VALUERS' JOURNAL

DECEMBER
1991

IN THIS ISSUE

NEW ZEALAND INSTITUTE OF VALUERS

Incorporated by Act of Parliament

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R L Jefferies (1979)	S L Speedy (1983)	E T Fitzgerald (1990)

VALUERS' JOURNAL

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Contributions with a biographical note of the author should be typewritten and sent to the Editor, PO Box 27146, Wellington, who reserves the right to accept, decline or modify material. Views expressed by the editors and contributors are not necessarily endorsed by the New Zealand Institute of Valuers. Copies of manuscript should be retained by the author as they cannot be returned. Deadline: two months prior. Business letters, subscriptions and advice of changed address should be sent to the General Secretary. The mode of citation of this volume of *The New Zealand Valuers'Journal* is (1991) N.Z.V.J. December page.

The New Zealand Valuers' Journal is a refereed publication

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Professionalism and the Pressures of Competition

' ncreased competition in most ifelds of humanendeavourusually brings outthe best amongst competitors. Sustained pressure can however create situations where it is felt necessary by some competitors to gain advantage by bending orbreaking established rules.

This has been well recognised in the sporting field and has been noticeable in football at the highest levels of competition where the professional foul has become a feature of the game. It is used to reduce the effect of the superiority ofthe play of one team over another where a penalty will be conceded rather than allow the opposition to score points.

But the effects of increased competition and the countering tactics being used do not apply only to the sporting field. The free but depressed economy now prevailing in New Zealand has introduced severe competition inmostbusiness sectors with the result that all avenues are having to be explored to gain advantage and market share. High levels of competition have become obvious in the professions in this country, including the valuation profession, and it is important that countering tactics should not include what will amount to professional fouls.

There has probably never been a time in New Zealand's recent history when accurate and reliable property advice has been more important to the public than at this present time.

The realization that individuals need to make some personal provision for adequate retirement income and the dramatic lowering of interest rates have created a new awareness of the property investment market.

But many would-be investors are not aware that previous inflationary expectations in the property market may not be realised in the future and that in fact a deflationary cycle may take effect in some sectors of the market. Consequently many new property investors are going to need very sound professional advice to ensure that enthusiasm is not substituted for soundly based investment decision.

It will be up to the property professionals to ensure that competition for business does not allow the "professional foul" to become part of the process of property investment.

Competition can easily create the situation where avaluermay feel some pressure to ensure that a "deal gets done". There may be some subtle or even not so subtle pressure from those people issuing instructions to the valuer to ensure that a valuation of a property is "appropriate to the deal".

The persons issuing the instructions may themselves be feeling sufficient pressure to see the deal completed, as a result of competition, that they recommend a valuer who is not professionally suited to the task and that valuer may feel sufficient pressure of competition to accept the instructions.

But this scenario would surely be bending the rules and committing a "professional foul" as the primary interest of the client, the purchaser, is not being served by the professional advisers.

Professional ethics are not the only thing likely to be affected by competition. The most natural and likely reaction to competition in any business is to reduce prices or fees.

While price cutting may have an immediate effect in retaining or regaining market share it can also have undesirable and serious effects on profitability. It is usually only effective for the short period of time that it takes the competition to make some adjustment to their prices. Bob Hargreaves, associate professor at Massey University illustrates very clearly in his article *Monopolistic Competition and the Valuation Profession* published in this issue, the undesirable effects that this reaction to competition is having in the valuation profession.

It results in a level of fees that could be uneconomic for most practitioners and a lowering of professional standards which must be seen as being completely unacceptable. And yet it is essentially an unnecessary reaction as it does nothing to influence the total volume of valuation work that will be available and only results in the consumer getting a cheaper but sometimes inferior product.

It is important that at this critical stage in the development of the changing New Zealand economy that valuers are able to provide sound, independent advice to the increasingly widening sector of the population who wish to invest in property and at a fee which is entirely commensurate withthe valuer's expertise.

Trevor Croot

Gisborne 1992
Annual General Meeting & Seminar

egistration forms for the 1992 An-Rnual General Meeting and Seminar are enclosed with this Journal. Some changes have been made to theprogramme outlined in the "flyer" sent out to members in September.

Gisborne will host the Annual Conference on April 13-14,1992. The venue is the Sandown Park Hotel and the programme has been designed to be topical and informative, yet enabling participants to enjoy the relaxed atmosphere and mild climate of the first region to see the sun.

On the Sunday night there will be a "welcome" barbecue and a taste of "First Light" wines at the Sandown.

The Seminar commences on Monday morning with the subject *Eastland - Productive yet Vulnerable.* Dr Jeff Weber of Massey University will outline the economic instruments used in the evaluation of water and soil control. Bob Miller, Soil Conservator, will discuss the protection work being undertaken in the region. Tim Lewis, Farm Consultant, will outline the region's inherent productive base and the need for protection works to continue.

A field trip, which promises to be one of the highlights of the Seminar will follow. Participants and partners are invited to view the versatility of the Gisborne Plain and then travel through a range of hill country to the spectacular Tarndale Slip.

On the Monday afternoon there will be aless earthy *subject-Commercial: the Changing Scene.* Peter Menzies of Mainzeal Group will speak on the current situation: a follow-up from his address at the Nelson Seminar, during the heady days of 1987. Peter Young of Robertson Young Telfer will provide the valuer's perspective.

Before the Annual Meeting, Dave Smith will briefly speak on the role of the Chattel Valuer, and how the two valuation sections can work together. Mondayevening will provide a chance to relax with cocktails followed by dinner and music at the Sandown. Not to be missed will be Tuesday's Champagne breakfast, with entertainer Gary McCormack ensuring everyone quickly overcomes any after effects of the previous night

To keep everyone alert, in the morning therewillbethreeone-hoursubjects:Hoteland *Retail Property Market, Changes in Disaster Insurance, andProspectsfor Residential Values.* Each of these subjects will include an expert speaker, and Valuer commentator. As withall topics, there willbeampleopport unity to question the speakers.

The first of the public sessions in the afternoon will include the Hon. Rob Storey, Minister in charge of Valuation. This will be followed by the Hon. Phillip Burden, or an associate, speaking on *Export Prospects for the 1990s.* The Seminar promises to finish on a high note with the subject *Achieving a PositiveEconomicDirection.DrGrimesfrom* the Reserve Bank, Roger Kerr from the Business Round Table, and Bronwyn Holdsworth, a prominent local business-person, will all speak.

At the conclusion, participants will be invited to jointhe Gisborne Branch and those attendingthepublicsessionforfarewelldrinks.

A separate partners' programme will be organised for the Tuesday. This will include local gardens, crafts, and the opportunity lo sample some of the district's wines and ciders.

It is hoped that many of the participants to the Conference will be able to spend a little longer in Eastland, to take in the scenic spots and enjoy the numerous recreational pursuits at a time when the weather should be mild.

While Gisborne has regular air connections, early bookings are recommended to ensure the most convenient flight arrangements. The Gisborne Branch is looking forward tohosting what should be an educational andenjoyableeccasionforthoseparticipating.

If members have any matters requiring clarification, please contact the Secretary, Andrew Warren(06)867-9844,orChairman, Peter Wright (06)867-9339. A

OBITUARY

R J (BOB) MACLACHLAN
Life Member NZIV

Mr R J Maclachlan, a life member of the NZIV passed away suddenly in October 1991 at the age of 75. Ina manner typical of themanhemaintainedan activeinterestin the Institute and the valuing profession from when he joined the Institute as a student of the Auckland Branch in 1939 until the Institute's 50th Jubilee year as recently as 1989, and indeed until the time of his death. His long and distinguished contribution over a span of 50 years will probably never be paralleled. The profession will foreverbe indebted to him and has just cause to celebrate his life. We can be grateful for the fact that we have a substantial amount of professional literature attributed to his pen and also that we benefited from his encyclopaedic and accurate knowledge of the hlstary of the Institute in celebratng 50 years of progress in 1989.

Mr Maclachlan's recall of events was demonstrated in the guest editorial which he contributed to the March 1989 issue of theNZ *Valuers'Journal.* Healsoproposedthetoastto the NZIV at the Jubilee Banquet

Those amongst us who were privileged to have had the benefit of his wisdom around the Council table and on the numerous national committees on which he served will ever re, memberhisadministrativeskillsandinsistence on absolute accuracy in all matters.

Mr Maclachlan joined the Institute as a student in Auckland in 1939 and in 1940 was oneofthefirstgraduatestoreceivetheDiploma inUrbanValuationfrom AucklandUniversity. He served as Auckland Branch Secretary in 1940 to 1941 when he transferred to Canterbury/Westland and then transferred again in 1942 to Wellington. He attained Associate membership of the Institute in 1944 and was awarded Fellow membership in 1951. Mr Maclachan was elected to the Wellington Branch Committee in 1950 and served until 1959 being Chairman for five of those years.

At national level he served on the Education Committee 1948-59, on Executive Committee from 1951-85, an unprecedented span of 34yearsbrokenonlybythepexiod 1957-59 during which time he occupied the office of ValuexGeneraLHewastheWellingtonBranch Councillor 1951-58 and was Dominion President 1955-57. HewasawardedLifeMembership of the Institute in 1970.

MrMaclachlanhadafullandvariedcar er in the State Services as a valuer, rising to the position of ValuerGeneral 1957-59, asPublic ServiceCommissioner1959-62andtoDirector General of Lands from which position he retired in 1974. However, retirement from the Public Service was not the end of Mr Maclachlan's woridng lifeashewasanAssociate Member of the Administrative Division of the High Court from 1974-1985.

His interest in the profession only ceased withhis death when itwasrevealed thathehad donated his entire collection of the New Zealand Valuers' Journal and other papers to the Institute. A

October Council Meeting 1991

Report by the Editor

The October meeting of the Council of the New Zealand Institute of Valuers was held at the West Plaza Hotel, Wellington October 6-7 1991 commencing at 9.30am.

President Alex Laing welcomed a full attendance of councillors, invited guests and representatives of the Executive Committee.

Minutes of the previous Council meeting were confirmed as a true and correct record of those proceedings. President Alex Laing presented his report which outlined the format of the meeting and focussed on the Valuers Registration Board levy on all registered valuers and the effect on NZIV annual subscriptions, possible changes to the Valuers Act, the criteria for setting non-active membership of the Institute and discussions on what is seen as unfair competition in some valuation sectors.

Committee Reports Received and Discussed

PROFESSIONAL PRACTICES COMMITTEE

Mr JNB Wall, Chairman of Professional Practices Committee reported that the committee is taking a much more active role in considering complaints and attempting to resolve disputes between parties before they are referred to the Valuers Registration Board. The Committee had appointed Mr SWB Ralston to inquire into a complaint between members of the Institute and Council approved his appointment, on recommendation of the Committee, to inquire into a further complaint.

PUBLICITY AND PUBLIC RELATIONS COMMITTEE

Mr A J Stewart, Chairman, reported on the budget for the Publicity and Public Relations Committee and advised on the appointment of Consultus for continuing public relations promotion. Council agreed that the function of the Committee should

Resource Management Act Seminars

	February 17th	February 19th	February 21 st
	AUCKLAND	WELLINGTON	CHRISTCHURCH
Venue:	Auckland University	Quality Inn, Willis Street	Lincoln University

The Resource management Act became operative on 1st October 1991.
The New Zealand Institute of Valuers believes that this Act will have considerable impact on the way members discharge their professional responsibilities.

A series of seminars on the above dates is planned by the Editorial Board of the New Zealand Institute of Valuers.

SEMINARS

The seminars will present expert interpretation of the Act and its ramifications and impact on our profession. Each seminar will consist of specialist presentation by an expert speaker followed by panel discussion.

Our speakers and their programmes are:

> An overview of the Act Bruce Bornholdt, Barrister and Solictor.
> An urban presentation and overview Squire Speedy, Life Fellow NZIV >
A rural presentation Peter Tierney, FNZIV
> In Wellington only. Environmental Audits Jim Lynch, Barrister and Solicitor. >
Panel discussion lead by John Baen, Professor of Real Estate, Lincoln University

REGISTRATIONS CLOSE JANUARY 1992

Ensure your place by registering now. Registration fee includes luncheon, coffee break refreshments, and full set of notes for all formal presentations by speakers.

YES: Please register my interest and send me a registration form.

Name:

Address:

Contact John Gibson Box 27-146, Wellington. Phone: 384-7094, Fax: 382-9214

be considered over the period of the next six months.

An informal discussion forum session was then held and chaired by Vice President W A Cleghom. The matters of what is perceived in some valuation sectors as being unfair competition from government departments and state owned enterprises in valuation work and the issue of non-active membership of the Institute were discussed.

A poll vote was held by Council on reconvening formal business which determined that the Presidential Triumvirate of the Institute enter into dialogue with the chief executives of Landcorp and Valuation New Zealand regarding NZIV members' concerns with the competitive activities of those organisation.

EDUCATION BOARD

Mr WA Cleghorn, Chairman, reported on the activities of the Education Board and on Institute liaison with the three teaching Universities. Council adopted the recommendations of the Board that Institute members will be required to attend 15 hours per annum of approved professional development to achieve a minimum of 45 hours compulsory Continuing Professional Development over each fixed period of three years but with a recommendation that there be a phase-in period of two years when 10 hours per annum of professional development activity would be encouraged on a voluntary basis. Mr Cleghorn advised that production of the Employers Pack promotion is currently being finalised but Council declined to approve the expenditure of a further sum of $13,000 to complete the production.

SERVICES COMMITTEE

Mr R M Stone, Chairman, reported that negotiations are still continuing with the Valuer General for future purchase of property sales data. The committee has some current concern with the costs of producing the Statscom publication and there is considerable concern that Branches are not contributing, at a satisfactory level, statistical data for publication. There has been an unsatisfactory response from some branches for applications to the position of branch statistical officer. Mr Stone advised that as Modal Cost Statistics are not now available through Housing Corporation, the Services Committee believes that much greater branch participation will be required if the Statscom publication is to continue successfully. Computer software programmes are continuing to be developed for Rentpak and for reinstatement insurance.

EDITORIAL BOARD

Mr W A Burgess, Chairman, reported that investigations are being made into increased advertising content in the New Zealand Valuers' Journal and a lighter weight cover for the publication which are intended to achieve some savings in costs.

Mr T J Croot, Editor, reported on the satisfactory production of the Journal and the high level of service being received from Vicki Jayne of Wordsmith Partnership, the contract production editors. He advised that favourable comment had been received on the recent improvements to layout and format and that furtherchanges are planned in the near future. Mr Croot reported that the flow of suitable material is satisfactory although there is still a requirement for articles on day-to-day valuation problems from grass roots membership of the Institute.

COUNCILOF LANDRELATED PROFESSIONS

Mr T D Henshaw reported that there had been one recent meeting of CLRP but it was only keeping the channels of communication open.

UNIVERSITY FOUNDATIONS

Mr W A Cleghorn, Vice President, reported on the recent activities of the Massey University Foundation.

President, A P Laing, reported on recent meetings of the Real Estate Valuation and Property Management Education Foundation and Council adopted the recommendation of the President that funding commitments from NZIV continue to be met and that the Foundation be requested to define its future goals.

INSTITUTE OF PLANT AND MACHINERY VALUERS

Mr E F Gordon, NZIV representative, advised that the Institute of Plant and Machinery Valuers meet every second month and that the Institute currently has a membership of 55 full members. A member of I.P.M.V, Mr John Freeman, is involved in lecturing and in the preparation of examination papers for university courses.

The Institute of Plant and Machinery Valuers is currently preparing professional standards.

WESTBROOK HOUSE BODY CORPORATE 66017

General Secretary, J G Gibson advised that alterations to the NZIV offices have been satisfactorily completed and that an on-going maintenance programme for the building is being carried out.

GENERAL BUSINESS

Mr W A Cleghorn, Vice President, reported on the recommendations of the sub-committee investigating overseas applications for ANZIV status and Mr G Kirkaldie advised that there has been a formal request from some overseas members resident in London, England, to establish a sub-branch of the Wellington Branch NZIV there. Council approved further investigations being made into these matters.

Mr J P Larmer, Senior Vice President, advised that further informal discussions have been held between the Presidential representatives of the NZ Society of Farm Management and the Property Management Institute in respect of a merger proposal. Mr Larmer requested further direction from Council and approval was given for further investigative discussions.

Mr G Kirkaldie presented a full discussion paper on a proposed membership "Helpline" similartothe"Friends System" adopted by the New Zealand Law Society where senior practitioners are appointed throughout the country to advise members when requested on professional or practise problems. Council adopted the proposal in principle.

President, A P Laing presented a paper on non-active membership of NZIV and Council agreed that, in considering applications for Non-Active Membership, the applicant must be engaged in farming activities or other employment not associated with commercial activities, or be on overseas or maternity leave.

SECOND INFORMAL FORUM SESSION:

A second session commenced at 8.30pm and the topics of International Commitments and Valuation Standards were introduced by Senior Vice President, J P Larmer.

The Council Meeting reconvened at 8.30am on Monday morning.

STANDARDS COMMITTEE

Mr G J Horsley reported on international asset valuation standards and on the impact of valuation standards in New Zealand since the recent introduction of SSAP 28 for company financial reporting. He advised that the Practice Valuation Standard for residential valuations had been amended in accordance with the recommendations of the Standards Committee and adopted by Council.

Mr Horsley also reported on a meeting that had recently been held with the Valuers' Registration Board to discuss valuation standards and compliance by members. 0

The New Zealand Valuers' Journal

Annual Manuscript Competition

Conditions of Entry

The New Zealand Valuers' Journal Editorial Board offers an annual Award for a leading article to be published in the Journal.
The Award has a value of NZ$1000 and shall be paid to the successful applicant who meets the following conditions:

1. The competition is open to any author of an original work based on research into orcomment on atopic related to the valuation of real property and entries should be submitted to the General Secretary, New Zealand Institute of Valuers, PO Box 27-146, Wellington.
2. The article shall not have been submitted to any other journal or publisher prior to being submitted for entry into the competition.
3. The article shall not exceed 10,000 words including any equivalent space where illustrations, diagrams, schedules or appendices are included.
4. The manuscript shall be typewritten.
5. The author shall supply a short synopsis of the article, setting out the main thesis, findings or comments contained in the article.
6. The author shall provide a brief biographical note which may be published.
7. The closing date for submission of manuscripts shall be 1st April in each year and any winning article shall be published in the Journal.
8. Judging shall be by the Editorial Board and shall be on the basis of the relevancy, quality, research and originality of the article to the principles and practice of valuation. The judges' decision shall be final and binding. The Editorial Board shall not be bound to make an award in any year if no article meets an acceptable standard.
9. The winning manuscript shall become the property of the New Zealand Institute of Valuers and the author shall agree as a condition of receiving the award to pass copyright to the Institute and no reprinting of the article shall take place without the express consent, in writing, of the Editor of the *New Zealand Valuers' Journal.*
10. All unsuccessful applicants for the Award shall be advised.
11. The decisions of the Editorial Board on any matter relating to the competition and Award shall be non-reviewable and correspondence shall not be entered into nor reasons given for the decisions of the Board.
12. The article may be on any topic and the following are provided as suggestions only:
    Valuation of publicly owned assets; forestry valuations; lifestyle blocks-rural/residential property; valuation of chattels.

LAND PROFESSIONALS MUTUAL SOCIETY

Mr A L McAlister, the NZIV representative on LPMS reported that membership of the Society is steady and that claim notification levels have increased with 54 open files currently of which 19 have been received since 31 March 1991. He advised that approximately $117,000 has been paid in claims this year and a trading loss of approximately $100,000 was recorded by the Society for the year to 31 August 1991. The Society has been advised that the professional indemnity insurance market is likely to harden in the immediate future and that premiums will rise.

GENERAL BUSINESS

Council agreed that the President and the Senior Vice President, NZIV should represent the Institute in future discussions with the Minister of Valuations and with the Valuers Registration Board on amendments to the Valuers Act.

Council approved the release of the NZIV promotional leaflet titled *Toward the 21st Century.*

Council considered the public relations strategy prescribed by Consultus, the Institute's PR consultants and empowered the Presidential Triumvirate to follow that strategy.

Council agreed that the NZIV representation at 1993 Pan Pacific Conference in Calgary, Canada will be the President as Chief Delegate with all costs being met by the Institute and an Alternate Chief Delegate and the General Secretary whose travel costs will be met by the Institute. Grants will be made to delegates presenting papers of $500 each.

Mr E T Fitzgerald presented a report from the sub-commmittee on Review Funding and Reserves of the Institute and Council adopted most of the recommendations contained in the report providing for future managementof Institute funds and reserves.

FINANCIAL REPORT

General Secretary, J G Gibson, presented the financial report which showed actual expenditure against budgets and forecasts for the end of year outcome which indicated a satisfactory financial position. Council agreed that the subscriptions for the 1992 year be set at:

Registered valuer	$300+ GST
Non-registered valuer	$160
Affiliates (non IPMV)	$160
IPMV levy	$50
Overseas members	$100
Retired members (Rule 14.1)	$50
(Rule 14.2)	free
Students	free
Non-Active members	$160
Advancement and Entry Fees	$30
Life and Honorary members	free

New Zealand Valuers' Journal subscriptions were agreed at the 1991 level by Council as follows:

Casual subscription	$50 pa inc. GST + Postage
Professional Cards dependent on size but	$150pa + GST for basic card
Advertising rates per issue	
Full page	$600 +GST
Half page	$350 +GST
Quarter page	$187.50+ GST

Council approved Services Committee charges at:

Micro fiche Sales

Multi partner practice	$500 + GST
Sole practitioner	$368 + GST

Electronic Data

The basic charging regime is unchanged subject only to volume adjustments from 1991.

Statscom publication	$100 pa + GST

The meeting closed at 3.30pm. A

The Internal Rate of Return in Real Estate Investments

by Charles B Akerson, ORE, MAI 1988

This publication was prepared for the American Society of Real Estate Councillors to provide information for Real Estate Councillors and Real Estate Appraisers on the use of the Internal Rate of Return.

The text has been revised from an original publication in 1976 and now includes specific information on the use of computer technology. A Savings Bank analogy is used to explain the IRR principle.

The Author points out that one has to imagine all of the cashflows in and out of a Real Estate investment as deposits to and withdrawals from a Savings Account that pays a fixed rate of interest on the balance in the account. The IRR on the real estate investment is tha same as the interest rate paid on a corresponding Savings Account. The analogy assumes that the savings account is opened at the start of the real estate investment and closes with a zero balance at the termination of the real estate investment.

The Author proceeds to discuss several methods of finding the IRR, including the use of graphs and computer based spreadsheet analysis. A further section of the text is devoted to limitations and pitfalls when related to the use of IRR. The Author stated that there was no doubt that the IRR is a highly significant measure of investment performance that is widely used and that its popularity is well deserved.

It was pointed out that it is a mistake, however, to view the IRR as a good and sufficient measure for all investments and that in fact there were limitations and pitfalls particularly where, as a specific example, two internal rates of return could be produced for the same investment.

All modem spreadsheets contain a facility for calculating IRR. For one who can remember calculating IRR through logs and progressing to a programmable calculator, the use of a spreadsheet has certainly made life much easier. Using a spreadsheet analysis, the investment can be entered as a range, eliminating the necessity to key in each value.

I found the booklet easy to read, factual and of assistance in setting out the basic advantages and pitfalls of the use of IRR as an investment analysis.

S.D. Morrice (F.N.Z.I.V.)

Two Tier Rental Structure for Offices

by Tay Yong Chin

Introduction

The issue of whether there is a two-tier rental structure in the New Zealand commercial property market has remained unsettled for quite some time. The two-tier structure in the context of this article refers to rentals obtained by a new lessee as the first tier and that by the sitting tenants as the second tier.

This question has caused many disagreements between opposite parties in rental determination for reviews. The dispute has extended beyond the amount of rental to what is right in terms of valuation principles; to consider only reviewed rentals for reviews or to consider all evidence available.

Some may agree that the *'two-tier market is not new, only more obvious''*. `Yes, we do have a two-tier rental market *... Yes, the two-tier can be amply justified',* it was said. What may be even more perturbing is a report such as that entitled *Something's rotten in the state of commercial rents'* and published in the *New Zealand Herald* on 8 October 1990. In that report the assistant governor of the Reserve Bank was quoted as saying that there *is strong evidence to suggest that two commercial rental markets are operating.*

What was being complained aboutwas so familiar to those who have read Whipple's book *Commercial Rent Review.* Both wrote about new lettings at inflated rentals and secret inducements. Sitting tenants not aware of the secret agreements were then led/misled into signing leases with inflated rentals. When new lettings are used as evidence, they can be distorted by the secrecy provisions.

When rent reviews are used only, as the governor's own valuers did, we have rent reviews justifying rent reviews. So 'the whole valuation process is a bit of a chicken-and-egg situation *at the best of times'* : the governor pointed his finger at the valuers.

The writer believes strongly that the issue is in reality a question of fact. In part fulfilment of the course requirements for the degree of Master of Property Administration at the University of Auckland, the writer embarked on a research in this area. This article is an abridged version of the findings.

The research adopts a two-prong approach. The first prong is to examine the judicial views on the question. Both local and overseas cases which are often cited in New Zealand as being relevant to the issue are examined.

It is felt the judicial views form an important area to be considered because they are the findings of learned judges after hearing carefully presented arguments of opposite parties. When these legal decisions are considered, their impact on valuation principles will also be highlighted. The second prong involves an analysis of actual new lettings as well as reviewed rentals for office space in Auckland central business district. With this analysis, it is attempted to clarify as a matter of fact, whether there is a two-tier rental structure for the analysed area.

BHP vs AMP

The Australian case of Broken Hill Proprietary Co Ltd vs Australian Mutual Provident Society' is most illustrative of the controversies concerning initial and reviewed rentals. The emergence ofa'two-tier' rental structure was outlined by Justice Nicholson in his judgement:

> *... it appears that by the time that BHP House became available for rent, the situation had changed dramatically so that, in order to attract new tenants, it became necessaryfor the landlords to offer substantial discounts and incentives which would not subsequently be available to the tenant as a sitting tenant on the occasion of rent reviews.*
>
> *Therefore a two tiered rental structure developed which has apparently persisted to this day so that, for valuation purposes it is recognised that rentals available to a new tenant are significantly lower than those available to a sitting tenant.*

BHP House was the building for part of which a rent review dispute was brought to the Court.

The relevant clause provided that where the parties were unable to reach an agreement on the reviewed rent, the arbitrator was directed to fix the said rentals at the levels he considered at the time of arbitration would be *obtainable on the market.'*

The Controversy in General

Tenants in general argue that rents on review should therefore be assessed having regard to new lettings as these transactions most closely align with true open market conditions. Evidence of rents achieved upon reviews should be disregarded because the sitting tenant is bound and therefore lost his voluntary bargaining power. 5 Landlords on the other hand feel that it is the new lettings that are to be disregarded on the ground that the landlords are under duress: owners of new buildings are under great pressure to generate cash flow6.

The Outcome of BHP v AMP

The Court in BHP v AMP was convinced by the QC for the landlord that in such circumstances it was not appropriate for this court to delineate the matters which the valuer or valuer should take into account'. It held that *'where a rent obtainable on the market is to be assessed, it is the market which must be examined 0*

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This paper was submitted as an entry, to the 1991 New Zealand Valuers Journal AnnualManuscript, competition.

1. Christiansen, Ken "So What's New?" NZ Property, Oct 90, p 15.
2. Nicholl, Peter, "Something's rotten in the state of commercial rents" *NewZealand Herald,* 8 Oct 1990.
3. *The Valuer,* Vol 29, No 4, Oct 86, pp 340-347.
4. Clause 11(c) of the management agreement between BHP and AMP.
5. McNamara, Grey, "The impact of rental concessions on assessment of market rental/capital valuations", The *Valuer,* July 89, p376.
6. Ibid. See also Wheeler, Paul, "Rent Reviews in Modern Office Buildings -A Personal Viewpoint" The *Valuer,* Jan 87, pp398-99.
7. Capel Services Ltd v Legal & General Assurance Society Ltd. (unreported, delivered on 23 Oct 1984). See also Chapter One.

and the market would include rents payable by continuing tenants as well as new tenants.' Justice Nicholson said this:

Without trespassing on the function of the arbitrator, it would seem to me that the figure that he would arrive at would ignore special discounts to new tenants in order to attract them into occupation but would similarly ignore loadings which might be attached to the rentals payable by an existing tenant such as taking into account factors of the expense of a move and corresponding inconvenience resulting therefrom.

Valuers' Reactions

The judgement of BHP v AMP met with different reactions from the valuation profession. Some accept it as good law giving valuers and arbitrators the discretion to decide what are relevant comparables before them for rent reviews. One said that *the role of the valuer is to interpret the market at a given time. If it becomes apparent that market rentals are being affected by widespread and substantial rental concessions offered to new tenants, then valuers no doubt will reflect this alteration in their assessment of value.* [6] It is also left to the discretion of valuers to judge whether such concession as *rent holiday* are *a special discount* to be ignored or simply the norm of the market to be considered in the valuation.

There are others who felt a little stronger. They see the directive to ignore special discounts to new tenants and loadings on sitting tenants as in effect instructing arbitrators to use non-market data to impute market value - rentals agreed to by sitting tenants are as irrelevant to the determination of open market value as the price of bees wax is to determining the price of honey'. The following is the forceful argument.

On rent review, there cannot be competitive bidding because there are only two parties and they are not at arm's length they are bound by the lease. Usually the tenant has less information than the landlord but can purchase information at fairly high cost. Neither party isfree to enter the market at large because, as noted, they are bound by the lease. The landlord does not have a range of alternative tenants to choose from; nor does the tenant have a range of alternative accommodations to choose from.

Because the characteristics of a marketare absentfrom the rentreview process, the latter cannot constitute a market.'[°]

Edmund Barton Chambers

The principle laid down by BHP v AMP was echoed in the subsequent Australian case of Edmund Barton Chambers (Level 44) Co-operative v Mutual Life & Citizens' Assurance Co Ltd". The issue of the case was whether in determining *the current market value* of premises subject to a rent review clause the reviewed rentals of comparable premises constitute relevant evidence.

The Court accepted the appellant's (lessor's) submission that rentals struck between a lessor and an incoming tenant give full expression to market forces and to constitute the only material relevant to current market rent. *'However, a lessor seeking to fill a new building may be under a host of constraints which force the rentals it will take below market rentals. Nevertheless these constitute acceptable evidence to which adjustment will be made in applying the criterion of the rental which would be agreed in a hypothetical letting responsive to pure market forces. 1*[1] Rent review rentals on the other hand were also held as constituting material relevant to the determination of current market rent. *In the process of evaluating such material the distortions due to non-market forces will necessitate some adjustment. ".*

Segama Case

In this UK rent review case[14], the revised rent to be determined was to be the *market rent.* The lease defined this term as *the yearly rental value of the demised premises, having regard to rental values current at the relevant time for similar property let with vacant possession, without premium and subject to provisions similar to those contained in the lease...* [u]

One of the issues was this:

Whether evidence was *properly considered by the arbitrator as to rents of comparable premises agreed between existing landlords and existing tenants, or whether the evidence should have been confined to rents agreed by tenants who had not previously occupied the premises in question16.*

Justice Staughton observed that *there are indicationsin* it (the evidenceproducedbefore him) *that the arbitrator had in mind that there might be distinction between evidence of agreement with existing tenants and evidence of agreements with new tenants. Accordingly I am prepared to assume that the landlords argued for such a distinction at the arbitration. 17*

His judgement was this: *I suspect that the market rent, to be ascertainedfor the demised premises, must be a rent which would bepaid in the market for those premises with vacant possession. But... it does not follow that the arbitrator must exclude from consideration any rents agreedforslmilarproperty between an existing landlord and an existing tenant. He may think it right,* as *one of the steps in his determination, to adjust any such rent to what it would have been for vacant possession; whether the adjustment would be up or down, or none at all, I do not know... I can see* that *an adjustment may be required. But I do not considerthatsuch evidence mustasa matter of law be altogether excluded.1 e*

Landsborough House Case

This is a New Zealand case in which the award of an umpire in a rental arbitration is challenged for misconduct and error of law on the face of the award.

The rent to be fixed upon review was the *current market rent of the premises.* The legal decision of this case was published in the September 1990 issue of this journal."

8. McNamara, Greg, op cit at pg 377.
9. Whipple RTM, The Segama Case' in Whipple RTM (ad) *Commercial Rent Reviews: Law and Practice, Sydney,* The Law Book Co Ltd., 1986, p200.
10. Whipple RTM *Valuation of Commercial Rent Review Purpose- Procedural Guidelines and Other Commentary,* Robertson Young Teller NZIV 1989 Lecture Tour, p9.
11. [198616 NSWLR 323.
12. Ibid, at p 325.
13. Ibid, p 325
14. Segama NV v Penny Le Roy Ltd, *NZ Valuer,* June 89, pp49-53
15. Ibid, p49
16. Ibid, p50
17. Ibid, p50.
18. Ibid
19. United Sharebrokers Ltd v Landsborough Estates Ltd and John Neville Beaufort Wall, [HC Christchurch Registry, C.P No. *298.89]NZValuer,* Sept 1990, pp 40-42. The judgement for this case was delivered on 18 May 1990.

The lessor's valuer submitted with evidence that within the Christchurch market, there were three rental levels, namely new leasings, renewals of existing leases and rent reviews within existing leases.

It was his contention that in the present case, the rent payable during the review period should not be influenced by or determined in the light of factors or market forces applying to new leasings or renewals of existing leases.

The lessee's valuer on the other hand argued that both at law and in equity there should be no difference in assessing current market rental whichever of the three alternative situations the umpire was considering.

It was submitted that it was the umpire's duty to consider all relevant evidence, including evidence relating to new leases and renewals of existing leases and certain payments and inducements and other incentives or concessions that were being offered to tenants in the Christchurch business area who were contemplating taking on new leases or renewing an existing lease.

Valuers who do not agree that there is such a two-tier structure were quite concerned about the legal decision for this case.

The high court judge in this case was convinced by the evidence produced by the lessor's valuer that there were three rental levels in Christchurch. In his judgement, *to get a truly comparable situation one needs to look at premises as similar as possible to the subject premises and cases where the lessee is the subject of a rent review rather than the subject of a new lease or the renewal of an existing lease.*

Clearly this judgement is not consistent with what has been established by the authoritative cases discussed earlier. In those cases, and many others 20, the judges have been trying to stay away from delineating the circumstances to which avaluer should have regard.

On whether there was a difference in the rental that a landlord could expect under a review compared with the leasing of vacant space, it was held in the *Landsborough House Case* to be in *reality a mixed question of fact and law.*

The umpire commented that the lessee's valuer's contention (that there should be no difference) however equitable it may be, was not supported by evidence. An analysis of whether there is in fact a difference is therefore particularly important in view of this legal precedence.

Summary

From the cases discussed above, it is clear that a two-tier rental structure, initial lettings being the first tier and mid-term leases the second, does exist in Australia, the United Kingdom as well as in New Zealand to the extent that judges and umpires distinguish them and see the necessity for adjustments to be made for the determination of market rentals.

The remaining part of this article examines with empirical data from Auckland CBD offices whether the "tiers" can be reconciled and adjustments made in order that they serve as indications of market rents.

Sources of Data

It should be recognised from the onset that in order to reveal the characteristics of the rental structure, the data used for analysis should be comprehensive and non-biased.

Theoretically, the best data are those from the same building comprising both new and reviewed rentals in the same period of time. As the amount of data that satisfy these criteria is insufficient, rentals of comparable properties are used.

The data presented in this Section were gathered from two valuers representing a lessor and a lessee respectively in an actual review arbitration concerning an office building in Auckland CBD fringe. Both valuers are respectable specialists in rent review arbitrations.

The data therefore have the following significance:

1. Within the constraints of differences in location and physical characteristics of the buildings they are considered as reasonable comparables by both valuers representing opposite interests.
2. These of data includes analysed rental values put forward to support the respective cases of the lessor's and lessee's and therefore represents a balanced sample.
3. As data favourable to both lessor's and lessee's have been included, they form a range (in terms of high and low rentals) best achievable within the limits of comparability.
4. These data have been scrutinised by the valuers representing both parties and the umpire.
5. The adjustments for concessions were made by the respective valuers who are in a good position to know the background of the respective rentals.

As the research involves very sensitive data, such as inducements, itis appropriate that the writer preserves the confidentiality of the information. The numbers of the respective buildings included in Tables 4-7 have therefore been represented by alphabets.

Adjustment for Review Interval

Adjustment for differences in review interval between comparable and the subject property could be done on a percentage basis. In 1987, some valuers used a "standard addition" of 10-20% to adjust a three-yearly comparison for a five-yearly review. A deduction of 5% was considered fair for converting a three-yearly to a two-yearly21

In view of the current market condition which is considered as stagnant by some and `still declining' by others, the percentage addition and deduction should be nil if not negative.

An alternative approach is to estimate an expected rental growth and compute the present value (at the same rate as the growth rate) of the rental income of the comparable property for the period of lease with its rent review interval. That present value is compared with the present value of the subject property computed on the same basis.

An example is shown in Table 1 on the next page followed by Table 2 showing a proof.

In the case *of FeltexInternationalLtd vJBL Consolidated Ltd* [22], the High Court held that there was indeed no question of law involved in making adjustments for review intervals. It was recognised as a matter of valuation.

Adjustment for Concessions

Most concessions given to tenants for new leases are quantifiable in money terms. In cases where the actual amount is unknown an estimate is made on the basis of market value if applicable. In the case of *rent 0*

20. Such as Wellington City v National Bank of New Zealand Properties Ltd, [19701 NZLR 660; Email Ltd v Robert Bray (Langwarrin) Pty Ltd, [1984] VR 16.
21. D a rroch, Neil, 'The New Zealand Property *Market',PropertyManagement,* Official Publication of the Properly Management Institute (Inc), 33rd ed, Oct 87, pp17-20, at 20.
22. [HC Auckland Registry] M157/87: *NZ Valuer,* Vol 27 June 88, pp528-32

TABLE 1: EXAMPLE OF REVIEW INTERVAL CONVERSION
ASSUMED RENTAL GROWTH RATE: 5%

	3-Yearly		5-Yearly	
Year	Rental	PV	Rental	Pv
1	100.00	95.24	100.00	95.24
2	100.00	90.70	100.00	90.70
3	100.00	86.38	100.00	86.38
4	115.76	95.24	100.00	82.27
5	115.76	90.70	100.00	78.35
6	115.76	86.38	127.63	95.24
7	134.01	95.24	127.63	90.70
8	134.01	90.70	127.63	86.38
9	134.01	86.38	127.63	82.27
10	155.13	95.24	127.63	78.35
11	155.13	90.70	162.89	95.24
12	155.13	86.38	162.89	90.70
13	179.59	95.24	162.89	86.38
14	179.59	90.70	162.89	82.27
15	179.59	86.38	162.89	78.35
TOTAL:		1,361.62 (A)		1,298.84 (B)

To convert from
3 , to 5-yearly, divide 3-yearly rent by } 0.95389
5 , to 3-yearly, multiply 3-yearly rent by } (B/A)

TABLE 2: PROOF OF CONVERSION FACTOR

	-Yearly		5-Yearly	
Year	Rental	PV Rental	PV	
1	100.11	95.24	104.83	99.84
2	100.00	90.70	104.83	95.09
3	100.00	86.38	104.83	90.56
4	115.76	95.24	104.83	86.25
5	115.76	90.70	104.83	82.14
6	115.76	86.38	133.80	99.84
7	134.01	95.24	133.80	95.09
8	134.01	90.70	133.80	90.56
9	134.01	86.38	133.80	86.25
10	155.13	95.24	133.80	82.14
11	155.13	90.70	170.76	99.84
12	155.13	86.38	170.76	95.09
13	179.59	95.24	170.76	90.56
14	179.59	90.70	170.76	86.25
15	179.59	86.38	170.76	82.14
TOTAL:		1,361.62		1,361.63

TABLE 3: ADJUSTMENT FOR CONCESSIONS

Lease of 12 years with 6 months rent-free

Discount Rate	(i)	12.00%pa
Period of Zero Cash Flow (allowed 2 mths for fitting out)	(m)	4 months
Cash Flow for Remaining (=12 yrs *12 - 4 - 2)	(n)	138 months
NPV at 12.00%		71.75 Note (a)
Average Equal Payment (AEP) over 142 months (m+n)		0.95 Note (b)
Discount Factor		5.00% Note (c)

Notes

(a) NPV = PV of $1 pa * PV form mths

$$\frac{1 - \frac{1}{(1+i/12)^{n}}}{(i/12)} \cdot \frac{1}{(1+i/12)^{m}}$$

(b) $$AEP = \frac{(i/12)}{1 - \frac{1}{(1+i/12)^{(m+n)}}} * NPV$$

(c) Discounting Factor= 1 - AEP

holiday, the savings over the period of *holiday* are capitalised and then de-capitalised over the whole lease term.

The writer is aware that some valuers who disagree with this approach may suggest that the de-capitalisation should only be for the period up to the next review date.

The writer is of the view that that alternative is applicable only in a market where an increase in rental is imminent. In the current market condition which is at best stagnant, that alternative does not reflect the prevailing market sentiment in rental negotiations and will result in unrealistically low rental after adjustment.

The effective rent is obtained by reducing the contract rent by the de-capitalised amount. In the process a period is allowed for fitting out. Table 3 (below) shows an example of computation."

Observations

It is interesting to note that several buildings were quoted by both the valuers. These were M/Symonds Street, P/Victoria Street West and H/Scotia Place. There was no apparent contradiction amongst the rentals quoted thus confirming the reliability of the data.

A statistical analysis of the rental is presented in Table 9 (over page).

By comparing the statistics, the following observations can be made.

General

1. The means and ranges (indicated by min and max) of data for new leases (including contract and effective rents) quoted by the respective valuers are consistent.
2. Valuer A's contract rent data are less disperse (indicated by the standard deviation) than B's. However, the dispersions of both A's and B's sets are acceptable because the standard deviations are less than 10% of the minimum value.
3. There is a significant difference in the means of reviewed rents between A's and B's. That explains why they could not agree in the determination of the market rental for the rent review exercise.
4. The range and dispersion of A's reviewed rents are narrower than B's indicating that Valuer A is prob-

23. The presentation is adapted from Mr C D Jones' (of Chesterton International (Vic) Pty Ltd) rental determination in respect of Level 46, 525 Collins Street, Melbourne.

EMPIRICAL DATA

TABLE4: RENTALEVIDENCEPRODUCEDBYNALUERA -------- NEW LEASES

Address	Floor/ Level	Lease Duration	Review Interval	Office Area (m2)	Office Contract Rent (psm)	Car Park (lots)	Car Park Rent Pspw	Rent Free Period	Other Concession	Effective Office Rent (psm)
A Symonds St	Grnd First Floor	1/7/88 to 31/10/2001	3 year (1 yr for carpark)	2,010.31	$215.28	6	$35	2 mths	Rent/outgoings on Stats Dept's Previous space paid.	$178.89 ti
A Symonds St	4th Floor	1/8/89 for 6 yrs + 2 renewals of 3 yrs each	1/11/92 then 3 yrs (1yr for carpark)	588.08	$215.28	6	$50	rent & opex free for 3mths	$133.333 inc Opex till 1/11/92. Rent free for full floor parti itiioonsr effectively for 3 yrs	$172.96
B Whitaker Place	Level 6	1/4/89 for 6 yrs + renewal for 6 yrs	3yrs		$258.33 inc existing partitions			4 mths		$226.40
B Whitaker Place	Level 9	24/7/89 for 12 yrs			$269.10 inc existing partitions			3 mths		$234.38
C Wakefield Street	Third Floor	31/3/89 for 6 yrs + renewal for 6 yrs	*2 yrs*		$215.28	3	$55	"con-ifdential"		$191.80 after adj. for *2-yrly* review
C Wakefield Street	7th Floor	1/7/89 for 6 yrs + renewa l for 6 yrs	2 yrs		$215.28	3	$55	Sig-nificant but confidential		$183.61 after adj. for 2-yrly review
D Wakefield Street	4th Floor	1/7/89 for 6 yrs + renewal for 3 yrs	3 yrs		$231.42		$60	more than 6 mths		$211.52
D Wakefield Street	Third Floor	24/5/89 for 9 yrs + renewal for 6 yrs	*3 yrs*		$242.19					$215.29 (lessee's assess-ment)
E Symonds Street		mid-1990			$244.16					$244.16
F Symonds Street	Level 6	3 yrs from 25/8/89 + 2 renewals of 2 yrs each		588.35	$239.93	5	$55	4 mths	Owner's partitions transferred to tenant for $0	$222.66

TABLE 5: RENTALEVIDENCEPRODUCED BY VALUER B --------- NEW LEASES

Address	Floor/ Level	Lease Comm-encement date	Review Interval	Office rea (m2)	Office Contract Rent (psm)	ar ark (lots)	Car Park Rent pspw	Rent Free Period	Other Concession	Effective Office Rent (psm)
G City Road	15th	1/12/89	3 years	469.42	$220.67 (no partition)	15	$50			$211.09
H Scotia Place	First Floor	1/4/89		814.36	$236.81	16	$40	rent free period equivalent to $5,574/mth; Landlord takes over lessee's previous premises		$207.75
Hopetoun Street	First Floor	1/4189	2yrs	814.36	$236.81	16	_TTO___			$236.81
J College Hill	Block A Level 3	1/10/89	2 yrs	585.34	$215.29	10	$25			$170.08
	Block B Level 4	9yrs from 20/6//89	3 yrs	864.90	$209.90	10	$30		Assistance with fit-out package to lessee	
	Level 5	9yrs from 20/6/89	3 yrs	659.59	$209.90	12	$35			
K Anzac Ave	Level 5	1112/89	3 yrs	809.53	$231.43	15	$45	Inducement estimated		$200.43
	Level 9	15/9/89	3 yrs	809.53	$231.43	15	$45	Inducement estimated		$203.44
L Mayoral Drive	Levels 3 (pt)& 4	1/7/89	3 yrs	636.37	$231.43		$60	Inducement estimated		$209.80
	Leve15	39/4/89	*3 yrs*	636.37	$279.49			Inducement estimated		$230.25
	Level .	39/4/89	3 yrs	594.56	$285.25			Inducement estimated		$239.29

t 1

Address	Floor/ Level	Last Review date	Review Interval	Office Area (m2)	Office Contract Rent (psm)	Car Park (lots)	Car Park Rent pspw
A Symonds Street	5th Floor	1/1189 (Lease from 1/11/88 to 31/10/2001)	3 years		$193.75 +$20.41 or full partition		$45
H Symonds Street	Levell Level 2 Level 3 Level 4	)June &)July 89))	3 yrs		$180.00 $186.00 $189.00 $210.00 (agreed between acting valuers)		
N Queen Street	Gmd+ 5 office floors. Level 5	1/5/89 1/3/90		2,243.98	$199.13 $188.37		
P Victoria St. West	Level6	1/11/89			$195.00	4	$75
Q Federal Street	Grnd Mezza First Floors	)))1/9/89))	3 yrs		$198.00 $160.00 $198.00		
H Scotia Place	4th 5th floors	1/4/89 (12 yrs from 1/4/87)	2 yrs		$197.30 $197.30	8	$30

ti t t

Address	Floor/ Level	Last Review date	Review Interval	Office Area (m2)	Office Contract Rent (psm)	Car Park (lots)	Car Park Rent pspw
R Vincent Street	5th Floor	July 89	3 years	90.58	$230.00	85	$45 $50 $55 (overall rates for each yr)
M Symonds Street	9th	4/5/89	3 yrs	381.26	$226.05 $258.34 (including partitions	6	$55
H Scotia Place	6th 7th 8th floors	1/4/89 (12 yrs from 1/4/87)	2 yrs	281.02 281.02 281.02	$215.29 $215.29 $226.05	12	$55
S Queen Street	Gmd (Shwrm) L1 office L2 office L4 office L5 office L6 office Storage loading Decks	)))24/3189))))	3 yrs	207.26 76.83 455.12 710.13 583.23 409.69 136.01 37.16 163.41	$269.97 $274.92 $159.74 $194.94 $210.01 $214.96 $124.97 $124.97 $50.05	34	$50
P Victoria Street West	Grnd Level6 Leve17	31/8/89	3 yrs	295.05 334.90 333.98	$244.99 $194.94 $202.58	1 4 9 (open)	$80 $75 $65

ably more convincing using the evidence to support his rental assessment.

Contract Rent v Reviewed Rent

5. Both the Valuers' data indicate that there is an obvious disparity between the contract rent and the reviewed rent (234.63 v 191.68 for A's and 234.86 vb 216.14 for B's). This confirms the existence of a two-tier rental structure in respect of contract rent for new leases and reviewed rentals.
6. That two-tier structure is also confirmed on an overall basis (234.75 v 203.91) when the Valuers' data are analysed together to eliminate possible bias within individual sets of data.

Effective rent v Reviewed Rent

7. It is interesting to see that the gap reduces substantially when the means and ranges of effective rents (instead of contract rents) are used to compare with that of the reviewed rents within the separate sets of data produced by A (208.17 v 191.68) and B (209.02 v 216.14).
8. It is also important to note that the lower mean of reviewed rent of A's data suggests that sitting tenants would probably tend to pay a LESSER rent than new tenants. Whereas B's data implies the reverse relation. This would cast substantial doubts on the hypothesis that sitting tenants are softies ready for exploitation in respect of Auckland CBD offices, at least.
9. On the overall basis, the difference between effective and review rents (208.54 v 203.91) is only about 2%. The range of reviewed rents actually encompasses (its minimum is lower and maximum higher) the range of effective rents with similar degree of dispersion. This concludes that the two-tier rental structure would diminish if rentals of new lettings are analysed to account for concessions given.

Conclusion

It can therefore be summarised that a two-tier rental structure does exist in the Auckland CBD office market. However, in contrast to the common belief that sitting tenants are paying higher rentals than new lessees (or the same level of rental as the contract rent for new lessee without discount for inducements), the contract rents for new leases are found to be higher than the reviewed rentals for sitting tenants.

Monopolistic Competition and the Valuation Industry

by R V Hargreaves

The objective of private enterprise Is to create your own monopoly, If only for an Instant.

James Graaskamp

Back in the good old days the pricing of valuation services was dictatedby the little yellow booklet. This booklet was the Institute scale of charge as prescribed by Council and approved by the Minister in charge of Valuation New Zealand. An examination of the 1980 edition of the little yellow booklet shows that the standard fee for a $50,000 residential valuation was $94. If this figure is adjusted for inflation and expressed in 1991 dollars then the fee in 1991 would be approximately $272.

Of course the more market realities evident during the 1980's has meant the little yellow book is not only dead but it is well and truly buried. Legislation such as the Commerce Act now makes it illegal for professional organisations to indulge in any sort of price fixing activities.

The fact that the market is operating is evidenced by the fact that consumers of valuation services have never had it cheaper. Note the use of the word cheaper not better.

A short form residential valuation report recently passed across my desk. I noted that the fee was $55 and that the valuer had not inspected the interior of the property. It was interesting to note that the estimated market value for the property was remarkably similar to an almost year old government rating valuation. Perhaps this is an extreme example, but there seems ilttledoubtthatvaluation servicesarebeing charged out at rates that represent an all time low in real terms.

The question of whether valuation standards are being severely compromised by the current price cutting activities has been subject to much debate within the NZIV. One side of the argument is that you give the clients what they want even if this is a one-page $55 report. The other side of the argument is that valuation reports must meet the minimum standards established by theprofession. AstheNZIV has no way of enforcing the standards, the debate is likely to continue.

It is worthwhile reviewing the

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Two Tier Market ...*continued from previous page*

TABLE 9: STATISTICAL ANALYSIS

	NEW LEASES		REVIEWED RENT
	Contract Rent	Effective Rent	
VALUER A:			
MEAN	234.63	208.17	191.68
MINIMUM	215.28	172.96	160.00
MAXIMUM	269.10	244.16	210.00
STD DEV	18.53	23.57	11.57
VALUER B			
MEAN	234.86	209.02	216.14
MINIMUM	209.90	170.08	159.74
MAXIMUM	285.25	239.29	274.92
STD DEV	23.32	19.35	26.28
OVERALL			
MEAN	234.75	208.54	203.91
MINIMUM	209.90	170.08	159.74
MAXIMUM	285.25	244.16	274.92
STD. DEV	21.18	21.80	23.70

After the inducements and concessions for new leases are discounted, there is no distinct disparity between the resultant effective rent and the reviewed rents.

Local market practice also indicates that bothnew lettings and reviewed rentals are considered relevant to market rental valuations and arbitrations.

Adjustments are also being made to discount concessions and inducements. The consistency between effective and reviewed rentals shows that new lettings and reviews can be reconciled in practice.

However, the writer has reservations on the applicability of these findings on a country-wide basis simply because the scope of research was too limited in terms of both its geographical coverage as well as the amount of data collected.

Nevertheless, he believes that sitting tenants are entitled to a fair deal with these various *types* of rentals being put in proper perspective at least for sitting office tenants in Auckland CBD. A

economic theory relating to the pricing of valuation services and the valuation industry. Valuation is a service industry that falls into the category of what economists call monopolistic competition. According to Horsman (1990) this type of industry has the following characteristics;

1. Many sellers
2. A differentiated product.
3. Slight control over price.
4. Control over the quantity sold.
5. Weak barriers to the entry of other firms.

From thepointofview of the valuation industry, price competition is the worst possible scenario because it reduces the total revenue that can be charged for valuation services.

If one firm in town starts cutting fees to increase their market share then the other firms are likely to also reduce fees in order to retain market share. The price for valuation services will continue to spiral down until the firm with the highest cost structure fail to cover costs and is forced to exit from the industry. At this time fees will start to rise again. Note that reducing fees does little to increase the overall demand for valuation services. This is because the demand for valuations is relatively inelastic.

It is worthwhile looking at the activities of other industries that are characterisedby monopolistic competition. Perhaps there are some lessons to learn, perhaps price cutting is not the only option when competing for market share.

An interesting example is the case of the supply of legal services in the United States. There are far more lawyers per head of population than any other country in the world. There are even a number of unemployed lawyers. Those lawyers in employment tend to be amongst the most highly paid professionals. How do they manage this? Well, it certainly isn't by competing with other legal firms in price wars.

Lawyers are very good at differentiating their products. For example, supposing a certain lawyer has a reputation for winning the majority of very difficult taxation cases. As soon as the word gets around, this lawyer will be able to increase fees and will probably be so busy as to be turning down potential corporate customers.

Closer to home, it is interesting to note that there is intensive competition in the New Zealand real estate industry but not on the basis of price. Firms charge roughly the same amount of commission and choose to compete for market share on the

From the point of view of the valuation industry, price competition is the worst possible scenario

basis of services offered and performance.

If we takeaproduct that is to all intents and purposes the same we can differentiate by advertising? The classic example is soap powder but let us substitute residential mortgage valuations. Assume that a new valuation firm wants to break into this market in a particular area. It so happens that this firm has above average building inspection expertise as well as standard valuation expertise. In this case it would be logical for the firm to differentiate their product not on the basis of price but on the basis of a report featuring a detailed analysis of the building. This type of expertise might be marketed on the basis that it would save the client money by being used in the same manner as an AA report is used when negotiating the price of a car.

Valuers tend to sell themselves short by allowing their fees to be manipulated downwards on the basis that if the lending institution wants a one-page "tick in the box" type report then that's what should be provided. Unfortunately for the valuer the legal liability for a one-page $55 report is the same as for a detailed $250 report.

Some of the more successful valuation businesses do an excellent job of educating their clients regarding the unique skills that valuers can bring to a project. I heard of an example recently where a land developer had a conflict with the local planner. The net result was the the subdivision was stalled, and the developer's bank overdraft was escalating beyond agreed limits. In his report to the bank, the valuer explained that profits would be maximised if the final stage of the developmentdid notpmceed. Thebankers were so impressed that the valuer ended up managing the project! Baen and Croft(1991) discuss some of the new opportunities available to valuers in a recent article in this journal.

Other firms have started to run educational seminars to educate their clients. This is often excellent public relations, and what is more, the seminars can be run at aprofitby charging the clients to attend. Fitzgerald (1991) states that valuers are in the business of marketing property solutions to their clients. He goes on to make a number of suggestions regarding how valuers can add value to their product.

Property is a bit like education; we all think we are experts in the field. The reality is often something else and professional business people often don't realise just how many gaps there are in their property expertise. Client based seminars are likely to generate increased business for valuations firms. Often this new business will not be the traditional type of business such as mortgage valuations.

Unlike farmers, who arebasically price takers, valuers do have some influence over the price of the product albeit a small influence. For example, a sole valuation firm in a small town may not have any competitors in the town. The competition may have to travel from another town, say 30km away. The local valuer will have a time and travel cost advantage that may result in higher than normal fees.

Similarly in a larger town, a valuer with a good reputation and a strong client base may find that key clients are much more interested in thequalityof theproduct than in the price of the product. Thus clients will pay more for quality work.

In a number of locations there are a relatively small number of firms that do most of the business. If these players do not indulge in price cutting and they can retain clients on the basis of product differentiation then price cutting by marginal players will have less effect.

A further point about monopolistic competition is that the sellers have control over the quantity of valuation services sold. Eithne Hanley (1989) observed the 80/20 rule whereby 20% of the client base in a firm provides 80% of the business. She went on to observe that valuation firms can sometimes maximise profit by shedding unprofitable clients and concentrating on key clients.

Recently survey work by the author showed that a number of valuation firms are not observing the 80./20 rule. With residential valuations, costs typically take up about 50% of gross revenue. A charge out rate of $60 per hour only gives the valuer a pre-tax reward of $30 an hour. Assuming 1,000 chargeable hours peryear then this places the valuer at a very modest income level indeed. It does seem to be insufficient reward considering the minimum investment of three years' University study followed by a further three years of practical experience before registration.

The economic theory of monopolistic competition holds that the long run equilibrium of the firm is at the point where 0

The Rise and Fall of the "Subjective Rent" Review Clause

by C S Withnall QC

Colin Withnall is the sole Queen's - sel in Dunedin and when he took silk in 1988 he became only the eighth Queen `s Counsel in the history of thecity. It had been a period of 38 years since the previous appointment had been made.

Born in the United Kingdom, Mr Withnall graduated LL.B fi 6m.:0t.aggoo University in 1971 after being brought up in Waikato and having worked at various jobs including the building trade since leaving school at age 15. He commenced sole practice as a barrister in 1979 and l he isinvolved in mainly civil litigation including arbitrations where,.: he has acted as arbitrator, as legal counsel oradvisingaribitratorsonpoints of law especialy on the interpretation of leases.

This address was presented to the Otago Branch NZIV luncheon meeting , on 11 October,1991.

S incethedelivery of thejudgmentsof the English Court of Appeal in November 1980 in the case of *Thomas Bates & Sons Limited v Wyndham's Lingerie Ltd.* [19811 1 All ER 1077 much debate raged as a result of the categorisation arising out of that case of rent review clauses as "subjective" or "objective". That dichotomy appears to have had its genesis 10 months earlier in the house of Lords in *Ponsford v HMS Aerosols Ltd.* [1979] AC where three of the Law Lords held that the words in the review clause in question, namely "a reasonable rent for the demised premises" meant a rent assessed on an objective basis, ie a current market rent, without reference to the particular landlord or tenant or the history of the premises.

The other two Law Lords took the view that it meant a rent which was reasonable as between the landlord and tenant.

In the Bates case, the clause provided that the reviewed rent should be such as should be agreed and failing agreement should be fixed by arbitration. The Court held that this meant such rent as would be reasonable for the particular landlord and tenant to agree upon "having regard to all the circumstances relevant to any negotiations between them of a new rent form the review date."

The next step in the chain was *Lear v Blizzard* [1983] 3All ER 662 where Tudor Evans J described the test to be applied under such a clause as "subjective not objective".

Over the next several years, this dichotomy became firmly entrenched in the jurisprudence on the subject, initially in the United Kingdom, but especially since the crash of October 1987 in New Zealand. It has been productive of much dispute, arbitration and litigation as to what may or may not, or must or must not be taken into account when fixing a reviewed rent under a so-called "subjective clause".

In particular, the relevance of the profitability or otherwise of the lessee's trading enterprise has been a source of much dispute as lessees endeavour to hold down rental increases in the unfavourable trading conditions of the last few years.

In the vanguard of this dispute in new Zealand are the lessor and lessee of certain premises in Auckland; the provisions of the rent review clause of the lease have now been before the Courts on three occasions since the lease was executed in 1982.

The first occasion was in respect of the first rent review, when the dispute concerned whether the value of the lessee's improvements was to be taken into account in fixing the reviewed rent *Jefferies VDimockLtd* [198711 NZLR419. Barker J reviewed the existing authorities and held that in accordance with the established dichotomy, the review clause was "subjective" and required the fixing of a rent reasonable as between lessor and lessee in all the circumstances. As it would not be fair and reasonable for the lessee to pay rent on the value of its own improvements, they were excluded for the purpose of the review. The corollary of course 0

Monopolistic Competition . .

. continued from previous page

average costs equal average revenue. This will result in firms having some excess capacity. It makes sense for a firm to supply services at a level less than the maximum level of output, because if production is increased beyond this point, average revenue is less than average total costs, thereby resulting in a loss to the firm.

In summary, the message contained in this paper is very simple.

Valuers should compete on service but not on price. Price wars hurt all valuers because they reduce total revenue to the industry. Reducing price is not a guaranteed way for a firm to increase market share since the competition are likely to match prices. The nightmare scenario of the valuer only being able to spend 30 minutes (including inspection and writing up_ a $50 one-page horror are with us now. Unless valuers take the high ground and refuse to accept compromising on fees, and by inference standards, the future of the profession will be jeopardised.

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Horsman J and St John, S, 1990. *Economics, A New Approach.* Longman Paul Ltd. A

is that if the review clause had been of current market rent of the premises as at *the review date* they would have been included.

When the rent next came due for review in 1988, the point at issue was whether the profitability or otherwise of the business actually conducted on the premises, and the financial situation of the lessee were relevant, and if so, to what extent.

The arbitrator stated a case pursuant to S.11 of the Arbitration Act, which came before the Chief Justice in December 1989 *Mahoney v Modick RC Ltd* C.L. 65/89, Auckland Registry, 14.12.89.

After reviewing the authorities the Chief Justice held that under a "subjective" review clause,

> *one cannot automatically and in all respects exclude regard to the profitability or otherwise of the business which the tenant proposes to conduct on the premises during the currency of the period for which the rental is being fixed.*

In the result, it was held to be a matter for the arbitrator to decide whether there were

> *considerations existing at the review date pertinent to the demised premises and the relationship of the landlord and tenant, that would have affected the minds of reasonable person in their position had they been negotiating the rent themselves;*

if so, then the arbitrator would be obliged to take them into account. However, the weight to be attached to such considerations was held to be a matter solely within the province of the arbitrator.

Effects of and Responses to the Judgement

The judgement has been seized upon in certain quarter (mainly lessee's valuers and lawyers) as authority for the proposition that the profitability of the lessee's business is always relevant and must be taken into account under a "subjective" review clause. An analysis of the judgement however, does not support that conclusion See also article in *NZProperty* 335, September 1990 p14.

Nevertheless, the issue has been a fruitful source of work for the valuation and legal professions in the last two years. I have personally been involved in such cases, and no doubt most, if not all valuers have.

The *Modick* case, however, like its predecessors, has had a more general and important influence in the rent review field in that it has perpetuated the fallacious categorisation of review clauses as "subjective" or "objective" and theresultant confusion arising out of the use of those terms.

> ... the relevance of the profitability or otherwise of the lessee's trading enterprise has been a source of much dispute...

In an opinion on this topic in October 1990, I expressed the view that:

> *The use of the expression "subjective" is somewhat misleading as its sole purpose is to differentiate between those leases where the sole criterion for fixing the rent* is *the current market rental, and those where other factors may be relevant as between lessor and lessee. It is misleading because the cases make it clear that the factors which can betaken into account other than current market rental for the premises, are limited to whose which are fair and reasonable as between lessor and lessee and which are connected with thepremises demised under the lease. The inherent contradiction between "subjective" on the one hand and `fair and reasonable" on the other is immediately apparent.*

The test of a "fair and reasonable lessor" and a "fair and reasonable lessee" is an *objective* test. It is exactly the same test as that of the "man on the Clapham omnibus" so beloved of the legal profession the hypothetical "reasonable man".

Throughout the cases the theme of a *reasonable* rent as between landlord and tenant is clearly expressed as the proper test. In *Feltex International Ltd v JBL Consolidated Ltd* [1988] 1NZLR 668, Henry J held that the rent had to be "fair: as between landlord and tenant again an *objective* test. The judgement of the Chief Justice in *Modick* emphasises this: at page 14 he says:

> *Notwithstanding that the approach is described* as *subjective the factors which may permissibly be taken into account are limited to those which a reasonable person would regard* as *bearing on the rental of the subject premises as between the particular parties. That excludes the tenant's ability to pay, or the landlord's need to receive some minimum figure to survive. In my opinion, ability to pay (or survive) is assumed. In negotiations the tenant might be tempted to say that a wealthy landlord did not need to extract the last cent but (consideration of economic duress aside) the reasonable tenant would recognise the right of such a landlord to drive as hard a bargain as anyone else.*

> ... the dichotomy between "subjective" and "objective" clauses is misleading and more apparent than real.

Likewise at page 15 he said:

> *In that case the review clause explicitly referred to a reasonable rent, but the same concept, in my opinion is implicit in the subjective approach appropriate here.It is not subjective in the sense of permitting the infiltration of fanciful considerations, or one's idiosyncratic to the personalities of the respective parties, but only allows regard to be had to those having a basis of fact, and of a nature that would be perceived* as *relevant by a reasonable landlord or tenant.*

Modick and Mahoney in the Court of Appeal

The judgement of the Court of Appeal, on appeal from the judgement of the Chief Justice, was delivered on 24 June 1991 *(Modick RC Ltd v Mahoney and Another* CA 12/90,24.6.91.

The appeal was dismissed but the judgements contain pronouncements which are of general importance in three respects.

The first is that the dichotomy between "subjective" and "objective" clauses is misleading and more apparent than real.

Cooke P says at page 7 of his judgement:

> *Although the expressions "objective" and "subjective" have occasionally been used in contrasting two kinds of rent review clause (see for example* Ponsford v HMS Aerosols Ltd *[1979] AC 63,85 per Lord Keith;* Lear v Blizzard *[1983] 2 All ER 662, 668 per Tudor Evans J) I think with respect that they are not truly helpful. The wider approach, whereby the arbitrator has the task of determining* what *reasonable parties would have agreed,* itself poses an objective test of reasonableness.
>
> *The real question in such cases as* Ponsford *has been whether the review clause is worded in such a way* that, *even if* reasonable *parties would have*

agreed on a deduction to reflect tenant's improvements, the arbitrator cannot take that into account.

and at page 10:

The instant lease does not stipulate a market rent; but, apart from the issue as to tenant's improvements, itmay well be that there is not practical distinction between such a rent and that which would be agreed between reasonable parties. The arbitrator could take the view that a reasonable landlord would require and a reasonable tenant would pay a rent commensurate with the optimum use of the premises for a motor vehicle dealing business. In theory that would be a market rent.

At pages 2-3 of Hardie-Boys J's judgement, he says:

A number of cases decided in England in recent years have *demonstrated the various drafting techniques employed in statutes as well as leases to fulfil the original purpose of rent reviews. These are of two general kinds. One calls for the assessment of a market rent, what the hypothetical willing lessee would pay to the hypothetical willing lessor for the particular premises. An example is WJ Barton Ltd v Long Acre Securities Ltd [1982] 1 All ER 465. The other, of which the present case affords an example directs attention to* what *the particular parties, acting reasonably, would agree as the proper sum in the current circumstances. Such a case is Thomas Bates & Son Ltd v Wyndhams Lingeries Ltd [198111 All ER 1077. Describing the former as an objective approach and the latter as subjective confuses rather than clarifies, for the second* is *objective too. To the extent that there is any difference between them it is in the considerations that may be relevant to the determination that is to be made. It may well be that there is, or ought to be , no difference in result between the two approaches. For it is clear that neither parry is to be* advantaged *or disadvantaged by the fact that the review occurs during the term of the lease: it proceeds on the basis that a new lease is being negotiated at that time and reasonable parties would expect to pay and receive the going rate.*

(In each case the emphasis has been supplied.)

The second is the re-affirmation that on a rent review the proper test is that of the hypothetical willing but not anxious lessor and the willing but not anxious lessee, as on a new letting.

At page 9 Cooke P says:

Although there is much reference in the transcript to rents in the market, it appears that no freely negotiated rentals for new leases of premises for motor vehicle dealing were available for comparison, but only figures from otherrent reviews. Suchreviews would be governed by the particular clauses under which they were undertaken. To mention only one hypothetical example, there might be a ratchet clause. At all events they would not necessarily be truly comparable transactions.

A clause of the kind found in the present case, under which the inquiry is as to the rent that would be agreed between reasonable parties, embodies the same idea as and is indeed a manifestation ofthefamiliar willing vendor/ willing purchaser test. The question is whatfigure would notionally be agreed upon by the parties, acting freely and adequately informed. Figuresftxed by arbitration orrent reviews as between captive parties are not necessarily a reliable guide, since they do not represent the unfettered play of market forces, but rather the arbitrator's assessment (assuming that he has applied himself to the task correctly) of what *market forces should produce.It is only a freely negotiated rent on a new letting that can confidently be taken to be truly comparable, provided of course that there are also sufficient similarities in site and otherwise.*

At page 2, Hardie-Boys said:

The economic downturn in recent years tends to negate the purpose of such clauses and focuses attention, in a way *probably not previously necessary, on the factors to be taken into account on a review, lest the assumption be invalidated too. In particular, it shows that historical data is inadequate. Without modification from contemporary material, traditional material such as existing rents can lead only to artificially high rents, failed businesses and emptypremises.*

See also the passage previously cited referring to the review being conducted on the basis that a new lease is being negotiated.

These observations were concurred in by Gault J.

The third is the delineation of the circumstances in which the profitability of the lessees business may be relevant and to what extent.

The following propositions may be deduced from the judgements.

1. There is no general rule that evidence of profitability is always relevant.
2. Evidence of profitability is in general relevant only to the extent that it is related to the rental value of the property as between lessor and lessee not to the particular lessee's ability, reluctance or willingness to pay.
3. If there is enough evidence of truly comparable transactions to enable a proper rent to be arrived at without reference to the lessee's account, an arbitrator could properly conclude it was unnecessary to go further.
4. Even where the rent is expressly required to be fixed on an open market basis, evidence of profitability maybe relevant unless there is sufficient evidence from true comparables to enable a true market rent to be assessed.
5. Where the lease restricts the use of the premises to a particular trade or business, evidence of the profitability of *that trade or business generally* may be (and often will be) relevant to what the market (ie the hypothetical willing but not anxious lessee engaged in that trade or business) can afford to pay. See, in particular, Hardie Boys at page 5, where he says:

That particular business may be depressed, either generally or in the particular area, so that a reasonable lessee would be unwilling to pay the rent that may have been appropriate in more prosperous times.

Conclusions

The judgements of the Court of Appeal are seen as providing valuable guidance for valuers and arbitrators in this contentious and important field of practice, and should help dispel much of the confusion which has existed and promote a more efficient and speedy resolution of rent reviews. A

Valuation in the Rural Downturn

by D J Armstrong

Theextenttowhichavatuationshould reflect the likelihood offuture events occurring and the degree to which the valuer would have *regard to them is measured by the marketplace in the comparable sales evidence studied. A sober weighing of the circumstances at the date ofvaluationsandthe likelihood of changes and their effectsmust alwaysbepartof the valuation process.* (Editorial NZ Valuer June 1979).

This comment of twelve years ago is ever more pertinent today, in a market raked with uncertainties, and a society much more inclined to litigation. Thereisanother good principle outlined in a New Zealand Arbitration Decision. The umpire, Judge Henry had this to say: (Te Aute Case)

> *the valuer must put him or herself in the * armchair of the hypothetical purchaser contemplating the subject property as a well informed, willing, but notover-willing, purchaser dealing with a willing but not over-willing vendor.*

These and other first principles provide a base from which to contemplate the problems of valuing rural or any property on a falling market. In so doing it is timely to stand back and ask yourself, the professional skilled valuer, as to why you have been briefed to value the property at all. It is my experience that I am only there because my client is saying when issuing instructions:

- I may wish to buy, sell mortgage or take an interest in a property.
- I know a little about it, but am not confident to make a fully informed decision
- I know that you Mr Valuer, as a properly trained registered and experienced person, expertin those matters, can provide me with that information to make the right decision so as
  - I will either buy or sell at the right price
  - I will have my capital protected during the term of my ownership or mortgage
  - I will derive an acceptable cash lfow return from any income earning property.

You as the valuer, are being retained as an expert, which places considerable responsibility upon you. This responsibility carries aprofessional andethical "load: which is heavy to bear and often difficult to manage.

Before proceeding further, it may be timely to consider *Halsbury's Laws of* England 3rd edition,pl I ,definition of the duties and responsibilities of valuers:

> *A person who holds himself out or purports to act as a valuer, represents himself as having the skill and knowledge which a reasonably competent member of his profession or calling would* have, *and it is his duty to his employees to use such skill, care and diligence as is reasonably required in the work which he has undertaken.*

In a rising market it is relatively easy to appear to meet the professional standards required, mainly because we see today's optimism and mistakes being overtaken by tomorrow's inflation in the growth of the property and the valuer is rarely, if ever, put to test. However in a falling market where money is being lost, livelihoods at stake, and golden rainbows being clouded over, the expert valuer is increasingly being challenged as to competency and skill.

The difficulty faced by valuers in the falling market is to measure the forces acting on the property market at the operative date of the valuation. This requires specialist knowledge of the market and economic factors driving the value of property, especially rural property. The competent rural valuer must be well versed in both macro and micro economic factors affecting the rural farm property, the farming business, and must also be well versed in the farm management practices to be able to make an informed competent assessment of the particular factors which drive the farming business.

> In a falling market... the expert valuer is increasingly being challenged as to competency and skill.

At this point, we can again reflect on the difference between the forces in the urban property market, and those driving the ruralmarket. In the most simple terms, a purchaser of urban income earning property is looking at the current market value usually significantly derived from a single income rental stream and no doubt the capital growth or loss expectation of that property. The rural investor in most instances however examines three areas, these being:

- the land
- the farming business which involves consideration of capital requirements for stock, plant and working capital.
- A place to live, a lifestyle, and possibly the historic association of generations of ownership.

It is my experience that these three factors in the rural marketare given varying emphasis depending upon the general state of farming. In a rising market, the attitude is that it will never be cheaper than today, the house looks OK, there is a good swimming pool, so we'll buy it and hope we can find some money for the stock and plant. If we can't, the banks will bridge it and we will re-finance in 12 months time.

On the other hand, in a falling market,

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This address was presented to the triennial conference of the Australian Institute of Valuers and Land Econo mists held at Perth,. Australia on 1.5 April 1991.

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the prospective purchaser and especially his financier, is looking much harder at the business component of the property. This is particularly true in that twilight zone when comparable sales indicate that the market is holding in, but a realistic analysis indicates that the market must drop. We have been sitting in that "zone" again in NZ for the past six months. All of the indicators tell us that the market must drop, because the fanning businesses are under stress, but we are still getting sales at unrealistic levels. This leads me to comment on that scenario- *how does the market drop?*

The short answer is *never cleanly or clearly.* This is due to the fact that in the market we have two major participants, these being:

- the vendor
- the purchaser.

The vendor in the weakening and falling market has two options, which are:

1. To sell and meet the market, or
2. To withdraw and wait for market conditions to improve.

If the decision is to sell, that vendor is going to work very hard to achieve a market realisation based on historic comparable sales and perhaps at the end of the day conceding a small drop. The purchaser in this situation is trying to buy in at a new market level based upon current expectations of lowered income and an anticipated falling land market.

So we have a vendor trying to maintain an historic market level, and a purchaser trying to set a new lower one.

So we have a vendor trying to maintain an historic market level, and a purchaser trying to set a new lower one. The immediate effect of this type of "conflict" is that the volume of sales drops off, and we as valuers are left standing on the edge of the cliff with our calculators wondering how far we are going to fall if we take another step towards the suggestion that the market has or should have dropped by "x" percentage.

What should we do?

It is in these times that the valuer faces the most difficult decisions the court tells us that we must be basing our valuation on comparable sales (but there are none), and furthermore they are telling us that we must be basing our valuations on the willing buyer/willing seller hypothesis, when we know that the buyer and seller are contemplating different levels.

The valuer is left with no alternative than to endeavour to establish a most probable current market value based primarily on the market level derived from most recent sales data, and tempered by the knowledge that the market is weak. Let us take an example:

We have been asked to assess the current value of a mixed farming unit, well located, running 4000 stock units (DSE) and taking 400ha of wheat and pulse and legume grains. We carry out our normal inspection, title searches, comparable searches and inspections and on that basis we arrive atan indicated current value of say $500,000, based on sales which essentially were recorded as having taken place in the period June 1990 through to December 1990. Now valuing in April 1991, we have no sales, but we know that:

- the Australian and NZ Wool Market has collapsed, there is some supplementary support in Australia and South Africa but none in New Zealand, and at the time of valuation, only a few wool sales have been held and it is difficultto establish areal market trend;
- we know that there is an emerging international surplus of hard grain and the price continues to weaken;
- we know that there is a good demand for small seeds and peas;
- we know that there are satisfactory returns being obtained from beef, but indications are that there is an international over-supply building up and suggestions that beef schedules will drop.

With that knowledge, how do we treat the $500,000 value derived from sales which took place before the wool and grain market collapsed? It is at this point that the valuer must return to that hypothetical armchair and contemplate the willing, but not over-willing vendor and a similar purchaser- that vendor should if reasonably informed, be aware of the forces potentially driving down the market, and of course the purchaser likewise will be concerned that comparable sales analysis does not now accurately affect the current market prospects. That purchaser is most likely going to make an offer, much less than the hypothetical asking price of $500,000 and probably in the area of $400,000 and then perhaps finally settle to a mid range price of $450,000 which is 10% below the indicated value derived from historic sales.

That final agreed figure, in hypothetical negotiations of course, will depend upon all of the external forces governing the value of the farm, the expectation of the returns obtainable from the farming business, combined with of course, the normal factors of location, soil type, climate and condition of improvements. In the falling market the purchasers are much more discriminating, the good properties suffering less than those more poorly located and with a greater farming risk. Whereas, in a strong, rising market, it is noticeable that the differentiation between those properties is not so wide. If our $500,000 property was in the less desirable range, then that discount of 10% may be increased to 15-20% on the above example.

Having arrived at your valuation, which should in my view be referred to as "The most probable current market value", it is very important that you mustclearly explain to your client how you arrived at that final figure. You must:

- advise that historic sales data indicated a figure of $500,000;
- that market uncertainties have not yet been reflected in therecorded land sales;
- that there is an expectation that property values will fall;
- that you have discounted the value based purely on comparable sales by x% to arrive at *your* figure, and that that figure is a reflection of the uncertainty that currently exists, recognising the weakening product prices and lack of demand for properties;
- that it is possible that values could move either up or down from that which you have portrayed, but present indications are that the trend is down.

We find ourselves working in a new environment where a number of the old bench marks are not strictly applicable.

Sensitivity of Production

The above hypothetical valuation is based upon the comparable sales approach tempered by the expectation that the market will fall. In a perfect situation, one would expect the market for rural land to rise and fall relative to similar rises and falls in income, and to some extent that has occurred over the years albeit very slowly. I understand some work has been carried out by Doolett (1982) of the South Australian Institute of Technology where it was concluded that changes in commodity prices can explain 70% of the value changes over time in the South Australian property market. In more recent times in NZ, the historic data which we have 0

available has lost its relevance due to substantial changes in taxation law, removal of tariffs, subsidies, and industry support. We now find ourselves working in a new environment where a number of the old bench marks are not strictly applicable. There are however, some general guidelines which still apply and should be used.

Gross Turnover

It is useful to analyse your sales to compare sale price with gross turnover. In the example quoted above, I would expect in NZ, gross turnover to have been approximately 33% of value, say $150,000l $170,000. An analysis of gross turnover should be carried out by the valuer from information obtained from, if possible, balance sheets and budget projections. It is therefore vitally important that the valuer is skilled in the knowledge and operation of the farm business to be able to independently assess the past gross income as recorded in the balance sheets, and compare that to district average, and then make a well informed assessment of future income trends, and then relate both back to the value of the property.

Value per Stock Unit/DSE

This is a very quick useful initial guide to productive value but is fraught with potential problems in arriving at the total stock units/DSEs and then the performance of those units. Again the valuershould be experienced and well enough trained to make an independent assessment of the property's carrying capacity.

Net Income Return

The net income return should, if properly calculated, give you a % return on the value of the land a yield or cap rate to use an urban expression. Again these rates can be analysed on sales and based upon your own independent assessment of the earning capacity of the property.

Other Checks

There are many other ratios and systems which can be developed to obtain some form of relationship between earning capacity and value. These can be developed and used as a check against values derived from comparables but certainly not as prime basis for establishing value, as that always has, and most likely always will be set by comparables and then modified as the valuer sees fit, based upon the valuer's knowledge of the "total farm market".

In such a falling or weakening market the valuer in the hypothetical armchair must consider and weigh carefully the farming business which is or could be carried on on the subject property. To do this properly the valuer must have a good working knowledge of farm management and must be able to make soundly based judgements on how the farming business activity could affect the value of the property.

If, in these considerations, the valuer has to totally rely on other advisors or parties involved with the property, then in my view that valuer is not competent to value the subject property., This of course does not preclude the competent valuer seeking some assistance from known competent specialist advisors. In fact it is prudent to test your own views and conclusions against those of others, but never forget at the end of the day it is you who is:

- signing the valuation report;
- being relied upon as an expert;
- going to be sued for negligence or incompetence if something goes wrong.

On that note it is timely to consider some of the guidelines that have been established by legal precedence over the years. I have already referred to Halsbury's definition this is expanded further in *Baxter v Gapp* [1938] 4 All ER 457) where Goddard J had this to say about valuers:

His duty was first of all to use reasonable care in coming to the valuation which he was *employed to make and he must be taken to* have *held himself out as possessing the experience and skill required to value the particular property. If he did not know enough about the property market, or the value of the property at the place where the property was situated, he ought to have taken steps to* have *informed himself of the values of the properties there, or of any circumstances which might affect the property. It would be no defence for instance, to say: `I made this valuation, but the reason* why *my valuation was proved incorrect, if it has been proved incorrect, is that I was not a person, as you knew, who practised in that locality..*

On the other hand, one also has to bear in mind very carefully the fact that valuation is very much a matter of opinion. We are all liable to make mistakes and a valuer is certainly not to be found guilty of negligence merely because his valuation turns out to be wrong. He may have taken too optimistic or too pessimistic a view of a particular property. One has to bear in mind that, in matters of valuation, matters of opinion must come very largely into account.

A further case where the responsibilities of the valuer were discussed is that well known English Queens Bench Decision of *Singer and FriedlanderLtd vJohn D Wood & Coy* [1977] 243 EG 212 295. This case deals with a claim by a Merchant Bank endeavouring to recover losses sustained from funds advanced on a land development project during a period of high inflation in land values. In awarding substantial damages against the valuer, Mr Justice Watkins had this to say:

If a valuation is sought at times when the property market is plainly showing signs of deep depression or of unusual buoyancy or volatility, the valuer's task *is made more difficult than usual. But it is not in such unusual circumstances an impossible one. As Mr Ross said, valuation is an art, not a science. Pinpoint accuracy in the result is not therefore, to be expected by he who requests the valuation. There is, as I have said, a permissable margin of error, the "bracket"* as! *have called it. What can properly be expected from a competent valuer using reasonable skill and care is that his valuation falls within this bracket. The unusual circumstances of his task impose upon him a greater test of his skill and bid him to exercise stricter disciplines in the making of assumptions without which he is unable to perform his task: and I think he must beware of lapsing into carelessness or over-confidence when the market is riding high. The more* unusual *be the nature of the problem for not matter what the reason, the greater the need for circumspection.*

These comments by Mr Justice Watkins refer to the interpretation of value in a buoyant market, but equally in my view applies to valuing in a falling market, as do the following comments from another English Case *Corisands Investments Ltd v Druce & Co* , Gibson J in his judgement stated:

... I accept the view ... that a mortgage valuation must lookfor a certain period into the future. The valuer cannot be expected to peer very far ahead, or to anticipate trends or future changes of which no indication has been or could be given to an ordinary competent valuer. The valuer, however, can reasonably be required to be aware of the fact that the market is "high", or unusually buoyant, when such are the circumstances and to guard against over-confidence in such market •

conditions. He can reasonably be required to consider what the position of the property may well be in circumstances of forced sale within 6 to 12 months of his valuation...

The Judge also had this to say:

I have *no doubt after considering the evidence of these four expert witnesses that in order to discharge the duty of care of an ordinarily competent valuer in valuing property such as this hotel, the valuer must* have *regard to the following matters of principle and of fact:*

(i) He must by inspection of the property, and by inquiry, learn enough of the property to be able to start upon the basic method of valuation which he will apply, and thereafter to apply that method effectively by obtaining any further information he needs.

(ii) The purpose of the valuer's work is to determine the price which the property would fetch if offered for sale at the relevant time and in the relevant circumstances: the concept of relevant time and relevant circumstances will require further definition.

(iii) When he has sufficiently informed himself as to the size, nature and condition of the property he can select the various method of valuation by which he will guide and check his opinion. For example, he may be able to value by the comparison method, with *or without any other method, if he has sufficient knowledge of the recent sale prices of other sufficiently comparable properties. It was agreed that the direct comparison method* was *rarely applicable to hotels, except in some special cases, for example in parts of London where there are a number of hotels which are sufficiently similar for a comparison method to be applied by determining a room price from other sales.*

(iv) Hotels are bought and owned to make money by operating them. Accordingly, in estimating what purchasers in the market would pay for a particular hotel, the principle, or at least a well-known and respected method is to value the hotel as it is as a going concern, including goodwill and contents. The purchaser would calculate what he could expect to earn in the hotel as it stands, or as he could make it operate, and what price it is sensible to pay for the right and opportunity to earn that income. The valuer tries to make the same calculation.

The Judge continues and comments on matters relating to mortgage valuations and non-mortgageable assets and then had this to say; ;

(vi) In addition to making appropriate allowances for the going concern valuation in respect of such matters as goodwill and contents, upon the theory that such assets would not be or might well not be there to be sold by the mortgagee, the valuer must, and this was common ground, make allowance for any significant defect or problem in respect of which the purchasers in the market would calculate that they would have to spend money before being able to operate the hotel to make the estimated net income. This is, of course, no more than a particular elaboration of the two general principles that the concern of a valuer is to inform himself sufficiently about the property, and then to estimate whatasensible and informed buyer in the market would pay for the property. Although there was no dispute about this principle asformulated there was much dispute as to *the application of it to the facts of this case with particular reference to the Fire Precautions Act 1971.*

(vii) An experienced valuer, after inspecting a property, will veryfrequently if not always readily form an approximate estimate of the probable market price of an hotel. He may test that approximate estimate against the view of people who have *immediate knowledge of sale prices in the market. His opportunity to do that will be improved if his own firm has a substantial sale business of hotels. Mr Cawle was asked to accept that process as "having an instinctive figure in mind,"* and he *accepted it thus. Mr Gurrin called this process "knowing the value from his expertise". It was never in issue that valuers do in fact go through that process of forming and testing what* was so *called their "instinctive" or "expertise" estimate, or that they were acting sensibly and properly in so doing.*

There was a dispute, or perhaps a difference in emphasis, between the parties as to *the relative weight to be given by the valuer or by the court to the values revealed by the accounts analysis method of calculating the going concern, or "brick and mortar" valuation, on the one hand, and to the value produced by the so-called "instinctive: or "expertise" process of the experienced valuer, whether in a large firm or not, on the other hand. I shall return to this point to state my conclusions upon it shortly.*

(viii) Lastly, the valuer must, as I have said, in determining and advising upon the price which theproperty would/etch, have *regard to the relevant time and to the relevant circumstances of the contemplated sale.*

The above three cases should be well known and understood by all valuers. Parts of the *Corrisand* case, which deals with an income earning property, have been set out in some detail, as this case sets some excellent guidelines to the matters which are being discussed in this paper. The judge tells us we must look into and consider as a going concern the whole business, he tells us that we must have good knowledge of the market locality and businesses which we are studying, and among other things, he tells us that we must. . "Start upon the basic method of valuation which will be applied, and thereafter to apply that method effectively by obtaining any further information we need."

Valuations for mortgage purposes

The only point of respectful disagreement I have with the Corrisand Decision is that the valuation is referred to as a mortgage valuation. In my view if a valuation is made for mortgage purposes, it should be the same as if it was made for sale or any other purposes.

If there is a need to exercise caution with respect to mortgage advances on a property, then that can be easily and accurately done in the quantum of mortgage advance recommended on the property. To valueaproperty differently fordifferent purposes is erroneous and misleading. This leads me to the rural valuer's responsibility in making mortgage recommendations on properties which have been valued. To adopt an arbitrary fixed percentage of the valuation is dangerous and erroneous. The valuer has again when making a loan recommendation on a rural income earning property to have the ability to make an assessment of the earning capacity of that business and make a loan recommendation accordingly.

The knowledge and judgement required in making such recommendations requires a good knowledge of farm management and the economic health of the farming business.

On a falling market it is essential

that the valuer looks at the debt servicing charges which would arise from the proposed advance and relate those to gross farm income.

As as general rule of thumb in New Zealand, we get nervous once those charges exceed 25%, and very nervous over 30%.

There are of course a number of variations and exceptions to that rule, which the valuers with specialist knowledge should be able to identify.

In making a loan recommendation, don't lose sight of the fact that you have *a prime duty of care to the person advancing* the funds, and that that person not only wants the sum repaid at the end of the mortgage contract, but also wants to ensure that the investment will safely return the expected interest for the period of the mortgage, and that in the event of some unforeseeable circumstances, there is a sufficient margin to recover arrears of interest and litigation costs at a mortgagee sale.

Reporting

In reporting to your client, you must not lose sight of the fact that that client is going to rely on the valuation as set out in your report to buy, sell, mortgage, or lease the property ,and then if something goes wrong, he is going to try to use it as a basis upon which to mount a claim for damages.

It is very important in this falling market that you clearly set out the basis for your final conclusions. As I have noted above, I now use the expression "most probable current market value", as it is my experience that a number of people seem to have been of the view that I should value a property with pin point accuracy. If I am advising a client as to sale price, I give the most probable value figure, and suggest that the property should be marketed within a bracket.

In reporting to your client in this uncertain market you should set out some discussion on historic sales, how they analyse on a per hectare and unit of production basis, so as the client can clearly see how you have ranked the subject property.

I often include as an appendix a spreadsheet of analysis key data. If you have varied your valuation away from the mean of analysed sales as I suggested in the example noted above, this must be clearly set out in the report.

Valuation reports are coming under very close scrutiny, especially in situations where there is a default by a mortgagor, or as is now often happening, the lending organisation itself falls over.

In these circumstances where the mortgagees cannot recover the full amount advanced, they will be looking to the valuer or the valuer's insurance company to try to recover, and if your report fails to set out your valuation and the basis of that valuation, you could find yourself in an unfortunate situation.

When times are tough and when incomes are dropping, your clients are often going to request a short report and try to negotiate a lower fee, probably in the knowledge that there is good competition in the professsion and you will be trying to maintain market share.

Whatever you do, always ensure that your valuation is sustainable in the face of potential litigation.

As you will be aware there are new and more rigid rules being set by financial organisations lending money on mortgage, with the emphasis on not getting caught in a 1987 crash again. These institutions are using more sophisticated recovery and funds management techniques and are also establishing "preferential valuer" lists of those valuers providing acceptable work standards. This trend will continue and you must ensure that your reports and your service is always up to standard if you want to maintain market share.

Valuation Instructions

One of the lessons we should have learnt over recent years is to obtain clear instructions from our clients and repeat those in the text of your report under a heading *Purpose of Valuation.* If you obtain verbal instructions say so, but in taking verbal instructions, you should respond back in writing confirming the instruction and the date and time you received it and from whom in the organisation.

This, if the New Zealand experience is anything to follow, could save potential litigation and complaints against valuers.

Future Value Considerations in New Zealand

It will be interesting to see how farmers/ rural investors assess the buying-in price for rural property in NZ in a de-regulated, unsubsidised free market economy where for the first time for generations, the farming business sector has no buffers, no Government funded wool support schemes, no input subsidies, and not much tax deductibility for development expenditure.

We now have an inflation rate running at less than 5% and an over-valued currency. Logically the time is ripe for rural investors to be buying property on the basis of an acceptable income yield being obtainable from the farming business rather than from a break-even farming business propped up only by inflating land values.

At the time of writing (April 1991), there is no real sign that this is happening, as we are still seeing property being sold at levels which would show hardly any return at all to the purchaser in some instances.

Purchasers of rural property historically have based their purchase price largely on comparable sales, and their ability to finance usually geared against other property.

A more rational approach has to be based on the marginal return that the proposed purchase as as going concern will return to the investor. When or if that approach is adopted, and provided there is an allowance for risk and uncertainty built into the calculation, farming as a business both in terms of "the land owning component" and the "farm business component" will become more stable and attractive to investors.

Conclusions

Valuing in a declining market is difficult, interesting and a challenge. To ensure that we will still be valuing next year and on into the future, all of us in the profession must develop specialist skills and practice only in that special area.

The day has long gone when you can be valuing high rise Central Business District property today and rural property tomorrow. We have seen in NZ a number of those people come and go, and some are still in the process "of going:. These people have cost the profession in terms of reputation and credibility.

To ensure that we can properly carry out the responsibilities expected of us, we need to:

- continue with our education;
- specialise;
- know Case Law;
- and, in the rural discipline, we must be well versed in farm management practices on the properties we are involved with.

The declining market soon shows up those people who do not have the above skills. A

Valuation Standards and Market Price Ostriches and Sacred Cows

by S M Locke and G J Horsley

Valuation standards are the core of modem valuation practice! Furthering the development, refinement and promulgation of international valuation standards is an ongoing task for The International Asset Valuation Standards Committee (TIAVSC).

The increasing emphasis on fostering relationships with other professional bodies such as accountants, bankers, company secretaries, stock brokers and other professionals working in the commercial community is abetted by a common vernacularandprofessional outlook. Recently the establishment of these linkages is proceeding well although there is still much work to be done.

While it is to be hoped, and is anticipated, that through time a greater acceptance of the valuation standards and appreciation of the work of valuers will result, a common language is essential. An alignment of vocabulary is required, for presently the valuers' understanding and the understanding of some other professionals of basic terms, differ widely. This difficulty is aggravated by the alternative understandings within the valuation profession itself as to what the various standards actually mean. Perhaps, it is generally true, that within any profession, arguments will develop focusing on semantics and definitions. Nevertheless, various terms and terminological expressions are at the core of valuation standards.

If valuers continually redefine their terms or argue as to their exact meaning in various contexts, then the standards cannot survive. There must be an agreement concerning not only the worth of standards overall, but an agreement as to what they mean. Otherwise we are building castles on the sand and probably with the tide coming in. Progress toward harmonisation with other professions is appreciably a little more problematic if valuation itself is not unified.

Central to all valuation, which the Concise Oxford Dictionary defines as "estimation (esp by professional valuer) of a thing's worth", like the hub from which spokes emanate, is the concept of value. In particular, market value is the central axis on which most valuation is founded. However, this term is not understood by all valuers to mean one particular thing.

Variant expressions including "fair market value", "netrealisable value", "net present value", and "forced sale value" enter the vocabulary presumably so as to enrich the valuers' lexicon but there is a nagging doubt that their purpose is more intended to confuse rather than edify. While it may be healthy to have a whole range of concepts it is important to question whether this movement toward a plethora of terms, which while not synonyms are close cousins, is desirable, or whether they are purely an excuse protecting us from the need to come to grips with what we mean by value.

Within different legal jurisdictions terms have been defined by the courts and other judicial tribunals in varying ways, It is convenient and easy for practising valuers to work within the legal framework, relying on past court decisions as guidance. An observer may be excused from concluding that valuers in practice are more concerned with legal conventions than the underlying theory upon which their discipline is founded.

While it is easy to be critical we

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must appreciate that it is necessary to work within the prevailing commercial environment, including the legal framework founded on precedence. However, the role of profes sional Institutes andbodies like TIAVSC is to lead and this can

standing of both theoryand practice. There is much to recommend the view that valuation must reclaim its theoretical base and break loose from the shackles of legal precedence.

To understand the concept of market value, we must look to the framework or economic paradigm from which valuation has arisen to discover at the root what market value means. Valuation is concerned with estimating something which has not happened. Principally, this involves valuing a real asset with given spatial and temporal coordinates ie in a specific place at a particular point in time. The basis of valuation may relate to replacementcost or insurance value or some other specialised purpose but most commonly it is the price at which the asset couldbereasonably expected to havebeen sold. For the purpose of this illustration, attention is confined to this last concept of what the asset could have been sold at.

Various techniques or approaches, working with observable information are employed in conducting a valuation. Comparable sales are of particular importance and these are adjusted so as to form a basis for forecasting the most likely price for the particular property which is underconsideration. Access toan adequate data base and knowing what is going on in the market is of considerable importance to the practising valuer. Adjustments, in general, are arbitrary utilising $/m2, depth tables, and other rules reconcile observed market transactions with the likely price a specific property would fetch if sold. Other data relating to size, shape, age, tenancies,town planning and soon are all

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These other variables impact upon the likely price which a particular asset would obtain in the market place.

Techniques per se have no validity in themselves, their merit lies in modelling the underlying economic event. As with all models they abstract from reality but endeavour to capture the salient features. It is often said that the validity of the model does not depend on its likeness to the underlying event, but its predictive capability. Setting aside the possibilities of purely spurious models linking totally unrelated observations with value, the art or science of valuation lies in formulating and implementing models with high predictive accuracy. This might seem a little too esoteric for the average practitioner but for the profession overall it is central.

Once an appreciation is lost for the fact that practical rules are simple models which were the best available when originally devised at some time in the past, and their standing alters such that they are deemed to besanctif ied by time and beyond reproach then professionalism is lost and witch craft begins.

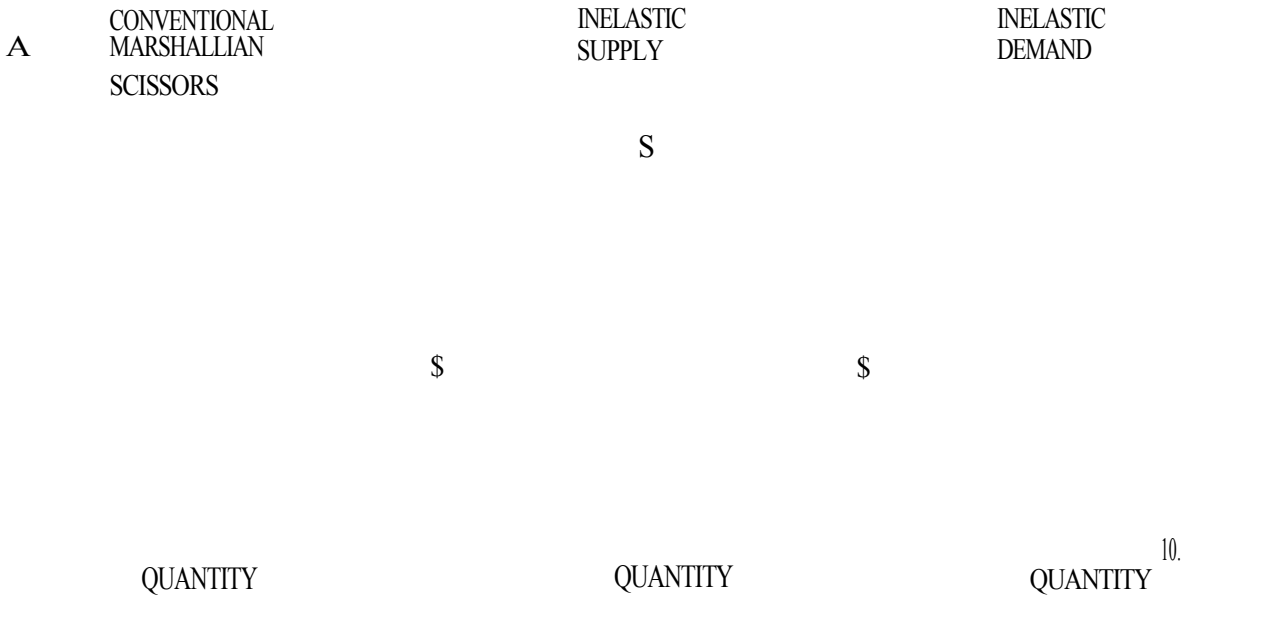
If it is the market price which we are endeavouring to estimate then the fundamental economic transaction can be captured in terms of demand and supply. Conventionally, this is represented as shown in Figure 1, sometimes known, especially by the older land economists as Marshallian scissors, with a downward sloping demand curve and an upward sloping supply curve. the fundamental relationship between quantity and price being reflected in these two schedules. As price increases, the quantity demanded will supply increases. The actual shape of these demand and supply curves will vary from commodity to commodity.

In some instances, the supply curve may be totally inelastic, ie price sensitive, such that in a diagrammatic representation it is a vertical line. This occurs where there is no way in which a quantity can be increased. The property market experiences this phenomena from time to time until developers bring more space onto the market. Similarly, demand maybe price inelastic at various points in time or for various commodities. If this is the case, then the demand curve is relatively flat.

The fundamental point which is to be gleaned from these observations is that the trade occurs where demand and supply intercept. There are two parties to the transaction. The supplier and the demander, ie the vendor and the purchaser. Any model which endeavours to estimate price at which a transaction would occur must therefore focus on both supply and demand.

In many definitions of market values which the judiciary has from time to time handed down reflect an appreciation of this point. One from the antipodes, in language of the era, captures the sentiment but it must not be assumed that all decisions define it as such. In *Spencer v The Commonwealth* [1907]5, C.L.R. 418,

FIGURE 1



10.

Isaacs J provides the following test:

To arrive at the value of the land at that date, we have, as I conceive, to suppose it's sold then, not by means of a forced sale, but voluntary bargaining between the plaintiff and a purchaser, willing to trade, but neither of them so anxious to do so that he would overlook any ordinary business consideration. We must further suppose both to be perfectly acquainted with the land and cognizant of all the circumstances which might affect its value, either advantageously or prejudicially, including its situation, character, quality, proximity to conveniences or inconveniences, its surrounding features, the then present demand for land, and the likelihood as *then appearing to persons best capable of forming an opinion, of a rise or fall for what reason soever in the amount which one would otherwise be willing to fix as the value of the property.*

This definition more plainly stated by Murray *Principles and Practice of Valuation* (1973):

The market value of land at a certain date may be defined as the amount of money that the land would bring in the open market by voluntary bargaining between vendor and purchaser, both willing to trade but neither so anxious to do so, that he would overlook any ordinary business consequences.

This is similar to that espoused in the United States and English literature. The American Institute of Real Estate Appraisers (1978) *The Appraisal of Real Estate* page 24 and Britton, Davies and Johnson (1980) *Modern Methods of Valuation* respectively concur with this perspective.

Demand in an economic sense is the representation of an inverse benefit curve. This in simple terms means it represents what the prospective purchaser perceives are the most probable benefits from acquiring the asset. The supply schedule, similarly, represents for the vendor, the relative merits of disposing of the asset. Suppliers wish to obtain a price at which they are prepared to depart with the commodity or asset. Purchasers will only acquire the asset or commodity if they perceive that the benefits associated with owning it are at least as high as the price which they must pay for it.

The end result of this consideration is that any attempt to define market value must therefore focus on both vendor and purchaser. An attempt to define value as relating to what a willing purchaser would pay for the asset or alternatively what a willing vendor would be prepared to depart with the asset for only captures part of the story. For a trade to occur, for the transaction to be consummated, there must be two parties.

However, it is contended by some that the vendor position is of primary importance and relatively more emphasis should be placed on this side of the equation. The Royal Institution of Chartered Surveyors (RICS) Red Book defines open market value as:

the best price at which an interest in the property might reasonably be expected to be sold at *the date of the valuation assuming:*

a. a willing seller
b. a reasonable period in which to negotiate the sale taking into account the nature of the property and the state of the market
c. that values will remain static during the period
d. that the property will be freely exposed to the open market
e. that no account will be taken of any additional bid by a purchaser with a special interest.

Various terms such as "fair", "open" and "competitive" are used as qualifiers to form the expressions "fair market value", "open market value" and "competitive market value" respectively. In an economic sense these words have no absolute meaning although their plain language significance is readily appreciated. The intention is to remove biases which may occur where the estimated trade is not the result of vendor and purchaser being on the same footing.

This concern is reflected in legislation in many countries taking the form of trade practice law endeavouring to put all parties in a reasonable position. To the extent that this is the intention of these words they may be taken as read when the estimation of market value is assumed to be in a competitive and efficient market for the type of property under appraisal.

The efficiency with which the market operates is normally measured in terms of the freedom of information and the speed at which new information is impounded into the price of assets is important. Security markets for example, have quoted prices which adjust very quickly to new information. Asset markets adjust more slowly because there are normally more diverse suppliers and vendors and the forum or exchange where trades occur is less centralised. Accordingly, information flows are slower.

Intermediaries arise in these cases as specialists with market information. Valuers are one such class of intermediary. The valuer is meant to have accurate market information which enables an accurate estimation of the most likely market price at which an exchange will occur.

Further, the time period in which transactions occur varies from asset to asset. Within the financial markets, transactions occur very rapidly and placing a sale or purchase order with a broker normally results in the trade occurring within a few hours. More specialised financial securities take a little longer to sell and the more we move along the spectrum from financial to real fixed assets the longer the time period in which it can eventually take a transaction to occur.

Motor vehicles take a little longer to sell than Government securities. Residential houses take a little longer than motor cars and boats to sell and commercial buildings often take longer still. It is not only the lumpiness of the transaction, ie the amount of dollars involved, which determines the time period over which the transactions will occur, but other factors such as marketing - the necessity to make information known about the property; due diligence - the necessity to check town planning, zoning, legal title, status of tenants etc; financial packages - the necessity to talk with bankers and lenders about potential mortgage arrangements for the purchaser; and consideration of the tax implications etc. the end result commonly resulting is that lengthy time periods are involved.

What then is a reasonable period to include as the trading period in determining a most likely selling price? Is it 30 days, 60 days, 90 days or does the time period vary with the class of property and locality of property? Perhaps properties sell relatively more quickly in West Africa and the South Pacific than in Northern Europe. Does it then make sense for a generally agreed period to be adopted world wide? It is reasonably expected that local modifications of international standard will be applicable to reflect the market efficiency aspects in specific countries.

The assumption that values will remain static during the reasonable period is camouflage. Valuation is about the best price at the date of valuation, not the price that might be expected some months or years hence when the market may have changed. It is not what the vendor would like to receive or what a buyer might like to pay it is what can be obtained in current circumstances with proper marketing.

In contrast to addressing the question within this framework, the valuation profession has seen a proliferation of terms developed which endeavour to redefine 0

market value within the jurisdiction of the legal environment in which the valuers are operating. Rather than report that the market value allowing 60 days in the current economic climate is judged to be $xxx, new terms such as net realisable value or liquidation value appear. Obviously, there is a difference in a forced liquidation sale to a more orderly sale and, as the time period increases, the prospect of obtaining a higher price presumably also increases. But the issue is not a difference in concept of value which still relies on a buyer and a seller being in the market place, but the time period in which the trade is to be arranged.

The definition of forced sale value follows that of open market value with the caveat that the time limit for completion is considerably reduced. The difference between an open market sale and a forced sale for the purpose of definition relates entirely to the period allocated to negotiate and complete the sale. It has nothing to do with the vendor's motives or the degree of enthusiasm for the sale.

A recent paper by three American academics writing in Vol 5, No 1, Spring 1990 issue of *The Journal of Real Estate Research* bears directly on this point. Professors Shilling, Benjamin and Sirmans' article *Estimating Net Realisable Value for Distressed Real Estate* considers the problem of "fire sale" or "liquidation value" as it relates to appraisals which lenders who are foreclosing require:

> *This requirement forces an appraiser to estimate the market value of a property assuming a short marketing time horizon to arrive at what maybe called the property's net realizable* value. *The difference between market* value *and net realizable value under these circumstances can be defined as a liquidating discount or the amount the lender is willing to give up in order to sell quickly. (p 129)*

Commercial properties for instance provide an interesting issue in valuation. If the approach to be used is working on the income method, then the issue of net cash flows begins to arise. However, as is readily obvious, not all prospective purchasers are in the same tax situation. Some institutions may be tax exempt while others have accrued tax losses and others have healthy profit strains. Some will be cash rich while others will need to raise significant debt. Given these differing parameters, the value of a particular building to these types of purchaser will vary. The value to them in terms of the net present value after tax differs considerably and an adjusted present value calculation, as the technique is called, is needed to determine the end position.

However, to advocate that the adjusted present value is the value which should be put on the building misses the point that there is a vendor and purchaser involved. Does it make sense to take an average tax position when evaluating the depreciation and interest tax shields or should these all be ignored and a simple capitalisation procedure used? In both situations we are making broad assumptions about prospective purchasers. But it doesn't make sense to deliberately ignore the financing and tax side of the decision.

Yet, to value the building or property on a purely income approach is focusing on the purchaser, not the vendor. Accordingly, this can only be part of the analysis. Robinson (1989) *Property Valuation and Investment Analysis* argues that "what is relevant to investment analysis is relevant to valuation and vice versa" (p2). Commencing with an acceptable definition of economic value drawn from Lipsey (1979) *An Introduction to Positive Economics* (p399) that value is equivalent to "the discounted future income stream" he argues cogently that:

> *Income streams and capitalisation rates are chosen by reference to the market, hence the discounting of the income stream is also a market comparison approach. (p3)*

When there are few comparable sales available or the market is very thin at this point in time, the valuer is stuck with a true dilemma. Does the forecasting process which a valuer goes through involve determining whether there are prospective purchasers in particular categories that may be interested in purchasing in a particular time period? Part of the process of selling property, the agency role fulfilled by many property firms, involves not only listing the property but marketing it. Targeting prospective vendors is a very important step whether the sale is to be by auction, tender or private treaty. If there are no apparent buyers, then where does this leave the agent? Roughly in the same place as the valuer who knows there is no hope of selling the property if it were to go to market but just can't reconcile putting $0 on the report.

When there is seen, by the selling agent, to be a purchaser, or purchasers, with a special interest in the property this gives rise to special hopes of getting a better price. The valuer, on the other hand, does an ostrich. Does it really make sense to say if it goes to market the most likely purchaser, who has the adjoining property, must be discarded and a lower bid taken. This is not a market but something else.

In an attempt to shore up the conventional wisdom of commercial valuation, using cap rates and passing rent the abstraction from reality has gone beyond ad absurdum. The national professional valuation institutes should accept the challenge of providing a framework of professional standards which are based on economic theory, recognising both location and time ie. the spatial and temporal dimensions. This is not easy as it means from time to time that sacred cows are more than milked. A

Computer Forum

Compiled by Leonie Freeman

Getting started in Data Processing Disaster Recovery

by B Menkus

ata processing disaster recover applies to the computing environment principles and methods generally followed in restoring operations after a catastrophic incident. The disaster recovery process has a single goal. It assures that an organisation effectively survives both the impact and the consequences of a disastrous event. To be effective, this process must encompass every aspect of the organisation its employees, its assets, and its operations.

Thus, preparations for data processing disaster recovery cannot be isolated effectively from those efforts made to protect the larger organisation from a catastrophe. By its very nature, a disaster when it occurs, creates an emergency environment. The disaster recovery effort helps reduce the duration of that environment and minimise its after effects.

It is not wise to assume that governmental agencies or industrygroups will be able to offer more than token assistance with disaster recovery. Rather, an organisation should be prepared to draw upon its own people and resources while restoring normal operations. Assuring that they are available during the recuperation period, when and where needed, requires careful and intensive planning and preparation, Exactly what must be done will be determined by the various types of disasters to which the organisation might be exposed.

Disaster recovery encompasses both contingency response planning and emergency operations management. This effort is designed primarily to assure operational continuity in the post-disaster period. It emphasises minimising diverse effects to both employees and customers. The goal is to avoid loss of assets and disruption of business activities. Because of the need to act immediately to recuperate, making the organisation whole (a principal goal of insurance-oriented loss prevention or risk management efforts) is a secondary concern, though it is not ignored during the recovery process.

1. Responsibility

Administration of the disaster recovery process is a basic organisational risk management, loss prevention or security task. Its successful accomplishment requires positive support by senior level management, because preparing an organisation to survive effectively during an emergency requires advance commitments of key employee time and other resources that cannot be related directly to increased profits. Disaster recovery is a process for avoiding loss and costs. Its value can be demonstrated only under the most adverse of circumstances.

Generally, the person with overall accountabilityformaintainingthecsganisation's security is designated as its disaster recovery co-ondinator. This person is responsible for developing and periodically testing the emergency operating plan and for activating the plan when a disaster occurs. An alternate or understudy is selected to act if the disaster recover coordinator is not available when an emergency arises.

2. Risk Analysis

The disaster recovery planning process begins by determining the nature, likelihood of occurrence, and probable impact of each type of disaster that might be experienced.

After the risk analysis is complete, the disaster recovery coordinator identifies the level of recovery that is economically and operationally desirable for each risk, should it occur. In recovering from a disaster it is not always essential that all of the organisation's functions be restored immediately, or fully. Moreover, what should be restored, and when it should be restored, will vary from facility to facility and may change over time. This fluctuation in priorities is just one aspect of the overall disaster recovery planning process that makes a thorough review desirable at least annually.

3. Response Plans

The disaster recovery coordinators next designates a key individual in each organisational unit of facility who participates as part of a disaster recovery coordination team. This key individual acts, in effect, as the disaster recovery coordinator for that unit of facility. The head of the dateprocessing staff, ideally will represent its interests actively as a member of this team. The team collectively develops, implements, and periodically reviews the disaster recovery plan.

An extrrrc t of a n arts Me written by Belden Menkus which has been reprinted from the AmericanJour nal of Co mpouters and Security Volum'7_.o11:_ Mr Belden Menkus as' a fulltime management. consultant an LISA.:;*

Within the constraints imposed by the priorities established earlier, the disaster recovery coordination team creates a comprehensive disaster recovery plan. Typically the plan will have at least these eleven sections:

a. Designation of management continuity
   This section identifies by job title who decides or acts about specific processes, functions, orpolicieswhen other managers are unable to function in an emergency situations.
b. Maintenance of an employee skills database.
   While theirbasic jobassignments may not call for the use of these skills, experience and talents, many employees will have abilities that can prove essential to the success of the recovery process. This section of the plan deals with establishing and operating such a skills bank.
c. Locations of emergency operations sites.
   This section identifies secure space that will serve, in effect, as the organisation's command post during the disaster period.
d. Arrangements for cooperating with appropriate local government agencies
   What is needed will vary with the different requirements of local situations. In some instances, for example, the organisation's security staff may be able to support the local police in f

restoring order after a disaster. But, in other instances, the organisation may require special help from surrounding fire departments fordealing with the effects of a fire or some form of indust ial accident In such a situation, this section will detail the nature of the help to be provided and the basis for securing it Included here will be such things as letters of agreement and contact lists. Arrangements also may be detailed for expediting movement of computer records and access of replacement staff to the emergency computing site.

e. Establishment of a records-protection program
The scope and operation of this program, detailed in this section, will include the organisation's paperreco ids as well as its computing records. Provisions will be made in the latter case for safeguarding documentation, program code, and other ancillary materials.

f. Provision of necessary telecommunications capabilities.
This section deals with tworequirements. One is the means to be used for prompt notification of key organisation employees needed on-site during the immediate post-dlsasterperiod.Theotheristhemeans to be used to restore expeditiously the organisation's essential voice and data communicationscapabilities.Theorganisation's ability to function independently in this regard will compensate for any delaysorotherdif icultiesencornteredby the local common carrier in restoring telecommunications services.

g. Arrangements for the special services and resources required during the post disaster period.
This section will detail identify and describe the wide variety of things that may be required.

h. Designation of sources for possible replacement of key supply stocks and equipment
This section should tell the disasterncovery coordinator such things as how and whereto secure replacement printerpaper stocks and data storage devices.

i. Definition of the role of the organisation's security forces in the recovery process
This section will detail the special equipmentandtrainingneeded bythe members of this force to carry out that role. These requirements will reflect the force's status -employed directly by the organisation or provided to it under contract by a third party commercial service.

J. Clarification of the role of non-essential computing applications and staff during the disaster recovery process
Thoseinformationhandlingactivitiesthat will not be sustained during the recovery process will be identified in this section. Alternate data sources will be defined, where feasible. Those members of the computing staff who will not be required to work during the disaster recoveryprocess will be identified in this section, as well Their status and assignments during this period also will be defined in this section.

k. Establishment of the priority for restoring computing services and applications
This section will identify the order in which both essential and non-essential mfoimationhandlingactivitieswilln sume as the recovery process continues.

4. Guidelines for Priority

In most instances, an organisation's essential information will deal with:

- re-establishing its legal and financial status;
- fulfilling its ongoing obligations to stock-holders, employees, and outside interests, including regulatory agencies as well as customers and suppliers;
- perpetuating technical and operating know how including data related to products, pricing and inventories.

Information that falls into all three of these categories relates to the over-riding consideration of assuring organisational continuity. This information is identified through a functional analysis. This calls for an investigation of the information used in carrying out the organisation's majoroperations. These are subdivided in the analysis into their major component functions. The information needed to restore and sustain those functions that are vital to corporate survival then is identified. Those database and documents containing this information collectively are its vital records.

Data processing disaster recovery can be carried out successfully. However, it will be no more successful than the quality of the preparations made for recover.

Compilers Note: While this recovery procedure is designed for larger organisations, the fundamental steps are relevant to small computer operations. Does you firm have a plan of action for computer failure or disaster?

Twenty Questions for Choosing a Word-Processor

by T Proctor

In the last issue we looked at some of the questions that arise when you come to choose a word-processing system for yourself or your office. It is important that you have a clear idea in your mined of what you are expecting your system to do. You may choose different software for your personal laptop than the one that makes sense for a group of experienced typists.

1. What do You type? Letters & Memos? Reports & Newsletters? Complex brochures?
2. Do you have good keyboard skills?
3. Do you want to use a mouse with your word-processor?
4. Doyouwanttobeabletoseeyourtexton the screen as it will be printed?
5. Do you use formatting such as: Bold, Underline, Double Underline, Srwi Cnrrrars, *Italic?*
6. Do you use different typefaces or fonts (eg:This is Courier, This is Helvetrca,. This is Times Roman)
7. Do you use different size of type (eg: this is Point Size 6, This is Point Size 14)
8. Do you often copy text from one document to another?
9. Do you use Mail Merge (ie: one master letter automatically personalised for many different recipients)?

This rs the third in g series of articles provided : by Financial Systems, Auckland? based: dealer which ? specialises ncomputerbasedsolutions for the corporate market. The author. TookiProcfoY isshe7rainingManager foriFinancial Systems ltd

10. Do you have standard letters or standard blocks of text that you use often in different documents)?
11. Do you type much figure work in columns and tables?
12. Would you like to import figures from spreadsheets into your word-processor?
13. Do you use tabs to line up lists of text or numbers?
14. Do you design many forms for entering information on the computer?
15. Do you need to create organisation charges on the computer?
16. Do you use newspaper-style columns?
17. Do you use side-by-side or parallel columns, such as on a resume?
18. Do you use or would you like to use lines such as borders and boxes around text or between columns?
19. Do you use or would you like to use pictures in your word-processing (charts, scanned images, graphics from other packages?)
20. Do you need to prepare work so that it is ready for a type-setter?

Check your answers to these questions against the following table to assess what kind of program would best meet your needs. There are many basic CUI word-processors on the market such as First Choice and LetterPerfect which are geared at the executive or someone who needs easy access to basic commands. There are also a range of mid-stream products such as MultiMate, Wordstarand DisplayWrite which provide more functionality than these basic products, but do not match the two leaders in the word-processing arena.

The two top-rated advanced CUI word-processors are Microsoft Word and WordPerfect though the decision to choose one or the other really comes down to personal preference one program may excel in a particular area but be relatively weak in another. For example, WordPerfect has slightly more formatting power in its layout commands and tables feature, but the hidden code system it uses makes it more difficult to learn than Microsoft Word, and it is harder to solve problems when they occur.

The best basic GUI word-processor is Professional Write Plus from Software Publishing, though the Write program that comes with Windows is all many executives require. In the advanced area, both Microsoft Word for Windows and Ami Professional score very highly in tests. WordPerfect has just launched a Windows version of their program which has some very useful features and is likely to challenge the lead that Microsoft's program has established in the marketplace.

Do ask your colleagues what they like and dislike about the programs they are using, and ask your software supplier to demonstrate the programs to you. But remember that no program is perfect and finally the purchase of a software package comes down to your personal preference.

TWENTY QUESTIONS FOR CHOOSING A WORD-PROCESSOR

	QUESTION	WORD PROCESSOR CUI Basic	CUI Adv	GUI Basic	GUI Adv	Desk Top Publisher	Forms Design Program	Other program	Laser Printer	Other Printer
1.	Letters/memos/faxes	✓	✓	✓	✓	*	X		✓	✓
	Reports/newsletters		✓		✓	✓	X		✓	X
	Complex documents		*			✓			✓	X
2.	Good keyboard skills	*	✓	*	✓					
3.	Limited skills	*		✓						
3.	Use a mouse	X	✓	✓	✓					
	Don't use a mouse	✓	✓	e						
4.	WYSIWYG			✓	✓	✓	✓			
5.	Formatting	✓	✓	✓	✓	✓			✓	
6.	Type styles		✓	✓	✓	✓			✓	
7:	Type sizes		✓	✓	✓	✓			✓	
8:	Copy from other docs		✓	✓	✓	✓				
9:	Mail merge		✓		✓		✓	✓		
10.	Glossaries		✓	*	✓					
11.	Tables for figures		✓	*	✓					
12:	Import spreadsheet		✓		✓	✓				
13.	Tabs for text	*	✓	✓	✓	e				
14:	Design Forms				*	*	✓		✓	
15.	Organisation charts				*	✓		✓		
								✓		
16:	Newspaper columns		✓	k		✓				
17:	Side by side columns		✓		✓	✓	>			
18.	Borders & boxes		✓		✓	✓	✓		✓	
19.	Pictures and Graphics		✓		✓	✓	*	✓	✓	X
20:	Typesetter-ready copy					✓	✓		✓	

of -THE BEST CHOICE do -POSSIBLE, BUT NOT THE BEST X -NOT SUITABLE AT ALL

Legal Decisions

IN THE COURT OF APPEAL OF NEW ZEALAND
C.A. 12/90

BETWEEN MODICK R C LIMITED (formerly R C DIMOCK LIMITED
Appellant
(Lessor)

AND PETER JAMES MAHONEY
First Respondent
(Arbitrator)

AND GILTRAP GROUP HOLDINGS LIMITED
Second Respondent
(Lessee)

Coram: Cooke P.
Hardie Boys J.
Gault J.

Hearing: 23 & 24 May 1991

Counsel: R J Craddock, Q.C. and R P Deeble for Appellant.
Joanna Holden for First Respondent (given leave to withdraw)
M P Reed for Second Respondent

Judgment: 24 June 1991

JUDGMENT OF COOKE P

The lessor in an agreement to lease dated 22 April 1982 for a term commencing on 28 May 1982 and expiring on 27 May 2003 appeals from a judgement of Sir Thomas Eichelbaum CJ, delivered on 14 December 1989, on an award by an arbitrator in the form of a special case stated dated 27 July 1989 under s.1 1 of the Arbitration Amendment Act 1938.

The lease is of premises at 103 Great North Road, Auckland,on which the lessee through a subsidiary company carries on a vehicle dealer's business. The adjacent land is owned by the lessee and the business of the Giltrap Group is carried on there, but nothing turns on this for the purposes of the appeal.

Clause 3.13 of the agreement to lease provides:

> 3.13 THE rental hereinbeforeprovided shall be the rental for the first three years of the term hereof. The rental hereunder shall be reviewed on the third anniversary of the commencement of the term and at every subsequent third anniversary thereof. The rental fixed at each review shall be such rental as is agreed upon by the Landlord and the Tenant and if they cannot agree to be determined by Arbitration in the manner herein provided but not many case to bea rental less than the rental chargeable immediately prior to such review. During the fourth, fifth and sixth years of the term hereof, the rental payable each month shall bereduced by an amount calculated on the formula b x c where:
>
> a is the amount to be refunded by the landlord to the tenant in accordance with clause 1.17 hereof reduced by the amount actually paid in terms of that clause as at the rent day concerned.
>
> b is the total value of the demised premises fixed by the valuation on which the rental for three years commencing on 20th April 1985 is established.
>
> C is the rental for the demised premises as established by the foregoing valuation.

Clause 1.17 provides:

> 1.17 NOTWITHSTANDING anything contained in Clause 1.10 hereof, the Tenant shall forthwith proceed with partial demolition and reconstruction of the building forming part of the demised premises in accordance with plans prepared by Sinclair Johns Consultants Ltd and initialled by the parties hereto for the purposes of identification. The Tenant shall as soon as possible submit detailed plans and specifications to the Landlord for approval, such approval not to be unreasonably withheld. The Tenant shall have the work completed in a good and tradesmanlike manner and in accordance with the Auckland City Council by laws and regulations. Such work shall include electrical and plumbing services, painting and decorating, and the formation and paving of the forecourt. The completed structure includingpartitioning, fencing and electrical fittings but not including carpets and drapes shall be the property of the Landlord. The Landlord agrees to refund to the Tenant the cost of such work not exceeding $200,000, payment of such refund shall be made by the Landlord to the Tenant without interest by equal monthly instalment during the fourth, fifth and sixth years of the tenancy hereby created.

Thus the improvements made by the tenant to make the premises suitable for the tenant's business were to become part of the demised premises and the property of the landlord; but the landlord was to refund their cost up to a limit of $200,000, such refund to be made by way of deduction from the rent, according to the agreed formula, during the fourth, fifth and sixth years of the tenancy. In fact the tenant's expenditure on reconstruction and modifications was $479,222. In *Jefferies v RC Dimock Ltd* [1987] 1NZLR 419 on an earlier award in the form of a special case stated, Barker J held that the rent review clause required what in the relevant line of authorities is sometimes called a "subjective" assessment by the arbitrator, by which is meant an assessment taking into account all the considerations that would have affected the minds of the parties if they had been negotiating the rent themselves. The authorities indicate that in some cases a figure so assessed will notbe the same as a market rent. That, however, is not necessarily the case; I shall return to this point.

Applying that approach, Barker J held that the arbitrator should have taken into account in fixing the rent for the second three-year term the fact that the tenant had spent $279,222 on improvements for which it was to receive no reimbursement. Without a deduction on that head the rent had been assessed by the arbitrator as $189,400. The arbitrator had arrived at an alternative figure of $162,900 if the tenant's extra expenditure ought to be taken into account. The parties agreed that the two assessments correctly represented the alternative possibilities. Barker J held accordingly that the rent should be the $162,900.

On the second rent review (for the period from 28 May 1988 to 27 May 1991) the valuers from whom the arbitrator heard evidence agreed a market rental assessment for the leased premises at $353,700 per annum and an adjustment for the tenant's improvements in accordance with the judgment of Barker J reducing that figure to $308,500 (exclusive of G ST). Paragraph 1.7 of the award states:

> 1.7 In advising the rental figure of $308,500 the valuers also stated to me their assessment and agreement as 0

to the above mentioned rental figures did not have regard to the particular business operation on the premises, but rather, to the premises, that is the land and buildings, by comparison with other known lease rentals.

The arbitrator heard evidence, however, from a representative of the tenant that the tenant's business on the premises was operating at a loss, though abreakeven result was forecast for the 1989 March quarter and thereafter the same or slightly improved results were forecast. The landlord contended that this lack of profitability of the tenant's business should not be taken into account; the tenant contended that it should; the arbitrator fixed the rent at the $308,500, thereby apparently adopting the landlord's contention, but stated the following questions for the Court:

(i) In fixing the rental on a rent review under the lease between the First and Second Respondent must any regard be had to the profitability or otherwise of the actual business conducted on the leased premises?
(ii) If so, to what extent?
(iii) Is the financial situation of the actual lessee relevant?
(iv) If so, to what extent?
(v) Does my award correctly state the rental to be paid for the leased premises for the period 28 May 1988 to 27 May 1991?

In paragraph 5.3 of his award he said:

In the event that my award is wrong as a matter of law and the financial circumstances of the lessee and/or the proprietor of the business on the leased premises are relevant to the rental assessment, I am unable to make an alternative award on that basis on the nature of the evidence put before me and I request a further arbitration hearing to establish these facts.

The essence of judgment of the Chief Justice was that the so-called subjective approach was appropriate and that the profitability or unprofitability of the tenant's business would be relevant if reasonable persons in the shoes of the parties would have taken it into account. It was for the arbitrator to determine whether or not they would have done so and, if Yes, with what effect on the agreed rent. Accordingly the Chief Justice answered the questions as follows:

(i) The arbitrator should have approached the arbitration by determining what would be a reasonable rent for the parties to agree to in all the circumstances, taking into account all considerations existng at the review date pertinent to the demisedpremises and the relationship of landlord and tenant, that would have affected the minds of reasonable persons in their position had they been negotiating the rent themselves.
(ii) To the extent that the arbitrator considers appropriate, having regard to the answer under (i) and the evidence before him.
(iii) As under (i).
(iv) As under (ii).

Question (v) asked whether the Award correctly stated the rental for the review period. It is evident that the Arbitrator did not approach the fixation of the rent on the basis set out in this judgment. He first determined the rent on an open market basis, then deducted an allowance for the tenant's improvements. In the circumstances I have to answer question (v) by saying that the Award did not fix the rental on the appropriate principles. However, that is not to say that the arithmetical answer was wrong. Nor of course am I saying that it was right. The result is entirely a matter for the arbitrator, to whom I now remit the award for reconsideration.

Although the expressions `objective' and 'subjective' have occasionally been used in contrasting two kinds of rent review clause (see for example *Ponsford v HMSAerosolsLtd* [1979] A.C. 63,85 per Lord Keith; *Lear v Blizzard* [1983] 2A11 E.R. 662,668 per Tudor Evans J.) I think with respect that they are not truly helpful. The wider approach, whereby the arbitrator has the task of determining what reasonable parties would have agreed, itself poses an objective test of reasonableness. The real question in such cases as *Ponsford* has been whether the review clause is worded in such a way that, even if reasonable parties would have agreed on a deduction to reflect tenant's improvements, the arbitrator cannot take that into account. In *Ponsford,* the majority of the House of Lords attributed that inhibiting effect to a clause requiring an assessment of 'a reasoanble rent for the demised premises'. They held that a reasonable rent was the market rent. The minority view is embodied in this passage in the speech of Lord Wilberforce at 75:

My Lords, clear words may sometimes force the courts into solutions which are unjust and in such cases the court cannot rewri te the contract. This is not such as case: in my opinion logic and justice point in the same, not opposite directions. I cannot attribute any other meaning to `reasonable rent' in this context than one which takes into acount (or disregards) what any lessor, any lessee, or any surveyor would consider it reasonable to take into account (or disregard). In this case the surveyor should disregard any effect on rent of improvments carried out (viz. paid for) by the lessee.

In the present case the relevant wording of the review clause is perfectly general '... such rental as is agreed upon by the Landlord and Tenant and if they cannot agree to be determined by Arbitration... ' - and there is no basis for suggesting that, if satsified that reasonable persons in the shoes of the parties would have taken a certain factor into account in arriving at an agreed figure, the arbitrator should nevertheless ignore that factor. Inevitably it follows, as the Chief Justice held, that the arbitrator should have taken the tenant's trading results into account if he found (the question being for him) that a reasonable landlord and a reasonable tenant would have done so in their negotiations. The arbitrator does not appear to have addressed himself to that question. Accordingly the award was rightly remitted to him for reconsideration.

It may well be that the question did not come into focus before the arbitrator because of the ways in which the parties represented their cases before him, each arguing for an extreme position. From the transcript of the arbitration hearing annexed to the case stated, it is not clear precisely what reason the tenant was putting forward for treating the trading results as relevant. The impression could have been created, perhaps unintentionally, that the tenant was claiming a deduction on aground akin to hardship or because of some peculiarity of its own financial affairs. That would not be right. On the landord's side great weight was placed on the agreement of the valuers on a market rental, but there are passages in the transcript suggesting that the valuers had disregarded recent changes in the car industry, although it is common ground that the lease must be seen as effectively restricting the use of the premises to motor vehicle dealing. Moreover, although there is much reference in the transcript to rents in the market, it appears that no freely negotiated rentals for new leases of premises for motor vehicles dealing were available for comparison, but only figures from other rent revews. Such reviews would be governed by the particular clauses under which they were under-

taken. To mention only one hypothetical example, there might be a ratchet clause. At all events they would not necessarily be truly comparable transactions.

A clause of the kind found in the present case, under which the inquiry is as to the rent that would be agreed between reasonable parties, embodies the same idea as and is indeed a manifestation of the familiar willing vendor-willing purchaser test. The question is what figure would notionally be agreed upon by the parties, acting freely and adequately informed. Figures fixed by arbitration or rent reviews as between captive parties are not necessarily a reliable guide, since they do not represent the unfettered play of market forces, but rather the arbitrator's assessment (assuming that he has applied himself to the task correctly) of what market forces should produce. It is only a freely negotiated rent on a new letting that can confidently be taken to be truly comparable, provided of course that there are also sufficient similarities in site and otherwise.

The recorded evidence appears to contain nothing to show that the valuers were satisfied that there was enough contemporary evidence to enable a market rent for the demised premises to be assessed confidently without any regard to the trading results of the business that had in fact been carried on there. On the contrary they may have thought that they had to make do with such alleged comparable transaction evidence as there was, however inconclusive, and eschew any consideration of profitability.

So called `market' rents arrived at on a basis which put the premises beyond the economic reach of reasonable tenants would of course, not be true market rents. I am not saying that such is the case here, only that the matter requires consideration by the arbitrator. In the present economic climate the point may be of some general importance.

The instant lease does not stipulate a market rent; but, apart from the issue as to tenant's improvements, it may well be that there is no practical distinction between such a rent and that which would be agreed between reasonable parties. The arbitrator could take the view that a reasonable landlord would require and a reasonable tenant would pay a rent commensurate with the optimum use of the premises for a motor vehicle dealing business. In theory that would be a market rent. The tenant would not be entitled to a lower rent if, for instance, it had organised its business in an unprofitable way or accepted an unfavourable franchise. Still less could the tenant pray in aid any financial circumstances peculiar to itself. The question must be what rent should fairly be paid for the premises during the relevant period by a reasonable motor vehicle dealer. Presumably a reasonable motor vehicle dealer would give prominent regard to potential profitability.

It is conceivable that there is enough evidence of truly comparable transactions to enable the proper rent to be arrived at with sufficient confiden ce without any consideration of the tenant's accounts. If so, it would be proper for the arbitrator to find that reasonableparties would go no further. But, in the light of the evidence and the questions asked by the arbitrator of the Court, I think that the tenant is entitled to an opportunity of contending before the arbitrator that this case is not in that category.

Even where rent is expressly required to be fixed on an open market basis, evidence of the trading results that have been or can be achieved in the particular premises is relevant unless there is enough other evidence to establish the figure satisfactorily. See, for example, the cases in the English Court of Appeal, *Harewood HotelsLtd vHarris* [1958] 1 All E.R. 104 *and WJBarton vLongAcreSecuritiesLtd* [1982] 1 All E.R. 465.

Mr Craddock, for the landlord, stressed the complications which will follow if the accounts of tenants and discovery of them become generally necessary in rental arbitrations. Each case must turn on its own facts and there certainly should be no general pratice of requiring accounts. But in cases where there is real doubt as to whether a fair economic rent can otherwise be ascertained, such accounts are likely to be relevant. It will be for the arbitrator to decide whether or not this is one of those cases.

It should be added that, although before the Chief Justice it was accepted that on the question of a deduction for tenant's improvements the judgment of Barker J gave ri se to an issue estoppel, in this Court Mr Craddock sought to re-open that issue on the authority of the decision of the House of Lords in *Arnold v National Westminster Bank Plc* (25 April 1991). The point was not even included in the appellant's points on appeal and should not be entertained at this late stage.

I record that it is accepted between the parties that the Chief Justice's order as to costs does not affect the arbitrator's award as to the costs of the arbitration down to the filing of the case stated.

For the foregoing reasons I would dismiss the appeal. In this Court the second respondent should have against the appellant an order for costs in the sum of $3000. The Court being unanimous, there will be order accordingly.

Solcitors:
Gaze Burt, Auckland, for Appellant
Kendal Sturm & Foote, Auckland for First Respondent
McElroy Milne, Auckland, for Second Respondent.

JUDGMENT OF HARDIE BOYS J

For the reasons given in the President's judgment, I agree that this appeal should be dismissed, and that the issue determined by Barker J following the first rental review should not be reopened. I wish to add only some brief observations.

Rental review clauses were designed to protect a lessor under a long term lease against increases in the value of property or decreases in the value of money. A ratchet provision guarded against any aberration. There was an underlying assumption that the lessee would be able and willing to pay the increase needed to bring the rent up to date; or that if he were not, someone else could and would.

The economic downturn in recent years tends to negate the purpose of such clauses and focuses attention, in a way probably not previously necessary, on the factors to be taken into account on a review, lest the assumption be invalidated too. In particular, it shows that historical data is inadequate. Without modification from contemporary material, traditional material such as existing rents can lead only to artificially high rents, failed businesses and empty premises.

A number of cases decided in England in recent years have demonstrated the various drafting techniques employed in statutes as well as leases to fulfil the original purpose of rent reviews. These are of two general kinds. One calls for the assessment of a market rent, what the hypothetical willing lessee would pay to the hypothetical willing lessor for the particular premises. An example is W J *Barton Ltd v Long Acre Securities Ltd* [1982] 1 All ER 465. The other, of which the present case affords an example directs attention to what the particular parties, acting reasonably, would agree as the proper sum in the current circumstances. Such a case is *Thomas Bates & Son Ltd v Wyndham'sLingerieLtd* [1981] 1 All ER 1077. Describing the former as an objective approach and the latter as subjective confuses rather than clarifies, for the

second is objective too. To the extent that there is any difference between them, it is in the considerations that maybe relevant to the determination that is to be made. It may well be that there is, or ought to be, no difference in result between the two approaches. For it is clear that neither party is to be advantaged or disadvantaged by the fact that the review occurs during the term of the lease: it proceeds on the basis that a new lease is being negotiated at that time. And reasonable parties would expect to pay and receive the going rate. The difference has emerged most sharply over whether the lessee is to pay rent for improvements he has effected himself; and here at least the difference may be real rather than merely apparent. The leading case in which he has been required to do so, *Ponsford v HMS Aerosols Ltd* [197812 All ER 337, turned to a large degree, however, on the fact that what was to be fixed was the reasonable rent "for the demised premises", an expression which clearly indicated the improvements. Even so, the decision has been seen as unsatisfactory, and the English Courts have adopted the reasoning in the minority judgements ofLord Wilberforce andLord Salmon wherever the wording of the clause in question has enabled the case to be distinguished. And of course in each case it is a matter of construing the particular wording in question.

The present case does not call for a discussion of what material is relevant for the purposes of leases that require a market rent to be determined. The only issue is the relevance of the lessee's profitability where the lease is of the second kind I have noted.To adapt what Lord Salmon said in *Ponsford* at p 844, the arbitrator cannot make his assessment in blinkers or in a vacuum. The profitability of a business for which the site is suitable, and even more the profitability of a business of the only kind that is able to be carried out on the site, may well have a bearing on the value of the property and the rental to be obtained from it. The valuer or arbitrator is unlikely to be an accountant or an expert in business management, and so is likely to look to true, ie. contemporary, market rentals of real comparability as a better guide than the lessee's own accounts, for they may reflect factors peculiar to the business rather than factors relevant to the rental value of the property. But in so far as they bear on the latter, they will be relevant.

The relevance of evidence as to profitability must necessarily be limited. The important distinction is between evidence that is related to the rental value of the property as between lessor and lessee on the one hand, and evidence as to the ability or the willingness or reluctance of the lessee to pay a particular rent on the other. A recent judgement of MillettJ *inARCLtd v Schofield* [1990]38 EG 113, is helpful in this respect. Evidence of the latter kind is generally irrelevant, for the underlying assumption to which I have referred must remain. It was subject to this distinction that evidence of the tenant's financial results was admitted in *Harewood Hotels Ltd vHarris* [1958] 1 All ER 104. I do not accept MrCraddock's submission that the case is authority only in a situation where there is no other evidence of value, although as I have said where there is such other evidence the tenant's profitability may carry little if any weight.

However the ability of the lessee to pay may be relevant where the lease restricts the business that he may carry on in the property. Thatparticularbusiness may be depressed, either generally or in the particular area, so that a reasonable lessee would be unwilling to pay the rent that may have been appropriate in more prosperous times. Such a consideration must berelevant to the rent-fixing exercise. See the judgement of Robert Goff J in *Duvan Estates Ltd v Rossett Sunshine Savouries Ltd* (1982) 261 Estates Gazette 367.

Thus it cannot be said in the present case that the profitability of the lessee is necessarily irrelevant to the decision which the arbitrator was required to make. The ChiefJustice was therefore right to answer the questions in the case stated in a manner that enabled the arbitrator in approaching the task set him by the terms of the lease, to have regard to the lessee's profitability to the extent that he thought appropriate.

Solicitors

Gaze Burt, Auckland, for appellant

Kendall Sturm & Foote, Auckland, for first respondent

McElroy Milne, Auckland, for second respondent.

JUDGMENT OF GAULT J

For the reasons set out in the judgment of the President, I agree that the appeal should be dismissed.

The correct interpretation of the rent review Clause 3.13 of the lease was determined by Barker J following the decision in *Thomas Bates & Son Limited v Wyndham's (Lingerie) Limited* [19811 1 All ER 1077. That is encapsulated in the judgment of Buckley L J (p1088).

> In my judgment, in default of agreement between the parties, the arbitrator would have to assess what rent it would have been reasonable for these landlords and these tenants to have agreed under this lease having regard to all the circumstances relevant to any negotiations between them of a new rent from the review date.

Mr Craddock for the lessor accepted that approach before the Chief Justice and cannot now resile from it.

In my view once Mr Craddock acknowledged, as he was obliged to do in the face of such cases as *Harewood Hotels Limited vHarris* [1958] 1 All ER 104, that in certain circumstances and for limited purposes the accounts of trading of the business conducted in the premises can be relevant (as where there is no, or inadequate, evidence of truly comparable rents), he must accept that it is for the arbitrator to determine whether in this case such accounts are relevant.

It is for the arbitrator to determine also whether particular evidence of accounts is helpful. It is to be emphasised, however, that the relevance of such accounts is not to establish what the lessee can afford to pay, but to bear upon what would be a reasonable rent over the period for which the rent is to be fixed in all the circumstances and in light of the use restriction in the lease.

With the assistance of the valuers who gave evidence, the arbitrator arrived at a "market rental" for the premises and then adjusted that to take account of the lessee's improvements in accordance with the judgment of Barker J. It is unclear from the evidence what factors were, and were not, taken into account in assessing that market rental. The Chief Justice appears to have assumed that consideration had been given to relevant general commercial and economic factors. He said;

> Thus the issue (in contention) does not concern any question of the state of the country's economy as a whole. Nor does it relate to any downturn in the motor industry in general. These considerations would necessarily be in the mind of any parties negotiating a review of rent, and would properly be taken into account in assessing the rental on an open market or objective basis. The same applies to any suggestion of a localised state of business depression. Likewise, if the tenant wished to suggest that the particular location had become less attractive,

for example by reason of a street closure, or the institution of a one way traffic system. Needless to say evidence pointing to opposite trends in any of the respects mentioned would equally be relevant.

Passages in the evidence leave doubt as to the extent to which such matters were taken into consideration by the valuers or were reflected in comparative rentals they relied on. The doubt therefore extends to whether they arrived at a true market rental. In any event, though the result might well be no different, the arbitrator's task in this case is to fix the rental that would be reasonable for this lessor and this lessee having regard to all the circumstances.

I agree with the observations of Hardie Boys J that the approach to rental valuations such as this which has prevailed in the past with major emphasis on comparative rentals must be followed with care to ensure that the comparisons continue to be valid in changing conditions.

Solicitors:
Gaze Burt, Auckland, for Appellant
Kendall Sturm & Foote, Auckland, for First Respondent
McElroy Milne, Auckland, for Second Respondent

The High Courtdecision was reported in the June 1990 issue of the New Zealand Valuers' Journal.

IN THE HIGH COURT OF NEW ZEALAND
CHRISTCHURCH REGISTRY
NO. CP118/89

BETWEEN BURNETT TRANSPORT LIMITED
Plaintiff

AND LAWRENCE JOHN DAVIDSON
First Defendant

AND GARY ROBERT FAIL & JANET ALICE WALKER
Second Defendants

Hearing: 6 September 1990
Counsel: G M Brodie for Plaintiff
S Hembrow for First Defendant
D I Jones for Second Defendants
J men •21 Sept 1990

JUDGMENT OF HOLLAND J

These proceedings are brought by the plaintiff seeking, pursuant to s. 12 of the Arbitration Act 1908, or to the inherent jurisdiction of the Court, an order setting aside an award.

Until the introduction of the new High Court Rules such an application would have been brought to the Court by way of notice of motion and heard on affidavit evidence subject to the right of an opponent to cross-examine deponents.

The new Rules require the proceedings to be brought by way of notice of proceeding with statement of claim and statement of defence. Rule 496 of the High Court Rules requires evidence to be given orally except where otherwise directed by the Court. Applications of this kind under the Arbitration Act are not included in the types of proceedings for which special procedure is prescribed under Part IV of the Rules. I think that this exclusion is a pity. In most cases such applications will be dealt with more expeditiously and satisfactorily on affidavit.

The plaintiff did not apply to the Court under Rule 449(d) for directions that Part IV should apply. Had it done so, an order would probably have been made directing that service on the first defendant, the maker of the award, was unnecessary, as well as orders for the evidence to be given by affidavit. If the proceedings had been brought in the Auckland Registry with an application for them to be brought under the umbrella of the Commercial List such orders would undoubtedly have been made. Such forms of procedure should not be restricted solely to those dealt with in that Registry, or indeed, be limited only to arbitrations which have a "commercial lfavour".

I mention this because there was some evidence of inconvenience to a possible witness, who was overseas at the date of hearing. Although in the end that person was not called as a witness, he could have given evidence by affidavit if the Rules so provided.

Further, when the case was called I asked counsel for the first defendant what part he was to take and why he could not leave the matter to be resolved between the parties. the reply was that the plaintiff soughtrelief against the first defendant by way of costs. This claim for costs was immediately abandoned by the plaintiff and counsel for the first defendant was granted leave to withdraw.

There is no allegation as to the integrity or honesty of the first defendant raised in the proceedings and it is unfortunate that costs have been incurred by his being named as a party.

The grounds relied on by the plaintiff to have the award set aside are misconduct of the proceedings and error of law shown on the face of the award.

The foundation of the first defendant's jurisdiction as an arbitrator or umpire is a provision in amemorandum of lease dated 15 February 1985, of business premises in Ashburton owned by the second defendants and leased to the plaintiff. Clause 1.19 of that Memorandum of Lease provides:

The rental payable hereunder shall be reviewed once every three years during the term of the lease to such rental as shall be mutually agreed upon between the lessor and the lessee and failing such agreement aforesaid then at a rental to be determined by Arbitration in accordance with the provisions contained herein provided however that the rental as determined shall not be less than the rental payable in respect of the preceding three-year period.

The lease was for a term of 12 years from 15 February 1985 with rights of renewal for three further terms of six years each.

The original rental was $42,000 per annum. The arbitration provisions contained in the lease are contained in Clause 3.09 (1) of the Memorandum of Lease, as follows:

Every reference to arbitration contained in this lease shall be deemed to be a reference to the arbitration of a single arbitrator in case the parties can agree upon one, and otherwise to two arbitrators or to their umpire in case of disagreement (one of the arbitrators to be appointed by each party in dispute) and in either case in accordance in all respects with the provisions in that behalf contained in the Arbitration Act 1908 or any statutory modification or re-enactment thereof for the time being in force.

There are ancillary powers given to arbitrators in sub-paragraphs (2) and (3) but they have no bearing on the issues arising in these proceedings.

The evidence as to the arbitration was brief indeed. It consisted solely of the oral testimony of Mr Thomas, a real estate agent engaged by the plaintiff and the production of some relevant documents.

Paragraphs 6,7 and 8 of the amended statement of claim were admitted in the statement of defence. They are as follows:

6. THAT the plaintiff and the second defendants were unable to agree on the rental to be paid for the period of three years commencing on the 15th day of February 1988, and pursuant to clause 3.09 (1) of the lease the issue was then referred to the arbitration of COLIN MALCOLM MCLEOD of Ashburton, Valuer (appointed by the second defendants) and RUPERT TREVOR THOMAS of Christchurc, Valuer (appointed by the plaints as arbitrators and the first defendant as umpire.

7. THAT the arbitrators were unable to agree on the rental for the premises, and the issue was then determined the by first defendant as umpire.

8. THAT by his award dated the 16th day of January 1989 the first defendant determined that the annual rental for the premises for the period of three years commencing on the 15th day of February 1988 should be $89,900 per annum exclusive of Goods and Services Tax.

Mr Thomas said that he and Mr McLeod were each appointed by the plaintiff and second defendant respectively and that the first defendant was appointed by them as umpire. He produced what he described in response to a leading question of counsel for the plaintiff as an agreement to submit to arbitration. It is as follows:

APPOINTMENT OF UMPIRE
IN THE MATTER of memorandum of lease dated 15th February 1985.
BETWEEN
GARY ROBERT FAIL & JANET ALICE WALKER
Lessor
AND
BURNETT TRANSPORT LIMITED
Lessee

In the Matter of the Valuation to be made in accordance with and under the provisions of the said Memorandum of Lease to ascertain the fair annual rental of the Premises, and Land comer Dobson East & South Streets Ashburton demised thereby for the new term of three (3) years from the 15th day of February 1988 mentioned in the said Lease to commence from the expiration of the term created by the said Lease.

We, the Undersigned COLIN MALCOM MCLEOD, Registered Valuer of Ashburton, and RUPERT TREVOR THOMAS, Real estate Agentrespectively appointedbytheabove-mentioned lessor and Lessee in respect of the above mentioned valuation, do hereby appoint LAWRENCE JOHN DAVIDSON of Christchurch, the Umpire in accordance with the provisions containedin the said Memorandum of Lease.

SIGNED this 3rd day of August 1988

C. M. McLeod

Rupert T Thomas

I accept this apppointment and agree to act
L J Davidson

There was then produced what was described as the written submissions of Mr Thomas and Mr McLeod each addressed to the first defendant and dated 17 August 1988 and26October 1988 respectively. There was an informal meeting held by the first defendant with Messrs Thomas and McLeod on an unspecified date some weeks after the submissions were presented but there was no evidence of anything of significance occurring at that meeting.

On 16 January 1989 the first defendant made his award determining that the annual rental for the three-year period from 15 February 1988 should be $89,900 plus goods and services tax.

Originally I had some doubts as to whether there had been an arbitration at all. I infer that once the plaintiff and the second defendants appreciated that a rent review was necessary the plaintiff instructed Mr Thomas and the defendants instructed Mr McLeod, a Registered Valuer, and henceforth matters were left to them. Mr Thomas and Mr McLeod separately made assessments resulting in different rentals in respect of which they were unable to agree. They appointed the first defendant to be their umpire. They each prepared submissions in writing separately to the firstdefendant. Although the first defendant held a meeting with Messrs Thomas and McLeod together, nothing of a material nature wasdiscussed at that meeting. In particular neither Mr Thomas nor Mr McLeod sought, or were shown, the valuations or submissions of the other. The first defendant thereupon made his own valuation which he subsequently released as an award.

Had this matter been free from authority I might well have been persuaded that what transpired was not an arbitration at all, but no more than an agreement by the plaintiff and the second defendants that each would appoint a valuer and in the event of their not agreeing the valuers should appoint another valuer to make a final and binding assessment of the rental. That, notwithstanding the admitted allegation in the statement of claim that there was a reference to arbitration.

However, the matter is not free from authority. in *Steele v Evans* (No 2) (1949) N.Z.L.R. 548, O'Leary CJ, in the Court of Appeal, in somewhat similar circumstances said at p556:

In my opinion, the valuation was a *submission to arbitration cl. 2 of the agreement says so and this, I think disposes of the argument that it was not really a submission but a valuation, and, being the latter, the finding could not be disturbed. I think it was a submission with an award.*

The other two Judges treated the matter before them as an award in an arbitration.

A decision more driectly in point is that of Reed J in *Hamill v Wellington Diocesan Board of Trustees* (1927) G.LR 197, confirmed by the Court of Appeal in *Hunt v Wilson* (1978) 2 NZ.L.R.1 261. Reed J in *Hamill's* case said at p 199:

The first and main *question to be decided is whether the clause in the deed of lease, providing for the method to be adopted in assessing the rent for the second term of 21 years, constituted a submission to arbitration within the meaning of the Arbitration Act, 1908. Prior to the Arbitration Act, 1906, this question would* have *been of some importance; the English authorities, which were followed in New Zealand, making a very clear distinction between an agreement for a valuation and a submission to arbitration. The intention of the parties had to be gathered from the terms of the contract. Was it evident that the intention was that the valuer should, without taking evidence or hearing argument, make his valuation according to his own skill, knowledge and experience? If so, then that intention had to be given effect to, and a formal arbitration was negatived. On the other hand, i f the contract disclosed that the parties contemplated a difference or dispute, either existing or prospective, the inference* was *that it was their intention that it should be determined in* a quasi-judicial manner; 1 Halsbury *440. By the Arbitration Act, 1906, repeated in the consolidating Act of 1908, this distinction was done away with in New Zealand, it being provided*

that a submission to arbitration included:

`A written agreement... under which *any question or matter is to be decided by one or more persons named in the agreement.'*

Reed J went on at p 200 to say:

The law in this respect has not been altered by the Arbitration Act-arbitrators must act judicially.In my opinion, an arbitrator, before making an award, must give the partiesan opportunity of being heard and of calling any witnesses they desire in support of their claim. Certain affidavits were filed, in which it was stated that it was not the custom or usage in the Masterton district, in valuations of the nature of that required in the present case, to hear the parties or take evidence. Convincing proof of a well-known and established custom or usage *might be an answer. It was said by Erie J in* Oswald v Earl Grey *(24 L.J., Q.B., 69, 72):*

I can understand that there might be a reference between an *incoming and outgoing tenant, where an inspection of the farm itself would afford every information necessary. In such a case it might be, if the usage were so, that the referees need not give notice of their meetings to the parties or have their attendance, but might make their award on a view of the farm.'*

The evidence in the present case, however, contained in the affidavits mentioned, is quite insufficient to warrant finding that there is any such established usage or custom.

In the present case before me there is no evidence of usage or custom.

It follows that I am bound to hold that the first defendant was conducting an arbitration as umpire and that what he has produced is an award.

I have set out this aspect of the matter at some length because I am suspicious that what occurred here is not uncommon when rent reviews are conducted. I was surprised that neither party soughtto make anything of the fact that the first defendant received submissions from each of the valuers separately and neither was told what the content of the submissions of the opposing party or valuer were.

In the normal course of events it is misconduct to take evidence in the absence of one party or to take instructions from one party in the absence of the other or to fail to give a party the opportunity of considering the other party's evidence *(Halsbury'sLaw of England* 4th Edition, Vol. 2 para 622). Certainly such apparent misconduct can be waived but clear evidence of such waiver would be required. The only evidence of waiver in this case may be that in these proceedings the plaintiff does not rely on such matters in seeking to set aside the award.

The only issues raised by the plaintiff are an alleged error of law on the face of the award and an allegation that the valuer appointed by the second defendants acted improperly in contending before the first defendant for a higher rental than the rental he had originally proposed before an umpire was appointed.

In its amended statement of claim the plaintiff alleges that the umpire in making his award made an error of law shown on the face of the award; *in that the award stated that prevailing economic conditions were irrelevant to the fixing of the rental for the premises and that if the rental as fixed was excessive then it was for the plaintiff and the second defendants to agree on a lower rental.*

That allegation arose from a passage in the award as follows:

1. The rental to be fixed can only be determined from comparable rental information and cannot consider the viability of the tenant. Ifoutsidefactors, such as economic downturn cause the rental to be excessive a lower rental must be agreed between Lessor and Lessee-It is outside the authority of my appointment to allow for such variations.

The award then goes on:

2. Mr Thomas contended that the rental should be based on a market value of $353,000 being capitalised at 12% resulting in a rental of $46,600 plus GST. this appears to be a reverse calculation with the capitalised marketvalue resulting in the market rental, instead of the capitalised market rental resulting in the market value.,

3. Comparable sales and rental informationfromAshburton and outside areas have been used in the submissions. My research shows *that information from outside Ashburton distorts values and cannot be used directly for comparative purposes.*

4. Mr McLeod has provided comparable rentals from a number of properties on which he has based his calculations. Generally I agree with the rentals employedin these calculations, but have made some adjustments in arriving at my decision.

By considering the above factors relating to the submission and considering evidence provided in the submissions it was possible to obtain a clear direction in concluding this Arbitration.'

AWARD

I made this award as follows:

That the annual market rental for a three (3) year period should be:

EIGHTY NINE THOUSAND NINE HUNDRED DOLLARS ($89,900.00) plus GST.

There has been presented before me, with the consent of both parties, the submissions of each valuer or arbitrator to the first defendant.

They are presented on a totally different basis. Mr Thomas describes the property, refers to existing rates and rental and says that the factors which he has taken into consideration are (1) the economic state of the country, (2) the desire not to put at risk the ability of the lessee to pay, (3) the need for the lessor to receive a safe and reasonable return on his capital outlay and (4) to decide the capital value of the property and assess an acceptable return thereon.

It appears that he considered that a reasonable return would be between 10% and 11% on capital outlay, valued the property at no more than $383,000 and assessed at a maximum return of 12% thereon a reasonable rental of $46,000 plus GST or $51,260 including GST.

Mr McLeod on the other hand concentrated his submissions on a breakdown of the lettable areas in the property, gave comparable rentals for what he described as similar lettable areas in and around Ashburton, fixed appropriate rentals for each categorised lettable area in the property based on the comparable rental figures, reached a total of $106,912, deducted 10% for volume and assessed a total rental for the property of $96,220.80 per annum excluding insurance, rates and GST.

Great care must be taken not to treat these proceedings as if they were an appeal from the decision of the umpire. The parties have chose to have the rental fixed by arbitration and are so bound. The Court can only interfere if misconduct is established or the umpire has made an error of law apparent on the fact of the award on a question of law which was not expressly or impliedly referred to him. It has been necessary to set out the basis of the contending submissions in order to understand the legal issues. The temptation to

indicate the Court's views as to the merits of the contentions must be resisted.

It was entirely for the umpire to decide what weight he gave to the various factors raised by Mr Thomas on the one hand and Mr McLeod on the other. However, it appear to me from reading the award that the umpire has not taken into account any matter relating to what he describes as the economic downturn, the economic viability of the tenant, and other outside factors, on the grounds that such matters could not properly be considered by him. The decision to exclude evidence must be a matter of law. It may well have been a matter of fact if the umpire had considered the factors and rejected them as being of insufficient weight to affect other factors relied on by him in assessing the rental. He does not appear to have done that. In effect he has ruled that these factors are irrelevant to his enquiry.

The manner in which rental is to be calculated on a review pursuant to a clause of the nature contained in this lease is relatively clear. It was settled by the Court of Appeal in England in *Thomas Bates & Son Ltd v Wyndham's (Lingerie) Ltd* (1981) 1 All ER 1077, as stated in the headnote as follows:

> *Since the rent review clause referred to such rent 'as shall* have *been agreed' between the parties, and not to the rent agreed for the demised premises', the rent to be agreed under the clause or to be fixed by the arbitrator in default of agreement was to be the rent which it would be reasonable for the particular parties to agree having regard to all the circumstances (such as tenant's expenditure on improvements) which were relevant to their negotiations for new rent, and was not to be a rent assessed objectively on the basis of the market rent at which the premises might reasonably be expected to be let.*

That has been applied in New Zealand in *Jefferies v RC Dimock Ltd* (1987) 1 NZ.L.R. 419, in *Feltex v JBL Consolidated Ltd* (1988) 1 NZLR 668, and in *Mahoney v Modick RC Limited and Giltrap Holdings Ltd* (unreported Auckland Registry CL65/89 Judgment 14 December 1989 Eichelbaum CJ).

In some cases it has been suggested that the rental must be assessed subjectively determining what would be a fair rent for the parties to agree in all the circumstances taking into account all the considerations which would have affected the minds of the parties if they had been negotiating the rent themselves. For myself, I should have thought that the law would be clearer and more accurately stated if the word "subjectively" had been left out. As Eichelbaum CJ said in *Mahoney's* case:

> *Notwithstanding that the approach is described as subjective the factors which may permissably be taken into account are limited to those which a reasonable person would regard as bearing on the rental of the subject premises as between the particular parties.*

In that regard, the financial circumstances of the respective parties generally must be irrelevant. Where, however, as in this case, the parties have entered into a long term lease with rent reviews and renewal rights it may be proper to give some consideration to the desire of the lessor for the lessee to continue in occupation at least to the extent of considering the possible loss of rent and cost of obtaining a new lessee in the event of the lessee being forced to surrender its lease.

Quite clearly general economic conditions must be relevant as also would be the economic condition of a particular industry in the building was peculiarly designed for that particular industry. Obviously, however, there must be some limitation and I again adopt what Eichelbaum CJ said in describing that limitation as:

> *It is that the factors which may be taken into account are limited to those having a connection with the demised premises, or (although generally this will be no different or wider) the relationship of landlord and tenant.*

It follows that an error of law on the face of the award has been established in the decision of the umpire that he could not consider what he described as economic downturn both generally and in relation to the motor industry and the viability of the tenant in so far as a rental might cause the tenant to surrender the lease or not review it and cause loss to the lessor.

I am satisfied that in the circumstances these errors amounted to misconduct of the proceedings. Although it was submitted that the award should be remitted back to the first defendant for reconsideration in the light of this judgment I do not consider that it would be just to do so.

It is difficult to believe that the first defendant would be able to consider the matter afresh taking into account the new matters referred to without being much influenced by his earlier decision.

As the award is to be set aside it is unnecessary to consider the alternative arguments of the plaintiff. In short they may be summarised that subsequent to the award the plaintiff has ascertained that Mr McLeod submitted before the first defendant for a substantially higher rental than he had originally proposed to Mr Thomas as the plaintiff's valuer or arbitrator. I have not been persuaded that this was in any way misconduct. A valuer or an arbitrator is entitled to change his opinion. Clearly when he does adopt this course he may be cross-examined as to the reason why. This was not done in this case because the parties or the arbitrators had not sought to be shown or told what was being submitted to the umpire on behalf of the other party.

There is an application for further evidence to be received. The purpose of submitting this further evidence is to demonstrate that Mr McLeod's submission was factually wrong. the application was misconceived.

If the allegations were that the submission of Mr McLeod was tantamount to perjury or was given fraudulently then it may be that the further evidence is admissible on an application to set aside an award procured by perjury or fraud. No such allegation was made in the pleadings and counsel for the plaintiff did not wish to make any such allegation.

The award is set aside. Clearly the issue must be arbitrated again. I consider that a great deal of the cause for this litigation has arisen from the informality of the earlier proceedings and the actions of their parties and arbitrators in leaving the matter in the hands of the first defendant without applying to be shown the evidence or submissions of the other side.

In those circumstances, it is appropriate that the plaintiff and the second defendants should each pay their own costs. Although the first defendant has made an error of law on the face of the award, he has acted honestly and I consider he is entitled to costs in relation to these proceedings. For the reasons I have expressed earlier, he should not have been joined as a party. The first defendant is entitled to costs of $500 and disbursements to be fixed by the Registrar. Those costs are to be paid as to 2/3 by the plaintiff and 1/3 by the second defendant.

Solicitors:

Anthony Harper, Christchurch, for Plaintiff

Young Hunter, Christchurch, for First Defendant

Spencer, Walker and Kean, Ashburton by their agents, Cullens & Co, Christchurch, for Second Defendant.

IN THE HIGH COURT OF
NEW ZEALAND
ADMINISTRATIVE DIVISION
DUNEDIN REGISTRY
NO. M 89/89

BETWEEN THE VALUER GENERAL
Appellant

AND RICHARD GEORGE ALDERTON, JAN RAE ALDERTON AND OAKLAND FINANCE LIMITED
Respondent

Hearing: 20 March 1991

Counsel: Mrs M A Wallace for Appellant
D W Parker for Respondent

u em n : 14 May 1991

JUDGMENT OF HOLLAND J AND MR I W LYALL

The respondents, as owners of a commercial property situated in Beach Street Queenstown, filed in the District Court at Dunedin for hearing before the Land Valuation Tribunal an objection against the Government valuation of that property following a revalution of properties by the Valuer General as at 1 July 1987. The Tribunal gave judgment on 3 July 1989 reducing the Valuer General's valuation from $1,100,000 to $790,000.On 17 July 1989 notice of appeal by the Valuer General was filed in the High Court in Dunedin. Somehow or another the file was removed to the Wellington Registry where all appeals to the Administrative Division of the High Court should be filed. It was referred to the Chief Justice on 2 August 1990 following a praecipe filed unilaterally on 3 May 1990. He directed that the appeal be heard in Dunedin and the file was referred back to Dunedin at the end of August. It was sadly not possible to arrange a hearing in Dunedin, requiring the attendance of a Judge of the Administrative Division as well as an assessor, until 20 March 1991 when the hearing of the appeal took place.

By virtue of s.26 of the Land Valuation Proceedings Act 1948 the Crown is given a right of appeal which has been exercised by the Valuer General. Although s.26 provides that every appeal shall be by way of rehearing, the appeal was conducted by way of considering the record of evidence presented before the Land Valuation Tribunal, together with some supplementary evidence given orally on the appeal by Mr Bodger, the valuer called by the Valuer General in the earlier proceedings.

The land in question is contained in three certificates of title having a total are of 311 square metres. It is situated in the Commercial 1 zone of the plan of the relevant local authority and is in fact in what has been described as the retail core or the central business district of Queenstown. It is a slightly irregular rectangular level site having a frontage to Beach Street of 18.78 metres and a depth varying from 16.7 metres to 17.39 metres with a rear boundary of 18.76 metres. The improvements on the land consist of three separate retail shop premises with some first floor office accommodation above one of the shops.

In his evidence before the Tribunal, Mr Bodger supported the new Government Valuation of the property at $1,100,000. The improvements were valued at $65,000 with a land value of $1,035,000. Although in his evidence he referred to the fact that he used two diferent approaches in reaching the current market value, namely the investment approach and the market value approach, he also referred to what he described a a hypothetical development approach.

In considering the investment approach he found the gross rental from the property to be $75,360 and considered that an appropriate capitalisation figure was 6.6%, resulting in a capital value of $1,141,818.

In determining the market value he took two approaches, one on a unite per meter frontage approach, and one on a per square metre approach which made adjustments for depth. The first resulted in a land value of $1,080,000 and the second, which he adopted, resulted in a figure of $1,035,000.

Mr Moore for the respondent owners used the investment approach and the square metre unit approach without incorporating any adjustment for depth or frontage. He also provided a hypothetical redevelopment exercise.

Although the function of this Court on appeal is to determine whether the respondent owners have established that the government valuation is wrong, it is apparent that the real issue on appeal is the appropriate method of valuing this relatively small piece of commercial land in the retail centre of Queenstown. The Tribunal, in a considered decision, preferred the evidence of Mr Moore valuing the land at $700,000 plus $90,000 for improvements, making a total of $790,000. Mr Moore in his investment approach had assessed the gross rental as being $73,015 but with nett rental after allowing for exterior maintenance and management of $71,100. Mr Moore considered that the appropriate capitalisation figure was 9% and this resulted in a figure of approximately $790,000.

The Tribunal in its decision said at p5:

There was a considerable amount of evidence and cross examination directedto which of these two methods is appropriate and applicable to the valuation of properties situated in the retail shopping centre of Queenstown. We accept that the two methods can produce quite significantly different results. We accept that the per metre frontage basis for valuation is one commonly accepted in valuing commercial and industrial land in urban centres. We are not persuaded however, that it is an appropriate basis for valuing commercial retail premises in the Queenstown commercial area. We accept on the evidence before us that the basis most generally favoured by land valuers, real estate agents and those contemplating investment in retail land in Queenstown is the square metre area method. This preference arises from the fact that there is only a comparatively limited amount of commercial land available for retail use, and that land is subject to restrictive height and site coverage requirements. The practical consequence of these restrictions is that tall buildings are not permitted and therefore the land value of any site must be divided into fewer areas of usable building than is the case in many of the larger towns and cities throughout New Zealand. We are satisfied that the are method is the most commonly used as a basis for assessing sale and purchase prices and for fixing rentals of commercial propertiesinQueenstown.

The Tribunal went on to consider Mr Moore's extensive experience as a valuer in the Queenstown/Alexandra area for the past 12 years and criticised the Valuer General in relying on the evidence of Mr Bodger who had not carried out the actual revaluation but had recently been appointed as valuer in charge of the area. The Tribunal considered that this placed Mr Bodger in an extremely difficult position because he did not have a long experience of valuing properties in the Queenstown area and led the Tribunal to conclude:

We are therefore driven to the position

that where there is a conflict of opinion between the evidence of MrMoore and Mr Bodger we must accept the evidence of Mr Moore. He has the local experience, and the benefit of having valued this property for sale purposes in June 1987.

Late in its decision the Tribunal made some further observations with which we are not able entirely to agree. They said:

In our view there are in addition to comparable sales a number of other related matters which must be taken into account in arriving at the value for the purposes of the Act. These include the rental value of the property, the purpose for which it is bought (is it for an investment as is or redevelopment), the business acumen of the buyer, retail trendswithin the shopping area concerned, the particular zoning requirements, and the related return on investment. In so far as Mr Bodger appeared to discount such matters as irrelevant and rely upon some arbitrary measurement such *as the metre frontage, we think he is mistaken. In our view whichever measure of value is taken it must always be subject to the over-riding requirement that the valuer exercises his judgment based upon experience in and knowledge of the locality and the particular type of property. In this Mr Bodger is at something of a disadvantage.*

The decision of the Tribunal concluded with an expression of satisfaction that the method of approach and valuation of Mr Moore was correct.

Although we agree with the criticism of the Land Valuation Tribunal at the failure of the Valuer General to call as a witness the actual valuer of the property at the time of the revaluation, we nevertheless consider that the Tribunal too easily disposed of the evidence of Mr Bodger. Considering the evidence as a whole, we ar not satisfied that the situation of Queenstown, is such that principles of valuation appropriate to urban property throughout New Zealand should be totally discarded or rejected.

The Valuation of Land Act 1951 requires the Valuer General to value the land. He is not require to assess the particular value of land to the particular purchaser. Nor is he required to value the land for any particular purpose for which the purchaser may or may not have acquired the land. Quite clearly the retail trends within the shopping area concerned, the particular zoning requirements, and the relate return on investment, are material factors in valuing the land, but the purpose for which it was bought, and the business acumen of the actual buyer as distinct from buyers generally, equally clearly are not. We also think that in describing the application by Mr Bodger of the metre frontage method of valuation as being "some arbitrary measure" the Tribunal must have overlooked that the use of depth tables of this nature is an internationally employed valuation method designed to avoid arbitrariness rather than create it.

While a valuer who has personal experience and knowledge of the locality and the particular type of property may have some advantage, that advantage is rendered practically nugatory if there is no dispute as to the facts relating to the locality and the type of property to be valued. We are satisfied that the principal error made by the Tribunal in this matter was in the almost total acceptance of Mr Moore's evidence and the almost equally total rejection of that of Mr Bodger.

The Tribunal has correctly recorded the true test in its reference to *Valuer General v Manning* (1925) NZLR 701, and *Anderson v Valuer General* (1974) 1 NZLR 604, but the remarks preceding the reference to those authorities appear to show the adoption is relevant, of matters which are clearly irrelevant.

In considering Mr Moore's evidence, we think it significant that Mr Moore had only one month before the relevant valuation date on 1 June 1987 supplied a valuation of the property for the owners at $775,000 with a land value of $650,000. It is obvious that that valuation was regarded by Mr Moore as being a conservative valuation. When he was asked to value the property for the purposes of these proceedings, he valued it at $790,000 with an increase on the land value from $650,000 to $700,000 over a period of one month, yet in his opinion he stated that the market for properties of this kind in Queenstown had peaked in the preceding period of April and May. It may well be that Mr Moore was committed to continue with a relatively conservative valuation, notwithstanding the fact that he increased the valuation for no explained reason over the period of one month. Nevertheless, the real issue is whether the basis of Mr Moore's valuation of both 1 June and 1 July 1987 is sufficient to demonstrate that the Government valuation was wrong.

It was Mr Moore's strong belief that commercial land and property in Queenstown was sold and purchased on a unit area basis without any particular regard to frontage. While there is no other direct evidence of the manner in which commercial land and property is sold in Queenstown, we are unable to believe that a normal vendor and normal purchaser of land in a retail shopping area would have no regard to frontage and depth. On considering the evidence as a whole we could say that given an example of a 300 square metre property we cannot accept that a property with a 10 metre frontage and a 30 metre depth would reach as high a price as one with a 20 metre frontage and a 15 metre depth. We accordingly are of the view that Mr Bodger is basically correct in applying depth tables to establish unit frontage rates for a valuation basis and comparison in the same way as valuers do in retail areas throughout the rest of the country.

There was evidence before the Tribunal and us relating to the Somers-Cleveland Depth Table. We do not contend that this table is a matter of automatic and/or rigid application, but we are satisfied that something of this nature should be taken into account in assessing the appropriate valuation of a property.

It may well be that many real estate agents, valuers and persons contemplating investment in commercial real estate in Queenstown, and indeed in other areas, might rely principally upon a unit metre basis when calculating land value. We recognise that there are particular factors applying to the Queenstown retail area because there is a limited amount of land available, there is quite a severe height limitation on development, and there are a large number of sections of land of a depth of 30 metres with very few of a shallower depth. However, where, as in this case there are areas of commercial land of significantly shallower depth than the greater number of properties we are satisfied that value determined solely on a unit area basis would be misleading without reference to an appropriate depth table.

We earlier stated that the Somers-Cleveland Depth Table should not be automatically or rigidly applied. It may well be that the property market in both greater and smaller urban centres does not place identical emphasis on the value of land at certain depths from street frontage. Attention must be given to the views of buyers and sellers in particular areas in so far as those views may be inferred from particular sales. To that extent the Tribunal was correct in concluding that there may be special factors existing in Queenstown.

The bulk of evidence of sales produced at the hearing for comparison with the

property the subject of this appeal was of properties of 31 metres depth, no doubt for the simple reason that the greater number of properties in the central business district of Queenstown are 31 metres deep. There was one sale referred to of a property 17 metres deep but it was more than one year earlier in a time of highly rising values and was located in Athol Street, some considerable distance away. According to the evidence of Mr Moore the sale price revealed a price of $1,036 per square metre or $23,012 per metre frontage. The Tribunal regarded it as of no assistance and so do we.

On the other hand there was evidence of a sale of a property in March 1987 of only 106 square metres on the comer of Camp Street and Cow Lane for $511,000. It had a depth of only 20.12 metres but allowance must be made for its depth on one side having a frontage to Cow Lane. The land value was estimated at $360,000 showing a square metre price of $3,396 and a per metre frontage price of $69,508. Further difficulties arise in considering this property because the frontage given of 6.24 metres with a depth of 20.12 metres results in an area of approximately 125 square metres whereas Mr Moore refers to an area of 106 square metres and Mr Bodger to an area of 107 square metres.

All other sales referred to had a depth of approximately 31 metres.

The Tribunal, in adopting Mr Moore's evidence and his conclusion that the valuation assessment on a per square metre basis is the only appropriate way to carry out the valuation assessment, appears also to have adopted his view that the meter frontage basis of assessment is inappropriate "particularly as the whole commercial area was certainly not ripe for development at the time of revision"/

Certainly the total sum of valuations produced by following such market development could not be realised if more were made available to the market than were required by potential purchasers, but that situation would arise even within a residential street.

Individual property valuations could well reflect fair sale value but should a greater number be placed on the open market than can be taken up by potential purchasers, then the market price would drop significantly.

The Valuer General is bound by his Act to value the land under each property independently, on the market level at that day, as if all other properties were in their existing state as at date of valuation, and, as if there were no improvements on that land.

The respondents produced a plan of the Queenstown Central Business District indicating the property of the respondents and marking twelve recent sales. There is marked in green ink what we assume to be the metre frontage rates to all blocks of land in the nearby area with, in blue ink, the corresponding unit area total land values.

The comparisons of values between locations provides a land value variation between the Mall (Ballarat Street) and Beach Street, in which the subject property is situated, with a reduction of some 19% to the more favoured partof the latter street. We understand Bridge Street to be a "one way street" so as to have reasonably ready comparison with Ballarat Street. Other comparative land values shown on the plan do not in our view conflict with the general sales evidence placed before us which reflect the market level at July 1987.

However, from all the evidence, although there are not relevant sales of properties with depths of less than 20 metres, we believe that there was less emphasis on the front 20 metre depth of a commercial section in the Commercial Business District of Queenstown than would have been the case in the greater number of other commercial centres in New Zealand. This we believe is due to the more common section depth of 30 metres, and the fact that most of these lots have rear access by street, or, by service lane. We therefore believe that although the unit frontage rates calculated are fair and reasonable, since the sales basis was practically wholly of allotments 30 metres deep, the use of an unadjusted Somers-Cleveland Depth Table would over-value the more shallow allotments since at 20 metres depth 83% of value would accrue to the front and only 17% to the rear 10 metres.

We believe that study of the evidence of sales and of Mr Moore's local knowledge and evidence shows that it is more likely that a lesser amount of land value at July 1987 in Queenstown Commercial Business District is contained in the front 20 metres depth, more likely 75% with a balance of 25% to the rear 10 metres of the "normal" 30 metre allotment.

Both valuers made calculations for hypothetical redevelopment of the property in question. Difficulties always arise in hypothetical situations but we have some criticisms of the respective calculations.

In the first place, Mr Bodger allowed only for 160% development coverage of the site which was the limitation of the existing Town Planning Scheme. However it was evident that the limitation was about to be varied to 240% and in this respect Mr Moore was correct in assuming that a prospective purchaser and vendor would contemplate developmentcoverage of up to 240% of site.

There was a substantial conflict between the valuers as to the cost of construction of buildings. Mr Bodger contended that the Dunedin modal house rate at the relevant date was $605 per square metre, and that the Queenstown modal house rate would be approximately $650 per square metre allowing ground floor development at $750 per square metro, in line with the O'Connell Pavilion building said to have cost $713 per square metre. Mr Moore employed amuch higher ground lfoor development cost at $900 per square metre, since he indicated buildings costs to have been very high at July 1987 in Queenstown.

He referred to the development cost of $1,250 per square metre of a building occupied in ground and first floors by ANZ Bank. From evidence we believe that to be a superior building compared to a retail commercial-office type proposition. The ANZ Bank premises also includes a lift.

We accept that certain house building costs in Queenstown at July 1987 might well have been at the $820 per square metre quoted by Mr Moore as the Queenstown house modal rate, but we would have expected a more superior home than the simple modal house for that amount. We accept Mr Bodger's figures as being nearer the mark for a modal comparison.Both valuers agree that retail shop premises would cost 1.1 times basic modal house rate so there is no conflict on that point. We had from Mr Bodger, in answer to a question put to him before us his opinion that a bank building would likely have cost at multiple 1.5/1.6 above the modal house cost.

Neither valuer included the expense of a verandah to this hypothetical redevelopment, although we consider this expense might be required by the Scheme Code, or, if not, it is certainly more usual to include a verandah.

Mr Moore correctly included the costs of holding land and interest on development, although he did not allow any cost for demolition of the existing building on the land. Mr Bodger did not allow for any such costs and his hypothetical develop-

ment and subsequently analysed land value cannot be correct.

The total annual rentals resulting from the development calculations of the two valuers were considerably apart, which is not surprising given the variation in total coverages and the estimated unit construction costs. However both were in agreement that a capitalisation rate of 9% was the correct capitalisation rate at the time.

From a consideration of all the evidence, and by way of hypothetical redevelopment we have adopted the following as being appropriate for July 1987.

For Potential Rental Income.

Ground Floor	311sq.m @ 95% efficiency 296sq'.rh@ $335.00	99,160.
First Floor	248sq.m 95% efficiency 236sq.m @ $170.00	40,120
Second Floor	1S7sq.m @ 95% efficiency 178sq m @ 85.00	1 1
Site 31 lsq.m x 240%	746sq.m TOTAL POTENTIAL RENTAL.	154 410

CAPITALISE ABOVE RENTAL AT 9% $1,715,500,.

For development:

Ground Floor.	311sq.m $785.00	244,130
First Floor	248sq.m. @ $700.00	173,600
Second Floor	187sq.m@ $650:00	121,550
Verandah	45sq.m @ $400.00	18.000
	TOTAL CONSTRUCTION COST	557.28 0

Add/Cost Holding Land $945,000 @ 18% for 12 months	170,100
Interest on Development $557,280 @ 18% for 9/2 months	37,620
Demolition of Present Buildings	5,000
Total Outlay Excluding Land	770,000
Land Value	945
CAPITAL VALUE'	$1.715.000

Having regard to the metre frontage basis of valuation, we accept Mr Bodger's assessment of a street unit metre value of $73,000. We also accept that the frontage is 18.76 metres with an average depth of 17 metres. Mr Bodger allowed land value at this depth by application of the Somers-Cleveland Depth Table at 76.9% in relation to value at 30 metres depth at 100% of frontage metre rate.

We accept to a limited extent Mr Moore's evidence that the application of the Somers-Cleveland Depth Table to this land in the Central Business District of Queenstown without adjustment, is mappropriateas it would over-value the smaller number of shallow allotments of which this property is one. Study of the evidence of relevant sales and the evidence of Mr Moore satisfies us that in July 1987 a lesser proportion of land value is contained in the front 20 metre depth than the table provides.

We accordingly give some allowance to Mr Moore's evidence by reducing the percentage from the table figure of 76.9% to 69%. The result of those adjustments reduces MrBodger's figure for land value from $1,035,000 to $945,000.

Mr Bodger valued the improvements at $65,000. Mr Moore valued the improvements at $90,000. Although there was no direct challenge to Mr Badger's valuation of the improvements his evidence makes it clear that he has assessed the capital value of $1,100,000 and deducted his assessment of land value of $1,035,000 to result in a figure of $65,000 for improvements.

Having regard to Mr Moore's evidence, we consider that $65,000 is too low for the improvements which should be increased to $75,000, making a total valuation of $1,020,000 as follows:

Land Value	$945,000
Value of Improvements	75,000
Capital Value	$1,020,000

In reaching this conclusion we have had considerable regard to the evidence of the more relevant recent sales produced at the hearing.

There are some difficulties in relation to the actual investment approach adopted by Mr Badger. We are not persuaded that his capitalisation rate of 6.6% is sufficiently high. On the other hand greater allowance could have been made by him for the relatively low rentals being received for the property at the time. We also have difficulty with Mr Moore's choice of capitalisation rate of 9% which was the same rate as he chose for his hypothetical development.

We do not consider that the evidence of either valuer as to the investment approach based on actual rentals indicates any need to vary the above valuation.

The appeal will be allowed and the valuation of the property in lieu of that determined by the Tribunal will be as follows:

Land Value	$945,000
Improvements	75,000
Capital Value	$1,020,000

The Land Valuation Proceedings Act 1948 empowers the Court to make "such order as to the payment and amount of costs to any party to the appeal as it thinks fit".

The appellant has been successful, although not totally. In the circumstances there will be an order that the respondent pay the appellant costs of $1,000 in relation to the appeal. This sum is to include claims in respect of disbursements, expenses and other necessary payments.

Solicitors:
Crown Law Office, Wellington, for Appellant
Anderson Lloyd, Dunedin, for Respondent

IN THE HIGH COURT OF
NEW ZEALAND
HAMILTON REGISTRY
NO. C 240/86

BETWEEN 0 M DOUGLAS OF Te Awamutu, Farmer, and DOROTHY MAY DOUGLAS his wife
Plaintiffs

AND GAIDYN CLOUGH FLAY of Te Awamutu, Farmer and MABEL BERNICE FLAY, his wife
First Defendants

AND TE AWAMUTU PRIMARY EXPORTERS LIMITED
Second Defendant

Hearin : 7 August 1990

Counsel: B T Cullen for Plaintiff
J J O'Shea with D S Kannanagara for Defendants

ORAL JUDGMENT OF ANDERSON J

The complainants and the first defendants are the shareholders in a private company limited by shares which is the second defendant. One of the intended purposes of the second defendant was to trade profitably in the area of producing and distributing, preferably for export, certain fruit crops. This case is concerned principally with strawberries.

In the very early part of 1984 differences arose between the plaintiff and the first defendants leading to acceptance by them that their business relationship should be severed and the company would up with its nett assets to be distributed in due course. The parties were advised by the same firm of solicitors at all relevant times and these solicitors drew up a fairly comprehensive dissolution agreement which appears in the common bundle of documents as Document 1. Generally speaking, this agreement made provision for various assets of the company to be taken over by the different shareholders. Certain of the assets involved in the intended disposition were two plots of strawberry plants referred to in Clause 4 of the dissolution agreement. Clause 4 provided as follows:

THAT the parties hereto shall cause a valuation to be made as at the 30th of April 1984 *of the company's*

(a) last year's crop of strawberryplants and strawberry plants which were planted in October 1983.

Such valuations to be carried out by Turners and Growers Limited and the second shareholders shall on the 30th day of April 1984 purchase from the company the said crop at a price equal to such valuation.

The shareholders are the defendants, the plaintiffs being referred to in the agreement as "the first shareholders".

It will be observed that the above mentioned Clause 4 refers to "valuation"; "last year's crop of strawberry plants"; "strawberry plants"; "such valuations"; "crop"; "such valuation". The different references to singular and plural do not render Clause 4 easy to construe at first glance. It is plain that the parties contemplated the valuation of two separate crops, one being the previous year's crop ofplants and onebeing thecurrentplanting. I mention this because a document alleged to be a valuation takes a separate approach to the previous year's crop and to the current year's crop. For reasons which will become apparent in the course of this judgment I think it plain that the current year's crop has been valued in a way which binds the first defendants but that the previous year's crop has not been valued in a manner contemplated by the agreement.

Consequent upon the execution of the agreement the solicitors for the parties wrote, on 12 April 1984, to Turners and Growers Limited in the following terms:

"Dear Sir,

Re: Te Awamutu Primary Exporters Limited.

We act for the above company which has decided to cease its operations from the 30th April 1984 and to assist *with this we have been requested to ask your Company to carry out a valuation of the following:*

(a) last year's crop of strawberry plants; and

(b) the strawberry plants which were planted in October of 1983.

The first item covers an area of approximately 6 acres and the second item an area *of approximately 1 and a half acres. It is only the crop and the plants in each case which are to be valued as the land is not owned by the Company.*

You will note that we desire the valuation to be carried out as at *the 30th April 1984 and before carrying out your valuation we would appreciate it if you would confer separately with Mr 0 M Douglas and Mr G C Flay. In due course would you please let* us *have your report together with your account.*

Yours faithfully,
Edmonds Dodd & Co.

It will be observed from the letter that the valuers were informed that the land on which the crop or crops were being grown was not owned by the company but the valuers were not informed that the land on which the crops were being grown was land owned by the person obliged to purchase in terms of Clause 4. The omission to inform the valuer of the ownership of the land upon which the plants were being grown has considerable significance in the context of this case again for reasons which will become apparent.

On 27 April 1984, Turners and Growers Limited wrote to the solicitors for the parties in terms of the document appearing as Document 3 in the common bundle. The first matter considered by such report is the previous year's crop which was being grown on an area of 2.4 hectares. The valuer perceived two possible approaches, namely an assumption that the intended crop would be used for freezing only, and secondly, that the intended crop of fruit would be used as to 75% frozen and 25% export. The latter option would be calculated to purchase a higher gross revenue than the former. The valuer then considered certain husbandry costs such as cutting back and trimming, weed control pest and disease control, deblossoming and harvesting. He expressed the view that under the first options there would be a nett return/value of $26,525. Under the second option he ascertained a nett return/value of $38,075. He considered that the crop should be assessed on the basis of the average of the two options, leading to an estimate of $32,300. Having expressed this view, the valuer noted that in both options adjustment would have to be made for a F.O.B. or C.I.F. figure and observed:

Other than to comment that "the partner continuing to grow the crop will obviously carry the greatest risk" I do not presume to suggest how this figure of $32300 should be apportioned.

The relevance of these observations is that they indicate that the estimate of $32300 had to be qualified by consideration of F.O.B. or C.I.F. aspects and by a recognised but unassessed element of risk. It is also clear that in determining a nett return, the valuer made no allowance whatever for the cost or value of the land upon which the plants were growing. If it were simply a case of the company not

owning that land then the omission of that debit would have no material effectbut as I indicated earlier it is not just a question of the company not owning the land. It is a question of the obligatory purchaser owning the land and the omission of any allowance for that factor plainly tended to over value theprevious year's crop because the benefit of the land would attach to the company as vendor of the crop in circumstances when the land was actually owned by the purchaser.

If it were necessary to find an error on the face of the valuation in order to conclude that the parties were not bound I should have no difficulty in so doing. Valuations do not exist in a vacuum but must be considered in the light of commonsense and underlying assumptions and nothing could appeal more to commonsense than an underlying assumption that plants must grow in some medium. The medium may be hydroponic but is more likely in New Zealand in the case of strawberry plants to be land, yet no allowance has been made for land costs. The omission is glaring. It was induced, of course, by the inadequate briefing of the valuer. However, for reasons which I will advert to later in this judgment, I do not subscribe to a view that errors in speaking valuations must appear on the face of the valuation in order to be impeached. Such an approach fails to take account of the fact that this claim and others like it lie in contract and the principles to be applied are contractual principles. Speaking valuations are notoccult phenomena. They are merely one facet of a situation within a matrix of contractual principal.

The valuation then proceeded to assess what is conveniently referred to as the "nursery bed". This is the smaller area of the current year's plants comprising 2000 mature plants. Whereas in attempting to value the larger area the valuer adopted a method which was based essentially on fruit value at harvest, his approach in relation to the nursery bed was to assess the value of the plants as a plant crop, that is, plants which could be lifted and sold as growing plants. The commonsense of such a view is immediately apparent. The valuer estimated 100 plants available from each mother plant. He referred to difficulties in lifting because of a medium invasion of weeds, and time which would be taken in grading and sorting because of a large number of second grade plants. He took account of incidental costs of lifting and disposal and concluded that the nursery bed had a value of $7,552. The soundness of that approach is manifest. There is not shown to be an error in such an appraoch and, as I will indicate later, the action succeeds at least to that extent in this proceeding.

I do not overlook the fact that following representations by a son of the first defendants the valuer changed his mind about the larger plot and the nursery bed. In relation to the latter he thought he ought make some allowance for risk and he introduced for the first time a subjective consideration relating to the fact that a partner was purchasing an interst from effectivly another partner. Of course, the partnership approach is really inapt because we are dealing here with a company, not a partnership; and the risk allowance under the re-estimate of 2 May 1984 is wholly inappropriate in relation to the nursery bed because the nursery bed valuation was made on the assumption of lifting the plants as opposed to valuing a fruit crop and there is nothing in the evidence to indicate why the plants could not have been lifted immediately and sold. Because it was not a necessary element of valuation in relation to the nursery bed that the plants should continue in situ, land value has little or no relevance.

I turn now to questions of law. I have had the benefit of very full submissions from counsel and what may be variously percieved as the benefit or burden of very extensive authorities. Mr Cullen sought to develop an argument which, if upheld, would regard even speaking valuations as protected by some sort of esoteric immunity from challenge but the approach to reviewing speaking and, I would suggest, no speaking valuations, is conditioned by the essential nature of the action, in this case contractual.

In Burgess v Purchase & Sons [1983] -1 Ch. 216 at 225, Para, B, Nourse J held as follows:

"In my judgment the present state of the law can be summarised as follows. The question whether a valuation made by an expert on a fundamentally erroneous basis can be impugned or not depends on the terms expressed or to be implied in the contract pursuant to which it is made. A non-speaking valuation made of the right property by the right man and in good faith cannot be impugned, although it may still be possible, in the case of an uncompleted transaction, for equitable relief as opposed to damages to be refused to the party who wishes to sustain the valuation. On the other hand, there are at least three decisions at first instance to the effect that a speaking valuation which demonstrates that it has been made on a fundamentally erroneous basis can be impugned. In such a case the completion of the transaction does not necessarily defeat the party who wishes to impugn the valuation.

Where, as here, the parties agree by contract that a price will be fixed by a valuer the extent to which they are bound depends on the interpretation of the contract. The Courts have plainly always recognised that it is in the nature of valuations that there will be differences of opinion, that there will be areas of wholly subjective judgment almost to the point of art, and that commerce and contractual relationships would be undermined by allowing a challenge to a valuation which ignores these inevitable incidents of a valuation. Thus, there is implied in the usual type of arrangement an acceptance by the parties that valuations in general, and the valuation they anticipate, could well be affected by subjective assessments in the manner I have mentioned. But it cannot be implied into a contract such as the present that the parties accept that they will be bound by something which is fundamentally flawed. The reluctance with which Courts have impugned valuations does not lie in any discrete jurisprudence of speaking valuations. It lies in contract where terms have to be implied to give business efficacy to the arrangement in accordance with all the other principles relating to implied terms. If the parties had said at the time this contract was entered into "what if the valuer makes a glaring mistake, are we bound?" The answer must obviously been" of course not. We contract for a valuation not for a mistake".

That approach is more prolix than various authorities which the defendants are entitled to rely upon but I thought it convenient to explain at some length for the benefit of the parties because they are present, and because this matter has been at large between them for six years.

In Dean v Prince [1954] 1 All ER, Sir Raymond Evershed, M.R. confirmed this principle of ancient pedigree at p.753 para.A.:

"this court, upon the principle laid down by Lord Eldon, must act on that valuation, unless there be proof of some mistake, or some improper motive, I do not say a fraudulent one; as if the valuer had valued something not included, or had valued it on a wholly erroneous principle ... or even, in the absence of any proof of any one of these things, if the price were so excessive or so small as only to be explainable by reference to some such cause; in any one of these cases the court would refuse to act on the valuation."

A similar willingness to grant relief against manifest error rather than that the law should be powerless to correct injustice is Jones & Anor V Jones [1961] 2 All ER 676.

I hold in relation to the 2.4 hectare block that there has not been a valuation erroneous or otherwise. There has been a partial analysis but the analysis indicated in document 3 even on its face shows that allowance has tobe made and has not been made for risk and considerations of F.O. B. and C.I.F. elements. If I were wrong in that regard I would hold that the valuation is manifestly erroneous because it takes no account of something as elementary in the particular circumstances of the case, known to the parties but I doubt was known to the valuer, as that the obligatory purchaser was the land owner.

The defendants asserted that the revision on 2 May 1984, document 4, really amounted to perfection of the valuation. One understands that approach given that the figure for the 2.4 hectare block is about one-third of the previous estimate but I find that notwithstanding the document of 2 May 1984 there has never been a valuation of that lot in terms of the contractual expectation of the parties. I think it extraordinary that 40% premium expenses should be brought into consideration by reference to risk. Risk does not directly affect expenses but revenue. If plants die from disease expenses are not increased thereafter but fewer fruit are produced. There may be some impact on expenses in order to correct potential *are*as of risk but the allowance of 40% appears regrettably to be entirely arbitrary. Nor do I think it has any relevance that the obligatory purchaser is a person who has been joined in business with someone who will incidentally benefit form the sale and purchase. This is not a case such as a minority shareholder in a company holding vital 1% that will control so that the 1% shareholding has by an objective estimate a value beyond the broader nett asset backing of the compnay. The fact that the purchaser here was perceived to be a party is, in my view, entirely neutral in terms of valuation. The relevant matter is that the purchaser was the land owner. He was not a partner at all, and that fact itself undermines the validity of the document of 2 May 1984. In the result there has been no valuation in relation to the 2.4 hectare lot and nor can these plants ever be valued because it is plain that they have run their life's course. This is not to say that the first defendants pick up the plants for nothing. The frustration as it were of this element of the contract through non-valuation has resulted in the first defendants acquiring the plants in reality without acquiring property in them. Equity will grant relief to ensure there is an accounting for profit in relation to these plants or for their fair value which cannot be fixed in the present proceedings.

It may be that they cannot be fixed anyway because the cause of action is now more than six years old and questions of limitations arise but limitation is not a problem if the company seeks its remedy in the present proceeding relative to the 2.4 hectare crop by making a declaration that the first defendants are obliged to account for the profits after all husbandry and incidental expenses in relation to the plants on the 2.4 hectare lot.

There are some ancillary matters which must be disposed of. First is the submission on behalf of the first defendants that a provision under the disollution agreement for a 30% interest rate amounts to a penalty. I do not accept that submission. The nature of such provision falls to be assessed at the time the contract was entered into, that is the early part of 1984, and without knowing or having to know detail I take judicial notice of the fact that in the early part of 1984 interest rates were considerably higher than they are now, and this factor, coupled with the absence of any evidence on behalf of the first defendant giving any suggestion that the 30% interest rate was out of kilter with interest rates for similar enterprises, the plea fails.

Next, the point is raised on behalf of the first defendants that they offered to pay the amount of the 2 May 1984 assessment and that the second defendant company refused to accept. It is not entirely clear to me whether that offer was made for full setttlement or not, or whether the offerer was prepared to pay the money without prejudice to the position of either side so that it could in due course be considered a payment on account. It does seem, however, that the company took the view that it was entitled to the aggregate of the figures assessed in the document of 27 April 1984.

For the reasons I have indicated, such a stance was inappropriate.

The provision in relation to interest contemplates that interest shall not be paid if the company is in default, and I hold that it is; so that interest is not payable at 30%. Nevertheless, interest is payable as a matter of discretion at 11% and I will award interest at 11 % per annum on the figure of $7,552 assessed in relation to the nursery block. I will allow such interest as from 1 May 1984.

In relation to the 2.4 hectare block, I cannot make a declaration relative to interest, given the amorphous nature of the only relief I am able to allow.

There are provisions for the payment of interest on monies held under a constructive trust and I would confidently expect that the parties to this proceeding who, with respect, impress with their mature business acumen, would come to some sensible accord in this area so that the books may finally be closed off without acrimony. I do not intend to suggest there has been. I think the parties have taken a business position and not been deflected from it in circumstances where, as so often, the answer is somewhere in the middle.

I am obliged to counsel for their assistance and for the economy with which they conducted the proceedings before me today. I hold the plaintiffs are entitled to relief in terms of their second cause of action and pursuant to the Court's general jurisdiction. I record that the derivative action propounded as the first cause of action in the amended statement of claim is not pursued but that the second cause of action brought by one party to a tripartitie contract is a proper basis for relief.

I direct the firstdefendants specifically to perform the dissolution contract bearing date 11 April 1984 by paying to the second defendant the sum of $7552 in payment of the nursery bed plants, and I direct that interest shall be payable in relation to the said sum of $7552 computed at the rate of 7% per annum as from 1 May 1984.

I make a declaration that the first defendants hold to the use of the second defendant the net profit after all actual and reasonable husbandry and incidental expenses of the plants in the 2.4 hectare lot referred to in Clause 4(a) of the dissolution agreement. On scale, assuming a judgment worth approximately $12,000 (excluding the 2.4 hectare relief) costs would amount to approximately $2040. It is expedient that costs be settled along with the other aspects of this litgation as quickly as possible given the longevity of the proceeding and I therefore fix costs in the sum of $2000 together with disbursements as shall be approved by the Registrar.

I am obliged to counsel.

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MISSION STATEMENT

The New Zealand Institute of Valuers encourages its membership to develop high *standards of professionalism and excellence through the provision of education, support services and promotion.*
The New Zealand Institute of Valuers' membership comprises professionally qualified persons who *value, appraise, advise, consult, manage, arbitrate and negotiate in all respects of land, buildings and other real and personal assets.*

STATEMENT OF OBJECTIVES

To achieve this the Institute will continue to

1. *Provide a framework within which members may advance their educational and professional development* within *a diverse membership activity.*
2. *Provide a progressive organisation responsive to* change *and membership* needs.
3. *Provide* channels *of communication betweeen members, the organisation and the public.*
4. *Encourage maximum member participation in the affairs of the Institute.*
5. *Develop, set and effectively maintain standards of practice for the benefit of both the membership and public while ensuring fair and expeditious disciplinary procedures are available.*
6. *Establish education, admission and categories of membership criteria and provide appropriate pathways to admission.*
7. *Encourage* research *and develop viable services of benefit to* members.
8. *Develop closer association and cooperation with otherprofessional bodies both in New Zealand and overseas*

ISSN 0113-0315