment. The majority of the more sophisticated property analysis models have emerged from the American real estate sector, many of these developed specifically for the investigation of investment risk. To date, computer simulation modelling appears to have received only passing attention from the New Zealand property industry.

Computer Simulation Model

The computer simulation model described in this paper (subsequently referred to as "the model") has been developed to provide decision support information on the financial feasibility of predefined investment(s) in urban real estate. The model has been designed to provide a comprehensive financial analysis of both property development and property purchase investments, taking account of all the factors which influence or contribute to the overall performance of the investment. Using the model will in general require little or no knowledge of the techniques used in simulation modelling; the analysis provided by the model is based on data supplied by the user. The main structure of the model comprises four main modules. Figure 1 illustrates the relationships between the basic modules comprising the model.

(i) Development Module: Applicable to investments involving the development of urban real estate, this module accepts and where applicable generates subsequent cash flow items incurred/arising over the development term of the investment. Data are required as follows:

(a) the duration and number of analysis periods through the property development term.

(b) the cost of development incurred in each period.

(c) equity capital input/invested per period.

(d) mortgage finance - a maximum of three standard lfat/table mortgages, allowing variable terms and repayment conditions between mortgages, including the ability to refinance standard flat mortgages. Mortgage repayment schedules over both the development term and the operating term of the investment are computed internally within the model.

(e) bridging finance.

(f) income over the development term.

The model combines the cash flow items (positive and negative) to provide information indicating the cash position of the "investment" at regular (per period) intervals over the development term.

(ii) Acquisition Module: For investments involving the purchase of established urban real estate, the acquisition module accepts the basic property purchase and finance data, and where applicable generates subsequent cash flow schedules which are carried over to the operating period and liquidation modules (refer below).

(iii) Operating Period Module: This module provides a comprehensive, after-tax discounted cash flow operating period analysis on an annual basis. The analysis is based on both specific user input data, and data developed by the preceding modules. The model has been designed to cater for operating periods (investment holding periods) of up to fifty years.

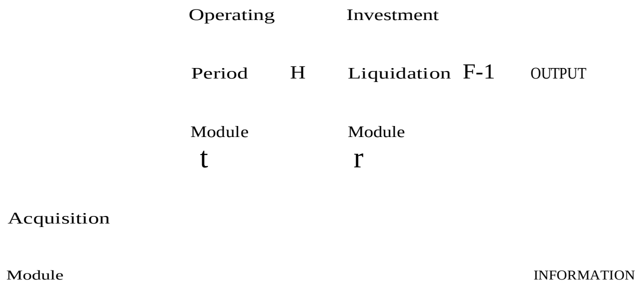

Figure 1: Basic modules comprising the investment analysis model.

(iv) Liquidation Module: The liquidation module provides, for each year of the operating period, an analysis of the overall feasibility of the investment, under the assumption that the property is sold at the completion of each operating year; it combines the operating cash flow analysis with an assumed property sale to provide financial return information under the different holding periods available to the investor. The analysis is based on user input property disposal data, and data items provided by preceding sections of the model. For investments involving the development of property, the model examines the financial feasibility of disposing of the property at the completion of development; i.e. a develop and sell option. Depending upon the nature of the investment, either the Development or Acquisition Module combines with the Operating and Liquidation Modules to provide the overall analysis of the investment.

The computer simulation model is designed to be used interactively at the computer terminal, providing both terminal display output, and output in hardcopy form.

The potential of the model as an aid to investment decision-making is best illustrated by using a case study: the following example uses a potential property investment to illustrate the type of analysis and information provided by the model.

Case Study Computer Simulation Analysis

The case study investment proposal involves the purchase of a vacant industrial site and the development of an industrial warehouse building for the purpose of long term lease. For present purposes it is assumed the investor is a substantial property based company actively involved in the management and expansion of an extensive investment property portfolio; a wide variety of investment options are available to the company and the required minimum overall rate of return on both total capital and equity capital invested in the project, has been specified as 17% p.a.

The proposed warehouse building has a total area of 2787 square metres, consisting of 402 square metres of office area and 2385 of open warehouse. The industrial site is level and 5872 square metres in size. The proposal lease is of a five year duration with an option for renewal upon expiry, specifies rent reviews to be at 2.5 year intervals, the lessee to be responsible for the payment of all operating expenses (net lease), and the net rental to be paid monthly in advance.

It is assumed that the investor has requested a full financial analysis of the proposed investment, focusing on the following decision issues:

Request A: The financial feasibility of the investment for a holding period of five years incorporating an examination of the financial feasibility of disposing of the property at the completion of each operating year.

Request B: The feasibility of utilizing borrowed capital available to the company (detailed below) versus financing the project with 100% equity capital.

Request C: The maximum that can be paid for the project in order to achieve a 17% p.a. overall return on total capital invested.

Request D: The sensitivity of the investment to changing market conditions, i.e. the degree of risk associated with the investment.

A comprehensive market analysis was carried out in order to obtain the basic input data required by the model; data reflect current market conditions within the Christchurch (New Zealand) region as at October 1984. It should be stressed that the accuracy of the data is not of critical importance to this illustration. The industrial development used for example purposes is however based on a realistic development option; the site was actually available and all data reflect the actual costs and returns available from this type of investment. These data together with the necessary parameters provided by the investors are summarised in Tables la to Id.

Table la

Investment Data: Development Schedule

The development term is estimated to be 6 months. The optimal breakdown of this term for analysis purposes is considered to be 6 1-month periods. The model has been designed on the assumption that cash flows over development occur at the end of each period. Mortgage finance is assumed to be borrowed at the beginning of the period. Development costs for period 5 below for example, are therefore financed by mortgage capital (refer Table 1b) available at the beginning of period 6 (effectively the end of period 5).

Month	Cost $	Month	Equity Input $
0	148,875 (land $120,000)	0	148,875
1	80,779	1	80,779
2	96,680	2	96,680
3	133,865	3	133,865
4	141,302	4	104,859
5	141,302	5	0
6	112,283	6	0
	$855,086		$565,058

(Inclusive of all development costs, fees, insurance and the costs of land).

Table lb

Investment Data: Bridging and Mortgage Finance

Mortgage Finance: Single mortgage table mortgage, principal $294,000, interest 14% p.a., 25 years fixed term, semi-annual repayments in arrears, principal borrowed at the beginning of month 6.

Bridging Finance: Maximum available $180,000, interest 18% p.a., borrowed finance and accumulated interest to be repaid at the completion of month 5, i.e. effectively the beginning of month 6.

Bridging Finance Schedule:	Month	Finance Borrowed $
	3	0
	4	36,443
	5	0
	6	0

Bridging Finance requirements are computed internally within the model based on deficit (per period) cash positions over development.

Table 1c

Investment Data: Property Operating Cash Flow

Estimated potential gross income:	Year	Annual Income
(received monthly in advance	1	91,080
projected rental growth rate	2	91,080
estimated at 12% compound p.a.)	3	105,996
	4	120,912
	5	120,912

Vacancy/Bad Debt: Nil over the initial five year lease term.
Lessor operating expenses: Nil (pure net lease)
Investor marginal tax rate: 45%
Depreciation: Cost price (straight line) basis @ 1% p.a.
Interest: Non-tax deductible, i.e. the holding period is less than 10 years; for example purposes it is assumed the investor will not claim interest as a tax deductible item, in order to avoid claw-back provisions.
Discount rate: 17% p.a.

Table 1d

Investment Data: Property Liquidation

In assessing prices payable for income producing properties, buyers typically capitalise current market rentals at an appropriate rate, and discount the resultant figure by any shortfall in rental (actual rental less than market rental) existing to the period of next rental review. For ease of illustration, the potential sale price of the case study property at each year end was derived by capitalising the forecast market rental level at each year end. Available evidence indicated a realistic market supported capitalisation rate to be 10.5%.

Example	initial rental operating year 0 =	$91,080
	Forecast rental growth rate (12% p.a.)	1.12
	Projected market rental at the end of year 1	$ 102,009
	Capitalised @ 10.5%	$ 971,500

Year End:	1	2	3	4	5
Projected Sale Price:	$917,500	1,088,100	1,218,700	1,364,900	1,528,700

Selling expense: conveyancing fee only at (1984) scale rates.
Mortgage early repayment penalty: 3 months interest charge.
Both selling expenses and mortgage repayment penalty are able to be input by the user, or are computed internally within the model.

The above data, considered to be most likely for the industrial development investment, were submitted to the investment model. The model has been designed for maximum efficency of data entry; the above data were able to be entered into the model at the terminal in less than 3 minutes. The model output of interest to this case study, are outlined in Tables 2a and 2b. Appendix I The provides a diagrammatic representation of the relationships between the components of the analysis completed by the model.

Table 2a. Example Model Output: Operating Cash Flow Information

The cumulative discounted after tax cash flow computed for the development term (computed internally within the model) @ -$511. The present value of the equity capital invested in the project i.e. the per period equity investment discounted to the beginning of the investment (computer internally within the model) @ $551,011.

Model Output:

Year:	1	2	3	4	5
Discount Factor	.7901705	.6753590	.5772296	.4933583	.4216734
Potential Gross Income Nominal	91,080	91,080	105,996	120,912	120,912
Potential Gross Income (Y.E.E.)'	99,258	99,258	115,517	131,773	131,773
Occupancy Rate /Bad Debt	1.00	1.00	1.00	1.00	1.00
Effective Gross Income (Nominal)	91,080	91,080	105,996	120,912	120,912
Effective Gross Income (Y. E. E.)	99,258	99,258	115,517	131,773	131,773
Total Operating Expenses (Nominal)	0	0	0	0	0
Total Operating Expenses (Y. E. E.)	0	0	0	0	0
Net Operating Income (Nominal)	91,080	91,080	105,996	120,912	120,912
Net Operating Income (Y E. E.)	99,258	99,258	115,517	131,773	131,773
Total Debt Service (Nominal)	42,606	42,606	42,606	42,606	42,606
Annual Interest Payment (Nominal)	41,109	40,892	40,644	40,360	40,035
Annual Principal Payment (Nominal)	1,497	1,714	1,962	2,246	2,571
Annual Interest Payment (Y. E. E.)	43,352	43,123	42,863	42,564	42,222
Annual Principal Payment (Y. E. E.)	1,576	1,804	2,065	2,365	2,707
Before Tax Cash Flow (Nominal)	48,474	48,474	63,390	78,306	78,306
Before Tax Cash Flow (Y. E. E.)	54,330	54,331	70,589	86,844	86,844
Cumulative Principal Payment	1,497	3,211	5,173	7,419	9,990
Unpaid Mortgage Balance	292,503	290,789	288,827	286,581	284,010
Building Book Value (Year start)	735,086	727,736	720,386	713,036	705,686
Depreciation Allowance	7,350	7,350	7,350	7,350	7,350
Sum of the Tax Deductibles	7,350	7,350	7,350	7,350	7,350
Taxable Income	83,730	83,730	98,646	113,562	113,562
Tax Rate	.45	.45	.45	.45	.45
Income Tax (Year End)	37,678	37,678	44,390	51,102	51,102
Tax Shelter (Year End)	0	0	0	0	0
After Tax Cash Flow" (Nominal)	10,796	10,796	19,000	27,204	27,204
After Tax Cash Flow (Y. E. E.)	16,652	16,653	26,199	35,742	35,742
Discounted After Tax Cash Flow-	13,157	11,246	15,122	17,633	15,071
Discounted After Tax Cash Flow/Present Value of Equity Investment	0.024	0.020	0.027	0.032	0.027
Cumulative Discounted After Tax Cash Flow""	12,646	23,892	39,014	56,647	71,718

* For discounting purposes only, the model transforms cash flow items occurring over each operating year, such as income paid monthly in advance, to year end equivalent (Y.E.E.) figures; the conversion is based on the timing of the cash flow together with the investors discount rate. Year end equivalent figures are subsequently discounted to reflect the present value of the cash flow item.

After tax cash flow figures are relatively low for the example investment. This is attributable to interest not being claimed as a tax-deductible expense.

The discounted after tax cash flow figures are in some instances greater than the nominal after tax cash flow figures. This is because Y.E.E. figures are used to compute discounted cash flow items.

""The cumulative discounted after tax cash flow total includes the discounted after tax cash flow total carried over from the development term analysis; as indicated above, this is a deficit of $511 for the case study example investment.

Table 2b. Example Model Output: Investment Liquidation/Performance Information

Year:	1	2	3	4	5
Discount Factor	.7901705	.6753590	.5772296	.4933583	.4216734
Investment Liquidation Items (Year End)					
Projected Selling Price	971,500	1,088,100	1,218,700	1,364,900	1,528,700
Selling Expenses	18,680	21,012	23,624	26,548	29,824
Mortgage Repayments Penalty	10,221	10,161	10,089	10,008	9,915
Amount Realised On Sale	942,599	1,056,927	1,184,987	1,328,344	1,488,961
Property Book Value (Close)*	855,086	847,736	840,386	833,036	825,686
Capital Gain	87,513	209,191	344,601	495,308	663,275
Unpaid Mortgage Balance	292,503	290,789	288,827	286,581	284,010
Equity Reversion	650,096	766,138	896,160	1,041,763	1,204,951
Discount Equity Reversion	513,686	517,418	517,290	513,962	508,095
Investment Performance Parameters					
Total Discounted Return*	523,718	539,076	554,394	568,977	578,418
Return to Equity	0.950	0.978	1.006	1.033	1.050
Net Present Value	-21,691	-6,333	8,986	23,570	33,012
Internal Rate of Return	13.59	16.42	17.58	18.17	18.35
Investment Value	799,100	814,458	829,776	844,359	853,800

* Depreciation is unable to be claimed as a tax deductible expense in the year the property is sold irrespective of whether a profit is made on the sale (NZ Master Tax Guide, 1984, para 1325; personal communication Inland Revenue Department NZ). The discounted cash advantage arising from the "current" years depreciation (annual depreciation 'tax rate* discount factor) is deducted from the comulative discounted after tax cash flow carried over to the 'Total Discounted Return' figure. The closing book value of the property and capital gain figures exclude the "current" year's depreciation for the same reason. For additional information, the model computes the closing book value of the property and capital gain inclusive of the "current" year depreciation.

Prudent investors concerned with maximising their economic position will generally have developed minimum performance requirements from which the feasibility of an investment(s) is established. From an economic viewpoint, these would specify a minimum level (rate) of return (on total capital or on equity capital) which would be partly dependent upon the opportunity cost of funds. Discounting procedures (performance parameters) arose in an attempt to take account of the opportunity cost of capital, in examining the investment in terms of the magnitude and the timing of cash flows on the basis of the investor's minimum return requirements (rate of discount).

The model output of most interest to this case study are investment performance parameters (Mishan 1982) output by the model which provide information relating to the overall feasibility of the proposed investment. These are the Net Present Value, the Internal Rate of Return, the Total Discounted Return, the Return to Equity, and the Investment Value.

Net Present Value (NPV)

The NPV (Epley and Millar 1980, Barrett and Blair 1981) of a project provides the analyst with a measure of the difference between the discounted or the present value of the costs incurred by, and the present value of the benefits resulting from, the project. The following basic decision rules apply to the use of the NPV as a measure of investment performance:

consider all projects which provide a positive (or zero) NPV.
- for mutually exclusive projects, select the project with the highest NPV.

The results outlined in Table 2b illustrating the investment provides a negative NPV for holding periods of less than 3 years; for holding periods of less than 3 years; for holding periods of 3, 4 and 5 years the benefits available from the project are sufficient to exceed the costs incurred in the investment. A comparison of the NPV's for the range of possible investment terms, clearly indicates that the net (discounted) benefit from the project is maximised under a 5 year holding period.

Internal Rate of Return (IRR)

The IRR (Epley and Miller 1980, Glew 1982, Martin 1982, Lane 1983, Stewart 1983, Wall 1984) is the rate of interest (discount) at which the present value of the costs, equals the present value of the benefits of the project, i.e. the rate of discount providing a NPV of zero. The IRR computed by the model can be considered to be a measure of the financial performance (Wall 1984) of the investment in terms of an overall rate of return on total capital. It can be seen from Table 2b that under the cash flow levels considered to be most likely, the investment has the ability to provide the required level of return (17% p.a.) on total capital invested in the project, for holding periods of 3, 4 and 5 years, A maximum rate of return in the vicinity of 18.35% p.a. is potentially possible if the investment is held for five years.

The case study example provides a clear illustration of the relationship between the NPV and the IRR. Both performance parameters provide in this case, an indication of the overall level of return on total capital (equity capital and borrowed finance) invested in the project. As would be expected, for holding periods which yield an IRR less than the required rate the NPV is negative; conversely, the NPV is positive where the investment yields a level of return greater than the investor's rate of discount.

The IRR provides specific information on the performance of the investment in detailing the level of return as a rate or percentage. This type and form of information is generally more meaningful than a lump sum dollar figure such as the NPV. The NPV basically indicates whether the economic performance criteria has been achieved; additional information can be deduced concerning the extent to which cash flows must differ from forecast in order to achieve the required level of return. A one year holding period for the case study investment for example, yields a NPV of $21,691. In order that the investment yields a 17 % p.a. return on total capital, a single or combination of positive cash lfows must increase to a level whereby the discounted value of the increase is $21,691. Alternatively, a single or combination of negative cash flows (costs) would need to fall to a level whereby the discounted decrease amounted to $21,691, in order for a 17 % p.a. return to be achieved. This concept is further discussed below (refer Investment Value).

Total Discounted Return (TDR)

One general disadvantage with relying solely on the NPV and the IRR as measures of investment performance is that both parameters are unable to reflect the amount of capital involved in the investment. The following simple cash flow example illustrates the deficiency:

	Period 0	Period 1	Period 2	Period 3
Project X	-125,000	15,625	16,500	171,000
Project Y	-608,000	46,719	54,000	735,000

NPV of Project X @ 10% per period = $31,316
NPV of Project Y @ 10% per period = $31,316

Project Y requires almost five times the capital input needed by Project X, however the NPV (and the IRR) is unable to reflect this different capital requirement. Similarly, the NPV and IRR are unable to provide information indicating the total amount of capital generated by the project. The TDR is computed by the model to assist in providing this information.

The TDR is the total net dollar sum, in present value terms, available to the investor from the operation and disposal of the investment property. Being the sum of the "cumulative discounted after tax cash flow" (operation of the property) and the "discounted equity reversion" (disposal of the property), the TDR provides a measure of the total net capital (dollar) return from the investment.

The application of discounting procedures implies that the investor has a positive time preference rate, i.e. capital has real earning potential and therefore the timing of cash flows is important. In taking account of both the timing and the magnitude of cash lfows, discounted performance parameters are by definition, standardised to a common base; their use therefore enables valid comparison of projects or comparison between various alternatives within a single or series of investments. Accordingly, the TDR is computed in discounted or present value terms rather than in nominal dollars.

It can be seen from Table 2b that the TDR generated by the investment increases with the duration of the holding period. This arises through a combined growth in rental income and property value which exceeds the investor's rate of discount (if the rate of discount exceeded the combined growth of rental and property value, the TDR would decline as the holding period increased).

Return to Equity (RTE)

Where borrowed funds are involved in a project, the level of rate of return on equity capital invested in a property will differ from the rate of return on total capital invested. Each property investment will have a profit maximising financial structure. This will be determined by the availability of equity capital, the availability, the type and the cost of borrowed funds, together with the positive aspects of leverage such as a declining real cost of capital repayment (with inflation) and advantages associated with capital gains.

Given flexibility and the ability to borrow capital, a profit maximising investor would attempt to structure an investment towards achieving the greatest financial return in relation to the amount of equity invested in the project. A prerequisite necessary for this type of investment decision-making is information relating to the performance of individual investments in relation to the amount of equity invested: the RTE provides this information.

The computer model generates the RTE yielded by the investment by computing the Total Discounted Return (TDR) as ratio against the total equity capital (in present value terms) invested in the project. Because equity capital may be invested at different times over the investment such as progress payments comprising a property development, the discounted equity investment is computed and used in order for the equity yield parameter to reflect the timing of the equity inputs as well as the subsequent cash flows (TDR). A ratio of 1.000 indicates the RTE is exactly equal to the investor's required rate of return (rate of discount), a ratio of less than 1.000 indicates the rate of return on equity is less than the required rate, and conversely greater than the investor's rate of discount for a ratio exceeding 1.000.

The RTE ratio computed by the model should not be interpreted as strictly representing the overall percentage return on equity, as the components of the ratio are computed and represented in discounted dollar terms. Rather, the ratio represents the level of profitability of the investment in terms of the investor's economc performance requirements. A ratio of 1.050 indicates that once the positive and negative cash flows comprising the investment have been discounted, the net return provided by the investment (TDR) represents a level of return on equity 5% greater than required; a ratio of .980 indicates that the discounted return is 2 % lower than would be needed *to meet* the investor's return requirements on equity capital.

The information provided in Table 2b indicates that the proposed investment has the ability to generate a satisfactory level of return on equity (i.e. 17 % p.a.) for holding periods of 3, 4 and 5 years, i.e. the RTE ratio is greater than 1.000 for holding periods of 3, 4 and 5 years. Under the investment capital structure outlined in Tables la and lb, the return generated by the investment represents a discount adjusted level of return on equity of

Table 3. Investment Performance Parameters Under a Capital Structure Comprising 100% Equity Capital

Year:	1	2	3	4	5
Total Discounted Return	798,934	808,679	819,225	829,756	835,758
Return to Equity	0.972	0.984	0.997	1.010	1.017
Net Present Value	-22,818	-13,074	-2,527	8,002	14,006
Internal Rate of Return	14.39	16.15	16.88	17.29	17.42
Investment Value	798,934	808,679	819,225	829,756	835,758

5 % over and above the required rate of 17 % p.a., over the 5 year holding period, i.e. a RTE ratio of 1.050.

Summary Request A:
The analysis and information provided by the model, indicates that if the expected levels of cash flow are achieved, the investment has the ability to generate the required level of return on both total capital and equity capital, for holding periods of 3, 4 and 5 years; a maximum overall return on total capital of 18.35 % p.a. is potentially possible under a 5 year holding period, this level of return providing a Total Discounted Return of $578,418 and representing a Net Present Value of $33,012 and an overall discount adjusted level of Return to Equity of 5% over and above the investor's required rate of 17% p.a.

One objective of the case study investment analysis is to establish the feasibility of including borrowed funds in the investment, versus financing the project with 100% equity capital. The data outlined in Tables la to Id were resubmitted to the model substituting equity capital for borrowed finance, i.e. the proposed investment was financed totally with equity capital. The model output of interest to this section of the analysis, based on these data, are outlined in Table 3.

Summary Request B:
A comparison of these results with those of Table 2b clearly illustrates that under the expected levels of cash flows comprising the proposed investment, the utilization of borrowed funds provides a higher overall return on equity (return to equity ratio of 1.050) than is achievable if the investment were financed with 100 % equity capital (return to equity ratio of 1.017). The economic advantages accruing to the use of borrowed capital are therefore sufficient to exceed the cost of that capital - the utilization of borrowed funds is therefore feasible and likely to provide an additional level of profitability equivalent to a discount adjusted return on equity (refer discussion above) of 3.3 %, i.e. 1.050-1.017.

Obviously this analysis is limited and an alternative combination of bridging and/or mortgage finance may result in a more profitable investment structure. The computer model provides information able to assist the determination of the most profitable capital structure. It enables the examination of other important decision issues such as the breakeven cost of capital, or the rate of interest and capital repayment at which it is no longer feasible to utilize borrowed funds. A number of data sets could be run through the model, each for example representing the investment under different rates of interest on borrowed funds. The information provided by the model would quantify the specific rate of interest at which:

- it becomes more profitable on an overall basis to finance the project with 100% equity capital.
- the utilization of borrowed funds is no longer feasible in terms of achieving the required 17% p.a. on equity capital and/or on total capital.

Investment Value

Investment performance parameters such as the NPV, TDR and RTE provide the analyst with information relating to the expected performance of the investment in specifying the actual level or rate of return generated by the project. Further information of major importance to the investor is the maximum sum that can be paid for the project (property purchase or property development) enabling the investor to achieve the required level/rate of return. This sum is known as the Investment Value (IV) of the property/project.

The IV depends amongst other things on the year in which the investor anticipates selling the property. The model computes the IV by adding the TDR to the discounted value of any mortgage ifnance involved in the project.

The discounted cost of developing the case study example property (costs as per Table Ia) inclusive of the cost of land has been computed to be $821,756. It is logical that for projects which yield a rate of return lower than that required, less must be paid in development costs in order to achieve the required return; conversely when the rate of return is higher that that required, a higher price is able to be paid for the property and still enable the required return to be achieved. If the case study property is intended to be held for 2 years only, with an IV of $814,458 (Table 2b), project costs must be reduced to a level whereby the discounted value of the cost reduction is equal to $7,298 ($821,756-$814,458) and the investment would yield an IRR of 17 % p.a. on total capital. If for example the costs of construction are unable to be reduced, the feasibility of the investment may depend on being able to purchase the land for $7,298 (beginning of the investment therefore no discounting is required) less than originally estimated, i.e. $120,000 -$7,298 = $112,702.

Alternatively, given the original investment cost structure, in order for the required 17% p.a. return to be achieved on total capital over a two year holding period, a single or series of positive cash flows must increase to a level whereby the discounted increase is equal to $7,198.

In the past, analysts have often simply added the NPV figure to the actual nominal cost of a project in an attempt to determine the maximum price payable. This approach can be valid in instances, such as property purchase investments, where the major cost is incurred at the beginning of the investment, therefore the actual cost is effectively equivalent to the discounted cost. Where investment costs are staggered or incurred over an extended period, simply adding the NPV to the actual nominal project costs fails to take account of the timing of cash flows and therefore the opportunity cost of capital, and generally provides an incorrect and misleading result. Being based on the discounted net benefit of the project (TDR) plus the present value of any mortgage finance involved, the IV provides an accurate measure of the maximum price payable for the project taking account of the magnitude and the timing of all the costs and benefits involved in the investment, and is by definition based on the investor's minimum return requirements.

Summary Request C:
Under the capital structure specified by the investor (Tables la and lb) the maximum that can be paid for the project, in present value terms, is $853,800. Given that the present value of the estimated actual costs (Table la) equals $821,756, the feasibility of the investment is able to resist investment cost increases up to a level whereby the present value of the increases equals $32,044 ($853,800-$821,756). This level of cost increase represents a 3.9 % increase on the discounted value of the anticipated actual development costs outlined in Table Ia.

Sensitivity Analysis

The above analysis and results are based on cash flow levels considered to be most likely for the proposed investment. Over the duration of the holding period selected by the investor, actual cash lfows could differ significantly from those expected. The investor has requested an analysis and information relating to the degree of risk associated with the investment. While concentrating on the expected levels of cash flows, a comprehensive investment analysis should examine the sensitivity of the investment to changing market conditions.

Where the analysis of any particular investment is carried out manually, computational difficulty and the potential for errors often prohibits the feasibility study including a comprehensive sensitivity analysis. A major advantage stemming from the availability of the computer model is that the sensitivity of the performance of the investment to changes in investment cash flows can be effectively examined. The model can be re-run a number of times using input values representing the range of possible investment variables or cash flow levels, in order to obtain the potential range of investment performance.

To illustrate the power of computer models in risk analysis, the sensitivity of the case study investment performance to variations to a single investment cash flow item will be examined. As a simple illustration, the model will be used to analyse the effect of a fall in the level of rental growth over the 5 year holding period,

Table 4. Investment Performance Parameters Under a Rate of Rental Growth of 10% p.a. Compound

Year:	1	2	3	4	5
Total Discounted Return	510,332	513,594	517,149	520,427	519,890
Return to Equity	0.926	0.932	0.939	0.944	0.944
Net Present Value	-35,087	-31,814	-28,258	-24,980	-25,516
Internal Rate of Return	11.46	14.04	15.13	15.71	15.91
Investment Value	785,704	788,976	792,531	795,809	795,272

assuming the expected rental of $91,080 p.a. is achieved at the initial leasing of the property.

The market analysis conducted in the investigative stages of the investment indicated that a rental growth rate of 12 % p.a. compound could be expected and it was highly unlikely that the rate of rental growth would be lower than 10 % p.a. compound. Cash lfow data representing the investment under an annual rate of rental growth of 10% p.a. compound coupled with the likely sale price achievable at this lower income level were submitted to the model. Table 4 outlines partial model output based on these investment cash flow data.

An examination of the information provided by the model indicates that the feasibility of the investment is sensitive to a fall in the level of rental growth; if rental appreciation is sustained at a level 2% p.a. lower than expected, it is likely the investment will be unable to meet the investor's economic performance requirements. Under a 10% p.a. compound rental growth rate, assuming no other changes, the maximum overall rate of return is likely to be 15.91% p.a., the project yielding a net loss (NPV) of $25,516 and the TDR failing to meet or exceed the discounted equity invested in the project.

At this stage of the analysis, the model can be directed at providing more specific information relating to the acceptable extent of fall in rental growth. A number of data sets were run through the model, each representing the investment under different rates of rental growth (and achievable sale price at each year end). The information provided by the model indicated that given all other cost flow items remain the same, the case study development proposal remains a viable investment option if the rate of rental growth is sustained at a level at least equal to 10.9 % p.a. compound over the 5 year holding period. The availability of this type of information enables investors to establish and quantify the degree of risk associated with the investment. A comprehensive response to "Request D" could be provided by examining the impact of variations to each investment cash flow item, as illustrated by the brief example outlined above.

Conclusion

The case study outlined above provides a simple example application of the computer simulation model. The example illustrates the potential contribution such a model has to offer investment decision making and portfolio management. The model provides a deterministic simulation and analysis of the investment represented by the model input data. It serves as a dynamic analysis tool in facilitating a comprehensive sensitivity study to be carried out by varying the input data over a number of runs of the model to represent the range of possible outcomes of the investment.

The advantages offered by models which have been developed and applied to the analysis of real estate, suggest that computer simulation modelling has a great deal of potential as an analytical tool. In the past, the knowledge, expertise and manpower resources necessary to develop an operational model, together with the knowledge needed to interpret and analyse the information provided, and a lack of access to computer facilities, have all been limiting factors to the widespread use of simulation modelling. The increasing capabilities and declining real cost of computer facilities, together with continuing education programmes within the property professions, are promoting a wider acceptance and utilization of computer simulation modelling as an analytical and decision tool.

Finally it should be emphasised that many factors will influence the success of an investment in property. The information provided by computer models and the decisions based on it can be no better than the quality of the assumptions and data supplied to those models.

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Housing The Elderly
Our Aging Population

By M. Evan Gamby

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`You are old, Father William; the young man said,
And your hair has become very white;
and yet you incessantly stand on your head -
Do you think at your age it is right?'

Alice in Wonderland
Lewis Carroll 1832-1898

The elderly are not necessarily standing on their heads more than in Father William's day, but they do now expect to enjoy a long, and active retirement.

Setting the Scene (The Present Situation)

Approximately 1 in 11 (10.8%) New Zealanders is now aged 65 years or over.' By the turn of the century this will increase to at least 12.5 %. This is referred to by United Nations definitions as an aged population and has increased from 8.5 % in 1971, when comparative figures for other developed countries around the same time were:

United States	(1975)	9.4%
West Germany	(1970)	12.9%
Sweden	(1970)	14.3%
United Kingdom	(1971)	12.9%3

In common with other developed countries New Zealand's birthrate is dropping and the percentage of the population 60 years and over is increasing.

New Zealand's birthrate is dropping and the percentage of the population 60 years and over is increasing.

Assuming medium fertility and medium migration, the New Zealand Statistics Department' predicts a falling birthrate and an increasing elderly population at least until the year 2006. Extending The Department's projections beyond to the year 2016, 30 years from now, and attempting projections through to the year 2046, 60 years from now, the results are explosive as a greater percentage of our total population (figure 1) moves into the "old dependent" category.

Even allowing a reasonable margin of error in these projections we have a major shift in population spread within the highly dependent age categories. In the early 1970's New Zealand had a high population (21.2 %) of the population under 10 years and only 12.5% of the population 60 years and over.

Around 1990 the proportions will be approximately equal at 15%.

FIGURE 1

NEW ZEALAND POPULATION GROWTH 1971 - 1986 AND PROJECTIONS

population
000's

1,000
900
800
700
600
500
400
300
200
100

0-9

Year ended 31 March '66 '76 '86 '96 '06 '16 '26 '35 '46

Percentage of total New zealand Population		71	81	86	96	06	16	46
	0-g	21.2	17.1	15.4	14.7	13.4	12.4	12.4
	60+	12.5	14.1	15.1	16.1	17.2	18.3	21.3

0-9 age group:-static
60+ age group :-increasing

(Source: N.Z. Department of Statistics 1971-2006)

Assuming the birthrate declines no further beyond the year 2000, the very young group will remain static at approximately 12.4 % of our population, but the elderly will continue to increase at least until 2046 by which time the percentages will have reversed (since 1971), and the elderly might well constitute 21-22% of the total population.

This in essence is the major housing challenge facing developed countries over the next 30 years and beyond.

The Slice

We need more houses to satisfy "household formations" in the near future but our greatest need will be a change in housing emphasis.

The rather complicated graph in Figure 2 shows the changes in population over time for various age ranges. It illustrates the long period of time that must elapse before a trend will work its way out demographically. Housing needs will follow that trend, but to date the type of housing supplied has been largely unresponsive to these changing needs.

the total 'highly dependent" population group has changed little over the past 15 years.

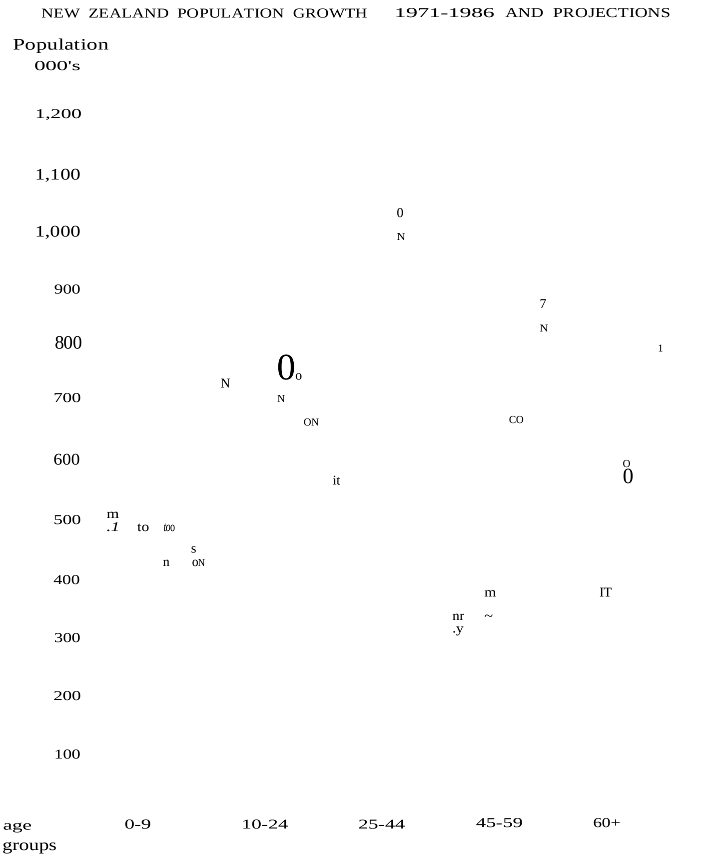

FIGURE 2

(Source: N.Z. Department of Statistics 1971-2006)

Projections to 2046 by author

TREND WAVES HAVE A LONG.TERM AFFECT ON POPULATION

Highly dependent age groups percentage of total population

1971 33.7%
1986 30.5%
2016-projection-30.7%
2046-projection-33.6%

The most highly dependent age groups are balancing.
60+increasing
0-9 decreasing

ELDERLY HOUSING NEEDS DIFFERENT TO NEEDSOFYOUNG

The impact on social structures in any culture, caused by this dramatic change in population spread will be enormous. There has been nothing like it in the past. Within 10 years there will be a greater number of the elderly (60 years and over) than are the very young (under 10 years). The housing needs of this group are special.

Age sixty years has been selected as the cut off point for the definition of an elderly person for the following reasons:

- Age 60 years is the traditional retirement age in New Zealand.
- Age 60 is generally the minimum age for acceptance into retirement villages.
- Age 60 is about the age when many consider their future housing needs separate from former dependents.
- From age 60 an increasing proportion of the population become to some extent dependent on others.

"The Slice" illustrated in the time/age clock of Figure 3 shows that the *total* "highly dependent" population group has changed little over the past 15 years. Contrary to popular opinion it has dropped from 33.7% of total population in 1971 to 30.5% to 1986.

The percentage should remain virtually static for the next 30 years assuming no marked changes to the birthrate and longevity statistics. The proportion only rises back to approximately that of the early 1970's some 60 years from now.

Overall "the slice" hasn't changed much, but the needs within the slice have. There is a smaller group of "highly dependent" young and a significantly larger group of moderately dependent and highly dependent elderly. A six year old does not need a separate housing unit but a 60 year old probably does. How will the housing needs of this group be met?

A six year old does not need a separate housing unit but a 60 year old probably does.

Interestingly, and using a similar time/age clock to illustrate the point (Figure 4), the percentage of "providers" has surprisingly increased and should not decline in the foreseeable future. Those in the 0-19 age group, together with the 60 plus age group constituted 53.4% of the total population in 1971. They now constitute 48.6% of total population and may well not exceed 46% of total population in the next 30-60 years.

FIGURE 4

1971 1966

Projection 2006 Projection 2046

Main Providers
55%

Data assumes:
Medium fertility.
Medium migration

(Source: N.Z. Department
of Statistics 1971-2006)
Projections to 2045 by
author

THE PERCENTAGE OF "PROVIDERS" HAS INCREASED

The remainder, aged between 20 and 59 would be recognised as the main "providers". They have increased proportionately over the past 15 years, and are likely to increase further as a total percentage of population. This appreciation should in some small way help to alleviate the fear: Who will support the elderly?

Dwelling Houses v. Apartments

To clarify terminology, the word apartment or flat means a separately owned or let dwelling unit, being one of a number of dwelling units in the same building. A dwelling house means a fully detached single unit dwelling.

New Zealanders have traditionally favoured separate dwelling houses and home ownership. Our national housing preference has been a three bedroom detached dwelling house on a 32 perches-40 perches (800-1000 square metres) fee simple site. Only since the 1960's have New Zealanders accepted apartment living to any great extent, with an initial rapid rise mainly for rental purposes in the major urban areas.

The trend altered in the 1970's, moving from the construction of rental apartments to the construction of apartments for home ownership. However, the demand for detached dwelling units continued almost unabated into the 1970's. It has only been within the past few years that we have seen a further change in this pattern. This is illustrated in Table 1 and displayed graphically in Figure 5.5

The graph requires some explanation as it is marred by a downturn in general residential building activity in the 1982/83 period, a fluctuation in residential building activity almost traditional in our boom/bust residential market. That aside, we see for the first time a national increase in apartment construction at a time when total residential construction is constrained. This is more obvious for New Zealand's major urban area, Auckland, which as one might expect is responding more rapidly to a housing pattern change.

Over 25% of the national population is located in the Auckland urban area, which now has a population in excess of the South Island.' The South Island is one of the two almost similar sized Islands comprising the greater land mass of New Zealand. It is in Auckland that there has been the most noticeable "Imperative Response to Human Needs". It is no accident that apartment numbers have increased sharply in the greater Auckland urban area over the past 24 months.

Household Structure

The household structure of the Auckland region is very similar to that of New Zealand as a whole.' It is therefore entirely appropriate to examine this large urban area in greater detail as being representative of national trends in the past and likely for the future.

In Auckland, single person households are the major residential growth area. As a proportion of all households, single person households have increased from 14.6 % in 1971 to 18.7 % in 1981 and may well increase to 23% in 1991 if the present trend continues. The Auckland 18.7% figure in 1981 can be compared with -

Auckland	(1976)	16%
Canada	(1976)	17%
Los Angeles	(1976)	27%
San Francisco	(1976)	41%1

Household size is declining. Census data has shown that New Zealand household size declined by about 9% between 1972 and 1981 from 3.4 to 3.1. It is expected to decline by a further 6% or 7% by 1991 to approximately 2.9. By comparison:

Los Angeles	(1980)	2.7
San Francisco	(1980)	2.2

A large part of the increase in single person households is due to the tendency for large numbers of elderly persons to live on their own and a smaller but increasing trend for adults to live on their own. In the central Auckland area (Auckland City) 6 out of 10 households comprise only 1 or 2 persons and the proportion is rising.' Almost one-half of Auckland City's one and two person households were headed by people aged over 60 in 1981, and for one person households 53 % are people aged over 60. Auckland City can look to an increase in these figures over the next 10-20 years.

Household Options (The desire for independence)

The choice of housing for the elderly is dictated largely by their financial circumstances, and their desire to be as independent as possible.

The choice of housing for the elderly is dictated largely by their financial circumstances,

In New Zealand 91% of those over 65 years live independently in houses and flats10 and of that 91%, four-fifths own their own home. It is generally considered a desirable social goal that every effort should be made to enable people to continue to do so.

Many elderly people wish to change their accommodation to meet their requirements of:

- Independence.
- Proximity to relatives/friends.
- Proximity to services.
- Reduction in responsibility for building and grounds maintenance.

Much of the existing accommodation is unsuited to these aims taking into account the existing large housing stock of mainly family style homes on large residential sites, in a suburban environment.

In addition, there is a distinct elderly group in New Zealand who do not fit the pattern of existing home ownership and they are housed in a variety of ways. It is unlikely that there will be any marked change in housing alternatives for this group who embrace the following options:

A. Renting.
B. Living with relatives or friends.
C. Institutional Accommodation.

TABLE 1:

BUILDING PERMITS NEW ZEALAND NATIONAL FIGURES

	No. New Dwell-ings:	Average Area:		No. New Flats:	Average Area:		Proportion of flats to Total Housing:	
1981/82	13996	141.47 1523	s.m. s.f.	5010	101.42 1124	s.m. s.f.	26.4%	The response to a change in need for different housing?
1982/83	11854	136.35 1468	s.m. s.f.	4145	95.72 1030	s.m. s.f.	25.9%	
1983/84	15488	134.34 1446	s.m. s.f.	4738	95.15 1024	s.m. s.f.	23.4%	
1984/85	15664	132.72 1429	s.m. s.f.	6118	99.28 1069	s.m. s.f.	28.0%	
1985/86 Projected	14578	134.28 1445	s.m. s.f.	6750	97.12 1045	s.m. s.f.	31.6%	Jr

BUILDING PERMITS AUCKLJND URBAN AREA

	No. New Dwell-ings:	Average Area:		No. New Flats:	Average Area:		Proportion of flats to Total Housing:	
1981/82	3403	145.39 1565	s.m. s.f.	1666	119.13 1282	s.m. s.f.	32.9%	The response to a change in need for different housing?
1982/83	2283	142.23 1531	s.m. s.f.	1082	118.77 1278	s.m. s.f.	32.2%	
1983/84	3114	143.93 1549	s.m. s.f.	1469	113.87 1226	s.m. s.f.	32.0%	
1984/85	3056	144.27 1553	s.m. s.f.	1893	118.48 1275	s.m. s.f.	38.3%	
1985/86 Projected	2780	147.94 1592	s.m. s.f.	2368	108.34 1166	s.m. s.f.	46.0%	

(Source: N.Z. Department of statistics 1981/82 - 1985/86)

A. Rental Option:

(i) Private houses and apartments for those who cannot afford home ownership and are not eligible for assistance, or

(ii) Subsidised Housing, through local authorities, religious and welfare organisations, who in turn obtain Government assistance to provide housing. Pensioner housing is included in this group.

B. Relatives and Friends:

(i) Some of these living in the home of a relative or friend, a style of living which is believed to be the traditional way of caring for the elderly but is now only common practice for Polynesian families. In Polynesian families the issue is not seen as housing the elderly, but housing people. "

(ii) Others live in a "granny flat" attached to a family home. Government financial assistance is available to house an aged or pensioner relative in this manner.

C. Institutional Accommodation:

For those older persons who cannot or do not wish to live independently there is a wide range of options which include:

(i) Residential old people's homes (rest homes), subsidised by religious, and welfare organisations or by Government.

(ii) Private hospitals including those operated by private enterprise, religious and welfare organisations, generally subsidised by the Government.

(iii) Public hospitals which provide a combination of assessment and rehabilitation where possible and long-stay accommodation where necessary.

(iv) "Mixed" accommodation; used here to refer only to organisations which offer a mixture of accommodation such as Selwyn Village offering a 5-stage plan comprising, independent units, sheltered cottages (main meal of day provided), flats and bedsitting rooms

FIGURE 5

DWELLINGS AND FLATS PERMITS ISSUED

NEW ZEALAND NATIONAL TOTAL - 1976 - 1986

Number 000's

24

t

\'

76 77 78 79 80 81 82 83 84 85 86

year ended march 31

AUCKLAND URBAN AREA 82/86

Number 000's

6

L

5

4

3

77

0

81 82 83 84 85 86

year ended march 31

Dwellings:

Flats:

total: I-_

(Source: N.Z. Department of Statistics 1976-1986)

RECENT UPSURGE IN APARTMENT BUILDING ACTIVITY URBAN AREAS

(providing dependent care), intermediate care for the frail elderly too well to be in hospital, and finally full hospital care, all on the one site.

The provision of housing for this group is believed by many to be adequate in terms of desirable and achievable housing goals. However, *all* well designed and well managed elderly person housing developments, particularly those run by religious and welfare organisations, have long waiting lists pointing to a clear need for more housing to meet existing demand. This takes no account of potential demand to satisfy an increasing elderly population.

The Vision - (Retirement Villages)

New Zealand's retirement vilages are being developed by private enterprise, churches and trusts. What are they, and what do they offer?

One definition of a retirement village is:

A planned provision for the ageing cycle, catering for independent, reliant and/or hospitalised residents.""

Developers of modern retirement villages, be they Church, trust or private enterprise are catering for the affluent recent retired in the 60 plus age group, seeking the following:

- Independence as long as possible.
- Generously appointed, spacious cottages, town house or villa style apartments.
- High standards of materials and workmanship.
- A wide range of"in community" club style facilities providing recreation and fellowship.
- A prestigious location.
- Security of tenure and some degree of money back guarantee.
- An on-going care programme for the ageing cycle.
- Privacy in a landscaped setting with the minimum of responsibility.
- Professional yet personal administration and supervision.
- The maximum of personal freedom of choice (pets, visitors, garden space).
- Freedom for absences on overseas trips and holidays without affecting occupancy.

In New Zealand the retirement village concept is new. To many affluent elderly people it offers the alternative choice. The benefits more than outweigh any potential disadvantages. Disadvantages include:

On death or lease termination a loss of full capital growth in assets.

Restrictions on pets.

Limitation of housing styles and size (most units are 1-2

bedroomed precluding family visits).
- Association with many people in a similar age frame, and economic status.
- No right of sub-letting.
- Limitations on ownership. Your rights are set out in the lease or licence to occupy agreement.
- Loss of full community contact.

Notwithstanding the above disadvantages the demand is so strong at the present time that virtually any high quality development promoted as a retirement village will succeed, whether or not it meets all the necessary requirements of the elderly residents.

At the time of writing Northbridge Village on Auckland's North Shore is the only fully operational retirement village in Auckland, with 138 apartment units, 50 rest home beds and 30 hospital beds. It fully meets the criteria of a modern retirement village and in June 1985 had a waiting list of of 700, enough to fill the village again twice over. Units vary in size from a modest 460 square feet (42.74 square metres) for single bedroom units up to 910 square feet (84.54 square metres) for 1 x double and 1 x single bedroom units.

Other developments that will satisfy the criteria and that are under construction at the present time include:

(a) Pakuranga Park Village with 184 one and two bedroom units, 94 fully serviced units and 70 hospital beds on 12.5 hectares (30.89 acres). Some units are now completed and occupied.

(b) Hillsborough Heights Village, providing 168 single/double units and luxury apartments, 50 serviced apartments and preferential placement in one of the Developer's (Chase Private Hospital Group) private hospitals.

For the future, when there is greater choice, potential residents will look more closely at the overall package offered and only the options that meet all requirements will be successful. This is one market that is likely to become highly selective.

The Retirement Village market is likely to become highly selective.

The Cost - (Value for money?)

The cost of buying into a retirement village is high. Selected purchase prices for the two villages under construction are:

Hillsborough Heights Village:

November 1985	Serviced apartment	$ 75,000-$ 82,000
March 1986	Single storey unit	$130,000-$145,000
February 1986	Upper and lower units	$130,000-$140,000
November 1985	Luxury apartment	$130,000-$180,000
November 1985	Luxury village apartment	$115,000-$230,000

Prices may well have since risen for the serviced apartments which are small bed-sitter units with en-suite bathrooms and no kitchens. Most other units provide two bedroom facilities.

Pakuranga Park Village:

April-June 1984	Two bedroom apartment	$109000-$117000, ,
September 1985	Two bedroom apartment	$125000-$155000, ,
September 1985	Superior units	$155,000-$180,000

By comparison the average sale price of a house in the Auckland urban area for the half year ended June 1985 was $88,191 and varied from $66,918 in the western suburbs up to $121,836 in central Auckland." The national average house sale price was $69,133.

Clearly one of the strongest constraints on this market will be price. Retirement village living will only be affordable by those owning an existing dwelling unit having a value well above the national average, or to those with substantial alternative assets.

Clearly one of the strongest constraints on this market will be price.

It is also clear that purchasers pay a high price for *security* and *potential* aged care. Similiar quality two bedroom apartment units in sound residential suburbs would currently sell for between 15% and 25% less than the equivalent apartment in a retirement village, but have all the advantages of capital appreciation.

Retirement villages promote various forms of occupancy but none so far have offered freehold status. Occupiers at best forego a proportion of capital growth. The resident or his estate will receive 50% capital appreciation at Pakuranga Park Village and 20% capital appreciation at Northbridge Village. At worst a resident will receive no benefit from capital growth at all. This situation will apply at Hillsborough Heights Village.

The rest home and hospital facilities provided must also be viewed a bit like a lottery or an insurance package. The majority of residents will not require these facilities. In any event they cannot cater for a large number of seriously disabled long term patients. Their, facilities too are likely to be deficient in an emergency situation, and so the public hospital system provides the back-up care in no less way than for the balance of the population.

Swimming Against the Current

With the growing number of elderly, we see articles and newspaper stories referring to their housing needs. Some of this comment is misinformed and it is often general in nature. However, most comments express a degree of concern and suggest that more needs to be done, without specifying by who, or how.

But, there is always the marcher out of step, or the swimmer going up river. A newspaper article in the Wellington Dominion of 24 October 1985 (Figure 6) has found one. It is the Health Department Director of hospital divisions Government Health Department, who if reported correctly seems bothered that private enterprise should be fulfilling a need that Government cannot or will not satisfy.

Dr Margaret Guthrie is reported as saying that Wellington, the national Capital city, did not need luxury retirement villages, and, that the Health Department was trying to curb commercial development by sticking to controls on private hospital licences.

Although Dr Guthrie may be swimming alone, she is reportedly speaking for a Government Department and should be well informed.

In all the studies and seminar papers examined not one presented a view which would support her attitude. One wonders how the Health Department has reached such a conclusion.

Conclusion

New Zealand has a highly developed welfare system, a strong home ownership base, and a medium to low household size of 3.1 persons per housing unit.

In a similar manner to other developed countries our population spread is rapidly changing with a falling or static birthrate and an increasing elderly age group. The housing needs

Private rest horns growth 'imbalanced'

PRIVATE PROPERTY, developers are investing in the aged at a pace that is threatening to cause an imbalance between private and public care, the Health Department director of hospital divisions, Margaret Guthrie, says.

By LIZ DUNN

Retirement villages have already been built in several North Island cities and another is planned for Wellington. Each village contains independent living units, a rest home and hospital.

Dr Guthrie said Wellington did not need luxury retirement villages, though she acknowledged that private and charitable organisations believed residential care for the elderly was at crisis point.

Dr Guthrie said the department was trying to curb commercial development by sticking to controls on private hospital licences.

But some developers are avoiding these controls by buying established and licensed hospitals. The developers say they are filling a gap public hospitals are neglecting.

FIGURE 6
THE DOMINION, TNIJRSDAY,"OCTOBER 24, 1985

of this group have not been met to date. There is a potentially explosive demand for residential housing other than that traditionally supplied to satisfy family needs of a husband, wife and dependent children.

To a large extent these needs have not been considered. The existing accent by Private Developers is to cater for the upper end of the market. This market will become increasingly discerning as the first flush of applicants is satisfied.

There is currently no new alternative offered to those of less than substantial means and little likelihood of innovation in the immediate future.

The only clear message to come out of the research is that there is an unsatisfied demand by the elderly for alternative housing and good institutional care. Although the majority may still prefer to occupy their existing home, all religious groups, social agencies, existing and proposed retirement villages refer to long waiting lists.

What other messages come of the study:

- One shudders to imagine a Government retirement village. Is the answer that Government should put more money into "back up community services" for the elderly in their own homes?
- Is this more of a social problem than a housing issue?
- Would building more suitable housing for the elderly, and 1-2 person households release existing housing stocks to meet the needs of new household formations, the potential families?

In the meantime, let us leave the elderly with the following:

"You are old, Father William, the young man cried,
And pleasures with youth pass away,
And yet you lament not the days that are gone,
Now tell me the reason I pray."

The Old Man's Comfort
Robert Southey 1774-1843

Perhaps the elderly are less worried about age than we are.

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Marketing of Property and the Growing Retirement Village Market

By Michael Hutcheson

Michael Hutcheson grew up in Nelson. He was a founder of Colenso Communications, an advertising agency, in 1969.

After moving to Christchurch in the mid 1970's he ran his own Real Estate company and setup Replica Homes, a national franchise buiding company. He became a marketing consultant to Paynter & Hamilton (now Paynter Corporation) and was involved in commercial and residential property marketing, more particularly the development of retirement villages which Paynter Corporation have pioneered.

He moved to Auckland in 1984 and is now Managing Director of Hutcheson Knowles Marinkovich Advertising. Paynter Corporation and Cromwell are among their clients.

The role of advertising and marketing in relation to property is very new - but in the words of someone famous - "You ain't seen nothing yet!"

Very few property companies use advertising agencies

Very few property companies use advertising agencies and therefore the property marketing industry is very much in its infancy - we have a lot to learn - but so do developers have a lot to learn from us. Particularly that in future the property development will be market driven; need driven, not product driven. In other words the market needs to shift its orientation from "Let's try and sell what we can build" to "Let's try and build what we can sell" - that's where we come in - to plan for and answer the future needs of the market. That in itself is a challenging task - using experience, judgment and research to look into the future and do some crystal-ball gazing.

I think that if Christopher Columbus had been alive today he would have been in advertising. Because when he set out he had no idea where he was going, when he got there he had no idea where he was, when he came back he had no idea where he had been, but he did it all on someone else's money.

I want firstly to make some general comments on population shifts - both lifecycle and geographic.

Secondly - some general comments on property marketing and thirdly - the phenomenon of retirement villages. To conclude perhaps leave you with some thoughts on the implications of all this to your profession.

Firstly regards population shifts and what's happening to the market - we are in a time of rapid change. Geographically, northern and urban shifts are the most significant movements.

It's as if we are turning into a one city country. A recent report showed that Auckland has close to 50% of financial institutions and about the same percentage of manufacturing industries. The more often people like the Mayor of Wanganui get up and say people in Auckland should somehow be penalised for living there, the more it reinforces the thought in everyone's mind that there must be something to this 'Auckland place'.

While obviously the city's commercial boom will end sometime I don't believe that time has yet come - while there is a lot of criticism of the highrise development in Auckland, I personally love it - I believe it's a sign of vibrancy and vitality. Of confidence and enthusiasm. A highrise skyline, I believe, can be as beautiful as a mountainscape.

But the other more significant shift is the structure of the population and the lifecycle of the population.

The rate of new household formation and the lifestyles of the population, is now quite different to the past.

The rate of new household formation and the lifestyles of the population, is now quite different to the past. This has nothing to do with bricks and mortar and a hell of a lot to do with women's liberation and the pill.

I'm not sure of the figures here but in Australia 60 % of new household formation is accounted for by single people - either unmarried or separated/divorced.

You are obviously all familiar with the baby boomers and the population bulges - but another twist to the tale is what their real estate needs are.

It's fashionable to say that rich are getting richer and the poor poorer - but in fact the rich are getting much more numerous and therefore the poor are more conspicuous. - The very poor being left far behind. - I personally believe that is the fault of the welfare state - it has institutionalised poverty and created a cycle of chronic poverty.

I recall twelve to fifteen years ago that selling ownership units to solo mothers was a major industry - the feeling at the time by a newly elected Labour government was that the State owed young mothers a home and gave them cheap loans. - By capitalising family benefit and a bit of financial jiggerpokery they could buy a unit on virtually no deposit.

I believe it is significant that now 12-15 years later we are seeing major problems with street kids and misdirected youth - often the children of those people helped into the housing market by the State - for what seemed laudable social reasons at the time.

That's an example of what happens when we let the government rather than market forces shape the market.

The age structure of the population is the next significant factor. The `greying' of the population is well known and documented so I won't dwell on it, except to say that increasingly, over the next 15-20 years the large cohort of post war babies will head for retirement. They will be more affluent, having had their children young and emptied the nest earlier - they will have more leisure time. As they become more numerous National Superannuation will change. The State will become less and less able to provide care for the elderly. It seems that the more tax we pay the less the government are able to do for us. With ever increasing numbers in the elderly segment people are going to have to look after themselves.

How are they going to do it?
What do they want?

Firstly they want security, freedom from loneliness and the worries of growing old. The certainty that they'll be looked after for the rest of the their lives. Let's look at what the issues are; but I'm only going to tell you the questions - not the answers - you have to pay to get those.

You'll all come into contact with these villages or people going into them - so I'll tell you how to know a good one when you see one.

The market is obviously hotting up with lots of new players in the game.

In the long run however the stayers (and those therefore with the better villages to live in) will be those run by charitable organisations who have a long-term commitment to care and welfare.

The essential questions to ask of a sound retirement village are numerous.

Is it run by a genuinely caring institution or trust who have a commitment to caring and welfare?

Does it offer care of the resident through various stages of health, from occupancy of a unit in the village to a place in a rest home?

Is the rest home on site? What is the general location of the village like? Is it in an area perceived to be a suitable retirement location or is it serving a current aged population with prospects for 20 years down the track being limited?

What are the amenities like in the area? What kind of title is being offered or do residents get a licence to occupy? Will the village's market offer be as valid in 15-20 years as it is now?

The list goes on. I make no pretence to be impartial but do know that a number of organisations have got their act together well and genuinely fill the criteria, organisations like United Lifecare developed by Paynter Corporation and Vavasour Trust's village, Ranfurly developed by Cromwell.

Some villages I believe to be too small to be viable as retirement villages in the time sense of the word.

The implications for the valuation profession are that no longer is the valuation based on bricks and mortar for leasehold tenure/and the concept is too new to have built up an historical pattern.

This trend I am sure is going to grow. Increasingly `lifestyle' will become a component in the value of many property developments.

It can't be long before we see lifestyle developments such as singles villages catering to the growing number of new household formations by single people and solo parents.

As I said to start with "You ain't seen nothin' yet".

Residential valuation Expert Systems

By Stuart Gronow and Ian Scott

Stuart Gronow M.A. B.Sc. A.R.I.C.S. *is a senior lecturer in valuation at the Polytechnic of Wales. Jan Scott B.Sc. is a full-time research assistant at the Polytechnic investigating the application of expert systems to the valuation of vacant possession dwelling-houses.*

A valuer, it has been said, is simply a fortune-teller who has acquired professional respectability.' As such a certain mystique surrounds the black art of valuation and the analysis of market sales on which valuation is supposed to be based.

This mystique has eclipsed the real issues of property valuation, leaving the valuer's public image somewhere between rune caster, wide-boy and crystal-ball gazer. Nowhere is this image more prevalent than in the area of residential property valuation.

The expertise on which such valuations are claimed to be based is the "feel of the market", the "gut reaction", and the "40 years man and boy" argument. While it is generally recognised that the "wetted finger in the wind" approach works reasonably well, there are technological advances being made that have considerable implications for the valuation profession.

One such advance is the concept of an "expert system". In this article it is intended to define these systems, explain why they have been developed, and what they are currently being used for. We also argue that the valuation profession cannot simply ignore this particular technological development.

Why Build an Expert System?

In the words of Tim Mulhall,2 experts are scarce; expensive; busy; fallible; and mortal.

Anything that can reduce the amount of repetitive, routine work carried out by the expert must accordingly be of value if it enables him to devote more time to the more complex functions he can be expected to perform.

Similarly, anything that assists the expert in the better performance of his tasks must be worth while. Who would confidently, or competently, assess property values in the absence of comparable evidence?

Finally, any system that can provide useful information in the absence of an expert can provide second opinions to back up a less experienced practitioner's own assessment of a given situation, should an immediate decision be required.

Current Uses

Originally expert systems found favour with the medical world, where they have been developed, and are currently in use, *inter alia*, for the diagnosis of blood diseases, lung complaints and as teaching aids.

More recent applications involve professions more closely linked with our own: expert systems are now being used for accountancy, taxation and certain legal applications. The BRE already use such a system to study moisture penetration, and research is being carried out into the application to quantity surveying and management decision-making.

Definitions

First, what do we mean by "expert". Skill arises from the possession of expert knowledge and experience in a specific subject area. Skill grows as more experience is gained until a point is reached at which a practitioner in a given field would be termed an expert. And experts can and do act with incomplete information, asking only necessary and relevant questions of a client, in order to arrive at a conclusion which can be recommended as a course of action.

An expert system aims to reproduce these skilled functions to a level at least equivalent to that of a human expert. To borrow a phrase from Donald Michie, a leading authority in the field, they are "systems whose goal it is to perform as advisory consultants, exhibiting human expertise in given areas, with self-explanation of reasoning on demand".'

In its basic form the expert system is a computer program containing a bank of knowledge and a mechanism which can manipulate that knowledge. This knowledge manipulator is known as the "inference module". It is this module that animates the knowledge into a dynamic decision-making system able to infer relationships, and reason logically.

The knowledge is obtained from basic research in the chosen ifeld, usually by means of exhaustive interviewing. It is then formalised into facts, relationships, and general rules of thumb by the programmer and the inference module. Once the system is complete it should be able to operate as described above.

Such a description, however, is simplistic. The transfer of knowledge from the human expert to the system is complex and time consuming, as is the creation of the inference module itself. This latter problem can be solved, at least partially, by the use of a ready made system known as a "shell". These shells are simply empty expert systems containing the inference module, but awaiting the knowledge which will turn them into a useful element in a given field: some can be bought for as little as £400.

The Valuation Profession

Once commissioned, expert systems can release professionals from mundane repetitive tasks, provide consistent data, rapid analysis and furnish second opinions. They are also able to explain the reasoning behind a particular course of action that they recommend. This self-justification feature is of special value in areas where the user must not only be presented with information, but must also be convinced of its validity.'

Certainly the production of data and machine-synthesised knowledge will go a long way to hardening up a professional's case should he be called on tojustify a particular course of action. (This is a function becoming increasingly important, judging from the amount of correspondence published regarding professional indemnity insurance.)

Some areas of specialisation are more readily adaptable to expert system development than others. Particularly suitable are suituations where the expertise is already encapsulated in a series of rules, laws and regulations, with the expert deploying his knowledge of those criteria and when they are applicable. Compulsory purchase and rating valuation fulfil several of these criteria, and it is to be expected that such areas will be among the first to benefit from the introduction of expert systems on a wide scale within the valuation profession.

Other areas where the valuer's skill is less tangible will remain more problematic. However, it can be argued that the only reason for the intangibility of that expertise is the reluctance of the professionals involved to undertake sufficient analysis of their skills to enable the formulation of the required rules and relationships.

We are led to believe that methodical analysis of previous transactions forms the basis of residential property valuation. While it is clear that the UK professional as a whole has steadfastly resisted any attempt to rationalise the valuation process so far, it is equally clear that a "Luddite" attitude towards computer-aided valuation will assuredly lead to further incursions from other professions already all too eager to take over our traditional market role.

Future Development

The results of further development work must lead not only to more efficient expert systems but also to improved understanding of the processes of valuation. The research currently being undertaken here at the Polytechnic of Wales investigates the application of expert systems to the valuation of vacant possession dwelling-houses. One objective of this research is to ensure that as valuers we have access to, and are willing to adopt, new technology in the race to stay ahead of competing professions. We are not seeking to replace residential valuers, merely to ensure that the foremost authorities on residential property values will continue to be chartered surveyors and not economists, actuaries or solicitors.

It is not envisaged now, nor in the foreseeable future, that expert systems will become oracle-like mechanisms which replace an expert in a given field. They are intelligent knowledge-based techniques which should be used in conjunction with all other available tools in an effort to carry out the task required of the expert.

The potential of expert systems is the ability to command knowledge and thereby "expertise. The practitioners who advance the methodology of these systems stand to gain the most from their use, and eventual acceptance.' The most significant fact about expert systems in other sectors is that they can be highly successful, often out-performing human experts within a given field. As professional valuers, ignorance of these systems is just not a viable option. Nobody in the information business can afford to adopt a wait-and-see attitude because the future has already begun.6

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Computer Packages in Valuation: What's Available?

By G. J. Newell' B.Sc., M.Stat.(NSW) and J. D. MacFarlane,' B.Sc.(Qld), M.Stat. (NSW)

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Introduction

"Personal computers appeared on the corporate horizon early in 1985 and are now beginning to dominate the land-scape ... many of them changing the way companies do business.

J. Kavanagh
"The Year of the PC"

Recent advances in computer technology have enabled micro-computers to become an important resource for private valuation practices, with many practices highly computerised and well ahead of the public sector in their use of technology for solving valuation problems (Cunningham, 1986). The extent of the impact of computers in Valuation has been reflected in the large number of articles which have recently appeared in the valuation journals concerning such aspects as:

- computer applications in Valuation practice (Allen, 1982; Burns, 1983; Dorchester, 1980; Dum, 1982; Hargreaves, 1981, 1983a, 1983b, 1984a, 1984b; Lum, 1984; Mooney, 1982), and
- surveys of computer usage in Valuation practice (Hargreaves, 1982; Newell *et al.,* 1985).

However, associated with these activities is a wide range of com-puters and an even wider (and sometimes bewildering!) range of computer packages for Valuers to choose from. As such, the pur-pose of this paper is to selectively review the computer packages that are presently available for use in Valuation practice in the areas of:

- word processing
- electronic spreadsheets
- data bases
- integrated packages
- graphics
- accounting, and
- specialist Valuation packages,

hopefully making the selection of computer packages an easier task for practising Valuers.

Present Status of the Computer Market

Table 1 (Kavanagh, 1985) shows the substantial growth that has occurred in the business segment ($3,000-$8,000) of the microcomputer market in Australia for 1984-85, with the market share of the major companies in the business microcomputer market shown in Table 2 (Kavanagh, 1985). Clearly IBM and Apple dominate the business microcomputer market, with this trend also evident in microcomputer usage in Valuation practices in Australia (Newell *et al.,* 1985).

Table 1: Growth in business microcomputers (1984-85)

Characteristics	1984	1985	% growth
Number of units sold (thousands)	69	146	112
Level of sales ($ million)	293	625	113

Table 2: 1985 business microcomputer market share

Company	% market share
IBM	15.4
Apple	8.9
Commodore	6.9
ACT (UK)	5.5
Hewlett-Packard	4.8
NEC	4.8
Sperry	4.8
Olivetti	4.1
Digital	3.3
Sanyo	3.1
Other	38.4

The obvious consequence of this market dominance by IBM (with the IBM PC, AT, JX and AT) and Apple (with the Apple HE, IIC and Macintosh) is that the computer packages that have been developed in the business area are largely directed towards these two computer companies, with the IBM microcomputers and that "IBM-lookalikes" utilising the MS-DOS operating system and the Apple microcomputers utilising the Apple DOS opera-tion system. As such, the following sections outline some of the computer packages that are of importance to the practising Valuer for these two main types of computer operating systems.

Word Processing

Word processing involves the entering, editing, storing and sub-sequent printing out of textual information in the form of letters, drafts and reports, with word processing still considered to be the most important office automation function (Toss, 1985a). While this function was previously performed largely with dedicated word processors (e.g.: Wang, Olivetti, Remington and IBM), recent trends have seen word processing transferred to micro-computers with a wide array of basic through to sophisticated word processing packages available. This trend has also been observed amongst Valuers, with a recent survey (Newell *et al.,* 1985) indicating that 58% of valuation firms surveyed with microcomputer facilities used them for word processing.

While some basic word processing capabilities are sometimes available with the microcomputer when purchased, use of a word processing package enhances these capabilities, providing such features as:

- being fully menu-driven
- easy report generation and revision
- control of document format
- range of typesets and fonts
- page numbering
- formatting, alignment and line justification
- spelling checks using Australian/British (or USA) dictionary, containing up to 125,000 words
- indexing facilities
- mail merge facilities
- text and data merging
- electronic mail facilities
- self-running tutorial assistance
- ability to view different documents (or parts of the same docu-ment) simultaneously by using "windows"
- incorporation of spreadsheet, graphics and communication facilities

Not all word processing packages provide all of these features, with the presently available packages varying widely in capabilities. The actual selection of a word processing package depends on an individual's usage requirements and budget, with the more popular word processing packages ranging from $195-$800.

Table 3 presents an overview of the present market leaders in word processing packages, giving details of price (Jan. 1986), memory requirements, operating systems and available features. For example, pfs: Write is a low priced, easy-to-use package having all the essential features necessary in a word processing package, while Wordstar is still regarded as the "industry standard" and (athough somewhat dated) is generally considered to be good value for money (Ross, 1985a). Multimate is presently the best selling word processing package, with Wordcraft and Samna Word being considered to be "professional" word processing packages. Further details concerning specific aspects of these word processing packages are available in Anon. (1985), Anon. (1986) and Ross (1985a).

Table 3: Overview of word processing packages

Package	Price	Memory required	Operating system	On screen formatting	Menu driven	Dictionary	Mail merge
pfs:Write	$195	128K/64K	MS-DOS/Apple DOS			Opt.'	Opt.
Zardax	$246	64K	Apple DOS				
Microsoft Word	$365	128K	Macintosh				
Perfect Writer	$395	128K/64K	MS-DOS/Apple DOS				Opt.
Wordstar	$445	96K	MS-DOS			Opt.	Opt.
Wordstar 2000	$595	256K	MS-DOS				
Microsoft Word 2.0	$595	256K	MS-DOS				
Multimate	$745	256K	MS-DOS				
Wordcraft	$750	256K	MS-DOS				
Samna Word	$850	256K	MS-DOS				

1. Opt. = optional

Spreadsheets

Electronic spreadsheets enable the Valuer to carry out financial analyses using a microcomputer in a similar fashion to an accountant's multi-column worksheet, enabling financial analysis, budgetting, planning, predicting, projecting, forecasting and resource allocation to be performed. These spreadsheets have the important feature of being able to automatically recalculate the entire financial analysis for any changes in the available data, with it generally considered that these electronic spreadsheets have largely contributed to the spread of microcomputers throughout business (Ross, 19865b). The use of spreadsheets in business is common practice nowadays, with a recent survey (Newell *et al.*, 1985) indicating that 88% of valuation firms surveyed with microcomputers used them for accounting and 42 % used microcomputers for financial planning.

In the 1970s, the spreadsheet Visicalc had a major impact on the business sector and in 1982, the release of the spreadsheet Lotus 1-2-3 (incorporating business graphics and database capabilities as well) dominated the business market, with 70-80 % of business microcomputers being purchased with the package Lotus 1-2-3 (Ross, 1985b). This market dominance by Lotus 1-2-3 continued until 1985, when more competition from upgraded spreadsheets (e.g.: Supercalc and Multiplan), new spreadsheets (e.g.: Access Four and 20/20) and a new generation of "integrated packages" (e.g.: Symphony and Open Access) occurred.

While there are major differences in the speed of execution and size of the various dedicated spreadsheets available, they generally provide such features as:

• combined spreadsheet analysis, business graphics and information management capabilities in one package
• ability to exchange data between these three capabilities • page, row and column referencing
• time and date functions
• inbuilt financial functions (e.g.: net present value, repayments with interest)
• use of "windows" to view different segments of the spreadsheet simultaneously
• accounting functions for budgetting, stock portfolio, income/expenditure statements and sales ledger.

Table 4 presents an overview of the present spreadsheet market leaders, giving details of price (Jan. 1986), size of spreadsheet, operating system and available features. The most popular spreadsheets range from $195 $835, with major differences in the speed of execution and memory size required to store the resulting spreadsheet. For example, pfs: Plan is low-priced, easier to use than most other packages and has enough power to handle the usual spreadsheet tasks, while Multiplan is small, but versatile. Supercalc is considered to be one of the best spreadsheets available and a strong competition to Lotus 1-2-3, while Lotus 1-2-3's speed, ease of use and functionality makes it one of the best spreadsheets (Ross, 1985b). Further details concerning specific aspects of these spreadsheet packages are available in Anon. (1985), Anon. (1986) and Ross (1985b).

Table 4: Overview of spreadsheet packages

Package	Price	Operating system	Size*	Calculation time**	File size***
pfs:Plan	$195	MS-DOS	n.a.	n.a.	n.a.
Perfect Calc	$325	MS-DOS	52x256x9	58	22K
Multiplan	$365	MS-DOS/Apple DOS	255x4095	31	12K
Access Four	$495	MS-DOS	216x3000	34	51K
Supercalc	$675	MS-DOS	127x2000	11	31K
20/20	$695	MS-DOS	999x999	97	25K
Lotus 1-2-3	$835	MS-DOS	256x2048	11	25K

number of cells available in spreadsheet (- rows x - columns)
" calculation time for standard 20 row x 20 column spreadsheet
"" size of disc file created by standard 20 x 20 spreadsheet

Data Bases

Data base packages enable related information (e.g.: property sales) to be stored, updated and selectively retrieved according to the Valuer's requirements. For example, the Valuer would search the property sales data base using such criteria as suburb, price, number of bedrooms and type of house to retrieve the particular property sales that meet these criteria. These data storage and retrieval systems have become increasingly popular in the business area and offer particular benefits to Valuers, where 50 % of valuation firms are presently using microcomputers for data storage (Newell *et al.*, 1985). While data base packages are yet to be as popular as word processing or spreadsheet packages, this is largely attributable to the more complex nature of these data base packages and the tasks performed. The database packages available differ greatly in their capabilities and generally fit into three categories (Ross, 1985c):

- simple file handlers or list managers which can process one file at a time, being particularly suited to processing names and addresses or other lists of information
- data bases which can handle at least two files simultaneously, searching both files for the requested information
- data bases which also have a procedural language so that the data base can be programmed to carry out specific tasks.

Table 5 presents an overview of the present market leaders in database packages, giving details of price (Jan. 1986), memory requirements, operating system and available features. For example, File-it! is designed for the business professional and does not require complex commands, while dBase II is the largest selling database system having sold 300,000 since 1981. dBase III is a more powerful upgrade of dBase II while Powerbase is simple to use and is one of the most popular databases today. Further details concerning specific aspects of these database packages are available in Anon. (1986) and Ross (1985a).

Table 5: Overview of database packages

Package	Price	Memory required	Operating system	Max. records per file	Query language	Programmable
File-it!	$ 595	256K	MS-DOS	unlimited		
dBase II	$ 695	128K	MS-DOS	65,535		
Powerbase	$ 795	256K	MS-DOS	65,534		
Datamaster	$ 850	256K	MS-DOS	65,535		
dBase III	$ 976	256K	MS-DOS	unlimited		
Dataflex	$1426	256K	MS-DOS	16,295,777		

Integrated Packages

While dedicated spreadsheet packages such as Lotus 1-2-3 incorporated business graphics and database capabilities, 1985 saw the introduction of a new generation of "integrated packages" (e.g.: Symphony) which expanded the existing spreadsheet capabilities to include word processing and communication capabilities. Data is able to be exchanged between these various functions, giving rise to powerful integrated business environments. Table 6 presents an overview of the present market leaders for integrated packages. Symphony has proven to be popular, through its association with Lotus 1-2-3. Further details concerning specific aspects of these integrated packages are available in Anon. (1985), Anon. (1986) and Ross (1985b).

Graphics

Business graphics packages enable data and trends to be analysed by presenting results in the form of graphs and charts (e.g.: bar chart, line chart, pie chart and scatter chart). These packages are often in conjunction with spread sheet and database capabilities. The present business graphics packages include:

- pfs: Graph ($195)
- Microsoft Chart ($415)
- Chart Master ($599)
- Graphwriter (995).

Further details concerning specific aspects of these business graphics packages are available in Anon. (1985) and Anon. (1986).

Table 6: Overview of integrated packages

Package	Price	Operating system	Size	Calculation time	File size
Excel	$ 750	Macintosh	256x16384	11	n.a.
Open Access	$ 995	MS-DOS	216x3000	69	51K
Framework	$1095	MS-DOS	32000x32000	50	46K
Symphony	$1095	MS-DOS	256x8192	12	24K
Enable	$1100	MS-DOS	256x256x8	194	41K

Accounting

Accounting packages are usually the first use of computer technology by small businesses, with 88% of valuation firms with microcomputers using them for accounting purposes (Newell *et al.*, 1985). The advantages that these accounting packages provide include access to up-to-date information, as well as reduced time and cost in maintaining accounting records. A wide range of accounting packages specific to Australian business conditions are available, providing integrated business accounting systems for such aspects as:

- accounts receivable and payable
- general ledger
- cashbook
- invoicing
- payroll
- printing invoices, credit notes and statements.

These accounting packages are usually in modular form, with the presently available packages including:

- Accounting One ($695)
- Macbusiness ($875, for Macintosh)
- CBA ($795 per module)
- The Charter Series ($875 per module)
- Powersystems ($1550)
- Series II ($1095)
- System 4 ($695)
- System 7 ($1495)
- Asset ($595 per module)
- Attache ($775 per module)

Further details concerning specific aspects of these accounting packages are available in Anon. (1985) and Anon. (1986).

Specialist Valuation Packages

While the previously discussed word processing, spreadsheet, database, integrated, graphics and accounting packages can be used by Valuers as well as in a general business context, a wide variety of specialist packages have been developed for the real estate industry for such aspects as:

- rental management
- trust accounts
- sales control
- tenant accounts
- general ledger
- owner analysis
- property management
- strata title management
- commercial management
- holiday lettings management.

The presently available packages include:

- Habitat
- Property Manager
- Property Master
- Realcare
- Real Estate
- Rental Manager
- Replan
- Taurus
- Retas
- Real Estate Suite.

Further details concerning specific aspects of these specialist valuation packages are available in Anon. (1986).

Conclusion

There is now an extensive range of computer packages available for use by the practising Valuer. As with all aspects of computer technology, the area of computer packages has changed rapidly in recent years and will continue to do so. To utilise these new developments it is important that practising Valuers remain up-to-date with the relevant advances in this area; with general computer publications such as TODAY'S COMPUTERS, CREATIVE COMPUTING and PROFESSIONAL COMPUTING as well as the computer sections in most major newspapers helping the Valuer obtain this necessary information.

Finally, it is particularly important for the practising Valuer to recognise that any evaluation of computer packages should be carried out on their own microcomputer system, as any demonstrations on different microcomputer equipment can lead to incorrect conclusions concerning the suitability of a specific computer package, particularly with respect to the speed of operation using the computer package and the need for extra equipment such as additional computer memory or hard disc drive. These "hands on" demonstrations are important in letting the Valuer assess the suitability of the day-to-day use of particular computer packages in their Valuation practice.

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Legal Decisions

CASES RECEIVED

Notice of cases received are given for members' information. They will be printed in The New Zealand Valuers' Journal as space permits and normally in date sequence.

CASES NOTED

Cases `noted' will not normally be published in The New Zealand Valuers' Journal.

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

IN THE MATTER of an Inquiry pursuant to Section 32(2) of the Valuers Act 1948

AND

IN THE MATTER of charges under Section 31(1)(c) and Section 31(2) of the Valuers Act 1948 against KELLY BRUCE GARLAND

AND

IN THE MATTER of charges under Section 31(1)(c) and Section 31(2) of the Valuers Act 1948 against PETER BRUCE SOUTHWICK

DECISION OF THE BOARD OF INQUIRY
OF THE VALUERS' REGISTRATION BOARD

Members of the Board: Mr M. R. Hanna (Inquiry Chairman)
Mr D. J. Armstrong
Mr P. E. Tierney

Counsel: Mr K. G. Stone for the Valuer-General
Mr M. C. Sinclair for Mr Garland

Date of Hearing: 5 March 1986
Date of Decision: 15 May 1986

This Inquiry arose from complaints forwarded to the Board by the New Zealand Institute of Valuers which had received them from practising members of the Institute resident in Wanganui.

Each of these complaints related to a document dated April 18th 1985 mailed by Kelly Garland Real Estate to recipients in the Wanganui area, although from evidence produced at the Inquiry it is apparent that its eventual distribution was a good deal wider than that district. It was alleged by the complainants that the distribution of the document contravened Article 23 of the Code of Ethics of the New Zealand Institute of Valuers. The matter was investigated by the Valuer General in the normal way and, it being the opinion of the Board that there were reasonable grounds for the complaints, the formalities which led to this Inquiry finally proceeded to this Hearing.

The charge duly drawn against Mr Garland was to the effect that in terms of Section 31(l)(c) and Section 31(2) of the Valuers Act 1948:

> ".. you have been guilty of such unethical conduct in the performance of your duties as a Valuer as renders you unfit to be registered under the Valuers Act 1948 in that you were responsible for the solicitation of professional work by means of a circular dated the 18th day of April 1985 which enclosed copies of "STD Ready Reference Stickers" with your name thereon and referred to a proposed low cost "Fast Track" valuation for residential valuations, in breach of Article 23 of the Code of Ethics of the New Zealand Institute of Valuers".

To this charge Mr Carland, who appeared in person, pleaded Not Guilty.

The charge against Mr Southwick alleged that, under the same Sections of the Act:

> .. you have been guilty of such unethical conduct in the performance of your duties as a Valuer as renders you unfit to be registered under the Valuers Act 1948 in that you were a party to the solicitation of professional work by means of a circular dated the 18th day of April 1985 which enclosed copies of "STD Ready Reference Stickers" with your name thereon and referred to a proposed low cost "Fast Track" valuation for residential valuations, in breach of Article 23 of the Code of Ethics of the New Zealand Institute of Valuers'

Mr Southwick is apparently now resident in Australia and was not directly represented at the Hearing, but by consent it was agreed that a letter addressed by him to the Valuer General on 24 July 1985 should also be taken as a denial of the Charge.

It is convenient at this point to set out the text both of Article 23 of the Code of Ethics and of the document which was the subject to the complaint. The relevant parts of Article 23 read as follows:

> "23. The solicitation of professional work by such means as personal canvass, circular, advertising in directories, year books or the public press (escept by means of a professional card) or by use of radio or television or the exhibition of unduly large name plates or painted or illuminated signs, is forbidden."

The copies of the document which were provided for the Board comprise an A4 sheet embellished with a logo and letterhead of "Kelly Garland Real Estate', this design including a red line around much of the outer edges of the page, together with telephone number, postal address and box number, and a description of the firm as "Registered Valuers, Real Estate Agents, Auctioneers, MREINZ". The text of the document ran as follows:

> 18th April 1985
>
> Dear Sir,
>
> Please find enclosed three S.T.D. ready reference stickers for attachment to the cover of your new phone book. Please accept these with our compliments and call us if you require additional copies.
>
> We also take this opportunity to remind you of our comprehensive valuation service encompassing all spheres of property valuation.
>
> We are currently contemplating offering a low cost "fast track" valuation for residential valuations, and seek your views on the attached format. We do not envisage utilising this form where tight security margins exist, or where the residential property has major impediments or contingencies, however we feel there is a place for this type of format where there is ample security and assured capital growth.
>
> Could we please impose briefly on your time for your comments as to useful additions to the format and your likely utilisation of such a concept should we proceed to printing a form such as this. We would envisage a fee structure of say $95 up to $100,000 and $120 thereafter with delivery within 48 hours of instruction"

The text concluded about two-thirds of the way down the page and below that were printed, side by side, photographs of'Peter Southwick', 'Kelly Garland' and 'Neale Bentley'. These photographs measured approximately 54mm x 65mm and beneath each was the name, qualifications and work specialties of the individuals. Both of the former are Registered Valuers.

The issue before the Board has therefore been whether this document did in fact constitute an offence against Article 23 of the Code of Ethics of the New Zealand Institute of Valuers, and more particularly, whether it was in fact a "circular", and, if so, whether it amounted to "the solicitation of professional work".

In opening the case for the prosecution, Mr Stone called Mr S. W. A. Ralston, the Valuer-General , who formally produced details of the registration of Messrs Garland and Southwick, together with copies of his report, and other documents prepared under the terms of the Act for the use of the Board, and previously supplied to Mr Garland.

Mr Stone then called Mr L. B. Petherick, a Registered Valuer of Wanganui, one of the complainants. Mr Petherick's evidence was to the effect that the subject document had been circulated in the Wanganui area and that it had been brought to the attention of several practising valuers in the city by various of their clients. He claimed there had been no collusion between the complaining valuers and in cross examination by Mr Sinclair, denied that he was concerned at the threat of competition in Wanganui. He stated his belief that the document violated the Code of Ethics and that his major concern was with the non-professional aspects of advertising and soliciting. On the completion of Mr Petherick's evidence, the case for the Valuer-General was closed.

In opening the case for Mr Garland, Mr Sinclair read a lengthy submission on behalf of his client rebutting certain matters dealt with under the charge and discussing the definition of various of the terms at issue in the complaint. The history of Mr Garland's professional activities in the Wanganui area was also traversed, and in conclusion the submission stated that:

"1. Mr Garland takes the charge of unethical conduct extremely seriously. As previously stated the issue of solicitation is a question of degree.

2. While it is conceded, with the benefit of hindsight, some aspects of Mr Garland's letter of enquiry were ill-considered, it is submitted that the clients of Kelly Garland Real Estate have benefited from a cheaper and more efficient service.

3. Mr Garland reiterates the submissions made in his early letter to the Institute that he does not (believe) there is any case to answer for the following reasons:

(a) (i) The first ethic stresses service to clients.
(b) (ii) A 'circular' letter is not normally personally addressed to the recipient.
(c) (iii) The body of the letter sought constructive comment and criticism as to format and utilisation"

Mr Garland was then called for cross examination by Mr Stone. In response to questions he advised that some 500-600 letters were despatched, the recipients including lawyers, banks, etc. throughout the lower North Island, 10-12 written responses were received, together with about 20 phoned replies. Mr Garland stated again that he did not consider the document to be a solicitation but essentially an enquiry as to the likely utilisation and improvement of a new form of service being offered by his organisation. Further questioning covered aspects of the proposed'fast track' valuation service, which he stated was time saving only in respect of report writing, for exactly the same amount of work was involved in inspection, research and valuation, as would be completed for a formal report.

In reply to later questions by the Board, Mr Garland stated that the document had been sent to a list of individual addresses and to a substantial degree included all clients for whom his firm had previously done work. In the case of legal firms, each individual partner received a copy, and the Law Register had been consulted to ensure that the distribution was up-to-date and did not include partners no longer practising. The method of despatch was by individually addressed envelopes, but the document itself had no personal address upon it (and indeed no address of any kind) and nor did it include any form of signature from the sender.

As to the involvement of Mr Southwick, Mr Garland stated that the document had been developed and despatched with Mr Southwick's knowledge and consent but not at his initiative. Mr Southwick's position in Mr Garland's firm was an independent operator under the umbrella of Kelly Garland Real Estate.

In a concluding address Mr Stone submitted the sending of documents to a large number of clients, or former clients, clearly constituted circularisation. He further stated that the STD card referred to in the document was a directory and that the generality of the documents clearly amounted to the solicitation, and indeed the successful solicitation, of professional work. He contended that the thrust of Article 23 of the Code of Ethics is against unfair competition by permitting only non-competitive advertising.

In considering the evidence put before it, the Board has been sensitive to the fact that attitudes at all levels of the community to the matter of professional advertising have changed markedly in recent years. Indeed the Board is aware that the New Zealand Institute of Valuers is at this time conducting a wide ranging review of its position in this respect. Furthermore, both the New Zealand Law Society and the New Zealand Society of Accountants have already adopted much more liberal views on professional advertising and it is apparent that other professional bodies are considering similar moves. In the public domain, the whole matter has been questioned in'Consumer magazine, and there appears a general acceptance of more relaxed standards than have been applied in the past.

That was the situation at the time of the Hearing in March 1986 and there would be little argument from the Board with the thrust of those trends. However, in April 1985 when the alleged offence took place, Article 23 of the Code of Ethics clearly stated the conditions by which members of the New Zealand Institute of Valuers were bound to act, and it seems to us that at least insofar as the matter of guilt or innocence of the charges is concerned, the validity of Article 23 is not a matter for debate.

Having heard the evidence, viewed the document complained of, and established the methods by which it was sent out, the Board has little difficulty in accepting that in any modern meaning of the word, the document did in fact constitute a'circular'. While each envelope was addressed to the individual recipient the document itself carried no such address, neither did it carry a signature nor even a facsimile copy of a signature. Tens, or even hundreds of thousands of similar unsolicited documents are pushed into letterboxes throughout the country every day of the week and are regarded by all as circulars. Our answer to this aspect of the matter before us is therefore that the document complained of can fairly be considered as a 'circular'.

As to whether the document amounted to solicitation, we are of the opinion that the totality of the text and the inclusion of photographs, does imply solicitation for professional work. It will be recalled that Mr Garland submitted that the circular was no more than an inquiry as to the acceptability of a valuation ser vice and indeed he seemed to imply that it had been consciously designed to avoid infringing Article 23. If that is the case it is our view that the design failed and that any reasonable reading of the document as a whole must construe it as a solicitation for professional work.

Accordingly, it is the opinion of the Board that Mr Garland must be found guilty as charged, and that in the light of his evidence in respect of Mr Southwick's involvement the latter must also be found guilty as charged. The Board's decision to that point was given orally on the afternoon of the Hearing, but its formal decision was reserved pending the receipt of any submission as to penalty which might be made by Mr Sinclair.

Such a submission was later presented by Mr Sinclair and the Board has taken due account of the points which he had made, in particular concerning the "fine distinctions which have become increasingly blurred as all professions gradually relax their past restrictions' concerning advertising and soliciting for work. He pointed out that Mr Garland took the charge extremely seriously, engaged counsel to prepare submissions on his behalf, and travelled to Wellington with counsel in order to appear at the Hearing.

In considering the appropriate penalty in this matter the Board is much influenced by those matters of changing attitudes which have been referred to earlier in this decision, and which were emphasised by Mr Sinclair. It has accepted that this whole area of professional practice is in a state of flux and that present rules and regulations are likely to be significantly changed in the near future. That Mr Garland's action in preparing and distributing the circular may have been conditioned by this climate of change is accepted by the Board, and will be reflected in the penalty it imposes, but it does not alter the fact that on April 18, 1985, specific rules were in place concerning professional advertising and the solicitation of work which were properly and responsibly observed by the vast majority of members of the New Zealand Institute of Valuers, and that Mr Garland stepped around those rules with the intention that he would be advantaged.

With a full awareness of all the various circumstances which have been outlined, the Board is of the opinion that a monetary penalty is appropriate in respect of Mr Garland's admitted role as the main protagonist in this matter, but that Mr Southwick may fairly be dealt with by way of admonition.

Therefore, acting in accordance with the powers vested in it, the Board reprimands Kelly Bruce Garland in respect of the charge laid against him and fines him the sum of $400.00 (Four Hundred Dollars).

As to the charge against Peter Bruce Southwick, the Board will record that he has been reprimanded.

M. R. Hanna
Inquiry Chairman

IN THE COURT OF APPEAL OF NEW ZEALAND

BETWEEN

KENDALL WILSON SECURITIES LIMITED a duly incorporated company having its registered office at Auckland and carrying on business there as a nominee company

Appellant

AND

COLIN THOMAS BARRACLOUGH of Auckland, Registered Valuer

First Respondent

AND

BARRACLOUGH BROS LIMITED a duly incorporated company having its registered office at Auckland and carrying on business as a real estate agent

Second Respondent

Coram: Cooke J. (Presiding)
McMullin J.
Somers J.

Hearing: 27 and 28 November 1985

Counsel: G. R. Joyce Q.C. and C. F. Foote for Appellant
B. H. Clark for Respondents

Judgment: 28 November 1985

107 - Negligent valuation of land for proposed mortgage advance - Lender a solicitors' nominee company - Contributory negligence by company - The High Court judgment noted at (1983) 2BCB 19 has *come before the Court ofAppeal. The finding of negligence on the part of the registered valuer, who had* based his *valuation on what he regarded as the near certainty of an imminent change in the zoning (in the event it did not come about) was not contested. At issue* was *Jeffries J's decision that the company, in the person of its director (a solicitor), had been guilty of contributory negligence: (a) by too readily accepting the recommended valuation figure and not closely studying and appraising the validity of the valuation report;* and *(b) by failing to make a detached and professional investigation of the borrower's financial liability or to require personal covenants of directors. The Court unanimously held that there had been contributory negligence under (b), but not under (a) - the solicitor had been entitled to rely on the recommendation ofan experienced valuer, whose report had not been manifestly flawed. The extent of the appellant's contributory negligence* was *accordingly reduced from 60% to 33+ %. The Court rejected an argument for the respondent that the appellant as a solicitors'nominee company - a bare trustee and agent fora* changing *group of lenders - had itself suffered no loss* Kendall Wilson Securities Ltd v. Barraclough and another *(Court of Appeal. 28 November 1985* (CA193184), *Cooke J (presiding), McMullin and Somers JJ).*

JUDGMENT OF COOKE J.

In the High Court in this case Jeffries J. delivered his main judgment on 21 July 1983 and it was supplemented and completed by ajudgment dealing with damages delivered on 3 September 1984. The action was by a solicitors' nominee company Kendall Wilson Securities Limited (which may be referred to as Securities) against a registered valuer Mr C. T. Barraclough and his company (together conveniently referred to as the valuer).

In December 1974 Securities advanced $150,000 to Mercantile Developments Limited ('Mercantile') on security of a memorandum of mortgage over a Takanini property of about 20 acres. Securities, in the person of Mr Sturm hereinafter mentioned, had been shown by the solicitors for Mercantile a valuation of the property by the valuer dated 21 October 1974. It certified that the property offered sufficient security for the advance of trust funds to the amount of $150,000 for up to five years at current rates of interest. Mercantile defaulted under the mortgage and after unsuccessful attempts to sell the property on the market the partnership of solicitors finally took a transfer of it at a current valuation price of $98,000 in November 1978.

The claim by Securities against the valuer was for $94,183.20, representing the principal sum and other monies due under the mortgage in November 1978 ($192,193.20) less the $98,000. The Judge awarded the sum claimed less 60% for contributory negligence, i.e. $37,673, together with certain interest. Both sides appeal.

The Appeal

The plaintiffs appeal is directed to the finding of contributory negligence and the apportionment. Subject to particular points regarding the position of a nominee company which are raised by the cross appeal, the defence does not on appeal question the finding of the Judge that the valuer was negligent in the valuation and has at all times accepted that the valuer was under a duty of care to prospective lenders to whom Mercantile or its solicitors might show the report. The report was addressed to Mercantile's solicitors but records that the purpose was to assess the value of the property as security for first mortgage finance. The valuer knew that it would be shown to third parties to whom Mercantile applied for finance. The ingredients of a duty of care were obviously present, as is accepted.

In order to consider the findings as to contributory negligence it is necessary to analyse the uncontested finding of negligence. Although the valuation did not expressly say so, the site was zoned rural and used only for grazing. The Manukau City Council were contemplating a change of zoning to industrial. The valuation, after correctly recording that the land was at present shown on the town plan as `Sequence 3' land for future urban development, went on to say that the changes were still open to objection. Then came an important sentence: 'However from my discussions with the Engineers I am satisfied that the scheme change will go ahead'. Saying that he was satisfied that once the industrial zoning was confirmed the property would sell at $25,000 per acre plus corner influence, the valuer allowed some margin in valuing it at $15,000 per acre plus comer influence of 12.5 %; thus arriving at a figure of $295,000. The report then concluded with the following recommendations:

> We certify that we have acted independently of the applicant in this valuation and that under Section 10 of the Trustee Act 1956 this property offers sufficient security for the advance of Trust funds to the amount of one hundred and fifty thousand dollars ($150,000) for up to five years at current rates of interest. If private funds however were being lent I consider that an amount of one hundred and eighty thousand dollars ($180,000) could be advanced with reasonable safety as even if this land were zoned residential it could be sold readily for this figure.

In the event the scheme change did not go ahead; there was an economic downturn and a fall in the market for industrial land. The Judge found that the various references to zoning in the valuation were suitably qualified and even that the $295,000 valuation as potential industrial land was not negligent, but that, in his words, 'the entire recommendations section demonstrates a failure of ordinary skill and care. The absence of any challenge to this finding by the respondent makes it superfluous to underline the finding. It is enough to note that on 12 February 1974 the valuer had valued the property, then slightly larger in area, at $86,000 and as sufficient security for a first mortgage trustee advance of $50,000.

As to contributory negligence the Judge's findings turned on the part played by Mr Sturm, who was the partner in the firm of solicitors primarily concerned in the dealings with Mercantile regarding the advance. He was also a director of Securities. At first in Mr Joyce's argument in this Court counsel questioned whether for the purpose of the Contributory Negligence Act 1947, s,3, any negligence on the part of such a person could be attributed to the company. As the argument developed in the course of discussion with the Bench Mr Joyce did not press this point, and I think rightly not. A lender may not normally be identified with his solicitor for the purposes of the contributory negligence legislation - we need not go into that - but on ordinary principles relating to companies I think that in the transaction with Mercantile Mr Sturm personified and was identified with the nominee company. The well-known words of Lord Reid in *Tesco Supermarkets Limited v. Nattrass* [19721 A.C. 153, 170, apply except insofar as they refer to guilty mind, a reference made by Lord Reid because he was speaking of a criminal case:

> I must start by considering the nature of the personality which by a fiction the law attributes to a corporation. A living person has a mind which can have knowledge or intention or be negligent and he has hands to carry out his intentions. A corporation has none of these: it must act through living persons, though not always one or the same person. Then the person who acts is not speaking or acting for the company. He is acting as the company and his mind which directs his acts is the mind of the company. There is no question of the company being vicariously liable. He is not acting as a servant, representative, agent or delegate. He is an embodiment of the company or, one could say, he hears and speaks through the persona of the company, within his appropriate sphere, and his mind is the mind of the company. If it is a guilty mind then that guilt is the guilt of the company. It must be a question of law whether, once the facts have been ascertained, a person in doing particular things is to be regarded as the company or merely as the company's servant or agent. In that case any liability of the company can only be a statutory or vicarious liability.

It will be seen that the contributory negligence found is under two heads: failure to study the report and failure to investigate the borrower's financial position. As to the first of those, Mr Joyce was able to demonstrate, I think, in his argument in this Court that on its face the reasoning in the report was not flawed. The final recommendations even appear conservative by comparison with the potential industrial value of $295,000, which in turn might appear conservative by comparison with a full industrial value of more than $425,000. Everything turned of course on the scheme change, and any competent solicitor would know that this could not be guaranteed. But the valuer was very experienced and had gone as far as to say that he was satisfied from discussions with the engineers that it would go ahead. There was no evidence of professional practice to the effect that a reasonably prudent solicitor would not rely on such a report. I cannot avoid the conclusion that Mr Sturm was entitled to rely on it and that the finding on this head cannot stand.

The finding on the second head is in a different category. The financial position of Mercantile towards the end of 1974 was not explored in any detail in the evidence, and even the Judge's views about it are to be gathered mainly by inference. Mr Sturm said that he knew that it had a substantial equity in a number of properties. He thought that inspection of its balance sheet would be of no real value and in truth he seems to have made no investigations. Mercantile was in the business of land development or speculation.

A facet of the case which I think may well have influenced Jeffries J., and justifiably, is that partners in the Kendall Wilson firm and a builder, Mr Milne, were associated with Mercantile in a joint venture concerning the Auckland property on which stood the old Star Hotel. The partners belonged to the Star Development Syndicate. There was a joint venture contract dated 24 May 1974. That agreement provided that Mercantile would indemnify the syndicate against liabilities on the Star site and development after 31 March 1974. An agreement dated 5 December 1974 confirmed that Mercantile had paid certain Star outgoings for April and May 1974 but stated that other outgoings totalling $56,981.59 were due. Most of these had been due since June, July or August. The December agreement provided that out of the $150,000 advance Mercantile would *pay* the $56,981.59 forthwith to the syndicate; a further $50,000 was earmarked for future payments to the syndicate. This suggests that Mercantile had experienced some difficulty in meeting its obligations under the joint venture contract. We know too that from at least August 1975, and perhaps earlier, Mercantile was in default to Securities for mortgage interest and that a Property Law Act notice was served in December 1975.

It is true that the economic change to which reference has already been made was occurring about the time of Mercantile's defaults under the mortgage. Nevertheless I think that there was enough in the evidence to support the Judge's obvious opinion that some reasonably possible investigation of Mercantile's affairs by Mr Sturm would have revealed a less than assured financial position. Jeffries J. was entitled to find that reasonable prudence dictated such an investigation rather than total reliance on the security. In the light of all the evidence just touched on, I would not disturb the finding of contributory negligence on the second head.

It was argued for the appellant that any failure to investigate the borrower's finances and the value of the borrower's covenants was immaterial. I agree with Mr Clark that what he called Thomist logic is not appropriate in the application of the Contributory Negligence Act. The loss of part of the mortgage advance and other sums should be regarded as damage suffered by Securities partly as a result of the company's own fault and partly as a result of the valuer's fault. The damages should be reduced to such extent as the Court thinks just and equitable having regard to the share of Securities in the responsibility for the damage. The apportionment made in the High Court cannot survive the elimination of the first head of contributory negligence. Some weight should still be given to the general impression formed by the Judge, but we must make our own assessment with such help as we still obtain therefrom together with our own appreciation of the facts. Instead of the 60%, I would favour reducing the damages by one third.

The Cross Appeal

Turning to the cross appeal, one can reject quite briefly a contention that most of the indebtedness of Mercantile to Securities arose from the prior syndicate dealings and not from reliance on the valuation. The $150,000 advance was made in reliance on the valuation and it is this that we are concerned with. Apart from that point Mr Clark made two substantial submissions, on lines similar to his argument in the High Court.

The first was put in various forms but essentially invokes the particular function of a solicitors' nominee company. The memorandum of association of Securities states its first object in these words:

> To act as a nominee company holding mortgages charges debentures instruments and securities (including documents of title) of all kinds (whether contributory or otherwise) or any interest therein upon a bare trust for the legal or beneficial owner or owners thereof and as such nominee to lend moneys.

Mr Clark's argument is that Securities made the advance simply as trustee or agent for such investors as at that time had funds with Securities; that the contributors to nominee companies change from time to time, as occurred here; that the contributors in 1978 when the security was sold were not the same as those in 1974 when the advance was made; that the nominee company had suffered no loss; and that it could not sue on behalf of contributors who themselves had not relied on the valuation or suffered loss in consequence. Counsel added that, as in contract, the legal relationship or vinculum juris should be seen as between the principal and the third party (the valuer), the agent dropping out of the picture.

At first sight that argument might appear to have some validity if one approaches the case solely from the point of view of the law of trusts. It seems to me, however, that the right starting point is elsewhere. We are concerned with the laws of negligence and duties of care. Solicitors' nominee companies are familiar in the finance market and would be contemplated by the valuer as among prospective lenders. In my opinion the relevant duty may be defined as a duty owed to the company to take reasonable care in the valuation, so that the funds administered by the company would not be lost by reliance on an erroneous valuation. As between the valuer and the company, the source of the funds and changes in the beneficiaries whose funds the company controls are irrelevant: res inter alios acta. There appears to be no obstacle to our adopting that view. Any other would be artificial and destructive of part of the utility of solicitors' nominee companies.

Accordingly I would hold, in substantial agreement with Jeffries J. on this point, that the duty was as just stated and that on its breach the valuer is liable to the company to which the duty was owed to make good the loss of funds.

We are not concerned with whether any individual investor could have a cause of action against a valuer in similar circumstances. It may be added, however, that the judgment of Wootten J. in *BTAustralia Ltd v. Raine & Home Pty Ltd* [1983] 3 N.S.W.L.R. 221, though that case is not on all fours on the facts, may in allowing recovery to the third plaintiffs (who were trustees) reflect a view on the same lines as just stated regarding the nominee company. Be that as it may, I favour that view in principle.

Mr Clark's other submission was that certain interest and rate liabilities were not recoverable from the valuer. He conceded that in principle some lost interest could be recovered and that the question is one of degree, but he contended that these liabilities were too remote, having accrued from the latter part of 1977. Failure to mitigate damages, as by selling the security earlier, is disclaimed as a defence. The short answer to this argument is that some loss of interest and similar incurring of current liabilities is the very kind of thing to be expected if, on default by the mortgagor, the mortgagee has to resort to the security. As a matter of degree I would not dismiss these items as remote and consider that the Judge rightly allowed them.

The Court being unanimous, the appeal is allowed to the extent of changing the proportion by which the damages are to be reduced for contributory negligence from 60 % to 331/3 %. The cross appeal is dismissed. Having succeeded to the foregoing extent, the appellant is entitled to some award of costs. We fix these at $1000 together with disbursements, including the reasonable cost of preparing the case and the travelling and accommodation expenses of counsel, to be fixed by the Registrar.

Solicitors: Kendall Sturm & Strong, Auckland, for Appellants
Earl Kent & Co., Auckland, for Respondents

ORAL JUDGMENT OF McMULLIN J.

On the 24th May 1974 a syndicate known as the Star Development Syndicate, comprising the members of the legal partnership of Kendall & Wilson and a builder, entered into an agreement called ajoint venture agreement with a company called Mercantile Development Ltd ("Mercantile") for the sale to Mercantile of the Star Hotel in Auckland. In the course of discussions relating to that transaction Mr Sturm, a member of both the partnership and the syndicate, met a Mr Manning a director and one of the two shareholders of Mercantile. Under the provisions of thejoint venture agreement Mercantile undertook to pay certain outgoings due on the Star Hotel property. Mr Manning asked Mr Sturm if he could arrange finance for Mercantile and offered to apply any such advance in payment of the outgoings on the Star Hotel for which Mercantile had become liable under the joint venture agreement. Mr Sturm told him that any advance which he could arrange would have to be secured by a first mortgage supported by a trustee valuation. Later in 1974 a valuation dated 21 October 1974 made by the first respondent, Mr C. T. Barraclough, was handed to Mr Sturm by Mercantiles solicitors and Mr Sturm agreed on behalf of the appellant ("the nominee company") to make an advance of $150,000 on the first mortgage of a block of land near Papakura owned by Mercantile.

This summary of the circumstances in which the nominee company, through Mr Sturm, agreed to make the advance on mortgage is given because it provides a short statement of the background for a consideration of the issues raised on this appeal and cross appeal. While the nominee company's claim that the loss for which it sued in the High Court was caused by the negligence of Mr Barraclough in making the valuation report referred to in respect of the subject property was in issue in the High Court, in this Court Mr Clark did not contest the finding of Jeffries J. that in furnishing the particular valuation report Mr Barraclough had fallen short of the required standard of care expected of a valuer.

The present appeal by the nominee company raises a number of issues. In particular the nominee company contends that Jeffries J. was wrong in finding that Mr Sturm failed to apply the ordinary skill and care expected of a solicitor responsible for advancing trust funds, and in holding that his failures in this respect, if established, were a contributory cause of the damage suffered by the nominee company, and in fixing the proportion of its responsibility at 60%. Other issues are raised which I deal with later in this judgment.

It is convenient now to record that in the course of the argument on appeal Mr Joyce conceded, quite rightly I think, that in considering issues of contributory negligence Mr Sturm, irrespective of any liability which he or his partners or the directors of the nominee company may have to those who have contributed funds to this contributory mortgage, is to be identified with the nominee company in that he acted not only as its solicitor but also as one of its directors and so in a sense personifies it.

The first ground of appeal is against the Judge's finding of contribution of indemnity under a third party notice. It is a case in which the plea is that KWS failed to take reasonable care of its own interests. It is not a case either in which KWS sought to rebut such an allegation by saying that it acted reasonably by engaging a solicitor to look after its affairs. It is a case in which Mr Sturm, who is a solicitor, was a director and substantially the alter ego of KWS in this transaction of loan.

Mr Joyce submitted that the Trial Judge was wrong in law in holding that negligence on the part of Mr Sturm amounted to contributory negligence on the part of KWS. This is a claim that negligence of Mr Sturm as a solicitor is not the negligence of KWS. For the reasons mentioned I do not think that there is anything in this point. Vis-a-vis Mr Barraclough, Mr Sturm was either a director or the agent (as solicitor) of KWS. His acts or omissions were the acts or omissions of the company.

Then it was submitted that the Judge was wrong in law in holding that a plea of contributory negligence was available to the valuer in the circumstances. The submission is that once there is reliance on a negligent statement there is no room for contributory negligence by the person who so relies. I think the short answer to that submission in this case is that the valuer was entitled to expect that considerations additional to his advice would be influential in the decision as to whether or not a loan would be made.

I do not go further into those two grounds because in the end Mr Joyce placed little if any reliance on them.

Mr Joyce's principle submissions in this area of the case were that the Judge was wrong to find that Mr Sturm had failed to make a detached appraisement of the valuer's report which would have "revealed its speculative and flawed reasoning to its final recommendations" and had failed to make a detached and professional investigation of the financial viability of the borrower.

I am persuaded that the first finding cannot stand. Mr Barraclough in his report considered the value of the land "as potential industrial land" was, in all, $295,000. He had earlier said as the result of his discussions with the Engineers of the local body that he was "satisfied the scheme will go ahead" - i.e. that the zoning of the land would be changed to Industrial. When therefore he recommended the property as a security for up to $150,000 of trust moneys or $180,000 of private money I do not think it evident that this conclusion was formed on speculative or flawed reasoning. In the case of trust moneys the amount recommended is little more than one half the value he put on the land - it is well short of two-thirds of his valuation. I consider Mr Sturm was entitled to rely on the recommendation in the report.

But I would uphold the second finding of the Judge - that KWS failed to make an investigation into the financial viability of the borrower.

I have no doubt that the ordinary prudent lender would enquire into the ability of a possible borrower to meet his obligation without resort to any proffered security. McMullin J. adverted to this in *Farrington v. OSullivan & Ors.* [1985] 1 NZLR 83, 98. No enquiry was made in the instant case. It may have been that familiarity had bred assurance - Mercantile was involved with some members of the firm of Kendall Wilson in a property venture. In fact Mercantile needed the loan to meet its obligations in that undertaking and it may be that the venture's need for moneys clouded Mr Sturm's judgment in this area.

There is not much evidence to show what an enquiry would have disclosed. The loan was made in November 1974, default was made in payment of interest due on 15 August 1975. Exhibit B, a deed entered into between Mercantile, the property venturers, and a builder shows that Mercantile had not paid moneys due by the enterprise and which as between the members of the venture, were payable by it. These totalled $56,981 at 5 December 1974. Some of the items were evidently due for payment by Mercantile much earlier. Other features of the deed suggest anxiety about Mercantile's position.

It is implicit in the Judge's reasoning that an enquiry was likely at least to have put a lender on guard. I think the evidence justifies such a conclusion and would uphold his finding of contributory negligence by the plaintiff.

These conclusions call for a reassessment of the degree of KWS' responsibility for the damage. I agree with the figure of one-third suggested by other members of the Court as appropriate in this case.

ORAL JUDGMENT OF SOMERS J.

Logically the first issue for consideration arises on the cross-appeal. It is whether the plaintiff nominee company Kendall Wilson Securities Ltd. (to whom I will refer as KWS) could recover from the valuer at all. What is said is that it was a bare trustee, a lender as a fiduciary agent only, and that accordingly it suffered no loss itself and could not recover on behalf of those for whom it was a nominee.

I doubt whether it was open to a valuer who has put loan advice into circulation to enquire into the relation with other persons of one who has acted in reliance on it. But in any event I do not think the nexus between trustee and beneficiary provides a solvent in this case which is an action in negligence. KWS is described in its memorandum of association as a `bare trustee' of mortgages and other securities. But it must have active duties in the lending of money including the making of enquiries into the financial capacity of borrowers and as to the quality of security offered. These surely are reflections of its duty to those who entrust moneys to it to see that such funds are not lost. Because it is precisely in these areas that the advice of a valuer is sought and given I consider the duty owed by the valuer in this case, namely to take reasonable care in making his valuation, was a duty to the company itself. It should be emphasised however that the case is not one in which a mortgage has been assigned or transferred and in which the assignee/mortgagee seeks to recover on the grounds of a careless report to the original mortgagee. Of such a case I say nothing for here KWS has been the mortgagee throughout.

I would add that I do not think it can properly be said that KWS suffered no loss. In the circumstances of this case it would be surprising if the clients of the legal firm who contributed to the mortgage did not have an action against KWS.

These conclusions are sufficient to dispose of other cognate submissions on behalf of the valuer to the effect that subsequent contributors did not and could not have relied on the report. It is enough that KWS did.

The next issue is also the respondent's point. It is a claim that interest from 15 May 1977 and rates on the property paid by the mortgagee are too remote to *be recovered.* I am of opinion that this submission must fail and can say why shortly. It is not disputed that the negligent report of the valuer played a real and substantial part in the making of the loan. The valuer is accordingly liable for such foreseeable loss as is necessary to restore KWS to the position it would have been in had the negligent report not been made. That loss must include not only unrecovered principal sums lent but also interest on such sums which is also unrecovered. Such interest is damage of the kind a reasonable valuer ought to have foreseen would flow from a loan made as the result of a want of care on his part. It was not claimed that KWS had not acted reasonably to mitigate its loss by selling the security earlier.

The last group of issues has to do with contributory negligence. The valuer in his statement of defence pleaded that the loss was wholly caused by or was contributed to by the lender's own "voluntary acts and conduct and/or by its failure to exercise proper care in making the advances on the terms and in the circumstances that it did" The Judge found that Mr Sturm was strictly speaking acting as solicitor advancing trust funds.

This is not a case however in which either KWS or the valuer claimed to recover from Mr Sturm as a defendant or by way of contributory negligence against Mr Sturm. The Judge found that he was negligent in two respects:

(a) In failing to read carefully, analyse, question, investigate, challenge or reflect on or discuss Mr Barraclough's valuation before authorising the advance by the nominee company; and
(b) In failing to investigate the financial stability of Mercantile in that he did not examine the company's balance sheet, and insist on personal covenants from Mr and Mrs Manning, the two shareholders, when he knew that the whole advance was not to be expended on the security and he did not expect the subject property, grazing land, to generate any income to service the borrowing on it.

In making his finding of contributory negligence the Judge effectively decided that Mr Sturm should have looked behind Mr Barraclough's valuation report. In this report, which is set out fully in the judgment under appeal, Mr Barraclough dealt with the zoning of the subject land. At the time that the report was given this land was shown on the Manukau City Council town plan as Sequence 3 land for future urban developed. However, Mr Barraclough reported that the Council had stated its intention of changing the zoning to industrial. He went on to say that all the changes were still open to objection but on his discussion with the engineers he was satisfied that the scheme change would go ahead. Later he said "I am satisfied that the subject property once the industrial zoning is confirmed would sell at $25,000 per acre plus corner influence". Then in making his valuation he said "Taking into account the present market conditions and the prominence of this site I consider that its value as potential industrial land is a sum of $15,000 per acre plus corner influence" making in all a total of $250,000. Finally there was the recommendation that this property being a trustee investment would support an advance of $150,000 for up to five years at current rates of interest.

In making a valuation it is axiomatic that a valuer should value the land as it is at the relevant date, making proper allowance for potentialities for change. *In re Whareroa 2E Block, Maori Trustee v. Ministry of Works* [1959] NZLR 7. This method of valuation, which reflects the well settled principle that the capital value of land is the sum which the owner's interest might be expected to realise if offered for sale in the open market, is also reflected in the numerous cases involving the valuation of land for the assessment of rent where restrictions of a town planning nature and the possibility of such restrictions being removed are to be taken into account. *Re an Arbitration between the Auckland Hospital Board and the Auckland Rugby League (Inc)* [1966] NZLR 413.

Where Mr Barraclough fell into error in making his report was in promoting what was no more than a suggestion for a scheme change, which in fact never eventuated, into a virtual certainty. It was this which led him to over value the land. That he erred in this way is not now in issue and Mr Clark has not challenged the finding of the Judge on that point. But it does not seem to me to follow that Mr Sturm failed to exercise reasonable care in acting upon that valuation. There may be cases where a lender or solicitor acting for a lender may be negligent in failing to pick up some mistake or erroneous assessment or assumption in a valuation even though it contains a recommendation for a trustee investment which on its face would justify the amount advanced. But in the present case I cannot see that Mr Sturm was remiss in accepting the valuation and the certificate included in it. Although he may have had some experience in land dealing he was not a valuer, there is no reason why he should have doubted Mr Barraclough's proficiency and experience as a valuer, and there is no reason why he should have queried the anticipated zoning which was an assessment said to have been made upon a factual enquiry made by the valuer. For these reasons I think that there was no basis for finding that Mr Sturm was negligent in this respect.

However I think that the finding of contributory negligence on the part of Mr Sturm in failing to investigate the financial stability of Mercantile was justified on the evidence. It is apparent from a reading of the evidence that Jeffries J. considered that no adequate enquiries had been made as to the value of a personal covenant in the mortgage given by Mercantile. At the end of Mr Sturm's evidence the Judge asked a number of questions. These revealed that Mr Sturm did not know the amount of Mercantile's capital when he made the advance although he claimed he knew that it was substantial that he had not examined a balance sheet of the company; that he had never made a previous advance to the company and that he did not get a personal covenant from Mr and Mrs Manning. In questioning Mr Sturm as he did the Judge effectively served notice at an early stage of the proceedings that the adequacy of Mr Sturm's enquiries into the standing of Mercantile was troubling him. It was not surprising that when the Judge asked Mr Clark at a later stage in the trial for a specific formulation of his allegations of contributory negligence, Mr Clark nominated Mr Sturm's failure to take heed of the speculative nature and lack of the true substance of Mercantile as one. No doubt he always had it in mind in formulating the plea of contributory negligence.

It is true that there appears to be little evidence as to what would have happened had Mr Sturm made enquiries of this kind. But there is material from which the Judge was entitled to infer that the financial position of Mercantile at the date of the advance was far from healthy. On 5 December 1974 Mercantile entered into an agreement with the Star Development Syndicate in which it acknowledged that, in terms of its obligation under the joint venture agreement to meet certain outgoings on the Star Hotel Property, it then owed $56,981.59 to two lenders of which the nominee company was one. A statement prepared by the nominee company's solicitors dated 9 December 1974 showed that of the $100,000 which was the initial advance under the mortgage from M to the nominee company $58,487.59 was paid to the syndicate. Moreover, Mr Sturm in his cross examination gave this material answer to the following question. "Is it a fact that prior to December 1974 there was (sic) payments due under joint venture agreement had not been made to those entitled to them? Yes".

This then was the case of a mortgagor which at the time the mortgage advance was made was in debt for a substantial sum in respect of overdue liabilities. It is apparent that if it ever recovered from this state of indebtedness it did so but briefly because on 11 December 1975, when notice under s.92 of the Property Law Act was given, there had been a default in the payment of interest due under the mortgage as at the 15th August 1975 of $11,250. This sum, if taken at the interest rates fixed in the mortgage, amounts to more than two quarters' interest indicating that the quarterly payments due on the 15th May and 15th August *1975* had not been made.

A personal covenant is an integral part of a mortgage and where the mortgagor is a corporate entity it may be important, see *Farrington v.* Rowe *McBride & Partners* [1985] 1 NZLR 83, 98. *Roe v. Cullinane Turnbull Steele & Partners* [1985] 1 NZLR 37 (Quilliam J.), is an instance where a firm of solicitors was held liable in damages for professional negligence in respect of an advance made to a company where a personal covenant was not obtained.

In the light of these facts I think that the finding that Mr Sturm ought to have made further enquiries concerning the financial stability of Mercantile was justified. I would therefore uphold the finding of contributory negligence under this latter head, but would adjust the finding of 60% contributory negligence made by the Judge to a lesser percentage. I would concur in the finding that contributory negligence should be found in the figure of 33'h %.

I turn now to the cross appeal. Mr Clark contended that whether or not the valuer was at fault the appellant as a nominee company had no claim for any loss suffered over the failure of the security. He said that a nominee company could not claim on behalf of persons who had become contributors to it at any time subsequent to the Advance unless those persons could show that they had relied on the representation; that any contributors to the nominee company who joined it subsequent to the advance had their remedy against the solicitors.

The answer to this submission is that the representation was one which was made directly to the company itself. The report, as might have been expected by the valuer, came to the notice of the nominee company or its solicitors because it was the company which acted upon the representation in the report. The Memorandum of Association of the nominee company anticipated that the company as such would make advances and the mortgage executed in respect of this particular advance of mortgage records that the money was lent and advanced by the nominee company. I think, therefore, that Mr Joyce was on sound ground in saying that the valuer knew or ought to have known that the nominee company was within the category of persons who might be induced to make an advance by the representation contained in the report. Therefore I would hold that the nominee company had a good cause of action to put itself in the same position that it would have been in but for the making of the misrepresentation. The fact that the contributors may have an alternative or an additional cause of action against those solicitors does not bar the nominee company from suing in tort.

Mr Clark also submitted that the nominee company had no claim for loss of interest from the 15th May 1977 to the 15th November 1978. He contended that this loss was not caused by and did not result from the nature of the valuation advice given by the valuer. However, he did not dispute that the nominee company had suffered the loss claimed; he did not claim that it had failed to mitigate its loss; and he conceded that a claim for some loss of interest was reasonable. The question therefore is one of degree. The test of recoverability of damages in an action for tort is whether the damage is of such a kind as a reasonable man should have foreseen. The recommendations in the valuation report concerning the mortgage advance related to an advance for up to five years at current rates of interest. If then the security proved to be deficient it was reasonably foreseeable by the valuer that the mortgagee would suffer a monetary loss both in the form of principal and interest. For these reasons I am in substantial agreement with Jeffries J. on the two points raised in the cross appeal. Accordingly I would dismiss the cross appeal and allow the appeal by reducing the finding of contributory negligence on the part of the nominee company from 60% to one third.

Solicitors: Kendall Sturm & Strong, Auckland, for appellant
Earl Kent & Co, Auckland, for respondents

IN THE NORTH CANTERBURY LAND VALUATION TRIBUNAL HELD AT CHRISTCHURCH

IN THE MATTER of an objection under Section 19 of the Valuation of Land Act 1951

BETWEEN

H. C. and H. V. EVISON

Objectors

AND

THE VALUER GENERAL

Respondent

Before: Judge Frampton and R. K. Baker Esq.

Date of Hearing: 9 July 1986

Date of Decision:

Mr H. C. Evison in person for Self and Co-objector Mr

Nixon for the Valuer General

This is a decision of the North Canterbury Land Valuation Tribunal and specifically refers to the degree of inspection required in carrying out a valuation.

The objector required a thorough detailed inspection, including wiring, fittings, under the floor and into the roof. The Tribunal notes that if such an inspection was carried out, the Valuer would still have to decide what an average house buyer, who does not go to the same lengths of inspection, would pay. This price could possibly be higher than that which the buyer who undertook the meticulous investigation would offer.

DECISION

The Objectors have lodged an objection to the roll valuation of their property at 23 Taylors Mistake Road made as at 1/7/84 and whereby the capital value was fixed at $104,000.00 as follows: land value $28,000.00; value of improvements $76,000.00. The Objectors contend that the capital value should not exceed $60,000.00 as follows: land value $18,000.00; value of improvements $42,000.00. At the hearing the Objectors accepted the land value of $28,000.00, but submitted that the value improvement should be set at $60,000.00. The main thrust of the objection was that the Valuer General's inspection of the property for the purpose of fixing the value at 1/7/84 was not thorough enough for him to fix the value in terms of the Valuation Act.

At the hearing Mr Evison submitted a four-page memorandum, the purport of which was that to make a valuation within the meaning of the Act the Valuer General had to make a detailed inspection of the Objector's house, including looking under the floor, inspecting the foundations and floorjoists and making a finding as to the presence of dampness or dry rot. He would also need to go up into the roof to see if there was any leaking and if so, the effect on roof timbers. A further inspection would be required of the linings inside the rooms, the state of the plumbing, and as to whether the bath or toilet bowl were chipped. A further detailed inspection would be needed of the electrical wiring and fittings, and he would have to consider such matters as the effectiveness of sound insulation between rooms, the interior decor and the convenience of design. In other words, the Valuer General would have to make the type of detailed inspection that would be made by a fastidious buyer who would weigh up all the advantages and defects before deciding how much to offer for the purchase of the property. The Valuer General would then have to decide how much such a buyer would be prepared to pay, and ifx the roll valuation accordingly. The Valuer General would have to make a decision on the type of person who is likely to buy the Objector's property, because the average house buyer who does not go to the lengths suggested by the Objectors would possibly offer a higher price than the buyer who undertakes a meticulous investigation before making an offer.

Miss C. E. Willes, a registered valuer employed by the Valuer General, valued the Objectors' property for the purpose of the General Re-valuation of the Christchurch City rating area as at 1/7/84. She placed a capital value of $104,000.00 on the property comprising $28,000.00 land value and $76,000.00 value improvements. She did not inspect the improvements in 1981 on the inside when she made her valuation, After the objection was lodged she went through the property in 1984 and went inside the house, but did not go up into the roof or under the floors. After this inspection she saw no reason to amend her earlier valuation. She gave evidence of a detailed nature covering location, zoning, the nature of the section, improvements and comparable sales information for both vacant land and improved property. She produced statistical information showing the percentage in the increase in Christchurch city values in the five-year period from 1/7/79 to 1/7/84. Land values in the Scarborough area increased by an overall percentage of 131.8, whereas the percentage increase on the land value for 23 Taylors Mistake Road was 115.4%, whereas the Objectors' increase was 115.4%. The overall increase in capital value for the Scarborough area was 154.9%, and the increase in the Objectors' capital value was 136.4%. No evidence of an expert nature from a valuer has been submitted by the Objectors to challenge these figures and there is no evidence on which we can find that the Objectors' property was valued by the Valuer General otherwise than in accordance with the provisions of the Valuation of Land Act 1951.

The objection is therefore dismissed and the roll valuation made as at 1/7/84 by the Valuer General is confirmed.

Chairman: K. W. Frampton

Member: R. K. Baker

IN THE HIGH COURT OF NEW ZEALAND (ADMINISTRATIVE DIVISION) ROTORUA REGISTRY

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

BETWEEN

THE VALUER-GENERAL

Appellant

AND

BRIAN GEORGE CONWAY ELWOOD, DAWN BARBARA ELWOOD and PHILIP KENATH ANDREWS

First Respondents

AND

BRIAN GEORGE CONWAY ELWOOD

Second Respondents

Hearing: 29 April 1986

Counsel: C. J. McGuire for the Appellant
B. G. C. Elwood in person for the Respondents

Judgment: 28 August 1986

This is an appeal decision delivered by the High Court - Administrative Division. The High Court held, in favour of the Valuer-General, that a piece of land subject to a flats plan with cross leases has its land value assessed as individual separate properties, i.e. each owner's estate or interest is to be assessed. The argument that the flats plan was not to be considered, due to the opinion that ifthere had been no buildings erected there would be no flats plan, was not accepted by the High Court.

The Valuer-General's approach to valuing home units as separate property was therefore supported.

JUDGMENT OF BISSON J.

This is an appeal by the Valuer-General against the decision of the Waikato No.2 Land Valuation Tribunal given on 21 June 1983 upon the grounds that the Tribunal erred in fact and law in failing to properly apply the provisions of the Valuation of Land Act 1951 in respect of (a) separate property and (b) land value. The first respondents and the second respondent were respectively the registered proprietors of estates in fee simple the former as to an undivided one third share and the latter as to an undivided two thirds share in a parcel of land containing 862 m2 more or less being lot 59 on Deposited Plan 5.6123. Separate Certificates of Title 23A/1285 and 23A/1287 were issued on 17 April 1978 in respect of their respective fee simple interests in that land. This land fronts Rainbow Drive, Taupo. On 18 October 1977 a plan was deposited under No. DP.S.24874 showing "flats situated" on lot 59, one being flat I and garage 1 the other being flat 2 and garage 2. The registered proprietors of the undivided two thirds share and one third share on 10 October 1977 executed a memorandum of lease of flat I garage 1 plan S.24874 to the first respondents for a term of 999 years commencing on 10/10/77 and they executed a further memorandum of lease on the same date of flat 2 garage 2 on the same plan to the second respondent in respect of the same term and both leases were registered on 17 April 1978 and separate leasehold certificates of title issued to the respective lessees. This procedure involves what is well known no doubt to conveyancers as a flats plan with cross leases. This enables separate ownership of leasehold interests in residential buildings erected on the land in one certificate of title without giving rise to a `subdivision" of that land as defined in s.271 of the Local Government Act 1974. The exempting provision is in ss.(4) of that Act as follows:

"(4) Notwithstanding anything in this section, land shall not be deemed to be subdivided for the purposes of this Part of this Act by reason solely of the fact that -

(a) The owner or owners grant or advertise or offer a lease of any part of a building on or to be erected on the land: or
(b) The owner or owners -
  (i) Grantor advertise or offer a company lease or cross lease in respect of the land; or
  (ii) Divide the land into units under the Unit Titles Act 1952, -

being a lease of a building or part of a building or, as the case may be, units intended to be used solely or principally for residential or commercial or industrial purposes, or any 2 or more such purposes"

Cross lease is defined in s.270(l) as follows:

"'Cross lease' means a lease of any building or part of any building on or to be erected on any land owned in common granted by all the owners of the land to the owner of an estate or interest in an undivided share in the land:"

The only other statutory provision relating to cross leases referred to the Court by counsel was s.314 of the Local Government Act which is as follows:

"314. Registration of company leases and cross leases -

(1) Notwithstanding anything in section 270(6)(b) of this Act, the District Land Registrar shall not register a company lease or cross lease, unless a certificate, signed by the principal officer or an authorised officer of the council, is endorsed on the plan, deposited with the District Land Registrar, of the building comprised in or part of which is comprised in the lease, or on a copy of that plan, that -

(a) In the case of a building constructed before the 1st day of April 1979 or in the course of construction before that date, the building as shown or described on the plan was constructed or in the course of construction before that date and was provided with or, as the case may be, would be provided with such safeguards against fire and means of escape in case of fire as were required by the by-laws of the council applying on the date of the giving of that certificate;

(b) In the case of a building the construction of which commenced on or after the 1st day of April 1979 (whether before or after the commencement of this section), every building permit necessary for the construction of the building as shown or described on the plan has been granted by the council pursuant to its by-laws.

(2) The council, the principal officer of the council, every member of the council, and every employee or agent of the council shall not be under any civil or criminal liability in respect of the giving of any certificate under this section, unless it or he has acted in bad faith.

(3) In this section -

'Building' means a building or part of a building intended to be used solely or principally for residential or commercial or industrial purposes or any 2 or more such purposes:

'Construction', in relation to any building, includes its reconstruction; and also includes an extension of or addition to or the subdividing or conversion of the building."

By s.8 of the Valuation of Land Act 1951 a district valuation roll shall be prepared in respect of "each separate property". In the five-yearly revision of the district valuation roll on 1 October 1980 the Valuer-General valued flat 1 garage l and flat 2 garage 2 as separate properties showing the valuations of the former as capital value $43,000, land value $11,000, value of improvements $32,000 and of the latter capital value $63,000, land value $14,000 and value of improvements $49,000. To these valuations the respondents objected. The total of the two land values is $25,000 but it was common ground that if lot 59 DPS.6123 were valued as one property and not as two separate properties its land value would be $21,000.

The Waikato No.2 Land Valuation Tribunal in a reserved decision allowed the objection, holding:

"In the Committee's view the Flats Plan does not affect the question of valuation and the combined values of the interests of the tenants in common have no greater effect. The Committee therefore fix the land value at $21,000."

The following passage from the Tribunal's decision gives a brief outline of the issue before the Tribunal and the competing cases presented to it:

"The issue for determination therefore comes down to this, namely whether the land value of Lot 59 when subject to a Flats Plan and cross leases should be of a higher sum than when it is not subject to such a plan and cross leases.

It is argued on behalf of the objectors that a Flats Plan is prepared once buildings have been defined by the erection of their foundations upon the land. The deposit of a Flats Plan depends upon the placing of improvements upon the land. The registration of leases of individual buildings defined by the Flats Plan therefore follows the deposit of the plan. If there are no buildings erected on a particular piece of land there is no Flats Plan and no separate estate in leasehold. A separate leasehold interest is only created by the creation of improvements upon the land. Leasehold interests do not exist without improvements and thereby it is submitted cannot be a factor influencing land as so defined by the Value of the Land Act. If the buildings were removed the land would be owned by the objectors as tenants in common in unequal shares but they would have their right to erect on the land, without planning consent, two residential flats for which a Flats Plan could issue once the flats were erected. This right is one, and the Committee understands this to be common ground, applying to every residentially zoned section in the Taupo Borough. Still the Valuer-General, it is argued, has placed a higher value on the separate interests of the tenants in common where a Flats Plan has issued than he has placed on an adjacent property which has two residential units but in respect to which a Flats Plan does not exist.

The essence of the respondents' argument is that as a result of there being two home units and two separate titles as to the freehold interests, and two separate titles as to the leasehold interests, there has been a valuation of the interests in each home unit as 'separate property."

It now being accepted by the respondents, and properly so, that lot 59 does comprise two separate properties the only issue still in dispute is the correct approach to the assessment of the land value of each property.

It is appropriate to set out the following definitions:

"Land" and "Land value" are defined in s.2 of the Valuation of Land Act 1951 as follows:

"'Land' means all land, tenements, and hereditaments, whether corporeal or incorporeal, in New Zealand, and all chattel or other interests therein, and all trees growing or standing thereQn:"

"'Land value, in relation to any land, means the sum which the owner's estate or interest therein, if unencumbered by any mortgage or other charge thereon, might be expected to realise at the time of valuation if offered for sale on such reasonable terms and conditions as a bona fide seller might be expected to impose, and if no improvements (as hereinbefore defined) had been made on the said land:"

The definitions of "Improvements" (so far as relevant) and of "Value of improvements" also in s.2 are:

"'Improvements", in relation to any land, means all work done or material used at any time on or for the benefit of the land by the expenditure of capital or labour by any owner or occupier thereof in so far as the effect of the work done or material used is to increase the value of the land and the benefit thereof is unexhausted at the time of valuation:

"'Value of improvements' means the added value which at the date of valuation the improvements give to the land"

The Tribunal's reasons for upholding the objection of the respondents were:

"It appears to the Committee that the difficulty of the interest created arises only upon the erection of a unit, not on the taking of title in whatever form. The owner of the property is entitled to take advantage of the zoning unit which exists without incurring a penalty. In essence that land has not changed and a valuer must examine and value it as if the buildings were removed. In effect if the buildings for valuation purposes were removed there would be no flats and there would be no leases of buildings which of course would not exist.

In all of the circumstances therefore the Committee finds that the objection has merit in that an adjacent property holder by not utilising the right to cross lease which he has is at an advantage and this is not to be a proper valuation technique, even taking into account the definition in the Act"

The respondents do not question the capital value placed on each separate property by the appellant. Their case is that once the land is valued as if no improvements had been made on the land the cross leases and flats plan in effect disappear as if they had not existed so that all that is left is lot 59 as one vacant lot to be valued accordingly.

I do not agree with that proposition. What has to be valued is the owner's estate or interest in each part of the land comprised in the separate property being valued if offered for sale minus the improvements. Improvements are defined in the physical sense as work done and material used on or for the benefit of the land. Ignoring improvements of that nature in arriving at the land value of each separate property does not involve ignoring the existence of a flats plan once duly deposited. It exists and is a fact to be taken into account and indeed gives rise to the very existence of the separate properties being valued. The flats plan which is tantamount to a subdivision of lot 59 exists for the purposes of the land value, only improvements as defined being excluded.

I do not agree with the respondent's contention "If there are no buildings erected on a particular piece of land there is no flats plan ...". It can be seen from s.271(4) of the Local Government Land Valuation Act and the definition of cross lease in s.270(1) that the advertisement or offer of cross leases in respect of buildings to be erected shall not be deemed to be a subdivision of the land. Clearly a flats plan would need to be in existence for cross leases of the intended buildings to be advertised or offered and there is no statutory restriction on the deposit of such a plan. It is the registration of a cross lease by the District Land Registrar not the deposit of the flats plan which requires a certificate in the case of a building construction of which has commenced that every necessary building permit has been granted. This certificate is to ensure that leases are not registered in respect of substandard buildings on any part of the land described in the deposited flats plan. I believe the position is clear from the wording of s.314(l), that the flats plan may be deposited prior to and independently of the lodging of a cross lease for registration. Section 314(1) imposes no restraint on the deposit by the District Land Registrar of a flats plan and the certificate required for the registration of a cross lease may be endorsed on a copy of "that plan" i.e. the deposited plan. Therefore, while the notional removal of the buildings from the land for the leases which are dependent on the construction or partial construction even if only to the stage of the foundations, such removal does not dispose of the flats plan and the effective subdivision of the land into those parts as shown on the plan upon which the lfats and garages are sited. It is to be noted that while the plan endorsed on a leasehold certificate of title shows only the outline of the building to which the cross lease applies, the flats plan goes further and shows how the land is subdivided into parts to which each building relates.

Once a flats plan with cross leases has been implemented as a means of creating two separate properties on one piece of land, it falls to the lot of the appellant to make an assessment of the land value content of each separate property. The basis on which he makes that assessment is not a question before this Court. Mr McGuire referred to there being available the well recognised basis of comparable sales but again whether such sales are comparable depends on the facts of each case and the terms and conditions of each sale. How the land value placed on each part of the land compares in the aggregate with the land value of the land as a whole is again not a question before this Court. It does not necessarily follow that the aggregate will be greater and if so that such higher valuation introduces an inequity for rating purposes as urged by the respondents, when compared with similar land having two flats without a flat plan and cross leases. If the market recognises a difference between land with a flats plan giving rise to two separate properties and land without a flats plan and therefore remaining as one separate property that market difference whether higher or lower must be reflected in the land values. There is no unfairness if the market recognises there is a difference. The values must follow the market.

For these reasons the appeal is allowed and the case remitted to the Tribunal to determine the land value of each separate property, the separate parts of the lot 59 being marked A and B on the deposited flats plan No.DP.S.24874.

Solicitor: Crown Law Office, Wellington, for the appellant.

IN THE HIGH COURT OF NEW ZEALAND
(ADMINISTRATIVE DIVISION)
WANGANUI REGISTRY

IN THE MATTER of an Appeal pursuant to Section 26 of the Land Valuation Proceedings Act 1948 from an Order of the Wanganui Land Valuation Tribunal

BETWEEN

THE VALUER-GENERAL

Appellant

AND

PETER MALCOLM WINCHCOMBE of Ohakune, Farmer

Respondent

Hearing: 17 April 1986 (at Wellington)

Counsel: W. R. Flaus for Appellant

J. H. Olphert for Respondent

Judgment: 29 April 1986

JUDGMENT OF THE COURT (DAVISON, C. J. AND J. N. B. WALL, ADDITIONAL MEMBER)

This is an appeal pursuant to s.26 of the Land Valuation Proceedings Act 1948 from an order of the Land Valuation Tribunal sitting at Wanganui.

Background

The respondent is the lessee of a block of Maori land from the Maori Trustee for a term of 21 years from and including 23 September 1960 with a right of renewal for a further term of 21 years.

In February 1981 the respondent gave notice to the Maori Trustee requesting an extension of the lease for a further term of 21 years. Clause 24 applied to the renewal and provided:

> "For and during the said term a yearly rental equal to five per centum of the capital valuation as ascertained by a special Government valuation to be made at the expense of the lessee in the month of August 1981 less the value of permanent improvements effected on the said land by the lessee during the first term of 21 years"

The appellant had such a special Government valuation prepared in accordance with s.244(3) of the Maori Affairs Act 1953. It was dated 23 December 1981 and showed:

Capital value	$225,000
Unimproved value	87,500
Total value of improvements	$137,500
Value of improvements not to be taken into account for revising rent	$96,500
Total value of all other improvements	41,000
	$137,500

The respondent objected to that special valuation. The appellant considered the objection and the special valuation was amended to:

Capital value	$208,000
Unimproved value	70,000
Value of improvements	$138,000
Improvements not to be taken into account	$122,000
Balance of improvements	16,000
	$138,000

The respondent did not accept the amended valuation and proceeded to a hearing of his objection before the Tribunal. The Tribunal decided that the special valuation was deficient in several respects and amended the valuation as follows:

(a) Reduction in capital value due to errors caused by the out of time valuation and insufficient regard to the difficult topography and access	$20,000
(b) Deletion of the value of the bridge as an asset	2,000
Total reduction	$22,000

(c) Increase in value of improvements to be excluded from rental value:

Water supply from	$1,000 to $2,000
Tracking from	$1,000 to $3,000
Culvert	$2,500
Total increase	$5,500

The Tribunal then fixed what it called the "rental value" at $58,500 made up as under:

Capital value as for special valuation		$208,000
Less errors for out of time valuation and difficult access		22,000
		186,000
Less value of improvements not to be taken into account	$122,000	
Plus increase in value of such improvements	5,500	127,500
		$58,500

The appellant contends that the Tribunal was wrong in its decision on the objection in each of the alterations which it made to the special valuation.

Decision

This is an appeal brought under s.26 of the Land Valuation Proceedings Act 1948. The appeal is by way of rehearing.

The objector is objecting to the valuation. He must show that it is wrong. Section 20(7) of the Valuation of Land Act provides:

> "The onus of proof of any objection shall rest with the objector".

In *Valuer-General v. Sullivan* (Land Valuation Case Book - McVeagh & Babe 459, 460) Archer J. said:

> "It is always incumbent upon objectors, however, to establish by cogent evidence that a valuation appealed against is wrong. This in general called for proof of the facts on which the valuation should be based, and for a proper valuation based upon the proved facts and made in accordance with the recognised principles of valuation."

The way in which an objector must establish that the valuation is wrong is usually by producing evidence of expert valuers: see *Valuer General v. McPherson* (McVeagh & Babe 421, 422) per Archer J.

> "He (the objector) must stand or fall in a case of this kind by the opinions of expert valuers. His own evidence is, of course, entitled to sympathetic consideration, but he is a very interested party, and when it comes to valuing a man's own property the Courts have decided that the personal interest involved is so great that it is not safe to rely on his own judgment. Therefore he must stand or fall by the evidence of the valuers he calls."

Such may not be invariably the case, however, as an objector may be able by evidence to establish that the valuation under objection was made under some mistake or error of fact so as to invalidate the result. But, in general, expert valuation evidence will be required.

In the present case the respondent before the Tribunal represented himself and gave evidence as well as calling his brother to *give* evidence. Neither claimed any expertise as valuers.

The Tribunal identified the matters raised by the respondent as:

1. The comparison introduced by Messrs Winchcombe between the subject property and the Wallis Block (Rangiwaea 4F4B).
2. The fact that the Valuer-General's valuation was `out of time' and at higher values than would have been the case if effected in August 1981 in the contention of Mr Winchcombe.
3. Various technical matters of valuation - tracks, grassing, culvert and bridge.
4. The weight which should be attached to the lack of access to the area over the river, and the dependence on neighbours' goodwill.
5. The values introduced by the Crown relating to sales of comparable land in the district.

These matters were answered by Mr Burgess, a Registered Valuer, employed by the Valuation Department, who made the valuation under objection. We now deal with the five points discussed by the Tribunal.

First - The comparison with the Wallis Block and the'out of time' valuation: Points 1, 2 and 5 above.

The respondent's evidence was that in 1977 the Wallis Block had a land value of $44,000. The respondent's block had a land value of $35,000. Yet in 1981 (June) the Wallis Block had an unimproved value of $35,000 and the respondent's block had an unimproved value of $70,000. The respondent claimed those figures showed that the unimproved value of his block had been fixed at too high a figure in relation to the Wallis Block when his block had been valued as at 15 August 1981, only some two months after the date of valuation of the Wallis Block.

The respondent had also claimed that the valuation under objection was required by Clause 24 of the lease to be made "in the month of August 1981" and had that been done then the valuer would not have been able to take into account sales evidence which reached the Department's records after that date.

There is no merit in that argument at all. The relevant date of valuation was 15 August 1981. The only requirement of the lease was that the valuation be done as at August 1981 even although it may not have been actually made until some months later. There is no problem in relating a valuation to a particular date. That is frequently done. The Valuer-General would have been fully aware of current sales taking place in the market at about the relevant date even though they were not registered until afterwards. Furthermore, sales subsequently recorded or made cannot lightly be cast aside as of no relevance. They are evidence which may assist a valuer in confirming his opinion of value at the date of valuation.

Mr Burgess in the present case took into account a large number of sales dating from December 1980 through to September 1981 and also a number of rental valuations from September 1980 to September 1981. It is true that the pre-existing comparability of the values between the Wallis Block and the respondent's block were not maintained in the two special rental valuations - the Wallis valuation as at 4 June 1981 and the respondent's valuation as at 15 August 1981. Mr Burgess, however, gave as reasons for the difference the limited amount of up to date sales evidence available when the Wallis valuation was made; the rapidly rising market between the two valuations as later disclosed; values of flat country had increased at a greater rate than for the steeper country (Wallis); and unimproved value of the respondent's property in comparison with the Wallis Block was not a fair and valid comparison.

Mr Burgess made it clear that he was aware of the difference between the two valuations; he had considered it and maintained his opinion of the respondent's property.

The valuation of the respondent's property was supported by and justified by the sales evidence available and the rental valuation of the Wallis Block did not warrant any reduction in the value of the respondent's block.

In the absence of expert valuation evidence furnished by the respondent, there was no basis on which the Tribunal could properly find that the valuation of the respondent's property was excessive. The Tribunal seems to have accepted the respondent's contention that had the valuation been done "in August 1981" then the figure would have been lower. The Tribunal said:

> "These two points we believe indicate a valuation done with the benefit of hindsight and while we consider we have to accept a fixing of values in August 1981 even if carried out later, we think there is substance to Messrs Winchcombe's complaint in this case."

We venture to suggest that there would be very few valuations not done with the benefit of hindsight because few would be actually done on the relevant date and furthermore it is the practice of valuers to use all available evidence of sales and values both before and after the relevant date to assist in confirming a valuation made. We note that this Tribunal did not sit with a Registered Valuer as a member as required by s.20(6) of the Valuation of Land Act 1951. Had it done so it should not have fallen into the error of considering the valuation in the manner that it did and making a reduction in the capital value for the "out of time" valuation as it expressed it.

> Second - We deal with the sundry items - tracks, grassing, culvert and bridge, and lack of access: Points 3 and 4 (ante).

In this area the Tribunal again appears to have fallen into error in accepting the evidence of the respondent, an interested party with no expertise in valuation, over that of a registered expert valuer. The Tribunal was looking at the figures to be placed on lessee's improvements which had to be excluded from the valuation for rental calculation.

> Mr Burgess took into account in his valuation:
>
> Water supply at $1,000 against the respondent's figure of $2,000; Access at $3,000 against the respondent's figure of $7,500 (made up of tracking $3,000, culvert $2,500, bridge $2,000).

In the face of Mr Burgess's evidence there was no justification for the Tribunal to accept the evidence of the respondent as being correct as to the proper value to be placed on those items. Cost is not necessarily value. Opinions amongst experts may differ but when the difference is between an expert and a non-expert interested party then the expert opinion should not be ignored.

We are drawn to the conclusion that the Tribunal has not borne in mind the onus of proof placed upon the respondent by s. 20(7) of the Valuation of Land Act nor has it applied the principles of *Sullivan's* case and *McPherson's* case referred to earlier. There was in our opinion no proper basis upon which the Tribunal could reject the valuation of the Valuer-General and produce the result that it did.

The appeal is allowed. The valuation as made by the appellant is restored. We make no order as to costs.

Solicitors: Crown Law Office (Wellington) for the Appellant
Flack Brown & Co. (Taihape) for the Respondent

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